



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

After all the positives related to Saudi Arabia's MSCI watch list inclusion and optimism about Mohammed bin Salman (MBS) becoming the Saudi Crown Prince, **oil prices may bring regional sentiment back down to earth again**, as they are down roughly 20% since the start of the year. Even though crude inventories showed a larger than expected drawdown in the latest week according to the EIA, sliding by 2.45 million barrels to 509.1 million, oil prices remain heavy this morning with US production rising by 20,000 barrels a day last week, the EIA also reported. According to Bloomberg **OPEC members are in talks about making further curbs to supply, but the cost of such an outcome if it succeeds will be to weigh further on growth**, with our regional economic growth forecasts already being revised down this week. Certainly a lot for MBS to contend with as he takes over more reins of office in his new position.

BoE Chief Economist Haldane added to the recent uncertainty about the outlook for UK interest rates yesterday saying he is ready to vote for a rate hike, surprising markets as he voted to keep policy settings unchanged last week. **Haldane's stance contrasts with that of Governor Carney, who yesterday said that now is not the time to tighten policy**. Haldane stated that 'provided the data are still on track, I do think that beginning the process of withdrawing some of the incremental stimulus provided last August would be prudent moving into the second half of the year.' His vote to hike would bring the MPC into balance over whether to support a rate hike, although one of the other 'hawks' is leaving the MPC later this month, to be replaced by a 'dove'. Nevertheless the debate about hiking UK rates is certainly heating up which is likely to add to the already politically induced volatility in GBP.

The **Reserve Bank of New Zealand held the policy rate at 1.75% overnight**, as expected and a dovish bias was retained. Governor Wheeler again said 'Monetary Policy will remain accommodative for a considerable period', and highlighted that numerous uncertainties remain. The onus will remain on the inflation and growth data in a sense to prove Wheeler wrong.

A first half to forget for oil prices



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK CBI Trends - orders	15:00	7	US initial jobless claims	17:30	240k

Source: EIKON.

Fixed Income

The UST curve continues to flatten as the market prices in a hawkish near-term Fed against subdued long-term expectations for growth and inflation. Yields on 10yr USTs were essentially unchanged overnight, holding at the 2.15% handle while 2yr yields are holding onto the 1.35% level. The current freefall in oil prices is likely weighing on investors' expectations of long-term growth and inflation as there are few data points to trade around this week.

Regional, rating agencies have been active. Fitch has placed nine banks in Qatar on Rating Watch Negative which is in line with their Rating Watch on the Qatar sovereign rating. Fitch has also placed Commercial Bank International, a UAE-based bank which is 40% owned by QNB, on Rating Watch Negative.

The JPM CEMBI for the UAE has dipped in recent days, likely on the back of oil's rapid decline, but still remains near life-time and year highs.

FX

The USD is a little weaker overall this morning with the comments of BOE Chief Economist Haldane boosting GBP yesterday, and market concerns rising about the impact of lower oil prices on global growth. The NZD also firmed overnight following the RBNZ decision to leave rates unchanged.

Equities

Equity markets remain in risk-aversion mode with all major indices closing lower barring the Shanghai index. The FTSE gave up 0.3% yesterday and its exposure to commodity firms may mean bumpy trading in the days ahead.

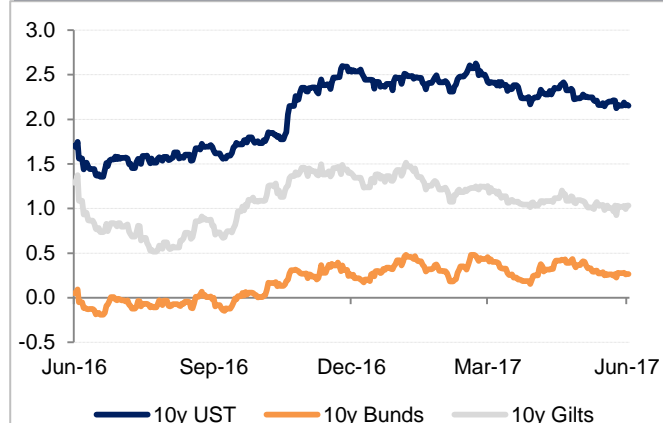
Regional equity markets were all about the Tadawul which jumped 5.5% on the back of its inclusion in an MSCI watchlist for upgrade to emerging market status and the appointment of Mohammed bin Salman as crown prince. Mohammed bin Salman is the principal force behind the current Saudi reform efforts, all of which should be supportive for private sector development.

