



Daily Outlook

The markets remain sensitive to the reverberations from the US sanctions being taken against Chinese telecoms firm Huawei with China threatening 'a necessary response' and accusing the US of trying to topple the company. US firms that manufacture in China are also complaining about the impact of tariffs on their businesses, maintaining a climate of uncertainty about how the stand-off will end. At the moment it does not feel like there will be a short term binary outcome with an obvious winner and a loser, but rather it seems that the dispute could play out over the long term, becoming a process or framework in which compliance and enforcement are continually monitored.

Overnight saw comments from a number of prominent Fed officials, with some seemingly inching towards voting for a cut in interest rates, while others were more agnostic about whether the next rate move will be up or down. Chairman Powell for his part focused his remarks on the high risk corporate loan market which he said resembled the mortgage industry before the subprime crisis, while also saying that regulators are vigilant and the financial system is in better shape than before.

Europe is also in focus with EU elections taking place on Thursday amidst a rise in support for populist parties, threatening the status quo in Brussels. Political instability in Austria over the weekend (where a sudden election has been called) adds to this backdrop of uncertainty, but Brexit also remains a negative force that could extend well into the second half of the year. Talks between the UK's ruling Conservative party and the opposition Labour party on the issue have broken down, reigniting concerns about a possible 'no deal' Brexit, with the issue likely to play out corrosively through the summer. PM May is seeking to bring her deal back to the Commons for another vote, but the chances of it succeeding do not look good. The longer time goes by the more polarized the issue is becoming, favouring those advocating the extremes of leaving without a deal or staying in the EU. However, the stronger the Brexit party performs this week, and with the likelihood that May's successor will be a Brexiteer, **the momentum is shifting towards an eventual no deal Brexit, which is why GBP remains under pressure.**

GBP back under pressure on Brexit worries



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone Cons. Confidence	18:00	-7.7	US Exist. Home Sales	18:00	5.35m

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries drifted lower in a market defined by lack of catalysts. The curve bear steepened with yields on the 2y UST, 5y UST and 10y UST closing at 2.22% (+3 bps), 2.20% (+3 bps) and 2.41% (+2 bps) respectively.

Regional bonds continued to remain under pressure. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose 1 bp to 4.0% and credit spreads remained flat at 170 bps.

In terms of primary market pipeline, it was reported that Oman has hired banks for a bond offering.

FX

A rise in consumer confidence in May was unable to prevent the AUD from falling in the aftermath of the release of the RBA minutes from meeting. The minutes had a clear bias towards further easing of monetary policy, however such the market has raised expectations of a rate cut to a new record low of 1.25% in 2019 following comments from RBA Governor Lowe. Lowe stated that that a lower cash rate would be supportive of employment growth and that the most recent data showed the labour market was unlikely to improve. As it stands, the OIS has priced in a 70.1% chance of a rate cut at the June meeting. As we go to print, AUDUSD is trading 0.39% lower at 0.68809, on target for a seventh day of declines with the risk of testing the 0% five-year Fibonacci retracement of 0.6741 in the medium term.

Equities

Developed market equities closed lower amid continued worries over the trade deal between the US and China. The US decision to bank Huawei also weighed on technology shares. The S&P 500 index dropped -0.7% and the Euro Stoxx 600 index declined -1.1%.

