Market Insights & Strategy

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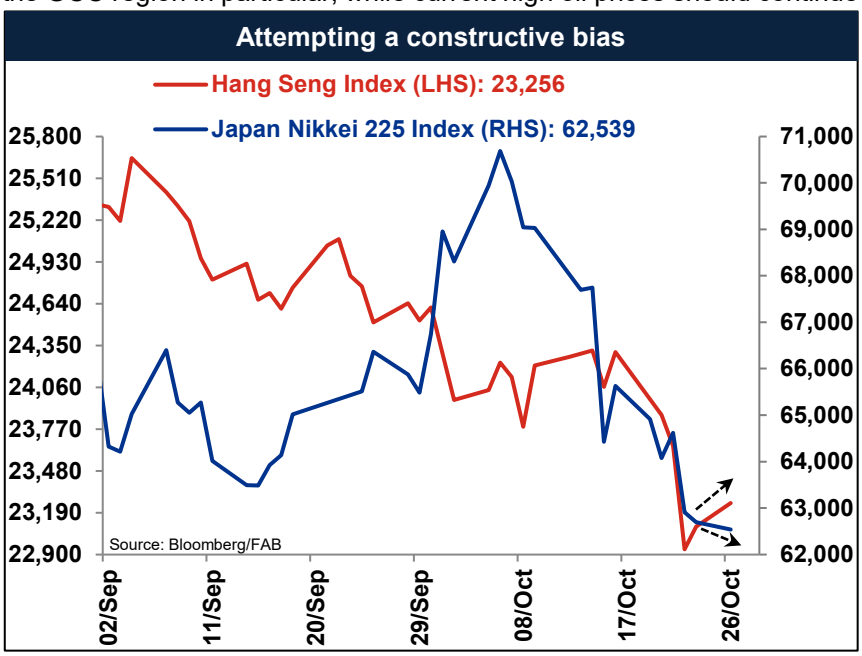
Simon Ballard
Chief Economist

Daily Market Chatter

Macro Strategy View: Hope for the best. Prepare for the worst!

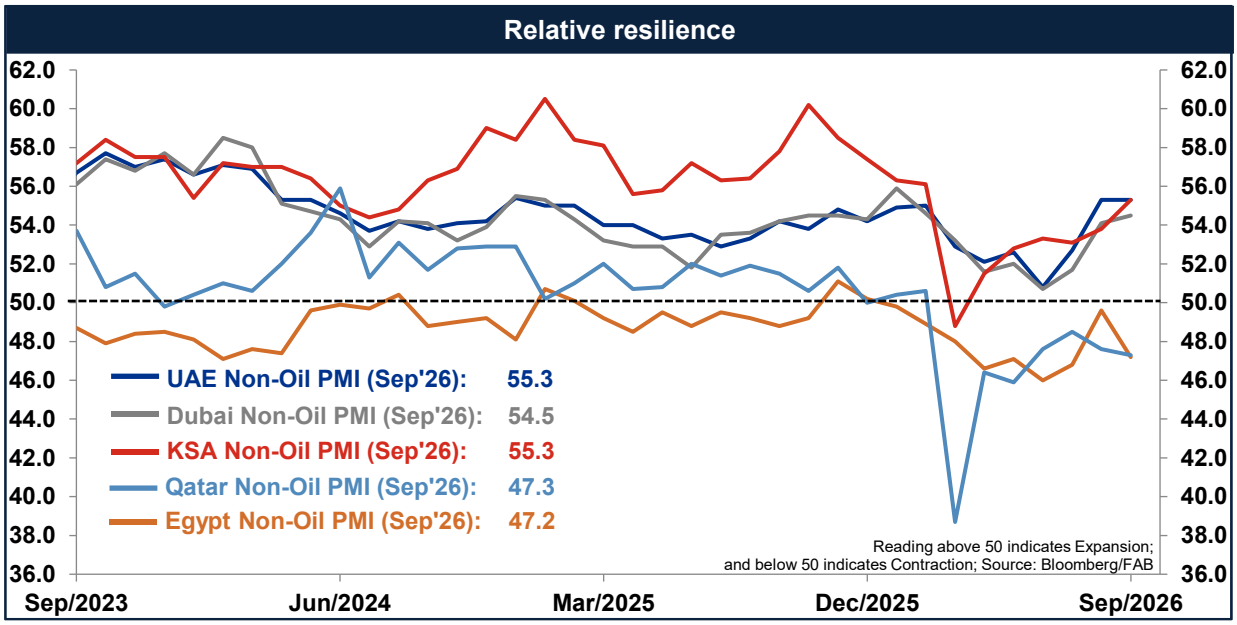
- **Post China, sentiment skewed toward a constructive bias**
- **But oil price strength creates a two-edged sword**
- **GCC risk buoyed by oil prices, dampened by geopolitics**
- **Trump again the dangerous, decisive variable this week**

