بنك الإمارات دبي الوطني
Emirates NBD

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Tim Fox
Head of Research &
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

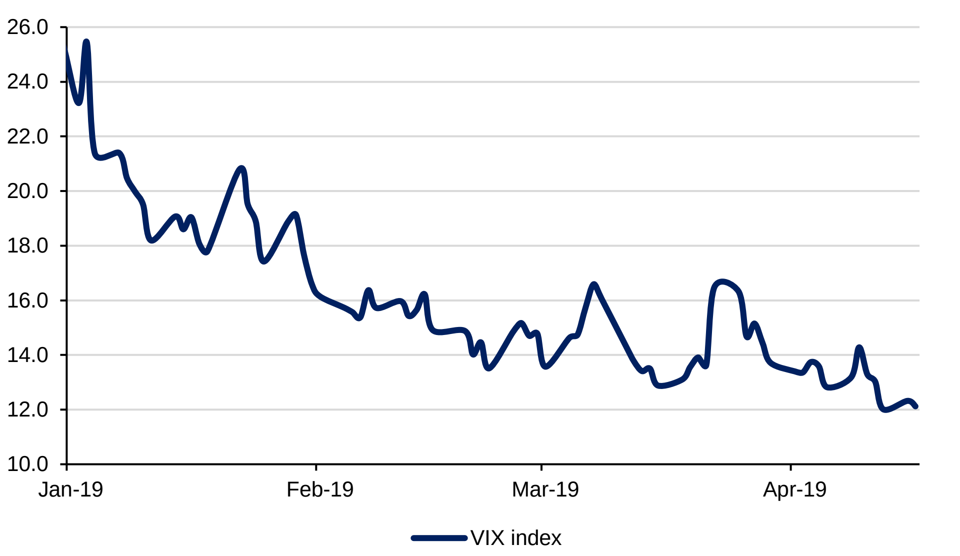
www.emiratesnbdresearch.com

Monthly Insights

Although the IMF downgraded its global growth outlook again this month, markets are detecting some tentative signs of improvement on a number of fronts which have allowed the rally in risk appetite to continue. A U.S.-China trade deal would go a long way to cementing this improvement, although possible headwinds on other fronts still remain.

- **Global macro:** While concerns about the global economy have in some ways got worse in the last few weeks, culminating in the IMF downgrading its forecasts for the world economy, in other ways there have been some tentative grounds for optimism.
- **GCC:** Preliminary estimates show that the UAE's GDP growth last year was slower than expected at 1.7%. Our analysis suggests that Abu Dhabi's non-oil sector was the weak spot in terms of growth.
- **MENA macro:** The monetary policy of North African oil importers will be relatively conducive for growth this year, as we expect no rate hikes in Egypt, Tunisia or Morocco. The more favourable domestic inflation outlook and less hawkish developed markets should allow Egypt room to resume its tentative easing cycle towards the end of the year, while Tunisia and Morocco will likely remain on hold.
- **Interest Rates:** Government bonds had another month of solid gains on increasingly dovish policy makers.
- **Credit Markets:** GCC bonds were well bid on the back of falling benchmark yields and narrowing credit spreads.
- **Currencies:** G10 currencies have performed better at the expense of the USD as confidence in avoiding a global recession has grown.
- **Equities:** Over the past month, global equities consolidated their gains further. This was primarily driven by fading of trade related geopolitical risks, initial signs that the growth in China is stabilizing and central banks across economies turning supportive of risk.
- **Commodities:** Oil prices have soared thanks to production cuts from OPEC+. The trajectory for prices over the rest of the year could largely be determined by critical events in Q2 including US policy on Iran sanctions and whether OPEC+ will keep its cuts in place.

Volatility calms as recession fears recede



Source: Bloomberg, Emirates NBD Research.

Content

Global Macro

While concerns about the global economy have in some ways got worse in the last few weeks, culminating in the IMF downgrading its forecasts for the world economy, in other ways there have been some tentative grounds for optimism on a number of fronts including economic data, progress on key issues, and pledges of policy support.

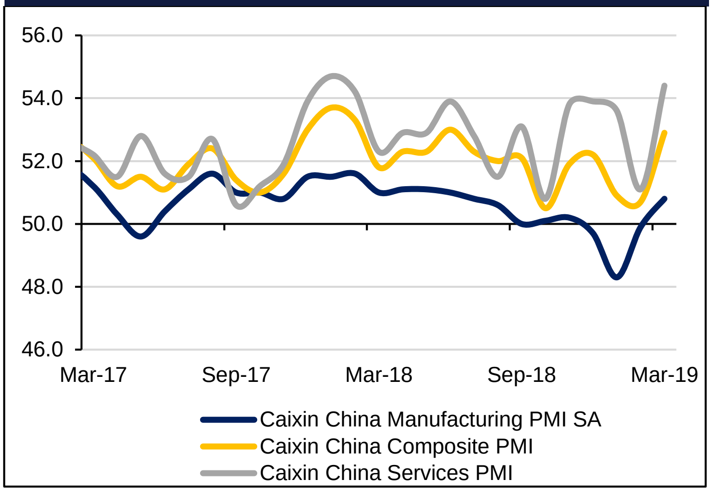
IMF downgrades outlook again

The last month has seen concerns about the global economy continue to grow culminating with the IMF cutting its outlook for 2019 global growth to 3.3%, down from 3.5% that it had forecast in January this year. The 2019 growth rate would be the weakest since 2009, when the global financial crisis was at its peak. Growth is likely to pick up next year, however, to average at around 3.6% as the Federal Reserve halts its tightening cycle and Chinese manufacturing recovers. That said, risks remain to the downside according to the IMF, particularly if US-China trade talks collapse or a no-deal Brexit materializes.

Even as some hopeful signs appear

Despite such warnings, however, risk assets have continued to perform well, on a perception that the global economic downturn might not be as bad as institutions like the IMF fear. For one thing policymakers are promising to protect the expansion and to mitigate risks, suggesting that monetary policy globally will remain accommodative for some time to come. In the last month the RBI has cut interest rates further and the RBA has discussed their next monetary policy decision being to cut.

Chinese PMIs recover



Source: Bloomberg, Emirates NBD Research

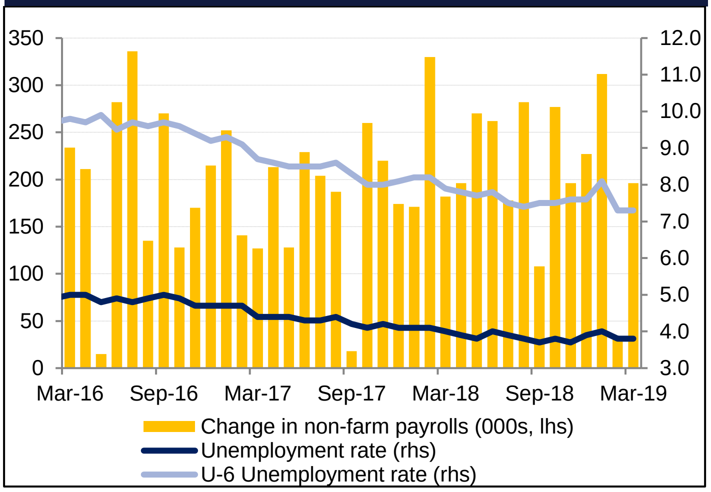
Firmer economic data

In addition more contemporaneous economic data has started to surprise positively. Chinese manufacturing PMI data for March, for example, which increased above the contraction-expansion breakeven level of 50. China's service sector PMI also improved and in conjunction with a recent increase in Chinese exports, industrial production and retail sales growth, investors are starting to see signs that recent monetary and fiscal stimulus steps are starting to work. Indeed, China's Q1 GDP growth of 6.4% was above most estimates and unchanged from Q4, despite slightly softer q/q growth of 1.4%. US ISM manufacturing activity was also firmer rising to 55.3 in March, while the UK March manufacturing PMI rose to 55.1, a 13-month high and a strong rebound from February.

A goldilocks U.S. jobs report

US economic data has also provided some grounds for optimism that the expected dip in Q1 growth will be short lived. US nonfarm payroll jobs bounced back by 196,000 in March from a revised 33,000 increase in February, but still without much sign of wage inflation, with the annual growth rate of average hourly earnings falling back to 3.2%. In that sense it was very much a 'goldilocks' employment report being not too hot and not too cold, strong enough to allay fears of a recession but not one that would necessitate a return to monetary policy tightening.

US employment rebounds in March



Source: Bloomberg, Emirates NBD Research

Progress on trade

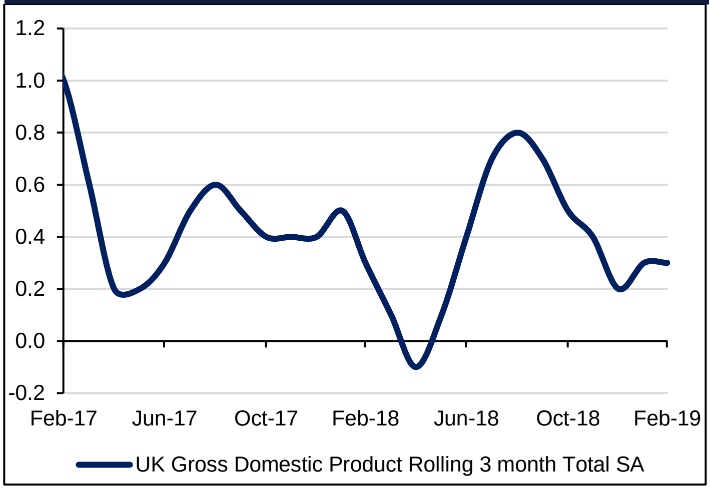
US-China trade talks are also proceeding positively, with a deal said to be 90% complete, even though President Donald Trump said that it might take more time before a final deal is agreed. The US Treasury Secretary, Steve Mnunchin, also said recently that the two countries are in the final stages of negotiations and that both had agreed on enforcement mechanisms to ensure any deal signed by the countries is implemented and maintained.

A May-June agreement is now looking favoured, with a constructive resolution to the dispute removing a key downside risk for global growth that has been in place for over a year now. It would provide a boost to economic activity and business confidence, helping both the US and Chinese economies, and re-opening global supply chains and export links to the benefit of other parts of the world.

Brexit deadline extended

After several weeks of pending deadlines and back and forth summits with EU leaders, the Brexit saga may also enter a quieter period now as the markets anticipate a delay until the latest October 31st deadline. Theresa May will continue to push for her deal to be accepted by parliament, likely with some concessions offered to the Labour party, so that the UK can leave at an earlier stage. However, with the possibility of an imminent hard Brexit looking less likely, the omens are relatively good that the UK economy can continue the momentum with which it has begun the year. Initial estimate of GDP showed 0.3% 3m/3m growth in February. There may be an element of businesses front-loading imports or manufacturing ahead of Brexit, but the breakdown still indicates that the economy is relatively well placed to cope with whatever Brexit eventually brings.

UK growth starts year on steady footing



Source: Bloomberg, Emirates NBD Research

But pitfalls also remain

Despite these favourable developments there are still a number of potential pitfalls that could yet disrupt what looks like more encouraging signs. Trade is one of these, as even as there is optimism about a deal being struck between the US and China, tensions between the US- EU are escalating in response to mutual accusations of state aid for their respective airline industries. The trade standoff is also threatening movement of cars, where Germany is particularly keen to prevent any imposition of tariffs. Agriculture, a target of the US, will not be up for discussion according to the EU, but the chair of the US' Senate Finance Committee, Chuck Grassley, said that any plan that didn't include agriculture was not likely to be approved by the US. The European Commission is reportedly preparing a list of USD 23bn of goods from the US that it will hit with tariffs in response to statements from President Trump's plan to impose tariffs on USD 11bn worth of goods coming from EU members. Both sides are taking their arguments through the WTO at a time when there is enormous scrutiny on disruptions to trade acting as a barrier to growth in 2019-20.

And Fed independence may become an issue

Another concern relates to the Fed and the potential for its monetary policy independence to become compromised by pressure from the White House. Here the greater danger may not be the risk of a return to monetary tightening but a premature move to monetary easing if President Trump gets his way.

Recent Fed nominee Stephen Moore and Larry Kudlow at the National Economic Council have called for an immediate 50bp cut in the fed funds rate, and President Trump is now pushing for another political loyalist, Herman Cain, to be appointed to the Fed's Open Market Committee, whilst also calling for a resumption of Quantitative Easing to 'rocket charge' the economy. While the Fed's adoption of a more patient and balanced outlook since the start of the year already appears to have been the result of a nudge from President Trump, it was still broadly welcomed by the markets. However, any step into actual easing territory would likely be viewed with a lot more suspicion especially if it occurs while the economy appears in relatively good shape, creating the conditions for potentially destabilizing volatility.

