Market Insights & Strategy

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Chief Economist

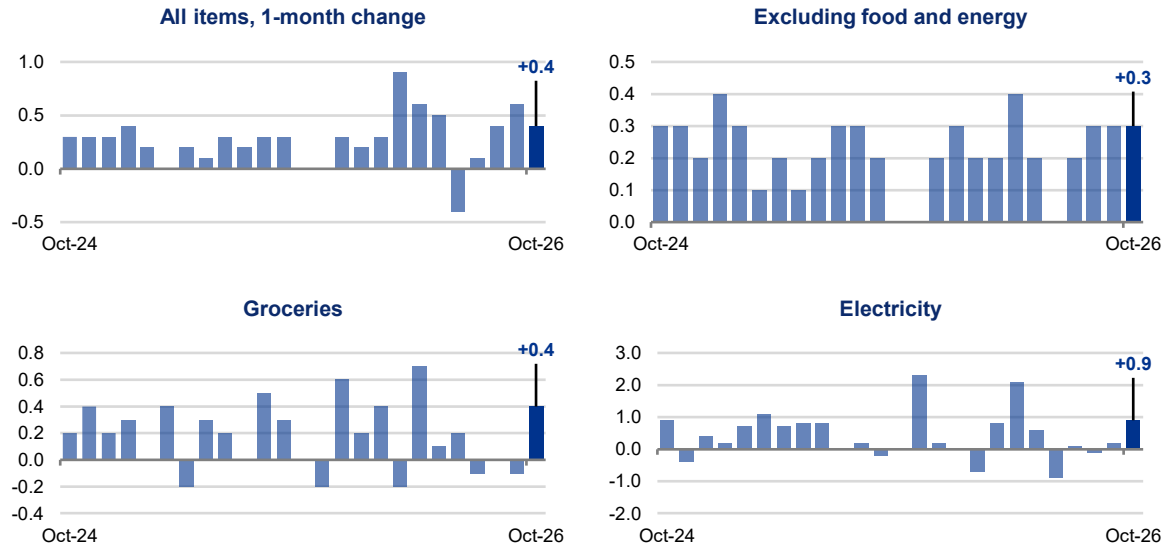
Daily Market Chatter

Macro Strategy View: A step in the right direction

- **CPI more Goldilocks than the market gives credit for**
- **Fed funds futures shift to a more hawkish bias**
- **But risk sentiment buoyed again by AI optimism**
- **Allure of UAE risk with oil price fiscally supportive**

➢ The release of the U.S. October Consumer Price Index (CPI) inflation data, that was released at 17.30 GST yesterday, appears to have solidified the case for the Federal Reserve to raise rates again at the December 9 FOMC meeting. That said, the extent to which further monetary tightening is now being priced in, in the wake of the CPI print, does appear somewhat overly hawkish to us. The CPI data may have come in hotter than expected, but it was still down from the prior month and therefore a 'step in the right direction'.

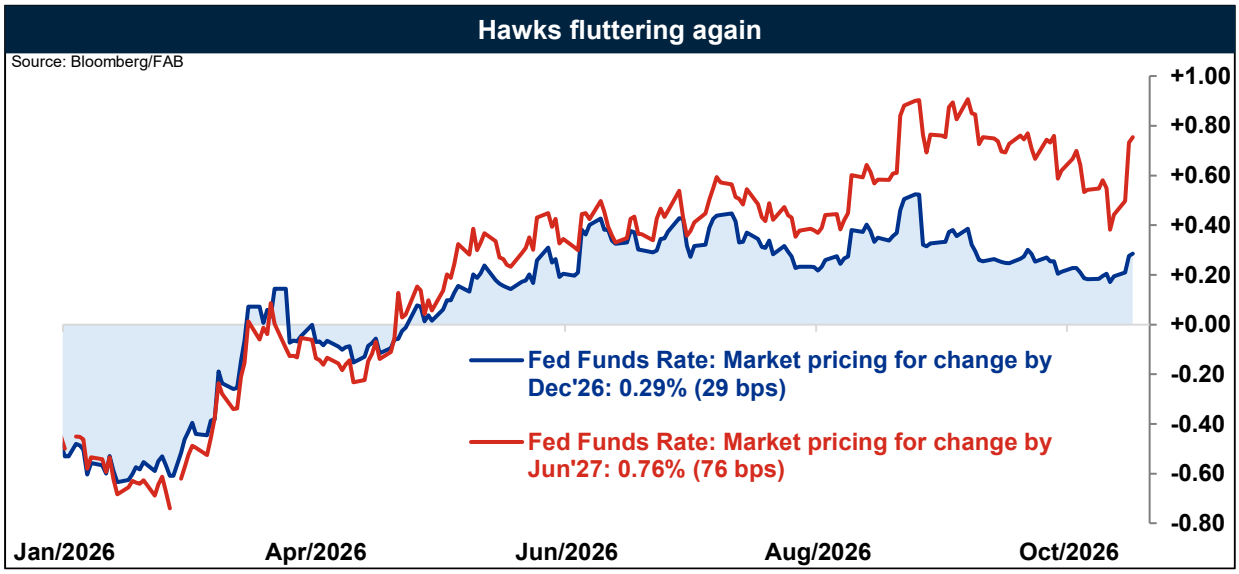
US consumer prices top forecasts (MoM, % change)



