



بنك الإمارات دبي الوطني
Emirates NBD

Daily
2 November 2020

Daily Outlook

The focus this week will undoubtedly be on the US presidential election on Tuesday, where Joe Biden continues to lead Trump in the national polls by 6-8pp and has a narrower lead in most of the key states. More than 93mn people have already voted, 68% of the total turnout in 2016. On the economics front the raft of positive economic data out of the US at the end of last week was insufficient to prevent a selloff in risk assets. **Q3 GDP came in slightly better than expected at 33.1% while personal income and spending both increased by more than forecast in September.** Both initial jobless claims and continuing claims were lower than expected. None of this was sufficient to prevent the biggest weekly decline in equity markets since March, as new US coronavirus cases reached a record high and no new fiscal stimulus appears to be forthcoming in the near term.

In Europe too, better than expected Q3 GDP data (12.7% q/q and -4.3% y/y vs Bloomberg consensus of 9.6% q/q and -7.0% y/y) was overshadowed by new lockdown restrictions in France and Germany. Austria, Greece and Portugal followed suit over the weekend. While the ECB did not announce any change to monetary policy at its meeting last week, it signalled a “recalibration” of monetary policy at the December meeting when it is due to publish updated economic forecasts. At the post-meeting statement, President Lagarde acknowledged that the outlook had deteriorated and that uncertainty was high. She did not rule out change in ECB policy before the next scheduled meeting, if the situation warrants it.

The UK also announced a new lockdown across England from Thursday 5 November, for a month. While schools and universities will remain open, all non-essential shops, entertainment venues and restaurants will close, and only work-related travel will be allowed. The government’s furlough scheme, which had been due to be replaced by the less generous Job Support Scheme on November 1, will now be extended so the government will pay up to 80% of furloughed workers’ salaries. **The BoE’s MPC is scheduled to meet this week and publish new economic forecasts. The market is looking for additional QE of GBP 100bn to be announced.**

The Reserve Bank of Australia is expected to cut the benchmark interest rate by 15bp to 0.10% on Tuesday. The FOMC is due to meet on Thursday (no change in policy is expected) and US non-farm payrolls data for October is due Friday. PMI data will also closely watched this week, including in our region.

Indeed, **China’s official composite PMI showed a modest improvement to 55.3 in October**, as the services sector gained momentum even as the manufacturing PMI was largely unchanged. The Caixin China manufacturing PMI beat forecasts in October, rising to 53.6 from 53.0 in September. The latter includes smaller and medium sized companies in the survey.

In the UAE, the government has announced a federal budget of AED 58bn in 2021, down from a planned AED 61.35bn this year. The federal budget has run a surplus in H1 2020. It is also a relatively small proportion of overall UAE spending, which we expect to reach AED 450bn this year, and rise to AED 466bn in 2021. Over the weekend, Dubai announced new infrastructure projects amounting to AED 6.6bn, including a AED 4bn waste to energy plant.

Today’s Economic Data and Events

| | Time | Cons. | | Time | Cons. |
|----------------------|-------|-------|---------------|-------|-------|
| EC manufacturing PMI | 13:00 | 54.4 | UK manuf. PMI | 13:30 | 53.3 |
| US manufacturing PMI | 18:45 | 53.3 | US ISM Manuf. | 19:00 | 55.8 |

Source: Bloomberg, Emirates NBD Research.

Fixed Income

As the US election nears, markets decidedly turned to neutral positions. Longer-dated US treasuries fell while the near end of the curve was relatively flat in the past week. Yields on 2yr USTs closed the week at 0.1525%, less than 1bp of change from a week earlier. The 10yr yield, however, rose 3bps to 0.8737%, its highest level since June. The 2s10s curve also bear steepened to more than 72bps. With a victor potentially not being known immediately after the presidential vote there is near term risk that yields stay high as investors choose to ride out the uncertainty in cash.

On top of the US election this will be a heavy week for central bank actions. The RBA is expected to cut rates on November 3rd, followed by the Bank of England and the US Federal Reserve, both on November 5th. As England is now going back into nearly full lockdown, some additional measures from the BoE, such as further asset purchases seem likely. We expect to see no imminent change in policy from the Fed as it will still be assessing the impact of the election.

Emerging market USD-bonds fell by 0.5% last week with the outcome of the vote in the US leading to potentially vastly different outcomes for emerging economies. Spreads over USTs widened slightly, back up to 340bps.

Turkey is planning to raise up to USD 10bn via Eurobonds in 2021 according to the country's treasury department.

Ratings agency Fitch reaffirmed Abu Dhabi's AA long term foreign currency rating with a stable outlook, citing strong fiscal and external metrics and high GDP per capita.

FX

The USD surged last week as a risk averse tone took hold of markets. The DXY index advanced by 1.21% and settled at 94.038, marking a break above the 50-day moving average of 93.333. The 94 big figure will provide the next major hurdle for the currency, USDJPY reached a weekly low of 104.03 but staged a reversal and closed largely unchanged at 104.66.

