



Daily Outlook

The pound fell to its lowest level since October 2016, dipping below USD1.20 in early Asian trading, although it has recovered back above this level since then. Concerns about a so-called 'hard Brexit', where the UK leaves the EU single market completely, have returned to the fore ahead of PM Theresa May's key Brexit speech tomorrow. Mrs May is expected to say that the UK will be prepared to leave the customs union if this is the only way it can control immigration, be able to negotiate its own trade deals and not be subject to the European Court of Justice. She had previously set a deadline of end-March to trigger Article 50 and start formal negotiations on Brexit.

In addition to political events (including the US inauguration this Friday), there is a significant amount of economic data due to be released this week that may be market moving. Inflation in the US and UK will be closely watched, with analysts expecting headline CPI to exceed the Fed's 2% target for the first time in over 2 years, and concerns over the pass-through of a weaker pound on UK inflation. There are also monetary policy meetings in Canada and the Eurozone and the first estimate of China's Q4 GDP growth due Friday.

In the UAE, the Minister of Economy said he expects real GDP growth of around 3% this year, similar to last year's growth. We expect growth to accelerate to 3.4% this year from an estimated 3.0% in 2016 as non-oil sector activity picks up, helping to offset slower expansion in the hydrocarbon sector. GCC oil exporters have committed to cutting oil production in H1 2016 as part of the deal agreed by OPEC in November 2016, and this is likely to be headwind to headline growth. **Saudi Arabia already indicated late last week that it had cut its oil production to less than 10mn bpd this month**, although actual production data will only be available mid-February. According to Bloomberg estimates, Saudi Arabia produced 10.5mn bpd of oil in December 2016.

GBPUSD touches lowest level since October



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

| | Time | Cons | | Time | Cons |
|------------------------|-------|-------|--|------|------|
| Eurozone Trade Balance | 14:00 | 20.8b | | | |

Source: Bloomberg.

Fixed Income

Weaker than expected retail sales data late last week saw halting of rising treasury yields. Yields on UST shifted downward across the curve with 2yr, 10yr and 30yr yields all closing down by 2bps each to 1.19%, 2.40% and 2.98% respectively. Sovereign bonds across UK and Japan followed suite, however Bund yields rose as economic recovery in the Eurozone gains stronger footing, thereby increasing the prospect of QE tapering. 10yr Bund yields closed 4bps higher at 0.33%.

With oil falling circa 3% during the week to \$55.45/b, credit spreads in the GCC region as whole had slight widening bias barring the highly rated liquid bonds from the UAE. Option adjusted credit spreads on BBG Barclays GCC index closed the week 2bps wider at 144bps though those on BUAEUL index were a bp tighter at 147bps. We note that these spreads were at 251bps and 235bps respectively at this time last year.

Much in line with circa 20bps tightening in 30yr UST yields to 2.98% now vs 3.18% in mid-December, longer dated GCC bonds gained materially with likes of DUGB 43s, QTEL43s, Qatar 46s, SECO 44s, KSA 46, DP world 37s etc all rising by more than a point or two last week. In contrast shorter dated bonds remained subdued. Perpetual securities also were marginally softer as most of them have call dates within the next 2-5 years. Reporting season commenced with Bank Muscat exceeding expectations and QNB meeting expectations by recording a 10% increase in 2016 net profit to QAR 12.4 billion, loan-to-deposit ratio at 103% and NPL ratio at 1.8%.

Primary market in the region is yet to pick up pace. Current week possibly will see updates from DIB and GIB on their proposed benchmark deals which are likely to be met with good demand as investors collect \$4.1 billion in redemptions this month. Further update also expected from Dubai based ICD.

FX

Having closed at 1.2177 on Friday, GBPUSD opened over 1% lower at 1.2065 following news reports over the weekend that Prime Minister May will withdraw from tariff-free trade with Europe in exchange for full control over immigration (see above). Sterling has continued to decline in the Asia session and GBPUSD currently trades at 1.2025, having reached a low of 1.1986 earlier, the lowest level seen since October 2016. With May due to speak on her Brexit approach on Tuesday (see above), Sterling will likely overlook employment, inflation and retail data this week, with politics being the main driver and we expect more volatility over the week.

