



بنك الإمارات دبي الوطني
Emirates NBD

Daily
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Daily Outlook

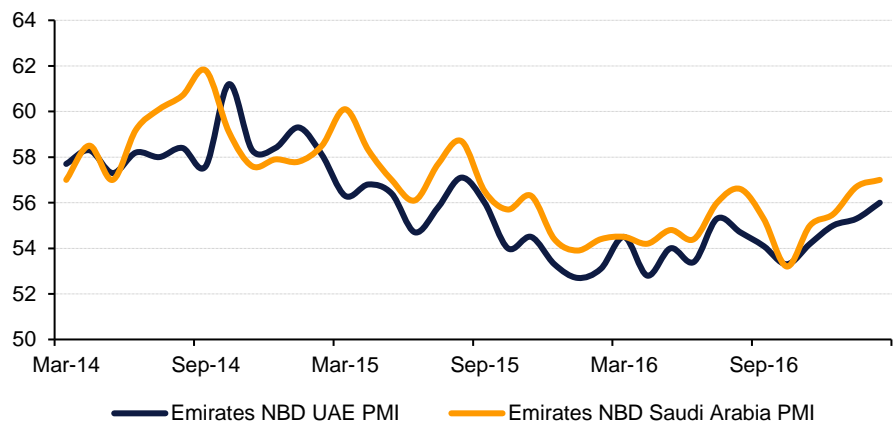
Fed Chair Janet Yellen effectively telegraphed a March rate hike next week when she spoke last Friday. **The implied probability of a Fed rate hike in March has jumped to nearly 100% after Yellen said that a further increase in short term interest rates was likely to be appropriate at the Fed's policy meeting on March 14th-15th** if employment and inflation continue to evolve as expected. The only material data that still stands in front of a March move is the February employment report at the end of the coming week. The consensus expectation is for a rise of 185K in non-farm payrolls growth, but it would probably have to be a lot weaker to challenge the prevailing view that the Fed will pull the trigger.

In the coming week the ECB will be in focus as it meets to set policy on Thursday. With Eurozone headline inflation rising 2.0% in February and German inflation reaching 2.2% the **Bundesbank in particular will be putting pressure on ECB President Draghi to begin tapering QE**. Previous communications from the ECB have indicated a willingness to look through such a rise in headline inflation, as core inflation is still at 0.9%, signifying that inflationary pressures are mostly energy related and therefore likely to be transitory. However, this will not stop attention being on Draghi's to see if his dovish language is moderated.

Regional PMI data for the UAE and KSA showed business activity reach 17-month (56.0) and 18-month (57.0) highs respectively in February, illustrating that the region is also participating in the improvement in the global economy this year. In particular orders data was strong in both countries over the month, supported by improving external demand. Challenges still remain, however, including in the realms of pricing power, which improved a little in the month and in terms of employment which remained close to the neutral 50 level in both countries.

China's premier outlined new economic targets for the country in a speech to parliament yesterday. **China is now targeting GDP growth in 2017 of 6.5% compared with a range between 6.5% and 7% last year**. The government is also now looking for slightly slower money supply growth to try and keep price pressures unchanged and the fiscal deficit in check at around 3% of GDP. Another of the government's announced objectives is further liberalization of the RMB, China's currency.

Regional PMIs showing sustained move higher



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
US Factory Orders	19:00	1.0%	Durable Goods Orders	19:00	1.0%

Source: Bloomberg.

Fixed Income

Stable global landscape, positive US economic news and hawkish talk by Fed officials have made a March rate hike virtually certain. Market implied probability is now at 94% from barely 34% two weeks ago. UST curve was the natural casualty with yields on 2yr and 10yr treasuries closing the week higher by 11bps each to 1.31% and 2.48% respectively. Yields on 2yr UST are now at their highest level post the financial crisis. European sovereigns were not far behind with yields on 10yr Bunds and Gilts closing at 0.35 (+15bps) and 1.18% (+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 tightened to 60bps (-3bps) and 70bps (-6bps) respectively during the week.