The EUR fell by -1.79% and closed at 1.1647 despite upbeat Eurozone GDP, weighed down by concerns over Covid-19 lockdowns and uncertainty regarding the US elections. The GBP slipped by -0.7% and settled at 1.2947 amid fears of a national lockdown imposed on the UK. Given that the lockdown was confirmed on the weekend, Sterling is subject to further downside risk. Both the AUD and the NZD recorded significant losses, with the former dropping by -1.55% and settled at 0.7028, whilst the latter fell by -1.14% and closed at 0.6615.

Equities

US equities saw the biggest weekly decline since March, with the S&P 500 down -5.6% w/w, DJIA down -6.5% w/w and the Nasdaq composite -5.5% w/w. Increasing coronavirus cases, the lack of fiscal stimulus and pre-election uncertainty contributed to the risk off tone.

European equities had a worse week with the EuroStoxx 50 index down -7.5% last week. The UK FTSE 100 fared better at -4.8% w/w.

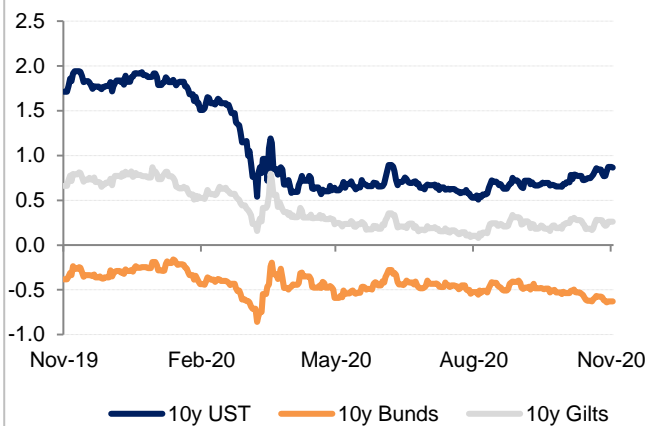
Regional markets closed lower yesterday with DFM GI down -1.6% and ADX GI down 0.6%.

Commodities

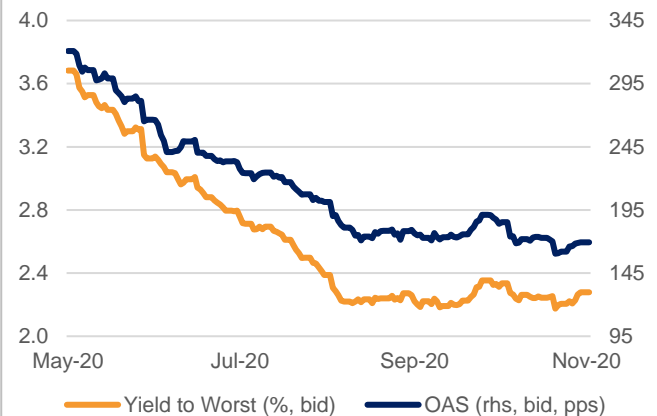
Oil prices were sharply lower last week with both Brent and WTI futures falling by more than 10% each. December Brent expired at USD 37.46/b while WTI settled the week at USD 35.79/b. Anxiety over the outcome of the election, more European economies choosing to re-introduce lockdowns along with increases in production from Libya all helped to sour the mood on oil.

