



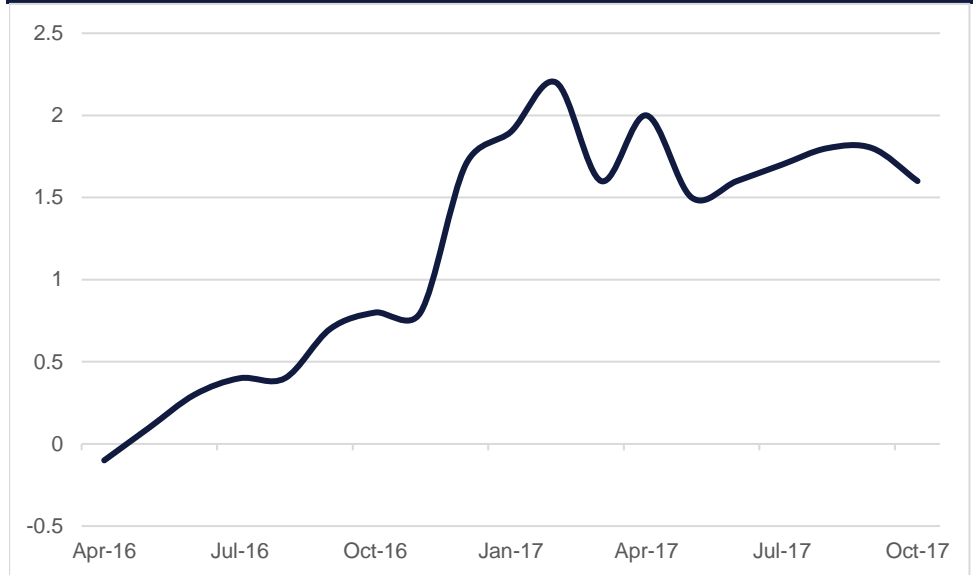
Daily Outlook

Angela Merkel's efforts to form a three way government in Germany failed yesterday, putting her fourth term in doubt and raising the spectre of possible new elections. The news comes as the German economy growth outlook for 2017 look to be the strongest in 6 years, after Germany's IFO institute lifted German forecast GDP this year to 2.3% from 1.9%. A consumer led upswing on record low unemployment, moderate inflation and low interest rates is lending support to an already robust export driven sector of the economy. Failure to form a government in Germany could have implications on issues ranging from Eurozone economic reforms to Brexit negotiations. Furthermore uncertainty on the outlook for promised fiscal stimulus by the next government could further cloud the outlook for Europe's largest economy.

Federal Reserve Chair Janet Yellen said on Monday she would resign her seat on the Fed's Board of Governors once Jerome Powell is confirmed. In a letter to US President Donald Trump, Yellen vowed to "do my utmost to ensure a smooth transition" to Powell, who was nominated to succeed her by Trump early this month. President Trump will be able to appoint five of the board's seven potential members, filling four open seats alongside his sole board appointment to date of Randal Quarles as vice chair for supervision. Yellen who could have stayed on as Governor till 2024, credited with putting the economy on a firmer footing and steering monetary policy away from the firefighting mode that followed the 2007-2009 recession and financial crisis,

British households are beginning to feel the pinch of higher inflation according to the IHS Markit Household Finance Index. The index fell 43.4 in November from 43.8 in October, with respondents being their most pessimistic on their outlook for finances since June. The survey found the pace of spending growth by households slowed in November, on the back falling spending power as banks reining in their credit. Separately, Visa predicted a 0.1% fall in spending after adjusting for inflation during the Christmas period. This would be the first annual fall since 2012, in comparison to last year's increase of nearly 3%.

German inflation higher but still moderate



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
Chicago Fed nat Act Index (m/m)	17.30	0.2%	US Existing Homes Sales	19.00	5.40m

Source: Bloomberg

Fixed Income

Treasuries closed lower as the curve continued to flatten despite political crisis in Germany and no headway in the US tax bill. The announcement by Janet Yellen that she will resign from the Fed also had no impact. Yields on the 2y USTs increased 3 bps to 1.75%, on 5y USTs by 4 bps to 2.09% and on 10y USTs by 2 bps to 2.36%.

Regional bonds is starting to see some buying interest come back. While the YTW on the Bloomberg Barclays GCC Credit and High Yield index remained flat at 3.71%, credit spreads tightened by 3 bps to 160 bps.

In terms of rating action, Moody's downgraded Al Hilal Bank's long term issuer rating to A2 from A1 and changed the outlook to stable from negative. The agency attributed the decline to deterioration in asset quality and coverage levels. There was no impact of the same on ALHILAL 5.5% perpetual which actually closed marginally higher at USD 101.50.

FX

The dollar rallied yesterday as uncertainty abroad hurt other currencies and as US leading indicators exceeded expectations rising by 1.2% in October pushing US yields higher. In particular German political uncertainty helped EURUSD lower, reaching as low as 1.1730. USDJPY recovered as risk appetite improved on the stronger US data, while USDCAD was supported by softer oil prices.

