



بنك الإمارات دبي الوطني
Emirates NBD

Daily
28 November 2016

Daily Outlook

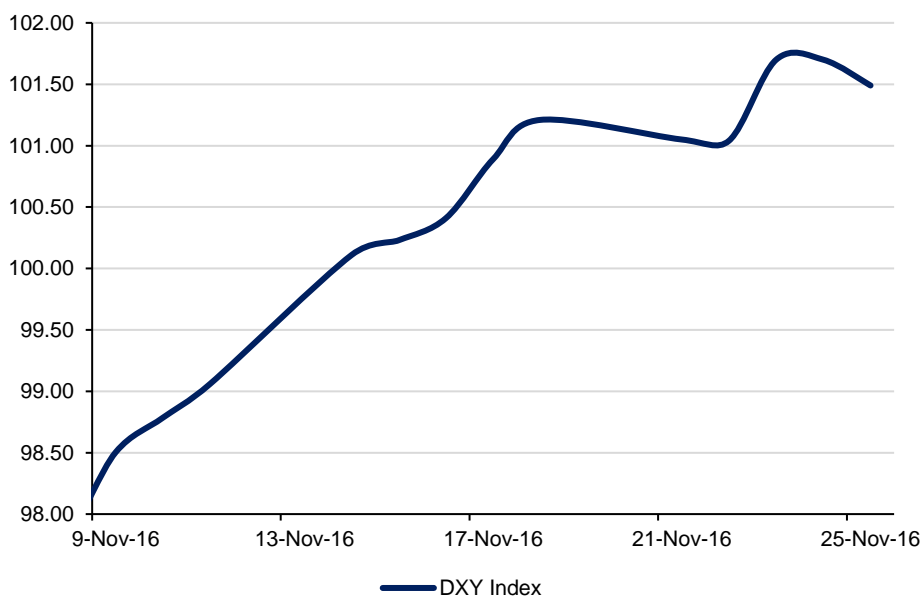
The dollar lost some momentum at the end of last week, with trading in Asia overnight seeing further weakness as bond yields have also come off their highs. **Markets face an OPEC meeting during the middle of the week which has been expected to reveal details of a long awaited production cuts.** However, Saudi Arabia has said it will not attend a meeting with non-OPEC producers to agree on wider cuts until the group itself can reach a consensus on production levels.

With the market pricing 100% likelihood of a Fed rate hike next month, the US payrolls report due at the end of this week only has to match expectations for the hike to be assured. With the US already close to full employment it will not take much more strength deriving from Trump's anticipated fiscal policies to drive inflation higher, causing the Fed to up its pace of tightening in 2017, with our expectation being for two rate hikes next year.

The Central Bank of Turkey raised interest rates for the first time since 2014 on 24 November in response to the weak lira and amidst ongoing signs of slowing inflation and weak economic activity. While the overnight borrowing rate was kept at 7.25%, the marginal funding rate was raised 25bps to 8.50%, and the one-week repo rate increased 50bps to 8.00%.

Overnight the former French Prime Minister Francois Fillon won the French Republican presidential nomination and will be the dominant candidate in the French presidential elections next year. Opinion polls suggest that he is the most likely to win the Presidency when the election takes place next May, most likely beating the National Front leader Marine La Pen. Fillon is thought likely to propose significant economic and labour market reforms and may take a softer line with the UK with regard to Brexit.

US Dollar Index since Trump victory



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
OECD Economic Outlook	N/A	N/A	Dallas Fed Manf Activity	19:30	1.5

Source: Bloomberg.

Fixed Income

In a slow and holiday shortened week, fixed income markets were largely range bound with policy divergence becoming apparent in sovereign bond yields. Yields on UST continued to rise with 2yr and 10yr treasury yields closing at 1.12% (+5bps on the week) and 2.36% (+4bps) respectively while those on 10yr Gilts and Bunds narrowed down to 1.41% (-1bp) and 0.24% (-3bp) respectively.

Though expectations of any positive outcome from the upcoming OPEC meeting this week are not well anchored, credit spreads remained well supported and high yield bonds across the globe did particularly well.

Against this backdrop, GCC cash bond prices remained resilient as tightening credit spreads provided some cushion against the rising benchmark yields. Also while quoted prices did reflect marginal weakening, it was amid extremely thin liquidity. Investors found it difficult to buy in sizes and primary markets had no big offering barring the private placement of \$1.5 billion of the Etihad Airways sukuk. Despite pricing competitively at MS+210bps, well inside the initial guidance, the Etihad sukuk debut strongly in the secondary market – tightening further circa 25bps to Z-spread of 174bps towards end of the week.

As is generally the case during the times of positive sentiment on economic growth and early path of rate hike trajectory, high yield bonds performed better than the high grade. High yield bonds such as EAPART 20s and BATELC 20s were in top three performers - actually recording half to three quarters point increase in prices. In contrast the longer dated high grade bonds from QATAR, KSA, Etisalat etc made it into the biggest losers category.

