



بنك الإمارات دبي الوطني
Emirates NBD

Daily
31 August 2020

Daily Outlook

Fed Chair Jerome Powell announced an historic policy shift towards average inflation targeting at his address to the virtual Jackson Hole symposium on Thursday. The change of tack outlined in Powell's address, which was accompanied by relevant documents, means that inflation of 'moderately' higher than 2% will now be tolerated for extended periods when following periods when price growth has undershot the target – what Powell termed 'a flexible form of average inflation targeting.' His speech acknowledged the flattening of the Philips curve in recent years – the inverse relation between unemployment and inflation – and 'shifts in estimates of the natural rate of unemployment', implying that the Fed will not necessarily immediately act to dampen pressures as the unemployment rate falls, unless there is an accompanying and durable shift in inflation. The change in approach from the Fed suggests that interest rates in the US – and by extension in the GCC – will remain lower for longer. It also opens the way for the Fed to provide more monetary stimulus through asset purchases and other measures in the coming months, perhaps as early as September, particularly if Congress cannot agree on another round of fiscal stimulus.

US initial jobless claims were broadly in line with expectations in data released on Thursday, with 1,006,000 new claimants, marginally higher than consensus 1mn. In further troubling news for private consumption, personal spending grew just 1.9% m/m in July, down from 6.2% in June. Spending remains below pre-pandemic levels, and may well have slowed again in August after the expiration of the USD 600/week extra jobless benefit at the end of July.

The Eurozone's economic confidence index climbed to 87.7 in August, from 82.4 in July and up from the low of 64.9 at the peak of the lockdown in April. The index beat expectations of 85.0, but it remains far off the pre-pandemic levels of 103 and a renewed rise in coronavirus cases in a number of key Eurozone economies could slow the nascent recovery.

Japanese Prime Minister Shinzo Abe resigned on Friday, ending several months of speculation regarding his health. He will continue to oversee the government until his successor is appointed in September. While Japanese equities closed lower, Asian markets were largely untroubled, and the expectation is that his trademark accommodative monetary and fiscal policies and structural reforms – Abenomics – will be continued, especially given the ongoing pandemic crisis.

Dollar index falls on Fed policy shift



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons.		Time	Cons.
US Dallas Fed manuf. activity	18:30	0.0			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasury markets sank last week in response to the Fed outlining its strategy to target 2% inflation on average over a period and not linking upward moves in rates to a specific economic target being achieved. Most of the action was at the longer-end of the curve with the front end displaying little change. Yields on 10yr USTs added more than 9bps to settle at 0.7211% but spiked to more than 0.78% in early trading on Friday. The yield on the 30yr UST gained even more, rising by 16bps over the course of the week to settle at 1.5%.

Emerging market bonds continued to stall with the Bloomberg Barclays index of USD EM bonds falling by 0.25% last week. Spreads over USTs compressed to 357bps.

Press reports indicate that Bahrain may approach markets soon for a benchmark conventional and sukuk deal. Bahrain last tapped markets in May raising USD 2bn. We estimate that the country will record a budget deficit of 10% this year. Further, Bloomberg has reported that Dubai is in talks with banks for a sale of dollar-denominated Islamic bonds.

FX

Last week the US dollar showed few signs of any positive movement. The DXY index fell by around 1% as the market digested the announcement from Fed Chair Jerome Powell of a greater focus on inflation, providing a boost to the dollar's competitors. USDJPY fell by -0.41% for the week to settle at 105.37, an area just outside the 38.2% one-year Fibonacci retracement of 105.41.

The euro advanced by 0.9% overall to close at 1.1903, whilst Sterling soared to 1.3351, its highest point since 2018. Meanwhile the AUD and NZD recorded some of the best movement out of all the major currencies, advancing by 2.8% to reach 0.7365 and 3.1% to close at 0.6743 respectively.

Equities

The resignation of Japanese Prime Minister Shinzo Abe at the close of the week prompted a -1.4% sell-off in the Nikkei and -0.6% in the Topix on Friday. However, Asian equities were otherwise untroubled, with most majors closing higher on Friday, and positive on the week. The Shanghai Composite closed up 0.7% w/w.

