



# Daily Outlook

Theresa May, the British prime minister, addressed EU leaders at a dinner to assure them that a deal over Brexit was still possible. Negotiations between the EU and UK's Brexit lead ministers ended early over the weekend with the Irish border issue remaining a stumbling block. However, the tone between May and her EU counterparts was apparently more genial than a month earlier when they met in Austria and both sides increased criticism of each other. May continues to face pressure domestically from more strident Brexit supporting members of her party, a fact that EU may press in order to win UK concessions.

Inflation in the UK fell to 2.4% in September, below consensus and a sharp slowdown from a month earlier. Lower food and software prices helped bring down costs while transport prices also dipped. The lower costs will help bring some relief to UK consumers who had been facing some of the fastest inflation pressures in developed markets but has shifted the market's perception of the Bank of England adjusting rates. Stronger UK wage growth was reported earlier this week but the outcome of Brexit negotiations will still act as the biggest determinant of medium term economic performance and affect BoE policy.

Eurozone inflation, by contrast to the UK, accelerated in September up 2.1% y/y compared with 2% in August. Higher energy and good costs contributed to the higher prices in the Eurozone. However, core inflation actually slipped to its lowest level since April at 1.1% y/y. The ECB meets next week and while no change in rate policy imminently the gain in inflation should help shore up confidence that rates can begin to move in H2 2019, particularly as oil prices stay sustained at elevated levels.

The minutes of the US Federal Reserve's September interest rate decision showed no dissent among policymakers over the trajectory for rates and that "almost all" FOMC members, according to the statement, agreed to stop using the phrase "accommodative" in describing monetary policy. The minutes backed up the assured view the Fed has for the performance of the US economy in the near term and that rates can continue to move higher gradually. A "few" participants suggested that policy would need to be restrictive but given that inflation pressures have yet to reach a damaging levels for the US economy we expect that any restrictive policy will be some way off.

## UK inflation eases back in September



Source: Bloomberg, Emirates NBD Research

## Today's Economic Data and Events

	Time	Cons		Time	Cons
UK retail sales m/m	12:30	-0.4%	US initial jobless claims	16:30	212k

Source: EIKON, Emirates NBD Research.

## Fixed Income

Treasuries closed lower as minutes from the last Federal Reserve meeting showed that officials extensively discussed how high to push interest rates. The minutes also indicated that majority of members were in favour of raising them above the deemed neutral rate in the interim. The minutes echoed the statements made by the Fed Chair earlier in the month. Yields on the 2y UST, 5y UST and 10y UST closed at 2.89%, 3.06% and 3.20% respectively.

Regional bonds traded in a tight range. The YTW on the Bloomberg Barclays GCC Credit and High Yield index closed largely flat at 4.59% and credit spreads tightened marginally to 160 bps.

## FX

The dollar rose on Wednesday following the release of the FOMC meeting minutes from September's meeting. The minutes showed that the majority of policy makers on the FOMC favoured a gradual move above the neutral interest rate level. Over the course of the day, the dollar index rose 0.55% to reach 95.575, breaking and closing back above the 50-day moving average (95.232), which had acted as a resistance level since the start of the week. In order to hold onto these gains and realize further gains, the index needs to finish the week with a close above the 100-week moving average (95.284) which would give it the potential to break above the 200-week moving average, for the first time since August 2018 and retest the 2018 highs.

This morning, the AUD is outperforming after firmer than expected economic data. Data released from the Australian Bureau of Statistics showed that the unemployment rate fell to 5.0% in September, down from 5.3% the previous month. As we go to print, AUDUSD is trading 0.32% higher at 0.71319.

## Equities

Developed market equities closed mixed. While corporate earnings remained a tailwind, a hawkish tilt to Fed's minutes from last meeting weighed on markets. The S&P 500 index closed flat while the Euro Stoxx 50 index lost -0.4%.

Regional equities remained largely positive. The DFM index added +0.5% on the back of strength in Dubai Islamic Insurance. The stock rallied +3.2% after the company said it is raising foreign ownership ceiling to 49% from 25%.

