



بنك الإمارات دبي الوطني
Emirates NBD

Daily

12 December 2017

Daily Outlook

A small explosion in New York yesterday was eventually taken as a minor incident which had minimal effect on markets overnights. Apart from this the market focus remains firmly on the expected Fed rate hike at the FOMC meeting tomorrow. **Central banks in the GCC are likely to follow any move by the Fed to raise their benchmark interest rates.** That said, interbank rates in the region have increased at a much slower pace than the increase in the US LIBOR rates mainly as a result of higher oil prices boosting the liquidity in the local banking systems. Although 3m EIBOR rate has increased from 1.38% in February this year to 1.70% now, the current spread between 3m EIBOR and 3m LIBOR at only 15bps is at its lowest since the financial crisis. Thus while the pending U.S. rate hike will likely see further increase in EIBOR rates next week, the spread against LIBOR may continue to compress.

Inflation data out of India today is expected to show a further pick up in core CPI from 3.58% to over 4.0%, mainly attributed to increase in food prices. In contrast inflation in the UK is likely to remain steady at 3.0%, with higher oil prices contributing to upside risks. The UK is following up its success in reaching a deal with the EU over its exit terms with confident comments about the type of trading arrangements it would like to have. International trade secretary Liam Fox said that the UK would like a 'virtually identical' trading relationship with the EU to the one it has now, with PM May indicating that the UK will not make any exit payments unless a suitable trade deal is secured.

Meanwhile EU ministers have warned the U.S. that its tax reform plans may contravene international treaties on double taxation, which could ultimately harm global trade flows. **The U.S. Treasury yesterday released a one page document explaining how its USD1.5 trillion tax plan would generate enough revenue to pay for itself**, but this has already come in for criticism for its assumptions that economic growth would rise to 2.9% pa every year for the next decade.

3m EIBOR – 3m LIBOR spread (bps)



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK CPI (YoY)	13:30	3.0%	EC ZEW Surveys	14:00	N/A
NFIB Small Business Optimism	15:00	104.0	IN CPI (YoY)	16:00	4.26%
PPI Final Demand (MoM)	17:30	0.3%			

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Fixed income market traded sideways ahead of FOMC tomorrow where announcement of a 25bps increase in Fed target rate is almost certain. Yield on US treasuries rose across the curve with 2yr, 10yr and 30yr closing at 1.82% (+3bps), 2.39% (+1bp) and 2.78% (+1bp) respectively. In contrast, yield on 10yr Gilts fell 8bps to 1.20% as doubts surfaced about the Brexit deal. Yield on 10yr Bund also closed lower at 0.29%.

Higher oil prices and expectations of tax cuts for corporates in the US boosted investors' risk appetite, leading to tightening of credit protection costs. CDS level on US IG and Euro Main closed lower at 50bps (-1bp) and 48bps respectively.

GCC Bond market was range-bound with Barclays GCC Index reflecting minimal change. Average yield on the index closed a bp higher at 3.55% much in sync with the benchmark yield widening while credit spreads were unchanged at 131bps. CDS spreads on GCC sovereigns were mixed with Dubai widening 3bps to 134bps, possibly due to expectations of higher debt issuance to fund the projected budget deficit of over AED 6 billion next year while CDS levels on Saudi Arabia, Qatar, Kuwait and Abu Dhabi reflected a tightening bias.

FX

NZD outperformed on Monday gaining on all the other majors. The kiwi found support after the announcement that Adrian Orr has been appointed as the new governor of the RBNZ, removing uncertainty over an "unknown" being given the position. With leveraged funds holding a near-record short NZD position, the oversold NZDUSD climbed over 1% in the Europe session and looks primed to realize further gains. We see the path of least resistance being a retest of 0.70, a level last seen on the 24 October 2017. A break of this level is likely to tempt a test of the 200 day moving average of 0.7103, but in the medium term further political uncertainty over the government's protectionist policies is likely to cause to expose NZDUSD to further declines.

Equities

Developed market equities closed mixed with the S&P 500 index adding +0.3% and the Euro Stoxx 600 index losing -0.1% as investors remained cautious ahead of the Federal Reserve meeting.

UAE bourses led regional equities higher with the DFM index and the ADX index adding +0.6% and +1.4% respectively. The Tadawul declined -0.6% on account of profit booking stock which had rallied the most in the recent past closed lower.

Elsewhere, volumes were much lower with the ADX trading just USD 16mn. Emaar Development saw some buying interest with gains of +2.6%.

