



بنك الإمارات دبي الوطني  
Emirates NBD

## Interest Rates

14 December 2017

Anita Yadav  
Head of Fixed Income Research  
+971 4 230 7630  
anitay@emiratesNBD.com

www.emiratesnbdresearch.com

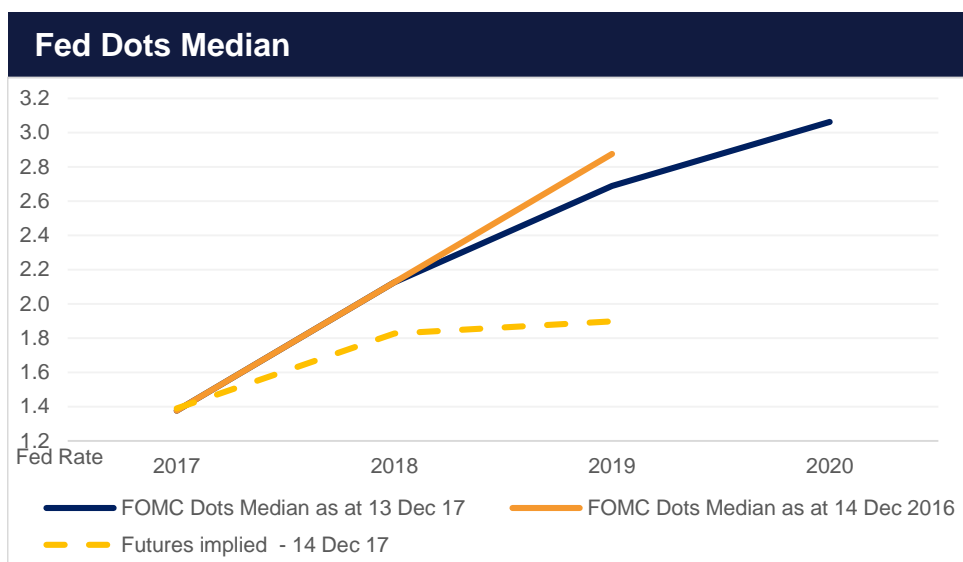
# Fed Hikes Rates

As expected, the US Federal Reserve raised interest rates by 25bps, taking the target rate range to 1.25%-1.50%, at the FOMC meeting yesterday. This represents the first time in recent history that Fed has been able to deliver to its yearly rate hike projections. At yesterday's meeting the Fed remained convinced of its projection of three rate hikes next year, followed by two in 2019, while reiterating that inflation will remain below target.

GDP growth forecast for 2018 was revised upwards from 2.1% to 2.5% as a result of tax cut stimulus and that for 2019 and 2020 was projected at 2.1% and 2.0% respectively.

Core consumer inflation is expected to increase from an average of 1.7% in 2017 to 1.9% in 2018. However, the Fed Chair, Janet Yellen, admitted that there is imperfect understanding of how inflation will behave. That said, she reiterated that the Fed is prepared to adjust monetary policy as needed to achieve its inflation target of 2% over the medium-term. Keeping inflation in perspective, we note that headline CPI came in at 2.2% with core inflation falling from annualised pace of 1.8% in October to 1.7% in November, thereby creating unexplained conundrum for the policy makers.

Fed officials expect faster economic growth to lead to lower unemployment, with joblessness rate projected to fall to 3.9% by the end of next year, from 4.1% now. While the labor market is expected to stay strong, the pace of payroll gains is likely to moderate over time as the central banks gradually raises interest rates, according to Yellen.



Source: Bloomberg, Emirates NBD Research

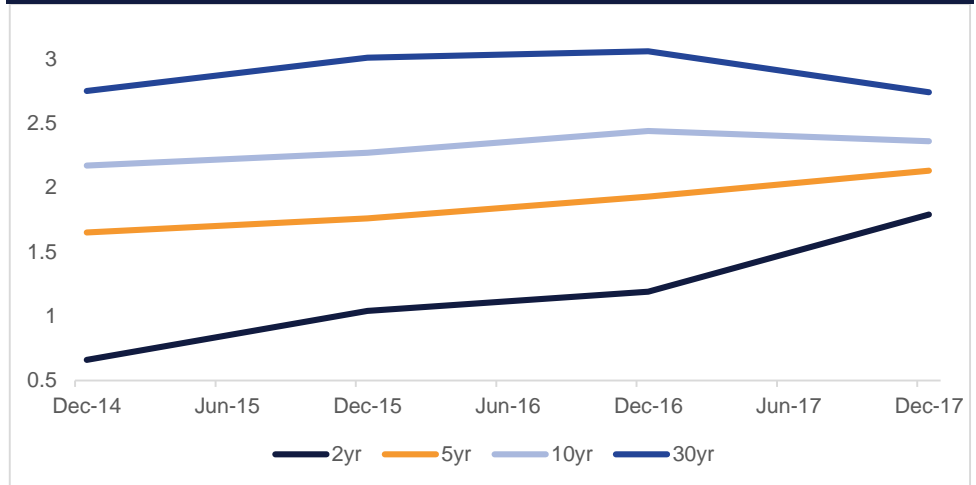
In reference to the US tax reform bill, although there is plenty of rooms for conflicts and delays, with the House and Senate having now each passed broadly similar bills, it looks highly likely that a fiscal stimulus, worth up to \$1.5tn over 10 years, will be in place before the end of the year. Although President Trump continues to argue that his tax cut package will lead to significantly stronger expansion of the economy, Fed officials remain skeptical and only expect the plan to have modest and mostly short term impact.

