



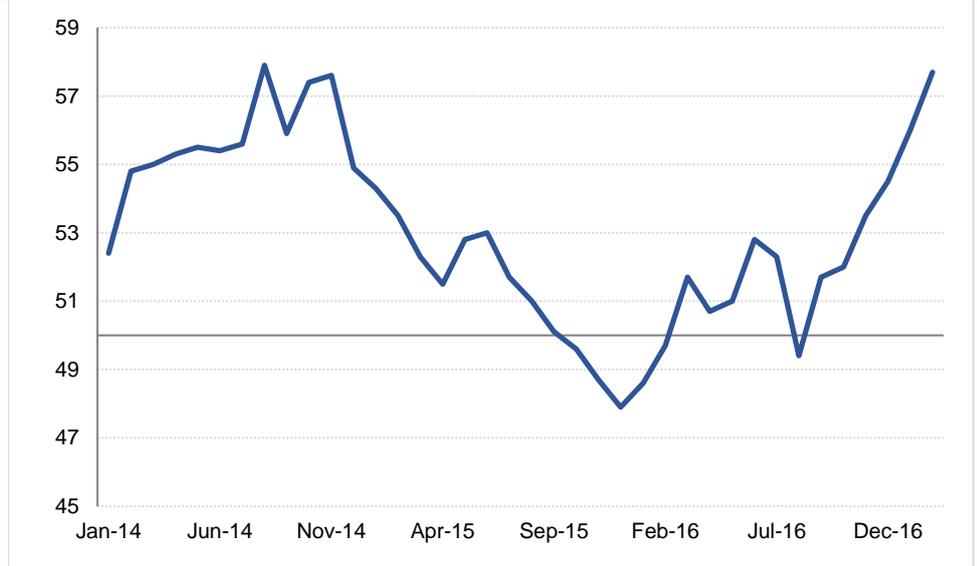
# Daily Outlook

**The implied probability of a Fed rate hike in March jumped to 80% overnight, after Fed Governor Lael Brainard said a rate hike would likely be appropriate 'soon'.** This follows similar hawkish comments by Fed Governors Williams and Dudley on Tuesday. US economic data was mixed overnight, with the ISM manufacturing index rising to 57.7 in February, the highest level since August 2014 and well above market forecasts. However, personal spending was softer than expected in January at 0.2% m/m, with real personal spending down -0.3% m/m. The Fed's preferred measure of inflation, the core PCE deflator was unchanged at 1.7% y/y, not far off the Fed's 2% inflation target. Janet Yellen is due to speak tomorrow in Chicago and markets will be watching closely for further guidance about a possible rate hike this month.

**In the UK, the government lost a vote on its Brexit bill in the House of Lords yesterday,** with peers approving an amendment to bill guaranteeing the rights of EU citizens already living in the UK to remain post-Brexit. The government was prepared for the defeat as the Conservative Party does not have a majority in the House of Lords. The Commons is expected to overturn the amendment in a vote next week, leaving PM May on track to trigger Article 50 by her self-imposed deadline of 31 March. **Manufacturing PMI in the UK was lower than forecast in February at 54.6,** down from 55.9 in January, although mortgage approvals (January) and house prices (February) rose by more than expected.

**In Saudi Arabia, SAMA's net foreign assets (NFAs) fell by -USD 12.0bn to USD 516.7bn in January 2017;** the biggest monthly decline in a year. On the liability side of SAMA's balance sheet, withdrawals appear to have been mainly from the government's current account at the central bank, rather than investment accounts. Broad money supply declined -1.0% m/m (0.3% y/y) in January, while private sector credit growth slowed to 1.8% y/y from 2.4% in December.

## US Manufacturing ISM at highest level in nearly 2 ½ years



Source: Bloomberg, Emirates NBD Research

## Day's Economic Data and Events

	Time	Cons		Time	Cons
UK Construction PMI	13:30	52.0	Eurozone Unemployment	14:00	9.6%
Eurozone CPI (y/y)	14:00	2.0%	Canada Q4 GDP (q/q ann)	17:30	2.0%
US Initial Jobless Claims	17:30	245k			

Source: Bloomberg.

