



بنك الإمارات دبي الوطني
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Daily Outlook

Attacks on the Abqaiq processing facility and the Khurais oil field in Saudi Arabia over the weekend present an enormous upside risk to oil prices as production shuts down while damage control and repairs are carried out. How high oil prices move will depend on the extent of damage and how long any repair work will take but markets will now incorporate geopolitical risks into oil prices at a much higher level, adding support to spot prices for crude.

According to official statements from Saudi Arabia, production has fallen by 5.7m b/d as a consequence of the attacks. Saudi Arabia had already been producing more than 1m b/d below its 2018 peak level in accordance with the OPEC+ agreement so the attacks will substantially amplify the effect of production curtailment. Prince Abdulaziz bin Salman, the Kingdom's new energy minister, said that importers of Saudi crude would receive supplies from inventories.

Following its meeting on Thursday, the European Central Bank cut its benchmark deposit rate further into negative territory, from -0.4% to -0.5%. Further measures taken included a tiering of interest rates for banks – in a bid to protect them from the more pernicious effects of negative rates – and a pledge to renew quantitative easing by buying EUR20bn of assets a month from November 1. The message around the resumption of QE changed, with a pledge that it would continue for as long as necessary, and to end shortly before it starts raising the key ECB interest rates - an outcome which has not been viewed universally favourably by all ECB representatives. The euro strengthened after an initial sell-off as these measures appear to be all the bank is planning for the time being. Thursday was the last meeting of President Mario Draghi's eight-year tenure at the head of the ECB, and while he may have done 'whatever it takes', the limits of monetary policy to stimulate growth are being reached, with the onus moving to fiscal policy. Indeed, Draghi called upon Eurozone 'governments with fiscal space [to] act in an effective and timely manner.'

The ECB was not the only central bank to loosen policy on Thursday, as Turkey's TCMB followed up the record 425 basis point cut to the one-week repo it made in July with a further 325bps, taking the benchmark rate to 16.50%. Strong disinflation and the global easing trend has allowed the bank room to roll back on the tightening it implemented in 2018, a move which will likely find favour with President Erdogan, who continues to profess his preference for lower interest rates.

The cut by the ECB did not go unnoticed by US President Trump, who took to Twitter to make comparisons with Fed policy ahead of the FOMC meeting this Wednesday. While a 25bps cut remains the most likely outcome, strong data from the US at the close of last week again raises the question of how necessary US rate cuts are at present. Core inflation rose to an 11-year high of 2.4% in August in data released Thursday, while on Friday it was revealed that both retail sales and the Michigan Consumer Sentiment Index for August exceeded expectations.

Ballots are being counted in Tunisia following the presidential election held yesterday. Turnout was fairly low at around 45% as voters chose a successor to President Beji Caid Essebi following his death in office in July. There were 24 candidates on the ballot sheet, including Prime Minister Youssef Chahed.

Data and Events

	Time	Cons		Time	Cons
US Empire State manufacturing survey	16:30	4.0	Canada existing home sales m/m	17:00	1.3%

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed lower across the board as the week was bookended by encouraging news flow on trade talks between the US and China at the start and better than expected economic data at the end of the week. The week also saw the European Central Bank cut interest rates deeper into negative territory and restart quantitative easing. The measures taken by the ECB do raise expectation pressure on the Federal Reserve. Overall, yields on the 2y UST, 5y UST and 10y UST ended the week at 1.80% (+16 bps w-o-w), 1.75% (+32 bps w-o-w) and 1.89% (+33 bps w-o-w) respectively.

The aftereffect of the ECB decisions which were broadly in line with market expectations was limited. In fact, yields in the Eurozone rose. For example, yields on 10y bunds improve to -0.45% from -0.64% at the start of the week. The move is perhaps reflective of a growing perception that central banks are coming around to the diminishing impact of lower rates on economic growth.

Regional bonds aligned themselves to the moves in benchmark yields. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose +13 bps w-o-w to 3.20% and credit spreads tightened 17 bps to 136 bps.

FX

The euro closed 0.4% stronger against the USD over the week on Friday, as an initial sell-off in the wake of the ECB meeting on Thursday was quickly reversed as the finer details of the bank's decisions were announced. ECB President Mario Draghi's calls for more action from Eurozone governments were interpreted as indicating that there was little more to come in terms of easing from the ECB, prompting the single currency to pick up from the more-than-two-year lows against the greenback seen earlier in September.

Sterling also had a positive week last week, picking up to GBP 1.2501/USD, at end-of-trading on Friday, a 1.8% gain on the previous week's close. Positive noise around Brexit, and specifically the chance that the government might look to compromise on the Irish border question through keeping Northern Ireland under some EU rules, drove the gains. However, subsequent rebuttals by the Northern Irish DUP that it would not accept this, alongside press statements from Prime Minister Boris Johnson that he was prepared to ignore the recently passed legislation meant to prevent a no-deal Brexit, and push for one if it was a choice of that or remaining within the EU past the October 31 deadline, could see the pound reverse some of these gains as the new week starts.

