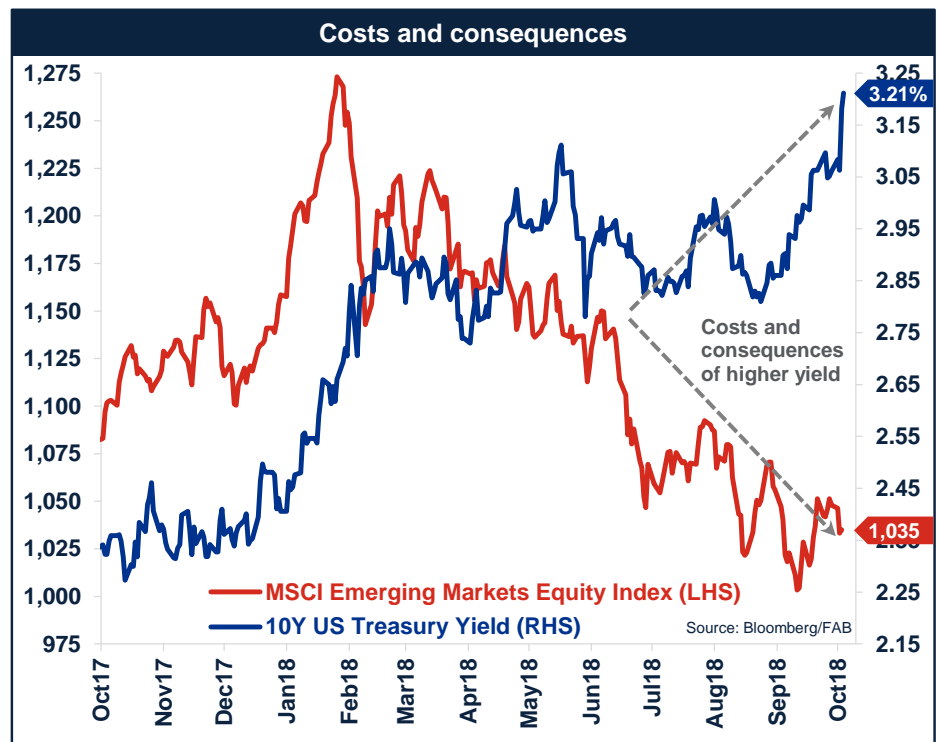


Daily Market Chatter

Macro Strategy View: Up, up and away...

- This is it. The market's resolve for risk appetite in a higher rate structure is clearly being tested early Thursday after the overnight spike in U.S. treasury yields. In the wake of better-than-expected U.S. services and private-sector payrolls data, the 10y bond has sold off sharply, pushing the yield up toward 3.20%. This in turn is putting downward pressure on equities (Hang Seng -1.66% and U.S. futures lower), is underpinning the safe-haven bid for the Yen and pushing the iTraxx credit indices marginally wider.
- Speaking in Washington yesterday, Fed chair Powell triggered this latest rates sell-off with what were interpreted as hawkishly-skewed comments when he said that 'interest rates are still accommodative, but we're gradually moving to a place where they'll be neutral'. At the same time though we were encouraged by his remarks that while higher rates may carry negative ramifications for emerging markets (debt), he remains selectively confident in the underlying fundamentals of the asset class. We completely agree.



