



Daily Outlook

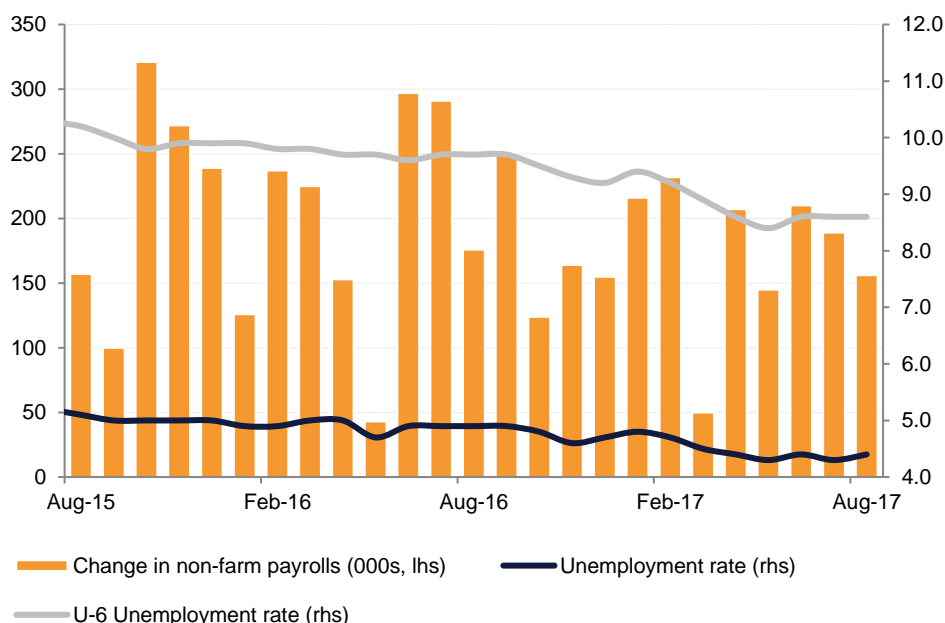
Geopolitics is likely to overshadow economics and data this week. Tension on the Korean peninsula ratcheted up over the weekend with North Korean announcing it had conducted a sixth nuclear test on Sunday. US markets are closed today for Labor Day, so liquidity is likely to be thinner than usual. Congress will return from the summer break on Tuesday and will have to tackle the fallout from Hurricane Harvey as well as increasing the debt ceiling to avoid a government shut-down at the end of this month.

Friday's US payrolls data was weaker than expected, with 156,000 new jobs added against a forecast for 180,000. The unemployment rate increased marginally to 4.4% from 4.3% and average hourly earnings increased just 0.1% m/m (2.5% y/y). July's payrolls data was also revised down by 20k. Both construction and manufacturing saw strong increases in jobs in August, but this was offset by weaker than expected growth in some services sectors (including leisure & hospitality and education & health).

Although the August jobs data is a little disappointing, it's not bad enough to dissuade the Fed from proceeding with further monetary policy tightening this year, in our view, as other economic data remains solid. The August ISM manufacturing index and flash manufacturing PMI (also released Friday) were both higher than forecast, with the ISM index rising to a six year high. Last week, the second estimate of Q2 GDP showed the US economy grew 3% y/y, up from the initial estimate of 2.7%. At this stage we retain our view that the Fed will hike by another 25bp in December, although we recognise there are a number of risks, including geopolitical, to this view.

Finally, China's Caixin manufacturing PMI rose to a six-month high of 51.6 (data released at the end of last week), beating expectations, and the official manufacturing PMI was also higher than forecast at 51.7.

Payroll data weaker than expected in August



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK Construction PMI	12:30	52.0	Eurozone PPI (y/y)	13:00	2.1%

Fixed Income

Geopolitical developments over the weekend where North Korea conducted another nuclear test is likely to influence investor sentiment after what has been a rather quiet last week. However, with the US markets closed for Labor Day, the reaction could be rather muted.

