



بنك الإمارات دبي الوطني
Emirates NBD

Daily
31 July 2017

Daily Outlook

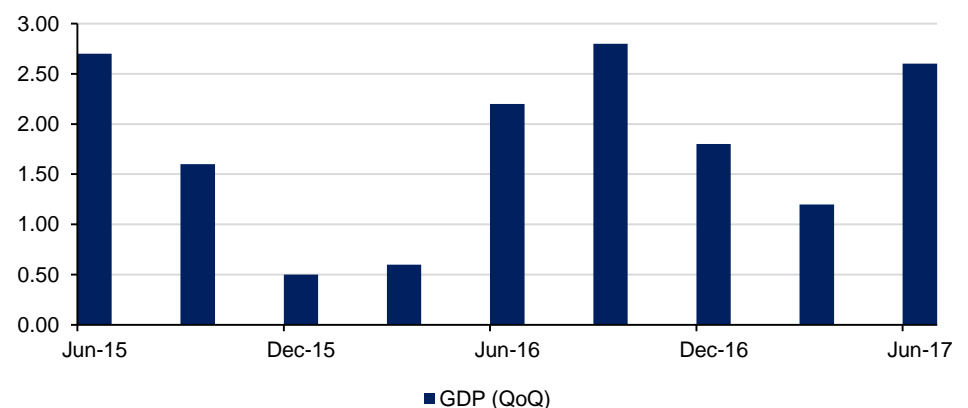
The US economy accelerated to a 2.6% annualised GDP growth in Q2 2017, supported by consumer spending and increased business expenditures on equipment. However, lacklustre wage gains clouded the market's outlook over the strength of the recovery. Q2 GDP was more than double the downward revised Q1 GDP of 1.2% (from 1.4%), bringing H1 2017 GDP to 1.9%. Consumer spending, which makes up two-thirds of the US economy grew at 2.8% in Q2 vs 1.9% in Q1. Business spending on equipment accelerated to 8.2% in Q2, the fastest in almost two years. Data from the Labor Department said wages and salaries increased at 0.5% in Q2 from 0.8% in Q1. This suggests that despite a tightening labour market, with unemployment at 4.4%, weak employee productivity is likely keeping a lid on wage rises. US non-farm payrolls in the week ahead is expected to push unemployment to 4.3% with the addition 180,000 jobs.

US consumer sentiment hit a 9 month low in July, survey data from the University of Michigan showed on Friday, dropping to 93.4 from 95.1 a month earlier, dragged down by less enthusiasm about prospects for the US economy and personal finances. 51% of respondents indicated that their personal finances have improved recently, yet the portion that anticipated financial gains in the coming year dropped to 32% from 42% in June, showing households remain wary about their financial prospects. Furthermore 28% of respondents said they expected the economy to improve in the year ahead.

China official PMI stood at 51.4 in July, down from 51.7 in June. Factory orders eased to 52.8 from 53.1 probably due to weaker demand, while the construction sector sub-index rose to 62.5 from 61.4 a month earlier. Higher bank borrowing costs and a regulatory clampdown on the overheating property market will likely cool China's GDP in H2 2017, after it expanded 6.9% in H1 this year.

SAMA's net foreign assets (NFAs) increased by USD 1.6bn in June to USD 493.3bn; the first rise in NFAs since May 2016. However, year-to-date reserves have declined by more than USD 35bn indicating an overall deficit on the balance of payments. Money supply growth accelerated to 1.5% y/y in June, the fastest rate of growth since January last year, with both demand deposits and longer term riyal deposits rising y/y. However, private sector credit contracted further to -1.4% y/y in June from -0.7% y/y in May.

US economy expands 2.6% in Q2 2017



Source: EIKON, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone Unemployment Rate	13:00	9.2%	US Pending Home Sales	18:00	1.0%
Chicago Purchasing Manager	17:45	60.0	US Dallas Fed. Activity	18:30	13.0

Source: Bloomberg.

Fixed Income

Healthy growth in 2Q GDP at an annualised rate of 2.6% in the US reinstated future rate hike expectations, thereby leading to steepening of the UST curve. Yields on 2yr, 5yr, 10yr and 30yr treasuries closed at 1.35% (-1bp), 1.83% (+1bp), 2.29% (+3bps) and 2.90% (+7bps) respectively. Across the pond, yields on 10yr Gilts and Bunds also closed higher during the week at 1.21% (+2bps) and 0.54% (+3bps) respectively as ECB halts its easing attitude.

Against this backdrop, yield on the **Bloomberg Barclays GCC Credit and High Yield index** dropped 3 bps to 3.46% and the option adjusted spread tightened by 6 bps as oil prices closed 8% higher last week. Sovereign CDS levels declined across the board with Dubai (120 bps), Saudi Arabia (95 bps) and Qatar (92 bps) losing 3 bps, 5 bps and 3 bps respectively.

On the rating front, Moody's downgraded **Bahrain** to B1 from Ba2 and **Oman** from Baa1 to baa2 with negative outlook citing concerns about lack of clear strategy to address economic downturn and increasing debt burdens. Also Fitch upgraded DP World to BBB+ from BBB based on the group's solid cashflow and manageable capex.

