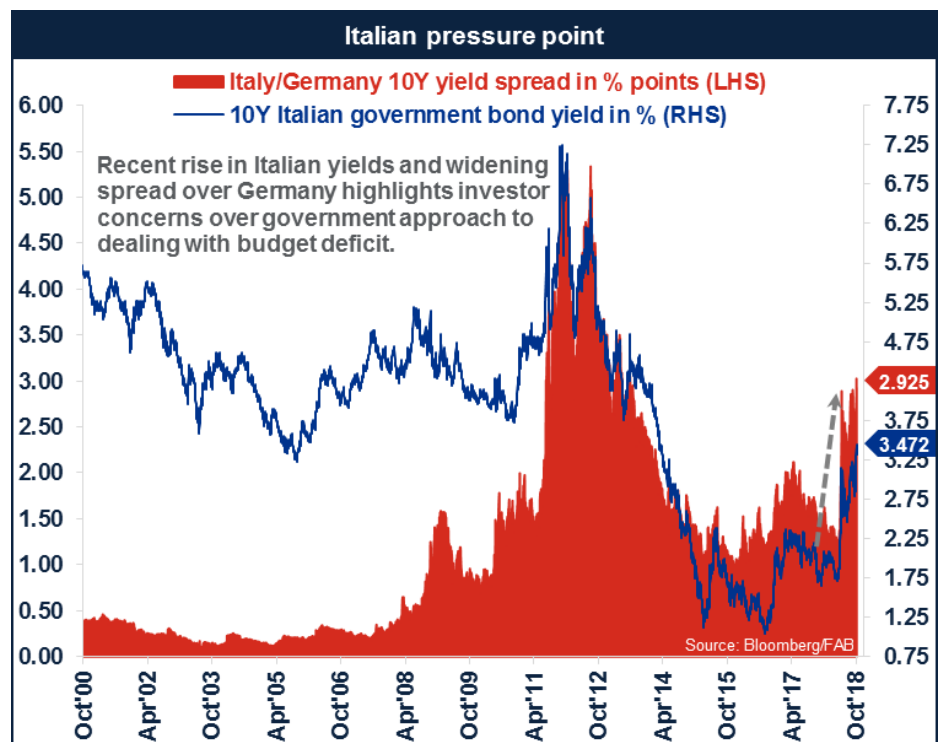


## Daily Market Chatter

### Macro Strategy View: Italy adds to the mix of investor uncertainty

- After the IMF scaled back its global growth expectations for this year and Brexit uncertainties continue to intensify, Italy is now adding fuel to fire in Europe as Rome presents a contrarian view to that of Brussels on how to address the country's budget deficit. Key to this is the Italian government's spending plans for the coming year. But we believe that the Italian situation is specific to the country and that, as such, any wider selloff across Europe on the back of the budget concerns could provide a better buying opportunity.
- The basis of market concern and the recent selloff in Italian bonds lies in Italian government coalition's plans for a wider budget deficit, to allow a continued focus on citizen-targeted spending, rather than austerity. This has led to open and succinct criticism from Brussels, which in turn has led to Italian Deputy Prime Minister Matteo Salvini referring to the EU bureaucrats as the 'enemies of Europe'.

