



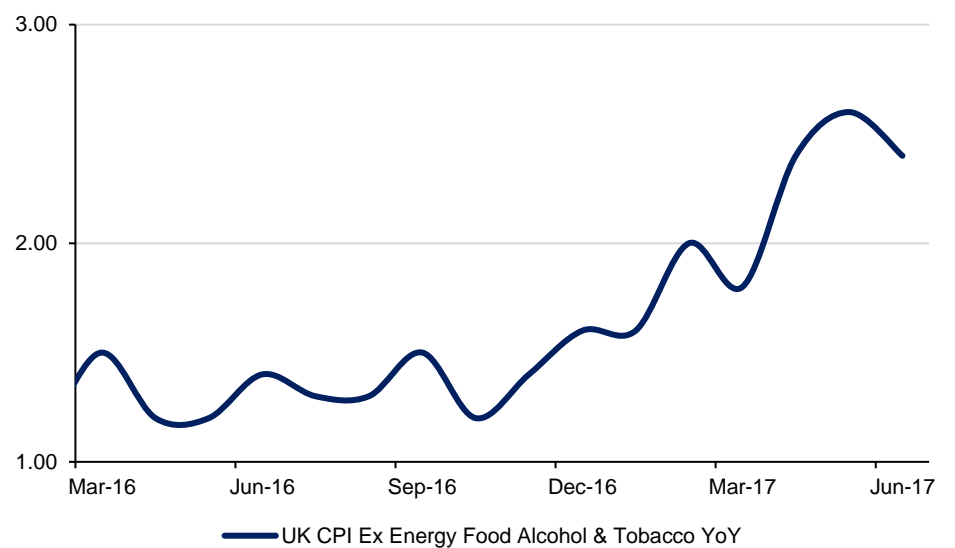
Daily Outlook

UK inflation rate slipped to 2.6% in June, weaker than expectations of 2.9%. This is the first drop that has been registered since October last year. Core inflation -- which excludes volatile food and energy prices -- slipped to 2.4% from 2.6% in May. Food prices fell 0.2% on the month. The pound's 12% decline since the Brexit vote has been the main contributor to UK inflation in the last one year. There are signs that pressure is now easing: import prices for factories slipped 0.2% on the month and the annual rate of gains slowed to 10% from 12%. Given GBP's recent strength, it is not surprising to see some reduction in inflation which in turn should reduce the pressure on BoE for any rate hike. **Even if inflation does recover, the decision to hike rates will still hinge on the growth outlook which is being hampered by political uncertainty.**

NAHB Housing Market Index in the US slipped to 64 in June vs 67 in the previous month and 71 in March. A reading above 50 signifies expansion and continues to testify to the strength of the US housing market even though rising interest rates amid lowered economic growth forecast seem to have taken the steam out of builders' sentiment.

Investor confidence dropped for a second month in July in Germany as well as across the wider Eurozone region. The ZEW Expectations Index in Germany, which aims to predict economic developments six months ahead, slid to 17.5 from 18.6 in June. In the wider currency block the index slid to 35.6 from 37.7. Germany is entering a period of uncertainty as it heads toward September elections. Eurozone has its own uncertainties particularly as the European Central Bank starts discussing when it might wind down euro-area monetary stimulus.

UK core CPI – decelerating in June



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK CPI y/y	12:30	2.6%	US Housing market index	18:00	67
EC Zew Survey Expectations	13:00	NA	GE Zew Expectations	13:00	88

Source: Bloomberg.

Fixed Income

Muted inflation data from both sides of the Atlantic have reduced rate hike expectations materially over the last few days. UST curve flattened further in yesterday's trading with yields on 2yr, 5yr, 10yr and 30yr treasuries closing at 1.35% (-1bp), 1.81% (-5bps), 2.26% (-5bps) and 2.85% (-5bps) respectively. 10yr Gilt yields retreated 6bps to 1.20% and Bunds closed lower at 0.55%.

The Goldilocks scenario of healthy GDP growth, solid employment and muted rate hike prospects fuelled demand for credit risk. CDS levels on US IG and Euro Main continued their narrowing trend closing tighter by a bp each at 57bps and 53bps respectively.

