

Daily Market Chatter (07-September-2016)

FX

G10

- Last night's US ISM non-manufacturing print missed estimates badly (51.4 vs 55 expected) and hit a 6 ½ year low in the process, the result being a broad USD sell off as the expectations for a Fed rate cut this month fell to a 15% probability. Following on the heels of poor manufacturing ISMs and jobs data, the Fed is clearly now left out on a limb with the market left wondering what basis there was for US economy optimism at the recent Jackson Hole symposium. In the aftermath of the print, USDJPY fell to session lows through 102.00 and the EUR and GBP both rose to session highs taking out the psychological 1.12 and 1.34 handles respectively.
- A few numbers to consider today – German July Industrial Output a minor risk ahead of ECB tomorrow. UK Halifax house price index and Industrial Production and US weekly mortgage applications will attract attention before the Bank of Canada are expected to hold rates at 0.5% later tonight. US Fed Beige book is released overnight.
- GBP – Cable met headwinds around 1.3350 yesterday after heading north in early Europe, but the latest release of poor US data saw an eventual stop run up through 1.3380 as record shorts in GBP post-Brexit began to cover. With UK recession fears receding, poor US data is seeing US-UK rate differentials holding steady in the near term and as such the possibility for further gains in the pound are becoming more real. Should June highs around 1.3600 be successfully tested, the air looks a little thin as it feels like there are still plenty of weak shorts out there in need of a clear out.
- EUR – weak German factory orders were shrugged aside yesterday, EURUSD not interested in another attempt at 1.1120 support with main action reserved for after the latest set of poor US numbers, as a sharp spike to 1.1250 ensued. Dips were shallow as buyers emerged back towards 1.1225, the USD staying broadly under pressure as markets give up on any chance of a September Fed rate hike. Indeed a few more poor US data prints and Dec could be off the table too. Technicals point higher still for the single currency – German industrial output today, but ECB takes centre stage tomorrow.
- JPY – net speculative JPY longs are on the rise again, albeit only slightly as likely USDJPY bears remain willing to hang on unless 105.00 is taken out. Even then, it is doubtless that Japanese exporters will smooth any further move higher. However, yesterday was about the US ISM non-manufacturing print with stops run through 102.80-00 and 102.50 before finding first support just under 102.00. Should the US economy shake further, risk off flows into JPY could increase with the onus possibly shifting onto the BoJ to ease as Fed hikes look highly unlikely – the exact opposite of

what the BoJ was hoping for. We open this morning below 101.50 and a retest of 100.00 looks on the cards for USDJPY in the near future.

- AUD – bids in the Aussie yesterday as the RBA gave no easing bias, are more confident about economic and employment growth and dropped the word ‘modest’ in reference to both. The current amount of easing priced into the currency is starting to look a little too aggressive and there is now a real danger of a stop trigger through 0.7720. AUDNZD sales have stopped an immediate test of that level for the time being despite the poor US numbers, NZD on the up as the latest Fonterra GDT price index climbed 7.7%.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1241	+0.79%	+0.81%	+1.48%	+0.64%	+3.45%
GBP USD	1.3422	+0.82%	+2.58%	+2.94%	-12.18%	-8.90%
USD JPY	102.15	-1.12%	-0.85%	-0.41%	-14.40%	-15.02%

Source: Bloomberg

EM

- Asian EM currencies rallied another day due to a poor ISM figure in the US leading to a USD selloff. USDKRW traded down to 1093, back to yearly low level, with stops triggered along. USDMYR also headed lower to 4.0600, yet oil price movement still dragging the performance of this pair along with weak export/import data.
- CNH DF traded much higher today as funding squeezed emerged with T/N trading up to 7 pips/day before local providing supply. 1y DF also taken to a high of 1310. Market believe the spot intervention is drying up liquidity and hence the short squeeze in the front end.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	2.9253	-0.69%	-1.25%	-2.00%	-3.44%	+0.28%
USD INR	66.525	-0.45%	-0.76%	-0.48%	-0.45%	+0.56%
USD IDR	13,127.0	-0.22%	-1.06%	+0.02%	-7.98%	-4.79%

