بنك الإمارات دبي الوطني
Emirates NBD

Daily
3 May 2017

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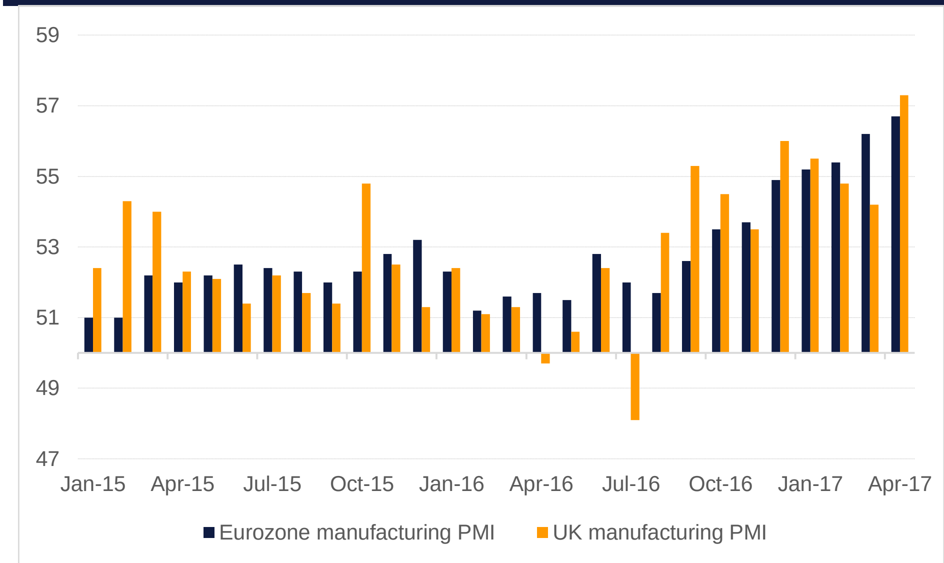
Daily Outlook

Surveys of European manufacturing have been robust to start the second quarter of 2017, contrasting with the less than vigorous pace seen out of the US. The Eurozone manufacturing PMI rose to 56.7 in April, its highest level in data back to 2011 with growth improving in the major economies of Germany, France and Italy. The strong data corroborates statements from ECB governor Mario Draghi who last week acknowledged the good fundamentals in the European economy while still keeping rates on hold as inflation remains an underperformer. The good manufacturing numbers also extended across the channel as the **UK PMI hit its highest level since 2014.** The good figures for the UK industrial sector provide a bit of a reversal from soft Q1 numbers that were released last week and may help to provide prime minister Theresa May with some momentum ahead of next month's general election.

The FOMC meeting comes to a close later today with the market discounting the odds of a rate move this month. However, any statement's that emerge out of the meeting will be parsed to understand the Fed's thinking about further rate moves in the context of some soft economic data out of the US recently along with a tempering of financial market exuberance in recent weeks.

UAE's total bank deposits rose 1.3% m/m in March on the back of higher residents' deposits. On an annual basis, deposit growth slowed to 6.6% y/y, exceeding the pace of bank loan growth (5.3% y/y). As a result, the gross loans-to-deposits ratio fell to 99.7% in March from 100.3% in February. Net of provisions, the loans-to-deposits ratio stood at 92.9% in March, down from 93.4% in February. **Separately, the IMF said it expects Dubai's economy to grow by 3.5-4% in 2017, on the back of improved global trade and domestic spending**. This is in line with our own forecast of 4% growth for Dubai this year. However, the **IMF is a lot more pessimistic about growth prospects for the UAE as a whole, expecting growth to slow to just 1.5% this year, well below our own 3.4% forecast**.

Manufacturing in Europe off to a strong start in 2017



Source: Bloomberg, Emirates NBD Research.

Day's Economic Data and Events

	Time	Cons		Time	Cons
EC GDP Q1 y/y	14:00	1.7%	US Services PMI	19:00	55.8
Fed Funds Target rate	23:00	0.75-1.0			

Source: Bloomberg.

Fixed Income

Softer economic data out of the US boosted demand for treasuries with yields on 2yr and 10yr falling to 1.26% (-1bp) and 2.28% (-4bps) respectively while positive sentiment ensuing from solid PMI data out of UK and the Eurozone lowered the bid for safe haven assets across the pond. Yields on Gilts and Bunds firmed up slightly to 1.09% (+0.5bps) and 0.32% (+1bp) respectively.

Following the benchmark yield moves, cash corporate bonds in the US outperformed its European counterparts. On an YTD basis US IG credit index has returned 2.27% and the HY index recorded 4.03% return compared with total return of 1.32% on the US Treasuries.

Oil prices weakened but Brent futures are managing to hold on to the USD 50/b level. Consequently local GCC bonds recorded a 2bp increase in credit spreads to 132bps. That said, the benchmark yield tightening led to the liquid UAE bond index to close at its all-time high again.

Primary market awaits further details from SECO and Oman Electricity which also is in the market with a possible 10yr offering.