Locally GCC bonds benefited from falling benchmark yields. Average yield on Bloomberg Barclays GCC index closed down by 2bps to 3.44% though credit spreads increased by a bp to 149bps as investors showed reluctance to march bond prices higher.

Bank results have become muddled. Commercial Bank of Qatar reported drop in 1H net profit to QAR 180 million from QAR 500 million a year ago and also announced changes in senior management.

FX

AUD is the outperformer in the Asia session, gaining on all its rivals, with AUDUSD gaining for a second consecutive day. As we go to print, AUDUSD trades 0.13% higher at 0.7926, taking this week's total gains to 1.19%. We maintain our view that while the pair continues to trade above 0.7723, the five year 23.6% Fibonacci retracement, the risk of a rise towards 0.8278 remains substantial. Furthermore, as indicated yesterday, the 50 day moving average (MA) has now completed its golden cut on both the 100 and 200 day MAs which leads us to believe that despite the 14 day Relative Strength Index (RSI) currently being in overbought territory, further gains seem the path of least resistance.

Equities

Global equities had a day of mixed trading. S&P 500 closed marginally up +0.06%, benefiting from higher technology stock valuation after Netflix posted good results. However European bourses were generally softer in response to disappointing results from airlines and banks. Euro Stoxx was down by -1.07% and FTSE 100 closed down by 0.19%.

Regionally GCC equities had a similar trend. Barring Kuwait exchange's gain of 0.18%, all other bourses closed weaker partly due to profit taking and partly in response to weaker oil prices. DFMG fell 0.68% yesterday, mostly due to profit taking on real estate names. Abu Dhabi exchange finished the day close to its opening level while Tadawul fell 0.27%.

