



بنك الإمارات دبي الوطني  
Emirates NBD

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# Daily Outlook

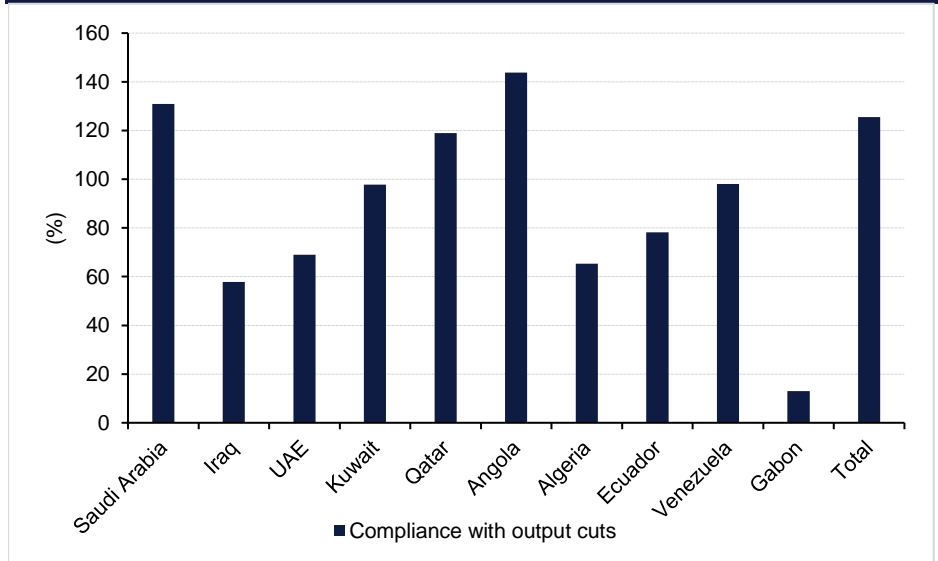
Janet Yellen's testimony to the US congress was the main market event yesterday although it didn't reveal anything substantially new about the Fed's take on the current status of the US economy. Ms Yellen said that the **economy could "warrant" further rate rises and that a draw down on the Fed's USD 4trn balance sheet would begin this year**. But echoing what Fed governor Lael Brainard said earlier this week, **Ms Yellen noted that rates would not necessarily need to rise much further in order to hit a neutral level**, where interest rates neither take away nor support economic growth. Despite the recent weak inflation figures we still hold that the Fed will raise at least one more time later this year.

Elsewhere among central banks, the Bank of Canada was the first developed market institution to follow the Fed in raising rates. **The BoC raised benchmark rates by 25bps to 0.75% and the market is expecting at least one more move later this year**. The BoC has grown more confident about the performance of Canada's economy as it shrugs off a low oil price precipitated downturn but also tries to grapple with runaway property inflation.

**Industrial production data out of the Eurozone for May showed strong performance, growing 1.3% m/m and putting it at the highest level since 2008**. The May figure was above consensus and reaffirms the solid performance we are seeing in core European economies as the region returns to being a contributor to global growth this year. Like the US, however, the main worry in Europe remains low levels of inflation and there is still plenty of scope for the employment market there to improve before the ECB considers anything approaching monetary tightening.

The latest data from **OPEC showed another monthly increase in production in June thanks largely to Nigeria and Libya**, neither of whom are participating in the current production cuts. According to OPEC's data, compliance with the production cuts remains high but it still showing a disparate level of performance at the country level with Saudi Arabia achieving compliance of more than 120% while the UAE is a little over 80% compliant. OPEC's projections for 2018 show a decline in the 'call on OPEC', the level of OPEC oil needed to balance markets as output from other producers will expand by over 1.1m b/d.

## Burden of OPEC cuts falling heaviest on Saudi Arabia



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
GE CPI m/m	10:00	0.2%	US Initial jobless claims	16:30	245k

Source: Bloomberg.

