بنك الإمارات دبي الوطني
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Daily Outlook

The main focus at the start of the week remains the story of USD strength, with the dollar index rising to a 13-year high in recent days. Partly this is the result of Fed Chair Janet Yellen coming as close as possible to confirming a December rate hike last week, saying that a tightening could become appropriate relatively soon. Economic data has also certainly been supportive of late, with housing starts in October soaring 25% and consumer confidence also coming in strong. And of course markets are also pricing in a possible shift in the direction of economic policy that could be announced and implemented by the Trump White House next year, despite the fact that the details of any plans will not become apparent until after the inauguration in January.

The coming week could be relatively quiet due to Thanksgiving in the United States, however there are still some important data releases to monitor. U.S. data is expected to be strong, and includes the latest durable goods report and more housing figures, while the minutes from the last FOMC meeting will also be published. The UK in contrast faces a potentially difficult week with public finance data expected to highlight the challenges that lie ahead for the Chancellor in seeking to cut the budget deficit, while avoiding rocking the Brexit boat. The Chancellor's Autumn Fiscal Statement will likely water down spending cuts and direct new expenditure towards infrastructure.

The Central Bank of Egypt voted to keep interest rates unchanged at its latest monetary policy meeting on 17 November, after the overnight deposit and lending rates were hiked 300bps to 14.75% and 15.75% respectively earlier in the month alongside the devaluation of the Egyptian pound. Authorities are likely eager to begin easing policy as quickly as possible given the impact that higher interest rates will have on the budget, and activity across the private sector economy. According to comments from the country's finance minister yesterday, the government is now studying whether to issue new international bonds at the end of November or early December, or delay it until the first half of January 2017.

USD Index Continues to Rise

Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Chicago Fed Activity Index	17:30	0.0	Canada Wholesale Trade	17:30	0.5%

Source: Bloomberg.

Fixed Income

Bond markets continued their downward spiral last week pressured by continued hawkish talks from Fed officials which in turn has placed the future implied probability of a US rate hike in December at almost 98%. Yields on 2yr and 10yr US treasuries climbed further during the week to 1.07% (+7bps) and 2.35% (+9bps) respectively. Though economic growth in the UK is unlikely to keep pace with that in the US, yields on Gilts rose in sync with UST, closing the week at 1.45% (+5bps) as risk of inflation from lower currency begin to mount. In contrast Bund yields consolidated somewhat with Eurozone inflation.

Against this backdrop, local GCC bonds had little defence against bond price regression. However, higher ratings for most GCC issuers helped it marginally outperform the wider emerging market bonds. The option adjusted spread on the BUAEUL index (liquid UAE bonds) widened 7 bps to 157 bps with yields increasing to 3.112% from 2.893%. Relatively, the OAS on the Bloomberg EM Composite bond index widened 12 bps to 328 bps while yield on the same jumped from 4.938% to 5.212%.

Activity in the GCC primary market has reduced substantially given the heightened volatility post president elect Trump's victory. However investors received some small privately placed deals from likes of ADCB, Mashreq and NBK etc during the week. Looking ahead CBQ and Doha Bank, both have received shareholder approval to raise capital either via shares or possibly via Tier 1 securities. Doha Bank is also in preparation for $300 - $400 million in conventional bonds to be issue in the 1Q next year. Gulf International Bank is also believed to be looking to issue a bond early next year.

Equities

Asian equities are trading higher this morning as Japanese equities extended their rally as JPY traded above 111.0 levels. The MSCI Asia Pacific index was trading +0.3% at the time of this writing.

It was largely a negative day of trading for regional equities with the Bloomberg GCC 200 index losing -0.8%. The ADX index dropped -1.7% after all the banks linked with proposed merger in a news story denied the same. Union National Bank dropped -5.2% while ADCB lost -2.7%. On the DFM, small cap stocks continue to dominate flows with Drake & Scull (+2.3%) and Gulf Finance House (-3.8%) accounting for nearly 55% of total turnover. Shuaa Capital closed +7.48% at AED 1.58 even as news came in that ADFG paid AED 0.75 per share for DFG's 48% stake in the company.

The Tadawul declined -0.9% as telecom companies underperformed. Saudi Telecom Co dropped -3.7% while Etihad Etisalat declined -1.5%.

FX

USD is holding onto the gains of the previous week as markets open for the Asia session, with the Dollar Index being mildly firmer having risen 0.1% to 101.300, taking overall gains to 3.51% since Trump's victory on November 9th and taking the winning streak to 10 consecutive days.

