

Fixed Income Desk

Your daily feed from the Fixed Income team



What's on my mind?

An eventful week for global financial markets driven by several macro-fundamental data and strong technical plays dominated investor sentiment and positioning. The release of Fed's Beige book last week did provide some testimony towards the waning optimism on economic growth. The slope of the US yield curve and FED's stance on rates are beginning to renew investor concerns on this late economic cycle. Market participants have swiftly changed their expectations of monetary tightening in 2019 markedly as witnessed on the pricing at the futures exchange. The markets are now pricing-in just one hike for 2019 followed by a reverse course on policy rates by at least 2020. The big question on every investor's mind is what do we do on the fixed income asset class? Do we wait and further analyze the slope of the yield curve or wait to see how the Federal Reserve fine tune their "new neutral" on policy normalization? We maintain our view that US Treasuries are appealing – as compared to other DM Sovereign bond yields. We also like corporate IG bonds. We see value within EM with green shoots of recovery on local currency bonds as real yields and lower oil prices strengthen the picture. GCC tops our regional preferences.

The flight to safety bid propelled by the heightened tensions and disappointing macro data points drove benchmark US Treasury yields towards the 2.83 percent. The much-awaited US payrolls were a big miss for November (actual 155K, survey 197k) as payrolls fell short of what was surveyed. Although throughout the year, the narratives and headlines on labor market conditions and policy rates were underpinned and driven by strong economic momentum, one could argue that perhaps it is beginning to roll-over as wages remained put for some time now. The five and ten-year breakeven rates, implied inflation over the next 5 to 10 years, has fallen to a rate of 1.69% and 1.90% respectively. This reprising of inflation expectations is certainly creating doubts for the Fed's ability to carry out further policy tightening for 2019 and beyond.

Japan's economy shrank more than initially projected in the third quarter, driven by the biggest drop in business spending in nine years amid a series of natural disasters. GDP fell an annualized 2.5% versus an initial reading of minus 1.2%. While growth is expected to recover in the current period, trade tensions and a slowdown in China are risks.

Uber filed to go public last week. The offering, news of which came a day after rival Lyft's notice, could be the largest in 2019 and one of the five biggest of all time as long as it exceeds \$17.4bn. The second-biggest ever comes today, when SoftBank's telecom unit officially prices at 2.65tn yen (\$23.5bn). Tencent Music is seeking to raise as much as \$1.23bn tomorrow.

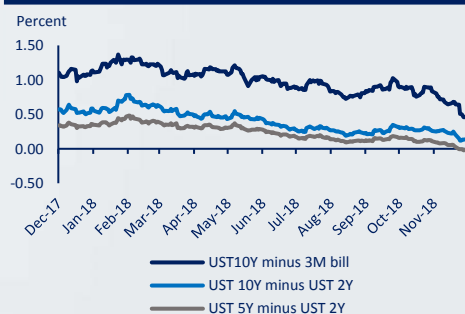
US trade balance has widened to minus \$55.5bn from minus \$54bn, and continues to remind us that such imbalances translates to higher funding requirements and poised to weaken the outlook on the US Dollar. Add the geopolitics on global trade between the US and China, should translate further, and pressure these structural imbalances. Moreover, on the data front, China trade balance surged to \$44.7bn from \$34.4bn in US-Dollar terms.

China's foreign exchange reserves increased unexpectedly last month, ending three straight months of declines. The reserves rose by \$8.6 billion in November from the previous month to \$3.062 trillion, after dropping \$33.93 billion in October. PBOC in recent months boosted its efforts to support the yuan exchange rate and stem renewed capital outflows.

The Reserve Bank of India released Q3 2018 balance of payments statistics. The current account deficit widened to \$19.1bn from \$15.9bn in Q2 2018. The widening in overall CA deficit was due mainly to the surge in merchandise deficit, which expanded to c.\$50bn during Q3 2018, falling just short of the historic high of \$58.4bn recorded in Q4 of 2012. On the positive side, the services balance surplus remained buoyant, at a robust c.\$20.3bn. Earlier this month RBI maintained their policy rates on hold. Inflation has been running much below the RBI's target level of 4% for some time. The stable INR together with the benign backdrop on US policy rates should help RBI on their policy action for now. The real yields on Indian Government bonds are still at large and attractive as compared to the rest of their EM counterparts.

