



بنك الإمارات دبي الوطني  
Emirates NBD

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## Daily Outlook

**Comments by Fed Chair Janet Yellen and better than expected industrial production data in the US helped the USD strengthen and yields rise overnight**, ahead of the presidential inauguration tomorrow. In a speech to the Commonwealth Club in San Francisco, Ms Yellen said that given the strength of the US economy, it made sense to “gradually reduce the level of monetary support.” She also said that the FOMC expected to increase the Fed Funds rate “a few times a year” over the next 3 years.

**December inflation in the US was in line with forecasts at 2.1% y/y (headline) and 2.2% (core).** This is the highest reading since October 2014. Industrial production in December was higher than expected, rising 0.8% m/m although the November reading was revised lower. Today’s US housing starts and building permits data are also expected to have improved in December.

In Europe, **Eurozone inflation was in-line with forecasts at 1.1% y/y (December) while UK employment data was better than expected:** the unemployment rate was stable at 4.8% and average weekly earnings rose by more than forecast in November (2.8% y/y). **We are not expecting any changes to monetary policy at today’s ECB meeting.**

**The Bank of Canada kept rates on hold yesterday**, in line with expectations, but governor Poloz kept the prospect of a rate cut “on the table”, citing uncertainty around US trade policy under a Trump administration. In Australia, employment rose by more than forecast in December, with 13500 new jobs. However, the unemployment rate rose slightly to 5.8% as the participation rate increased to 64.7% from 64.6%.

### US headline inflation rises above 2% in December



Source: Bloomberg, Emirates NBD Research.

### Day's Economic Data and Events

	Time	Cons		Time	Cons
ECB policy meeting	16:45		US Housing Starts	17:30	1184k
US Building Permits	17:30	1225k	US Initial Jobless Claims	17:30	251k

Source: Bloomberg.

## Fixed Income

Hawkish comments from Ms Yellen and increase December inflation data pushed treasury yields higher with 2yr and 10yr closing at 1.22% (+7bps) and 2.43% (+10bps) respectively. Sovereign bond yields were higher in the UK and the Eurozone as well in response to better than expected unemployment and inflation data. Yields on 10yr Gilts and Bunds each closed 3bps higher at 1.33% and 0.35% respectively.

Amid range-bound oil prices, CDS levels on US IG and Euro Main remained close to their opening levels at 66bps and 70bps respectively though cash corporate bonds in the developed world bled under the weight of rising benchmark yields.

The full impact of higher UST yields will probably make itself evident in the local market today. Yesterday, the liquid UAE bond index actually closed with credit spreads tighter by 6bps to 145bps and yields down two bps to 3.08% as investors continue to receive cash from redemptions.

Bahrain based and 97% owned by the Saudi Government's Public Investment Fund, the Baa1/A-rated Gulf International Bank yesterday priced its \$500 million 5yr bond at MS+170bps, circa 15bps tighter than the initial guidance. Also in the market is the Turkey treasury with a 10yr dollar denominated bond with Citi, GS, Barclays and QWNB as the leads.

In the corporate news, SECO yesterday announced weaker than expected results and S&P upgraded Shelf Drilling's rating from SD to B-/stable as the company restructured its 2018 maturity bonds.

## FX

USD gained on all the other majors yesterday as markets turned their focus to the reality of higher interest rates on the horizon. Economic data showing consumer prices increased 2.1% y/y in December combined with comments from Fed Chair Yellen (see above) resulted in broad support for the dollar. Over the course of the day, the Dollar Index rose 0.6% to 100.93, the first appreciation following 5 days of consecutive declines.

The biggest gain realised was against JPY, with USDJPY rising 1.8% to close at 114.65. This close above the 50 day MA of 114.52 may be an early indication of further bias to the upside and with the rebound in the 14 day RSI, an advancement of the pair towards the 30 day MA of 116.29 cannot be ruled out.

## Equities

Developed market equities closed higher following comments from Janet Yellen that the growth in the US economy is strong enough to warrant higher interest rates. The S&P 500 index and the Euro Stoxx 50 index added +0.2% and +0.4% respectively.

Asian equities are trading higher this morning tracking positive close to developed markets overnight. The Nikkei index was trading +1.0% at the time of this writing as the JPY weakened to 114.7 levels.

It was a mixed day of trading for regional equities with the DFM index adding +0.6% while the Tadawul dropped -0.3%.

