



بنك الإمارات دبي الوطني
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Daily Outlook

The headline CPI index in the US was stable at around 0.2% m/m (2.9% y/y), as falling gasoline and natural gas prices pushed energy costs down. Excluding food and energy, the core CPI index rose by 0.2% in July indicating 2.4% y/y from 2.3% in the previous month. Underlying data reflected a modest decline in apparel prices, which could be an early sign that the dollar's appreciation is beginning to hold down import prices. That said, with core inflation touching a decade high, the case for the Federal Reserve raising rates two more times this year has further strengthened.

UK Q2 GDP estimate confirmed that the economy is on solid footing. The 0.4% quarterly rise in GDP in Q2 was in line with both the Bank of England and the consensus forecast. Though Brexit-related uncertainties could intensify over the coming months, if the EU negotiations stall or if Brexit turmoil results in a general election, this is generally not seen to be the central scenario. In absence of those developments, the economy is expected to grow between 1.3% - 1.5% this year.

Saudi Arabia's budget deficit narrowed to just -USD 2bn in Q2 2018 (around -1% of GDP), significantly smaller than the same period in 2017. For H1 2018, the budget deficit was just under -3% of GDP, compared with -5.8% of GDP in H1 2017, despite a 27% increase in total spending. Higher oil prices and production were a key driver of the improved deficit, with oil revenues up 40% on H1 2017. Non-oil revenues grew 49.2% in H1 2018, with the introduction of VAT having a significant impact. It is unclear to what extent (if any) proceeds of the anti-corruption drive have been reflected in the H1 revenue figures.

A speech by Turkey's Treasury and Finance Minister, Berat Albayrak, seemingly failed to reassure investors that the authorities would do what it takes to stem the ongoing sell-off in the lira, which crossed TRY 7.23/USD over the weekend before tracing steps back to TRY 6.95/USD this morning. While pledging central bank independence, the so-called new economic approach was somewhat lacking in detail. In appearances over the weekend, President Erdogan remained defiant despite rising concerns about a full-blown economic crisis.

TRY remains under pressure



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
Italy CPI YoY	12:00	1.9%	India CPI YoY	16:00	4.47%

Source: Bloomberg

Fixed Income

Treasuries closed higher last week amid risk aversion following heightened geo-political tensions. Yields on the 2y UST, 5y UST and 10y UST closed at 2.60% (-4 bps w-o-w), 2.74% (-7 bps w-o-w) and 2.87% (-8 bps w-o-w).

Regional bonds traded in a tight range with the YTW on the Bloomberg Barclays GCC Credit and High Yield index remaining flat w-o-w at 4.45%. Credit spreads, however, widened 7 bps w-o-w to 175 bps.

In terms of new issuances, Abu Dhabi Islamic Bank is said to have hired banks for a USD 750mn perpetual Tier 1 sukuk.

FX

The U.S. dollar gained against most of the other major currencies last week, the exception being Japanese Yen. Over the course of the week, the Dollar Index rose 1.20%, reaching 96.306 and in the process break and close above the former one year high of 95.652. This technical development creates the risk that the index may see further rises towards the 76.4% five-year Fibonacci retracement of 97.940. However, while the 14-day RSI (Relative Strength Indicator) is very bullish in momentum, it is currently at 69.09 and approaching overbought territory. This means that further gains may be initially restrained by profit taking on the dollar.

Equities

Regional equities started the week on a negative note as weak global cues weighed on investor sentiment. The DFM index and the Qatar Exchange lost -1.1% and -2.6% respectively. Drake & Scull (-5.6%) continued to drift lower to take its year to date losses to 79%. In Qatar, all stocks closed in negative territory with market heavyweights leading the decline. Qatar National Bank and Commercial Bank of Qatar dropped -4.7% and -4.1% respectively.