US treasuries ended the week largely unchanged despite rallying mid-week. Mixed economic data had limited impact as slightly weaker than expected non-farm payrolls data was offset by the strongest ISM manufacturing PMI in six years. Having said that, the curve did steepen slightly. Yields on the 2y USTs rose 1bps to 1.34%, while for 10y USTs yields remained flat at 2.16% while on 30y USTs it rose 3 bps to 2.77%.

GCC bonds performed in line with global benchmarks even as local investors were away for holidays. The yields on the Bloomberg Barclays GCC Credit and High Yield index declined 3 bps to 3.41% and credit spreads tightened by 1 bps to 165 bps.

According to reports, the government of Sharjah plans to issue a Yuan-denominated bond in China. If followed through, it would mark the first instance of a Middle East issuer in the Chinese inter-bank bond market.

EA Partners I and EA Partners II have said that they expect the liquidity pool to have enough cash to make coupon payments. The coupon payment on EA Partner II bond was due on 1 September 2017 and on EA Partner I bond is due on 28 September 2017. Both bonds closed 1 point higher last week.

FX

Despite reaching highs of 1.2070, levels not seen since January 2015, the EURUSD actually declined 0.54% last week, falling from 1.1924 to 1.1860. From a technical perspective, it is too early to cite a clear reversal at these levels. The cross remains in the daily uptrend initiated on 18 April 2017, when there was a break and close above the 100 day moving average. This uptrend will remain intact and only be called into question when there is a close below the supporting baseline of this trend (currently 1.1790).

Analysis of the longer weekly candle charts also suggests that it is too early to declare a reversal for EURUSD. Despite the weekly loss, price action remains well above the 200 weekly moving average (1.1753), a level which has acted as a support for the previous three consecutive weeks. We would look for a close below this level as stronger evidence of a reversal.

Equities

Asian equities are trading lower this morning following a nuclear test by North Korea over the weekend. Japanese and South Korean equities are leading the decline with the Topix index and the Kospi index losing -1.0% and -0.6% respectively at the time of this writing.