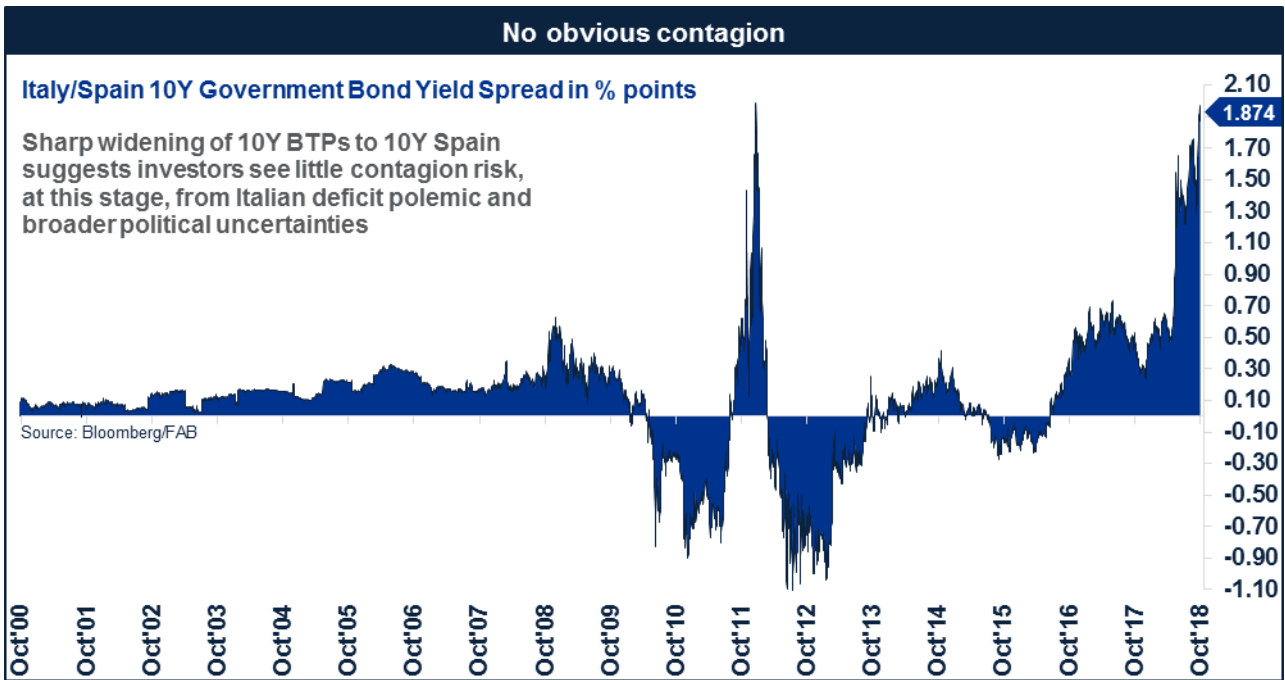


- Subsequent market reaction has been extreme on Italian risk, which remains under pressure, but is not being perceived as a threat to broader Eurozone cohesion. The 10y Italian government bond yield touched a high of 3.70% on Tuesday according to Bloomberg, before rallying back to close at 3.47%, while the 10y Italian BTP/German bund spread spiked to 316bps, again before consolidating back to 293bps by the close.
- However, we also note that Italian bonds have underperformed other Eurozone peripheral economies – the yield spread between 10y BTPS and 10Y Spanish government bonds hit a multi-year high yesterday – suggesting that investors see the Italian political/budget situation as an isolated affair for now. Should contagion from Italy begin to impact other (peripheral) debt, this could be viewed as a selective window to add risk.