Minutes from the RBA's November meeting dampened the AUD as they suggested that the central bank is in no hurry to raise interest rates, citing 'considerable uncertainty' about when wage pressures might emerge.

Equities

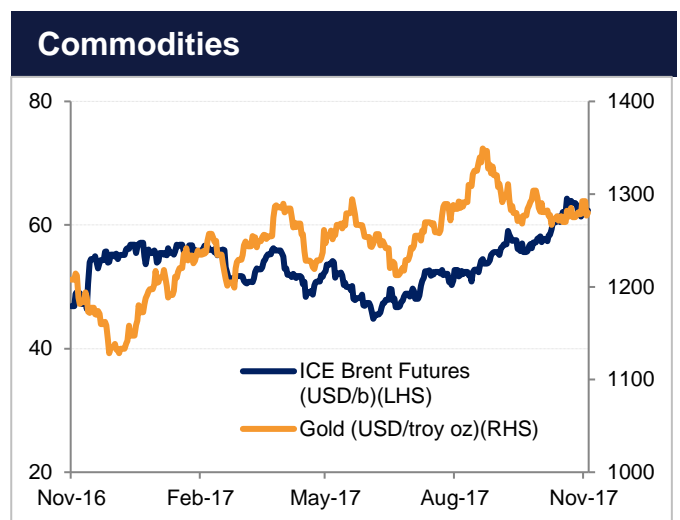
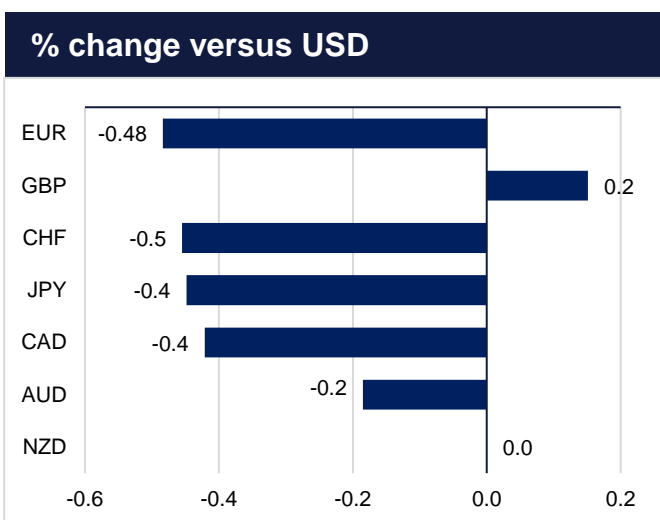
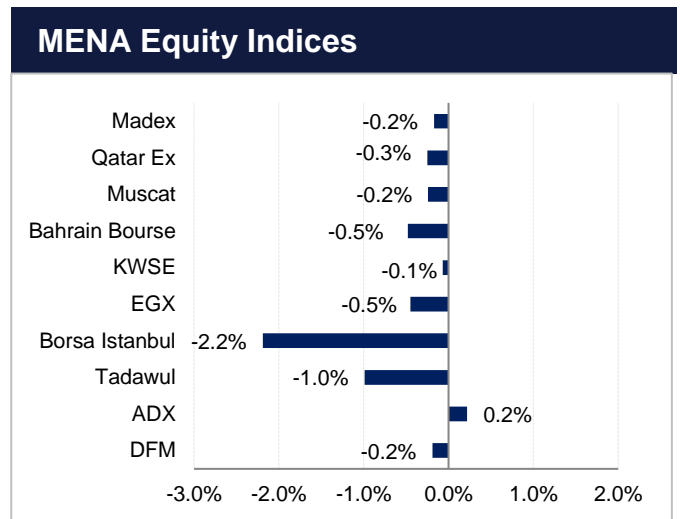
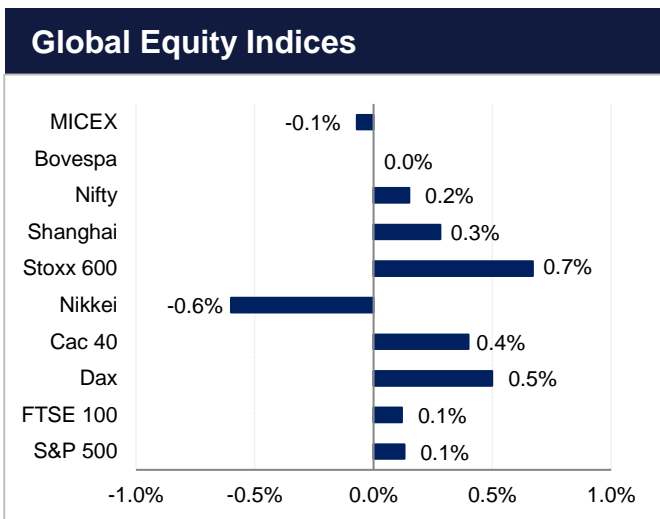
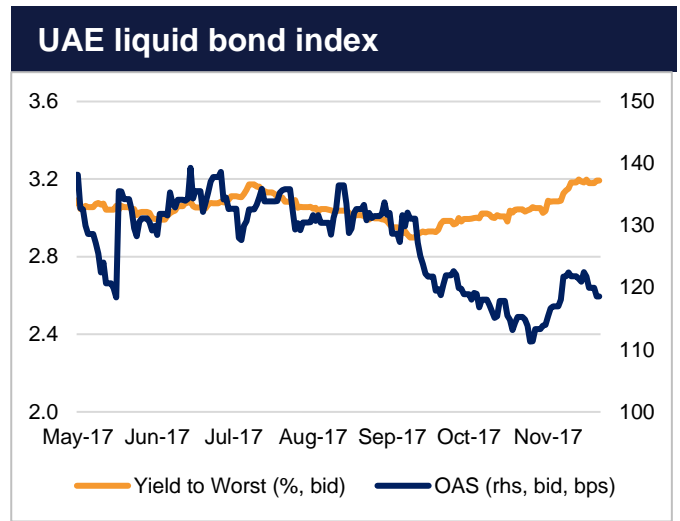
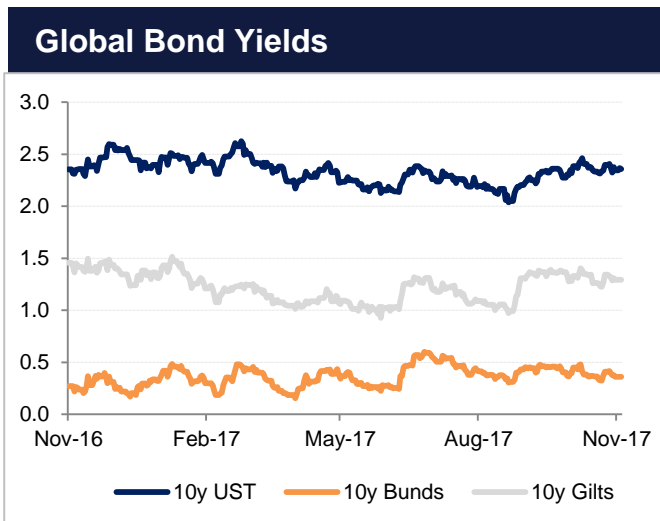
Developed market equities closed higher at the start of the shortened week of trading as Congress took holiday break from tax talks. The S&P 500 index added +0.1%. European stocks appeared unfazed from political developments in Germany as the Euro Stoxx 600 index rallied +0.7%.

