



بنك الإمارات دبي الوطني
Emirates NBD

Interest Rates

9 November 2017

Anita Yadav
Head of Fixed Income Research
+971 4 230 7630
anitay@emiratesNBD.com

www.emiratesnbdresearch.com

Interest Rate Monitor - Change at the Fed

President Trump has officially nominated Jerome Powell, to be the next Chair of the Federal Reserve, replacing Janet Yellen when her term expires on 01 February 2018. By way of background, Jerome Powell is a lawyer rather than an academically trained economist and would be the first chair without an economic doctorate since Paul Volcker who served from 1979 to 1987. The majority of his other experience has been in investment banking and private equity. However, he joined Federal Reserve Board of Governors in 2012 and therefore was involved in the decision-making behind QE3 and policy normalization in recent years.

Powell may not have the depth of economic expertise expected by the market but that is unlikely to matter for now, while the waters are relatively calm and the course of Fed's policy well-set. Will he emerge as a capable and strong leader when the cycle turns and the FOMC has to change course is still some way off. His Senate nomination hearing in the coming months will provide the first insight into what type of Fed Chair he will be. Regardless of his performance at the hearing, however, his nomination is expected to be confirmed without too much drama.

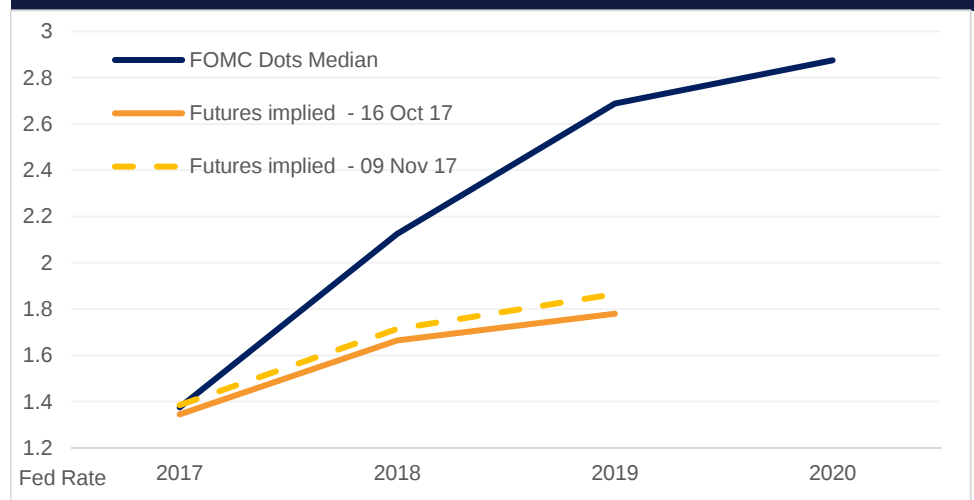
What can change on monetary policy?

We have no expectations that the change of Fed Chair in February next year will trigger any change in the monetary policy regime and expect that the UST curve will remain hinged against the improving economic growth in the US.

From the market perspective, Powell's nomination represents continuity, given his reputation as a centrist on the monetary policy spectrum, aligning his views with that of the consensus. In fact, in past speeches he has often referenced how the committee thinks rather than what he thinks. We expect a Powell-led Fed to stick with the current narrative of structurally lower growth and interest rates. That said, a lot still depends on who Trump picks to fill the other vacancies on the Fed's Board. With Powell's promotion, there will be four vacancies, including for the Vice Chair position. Policy communications may become a bit muddled in the short term, if Powell doesn't provide strong intellectual leadership and the policy debate descends into a free-for-all among regional Fed Presidents.

Beside an unchanged path of rate hikes in the immediate term, it will be interesting to see if the FOMC, under Powell's Chairmanship, changes its view about long-term rates and therefore the terminal rate in this hiking cycle. The Fed, in its September meeting marked down estimates for long-run interest rates to 2.75%. In contrast, markets have been convinced for some time that the terminal rate in this cycle will be considerably below prior hiking cycles and will probably peak at only 2%.

