



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

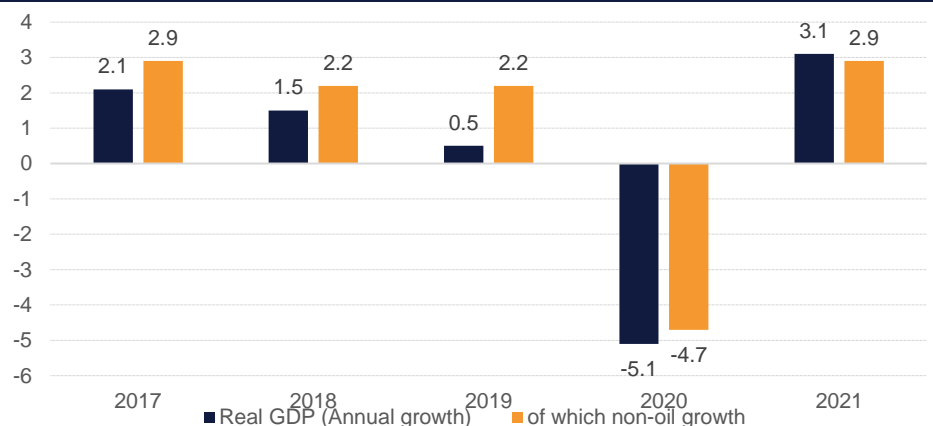
Hostility between the US and China escalated to start the week as the US rejected China's claims over the South China Sea, sparking a sell-off across most major risk assets. US and Asian equities have moved lower while oil prices have fallen almost 2% in early trading today. The ramp-up of geopolitical tensions between the two countries is a reminder to markets that even beyond the economic damage wrought by the Covid-19 pandemic, underlying conditions in the global economy remain fragile. As the US moves closer toward the November presidential election the Trump administration may use a hardline international policy—particularly related to trade with China or the US—to domestic galvanize support.

The IMF has downgraded its outlook for the MENA region, with GCC economies expected to contract by -7.4% this year, compared with -2.7% in the April Regional Economic Outlook. The IMF noted that oil production had declined by more than anticipated in April while estimates for the non-oil sectors had also been revised lower as a result of the impact of lockdowns on tourism, hospitality, transport and retail sectors. The IMF expects growth to recover to 2.1% next year. Individual country forecasts have not been released; these will likely be included in the Regional Economic Outlook in October 2020.

Bahrain issued a royal decree adding BHD 177m (USD 470m) to its 2020 state budget as an additional measure of emergency spending to fight the Covid-19 pandemic. Another new royal decree stated that to this end USD 450m will be taken as a one-time deduction from the Future Generations Fund (FGF), which was set up in 2006 to reinvest hydrocarbon revenues, and allocated to this year's state budget. The decrees also announced that the allocation of oil revenues to the FGF will be halted until the end of 2020.

Turkey's industrial production shrank by 19.9% year-on-year in May, lower than expected and highlighted the challenges for the sector thanks to measures meant to curb the spread of Covid-19. The data released by the Turkish Statistical Institute data showed on a seasonally month-on-month basis industrial production was up 17.4% in May. Since March 11th factories and businesses across the country halted operations after the first Covid-19 case was identified. Turkey is expected to face its second sharp contraction in two years as a result of the new coronavirus disruptions.

IMF MENAP Region Growth (%)



Source: IMF, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons.		Time	Cons.
UK GDP (MoM)	10:00	n.a	DE ZEW survey	13:00	60.00
UK Manuf Prod (MoM)	10:00	8.0%	US Core CPI (MoM)	16:30	0.1%

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Markets were rocked to the start the week with escalating tensions between China and the US, in particular related to freedom of navigation in the South China Sea. Treasuries rallied across the curve as risk havens received a bid. Yields on 2yr USTs slipped by around 1bp to 0.15% while yields on 10yr USTs fell by 2bps. The market's reaction to deteriorating China-US relations shows that even beyond the economic slump precipitated by the coronavirus other factors can derail the performance of the global economy this year. European bond markets were closed before the sell-off in risk assets occurred as yields across the board were higher.

Emerging market bonds managed to close higher—up by around 0.2% on the Bloomberg Barclays USD EM index—even as oil sold off and US-China relations deteriorated. More of a reaction may occur today as oil sinks further and Asian markets are responding negatively to the news.

FX

The dollar continued to operate in a downwards trend on Monday, with its DXY index dropping to its lowest level in a month at 96.270. A partial recovery has been made this morning, and the currency now trades at 96.585. USDJPY strengthened, earning modest gains to trade at 107.20. The JPY has struggled to find demand, unusual given the economic uncertainty surrounding the coronavirus. However, the yen is receiving support this morning thanks to escalating tensions between China and the US.

