بنك الإمارات دبي الوطني
Emirates NBD

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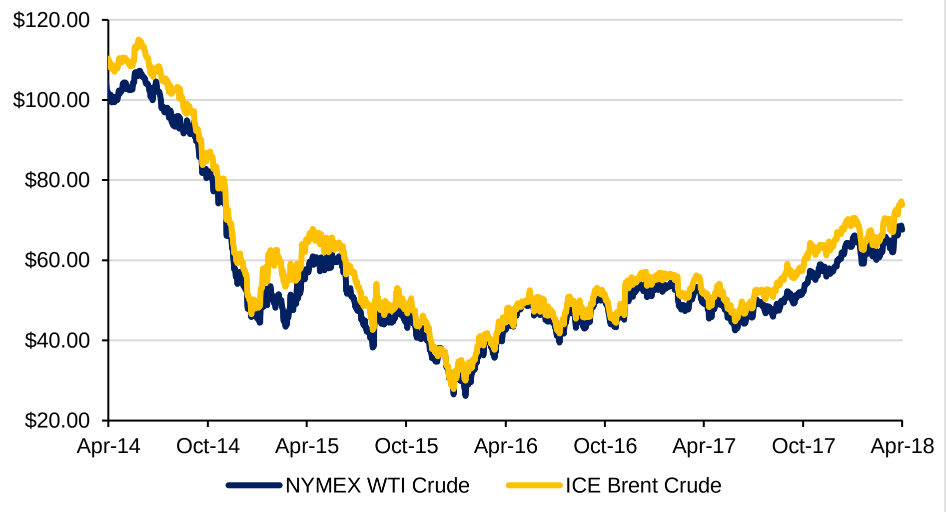
Monthly Insights

Global trade threats have abated slightly and the geopolitical tone has improved a little as well. However, these issues have not gone away and could still be a headwind to markets as well as to growth. Some hesitancy is observable on the part of global policymakers, and in the GCC growth risks appear to be to the downside on the back of developments in both the oil and non-oil sectors.

- **Global macro:** Although concerns about trade have abated a little, these risks along with geopolitical ones still remain as a potential headwind to growth. Indeed some policymakers, in Europe for example, appear to be a little more hesitant about the outlook.
- **GCC macro:** As we take stock at the end of the first quarter, the economic data has been a little underwhelming in most of the GCC region.
- **MENA macro:** As May 12 approaches, it is unclear whether or not US President Donald Trump will refuse to renew the waivers on sanctions against Iran and its nuclear programme. The effect of such a move on the Iranian economy would be highly negative, but we see scope for some concessions to be made by both sides as the deadline nears.
- **Sector focus:** An update on UAE education sector.
- **Emerging Markets Focus:** India
- **Interest rates:** Solid economic growth and receeding fears of trade wars pushed the UST yield curve above its February highs, taking most of the DM sovereign yields higher.
- **Credit:** Driven by rising benchmark UST yields, global corporate bonds generally fell in price during the month, even though credit spreads had a tightening bias on the back of solid economic growth and positive results announcements.
- **Currencies:** Breaking from seasonal norms, the dollar has appreciated in April for the first time since 2010.
- **Equities:** It was a month of two halves for global equity markets. While trade war and geopolitical risks dragged equities lower at the start of Q2 2018, a robust start to the earnings season coupled with fading trade concerns helped equities recover some of their losses. Even as all these risks continue to remain on the horizon, we are cautiously optimistic on global equity markets.
- **Commodities:** Oil prices are holding at their highest level since the end of 2014. Policy and fundamental factors are helping to support prices in the near term and this month we highlight the upside risks to our forecast. Aluminium prices have moved onto a new higher footing following the imposition of US sanctions on a major Russian producer.

Oil prices back to levels last seen in 2014



Source: Bloomberg, Emirates NBD Research.

Content

Global Macro

Trade concerns abate slightly

Concerns about trade have abated a little and did not prevent the IMF from raising its global growth forecast to 3.9% for this year and for 2019 up from 3.8% in 2017. However, despite characterizing the near-term risks as balanced the IMF went on to highlight downside risks to growth over the medium term stemming from tighter financial conditions as well from escalating import tariffs.

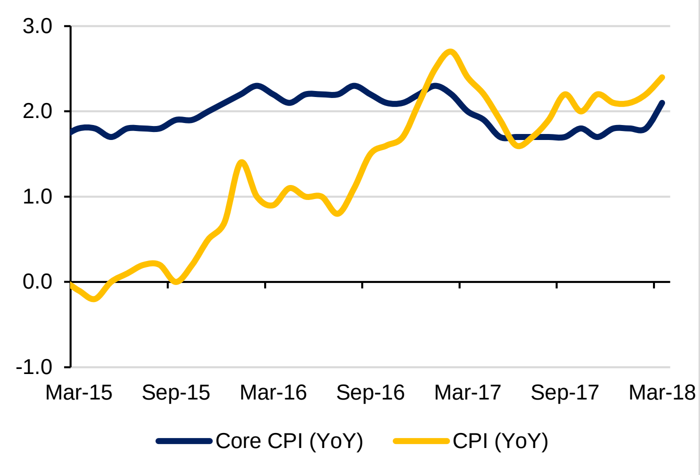
These have yet to reveal themselves beyond the threat stage however (which granted have been escalating), and with the US Treasury Secretary said to be considering a trip to China to negotiate a trade truce the markets for the moment at least seem less alarmed, especially after China also offered to open some of its markets. That this is happening as North Korea also appears to be making concessions over its nuclear arsenal is providing a further source of comfort. All of these initiatives could of course come to nothing, which would leave financial markets vulnerable again, but for now optimism is also being underpinned by healthy economic growth.

US inflation risks remain to the upside

The US economy probably slowed a little in Q1, consistent with historical precedent that often shows the US economy starting the year slowly. Nevertheless a 2.2% consensus growth forecast if realized would still be above estimates of where potential growth is, signaling that price pressures are likely to continue to build as the output gap narrows. US inflation data was indeed firmer in March, with core inflation rising 2.1% y/y and headline CPI by 2.4%. This compared to 1.8% and 2.2% in February. The boost came in part from weaker mobile phone tariffs which had dampened price growth for the previous 12 months dropping out of the base, but a range of sectors including healthcare, shelter, car insurance and airfares also contributed**.** Also although non-farm payroll numbers in the US disappointed to the downside in March, coming in at 103,000, wages rose to 2.7% y/y, while unemployment was 4.1%, just missing expectations of 4.0%.

The minutes from the March FOMC meeting showed that while a number of officials thought that the positive data coming out of the US implied that 'the appropriate path for the Federal Reserve Funds Rate would be steeper than they had expected', the consensus remained that risks were fairly evenly balanced. There was a discussion over at some point changing the language of the board to acknowledge that policy 'would gradually move from an accommodative stance to being a neutral or restraining factor for economic activity.' Federal Reserve chair Jerome Powell in his first speech on the outlook for the US economy also reiterated that the risks were 'evenly balanced' and that 'further gradual rate increases' would best promote the Fed's goals of economic expansion, 2% inflation and a strong labour market. For the moment these 'gradual increases' still probably equate to two more hikes this year, but the jury remain out on whether a third might still be required.

US CPI firmer in March

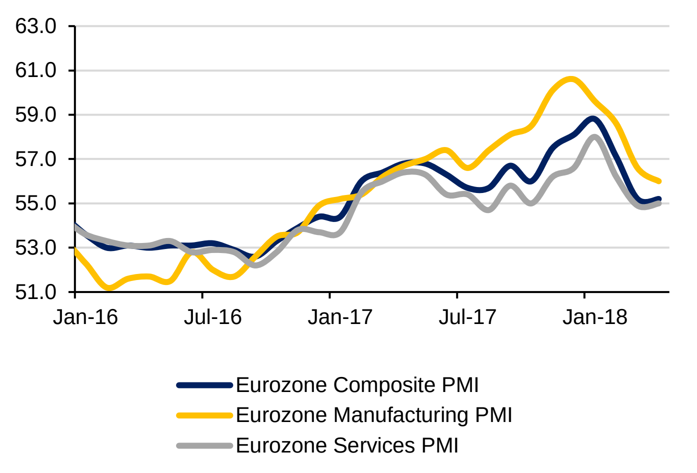


Source: Bloomberg, Emirates NBD Research

Eurozone growth slows in Q1

Outside of the US there has been some conjecture about whether the Eurozone is slowing down but the latest readings of activity suggest this view may have been a little exaggerated. PMI activity data in the Eurozone did show a leg down in Q1, with the composite index falling from 58.8 in January to 55.2 in March. However, April data showed the index stabilizing, while other readings of activity have also held up better including the European Commission's Economic Sentiment Indicator. Germany has been in the spotlight of concern, but here too the April composite index was relatively reassuring , improving to 55.3 from 55.1, with France's index also rising to 56.9 from 56.3. The Bundesbank acknowledged in its monthly report that German Q1 GDP growth could be weaker than in previous quarters, but it maintained that that the boom in the German economy is continuing and pinned most of the blame for any slowdown on strikes in the metal and electronics industries, and an unusually strong wave of flu infections. Another suspicion behind the softer Q1 activity is that the firmer Euro is a contributing factor. This looks plausible and it will be interesting to see how Mario Draghi addresses the issue following the ECB Council meeting later this week. The markets continue to expect an end to QE to be announced during the summer, with bond purchases tailing off in Q4, but the recent economic performance may see Draghi adopt a more cautious approach.

Eurozone activity slows in Q1

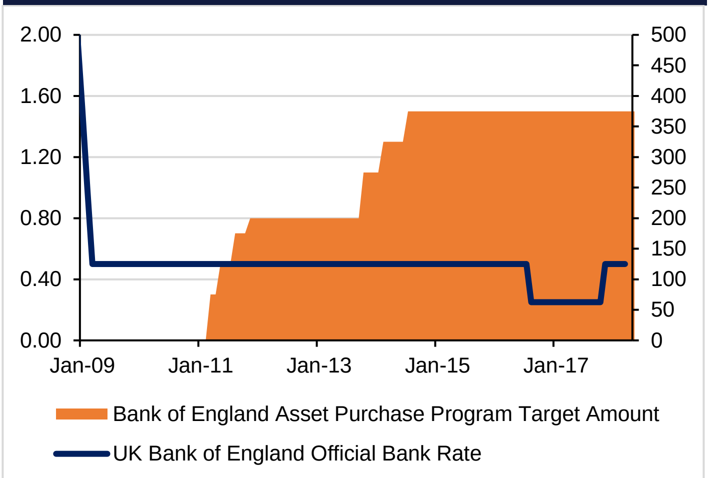


Source: Bloomberg, Emirates NBD Research

Bank of England appears more cautious

A more circumspect approach has already been seen from BOE Governor Mark Carney recently, who appeared to cast doubt on the inevitability of a BOE rate hike next month, something the markets had been banking on. He said that while there will be 'a few interest rate rises over the next few years,' he didn't want 'to get too focused on timing' thus damping widespread expectations for the Bank to deliver another 25bp repo rate hike at the MPC meeting on May 10th. Softer UK inflation and retail activity data appeared to play a part in Carney's thinking, although we suspect some of this was related to the poor weather seen during March. For this reason we think that the Bank will look through the latest numbers and still implement another tightening in rates, albeit likely couched with more dovish language and forecasts. The Bank may choose for instance to reduce its inflation projections while toning down its hawkish guidance, in view of the muted second-round inflationary pressures, and in light of currency gains over the last few months.

Bank of England to raise in May



Source: Bloomberg, Emirates NBD Research

Chinese economy expands in line with expectations

Finally Q1 2018 GDP growth in China was in line with expectations at 6.8% y/y, while retail sales in March rose by more than expected (10.7% y/y), up from 9.4% in February. The latest data provide some reassurance for the Chinese leadership, and perhaps the confidence to adopt a relatively conciliatory approach when it comes to dealing with the US over trade. Chinese President Xi Jinping recently pledged to significantly lower import tariffs for vehicles and strengthen property rights protection – particular issues for US President Donald Trump. Xi said that it was a new phase of increased openness for China, and greater inward investment into sectors such as shipping, automotives, aviation and financial services would be encouraged. Such an attitude if followed up by action provides us with reassurance that some of the recent concerns over US-China trade will prove to be shortlived.

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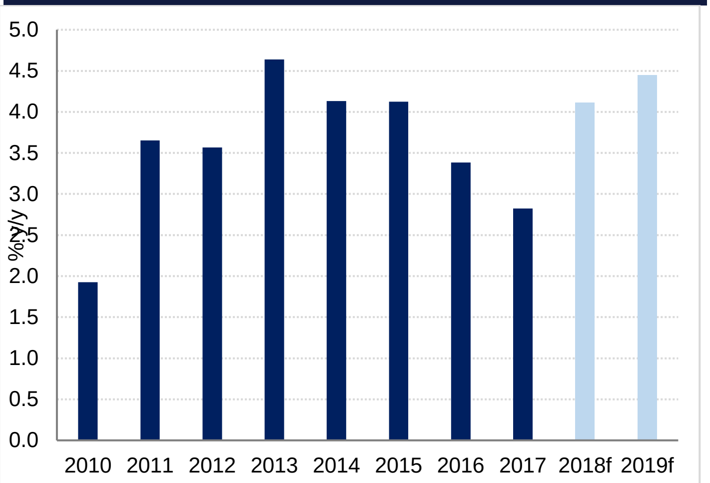
GCC Macro: Downside risks to growth estimates

As we take stock at the end of the first quarter, the economic data has been a little underwhelming in most of the MENA region. For GCC oil exporters this is somewhat unusual in the context of higher oil prices and increased government spending, which would typically boost non-oil sector activity and sentiment.

Dubai GDP growth slowed in 2017

The latest Dubai GDP data showed growth slowing to 2.8% last year from an upwardly revised 3.4% in 2016. The value of Dubai's GDP at the end of 2017 was AED 389.4bn, just AED 0.5bn lower than our forecast. Because of the sharp upward revision to the 2016 figure however, the growth rate last year was lower than the 3.5% we had pencilled in. With GDP growth of 2.8% in 2017, our forecast of over 4% growth this year now looks too optimistic, but we will wait for full UAE national GDP statistics for 2017 before revising our estimates.

Dubai GDP growth slowed in 2017



Source: Haver Analytics, Emirates NBD Research

Official GDP data for the UAE for 2017 have not yet been released, but the softer growth in Dubai combined with oil production cuts last year suggests that our 2.0% estimate for 2017 also looks a little high.

PMIs were lackluster in Q1 2018

The growth outlook for 2018 also appears to be less optimistic at the end of Q1. The PMI surveys for the UAE are in the mid-50s, averaging 55.6 in Q1 2018 and consistent with steady non-oil growth. However, they have not signalled faster growth relative to Q1 2017, and other indicators such as private sector credit growth remain a little soft.

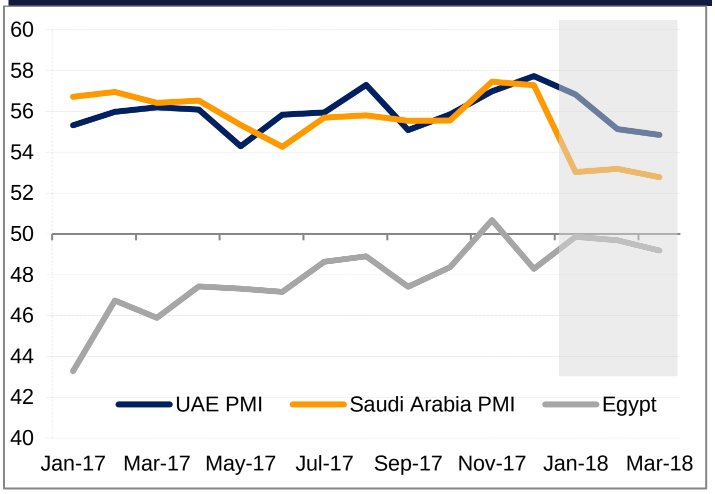
In Saudi Arabia, the PMI in Q1 2018 was the weakest in the survey history and signalled a sharp slowdown in non-oil growth relative to the previous quarter as well as year-on-year. Given the significant increase in government spending announced for 2018, including public sector bonuses and allowances to mitigate the impact of subsidy cuts and VAT, as well as higher oil prices, the weakness in the non-oil sector in the Kingdom is particularly surprising in our view. We suspect that the consequences of the anti-corruption drive in November last year likely weighed on business activity in the first quarter of this year. However, it remains to be seen whether this will remain a headwind to growth over the rest of this year.