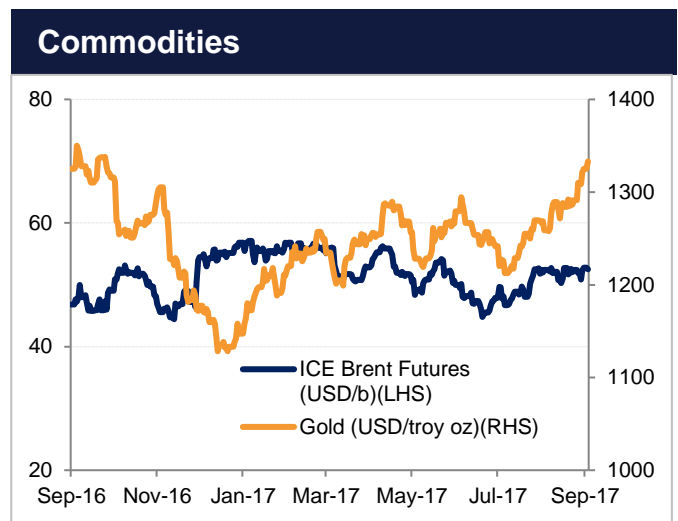
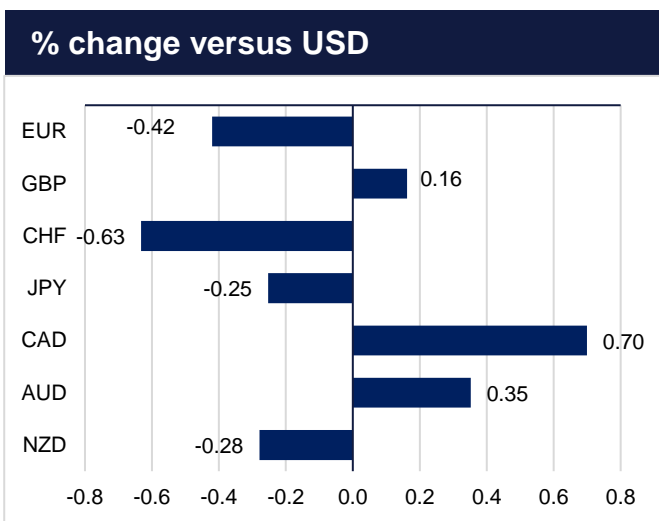
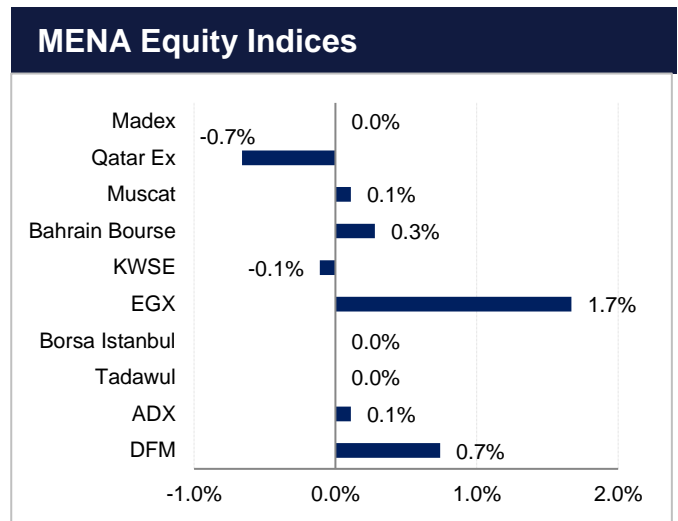
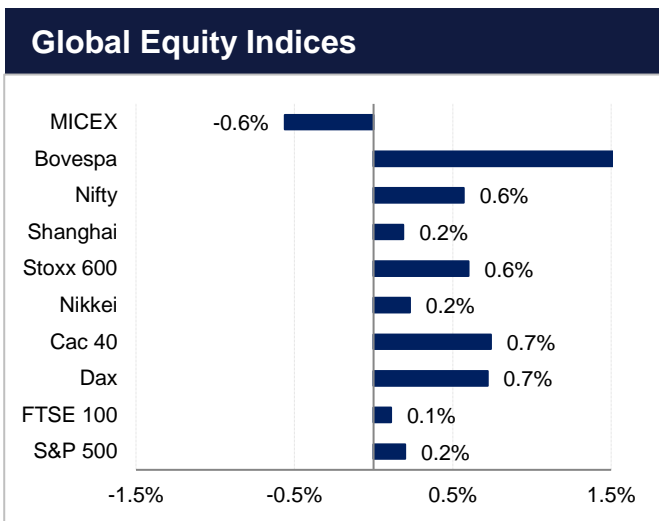
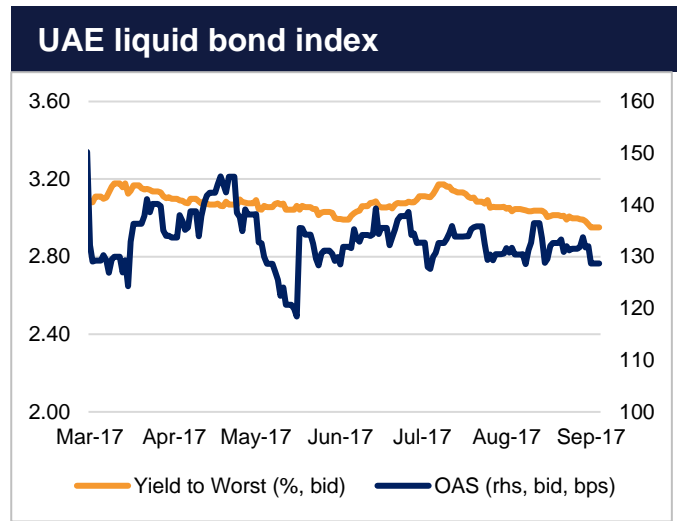
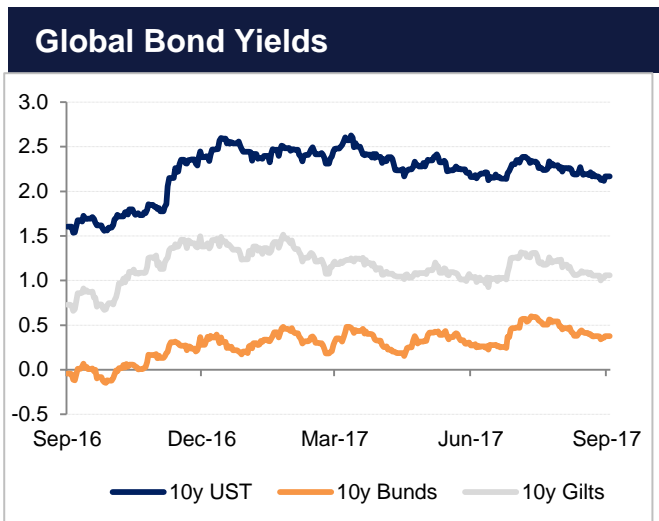
Commodities

