



بنك الإمارات دبي الوطني
Emirates NBD

Daily

15 January 2018

Daily Outlook

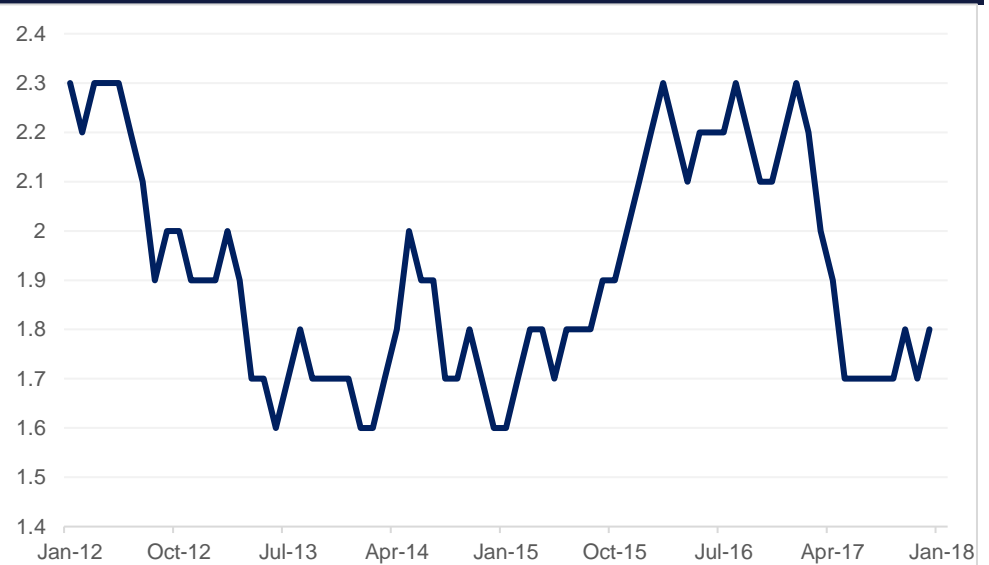
The US economy finished 2017 on a very healthy note. Retail sales rose by 0.4% in December both overall as well as ex-autos and gas. Moreover, there were upward revisions for October (from +0.4% to +0.5%) and November (from +0.8% to +1.2%). Some of the recent strength, especially in autos and residential investment, may have reflected rebuilding after the hurricane. But even ex motor vehicles, real consumer spending accelerated to an estimated 3.25% q/q annual rate in Q4 from a 1.8% pace in Q3. Given these results, overall annualised GDP growth is estimated to be 3.5% - the third straight quarter of 3% + growth.

Core CPI in the US increased 0.3% m/m in December. The strength was broad based with only obvious weakness being in clothing prices which fell by 0.5% and airline fares which also fell by 0.5%. The core CPI inflation rate ticked up to 1.8%, from 1.7% in the previous month but base effects will likely keep it low in the first few months of 2018. However, once spring comes around, the big declines in components like wireless telephone services prices will drop out of the annual calculation and the core inflation rate is expected to rebound above 2%. The strong economic data has pushed the probability of a rate hike in March from 69% at the beginning of the year to 89% now.

ECB's December meeting minutes, reflected ECB officials agreeing that while economic data had been more positive than expected, underlying inflation was yet to show convincing signs of a sustained upward trend. **However, comments about ECB needing to review its policy language and some officials calling for a firm end-date for bond purchases was perceived as hawkish by the market, thereby seeing material increase in yields on government bonds as well as in probability of a 10bp rate hike later this year.**

Looking ahead, China GDP scheduled for release during the week is expected to reflect slightly weaker growth of about 6.7% vs 6.8% in the previous year. The Bank of Canada's interest-rate decision comes Wednesday. Monetary policy announcements are also due in South Korea, South Africa and Turkey.

Rising US Core CPI



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK House prices YoY	04:00	1.1%	India Wholesale price YoY	10:30	4.00%

Source: Bloomberg, Emirates NBD Research.

