



بنك الإمارات دبي الوطني
Emirates NBD

Daily

28 February 2017

Daily Outlook

President Trump proposes to boost defence spending by 10% (USD 54bn) in his first budget, according to officials. The increased defence spending will be financed through equivalent cuts to other federal agencies except Social Security and Medicare. The State Department and environmental agencies are expected to bear the brunt of budget cuts, although other services such as education and medical research could also be affected. President Trump is expected to provide more details on his fiscal plans and policy priorities in an address to Congress this evening, while a broader budget plan is expected in March. US equities closed higher on Monday and the USD is trading firmer this morning ahead of the speech.

US economic data on Monday was mixed, with durable goods orders excluding transportation declining -0.2% m/m in January, against expectations for a 0.5% rise. Pending home sales also unexpectedly declined -2.8% m/m last month. However the Dallas Fed Manufacturing Activity index rose in February by more than forecast. Today we get two more manufacturing indices, as well as US consumer confidence and the second estimate of Q4 GDP.

Japan's industrial production declined -0.8% m/m in January, against expectations of a 0.4% m/m rise. The y/y growth in IP was unchanged at 3.2%. Retail sales data was slightly better than expected last month at 0.5% m/m, following a decline in December.

Finally in the Eurozone, the **Economic Sentiment Index rose to 108.0 in February** from 107.9 in the previous month, largely consistent with other surveys that have shown positive momentum broadly continuing into the new year. This is a little surprising considering the numerous political risks that exist this year, although there is still plenty of time for these to affect confidence.

S&P 500 index rises ahead of key Trump speech



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
France Q4 GDP (y/y)	11:45	1.1%	US Q4 GDP (q/q ann.)	17:30	2.1%
US Chicago Purchasing Managers	18:45	53.5	US Consumer Confidence	19:00	111.0
Richmond Fed Manuf. Index	19:00	10			

Source: Bloomberg.

Fixed Income

Good economic data and slightly hawkish comments from Dallas Fed President Robert Kaplan saw a reversal of last week's gains in the treasury market. Market expectations of a rate hike in March increased to 50% from 40% last Friday. UST curve steepened yesterday with yields on 2yr and 10 yr closing higher at 1.19% (+5bps) and 2.37% (+6bps) respectively. Across the Atlantic, European sovereign bonds remained well bid amid increasing political uncertainty with Gilt and Bund yields range bound at 1.15% (unchanged) and 0.19% (+1bp) respectively. Credit spreads didn't move much with US IG and Euro Main at 62bps and 74bps respectively.

GCC bond market was slightly softer in line with rising benchmark yields. Liquid UAE bond index recorded YTW of 3.07% (+2bps). That said, credit spreads remained largely unchanged on UAE bonds and narrowed on average GCC bonds by 5bps to 134bps.

Investor focus is likely to remain firmly on the primary market this week. In addition to Oman sovereign, Majid Al Futtaim is on the road to raise 5.5 year benchmark USD perp at high 5% area. Qatar Reinsurance (rated A/stable) has mandated banks for roadshow meetings. Debut USD denominated RegS Tier II Perpetual non-call 5.5 year offering will follow, subject to market conditions. Issuance is expected to be rated BBB+ by S&P.

FX

The USD is trading firmer this morning ahead of President Trump's key speech to Congress this evening. JPY, CAD, TRY and ZAR have been the biggest losers relative to the USD, while sterling has clawed back some of its losses overnight, after weakening on reports that Scotland will call another independence referendum. It is unlikely that the UK government will agree to another referendum before the UK leaves the EU, and recent polls suggest that even if a referendum were to take place, most Scots favour remaining in the UK.

Equities

Equity markets were generally flat to begin the week on either side of the Atlantic with no notable moves. Major Asian markets are a little higher this morning barring the Hang Seng which is trading close to unchanged.

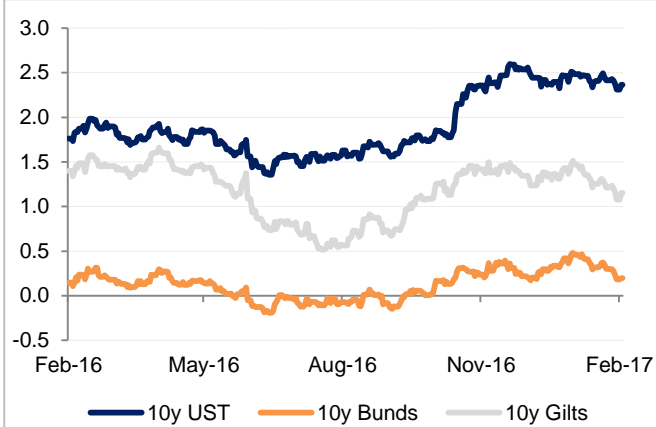
Regional equity markets closed lower yesterday. The Tadawul gave up more than 1% as uncertainty about the pace and valuation of the Aramco IPO captures the attention of markets.

