



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

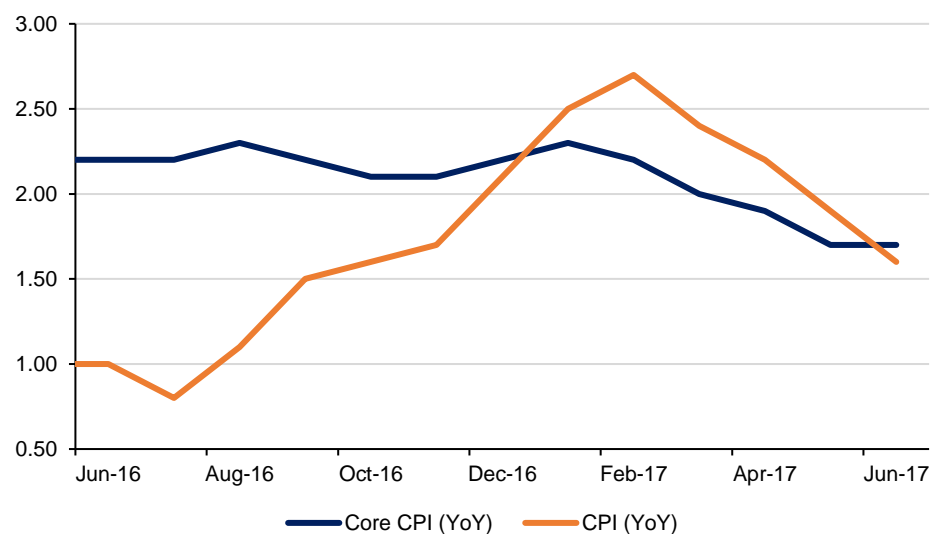
Inflation data out of the US revealed a modest 0.1% m/m increase in core CPI, reflecting an unchanged y/y number of 1.7%. With energy accounting for circa 7% of the CPI basket, annual headline inflation rate dropped back to 1.6% from 1.9% in the previous month. Weakness in core price was largely attributed to fall in used vehicle prices, airfares, telephone services and hotel rooms which was somewhat counterbalanced by an increase in rents and medicine prices. **In addition, US retail sales data was softer than expectations, recording a decline of 0.2% m/m in June.** Though the Fed's 2% inflation target is becoming harder to achieve, we note that inflation was below targets even during the previous rate hike cycles in 1994-96 and 1999-2000.

China's economy maintained its momentum last quarter, growing at 6.9% y/y vs estimate of 6.8% and matching the pace of expansion in 1Q as global trade and domestic demand spurred a pickup in industrial production and fixed-asset investment. Retail sales increased 11% y/y in June vs estimate of 10.6%. The expansion highlights the resilience of China's economy, as activity has remained robust even with regulators taking tightening measures to cool the property market and curb leverage in the system.

The IMF, in its annual Article IV report, **has downgraded its UAE GDP growth forecast for 2017 from 1.5% to 1.3%. The Fund's forecast is well below our own recently downward revised 2% growth forecast for this year.** We expect growth to accelerate to 3.4% in 2018, in line with the IMF's new estimate. We note that the Fund is typically more conservative in its growth forecasts for the UAE – the IMF predicted growth of 2.7% in 2016, lower than the 3.0% outcome which was exactly in line with our own forecasts.

In the week ahead, The **European Central Bank will meet on Thursday though no material change is expected to be announced.** The Market expects QE tapering to commence in early 2018 and no rate hikes until 2019. The **Bank of Japan** also meets on Thursday and again there are no expectations of any change in existing monetary policy.

US CPI softer in June



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone CPI y/y	13:00	1.3%	US Empire Manufacturing	16:30	15

Source: Bloomberg.

Fixed Income

Another patch of soft inflation data and declining retail sales in June cast further doubt on the Fed's trajectory for the rest of the year and benchmark yields dipped. Yields on 10yr USTs closed the week more than 7bps lower and fell below 2.32% while 2yr yields fell 5bps on the week. The poor data on Friday helped the curve re-engage with its flattening trend with the 2-10 spread ending the week at 96bps, compared with nearly 99bps at the end of the prior week. Bunds held up better with yields on 10yr Germany government debt spending the week at their highest levels all year.

Circa 5% increase in oil prices last week, lack of new supply and rising hopes of a non-violent resolution of the rift between Qatar and its neighbours – all combined together to fuel appetite for GCC risk. CDS spreads on GCC sovereigns were down across the board with Qatar CDS closing at 105bps (-17bps), Saudi Arabia at 104bps (-5bps) and Dubai at 122bps (-10bps) last week respectively. Bonds were well bid albeit amid summer holidays induced reduction in activity levels. Bloomberg Barclays GCC index saw option adjusted spreads tighten by 6bps to 148bps and yields dropping to 3.46% (-11bps) during the week.

Quarterly result announcements are largely coming in line with expectations. Bank results are reflecting mixed revenue growth though bottom line has generally come in positive so far mainly as a result of change in impairment losses and provisioning.