- Good morning and happy Monday. We're back!
- After some great meetings last week across Greater China, we are now back in the UAE and trying to gauge the latest sentiment across global markets. In light of what we learned from our myriad, highly engaging, client meetings last week, I would suggest that the global and GCC market focus this week will again be skewed toward a constructive bias with regard to economic growth dynamics as well as the latest, somewhat resilient data on the corporate earnings front. Our client discussion and presentations last week all recognised and appreciated the risks and opportunities currently offered by the GCC region.
- At the same time though, we recognise the acute market and investor sentiment vulnerability to oil, inflation, and rates volatility. For the GCC region in particular, while current high oil prices should continue to prove supportive for nominal revenues and energy-linked sectors, we are also cognisant that the Middle East conflict and disruption risk are simultaneously raising the regional risk premium.
- Such a bifurcated situation is also evident in early global credit market pricing this morning. As of 10.53am, we see the Nikkei 225 in the context of 0.8% lower, while the Hang Seng is 0.5% higher. Meanwhile, U.S. and European equity futures are generally trading in positive territory though.



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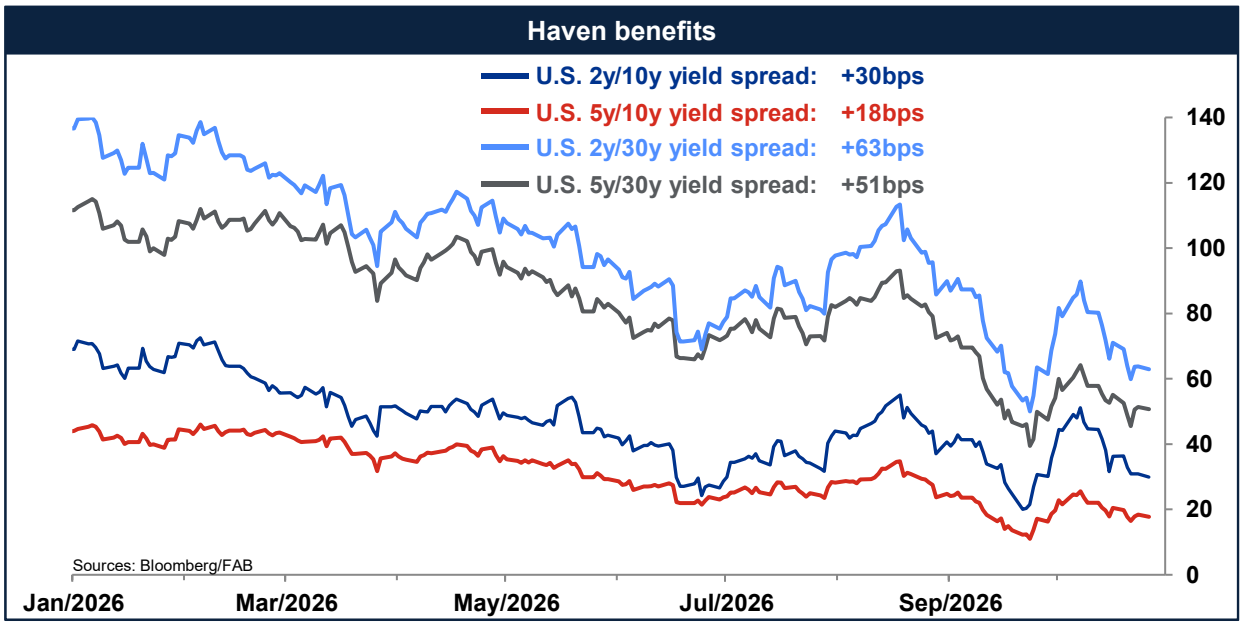
- The IMF's latest World Economic Outlook publication, in which it also gave its latest regional (GCC) summary, noted of course that the Middle East conflict has disrupted energy production and trade routes, lifted food and energy prices and increased uncertainty. Importantly, however, the IMF also opined that resilient financial markets, policy support, rerouting of supply chains and inventory drawdowns have helped contain some of the shock. In particular, we would conjecture that high hydrocarbon prices should continue to provide a powerful nominal-income buffer, albeit that at the same time regional credit markets will generally remain hostage to the geopolitical outlook and the generic security situation.
- For GCC sovereign and investment-grade credit, the combination of high oil revenues and comparatively strong regional fundamentals should provide ongoing support to our part of the world. Within this, however, U.S. Treasury yields will remain the key valuation anchor because of the GCC dollar pegs. As such we believe that carry and credit selection should again be more attractive in the coming weeks than a large outright duration position and would seem consistent with our broader investment preference of exploiting higher yields through credit while limiting duration, alongside an overweight in EM USD bonds.



