



# Daily Outlook

**There was political upheaval in the UK over the weekend as PM Theresa May's decision to call a snap general election backfired spectacularly as the Conservative party lost its overall majority in parliament.** The governing party won the election with 318 seats, but fell 8 seats short of a full majority forcing them to approach a small regional party to form an alliance. This will give May only a threadbare majority of two, which will remain inherently unstable and will never be far from the risk of collapsing. **Another election in 2017 is entirely possible, bringing with it a now greater risk of an opposition Labour Party victory.** Although GBP fell by only 1.6% on Friday against the USD, its vulnerability is likely to remain as political uncertainty persists, especially as the UK approaches critical Brexit negotiations from next week.

**British political turmoil was in contrast to signs of stability in France with Parliamentary elections looking like they will provide President Macron with a strong majority in the National Assembly.** Macron's new party REM won about 31.5% of the vote in first round elections, putting them on course for a majority in the lower house according to polls. A second round of elections will be held next Sunday and if they confirm the first round result then **Macron will have a strong mandate to push through controversial reforms in his first term of office.**

**The main event of the week will be the US Fed's interest rate decision on Wednesday. A 25bps rate hike is widely expected,** with the possibility that Janet Yellen will also discuss in more detail plans for reducing the size of the Fed's balance sheet. The question looming however is whether assumptions about further rate hikes will prove accurate amidst increasingly mixed economic data, and as political clouds over the Trump White House continue to build.

## GBP remains vulnerable following shock UK election result



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
Bank of France Business Sent.	10:30	105	US Monthly budget	22:00	

Source: Bloomberg.

## Fixed Income

As the markets went through the event-laden week relatively unscathed, yields on the US Treasuries moved higher with the 2y USTs now yielding 1.3347% versus 1.3020% at the start of the week and the 10y USTs yielding 2.20% compared to 2.1591% at the start of the week.

Yields on the 10y Gilts dropped -2.7% following the election result in the UK which resulted in a hung parliament with Conservatives falling just short of a majority.

Regional fixed income continued to remain on the back foot as the picture on the political front remained unclear. Yield on the Bloomberg Barclays GCC Credit and High Yield index gained +1.0% on Friday to take its full week gains to 20 bps. The spread on the same widened by 3 bps on Friday.

Qatar continues to remain in focus. The 5y Qatar CDS breached the 100 mark and is currently at 109. It was at 72 at the start of the week and is marginally wider than the 5y CDS of Saudi Arabia (108).

## FX

GBP was the biggest mover last week losing 1.13% against the USD as the UK election result shocked markets on Friday. Otherwise the EUR also lost ground to the USD as the ECB signaled a more dovish tack at its monthly meeting, downgrading its inflation forecast and delaying any discussion of tapering or interest rate rises. In the event the USD was relatively unmoved by former FBI Director Comey's testimony in Congress. Although it was compulsive viewing, it did not materially take the arguments against President Trump a lot further.

## Equities

Most regional equities closed lower at the start of the week with the Qatar Exchange (-1.9%) leading the losses. The Tadawul and the DFM index dropped -0.8% and -0.4% respectively.

There was nothing in terms of stocks with Emaar Properties (+0.3%) drifting higher as more details emerged about the proposed IPO.

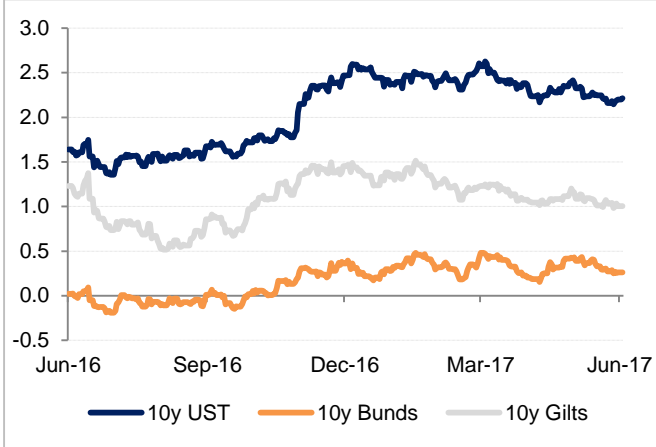
## Commodities

Oil markets fell for a third week in a row as small gains on Friday were insufficient to shake off the heavy fall on Wednesday in response to a surprise build in US stocks. WTI futures are trading a little above USD 46/b while Brent is holding on above USD 48/b. The drilling rig count in the US continues its relentless rise—21 weeks in a row—while more oil is coming out of Nigeria and Libya, two countries exempt from OPEC's production cut deal.

