



بنك الإمارات دبي الوطني
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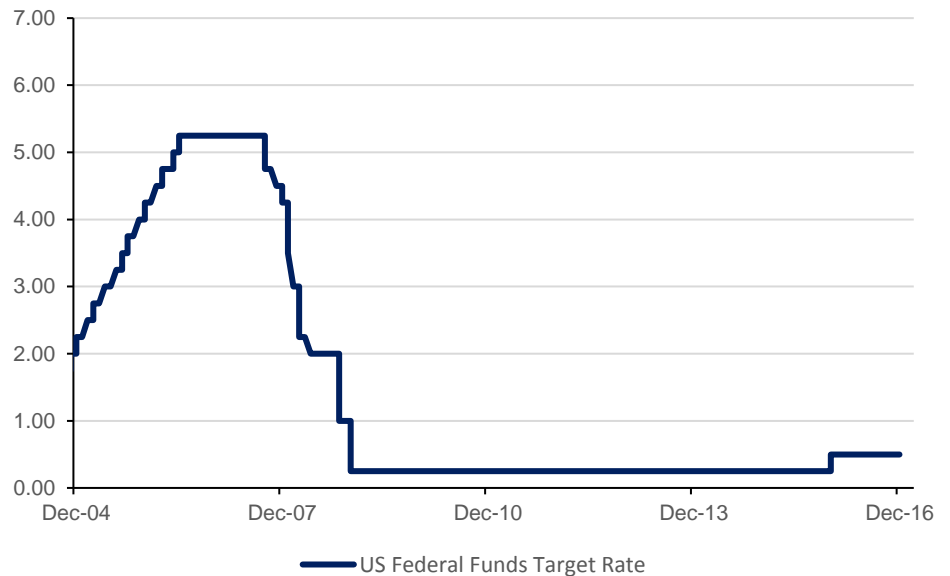
Daily Outlook

The main focus this week will be on the FOMC policy announcement on Wednesday, where the markets are unanimously discounting a 25bp rate hike taking the Fed funds rate to a 0.50-0.75% target range. The FOMC's interest rate projections for 2017 conveyed by the 'dot plot' are likely to be consistent with two 25bp rate hikes, which is our own forecast and is similar to the message we received on our trip to the US last week from prominent Wall Street banks.

However, as we all know from the experience of this year, such assumptions are fraught with risks. At the start of the year the Fed's dot plot signalled four 25bps interest rate rises in 2016, but we quickly lowered our own assumption to two rate hikes at the start of the year as markets went into freefall, which in the end also proved to be overstated as the Fed's caution extended. In 2017 the risks stem from the impact of the new Trump administration and its fiscal policies. While a substantial stimulus package of tax cuts and increased spending have been priced in by the markets, it remains unclear by how much and over what time period the new stimulus will be implemented.

The ECB extended its QE program by 9 months to December 2017 but reduced the pace of bond purchases to EUR60bn per month next April from EUR80bn currently. Overall this represented a net stimulus compared with the consensus expectation that centred on a 6-month extension at EUR80bn of bond purchases a month. On this basis President Draghi could claim that the adjustment did not amount to the equivalent of 'tapering', as he also maintained that the QE programme remained open-ended and conditional upon developments in the Eurozone economy. With weak forecasts for growth and inflation also compounding the overall dovish message, EURUSD slipped below 1.0600 at the end of last week, and looks set for further losses in the wake of the Fed's expected move.

Markets expect a 25bp hike from FOMC on Wednesday



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Japan Machine Tool Orders y/y	10:00	N/A	Turkey Q3 GDP y/y	11:00	0.3%
Turkey Current Account Balance	11:00	-1.70b	US Monthly Budget Statement	23:00	-\$130b

Source: Bloomberg.

Fixed Income

Fixed income markets enjoyed a week of risk-on sentiment with yields on sovereign bonds rising while credit spreads on corporate bonds tightening. UST curve steepened further ahead of FOMC meeting this week, where rate hike prospect is assumed to be almost 100%. Yields on treasuries closed with 2yr at 1.14% (+3bps over the week), 10yr 2.49% (+10bps) and 30yr at 3.17% (+11bps). Sovereigns bonds in the Eurozone also fell in tandem with the rising yields.

Cash corporate bonds gained 3 to 18 points in price over the week as continued optimism about the economic growth in the US fuelled credit spread tightening. CDS levels on US IG and Euro Main closed tighter with US IG and Euro Main at 67bps (-6bps) and 74bps (-5bps) respectively.

