بنك الإمارات دبي الوطني
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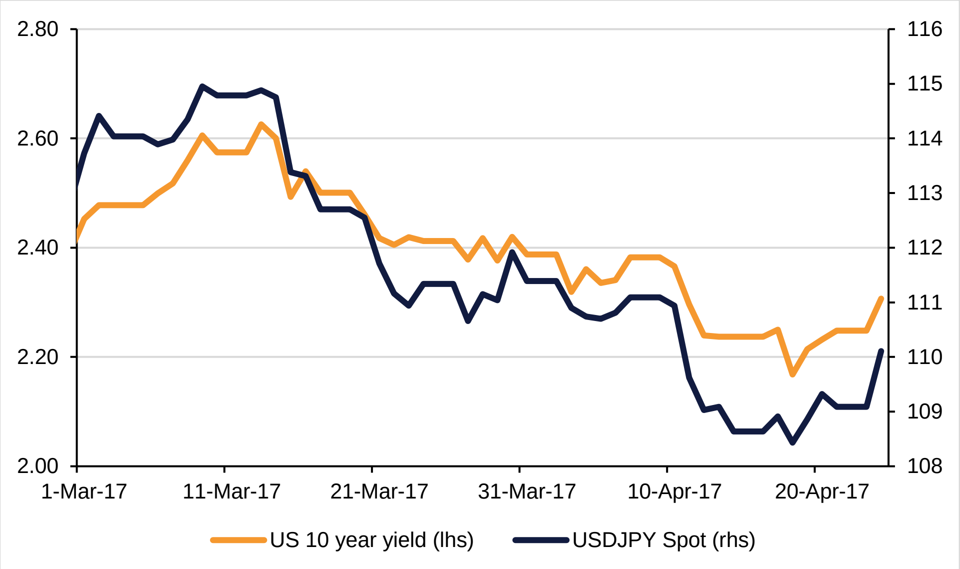
Monthly Insights

Economic data is to some extent taking second place to event risk as the main driver of market sentiment at the moment. Although the outlook for growth remains encouraging the frequent question is whether geopolitical risks could still derail it.

- **Global macro:** The last month has seen event risk begin to crowd out economic data as the main driver of market sentiment. But even as far as the US economy is concerned there have also been hints that all is not what it seems, with weaker 'hard' data starting to contrast with the relative resilience of surveys.
- **GCC macro:** PMI data indicate a solid recovery in non-oil sectors in the UAE and Saudi Arabia in Q1 2017, which should help to offset lower hydrocarbon growth.
- **Non-GCC macro:** The Egyptian economy's rebalancing process following last year's devaluation appears to be proceeding in an almost textbook fashion.
- **Emerging Market Focus:** India is one of the bright spots in emerging markets at the moment following the success of the government in rolling out key reforms and stability in terms of growth.
- **Interest Rates:** Yield curves shifted downwards across the developed world as exuberance for the Trump trade faded and safe haven bids escalated amid rising geopolitical risks even though economic data remained robust.
- **Credit Markets:** Bond investors had a constructive month as benchmark yields diminished and credit spreads remained range-bound.
- **Currencies:** The FX markets spent the last month largely driven by rising event risk stemming from deteriorating relations between the US and Russia over Syria, the ratcheting up of risk aversion over North Korea, and more recently the surprise announcement of a UK general election.
- **Equities:** Over the last one month, global equity markets have shown greater resilience to negative surprises compared to other asset classes. This can be put down to continued momentum in growth across economies accompanied by better than expected corporate earnings.
- **Commodities:** Three months into OPEC's production cut agreement market signals are still mixed on how effective it has been in balancing markets. Prices appear to have found a floor thanks to OPEC action but have yet to rally significantly to levels to support OPEC economies.

Safe haven assets benefit from rising risk aversion



Source: Bloomberg, Emirates NBD Research

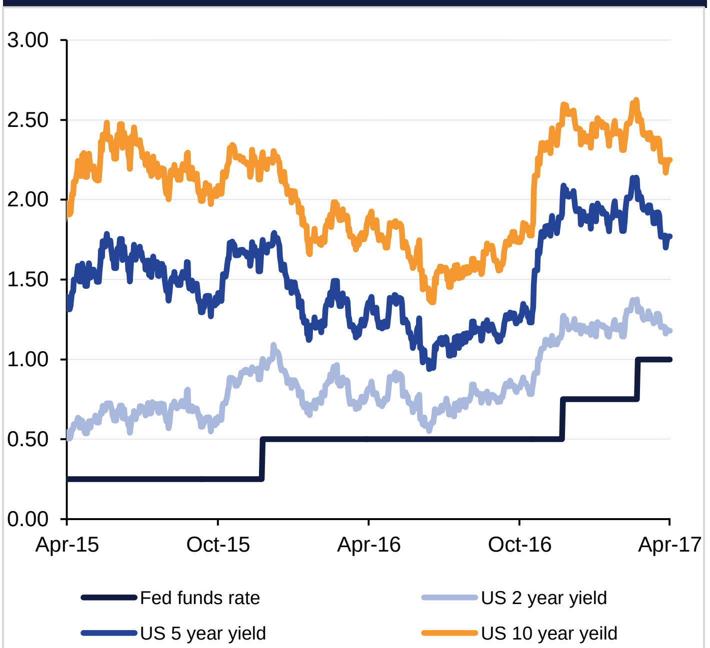
Content

Global Macro

Economic data is to some extent taking second place to event risk as the main driver of market sentiment at the moment. But even as far as the US economy is concerned there have also been hints that all is not what it seems, with weaker 'hard' data starting to contrast with the relative resilience of surveys. Taken together the markets have begun to doubt the Fed's tightening trajectory, causing bond yields to fall back.

After the Fed raised interest rates in March it was hoped that momentum would continue to improve to the extent that a further two or even three rate hikes could be justified this year. The minutes of the Fed's March meeting were notable because the upside risks to the US economic outlook now appear to out-number the downside risks, and because the Fed started to discuss how it will go about reducing its USD 4.5trn balance sheet – a sign of growing confidence about the future. In the first instance this would begin 'later this year' by changing its policy of reinvesting the principal from maturing securities in its portfolio, earlier than the markets were anticipating.

Bond yields tighten after March Fed hike



Source: Bloomberg, Emirates NBD Research

Doubts over Trump's pledges

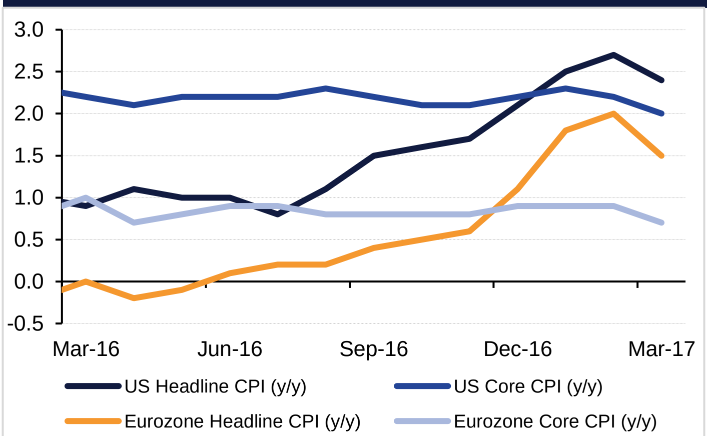
Such a message, however, began to look incongruous in the context of political developments both domestically and externally that are potentially quite destabilizing both to growth down the road as well as to financial markets. Following the failure to repeal, or even reform Obamacare, doubts were cast on the ability of Congress to reform taxes, although it appears that efforts are currently underway to start the process of overhauling the tax code, with an announcement expected later this week. These are most likely to revolve around corporate and income tax cuts, whilst other flagship policies of the Trump campaign such as infrastructure spending may be delayed. In addition, reliance on border taxes designed to generate USD 1tn in revenue is also looking questionable as it is not clear that President Donald Trump can get enough support to introduce them.

Separately, however, Congressional investigations into collusion between Trump's campaign team and Russia threatens to bog the administration down in defensive mode for some time, and geopolitical issues are also now intruding into Trump's in-tray, most obviously with regard to relations with Russia, China and North Korea. Trump's capacity to handle numerous domestic and foreign policy challenges simultaneously remains to be seen, leaving the markets uncertain about the Fed's recent optimism, especially against a backdrop of increasingly mixed economic data.

Inflation begins to fall back

Recently there have been observations of a developing contrast between so called 'hard' and 'soft' economic data, whereby weakness is being seen in some high profile economic data points including consumer prices (CPI), manufacturing output, retail sales and housing, whereas the survey data such as consumer confidence and ISM and PMI series have broadly held up. In particular catching markets by surprise the March CPI came in sharply below expectations, with the headline CPI dropping by -0.3% and the core rate falling by -0.12%. Against this, however, the labour market still appears to be in good health with the unemployment rate falling to 4.5% and wages rising even though the pace of jobs growth has slowed to just 98k. Meanwhile the University of Michigan's reading of consumer confidence has hit a seventeen-year high, even as retail sales growth has been patchy. Other contrasts are visible with credit card debt rising to above USD1 trillion for the first time since 2008 this month while bank lending has been falling. Markets are increasingly unsure of what to make of such trends, reinforcing the risk aversion that has already been generated by heightened geopolitical risks. A weak Q1 GDP reading is probably expected later this week, but the outlook will turn on how the economy responds in Q2.

Inflation retreats in March



Source: Bloomberg, Emirates NBD Research

Data is encouraging in Europe….

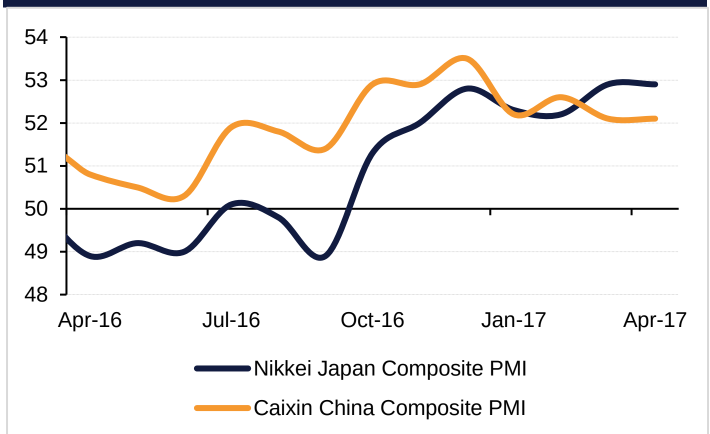
Fortunately, for markets in general the global picture is holding up, to some extent distracting from the uncertain US picture, and surprisingly in spite of some of political trends elsewhere. Even as the first round of the French election approached Eurozone growth indicators had continued to perform well, with flash composite PMI and consumer confidence surveys posting strong gains this month, suggesting that growth is on track to improve in Q2 and broaden out. It also suggests that the slowing in the March HICP inflation to 1.5% y/y from 2.0% was due to special factors, which should unwind in coming months as underlying price pressures become more assertive. The ECB has been consistent in seeking to downplay market speculation that it would reverse its dovish forward guidance at its policy meeting later this week, and we continue to see QE continue to play out through the end of the year before interest rate rises are contemplated next year.

The first round election victory of Emmanuel Macron in France, with Marine Le Pen in second place, suggests that Macron will be the overall winner in the second round on May 7th. This has already been taken bullishly by risk assets as his reforminst agenda bodes well for French growth and for the EU ultimately holding together.

…as well as Asia…

The Bank of Japan (BOJ) is also unlikely to make any change to its policy stance, even as activity data has continued to improve there as well. The Nikkei PMI series rose further in April to 52.8 following on from an already firm quarterly Tankan reading while consumer confidence is also on the mend, helped by a renewed decline in unemployment to 2.8%. For the BOJ to act it needs to see progress on inflation which is likely to remain frustratingly slow, with Governor Kuroda already signaling recently that easy policy and steady asset purchases will continue for some time. China also managed to sustain healthy growth in Q1 with GDP growth of 6.9%, which was above most estimates and well above the official 6.5% growth rate guidance for the year. Firm readings for industrial production, retail sales, fixed asset investment and net exports in March also argue for the positive momentum to carry over into the current quarter.

Asian PMI's stay positive



Source: Bloomberg, Emirates NBD Research

The IMF upgrades UK growth…again

Finally, the UK has also seen some surprising political developments in the last month, following the UK governments triggering of article 50 of the Lisbon Treaty at the end of March, signaling the start of the process of separation from the EU. Prime Minister May called a snap general election for June 8th with the aim of boosting her government's majority to enable it to negotiate a better Brexit deal for the UK. The UK's economy has continued to hold up well in the early part of the year, and featured prominently in the IMF's latest upgraded forecasts for the world economy. While raising its overall growth forecast for global growth in 2017 to 3.5% from 3.4% earlier this year, the IMF produced another sharp upward adjustment to its forecast for the UK economy taking its projected growth rate from 1.5% in January to 2.0%, stronger than any other major economy, as it acknowledged that its Brexit assessment had been too gloomy. Only back in October last year the IMF had said that the UK would grow by only 1.1% in 2017, and prior to the Brexit referendum Christine Lagarde had famously said that the outcome of a decision to leave the EU ranged from 'pretty bad to very, very bad'. As things stand now, however, with a UK general election now pending and with the UK economy moving along relatively nicely, it could be argued that the IMF's 2.0% forecast is still too low.

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GCC Macro

PMI data indicate a solid recovery in non-oil sectors in the UAE and Saudi Arabia in Q1 2017, which should help to offset lower hydrocarbon growth.

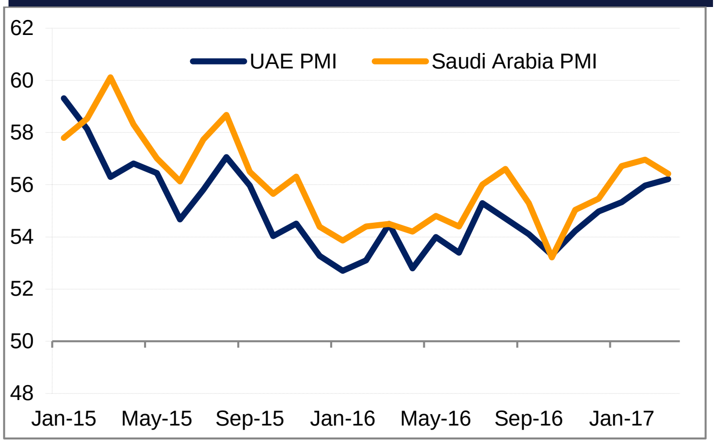
PMIs signal faster rate of non-oil growth in Q1 2017…

Both the UAE and Saudi PMI surveys pointed to an acceleration of growth in the non-oil private sectors at the start of this year. Average PMI readings for Q1 2017 were the highest since Q3 2015. Both data sets show robust domestic demand underpinning new order and output growth, and in the UAE's case, external demand has strengthened as well.

