

Fixed Income Desk

Your daily feed from the Fixed Income team



What's on my mind?

The big picture for every investor harbingers on inflation. If you get inflation right, the job becomes easy to interpret on the direction for rates, bond yields and across the various asset classes. The Core personal consumption expenditures (PCE) has always being a closely watched and preferred indicator for the Federal Reserve while many other central bankers opt for headline inflation for their empirical studies. Over the last decade, inflation remained stubbornly low with the abundant liquidity policymakers have been trying to inject to spur inflation. The main effects from the multi-stimulus programs that were introduced and tested merely brought in inflation on asset prices only. Trying to evaluate fair value on asset prices has become a nightmare for many analysts today. As I muddle through all the geopolitics and macroeconomic data points, hopefully, the light at the end of the tunnel should turn to a mirage on my conviction bets on the asset class. For now, will prepare my pencil and notepad for quick short-notes on comments from Powell.

A weaker tone on Asian indices across the board taking cues from overnight trading sessions. Investors were disappointed that Chinese President Xi Jinping avoided any mention of new reforms or stimulus measures in a keynote speech during the 40th anniversary of Deng Xiaoping's transformative "reform and opening up" policy. Moreover, US President Donald Trump slammed the central bank on Twitter for "even considering" a move in light of dollar strength and low inflation for further rate hikes. Benchmark Treasuries rallied to 2.84% while TIPS underperformed nominal Treasuries as oil and natural gas also fell, sending benchmark breakeven rates lower. The five-year breakeven fell below 1.60% percent.

European indices also marked lower, sliding for a third straight session. Core bonds fell, while those in Spain and Portugal rose. Sterling was steady early in Asia after Theresa May set a date for Parliament's Brexit vote. The euro nudged higher to 1.1351

The Empire State manufacturing index fell 12.4 points to 10.9 in December. That's the weakest level in 19 months. The New York Fed's Empire State Manufacturing Index for December provides one of the earliest reads of factory and economic activity at the end of 2018. General business conditions registered a considerable decline in optimism about the level of activity, yet still remained well in expansionary territory.

Oil settled below \$50 for the first time since October 2017 on fears of a global supply glut. WTI fell after Genscape reported inventories rose 630,000 barrels at the biggest U.S. storage hub in Cushing, Oklahoma, people familiar said. Oil is on track for a third straight monthly decline despite efforts by OPEC, Russia and other major exporters to halt the slide.

China's holdings of U.S. Treasuries fell to the lowest in a year and a half. The country's portfolio of notes, bills and bonds dropped for a fifth straight month to \$1.14 trillion in October, from \$1.15 trillion in September. Japan's holdings slipped by \$9.5 billion to \$1.02 trillion.

Saudi Arabia is set to announce its 2019 budget today. The government is likely to opt for another dose of stimulus, sustaining non-oil growth at above 2%. Higher oil prices mean the 2018 deficit will be smaller than budgeted, despite a spending overrun.

Moody's has changed the outlook to stable from negative on the Government of Bahrain's issuer ratings and affirmed the ratings at B2. The key driver of the outlook change to stable is Moody's assessment that Bahrain's government and external liquidity risks, while remaining elevated, have materially reduced following the announcement of a \$10 billion financial support package from Bahrain's Gulf Cooperation Council (GCC) neighbors. We maintain our preference on the Sovereign bonds issued by the kingdom given the wider spread it offers over their peers in the high yield Sovereign sector.

