



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

Crude prices fell heavily overnight with both the US benchmark, WTI, and the international, Brent, finding new lows for the year. Brent fell 5.6% and WTI lost more than 7%. Oil markets have so far failed to respond positively to OPEC's decision earlier this month to cut production with effect from January and the trajectory for prices at the moment suggests there is still an excess amount of crude floating around in markets. Private sector data from the US showed an increase in US stockpiles last week which may be confirmed by official US data later today.

Oil markets have also been caught up in the weakness hitting global equity markets and like all other asset classes will be closely watching the decision of the US Federal Reserve on whether the central bank raises rates one last time in 2018. Market consensus is still for a 25bps hike but anxiety is growing over the message the Fed will give about 2019. Markets are already discounting sharply expected rate hikes next year (expecting just one compared with three from the Fed's own projections) and if the Fed downgraded its call for rate moves in 2019 we would expect the market to cut its own projections to zero or perhaps even an interest rate cut as concern mounts over the performance of the US economy.

Saudi Arabia has released an expansionary budget for 2019, pledging to raise spending by 7% to try and encourage growth in the non-oil economy. Total spending is expected to hit SAR 1.1trn (USD 295bn). The government also announced it would maintain its cost-of-living allowance for public sector works of around USD 266/month. Saudi Arabia does not publish a fiscal breakeven price for its oil exports but our own estimate for next year which includes a similar sized increase in government spending implies an oil price of around USD 80/b in order to record a neutral fiscal balance. With oil prices currently in freefall and an increasingly poor outlook for next year we expect that Saudi Arabia will again need to turn heavily to debt markets to finance its shortcomings.

Europe's largest economy received some more troubling news as the German IFO business confidence survey hit its lowest level in 27 months. The headline IFO indicator fell to 101, below consensus and the fourth monthly decline in a row. The forward looking component fell to 97.3, its lowest level since November 2014. Vehicle production has suffered in Germany in recent months as changing fuel regulations are disrupting orders.

Oil prices hit 2018 lows



Source: Bloomberg, Emirates NBD Research

www.emiratesnbdresearch.com

Today's Economic Data and Events

	Time	Cons		Time	Cons
UK CPI y/y	13:30	2.3%	FOMC Rate Decision (Upper Bound)	23:00	2.50%

Fixed Income

US treasury yields fell across the curve ahead of the conclusion of today's FOMC meeting. Yields on 10yr USTs hit 2.823%, a drop of more than 3bps while the 2yr fell nearly 5bps and widened the 2yr-10yr spread to more than 16bps. A 25bps hike still appears the most likely outcome of today's meeting but the market is discounting the Fed's moves for next year. Any downward change in the dot plot would send a distressing signal to markets which could price in no move or potentially even a cut by the end of 2019 if the Fed sounds less assured about the performance of the US economy.

Considering the prominent sell-off in global equity markets this FOMC may be a more fractious affair than previous meetings of the Powell Fed. Intervention from US president Donald Trump will also impact the markets, if not policymakers, views on the right level for rates.

Saudi Arabia's expansionary budget implies a deficit of more than 4% of GDP (government's projection) which would necessitate more borrowing and likely from both domestic and international markets. The trajectory for oil prices in 2019 looks to be far below the necessary breakeven levels and considering the slowdown in the non-oil sector the Saudi offer on rates may need to be higher than previous issues (SAR 23s currently at 3.8%).

FX

The dollar is trading slightly lower in the build up to the FOMC's decision on monetary policy this evening. While the market is expecting a 65.9% chance of a 25bps rate hike, investors will be anxious to see policy maker's latest projections and to see if a pause in interest rates is nearing. This follows Federal Reserve Chairman Jerome Powell's shift to a more dovish tone in recent weeks and U.S. President Trump continuing to criticize the central bank for raising interest rates. As we go to print, the dollar index is trading 0.25% lower at 96.862. We expect the first level of support at 96.601, the 50-day moving average. Should this level falter, a decline towards initially the 100-day moving average (95.915) and then the 76.4% Fibonacci retracement (76.4%) cannot be ruled out.

Equities

Equity markets managed to breathe a sigh of relief yesterday as they awaited the outcome of the FOMC meeting. The S&P 500 closed flat while the Dow managed to eke out gains of nearly 0.4%. European equities were laggards, however, with both the FTSE and the DAX closing lower. Asian markets have opened mixed this morning with the Hang Seng and KOSPI edging higher while Japanese and Chinese indices are both lower.

