

Daily Market Chatter (19-October-2016)

FX

G10

- The latest US core CPI release missed forecast causing December hike odds to fade further as doubts emerge over the likelihood of a Fed rate hike before year end. As a result, USD bulls are looking a little scared and maybe we are due another unwind in the speculative longs which have been built up in the last week or so. GBP, JPY and the commodity bloc have found their feet vs a tentatively weak greenback, with only the EUR struggling in G10 as 1.1000 expiries magnetically attract and markets remain conscious that we have now settled into a new lower range. It's been a long time coming, but finally markets are realising that Brexit could be just as, if not more uncertain for the Eurozone than the UK.
- Economic data released today include the UK monthly labour report, US weekly mortgage application numbers and housing data. The Bank of Canada are widely expected to keep rates on hold at 0.5% tonight.
- EUR - Despite household credit conditions improving in the Eurozone as low rates bolster demand for loans, negative net interest income is clearly upsetting many. Maybe this underlines the fact that loose ECB policy is close to outliving its usefulness but for the time being, although the CB is expected to maintain its current policy stance tomorrow, a further December change still remains on the cards. Yesterday's large 1.1000 expiries saw us broadly trade 20 points either side of the pivot, but despite the USD's slightly weaker feel this week, EUR bears will be heartened by the single currency's failure to regain 1.1050 and will be confident that a newer and lower range is here. Above 1.1120 and a rethink will occur. The calls for a lower EUR are becoming louder.
- GBP – Recent days have seen an increase in commentators considering that the pound's next major move make be back up. One bank sees average fair value for Cable around 1.5900, although the longer we stay depressed below 1.2500, the more likely this value will gravitate lower. Having said that, BoE's Broadbent thinks the fall in the pound will cushion the UK from its Brexit shocks, and if the country's current account statistics start to improve then maybe a reversion bounce is coming soon. The pound traded solidly yesterday, core CPI at one year highs and further buoyed by talk that legal sources have said that it is 'very likely that Brexit needs ratification by MPs'. With the ability to trigger Article 50 by March now being brought into question, Asian bids below 1.2100 have been evident, and key to further progress now hinges on the 1.2325 level.
- JPY – a mixed day for JPY yesterday, up vs USD and EUR and down vs most others. Despite the Nikkei up near one week highs, USDJPY is struggling to break free from

the 104.00 handle and with the domestic calendar modest at best, we are likely to require external impetus to enable us to break out of the recent 103.50-104.50 trading range. While the Japanese authorities would like a cheaper JPY, they will be clearly be happy with the recent avoidance of excessive near term volatility.

- AUD – Lowe’s comment earlier this week that easing monetary policy globally is reaching diminishing returns has raised the bar for RBA easing by year end much higher. Despite lower Aus unemployment masking a more subdued labour market picture, a firm AUD persists, and although 0.7700-20 is proving a resilient barrier to further progress, if risk assets rally substantially then this area should finally breach. NZD bids are capping AUDNZD and are also acting to help AUD, but focus will soon start to turn towards next week’s Australian Q3 CPI numbers. The RBA will need to closely guard against inflation expectations falling too far, and maybe they secretly hope that a Fed hike will assist the RBA’s deemed paralysis and in effect ease monetary conditions down under.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0990	-0.10%	-0.71%	-1.67%	-2.93%	+1.14%
GBP USD	1.2293	+0.78%	+1.11%	-5.79%	-20.55%	-16.57%
USD JPY	103.84	-0.08%	+0.37%	+2.06%	-13.08%	-13.61%

Source: Bloomberg

EM

- O/N in NY, it was all about USD giving back. The biggest movers were \$KRW, \$TWD and \$PHP where players carried the heaviest long \$ exposure. We may see some follow through today in Asia after we broke the very short-term trend higher but ultimately think \$AXJ is a buy on dips.
- The outliers of the day were \$INR and \$CNH, both of which held firm bids most of the day. We wouldn't be surprised to see risk reduction in \$CNH and think we could get back down towards 6.7200 again.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	3.0969	-0.06%	+0.45%	+3.97%	+6.76%	+6.17%
USD INR	66.728	-0.24%	+0.29%	-0.36%	+2.97%	+0.87%
USD IDR	13,025.0	-0.34%	-0.05%	-0.97%	-3.64%	-5.53%

