



بنك الإمارات دبي الوطني
Emirates NBD

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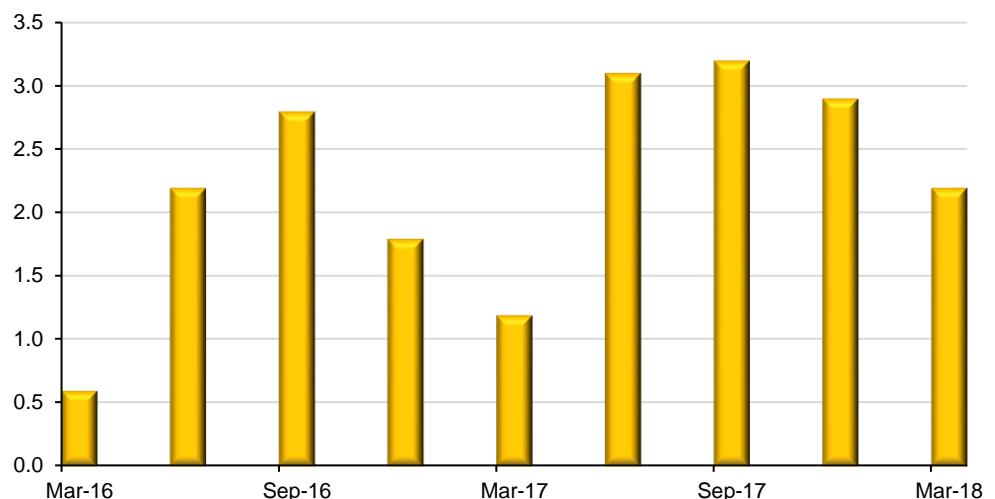
Daily Outlook

Italian markets have improved on the news that the two populist parties, the Five Star Movement and the League, are in last-ditch talks to form a government that would satisfy the President, obviating the need for another election and for a technocratic government that is in any case likely to fail. The stalling of the crisis allowed Italy's 10-year yield fell back to 2.64% after a successful bond auction, and the euro to recover, but whether the improvement in sentiment is sustainable is uncertain. With protests being planned and opinion polls for the League in particular improving, the populist parties may feel they have little to lose from going to the polls again. **Furthermore pressure could soon return on Eurozone peripheral markets from another source, Spain**, where the opposition Socialist party are close to lining up support to overthrow Prime Minister Rajoy in a no-confidence vote tomorrow.

In data yesterday, the Eurozone sentiment index fell back to 112.5 in May from 112.7, but the fact that it did not slip further was encouraging that the activity dip in Q1 is not continuing. German state inflation figures for May also exceeded expectations, underpinning expectations for a rise in German HICP to 1.8% y/y in May from 1.4% in April. German retail sales also beat forecasts, and the German unemployment rate hit record low of 5.2% from 5.3% the previous month. The report showed that the number of unemployed individuals fell by 11,000 in May to 2.36 million as companies accelerated hiring to deal with backlogs. **Elsewhere US Q1 GDP data showed growth revised down to a 2.2% annualized pace from 2.3% in the first estimate**, with personal consumption revised down slightly and net exports also weaker. Nevertheless expectations are running for Q3 to bounce back with growth in excess of 3.0%.

Turkey's economic confidence index fell to a 15-month low at 93.5 in May, compared to 98.3 in April and a two-year average of 97.7. This was the fourth consecutive month that the index has declined, mirroring the rapid loss in value of the Turkish lira against the US dollar over the same period. Of the index's subcomponents, only manufacturing read above the neutral 100 level at 106.7, reflecting optimism over the future. Construction, retail trade, consumer, services and services all had sub-100 readings.

US Q1 growth revised lower but Q2 looking better % q/q (saar)



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone Unemployment Rate	13:00	8.4%	India GDP y/y	16:00	7.4%
Eurozone CPI Estimate y/y	13:00	1.6%	US PCE Core y/y	16:30	1.8%

Source: Bloomberg

Fixed Income

Treasuries declined amid a relief rally in financial markets as the populist parties in Italy made a fresh attempt to form a government. The yield on the 2y UST, 5y UST and 10y UST closed at 2.41% (+10 bps), 2.68% (+10 bps) and 2.85% (+7 bps).

The risk appetite extended to European bond market as well. Yield on 10y Bunds jumped +11 bps to 0.37% and dropped -25 bps on Italian 10y bond to 2.91%.

Regional bonds remained largely unchanged with the YTW on the Bloomberg Barclays GCC Credit and High Yield index closing flat at 4.56% and credit spreads tightening by 7bps to 193 bps.

In terms of rating action, S&P revised the outlook on Oman Power and Water Procurement to negative but reaffirmed the rating at BB.