Elsewhere JPY has outperformed and gained on all the other majors as the yen benefits from safe haven bid following the negative performance of Japanese equities (see below). As we go to print, USDJPY trades 0.3% lower at 114.14, its earlier descent being temporarily halted by its 50 day MA of 114.04. Should it break this level, the next likely path would be a descent towards 113.03, the 61.8% one year Fibonacci retracement.

Equities

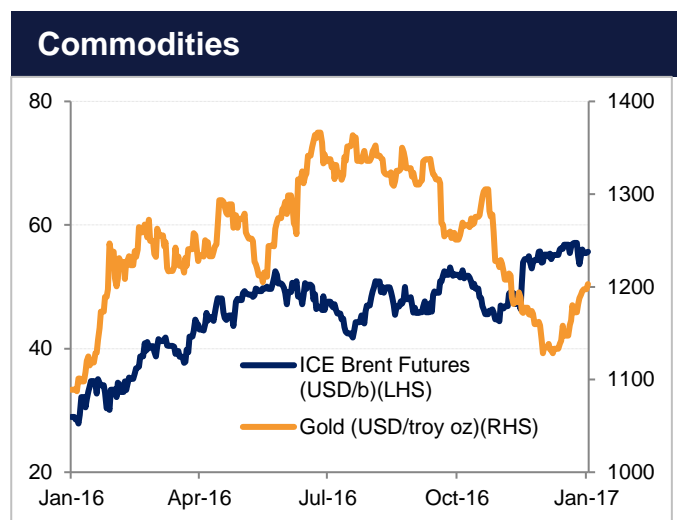
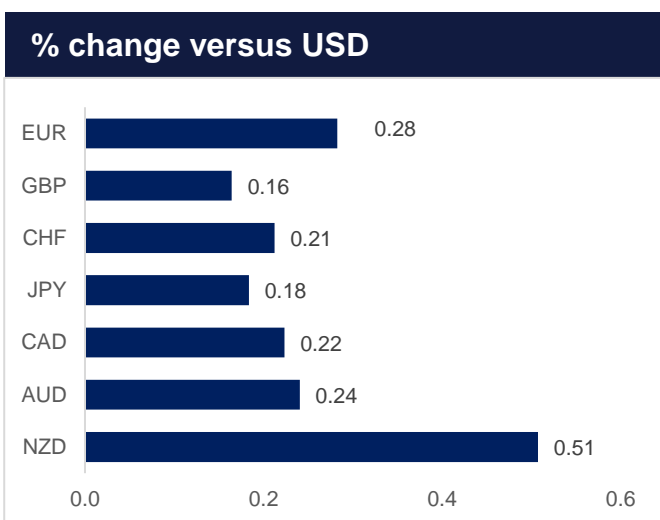
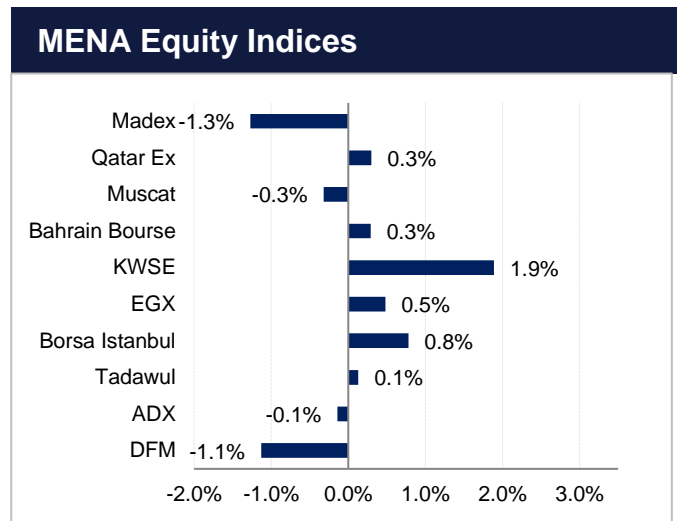
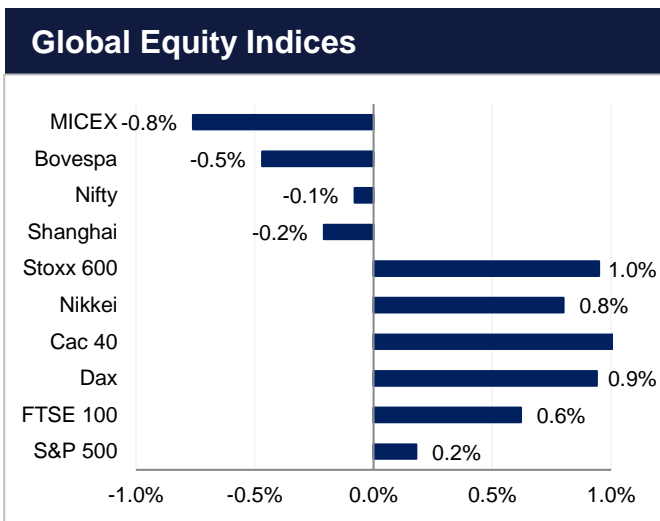
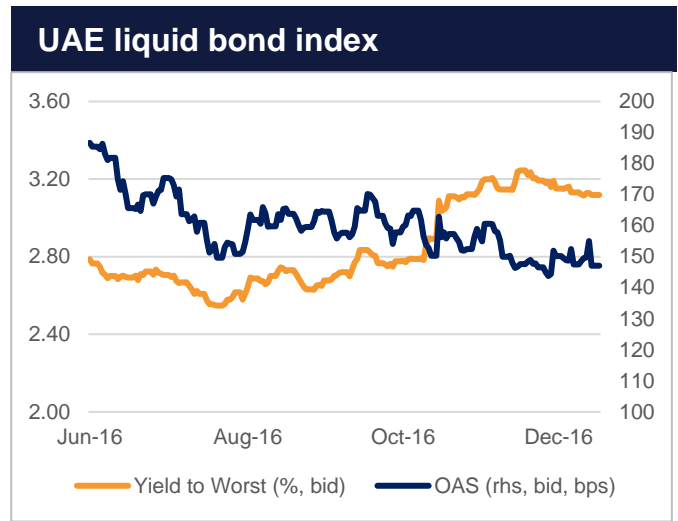
