



# Daily Outlook

**MSCI has added China to its benchmark emerging market indexes overnight while Saudi Arabia has been included on a watch list for possible inclusion, with a full upgrade potentially going to come sometime in the next 12 months.** The achievement by the Kingdom follows years of effort to comply with rigorous investor friendly rules such as facilitating access by foreigners to its market and implementing T+2 settlement rules. It may draw billions of dollars into the Saudi market when it is finally included in the index. It should also help the progress of diversification already underway in Saudi Arabia and put it in a good position to meet many of its 2030 Transformation plans. **The inclusion could also have broader positive implications for other regional equity markets, creating greater awareness of the Middle East region in the minds of global investors.**

**In a separate development Saudi Arabia's King Salman has this morning issued a royal decree replacing Crown Prince Mohammad bin Naif with the Deputy Crown Prince Mohammed bin Salman** in a surprise move that puts Mohammed bin Salman as next in line to the throne. There were also a raft of other steps announced including the restoration of benefits for all state employees.

**In the UK yesterday Bank of England Governor Mark Carney put a more dovish light on the MPC's recent deliberations, saying that now is not the time to begin raising interest rates.** Last week of course the MPC voted 5:3 in favour of keeping rates unchanged at 0.5%, but with 3 members voting in favour of tightening it was thought that a rate hike may not be too far off. Carney however has sought to dampen such speculation, adding that domestic inflation pressures are subdued, and there are mixed signals on consumer spending and investment. **In particular he drew a distinction between inflation that is exchange rate generated and that which is domestically driven.** Carney said any rate increases will be limited and gradual and the Bank must see how the economy reacts to the reality of Brexit.

## Sterling falls back to 2-month lows against the dollar



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
UK Public finances	12.30	7.0bn	US Existing home sales	18.00	-0.4%

Source: Bloomberg.

## Fixed Income

Benchmark yields slipped yesterday with 10yr USTs losing 3.5bps and gilt yields down nearly 4bps. Boston Fed president, Eric Rosengren, warned that the current low level of rates removes the ability of central banks to respond to "negative shocks". However, the overall curve flattened as longer dated bonds (30yr) yields have fallen. In the UK, BoE governor Mark Carney quashed any idea of higher rates saying now "was not the time" for higher rates. This follows on from a surprising amount of voters at last week's MPC in favour of a rate move.

Regionally, Fitch revised its outlook on Mumtalakat and three Bahraini banks to negative following a revision on the sovereign's outlook to negative earlier this month. NBB, BBK and Ahli United Bank have all been placed on negative outlook but their ratings were affirmed.

Despite the slump in oil prices, the BUAEUL spread of benchmark securities remained steady. The JPM UAE CEMBI also remains close to year-to-date and lifelong highs.

## FX

GBP slipped yesterday following BOE Governor Carney's Mansion House speech in which he downplayed recent inflation pressures and indicated that now is not the time to be raising interest rates. The pound had previously risen following the BOE's MPC meeting a week ago on the assumption that a rate hike was edging closer. The GBP is approaching 2-month lows with the risk that it falls back further in the context of a broadly strengthening USD.

## Equities

The slump in oil prices helped weaken risk sentiment with most major equity indices declining yesterday, both the FTSE and S&P500 down by 0.7%.

