



Daily Outlook

It was another strong day for the USD yesterday, reaching its highest levels in 2016 on a DXY basis with the improvement spread across most major currencies. The strength reflects the markets increasing comfort with the policy initiatives of President-elect Trump as well as with the messaging from the Fed about the likelihood of a December interest rate hike. Yesterday the **Dallas Fed President Robert Kaplan said the time for removing some monetary policy accommodation may be nearing**, while **Richmond Fed President Jeffrey Lacker argued that easier fiscal policy may require higher interest rates down the road**. Kaplan will be a voting member of the FOMC next year, so his views will take on more relevance going forward. Meanwhile Lacker also said that it was too early for the Fed to react to potential policy changes by the incoming President, although that should probably not stand in the way of a December move in our view with the recent economic data being the main justification for a December hike.

Markets have also greeted some of Donald Trump's picks for senior administration positions relatively well, with his choice of Reince Priebus as Chief of Staff going down favourably with markets, as he is seen as having good links with Congress which should help to enable the President to get things done. Rumours are also circulating that former Goldman Sachs partner Steven Mnuchin will be nominated as Treasury Secretary, also seen as a loyalist to Trump due to his involvement in the Presidential campaign.

Economic data will be in focus today in the US and in Europe and the UK. US retail sales are expected to show another relatively strong rise after a 0.6% improvement in September, while UK CPI inflation could nudge a little higher from the current 1.0% rate. Finally the Eurozone will see more colour added to its 0.3% Q3 growth rate, with growth details expected for Germany and Italy.

Dollar index climbs to 2016 high



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Q3 German GDP SA q/q	11:00	0.3%	EZ Trade Balance SA	14:00	22.1b
UK CPI m/m	13:30	0.3%	US Empire Manufacturing	17:30	-2.5
Q3 EZ GDP SA q/q	14:00	0.3%	US Retail Sales Advance m/m	17:30	0.6%

Source: Bloomberg.

Fixed Income

The exodus out of bond markets continued at the start of the week with all major fixed income indices declining. Yields on 10yr USTs closed yesterday up 11bps at 2.26%, a new high for 2016. The slump in bond markets appears to be taking a breather as clarity emerges over the direction of a Trump cabinet and how far he will be able to push fiscal spending.

From the Fed, Richmond president Jeffrey Lacker said that tighter monetary policy may go hand in hand with looser fiscal policy but that more details will need to emerge before the Fed can give a better guidance on the trajectory for US rates.

Local bonds have been no stranger to the selloff. The BUAEL index of UAE bonds broke downward out of the range it had settled in since July and is now trading at 113 while its OAS continues to fluctuate around 160bps.

Equities

Developed market equities continued from where they left last week. The S&P 500 index and the Euro Stoxx 50 index added +0.1% and +0.3% respectively. Technology stocks underperformed with the Nasdaq index losing -0.4%.

Regional equity markets saw profit booking with both best performing indices i.e. the Tadawul and the EGX 30 index losing -0.5% and -2.0% respectively.

In terms of stocks, Arabtec declined -2.3% after the company reported a loss of AED 225.5mn for Q3 2016.

