



Daily Outlook

China economy grew 6.4% y/y in Q4 2018, in line with analysts' expectations but the slowest growth rate since the financial crisis. For 2018 as a whole, China's economy grew 6.6% in real terms, down from 6.7% in 2017 but beating the government's target of 6.5% for last year. Encouragingly, **retail sales and industrial production were both firmer than forecast in December at 8.2% y/y and 5.7% y/y respectively.** The data was well received by Asian equity markets, which are trading around 0.5% higher this morning. Separately, Bloomberg reports that while trade talks between the US and China are making progress in terms of reducing the US's trade deficit with China, the key issue of intellectual property rights remains a sticking point. Further talks are scheduled for 30-31 January.

US industrial production and manufacturing data in December was better than expected, rising 0.3% m/m and 1.1% m/m respectively, despite increased concerns about slower global growth. However, **the continuing US government shutdown is having an impact on consumer confidence**, with the University of Michigan Consumer Confidence index declining to a two-year low in January. President Trump said over the weekend that we was prepared to offer "concessions" to reach a deal on funding the government, and senior democrats have indicated they would be willing to negotiate, but only after the government is re-opened. US markets are closed today for Martin Luther King Day.

The news this week is likely to be dominated by Brexit (again), with PM May due to present her 'Plan B' to parliament later today. Press reports have indicated that the prime minister has now abandoned plans for a cross-party consensus and will focus on resolving the controversial Irish backstop issue with the EU. German Chancellor Angela Merkel said over the weekend that the EU may need to make further concessions to avoid a disorderly Brexit, but the EU had previously indicated that they would not re-open negotiations on Ireland, or any other substantive part of the withdrawal agreement.

China's GDP growth slowed to weakest in a decade last quarter.



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

| | Time | Cons | | Time | Cons |
|----------------|-------|------|--|------|------|
| German PPI y/y | 11:00 | 2.9% | | | |

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries closed lower last week amid sustained risk-on sentiment in the market. The UST curve shifted upward with bear steepening of the curve in the short end. Yields on 2yr, 5yr and 10y USTs closed the week at 2.61% (+7 bps w-o-w), 2.62% (+10 bps w-o-w) and 2.78% (+8 bps w-o-w).

Within the GCC, the UST benchmark yield widening was more than offset by 13bps tightening of average credit spreads. Option adjusted spread on the Bloomberg Barclays GCC index tightened 13bps to 187bps on the back of rising oil prices and strong technical bid ensuing from the ongoing inclusion of the GCC sovereign and quasi sovereign bonds into the JP Morgan EMBI index from this month onwards. The YTW on the Bloomberg Barclays GCC Credit and High Yield index dropped -6 bps w-o-w to 4.52%.

The new issue pipeline for regional bonds continue to remain healthy. The Kingdom of Saudi Arabia, Al Hilal Bank and ISDB are all expected to raise money in the near term.

FX

EURUSD fell by 0.92% last week, cancelling the gains of the previous week to close at 1.1363. Having found resistance at the 100-day moving average on Monday (1.1462), the cross fell daily for the rest of the week, closing below the 50-day moving average (1.1383). Despite these gains, the price remains above the 200-week moving average (1.1324) which has acted as a support since August 2018. While the price closes the week above this level, a retest of 1.15 remains a likely outcome.

GBPUSD gained for a fifth week, rising by 0.25% to close at 1.2872. Although the price was able to climb and close above the 100-day moving average (1.2890) on Thursday, the break was not sustained and losses on Friday sawn the price remain below this level. In order to achieve further gains, the price needs to close above this level and therefore at present GBPUSD is vulnerable to further losses.

Equities

Regional equities started the week on a negative note amid mixed corporate earnings. All major indices closed lower with the notable exception of the Kuwait's Premier Market index (+0.3%).