Bonds from **Saudi Arabia** benefited from positive sentiment arising from the first increase in foreign reserves of the Saudi Arabia central bank. SAMA (Saudi Arabia Monetary Authority) reported FX reserves of \$493.2 billion in June, up from \$491.7 billion in May.

In the primary market, Islamic Development Bank plans to sell benchmark sized sukuk to refinance USD 500 million bond maturing in October.

FX

The dollar continued to soften on Friday, with the Dollar Index declining for a third consecutive week. DXY closed at 93.26, below the five year 61.8% Fibonacci retracement of 94.19. From a technical point of view, the index looks vulnerable to further losses and the next level of key support would likely be the 200 week moving average of 92.259.

EURUSD was amongst the biggest gainers, closing the week at 1.1751, levels last seen in January 2015. With the 14 day Relative Strength Index currently sitting in overbought territory at 71.42, some pullback in price may be expected as a result of profit taking. None the less the weekly close above the 5 year 38.2% Fibonacci retracement (1.1736) indicates further gains lie ahead and we expect a test of the 200 week moving average of 1.1798 to follow shortly.

Equities

Global equity markets dipped to end last week with the FTSE down 1% on Friday and the S&P 500 giving up 0.1% as disappointing wage growth and concerns about inflation balanced improving economic growth in the US.

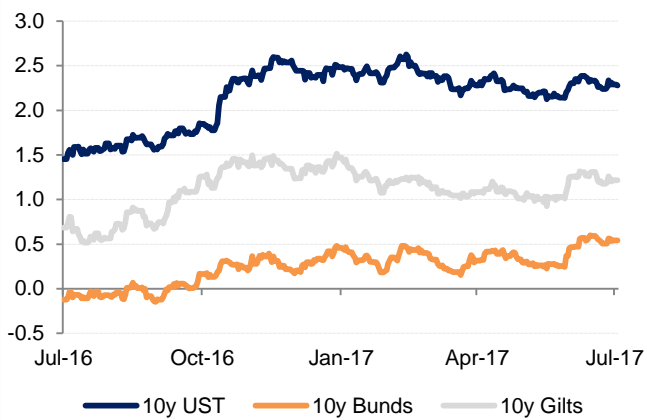
Regional equity markets started the week on a largely softer footing although the DFM and ADX were up marginally. The Tadawul gave up 0.8% to begin the week while the Qatar Exchange index closed 1% lower. Sabic closed -1.2% lower after the company reported weak Q2 2017 earnings.

Commodities

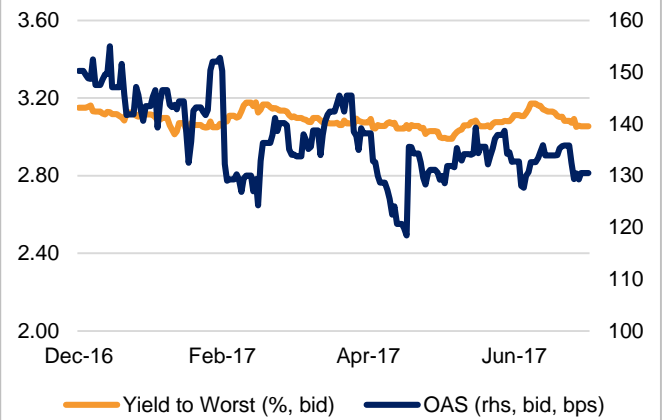
Oil markets posted their largest weekly gain this year on signs that physical balances are beginning to improve. Brent futures ended the week above USD 52.50/b (up more than 9% on the week) while WTI gained nearly 9% to settle a little shy of USD 50/b. In the US, the drilling rose by 2 rigs, giving some credence to the view that investment is slowing in the oil and gas sector. Better than expected results from oil majors set the scene for a healthier industry at lower prices, throwing a further hurdle for a sustainable long-term rise in prices. Speculative length in oil futures also expanded in the past week and has now risen four weeks in a row.

