

Fixed Income Desk

Your daily feed from the Fixed Income team



The ten-year US Treasuries have staged a strong comeback, and are now close to our comfort levels of 2.94 percent while the UK Gilts also strengthened to 1.30 percent dropping 5bp in absolute yield terms. EM Sovereigns both high-beta and low-beta rallied across the board. Turkey's better than expected inflation data print did provide a reprieve to domestic bonds strengthening across the curve. Hard-currency bonds outperformed the rest of the EM counterparts. Reserve bank of Australia left policy rates unchanged at 1.5 percent. Gold shining at \$1236, and WTI and Brent are higher at \$53.56 and \$62.36 respectively. Oil prices surged on an announcement from Alberta, Canada, that they will cut output next year by 8.7%, on top of news that Russia and Saudi Arabia will extend their accord to manage output.

The same tune by the Fed officials. Vice Chair Clarida said that the "Powell Put" is not a useful way to describe what the Fed is doing. However, his comment that "We are in a world where central banks, including the Fed, are focused on keeping inflation away from disinflation," could be taken as suggesting a softer guide path for rates. Quarles said that the market seems pretty clear about what the Fed intends to do, suggesting he is perhaps content with the recent repricing of the Fed curve. He added that they are coming up to the bottom of the Fed neutral rate range. The dovish tone persists. Fed Governor Lael Brainard and Minneapolis President Neel Kashkari added their views to earlier remarks from Vice Chairman Richard Clarida that there's more risk of too-low inflation than too-high, and investors shouldn't bet that officials will act to halt a sharp market decline. Brainard said inflation now is "around target," while Kashkari called for an end to rate hikes, saying additional increases "could cause a recession."

US manufacturing rebounds. The headline ISM rose to 59.3, beating expectations, with new orders doing the heavy lifting at 62.1 versus 57.4. Employment and production also lifted. Prices paid dropped to 60.7 with the October/November collapse in oil prices already feeding through.

The US yield curve is expected to invert soon. At the short end of the curve, the spread between 3- and 5-year yields fell to negative 1.4 basis points, dropping below zero for the first time since 2007, and the 2- to 5-year gap soon followed. The most reliable leading indicator for recession is the 3-month minus 10-year yield spread because it turns negative less frequently than others. That's why the New York Fed uses this part of the curve to build its recession model. So the fact that 3m/10y trades at 64 bps should give comfort that there's still some cushion left. During the previous three cycles in 1989, 2000 and 2005, it took four to six months for the 3m/10y curve to turn completely flat after it had reached its current level. The economy fell into recession an average 15 months after that.

Qatar to leave OPEC after 57 years. Saad Sherida Al-Kaabi, Qatari Minister of State for Energy Affairs, announced on Dec. 3, 2018 that Qatar is to leave OPEC next month in order for the Gulf state to focus on gas production.

What's on my mind?

I need more details than just "sweet tweets". What happened over the weekend in Buenos Aires is merely kicking the can harder along the road. That said, I think we carry-forward one big problem for 2019 and for now sit back and enjoy the euphoria and cheer good-bye to 2018 in a few days. The 90-day ceasefire agreement between President Trump and Xi should boost sentiment near-term, but our worries should linger longer. The see-saw price-action on oil prices needs to stabilize to calm risk assets globally and not just bring in temporary relief to EM importers. For now, the US dollar is seen as vulnerable as it gets as US policymakers tone down providing EM assets with their required impetus. Last but not least, stay focused on fundamentals as early signs do show some slack in falling levels of growth and inflation.

Short-end of the US yield curve inverts



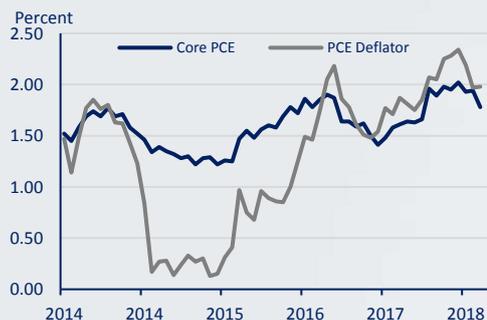
Source: Bloomberg

US manufacturing rebounds



Source: Bloomberg

US Inflation running below target once again...



