



Daily Outlook

There was little new information in Theresa May's Brexit speech yesterday, aside from her statement that the final agreement reached with the EU would be put before both houses of parliament for approval before coming into effect. PM May outlined several goals that the UK was aiming to achieve in the negotiations, including border control, the freedom to negotiate non-EU trade deals and leaving the jurisdiction of the European Court of Justice. The UK would exit the EU's single market but seek to negotiate a new free trade deal with the EU to facilitate as much freedom of movement for goods & services as possible.

The rally in GBP yesterday suggests the market may be becoming more comfortable with the idea of the so-called 'hard' Brexit, but may have also been partly due to higher than expected UK inflation data released before the Brexit speech. **Headline CPI spiked to a new cycle high of 1.6% y/y in December, with core CPI also rising to 1.6% y/y from 1.2%**, not just on the back of higher oil prices but also due to sterling weakness. PPI input data showed a 15.8% y/y rise, up from 13.3% in November, and PPI output prices lifted to 2.7% y/y from 2.4%. The Bank of England has recently done a U-turn and acknowledged that its Brexit assessment was wrong, and Governor Mark Carney has even hinted at a possible reversal in the monetary loosening implemented last summer saying that the Bank will only have a limited amount of tolerance for higher prices. With the 2.0% inflation target seemingly getting closer that moment might come sooner than many think.

Saudi Finance Minister Mohammed Al Jadaan said in Davos yesterday the government expects growth in the Kingdom this year will be "significantly higher" than the 0.4% forecast by the IMF, and "north of 1%".

UK inflation at highest since July 2014



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK Unemployment (3m ma)	13:30	4.8%	Eurozone CPI	14:00	1.1%
US CPI	17:30	2.1%	US Industrial Production	18:15	0.6%
Bank of Canada rate decision	19:00	0.5%			

Source: Bloomberg.

Fixed Income

Trump's comment about dollar being too strong left fixed income investors adjusting yields lower and UST curve flattening materially overnight. Yields on 2yr and 10yr treasuries closed at 1.15% (-4bps) and 2.33% (-7bps) respectively. Yields on sovereign bonds in the UK and Eurozone were largely range bound after Theresa May delivered a speech in line with expectations.

Cash corporate bonds were all in the green following benchmark yield tightening and CDS levels were largely unchanged with US IG and Euro Main closing at 67bps (+1bp) and 70bps (unchanged) respectively.

Locally, GCC bonds had a bid bias and did close marginally higher, however investors' reluctance to follow benchmark tightening step-for-step is understandably missing given the perception of lower economic growth in the region and high upcoming pipeline of new issues. Credit spreads on BBG Barclays GCC index were a bp wider to 145bps while those on liquid UAE bonds were higher by 5bps to 152bps, not because of any credit concerns but simply because bond prices did not adjust higher to accommodate lower UST yields.

In the primary market, ICD yesterday commenced roadshow for a possible benchmark sukuk offering with a tenor of up to 10 years under its \$2.5b Trust Certificate Issuance Programme.

FX

Sterling had its best daily performance since 2008 on Tuesday after a rally spurred on by better than expected economic data and PM May's speech (see above). Over the course of the day, GBPUSD rallied 3.05% to close at 1.2414 on its 50 day MA, a level that has not been broken since breached on the 19th of December. Resistance appears to have held at this level and this morning the pair has declined 0.57% to 1.2342.

The USD is this morning outperformer, gaining on all the other majors with the Dollar Index rising 0.2% to 100.53. Having declined yesterday following comments by Trump that the dollar was already "too strong", the markets have turned their attention towards economic data today which is expected to show that US consumer prices increased by 2.1% y/y in December.

Equities

Developed market equities closed lower. European equities trimmed early session losses following comments from Theresa May on Brexit. US equities closed lower on the back of comments from Donald Trump on US Dollar. The Euro Stoxx 600 index and the S&P 500 index declined -0.2% and -0.3% respectively.

Asian equities, with the exception of Japanese equities, are trading higher this morning. The Nikkei index was trading -0.3% at the time of this writing as the JPY strengthened to 113.0 levels.

