



بنك الإمارات دبي الوطني  
Emirates NBD

Daily

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# Daily Outlook

While the EUR has continued to lose ground following the Catalonia 'yes' vote in Sunday's unofficial referendum, the main driver behind its weakness would seem to be the USD which is gaining ground as rate hike expectations continue to grow. **Yesterday saw the US ISM manufacturing index reach a 13 year high of 60.8 in September, while US construction spending climbed by 0.5% in August.** The data bolsters the case for the Fed to act to hike rates in the coming months, in addition to the tightening in policy that will result from the reduction of its balance sheet which starts this month.

In fact most data released in the last 24 hours appears to show the global economy picking up momentum rather than slowing down which might be expected at this point in the recovery cycle. **The Bank of Japan's Tankan index rose to a decade long high in Q3** with business conditions for large manufacturers rising to 22 from 17 in Q2, while the outlook component rose to 19 from 15 for these companies. The UK fared a little worse with its manufacturing PMI dipping to 55.9 in September, lower than expected, but still a relatively firm reading after two previously strong months.

**This region also saw relatively stable to softer outturns from its PMI readings released this morning**, with the UAE's easing back to 55.1 in September, which is the slowest rate of expansion since May, while the Saudi Arabia reading also dipped slightly to 55.5. Egypt's PMI also declined to 47.4, which was the lowest reading since June.

Finally, **the Reserve Bank of Australia left interest rates unchanged at 1.5% at its policy meeting this morning**, with the RBA signalling there will be no early departure from current low levels of interest rates. In fact its comments were more pitched towards the risk of slower growth and CPI going forward if the AUD keeps rising.

## US ISM manufacturing index rises to highest level in 13 years



Source: Bloomberg, Emirates NBD Research

## Day's Economic Data and Events

	Time	Cons		Time	Cons
India PMI	09.00		EU PPI	13.00	0.1%

Source: Bloomberg

## Fixed Income

US Treasuries traded in a tight range at the start of the new month following stronger than expected ISM data in the US. Yields on the 2y USTs and 5y USTs remained flat and increased 1 bps on the 10y USTs.

The periphery Eurozone sovereign 10y bonds came under pressure in the aftermath of the results of the unofficial referendum in Spain. Yield on the 10y Italy bond rose 5bps, on the 10y Spanish bond rose by 9 bps. In contrast, yield on the 10y bunds declined by 1 bps.

Regional bond markets continued to remain under pressure from the rise in benchmark yields. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose 2 bps to 3.54% while credit spreads remained flat at 156 bps.

The Emirate of Abu Dhabi is in the market to raise as much as USD 10bn by issuing USD bonds in three tranches. The initial pricing guidance has been set at T+85 bps for 5y, at T+105bps for 10y and T+150bps for 30y tranche. This is tighter than the pricing of the recently issued Saudi bonds by 25bps to 35 bps across the tranches. The 5y Abu Dhabi CDS is currently at 60 level compared to 85 level for Saudi Arabia. Yield on the current ABUDHABI 21s rose to 2.27%.

According to reports, Kuwait is mulling an annual spending cap of USD 70bn as the country seeks to redefine its debt strategy.

## FX

The USD has continued its recent good run overnight benefiting further from the perceived political risk in Spain as well as from rising conjecture about who Donald Trump will nominate to replace Janet Yellen as Fed Chair when her term runs out early next year. Suggestions that Stanford University's Kevin Warsh might be selected was seen as potentially positive given his previous track record at the Fed after working in the Bush White House. The AUD lost ground following the RBA meeting announcement this morning which repeated warnings about slower growth and inflation if the currency continues to rise.

As we go to print, the dollar index is trading 0.32% higher at 93.863, having closed yesterday firmly above the former capping line of the daily downtrend that had been in effect since 10 April 2017. A further close above this key level today would give further support to our call on Sunday that the next likely route is for the index to climb to 94.034, the 23.6% one year Fibonacci retracement. A breach of this level is likely to catalyse further gains towards the 100 day moving average (94.661).

## Equities

Developed market equities closed higher on the back of better-than expected manufacturing data from the US. The S&P 500 index and the Euro Stoxx 600 index added +0.4% and +0.5% respectively.

