



بنك الإمارات دبي الوطني
Emirates NBD

Daily
14 December 2016

Daily Outlook

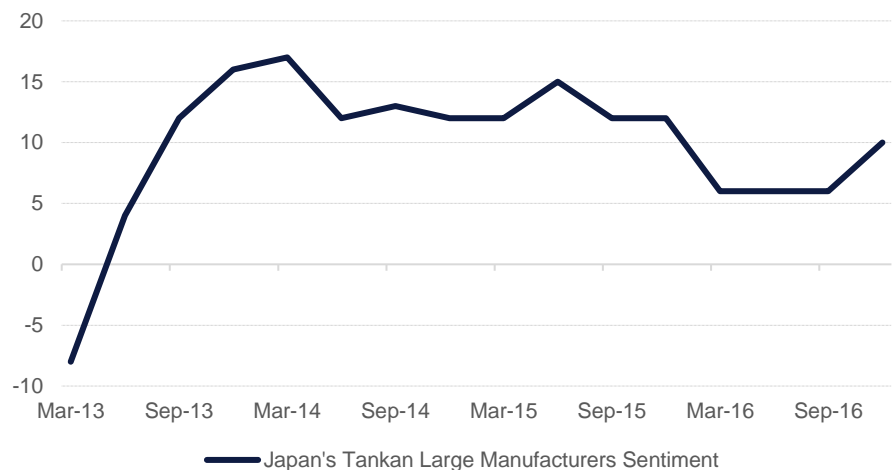
The main focus today will be on the US Fed which is unanimously expected to raise interest rates by 25bps, taking the Fed funds rate to a 0.50-0.75% target range. The FOMC's interest rate projections for 2017 conveyed by the 'dot plot' are likely to be consistent with two further 25bp rate hikes, which is also our own forecast. The Fed is likely to refrain from any overt comments about the impact of President-elect Trump's fiscal plan, although it may indicate a willingness to offset any fresh fiscal stimulus that is seen with a degree of monetary policy tightening.

Japan's quarterly Tankan survey of large manufacturers improved to 10 in Q4 from 6 in Q3, providing further grounds for optimism that sentiment is improving in the world's third largest economy. The weakness of the Japanese yen most likely played a part in the improvement in confidence although the recovery probably reduces the chance of any further monetary stimulus for the time being.

India's inflation slowed to 3.63% in November 2016 from 4.20% in October 2016. The consumer price index data ties in with the anecdotal evidence that consumer spending has slowed down since the demonetization step by the government. It is no surprise that discretionary spending which constitutes nearly 16% of the CPI basket appears to have been worst affected. Even though the inflation currently is below the central bank's long-term target of 4%, the Reserve Bank of India is likely to treat the dip as transitory and wait until the Budget 2017 before considering a cut in interest rates.

Inflation data in the UK was also released yesterday and showed prices rising from 0.9% in October to 1.2% in November, as the petrol and food prices both recovered. Pipeline inflation pressures also showed signs of rising with input price inflation firming to 12.9% while output producer prices rose to 2.3%, suggesting that headline CPI will continue to climb through next year.

Japan shows some signs of optimism to end the year



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK ILO Unemployment Rate 3Mths	13:30	4.80%	US Retail Sales Advance m/m	17:30	59.0
UK Average Weekly Earnings 3M y/y	13:30	2.30%	US Import Price Index m/m	17:30	-0.40%
US PPI Final Demand m/m	17:30	0.10%	FOMC Rate Decision (Upper Bound)	23:00	0.75%

Source: Bloomberg.

Fixed Income

UST curve flattened ahead of FOMC meeting decision today where a rate hike is a foregone conclusion. Yields on 2yr rose 2bps to 1.16%, its highest level in six years, while 10 yr yields remained largely unchanged at 2.47%. Longer dated Eurozone sovereign yields also narrowed in tandem with 10yr JGB after BoJ increased purchase of bonds longer than 10year in maturity. Yields on 10yr JGB, Bunds and Gilts closed at 0.05% (-2bp), 0.35% (-4bp) and 1.44% (-3bps) respectively.

Global cash corporate bonds reported mixed performance. CDS levels on US IG and Euro Main continued their tightening bias albeit within a narrow range, closing at 68bps (unchanged) and 71bp (-1bp) respectively.

Oil prices being at their highest level in the year at \$55.72/b continued to provide support for GCC bonds which recorded mild tightening of credit spreads amid stable benchmark yields. Option adjusted spread of Bloomberg Barclays GCC index close a bp lower at 141bp. CDS spreads, though less-than-efficient indicators of risk in this part of the world, recorded mild narrowing with Saudi Arabia now at 114bps – its lowest in more than an year.

Idiosyncratic corporate developments were thin in the region and activity in the primary market is muted.

Equities

Developed market equities closed higher as UniCredit's EUR 13bn rights offer to raise capital boosted investor sentiment. The S&P 500 index added +0.7% while the Euro Stoxx 600 index jumped +1.1%.