Equities

Major equity indices ended last week on a positive note, with most markets in the green. The S&P 500 continues to tack to new highs as the post-Trump euphoria still seems to captivate equity markets. Local markets closed higher yesterday with the DFM and Abu Dhabi exchanges up 0.4% and 0.6% respectively while the Tadawul gained 0.7%.

FX

The markets open for the week with JPY gaining on all the other majors as secondary indicators showed that the USDJPY pair was overbought. The 14 day RSI reached 85 last week, the highest level in 26 months signalling to the market that the initial JPY sell off may have been overdone. As we go to print, the USDJPY trades 1.15% lower at 111.92, having found support at 111.36 earlier today, close to the one year 50% Fibonacci retracement of 111.35 and just above the 10 day MA of 111.23. As long as these level holds, the weekly outlook for the pair remains bullish.

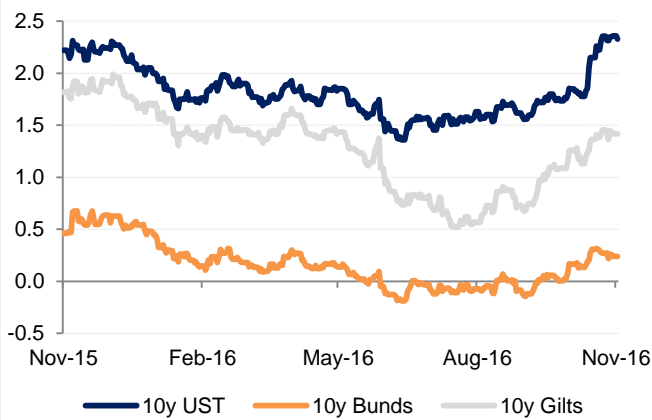
The USD commences as the underperformer, following on from 3 weeks of consecutive gains. The dollar is softer against all the other majors with the Dollar Index currently trading at 0.64% lower at 100.84.

Commodities

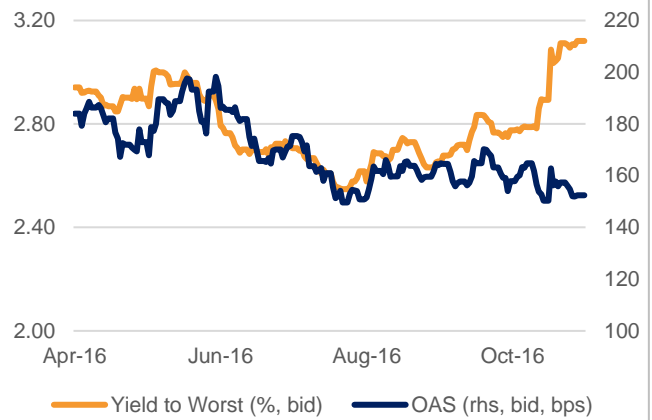
Oil prices are under pressure as the likelihood of an OPEC agreement on production cuts hangs in the balance. Saudi Arabia's oil minister said he though oil markets would balance in 2017 even without production cuts which may be as strong a clue as any that Saudi Arabia is preparing for no positive outcome of this week's official OPEC meeting. Saudi Arabia will also miss out on a meeting with non-OPEC producers as the bloc itself hasn't yet come to an agreement on production levels. Oil futures ended the week essentially flat thanks to a sizeable drop on Friday. Brent futures are currently hanging on to USD 47/b while WTI is just above USD 46/b.

