



Daily Outlook

The US and Canada have reportedly reached a last minute deal on NAFTA, although details are yet to be released as of this writing. Yesterday was the deadline for agreement, allowing 60 days before the final deal between the US, Mexico and Canada can be signed - the Mexican President's term ends on 30 November.

10y Italian bond yields rose above 3% again at the end of last week, as the new government indicated it would pursue a more expansionary fiscal policy, with a 2019 deficit of -2.4% compared with -0.8% targeted by the previous government. The draft budget is based on an optimistic GDP growth projection, which means the deficit could end up breaching the Eurozone's 3% ceiling. Moreover, with 130% debt to GDP ratio, the proposed budget threatens Italy's public debt sustainability. Final details of next year's budget are only due in mid-October and there may be changes before then.

Both the official and Caixin manufacturing PMIs came in weaker than forecast for September, likely reflecting the impact of trade sanctions on China's manufacturing sector. The official manufacturing PMI declined to 50.8 from 51.3 in August, with **new export orders contracting for the fourth month in a row.** Weakness in the manufacturing sector is being offset by the services and construction sectors however, with the non-manufacturing PMI beat expectations at 54.9, up from 54.2 in August. The Caixin PMI (focused on smaller private sector firms) fell to 50.0 from 50.6 in August.

Japan's Tankan survey, released this morning, was largely weaker than expected with only smaller non-manufacturing firms showing improved sentiment in the third quarter. This follows disappointing industrial production data in Japan in August (up just 0.7% m/m against estimates of 1.4% m/m), which was released on Friday.

Bahrain's government is reportedly planning to pass VAT and pension reform legislation before the 24 November parliamentary elections. The move is likely part of a financial support package being negotiated with other GCC states. Last week, Bloomberg reported that USD 10bn in assistance was being discussed in a five-year program. The latest official GDP data shows Bahrain's economy contracted -1.2% y/y in Q1 2018, the first contraction since Q4 2011, mainly on lower crude oil output.

The Saudi Ministry of Finance released the pre-budget statement for 2019, showing a 7.4% rise in total spending next year, and a projected deficit of -4.1% of GDP. For 2018, the government estimates a deficit of -5.0% of GDP. However, our own projections are for higher revenue this year and thus a smaller deficit of -2.8%. We are also more optimistic on the budget shortfall for 2019 with a forecast of -3.6% of GDP. Generally, the authorities assume a conservative average oil price in their budgeting process, which accounts for the difference between our estimates and theirs. The official 2019 budget is likely to be released towards the end of this year.

Separately, the UAE cabinet approved the federal budget for 2019 at AED 60.3bn, up 17% y/y and signalling a more expansionary fiscal stance. The federal budget is always balanced as it is fully funded by transfers from the individual emirates. It typically accounts for around 12% of the consolidated UAE budget.

Today's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone Manuf. PMI	12:00	53.3	UK Manuf. PMI	12:30	52.5
US Manuf PMI	17:45	55.6	US Construction Spend.	18:00	0.4%

Source: Bloomberg, Emirates NBD Research.

Fixed Income

The FOMC statement was seen not to be as hawkish as investors had originally feared which caused a slight relief rally, leading to bull flattening of the UST curve. Yields on 2yr, 5yr and 10yr USTs closed the week at 2.81% (unchanged, w/w), 2.95% (-2bps, w/w) and 3.06% (-3bps, w/w) respectively. Barring Italian bonds, yields on other European sovereign bonds followed suit with the USTs with 10yr Bund and Gilt yields closing lower by 4bps each to 0.47% and 1.57% respectively. Credit spreads in the US were largely unchanged though CDS levels on Euro Mian rose by 2bps to 69bps.

Regional bonds moved in tandem with the tightening benchmark yields with yield on Barclays GCC bond index closing the week 8bps lower at 4.43%, boosted also by the 6bps tightening of credit spreads to 155bps.

