



بنك الإمارات دبي الوطني
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Daily Outlook

China yesterday confirmed commitment to not use exchange rates as a tool in escalating trade dispute, thereby somewhat easing fears that the trade wars were set to morph into currency wars. Nevertheless, the US has labelled China as a currency manipulator and announced plans to engage with IMF to eliminate the unfair competitive advantage created by CNY's latest plunge. Trump also increased pressure on the Federal Reserve to act to counter the Chinese action. Futures implied probability of a 50bps rate cut at the Fed's September meeting increased from 16% to 37% overnight.

Key PMI data was released in several jurisdictions yesterday, clearly showing the impact of slowing global growth. Australia's **July Composite PMI fell to 52.1 from 52.8** in the earlier month, showing the impact of slowing Chinese growth on manufacturing even as services remained strong at 52.3 vs 51.9 in June. Nevertheless, RBA at its meeting this morning, is likely to keep the cash rate target unchanged at 1.00%. **Ongoing rate cuts appear to have helped the composite PMI in India where the July index rebounded to 53.8 from 49.6 in June**, its highest reading since Nov 2018, though still lower than 54.1 an year ago. The growth came from increase in new orders as well as employment gains. The RBI is expected to cut rates by another 25bps at its meeting later this week. **The composite PMI Index in the Eurozone dropped to 51.5 in July with goods output falling for a sixth month and by the greatest extent since 2013.** The services sector continued to sustain the expansion of the overall Eurozone economy, registering at 53.2 in July vs 53.3 in June. The PMI data also confirmed that Italy and Germany remain the weak spots with German composite PMI falling to 50.9 from 51.4 in June and indicating a level consistent with GDP contracting. **In the US, the ISM non-manufacturing PMI fell to 53.7 vs expectations of 55.5 and last months reading of 55.1.**

Turkish CPI inflation rose to 16.7% y/y in July, from 15.7% the previous month, as the expiration of tax cuts on white goods and autos took effect. The inflation print was broadly in line with expectations, and shouldn't change expectations for further rate cutting in Turkey over 2019 following the 425 bps cut seen in July. This is especially the case given last week's downgrade to the central bank's year-end price growth target, and continued support for lower rates from President Recep Tayyip Erdogan.

Eurozone PMI extends drift lower



Source: Bloomberg, Emirates NBD Research.

Today's Economic Data and Events

	Time	Cons		Time	Cons
Aus RBA cash rate target	08:30	1.00%	RU CPI YoY		4.79%
GE Factory orders MoM	10:00	0.5%			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

US treasury yields fell further as the US-China trade conflict intensified and appeared set to morph into currency wars. Yields on 2yr, 5yr, 10yr and 30yrs USTs closed at 1.57% (-14bps, w/w), 1.52% (-14bps), 1.71% (-14bps) and 2.25% (-12bps) respectively. However, sovereign bonds in Europe were mixed with yield on 10 yr Gilts declining 4bps to 0.51% and those on 10yr Bunds declining 2bps to -0.52% while those on Italian bonds increased 2bps to 1.56%.

Increased volatility in financial markets saw material increase in credit protection costs and widening of credit spreads. CDS spread on US IG rose 6bps to 63bps and that on Euro Main increased 4bps to 58bps.

Despite falling benchmark yields, average yield on Barclays Bloomberg GCC bond index increased 3bps to 3.41% as credit spreads widened by 13bps to 174bps.

FX

The dollar had another day of weakening as President Trump increased pressure on the Fed to cut rates. The Dollar Index (DXY) closed at 97.52 vs 98.07 the day before.

Though JPY softened a touch against the dollar at 106.14, EUR rose 0.2% to trade at 1.1229. CNY, the most watched currency at present, rose 0.2% to 7.0866 per dollar, still well below the critical level of 7. GBP remained under pressure, closing slightly weaker at 1.2143.

Despite expectations of no rate cut by the RBA at its meeting today, AUD weakened to 0.6756 in response to the fear of material slowing of Chinese economic growth ahead.

Equities

Global equities fell across the board as investors had heavy profit taking bias in the face of escalating trade wars and weakening global PMIs. S&P 500 fell nearly 3% followed by FTSE 100 closing down by 2.47% and Euro Stoxx in the red by 1.93%. Asian equities are continuing to fall with Nikkei and Hang Seng down 2.03% and 1.47% respectively in early morning trades today.

GCC equities were not spared the pain. Dubai index fell 2.3% and Abu Dhabi was down by 1.87% with losses felt mainly in property shares. Tadawul All Share Index fell for the fourth day, closing 1% down led by circa 3% fall in Saudi Basic Industries Corp's shares.