## Fixed Income

Yields on USTs took another dip downward yesterday in response to Fed Chair Janet Yellen's testimony to the US Congress where she noted that the neutral level for rates may not be far off. Yields on the 10yr USTs closed the day down 2bps while the 2-10 curve flattened marginally. The market appears to have taken the testimony as generally dovish as concerns grow about the low levels of inflation and how significant the draw-down of the balance sheet will be

International appetite for GCC bonds recorded some revival though nothing substantial has yet materialised on the diplomatic impasse resolution front. Credit spreads on Bloomberg Barclays GCC index narrowed 3bps to 149bps and average yield dropped seven bps to 3.48% in yesterday's trading. In the primary market, Topaz Marine (rated B3/B-) is on the road to raise \$375 million in 5yr senior notes which will be used to refinance the uptake of tender offer announced for early redemption of TPZMAR 8.625% maturing in 2018.

On the result announcement front, Commercial Bank of Dubai yesterday reported 10% increase in 1H operating income to AED 1.31 billion though net income dropped by 32% to AED 332 million as a result of 84% increase in impairment allowances to AED 243 billion. All other ratios were within expectations. In contrast, UNB reported 2Q income of AED 923 million, ahead of expectations of AED 880 million.

## FX

USD continues to soften following Yellen's testimony which resulted in investors lowering their expectations on the frequency of additional rate hikes from the Fed (see macro). As we go to print, the Dollar Index trades 0.16% lower at 95.60 and continues to remain in the daily downtrend that has been in effect since Jan 3rd 2017. We expect the trend to continue, with the next key level of support being in the 94.08-94.19 range, a zone which contains both the one year 0% Fibonacci retracement as well as the five year 61.8% Fibonacci retracement.

Yesterday, CAD rallied in the aftermath of the Bank of Canada's decision to raise interest rates to 0.75% (see macro). The CAD has now gained 5.22% against the USD so far in 2017 with USDCAD currently trading at 1.2740, levels last seen in August 2016. With the market now pricing in a 70.7% chance of an additional hike before the end the year, we expect CAD to continue to enjoy support in the medium term and USDCAD to decline further. Should the pair close this week below the five year 61.8% Fibonacci retracement of 1.2758, more significant declines towards 1.21 are a possibility.

