



بنك الإمارات دبي الوطني
Emirates NBD

Daily
9 March 2017

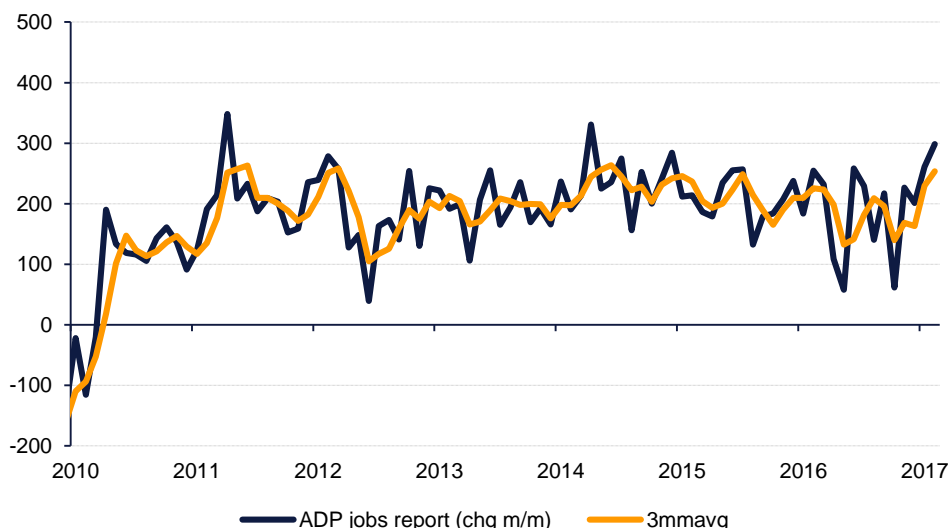
Daily Outlook

Private sector measure of employment in the US, the **ADP jobs report**, showed a surge in hiring in February of nearly 300k, blowing past estimates and followed an increase in employment of 261k in January. Manufacturing and builders were among the big gainers in employment showing that the increase is spreading out to more permanent jobs and not being limited the kind of seasonal employment boost you would expect around Christmas or in the summer months. This sets the stage for the official nonfarm payrolls data out tomorrow. If that comes anywhere close to the ADP then it makes a rate hike almost a certainty. The market is pricing that in at the moment, a 100% chance of a hike at next week's Fed meeting.

Looking out to China, there was a big move higher in producer prices. **The producer price index was up 7.8% year on year in February as companies are paying higher rates for raw materials and commodities.** Chinese companies can then push out those higher prices to end users, helping the world which is still struggling with very low levels of inflation. So far though Chinese CPI data is underperforming producer prices as demand conditions remain muted.

The UK chancellor, Philip Hammond, gave his budget speech yesterday where the biggest takeaway was an **upward revision in the UK's 2017 growth estimate to 2% from 1.4% and lower public borrowing.** According to the data, it does appear that the UK is going to be going into the era of Brexit in pretty decent shape but the government clearly wants to try and keep some powder dry to support the economy if called to do so. Today's focus will largely be on the ECB policy meeting at which monetary policy is expected to be kept unchanged although there is speculation that President Draghi will dilute his rhetoric about maintain QE throughout the year.

ADP sets a bullish tone ahead of NFP



Source: Bloomberg, Emirates NBD Research

Day's Economic Data and Events

	Time	Cons		Time	Cons
Dubai Economy Tracker	8:15	N/a	ECB asset purchases	16:45	€80bn
ECB main refinancing rate	16:45	0.0%	US initial jobless claims	17:30	238k

Source: Bloomberg.

Fixed Income

Better than expected ADP employment report in the US further cemented the case for an inevitable rate hike next week. Treasuries continued their decline with yields on 2yr and 10yr UST rising 3bps and 4bps to 1.36% and 2.56% respectively. Despite the continued political risk in the Eurozone, yields on sovereign bonds in Europe also edged higher in sympathy with the UST. Yields on 10yr Gilts and Bunds closed at 1.21% (+3bps) and 0.36% (+5bps) respectively.