Primary market activity remained muted, barring offer of \$375 million in five year bond from Topaz Marine, majority of which will be used to refinance the upcoming 2018 bonds which are being bought ahead of schedule via tender now.

FX

USD continues to soften following softer than expected economic data out of the US (see macro). The Dollar Index closed the trading week at 95.13, the lowest level since 26th September 2016, and a decline of 1% over the last trading week. This movement has maintained the daily downtrend that has been in effect since Jan 3rd 2017, a trend that can be expected to continue, with the next key level of support being in the 94.08-94.19 range, a zone which contains both the one year 0% Fibonacci retracement as well as the five year 61.8% Fibonacci retracement.

Equities

Disappointing US inflation data on Friday tempered market expectations of another rate hike later this and helped equity markets maintain their gravity-defying rally. The S&P 500 ended the week up 1.4%, hitting new record high levels. Decent industrial and trade data over the week also helped push European indices higher with both the CAC and Dax rising, 1.75% and 1.96% respectively.

Regional equities had a constructive day with Tadawul, DFM, ADX and Kuwait Exchanges closing in green though Qatar, Oman and Bahrain remained under pressure despite positive oil price movements. DFM outperformed its peers in the region, rising by over a 1% mainly as a result of increase in real estate prices particularly the DAMAC shares. Tadawul continues to benefit from increasing international flows and closed up by 0.40% yesterday. The weakest performing market in the region was Oman with Muscat exchange falling 1.13%.

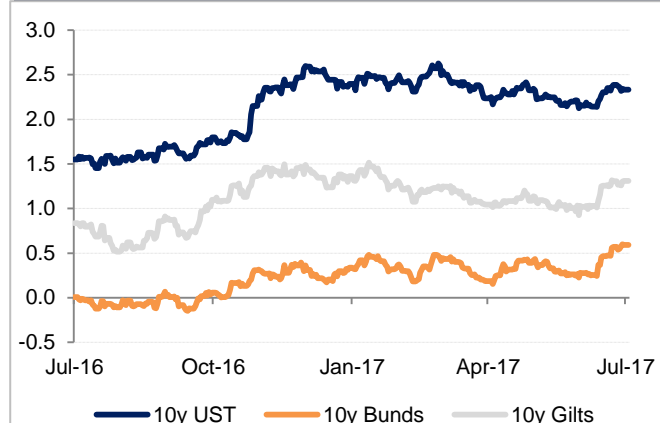
Commodities

Oil futures managed to rise around 5% over the course of the week but both Brent and WTI contracts remain below USD 50/b. Brent closed the week at USD 48.91/b while WTI was holding at USD 46.54/b. Markets appear to be buoyed by two consecutive weeks of US inventory draws despite some bearish views coming out from the main oil forecasting agencies—the IEA and OPEC—last week.

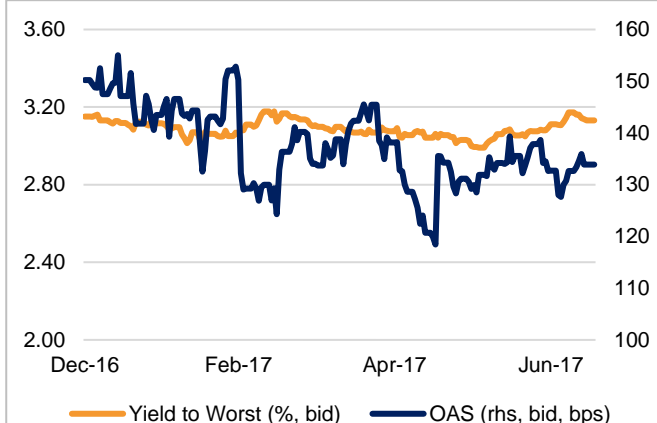
The drilling rig count in the US rose again, by two rigs last week, showing signs of investment slowing although productivity improvements may neutralize the impact of fewer rigs supporting prices. Nevertheless, the contango in futures market lessened somewhat and some positive signs are emerging around product demand in Asia. There are few specific events this week to provide direction to prices.

