

Daily Market Chatter (27-October-2016)

FX

G10

- Odds for a December Fed rate hike creep ever better as the consideration of credibility comes to the fore, with markets deciding that barring some data or event disaster (and remember we have the small consideration of a US election to negotiate), this credibility issue is tipping the scales in favour of a December move. Although nothing has stuck out to dissuade the FOMC from hiking data wise since the last meeting, two NFP releases before the December date may have some impact. Meanwhile, the USD continues to flex its muscles and enjoy its time in the sun.
- Main data releases today come in the form of UK Q3 GDP, US durable goods, and weekly jobless claims.
- GBP – the pound is starting to look a little more prone to movement based on political headlines rather than data releases, as Carney comments that there are limits to the MPC's willingness to look through a CPI overshoot and other BoE officials say that they're not indifferent to the exchange rate, the pound reacting positively as a result. Couple this with a somewhat over bearish market and the signs are there for a squeeze to maybe retest the 1.2325-50 pivotal area as the flash crash lows remain out of reach from a revisit.
- AUD – Australian inflation picking up from the lows offers something of a support focus and increases the likelihood that the economy may indeed have passed the low point for inflation. Markets may consider that the door to easing may still be open but the RBA is likely to stay on the sidelines for the rest of the year at least. AUD had another look above 0.7700 yesterday as a result, but once again failed to make progress as the gains were reversed markedly, falling back to 0.7620-30 and settling in Asia at these pre-CPI levels. Fading demand towards 0.7720 continues to appear a smart and measured call.
- EUR – Today's September M3 money supply report may garner some attention but in reality, focus is on political wrangling as the ECB's policies come under fire from Germany as Schauble speaks out against the global excess liquidity and renewed his criticism of the ECB's loose monetary policies. Draghi has defended the CB's strategy time and again and will insist that its policies are here until it meets its inflation targets and indeed aligns with market expectation that the ECB will reinforce its quantitative easing programme in December. Expect the single currency to trade with an attraction to the downside, with any short squeezes offering value for new selling opportunity while 1.1050-1.1120 topside resists.
- JPY – a slight tilt lower in USDJPY this morning as Kuroda mentions that any attempts to weaken the JPY v USD would be considered as FX intervention, and maybe lessens the market's expectation of that possibility but I would've thought

that given recent JPY stability he would've been happier to steer questions asked of him away from the small matter of the level of the currency. These guys don't know when to keep quiet! No great damage though and USDJPY continues to trade in a range contained by investors and importers below 103 and ever increasing exporter offers at 105 and up.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0912	+0.19%	-0.51%	-2.74%	-1.14%	+0.42%
GBP USD	1.2226	+0.24%	-0.41%	-6.11%	-20.11%	-17.02%
USD JPY	104.58	+0.32%	+1.27%	+4.19%	-13.13%	-13.00%

Source: Bloomberg

EM

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	3.0856	+0.48%	+0.73%	+3.74%	+6.14%	+5.78%
USD INR	66.833	+0.01%	+0.23%	+0.52%	+2.88%	+1.03%
USD IDR	13,004.0	-0.01%	-0.03%	+0.38%	-4.54%	-5.69%

Source: Bloomberg

G10 Rates

- Lots of input from central bank 'sources' and committee members serving to steepen the US, EUR and UK curves albeit for different reasons.
- An interview with Philly Fed President Harker was published in the WSJ (avoiding black out rules by being given earlier in the month). He feels the market is 'possibly under estimating' the path of hikes and felt that there are clear risks to staying at zero too long. He also confirmed he dissented for a hike at the last meeting and the curve had a nice rally, 2s10s @ 55.5 this morning, ignoring the Mortgage application miss to focus on better than expected PMI and New Home Sales data. The election will hang heavy over the November meeting especially with Trump taking a small lead in some polls in the key swing state of Florida. When people will vote for him because they hate Clinton so much you know things are a bit topsy turvy in the world. Today we have durable goods. Initial jobless claims, consumer confidence and Pending home sales.
- Over in Europe officials have basically confirmed that the ECB will continue with the QE program past March so we can expect to see some technical tweaks to the parameters of the asset purchase program but it looks unlikely that we'll see a further cut. The curve has now overshot and moved back to levels not seen in June time. In other words the chances of anymore cuts have been effectively priced out with the curve pricing positive 3m Euribors by Sep 20. Optimistic I'd say but the biggest risk to Europe in the next 12 months is geo political rather than economic in my mind. Today we have Italian Consumer and Manufacturing Confidence as well as Nowotny and Mersch speaking.
- The GDP number is released in the UK today for Q3 and it will be very interesting to see where that places us in light of the Brexit furore. The curve is still steepening off