Main news over the weekend was the news about Bahrain's GCC neighbors being close to finalizing the aid package. In the primary market Oman is believed to have mandated banks for an international bond/sukuk deal.

FX

The dollar strengthened against most of the other major currencies last week, with the exception of the CAD, the Dollar Index rising to just over 1% to reach 95.175. This move saw the index break back above the 100-day and 50-day moving averages (94.666 and 95.132) respectively and close the week above these key levels. While the daily price remains above the 100-day moving average, a retest of the one year high of 69.984 remains a possibility. The probability of this scenario would increase should we see the price end the week above the 100-week (95.393) MA and 200-week MA (95.666).

CAD has rallied further this morning on news that the US and Canada have finally reached agreement on NAFTA.

Equities

Developed equity markets had a soft performance on Friday. In the U.S, the NASDAQ posted a modest 0.05% rise, while the Dow Jones rose 0.07%. On the other side of the Atlantic, things went less well. The Euro Stoxx 50 declined by 1.47%, the FTSE fell by 0.47% and DAX lost 1.52%.

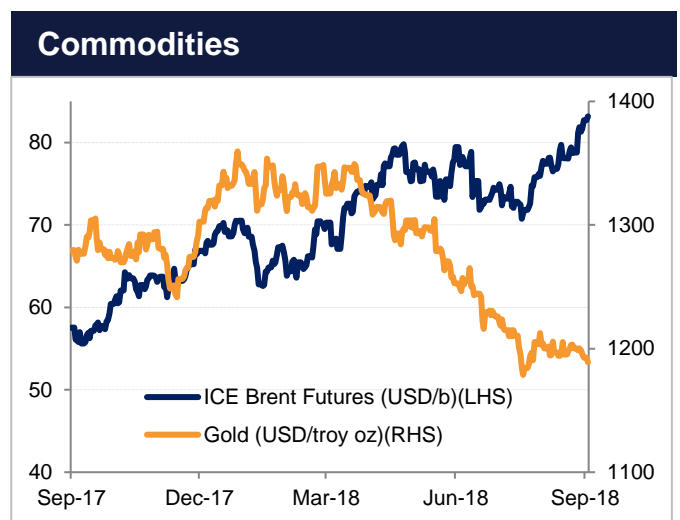
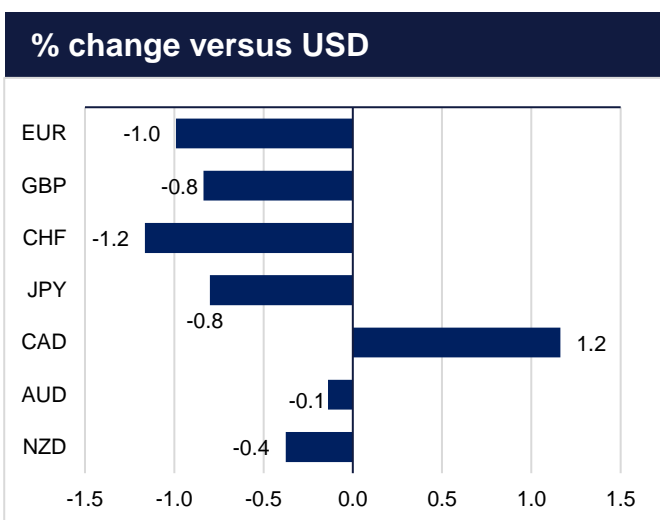
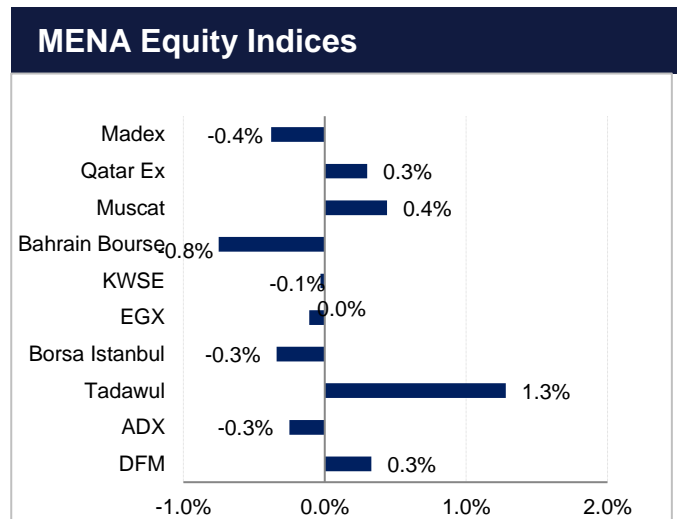
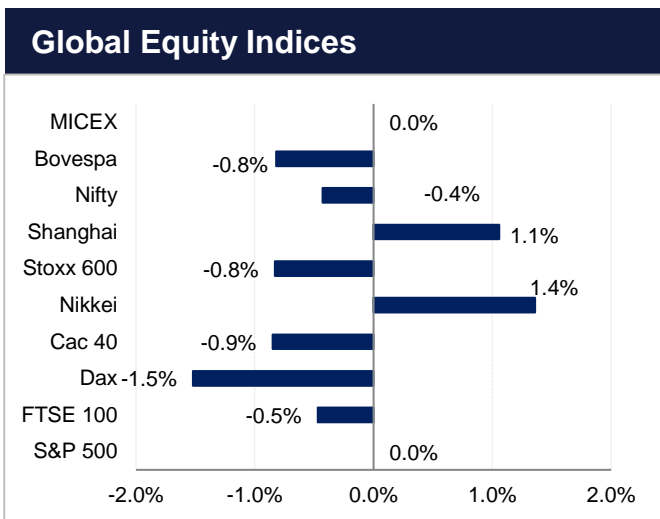
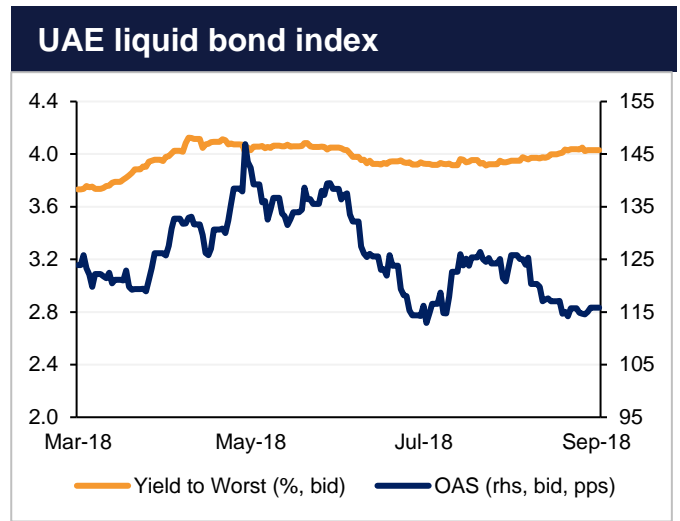
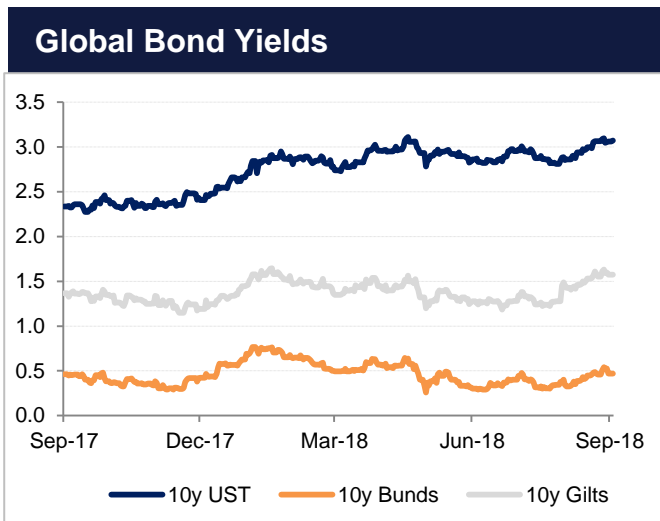
Regional equity bourses had a positive bias yesterday with Tadawul rising 1.3% on the back of increase in energy and materials shares to reach close to its highest level for this year. Dubai index was also pushed higher by 0.33% by positivity in the banking and insurance sector. That said Abu Dhabi closed a tad weaker.

