



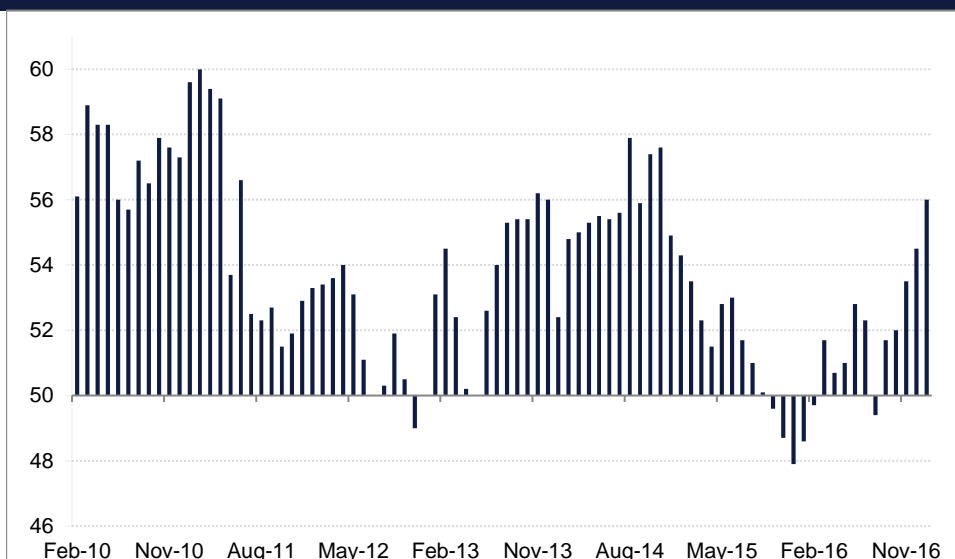
Daily Outlook

As widely expected, the U.S. Federal Reserve kept interest rates unchanged at its latest meeting which concluded yesterday. The accompanying policy statement was broadly similar to the one published in December, although it could be argued it took a slightly more hawkish tone. Indeed, the first paragraph added a sentence that read ‘*Measures of consumer and business sentiment have improved of late*’, while the second paragraph was changed to ‘*Inflation will rise to 2% over the medium term*’, compared to last meeting’s statement that simply said ‘*Inflation is expected to rise to 2% over the medium term*’. These are relatively small changes however, and the overall takeaway is that the FOMC appears cautious in an environment of heightened uncertainty over the direction of U.S. fiscal policy. Markets are currently pricing in a 32.0% probability of an interest rate hike in March, compared to 34.6% a week earlier.

The data calendar for the remainder of this week is relatively busy, with the main focus today set to be the latest BoE meeting (no change expected), and the publication of the Quarterly Inflation Report. Tomorrow of course will be the main highlight of the week with the U.S. nonfarm payroll report, with expectations currently seeing job growth of 175k in January. The ADP employment report published yesterday was bullish with a rise of 246k new jobs, compared to 153k in December.

The Government of India announced its budget statement for FY2018. As expected, the government provided for a small fiscal stimulus by making some reduction in personal and corporate income taxes. Additionally, capital spending by the government is proposed to increase 14% y/y. On the indirect tax front, no substantial changes have been made given the impending implementation of the Goods & Services Tax. The fiscal deficit for FY2018 is targeted at 3.2% of the GDP versus 3% targeted initially for FY 2018E in the fiscal consolidation roadmap and 3.5% for FY2017. On the whole, the budget reflects policy continuity.

Solid Rise in US ISM Report



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone PPI	14:00	1.2%	UK BoE Inflation Report	16:00	-
US Nonfarm Productivity	17:30	0.9%	US Initial Jobless Claims	17:30	250k

Source: Bloomberg.

Fixed Income

Slightly hawkish tone from FOMC and stronger than expected economic data out of the US set the stage for higher UST yields with 2yr, 5yr and 10yr closing up at 1.21% (+1bp), 1.93% (+2bps) and 2.47% (+2bp) respectively. Eurozone sovereign yields rose in tandem with 10 yr Bund and Gilts, both closing up by 3bps each to 0.46% (+3bps) and 1.45% (+3bps) respectively. Oil prices added to the previous day's gains, boosting sentiment on credit risk albeit without any material boost to credit spreads in the developed world. CDS levels on US IG and Euro Main at 66bps and 74 bps closed unchanged.

Despite rising benchmark yields, local GCC market received fillip from strengthening oil prices that saw credit spreads on Bbg Barclays GCC index down by 1bp to 139bps and those on BUAEL index down by 7bps to 139bps. Result announcements in the local market yesterday were strong with Nakheel, Sharjah Islamic Bank and Commercial Bank of Kuwait reporting better-than-expected profits. Fly Dubai that had higher revenue and increase in passengers flown from 9.04 million to 10.4 million, however, reported fall in net profit from AED101 million to AED 32 million as competition and rising oil prices depressed yields.

In the primary market, besides DIB and BoS, Kuwait's Equate Petroleum also announced plan to roadshow for a possible 7yr dollar denominated benchmark sized sukuk.

