



بنك الإمارات دبي الوطني
Emirates NBD

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Daily Outlook

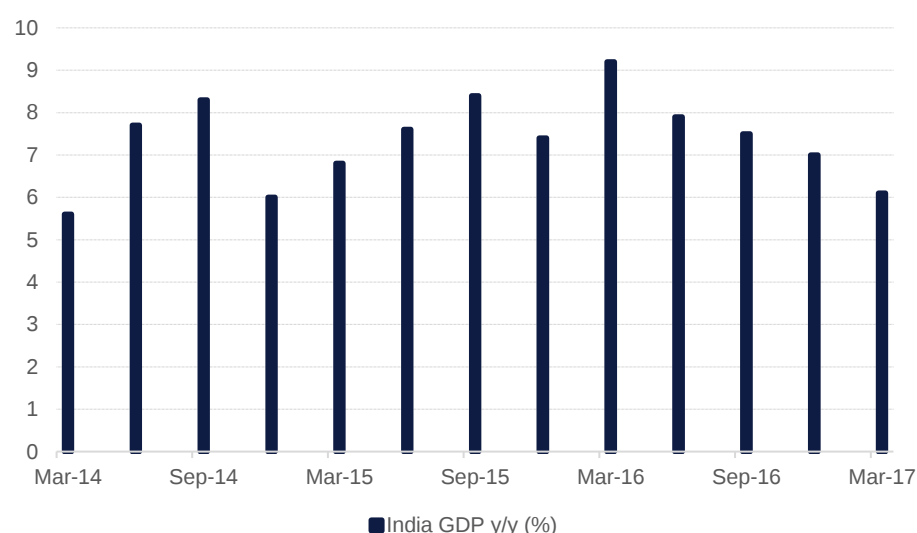
Inflation in the Eurozone slowed in May to 1.4% y/y from 1.9%, below the market's expectation of a slowdown to 1.5%. Core inflation including more volatile components such as food and energy also slowed to 1% in May from 1.2% previously. The soft inflation figures may firm up ECB governor Draghi's view that "accommodative" financing conditions will need to remain in place for the Eurozone, even as the market prepares for a more assertive statement at next week's ECB meeting. **More constructive, however, was a tick down in the Eurozone unemployment to 9.3% in April from 9.4% a month earlier.**

India's GDP for Q4 FY 2017 came in lower than expected at 6.1%. While the full year FY 2017 growth came in line with expectations at 7.1%, it was lower than FY 2016 growth of 8.0%. **The latest data clearly suggests the lingering impact of demonetization** with construction sector growth declining by -3.7% compared to 3.4% in the previous quarter and manufacturing sector growing at 5.3% compared to 8.2% in the previous quarter. The data was also impacted by the base effect following upward revisions to previous year data.

The Caixin China manufacturing PMI showed a contraction for May, diverging from the government's own statistics which showed steady output month on month. The Caixin survey takes into account smaller firms than the government's measure which suggests that large SOEs have been responsible for keeping China's growth steady this year but raises concerns about how sustainable that growth can be if stimulus or accommodative financial conditions are withdrawn.

Total crude production from OPEC rose 250k b/d in May according to a Reuters survey. Output from Saudi Arabia and the UAE ticked higher by 30k b/d and 10k b/d respectively while the biggest increases came from Libya (180k b/d) and Nigeria (130k b/d). **Total compliance with the production targets remained high at 95% but we would expect to see that slip further over the summer months as output seasonally moves higher.**

Demonetization impact lingers on in India's economy



Source: EIKON, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
EC Markit Manf. PMI	12:00	57	US ADP Employment chg	16:15	180k
US Markit Manf. PMI	17:45	52.5	US ISM Manf.	18:00	54.6

Source: Bloomberg.

Fixed Income

San Francisco Fed President's John Williams commented that 3 rate increases is the base, but if economy strengthens, 4 times would be appropriate left sovereign bonds trading weaker across the developed world. Yields on 2yr and 10yr US Treasuries rose to 1.29% (+1bp) and 2.21% those on 10yr Bunds and Gilts closed at 0.30% (+1bp) and 1.04% (+5bps) respectively. Average credit spreads on local GCC Bonds rose by a bp to 134bps, however overall bond prices remained stable with total yield to worst declining a bp to 3.23%

Activity in the primary market is thin. In market news, ENBD yesterday launched a sukuk index capturing global USD denominated sukuk (excluding murabaha). The index reflects 17% return over the last four years i.e circa 3.7% per annum which is similar to the total return on conventional bonds in the region.