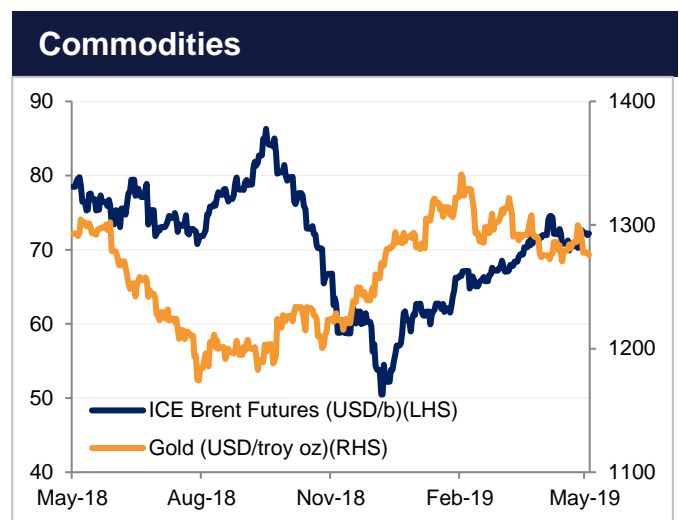
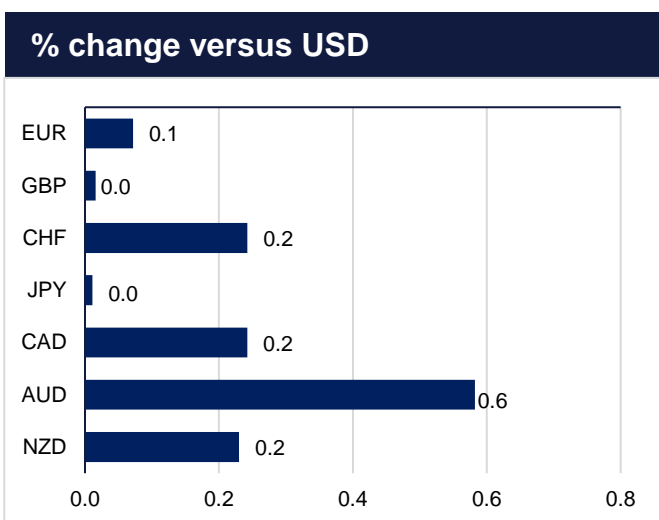
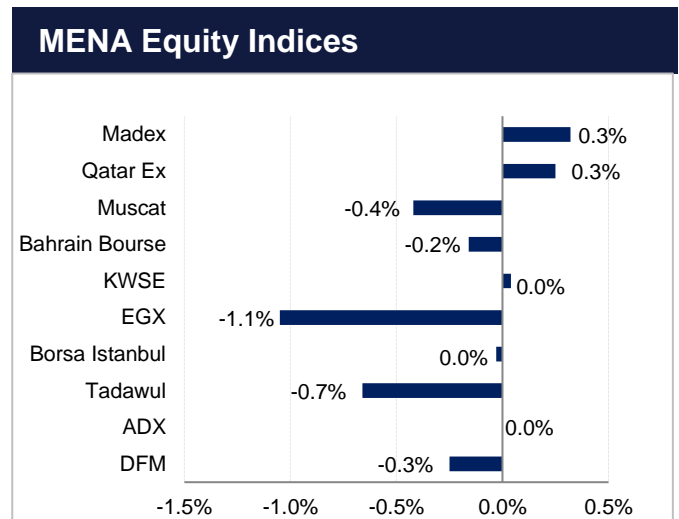
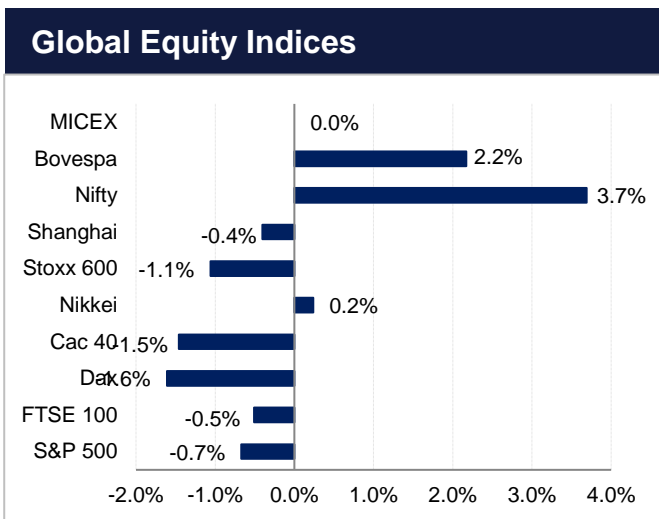
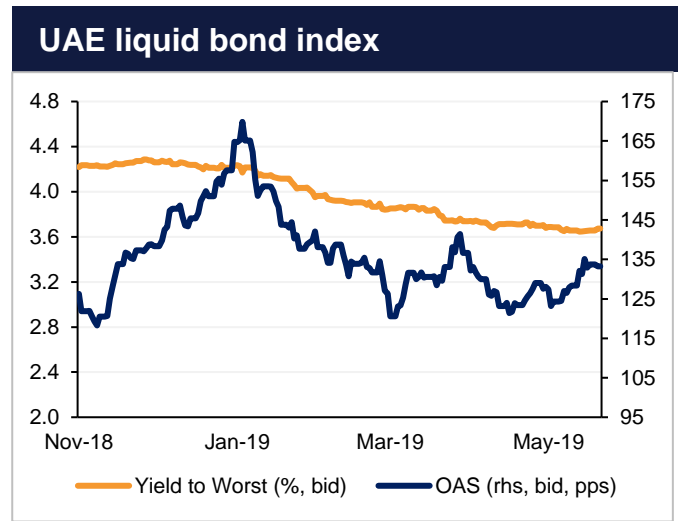
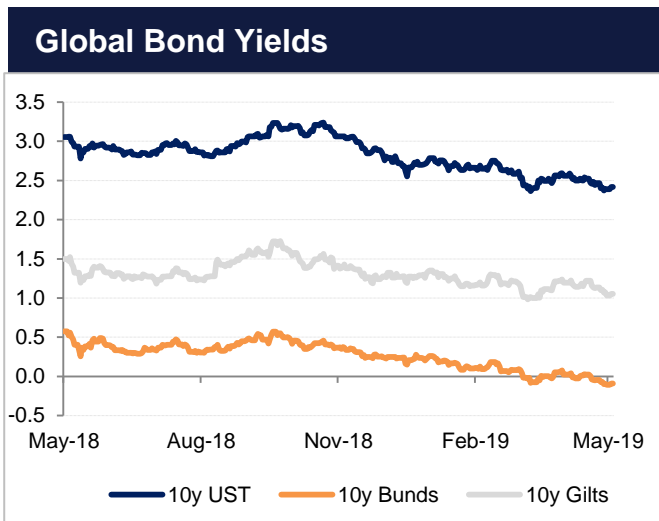
Regional markets, largely, closed lower. The Qatar Exchange was a notable exception with gains of +0.3%. The DFM was led lower by weakness in Emaar Malls and Emaar Development. Elsewhere, the MSCI confirmed that a decision on including Kuwaiti stocks in its indices will be taken in last week of June.

