



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

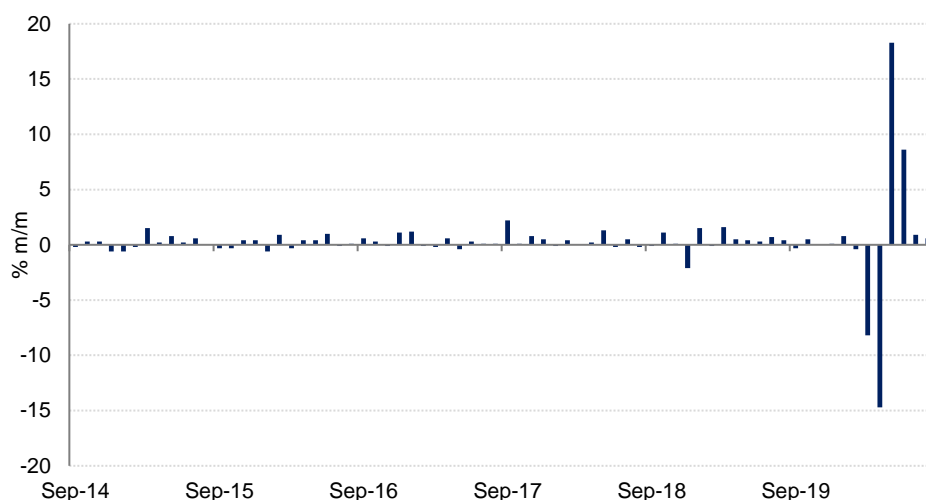
As expected the Federal Reserve confirmed that the benchmark federal funds rate would remain lower for longer as a result of its new approach to inflation targeting. While the Fed's economic projections indicate that the US economy will contract by less than it had earlier expected (Q4 GDP is now forecast at -3.7% y/y vs -6.5% previously), the statement said that the pandemic would continue to weigh on activity, inflation and employment in the near term, and pose considerable risks to the economic outlook over the medium term. On interest rates, the statement said they would remain near zero until the labour market was at "maximum employment" and "inflation has risen to 2% and is on track to moderately exceed 2% for some time". The Fed's own forecast shows core PCE under 2% through 2022, **this would imply interest rates remain unchanged until 2023-2024.** Indeed the dot plot shows most FOMC members expect the Fed Funds rate to remain where it is until end-2023. **However, the Fed's statement did not indicate an change to its asset purchase strategy,** instead saying the Fed would continue to purchase treasury securities and agency-backed securities "at least" at the current pace.

Meanwhile retail sales in the US in August came in below forecasts at 0.6% m/m. Retail spending slowed from July following the expiration of federal unemployment benefits, but remains around 2% above pre-pandemic levels.

In the UK, CPI inflation fell -0.4% m/m in August, largely driven by the effects of lower VAT for tourism & hospitality and the "eat out to help out" scheme which resulted in a drop of -2.8% y/y on prices in the restaurant & hotels sector. Headline CPI fell to 0.2% y/y from 1.0% in July, but was slightly higher than the market had expected. The Bank of England's MPC is not expected to make any changes to monetary policy at today's meeting, but will likely expand its QE programme in the coming months.

The Bank of Japan kept rates on hold this morning as expected, and upgraded its outlook for the economy, saying activity is resuming gradually but that the rate of improvement was likely to be only moderate.

US retail sales slowed in August



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons.		Time	Cons.
EC CPI m/m	13:00	-0.4%	BoE MPC	15:00	0.1%
US Initial Jobless Claims	16:30	850k	US Housing Starts	16:30	1483k

Source: Bloomberg, Emirates NBD Research.

Fixed Income

The long-end of the curve steepened yesterday, as the US 10-year added two basis points to 0.6969% and the 30-year 3bps to 1.4590% following the outcome of the FOMC meeting, and Fed Chair Jerome Powell's statements on the economic outlook. The expectation that rates would remain low through 2023 at least, questions over the recovery, and the door left open for greater asset purchases, saw shorter-dated bond yields dip with the two-year falling from 0.1390% to 0.1370%.

