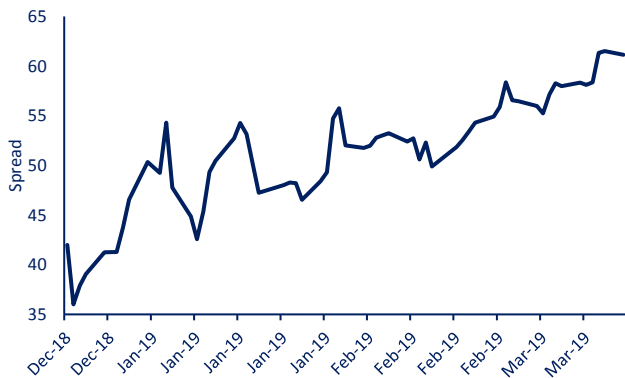




## FIXED INCOME DESK — CENTRAL BANKS TO THE PODIUM

- Asian markets on a firm footing this week as investor expectations that the FED's policy action would remain muted and dovish. Sterling holding its ground after Chancellor of the Exchequer Philip Hammond ramped up the pressure on Brexiteer Tory MPs, warning they will trigger a long delay to leaving the European Union unless they support Theresa May's proposed deal when it returns to Parliament. US Treasuries are a tad weaker at 2.59 percent while the yellow metal is maintaining its shine at \$1300 an ounce. The INR has appreciated strongly at the current reading of 68.85 against the greenback and the recent trade deficit data coming in narrower than the previous reports. The trade deficit shrank to \$9.6b last month from \$14.7b in January.
- Inflation gauges in the US (consumer and producer), industrial production data and the Empire manufacturing report last week came below expectations stoking demand for US Treasuries pushing yields lower to 2.58%. This week focus will turn to the FOMC (March 20) where the Federal Reserve is expected to maintain rates unchanged and provide further guidance on the timing and quantifying of the balance sheet normalization. The shape of the yield curve has witnessed some bull steepening pushing the spread on 30Y minus 5Y to above 60bp. This is a pure reflection of the inflation expectations and policymakers pause on the rates outlook. That said, the move witnessed on the front end of US rates are now reprising the FED OIS signifying a 25bp cut by at least to September 2020
- meeting and close to 10bp of rate cuts by the end of this year. Moreover, on yields, Germany Bund yields have priced in the macroeconomic challenges cited by Mario Draghi earlier this month and appear to be moving towards the zero-bound territory.
- US industrial production rose 0.1% in February, below consensus of 0.4% raising investor concerns on the broader outlook on the manufacturing sector which could dampen current benign growth expectations.
- The option-adjusted spread (OAS) on the US high yield has enjoyed a strong spread compression benefitting from the "Risk-on" sentiment as policymakers pause their aggressive monetary policy stances. US high yield spreads have compressed from 537bp to a current reading of 388bp. The trailing 12-month U.S. high yield bond default rate will hit a five-year low this month, according to Fitch Ratings. The agency reported that default rates would drop to 1.4% this month from last month's reading of 2.5%, and maintains 1.5% default forecast for this year.
- WTI and Brent lower at \$58.27 and \$67.00 respectively as participants wait for further cues from a planned meeting in Azerbaijan today of a committee of OPEC+ members responsible for monitoring output.
- Coming up this week, global central banks from the FED, BOE., Brazil, Colombia, Iceland, Switzerland, Philippines, Indonesia, Russia, Thailand and Norway are scheduled to release their rate decisions.

US YIELD CURVE STEEPENS (30Y minus 5Y)



