



بنك الإمارات دبي الوطني
Emirates NBD

Daily

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Daily Outlook

- **China's Caixin manufacturing PMI declined to a lower than expected 53.0** in December, indicating a slower rate of growth. The survey focuses more on small and medium sized businesses than the official PMI, which was also slightly softer in December at 51.9.
- **Japan's Jibun manufacturing PMI rose to 50.0 in December**, the highest level since April 2019. Employment increased for the first time since the pandemic, albeit slightly.
- **OPEC+ meets today to decide on how much to raise output – if at all - in February**, after increasing production by 500k b/d in January. Russia is reportedly in favour of further increases, and the UAE may be as well after pushing for higher quotas in January. While the rollout of vaccines and the prospect of faster global growth is supportive of oil demand, many countries still have lockdowns and restrictions on activity in place to combat rising cases of coronavirus, and oil inventories remain high.
- **The UK parliament approved the trade deal negotiated with the EU just a day before it came into effect.** There will be no tariffs or quotas on goods trade between the two countries, but the financial services sector is not part of the deal. Talks on "equivalence" for financial services will continue this year and in the meantime the UK will need to seek temporary access with individual member states for continued access for financial services firms. GBP strengthened to end the year at 1.3672/ USD although given the likelihood of extended lockdowns across the UK in the coming weeks, the prospect for further near-term appreciation is limited in our view.
- **There's more on the seemingly never-ending US elections this week.** The runoff for two senate seats in Georgia will take place tomorrow, 5 January. Polls suggest the race will be close, with pollster fivethirtyeight putting the two Democratic candidates narrowly in the lead as of 2 January. The Democrats would need to win both seats to gain a (narrow) majority in the Senate. Meanwhile, Ted Cruz has indicated he will lead a group of 13 senators in voting against the state electors when they meet in the Capitol to formally certify electoral college votes on 6 January. The move will likely be unsuccessful as Democrats hold a majority in the lower house and not all Republican senators support the challengers, but the procedure will be more drawn out than usual.
- **Oman announced its 2021 budget over the weekend, showing a deficit of OMR 2.2bn (USD 5.7bn).** The budget assumes an average oil price of USD 45/b and the introduction of VAT in April is expected to raise OMR 300mn. Expenditure is expected to decline to OMR 10.8bn, around 10% lower than our estimate for 2020 spending, while revenue is expected to decline to OMR 8.6bn. The deficit is expected to be financed largely by debt (USD 4.2bn) with remainder coming from reserves. Oman also has a USD 1.5bn bond maturing in June 2021.
- **The week ahead:** PMI data for the US, UK, Eurozone and regional economies are all due this week and will provide an indicator of activity in the last month of 2020, along with other manufacturing/ factory output surveys. The release of the FOMC minutes from the December meeting is scheduled for Wednesday ahead of non-farm payrolls figures for December which are due Friday.

Today's Economic Data and Events

	Time	Cons.		Time	Cons.
Eurozone Mfg PMI	13:00	55.5	UK Mfg PMI	13:30	57.3
US Mfg PMI	18:45	56.3	US Const. spending	19:00	1.0%

Source: Bloomberg, Emirates NBD Research

Fixed Income

- As a tumultuous 2020 came to a close bond market performance displayed the power of central banks and their essentially unlimited to buy up government debt and in some markets corporate bonds. Returns across major developed market, investment grade bond indices were positive for 2020 with US Treasuries returning 8% according to the Bloomberg Barclays index, European bonds gaining 3.6% and Asia-Pacific markets gaining a limited 1.25% on the year. Gains were stronger among emerging markets with USD EM bonds adding 6.5% last year and local UAE bonds rallying almost 8%.

- With central banks to remain in accommodative stances in 2021 and rates to be anchored near zero among nearly all developed markets, the outlook for fixed income in the coming months will reflect investor positioning toward other asset classes: should Covid-19 vaccination programmes pick up pace and support a return to 'normal' economic activity then investor demand for risk-havens is likely to wane in favour of riskier markets, such as equities or EM bonds, particularly if the current USD weakness holds.
- Total GCC borrowing in 2020 topped out at over USD 126bn, a record high, as governments across the region turned to debt markets to help offset the drop in oil prices and decline in non-oil revenue as local economies slowed. We expect fiscal deficits across the GCC region to persist in 2021, at a weighted average of almost 8% of GDP, necessitating more borrowing across governments this year.

