



بنك الإمارات دبي الوطني
Emirates NBD

Monthly
16 August 2017

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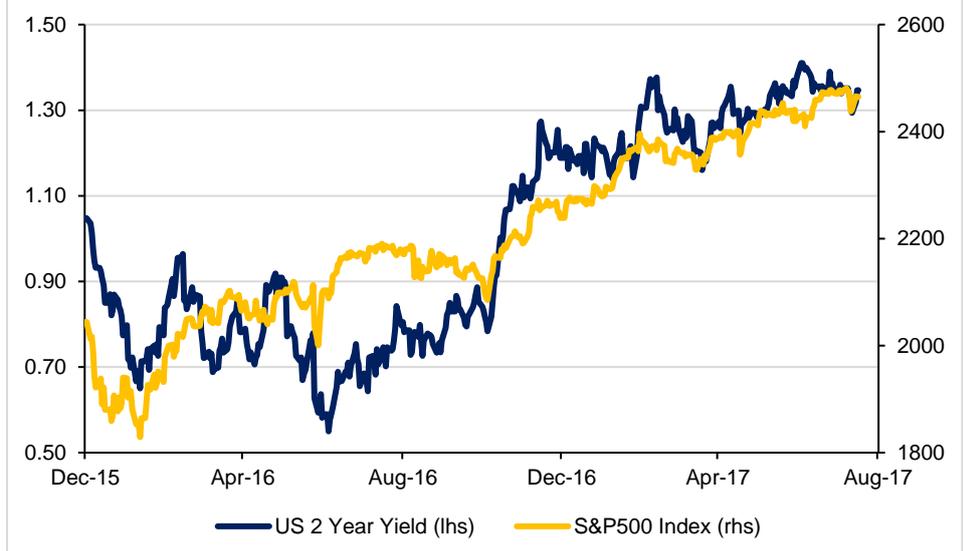
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Monthly Insights

Despite a recent rise in geopolitical tensions in Asia, the markets reacted relatively calmly with the summer lull still largely upon us. This is because investors have taken a relatively benign view of the risks, and are being reassured by the recent pattern of encouraging economic data.

- **Global macro:** The summer months are passing by with optimism about the global economy being maintained. If anything the signs are that growth momentum is picking up, with the US, the Eurozone and Japan all posting strong Q2 GDP readings.
- **GCC macro:** At the half year mark, we review developments in the banking sectors of the largest GCC economies. While total bank deposits in the banking systems increased in H1 2017, this has been largely due to increased public sector deposits and masks some underlying trends.
- **Emerging Market Focus:** India
- **Rates:** Weaker than expected inflation data in the developed world caused widespread declines in sovereign yields during the month. In addition, the risk-off tone triggered by increased tension between the US and North Korea led to a mini rally in safe haven assets.
- **Credit:** Falling benchmark sovereign yields boosted corporate bond prices despite slight increase in credit spreads. GCC bond investors benefited from positive sentiment arising from improvement in oil prices and minimal new supply in the summer months.
- **Currencies:** After a summer spent in the doldrums, the dollar has begun August with a little more promise as the latest economic data has provided some reassurance about growth. Although we still remain bullish on the dollar through the rest of the year, we have moderated its profile as contrasting economic and political forces could keep it trading skittishly for a while to come.
- **Equities:** Global equities have taken the negative political risks in their stride and continued their positive run. They appear to be drawing their strength from upbeat corporate earnings, a widening base to economic growth and a benign inflation outlook.
- **Commodities:** Industrial metals have rallied strongly in Q3, outperforming gold and oil. Specific causes are discrete to each metal but prices may be brought down to earth as rallies have outpaced fundamentals.

Muted market reactions to recent geopolitical tensions



Source: Bloomberg, Emirates NBD Research.

