



بنك الإمارات دبي الوطني  
Emirates NBD

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www.emiratesnbdresearch.com

# Daily Outlook

The spotlight remained on Turkey as the rout of the Turkish lira following the imposition of harsher U.S. tariffs continues to fuel worries over contagion risk. The contagion risk is worst for the neighbouring economies in the Eurozone where banks from Spain, France, Italy as well as the UK and Germany are reporting noticeable exposure to Turkey. Turkey's central bank stepped in yesterday with measures designed to stabilise the lira but while it pledged to stand ready to support the currency, it stopped short of hiking rates. Without a rate hike and a de-escalation of tensions between Turkey and the U.S. administration, Turkish markets are likely to remain vulnerable and under pressure.

Economic data out of China this morning showed the economic growth to be slowing somewhat, underscoring the impact of tight policies enacted by the government over the last few quarters. Industrial production in July was up 6% y/y, retail sales rose 8.8% y/y and investments increased by 5.5%. However, the improvement was slightly short of market expectations. No surprise in Italian inflation data, with the headline HICP rate confirmed at 1.9% y/y, unchanged from the preliminary number and up from 1.4% y/y in June. The national rate rose to 1.5% from 1.3%.

Looking ahead, the week includes inflation data from several DM countries including the Eurozone and the UK. In the US, we expect housing and retail sales data which is expected to reflect continued strength. The first release of German Q2 GDP, due today, is expected to show a slight acceleration in the quarterly growth rate to 0.4% q/q after a rebound in production that quarter. Despite this, Eurozone Q2 GDP is likely to be confirmed at a modest 0.3% q/q. The recovery is ticking along, but the balance of risks is starting to tip to the downside with Turkey now adding to bank concerns and volatility on bonds as well as stock markets.

## EUR suffering from the Turkey turmoil



Source: Bloomberg, Emirates NBD Research

## Today's Economic Data and Events

	Time	Cons		Time	Cons
German CPI YoY	10:00	2.0%	France CPI YoY	10:45	2.3%

Source: Bloomberg

## Fixed Income

Receding safe haven bid saw yield on US treasury curve inch slightly higher with 2yr, 5yr and 10yr yields closing at 2.61% (+1bp), 2.75% (+0.5bp) and 2.88% (+0.5bp) respectively. However, continued risk aversion saw credit spread widening with CDS level on US IG and Euro Main closing at 62bps (+1bp) and 69bps (+2bps) respectively.

GCC bond market moved in sync with macro developments. Yield on Barclays GCC bond index closed up by 5bps to 4.50% as credit spreads increased a noticeable 12bps to 179 bps.

## FX

Despite downside surprises in Chinese retail sales, industrial production and fixed asset investment, AUD is trading firmer in the Asia session. As we go to print AUDUSD is trading at 0.10% higher at 0.7277, and has recovered more than half of Monday's losses. However, despite the currency holding up, technically the cross still remains vulnerable while the price is below the 50-day MA (0.7393).

This afternoon, investors will be looking towards Europe, where UK employment data and Eurozone aggregate GDP data for Q2 2018 are expected. With both EUR and GBP falling significantly over the last week, any downside surprises in the data may catalyze greater losses for EURUSD and GBPUSD.

## Equities

Global equities closed lower as fear of contagion risk in other emerging markets from developments in Turkey remained elevated. The S&P 500 index and the Euro Stoxx 600 index dropped -0.4% and -0.3% respectively. Turkey's Istanbul 100 index dropped -2.4%.

Regional equities closed lower following weak global cues. The DFM index and the Qatar Exchange dropped -1.5% and -2.4% respectively. Emaar Development dropped -1.9%. After the markets closed, the company reported a 68% y/y increase in H1 2018 profit to AED 1.82bn.

