



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

The ECB kept rates steady and its quantitative easing policy in place at the end of last and ECB president, Mario Draghi, tried to avoid rattling markets in his commentary to the press afterward. Mr Draghi did not outline any specific timing for when the ECB would begin to draw down on its stimulus measures, saying instead that the bank would begin discussing tapering its purchases of government and corporate debt in the autumn. **Mr Draghi also declined to express any concern about the level of the Euro, which is now trading near two-year highs.** The market took his lack of commentary as a hawkish signal and pushed the single currency up to nearly 1.17 against the USD.

The market will get more clues about the pace of policy normalization from the ECB this week as **manufacturing and services PMI data for the Eurozone will be released at the start of the week.** Expectations are for more decent data from the PMI figures, holding comfortably in expansionary territory. **PMI data for the US will also come out at the start of the week, with broadly stable conditions expected month on month but the market's fixation will likely be on the Fed meeting in the middle of the week where no change is expected in rates.** There is no press conference at the upcoming meeting and the market is pricing in virtually no chance of a hike this week. Manufacturing PMI data for Japan was out early this morning which showed a slight moderation in July but at 52 still remains in growth territory.

The IMF downgraded its forecast for Saudi Arabia's GDP growth this year, expecting growth will be essentially zero. The fund does expect the budget gap to narrow in 2017 to just over 9% of GDP from 17% last year as non-oil revenues expand, however, growth in the non-oil sector was also cut to just 1.7%. The fund's forecasts are largely in line with our own, where we forecast growth of just 0.5% this year before a moderate recovery in 2018.

OPEC will hold a meeting with its production cut partners in St Petersburg at the start of the week in an effort to assess compliance with the existing production cut deal. The meeting may release recommendations on how to abet the market rebalancing, such as drawing in Nigeria or Libya into the deal, but we do not expect any significant outcome as a result. The UAE's energy minister, Suhail al Mazrouei, said he expects to see an acceleration of the rebalancing in the second half of the year while Kuwait's oil minister said that further cuts would be possible.

Lack of Draghi comments help push Euro higher



Source: EIKON, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
JP Mfg PMI	04:30	NA	EZ Comp PMI	12:00	56.2
US Comp PMI	17:45	NA	US Existing Home Sales	18:00	5.58m

Source: EIKON.

Fixed Income

Lower inflation data from major developed economies left sovereign bonds well bid and pushed the UST curve flatter. Futures-implied-probability of another US rate hike has now fallen below 40% for the December meeting. Yields on 2yr, 5yr, 10yr and 30yr treasuries fell during the week, closing at 1.34% (-2bps), 1.80% (-6bps), 2.24% (-8bps) and 2.81% (-9bps) respectively. 10yr Gilt and Bund yields were down in tandem to 1.17% (-9bps) and 0.50% (-7bps) respectively. Global cash corporate bonds fared well, boosted by solid quarterly results and declining benchmark yields. CDS levels on US IG and Euro Main closed at 57bps (-2bps) and 52bps (-3bps) respectively.

A lack of new supply in the past month has kept the technical backdrop supportive for GCC bonds despite weaker oil prices. Credit spreads tightened by 2bps to 146bps for the Bloomberg Barclays GCC index and yield tightened 8bps to 3.36% during the week.

In the primary market, the key deal of the week was the \$2.3 billion raised by Dubai Aerospace Enterprise Ltd (DAE), upsized from initial offering of \$1.9 billion. Majority government owned (80.5% via ICD) DAE priced \$500 million 3yr notes at 4%, \$800 million 5yr notes at 4.5% and \$1 billion 7yr notes at 5%. Given majority government shareholding, the bonds appear cheap relative to ICD 20s, 24s and 27s at yield of 3.30%, 4.08% and 4.41% respectively. We ascribe this to a) BB/Ba3 credit rating of DAE is lower than estimated rating of ICD in the investment grade; b) concentration of exposure to the volatile airline industry vs more varied portfolio of the ICD; c) acquisition execution risk relating to takeover of AWAS Aviation Capital and d) placement of the bonds outside of the region etc.

FX

USD slid against all major currencies with GBP the only currency that fell against it last week. Although most investors acknowledge the rebound of the US economy in Q2 from a mediocre Q1, there is still concern that the FED might postpone raising rates amid moderated price pressures and a doubtful fiscal course of the US economy. DXY index also fell for a second consecutive week, down -1.25% reaching its lowest level since June last year.

Equities

Regional equity markets made a mixed start to the week with the DFM index adding +0.6% and the Tadawul closing flat.

On the DFM, the flows were dominated by Amlak (+3.6%) and DIC (+4.3%) which together accounted for nearly 30% of total volume.

