

Broad-based sell-off on spike in US long-term yields

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EMIRATES INVESTMENT BANK

LOOKING BACK

- **Spike in long-term yields sparks broad-based sell-off.** An uptick in pending home sales data and a more-than-expected rise of 2.9% in average hourly earnings put pressure on long-term US yields and boiled over into equity markets last week. The sell-off accelerated after Dallas Fed President Kaplan suggested officials may need to raise rates more than thrice this year. The US 10-year Treasury yield touched a four-year high of 2.84% while fixed-income markets wiped out their YTD gains and the S&P500 lost 3.9% last week alone.
- **Eurozone inflation disappoints but growth remains strong.** Euro-area headline inflation decelerated to 1.3% year-over-year in January from 1.4% in December, while Q4 2017 GDP growth came in at 2.7% compared to the previous year. The Eurozone economic recovery continues to strengthen, as annual GDP rose by 2.5% for the whole of 2017, the strongest level in a decade.
- **Japanese manufacturing PMI climbs to a four-year high.** Japan's manufacturing PMI rose to 54.8 in January from 54.0 in December with firms increasing output for the 18th consecutive month and at the sharpest rate in four years. Coupled with the manufacturing gains, Japanese exports rose 9.3% year-over-year to USD66.3 bn in December, according to the Ministry of Finance. The Nikkei225 is up 2.2% and the JPY is 2.2% stronger at 110.2 against the USD year-to-date.
- **China's manufacturing slips.** China's manufacturing PMI slipped from 51.6 in December to 51.3 in January, an 8-month low. The lower reading is likely due to China's deleveraging drive to purge pollution and excessive borrowing. However, the non-manufacturing PMI rose to 55.3 from 55.0 in December, well into expansionary territory.
- **India's populist budget puts pressure on yields.** In order to woo disgruntled rural voters ahead of next year's general elections, Finance Minister Jaitley unveiled a populist budget and overshot the year's budget-deficit target, pushing the 10-year yield to 7.61%, its highest level since March 2016. Moreover, a proposal to revive a tax on long-term equity gains hurt sentiment and the benchmark NIFTY50 lost 2.8% while the INR fell 0.8% versus the USD last week.

LOOKING FORWARD

- Global composite PMIs and Eurozone retail sales will be published on **Monday**. China reports its forex reserves on **Wednesday** while the Bank of England (BoE) meets to set rates on **Thursday**.



MAIN CROSS RATES

€ 1	→	\$ 1.2463
£ 1	→	\$ 1.4118
\$ 1	→	¥ 110.17

	Yield % (04/02)	Yield % (28/01)
Abu Dhabi 2019	2.18	2.16
KSA 2021	3.22	3.09
Dubai 2023	3.33	3.22
Qatar 2023	3.54	3.46
US 10Y	2.84	2.66
German 10Y	0.77	0.63

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	2,172	-3.4%	3.2%
MSCI BRIC	365	-3.7%	8.9%
MSCI EM	1,231	-3.3%	6.2%
USA - S&P 500	2,762	-3.9%	3.3%
UK - FTSE 100	7,443	-2.9%	-3.2%
France - CAC40	5,365	-3.0%	1.0%
Germany - DAX	12,785	-4.2%	-1.0%
Japan - Nikkei 225	23,275	-1.5%	2.2%
Dubai	3,412	-1.6%	1.3%
Abu Dhabi	4,612	-0.7%	4.9%
Saudi	7,656	1.8%	5.9%
Oman	5,035	0.5%	-0.2%
Kuwait	6,685	0.5%	4.3%
Egypt	15,089	-0.5%	0.5%
Qatar	9,207	-2.7%	8.0%
Commodities			
Gold (\$/oz)	1,333	-1.2%	2.3%
Silver (\$/oz)	17	-4.7%	-2.0%
Platinum (\$/oz)	991	-2.0%	6.8%
Oil - Brent (\$/bbl)	69	-2.8%	2.6%

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