

Daily Market Chatter

Macro Strategy View: Is the cake burning?

- Well, there is certainly no sign of the traditional December rally in global markets and with just two weeks of the year left, time is running out. The selloff has been in full swing again overnight (although may now be finding some stability) after U.S. equities fell sharply into to the close, taking the S&P500 down 2.08% to its lowest point in 14 months. The Nikkei is trading 1.62% lower and the Hang Seng has shed 0.90% as of 9am UAE time. Meanwhile treasuries remain better bid, with the U.S. 10y rallying back below the 2.85% level while the flight to safety has seen the Yen strengthen to Y112.50



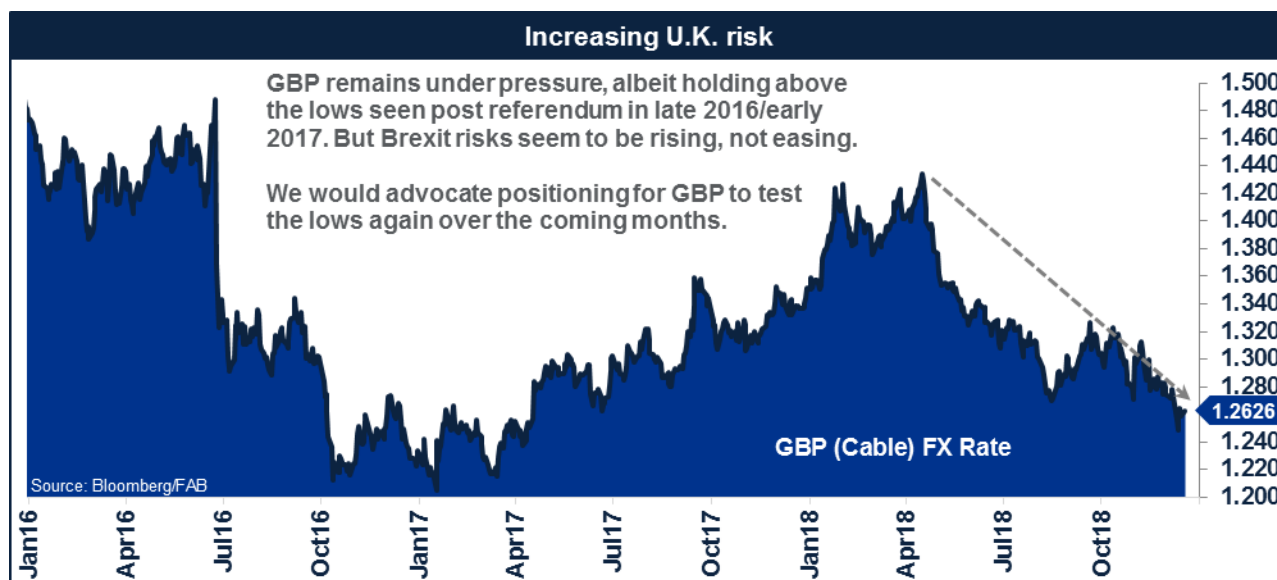
- The markets' sensitivity – as well as Donald Trump's – to the prospect of higher interest rates is clear to see and with the Fed widely expected (futures pricing in 78.4% probability) to raise the Fed funds rate by a further 25bps on Wednesday the markets are making their view very clear. Given the confluence of macro and geopolitical issues now facing us, risk asset sentiment seems set to remain fragile and volatility elevated for the remainder of the year.
- To be fair, one could argue that the FOMC is taking a very blinkered view toward monetary policy; tightening in the face of a strong U.S. economy, while ignoring the broader challenges in other geographies. But that is its basic mandate; to ensure sustainable growth (and modest inflation) for the U.S. economy. Rising interest rates are therefore a consequence of economic success/strength, albeit that the velocity and data-dependency of tightening is essential to not overcooking the cake. Mr Trump clearly believes he can smell smoke in the kitchen and wants the FOMC to turn down the heat.

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- After the past decade or so of near-open-ended monetary accommodation, some may say financial repression, we believe that the market is right to be cautious about the impact of higher yields on leverage, asset allocation and investment strategy. For this reason, we expect investors to be more focused on what the Fed infers tomorrow about future policy intentions for 2019 than the (anticipated) rate increase itself.
- Elsewhere there is plenty to be mindful of. What chance of a U.S./China trade truce? Not much in the near-term in our opinion. And Brexit is a clear and present danger for more than just the U.K. itself, although the greatest effect is being felt on sterling.



- While opposition leader Jeremy Corbyn has alluded to bringing a no-confidence motion in Prime Minister May, the failure of the PM to renegotiate her withdrawal 'deal' in Brussels this week now leaves her looking increasingly vulnerable. We maintain that the near-term path of least resistance for GBP and U.K. risk assets remains lower and that the uncertainty surrounding the polemic could also undermine broader European economic growth and risk asset sentiment over the coming months.

Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	2.69%	-3.7	-2.1	-18.5	+52.6	+48.8
10Y	2.86%	-3.3	-0.1	-20.6	+46.3	+45.3
30Y	3.11%	-3.1	-1.6	-20.3	+37.3	+37.4

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	279.8	-3.7	-0.6	-21.6	+57.8	+55.4
10Y	289.3	-3.1	+0.3	-22.9	+50.8	+49.5
30Y	297.3	-2.4	+0.1	-23.2	+43.0	+43.1

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1348	+0.37%	-0.07%	-0.93%	-3.68%	-5.47%
GBP USD	1.2624	+0.33%	+0.50%	-1.79%	-5.67%	-6.58%
USD JPY	112.83	-0.49%	-0.44%	+0.25%	+0.25%	+0.12%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	5.3717	+0.18%	+0.87%	+1.11%	+40.25%	+41.43%
USD INR	71.5550	-0.47%	+0.30%	-0.14%	+11.40%	+12.03%
USD IDR	14,580.0	-0.03%	+0.17%	-0.05%	+7.35%	+7.46%

Source: Bloomberg

MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	428.0	+2.0	-9.1	+8.6	+89.7	+99.4
Sovx CEEMEA	84.4	-0.7	-10.6	-3.2	+48.9	+51.8
Itrax Xover	342.3	+6.7	-13.3	+15.1	+108.1	+109.1

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	66.5	+0.4	-0.7	-2.5	+3.8	+4.8
Kuwait 5Y	65.8	+0.0	+0.0	+1.0	+5.5	+1.9
Dubai 5Y	132.1	+0.3	+2.1	+10.5	+1.1	+9.6

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	73.3	-3.6	-5.6	-3.5	-29.2	-27.7
KSA 5Y	91.7	+0.6	-5.2	-4.8	+0.3	-0.0
Bahrain 5Y	270.9	-11.6	-28.4	-3.0	-13.9	-5.7

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	49.88	-2.58%	-2.20%	-11.65%	-12.74%	-17.44%
Brent Oil \$/bbl	59.61	-1.11%	-0.60%	-10.71%	-5.99%	-10.86%
Gold spot \$/oz	1,245.9	+0.55%	+0.11%	+1.77%	-1.30%	-4.37%
Silver spot \$/Troy oz	14.664	+0.57%	+0.92%	+1.64%	-9.14%	-13.43%
Aluminium 3MO \$	1,942.0	+0.83%	+0.21%	+0.10%	-6.00%	-14.37%
Nickel 3MO \$	10,985	-0.86%	+1.71%	-3.30%	-5.14%	-13.91%
Copper 3MO \$	6,123	-0.14%	+0.56%	-1.32%	-11.08%	-15.51%

Source: Bloomberg

Major Equities Markets

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	23,593	-2.11%	-3.40%	-7.16%	-4.84%	-4.56%
S&P 500	2,546	-2.08%	-3.48%	-6.96%	-5.36%	-4.78%
Nasdaq Composite	6,754	-2.27%	-3.80%	-6.82%	-3.45%	-2.17%
Nikkei	21,507	+0.62%	+1.35%	-0.80%	-6.09%	-5.53%
Hang Seng	26,088	-0.03%	+1.30%	-0.36%	-10.20%	-12.81%
Shanghai	2,598	+0.16%	+0.52%	-3.03%	-20.50%	-21.44%
Mumbai Sensex	36,270	+0.85%	+3.75%	+2.29%	+7.94%	+6.50%
DAX	10,772	-0.86%	+1.41%	-5.02%	-19.08%	-16.61%
CAC 40	4,800	-1.11%	+1.21%	-4.48%	-11.45%	-9.65%
FTSE 100	6,773	-1.05%	+0.77%	-3.43%	-10.13%	-11.90%
DJ Stoxx 50	3,064	-0.94%	+1.55%	-3.68%	-15.12%	-12.57%
FTSE MIB Index	18,693	-1.15%	+1.54%	-0.98%	-16.51%	-14.46%
SMI Index	8,603	-1.27%	+0.60%	-3.42%	-8.99%	-8.31%
MENA						
Abu Dhabi – ADX	4,866	+0.72%	+1.60%	-3.75%	+10.65%	+10.63%
Dubai – DFM	2,564	+0.28%	+2.55%	-7.74%	-23.97%	-23.93%
Saudi Arabia	7,968	+0.76%	+1.90%	+6.29%	+10.80%	+10.27%
Qatar	10,489	-0.07%	-0.63%	+1.86%	+27.73%	+23.06%
Bahrain	1,319	-0.07%	+0.11%	+0.67%	+4.24%	-0.93%
Kuwait (Premier Market)	5,402	-0.09%	+0.01%	+2.21%	+13.53%	+9.22%
Oman	4,408	-0.20%	-2.12%	-0.99%	-13.36%	-13.55%
Egypt	13,215	+1.72%	+5.93%	-5.39%	-10.23%	-12.01%
Turkey	89,962	-0.63%	-2.46%	-3.90%	-18.40%	-22.00%

Source: Bloomberg

Overnight market headlines

Global News

- Trump says 'it is incredible' that the Fed is considering hiking interest rates again
- ECB can delay rate hikes if growth slows more than expected, says incoming head of Belgium's central bank
- Theresa May sets mid-January date for vote on Brexit deal; Labour calls May no confidence vote over Brexit vote timing
- No-deal Brexit almost certain to trigger UK rating cut, says Fitch Ratings; BCC says UK economy set for slowest growth since 2009 as Brexit nears
- China says US has brought back 'the ghost of unilateralism' to WTO; EU blames US for "deep crisis" at WTO, criticises US trade curbs
- Asia stocks slide after US stocks fall to lowest level in 14 months as global growth worries deepen; Oil closes below \$50 a barrel for first time in a year

Middle East & Africa News

- Moody's changes outlook on Bahrain's rating to stable, affirms B2 rating
- Emirate of Sharjah reopens 10-Year Sukuk to raise \$200m
- Saudi Arabia proposes transfer pricing documentation rules
- Dubai Aerospace to put 18 used aircraft up for sale
- Etisalat sees 'insignificant' impact in 2018 from Mobily royalty fees deal
- Petrochemicals boost Saudi index, most Gulf markets rise; banks drive Egypt gain
- Lebanese pound overnight interbank rate said to fall to 15%

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