

Fixed Income Desk

Your daily feed from the Fixed Income team



**What's on my mind?**

*Now that the US yield curve has inverted, what's next? Let me elaborate; The shorter end of the curve has inverted, but we still have other observational parts of the yield curve to determine the health of the economic cycle. As we projected for a flattening yield curve, the market gyrations have pushed (flattened) it sooner than expected, and raised alarm bells for many cross-asset class investors. I still think the carnage in oil prices and benign inflationary outlook perhaps could be blamed. We (the bond bulls) look out for any cues to opportunistic take bets on our investment approach and probably remain as the most vigilant species to see early signs of stress – through credit spreads behavior. The good news, on average, recessions start 21 months after an inversion (the range is just under a year to closer to 3 years). So let us get back and focus on some of our high conviction trade ideas.*

Uncertainty over global growth prospects is supporting US Treasuries and holding steady below the 2.90 percent. Asian risk assets are in a better tone and trading positively across the major indices this morning. Japanese bonds are in focus as a recent slide in yields threatens to push the benchmark 10-year bond yield below the zero percent mark. The Bank of Japan's monetary policy decision is due Thursday, followed by a briefing from Governor Haruhiko Kuroda.

The Federal Reserve holds its final policy meeting of 2018 on Tuesday and Wednesday. The rate decision will be followed by a press conference with Chairman Jerome Powell. A partial U.S. government shutdown could start this week if lawmakers and President Trump fail to resolve how much money to allocate for Trump's wall along the Mexican border.

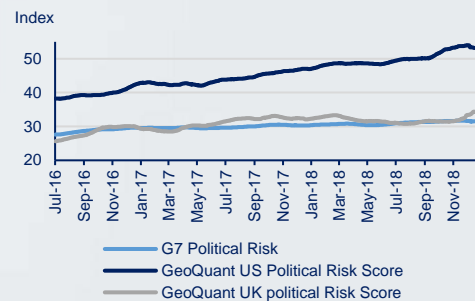
Investors will keep monitoring Brexit developments after Theresa May's team pushed back against reports they are warming to a second referendum on Brexit. David Lidington, her effective deputy, and Chief of Staff Gavin Barwell rejected the idea of another vote after newspapers reported they'd held talks on the issue. The U.K. prime minister will face Parliament today.

The ECB struck quite a fine balancing act in the latest meeting, remarking that downside risks to the outlook have become more uncertain, while confirming a narrative of above-trend growth and rising inflation. The ECB will stop their quantitative easing program (€2.6tn) in January, and governor Draghi said that while risks are still "broadly balanced," they are now "moving to the downside". This tone pushed the benchmark 10Y Bund yields lower to just under a quarter of a percent.

The Central Bank of Russia hiked interest rates by 25bp last Friday, taking the policy rate to 7.75%. The Central Bank of Turkey kept all policy rates unchanged with the repo rate at 24%. The monetary policy committee statement tilted towards a slightly more hawkish bias.

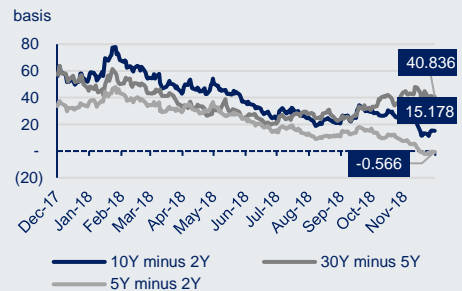
Dubai Investments PJSC's property to sell Islamic bonds early next year as it seeks to refinance an existing sukuk. The sale could raise about \$500 million of five-year maturing Sukuk. "The DIP sukuk 2014 is maturing in February 2019 and DIPDC is considering refinancing the sukuk through various means including a potential sukuk issuance," Khalid Bin Kalban, chief executive officer and managing director of Dubai Investments, said in an emailed statement without giving further details.

Political risks heightens



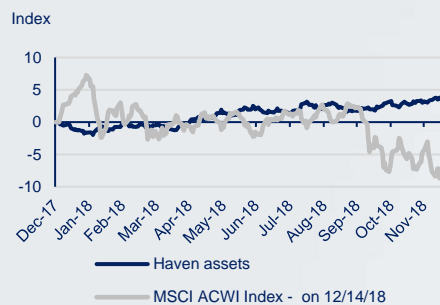
Source: Bloomberg

Yield curve inverts, wait for the rest to follow...