FX

Despite stronger than expected retail sales in April, AUD is underperforming this morning and has softened against all the other major currencies. Economic data showed that retail sales had risen 1% m/m in April compared with market expectations of 0.3% growth. Despite this, AUD softness has been catalysed by a weaker than expected PMI from China (see above), Australia's largest trading partner. As we go to print, AUDUSD trades 0.4% lower at 0.7400, remaining in the daily downtrend that has been in effect since March 21st. We expect further declines at these levels with a break below 0.7396 (the one year 38.2% Fibonacci retracement) to be imminent, followed by further declines towards 0.73. A break of this level would take the pair to the lowest level seen January 2017 and pave the way for more significant declines. On the other hand, a daily close above 0.7469 would nullify our view and indicate possible trend reversal.

Equities

Developed market equities closed marginally lower following weak revenue guidance from US banks and continued weakness in oil prices. The S&P 500 index lost -0.1% while the Euro Stoxx 600 index declined -0.2%.

It was a mixed day of trading for regional equities with the Tadawul closing flat and the Qatar Exchange losing -1.6%.

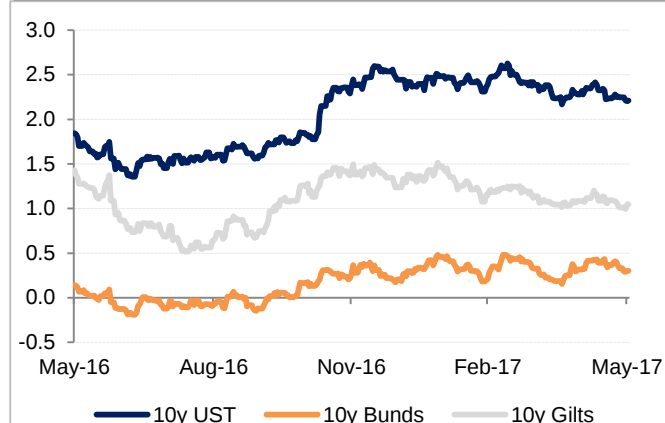
Ezdan Holding dropped a further -9.3% as investors continue to pare their position following a preliminary approval by shareholders to delist. Dana Gas jumped +5.1% following fresh reports of the company continuing to pursue legal option in relation to its dues from KRG.

Commodities

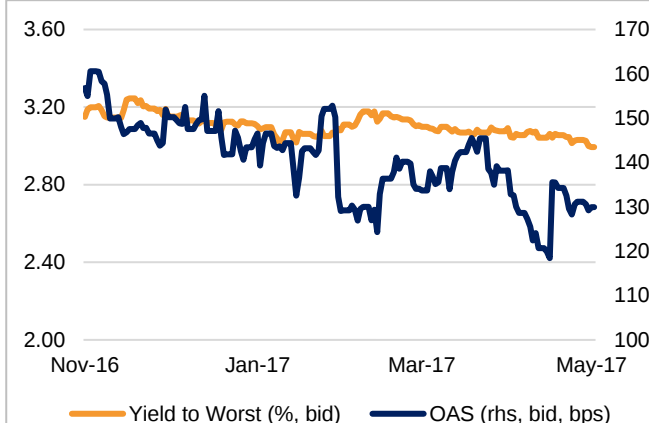
Oil markets were again off heavily yesterday despite comments from the Saudi and Russian energy ministers, pledging cooperation to bring inventories down to their five-year average. Prices have managed to claw back some ground after the API data showed a large draw of 8.7m bbl last week, which was to be expected ahead of the Memorial Day long weekend in the US. If confirmed later tonight by the EIA oil markets may hold some ground but generally the tone of the market appears to be seeking bearish rather than bullish catalysts.