Marginally softer tone in the oil market and rising benchmark yields left little for the local GCC bonds to get foothold on. BUAEUL index reported YTW of 3.11% (+6bps) despite credit spreads tightening to 129bps from 153bps at the beginning of the week.

The rating outlook on Qatar's AA rating was revised to negative by S&P over the weekend but its 5yr CDS closed 6bps down to 63bps. We expect the full impact of the negative outlook to only be recorded this week.

FX

The markets open with a softer dollar this week as leveraged hedge funds reduce their overall number of dollar longs by 39,345 contracts to 65,396 contracts, taking the overall position of net longs to the lowest level since July 2016. Currently, the Dollar Index is trading 0.1% lower at 101.44.

In the absence of first tier economic data out of the US, we expect profit taking could contribute to some further declines for the dollar, but with the Fed expected to continue with the normalization of monetary policy later this month, such losses should be limited.

We expect the index to find support at the 101.10 region, close to the 50 day moving average (101.17) and one year 71.6% Fibonacci retracement (101.011).

Equities

Asian equities are trading mixed this morning. The Nikkei index was trading -0.5% at the time of this writing amid gains in the JPY.

Regional equities started the week on a negative note. The Tadawul declined -0.7% while the DFM index lost -1.1%.

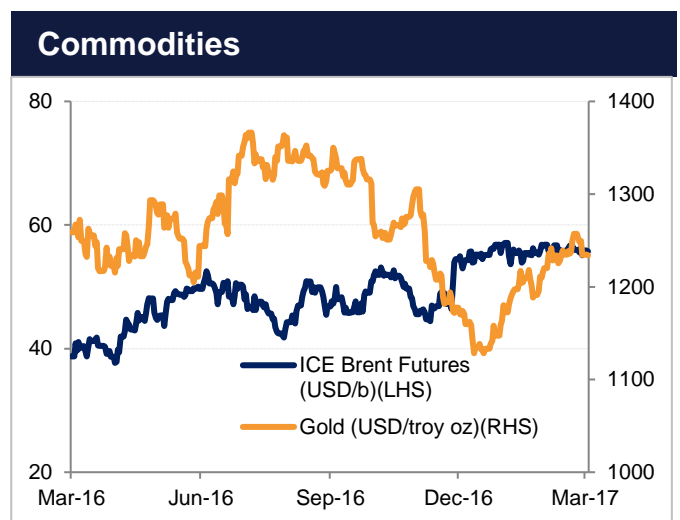
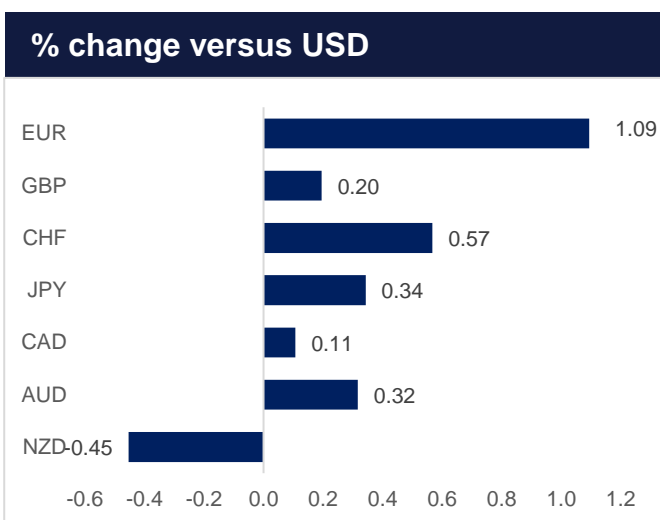
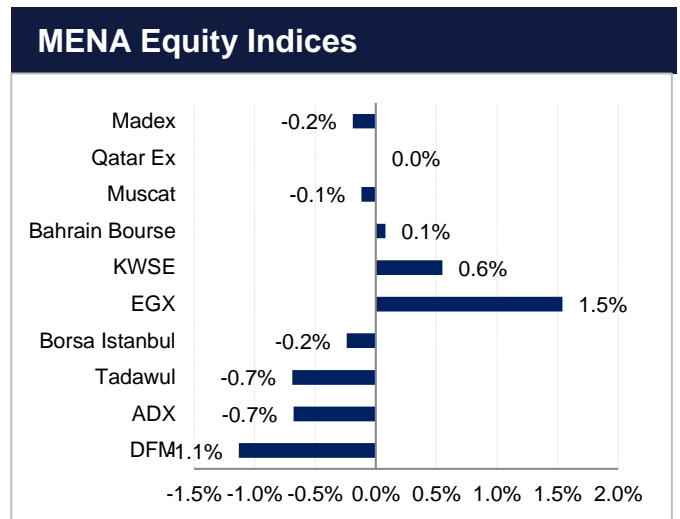
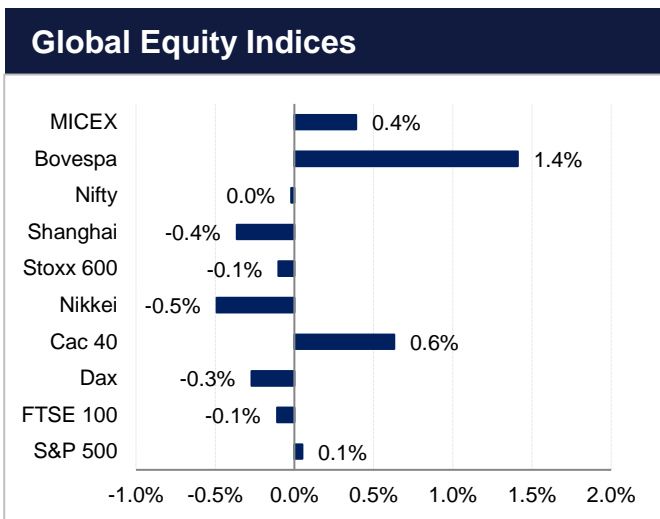
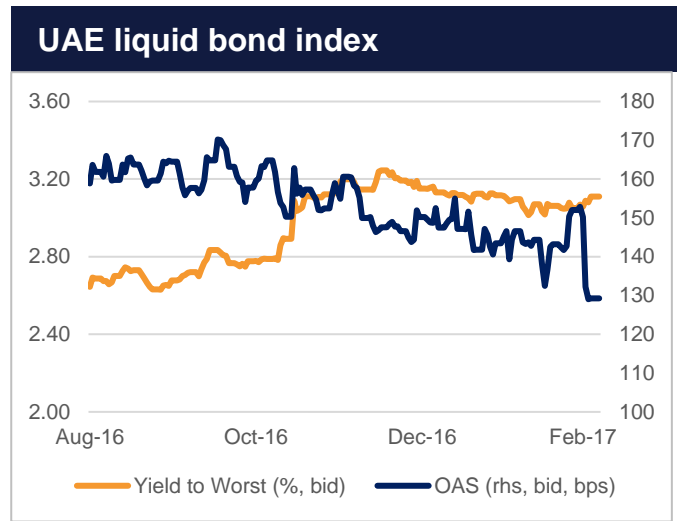
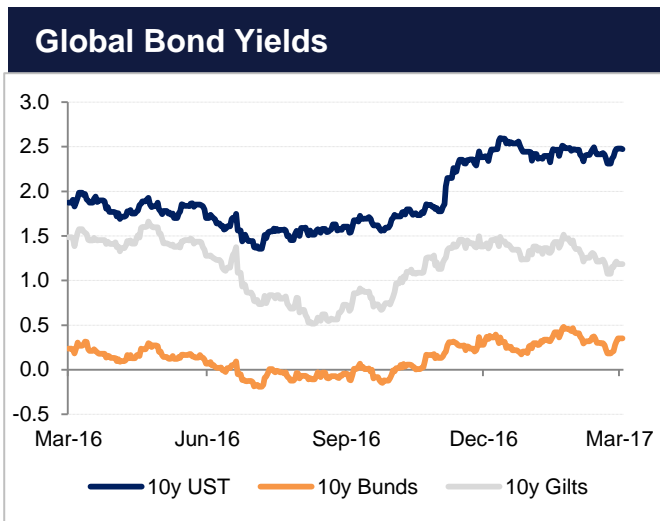
Al Tayyar Travel dropped -5.1% after the company denied reports of signing contracts with Indonesian companies for religious tourism. DXB Entertainment dropped a further -2.1% to close at a one-year low of AED 1.0.

