

Daily Market Chatter (13-July-2016)

FX

G10

- Action across G10 over the last 24-48 hours appears to have been all part of the same risk on trade as expectations are ramped up for BoJ action, the Fed signal that a rate move in the US is on the table for every policy meeting and Carney indicates that the BoE have the tools in their armoury for additional post-Brexit QE, although there appears to be diminishing expectations of a rate cut tomorrow. Equity markets had another day in the sun and commodity currencies were not to be outdone as iron ore, oil and copper all added to the supportive backdrop.
- In Europe and ahead of its policy meeting tomorrow, the BoE releases its credit conditions and bank liabilities surveys and we also get the Eurozone Industrial production for May.
- Fed's Kaplan speaks in Houston and the Fed beige book is also due for release along with the US Federal monthly budget.
- Expect the Bank of Canada to keep rates on hold at 0.5% this evening.
- GBP – with Theresa May set to be the next UK Prime Minister, the pound set the pace yesterday to extend its run on the week to 1.3338 overnight, before rejecting further gains. The up move has been largely blamed on the unwinding of short positions instigated on Brexit as we head towards the much awaited BoE interest rate decision tomorrow, although opinion appears to be divided as to whether Carney will deliver an early interest rate cut. The preference appears to be for the Bank to wait until the next inflation report has been seen prior to August's meeting. The GBP short squeeze has been swift and meteoric but with the BoE warning of domestic policy shocks and the British Chamber of Commerce arguing that the UK went into the Brexit vote with uninspired growth, chasing further GBP gains looks a dangerous play.
- JPY – USDJPY extended its bounce yesterday with Japanese equities driving gains amid positive risk sentiment, as the market awaits details of the stimulus package promised by Abe, with 10trn JPY the market consensus of opinion to be announced by the end of July. The relief rally stretched to the heady heights of 104.88 before rumoured heavy exporter interest around 105.00 stopped further advances. Traditional stimulus measures have had limited success in the past and without inflation expectations rising, we could argue that JPY may not weaken significantly further.
- EUR – the single currency continues rangebound and listless, although European politics and talk of further ECB QE stimulus ahead of the July 21st meeting are seemingly capping the EUR in the near term. Lack of structural reforms will

continue to constrain Euro-area growth projections as will a degree of Brexit contagion, and only a break through 1.1200 would suggest a derailing of current short position preference. 1.0900 break to the downside would open up the downside move we are looking for.

- AUD – the combination of the search for yield, domestic business confidence coming in ahead of expectations and easing August rate cut expectations have seen AUD briefly test through the 0.7650 stop level, although we would argue that unless a significant break of aforementioned level occurs, then a move towards 0.8000 looks unsustainable. Indeed, ratings agency Fitch have indicated that after the recent election, policy implementation could be more of a challenge from the previous administration and could raise uncertainty over Australia’s medium term legislative agenda and dent consumer expectations for the economy in the medium term. Selling AUD strength still appears preferable.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1092	+0.35%	+0.02%	-1.70%	+0.64%	+2.08%
GBP USD	1.3280	+2.41%	+1.74%	-6.68%	-14.38%	-9.87%
USD JPY	104.91	+2.09%	+3.34%	-1.15%	-14.96%	-12.72%

Source: Bloomberg

EM

- Another quiet day for Asian EM currencies. Notable move was short end CNH DF seen some funding squeeze ahead of CNH reverse payment on 25th July. T/N was taken to a high of 10 pips / day, and 1y DF lifted up to 1500 which is recent highs. The free fall of USDCNH spot from 6.7000 to 6.6800, suspect on the back of local intervention, also led to funding tightness. We prefer to stay long DF points ahead of the payment date.
- MYR retracing some gains today ahead of MPC meeting where market expects unchanged but with a dovish statement.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	2.8866	-0.59%	-1.41%	-1.17%	+9.03%	-1.04%
USD INR	67.184	+0.07%	-0.40%	+0.07%	+5.77%	+1.56%
USD IDR	13,120.0	+0.10%	-0.63%	-1.34%	-1.34%	-4.84%