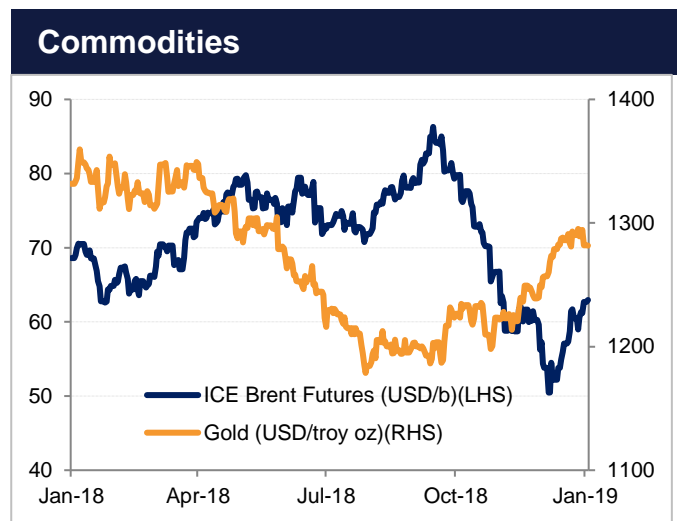
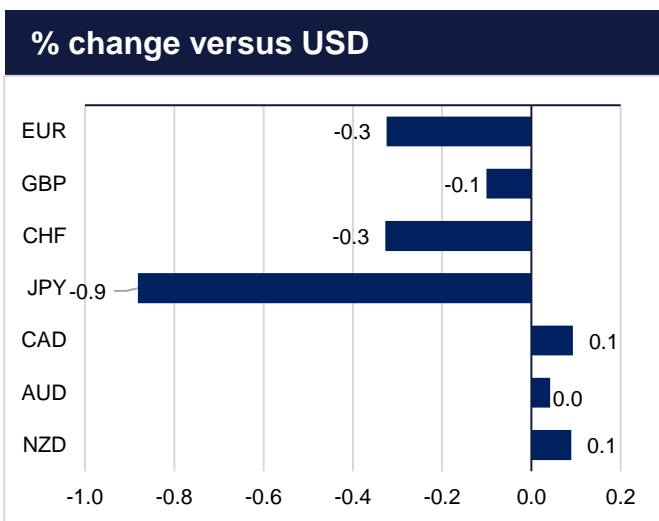
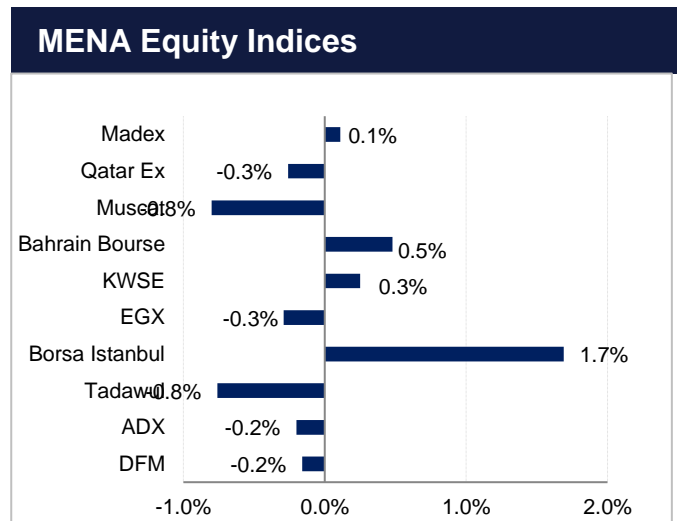
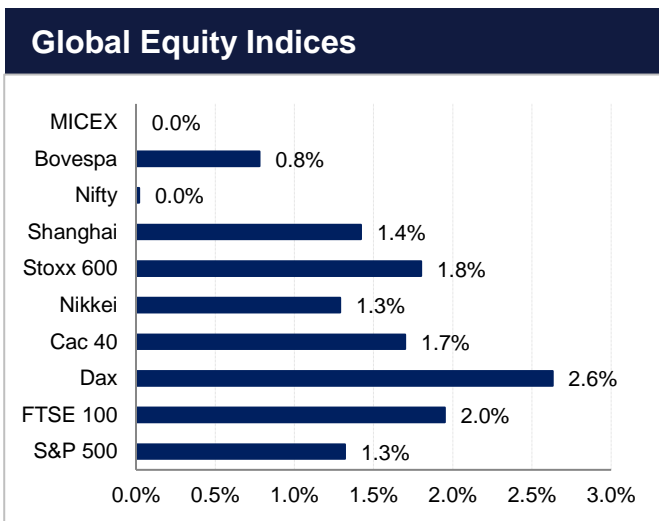
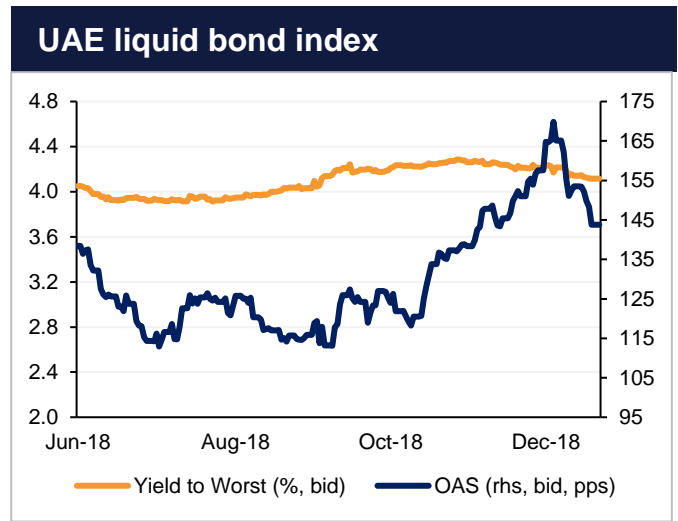
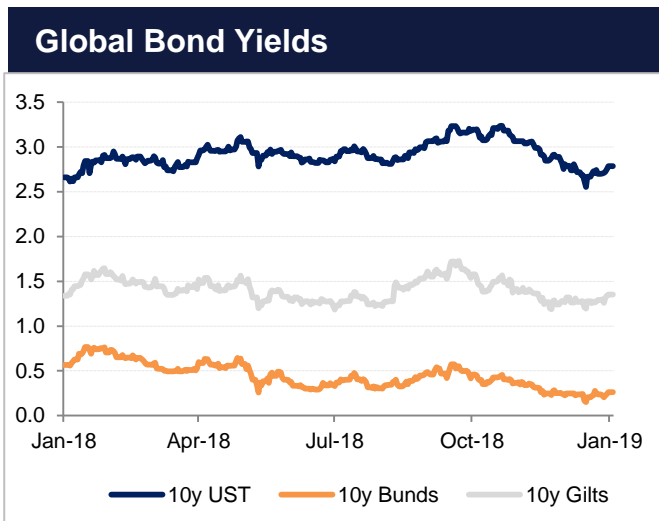
Almarai closed lower after reporting weaker than expected earnings. The company reported Q4 2018 earnings of SAR 369.6mn (-28.0% y/y), missing consensus estimates of SAR 510mn. The company attributed the decline in profit to general contraction in the market, mainly in dairy and juice categories.