Equities

Regional equities started the week on a negative note following attacks on Saudi oil facilities over the weekend. All major indices closed lower with the Tadawul losing -1.1% and the DFM index dropping -0.6%. In terms of stocks, Sabic dropped -2.6% and Emaar Properties lost -1.0% as investors pared positions in market heavyweights.

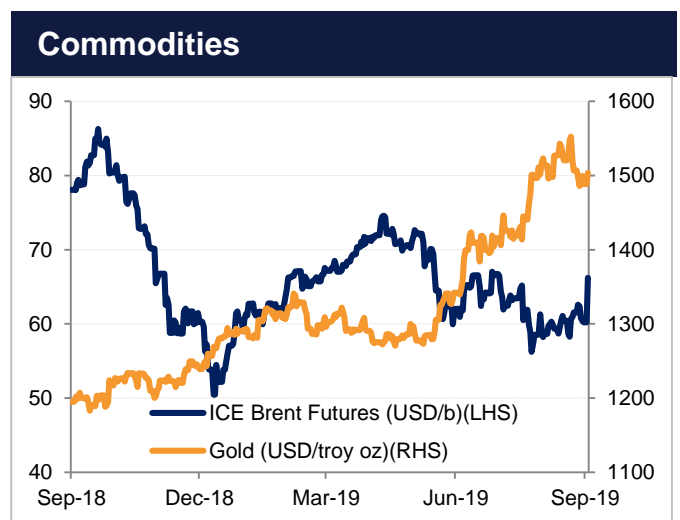
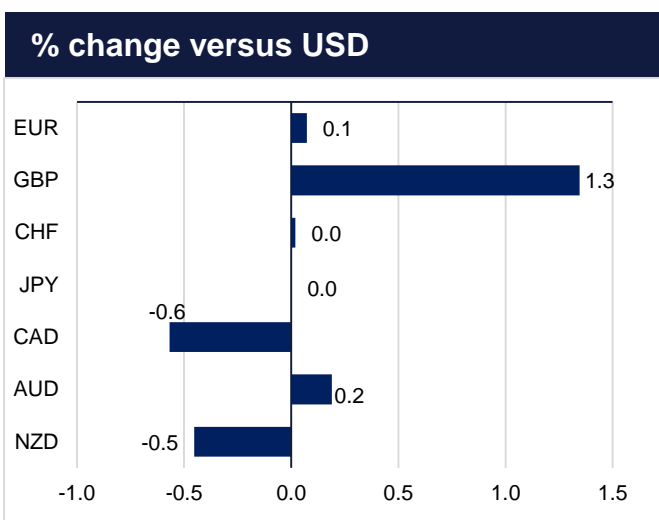
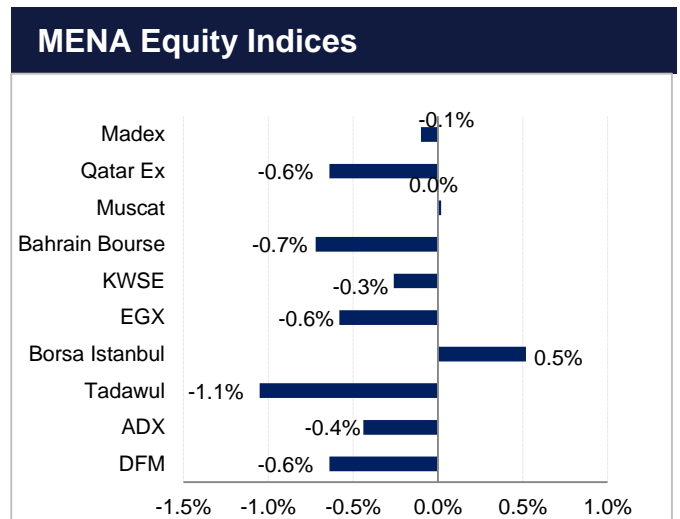
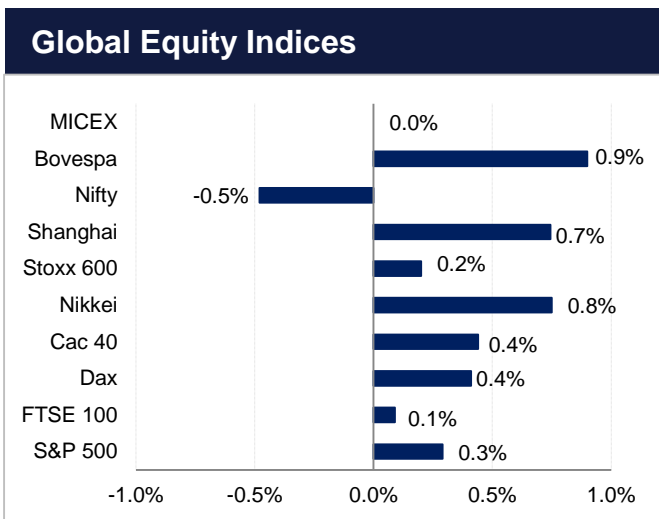
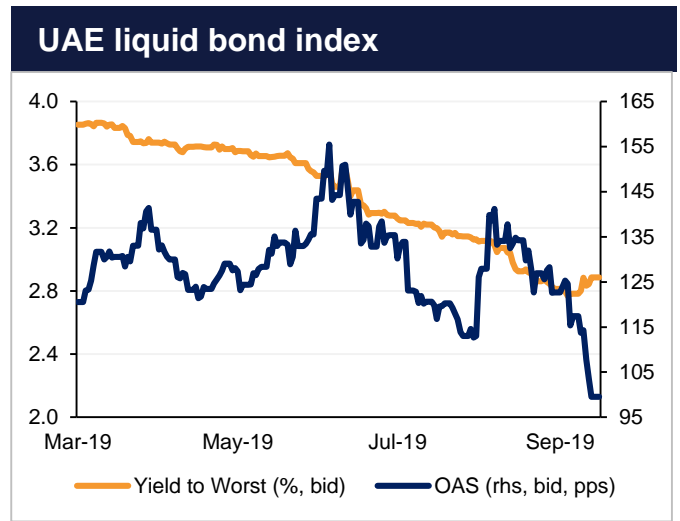
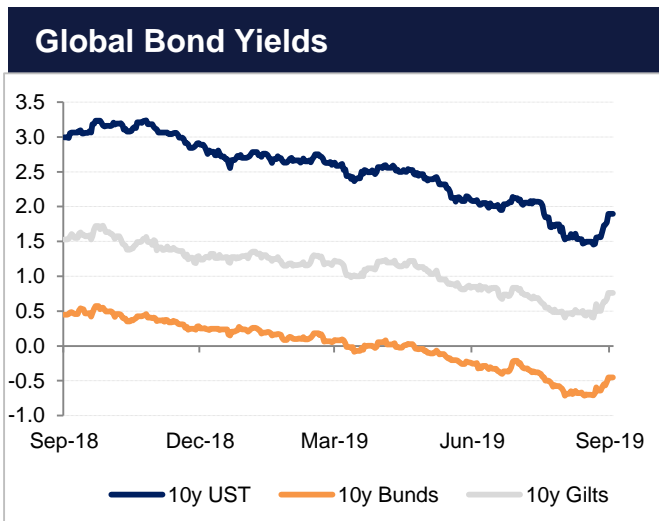
Commodities

