



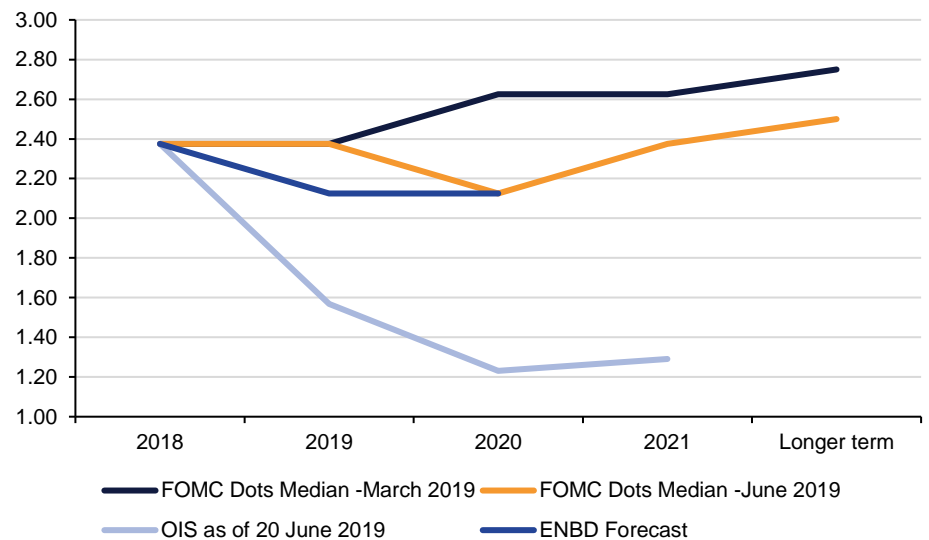
Daily Outlook

The main take-away from the U.S. FOMC meeting last night is the slightly more dovish stance but with little further clarity about the timing of any interest rate cut. The FOMC left rates unchanged in a range of 2.25%-2.50%, as expected, but it dropped the characterization of the policy stance as 'patient' in favor of noting that "uncertainties about this outlook have increased." The statement also included a comment that the Committee will 'closely monitor' incoming information and will 'act as appropriate to sustain the expansion'. There was also a downgrade to the inflation profile, which is no longer seen as 'transitory', but its overall characterisation of the growth outlook was solid.

The median dot plot showed no change in rates this year, but there was a split with quite a variety of views portrayed by the dots, with eight FOMC members forecasting no change, one looking for a tightening, one calling for a 25 bp easing, and seven members forecasting two cuts. Going forward, while the 2020 median dots did shift to showing one cut next year, versus the prior hike, it is seen to be reversed in 2021. There was also a dissent from the decision with one member calling for an immediate cut. So overall while the Fed is now leaning towards interest rate cuts, the tone of the message was quite measured and the modest downward revisions to the interest rate projections may be a disappointment to markets expecting more. Clearly, much will still depend on the data, and perhaps more importantly on the outcome of the U.S. China trade talks.

Meanwhile the BOJ this morning ended its two-day meeting and maintained the 10-year JGB yield target at about zero percent. It also kept the policy balance rate at -0.1%. UK CPI inflation slowed to 2.0% y/y in May from 2.1% y/y in April matching the consensus, with core inflation slowing from 1.8% y/y to 1.7% y/y. Markets will turn their attention towards the Bank of England this afternoon to assess whether the policy statement matches the more recent hawkish tone of policy makers.

Fed DOT plot revised



Source Bloomberg, Emirates NBD Research

Today's Economic Data and Events

| | Time | Cons | | Time | Cons |
|--------------------------|-------|-------|------------------|-------|-------|
| Japan Activity Index m/m | 09:30 | 0.7% | B of E Bank Rate | 15:00 | 0.75% |
| Retail Sales m/m | 12:30 | -0.5% | Leading Index | 18:00 | 0.1% |

Source: Bloomberg, Emirates NBD Research.