However, as we have noted in the past, the headline purchasing managers' indices mask some of the underlying strains in the GCC economies, namely price discounting by firms in order to secure new work and weak employment growth relativel to previous up-turns.

Nevertheless, when looking at real GDP growth, the expansion in the non-oil sector will help to offset lower hydrocarbon growth in the first quarter of 2017.

Saudi Arabia and UAE PMIs



Source: IHS Markit, Emirates NBD Research

…while oil production declines

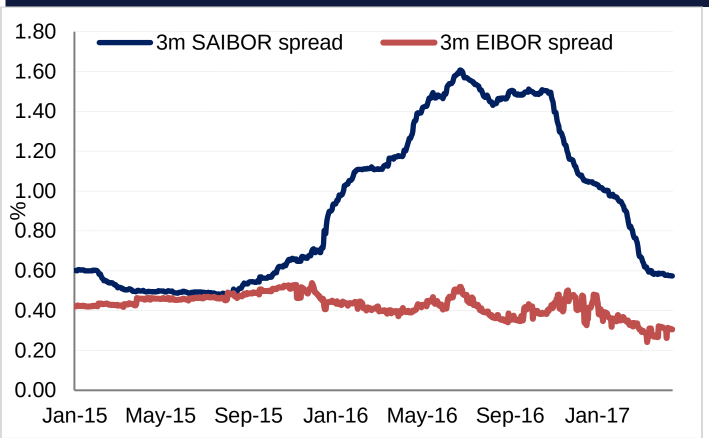
Bloomberg estimates show that OPEC's GCC members cut oil production by -945k b/d in Q1 2017, relative to Q4 2016, or a decline of more than -5.5% q/q. Most of the decline in crude output was from Saudi Arabia (-590k b/d), with the UAE and Kuwait reducing production by -150k b/d and -200k bd respectively.

The extent of production cuts in Q1 2017 exceeds the targets set out in the OPEC agreement reached in November 2016. Even if this agreement is extended into H2 2017, it is in our view unlikely that the extent of cuts to oil production by the GCC members seen in Q1 will be sustained in practice for the rest of the year. As a result, there is (in our view) potential for a boost to activity from oil output in the coming months.

Interbank spreads narrow as US raises rates

3m EIBOR and 3m SAIBOR spreads have continued to tighten year-to-date, with the UAE interbank spread hovering at the levels last seen in late 2008 while the Saudi spread is the narrowest since the start of last year.

3m Interbank spread over 3m LIBOR



Source: Bloomberg, Emirates NBD Research

Easier liquidity conditions in the UAE have likely been supported by higher government and GRE deposits (on the back of higher oil prices) in Jan-Feb 2017. Government deposits were up 6.6% from December 2016, while GRE and individuals' deposits rose 4.7% and 2% respectively. This helped to offset lower corporate and non-residents' deposits.

Slower loan growth in the first two month of this year also contributed to increased liquidity in the banking system, with total bank loan growth slowing to 5.4% y/y in February from 6.0% y/y in December and 7.9% y/y in February 2016. As a result of both higher deposits and slower loan growth, the gross loan/ deposit ratio in the UAE eased to 100.3% in February, the lowest level since June 2015.

In contrast, Saudi bank deposits declined in Jan-Feb 2017, and broad money supply contracted m/m over the same period. Private sector credit growth has also slowed sharply however, reaching just 0.3% y/y in February. Nevertheless, the decline in Saudi interbank rates (and the spread over USD Libor) likely has more to do with measures introduced by SAMA from October 2016 to improve liquidity than a rise in government or private sector deposits.

Saudi Arabia's first USD denominated sukuk issue raised USD 9bn in March, and we could see some of this liquidity finding its way into domestic banks in the March data.

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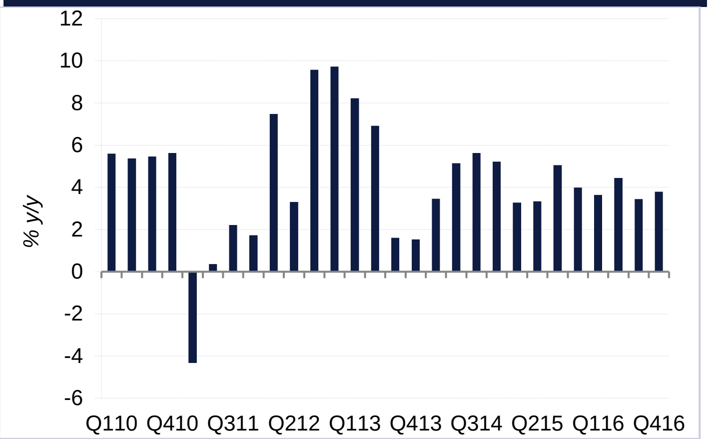
Non-GCC Macro

The Egyptian economy's rebalancing process following last year's devaluation appears to be proceeding in an almost textbook fashion. The shift to a more competitive currency has seen the trade deficit narrow, with imports collapsing and exports exhibiting their strongest growth in five years. Foreigners' holdings of treasury bills have also jumped, with attractive yields and greatly reduced FX risks helping to entice some of this 'hot money' back into the local market. Thanks to bilateral and multilateral aid, FX reserves are also now back to their highest levels since early 2011.

Still few signs of stronger growth

How long it takes for this rebalancing process to result in a stronger economic recovery is less clear. As of yet there is little evidence of an acceleration in real growth or, more importantly, job creation. According to initial estimates, real GDP expanded 3.8% y/y between October-December, compared to 4.0% in the same period a year earlier. A detailed breakdown is not yet available, however there is some evidence from FYQ1 (July-September) that the quality of growth is at least improving, with fixed investment surging 15.0% y/y, while government spending expanded only 1.8%.

GDP Growth

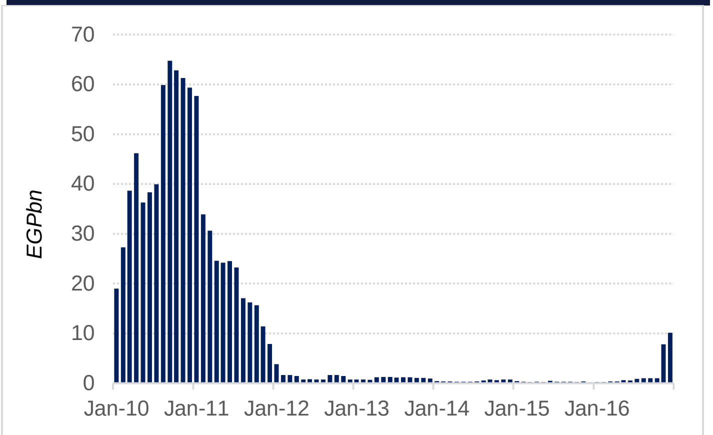


Source: Havers, Emirates NBD Research

With inflation also running at over 30% y/y, it might not be immediately apparent to everyone that the EGP devaluation and subsequent fiscal reforms (VAT rise and energy subsidy cuts) were necessary to start the recovery process. The key challenge for 2017 and beyond will be trying to maintain this reform momentum. An effort in early March to reduce bread subsidies to a small proportion of the population was quickly reversed in the face of public opposition, and highlights the difficulties that lie ahead for any efforts to implement a broader and more ambitious set of economic policies.

Foreign direct investment rose to USD 2.4bn between October-December, compared to USD 1.8bn in the July-September period, one of the highest levels in several years. Outside of the hydrocarbon sector, the consumer sector appears to be a key focus of foreign companies, with the UAE's Al Futtaim and Saudi Arabia's Alhokair both recently announcing plans to invest in shopping malls over the coming years. Egypt's consumer story remains one of the most prominent features of the economy's long-term growth potential, with the EGP devaluation likely having played a large role in boosting the market's appeal for greenfield investment.

Foreign Holdings of T-Bills

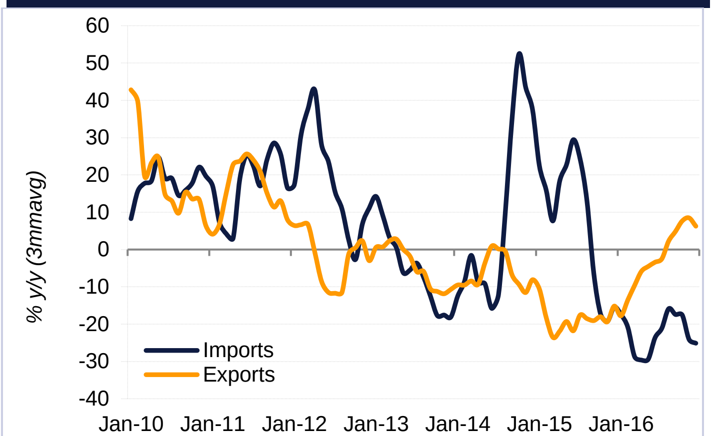


Source: Haver Analytics, Emirates NBD Research

EGP view unchanged

Our view on the EGP has not changed since our Q1 Quarterly Outlook, with our end-2017 forecast for the currency still at 18.00. According to reports on Bloomberg, the government will be basing its FY2017/18 budget on an EGP of 16.00. Appreciation towards that level is certainly possible, and we reiterate that the currency is likely to remain volatile over the coming months.

Goods Trade



Source: Markit, Emirates NBD Research

Emerging Market Focus - India

India is one of the bright spots in emerging markets at the moment following the success of the government in rolling out key reforms and stability in terms of growth. In fact, India's Nifty index has rallied +0.6% 1m compared to a drop of -0.8% 1m in the MSCI EM index and -0.2% 1m in the MSCI World index.

Monsoons

It is that time of the year where investors in India look out for forecasts on monsoons given its direct impact on the rural economy and inflation expectations. In its first seasonal forecast, the India Metrological Department (IMD) has forecasted a normal South-West monsoon season. The rainfall is projected to be 96% of the Long Period Average (LPA) with a probability of 38%. It must be noted here that a normal monsoon season is defined as rainfall that is in the range of 96-104% of the LPA. If the forecast does turn out to be accurate then it will be the second consecutive year of normal monsoon and will have a positive impact on growth and inflation outlook.

RBI – Surprisingly hawkish

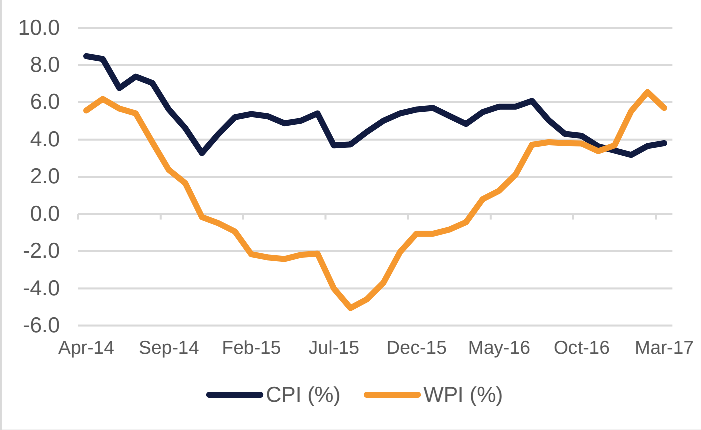
In a surprising change, the Reserve Bank of India at the start of 2017 shifted its stance to neutral from accommodative. This did catch a lot of the market by surprise as most (including us) had expected the RBI to retain an easing bias in light of disruptions in the economy on account of demonetization. In fact, at its last meeting, the RBI narrowed the policy gap by increasing the reverse repo rate to 6% from 5.75%. The commentary from the central bank was also slightly hawkish as they upped the inflation projection for FY 2018 to 4.5% - 5% (from 4%-5%) with one member of the MPC actually calling for a preemptive 25 bps rate hike.

Data – Mixed

Notwithstanding the shift in stance of the RBI, the inflation data continues to remain benign. The WPI inflation for March 2017 surprised to the downside as it slowed to 5.7% y/y compared to 6.5% y/y in February. The decline was primarily on a lower than expected increase in food prices. Importantly, core inflation momentum remained soft with prices declining -0.1% m/m. The CPI showed a similar trend with a print of 3.8% y/y in March, below market expectations. Again core-core inflation momentum slowed further to 0.2% m/m in March from 0.3% m/m in February.

Industrial production data continues to remain volatile with the data showing a contraction of 1.2% y/y in February 2017. On a sequential basis, industrial production dropped -1.2% m/m. It does appear that the impact of demonetization is taking longer to dissipate in some sections of the economy like consumer non-durables which dropped -5.4% m/m in February after remaining flat in January. Generally, non-durables serves as a proxy for the health of the rural economy.

Inflation remains benign

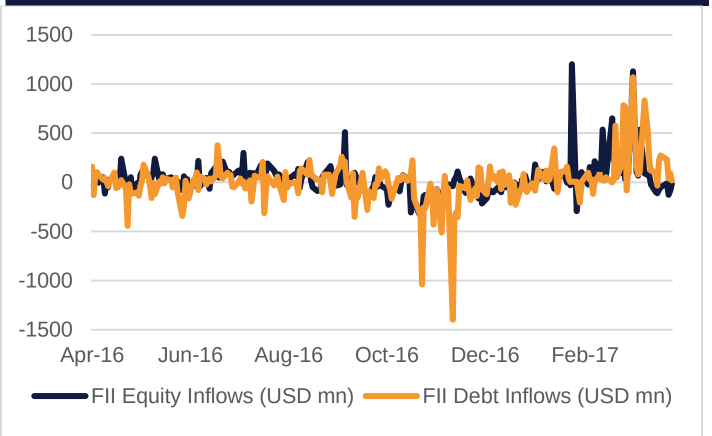


Source: Bloomberg, Emirates NBD Research

Inflows remain strong

Foreign investors are continuing to show confidence in the Indian economy. In the first quarter of 2017, foreign institutional investors bought stocks worth USD 6.2bn. This was the highest inflow in the last five years. The trend was similar in the debt market with FIIs buying debt worth USD 4.4bn in Q1 2017 with nearly USD 3.9bn coming in the month of March 2017 alone. The inflow in March was the largest monthly inflow since December 2011. The inflows provide further cushion to the government to fund its current account deficit.