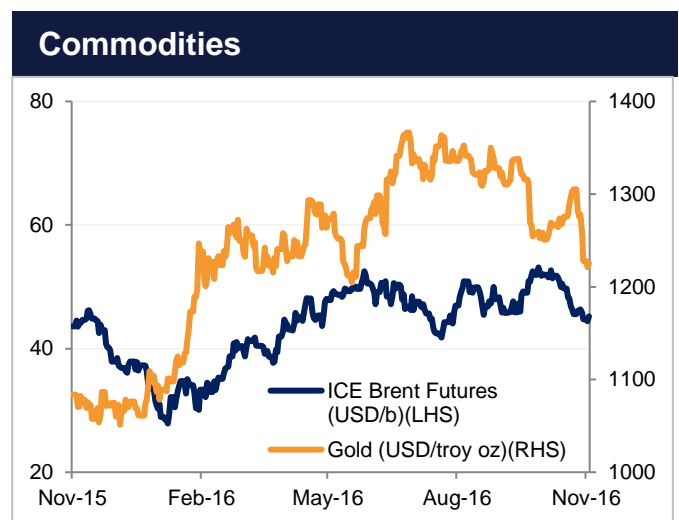
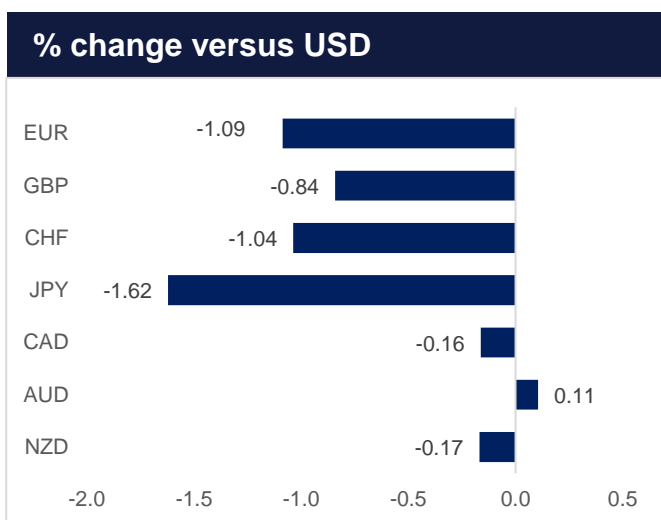
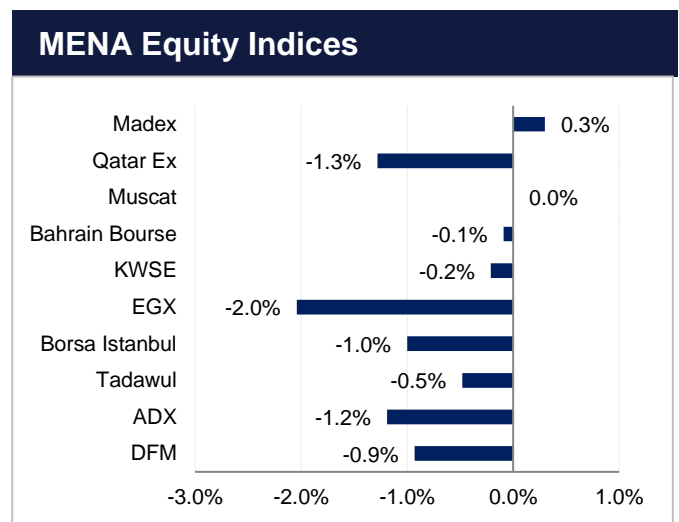
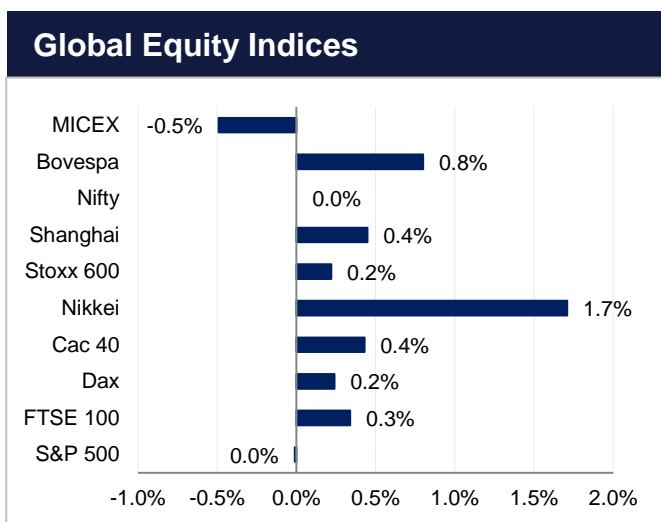
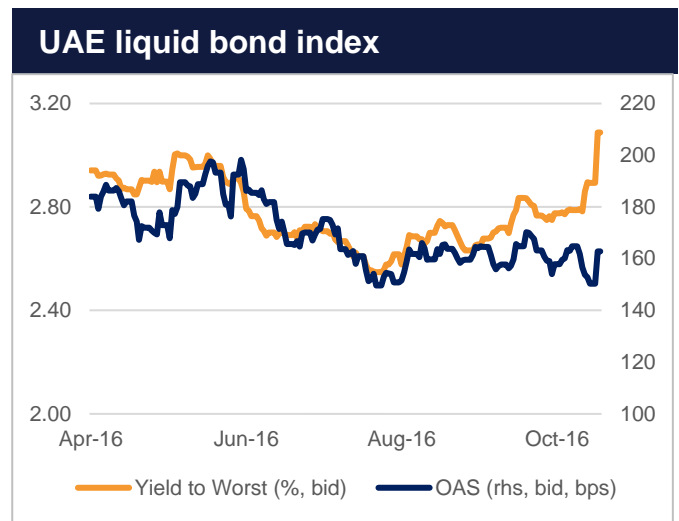
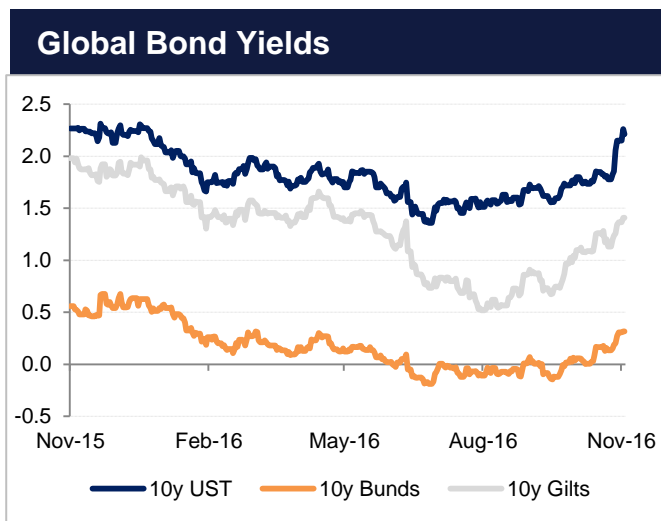
FX