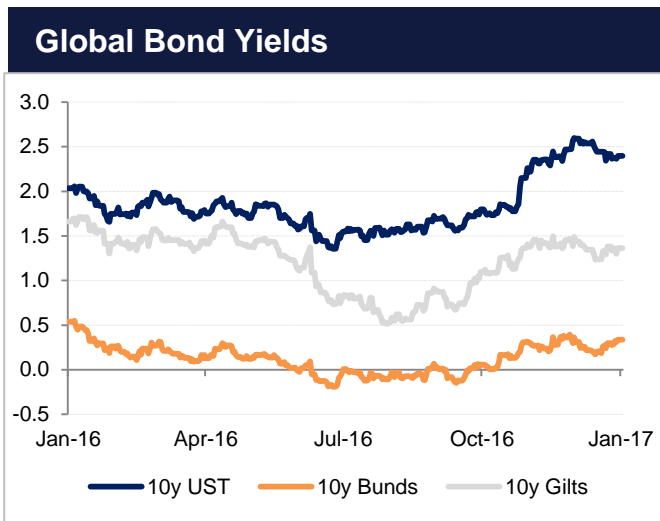
Asian equities are trading lower this morning amid weakness in Japanese and Chinese equities. The Shanghai Composite index was trading -1.4% at the time of this writing as speculation continued that policymakers may act to curb property prices. The Nikkei index was trading -1.1% as the JPY strengthened to 114.2 levels. It was a mixed day of trading for regional equities. The DFM index dropped -1.1% while the Tadawul added +0.1%.

Qatar National Bank reported 2016 net profit of QAR 12.4bn, in line with analysts' estimates of QAR 12.47bn. The bank recommended cash dividend of QAR 3.5 per share and 1 bonus share for every 10 shares held.

