بنك الإمارات دبي الوطني
Emirates NBD

Daily
20 January 2020

www.emiratesnbdresearch.com

Daily Outlook

International Monetary Fund managing director Kristalina Georgieva said the signing of a Phase 1 trade agreement between the United States and China will reduce but not eliminate uncertainty that has weighed on global economic growth. The IMF Chief declined to give an adjusted global economic forecast saying this would be released at the World Economic Forum taking place later today in Davos, Switzerland. She also said the IMF had previously estimated that global trade tensions would shave 0.8%, or USD 700bn, off international economic growth, while one third of that is due to tariffs, the larger component is due to a slowdown in business investment. Thus the US-China trade deal being an interim solution may not do enough to reduce the drag from business investment. The IMF Chief also discussed income inequality, pointing to better access to banking and credit in helping close income gaps.

US homebuilding activity touched a 13 year high in December, with housing starts jumping 16.9% to an annually adjusted rate of 1.608 million units last month. While the data suggests the housing market recovery was back on track in a low mortgage rate environment, groundbreaking activity was likely bumped-up by unseasonably mild weather last month and maybe overstating the health of the housing market. Furthermore groundbreaking activity could slow in the coming months as building permits fell 3.9% to a rate of 1.416 million units in December after hitting the highest level in more than 12-1/2 years in November. In another report on Friday the Federal Reserve said manufacturing production rose 0.2% in December, following on November's 1.0% increase. Manufacturing output, however, fell 1.0% in the fourth quarter. It dropped 0.2% for the whole of 2019, the first such decline since 2016.

China's economic growth slowed to 6.0% y/y in 2019, from 6.5%y/y in 2018, according to data from the National Bureau of Statistics. While still strong by global standards, this was the weakest expansion in nearly 30 years and comes in the midst of a straining trade war with the United States. December data released along with the GDP numbers showed a strong acceleration in industrial output which grew 6.9% y/y and a more modest pick-up in fixed asset investment growth at 5.4% y/y, while retail sales were solid at 8.0% y/y. Optimism over a Phase 1 US- China trade deal and earlier government driven growth boosting measures have probably supported the stronger year end data. Policy makers in China have used a mix of fiscal and monetary measures to stem the current downturn, including cutting taxes and allowing local governments to sell bonds to fund infrastructure projects. While key economic targets are due to be announced in March, China is expected to set a lower growth target of around 6% this year from last year's 6-6.5%.

The value of Dubai’s non-oil foreign trade rose nearly 5.5% in the first 9 months of the year, although the volume was up 22%. Export growth (by value) was particularly strong at 22% y/y while import growth was more muted at 3.3%.

China GDP slows

Source: Bloomberg, Emirates NBD Research

Today’s Economic Data and Events

	Time	Cons		Time	Cons
JN Industrial Production (YoY)	08:30	-8.1%	GE PPI (YoY)	11:00	-0.3

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed mixed last week as economic data came in better than expected and the Phase 1 trade deal between the US and China was signed. The curve steepened as yields on the 2y UST and 10y UST closed at 1.56% (-1 bp w-o-w) and 1.82% (+1 bp w-o-w) respectively.

The US Treasury said that it will start issuing 20y bonds in the first half of 2020 as the government expands its offering to fund its deficit. It is worth highlighting that the previously issued 30y USTs which currently have about 20 years left to maturity yields around 2.15%. The 20y Japanese bond yields 0.31% while the German 20y bond yields 0.07%.

Over the last week, there has been a sharp readjustment in expectation from the Bank of England's meeting later this month. Following a series of weak economic data, markets are pricing in a 70% probability of a rate cut, up from 23% at the end of last week.

Regional bonds rallied sharply last week as geopolitical tensions subdued. The YTW on Bloomberg Barclays GCC Credit and High Yield index dropped 7 bps w-o-w to 3.11% and credit spreads tightened 7 bps w-o-w to 137 bps.

FX

A 0.27% decline resulted in a third week of declines for EURUSD and took the price down to 1.1092. Over the course of the week, the price fell back below the 200-day moving average (1.1136) and even closed below the 50-day moving average (1.1092). The later development is important as it closed the week below this key supporting level which has provided support since broken on December 2nd, 2019. While the price stays below this level, further declines seem to be the path of most resistance, with the 23.6% one-year Fibonacci retracement (1.1029) being the next likely target. The probability of this is increased by the observation that the price encountered selling pressure at the 50-week moving average (1.1167) and closed the week below the 38.2% one-year Fibonacci retracement of 1.1122.

GBPUSD declined for a second week after a fall of 0.39% took the price to 1.3013. While analysis of the daily candle charts shows that the price has closed below the 50-day moving average (1.3034), the price remains above the 61.8% one-year Fibonacci retracement (1.2920). While this remains the case, we expect GBPUSD to retest the 1.3067 level at the 200-week moving average. While this level has been broken many times over the last three weeks, the break has not been sustained. Should this development happen, it is likely to catalyze further gains towards 1.3150, not far from the 76.4% one-year Fibonacci retracement.