Oil markets will remain in flux until the full impact of attacks on the Abqaiq processing facility and Khurais field in Saudi Arabia is known. In early trading today, prices hit USD 72/b, but have moderated back to USD 66/b at the time of writing.

Prices had declined last week, closing down almost 3% in WTI and more than 2% in Brent futures as trade war and sluggish demand considerations weighed on the market. Official commentary from Saudi Arabia suggests that a clearer picture of the damage will be released later this week.

There are limited options in crude markets to compensate for the disruption to Saudi crude. Most of OPEC's spare capacity was held in Saudi Arabia itself and while the UAE, Kuwait and Iraq could increase output, their collective increase won't be nearly enough to compensate for the enormous drop in Saudi's production.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1073	+0.07	1.1361	USDTRY	5.6873	+0.52	EURAED	4.0679	+0.10
GBPUSD	1.2501	+1.35	1.2646	USDEGP	#N/A N/A	#VALUE!	GBPAED	4.5916	+1.36
USDJPY	108.09	-0.01	105.50	USDSAR	3.7512	--	JPYAED	0.0340	+0.01
USDCAD	1.3288	+0.59	1.3261	USDQAR	3.6800	+1.05	CADAED	2.7644	-0.58
AUDUSD	0.6879	+0.19	0.6932	USDKWD	0.3041	--	AUDAED	2.5268	+0.21
USDCHF	0.9904	--	0.9614	USDBHD	0.3771	+0.00	CHFAED	3.7094	+0.01
EURGBP	0.8862	-1.22	0.8988	USDOMR	0.3850	+0.13	TRYAED	0.6500	+0.13
USDAED	3.6730	--	3.6784	USDINR	70.7225	-0.64	INRAED	0.0552	+6.76

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.2162	2.3200	2.3715	2.4560	USD 2 yr	1.789	+8
USD LIBOR	2.0248	2.1394	2.0703	2.0491	USD 5 yr	1.686	+12
GBP LIBOR	0.7123	0.7846	0.8405	0.9621	USD 10 yr	1.786	+13
JPY LIBOR	-0.1448	-0.0898	-0.0443	0.0422	EUR 2 yr	-0.427	+1
CHF LIBOR	-0.8648	-0.8092	-0.7572	-0.6042	EUR 5 yr	-0.336	+4
					EUR 10 yr	-0.001	+8

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1488.53	-0.72	ADGB 6.75 19	2.42	--	Abu Dhabi	39	-4
Silver	17.45	-3.64	DUGB 7.75 20	1.93	-5	Bahrain	241	--
Oil (WTI)	54.85	-0.44	QATAR 5.25 20	2.70		Dubai	118	-6
Aluminium	1776.75	+0.31	US Tsy 2 yr	1.80	+8	Oman	324	--
Copper	5949.25	+2.52	US Tsy 10 yr	1.90	+12	Qatar	40	-2
						Saudi Arabia	59	-1

Source: Bloomberg, Emirates NBD Research

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