



# Daily Outlook

**After all the build-up to new Fed Chair Powell's first FOMC meeting the outcome was in line with expectations, with a 25bps rate hike, but with a slight hawkish twist.**

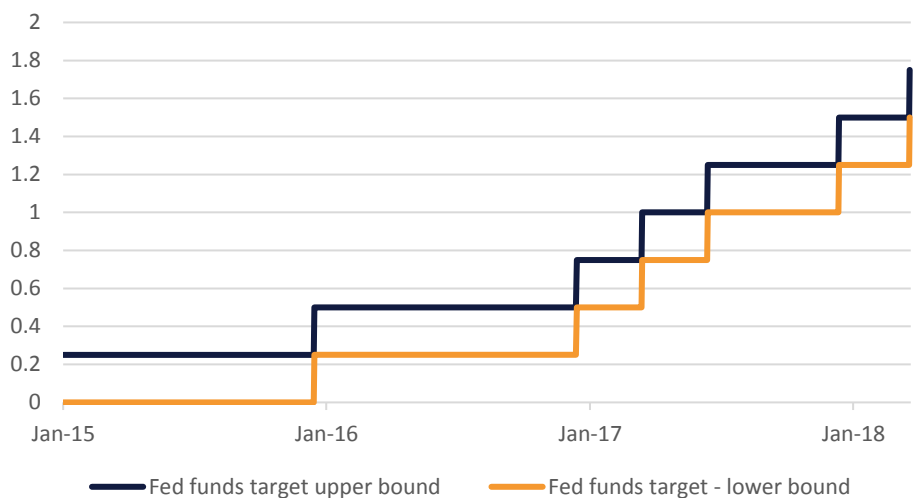
The FOMC hiked the rate band 25 basis points to 1.50%-1.75% as anticipated, in a unanimous decision, and retained the dot plot at 3 hikes for this year. However, the number of officials anticipating four rate hikes doubled to six, and the dot plot for 2019 was raised to 3 from 2, and for 2020 to 2 from 1.

**The Fed's statement introduced the view that 'the economic outlook has strengthened in recent months,'** and highlighted that job gains have been strong. The change in the statement accompanied hikes in the GDP estimates and downward revisions in the unemployment rate forecasts. The median expectation for growth was raised to 2.7% this year (from 2.5%) and 2.4% in 2019 (from 2.1%), while **the unemployment rate is now expected to drop to 3.6% next year.** Despite these, the median forecast for core PCE inflation was raised only a little to 2.1% for 2019 and 2020 (from 2.0% previously), although this still implies **a slight overshoot in inflation.**

**Powell was asked about the prospects for a trade war** and the impact this might have on the Fed's forecasts, and although he acknowledged the risks he did not see it yet affecting the outlook. Another USD60bn of US tariffs on Chinese products have been reported as likely to be introduced today, and there was also a report yesterday that China is planning countermeasures to these, a factor that is probably weighing on the dollar.

**Three GCC central banks, in the UAE, Kuwait and Bahrain have already followed suit by raising interest rates this morning, and PBOC in China has also raised interest rates overnight.** Interestingly SAMA in Saudi Arabia has not repeated its pre-emptive rate hike announced last week, despite some speculation that it might increase rates again following the Fed's actual decision.

## Fed delivers its first rate hike of 2018 – 2 more expected



Source: Bloomberg, Emirates NBD Research

## Day's Economic Data and Events

	Time	Cons		Time	Cons
German IFO	13.00	114.6	UK BOE rate decision	16.00	0.50%
UK Retail sales	13.30	0.4%			

Source: Bloomberg

## Fixed Income

After raising rates by 25bps yesterday, Federal Reserve stuck to its projection of only two more rate hikes this year which was perceived as dovish by the market, thereby dragging short term yields lower. Yields on 2yr, 5yr and 10yr UST closed down at 2.31% (-3bps), 2.67% (-3bps) and 2.88% (-2bps) respectively. European sovereign bonds will probably only factor in the full impact today. 10yr Gilts and Bunds yields had closed higher yesterday, at 1.53% (+4bps) and 0.59% (+1bp), probably in anticipation of a more hawkish Fed.

