بنك الإمارات دبي الوطني
Emirates NBD

Daily Outlook

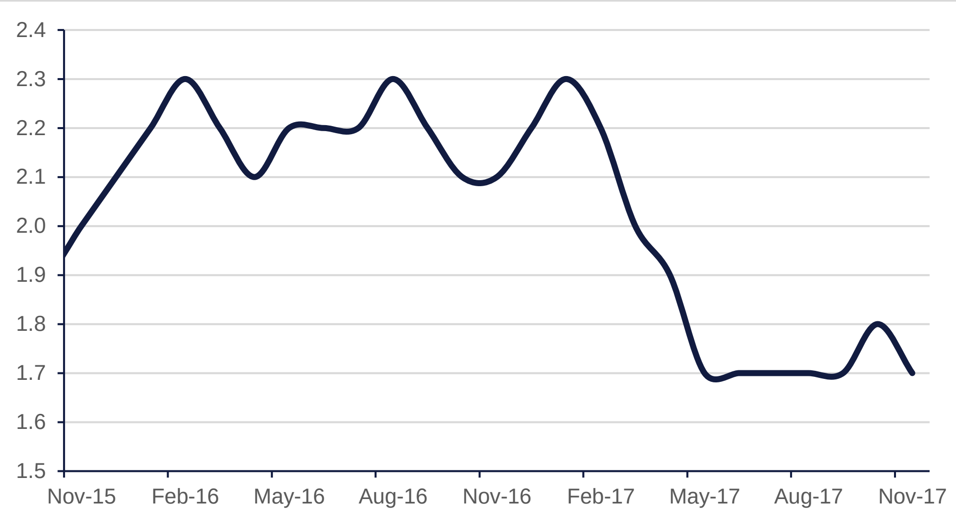
Daily
14 December 2017

As expected, US Fed Reserve raised interest rates by 25bps taking the target rate range to 1.25%-1.50% and stuck with its projection of three rate hikes next year while reiterating that inflation will remain below target. GDP growth forecast for 2018 was revised upwards from 2.1% to 2.5% as a result of tax cut stimulus and that for 2019 and 2020 was projected at at 2.1% and 2.0% respectively. Chair Yellen admitted that there is imperfect understanding of how inflation will behave. On the side, though November headline CPI came in at 2.2%, core inflation fell from annualised pace of 1.8% in October to 1.7% in November, creating unexplained conundrum for the policy makers. On the fiscal policy front, the Republlic tax reform bill is expected to be finalised this week and will represent the first major win for the Trump Administration .

Political developments in the UK saw legislation being approved for the House of Commons to have the power to veto the Brexit terms that Prime Minister Theresa May can finalise with the EU. This makes the prospect of a 'soft' Brexit more likely. Elsewhere, economic data out of the Eurozone was mixed. EU industrial production in October expanded by 0.2% m/m in October after falling -0.5% in September. Eurozone employment rose by 0.4% q/q in the third quarter, suggesting underlying strengthening in the economy. In Germany, CPI inflation was recorded at 1.8% y/y in November, with the m/m print at 0.3%.

Saudi Arabia is set to announce a SAR72bn private-sector growth stimulus package today, ahead of the 2018 budget expected next week. The programme will give support to the non-oil private sector through fee waivers for small businesses and money for housing construction. This is a continuation of the reforms being followed as part of the Kingdom's Vision 2030 plan, which aims to diversify the economy. Further, official statements confirm that Saudi Arabia will be implementing further subsidy cuts for fuel in Q1 2018, with some reports indicating the price hikes could come into effect in January. These subsidy cuts have been delayed since mid-2017. The impact of the higher energy prices on lower and middle income households will be mitigated by the introduction of a cash transfer program which is due to come into effect before year-end. The decision to move ahead with further subsidy reduction is a positive signal that the authorities remain committed to their fiscal and economic reform program.

