

Fixed Income Desk

Your daily feed from the Fixed Income team



What's on my Mind?

Dovish remarks from Fed Chairman, liquidity injection by PBOC are two perfect ingredients for a sentiment boost for the start of the year. Now that China's disappointing PMI has been put aside, focus and attention are on talks between the power giants – US and China. When it comes to safe-haven assets, I wonder if the recent volatility and the sharp moves in US Treasuries from 2.8% to 2.55% and back to 2.67% are normal or becoming a new normal with so many looming concerns on growth and fiscal imbalances. Asian markets across the board painted in green this morning along with US futures. The broader sentiment should provide a boost for the slated primary bond transactions.

A stellar and upbeat payroll for December renewed investor confidence. U.S. employers added the most workers in 10 months as wage gains accelerated and labour-force participation jumped, reflecting a robust job market that nevertheless faces mounting risks in 2019. Nonfarm payrolls increased by 312,000 in December, beating all forecasts after an upwardly revised 176,000 gain the prior month. Average hourly earnings rose 3.2% from a year earlier, more than projected and matching the fastest pace since 2009. Meanwhile, the jobless rate rose from a five-decade low to 3.9% reflecting more people actively seeking work.

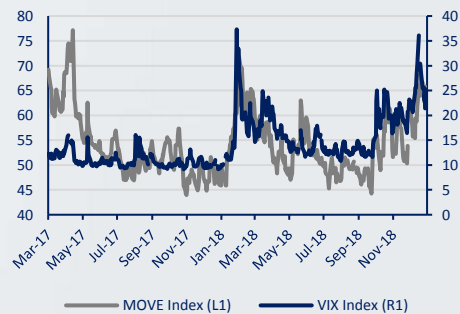
China and the United States will hold vice-ministerial level trade talks in Beijing today and tomorrow as they seek to end a dispute that is inflicting increasing pain on both economies and roiling global financial markets.

The Peoples Bank of China, announced a blanket 100bp cut in the banks' reserve requirement ratio (RRR) to 13.5%, allowing banks to repay MLF lending (MLF matured in Q1 will not be rolled over) and releasing additional liquidity. The Friday's action by PBOC includes two steps, with a first 50bp cut effective from 15 January, and a further 50bp cut effective from 25 January. The lowering of RRR should release about CNY1.5trn, and excluding the repayment of MLF lending, the net liquidity injection amounted to CNY800bn (compared with 750bn, 700bn, 400bn, and 450bn from four cuts in 2018).

The primary bond sales have emerged with several mandates across Emerging Asia. Indian Oil Corporation Limited (rated Baa2, by Moody's, and BBB- by Fitch – both stable outlook), a Government of India Enterprise, has started meeting fixed-income investors today in connection with a US\$ denominated 5-year senior unsecured notes offering under Regulation S. Based on the current curve we expect pricing to translate to a yield of circa 4.6% to 4.70%.

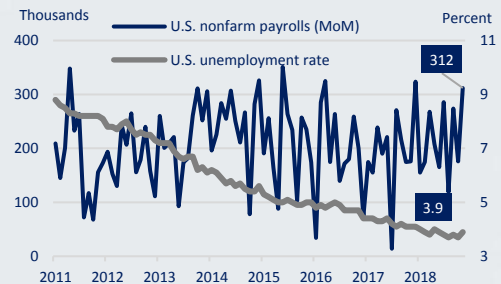
The Republic of Philippines has released price guidance on their US-Dollar, ten-year maturing bond at a spread of 130bp over US benchmark Treasuries. This translates to an indicative yield of 3.96% which is approx. 20bps cheaper on their curve. We expect pricing to tighten to fall in line with their existing curve.