The euro rallied amid a more positive market mood, advancing by over 0.60% for the day, reaching a monthly high at 1.1370 but has retreated this morning amid the dollar's partial recovery to trade at 1.1340. Sterling is operating around the 1.1250 region, marking a minor decline of -0.15%. The AUD advanced for most of the day but has reversed all of its gains this morning and trades at 0.6940 whilst the NZD slipped by over 0.60% to trade at 0.6530.

Equities

Equity markets in the US sank overnight on fears of increasing US-China hostility. The S&P 500 gave up almost 1% while the NASDAQ fell more than 2%. European equities had managed a positive day to start the trading week but many of the trade exposed companies there will likely be offered today as the outlook for the global economy hits another bump. Asian markets are reacting negatively to geopolitical developments with the Nikkei, Hang Seng and Chinese markets all in the red.

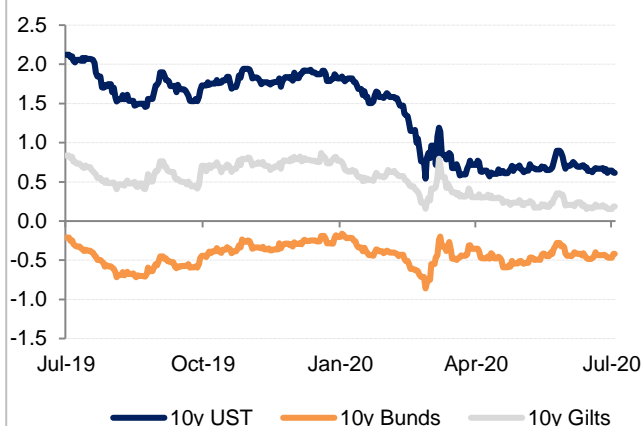
Local markets closed lower to start the week with the DFM down by around 0.9% and the ADX falling by 0.2%. A negative assessment of Dubai's economy from S&P Global is likely weighing on investor sentiment toward the markets. The Tadawul closed lower by almost 0.3%.

Commodities

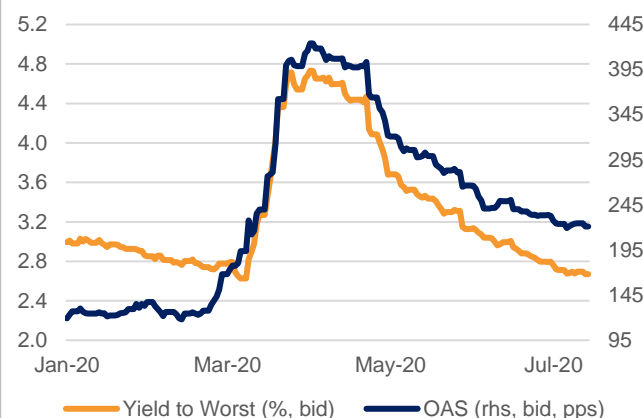
Oil markets had already been put on the backfoot as OPEC+ prepares to increase production from August when the China-US news threatened demand conditions even more. Brent fell over 1% yesterday and is closer to a 2% drop in early trading today, hovering around the USD 41.80/b market. WTI futures fell by 1.1% overnight and are pushing more than 2.3% lower today, trading back below USD 40/b.