Source: Bloomberg

G10 Rates

- Theresa May is now Prime Minister of the UK, I'm expecting Cameron to act with a little more class than his predecessor but for now I think he can be proud of his tenure at the helm and its a shame to see him gone. It does seem the Mrs May has a very clear idea of what she wants for the UK and that does seem to tally with what the people want. GBP certainly seemed to think so trading back above the dizzy heights of 1.33. BOE tomorrow is our next big event with a lot of people expecting a cut of 25bp or more. This is about 80% priced in in fairly thin front end markets. I am not convinced that they go tomorrow when there is an inflation report released at

the meeting on the 4th August. That's only three weeks away and Carney also gets the chance at the press conference afterwards to explain the committee's thoughts and actions. They've been very considered in their actions up until now and have already indicated willing to support the market and liquidity so I'm comfortable to have faded this cut and look for a no change tomorrow followed by a cut in August.

- In Europe we have Industrial Production data with expectations for a big fall into the negative MOM. Europe is ticking along with nothing really standing out apart from lots of loud protestations that the Italian banks are not systematic to Europe - I'm not sure I believe that as the complicated and intertwined ponzi esque scheme that the EU has become suggests that any one pillar goes they all lose the fundamental stability but then I'm pretty negative about the European experiment.
- In North America the Bank of Canada is expected to leave the base rate unchanged at 0.50%. Not really expecting that to be too much of a market mover and focus remains over the border as Kaplan and Harker speak (Mester didn't warrant any headlines at his luncheon in Oz). Bullard was up yesterday and he was clear that Brexit was a non-event as far as he was concerned which again puts the focus back on US data and that stellar headline payrolls number. The Fed's Beige Book is released and I'm expected to see some continuation of a risk on theme despite the small pull back in rates overnight. Look for the US to hike in September although the first hike is not priced in until next year and rates remain low.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.09%	+6.5	+14.8	-4.1	-63.1	-67.3
10Y	1.51%	+8.0	+13.5	-10.0	-94.4	-75.9
30Y	2.22%	+8.4	+6.9	-20.2	-101.3	-79.2

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	106.0	+6.0	+12.5	-4.4	-74.2	-67.0
10Y	138.2	+7.2	+9.9	-10.8	-111.2	-80.5
30Y	180.0	+8.1	+7.3	-16.3	-116.4	-81.3

Source: Bloomberg

Commodities Market

- Complex margins continue to soften as front month gasoil spreads fell to \$9.80/bbl from \$10.50 yesterday. Although the market expects today's API report to show another week in a 2 month downward trend, inventories are not falling as fast as previous summers. API and DOE numbers are getting more out of line as last week's \$4 drop in crude prices was spurred by contrasting inventory estimates.
- According to an EIA report released yesterday, 2016 forecasted demand was reduced to 160kb/d from previous estimates of 22kb/d. For 2017, oil demand is estimated at 120kb/d (vs a previous estimate of 60kb/d). EIA Administrator Adam Siemeinski said India and China are expected to make up the bulk of the global demand growth as European demand is at risk from a slowing UK/European economy after Brexit

MENA Fixed Income

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	352.5	-4.3	-23.8	-40.6	-29.5	-57.6
Sovx CEEMEA	117.8	-2.0	-11.0	-18.6	-174.9	-65.8
Itrax Xover	320.8	-12.6	-34.4	-51.7	+41.0	+6.3

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	81.0	+0.9	-6.6	-26.7	+25.8	-11.6
Qatar 5Y	101.0	-1.4	-7.0	-20.0	+43.8	+8.4
Dubai 5Y	174.5	-2.5	-9.2	-47.2	-2.5	-59.2

Source: Bloomberg

Overnight market headlines

Global News

- Fed's Bullard sticks with single US interest rate hike view; Kashkari says no urgency to raise rates; Mester sees gradual upward path but timing uncertain
- BoE's Carney hints again at more stimulus after Brexit
- BlackRock says Brexit to trigger UK recession over coming year; expects BOE to cut interest rates to zero this week
- Asian stocks rise toward 2016 high as Wall Street touches fresh highs; stocks globally regained \$4tn in value lost in Brexit vote; govt. bonds fall
- Oil retreats after Tuesday's 4.6% gain as industry data show US stockpiles expand

