



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

Oil markets have fallen into complete dysfunction with WTI closing yesterday at USD -37.63/b as prices fell victim to a poisonous cocktail of demand destruction, no storage capacity and an expiring futures contract for May WTI. Prices have 'recovered' this morning to trade above 0 but at USD 1.69/b remain completely disconnected from market fundamentals. Negative prices may seem an impossibility—the notion implies that oil producers would need to pay for someone to take their crude—but so did negative interest rates ahead of the Global Financial Crisis. As the oil market remains at strained conditions and spot prices stay at these negligible levels the risk of a return to negative prices remains high. The disorder doesn't show signs of ending. As shocking as WTI's descent into negative territory is the enormity of the 1-2 month spread is also difficult to fathom: for the active June/July spread the market is in a contango of more than USD 20/b, its widest level on record by a considerable margin.

Policymakers continue to take action to support the global economy. Following a dismal GDP data, the People's Bank of China lowered the one-year loan prime rate by 20 bps to 3.85%. The Chinese Ministry of Finance said it will sell another CNY 1tn in bonds to pay for stimulus spending by the end of May 2020. In the US, reports suggested that a vote could be held later today on the next coronavirus relief bill. A key component of the new bill is to replenish the loan programs for small businesses by as much as USD 370bn. The earlier allocation of USD 350bn (part of USD 2tn stimulus package) dried up last week.

The minutes of its last meeting, released by the Reserve Bank of Australia, suggests that given the substantial liquidity that was already there in the system and the commencement of the bond buying program, daily open market operations were likely to be on a smaller scale in the near term.

Bahrain announced it would cut operating expenditure for ministries and government departments by 30% this year and reschedule some infrastructure projects, in response to lower oil revenues and unexpected costs related to the coronavirus. We expect the budget deficit to widen to around 10.5% of GDP this year from -4.9% in 2019.

US oil plunged into negative territory for the first time in history (WTI, price per barrel)



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

UK ILO Unemployment Rate	10:00	3.9%	GE ZEW Survey	13:00	-42.0
Canada Retail Sales	16:30	0.3%	US Existing Home Sale	16.00	-9.0%

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed higher as risk sentiment took a beating in the second half of the trading session. Gains were led by the long-end with yields on the 2y USTs closing flat at 0.20% and on 10y USTs dropping by 4 bps to 0.60%.

Regional bonds came under pressure at the start of the new week amid weakness in energy prices. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose to 4.32% (+3 bps) and credit spreads widened to 372 bps.

Moody's maintained the rating on GEMS Education at B2 but lowered its outlook to negative from stable. The agency said that the economic strain caused by the coronavirus outbreak will lead to lost revenues from discounts, suspension of support services and delays in tuition fees. Fitch revised the outlook on Oman Reinsurance Company's ratings to negative.

FX

The dollar is firmer having traded in narrow ranges yesterday between lows of 99.652 and highs of 100.073 on a DXY basis. Staying above the 100.00 level has proven tough for the currency in recent times and with the record plunge in crude oil prices, there may be some further volatile movement in the near future.

The JPY was largely bearish on the day but not making any significant headwind, currently hovering around the 107.60 area. The Euro remains close to last week's closing price of 1.0875 at 1.0830. Sterling dropped slightly more, currently trading at 1.2405 after closing last week at 1.2499. The AUD and NZD experienced more declines, with the former dropping by over -1% whilst the latter saw a decrease of -0.65%.

Regional currencies have come under pressure due to continued weakness in oil prices. The 12m forward points on SAR jumped to 215 (+50%) and on BHD to 73.50 (+96%).

Equities

Developed market equities closed mixed as late evening collapse in US oil prices weighed on US equities. The S&P 500 index lost -1.8% while the Euro Stoxx 600 index added +0.7%.

