



Daily Outlook

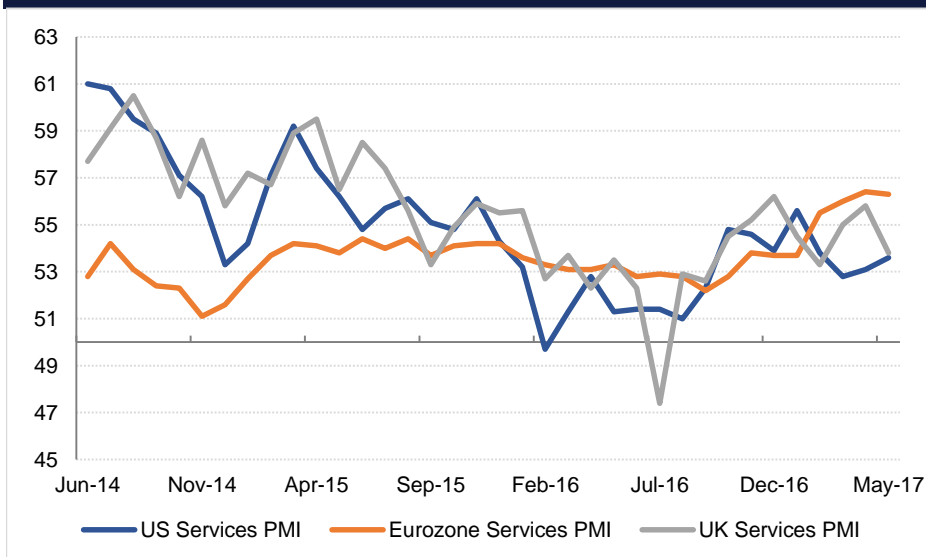
Services data in the US last night was softer than expected, with the Markit services PMI and ISM non-manufacturing index both coming in below expectations at 53.6 and 56.9 respectively. Factory orders in April were in line with forecasts at -0.2% m/m but the March number was revised up sharply to 1.0% m/m from 0.2% previously. Overall, the data supports the view that growth in the US accelerated in Q2 2017 and did little to derail expectations of a rate hike this month.

In Europe, the UK's services PMI data was also lower than expected, with the headline reading falling to 53.8 in May from 55.8 in April. The Eurozone saw a marginally slower rate of expansion in the services sector in May, with the Markit services PMI easing to 56.3 from 56.4 in April.

The Reserve Bank of Australia has kept rates on hold at 1.5% as expected this morning, saying that the current policy setting was "consistent with sustainable growth in the economy and achieving the inflation target over time." The statement was relatively upbeat about both the global and Australian economic outlook. Market reaction to the statement was relatively muted; AUD firmed around 0.2% on the news.

With only second tier data due to be released today (Eurozone retail sales for April and the JOLTS Job Openings figure in the US), the market's attention has shifted to key events on Thursday, including the UK general election, former FBI director James Comey's testimony before the senate intelligence committee and the ECB meeting. Safe haven assets such as the JPY and gold have risen overnight as the tone has become more cautious.

Mixed services PMI data in May



Source: Bloomberg.

Day's Economic Data and Events

	Time	Cons		Time	Cons
Eurozone retail sales (m/m)	13:00	0.2%	US JOLTS job openings	18:00	5750

Source: Bloomberg.

Fixed Income

Yields on US Treasuries rose from the lowest level in more than six months as investors locked in some gains at the start of an event heavy week. The yield on the 2y USTs rose +1.1% to 1.3020% while on the 10y USTs they rose to 2.1817% (+1.04%).

Regionally, it was all about Qatar following the decision of Egypt, Saudi Arabia, UAE and Bahrain to cut off diplomatic ties with the country including closing the borders. Unsurprisingly, Qatar government bonds sold off with QATAR 21s losing 1.0% and QATAR 26s dropping -1.7%. The 5 year Qatar CDS widened 22% to 72. Initial comments from rating agencies suggest that they are actively monitoring the developments. It must be noted that the rating of Qatar was cut to Aa3 by Moody's last week.

The effect was felt on the rest of the region as well with the Bloomberg Barclays GCC Credit and High Yield Index OAS widening by 4.0% and yield rising by +2.4%.

FX

The JPY has been the strongest performer overnight as uncertainty begins to build ahead of the triple risk events looming on Thursday, including the ECB meeting, the UK general election and the former FBI chief Comey's testimony to Congress. GBP has also lifted higher benefiting from signs of improving fortunes for the Conservative party in the opinion polls ahead of Thursday's vote, with a poll putting the Conservative lead over Labour at 11% helping to settle markets nerves. In our FX Week publication on Sunday we highlighted the downside risks this week to EURGBP if the ECB was less hawkish than expected and the UK election delivers a stronger than expected Theresa May win.