GCC oil production remains constrained

Higher oil prices year-to-date have certainly improved the fiscal and current account dynamics for GCC oil exporters. We had expected higher oil prices to be accompanied by slightly higher oil output following the aggressive cuts of last year. At the end of the first quarter however, compliance with OPEC production quotas remains unexpectedly high and if this is sustained beyond Q2, it poses a significant downside risk to our GDP growth forecasts for 2018.

GCC sovereigns have also taken advantage of higher oil prices to raise about USD 40bn in external debt since the start of this year (including USD 6bn in syndicated loans by Saudi Arabia). While financing their budget deficits is unlikely to be a problem this year, the sharp rise in the stock of sovereign debt in an environment of rising interest rates poses medium term risks if the underlying fiscal dynamics (expenditure reform) are not addressed in the interim.

Regional PMIs soften in Q1 2018



Source: IHS Markit, Emirates NBD Research

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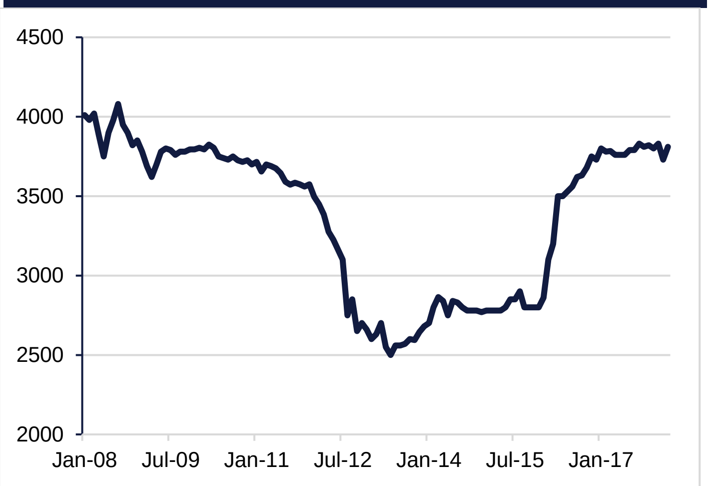
MENA Macro: Sanctions renewal looms over Iran

As May 12 approaches, it is unclear whether or not US President Donald Trump will refuse to renew the waivers on sanctions against Iran and its nuclear programme. The effect of such a move on the Iranian economy would be clearly negative, but we see scope for some concessions to be made by both sides as the deadline nears.

US President Donald Trump has long been highly critical of the Joint Comprehensive Plan of Action (JCPOA) signed by his predecessor Barack Obama in October 2015, which saw Iran give up its nuclear energy development programme in return for an easing of the sanctions which had crippled its economy in the preceding years. Trump has called the deal the 'worst ever', highlighting in particular issues around Iran's ballistic missiles programme, access of international inspectors to sites, and the sunset clauses under the current agreement, which entail an expiry on the deal's limits on Iran's nuclear development. In January, President Trump waived the sanctions once more, but threatened that he would not do so next time these waivers were due on May 12, unless there was some movement on these concerns.

The risk that President Trump will follow through on these threats has risen with the changes seen in the White House over the past several months, as relatively conciliatory voices have been replaced by more hawkish ones; both new National Security Advisor John Bolton, and new Secretary of State Mike Pompeo have previously spoken out against the Iran deal. The language from Iran, in turn, has been fairly belligerent, warning that it would re-start its nuclear activity immediately if the US pulled out of the deal.

Iran oil production, b/d '000



Source: Bloomberg, Emirates NBD Research

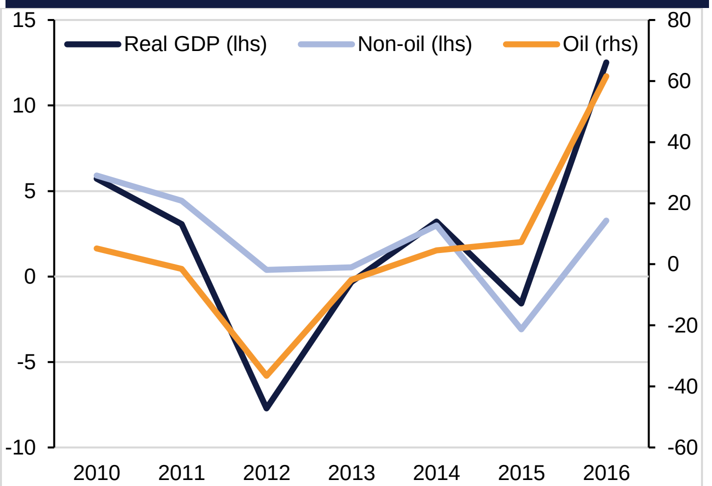
Nevertheless, we see the risk of sanctions being re-imposed on Iran as fairly balanced at present, and we anticipate that there will be frantic diplomacy efforts over the next several weeks that could yet see the US waivers renewed once more. The mercurial US president is renowned for talking up an extreme position and then meeting partway, while Mike Pompeo told senators in April that his preference now was to fix the deal. The European signatories of the JCPOA remain fiercely committed to the deal, and French President Emmanuel Macron – who seemingly enjoys good relations with President Trump – was in the US in late April, in part on a charm offensive on the part of the JCPOA. French officials have said that according to President Trump's advisors, the US president has not yet made a decision on the deal. Macron was to be followed to Washington by German Chancellor Angela Merkel.

2012 sanctions had significant effects

In speculating what the effect of a failure to renew the waivers would be on the Iranian economy, it is instructive to look at what happened when the most stringent sanctions on Iran were previously imposed, in 2012. There had long been various sanctions against Iranian entities, but in 2012 these were tightened significantly, as the US made it harder to facilitate dollar transactions with the country, with the aim of crippling its oil exports. This was highly effective, leading oil production to fall from an average 3.6mn b/d in 2011 to just 2.7mn b/d in 2012. Accounting for nearly a quarter of GDP in 2011, the oil sector fell to just 15.3% of the total the following year, as the Iranian economy contracted -7.8%.

Real GDP contracted by -0.9% in 2013 as the sanctions' effects permeated all aspects of the economy. The rial sold off sharply in line with falling dollar inflows – both in the form of exports and fixed investment – and CPI inflation rose to a peak of 37.4% in 2014, hitting private consumption. The fiscal deficit widened as the government struggled to adjust to lower oil revenues. On the flipside, we can also see the beneficial effect that the signing of the JCPOA had on the Iranian economy in 2016, as oil production expanded 32.1%, real GDP growth rebounded at 12.4%, and inflation steadied at an average 8.7%.

Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

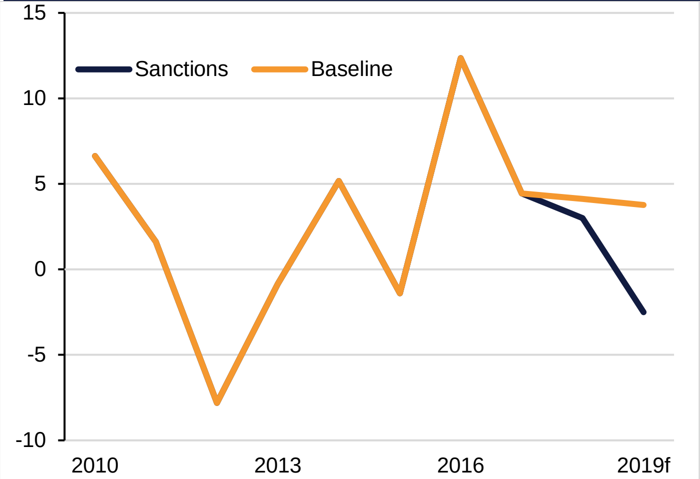
The performance of the Iranian economy since then has underwhelmed, as there have remained salient fears among international investors over the US' commitment to the JCPOA. We have already revised down our growth forecast for 2018 from 4.7%

to 4.1% as a renewed currency sell-off will weigh on activity through rising inflation, and as investors remain in wait-and-see mode through May. If the US walks away from the deal, we would enact downgrade our macroeconomic forecasts for Iran.

How severe will renewed sanctions be?

The extent of these downgrades would be dependent on the severity of the sanctions re-imposed. A halfway move by the US, by which some but not all sanctions waivers are renewed, would exert pressure without abandoning the JCPOA altogether. Equally, the European parties to the agreement would look to hold up the deal as far as possible, and the willingness by other major economies such as China to implement sanctions once more has likely diminished since 2012, especially in light of current frictions with the US over trade.

GDP growth scenario



Source: Haver Analytics, Emirates NBD Research

If we pencil in a reduction in Iranian oil production of 500 k b/d (compared to nearly 1mn last time), a 2.5% real contraction in GDP is feasible in 2019 (it would take some months for the sanctions to be re-imposed, meaning that the greater effect on the economy would come next year). The impact of the lower oil exports would not be as severe as that seen in 2012, given that the volume being lost is halved, and the oil sector in any case represents a smaller proportion of GDP than it did previously. In 2017 the oil sector accounted for 13% of GDP even as production recovered, demonstrating how the years of sanctions have forced the Iranian economy to diversify.

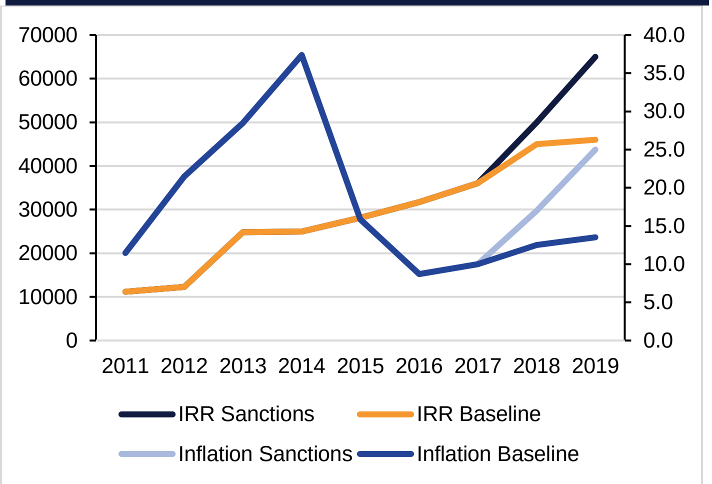
That said, it is not only the oil sector which would be hit by renewed exports, but other exports could also be limited. Further, although the European signatories of the deal might look to maintain their relations with Iran, this would certainly be constrained by any action by the US. Private sector firms such as Renault and Total might see their activities in Iran nullified, and increasing numbers of foreign firms would look to withdraw their capital from the country.It would not only be international firms that would seek to withdraw their money from Iran; according to MP Mohammad Pourebrahimi, USD 30bn was transferred out of the country by Iranians in the last several months of the Iranian year ended March 20, and many are storing dollars at home.

This would be exacerbated by a failure to renew sanctions waivers, leading to a renewed sell-off of the rial, even despite government efforts to make this illegal. In April, a sharp depreciation to IRR 60,000/USD on the parallel market led the authorities to impose a new rate of IRR 42,000/USD and threats to prosecute anyone caught selling the currency for anything less. A renewal of sanctions would likely eventually force the authorities to make further sizeable devaluations to the official rate, to at least IRR 60,000/USD in our view. This would in turn see inflation accelerate once more, giving rise to further public unrest the like of which has been seen across the country already in 2018.

US threats could force Iranian concessions

It is the threat of this unrest which could, from the Iranians' side, make concessions more likely, despite the bellicose language that has so far come from the authorities there. The government has already faced sizeable domestic opposition to its austerity programme and worsening economic conditions for households since the start of the year. With the rial already selling off, it will be seen as an ominous precursor to what might happen if a settlement is not reached.

IRR/USD (lhs) & CPI inflation, % y/y (rhs)



Source: Haver Analytics, Emirates NBD Research

While Iranian state media have in April reported plans to change to reporting trade in Euros, rather than USD, the fact remains that oil, Iran's primary export by some margin, remains priced in dollars. As such, if it wishes to avoid a repetition of the meltdown seen in 2012, Iran may have to be prepared to make some allowances. While there will be many hardliners opposed to such a move, Iran has been significantly weakened by the past six years, not least its banking sector which is grappling with NPLs in the double digits. Despite Iran's vocal opposition to any change to the existing deal, if the US threatens to walk away completely, it might find it has to concede.

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Emirates NBD

UAE Sector Focus: Education

UAE education strategy on track

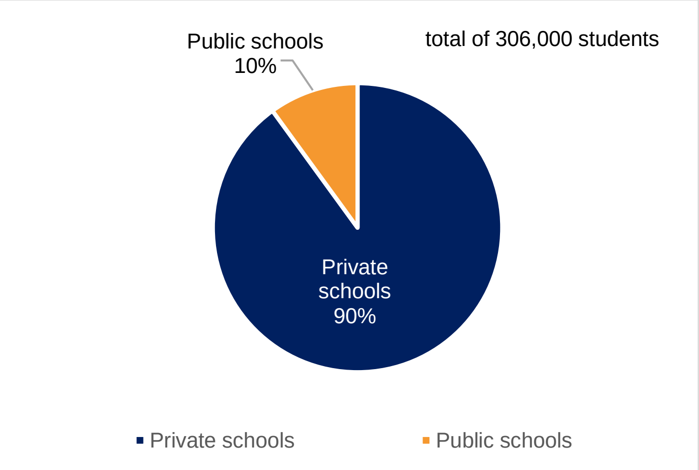
Federal government expenditure is expected to increase in 2018 to AED 51.4bn, out of which 17.1% or AED 10.4bn will be directed to the education sector. Under UAE vision 2021, educational programs are to be focused on improving education infrastructure by equipping all schools, universities and colleges with smart systems. In addition, vocational education, one of the fastest growing segments in the UAE, is projected to further grow due to the increasing demand for technically trained professionals, especially in key sectors such as hospitality and construction. Overall, the outlook for UAE's education sector is positive with enrolment growth expected to gradually increase across all segments.

UAE follows the K-12 education system, and primary and secondary education is compulsory up to grade 9. Each emirate is responsible for its own education policies and reforms with the Ministry of Education (MoE) overseeing all individual education authorities and councils. Specifically, the Dubai Education Council (DEC) along with the Abu Dhabi Education Council (ADEC) and the Knowledge and Human Development Authority (KHDA) are responsible for educational policies and quality inspections at schools in Dubai and Abu Dhabi, respectively.

Dubai private school market robust

Dubai's private education market remains one of the most attractive and fastest growing markets globally with AED 6.8bn of tuition revenues (academic year 2016/17). During the academic year 2016/17, a total of 260 schools existed in Dubai providing education to 306,000 students out of which 273,600 (90%) were enrolled in private schools. Over the next few years, the number of private schools in Dubai and Abu Dhabi are projected to grow in anticipation of significantly higher enrollment figures. UAE Ministry of Education expects 400,000 students in Dubai by 2020, and 283,800 in Abu Dhabi by 2021.

Students in Dubai, 2017



Source: KHDA, Colliers International, Emirates NBD Research

According to the latest KHDA report, a total of 185 private schools enrolling 273,600 students were recorded in the academic year 2016/17, up 3.1% y/y. Dubai's private school student population is mainly concentrated in junior grades with roughly 55% of students enrolled within private schools are currently attending early education cycles (Kindergarten and Primary), 18% in Secondary grades and 27% in Higher education. This can explained by the country's demographic landscape which is mainly shaped by young expatriate families moving to the UAE. Older expatriate students often return to their home countries for secondary education primarily due to cost considerations and their eligibility to enroll in preferred universities back home.

The British curriculum remains the most popular with 39% of the private schools in Dubai offering it, accounting for 34% of the total private student population. This is the highest share in terms of both private schools and number of students when compared to any other curriculum, followed in popularity by the Indian and American curricula. Dubai private sector schools capacity is approximately 308,000 seats with a robust occupancy rate of 88.6%. Based on a conservative population growth rate of roughly 5% per year, the total number of seats are expected to increase to around 474,000 by 2027/2028, an additional 200,600 new student seats, according to Colliers International.

