



بنك الإمارات دبي الوطني
Emirates NBD

Daily
20 June 2018

www.emiratesnbdresearch.com

Daily Outlook

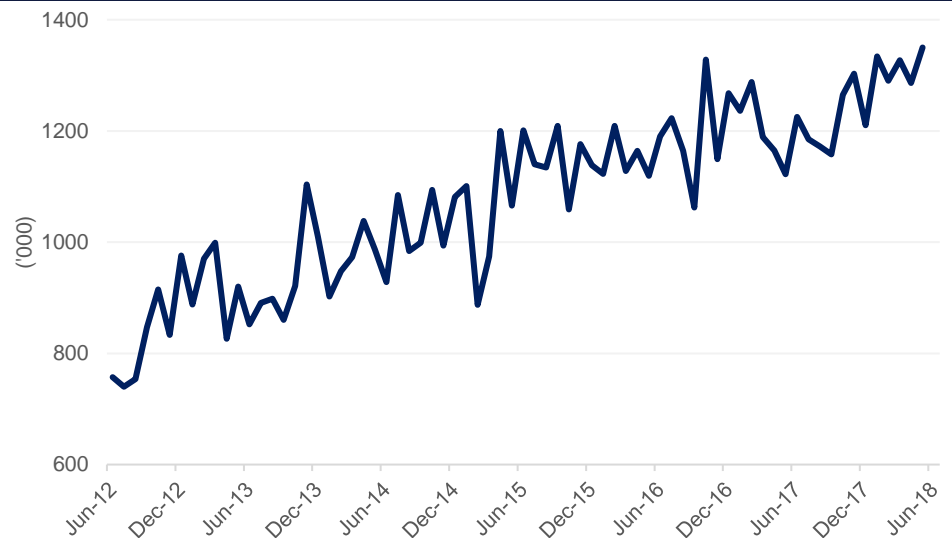
Housing starts in the US rose 5.0% in May to 1.35m, vs expectations of increase of just 1.9%. That left construction growing at the fastest pace in more than a decade, with the year-on-year level up 20.3%. Single-family housing starts advanced for a second consecutive month, climbing 3.9%, while the more volatile multifamily starts rebounded by 7.5% after dropping 13.5% in April. Demand is supported by a tight labour market and steady pay gains. Consumer confidence has been further bolstered as tax cuts aid disposable income. Forward-looking building permits in May fell 4.6% to 1.3m vs 1.35m in the previous month, though still remained near their highest levels in the current economic cycle.

The trade conflict between the US and China continued to escalate with US looking at imposing additional tariffs on further USD 200 billion worth of Chinese goods which will be hard for China to counter given the size of its imports from the US. However, the North Korean leader, Kim Jong Un is currently in Beijing for the third time since March this year and his presence there shows how China's leverage in the trade dispute with the US may include agendas beyond physical trade items.

Federal Reserve Bank of New York President John Williams, on his first day in the job, commented that the U.S. economy was in great shape and is amid the second-longest expansion in our history. However, it is precisely the sense that things have gotten so much better that worries him the most. Mr William is a voter and his comments indicate a hawkish bias. In contrast, St. Louis Fed President James Bullard (non-voter) has previously warned against further rate hikes, stating that more tightening could cause the yield curve to invert as soon as September.

As per the minutes of the June meeting released yesterday, the Reserve Bank of Australia made no reference to the direction of the policy rates. The RBA had left rates unchanged at 1.5% at its June 5th meeting. That said, Governor Philip Lowe's in his speech on June 13th in Melbourne said that the Australian economy is moving in the right direction and if this continues to be the case, it is likely that the next move in interest rates will be up, not down.

US housing starts



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
SA core CPI YoY	12:00	4.6%	US Existing Home sales	18:00	5.52m

Source: Bloomberg

Fixed Income

The broad risk-off mood helped Treasuries close higher. However, they pared some of their gains in the US session. Overall, yields on the 2y UST, 5y UST and 10y UST closed at 2.54% (flat), 2.79% (-2 bps) and 2.89% (-2 bps) respectively.

Regional bonds continue to drift lower following weakness in broad emerging markets. The move in benchmark yields seem to be helping little at the moment. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose +3 bps to 4.69% and credit spreads widened 6 bps to 197 bps.

The relentless move in 5y Bahrain CDS continued. It rose 22 bps to 458 bps, to its highest level since mid-2009. The Bahrain 21s is currently trading at USD 96 while Bahrain 29s is trading at USD 83.80.

