



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

US CPI and core CPI (which excludes volatile food and energy prices) both rose 0.1% m/m in May. While the headline m/m reading was in line with market forecasts, the rise in core inflation was softer than expected. Earlier this year, Fed Chairman Powell had suggested that the weakness in inflation was "transient", but the latest reading suggests that this may not be the case. The market is now pricing in a higher probability of a rate cut in the next couple of months.

India's CPI for May came in at 3.05% y/y, higher than previous month's reading of 2.99%. The increase was primarily driven by food prices which increased 1.08% m/m. Core inflation continues to moderate as it declined to a 19-month low of 4.2% y/y. Despite the pickup, inflation continues to remain well below RBI's median target of 4.0%. In another data point released yesterday, India's industrial production in April rose to a six-month high of 3.4% y/y. The recovery was broad based with all segment showing improvement. Overall, both these data points does little to change our view that the RBI would reduce rates further this year.

The Turkish Central Bank kept its benchmark one-week repo rate on hold at 24.00% at its MPC meeting yesterday, in line with consensus expectations. This was despite the lira having strengthened over the two weeks prior to the meeting, which had led to some speculation that the bank might make a potentially premature cut. The bank's communiqué said that rates were being held in order to 'contain the risks to the pricing behaviour and to reinforce the disinflation process.'

Headline US CPI inflation in line with forecasts



Source Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
Japan Tertiary Industry Index (MoM)	08:30	0.4%	German CPI (MoM) May (F)	10:00	0.2%
German CPI May (YoY) May (F)	10:00	1.4%	US Initial Jobless Claims	16:30	215k

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries rallied as inflation data in the US came in weaker than expected. The data led further credence to market's view about rate cuts. Yields on the 2y UST, 5y UST and 10y UST closed at 1.87% (-5 bps), 1.87% (-4 bps), 2.12% (-2 bps) respectively. Regional bonds continued to remain in a tight range. The YTW on Bloomberg Barclays GCC Credit and High Yield index dropped -1 bp to 3.72% while credit spreads widened 1 bp to 170 bps.

FX

The dollar traded firmer on Wednesday, despite weaker than expected inflation data. Compared with expectations for a 1.9% increase in consumer prices, headline CPI increased by 1.8% y/y in May, down from 2.0% y/y the previous month. During the same period, core CPI slowed from 2.1% y/y to 2.0% y/y. Over the course of the day, the Dollar Index rose by 0.32% to close at 97.000. However despite these gains and finding support earlier in the week at the 200-day moving average (96.567), the price remains below the 100-day moving average (97.026) as well as the 76.4% one-year Fibonacci retracement of 97.149. While the price remains below these levels, the index is vulnerable to further declines.

Equities

Developed market equities closed lower as investors remain cautious ahead of the Fed meeting next week. The S&P 500 index and the Euro Stoxx 50 index dropped -0.2% and -0.4% respectively.

Regional markets traded mixed. The Tadawul continued its positive run with gains of +1.1%. Gains were led by banking and retailing stocks. NCB and Jarir added +2.7% and +2.9% respectively.

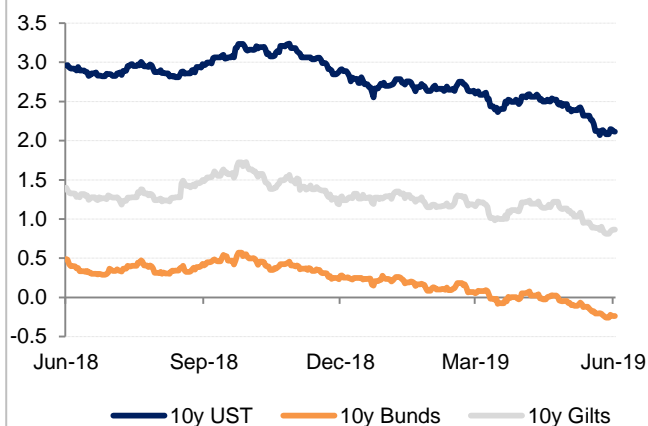
Commodities

Oil markets faced another crushing blow overnight in the form of rising US inventories. Brent futures fell more than 3.7% and have pushed below USD 60/b while WTI dipped 4% and are now trading at USD 51/b. Despite a relatively modest weekly gain in stocks (2.2m bbl), the build reported by the EIA has compounded the pressure on crude spot prices. Build in stockpiles across much of the rest of the barrel didn't help either. Total US crude stocks have risen more than 44m bbl since the start of the year, keeping the front of the WTI curve in persistent contango.