Markets in Charts

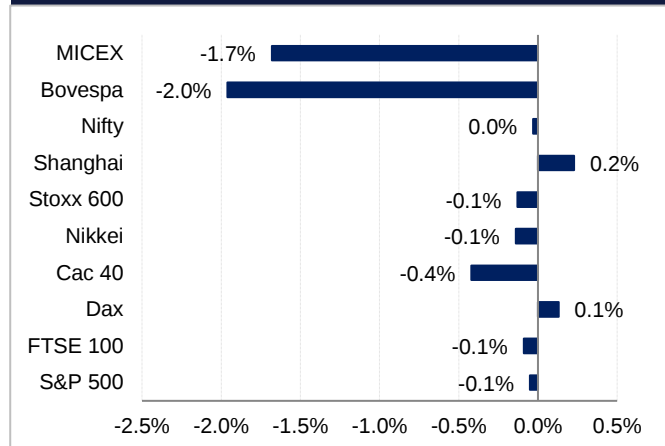
Global Bond Yields



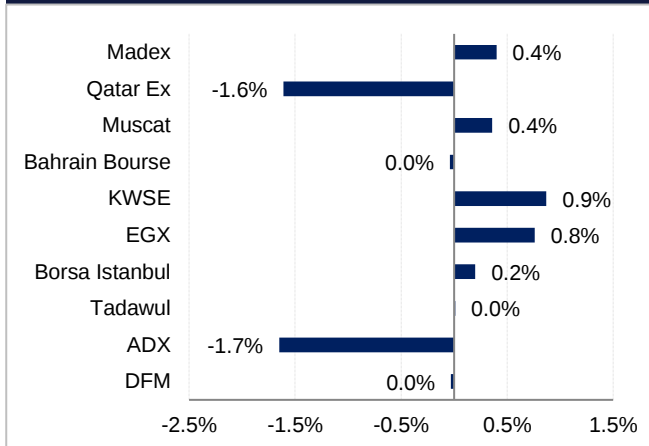
UAE liquid bond index



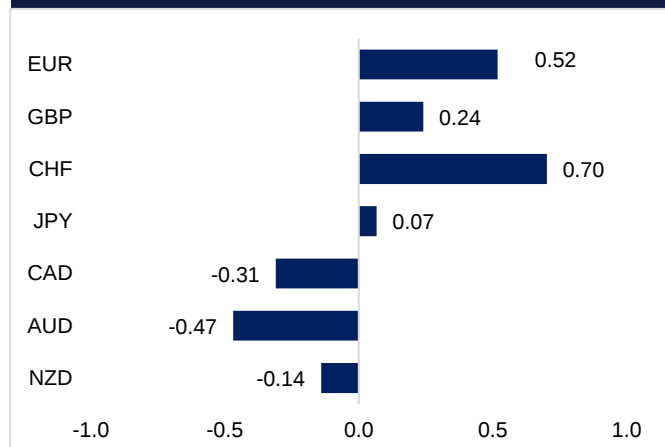
Global Equity Indices



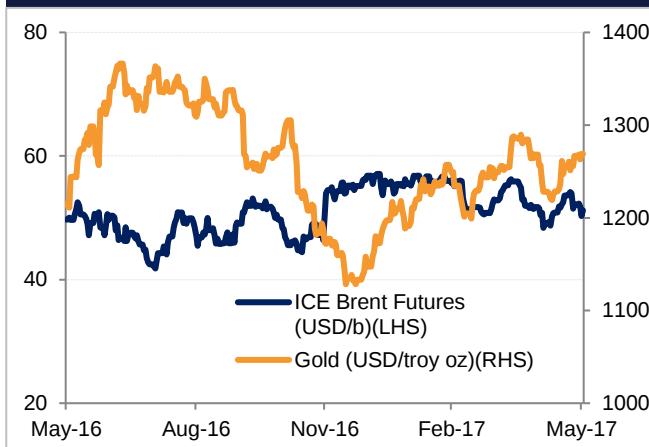
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1244	+0.52	1.1474	USDTRY	3.5279	-0.59	EURAED	4.1297	+0.51
GBPUSD	1.2890	+0.24	1.3041	USDEGP	18.1340	+0.06	GBPAED	4.7346	+0.25
USDJPY	110.78	-0.06	108.74	USDSAR	3.7502	--	JPYAED	0.0332	+0.06
USDCAD	1.3500	+0.30	1.3411	USDQAR	3.6416	+0.01	CADAED	2.7206	-0.31
AUDUSD	0.7430	-0.47	0.7399	USDKWD	0.3036	-0.02	AUDAED	2.7292	-0.45
USDCHF	0.9678	-0.70	0.9442	USDBHD	0.3771	-0.01	CHFAED	3.7952	+0.71
EURGBP	0.8723	+0.27	0.8798	USDOMR	0.3850	+0.01	TRYAED	1.0400	+0.49
USDAED	3.6730	+0.00	3.6795	USDINR	64.4450	-0.34	INRAED	0.0570	+0.28

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0950	1.4885	1.6923	2.1197	USD 2 yr	1.511	--
USD LIBOR	1.0505	1.2018	1.4149	1.7215	USD 5 yr	1.828	--
GBP LIBOR	0.2523	0.2965	0.4393	0.6363	USD 10 yr	2.147	--
JPY LIBOR	-0.0285	-0.0156	0.0230	0.1264	EUR 2 yr	-0.164	--
CHF LIBOR	-0.7874	-0.7296	-0.6618	-0.4896	EUR 5 yr	0.164	--
					EUR 10 yr	0.780	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1268.92	+0.46	ADGB 6.75 19	1.55	--	Abu Dhabi	39	+1
Silver	17.33	-0.36	DUGB 7.75 20	2.59	--	Dubai	106	--
Oil (WTI)	48.32	-2.70	QATAR 6.55 19	1.75	-1	Qatar	60	+4
Aluminium	1925.75	+0.16	US Tsy 2 yr	1.28	--	Saudi Arabia	90	--
Copper	5657.75	+0.43	US Tsy 10 yr	2.20	-1	Bahrain	221	+2

Source: Bloomberg, Emirates NBD Research

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