Equities

Developed market equities closed marginally lower as investors hedged their bets ahead of key events later in the week including the UK election and the ECB meeting. The S&P 500 index and the Euro Stoxx 600 index dropped -0.1% each.

Among regional equities, the focus was on Qatar and the market understandably dropped -7.3% following deterioration in its ties with the GCC. The turnover at USD 217mn was nearly 2.5x the 3-month average with GCC investors selling stocks as much as USD 55mn.

Elsewhere, the reaction was rather subdued with the Tadawul adding +0.5% and the DFM index losing -0.7%. In terms of stocks, Shuaa Capital dropped -5.3% after Gulf Finance House confirmed that it could not agree to terms of a merger with Shuaa Capital.

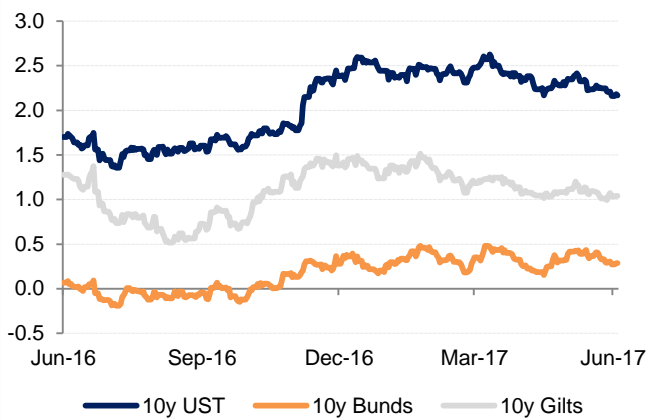
Commodities

Oil markets wobbled on the political tensions in the GCC as anxiety grows about the strength of OPEC's commitment to limit supplies. Qatar is a small contributor to global oil markets and political concerns have been put aside before in the interest of supporting markets so there is unlikely to be a lasting impact on crude markets. Indonesia has requested a reentry into OPEC although it would only do so if it was able to keep its crude production unchanged. The South-East Asian producer exited the bloc at the end of last year as it was unprepared to accept production cuts.

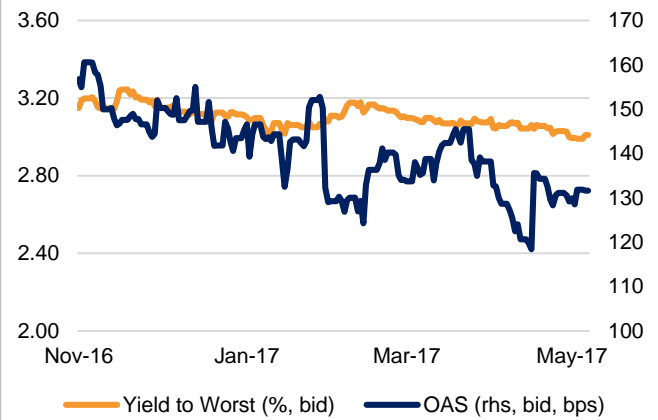
Gold is benefitting from a general move to risk-off assets although the gains have been somewhat temperate. Political risk will come to a head later this week with the testimony of former FBI Director James Comey and the UK general election.

