



Daily Outlook

Trade developments will remain at the forefront this week, especially in regard to escalating US-China trade tensions. However, other destabilizing cross currents are also brewing in Europe and to some extent in the Middle East, keeping risk appetite low and safe havens like the USD underpinned.

On the positive side President Trump at least followed his deferral of a decision on tariffs on EU and Japanese autos with an agreement with Canada and Mexico regarding tariffs on steel and aluminium imposed last year, showing that he does not want to fight trade battles on multiple fronts. **While this is welcome, it also suggests he may be prepared to double-down on China where signs of progress are not much in evidence** after the ratcheting up of tariffs announced in the last fortnight, and the specific targeting of Huawei.

Japan's Q1 GDP data was released this morning and shows that growth was much stronger than expected rising by 0.5% q/q, against expectations for a fall of -0.1%. This puts the annualized growth rate at 2.1%. However, the details of the report were less encouraging, with private consumption falling by -0.1% and business spending declining by -0.3%, with weaker imports being the principal factor behind a rise in net exports.

On the back of exit polls that have just been released in India markets are becoming optimistic that PM Modi will be returned to power when results are formally announced on Thursday. Modi's victory would probably mean continuity of existing policies, which will be welcomed by markets even though the track record of the last few years has not been as impressive from a reform perspective as in the first few years of his tenure.

Egypt has been granted staff-level approval for the completion of the fifth and final review of its IMF programme, begun in late 2016. Upon sign-off by the executive board, USD 2bn will be released, taking the total granted to Egypt over the course of the programme to USD 12bn. The Fund recognised Egypt's achievements in correcting 'significant external and domestic imbalances' and promoting 'inclusive growth and job creation'.

Japan Q1 GDP surprises positively but for wrong reasons



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
Germany PPI	10:00	0.3%	US Chicago Fed Index	16:30	220k

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries gained further last week amid mixed economic data and lack of progress on the US-China trade deal. Although some progress was made over trade deal with other countries, the market participants continued to remain cautious. Yields on the 2y UST, 5y UST and 10y UST ended the week at 2.19% (-7 bps w-o-w), 2.17% (-9 bps w-o-w) and 2.39% (-7 bps w-o-w) respectively.

Regional bonds drifted lower amid worries over fallout of ongoing regional geopolitical tensions. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose 4 bps w-o-w to 3.99% and credit spreads widened 9 bps to 170 bps.

FX

The AUD has rebounded after the weekend election saw the Liberal coalition returned to power against expectations that the Labour party would win. The victory of the Liberal's is likely to be perceived as good for business at a time when there are renewed concerns about the economy with the labour market showing a rise in unemployment in April to 5.2%. The INR is also starting the week stronger following opinion polls showing PM Modi as favourite to win the Indian election.

The USD more generally is strong having risen against most major currencies last week, with the exception of the CHF, which also benefited from safe-haven flows. The heating up of US/China trade rhetoric was the main source of safe-haven demand for the USD, but with tension over regional geopolitics and Brexit in the UK also partly responsible. GBP slid over 2% during the week versus the USD, falling close to 1.27 for the first time since January.

Equities

Developed market equities closed lower across the board on Friday. In the U.S., the S&P500 lost 0.58% while the Nasdaq declined by 1.04%. On the other side of the Atlantic, the results were similar, with the DAX losing 0.58%, Euro Stoxx posting a 0.38% loss. Regional markets had mixed results on Sunday and while the DFM lost 2.21% and the Tadawul fell 1.12%, the ADX was able to climb 0.30%.

