

## Daily Market Chatter

### G10 FX

- Fed Chair Janet Yellen delivered her semi-annual testimony on monetary policy to the Senate banking Panel last night and given the choice between nudging markets more towards considering March as a 'live' meeting for a rate hike or continuing with an accommodating monetary policy stance, she appears to have tried to steer a middle course between the two. The stand out comments were a repetition of her previously aired views that 'waiting too long to tighten would be unwise' and that 'further adjustment is likely if the economy is on track' but she warned that the latest data has shown only 'a further moderate expansion in economic activity'.
- As a result, the USD has stepped up a touch as markets partially buy Yellen's pitch, but with expectations for a March move still only languishing around 33%, there remains a lack of general conviction over an acceleration in tightening pace which would be key to an extension to the USD rally.
- Yellen concludes her testimony today with a likely replica of yesterday's offering before the Financial Services Committee but beforehand we have the latest UK labour report for January, and CPI, Empire Manufacturing Survey, Retail Sales and Industrial Production releases from the States.
- GBP – the pound was hurt yesterday by lower than expected January inflation numbers which lessen the pressure on the Bank of England to contemplate raising rates around Brexit uncertainty. The CPI miss dragged EURGBP as high as 0.8528 before offers re-emerged and with the EUR dogged by upcoming elections, political risks and steady Eurozone rates in the face of a likely US rate hike in the first half of this year, the cross managed to creep back below 0.8500 despite Cable being soggy. With UK growth still managing to surprise to the good, dips in the pound still manage to meet with a degree of support, and we will need a further dip below 1.2380 for speculators to consider that the recent highs above 1.2700 have been the short term top.
- EUR – Yellen's boost to US rates and the USD last night assisted in sending EURUSD lower to test 1.0560 as US-Euro rate differentials hit a new wide for the year, this on the back of an earlier disappointing ZEW survey. A choppy day yesterday continues to see the pair approaching the 1.0600 handle with a somewhat heavy slant and with no major Eurozone data today, we would look to the US data slate later to get the currency moving once more. The 1.0500-20 support area now appears firmly in the sights of the bears.
- AUD – the currency remains sandwiched between opposing forces – the RBA in neutral gear for now, iron ore surging and US equities firm on the one hand but with coal prices dropping back and broad based USD strength stopping the currency from progressing any further. As mentioned yesterday, with the good times the AUD has been enjoying yet to yield a significant break of 0.7700 nor indeed a further push higher to test the increasingly important 0.7750-80 resistance, the recent bullish preference is starting to feel a little stretched, although AUDNZD does still remain on the up, and has broken November's highs to trade through 1.0700 as local divergent forces continue to be played out.
- JPY – yesterday's USDJPY drop back towards 113.00 pre-Yellen proved to be a decent buy as the Fed Chair's deemed hawkish testimony aided a break of 114.00 as the USD got a broad boost. Intraday worries over potential misconduct at Toshiba and the Chairman's subsequent resignation that

15 February 2017

**Chavan Bhogaita**  
Head of Market Insights & Strategy

**Rakesh Sahu**  
Analyst

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supported the JPY and hit the Nikkei yesterday have been discounted, and with 114.25 breaking amid orderly trading, focus appears to be shifting towards the recent pivotal 115.00 level once more. Big expiries at that level today and Friday we are told.

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0565	-0.29%	-1.19%	-0.37%	-5.30%	+0.46%
GBP USD	1.2470	-0.27%	-0.22%	+3.33%	-13.65%	+1.05%
USD JPY	114.41	+0.56%	+2.22%	+0.26%	-0.22%	-2.18%

Source: Bloomberg

## EM FX

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	3.6641	-0.19%	-2.07%	-3.71%	+24.35%	+3.99%
USD INR	66.920	-0.14%	-0.73%	-1.73%	-1.67%	-1.48%
USD IDR	13,330.0	+0.05%	+0.01%	-0.24%	-0.37%	-1.06%

Source: Bloomberg

## G10 Rates

- Yellen gave us what we were waiting for, by reiterating that further gradual increases were needed but stopped short at saying "a few times a year". As we know, uncertainty around the new structure of fiscal policy is holding them back somewhat which is why, as we mentioned in our Jan outlook, whilst we expect markets to continue pricing in March as a live month (we are back above 33% chance of a hike now) we ultimately do NOT expect the Fed to hike this soon. Jun and Dec remain our base case given the amount of event risk still to come in Q1 and Q2.
- At 33%, March still offers good risk / reward but if you aren't already in the play then it might be best via options. If you are in it, it makes sense to hold at these levels with anything above 50% a good opportunity to take some PL off the table.
- USD yields closed up 5bp in the 10yr (having been +8bp straight on the highs).
- TY are right on support at 124 (chart below) and should hold for now but if London come in eager to move markets ahead of today's CPI numbers then 123.19 is their ultimate target.



UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	1.96%	+4.8	+11.6	+6.6	+75.3	+3.6
10Y	2.47%	+3.4	+7.7	+7.3	+72.2	+2.6
30Y	3.06%	+2.6	+4.0	+6.9	+45.4	-0.6

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	205.3	+5.0	+11.8	+10.3	+90.7	+9.4
10Y	242.0	+4.8	+10.2	+15.7	+81.7	+10.1
30Y	267.6	+4.2	+6.3	+15.4	+59.3	+10.6

Source: Bloomberg

## Commodities Market

- Oil prices rose on Tuesday, with WTI settling 0.5% higher at \$53.20 and Brent settling 0.7% higher at \$55.97. API reported post-settlement that US crude stockpiles rose by 9.9 mln bbls last week.
- Copper prices fell 1.4% to \$6021. This comes as striking workers at Chile's massive Escondida copper mine and mine operator BHP Billiton said they have agreed to renew talks on Wednesday after 6 days of stoppage. Iron ore futures fell 0.9% to \$87.75.
- Corn futures fell 0.3% while soybean futures settled 0.9% lower with the stronger dollar and weakness in Dalian corn and soy-bean meal. South American weather remains generally favourable for late crop development and harvest in Brazil and an increase in precipitation expected across key growing areas in Argentina over the next week would also be favourable for the crop.

## MENA Fixed Income

- It was all about Yellen speech last night pushing the 10Y Yield at one point 8bps touching the 2.5% level. Yellen told the US Senate Banking Committee that delaying rate increases could leave the Fed's policymaking committee behind the curve and eventually lead it to hike rates quickly. Yellen reiterated that falling behind on inflation could do more harm to the economy and possibly cut short the expansion, she also said her monetary policy panel doesn't need to wait for the Trump's administration's plans on fiscal stimulus to hike rates.
- GCC names had another strong day with names like KSA 21s/26s & OMAN 26s getting lifted in the street on the rumours of a decent buying order. We have been seeing increased regional/international buying demand for GCC paper since mid-Jan 2017s but expect a softer open today on the back of Yellen comments.
- EQUATE Petrochemical issued \$500mm 7Y Sukuk @ MS+175 and was the star of the day in the GCC space rallying by more than 0.5pt and tightening by more than 10bps which caused the whole curve to be well bid.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	328.4	-1.2	-14.0	-22.2	-143.5	-34.8
Sovx CEEMEA	65.2	-2.1	-5.5	-15.4	-129.5	-14.4
Itrax Xover	294.0	-1.1	-7.7	+2.7	-155.3	+6.0

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
ADGB 5Y	52.8	-0.9	-5.3	-7.7	-72.2	-8.7
Qatar 5Y	72.6	-2.2	-8.1	-12.9	-56.2	-7.7
Dubai 5Y	125.5	+2.5	-10.0	-19.5	-130.0	-24.3

Source: Bloomberg

## Overnight market headlines

### Global News

- Yellen says Fed on course to raise interest rates at an upcoming meeting; warns waiting too long could also have costs
- Yellen says FOMC not basing hiking plans on fiscal plan but flagged considerable uncertainty over economic policy
- Fed's Lacker says markets underestimating pace of rate hikes
- China credit growth slows as stimulus wanes; Bank loans grow at slowest pace since 2006 as policy focus shifts to financial risk
- Treasuries fall as Yellen strikes hawkish tone in testimony; Dollar trades higher while Asia shares extends global gain on Yellen's remarks; Oil trades below \$53

### Middle East & Africa News

- Fitch affirms SABIC at 'A+'; outlook stable
- Union National Bank Q4 profit up 29%
- Abu Dhabi Islamic Bank Q4 net profit falls 4.7%
- Aldar Properties reports 9% growth in 2016 profit; company expects lower 2017 sales after flat Q4 profit, could refinance \$750m sukuk maturing in 2018
- Dubai's DAMAC Properties posts 1.3% rise in Q4 net profit
- Dubai's Emaar Properties Q4 2016 net profit up 56%; says to reopen burned-out skyscraper hotel by end 2017
- UAE's Etisalat says 2016 net profit edges up by 1.9%
- UAE telco du's Q4 net profit slides 20%
- Dana Gas says wins \$121m court judgment in Kurdistan dispute
- Company earnings, news support UAE stock markets; Saudi, Egypt underperform
- Egypt's oil, gas, mining investments said to grow 3.9% in Q1 of FY2016/17