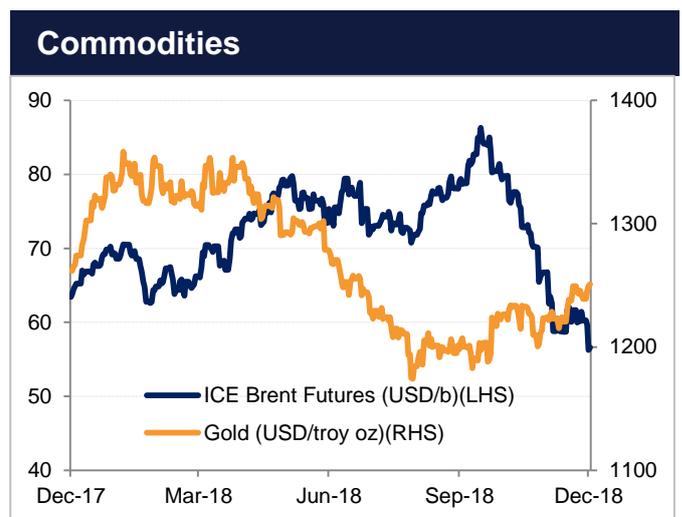
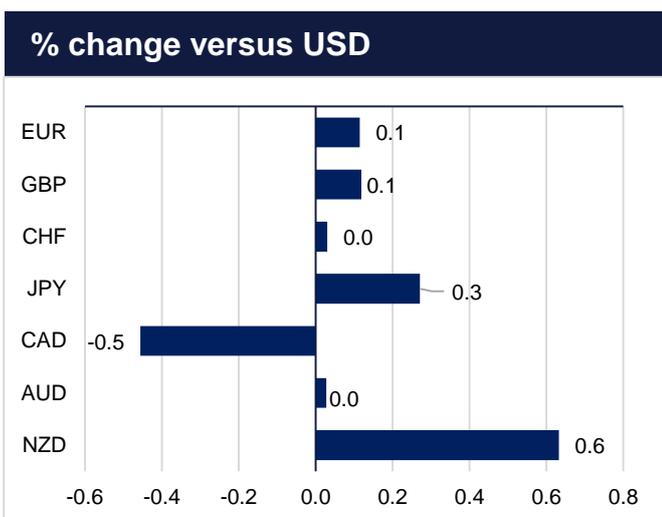
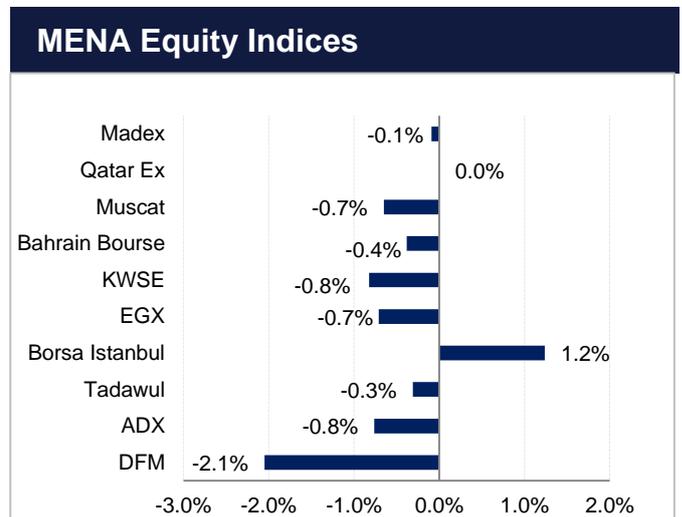
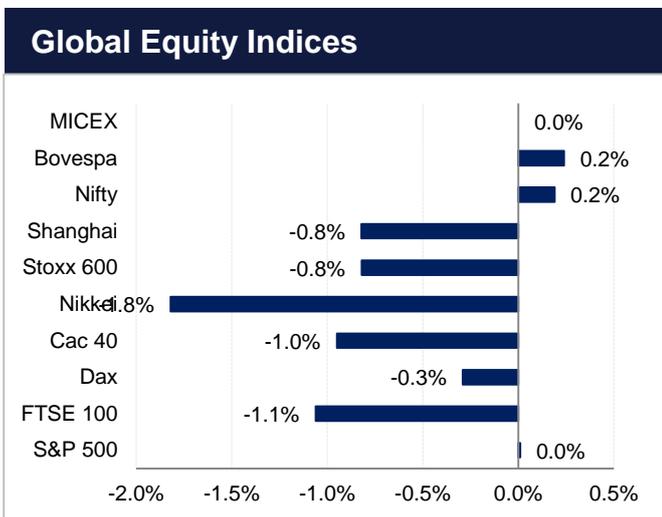
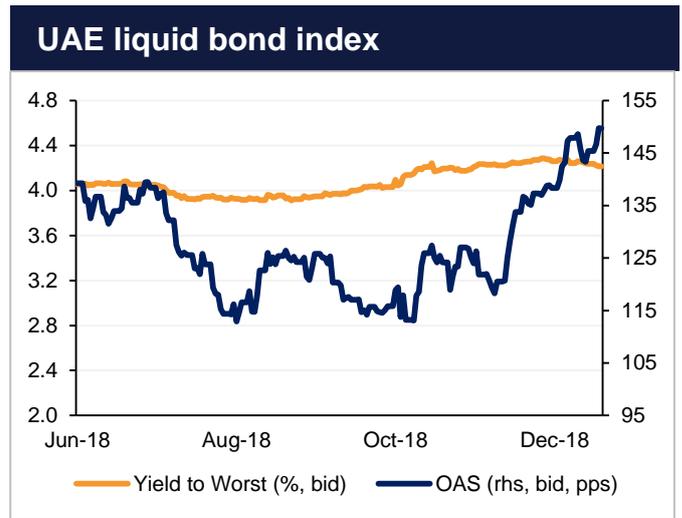
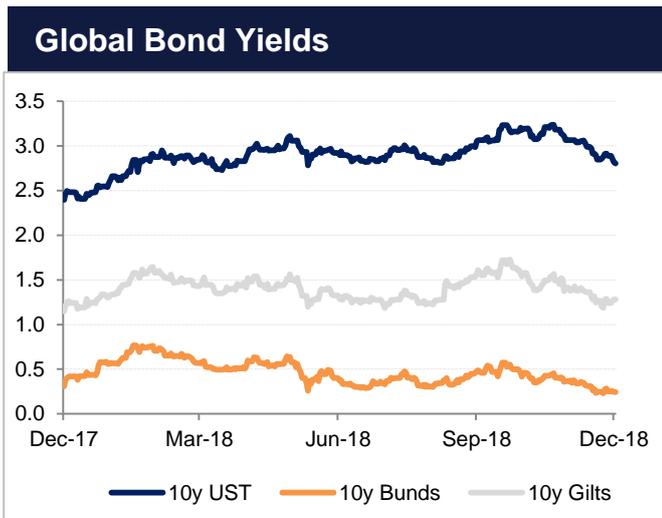
Regional equity markets came under pressure yesterday with heavy declines in the UAE markets. The DFM lost more than 2% and the ADX was down 0.76%. The Tadawul was caught up in the weakness despite an expansionary Saudi budget and fell 0.3%.