FX

- After an explosion of volatility in the first months of the year as the Covid-19 pandemic took hold, forex markets in 2020 told a story of USD weakness. An extraordinarily accommodative Federal Reserve along with political uncertainty related to the US presidential election and whether Congress would be able to extend additional support to the economy helped sink the DXY index in 2020, falling by 6.7% in 2020, its weakest performance since 2017 when the greenback fell nearly 10%.
- Gains against the dollar were most pronounced in the Eurozone as a push toward greater economic (largely in the form of fiscal) union accelerated in 2020. The single currency gained nearly 10% last year, closing out at over 1.22 against the USD. The yen was also a major gainer against the dollar despite the BoJ's yield curve control with USDJPY falling nearly 5% and the pair closing the year at 103.19, its lowest level since 2012.
- Sterling was a story of two halves as the market fell sharply as the UK was badly hit - and remains so - by the Covid-19 pandemic. After dipping to as low as 1.15 against the dollar in March, sterling rallied to end the year at over 1.36 as the UK and EU managed to reach a Brexit deal at the last minute, averting a return to even more onerous trading conditions than have been agreed.
- US dollar performance against the commodity currencies was more diverse with strong gains in the AUD and NZD (9.5% and 6.9% respectively) but only a limited rally for the loonie with CAD gaining less than 1.8% against the dollar.