Source: Bloomberg

G10 Rates

- So the big one today, Bank of Canada rate decision coming at 18.00 hours with a no change priced in. Before all that we have a good data day today with UK employment data ahead of Philip Hammond's testimony before parliament. There has been a lot of noise in the press the last few days about his lone stance against the hard Brexiteers of the cabinet. I think Hammond is a solid, intellectual politician and one of the few who has been successful in his own right as a businessman before entering the fray. I hope that he around for longer than the clowns making all the noise and that may listens to his council. We shall see. Haldane (BOE's chief

economist) is also speaking later on today (21.00) - markets will be closed by then so expect to see any impact in tomorrow's session.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.23%	-2.9	-7.0	+0.5	-11.3	-53.4
10Y	1.74%	-2.8	-2.6	+2.6	-28.5	-53.1
30Y	2.51%	-1.6	+0.4	+5.0	-37.4	-51.0

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	125.1	-1.9	-5.4	+3.5	-12.8	-47.8
10Y	158.1	-1.3	-1.5	+6.2	-42.1	-60.6
30Y	195.0	-0.5	+1.7	+7.1	-58.8	-66.2

Source: Bloomberg

Commodities Market

- Oil prices rose overnight amid a rally in global equity markets, with WTI settling 0.7% higher at \$50.29 and Brent settling 0.3% higher at \$51.68. OPEC's secretary-general said on Tuesday that OPEC should be able to reach a deal next month to limit oil production without too much disagreement about individual countries' output levels. API reported post-settlement that US crude stockpiles fell by 3.8 mln bbls last week.
- Copper prices closed largely unchanged at \$4681 while iron ore futures fell 0.3% on Tuesday but rose 1.4% during the electronic session. According to the PBOC, China's new housing loans to individuals soared to 3.63 trillion yuan (\$538.69 billion) in the first nine months, more than double the level for the same period last year. China 3Q GDP is due to be released today. BHP Billiton reported that its 1Q iron ore production fell 6% to 57.6 mln mt as it carries out a rail maintenance program, has lower volumes from its Yandi mine and with an operation in Brazil halted.

MENA Fixed Income

- Another better tone to GCC ahead of the KSA supply for the best part of the day yesterday. Clearly some accounts were still raising cash for the new issue but was easily absorbed.
- The KSA 3 tranche guidance late afternoon (5Y @ T+160; 10Y @ T+185; and 30Y @ T+235) and the perceived richness in the 30Y offering caused a wave of buying in the longer dated space notably SECO 43s/44s about 2.5-3pts higher.
- We also saw buying in Bahrain 44s, 1pt higher, as well as Qatar 30s to 46s. Expect ongoing buyers of Qatar 26s and ADGB 26s which have been underperforming into this announcement.
- As I said yesterday I don't think it will be the EM accounts or even the regional demand that will make this deal a success but the Xover and IG accounts that have reportedly shown strong interest in the name.

- Given a rating of AA- albeit with a negative outlook (and with Seco rated A2/A-) this credit looks cheap vs its Global EM/Xover stable mates. Likes of Chile & Mexico their 5Y trades well over 100-125bps tighter than KSA guidance.
- If we look to CEE Poland and the Baltic credits all with a weaker credit rating trade 100bps+ tighter. Its a similar story in Asia with Malay 21s and Chinese SOEs 75bps inside of 5Y guidance.
- Expect this to be a mega deal with significant tightening from current guidance.
- Elsewhere Asia has been quiet but firm with Chinese growth holding at 6.7% in the third quarter.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	356.2	+2.3	+13.8	-4.8	-40.0	-53.9
Sovx CEEMEA	94.5	-0.5	+0.9	+9.0	-72.0	-89.1
Itrax Xover	331.0	-4.9	-3.8	-10.4	+5.6	+16.5

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	67.0	+1.0	-2.5	-2.3	-3.1	-25.6
Qatar 5Y	89.3	+0.3	-1.8	-4.7	+20.2	-3.3
Dubai 5Y	146.2	+0.2	-13.8	-7.4	-41.1	-87.4

Source: Bloomberg

Continued...

