



بنك الإمارات دبي الوطني
Emirates NBD

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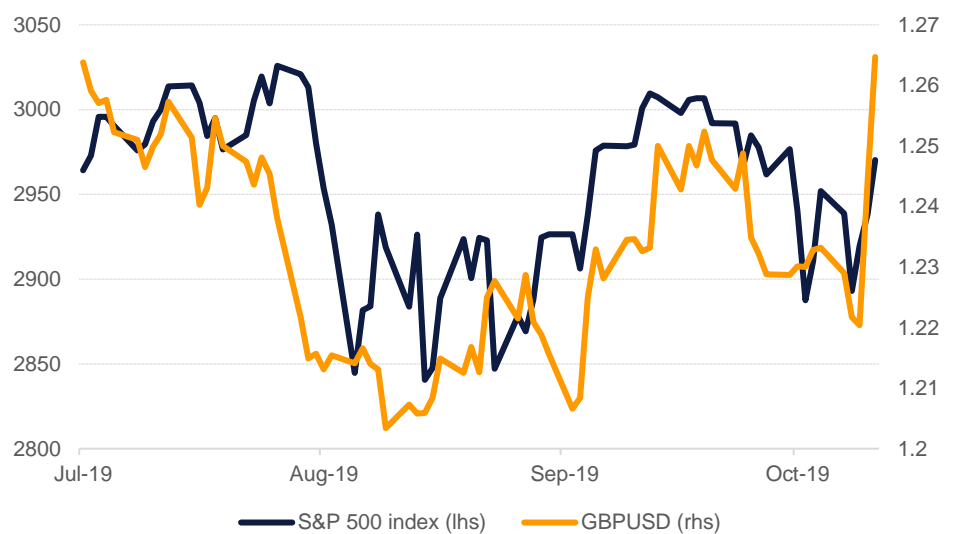
Daily Outlook

The US and China moved closer to a trade deal last week with a tentative agreement focusing on agricultural goods, currency and intellectual property. While the agreement falls short of a full trade deal between both countries, it does suggest that the recent hostility in trade relations may be cooling. A round of US tariff rate hikes on Chinese goods that was set to be implemented this week has now been delayed and China has indicated it would be buying up to USD 50bn in agricultural products from the US. Markets took the news positively with rallies across risk assets at the end of the week. However, the 'deal' so far remains notional and could take several more weeks of negotiation before the full details emerge. Moreover, previous rounds of positivity in trade discussions between both countries have been quashed several times this year and the outcome of talks will remain at the whim of the US president.

The EU and UK agreed to "intense" negotiations following a tumultuous week on Brexit. A bilateral meeting between the UK prime minister, Boris Johnson, and Irish Taoiseach, Leo Varadkar, at the end of last week seemed to herald some positivity as the issue of the Irish border remains the main stumbling block to securing a deal ahead of the October 31st deadline for the UK to leave the EU. The chance of a deal emerging helped propel sterling to its highest levels since July, breaking above 1.27 against the USD on Friday before settling at a 1.26 handle. The UK prime minister will need to assuage the fears of his political allies in Northern Ireland over its status within the UK. The current outline of deal would see the province remain within the customs regime of the EU but face regulatory checks with the rest of the UK.

Industrial production in India fell in August, declining 1.1% y/y. A drop in capital goods production was the main contributor to the slowdown and the headline figure was the worst print in six years. Auto sales also dropped in September, down almost 24% and the 11th consecutive monthly decline. India's economy has hit a protracted slowdown and prompted the RBI to cut rates several times this year, most recently last week with another cut seeming likely by the end of the year.

Stocks and sterling soar on respective deal optimism



Source: Eikon, Emirates NBD Research

www.emiratesnbdresearch.com

Today's Economic Data and Events

	Time	Cons		Time	Cons
TU Industrial production y/y	11:00	n/a	EZ industrial prod. y/y	13:00	-2.5%
CN trade balance (USD)	n/a	33bn			

Source: Eikon, Emirates NBD Research.

Fixed Income

It was a week of two halves for Treasuries as risk sentiment revived sharply following positive progress on Brexit and an agreement between the US and China on a limited trade deal. The curve shifted higher with yields on the 2y UST, 5y UST and 10y UST closing at 1.59% (+19 bps w-o-w), 1.55% (+21 bps w-o-w) and 1.72% (+20 bps w-o-w) respectively.