Flows remain strong



Source: Bloomberg, Emirates NBD Research

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Interest Rates

Yield curves shifted downwards across the developed world as Trump trade exuberance faded and safe haven bids escalated amid rising geopolitical risks even though economic data remained robust.

Global Rates

The rates market made an about turn last month, reversing yield increases of the previous month and more. The significant increase in political risks after the US military action in Afghanistan and Syria, North Korea's testing of its nuclear weapons, announcement of snap elections in the UK, possibility of a far right win in the French election etc is currently outweighing positive sentiment that should ensue from fundamental improvements in the global economy.

Though speeches and presentations by the Fed officials during the month remained supportive of the rate hike trajectory implied by the Fed dot plot, and US economic data are robust (albeit slightly muddy), market implied probability for a June rate hike has reduced to 50% from 57% in the previous month. Though 3m LIBOR remained largely unchanged, 2yr Treasury yields declined to their pre March rate hike levels.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.25	-16	-22	+36
UK	1.03	-14	-40	-57
Germany	0.25	-16	-17	+2
Russia	4.00	-17	-32	-
Brazil	4.65	-24	-52	-126
Japan	0.005	-5	-5	+13

Source: Bloomberg

Sovereign bonds recorded a mini rally as capital chased safe haven assets. Yields on 10yr benchmark sovereign bonds in the developed world reduced materially to reach roughly their five month lows. 10yr UST yields were dragged down by circa 16ps to 2.25% and Gilt followed suit with a similar decline to 1.03%. 10yr JGB yields are threatening to break the 0% level that BoJ targets.

Barring any major military action, the outcome of the French election as a potential wild card has also diminished since the first round result have become known. Having said that, there is clear evidence of safe haven bid lifting German Bunds higher. Yields on 10yr Bunds more than halved to 0.20% during the month.

In the emerging market sovereign space, S&P upgraded Argentina's rating from B-/stable to B/stable which translated into 63bps reduction in yields to 6.02% on 10yr dollar denominated bonds of Argentina. In contrast, S&P downgraded South Africa from BBB-/negative to BB+/stable, citing possible derailing of reforms amid political upheaval. Fitch made a similar move and Moody's also has placed its Baa2/negative rating on South Africa on review for downgrade. ZAR denominated 10yr bonds of South Africa recorded a 32bps increase in yield to 8.63%

Negative US swap rates likely to sustain

Barring short lived blips, historically US swap spreads (to treasury yields) are generally positive with the exception of the 30-year term. Under normal market conditions, the difference between 10yr treasury yields and 10yr swap rate is between 3-25bps. In September 2015, the 10-year swap spread turned negative, and today, all swap spreads with a tenor of 7 years and greater are negative. In theory, this implies that the financial strength of banks is greater than that of the US government and that the funding costs of banks are lower than the US Treasury. However, in practice, that has not been the case for term borrowings. This phenomenon of negative swap spreads can be attributed to the varying demand supply dynamics in the two markets.

The negative swap spread may provide end users with the ability to borrow floating and pay fixed on swaps, thereby obtaining a comparative advantage in funding costs. Also primary dealers and traders could borrow in the bank market and invest in Treasuries in order to pocket the yield difference. In time, end users/investors/traders taking advantage of this arbitrage opportunity should eventually see swap spreads move back into the positive territory in a fairly small span of time. However, the current 10yr swap spread of -5bps has been in place since the end of 2015. We believe that it may continue to remain so in the near future because of the below factors:

US 10yr swap spreads over treasury

Source: Bloomberg

- **Treasury yields are likely to rise** due to continued new issuance and possibility of Fed unwinding its treasury holdings;

- **Demand for receiving fixed remains high.** Inflation around the world remains muted and market participants do not appear too concerned about aggressive rate hikes. Consequently there is more demand for receiving fixed than to pay fixed which in turn is keeping the swap rates low;

- **High new issuance expected to continue.** Dollar denominated borrowings by US as well as non-US based corporates and sovereigns has been high in the recent past. In the recent past when corporations issue fixed rate bonds, they frequently swap them back to floating. There aren't any exact numbers, but traders generally estimate about 35%-50% of all issuance is swapped back to floating. Borrowers swapping debt deals to much lower floating rates tends to keep swap rates low.
- **Bank credit risk not being factored in the swap rates.** Under the Dodd-Frank regulation, too big to fail banks trade through an exchange in order to limit the contagion risk. The exchange handles the collateral posting by all parties. If one counterparty in the trade defaults, the exchange steps in and becomes the counterparty. Since swaps are now exchange cleared, there is no longer a credit spread attached to swaps. Before 2009, swap spreads were used as a proxy for credit weakness and were exposed to widening pressure during periods of stress. This spread impacting factor has now been removed from the market.
- **Basel III** – Also playing a role in the inversion has been continued demand by traders/investors using swaps to satisfy long-dated liabilities rather than committing their capital to buying bonds. Given the stricter capital reserves requirements under the new Basel III regulation, holding cash bonds has become less attractive. To replicate the coupon income that they would have received on the bonds, traders have shifted to swap market where they seek trades for receiving fix and paying floating. With too many traders wanting to be on the same side of this trade, spreads collapse.

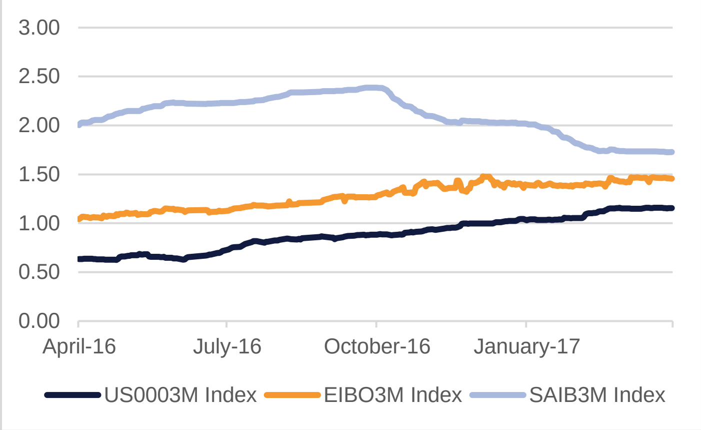
GCC Local Rates

Interbank rates in Saudi Arabia and the UAE remained range-bound during the month. After peaking at 2.40% mid last year, 3m SAIBOR is now around 1.76% which is where it was a month ago but is below where it was at the same time last year – i.e. before the two rate hikes in the US.

Though GCC currencies are pegged and in theory interbank rates in the region should move in tandem with the LIBOR rates, in practice, it is not always so. The change in the spread between SAIBOR and LIBOR due to improving liquidity in the local banking systems can easily outweigh the magnitude of increase in LIBOR rates due to US rate hikes.

KSA recently raised USD 9 bn via an international sukuk which will bring substantial liquidity in the local banking system and may see further fall in 3m SAIBOR spread in the immediate future. That said, the possibility of SAMA reeling the ADR ratio requirement back to 85% and KSA targeting to raise future debt in the local market may keep a lid on SAIBOR spread narrowing.

3m SAIBOR, EIBOR, LIBOR Rates



Source: Bloomberg

3m EIBOR rates reflect a 2bp widening during the month which appears to have no material reason except higher EIBOR submission by one or two relatively smaller banks.

As a consequence, 3m EIBOR – LIBOR spread is now 31bps and still close to its lowest since the financial crisis. There appears no material catalyst to change this spread in the near future.

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Credit Markets

Bond investors had a constructive month as benchmark yields diminished and credit spreads remained range-bound amid stable oil prices.

Global corporate bonds made solid gains last month mainly as yields on benchmark UST's shifted downwards in response to increasing geopolitical risks and increasing realisation about the emptiness of the Trump trade.

With no material change in oil price forecasts, largely stable emerging market currencies and continuation of relatively still cheap liquidity, global corporate bonds had little reason to alter credit risk premium. CDS levels on US IG, Euro Main and Itraxx Corp CEEMEA all tightened two to five bps, closing the month at 67bps (-3bps), 75bps (-2bps) and 174bps (-5bps) respectively.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	119	+1	-3	-28
US HY Corp	392	-11	-3	-199
EUR IG Agg	81	+4	+11	+18
USD EM Agg	269	+1	-21	-100

Source: Bloomberg

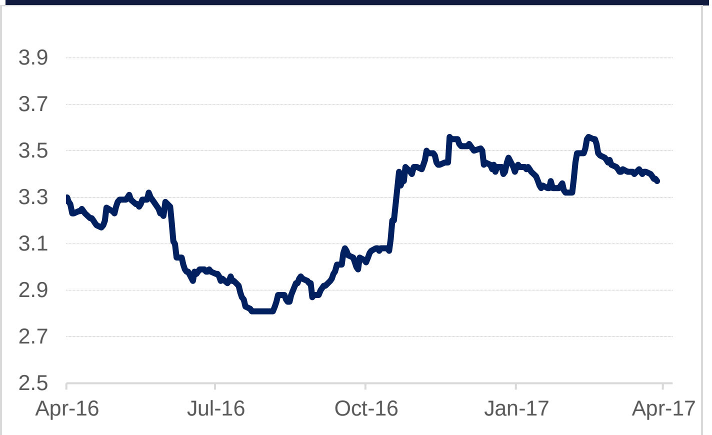
JP Morgan EMBI global diversified index returned 4.9% YTD as of 21st April. The latest round of economic data out of the emerging markets was positive. PMI in Brazil increased to 49.7 (from 46.9, Mexico PMI improved to 51.5 (from 50.6), Russia held steady at 52.4 and Turkey and India both showed improvement to 52.5 and 52.3 respectively. China 1Q GDP growth estimate also came in higher than expectations at 6.9%. Should the global economy continue cruising ahead and inflation remain muted, emerging market bonds are likely to give good seem to be positioned for better returns given relatively cheaper valuations and growth potential.

GCC Bonds – Secondary market

GCC bonds closed the month at all-time high, driven mainly by the receding benchmark yields and high demand for GCC bonds. International investors' focus is firmly on the GCC region particularly as several emerging market economies such as Russia, Brazil, South Africa, Turkey etc have recorded economic challenges and rating downgrades in the recent past. In addition, the traditional undersupply of bonds in the GCC is providing a strong technical backdrop thereby resulting in multiple times oversubscription to bonds in the primary market.

Yield on benchmark 5yr UST is currently at 1.77% compared with 1.95% a month ago. Credit spreads in the region have increased on a monthly basis mainly in response to falling benchmark yields not being followed through in the bond prices. Though average option adjusted credit spreads on Barclays GCC credit index widened 11bps to 157bps during the month, they are less than half of 299bps in 2012 and are not too far from their all-time lows of 114bps in mid-2014

Barclays GCC Index – Yield to worst



Source: Bloomberg

CDS levels on GCC sovereigns narrowed further by 3 to 7bps as countries make progress on reforms relating to raising revenue via taxes such as VAT and lowering expenditure on subsidies. Also oil prices fluctuating within a narrow band continue to underpin credit quality in the region.

Quarterly results from GCC banks are coming in-line or better than expectations. However, one of the surprising result announcement during the month was the staggering AED 19bn loss reported by TAQA as a result of asset impairment. Looking at reported equity of circa AED 7.3bn as at Dec 2015, this magnitude of loss would have resulted in TAQA's liabilities far exceeding net assets. However, the equity injection of a similar amount by its parent ADWA, via the leasehold rights on a piece of land, helped to keep TAQA's balance sheet intact. ADWA increased its ownership of TAQA to 74%. High expectation of government support via restructuring has kept TAQA's rating firmly at A3/stable, A/stable from Moody's and S&P respectively and has kept bond prices stable. TAQA has been on a deleveraging path for most of 2016, however is now considering funding options including Formosa bond, sukuk as well as loans.

Last month saw first ever green bond issued in the region by National Bank of Abu Dhabi. NBAD launched and priced USD 587m in 5 year senior unsecured bond at T+109.10bps in traditional EMTN format. The bond proceeds will be used to refinance green projects. During the month NBAD also completed its merger with FGB and began trading under the new name First Abu Dhabi Bank. The merged entity is owned 33.2 % by the sovereign wealth fund ADIC, 3.7% by Mubadala and >30% by the Abu Dhabi ruling family.

On the rating front Fitch downgraded SECO to A/stable from A+/stable much in sync with their downgrade of the sovereign rating on KSA. Of the 85 issuers in the region, Moody's has negative outlook on 19 (mainly Abu Dhabi and Qatar sovereign and their respective GREs), 2 positive outlooks (DIB and QIIB) and remaining with stable outlook.

One attention grabbing bit of news during the month was the IMF's comment about Bahrain needing urgent spending cuts in order to manage its fiscal deficit situation. However, given the well known nature of this issue and track record of support from its neighbours in times of need, Bahrain curve reflected little impact from this news.

Kuwait Energy bonds have been amongst the best performers during the month as price continues to rise in expectations of the bonds being bought back ahead of maturity. The company had announced plans in March for a London IPO with possible valuation of circa USD 1 bn. KUWAIE 19s have risen more than $4 in the last month and Z-spread tightened another 213bps during the month to 987bps from over 1200bps in mid-March. The issuer has an option to call the bonds in early August this year at $104.75. Considering high coupon cost (9.5%) and the possibility of the potential IPO cash, chances of these bonds being called in August is not negligible.

On a sector basis, while airline bonds underperformed the market as investor enthusiasm for Middle Eastern airlines remained muted, overall prices have held up well due to benchmark tightening.

GCC Bonds - Primary Market

In the primary market, GCC investors absorbed over USD 14.4bn worth of fixed rate deals during the month compared with USD 2.75 bn in redemptions. Not surprisingly, over 62% (by amount) of the new issues came from sovereigns. That said, relative to the universe as a whole, the deals were still well spread across five sectors with additional contribution coming from GRE - 10%, Banks – 8%, property – 9% and supernational – 10%.