Commodities

Oil prices recorded a third consecutive day of declines with both contracts hitting new lows for the year. WTI prices closed at USD 46.24/b and are barely holding onto those levels this morning while Brent fell to USD 56.26/b and is slightly up on that level in early trading today. Record level production in the US and Russia along with build in US stocks reported by the API (3.5m bbl) helped add to the negative momentum for crude.

Industrial metals weren't spared the carnage hitting oil markets. LME 3mth copper fell 2.5%, closing below USD 6,000/tonne for the first time since September.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1361	+0.11	1.1728	USDTRY	5.3455	-0.49	EURAED	4.1728	+0.12
GBPUSD	1.2639	+0.12	1.2859	USDEGP	17.9441	+0.05	GBPAED	4.6430	+0.15
USDJPY	112.52	-0.27	109.09	USDSAR	3.7509	--	JPYAED	0.0326	+0.27
USDCAD	1.3466	+0.44	1.3372	USDQAR	3.6800	+0.77	CADAED	2.7275	-0.44
AUDUSD	0.7181	+0.03	0.7222	USDKWD	0.3040	-0.09	AUDAED	2.6376	+0.05
USDCHF	0.9923	-0.06	0.9573	USDBHD	0.3770	-0.01	CHFAED	3.6998	+0.02
EURGBP	0.8989	-0.03	0.9121	USDOMR	0.3850	+0.00	TRYAED	0.6900	+0.91
USDAED	3.6730	+0.00	3.6771	USDINR	69.9337	-2.26	INRAED	0.0552	+7.66

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.4900	2.9025	3.1038	3.5171	USD 2 yr	2.779	-6
USD LIBOR	2.4696	2.8036	2.9046	3.1039	USD 5 yr	2.735	-6
GBP LIBOR	0.7303	0.9064	1.0257	1.1579	USD 10 yr	2.841	-5
JPY LIBOR	-0.1567	-0.1130	-0.0045	0.1118	EUR 2 yr	-0.153	-1
CHF LIBOR	-0.8262	-0.7358	-0.6578	-0.5226	EUR 5 yr	0.250	-1
					EUR 10 yr	0.846	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1249.42	+0.29	ADGB 6.75 19	2.42	--	Abu Dhabi	67	+1
Silver	14.64	-0.19	DUGB 7.75 20	3.33	-2	Bahrain	281	10
Oil (WTI)	46.24	-7.30	QATAR 6.55 19	2.53	--	Dubai	133	+1
Aluminium	1920.75	-1.16	US Tsy 2 yr	2.64	-5	Qatar	73	--
Copper	5944.75	-2.47	US Tsy 10 yr	2.82	-4	Saudi Arabia	92	--

Source: Bloomberg, Emirates NBD Research

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