Tim Fox
+9714 230 7800

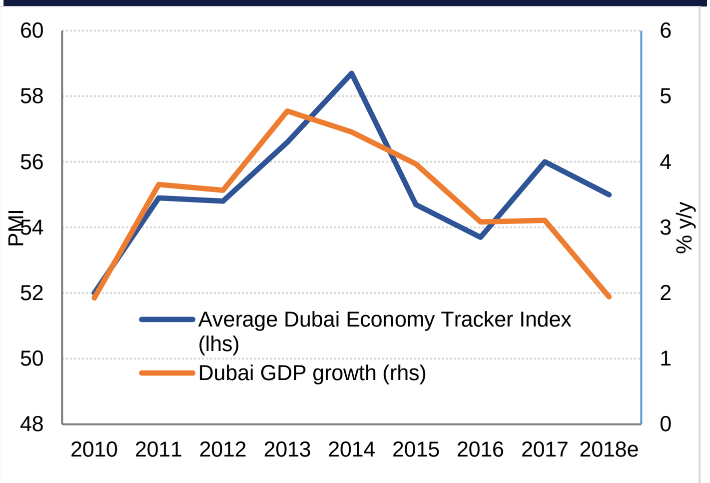
GCC: UAE growth was slower than expected in 2018

The initial official estimate for the UAE's real GDP growth last year was a disappointing 1.7%, below our forecast of 2.4% and the market consensus of 2.8%. Similarly, Dubai's headline GDP growth rate was lower than we had expected at 1.9% although this was entirely due to an upward revision to 2017 GDP growth – the higher base figure resulting in a lower growth rate.

The Federal Competitiveness & Statistics Authority has yet to release the detailed breakdown of last year's UAE GDP. However, we can deduce a few things based on the information that is available. Bloomberg oil production data suggests oil sector growth of 2.5% in 2018, which implies that non-oil growth slowed to around 1.3% in 2018 from 2.5% the year before. **This would be the slowest non-oil growth in the UAE on record.** If we consider that Dubai's economy grew 1.9% in 2018, then it appears as if the non-oil sector in Abu Dhabi was the weak spot in terms of growth last year.

The Dubai Statistics Centre released full year GDP statistics for 2018, although quarterly data is not yet available. The sector breakdown shows that real estate activities was the fastest growing sector last year, with construction sector growth also accelerating to 4.5% from 2.7% in 2017. Transport & storage was also a key contributor to GDP growth, despite slowing from 2017. Growth in Dubai's largest sector, wholesale & retail trade, was slightly better than in 2016 and 2017 but still sluggish by historical standards at just 1.3%.

DET index suggests prelim. 2018 GDP growth may be too low



Source: Haver Analytics, IHS Markit, Emirates NBD Research

We were particularly surprised with the low preliminary Dubai growth estimate for 2018 as the average Dubai Economy Tracker index for 2018 was only 1 point lower than in 2017. Even using the limited annual data available, there is a clear correlation between the Dubai Economy Tracker index and real GDP growth in Dubai. The growth rate of 1.9% reported for 2018 looks unusually low in this context, and we would not be surprised to see the official estimate revised higher in the future.

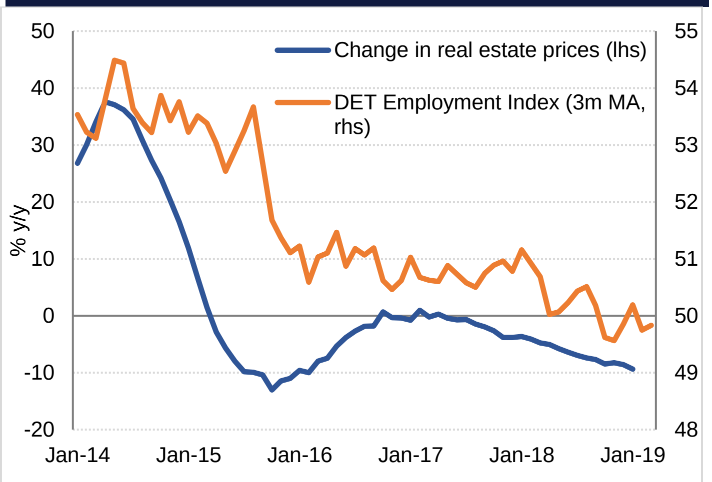
Nevertheless, **given these official 2018 growth estimates, our 3.1% forecast for UAE GDP growth in 2019 looks a little high, and the risks are skewed to the downside.** We expect growth in 2019 to be faster than in 2018 as Expo 2020 projects are completed and on the back of increased government spending. The Dubai Economy Tracker index for Q1 2019 was markedly higher than H2 2018 and also slightly higher than Q1 2018. However, the employment component of the survey continues to be weak, and other indicators such as CPI, credit growth, new business licenses and real estate prices do not yet point to a turnaround in terms of sentiment or economic activity. As a result, we await the release of the full 2018 UAE GDP dataset before we revise our GDP forecast for this year.

Real estate prices decline at a faster rate

The latest data on residential real estate in Dubai show prices have accelerated in the first couple of months of this year. Property Monitor's house price index shows residential villa prices declined -11.2% y/y in February while apartment prices were down -9.9% y/y. The Bank for International Settlements also publishes a Dubai House Price index, which shows average prices down -9.4% y/y in January, the steepest annual price decline since February 2016.

Our analysis indicates a high degree of correlation (over 70%) between the annual change in residential real estate prices in Dubai, and the 3-month moving average of the Dubai Economy Tracker's employment component. This intuitively makes sense: if there is a decline in private sector jobs (the 3m MA has been below the neutral 50-level for five of the last six months) then there is likely to be less demand for residential real estate in Dubai. Increased supply of residential units in this context would further contribute to downward pressure on prices.

Change in real estate prices is correlated with private sector employment in Dubai



Source: BIS, IHS Markit, Emirates NBD Research

Khatija Haque
+971 4 230 7803

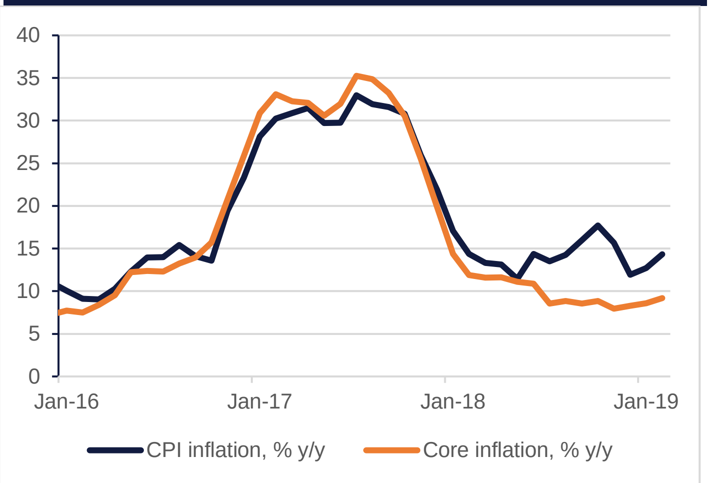
MENA Macro: North African oil importers' monetary policy growth-positive

The monetary policy of North African oil importers will be relatively conducive for growth this year, as we expect no hikes in Egypt, Tunisia or Morocco. The more favourable inflation outlook and less hawkish developed markets should allow Egypt room to resume its tentative easing cycle towards the end of the year, while Tunisia and Morocco will likely remain on hold.

Egypt

Having implemented a 100bps rate cut in mid-February, its first cut in nearly 12 months, Egypt's central bank stayed put at its March 28 meeting, holding the overnight deposit and the overnight lending rates at 15.75% and 16.75% respectively. Our expectation is that there will now be a renewed pause in the cutting cycle over the summer months, before resuming towards the back-end of the year with likely two cuts of 100bps each. A relaxation of monetary policy remains crucial to boosting private sector activity, but the CBE will be constrained by concerns over inflationary spikes and maintaining portfolio inflows.

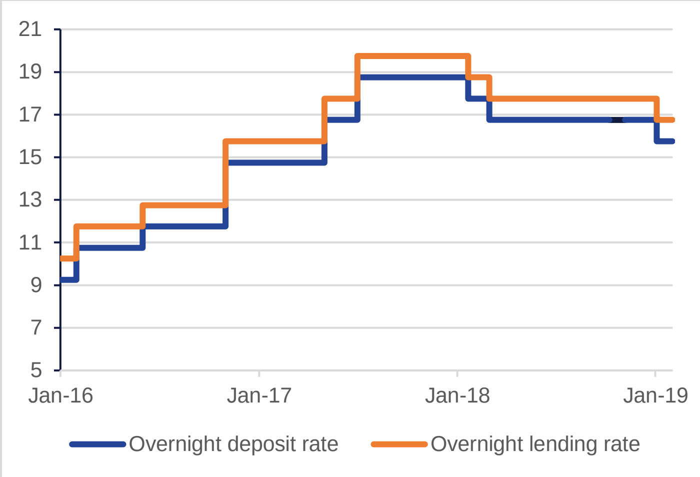
Inflation has come down markedly



Source: Haver Analytics, Emirates NBD Research

On the one hand, lower interest rates would provide a boost to activity, driving greater private sector demand for credit, stimulating household spending and business investment. Lower interest rates would also be beneficial for the government; although Egypt has been recording a primary surplus in recent quarters, onerous debt servicing costs have kept the headline budget deficit in deeply negative territory. The 2019-2020 budget announced in March lays out a goal of 15.5% average for local debt, compared to an average of around 18% in the current year, and lowering the benchmark rate will help achieve this. The more dovish tone adopted by the US Federal Reserve and other major central banks globally will give the CBE more room in which to manoeuvre, especially as compared to the far more hawkish expectations for 2019 held at the close of last year.

Rate-cutting cycle tentatively resumes



Source: Haver Analytics, Emirates NBD Research

However, on the other hand, the CBE will remain mindful of a number of factors which will mean it proceeds with caution, especially over the next several meetings. Inflation has come down a long way from the 30% levels seen in 2017, but it will remain prone to inflationary spikes as subsidy reforms continue. After falling to a multi-year low of 11.9% in December, inflation ticked back up to 14.4% in February and 14.2% in March, and the upcoming fuel indexation mechanism will exert further upward pressure, even as other subsidy cuts are set to pass through.

Foreign ownership of t-bills (USDbn)

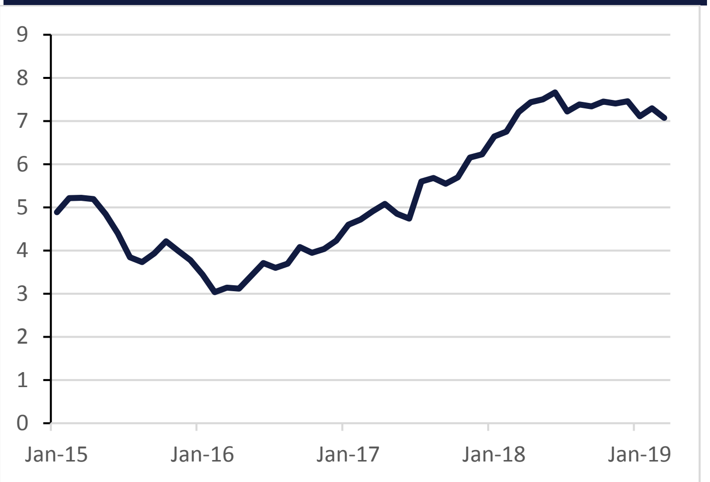
Source: Haver Analytics, Emirates NBD Research

Further, the CBE will have an eye on maintaining the portfolio inflows Egypt has enjoyed since beginning its IMF-sponsored reform programme in late 2016, especially as the EM rout last year – to which Egypt was not immune – demonstrated that this remains hot money. The global picture is more supportive of rate-cutting as hiking in DMs is on pause and Egypt's economic and political stability relative to other similar EMs counts in its favour. Nevertheless, as the removal of the repatriation mechanism late last year introduces more volatility to the Egyptian pound, the CBE will be wary of prompting a massive outflow from the portfolio account, potentially leading to a sharp currency sell-off and renewed problems with import-driven inflation.

Tunisia

Having hiked three times in the course of 12 months, we expect that the Tunisian central bank will remain in a holding position for the time being as inflationary pressures should soften. Price growth hit multi-year highs of an average 7.4% in 2018, compared to an average 4.6% over the previous decade, prompting the BCT to take drastic action; in its February meeting, the MPC raised rates by 100bps to 7.75%, exceeding our projection of a 50bps hike. The outlook is somewhat more favourable this year as inflation had fallen to 7.1% in March, and we expect a further softening as subsidy removal on fuel will likely proceed at a slower pace than seen last year, when prices were raised three times in the first half. That being said, we do not see any scope for a relaxation of rates either, as substantial wage increases agreed following labour action last year will induce demand-pull inflation; we forecast an average inflation rate of 6.8% this year.

