



# Daily Outlook

**The US-China trade war reached a new threshold over weekend as both countries took reciprocal tariff action and US president Donald Trump demanded that US firms leave China to set up operations elsewhere.** China has announced tariffs on more than 5,000 imports from the US, including crude oil, and will reimpose 25% tariffs on cars. In response, Trump raised the existing US tariffs on USD 250bn of Chinese goods to 30% (from currently 25%) which will take effect from the start of October. Another USD 300bn of Chinese goods will face higher tariffs of 15% (from 10% previously), including some important consumer goods, taking effect partly in September and partly in December. **The market response was vitriolic as equity markets and commodities plunged and investors moved into US treasuries and gold.**

**The latest assaults in the trade war came just ahead of the G7 meeting taking place in France where there is unlikely to be any amelioration in relations between the US and the rest of its major allies.** The Trump administration's aggressive trade policies have created a rift with the EU, Canada and Japan and the European Council president, Donald Tusk, said it was increasingly difficult to find consensus among the members of the G7. This weekend's meeting was also **the first major multilateral meeting for Boris Johnson in his role as prime minister of the UK.** Meetings with his French and German counterparts earlier in the week failed to reach any breakthrough on renegotiating the UK's withdrawal agreement from the European Union.

**As the trade war dominated markets and headlines, commentary from US Federal Reserve chair at Jackson Hole was only faintly audible. Jerome Powell noted that downside risks to the economy had grown since the Fed cut rates in July and that the Fed would act "as appropriate" to support growth.** The Fed came in for more criticism from Trump with the president questioning whether Powell of Chinese President Xi Jinping was the "bigger enemy." Data out from the US at the end of the week showed some weakness with the IHS Markit manufacturing PMI below 50 in August, signifying a contraction, and new home sales declining sharply in July.

**PMI data for the Eurozone showed signs of a turnaround in August as the bloc-wide composite figure rose to 51.8 from 51.5 a month earlier.** The rebound was largely down to an improvement in the services figure as manufacturing in the Eurozone continued to contract in August, a seventh month in a row. Germany managed to record a better than expected composite figure (51.4 compared with 50.9 a month earlier) but manufacturing in Europe's largest economy remains particularly weak. Although the August PMI data was an improvement it is unlikely to shift the ECB from extending easy monetary policy at its next meeting in September.

**India's finance minister announced more fiscal reforms to help revive a flagging economy. Foreign and domestic investor will be exempt from a new higher tax rate which had been introduced in July** and a capital-gains tax plan has been withdrawn. The ministry will also provide liquidity to housing finance companies which have been hit by a liquidity crisis related to the collapse of a significant shadow banking institution.

The Central Bank of Egypt cut its benchmark interest rates by 150 basis points (bps) at its August 22 meeting, taking advantage of rapid disinflation. This took the overnight deposit rate to 14.25%, the lowest level since the 300bps hike enacted in November 2016 as Egypt first embarked on its IMF-sponsored reform programme and devalued the pound. With global monetary policy turning decidedly more bearish and domestic inflation curbed, we see scope for further rate cuts still over the three meetings remaining this year, with potential for as much as 200bps.

## Today's Economic Data and Events

	Time	Cons		Time	Cons
GE IFO survey	12:00	95.1	US durable goods	16:30	1.1%

Source: EIKON, Emirates NBD Research.

## Fixed Income

US treasury markets benefitted from a flight to safety as investors witnessed a further escalation in the US-China trade war and Fed Chair Jerome Powell assured markets that accommodative policy would remain in place. Longer dated bonds rallied with the yield on 10yr USTs falling 8bps on Friday while over the course of the week yields were marginally lower. Yields on the 2yr UST rose over the week (5bps) and the 2yr10yr spread closed inverted at the end of the week.

Jerome Powell noted in his commentary at the Jackson Hole meeting of central bankers that market perception of policy had helped to ease financial conditions and that the Fed would continue to support growth through “appropriate” policy. The vice chair of the Fed, Richard Clarida, said the central bank took its decisions “one meeting at a time” but markets remain heavily tilted in favour of further easing. Markets are pricing in a 100% chance of a cut at the September meeting of the FOMC, with more than 85% chance of a 25bps cut while the probability of a further 25bps cut in October is more than 60%.

The decline in benchmark yields was not restricted to the US with yields on 10yr Bunds and Gilts falling as well, closing down 3bps and almost 4bps respectively.

Fitch cut Lebanon’s sovereign rating to ‘CCC’ owing to pressure on the government’s ability to service debt and the country’s persistent, and large, twin deficits.