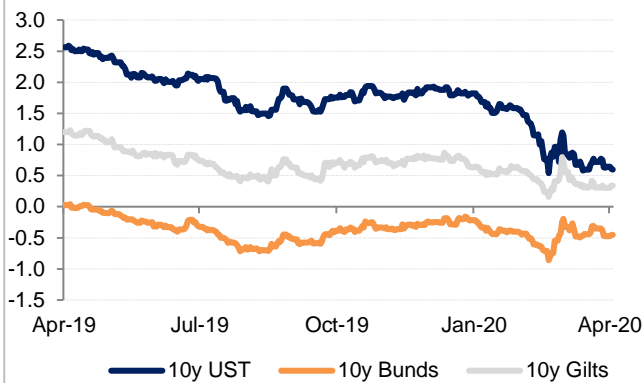
Regional equities closed lower amid weak corporate earnings and continued decline in oil prices. The DFM index and the Tadawul lost -1.4% and -1.2% respectively. Banks and petrochemical stocks led the decline. Sabic lost -3.3% while Al Rajhi Bank and Dubai Islamic Bank dropped -2.1% and -1.2% respectively.

Commodities

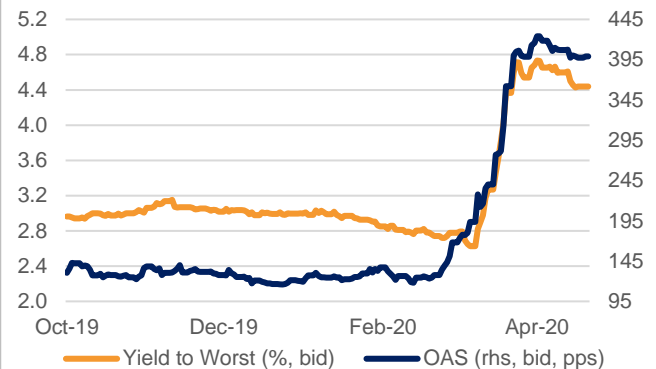
Beyond the headline distortion in WTI markets (see above) commodity markets generally were softer. Brent declined nearly 9% on the day to settle at USD 25.57/b and is trading tentatively higher this morning. Both copper and aluminium were weaker as the market responded to the negative signals coming out of the oil market for industrial demand while gold nudged higher (up 0.8%) but failed to close above USD 1,700/troy oz.