Commodities

Oil markets continued their strong start to the year last week, up 4.3% in WTI at USD 53.80/b and 3.7% in Brent at USD 62.70/b. Front month Brent futures are now up more than 16% since the end of last year while WTI has gained 18%. The IEA has released its first market report for the year and kept its forecast for oil demand growth level at 1.4m b/d, an acceleration on the 1.3m b/d estimated for 2018. The agency expects that China and India will account for almost two-thirds of all growth this year.

OPEC released official targets in relation to the production cuts it announced in December and confirmed the widely reported figure of a 3% cut in volumes from an October 2018 baseline level. The UAE is set to cut output by just under 100k b/d and Saudi Arabia by 322k b/d.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.1363 | -0.32 | 1.1730 | USDTRY | 5.3276 | -0.58 | EURAED | 4.1898 | +0.06 |
| GBPUSD | 1.2872 | -0.10 | 1.3102 | USDEGP | 17.8830 | -0.27 | GBPAED | 4.7550 | +0.47 |
| USDJPY | 109.78 | +0.88 | 106.39 | USDSAR | 3.7508 | -0.01 | JPYAED | 0.0336 | -0.52 |
| USDCAD | 1.3260 | -0.15 | 1.3163 | USDQAR | 3.6800 | +0.73 | CADAED | 2.7695 | +0.13 |
| AUDUSD | 0.7168 | +0.04 | 0.7208 | USDKWD | 0.3033 | +0.02 | AUDAED | 2.6414 | +0.36 |
| USDCHF | 0.9954 | +0.32 | 0.9603 | USDBHD | 0.3770 | -0.00 | CHFAED | 3.6956 | -0.17 |
| EURGBP | 0.8829 | -0.21 | 0.8955 | USDOMR | 0.3850 | +0.06 | TRYAED | 0.6900 | +0.67 |
| USDAED | 3.6729 | -0.00 | 3.6755 | USDINR | 71.3775 | +0.48 | INRAED | 0.0552 | +6.77 |

Rates

| Interbank | 1 mo | 3mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 2.6075 | 2.9300 | 2.9590 | 3.5063 | USD 2 yr | 2.769 | +7 |
| USD LIBOR | 2.5060 | 2.7610 | 2.8519 | 3.0301 | USD 5 yr | 2.715 | +9 |
| GBP LIBOR | 0.7346 | 0.9275 | 1.0344 | 1.1726 | USD 10 yr | 2.823 | +7 |
| JPY LIBOR | -0.1025 | -0.0832 | -0.0073 | 0.1027 | EUR 2 yr | -0.148 | +1 |
| CHF LIBOR | -0.7728 | -0.7020 | -0.6418 | -0.5064 | EUR 5 yr | 0.212 | +3 |
| | | | | | EUR 10 yr | 0.809 | +3 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold | 1282.11 | -0.77 | ADGB 6.75 19 | 2.42 | -- | Abu Dhabi | 67 | -- |
| Silver | 15.47 | -0.76 | DUGB 7.75 20 | 3.23 | -0 | Bahrain | 286 | -1 |
| Oil (WTI) | 53.80 | +3.32 | QATAR 6.55 19 | 2.22 | -1 | Dubai | 134 | -1 |
| Aluminium | 1862.00 | +0.96 | US Tsy 2 yr | 2.61 | +5 | Qatar | 75 | -1 |
| Copper | 6029.50 | +1.09 | US Tsy 10 yr | 2.78 | +3 | Saudi Arabia | 91 | -4 |

Source: Bloomberg, Emirates NBD Research

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