FX

The USD rose against most of the other major currencies on Tuesday, the Dollar Index rising 0.27% to reach 95.013. This morning the index is sitting at 95.085, just above the 200 week moving average of 95.036 which has acted as a resistance level over the last four weeks. A close above this level on Friday may trigger further short term gains towards the 96 handle. We also wish to draw attention towards the EURUSD cross which closed at 1.1590 resulting in a daily finish below the 38.2% one year Fibonacci retracement for a fourth consecutive day. A weekly close below this level risks further declines towards 1.1450.

Equities

Developed market equities closed lower as the reality of trade tension between the US and China hit investors. The S&P 500 index dropped -0.4% while the Euro Stoxx 600 index declined -0.7%.

The DFM index and the ADX index declined for a second consecutive day with losses of -1.5% and -0.6% respectively. It appears that foreign investors took money off the table following a broad risk-off mood. Emaar Properties lost -5.2%.

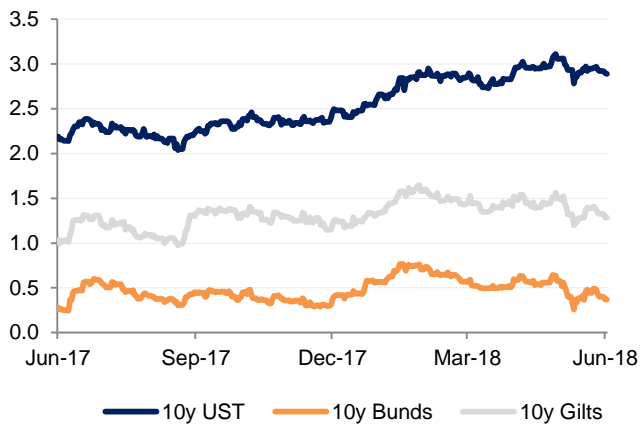
Commodities

Oil prices fell along with a broader risk-off move in markets. Brent futures declined by 0.35% and WTI gave up more than 1.1%. As the OPEC meeting nears there is no sign of members opposed to or in favour of raising production getting any closer. Both Saudi Arabia and Russia are signaling strongly that they will push for higher output while nearly all other members who have spoken publicly are opposed.

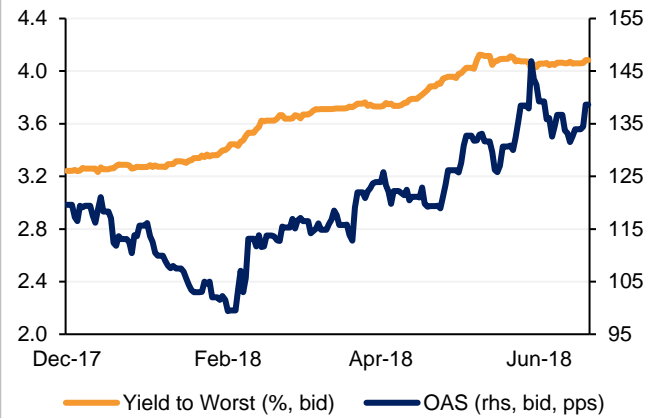
Market structures have stabilized in the last few days as market participants are awaiting the outcome of the meeting. Meanwhile physical spreads for US grades are still showing signs of softness: Brent/WTI closed at nearly USD 10/b yesterday while the Cushing/Midland spread was holding around the same level.