Overnight market headlines

Global News

- US consumer price index up 0.3% in September, in line with expectations; core CPI gains 0.1%
- UK inflation sees biggest jump since November 2014
- China third quarter GDP growth remains steady at 6.7% as construction booms, debt rises
- China holdings of US treasuries drop to almost four-year low as it draws down foreign reserves to prop up yuan
- Oil rises after industry report shows US crude supply drops
- Dollar holds two-day drop as US inflation data damp Fed wagers; Asian stocks mostly up on China GDP, US rate-increase outlook; 10Yr TY at 1.74%

Middle East & Africa News

- Saudi Arabia sets price guidance for 5, 10 & 30-year US\$ bonds at 160, 185 & 235 basis points area over US treasury; pricing expected Wednesday
- Kuwait's Ahli United Bank raises \$200m in an AT1 NC5 perpetual sukuk at 5.5%
- Kuwait's Equate Petrochemical Co. mandates banks for debut bond offering
- Qatar's Al Faisal Holding said to plan its debut US\$ sukuk
- Fitch affirms 11 Kuwaiti banks; Upgrades 2 VRs; Outlooks Stable
- Abu Dhabi's Adnoc to merge shipping and ports services units; company will operate more than 165 vessels
- Emirates may quit African cities over dollar debts from low oil as Nigeria and other states withholding payments to foreign airlines
- Qatar Islamic Bank Q3 net profit rises 6.8%
- Saudi bank Samba posts 2.2% drop in Q3 net profit
- Flurry of disappointing earnings extends slide in Saudi stocks, UAE rebounds; Tadawul's losses in 2016 among the worst in the world
- Nigeria in talks with Saudi Arabia-based ICD about sukuk deal
- Nigeria overnight lending rate at record high on tight liquidity
- Uganda reduces key rate to 13% to support economy

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Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	18,162	+0.42%	+0.18%	+0.23%	+5.41%	+4.23%
S&P 500	2,140	+0.62%	+0.13%	+0.02%	+5.21%	+4.68%
Nasdaq Composite	5,244	+0.85%	-0.06%	+0.17%	+6.90%	+4.72%
Nikkei	16,964	+0.38%	-0.36%	+2.69%	-6.44%	-10.88%
Hang Seng	23,394	+1.55%	-0.66%	-0.66%	+1.38%	+6.75%
Shanghai	3,084	+1.40%	+0.61%	+1.91%	-8.94%	-12.86%
Mumbai Sensex	28,051	+1.89%	-0.11%	-2.04%	+2.51%	+7.40%
DAX	10,632	+1.22%	+0.51%	+2.48%	+4.60%	-1.04%
CAC 40	4,509	+1.32%	+0.83%	+2.61%	-4.15%	-2.76%
FTSE 100	7,000	+0.76%	-1.00%	+2.74%	+10.20%	+12.14%
DJ Stoxx 50	3,047	+1.27%	+0.87%	+2.65%	-6.88%	-6.75%
FTSE MIB Index	16,967	+2.02%	+2.99%	+3.46%	-24.32%	-20.78%
SMI Index	8,075	+0.92%	-0.74%	-1.48%	-7.25%	-8.43%
MENA						
Abu Dhabi - ADX	4,269	+1.16%	-2.39%	-4.75%	-6.74%	-0.88%
Dubai – DFM	3,318	+1.39%	-2.14%	-4.79%	-10.43%	+5.30%
Saudi Arabia	5,461	-1.86%	-3.44%	-8.00%	-29.67%	-20.99%
Qatar	10,484	+0.56%	+0.51%	+3.26%	-11.06%	+0.52%
Bahrain	1,137	-0.04%	+0.50%	+0.15%	-8.89%	-6.49%
Kuwait	5,284	-0.07%	-1.25%	-2.70%	-8.66%	-5.90%
Oman	5,584	+0.04%	-2.11%	-3.11%	-5.75%	+3.28%
Egypt	8,214	-0.36%	-0.23%	+3.00%	+7.77%	+17.24%
Turkey	78,340	+1.17%	+0.90%	+0.86%	-1.75%	+9.22%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	50.29	+0.70%	-0.98%	+16.14%	+9.59%	+35.77%
Brent Oil \$/bbl	51.68	+0.31%	-1.39%	+12.47%	+6.32%	+38.63%
Gold spot \$/oz	1,263	+0.51%	+0.52%	-3.91%	+7.73%	+18.87%
Silver spot \$/Troy oz	17.64	+1.01%	+0.68%	-8.37%	+11.19%	+27.11%
Alluminium 3MO \$	1,642	-1.11%	-2.20%	+4.22%	+4.42%	+8.96%
Nickel 3MO \$	10,410	+1.17%	-0.14%	+7.04%	-1.70%	+18.03%
Copper 3MO \$	4,681	+0.13%	-2.72%	-2.23%	-11.43%	-0.51%

Source: Bloomberg

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