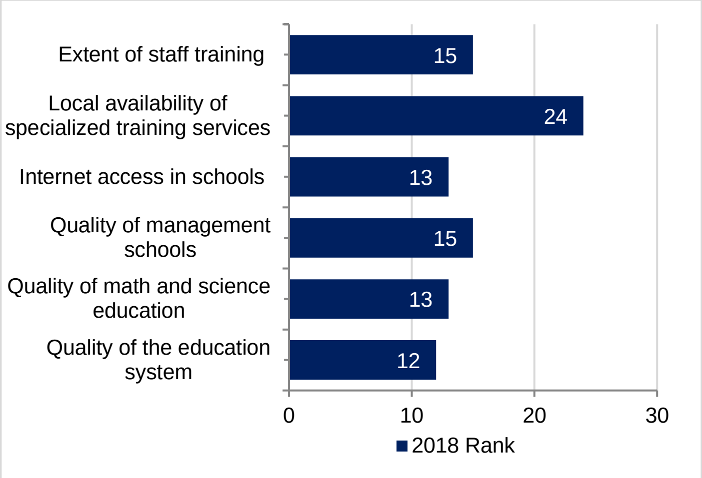
Key initiatives and quality rankings

New initiatives are being launched at all education levels in the UAE with primary focus on the transformation of K-12 programs. Moreover, UAE Vision 2021 aims on creating a knowledge based economy, reducing oil-dependence by increasing non-oil GDP by 5% every year by 2021. Other objectives include boosting the share of knowledge workers from 24.0% of the workforce in 2012 to 40% in 2021 by improving education quality and increasing the pre-primary gross enrolment ratio (GER) to over 95%. Improving quality of education through an enhanced curriculum and an upgraded infrastructure is also one of the objectives set out in the Abu Dhabi Economic Vision 2030. Added to that, the Teachers and Educational Leadership Standards and licensing project (TELS) has made the teacher's license process in the UAE mandatory for all teachers as of September 2017.

The Mohammed Bin Rashid Smart Learning Program (MBRSLP) will also be applied in all public schools across all grades by 2019, a curriculum emphasizing on new teaching technologies. The MoE is additionally implementing a new technology and innovation curriculum designed to promote computational skills. Part of the curriculum change is to implement robotics labs in selected schools starting this year, which will later expand across all schools. The technology-based learning solutions company Atlab has been working closely with MoE and ADEC for the last five years to implement robots as part of the school program.

Overall, UAE was ranked 42nd among 188 countries in the 2017 Human Development Index (HDI). Separately, in the 2017-2018 Global Competitiveness Report, UAE was ranked as 12th and 16th based on the parameters of quality of higher education and training, and primary education, respectively. The quality of education is indicative of the existence of renowned schools and colleges in the country. The gradual expansion of the smart learning program, launched five years ago, has enabled the country to rank 13th in terms of providing internet access at its schools.

UAE quality of education rankings, out of 137 countries



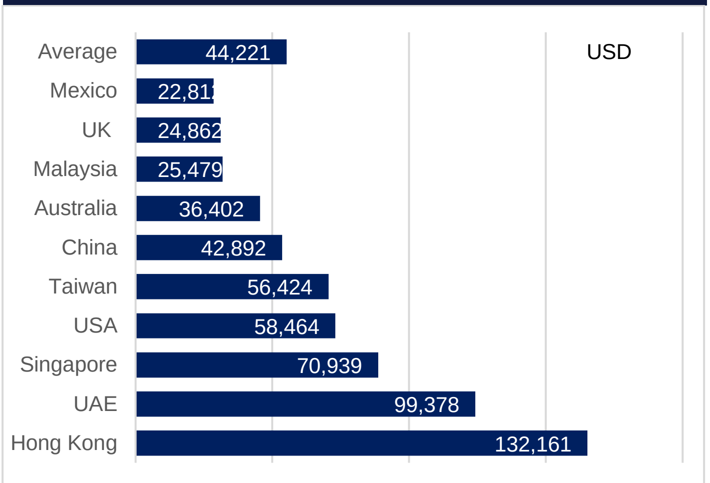
Source: World Economic Forum (WEF), Emirates NBD Research

UAE parents top spenders in children's education

When it comes to investing in a child's education, parents in Hong Kong spend the most, on average over USD 130,000 from primary school all the way through to university. UAE is ranked second with parents spending almost USD 100,000 on average, followed by Singaporean families (USD 70,000). In the US, home to six of the top 10 global universities, parents spend an average of USD 58,000, less than half the average spend in Hong Kong, according to the latest value of education report by HSBC.

Separately, university education in a different country is also a realistic option. According to the same survey, 41% of parents would consider university education abroad for their child, both in terms of postgraduate (36%) and undergraduate studies (34%). Parents in the Middle East and Asia are the most likely to consider university education abroad, with over half of parents in the UAE (65%), Indonesia (60%), India (55%), China (54%) and Hong Kong (53%) considering this option. Of the parents who would consider university education abroad, the US is the most popular choice overall with nearly half (47%) of these parents likely to consider sending their child to university in the US, followed by Australia (40%) and the UK (39%). The US continues to be a preferred destination for UAE students, a result of the strong government sponsored scholarship program aimed mainly at public school students.

Spending on education*, top 10



**Q. approximately how much do each of them contribute in total each year towards your child's education (including school/ university tuition fees, educational books, transport, accommodation)?*
Source: HSBC, Emirates NBD Research

Business opportunities and challenges

Business opportunities in the UAE education sector can be identified in the private school segment, indicating the increasing demand for schools offering international curricula. The higher education and vocational space also offers investment opportunities, with latest deals including the Brooklyn Melodies Music Center and Zayed University in Abu Dhabi. A couple of Dubai based K-12 schools offering international curricula such as Sheffield Private School (SPS) and Philadelphia Private School (PPS) also offer opportunities for investors to acquire majority stakes, from strategic partners and the GFH Capital Group. Specifically, GFH capital group has recently agreed to sell its entire 70% stake in PPS with the school's market valuation reaching AED 133mn. GFH Capital indirectly owns 9% while strategic and other investors own 61%. SPS (British curriculum) also offers investors an opportunity to acquire up to 80% of equity.

One of the major challenges establishing a school in the UAE is the high funding requirement. The typical cost of developing a school with a capacity between 1,800-2,000 students could range between USD 50-60mn, provided that the land is purchased upfront. Foreign K-12 school entrants usually seek private investors to enter into licensing and operating agreements with, for a sometimes significant management fee. Moreover, teacher shortages and a high dropout rate at the secondary and higher level pose a concern which needs to be addressed through relevant skill based curricula and incentives for foreign qualified teachers.

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EM Focus - India

The Indian economy is heading into a period of unknowns as multiple variables are at play simultaneously. These factors include the sharp rise in oil prices, mixed signals from the Reserve Bank of India, impending monsoon season and an election heavy calendar for the next six months. While Indian equities have held their ground, the INR and 10-year government bond yields are clearly reflecting the anxiety of investors. Despite an obvious uptick in economic activity, we expect volatility in Indian financial markets to continue.

Monsoons 2018

The importance of monsoon rains this year is magnified owing to an upward pressure on inflation from rising crude prices. Any deficiency in monsoons could lead to a spike in food prices, putting additional pressure on the inflation trajectory. A normal monsoon is also critical for continued pick-up in rural consumption. So far the predictions are for a normal monsoon. The Indian Meteorological Department (IMD) 1st stage long run forecast for 2018 season forecasts rainfall to be normal at 97% of the long term average. The forecast from private agencies concur with that of the IMD.

It is worth noting that over the last four years, the 1st stage forecast of IMD have overestimated actual rainfall by 6% on an average. The 2nd stage forecast is scheduled for late May or early June 2018.

RBI – Mixed signals

At its last meeting, the Reserve Bank of India (RBI) kept the policy repo rate unchanged at 6.0%. While the central bank reiterated a neutral stance, it lowered its inflation forecasts considerably. Inflation for H1 FY 2019 is now expected to range between 4.7%-5.1% compared to earlier forecast of 5.1% - 5.6%. The forecast for inflation in H2 FY 2019 was also lowered by 20 bps. Having said that, the monetary policy committee continued to highlight upside risks to inflation on account of increased farm price support and possibility of fiscal slippage by the government.

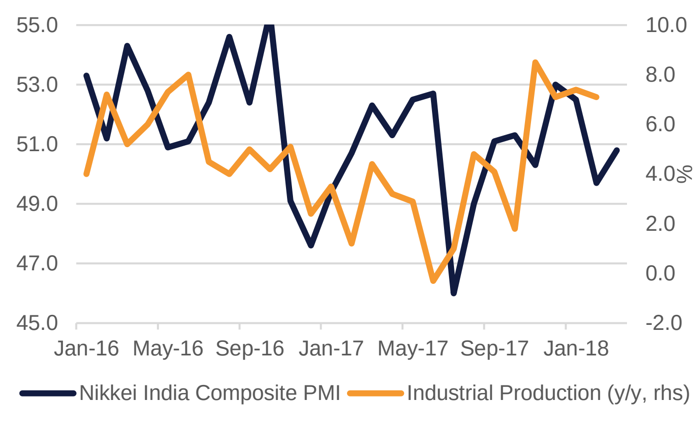
However, the signal becomes mixed as the tone of minutes of the meeting was more hawkish than comments of various members immediately after the meeting. The minutes explicitly indicated that the deputy governor in charge of monetary policy was 'likely to shift decisively to vote for a beginning of withdrawal of accommodation' at the next meeting. This becomes all the more crucial given the rise in inflation risks following the meeting on account of sustained rise in crude prices. The minutes indicate a possible change in stance by the RBI at its next meeting in June 2018.

On balance, we reaffirm our view that the RBI wil remain on a prolonged pause over the remainder of 2018. We expect them to wait to see how the monsoon season plays out and also gauge the impact of the government's spending plans on the deficit.

Economic data – Positive on growth

The high frequency economic data over the last couple of month indicates that the economy is on a firm path to recovery. The Nikkei India manufacturing PMI for March 2018 remained in expansion territory at 51.0. The Nikkei India Services PMI moved into expansion territory with readings of 50.3 in March 2018 compared to 47.8 in February 2018. The industrial production data also remained robust for a third consecutive month with growth of 7.1% y/y in February 2018. The m/m change on average in Q1 2018 was 0.7% compared to 0.8% in Q4 2017. This suggests that the drag on activity from the introduction of GST has faded away to a large extent.

Economic activity recovers

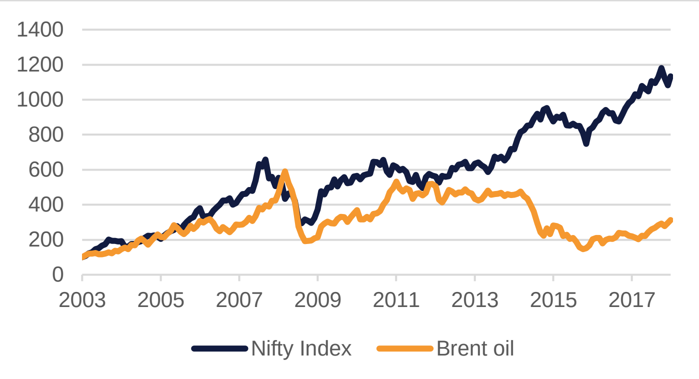


Source: Bloomberg, Emirates NBD Research

While the growth outlook remains robust, there are growing worries on the fiscal front. Concerns over India's twin deficits have resurfaced with the current account deficit widening to -2.0% of GDP in Q3 FY 2018 from -0.1% of GDP in Q1 FY 2017. The trade deficit data which widened in March lent further credence to worries on that front. More so in light of slowing foreign investor inflows. The merchandise trade deficit widened to -USD 13.7bn in March from -USD 12bn in February 2018. On a y/y basis, exports declined -0.7% and imports grew 7.1%. In its budget for FY 2019, the government had paused fiscal consolidation and forecast fiscal deficit of -3.3%. However, the sharp and sustained rise in oil prices and a commitment from the government to extend support to farm prices has increased the risk of the government failing to meet its target.

Oil & India

Indian equities & Oil (Normalised)



Source: Bloomberg, Emirates NBD Research

Oil prices are a significant factor in India's economy with wide spread impact. It should be noted that India is a net importer with USD 109bn of oil imports in FY 2018.

The Reserve Bank of India in its last monetary policy noted that a USD 10/b increase in oil prices could, in terms of first order impact, weaken growth by 10 bps and lead to a 30 bps increase in inflation. It also has a cascading effect on India's fiscal and current account deficits. With regards to financial markets, Indian equities tend to underperform their emerging market peers during periods of sharp rallies in oil prices. However, in the current cycle, Indian equities have outperformed broader emerging markets. The MSCI India has gained +5.9% 1m compared to a drop of -1.2% in the MSCI EM index and a gain of +6.4% 1m in Brent oil prices.

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Interest Rates

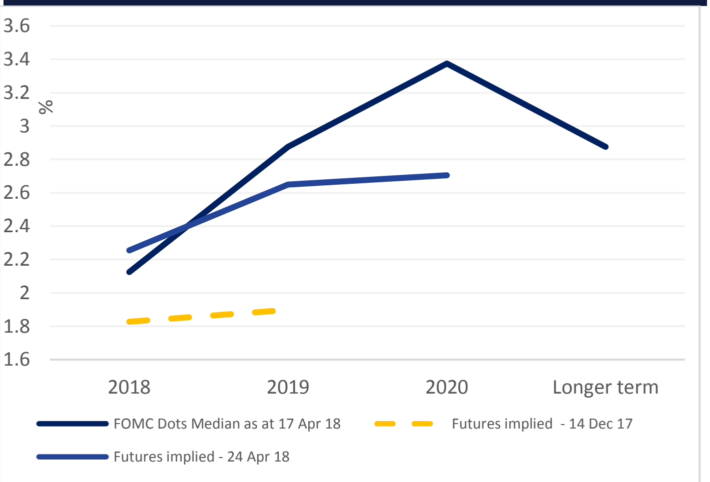
Solid economic growth and receding fears of trade wars pushed the UST yield curve above its February highs, taking most of the DM sovereign yields higher along with it.

US Rates

The March FOMC meeting minutes offered little new information besides the perception that officials were leaning towards a slightly steeper trajectory for the fed funds rate in response to the stronger economy and rising inflation. The market is currently assigning roughly 93% probability to a June rate hike. Futures implied probability of total rate hikes in 2018 is now over three compared with Fed's dot plot of only three. We continue to expect only two more rate hikes this year while acknowledging the upside risk. Even though the unemployment rate is low, inflation for the time being remains below the Fed's 2% objective. As long as that is true, the case for tightening policy more aggressively does not seem compelling at this stage, particularly with rising volatility in financial markets, the possibility of trade wars and increasing proximity to the next downturn cycle.

That said, UST curve had bear flattened during the month with yields on 2yr, 5yr, 10yr and 30yr closing at 2.49% (+23bps m/m), 2.83% (+23bp), 2.99% (+18bps) and 3.18 (+11bps m/m) respectively.

FOMC Dot Plot vs Market Expectations

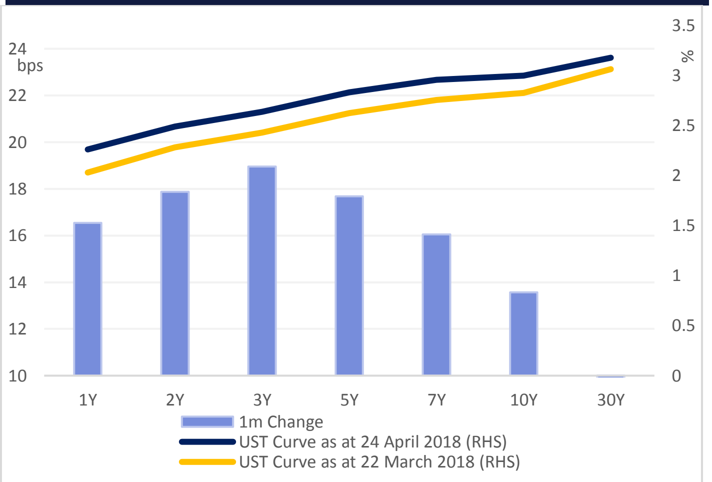


Source: Bloomberg data as at 24 April 2018

Aside from the strong economic data, we take note of the pending changes in the composition of the Federal Reserve Board. The seven-seat Fed Board currently has four vacancies. President Trump announced plans to nominate Richard Clarida, an economist at PIMCO, as vice chairman of the Federal Reserve board and to nominate Kansas State Bank Commissioner, Michelle Bowman as Fed Governor. Both selections are subject to confirmation by the U.S. Senate.