Tunisian CPI (% y/y) will ease

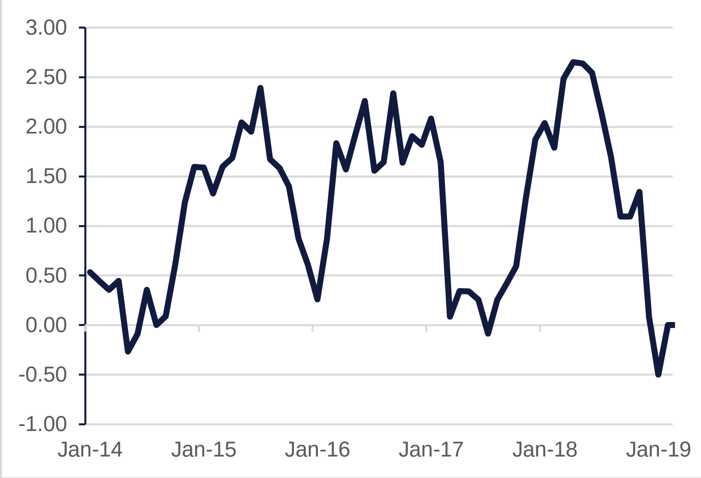


Source: Haver Analytics, Emirates NBD Research

Morocco

In Morocco we also anticipate that the central bank will keep its benchmark rate on hold through 2019, but from a position of greater stability than seen in Tunisia. The central bank has kept rates static since March 2016, when a 25bps cut was implemented; at the bank's March 19 meeting this year it deemed the status quo 'appropriate'. A hike by the ECB in 2019 may have prompted a similar move by Morocco, given the heavy weighting of the Eurozone in the country's trade basket, and the euro weighting of 60% in the MAD's exchange rate basket (it was previously even larger, at 80%, before the USD's proportion was boosted to 40% in 2017 in a bid for greater flexibility). However, the ECB has changed tack on tightening as the bloc's growth has weakened, signalling that there will be no move on rates until 2020.

Moroccan CPI (% y/y) remains benign



Source: Haver Analytics, Emirates NBD Research

Meanwhile, from a domestic perspective, inflation is likely to remain contained at an average 1.6% according to our forecasts, compared to 1.8% last year. Our projection for Brent crude (USD 65/b) is broadly in line with the central bank's (USD 63.2/b), and pump prices should remain manageable given the government's plan to control prices from distribution companies by adjusting the price cap every 15 days. This follows substantial protests through 2018.

Daniel Richards
+971 4 609 3032

Interest Rates

US Rates

Last month the Federal Reserve joined its global peers by turning decisively dovish and removing the projection of two more rate hikes in 2019 from its dot plot. The Fed will soon begin actively easing by reducing the quantum of balance sheet tightening beginning next month and ultimately ending QT (quantitative tightening) by September this year.

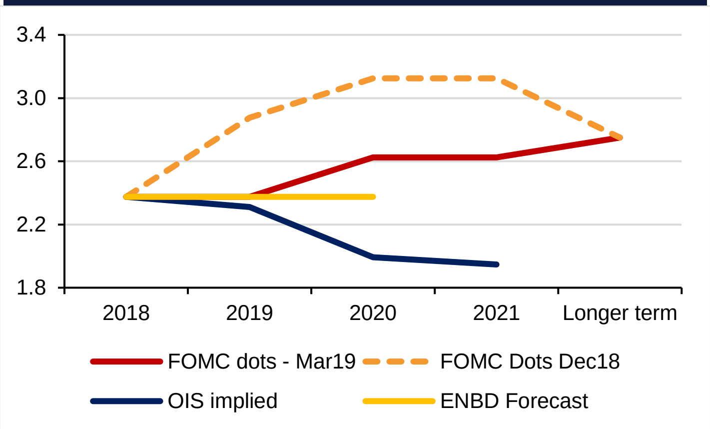
Volatility in treasury yields has subsided after a late-March surge, as strong economic data have eased fears of an impending recession in the US. Even though wage growth slowed slightly, the latest job report reflected the addition of better-than-expected 196k new jobs and unemployment remaining at 3.8%. Underlying economic growth in the US is still solid. So why is the Fed being so dovish?

Beside the plausible theory that the Fed reacted to either the pressure from Wall Street or from President Trump, there are two other factors which we think appear logical. One is increasing recognition of the slowing global growth which has also made other central banks turn dovish in recent months. The other is the Fed's realization that its previous course risked inverting the yield curve, which was violently turning against its fourth-quarter expectations and possibly toward recession.

Market diverging from the Fed

Disagreements are rife between market participants and Fed officials on the path of monetary policy going forward. The debate is no longer about the timing of the rate hikes but whether the next move would be a cut or a hike. Markets are pricing 40% possibility of at least one rate cut and 7% possibility of two rate cuts before the end of this year.

Rate hikes - dot plot vs mkt expectations



Source: Bloomberg, Emirates NBD Research.

In contrast, while reiterating its patient stance, the Fed believes that core inflation will rise enough from current levels to justify one more rate hike in 2020. That said, the March inflation report showed core CPI falling from 2.1% to 2.0%. We think that the Fed's tightening cycle is likely over mainly because core inflation is likely to struggle to reach a level warranting further rate hikes.

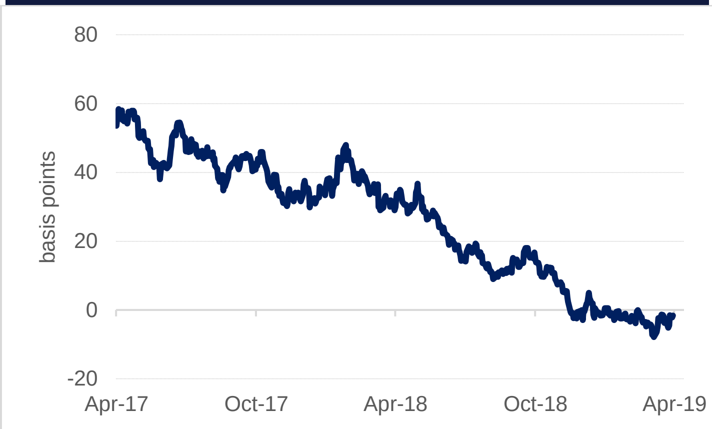
The Fed is expected to be watching the US-China trade tensions closely for possible effects on growth stemming from increased business uncertainty, diminished consumer purchasing power and supply-chain disruptions. A large scale and prolonged dispute over trade policies could affect the Fed's growth forecast and take the currently projected 2020 rate hike off the table.

Yield curve inversion

While the 2yr-5yr UST yield spread has spent most of the last quarter in negative territory, the 2yr-10yr spread has remained range-bound, fluctuating between 10bps to 20bps. The 5yr-30yr spread has also remained range bound between 58bps and 68bps.

The recent flatness of the yield curve has raised concerns about an ultimate yield curve inversion even in the long end. No consensus exists on the FOMC as to how to incorporate the yield curve dynamics into policy decisions, but the predominant thought seems to be that "this time it is different'.

UST 2yr5yr yield spread



Source: Bloomberg, Emirates NBD Research.

While yield curve inversion has traditionally been a good indicator of recession, we think the current level of interest rates remain accommodative despite three years of rate increases. Recessions are more likely when real interest rates exceed GDP growth. The inflation-adjusted fed funds rate has barely moved into positive territory (just 0.4%), let alone to the type of level which would prove restrictive to growth. There is no historical evidence of a recession occurring with real rates so low.

We have a neutral view on the UST yields going forward. It will take a few more months of data to make a bullish or bearish case. As such the 10yr yield is likely to fluctuate between 2.40% and 2.80% for most of this year with a bias towards the lower end of this range in the next few months.

Global Rates

Sovereign yields in the Euro area also declined during the month, particularly after the IMF downgraded its forecast for 2019 economic growth in the Eurozone to 1.3% from earlier 1.6% mark. Ten year Bunds yield fell another 2bps during the month to 0.06%.

The latest extension to the Brexit deadline has left UK Gilts trapped in a range for now. The yield on 10yr Gilts remain close to its year-to-date average, currently trailing at 1.22%, 3bps higher than last month despite the risk of a no-deal Brexit having diminished.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.56	-5	-16	-27
UK	1.22	+3	-9	-24
Germany	0.06	-2	-16	-46
Japan	-0.03	+2	-3	-7
Russia	4.36	-18	-30	-52
Brazil	5.22	-2	-34	+30
Turkey	7.74	+92	+68	+175

Source: Bloomberg as at 16 April 2019, Emirates NBD

Russian sovereign bonds have been amongst the best performers recently as Russia's economic and financial situation remains visibly stable. The yield on 10yr Russia sovereign bonds tightened another 18bps to 4.36%. In contrast, Turkish sovereign bonds remained under pressure as the country struggle with an economic downturn and currency volatility.

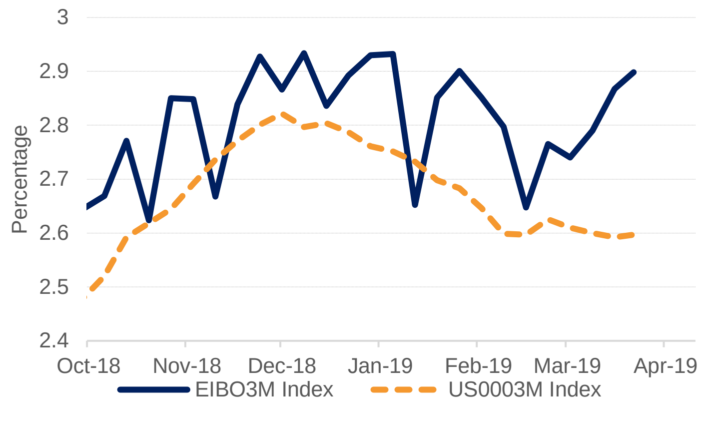
GCC Local Rates

Short-term interbank rates in the US followed suit with the treasury curve. The 3m LIBOR rate is currently at about 2.59%, circa 21bps lower than the highest level this year of 2.80%. In this environment, given the Dirham's peg to the dollar, interbank rates in the UAE theoretically should also have come down or remain range bound with respect to the recent decline in LIBOR rates.

In contrast, EIBOR rates have actually increased. The spread between 3m EIBOR and 3m LIBOR touched 36bps last week – its highest in nearly two years. We think this widening in the EIBOR – LIBOR spread is unsustainable and likely to mean-revert to lower levels within this quarter.

The recent widening of the EIBOR spread was probably due to VAT collection related deposits (AED 30 billion to AED 40 billion) being withdrawn by the Ministry of Finance from the commercial banks' books. These funds will likely move back from MoF's account with the Central Bank to individual emirates' DoF's (Department of Finance) accounts with commercial banks after finalization of distribution of this revenue to individual emirates. EIBOR spreads should narrow once these funds move back into the commercial banks' balance sheets.

3m EIBOR – 3m LIBOR rates



Source: Bloomberg, Emirates NBD Research.

Anita Yadav
+9714 230 7630

Credit Markets

Global Bonds

Credit bonds performed well across the globe last month mainly benefiting from narrowing benchmark yields on reaffirmation of the Fed forbearance on rate hikes. Yields on 2yr, 5yr, 10yr and 30yr USTs closed down to 2.39% (-6bps, m/m), 2.37% (-4bps, m/m), 2.56% (-5bps, m/m) and 2.97% (-5bps, m/m) respectively.

The rally was also fueled by tightening credit spreads on the back of positive US-China trade talk commentary and rising oil prices. Both high yield as well as investment grade bonds in the developed world had a tightening bias. Credit default swap levels on US IG and Euro Main were range-bound, closing just a bp lower each at 56bps and 59bps respectively.

Monthly total return on US IG corporate bond index over the last one month was a gain of 1.74% as option adjusted credit spreads tightened 10bps to 109bps. The Euro aggregate bond index had a monthly gain of 0.56% with main attribution coming from benchmark yield tightening. Euro bonds had minimal credit spread contraction as investors worried about decelerating economic growth in the region.

Total monthly return on the EM USD bond index was also impressive at 0.86% even though the average credit spread on the index appeared to widen by 3bps to 283bps due to material widening in bonds from Turkey and Argentina.

Option Adjusted Credit Spreads OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	109	-10	-35	+4
US HY Corp	350	-34	-86	+27
EUR IG Agg	75	-1	-16	+25
USD EM Agg	283	+3	-29	+46

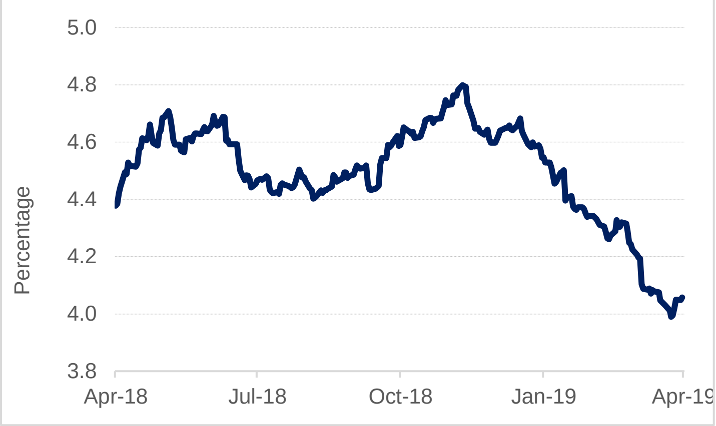
Source: Bloomberg, Emirates NBD

For most bond portfolios, total return in the last quarter came from capital gains which accounted for 70% to 80% of the total return. This is in stark contrast to the historical trend whereby 80% to 90% of total return on bonds come from coupon collection.