Commodities

Oil markets ended the week slightly lower and again hewed to a very narrow range of just around USD 2/b for both Brent and WTI futures. Brent closed below USD 56/b while WTI was a little over USD 53/b. A Bloomberg survey of monthly production showed OPEC output fell again in February, by 65k b/d on aggregate, thanks largely to another cut from Saudi Arabia where production is now below 9.8m b/d. Production in the UAE was unchanged at 2.95m b/d.

Balanced against the estimate of OPEC removing barrels from the market, the rig count in the US continued to move higher last week as seven new rigs were added. Investors grew a little more cautious on the trajectory for WTI, cutting long positions by nearly 18k lots and upping shorts by a little under 9.4k contracts, taking net length down from recent record levels. However, net longs still outnumber shorts by a factor of more than 7.

Markets in Charts



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0622	+1.09	1.0837	USDTRY	3.7045	-0.63	EURAED	3.9015	+1.11
GBPUSD	1.2291	+0.20	1.2430	USDEGP	16.1480	-1.02	GBPAED	4.5153	+0.22
USDJPY	114.04	-0.32	111.83	USDSAR	3.7503	--	JPYAED	0.0322	+0.34
USDCAD	1.3380	-0.08	1.3302	USDQAR	3.6415	+0.00	CADAED	2.7459	+0.12
AUDUSD	0.7596	+0.32	0.7553	USDKWD	0.3058	+0.01	AUDAED	2.7899	+0.32
USDCHF	1.0079	-0.54	0.9829	USDBHD	0.3770	--	CHFAED	3.6449	+0.58
EURGBP	0.8632	+0.78	0.8708	USDOMR	0.3850	+0.00	TRYAED	0.9900	+0.49
USDAED	3.6727	+0.00	3.6827	USDINR	66.8050	+0.14	INRAED	0.0550	+0.15

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9657	1.3943	1.6474	2.1361	USD 2 yr	1.650	-1
USD LIBOR	0.8344	1.1017	1.4227	1.8082	USD 5 yr	2.125	+0
GBP LIBOR	0.2573	0.3556	0.5039	0.7206	USD 10 yr	2.455	-0
JPY LIBOR	-0.0617	-0.0121	0.0244	0.1290	EUR 2 yr	-0.123	+3
CHF LIBOR	-0.7940	-0.7240	-0.6702	-0.5124	EUR 5 yr	0.191	+6
					EUR 10 yr	0.794	+5

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1234.81	+0.05	ADGB 6.75 19	1.43	-7	Abu Dhabi	43	-1
Silver	17.98	+1.18	DUGB 7.75 20	2.76	-0	Dubai	117	+1
Oil (WTI)	53.33	+1.37	QATAR 6.55 19	1.86	+4	Qatar	63	--
Aluminium	1883.75	-1.00	US Tsy 2 yr	1.31	-0	Saudi Arabia	93	-1
Copper	5905.75	-0.21	US Tsy 10 yr	2.48	+0	Bahrain	218	-1

Source: Bloomberg, Emirates NBD Research

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