



# Daily Outlook

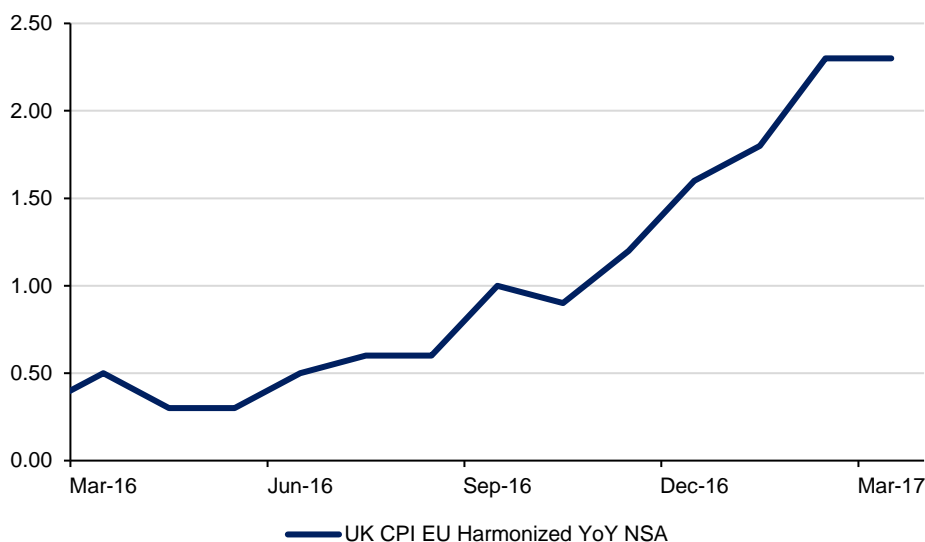
**Producer price inflation in China slowed to 7.6% year on year in March from 7.8% in February, its first monthly decline in seven months.** The inflation data coincided with weaker commodity prices in March, most notably oil and iron prices falling and helping to cool factory prices. A tick upward in coal prices related to cyclone activity in Australia may help the softness unwind next month but higher producer prices had been a sign of stability in China's economy in recent months. **Steadily rising prices there will help policymakers in other countries in their efforts to try and boost overall inflation levels.**

**Inflation in the UK rose 2.3% year on year in March, unchanged on its level for February.** Higher taxes on some 'sin' products helped to keep prices higher while there was some increase in food prices. The BoE expects prices to keep rising this year before hitting 2.75% in 2018 but there is a growing concern prices will blow past the Bank's forecasts as the impact of a softer currency makes itself more apparent.

**Industrial performance in the Eurozone dropped in February by 0.3% month on month, somewhat at odds with good PMI numbers coming out of the currency bloc.** Energy production dropped nearly 5% thanks to mild weather. In the biggest regional producer, Germany, the ZEW indicator of economic sentiment rose for April to a two year high on expectation of improved performance in the regional economy.

Generally, **the flow to safe haven assets continues as geopolitical concerns weigh on the market.** USDJPY fell sharply yesterday, falling well below the 110 handle. Likewise yields on 10yr USTs closed below 2.3% for the first time since November. However, the move to safety is balancing against earnings season, helping to keep the impact on equity markets in check.

## UK inflation remains unchanged at 2.3% y/y in March



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
UK ILO unemployment rate	12:30	2.2%	Canada rate decision	18:00	0.5%
US import price index m/m	16:30	-0.2%			

Source: Bloomberg.

## Fixed Income

Safe haven bid ensuing from increasing geopolitical security issues boosted demand for treasuries. Yields on sovereign bonds eased across the developed world with 2yr and 10yr UST closing at 1.23% (-4bps) and 2.30% (-7bps) respectively. Gilt and Bund 10yr yields also closed lower at 1.05% (-2bps) and 0.20% respectively. Risk aversion saw credit spread widening with US IG and Euro Main CDS levels rising by a bp each to 66bps and 77bps respectively.