GCC Bonds – Secondary Market

GCC bonds followed their global counterparts in staging a strong performance. Monthly total return on GCC Barclays bond index was a gain of 1.47%. Rising oil prices, increasing asset allocation to the GCC region, some positive credit rating announcements and a continued bid on the back of the EMBI index inclusion provided ample support to GCC bonds even though the new issue pipeline was large.

Bbg Barclays GCC Bond Index - YTW



Source: Bloomberg, Emirates NBD Research.

Bonds from Saudi Arabia did particularly well during the month as the entire sovereign yield curve shifted downwards after the very competitive pricing achieved on Aramco bonds. Even the bonds of GREs such as SECO and SABIC benefited from a generalized mini rally in Saudi bonds. The yield on SECO 43s tightened 38bps to 4.75% and that on KSA 49s was down by 25bps to 4.72%. The final confirmation about Aramco buying majority stake in SABIC from the sovereign wealth fund, PIF, for USD69 billion, saw SABIC 28s to close the month at yield of 3.78% (-39bps, m/m).

As per media reports, the Saudi government's Public Investment Fund is in talks to increase its stake in ACWA Power from 25% to circa 40%. The yield on INTLWT 39s declined 28bps to 5.67% in response. PIF is spearheading development of the kingdom's clean power projects. Saudi government plans to build about 60 gigawatts of renewable power capacity by 2030, with the PIF holding stakes in more than 40 GW of that capacity.

In the banking space, National Commercial Bank, Saudi Arabia's biggest lender that is owned 44% by Saudi's Public Investment Fund (PIF) started initial talks with Riyad Bank (also owned 22% by the PIF) for a merger in a deal that would create the Gulf's third-biggest lender with USD182 billion in assets. Currently the banking sector issuance out of Saudi is disproportionately small. Corporate activity may trigger some new issuance from this segment going forward.

Fitch revised the outlook on Kuwait Energy's CCC rating to 'Positive' from 'Evolving' following the acquisition of the company by Hong Kong-listed United Energy Group Ltd (UEG). The credit quality of the combined entity is likely to be a few notches better than the current 'CCC' rating. While the ultimate fate of KUWAIE 19 is yet to be decided, the yield on this bond tightened by 1135 bps to 14.65%, easily making it the top performing bond in the region last month.

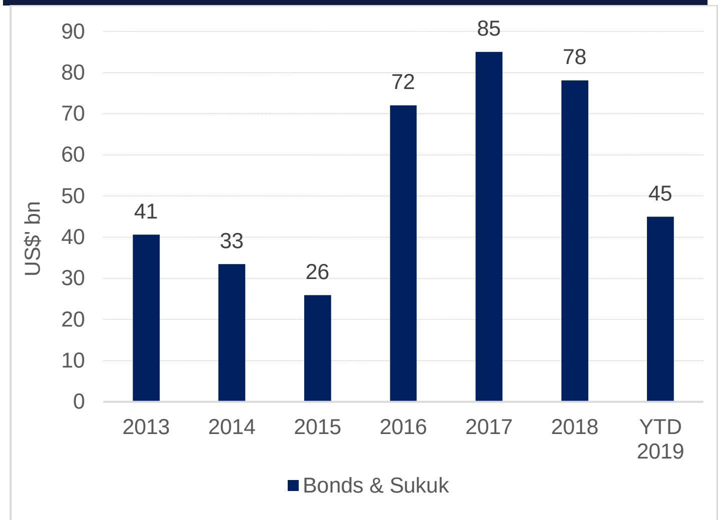
A3 rated Dubai Islamic Bank is believed to be looking at buying Noor Bank (rated A by Fitch). The acquisition would create a lender with USD75 billion in assets. While discussions are at an early stage and may not lead to a deal, yield on NOORBK 23s tightened 17bps during the month to 3.88%, closing the gap with DIBUH 23s that are currently trading at yield of 3.62%.

Oman plans to impose 100% "sin tax" on tobacco, alcohol, pork and energy drinks from June onwards. The tax is expected to generate circa OMR100 million (USD260 million) annually. However, investor nervousness about Oman government's deteriorating balance sheet remained unabated. The yield on OMAN 28s increased another 7bps to 6.57% in an otherwise yield tightening environment in the region. Also Fitch downgraded ratings on National Bank of Oman and Sohar International to BB / stable citing the sovereign's reduced ability to support in times of need.

GCC Bonds - Primary Market

The GCC primary market was all about the Saudi oil giant Aramco's debut offering. Aramco received orders in excess of USD 100 billion, the largest ever seen in emerging markets, which facilitated upsizing of the initial USD10 billion deal. It eventually priced USD12 billion in multi-tranche fixed rate bonds at T+55bps (USD1b, 3yr), T+75bps (USD2b, 5yr), T+105bps (USD3b, 10yr), T+140bps (USD3b, 20yr) and T+155bps (USD3b, 30yr). Given its sovereign ownership, the Saudi government curve contracted in sympathy. That said, the secondary market performance of Aramco was less than stellar with ARAMCO 24s currently trading at USD98.73 versus issue price of USD99.14.

GCC USD New issues



Source: Bloomberg, Emirates NBD

Also during the month, A3 rated, Emirate of Sharjah priced USD1 billion 10 yr sukuk at MS +155bps and Baa1 rated, National Bank of Ras Al Khaima priced USD 500 million in 5yr bond at MS +185bps.

Anita Yadav
+9714 230 7630

Currencies

USD weakens amid growing risk appetite

Since the start of April, increasing risk appetite and hope for a resolution in trade tensions have weakened the dollar. In addition to this, economic data out of the U.S. has been less promising. There was a decline in consumer confidence in April, with the University of Michigan Consumer Sentiment Index falling from 98.4 to 96.9. Furthermore, although headline CPI rose to 1.9% y/y in March from 1.5% y/y in February, core inflation retreated from 2.1% y/y to 2.0% y/y during the same period. This is unlikely to influence the patient mindset of the Fed which is now, according to the OIS, likely at the end of the current tightening cycle with the next move in the Fed Funds Target Rate likely to be a cut.

DXY testing 50-day MA

Source: Bloomberg

These conditions have served to soften the dollar and the Dollar Index (DXY) has fallen by 0.28% since April 1st. Further losses appear to have been halted by the 50-day moving average (96.796), however it is uncertain whether this support level can remain intact for long. A break and daily close below this support is likely to result in a test of the 100-day moving average (96.595) in quick succession. Should this level falter, the index could trade below the 200-day moving average for the first time since April 2018.

EUR remains range bound, capped by carry trades and slowing growth

Since breaking below the 100-day moving average last month (1.1349), EURUSD has been in a 150 pip range from 1.1200 to 1.1350. The common currency would usually fare better in this environment of USD softness, but gains have been hindered by soft economic data and the use of the euro as a funding currency. Concerns over a recession in Germany and an increasingly dovish stance from the European Central Bank have capped gains, while additional pressure has been applied by concerns that there may be an escalation in trade tensions between the Eurozone and the U.S.

EURUSD approaches 200-week MA

Source: Bloomberg

In the medium term, we expect the euro to overcome these headwinds. The failed attempt to break below the one-year low of 1.1177 shows that there is some resilient support, an observation confirmed by an inspection of options positioning which shows the least bearish euro positioning in almost one year. We look for a break and weekly close above the 200-week moving average (1.1341) to trigger a more significant move towards the 1.15 handle.

GBP to benefit from easing Brexit concerns

A price comparison over the 30 days shows GBPUSD almost unchanged, 0.07% firmer at 1.3084. However this observation betrays the volatility of the price and during this period it ranged from as high as 1.3381 to as low as 1.2978. While much of this volatility was induced by uncertainties over Brexit, over the last week the price has been tamer and has slowly climbed from below 1.3000 to its current level. The major driver behind this crawl higher has been renewed conviction that a no-deal Brexit has become very unlikely. European lawmakers have agreed to push back the deadline for the UK leaving the EU to October 31st which means that markets may once again pay attention to economic data when determining their appetite for sterling. This data has held up, with February's employment data showing continued tightness in the labour market, the unemployment rate at 3.9% and wages increasing 3.5% y/y, while GDP and industrial production rebounded during this period. Should the data continue to be constructive, the market might expect tightening from the Bank of England which would support the pound.

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least bearish euro positioning in almost one year. We look for a break and weekly close above the 200-week moving average (1.1341) to trigger a more significant move towards the 1.15 handle.

Sterling close to 50-day MA

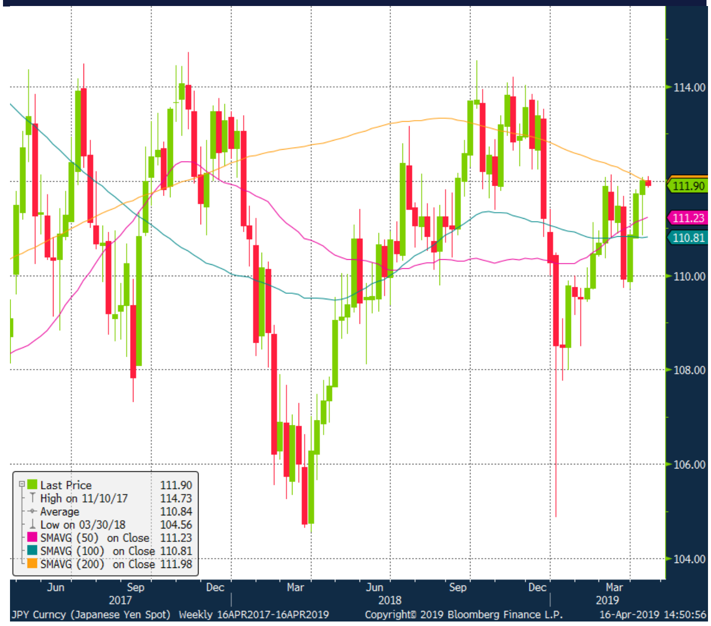
Source: Bloomberg

JPY softens as yields and risk appetite increase

The yen's status as a safe haven has not served it well over the last week. With increasing risk appetite, optimism that global growth may rebound and a climb in yields, USDJPY has climbed over the last month. Starting below the psychologically significant 110 handle, the price has successfully broken above both the 50 and 100-week moving averages (11.23 and 110.81 respectively) and further gains were only kept in check by the 200-week moving average (111.98). Currently sitting at 111.90, a break above the 200-week MA is likely to cause a test of the 114 handle.

Looking forward, any JPY strength is likely to solely be catalyzed by risk aversion in the markets as due to a lack of inflationary pressures and stagnant household spending, monetary policy from the BoJ is likely to remain ultra-loose.

USDJPY to retakes 50 and 100-week MAs



Source: Bloomberg

AUD is vulnerable to dovish RBA

AUD has seen a reversal in fortunes over the last month. Initially being the strongest performing G-10 currency, these gains have been pared in the aftermath of the release of the RBA minutes for April's meeting. The minutes revealed that policy makers had discussed the potential of cutting interest rates further from their current record low of 1.50%. This represents the third shift from the central bank in as many months. Beginning 2019 with a tightening bias, Governor Lowe shifted to a neutral stance in February and is now discussing the benefits of additional easing with his colleagues.

Following this development, the market is now considering that the central bank will lower interest rates as soon as their August meeting, with the OIS pricing in a 55.1% chance of a 25bps cut by then. As we go to print, AUDUSD is trading at 0.71474. A break below the 100-day moving average (0.7138) will make the price vulnerable to further declines towards the 0.71 handle in the short term. With AUD being unable to break above the 200-day average (0.7192) despite increased optimism over the U.S. and China reaching a compromise on a trade deal, the downside risks to AUD remain the stronger driver in the medium term. Accordingly, we have lowered our AUD forecasts to adjust to this change in monetary policy.

Mohammed Al Tajir
+9714 609 3005

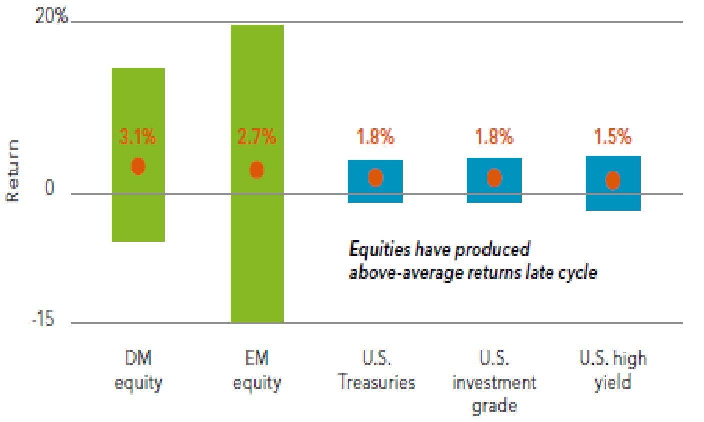
Equities

Over the past month, global equities consolidated their gains further. This was primarily driven by the fading of trade related geopolitical risks, initial signs that the growth in China is stabilizing and central banks across economies turning supportive of risk.

