Market Insights & Strategy

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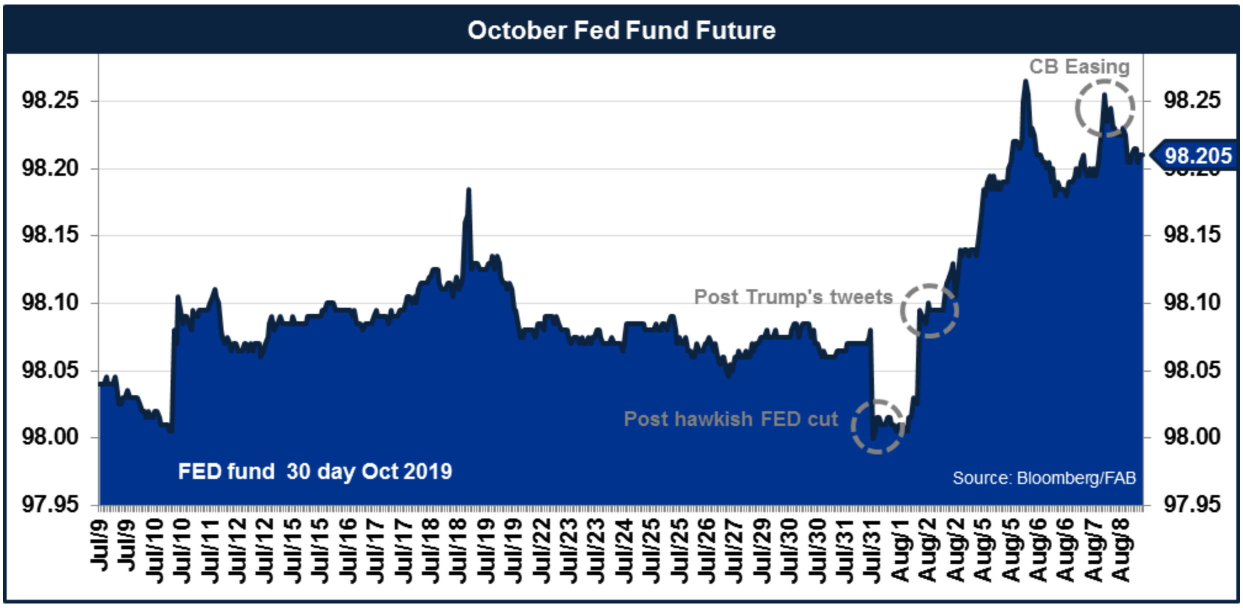
Traders' View on Recent Market Volatility

- The trade war rhetoric stepped up a beat yesterday as Trump was seemingly inspired by the three other global CB cuts to attack the FED, while President Xi utilised his media mouthpiece (Hu Xijin) to lambast Washington's 'bullying' and complain that trade talks would now be meaningless in the short term. The market fairly imploded with 30y yields reaching all-time lows, oil getting crushed, the dinosaur's favourite, gold continuing its winning streak and those with any sense, stepping out of directional risk. There was some retracement post the soft 10y auction yesterday and we're sure today's 30y will be watched closely. It is clear however that those of us who saw the 10y ranging 1.85-2.25% by year end will need to revise those estimates, although it would seem we are not alone in thinking that the market has gotten a little ahead of itself and there should be some correction we are also not about to stand in the way of this move and would probably look to sell into a further rally in bonds.



- In the short end of the USD curve, the chances of a 50bp move in September are now priced at 35-40% with four cuts in total priced for the next 12 months. This pricing is not for a mid-cycle tweak, and after Trump's very direct tweet yesterday accusing his own FED of being incompetent and not acting fast enough to undo their hiking cycle, Jerome Powell will be under even more pressure to act again quickly. Bullard has been our biggest surprise in all this with his speech made earlier in the week in which he voiced a wait and see approach post the July cut. His use of 'Pandora's box' as a metaphor for the trade war is one we can only agree on and is borne out by the deeper cut we saw from the RBNZ, an earlier cut from RBI and a surprise reduction by the Bank of Thailand this week. We now anticipate one more cut this year but admittedly the pressure is mounting and any weakness in data could potentially result in two adjustments. The Jackson Hole gathering on 22-24th August will be the one to watch for guidance from the FOMC so in the meantime just stay tuned to twitter and Hu at the Global Times.

- The ‘Pandora’s box’ is well and truly open and in all the volatility yesterday it may have been easy to overlook the terrible Industrial Production numbers from Germany which fell 5.2% YOY in June - the biggest drop since 2009. A dive into the numbers didn’t bring any silver lining with three major groups, metal production, motor vehicle production and mechanical engineering all showing massive signs of weakness. The only area holding up the German economy is the services sector and so Germany becomes a weak link in the Eurozone. What this means for the bigger picture is that the ECB will have to put all its cards on the table in September to avoid a situation where the single currency appreciates aggressively vs the rest of the world. Elsewhere Brexit uncertainty will keep a cap on cable for a while longer.