Commodities

Crude markets dipped last week despite news from Saudi Arabia that it has already lower oil output by more than mandated in OPEC's production cut agreement. Both Brent and WTI futures lost close to 3% over the course of the week. Drillers in the US appear to be taking a breather, cutting drilling rigs for the first time since the end of October 2016 while speculative net length in WTI futures and options also appears to have plateaued. Data related to the OPEC cut will only start to be coming in more readily toward the end of January and the market looks like it got ahead of itself in pushing up too fast too soon.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

| | Close | %1D chg | 1 yr fwd | | Close | %1D chg | | Close | %1D chg |
|--------|--------|---------|----------|--------|---------|---------|--------|--------|---------|
| EURUSD | 1.0643 | +0.05 | 1.0860 | USDTRY | 3.7233 | -2.60 | EURAED | 3.9092 | +0.05 |
| GBPUSD | 1.2182 | -0.72 | 1.2313 | USDEGP | 18.7285 | +0.09 | GBPAED | 4.4872 | -0.43 |
| USDJPY | 114.49 | +0.25 | 112.21 | USDSAR | 3.7507 | +0.00 | JPYAED | 0.0320 | -0.46 |
| USDCAD | 1.3114 | +0.49 | 1.3051 | USDQAR | 3.6409 | +0.01 | CADAED | 2.7945 | -0.71 |
| AUDUSD | 0.7502 | +0.03 | 0.7446 | USDKWD | 0.3055 | +0.02 | AUDAED | 2.7507 | -0.13 |
| USDCHF | 1.0084 | +0.04 | 0.9837 | USDBHD | 0.3770 | -- | CHFAED | 3.6437 | +0.00 |
| EURGBP | 0.8717 | +0.54 | 0.8800 | USDOMR | 0.3850 | -- | TRYAED | 0.9900 | +3.03 |
| USDAED | 3.6729 | -0.00 | 3.6859 | USDINR | 68.2475 | +0.24 | INRAED | 0.0538 | -0.14 |

Rates

| Interbank | 1 mo | 3 mo | 6 mo | 1 yr | Swaps | Close | 1D chg (bps) |
|-----------|---------|---------|---------|---------|-----------|--------|--------------|
| EIBOR | 0.9786 | 1.3983 | 1.6539 | 2.0504 | USD 2 yr | 1.464 | +1 |
| USD LIBOR | 0.7683 | 1.0232 | 1.3316 | 1.6984 | USD 5 yr | 1.900 | +2 |
| GBP LIBOR | 0.2644 | 0.3585 | 0.5225 | 0.7704 | USD 10 yr | 2.229 | +3 |
| JPY LIBOR | -0.0409 | -0.0327 | 0.0178 | 0.1266 | EUR 2 yr | -0.178 | +0 |
| CHF LIBOR | -0.7870 | -0.7272 | -0.6614 | -0.5030 | EUR 5 yr | 0.080 | +0 |
| | | | | | EUR 10 yr | 0.669 | +1 |

Commodities & Fixed Income

| Commodities | Close | %1D chg | Bonds/Sukuk | YTM | 1D chg (bps) | CDS | Close | 1D chg (bps) |
|-------------|---------|---------|---------------|------|--------------|--------------|-------|--------------|
| Gold | 1197.34 | +0.16 | ADGB 6.75 19 | 1.72 | -1 | Abu Dhabi | 59 | -1 |
| Silver | 16.79 | -0.73 | DUGB 7.75 20 | 2.84 | +0 | Dubai | 145 | +4 |
| Oil (WTI) | 52.37 | -1.21 | QATAR 6.55 19 | 2.02 | +2 | Qatar | 82 | +2 |
| Aluminium | 1811.00 | +1.12 | US Tsy 2 yr | 1.19 | +2 | Saudi Arabia | 116 | +2 |
| Copper | 5883.75 | +1.20 | US Tsy 10 yr | 2.40 | +3 | Bahrain | 268 | -2 |

Source: Bloomberg, Emirates NBD Research

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