US core inflation slows November in (% YoY)



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
German Composite PMI	12:30	57.2	Bank of England Bank Rate	16:00	0.50%
Eurozone Composite PMI	13:00	57.2	ECB Main Refinancing Rate	16:45	0.00%
UK Retail Sales (MoM)	13:30	0.40%	Retail Sales Advance (MoM)	17:30	0.30%

Source: Bloomberg, Emirates NBD Research.

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Fixed Income

Unchanged dot plot and subdued inflation expectations from the Federal Reserve saw downward adjustment of the UST curve. Yields on 2yr, 10yr and 30yr US treasuries closed lower at 1.77% (-6bps), 2.34% (-6bps) and 2.73% (-5bps) respectively. Appetite for risk remained intact with CDS levels on US IG closing unchanged at 51bps. Across the pond, yields on 10yr Gilts and Bunds were range-bound, closing at 1.21%(-1bp) and 0.31% (unchanged) respectively.

Regionally, Saudi Arabia increased its benchmark reverse repo rate from 1.25% to 1.5% in tandem with the US rate hike and we expect other central banks in the region to follow suite today. In the credit market, investors' reluctance to take bond prices higher in response to the UST yield tightening saw credit spreads on Barclays GCC bond index to widen by 4bps to 135bps as average yield remained unchanged at 3.56%.

Much in sync with the downgrade of the Oman sovereign rating from BBB to BBB-/negative earlier in the week, Fitch yesterday downgraded the ratings on Oman Electricity and Mazoon Electricity to BBB-/negative.

FX

USD is trading lower in the aftermath of the Federal Reserve raising interest rates, the Dollar Index currently trading at 93.371. The overnight move saw the index break and close below the 50 day moving average (93.796) which we now expect to act as a line of resistance. The path of least resistance for the index appears to be an attempt to break below the 100 day moving average (93.327), a break of which would expose the index to further declines towards the yearly low of 91.011.

This morning's outperformer is the AUD which has gained following stronger than expected economic data. A report from the Australian Bureau of Statistics showed that 61,600 jobs were added in November, beating market expectations for 19,000 jobs. As we go to print, AUDUSD trades 0.41% higher at 0.7670, sitting on the moving average. We expect the next level of resistance to be 0.7692, the 200 day moving average.

Equities

Developed market equities closed marginally lower as the US Federal Reserve kept projections for interest rate hikes next year unchanged. The S&P 500 index and the Euro Stoxx 600 index dropped -0.1% and -0.2% respectively.

Regional equities closed mixed amid a slew of corporate news. The Tadawul dropped -0.4% while the ADX index added +0.1%. The ADX index received a boost from successful listing of the ADNOC Distribution IPO with the stock surging as high as 16% before closing with 8% gains.

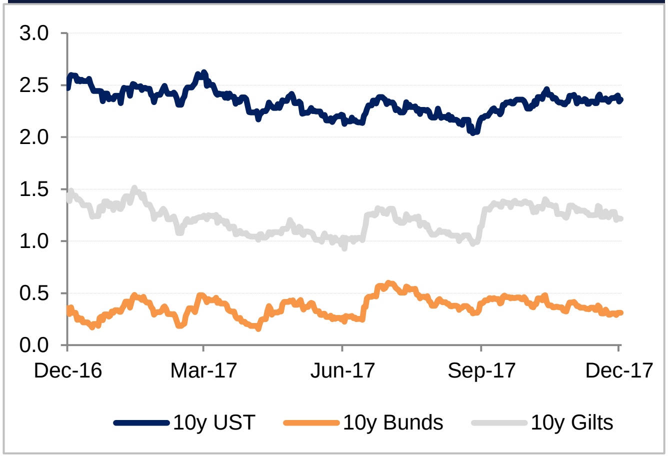
Emaar Properties closed -6.2% lower after the company announced special dividend much lower than market estimates. Saudi Electricity dropped -9.9% after the company said the hike in tariffs will have no impact on its profits as it will have to pay the equivalent fee to the government.