## Fixed Income

Stable global landscape, positive US economic news and continued hawkish talk by Fed officials has caused March rate hike probability to soar to 80% now. US treasuries retreated with yields on 2yr UST now at highest since the financial crisis, touching 1.28% (+2bps) yesterday while 10yr closed at 2.45% (+6bps). European sovereigns were not far behind with yields on 10yr Bunds and Gilts closing at 0.285 (+7bps) and 1.19% (+4bps) respectively.

Although cash corporate bonds in the developed world inevitably suffered from wider benchmark yield, overall credit spreads remained supported. CDS Levels on US IG and Euro Main both tightened 2bps each to 60bps (-2bps) and 71bps respectively.

Softer tone in the oil market and rising benchmark yields left little for the local GCC bonds to get foothold on. BUAEL index reported YTW of 3.09% (+3bps) though credit spreads were materially lower with Bloomberg Barclays GCC bond index recording 6bps tightening to 126bps.

In the primary market Oman sovereign priced \$5 billion across 5yr, 10r and 30yr, tranches at MS+190, MS+300 and MS+387.5 respectively. Kuwait also has finally mandated banks for a road show in early march.

## FX

Uncertainty over Brexit, a stronger USD and weaker than expected manufacturing data all weighed on the pound yesterday. GBP is currently trading around USD 1.2280, more than 1% weaker than this time yesterday.

Politics also weighed on the euro yesterday, after Francois Fillon said he would continue to run for President despite being under formal investigation for misuse of public funds.

