بنك الإمارات دبي الوطني
Emirates NBD

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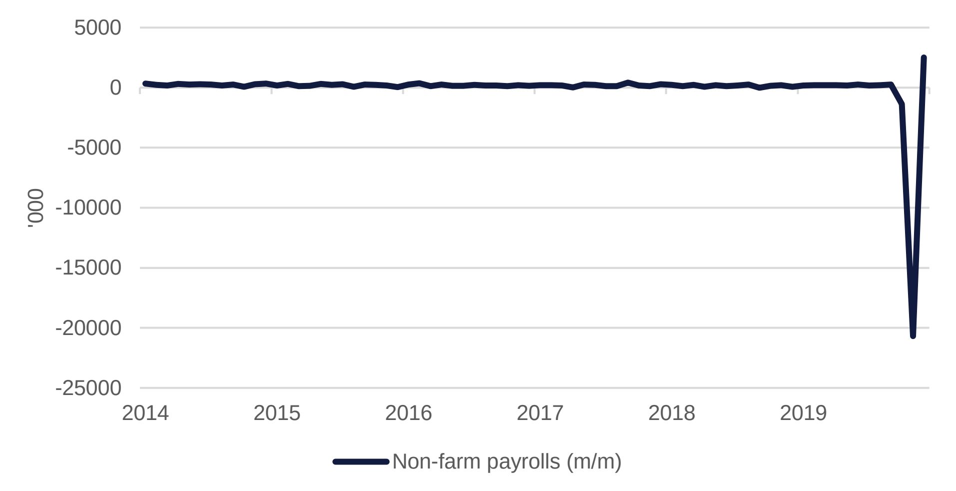
Daily Outlook

The US non-farm payrolls data released at the end of last week defied forecasts in all sense as it showed 2.5mn jobs were added compared to consensus estimates of a decline of 7.5mn. The unemployment rate improved to 13.3%. The growth was driven by sectors that were among the hardest hit like restaurants, retail and healthcare. Clearly, the decision of states in the US to ease economic restrictions and government program of paycheck protection has helped. Another data point which perhaps explains the surprise is that the share of the unemployed on furlough fell to 73% from 78.3%. Interestingly, a similar trend was seen in Canadian employment data which also showed an increase contrary to expectations of a decline. While the data is certainly promising, one needs to look at it in context. The unemployment rate remains higher than any other time since the 1940s and that nearly 21mn people remain unemployed.

In a widely expected move, OPEC+ agreed to extend the current reduction in output by another one month to at least the end of July. More importantly, they decided to adopt a stricter approach to ensuring members comply with their quotas. The statement made it a point to mention that any member that does not implement 100% of its production cuts in May and June will have to make extra reductions from July to September. It must be remembered that the original agreement in April had laid out a cascading scaling up of production with output increasing by 1.8m b/d from July and hold at that level for the rest of 2020.

On Friday, the IMF announced that it had reached a staff-level agreement on a new 12-month Stand-By Arrangement for Egypt to the tune of USD 5.2bn, hot on the heels of the USD 2.8bn Rapid Financing Instrument settled last month. According to the Fund's statement, the new deal will support 'the authorities' efforts to maintain macroeconomic stability amid the COVID-19 shock while continuing to advance key structural reforms.' Aside from the boost to finances, this new deal will provide, helping to soften the blow of the coronavirus shock, it will also be a policy anchor, keeping Egypt on its reform path, and helping to convince other bilateral, multilateral and private investors that it remains committed to this progress. While the details of Egypt's reform commitments related to this new deal are yet to be clarified, a touted focus on the private sector could help boost SMEs in the country, providing crucial job creation.

US jobs data confound expectations



Source:Institute for Supply Management, Emirates NBD Research.

Today's Economic Data and Events

GE Industrial Production y/y	10:00	-24.8%	CA Housing Starts	16:15	160k
EZ Sentix Investor Confidence	12:30	-22.0			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed sharply lower last week as better than expected economic data provided a filip to risk assets. The surprise turnaround in US jobs data was the most notable positive catalyst. The curve steepened with yields on the 2y UST and 10y UST ending the week at 0.20% (+4 bps w-o-w) and 0.89% (+24 bps w-o-w) respectively.

The sharp rebound in financial markets and signs of recovery in economic data makes the Federal Reserve meeting later this week an important event. While no major change is expected in policy direction, the tone of the Fed Chairman comments will be keenly watched.

Regional bonds benefitted from sustained revival in risk sentiment. They were also helped by continued rebound in oil prices. The YTW on Bloomberg Barclays GCC Credit and High Yield index dropped -19 bps w-o-w to 3.31% and credit spreads eased 37 bps w-o-w to 251 bps.