It is a busy day close to the week for central banks, with the BoJ having announced that it was keeping rates on hold this morning, while keeping its asset purchase programme intact. A similar move is anticipated from the BoE later today, and we also have a number of EM central bank decisions including Indonesia, Taiwan and South Africa.

FX

The USD advanced on Wednesday evening and has continued to do so early this morning after statements from Jerome Powell improved upgrading the economic outlook for the US. The DXY index rose by 0.43% and trades at 93.450. The JPY has maintained a position around the 105 handle after briefly dropping to 104.81 in the evening, its lowest point since late July.

The EUR was amongst the biggest movers of the day, dropping by -0.85% to reach 1.1745, just above the 50-day moving average of 1.1744. GBP rebounded from highs of 1.3007 and trades at 1.2910, which still represents some modest gains. All eyes will be on the British Parliament as they have their say on the controversial Brexit bill. Both the AUD and NZD declined by -0.51% and -0.45% to trade at 0.7265 and 0.6685 respectively. The latter snapped a four-day winning streak after the RBNZ released results of a stress test on lenders..

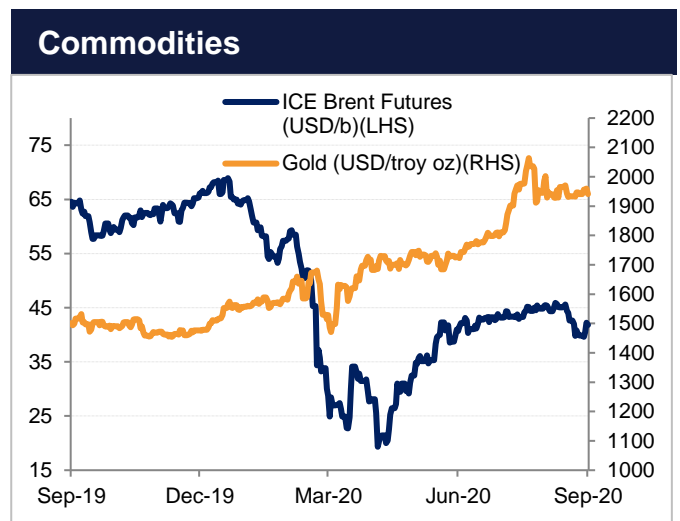
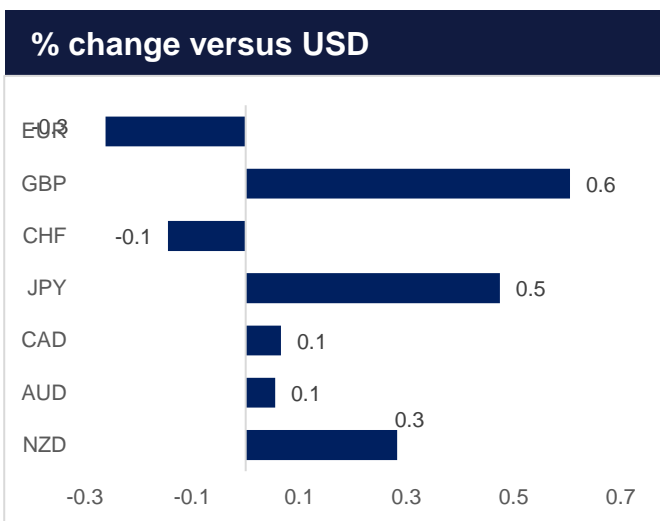
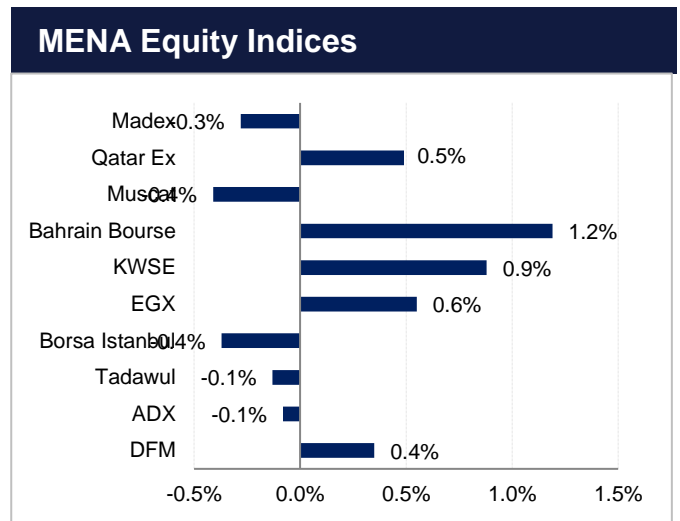
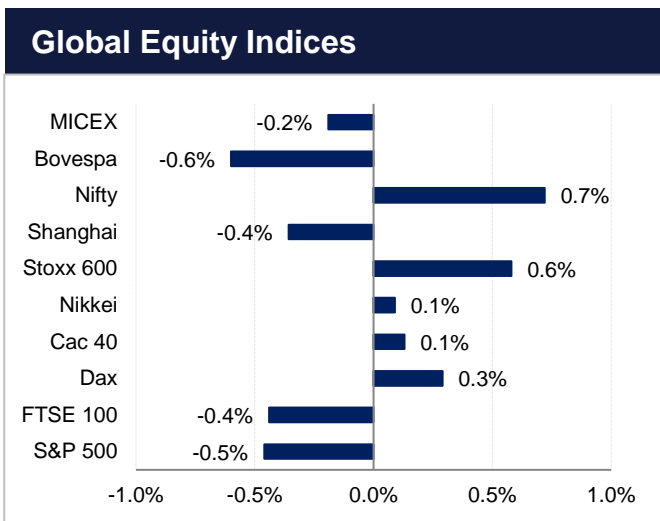
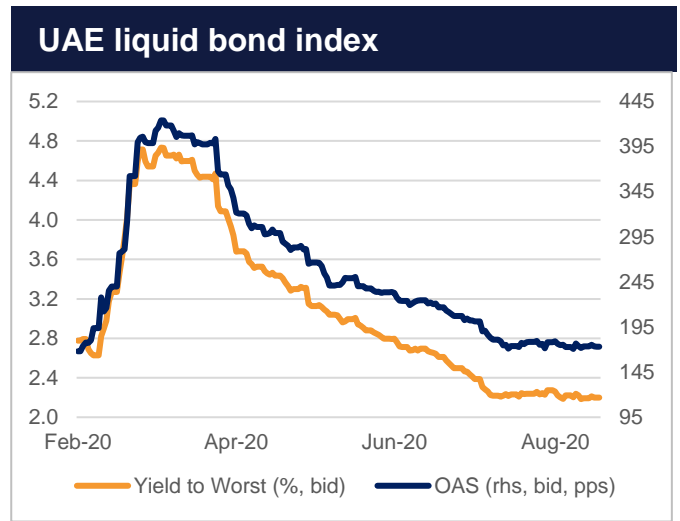
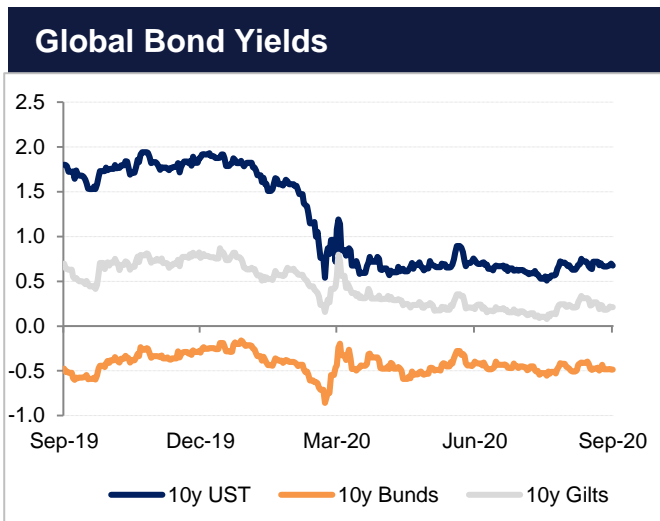
Equities

