



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

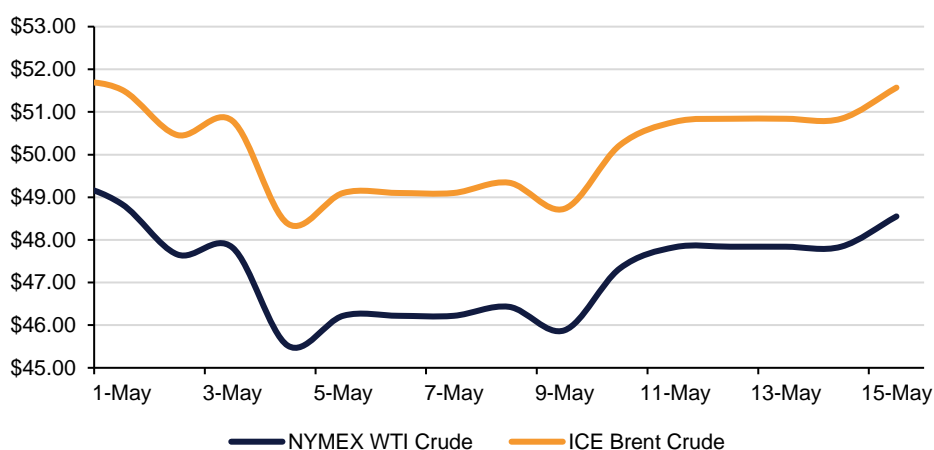
Oil jumped to its highest level in two weeks after energy ministers in Saudi Arabia and Russia said that they are in favor of extending OPEC's output-cut deal for a further nine months, all the way until the end of Q118. The comments go far beyond what the markets were expecting, with assumptions having been that OPEC might only extend its production cuts for a further three months. If carried through the proposed cuts will have a significant impact in terms of curbing the world's supply and demand imbalance and may even begin to erode the huge inventory overhang, which will have a much bigger impact in terms of supporting oil prices.

Saudi Arabia's budget deficit shrank by more than 70% y/y in Q1 2017 to -SAR 26.2bn (-USD 7bn), as oil revenues more than doubled compared with Q1 2016. However, non-oil revenues only rose 1.3% y/y, highlighting the challenges facing the kingdom when it comes to diversifying budget revenue away from oil. Expenditure declined -2.5% y/y in Q1, on lower wages and other current spending. The Q1 deficit was financed by withdrawing cash held at SAMA. Separately, Bloomberg reported that Saudi Arabia could invest USD 40bn into US infrastructure, through the Public Investment Fund.

Egypt and the IMF completed the first review of the Extended Fund Facility agreed last year, opening the way for another USD 1.25bn to be disbursed once the IMF Executive Board gives its approval. This would bring the total amount of funds disbursed from the IMF to USD 4bn. The review commended the progress on subsidy reduction, EGP liberalization and VAT achieved so far, and was positive about the government's draft budget for the next fiscal year, which makes provision for an increase in VAT and further cuts to energy subsidies while increasing social protection measures.

As expected, ratings agency **S&P downgraded Oman's sovereign debt rating to BB+, one level below investment grade**, on Friday. S&P retained a negative outlook, citing the large fiscal deficit and lower net foreign asset position.

Oil climbs to two week high



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

| | Time | Cons | | Time | Cons |
|--------------------------|-------|-------|---|-------|------|
| Turkey Unemployment Rate | 11:00 | 13.0% | U.K. Prime Minister Theresa May to Answer Questions | 18:00 | N/A |
| Empire Manufacturing | 16:30 | 7.3 | | | |

Source: Bloomberg.

Fixed Income

Though chances of a rate hike in June remain well entrenched at above the 95% mark, soft Q1 economic data in the US and increasing delays in tax cuts / fiscal stimulus have softened the outlook for rate hike trajectory going forward. Market implied probability now is reflecting only two rate hikes until June next year. UST curve got lower and flatter during the week with yields on 2yr and 10yr treasuries closing at 1.29% (-4bps) and 2.33% (-6bps) respectively. Sovereign bonds closed higher in the Europe with yields on Gilts declining 6bps to 1.08% and Bunds at 0.39% (-3bps) respectively.

The biggest news last week was the downgrade of Oman sovereign rating to BB+ from BBB- by S&P. The negative outlook on the rating continues to render further downward pressure even though Moody's Baa1 rating and Fitch's BBB rating on the country carries stable outlooks. Oman curve understandably suffered with price on Oman 47 and fxOman 27 bonds falling more than two points and half a point respectively during the week. However OMANGS 22s benefited from its sukuk structure and remained well anchored at pre-rating downgrade levels.

With minimal new supply and uptick in oil prices, credit spreads in the region had a supportive background. CDS spreads were largely range bound, however credit spreads on cash bonds reflected a mixed picture. Liquid UAE bond index spreads tightened 6bps to 121bps and yield declined 3bps to 3.04%, however Barclays GCC bond index recorded a 4bp increase in option adjusted spreads to 130bps.

In the primary market, Qatar Islamic Bank which is road-showing this week and possible new deals are expected to be launched by NBK and ADCB.

