



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

Sterling fell to a two-year low against the USD yesterday as concerns about Brexit mounted and weaker economic data raised the possibility of a rate cut by the Bank of England. On Brexit, Boris Johnson refused to rule out a no-deal departure yesterday, even if it meant dissolving parliament. Parliament itself took measures to make this more difficult by narrowly passing an amendment on the Northern Ireland Bill proposed by former attorney general Dominic Grieve. To further complicate matters, the Labour Party announced yesterday that it would call for another referendum on Brexit and campaign to stay in the EU rather than accept a deal negotiated by a Conservative government.

Like-for-like retail sales data released by BRC declined by a bigger than expected -1.6% y/y in June, following a -3.0% drop in May. A survey by Bloomberg News showed that economists now expect the UK economy to contract in Q2 2019. May GDP, industrial production and construction output are due to be released today. The market is now also pricing in a 40% probability of a rate cut by the BoE this year, in contrast to the MPC's more hawkish stance.

In the US, the latest NFIB and JOLT surveys point to weaker small business confidence and investment and a softening labour market. Job openings declined for the second month in a row in May, although the number remains near the record high. The focus today will be on Fed Chairman Jerome Powell's testimony before Congress, which starts today, as well as the minutes of the June FOMC meeting.

Consumer inflation in the UAE rose 1.0% m/m in May, but remained in deflation on an annual basis at -1.1% y/y. Clothing & footwear, recreation & culture and transport costs all rose m/m in May, but housing costs continued to decline, as did food prices. Housing and food together account for nearly half the CPI basket.

Pound falls to two-year low against the dollar



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
UK Industrial Production m/m	12:30	1.5%	UK Manufacturing Production m/m	12:30	2.2%
US Fed's Powell testifies before Congress	18:00	N/A	Bank of Canada Rate Decision	18:00	1.75%
US FOMC Meeting Minutes	22:00	N/A			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Markets remain on the sidelines awaiting the commentary from Fed Chair Jerome Powell and the release of FOMC minutes. Yields on 10yr USTs were slightly higher (up 2bps) and holding on to levels above 2% while 2yr yields rose 2.5bps.

The rise in UST yields seemed to find sympathy in Europe as bunds continued to move off their record low levels. Gilts have nudged higher but are treading water as politics in the UK remain highly unsettled with the parliament looking to support a plan that would prevent a no-deal Brexit while Boris Johnson, the leading candidate to be next prime minister, has threatened to prorogue the body to prevent it interfering in Brexit.

Primary markets in the GCC are tepid with issuers likely waiting for a clearer path on US rates before issuing debt. Kuwait Petroleum Company is looking to raise USD 2bn in funding although it is likely to come from the domestic banking sector.

FX

Amid speculation that Federal Reserve Chairman Jerome Powell could downplay the necessity of interest rate cuts at his Congressional testimony today, the dollar is trading firmer for a fourth day. As we go to print, the Dollar Index is trading at 97.505 and is on target to close above the 50-day moving average (97.259) for a third day. This is technically bullish for the index and leaves us to believe that further gains towards the 98 level are possible.

Elsewhere, GBPUSD hit a new one-year low of 1.2440 on Wednesday, after disappointing like for like June retail sales data showed a contraction of 1.6% y/y following a contraction of 3.0% y/y in May. This has led to concerns over the Q2 growth and weighed on sterling.

Equities

Developed equity markets had mixed results on Tuesday. In the United States, the S&P500 closed 0.12% higher, while the Nasdaq posted a 0.54% rise. The outcome was less positive on the other side of the Atlantic where the Dax fell by 0.85% and the Euro Stoxx recorded a 0.40% decline. Regionally markets had a modest performance and while the DFM was unchanged, the ADX rose by 0.2% and the Tadawul closed 0.3% higher.

This morning Asian markets are marginally lower and at present the Nikkei is down by 0.02% while the Shanghai Composite is down by 0.02%.