Source: Bureau of Labor Statistics, Bloomberg; FAB

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- Taking a more optimistic view, we would prefer to label the CPI report as 'Goldilocks' in nature. Yes, the headline inflation figures were higher than expected, but in the context of current geopolitical uncertainties and supply chain disruptions perhaps consensus was too dovish in the first instance. In the context of the global macro backdrop we would suggest that the CPI report was neither too hot, nor too cold.
- The headline October CPI figure came in at +0.4% MoM, ahead of the expected (consensus) figure of +0.3% MoM, but still down from +0.6% MoM in September. Core CPI for October printed at +0.3% MoM, flat on the prior month, rather than easing back to +0.2% MoM as had been the consensus expectation.
- Treasury yields pushed higher in the wake of the CPI report, with the U.S. 2-year yield surging 17bps to 4.7377% territory, compared to its closing level of 4.5615% on Monday. Meanwhile the current 10-year Treasury sold off by almost 11bps, to yesterday at 4.9896%. There will be no trading of U.S. cash Treasuries today with U.S. markets closed for the Veterans' Day holiday.



- The CPI data has resulted in a sharp tightening of Federal Reserve interest rate expectations. The fed funds futures market is now pricing in a full rate hike – in fact, +28bps are currently priced in – for December, with an aggregate of 75bps now priced in by June of next year. We maintain our long-held concern that the more the Fed tightens in the coming months, with monetary policy eventually proving to be a blunt tool against geopolitically- and energy-driven price pressures, the greater will be the risk that the Fed will then need to be easing its monetary policy stance in the second half of next year.
- In the context of our hope that the Strait of Hormuz will be fully open by the end of this year, or by early 1Q2027 at the latest, we would expect inflationary pressures to recede naturally in the coming months. Yes, price pressures are likely to remain sticky to the upside in the near-to-medium term, but our expectation of eventual geopolitical resolution should help to set a southerly – less hawkish – direction of rates travel.
- With U.S. markets closed today it should be a relative quiet session across global market, with the early tone out of Asia being a net stronger risk bias, fuelled by apparent renewed optimism toward the AI trade. At the time of writing the Nikkei 225 is seen 1.4% higher, but with the KOSPI and KOSDAQ outperforming, up by 2.10% and 4.90% respectively.
- As such, we would suggest that while today's global backdrop will be challenged by a more hawkish tone to the U.S. rates outlook, such sentiment will be partly offset by the aforementioned AI optimism. Higher U.S. yields are tightening financial conditions and should keep global credit market performance uneven.
- For the GCC, the balance is somewhat better. We are hopeful that reduced escalation risk will support regional confidence, tourism, logistics and generic UAE risk in the coming weeks, while oil around $92 remains fiscally supportive. Nevertheless, higher US rates and the sharp reduction in oil's geopolitical premium argue for selectivity rather than broad risk-taking. Our preferred positioning would tend to favour UAE banks and domestically oriented high-quality risk, shorter-duration GCC credit, and a cautious stance toward rate-sensitive equities and long-duration bonds. Happy Hump Day; good luck!

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Major Rates &FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.820%	+14.2	+5.7	-19.7	+110.6	+109.4
10Y	4.992%	+10.8	+2.7	-24.8	+87.5	+82.3
30Y	5.354%	+7.4	+2.5	-24.3	+64.8	+50.9

Source: Bloomberg

US$ SOFR OIS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	453.3	14.0	5.5	-19.7	112.8	106.9
10Y	459.3	10.4	2.2	-24.9	91.3	79.1
30Y	469.3	7.2	1.6	-24.0	72.2	52.5

