Market Insights & Strategy

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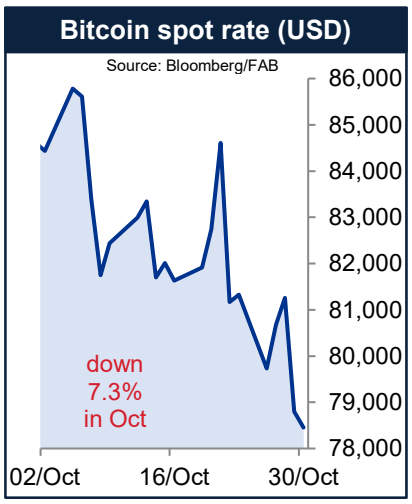
Simon Ballard
Chief Economist

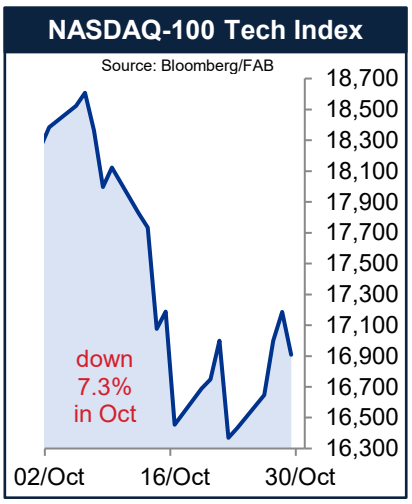
Daily Market Chatter

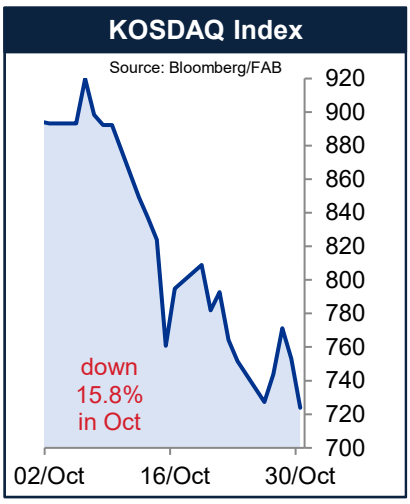
Macro Strategy View: Friday fragility

- **Tech bubble questions dent broader market sentiment**
- **Underwhelming corporate earnings add to weakness**
- **5% 10-yr yield level still a relative valuation anchor**
- **Oil price strength creates two-edged sword**
- **Surprise, surprise as CBE hikes 100bps, or is it?**

➢ Good morning and happy Friday folks! There is a weaker bias to global credit markets this morning as the tech sector in particular gets something of a drubbing. As such, it is the KOSPI and the KOSDAQ that are leading the decline in global bourses in early trading this morning, both off by 3.7% at the time of writing, albethey off their earlier session lows..