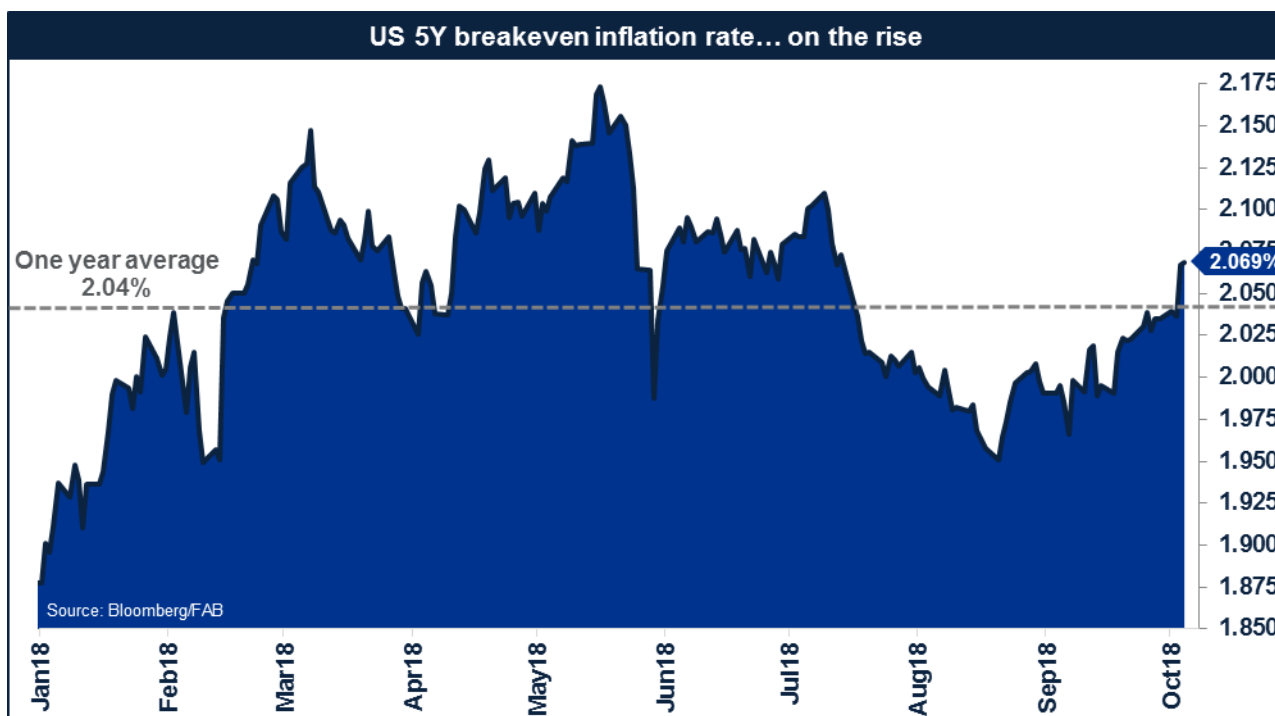
- In the wake of Mr Powell's comments, Friday's U.S. jobs report may now come under even greater scrutiny than usual, with the tightening U.S. labor market being a key foundation stone of the Fed's interest rate normalization process. Consensus is looking for 184,000 non-farm jobs to have been created in September, down slightly from the 201,000 created in August. As well as the headline numbers, we would also advocate paying close attention to past month revisions, as well as the unemployment rate. Currently 3.9%, Bloomberg consensus is looking for a dip back down to 3.8% that it touched in May this year, a level that prior to that was last seen in nearly 50 years ago!

4<sup>th</sup> October 2018

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- As we have discussed previously, we remain concerned that the sustained upward bias in rates underscores again the embedded risks for corporate borrowers. We believe that the rising rate outlook is becoming self-sustaining. The moves may be gradual, with the Fed reacting to the firming macroeconomic backdrop as opposed to spiking inflationary pressure, but nonetheless we advocate paying close attention to the recent rise in the U.S. breakeven 5-year inflation rate. The latter is edging quietly higher, which could help to bolster the hawkish bias on the FOMC. The breakeven rate currently at 2.0679%, up from 1.95% in late August, has recently broken through its year-to-date average (2.0449%) according to Bloomberg. This will not have been ignored by the FOMC.



### Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	3.05%	+9.4	+10.1	+27.3	+112.9	+83.9
10Y	3.18%	+11.9	+13.4	+28.4	+85.9	+77.8
30Y	3.34%	+11.8	+15.4	+27.4	+46.9	+59.6

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	315.5	+8.6	+8.7	+24.7	+115.0	+91.1
10Y	322.8	+10.9	+11.6	+26.3	+94.6	+83.0
30Y	320.3	+7.5	+5.8	+20.6	+64.9	+66.6

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1478	-0.61%	-2.22%	-0.90%	-2.39%	-4.39%
GBP USD	1.2940	-0.30%	-1.72%	+0.66%	-2.32%	-4.24%
USD JPY	114.53	+0.77%	+1.60%	+2.80%	+1.57%	+1.63%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	6.0464	+1.02%	-1.04%	-9.37%	+69.25%	+59.19%
USD INR	73.3425	+0.59%	+1.03%	+2.47%	+12.82%	+14.83%
USD IDR	15,075.0	+0.21%	+1.02%	+0.94%	+11.86%	+11.11%

Source: Bloomberg

## MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	383.3	-6.5	-9.1	-52.6	+66.8	+54.7
Sov x CEEMEA	86.3	+0.5	+0.4	-87.9	+47.7	+53.6
Itrax Xover	271.2	-8.0	+1.5	-20.3	+23.0	+38.0

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	61.3	+0.0	-0.7	-3.0	+5.6	-0.4
Kuwait 5Y	67.0	+0.3	-0.5	+4.1	-1.6	+3.1
Dubai 5Y	121.3	-0.6	-2.9	-2.3	-5.8	-1.1

