



Daily Outlook

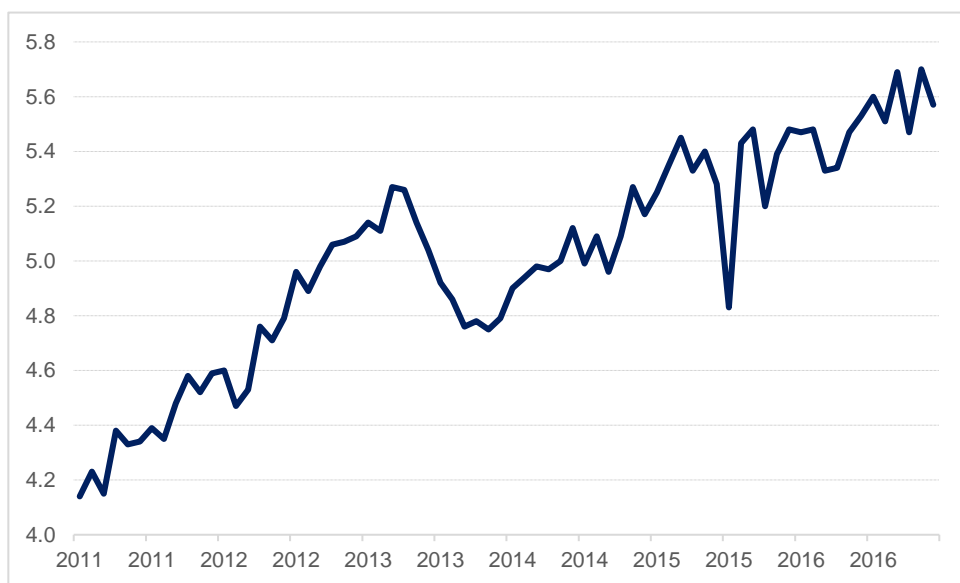
Existing home sale in the US fell to 5.57 million vs expectations of 5.65 million and lower than 5.71 million in the previous month mainly as a result of lower availability of inventory. Average home prices in the US rose more than 6.8% in the year to March 31, and are expected to rise more than 2.5% this year which weakens incentives to sell. **The minutes of May's FOMC, released overnight, support our view that the Fed is likely to raise the Federal Funds rate at the June meeting.** Most officials indicated that "it would soon be appropriate" to tighten monetary policy again provided that the economic data was supportive. Looking at the labour market, the April payrolls and unemployment data suggests that this condition has been met, although clearly the May data will be important as well. On the growth and inflation front, where recent data has been somewhat softer than expected, the Fed appears to view this as likely due to "transitory" factors, although officials noted that it would be prudent to wait for further evidence that this was the case.

The minutes also showed that the FOMC discussed a plan to gradually shrink the Fed's balance sheet; a process which may even start this year. The plan would likely involve very slowly increasing caps on monthly balance sheet run-offs, with more details about this plan likely to follow in due course. **While the Fed appears to be in no rush to shrink its balance sheet, nearly all officials said it would be "appropriate" to start the process this year,** provided the expected path of rate hikes remained on track.

All eyes will be on Vienna today where OPEC starts its formal meeting. A nine-month extension is widely expected and an option for another three months is also likely to be up for discussion.

Later in the day today we will see **UK Q1 GDP which is expected to reflect q/q growth of 0.3%** as consumer spending may have cooled. Also US initial jobless claims are likely to be near decade lows of about 238K even though Q1 GDP growth was sluggish.

US existing home sales lower m/m but still at highs



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
UK Q1 GDP (YoY)	12:30	2.1%	US Initial jobless claims	16:30	238k

Source: Bloomberg.

Fixed Income

Despite FOMC meeting minutes affirming the path of rate hikes and possibility of balance sheet shrinking to begin later this year, UST yields closed lower probably in response to mixed economic data. Yields on 2yr and 10yr UST closed at 1.28% (-2bps) and 2.25% (-2bps) respectively. Sovereign bonds across the Atlantic also recorded falling yields with 10yr Gilts and Bunds closing down by a bp each to 1.07% and 0.40% respectively.