Africa

- It was a volatile day in the EGP NDF market on Thursday with the curve shifting right by about 1.5% as a global risk-off mood washed through the markets. As we mentioned previously most (80-90%) of investors in EGP T-bills/Bonds are not FX hedged and they scramble to protect themselves whenever there are worries about a major market meltdown. However this panic mood subsided again towards the end of the day and we expect the curve to gradually come off the latest highs next week.
- Meanwhile Egypt published its latest inflation data for July which surprised on the downside, printing at 8.7% vs 9.4%, despite the energy subsidy cuts that were done in early July resulting in higher petrol and diesel prices. The next CBE interest rate meeting is on the 22nd of August and we think a 50bps+ of cuts is highly likely now.

Asia

- The USDCNY fix breached the psychological 7.0000 level this week but local banks have been guiding the spot rate towards a more gradual depreciation which in turn brought some relief to risk sentiment in the Asian markets. KRW and TWD also experienced some suspected official smoothing operations by their respective central banks and were the biggest beneficiaries for this week. The USDCNH FX swaps were very heavy ahead of the 3M and 1Y PBoC bills auction next week, and at which market expects the Central Bank to draw back the spike in interest rates and conduct a smooth auction. In the rates space, due to the surprise or more than expected cuts in Thailand and India, EM Asian rates continued to trade lower with a flatter curve as the race for cutting rates start to pre-empt a potentially more aggressive Fed. The only exception was China where the PBOC kept its powder dry. The next key date to watch is 19th August which is the expiry deadline of the temporary waiver over a US ban on the purchase of Huawei equipment. This could also provide a further guideline on the direction of the US-China trade war.

GCC

- Spot USD/SAR hit 3.7518 on the back of short dated SAR being super liquid. Day to day USD/SAR FX swaps traded at -3 per day for a little while, as International banks struggled to get rid of their SAR long balances. The spot rate has retraced somewhat now and was dealing at 3.7510/13 at the time of writing and we expect the market to normalize again after the Eid holidays, when this current glut of SAR liquidity should also disappear. Meanwhile there were T-bill maturities, Government contracts being paid and a lot of Loan settlements that resulted in this short term excess in SAR liquidity. Given the drop in oil prices, and the above mentioned glut in SAR liquidity reducing, USD/SAR FX swaps have moved higher. The 1Y swap traded a high of 57, the 2Y traded at 245 and the 3Y was 480 bid yesterday in the offshore market, after seeing lows of 30 given in the 1Y, 155 given in the 2Y and 390 offered in the 3Y just last week. We expect these swaps to stay bid, given the ongoing trade war tensions and softer crude.
- In AED, the short dated FX Swaps that were very tight last week, have turned liquid and we expect it to become even more liquid after the Eid break. The CB lowered their RHS swaps that they offer to the local market, last week (1Y was lower by 10pips), which also demonstrates that the AED liquidity is back.

- Spot USD/KWD has seen a spike over the past month on the back of a large commercial buy order. Spot traded a high of +80 FX pips over the CBK offer at one stage, although is now around +45. On the FX Swap side we have seen USD/KWD swaps jump on the back of the CBK not moving on their rates, following the FED cut by 25BP on 31Jul. The 1Y FX swap traded at a high of +85, from a mid of +50. The 2Y and 3Y have not really reacted thus far.

Oil Commentary

- For most of this year the oil market been subjected to a 'tug-of-war' environment, with downside price pressures continuing to be led primarily by a worsening global economic growth outlook (which itself is directly linked to the ongoing trade dispute between Beijing and Washington) and record US shale output levels. On the opposite side, heightened geopolitical risks (i.e. Iran/Venezuela/Libya) combined with the latest extension to the OPEC+ output cut agreement are providing support.
- In recent days the trade tariffs battle has begun to turn into a currency war, and China's next steps in countering US actions in this regard will be closely watched, especially talk that it may suddenly begin buying large amounts of Iranian crude. OPEC action will also be eyed with suggestions out earlier today that further output cuts are being considered in order to prevent a price collapse.
- Looking forward to the months ahead we believe that the crude market will continue to remain within a US$50-80 range (Brent) until one of the aforementioned factors morphs into something bigger. For example: 1. US/China trade talks collapse completely, an outcome which has begun to look pretty feasible in recent days, and which would likely trigger a much deeper sell-off in crude, or 2. If the current tensions with Iran go beyond boiling point, a situation that would probably see prices jump back towards US$100 albeit for a limited period.

Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.551%	+3.7	-27.7	-30.5	-128.1	-96.0
10Y	1.740%	+0.5	-27.5	-30.9	-122.1	-94.5
30Y	2.253%	+1.9	-27.2	-27.7	-85.8	-76.2

Source: Bloomberg

$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	147.0	+0.9	-33.3	-35.9	-149.0	-110.0
10Y	160.6	+0.2	-34.0	-38.5	-141.0	-110.3
30Y	183.6	-1.0	-32.7	-37.8	-120.8	-100.2

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1199	+0.00%	+1.11%	-0.13%	-3.54%	-2.34%
GBP USD	1.2143	-0.23%	-0.13%	-2.97%	-5.74%	-4.79%
USD JPY	106.27	-0.19%	-2.31%	-2.25%	-4.24%	-3.12%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	5.4942	-0.50%	-1.59%	-4.19%	+4.08%	+3.87%
USD INR	70.8887	+0.09%	+3.04%	+3.25%	+3.29%	+1.61%
USD IDR	14,225.0	-0.36%	+1.45%	+0.83%	-1.48%	-1.15%

Source: Bloomberg

MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	396.7	-5.1	+26.4	+2.9	+10.8	-48.7
JPMEMBI Global	359.8	-3.9	+26.8	+6.8	-2.3	-74.8
CS Mid East Corp	225.8	+10.9	+39.8	+33.0	+67.8	-0.1

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	50.9	-0.1	+3.4	-6.2	-12.0	-16.2
Kuwait 5Y	51.7	+1.0	+1.0	-5.0	-13.2	-14.1
KSA 5Y	75.3	-0.1	+4.0	-4.2	-6.0	-29.3
Dubai 5Y	132.0	-0.1	+2.9	+1.5	+8.2	+2.7
Oman 5Y	304.1	+0.5	+14.7	+14.9	+53.8	-20.0
Bahrain 5Y	243.0	+6.1	+8.1	+2.1	-114.7	-48.6

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	51.09	-4.74%	-12.79%	-11.39%	-23.68%	+12.51%
Brent Oil $/bbl	58.94	+0.00%	-9.56%	-8.06%	-18.46%	+9.55%
Gold spot $/oz	1,501.2	+1.81%	+6.18%	+7.57%	+23.67%	+17.05%
Silver spot $/Troy oz	17.106	+4.01%	+5.18%	+13.80%	+10.88%	+10.40%
Aluminium 3MO $	1,745.0	-0.80%	-3.00%	-3.22%	-14.38%	-5.47%
Nickel 3MO $	14,810	-0.90%	+2.21%	+18.67%	+6.93%	+38.54%
Copper 3MO $	5,705	+0.39%	-3.75%	-3.34%	-7.61%	-4.36%

Source: Bloomberg

Major Equities Markets

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	26,007	-0.09%	-3.19%	-2.98%	+1.65%	+11.49%
S&P 500	2,884	+0.08%	-3.23%	-3.09%	+0.92%	+15.04%
Nasdaq Composite	7,863	+0.38%	-3.82%	-2.91%	-0.32%	+18.50%
Nikkei	20,517	-0.33%	-4.67%	-4.73%	-9.40%	+2.51%
Hang Seng	25,997	+0.08%	-6.41%	-8.24%	-8.33%	+0.59%
Shanghai	2,769	-0.32%	-5.59%	-5.61%	+0.90%	+11.02%
Mumbai Sensex	36,691	-0.77%	-2.11%	-5.24%	-3.16%	+1.72%
DAX	11,650	+0.71%	-4.42%	-7.12%	-7.78%	+10.33%
CAC 40	5,267	+0.61%	-4.57%	-5.77%	-4.28%	+11.33%
FTSE 100	7,199	+0.38%	-5.12%	-4.64%	-7.43%	+6.99%
DJ Stoxx 50	3,310	+0.56%	-4.52%	-6.07%	-5.26%	+10.28%
FTSE MIB Index	20,539	-0.45%	-4.02%	-6.54%	-5.74%	+12.09%
SMI Index	9,534	-0.21%	-3.88%	-4.60%	+3.90%	+13.11%
MENA						
Abu Dhabi – ADX	5,119	+0.74%	-3.74%	+2.16%	+3.92%	+4.14%
Dubai – DFM	2,831	+1.23%	-2.98%	+6.59%	-3.98%	+11.92%
Saudi Arabia	8,483	+1.06%	-2.86%	-3.90%	+3.32%	+8.38%
Bahrain	1,544	-0.06%	-0.22%	+0.74%	+14.72%	+15.48%
Kuwait (Premier Market)	6,744	+0.55%	-0.01%	+1.66%	+23.37%	+28.03%
Oman	3,839	+0.93%	+2.07%	+0.41%	-13.46%	-11.22%
Egypt	13,881	+1.65%	+3.64%	-1.16%	-12.50%	+6.48%
Turkey	98,056	-1.53%	-3.94%	-0.65%	+1.12%	+7.44%

Source: Bloomberg

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