## Equities

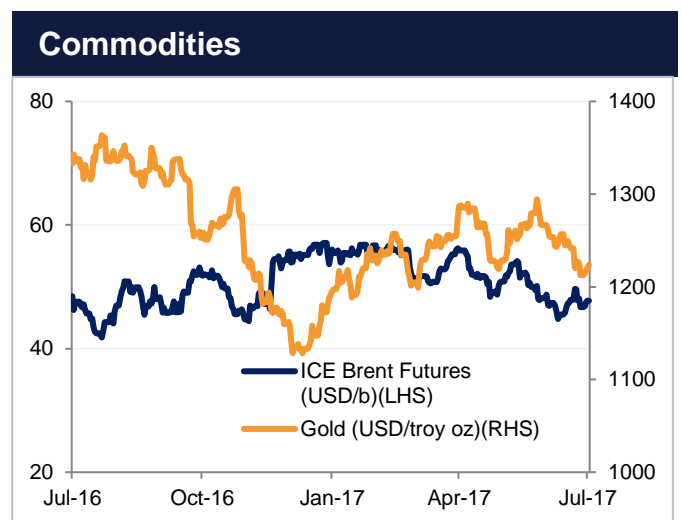
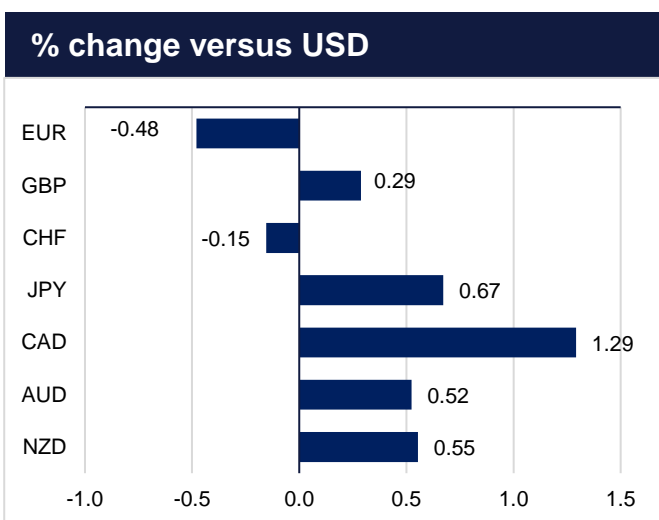
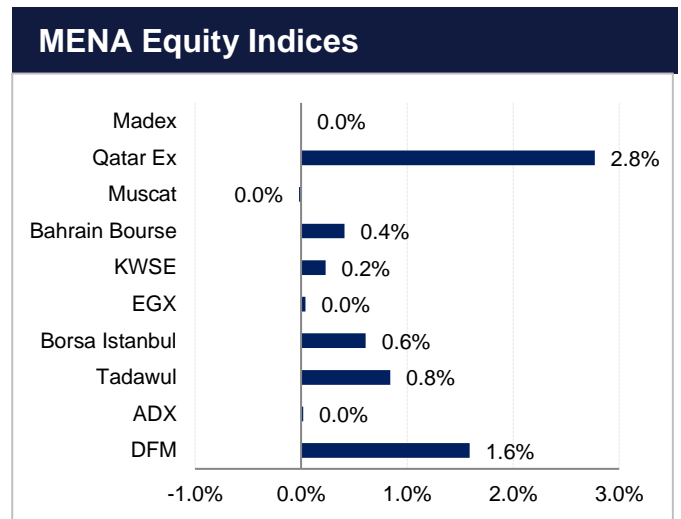
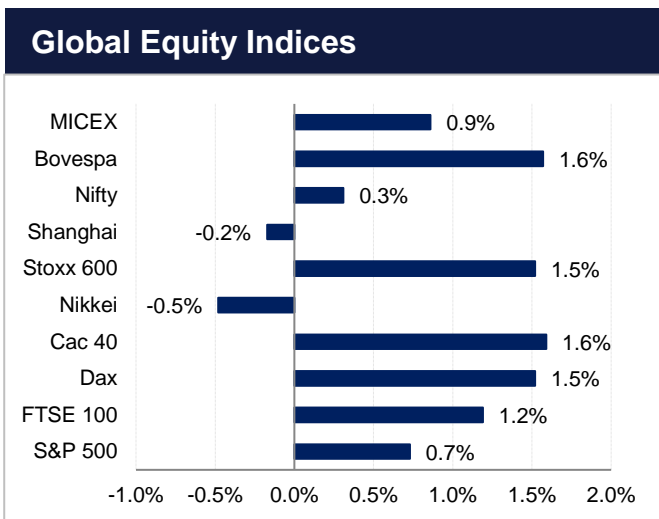
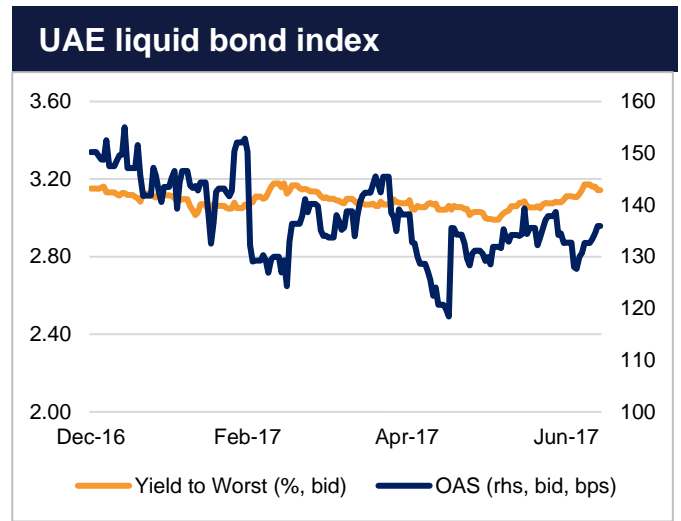
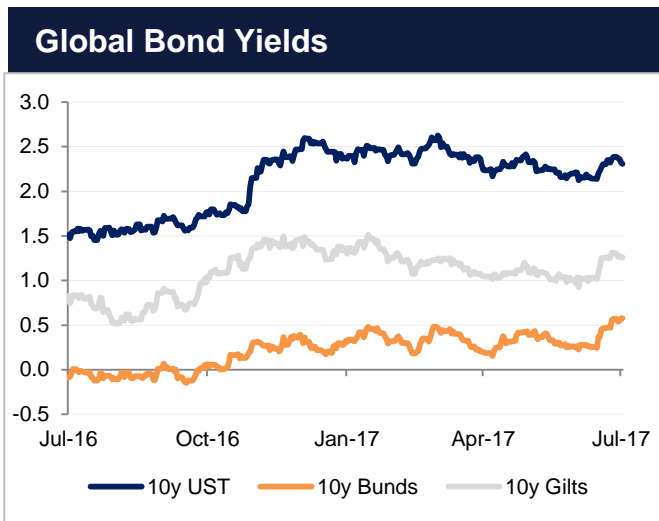
Benchmark equity markets responded positively to Janet Yellen's testimony as it gave no strong signal about an immediate move in rates. The S&P 500 ended the day up 0.7% while positive European data helped push the Dax and CAC both up more than 1% on the day. The FTSE ended the day up 1.2% thanks to a day of positive oil prices.