Global cash corporate bonds benefited from lower benchmark as well as tightening credit spreads and closed mostly in the green. CDS levels on US IG and Euro Main remained close to their opening levels at 62bps each.

Though much of the optimism from the OPEC meeting outcome is already priced into oil prices, CDS spreads on GCC sovereigns tightened by two to four bps with Abu Dhabi now at 39bps (-2bps) and Qatar at 58bps (-3bps). Saudi Arabia 5yr CDS spread of 91bps still looks good on relative value compared with similar rated emerging market names such as the A1 rated China CDS at 78bps.

Ezdan Holdings, one of the key real estate issuers from Qatar, is working towards converting the company from a public shareholding company to a limited liability company or a private shareholder. Though this is not a credit negative in itself, information availability on private companies is generally scarcer than on public companies.

FX

The Bloomberg dollar spot index changed little after swinging between gains and losses. Yen fell 0.1% this morning against the dollar to 111.61 after climbing yesterday. EUR/USD rose to 1.1239 and GBP/USD is little changed at 1.2980.

Australian dollar edges back above 0.75 handle against the greenback despite iron ore extending its decline intra-day following Moody's downgrade of China yesterday.

Equities

Equity markets had little catalyst for change yesterday. Amid small movements, European bourses closed slightly lower and US indices were generally in the green. Euro Stoxx and DAX closed down by -0.23% and -0.13% respectively though FTSE 100 reversed previous day's losses closing up by 0.40%. S&P 500 and Dow Jones were up by quarter of a percent each. Asia has opened in the green this morning as investors shrugged China's rating downgrade. Hang Seng is currently up +0.60% up and Nikkei is +0.43% in early morning trades.