Asian equities are trading higher this morning tracking strong close to developed markets overnight. The MSCI Asia Pacific index was trading +0.2% at the time of this writing.

Regional equities gave up a part of their recent gains with the Bloomberg GCC 200 index losing -0.3%. The DFM index declined -0.9% while the Tadawul lost -0.8%.

The notable outperformer on the DFM was Air Arabia which rallied +1.5%. Emaar Properties gave up some of its recent rally with losses of -1.3%. In Saudi Arabia, the decline was broad based with all but energy sector closing in negative territory. Jarir Marketing dropped -2.1% while Maaden declined -2.7%.

FX

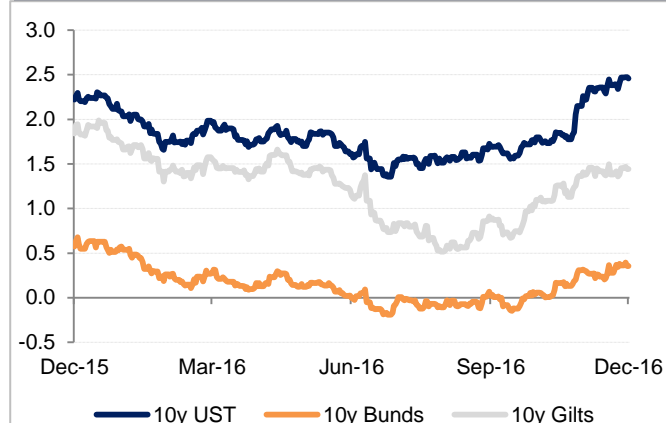
AUD has underperformed and softened against the other majors after economic data showed that the Westpac Consumer Confidence Index declined 3.9% in December to 97.3, falling from 101.3 in November. In addition, new motor vehicle sales in November declined 0.6% m/m and 1.1% y/y respectively. As we go to print, AUDUSD trades 0.11% lower at 0.7492 and with major resistance expected at 0.7533 (the 200 day MA), the path of least resistance for the pair remains to the downside with a break of the 61.8% one year Fibonacci retracement of 0.7450 paving the way for a retest of November's low of 0.7311.

Commodities

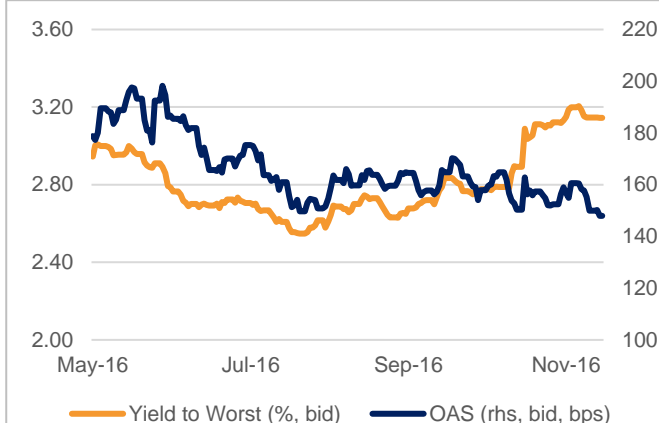
Oil markets were more or less flat yesterday as the market further digested the impact of non-OPEC supply cuts and a forecast for higher output in the US from the EIA. The IEA has revised higher its demand expectations for 2016 and 2017 although still expects demand growth to slow next year. In its latest Oil Market Report, the IEA expects that the OPEC cuts along with cooperation outside the bloc could be enough to help push the market into deficit as early as the first half of 2017. While a welcome development to put a floor under prices, oil markets will still carry over as much as 3bn bbl in OECD inventories next year which threaten to pull the legs out from any over indulgent rally.