Another 4% increase in oil prices took them to the highest level this year and saw material boost in sentiment on GCC bonds. Circa 10bps lowering of credits spreads on BUAEL index to 150bps during the week helped GCC bonds close higher despite the widening benchmark yields.

The wider GCC bonds, including high yield, also saw recorded tightening of credit spreads by 11bps to 141bps during the week, though CDS spreads in the region reflected a more muted outcome. CDS levels on Bahrain narrowed 11bps to 299bps while those on TAQA and ADCB widened 2bps to 116bps and 107 bps respectively.

In the corporate world, adding to the ongoing trend of mega mergers in the region, Qatar Petroleum announced plans to merge with Rasgas which will be completed in 12 months. The merger is not likely to impact either company's operations and will also not affect any current partnership agreements with outside parties in place. RASGAS is already owned circa 70% by Qatar Petroleum (rated AA/stable) which in turn is owned by the Qatar Govt (AA/stable) and 30% by Exxon Mobile (AAA/stable).

Equities

Asian equities are trading lower this morning on the back of weakness in Chinese equities. The Shanghai Composite index was trading -2.0% at the time of this writing following restrictions on insurance companies stock trading activities.

The Tadawul rallied +1.1% to close at New Year to date highs. Petrochemical stocks led the rally on the back of a deal between OPEC and non-OPEC members. The Tadawul petro index rallied +2.4% with Sabic gaining +2.2% and Kayan adding +5.4%.

Elsewhere, the Qatar Exchange closed in positive territory for a fourth consecutive trading session. Oil related stocks led the rally with IQCD and GISS rallying +2.3% and +2.5% respectively.

FX

This morning, the Canadian dollar is the best performing G10 currency gaining on all of the other majors after a rise in oil prices (see below) has supported the currency. As we go to print, USDCAD trades 0.43% lower at 1.3123, a level last seen on October 20th 2016. From a technical perspective, the pair could find its first level of support at the 200 day MA of 1.3076 and resistance at the 100 day MA of 1.3194.

Commodities

Oil markets have opened the week sharply higher as details of an agreement between OPEC and non-OPEC countries emerged over the weekend. Countries outside the bloc—including notably Russia—have accepted a cut of 558k b/d on top of the 1.2m b/d cut pledged by OPEC. Saudi Arabia has also been indicating it would cut deeper than it agreed at the OPEC meeting although 10m b/d appears like a red line limit to cuts. The cuts by oil producing nations would be some of the most aggressive cuts under taken with the aim of supporting prices. Brent futures jumped to nearly USD 58/b, a 2016 high, while WTI is hanging onto just below USD 54/b. As we have cautioned in the past, a higher price can't be restricted to OPEC producers: the US drilling rig count rose by 21 last week, its largest gain since July 2015.