If confirmed, the 60-year-old, Mr Clarida would replace Stanley Fischer, who stepped down as vice chairman in October. Mr Clarida was an early progenitor of the so-called "new neutral" concept championed by PIMCO that argues that equilibrium global interest rates -- ones that neither spur nor stifle economic growth -- are currently significantly lower than they were in the past. He recently reckoned that the neutral rate in the U.S. should be closer to 2% than to 3%. Fed policy makers, in contrast, peg the neutral rate at 2.9%, according to the median projection of officials in March. Clarida is seen as a pragmatic centric and we believe, is unlikely to alter the Fed's current thinking on pace and magnitude of interest rate hikes.

UST yield curve flattened



Source: Bloomberg data s at 24 April 2018

The ongoing flattening of the UST yield curve remains one of the key themes in the rates universe. Instead of signaling any impending recession, we ascribe this to the demand/ supply technicals in the market. Ongoing US budget deficits and recently announced President Trump's USD 1.5tn in tax cuts are to be funded by issuance of a substantial amount of U.S. Treasury bills and notes. The fact that the bulk of this new supply is coming at five-year maturities or less, is having a pronounced effect on the U.S. yield curve.

The yield on 2yr UST has more than doubled in the last year to its current level of 2.49%. Over the same period the 10-year note yield has risen at less than half that pace – currently yielding only 50 basis points more than the two-year note. This spread is close to its narrowest gap since 2007. This flattening pressure is unlikely to subside anytime soon as new supply of treasuries is likely to remain abundant with smaller amounts of redemptions to offset this. In fact there is potential for it to get worse from here as the Federal Reserve adds more pressure by engaging in reducing its balance sheet by over USD 1 tn over the next two years. Combined with ongoing rate hikes, the pressure on the short end shows no signs of abating.

Global Rates

Despite lower than expected inflation data in the UK and the Eurozone last month, most of the developed world sovereign bonds followed the trend of rising UST yields. 10 Gilt yields rose 10bps to 1.54% during the month even though the market implied probability of a rate hike in June dropped from 89% at end-March to 57% now.

March inflation data in the Eurozone came in lower than the previous month. However, with strong economic growth and falling unemployment, the market expects the ECB to end its bond purchase program towards the end of this year and begin considering normalization of policy rates in 2019. Yield on 2yr Bunds rose 2bps to -0.56% and that on 10 yr Bunds was up by 11bps to 0.63%.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.99	+18	+38	+67
UK	1.54	+10	+13	+45
Germany	0.63	+11	+2	+25
Japan	0.05	+4	-2	+4
Brazil	5.03	+7	+41	+37
Russia	4.73	+17	+63	+73

Source: Bloomberg data as at 24 April 2018

In the EM world, the increasing fears of new sanctions being imposed on Russia caused yields on Russian bonds to spike by circa 83bps on the 2yr bonds to 3.66% and 17bps on the 10 yr Russian bonds to 4.73%.

Local Rates

In the region, the Central Bank of the UAE launched new regulations relating to fixing of EIBOR rates which came in effect on 15 April 2018. Prior to this there was no formal methodology in place and banks on the EIBOR panel were using their own best judgement to make their EIBOR rate submissions. Under the new methodology, banks are required to base their submission on actual transaction data and follow a waterfall methodology for estimating the rate submitted for each tenor. The requirement to have stringent procedures in place and to engage independent auditors is likely to make the process more efficient, transparent and reliable.

That said, industry participants expect EIBOR rates to become more volatile given the reliance on rates submissions that are to be backed by actual transactions which in turn don't generally happen on a smooth consistent basis (refer our note dated 22 April 2018 titled New EIBOR Regulations). As is evident in the 3m EIBOR rate chart below, the rate appears to have become slightly more volatile on a day to day basis. That said, we also acknowledge the recent increase in volatility in financial markets in general.

3m EIBOR Rate

Source: Bloomberg data as at 24 April 2018

Elsewhere, the Central Bank of Oman cut CAR requirement to 11% from 12% during the month in order to increase liquidity in the Omani local banking system and allowing the banks to have higher lending capacity. The move is expected to increase credit available in the local system to OMR 7.8 bn from OMR 5.2 bn previously.

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Credit Markets

Driven by rising benchmark UST yields, global corporate bonds generally fell in price during the month, even though credit spreads had a slight tightening bias on the back of solid economic growth and positive results announcements.

Global Bonds

The upward shift in UST yield curve caused USD denominated global bonds to fall noticeably during the month. US IG Corp index was the worst hit, recording a monthly loss of -0.40% compared with a loss of -0.20% for the bond indices in the Euro area. Though solid result announcements helped credit spreads on the US IG bonds to tighten four bps to 106bps during the month, that remained insufficient to cushion the circa 23bps widening in benchmark yields in the shorter end of the curve. In contrast, the high yield indices held ground well, returning +0.76%, with credit spreads tightening by 22bps to 330bps during the month – near their lowest print since the end of the GFC.

The IMF recently revised its forecast for 2018 global growth to 3.9% from 3.8%. However, despite the backdrop of positive global economic growth, credit spreads on emerging market bonds failed to tighten materially as investors remained wary of the risk of trade wars on export oriented economies that make up bulk of the emerging market universe. Geopolitical tensions also continue to linger, and the Russia vs the West story is likely to weigh on sentiment for some time.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	106	-4	+18	-11
US HY Corp	330	-22	+15	-45
EUR IG Agg	47	-5	-1	-23
USD EM Agg	237	-3	+21	-23

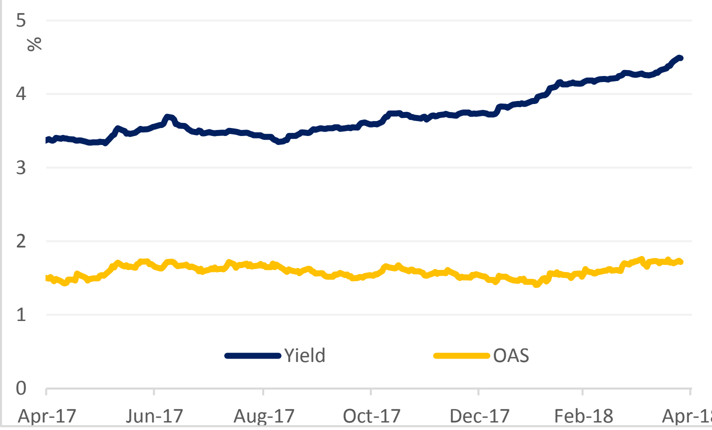
Source: Bloomberg data as at 24 April 2018

Credit spreads on emerging market bonds have risen around 21 bps in the last quarter from circa 215bps in mid January to 237bps now. We think the probability of a continued widening of credit spreads is more than even as new supply remains elevated. Also the current spread level is only slightly above the decade low of 211bps reached in mid February and cautious investors' sentiment may not support any spread tightening.

GCC Bonds – Secondary market

Though fears of capital outflow on the back of rising US yields have proven to be benign, GCC bonds underperformed their international counterparts last month mainly as a result of increasing geopolitical tension in the region and high new supply. The yield on Barclays GCC bond index rose 15 bps to 4.45% on the back of 15bps increase in UST benchmark yields and flat credit spreads at 170bps.

Barclays GCC Credit Index: YTW and OAS



Source: Bloomberg data as at 24 April 2018

Quarterly results announcements have generally been positive so far with banking sector issuers reflecting good improvement in profitability amid manageable NPLs. Perpetual bonds from the banking sector held up relatively well. Emirates NBD raised the foreign ownership limit to 20% and reported 28% increase in 1Q profit over the pcp to AED 2.4 billion. The yield on EBIUH 6.375% Perp closed at 4.70% on the back of 6bps tightening in Z-spread to 191bps during the month.

Also real estate issuers remained resilient with DAMAC and Ezdan Holdings bonds gaining in price. BB rated DAMAC bonds benefited from improved liquidity at the issuer after the company raised USD 400mn via a new sukuk and restored confidence in its ability to refinance existing obligations. DAMAC 19s closed at yield of 4.34% with Z-spread tightening circa 12bps to 181bps.

The reported discovery of large shale oil reserves off the west coast of Bahrain generated significant headlines in recent weeks. While Bahrain estimates there are 81.5 billion barrels of shale oil and 13.7 trillion cubic feet of natural gas of resources in the basin, it is not yet clear exactly how much the field can produce or how much it will cost to develop. Bahrain sovereign curve remained under pressure with price on BHRAIN 5.25% 2025s falling nearly four points to USD 94.53 during the month and yield widening 63bps to 6.24% as the sovereign failed to attract funding at an acceptable price after launching an exercise to do international bond sale in early April.

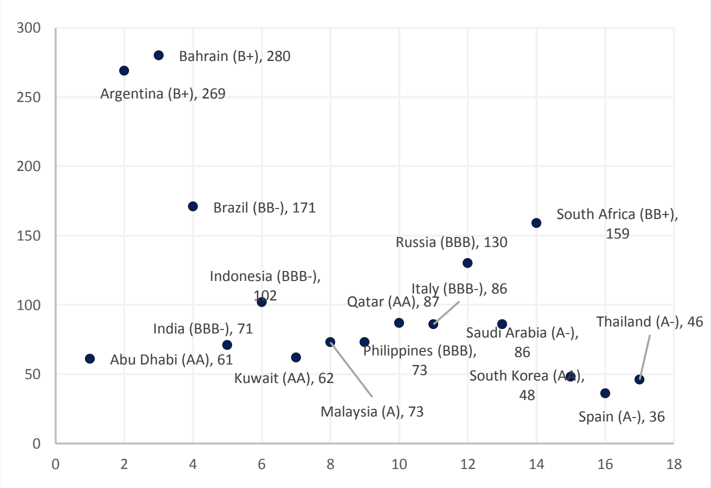
EA Partners, via its agent, commenced the process of auctioning the debt obligations of insolvent units of Alitalia and Air Berlin. EAPART 20s and EAPART 21s remained under pressure, closing the month at USD 74 (-USD 0.5 m/m) and USD 70 (-USD 1 m/m) respectively.

Dana Gas was successful in challenging the recent order from the UK court for restricting dividends by achieving approval from the UAE courts to proceed with the dividend payments. The defaulted DANA Gas 2017 9% sukuk was being quoted at USD 88 (-USD 0.7 m/m).

During the month, Moody's affirmed its A1 rating on Saudi Arabia citing expectation of fiscal consolidation to continue and government debt burden to moderate. Earlier in the month, S&P had also affirmed it's A-/stable rating on KSA. Z-spreads on KSA curve tightened marginally despite large new supply.

In a general yield widening environment, on a relative value basis, GCC sovereigns trade cheaper than their EM peers as is evident in the below chart showing 5yr CDS spreads.

GCC sovereign 5 yr CDS vs peers



Source: Bloomberg data as at 24 April 2018

GCC Bonds - Primary Market

GCC issuers launched and priced circa USD 29bn worth of new USD denominated bond and sukuk deals during the month, taking the year–to–date total to USD 41.6bn. More than 80% of YTD new supply has come from sovereigns in the region with both, the Kingdom of Saudi Arabia and the State of Qatar tapping international capital markets last month.

Making progress on its plan to raise USD 31bn in new debt this year KSA government raised USD 11bn in USD denominated bonds in early April. The tranches maturing in 2025 (USD 4.5bn), 2030 (USD 3bn) and 2049 (USD 3.5bn) priced at T+140bps and T+175bps and T+210bps respectively. Though the bonds were sold without a roadshow, the recent tour of the western economies by the crown prince seemed to have proven beneficial in restoring investor confidence.

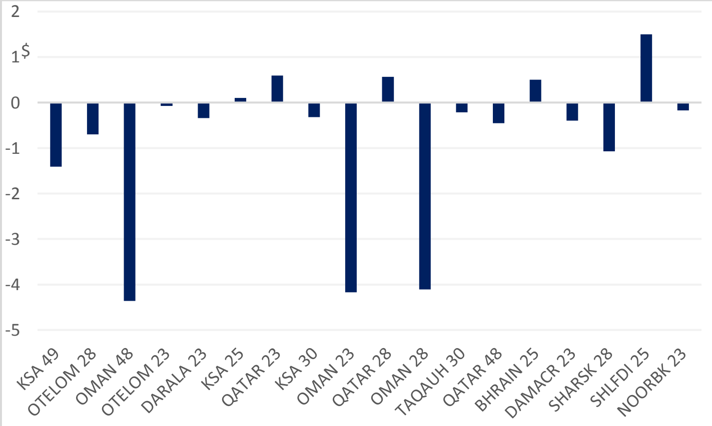
Investors put aside the ongoing diplomatic dispute between the GCC neighbours and bid well for the USD 12bn worth of new bonds offered by the Qatar sovereign that issued USD 3bn in 5yr bonds at T+135bps, USD 3bn in 10yr bonds at T+170bps and USD 6bn in 30year bonds at T+205bps. The sale received more than USD 53bn in bids, including interest from joint lead managers. Almost half of the offering was placed in the U.S. and the others in Asia (mainly Taiwan). The success of the deal was ascribed mainly to the attractive pricing.

Contrasting the success of deals from KSA and Qatar, Bahrain sovereign faced tougher situation. After receiving unfavourable response from investors, it had to trim its plan to raise debt from circa USD 3bn to only USD 1bn via a 7.5 yr sukuk at T+419.5bps.

Beside sovereigns, other issuers that raised funding during the month were Omantel, TAQA, DAMAC, Sharjah Islamic Bank, Noor Bank etc.

Performance of new issues has generally been weak although we acknowledge the impact of volatile benchmark yields on the final priecs of the bonds.

GCC new issues: Current vs issue price $ change



Source: Bloomberg data as at 22 April 2018

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Currencies

USD rises in April

The dollar index has risen 1.80% over the last month, climbing to 90.974 and breaking above the 100 day moving average (90.718) for the first time since December 2017. Despite these gains, analysis of the weekly candle chart shows that the index remains in the downtrend that has been in effect since January 2017, and in order to break out of this trend, there needs to be a weekly close above the 50 week moving average (92.810).

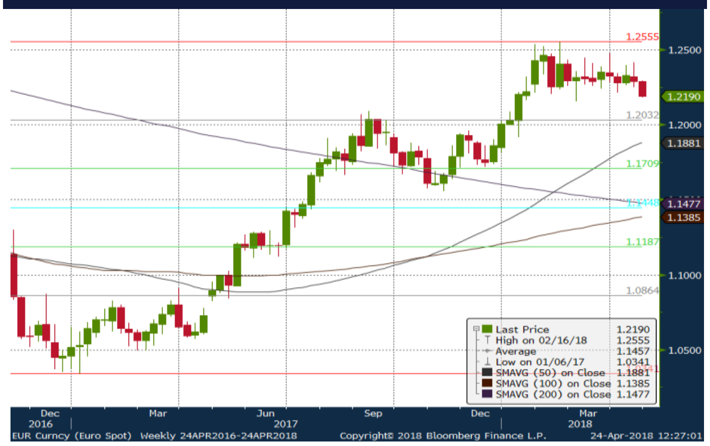
DXY remains in weekly downtrend

Source: Bloomberg

EURUSD breaks below 50 day moving average

Over the last one month, EURUSD has fallen 1.0% to reach 1.22, testing and breaking below the 50 day moving average (1.2328) as well as the 100 day moving average (1.2209) for the first time since December 2017. We expect the next level of support to apply at the 50% five year Fibonacci retracement (1.2167), a level which has held since breached in early 2018. Should this level falter, a retest of 1.20 is likely, however for the moment, we maintain that EURUSD will trade in the 1.22-125 range over the current quarter.

Euro remains in above 50 day MA

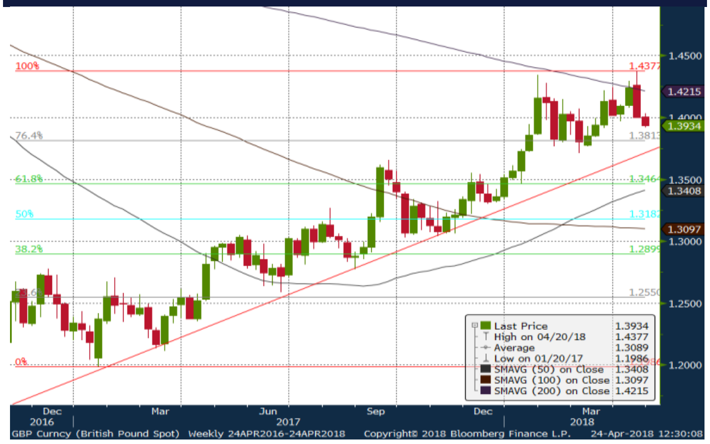


Source: Bloomberg

GBPUSD technically vulberable for now…

Over the last month GBPUSD declined 0.57% to reach 1.3953, a level not seen since 19th March 2018. There are some technical considerations to consider. Firstly, the price was unable to sustain gains above the 200 week MA (1.4215) and has declined at this resistance level. In addition, the price has fallen and realized three successive closes below the 50 day moving average (1.4022) indicating further technical weakness. However despite this, analysis of the weekly candle charts shows that uptrend remains intact and further gains can be expected in the medium term.

