بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

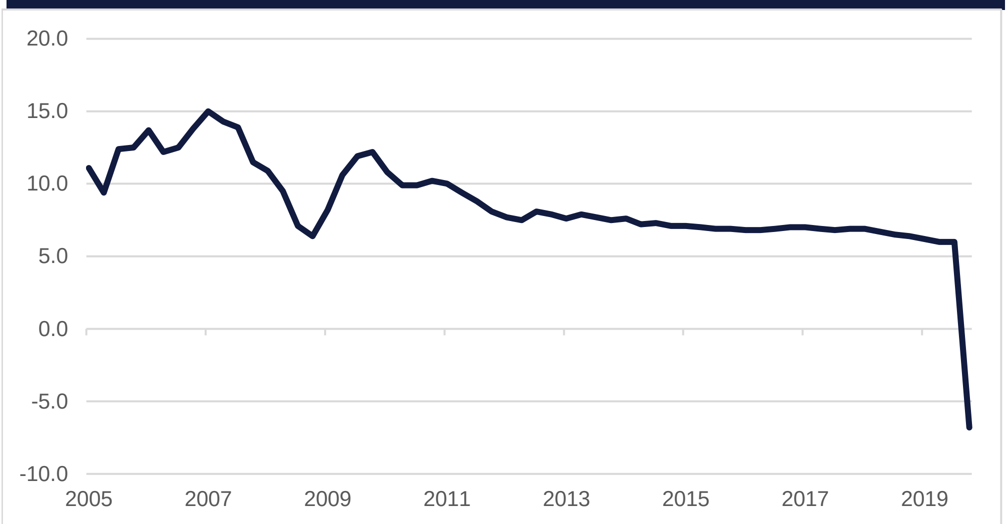
China's economy recorded its first quarterly contraction since at least 1992. The gross domestic product declined -6.8% y/y in Q1 2020, lower than consensus forecasts of a 6.0% drop. The data comes as no surprise considering that most parts of China were at a standstill for the better part of the first quarter. Other data points released, alongside the GDP data, showed that retail sales dropped -15.8% in March and investment declined 16.1% in Q1 2020. On the positive side, industrial production declined only -1.1% y/y (versus expectations of -6.2% y/y) in March as companies started to resume production. The response to the dismal set of numbers saw pledges from policymakers to deliver more stimulus and ample liquidity.

The data from the US over the weekend remained equally grim. The new initial jobless claims for the week ended 11 April came in at 5.25mn to take the cumulative jobless claims to over 22mn over the past four weeks. The losses effectively wipe out a decade worth of job gains. The latest numbers also suggest an unemployment rate of around 17%, much higher than the 10% peak during the global financial crisis.

The Reserve Bank of India (RBI) announced another set of measures aimed at boosting liquidity and supporting banks. The steps included widening the policy rate corridor by keeping the repo rate unchanged at 4.4% and reducing the reverse repo rate by 25 bps to 3.75%. The central bank also announced a new round of TLTROs worth INR 500bn with at least half of that amount made available to lower rated firms including micro-financial institutions. Additionally, the rules for recognizing non-performing assets were eased and the banks were told to freeze dividend payments.

Preliminary data released by the UAE central bank showed faster growth in money supply in March, with M2 rising 2.0% m/m and 9.5% y/y. Currency outside banks grew 16.7% y/y in March, the fastest annual growth since December 2014. Government deposits declined -3.1% m/m and -14.5% y/y in March. Government deposits have shrunk on an annual basis since the start of the year as lower oil revenues have led to drawing down on bank deposits to meet expenditure commitments. Total bank deposits rose 1.3% m/m and 5.9% y/y in March while gross lending grew 1.3% m/m and 5.6% y/y. The increase in lending suggests measures announced by the central bank to support households and businesses have improved access to financing.

Chinese economy contracts in Q1 2020 (GDP, %, y/y)



Source: Bloomberg, Emriates NBD Research

Today's Economic Data and Events

GE PPI y/y	10:00	-0.8%	EZ Trade Balance	13:00	20bn
US Chicago Fed Nat Activity	16:30	-3.0	Morocco CPI	-	-

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Notwithstanding a risk-on sentiment, treasuries closed higher. The decision of the Fed to lower its purchases further to USD 15bn per day also weighed on sentiment. Yields on the 2y UST and 10y UST ended the week at 0.20% (-2 bps w-o-w) and 0.64% (-8 bps w-o-w) respectively.

The benign global backdrop helped regional bonds even as oil prices tumbled. The YTW on Bloomberg Barclays GCC Credit and High Yield index dropped -29 bps w-o-w to 4.29% and credit spreads tightened further to 368 bps (-23 bps w-o-w).

S&P affirmed Egypt's credit rating at B with a stable outlook. The rating agency expects that the country's external liquidity will remain adequate to withstand the temporary external and economic shocks. According to S&P, Egypt's near term government and central bank external debt maturities are at about USD 6.5bn in H2 FY 2020 and USD 12.7bn in FY 2021.