Markets in Charts

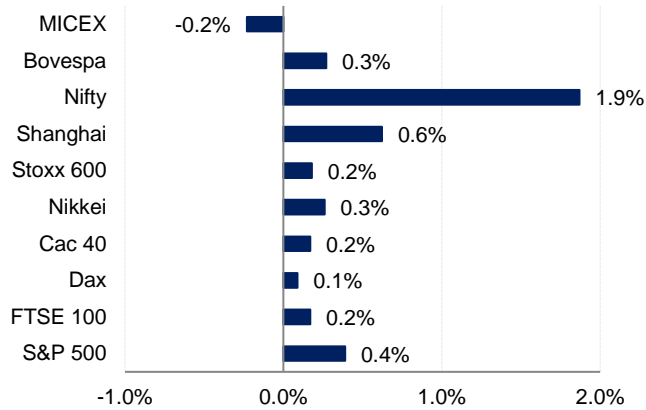
Global Bond Yields



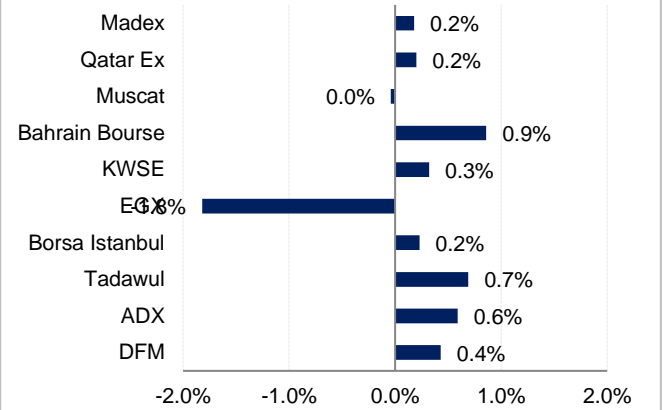
UAE liquid bond index



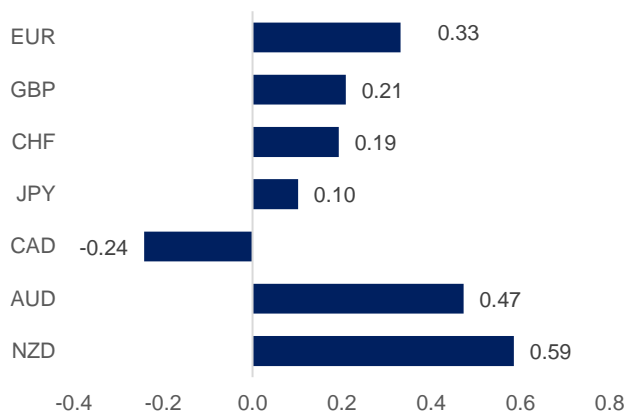
Global Equity Indices



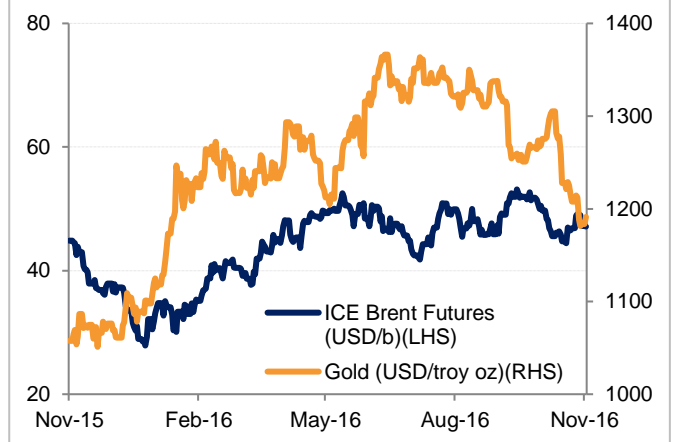
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0589	+0.33	1.0792	USDTRY	3.4514	+0.15	EURAED	3.8916	+0.41
GBPUSD	1.2477	+0.21	1.2593	USDEGP	17.5815	--	GBPAED	4.5817	+0.18
USDJPY	113.22	-0.10	111.08	USDSAR	3.7508	--	JPYAED	0.0324	+0.13
USDCAD	1.3519	+0.20	1.3457	USDQAR	3.6413	--	CADAED	2.7167	-0.21
AUDUSD	0.7443	+0.47	0.7385	USDKWD	0.3051	-0.03	AUDAED	2.7332	+0.44
USDCHF	1.0141	-0.22	0.9896	USDBHD	0.3770	-0.00	CHFAED	3.6213	+0.23
EURGBP	0.8497	+0.23	0.8580	USDOMR	0.3850	-0.01	TRYAED	1.0600	-0.54
USDAED	3.6728	-0.01	3.6858	USDINR	68.5800	-0.24	INRAED	0.0536	+0.28

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.7244	1.4077	1.6559	2.0424	USD 2 yr	1.331	-1
USD LIBOR	0.6059	0.9373	1.2899	1.6451	USD 5 yr	1.817	+2
GBP LIBOR	0.2609	0.3909	0.5560	0.7980	USD 10 yr	2.184	+1
JPY LIBOR	-0.0731	-0.0739	-0.0037	0.1070	EUR 2 yr	-0.153	--
CHF LIBOR	-0.7874	-0.7464	-0.6750	-0.5054	EUR 5 yr	0.087	--
					EUR 10 yr	0.641	-1

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1183.56	+0.16	ADGB 6.75 19	1.67	+3	Abu Dhabi	71	+1
Silver	16.53	+1.31	DUGB 7.75 20	2.85	-3	Dubai	158	-2
Oil (WTI)	46.06	-3.96	QATAR 6.55 19	1.89	+1	Qatar	91	+1
Aluminium	1757.25	-0.86	US Tsy 2 yr	1.12	-1	Saudi Arabia	125	-2
Copper	5864.50	+0.19	US Tsy 10 yr	2.36	+1	Bahrain	332	+1

Source: Bloomberg, Emirates NBD Research

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