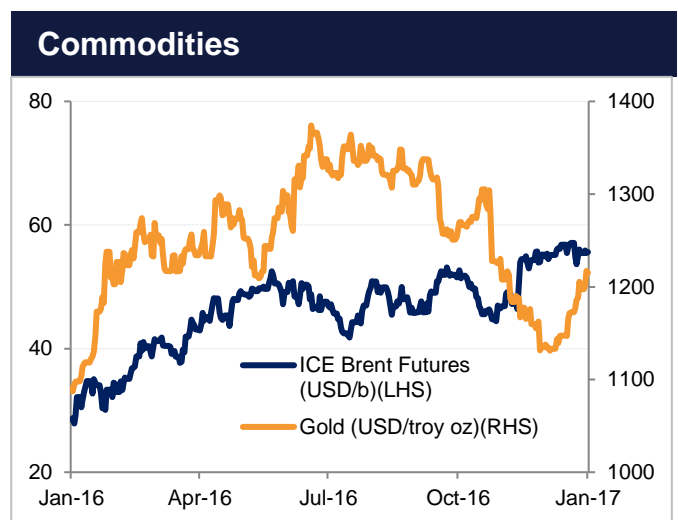
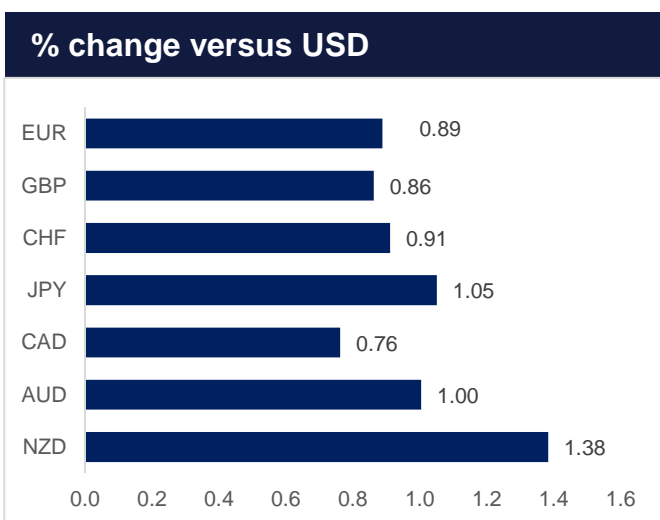
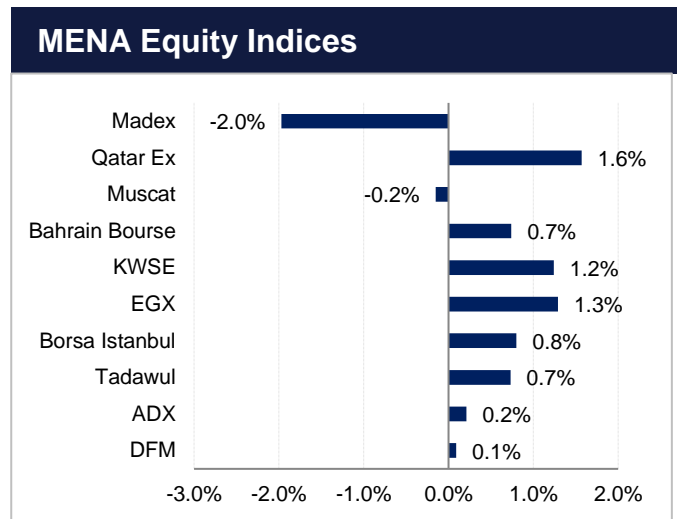
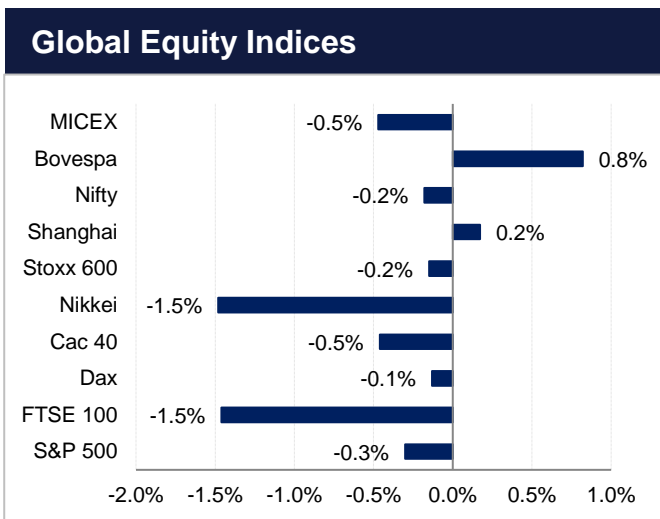
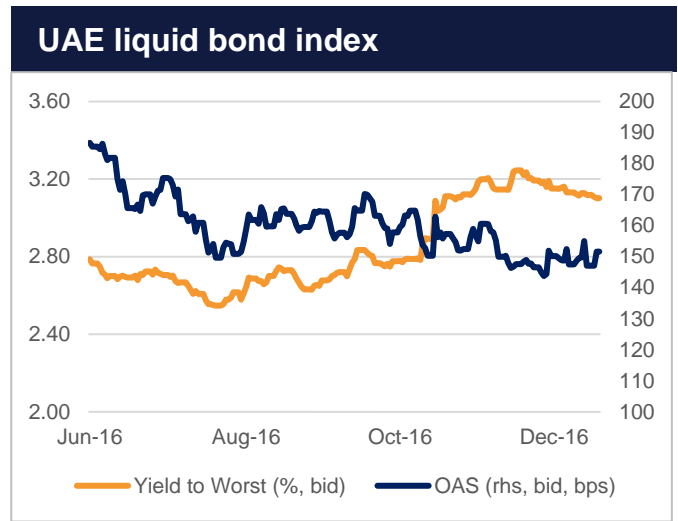
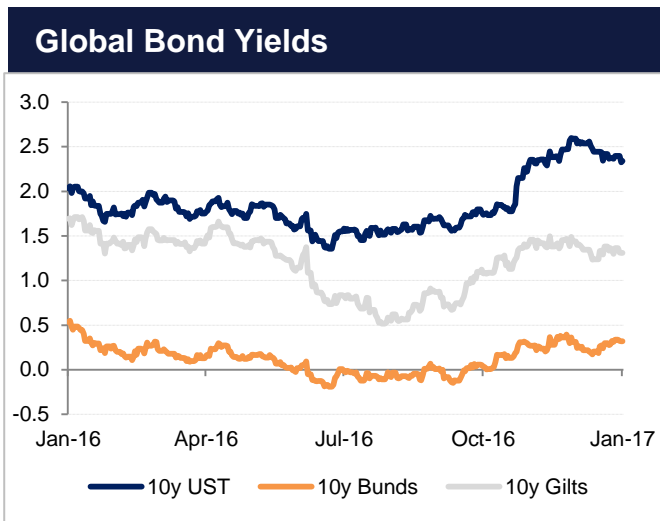
Regional equities had a positive day of trading with the Bloomberg GCC 200 index adding +0.9%. This was on the back of sharp gains in the Qatar Exchange (+1.6%) and the KWSE index (+1.2%).