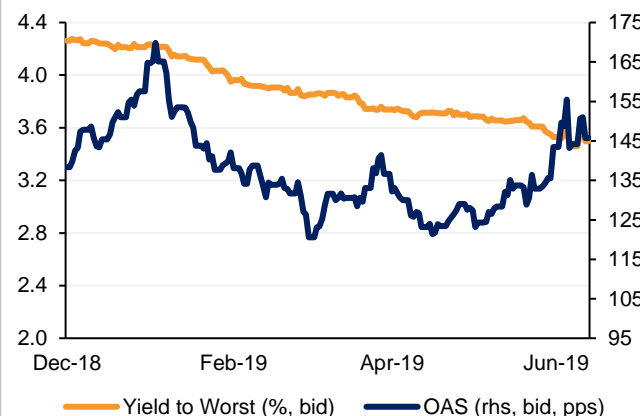
OPEC+ has still not been able to set a date for its next meeting, which sends a worrying signal that the bloc will actually achieve any consensus on production cuts. Algeria has mooted a larger production cut than the 1.2m b/d currently in place but we don't expect this to find much support from producers like Russia who are already ambivalent about the effectiveness of the cut.

Markets in Charts

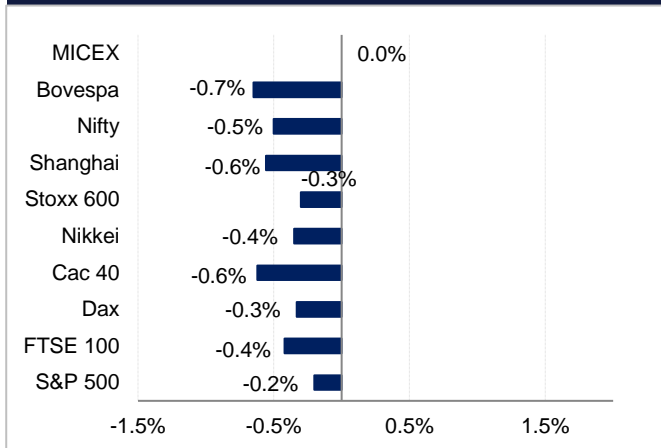
Global Bond Yields



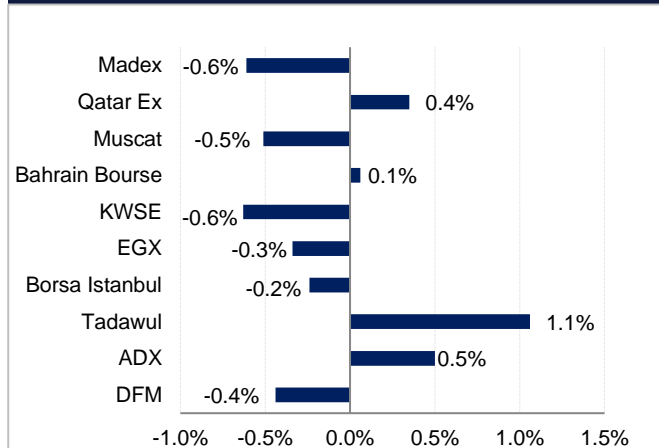
UAE liquid bond index



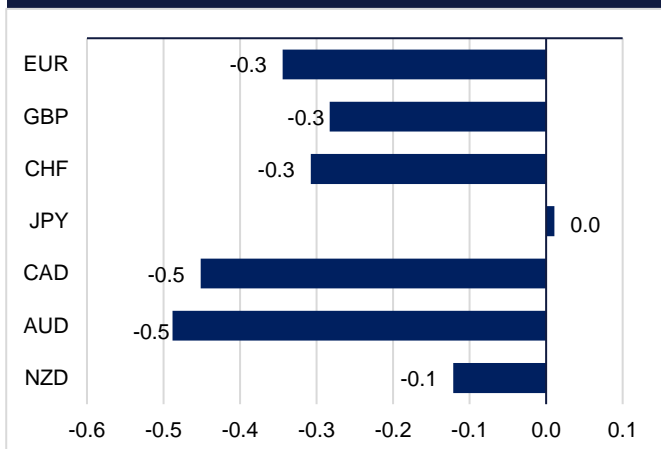
Global Equity Indices



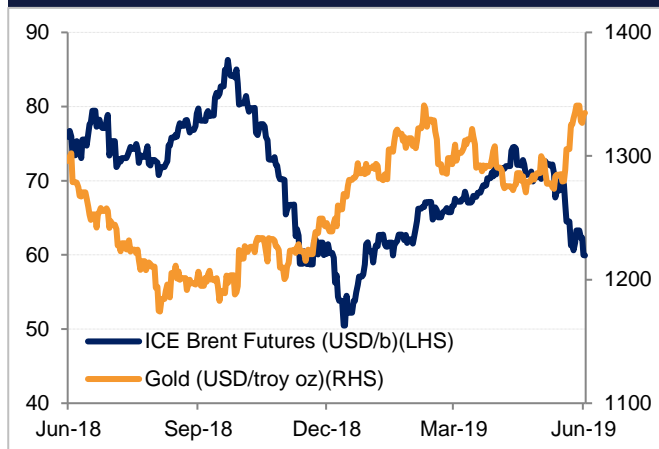
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1287	-0.34	1.1593	USDTRY	5.8086	+0.19	EURAUD	4.1468	-0.32
GBPUSD	1.2689	-0.28	1.2857	USDEGP	16.7365	-0.08	GBPAED	4.6605	-0.28
USDJPY	108.50	-0.02	105.77	USDSAR	3.7503	--	JPYAED	0.0338	+0.01
USDCAD	1.3343	+0.44	1.3281	USDQAR	3.6800	+1.06	CADAED	2.7526	-0.44
AUDUSD	0.6928	-0.49	0.6982	USDKWD	0.3034	-0.03	AUDAED	2.5447	-0.48