Markets in Charts

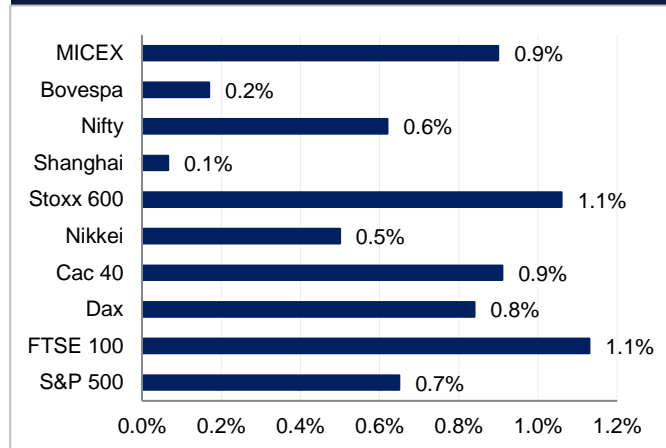
Global Bond Yields



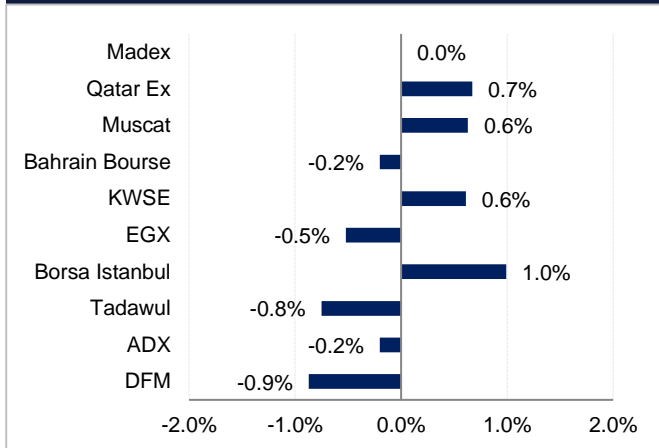
UAE liquid bond index



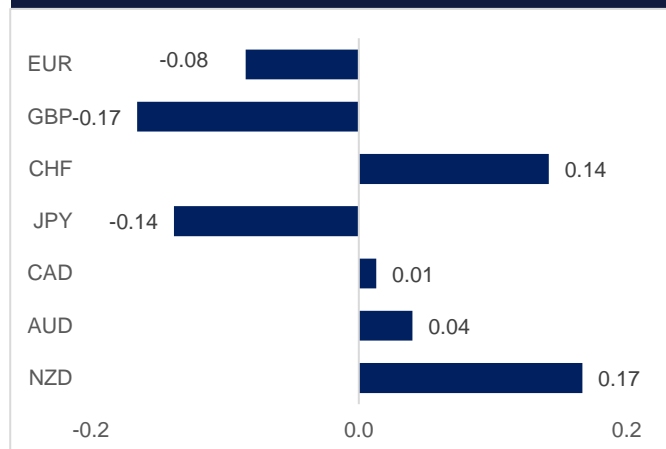
Global Equity Indices



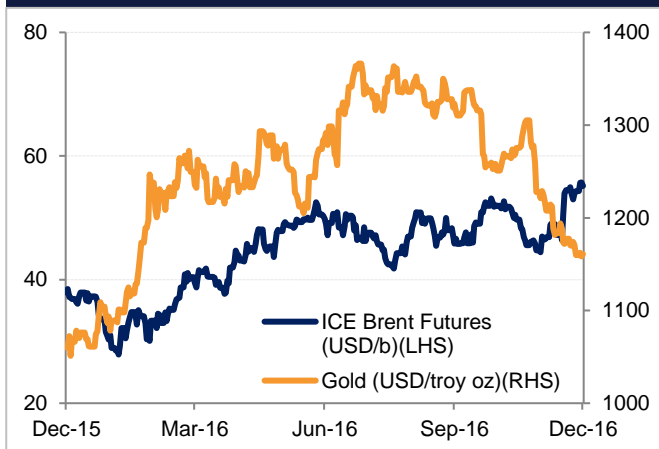
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0626	-0.08	1.0832	USDTRY	3.4924	+0.68	EURAUD	3.9032	-0.08
GBPUSD	1.2658	-0.17	1.2777	USDEGP	18.5234	+1.26	GBPAED	4.6491	-0.15
USDJPY	115.19	+0.15	112.98	USDSAR	3.7509	--	JPYAED	0.0319	-0.13
USDCAD	1.3131	+0.01	1.3070	USDQAR	3.6416	+0.01	CADAED	2.7972	+0.00
AUDUSD	0.7500	+0.04	0.7445	USDKWD	0.3053	-0.05	AUDAED	2.7546	+0.06
USDCHF	1.0121	-0.13	0.9878	USDBHD	0.3770	--	CHFAED	3.6294	+0.14
EURGBP	0.8395	+0.08	0.8478	USDOMR	0.3850	--	TRYAED	1.0500	-0.83
USDAED	3.6730	--	3.6890	USDINR	67.4650	+0.07	INRAED	0.0545	+0.08

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.7979	1.4369	1.6933	2.1580	USD 2 yr	1.385	+2
USD LIBOR	0.6947	0.9587	1.2988	1.6546	USD 5 yr	1.910	+1
GBP LIBOR	0.2564	0.3756	0.5401	0.7911	USD 10 yr	2.329	-1
JPY LIBOR	-0.1221	-0.0613	0.0029	0.1124	EUR 2 yr	-0.162	-0
CHF LIBOR	-0.8188	-0.7372	-0.6696	-0.5004	EUR 5 yr	0.124	-3
					EUR 10 yr	0.760	-5

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1158.54	-0.32	ADGB 6.75 19	1.77	+5	Abu Dhabi	60	-2
Silver	16.91	-0.96	DUGB 7.75 20	2.82	-11	Dubai	147	-3
Oil (WTI)	52.98	+0.28	QATAR 6.55 19	1.90	-6	Qatar	77	-4
Aluminium	1748.25	+0.72	US Tsy 2 yr	1.16	+2	Saudi Arabia	114	-3
Copper	5677.50	-1.28	US Tsy 10 yr	2.47	+0	Bahrain	296	-2

Source: Bloomberg, Emirates NBD Research

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