Source: Bloomberg

Safe haven outperforms risk assets



Source: Bloomberg

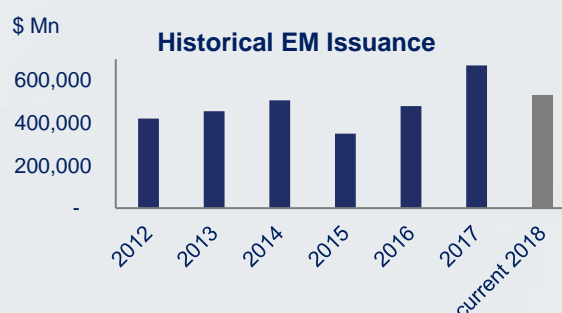
**Fixed Income Desk**

Interbank rates and Government bonds						
	3m	6M	12M	2Y	5Y	10 y
LIBOR	2.80	2.90	3.10			
EURIBOR	-0.31	-0.24	-0.13			
EIBOR	2.93	3.09	3.47			
SAIBOR	2.89	3.07	3.31			
US Treasuries				2.74	2.73	2.89
Germany Bunds				-0.61	-0.30	0.25
UK Gilts				0.71	0.86	1.24
Mid Swaps (MS)			2.87	2.88	2.84	2.92

Credit Indices			
	Spread	Chg Day	Chg YTD
I Traxx Europe	80.67	0	79.97
I Traxx Europe Crossover	335.61	0	43.78
CDX North America IG	NA	0	61.83
CDX North America HY	417.27	0	36.22
CDX Emerging Markets	199.06	0	66.76

Bond Market Performance				
BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.42%	-	0.1%	2.1%
GCC Credit	4.6%	186	0.1%	0.4%
Global High yield	6.97%	463	-0.1%	-0.4%
USD Emerging Market	6.06%	323	0.0%	-2.7%
US Government	2.82%	-	0.1%	-0.3%
USD Corporate Investment Grade	4.28%	140	0.2%	-2.9%
BBG EUR Aggr Corp (Loc)	1.36%	132	0.1%	-1.3%
USD EM Sovereign	6.55%	367	0.0%	-4.4%
USD EM Corporate	6.47%	369	0.1%	-2.2%
Local EM Sovereign	5.06%	55	-0.4%	-5.0%

Emerging Markets Primary Issuance		
	2017	current 2018 - mn
EM	\$671,784	\$531,501
ASIA	\$323,590	\$277,078
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	
N/A	N/A
NA	NA
NA	NA

Source: Bloomberg (Chart & Tables)

## Fixed Income Desk

Global Economic Calendar					
Date Time	Country	Event	Period	Survey	Prior
12/17/18 04:30	Singapore	Non-oil Domestic Exports YoY	Nov	1.80%	8.30%
12/17/18 07:31	Philippines	Overseas Remittances YoY	Oct	3.30%	2.30%
12/17/18 08:00	Indonesia	Exports YoY	Nov	3.00%	3.59%
12/17/18 11:00	Turkey	Industrial Production MoM	Oct	0.00%	-2.70%
12/17/18 12:00	Slovakia	CPI EU Harmonized YoY	Nov	--	2.50%
12/17/18 14:00	Eurozone	CPI YoY	Nov F	2.00%	2.20%
12/17/18 14:00	Eurozone	CPI MoM	Nov	-0.20%	0.20%
12/17/18 17:30	United States	Empire Manufacturing	Dec	20	23.3
12/16/18- 12/23/18	Kenya	Money Supply M3 YoY	Oct	--	8.40%
12/15/18- 12/25/18	United Arab Emirates	M1 Money Supply MoM	Nov	--	-1.40%
12/15/18- 12/25/18	United Arab Emirates	M3 Money Supply MoM	Nov	--	-0.90%
12/15/18- 12/25/18	Saudi Arabia	CPI YoY	Nov	--	2.40%
12/17/18- 12/18/18	Russia	Industrial Production YoY	Nov	3.50%	3.70%
12/17/18- 12/18/18	Jamaica	CPI YoY	Nov	--	4.70%
12/17/18- 12/18/18	Jamaica	CPI MoM	Nov	--	0.70%
12/17/18- 12/21/18	Paraguay	Monetary Policy Rate	17-Dec	--	5.25%

Source: Bloomberg as of 17<sup>th</sup> December 2018

## Fixed Income Desk – Team Background



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