FX

EURUSD has rebounded to ease some of Tuesday's 0.73% drop as pressure on Italian bonds eased amid political developments. Reports emerged that the populist parties were making another attempt to form a government, which was supportive of the single currency. Adding further support was firmer German employment data and inflation which have renewed market expectations of upward revisions by ECB officials to their growth forecasts next month. Another contributing factor was that EURUSD was in oversold territory as demonstrated by the momentum indicators, exposing the short positions to a squeeze.

This morning AUD is underperforming against the other major currencies after softer than expected economic data. A report from showed that private capital expenditure increased 0.4% in Q1 2018, disappointing on expectations for a 1.0% increase. As we go to print, AUDUSD is trading 0.17% lower at 0.75619. A daily close below 0.7550, below the 23.6% one year Fibonacci retracement may expose the price to further declines towards 0.74.

Equities

Developed market equities rebounded from losses earlier in the week. While the political crisis in Italy continues, the intensity of the same has reduced which in turn led to a relief rally in equities. The S&P 500 index and the Euro Stoxx 600 index added +1.3% and +0.3% respectively.

Regional equities closed lower with the DFM index losing -0.5% and the Qatar Exchanging dropping -2.3%. The decline on Qatar Exchange was led by stocks which had rallied in the recent past. Qatar National Bank lost -2.1% while Industries Qatar dropped -3.9%.

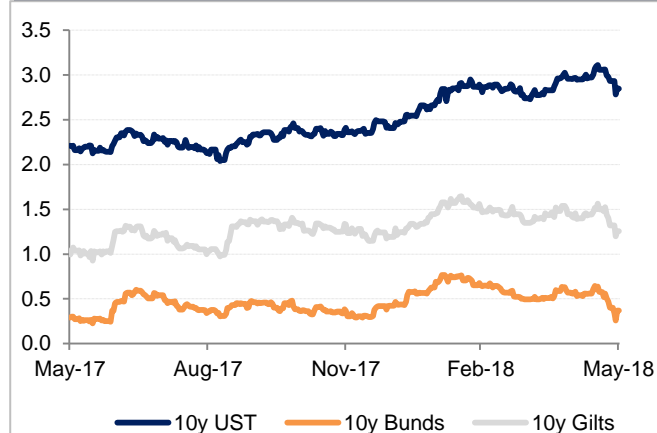
Commodities

Oil prices gained sharply as risk sentiment crept back into markets and the prospect of OPEC increasing production was tempered somewhat. According to press reports, Gulf OPEC members are still assessing the status of the market and would keep their production cut accord in place. Any increase in output will be gradual to not overwhelm the market. Brent futures jumped 2.8% while WTI gained 2.2% in an overall choppy day of trading.

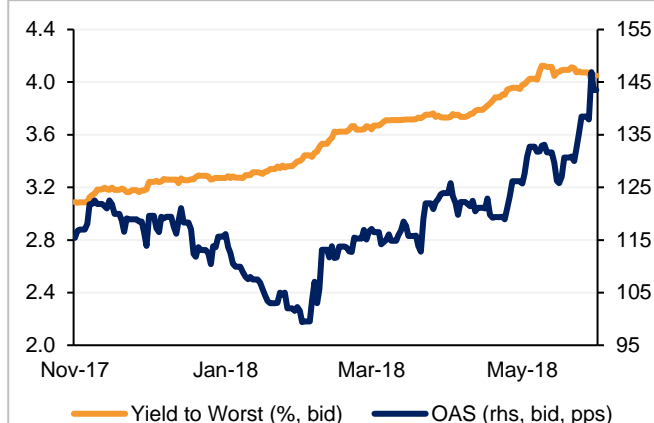
Private sector inventory data showed a rise in crude inventories of 1m bbl against market expectations of a draw of around 525k bbl. Official EIA data will be released later today, one day later than usual owing to a public holiday in the US at the start of the week.

