



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

With economic growth strong and signs that wage growth and core inflation remain on an upward trend, a 25bps rate hike is a near certainty at the FOMC meeting that will conclude today. The focus will be on whether there are any changes to Fed officials' forecasts. Though the US housing market is providing some evidence of slowing growth, overall sentiment remains strong with the U.S Consumer Confidence index rising to an 18 year high in September. The index rose to 138.4 from an upwardly revised 134.7 in August, compared with expectations of 132.1. Sentiment on the present situation and expectations both increased. The reading suggests that household spending may be more robust in the second half of the year than previously estimated.

Validating the ECB President Mario Draghi's comment yesterday about inflation in the Eurozone remaining relatively vigorous, **the wholesale price index in Germany rose 0.3% m/m in August from 0.1% in July.** The index was 3.8% higher y/y compared with 3.6% in the prior month. Inflation is also likely to pick up in **Japan where the Services PPI jumped 1.3% y/y in August, the fastest pace since 2015.** That's a sign that Japan's economy is on strong footing now that the service sector, the weakest link, is showing signs of a revival.

Saudi inflation was broadly unchanged at 2.2% y/y in August, with the index easing -0.2% m/m. Inflation has slowed since January when VAT and subsidy cuts pushed the headline reading to 3.0% y/y. Transport (10.5% y/y) and food costs (6.6% y/y) are still sharply higher than a year ago on higher fuel prices and taxes. However, this has been offset by lower housing (-1.3% y/y), and clothing and footwear prices (-8.5%).

In the UAE, both bank deposits and loans grew at a faster rate in August. Deposits rose 7.6% y/y while bank loans grew 3.4% y/y, up from 1.8% y/y in July. However, money supply growth remains soft, with M1 (cash in circulation and demand deposits) contracting -1.0% y/y in August. 3m EIBOR reached 2.60%, keeping the spread over 3m LIBOR to 22bps.

Saudi inflation holds level in August



Source: Bloomberg, Emirates NBD Research

Today's Economic Data and Events

	Time	Cons		Time	Cons
FOMC Rate Decision	22:00	+25bps	US New Home sales	18:00	631k
FR Cons Confidence	10:45	133.4	NZ Trade balance	02:45	-143k

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Treasuries traded in a narrow range ahead of the Federal Reserve meeting later today with the curve flattening. The Fed is widely expected to raise rates by 25 bps. Yields on the 2y UST, 5y UST and 10y UST closed at 2.84% (+2 bps), 2.98% (+2 bps) and 3.09% (+1 bp).

Regional bonds continued to drift lower. The YTW on the Bloomberg Barclays GCC Credit and High Yield index rose +1bp to 4.52% and credit spreads remained flat at 160 bps.

Kuwait Energy 19s jumped +3.3% to trade around USD 97.0 level following reports that United Energy Group has agreed to acquire the company for as much as USD 650.9mn. The transaction is to be implemented by way of a scheme of arrangement under Jersey law. Elsewhere, Renaissance Services is considering an IPO for its Topaz Energy & Marine unit. Topaz had raised USD 203mn in May to refinance its debt. Topaz Marine 22s closed flat at USD 102.5 level.

Majid Al Futtaim raised USD 1bn in six-year revolving credit facility to replace USD 800mn arranged in 2014 for general corporate purposes.

The primary market pipeline continues to build. Al Khalij Commercial Bank has mandated banks for a benchmark USD-denominated bond issue under their USD 2.5bn EMTN program.

FX

GBPUSD gained for a second day on Tuesday, aided by rising support for a vote on a final Brexit deal. Of technical significance is that the price was able to break back above and close the day higher than the 100-day moving average, which it fell through on Friday 20 September 2018 in the aftermath of the more pessimistic than expected comments from EU leaders in Salzburg. While the price remains above the 100-day moving average, there are short term risks of further gains towards 1.3299, the September 2018 high. The largest downside threat to ongoing recovery in GBPUSD will be the outcome of this evening's FOMC meeting. While policy makers at the Federal Reserve are expected to raise interest rates by 25bps, investors will be scrutinizing the central bank's statement and press conference for guidance on the frequency and rate of additional tightening of monetary policy. Should policy makers take a more hawkish stance, it is likely to result in appetite for the dollar and halt further gains in GBPUSD.

Elsewhere NZD is outperforming despite weaker than expected trade data, a report Statistics New Zealand showing that exports in August fell to NZD 4.05bn down from NZD 5.34bn the previous month. The NZD was given a boost after a report from ANZ showed that business confidence recovered from a decade low of -50.3 in August to -38.3 in September. As we go to print NZDUSD is trading 0.42% higher at 0.6675.