Markets in Charts

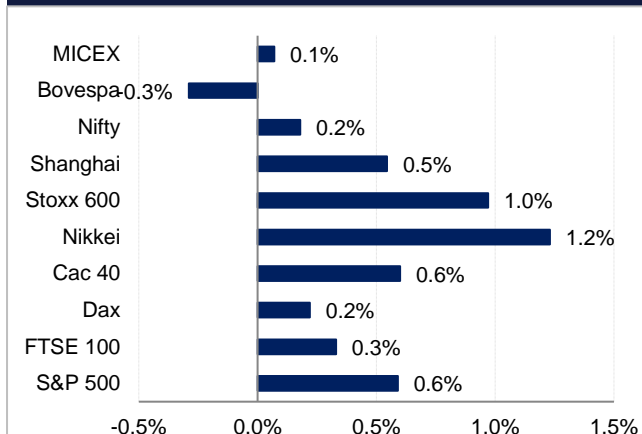
Global Bond Yields



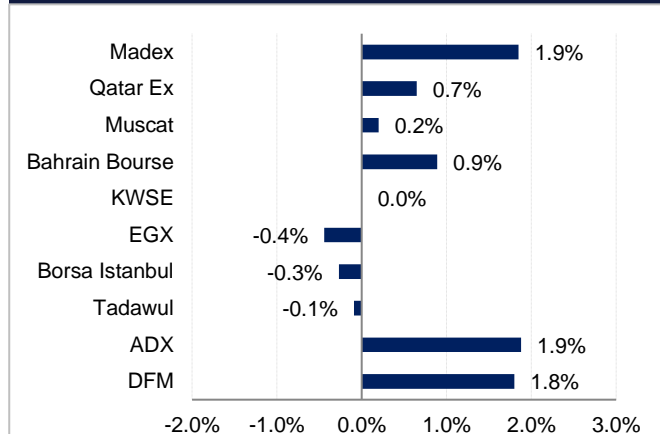
UAE liquid bond index



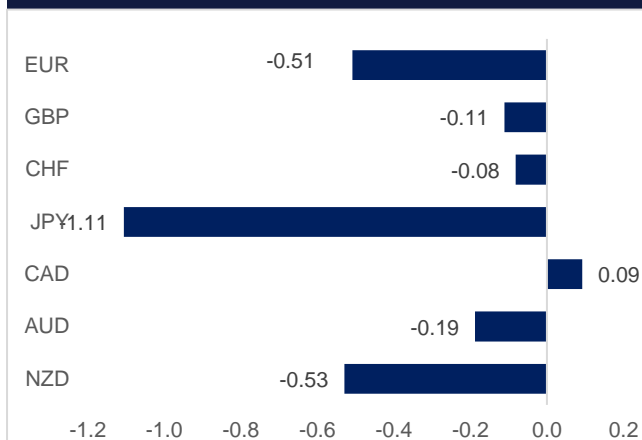
Global Equity Indices



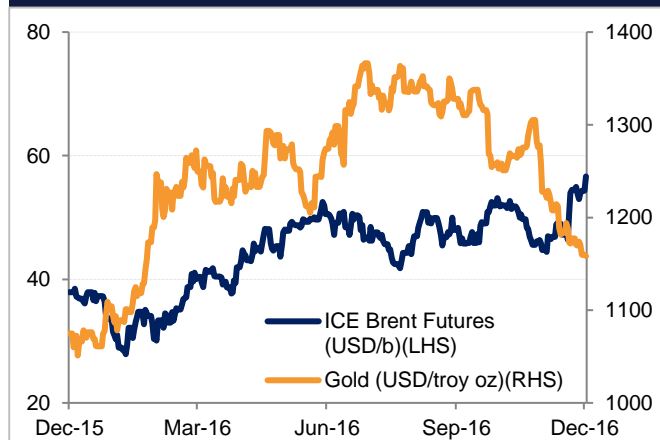
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0561	-2.00	1.0765	USDTRY	3.4772	+2.68	EURAED	3.8793	-1.99
GBPUSD	1.2572	-0.62	1.2688	USDEGP	18.0965	+0.01	GBPAED	4.6190	-0.59
USDJPY	115.32	+1.70	113.14	USDSAR	3.7512	+0.02	JPYAED	0.0319	-1.64
USDCAD	1.3179	-0.28	1.3118	USDQAR	3.6414	--	CADAED	2.7868	+0.28
AUDUSD	0.7449	-0.60	0.7395	USDKWD	0.3054	+0.12	AUDAED	2.7360	-0.61
USDCHF	1.0171	+1.11	0.9927	USDBHD	0.3770	--	CHFAED	3.6117	-1.09
EURGBP	0.8388	-1.54	0.8472	USDOMR	0.3850	+0.00	TRYAED	1.0600	-2.27
USDAED	3.6730	--	3.6890	USDINR	67.4175	-0.32	INRAED	0.0544	+0.03

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	--	--	--	--	USD 2 yr	1.367	+5
USD LIBOR	0.6800	0.9565	1.2960	1.6484	USD 5 yr	1.903	+11
GBP LIBOR	0.2589	0.3769	0.5401	0.7911	USD 10 yr	2.336	+15
JPY LIBOR	-0.1079	-0.0513	0.0086	0.1146	EUR 2 yr	-0.164	-2
CHF LIBOR	-0.8178	-0.7372	-0.6696	-0.5004	EUR 5 yr	0.126	-7
					EUR 10 yr	0.779	+4

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1159.86	-1.20	ADGB 6.75 19	1.73	+3	Abu Dhabi	66	--
Silver	16.87	-1.49	DUGB 7.75 20	2.83	-5	Dubai	152	+8
Oil (WTI)	51.50	+3.48	QATAR 6.55 19	1.91	-5	Qatar	85	--
Aluminium	1754.75	+2.54	US Tsy 2 yr	1.13	+4	Saudi Arabia	120	-1
Copper	5822.00	+0.74	US Tsy 10 yr	2.47	+13	Bahrain	300	+1

Source: Bloomberg, Emirates NBD Research

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