Market Insights & Strategy

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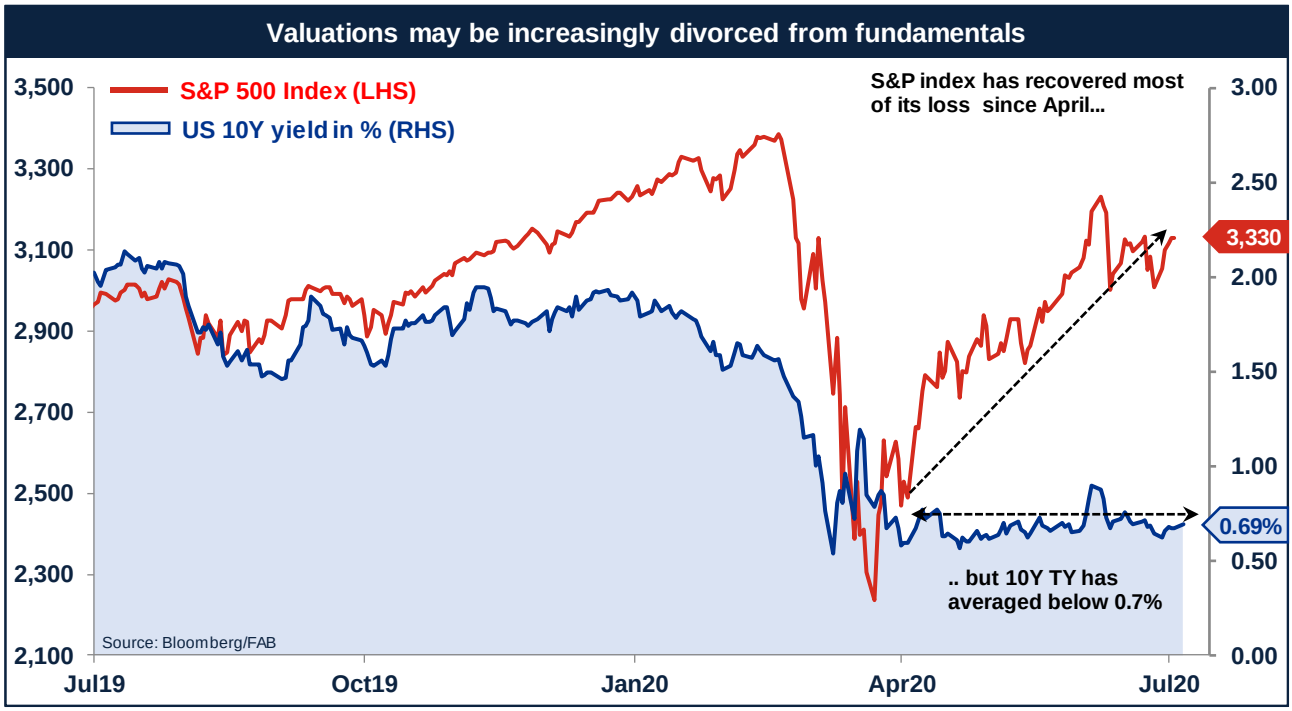
Daily Market Chatter

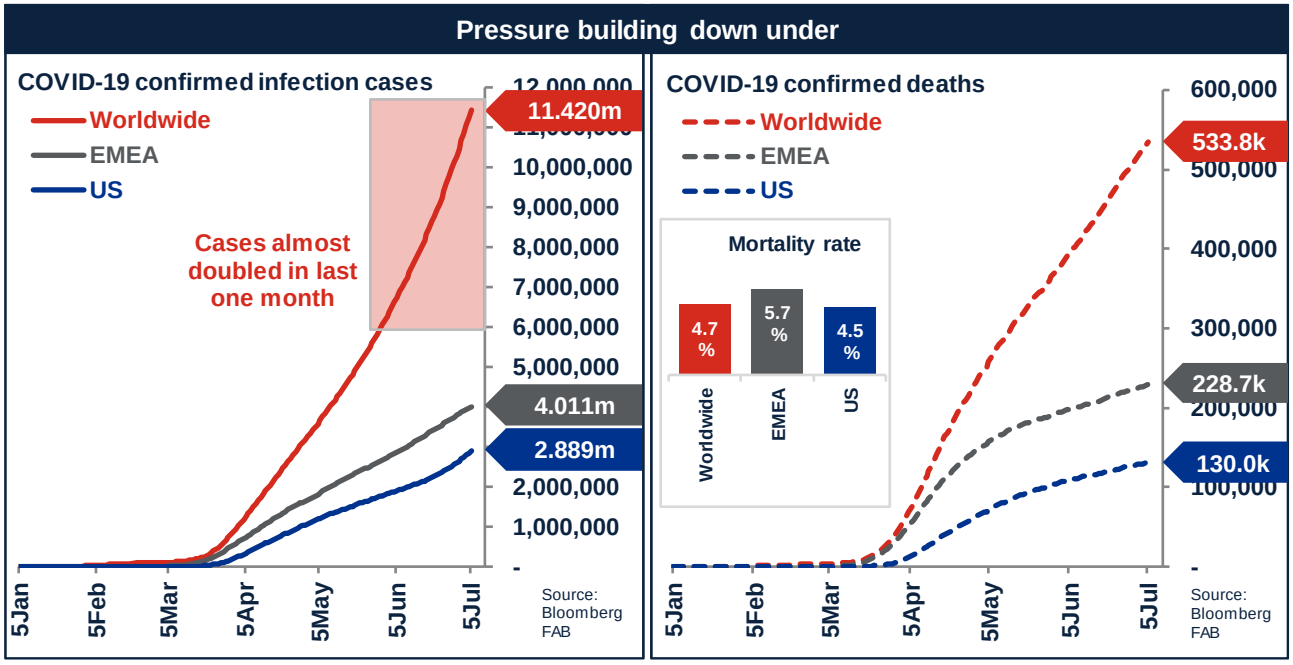
Macro Strategy View: Tailwinds and Headwinds

