



بنك الإمارات دبي الوطني  
Emirates NBD

Daily  
31 May 2017

www.emiratesnbdresearch.com

## Daily Outlook

Manufacturing data out of Asia surprised on the positive side in early trading this morning. **China's manufacturing PMI for May held steady at 51.2, similar to its April level, thanks to a surge in steel production.** Profit growth has been slowing in the industrial sector thanks to higher input costs and lower output prices but nevertheless, new orders and exports both held at decent levels. **Industrial production in Japan improved sharply m/m, expanding 4% in April from the prior month.** This was the strongest monthly gain since 2011 and automotive and electronics production appear to have been behind the gains.

**In the US, consumer spending levels bounced back in April after a sluggish performance in the first quarter.** Consumer spending rose 0.4% m/m and is on track for annualised growth of 3% compared with just 0.6% in Q1. Personal income was also higher in April, rising 0.4% m/m. **Core PCE, the inflation figure the Fed tracks closely, slipped back again in April to y/y growth of 1.5% compared with 1.6% in March.** Core PCE has slowed for two months running but remains above the lows seen in 2015. Consistent improvement in the US jobs market, which may be evident from Friday's NFPs, should help turn this figure around but **the apparent weakness in price data may cause the Fed to quiver somewhat ahead of June's FOMC meeting.** Fed Governor Lael Brainard said as much overnight, saying that the "removal of accommodation" was likely to happen soon but a "lack of progress on inflation" may lead her to reassess the need to raise rates.

**Inflation data in several key European economies also slowed, creating expectations that regional inflation figures, out later today, will show some slack.** Inflation in Germany rose by 1.4% y/y in May, compared with 2% in April while Spanish inflation data showed the slowest pace of y/y gains since December 2016. Like the US, Germany is demonstrating a healthy jobs market but without the consequent overheating spilling into price pressures. If broader Eurozone inflation underperforms in line with Germany's, ECB governor Draghi's comments earlier this week about no immediate end to stimulus may start to firm up as policy.

### Core price growth in the US easing ahead of June FOMC



Source: EIKON, Emirates NBD Research.

### Day's Economic Data and Events

	Time	Cons		Time	Cons
EC Unemployment	13:00	9.4%	EC CPI Core y/y	13:00	1.0%
CA GDP y/y	16:30	2.9%	US Beige Book	22:00	N/A

Source: Bloomberg.

## Fixed Income

Fed's governor Lael Brainard's comment that she may reassess the path forward for rate hikes due to soft inflation were taken to be dovish, thereby bringing the UST curve down. Yields on 2yr, 5yr and 10yr treasuries closed lower at 1.25% (-1bps), 1.75% (-4bps) and 2.21% (-4bps) respectively. Sovereign bonds in Europe also had a mini rally with yields on 10yr Bunds and Gilts narrowing to 0.29% (-0.3bps) and 0.99% (-2bps) respectively.

Credit spreads had little impetus to change, however widened marginally in response to lower benchmark yields. CDS levels on US IG and Euro Main closed at 62bps (+0.1bp) and 63bps (+1bp) respectively. Despite the rating downgrade by Moody's by one notch to Aa3/stable, Qatar 5yr CDS tightened 2bps to 56bps – largely in sync with the general tightening of CDS levels on GCC sovereigns as oil prices settle well above the \$50/b mark.

Cash bonds in the region were range bound amid Ramadan induced thin trading. Though credit spread on Barclays GCC bond index widened two bps to 133bps, overall yield declined by a bp to 3.24%.

In line with the outlook change on the UAE and Kuwait's Aa2 rating from negative to stable, Moody's yesterday revised outlook on all related GREs (FAB, UNB, ADIB, Mubadala, IPIC, ETISALAT, NBK, KFH etc) from negative to stable on their respective ratings. Outlook on QNB and Qatar Petroleum Aa3 ratings were also revised to stable.

## FX

GBP has been soft as opinion polls appear to be suggesting that a hung parliament is the likeliest outcome in next week's UK general election. Latest polls from The Times newspaper placed support for the ruling Conservatives at 42% and Labour at 38%, the narrowest lead since the announcement of the election. As we go to print, GBPUSD trades 0.35% lower at 1.2814, below the supporting base of the daily uptrend that had been in effect since March 15<sup>th</sup>. Further declines and a close below the 50 day moving average of 1.2749 could confirm a reversal of this uptrend. However, a "gold cut" of the 200 day MA by the 100 day MA could trigger some algorithm buying and threaten this scenario.

