



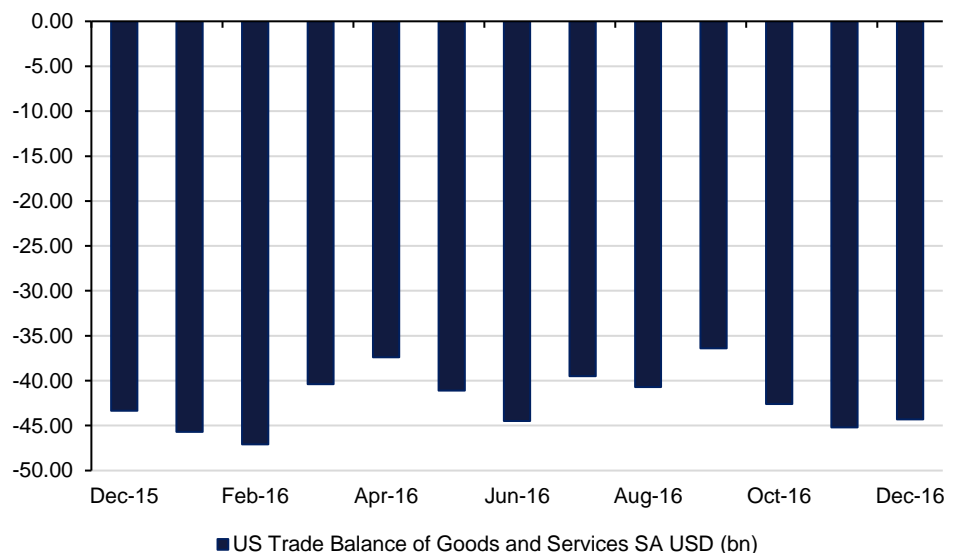
# Daily Outlook

**The December US trade deficit narrowed to USD44.3bn from USD45.7bn in November.** Exports grew 2.7%, following the 0.2% November decrease. Imports were up 1.5% on the month, following a 1.2% increase in November. The December trade data supports a USD77.3bn net exports subtraction in the first Q4 GDP report, where the headline was 1.9% in the first release. Going forward the trend seems to favour a further improvement in exports after weak agricultural exports hurt the overall deficit in Q4, which should allow both GDP growth and the trade balance to recover further in Q117.

**There was more conjecture from Fed officials yesterday on the subject of interest rates with Minneapolis Fed President Neel Kashkari indicating that he would prefer to leave interest rates low for longer rather than vote to raise them prematurely.** Kashkari talked about the Fed still 'coming up short' on its inflation mandate and having not yet reached full employment, justifying his stance of keeping rates steady last week. The comments contrast slightly with Philly Fed President Harker's remarks yesterday who seemed open to raising interest rates in March, or at least leaving that option on the table. The 'to and fro' on the argument for raising interest rates is expected to continue for a while, especially with over a month to go until the next March meeting. Markets are currently only ascribing a 24% chance to a March hike.

**The Reserve Bank of India is expected to cut interest rates later today from 6.25% to 6.0%,** although there is a slight worry that a slower pace of fiscal consolidation reported in last week's budget might delay it. The RBNZ will also be meeting later tonight with the risk being that it talks up interest rates in view of rising inflation expectations, and in so doing puts further upward pressure on the NZD.

## US Trade deficit narrows in December



Source: Bloomberg, Emirates NBD Research.

## Day's Economic Data and Events

	Time	Cons		Time	Cons
RBI Repurchase Rate	13:00	6.00%	Canada Housing Starts	17:15	197.3k

Source: Bloomberg.

## Fixed Income

Fixed income market maintained its march on the reflation trade yesterday. UST curve flattened with yields on 2yr and 10yr treasuries closing at 1.17% (+2bps) and 2.39 (-2bps) respectively while those on 10yr sovereign bonds in the Eurozone were also lower by few bps.

