

Fed hikes with a cautious forward guidance

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EMIRATES INVESTMENT BANK

LOOKING BACK

- Fed drops "accommodative" from its language.** In a widely expected move, the Fed raised its benchmark rate by 25bps to a range of 2-2.25% while reaffirming that a strong US economy will probably warrant further gradual rate hikes in 2019. While the committee dropped the word "accommodative" from its policy language, Fed chair Powell played down the significance of that move suggesting monetary policy would continue to remain accommodative. The US 10-year Treasury yield remained steady at the 3.06% mark on a cautious Fed and heightened political risk in Europe post Italy's budget announcement.
- Trade worries dampen sentiment.** Last week, while new US tariffs on USD200 bn worth of Chinese imports took effect, China escalated the trade conflict by cancelling high-level talks with the US. Meanwhile, Trump's accusations that China was interfering in the upcoming US midterm elections via targeted tariffs on US imports also weighed on sentiment. Despite a sluggish week for US equities, the S&P500 witnessed its best quarter since 2013, gaining 7.2% in Q3 alone. The Index is up 9.0% YTD.
- Italy's budget deficit sparks sell-off.** European equities lost ground after Italy's populist coalition government agreed to a wider-than-expected 2019 budget deficit of 2.4%. The decision essentially heightens political risk in Europe and could intensify confrontation between Italy and the EU. Following the announcement, the 10-year Italian government bond yield rose as high as 3.26%. On the week, Italy's FTSE MIB which lost 3.8% dragged the broader EuroStoxx50 lower by 0.9%. The EUR ended the week lower by 1.2% against the USD.
- China's Central Bank keeps interest rates unchanged.** The PBoC left interest rates unchanged last week in response to the US Fed's 25bps rate increase, underscoring the government's resolve to keep borrowing costs low to help stabilize economic growth in the midst of its ongoing trade conflict with the US. The move could put downward pressure on the CNY as the interest rate differential between the two economies narrows further. The CNY has lost 5.6% against the USD so far this year.
- OPEC shrugs off Trump warning.** Saudi and Russia ignored Trump's calls to lower oil prices, saying oil markets are adequately supplied and OPEC stands ready to boost output by up to 1.5 mio bbl/day to meet any incremental demand. Brent rallied on OPEC's tepid response to Trump and ended the week higher by 5.0%. Meanwhile, news that the US has no plans to tap into its strategic oil reserves also helped oil prices.

LOOKING FORWARD

- Global manufacturing PMIs and Eurozone unemployment data will be released on **Monday** while Eurozone retail sales data will be announced on **Wednesday**. US September jobs report will come out on **Friday**.



MAIN CROSS RATES

€ 1 ————— \$ 1.1604

£ 1 ————— \$ 1.3031

\$ 1 ————— ¥ 113.70

	Yield % (30/09)	Yield % (23/09)
Abu Dhabi 2021	3.18	3.21
KSA 2021	3.49	3.55
Dubai 2023	3.67	3.70
Qatar 2023	3.43	3.51
US 10Y	3.06	3.06
German 10Y	0.47	0.46

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	2,184	-0.7%	3.8%
MSCI BRIC	301	-0.8%	-10.4%
MSCI EM	1,048	-0.3%	-9.5%
USA - S&P 500	2,914	-0.5%	9.0%
UK- FTSE 100	7,510	0.3%	-2.3%
France - CAC40	5,493	0.0%	3.4%
Germany - DAX	12,247	-1.5%	-5.2%
Japan - Nikkei 225	24,120	1.0%	6.0%
Dubai	2,826	2.2%	-16.2%
Abu Dhabi	4,948	1.3%	12.5%
Saudi	7,899	1.7%	9.2%
Oman	4,524	0.6%	-10.4%
Kuwait	4,762	0.1%	-1.4%
Egypt	14,632	3.9%	-2.6%
Qatar	9,784	0.2%	14.8%
Commodities			
Gold (\$/oz)	1,191	-0.8%	-8.6%
Silver (\$/oz)	15	2.5%	-13.5%
Platinum (\$/oz)	816	-1.5%	-12.1%
Oil - Brent (\$/bbl)	83	5.0%	23.7%

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