Commodities

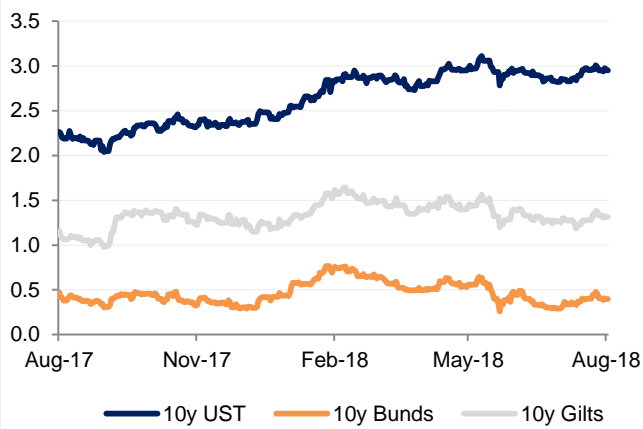
Oil prices declined over the course of last week despite a more than 1% gain for both WTI and Brent on Friday. Brent futures closed the week down 0.55% at USD 72.81/b while WTI fell 1.3% to end the week at USD 67.63/b. The IEA cautioned in its latest monthly market report that the current range oil prices have settled into may not last as supply is affected by US sanctions on Iran and unplanned disruptions elsewhere. The agency also raised its outlook for demand growth in 2019 to an acceleration from the 1.4m b/d expected this year.

US drillers were active in the last week, adding 10 rigs. It was the largest weekly increase in drilling rigs since May and takes the overall total to nearly 870 rigs. Investors were, however, less assured and cut their speculative positions on both Brent and WTI. Net length in WTI fell by 9.1k contracts and in Brent by more than 18.4k contracts.

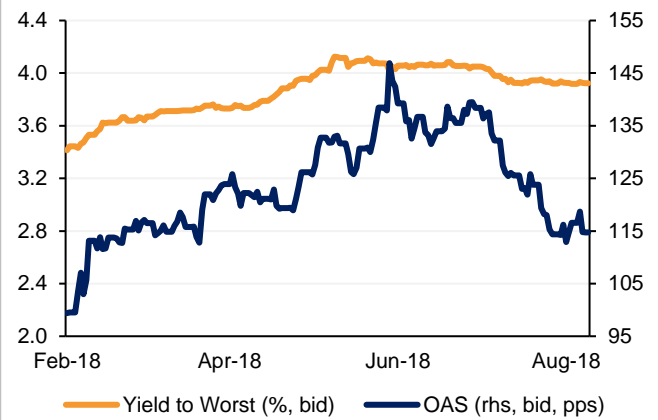
Part of the decline in Brent net length will be down to negative roll yields at the front of the curve as the contango in the first three contracts persists. The 1-2 month spread in Brent futures has widened to as much as USD 0.6/b in recent days and closed the week at USD 0.3/b. WTI continues to hold onto its backwardation in the same spread although it has compressed from the more than USD 2/b spread it endured earlier in July.