GBPUSD remains in weekly uptrend



Source: Bloomberg

USDJPY rebounds

USDJPY was the biggest G10 mover, rising 2.56% last week to reach 108.84 in a move that has significant technical implications. The price has risen and closed above the 50 day moving average (106.65) for the first time since January 2018. In addition, the former resistance line at the 23.6% one year Fibonacci retracement (106.96) is now active as a support. With a break of the former daily downtrend, the 38.2% one year Fibonacci retracement (108.44) and the 100 day moving average of 109.01 in sight, further gains seem the path of least resistance.

USDJPY breaks out of downtrend

Source: Bloomberg

AUDUSD surrenders gains and declines

Despite climbing above 0.78 earlier last week, AUDUSD has surrendered these gains and lost 0.91% during April to reach 0.7609. The price encountered resistance at 200 day moving average (0.7814) and then proceeded to break below the 50 and 100 day moving averages (0.7765 and 0.7799 respectively). These declines have taken AUDUSD to new 2018 lows and a test of the 23.6% one year Fibonacci retracement (0.7519) cannot be ruled out.

AUDUSD hits new 2018 lows

Source: Emirates NBD Research, Bloomberg

INR depreciates in line with other EM currencies

Over the last month, the INR has depreciated -2.29% against the USD to take its year to date losses to -3.78%. While losses over the last one month are in line with pressure on broader EM currencies, the relative underperformance of the INR since the start of the year indicates growing concern over India's fiscal fundamentals. For the record, the JP Morgan EM Currency index has dropped -2.5% 1m and -0.8% ytd.

The major concerns center around resurfacing of the twin deficit conundrum (refer to EM Focus – India section) amidst slowing foreign portfolio investments and a sustained rise in oil prices. Mixed signals from the Reserve Bank of India are not helping the cause either. Having said that, we would like to add two caveats here. One, the INR generally tends to underperform leading up to the general elections (next one is scheduled in April-May 2019) as foreign investors hold back in light of increasing political uncertainty. Second, the recent underperformance is partly driven by a stronger USD as reflected in 1.5% 1m increase in the DXY.

With our Q2 2018 forecast of 66.0 having been breached, we have revised our INR forecasts slightly. We now expect the INR to end Q2 2018 at 66.5, Q4 2018 and Q1 2019 at 67.0.

Daily correlation between G10 pairs overs the last month:

Pair	EUR/USD	EUR/GPB	EUR/JPY	GBP/USD	USD/JPY	USD/CAD	AUD/USD	NZD/USD
EUR/USD		0.798957	0.722707	0.701428	-0.64383	-0.47939	0.668409	0.554931
EUR/GBP	0.798957		0.823019	0.132167	-0.24235	-0.09729	0.394657	0.31231
EUR/JPY	0.722707	0.823019		0.213583	0.063261	-0.10268	0.242011	0.127542
GBP/USD	0.701428	0.132167	0.213583		-0.77628	-0.6699	0.631465	0.541031
USD/JPY	-0.64383	-0.24235	0.063261	-0.77628		0.573319	-0.69467	-0.66419
USD/CAD	-0.47939	-0.09729	-0.10268	-0.6699	0.573319		-0.59784	-0.45893
AUD/USD	0.668409	0.394657	0.242011	0.631465	-0.69467	-0.59784		0.613645
NZD/USD	0.554931	0.31231	0.127542	0.541031	-0.66419	-0.45893	0.613645	

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Equities

It was a month of two halves for global equity markets. While trade war and geopolitical risks dragged equities lower at the start of Q2 2018, a robust start to the earnings season coupled with easing trade concerns helped equities recover some of their losses. Even as all these risks continue to remain on the horizon, we are cautiously optimistic on global equity markets. The tailwind from continued strength in the global economy, growing corporate earnings and fiscal easing currently outweighs possible headwinds from inflationary pressure, political risk and a faster pace of monetary tightening.

Having said that, price movements over the last month confirm our view that equity markets are now trading in 'lower return and higher volatility' phase. It is worth noting that although none of the risks had a prolonged impact, they did however have a higher percentage impact compared to 2017 and that the rebound was slower. This effectively implies a lower reward for risk as also reflected in a drop in Sharpe ratios of major indices. The latest BAML fund manager survey also indicates that the allocation to equities has now dropped back to its long-term average of 29% compared to 41% in March 2018.

Despite the gain of +2.21% 1m, the MSCI World index remain in negative territory for the year. The last month's gain were driven by strength in G7 and Middle Eastern equities. The MSCI G7 index and the MSCI Arabian Markets index added +2.4% 1m and +3.8% 1m respectively. In fact, the MSCI Arabian Markets index is the best performing sub-index so far in 2018 with year to date gains of +11.2%. The Tadawul (+6.0% 1m, +15.0% ytd) led the gains in the region amid sustained foreign investor inflows owing to a positive decision by FTSE to include it into its EM index. A similar decision is scheduled from MSCI in June 2018.

Emerging market equities underperformed over the last month to move into negative territory for the year. The MSCI EM index lost -1.5% 1m to take its ytd performance to -0.4%. The underperformance was mainly on account of -9.1% 1m drop in the MSCI Russia index as investors grappled with fresh sanctions from the US. The Kospi index (+1.96% 1m) benefitted from de-escalation in tensions with North Korea.

The immediate direction of equity markets is likely to be dictated by progress in the Q1 2018 earnings season. Yet it will not be surprising to see investors remain cautious even if the current trend of earnings hold up. This approach could be driven by: 1. A growing acceptance that an escalation in trade and geopolitical risks remains just a tweet away, 2. Increased possibility of a monetary policy mistake as the outlook becomes more mixed across economies and 3. Lastly the well-known adage of 'sell in May and go away'.

Current factors

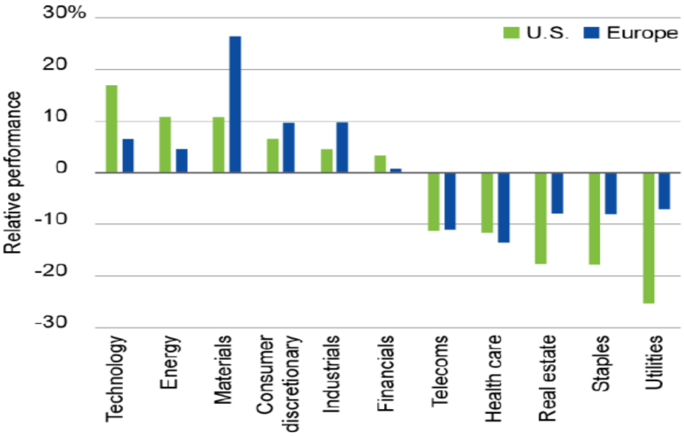
At the moment, price action in equity markets are influenced by rising bond yields, a gain in commodity prices and increasing political risk premium.

Rise in bond yields

The sharp rise in bond yields across economies has brought into focus its impact on equities. Theoretically, stock and bond prices usually move inversely. However, that has not been holding true in recent months on account of a combination of factors including subdued inflation even as growth accelerated.

This effectively implies that the impact on equities depend on the reason behind the rise in yields and not necessarily the increase itself. If the economy is growing along with rising inflation then generally there is a shift into defensive stocks. However, when nominal yields are rising faster than inflation expectations – which appears to be the case at the moment, then cyclical stocks tend to outperform. A market study has found this to hold true in both the US and Europe.

Sector performance when nominal yields rise (2000-2018)



Source: Blackrock Investment Institute

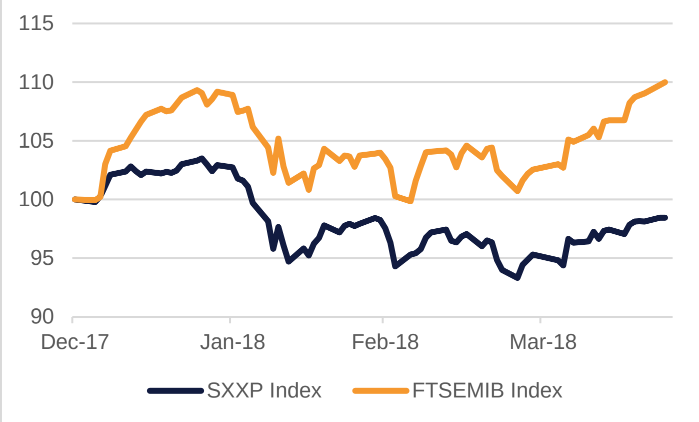
In such a scenario, financial and/or banking sector stocks tend to outperform and given their weighting they boost the broader index performance as well. Financials sector stocks have a 20.3% weight in the Dow Jones Industrial Average index and 15.2% weight in the Euro Stoxx 50 index.

It is also worth noting that typically high dividend stocks tend to underperform in a rising rate environment as the spread between bond yield and dividend yield narrows. The MSCI World High Dividend Yield index has so far declined -2.6% ytd compared to gains of +9.3% in 2016 and +18.1% in 2017. This appears par for course as yield differential has narrowed across the board. The spread between the S&P 500 current earnings yield and the 10y UST yield has dropped to 181 bps compared to 392 bps at the start of 2016.

S&P 500 earnings yield versus 10y UST yields

Source: Emirates NBD Research, Bloomberg

Italian stocks outperform European equities



Source: Emirates NBD Research, Bloomberg

Political risk premium

The recent increase in volatility can be attributed to the increased political risk across the spectrum triggered by a series of adhoc decisions by the US, accompanied by lack of coherent strategy. The impact of political events on equity market performance has increase significantly since the start of 2018.

The most obvious example is Russia where a slew of unexpected sanctions on large domestic companies have had a negative impact on the broader index and investor sentiment. Rusal, which had its products taken off the LME, has dropped -30.7% since the start of 2018 with nearly two-third of those losses coming since the start of Q2 2018.

India and Turkey are further examples of this. While an early election called by President Tayyip Erdogan has helped Turkish equities in the short term, an election-heavy calendar in India is already weighing on investor sentiment. The Bloomberg Country Risk Political Score for India has increased to 12.47 at the end of Q1 2018 from 10.53 at the end of 2015.

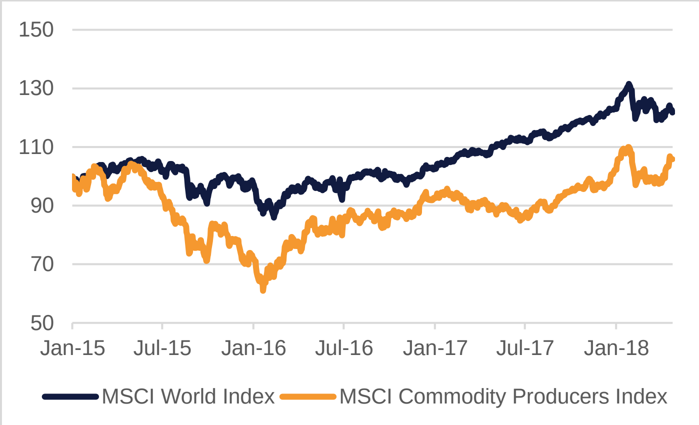
Having said that, the performance of Italian stocks clearly illustrates that political risk is pretty idiosyncratic. The FTSE MIB index has outperformed the broader European indices even as no government is in place almost two months after the elections. The FTSE MIB index has rallied +10.0% ytd compared to -1.6% ytd decline in the Euro Stoxx 600 index. The fading possibility of a government by populist parties alone could be the reason behind investor complacency.

Commodity Prices

A rise in commodity prices generally tends to put upward pressure on inflation which in turn could lead to a faster pace of monetary policy tightening. However, the other side of the coin is that a sustained rise in commodity prices helps commodity producers who have a significant weightage in major equity indices. The materials and energy sector together account for 11.1% weight in the MSCI World index.

The performance of commodity-related stocks could be exaggerated in the current cycle as they are coming off the back of a rather subdued period of performance in the last 15 months. The Bloomberg Commodity Spot Index returned +7.5% in 2017 compared to a gain of +20.1% in the MSCI World index. So far this year, the MSCI Commodity Producer Index has rallied +3.5% compared to a decline of -1.0% in the MSCI World index over the same period.

Commodity stocks outperforming in 2018



Source: Emirates NBD Research, Bloomberg

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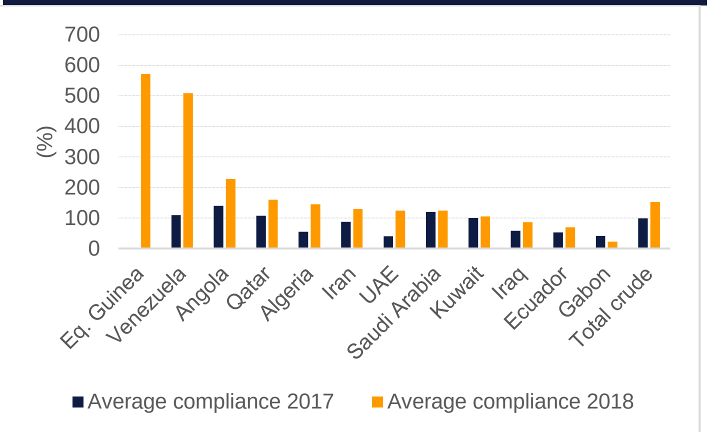
Commodities

The balance of risks in oil markets is increasingly weighted to the upside as a confluence of fundamental and policy factors have added upward momentum to prices. In mid-April, Brent futures were above USD 70/b, their highest level since the end of 2014, and were more than 25% higher than they were at the same time in April 2017. Over the remainder of 2018 we see several major risks ahead that could keep oil prices in this elevated range but all the while raising the prospect of a slide further out.

OPEC has carried over its strong compliance to the production cuts it agreed with partners at the end of 2016. Average compliance in 2017 was 98.8% but it has jumped to more than 150% in the first three months of 2018 according to Reuters. Saudi Arabia has continued to do much of the heavy lifting in achieving better than expected compliance but in fact all OPEC producers that are party to the deal have achieved a higher level of compliance this year. The UAE has been one of the most improved members, achieving a compliance rate of 124% on average in Q1 compared with around 40% in 2017 as a whole. Compliance in Iraq is higher than it was in 2017 but has been steadily declining since hitting a peak in November when production was disrupted by civil conflict in the country. Venezuela has actually achieved one of the highest levels of compliance but for involuntary reasons.

OPEC maintains strong compliance



Source: Eikon, Emirates NBD Research.

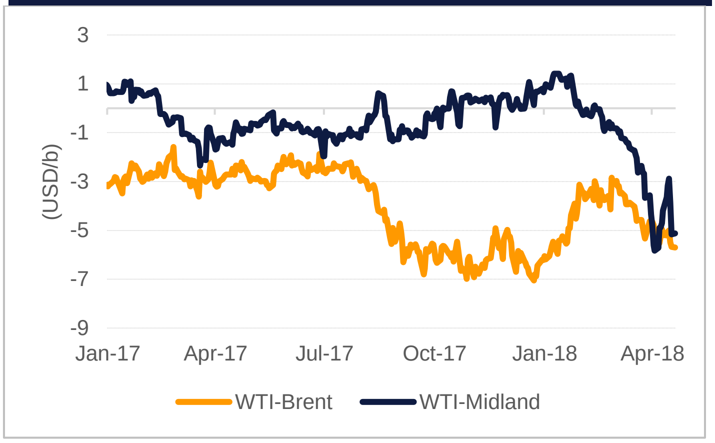
We had expected that Middle East producers would actually increase production in 2018 to take advantage of the improvement in oil prices but Q1 suggests the opposite. If MENA producers maintain their current levels of oil production our projections for global oil market balances would push deeper into deficit, implying a bigger draw on inventories and more support for prices. But there is still most of 2018 to go, leaving plenty of time for changes in regional oil production. The strong start to the year actually gives producers space to ease back on the cuts if the current price levels risk eroding marginal demand or other producers face disruptions. After declining sharply in Q1 last year, Saudi Arabia's production profile saw a pronounced hump in Q2-Q3 and we expect a similar trend across producers this year.