Crude oil declines



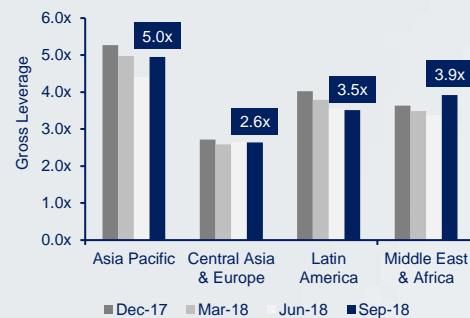
Source: Bloomberg

US Empire State business conditions index



Source: Bloomberg

EM Corporate, Quasi-Sovereign gross-leverage by region



Source: Bloomberg

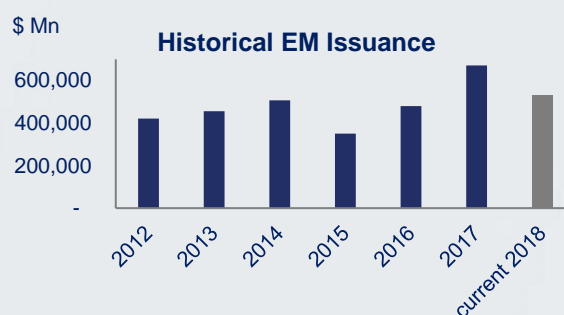
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Interbank rates and Government bonds						
	3m	6M	12M	2Y	5Y	10 y
LIBOR	2.80	2.90	3.10			
EURIBOR	-0.31	-0.24	-0.13			
EIBOR	2.96	3.09	3.51			
SAIBOR	2.90	3.07	3.31			
US Treasuries				2.68	2.68	2.84
Germany Bunds				-0.61	-0.29	0.26
UK Gilts				0.73	0.89	1.26
Mid Swaps (MS)			2.83	2.82	2.78	2.88

Credit Indices			
	Spread	Chg Day	Chg YTD
I Traxx Europe	81.76	0	82.40
I Traxx Europe Crossover	342.33	0	46.66
CDX North America IG	NA	0	67.26
CDX North America HY	428.38	0	39.81
CDX Emerging Markets	198.70	0	66.45

Bond Market Performance				
BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.41%	-	0.1%	2.2%
GCC Credit	4.6%	189	0.0%	0.4%
Global High yield	7.02%	471	-0.2%	-0.6%
USD Emerging Market	6.05%	325	0.1%	-2.6%
US Government	2.79%	-	0.2%	-0.1%
USD Corporate Investment Grade	4.25%	141	0.2%	-2.7%
BBG EUR Aggr Corp (Loc)	1.36%	131	0.0%	-1.3%
USD EM Sovereign	6.54%	369	0.1%	-4.3%
USD EM Corporate	6.47%	371	0.1%	-2.1%
Local EM Sovereign	5.05%	55	0.2%	-4.9%

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)

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Global Economic Calendar					
Date Time	Country	Event	Period	Survey	Prior
12/18/18 01:53	Jamaica	CPI MoM	Nov	--	0.70%
12/18/18 01:54	Jamaica	CPI YoY	Nov	--	4.70%
12/18/18 04:00	New Zealand	ANZ Business Confidence	Dec	--	-37.1
12/18/18 12:00	Spain	Labour Costs YoY	3Q	--	0.70%
12/18/18 12:30	Hong Kong	Unemployment Rate SA	Nov	2.80%	2.80%
12/18/18 13:00	Germany	IFO Business Climate	Dec	101.7	102
12/18/18 13:00	Germany	IFO Expectations	Dec	98.4	98.7
12/18/18 13:00	Germany	IFO Current Assessment	Dec	105	105.4
12/18/18 14:00	Bulgaria	Current Account Balance	Oct	--	312.7m
12/18/18 17:00	Hungary	Central Bank Rate Decision	18-Dec	0.90%	0.90%
12/18/18 17:30	United States	Housing Starts	Nov	1228k	1228k
12/18/18 23:00	Argentina	Unemployment Rate	3Q	9.80%	9.60%
12/18/18 23:00	Argentina	GDP YoY	3Q	-3.50%	-4.20%
12/18/18	Morocco	Interest Rate Announcement	18-Dec	--	2.25%
12/17/18- 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%
12/18/18- 12/19/18	Panama	GDP YoY	3Q	--	3.10%
12/17/18- 12/21/18	Paraguay	Monetary Policy Rate	17-Dec	--	5.25%

Source: Bloomberg as of 18th December 2018

Fixed Income Desk – Team Background



Syed Yahya Sultan
Head of Fixed Income Strategy
CIO Office | Wealth Management

Email: yahyas@emiratesnbd.com
Telephone: +971 4 609 3724
Mobile: +971 55 886 3947



Muna Alawadhi
Fixed Income Analyst
CIO Office | Wealth Management

Email: munasa@emiratesnbd.com
Telephone: +971 4 609 3511

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