During the month, Saudi Arabia raised USD 9bn through the world's largest ever sukuk offering of USD 4.5bn each in 5yr and 10yr tranches against order book of over USD 33bn. Despite the large deal size, there was minimal impact on the existing bonds with KSA21s, 26s and 46s all rising by quarter to a point and half in price, much in sync with the wider market. All three rating agencies (Moody's, S&P and Fitch) had affirmed Saudi Arabia's rating at A1/stable, A-/stable, and A+/stable respectively ahead of the sukuk issuance.

Mubadala Development successfully raised USD 1.5bn across unusual maturity tenures. The USD 850m in 7yr tranche priced at T+98bps and USD 650m in 12 yr tranche was priced at T+144.5bps. Both bonds debut well in the secondary market.

In the property sector, Qatar's Ezdan holding, Saudi Arabia's Dar-Al-Arkan and UAE's DAMAC Holdings tapped the market with benchmark sized offerings – all of which were well subscribed.

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Currencies

The last month has been characterized by rising event risk stemming from deteriorating relations between the US and Russia over Syria, the ratcheting up of risk aversion over North Korea, and more recently the surprise announcement of a UK general election. On top of these political factors the dollar has also been undermined by a perceived reduction in the likelihood of a Fed rate hike at the June FOMC meeting, in part stemming from more mixed economic data from the US but also from the resurgence of global risk aversion. Technically too the dollar looks vulnerable to further short term losses.

Dollar faces further downward pressure…

The dollar remains lower year-to-date relative to the other major currencies, with the exception of CAD. As shown in the graph below, the Dollar Index has been in a downtrend since the start of the year, with recent closes indicating further softness as likely in the month ahead. After finding resistance at the 100 day moving average on April 7th, the index proceeded to breach the 50 day moving average support on April 12th. While the 100.03 level (the 23.6% 2017 year to date Fibonacci retracement) initially served as another support, the index made a sustained breach of this level on 18th April 2017. At the time of writing, the index is currently trading at 99.11, just above its 200 day moving average of 99.10. A break of this level exposes the index to further declines, with the next significant level of support being the 50 week moving average of 98.46.

DXY prone to further short term decline

Source: Bloomberg

…as Euro rallies

The Euro is trading firmer in the aftermath of the first round of the French election (see Global Macro), gaining on most of the other majors. Currently, EURUSD trades at 1.0846, off earlier highs of 1.0937 in the immediate session after the first round results. Of note is that as the market opened for the week, the pair gapped up to open at 1.0859, above the 200 day moving average of 1.0838 and it still remains above this key technical level.In addition, this bullish opening has seen it break out of the daily downward trend that had been in effect since the 4th May 2016 (see chart below).This indicates that there are further upside risks with 1.0978, the one year 50% Fibonacci retracement as the next area of resistance.

EURUSD breaks out of downtrend

Source: Bloomberg

Euro crosses are also benefiting from a relief rally with EURJY currently trading at 119.86 up from 116.94 on Friday 21st April. We expect a retest of the 100 day MA of 120.67 this week, a break of which will open the path for a climb towards March's highs of 122.89.

GBP boosted by snap election

Last week's announcement of a snap UK election for June 8th helped give the pound a 2.56% boost in April despite softer than expected March UK retail sales figures (-1.8% m/m). The election is expected to significantly increase the Government's majority, which is currently only 17, and is thought likely to facilitate an easier Brexit deal with an emphasis on free trade, open markets and immigration controls. A stronger and more stable UK government post-election will stand in sharp contrast to election uncertainty and fragile governments elsewhere in Europe, with elections still to be held in Germany and Italy this year. There may still be some volatility for the pound in the run-up to the June vote, as opinion polls maybe erratic and headlines can be misleading, but we are raising our Q2 forecast for GBPUSD to 1.25 and are more confident that our end-year forecast of 1.35 will be met. Advance Q1 GDP data is expected to show UK growth slowing from a strong 0.7% in Q4 to a still respectable 0.5% in the first quarter.

GBPUSD headed to 1.30

Source: Bloomberg

Sterling has continued to build on its 2017 gains, with GBPUSD currently trading at 1.2787 after April's appreciation. This move was accompanied by the break of many key technical developments. Firstly, the pair has broken the daily downtrend that had been in effect since August 29th 2016. Secondly, the pair performed a sustained break of the 100 day and 200 day moving averages (see chart above). With this in consideration, we see a risk of a retest above 1.30 (close to the one year 61.8% Fibonacci retracement of 1.3055) which could be catalyzed by short covering of the near record level of 99.5k net short position on GBP according to the CFTC's commitment of traders report.

USDJPY downtrend remains for now

JPY remains the best perfoming currency of 2017, having appreciated against all the other G10 currencies. It continues to be the primary beneficiary of safe haven bids as market uncertainty persists, in relation to volatile geopolitics and over whether Trump can deliver on his promised stimulus packages. While in the medium to longer term, we look for upside in USDJPY, analysis of the daily candle chart gives us reason to believe this rebound may not be immediate. Despite breaking above the 50 day moving average on April 20th, the pair still remains in a daily downtrend in effect from January 4th. While the pair remains below 111.90-112.15 (the 50 day MA and 2017 YTD 38.2% Fibonacci retracement) it remains vulnerable, and another break below the 108.80 level could see it testing 106 in the short term.

USDJPY to rebound following hike

Source: Bloomberg

Correlation of daily currency movements over the last one month

PAIR	EUR/USD	EUR/GPB	EUR/JPY	GBP/USD	USD/JPY	USD/CAD	AUD/USD	NZD/USD
EUR/USD		0.324	0.630	0.444	-0.160	-0.114	0.105	0.454
EUR/GBP	0.324		0.491	-0.701	0.318	-0.031	0.057	-0.187
EUR/JPY	0.630	0.491		-0.004	0.6645	-0.048	0.062	0.083
GBP/USD	0.444	-0.701	-0.004		-0.436	-0.048	0.030	0.529
USD/JPY	-0.160	0.318	0.665	-0.436		0.058	-0.023	-0.334
USD/CAD	-0.114	-0.031	-0.048	-0.048	0.058		-0.383	-0.196
AUD/USD	0.105	0.057	0.062	0.030	-0.023	-0.383		0.575
NZD/USD	0.454	-0.187	0.083	0.529	-0.334	-0.196	0.575	

Source: Bloomberg, Emirates NBD Research

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Equities

Over the last one month, global equity markets have shown greater resilience to negative surprises compared to other asset classes. This can be put down to continued momentum in growth across economies accompanied by better than expected corporate earnings. Yet the immediate direction could well be dictated by the outcome of key political events scheduled over the next 45 days.

While most equity markets closed lower over the past month, the actual decline was minimal when looked at in perspective with the record performance of Q1 2017. The MSCI World index declined -0.2% 1m with all major sub-indices also closing in negative territory. The MSCI EM index and the MSCI Arabian Markets index dropped -0.8% 1m and -0.6% 1m respectively. Interestingly, the S&P 500 index (+0.2% 1m) and the Euro Stoxx 600 index (+0.4% 1m) managed to hold onto their gains. In contrast, gold which is considered a proxy for risk aversion rallied +2.6% 1m while the DXY index dropped -0.4%.

Volatility spiked in developed markets with the VIX index and the V2X index adding +12.9% 1m and +65.1% 1m respectively. The JP Morgan EM Volatility index declined -2.7% 1m.

With the political risk premium expected to remain high in the short term, investors could well use the ongoing earnings season as a tool to validate the relative upbeat performance of equity markets. While it is not on the immediate agenda of investors, the Federal Reserve meeting in June could become a key factor given the divergence between comments from Fed officials and what the market is pricing in. The trajectory of commodity prices will also be keenly watched given that oil has given up most of its recent gains and iron ore continues to remain sluggish. For regional markets, the lack of sustained investor interest could become more acute as dividend payouts end and traditionally slower months start shortly.

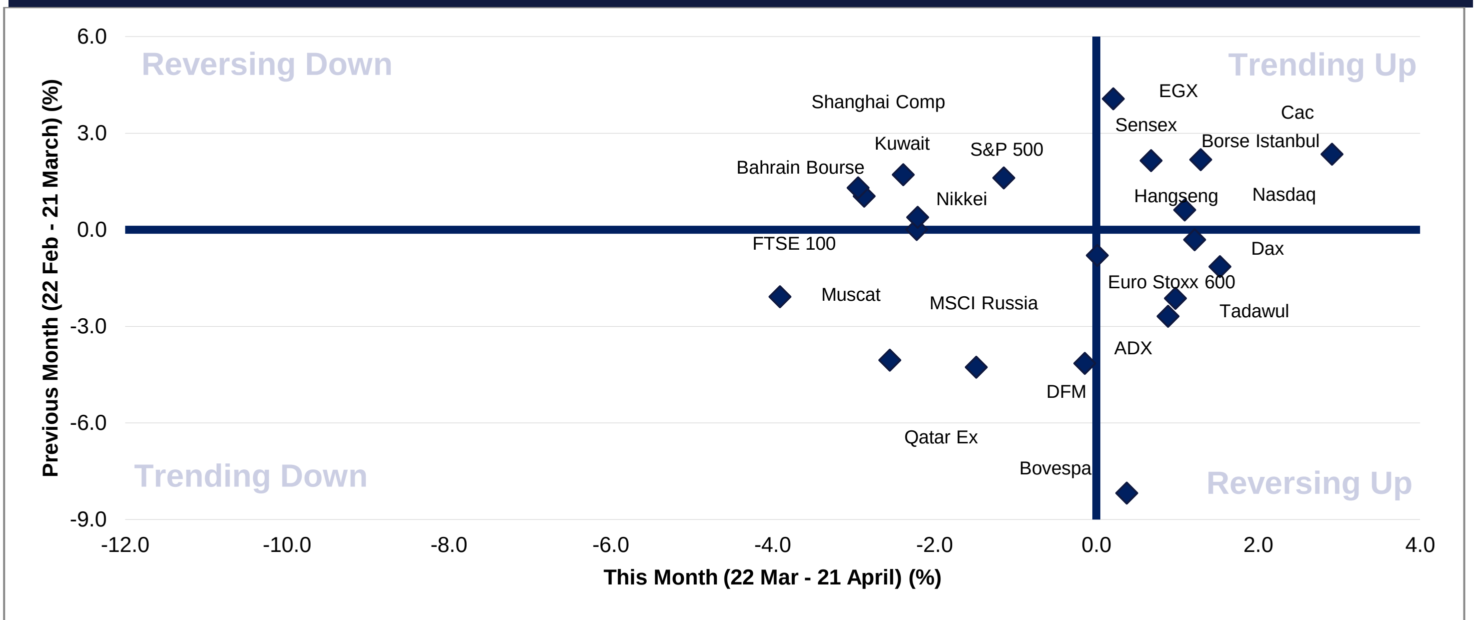
Key Trends

At the start of Q2 2017, the key trends likely to dominate equity markets over the course of 2017 are becoming clearer. These include the growing influence of politics over price movements, convergence in central bank policies and the earnings growth trajectory.

Politics dominates

There are growing signs that perhaps politics will be the key driver of global equity markets in the final three quarters of 2017. The political catalyst was evident across markets including in the US, Europe, India and Turkey. While the political wins for the incumbent in Turkey and India drove markets higher, the failure of the Donald Trump to push healthcare reform through the House of Representatives and uncertainty about results in impending elections in Europe dragged prices lower. The Borsa Istanbul 100 index gained +2.6%, following a marginal victory for President Erdogan in the constitutional referendum, to take its year to date gains to +18.3%. The S&P 500 index has remained flat over the last month despite earnings coming in ahead of estimates. Similarly the FTSE 100 index lost -3.2% to wipe out its year to date gains since the announcement of a snap election by Prime Minister Theresa May.

Equity Trends



Source: Bloomberg, Emirates NBD Research. Reversing Down – Up previous period & down this period; Trending Down – Down previous and this period; Trending Up – Up Previous and this period; Reversing Up – Down previous period and up this period.

With respect to elections in the Eurozone, it appears that investors are preferring to stay cautious given the lack of trust in opinion polls leading up to the polling. This coupled with the continued unpredictability of Donald Trump on the policy front increases the probability of exaggerated moves in either direction.

The immediate focus of investors' remains on the French election and probable announcement of a tax reform plan in the US. The victory of Emmanuel Macron and Marine Le Pen in the first round of election in France would help assuage some anxiety among investors given the indicative lead of Macron over Le Pen in the second round scheduled for early next month. On the tax front in the US, the market is likely to remain apprehensive given the track record of Donald Trump in getting legislations passed through the House of Representatives and Senate.

Inflation & Central Banks converge

Reflation which has been a buzzword in the US since the election of Donald Trump seems to have found its way in the lexicon of other economies with inflation expectations gathering pace. While inflation expectation in the US have remained firm for a while, they have recovered in Europe and Japan although from a low base. In the UK, the weaker pound on account of Brexit seems to be filtering through into the inflation trajectory. Emerging markets have not remained immune to the trend either with the Reserve Bank of India turning cautious on price pressures. This in a sense represents a move away from expectations of weak growth that had many investors fretting about deflation and secular stagnation.

The synchronized increase in inflation expectation has resulted in a broad convergence between central banks over the direction of monetary policy. The Federal Reserve has indicated that it is likely to continue raising rates gradually and has also initiated discussions of reducing the size of the balance sheet. The European Central Bank (ECB) and the Bank of Japan (BoJ) are continuing with an easy monetary policy but have dropped hints that they may start paring them back as soon as early next year. Elsewhere, the Reserve Bank of India shifted its stance from accommodative to neutral.

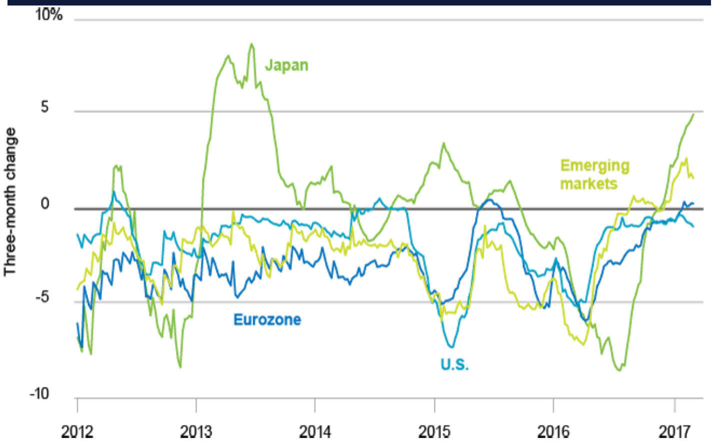
With central banks beginning to step back from their role of market maker, the risk of investors getting wrong-footed remains high. More so given signs of complacency as demonstrated by relatively low volatility. Hence, any signs of a more hawkish Fed or signals that the ECB is getting ready to end the QE program or BoJ shifting its yield target could see markets reprice the inflation risk premium and be a source of volatility for broader equity markets. Having said that, the direction of commodity prices could well end up as a key input in any reassessment.