Fixed Income

The slightly more dovish tone put forward by the FOMC yesterday saw the yield on UST 10yr dip below 2.0% for the first time since November 2016, to 1.98%. Yields on UST 2yr also dipped, to an 18-month low of 1.71%. In the UK, 10yr gilts added 6.0bps to 0.86%, while 10yr bunds gained 3.2bps to -0.29%.

FX

The dollar declined on Wednesday following dovish communication from policy makers at the Federal Reserve. Over the course of the day the Dollar Index fell by 0.54% to close at 97.117. This morning, the index has fallen a further 0.24% and is currently trading at 96.885. This move has taken the price below the supportive 100-day moving average (97.112) which was able to halt losses on Wednesday and is technically bearish for the price. A daily close below this level exposes the index towards a further decline towards the 200-day moving average (96.626).

Equities

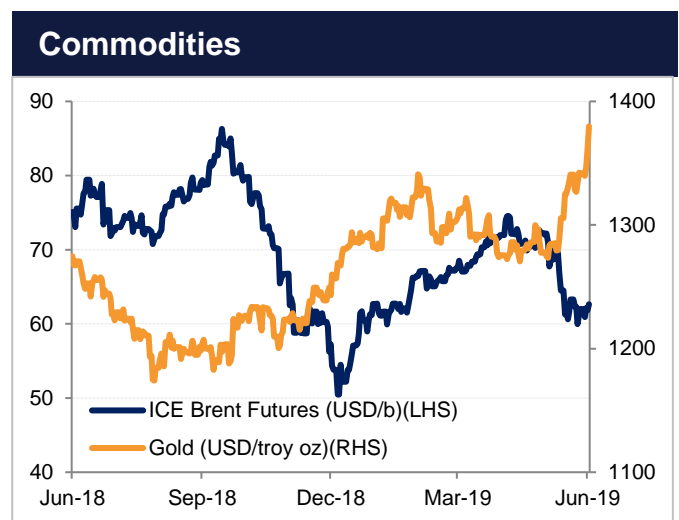
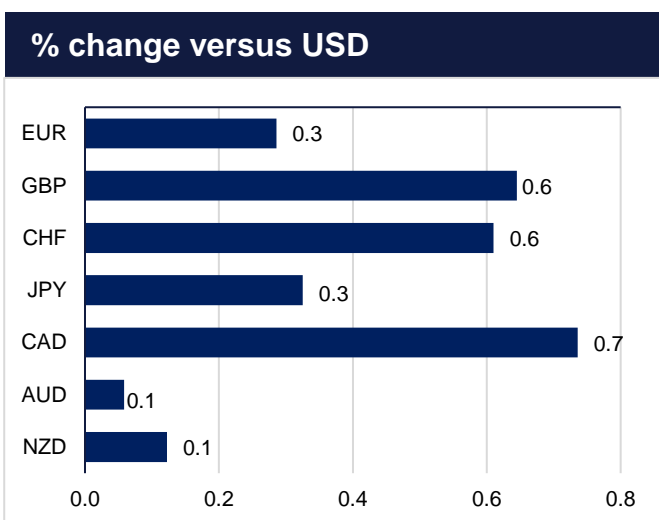
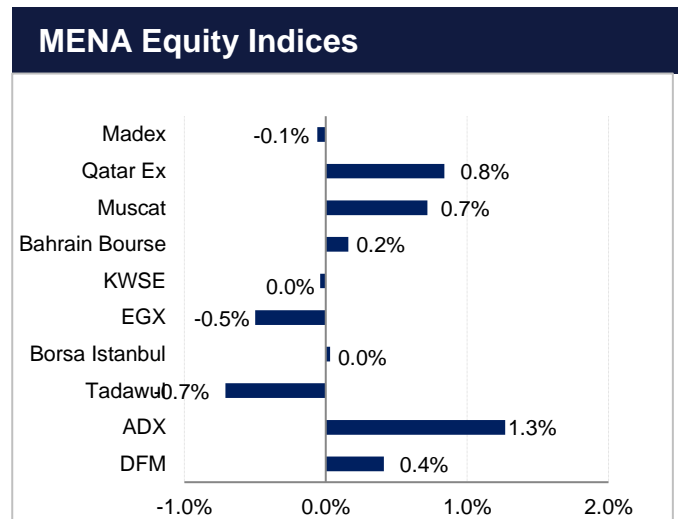
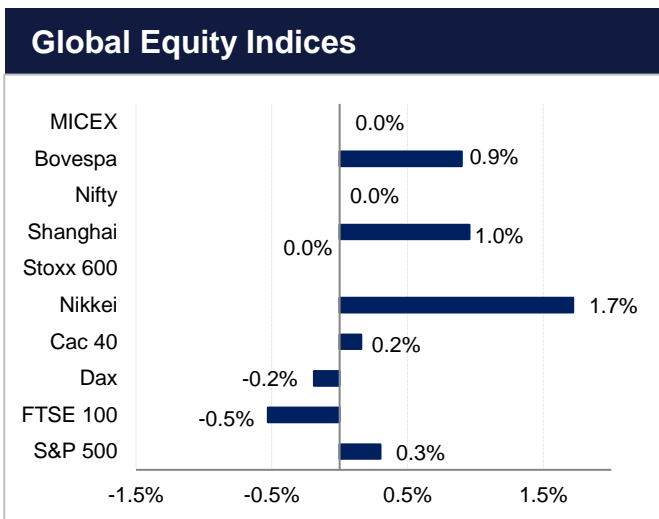
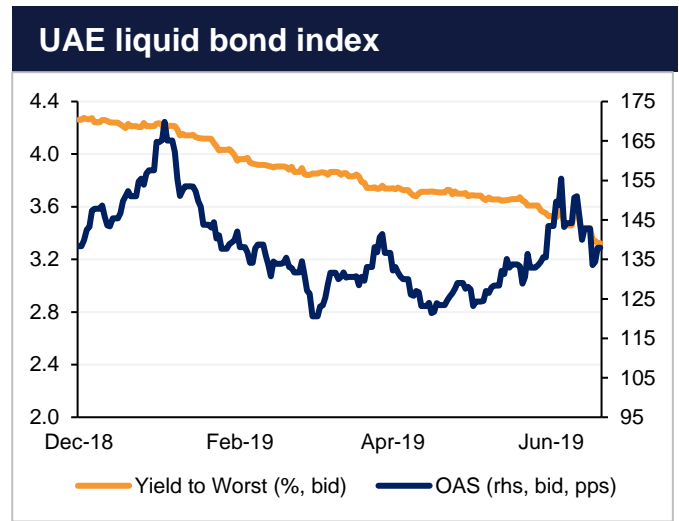
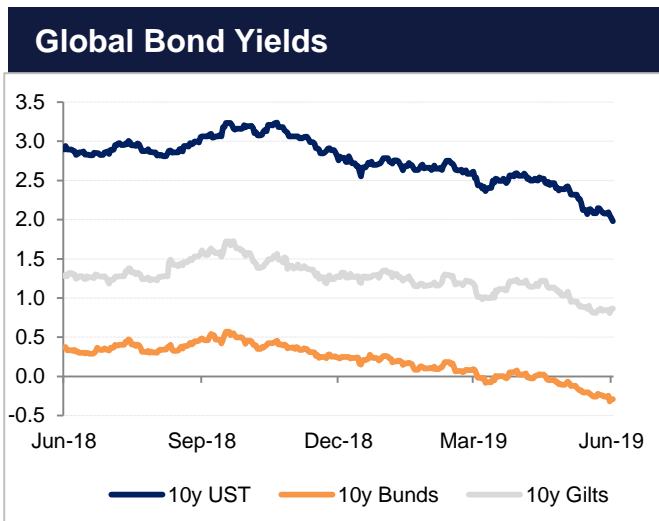
Developed equity markets had generally positive results on Wednesday. In the United States, the S&P500 closed 0.30% higher while Nasdaq posted a gain of 0.42%. On the other side of the Atlantic, results were mixed and while the Euro Stoxx gained 0.05%, the DAX declined by 0.19% while the FTSE surrendered 0.53%.