USD has outperformed this morning, gaining on all the other majors with the Dollar Index currently trading 0.16% higher at 97.44. However from a technical viewpoint, the index remains vulnerable to further losses while it trades below 98.419, the one year 50% Fibonacci retracement. We expect the next level of support to be 97.145, the one year 38.2% Fibonacci retracement.

## Equities

Developed market equities closed marginally lower as investors paused to assess the developing political situation and hedged their bets ahead of the Federal Reserve meeting scheduled for middle of next month. The S&P 500 index and the Euro Stoxx 600 index lost -0.1% and -0.2% respectively.

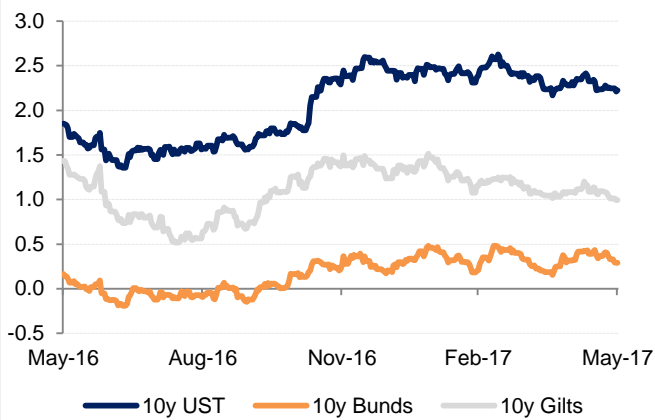
Most regional equities closed higher in what appears to be a relief rally from oversold territory. The DFM index and the Tadawul added +0.7% each. The focus continued to remain on midcap stocks in the UAE and on Al Rajhi in Saudi Arabia. In fact, Al Rajhi accounted for nearly 50% of total volume on the Tadawul.

## Commodities

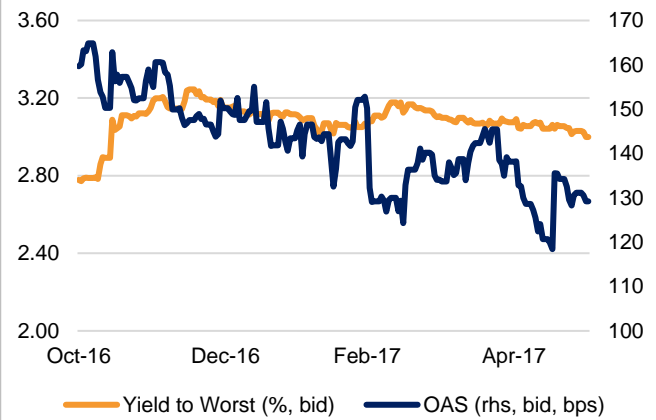
Oil markets gave up ground again yesterday with both Brent and WTI futures holding below their 100- and 200-day moving averages. Libyan production is on track to hit 800k b/d soon according to the country's National Oil Company. Libya remains exempt from the OPEC production deal and these additional volumes may start to place heavy pressure on Brent markets in particular as Libyan crude enters the Atlantic and Med region. Saudi Arabia's energy minister, Khalid al Falih, was in Moscow, speaking with his Russian counterpart and the CEO of Rosneft, discussing potential cooperation on upstream projects.