Earnings

The recent rally in broad equity markets has been driven more by multiple expansion than earnings expansion. However, that appears to be changing with earnings estimates being revised up from their cyclical lows. Having said that, there is a divergence on those parameters across different regions. If we look at the returns since the US election, it appears that multiple expansion has been the driving force in Europe and the US while earnings growth has pushed prices higher in Japan and emerging markets. This could also be a function of the difference in growth trajectory of different economies.

The same trend is borne out in the earnings revisions as well. Over the last three months, the revision in earnings estimates has been the strongest in Japan (+4.2%) and emerging markets (+2.0%). This is in contrast to -0.8% revision for the S&P 500 index, +0.4% for the Euro Stoxx 600 index and +0.1% for the MSCI World index. Yet the S&P 500 index (+4.9%) has outperformed both the Topix index (-0.9%) and the Euro Stoxx 600 index (+4.6%) year to date.

Earnings Revisions



Source: Blackrock, Thomson Reuters

It is likely that broad equity markets will continue to find support from earnings growth as global economic activity continues to firm up. However, one must be mindful of the fact that there is a tendency of lowering the forward earnings expectation as the year progresses and that could be a potential drag on broad equity markets.

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Commodities

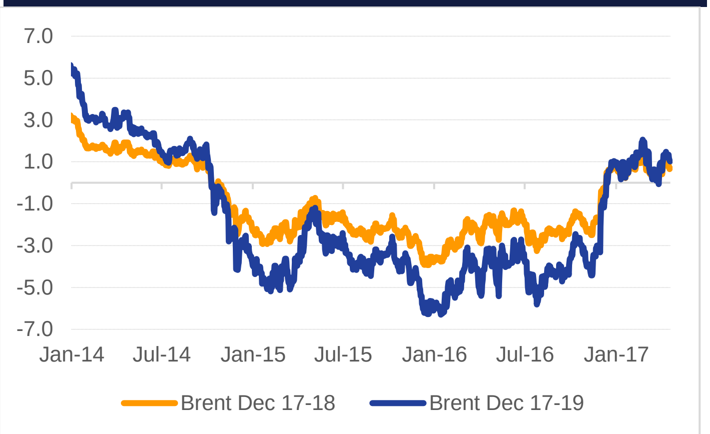
OPEC's production cut agreement has now been in force for a full three months, allowing for some perspective on whether it has indeed been effective in supporting the oil market. Judging from the price response, compliance with the cuts by OPEC and non-OPEC producers and the impact on inventories the cuts have helped to keep the market from falling further but have not yet prompted a major turnaround in prices. We expect OPEC will extend its production cuts for another six months but that an eventual return to supply growth will act as a further barrier to price rallies.

Prices have stopped falling but haven't yet sparked

OPEC's announcement to cut production has helped to set a floor under crude prices but hasn't yet catalyzed a rally to levels that would help member nations' economies. A level of around USD 50/b for Brent futures appears to be the new floor of the market as prices have bounced off that marker when they did break lower in March. However, prices has so far struggled to rise significantly higher, hitting a high of USD 57/b early in January and have actually been trending lower for most of 2017 so far. In terms of sparking a rally in near-term prices, against which OPEC producers price their exports, the cuts have so far had a relatively muted impact.

Where they have been more successful is in shifting the shape of the forward curve. When oil prices began their crash in mid-2014 futures flipped into a steep contango as burdensome inventories and a seemingly unending surplus weighed on markets. The contango structure incentivized storage plays, worsening the stockpiles numbers, and did little to weaken the ability of more nimble private producers, namely US shale producers, to hedge future production at commercial levels.

Forward curve flipped out of contango



Source: Bloomberg, Emirates NBD Research.

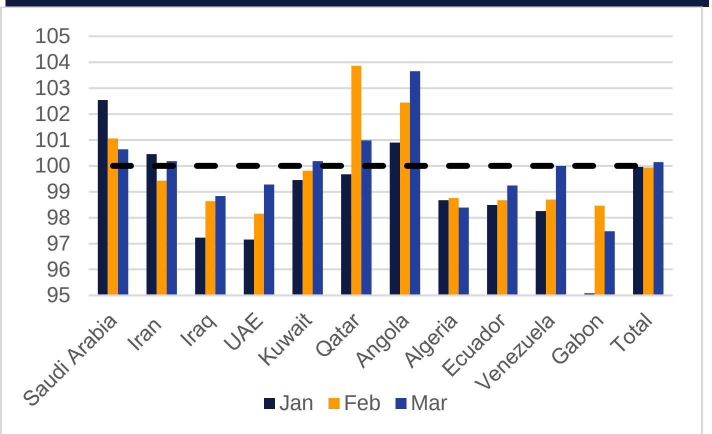
When OPEC announced its cuts the contango began a process of flattening and longer-dated time spreads have moved into what we would describe as a tentative backwardation. The size of the backwardation is still far smaller than where it was for much of the period prior to 2014 when spot prices were high and it has shown a tendency to move back to neutral or threaten to dip back into contango as the market reacts to upward revisions to production forecasts in the US. Indeed the front of the curve has so far resisted the urge to move into backwardation which to us would be more convincing evidence of a tightening market.

Cuts have been adhered to for now

Compliance with the production cuts has so far been higher than the market likely anticipated with aggregate compliance among members liable for cuts averaging around 80% in the first quarter. Total output has fallen by more than 1m b/d since the end of 2016, not far off the 1.2m b/d cut that was set out by OPEC. This decline has been achieved even as both Nigeria and Libya have managed to arrest the decline in their output. In Libya's case, however, production fluctuates on a near weekly basis as militant groups take or lose control of oil infrastructure.

The production cuts have fallen heaviest on the GCC producers in OPEC as Saudi Arabia has 'overcut' and collective GCC output has fallen 980k b/d since the end of 2016. Saudi Arabia may be able to keep some of the steeper cuts in force and avoid a seasonal uptick in crude, fuel oil and diesel demand in summer months as the country has been making use of more natural gas in its power generation.

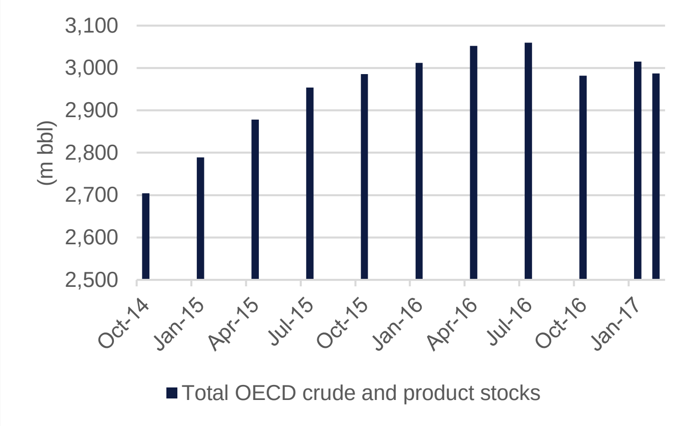
Compliance with cuts has been good



Source: OPEC Monthly Oil Market Report, Bloomberg, Emirates NBD Research.

While overall production has fallen considerably from OPEC members, the decline in exports has been much more modest. Overall exports are down just 260k b/d up to March from the end of 2016 as major producers like Saudi Arabia have seen much smaller cuts to overseas shipments. Indeed, Saudi Arabia intends to keep shipments to overseas buyers intact and has been adjusting official selling prices downward to ensure it keeps markets share. Prices for exports to Asia have been cut for several months running for most grades of Saudi oil, bucking the general tightening trend they had seen for much of 2016.

Inventories yet to normalise



Source: OPEC Monthly Oil Market Report, Emirates NBD Research.

Clearing the excessive inventories that have built up in oil markets is, in our view, the priority for OPEC members as it would allow them to raise production and capture more market share without dampening prices. Inventory data so far this year has been mixed. Total developed market crude stocks have risen 62m bbl as of the end of February according to OPEC's estimation while product stocks have slipped. Overall, total hydrocarbon stockpiles in OECD nations have remained sticky at close to 3bn bbl. However, given the paucity of data on global inventories the market is subject to weekly changes in US data where inventories have pushed higher and have hit new record levels several times this year.

Production cut likely to be extended

OPEC's decision to cut production but keep imports reasonably steady will grind against efforts to curb inventories, putting the onus to draw stocks down on demand and non-OPEC producers, both of which have proven to be fickle partners in the past.

Whether to extend the production cut will be the main question for OPEC ministers at its May meeting and this mixed performance in supporting the market suggests to us that an extension is likely. Saudi Arabia and Russia have been reportedly talking up the potential of an extension to cuts and if there is a unison voice on the issue from these two major producers then it is likely they will carry the motion to other producers. But another six months of restrained output opens up OPEC's key export markets to further encroaches from competitors: already in 2017 the US has emerged as a new supplier of crude oil to Chinese markets.

Metal prices revised upward

Heightened geopolitical risk stemming from a diplomatic standoff between North Korea and the US and its Asian allies, along with direct US military intervention into the conflict in Syria has helped push safe-haven assets higher in recent weeks, including gold. We have revised higher our expectation for gold prices as we expect this risk environment to persist at least until the summer months and now expect gold will average around USD 1240/troy oz this year compared with around USD 1,150/troy oz previously. We have also marked higher our forecasts for silver.

Among the base metals aluminium has had a very strong start to the year as the impact of supply curbs in China is being priced in ahead of the cuts themselves actually taking place. The light metal has hit resistance close to USD 2,000/tonne but an improving supply picture—not least thanks to a major drop in transparent inventories—has helped to keep prices elevated. That said, we would not rule out Chinese producers trying to take advantage of elevated prices ahead of the supply curbs coming into effect in the winter months.

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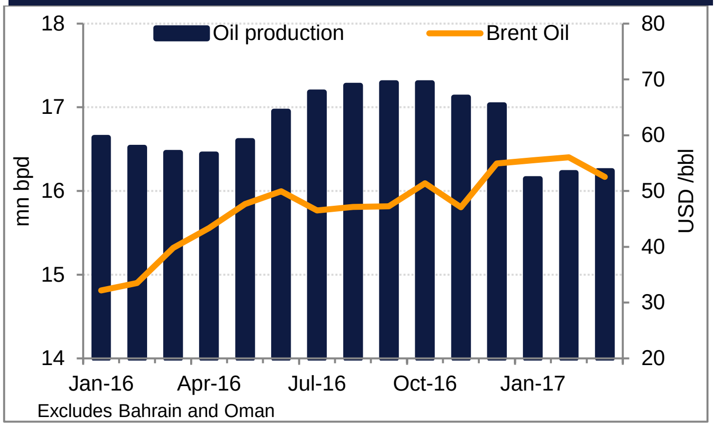
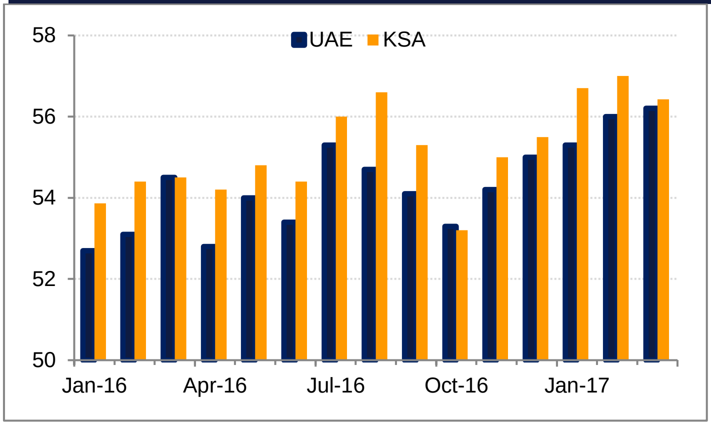
GCC in Pictures

GCC Oil Production and Oil Price



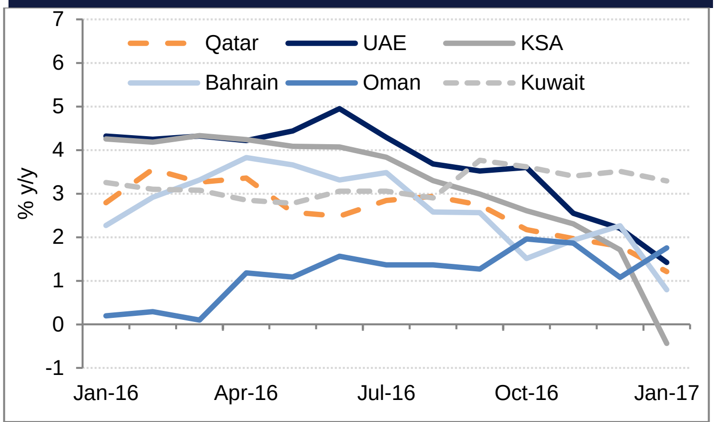
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



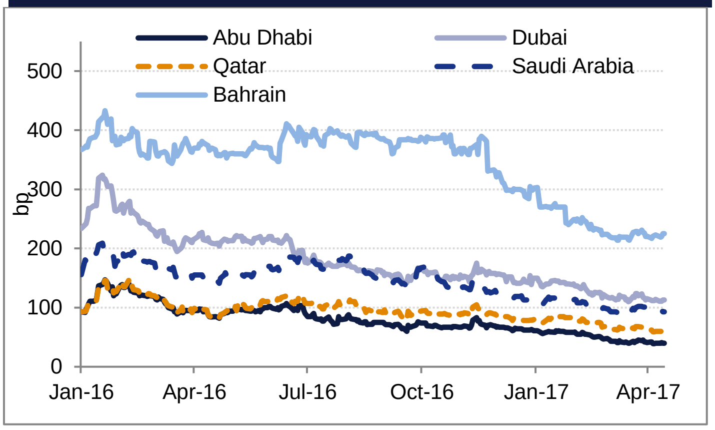
Source: Markit, Emirates NBD Research

Inflation



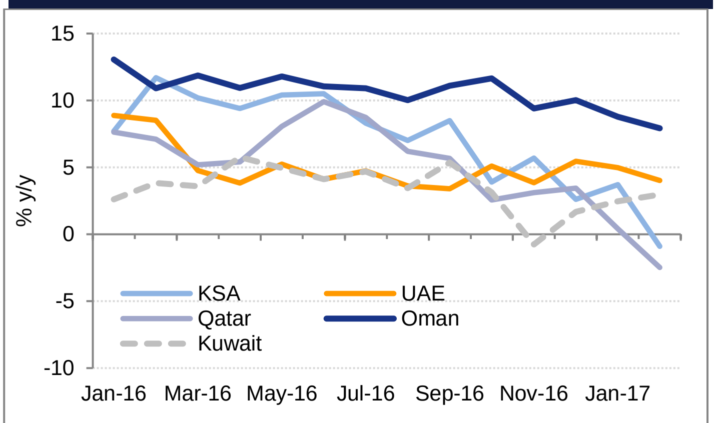
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