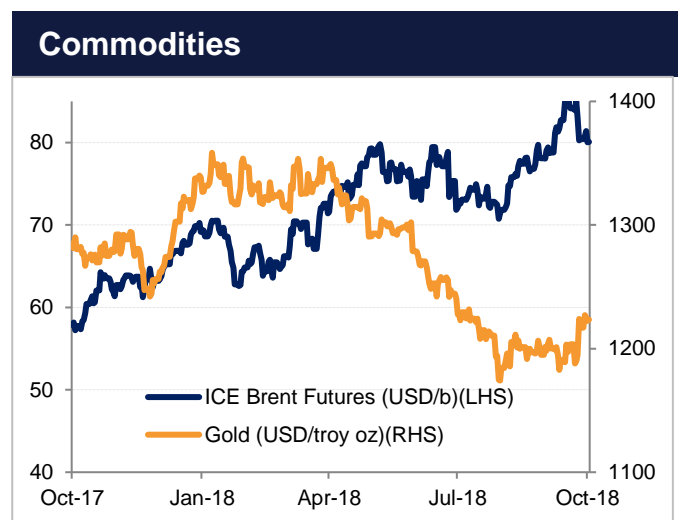
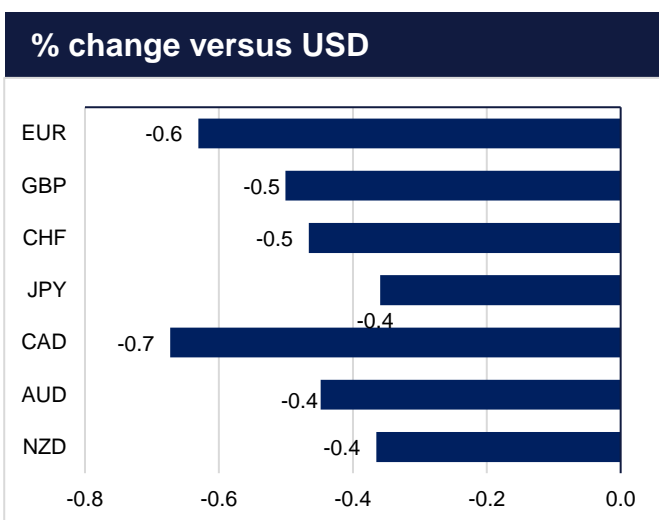
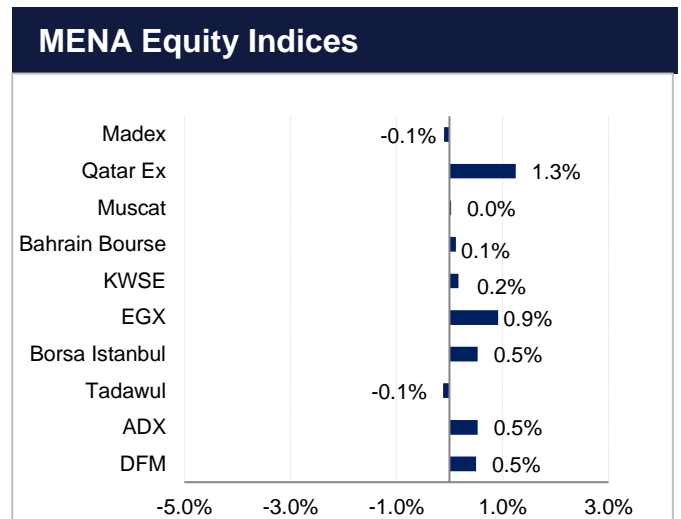
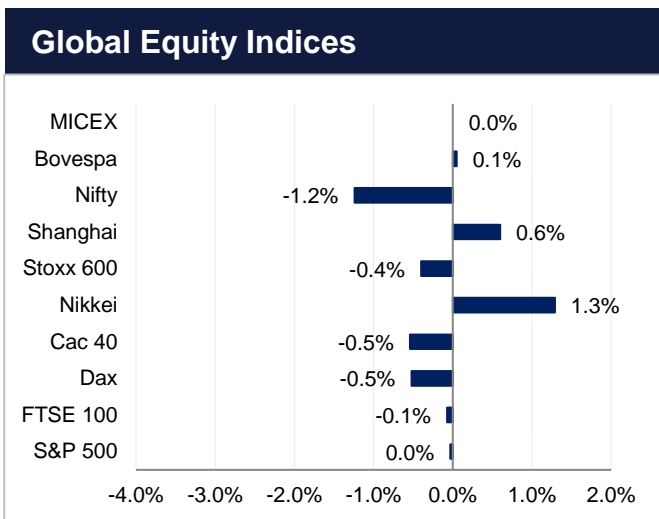
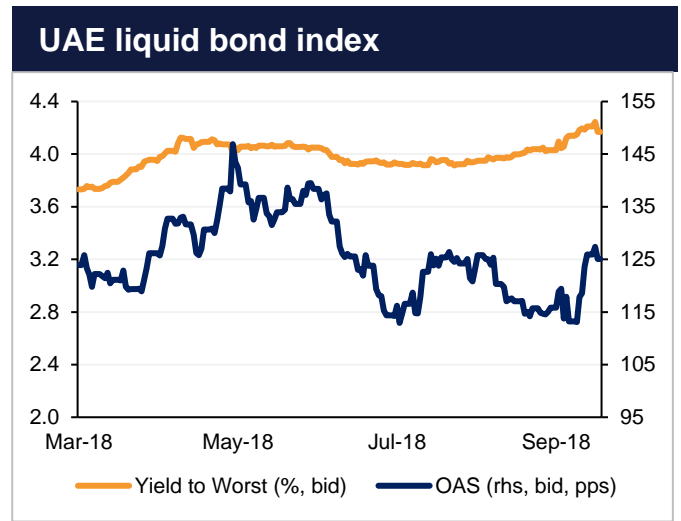
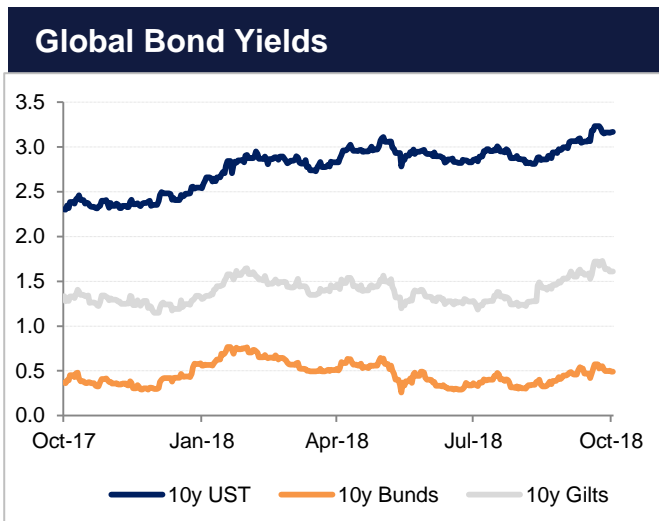
## Commodities