We expect regional bond market to benefit from falling benchmark yields today. Yesterday, the Bloomberg Barclays GCC bond index closed with yield a bp higher at 4.25% (ahead of FOMC) and credits spreads stable at 160bps.

Abu Dhabi government announced plans to merge the Abu Dhabi Investment Council (assets worth circa \$123 billion) with AA/stable rated, Mubadala Investment Co. Rating on Mubadala is linked to the Abu Dhabi sovereign rating and unlikely to get impacted by this change. In another corporate development, Emaar and Aldar announced plans to join hands to invest in international projects. Yield on Emaar 19s and EMAAR 26s narrowed a bp or two to 3.00% and 4.32% respectively.

Saudi's SECO reported FY operating profit of SAR 10.1bn on revenue of SAR 50.62 billion compared with revenue of SAR 49.91 bn in the previous year. Positive sentiment emanating from the results saw yields on the entire SECO curve fall marginally.

## FX

After the Fed stuck to its outlook for three rate hikes this year (see macro), the dollar declined to a one month low, the Dollar Index falling 0.65% to close at 89.783 yesterday. So far in the Asia session today, the DXY Index has fallen an additional 0.25% taking it to 89.55. The move of these last two days has taken the index back below the 50 day moving average (89.852) and bodes bearish for the dollar in the short term, a risk compounded by the 14 day RSI (Relative Strength Indicator) showing a bearish bias at 45.04. The next level of significant support will be the 38.2% five year Fibonacci retracement (88.423), an area which has halted declines on multiple occasions thus far in 2018. Should this level be breached, a larger decline towards the psychologically significant 85 level is a possibility.

Elsewhere, the AUD is underperforming this morning after softer than expected employment data. A report from the Australian Bureau of Statistics showed that the unemployment rate increased to 5.6% in February from 5.5% the previous month. AUDJPY has been the most significant casualty of this report and is currently down 0.61% at 81.846, paring the gains of the previous day.