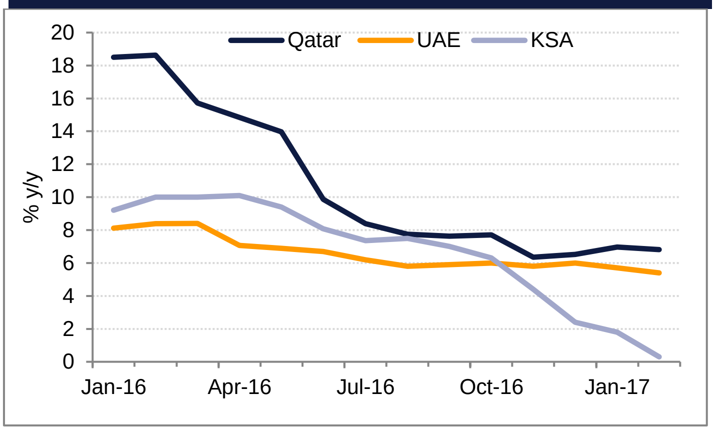
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

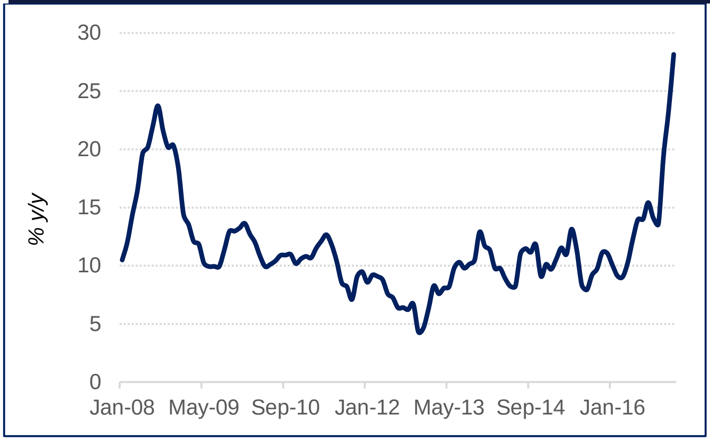
Private sector credit*



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

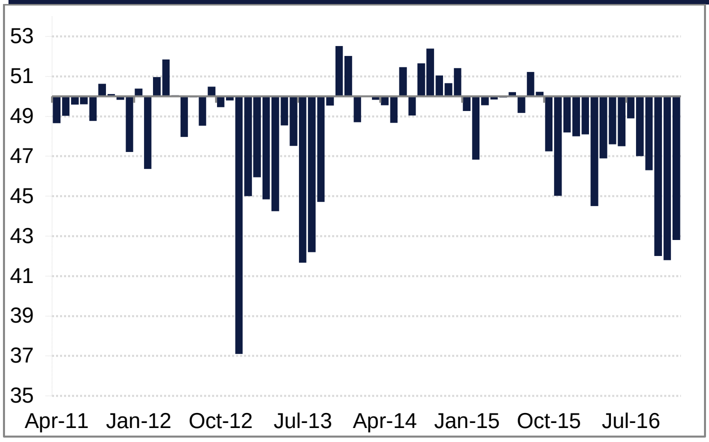
MENA in Pictures

Egypt – Core Inflation



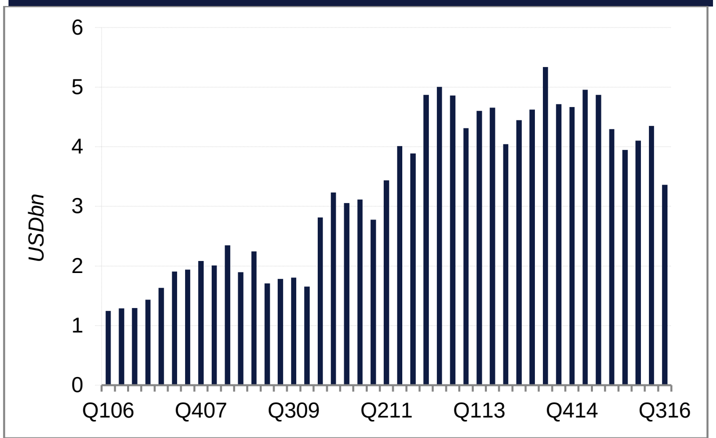
Source: Havers, Emirates NBD Resea

Egypt PMI



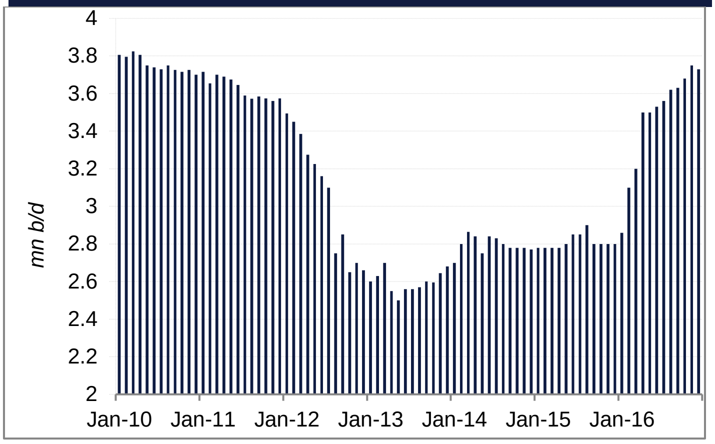
Source: Markit, Emirates NBD Research

Egypt Remittance Inflows



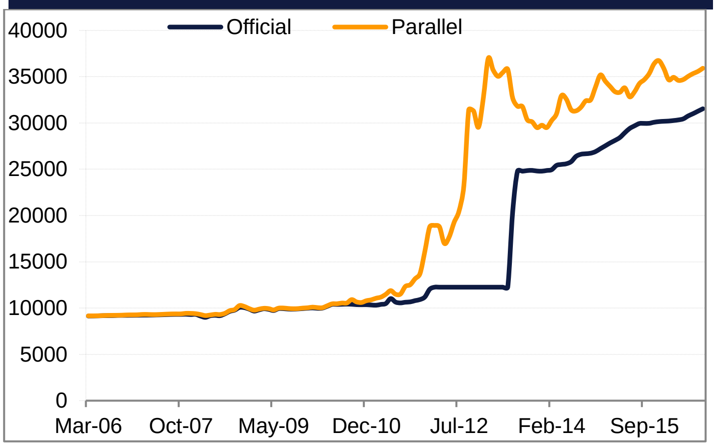
Source: Havers, Emirates NBD Research

Iran Oil Production



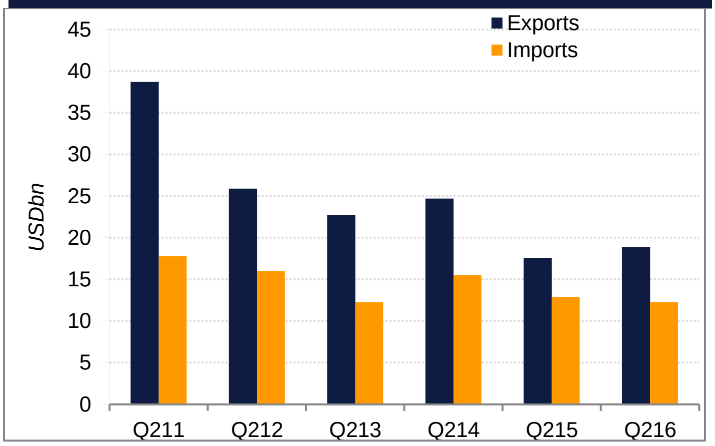
Source: Havers, Emirates NBD Research

Iran Exchange Rates



Source: CBI, Emirates NBD Research

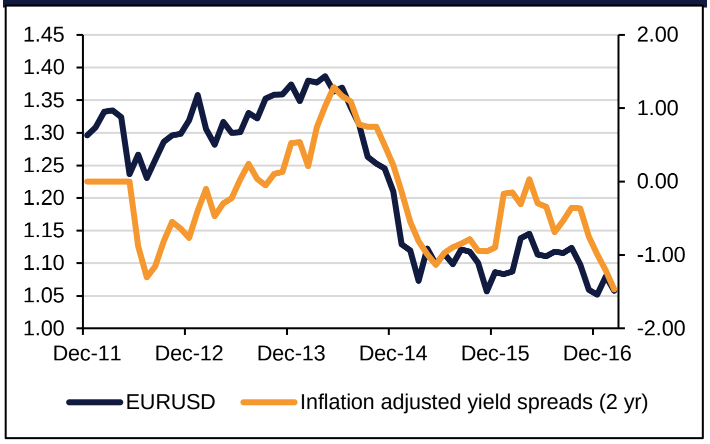
Iran Trade



Source: Bloomberg, Emirates NBD Research

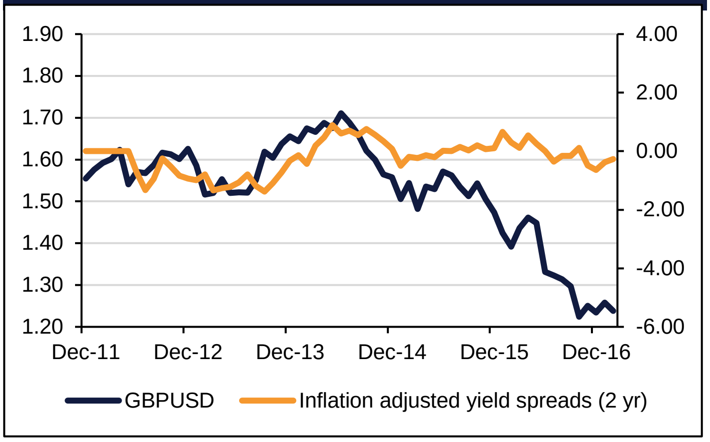
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



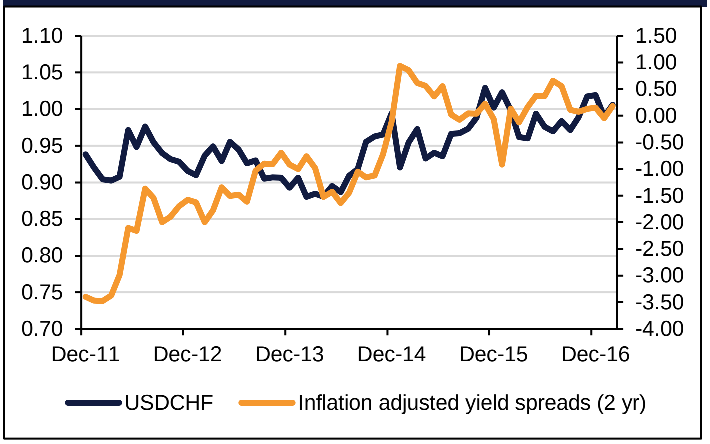
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



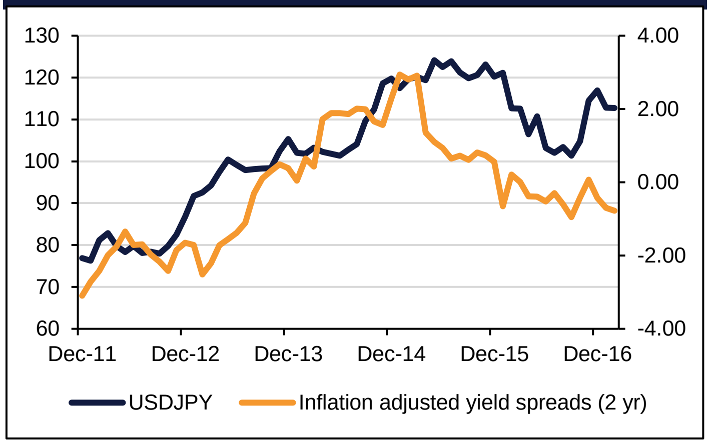
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



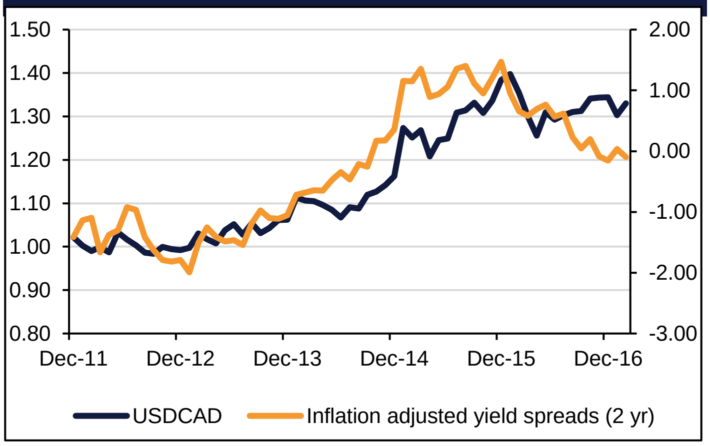
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



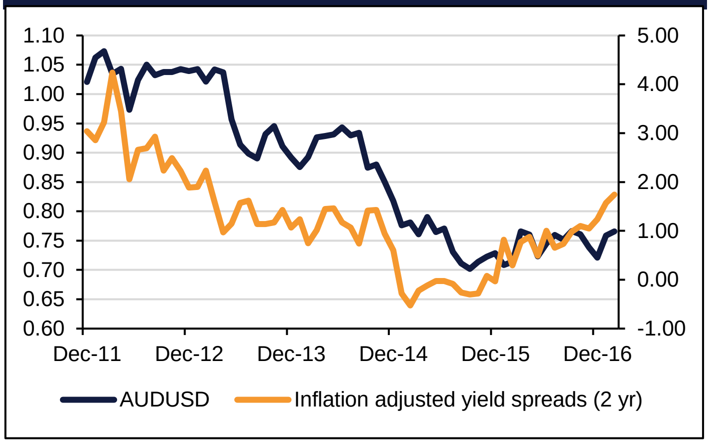
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