Fixed Income

Stronger than expected inflation and retail sales data in the US on Friday pushed yields on 2yr treasuries up by 4bps to close the week at 2.0% while those on 10yr increased 6 bps to 2.55%. The synchronized economic growth around the world raised hopes of wage pressures and ultimately higher inflation in the coming months. This coupled with reduced QE by central banks steered yields on 10yr Gilts and Bunds higher as well to close at 1.34% (+10bps) and 0.57% (+15bps) respectively.

Global credit spreads were largely range bound during the week with CDS levels on US IG and euro Main closing unchanged at 47bps and 44bpsd respectively. Rising oil prices also supported tightening in CDS levels on GCC sovereign (barring those on Bahrain). 5yr CDS spreads on Saudi Arabia and Qatar both tightened 6bps during the week to close at 82bps and 92bps respectively.

However, GCC cash bonds suffered from large new supply and increasing geopolitical risk in the region. Also increasing benchmark yield on the long end of the UST curve affected the longer dated GCC sovereign bonds negatively. ADGB 47s, KSA 47s, Qatar 46s, Oman 47s etc all lost more than a point in price during the week. Most bonds fell in price with yield on Barclays GCC bond index rising 13bps to 3.70% and average credit spreads on the index widening 7bps during the week from 123bps to 130bps.

FX

Dollar index fell quarter of a percentage point yesterday to its lowest level in three years mainly as currencies of its major trading partners were boosted higher. Fueled by slightly hawkish tone of the ECB meeting minutes, EUR rallied against the dollar to close at 1.2138 while GBP continued to defy risk of wavering Brexit negotiations and closed up at 1.3738 against the dollar. Expected halting in BoJ's easing program provided boost to JPY which closed up against the dollar at 110.79 even though long term fundamentals including negative real yields fail to justify current levels.

Stronger-than-expected retail sales and higher iron prices are supporting the strength in AUD which closed up at 0.7929, not too far from its 2017 high of 81.25.