Source: Bloomberg

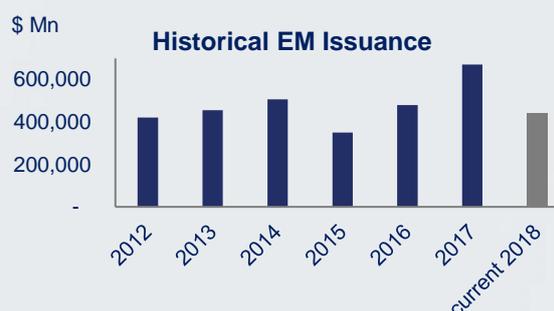
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Interbank rates and Government bonds						
	3m	6M	12M	2Y	5Y	10 y
LIBOR	2.74	2.89	3.12			
EURIBOR	-0.32	-0.25	-0.15			
EIBOR	2.67	3.04	3.50			
SAIBOR	2.84	3.03	3.27			
US Treasuries				2.81	2.80	2.94
Germany Bunds				-0.60	-0.27	0.31
UK Gilts				0.72	0.89	1.31
Mid Swaps (MS)			2.91	2.98	2.94	3.00

Credit Indices			
	Spread	Chg Day	Chg YTD
I Traxx Europe	79.49	0	77.32
I Traxx Europe Crossover	320.50	0	37.31
CDX North America IG	N/A	0	52.01
CDX North America HY	384.44	0	25.51
CDX Emerging Markets	201.21	0	68.56

Bond Market Performance				
BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.49%	-	0.1%	1.4%
GCC Credit	4.7%	183	0.4%	-0.3%
Global High yield	6.84%	441	0.4%	-0.1%
USD Emerging Market	6.13%	319	0.5%	-3.3%
US Government	2.93%	-	0.1%	-1.1%
USD Corporate Investment Grade	4.35%	137	0.3%	-3.6%
BBG EUR Aggr Corp (Loc)	1.38%	129	0.1%	-1.5%
USD EM Sovereign	6.59%	360	0.6%	-5.0%
USD EM Corporate	6.56%	366	0.3%	-2.7%
Local EM Sovereign	5.12%	54	0.8%	-4.0%

Emerging Markets Primary Issuance		
	2017	current 2018 - mn
EM	\$671,784	\$443,300
ASIA	\$323,590	\$219,897
MENA	\$86,937	\$67,028
GCC	\$73,391	\$60,268
Sukuk	\$27,965	\$18,524



Desk View: Positioning & Strategy		
	Tactical	Strategic
Global Investment Grade	Overweight	Neutral
US High Yield	Underweight	Underweight
Emerging Markets	Overweight	Overweight
GCC Bond/Sukuk	Overweight	Overweight

Expected Primary Bond Sales	
Baidu Inc USD250m tap	T+160/165 area
China Development Bank EUR 4Y	MS+75bp

Source: Bloomberg (Chart & Tables)

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Global Economic Calendar					
Date Time	Country	Event	Period	Survey	Prior
12/04/18 11:45	France	Budget Balance YTD	Oct	--	-87.1b
12/04/18 13:30	United Kingdom	Markit/CIPS UK Construction PMI	Nov	52.5	53.2
12/04/18 14:00	Eurozone	PPI MoM	Oct	0.50%	0.50%
12/04/18 14:00	Eurozone	PPI YoY	Oct	4.50%	4.50%
12/04/18 17:30	Canada	Labor Productivity QoQ	3Q	0.20%	0.70%
12/03/18- 12/05/18	Russia	Wellbeing Fund	Nov	--	\$75.6b

Source: Bloomberg as of 20 November 2018

Fixed Income Desk – Team Background

	
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