



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

The minutes from last month's FOMC meeting were released yesterday, revealing some disagreement between participants over the necessity of cutting rates at present. Nevertheless, with the three factors given as reasons for cutting last time around – slowing investment, elevated risks, and below-target inflation – still in play, there remains a high chance of another cut at the September meeting. This is especially the case given that the market-implied probability of a cut stands at 100%, and the Fed cited the fact that equity prices and borrowing costs were 'premised importantly' on expectations of a cut in the minutes from its last meeting. That said, **most policy makers remained confident of growth and stressed the need to maintain optionality in future target range setting.** Fed Chair Jerome Powell is due to speak on the challenges facing monetary policy at Jackson Hole tomorrow, in a speech which will be eagerly parsed for any indication as to future Fed moves.

UK Prime Minister Boris Johnson met with German Chancellor Angela Merkel in Berlin yesterday, as the clock ticks down to the October 31 Brexit deadline with no deal yet in sight. **Merkel granted the UK 30 days to come up with a viable alternative to the Irish backstop**, the key sticking point between the two parties at present. Johnson is set to meet French President Emmanuel Macron in Paris today, a day after the French government said it now saw a no-deal Brexit as the most likely scenario.

Italy might yet avoid fresh elections in the autumn, following the collapse of the Five Star/League coalition over the summer and the resignation of independent Prime Minister Giuseppe Conte this week, as Five Star entered into discussions with the Democratic Party with regards forming a government. Should President Mattarella manage to find a new viable government coalition, the ambitions of League leader Matteo Salvini could be frustrated for the time being, potentially forestalling a major clash between Italy and the EU over budget rules. Equities rallied on the news while bond spreads with Germany narrowed.

Italy/Germany 10-yr yield spread narrows



Source: Bloomberg, Emirates NBD Research.

Today's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone manuf PMI	12:00	46.2	Eurozone services PMI	12:00	53.0
US manuf PMI	17:45	50.5	US services PMI	17:45	52.8

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed lower as minutes from the last FOMC meeting showed that most officials considered the rate cut as a mid-cycle adjustment. However, there were also discussions about a more aggressive asset purchases and also showed that couple of members preferred a 50 bps cut. Yields on the 2y UST, 5y UST and 10y UST closed at 1.57% (+6 bps), 1.47% (+4 bps) and 1.58% (+3 bps) respectively.

Germany failed in its attempt to fully cover the books of the world's first 30-year bond with no income. They only received orders for EUR 824mn relative to the book size of EUR 2bn. Regional bonds continue to remain positive. The YTW on Bloomberg Barclays GCC Credit and High Yield index dropped 1 bp to 3.21% and credit spreads dropped -4 bps to 163 bps.

FX

Most currencies weakened against the dollar yesterday, as the DXY rose to a close of 98.295, on the back of FOMC meeting minutes which were not overly negative with regards US growth prospects. The British pound came under particular stress after Prime Minister Boris Johnson's meetings in Germany, although it remains just off the multi-year 1.20 lows seen two weeks ago.

In trading this morning, the Chinese yuan fell to CNY 7.0727/USD, the weakest level since March 2008, in news which is likely to prompt fresh calls from US President Donald Trump for greater rate cuts from the Fed.

Equities

Developed market equities closed higher as concerns over a widespread economic slowdown eased and Fed meeting minutes showed that further rate cuts remain on the horizon. The S&P 500 index and the Euro Stoxx 600 index added +0.8% and +1.2% respectively.

Regional equities closed largely lower with the Tadawul and ADX index losing -0.9% and -0.6% respectively. There was very little in terms of individual stock news.

