



Daily Outlook

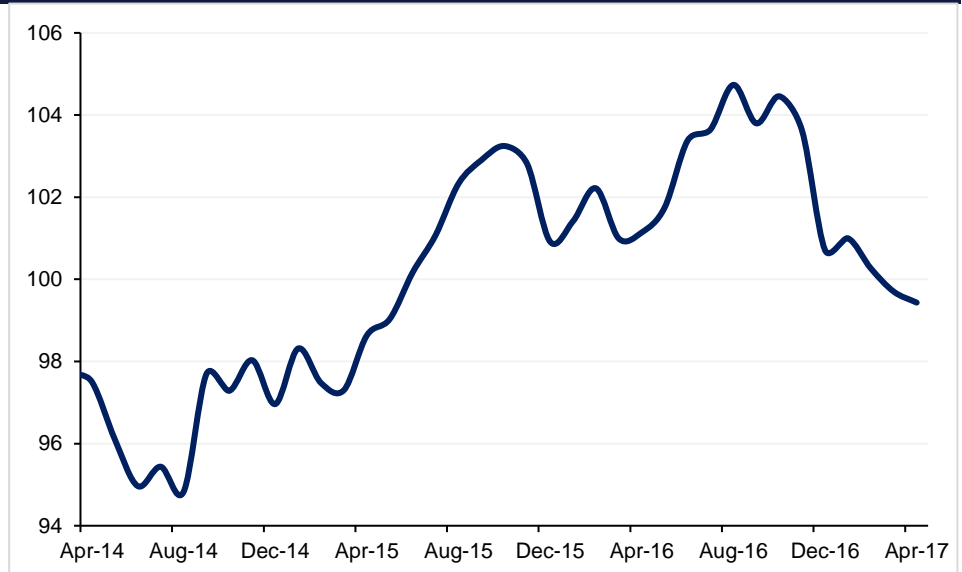
A suspected terrorist attack at a concert in Manchester in the UK killed and wounded tens of people. The blast occurred in the middle of an election campaign, with Prime Minister Theresa May's Conservative Party saying it will suspend all activities on Tuesday. No group has taken responsibility for the attack yet. The increased fear and uncertainty will likely see flight to safety and bid for safe haven assets today.

President Trump's preliminary 2018 budget plan indicates cuts of circa USD 3.6trn over the next ten years by shrinking benefits provided to poorer segments of the US population. Given the linkage of this budget to expected tax reforms, the possibility of lengthy debates in Congress over it and likelihood of the final numbers looking very different is very high. **In the interim, Dallas Fed President Robert Kaplan, an FOMC voter, reiterated the case for two more rate hikes this year and a start on reducing the Fed's balance sheet this year**

There is a raft of data due out today on both sides of the Atlantic. In Europe, **the final estimate of Germany's Q1 GDP is expected to remain unchanged at 0.6%**, but the IFO business climate indicator could show a rise in May. In the US, we await PMI and home sales data. US Manufacturing and Services PMI is largely expected to be better than the previous month though New Home Sales may have declined slightly over the previous month.

UAE bank deposits rose AED 3.1bn (0.2% m/m) in April, while lending declined –AED 11.2bn (-0.1% m/m) in April. **On an annual basis, deposit growth accelerated to 7.3% y/y in April while loan growth was steady at 5.3% y/y.** The (gross) loan-to-deposit ratio eased further to 99.4% in April from 99.7% in May and 100.7% in December 2016. As has been the case for the last several months, the growth in bank deposits was entirely due to higher residents' deposits, while non-resident deposits (which had grown sharply in 2016) have declined since end-2016.

UAE loan to deposit ratio continues to ease



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
US Markit Composite PMI	17:45	NA	Eurozone Markit PMI	12:00	56.7

Source: Bloomberg.

Fixed Income

Suspected terrorist attack in the UK ensued flight to safety, causing reduction in sovereign bond yields which is likely to further intensify today. Yields on 2yr and 10yr UST closed at 1.28% (-1bp) and 2.24% (-1bp) while those on 10yr Gilts closed at 1.08% (-1bp).