## Equities

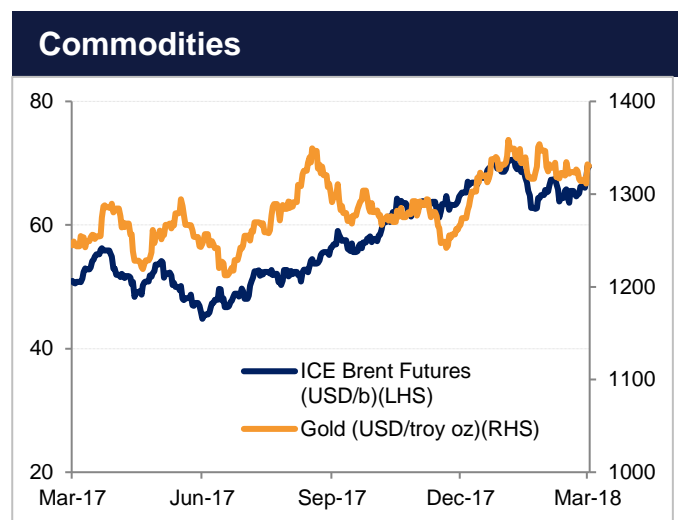
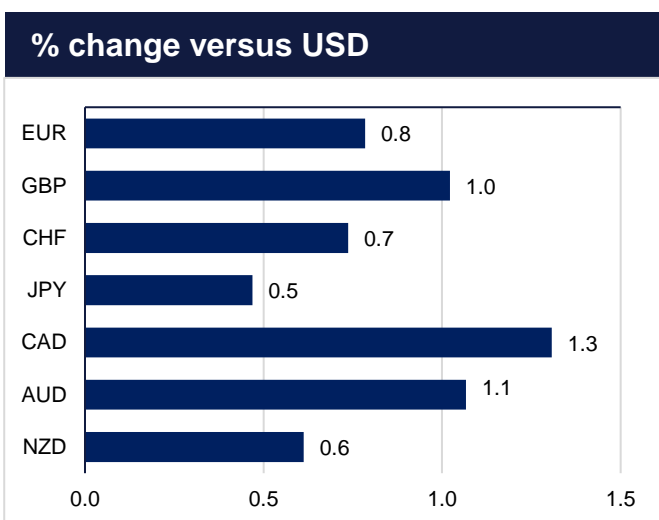
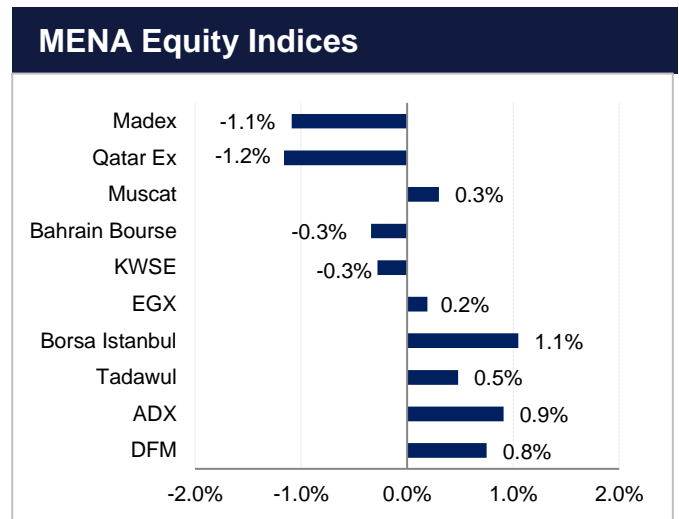
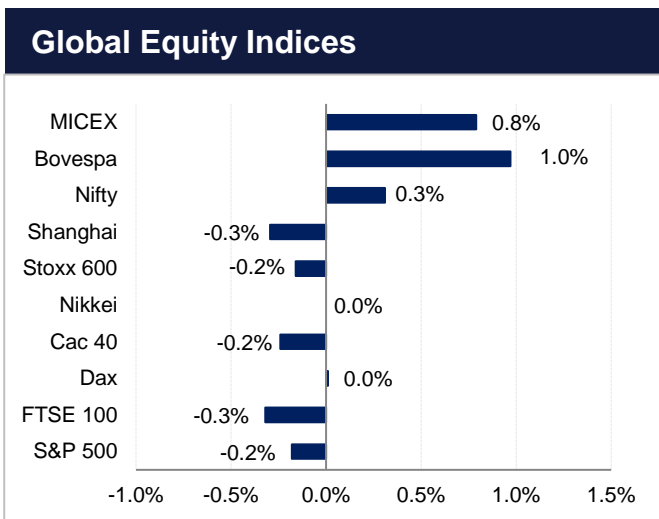
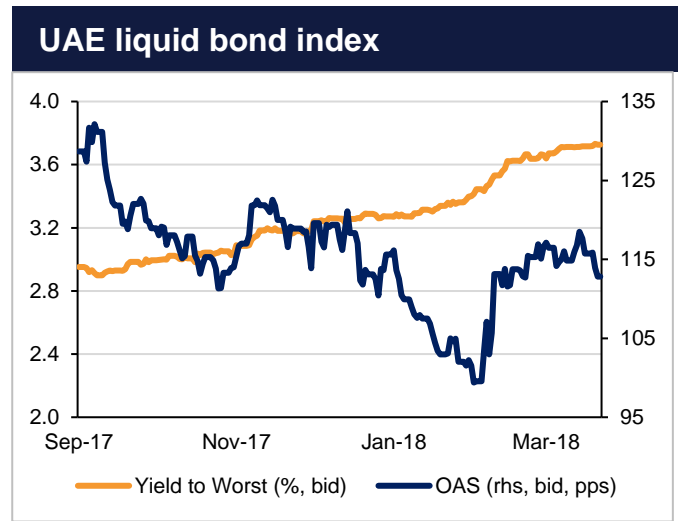
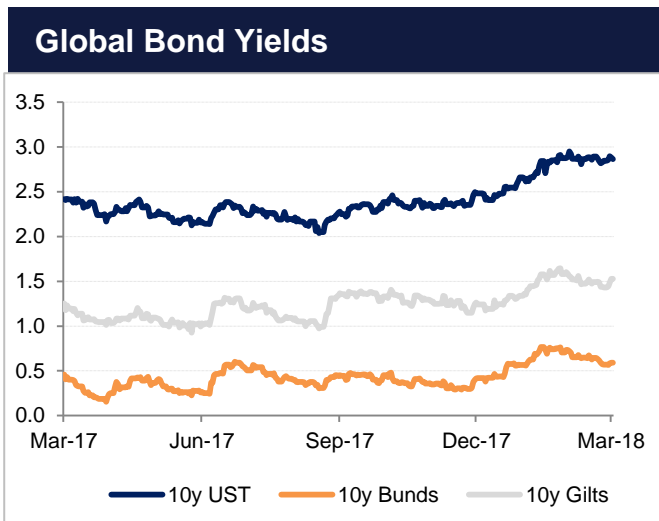
Global equities had a marginally bearish day yesterday as fears of trade wars escalated. S&P 500 and Dow Jones closed lower by circa -0.18% each while Euro Stoxx and FTSE 100 were down by over -0.3% each. Asia has opened mixed this morning with Nikkei in green at +0.35% and Hang Seng trailing down by -0.50% in early morning trades. The equities market in China and Hong Kong is taking the pain from the PBOC's decision to follow the Fed in hiking rates.