Commodities

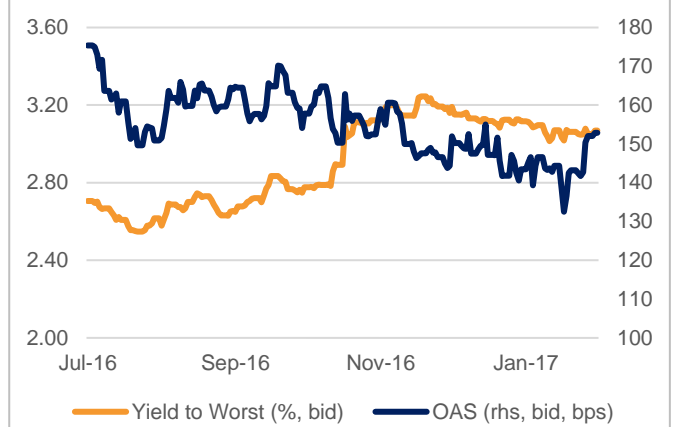
Oil prices were little changed to start the week as OPEC's secretary general said non-OPEC producers needed to pick up the pace to comply with their production cuts in efforts to balance markets. This drifting tone for oil prices has yet to deter investment in long positions as net length in Brent managed money positions rose for two weeks running as of the latest data. Oil futures are a little up this morning with little immediate catalyst on the cards for a fundamentals-based push out of the current range.

Markets in Charts

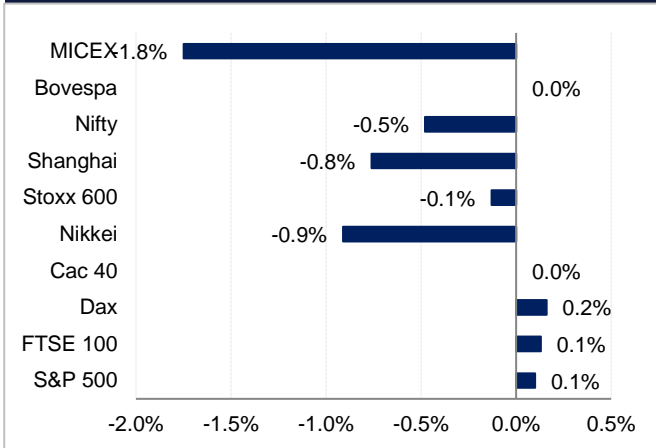
Global Bond Yields



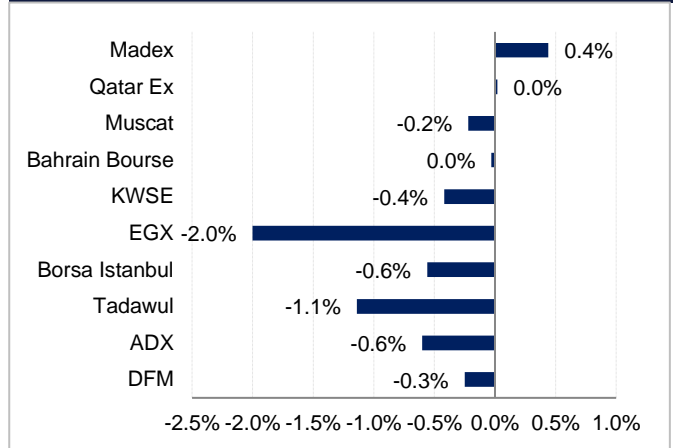
UAE liquid bond index



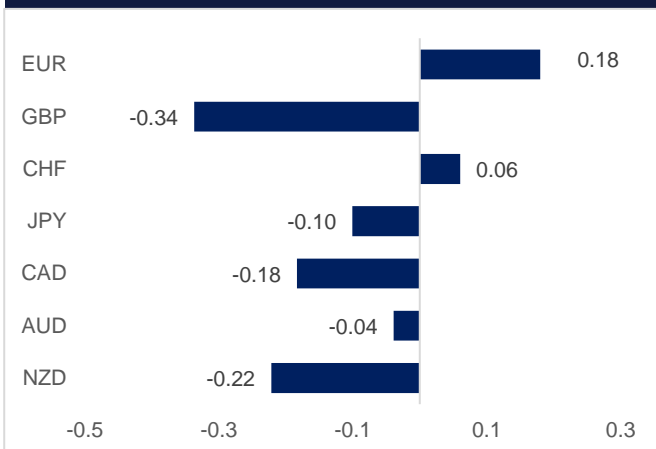
Global Equity Indices



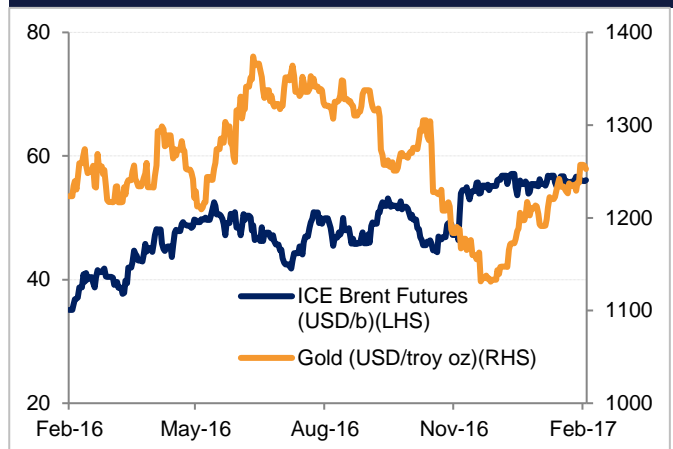
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0563	+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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