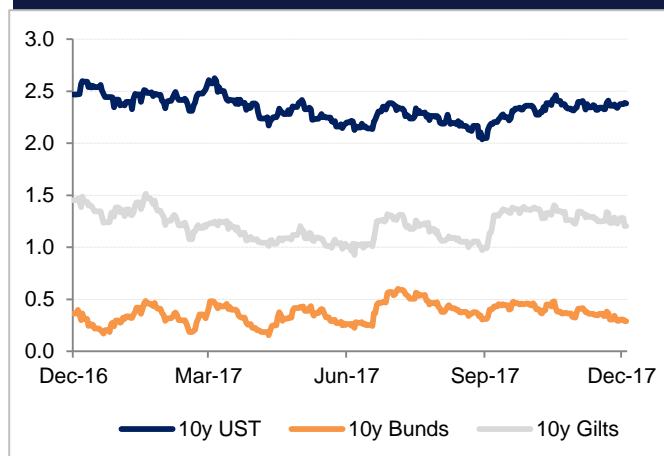
Commodities

Oil futures have jumped higher on news that a key pipeline in the North Sea will need to halt flows because cracks had been found. Brent closed 2% higher on the news while WTI added a bit more than 1%. The Forties pipeline, which moves around 450k b/d of North Sea crude from producing fields to a processing terminal, may be shut for several weeks and should help to keep markets tight in the near term.

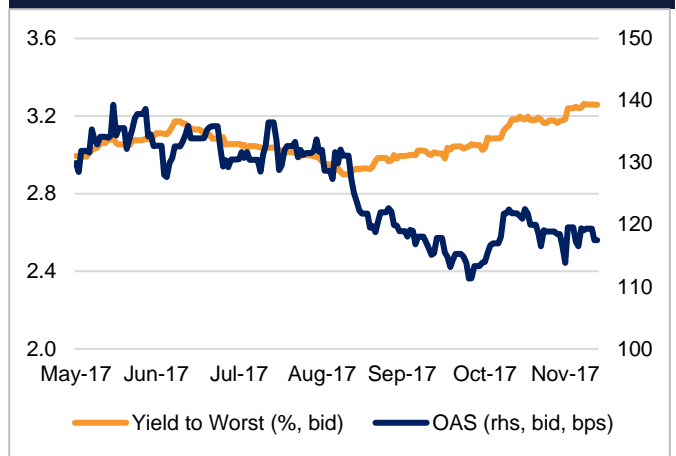
The Brent forward curve spiked into a much tighter backwardation on the news. The 1-2 month spread is now nearly USD 0.7/b while the WTI forward curve is moving back closer to backwardation.