the back of carney's comments on Tuesday, the MPC is not 'indifferent to the exchange rate' the obvious implication is that cutting rates with such an aggressive move in the currency is not something they will need to do. Duly cuts continue to be priced out of the front end which is now flat to June and starts pricing in hikes by next September. That has to be overdone considering that article 50 has yet to be triggered. Lets see what today's number tell us.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.30%	-0.1	+7.6	+19.0	-6.3	-45.7
10Y	1.79%	+3.7	+5.0	+23.7	-24.4	-47.5
30Y	2.54%	+4.3	+3.5	+26.4	-31.8	-47.4

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	132.6	+3.1	+8.3	+17.6	-3.1	-40.3
10Y	163.6	+3.7	+6.5	+22.6	-32.5	-55.1
30Y	197.9	+3.4	+4.3	+24.5	-49.3	-63.3

Source: Bloomberg

Commodities Market

- Oil prices fell 1.6% overnight as doubts of an OPEC output deal materialising outweighed a drawdown in US crude inventories, with WTI settling at \$49.18 and Brent settling at \$49.98. OPEC Secretary-General Mohammed Barkindo said he wants accommodation among OPEC members to achieve "market stability" in his meeting with Iraqi President. This comes as Iraq says it will not reduce output because it needs oil money to combat Islamic State, while Prime Minister Haider al-Abadi offered strictly limited support on Tuesday. Russian envoy at OPEC Vladimir Voronkov also mentioned that cutting oil output is not a suitable option for Russia. The EIA report revealed that US crude inventories fell by 0.6 mln bbls last week, diverging from the 4.8 mln bbl build that API reported, mainly due to lower imports while refinery utilization rose 0.6% to 85.6%. Distillate stocks fell by 3.4 mln bbls while gasoline stocks fell by 2.0 mln bbls.
- Copper prices were largely unchanged at \$4740 while iron ore futures fell 1% to \$58.56.
- Soybean futures rose 1.9% to \$10.21, leading the rally among grains on ongoing Chinese interest for US soybeans, on the strength in Malaysian palm oil futures and on the weaker US dollar. Wheat futures also rose 1.8% to \$4.12 after top global buyer Egypt on Tuesday made its biggest purchase in more than a year of 420,000 tonnes.

MENA Fixed Income

- A soft close to our market yesterday on the back of the UST move. It was late in the afternoon so not many accounts were there. Will open a bit weaker today but expect to see some bottom fishing especially in Sov/IG names. We were busy in most of the

curves mainly the Oman and Qatar ones which had a bit of 2 way flow. There were buyers of the DUGB curve as well. On the Sukuk side we were active on the Fins mainly names like QIB, DIB etc. SECO curve saw bonds coming out mainly in the 24s.

- Kuwait's Equate petrochemical (Baa2/BBB+) could consider 30yr bond to its 5 and 10yr due today. Initial guidance for Equate's 5-year paper was set at the low end of 200s bps over MS, while price guidance for the 10-year tranche was in the high 200s to 300bps over MS; the main shareholders are Dow chemical and Kuwait petrochemical industries company.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	346.4	+2.8	-5.5	-7.4	-45.5	-63.7
Sovx CEEMEA	91.1	-1.9	-3.5	+0.7	-76.9	-92.5
Itrax Xover	321.6	+1.1	-1.5	-14.2	+18.6	+7.1

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	68.2	+2.7	+1.5	-7.6	-5.8	-24.4
Qatar 5Y	89.2	+2.7	-1.1	-4.1	+15.2	-3.4
Dubai 5Y	152.7	+1.1	+5.0	-14.4	-49.3	-81.0

Source: Bloomberg

Continued...

