



بنك الإمارات دبي الوطني
Emirates NBD

Daily
6 January 2020

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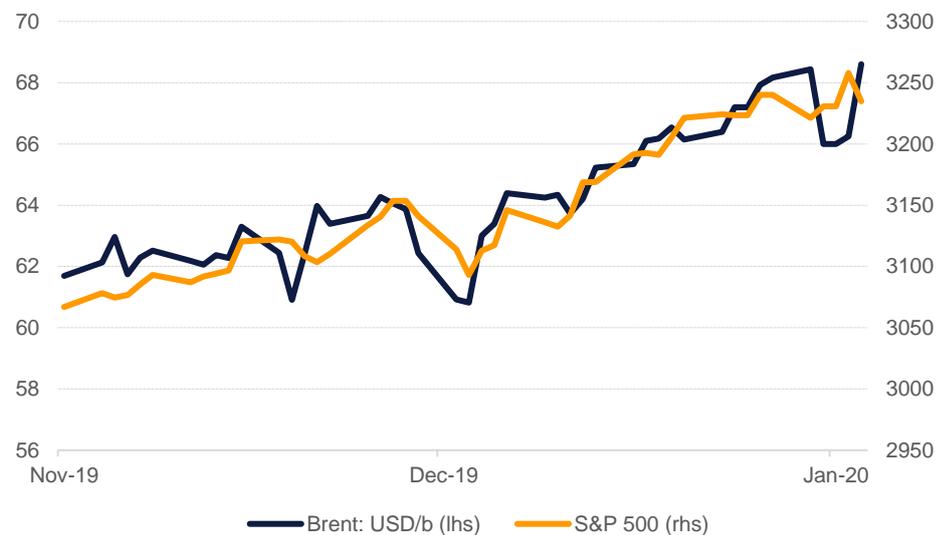
Daily Outlook

Financial markets were snapped back to reality from New Year celebrations as the US carried out an airstrike that killed a senior Iranian military official. Oil prices immediately jumped on the risk that supplies from the Middle East would be disrupted while equity markets traded exuberance that the US-China trade war was coming to an end for the prospect of sustained tensions in the Middle East. While the main economic impact of the attack is likely to be constrained to the Middle East, economic growth more broadly is set to be tentative in 2020 and risk of a conflict would be a challenge to absorb. December data showed industry in the US continuing to decline with the ISM manufacturing index falling to 47.2, its lowest level for the year while manufacturing in the Eurozone remains firmly in contraction. PMI figures out of China declined in December according to the Caixin Composite figure. The PMI hit 52.6 from 53.2 a month earlier although the survey was likely taken before the odds of phase one US-China trade deal looked close.

Both Saudi and UAE PMIs softened slightly in December to 56.9 and 50.2 respectively. New order growth in the UAE was modestly higher last month, after contracting in November. In Egypt, the PMI rose modestly from 47.9 to 48.2. Separately, Sheikh Mohammed bin Rashid al Maktoum, the ruler of Dubai, has launched a new executive body, the Dubai Council, to oversee the management of the emirate's economy, government-citizen relations, infrastructure, legal issues, health care and knowledge. The Dubai Council will oversee the development of megaprojects in support of Dubai's economy and set up a vision for the next 50 years of development of the emirate.

Minutes from the US Federal Reserve's December meeting displayed consensus among policymakers to keep rates steady for 2020 even as they acknowledged some risks to growth. The potential easing in US-China trade tensions and resolution of Brexit will help to reaffirm the Fed's go-steady policy and the market is not looking for any change in rates until well into the end of the year, if at all. Market probability for a rate cut is around 50%, but only confidently at the November or December meetings.

Oil surges while stocks sink on elevated geopolitical risks



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
EZ Comp. PMI Dec	13:30	50.6	UK Comp. PMI Dec	13:30	48.5
US Comp. PMI Dec	18:45	n/a			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

The start of the year was marked by a sharp rise in risk-off sentiment following an escalation in geopolitical tensions in the Middle East in the second half of last week. Unsurprisingly, treasuries rallied sharply with yields on the 2y UST and 10y UST dropping to 1.52% (-6 bps w-o-w) and 1.78% (-9 bps w-o-w).