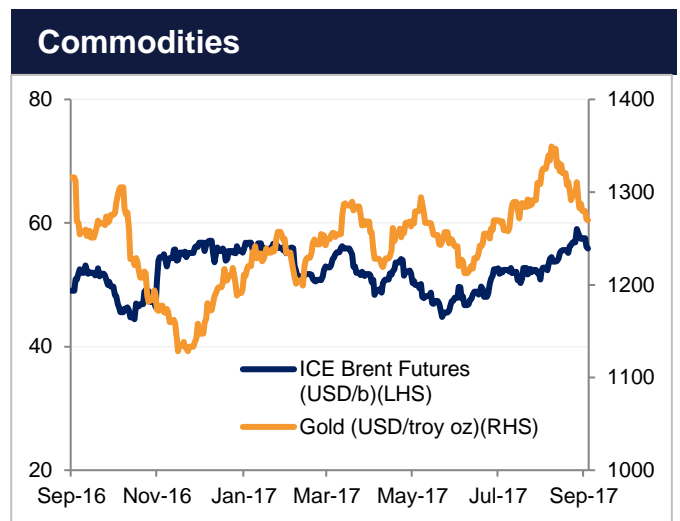
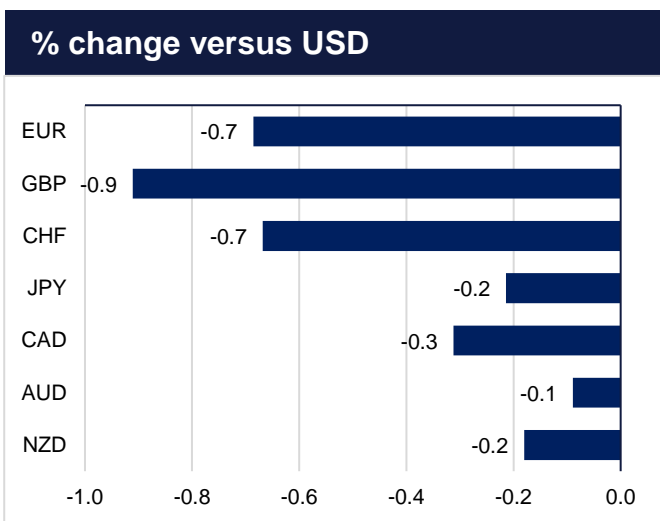
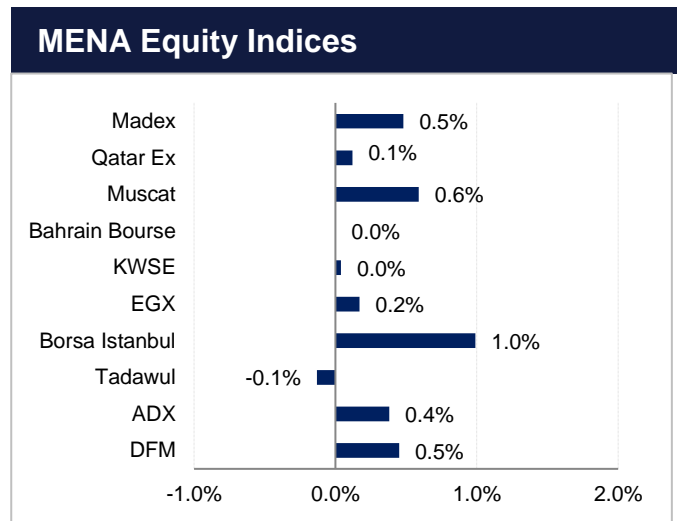
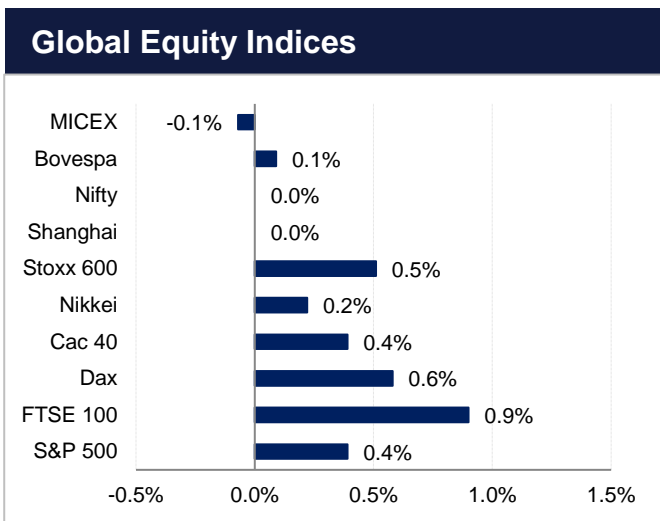
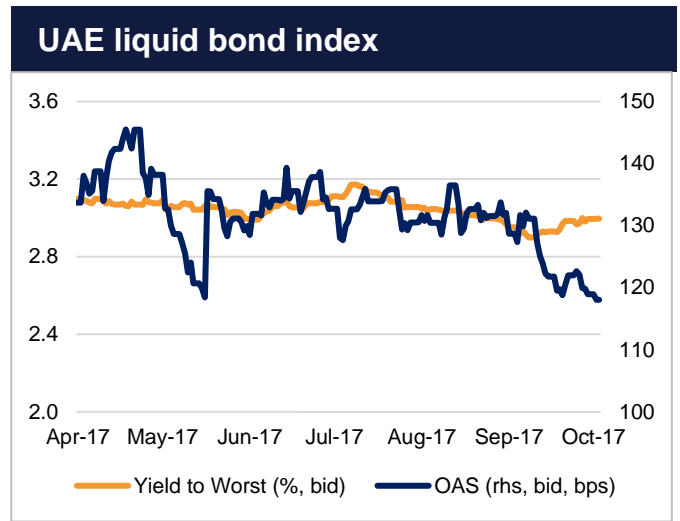
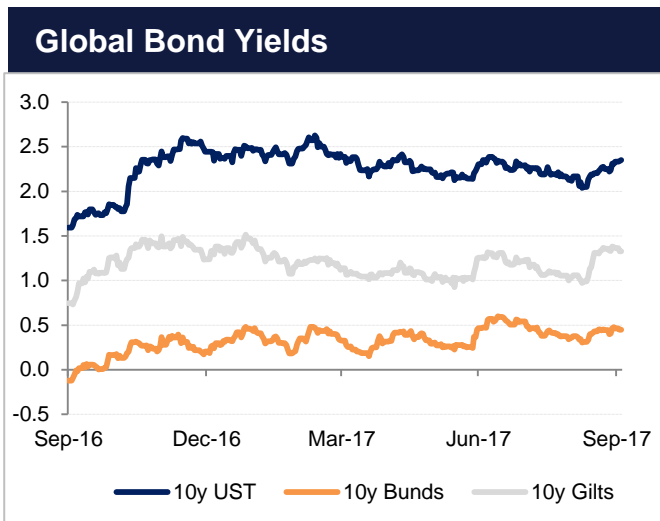
It was largely a positive day of trading for regional equities with the DFM index adding +0.5% and the Qatar Exchange gaining +0.1%. There was no major movements on single names.

