

Daily Market Chatter (12-July-2016)

FX

G10

- The week has begun with a general new found optimism, Friday's strong advance in US June employment prompting a surge in risk appetite, implied probability of a US rate hike rebounding and leading US stocks to a new record, and market bets on stimulus from Japan in the wake of Abe's strong election showing also aiding the risk rally. Even the UK is joining in the party as uncertain times are forgotten for 24-48 hours at least as Theresa May is confirmed as the new Prime Minister and the pound shows corrective tendencies. The one blot on the copybook is the Eurozone where weaknesses in the Italian banking system underline EUR headwinds, and with the ECB set to expand monetary policy in Q3, the bias towards a grind lower in the EUR continues to be favoured.
- German CPI numbers today are the highlight, key data arguably coming later in the week.
- GBP – the spectre of Brexit remains close at hand, not least as this week is dominated by the BoE's interest rate decision, with elevated risks that rates could move lower for the first time since March 2009. Expectations of such a cut saw the pound start the week under pressure, macro sellers leading the charge to see Cable test 1.2850, although GBP/JPY cross buyers limited the pace of the fall. With Andrea Leadsom withdrawing from the Tory leadership contest and effectively handing the leadership and Prime Ministerial position to Theresa May, the pound then got a boost, forcing some short covering and we open this morning above previous resistance of 1.3040 as corrective tendencies start to be felt. However, with political uncertainty never too far away, unless we see a further move back above 1.3120, expect a sell on rally mentality to persist.
- JPY – A jumping Nikkei, much improved risk sentiment and anticipation of a detailed Abe stimulus package has seen USDJPY rise above 103.00 as leveraged buyers jump in and macro funds sell the overweight JPY broadly. However, the reality of a bear market pattern in the pair is still there, the JPY having still strengthened by 17% this year, and a close above July 1st high at 103.40 will be needed to give bulls hope of a further corrective move.
- EUR – a choppy day for the single currency yesterday, buffeted by a EUR/JPY rally as JPY weakens broadly, and conversely affected by a broad based USD bid. General risk theme is likely to drive markets but with Italian banking fragility gaining more attention, worries are starting to build of banking contagion on the continent. As previously mentioned, with expectations for the ECB to loosen monetary policy further later in the year, the bias for a EUR grind lower remains prevalent, with a fall through 1.0900 likely to open up a leg lower towards 1.0600.

- AUD – the uptick in risk sentiment post NFP and the discussion of additional Japanese fiscal stimulus has extended AUD impetus and threatens to derail an ingrained AUD negativity which stretches back most of this year and beyond. Only the NZD has performed better against the USD in the last month, and despite the market pricing in a near 60% probability of an RBA rate cut next month, potentially taking rates down to 1.5%, the positive carry is still attracting buyers to the currency. With AUD on the up this morning and testing 0.7600 on solid business confidence data, the dangers of an overbought scenario are seemingly increasing.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1053	+0.02%	-0.85%	-2.05%	+0.29%	+1.72%
GBP USD	1.2968	+0.11%	-2.45%	-8.87%	-16.39%	-11.99%
USD JPY	102.76	+2.21%	+0.25%	-3.18%	-16.71%	-14.51%

Source: Bloomberg

EM

- Asian EM currencies trading stable against the USD as DXY strengthens overnight.
- USDCNH trading firming above 6.7000 today with some funding squeeze seen as T/N trades around 3.8 pips level as some intervention in USDCNH spot was suspected leading to tighter liquidity situations.
- Otherwise, MYR remains strong ahead of MPC meeting tomorrow where some banks are expecting a rate cut. USDKRW also stabilise around 1150 with inflows to bonds seen.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	2.9036	+0.39%	+0.03%	-0.59%	+9.67%	-0.46%
USD INR	67.136	-0.35%	-0.19%	-0.01%	+5.70%	+1.49%
USD IDR	13,107.0	-0.55%	-0.14%	-1.44%	-1.44%	-4.94%

Source: Bloomberg

G10 Rates

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.02%	+7.4	+2.7	-14.6	-63.5	-73.8
10Y	1.43%	+7.2	-1.4	-21.0	-96.7	-83.8
30Y	2.14%	+4.1	-8.6	-31.2	-105.1	-87.6

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	100.0	+5.1	+1.4	-10.5	-80.2	-73.0
10Y	131.0	+5.0	-4.0	-18.1	-118.4	-87.7
30Y	171.9	+3.8	-7.4	-24.4	-124.5	-89.4

Source: Bloomberg

Commodities Market

- Front month crude futures fell approx. \$2/bbl yesterday on supply fears as US rig counts are on the rise, perhaps due to constraints from DUC (drilled but

uncompleted) wells. A lot of production was deferred from Q4'15/Q1'16 as crude prices were much lower and companies were in extreme cost cutting mode to save cash due to financing constraints. It is about 33% cheaper to finish a DUC well than to drill new ones; estimates are the most of these wells would be productive when WTI is around \$50/bbl. These wells could add as much as 300kb/d to production in the coming months.

- Complex refining margins continue to trade weaker (211 crack strip at \$13.15/bbl) despite recovering most of Friday's losses yesterday. The absence of any sustained demand for gasoline during the driving season combined with less than expected inventory draws is weighing heavily on refiners this quarter.

MENA Fixed Income

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	356.8	-11.3	-16.0	-36.3	-25.2	-53.3
Sovx CEEMEA	119.8	-3.8	-5.6	-10.4	-172.9	-63.8
Itrax Xover	333.4	-6.7	-14.1	-16.6	+53.6	+18.9

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	80.1	-0.6	-4.9	-23.9	+24.9	-12.5
Qatar 5Y	102.4	+0.1	-4.6	-16.6	+45.2	+9.8
Dubai 5Y	177.0	-0.8	-2.0	-40.0	+0.0	-56.6

Source: Bloomberg

Continued...