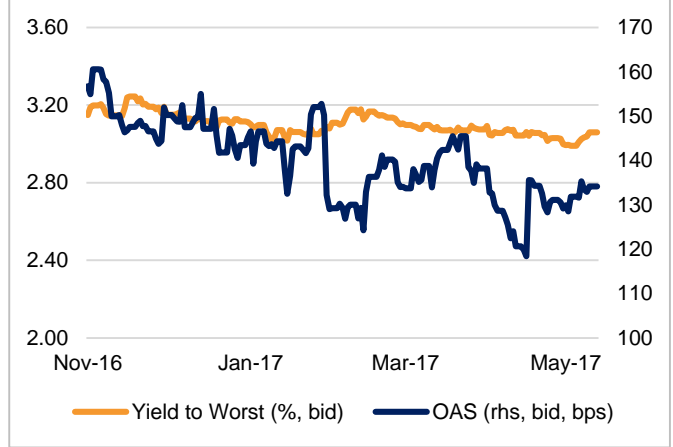
The market's slump back into contango widened last week with Brent Dec spreads for 2017-19 trading at USD 2/b and the same spread for WTI at its widest this year. Saudi Arabia's energy minister said he expects inventories to show an accelerated stock draw in 3-4 months but the market seems to be heavily discounting any substantial decrease in inventories.