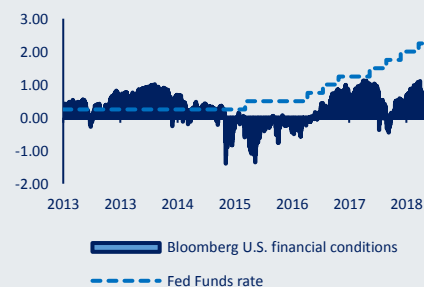
CIOFixedIncomeDesk@Emiratesnbd.com

The Slope of the US Yield Curve



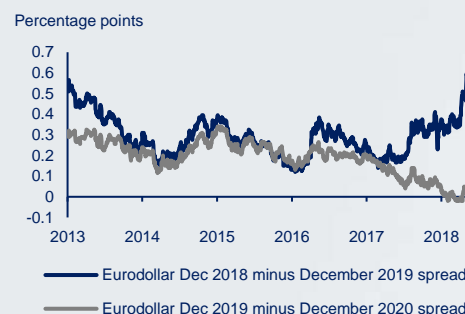
Source: Bloomberg

US Financial conditions are tightening



Source: Bloomberg

Markets are now pricing for reverse course of action by the FED in 2020



Source: Bloomberg

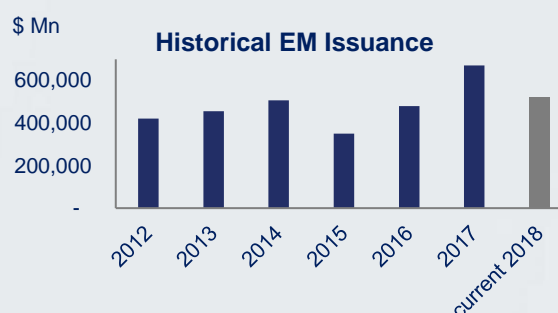
Fixed Income Desk

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	85.50	0	90.74
I Traxx Europe Crossover	344.47	0	47.58
CDX North America IG	NA	0	68.81
CDX North America HY	422.63	0	37.95
CDX Emerging Markets	206.64	0	73.11

Bond Market Performance				
BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.43%	-	0.0%	1.9%
GCC Credit	4.6%	192	0.2%	0.0%
Global High yield	7.01%	469	0.1%	-0.7%
USD Emerging Market	6.10%	328	0.3%	-3.1%
US Government	2.80%	-	0.1%	-0.3%
USD Corporate Investment Grade	4.30%	145	0.2%	-3.2%
BBG EUR Aggr Corp (Loc)	1.40%	134	-0.1%	-1.5%
USD EM Sovereign	6.57%	371	0.4%	-4.8%
USD EM Corporate	6.52%	376	0.1%	-2.5%
Local EM Sovereign	5.08%	54	0.5%	-4.3%

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)

Fixed Income Desk

Global Economic Calendar					
Date Time	Country	Event	Period	Survey	Prior
12/10/18 03:50	Japan	GDP SA QoQ	3Q F	-0.50%	-0.30%
12/10/18 03:50	Japan	GDP Annualized SA QoQ	3Q F	-2.00%	-1.20%
12/10/18 03:50	Japan	GDP Deflator YoY	3Q F	-0.30%	-0.30%
12/10/18 03:50	Japan	BoP Current Account Balance	Oct	¥1262.7b	¥1821.6b
12/10/18 04:30	Australia	Home Loans MoM	Oct	-0.40%	-1.00%
12/10/18 10:45	Switzerland	Unemployment Rate	Nov	2.50%	2.40%
12/10/18 11:00	Denmark	CPI MoM	Nov	-0.30%	0.30%
12/10/18 11:00	Denmark	CPI YoY	Nov	0.80%	0.80%
12/10/18 11:00	Norway	CPI MoM	Nov	0.10%	-0.20%
12/10/18 11:00	Norway	CPI YoY	Nov	3.10%	3.10%
12/10/18 12:00	Czech Republic	CPI MoM	Nov	-0.10%	0.40%
12/10/18 12:00	Czech Republic	CPI YoY	Nov	2.00%	2.20%
12/10/18 13:00	Bulgaria	Retail Sales MoM	Oct	--	0.30%
12/10/18 13:00	Lithuania	CPI YoY	Nov	--	2.90%
12/10/18 13:00	Italy	Industrial Production MoM	Oct	-0.30%	-0.20%
12/10/18 13:30	United Kingdom	Industrial Production MoM	Oct	0.10%	0.00%
12/10/18 13:30	United Kingdom	Manufacturing Production MoM	Oct	0.00%	0.20%
12/10/18 14:00	Greece	Industrial Production YoY	Oct	--	2.00%
12/10/18 14:00	Greece	CPI YoY	Nov	--	1.80%
12/10/18 17:15	Canada	Housing Starts	Nov	198.0k	205.9k
12/10/18 17:30	Canada	Building Permits MoM	Oct	-0.30%	0.40%
12/10/18	Ukraine	CPI YoY	Nov	10.50%	9.50%
12/10/18	Estonia	Unemployment Rate	Nov	--	4.60%
12/10/18	Egypt	Urban CPI YoY	Nov	--	17.70%
12/10/18	Belarus	CPI YoY	Nov	--	4.90%
12/07/18- 12/13/18	Latvia	Unemployment Rate	Nov	--	6.10%
12/10/18- 12/13/18	Vietnam	Domestic Vehicle Sales YoY	Nov	--	39.10%
12/10/18- 12/13/18	Dominican Republic	CPI MoM	Nov	--	0.22%
12/10/18- 12/14/18	Uruguay	GDP YoY	3Q	--	2.50%
12/10/18- 12/15/18	China	Money Supply M2 YoY	Nov	8.00%	8.00%