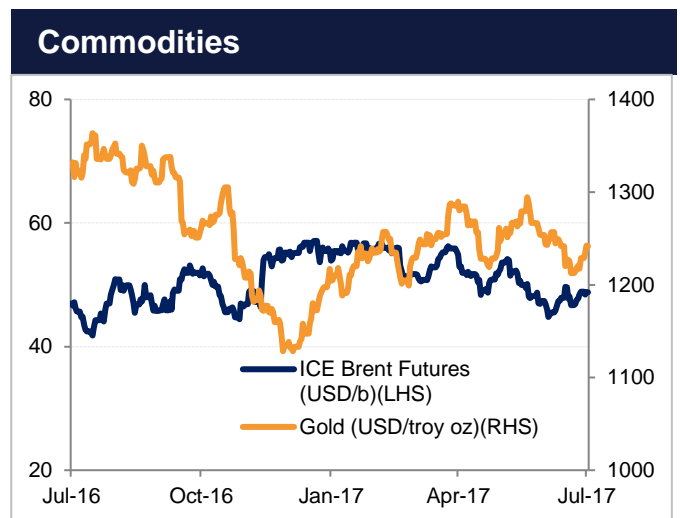
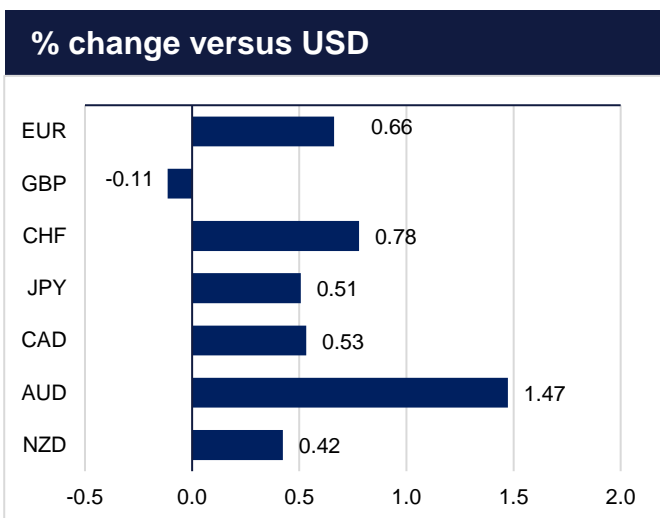
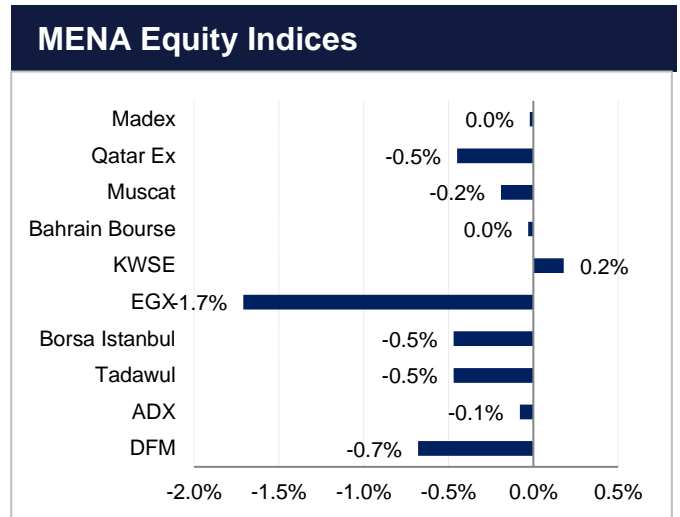
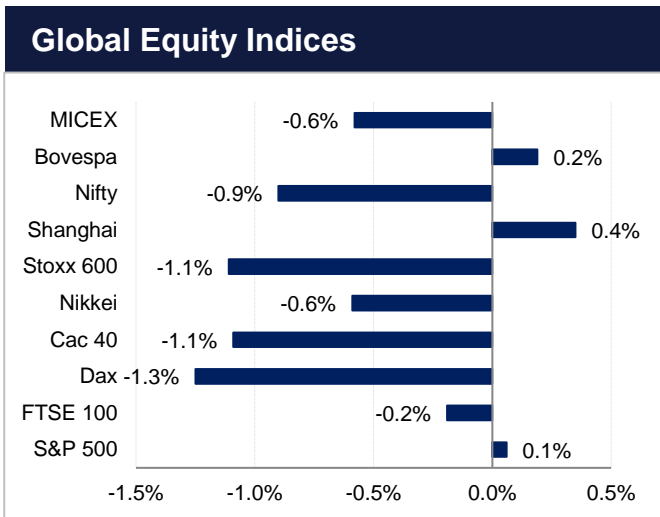
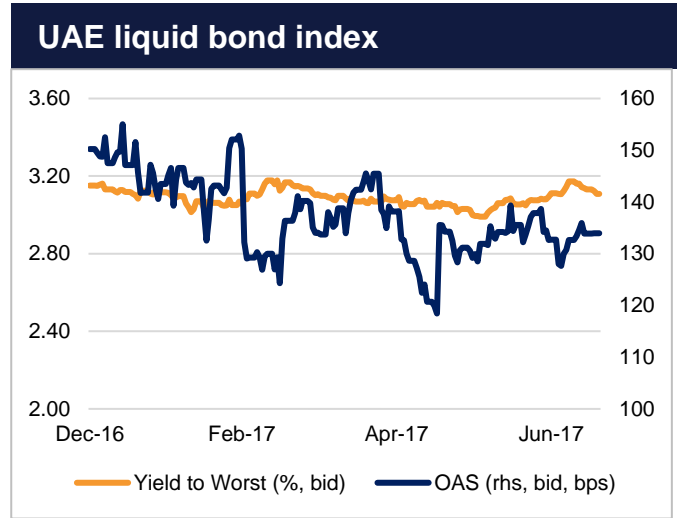
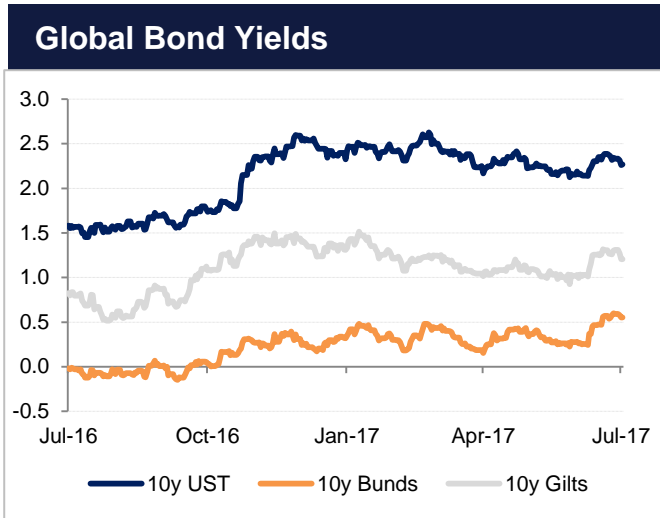
In the primary market, Adnoc is reported to have selected Citi, BofA and HSBC for IPO of its retail unit worth up to USD 14bn.

