

Fixed Income Desk

Your daily feed from the Fixed Income team



Global investor sentiment concerning growth boosted US Treasuries. Ten-year yields on the benchmark fell to 2.62 percent while the yield curve (10y minus 2Y) flattened to 14 bps. Similar maturities of the UK Gilts and Germany Bunds also rallied 1.20 percent and 0.16 percent respectively while the rest of Nordic nations also rallied. The sharpest moves (flash-crash) were in currency markets. The yen jumped almost 8 percent against the Australian dollar to its strongest level since 2009 and surged 10 percent versus the Turkish lira. The Japanese currency rose at least 1 percent versus all its Group-of-10 peers, bursting through the 72 yen levels against the Aussie Dollar. WTI slipped to \$45.75 a barrel while Gold is maintaining its stature at \$1288.

On the fed funds rate, the market implied probability for a 25bp rate hike is under 4% for this year.

President Trump and congressional leaders failed to reach an agreement over ending the shutdown. Nancy Pelosi said House Democrats would pass legislation Thursday based on what Senate Republicans have already approved. Majority Leader Mitch McConnell said his chamber wouldn't take that up and said the standoff could go on for weeks. Talks may resume Friday at the White House.

Apple Inc. lowered its revenue outlook, citing fewer than expected upgrades to new iPhones, weakness in China's economy and supply constraints to newer models of the Apple Watch, iPad Pro and AirPods. The reduction to the forecast comes after weeks of signals from inside Apple and its supply chain indicating the Cupertino, California-based company is struggling to sell the latest iPhones released in September. The flagship product earns Apple about two-thirds of its revenue, and allows the company to generate more money from attached products like Apple Watches, AirPods, and services like Apple Music.

Tesla's \$2,000 price cut on every nameplate to offset a decrease in tax credits for buyers will drag on U.S. revenue per unit and forfeit production efficiencies, while doing little to support demand. The move will also increase margin pressure as Model 3 deliveries represent a growing mix of sales. Tesla will probably focus more on untapped markets in Europe and China. Tesla delivered 63,150 Model 3 sedans in the fourth quarter, 13 percent more than in the third quarter but failed to reach analyst expectations. Tesla's bonds topped the list of biggest losers in U.S. high yield trading as the senior unsecured bond fell to 85.75 cents which translates to a yield of 8.12%. We maintain our view that the company faces an immense challenge and that bonds do not offer value both from a relative and absolute standpoint.

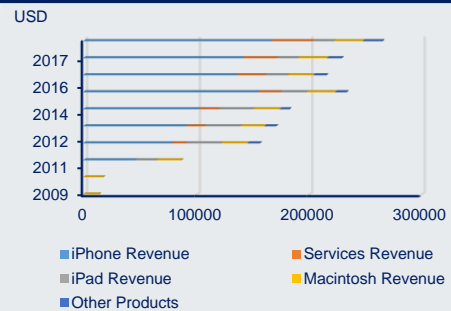
U.S. leveraged loans suffered their biggest loss since mid-2011 in December, following record-breaking fund outflows. Despite this, the floating-rate asset class eked out a slim gain for 2018. As for junk bonds, there's zero to report — and that's the odd thing. There was no U.S. high-yield bond issuance last month for the first time in at least 10 years. (Bloomberg)

Fed near-term forward spread pointing to a rate cut



Source: Bloomberg

Apple segment revenue breakdown



Source: Bloomberg

Tesla's bonds were priced inefficiently. Still expensive within the High yield segment