FX

Last week saw the dollar decline significantly, briefly dropping to as low as 96.442 but met support here and finished the week at 96.952. The DXY index, a measure of the dollar against some select major currencies, dropped as much as -1.42% after a modest rebound on Friday evening following an unexpected increase in US Non-Farm Payrolls. USDJPY increased by over 1.63% for the week. The currency pairing looked to test the 110 area but met resistance at 109.85 to finish at 109.59. well above the 200-day moving average (108.42).

The Euro continued its positive form last week, at one point reaching its longest rally since 2011. The currency reached highs of 1.1384 following the dollar's weakness, meeting resistance here and then declining to 1.1292, marking an increase of 1.71%. Sterling experienced big gains last week, advancing by 2.63% to finish the week at 1.2668, despite a lack of progress in Brexit talks. The AUD had tremendous gains for the week, briefly breaching the 0.7000 mark, but finished the week at 0.6969, an increase of 4.52%. The NZD was similarly positive, increasing by 4.87% to finish at 0.6507.

Equities

Regional markets started the new week strongly amid a positive global backdrop. The DFM index (+4.6%) led the rally with its biggest single-day gain since early April 2020. Egyptian equities were another notable gainer as the country reached a staff-level agreement with the IMF for a 1-year USD 5.2bn standby loan.

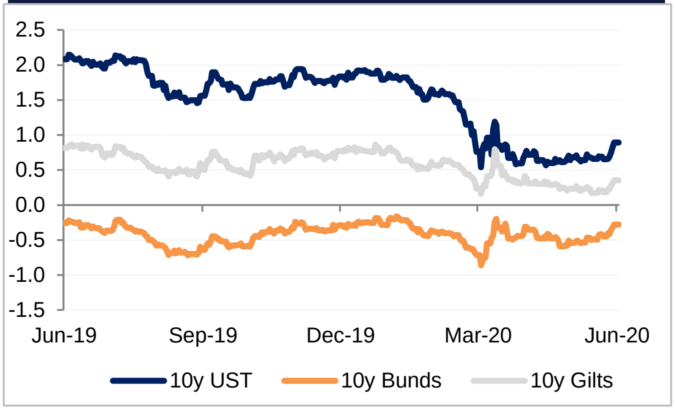
Commodities

OPEC and its allies agreed to extend their deeper level of production cuts by an additional month, keeping output restrained by 9.6m b/d from baseline levels until at least the end of July. According to the terms of the OPEC+ agreement reached in April, production would have increased by 1.8m b/d from July and hold at that level for the rest of 2020. But spurred on by the tremendous gains in oil prices over the past two months, OPEC+ countries likely saw the benefit of holding production lower for longer—even if for just an additional month.

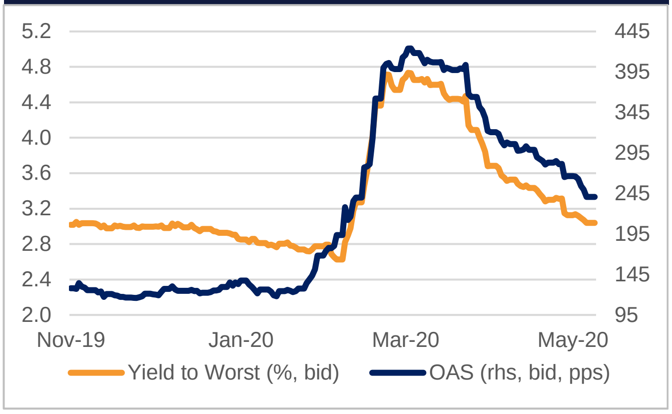
The OPEC+ cuts have been a big part in helping oil prices recover in the last two months. Brent futures settled at USD 42.30/b last week, up nearly 20%, while WTI was up by 11% to close at USD 39.55/b. This weekend’s deal will also help to keep a bid under oil prices in the near term as will a broad rally in risk assets.