Equities

Developed market equities closed mixed as investors' assessed the ongoing trade skirmish between the US and China. The S&P 500 index lost -0.1% while the Euro Stoxx 600 index gained +0.5%.

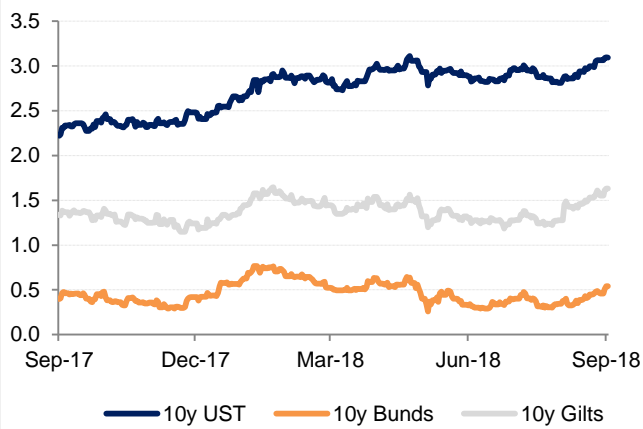
The Tadawul (+1.8%) and the Kuwait Premier Market index (+1.1%) were notable performers among GCC equity markets. The sharp rally in oil prices helped investor sentiment in the region. Sabic and Siphchem added +2.8% and +5.2%.

Commodities

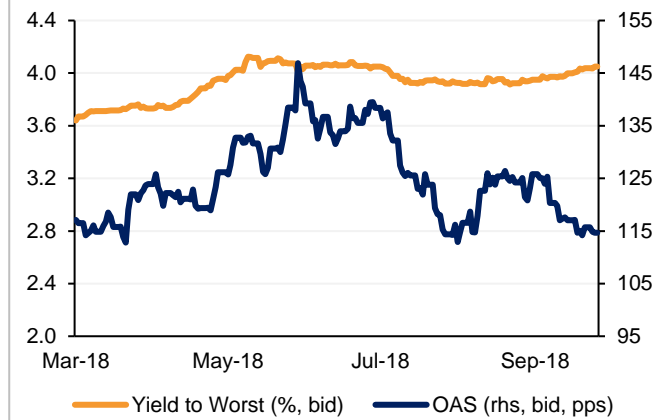
Oil prices extended their upward move overnight as market anxiety grows over the scale of dropoff in Iranian production. Hostile rhetoric from the presidents of both the US and Iran didn't alleviate the geopolitical tension though we suspect any direct interruption to flows of oil from the Middle East remains remote at this stage. Brent futures closed 0.8% higher at USD 81.87/b while WTI moved further above USD 72/b by the end of the day.

