



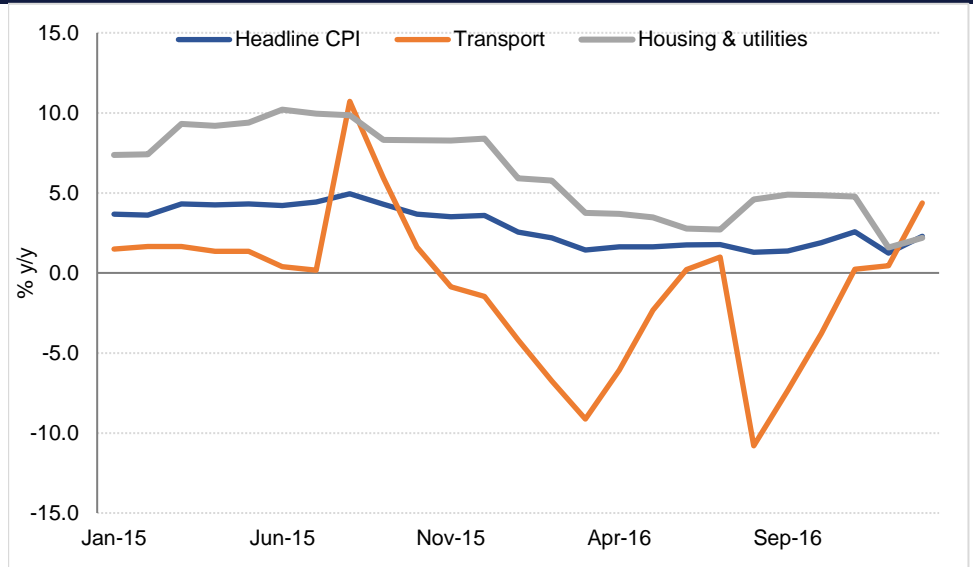
Daily Outlook

After heavy focus on the Fed in recent weeks markets are likely to turn their attention to US fiscal policy in the coming one. President Trump will speak to a joint session of Congress on Tuesday with expectations that he will provide more details about his 'phenomenal' plan to reform the US tax system, promised to be announced by early March. Last week Treasury Secretary Steve Mnuchin also promised 'very significant' tax reform, although he said it may not be ready before August and also forecast growth to be at 3.0% before the end of 2018, lower than the 4.0% objective promised by Trump throughout the election campaign. **Markets softened a little towards the end of last week on the back of this,** and ahead of Trump's speech, as the market rally since the election was largely predicated on expectations of substantial tax reforms and a powerful fiscal stimulus. This week's set piece speech therefore stands to be one of the most important events of Trump's first few months in the White House.

The data calendar this week is a full one, with US durable goods orders, various manufacturing surveys, construction and personal spending, pending home sales and the second estimate of Q4 US GDP all due for release. Elsewhere, PMI data for China and Europe will be closely watched, along with German inflation and unemployment data. The Bank of Canada is expected to keep rates on hold on Wednesday and finally, Janet Yellen is due to speak Friday in Chicago.

In the UAE, inflation jumped 0.7% m/m in January on the back of sharply higher transport costs (0.8% m/m) as petrol prices were increased. Health care (0.4% m/m), housing (0.7% m/m) and miscellaneous goods and services (6.6% m/m) also contributed to the higher CPI last month. Food and other tradable goods prices declined however. The annual inflation rate rose to 2.3% y/y from 1.2% in December. We expect inflation to average 2.5% in 2017.

UAE inflation rises in January



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone Money Supply (y/y)	13:00	4.8%	Eurozone Cons. Confid.	14:00	-6.2
US Durable Goods Orders	17:30	1.7%	US Pending Home Sales	19:00	1.0%
US Dallas Fed Manuf. Activity	19:30	19.4			

Source: Bloomberg.

