



بنك الإمارات دبي الوطني
Emirates NBD

Daily
15 December 2016

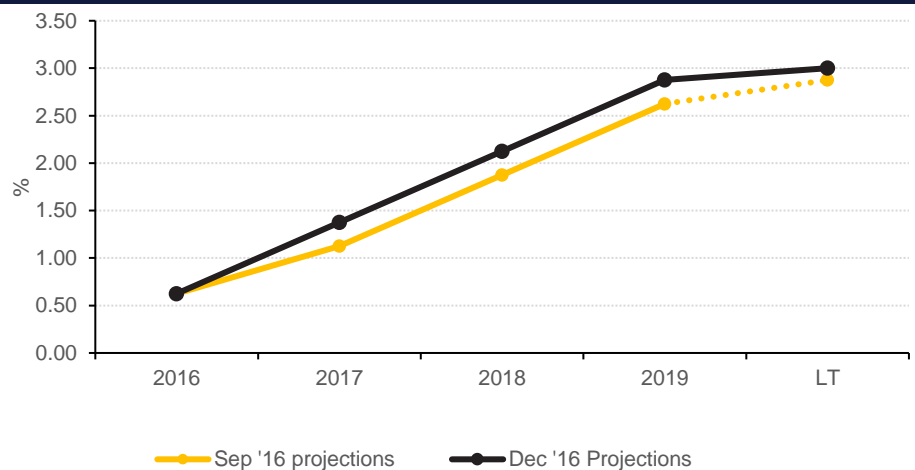
Daily Outlook

The USD has strengthened overnight following the US Fed's decision to raise interest rates. The Fed increased interest rates by 25bps taking Fed funds target rate to 0.50-0.75% range, which was widely expected. However, in a slight surprise the 'dot plot' projections for 2017 showed the FOMC members forecasting three further rate hikes in 2017, which was up from the two hikes anticipated in September. The FOMC's statement said the labour market has continued to strengthen and economic activity has been expanding moderately. The Fed also said that market based measures of inflation compensation have 'moved up *considerably* but are still low.'

The median forecast for US 2017 GDP growth was revised up to 2.1%, from 2.0%, while the unemployment rate forecast was revised down a small amount to 4.5%, from 4.6%. Future policy decisions will remain data dependent according to the statement, with Chair Yellen avoiding stepping into the political minefield by ducking questions about any advice she might give to President-elect Trump. **Of course the big question-mark remains about what additional impact the Trump stimulus plan might have on growth and interest rates** beyond that projected by the FOMC, with uncertainty about when it will be rolled out and over how much of it will be implemented.

Regionally interest rate adjustments are likely to follow the Fed's decision given the pegs of regional currencies to the dollar. The Central Bank of Kuwait has already announced this morning that it is raising its benchmark interest rate to 2.50% from 2.25% effective December 15th. **Firmer interest rates and the accompanying strength of GCC currencies are likely to be further headwinds to regional growth in 2017 as monetary policy is effectively tightened, coming on top of recently announced OPEC cuts in oil production as another factor likely to weigh on activity next year.**

FOMC raise "dot plot" projections



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
SNB Sight Deposit Interest Rate	12:30	-0.75%	Bank of England Bank Rate	16:00	0.25%
Norges Bank Deposit Rates	13:00	0.50%	BOE Asset Purchase Target	16:00	435b
EZ Markit Eurozone Composite PMI	13:00	51.6	US CPI y/y	17:30	1.7%
UK Retail Sales Ex Auto Fuel y/y	13:30	6.0%			

Source: Bloomberg.

Fixed Income

Fed raised rates in line with expectations, however with slight more hawkish than expected forecast which resulted in material steepening of the UST curve in the shorter tenure. Yields on 2yr, 5yr and 10yr closed at 1.27% (+11bps), 2.05% (+15bps) and 2.57% (+10bps) respectively. European sovereign bonds showed minimal impact given the late timing of the Fed announcement.

Cash corporate bonds felt the heat from rising benchmark yields with most US investment grade bond indices closing in red though high yield bonds were resilient. US Corp High Yield index closed with yield of 6.13%, barely a bp higher on the day as option adjusted credit spreads tightened seven bps to 401bps. In contrast, CDS levels on US IG and Euro main closed 2bps higher each at 70bps and 73bps respectively.

GCC bonds were range bound yesterday ahead of FOMC announcement late night. Higher UST curve will likely see pressure on GCC Bonds today. Also oil gave up some of its gain which will dampen sentiment.

NBAD yesterday finalised \$2 billion in club loan facility after receiving more than \$3bn in commitment from 14 banks across Europe, Asia and the US. In an upbeat news, RAKBANK expects higher profit in 2017 as a result of lower provisioning requirements.