The headline move on regional fixed income was more muted. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose 2 bps w-o-w to 3.18%. However, that appears to be a function of public holiday driven disruption in trading. It is worth noting that CDS spreads widened sharply across the region with 5y Saudi Arabia and 5y Abu Dhabi CDS ending the week at 65 bps (+10 bps w-o-w) and 38 bps (+3 bps w-o-w) respectively.

FX

Currency markets are adopting a risk-off stance in light of escalating tension in the Middle East. The JPY is gaining against the dollar, moving to just above 108 compared with closer to 110 at the end of December. Meanwhile EUR is gaining slightly while commodity currencies generally are softer (although CAD is benefitting from oil prices around USD 70/b). The DXY index is roughly flat after volatile moves to end last week.

INR has opened sharply softer in trading this morning as rising oil prices remain a concern for the Indian economy while TRY has so far held steady at around 5.97 against the USD, despite some choppy early moves.

Equities

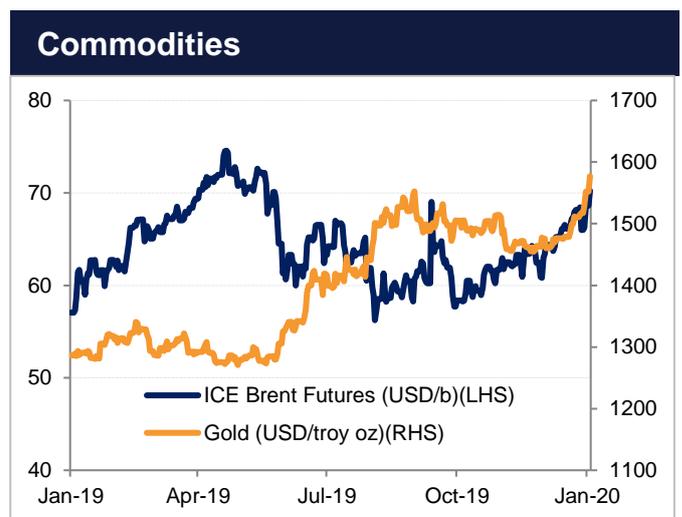
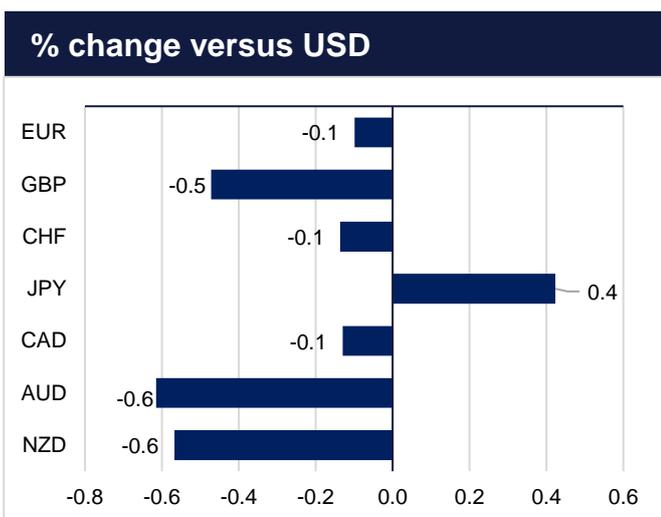
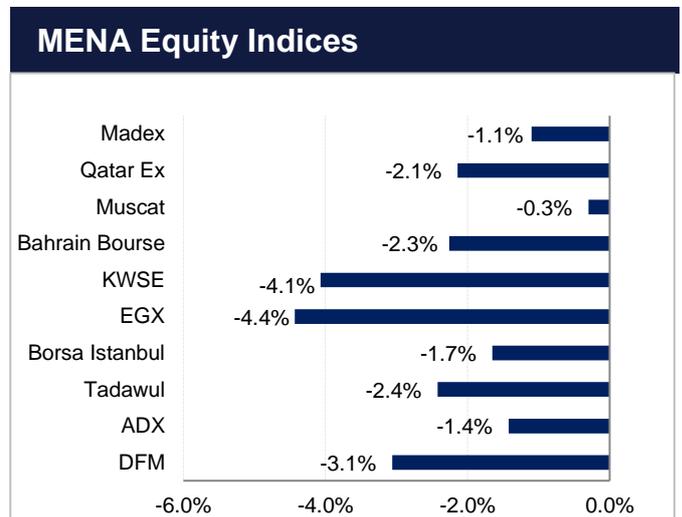
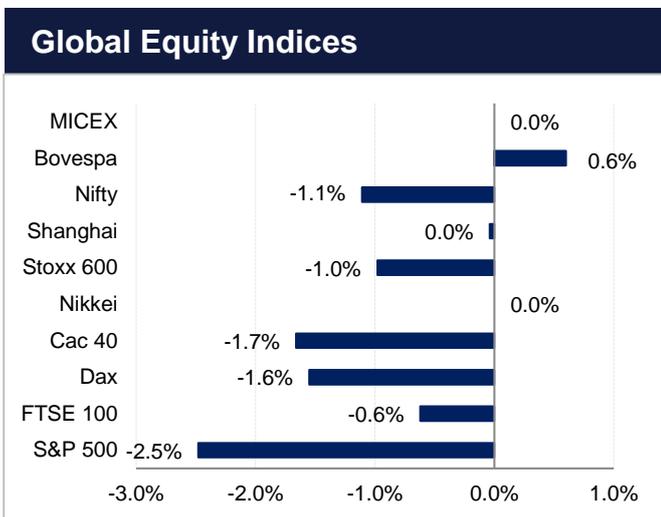
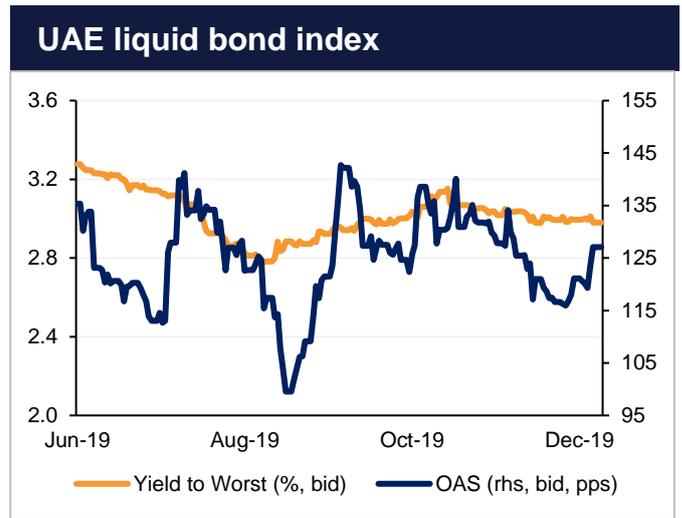
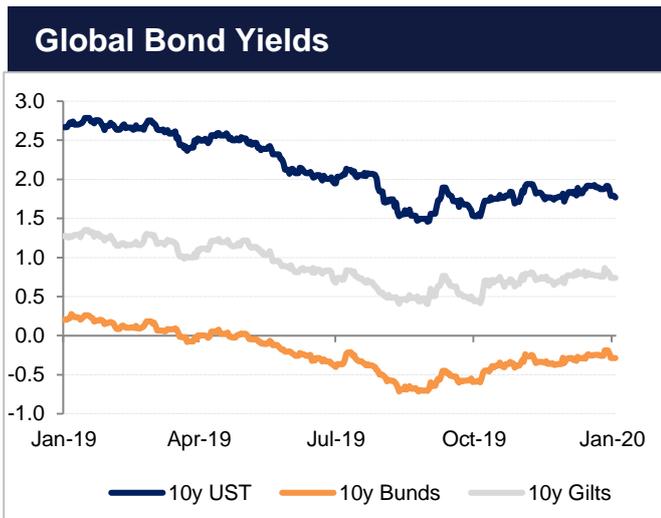
Regional markets closed sharply lower following escalation in geopolitical tensions. The sell-off was rather broad based with market heavyweights bearing the brunt. The DFM index and the KWSE PM index dropped -3.1% and -4.1% respectively.