Fixed Income

Sovereign yields across the developed world receded last week in response to increasing uncertainty. New home sales data in the US was weaker than expected. Also expectations of delays in policy announcements about fiscal stimulus as a result of treasury secretary Mnuchin's plan to thoroughly investigate/analyse all aspects before final decisions are made led to flattening of the US curve. Yields on 2yr, 10yr and 30yr treasuries closed at 1.14% (-5bps), 10yr 2.31% (-10bps) and 2.95% (-7bps) respectively.

In Europe, politics continues to be the main driver for both core and peripheral markets. 10Y Bunds rallied with yields narrowing more than 11bps to 0.18%. French spread to Bunds widened sharply to 74bps as opinion polls showed the gap between Le Pen and Fillon/Macron as narrowing.

Local GCC bonds had constructive weeks although much of the benchmark yield tightening was absorbed by widening credit spreads as investors remained reluctant to take bond prices higher, particularly as oil prices faltered a little. BUAEUL index closed marginally up in price though yield was largely unchanged at 3.05% as benchmark yield tightening was absorbed by 10bps widening in OAS to 152bps

The best performers were the longer dated bonds. Bargain hunters also pushed the price of Investment Corp of Dubai's recently completed 10yr sukuk. Yield on INVCOR 27s narrowed another circa 15bps during the week to 4.47% and, to us, still appear fair compared with 4.19% on DUGB 29s.

FX

GBP is weaker this morning on reports in the UK press that Scotland could call another referendum on independence in the coming weeks. The Times suggested that PM May could agree to another vote on condition that it is held after the UK leaves the EU.

The USD index is broadly unchanged ahead of President Trump's key speech to congress tomorrow night.

Equities

Major equity indices were split to end the week. US markets closed higher—the S&P 500 added 0.15% in a weekly rise of nearly 0.7%—but European markets ended the week on a softer tone. The FTSE 100 gave up 0.4% and the DAX was down more than 1.2% at the end of the week.