The lack of any new support measures announced by the FOMC, and Jerome Powell's stress that 'the path ahead remains highly uncertain' – especially given that renewed fiscal support appears ever less likely for the time being – weighed on equities yesterday. The S&P 500 and the NASDAQ closed down 0.5% and 1.3% respectively, with the Dow inching up by 0.1%. European markets, which closed prior to the FOMC announcement, fared a little better, with the CAC (0.1%) and the DAX (0.3%) both gaining, although a stronger pound weighed on the FTSE 100 which lost 1.3% on the day.

Commodities

Oil markets enjoyed strong gains yesterday, as WTI futures climbed 4.9% to close at USD 40.2/b – its first close above USD 40.0/b in two weeks – and Brent added 4.0% to USD 42.22/b. Prices were boosted by EIA data showing that US oil reserves had fallen by 4.4mn bbl last week to 496mn bbl – the lowest levels since April. Signals from the UAE that it would cut output, following its having missed its production curb targets earlier over the summer – also likely induced some upward price pressure.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1816	-0.26	1.1915	USDTRY	7.5024	+0.14	EURAED	4.3406	-0.24
GBPUSD	1.2967	+0.61	1.2994	USDEGP	#N/A N/A		GBPAED	4.7630	+0.61
USDJPY	104.95	-0.46	104.36	USDSAR	3.7509	-0.00	JPYAED	0.0350	+0.47
USDCAD	1.3178	-0.06	1.3174	USDQAR	3.6800	+1.05	CADAED	2.7873	+0.06
AUDUSD	0.7306	+0.05	0.7310	USDKWD	0.3056	--	AUDAED	2.6833	+0.05
USDCHF	0.9094	+0.14	0.8995	USDBHD	0.3771	--	CHFAED	4.0390	-0.14
EURGBP	0.9112	-0.86	0.9170	USDOMR	0.3850	--	TRYAED	0.4900	-0.05
USDAED	3.6730	--	3.6765	USDINR	73.5250	-0.16	INRAED	0.0552	+10.72

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.2428	0.4179	0.5725	0.7833	USD 2 yr	0.220	-0
USD LIBOR	0.1505	0.2461	0.2733	0.3858	USD 5 yr	0.339	+1
GBP LIBOR	0.0490	0.0591	0.0840	0.1669	USD 10 yr	0.703	+1
JPY LIBOR	-0.1190	-0.0975	-0.0578	0.0807	EUR 2 yr	-0.477	-0
CHF LIBOR	-0.7940	-0.7520	-0.7064	-0.5636	EUR 5 yr	-0.412	+0
					EUR 10 yr	-0.217	-0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1959.26	+0.26	ADGB 2.50 25	1.08	-1	Abu Dhabi	42	--
Silver	27.16	+0.08	DUGB 3.89 25	2.46	--	Bahrain	307	-5
Oil (WTI)	40.16	+4.91	QATAR 3.4 25	1.18	-5	Dubai	141	+1
Aluminium	1756.15	+0.34	US Tsy 2 yr	0.14	-0	Oman	433	-1
Copper	6793.40	+0.23	US Tsy 10 yr	0.70	+2	Qatar	41	-1
						Saudi Arabia	178	-1

Source: Bloomberg, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12thFloor
Baniyas Road, Deira
P.OBox777
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
Abdulazeez Adm AlSomali
+966 11 282 5623
abdulazeezso@emiratesnbd.com

Singapore Sales
Shivakumar Srinivasan
+65 6578 5620
shivakumars@emiratesnbd.com

London Sales
Carlo de Vos
+44 (0) 207 838 2279
devosc@emiratesnbd.com

Egypt Sales
Ahmad Okasha
+202 2726 5934
aokasha@emiratesnbd.com

India Sales
Ashish Pahuja
+91 22 6813 6202
ashishpa@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