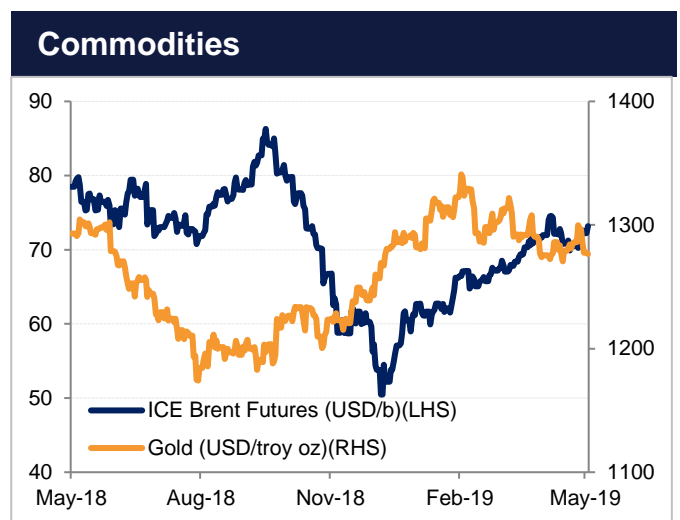
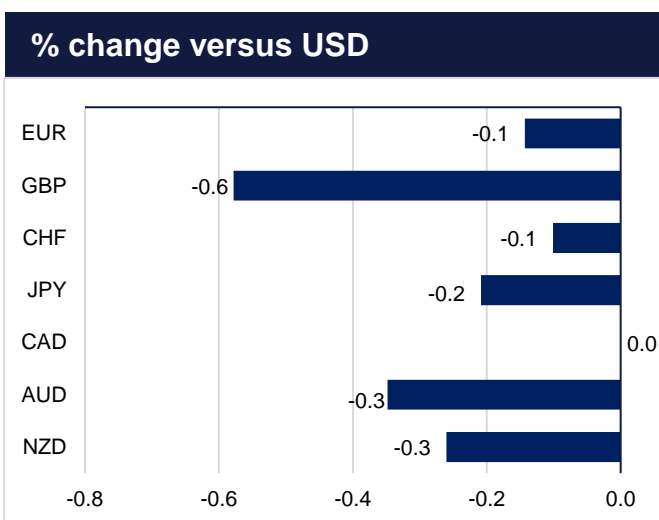
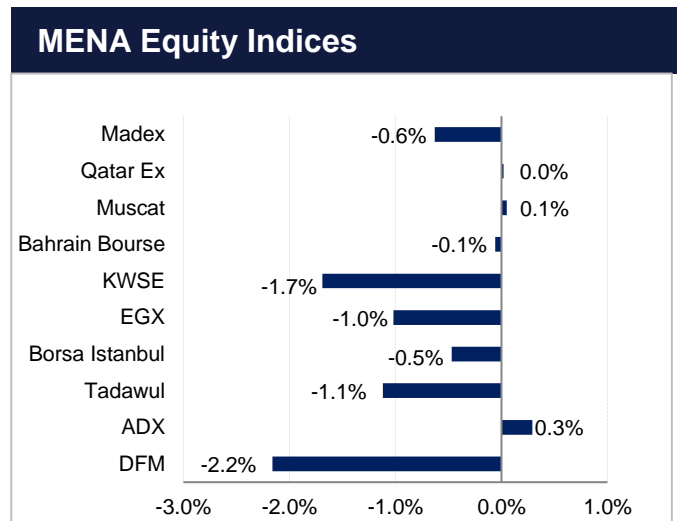
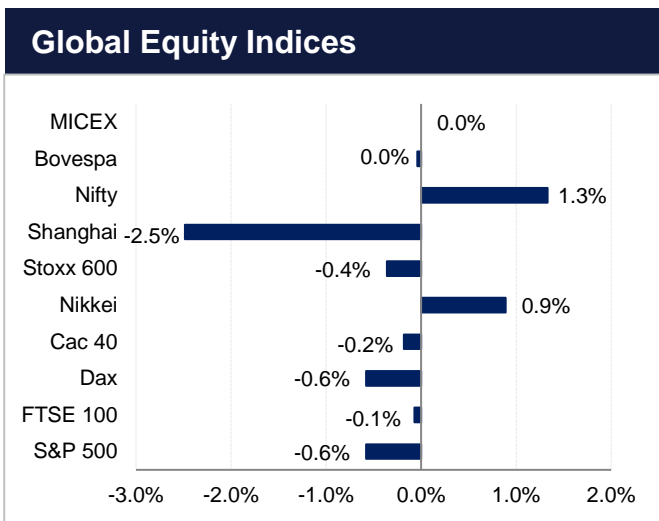
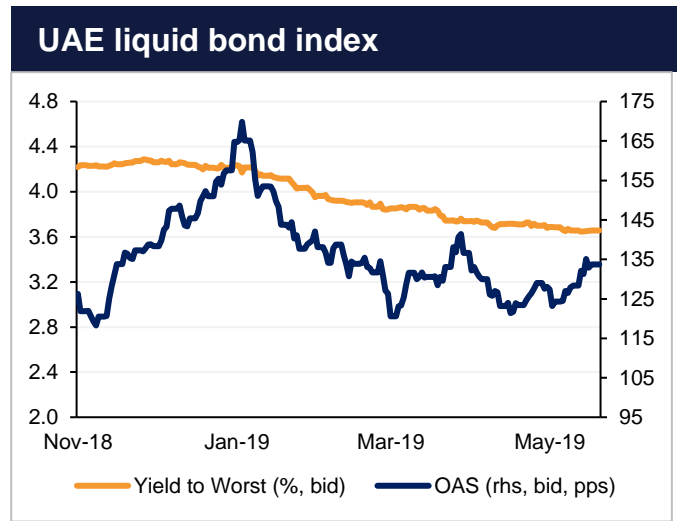
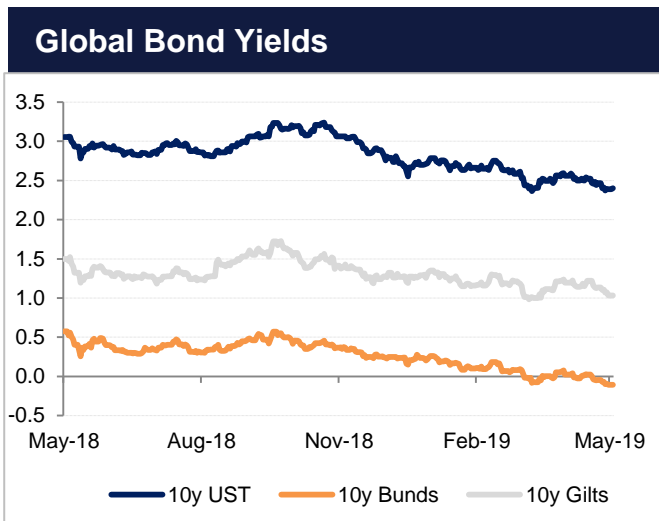
This morning Asian equity markets have opened with mixed results and as we go to print, the Nikkei is trading 0.38% higher, while the Shanghai Composite is down 0.59%.