Following the moves in USTs last week, a key part of the curve turned positive. The spread between 3m treasury bills and 10y USTs ended the week at 4.99bps, the highest level since July 2019. The gap had inverted for the first time in March in a decade.

Regional bonds closed lower as they tracked sharp moves in benchmark yields. The YTW on Bloomberg Barclays GCC Credit and High Yield index rose +7 bps w-o-w to 3.29%. However, credit spreads tightened 16 bps w-o-w to 159 bps, helped partly by a rebound in oil prices.

FX

Sterling was the standout performer last week as markets took bilateral meetings between the UK and Irish prime ministers and 'intense' negotiations over Brexit as a positive that a no-deal exit would be averted. GBP closed the week up more than 2.5% at 1.2647 against the USD, having at one point broken above 1.27. EUR shared in some of the gains, moving up 0.58% against the greenback to settle the week at 1.104.

In emerging markets, INR continued to lose ground, closing the week above 70.9 as data there continues to be soft and pointing to more RBI easing by the end of the year. Optimism over a US-China trade deal helped to strengthen the CNY, including a provision to enforce a currency pact that would preclude any currency manipulation.

Equities

Regional equities started the week on a mixed note as investors remained cautious ahead of the earnings season despite positive cues from global markets. The DFM index added +0.5% while the Tadawul dropped -0.8%.

The weakness on the Tadawul was mainly on account of weakness in banking sector stocks with National Commercial Bank and Riyadh Bank dropped -2.4% and -2.3% respectively. Elsewhere, Arabtec gained +8.9% after some progress was reportedly made in talks with Trojan Holdings.

