



بنك الإمارات دبي الوطني
Emirates NBD

Daily
19 September 2018

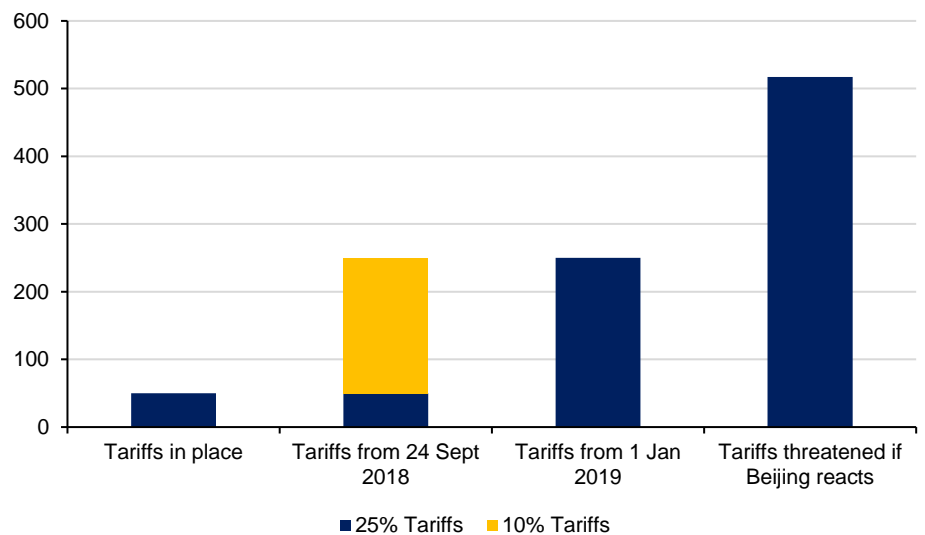
Daily Outlook

Beijing has announced it will retaliate against the new U.S. tariffs, imposing tariffs of up to 10% on USD60bn of US goods effective on 24th, the same day the new US tariffs come into effect, with the Chinese commerce ministry justifying its position yesterday by saying that 'In order to defend its legitimate rights and the free trade order, China will be forced to retaliate simultaneously.' With markets only showing a muted reaction to these latest developments the general feeling appears to be that China will be able to weather the storm for a significant period, both politically and economically, having plenty of monetary and fiscal tools available. China will be also monitoring the impact on the U.S. consumer and on the upcoming midterm elections, with President Trump apparently concerned about this and warning about 'great and fast economic retaliation' in a subsequent tweet.

One interesting side development is that China's holdings of US Treasuries fell to a 6-month low in July, the same month that the trade war got underway. China's ownership of US bonds, bills and notes slipped to USD1.17 trillion, the lowest level since January and down from USD1.18 trillion in June according to the US Treasury department. With the CNY falling 2% that month it may be that the PBOC sold some of its US Treasuries to help stabilize the CNY. This morning the Chinese Premier Li Keqiang said that China will not devalue its currency in order to make its exports more competitive amidst concerns that currency manipulation might be China's fall back option in the absence of many more US imports that it can put tariffs on.

Finally this morning the Bank of Japan maintained the -0.1% policy rate, and its 10-year JGB yield target at about 0%, in line with market expectations. Indeed with USDJPY continuing to nudge higher, now above 112, the BOJ will not want to disturb the recent pattern of JPY depreciation by making any adverse comments by signalling an end to QE.

U.S. to impose more tariffs on Chinese goods (USD bn)



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

| | Time | Cons | | Time | Cons |
|---------------------|-------|------|---------------------|-------|-------|
| ECB Current Account | 12:00 | N/A | U.S. Housing Starts | 16:30 | 1235f |
| UK CPI y/y | 12:30 | 2.4% | ECB's Draghi speaks | 17:00 | N/A |

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed lower and the curve bear steepened. Muted reaction to China tariffs played its part in the move. Yields on the 2y UST, 5y UST and 10y UST closed at 2.80% (+2 bps), 2.94% (+6 bps) and 3.05% (+7 bps) respectively.