Markets in Charts

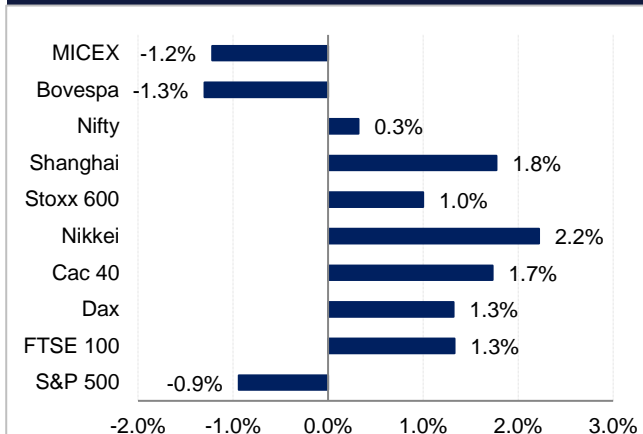
Global Bond Yields



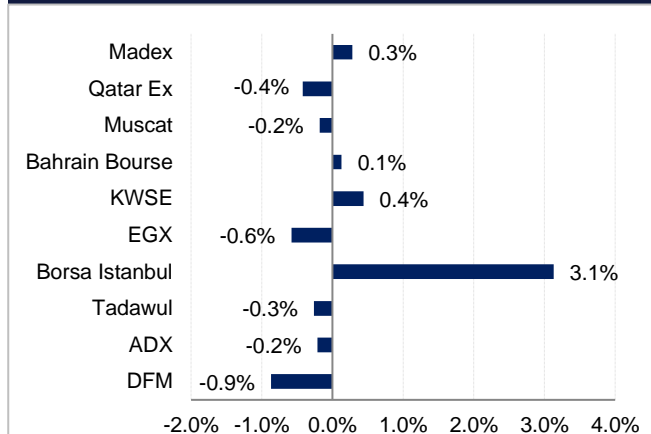
UAE liquid bond index



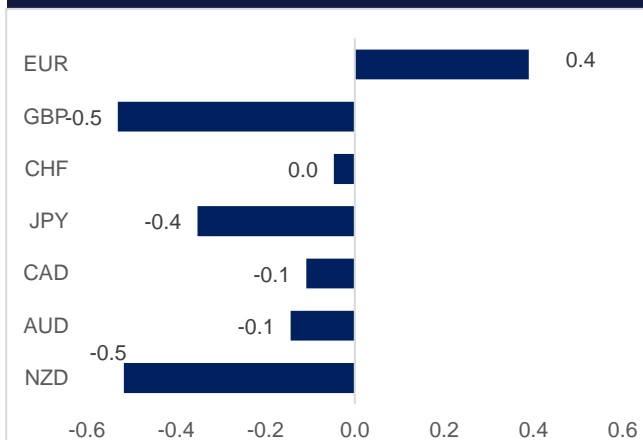
Global Equity Indices



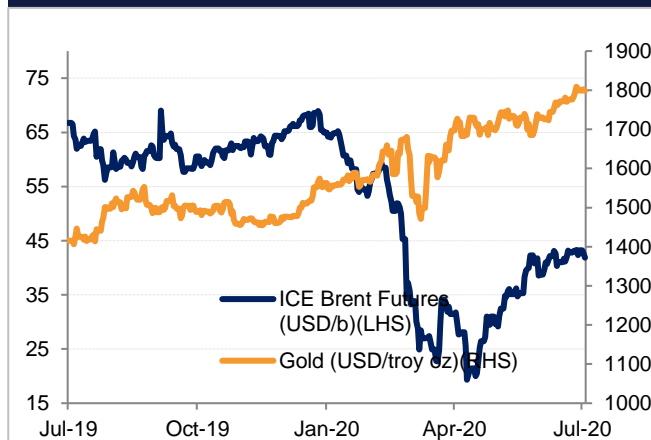
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1344	+0.39	1.1439	USDTRY	6.8603	-0.08	EURAED	4.1663	+0.39
GBPUSD	1.2555	-0.53	1.2580	USDEGP	15.9590	-0.30	GBPAED	4.6109	-0.55
USDJPY	107.29	+0.34	106.60	USDSAR	3.7508	--	JPYAED	0.0342	-0.34
USDCAD	1.3609	+0.13	1.3604	USDQAR	3.6800	+1.07	CADAED	2.6990	-0.11
AUDUSD	0.6940	-0.14	0.6939	USDKWD	0.3073	+0.02	AUDAED	2.5491	-0.13
USDCHF	0.9416	+0.04	0.9311	USDBHD	0.3771	--	CHFAED	3.9004	-0.05
EURGBP	0.9036	+0.93	0.9094	USDOMR	0.3850	--	TRYAED	0.5400	+0.94
USDAED	3.6730	--	3.6791	USDINR	75.1900	-0.02	INRAED	0.0552	+13.01

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.3778	0.5000	1.1971	1.0658	USD 2 yr	0.222	+0
USD LIBOR	0.1754	0.2681	0.3454	0.4801	USD 5 yr	0.321	-2
GBP LIBOR	0.0754	0.0931	0.2229	0.3718	USD 10 yr	0.602	-3
JPY LIBOR	-0.0750	-0.0490	-0.0278	0.0983	EUR 2 yr	-0.373	+2
CHF LIBOR	-0.7684	-0.6882	-0.6376	-0.5164	EUR 5 yr	-0.330	+3
					EUR 10 yr	-0.154	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1802.76	+0.23	ADGB 2.50 25	1.16	-2	Abu Dhabi	62	-1
Silver	19.08	+1.90	DUGB 3.89 25	1.54	-3	Bahrain	345	+2
Oil (WTI)	40.10	-1.11	QATAR 3.4 25	1.24	-2	Dubai	195	+6
Aluminium	1656.50	-0.16	US Tsy 2 yr	0.15	-0	Oman	477	+1
Copper	6580.00	+2.52	US Tsy 10 yr	0.62	-3	Qatar	58	-1
						Saudi Arabia	99	-3

Source: Bloomberg, Emirates NBD Research

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