بنك الإمارات دبي الوطني
Emirates NBD

Daily
11 January 2018

www.emiratesnbdresearch.com

Daily Outlook

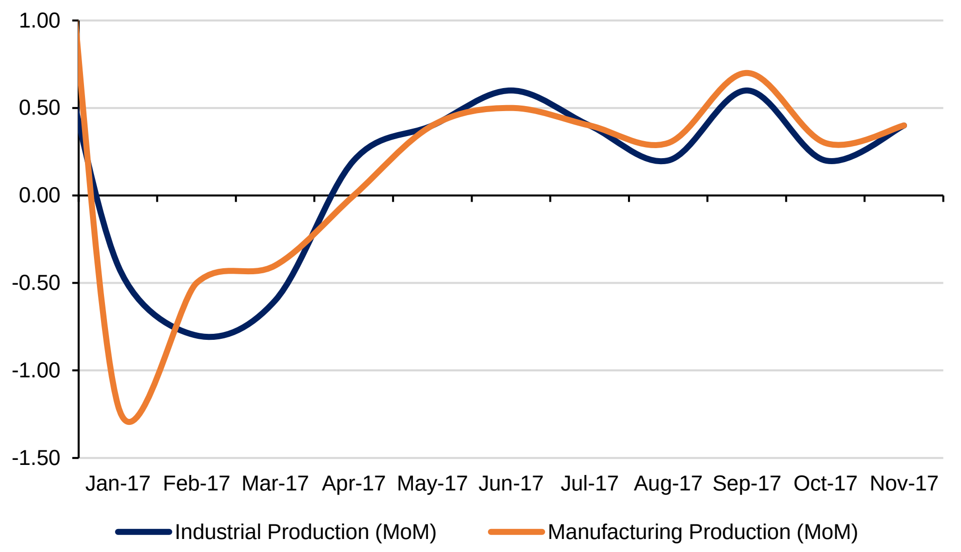
UK production figures showed improvement in November. Aided by increased energy demands following mild weather**, industrial production increased 0.4% m/m and 2.5% y/y with upward revisions in October's data to 0.2% m/m and 4.3% y/y**. Manufacturing production also accelerated 0.4% m/m (3.5% y/y) with upward revisions to 0.3% m/m and 4.7% y/y in October. This data shows that **UK based manufacturers have now reported expansion for seven consecutive months, the longest run in two decades** and production is likely to have contributed to stronger growth in the final quarter of 2017.

U**K trade data was less constructive** with a report from the UK Office for National Statistics showing that **the trade deficit widended to GBP 2804mn in November from a deficit of GBP 2270mn the previous mont**h. While export volumes have continued to be greater than import volumes, increased import prices due to GBP depreciation have resulted in deficits which are hard to overcome.

Australian retail sales rose by much more than expected in November, rising 1.2% m/m, the sharpest increase in nearly five years. Sales of electronic goods surged 9.3% on the back of iPhone purchases. AUD is trading firmer this morning following the data release.

Headline CPI inflation in Egypt fell to 21.9% y/y in December, from 26.0% in November. This marks a significant slowdown as the average inflation rate over January to October was 30.8%. Egyptians have struggled with rapidly rising prices since the removal of the Egyptian pound's peg to the US dollar in November 2016 led to a sharp depreciation. **As the effect of this passes through we expect further falls in price growth, which will enable the Central Bank of Egypt to being a rate-cutting cycle at its next meeting in February.**

UK data shows production rose for a seventh month



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
EZ Industrial Production WDA y/y	14:00	3.1%	US Initial Jobless Claims	17:30	245k
ECB Account of December Monetary Policy Meeting	16:30	N/A	US Monthly Budget Statement	23:00	-$26.5b

Source: Bloomberg, Emirates NBD Research.

Fixed Income

It was a rather volatile day of trading for US Treasuries. While reports that China may be reconsidering its UST purchase quantum spurred yields higher, a solid auction for 10y USTs later in the day assuaged those fears. Yields on the 2y USTs, 5y USTs and 10y USTs closed at 1.97 (+1 bps), 2.33% (flat) and 2.56% (+1 bps) respectively.

This morning, China has denied those media reports and said that the quote might be from a 'wrong source' or 'fake news'.

The continued move in benchmark yields did had some impact on regional bonds with YTW on the Bloomberg Barclays GCC Credit and High Yield index rising 3 bps to 3.76% and credit spreads widening 2 bps to 146 bps.

The primary issuance market continues to gain momentum with reports that Emirates is talking to banks to raise as much as USD 1bn through a Sukuk sale.

FX

JPY has continued to outperform, building on the week's gains as markets continue to digest the Bank of Japans reduction of longer term bonds on Tuesday. As a result of more carry trades unwinding, USDJPY has fallen after testing the 50 day moving average (112.81). Having broken below the 100 day MA (112.24) and currently near the 200 day MA of 111.72, further declines look likely to lie ahead for USDJPY in the near term. However, given that 10 year UST yields are back above 2.5% and the BOJ remains commited to yield curve control, it is likely that in the medium term, we see a reversal of fortunes for USDJPY.