Widening bias in credit spreads was attributed to softer tone in oil prices. CDS levels on US IG and Euro Main were higher by roughly a bp each to 64bps and 72bps respectively. Local GCC bond market has remained surprisingly range-bound in the last two months. YTW on liquid UAE bonds was 3.13% yesterday compared with 3.12% in early January this year as credit spreads have narrowed to 126bps from 149bps at the beginning of the year, sufficiently combating the increasing benchmark yields.

The big corporate news overnight was SECO's plan to separate its 48 electricity generating plants in four independent entities. The risk of reorganisation at SECO has long been considered by the investors and this news did little to affect bond prices at this stage. In another news, UNB's CEO affirmed that there have been no merger talks with ADCB.

In the primary market, news surfaced about Aramco as well as KSA to be in preparation for launching benchmark sukuk offerings in 2Q.

FX

USD continues to build on its gains, following yesterday's supporting data (see above). As we go to print, the Dollar Index trades 0.13% higher at 102.19, not far from its one month high of 102.25. With swap traders now pricing in a 100% chance of a 25bps hike at the FOMC meeting on March 15, the dollar is likely to continue to enjoy support and leading to a retest its 2017 highs of 103.82.

Today's underperforming currency is the AUD, which has continued to come under selling pressure in the aftermath of softer than expected Chinese inflation data (see above), as we go to print, AUDUSD trades 0.22% lower at 0.7512. A break of the 100 day MA of 0.7508 exposes the pair to further losses towards the January lows below 0.72.

Equities

Developed market equities shrugged off strong ADP data in the US to close mixed. The S&P 500 index dropped -0.2% while the Euro Stoxx 600 index added +0.1%. Asian equities are trading lower this morning following a sharp decline in oil prices overnight. The Shanghai Composite index was trading -0.9% at the time of this writing.

It was a mixed day of trading for regional equities. The DFM index found some support at 3,500 level to rally +0.8%. The Tadawul declined -0.3% while the Qatar Exchange dropped -0.5%. In terms of stocks, Aramex rallied +7.0%. While there was no specific news, it appears that local investors are chasing the stocks following opening up of room on the foreign ownership limit. Doha Bank dropped a further -8.8% after the bank confirmed the rights issue.

Commodities

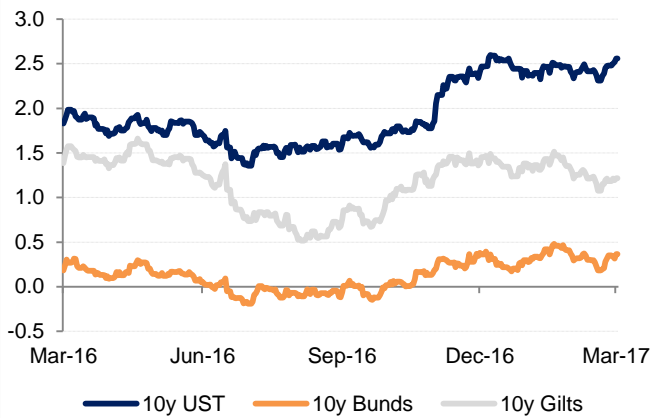
Oil markets tanked overnight, down more than 5% in both WTI and Brent. The culprit was a bearish confluence of the USD-supporting jobs data from ADP and a more than 8m bbl build in US crude stockpiles, according to the latest data from the EIA. Total inventories have now hit new record high levels four weeks running and stockpiles have increased nearly 50m bbl since the start of the year. The rest of the EIA report was actually quite mixed: production was up 56k b/d (over 300k b/d since the start of 2017) while gasoline and most product inventories dropped.

All told Brent closed at USD 53.11/b, its lowest all year while WTI is back to the USD 50/b handle. Both markers closed below their 100-day moving averages and punched through some longer-term technical support levels which may be opening the way up for more downside ahead.