Markets in Charts

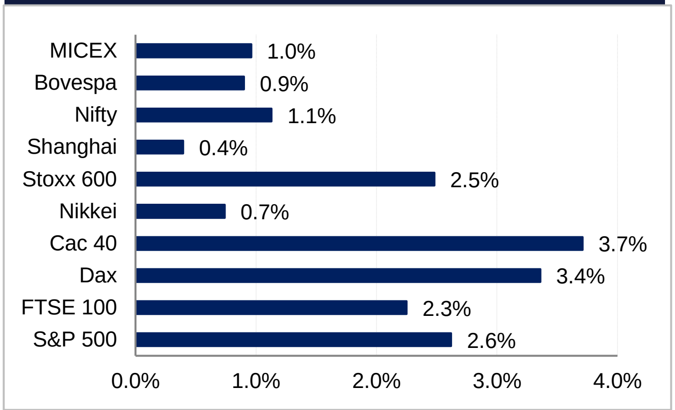
Global Bond Yields



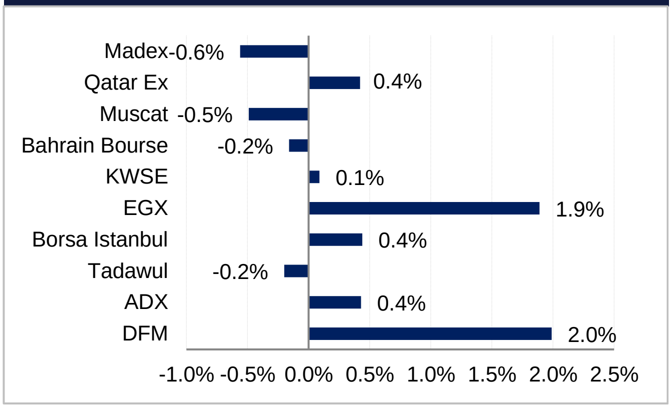
UAE liquid bond index



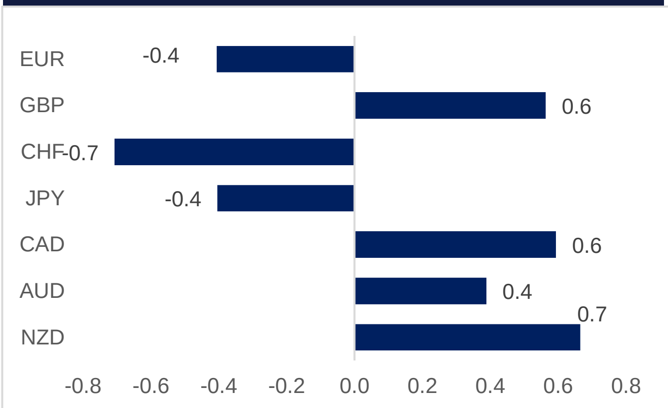
Global Equity Indices



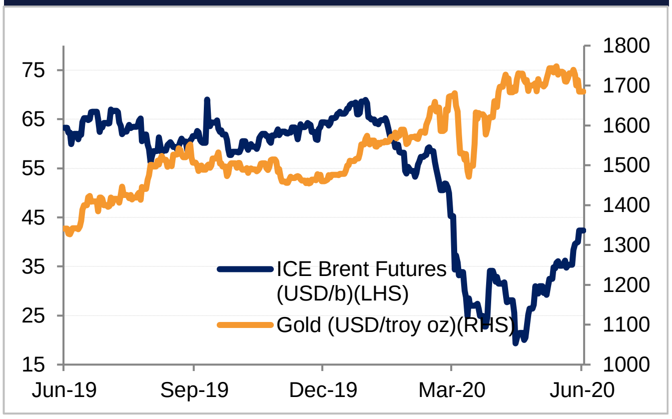
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1292	-0.41	1.1390	USDTRY	6.7700	+0.25	EURAED	4.1473	-0.40
GBPUSD	1.2668	+0.56	1.2689	USDEGP	16.2320	+0.24	GBPAED	4.6529	+0.57
USDJPY	109.59	+0.40	108.80	USDSAR	3.7545	-0.00	JPYAED	0.0335	-0.40
USDCAD	1.3422	-0.58	1.3425	USDQAR	3.6800	+0.22	CADAED	2.7365	+0.58
AUDUSD	0.6969	+0.39	0.6964	USDKWD	0.3078	-0.12	AUDAED	2.5600	+0.38
USDCHF	0.9623	+0.71	0.9512	USDBHD	0.3772	+0.01	CHFAED	3.8167	-0.71
EURGBP	0.8913	-0.97	0.8976	USDOMR	0.3850	+0.01	TRYAED	0.5400	-0.71
USDAED	3.6729	-0.00	3.6808	USDINR	75.5788	+0.01	INRAED	0.0552	+13.49

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.4543	0.7450	0.8900	1.1148	USD 2 yr	0.296	+2
USD LIBOR	0.1801	0.3129	0.4813	0.6340	USD 5 yr	0.509	+6
GBP LIBOR	0.0923	0.2189	0.3805	0.5658	USD 10 yr	0.881	+6
JPY LIBOR	-0.0933	-0.0472	-0.0030	0.1112	EUR 2 yr	-0.301	-0
CHF LIBOR	-0.7728	-0.6640	-0.5860	-0.4548	EUR 5 yr	-0.237	+1
					EUR 10 yr	-0.011	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1685.06	-1.69	ADGB 2.50 25	1.66	+2	Abu Dhabi	79	-4
Silver	17.42	-1.67	DUGB 3.89 25	1.92	+1	Bahrain	403	-7
Oil (WTI)	39.55	+5.72	QATAR 3.4 25	1.84	--	Dubai	192	-6
Aluminium	1566.10	+1.35	US Tsy 2 yr	0.21	+1	Oman	596	-
Copper	5669.35	+2.85	US Tsy 10 yr	0.90	+7	Qatar	82	-4
						Saudi Arabia	119	-8

Source: Bloomberg, Emirates NBD Research

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