## Markets in Charts

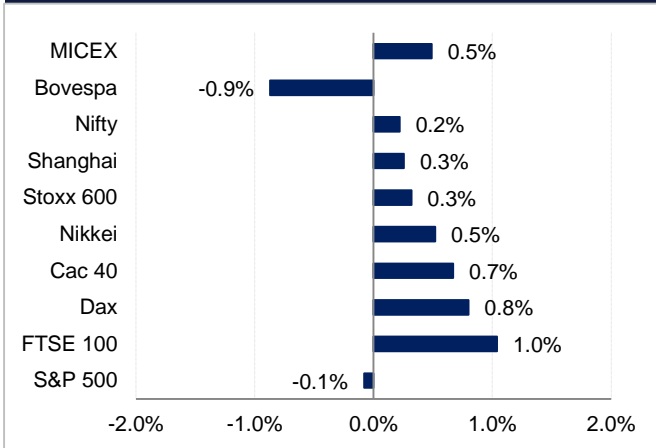
### Global Bond Yields



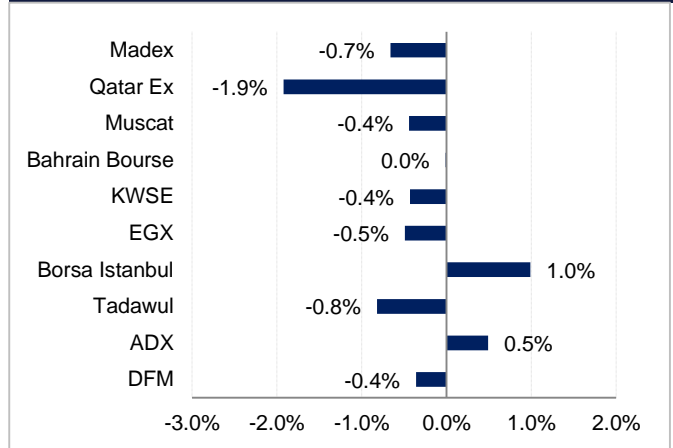
### UAE liquid bond index



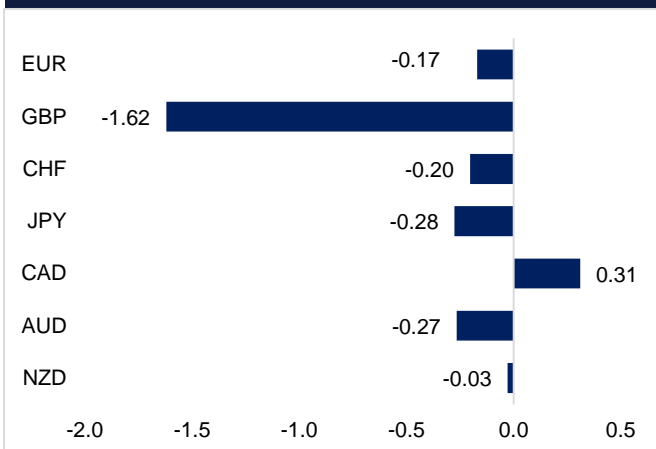
### Global Equity Indices



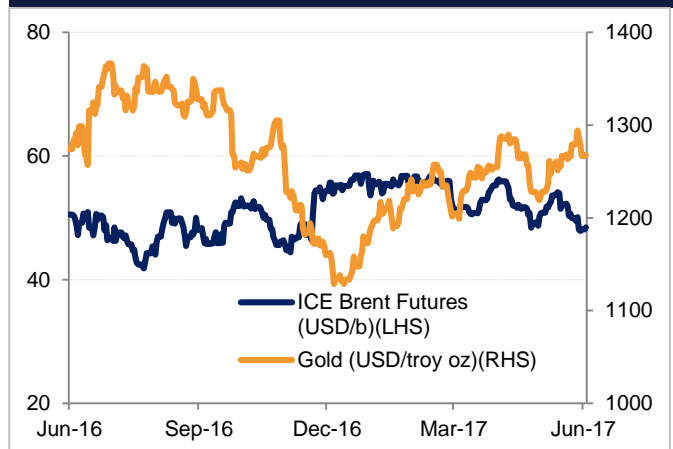
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1195	-0.17	1.1427	USDTRY	3.5373	+0.35	EURAED	4.1120	-0.17
GBPUSD	1.2746	-1.62	1.2901	USDEGP	18.1285	+0.05	GBPAED	4.6816	-1.64
USDJPY	110.32	+0.27	108.30	USDSAR	3.7505	--	JPYAED	0.0333	-0.25
USDCAD	1.3470	-0.27	1.3376	USDQAR	3.6568	+0.01	CADAED	2.7273	+0.29
AUDUSD	0.7527	-0.27	0.7496	USDKWD	0.3035	+0.07	AUDAED	2.7613	-0.38
USDCHF	0.9694	+0.23	0.9454	USDBHD	0.3773	+0.00	CHFAED	3.7890	-0.21
EURGBP	0.8782	+1.44	0.8856	USDOMR	0.3850	--	TRYAED	1.0400	-0.20
USDAED	3.6729	-0.00	3.6814	USDINR	64.3200	+0.17	INRAED	0.0571	-0.12

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0917	1.4955	1.6932	2.1002	USD 2 yr	1.544	+1
USD LIBOR	1.1271	1.2364	1.4168	1.7284	USD 5 yr	1.849	+1
GBP LIBOR	0.2514	0.2899	0.4178	0.6158	USD 10 yr	2.158	+1
JPY LIBOR	-0.0379	-0.0109	0.0249	0.1301	EUR 2 yr	-0.182	-1
CHF LIBOR	-0.7876	-0.7306	-0.6620	-0.4900	EUR 5 yr	0.130	-1
					EUR 10 yr	0.751	+0

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1266.76	-0.88	ADGB 6.75 19	1.63	+2	Abu Dhabi	56	+6
Silver	17.20	-1.37	DUGB 7.75 20	2.61	+1	Dubai	131	+13
Oil (WTI)	45.83	+0.42	QATAR 6.55 19	2.67	+7	Qatar	109	+9
Aluminium	1901.25	+0.13	US Tsy 2 yr	1.33	+2	Saudi Arabia	108	+4
Copper	5779.50	+1.33	US Tsy 10 yr	2.20	+1	Bahrain	240	+5

Source: Bloomberg, Emirates NBD Research

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