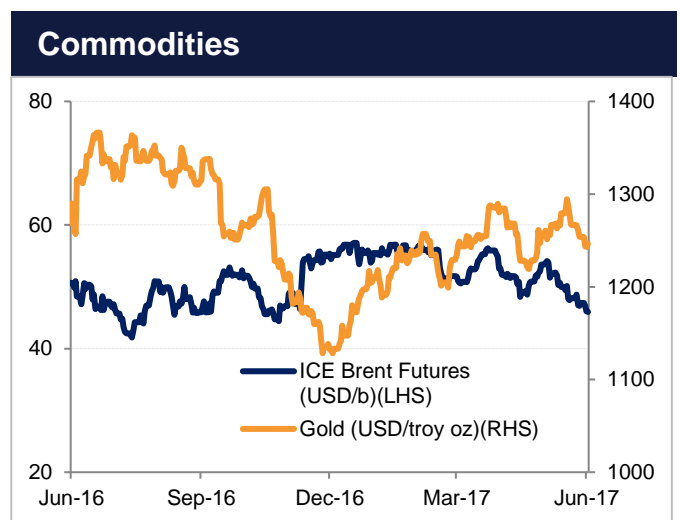
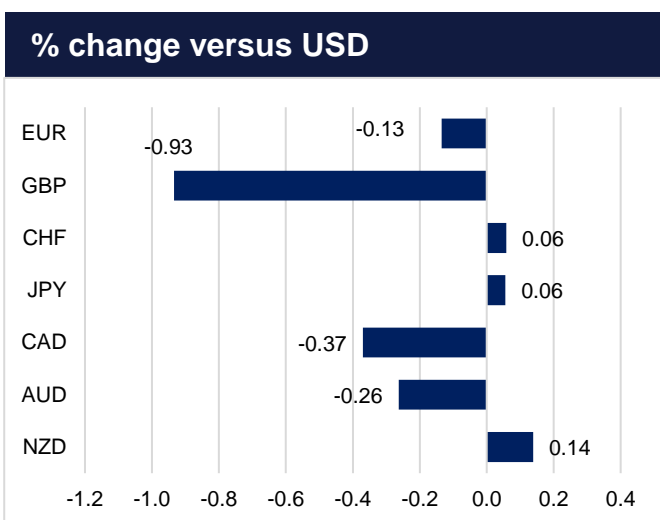
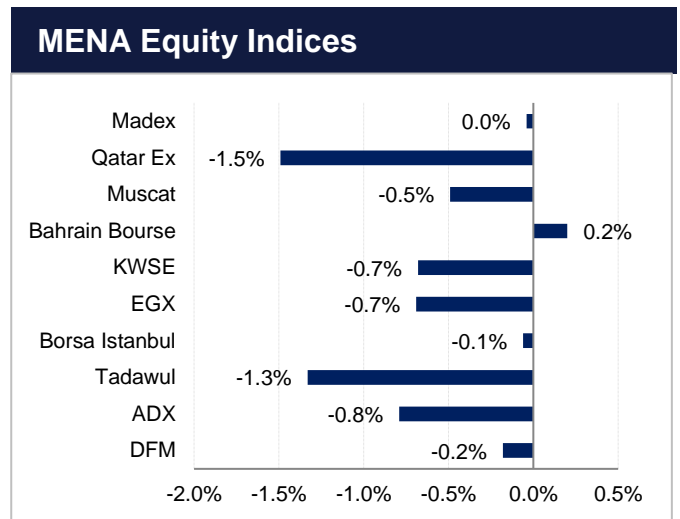
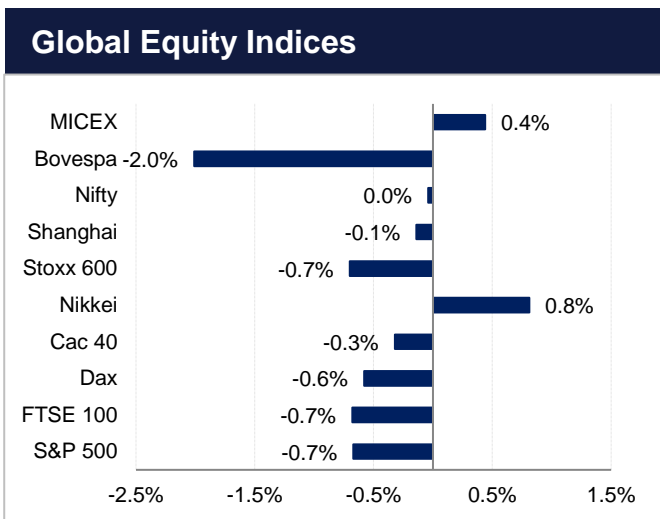
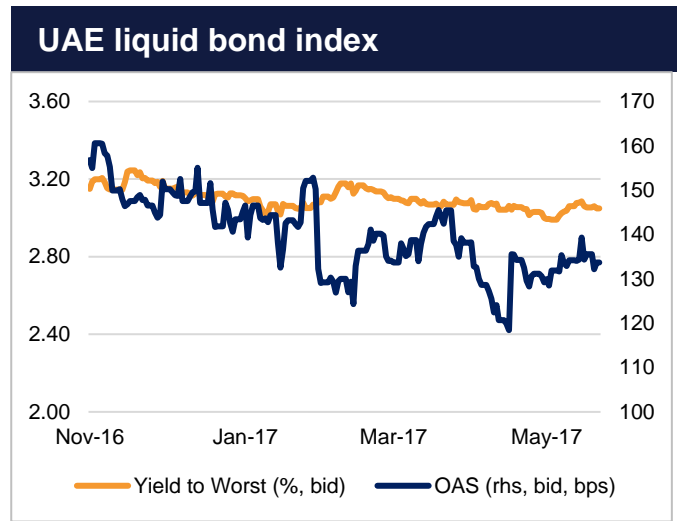
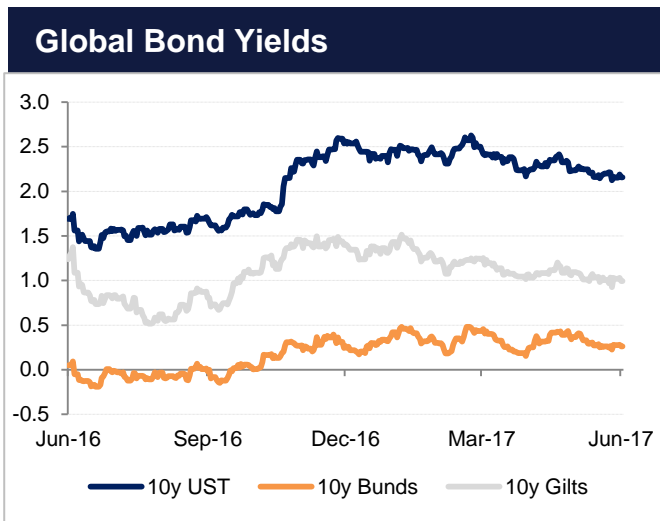
Regional markets reacted poorly to the sudden more down in oil prices. The Tadawul gave up 1.3% while the ADX and DFM were down 0.8% and 0.2% respectively. The Tadawul has been confirmed as under review for inclusion in the MSCI EM index which could occur by the end of next year.

