



بنك الإمارات دبي الوطني  
Emirates NBD

Daily  
30 January 2020

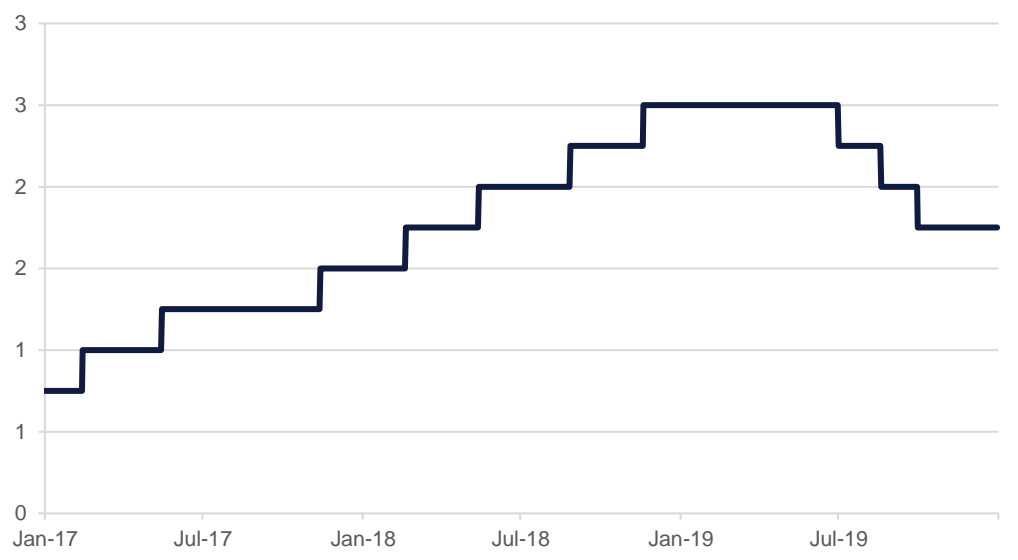
## Daily Outlook

The FOMC kept the Fed funds rate's upper bound unchanged at 1.75% yesterday, as had been widely anticipated. What was of more interest was chair Jerome Powell's statement, in which he asserted that the US would not get mired in the low inflation trap which has plagued other developed markets, signaling that unless there is a marked acceleration in inflation then the likelihood of a rate hike is very unlikely.

In his statement, Powell acknowledged the Coronavirus as a 'wild card' risk to the global economy, and the more positive market moves yesterday morning have been replaced by a renewed risk-off sentiment today. The number of confirmed cases now stands at 7,711, and the WHO has called for an Emergency Committee meeting today. The material impact on the global economy is rising as more airlines and governments initiate travel bans to mainland China.

The UK is set to leave the EU tomorrow night, following years of wrangling over the withdrawal agreement. The saga is far from over, however, given that negotiators have just 11 months to reach a trade deal in order to keep to the current timetable which sets the end of the transition period at the close of the year. Fishing rights and access to financial markets look set to be among the early clashes. In the meantime, the Bank of England is set to announce its policy rate later today. The decision is on a knife-edge given the mixed data we have seen over the past month. We expect that the central bank will remain on hold at 0.75% despite some dovish noise from MPC members. However, the chance of chair Mark Carney deciding to go out with a bang for his last meeting in charge cannot be discounted.

### Fed holds rates



Source: Bloomberg, Emirates NBD Research

### Today's Economic Data and Events

|                                      | Time  | Cons  |                            | Time  | Cons |
|--------------------------------------|-------|-------|----------------------------|-------|------|
| Turkey central bank inflation report | 11:30 | Na    | Eurozone unemployment rate | 14:00 | 7.5% |
| UK Bank of England bank rate         | 16:00 | 0.75% |                            |       |      |

Source: Bloomberg, Emirates NBD Research.

## Fixed Income

The return of risk-off sentiment has manifested in treasuries, as yields on the 2yr UST fell back below 1.40% yesterday after the brief recovery to 1.46% at the start of the day. The likelihood of a hike by the US Fed now looks vanishingly unlikely this year after Jerome Powell's statement yesterday, barring a surprise uptick in inflation. The market implied probability of a rate hike at the next meeting in March has fallen from around 12% to 0%, with no hikes priced in through January 2021.