- **Positive open to the week, buoyed by macro recovery optimism**
- **But are credit market valuations now divorced from fundamentals?**
- **Victoria/NSW border shut as virus infections spike in Melbourne**

➢ As discussed in our DM and EM weekly publications yesterday, global markets have indeed opened this week with a largely positive bias. For the time being investor sentiment remains optimistic, propelled forward by the tailwinds of optimism founded on zero interest policy, even as we face buffeting headwinds in terms of macro data and the evolving coronavirus pandemic. As such Asian bourses are neatly highly again this morning, taking us back to levels not seen since March at the peak of Covid-19 fears. At the same time we are seeing a modest sell off in rates with the U.S. 10y yield rising 3bps to now flirt with the 0.70% level.



- There is clearly a huge balancing act going on here now, one in which we believe that credit market valuations may be becoming increasingly divorced from fundamentals. On the one hand sentiment is being buoyed by the prospect of continued central bank and government support in the form of plentiful, super-loose monetary liquidity and fiscal stimulus to sustain the global economic recovery, while on the other we face still surging coronavirus cases as economies try to open up and relax socio-economic restrictions, which in turn could lead to those same restrictions soon being re-implemented.
- If last Thursday's stronger-than-expected U.S. nonfarm payrolls report is contributing to this latest uptick in risk appetite, we would caution that the devil is in the detail. Yes, the June jobs report yielded a surprise record gain of 4.8m jobs and a bigger than expected drop in the unemployment rate to 11.1%, but there is still a long-term structural weakness to the U.S. labour market. Latest Bureau of Labor Statistics (BLS) data confirms that while the number of workers unemployed for less than 15 weeks declined slightly last month (after the 5-14 week jobless more than doubled in May to 14.8mio), there was again a small increase in the number of unemployed workers in both the '15-26 weeks' and '27 weeks and over' brackets.
- In the latest twist to the Covid-19 saga, the closure of the border between Victoria and New South Wales in Australia, the country's two most populated states, in response to a spike in infections in Melbourne should serve as a clear reminder that the pathogen remains a clear and present danger to our way of lives. There is certainly no basis for financial markets to get complacent; we are concerned that with global equities having rallied some 40% from their March lows, investors may be looking through the current turmoil and pricing in the much talked about 'V-shaped' recovery during H2 – a recovery that remains, in our view, precariously under threat from still rising virus infection rates.



In case you missed the Weekly

- While the current global macro challenges continue to weigh on sentiment in aggregate, we maintain our fundamentally-driven, relative value bias for GCC risk and in particular UAE and KSA. The relative value appeal of UAE risk should be buoyed by the latest PMI data for June. According IHS Markit, UAE PMI surged to 50.4 last month, up from 46.7 in May. Not only is the recovery to 'above 50' territory significant, we note that this is the highest reading for the UAE index since October last year.
- In contrast, the June PMI data for the Kingdom of Saudi Arabia (KSA) was a little less buoyant. PMI for the Kingdom fell to 47.7 in June from 48.1 in May, according to the latest release from IHS Markit. This was somewhat disappointing – albeit understandable – after the index made modest gains in the prior 2 months from the nadir of 42.4 seen in March. For now, with PMI remaining just below the 50.0 mark that separates growth from contraction, this is clear evidence of the constraints on non-oil economic activity from the global recessionary conditions that we currently find ourselves in. That said, given the latest recovery in the UAE economy we are optimistic that we will witness similar recovery in KSA data over the coming months.

Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	0.297%	+0.0	-0.6	-16.8	-153.6	-139.4
10Y	0.670%	+0.0	+2.8	-22.6	-136.5	-124.7
30Y	1.429%	+0.0	+5.8	-23.8	-111.3	-96.1

Source: Bloomberg

$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	33.2	+0.0	-0.9	-16.0	-149.7	-139.7
10Y	64.9	+0.0	+2.2	-21.0	-134.2	-124.6
30Y	93.6	+0.2	+5.5	-22.7	-127.7	-115.5

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1248	+0.08%	+0.26%	-0.41%	+0.30%	+0.31%
GBP USD	1.2483	+0.12%	+1.19%	-1.89%	-0.26%	-5.84%
USD JPY	107.51	+0.01%	+0.27%	-0.85%	-1.11%	-1.01%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	6.8623	+0.15%	+0.03%	+1.10%	+19.67%	+15.31%
USD INR	74.6488	-0.48%	-1.32%	-1.18%	+8.73%	+4.58%
USD IDR	14,523.00	+1.01%	+2.13%	+4.59%	+2.94%	+4.74%

Source: Bloomberg

MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	430.2	-3.8	-11.5	-10.4	+30.4	+132.2
JPMEMBI Global	421.4	-4.8	-12.0	-28.2	+61.4	+144.0
CS Mid East Corp	283.9	-3.0	-10.3	-11.5	+93.2	+109.2

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	64.7	-0.5	-11.1	-14.2	+6.5	+28.7
Kuwait 5Y	71.8	-4.0	-1.0	-6.0	+15.1	+35.1
KSA 5Y	88.6	-1.1	-12.5	-30.8	+9.3	+31.7
Dubai 5Y	189.5	-3.4	-0.0	-2.7	+57.7	+98.5
Oman 5Y	487.2	-1.8	-2.5	-108.6	+177.9	+252.9
Bahrain 5Y	343.4	-6.1	-6.7	-59.9	+97.3	+167.4

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	40.65	+2.08%	+5.61%	+2.78%	-29.32%	-33.43%
Brent Oil $/bbl	42.80	-0.79%	+4.34%	+1.18%	-33.36%	-35.15%
Gold spot $/oz	1,772.1	-0.19%	+0.04%	+4.33%	+26.98%	+16.79%
Silver spot $/Troy oz	18.015	+0.33%	+1.18%	+1.36%	+19.85%	+0.91%
Aluminium 3MO $	1,618.0	-0.19%	+1.03%	+3.16%	-9.61%	-10.61%
Nickel 3MO $	13,230	+2.19%	+4.30%	+2.82%	+7.13%	-5.67%
Copper 3MO $	6,072	-0.02%	+1.93%	+9.91%	+2.60%	-1.65%

Source: Bloomberg

Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	25,827	+0.00%	+3.25%	-1.68%	-4.22%	-9.50%
S&P 500	3,130	+0.00%	+4.02%	+0.23%	+4.48%	-3.12%
Nasdaq Composite	10,208	+0.00%	+4.62%	+5.42%	+24.94%	+13.76%
Nikkei	22,306	+0.72%	-0.91%	-2.44%	+2.58%	-5.71%
Hang Seng	25,373	+0.99%	+3.35%	+2.43%	-11.82%	-9.99%
Shanghai	3,153	+2.01%	+5.82%	+7.58%	+4.71%	+3.37%
Mumbai Sensex	36,021	+0.50%	+2.42%	+5.06%	-8.84%	-12.68%
DAX	12,528	-0.64%	+3.63%	-2.49%	-0.32%	-5.44%
CAC 40	5,007	-0.84%	+1.99%	-3.67%	-10.49%	-16.24%
FTSE 100	6,157	-1.33%	-0.03%	-5.04%	-18.48%	-18.36%
DJ Stoxx 50	3,294	-0.77%	+2.82%	-2.66%	-6.62%	-12.04%
FTSE MIB Index	19,727	-0.81%	+3.15%	-2.28%	-10.28%	-16.08%
SMI Index	10,126	-0.61%	+0.84%	-0.63%	+1.46%	-4.63%
MENA						
Abu Dhabi – ADX	4,304	-0.18%	-0.01%	+0.02%	-13.91%	-15.21%
Dubai – DFM	2,062	+0.03%	-1.10%	+1.11%	-22.49%	-25.42%
Saudi Arabia	7,388	+1.04%	+1.31%	+2.51%	-16.48%	-11.93%
Bahrain	1,278	+0.25%	+0.03%	+0.33%	-15.46%	-20.66%
Kuwait (Premier Market)	5,624	+0.44%	-0.57%	+3.03%	-14.06%	-19.38%
Oman	3,508	-0.09%	-0.45%	-0.26%	-8.22%	-11.87%
Egypt	10,959	+1.81%	+1.02%	+3.18%	-21.70%	-21.50%
Turkey	115,749	-0.99%	+0.94%	+5.21%	+16.17%	+1.16%

Source: Bloomberg

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