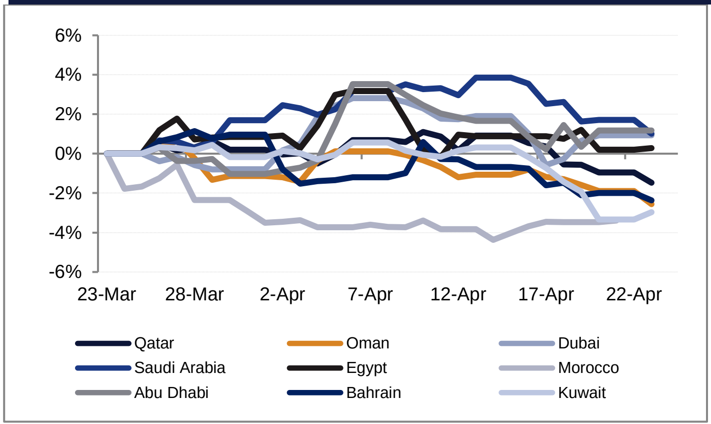
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

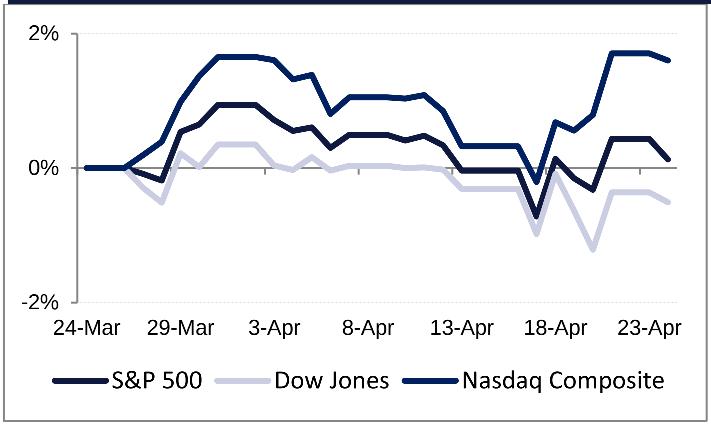
Major Equity Markets

MENA Equity Markets



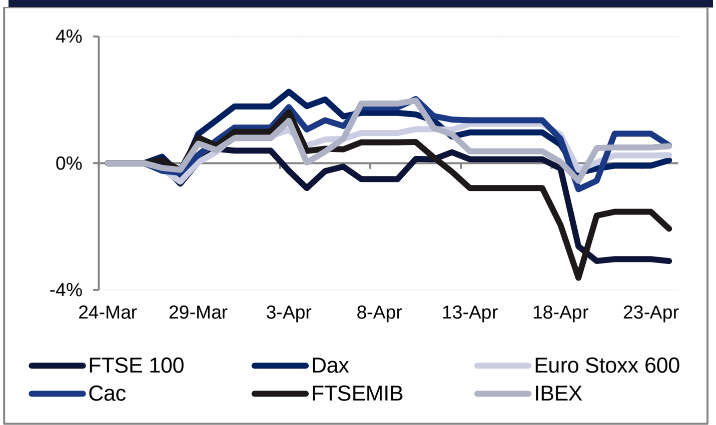
Source: Bloomberg, Emirates NBD Research

US Equity Markets



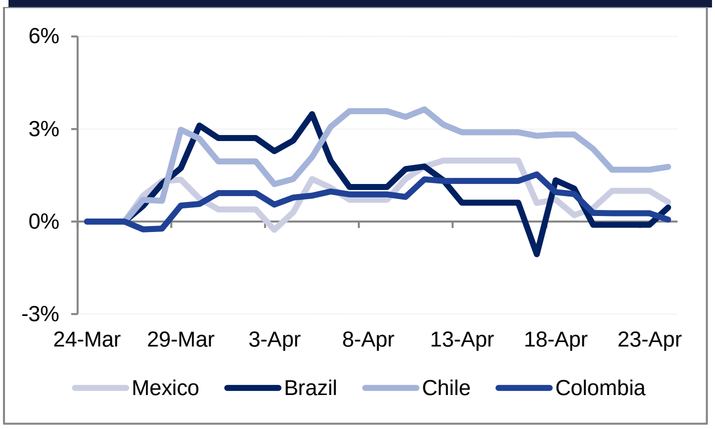
Source: Bloomberg, Emirates NBD Research

European Equity Markets



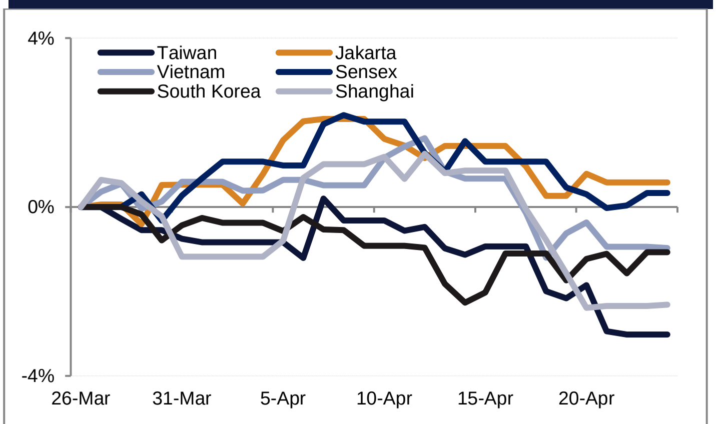
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



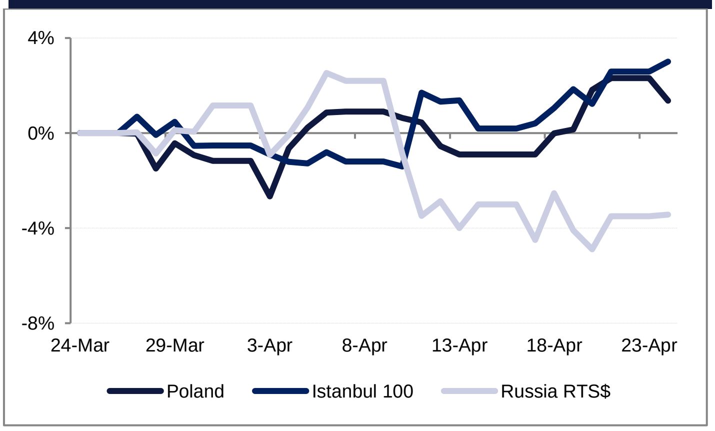
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

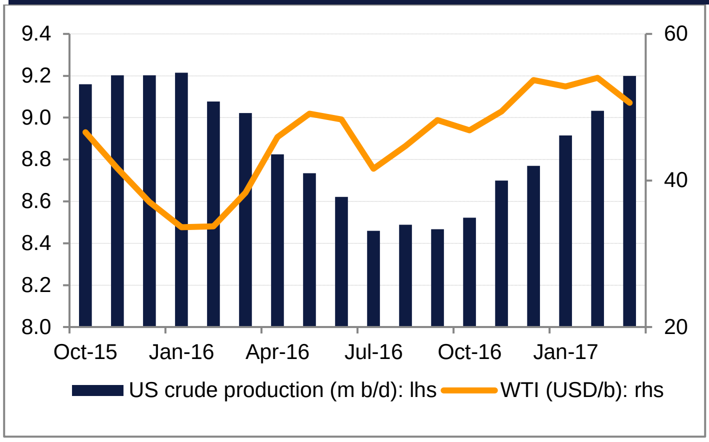
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

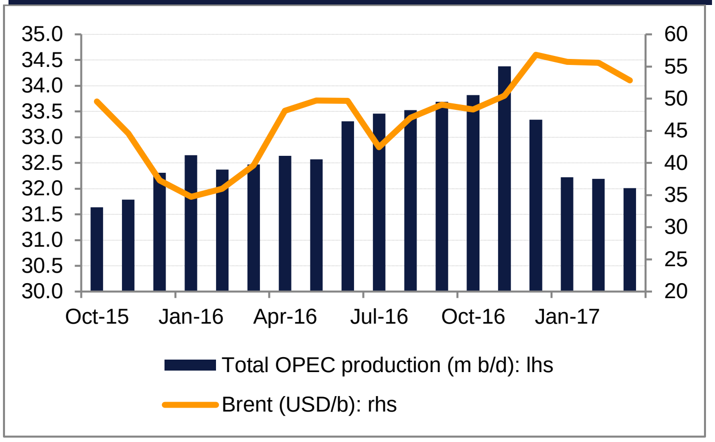
Major Commodities Markets

US oil production and price



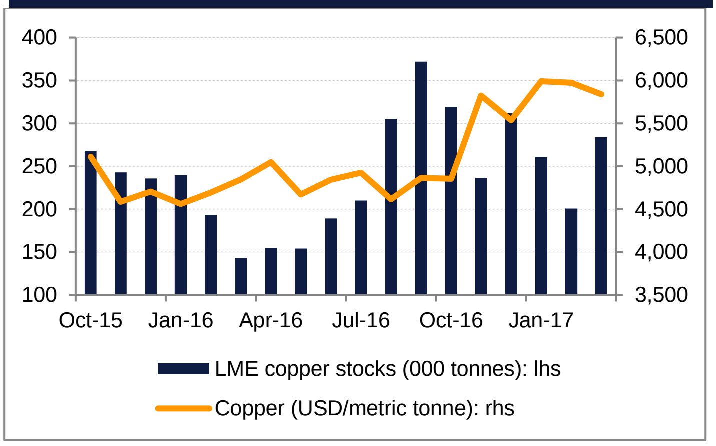
Source: Bloomberg, Emirates NBD Research

International oil production and price



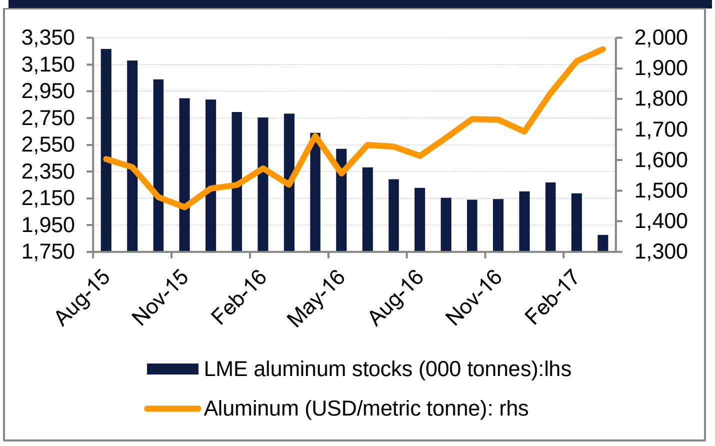
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



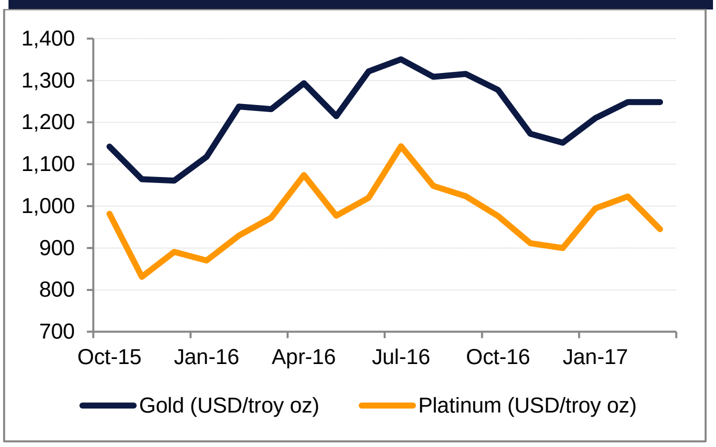
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



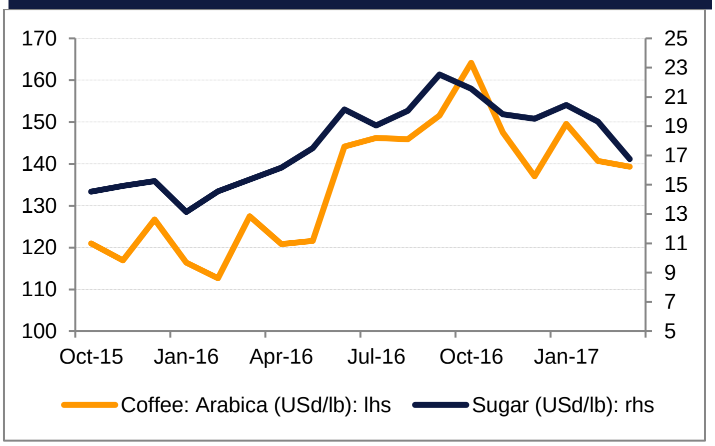
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2014	2015	2016e	2017f	2018f
Nominal GDP $bn	402.2	370.5	374.1	411.3	453.4
Real GDP %	3.1	3.8	3.0	3.4	4.1
Current A/C % GDP	10.0	3.3	-2.0	-0.3	1.6
Budget Balance % GDP	5.0	-2.1	-3.2	-0.8	1.4
CPI %	2.3	4.1	1.8	2.5	3.5
Saudi Arabia					
Nominal GDP $bn	753.8	653.2	635.6	694.6	758.9
Real GDP %	3.6	3.4	1.4	1.8	2.5
Current A/C % GDP	9.6	-9.1	-13.2	-11.0	-5.8
Budget Balance % GDP	-2.3	-14.9	-14.5	-9.8	-6.2
CPI %	2.7	2.2	3.5	2.8	3.5
Qatar					
Nominal GDP $bn	206.2	164.6	152.5	170.4	189.5
Real GDP %	3.5	3.3	2.0	3.5	3.8
Current A/C % GDP	29.5	12.7	1.2	4.4	6.1
Budget Balance % GDP	12.3	1.2	-8.4	-4.6	-4.7
CPI %	3.3	1.9	2.7	3.0	3.5
Kuwait					
Nominal GDP $bn	166.3	116.9	95.9	107.3	120.4
Real GDP %	0.5	1.8	2.7	2.3	2.9
Current A/C% GDP	32.6	5.1	-1.7	7.0	15.4
Budget Balance % GDP	7.4	-13.1	-17.2	-9.3	0.3
CPI %	2.9	3.3	3.2	3.5	3.5
Oman					
Nominal GDP $bn	80.9	69.7	72.5	79.2	87.7
Real GDP %	2.5	5.7	3.7	2.0	2.8
Current A/C % GDP	5.2	-15.5	-17.7	-11.6	3.1
Budget Balance % GDP	-3.4	-17.2	-17.5	-9.8	-5.0
CPI %	1.0	0.1	1.1	1.5	2.0
Bahrain					
Nominal GDP $bn	33.4	31.1	31.9	34.4	36.8
Real GDP %	4.4	2.9	3.0	2.5	2.4
Current A/C % GDP	4.6	-2.4	-4.9	-5.2	-3.6
Budget Balance % GDP	-3.6	-13.0	-15.9	-12.9	-11.0
CPI %	2.7	1.8	2.8	2.0	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	491.8	434.2	427.7	467.3	510.7
Real GDP %	3.1	3.4	2.2	2.5	3.1
Current A/C % GDP	14.2	-2.3	-7.8	-4.9	-0.3
Budget Balance % GDP	2.2	-9.6	-11.1	-6.8	-3.5
CPI %	2.6	2.6	2.8	2.7	3.4