USDCHF	0.9955	+0.31	0.9655	USDBHD	0.3770	--	CHFAED	3.6894	-0.33
EURGBP	0.8896	-0.06	0.9017	USDOMR	0.3850	--	TRYAED	0.6300	-0.56
USDAED	3.6730	--	3.6765	USDINR	70.7225	-0.64	INRAED	0.0552	+4.35

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.4875	2.6838	2.9294	2.9456	USD 2 yr	1.927	-6
USD LIBOR	2.4106	2.4495	2.3520	2.3433	USD 5 yr	1.878	-5
GBP LIBOR	0.7248	0.7880	0.8700	0.9865	USD 10 yr	2.081	-3
JPY LIBOR	-0.1153	-0.0668	-0.0035	0.0688	EUR 2 yr	-0.311	-1
CHF LIBOR	-0.8004	-0.7084	-0.6636	-0.5380	EUR 5 yr	-0.155	-1
					EUR 10 yr	0.276	+0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1333.58	+0.51	ADGB 6.75 19	2.42	--	Abu Dhabi	60	-1
Silver	14.78	+0.22	DUGB 7.75 20	2.55	-1	Bahrain	292	--
Oil (WTI)	51.14	-4.00	QATAR 5.25 20	2.70		Dubai	140	-1
Aluminium	1759.50	+0.64	US Tsy 2 yr	1.88	-5	Oman	310	--
Copper	5823.00	-0.59	US Tsy 10 yr	2.12	-2	Qatar	64	--
						Saudi Arabia	85	1

Source: Bloomberg, Emirates NBD Research

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