

Fed talks of balance sheet reduction plans

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EMIRATES INVESTMENT BANK

LOOKING BACK

- **Fed talks of balance sheet reduction plans.** In its July meeting, the FOMC decided to maintain its target federal funds rate at 1.0%–1.25%, in line with market expectations. The Fed indicated it is ready to begin trimming its balance sheet, stating it expects to begin allowing some of its bond holdings to mature “relatively soon”. US 10-year treasury yield rose 5bps to end the week at 2.29%. Meanwhile, US Q2 GDP growth rose at an annual rate of 2.6%, up from Q1’s 1.2% annualized pace, but 0.1% below expectations.
- **Greece raises EUR3 bn in first bond sale in 3 years.** Investors welcomed Greece’s 4.625% yielding bond issue, helping the struggling country raise EUR3 bn in its first bond issue since 2014. With the sale, PM Tsipras is seeking to chalk out a path for an exit from the current onerous bailout program, which ends in August 2018. The news added to positive sentiment in Europe as the EUR gained 0.8% against the USD last week.
- **Moody’s revises outlook on Chinese banks.** Moody’s upgraded its outlook for China’s banking system to stable from negative, the first revision in two years. The rating agency sees fading concerns over China’s shadow banking sector following steps from regulators to curb systemic imbalances. The move comes after Moody’s had recently downgraded China’s long-term local and foreign currency ratings one notch, to A1 from Aa3, on debt concerns and decelerating growth.
- **Brazil cuts rates by 100bps.** The Central Bank of Brazil (CBB) cut interest rates by 100bps to 9.25% after inflation fell to a decade low of 3.0% in June. It is the third time this year that the CBB has cut rates by 100 basis points, in an attempt to pull the economy out of recession. The CBB stated, “the pace of easing will continue to depend on the evolution of economic activity, the balance of risks, possible reassessments of the extension to the cycle, and on inflation forecasts and expectations.”
- **Saudi questions OPEC compliance commitment.** The International Energy Agency (IEA) reported OPEC’s June compliance slipped to 78%, its lowest level, even while the average compliance rate during the first six months of the pact was 92%. Saudi Arabia said it planned to step up pressure on member nations that aren’t complying with their commitments. Meanwhile, Brent gained 9.3% last week on bigger-than-expected inventory drawdowns and signals from Saudi Arabia that it would further reduce output in August.

LOOKING FORWARD

- China reports its non-manufacturing PMI while the Eurozone publishes its CPI and unemployment report on **Monday**. Global manufacturing PMIs and Eurozone preliminary Q2 GDP data will be released on **Tuesday**. The Bank of England (BoE) meets to set rates on **Thursday** while US employment data will be released on **Friday**.



MAIN CROSS RATES

€ 1 ————— \$ 1.1751

£ 1 ————— \$ 1.3136

\$ 1 ————— ¥ 110.68

	Yield % (30/07)	Yield % (23/07)
Abu Dhabi 2019	1.55	1.55
KSA 2021	2.66	2.68
Dubai 2023	3.11	3.15
Qatar 2023	2.86	2.88
US 10Y	2.29	2.24
German 10Y	0.54	0.51

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	1,960	0.1%	11.9%
MSCI BRIC	300	1.3%	24.1%
MSCI EM	1,063	0.3%	23.3%
USA - S&P 500	2,472	0.0%	10.4%
UK- FTSE 100	7,368	-1.1%	3.2%
France - CAC40	5,131	0.3%	5.5%
Germany - DAX	12,163	-0.6%	5.9%
Japan - Nikkei 225	19,960	-0.7%	4.4%
Dubai	3,606	0.9%	2.1%
Abu Dhabi	4,568	0.3%	0.5%
Saudi	7,175	-1.2%	-0.5%
Oman	5,048	1.0%	-12.7%
Kuwait	6,805	0.4%	18.4%
Egypt	13,609	-0.8%	10.2%
Qatar	9,563	0.2%	-8.4%
Commodities			
Gold (\$/oz)	1,270	1.2%	10.6%
Silver (\$/oz)	17	1.4%	5.2%
Platinum (\$/oz)	935	0.1%	3.6%
Oil – Brent (\$/bbl)	53	9.3%	-7.6%

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EMIRATES INVESTMENT BANK

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