Markets in Charts

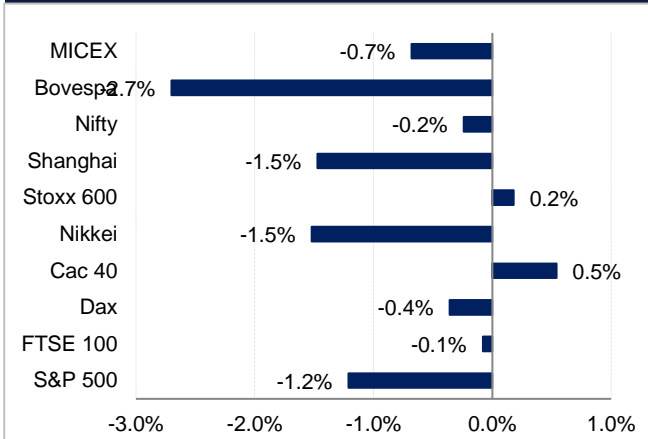
Global Bond Yields



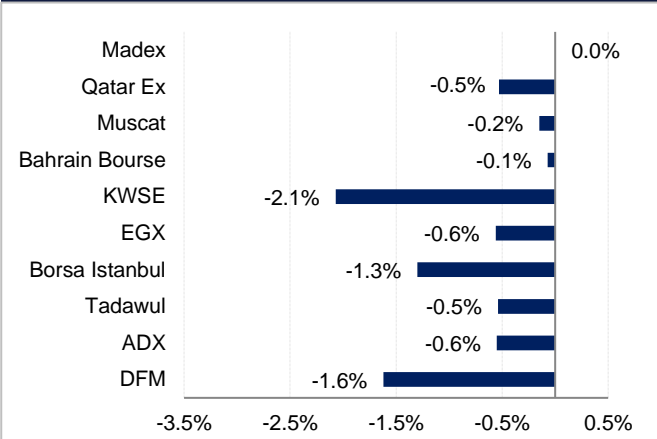
UAE liquid bond index



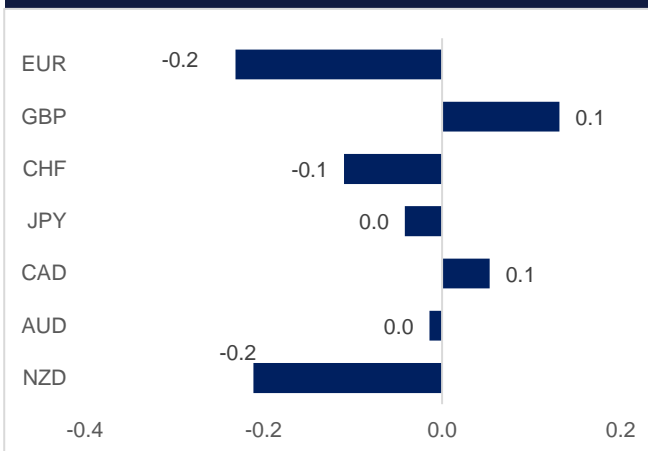
Global Equity Indices



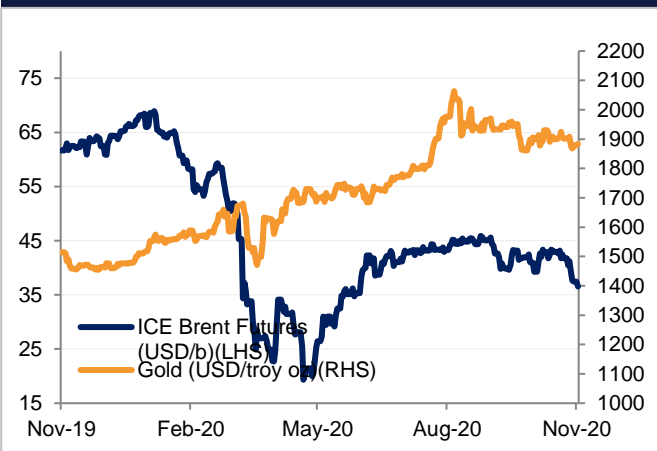
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|----------|---------|--------|--------|---------|
| EURUSD | 1.1647 | -0.23 | 1.1746 | USDTRY | 8.3449 | +0.65 | EURAED | 4.2779 | -0.22 |
| GBPUSD | 1.2947 | +0.13 | 1.2974 | USDEGP | #N/A N/A | #VALUE! | GBPAED | 4.7569 | +0.17 |
| USDJPY | 104.66 | +0.05 | 104.11 | USDSAR | 3.7508 | +0.01 | JPYAED | 0.0351 | -0.06 |
| USDCAD | 1.3321 | -0.03 | 1.3313 | USDQAR | 3.6800 | +1.06 | CADAED | 2.7576 | +0.05 |
| AUDUSD | 0.7028 | -0.01 | 0.7038 | USDKWD | 0.3057 | -- | AUDAED | 2.5816 | +0.01 |
| USDCHF | 0.9170 | +0.20 | 0.9069 | USDBHD | 0.3771 | +0.01 | CHFAED | 4.0057 | -0.11 |
| EURGBP | 0.8996 | -0.37 | 0.9054 | USDOMR | 0.3850 | -- | TRYAED | 0.4400 | -0.68 |
| USDAED | 3.6730 | -- | 3.6755 | USDINR | 74.1100 | -- | INRAED | 0.0552 | +12.02 |

Rates

| Interbank | 1 mo | 3mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 0.2146 | 0.4674 | 0.6346 | 0.7961 | USD 2 yr | 0.238 | +0 |
| USD LIBOR | 0.1403 | 0.2158 | 0.2421 | 0.3301 | USD 5 yr | 0.449 | +1 |
| GBP LIBOR | 0.0434 | 0.0445 | 0.0569 | 0.1254 | USD 10 yr | 0.895 | +5 |
| JPY LIBOR | -0.0897 | -0.1027 | -0.0650 | 0.0430 | EUR 2 yr | -0.545 | -1 |
| CHF LIBOR | -0.8046 | -0.7666 | -0.7328 | -0.6246 | EUR 5 yr | -0.490 | -1 |
| | | | | | EUR 10 yr | -0.278 | -1 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|--------------|------|--------------|--------------|-------|--------------|
| Gold | 1878.81 | +0.60 | ADGB 2.50 25 | 1.05 | +2 | Abu Dhabi | 51 | +1 |
| Silver | 23.66 | +1.71 | DUGB 3.89 25 | 2.34 | +2 | Bahrain | 354 | +1 |
| Oil (WTI) | 35.79 | -1.05 | QATAR 3.4 25 | 1.12 | +1 | Dubai | 146 | +3 |
| Aluminium | 1847.00 | +2.74 | US Tsy 2 yr | 0.15 | +1 | Oman | 477 | -- |
| Copper | 6707.50 | -0.13 | US Tsy 10 yr | 0.87 | +5 | Qatar | 51 | +1 |
| | | | | | | Saudi Arabia | 88 | +4 |

Source: Bloomberg, Emirates NBD Research

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