Dubai and Abu Dhabi exchanges benefited from increase in real estate companies' shares on the back of news about Emaar and Aldar joining hands for new projects. Tadawul and Muscat also closed up by circa +0.3% each. Qatari bourse remained under pressure closing down by more than -1.1%.

## Commodities

Oil extended gains above \$65 a barrel after U.S. crude inventories unexpectedly dropped, falling below the five-year average in a sign the OPEC-led supply cuts are bearing fruit. American crude stockpiles fell last week, surprising market participants that were expecting an increase. Gold fell 0.01 percent to \$1,331.03 an ounce while LME copper jumped 0.7 percent to \$6,840.50 per metric ton.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.2338	+0.78	1.2714	USDTRY	3.9093	-0.63	EURAED	4.5317	+0.79
GBPUSD	1.4141	+1.02	1.4366	USDEGP	17.6298	+0.20	GBPAED	5.1943	+1.03
USDJPY	106.05	-0.45	103.14	USDSAR	3.7500	+0.01	JPYAED	0.0346	+0.46
USDCAD	1.2903	-1.29	1.2822	USDQAR	3.6800	+0.58	CADAED	2.8465	+1.30
AUDUSD	0.7765	+1.07	0.7788	USDKWD	0.3000	+0.02	AUDAED	2.8521	+1.07
USDCHF	0.9497	-0.71	0.9182	USDBHD	0.3770	--	CHFAED	3.8677	+0.72
EURGBP	0.8725	-0.23	0.8851	USDOMR	0.3850	-0.01	TRYAED	0.9400	+0.68
USDAED	3.6730	--	3.6768	USDINR	65.1313	-0.10	INRAED	0.0564	+0.23

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.8250	2.2783	2.5087	2.8345	USD 2 yr	2.627	-2
USD LIBOR	1.8538	2.2481	2.4099	2.6514	USD 5 yr	2.828	-1
GBP LIBOR	0.5071	0.6241	0.7326	0.9439	USD 10 yr	2.926	-1
JPY LIBOR	-0.0675	-0.0498	0.0130	0.1105	EUR 2 yr	-0.147	+0
CHF LIBOR	-0.8037	-0.7374	-0.6558	-0.5296	EUR 5 yr	0.425	-0
					EUR 10 yr	1.039	+1

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1332.24	+1.60	ADGB 6.75 19	2.42	--	Abu Dhabi	56	-1
Silver	16.57	+2.27	DUGB 7.75 20	3.14	-8	Dubai	102	--
Oil (WTI)	65.17	+2.79	QATAR 6.55 19	2.71	+3	Qatar	82	+4
Aluminium	2059.00	+0.28	US Tsy 2 yr	2.31	-4	Saudi Arabia	80	-2
Copper	6760.50	+0.54	US Tsy 10 yr	2.88	-1	Bahrain	254	--

Source: Bloomberg, Emirates NBD Research

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