

Middle East tensions ease for now

بنك الإمارات
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EMIRATES INVESTMENT BANK

LOOKING BACK

- Middle East tensions ease for now.** The stabilizing situation in the region helped global risk sentiment return last week as the prospects of a wider conflict seem to have been averted for now. Meanwhile, officials from both sides confirmed that the US-China phase one trade accord would be signed on January 15 at the White House, further aiding risk appetite. The MSCI EM Index outperformed its developed market counterpart, the MSCI World Index, by 0.3% while the 10-year US Treasury yield gained 3bps to end last week at 1.82%.
- Eurozone services PMI and CPI rise.** A better than expected rise in the Eurozone's service sector PMI offset an eleventh consecutive monthly decline in manufacturing. The uptick in the services gauge helped the composite PMI inch up to 50.9 in December from 50.6 in the previous month. Even December's CPI rose 1.3% from a year earlier, a six-month high due to strong consumer spending during the holiday season. While data remains weak overall, the uptick in services and inflation helps boost sagging business confidence. On the week, the EuroStoxx50 edged higher by 0.4% while the EUR fell 0.4% against the USD.
- Bank of England (BoE) rate cut prospects rise.** Outgoing BoE Governor Carney outlined in his speech last week that the Central Bank could cut rates if sluggish global growth and uncertainty surrounding Brexit persist. Addressing concerns that central banks were running out of ammunition to fight a recession, Carney suggested that the BoE had at least 250bps worth of accommodation left including QE and forward guidance. Markets are now pricing in a 60% probability of a 25bps rate cut in May. The GBP lost 0.2% against the USD on the week.
- Japan's real wages fall.** Latest data showed inflation-adjusted wages in Japan fell at their fastest clip since August even as core inflation, at 0.5%, remains well below the BoJ's 2.0% target. The poor data justifies PM Abe's recent USD120 bn stimulus package and bodes well for the Japanese economy hurt by the recent consumption tax hike. The improving trade outlook and the upcoming Olympics in Tokyo should further help an economy otherwise struggling with lack of inflation and subdued demand.
- Oil prices cool on de-escalation in tensions.** After a wild ride the previous week, it became increasingly clear that that US-Iran tensions would not intensify for now. Oil prices rose after a measured Iran retaliation against US bases in Iraq but gave up gains as Trump offered a de-escalatory response to Iran's missile strikes. Meanwhile, IEA Director Birol's statement that oil remains in oversupply while demand remains weak, put further pressure on oil prices. Brent lost 5.3% last week.

LOOKING FORWARD

- The UK reports its GDP on **Monday** while the US releases its CPI data on **Tuesday**. UK CPI and Eurozone IP will be published on **Wednesday** while US retail sales data will be released on **Thursday**. Eurozone CPI, US IP and UK retail sales will be announced on **Friday**.



MAIN CROSS RATES

€ 1	\$ 1.1121
£ 1	\$ 1.3064
\$ 1	¥ 109.45

	Yield % (12/01)	Yield % (05/01)
Abu Dhabi 2027	2.41	2.41
KSA 2029	2.94	2.92
Dubai 2029	3.15	3.13
Qatar 2029	2.58	2.56
US 10Y	1.82	1.79
German 10Y	-0.20	-0.28

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	2,378	0.6%	0.8%
MSCI BRIC	349	1.1%	2.6%
MSCI EM	1,134	0.9%	1.7%
USA - S&P 500	3,265	0.9%	1.1%
UK- FTSE 100	7,588	-0.5%	0.6%
France - CAC40	6,037	-0.1%	1.0%
Germany - DAX	13,483	2.0%	1.8%
Japan - Nikkei 225	23,851	0.8%	0.8%
Dubai	2,749	-0.7%	-0.6%
Abu Dhabi	5,076	-0.5%	0.0%
Saudi	8,346	-0.6%	-0.5%
Oman	3,977	-0.7%	-0.1%
Kuwait	4,846	-1.3%	-1.3%
Egypt	13,730	-1.2%	-1.7%
Qatar	10,444	-0.1%	0.2%
Commodities			
Gold (\$/oz)	1,562	0.7%	3.0%
Silver (\$/oz)	18	0.3%	1.5%
Platinum (\$/oz)	979	-0.3%	1.3%
Oil - Brent (\$/bbl)	65	-5.3%	-1.5%

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