FX

CAD outperforms to gain on the other major currencies after being given a boost by a rise in hydrocarbon prices (see below). As we go to print, USDCAD currently trades at 1.3681, 0.21% lower. We expect the next level of minor support to be 1.3652, a base formed and daily support that has held since May 1st 2017. A close below this level would indicate further declines would be the most likely outcome.

Elsewhere, the Dollar Index is almost unchanged, trading 0.07% lower at 99.18. The index begins the week below the 200 day moving average of 99.31 indicating that further losses may be in store, with the dollar giving up some of last week's gains. An end of day close above this key level is needed to reaffirm the bullish bias on the currency.

Equities

Regional equity markets started the week on a negative note with the Tadawul and the DFM index losing -0.4% and -0.1% respectively. The MSM30 index dropped -0.2% after Oman was downgraded one notch by S&P.

PetroRabigh closed limit down after the company reported a wider loss compared to profit in the previous quarter. Bupa Arabia rallied +4.0% after the company's parent agreed to increase its stake to 34.25% from 26.25%.

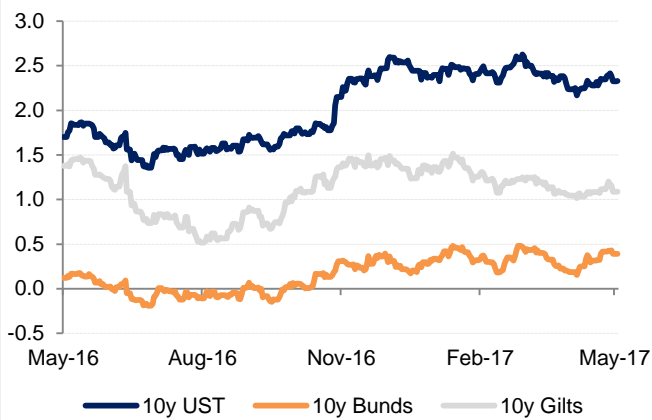
DXB Entertainment dropped a further 3.3% following a disappoint Q1 2017 results.

Commodities

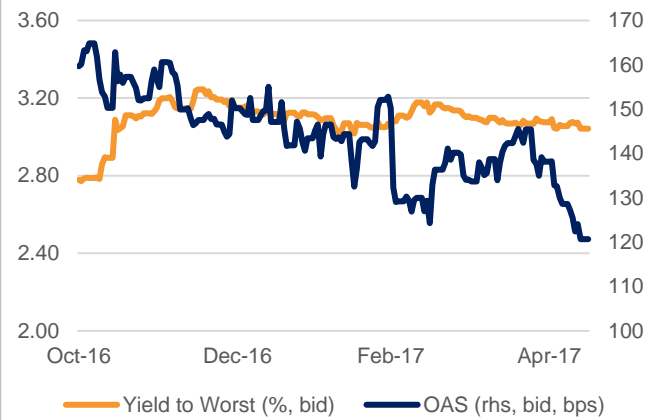
Oil markets have responded positively to statements from the Russian and Saudi energy ministers about carrying over production cuts until the first quarter of 2018, helping to extend gains of around 3.5% for both Brent and WTI futures last week. The risk to the strategy remains apparent in the uninterrupted build in the US drilling rig count which added nine rigs last week. The comments have nevertheless helped to tighten spreads in the futures market: the Dec 17-18 contango for Brent has now tightened from USD 0.44/b to USD 0.19/b.