Commodities

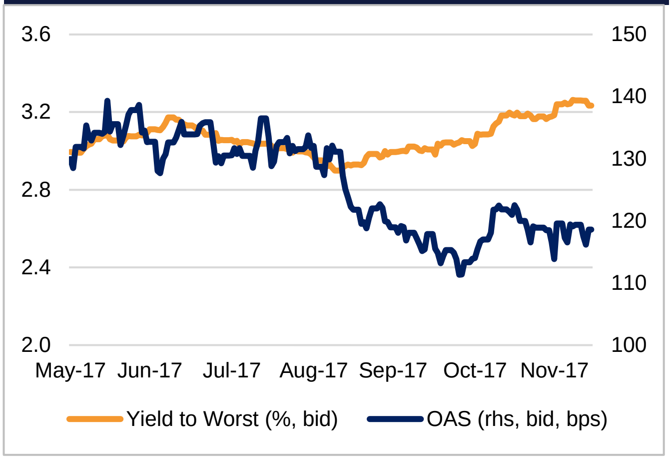
Oil prices weakened overnight as investors close out positions ahead of year end. Brent futures fell 1.4% and WTI gave up nearly 1%. EIA data showed a decline in overall crude stocks of more than 5m bbl last week, including a drop of 3.3m bbl at Cushing, while gasoline inventories increased by 5.7m bbl. Total crude production also moved higher, up 73k b/d, while refinery demand ticked lower. As far as the crude picture is concerned, the EIA report was neutral but looking at a holistic view for US petroleum balances, the end of year is shaping up to still be quite loose. OPEC cut its projections for the call on its own crude in 2018 by 270k b/d thanks to increases in supply from the US. Nevertheless, the producers' bloc expects oil markets to be balanced by the end of next year.