Markets in Charts

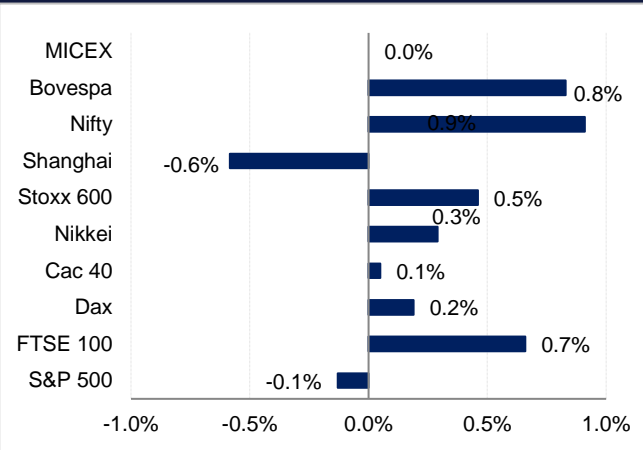
Global Bond Yields



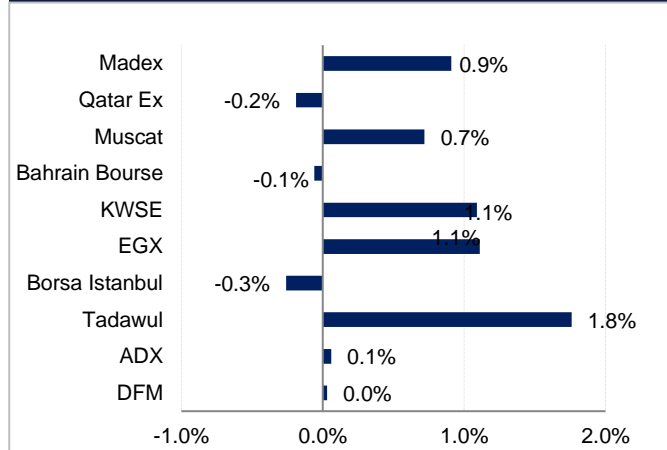
UAE liquid bond index



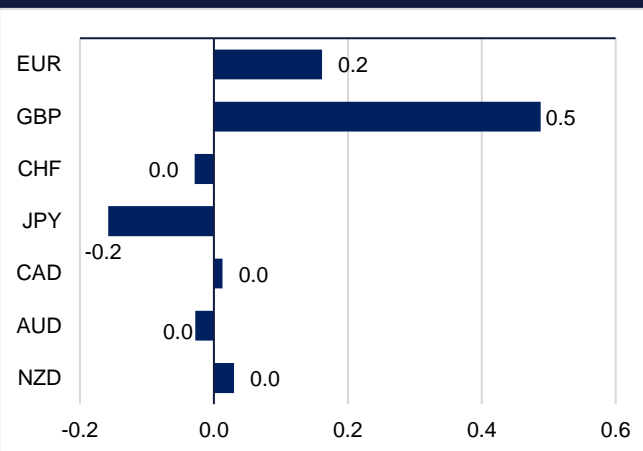
Global Equity Indices



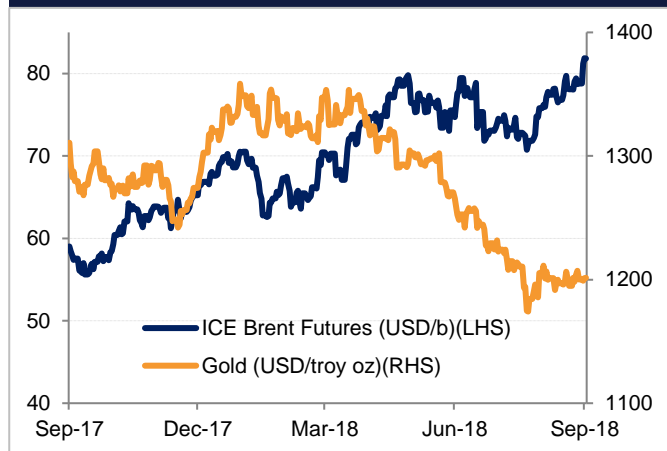
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1767	+0.16	1.2156	USDTRY	6.1616	+0.14	EURAED	4.3219	+0.17
GBPUSD	1.3184	+0.49	1.3431	USDEGP	17.9110	-0.04	GBPAED	4.8431	+0.50
USDJPY	112.97	+0.15	109.52	USDSAR	3.7503	-0.01	JPYAED	0.0325	-0.16
USDCAD	1.2954	-0.02	1.2872	USDQAR	3.6800	+0.64	CADAED	2.8357	+0.03
AUDUSD	0.7250	-0.03	0.7288	USDKWD	0.3027	+0.03	AUDAED	2.6629	-0.02
USDCHF	0.9650	+0.07	0.9303	USDBHD	0.3770	-0.00	CHFAED	3.8058	-0.03
EURGBP	0.8926	-0.33	0.9051	USDOMR	0.3859	+0.30	TRYAED	0.6000	+0.51
USDAED	3.6729	-0.00	3.6761	USDINR	72.5650	-0.09	INRAED	0.0552	+9.72

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	2.3663	2.6013	2.9575	3.3177	USD 2 yr	3.007	+2
USD LIBOR	2.2301	2.3810	2.5954	2.9119	USD 5 yr	3.106	+2
GBP LIBOR	0.7244	0.8023	0.8999	1.0612	USD 10 yr	3.153	+1
JPY LIBOR	-0.1002	-0.0435	0.0187	0.1388	EUR 2 yr	-0.107	+0
CHF LIBOR	-0.7794	-0.7336	-0.6538	-0.5206	EUR 5 yr	0.417	+2
					EUR 10 yr	1.033	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1201.22	+0.18	ADGB 6.75 19	2.42	--	Abu Dhabi	64	--
Silver	14.46	+1.47	DUGB 7.75 20	3.49	--	Bahrain	341	+13
Oil (WTI)	72.28	+0.28	QATAR 6.55 19	2.80	+7	Dubai	125	-1
Aluminium	2044.50	+0.79	US Tsy 2 yr	2.84	+2	Qatar	79	+1
Copper	6314.75	-0.63	US Tsy 10 yr	3.10	+1	Saudi Arabia	79	+1

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
 Senior Executive Vice President
 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

Aditya Pugalia
 Director - Financial Markets Research
 +9714 230 7802
 adityap@emiratesnbd.com

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

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

Daniel Richards
 MENA Economist
 +9714 609 3032
 danielricha@emiratesnbd.com

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

Hessa Al Khawaja
 Research Associate
 +9714 609 3015
 Hessaalkh@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

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

Emirates NBD Capital

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