

Fixed Income Desk

Your daily feed from the Fixed Income team



What's on my mind?

Don't say we didn't tell you, yesterday's carnage on risk assets are likely to weigh on valuations in the coming days as the various narratives by policymakers on monetary policy setting and looming concerns on trade wars takes center stage. I always tend to be the contrarian guy trying to believe if market participants are naïve or simply having the "FOMO" mojo. We all tend to have a memory that repeatedly tell us to be pragmatic while our sixth sense forces us to take an unintentional action. And, as we move towards the year-end, light-dealer inventory, and profit taking together with all those short coverings particularly on the US Treasury futures front and those long Dollar bull calls should retrace and normalize, in my humble opinion. With the euphoria on higher policy rates now seems to be abating, surely all those corporate borrowers should be out of the woods, sooner or later. Despite recent official data showing continued solid U.S. growth, market participants are betting that the Fed will cut interest rates as soon as 2020. The swaps market has brought forward the timing for when it sees the hiking cycle peaking, toward the end of 2019 or early 2020, a period when the Fed's projections indicate tightening will still be underway.

Asian risk assets are taking cues from their US counterparts after Wall Street's 3% plunge overnight. US benchmark Treasuries rallied as the flight to safety drove yields lower breaching the 2.90 percent level. Gold holding its shine up at \$1234. Adding to the risk aversion overnight was news that U.K. Prime Minister Theresa May's push to avoid a so-called "hard Brexit" may be at risk. US financial markets are closed today for a national day of mourning to honor former President George H.W. Bush. Fed Chairman Jerome Powell's testimony to Congress scheduled for Wednesday has been cancelled.

New York Fed President Williams struck a more hawkish tone compared to his colleagues at the FED. He said the labour market is "incredibly strong" and his baseline forecast is "still very positive." The economy is on "a really strong kind of path" and "further gradual increases over the next year or so" still make sense. That said, he said the Fed will continue to back away from forward guidance but the dot plot will likely stay. In addition, "the Fed will be more data-dependent as we move ahead."

China's burgeoning offshore universe of stressed and distressed dollar bonds has risen from a mere \$15bn to over \$60bn as policymakers tighten onshore credit while borrowers rush towards the offshore funding markets at higher financing/refinancing costs. There are now 162 dollar bonds that are trading at yields of over 11%, with the broader Asia-ex dollar High Yield bond yields 400bp wider since the January tights to 9.1%. There have been RMB154bn in onshore RMB bond defaults in 2018, whilst the highest rated (AAA) state-owned enterprises (SOE) have thus far been the only real beneficiary of PBoC and government intervention and lower funding costs.

The monetary policy committee is likely to keep the repo rate unchanged at its December meeting – 48 out of 52 participants in a Bloomberg poll expect a status quo on rates in December. The last few data prints on inflation together with lower oil prices, CPI inflation should likely be significantly lower than the RBI's target. The stable INR together with the benign backdrop on US rates with changing narratives should help RBI on their policy action for now. The real yields on Indian Government bonds are still at large at attractive levels at over 450bp.

S&P Global Ratings cut Tata Motors's long-term rating deeper into junk, the second downgrade for the Indian automaker in five months, citing headwinds for the company's Jaguar Land Rover subsidiary. Mumbai-based Tata Motor's leverage may deteriorate over the next 12 to 18 months due to the weaker-than-expected performance of Jaguar Land Rover Automotive Plc, S&P said in a statement. The automaker's rating remains on credit watch with negative implications given uncertainties around Brexit and will be revisited once the outcome for the U.K. is clearer, it said.

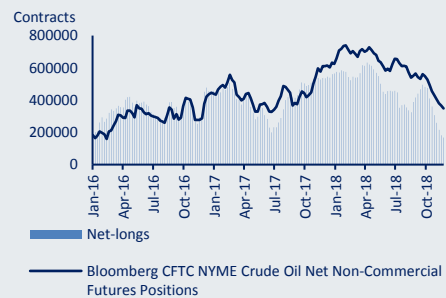
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US money market assets on the rise