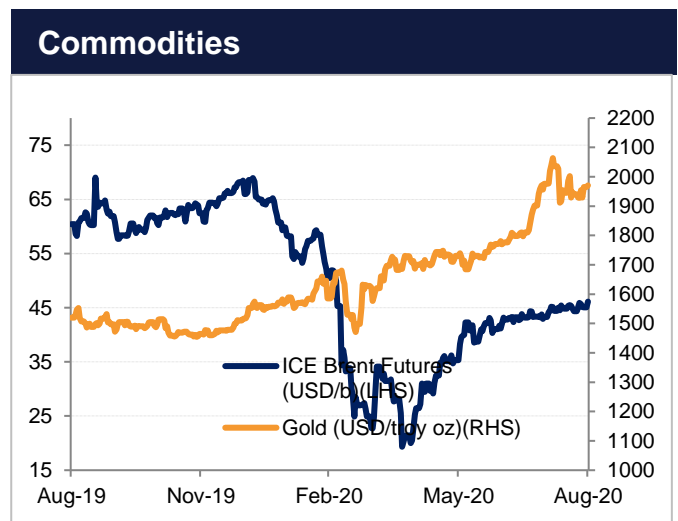
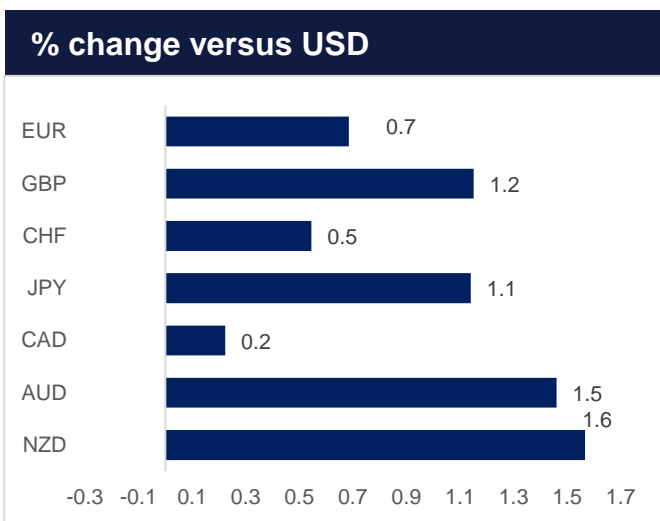
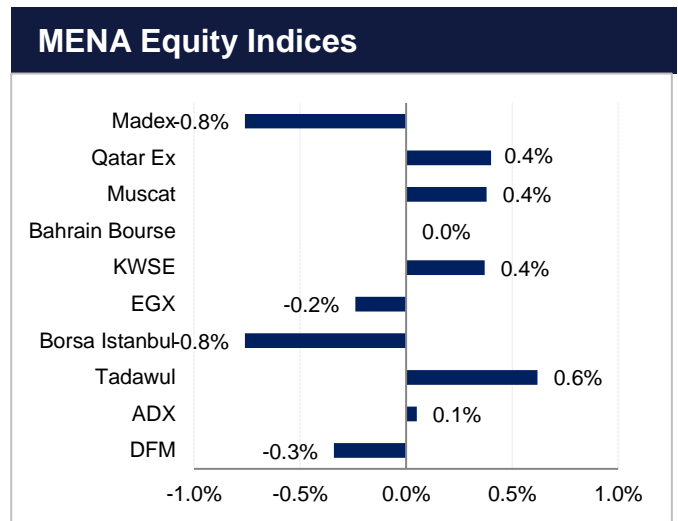
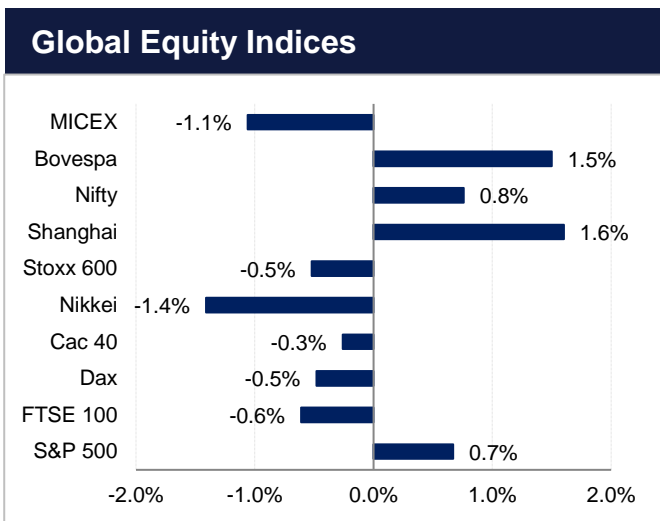
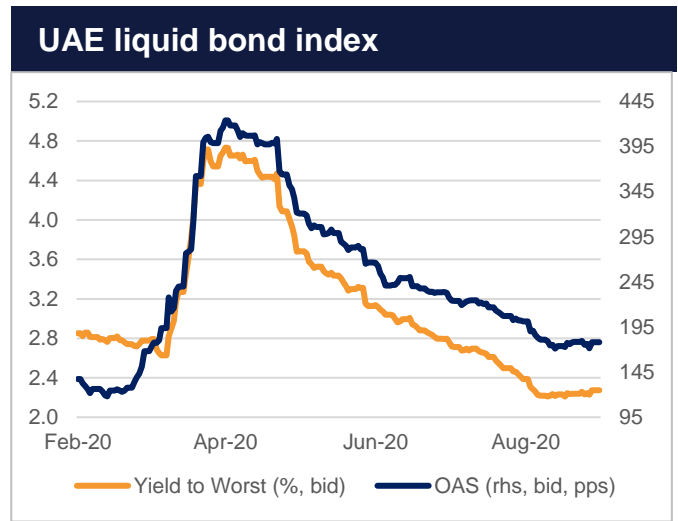
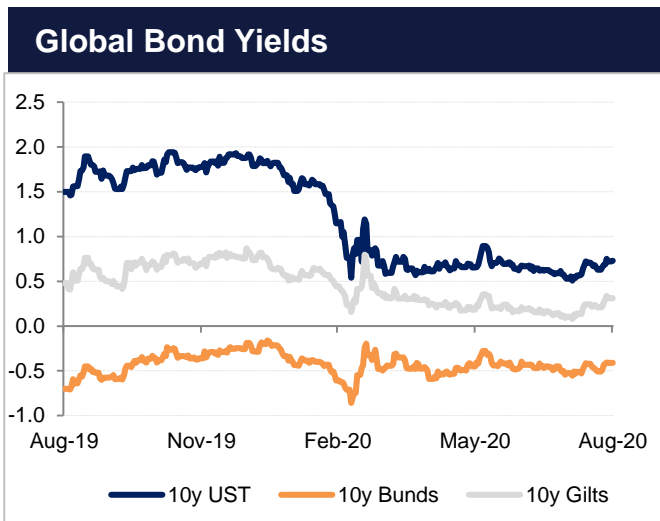
The positive trend was carried in most major global indices save the FTSE 100 which closed -0.6% lower than a week previous even despite BoE Governor Andrew Bailey telling the Jackson Hole symposium on Friday that central banks 'are not out of firepower.' Elsewhere in Europe the DAX and the CAC gained 2.1% and 2.2% respectively, while in the US the S&P 500 and the NASDAQ continued to hit record highs, gaining 3.3% and 3.4% w/w. The blue-chip Dow Jones, which underwent a reshuffle at the start of the week, gained 2.6%, putting it in positive ytd territory for the first time since February.