Equities

Global equities gave up some of their previous exuberance and registered a day of profit taking after Fed forecasted a steeper path for borrowing cost next year. The S&P 500 Index fell 0.8% from its record level on Tuesday and the Dow Jones Industrial Average dropped 118.68 points to 19,792.53. Asia has opened weak this morning with Nikkei trailing down by 0.12% and Hang Seng down 1.73% at the time of writing.

Lower oil prices halted higher path for the GCC equity markets. DFM closed down by more than 1% to 3584 level and Saudi Tadawul was lower by 0.6% to 7066 level.

FX

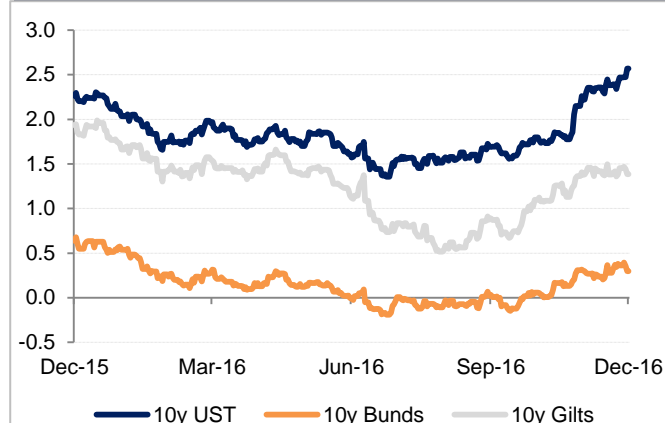
USD has risen in the aftermath of the FOMC economic projections after the “dot plot” projected a faster cycle of tightening in 2017 compared with the projections at September’s meeting (see above). In the immediate aftermath, USD strengthened against all the other majors with the Dollar Index rising 1.17% since then to 102.25, having reached a high of 102.59 earlier this morning taking the index to the highest level since January 2003. Of note is that the Dollar Index has broken above the upper channel of the daily upward trend that has been in effect since the 24th June 2016, indicating that new highs may lie ahead for the index.

Commodities

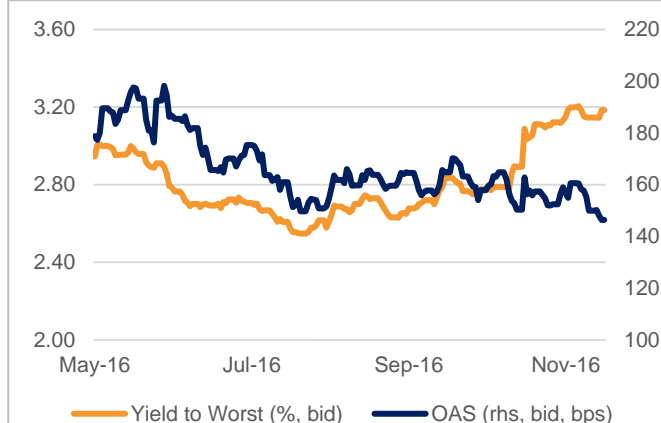
Oil markets sold off heavily overnight thanks to the latest weekly data out of the US which showed a major bump in domestic production of nearly 100k b/d. Total crude inventories were down 2.6m bbl but inventories at Cushing, OK continue to build. With refinery utilization flat and imports into the Gulf Coast rising slightly pressure is building on time spreads, which had been consistently trending higher since the OPEC meeting. The front end of the WTI curve has started to steepen again, with the 1-2 month contango more than USD 1/b. The surge in the USD post Fed clearly is another barrier for oil prices in the near term. Brent futures are currently holding below USD 54/b while WTI is just under USD 51/b.