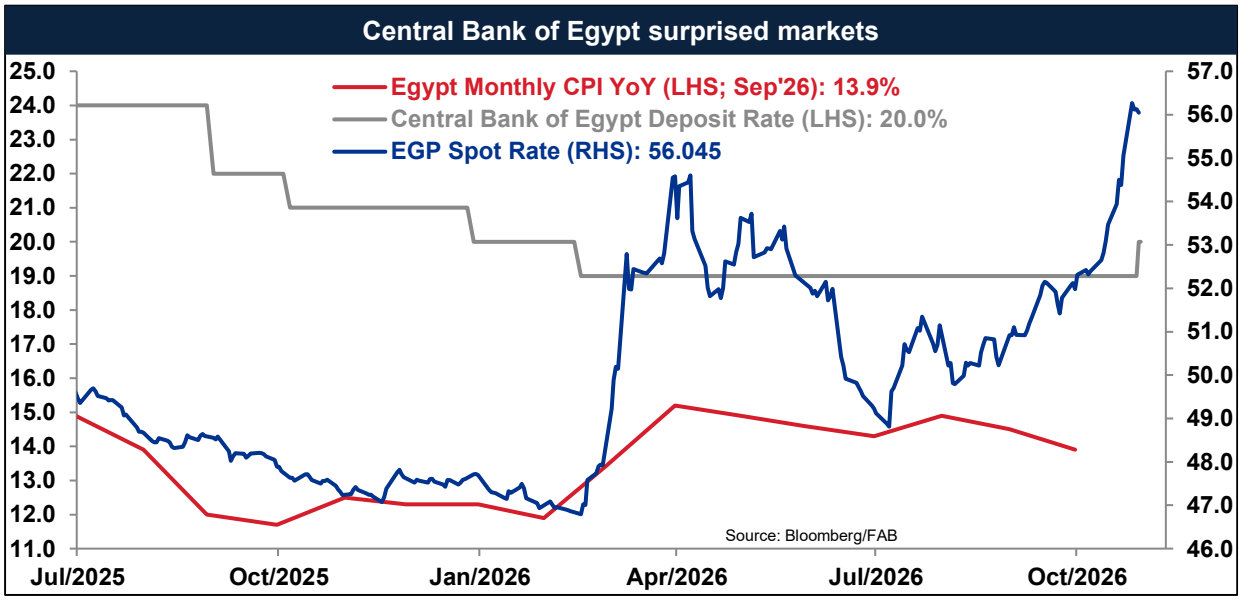




➢ Indeed, the softer tone to market sentiment has been fuelled overnight by underwhelming earnings numbers from the likes of Amazon.com and Intel Corp. Amazon stock slumped 7.3% in extended trading, while Intel plunged 23%. Meanwhile, the wider market sentiment was also pushed lower by a sharp (2%) selloff in Bitcoin fell 2% - currently indicated 1.1% lower in the context of $77,900 – after Binance suspended all deposits and withdrawals as it said it was investigating a suspected hack. Closer to home, our focus is on the oil price, which is seeing renewed strength this morning with Brent crude 1.2% higher around the $116.25/bl at the time of writing, albeit off the earlier session high of $117.84 according to Bloomberg data.

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- The bottom line for markets on this Friday morning therefore is that the global risk backdrop seems set to trade under a veil of caution. While the Fed held rates at 3.75%-4.00% earlier this week, as expected, the key message from the FOMC language was that the hurdle for renewed monetary easing looks high. At the same time though, as we have written previously, while we expect the Fed to deliver a further 25bp rate increase by the end of the year, we then believe that Chairman Warsh and his colleagues should leave rates steady for a prolonged period during 1H2027 as the macro backdrop eases. Indeed, we believe it is becoming increasingly apparent to the Fed that monetary policy is a blunt – and potentially growth-damaging – tool for dealing with energy-fuelled inflation pressures.
- In the context of such a rates outlook though we are seeing some renewed strength in U.S. Treasuries again this morning, with the yield on the 10-year bond currently parked in 4.92% territory, down from 5.04% earlier this week. The 12bp decline in yields is encouraging for risk assets. That said, we are cognisant that the psychological 5% headline yield level is still not far away for much of the Treasury curve, which in turn could act as a relative valuation anchor for risk appetite. Likewise, oil sitting above $110/bbl, amid heightened geopolitical uncertainty, will all likely continue to inject an inflationary risk premium.
- For the GCC, this underscores the well-documented, two-sided equation: high oil prices are fundamentally supportive for sovereign finances and energy-linked earnings, but when those prices reflect regional geopolitical stress, the benefit can quickly be diluted by higher risk premia, imported inflation and tighter-for-longer financial conditions. At the very least we believe that the current conflict-driven supply shock and energy-driven inflation pressures have all combined to materially alter the growth/inflation trade-off and will continue to favour the maintenance of a relatively hawkish rates bias over the coming months.
- Finally, the Central Bank of Egypt surprised markets yesterday when it hiked interest rates by 100bps in response to the recent weakening of the EGP. This took the deposit and lending rates to 20.00% and 21.00% respectively. Indeed the currency has pushed out to a record low in recent days, with the spot rate closing Thursday at 56.06. At the same the CBE is clearly trying to calm inflationary pressures that are resulting from the neighbouring conflict between KSA and the Houthis. It is this combination of geopolitically fuelled inflation fears and currency weakness that has led to the first rate hike by the CBE since March 2024. SB.



Continued…

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Major Rates &FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.744%	-9.4	-2.8	-34.3	+102.4	+101.8
10Y	4.939%	-8.0	-1.6	-34.8	+84.0	+77.0
30Y	5.301%	-4.4	+1.9	-32.9	+64.5	+45.6

Source: Bloomberg

US$ SOFR OIS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	446.4	-9.3	-2.4	-34.6	106.6	100.1
10Y	455.8	-7.7	-0.9	-33.8	89.0	75.5
30Y	466.6	-4.4	1.6	-29.7	73.0	49.9

