



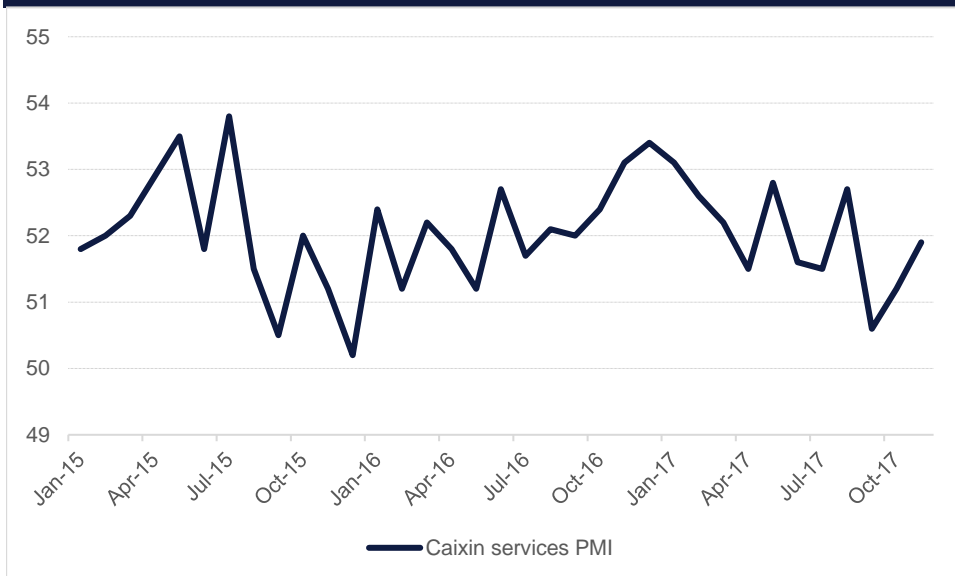
Daily Outlook

Negotiations between Theresa May, the UK's prime minister, and Jean-Claude Juncker, European Commission president, broke off yesterday without a deal over the UK's exit from the European Union. Hopes had been high earlier in the day that PM May's financial offer would be accepted by her European counterparts but a dispute in the Conservative Party and its DUP backers over the status of Northern Ireland appears to have stymied talks for now. Sterling whipsawed throughout the day, having gained steadily ahead of talks only to give up its gains by the end of trading to close unchanged. **An EU summit on December 14-15 will be the next chance for the UK and EU to come together to finalise a Brexit plan but divisions in the UK will likely again threaten a successful outcome.**

US factory orders came in better than expected for October, declining marginally (0.1%) compared with estimates of a 0.4% drop. When aircraft are stripped out of the orders, business spending rose 0.3% month/month, extending growth to four consecutive months and sending some positive messages about momentum over economic growth in the final quarter of the year. If the US Congress is able to pass its tax reform, corporate tax rates are set to be slashed to 20% which may help encourage greater investment.

Services PMI out of Asia showed a diverging picture for China and Japan. **The Caixin services PMI for China hit a three-month high of 51.9 in November, helped by an improvement in new business and hiring, however it is still slower than performance earlier in the year.** A slowdown in China's economy had been expected in the final months of the year and the government has yet to announce its 2018 growth target. However, it is unlikely to accept sharply slower activity next year and the market is expecting growth to be around 6.5% in 2018. In Japan, the Markit/Nikkei service PMI measure fell m/m to 51.2 from a strong 53.4 in October despite good levels of new orders and improving business sentiment.

China's economy at a slower pace in final months of the year



Source: EIKON, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
EC Composite PMI	13:00	57.5	UK Composite PMI	13:30	55.8
US Composite PMI	18:45	n/a			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

With the US tax reform plan looking likely to be approved before the end of the year, Treasury markets can turn back to benchmark rate expectations as a driving force for direction. Yields on 10yr USTs are up this morning in anticipation of next week's FOMC meeting although they are still hanging on below 2.4% for the time being. The 2yr10yr spread has flattened further in trading this morning, now below 57bps, a new low for the year.

FX

AUD is outperforming the other major currencies this morning in the aftermath of the RBA meeting. While the central bank kept interest rates at the record low level of 1.50%, the tone from the central bank was less dovish, in particular the previous reference to the stronger AUD having a negative effect on inflation was omitted. As we go to print, AUDUSD trades 0.69% higher at 0.76504 and while the daily downtrend that has been in effect since 11 September 2017 remains intact, a retest of the 200 day moving average (0.7693) cannot be ruled out.

Equities

Benchmark equity indices were split across the Atlantic to start the week. The FTSE, DAX and CAC 40 all gained while the S&P 500 gave up 0.1% despite hitting an intraday record high level. The FTSE was affected by movements in sterling, which whipsawed on news coming out of Brexit negotiations. Regional market were all broadly higher yesterday. The DFM gained 0.3% while the ADX and Tadawul were up 1% and 1.4% respectively.