Source: Bloomberg

G10 Rates

- Last night's US ISM data really disappointed the market and we saw a nice rally in fixed income although not enough for TY to break its recent range. Supportive comments from William's overnight have seen a small reversal but chances of a September hike have fallen to around 13% from 40% pre numbers. We shall see although December has always been a more favoured month for us. Beige Book tonight but before that we'll hear from Lacker and George in front of the house financial panel.
- Over in the UK the revisions to many recessionary forecasts has hit the headlines as banks readjust post Brexit forecasts after some decent data marks. Carney, Cunliffe, Forbes and McCafferty speak in London and we'll see the Halifax House Price Index at 11.30am followed by Industrial and Manufacturing Production at 12.30. It will be

interesting to see how the market absorbs any further strong data with chances of a 10 bp cut still around 75% by December.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.12%	-7.4	-5.9	-1.9	-35.0	-64.2
10Y	1.53%	-6.8	-3.2	-5.5	-59.0	-73.5
30Y	2.22%	-5.4	-0.6	-9.0	-66.0	-79.1

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	113.5	-8.5	-7.7	-5.6	-41.6	-59.5
10Y	139.3	-6.3	-4.4	-8.7	-77.9	-79.4
30Y	169.3	-4.7	+0.4	-14.7	-95.2	-91.9

Source: Bloomberg

Commodities Market

- Oil prices fell overnight despite a weaker dollar, with Brent settling 0.8% lower at its 50-day MA at \$47.26 and WTI settling at \$44.83. Despite Iran's President saying that he supports efforts by OPEC to stabilize oil prices, he emphasized the need for the country to restore production lost during years of sanctions. Natural gas futures fell below its 50-day MA to close at \$2.71 as meteorologists predicted that a warm spell in the eastern U.S. will ease.
- Copper prices were largely unchanged at \$4620 amid a 2.6% increase in LME on-warrant inventories. Iron ore futures rose 0.6% to \$56.30 amid a strengthening of the yuan. G20 leaders have pledged during the summit to work together to address excess steel capacity that has punished the global industry with low metal prices for years while raising tensions between China and other major producers.

MENA Fixed Income

- Our market felt strong yesterday with most curves trading a touch higher. Would expect that to continue today especially with the overnight move in USTs. We got lifted in a couple of IG names and saw multiple buyers of the DP World curve after their upgrade mainly the 23s which still looks cheap. A weak ISM Non-manufacturing came out yesterday and Oil had a couple of positive sessions let's see if we test the 50 level again
- Coming to New Issues Burgan Bank (A3 Moodys / BBB+ S&P / A+ Fitch) announced its IPT for a 5yr bond @ spread of low to mid 200s over MS; looks interesting if you ask me, but let's see where they actually print. Emaar also announced its IPTs for a 10yr sukuk @ low to mid 200s over MS which will look attractive if it comes around where Emaar Malls 24s is trading. To be honest the market needs a couple of Sukuk issuances. NBAD is on both deals.
- On the Maturity side we only have Ras Gas maturing on 30 sept, the rest of the 2016s maturities are mainly in November.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	348.1	-1.3	+4.7	-9.3	-76.9	-62.0
Sovx CEEMEA	104.1	-2.1	-6.0	-9.3	-169.3	-79.5
Itrax Xover	307.7	-1.5	+1.6	+3.2	-22.2	-6.8

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	69.6	-0.9	-5.7	-10.8	+4.6	-23.0
Qatar 5Y	89.2	-1.2	-2.4	-16.1	+23.2	-3.4
Dubai 5Y	154.1	-2.3	-5.1	-11.8	-43.4	-79.5

Source: Bloomberg

Continued...

Overnight market headlines

Global News

- Fed's Williams says economy is in good shape and hike warranted
- US services sector activity slows to a six and a half year low
- Construction worker shortage weighs on hot US housing market
- Australia economy grows at fastest in 4 years on fiscal stimulus; annual GDP expanded 3.3% in Q2, matching estimates
- Brent oil holds losses amid speculation global glut persisting; Saudi energy minister says no need to cap production right now
- Emerging assets rally on bets Fed will keep rates low; Japanese stocks drop; 10yr TY at 1.54%