2yr gilt yields also declined modestly yesterday, from 0.446% to 0.432%. The rate decision by the Bank of England later today remains uncertain, with the market implied odds for a cut about even at 45.6% - although this is down from the 70% seen earlier this month.

In Lebanon, the protracted economic and political crisis has kept investor concerns to the fore, with the Eurobond maturing in March of immediate concern. Yields on the issuance are currently at 273%.

## FX

FX markets seemingly looked past the Fed's decision to keep rates on hold to price in more anxiety about global growth. The broad dollar index has held flat thanks to a weaker EUR overnight and stronger JPY as markets seek out safe havens. Commodity currencies in particular are under pressure with USDCAD touching a new high for the year and both the AUD and NZD falling to new lows.

All eyes will be on GBP today and whether the Bank of England adjusts its rate policy. Sterling has held at around 1.30 for the last few trading sessions but any dip may be muted given greater certainty that Brexit will indeed occur on January 31.

## Equities

The return in risk-on sentiment yesterday was quite short lived as concerns over the Coronavirus returned to the fore and wiped out the positivity caused by positive earnings statements. In Asia, the Nikkei has also resumed its decline this morning after paring some of its losses yesterday, while the S&P 500 closed down 0.1% overnight. Financial markets in China remain closed, but the Hang Seng has continued to fall after reopening post the New Year holiday yesterday – it is currently trading down 4.2% compared to its Friday close – although it does remain up on the protest-driven dips seen last year.