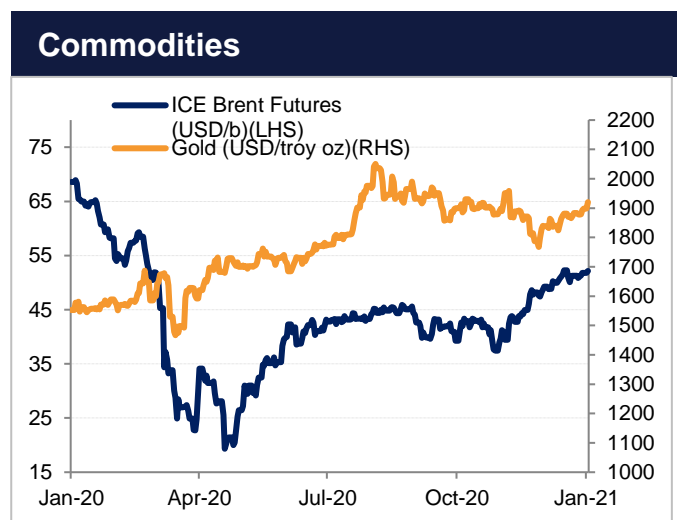
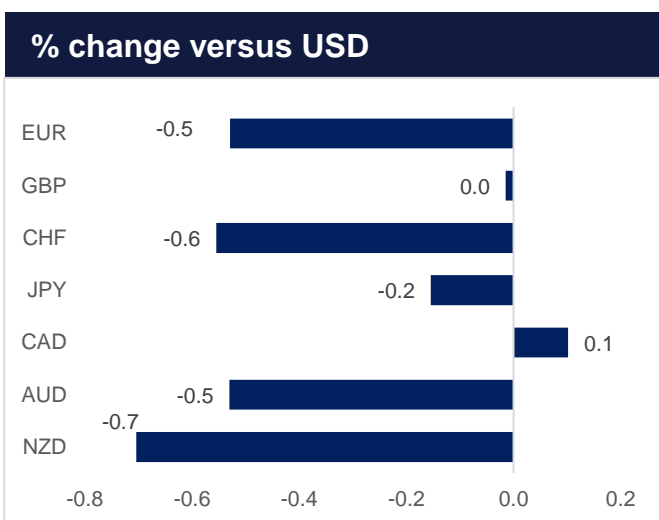
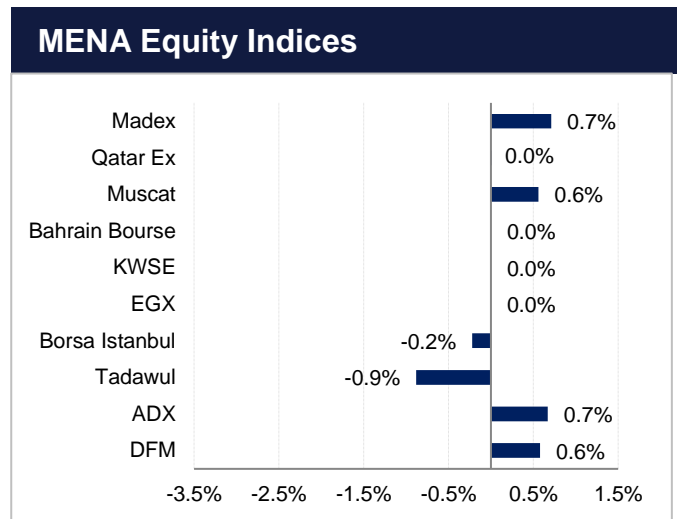
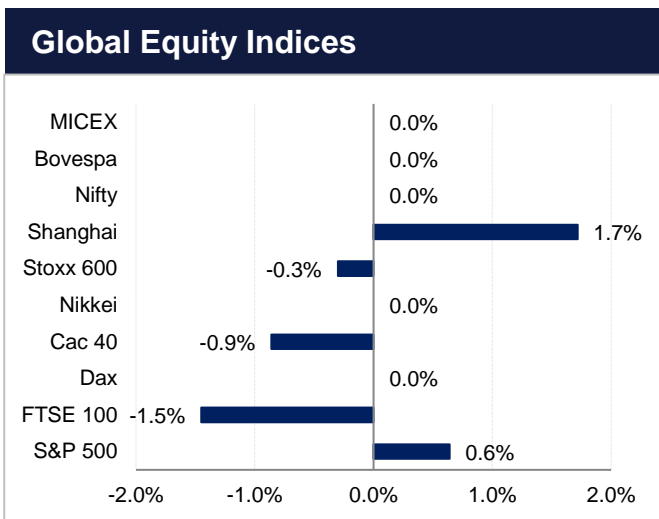
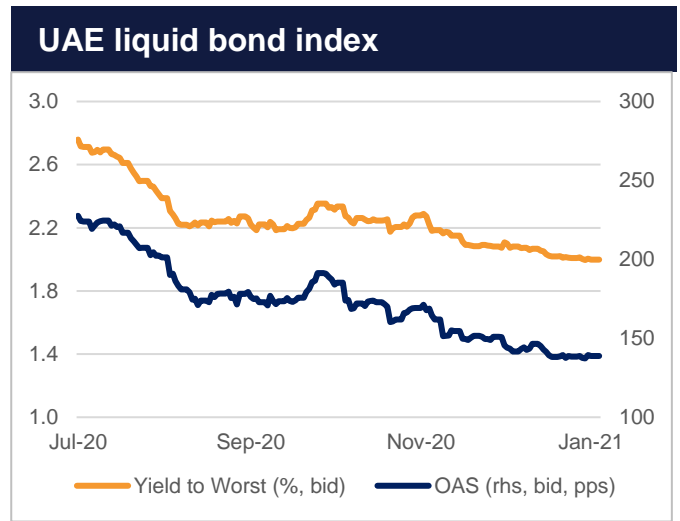
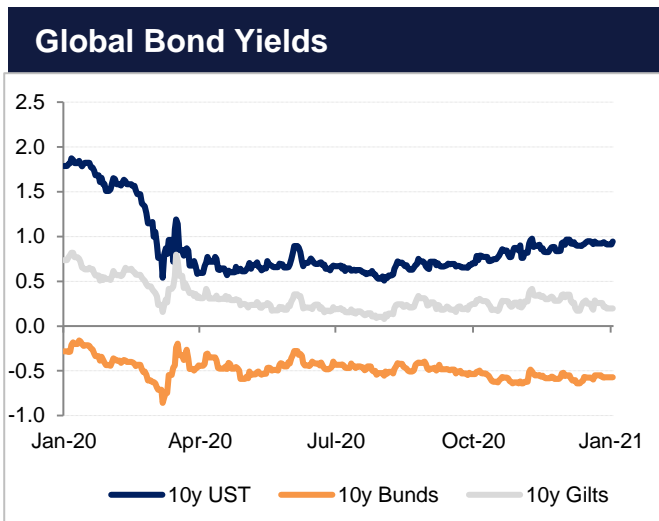
Equities