Despite sizeable new supply and increasing geopolitical risks, GCC bonds defied gravity. Liquid UAE bond index closed at all time high reflecting yield of 3.07% (-1bp) though option adjusted credit spreads were wider by 4bps to 138bps. Quarterly results from QNB, DIB and Boubyan were generally better than expectations.

Of the four issuers in the primary market, Mubadala and DAMAC priced yesterday, KSA issued IPT and Oman is yet to give further details. AA/Aa2 rated Mubadala priced its 7 yr, \$850 million and 12yr, \$650 million tranches at MS +100bps and MS+140bps respectively after receiving orders worth about \$5.7 billion. BB rated DAMAC also received over two times oversubscription for its \$500 million sukuk which priced at 6.25% i.e MS+430.3bps. KSA's benchmark sized 5yr and 10yr sukuk are being marketed at about MS+115 and MS+155bps respectively.

## FX

JPY continues to firm amid geo-political driven risk aversion in the markets. Currently trading at 109.44, USDJPY has declined 1.35% over the last 48 hours in a movement that has seen the pair break below both the 110.54 supportive base formed on March 27<sup>th</sup> and the 110 psychological support level. As risk appetite continues to be absent from the market, we expect further declines in the pair. The next key level of support is likely in 108.70-108.85 zone, a zone that includes the 200 day moving average (108.71) and the 50% one year Fibonacci retracement (108.84).

## Equities

Developed market equities closed marginally lower as strength in oil prices offset increasing geopolitical risks. The S&P 500 index and the Euro Stoxx 600 index closed -0.2% and -0.1% respectively.

Asian equities are trading lower this morning on the back of weakness in Japanese equities following the strengthening of the JPY to below 110.0 level. The Nikkei index was trading -1.2% at the time of this writing.