Middle East & Africa News

- Burgan Bank sets price guidance for a 5-year US\$ benchmark bond at MS+low-mid 200s; pricing expected as early as Wednesday
- Emaar Properties sets price guidance for a 10-year US\$ benchmark sukuk at low-to-mid 200s over 10-year MS
- Saudi Arabia said to weigh cancelling \$20bn of projects
- Saudi Arabia's market regulator sees MSCI emerging markets inclusion by end-2018; says market ready for Aramco Listing
- UAE bankruptcy law likely to come into effect early next year; law to apply only to companies
- Mubadala chief executive says more mergers possible in the emirate
- Mubadala CEO expects IPIC-Mubadala merger to get complete by year end or Q1'2017
- MidEast air cargo demand growth outstripped by Europe in July
- Barclays Egypt attracts bids from Morocco's Attijariwafa and Dubai-based ENBD in sale process
- Gulf stock markets ended mixed in quiet trade, Saudi rebound fades
- Iran supports \$50-60 oil price, stability measures
- Nigeria's trade deficit narrowed in Q2 helped by naira float
- Nigeria's oil bill on hold due to Delta unrest
- Kenyan lenders push central bank to clarify rate-cap law

Please refer to our daily news summary if you wish to read the full articles

Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	18,538	+0.25%	+0.19%	-0.03%	+15.13%	+6.39%
S&P 500	2,186	+0.30%	+0.28%	+0.17%	+13.81%	+6.97%
Nasdaq Composite	5,276	+0.50%	+0.83%	+1.05%	+12.64%	+5.36%
Nikkei	17,082	+0.26%	+2.13%	+5.09%	-4.36%	-10.25%
Hang Seng	23,788	+0.58%	+3.35%	+7.41%	+15.57%	+8.55%
Shanghai	3,091	+0.61%	+0.52%	+3.83%	+0.33%	-12.67%
Mumbai Sensex	28,978	+1.56%	+2.24%	+3.20%	+16.41%	+10.95%
DAX	10,687	+0.14%	+0.28%	+3.09%	+5.72%	-0.52%
CAC 40	4,530	-0.24%	+1.63%	+2.71%	-0.43%	-2.31%
FTSE 100	6,826	-0.78%	+0.08%	+0.48%	+12.37%	+9.35%
DJ Stoxx 50	3,070	-0.24%	+1.30%	+3.24%	-4.00%	-6.04%
FTSE MIB Index	17,053	-0.80%	+0.95%	+2.56%	-21.13%	-20.38%
SMI Index	8,304	-0.07%	+0.83%	+1.34%	-4.61%	-5.83%
MENA						
Abu Dhabi - ADX	4,515	+0.08%	+0.47%	-0.68%	+2.93%	+4.83%
Dubai – DFM	3,544	-0.06%	+0.88%	+0.94%	-0.41%	+12.48%
Saudi Arabia	6,190	-0.22%	+0.99%	-1.58%	-17.28%	-10.44%
Qatar	10,713	-1.17%	-5.31%	-0.71%	-5.36%	+2.72%
Bahrain	1,128	-0.63%	-0.91%	-2.50%	-12.80%	-7.22%
Kuwait	5,400	+0.35%	-0.40%	-1.67%	-5.43%	-3.84%
Oman	5,769	+0.36%	-0.03%	-1.79%	-0.05%	+6.72%
Egypt	8,202	-0.83%	+1.51%	-0.26%	+14.45%	+17.08%
Turkey	77,995	+0.26%	+2.46%	+2.54%	+8.53%	+8.74%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	44.83	+0.88%	-3.28%	+7.25%	-2.65%	+21.03%
Brent Oil \$/bbl	47.26	-0.78%	-2.29%	+6.75%	-0.78%	+26.77%
Gold spot \$/oz	1,346	+1.47%	+2.38%	+0.78%	+20.31%	+26.76%
Silver spot \$/Troy oz	19.95	+2.16%	+7.11%	+0.81%	+37.34%	+43.75%
Alluminium 3MO \$	1,589	+0.57%	-2.52%	-3.40%	-1.18%	+5.44%
Nickel 3MO \$	10,110	+0.40%	+2.85%	-5.65%	+1.61%	+14.63%
Copper 3MO \$	4,620	-0.13%	+0.28%	-3.53%	-9.77%	-1.81%

Source: Bloomberg

NBAD Global Markets

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