## Equities

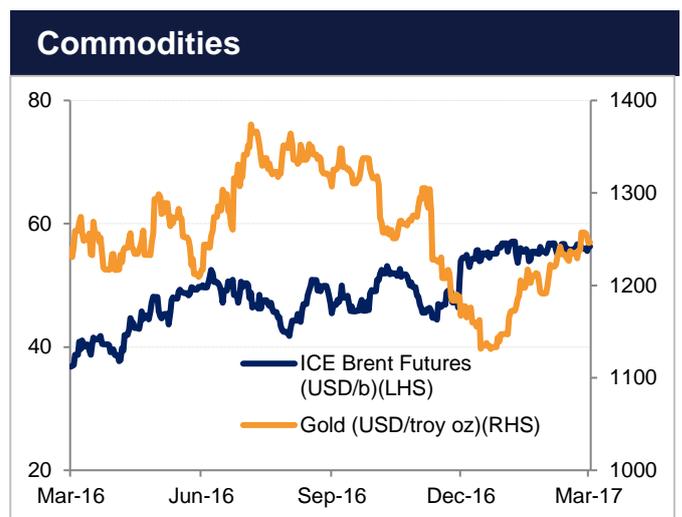
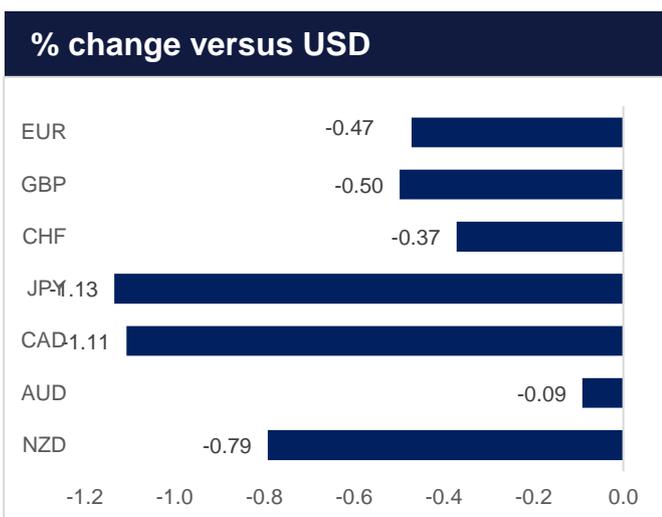
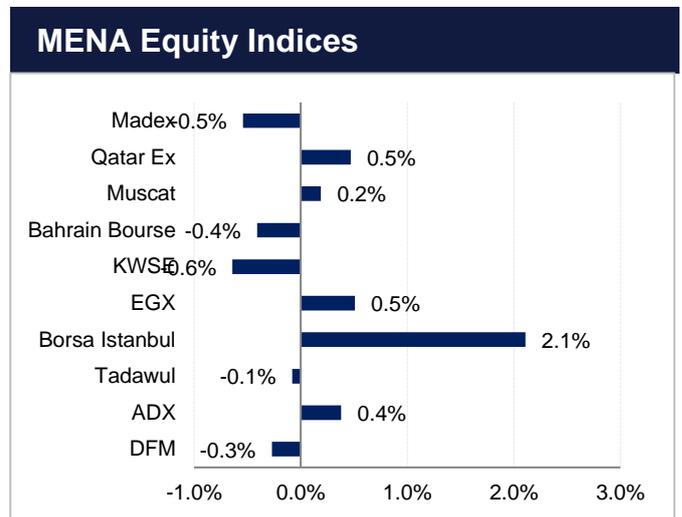
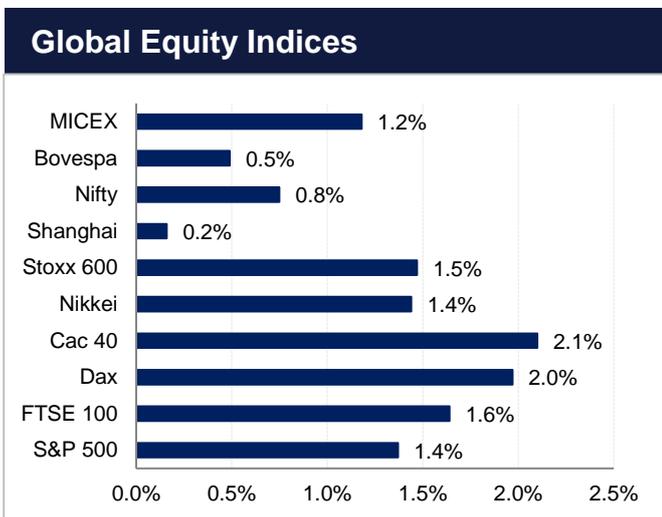
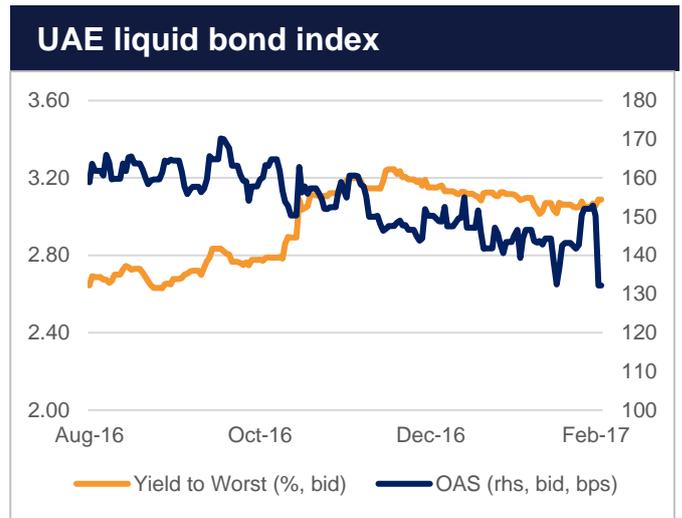
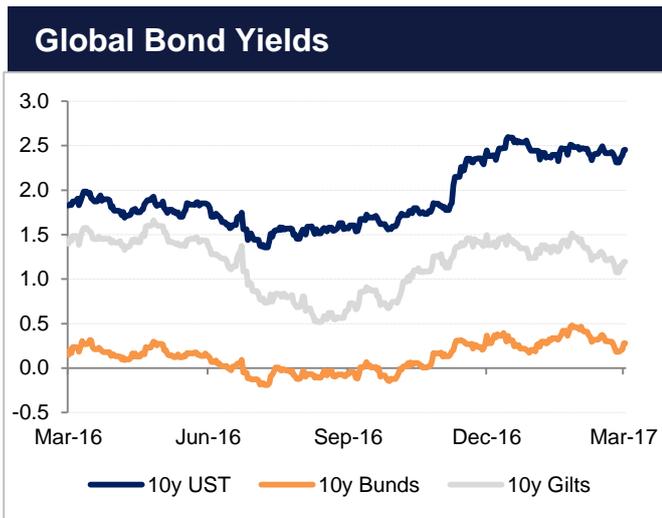
Equity markets took encouragement from President Trump's lack of miscues in his speech to the US congress and ended the day up significantly. On either side of the Atlantic there were gains: the S&P 500 was up nearly 1.4% while the FTSE 100 was higher by 1.64%. Asian markets are playing a little catch up this morning with the Nikkei already more than 1% higher and the Hang Seng up 0.4%.