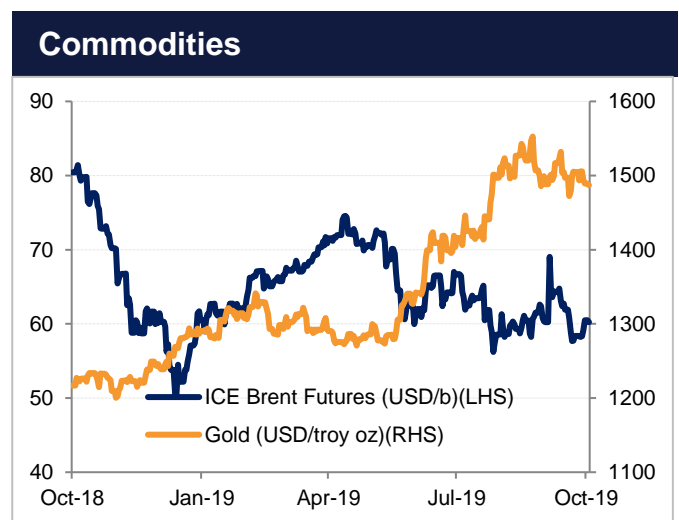
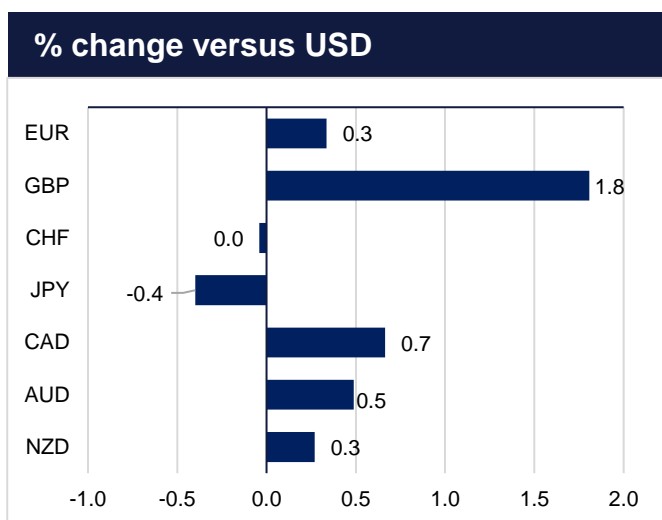
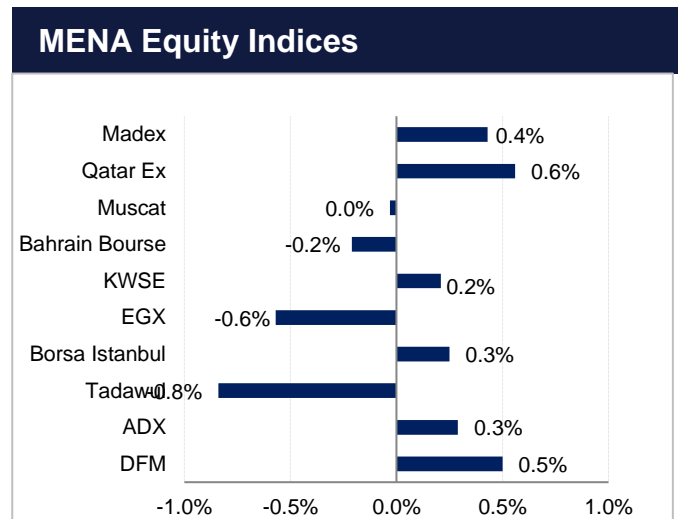
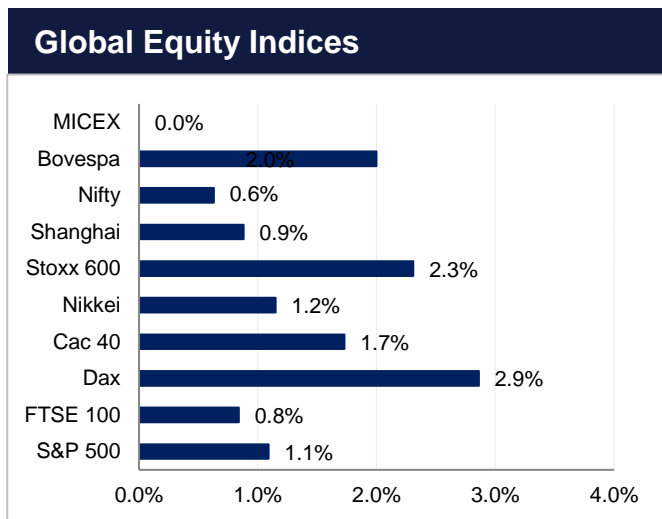
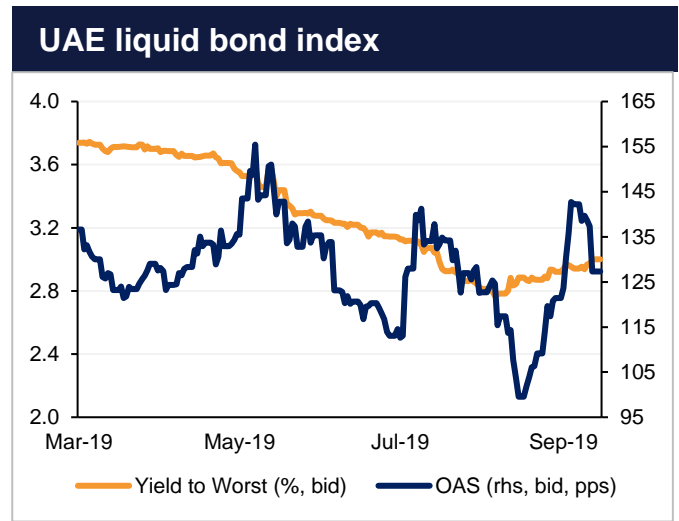
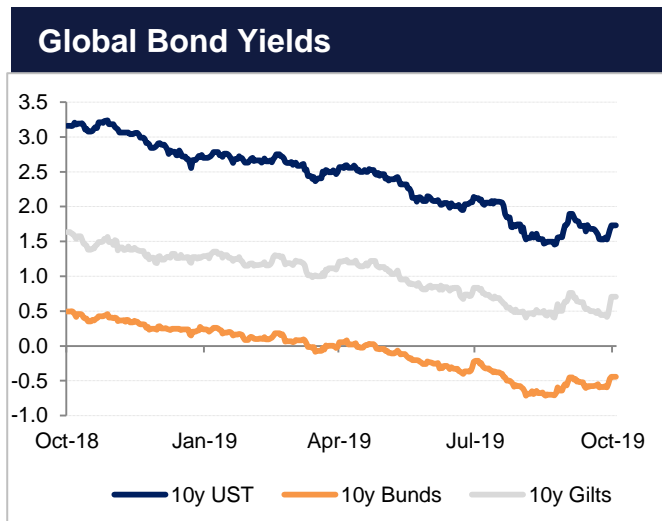
Commodities