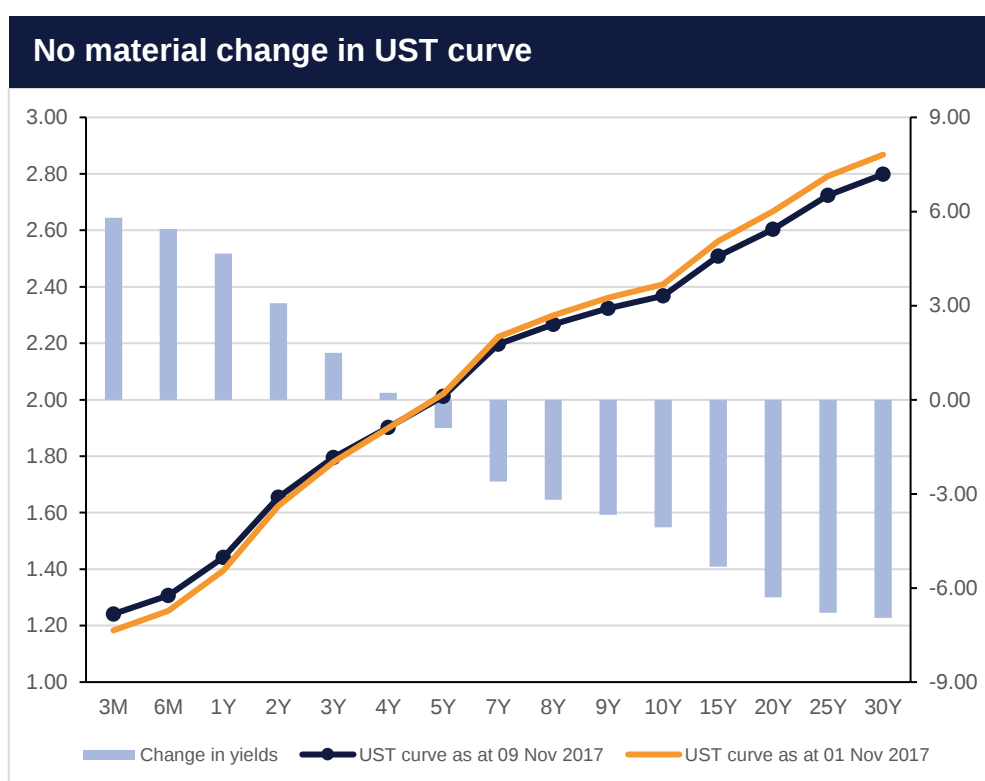
No material change in rate hike expectations



Source: Bloomberg, Emirates NBD Research

The Fed's recent downward revision to long term rates was accompanied by estimate of GDP growth declining to 1.8%. However, if tax reform passes, the effect of transitory factors recede and progress is made on financial deregulation, then a pick-up in inflation expectations and higher structural rates could become a possibility. That said, these changes are more likely to be driven by uptick in economic data than on any material shift in the personalities at the Fed's FOMC committee.

The seemingly endless flattening in the UST curve has continued post the Powell nomination. 10yr UST yields are at only 2.32%. Expectations of a reduction in growth and economic activity in the medium term, together with a global demand for yield has kept a lid on the 10yr UST yields despite the projected Fed rate hike cycle. The 2yr10yr spread at 0.67% is at nearly a decade low as the hiking cycle has bumped up the front end more so than the increase in 10yr yields resulting in this bear flattening. Weaker realized inflation from structural and idiosyncratic factors and now the continued tightening policy of the Fed is likely to keep inflation expectations low regardless of the change at the Fed.



Source: Bloomberg, Emirates NBD Research

What can change on balance sheet normalization?

We expect the Powell-led Fed to proceed with the current balance sheet normalization schedule. The latest FOMC meeting minutes showed no change in language around the balance sheet unwind that was announced at the September meeting and began in October. The FOMC wants to keep the balance sheet runoff on autopilot and markets have taken the start of the process in stride. There appears no need to deviate from this schedule in any way and fed Chair nominee, Powell will need overwhelming urgency to justify any change, which isn't the current base case.

What can change on regulation?

While Powell is unlikely to change the path of Fed's policy in the short term, he will likely put significant priority on scaling back financial market regulation. In recent speeches, he has stated "There is certainly a role for regulation, but regulation should always take into account the impact that it has on markets, a balance that must be constantly weighed. More regulation

is not the best answer to every problem." We think, he will work towards easing some of the burdensome regulations albeit with the goal of retaining the core post-crisis policies. He had recently highlighted below main points for possible regulatory reforms:

- Simplification of regulation of small and medium-sized banks.
- Reassessing the Volcker Rule with possibility of eliminating or relaxing aspects of the rule.
- Comprehensive Capital Analysis and Review: Enhance transparency around how this is assessed.
- Supplementary leverage ratio: examine the relative calibrations of the leverage ratio and the risk-based capital requirements.

Powell is likely to make these adjustments soon after the appropriate due diligence has been conducted.

Conclusion

In conclusion, we believe that the change of the Fed Chair in February next year will not bring any material change in the monetary policy regime in the US, particularly as policy bias of future officials that will fill the current several vacant positions at the Fed board remain unknown.

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication#

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
Group Treasurer & EVP 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

Shady Shafer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Aditya Pugalia
Director, Financial Markets Research
+9714 609 3027
adityap@emiratesnbd.com

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

Mohammed Al-Tajir
Manager, FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

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

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

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

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