Markets in Charts

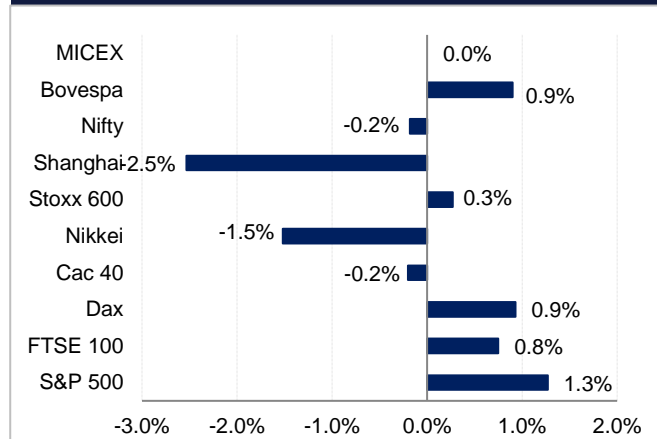
Global Bond Yields



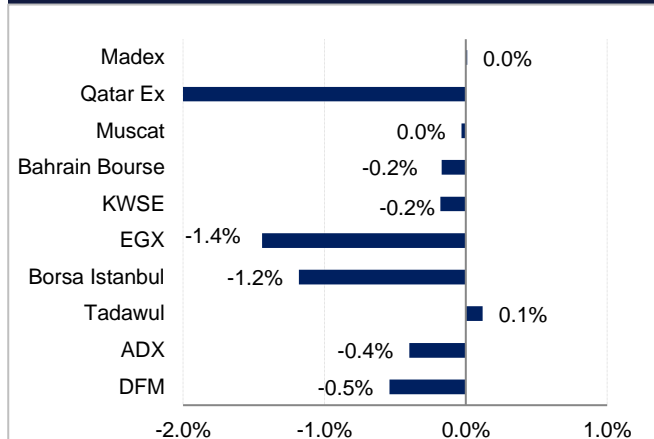
UAE liquid bond index



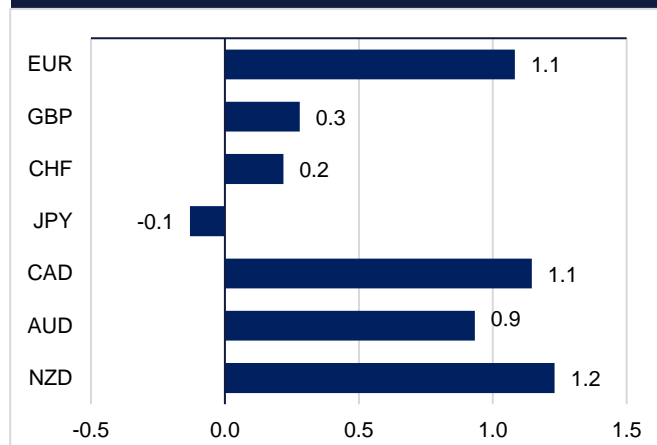
Global Equity Indices



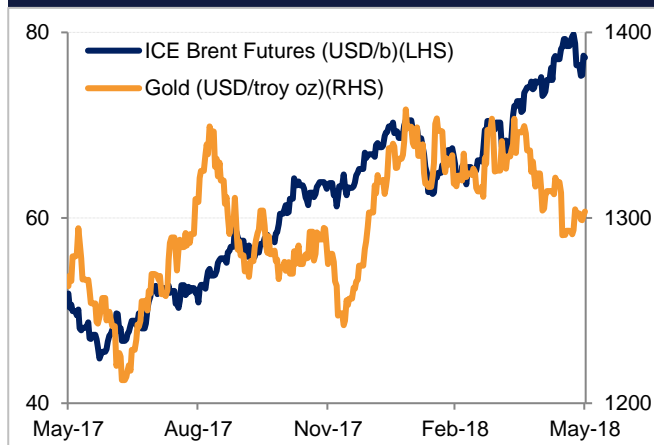
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1665	+1.08	1.2024	USDTRY	4.4651	-1.81	EURAUD	4.2842	+1.08
GBPUSD	1.3286	+0.28	1.3531	USDEGP	17.9200	-0.05	GBPAED	4.8785	+0.24
USDJPY	108.91	+0.13	105.84	USDSAR	3.7503	--	JPYAED	0.0337	-0.13
USDCAD	1.2873	-1.11	1.2787	USDQAR	3.6800	+1.06	CADAED	2.8534	+1.16
AUDUSD	0.7575	+0.93	0.7600	USDKWD	0.3024	-0.02	AUDAED	2.7835	+0.97
USDCHF	0.9891	-0.22	0.9554	USDBHD	0.3778	--	CHFAED	3.7137	+0.23
EURGBP	0.8778	+0.78	0.8885	USDOMR	0.3850	-0.00	TRYAED	0.8200	+1.52
USDAED	3.6730	--	3.6757	USDINR	67.5387	-0.49	INRAED	0.0552	+2.02

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.0825	2.5575	2.7673	3.0484	USD 2 yr	2.657	+8
USD LIBOR	1.9803	2.3072	2.4700	2.7075	USD 5 yr	2.799	+9
GBP LIBOR	0.4971	0.6089	0.7184	0.8837	USD 10 yr	2.896	+8
JPY LIBOR	-0.0398	-0.0148	0.0254	0.1202	EUR 2 yr	-0.134	+1
CHF LIBOR	-0.7876	-0.7358	-0.6490	-0.5308	EUR 5 yr	0.287	+6
					EUR 10 yr	0.936	+8

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1301.38	+0.20	ADGB 6.75 19	2.42	--	Abu Dhabi	62	--
Silver	16.51	+0.88	DUGB 7.75 20	3.63	-2	Dubai	119	+1
Oil (WTI)	68.21	+2.22	QATAR 6.55 19	2.79	+1	Qatar	93	--
Aluminium	2263.25	-0.13	US Tsy 2 yr	2.41	+9	Saudi Arabia	89	--
Copper	6830.50	-0.22	US Tsy 10 yr	2.86	+7	Bahrain	382	+3

Source: Bloomberg, Emirates NBD Research

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