Commodities

Oil prices managed to gain yesterday on the back of strong data coming out of China which showed refinery demand at elevated levels. Brent futures closed at USD 48.84/b and WTI at USD 46.40/b. Kuwait's oil minister said OPEC's production cuts were 'working well' and that the market excess would disappear by March when the cuts are due to expire.

The contango structure narrowed slightly yesterday to USD 1.86/b for Brent Dec 17-18 spreads and to USD 3.31/b for 17-19. However, it is still much stronger than where it was two months ago as the market flirted with a move into backwardation.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1554	+0.66	1.1792	USDTRY	3.5231	-0.15	EURAED	4.2437	+0.66
GBPUSD	1.3040	-0.11	1.3192	USDEGP	17.9487	-0.12	GBPAED	4.7899	-0.11
USDJPY	112.07	-0.50	109.95	USDSAR	3.7502	--	JPYAED	0.0328	+0.51
USDCAD	1.2628	-0.54	1.2591	USDQAR	3.6850	-0.41	CADAED	2.9086	+0.53
AUDUSD	0.7916	+1.47	0.7877	USDKWD	0.3026	-0.11	AUDAED	2.9079	+1.52
USDCHF	0.9548	-0.81	0.9316	USDBHD	0.3772	-0.01	CHFAED	3.8462	+0.79
EURGBP	0.8860	+0.77	0.8939	USDOMR	0.3850	-0.01	TRYAED	1.0400	-0.09
USDAED	3.6730	--	3.6805	USDINR	64.3362	-0.03	INRAED	0.0571	-0.00

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3033	1.5437	1.7533	2.1330	USD 2 yr	1.577	-2
USD LIBOR	1.2283	1.3061	1.4532	1.7329	USD 5 yr	1.877	-4
GBP LIBOR	0.2520	0.2947	0.4398	0.6537	USD 10 yr	2.204	-5
JPY LIBOR	-0.0291	-0.0076	0.0113	0.1179	EUR 2 yr	-0.137	-1
CHF LIBOR	-0.7820	-0.7286	-0.6480	-0.4910	EUR 5 yr	0.294	-2
					EUR 10 yr	0.922	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1242.47	+0.68	ADGB 6.75 19	1.67	-1	Abu Dhabi	60	--
Silver	16.29	+1.06	DUGB 7.75 20	2.67	-1	Dubai	125	+2
Oil (WTI)	46.40	+0.83	QATAR 6.55 19	2.22	-5	Qatar	103	-3
Aluminium	1904.75	+0.45	US Tsy 2 yr	1.35	-1	Saudi Arabia	103	-1
Copper	5973.50	+0.04	US Tsy 10 yr	2.26	-6	Bahrain	240	+9

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
 Group Treasurer & EVP 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

Shady Shafer Elborno
 Head of Macro Strategy
 +9714 2012300
 shadyb@emiratesnbd.com

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

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

Mohammed Al-Tajir
 Manager, FX Analytics and Product Development
 +9714 609 3005
 mohammedtaj@emiratesnbd.com

Aditya Pugalia
 Analyst
 +9714 230 7802
 adityap@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
 vallancel@emiratesnbd.com

Egypt
 Gary Boon
 +20 22 726 5040
 garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
 CEO- Emirates NBD Capital
 AhmedAQ@emiratesnbd.com

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