Commodities

Hurricane Laura swept through oil markets last week but despite being one of the strongest ever storms to hit the US Gulf coast, Laura failed to shake benchmark prices out of their trading range that has been in place for the last two months. Brent futures added 1.6% to settle at USD 45.05/b while WTI closed just short of USD 42.97/b, a weekly gain of 1.5%. Volatility in oil markets continues to shrink with 30-day vol in Brent futures near its lowest level in the past year.

Forward structures also seemed to shrug off the impact of Hurricane Laura with time spreads in both WTI and Brent futures closing weaker. Front month (1-2 month) spreads in WTI closed last week in a contango of USD 0.32/b, their widest level since the end of July while Dec 20/21 spreads closed at more than USD 2/b in contango. In Brent markets Dec spreads held onto the wide contango of almost USD 3/b for 20/21, extending a persistent downward trend that has been in place since May.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1903	+0.69	1.1999	USDTRY	7.3302	-0.37	EURAED	4.3725	+0.70
GBPUSD	1.3353	+1.15	1.3376	USDEGP	#N/A N/A	#VALUE!	GBPAED	4.9038	+1.13
USDJPY	105.37	-1.13	104.77	USDSAR	3.7505	--	JPYAED	0.0349	+1.14
USDCAD	1.3099	-0.22	1.3095	USDQAR	3.6800	+1.05	CADAED	2.8040	+0.23
AUDUSD	0.7365	+1.46	0.7366	USDKWD	0.3056	--	AUDAED	2.7056	+1.47
USDCHF	0.9042	-0.53	0.8946	USDBHD	0.3770	--	CHFAED	4.0622	+0.54
EURGBP	0.8916	-0.45	0.8972	USDOMR	0.3850	--	TRYAED	0.5000	+0.16
USDAED	3.6730	+0.00	3.6769	USDINR	73.4025	-0.56	INRAED	0.0552	+11.14

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.2878	0.4650	0.6696	0.7024	USD 2 yr	0.223	-2
USD LIBOR	0.1568	0.2409	0.3099	0.4453	USD 5 yr	0.338	-3
GBP LIBOR	0.0544	0.0640	0.1163	0.2354	USD 10 yr	0.729	-2
JPY LIBOR	-0.0958	-0.0578	-0.0423	0.1030	EUR 2 yr	-0.434	-1
CHF LIBOR	-0.7886	-0.7204	-0.6680	-0.5246	EUR 5 yr	-0.363	-1
					EUR 10 yr	-0.139	-0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1964.83	+1.83	ADGB 2.50 25	1.08	-0	Abu Dhabi	46	-1
Silver	27.50	+1.80	DUGB 3.89 25	1.32	-0	Bahrain	325	+1
Oil (WTI)	42.97	-0.16	QATAR 3.4 25	1.21	+1	Dubai	163	-2
Aluminium	1764.50	+1.20	US Tsy 2 yr	0.13	-3	Oman	456	-1
Copper	6697.50	+0.85	US Tsy 10 yr	0.72	-3	Qatar	46	--
						Saudi Arabia	83	--

Source: Bloomberg, Emirates NBD Research

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report. The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research & Treasury Contact List

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

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

Khatija Haque
Head of Research &
Chief Economist
+9714 230 7803
khatijah@emiratesnbd.com

Research

Edward Bell
Senior Director, Market Economics
+9714 230 7701
edwardpb@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 609 3015
shadyb@emiratesnbd.com

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

Jamal Mattar
Research Analyst
+9714 444 3607
jamaly@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
+20 22 726 5040

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