Markets in Charts

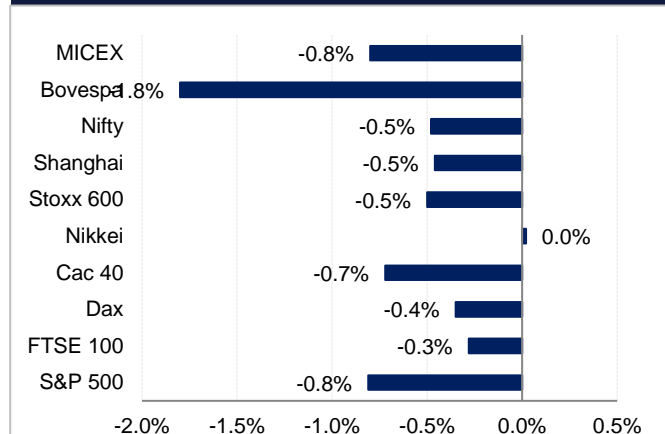
Global Bond Yields



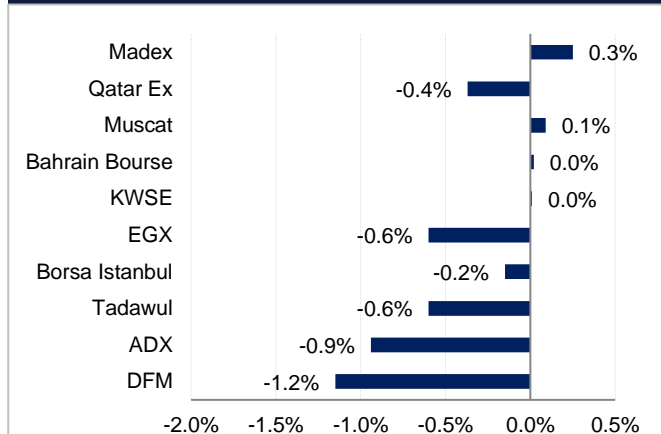
UAE liquid bond index



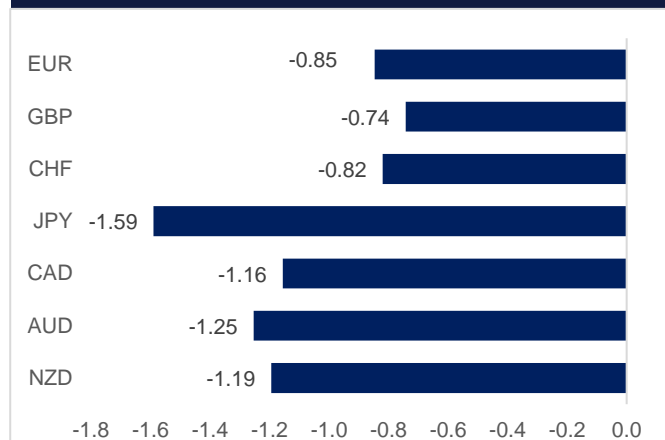
Global Equity Indices



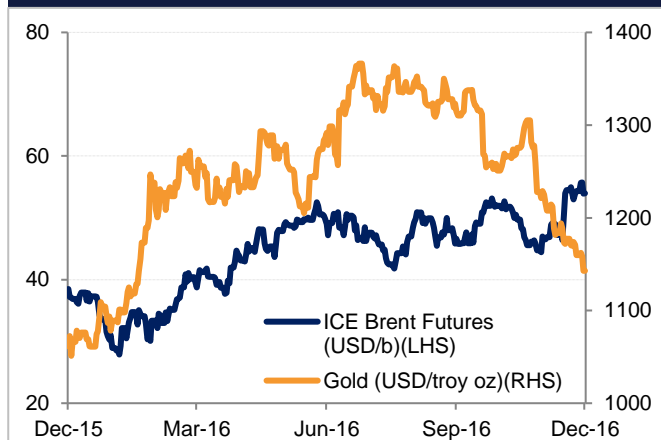
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0536	-0.85	1.0747	USDTRY	3.5327	+1.15	EURAUD	3.8697	-0.86
GBPUSD	1.2564	-0.74	1.2689	USDEGP	18.7133	+1.03	GBPAED	4.6148	-0.74
USDJPY	117.04	+1.61	114.74	USDSAR	3.7506	-0.01	JPYAED	0.0314	-1.60
USDCAD	1.3283	+1.16	1.3216	USDQAR	3.6416	--	CADAED	2.7650	-1.15
AUDUSD	0.7406	-1.25	0.7356	USDKWD	0.3053	-0.01	AUDAED	2.7201	-1.25
USDCHF	1.0204	+0.82	0.9952	USDBHD	0.3770	+0.01	CHFAED	3.5998	-0.82
EURGBP	0.8386	-0.10	0.8470	USDOMR	0.3850	+0.01	TRYAED	1.0400	-1.11
USDAED	3.6730	--	3.6890	USDINR	67.7400	+0.30	INRAED	0.0542	-0.61

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.8050	1.4029	1.7003	2.1581	USD 2 yr	1.494	+11
USD LIBOR	0.7039	0.9634	1.2982	1.6540	USD 5 yr	2.057	+15
GBP LIBOR	0.2624	0.3769	0.5386	0.7915	USD 10 yr	2.447	+12
JPY LIBOR	-0.1207	-0.0577	0.0029	0.1124	EUR 2 yr	-0.170	-1
CHF LIBOR	-0.8168	-0.7372	-0.6696	-0.5004	EUR 5 yr	0.144	+2
					EUR 10 yr	0.780	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1142.95	-1.35	ADGB 6.75 19	1.84	+7	Abu Dhabi	62	+1
Silver	16.84	-0.46	DUGB 7.75 20	2.91	+9	Dubai	141	-5
Oil (WTI)	51.04	-3.66	QATAR 6.55 19	1.91	-1	Qatar	82	+4
Aluminium	1752.75	+0.26	US Tsy 2 yr	1.27	+10	Saudi Arabia	116	+2
Copper	5715.75	+0.67	US Tsy 10 yr	2.57	+10	Bahrain	301	+5

Source: Bloomberg, Emirates NBD Research

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