Overall, the MSCI All Country World index gained +2.7% 1m to extend their year to date gains to +14.6%. The rally was broad based with all major sub-indices closing in positive territory. The MSCI G7 index, the MSCI Emerging Market index and the MSCI Frontier Market index added +2.7% 1m, +3.4% 1m and +0.7% 1m respectively. Chinese equities continue to be at the forefront of this rally in equities. The Shanghai Composite index gained +7.7% 1m to take their year to date gains to +30.5%. The rally is indicative of growing confidence among investors that the stimulus provided by the Chinese government will support the economy and an anticipation that a trade deal with the US is within reach. Within the MENA region, the DFM index (+8.3% 1m) and the Tadawul (+6.7% 1m) saw renewed investor interest.

One stark feature of the rally in 2019 so far has been the absence of volatility across markets. The VIX index (US) is currently at levels last seen in September 2019. Since the start of the year, the VIX index, the V2X index (Europe) and the VXEEM index (EM) has dropped -52.0%, -53% and -38% respectively.

Equities outperform during late-cycle growth period



Source: BlackRock Investment Institute
Indices referred – MSCI World Index, MSCI Emerging Markets index, Bloomberg Baclays US Government, US Corporate and US High Yield indices

The consensus among investors remains that we are in late-cycle of growth. The divergence seems to be about the length of this cycle. It is worth highlighting that equities tend to outperform during such cycles. According to a study by BlackRock Investment Institute, global equities have produced quarterly returns above the full-cycle averages in the past. This is based on returns in the 28 quarters that fell into 'late-cycle' periods since 1988. The study also shows there is a wide dispersion around these average returns, particularly in emerging market equities.

The direction of equities over the next month could well be shaped by how the Q1 2019 earnings season pans out. The earnings expectations are at multi-year lows and valuations at near-term highs. If earnings come in better than expected then it would provide a further fillip to the current rally. The early indications paint a mixed picture. With nearly 6% of S&P 500 companies having reported earnings, the blended Q1 2019 earnings, according to FactSet, have dropped -4.3%. This is relative to expectations of a -4.1% decline at the end of first quarter. The MSCI World is currently trading at 16.2x 2019E earnings relative to 10y average P/E ratio of 14.3. The largest divergence between current multiples and historical averages is in US equities.

Q1 2019 – Interesting nuggets

Flows

The general refrain is that as equity prices rise, the money flowing into the asset grows. However, that has not been the case in Q1 2019. According to data from EPFR, global equity funds had an outflow of 0.7% of AUM in Q1 2019. This is the largest outflow since Q2 2016. In terms of regional flows, the divergence appears stark between emerging market equities and developed market equities. EM equities saw an inflow of 1% of AUM in Q1 2019 compared to outflows from Global, US and Europe dedicated funds. Within the developed market space, only Japanese equity funds saw inflows in Q1 2019.

The flow clearly suggests that investors broadly remain in 'sell the rally' mode and hesitant to chase the sharp rebound in equities. The trend, in our view, opens up the opportunity for equities to rally further should the current tailwinds gain further pace. The current earnings season could well be an important piece of the puzzle in attracting flows back to equity markets. The positioning data from CFTC suggests that possibility is gaining ground. The S&P 500 pull/call ratio has dropped significantly from the highs at the start of the year.

Growth versus value

Growth stocks outperformed value stocks. The MSCI World Growth index gained +14.4% in Q1 2019 compared to a gain of +9.4% in the MSCI World Value index. The divergence was similar across economies and is consistent with the trend seen in 2018. Last year, the MSCI World Growth index dropped -7.8% compared to a decline of -13.2% in the MSCI World Value index. In terms of valuation, the MSCI World Growth index is currently trading at 20.33x 12 m forward earnings. This is at a sharp premium to the MSCI World Value index which is currently trading at 12.7x 12m forward earnings.

Dividend stocks

At a time, when bonds yields have dropped across most markets, there has been a growing focus on high dividend yielding stocks. It is no surprise to see them outerperforming. The MSCI World High Dividend Yield Net Return index gained +10.3% in Q1 2019 versus a decline of -7.6% in 2018. The trailing 12-month dividend yield for this index is 4.02% compared to 2.46% for the broader MSCI World index.

In terms of regions, the rally has been sharper in high yielding European equities. The MSCI Europe High Dividend Yield Net Return index gained +12.0% in Q1 2019. The trailing 12-month dividend yield for the index is 5.8% compared to 3.8% for the MSCI Europe index.

The indices captures the high dividend yield equity opportunity set within a standard MSCI parent index by only including securities that offer a meaningfully higher than average dividend yield relative to the parent index.

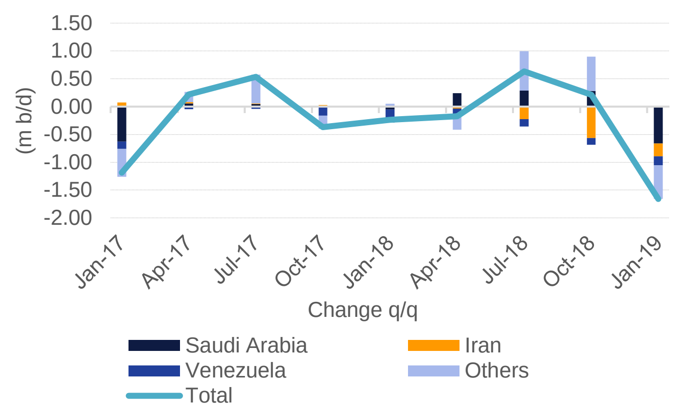
Aditya Pugalia
+9714 609 3027

Commodities

Oil markets will face several critical binary events in Q2 that will shape the trajectory for prices over the rest of the year. Oil futures have had a blistering performance in 2019 so far, up 30% and 40% for Brent and WTI respectively. The strong gains have largely been down to production restraint by OPEC+, although stable demand and a softer dollar have helped too. However, the gains could be at risk of evaporating as the market assesses US policy on Iran and Venezuela and whether OPEC+ will extend, amend or end their current production cuts.

Compliance with the latest OPEC+ cuts has been strong thanks once again to over-delivery on targets by Saudi Arabia. The kingdom has recorded average compliance in Q1 of 169% to its targeted cut of 320k b/d from October 2018 levels. In March, Saudi Arabia's compliance hit 228% according to Reuters' surveys as the kingdom tries to single-handedly squeeze the oil market tighter and boost prices. Compliance elsewhere in OPEC has been relatively good: the UAE has hit an average of 116% compliance while Iraq hit a compliance level of more than 100% in March after a negligible start in January.

OPEC output helped lower by sanctions



Source: EIKON, Emirates NBD Research.

Outside of OPEC, the plus bit of OPEC+, compliance has been more mixed, similar to its pattern in the 2017 Declaration of Cooperation. Russia, for instance has only managed to hit 36% of its production cut target as of February, according to the IEA.

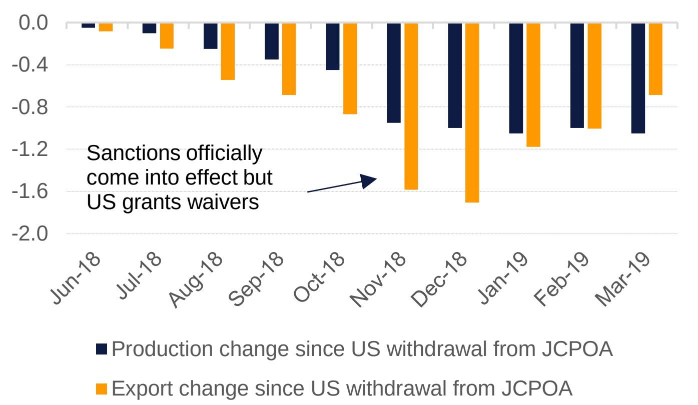
The voluntary cuts from OPEC+ have helped to tighten markets. We estimate the market balance has moved from a surplus of more than 2m b/d in Q4 2018 to less than 700k b/d in Q1 2019 (which is likely to be revised lower once full data for Q1 is available). But OPEC+ has got a helping hand from countries whose production is declining for involuntary reasons. US sanctions remain in place on two of OPEC's (potentially) largest producers: Iran and Venezuela. Production declines in both countries have accounted for almost a quarter of the q/q decline in OPEC's total output in Q1.

Production in Venezuela continues to plummet as the country endures economic and political uncertainty. Power outages are the latest threat to crude oil production and the country self-reported a month/month decline of 470k b/d in March. With no immediate end to the political conflict in Venezuela a turnaround in output remains unlikely.

Iran policy in focus

Iran's production has fallen off sharply since the US government announced its withdrawal from the JCPOA in May last year. Output is down more than 1m b/d since May 2018 and has hit a low of around 2.75m b/d. Production has actually declined faster since May 2018 than it did in 2012 when the last round of US sanctions targeting energy trade with Iran were enforced. More significant than production alone, exports have also collapsed as importers avoided taking Iranian barrels even ahead of sanctions taking effect in November 2018. Just a few days before sanctions took effect the US government surprised markets by offering waivers to sanctions for selected importers, tempering the decline in exports.

Iran's output hits a trough



Source: EIKON, Emirates NBD Research.

US policy on Iran represents the first major binary event for oil in Q2. The waivers to sanctions will expire May 4th and what the US administration decides will have a profound impact on market balances and conditions for the rest of the year. US rhetoric on Iran has escalated in recent weeks and our expectation is that the administration will take a hardline approach to the country. How that unfolds in practice, however, is more uncertain. If the US enforces sanctions in full (without waivers) we would expect Iranian production to decline by at least another 200k b/d by the end of the year.

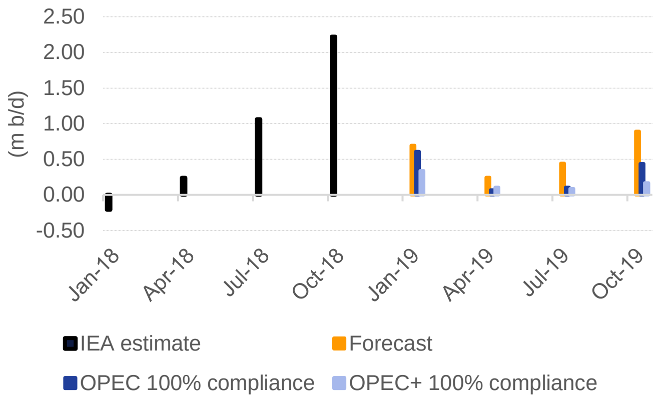
Alternatively, the US could extend waivers to all countries (in which case we would expect production to level off around current levels) or they could only offer them to countries highly reliant on flows of Iranian crude (eg, India or China). Whatever the outcome in May, we don't forecast a scenario in which Iran's production and exports increase going forward.

OPEC+: extend, amend or end?

OPEC+ will be anxiously waiting for the outcome of the Iran sanctions decision as it assesses the next major decision for oil in Q2: whether to extend, amend or end their production cuts. Commentary from several prominent Russian officials (head of the sovereign wealth fund, finance minister) has been suggesting they favour production increases from June to compensate for declining output in Iran and Venezuela. So far OPEC ministers have not publicly spoken in support of raising output.

Our forecast that OPEC+ will increase output in H2 2019 remains in place as producers compensate for declining output and chase high oil prices: Brent at USD 70/b doesn't entirely cover fiscal expenditure for GCC OPEC members but it is not far off (Saudi Arabia breakeven estimated at USD 83/b for 2019). However, like 2018 we see the risk of an over-reaction to the market tightening as very high and production increases will swamp markets and contribute to a surplus in H2 of around 670k b/d (even with additional declines expected in Iran and Venezuela).

Crude oil balance scenarios



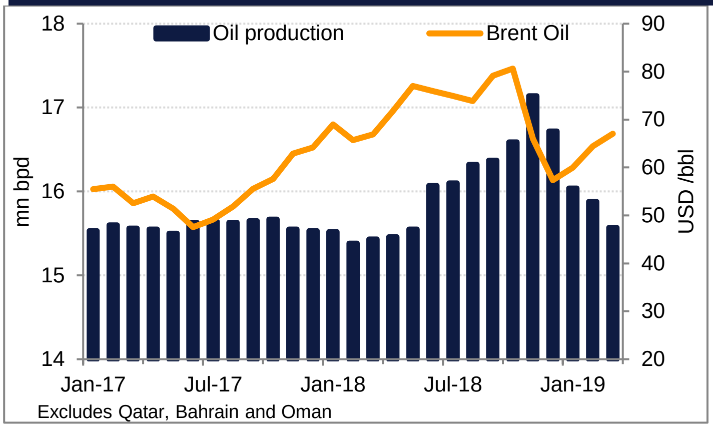
Source: IEA, Emirates NBD Research.