The biggest fundamental risk to OPEC production levels stems from Venezuela. Oil output there fell 476k b/d below year ago levels in Q1 according to Reuters, an acceleration of the already precipitous decline seen last year. The IEA estimates that total capacity in the country could fall to as low as 1.38m b/d by the end of 2018, the lowest level since the 1940s. Deteriorating economic conditions have left PDVSA, the state oil company, lacking funds to halt the decline in output or pay foreign partners. With the pace of decline accelerating and no viable means to redress it, we expect a decline of around 500k b/d on average this year compared with a 280k b/d drop in 2017. The decline in Venezuela's production may actually end up supporting our core forecast for higher Middle East output as regional producers could replace the lost barrels to avoid oil prices blowing out excessively.

US producers face constraints

Sticking to supply side risks, production in the US could end up disappointing owing to logistical choke points. The EIA projects growth in US crude oil supply of 1.37m b/d this year, effectively the fastest growth on record. Drilling productivity has continued to improve during the slump in oil prices, allowing fast levels of growth at a lower overall rig count. But investment in the rest of the oil infrastructure in the US has not kept pace. Pipelines to export terminals are at already close to capacity and expansions are only expected in 2019. The US also lacks multiple ports at which the largest oil tankers can take on crude, constraining the egress of crude from production centres such as the Permian basin in Texas.

Permian producers face discounts



Source: Eikon, Emirates NBD Research.

Producers in Texas are currently facing a wide discount for their crude compared with seaborne Brent or WTI as they run up against off-take constraints. While producers could send crude by truck or rail to export terminals, at the margin this discount could prevent producers in the Permian in particular from achieving the scale of growth expected by most of the major forecasting agencies.

One channel that is open to US oil producers is storage. Total crude inventories are holding at their five-year average according to recent

EIA data while Cushing stocks are at less than 50% of capacity. The WTI curve remains in backwardation, meaning storage trades won't work but we would nevertheless expect to see some build in stocks from current low levels as pipeline capacity to the more valuable seaborne market is strained.

Key producer face sanctions risk

There are several political risks that are also adding a bid tone to crude markets. The appointment of Mike Pompeo as US secretary of state and John Bolton as national security adviser has shifted the Trump administration to a more hawkish stance with respect to geopolitical challenges. Neither Pompeo or Bolton support the JCPOA agreement with Iran (the nuclear deal) and their appointments raise the risk of president Trump refusing to renew waivers on Iran sanctions as scheduled in May. After sanctions were imposed in 2012 Iranian oil production dropped off sharply, falling by as much as 1m b/d from pre-sanctions peak to trough (see MENA macro section above).

If Iranian production fell by a similar amount this year our forecasts for market balances in the second half of 2018 would push into a much deeper deficit that notionally should be supportive for prices. Other OPEC producers could fill the gap created by the decline in Iranian output. But considering the outspoken messaging from OPEC officials to keep the market tight, a supply response to lower Iranian production can't be counted on.

We believe there is also a strong risk of the US placing sanctions on imports of oil from Venezuela. So far the White House has delayed imposing sanctions as refineries in the Gulf of Mexico seek out alternative sources of heavy crude. Imports of crude from Iraq and Canada are already increasing as shipments from Venezuela have declined in line with falling production.

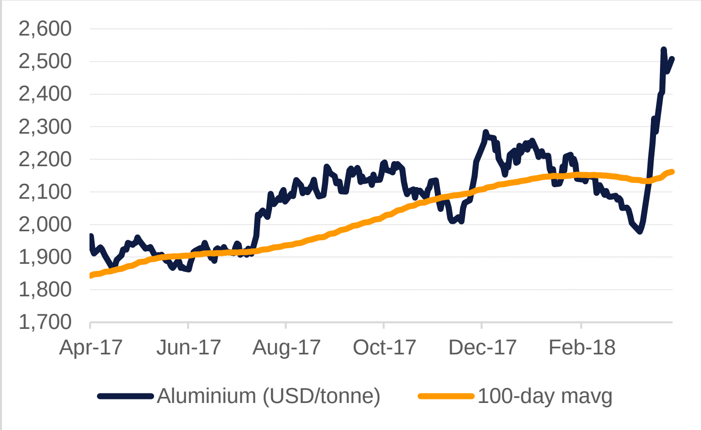
Our core forecast is for Brent futures to average around USD 60/b in 2018 but should any of the above risks materialize in a more concrete manner from Q2 onwards we would expect prices could settle in a much higher range. Looking beyond this year many of these price supportive risks could end up catalyzing a decline as producers race to take advantage of the high prices. The potential return of barrels OPEC is holding off the market along with the timeline of developing shale projects means that a rapid increase in production in 2019 can't be discounted.

Aluminium prices revised higher

Aluminium prices have spiked in response to the imposition of US sanctions on Rusal, a major Russian producers. Russia was the second largest producer globally of the metal in 2017, producing virtually all Russian metal. The company was also a major supplier of metal to the US, accounting for 10% of total imports. Considering the deteriorating political relationship between the US and Russia we see little chance that these sanctions will be lifted in the near term.

At the same time as the Rusal sanctions are hitting the primary metal market, the aluminium raw material market is tightening thanks to the partial shutdown of a bauxite mine in Brazil owing to investigations into spilling of toxic material into rivers in the country. Alumina supply was already tight and prices have now surged to their highest level since 2010 in response to the shortage of raw materials. China has also been squeezing raw material supplies as part of its anti-pollution drive, limiting production of carbon anodes. Rusal's own production of alumina is being disrupted as suppliers of bauxite to its alumina refineries declare force majeure in response to the US sanctions, tightening the market further.

Aluminium prices spike higher



Source: Eikon, Emirates NBD Research.

We expect that Rusal will continue to produce metal but that it will likely end up in new markets for the company and likely at a discount. China appears to be where the market is counting on the Russian metal turning up despite the domestic market being amply supplied. Could Chinese metal be exported to make way for Russian flows? Possibly but a like-for-like replacement of Chinese for Russian metal to US consumers for instance appears unlikely. Russian exports to the US were largely in the form of commodity metal while China mainly exported processed aluminium. Moreover, there appears to be little sign of movement from the US easing its tariffs on imports of aluminium, ostensibly designed to target China.

The sharp rise in primary aluminium prices reflects a market in the process of reorienting itself as a major producer is forced to the sideline. As a result we expect to see volatility remain heightened and aluminium prices well bid in the near term. We are consequently revising upward our forecast for 3mth aluminium to an average of around USD 2,200/tonne this year compared with closer to USD 2,000/tonne previously.

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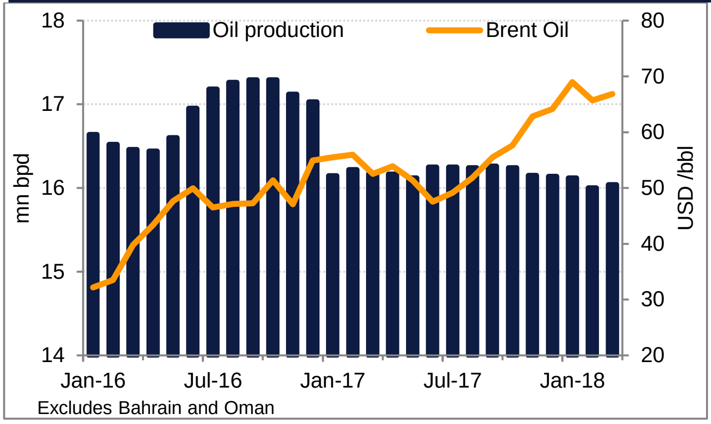
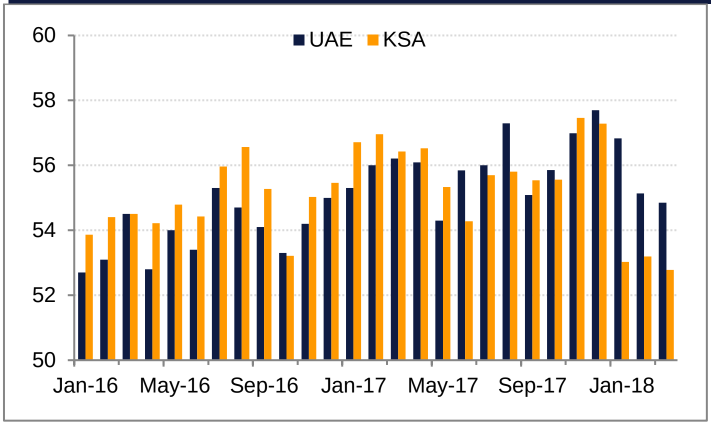
GCC in Pictures

GCC Oil Production and Oil Price



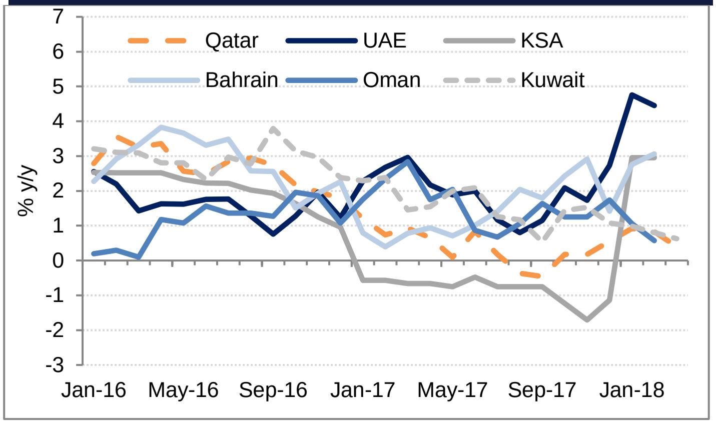
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



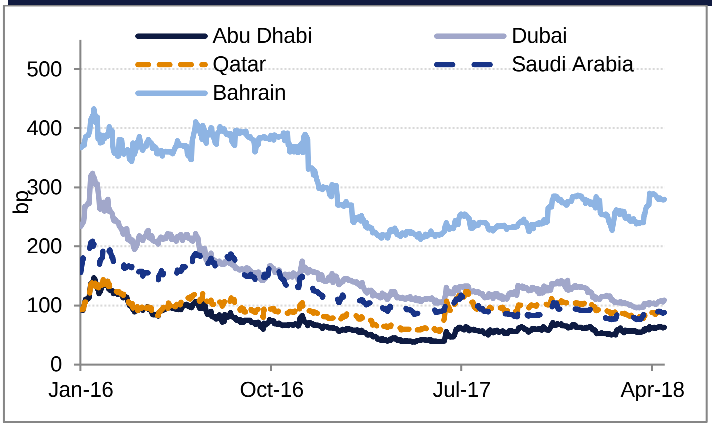
Source: IHS Markit, Emirates NBD Research

Inflation



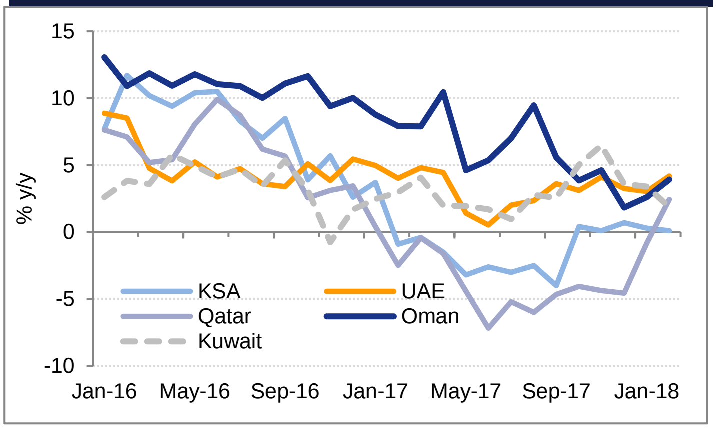
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



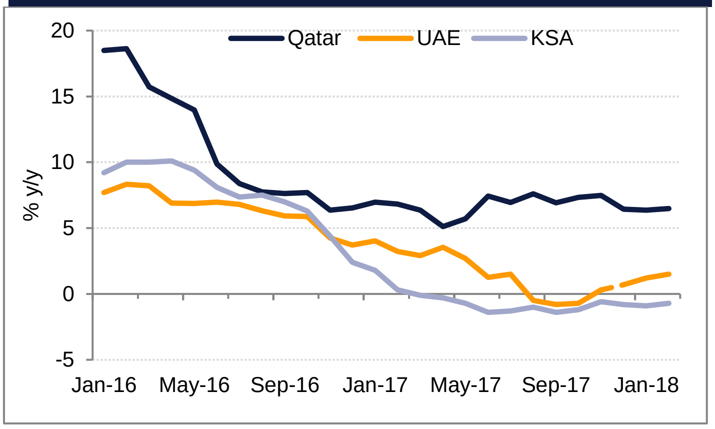
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

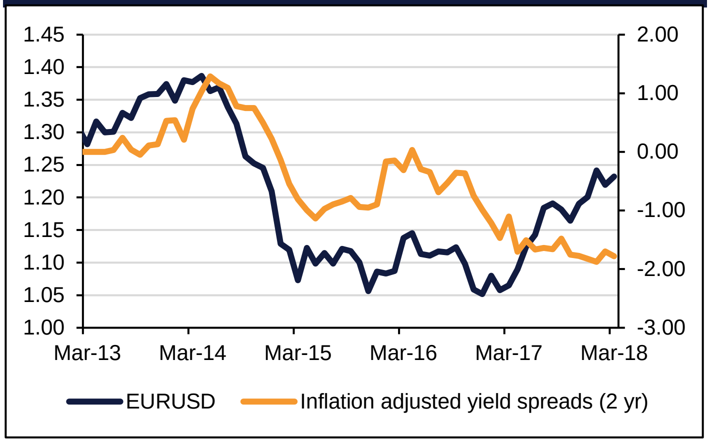
Private sector credit*



**Qatar data is bank loan growth to private sector, not total private sector credit. Source: Haver Analytics, Emirates NBD Research*

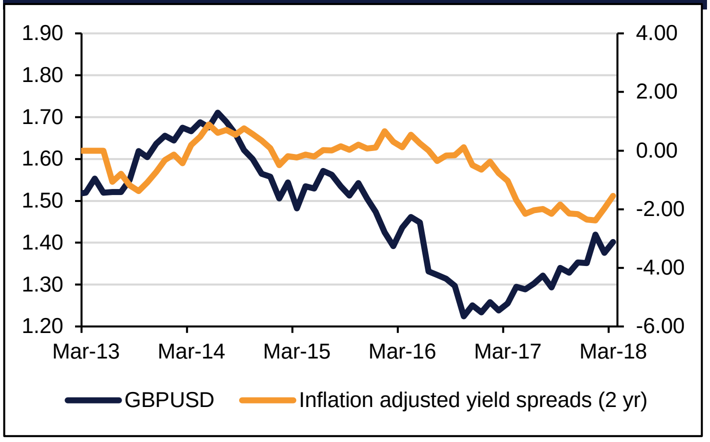
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



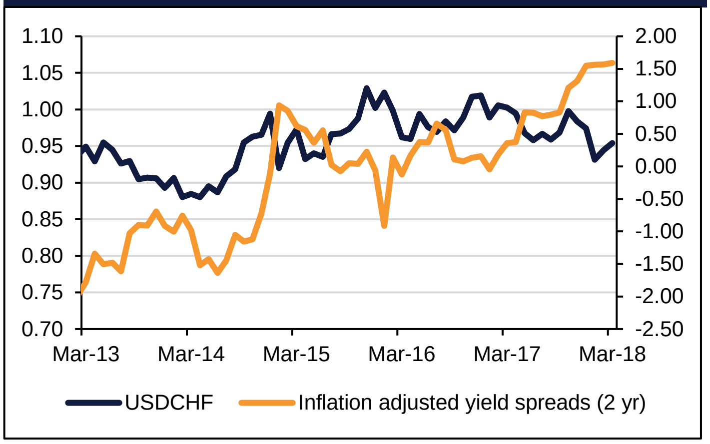
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