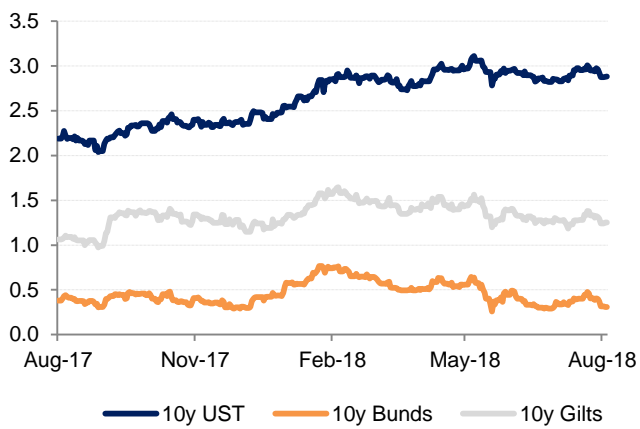
## Commodities

Oil prices began the week on a softer footing in line with a general risk off move to markets. Brent futures closed down 0.27% at USD 72.61/b while WTI closed the day at USD 67.20/b, down 0.6%. Both benchmarks have recouped some ground this morning.

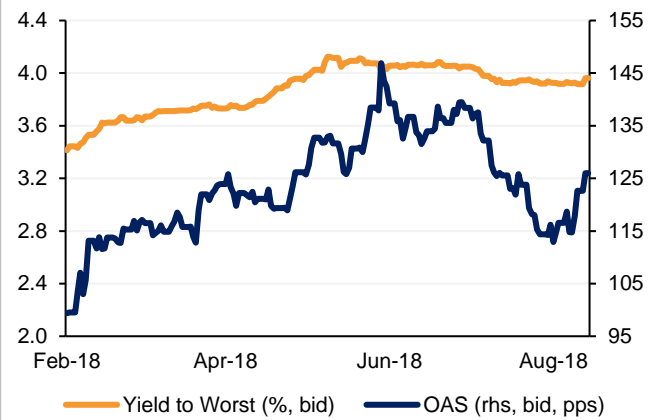
OPEC lowered demand projections for its members' crude in both 2018 and 2019 as it revised up output in non-OECD countries and lowered its demand expectations for both years slightly. In its latest oil market report OPEC expects the global market to need 32.86m b/d of OPEC crude to balance this year compared with July production of 32.33m b/d (now including production from Congo) and 32.03m b/d next year. According to OPEC, Saudi Arabia lowered production in July to 10.39m b/d from 10.44m b/d a month earlier while the UAE raised output from 2.89m b/d to 2.96m b/d. Compared with OPEC's product cut target of 1.18m b/d it initiated at the start of 2017 collective production was down by 1.43m b/d as over-compliance declines.