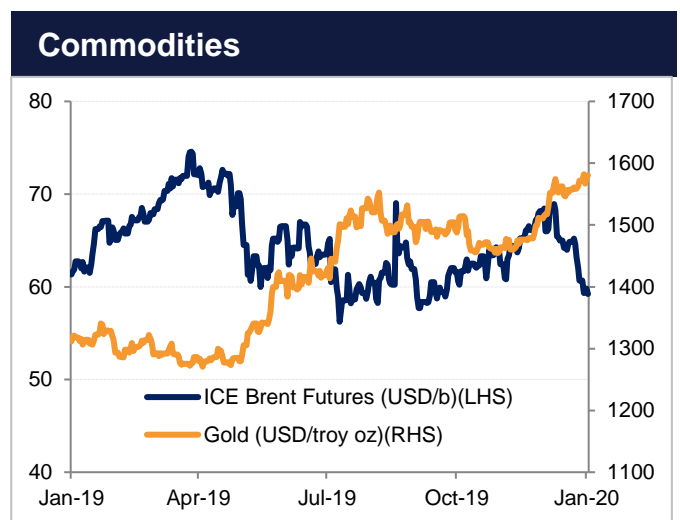
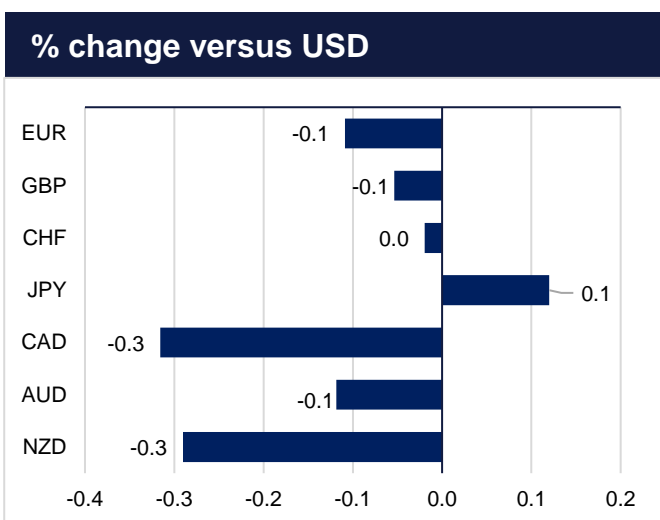
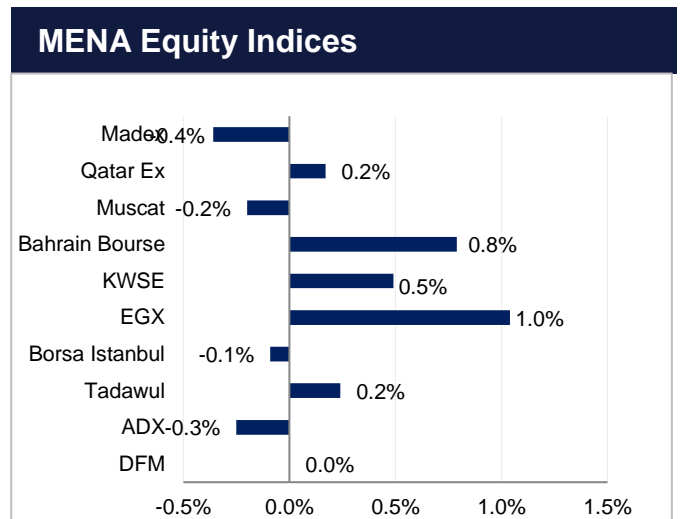
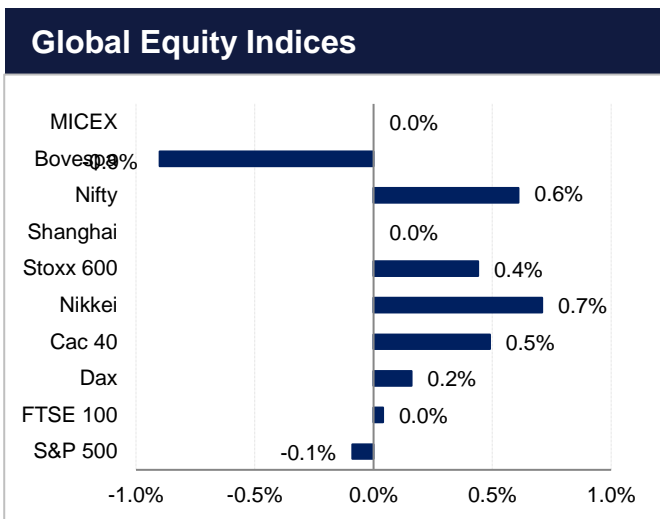
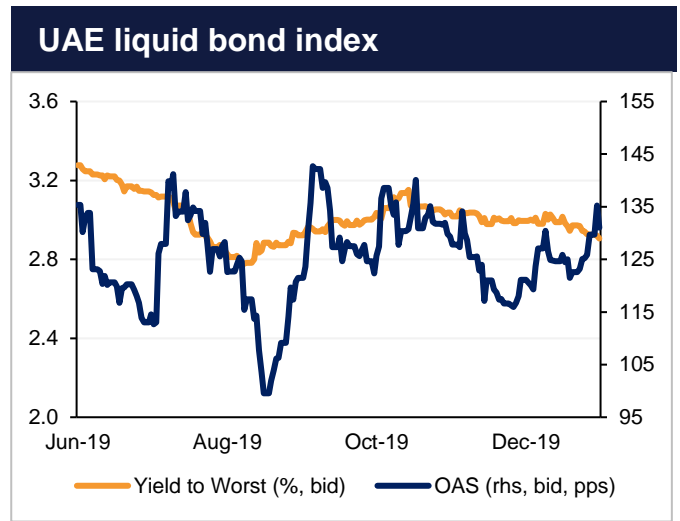
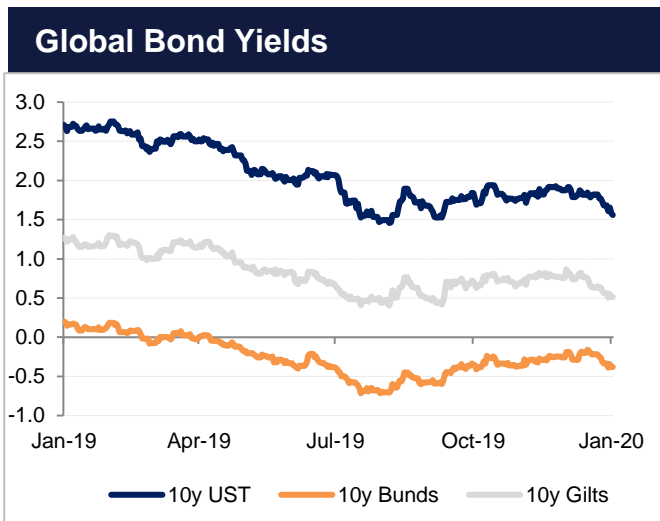
## Commodities

Oil prices recorded a mixed performance overnight with Brent gaining 0.5% and WTI declining by about 0.3%. Both markets are down this morning, however, with Brent at USD 59.22/b, down nearly 1% and WTI at USD 52.81/b, down by 0.98%.