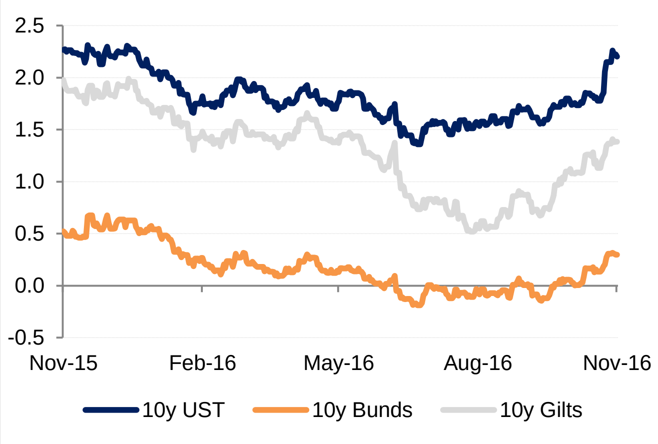
The biggest gains have been realised against JPY, with USDJPY now trading at 111.11, the highest level seen since May 2016. The market will be looking for a break of 111.35, the 50% one year Fibonacci retracement to open the door for advance towards 114.

Commodities

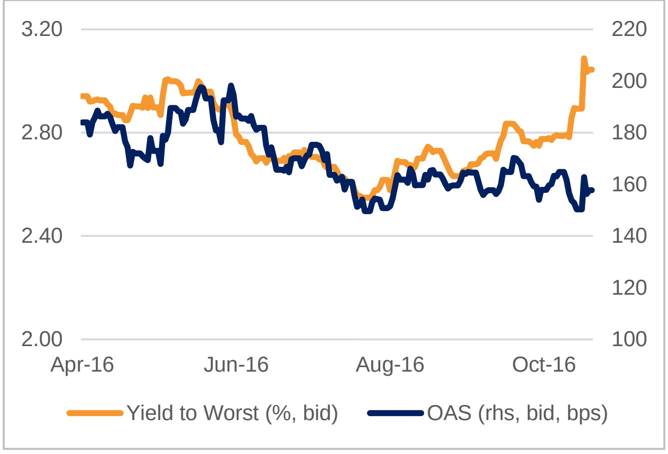
Oil markets ended the week higher on optimism that OPEC would be able to implement the production cut deal it agreed to at the end of September. Brent futures closed a little below USD 47/b while WTI is not far off USD 46/b. Saudi Arabia's energy minister appears to be fixated on the lower end of the target range set at the Algeria meeting—32.5m b/d—but getting to it would mean spreading a cut of 1.5m b/d from October's reported output among 11 of OPEC's 14 members, the bulk of which we would expect to fall on GCC producers. Outside of OPEC drillers in the US continued to add oil rigs, up 19 last week to 471 targeting oil. Horizontal rigs, those most likely to be focused on shale assets, have risen 156 rigs (50%) since their low in May.