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.118	0.23%	-0.32%	-1.32%	-3.33%	-4.82%
GBP USD	1.3376	0.37%	-0.19%	0.84%	1.71%	-0.73%
USD JPY	157.71	-0.08%	0.60%	0.19%	2.32%	0.64%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	49.8897	+0.14%	+0.52%	+1.79%	+18.89%	+16.14%
USD INR	95.2575	+0.03%	+0.45%	-0.59%	+7.39%	+5.99%
USD IDR	18,132.00	-0.28%	+0.45%	+1.47%	+8.97%	+8.64%

Source: Bloomberg

MENA Credits

Index Spreads	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
EM Sovs Hard Ccy	198.3	-2.2	-6.6	+16.3	+3.3	+15.2
EM Agg Hard Ccy	191.6	+0.2	-2.6	+20.7	+9.1	+10.8
GCC: IG+HY	127.5	-0.5	-6.2	+15.3	+46.3	+32.3

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	35.9	-0.9	-3.0	-3.0	+7.7	+8.5
Kuwait 5Y	61.5	+5.1	+2.3	+3.2	+13.7	+14.1
KSA 5Y	69.8	-2.1	-4.3	+0.9	+8.1	+2.7
Dubai 5Y	64.6	-1.7	-3.1	-1.0	+12.6	+18.5
Oman 5Y	81.2	-0.0	-2.0	-7.7	+13.7	+10.8
Bahrain 5Y	312.2	-5.9	-36.9	-30.0	+146.2	+128.4
Egypt 5Y	338.6	-14.3	-5.4	+17.5	+5.6	+67.7

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	102.00	-0.76%	+2.54%	+12.81%	+68.40%	+77.64%
Brent Oil $/bbl	114.88	-0.38%	+1.51%	+10.96%	+76.74%	+88.79%
Gold spot $/oz	4,021.5	-1.13%	-0.08%	-3.27%	-0.08%	-6.90%
Silver spot $/Troy oz	52.153	-3.39%	-4.43%	-13.69%	+6.59%	-27.22%
Aluminium 3MO $	3,078.5	+0.18%	+2.29%	-4.22%	+6.63%	+2.77%
Nickel 3MO $	15,536	-0.44%	-3.62%	-2.64%	+1.11%	-6.67%
Copper 3MO $	14,357	-0.84%	+1.98%	-0.57%	+28.37%	+15.56%

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Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	52,343	-0.25%	-0.99%	+2.82%	+10.14%	+8.90%
S&P 500	7,720	-0.30%	+0.74%	+0.90%	+13.16%	+12.78%
Nasdaq Composite	26,185	-1.38%	+0.68%	-2.52%	+11.04%	+12.66%
Nikkei	64,659	-0.55%	+2.78%	-3.14%	+25.98%	+28.45%
Hang Seng	22,959	-0.59%	+0.10%	-6.72%	-12.65%	-10.42%
Shanghai	3,651	-5.47%	-0.18%	-4.96%	-8.41%	-8.00%
Mumbai Sensex	74,151	+1.24%	+1.23%	+2.31%	-12.15%	-12.99%
DAX	26,040	+1.31%	+2.63%	+3.34%	+7.96%	+6.33%
CAC 40	7,970	+1.05%	+2.03%	+0.07%	-2.30%	-2.20%
FTSE 100	10,722	+0.26%	-0.03%	+1.09%	+9.86%	+7.96%
DJ Stoxx 50	6,207	+0.64%	+1.97%	-0.99%	+8.91%	+7.18%
FTSE MIB Index	50,002	+0.36%	+3.35%	-2.67%	+15.74%	+11.25%
SMI Index	14,757	+1.21%	+1.44%	+6.70%	+19.88%	+11.23%
MENA						
Abu Dhabi – ADX	9,478	-1.17%	-2.31%	-5.88%	-7.19%	-5.15%
Dubai – DFM	5,818	-0.47%	-0.00%	-2.40%	-4.71%	-3.79%
Saudi Arabia	10,946	+9.21%	+12.90%	+5.32%	-6.09%	+4.34%
Bahrain	1,830	-0.27%	-1.17%	-3.91%	-11.29%	-11.45%
Kuwait (Premier Market)	8,893	-0.53%	+1.94%	-2.43%	-7.04%	-6.38%
Oman	7,346	-0.42%	-0.45%	-3.32%	+30.94%	+25.22%
Egypt	49,596	+0.64%	-2.85%	-6.52%	+29.60%	+18.57%
Turkey	11,165	+0.00%	-0.49%	-6.54%	+3.03%	-0.85%

Source: Bloomberg

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