Overnight market headlines

Global News

- Theresa May to become UK's new PM on Wednesday after Leave camp routed; May promises to make Brexit 'a success'
- BCC report says UK economy 'uninspiring' in run-up to Brexit vote; Carney due to testify on financial stability
- Asian stocks gain as S&P 500 hits record and Yen extends biggest decline since 2014 on stimulus; pound climbs; 10yr TY at 1.44%
- Oil trades near 2-month low as Iran, Libya aim to boost exports

Middle East & Africa News

- Dubai's Majid Al Futtaim raises \$300m in a 2024 bond-tap
- Moody's sees Brexit have negligible credit impact on GCC sovereigns
- Moody's says merger of NBAD and First Gulf Bank credit positive
- S&P says it has put the credit ratings of NBAD and FGB on credit watch following their merger announcement
- S&P affirms ratings of Mubadala and IPIC at 'AA'; maintains stable outlook on both
- Mubadala, Solvay form JV for aerospace development in Abu Dhabi
- Saudi Arabia nets \$14.3bn in tourism revenues this year
- Egypt 2016/17 budget forecasts deficit of 9.8%
- Most Middle East markets gain on Monday
- IMF says Nigeria's economy will probably contract this year

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Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	18,227	+0.44%	+1.55%	+2.02%	+2.63%	+4.60%
S&P 500	2,137	+0.34%	+1.63%	+1.96%	+2.92%	+4.56%
Nasdaq Composite	4,989	+0.64%	+2.59%	+1.92%	-0.18%	-0.37%
Nikkei	15,709	+3.98%	-0.42%	-5.38%	-20.58%	-17.47%
Hang Seng	20,881	+1.54%	-0.85%	-0.77%	-16.15%	-4.72%
Shanghai	2,995	+0.23%	+0.21%	+2.31%	-22.77%	-15.38%
Mumbai Sensex	27,627	+1.84%	+1.28%	+3.72%	-0.13%	+5.78%
DAX	9,833	+2.12%	+1.28%	-0.01%	-13.10%	-8.47%
CAC 40	4,265	+1.76%	+0.70%	-0.98%	-13.02%	-8.03%
FTSE 100	6,683	+1.40%	+2.46%	+9.27%	+0.14%	+7.06%
DJ Stoxx 50	2,885	+1.67%	+0.81%	-0.89%	-18.24%	-11.70%
FTSE MIB Index	16,261	+1.21%	+1.55%	-5.02%	-29.11%	-24.08%
SMI Index	8,117	+0.98%	+0.75%	+2.45%	-11.13%	-7.95%
MENA						
Abu Dhabi - ADX	4,540	-0.61%	+2.79%	+3.95%	-4.02%	+5.41%
Dubai – DFM	3,393	+0.22%	+3.71%	+1.70%	-15.50%	+7.68%
Saudi Arabia	6,570	+0.22%	+1.63%	-0.01%	-29.00%	-4.94%
Qatar	10,106	+1.42%	+2.31%	+3.18%	-15.05%	-3.11%
Bahrain	1,156	+0.34%	+3.40%	+3.63%	-13.14%	-4.89%
Kuwait	5,365	-0.29%	-0.18%	-1.05%	-13.09%	-4.45%
Oman	5,820	+0.07%	+0.71%	-0.82%	-9.88%	+7.66%
Egypt	7,506	-0.15%	+8.28%	-1.89%	-2.41%	+7.14%
Turkey	79,235	+1.56%	+3.29%	+3.05%	-4.30%	+10.47%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	44.76	-1.43%	-8.63%	-8.78%	-15.13%	+20.84%
Brent Oil \$/bbl	46.25	-1.09%	-7.68%	-8.49%	-21.25%	+24.06%
Gold spot \$/oz	1,359	-0.51%	+0.60%	+5.89%	+17.50%	+27.98%
Silver spot \$/Troy oz	20.39	+0.58%	+0.32%	+16.98%	+31.70%	+46.94%
Alluminium 3MO \$	1,652	-0.66%	+0.15%	+5.02%	-2.77%	+9.62%
Nickel 3MO \$	10,045	+1.67%	-1.47%	+12.55%	-10.79%	+13.89%
Copper 3MO \$	4,749	+0.82%	-2.94%	+5.30%	-15.04%	+0.94%

Source: Bloomberg

NBAD Global Markets

Contact details

G10 FX & Rates

Craig Tredgett

Craig.Tredgett@nbad.com

Alison Higgins

Alison.Higgins@nbad.com

G10 FX Spot

Phil Muldoon

Phil.Muldoon@nbad.com

Nourah Al Zahmi

Nourah.Alzahmi@nbad.com

MENA Fixed Income

Matthew Locke

Matthew.Locke@nbad.com

Market Insights & Strategy

Chavan Bhogaita

Chavan.Bhogaita@nbad.com

NBAD Global Markets

Tel: 00971 2611 0111

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EM FX & Rates

Husain Askar

Husain.Askar@nbad.com

Ahmed ElAlami

Ahmed.ElAlami@nbad.com

Non-Linear Rate & Derivatives

Hein Van Der Wielen

Hein.Wielen@nbad.com

Vijesh Peris

Vijesh.Peris@nbad.com

Mohamed Bouzoubaa

Mohamed.Bouzoubaa@nbad.com

Naoufal Alami

Naoufal.Alami@nbad.com