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1164	-0.53%	-0.26%	0.08%	-3.61%	-4.95%
GBP USD	1.3344	-0.73%	-0.53%	1.03%	1.48%	-0.97%
USD JPY	158.75	0.53%	0.04%	0.09%	2.98%	1.30%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	50.2403	+0.12%	+0.51%	+1.92%	+19.00%	+16.96%
USD INR	93.9362	+0.00%	-0.86%	-1.93%	+6.06%	+4.52%
USD IDR	18,051.00	-0.19%	-0.53%	+0.83%	+8.16%	+8.15%

Source: Bloomberg

MENA Credits

Index Spreads	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
EM Sovs Hard Ccy	197.3	-7.5	-9.3	+13.2	-1.9	+14.1
EM Agg Hard Ccy	189.3	-7.8	-8.5	+14.4	+2.3	+8.5
GCC: IG+HY	117.2	-9.4	-13.1	+1.6	+28.4	+22.0

Source: Bloomberg; The above indices indicated are all Bloomberg index

CDS (CMAI pricing data)	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	33.7	-0.7	-4.3	-3.3	+5.6	+6.4
Kuwait 5Y	54.9	-1.3	-3.9	-6.0	+6.0	+7.5
KSA 5Y	65.0	-2.2	-6.9	-2.1	+2.0	-2.0
Dubai 5Y	59.3	-2.0	-8.6	-5.9	+9.1	+13.1
Oman 5Y	72.1	-2.4	-8.8	-10.6	+4.7	+1.8
Bahrain 5Y	291.3	-9.7	-30.1	-70.8	+122.7	+107.6
Egypt 5Y	305.1	-8.6	-33.1	-7.1	-21.3	+34.2

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	86.04	-0.93%	-10.46%	-6.33%	+40.96%	+49.84%
Brent Oil $/bbl	91.49	-1.17%	-11.69%	-12.63%	+40.41%	+50.35%
Gold spot $/oz	4,032.8	-2.58%	+2.62%	-3.34%	-2.28%	-6.63%
Silver spot $/Troy oz	51.534	-3.53%	+3.48%	-14.48%	+0.61%	-28.09%
Aluminium 3MO $	3,010.5	-1.83%	-1.12%	-1.25%	+4.91%	+0.50%
Nickel 3MO $	16,030	-1.20%	+4.45%	+2.61%	+6.10%	-3.70%
Copper 3MO $	13,679	-1.57%	-2.54%	-5.92%	+26.70%	+10.11%

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Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	52,232	-0.30%	+0.86%	+1.12%	+8.98%	+8.67%
S&P 500	7,521	-0.38%	-0.63%	-3.72%	+9.85%	+9.87%
Nasdaq Composite	25,066	-0.74%	-1.21%	-8.41%	+6.81%	+7.85%
Nikkei	60,460	-7.01%	-2.78%	-12.42%	+18.91%	+20.10%
Hang Seng	24,557	+0.44%	+4.38%	+1.43%	-8.01%	-4.19%
Shanghai	3,664	-5.15%	+1.54%	-3.93%	-8.47%	-7.69%
Mumbai Sensex	81,107	+0.00%	+5.45%	+11.91%	-3.30%	-4.83%
DAX	26,347	+0.31%	+1.87%	+5.02%	+9.38%	+7.58%
CAC 40	8,279	+0.55%	+3.22%	+6.09%	+1.50%	+1.58%
FTSE 100	10,752	-0.29%	+1.06%	+1.89%	+8.61%	+8.26%
DJ Stoxx 50	6,328	+0.59%	+2.98%	+2.50%	+10.52%	+9.26%
FTSE MIB Index	51,755	+0.69%	+3.63%	+4.04%	+16.46%	+15.15%
SMI Index	15,038	+0.61%	+2.00%	+9.07%	+18.39%	+13.34%
MENA						
Abu Dhabi – ADX	9,556	+0.77%	+0.98%	-2.45%	-4.76%	-4.37%
Dubai – DFM	6,170	+1.36%	+6.18%	+6.05%	+1.62%	+2.04%
Saudi Arabia	10,946	+8.31%	+10.84%	+5.65%	-2.88%	+4.34%
Bahrain	1,824	+0.15%	+0.53%	-3.48%	-12.12%	-11.72%
Kuwait (Premier Market)	8,975	+0.09%	+1.16%	-0.68%	-5.25%	-5.51%
Oman	7,279	+0.63%	+0.79%	-7.29%	+27.91%	+24.08%
Egypt	52,483	+2.08%	+6.55%	+0.53%	+30.36%	+25.47%
Turkey	11,662	-0.43%	+5.79%	-4.93%	+10.26%	+3.55%

Source: Bloomberg

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