This mornings outperformer is AUD, following strong retail sales data (see macro). As we go to print, AUDUSD currently trades 0.35% higher at 0.78703. We expect resistance at 0.7940, near 76.4% one year Fibonacci retracement (0.7937) and initial support at 0.7820 (close to the 61.8% one year Fibonacci retracement) with stonger support at the 100 day moving average (0.7773).

Equities

Developed market equities closed lower amid a sharp rise in bond yields. The S&P 500 index and the Euro Stoxx 600 index dropped -0.1% and -0.4% respectively.

The Qatar Exchange continued to outperform its regional peers as investors' hunt for yield. The broader index added +0.5%. Elsewhere, it was rather quiet with the DFM index and the Tadawul trading -0.1% and +0.1% respectively.

Union Properties closed -1.0% lower after the company did not specify how it intends to use the proceeds from sale of its stake in Emicool. The stake sale is in advanced stages as per the company.

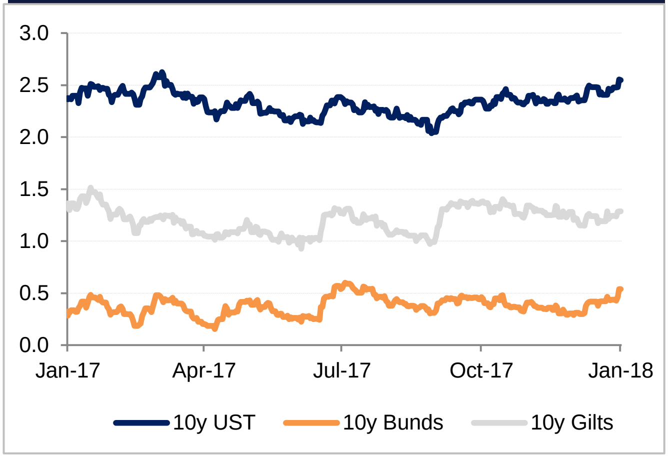
Commodities

Oil prices continued their march upward overnight, putting Brent futures within sight of USD 70/b. WTI gained nearly 2% on the day and Brent added 1.5% despite an estimate from the US government's EIA that oil production there would exceed 10m b/d as early as next month. The US last produced 10m b/d in 1970 and an extremely comfortable pricing and hedging environment should allow US oil and gas companies to continue investing and see higher output.

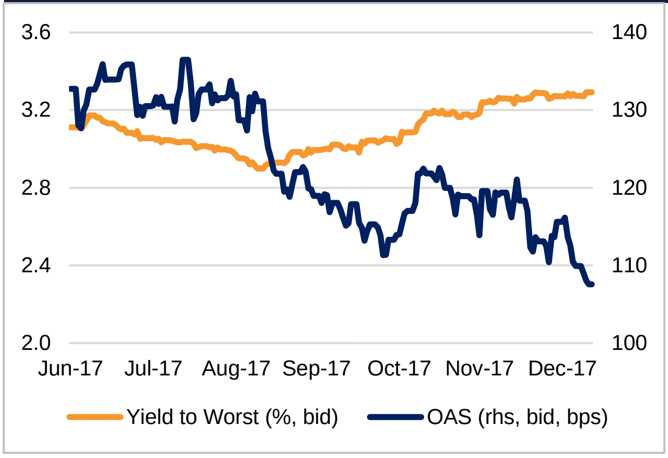
Market structures for both Brent and WTI are holding onto what look to be confident positions, with the backwardation in WTI at nearly USD 0.10/b and in Brent holding onto USD 0.5/b.