Overnight market headlines

Global News

- US services PMI rises in October; single-family home sales rise in Sept, while mortgage activity index falls to lowest since May
- Banks likely to lose passporting with Brexit, UK official says
- China's Industrial profits first nine months of year rose 8.4% but Sept. profit growth slows to 7.7% from 19.5% in Aug; NBS says demand is weak
- Dollar boosted by Fed bets as Asian shares slide; oil below \$50; Asian bonds slide following retreat in US treasuries

Middle East & Africa News

- Kuwait's Equate Petrochemical could include a 30-year bond to its long-5-year and 10-year deal due Thursday
- Saudi minister says future borrowing may include Islamic bonds; size of possible sukuk sale depends on the need
- Saudi Arabian bank funding crunch eases on state cash injection; three-month inter-bank rate declines for second consecutive day
- Bahrain non-oil growth jumps to 3.6% in Q2
- Kuwait Finance House sees opportunity in financing Gulf deficits
- First Gulf Bank reports third quarter net profit of AED 1.86bn, up 31%
- NBAD reports Q3 net profit of AED 1.32bn, flat year-on-year
- Commercial Bank of Dubai reports nine-month net profit of AED 701m, down 23%
- UAE's Etisalat reports third-quarter net profit of AED 1.9bn, up 16%
- Kuwait's KIPCO posts 2% rise in Q3 net profit at KWD 12m
- Gulf markets weighed by low oil prices, weak earnings
- Nigeria debt agency proposes \$22.1 bn cap on 2017 debt; DMO says foreign debt shouldn't exceed \$16.6bn
- IMF says Uganda economy will grow 5% in 2016/17, 5.5% 2017/18

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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	18,199	+0.17%	-0.02%	-0.16%	+3.51%	+4.44%
S&P 500	2,139	-0.17%	-0.23%	-0.95%	+3.56%	+4.67%
Nasdaq Composite	5,250	-0.63%	+0.07%	-1.04%	+4.38%	+4.85%
Nikkei	17,392	+0.15%	+2.31%	+4.24%	-7.38%	-8.63%
Hang Seng	23,325	-1.02%	+0.09%	-1.05%	+0.79%	+6.44%
Shanghai	3,116	-0.50%	+1.02%	+3.94%	-9.26%	-11.95%
Mumbai Sensex	27,837	-0.91%	-0.53%	-1.37%	+2.14%	+6.58%
DAX	10,710	-0.44%	+0.60%	+3.36%	+0.16%	-0.31%
CAC 40	4,535	-0.14%	+0.32%	+3.09%	-6.45%	-2.21%
FTSE 100	6,958	-0.85%	-0.91%	+2.21%	+9.31%	+11.47%
DJ Stoxx 50	3,081	-0.21%	+0.82%	+3.71%	-8.87%	-5.71%
FTSE MIB Index	17,281	+0.29%	+1.39%	+7.10%	-22.75%	-19.32%
SMI Index	7,893	-0.47%	-2.48%	-3.46%	-10.82%	-10.49%
MENA						
Abu Dhabi - ADX	4,266	+0.03%	-1.00%	-4.60%	-2.86%	-0.96%
Dubai – DFM	3,304	-0.98%	-0.46%	-4.68%	-6.08%	+4.86%
Saudi Arabia	5,885	+0.04%	+6.56%	+2.69%	-17.08%	-14.86%
Qatar	10,363	-0.40%	-0.86%	-1.05%	-11.54%	-0.64%
Bahrain	1,145	+0.12%	+0.04%	+0.48%	-8.36%	-5.84%
Kuwait	5,404	+0.27%	+1.66%	-0.16%	-6.70%	-3.77%
Oman	5,514	-0.17%	-1.42%	-4.09%	-7.14%	+1.99%
Egypt	8,257	-0.05%	+1.19%	+3.88%	+9.60%	+17.86%
Turkey	79,398	-0.04%	+0.24%	+2.90%	+0.93%	+10.69%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	49.18	-1.56%	-4.69%	+10.10%	+13.84%	+32.78%
Brent Oil \$/bbl	49.98	-1.59%	-5.11%	+8.72%	+6.77%	+34.07%
Gold spot \$/oz	1,267	-0.44%	-0.23%	-4.57%	+8.58%	+19.24%
Silver spot \$/Troy oz	17.61	-0.81%	-0.29%	-7.69%	+10.87%	+26.90%
Alluminium 3MO \$	1,679	+0.60%	+2.91%	+1.08%	+13.52%	+11.41%
Nickel 3MO \$	10,260	+0.34%	-0.48%	-2.56%	-1.87%	+16.33%
Copper 3MO \$	4,740	+0.11%	+1.48%	-2.09%	-8.69%	+0.74%

Source: Bloomberg

NBAD Global Markets

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