The EIA reported a build in US crude stocks of around 3.5m bbl last week but there were draws across much of the rest of the barrel. Production held steady at 13m b/d while exports ticked higher to 3.5m b/d.

OPEC is reportedly considering to bring forward its next meeting, which is scheduled for March, to assess the impact of the coronavirus outbreak on oil demand. There may be a desire to cut output in response to the expectation that the virus will have a negative impact on growth.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

|        | Close  | %1D chg | 1 yr fwd |        | Close   | %1D chg |        | Close  | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.1010 | -0.11   | 1.1249   | USDTRY | 5.9594  | +0.31   | EURAED | 4.0442 | -0.10   |
| GBPUSD | 1.3021 | -0.05   | 1.3156   | USDEGP | N/A     | N/A     | GBPAED | 4.7824 | -0.05   |
| USDJPY | 109.02 | -0.12   | 106.93   | USDSAR | 3.7519  | +0.00   | JPYAED | 0.0337 | +0.12   |
| USDCAD | 1.3199 | +0.33   | 1.3198   | USDQAR | 3.6800  | +1.06   | CADAED | 2.7830 | -0.32   |
| AUDUSD | 0.6754 | -0.12   | 0.6805   | USDKWD | 0.3038  | +0.05   | AUDAED | 2.4805 | -0.12   |
| USDCHF | 0.9732 | +0.01   | 0.9497   | USDBHD | 0.3770  | --      | CHFAED | 3.7738 | -0.03   |
| EURGBP | 0.8457 | -0.05   | 0.8551   | USDOMR | 0.3850  | --      | TRYAED | 0.6200 | +0.28   |
| USDAED | 3.6730 | --      | 3.6776   | USDINR | 70.7225 | -0.64   | INRAED | 0.0552 | +7.08   |

## Rates

| Interbank | 1 mo    | 3mo     | 6 mo    | 1 yr    | Swaps     | Close  | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR     | 1.8296  | 2.0386  | 2.1388  | 2.3343  | USD 2 yr  | 1.476  | -5           |
| USD LIBOR | 1.6500  | 1.7695  | 1.7710  | 1.8313  | USD 5 yr  | 1.411  | -7           |
| GBP LIBOR | 0.6155  | 0.6863  | 0.7426  | 0.7976  | USD 10 yr | 1.536  | -7           |
| JPY LIBOR | -0.0837 | -0.0440 | 0.0195  | 0.1237  | EUR 2 yr  | -0.348 | -1           |
| CHF LIBOR | -0.7638 | -0.6782 | -0.6392 | -0.5060 | EUR 5 yr  | -0.254 | -2           |
|           |         |         |         |         | EUR 10 yr | -0.001 | -2           |

## Commodities & Fixed Income

| Commodities | Close   | %1D chg | Bonds/Sukuk   | YTM  | 1D chg (bps) | CDS          | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold        | 1576.83 | +0.62   | ADGB 6.75 19  | 2.42 | --           | Abu Dhabi    | 40    | -1           |
| Silver      | 17.56   | +0.50   | DUGB 7.75 20  | 1.67 | -3           | Bahrain      | 164   | +1           |
| Oil (WTI)   | 53.33   | -0.28   | QATAR 5.25 20 | 2.70 |              | Dubai        | 95    | +2           |
| Aluminium   | 1723.50 | -0.83   | US Tsy 2 yr   | 1.41 | -5           | Oman         | 219   | --           |
| Copper      | 5612.75 | -1.10   | US Tsy 10 yr  | 1.58 | -7           | Qatar        | 42    | -1           |
|             |         |         |               |      |              | Saudi Arabia | 64    | --           |

Source: Bloomberg, Emirates NBD Research

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