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## Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
<b>GLOBAL</b>						
Dow Jones Inds. Avg	20,504	+0.45%	+2.06%	+3.11%	+28.36%	+3.75%
S&P 500	2,338	+0.40%	+1.94%	+2.77%	+25.35%	+4.41%
Nasdaq Composite	5,783	+0.32%	+1.91%	+3.74%	+33.32%	+7.42%
Nikkei	19,239	-1.13%	+1.74%	-0.25%	+20.07%	+0.65%
Hang Seng	23,703	-0.03%	+1.59%	+3.34%	+25.29%	+7.74%
Shanghai	3,218	+0.03%	+2.06%	+3.38%	+17.18%	+3.68%
Mumbai Sensex	28,339	-0.04%	+0.01%	+4.04%	+20.32%	+6.43%
DAX	11,772	-0.02%	+1.93%	+1.23%	+27.86%	+2.53%
CAC 40	4,896	+0.16%	+2.97%	-0.54%	+18.97%	+0.69%
FTSE 100	7,269	-0.14%	+1.15%	-0.94%	+24.80%	+1.76%
DJ Stoxx 50	3,309	+0.11%	+2.26%	-0.46%	+16.76%	+0.56%
FTSE MIB Index	19,188	+0.65%	+2.81%	-1.68%	+12.59%	-0.24%
SMI Index	8,426	-0.43%	+0.67%	-0.31%	+7.36%	+2.51%
<b>MENA</b>						
Abu Dhabi - ADX	4,573	+0.19%	+0.60%	-2.19%	+11.32%	+0.58%
Dubai – DFM	3,653	+0.42%	-1.77%	-0.70%	+21.60%	+3.45%
Saudi Arabia	7,033	-0.38%	-0.08%	+1.47%	+23.57%	-2.47%
Qatar	10,671	+0.07%	+0.57%	-0.36%	+11.14%	+2.24%
Bahrain	1,308	+0.05%	-0.13%	+7.68%	+12.14%	+7.21%
Kuwait	6,751	+1.42%	+2.56%	+8.49%	+31.37%	+17.45%
Oman	5,819	+0.06%	-0.10%	+1.31%	+8.78%	+0.63%
Egypt	12,504	-1.85%	-4.76%	-5.90%	+115.58%	+1.29%
Turkey	88,082	-0.56%	+0.69%	+8.04%	+24.05%	+12.73%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	53.20	+0.51%	+1.97%	+1.58%	+80.71%	-0.97%
Brent Oil \$/bbl	55.97	+0.68%	+1.67%	+0.94%	+67.63%	-1.50%
Gold spot \$/oz	1,224	+5.88%	-0.87%	+1.75%	+1.22%	+6.67%
Silver spot \$/Troy oz	17.87	+10.73%	+0.63%	+6.32%	+16.56%	+12.20%
Alluminium 3MO \$	1,887	+0.86%	+3.06%	+4.31%	+25.80%	+11.46%
Nickel 3MO \$	10,770	+0.37%	+4.01%	+3.06%	+37.72%	+7.49%
Copper 3MO \$	6,021	-1.39%	+3.90%	+1.90%	+33.80%	+8.77%

Source: Bloomberg

# NBAD Global Markets

## Contact details

### G10 FX & Rates

Craig Tredgett

[Craig.Tredgett@nbad.com](mailto:Craig.Tredgett@nbad.com)

Alison Higgins

[Alison.Higgins@nbad.com](mailto:Alison.Higgins@nbad.com)

Nourah Al Zahmi

[Nourah.Alzahmi@nbad.com](mailto:Nourah.Alzahmi@nbad.com)

### G10 FX Spot

Phil Muldoon

[Phil.Muldoon@nbad.com](mailto:Phil.Muldoon@nbad.com)

### MENA Fixed Income

Matthew Locke

[Matthew.Locke@nbad.com](mailto:Matthew.Locke@nbad.com)

### Market Insights & Strategy

Chavan Bhogaita

[Chavan.Bhogaita@nbad.com](mailto:Chavan.Bhogaita@nbad.com)

### EM FX & Rates

Husain Askar

[Husain.Askar@nbad.com](mailto:Husain.Askar@nbad.com)

Ahmed ElAlami

[Ahmed.ElAlami@nbad.com](mailto:Ahmed.ElAlami@nbad.com)

### Non-Linear Rate & Derivatives

Hein Van Der Wielen

[Hein.Wielen@nbad.com](mailto:Hein.Wielen@nbad.com)

Vijesh Peris

[Vijesh.Peris@nbad.com](mailto:Vijesh.Peris@nbad.com)

Mohamed Bouzoubaa

[Mohamed.Bouzoubaa@nbad.com](mailto:Mohamed.Bouzoubaa@nbad.com)

Naoufal Alami

[Naoufal.Alami@nbad.com](mailto:Naoufal.Alami@nbad.com)

## NBAD Global Markets

Tel: 00971 2611 0111

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