Markets in Charts

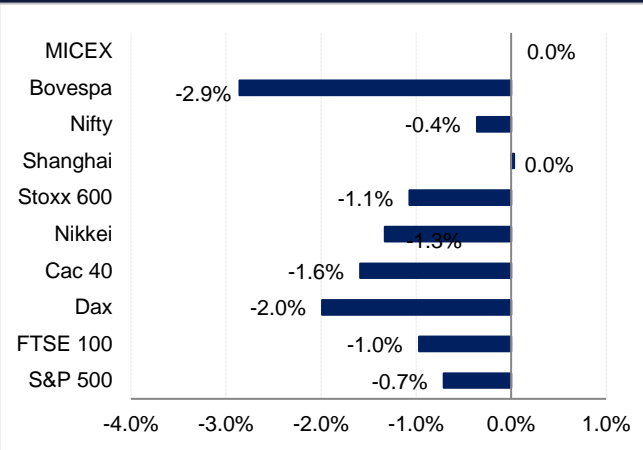
Global Bond Yields



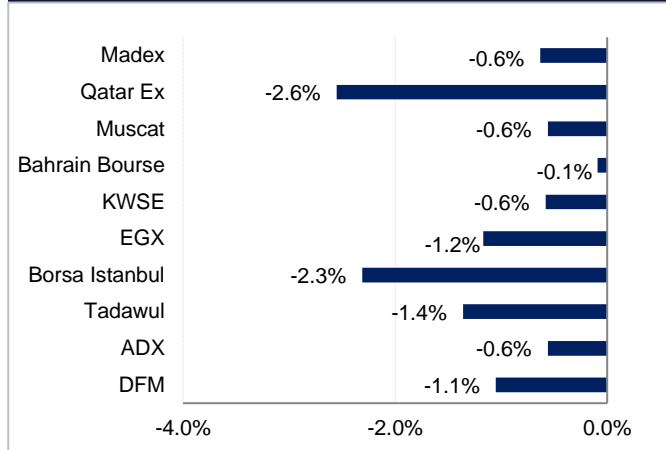
UAE liquid bond index



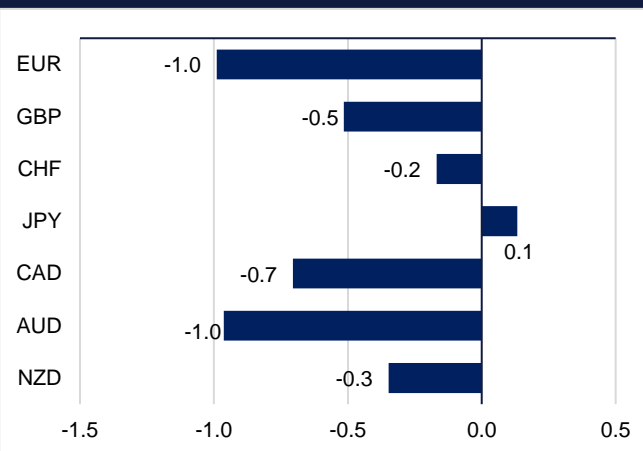
Global Equity Indices



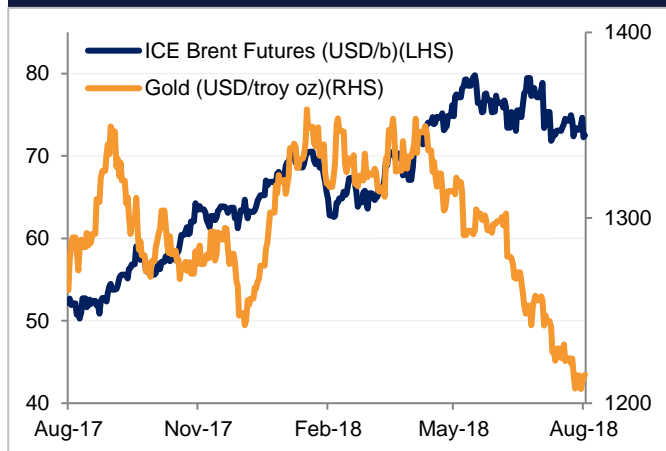
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1413	-1.75	1.1768	USDTRY	6.4323	+21.11	EURAED	4.1911	-1.77
GBPUSD	1.2758	-0.97	1.2986	USDEGP	17.8597	-0.02	GBPAED	4.6924	-0.84
USDJPY	110.83	+0.04	107.62	USDSAR	3.7504	+0.00	JPYAED	0.0331	-0.11
USDCAD	1.3140	+0.98	1.3071	USDQAR	3.6800	+0.73	CADAED	2.7949	-0.98
AUDUSD	0.7302	-1.89	0.7324	USDKWD	0.3031	+0.03	AUDAED	2.6795	-1.99
USDCHF	0.9952	+0.26	0.9612	USDBHD	0.3773	-0.14	CHFAED	3.6905	-0.27
EURGBP	0.8936	-0.90	0.9052	USDOMR	0.3850	--	TRYAED	0.5700	-17.58
USDAED	3.6730	--	3.6765	USDINR	69.5450	+1.48	INRAED	0.0552	+3.07

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.1973	2.5763	2.8125	3.3045	USD 2 yr	2.795	-7
USD LIBOR	2.0668	2.3193	2.5121	2.8155	USD 5 yr	2.878	-8
GBP LIBOR	0.7221	0.8055	0.8993	1.0408	USD 10 yr	2.934	-8
JPY LIBOR	-0.0723	-0.0408	0.0232	0.1315	EUR 2 yr	-0.148	
CHF LIBOR	-0.7768	-0.7232	-0.6494	-0.5152	EUR 5 yr	0.274	-4
					EUR 10 yr	0.876	

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1210.57	-0.27	ADGB 6.75 19	2.42	--	Abu Dhabi	64	+1
Silver	15.32	-0.73	DUGB 7.75 20	3.56	+5	Dubai	125	+1
Oil (WTI)	67.63	+1.03	QATAR 6.55 19	2.61	+3	Qatar	83	+2
Aluminium	2087.25	+0.14	US Tsy 2 yr	2.60	-7	Saudi Arabia	83	+1
Copper	6160.25	+0.26	US Tsy 10 yr	2.87	-8	Bahrain	360	+2

Source: Bloomberg, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

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

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

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

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Director - Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

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

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@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
Gary Boon
+20 22 726 5040
garyboon@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