Market Insights & Strategy

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Simon Ballard
Chief Economist

Daily Market Chatter

Macro Strategy View: An asymmetric plebiscite

- **Israel's biggest election risk would be 'no result'**
- **Opposition victory could fuel most positive market reaction**
- **Spotlight on the Fed, with FOMC expected to hold**
- **A big couple of days ahead for market-moving event risk**

➢ The markets are kicking off this morning what will potentially be a 48-hour period of heightened volatility and investor uncertainty. At best, the combination of such event risk will likely create a veil of cautious optimism across global markets over the coming days. For others it could produce a modest risk off bias. For now, as we go print, we see the Nikkei 225 in positive territory, but both the Hang Seng and the CSI 300 equity indices trailing in the red, with European and U.S. stock futures showing a similarly mixed picture, as also are the Asia iTraxx credit indices.

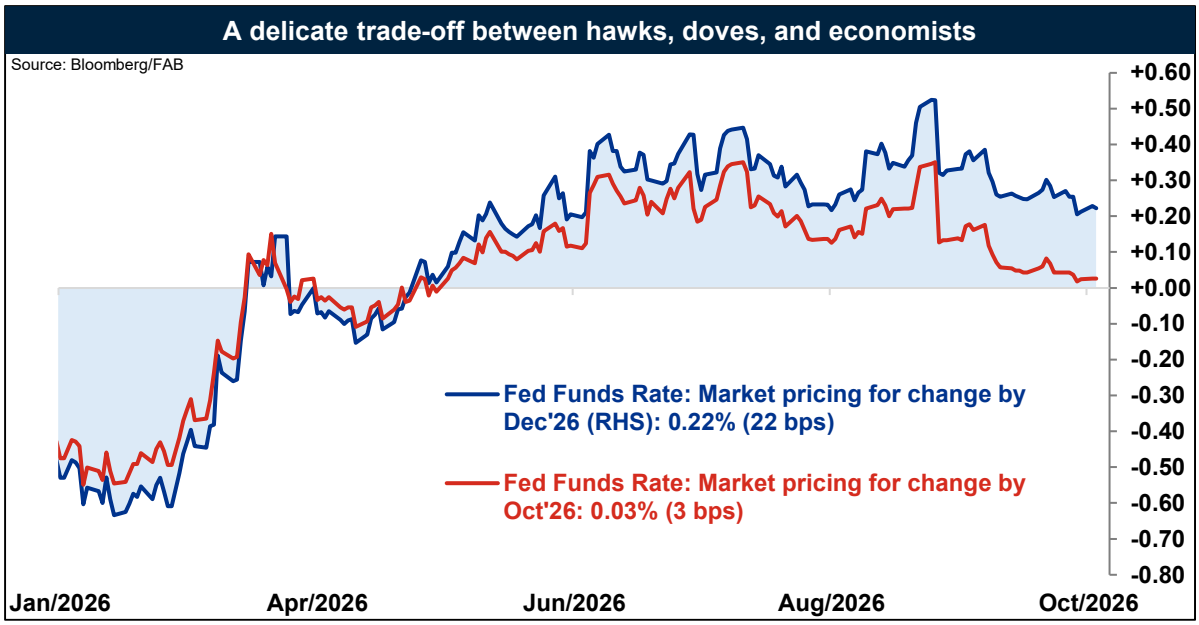
In the balance; waiting for the electorate to speak



➢ Thinking about the event risk ahead of us this week, first and foremost, we have the Israeli general election to contend with today. The market outlook for the plebiscite at this stage appears to be fairly asymmetric. On the one hand investors appear to see a change of government – defeat of Netanyahu – as the market-positive outcome. Indeed, at this stage the market appears to view a potential opposition victory for Gadi Eisenkot as likely to reduce Israel's political/institutional risk premium.

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- Some analysts suggest that under an opposition-victory scenario, the shekel could appreciate 2–3%, helped by expectations of improved relations between a different (Eisenkot) Israeli coalition government and Western and regional partners, as well as less concern over judicial reform. All of this could feed a positive Israeli domestic market response.
- On the other hand, however, market pricing suggests that the biggest near-term risk is not necessarily a Netanyahu victory but rather an inconclusive result followed by protracted coalition negotiations or another election. Current polling forecasts suggest that neither the Netanyahu bloc nor the principal opposition group is clearly on course for a governing majority.
- The Israeli election result is, of course, key to the outlook of the GCC region and in particular that of the UAE. This said, the impact of the election on our region will be more to do with regional geopolitical risk going forward and the associated risk premium, than it will be about any direct economic linkages. Both Netanyahu and Eisenkot have committed to maintaining pressure on Hamas and Iran, meaning the election is not a simple binary choice between hawkish and dovish foreign policy.



- The election, which takes place throughout today, October 27, will see voting run until 10pm Israeli time, after which television exit polls should give the first indications. We would caution that a definitive outcome could take considerably longer if neither bloc achieves a workable majority and we are cognisant that the official final tally may not be known until Friday (October 30).
- The other key event that could drive market sentiment and direction over the coming hours and days will be the result of this week's U.S. Federal Open Market Committee (FOMC) rates meeting. The FOMC convenes today for its latest 2-day meeting, with the rates decision scheduled for release at 22.00 tomorrow evening (October 28).
- That said, the market does not expect – and neither do we – any change in rates on this occasion, but it is the accompanying language from the Fed that will be carefully studied and forensically analysed. We will be parsing the content of the press conference that will follow the rate decision, for any hints on the committee's commitment to future monetary policy adjustment and rate tightening, or alternatively for any acknowledgement from the FOMC that monetary policy is a blunt tool in the face of energy-fuelled price pressures. We maintain that monetary policy can be a damaging strategy for attempting to rein in geopolitically driven inflation pressures and may actually lead to weaker macro conditions – and eventual adoption of a dovish policy bias – further down the economic road.