Source: Bloomberg as of 10th December 2018

Fixed Income Desk – Team Background

	
<p>Syed Yahya Sultan Head of Fixed Income Strategy CIO Office Wealth Management</p>	<p>Muna Alawadhi Fixed Income Analyst CIO Office Wealth Management</p>
<p>Email: yahyas@emiratesnbd.com Telephone: +971 4 609 3724 Mobile: +971 55 886 3947</p>	<p>Email: munasa@emiratesnbd.com Telephone: +971 4 609 3511</p>

Disclaimer

Reliance

Emirates NBD Bank PJSC (“Emirates NBD”) uses reasonable efforts to obtain information from sources which it believes to be reliable, however, Emirates NBD makes no representation that the information or opinions contained in this publication are accurate, reliable or complete and should not be relied on as such or acted upon without further verification. Opinions, estimates and expressions of judgment are those of the writer and are subject to change without notice. Emirates NBD accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this publication. Data/information provided herein are intended to serve for illustrative purposes and are not designed to initiate or conclude any transaction. In addition this publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to the determination of whether a particular investment activity is advisable. This publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness provided thereto by unaffiliated third parties. Moreover, the provision of certain data/information in this publication is subject to the terms and conditions of other agreements to which Emirates NBD is a party. Anyone proposing to rely on or use the information contained in this publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts. Further, references to any financial instrument or investment product are not intended to imply that an actual trading market exists for such instrument or product. The information and opinions contained in Emirates NBD publications are provided for personal use and informational purposes only and are subject to change without notice. The material and information found in this publication are for general circulation only and have not been prepared with any regard to the objectives, financial situation and particular needs of any specific person, wherever situated

Confidentiality

This publication is provided to you upon request on a confidential basis for informational purposes only and is not intended for trading purposes or to be passed on or disclosed to any other person and/or to any jurisdiction that would render the distribution illegal. The investor may not offer any part of this publication for sale or distribute it over any medium including but not limited to over-the-air television or radio broadcast, a computer network or hyperlink framing on the internet without the prior written consent of Emirates NBD or construct a database of any kind.

Solicitation

None of the content in this publication constitutes a solicitation, offer, opinion, or recommendation by Emirates NBD to buy or sell any security, or to provide legal, tax, accounting, or investment advice or services regarding the profitability or suitability of any security or investment and further does not provide any fiduciary or financial advice.

Third party

The security or investment described in this publication may not be eligible for sale or subscription to certain categories of investors. This publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. It is the responsibility of any person in possession of this publication to investigate and observe all applicable laws and regulations of the relevant jurisdiction. This publication may not be conveyed to or used by a third party without the express consent of Emirates NBD. The investor may not use the data in this publication in any way to improve the quality of any data sold or contributed to by the investor to any third party.