In terms of stocks, Masraf Al Rayan rallied +4.0% after the bank announced a dividend of QAR 2 per share, higher than last year's QAR 1.5 per share. Doha Bank rallied +6.0% in anticipation of the same.

Commodities

Oil prices ended the day largely unchanged as the market awaits more substantial news and data. WTI futures closed around USD 52.50/b while Brent closed slightly short of USD 55.50/b. The usual weekly EIA data will be delayed one day this week owing to a public holiday in the US earlier this week. Expectations are for a decline in stockpiles after a 4m bbl build last week.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0680	+0.89	1.0898	USDTRY	3.7959	+0.59	EURAED	3.9228	+0.89
GBPUSD	1.2162	+0.86	1.2292	USDEGP	18.9434	+0.81	GBPAED	4.4661	+0.84
USDJPY	113.07	-1.05	110.83	USDSAR	3.7506	-0.00	JPYAED	0.0325	+1.07
USDCAD	1.3046	-0.77	1.2983	USDQAR	3.6407	-0.01	CADAED	2.8153	+0.77
AUDUSD	0.7543	+1.00	0.7487	USDKWD	0.3054	-0.08	AUDAED	2.7704	+1.00
USDCHF	1.0035	-0.91	0.9787	USDBHD	0.3770	+0.00	CHFAED	3.6599	+0.91
EURGBP	0.8782	+0.02	0.8866	USDOMR	0.3850	--	TRYAED	0.9700	-0.34
USDAED	3.6730	--	3.6860	USDINR	67.9187	-0.26	INRAED	0.0540	+0.21

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9471	1.3936	1.6574	2.0509	USD 2 yr	1.468	-2
USD LIBOR	0.7694	1.0248	1.3324	1.7023	USD 5 yr	1.892	-4
GBP LIBOR	0.2622	0.3566	0.5236	0.7709	USD 10 yr	2.213	-5
JPY LIBOR	-0.0240	-0.0249	0.0178	0.1273	EUR 2 yr	-0.188	-1
CHF LIBOR	-0.7892	-0.7294	-0.6646	-0.5052	EUR 5 yr	0.061	-2
					EUR 10 yr	0.655	-4

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1217.07	+1.19	ADGB 6.75 19	1.72	-0	Abu Dhabi	61	+2
Silver	17.06	+1.43	DUGB 7.75 20	2.83	-1	Dubai	145	-1
Oil (WTI)	52.48	+0.21	QATAR 6.55 19	2.02	-0	Qatar	86	+3
Aluminium	1802.25	+0.26	US Tsy 2 yr	1.15	-4	Saudi Arabia	115	-2
Copper	5731.25	-1.92	US Tsy 10 yr	2.33	-7	Bahrain	270	-7

Source: Bloomberg, Emirates NBD Research

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