## Commodities

Crude markets fell to a new low for 2017 yesterday with Brent closing just over USD 46/b and is now trading with a USD 45/b handle. There were few fundamental catalysts to push prices sharply lower with such sudden severity and the market is trading on over-sold territory on a daily basis. Any whisper of bearish data out from the EIA this evening would probably send prices even lower than current levels. The market is expecting small draws in crude but worryingly in peak driving season, builds in gasoline.

The contango for 1st – 24th Brent is approaching USD 5/b and with the recent weakness in benchmark yields, is making storage economics attractive again. An increase in inventories prompted by the structure of the market would be very difficult for OPEC to unwind unless it was prepared for deeper cuts and losing out more market share.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1134	-0.13	1.1365	USDTRY	3.5445	+0.61	EURAED	4.0895	-0.13
GBPUSD	1.2625	-0.93	1.2776	USDEGP	18.1000	-0.00	GBPAED	4.6384	-0.85
USDJPY	111.45	-0.07	109.45	USDSAR	3.7501	+0.00	JPYAED	0.0330	+0.05
USDCAD	1.3268	+0.37	1.3203	USDQAR	3.6750	+0.14	CADAED	2.7684	-0.36
AUDUSD	0.7580	-0.26	0.7546	USDKWD	0.3038	+0.09	AUDAED	2.7841	-0.24
USDCHF	0.9751	-0.06	0.9509	USDBHD	0.3772	-0.01	CHFAED	3.7670	+0.06
EURGBP	0.8816	+0.73	0.8893	USDOMR	0.3850	+0.01	TRYAED	1.0400	-0.25
USDAED	3.6729	--	3.6809	USDINR	64.6325	+0.32	INRAED	0.0568	-0.21

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.2162	1.5185	1.7148	2.1105	USD 2 yr	1.551	-1
USD LIBOR	1.2156	1.2872	1.4396	1.7359	USD 5 yr	1.833	-3
GBP LIBOR	0.2511	0.2871	0.4210	0.6238	USD 10 yr	2.137	-3
JPY LIBOR	-0.0306	-0.0023	0.0217	0.1297	EUR 2 yr	-0.192	-1
CHF LIBOR	-0.7884	-0.7306	-0.6638	-0.4940	EUR 5 yr	0.128	-2
					EUR 10 yr	0.729	-3

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1243.01	-0.07	ADGB 6.75 19	1.58	-1	Abu Dhabi	50	+3
Silver	16.47	-0.21	DUGB 7.75 20	2.59	-0	Dubai	126	+6
Oil (WTI)	43.23	-2.19	QATAR 6.55 19	2.42	+9	Qatar	99	+7
Aluminium	1876.50	+0.11	US Tsy 2 yr	1.34	-1	Saudi Arabia	106	+7
Copper	5630.50	-1.27	US Tsy 10 yr	2.16	-3	Bahrain	233	+3

Source: Bloomberg, Emirates NBD Research

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