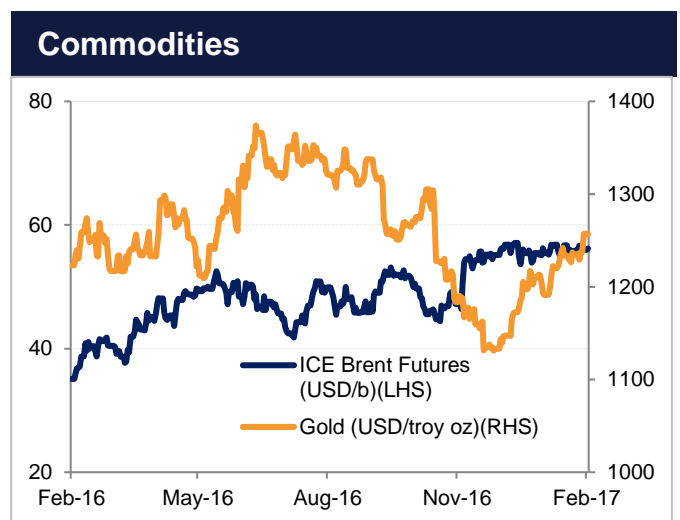
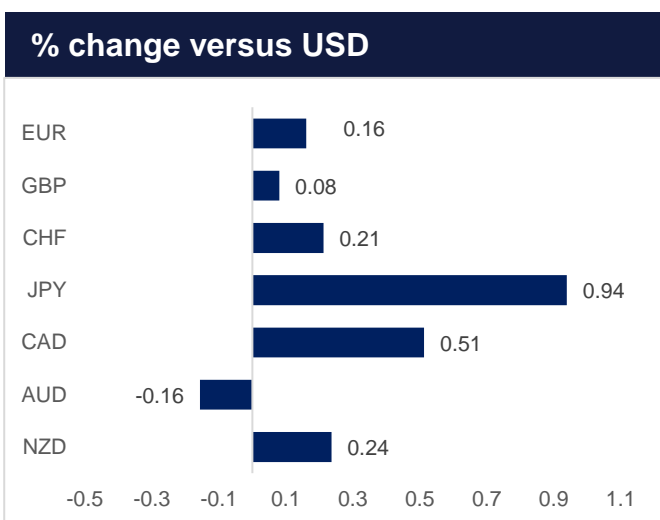
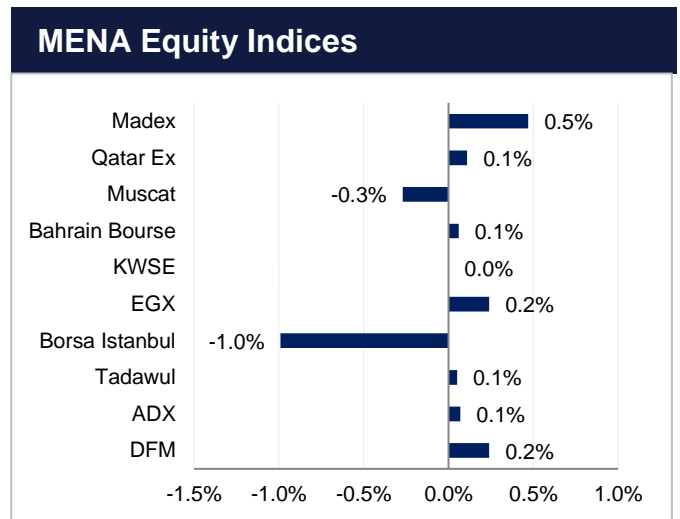
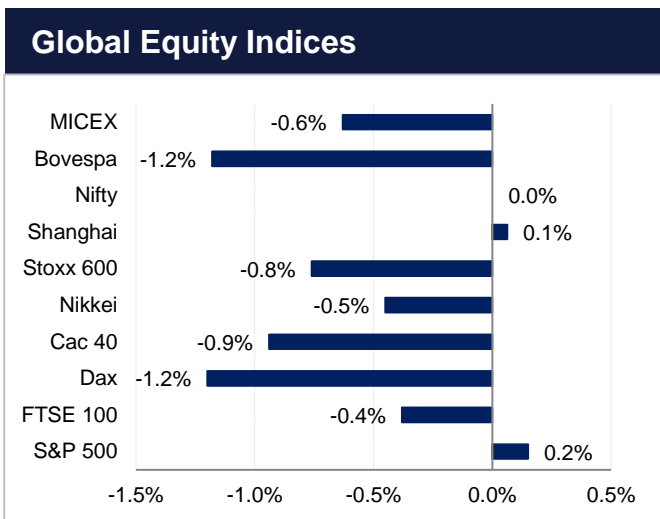
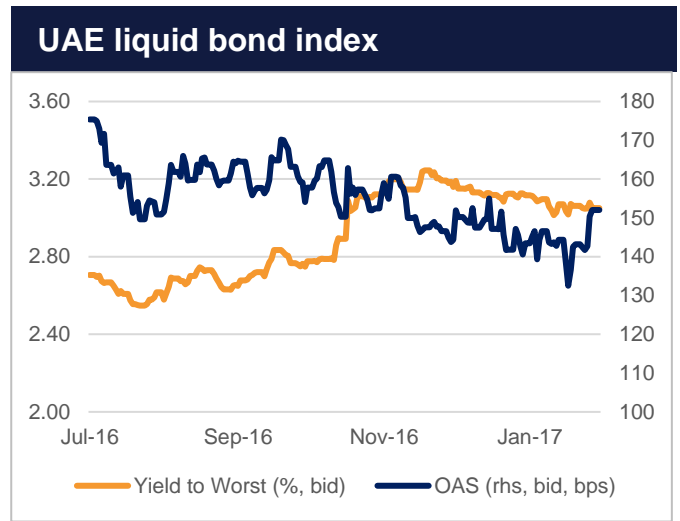
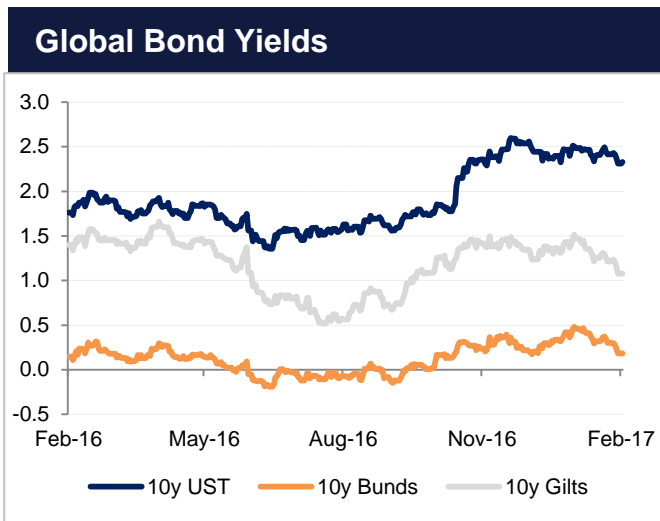
Regional equities closed higher to start this trading week, with the DFM up 0.2% and the ADX barely higher. The Tadawul also edged marginally higher.