Markets in Charts

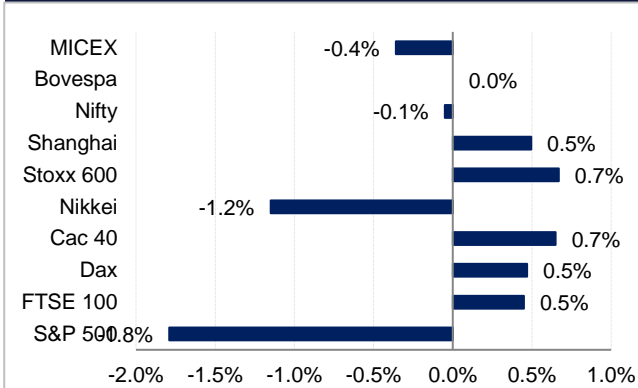
Global Bond Yields



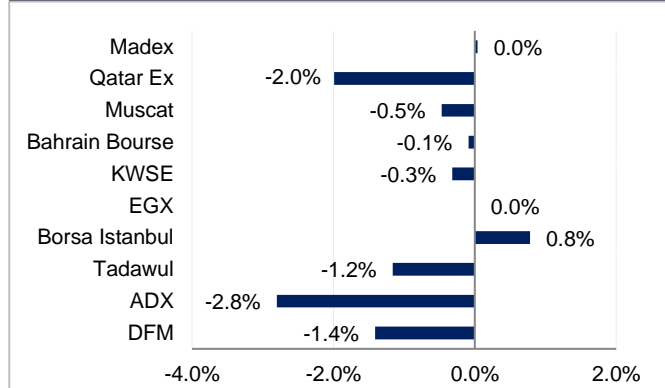
UAE liquid bond index



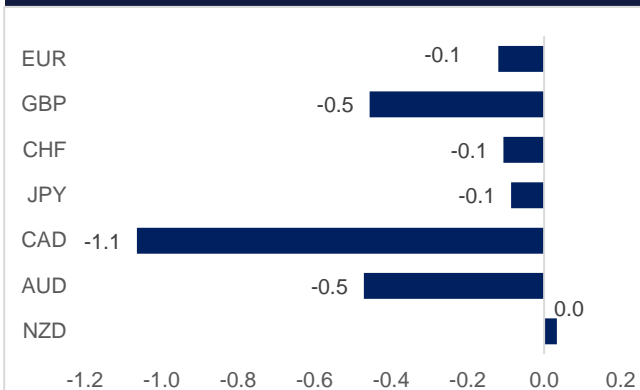
Global Equity Indices



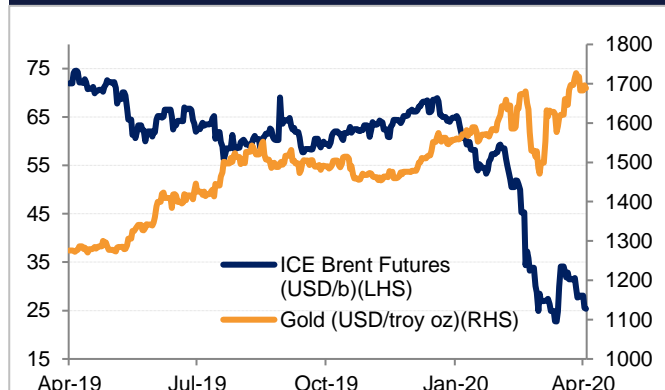
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0862	-0.12	1.0965	USDTRY	6.9403	+0.16	EURAUD	3.9900	-0.13
GBPUSD	1.2442	-0.46	1.2460	USDEGP	15.7487	+0.02	GBPAED	4.5668	-0.55
USDJPY	107.62	+0.07	106.62	USDSAR	3.7520	-0.14	JPYAED	0.0341	-0.08
USDCAD	1.4149	+1.06	1.4117	USDQAR	3.6800	+0.51	CADAED	2.5960	-1.05
AUDUSD	0.6336	-0.47	0.6336	USDKWD	0.3112	-0.19	AUDAED	2.3272	-0.45
USDCHF	0.9680	+0.14	0.9557	USDBHD	0.3779	+0.02	CHFAED	3.7947	-0.12
EURGBP	0.8734	+0.45	0.8804	USDOMR	0.3851	--	TRYAED	0.5300	-0.01
USDAED	3.6731	--	3.6825	USDINR	70.7225	-0.64	INRAED	0.0552	+15.04

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9204	1.5150	1.5798	1.6370	USD 2 yr	0.422	+1
USD LIBOR	0.6674	1.0976	1.0759	0.9821	USD 5 yr	0.461	-2
GBP LIBOR	0.2665	0.6518	0.7204	0.8911	USD 10 yr	0.672	-4
JPY LIBOR	-0.0627	-0.0058	0.0212	0.1132	EUR 2 yr	-0.258	+3
CHF LIBOR	-0.7270	-0.5862	-0.5638	-0.4768	EUR 5 yr	-0.221	+3
					EUR 10 yr	-0.046	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1695.65	+0.76	ADGB 6.75 19	2.42	--	Abu Dhabi	126	-
Silver	15.32	+0.92	DUGB 7.75 20	2.96	+8	Bahrain	462	+4
Oil (WTI)	-37.63	-305.97	QATAR 5.25 20	2.70		Dubai	288	+2
Aluminium	1464.10	-0.37	US Tsy 2 yr	0.20	-0	Oman	699	+5
Copper	5159.25	-0.67	US Tsy 10 yr	0.61	-4	Qatar	128	-
						Saudi Arabia	165	+2

Source: Bloomberg, Emirates NBD Research

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