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	68.6	-0.3	-3.5	-15.5	-27.3	-32.3
KSA 5Y	69.0	-0.1	-4.1	-13.4	-13.4	-22.7
Bahrain 5Y	291.9	-7.9	-43.2	-83.6	+60.1	+15.4

Source: Bloomberg

## Major Commodities Prices

Commodities	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	76.41	+1.57%	+6.76%	+9.36%	+52.88%	+26.46%
Brent Oil \$/bbl	86.29	+1.76%	+6.09%	+10.39%	+54.64%	+29.04%
Gold spot \$/oz	1,197.4	-0.50%	+0.24%	+0.49%	-6.08%	-8.09%
Silver spot \$/Troy oz	14.635	-0.38%	+2.15%	+3.38%	-11.75%	-13.59%
Aluminium 3MO \$	2,206.0	+4.15%	+6.83%	+5.20%	+3.52%	-2.73%
Nickel 3MO \$	12,770	+2.04%	-0.39%	-0.16%	+20.24%	+0.08%
Copper 3MO \$	6,267	-0.21%	-0.24%	+5.03%	-3.88%	-13.52%

Source: Bloomberg

## Major Equities Markets

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
<b>GLOBAL</b>						
Dow Jones Inds. Avg	26,828	+0.20%	+1.68%	+3.38%	+18.39%	+8.53%
S&P 500	2,926	+0.07%	+0.67%	+0.99%	+15.28%	+9.42%
Nasdaq Composite	8,025	+0.32%	+0.43%	-0.82%	+22.81%	+16.25%
Nikkei	24,111	-0.66%	+0.32%	+6.23%	+16.89%	+5.91%
Hang Seng	27,091	-0.13%	-2.61%	-3.15%	-4.54%	-9.45%
Shanghai	2,821	+0.52%	+0.52%	+3.53%	-15.75%	-14.69%
Mumbai Sensex	35,976	-1.51%	-1.55%	-5.72%	+13.59%	+5.63%
DAX	12,288	-0.42%	-0.70%	-0.48%	-4.77%	-4.88%
CAC 40	5,491	+0.43%	-0.39%	+2.78%	+2.39%	+3.37%
FTSE 100	7,510	+0.48%	-0.02%	+0.70%	+0.57%	-2.31%
DJ Stoxx 50	3,405	+0.49%	-0.81%	+1.37%	-5.27%	-2.81%
FTSE MIB Index	20,736	+0.84%	-4.21%	+0.66%	-7.66%	-5.11%
SMI Index	9,175	+0.97%	+1.05%	+2.49%	-1.17%	-2.20%
<b>MENA</b>						
Abu Dhabi – ADX	5,001	+0.15%	+1.45%	+0.35%	+12.80%	+13.71%
Dubai – DFM	2,815	-0.84%	+1.42%	-0.78%	-21.78%	-16.47%
Saudi Arabia	8,009	+0.34%	+1.46%	+0.51%	+9.92%	+10.82%
Qatar	9,889	+0.74%	+1.65%	+0.71%	+21.30%	+16.03%
Bahrain	1,330	+0.03%	-1.46%	-0.60%	+4.43%	-0.10%
Kuwait (Premier Market)	5,329	+0.10%	-0.14%	+0.96%	+0.70%	+7.74%
Oman	4,516	-0.43%	+0.32%	+1.95%	-13.29%	-11.44%
Egypt	14,313	-0.48%	-2.05%	-10.11%	+3.11%	-4.70%
Turkey	97,188	-0.99%	-1.98%	+4.29%	-7.04%	-15.73%

Source: Bloomberg

## Overnight market headlines

### Global News

- US services sector activity hits 21-year high; hiring accelerates
- Powell says Fed may lift rates to levels that restrain growth
- Evans says comfortable with a December rate hike; Fed must plan for next downturn with rates on the rise
- End divisions or put Brexit at risk, Britain's May tells party
- Dollar scales 11-month peak as US yields surge; Stocks in Asia fall; Oil halts gain near 4-year high on concern rally may be overdone

### Middle East & Africa News

- Bahrain's king issues new laws to boost investment eco-system
- Dubai tourism strategy targets 25m visitors by 2025
- Dubai airport passenger traffic up 1.7% in August, setting monthly record; Dubai said to put on hold the expansion of Al Maktoum airport
- UAE's Aldar Properties posts \$408.3m sales in 9M
- DAMAC Properties calls bottom for weakened Dubai real estate
- Saudi petrochemical producers sign \$2.2bn merger agreement
- Gulf markets close mixed, Egypt slips on emerging market slump
- Turkey's inflation rate soars to 24.5% in September as lira slides
- World Bank cuts Sub-Saharan 2018 growth forecast as risks mount

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