Were OPEC to adhere to its production targets with 100% compliance then the market would still be in surplus although lower than our forecast. If OPEC+ maintained 100% compliance—which we see as highly unlikely—then balances would be much closer to neutral although still with a bias toward surplus.

Edward Bell
+9714 230 7701

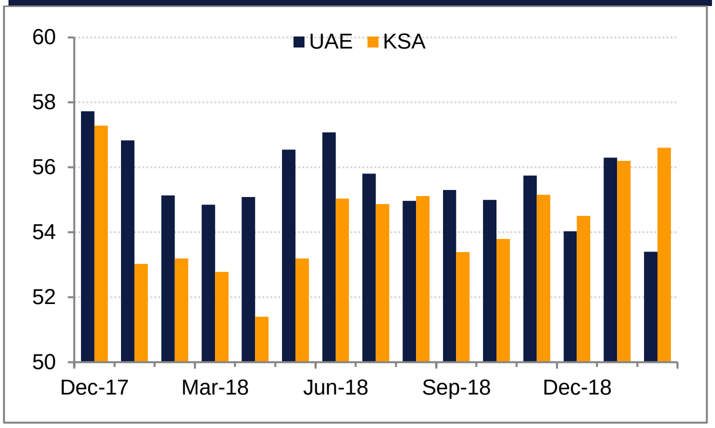
GCC in Pictures

GCC Oil Production and Oil Price



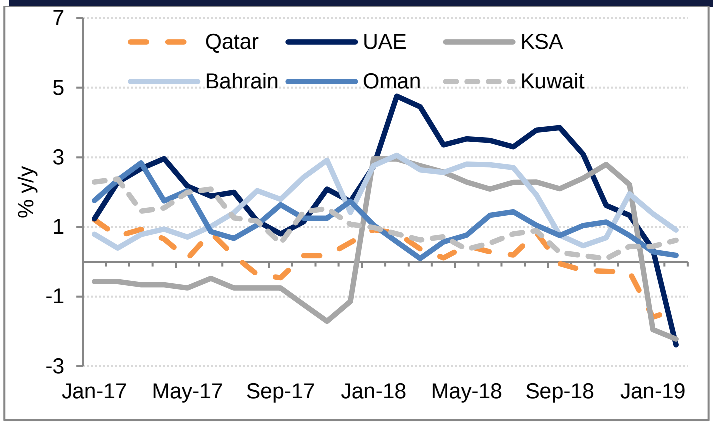
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



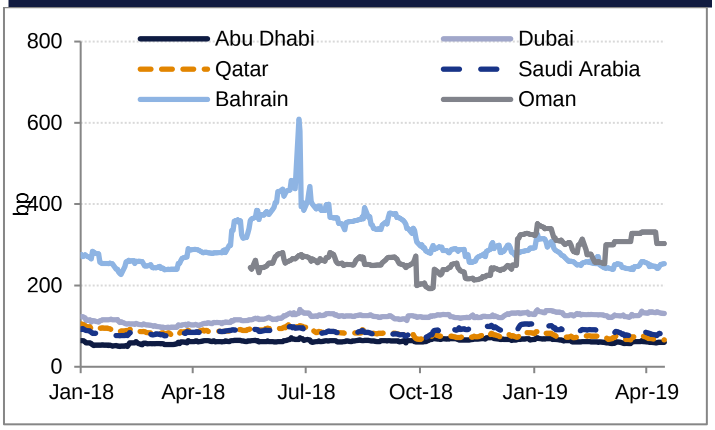
Source: IHS Markit, Emirates NBD Research

Inflation



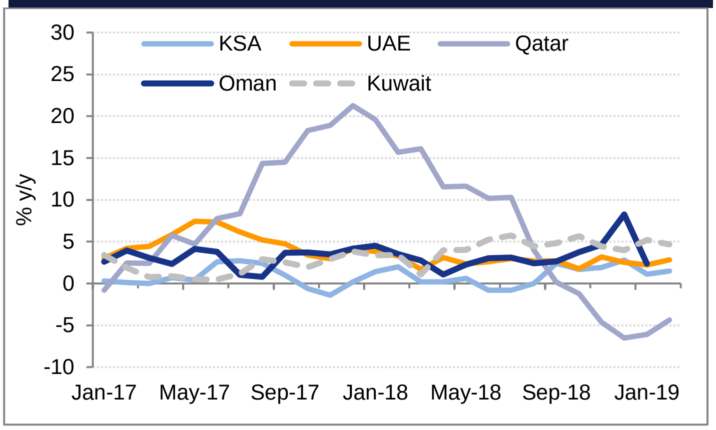
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



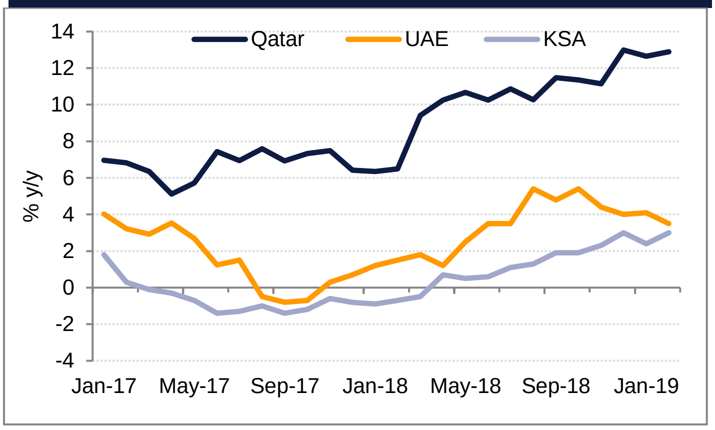
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

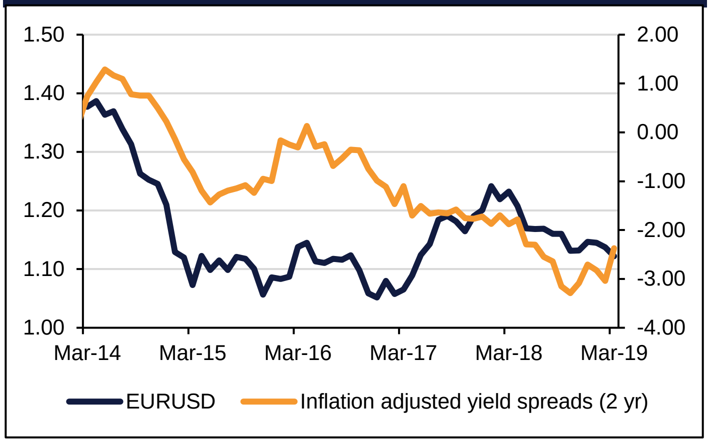
Private sector credit*



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

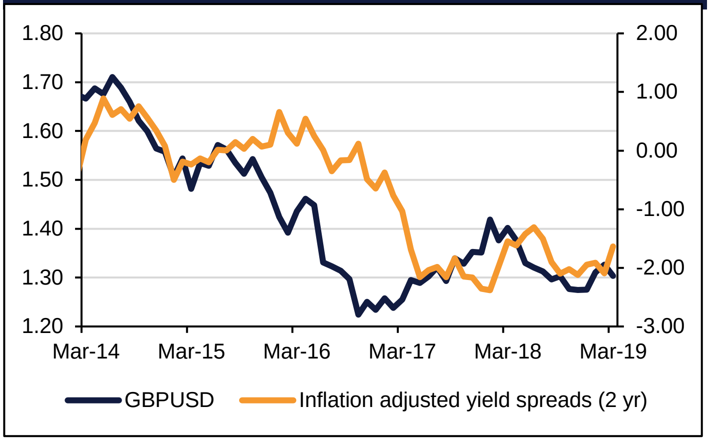
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



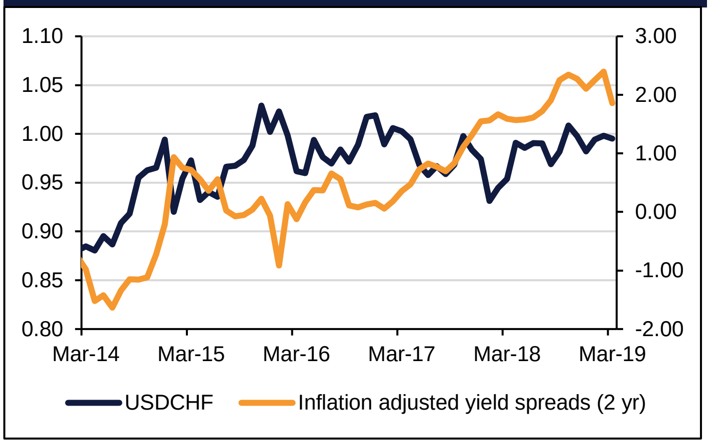
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



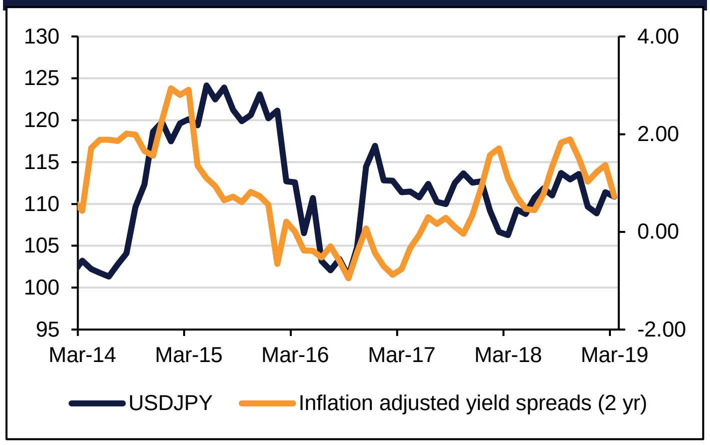
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



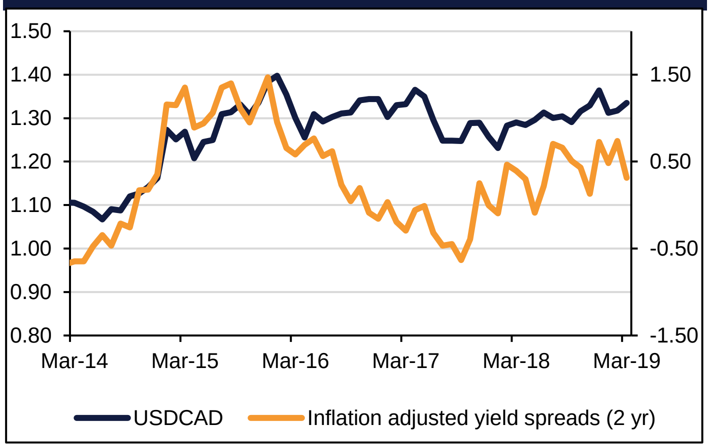
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



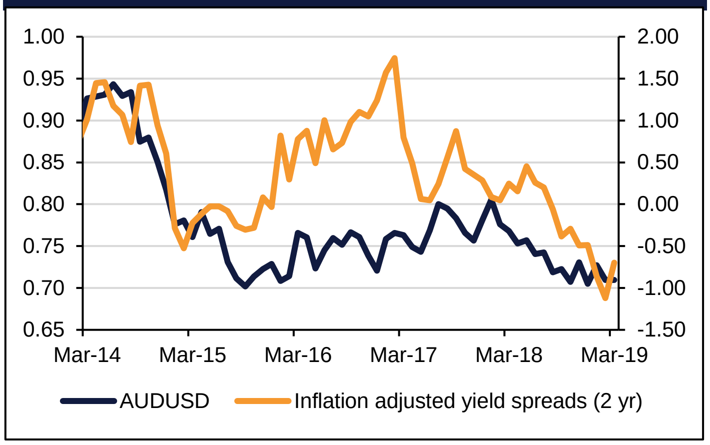
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

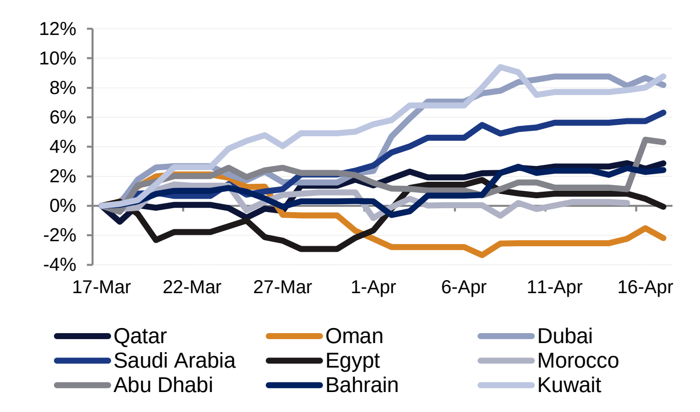
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