Oil markets managed to snap a few weeks of losses as risk appetite returned last week. The outlines of a US-China trade deal propelled oil prices higher, helping Brent futures close up 3.7% at USD 60.51/b and WTI up 3.6% to close at USD 54.70/b. Financial markets generally got a boost from the chance of a trade deal along with hope that no-deal Brexit could be avoided. More specifically to oil markets, another bump in geopolitical risks kept oil prices from slipping as an Iranian oil tanker has reportedly been attacked.

The IEA and OPEC released their monthly market reports last week and both agencies shaved lower their demand expectations for 2020. The IEA projects demand growth at, what it calls, a "still solid" 1.2m b/d while OPEC's projections were for a little more than 1m b/d. The IEA highlighted the relative lack of price movement in response to attacks on oil infrastructure in Saudi Arabia in September as concern over demand and non-OPEC supply growth capture markets' attention. In OPEC's report, Saudi Arabia self-reported a decline of 660k b/d in September while the secondary source estimate was nearly twice as much. OPEC actually revised up its call on OPEC crude for 2020 to 29.54m b/d but that still represented a drop of almost 1.2m b/d from its 2019 estimate.

Spot prices may have rallied last week but forward curves are losing some strength. Brent 1-2 month spreads closed the week at USD 0.39/b in backwardation compared with USD 0.63/b a week earlier. WTI likewise lost support at the front of the curve and the 1-2 month spread dipped back into contango. Dubai spreads have stabilized at a backwardation of around USD 2/b in the 1-3 month spread, lower than their level around the time of the Aramco attacks, but still displaying some sensitivity to geopolitical risk.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1042	+0.34	1.1306	USDTRY	5.8833	+0.81	EURAED	4.0538	+0.29
GBPUSD	1.2668	+1.81	1.2795	USDEGP	16.2852	+0.24	GBPAED	4.6450	+1.64
USDJPY	108.29	+0.29	105.87	USDSAR	3.7510	-0.00	JPYAED	0.0339	-0.41
USDCAD	1.3203	-0.66	1.3200	USDQAR	3.6800	+0.52	CADAED	2.7820	+0.67
AUDUSD	0.6794	+0.49	0.6851	USDKWD	0.3039	-0.04	AUDAED	2.4945	+0.45
USDCHF	0.9974	+0.04	0.9706	USDBHD	0.3770	-0.00	CHFAED	3.6836	-0.03
EURGBP	0.8724	-1.39	0.8844	USDOMR	0.3850	--	TRYAED	0.6200	-1.49
USDAED	3.6730	--	3.6784	USDINR	70.7225	-0.64	INRAED	0.0552	+6.70

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.1913	2.3035	2.3817	2.2830	USD 2 yr	1.643	+7
USD LIBOR	1.9135	2.0009	1.9756	1.9555	USD 5 yr	1.550	+8
GBP LIBOR	0.7164	0.7848	0.8514	0.9414	USD 10 yr	1.654	+7
JPY LIBOR	-0.1058	-0.1115	-0.0592	0.0152	EUR 2 yr	-0.420	+1
CHF LIBOR	-0.8020	-0.7868	-0.7180	-0.5924	EUR 5 yr	-0.327	+2
					EUR 10 yr	-0.023	+4

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1489.01	-0.33	ADGB 6.75 19	2.42	--	Abu Dhabi	52	-1
Silver	17.55	+0.22	DUGB 7.75 20	1.94	-5	Bahrain	233	-1
Oil (WTI)	54.70	+2.15	QATAR 5.25 20	2.70		Dubai	130	-1
Aluminium	1717.75	-1.72	US Tsy 2 yr	1.59	+5	Oman	323	-
Copper	5763.50	+0.24	US Tsy 10 yr	1.73	+6	Qatar	53	-1
						Saudi Arabia	79	-

Source: Bloomberg, Emirates NBD Research

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