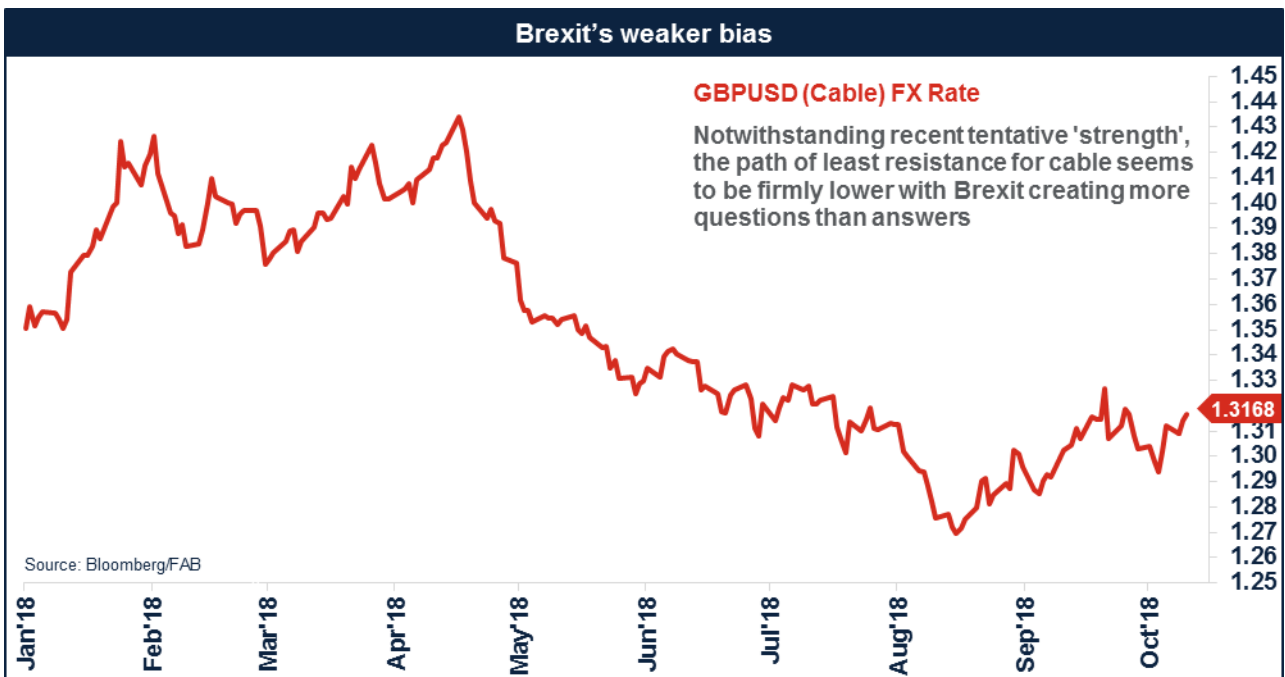
10<sup>th</sup> October 2018

Simon Ballard  
 Macro Strategist

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- Closer to home, Asian markets are trading with a mixed tone this morning. Equities are straddling unchanged across the Hang Seng and the Nikkei, while Chinese equities are modestly weaker. The iTraxx credit indexes are a touch tighter. The veil of trade tariff uncertainty continues to hang over global investor sentiment, with the auto sector feeling the heat from falling vehicle sales in China and consequent production cuts/plant closures in Europe.
- In the FX space, GBP has rallied on Brexit optimism – cable has pushed back above \$1.3150 overnight – but with the Federation of German Industries, one of Germany's most influential lobby groups, now one of the latest voices to warn that a 'hard Brexit' would be 'disaster' for both the UK and the EU, such strength could be short-lived.



- At best, the market remains highly susceptible to Brexit headline risk and rhetoric, and we see no apparent 'deal' solution on the horizon to justify recent buoyancy. As such, we would look to fade further near-term strength in U.K. risk assets and the currency; we feel cable could touch \$1.20 more easily than \$1.40 over the next few months.

## Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	3.06%	-1.4	+10.5	+23.3	+109.6	+85.0
10Y	3.21%	-2.6	+14.3	+27.5	+84.6	+80.2
30Y	3.37%	-3.6	+15.1	+28.8	+47.3	+62.9

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	318.1	+0.8	+11.2	+22.6	+114.0	+93.8
10Y	325.5	-0.9	+13.5	+26.1	+93.8	+85.7
30Y	327.6	-2.4	+14.8	+25.5	+72.4	+73.9

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1491	-0.01%	-0.49%	-0.89%	-2.68%	-4.28%
GBP USD	1.3143	+0.40%	+1.26%	+0.90%	-0.45%	-2.74%
USD JPY	112.96	-0.24%	-0.61%	+1.65%	+0.45%	+0.24%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	6.1006	-0.18%	+1.93%	-5.63%	+64.39%	+60.62%
USD INR	74.3925	+0.43%	+1.43%	+2.67%	+13.95%	+16.47%
USD IDR	15,238.0	+0.13%	+1.08%	+2.56%	+12.77%	+12.31%

Source: Bloomberg

## MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	397.4	+1.6	+7.6	-30.0	+80.8	+68.7
Sovx CEEMEA	99.9	+0.1	+14.1	-56.5	+60.3	+67.2
Itrax Xover	285.2	-5.4	+6.1	+5.3	+39.9	+52.0

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	67.1	+0.8	+5.8	+4.5	+6.0	+5.4
Kuwait 5Y	69.9	+0.5	+3.2	+3.2	+2.9	+5.9
Dubai 5Y	124.8	+2.5	+2.9	+7.0	-6.3	+2.3

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	75.9	+0.7	+7.1	-6.2	-24.1	-25.0
KSA 5Y	78.9	+1.7	+9.9	-2.3	-4.7	-12.8
Bahrain 5Y	278.7	-1.4	-21.0	-88.5	+48.7	+2.2