Markets in Charts

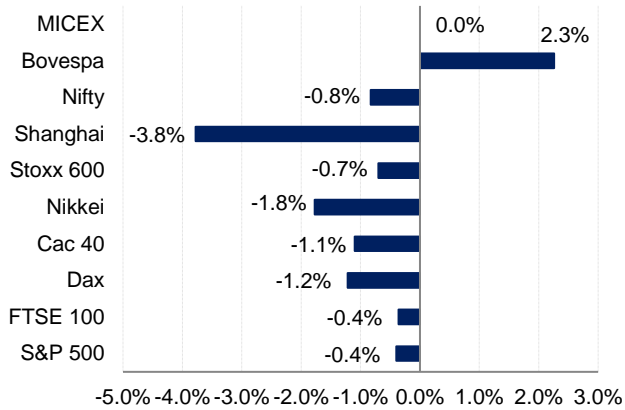
Global Bond Yields



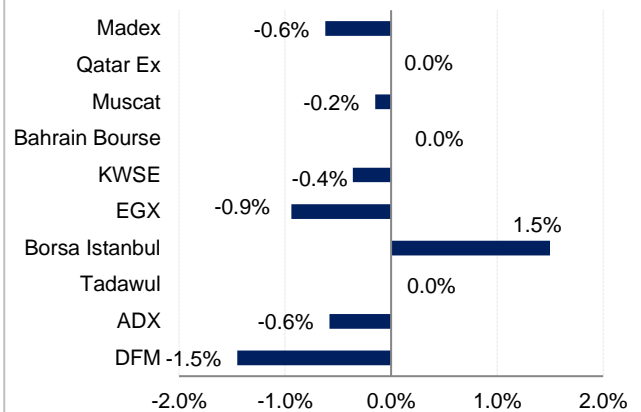
UAE liquid bond index



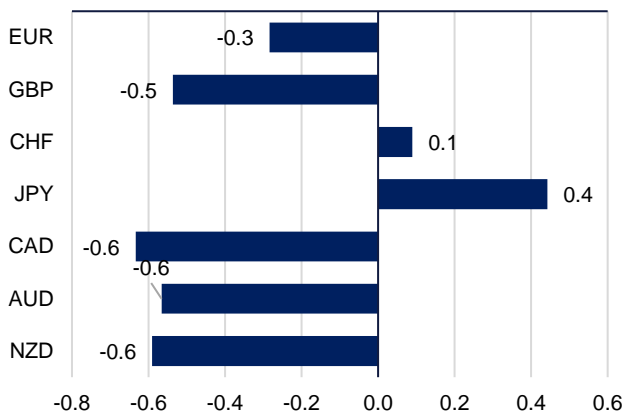
Global Equity Indices



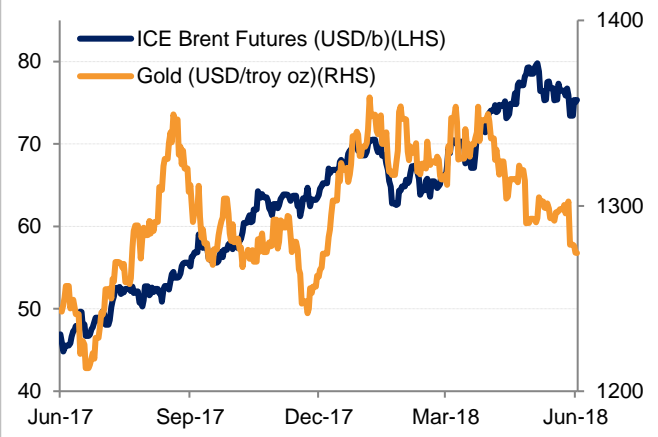
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1590	-0.28	1.1951	USDTRY	4.7407	+0.77	EURAED	4.2568	-0.29
GBPUSD	1.3174	-0.54	1.3418	USDEGP	17.8599		GBPAED	4.8387	-0.54
USDJPY	110.06	-0.44	106.90	USDSAR	3.7503	--	JPYAED	0.0334	+0.45
USDCAD	1.3286	+0.64	1.3187	USDQAR	3.6800	+1.06	CADAED	2.7645	-0.64
AUDUSD	0.7381	-0.57	0.7406	USDKWD	0.3028	+0.05	AUDAED	2.7110	-0.57
USDCHF	0.9950	-0.02	0.9609	USDBHD	0.3779	+0.01	CHFAED	3.6943	+0.10
EURGBP	0.8796	+0.25	0.8905	USDOMR	0.3850	+0.01	TRYAED	0.7700	-1.37
USDAED	3.6730	--	3.6759	USDINR	68.0800	+0.13	INRAED	0.0552	+2.35

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.1413	2.4938	2.7973	3.2369	USD 2 yr	2.801	-1
USD LIBOR	2.0838	2.3247	2.4969	2.7719	USD 5 yr	2.915	-2
GBP LIBOR	0.5055	0.6308	0.7550	0.9356	USD 10 yr	2.965	-2
JPY LIBOR	-0.0828	-0.0412	0.0142	0.1132	EUR 2 yr	-0.176	-1
CHF LIBOR	-0.7854	-0.7312	-0.6426	-0.5234	EUR 5 yr	0.259	-3
					EUR 10 yr	0.880	-3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1274.66	-0.29	ADGB 6.75 19	2.42	--	Abu Dhabi	71	+3
Silver	16.30	-1.04	DUGB 7.75 20	3.67	+4	Dubai	131	-1
Oil (WTI)	65.07	-1.18	QATAR 6.55 19	2.71	-3	Qatar	109	+3
Aluminium	2171.75	-2.22	US Tsy 2 yr	2.55	-0	Saudi Arabia	99	--
Copper	6832.00	-1.99	US Tsy 10 yr	2.90	-2	Bahrain	458	+23

Source: Bloomberg, Emirates NBD Research

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