Prevailing political /policy uncertainty and slight depression in oil prices lent a widening bias to credit spreads. Consequently cash corporate bonds closed lower and CDS level on US IG and Euro Main closed at 66bps (+1bp) and 76bps (+1bp) respectively.

There was little secondary market news to trade on in the GCC market yesterday. BUAEUL index was range bound and credit spreads on average Bbg Barclays GCC index were unchanged at 141bps. Investor focus was largely centred on primary market deals. DIB's 5yr \$1.0bn sukuk priced at MS + 170bps (T+180.20), circa 15bps inside the initial guidance, and was roughly 2.2x oversubscribed. Aramco is likely to debut in the capital market with a riyal denominated SAR 5 – SAR 6 billion sized sukuk in the local market ahead of considering a dollar denominated bond later in the year.

## FX

The USD recovered some ground yesterday, especially against the EUR which has generally underperformed recently also losing ground against the JPY and GBP. Political risks in Europe are becoming a concern for investors with a Dutch election next month, followed by the French election in May where the extreme right are in the lead in the polls. Weaker German industrial production figures also damaged the single currency yesterday, declining by 3.0% in December against expectations of a small rise. The USD lost a little ground this morning after President Trump tweeted about the Democrats obstructing his cabinet appointments.

## Equities

Developed market equities closed flat as investors remain wary of rising political risks in Europe amid a general tone of caution.

Asian equities are trading lower this morning after Bank of Japan offered to buy bonds and oil prices dropped.