Middle East & Africa News

- National Bank of Oman raises \$100m in a tap to its existing 2019 bond
- Qatar central bank sells 1.2 bln riyal T-bills
- Kuwait to issue international bonds by the end of this year
- Kuwait plans to sell stakes in as many as four oil-company units
- Central Bank of Oman says govt cash needs could tighten liquidity conditions
- Fitch places FGB's A+ IDRs on positive watch; affirms NBAD's ratings at AA- on merger
- Qatar National Bank Q2 net profit rises 16%
- Egypt almost ready with 'fresh story' to lure bond buyers, says top finance ministry official; expects to tap market between Sept. and March
- Gulf bourses end higher on oil prices; profit-taking drags Egypt
- Kenya must narrow budget gap to 6%-7% of GDP this year, IMF says

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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	18,348	+0.66%	+2.84%	+3.47%	+2.06%	+5.29%
S&P 500	2,152	+0.70%	+3.04%	+3.52%	+2.50%	+5.29%
Nasdaq Composite	5,023	+0.69%	+4.15%	+3.60%	-0.96%	+0.31%
Nikkei	16,096	+2.46%	+2.72%	+0.48%	-19.88%	-15.44%
Hang Seng	21,225	+1.65%	+2.28%	+3.47%	-15.86%	-3.15%
Shanghai	3,049	+1.82%	+1.43%	+7.64%	-23.20%	-13.84%
Mumbai Sensex	27,808	+0.66%	+2.36%	+5.35%	-0.55%	+6.47%
DAX	9,964	+1.33%	+4.53%	+3.18%	-13.24%	-7.25%
CAC 40	4,331	+1.57%	+4.03%	+2.47%	-13.34%	-6.59%
FTSE 100	6,681	-0.03%	+2.07%	+10.52%	-0.85%	+7.02%
DJ Stoxx 50	2,933	+1.67%	+4.29%	+2.80%	-18.30%	-10.22%
FTSE MIB Index	16,721	+2.83%	+5.96%	+0.60%	-27.82%	-21.93%
SMI Index	8,143	+0.32%	+2.54%	+4.64%	-11.97%	-7.65%
MENA						
Abu Dhabi - ADX	4,543	+0.05%	+1.00%	+4.07%	-4.52%	+5.47%
Dubai – DFM	3,438	+1.31%	+3.82%	+3.43%	-15.19%	+9.09%
Saudi Arabia	6,626	+0.84%	+2.24%	+0.55%	-28.52%	-4.14%
Qatar	10,141	+0.35%	+2.59%	+4.50%	-15.06%	-2.77%
Bahrain	1,167	+0.89%	+3.15%	+3.86%	-12.60%	-4.04%
Kuwait	5,378	+0.23%	+0.06%	-0.64%	-13.30%	-4.23%
Oman	5,849	+0.49%	+1.24%	+0.02%	-9.73%	+8.19%
Egypt	7,458	-0.65%	+7.42%	-2.46%	-1.71%	+6.44%
Turkey	81,142	+2.41%	+5.63%	+6.02%	-2.69%	+13.13%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	46.80	+4.56%	+0.43%	-4.26%	-10.34%	+26.35%
Brent Oil \$/bbl	48.47	+4.80%	+1.06%	-3.73%	-16.21%	+30.02%
Gold spot \$/oz	1,333	-1.97%	-1.66%	+3.80%	+15.18%	+25.45%
Silver spot \$/Troy oz	20.11	-1.40%	+1.25%	+15.35%	+29.86%	+44.89%
Alluminium 3MO \$	1,676	+1.45%	+1.27%	+6.55%	-1.35%	+11.21%
Nickel 3MO \$	10,490	+4.43%	+8.09%	+17.54%	-6.84%	+18.93%
Copper 3MO \$	4,869	+2.53%	+1.08%	+7.96%	-12.90%	+3.49%

Source: Bloomberg

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