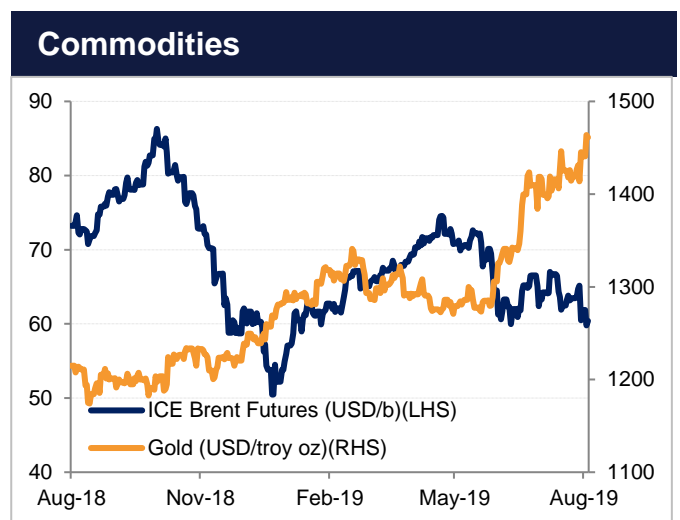
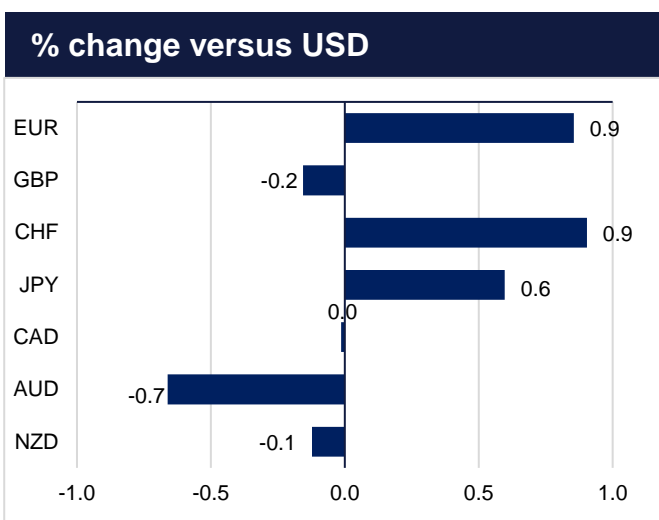
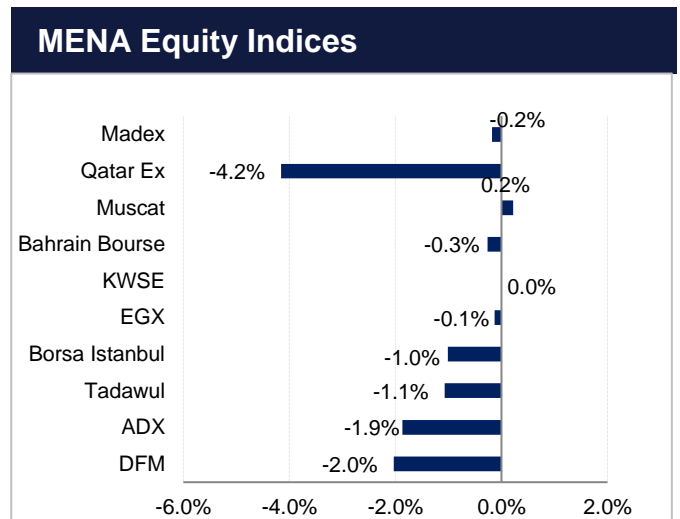
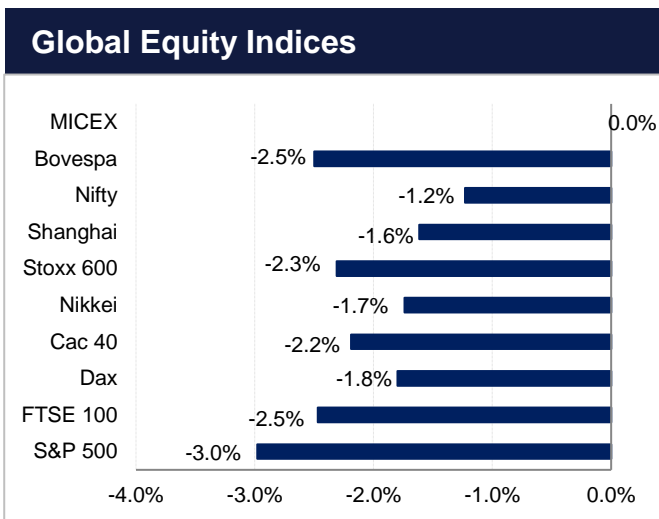
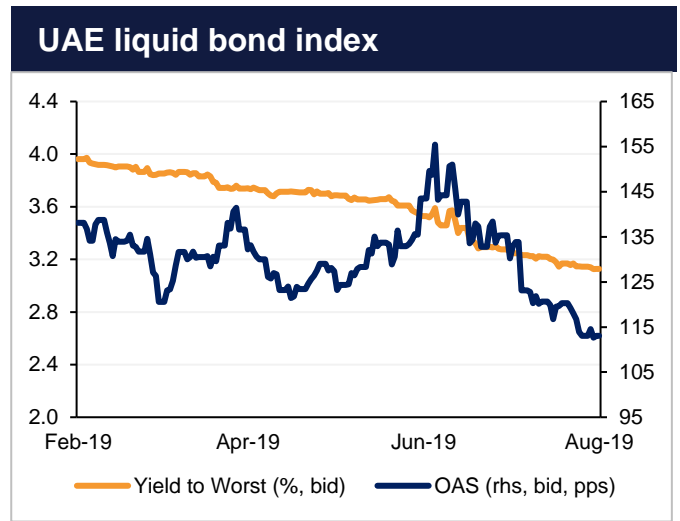
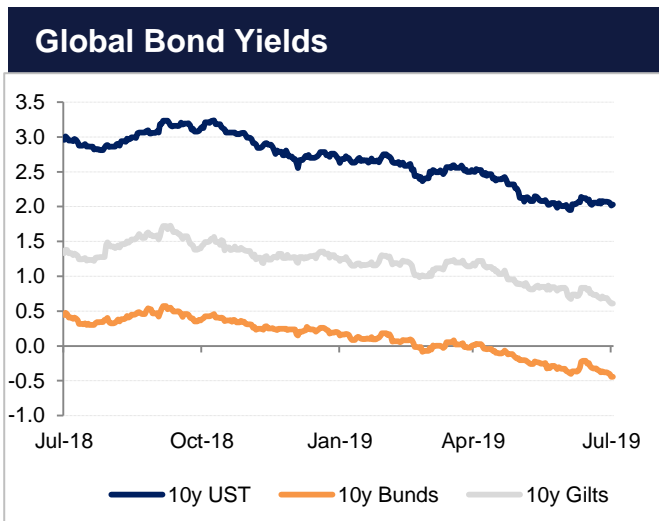
Commodities