Markets in Charts

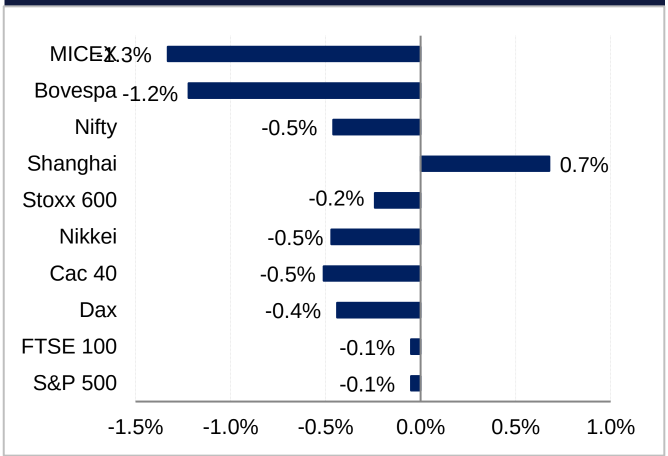
Global Bond Yields



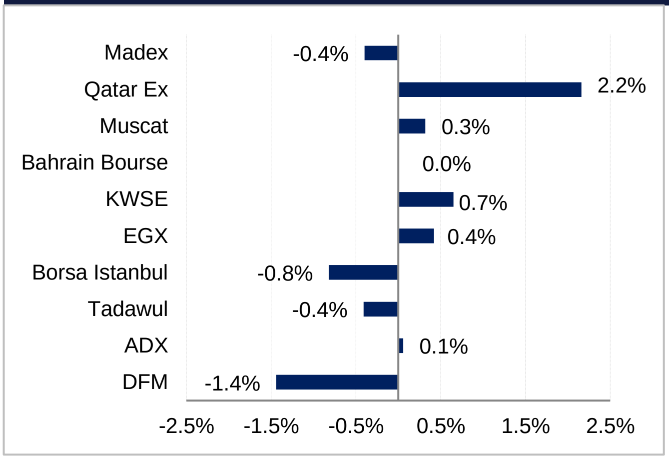
UAE liquid bond index



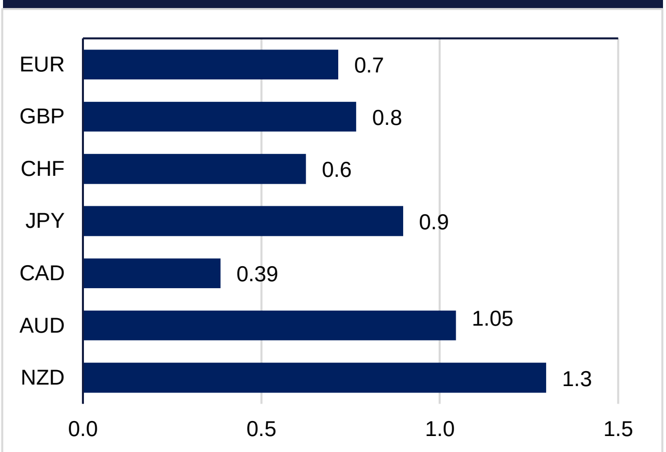
Global Equity Indices



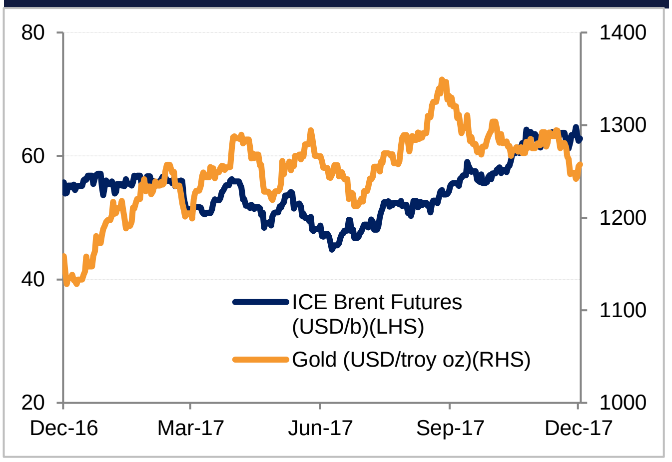
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1826	+0.72	1.2129	USDTRY	3.8121	-0.93	EURAED	4.3437	+0.71
GBPUSD	1.3420	+0.77	1.3608	USDEGP	17.8714	+0.31	GBPAED	4.9285	+0.75
USDJPY	112.54	-0.89	109.96	USDSAR	3.7502	-0.00	JPYAED	0.0326	+0.90
USDCAD	1.2817	-0.38	1.2759	USDQAR	3.6800	+1.08	CADAED	2.8662	+0.40
AUDUSD	0.7637	+1.05	0.7632	USDKWD	0.3022	--	AUDAED	2.8052	+1.04
USDCHF	0.9854	-0.63	0.9566	USDBHD	0.3774	--	CHFAED	3.7275	+0.63
EURGBP	0.8812	-0.05	0.8914	USDOMR	0.3850	--	TRYAED	0.9600	+0.57
USDAED	3.6730	--	3.6790	USDINR	64.2912	-0.16	INRAED	0.0571	+0.34

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.4722	1.7182	1.9493	2.4693	USD 2 yr	1.983	-4
USD LIBOR	1.4720	1.5735	1.7477	2.0283	USD 5 yr	2.168	-7
GBP LIBOR	0.4937	0.5224	0.5798	0.7671	USD 10 yr	2.347	-6
JPY LIBOR	-0.0488	-0.0177	0.0150	0.1048	EUR 2 yr	-0.208	-3
CHF LIBOR	-0.8183	-0.7528	-0.6508	-0.5272	EUR 5 yr	0.199	-1
					EUR 10 yr	0.804	--

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1255.50	+0.88	ADGB 6.75 19	2.01	+1	Abu Dhabi	63	--
Silver	16.08	+2.20	DUGB 7.75 20	2.62	+0	Dubai	153	--
Oil (WTI)	56.60	-0.95	QATAR 6.55 19	2.25	-6	Qatar	104	-1
Aluminium	1988.75	-0.29	US Tsy 2 yr	1.77	-5	Saudi Arabia	94	--
Copper	6691.75	+0.98	US Tsy 10 yr	2.34	-6	Bahrain	284	--

Source: Bloomberg, Emirates NBD Research

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