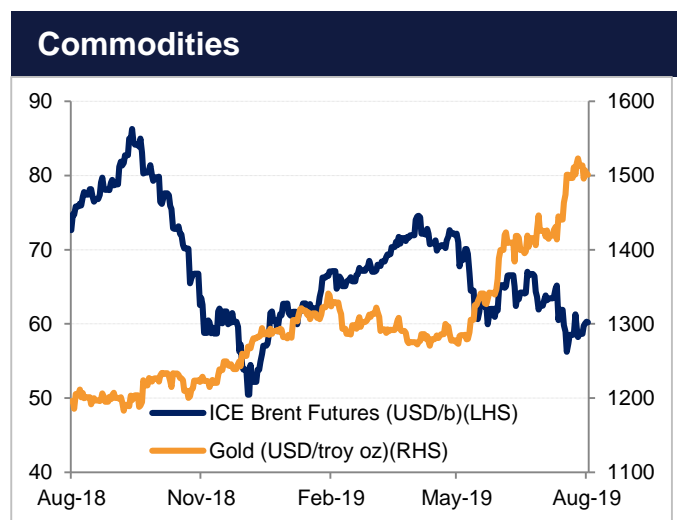
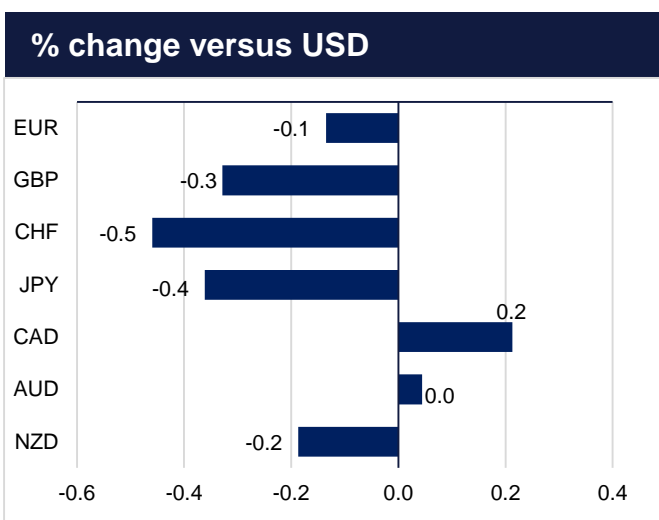
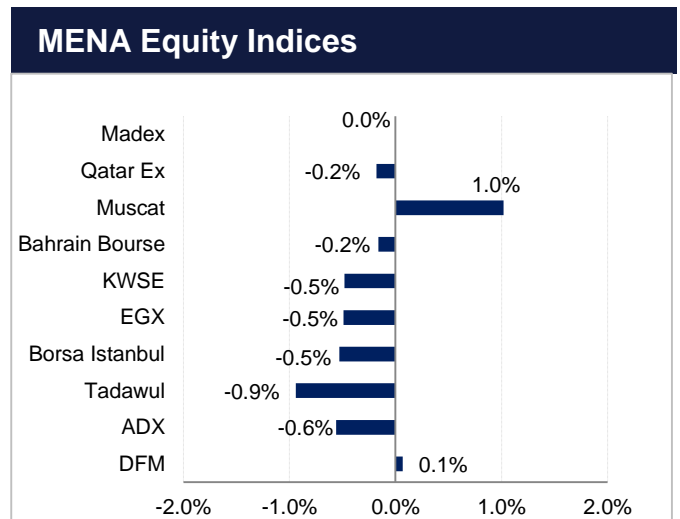
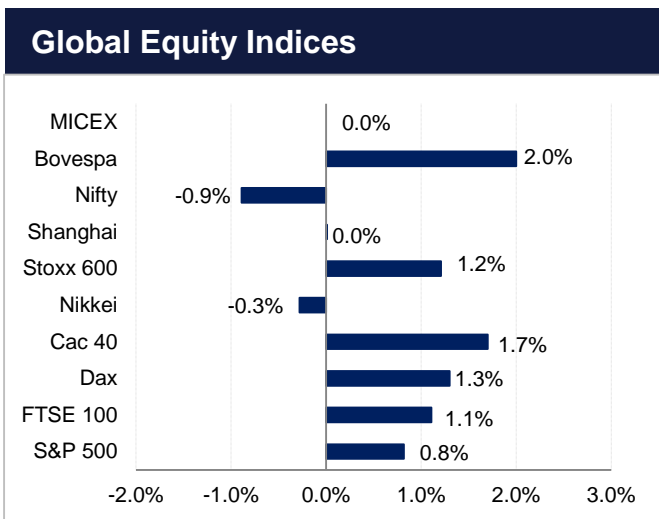
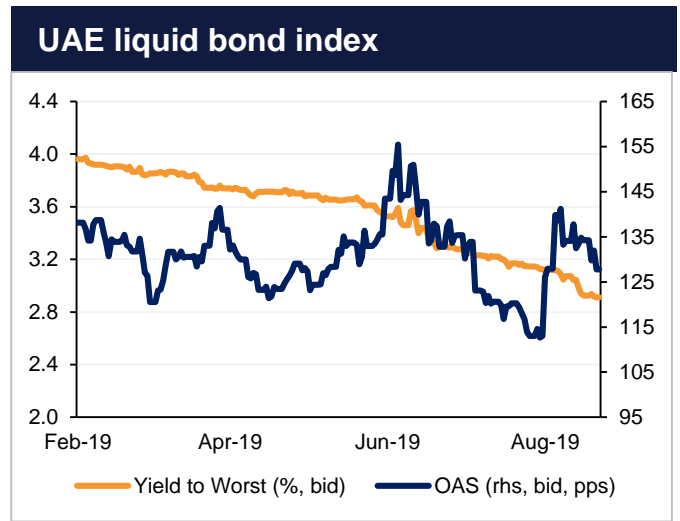
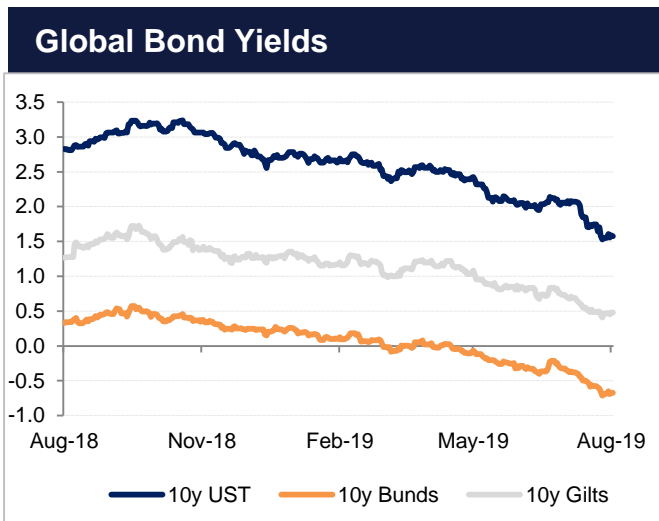
Commodities