Markets in Charts

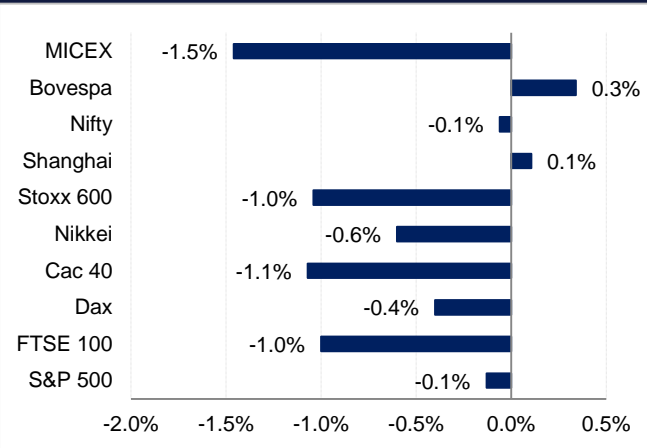
Global Bond Yields



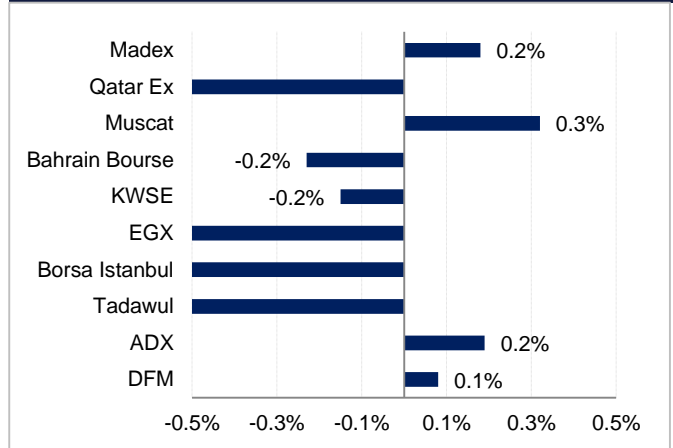
UAE liquid bond index



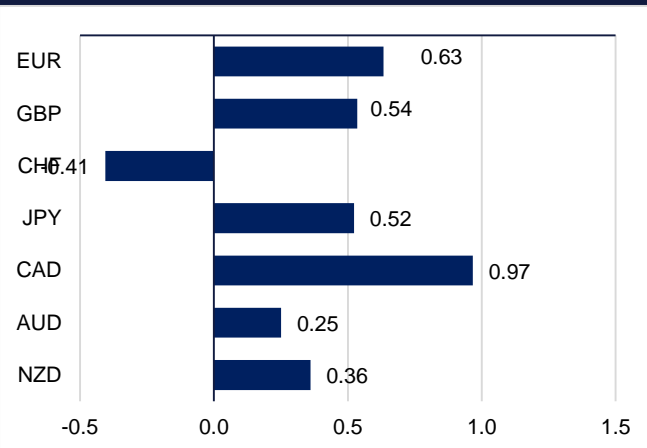
Global Equity Indices



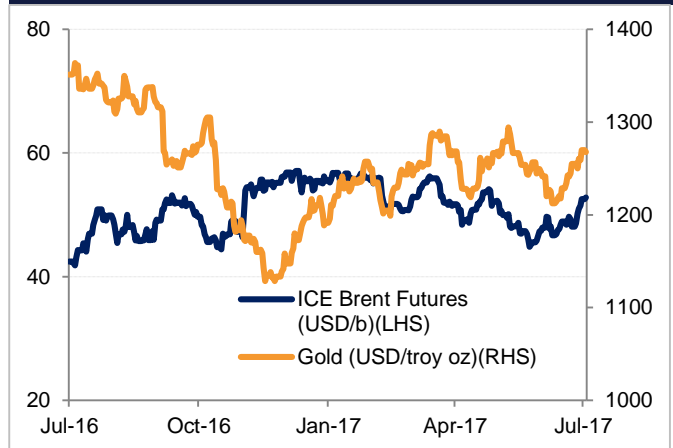
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1751	+0.63	1.1995	USDTRY	3.5276	-0.25	EURAED	4.3160	+0.63
GBPUSD	1.3136	+0.54	1.3291	USDEGP	17.8780	-0.08	GBPAED	4.8243	+0.53
USDJPY	110.68	-0.52	108.61	USDSAR	3.7502	--	JPYAED	0.0332	+0.51
USDCAD	1.2433	-0.96	1.2404	USDQAR	3.6650	--	CADAED	2.9541	+0.97
AUDUSD	0.7987	+0.25	0.7951	USDKWD	0.3021	+0.00	AUDAED	2.9335	+0.25
USDCHF	0.9687	+0.39	0.9452	USDBHD	0.3772	--	CHFAED	3.7915	-0.39
EURGBP	0.8947	+0.10	0.9026	USDOMR	0.3850	--	TRYAED	1.0400	+0.14
USDAED	3.6731	+0.00	3.6814	USDINR	64.0813	-0.04	INRAED	0.0573	+0.08

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3083	1.5227	1.7510	2.1322	USD 2 yr	1.591	-1
USD LIBOR	1.2317	1.3106	1.4550	1.7290	USD 5 yr	1.904	-2
GBP LIBOR	0.2539	0.2859	0.4211	0.6252	USD 10 yr	2.246	-3
JPY LIBOR	-0.0280	-0.0135	0.0097	0.1123	EUR 2 yr	-0.154	+1
CHF LIBOR	-0.7834	-0.7256	-0.6466	-0.4972	EUR 5 yr	0.271	+1
					EUR 10 yr	0.938	+1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1269.64	+0.83	ADGB 6.75 19	1.67	+0	Abu Dhabi	56	-1
Silver	16.76	+1.08	DUGB 7.75 20	2.61	-1	Dubai	120	-
Oil (WTI)	49.71	+1.37	QATAR 6.55 19	2.18	+2	Qatar	92	-3
Aluminium	1884.50	-1.68	US Tsy 2 yr	1.35	-2	Saudi Arabia	94	-
Copper	6295.50	-0.04	US Tsy 10 yr	2.29	-2	Bahrain	241	+1

Source: Bloomberg, Emirates NBD Research

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