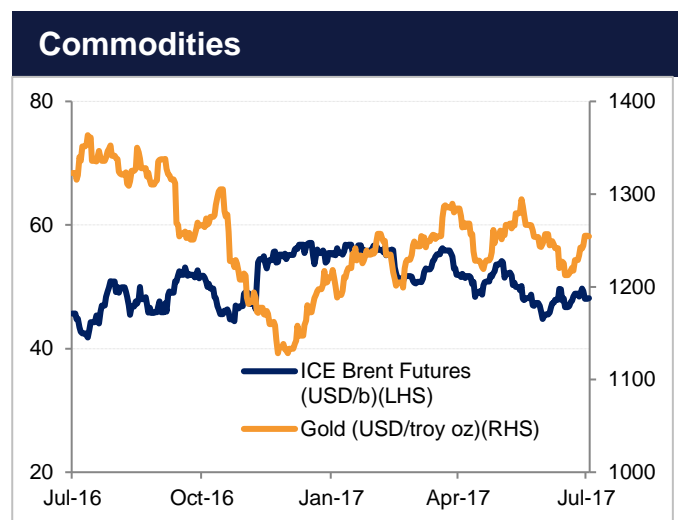
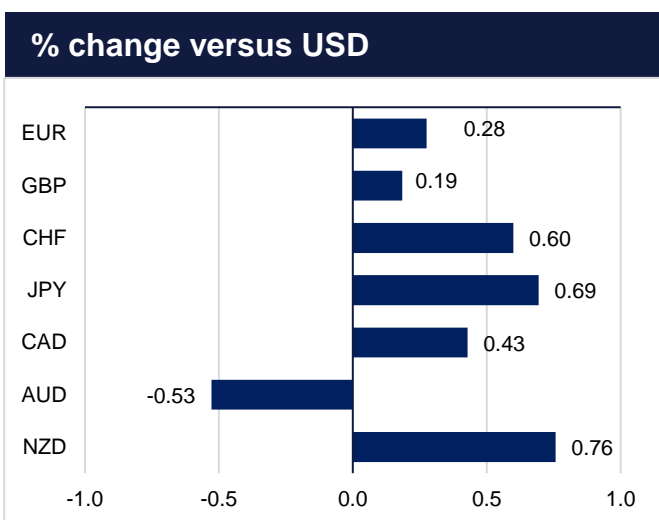
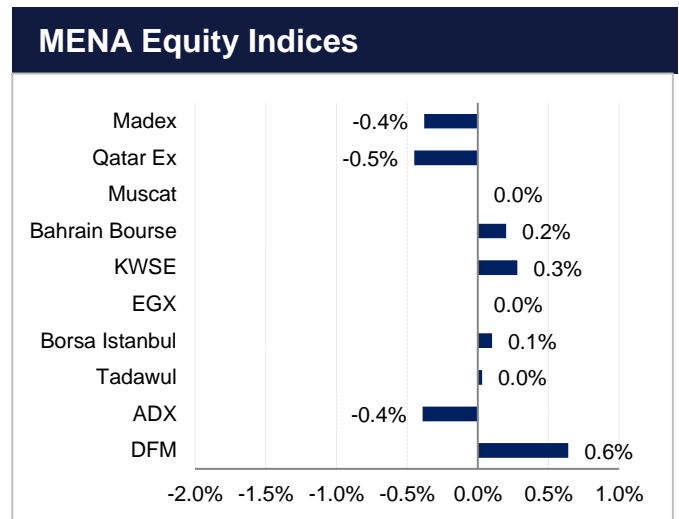
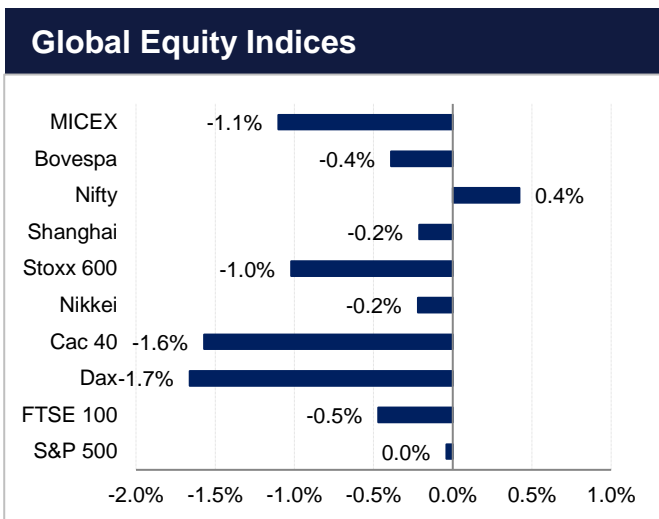
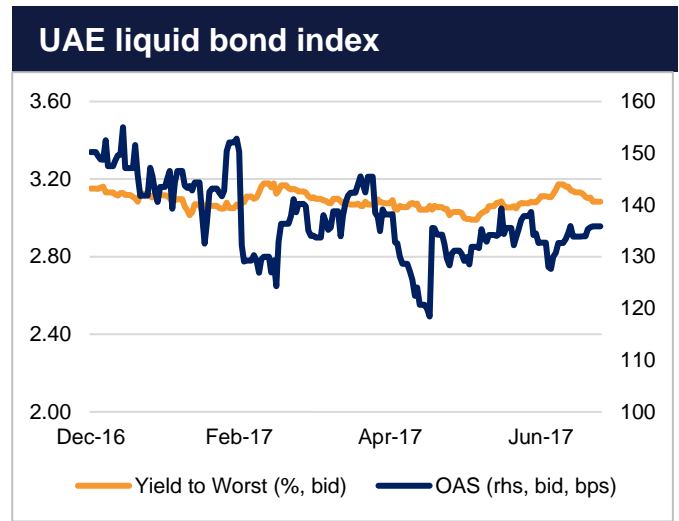
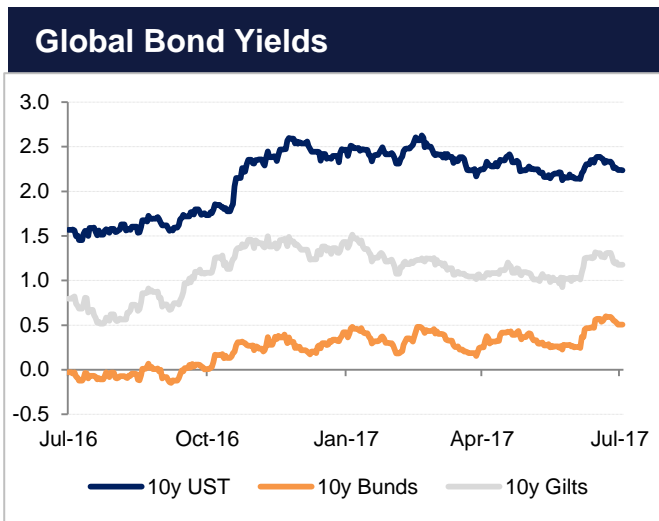
Elsewhere, Almarai dropped -0.5% after the company reported earnings that missed analyst's estimates marginally. After the market closed, NCB reported Q2 2017 net profit of SAR 2.42bn, missing consensus estimates by 2%. The bank attributed SAR 473mn impairment charge for credit losses.