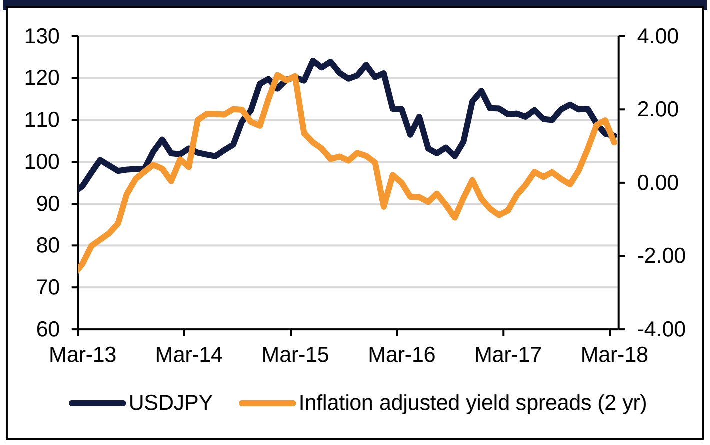
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



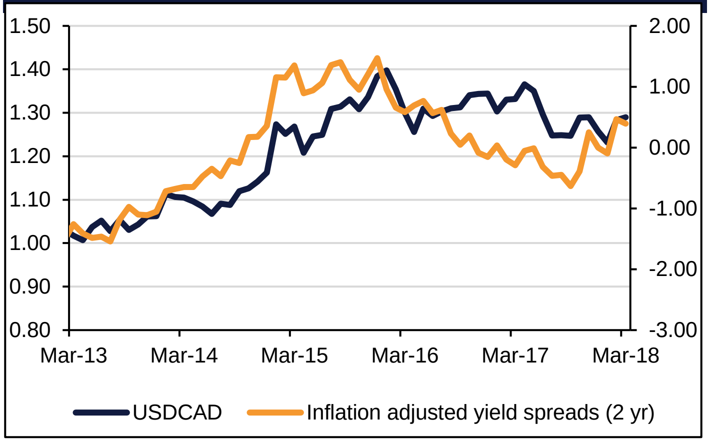
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



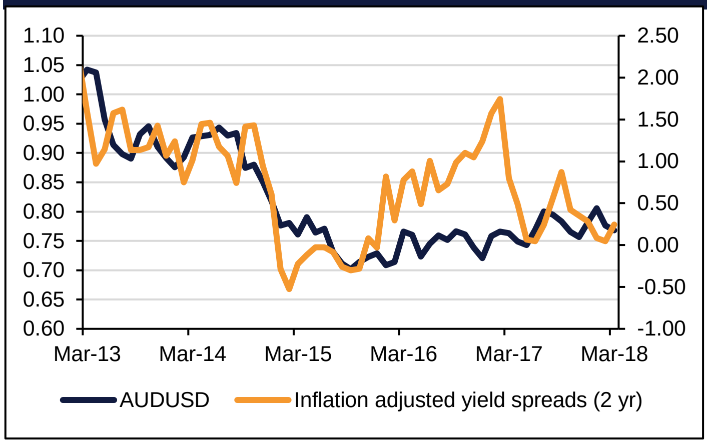
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

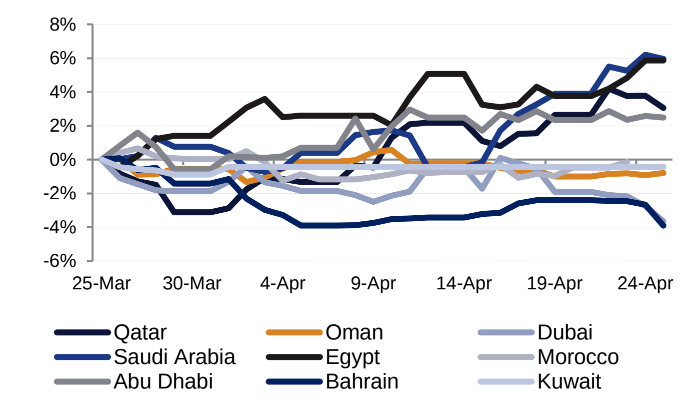
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

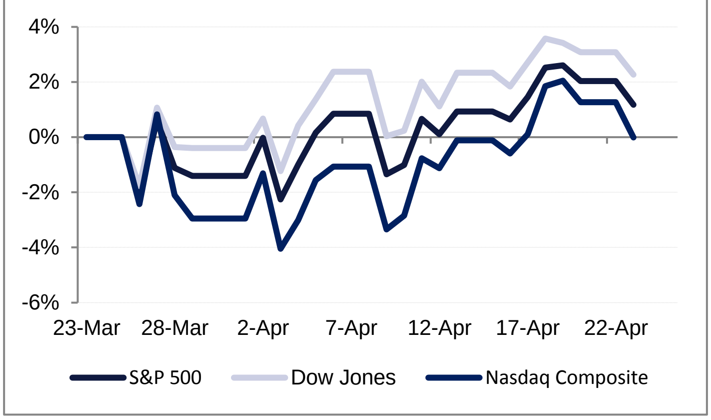
Major Equity Markets

MENA Equity Markets



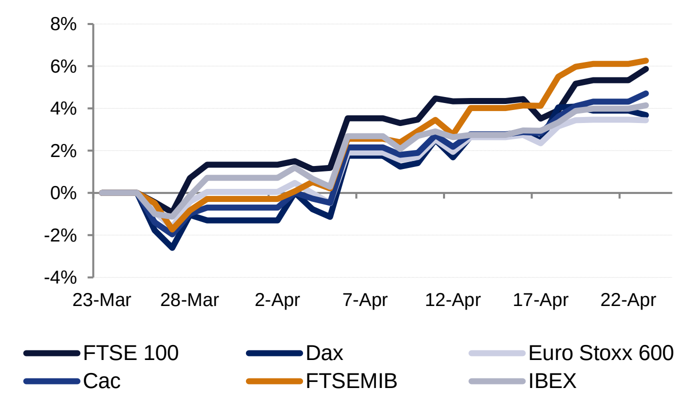
Source: Bloomberg, Emirates NBD Research

US Equity Markets



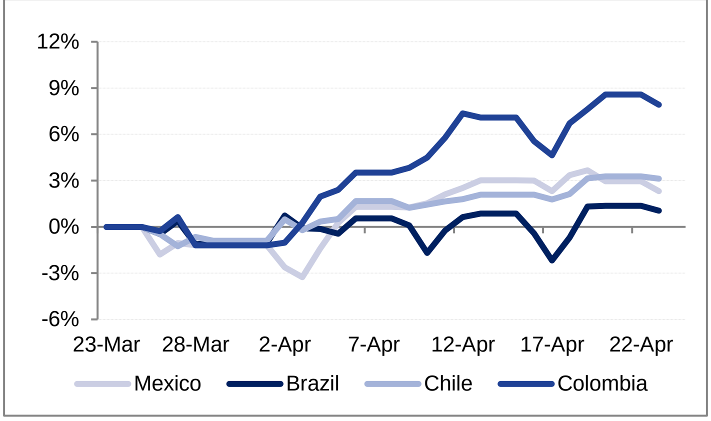
Source: Bloomberg, Emirates NBD Research

European Equity Markets



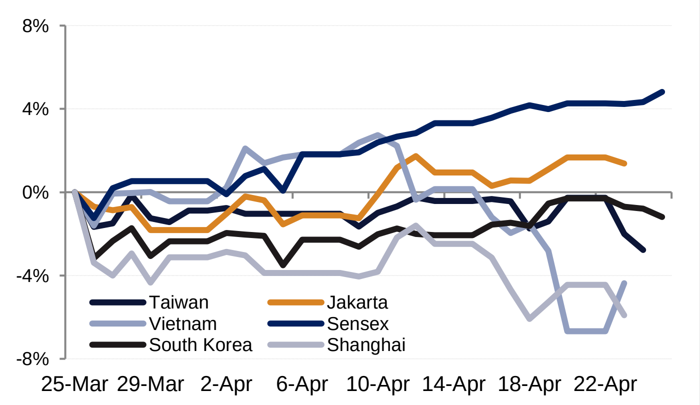
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



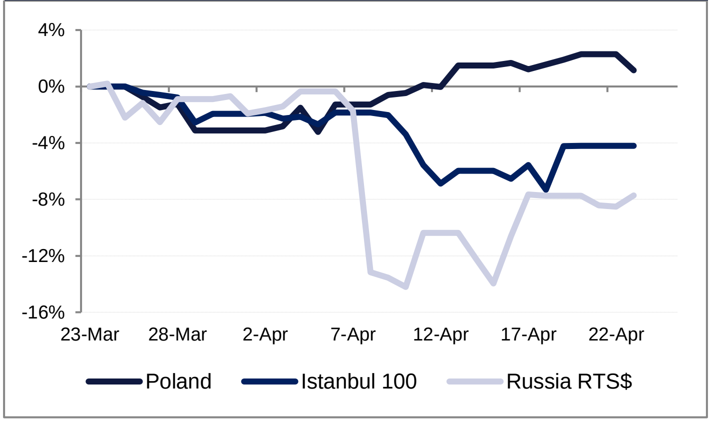
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

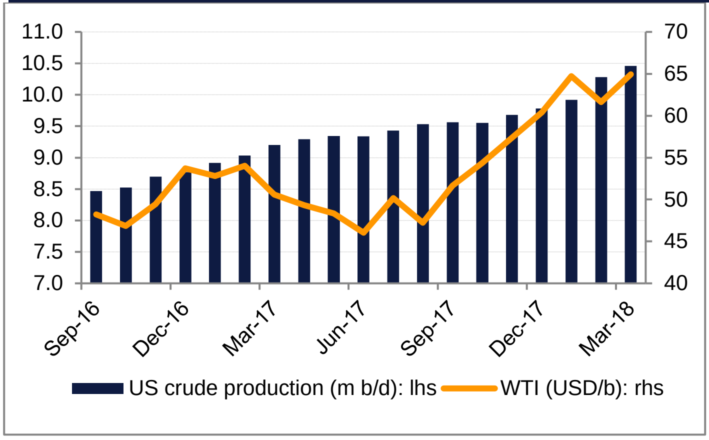
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

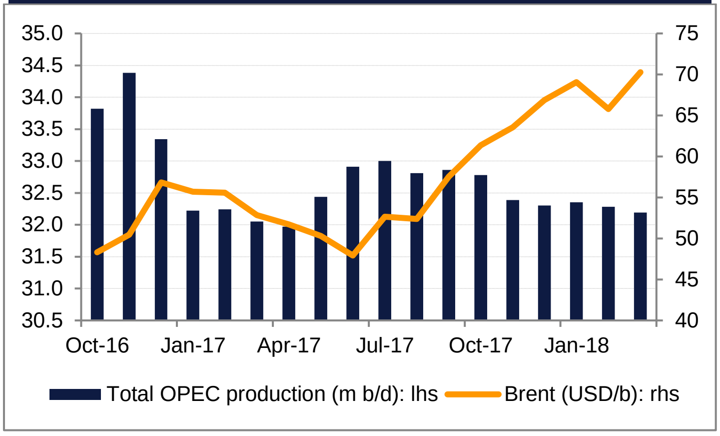
Major Commodities Markets

US oil production and price



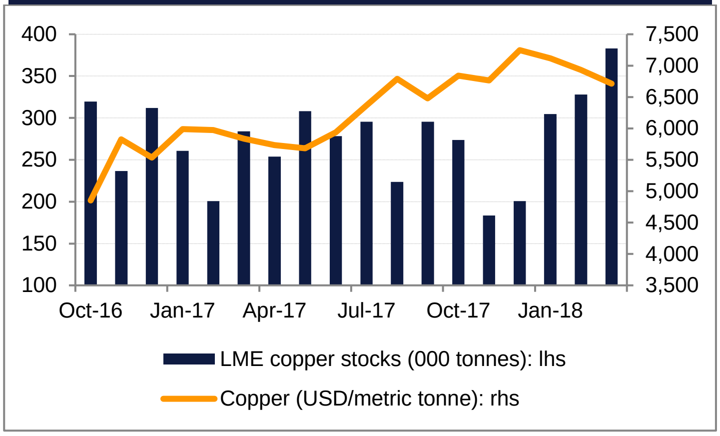
Source: EIKON, Emirates NBD Research

International oil production and price



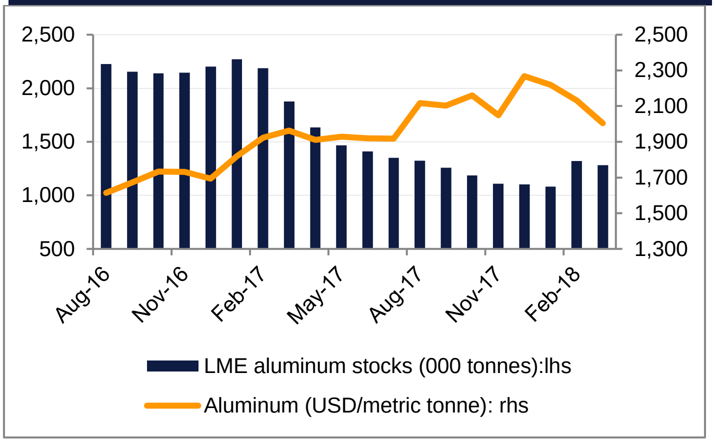
Source: EIKON, Emirates NBD Research

Copper stocks and price



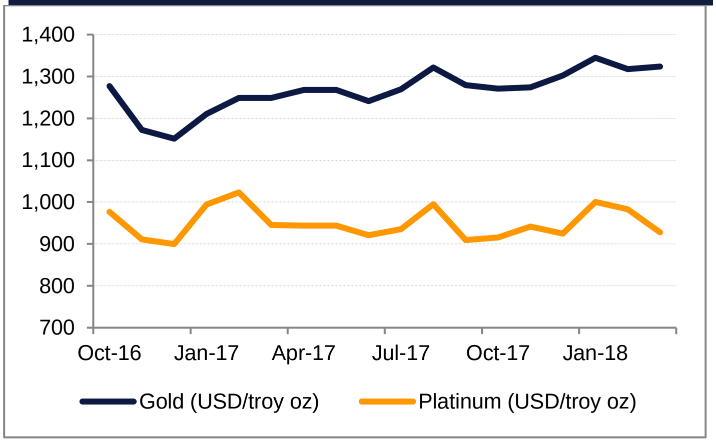
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



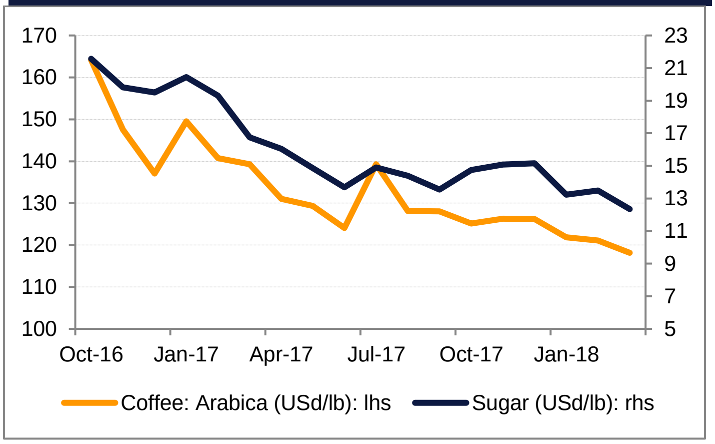
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2015	2016	2017	2018f	2019f
Nominal GDP $bn	358.2	349.0	373.2	401.8	424.8
Real GDP %	3.8	3.0	2.0	3.4	3.8
Current A/C % GDP	4.7	2.4	3.7	4.4	4.4
Budget Balance % GDP	-3.4	-4.3	-2.7	-0.7	1.3
CPI %	4.1	1.6	2.0	3.5	3.0
Saudi Arabia					
Nominal GDP $bn	654.3	644.9	684.2	731.8	773.2
Real GDP %	4.1	1.7	-0.7	2.5	3.0
Current A/C % GDP	-8.7	-3.7	2.2	5.1	4.9
Budget Balance % GDP	-15.0	-13.6	-9.0	-7.5	-6.3
CPI %	2.2	3.5	-0.2	3.5	3.0
Qatar					
Nominal GDP $bn	164.6	152.5	165.3	179.4	194.3
Real GDP %	3.3	2.0	1.2	3.4	3.7
Current A/C % GDP	8.4	-5.4	3.9	3.6	6.4
Budget Balance % GDP	-1.9	-9.0	-4.9	-3.8	-3.0
CPI %	1.9	2.7	0.4	1.5	2.0
Kuwait					
Nominal GDP $bn	114.6	110.9	120.1	125.3	138.3
Real GDP %	0.6	3.5	-2.9	2.9	3.2
Current A/C% GDP	3.5	-4.5	6.3	2.4	1.4
Budget Balance % GDP	-13.1	-13.5	-8.7	-8.1	-5.0
CPI %	3.3	3.2	1.6	2.0	3.5
Oman					
Nominal GDP $bn	68.8	66.7	74.0	79.5	84.2
Real GDP %	4.7	5.4	1.0	2.8	3.2
Current A/C % GDP	-15.9	-18.5	-8.4	-4.3	-4.4
Budget Balance % GDP	-17.5	-20.6	-12.3	-9.8	-6.5
CPI %	0.1	1.1	1.6	2.0	3.0
Bahrain					
Nominal GDP $bn	31.1	32.2	35.3	37.9	40.0
Real GDP %	2.9	3.2	3.9	3.4	3.6
Current A/C % GDP	-2.4	-4.6	-4.7	-1.6	7.4
Budget Balance % GDP	-13.0	-13.5	-11.4	-10.7	-9.7
CPI %	1.8	2.8	1.4	2.5	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	433	427	452	484	510
Real GDP %	3.7	2.4	0.2	2.9	3.3
Current A/C % GDP	-2.4	-3.1	2.4	3.9	4.2
Budget Balance % GDP	-10.4	-11.0	-7.1	-5.6	-3.9
CPI %	2.6	2.8	0.7	3.0	2.9