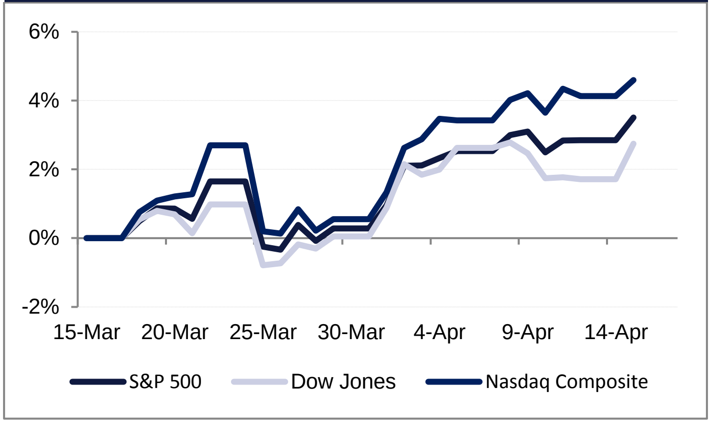
Major Equity Markets

MENA Equity Markets



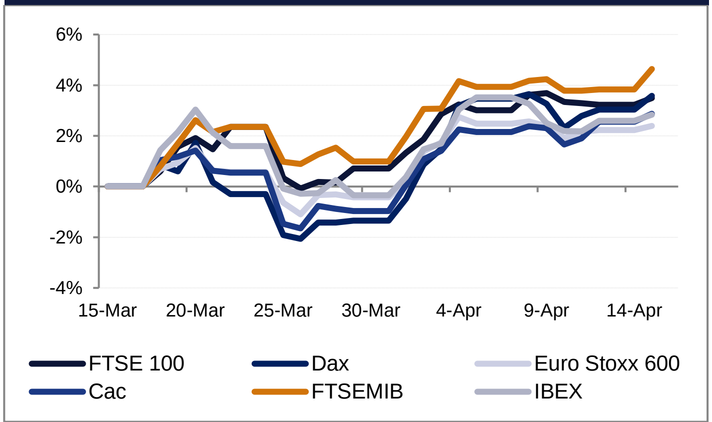
Source: Bloomberg, Emirates NBD Research

US Equity Markets



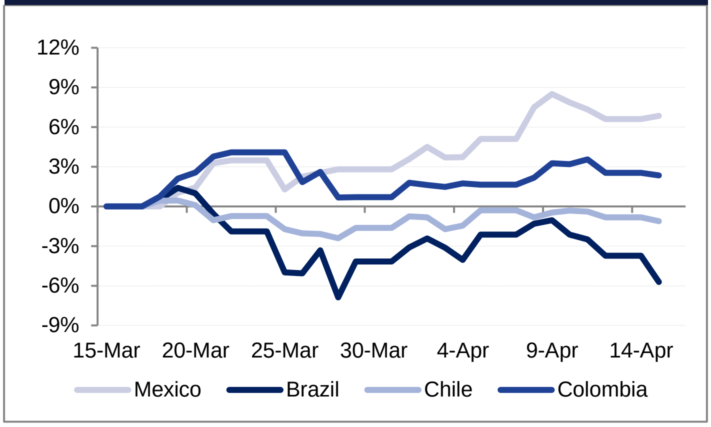
Source: Bloomberg, Emirates NBD Research

European Equity Markets



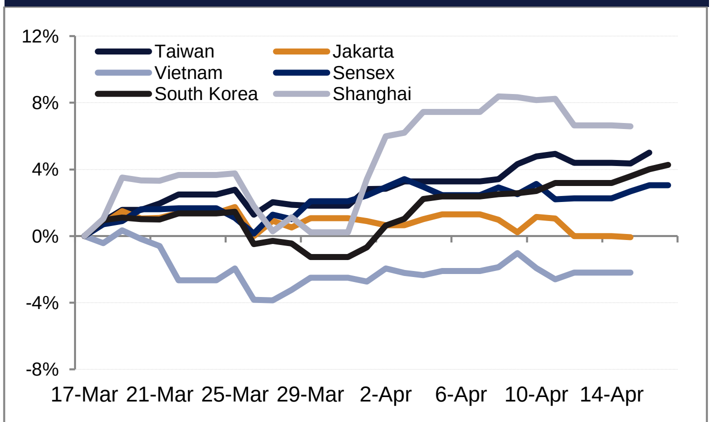
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



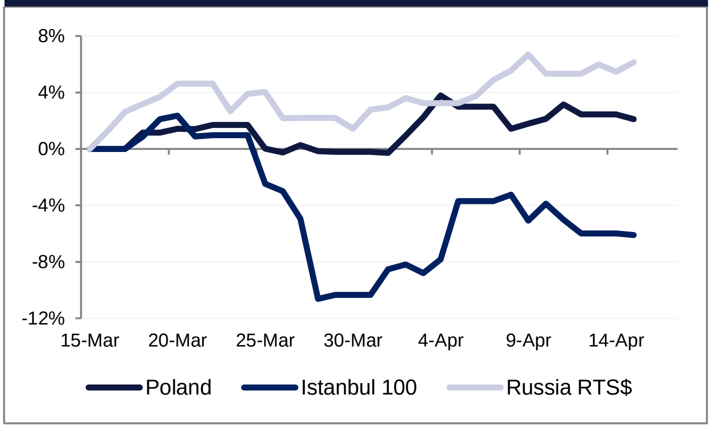
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

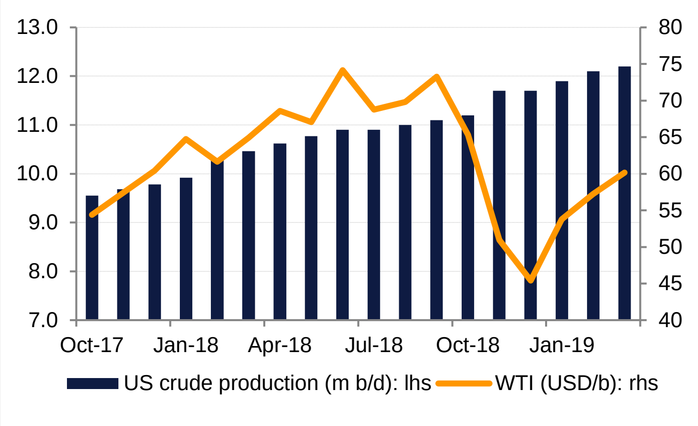
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

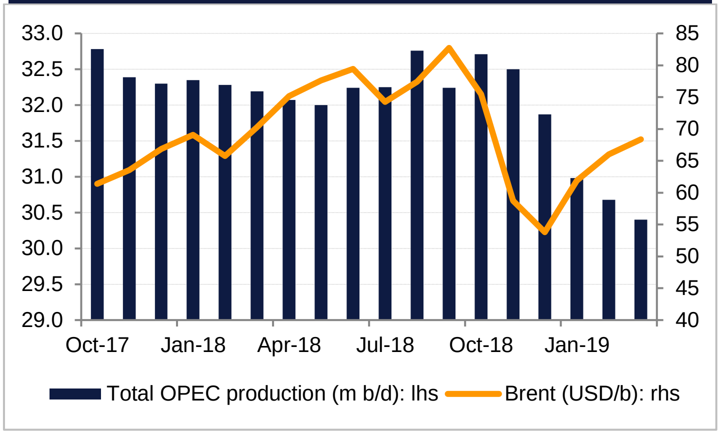
Major Commodities Markets

US oil production and price



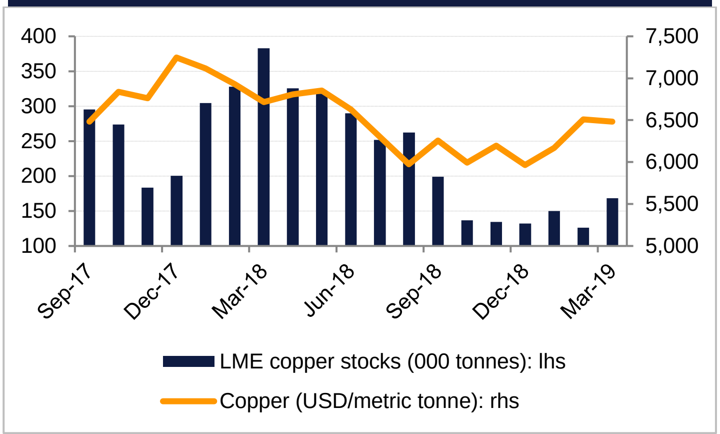
Source: EIKON, Emirates NBD Research

International oil production and price



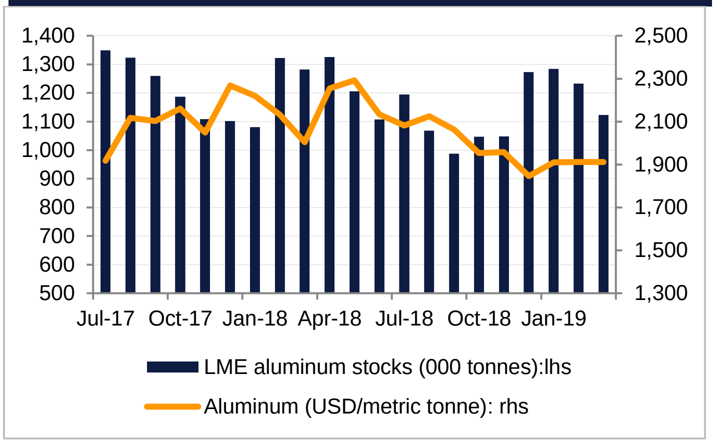
Source: EIKON, Emirates NBD Research

Copper stocks and price



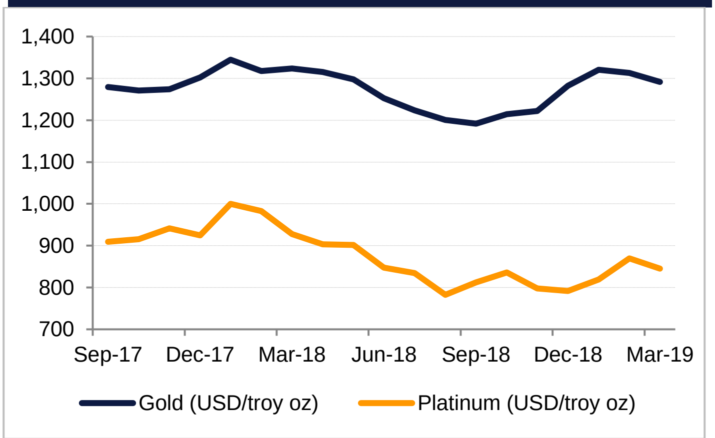
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



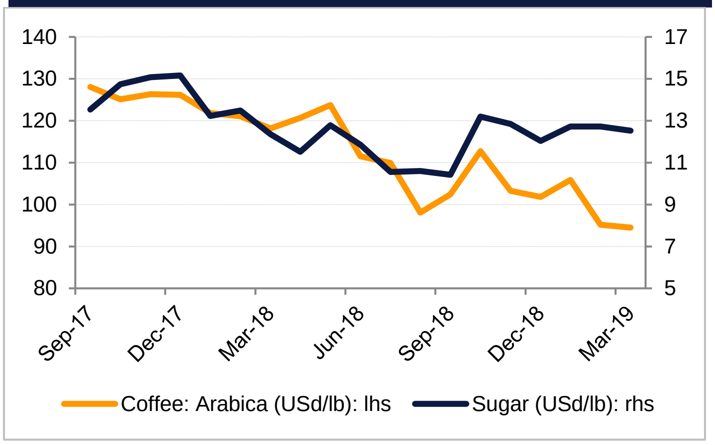
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	357.3	382.8	424.2	433.4	455.8
Real GDP %	3.0	0.8	1.7	3.1	3.5
Current A/C % GDP	3.7	6.9	6.9	4.8	3.9
Budget Balance % GDP	-2.0	-1.6	-1.6	1.8	0.3
CPI %	1.6	2.0	3.1	1.5	2.0
Saudi Arabia					
Nominal GDP $bn	644.9	688.6	782.5	791.2	823.8
Real GDP %	1.7	-0.7	2.2	2.0	1.6
Current A/C % GDP	-3.7	1.5	9.4	6.6	6.4
Budget Balance % GDP	-12.9	-9.2	-4.6	-5.5	-5.5
CPI %	2.1	-0.8	2.5	2.0	2.0
Qatar					
Nominal GDP $bn	151.7	166.9	192.0	193.3	205.8
Real GDP %	1.8	1.1	1.3	3.5	4.0
Current A/C % GDP	-5.5	3.8	10.2	5.7	5.0
Budget Balance % GDP	-9.2	-5.8	-0.3	1.0	1.0
CPI %	2.7	0.4	0.2	1.5	2.0
Kuwait					
Nominal GDP $bn	109.4	119.5	138.4	138.0	144.8
Real GDP %	2.9	-3.5	1.2	1.1	2.4
Current A/C% GDP	-4.6	6.3	13.2	7.3	12.5
Budget Balance % GDP	-13.9	-9.0	-2.9	-5.5	-5.8
CPI %	3.2	1.6	0.6	1.0	1.5
Oman					
Nominal GDP $bn	65.9	70.7	80.1	80.9	84.3
Real GDP %	5.0	-0.9	2.9	3.1	3.1
Current A/C % GDP	-18.8	-15.2	-5.7	-7.1	-6.2
Budget Balance % GDP	-20.9	-13.8	-6.2	-8.0	-7.1
CPI %	1.1	1.6	0.9	1.5	2.5
Bahrain					
Nominal GDP $bn	32.3	35.4	39.1	40.0	41.7
Real GDP %	3.2	3.9	2.0	2.0	2.4
Current A/C % GDP	-4.6	-3.9	-2.1	-4.2	-7.2
Budget Balance % GDP	-13.5	-10.0	-6.8	-6.4	-6.0
CPI %	2.8	1.4	2.1	3.5	2.5
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	429	457	517	524	546
Real GDP %	2.3	-0.2	1.9	2.4	2.5
Current A/C % GDP	-2.8	2.6	8.2	5.2	5.2
Budget Balance % GDP	-10.1	-7.1	-3.3	-3.0	-3.3
CPI %	2.1	0.4	2.1	1.7	2.0

