



بنك الإمارات دبي الوطني  
Emirates NBD

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# Daily Outlook

**The planned privatization of Saudi Aramco has been postponed indefinitely**, according to several press reports over the weekend. The much-delayed IPO of a 5% stake was a key component of the economic reform plans outlined by the Crown Prince back in 2016, with the proceeds of the sale to have been used to fund the Public Investment Fund. As such, the lack of follow through is likely to reinforce investor concerns about the government's commitment to economic reform.

In our view however, **the decision to shelve the IPO (for now) primarily reflects a much stronger fiscal position**: oil prices are double what they were in early 2016 and the government has made significant spending reforms, with the budget deficit expected to narrow to around -4.3% of GDP this year from -9.3% in 2017. The valuation of Aramco and regulatory issues were likely also key factors in the decision to shelve the IPO for now. Furthermore, there are alternative options to securing the funds for PIF to invest. Aramco will now reportedly focus on the purchase of SABIC from the PIF, which would provide a significant cash injection for the sovereign wealth fund. In addition, Bloomberg reports that PIF is in talks with banks to raise USD 11bn in loans for investment.

**The lack of an Aramco IPO will not impact growth in the Kingdom in the near term**, in our view. However, the government needs to move ahead with other aspects of the NTP, including privatizations in other sectors, in order to reassure investors that it remains committed to opening the economy to foreign investment and diversifying away from oil.

**Fed Chairman Powell's comments at Jackson Hole on Friday were perceived to be relatively dovish by the market**, with the USD weakening and stocks rallying after he spoke. While he reiterated the view that rates would continue to rise gradually, Powell stressed that if the economic outlook changed markedly, the Fed would adjust course.

Separately, **US durable goods orders declined by more than forecast in July**, but excluding transport and military goods, the data was more positive. Meanwhile **low-level trade talks between China and US ended without any progress**, and no further talks are currently scheduled. The US' focus this week is likely to be on NAFTA discussions, with President Trump indicating over the weekend that a deal with Mexico is close to being reached. Canada is expected to rejoin talks this week.

The PBOC has introduced a new 'counter cyclical factor' in determining the daily yuan fix, in order to support the currency without direct FX intervention. While the recent yuan depreciation has helped to offset the impact of US tariffs for exporters, the PBOC may be concerned about the increased risk of capital flight.

Finally, Australia's new Prime Minister Scott Morrison is likely to have a tough few months ahead, with an opinion poll published on Monday showing the Liberal-National coalition 12 points behind the Labour Party, the lowest reading in a decade. While the AUD rallied late last week on the (near term) resolution of political uncertainty, Aussie bond yields opened higher this morning as investors signalled reduced appetite. Elections are due in May 2019, but may happen sooner with the government losing its one-seat parliamentary majority when former PM Malcolm Turnbull resigns.

**There are several key events to watch this week**, including a meeting of OPEC's joint technical committee in Vienna to review compliance with production targets (Monday) and Chinese PMI data (Friday). UK markets are closed today due to the summer bank holiday, but Brexit talks are set to ratchet up, although ministers are reportedly indicating that a deal may not be reached until November rather than the previous deadline of mid-October.

## Today's Economic Data and Events

	Time	Cons		Time	Cons
Germany IFO Bus. Climate	12:00	101.8			

Source: Bloomberg

## Fixed Income

UST curve flattened as the Fed appeared committed to continue raising rates despite the increasing fears of negative impact of the trade wars on the US GDP in the near future. Yields on 2yr, 5yr, 10yr and 30yr UST closed the week at 2.62% (+4bps w/w), 2.71% (+2bps, w/w) and 2.81% (-1bp, w/w) and 2.96% (-3bps, w/w) respectively. However, across the Atlantic, despite the possibility of a hard Brexit having increased in the recent past, the yields on 10yr Gilts and Bunds increased during the week to 1.28% (+6bps w/w) and 0.34% (+4bps w/w) as underlying economic data remained firm.

Oil prices have recently stopped being the bellwether for credit spreads as their trading price range has become more predictable. That said, the 5% increase in oil prices last week did help in improving risk appetite for corporate bonds. CDS levels on US IG and Euro Mian reduced to 60bps (-2bps) and 66bps (-3bps) respectively during the week.

In the region, GCC bond market had a muted week as most of the region was closed for the Eid holidays. Amid minimal trading, yield on Barclays GCC Bond index reduced to 4.41% (-5bps w/w) as credit spreads tightened to 173bps (-2bps w/w) on the back of rising oil prices.

There was no corporate development of note and new issues remained surprisingly scant.

## FX

The dollar extended its decline for a second consecutive week as the market took comments from Fed Chair Jerome Powell as relatively dovish. The DXY index closed the week down nearly 1% as Powell suggested that there was little sign of inflation overshooting Fed targets and that steady interest rate increases were the best course of action. EUR and GBP gained over the week while TRY was largely settled as trading was limited by holidays.