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2014	2015	2016	2017f	2018f
Nominal GDP $bn	305.4	332.6	332.2	180.9	196.1
Real GDP %	2.9	4.4	4.3	3.5	4.9
Current A/C % GDP	-1.0	-2.7	-4.5	-2.7	-1.3
Budget Balance % GDP	-12.98	-12.53	-13.95	-10.05	-8.98
CPI %	10.1	10.4	13.7	16.0	11.0
Jordan					
Nominal GDP $bn	35.8	37.5	38.9	40.3	41.7
Real GDP %	3.1	2.4	2.0	2.8	3.0
Current A/C % GDP	-7.3	-9.1	-10.3	-9.8	-9.6
Budget Balance % GDP	-2.3	-3.5	-3.2	-2.9	-2.6
CPI %	2.8	-0.9	-0.8	2.0	2.0
Lebanon					
Nominal GDP $bn	48.6	50.1	55.1	61.8	68.5
Real GDP %	1.8	1.5	2.4	3.1	3.3
Current A/C % GDP	-23.9	-16.1	-16.0	-15.6	-15.7
Budget Balance % GDP	-6.3	-7.9	-7.3	-7.5	-7.7
CPI %	-8.0	-3.8	-1.0	3.0	4.5
Tunisia					
Nominal GDP $bn	47.6	41.1	41.3	41.1	45.0
Real GDP %	2.3	0.8	1.1	2.8	4.0
Current A/C% GDP	-9.0	-9.4	-8.3	-7.4	-6.5
Budget Balance % GDP	-5.1	-5.1	-6.8	-6.4	-6.0
CPI %	5.5	4.9	3.7	5.0	5.0
Morocco					
Nominal GDP $bn	109.7	100.7	116.8	125.8	135.6
Real GDP %	2.6	4.5	1.0	4.7	4.8
Current A/C % GDP	-5.7	-2.1	-4.1	-2.9	-2.1
Budget Balance % GDP	-5.2	-4.7	-3.8	-3.1	-2.5
CPI %	0.4	1.6	1.6	3.0	3.0
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	203.3	224.9	222.9	123.8	134.1
Real GDP %	2.70	3.75	3.08	3.66	4.37
Current A/C % GDP	-5.0	-4.7	-6.2	-5.6	-4.7
Budget Balance % GDP	-9.4	-9.6	-10.1	-6.8	-6.2
CPI %	5.7	6.4	8.2	8.3	6.5

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2014	2015	2016	2017f	2018f
Nominal GDP $bn	213.5	165.3	165.4	186.1	214.3
Real GDP %	2.2	2.3	3.4	3.6	4.2
Current A/C % GDP	-4.3	-16.6	-17.3	-10.9	-8.7
Budget Balance % GDP	-7.3	-16.0	-14.3	-10.7	-8.2
CPI %	3.9	4.4	6.0	7.0	5.0
Libya					
Nominal GDP $bn	48.1	34.4	36.2	40.1	44.7
Real GDP %	-24.0	-10.2	-0.9	10.3	11.3
Current A/C % GDP	-10.5	-9.4	-12.3	-15.0	-17.0
Budget Balance % GDP	-41.4	-23.6	-20.7	-18.8	-17.6
CPI %	2.4	9.5	9.5	10.5	11.5
Iran					
Nominal GDP $bn	503.6	423.7	420.1	406.6	434.1
Real GDP %	5.9	3.7	7.2	4.1	5.0
Current A/C % GDP	3.1	2.1	3.8	5.3	5.8
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	8.5	11.1	12.0
Iraq					
Nominal GDP $bn	192.8	164.2	229.6	247.2	288.3
Real GDP %	-0.6	-2.4	8.7	3.5	5.1
Current A/C% GDP	12.7	2.5	-5.3	-5.7	-5.5
Budget Balance % GDP	-6.1	-13.6	-10.7	-6.6	-4.6
CPI %	3.0	1.2	1.0	4.5	6.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	301.3	295.9	294.5	314.9	239.4
Real GDP %	1.9	1.5	6.5	4.1	5.2
Current A/C % GDP	2.7	-2.3	-3.5	-1.9	-7.7
Budget Balance % GDP	-7.5	-10.1	-9.7	-7.4	-7.1
CPI %	9.4	6.2	7.2	8.9	6.3

Key Economic Forecasts - Global

US	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.2	2.4	2.4	1.8	2.5	2.5
Current A/C % GDP	-2.3	-2.3	-2.6	-2.7	-2.7	-2.9
Budget Balance % GDP	-3.3	-2.8	-2.5	-2.5	-3.0	-3.4
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	2.3	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	7.8
Current A/C% GDP	-2.6	-1.4	-1.5	-1.5	-1.0	-1.0
Budget Balance % GDP	-5.9	-4.8	-4.1	-3.9	-3.9	-3.6
CPI %	10.9	6.4	7.0	5.0	4.8	5.0

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

Emirates NBD

FX Forecasts

	FX Forecasts - Major					Forwards		
	24-Apr	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR/USD	1.0841	1.0500	1.0200	1.0000	1.0000	1.0889	1.0943	1.1060
USD/JPY	110.11	116.00	120.00	122.00	124.00	109.70	109.21	108.09
USD/CHF	0.9954	1.0300	1.0500	1.1000	1.1000	0.9899	0.9838	0.9709
GBP/USD	1.2779	1.2500	1.3000	1.3500	1.4000	1.2810	1.2844	1.2920
AUD/USD	0.7563	0.7300	0.7200	0.7000	0.7000	0.7551	0.7542	0.7527
NZD/USD	0.7028	0.6900	0.6700	0.6500	0.6700	0.7013	0.6999	0.6972
USD/CAD	1.3485	1.3500	1.3400	1.3200	1.3000	1.3468	1.3446	1.3402
EUR/GBP	0.8482	0.8400	0.7846	0.7407	0.7143	0.8500	0.8519	0.8559
EUR/JPY	119.36	121.80	122.40	122.00	124.00	119.36	119.36	119.36
EUR/CHF	1.0791	1.0815	1.0710	1.1000	1.1000	1.0779	1.0766	1.0737
	FX Forecasts - Emerging					**Forwards**		
	16-Mar	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**	**3m**	**6m**	**12m**
USD/SAR*	3.7503	3.7500	3.7500	3.7500	3.7500	-	-	-
USD/AED*	3.6729	3.6720	3.6720	3.6720	3.6720	3.6743	-	-
USD/KWD	0.3044	0.3050	0.3050	0.3050	0.3050	0.3044	0.3047	-
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3858	0.3890
USD/BHD*	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3778	0.3785
USD/QAR*	3.6415	3.6400	3.6400	3.6400	3.6400	3.6461	3.6509	3.6628
USD/EGP	18.1007	18.0000	18.5000	18.7500	19.0000	18.4150	18.7925	19.6000
USD/INR	64.469	66.000	64.000	65.000	65.000	65.1400	65.9100	67.4400
USD/CNY	6.8870	7.0000	7.1000	7.2000	7.4000	6.9375	6.9840	7.0720

Data as of 24 April 2017

Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.53	1.75	1.95	2.20			
10y	2.21	2.56	2.65	2.81			
2s10s (bp)	68	81	70	61			
US Treasurys Forecasts							
2y	1.18	1.40	1.62	1.90			
10y	2.25	2.60	2.70	2.85			
2s10s (bp)	107	120	108	95			
3M Libor							
3m	1.16	1.35	1.55	1.80			
3M Eibor							
3m	1.46	1.67	1.88	2.15			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED	0.75-1.00	1.00	1.25	1.50			
ECB	0.00	0.00	0.00	0.00			
BoE	0.25	0.25	0.25	0.25			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-1.00	-1.00			
RBA	1.50	1.50	1.25	1.25			
RBI (repo)	6.25	6.25	6.25	6.00			
SAMA (r repo)	1.00	1.25	1.50	1.75			
UAE (1W repo)	1.25	1.50	1.75	2.00			
CBK (discount rate)	2.75	3.00	3.25	3.50			
QCB (Repo rate)	2.25	2.75	3.00	3.25			
CBB (o/n depo)	1.00	1.25	1.50	1.75			
CBO (o/n repo)	1.00	1.50	1.75	2.00			

Data as of 16 March 2017
Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Current	**2016 avg**	**2017q1**	**Q2**	**Q3**	**Q4**	**2017 avg**
Energy							
WTI (USD/b)	49.91	43.32	51.91	52.50	53.00	55.00	53.10
Brent (USD/b)	52.28	45.04	54.68	55.00	55.00	60.00	56.17
OPEC Reference (USD / b)	50.48	40.68	52.03	53.35	53.35	58.20	54.23
Precious metals							
Gold (USD/troy oz)	1,271.21	1,247.82	1,220.24	1,275.00	1,2750.00	1,180.00	1,237.56
Silver (USD/troy oz)	17.77	17.10	17.48	17.50	18.00	16.00	17.24
Platinum (USD/troy oz)	966.00	987.79	982.33	902.50	932.00	960.00	944.21
Palladium (USD/troy oz)	798.35	613.89	767.48	777.07	786.65	796.23	781.86
Base metals							
Aluminum (USD/metric tonne)	1,943.00	1,609.83	1,856.60	1,875.00	1,850.00	1,850.00	1,857.90
Copper (USD/metric tonne)	5,665.00	4,870.75	5,857.38	5,800.00	5,500.00	5,350.00	5,626.85

Prices as of 24 April 2017. Note: prices are quarterly average unless indicated otherwise.
Source: EIKON, 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	20,548	6,509	-0.6	4.0	83	17.1	3.4	2.5
S&P 500 Index	2,349	34,371	-0.6	4.9	76	18.2	2.9	2.1
Nasdaq Composite Index	5,911	20,392	0.0	9.8	62	22.6	3.7	1.1
FTSE100 Index	7,115	6,119	-2.8	-0.4	73	14.5	1.8	4.3
DAX Index	12,049	3,633	-2.1	4.9	93	13.5	1.7	3.0
CAC 40 Index	5,059	3,622	-1.2	4.0	87	14.9	1.5	3.4
Swiss Market Index	8,554	2,834	-1.2	4.1	95	17.4	2.4	3.5
Nikkei Index	18,621	11,790	-0.2	-1.2	76	16.3	1.6	2.0
S&P/ASX 200 Index	5,854	3,477	0.1	3.6	69	16.2	2.0	4.4
Stoxx Europe 600 Index	378	27,590	-0.8	4.6	85	15.4	1.8	3.5
Dubai Financial Market General Index	3,470	73	-0.1	-1.5	58	10.3	1.2	4.2
Abu Dhabi Sec Market General Index	4,522	51	1.8	-0.5	54	12.1	1.3	4.3
Tadawul All Share Index	6,899	812	-0.5	-3.4	52	14.3	1.5	3.3
Istanbul SE National 100 Index	92,039	1,039	3.9	18.3	85	9.1	1.1	3.2
Egyptian Exchange Index	12,906	42	-3.5	1.6	83	11.6	1.8	2.5
Kuwait Stock Exchange Index	6,814	96	-3.0	18.6	78	-	-	-
Bahrain Bourse All Share Index	1,334	3	-1.4	9.6	89	-	-	-
Muscat Securities Index	5,474	8	-1.3	-5.2	53	10.2	1.0	-
Qatar Exchange Index	10,242	82	-1.8	-2.3	45	13.6	1.7	3.8
MADEX Free Float Index	9,212	9	-0.5	-3.4	73	17.1	2.6	3.7
Hong Kong Hang Seng Index	24,042	3,541	0.3	9.9	74	12.0	1.2	3.5
Shanghai Composite Index	3,173	34,239	-2.9	0.9	35	13.7	1.5	2.0
Korea Stock Exchange Index	2,165	4,035	0.6	7.3	51	9.7	1.0	1.8
BSE Sensex	29,365	924	-0.3	10.9	67	17.3	2.5	1.7
Nifty	9,119	1,485	0.0	12.1	75	17.1	2.5	1.6
Karachi Stock Exchange Index	49,709	77	3.6	4.4	79	11.5	1.9	4.7
Taiwan SE Weighted Index	9,717	2,804	-1.0	5.0	65	13.6	1.7	4.1
Bovespa Brasil Sao Paulo SE Index	63,760	2,018	-1.9	5.9	-	-	-	-
Micex Index	1,945	523	-1.7	-12.1	38	6.0	0.6	5.4
FTSE/JSE Africa All Share Index	52,195	1,673	0.3	3.0	48	14.5	1.8	3.3
Vietnam Ho Chi Minh Stock Index	712	151	-1.4	7.2	56	13.8	2.2	2.6
Jakarta SE Composite Index	5,664	406	1.7	6.9	57	16.1	2.5	2.0
FTSE Bursa Malaysia KLCI Index	1,756	250	0.9	7.0	77	16.5	1.7	3.2
Mexican Stock Exchange	48,968	358	0.9	7.3	60	18.3	2.4	2.1

Prices as of 21 April 2017
Source: Bloomberg, Emirates NBD Research

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