FX

It was a split performance across FX markets yesterday as EUR and GBP both bounced higher thanks to robust manufacturing data that started the second quarter. French presidential candidate Marine Le Pen's commentary about the need to impose capital controls if she enacts an electoral pledge to take France out of the Eurozone seems likely to help affirm the victory of her opponent, Emmanuel Macron, in this week's second round of elections. Indeed the Euro appear catalysed by a pro-Eurozone win coming up this weekend and closed at a new 2017 high.

CAD remains higher as Trump's anti-NAFTA rhetoric has subsumed to a more depressed outlook for crude oil markets and their sharp dip yesterday helped the loonie whipsaw and hit a new intraday high for the year, not far off 1.38.

Equities

Developed market equities closed higher on the back of strong corporate earnings. The S&P 500 index and the Euro Stoxx 600 index added +0.2% and +0.8% respectively.

The Tadawul (+0.1%) was an exception in what was a negative day of trading for regional equities. The Qatar Exchange dropped -1.2% to close below 10,000 level.

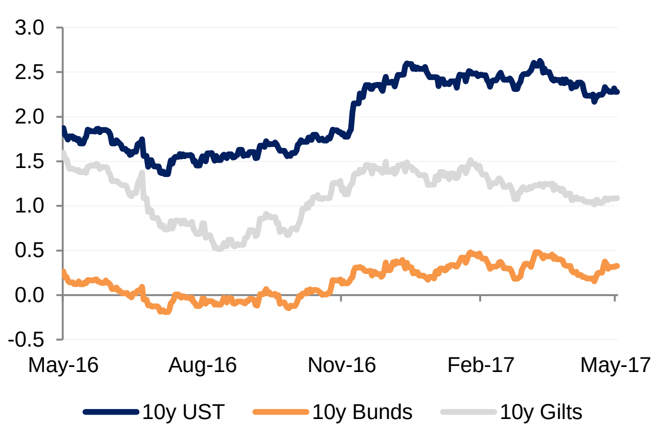
Sabic dropped -0.7% even as the company reported Q1 2017 net profit of SAR 5.24bn (+80.0% y/y), ahead of analysts' estimates of SAR 5.2mn. Sales for the company increased by +10.4%.

Commodities

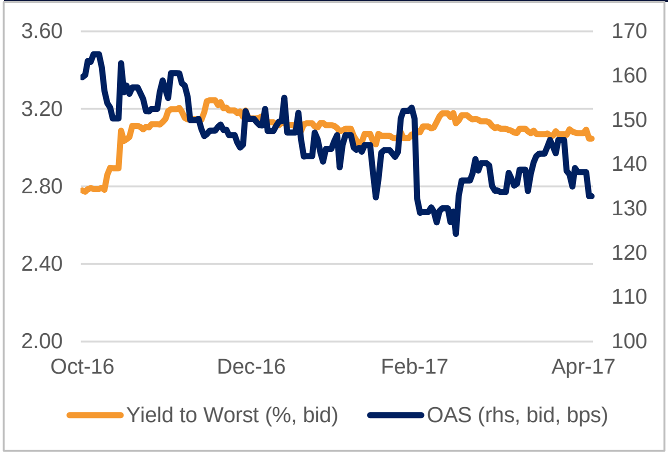
Oil markets sold off heavily in a day of catch up yesterday with both Brent and WTI futures down by more than 2%. WTI closed below USD 48/b for the first time in over a month while Brent managed to hold on close to USD 50.50/b. Market surveys of OPEC production for April show another month of declining output although the pace of declines has slumped heavily. Saudi Arabia has actually increased output for the last three months although thanks to a heavy cut at the start of the agreement remains in 'over-compliance' with the OPEC production cut deal. As had been expected, output is ticking lower consistently in the UAE with the Reuters estimate of production placing UAE crude output at 2.94m b/d in April.

