19 DECEMBER 2018
MARKET SNAPSHOT

OIL

Yesterday marked another bad day for oil, with Brent down 5.62% to $56.52/barrel and WTI -7.3% to $46.43/barrel on the continued twin fears of oversupply and weaker demand. The moves came as OPEC+ efforts to slash production by 1.2mn barrels a day failed to ease the concerns about oversupply, stoked by growing US shale output.

US

In the US the stock markets turned negative on Tuesday afternoon with oil price declines dragging down energy shares, capping the early morning gains to end the day with modest increases of DOW +0.35%, S&P +0.01% and NASDAQ +0.45%. USTs continued their journey with 10Y yields losing another 5bps to open at 2.8%. Investors are looking ahead to a FEDs decision on interest rates today and more importantly to the path guidance for 2019. Some economists expect the FED to avoid indicating the hike path for the next year, sticking to the data-dependency pledge.

ASIA

In Asian news, the US and China plan to meet in January to negotiate the trade truce, according to Steven Mnuchin. The Asian equity markets were mixed this morning in anticipation of the FED meeting results today with NIKKEI -0.67%, HANG SENG +0.16% & CSI -0.26%. In the fixed income space additional selling was seen from Chinese accounts, with investors raising cash and reducing risk before the year ends, but otherwise a very quiet session. The outperformers were INDON and PHILIP, which continue their strong run with prices another .125-.25pt higher.

EU

The EU keeps on preparing contingency plans for a potential no-deal Brexit, most of which concern flying laws, trade customs, and financial services relayed between the UK and the EU. Italy's budget will be a topic of discussion today, as it has been reported Italy is finalising its newly proposed budget to avoid sanctions from Brussels over debt concerns. Italy 10Y BTPS yield fell by 9bps since closing on Tuesday at a 2.927% level, while German 10Y DBR has returned close to its yesterday opening level at 0.252%.

UK

In the UK Prime Minister Theresa May reassured the world she intends to deliver on the stricter border and migration promises made before the Brexit referendum. Mrs. May faces her own ministers on this issue as it, in words of Chancellor Hammond, "could cause serious damage to the British economy". Since becoming Prime Minister Mrs. May has been adamant on a "skill-based immigration system", only granting EU migrants working visas if they earn at least £30 000 annually. The white paper with details will be released later today. The yield on 10Y UKT closed the day 1bp above the 1.269% opening on the day, while the Pound reached as high as 1.2706 USD, trading around 1.265 this morning.

RUSSIA

In Russia the market was relatively flat yesterday with papers trading in a tight range of -0.125/+0.125ppt in general. The yield of RUSSIA sovereigns edged 1-2bps lower with a significant activity seen in the short end of the curve. Belarus closed slightly weaker, with a 1-2bps increase in yield while Kazakhstan stood unchanged. In Ukraine, the IMF reported today the approval of a new USD 3.9bn bailout programme for Ukraine with the first 1.4bn tranche becoming available soon. Ukraine bonds are unlikely to show any significant reaction however as the news were widely anticipated.

MIDDLE EAST

In the GCC space, all eyes were on OMAN yesterday, after Fitch downgraded it to BB+ with a stable outlook. Oman lost 2.5 points on the news initially with OMAN 47s seen as low as 81 levels, before rebounding to end the day with a 1pt loss. Very little trading was seen however due to the low liquidity as the end of the year approaches. BAHRAIN curve tried to follow suit, yet didn't, with the bonds finishing the day at 0/+12.5c higher, supported by the strong demand. Bahrain 28 and 29s were seen lifted from the offers and paid on. In other news, Saudi Arabia published its 2019 annual budget, the Kingdom's largest with spending planned to increase 7% from 2018 and the fiscal deficit expected to decrease to 4.2% of GDP, compared to 4.6% from 2018. MENA IG sovereign space experienced additional purchases, specifically in KSA, QATAR and ADGB, with bonds trading 0-+12.5c on average.

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TURKEY

In Turkish news, the US Congress has given their approval for the potential sale of a $3.5bn worth defence system to Turkey, as a sign of continued improvement of the US-Turkey relationships and marking an effort by the Trump Administration to halt Turkey from purchasing the missile system from Russia. In Fixed income the buying spree continued across the whole space with Sovereign bonds adding 12.5-25c on average, corporates and banks were seen bid on by real money accounts. In Micro news Halk Bank announced that they are ready to tap the international bond markets for the first time since its bankers were convicted of helping Iran evade US sanctions. The bank's board authorised the sale of as much as $2bn sub or unsecured international bonds with potential maturities of up to 12 years. Although the sale may not come in the near future as the bank still faces the possibility being fined by the US treasury.

LATAM

In Latam news, the yields on Argentine sovereign bonds rose to their highest levels since September this year due to the growing concerns of President Macri not being re-elected in 2019, due to the recession. The yield on the 100Y bond reached as high 10.03%, just 20bps short of the highs of September, while ARGENT 21 yields rose to 11.08%. To contrast, the IG Sovereigns further tightened with MEX 28 losing 2bps in yield on the day to a 4.57% level before being pushed back up to 4.59% by the oil price decline. Brazil underperformed with BRAZIL 28s yields climbing 5 bps to as high as 5.13% on oil, after the initial 3bps decline to 5.07%.

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