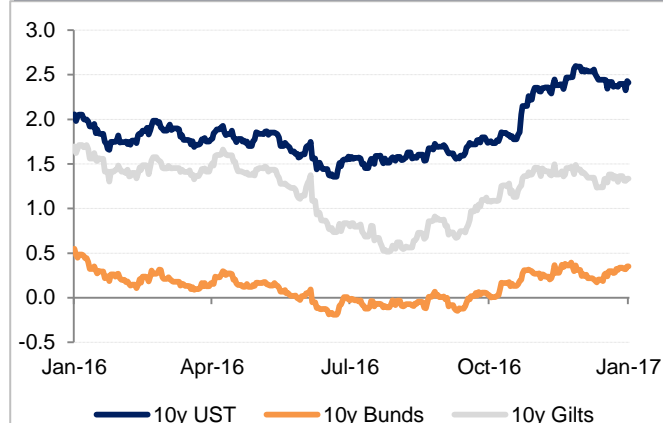
Saudi Electricity Co. (-3.4%) dragged the broader index lower after the company reported a wider than expected loss for Q4 2016. The company reported a loss of SAR 2.34bn citing higher operating costs. Alinma Bank added +2.8% after reporting Q4 2016 earnings in line with estimates.

## Commodities

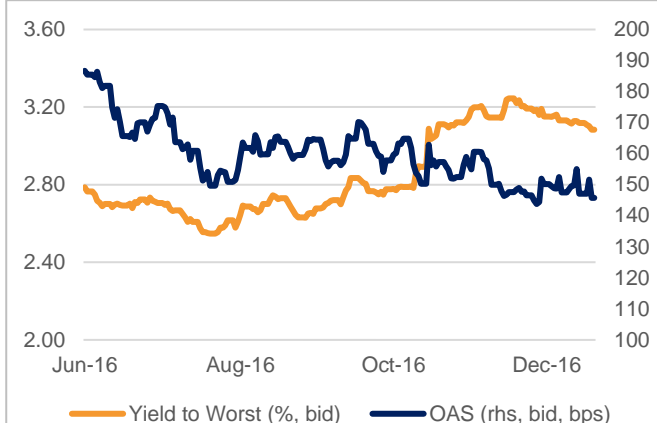
Oil market slipped yesterday as OPEC's latest monthly oil report expected US production to respond positively to higher prices. The head of the IEA also indicated that shale would come back in a significant way this year, acting as a barrier to sustained price rallies. A committee of OPEC and non-OPEC producers meets this weekend to assess compliance with production cuts with the market undecided whether the assessment will be a paper tiger.