- Sentiment toward GCC risk should remain finely balanced this week, therefore. On the one hand we recognise that elevated oil prices – a fillip for government revenues – without any meaningful acceleration in geopolitical disruption and uncertainty is the best outlook of all. Conversely, oil prices propelled higher by any significant deterioration in the geopolitical landscape would tend to be increasingly negative for GCC regional investor sentiment as a result of the consequent rise in risk aversion, inflationary pressures, a more hawkish rates outlook and renewed supply chain disruptions.
- The bottom line this week, in terms of the outlook for global and GCC financial markets, is that sentiment will again be driven and buffeted by resilient economic growth and corporate earnings data on the one hand. On the other, markets will again have to contend with the latest sharp uptick in oil prices, a move which, understandably, is complicating the inflation and interest-rate outlook. GCC markets have an unusual combination of strong oil-revenue-based fundamental support, partially offset by elevated geopolitical risk.

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- Net net, we would advocate keeping investor sentiment focused on fundamentally driven, idiosyncratic investment strategy this week, as opposed to chasing aggressive duration or broad directional risk. The decisive – and potentially dangerous – variable over the coming days will be how belligerent and confrontational U.S. President Trump and Israeli Prime Minister Netanyahu might sound and whether, as a result, oil price volatility and the global macro outlook manage to stabilise or only deteriorate further. As the old adage goes; 'Hope for the best. Prepare for the worst!'.

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Major Rates &FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.808%	+3.6	-6.1	-18.0	+120.2	+108.2
10Y	4.996%	+4.1	-7.9	-16.7	+99.3	+82.7
30Y	5.324%	+4.2	-9.9	-17.0	+73.0	+47.9

Source: Bloomberg

US$ SOFR OIS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	452.3	3.5	-6.8	-27.6	123.8	106.0
10Y	460.4	3.7	-8.5	-25.7	104.9	80.1
30Y	468.5	3.4	-10.6	-20.5	84.5	51.7

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1202	-0.12%	-0.33%	-1.49%	-3.80%	-4.63%
GBP USD	1.3374	-0.20%	0.35%	0.90%	0.28%	-0.75%
USD JPY	156.87	0.06%	-0.73%	-0.33%	2.61%	0.10%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	49.6926	+0.12%	+0.34%	+1.45%	+18.68%	+15.68%
USD INR	94.9425	+0.12%	-0.01%	-1.09%	+7.59%	+5.64%
USD IDR	18,057.00	+0.04%	+0.25%	+0.46%	+8.68%	+8.19%