This morning Asian equity markets have opened in the green and the Nikkei is currently 0.64% higher while the Shanghai Composite is trading 2.58% higher.

Commodities

Both benchmarks closed down overnight, with Brent crude futures falling 0.5% to USD 61.8/b, while WTI lost 0.3% to USD 53.76/b. However, both pricings are heading up in early trading today as US crude stockpiles came in below expectations yesterday, falling by 3.1mn b. Further, Saudi Arabia, the UAE and Iraq are all reportedly in favour of extending production curbs, which should help provide some support as trade war threats continue to dampen demand. Brent futures are currently trading at USD 62.2/b, up 1.3% on yesterday's close.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.1226 | +0.29 | 1.1521 | USDTRY | 5.7904 | -0.64 | EURAED | 4.1235 | +0.29 |
| GBPUSD | 1.2639 | +0.65 | 1.2789 | USDEGP | 16.7423 | -0.14 | GBPAED | 4.6430 | +0.65 |
| USDJPY | 108.10 | -0.32 | 105.49 | USDSAR | 3.7505 | -- | JPYAED | 0.0340 | +0.32 |
| USDCAD | 1.3280 | -0.73 | 1.3233 | USDQAR | 3.6800 | +1.07 | CADAED | 2.7657 | +0.72 |
| AUDUSD | 0.6881 | +0.06 | 0.6933 | USDKWD | 0.3038 | -- | AUDAED | 2.5277 | +0.08 |
| USDCHF | 0.9942 | -0.63 | 0.9651 | USDBHD | 0.3770 | -- | CHFAED | 3.6944 | +0.62 |
| EURGBP | 0.8881 | -0.37 | 0.9007 | USDOMR | 0.3845 | -- | TRYAED | 0.6300 | -0.04 |
| USDAED | 3.6729 | -0.00 | 3.6769 | USDINR | 70.7225 | -0.64 | INRAED | 0.0552 | +4.50 |

Rates

| Interbank | 1 mo | 3mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 2.4832 | 2.5946 | 2.8933 | 2.8769 | USD 2 yr | 1.764 | -14 |
| USD LIBOR | 2.3829 | 2.3866 | 2.2980 | 2.2644 | USD 5 yr | 1.739 | -8 |
| GBP LIBOR | 0.7225 | 0.7814 | 0.8660 | 0.9733 | USD 10 yr | 1.959 | -4 |
| JPY LIBOR | -0.1273 | -0.0672 | -0.0058 | 0.0637 | EUR 2 yr | -0.367 | +1 |
| CHF LIBOR | -0.7998 | -0.7132 | -0.6744 | -0.5674 | EUR 5 yr | -0.203 | +3 |
| | | | | | EUR 10 yr | 0.219 | +2 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold | 1360.38 | +1.02 | ADGB 6.75 19 | 2.42 | -- | Abu Dhabi | 62 | -- |
| Silver | 15.16 | +0.97 | DUGB 7.75 20 | 2.60 | -7 | Bahrain | 274 | 0 |
| Oil (WTI) | 53.76 | -0.26 | QATAR 5.25 20 | 2.70 | | Dubai | 136 | -2 |
| Aluminium | 1757.25 | +0.31 | US Tsy 2 yr | 1.74 | -13 | Oman | 364 | -1 |
| Copper | 5897.00 | -0.47 | US Tsy 10 yr | 2.02 | -4 | Qatar | 64 | -1 |
| | | | | | | Saudi Arabia | 84 | -2 |

Source: Bloomberg, Emirates NBD Research

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