## Markets in Charts

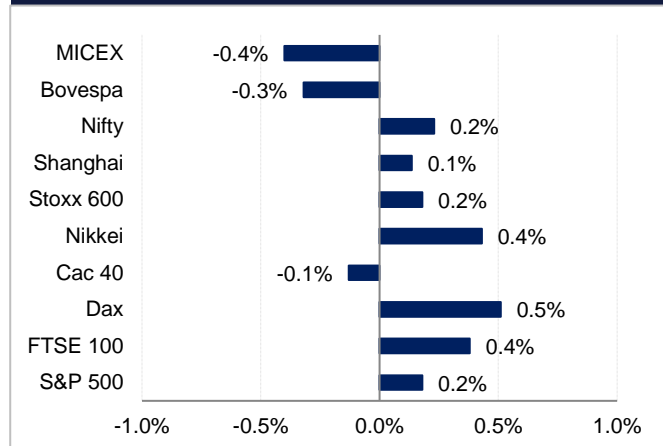
### Global Bond Yields



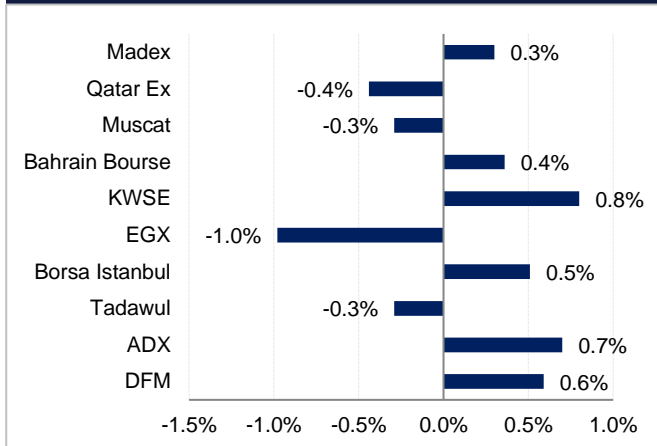
### UAE liquid bond index



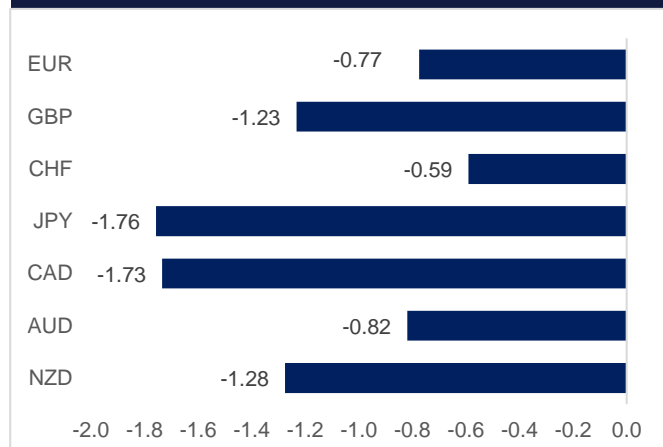
### Global Equity Indices



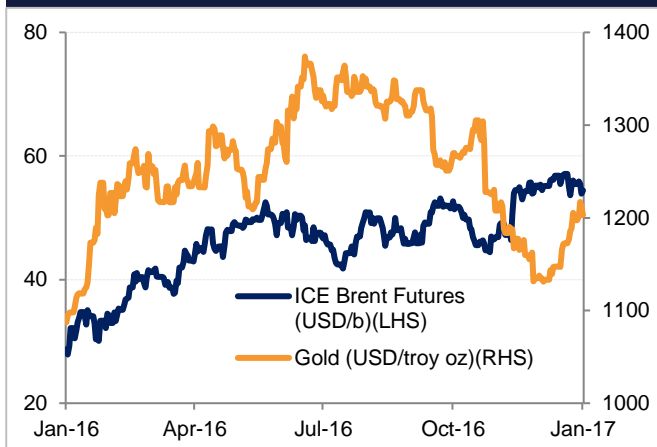
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0686	+0.06	1.0906	USDTRY	3.7879	-0.21	EURAED	3.9245	+0.04
GBPUSD	1.2309	+1.21	1.2441	USDEGP	18.8045	-0.73	GBPAED	4.5210	+1.23
USDJPY	113.39	+0.28	111.15	USDSAR	3.7506	--	JPYAED	0.0324	-0.28
USDCAD	1.3087	+0.31	1.3023	USDQAR	3.6410	+0.01	CADAED	2.8069	-0.30
AUDUSD	0.7551	+0.11	0.7495	USDKWD	0.3051	-0.08	AUDAED	2.7737	+0.12
USDCHF	1.0026	-0.09	0.9779	USDBHD	0.3770	-0.00	CHFAED	3.6632	+0.09
EURGBP	0.8681	-1.14	0.8767	USDOMR	0.3850	--	TRYAED	0.9700	+0.25
USDAED	3.6730	--	3.6845	USDINR	68.2050	+0.36	INRAED	0.0540	-0.11

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9829	1.3961	1.6566	2.0114	USD 2 yr	1.468	+0
USD LIBOR	0.7767	1.0301	1.3385	1.7104	USD 5 yr	1.902	+1
GBP LIBOR	0.2622	0.3565	0.5241	0.7718	USD 10 yr	2.232	+2
JPY LIBOR	-0.0283	-0.0231	0.0183	0.1274	EUR 2 yr	-0.183	+1
CHF LIBOR	-0.7892	-0.7294	-0.6646	-0.5032	EUR 5 yr	0.093	+3
					EUR 10 yr	0.698	+4

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1204.30	-1.05	ADGB 6.75 19	1.75	+3	Abu Dhabi	60	--
Silver	17.13	+0.45	DUGB 7.75 20	2.88	+5	Dubai	145	+1
Oil (WTI)	51.08	-2.67	QATAR 6.55 19	2.02	+1	Qatar	85	-1
Aluminium	1839.00	+2.04	US Tsy 2 yr	1.22	+7	Saudi Arabia	114	-1
Copper	5740.50	+0.16	US Tsy 10 yr	2.43	+10	Bahrain	270	--

Source: Bloomberg, Emirates NBD Research

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