Commodities

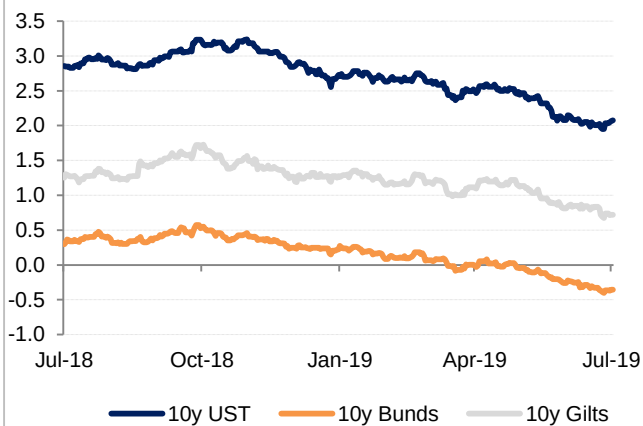
Oil prices are moving higher thanks to a larger than expected decline in US inventories as reported by the API. Brent is up nearly 0.9% this morning while WTI is up over 1.2%. The API reported a draw of more than 8m bbl last week while EIA data is out later tonight.

The EIA revised up its supply growth forecast for US crude production this year to 1.4m b/d from 1.36m b/d previously. The 2020 forecast is unchanged at 13.26m b/d although the end of year forecast has been revised up to 13.64m b/d.

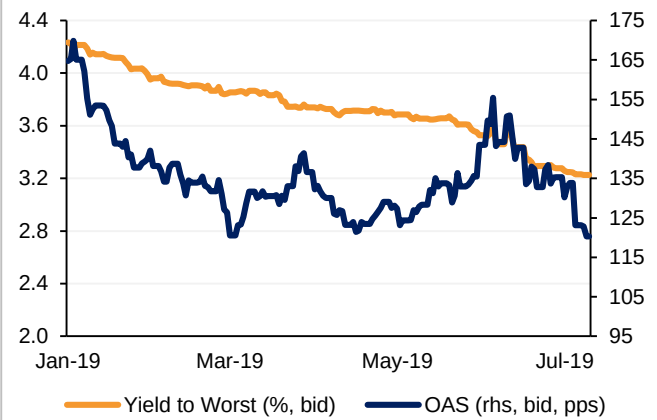
Forward curves are still weakening despite a gain in front month prices. Brent 1-2month time spreads have slipped to USD 0.23/b in backwardation while in WTI the draw in stocks has helped push spread closer to neutral.