Oil markets were split overnight as a bullish inventory report from the EIA contended with persistent trade war concerns and a mixed message from the US Federal Reserve's latest FOMC minutes. Brent futures managed to close up 0.45% at USD 60.30/b while WTI fell more than 1% to end the day at USD 55.68/b. forward curves were relatively unchanged with both Brent and WTI holding their backwardations in 1-2 month time spreads. In early trading today, a weaker RMB—at its weakest level since 2008—will take some vigour out of commodity markets generally.

The EIA reported a draw in crude stocks of 2.7m bbl, helping to keep stocks below their five-year average. The stock draw was the first in the last three weeks but nevertheless affirms a highly seasonal decline in inventories in the US. Total inventories did manage to increase, however, thanks to considerable builds in distillates and propane stocks. Production was unchanged last week at 12.3m b/d while exports ticked up to 2.8m b/d.

The release of the FOMC minutes did little to shape the trajectory for gold considering the messaging from the Fed was rather mixed. Prices settled at USD 1,502/troy oz, marginally lower, but will now be looking to the Jackson Hole summit of central bankers this weekend for more clarity on whether additional stimulus from major economies will be forthcoming.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1085	-0.14	1.1368	USDTRY	5.7166	-0.26	EURAED	4.0715	-0.14
GBPUSD	1.2130	-0.33	1.2272	USDEGP	16.5804	-0.15	GBPAED	4.4522	-0.40
USDJPY	106.62	+0.37	104.18	USDSAR	3.7504	-0.00	JPYAED	0.0345	-0.36
USDCAD	1.3291	-0.21	1.3262	USDQAR	3.6800	+1.05	CADAED	2.7633	+0.22
AUDUSD	0.6781	+0.04	0.6836	USDKWD	0.3040	--	AUDAED	2.4900	+0.03
USDCHF	0.9819	+0.40	0.9525	USDBHD	0.3770	--	CHFAED	3.7385	-0.46
EURGBP	0.9140	+0.20	0.9264	USDOMR	0.3850	--	TRYAED	0.6400	-0.13
USDAED	3.6730	--	3.6785	USDINR	70.7225	-0.64	INRAED	0.0552	+7.46

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.2898	2.4400	2.5475	2.3428	USD 2 yr	1.572	+5
USD LIBOR	2.1700	2.1495	2.0236	1.9485	USD 5 yr	1.419	+3
GBP LIBOR	0.7098	0.7605	0.8013	0.8478	USD 10 yr	1.495	+4
JPY LIBOR	-0.1038	-0.1027	-0.0470	0.0262	EUR 2 yr	-0.528	+3
CHF LIBOR	-0.8464	-0.8414	-0.8250	-0.7328	EUR 5 yr	-0.485	+4
					EUR 10 yr	-0.245	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1502.65	-0.30	ADGB 6.75 19	2.42	--	Abu Dhabi	50	--
Silver	17.12	-0.27	DUGB 7.75 20	1.80	-12	Bahrain	254	-4
Oil (WTI)	55.68	-1.17	QATAR 5.25 20	2.70		Dubai	133	+1
Aluminium	1750.25	-0.07	US Tsy 2 yr	1.57	+6	Oman	349	--
Copper	5706.75	+0.42	US Tsy 10 yr	1.59	+3	Qatar	49	-2
						Saudi Arabia	70	-1

Source: Bloomberg, Emirates NBD Research

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