Measures of volatility



Source: Bloomberg

US payrolls – an upbeat start for financial markets



Source: Bloomberg

2018 FI performance – China takes it all



Source: Bloomberg

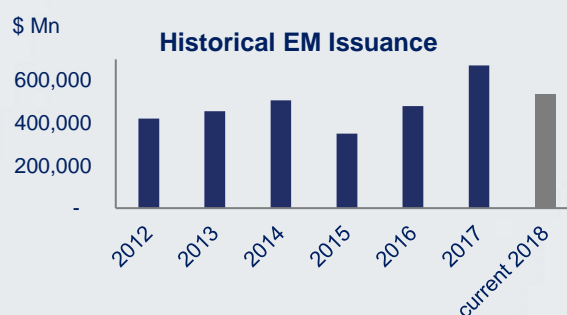
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| Interbank rates and Government bonds | | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|------|
| | 3m | 6M | 12M | 2Y | 5Y | 10 y |
| LIBOR | 2.80 | 2.86 | 2.96 | | | |
| EURIBOR | -0.31 | -0.24 | -0.12 | | | |
| EIBOR | 2.84 | 3.15 | 3.42 | | | |
| SAIBOR | 2.97 | 3.11 | 3.33 | | | |
| US Treasuries | | | | 2.50 | 2.50 | 2.67 |
| Germany Bunds | | | | -0.60 | -0.35 | 0.21 |
| UK Gilts | | | | 0.74 | 0.89 | 1.27 |
| Mid Swaps (MS) | | | 2.75 | 2.65 | 2.57 | 2.70 |

| Credit Indices | | | |
|--------------------------|--------|---------|---------|
| | Spread | Chg Day | Chg YTD |
| I Traxx Europe | 88.13 | 0 | 0.87 |
| I Traxx Europe Crossover | 355.85 | 0 | 0.89 |
| CDX North America IG | N/A | 0 | -4.68 |
| CDX North America HY | 429.09 | 0 | -4.40 |
| CDX Emerging Markets | 195.79 | 0 | -5.87 |

| Bond Market Performance | | | | |
|--------------------------------|-------|--------|-------|-------|
| BONDS | Yield | Spread | 1 day | YTD |
| Glob Developed Sovereign (Loc) | 1.32% | - | -0.2% | 0.2% |
| GCC Credit | 4.6% | 210 | 0.2% | 0.3% |
| Global High yield | 7.30% | 517 | 0.7% | 0.8% |
| USD Emerging Market | 5.99% | 338 | 0.2% | 0.6% |
| US Government | 2.59% | - | -0.6% | 0.2% |
| USD Corporate Investment Grade | 4.20% | 155 | -0.5% | 0.2% |
| BBG EUR Aggr Corp (Loc) | 1.40% | 136 | -0.3% | -0.1% |
| USD EM Sovereign | 6.47% | 381 | 0.4% | 1.0% |
| USD EM Corporate | 6.43% | 388 | 0.0% | 0.3% |
| Local EM Sovereign | 4.91% | 54 | 0.9% | 1.1% |

| 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 | |
|------------------------------------|---------|
| Republic of Philippines (US\$ 10Y) | T+130 |
| Indian Oil Corp (US\$ 5Y) | Mandate |
| Malayan Banking Berhad | Mandate |

Source: Bloomberg (Chart & Tables)

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| Global Economic Calendar | | | | | |
|--------------------------|----------------|---|--------|--------|--------|
| Date Time | Country | Event | Period | Survey | Prior |
| 01/07/19 11:00 | Germany | Retail Sales MoM | Nov | 0.40% | -0.30% |
| 01/07/19 11:00 | Germany | Retail Sales YoY | Nov | -0.40% | 5.00% |
| 01/07/19 11:00 | Germany | Factory Orders MoM | Nov | -0.10% | 0.30% |
| 01/07/19 11:00 | Germany | Factory Orders WDA YoY | Nov | -2.70% | -2.70% |
| 01/07/19 12:30 | Germany | Markit Germany Construction PMI | Dec | -- | 51.30 |
| 01/07/19 13:00 | United Kingdom | New Car Registrations YoY | Dec | -- | -3.00% |
| 01/07/19 13:00 | Italy | Deficit to GDP YTD | 3Q | -- | 1.90% |
| 01/07/19 13:30 | Eurozone | Sentix Investor Confidence | Jan | -2.00 | -0.30 |
| 01/07/19 14:00 | Eurozone | Retail Sales MoM | Nov | 0.20% | 0.30% |
| 01/07/19 14:00 | Eurozone | Retail Sales YoY | Nov | 0.40% | 1.70% |
| 01/07/19 19:00 | Canada | Bloomberg Nanos Confidence | 43469 | -- | 55.10 |
| 01/07/19 19:00 | Canada | Ivey Purchasing Managers Index SA | Dec | -- | 57.20 |
| 01/07/19 19:00 | United States | Factory orders/durables data postponed by government shutdown | | | |
| 01/07/19 19:00 | United States | ISM Non-Manufacturing Index | Dec | 59.00 | 60.70 |
| 01/02/19- 01/07/19 | Uruguay | CPI MoM | Dec | -- | 0.36% |

Source: Bloomberg as of 7th January 2019

Fixed Income Desk – Team Background



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