Liability

Anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the this publication including, but not limited to, quotes and financial data; or (b) loss or damage arising from the use of this publication, including, but not limited to any investment decision occasioned thereby. Under no circumstances, including but not limited to negligence, shall Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages even if Emirates NBD has been advised specifically of the possibility of such damages, arising from the use of this publication, including but not limited to, loss of revenue, opportunity, or anticipated profits or lost business. This publication does not provide individually tailored investment advice and is prepared without regard to the individual financial circumstances and objectives of person who receive it. The appropriateness of an investment activity or strategy will depend on the person's individual circumstances and objectives and these activities may not be suitable for all persons. In addition, before entering into any transaction, the risks should be fully understood and a determination made as to whether a transaction is appropriate given the person's investment objectives, financial and operational resources, experiences and other relevant circumstances. The obligations relating to a particular transaction (and contractual relationship) including, without limitation, the nature and extent of their exposure to risk should be known as well as any regulatory requirements and restrictions applicable thereto.

Forward looking

Past performance is not necessarily a guide to future performance and should not be seen as an indication of future performance of any investment activity. The information contained in this publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Certain matters in this publication about the future performance of Emirates NBD or members of its group (the Group), including without limitation, future revenues, earnings, strategies, prospects and all other statements that are not purely historical, constitute “forward-looking statements”. Such forward-looking statements are based on current expectations or beliefs, as well as assumptions about future events, made from information currently available. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “seek”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. Undue reliance should not be placed on any such statements in making an investment decision, as forward-looking statements, by their nature, are subject to known and unknown risks and uncertainties that could cause actual results, as well as the Group's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. Estimates of future performance are based on assumptions that may not be realized.

Disclaimer

Risk

Data included in this publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk, and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records.

The use of this publication is at the sole risk of the investor and this publication and anything contained herein, is provided "as is" and "as available." Emirates NBD makes no warranty of any kind, express or implied, as to this publication, including, but not limited to, merchantability, non-infringement, title, or fitness for a particular purpose or use.

Investment in financial instruments involves risks and returns may vary. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, prices and other factors and there is the possibility that you may lose the principle amount invested. Before making an investment, investors should consult their advisers on the legal, regulatory, tax, business, investment, financial and accounting implications of the investment.

In receiving this publication, the investor acknowledges it is fully aware that there are risks associated with investment activities. Moreover, the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in this publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with the investor.

Intellectual property

This publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others.

All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between the investor and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, the investor may not copy or make any use of the content of this publication or any portion thereof. Except as specifically permitted in writing, the investor shall not use the intellectual property rights connected with this publication, or the names of any individual participant in, or contributor to, the content of this publication, or any variations or derivatives thereof, for any purpose.

This publication is intended solely for non-commercial use and benefit, and not for resale or other transfer or disposition to, or use by or for the benefit of, any other person or entity. By accepting this publication, the investor agrees not to use, transfer, distribute, copy, reproduce, publish, display, modify, create, or dispose of any information contained in this publication in any manner that could compete with the business interests of Emirates NBD. Furthermore, the investor may not use any of the trademarks, trade names, service marks, copyrights, or logos of Emirates NBD or its subsidiaries in any manner which creates the impression that such items belong to or are associated with the investor or, except as otherwise provided with Emirates NBD, prior written consent. The investor has no ownership rights in and to any of such items.

Emirates NBD is licensed and regulated by the UAE Central Bank.

United Kingdom

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the London branch of Emirates NBD Bank PJSC which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority in the UK. Some investments and services are not available to clients of the London Branch. Any services provided by Emirates NBD Bank PJSC outside the UK will not be regulated by the FCA and you will not receive all the protections afforded to retail customers under the FCA regime, such as the Financial Ombudsman Service and the Financial Services Compensation Scheme. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Singapore

This publication was prepared by Emirates NBD Bank PJSC in the United Arab Emirates. It has been issued and approved for distribution to clients by the Singapore branch of Emirates NBD Bank PJSC which is licensed by the Monetary Authority of Singapore (MAS) and subject to applicable laws (including the Financial Advisers Act (FAA) and the Securities and Futures Act (SFA)). Any services provided by Emirates NBD Bank PJSC outside Singapore will not be regulated by the MAS or subject to the provisions of the FAA and/or SFA, and you will not receive all the protections afforded to retail customers under the FAA and/or SFA. Changes in foreign exchange rates may affect any of the returns or income set out within this publication.

Please contact your Relationship Manager for further details or for clarification of the contents, where appropriate.

For contact information, please visit www.emiratesnbd.com