## Commodities

Oil markets started the week lower as news of an increase in the US drilling rig count and estimates of higher OPEC production for September dragged on prices. Brent futures closed more than 2.4% lower while WTI gave up more than 2.1%. Persistent militant activity in Libya is threatening one of the country's largest oil fields which may help temper price declines somewhat. A healthy performance from the dollar also helped to weigh on commodity prices generally.

Market structures continue to ebb from recent highs. Brent's 1-2 month backwardation compressed overnight and is now trading close to USD 0.3/b while the narrowing of contango at the front of the WTI curve has halted around USD 0.3/b.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1733	-0.69	1.1995	USDTRY	3.5676	+0.12	EURAED	4.3094	-0.69
GBPUSD	1.3276	-0.91	1.3422	USDEGP	17.6360	-0.03	GBPAED	4.8763	-0.94
USDJPY	112.77	+0.23	110.48	USDSAR	3.7502	--	JPYAED	0.0326	-0.22
USDCAD	1.2508	+0.29	1.2495	USDQAR	3.6800	+0.39	CADAED	2.9363	-0.32
AUDUSD	0.7827	-0.09	0.7796	USDKWD	0.3022	+0.04	AUDAED	2.8749	-0.09
USDCHF	0.9747	+0.66	0.9497	USDBHD	0.3772	--	CHFAED	3.7681	-0.68
EURGBP	0.8838	+0.20	0.8936	USDOMR	0.3850	--	TRYAED	1.0300	-0.07
USDAED	3.6730	+0.01	3.6795	USDINR	65.5350	+0.39	INRAED	0.0560	-0.40

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3350	1.5543	1.7897	2.1725	USD 2 yr	1.743	+0
USD LIBOR	1.2322	1.3339	1.5060	1.7823	USD 5 yr	2.005	+0
GBP LIBOR	0.2543	0.3350	0.4909	0.7278	USD 10 yr	2.301	+1
JPY LIBOR	-0.0475	-0.0512	-0.0089	0.1037	EUR 2 yr	-0.169	-0
CHF LIBOR	-0.7826	-0.7260	-0.6488	-0.5106	EUR 5 yr	0.247	-1
					EUR 10 yr	0.914	+0

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1271.13	-0.67	ADGB 6.75 19	1.87	--	Abu Dhabi	60	+1
Silver	16.59	-0.39	DUGB 7.75 20	2.58	-0	Dubai	148	+1
Oil (WTI)	50.58	-2.11	QATAR 6.55 19	2.08	+1	Qatar	105	+8
Aluminium	2083.25	+0.16	US Tsy 2 yr	1.48	+0	Saudi Arabia	93	+8
Copper	6446.25	+0.22	US Tsy 10 yr	2.34	+1	Bahrain	240	-2

Source: Bloomberg, Emirates NBD Research

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## Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Group Treasurer & EVP Global Markets &  
Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

---

### Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Shady Shafer Elborno**  
Head of Macro Strategy  
+9714 2012300  
shadyb@emiratesnbd.com

**Athanasios Tsetsonis**  
Sector Economist  
+9714 230 7629  
athanasiost@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Mohammed Altajir**  
Manager, FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

**Aditya Pugalia**  
Analyst  
+9714 230 7802  
adityap@emiratesnbd.com

---

### Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241  
vallancel@emiratesnbd.com

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

---

### Emirates NBD Capital

**Ahmed Al Qassim**  
CEO- Emirates NBD Capital  
AhmedAQ@emiratesnbd.com

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

---

### Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

---

### Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com