## Rising short term rates albeit with flattening yield curve

As is logical, the UST yield curve steepens at the beginning of any rate hike cycle and then flattens over the rest of the rate hike cycle. With five rate hikes done in the current cycle and approximately five more to go before reaching the Fed's projected long term terminal rate of 2.75%, it is not unreasonable to see the UST curve flattening.

In this cycle, the flattening of the curve is getting exaggerated attention mainly because the longer end of the yield curve has failed to register any increase despite five rate hikes to date. 10yr yields have remained muted and at 2.36% are only 10bps away from where they were before the first rate hike in December 2015.

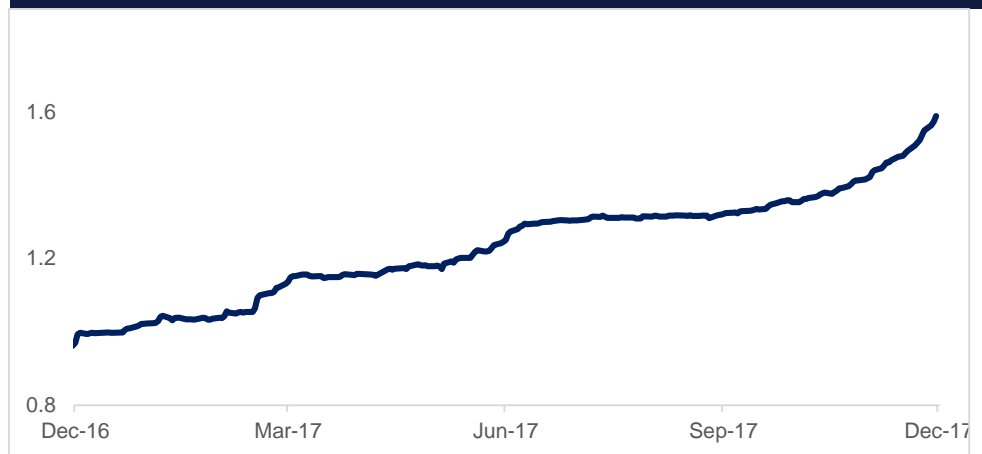
### Flatter UST Curve – Yields %



Source: Bloomberg, Emirates NBD Research

While the rest of the bond market took the Federal Reserve's latest interest-rate increase in its stride, Libor is surging. The steady march higher in the LIBOR shows the U.S. central bank's tightening cycle does have consequences even as measures of overall financial conditions have eased as the Fed hiked rates this year. Libor serves as the basis for trillions of dollars in loans and floating-rate securities and affects borrowing rates for the corporates. Three-month dollar Libor reached 1.59% before yesterday's Fed rate increase, the highest level since the midst of the global financial crisis in December 2008.

### 3m USD LIBOR %



Source: Bloomberg, Emirates NBD Research

### GCC banks follow the Fed

Given the pegged currencies, GCC central banks typically follow U.S. Federal Reserve interest-rate decisions. Kuwait pegs its dinar to a basket of currencies and tends to have some deviation away from the path taken by the Fed.

Following the Fed rate hike yesterday:

- Saudi Arabian Monetary Authority raised its benchmark reverse repo rate by 25bps to 1.5%, though kept repo rate unchanged at 2%.
- U.A.E. central bank raised repo rate by 25 bps to 1.75%, also raised certificate of deposit rates

- Bahrain's central bank raised interest rate on one-week deposit facility by 25 bps to 1.75%, overnight deposit rate by 25 bps to 1.5% and adjust both the one-month deposit rate from 2.15% to 2.4%, and the lending rate from 3.25% to 3.5%.
- Qatar hiked the rate on its repo facility from 2.25% to 2.50%, instead of increasing its deposit rate as it had done previously.
- Oman's policy rates have a complicated mechanism which is derived by adding 50bps to 1m Libor rate.
- Kuwait's central bank kept its discount rate unchanged to support economic growth.

	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Fed rate (upper bound)	0.25	0.50	0.75	1.50
SAMA (Re Repo rate)	0.25	0.5	0.75	1.5
UAE CB (Repo rate)	1.00	1.00	1.00	1.75
Bahrain (o/n rate)	0.25	0.5	0.75	1.5
Qatar (Repo rate)	4.5	4.5	2.25	2.50
Oman (Repo rate)	1	1	1.26	1.96
Kuwait (Disc. Rate)	2	2.25	2.5	2.75

*Source: Bloomberg, Emirates NBD Research*

### **Limited impact of the rate hike on GCC interbank rates**

While policy rates in the region have generally followed the Fed move, interbank rates have increased at a much slower pace than the increase in the US LIBOR rates mainly as a result of higher oil prices boosting the liquidity in the local banking systems. Although 3m EIBOR rate has increased from 1.38% in February this year to 1.72% now, the current spread between 3m EIBOR and 3m LIBOR at only 14bps is at its lowest since the financial crisis. Thus while the U.S. rate hike in 2018 will likely see further increase in EIBOR rates next year, the spread against LIBOR may continue to compress.

## Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication#

# Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Senior Executive Vice President  
Global Markets & Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

---

## Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Shady Shafer Elborno**  
Head of Macro Strategy  
+9714 2012300  
shadyb@emiratesnbd.com

**Athanasios Tsetsonis**  
Sector Economist  
+9714 230 7629  
athanasiost@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Daniel Richards**  
MENA Economist  
+9714 609 3032  
danielricha@emiratesnbd.com

**Aditya Pugalia**  
Financial Markets Research  
+9714 609 3027  
adityap@emiratesnbd.com

**Mohammed Altajir**  
FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

---

## Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241  
vallancel@emiratesnbd.com

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

---

## Emirates NBD Capital

**Ahmed Al Qassim**  
CEO- Emirates NBD Capital  
AhmedAQ@emiratesnbd.com

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

---

## Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

## Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com