Commodities

Oil markets extended their gains last week to close at their highest level since 2014. Brent futures pushed well above USD 80/b and ended the week up nearly 5% at USD 82.72/b. WTI closed the week at USD 73.25/b, up 3.5%. Average prices for the quarter ended higher and both were up more than 44% y/y in Q3. Markets have generally pushed higher on expectation of tighter supply in the coming months thanks to US sanctions coming into effect on Iran and we wouldn't rule out a sentiment-driven surge higher. But we would need to see a more clearly negative supply risk for any further spike supported by fundamentals.

US president Donald Trump again appealed directly to OPEC to encourage the producers' bloc to raise output in order to dampen down prices. He has also reportedly called King Salman of Saudi Arabia directly to discuss oil markets. However, after characterizing OPEC as "ripping the world off" last week at the UN General Assembly, producers will be reticent to quickly fall in line with the US president's demands. We still anticipate a modest increase in production from several producers within OPEC but they will be extremely wary of flooding the market with crude after several painful years of bringing the market back into balance.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1604	-0.99	1.1991	USDTRY	6.0559	-0.03	EURAED	4.2544	-1.16
GBPUSD	1.3031	-0.84	1.3276	USDEGP	17.9203	-0.16	GBPAED	4.7911	-0.74
USDJPY	113.70	+0.82	110.21	USDSAR	3.7502	-0.00	JPYAED	0.0324	-0.58
USDCAD	1.2908	-1.15	1.2824	USDQAR	3.6800	+0.62	CADAED	2.8218	+0.32
AUDUSD	0.7224	-0.14	0.7265	USDKWD	0.3034	+0.16	AUDAED	2.6485	-0.32
USDCHF	0.9817	+1.19	0.9462	USDBHD	0.3771	+0.00	CHFAED	3.7614	-0.64
EURGBP	0.8904	-0.16	0.9031	USDOMR	0.3850	+0.06	TRYAED	0.6100	+0.61
USDAED	3.6730	--	3.6762	USDINR	72.4900	-0.15	INRAED	0.0552	+9.13

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.4438	2.4455	2.9715	3.3227	USD 2 yr	2.979	-1
USD LIBOR	2.2606	2.3984	2.6039	2.9186	USD 5 yr	3.049	-2
GBP LIBOR	0.7245	0.8003	0.9049	1.0627	USD 10 yr	3.091	-2
JPY LIBOR	-0.0840	-0.0548	0.0200	0.1387	EUR 2 yr	-0.106	-0
CHF LIBOR	-0.7796	-0.7358	-0.6568	-0.5192	EUR 5 yr	0.386	-3
					EUR 10 yr	0.973	-3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1190.88	+0.68	ADGB 6.75 19	2.42	--	Abu Dhabi	61	+1
Silver	14.30	-0.83	DUGB 7.75 20	3.46	-0	Bahrain	307	-12
Oil (WTI)	73.25	+1.57	QATAR 6.55 19	2.70	-1	Dubai	122	-1
Aluminium	2048.00	+1.81	US Tsy 2 yr	2.82	-1	Qatar	68	-1
Copper	6263.50	+1.32	US Tsy 10 yr	3.06	+1	Saudi Arabia	68	-1

Source: Bloomberg, Emirates NBD Research

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