

## Higher yields reflect tighter money supply expectations

بنك الإمارات  
للإستثمار

EMIRATES INVESTMENT BANK

### LOOKING BACK

- **Strong US employment data fuels yields.** 222k new jobs were added in June, significantly more than anticipated, helping reverse a sequence of disappointingly small monthly job gains. The unemployment rate ticked up by 0.1% to 4.4%, as labor force participation edged higher. Despite solid employment gains, wage growth remains muted. Meanwhile, the minutes of the June FOMC meeting showed that some members wanted to begin shrinking the Fed's USD 4.5trillion balance sheet as early as September, sending bond yields higher.
- **ECB too mulls shift in accommodative stance soon.** The minutes of the ECB's June meeting showed that officials contemplated dropping the Bank's promise to increase the pace of its asset purchases if needed to stimulate economic growth. Despite deciding against it, the subtle shift in tone pushed European yields higher with the 10-year German bund yield gaining 10bps last week.
- **Chinese forex reserves continue upward trajectory.** China's forex reserves rose for the 5<sup>th</sup> straight month in June, aided by the government's efforts to prevent capital flight and a weak USD. The string of monthly gains shows that authorities have been largely successful in controlling capital outflows and supporting the CNY recently. Last year, the CNY fell 7.0% against the USD, but it is up 2.0% this year.
- **Brazil's inflation drops to 10-year low.** Brazil's inflation rate fell to its lowest level since 2007, dropping for the tenth month in a row. The deceleration paves the way for the Central Bank to aggressively cut interest rates to bolster the beleaguered economy, especially as the corruption-tainted administration of President Temer is unlikely to pass bold reforms.
- **Egypt raises rates to check inflation.** The Central Bank of Egypt (CBE) unexpectedly raised rates this week by 200bps for the second time this year, citing that the "temporary" rate hike was aimed at easing the effect of recent subsidy cuts and tax increases, which tilted inflation risks "more strongly to the upside". The Bank last raised interest rates by 200 basis points in May, stating the move was to contain "demand-side pressures." The weaker EGP, coupled with cuts in fuel and electricity subsidies, has driven inflation to about 30%.
- **Oil declines on increased US rig count.** Oil prices fell nearly 3.0% on Friday alone and ended last week lower by 2.5% after data showed U.S. production and rig counts rose even as OPEC exports hit a 2017 high. Baker Hughes reported that U.S. drillers added seven oil rigs in the week to July 7, bringing the total count up to 763, the most since April 2015.

### LOOKING FORWARD

- China reports its inflation data on **Monday**. On **Wednesday**, UK employment figures will be released as well as Eurozone Industrial Production (IP) data. US retail sales and CPI data will be released on **Friday**.



### MAIN CROSS RATES

€ 1 ————— \$ 1.1401

£ 1 ————— \$ 1.2890

\$ 1 ————— ¥ 113.92

|                | Yield %<br>(09/07) | Yield %<br>(02/07) |
|----------------|--------------------|--------------------|
| Abu Dhabi 2019 | 1.43               | 1.47               |
| KSA 2021       | 2.89               | 2.69               |
| Dubai 2023     | 3.27               | 3.13               |
| Qatar 2023     | 3.28               | 3.12               |
| US 10Y         | 2.39               | 2.30               |
| German 10Y     | 0.57               | 0.47               |

| Equities             | Last Price | Weekly Chg | YTD Chg |
|----------------------|------------|------------|---------|
| MSCI World           | 1,913      | -0.2%      | 9.2%    |
| MSCI BRIC            | 279        | -0.4%      | 15.1%   |
| MSCI EM              | 1,002      | -0.8%      | 16.3%   |
| USA - S&P 500        | 2,425      | 0.1%       | 8.3%    |
| UK- FTSE 100         | 7,351      | 0.5%       | 2.9%    |
| France - CAC40       | 5,145      | 0.5%       | 5.8%    |
| Germany - DAX        | 12,389     | 0.5%       | 7.9%    |
| Japan - Nikkei 225   | 19,929     | -0.5%      | 4.3%    |
| Dubai                | 3,401      | 0.3%       | -3.7%   |
| Abu Dhabi            | 4,396      | -0.7%      | -3.3%   |
| Saudi                | 7,204      | -3.0%      | -0.1%   |
| Oman                 | 5,120      | 0.0%       | -11.5%  |
| Kuwait               | 6,680      | -1.2%      | 16.2%   |
| Egypt                | 13,370     | -0.2%      | 8.3%    |
| Qatar                | 8,923      | -1.2%      | -14.5%  |
| <b>Commodities</b>   |            |            |         |
| Gold (\$/oz)         | 1,212      | -2.3%      | 5.7%    |
| Silver (\$/oz)       | 16         | -6.1%      | -2.0%   |
| Platinum (\$/oz)     | 907        | -2.0%      | 0.4%    |
| Oil - Brent (\$/bbl) | 47         | -2.5%      | -17.8%  |

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