Oil is holding steady thanks to a building consensus amongst OPEC and non-OPEC members about extending the production cuts which in turn is supporting credit spreads globally. CDS levels on US IG and Euro Main closed a 1bp tighter at 62bps and 63bps respectively. In the GCC region, bond prices remained resilient with credit spreads on Barclays GCC bond index reducing 2bps to 132bps yesterday amid a general reduction in yield to worse by a bp to 3.26%.

In the primary market, Aa3 rated, National Bank of Kuwait priced its US 750m 5year bond at MS+100bps, 25bps tighter than the original guidance. On the road this week with sukuk offerings are the Oman sovereign and the BB+ rated Bahraini Bank, Al Baraka, which is road-showing for a benchmark sized Tier 1 security.

FX

The euro hit a 6 month high yesterday, EURUSD reaching 1.1263, following comments by German Chancellor Angela Merkel that the currency was "too weak". The single currency appreciated immediately following the comments as markets began to speculate that this would put pressure on the ECB to remove some accommodation of monetary policy. As we go to print, EURUSD trades 0.1% higher at 1.1246. This afternoon, investors will be looking towards the IFO Surveys for further evidence of recovery in the Eurozone.

Elsewhere, GBP underperforms following yesterday's suspected attack (see above). Currently GBPUSD trades 0.1% lower at 1.2988 compared with yesterday's highs of 1.3043.

Equities

Developed market equities started the week on a mixed note with support from strength in commodity prices. The S&P 500 index added +0.5% while the Euro Stoxx 600 index lost -0.1%.