Markets in Charts

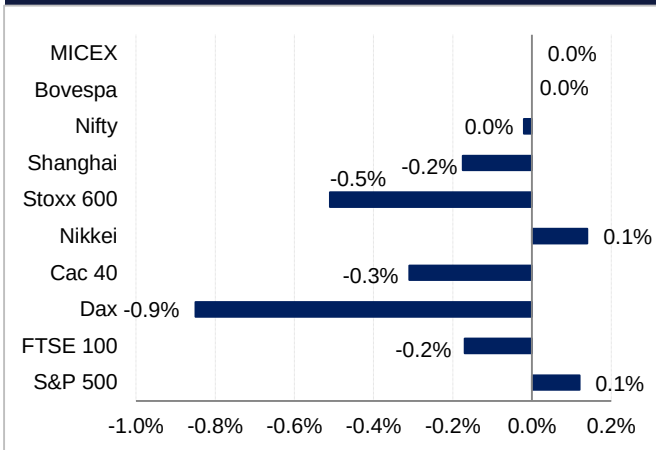
Global Bond Yields



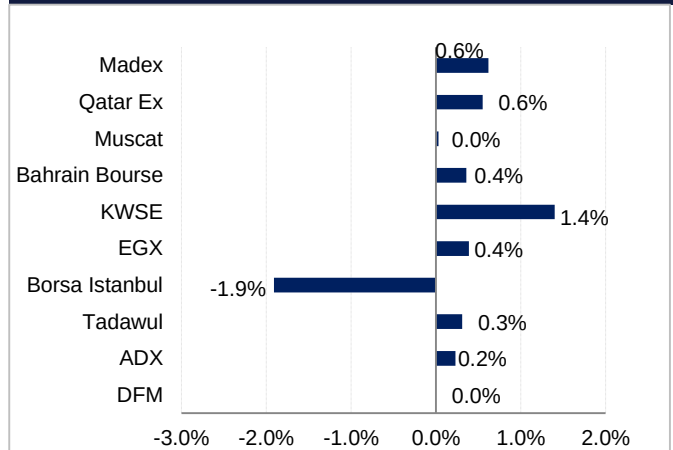
UAE liquid bond index



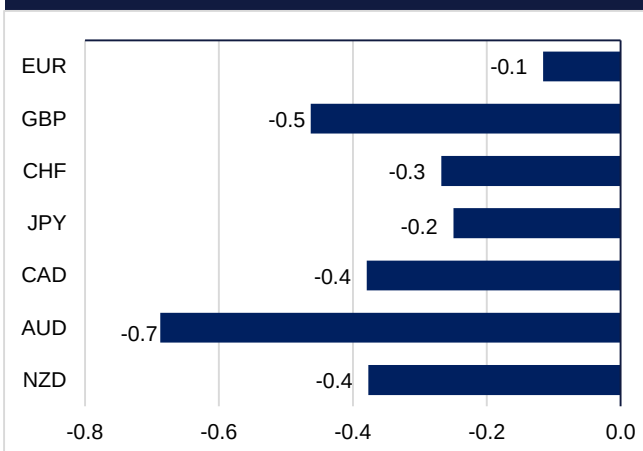
Global Equity Indices



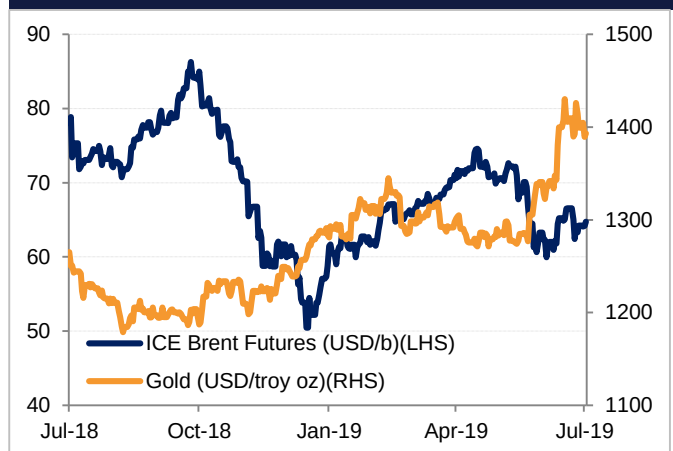
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1202	-0.12	1.1516	USDTRY	5.7079	-0.30	EURAUD	4.1146	-0.11
GBPUSD	1.2466	-0.46	1.2649	USDEGP	16.5886	-0.19	GBPAED	4.5787	-0.48
USDJPY	108.80	+0.25	106.00	USDSAR	3.7504	-0.00	JPYAED	0.0338	-0.24
USDCAD	1.3124	+0.38	1.3076	USDQAR	3.6800	+0.57	CADAED	2.7988	-0.38
AUDUSD	0.6933	-0.69	0.6996	USDKWD	0.3045	+0.08	AUDAED	2.5464	-0.70
USDCHF	0.9946	+0.26	0.9636	USDBHD	0.3770	--	CHFAED	3.6930	-0.26
EURGBP	0.8987	+0.35	0.9105	USDOMR	0.3850	--	TRYAED	0.6400	-0.25
USDAED	3.6730	--	3.6779	USDINR	70.7225	-0.64	INRAED	0.0552	+3.24

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.5226	2.5675	2.8500	3.0076	USD 2 yr	1.933	+3
USD LIBOR	2.3686	2.3408	2.2568	2.2735	USD 5 yr	1.844	+3
GBP LIBOR	0.7215	0.7713	0.8180	0.8874	USD 10 yr	1.999	+2
JPY LIBOR	-0.1150	-0.0740	-0.0288	0.0538	EUR 2 yr	-0.396	+1
CHF LIBOR	-0.8114	-0.7460	-0.7024	-0.5892	EUR 5 yr	-0.252	+2
					EUR 10 yr	0.124	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1397.61	+0.15	ADGB 6.75 19	2.42	--	Abu Dhabi	57	-1
Silver	15.02	-0.27	DUGB 7.75 20	2.43	-0	Bahrain	238	-8
Oil (WTI)	57.83	+0.29	QATAR 5.25 20	2.70		Dubai	132	--
Aluminium	1807.00	+0.95	US Tsy 2 yr	1.91	+2	Oman	296	-13
Copper	5808.50	-1.10	US Tsy 10 yr	2.06	+2	Qatar	58	--
						Saudi Arabia	80	+1

Source: Bloomberg, Emirates NBD Research

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