Markets in Charts

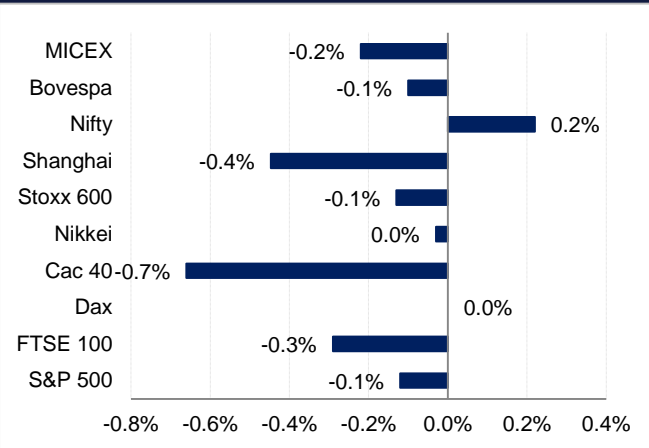
Global Bond Yields



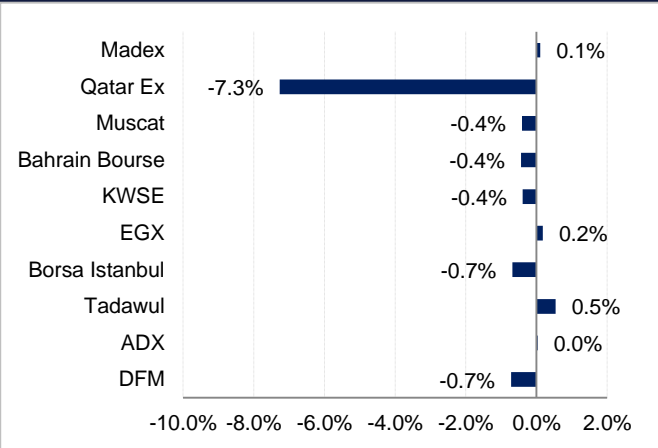
UAE liquid bond index



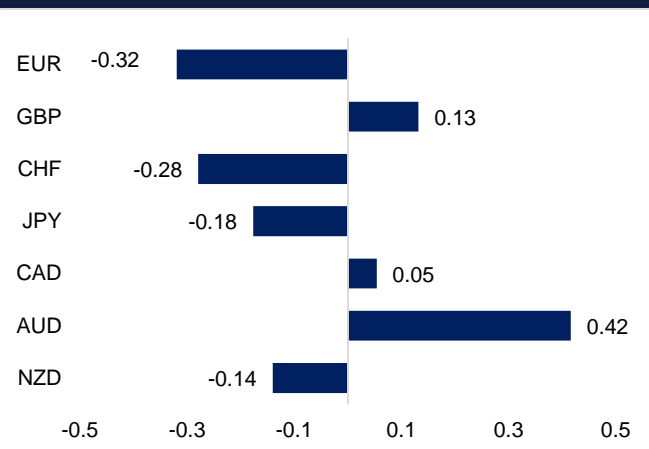
Global Equity Indices



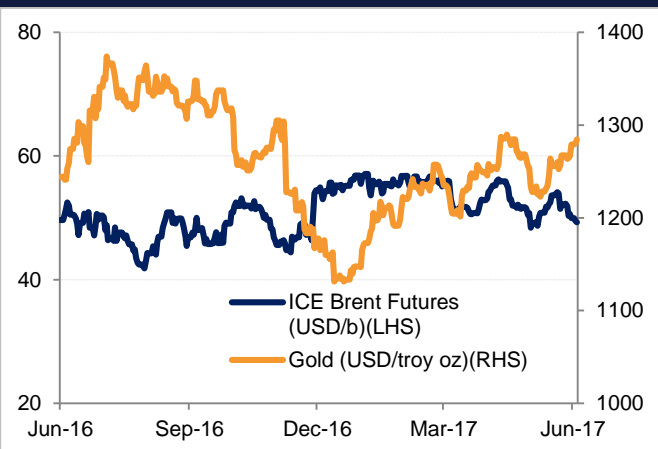
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.1243	-0.32	1.1472	USDTRY	3.5216	+0.36	EURAED	4.1292	+0.21
GBPUSD	1.2905	+0.13	1.3056	USDEGP	18.1043	+0.57	GBPAED	4.7394	+0.36
USDJPY	110.60	+0.18	108.60	USDSAR	3.7506	+0.01	JPYAED	0.0332	+0.82
USDCAD	1.3475	-0.09	1.3383	USDQAR	3.6483	+0.18	CADAED	2.7256	+0.41
AUDUSD	0.7474	+0.42	0.7443	USDKWD	0.3034	-0.06	AUDAED	2.7453	+1.13
USDCHF	0.9651	+0.21	0.9415	USDBHD	0.3774	+0.05	CHFAED	3.8054	+0.63
EURGBP	0.8712	-0.50	0.8787	USDOMR	0.3851	+0.02	TRYAED	1.0400	-0.65
USDAED	3.6730	--	3.6830	USDINR	64.3425	-0.15	INRAED	0.0571	+0.14

Rates

Interbank	1 mo	3mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	1.0967	1.4837	1.6997	2.1093	USD 2 yr	1.517	-1
USD LIBOR	1.0842	1.2196	1.4182	1.7257	USD 5 yr	1.816	-3
GBP LIBOR	0.2492	0.2929	0.4245	0.6238	USD 10 yr	2.127	-3
JPY LIBOR	-0.0199	-0.0111	0.0246	0.1277	EUR 2 yr	-0.159	+1
CHF LIBOR	-0.7874	-0.7296	-0.6620	-0.4916	EUR 5 yr	0.169	+0
					EUR 10 yr	0.786	-0

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1279.80	+0.05	ADGB 6.75 19	1.57	+3	Abu Dhabi	40	+1
Silver	17.54	+1.99	DUGB 7.75 20	2.59	+1	Dubai	107	+2
Oil (WTI)	47.40	-0.55	QATAR 6.55 19	2.08	+37	Qatar	72	+22
Aluminium	1900.05	-1.51	US Tsy 2 yr	1.30	+1	Saudi Arabia	92	+3
Copper	5597.75	-0.75	US Tsy 10 yr	2.18	+2	Bahrain	224	+4

Source: Bloomberg, Emirates NBD Research

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