## Markets in Charts

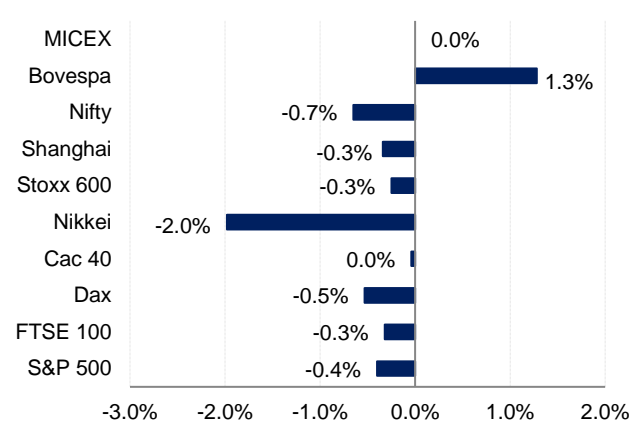
### Global Bond Yields



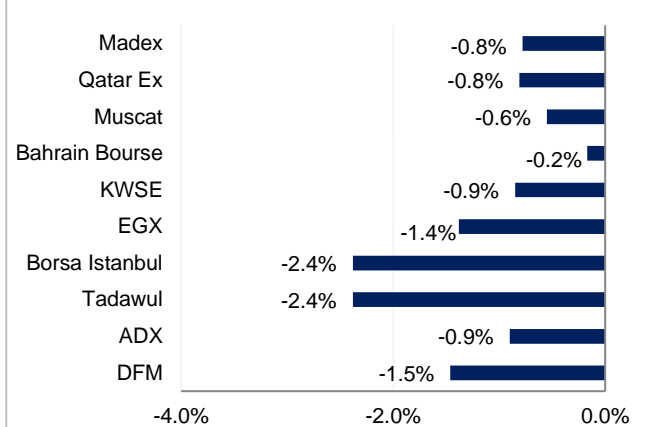
### UAE liquid bond index



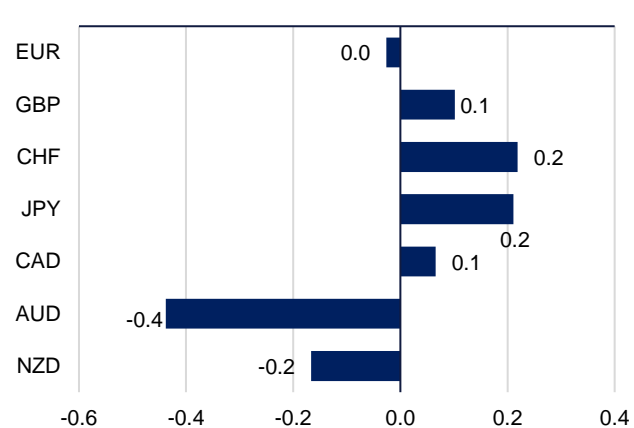
### Global Equity Indices



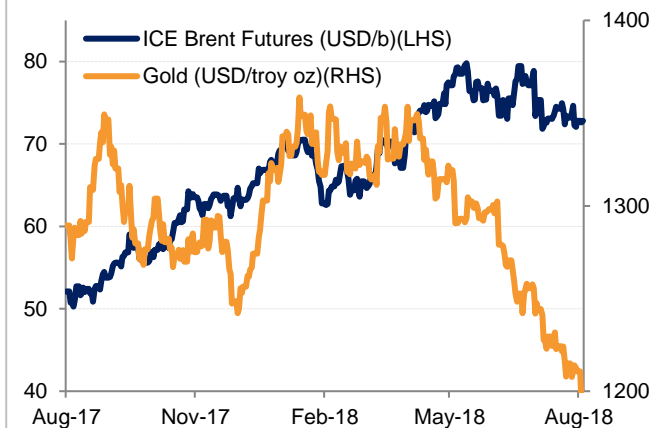
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1410	-0.03	1.1767	USDTRY	6.8838	+7.02	EURAED	4.1909	-0.00
GBPUSD	1.2771	+0.10	1.3000	USDEGP	17.8991	+0.22	GBPAED	4.6889	-0.07
USDJPY	110.70	-0.12	107.48	USDSAR	3.7505	+0.00	JPYAED	0.0332	+0.20
USDCAD	1.3134	-0.05	1.3064	USDQAR	3.6800	+0.74	CADAED	2.7966	+0.06
AUDUSD	0.7270	-0.44	0.7292	USDKWD	0.3034	+0.10	AUDAED	2.6707	-0.33
USDCHF	0.9934	-0.18	0.9593	USDBHD	0.3775	+0.05	CHFAED	3.6986	+0.22
EURGBP	0.8937	+0.02	0.9054	USDOMR	0.3850	--	TRYAED	0.5300	-7.18
USDAED	3.6730	--	3.6765	USDINR	69.7750	+1.37	INRAED	0.0552	+3.90

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.2010	2.5350	2.8026	3.3045	USD 2 yr	2.800	+1
USD LIBOR	2.0668	2.3193	2.5121	2.8155	USD 5 yr	2.883	+1
GBP LIBOR	0.7221	0.8055	0.8993	1.0408	USD 10 yr	2.940	+1
JPY LIBOR	-0.0723	-0.0408	0.0232	0.1315	EUR 2 yr	-0.151	-0
CHF LIBOR	-0.7768	-0.7232	-0.6494	-0.5152	EUR 5 yr	0.266	-1
					EUR 10 yr	0.871	-1

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1193.50	-1.41	ADGB 6.75 19	2.42	--	Abu Dhabi	66	+2
Silver	15.00	-2.07	DUGB 7.75 20	3.54	-2	Dubai	127	-1
Oil (WTI)	67.20	-0.64	QATAR 6.55 19	2.50	-12	Qatar	88	+5
Aluminium	2063.50	-1.14	US Tsy 2 yr	2.61	+1	Saudi Arabia	87	+4
Copper	6123.25	-0.60	US Tsy 10 yr	2.88	+1	Bahrain	362	+1

Source: Bloomberg, Emirates NBD Research

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