Commodities

Oil markets snapped back into reality after the start of the New Year as a US airstrike killed a senior Iranian military official. After a 2019 that was peppered with high risk geopolitical events, 2020 appears to be starting as intensely. Benchmark futures prices spiked in response to the news with Brent touching an intraday high of USD 69.50/b and WTI moving up over USD 64/b. Oil futures have gained for eight of the last nine weeks, bolstered by optimism that the China-US trade war would come to an end and now receiving support from a revived geopolitical risk premium. In early trading to start the week Brent futures have moved above USD 70/b.

The immediate fear in oil markets is whether supplies flowing out of the Gulf region or from Iraq are disrupted, either from the Strait of Hormuz being blocked or pipelines being cut. Already the UK has announced its navy will accompany British-flagged vessels moving through the region and the US will be sending more troops into the Middle East. However, like we saw in 2019, the impact of risk events themselves on oil prices can be fairly short-lived if markets do not assess any substantial change to physical flows. Taking the attacks on Aramco's Abqaiq facilities as a guide, a sharp move higher in spot prices unwound relatively quickly as the market assessed the overall impact on production and considered ample sources of alternative supplies.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1161	-0.10	1.1412	USDTRY	5.9716	+0.24	EURAED	4.0993	-0.10
GBPUSD	1.3083	-0.47	1.3208	USDEGP	16.0426	+0.20	GBPAED	4.8047	-0.44
USDJPY	108.09	-0.44	105.92	USDSAR	3.7520	+0.02	JPYAED	0.0340	+0.42
USDCAD	1.3001	+0.15	1.3005	USDQAR	3.6800	+0.55	CADAED	2.8256	-0.11
AUDUSD	0.6950	-0.61	0.7005	USDKWD	0.3032	+0.03	AUDAED	2.5526	-0.57
USDCHF	0.9729	+0.14	0.9487	USDBHD	0.3771	+0.02	CHFAED	3.7762	-0.15
EURGBP	0.8534	+0.40	0.8643	USDOMR	0.3850	+0.07	TRYAED	0.6200	+0.56
USDAED	3.6730	--	3.6792	USDINR	70.7225	-0.64	INRAED	0.0552	+7.10

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.8978	2.1302	2.1761	2.3149	USD 2 yr	1.614	-6
USD LIBOR	1.7143	1.8739	1.8929	1.9641	USD 5 yr	1.610	-8
GBP LIBOR	0.7054	0.7956	0.8639	0.9625	USD 10 yr	1.752	-9
JPY LIBOR	-0.0855	-0.0477	0.0172	0.1027	EUR 2 yr	-0.314	-1
CHF LIBOR	-0.7750	-0.6782	-0.6206	-0.4962	EUR 5 yr	-0.181	-4
					EUR 10 yr	0.117	-5

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1552.20	+1.51	ADGB 6.75 19	2.42	--	Abu Dhabi	37	+2
Silver	18.06	+0.21	DUGB 7.75 20	1.99	-2	Bahrain	176	+2
Oil (WTI)	63.05	+3.06	QATAR 5.25 20	2.70		Dubai	92	+1
Aluminium	1792.50	+0.99	US Tsy 2 yr	1.52	-4	Oman	234	--
Copper	6104.00	-0.97	US Tsy 10 yr	1.79	-9	Qatar	37	+2
						Saudi Arabia	61	+6

Source: Bloomberg, Emirates NBD Research

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