Commodities

Oil futures ended the week down around 1.7% for both Brent and WTI, dragged lower by market reports on Friday that OPEC production increased in July. Brent closed the week just above USD 48/b and WTI was lingering below USD 46/b. The contango structure remains in place with Brent Dec 17-19 closing the week above USD 3/b and the comparable spread for WTI above USD 2.50/b.

Investors extended long positions in WTI last week, the third week running as more than 22k short contracts were closed. Helping to support sentiment somewhat, the US drilling rig count fell for a second week in a row although only 1 rig was removed.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1663	+0.28	1.1905	USDTRY	3.5361	+0.27	EURAED	4.2848	+0.29
GBPUSD	1.2997	+0.18	1.3149	USDEGP	17.8695	-0.16	GBPAED	4.7740	+0.17
USDJPY	111.13	-0.70	109.06	USDSAR	3.7501	--	JPYAED	0.0330	+0.69
USDCAD	1.2539	-0.40	1.2500	USDQAR	3.6750	--	CADAED	2.9293	+0.43
AUDUSD	0.7916	-0.53	0.7879	USDKWD	0.3024	-0.14	AUDAED	2.9070	-0.54
USDCHF	0.9457	-0.59	0.9226	USDBHD	0.3772	--	CHFAED	3.8845	+0.60
EURGBP	0.8974	+0.08	0.9054	USDOMR	0.3850	+0.00	TRYAED	1.0400	-0.15
USDAED	3.6729	-0.00	3.6804	USDINR	64.4425	+0.02	INRAED	0.0570	-0.24

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3142	1.5500	1.7540	2.1352	USD 2 yr	1.591	-1
USD LIBOR	1.2322	1.3144	1.4531	1.7357	USD 5 yr	1.884	-1
GBP LIBOR	0.2546	0.2884	0.4241	0.6335	USD 10 yr	2.208	-2
JPY LIBOR	-0.0264	-0.0074	0.0129	0.1179	EUR 2 yr	-0.158	-1
CHF LIBOR	-0.7842	-0.7286	-0.6520	-0.5020	EUR 5 yr	0.254	-3
					EUR 10 yr	0.897	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1254.98	+0.84	ADGB 6.75 19	1.65	-0	Abu Dhabi	58	-
Silver	16.52	+1.12	DUGB 7.75 20	2.64	--	Dubai	122	-1
Oil (WTI)	45.77	-2.18	QATAR 6.55 19	2.12	-3	Qatar	95	-4
Aluminium	1892.25	--	US Tsy 2 yr	1.34	-1	Saudi Arabia	100	-1
Copper	5971.00	+0.77	US Tsy 10 yr	2.24	-2	Bahrain	234	-3

Source: Bloomberg, Emirates NBD Research

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