



# Daily Outlook

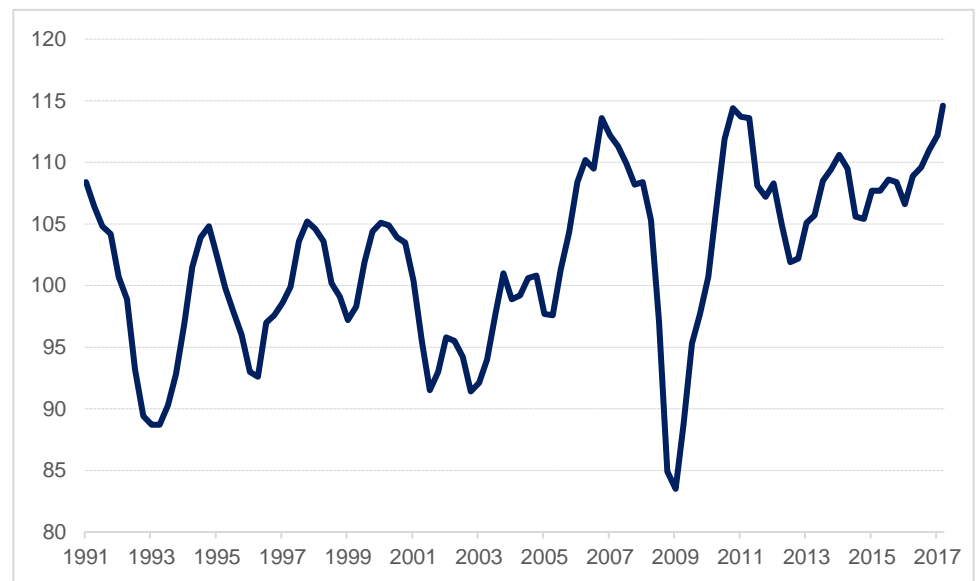
**Economic data out of the US was mixed overnight, with disappointing new homes sales data partly offset by a stronger services PMI for May.** New home sales fell -11.4% m/m in April to 569k (annualised) against expectations of a -1.8% decline. However, the March figure was revised up by 21k to 642k. Today's release of existing home sales data is also forecast to show a fall of -1.1% m/m from the 10-year high reached in March. Separately, the IHS Market PMI showed a faster than expected rate of growth in the US services sector this month, with the flash PMI rising to 54.0 from 53.1 in April. However, the manufacturing PMI was marginally lower than forecast at 52.5.

**European data released on Tuesday was more upbeat,** with Germany's IFO Business Climate Indicator rising to 114.6 in May, the highest level since April 2011, and the manufacturing PMI rising to 59.4 as exporters continued to benefit from EUR weakness. Q1 GDP for Germany was confirmed at 0.6% q/q as expected, with investment and net exports being the key drivers of growth. France's services PMI ready also beat expectations in May, rising to 58.0, while the manufacturing PMI was only a touch softer than April at 54.0.

**Moody's downgraded China's long-term local currency and foreign currency issuer ratings to A1 from Aa3 and changed the outlook to stable from negative** citing concerns about rising debt levels, falling reserves and slow pace of reforms. However, GDP growth is likely to stay strong compared to other sovereigns as there is still considerable scope for policy to adapt to support the economy, and a largely closed capital account.

While much of the market's attention today will be on tomorrow's meeting of OPEC member countries in Vienna, the Bank of Canada is holding a policy meeting, where the benchmark rate is expected to be kept on hold at 0.5%. In the US, the minutes of the May FOMC meeting will also be released this evening.

## German IFO Business confidence index at 25 year high



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
CA BoC rate decision	18:00	0.5%	US FOMC	22:00	n/a

Source: Bloomberg.

## Fixed Income

The UK terrorist attack had surprisingly muted impact on markets yesterday. In fact solid economic data out of the US and the Eurozone fuelled risk appetite and caused sovereign bond yields to rise and UST curve to steepen. Yields on 2yr and 10yr UST closed at 1.30% (+2bps) and 2.28% (+3bps) respectively. Though 10yr Gilt yields were stable at 1.08%, 10yr Bund yields were higher by a bp to 0.41% as the German IFO business climate index rose to its highest in over 25 years.