Commodities

Oil markets drifted at the start of the week as a bullish start to the day on news that OPEC+ would maintain cuts into H2 2019 was unwound by a risk off tone to most other markets. Brent futures settled down 0.3% while WTI managed to gain around 0.5%. Oil remains bound by supportive factors of the OPEC+ cuts and increased geopolitical tension while escalating trade war rhetoric is putting a cap on any rallies.

Forward curves in the Brent market dipped as well with the 1-2 month spread narrowing to a backwardation of USD 0.81/b yesterday from closer to USD 1/b at the end of last week. WTI remains in contango for the same spread, at USD 0.11/b.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1166	+0.07	1.1501	USDTRY	6.0262	-0.48	EURAED	4.1014	+0.06
GBPUSD	1.2726	+0.02	1.2933	USDEGP	17.0200	-0.15	GBPAED	4.6740	+0.01
USDJPY	110.06	-0.02	107.00	USDSAR	3.7502	+0.00	JPYAED	0.0334	-0.01
USDCAD	1.3429	-0.22	1.3339	USDQAR	3.6800	+0.58	CADAED	2.7353	+0.26
AUDUSD	0.6908	+0.58	0.6970	USDKWD	0.3043	+0.01	AUDAED	2.5374	+0.59
USDCHF	1.0086	-0.24	0.9757	USDBHD	0.3770	+0.00	CHFAED	3.6416	+0.23
EURGBP	0.8776	+0.04	0.8894	USDOMR	0.3848	-0.06	TRYAED	0.6100	+0.56
USDAED	3.6730	--	3.6766	USDINR	70.7225	-0.64	INRAED	0.0552	+5.81

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.5339	2.7550	3.0031	3.1158	USD 2 yr	2.281	+2
USD LIBOR	2.4419	2.5219	2.5538	2.6354	USD 5 yr	2.214	+3
GBP LIBOR	0.7309	0.8038	0.9065	1.0439	USD 10 yr	2.369	+2
JPY LIBOR	-0.1050	-0.0775	-0.0005	0.0890	EUR 2 yr	-0.245	--
CHF LIBOR	-0.7944	-0.7116	-0.6560	-0.5196	EUR 5 yr	-0.028	+1
					EUR 10 yr	0.442	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1277.82	+0.02	ADGB 6.75 19	2.42	--	Abu Dhabi	62	+2
Silver	14.47	+0.40	DUGB 7.75 20	2.90	-4	Bahrain	288	--
Oil (WTI)	63.10	+0.54	QATAR 5.25 20	2.70	--	Dubai	141	+1
Aluminium	1765.50	-2.30	US Tsy 2 yr	2.22	+2	Oman	310	--
Copper	6003.75	-0.48	US Tsy 10 yr	2.42	+2	Qatar	69	-1
						Saudi Arabia	93	--

Source: Bloomberg, Emirates NBD Research

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