## Equities

Strong capital goods order data out of the US supported continued rally in US stocks, taking the S&P 500 to record highs. European bourses also closed solidly in the green last week. Asia is following the lead with Nikkei and Hang Seng trailing up by +0.86% and +2.0% in early morning trades.

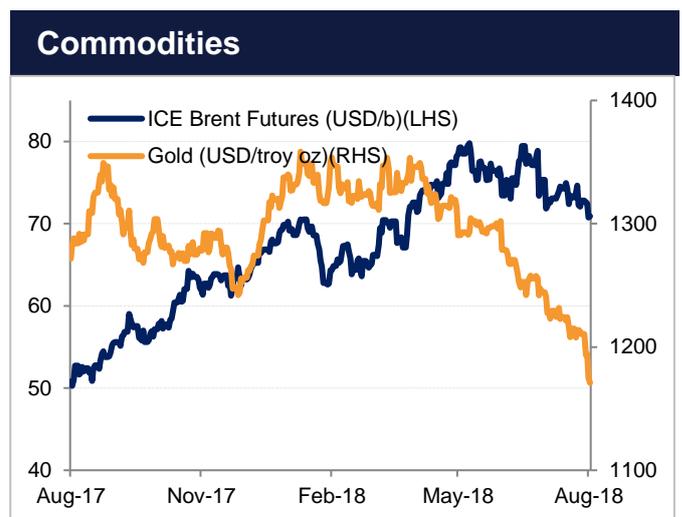
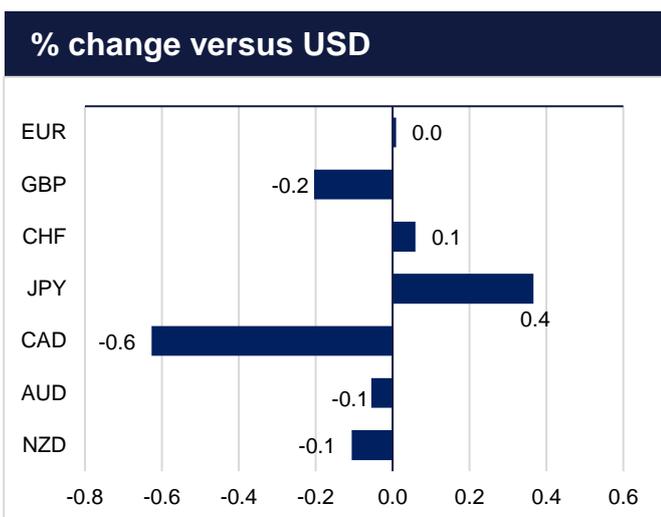
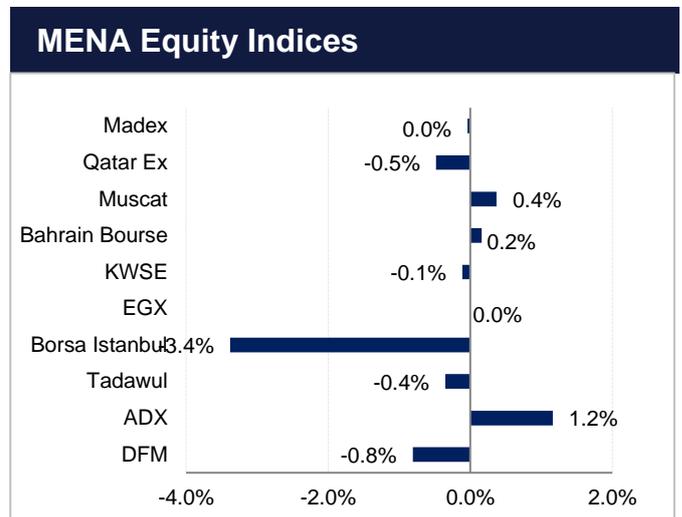
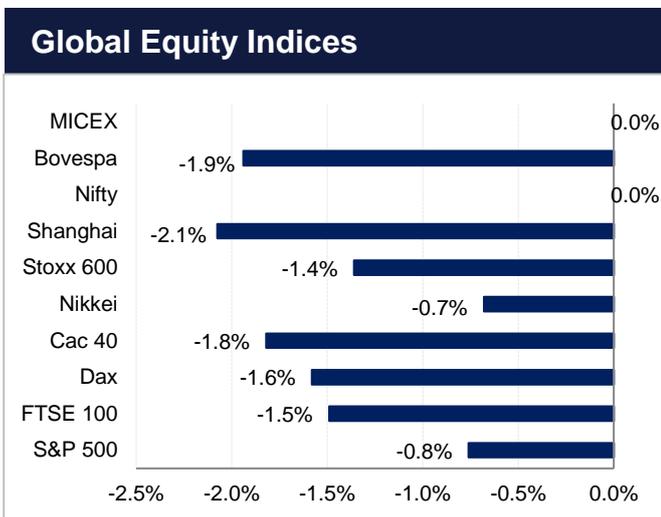
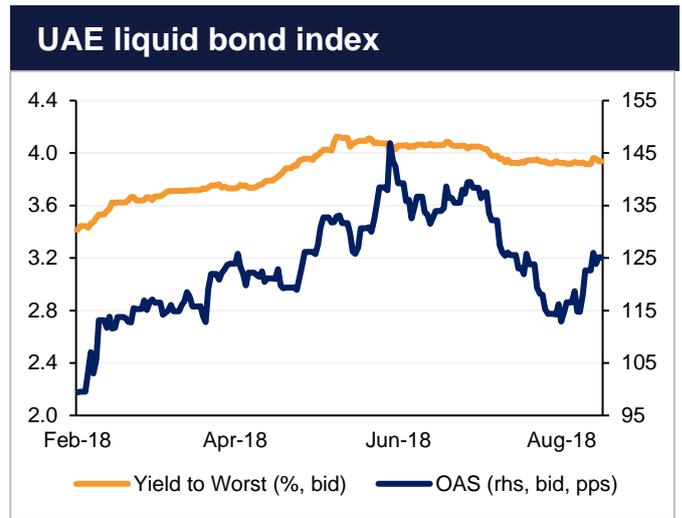
Despite solid 5% increase in oil prices last week, regional equity bourses had a mixed day yesterday albeit with positive bias. Saudi Arabia's index, Tadawul, inched up by more than 1% and Dubai and Abu Dhabi exchanges gained +0.35% and +0.50% respectively. However, Qatar and Muscat exchanges were down by -0.03% and -0.54% respectively yesterday.