US cash corporate bonds slipped slightly amid rising benchmark yields; however, European and EM corporate bonds were supported by tightening credit spreads. CDS levels on US IG and Euro Main closed lower at 62bps (-0.3bps) and 62bps (-1bp) respectively. CDS spreads on local GCC sovereigns had slight tightening bias as hopes for a constructive outcome of the OPEC meeting tomorrow remain high.

GCC bonds continued to enjoy good bid with Barclays GCC index closing at YTW of 3.24% (-2bps) and credit spreads tightening by 4bps to 128bps. Primary market also had a constructive day with subscription to current deals exceeding expectations. Al Baraka priced its USD 400m Tier 1 5yr security at 7.875% after receiving orders worth over USD 1.6bn. The order book for Oman sovereign's new 7yr, USD 2bn sukuk was at over USD 5.9bn, thereby facilitating the final price to be at MS+235bps, 35bps inside of the original estimate.

## FX

Dollar spot index was largely flat yesterday as dollar weakened against the majors but strengthened against the currencies that have China as their major trading partner such as the AUD, Ringgit and Won.

The pound rose 0.1% to \$1.2974, following previous day's losses and the EUR/USD closed at 1.118. Yen also strengthened slightly overnight against the dollar to 111.89. INR, which has risen more than 6% against the dollar this year, held steadfast at 64.89.

## Equities

Global equity market had a mixed day of trading. Positive economic data kept European and US equities in the green. S&P 500 and Dow Jones closed up by +0.18% and +0.21% respectively. Similarly DAX and Euro Stoxx 50 were each up more than a quarter percentage point, though FTSE 100 closed marginally lower by -0.15%.

Gulf markets were range bound albeit with a negative bias. DFM closed 0.78% lower and ADGX shed 0.13%. Tadawul was the worst performer falling -0.82%. The weakness is largely attributed to sluggish trading and profit taking ahead of Ramadan.

This morning, Japanese equities are holding up well as weaker yen is helping company earnings while Chinese equities are falling in response to downgrade of China's credit rating by Moody's.

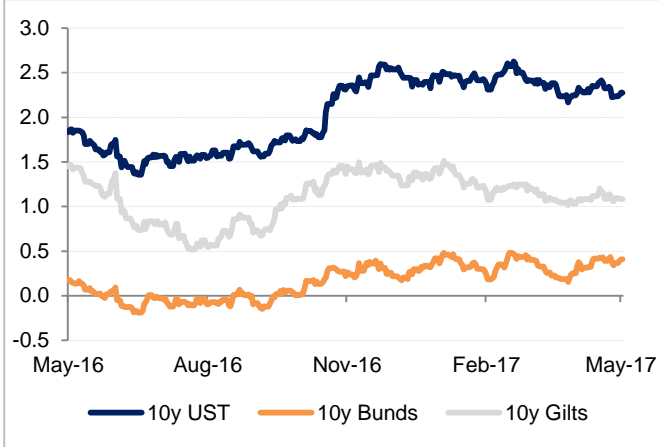
## Commodities

Oil markets extended their rally yesterday—gaining five days in a row—on what appears to be a growing consensus among OPEC producers over extending their production cuts by an additional nine months. Kuwait's energy minister said not all members were yet on board but they expected a 'painless' meeting on Thursday. Brent closed up 0.5% to over USD 54/b while WTI is now around USD 51.50. An extension of the deal appears to be largely baked into current prices so any spike related to a positive outcome may not be as sharp as the one after the November meeting.