Markets in Charts

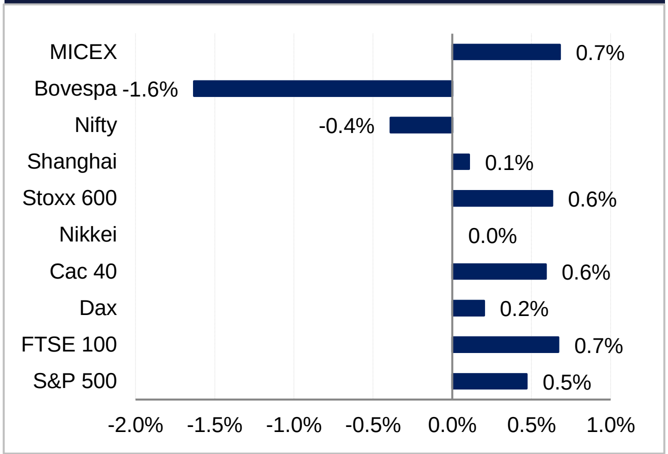
Global Bond Yields



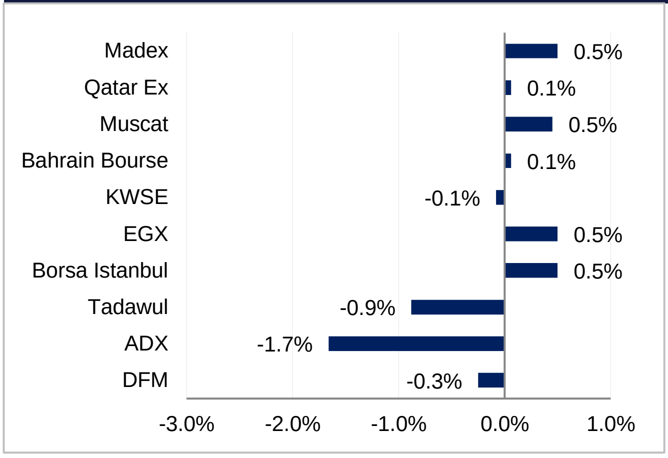
UAE liquid bond index



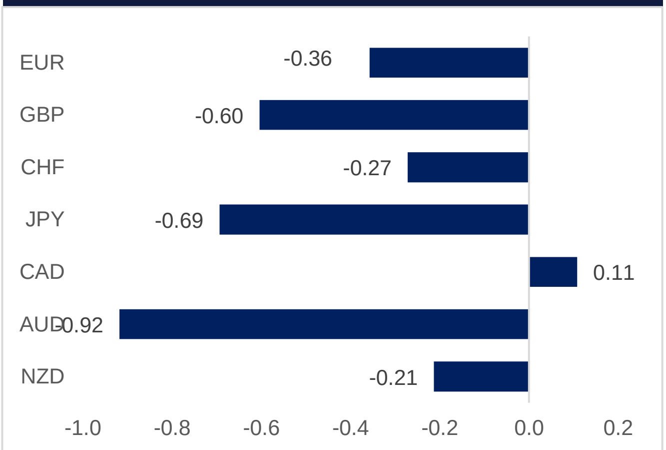
Global Equity Indices



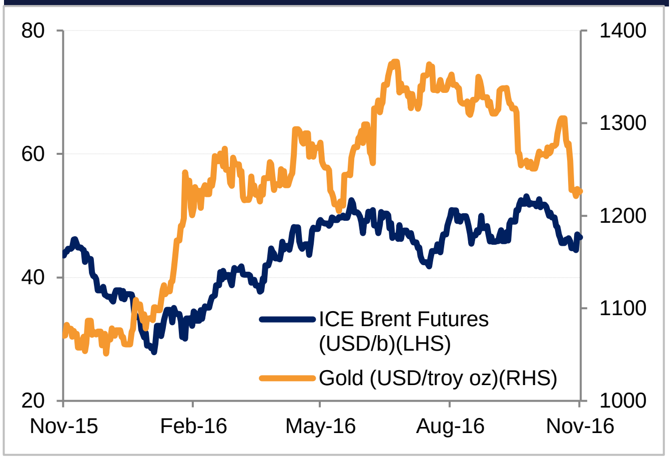
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0588	-1.52	1.0784	USDTRY	3.3683	+2.44	EURAED	3.8899	-1.50
GBPUSD	1.2342	-1.07	1.2447	USDEGP	15.9457	+3.67	GBPAED	4.5346	-1.05
USDJPY	110.91	+1.77	108.91	USDSAR	3.7506	--	JPYAED	0.0331	-1.74
USDCAD	1.3505	+0.51	1.3451	USDQAR	3.6413	+0.01	CADAED	2.7194	-0.52
AUDUSD	0.7338	-2.92	0.7280	USDKWD	0.3048	+0.23	AUDAED	2.6942	-2.97
USDCHF	1.0101	+1.08	0.9866	USDBHD	0.3770	--	CHFAED	3.6372	-1.05
EURGBP	0.8578	-0.45	0.8663	USDOMR	0.3850	+0.00	TRYAED	1.0900	-2.42
USDAED	3.6730	--	3.6850	USDINR	68.1512	+0.77	INRAED	0.0539	-0.78

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.7209	1.4030	1.6810	1.9999	USD 2 yr	1.299	+7
USD LIBOR	0.5660	0.9162	1.2793	1.6207	USD 5 yr	1.814	+12
GBP LIBOR	0.2630	0.3984	0.5666	0.8093	USD 10 yr	2.203	+13
JPY LIBOR	-0.0510	-0.0537	0.0024	0.1151	EUR 2 yr	-0.140	-1
CHF LIBOR	-0.7874	-0.7392	-0.6630	-0.4922	EUR 5 yr	0.119	
					EUR 10 yr	0.671	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1207.89	-1.92	ADGB 6.75 19	1.66	+9	Abu Dhabi	72	+6
Silver	16.56	-3.68	DUGB 7.75 20	2.95	+7	Dubai	165	+16
Oil (WTI)	45.69	+0.07	QATAR 6.55 19	1.91	+4	Qatar	94	+7
Aluminium	1707.75	-1.97	US Tsy 2 yr	1.07	+8	Saudi Arabia	136	+5
Copper	5412.00	-2.13	US Tsy 10 yr	2.35	+14	Bahrain	390	+21

Source: Bloomberg, Emirates NBD Research

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