Equities

Regional markets continued their positive run from last week. The DFM index and the KWSE PM index added +1.2% and +0.7% respectively.

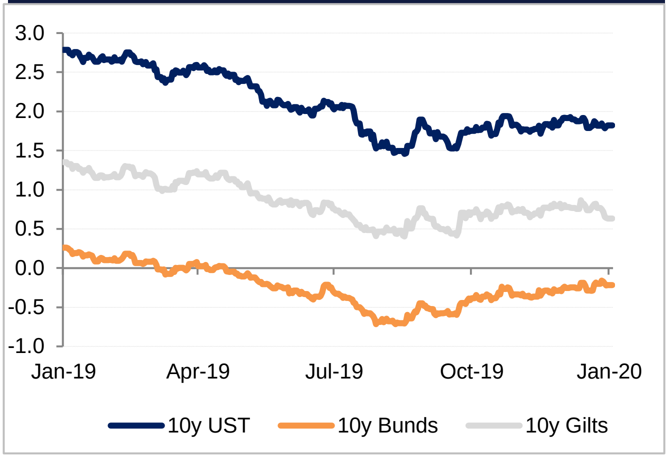
Commodities

Oil markets held steady last week, recording modest declines in both Brent and WTI futures, as China's slow GDP growth figures were largely anticipated by the market and agency forecasts affirmed market expectations of large supply growth outside of OPEC. Brent futures settled at USD 64.85/b, down 0.2%, while WTI gave up 0.85% to end the week at USD 58.54/b. While the year has only just begun, oil prices have failed to reap any of the benefit that risk assets have recorded so far this year. The S&P 500 index has gained 3.1% year-to-date, far outperforming the 4.1% year-to-date decline in WTI futures and 1.7% drop in Brent.

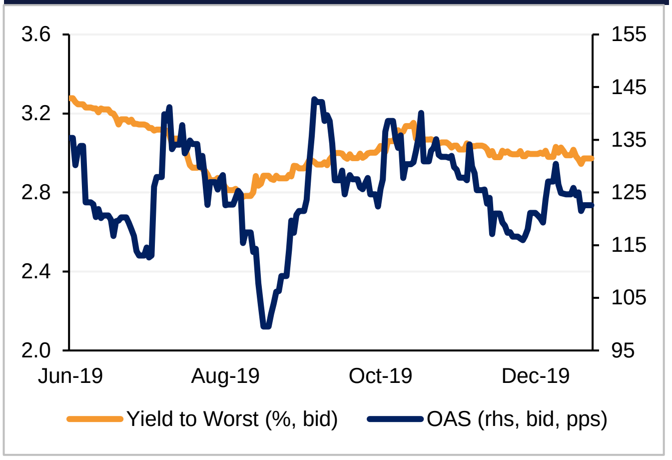
While the Gulf region has dominated geopolitics to start the year, North Africa will set the tone this week. Reportedly half of Libya's oil production has been shut in as political rivals seek to exert influence over pending negotiations to end hostilities. The recovery in Libya's oil production in the past year had been quite significant: average production in 2019 was 1.1m b/d, a 12% increase on 2018 levels. However, the country continues to endure political unrest that threatens the stability of supplies and exports. Hence, we assign a relatively low probability to Libya maintaining recent high production levels for most of 2020.