Oil markets sagged overnight as the US-China trade war escalated. The depreciation of the RMB past the 7 handle shook financial markets generally and Brent prices fell by more than 3.3% to close below USD 60/b for the first time since mid-June. WTI gave up 1.7% to end trading at USD 54.69/b. Geopolitical tension in the Strait of Hormuz region is having a minimal impact on oil prices even as Iranian forces seized another tanker and the UK has joined a US mission to keep the Strait clear.

Gold continues to be propelled higher by the trade war uncertainty hammering risk-markets and gained 1.6% overnight. Gold futures priced in INR, the biggest consumer market, has hit a record high level of INR 36,250/10 g while demand is starting to look shakier in the nation. Imports in July fell 55% y/y in July in volume terms as higher prices and the impact of a higher import tariff have an impact.

Major industrial metals sold off in sympathy with oil. LME aluminium fell by 0.4% while copper was down almost 0.8% as doubts about the health of China's economy in the face of significant trade pressure creep into markets. Iron ore has moved back closer to USD 100/tonne on fears of a sharper slowdown in China's manufacturing sector.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1203	+0.86	1.1489	USDTRY	5.5712	+0.23	EURAED	4.1150	+0.85
GBPUSD	1.2143	-0.16	1.2291	USDEGP	16.5585	-0.09	GBPAED	4.4597	-0.16
USDJPY	105.95	-0.60	103.50	USDSAR	3.7513	-0.01	JPYAED	0.0347	+0.59
USDCAD	1.3204	-0.02	1.3177	USDQAR	3.6800	+0.55	CADAED	2.7802	-0.02
AUDUSD	0.6756	-0.66	0.6811	USDKWD	0.3041	-0.09	AUDAED	2.4818	-0.64
USDCHF	0.9735	-0.91	0.9447	USDBHD	0.3770	--	CHFAED	3.7731	+0.89
EURGBP	0.9226	+0.99	0.9347	USDOMR	0.3850	--	TRYAED	0.6600	-0.12
USDAED	3.6729	--	3.6792	USDINR	70.7225	-0.64	INRAED	0.0552	+4.81

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.4225	2.4825	2.7563	2.7651	USD 2 yr	1.568	-17
USD LIBOR	2.2285	2.2393	2.1330	2.1159	USD 5 yr	1.446	-18
GBP LIBOR	0.7114	0.7731	0.8114	0.8460	USD 10 yr	1.589	-18
JPY LIBOR	-0.1102	-0.0903	-0.0287	0.0538	EUR 2 yr	-0.470	-1
CHF LIBOR	-0.8160	-0.7722	-0.7562	-0.6414	EUR 5 yr	-0.390	-1
					EUR 10 yr	-0.083	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1463.70	+1.59	ADGB 6.75 19	2.42	--	Abu Dhabi	51	+1
Silver	16.39	+1.17	DUGB 7.75 20	2.24	-5	Bahrain	235	+2
Oil (WTI)	54.69	-1.74	QATAR 5.25 20	2.70		Dubai	132	+2
Aluminium	1734.25	-0.39	US Tsy 2 yr	1.57	-14	Oman	274	-15
Copper	5660.25	-0.76	US Tsy 10 yr	1.71	-14	Qatar	55	+3
						Saudi Arabia	75	+3

Source: Bloomberg, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com