Markets in Charts

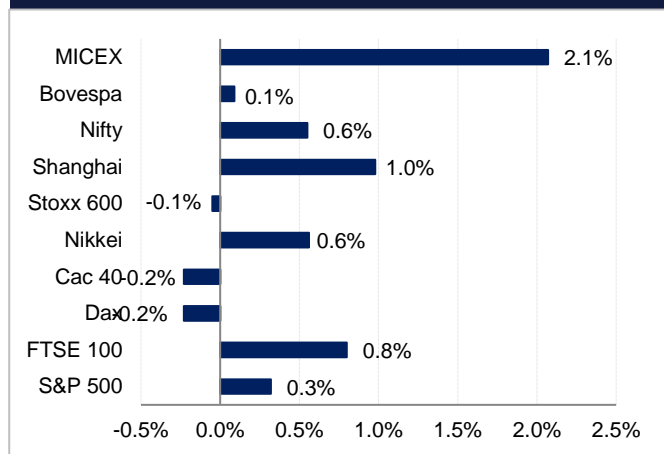
Global Bond Yields



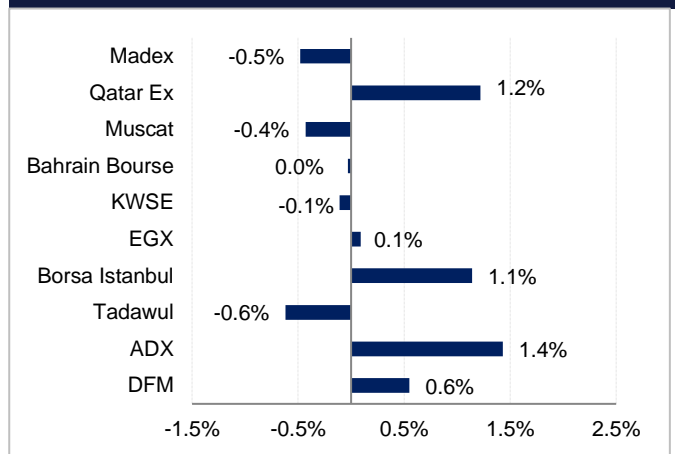
UAE liquid bond index



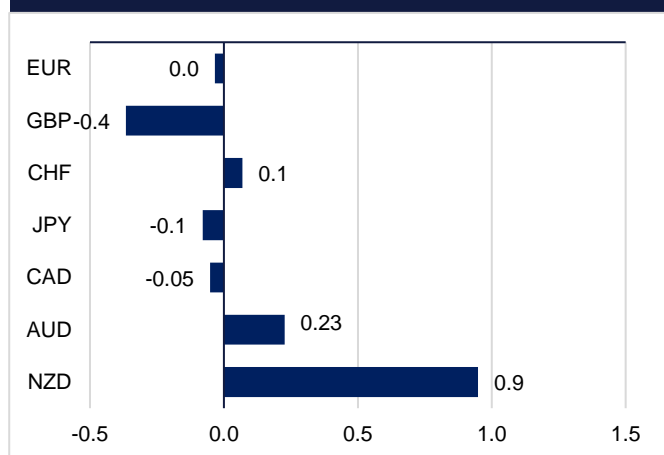
Global Equity Indices



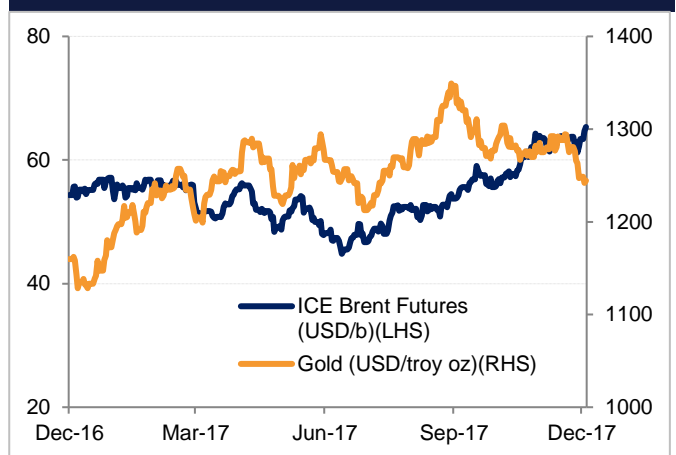
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1769	-0.03	1.2068	USDTRY	3.8364	+0.03	EURAED	4.3229	-0.03
GBPUSD	1.3341	-0.37	1.3522	USDEGP	17.7578	-0.01	GBPAED	4.8996	-0.32
USDJPY	113.56	+0.07	110.98	USDSAR	3.7502	--	JPYAED	0.0323	-0.07
USDCAD	1.2856	+0.06	1.2798	USDQAR	3.6800	-0.61	CADAED	2.8568	-0.06
AUDUSD	0.7526	+0.23	0.7522	USDKWD	0.3021	-0.01	AUDAED	2.7644	+0.24
USDCHF	0.9918	-0.09	0.9630	USDBHD	0.3773	+0.01	CHFAED	3.7030	+0.08
EURGBP	0.8823	+0.35	0.8926	USDOMR	0.3850	-0.00	TRYAED	0.9600	+0.24
USDAED	3.6728	-0.00	3.6788	USDINR	64.4800	+0.04	INRAED	0.0571	+0.23

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.4617	1.7125	1.9430	2.4577	USD 2 yr	2.015	+2
USD LIBOR	1.4444	1.5488	1.7299	2.0108	USD 5 yr	2.220	+2
GBP LIBOR	0.4978	0.5231	0.5860	0.7806	USD 10 yr	2.400	+1
JPY LIBOR	-0.0522	-0.0248	0.0147	0.1040	EUR 2 yr	-0.191	-1
CHF LIBOR	-0.8223	-0.7568	-0.6568	-0.5290	EUR 5 yr	0.204	--
					EUR 10 yr	0.791	-1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1242.02	-0.52	ADGB 6.75 19	2.02	+1	Abu Dhabi	67	-1
Silver	15.71	-0.95	DUGB 7.75 20	2.60	+2	Dubai	153	--
Oil (WTI)	57.99	+1.10	QATAR 6.55 19	2.26	-2	Qatar	104	-1
Aluminium	2000.50	+0.43	US Tsy 2 yr	1.82	+2	Saudi Arabia	94	-2
Copper	6634.50	+1.50	US Tsy 10 yr	2.39	+1	Bahrain	258	+1

Source: Bloomberg, Emirates NBD Research

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