FX

In the aftermath of the FOMC statement (see above), USD softened against all the other major currencies. As we go to print, the Dollar Index trades at 99.52, having broken through the 50 day MA of 99.69 earlier in the morning session. A close below this level would indicate further vulnerability and the path of least resistance looks to be a decline and test of the one year 61.8% Fibonacci retracement of 99.27.

This morning's outperformer is the AUD, which has risen after economic data showed that the trade balance widened to AUD 3511m in December compared with market expectations for AUD 2000m. Thus far, AUDUSD has risen 0.75% to 0.7642, a move that has taken it past its one year 76.4% Fibonacci retracement of 0.7632.

Equities

Developed market equities recouped a part of their recent losses amid strong corporate earnings across Europe and the US. The Stoxx 600 index added +0.9% while the S&P 500 index closed flat. The Federal Reserve left interest rates unchanged even as it noted rising consumer and business confidence.

Asian equities are trading higher this morning tracking positive close to developed markets overnight. India's Nifty index is trading flat this morning after rallying +1.8% yesterday. The decision of the government to leave taxes on capital markets largely unchanged in the budget was taken as positive by investors.

Regional equities closed mixed with the DFM adding +0.3% and the ADX index losing -0.5%. The Qatar Exchange and the Tadawul closed flat.

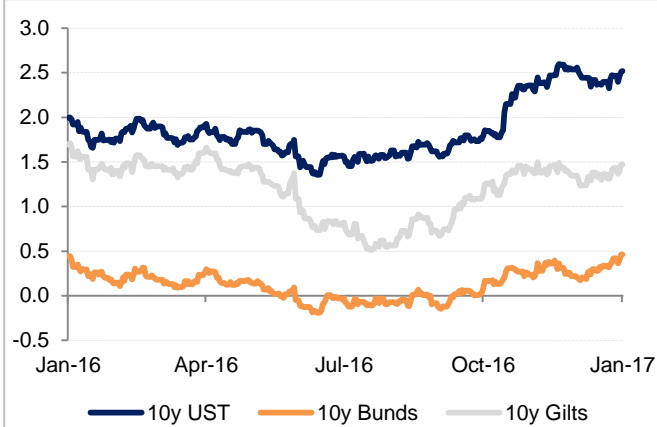
The flow on the DFM continues to be dominated by small cap stocks with Gulf Finance House (+1.5%) accounting for as much as 65% of the total volume. Elsewhere, National Bank of Abu Dhabi and ADCB dropped -5.0% and -2.2% following their results.

Commodities

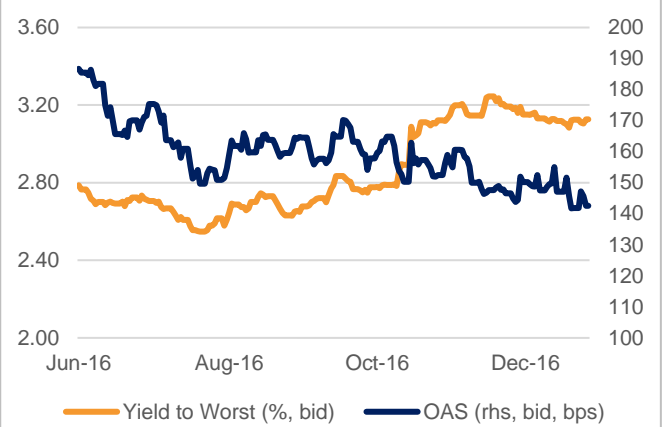
Oil prices managed to end higher, around 2% for both benchmarks, despite a reasonably bearish report from the EIA. Total crude inventories were up by 6.5m bbl, their fourth consecutive weekly gain and their longest run of builds since April 2016. Refinery intake and utilization were both down week on week while imports were up 480k b/d. The only supportive factor from this week's EIA was a 46k b/d drop in production.