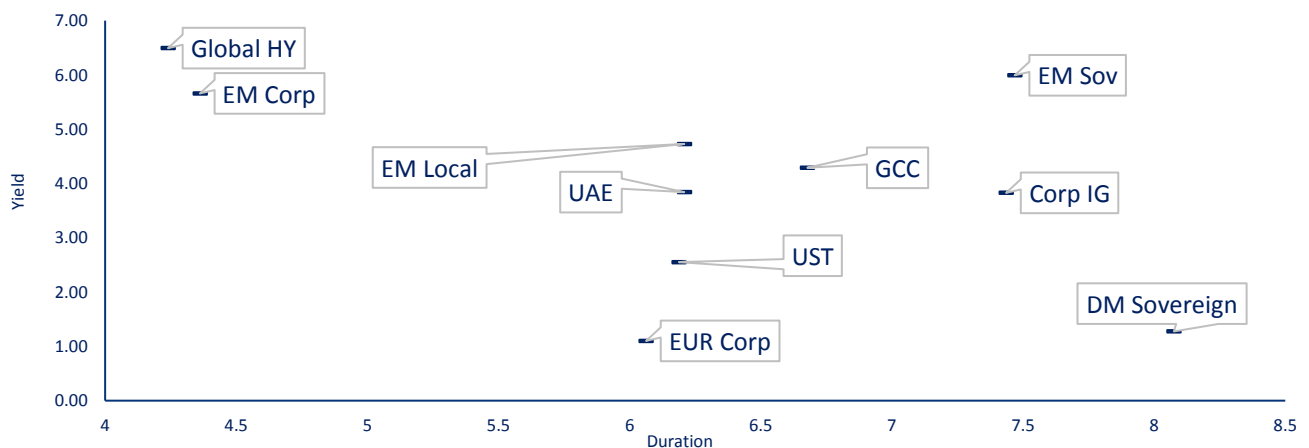
Source: Bloomberg

US PERSONAL CONSUMPTION EXPENDITURE CORE PRICE INDEX YOY SA



Source: Bloomberg

FIXED INCOME VALUATIONS



Bloomberg as of 14 March 2019

INTERBANK RATES AND GOVERNMENT BONDS

	3m	6M	12M	2Y	5Y	10 y
<b>LIBOR</b>	2.63	2.68	2.84			
<b>EURIBOR</b>	-0.31	-0.23	-0.11			
<b>EIBOR</b>	2.77	3.03	3.11			
<b>SAIBOR</b>	2.89	3.00	3.24			
<b>US Treasuries</b>				2.44	2.41	2.60
<b>Germany Bunds</b>				-0.54	-0.34	0.08
<b>UK Gilts</b>				0.76	0.94	1.21
<b>Mid Swaps (MS)</b>			2.65	2.56	2.47	2.61

## CREDIT INDICES

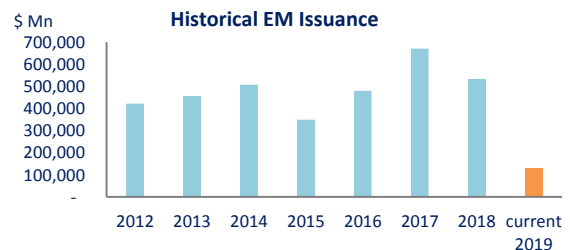
	Spread	Chg Day	Chg YTD
I Traxx Europe	60.09	0	-31.22
I Traxx Europe Crossover	269.64	0	-23.55
CDX North America IG	NA	0	-33.99
CDX North America HY	340.59	0	-24.13
CDX Emerging Markets	168.10	0	-19.18

## BOND MARKET PERFORMANCE

BONDS	Yield	Spread	1 day	YTD
Glob Developed Sovereign (Loc)	1.27%	-	0.07%	1.53%
GCC Credit	4.2%	173	0.15%	3.31%
Global High yield	6.08%	400	0.08%	6.24%
USD Emerging Market	5.40%	283	0.22%	4.55%
US Government	2.55%	-	0.19%	0.87%
USD Corporate Investment Grade	3.81%	120	0.28%	3.46%
BBG EUR Aggr Corp (Loc)	1.09%	109	0.07%	2.25%
USD EM Sovereign	5.94%	332	0.31%	5.16%
USD EM Corporate	5.56%	307	0.15%	4.59%
Local EM Sovereign	4.74%	48	0.19%	2.24%

## EMERGING MARKETS PRIMARY ISSUANCE

	2018	current 2019 - mn
EM	\$533,322	\$128,821
ASIA	\$279,190	\$65,802
MENA	\$73,189	\$27,921
GCC	\$65,864	\$23,921
Sukuk	\$22,708	\$5,949



## DESK VIEW: POSITIONING & STRATEGY

	Tactical	Strategic
Global Investment Grade	Overweig	Neutral
US High Yield	Neutral	Neutral
Emerging Markets	Overweig	Overweig
GCC Bond/Sukuk	Overweig	Overweig

## EXPECTED PRIMARY BOND SALES

Yunnan Energy	6.25% 2021 tap :IPG 6.10% area
Poly Real Estate	T+190bp area
N/A	N/A

## THE TEAM



**Syed Yahya Sultan** is the Head of Fixed Income Strategy for the CIO Office, Wealth Management division at the CIO Office, Wealth Management division at Emirates NBD overseeing all the fixed income business providing strategic and tactical investment strategies. Yahya has over 19 years of experience in fixed income spanning across brokerage, proprietary trading, Islamic banking, Portfolio management and active advisory services. Yahya grew up in the UAE and holds a MBA from the Preston University, Wyoming, USA. Prior to Joining Emirates NBD, he managed the Sukuk business at Noor Bank.

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