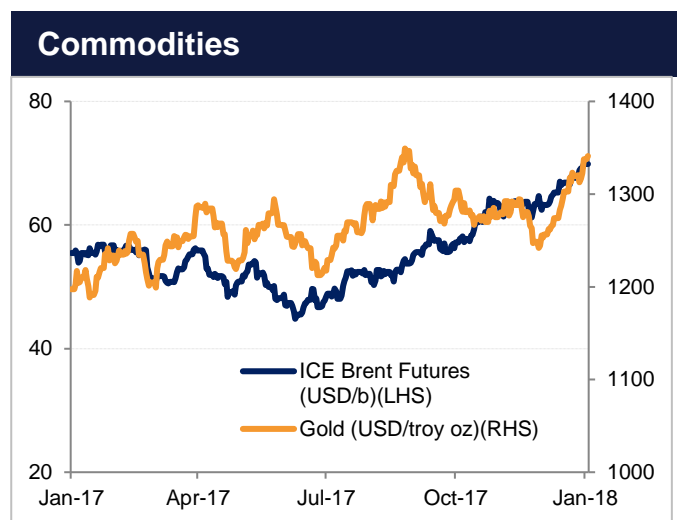
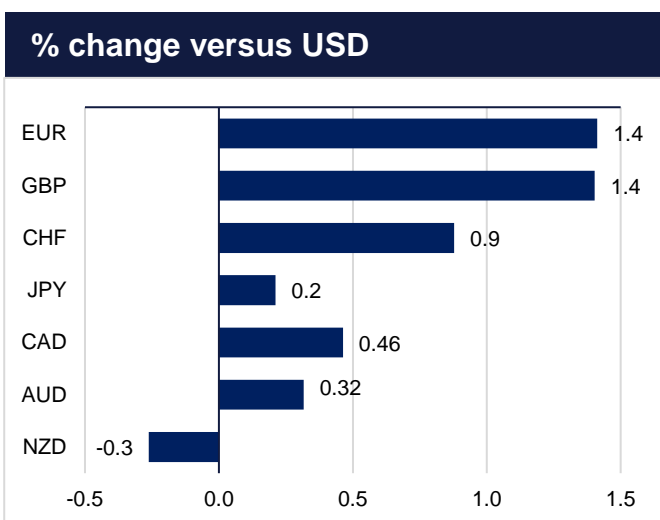
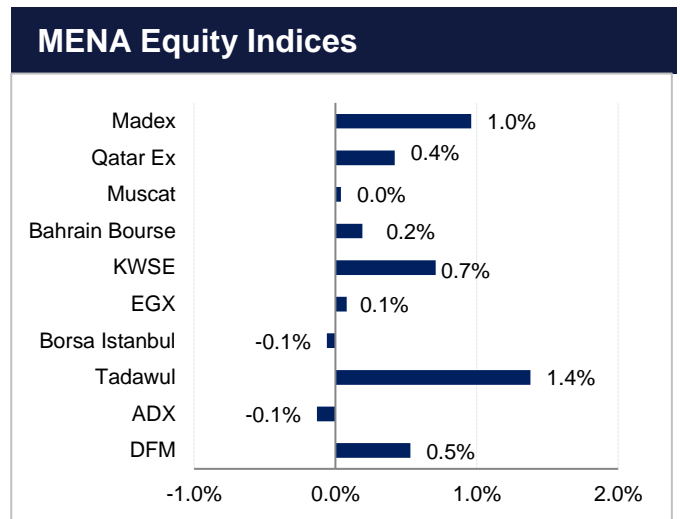
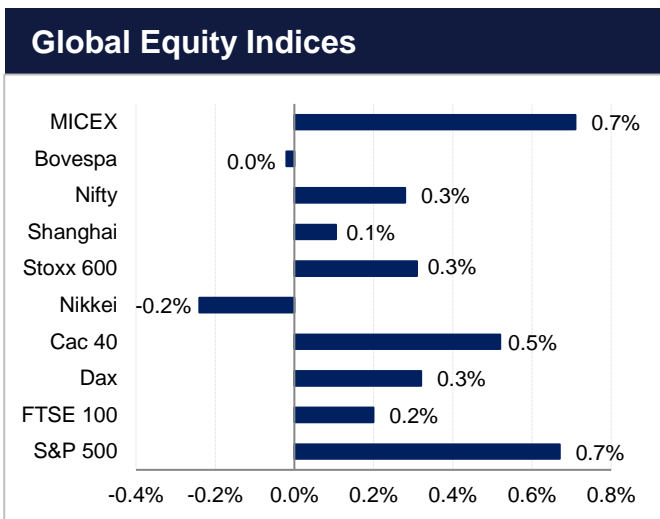
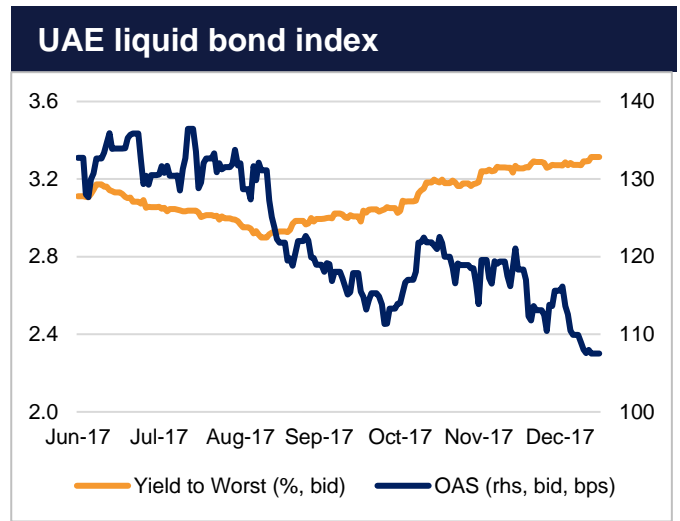
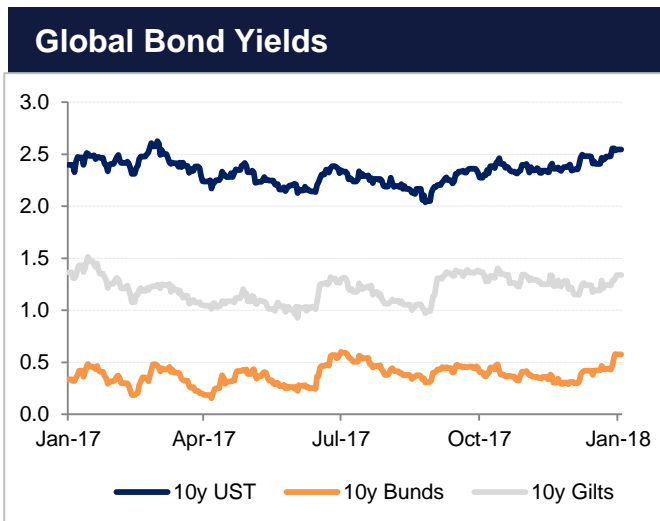
Equities