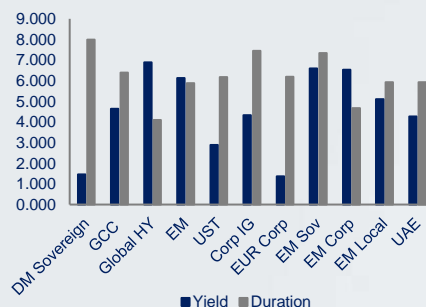
Source: Bloomberg

Oil Bulls back into the woods



Source: Bloomberg

Fixed Income Valuations



Source: Bloomberg

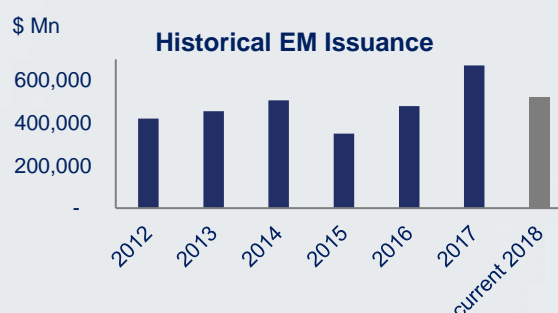
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Interbank rates and Government bonds						
	3m	6M	12M	2Y	5Y	10 y
LIBOR	2.75	2.90	3.14			
EURIBOR	-0.32	-0.25	-0.14			
EIBOR	2.80	3.04	3.51			
SAIBOR	2.84	3.03	3.27			
US Treasuries				2.79	2.79	2.91
Germany Bunds				-0.61	-0.30	0.26
UK Gilts				0.72	0.87	1.28
Mid Swaps (MS)			2.90	2.97	2.92	2.98

Credit Indices			
	Spread	Chg Day	Chg YTD
I Traxx Europe	81.88	0	82.66
I Traxx Europe Crossover	328.91	0	40.92
CDX North America IG	NA	0	61.46
CDX North America HY	406.57	0	32.68
CDX Emerging Markets	207.96	0	74.21

Bond Market Performance				
BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.46%	-	0.3%	1.7%
GCC Credit	4.6%	185	0.2%	-0.1%
Global High yield	6.89%	450	-0.1%	-0.3%
USD Emerging Market	6.13%	323	0.0%	-3.3%
US Government	2.88%	-	0.4%	-0.7%
USD Corporate Investment Grade	4.33%	140	0.3%	-3.3%
BBG EUR Aggr Corp (Loc)	1.37%	131	0.1%	-1.4%
USD EM Sovereign	6.60%	366	0.0%	-5.0%
USD EM Corporate	6.54%	368	0.1%	-2.6%
Local EM Sovereign	5.11%	54	0.1%	-3.9%

Emerging Markets Primary Issuance		
	2017	current 2018 - mn
EM	\$671,784	\$523,474
ASIA	\$323,590	\$269,051
MENA	\$86,937	\$72,624
GCC	\$73,391	\$65,864
Sukuk	\$27,965	\$22,708



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	
NA	NA
NA	NA
NA	NA

Source: Bloomberg (Chart & Tables)

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Global Economic Calendar					
Date Time	Country	Event	Period	Survey	Prior
12/05/18 01:00	Chile	Overnight Rate Target	4-Dec	2.75%	2.75%
12/05/18 04:30	Australia	GDP SA QoQ	3Q	0.60%	0.90%
12/05/18 04:30	Australia	GDP YoY	3Q	3.30%	3.40%
12/05/18 05:00	Philippines	CPI YoY 2012=100	Nov	6.30%	6.70%
12/05/18 11:00	Romania	Retail Sales YoY	Oct	--	2.80%
12/05/18 12:00	Hungary	GDP NSA YoY	3Q F	4.80%	4.80%
12/05/18 12:00	Taiwan	CPI YoY	Nov	0.90%	1.17%
12/05/18 12:50	France	Markit France Services PMI	Nov F	55	55
12/05/18 13:00	India	RBI Repurchase Rate	5-Dec	6.50%	6.50%
12/05/18 15:30	Chile	Economic Activity YoY	Oct	4.50%	2.30%
12/05/18 16:00	United States	MBA Mortgage Applications	30-Nov	--	5.50%
12/05/18 18:00	Mexico	Consumer Confidence Index	Nov	101.3	103
12/05/18 19:00	Canada	Bank of Canada Rate Decision	5-Dec	1.75%	1.75%
12/05/18	Uganda	Benchmark Interest Rate	5-Dec	--	10.00%
12/05/18	Namibia	Benchmark Interest Rate	5-Dec	--	6.75%
12/05/18	Poland	Poland Base Rate Announcement	5-Dec	1.50%	1.50%
12/05/18	Uruguay	CPI MoM	Nov	--	0.23%
12/04/18- 12/25/18	Bahrain	M1 Money Supply YoY	Oct	--	1.28%
12/04/18- 12/07/18	Guatemala	Guatemala Remittances YoY	Nov	--	18.60%
12/03/18- 12/08/18	Ecuador	CPI YoY	Nov	--	0.33%

Source: Bloomberg as of 05 December 2018

Fixed Income Desk – Team Background

	
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