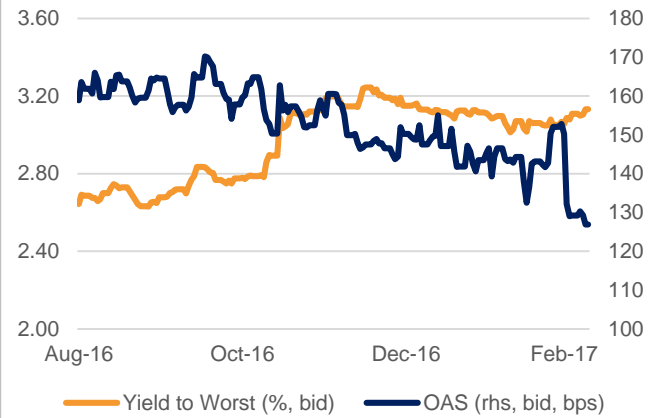
Suhail al Mazrouei, the UAE's energy minister, said the country had achieved 105% compliance with its targeted production level, as set by the OPEC agreement last year. The minister expects between 170k b/d and 200k b/d of output cuts over the coming months and said if inventories fell and a price response then OPEC may be set to extend its production cut agreement.

Markets in Charts

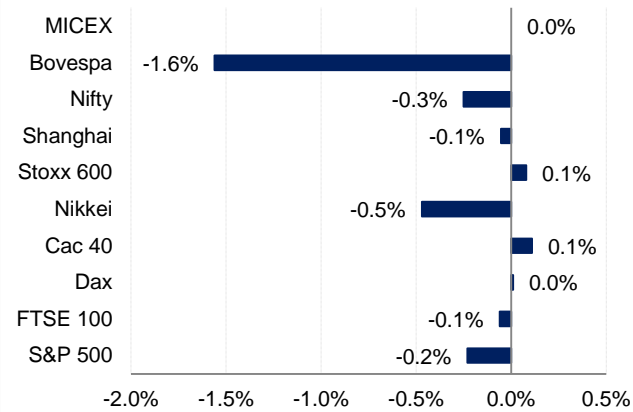
Global Bond Yields



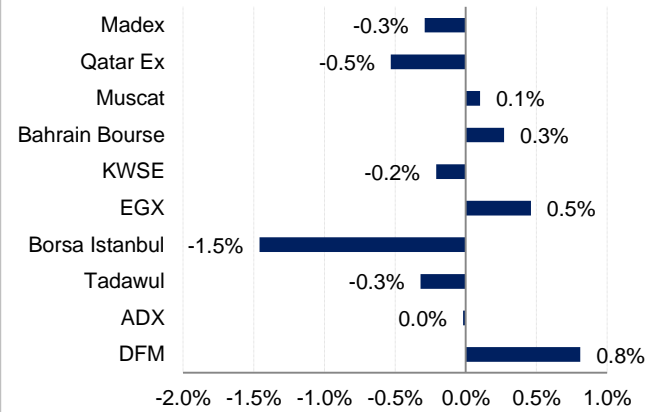
UAE liquid bond index



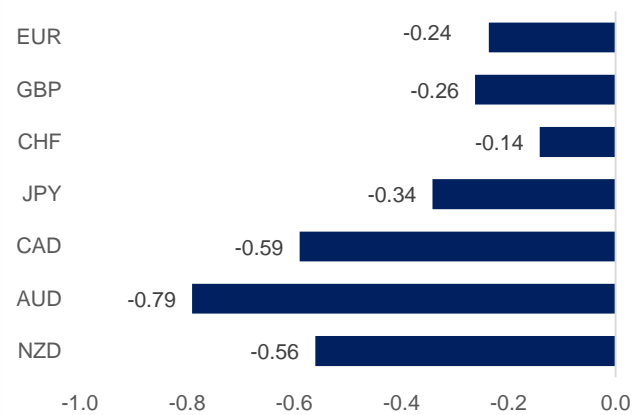
Global Equity Indices



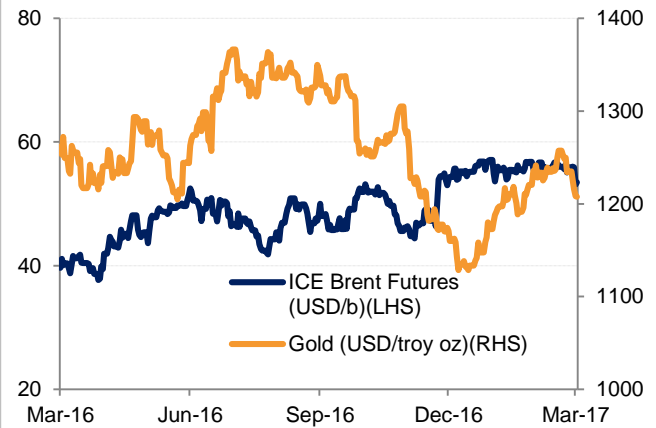
MENA Equity Indices



% change versus USD



Commodities



Source: Bloomberg, Emirates NBD Research

Currencies

	Close	%1D chg	1 yr fwd		Close	%1D chg		Close	%1D chg
EURUSD	1.0541	-0.24	1.0759	USDTRY	3.7460	+1.79	EURAUD	3.8715	-0.24
GBPUSD	1.2168	-0.26	1.2308	USDEGP	17.8456	+2.56	GBPAED	4.4692	-0.26
USDJPY	114.35	+0.32	112.10	USDSAR	3.7502	--	JPYAED	0.0321	-0.32
USDCAD	1.3491	+0.58	1.3410	USDQAR	3.6413	-0.00	CADAED	2.7223	-0.58