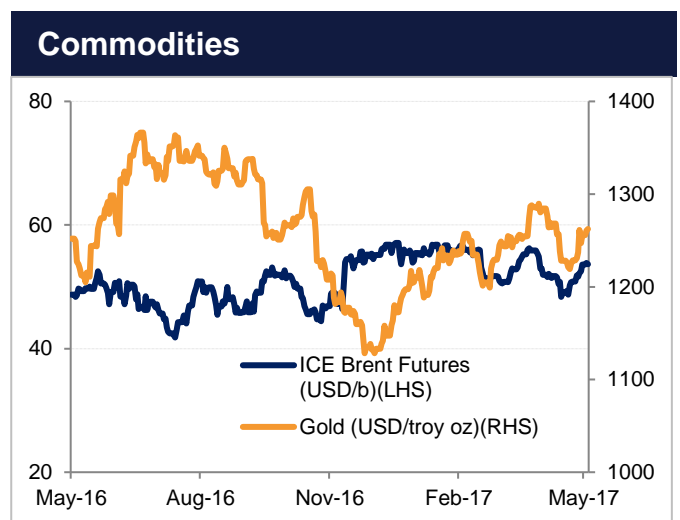
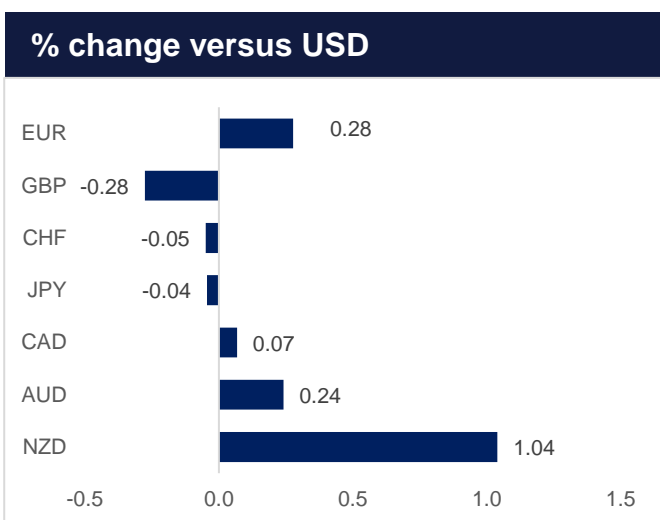
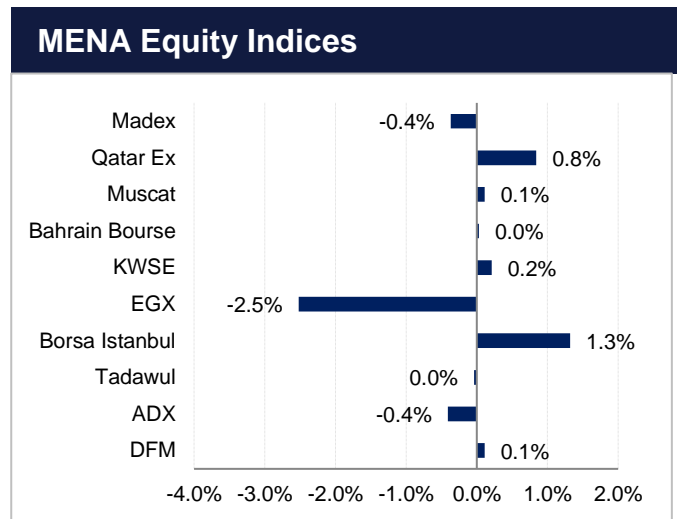
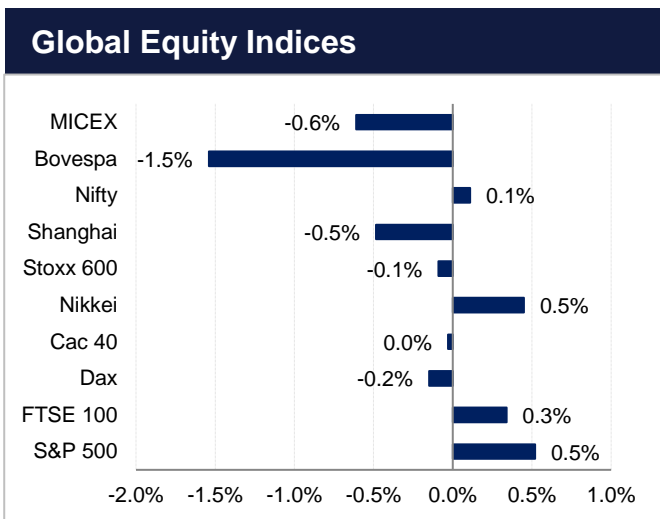
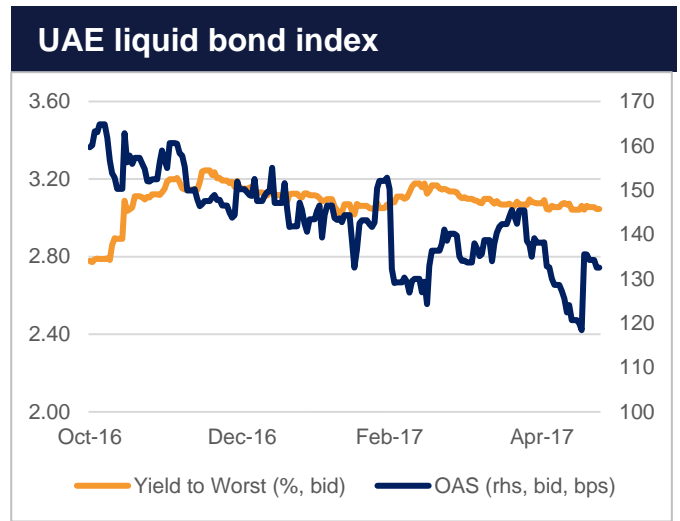
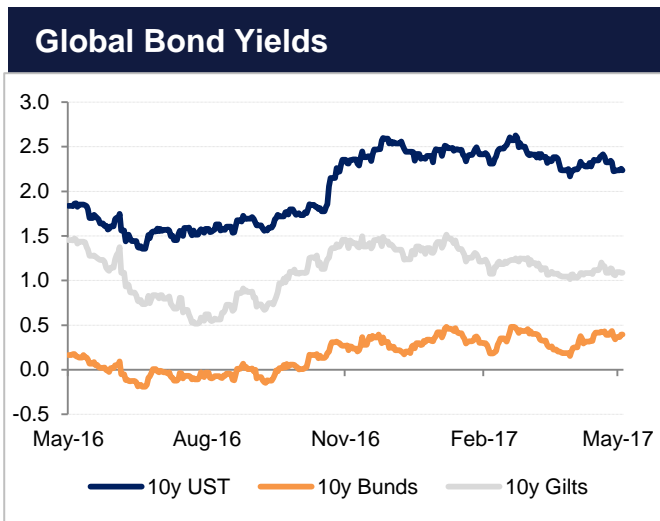
It was yet another day of quiet trading for regional equities with the exception of the Egyptian equities. The EGX 30 index dropped -2.5% after the central bank unexpectedly raised key interest rates. In terms of stocks, Gulf Navigation (+5.6%) continued its positive run following the announcement of better than expected Q1 2017 earnings.

