



بنك الإمارات دبي الوطني
Emirates NBD

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Interest Rate Monitor

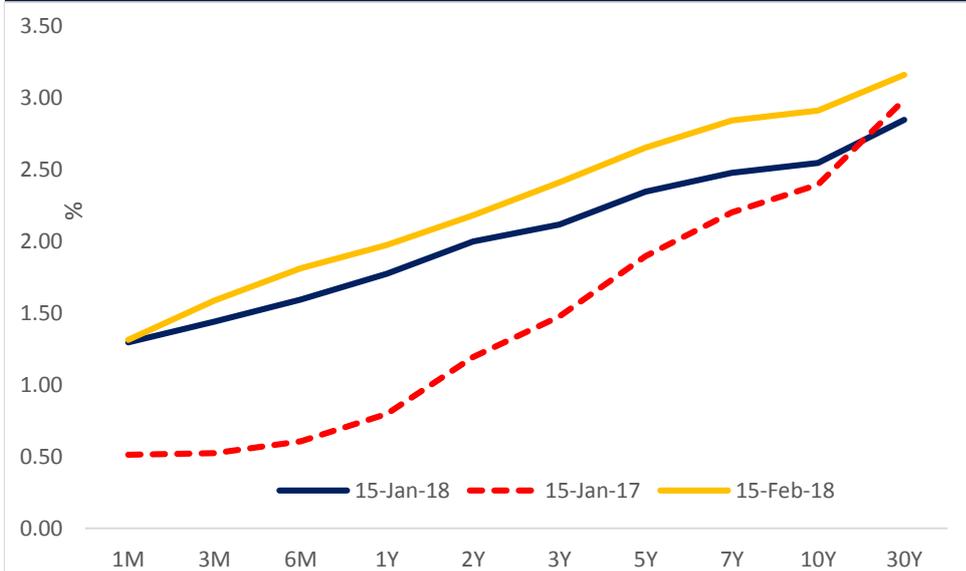
US Rates market remained volatile with mixed sentiment emanating from stronger than expected economic data, Mueller's investigation, volatility in equities market and solid result announcements. UST yield curve steepened as long-term treasury yields have risen sharply in the recent days to their highest level in four years

Strong Economic Data

January headline and core CPI came in stronger than expected at 2.1% and 1.8% respectively. This is consistent with the expectation of the Fed raising interest rates by 25bps in March. The increases in the core CPI is not surprising in view of the outsized average hourly earnings increase in January. Also it is not unusual to see a jump in inflation in January that eases in later months. The CPI increase was neither in the most volatile categories nor the most persistent categories but was largely broad based. Apparel showed notable strength, which could be a reflection of the fall in the dollar since December. Obviously, one CPI report will not set off alarm bells at the Fed, but the recent uptick trend in the core inflation should keep Fed officials steadfast in their rate hiking campaign. We anticipate three hikes in 2018 with risk to the upside if benefits of tax cuts and spending plans eventuate faster than expected.

Contrasting the CPI increase, retail sales fell 0.3% in January reflecting a pretty sharp downshift, with almost all categories of sales showing weakness—except for apparel, where prices were rising well above trend. That said, the m/m downshift does not signal a weakening trend in consumption as on an annualised basis sales were still up 6%/y/y. Job gains remain rapid, consumer confidence high, and income is about to get a boost from the tax cuts.

UST yield curve



Source: Bloomberg, Emirates NBD Research

US Spending Plans

Last week, the Trump administration released the outline of its infrastructure spending plan in addition to the President's budget proposal. The plan includes \$200bn in direct federal outlays but it doesn't specifically note how this new spending would be funded. Half of that total (\$100bn) is specifically appropriated to an Infrastructure Incentives Program, which provides grants to provide partial funding (up to 20%) of a project. A rural infrastructure program (\$50bn) will be doled out to state governors through grants specifically for rural projects, with the remaining \$50bn aimed to support transformative projects and to expand lending programs for infrastructure that already exist.

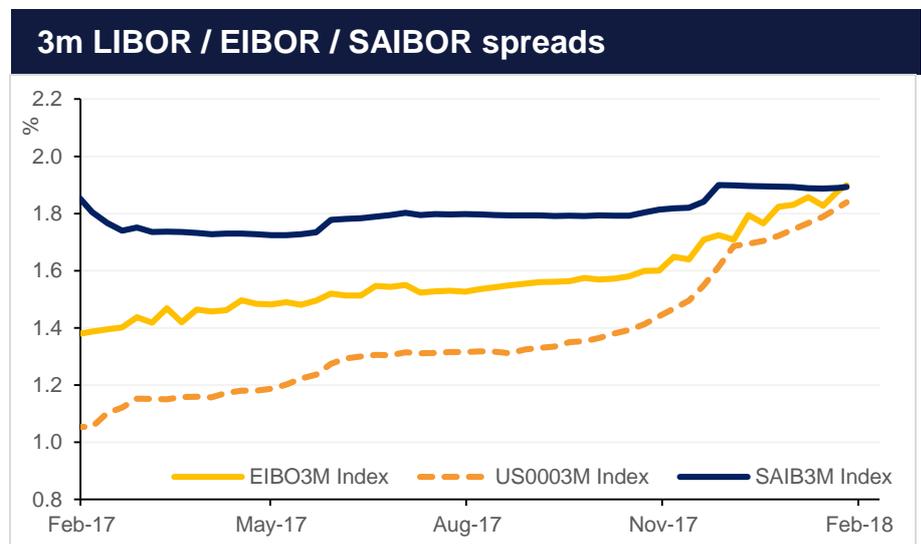
The proposed spending plans will add to the government's borrowing needs. As per current estimates, US treasury will need to borrow around \$1 trillion per annum over the next two years.

Fed Watch

- Federal Reserve will publish its semi-annual monetary policy report for Congress on Friday, Feb. 23.
- Fed Chairman Jerome Powell is scheduled to deliver his semi-annual testimony to Congress on Feb. 28 before the House Financial Services Committee and the following day before the Senate Banking Committee.
- Federal Reserve Bank of Kansas City President Esther George (non-voter) said that to sustain the expansion without pushing the economy beyond its capacity limits and creating inflationary pressures, it will be important for the Federal Reserve to continue its gradual normalization of interest rates:
- Federal Reserve Bank of Cleveland President Loretta Mester (Voter) said that the recent stock market turmoil hasn't affected her economic outlook. She expects the economy to work through this episode of market turbulence and the underlying fundamentals supporting the economy to remain sound.

GCC Local Rates

We see little chance of GCC central banks, barring Kuwait, not following through with the US rate hikes, given the pegged currencies. In this regard, interbank rates in GCC currencies should generally trace the path etched by the USD LIBOR. Nevertheless, 3m EIBOR and 3m SAIBOR have not kept pace with LIBOR rate increases mainly as liquidity in the local banking systems remain abundant in the absence of strong loan growth.



Source: Bloomberg, Emirates NBD Research

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