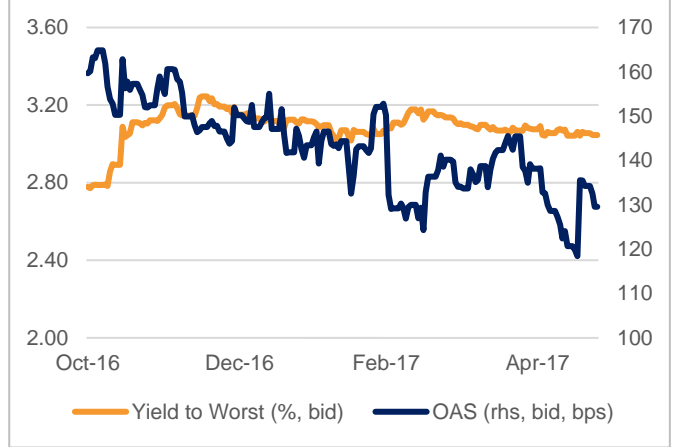
Longer-dated spreads have now pushed up over USD 1/b into backwardation for both Brent and WTI Dec 17-19. While we expect a deal to emerge out of the OPEC meeting we caution that the market has slammed back down from these levels previously this year.

## Markets in Charts

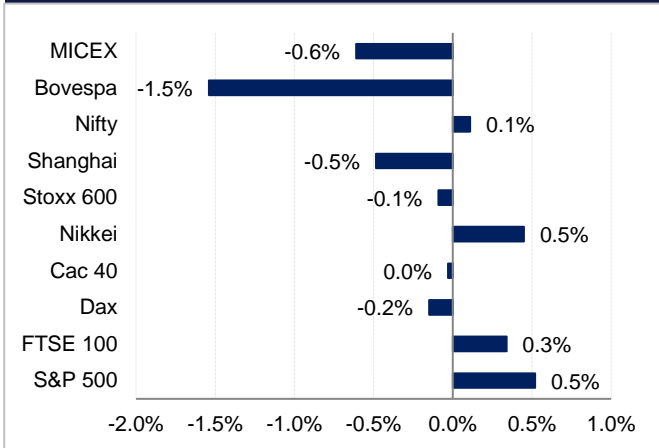
### Global Bond Yields



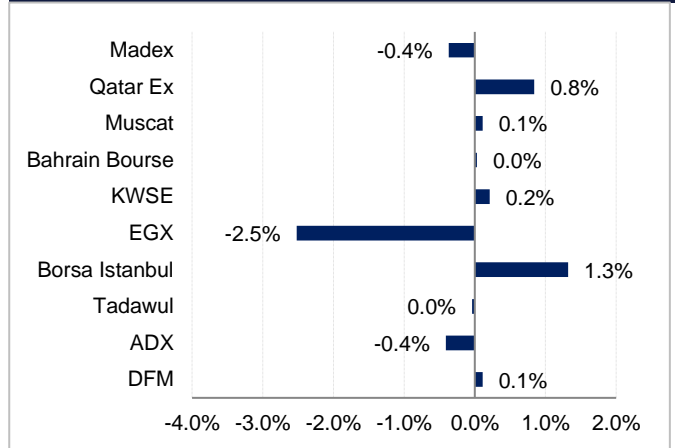
### UAE liquid bond index



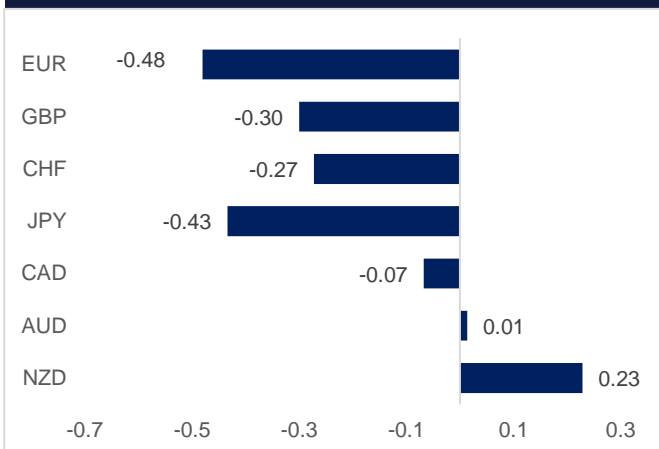
### Global Equity Indices



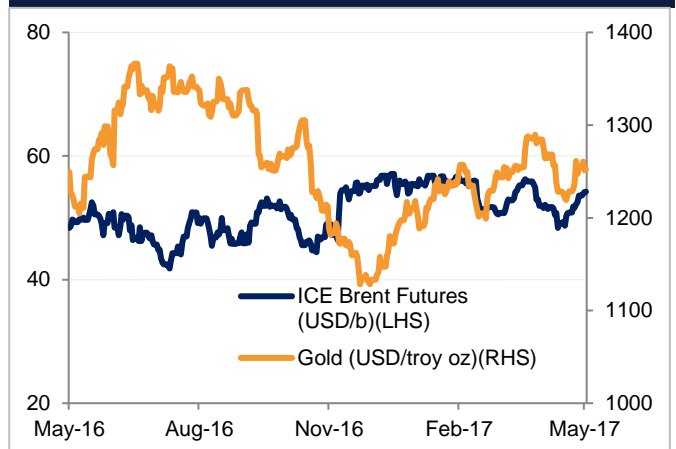
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1183	-0.48	1.1409	USDTRY	3.5746	+0.44	EURAED	4.1073	-0.48
GBPUSD	1.2961	-0.30	1.3113	USDEGP	18.0738	-0.17	GBPAED	4.7604	-0.30
USDJPY	111.78	+0.43	109.73	USDSAR	3.7503	--	JPYAED	0.0329	-0.43
USDCAD	1.3514	+0.08	1.3420	USDQAR	3.6415	+0.00	CADAED	2.7183	-0.07
AUDUSD	0.7478	+0.01	0.7445	USDKWD	0.3033	-0.02	AUDAED	2.7464	+0.01
USDCHF	0.9760	+0.27	0.9520	USDBHD	0.3770	--	CHFAED	3.7632	-0.27
EURGBP	0.8628	-0.18	0.8701	USDOMR	0.3850	-0.00	TRYAED	1.0300	-0.20
USDAED	3.6730	--	3.6800	USDINR	64.8525	+0.47	INRAED	0.0566	-0.60

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0845	1.4852	1.6907	2.1665	USD 2 yr	1.546	+2
USD LIBOR	1.0236	1.1887	1.4135	1.7196	USD 5 yr	1.897	+2
GBP LIBOR	0.2528	0.3043	0.4498	0.6522	USD 10 yr	2.223	+3
JPY LIBOR	-0.0117	-0.0128	0.0233	0.1257	EUR 2 yr	-0.129	+0
CHF LIBOR	-0.7824	-0.7292	-0.6614	-0.4890	EUR 5 yr	0.228	+1