Source: Bloomberg

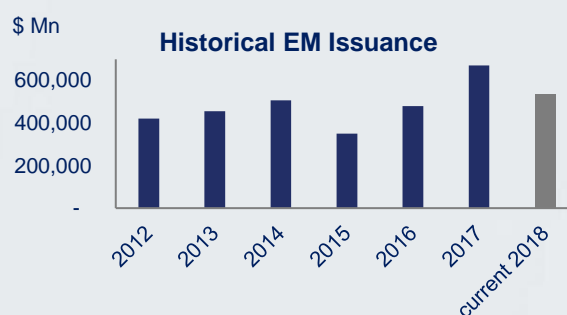
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| Interbank rates and Government bonds | | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|------|
| | 3m | 6M | 12M | 2Y | 5Y | 10 y |
| LIBOR | 2.81 | 2.88 | 3.01 | | | |
| EURIBOR | -0.31 | -0.24 | -0.12 | | | |
| EIBOR | 2.93 | 3.19 | 3.64 | | | |
| SAIBOR | 2.98 | 3.12 | 3.34 | | | |
| US Treasuries | | | | 2.47 | 2.46 | 2.62 |
| Germany Bunds | | | | -0.61 | -0.37 | 0.17 |
| UK Gilts | | | | 0.70 | 0.83 | 1.21 |
| Mid Swaps (MS) | | | 2.75 | 2.65 | 2.53 | 2.65 |

| Credit Indices | | | |
|--------------------------|--------|---------|---------|
| | Spread | Chg Day | Chg YTD |
| I Traxx Europe | 89.22 | 0 | 2.12 |
| I Traxx Europe Crossover | 361.29 | 0 | 2.44 |
| CDX North America IG | NA | 0 | 1.18 |
| CDX North America HY | 459.42 | 0 | 2.29 |
| CDX Emerging Markets | 207.39 | 0 | -0.29 |

| Bond Market Performance | | | | |
|--------------------------------|-------|--------|-------|-------|
| BONDS | Yield | Spread | 1 day | YTD |
| Glob Developed Sovereign (Loc) | 1.32% | - | 0.2% | 0.2% |
| GCC Credit | 4.7% | 215 | -0.1% | -0.1% |
| Global High yield | 7.47% | 534 | 0.0% | 0.0% |
| USD Emerging Market | 6.07% | 346 | 0.1% | 0.1% |
| US Government | 2.60% | - | 0.2% | 0.2% |
| USD Corporate Investment Grade | 4.20% | 154 | 0.2% | 0.2% |
| BBG EUR Aggr Corp (Loc) | 1.34% | 133 | 0.2% | 0.2% |
| USD EM Sovereign | 6.61% | 394 | 0.1% | 0.1% |
| USD EM Corporate | 6.46% | 390 | 0.1% | 0.1% |
| Local EM Sovereign | 4.92% | 53 | 0.2% | 0.2% |

| Emerging Markets Primary Issuance | | |
|-----------------------------------|-----------|-----------|
| | 2017 - mn | 2018 - mn |
| EM | \$671,784 | \$533,322 |
| ASIA | \$323,590 | \$279,190 |
| MENA | \$86,937 | \$73,189 |
| 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 |
| 01/03/19 11:00 | Norway | Unemployment Rate AKU | Oct | 4.00% | 4.00% |
| 01/03/19 11:00 | Turkey | CPI MoM | Dec | -0.75% | -1.44% |
| 01/03/19 11:00 | Turkey | CPI YoY | Dec | 20.50% | 21.62% |
| 01/03/19 12:00 | Spain | Unemployment MoM Net ('000s) | Dec | -5500.00% | -180.00% |
| 01/03/19 12:30 | Hong Kong | Retail Sales Value YoY | Nov | 4.50% | 5.90% |
| 01/03/19 13:00 | Eurozone | M3 Money Supply YoY | Nov | 3.80% | 3.90% |
| 01/03/19 16:00 | United States | MBA Mortgage Applications | 43827 | -- | -- |
| 01/03/19 17:00 | Singapore | Purchasing Managers Index | Dec | -- | 5150.00% |
| 01/03/19 17:15 | United States | ADP Employment Change | Dec | 180k | 179k |
| 01/03/19 17:30 | United States | Initial Jobless Claims | 43828 | 220k | 216k |
| 01/03/19 19:00 | United States | ISM Manufacturing | Dec | 5750.00% | 5930.00% |
| 01/03/19 | Georgia | CPI MoM | Dec | -- | 0.70% |
| 01/03/19 | Georgia | CPI YoY | Dec | -- | 1.90% |
| 01/02/19- 01/08/19 | Chile | Economic Activity YoY | Nov | 1.80% | 4.20% |
| 01/02/19- 01/07/19 | Uruguay | CPI MoM | Dec | -- | 0.36% |

Source: Bloomberg as of 3rd January 2019

Fixed Income Desk – Team Background



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