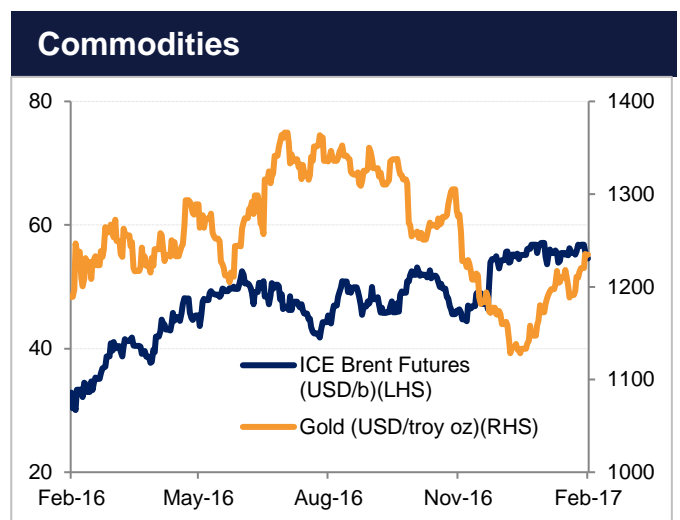
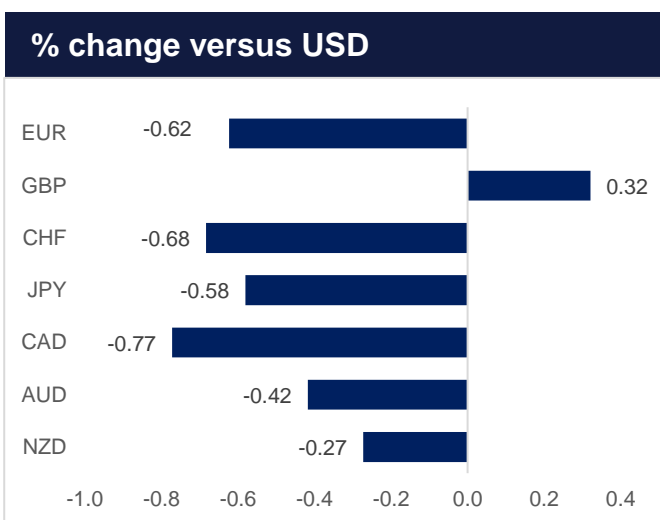
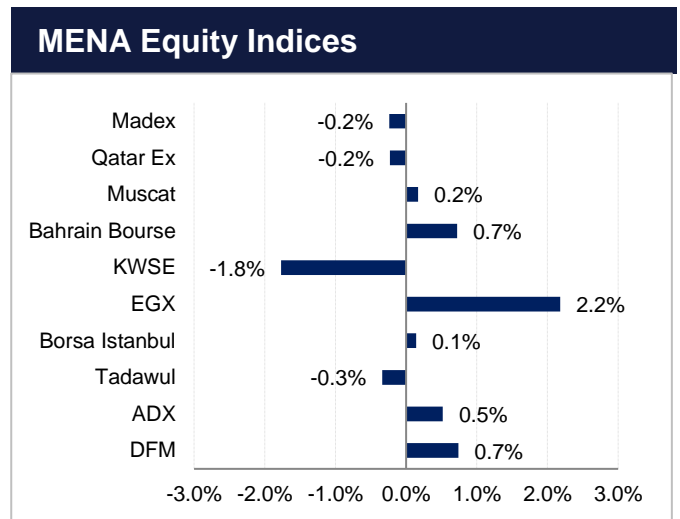
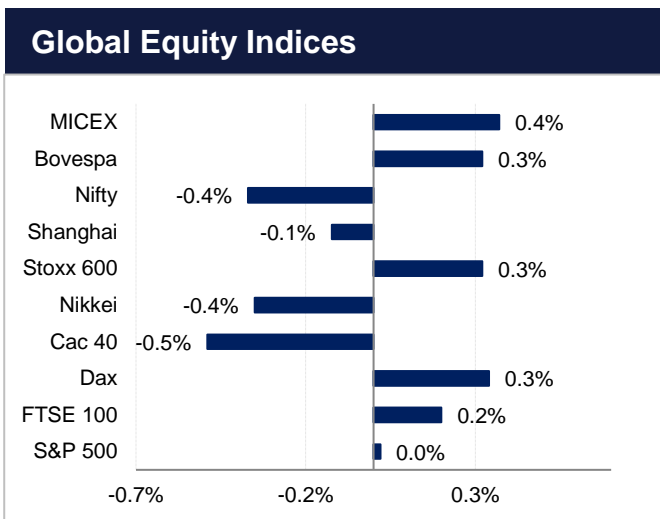
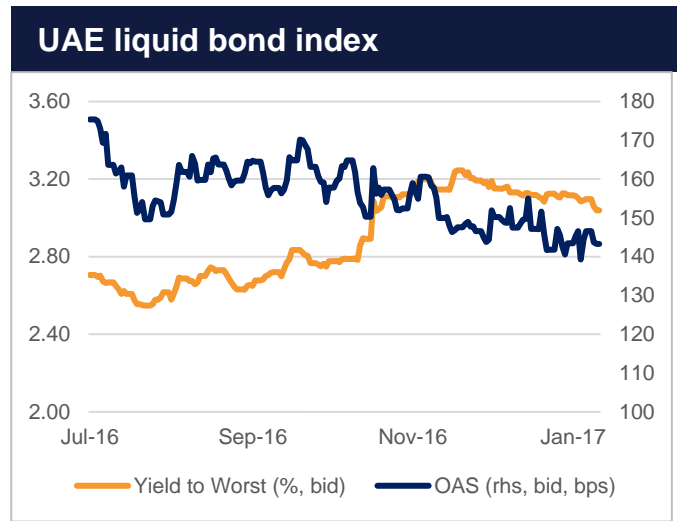
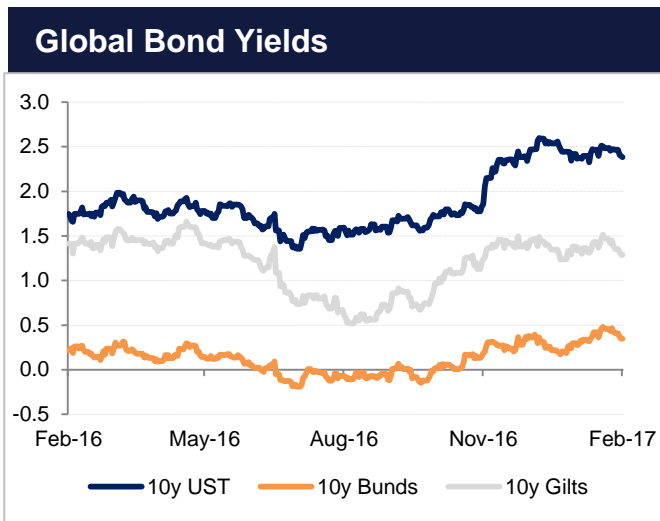
In regional markets, the DFM closed in positive territory for a third consecutive session. DXB Entertainments added +1.8% ahead of its earnings announcement.