Markets in Charts

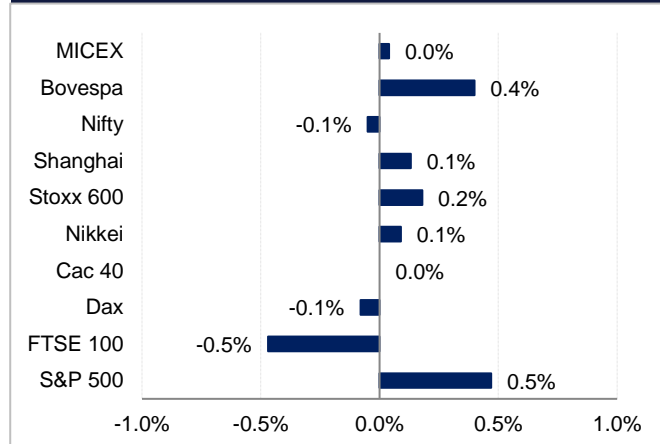
Global Bond Yields



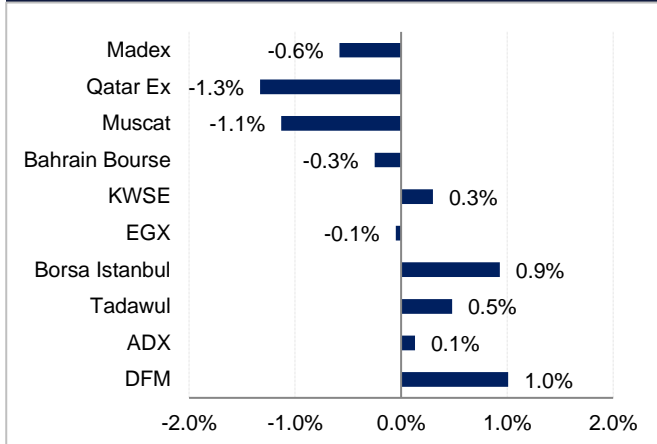
UAE liquid bond index



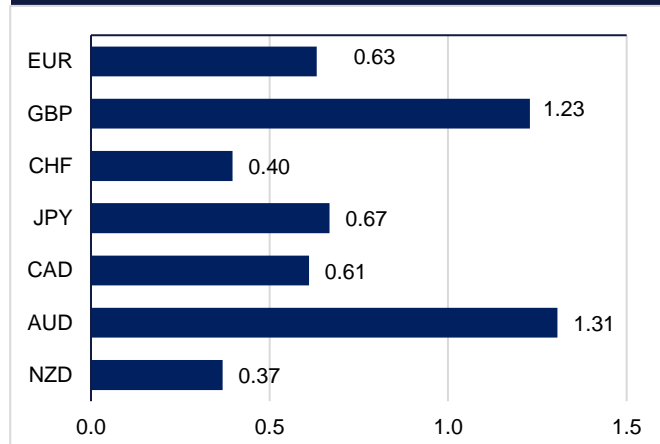
Global Equity Indices



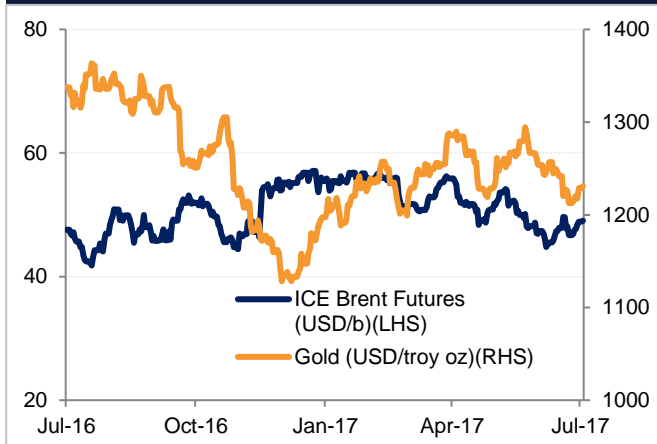
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1470	+0.63	1.1704	USDTRY	3.5381	-0.77	EURAED	4.2124	+0.62
GBPUSD	1.3098	+1.23	1.3244	USDEGP	17.9608	+0.03	GBPAED	4.8122	+1.26
USDJPY	112.53	-0.66	110.44	USDSAR	3.7503	--	JPYAED	0.0326	+0.67
USDCAD	1.2644	-0.61	1.2607	USDQAR	3.7100	--	CADAED	2.9046	+0.60
AUDUSD	0.7832	+1.31	0.7796	USDKWD	0.3031	--	AUDAED	2.8760	+1.29
USDCHF	0.9635	-0.38	0.9402	USDBHD	0.3772	--	CHFAED	3.8131	+0.41
EURGBP	0.8754	-0.63	0.8834	USDOMR	0.3850	--	TRYAED	1.0400	+0.96
USDAED	3.6730	--	3.6815	USDINR	64.3550	-0.14	INRAED	0.0571	+0.24

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3025	1.5432	1.7495	2.1365	USD 2 yr	1.595	-1
USD LIBOR	1.2261	1.3036	1.4560	1.7398	USD 5 yr	1.930	-2
GBP LIBOR	0.2514	0.2934	0.4404	0.6537	USD 10 yr	2.282	-1
JPY LIBOR	-0.0290	-0.0087	0.0113	0.1164	EUR 2 yr	-0.121	--
CHF LIBOR	-0.7820	-0.7286	-0.6480	-0.4910	EUR 5 yr	0.319	+2
					EUR 10 yr	0.957	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1228.70	+0.91	ADGB 6.75 19	1.69	-1	Abu Dhabi	60	+2
Silver	15.99	+1.86	DUGB 7.75 20	2.68	-1	Dubai	123	--
Oil (WTI)	46.54	+1.00	QATAR 6.55 19	2.29	--	Qatar	105	--
Aluminium	1908.25	+0.10	US Tsy 2 yr	1.36	-1	Saudi Arabia	104	--
Copper	5905.25	+0.88	US Tsy 10 yr	2.33	-1	Bahrain	231	-6

Source: Bloomberg, Emirates NBD Research

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