Global equities continued to mark fresh record highs amid optimism in global growth. Dow Jones closed up by 0.89% last Friday and Euro Stoxx 50 was up 0.48%. Asian equities are trailing up with Nikkei up 0.23% and Hang Seng up 0.69% respectively in early trades this morning. Saudi Arabian shares were the biggest gainers in the GCC world as investors see the country closer to being classified as an emerging market by major index providers. The Tadawul All Share Index advanced 1.4% yesterday, the highest level since July last year. Stock exchanges in Qatar, Bahrain and Dubai increased between 0.1% and 0.7%. Oman's index was little changed, while Abu Dhabi's ADX General Index fell 0.1% mainly due to weakness in banking shares.

Commodities

Oil futures kept gaining last week, their fourth consecutive winning week in a row. Brent prices closed up more than 3% on the week at USD 69.87/b and had breached USD 70/b briefly intraday. WTI added more than 4.6% to close above USD 64/b. OPEC producers in the Middle East have pledged to keep output restrained in Q1 even as prices show signs that the cuts are having a strong impact on near-term prices. Investor positioning is following OPEC's lead and is continuing to build net length: up more than 45k contracts in WTI and nearly 9k in Brent. However, oil drillers have not been idle either. The US oil rig count was up by 10 rigs last week, its largest gain in more than a year.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.2202	+1.41	1.2523	USDTRY	3.7489	-0.68	EURAED	4.4823	+1.43
GBPUSD	1.3728	+1.40	1.3927	USDEGP	17.7106	-0.06	GBPAED	5.0420	+1.38
USDJPY	111.06	-0.18	108.43	USDSAR	3.7503	--	JPYAED	0.0331	+0.21
USDCAD	1.2459	-0.48	1.2419	USDQAR	3.6800	-0.03	CADAED	2.9477	+0.47
AUDUSD	0.7917	+0.32	0.7921	USDKWD	0.3012	-0.16	AUDAED	2.9071	+0.29
USDCHF	0.9673	-0.87	0.9386	USDBHD	0.3770	-0.00	CHFAED	3.7971	+0.88
EURGBP	0.8889	+0.01	0.8990	USDOMR	0.3850	+0.01	TRYAED	0.9800	+0.71
USDAED	3.6730	--	3.6785	USDINR	63.4300	-0.37	INRAED	0.0578	+0.22

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.6333	1.8235	2.0035	2.6010	USD 2 yr	2.194	+2
USD LIBOR	1.5595	1.7215	1.8877	2.1731	USD 5 yr	2.395	+2
GBP LIBOR	0.4971	0.5199	0.5776	0.7773	USD 10 yr	2.539	+1
JPY LIBOR	-0.0412	-0.0310	0.0197	0.1140	EUR 2 yr	-0.126	-1
CHF LIBOR	-0.7943	-0.7356	-0.6424	-0.5240	EUR 5 yr	0.378	+1
					EUR 10 yr	0.962	+0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1337.64	+1.15	ADGB 6.75 19	2.27	+1	Abu Dhabi	53	--
Silver	17.25	+1.53	DUGB 7.75 20	2.71	-4	Dubai	153	+6
Oil (WTI)	64.30	+0.78	QATAR 6.55 19	2.41	-1	Qatar	92	+1
Aluminium	2202.75	+1.76	US Tsy 2 yr	2.00	+2	Saudi Arabia	82	--
Copper	7074.25	-0.40	US Tsy 10 yr	2.55	+1	Bahrain	279	-3

Source: Bloomberg, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 609 3027
adityap@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com