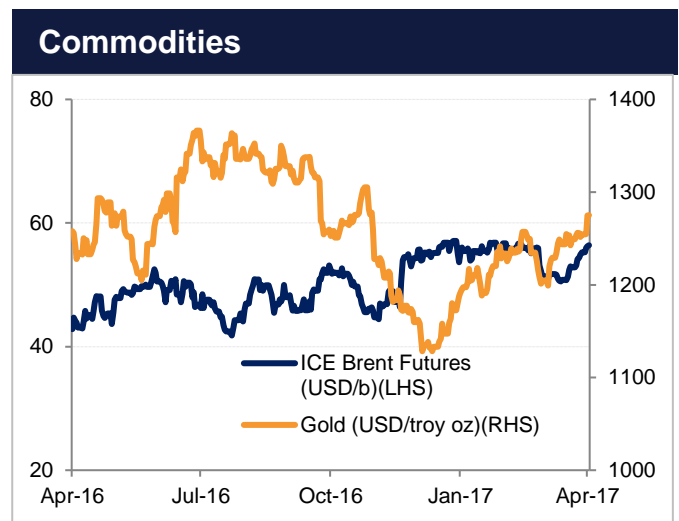
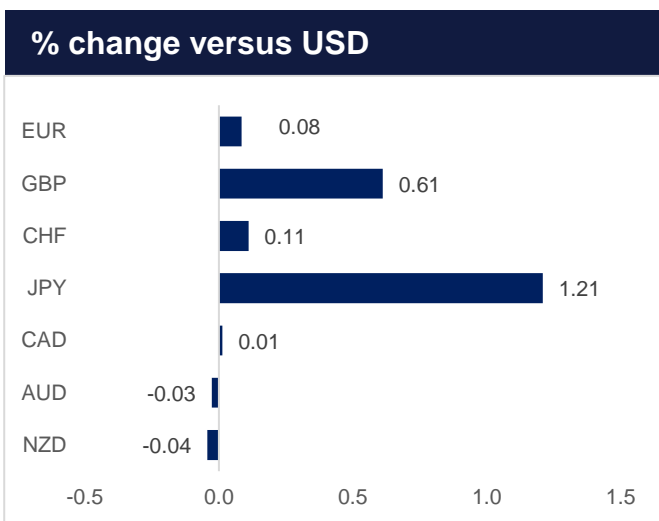
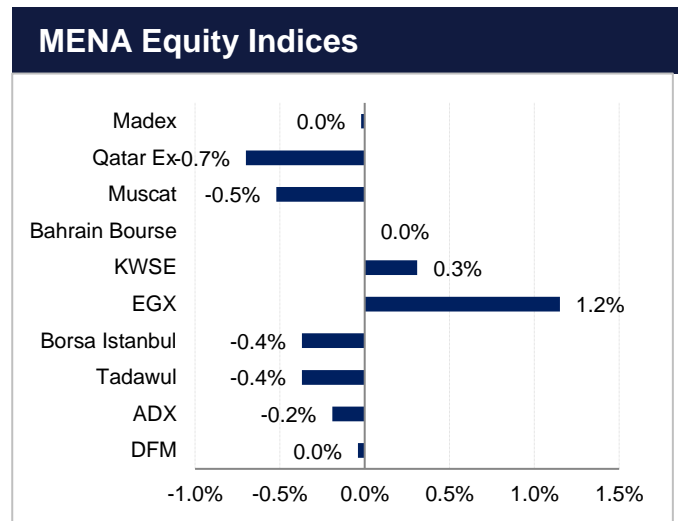
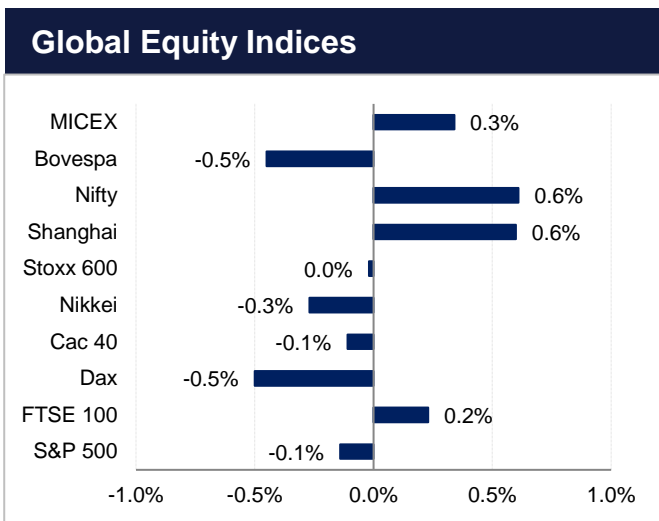
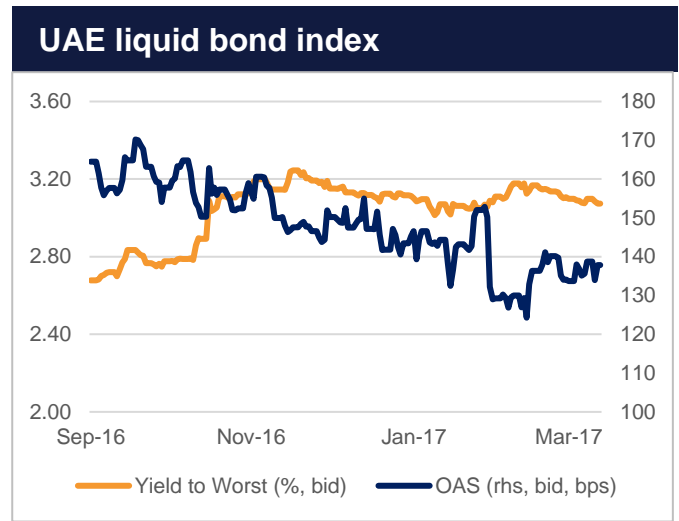
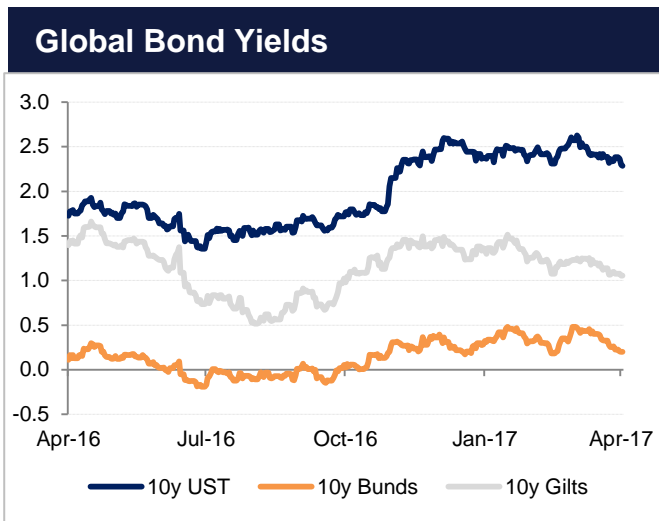
Most regional markets closed lower with the Bloomberg GCC 200 index losing -0.3%. There was not much news flow driving the market except the start of the earnings season.