Regional markets were far more muted with the ADX holding steady, the DFM up 1.6% and the Tadawul rising 0.8%. The Qatar Exchange index gained 2.8% likely on the back of an MoU signed between the US and Qatari governments related to fighting terrorism.

## Commodities

Oil prices responded positively to a 7.6m bbl draw in US crude stocks, according to data from the EIA released last night, much higher than market expectations. WTI futures closed the day up 1% and Brent futures were nearly 0.5% higher. OPEC's monthly report, however, likely dampened sentiment somewhat as the producers' bloc is forecasting a sizeable return to production growth from other producers which would all but guarantee another market surplus in 2018 if OPEC also resumes production growth, as we expect.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1412	-0.48	1.1646	USDTRY	3.5676	-1.26	EURAED	4.1914	-0.49
GBPUSD	1.2885	+0.29	1.3030	USDEGP	17.9459	+0.48	GBPAED	4.7320	+0.29
USDJPY	113.17	-0.68	111.06	USDSAR	3.7502	--	JPYAED	0.0325	+0.68
USDCAD	1.2751	-1.27	1.2714	USDQAR	3.7200	+0.13	CADAED	2.8806	+1.28
AUDUSD	0.7678	+0.52	0.7643	USDKWD	0.3031	-0.05	AUDAED	2.8202	+0.53
USDCHF	0.9654	+0.18	0.9420	USDBHD	0.3773	+0.02	CHFAED	3.8048	-0.17
EURGBP	0.8857	-0.76	0.8939	USDOMR	0.3850	--	TRYAED	1.0300	+1.32
USDAED	3.6730	+0.00	3.6810	USDINR	64.4300	-0.25	INRAED	0.0571	+0.26

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.2917	1.5483	1.7572	2.1655	USD 2 yr	1.597	-3
USD LIBOR	1.2239	1.3035	1.4627	1.7523	USD 5 yr	1.949	-3
GBP LIBOR	0.2561	0.2971	0.4476	0.6549	USD 10 yr	2.273	-4
JPY LIBOR	-0.0341	-0.0129	0.0056	0.1149	EUR 2 yr	-0.124	--
CHF LIBOR	-0.7814	-0.7264	-0.6502	-0.4888	EUR 5 yr	0.300	-2
					EUR 10 yr	0.933	-3

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1220.51	+0.23	ADGB 6.75 19	1.70	-2	Abu Dhabi	57	-2
Silver	15.92	+0.52	DUGB 7.75 20	2.70	--	Dubai	124	-5
Oil (WTI)	45.49	+1.00	QATAR 6.55 19	2.30	-6	Qatar	106	-8
Aluminium	1872.00	-0.60	US Tsy 2 yr	1.34	-3	Saudi Arabia	104	-4
Copper	5879.50	+0.55	US Tsy 10 yr	2.32	-4	Bahrain	247	+2

Source: Bloomberg, Emirates NBD Research

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