Elsewhere, the KWSE index (-1.8%) continued to see profit taking. The index has now lost -5.2% since the start of February. The EGX 30 index added +2.2% on the back of strong corporate earnings. Palm Hills rallied +9.2% after beating Q4 2016 earnings estimates.

## Commodities

Oil markets struggled again yesterday with Brent giving up more than 1% and now trading below USD 55/b. Market expectation of another weekly build and bearish data from the EIA later tonight is weighing against the lack of available information from OPEC. The next monthly oil market report from the producers' bloc is out next week but with market surveys already showing a decline in January, the initial impact of the production cut may already be priced into this market.

## Markets in Charts



Source: Bloomberg, Emirates NBD Research

## Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0683	-0.62	1.0893	USDTRY	3.7455	+1.67	EURAED	3.9239	-0.62
GBPUSD	1.2509	+0.32	1.2636	USDEGP	18.3580	-0.75	GBPAED	4.5951	+0.33
USDJPY	112.39	+0.58	110.30	USDSAR	3.7504	-0.00	JPYAED	0.0327	-0.59
USDCAD	1.3185	+0.77	1.3123	USDQAR	3.6413	--	CADAED	2.7855	-0.77
AUDUSD	0.7628	-0.42	0.7576	USDKWD	0.3050	+0.07	AUDAED	2.8016	-0.43
USDCHF	0.9978	+0.67	0.9736	USDBHD	0.3770	--	CHFAED	3.6820	-0.65
EURGBP	0.8538	-0.98	0.8618	USDOMR	0.3850	--	TRYAED	0.9800	-1.71
USDAED	3.6729	-0.00	3.6824	USDINR	67.3250	+0.16	INRAED	0.0545	-0.23

## Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9657	1.4063	1.6561	2.0974	USD 2 yr	1.482	--
USD LIBOR	0.7753	1.0384	1.3441	1.7073	USD 5 yr	1.948	--
GBP LIBOR	0.2628	0.3540	0.5253	0.7550	USD 10 yr	2.327	-2
JPY LIBOR	-0.0094	0.0027	0.0286	0.1341	EUR 2 yr	-0.144	+1
CHF LIBOR	-0.7884	-0.7262	-0.6622	-0.5066	EUR 5 yr	0.155	+1
					EUR 10 yr	0.769	+1

## Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1233.85	-0.14	ADGB 6.75 19	1.57	-1	Abu Dhabi	58	+3
Silver	17.71	-0.19	DUGB 7.75 20	2.77	--	Dubai	135	+3
Oil (WTI)	52.17	-1.58	QATAR 6.55 19	1.91	-3	Qatar	80	+4
Aluminium	1813.00	-0.41	US Tsy 2 yr	1.17	+2	Saudi Arabia	110	+2
Copper	5779.50	-0.96	US Tsy 10 yr	2.39	-1	Bahrain	252	+9

Source: Bloomberg, Emirates NBD Research

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