Regional bonds followed moves in USTs and closed lower. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose +2bps to 4.50% even as credit spreads tightened 2 bps to 161 bps.

DP World raised more than USD 3bn in a four-part bond sale. The company raised USD 1bn each in a 10y and 30y sukuk which was priced to yield 4.848% and 5.7% respectively. Additionally, the company raised EUR 750mn in a 8 year paper which has a coupon of 2.375% and GBP 350mn in a 12-year paper which has a coupon of 4.25%. The company will use the proceeds to repurchase a USD 650mn JAFZA sukuk. DP World said it accepted bids of USD 413.5mn.

FX

With the Chinese premier saying that China will not devalue the CNY overnight other currencies like the AUD have reacted by pushing higher, to 0.7255 its highest level this month. The unchanged policy decision by the BOJ meanwhile has helped to keep the USDJPY steady above 112, while GBPUSD is also underpinned by optimism about a Brexit deal with UK PM Theresa May saying in an interview that 'a withdrawal agreement is virtually agreed'.

Equities

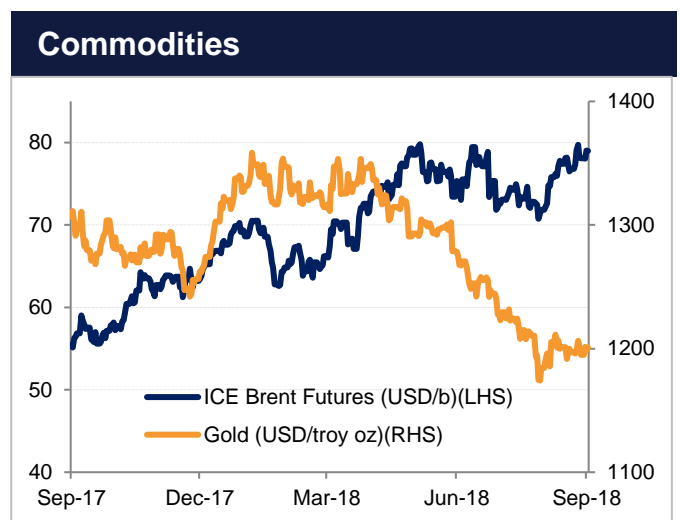
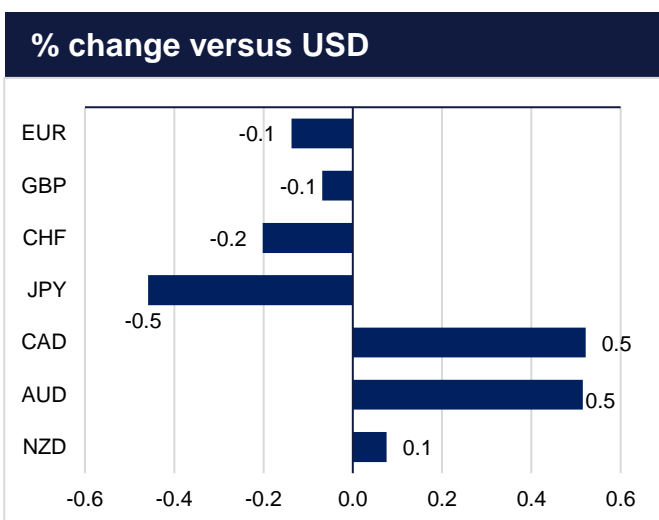
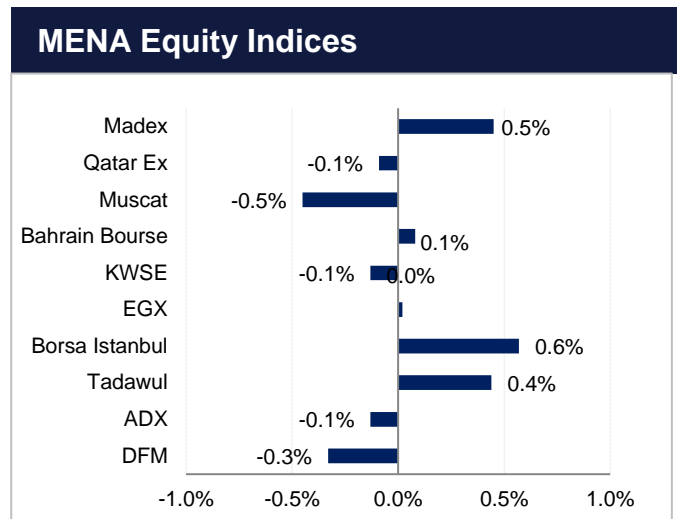
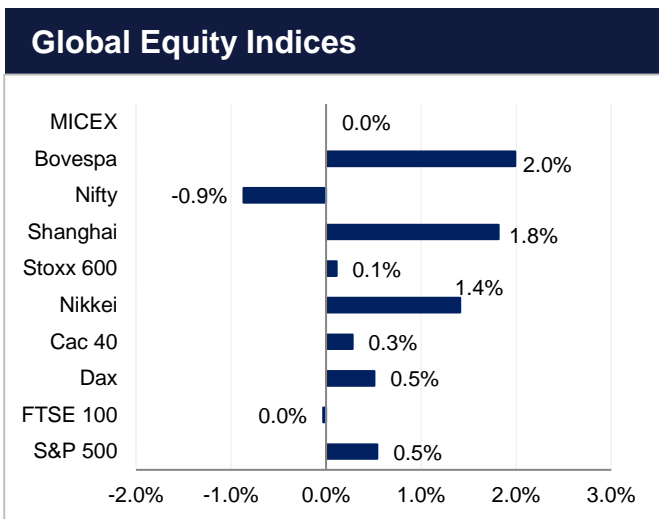
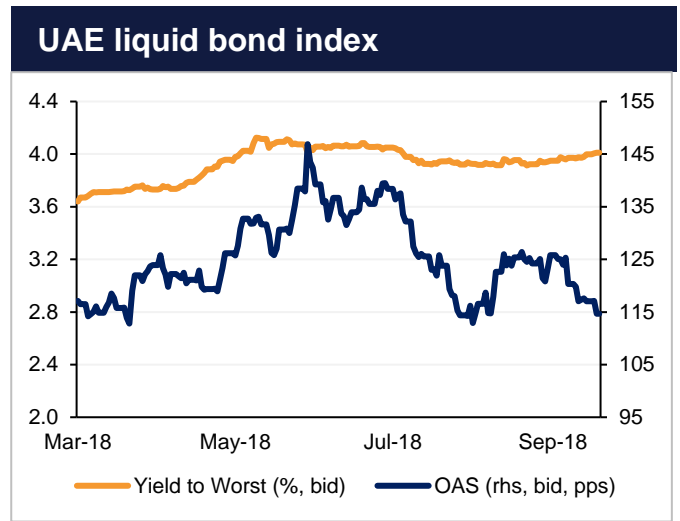
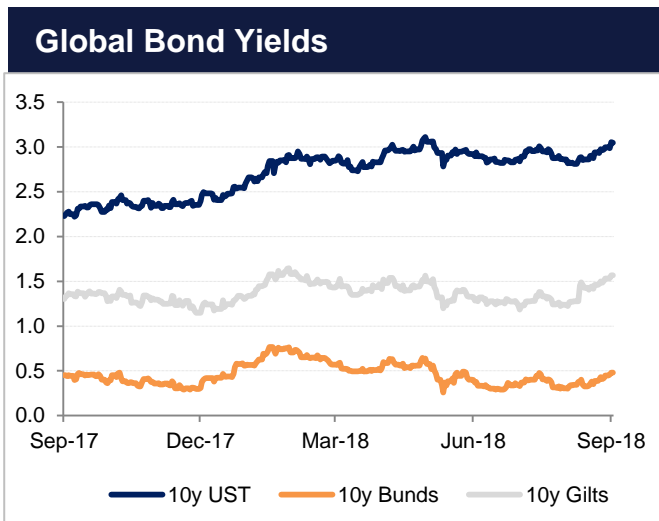
Developed market equities closed higher as investors shrugged off the fresh round of trade war between the US and China. The S&P 500 index and the Euro Stoxx 600 index added +0.5% and +0.1% respectively.