Markets in Charts

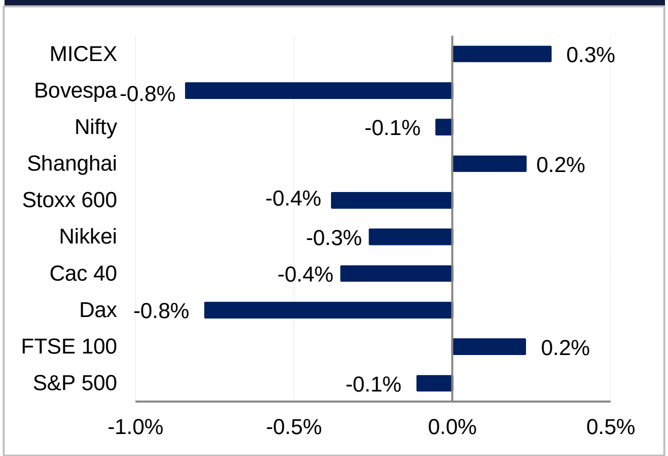
Global Bond Yields



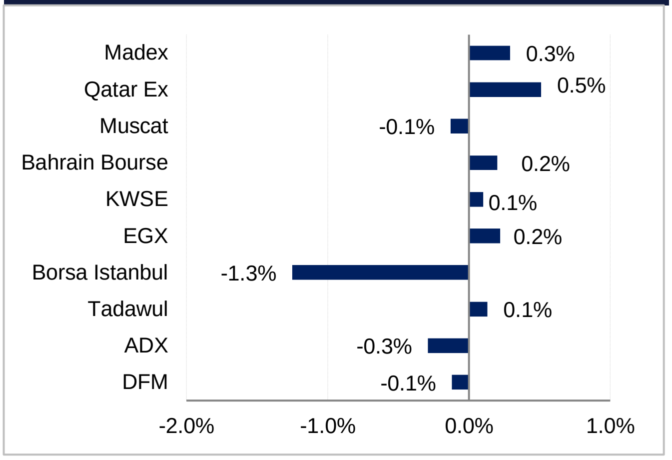
UAE liquid bond index



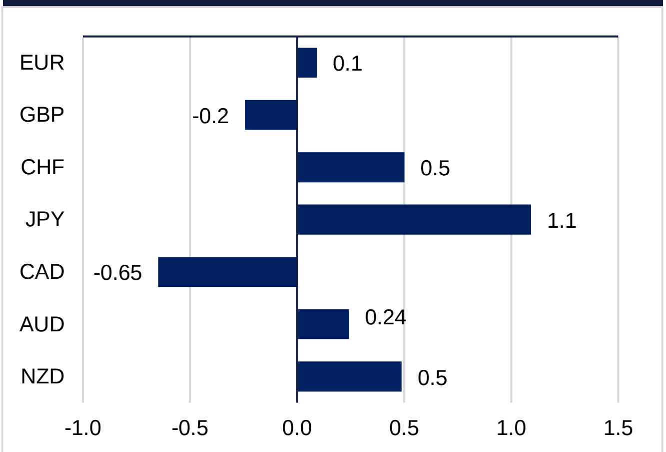
Global Equity Indices



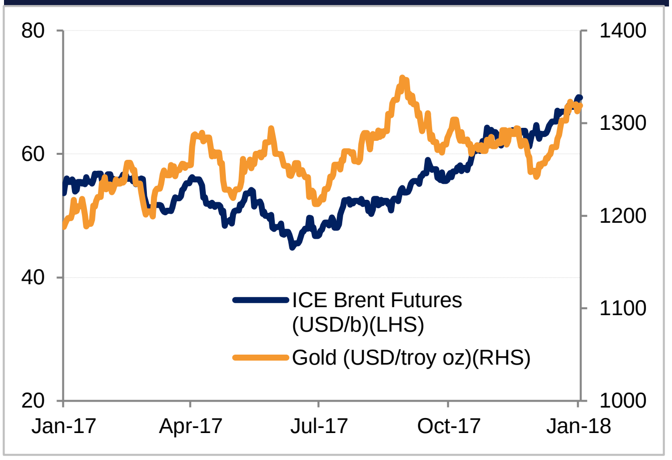
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1948	+0.09	1.2264	USDTRY	3.7998	+0.80	EURAED	4.3884	+0.09
GBPUSD	1.3507	-0.24	1.3702	USDEGP	17.7097	+0.19	GBPAED	4.9612	-0.25
USDJPY	111.44	-1.07	108.82	USDSAR	3.7505	--	JPYAED	0.0330	+1.09
USDCAD	1.2547	+0.67	1.2506	USDQAR	3.6800	+0.34	CADAED	2.9276	-0.65
AUDUSD	0.7843	+0.24	0.7846	USDKWD	0.3015	-0.05	AUDAED	2.8810	+0.25
USDCHF	0.9782	-0.49	0.9492	USDBHD	0.3770	-0.00	CHFAED	3.7543	+0.51
EURGBP	0.8846	+0.34	0.8950	USDOMR	0.3850	+0.01	TRYAED	0.9700	-0.45
USDAED	3.6730	--	3.6775	USDINR	63.7038	-0.02	INRAED	0.0576	-0.19

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.6367	1.8017	2.0007	2.5958	USD 2 yr	2.169	--
USD LIBOR	1.5538	1.7046	1.8652	2.1463	USD 5 yr	2.371	--
GBP LIBOR	0.4982	0.5213	0.5774	0.7707	USD 10 yr	2.539	--
JPY LIBOR	-0.0270	-0.0177	0.0293	0.1195	EUR 2 yr	-0.145	+1
CHF LIBOR	-0.7944	-0.7356	-0.6424	-0.5248	EUR 5 yr	0.314	--
					EUR 10 yr	0.921	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1316.89	+0.31	ADGB 6.75 19	2.27	+4	Abu Dhabi	54	-3
Silver	16.97	-0.00	DUGB 7.75 20	2.72	+2	Dubai	113	+4
Oil (WTI)	63.57	+0.97	QATAR 6.55 19	2.44	+6	Qatar	91	-2
Aluminium	2167.25	+1.53	US Tsy 2 yr	1.97	+0	Saudi Arabia	85	--
Copper	7112.75	+0.75	US Tsy 10 yr	2.56	+0	Bahrain	284	+19

Source: Bloomberg, Emirates NBD Research

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