Commodities

Oil markets snapped several weeks of losses last week as geopolitical tension and still strong compliance with the OPEC+ production cuts pushed prices higher. Brent ended the week up more than 2% at USD 72.21/b while WTI added 1.8% to close at USD 62.76/b. Brent forward curves moved higher, to as wide as USD 1/b on 1-2 month spreads while WTI time spreads remain weighed down by persistent increases in US crude stocks.

OPEC+ held a market monitoring meeting over the weekend in Saudi Arabia to assess whether markets needed an increase in production to compensate declining output from Iran and Venezuela, among other producers. Saudi Arabia's energy minister indicated that he expects cuts to remain in place as inventories in the US are still increasing (up 30m bbl since the start of the year) but that the group will be flexible in meeting demand.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1158	-0.14	1.1491	USDTRY	6.0553	+0.16	EURAED	4.0991	-0.12
GBPUSD	1.2724	-0.58	1.2931	USDEGP	17.0460	+0.03	GBPAED	4.6737	-0.55
USDJPY	110.08	+0.21	107.03	USDSAR	3.7501	--	JPYAED	0.0334	-0.18
USDCAD	1.3458	-0.01	1.3370	USDQAR	3.6800	+0.59	CADAED	2.7283	-0.01
AUDUSD	0.6868	-0.35	0.6932	USDKWD	0.3043	+0.01	AUDAED	2.5225	-0.36
USDCHF	1.0110	+0.10	0.9780	USDBHD	0.3770	--	CHFAED	3.6331	-0.09
EURGBP	0.8773	+0.46	0.8890	USDOMR	0.3850	--	TRYAED	0.6100	+0.40
USDAED	3.6730	--	3.6766	USDINR	70.7225	-0.64	INRAED	0.0552	+5.54

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.5214	2.7338	2.9238	3.0425	USD 2 yr	2.261	--
USD LIBOR	2.4419	2.5219	2.5538	2.6354	USD 5 yr	2.187	--
GBP LIBOR	0.7309	0.8038	0.9065	1.0439	USD 10 yr	2.345	--
JPY LIBOR	-0.1050	-0.0775	-0.0005	0.0890	EUR 2 yr	-0.245	-1
CHF LIBOR	-0.7944	-0.7116	-0.6560	-0.5196	EUR 5 yr	-0.034	-1
					EUR 10 yr	0.424	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1277.53	-0.71	ADGB 6.75 19	2.42	--	Abu Dhabi	60	+2
Silver	14.41	-1.02	DUGB 7.75 20	2.94	+1	Bahrain	288	+3
Oil (WTI)	62.76	-0.17	QATAR 5.25 20	2.70		Dubai	140	+2
Aluminium	1807.00	-1.30	US Tsy 2 yr	2.20	+1	Oman	310	--
Copper	6033.00	-0.63	US Tsy 10 yr	2.39	--	Qatar	70	+2
						Saudi Arabia	93	+3

Source: Bloomberg, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com