It was another day of mixed performance from regional equities. The Tadawul was essentially flat but with a downward bias while the UAE indices diverged: the DFM closed 0.27% lower while the ADX was up 0.38%.

## Commodities

Brent markets closed up yesterday, ending above USD 56/b but they are still hewing close to their persistent trading range. Data out from the EIA was a little mixed yesterday helping WTI close only slightly lower. Crude inventories expanded again - 1.5m bbl - and they have now risen eight weeks on the run, adding more than 40m bbl to stocks since the start of the year. Production was also up, 31 kb/d, while refinery utilization reversed last week's drop. Gasoline and distillate inventories fell - albeit slightly - while exports which have recently hit record levels fell sharply.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0546	-0.47	1.0768	USDTRY	3.6321	+0.45	EURAED	3.8727	-0.46
GBPUSD	1.2374	-0.50	1.2517	USDEGP	16.1929	+2.45	GBPAED	4.5442	-0.49
USDJPY	113.63	+1.16	111.38	USDSAR	3.7502	-0.00	JPYAED	0.0323	-1.13
USDCAD	1.3335	+1.11	1.3261	USDQAR	3.6414	+0.00	CADAED	2.7541	-1.10
AUDUSD	0.7663	-0.09	0.7618	USDKWD	0.3056	+0.10	AUDAED	2.8141	-0.09
USDCHF	1.0089	+0.38	0.9830	USDBHD	0.3770	+0.00	CHFAED	3.6404	-0.37
EURGBP	0.8523	+0.03	0.8602	USDOMR	0.3850	--	TRYAED	1.0100	-0.56
USDAED	3.6726	--	3.6821	USDINR	66.7750	+0.13	INRAED	0.0550	-0.18

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9514	1.4059	1.6427	2.1289	USD 2 yr	1.632	+7
USD LIBOR	0.8106	1.0928	1.4063	1.7898	USD 5 yr	2.080	+8
GBP LIBOR	0.2579	0.3503	0.5069	0.7326	USD 10 yr	2.410	+7
JPY LIBOR	-0.0521	-0.0154	0.0230	0.1263	EUR 2 yr	-0.153	+1
CHF LIBOR	-0.8038	-0.7260	-0.6742	-0.5202	EUR 5 yr	0.109	+2
					EUR 10 yr	0.714	+3

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1249.69	+0.10	ADGB 6.75 19	1.51	-0	Abu Dhabi	46	-1
Silver	18.39	+0.64	DUGB 7.75 20	2.76	-3	Dubai	116	-1
Oil (WTI)	53.83	-0.33	QATAR 6.55 19	1.83	+5	Qatar	65	-2
Aluminium	1942.50	+1.19	US Tsy 2 yr	1.28	+2	Saudi Arabia	95	-2
Copper	6003.00	+0.61	US Tsy 10 yr	2.45	+6	Bahrain	220	-3

Source: Bloomberg, Emirates NBD Research

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