Commodities

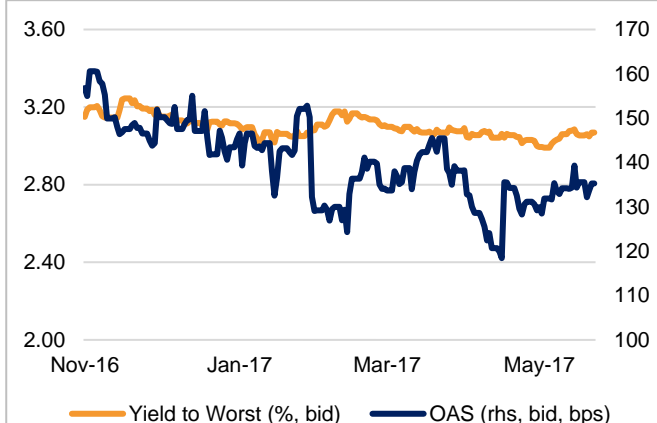
Crude markets again dropped heavily overnight with Brent futures down 2.6% and ending the day below USD 45/b. The EIA data out last night was relatively neutral with crude stocks down 2.5m bbl and gasoline inventories falling by 578k bbl. However, refinery demand slipped and production rose again, by 20k b/d to 9.35m b/d. The market appears to be teetering into a technicals-prompted free fall and we would not be surprised to see lower levels tested in the near future but would be surprised if they persisted over the course of the summer. Nevertheless, there are few positive catalysts to turn this market around at present and OPEC's messaging that 'all is well' is finding fewer and fewer listeners.