Source: Bloomberg

## Major Commodities Prices

Commodities	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	74.96	+0.90%	-0.36%	+10.99%	+47.21%	+24.06%
Brent Oil \$/bbl	85.00	+1.30%	+0.24%	+9.86%	+50.15%	+27.11%
Gold spot \$/oz	1,189.8	+0.14%	-1.13%	-0.51%	-7.63%	-8.68%
Silver spot \$/Troy oz	14.385	+0.10%	-2.08%	+1.47%	-15.98%	-15.07%
Aluminium 3MO \$	2,056.0	-0.53%	-2.93%	-0.68%	-5.41%	-9.35%
Nickel 3MO \$	13,010	+3.46%	+3.96%	+5.30%	+18.11%	+1.96%
Copper 3MO \$	6,292	+1.85%	+0.19%	+6.05%	-5.61%	-13.18%

Source: Bloomberg

## Major Equities Markets

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
<b>GLOBAL</b>						
Dow Jones Inds. Avg	26,431	-0.21%	-1.28%	+2.22%	+15.77%	+6.92%
S&P 500	2,880	-0.14%	-1.47%	+0.11%	+12.93%	+7.73%
Nasdaq Composite	7,738	+0.03%	-3.27%	-2.35%	+17.47%	+12.09%
Nikkei	23,469	-1.32%	-3.30%	+4.90%	+12.71%	+3.09%
Hang Seng	26,173	-0.11%	-3.51%	-1.66%	-8.14%	-12.52%
Shanghai	2,721	+0.17%	-2.16%	+1.93%	-19.57%	-17.72%
Mumbai Sensex	34,299	-0.51%	-6.10%	-9.55%	+7.44%	+0.71%
DAX	11,977	+0.25%	-2.93%	-0.08%	-7.51%	-7.28%
CAC 40	5,319	+0.35%	-2.73%	+0.93%	-0.84%	+0.11%
FTSE 100	7,238	+0.06%	-3.17%	-0.57%	-3.99%	-5.86%
DJ Stoxx 50	3,322	+0.36%	-1.98%	+0.38%	-7.70%	-5.20%
FTSE MIB Index	20,062	+1.06%	-2.43%	-4.10%	-10.18%	-8.20%
SMI Index	8,964	-0.00%	-1.36%	+0.38%	-3.27%	-4.45%
<b>MENA</b>						
Abu Dhabi – ADX	5,021	+0.34%	+0.53%	+0.69%	+12.26%	+14.14%
Dubai – DFM	2,778	+0.12%	-2.14%	-2.51%	-23.03%	-17.57%
Saudi Arabia	7,905	-0.43%	-0.96%	+2.57%	+12.26%	+9.39%
Qatar	9,840	+0.21%	+0.24%	-0.50%	+19.23%	+15.45%
Bahrain	1,324	-0.08%	-0.43%	-1.37%	+4.14%	-0.56%
Kuwait (Premier Market)	5,304	-0.09%	-0.36%	-0.61%	+1.79%	+7.25%
Oman	4,517	+0.27%	-0.40%	+0.70%	-11.95%	-11.41%
Egypt	13,589	-0.11%	-5.94%	-13.05%	-1.70%	-9.52%
Turkey	96,732	+0.67%	-1.46%	+5.49%	-6.44%	-16.13%

Source: Bloomberg

## Overnight market headlines

### Global News

- Trump says he doesn't like what the Fed is doing, central bank is going too fast in raising rates
- Bond market signaling 'sluggish or uncertain' growth ahead, Fed's Kaplan says
- Trump repeats threat of more tariffs if China retaliates on trade
- China slashes US LPG imports amid trade war
- Dollar nudges lower, Treasury yields stabilise as global growth woes linger; Asian stocks mixed; Oil trades above \$74

### Middle East & Africa News

- Kuwait central bank to consider liquidity in Islamic banks
- Oman seeks bids for power transmission, distribution companies
- Saudi stock index falls on banks, most of Gulf moves little
- Turkey's finance minister Albayrak announces 10% price cuts after inflation soars; Industry minister says Turkey to lower finance costs, cut dependence on imports
- Nigeria's Buhari asks lawmakers to approve \$2.79bn Eurobond

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