## Markets in Charts

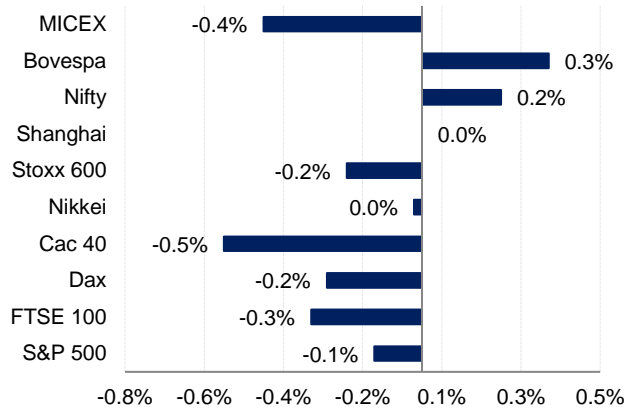
### Global Bond Yields



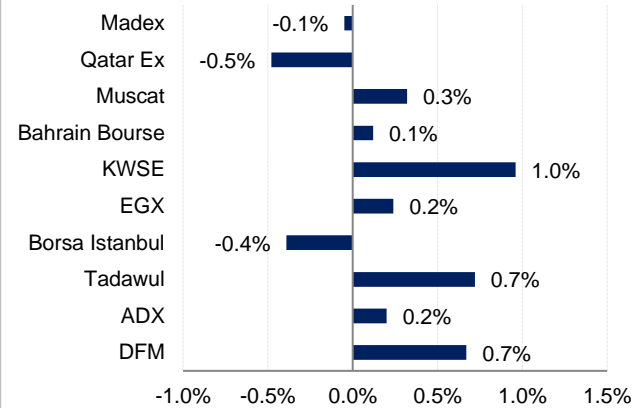
### UAE liquid bond index



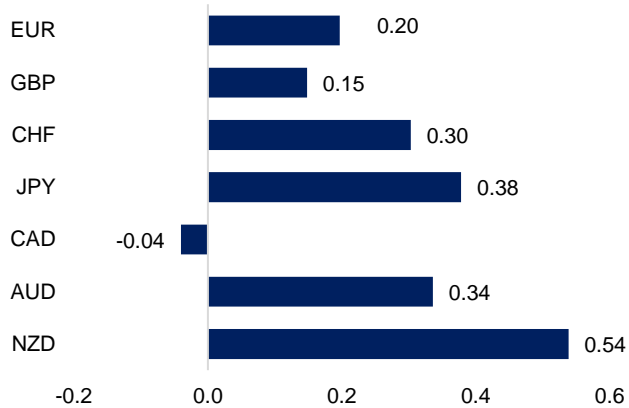
### Global Equity Indices



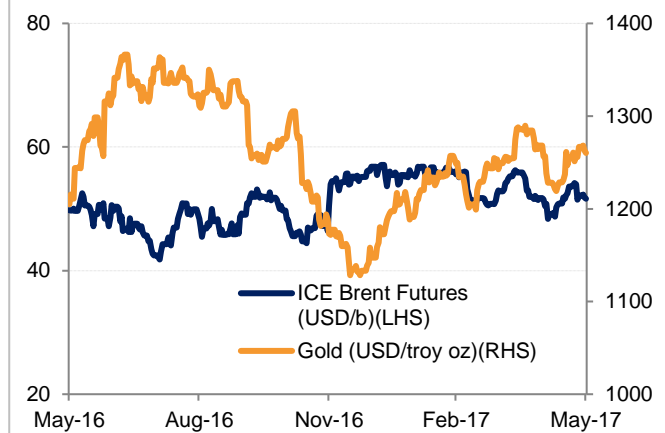
### MENA Equity Indices



### % change versus USD



### Commodities



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1186	+0.20	1.1414	USDTRY	3.5489	-0.79	EURAED	4.1087	+0.20
GBPUSD	1.2859	+0.15	1.3010	USDEGP	18.1227	+0.41	GBPAED	4.7227	+0.15
USDJPY	110.85	-0.38	108.82	USDSAR	3.7502	-0.00	JPYAED	0.0331	+0.38
USDCAD	1.3459	+0.05	1.3371	USDQAR	3.6414	--	CADAED	2.7290	-0.03
AUDUSD	0.7465	+0.34	0.7432	USDKWD	0.3036	+0.01	AUDAED	2.7416	+0.34
USDCHF	0.9746	-0.32	0.9508	USDBHD	0.3772	+0.00	CHFAED	3.7685	+0.29
EURGBP	0.8699	+0.05	0.8773	USDOMR	0.3850	--	TRYAED	1.0300	+0.31
USDAED	3.6729	-0.00	3.6794	USDINR	64.5500	+0.08	INRAED	0.0568	-0.16

## Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0845	1.4867	1.6938	2.1362	USD 2 yr	1.510	-2
USD LIBOR	1.0447	1.2018	1.4138	1.7212	USD 5 yr	1.831	-4
GBP LIBOR	0.2526	0.2996	0.4414	0.6381	USD 10 yr	2.152	-5
JPY LIBOR	-0.0163	-0.0153	0.0230	0.1250	EUR 2 yr	-0.163	-0
CHF LIBOR	-0.7854	-0.7296	-0.6618	-0.4896	EUR 5 yr	0.161	-1
					EUR 10 yr	0.765	-1

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1263.09	-0.40	ADGB 6.75 19	1.48	-1	Abu Dhabi	39	--
Silver	17.40	+0.01	DUGB 7.75 20	2.60	-0	Dubai	106	+2
Oil (WTI)	49.66	-0.28	QATAR 6.55 19	1.73	+1	Qatar	56	-2
Aluminium	1922.75	-1.33	US Tsy 2 yr	1.28	-1	Saudi Arabia	93	-1
Copper	5633.25	-0.08	US Tsy 10 yr	2.21	-4	Bahrain	219	-1

Source: Bloomberg, Emirates NBD Research

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