Source: Bloomberg

MENA Credits

Index Spreads	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
EM Sovs Hard Ccy	202.0	-2.9	+12.6	+39.2	-22.8	+18.8
EM Agg Hard Ccy	192.2	-2.0	+11.8	+38.6	-12.9	+11.5
GCC: IG+HY	129.5	-4.2	+12.5	+34.5	+39.2	+34.3

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	41.5	+2.6	+4.0	+3.9	+13.2	+14.1
Kuwait 5Y	62.4	+3.2	+2.2	+4.1	+10.6	+15.0
KSA 5Y	76.3	+2.3	+7.1	+10.4	+11.7	+9.3
Dubai 5Y	69.1	+1.4	+4.7	+8.1	+17.2	+23.0
Oman 5Y	84.0	+0.8	+1.9	-1.5	+15.1	+13.6
Bahrain 5Y	329.9	-19.1	-15.5	+27.0	+162.6	+146.2
Egypt 5Y	356.8	+12.9	+37.4	+58.9	+17.2	+85.9

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	103.27	+3.82%	+1.83%	+11.75%	+67.92%	+79.85%
Brent Oil $/bbl	116.72	+3.14%	+6.24%	+11.89%	+77.01%	+91.82%
Gold spot $/oz	3,996.1	-0.71%	-4.07%	-2.91%	+0.35%	-7.48%
Silver spot $/Troy oz	53.890	-1.25%	-5.44%	-11.14%	+15.02%	-24.80%
Aluminium 3MO $	3,043.5	+1.13%	+1.40%	-6.50%	+6.32%	+1.60%
Nickel 3MO $	15,848	-1.69%	+3.16%	-3.84%	+3.16%	-4.79%
Copper 3MO $	14,323	+1.74%	-0.59%	-2.02%	+31.95%	+15.29%

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Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	52,215	-1.23%	+0.41%	+0.75%	+10.61%	+8.64%
S&P 500	7,624	-0.52%	-0.47%	-1.55%	+12.25%	+11.37%
Nasdaq Composite	25,955	-0.21%	-0.71%	-4.11%	+11.85%	+11.67%
Nikkei	62,693	-3.58%	-4.03%	-5.53%	+27.17%	+24.54%
Hang Seng	23,093	+0.69%	-4.52%	-5.78%	-11.72%	-9.90%
Shanghai	3,690	-4.45%	-0.69%	-5.09%	-6.58%	-7.01%
Mumbai Sensex	73,124	-0.17%	-2.15%	-1.04%	-13.17%	-14.19%
DAX	25,182	-0.75%	-1.72%	-0.89%	+3.89%	+2.82%
CAC 40	7,783	-0.36%	-2.19%	-3.65%	-5.38%	-4.50%
FTSE 100	10,690	-0.32%	-1.76%	-0.05%	+10.83%	+7.64%
DJ Stoxx 50	6,068	-0.31%	-2.19%	-3.72%	+6.94%	+4.78%
FTSE MIB Index	48,559	+0.36%	-2.60%	-6.38%	+14.29%	+8.04%
SMI Index	14,462	-0.59%	+0.49%	+3.70%	+15.07%	+9.01%
MENA						
Abu Dhabi – ADX	9,588	-1.17%	-2.24%	-6.00%	-6.01%	-4.05%
Dubai – DFM	5,734	-1.44%	-2.27%	-4.11%	-5.47%	-5.17%
Saudi Arabia	10,946	+12.90%	+7.42%	+3.28%	-5.58%	+4.34%
Bahrain	1,849	-0.17%	-0.96%	-2.89%	-7.85%	-10.55%
Kuwait (Premier Market)	8,768	+0.50%	-1.16%	-4.98%	-7.18%	-7.69%
Oman	7,278	-1.37%	-4.94%	-3.65%	+34.88%	+24.06%
Egypt	49,234	-3.56%	-3.27%	-8.45%	+29.22%	+17.70%
Turkey	11,117	-0.92%	-5.16%	-13.82%	+1.60%	-1.28%

Source: Bloomberg

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