Markets in Charts

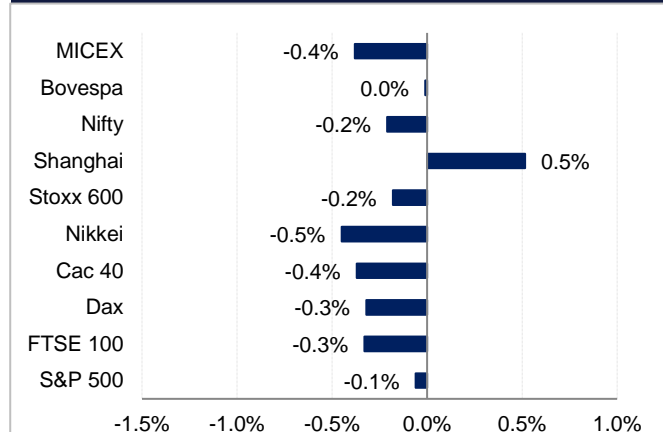
Global Bond Yields



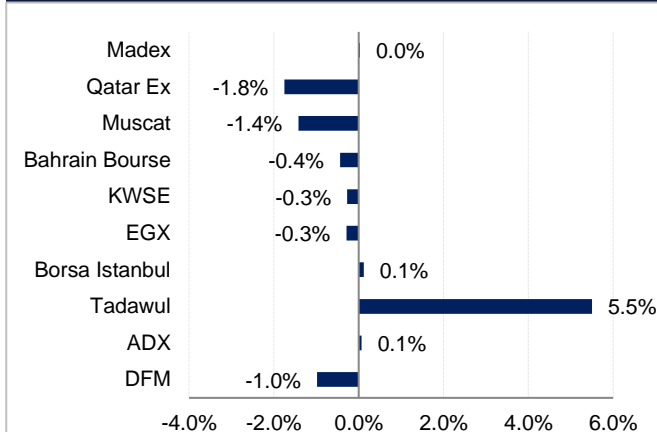
UAE liquid bond index



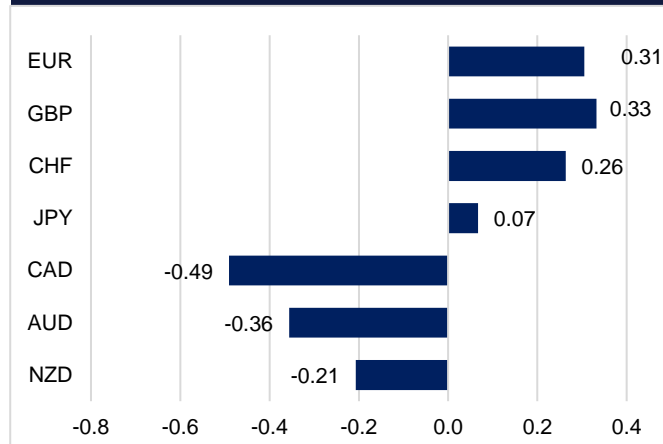
Global Equity Indices



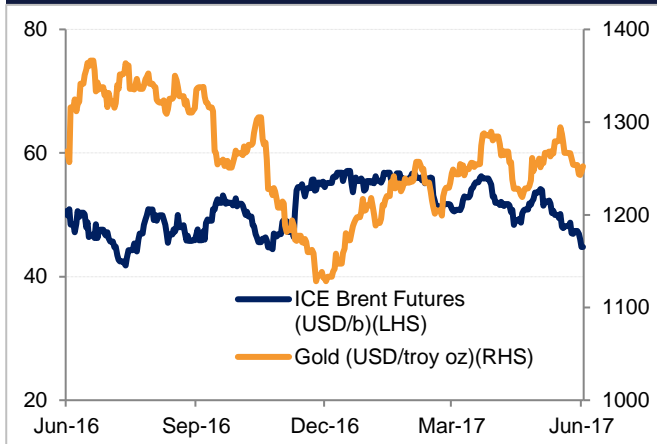
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1168	+0.31	1.1399	USDTRY	3.5309	-0.38	EURAED	4.1020	+0.31
GBPUSD	1.2671	+0.33	1.2815	USDEGP	18.1697	+0.39	GBPAED	4.6544	+0.34
USDJPY	111.38	-0.06	109.40	USDSAR	3.7503	+0.01	JPYAED	0.0330	+0.07
USDCAD	1.3334	+0.50	1.3267	USDQAR	3.6750	--	CADAED	2.7548	-0.49
AUDUSD	0.7553	-0.36	0.7519	USDKWD	0.3038	+0.01	AUDAED	2.7743	-0.35
USDCHF	0.9725	-0.27	0.9483	USDBHD	0.3772	+0.01	CHFAED	3.7770	+0.27
EURGBP	0.8814	-0.03	0.8895	USDOMR	0.3850		TRYAED	1.0400	+0.36
USDAED	3.6729	--	3.6809	USDINR	64.5225	+0.03	INRAED	0.0569	+0.13

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.2395	1.5130	1.7425	2.1245	USD 2 yr	1.544	-1
USD LIBOR	1.2156	1.2872	1.4396	1.7359	USD 5 yr	1.830	-0
GBP LIBOR	0.2511	0.2871	0.4210	0.6238	USD 10 yr	2.128	-1
JPY LIBOR	-0.0306	-0.0023	0.0217	0.1297	EUR 2 yr	-0.185	+1
CHF LIBOR	-0.7884	-0.7306	-0.6638	-0.4940	EUR 5 yr	0.139	+1
					EUR 10 yr	0.723	-1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1246.48	+0.28	ADGB 6.75 19	1.58	-1	Abu Dhabi	50	--
Silver	16.51	+0.27	DUGB 7.75 20	2.59	-0	Dubai	129	+4
Oil (WTI)	42.53	-1.62	QATAR 6.55 19	2.44	+2	Qatar	102	+2
Aluminium	1857.75	-1.00	US Tsy 2 yr	1.35	+0	Saudi Arabia	107	+2
Copper	5717.50	+1.55	US Tsy 10 yr	2.16	+1	Bahrain	239	+6

Source: Bloomberg, Emirates NBD Research

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