Commodities

Crude markets held relatively steady to start the week as news that Iraq was now supporting an extension of the production cuts into next year helped to support prices. However, markets are down slightly this morning on news that the White House budget proposes a sell-off of half of the Strategic Petroleum Reserve. The SPR contain nearly 700m bbl of crude stocks so any run down over the next 18 months would weigh negatively on prices.

The longer-term backwardation in Brent and WTI spreads is firming, both encroaching on USD 1/b while the Brent curve is in a shallow backwardation from the 7th month onward.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1237	+0.28	1.1463	USDTRY	3.5590	-0.43	EURAED	4.1273	+0.28
GBPUSD	1.3000	-0.28	1.3150	USDEGP	18.1053	+0.06	GBPAED	4.7749	-0.27
USDJPY	111.30	+0.04	109.28	USDSAR	3.7503	+0.00	JPYAED	0.0330	-0.04
USDCAD	1.3503	-0.06	1.3409	USDQAR	3.6414	-0.00	CADAED	2.7203	+0.07
AUDUSD	0.7477	+0.24	0.7442	USDKWD	0.3034	-0.06	AUDAED	2.7461	+0.20
USDCHF	0.9734	+0.05	0.9498	USDBHD	0.3770	+0.00	CHFAED	3.7732	-0.07
EURGBP	0.8644	+0.55	0.8717	USDOMR	0.3850	+0.01	TRYAED	1.0300	+0.24
USDAED	3.6730	+0.00	3.6800	USDINR	64.8200	+0.28	INRAED	0.0569	-0.00

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0845	1.4810	1.6867	2.1685	USD 2 yr	1.528	+1
USD LIBOR	1.0294	1.1920	1.4193	1.7265	USD 5 yr	1.875	+2
GBP LIBOR	0.2526	0.3037	0.4504	0.6547	USD 10 yr	2.193	+2
JPY LIBOR	-0.0124	-0.0128	0.0233	0.1264	EUR 2 yr	-0.134	+1
CHF LIBOR	-0.7854	-0.7292	-0.6614	-0.4900	EUR 5 yr	0.219	+3
					EUR 10 yr	0.826	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1260.63	+0.37	ADGB 6.75 19	1.53	-1	Abu Dhabi	40	-
Silver	17.17	+1.74	DUGB 7.75 20	2.61	-0	Dubai	108	-5
Oil (WTI)	50.73	+0.79	QATAR 6.55 19	1.75	-1	Qatar	60	-
Aluminium	1935.50	-0.32	US Tsy 2 yr	1.28	+1	Saudi Arabia	94	-
Copper	5689.00	+0.42	US Tsy 10 yr	2.25	+2	Bahrain	220	-2

Source: Bloomberg, Emirates NBD Research

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