Markets in Charts

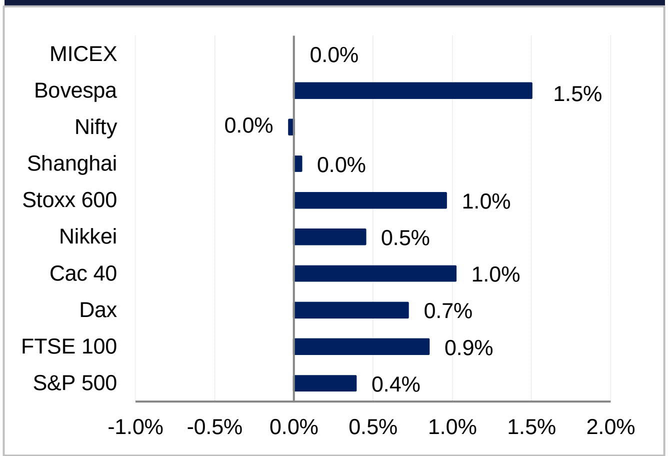
Global Bond Yields



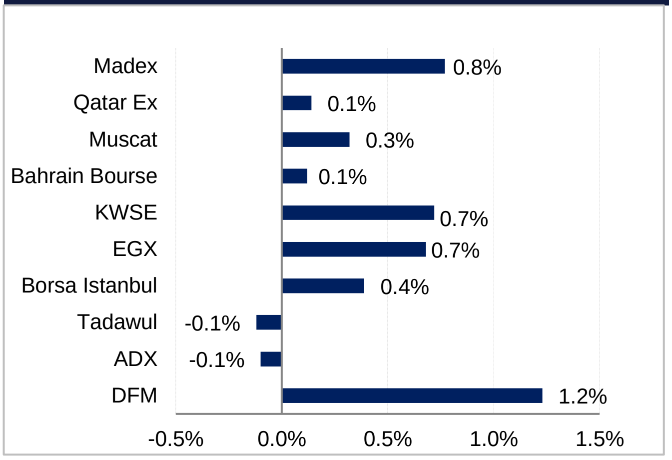
UAE liquid bond index



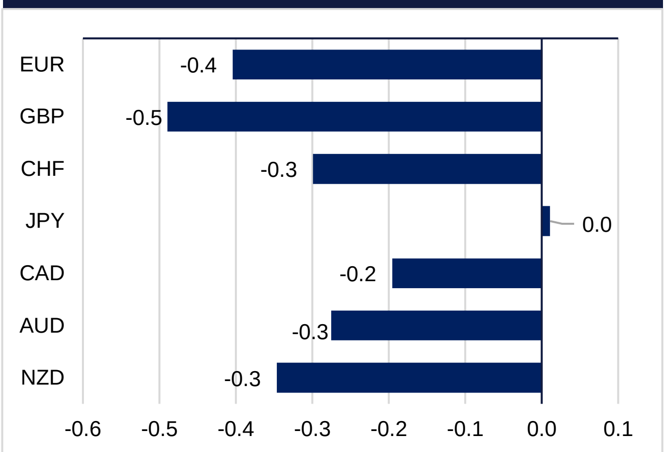
Global Equity Indices



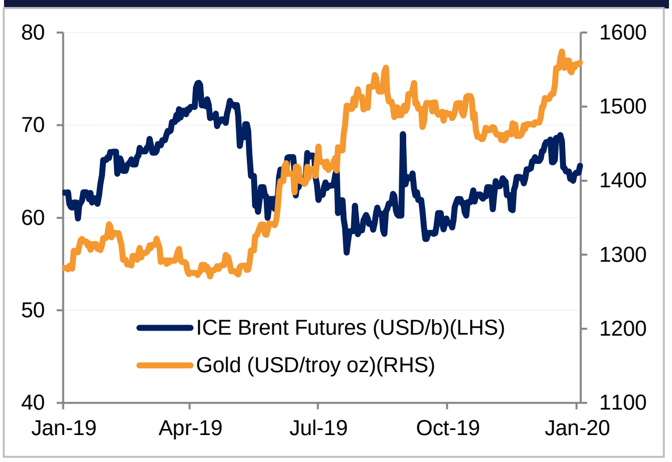
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1092	-0.40	1.1342	USDTRY	5.8862	+0.46	EURAED	4.0735	-0.41
GBPUSD	1.3016	-0.49	1.3166	USDEGP	#N/A N/A	#VALUE!	GBPAED	4.7798	-0.49
USDJPY	110.14	-0.02	107.94	USDSAR	3.7522	+0.01	JPYAED	0.0333	--
USDCAD	1.3066	+0.18	1.3070	USDQAR	3.6800	+1.06	CADAED	2.8110	-0.19
AUDUSD	0.6879	-0.28	0.6938	USDKWD	0.3034	--	AUDAED	2.5244	-0.36
USDCHF	0.9679	+0.33	0.9434	USDBHD	0.3770	+0.00	CHFAED	3.7944	-0.32
EURGBP	0.8520	+0.05	0.8613	USDOMR	0.3850	--	TRYAED	0.6200	-1.09
USDAED	3.6730	+0.00	3.6778	USDINR	70.7225	-0.64	INRAED	0.0552	+6.70

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.8748	2.0329	2.0670	2.3023	USD 2 yr	1.639	+0
USD LIBOR	1.6544	1.8191	1.8449	1.9230	USD 5 yr	1.636	+0
GBP LIBOR	0.6464	0.7001	0.7385	0.7960	USD 10 yr	1.780	+1
JPY LIBOR	-0.0905	-0.0525	0.0158	0.1167	EUR 2 yr	-0.305	-0
CHF LIBOR	-0.7694	-0.6788	-0.6354	-0.4978	EUR 5 yr	-0.158	+0
					EUR 10 yr	0.146	+0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1557.24	+0.30	ADGB 6.75 19	2.42	--	Abu Dhabi	38	+1
Silver	18.04	+0.55	DUGB 7.75 20	1.88	-18	Bahrain	172	-6
Oil (WTI)	58.54	+0.03	QATAR 5.25 20	2.70		Dubai	95	--
Aluminium	1792.75	-0.21	US Tsy 2 yr	1.56	-1	Oman	234	--
Copper	6247.25	-0.06	US Tsy 10 yr	1.82	+1	Qatar	41	+2
						Saudi Arabia	63	+2

Source: Bloomberg, Emirates NBD Research

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