AUDUSD	0.7528	-0.79	0.7484	USDKWD	0.3058	+0.00	AUDAED	2.7648	-0.78
USDCHF	1.0149	+0.16	0.9894	USDBHD	0.3770	-0.00	CHFAED	3.6191	-0.15
EURGBP	0.8663	+0.02	0.8742	USDOMR	0.3850	--	TRYAED	0.9800	-1.80
USDAED	3.6728	+0.01	3.6818	USDINR	66.7000	+0.04	INRAED	0.0550	-0.26

Rates

Interbank	1 mo	3 mo	6 mo	1 yr	Swaps	Close	1D chg (bps)
EIBOR	0.9664	1.4023	1.6514	2.0899	USD 2 yr	1.671	+2
USD LIBOR	0.8544	1.1062	1.4204	1.7998	USD 5 yr	2.174	+4
GBP LIBOR	0.2604	0.3556	0.5039	0.7235	USD 10 yr	2.514	+5
JPY LIBOR	-0.0641	-0.0164	0.0229	0.1290	EUR 2 yr	-0.120	+1
CHF LIBOR	-0.7900	-0.7230	-0.6676	-0.5046	EUR 5 yr	0.195	+2
					EUR 10 yr	0.793	+2

Commodities & Fixed Income

Commodities	Close	%1D chg	Bonds/Sukuk	YTM	1D chg (bps)	CDS	Close	1D chg (bps)
Gold	1208.31	-0.62	ADGB 6.75 19	1.42	-1	Abu Dhabi	41	+1
Silver	17.23	-1.48	DUGB 7.75 20	2.79	+3	Dubai	114	-1
Oil (WTI)	50.28	-5.38	QATAR 6.55 19	1.99	+0	Qatar	63	+1
Aluminium	1867.75	+0.11	US Tsy 2 yr	1.35	+3	Saudi Arabia	94	+2
Copper	5747.25	-0.13	US Tsy 10 yr	2.56	+4	Bahrain	214	--

Source: Bloomberg, Emirates NBD Research

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