FX

Despite slumping below the 99.000 mark last Tuesday, the DXY dollar index ended the week with minimal gains overall at 99.712 after last week's closing price of 99.482. President Trump has recently given "guidelines" to governors on reopening state economies as he continues to promote the idea of removing lockdowns, although prominent states like New York are at least a month away from being able to do this. The key area to look out for will once again be the 100.00 resistance level, but the USD may struggle to overcome it if the markets continue to perceive that progress is being made in terms of tackling the virus.

The JPY declined last week but met support at the 107.00 region, finishing at 107.54, marking a -0.85% drop from the prior week's closing price. The euro was little changed against the dollar closing on Friday at 1.0876 after starting on Monday at 1.0937. Sterling painted a similar picture, increasing just over 0.35% to finish the week at 1.2502. Likewise the AUD edged just slightly higher to reach 0.6366 whilst the NZD declined to 0.6032.

Equities

Regional equities closed higher amid a positive global backdrop. The DFM index added +3.0% while the Tadawul gained +0.7%. Gains were broad based suggesting bargain hunting by investors. Emaar Properties (+3.7%) and First Abu Dhabi Bank (+4.0%) were notable gainers.

Commodities

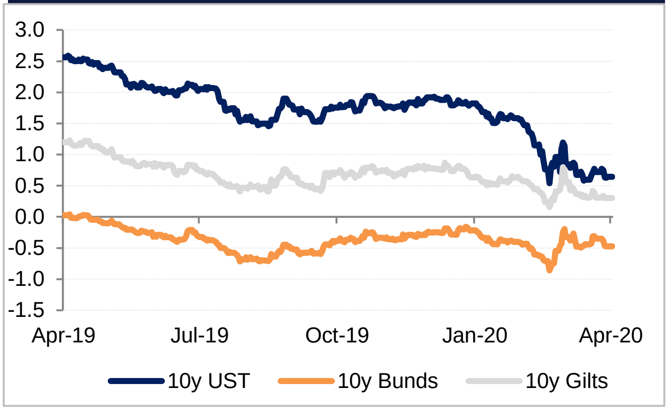
Oil prices extended their losses last week as the OPEC+ production cut agreement has yet to have an impact on the market. Brent futures were down nearly 11% to settle at USD 28.08/b while WTI lost almost 20% to close at USD 18.27/b. Since the start of the year Brent has lost 57% while WTI is down around 70%.

The energy ministers of Saudi Arabia and Russia delivered a joint statement in which they said they were prepared to take "further measures" if needed to support oil markets. If the OPEC+ deal carries on last previous iterations we would expect to see voluntary Saudi over-compliance, i.e., cutting more than its share of the deal provided that other producers make an effort to cut output as well.

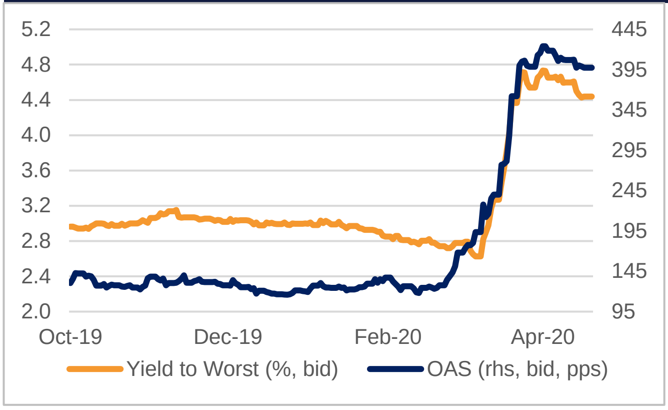
Market structures continue to reflect—and weaken—as a result of this surge of supply overwhelming what little oil demand is out there. Front-month time spreads ended the week in a contango of USD 3.5/b in Brent, almost 30% wider in a single week. The contango in WTI widened as well to USD 6.76/b in 1-2 month spreads from just over USD 6/b a week earlier.