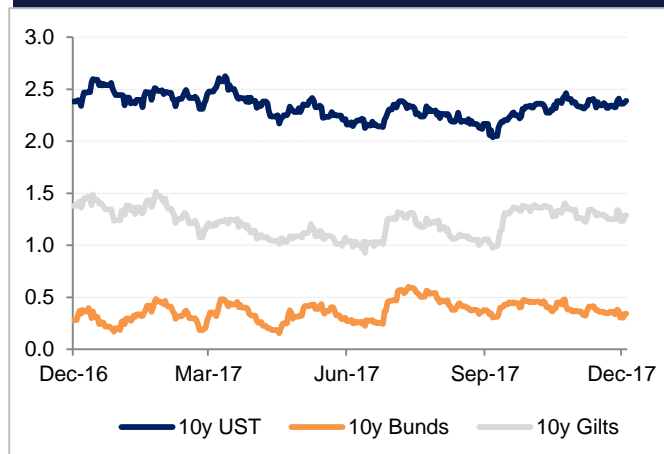
Commodities

Oil prices started the week on a softer footing, likely on some long positions being closed following last week's OPEC meeting. Brent futures closed down 2% and WTI lost more than 1.5%. Production surveys for November point to another month of declining production for OPEC producers; Reuters estimates a 300k b/d decline in output helping overall compliance hit 112%. Iraq and Angola were the big contributors to the decline this month thanks to disruptions in output related to instability and field maintenance respectively.

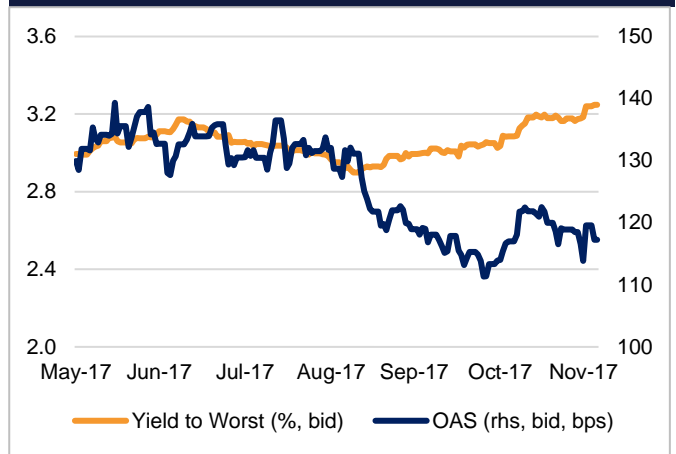
Forward curves are flattening out at the front of the term structures. Brent spreads for the 1-2month contracts have tightened to USD 0.2/b while the backwardation in WTI has lost ground is now back to roughly flat at the front of the curve.