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2015	2016	2017e	2018f	2019f
Nominal GDP $bn	332.6	332.4	189.9	243.1	290.5
Real GDP %	4.4	4.3	4.2	5.2	5.5
Current A/C % GDP	-3.7	-6.0	-6.9	-3.0	-2.8
Budget Balance % GDP	-11.43	-12.05	-10.96	-9.48	-8.49
CPI %	10.4	13.7	29.6	15.0	12.0
Jordan					
Nominal GDP $bn	37.5	38.7	40.3	41.7	43.2
Real GDP %	2.4	2.0	2.1	2.6	2.6
Current A/C % GDP	-9.1	-9.5	-10.5	-10.4	-9.7
Budget Balance % GDP	-3.4	-3.2	-2.7	-2.2	-1.9
CPI %	-0.9	-0.8	3.3	3.9	3.8
Lebanon					
Nominal GDP $bn	50.1	51.1	57.8	63.4	68.5
Real GDP %	0.8	1.0	1.6	1.8	2.7
Current A/C % GDP	-16.2	-19.3	-20.0	-20.3	-20.1
Budget Balance % GDP	-8.0	-9.8	-6.9	-6.5	-5.8
CPI %	-3.8	-0.8	4.5	4.3	4.0
Morocco					
Nominal GDP $bn	101.3	103.6	115.1	120.8	128.7
Real GDP %	4.5	1.2	4.0	2.7	3.6
Current A/C % GDP	-1.9	-3.9	-2.7	-2.1	-1.9
Budget Balance % GDP	-4.5	-4.2	-4.0	-3.2	-2.7
CPI %	1.6	1.6	0.8	2.2	3.0
Tunisia					
Nominal GDP $bn	43.0	41.7	39.0	40.0	41.2
Real GDP %	1.1	1.0	1.7	2.0	2.9
Current A/C % GDP	-8.9	-8.9	-10.7	-9.5	-8.7
Budget Balance % GDP	-4.8	-6.2	-6.3	-5.4	-5.2
CPI %	4.9	3.7	5.3	6.9	6.8
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	224.3	223.9	126.2	159.2	190.9
Real GDP %	3.71	3.07	3.39	3.72	4.35
Current A/C % GDP	-4.8	-5.4	-6.4	-6.0	-4.2
Budget Balance % GDP	-8.8	-9.4	-7.4	-6.7	-6.1
CPI %	6.4	8.5	14.3	9.1	8.0

Source: Haver Analytics, National sources, Emirates NBD Research
**Egypt data refers to fiscal year (July-June)*

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2015	2016	2017e	2018f	2019f
Nominal GDP $bn	166.4	159.1	165.9	166.9	169.0
Real GDP %	3.7	3.3	1.8	2.4	2.1
Current A/C % GDP	-12.9	-12.3	-13.6	-11.5	-10.2
Budget Balance % GDP	-15.3	-13.5	-10.2	-8.7	-7.3
CPI %	4.4	5.8	6.0	5.4	5.8
Iran					
Nominal GDP $bn	419.6	441.8	442.3	422.3	440.4
Real GDP %	-1.4	12.4	4.4	4.1	3.8
Current A/C % GDP	0.3	3.7	4.9	4.4	4.7
Budget Balance % GDP	-5.3278	-4.7595	-4.9863	-3.6162	-2.8692
CPI %	15.8	8.7	10.0	12.5	13.5
Iraq					
Nominal GDP $bn	164.2	165.2	184.6	212.8	240.6
Real GDP %	4.0	11.0	-0.3	2.4	4.3
Current A/C% GDP	2.5	1.4	1.3	1.1	1.0
Budget Balance % GDP	-13.0	-14.5	-9.8	-8.6	-8.3
CPI %	1.2	1.3	0.9	2.0	3.0
Libya					
Nominal GDP $bn	34.4	43.6	63.3	89.6	111.6
Real GDP %	-0.1	-6.9	34.8	27.3	9.7
Current A/C% GDP	-9.4	-11.0	-11.1	-12.0	-12.2
Budget Balance % GDP	-23.6	-19.6	-12.3	-5.4	-5.3
CPI %	9.5	9.5	25.0	11.5	10.0
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	300.0	312.4	305.2	290.7	304.5
Real GDP %	0.8	9.0	5.5	5.9	4.2
Current A/C % GDP	0.4	0.5	-0.5	-1.0	-1.4
Budget Balance % GDP	-6.4	-8.0	-8.6	-6.8	-5.8
CPI %	9.7	6.1	8.1	8.7	9.2

Key Economic Forecasts - Global

US	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.2	2.4	2.4	1.8	2.5	2.7
Current A/C % GDP	-2.3	-2.3	-2.6	-2.7	-2.7	-3.0
Budget Balance % GDP	-3.3	-2.8	-2.5	-2.5	-3.0	-3.5
CPI %	1.5	1.6	0.1	1.7	2.3	2.5
Eurozone						
Real GDP %	-0.3	0.9	1.5	1.5	1.7	1.5
Current A/C % GDP	1.8	2.4	3.0	2.7	2.6	2.8
Budget Balance % GDP	-2.9	-2.6	-2.0	-2.0	-1.6	-1.6
CPI %	1.3	0.4	0.0	0.9	1.5	1.5
UK						
Real GDP %	1.7	2.9	2.4	2.0	1.7	2.0
Current A/C% GDP	-4.5	-5.1	-4.5	-4.0	-4.0	-3.3
Budget Balance % GDP	-5.9	-5.4	-4.3	-3.2	-2.0	-2.8
CPI %	2.6	1.5	0.5	1.9	2.0	2.6
Japan						
Real GDP %	1.6	0.0	0.5	0.9	1.0	0.5
Current A/C % GDP	0.8	0.5	3.0	3.2	3.0	3.5
Budget Balance % GDP	-7.8	-7.1	-6.0	-6.0	-5.0	-4.8
CPI %	0.3	2.7	0.8	0.8	1.5	1.0
China						
Real GDP %	7.7	7.3	6.9	6.5	6.3	6.1
Current A/C % GDP	1.5	2.1	2.7	2.8	2.5	1.9
Budget Balance %GDP	-1.8	-1.8	-2.5	-3.0	-3.0	-3.5
CPI%	2.6	2.0	1.4	1.7	2.0	2.2
India*						
Real GDP%	4.7	6.9	7.4	8.0	6.6	7.3
Current A/C% GDP	-2.6	-1.4	-1.5	-1.5	-1.0	-2.0
Budget Balance % GDP	-5.9	-4.8	-4.1	-3.9	-3.9	-3.3
CPI %	10.9	6.4	7.0	5.0	4.5	5.5

Source: Bloomberg, Emirates NBD Research
**For India the data refers to fiscal year (April – March)*

FX Forecasts

	FX Forecasts - Major					Forwards		
	24-Apr	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR/USD	1.2218	1.2500	1.2700	1.2700	1.2800	1.2304	1.2396	1.2602
USD/JPY	108.83	108.00	110.00	112.00	110.00	108.15	107.40	105.74
USD/CHF	0.9773	0.9800	0.9800	0.9800	0.9800	0.9695	0.9614	0.9443
GBP/USD	1.3941	1.4100	1.4300	1.4500	1.4800	1.4000	1.4060	1.4187
AUD/USD	0.7613	0.7600	0.7550	0.7550	0.7550	0.7616	0.7623	0.7639
NZD/USD	0.7127	0.7100	0.7100	0.7100	0.7100	0.7126	0.7129	0.7138
USD/CAD	1.2837	1.2700	1.2700	1.2700	1.2700	1.2811	1.2788	1.2745
EUR/GBP	0.8764	0.8865	0.8881	0.8759	0.8649	0.8788	0.8817	0.8882
EUR/JPY	132.97	135.00	139.70	142.24	140.80	132.97	132.97	132.97
EUR/CHF	1.1940	1.2250	1.2446	1.2446	1.2544	1.1929	1.1918	1.1899
	FX Forecasts - Emerging					**Forwards**		
	24-Apr	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**3m**	**6m**	**12m**
USD/SAR*	3.7501	3.7500	3.7500	3.7500	3.7500	3.7499	3.7508	3.7542
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6734	3.6741	--
USD/KWD	0.3006	0.3020	0.3020	0.3020	0.3020	0.2946	0.2921	--
USD/OMR*	0.3848	0.3850	0.3850	0.3850	0.3850	0.3853	0.3860	0.3885
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3761	0.3762	0.3791
USD/QAR*	3.6581	3.6400	3.6400	3.6400	3.6400	3.6580	3.6620	3.6720
USD/EGP	17.6950	17.2500	17.2500	17.0000	17.0000	17.9850	18.2950	19.0700
USD/INR	66.301	66.500	67.000	67.000	67.000	67.0800	67.7800	69.0800
USD/CNY	6.3049	6.7000	6.9000	7.1000	7.1000	6.3415	6.3645	6.4065
USD/SGD	1.3219	1.3000	1.2900	1.2900	1.2900	1.3193	1.3162	1.3102

Data as of 24 April 2018
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	2.75	2.80	2.85	2.80			
10y	3.02	3.06	3.06	2.98			
2s10s (bp)	27	26	21	18			
US Treasurys Forecasts					US Treasurys Forecasts		
2y	2.49	2.55	2.65	2.65			
10y	2.99	3.10	3.10	2.95			
2s10s (bp)	50	50	45	30			
3M Libor					3M Libor		
3m	2.36	2.55	2.70	2.80			
3M Eibor					3M Eibor		
3m	2.38	2.57	2.75	2.85			
Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED (Upper Band)	1.75	2.00	2.25	2.50			
ECB	0.00	0.00	0.00	0.00			
BoE	0.50	0.75	0.75	1.00			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-0.75	-0.75			
RBA	1.50	1.50	1.50	1.75			
RBI (repo)	6.00	6.00	6.00	6.25			
SAMA (reverse repo)	1.75	2.25	2.50	2.75			
UAE (1W repo)	2.00	2.25	2.50	2.75			
CBK (o/n repo rate)	1.75	2.00	2.25	2.50			
QCB (repo rate)	2.50	2.75	3.00	3.25			
CBB (o/n depo)	1.75	2.00	2.25	2.50			
CBO (o/n repo)	2.40	2.65	2.85	3.10			
CBE (o/n depo)	16.75	16.75	15.75	14.75			

Data as of 24 April 2018
Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	**2018Q1**	**Q2**	**Q3**	**Q4**	**2017**	**2018**
Energy							
WTI	67.73	62.87	58.50	55.00	52.50	50.94	57.22
Brent	73.88	67.18	60.00	58.00	55.00	54.56	60.04
Precious metals							
Gold	1,328.09	1,329.84	1,250.00	1,275.00	1,325.00	1,277.65	1,294.96
Silver	16.70	16.75	17.00	18.00	18.00	16.77	17.56
Platinum	924.24	976.66	900.00	925.00	975.00	936.04	944.16
Palladium	971.00	1,032.40	1,100.00	1,175.00	1,200.00	946.30	1,126.85
Base metals							
Aluminum	2,210.00	2,159.23	2,400.00	2,250.00	2,000.00	2,073.62	2,202.31
Copper	6,990.50	6,995.88	6,500.00	6,250.00	6,250.00	6,618.94	6,498.97
Lead	2,327.50	2,516.62	2,360.00	2,280.00	2,280.00	2,424.05	2,358.96
Nickel	14,160.00	13,330.15	11,750.00	11,500.00	11,500.00	11,124.45	12,020.04
Tin	21,075.00	21,092.55	20,000.00	21,250.00	21,250.00	20,041.911	20,898.14
Zinc	3,228.50	3,3391.44	3,192.00	3,090.00	3,090.00	3,078.91	3,190.84

Prices as of 25 April 2018. Note: prices are average of time period unless indicated otherwise.
Source: Bloomberg, Emirates NBD Research

Global Equities Market Watch

Index	Last Close	ADV Traded 30d USD mn	Mtd % chg	Ytd % chg	%membera bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	24,024	9,923	-0.3	-2.8	53	16.1	3.7	2.3
S&P 500 Index	2,635	49,364	-0.2	-1.5	55	16.8	3.0	2.0
Nasdaq Composite Index	7,007	33,636	-0.8	1.5	54	21.4	4.0	1.1
FTSE100 Index	7,425	6,552	5.2	-3.4	64	14.0	1.8	4.3
DAX Index	12,551	5,285	3.8	-2.8	45	13.1	1.6	3.2
CAC 40 Index	5,444	4,512	5.4	2.5	58	15.0	1.6	3.3
Swiss Market Index	8,797	3,181	0.6	-6.2	55	15.4	2.3	3.7
Nikkei Index	22,278	12,912	3.5	-2.4	64	16.2	1.7	1.9
S&P/ASX 200 Index	5,922	3,315	2.8	-2.4	57	15.9	1.9	4.5
Stoxx Europe 600 Index	383	35,699	3.3	-1.6	61	14.8	1.8	3.6
Dubai Financial Market General Index	3,034	48	-3.0	-10.5	25	8.0	1.1	5.4
Abu Dhabi Sec Market General Index	4,689	35	2.3	6.6	42	11.8	1.6	5.3
Tadawul All Share Index	8,315	1,248	5.6	15.1	69	15.4	1.8	3.2
Istanbul SE National 100 Index	110,059	1,700	-4.2	-4.6	40	7.7	1.2	4.2
Egyptian Exchange Index	18,122	86	3.8	20.7	93	14.3	2.5	2.2
Bahrain Bourse All Share Index	1,282	3	-2.5	-3.5	-	-	-	-
Muscat Securities Index	4,762	12	-0.2	-6.6	53	10.1	0.8	5.2
Qatar Exchange Index	9,091	57	6.5	7.2	58	12.8	1.5	4.5
MADEX Free Float Index	10,532	13	-0.8	4.3	62	19.1	2.6	3.5
Hong Kong Hang Seng Index	30,636	6,614	0.7	1.3	65	11.8	1.3	3.5
Shanghai Composite Index	3,129	31,018	-1.7	-5.8	17	12.3	1.4	2.4
Korea Stock Exchange Index	2,464	6,663	0.1	-0.8	55	9.6	1.0	2.0
BSE Sensex	34,617	97	4.8	1.5	58	18.4	2.7	1.6
Nifty	10,614	1,911	4.7	0.5	58	17.8	2.7	1.6
Karachi Stock Exchange Index	45,877	55	0.6	13.3	66	10.1	1.6	5.4
Taiwan SE Weighted Index	10,580	4,089	-3.3	-0.8	47	13.6	1.7	4.2
Bovespa Brasil Sao Paulo SE Index	85,469	2,414	0.1	11.9	66	13.1	1.8	3.3
FTSE/JSE Africa All Share Index	57,675	1,951	4.0	-3.1	58	15.1	1.9	3.3
Vietnam Ho Chi Minh Stock Index	1,081	256	-8.0	9.8	36	18.3	3.3	1.4
Jakarta SE Composite Index	6,230	408	-1.7	-4.3	55	15.9	2.4	2.1
FTSE Bursa Malaysia KLCI Index	1,865	257	-0.6	3.0	72	16.6	1.7	3.3
Mexican Stock Exchange	48,047	384	4.2	-2.6	35	16.8	2.2	2.4

Prices as of 24 April 2018
Source: Bloomberg, Emirates NBD Research

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