## Commodities

Oil markets snapped their string of weekly declines last week with both Brent and WTI futures gaining strongly. WTI added 4.3% over the week to close at USD 68.72/b while Brent gained 5.6% to end the week at USD 75.82/b. Signs of trade tensions easing between the US and China helped catalyze a broader upward move in commodities with most industrial metals also recovering some of the ground they had lost in the previous week. Both benchmarks are trading toward the upper end of their one-year range with levels of USD 80.50/b for Brent and USD 69.02/b the next upside targets.

Forward curves diverged over the course of trading with Brent spreads holding relatively steady for the 1-2 month spread while WTI oscillated quite sharply. Brent finished the week in a contango of around USD 0.3/b for the 1-2 month spread compared with a level around USD 0.2/b a week earlier. WTI, however, narrowed its backwardation from USD 0.7/b to just USD 0.36/b over the five days. December spreads improved across both 18/19 and 19/20. Despite the gains in spot prices, sentiment toward oil still remains soft. Net length in both WTI and Brent futures and options fell last week and there was a sizeable (14.6k contracts) increase in short positions in WTI.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1345	+0.01	1.1703	USDTRY	5.9466	-6.36	EURAED	4.1698	+0.07
GBPUSD	1.2697	-0.20	1.2926	USDEGP	17.9000	+0.03	GBPAED	4.6636	-0.19
USDJPY	110.74	-0.37	107.52	USDSAR	3.7506	+0.00	JPYAED	0.0332	+0.37
USDCAD	1.3141	+0.64	1.3068	USDQAR	3.6800	+1.07	CADAED	2.7952	-0.63
AUDUSD	0.7239	-0.06	0.7265	USDKWD	0.3037	+0.08	AUDAED	2.6589	-0.01
USDCHF	0.9936	-0.06	0.9592	USDBHD	0.3772	--	CHFAED	3.6965	+0.06
EURGBP	0.8935	+0.21	0.9054	USDOMR	0.3850	-0.00	TRYAED	0.6100	+5.46
USDAED	3.6728	-0.01	3.6763	USDINR	70.1712	+0.39	INRAED	0.0552	+5.18

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.2408	2.4463	2.8415	3.2434	USD 2 yr	2.801	-3
USD LIBOR	2.0635	2.3152	2.5124	2.8135	USD 5 yr	2.871	-4
GBP LIBOR	0.7220	0.8038	0.9051	1.0429	USD 10 yr	2.928	-4
JPY LIBOR	-0.0703	-0.0345	0.0293	0.1360	EUR 2 yr	-0.158	-1
CHF LIBOR	-0.7758	-0.7256	-0.6504	-0.5158	EUR 5 yr	0.257	-1
					EUR 10 yr	0.863	-2

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1174.85	-1.61	ADGB 6.75 19	2.42	--	Abu Dhabi	64	-1
Silver	14.44	-4.11	DUGB 7.75 20	3.43	-12	Bahrain	369	+7
Oil (WTI)	65.01	-3.03	QATAR 6.55 19	2.63	-4	Dubai	124	-1
Aluminium	1997.50	-2.35	US Tsy 2 yr	2.61	-3	Qatar	91	+5
Copper	5759.00	-4.16	US Tsy 10 yr	2.86	-4	Saudi Arabia	88	+3

Source: Bloomberg, Emirates NBD Research

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