Commodities

Oil prices nudged barely higher last week, failing to materially break out of the narrow range they've settled into. Brent futures closed just under USD 56/b while WTI held south of USD 54/b. Over the week, Brent futures travelled just USD 1.67/b from their weekly low to high while WTI held to a range of about USD 2/b. Annualized volatility continues to trickle lower and is less than half where it was at this time last year.

But balanced against this lack of direction in oil markets, drilling activity in the US remains buoyant. Another five drilling rigs were added last week, taking the total to over 600. But there could be signs producers are choosing to leave themselves open to the current market, rather than hedging. Producer shorts fell more than 53k contracts last week, their first sizeable decline in 2017.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0563	+0.16	1.0777	USDTRY	3.6082	+0.76	EURAED	3.8901	+0.43
GBPUSD	1.2462	+0.08	1.2597	USDEGP	15.8623	+0.47	GBPAED	4.6077	+0.75
USDJPY	112.12	-0.95	109.99	USDSAR	3.7503	+0.00	JPYAED	0.0327	+0.72
USDCAD	1.3091	-0.52	1.3028	USDQAR	3.6413	--	CADAED	2.8047	+0.49
AUDUSD	0.7676	-0.16	0.7627	USDKWD	0.3052	-0.08	AUDAED	2.8286	+0.18
USDCHF	1.0075	-0.23	0.9821	USDBHD	0.3770	--	CHFAED	3.6526	+0.43
EURGBP	0.8477	+0.09	0.8556	USDOMR	0.3850	-0.00	TRYAED	1.0200	-0.55
USDAED	3.6727	-0.01	3.6822	USDINR	66.8250	--	INRAED	0.0551	+0.31

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9671	1.3864	1.6047	2.0931	USD 2 yr	1.541	-2
USD LIBOR	0.7806	1.0540	1.3607	1.7396	USD 5 yr	1.980	-4
GBP LIBOR	0.2651	0.3543	0.5121	0.7425	USD 10 yr	2.348	-4
JPY LIBOR	-0.0156	-0.0249	0.0213	0.1277	EUR 2 yr	-0.156	-1
CHF LIBOR	-0.7952	-0.7292	-0.6786	-0.5236	EUR 5 yr	0.108	-3
					EUR 10 yr	0.706	-4

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1257.19	+0.61	ADGB 6.75 19	1.46	-3	Abu Dhabi	47	--
Silver	18.28	+1.57	DUGB 7.75 20	2.73	-2	Dubai	122	+6
Oil (WTI)	53.99	-0.84	QATAR 6.55 19	1.80	-1	Qatar	68	+1
Aluminium	1885.75	+1.36	US Tsy 2 yr	1.14	-4	Saudi Arabia	100	+2
Copper	5915.00	+1.20	US Tsy 10 yr	2.31	-6	Bahrain	224	+1

Source: Bloomberg, Emirates NBD Research

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