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Major Rates &FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.827%	+1.9	-11.4	-16.1	+122.4	+110.1
10Y	4.989%	-0.7	-15.2	-17.4	+100.8	+82.0
30Y	5.304%	-2.0	-16.5	-19.0	+75.1	+45.9

Source: Bloomberg

US$ SOFR OIS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	453.8	1.4	-12.3	-26.2	125.3	107.4
10Y	459.4	-1.0	-15.8	-26.8	103.9	79.1
30Y	466.1	-2.4	-17.4	-22.9	82.1	49.3

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1174	-0.25%	-0.35%	-1.73%	-4.04%	-4.87%
GBP USD	1.3342	-0.24%	0.28%	0.66%	0.04%	-0.99%
USD JPY	157.5	0.40%	-0.63%	0.07%	3.02%	0.50%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	49.7543	+0.12%	+0.42%	+1.57%	+18.83%	+15.83%
USD INR	95.1925	+0.26%	+0.28%	-0.83%	+7.87%	+5.92%
USD IDR	18,124.00	+0.37%	+0.45%	+0.83%	+9.08%	+8.59%

Source: Bloomberg

MENA Credits

Index Spreads	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
EM Sovs Hard Ccy	206.4	+4.4	+15.3	+39.0	-17.7	+23.2
EM Agg Hard Ccy	195.6	+3.4	+14.8	+38.4	-8.7	+14.9
GCC: IG+HY	130.0	+0.5	+14.2	+31.5	+39.4	+34.8

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	40.4	-1.1	+2.0	+1.8	+12.2	+13.0
Kuwait 5Y	59.5	-3.0	-2.2	+1.6	+10.5	+12.0
KSA 5Y	75.3	-1.1	+3.9	+8.2	+12.6	+8.2
Dubai 5Y	68.3	-0.8	+2.1	+4.3	+17.7	+22.2
Oman 5Y	83.5	-0.5	-0.3	-4.3	+15.5	+13.2
Bahrain 5Y	327.8	-2.1	-24.4	+18.4	+161.1	+144.1
Egypt 5Y	362.7	+5.9	+36.7	+55.4	+36.0	+91.8

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	101.76	-1.46%	-1.83%	+10.12%	+65.98%	+77.22%
Brent Oil $/bbl	115.81	-0.78%	+5.71%	+11.01%	+76.49%	+90.32%
Gold spot $/oz	4,016.7	+0.52%	-2.99%	-2.41%	+0.87%	-7.01%
Silver spot $/Troy oz	53.966	+0.14%	-5.45%	-11.02%	+15.18%	-24.70%
Aluminium 3MO $	3,040.5	-0.10%	+0.80%	-6.96%	+6.35%	+1.50%
Nickel 3MO $	15,561	-1.81%	+0.21%	-4.70%	+1.30%	-6.52%
Copper 3MO $	14,328	+0.03%	-0.08%	-2.02%	+30.70%	+15.33%

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Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	52,362	+0.28%	+0.76%	+1.03%	+10.13%	+8.94%
S&P 500	7,677	+0.70%	-0.18%	-0.86%	+11.66%	+12.14%
Nasdaq Composite	26,169	+0.82%	-0.99%	-3.32%	+10.71%	+12.60%
Nikkei	62,190	-4.35%	-4.20%	-6.29%	+23.12%	+23.54%
Hang Seng	23,212	+0.51%	-2.75%	-5.30%	-12.19%	-9.44%
Shanghai	3,698	-4.27%	-0.90%	-4.91%	-7.49%	-6.84%
Mumbai Sensex	73,607	+0.66%	-0.33%	-0.39%	-13.18%	-13.63%
DAX	25,411	+0.91%	+0.36%	+0.01%	+4.53%	+3.76%
CAC 40	7,847	+0.83%	-0.26%	-2.85%	-4.76%	-3.71%
FTSE 100	10,767	+0.72%	+0.02%	+0.67%	+11.53%	+8.42%
DJ Stoxx 50	6,116	+0.79%	-0.47%	-2.96%	+7.09%	+5.61%
FTSE MIB Index	49,187	+1.29%	+0.20%	-5.17%	+14.62%	+9.44%
SMI Index	14,539	+0.53%	+1.18%	+4.25%	+16.06%	+9.58%
MENA						
Abu Dhabi – ADX	9,641	+0.55%	-1.46%	-5.49%	-5.41%	-3.52%
Dubai – DFM	5,752	+0.31%	-1.70%	-3.82%	-4.79%	-4.88%
Saudi Arabia	10,946	+15.97%	+8.13%	+2.48%	-5.80%	+4.34%
Bahrain	1,846	-0.15%	-0.95%	-3.16%	-9.75%	-10.69%
Kuwait (Premier Market)	8,940	+1.97%	+1.12%	-3.20%	-4.84%	-5.88%
Oman	7,358	+1.09%	-3.63%	-2.46%	+35.45%	+25.41%
Egypt	48,417	-1.66%	-5.25%	-8.70%	+26.87%	+15.75%
Turkey	11,152	+0.31%	-2.43%	-13.55%	+2.75%	-0.97%

Source: Bloomberg

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