Markets in Charts

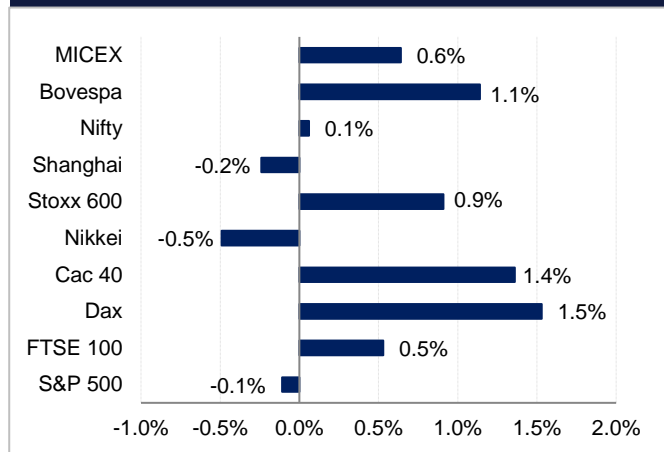
Global Bond Yields



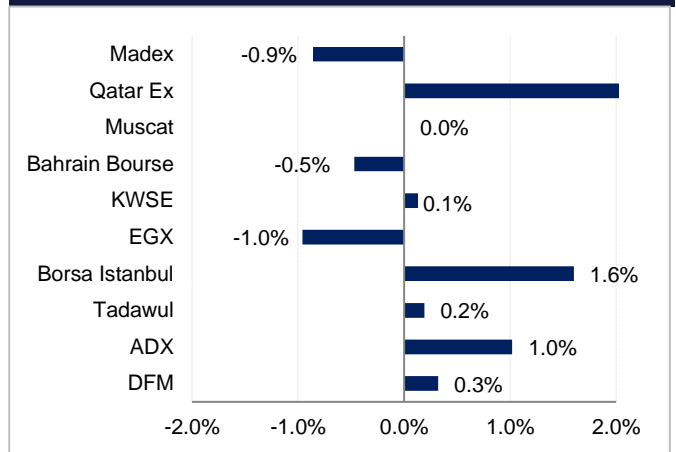
UAE liquid bond index



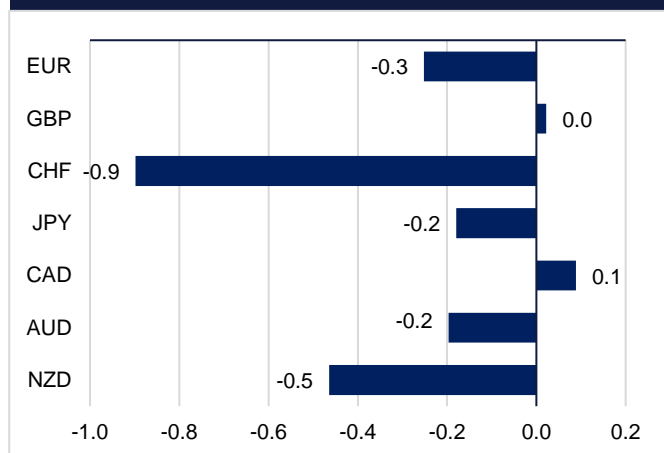
Global Equity Indices



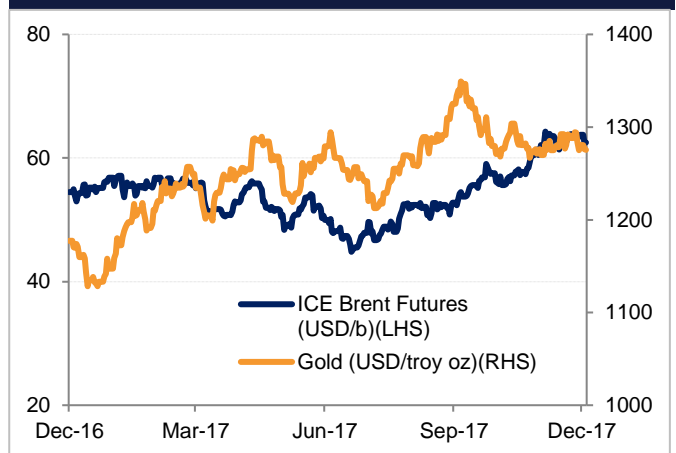
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1866	-0.25	1.2161	USDTRY	3.8747	-1.00	EURAED	4.3579	-0.28
GBPUSD	1.3480	+0.02	1.3655	USDEGP	17.7501	+0.35	GBPAED	4.9508	+0.02
USDJPY	112.41	+0.21	109.90	USDSAR	3.7503	--	JPYAED	0.0327	-0.18
USDCAD	1.2673	-0.09	1.2628	USDQAR	3.6800	+1.07	CADAED	2.8983	+0.09
AUDUSD	0.7598	-0.20	0.7593	USDKWD	0.3019	+0.06	AUDAED	2.7910	-0.18
USDCHF	0.9850	+0.90	0.9569	USDBHD	0.3772	-0.03	CHFAED	3.7290	-0.85
EURGBP	0.8803	-0.30	0.8906	USDOMR	0.3850	--	TRYAED	0.9500	+1.23
USDAED	3.6730	+0.00	3.6790	USDINR	64.2863	-0.27	INRAED	0.0571	+0.24

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.4172	1.6400	1.8835	2.4213	USD 2 yr	1.988	+3
USD LIBOR	1.3794	1.4946	1.6743	1.9604	USD 5 yr	2.204	+3
GBP LIBOR	0.4889	0.5198	0.5849	0.7774	USD 10 yr	2.390	+3
JPY LIBOR	-0.0500	-0.0285	0.0140	0.1022	EUR 2 yr	-0.186	+0
CHF LIBOR	-0.8059	-0.7530	-0.6550	-0.5272	EUR 5 yr	0.203	+0
					EUR 10 yr	0.809	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1276.18	-0.35	ADGB 6.75 19	1.99	+0	Abu Dhabi	63	-2
Silver	16.32	-0.76	DUGB 7.75 20	2.62	+3	Dubai	153	--
Oil (WTI)	57.47	-1.53	QATAR 6.55 19	2.22	+1	Qatar	101	-1
Aluminium	2052.00	-0.32	US Tsy 2 yr	1.81	+3	Saudi Arabia	88	-1
Copper	6800.75	-0.11	US Tsy 10 yr	2.37	+1	Bahrain	276	+6

Source: Bloomberg, Emirates NBD Research

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