Oil markets were roiled by the impact of Hurricane Harvey hitting the US Gulf Coast, home to roughly 50% of the country's total refining infrastructure. WTI futures lost more than 1.2% over the week as refinery shutdowns will crimp demand for crude while an absence of US exports heading out into international markets helped Brent futures rise, albeit mildly. The WTI-Brent spread closed the week at nearly USD 5.50/b, its widest level in two years. Gasoline cracks grabbed the most attention last week as US gasoline prices shot up past USD 2/g before ultimately settling lower while Singapore gasoline cracks widened enormously.

EIA data out at the end of the week was largely neglected by the market as it referred to flows before Harvey made landfall in the US. Nevertheless it showed continued increase in US production while at the end of last week the rig count held steady as Harvey disrupted drilling in Texas.

The contango in the WTI curve steepened at the front end last week while the backwardation that had become present at the front of the Brent curve has dissipated. Dec spreads remained sticky with a slightly wider bent.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1860	-0.42	1.2110	USDTRY	3.4298	-0.67	EURAED	4.3555	-0.43
GBPUSD	1.2951	+0.16	1.3110	USDEGP	17.6382	-0.00	GBPAED	4.7584	+0.20
USDJPY	110.25	+0.25	108.09	USDSAR	3.7503	-0.00	JPYAED	0.0333	-0.32
USDCAD	1.2394	-0.71	1.2377	USDQAR	3.6800	--	CADAED	2.9631	+0.70
AUDUSD	0.7975	+0.35	0.7936	USDKWD	0.3016	-0.07	AUDAED	2.9268	+0.27
USDCHF	0.9648	+0.64	0.9410	USDBHD	0.3771	-0.00	CHFAED	3.8073	-0.62
EURGBP	0.9159	-0.57	0.9238	USDOMR	0.3850	--	TRYAED	1.0700	+0.59
USDAED	3.6730	--	3.6803	USDINR	63.9388	+0.05	INRAED	0.0576	+0.25

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3047	1.5417	1.7598	2.1238	USD 2 yr	1.554	+2
USD LIBOR	1.2306	1.3161	1.4533	1.7118	USD 5 yr	1.798	+4
GBP LIBOR	0.2489	0.2765	0.4003	0.5905	USD 10 yr	2.120	+5
JPY LIBOR	-0.0556	-0.0292	-0.0071	0.1109	EUR 2 yr	-0.188	+0
CHF LIBOR	-0.7878	-0.7262	-0.6516	-0.5056	EUR 5 yr	0.168	+1
					EUR 10 yr	0.813	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1325.23	+0.29	ADGB 6.75 19	1.72	-1	Abu Dhabi	54	--
Silver	17.73	+0.76	DUGB 7.75 20	2.49	-0	Dubai	114	-1
Oil (WTI)	47.29	+0.13	QATAR 6.55 19	2.04	-2	Qatar	90	-1
Aluminium	2116.00	+0.82	US Tsy 2 yr	1.34	+2	Saudi Arabia	86	-1
Copper	6804.50	+0.67	US Tsy 10 yr	2.17	+5	Bahrain	234	-2

Source: Bloomberg, Emirates NBD Research

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