Markets in Charts

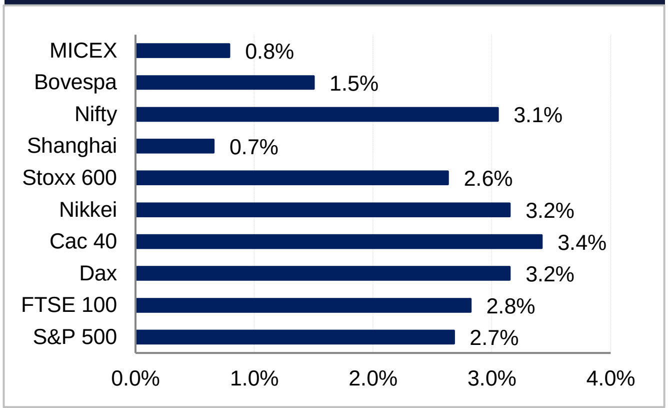
Global Bond Yields



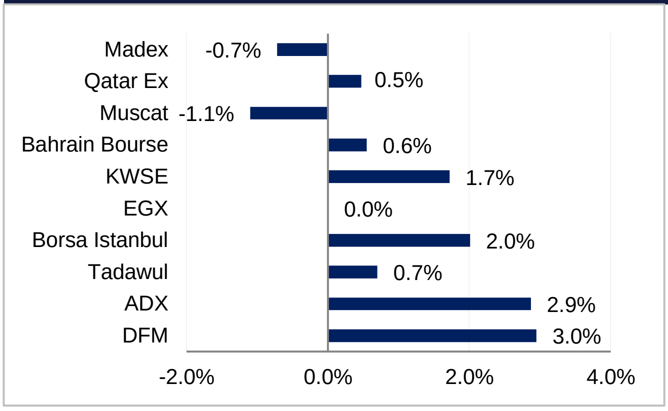
UAE liquid bond index



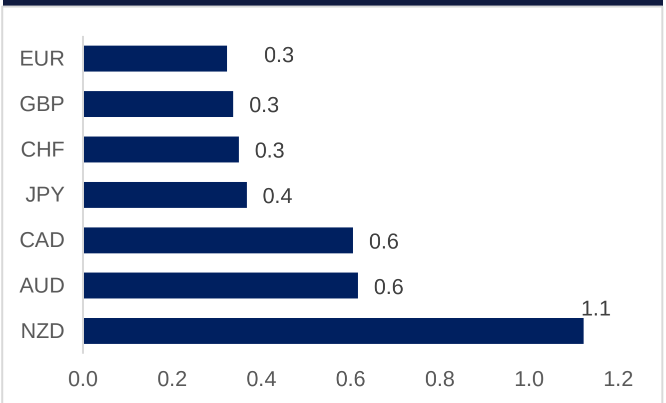
Global Equity Indices



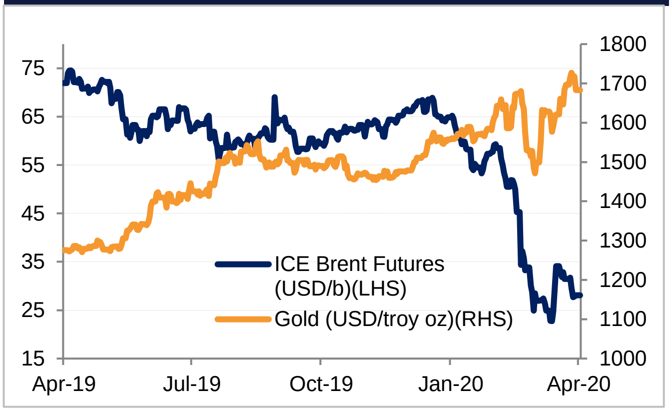
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0875	+0.32	1.0980	USDTRY	6.9294	-0.13	EURAED	3.9950	+0.35
GBPUSD	1.2499	+0.34	1.2517	USDEGP	15.7463	-0.02	GBPAED	4.5920	+0.37
USDJPY	107.54	-0.35	106.54	USDSAR	3.7571	+0.03	JPYAED	0.0342	+0.36
USDCAD	1.4001	-0.58	1.3970	USDQAR	3.6800	+0.55	CADAED	2.6235	+0.61
AUDUSD	0.6366	+0.62	0.6367	USDKWD	0.3118	+0.13	AUDAED	2.3378	+0.61
USDCHF	0.9666	-0.38	0.9540	USDBHD	0.3778	+0.03	CHFAED	3.7991	+0.36
EURGBP	0.8695	-0.09	0.8766	USDOMR	0.3851	--	TRYAED	0.5300	+0.12
USDAED	3.6731	--	3.6822	USDINR	70.7225	-0.64	INRAED	0.0552	+15.65

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9240	1.6096	1.5231	1.5939	USD 2 yr	0.416	-1
USD LIBOR	0.6728	1.1090	1.1025	0.9819	USD 5 yr	0.478	-0
GBP LIBOR	0.2535	0.6598	0.7240	0.8910	USD 10 yr	0.713	+1
JPY LIBOR	-0.0688	-0.0043	0.0215	0.1120	EUR 2 yr	-0.288	+0
CHF LIBOR	-0.7208	-0.5858	-0.5302	-0.4396	EUR 5 yr	-0.253	+1
					EUR 10 yr	-0.080	+1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1682.82	-2.03	ADGB 6.75 19	2.42	--	Abu Dhabi	126	-9
Silver	15.18	-2.06	DUGB 7.75 20	2.89	-59	Bahrain	458	-1
Oil (WTI)	18.27	-8.05	QATAR 5.25 20	2.70		Dubai	286	-8
Aluminium	1469.50	-0.36	US Tsy 2 yr	0.20	-0	Oman	694	+2
Copper	5194.00	+1.48	US Tsy 10 yr	0.64	+2	Qatar	128	-10
						Saudi Arabia	163	-15

Source: Bloomberg, Emirates NBD Research

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