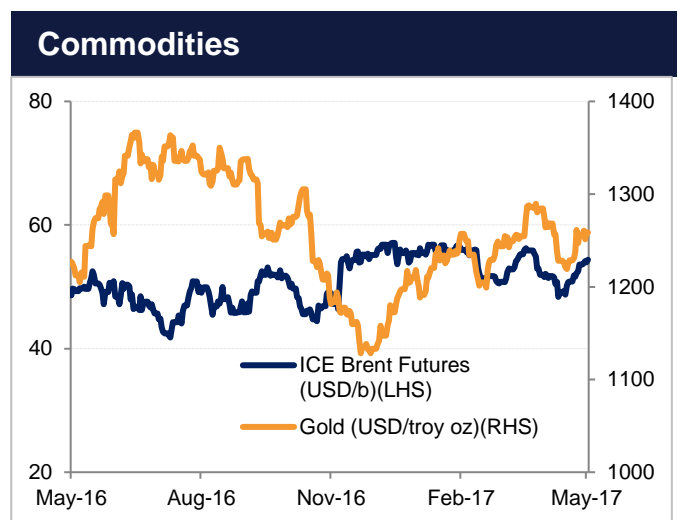
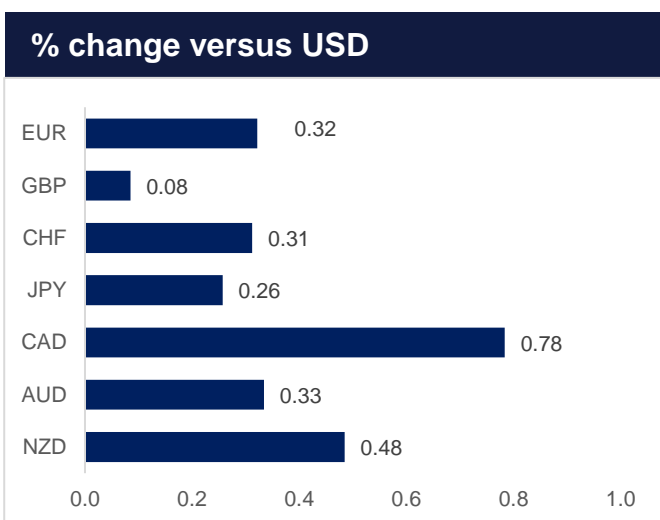
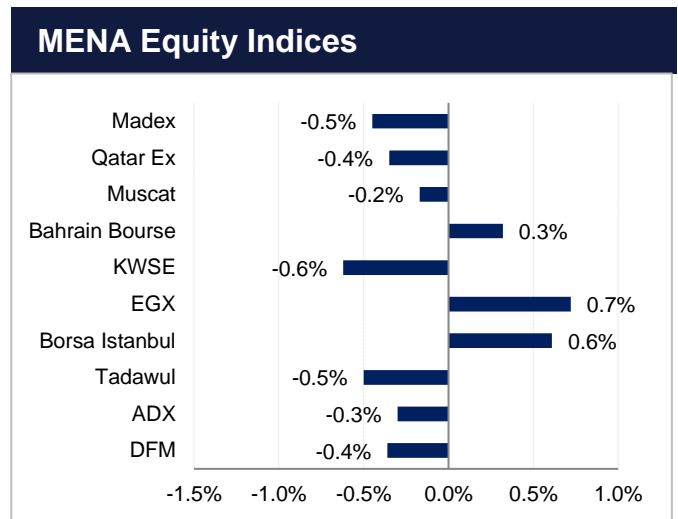
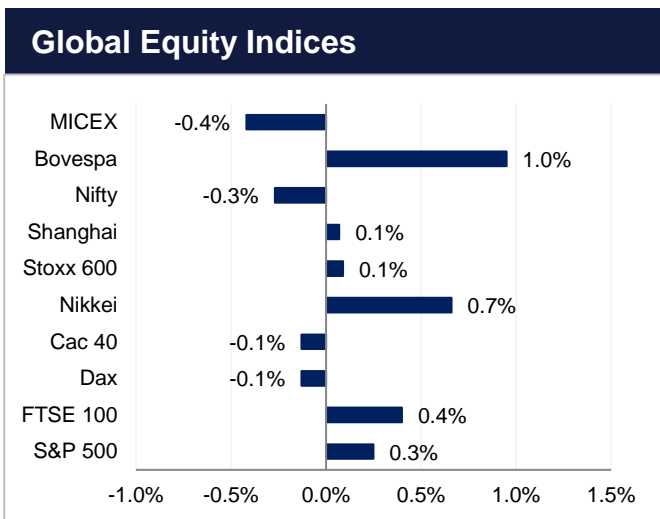
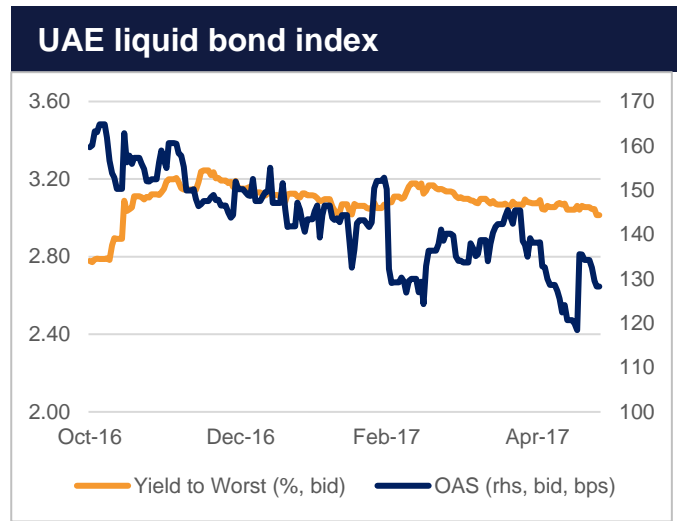
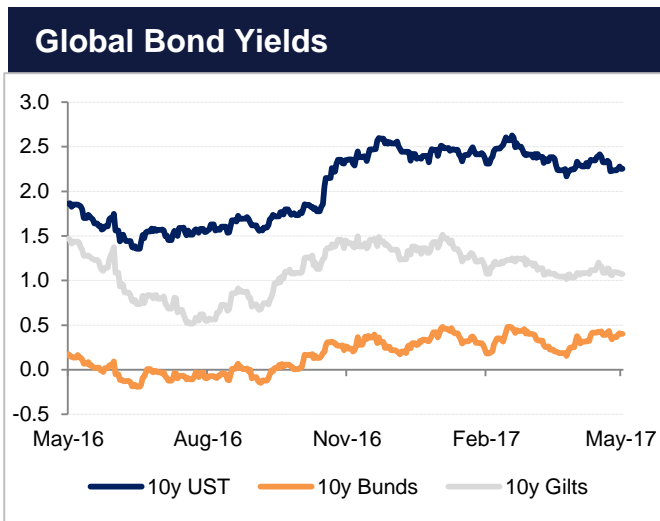
Despite positive sentiment on oil prices, equity bourses in the GCC continued to suffer from profit taking ahead of Ramadan. DFM closed down by -0.36% and Tadawul shed -0.24% yesterday.