Dubai Islamic Bank reported Q1 2017 net profit of AED 1.04bn, ahead of consensus estimates of AED 938mn. Qatar National Bank reported Q1 2017 net profit of QAR 3.2bn (+11.4% y/y).

## Commodities

Oil markets reversed course toward the middle of trading yesterday on reports that Saudi Arabia was pushing for an extension of OPEC's production cut agreement. Both Brent and WTI closed higher, giving WTI six days of gains in a row and Brent seven. The EIA downgraded its oil price forecasts for 2017 but also raised its production forecasts for US output. The agency now expects US crude production to hit 9.22m b/d in 2018, an increase of 680k b/d y/y compared with a 520k b/d increase expected last month. For 2017, supply growth is now expected at 350k b/d compared with 330k b/d.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0605	+0.08	1.0819	USDTRY	3.6975	-0.86	EURAED	3.8950	+0.08
GBPUSD	1.2491	+0.61	1.2630	USDEGP	18.0901	+0.03	GBPAED	4.5880	+0.60
USDJPY	109.62	-1.19	107.65	USDSAR	3.7504	+0.00	JPYAED	0.0335	+1.21
USDCAD	1.3325	-0.01	1.3247	USDQAR	3.6401	-0.01	CADAED	2.7565	+0.01
AUDUSD	0.7499	-0.03	0.7461	USDKWD	0.3052	+0.02	AUDAED	2.7547	-0.02
USDCHF	1.0075	-0.12	0.9823	USDBHD	0.3770	-0.00	CHFAED	3.6462	+0.11
EURGBP	0.8490	-0.53	0.8566	USDOMR	0.3850	+0.01	TRYAED	0.9900	+0.52
USDAED	3.6729	-0.00	3.6794	USDINR	64.5638	+0.00	INRAED	0.0568	-0.03

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0692	1.4688	1.6890	2.1700	USD 2 yr	1.558	-4
USD LIBOR	0.9883	1.1557	1.4221	1.7984	USD 5 yr	1.934	-7
GBP LIBOR	0.2555	0.3381	0.4878	0.7038	USD 10 yr	2.257	-7
JPY LIBOR	-0.0127	0.0089	0.0411	0.1367	EUR 2 yr	-0.159	+0
CHF LIBOR	-0.7740	-0.7328	-0.6752	-0.5060	EUR 5 yr	0.126	-1
					EUR 10 yr	0.703	-1

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1274.86	+1.61	ADGB 6.75 19	1.67	-1	Abu Dhabi	41	-
Silver	18.34	+2.16	DUGB 7.75 20	2.71	-0	Dubai	111	-
Oil (WTI)	53.40	+0.60	QATAR 6.55 19	1.91	-0	Qatar	60	-
Aluminium	1905.25	-0.33	US Tsy 2 yr	1.23	-4	Saudi Arabia	95	-
Copper	5739.75	+0.45	US Tsy 10 yr	2.30	-7	Bahrain	219	-1

Source: Bloomberg, Emirates NBD Research

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