For regional equities, it was more of the same. The DFM index and the Tadawul declined -0.2% and -1.0% respectively. Volumes declined as well with average turnover nearly 25% lower than the last 1-month average.

Commodities

Oil prices remained under pressure as political uncertainty in Germany led to USD strength and speculation about OPEC's next move. It appears that most OPEC members are in favour of extending the supply cuts with Iranian oil minister echoing a similar sentiment. Both Brent and WTI prices declined -0.8% each.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1733	-0.48	1.2022	USDTRY	3.9289	+1.36	EURAED	4.3096	-0.53
GBPUSD	1.3235	+0.15	1.3403	USDEGP	17.6577	+0.11	GBPAED	4.8628	+0.16
USDJPY	112.62	+0.46	110.10	USDSAR	3.7502	--	JPYAED	0.0326	-0.46
USDCAD	1.2820	+0.45	1.2770	USDQAR	3.6800	-4.79	CADAED	2.8650	-0.40
AUDUSD	0.7550	-0.19	0.7541	USDKWD	0.3019	-0.08	AUDAED	2.7730	-0.19
USDCHF	0.9934	+0.43	0.9653	USDBHD	0.3778	-0.03	CHFAED	3.6972	-0.48
EURGBP	0.8865	-0.65	0.8969	USDOMR	0.3850	--	TRYAED	0.9300	-1.86
USDAED	3.6730	--	3.6790	USDINR	65.0475	+0.05	INRAED	0.0565	-0.23

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.3245	1.6003	1.8612	2.2883	USD 2 yr	1.920	+3
USD LIBOR	1.2872	1.4407	1.6321	1.9062	USD 5 yr	2.149	+3
GBP LIBOR	0.4935	0.5255	0.5856	0.7788	USD 10 yr	2.364	+3
JPY LIBOR	-0.0186	-0.0284	0.0070	0.1194	EUR 2 yr	-0.191	+0
CHF LIBOR	-0.7866	-0.7510	-0.6558	-0.5306	EUR 5 yr	0.206	+1
					EUR 10 yr	0.837	+1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1276.92	-1.20	ADGB 6.75 19	1.82	-1	Abu Dhabi	68	--
Silver	16.91	-2.32	DUGB 7.75 20	2.63	+4	Dubai	153	+6
Oil (WTI)	56.09	-0.81	QATAR 6.55 19	2.10	+6	Qatar	102	+2
Aluminium	2068.75	-0.85	US Tsy 2 yr	1.75	+3	Saudi Arabia	94	-1
Copper	6797.25	+0.80	US Tsy 10 yr	2.37	+2	Bahrain	280	+2

Source: Bloomberg, Emirates NBD Research

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