Markets in Charts

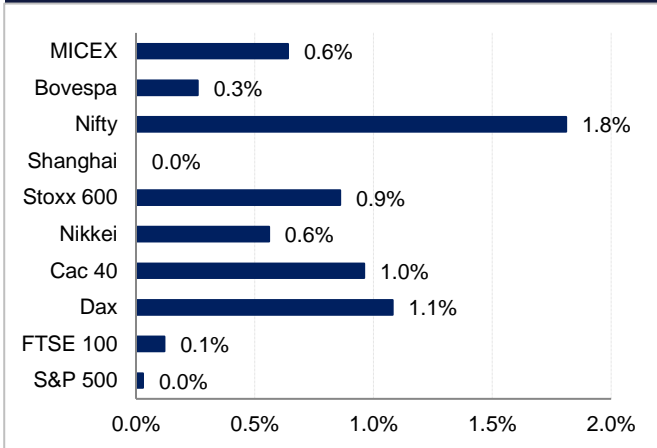
Global Bond Yields



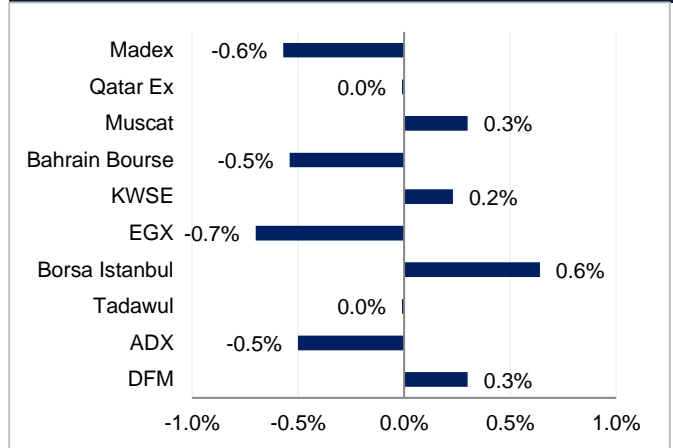
UAE liquid bond index



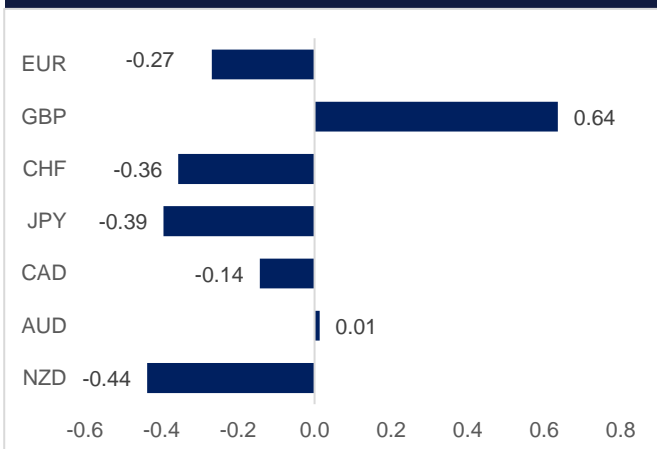
Global Equity Indices



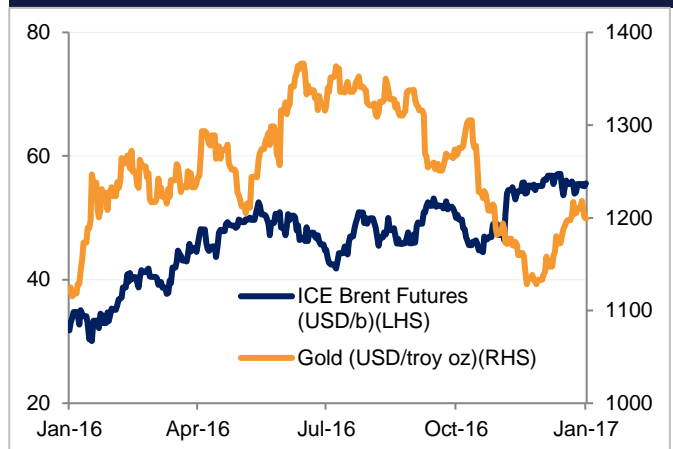
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0769	+0.12	1.0985	USDTRY	3.7695	-1.63	EURAED	3.9553	+0.11
GBPUSD	1.2659	+0.12	1.2787	USDEGP	18.8970	-0.02	GBPAED	4.6494	+0.11
USDJPY	113.25	-0.10	111.07	USDSAR	3.7506	+0.01	JPYAED	0.0324	+0.09
USDCAD	1.3049	-0.11	1.2986	USDQAR	3.6412	--	CADAED	2.8146	+0.10
AUDUSD	0.7586	+0.20	0.7536	USDKWD	0.3048	-0.05	AUDAED	2.7858	+0.17
USDCHF	0.9931	-0.56	0.9687	USDBHD	0.3770	+0.00	CHFAED	3.6989	+0.57
EURGBP	0.8509	+0.03	0.8593	USDOMR	0.3850	-0.01	TRYAED	0.9700	+1.20
USDAED	3.6730	--	3.6840	USDINR	67.4337	-0.94	INRAED	0.0545	+1.10

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9929	1.4041	1.6569	2.0936	USD 2 yr	1.506	-2
USD LIBOR	0.7800	1.0346	1.3504	1.7151	USD 5 yr	2.003	-4
GBP LIBOR	0.2622	0.3559	0.5336	0.7698	USD 10 yr	2.383	-4
JPY LIBOR	-0.0054	-0.0024	0.0234	0.1284	EUR 2 yr	-0.144	
CHF LIBOR	-0.7886	-0.7286	-0.6642	-0.5086	EUR 5 yr	0.194	+1
					EUR 10 yr	0.842	+3

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1209.84	+0.76	ADGB 6.75 19	1.64	-7	Abu Dhabi	59	+1
Silver	17.55	+3.24	DUGB 7.75 20	2.80	-2	Dubai	138	-2
Oil (WTI)	53.88	+2.14	QATAR 6.55 19	2.01	-4	Qatar	80	-2
Aluminium	1811.00	-1.40	US Tsy 2 yr	1.21	-2	Saudi Arabia	113	--
Copper	5936.00	+0.23	US Tsy 10 yr	2.47	-5	Bahrain	249	--

Source: Bloomberg, Emirates NBD Research

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