The Tadawul (+0.4%) outperformed its regional peers for a second consecutive day. Al Tayyar rallied +7.4% on reports that Uber is looking to acquire Careem. The company holds a 14.7% stake in Careem. Elsewhere, weakness persisted with Aramex dropping -4.2% and Emirates NBD losing -1.1%.

Commodities

Oil markets rose yesterday, largely on the back of comments from a Saudi official that the kingdom was happy with Brent prices over USD 80/b. That Saudi Arabia would be targeting higher oil prices isn't in and of itself newsworthy but it does lend credence to our view that Saudi will be much more flexible in terms of setting production levels going forward. Weighed against yesterday's gains however is the escalation of the trade war between the US and China and a build in crude stocks reported by the API.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.1667 | -0.14 | 1.2048 | USDTRY | 6.3845 | +1.13 | EURAED | 4.2855 | -0.13 |
| GBPUSD | 1.3148 | -0.07 | 1.3393 | USDEGP | 17.9102 | -0.02 | GBPAED | 4.8290 | -0.08 |
| USDJPY | 112.36 | +0.46 | 108.98 | USDSAR | 3.7505 | -0.00 | JPYAED | 0.0327 | -0.47 |
| USDCAD | 1.2974 | -0.53 | 1.2888 | USDQAR | 3.6800 | +0.60 | CADAED | 2.8308 | +0.52 |
| AUDUSD | 0.7219 | +0.52 | 0.7252 | USDKWD | 0.3028 | -0.04 | AUDAED | 2.6515 | +0.57 |
| USDCHF | 0.9645 | +0.20 | 0.9303 | USDBHD | 0.3771 | -0.00 | CHFAED | 3.8085 | -0.18 |
| EURGBP | 0.8875 | -0.04 | 0.8997 | USDOMR | 0.3850 | -- | TRYAED | 0.5700 | -2.03 |
| USDAED | 3.6730 | -- | 3.6762 | USDINR | 72.7650 | +0.36 | INRAED | 0.0552 | +9.09 |

Rates

| Interbank | 1 mo | 3mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 2.2825 | 2.6257 | 2.8542 | 3.2802 | USD 2 yr | 2.966 | +2 |
| USD LIBOR | 2.1653 | 2.3375 | 2.5679 | 2.8795 | USD 5 yr | 3.060 | +5 |
| GBP LIBOR | 0.7264 | 0.8003 | 0.8896 | 1.0460 | USD 10 yr | 3.115 | +6 |
| JPY LIBOR | -0.1000 | -0.0385 | 0.0223 | 0.1387 | EUR 2 yr | -0.135 | +0 |
| CHF LIBOR | -0.7808 | -0.7308 | -0.6516 | -0.5186 | EUR 5 yr | 0.351 | +1 |
| | | | | | EUR 10 yr | 0.967 | +1 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold | 1198.36 | -0.26 | ADGB 6.75 19 | 2.42 | -- | Abu Dhabi | 63 | - |
| Silver | 14.15 | -0.21 | DUGB 7.75 20 | 3.44 | +1 | Bahrain | 350 | -6 |
| Oil (WTI) | 69.85 | +1.36 | QATAR 6.55 19 | 2.67 | +2 | Dubai | 117 | - |
| Aluminium | 2000.50 | +0.08 | US Tsy 2 yr | 2.80 | +2 | Qatar | 77 | -2 |
| Copper | 6064.00 | +2.43 | US Tsy 10 yr | 3.06 | +7 | Saudi Arabia | 77 | - |

Source: Bloomberg, Emirates NBD Research

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