Oil prices sold off sharply overnight after another large increase in US inventories. Brent futures ended the day down 1.7%, barely above USD 80/b while WTI lost more than 3% to fall back below USD 70/b. US crude inventories rose by 6.5m bbl last week, their fourth week of gains in a row and third week in a row of more than 5m bbl being added to stocks. Total crude and product inventories also rose, up nearly 3m bbl in total and continuing to widen the gap over their five-year average level. With pipeline constraints keeping crude away from higher value export markets we had noted previously that inventories beckoned as a destination of last resort for producers, particularly as they had been eroded so heavily in the past few years. So far in 2018, total US crude inventories are down only by 8m bbl from the start of the year compared with a total decline of 55m bbl in 2017.

The front end of the WTI curve remains extremely flat and several time spreads (2-3 month) have already dipped into contango. The bearish data out from the EIA adds to our view that contango may return in a more pronounced way over the coming months in the WTI curve and prompt an exodus from long positions.

Precious metals prices edged lower overnight in response to the confident tone set by the FOMC minutes on the US economy. Gold closed down by 0.14% while platinum and palladium dipped further.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1501	-0.63	1.1895	USDTRY	5.5856	-1.76	EURAED	4.2252	-0.62
GBPUSD	1.3115	-0.50	1.3370	USDEGP	17.9158	+0.00	GBPAED	4.8171	-0.53
USDJPY	112.65	+0.36	109.05	USDSAR	3.7516	+0.00	JPYAED	0.0326	-0.37
USDCAD	1.3020	+0.66	1.2936	USDQAR	3.6800	+1.07	CADAED	2.8204	-0.68
AUDUSD	0.7109	-0.45	0.7156	USDKWD	0.3030	--	AUDAED	2.6110	-0.46
USDCHF	0.9953	+0.46	0.9583	USDBHD	0.3770	-0.01	CHFAED	3.6903	-0.47
EURGBP	0.8770	-0.11	0.8898	USDOMR	0.3850	-0.01	TRYAED	0.6600	+2.17
USDAED	3.6730	--	3.6770	USDINR	73.6100	+0.18	INRAED	0.0552	+10.22

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.4263	2.6350	3.0381	3.4375	USD 2 yr	3.087	+2
USD LIBOR	2.2871	2.4446	2.6575	2.9671	USD 5 yr	3.191	+3
GBP LIBOR	0.7231	0.8103	0.9028	1.0783	USD 10 yr	3.267	+4
JPY LIBOR	-0.1025	-0.0835	0.0142	0.1253	EUR 2 yr	-0.117	-1
CHF LIBOR	-0.7848	-0.7388	-0.6646	-0.5286	EUR 5 yr	0.394	-1
					EUR 10 yr	1.005	-2

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1222.29	-0.22	ADGB 6.75 19	2.42	--	Abu Dhabi	67	-1
Silver	14.61	-0.38	DUGB 7.75 20	3.58	+2	Bahrain	293	-2
Oil (WTI)	69.75	-3.02	QATAR 6.55 19	2.66	-11	Dubai	127	--
Aluminium	2014.25	-0.53	US Tsy 2 yr	2.89	+2	Qatar	74	--
Copper	6216.00	+0.22	US Tsy 10 yr	3.21	+4	Saudi Arabia	89	+2

Source: Bloomberg, Emirates NBD Research

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