Markets in Charts

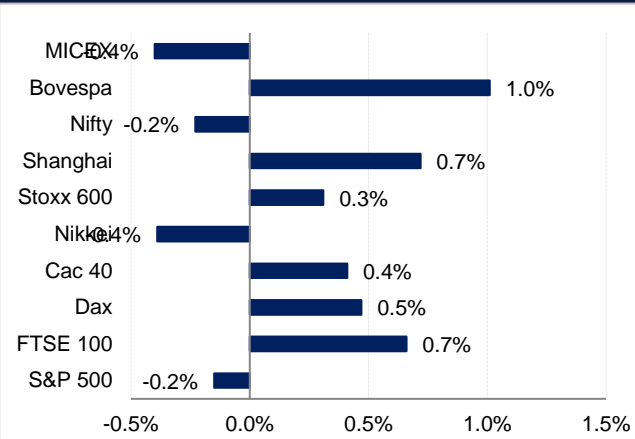
Global Bond Yields



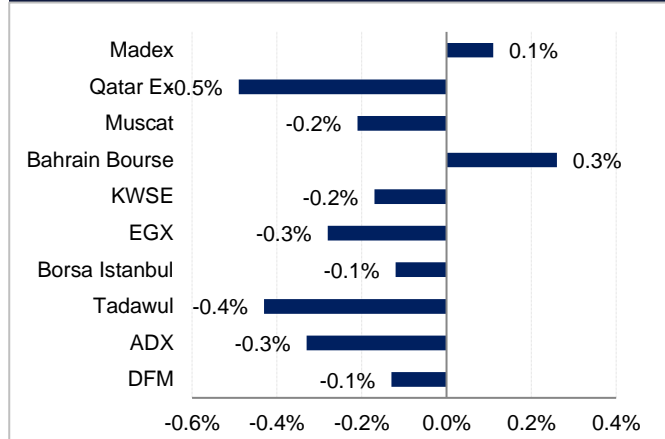
UAE liquid bond index



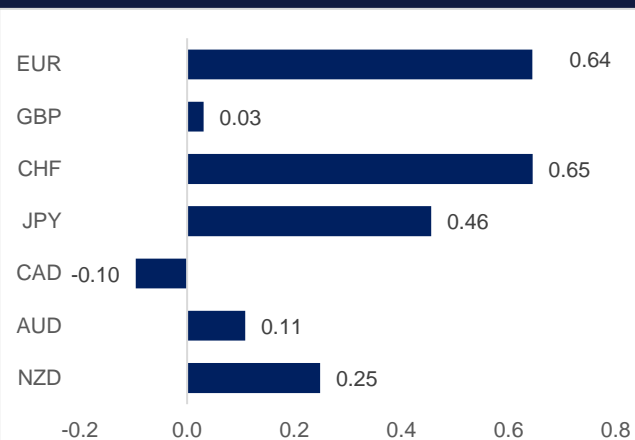
Global Equity Indices



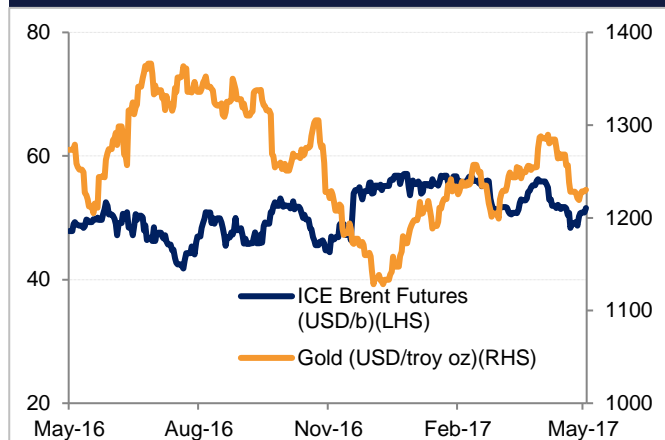
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.0931 | +0.64 | 1.1152 | USDTRY | 3.5719 | -0.13 | EURAUD | 4.0151 | +0.65 |
| GBPUSD | 1.2890 | +0.03 | 1.3039 | USDEGP | 18.0509 | +0.26 | GBPAED | 4.7343 | +0.01 |
| USDJPY | 113.38 | -0.42 | 111.33 | USDSAR | 3.7505 | -0.00 | JPYAED | 0.0324 | +0.46 |
| USDCAD | 1.3710 | +0.09 | 1.3614 | USDQAR | 3.6413 | -- | CADAED | 2.6790 | -0.10 |
| AUDUSD | 0.7387 | +0.11 | 0.7352 | USDKWD | 0.3048 | -0.01 | AUDAED | 2.7129 | +0.10 |
| USDCHF | 1.0009 | -0.68 | 0.9768 | USDBHD | 0.3770 | +0.00 | CHFAED | 3.6690 | +0.67 |
| EURGBP | 0.8476 | +0.57 | 0.8549 | USDOMR | 0.3850 | -- | TRYAED | 1.0300 | +0.30 |
| USDAED | 3.6729 | -0.00 | 3.6799 | USDINR | 64.0750 | -0.47 | INRAED | 0.0572 | +0.35 |

Rates

| Interbank | 1 mo | 3 mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 1.0783 | 1.4840 | 1.7035 | 2.1867 | USD 2 yr | 1.536 | -5 |
| USD LIBOR | 0.9924 | 1.1796 | 1.4366 | 1.7657 | USD 5 yr | 1.916 | -7 |
| GBP LIBOR | 0.2551 | 0.3140 | 0.4532 | 0.6598 | USD 10 yr | 2.251 | -6 |
| JPY LIBOR | -0.0182 | -0.0059 | 0.0247 | 0.1356 | EUR 2 yr | -0.144 | -1 |
| CHF LIBOR | -0.7838 | -0.7270 | -0.6590 | -0.4824 | EUR 5 yr | 0.209 | -2 |
| | | | | | EUR 10 yr | 0.805 | -3 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold | 1228.43 | +0.28 | ADGB 6.75 19 | 1.61 | -2 | Abu Dhabi | 41 | -- |
| Silver | 16.47 | +0.99 | DUGB 7.75 20 | 2.64 | -1 | Dubai | 111 | -1 |
| Oil (WTI) | 47.84 | +0.02 | QATAR 6.55 19 | 1.84 | -1 | Qatar | 60 | -1 |
| Aluminium | 1885.50 | +0.86 | US Tsy 2 yr | 1.29 | -4 | Saudi Arabia | 92 | +2 |
| Copper | 5538.75 | +0.32 | US Tsy 10 yr | 2.33 | -6 | Bahrain | 217 | -2 |

Source: Bloomberg, Emirates NBD Research

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