Markets in Charts

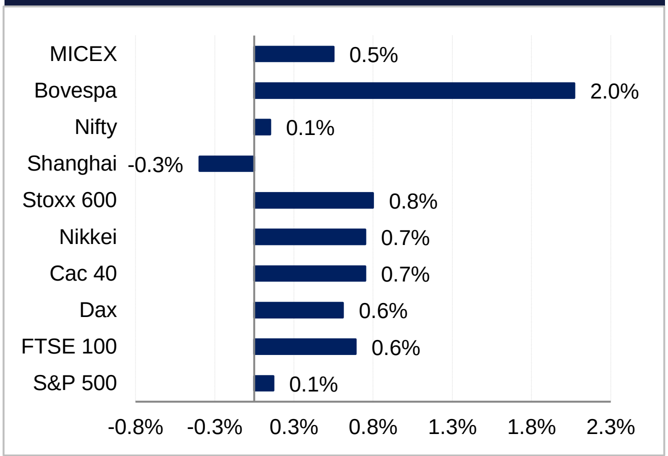
Global Bond Yields



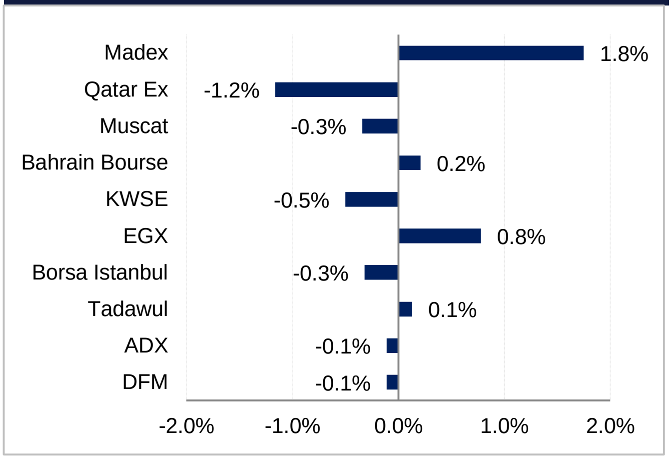
UAE liquid bond index



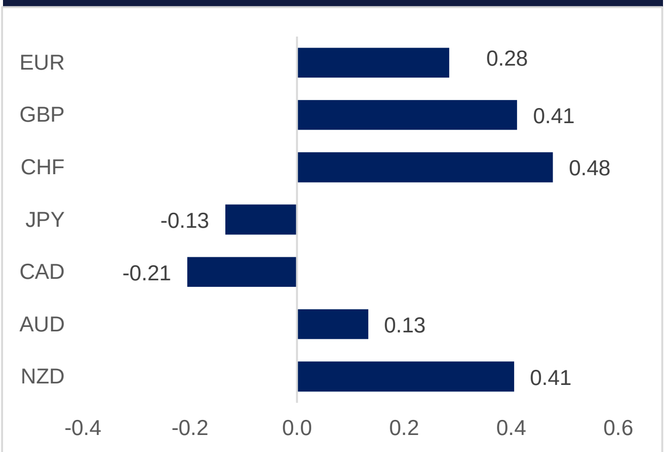
Global Equity Indices



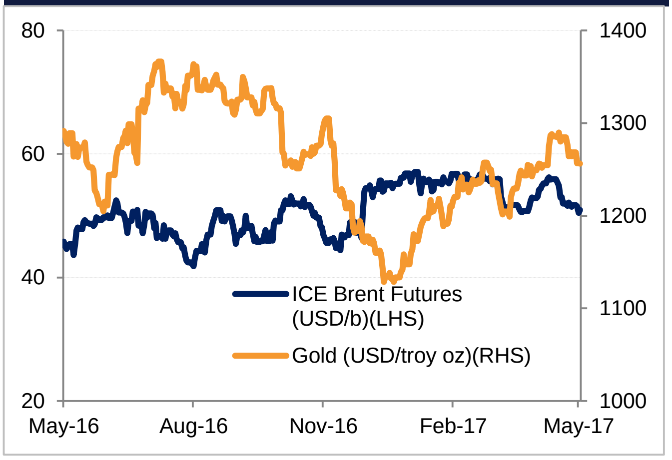
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0930	+0.28	1.1154	USDTRY	3.5274	-0.76	EURAED	4.0151	+0.30
GBPUSD	1.2939	+0.41	1.3086	USDEGP	18.1227	+0.02	GBPAED	4.7522	+0.41
USDJPY	111.99	+0.13	109.91	USDSAR	3.7500	-0.01	JPYAED	0.0328	-0.14
USDCAD	1.3709	+0.20	1.3618	USDQAR	3.6413	-0.00	CADAED	2.6792	-0.21
AUDUSD	0.7536	+0.13	0.7500	USDKWD	0.3042	-0.04	AUDAED	2.7679	+0.14
USDCHF	0.9916	-0.47	0.9671	USDBHD	0.3770	-0.00	CHFAED	3.7043	+0.48
EURGBP	0.8448	-0.12	0.8524	USDOMR	0.3850	--	TRYAED	1.0400	+0.64
USDAED	3.6728	-0.00	3.6803	USDINR	64.2125	-0.05	INRAED	0.0573	+0.19

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0878	1.4757	1.6902	2.1400	USD 2 yr	1.564	-2
USD LIBOR	0.9950	1.1723	1.4263	1.7740	USD 5 yr	1.925	-3
GBP LIBOR	0.2551	0.3253	0.4724	0.6799	USD 10 yr	2.245	-4
JPY LIBOR	-0.0212	0.0024	0.0243	0.1350	EUR 2 yr	-0.149	-0
CHF LIBOR	-0.7918	-0.7300	-0.6648	-0.4916	EUR 5 yr	0.202	+1
					EUR 10 yr	0.791	+0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1256.76	+0.01	ADGB 6.75 19	1.62	-1	Abu Dhabi	41	--
Silver	16.84	-0.11	DUGB 7.75 20	2.70	-0	Dubai	107	-4
Oil (WTI)	47.66	-2.42	QATAR 6.55 19	1.81	-2	Qatar	58	--
Aluminium	1921.75	+0.99	US Tsy 2 yr	1.26	-2	Saudi Arabia	88	+1
Copper	5770.50	+1.05	US Tsy 10 yr	2.28	-4	Bahrain	214	+8

Source: Bloomberg, Emirates NBD Research

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