					EUR 10 yr	0.841	+2

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1251.22	-0.75	ADGB 6.75 19	1.52	-1	Abu Dhabi	40	-
Silver	17.06	-0.60	DUGB 7.75 20	2.61	-0	Dubai	106	-2
Oil (WTI)	51.47	+1.46	QATAR 6.55 19	1.75	-1	Qatar	61	+1
Aluminium	1940.50	+0.26	US Tsy 2 yr	1.30	+2	Saudi Arabia	93	-1
Copper	5695.00	+0.11	US Tsy 10 yr	2.28	+3	Bahrain	219	-1

Source: Bloomberg, Emirates NBD Research

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## Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Group Treasurer & EVP Global Markets &  
Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

### Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Shady Shafer Elborno**  
Head of Macro Strategy  
+9714 2012300  
shadyb@emiratesnbd.com

**Athanasios Tsetsonis**  
Sector Economist  
+9714 230 7629  
athanasiost@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Mohammed Al-Tajir**  
Manager, FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

**Aditya Pugalia**  
Analyst  
+9714 230 7802  
adityap@emiratesnbd.com

### Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241  
vallancel@emiratesnbd.com

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

### Emirates NBD Capital

**Ahmed Al Qassim**  
CEO- Emirates NBD Capital  
AhmedAQ@emiratesnbd.com

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

### Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

### Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com