Having reached the highest levels so far this year yesterday, the USD has slipped back slightly this morning on a perception that it might have risen too far too fast. The dollar has climbed against most major currencies over the past week as the odds of a Federal Reserve rate increase next month climbed above 90 percent. The JPY was the main casualty of USD strength over the last few days with USDJPY having reached 108.54 at one point, before slipping back towards 108 this morning. GBP is the one currency relatively unaffected by USD strength, however, having previously endured sharp losses due to Brexit uncertainties.

Commodities

Oil ended lower yesterday on news of expanded output from Iran, just weeks ahead of OPEC's official meeting in Vienna. There is a chance a deal to cut output could yet be salvaged but differences over distributing production cuts between major producers threatens to undermine it. Net length in both WTI and Brent futures and options was cut majorly ahead of last week's election, falling by more than 70k contracts for both benchmarks.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0737	-1.09	1.0928	USDTRY	3.2901	+1.27	EURAED	3.9438	-1.10
GBPUSD	1.2490	-0.84	1.2591	USDEGP	15.5750	-5.85	GBPAED	4.5883	-0.85
USDJPY	108.42	+1.66	106.50	USDSAR	3.7506	+0.00	JPYAED	0.0339	-1.61
USDCAD	1.3557	+0.11	1.3508	USDQAR	3.6407	-0.01	CADAED	2.7085	-0.16
AUDUSD	0.7554	+0.11	0.7492	USDKWD	0.3041	+0.22	AUDAED	2.7747	+0.16
USDCHF	0.9981	+1.02	0.9757	USDBHD	0.3770	-0.01	CHFAED	3.6802	-1.02
EURGBP	0.8596	-0.33	0.8679	USDOMR	0.3850	+0.01	TRYAED	1.1200	-0.94
USDAED	3.6730	--	3.6855	USDINR	67.6875	+0.66	INRAED	0.0541	-0.47

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.7529	1.3147	1.6113	1.9686	USD 2 yr	1.245	+6
USD LIBOR	0.5382	0.9057	1.2621	1.5879	USD 5 yr	1.727	+15
GBP LIBOR	0.2668	0.4006	0.5619	0.8115	USD 10 yr	2.138	+12
JPY LIBOR	-0.0681	-0.0669	0.0039	0.1066	EUR 2 yr	-0.127	-1
CHF LIBOR	-0.7804	-0.7312	-0.6610	-0.4844	EUR 5 yr	0.144	-1
					EUR 10 yr	0.697	--

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1221.35	-0.51	ADGB 6.75 19	1.62	+14	Abu Dhabi	83	+4
Silver	16.95	-2.48	DUGB 7.75 20	3.01	+12	Dubai	175	+19
Oil (WTI)	43.32	-0.21	QATAR 6.55 19	1.90	+11	Qatar	105	+4
Aluminium	1745.00	+0.03	US Tsy 2 yr	1.00	+9	Saudi Arabia	150	+3
Copper	5552.50	+0.21	US Tsy 10 yr	2.26	+11	Bahrain	376	+5

Source: Bloomberg, Emirates NBD Research

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