## FX

USD ended the week lower as comments from the Federal Reserve Chairman Jerome Powell reinforced expectations of another rate cut next month. Further, the US President continued his tirade against a strong USD and fuelled speculation over a possible direct intervention. The DXY index ended the week with losses of -0.5%.

Elsewhere, the offshore CNY closed at 7.13, its lowest level on record. The extension of the trade war with increased intensity appeared to weigh on CNY. The move in offshore CNY had a direct impact on other emerging market currencies as well. The JP Morgan EM FX index lost -0.4% last week.

## Equities

Regional equities started the week on a negative note following weak global cues and sharp sell-off in developed market over the weekend. Almost all major indices closed in negative territory with the exception of the EGX 30 index. Egyptian equities appeared to benefit from the decision of the central bank to cut rates. The sell-off across other indices was broadbased and led by market heavyweights.

In terms of stocks, Emaar Properties dropped -4.0% and Aldar Properties declined -4.1%.

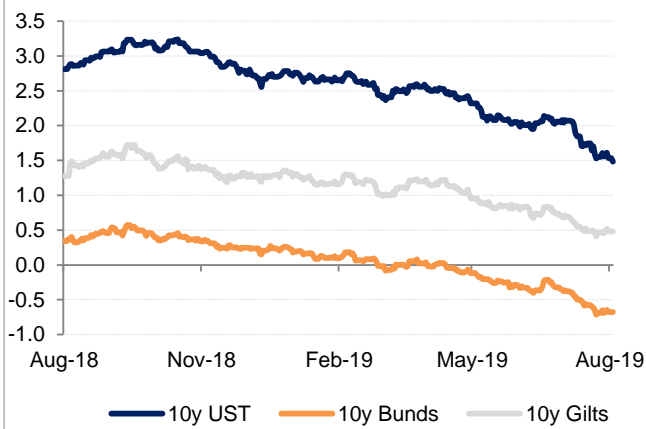
## Commodities

The latest escalation of the US-China trade war helped to sink oil markets at the end of the week with both Brent and WTI futures declining on Friday. Over the course of the week WTI fell almost 1.3% while Brent managed a gain of almost 1.2%. Considering the scale of negative economic news coming out at the end of the week, the performance of crude futures was relatively healthy. However, as markets are likely to adopt an increasingly risk-off tone as the fallout of the US-China trade war becomes clear, we would expect to see the trajectory for crude set more and more by non-oil specific headlines in the coming weeks.

Forward curves showed a mixed performance last week with longer dated Brent spreads widening their backwardation while WTI weakened as news that China will impose tariffs on US crude raised the prospect of inventory builds or price discounting. Spreads at the front of the curve strengthened in both Brent and WTI. Dubai spreads strengthened, closing at USD 1.93/b in 1-3 month spreads despite few new headlines from the Middle East. The UK has announced it will send an additional warship to the Gulf region to ensure security of UK-flagged vessels passing through the Strait of Hormuz.