- Global equity markets had a fairly bullish end to what was a tempestuous year, with most closing higher w/w. East Asian shares in particular finished the year on a high note, with the KOSPI gaining 5.1%, the Hang Seng 3.4% and the Shanghai Composite 3.3%. While the Chinese PMI surveys for December narrowly missed expectations at the close of last week, they illustrated a continued healthy economic expansion, with the composite reading at 55.1.
- In Europe, the DAX was the key gainer, closing the week 3.6% higher, while the CAC (0.4%) and the FTSE 100 (0.1%) saw more muted gains. The Brexit deal heralded mixed results for UK equities, with gains for sterling and questions over the banking sector's future offsetting a more positive outlook for more UK focused smaller caps.
- Local regional equities bucked the trend, with the DFM down -1.4% w/w and the Tadawul -0.2%.

Commodities

- For oil markets 2020 should be remembered (if anyone wants to) as a year of extremes. OPEC+ engaged in their largest ever production cuts to try and compensate for the enormous drop in oil demand caused by the Covid-19 pandemic. Oil prices collapsed in line with the evaporation of demand and pushed to USD -37.63/b in WTI futures, the first negative pricing recorded in oil futures.
- In the second half of the year, oil prices began their prolonged march higher as economic conditions normalized, if not necessarily returning 'back to normal.' Brent futures closed the year at USD 51.80/b, a drop of 21.5% y/y while WTI was off by 20.5% after closing 2020 at USD 48.52/b.
- In a year fraught with risk, investors piled into gold among other risk havens. The yellow metal rallied almost 25% in the year with almost 50% gains in the higher beta silver market. However, the strong y/y performance masks a high water market that was hit—USD 2,063/troy oz in early August—and then the swift retreat back to below USD 1,900/troy oz.
- Industrial metals sold off in Q1 as factories—everywhere—closed. But as industry led the economic recovery in many markets, thanks to easier social distancing than in services, and as supply constraints remain prominent in many metals markets, the whole of the LME complex rallied: copper was a notable standout, gaining more than 26%.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.2215	-0.53	1.2317	USDTRY	7.4392	-0.42	EURAED	4.4865	-0.51
GBPUSD	1.3672	-0.01	1.3702	USDEGP	15.8096	+0.44	GBPAED	5.0216	-0.03
USDJPY	103.20	+0.16	102.68	USDSAR	#N/A N/A	#VALUE!	JPYAED	0.0356	-0.16
USDCAD	1.2728	-0.09	1.2723	USDQAR	3.6800	+0.31	CADAED	2.8859	+0.10
AUDUSD	0.7694	-0.53	0.7709	USDKWD	0.3045	+0.11	AUDAED	2.8259	-0.56
USDCHF	0.8861	+0.57	0.8765	USDBHD	#N/A N/A	#VALUE!	CHFAED	4.1453	-0.56
EURGBP	0.8937	-0.47	0.8992	USDOMR	0.3850	+0.06	TRYAED	0.4900	-0.34
USDAED	3.6730	--	3.6756	USDINR	73.1212	+0.07	INRAED	0.0552	+9.84

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.2366	0.4250	0.5106	0.6185	USD 2 yr	0.197	-0
USD LIBOR	0.1439	0.2384	0.2576	0.3419	USD 5 yr	0.429	-1
GBP LIBOR	0.0191	0.0255	0.0299	0.0843	USD 10 yr	0.925	-1
JPY LIBOR	-0.0707	-0.0825	-0.0580	0.0547	EUR 2 yr	-0.521	--
CHF LIBOR	-0.8134	-0.7638	-0.7246	-0.6104	EUR 5 yr	N.A.	
					EUR 10 yr	N.A.	

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1898.67	+0.02	ADGB 2.50 25	#N/A	#VALUE!	Abu Dhabi	38	--
Silver	26.40	-0.22	DUGB 3.89 25	#N/A	#VALUE!	Bahrain	238	-2
Oil (WTI)	#N/A		QATAR 3.4 25	#N/A	#VALUE!	Dubai	112	--
Aluminium	#N/A		US Tsy 2 yr	0.12	--	Oman	358	-3
Copper	#N/A		US Tsy 10 yr	0.91	--	Qatar	39	--
						Saudi Arabia	66	--

Source: Bloomberg, Emirates NBD Research

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