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	332.4	225.8	241.5	286.1	336.5
Real GDP %	4.3	4.1	5.3	5.3	5.7
Current A/C % GDP	-6.0	-6.4	-2.5	-2.0	-1.8
Budget Balance % GDP	-12.05	-10.83	-9.84	-8.51	-7.20
CPI %	13.7	29.6	14.4	12.5	12.0
Jordan					
Nominal GDP $bn	39.2	40.7	41.7	43.2	44.6
Real GDP %	2.1	2.1	2.0	2.8	2.7
Current A/C % GDP	-9.4	-10.6	-7.1	-6.6	-6.4
Budget Balance % GDP	-3.2	-2.7	-2.7	-2.5	-2.2
CPI %	-0.8	3.3	4.5	3.2	2.4
Lebanon					
Nominal GDP $bn	51.1	57.3	62.4	66.3	70.9
Real GDP %	1.0	0.6	0.8	0.9	1.7
Current A/C % GDP	-20.5	-21.2	-19.6	-20.5	-20.9
Budget Balance % GDP	-9.8	-6.9	-9.6	-9.9	-7.9
CPI %	-0.8	4.5	6.3	5.4	4.8
Morocco					
Nominal GDP $bn	103.3	109.6	118.8	121.0	127.5
Real GDP %	1.1	4.1	3.0	2.7	3.0
Current A/C % GDP	-4.2	-3.6	-3.5	-3.4	-3.1
Budget Balance % GDP	-4.2	-3.5	-3.7	-3.4	-3.0
CPI %	1.6	0.8	1.8	1.6	1.5
Tunisia					
Nominal GDP $bn	41.7	36.8	34.5	30.6	30.6
Real GDP %	1.0	1.7	2.5	2.7	3.0
Current A/C % GDP	-8.9	-11.1	-11.1	-9.4	-8.9
Budget Balance % GDP	-6.2	-6.7	-4.8	-4.6	-4.1
CPI %	3.7	5.3	7.4	6.8	5.5
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	223.8	147.3	158.9	189.5	225.3
Real GDP %	3.02	3.33	3.73	3.86	4.33
Current A/C % GDP	-7.4	-8.3	-5.8	-5.3	-5.0
Budget Balance % GDP	-9.4	-7.6	-7.4	-6.9	-5.9
CPI %	8.5	15.6	9.1	8.2	7.9

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	160.2	165.6	164.1	167.4	173.3
Real GDP %	3.3	1.6	1.8	2.2	2.0
Current A/C % GDP	-12.3	-13.2	-8.9	-7.6	-6.5
Budget Balance % GDP	-13.1	-6.6	-6.9	-8.4	-7.6
CPI %	5.8	6.0	4.0	5.3	6.0
Iran					
Nominal GDP $bn	441.8	446.9	433.4	494.1	586.2
Real GDP %	12.4	3.3	-1.9	-4.0	3.8
Current A/C % GDP	3.7	3.6	3.8	-0.2	-1.4
Budget Balance % GDP	-4.7704	-5.0785	-4.1275	-4.1992	-3.6763
CPI %	8.7	10.0	21.0	31.2	17.5
Iraq	441.8	446.9	433.4	494.1	586.2
Nominal GDP $bn	165.2	184.6	214.7	242.8	251.2
Real GDP %	11.0	-0.3	3.5	4.3	4.6
Current A/C% GDP	1.3	8.1	24.5	18.9	13.2
Budget Balance % GDP	-14.5	-6.6	-4.4	-4.0	-3.8
CPI %	1.3	0.7	0.4	1.0	1.1
Libya					
Nominal GDP $bn	43.6	63.3	76.1	88.2	104.2
Real GDP %	-6.9	34.8	7.6	5.4	10.4
Current A/C% GDP	-10.2	-9.5	-2.1	-2.6	-2.9
Budget Balance % GDP	-18.1	-10.6	-7.1	-6.3	-5.9
CPI %	9.5	25.0	11.5	10.0	8.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	312.4	308.3	300.1	341.5	403.4
Real GDP %	9.0	4.9	1.2	-0.2	4.3
Current A/C % GDP	0.5	0.4	5.4	2.1	0.7
Budget Balance % GDP	-7.9	-7.8	-6.1	-4.7	-4.4
CPI %	6.1	8.0	12.4	17.7	10.9

Key Economic Forecasts - Global

US	2014	2015	2016	2017	2018f	2019f
Real GDP %	2.6	2.9	1.5	2.2	2.7	2.5
Current A/C % GDP	-2.1	-2.4	-2.4	-2.3	-3.0	-2.5
Budget Balance % GDP	-2.7	-2.6	-3.1	-3.4	-3.5	-4.7
CPI %	1.6	0.1	1.3	2.1	2.5	2.3
Eurozone						
Real GDP %	1.3	2.1	1.8	2.4	1.9	1.5
Current A/C % GDP	2.4	3.2	3.3	3.5	3.2	3.0
Budget Balance % GDP	-2.5	-2.0	-1.5	-0.9	-0.7	-0.9
CPI %	0.4	0.0	0.2	1.5	1.7	1.5
UK						
Real GDP %	3.1	2.3	1.9	1.7	1.3	1.5
Current A/C% GDP	-5.3	-5.2	-5.8	-3.9	-3.5	-3.3
Budget Balance % GDP	-5.3	-4.1	-2.9	-1.8	-1.4	-1.6
CPI %	1.5	0.0	0.7	2.7	2.5	2.1
Japan						
Real GDP %	0.4	1.4	0.9	1.8	0.8	1.0
Current A/C % GDP	0.8	3.1	3.8	4.0	3.6	3.6
Budget Balance % GDP	-7.7	-6.7	-5.7	-3.5	-3.2	-3.5
CPI %	2.7	0.8	-0.1	0.5	1.0	1.0
China						
Real GDP %	7.3	6.9	6.7	6.9	6.6	6.3
Current A/C % GDP	2.3	2.8	1.8	1.3	0.4	0.1
Budget Balance %GDP	-1.8	-3.4	-3.8	-3.7	-3.6	-4.0
CPI%	2.0	1.4	2.0	1.6	2.1	2.3
India*						
Real GDP%	6.4	7.4	8.2	7.1	7.3	7.8
Current A/C% GDP	-1.4	-1.1	-0.6	-1.5	-2.0	-2.8
Budget Balance % GDP	-4.3	-3.5	-3.7	-3.9	-3.5	-3.3
CPI %	6.7	4.9	5.0	3.3	3.9	4.6

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

FX Forecasts

FX Forecasts - Major						Forwards		
	16-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
EUR/USD	1.1302	1.1500	1.1800	1.2000	1.2200	1.1389	1.1477	1.1654
USD/JPY	111.90	113.00	112.00	110.00	110.00	111.09	110.29	108.65
USD/CHF	1.0058	1.0000	0.9800	0.9700	0.9500	0.9971	0.9886	0.9717
GBP/USD	1.3087	1.3000	1.3500	1.4000	1.4300	1.3148	1.3205	1.3314
AUD/USD	0.7144	0.7100	0.7400	0.7400	0.7700	0.7157	0.7172	0.7202
NZD/USD	0.6750	0.6800	0.7100	0.7100	0.7400	0.6761	0.6773	0.6796
USD/CAD	1.3388	1.2850	1.2600	1.2500	1.2200	1.3359	1.3331	1.3279
EUR/GBP	0.8636	0.8846	0.8741	0.8571	0.8531	0.8663	0.8691	0.8753
EUR/JPY	126.46	129.95	132.16	132.00	134.20	126.46	126.46	126.46
EUR/CHF	1.1367	1.1500	1.1564	1.1640	1.1590	1.1356	1.1345	1.1323

FX Forecasts - Emerging						Forwards		
	16-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
USD/SAR*	3.7501	3.7500	3.7500	3.7500	3.7500	3.7509	3.7518	3.7556
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6734	3.6741	3.6765
USD/KWD	0.3041	0.3020	0.3020	0.3020	0.3020	0.3041	0.3042	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3864	0.3882
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3772	0.3774	0.3780
USD/QAR*	3.6599	3.6400	3.6400	3.6400	3.6400	3.6578	3.6574	3.6562
USD/EGP	17.3275	18.0000	18.1250	18.2500	18.2500	17.6550	18.0900	19.1000
USD/INR	69.638	69.000	68.000	68.000	67.000	70.5600	71.3200	72.7200
USD/CNY	6.7095	6.9000	7.0000	7.1000	7.2000	6.7158	6.7253	6.7490
USD/SGD	1.3545	1.3500	1.3200	1.3000	1.2900	1.3521	1.3496	1.3446

FX Forecasts - MENA					
	16-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020
USD/MAD	9.5941	9.5000	9.6000	9.6000	9.7000
USD/TND	2.9930	3.0800	3.1000	3.1500	3.2000
USD/TRY	5.8103	5.4000	5.5000	5.6000	5.7000

Data as of 16 April 2019
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	**3M**	**6M**	**12M**	**3M**	**6M**	**12M**
2y	2.51	2.40	2.45	2.40			
10y	2.59	2.55	2.65	2.50			
2s10s (bp)	8	15	20	10			
US Treasuries Forecasts							
2y	2.42	2.40	2.40	2.40			
10y	2.60	2.55	2.55	2.55			
2s10s (bp)	18	15	15	15			
3M Libor							
3m	2.60	2.62	2.60	2.57			
3M Eibor							
3m	2.89	2.80	2.80	2.70			
Policy Rate Forecasts							
	Current %	**3M**	**6M**	**12M**			
FED (Upper Band)	2.50	2.50	2.50	2.50			
ECB	0.00	0.00	0.00	0.00			
BoE	0.75	0.75	0.75	0.75			
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	1.50			
RBI (repo)	6.00	6.00	6.00	6.00			
SAMA (reverse repo)	2.50	2.50	2.50	2.50			
UAE (1W repo)	2.75	2.75	2.75	2.75			
CBK (o/n repo rate)	2.50	2.50	2.50	2.50			
QCB (repo rate)	2.50	2.50	2.50	2.50			
CBB (o/n depo)	2.50	2.50	2.50	2.50			
CBO (o/n repo)	3.00	3.00	3.00	3.00			
CBE (o/n depo)	15.75	15.75	15.75	13.75			

Source: Bloomberg as at 17 April 2019, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	2019Q1	Q2	Q3	Q4	2018	2019
Energy							
WTI	64.45	54.90	57.50	60.00	60.00	64.76	58.10
Brent	71.93	63.83	67.50	67.50	63.00	71.53	65.46
Precious metals							
Gold	1,276.49	1,303.24	1,350.00	1,350.00	1,380.00	1,268.85	1,345.81
Silver	15.00	15.56	15.25	15.50	15.00	15.69	15.33
Platinum	880.20	819.98	900.00	950.00	950.00	877.68	904.99
Palladium	1,355.46	1,430.88	1,375.00	1,275.00	1,200.00	1,027.51	1,320.22
Base metals							
Aluminum	1,852.50	1,883.23	1,950.00	1,900.00	1,850.00	2,114.59	1,895.81
Copper	6,503.00	6,218.64	6,250.00	6,500.00	6,575.00	6,547.63	6,385.91
Lead	1,937.50	2,048.80	2,057.89	2,130.33	2,151.96	2,249.46	2,097.25
Nickel	12,950.00	12,468.29	12,500.00	12,750.00	13,250.00	13,182.34	12,742.07
Tin	20,520.00	20,950.95	20,750.00	20,750.00	20,500.00	20,081.72	20,737.74
Zinc	2,816.00	2,683.67	2,694.91	2,784.38	2,811.04	2,895.11	2,743.50
Iron ore	93.44	82.69	75.00	65.00	60.00	69.41	70.67

Prices as of 17 April 2019. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12thFloor
Baniyas Road, Deira
P.OBox777
Dubai

Jonathan Morris
General Manager
Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratersnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Director, Financial Markets Research
+9714 609 3027
adityap@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com