## Markets in Charts

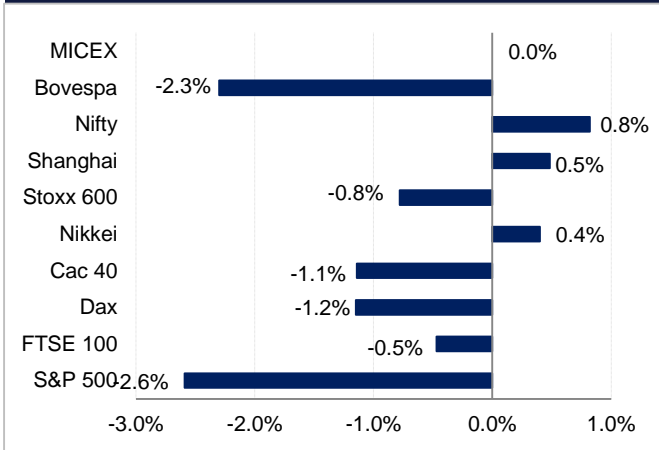
### Global Bond Yields



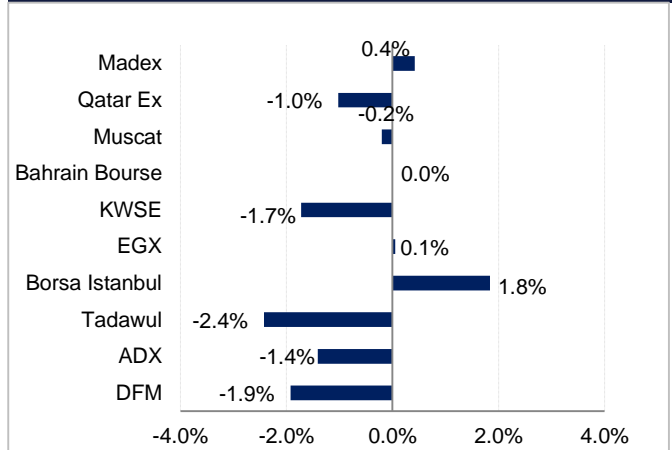
### UAE liquid bond index



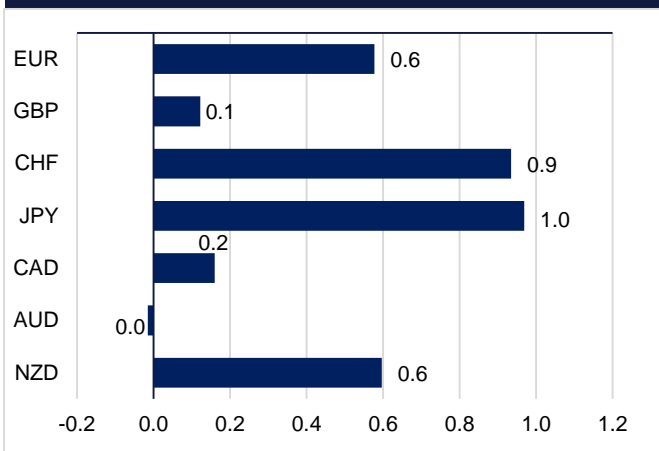
### Global Equity Indices



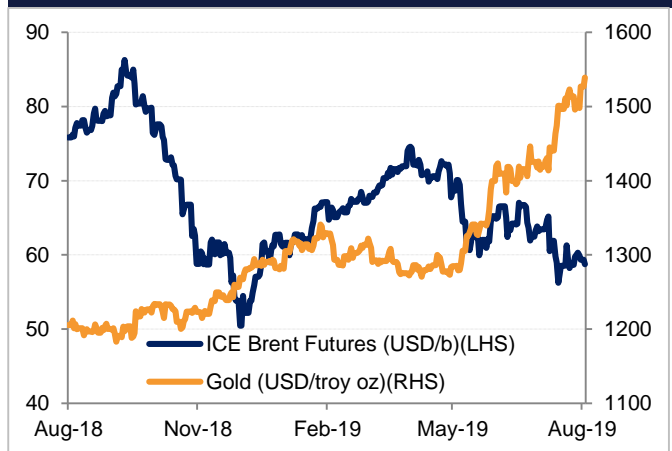
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1144	+0.58	1.1426	USDTRY	5.7593	-0.16	EURAED	4.0930	+0.58
GBPUSD	1.2266	+0.12	1.2408	USDEGP	#N/A N/A	#VALUE!	GBPAED	4.5146	+0.31
USDJPY	105.39	-0.99	103.00	USDSAR	3.7503	--	JPYAED	0.0348	+0.95
USDCAD	1.3283	-0.15	1.3254	USDQAR	3.6800	+1.05	CADAED	2.7656	+0.16
AUDUSD	0.6756	-0.01	0.6809	USDKWD	#N/A N/A	#VALUE!	AUDAED	2.4807	-0.03
USDCHF	0.9743	-0.96	0.9452	USDBHD	0.3770	--	CHFAED	3.7698	+0.97
EURGBP	0.9093	+0.55	0.9216	USDOMR	0.3850	--	TRYAED	0.6400	+0.51
USDAED	3.6730	--	3.6785	USDINR	70.7225	-0.64	INRAED	0.0552	+8.16

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.2630	2.4500	2.4975	2.4483	USD 2 yr	1.526	-8
USD LIBOR	2.1395	2.1444	2.0801	2.0285	USD 5 yr	1.366	-9
GBP LIBOR	0.7090	0.7620	0.8055	0.8663	USD 10 yr	1.450	-8
JPY LIBOR	-0.1002	-0.0858	-0.0480	0.0440	EUR 2 yr	-0.527	-2
CHF LIBOR	-0.8568	-0.8422	-0.8214	-0.7170	EUR 5 yr	-0.479	-3
					EUR 10 yr	-0.225	-3

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1526.96	+1.93	ADGB 6.75 19	2.42	--	Abu Dhabi	49	-1
Silver	17.42	+2.26	DUGB 7.75 20	2.02	+15	Bahrain	257	+3
Oil (WTI)	54.17	-2.13	QATAR 5.25 20	2.70		Dubai	131	-2
Aluminium	1744.25	+0.22	US Tsy 2 yr	1.53	-8	Oman	349	--
Copper	5613.00	-0.84	US Tsy 10 yr	1.54	-8	Qatar	49	--
						Saudi Arabia	69	-1

Source: Bloomberg, Emirates NBD Research

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