Commodities

Oil markets will be swung back and forth today on whatever rumours or statements appear from the sidelines of OPEC's meeting in Vienna. A 12 month extension of the existing production cut now appears on the table, taking us into the middle of 2018, which would do substantial work to clear the excess inventories if all countries adhered to their targets. Both WTI and Brent futures are higher this morning, dragged up by expectation that OPEC will pull out a surprise outcome at the meeting.

Almost ignored by the market overnight was a 4.4m bbl draw in US crude inventories along with draws across much of the rest of the barrel. Helping that decline in crude stocks was a record level of crude inputs into US refineries (17.3m b/d). However, US production was up again, 15k b/d w/w, to over 9.3m b/d. An extension of OPEC's cuts into next year would most likely help encourage greater, rather than lower volumes from US producers

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1219	+0.32	1.1446	USDTRY	3.5601	-0.41	EURAED	4.1206	+0.32
GBPUSD	1.2972	+0.08	1.3122	USDEGP	18.0730	-0.00	GBPAED	4.7652	+0.10
USDJPY	111.49	-0.26	109.45	USDSAR	3.7502	-0.00	JPYAED	0.0329	+0.26
USDCAD	1.3407	-0.79	1.3319	USDQAR	3.6415	--	CADAED	2.7397	+0.79
AUDUSD	0.7503	+0.33	0.7468	USDKWD	0.3036	+0.10	AUDAED	2.7562	+0.36
USDCHF	0.9730	-0.31	0.9494	USDBHD	0.3770	--	CHFAED	3.7749	+0.31
EURGBP	0.8646	+0.21	0.8720	USDOMR	0.3850	+0.00	TRYAED	1.0300	+0.24
USDAED	3.6730	--	3.6795	USDINR	64.5675	-0.50	INRAED	0.0568	+0.35

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0483	1.4830	1.6880	2.1707	USD 2 yr	1.514	-3
USD LIBOR	1.0327	1.1976	1.4174	1.7257	USD 5 yr	1.863	-3
GBP LIBOR	0.2528	0.3024	0.4470	0.6491	USD 10 yr	2.195	-3
JPY LIBOR	-0.0160	-0.0139	0.0233	0.1264	EUR 2 yr	-0.139	-1
CHF LIBOR	-0.7824	-0.7292	-0.6614	-0.4890	EUR 5 yr	0.211	-2
					EUR 10 yr	0.824	-2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1258.73	+0.60	ADGB 6.75 19	1.51	-1	Abu Dhabi	38	-2
Silver	17.23	+0.98	DUGB 7.75 20	2.60	-0	Dubai	104	-2
Oil (WTI)	51.36	-0.21	QATAR 6.55 19	1.74	-0	Qatar	58	-3
Aluminium	1942.50	+0.10	US Tsy 2 yr	1.28	-2	Saudi Arabia	91	-1
Copper	5662.50	-0.57	US Tsy 10 yr	2.25	-3	Bahrain	217	-2

Source: Bloomberg, Emirates NBD Research

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