Content

Global Macro	Page 3
GCC Macro	Page 5
Emerging Market Focus	Page 7
Rates	Page 8
Credit	Page 10
Currencies	Page 12
Equities	Page 14
Commodities	Page 16
Key Data & Forecast Tables	Page 18

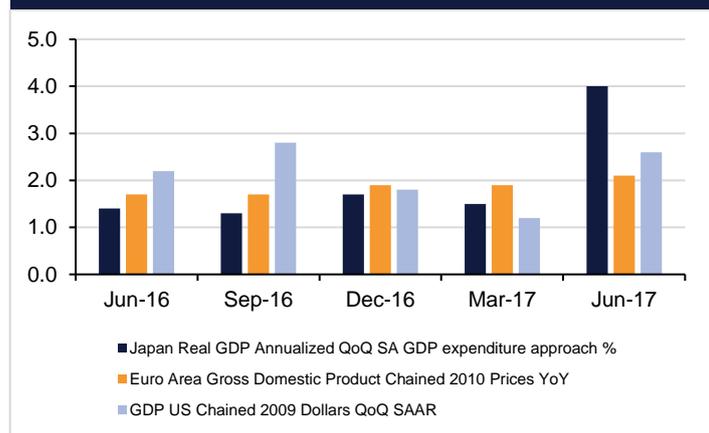
Global Macro

The summer months are passing by with optimism about the global economy being maintained. If anything the signs are that growth momentum is picking up, with the US, the Eurozone and Japan all posting strong Q2 GDP readings, causing speculation about monetary policy normalization to gain ground, even though inflation is still largely absent. What is also observable over the last few months is that the risks to the world economy are coming not so much from conventional economic issues but rather from political and geopolitical risks.

Strong Q2 as momentum builds

GDP growth in the three biggest economies of the world in Q2 was uniformly encouraging, with the US recording growth of 2.6% (annualized), the Eurozone of 2.1% y/y, and Japan of 4.0%. The 2.6% annualized gain in US real GDP in the second quarter was driven by a rebound in real consumption growth. Real consumption increased by 2.8% annualized, up from growth of 1.9% in the first quarter. Furthermore, business investment posted a healthy 5.2% annualized gain, including a particularly encouraging 8.2% rise in equipment investment. There was also evidence of the positive effects of strong global growth and the weaker dollar, with net trade adding 0.2% points to growth, largely thanks to stronger exports. All in all the data suggests that the economy is still on track to grow by 2.0-2.5% in 2017 as a whole. The strengthening labour market should continue to support real consumption growth, while the business surveys suggest that investment will continue to recover.

Global growth encouraging in Q2



Source: Bloomberg, Emirates NBD Research

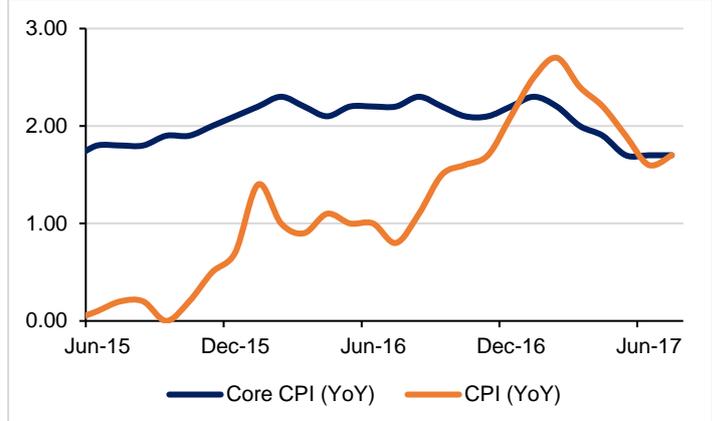
Japan's Q2 GDP surged 4.0% in Q2 (q/q, saar) following a revised 1.5% (was +1.0%) growth pace in Q1. The increase in Q2 was much stronger than expected. Particularly encouraging private consumption rose by 0.9% which was three times stronger than in Q1, while business spending of 2.4% quadrupled what was seen at the start of the year. Net exports on the other hand were a modest drag on growth. The Japanese expansion has now been running for six quarters and is the longest in a decade providing some encouragement that the years of deflation and stagnation might be

coming to an end. H2 growth may give back some of the gains seen in H1, but as Japan gears up for the Olympics in 2020 the scope would appear to exist for growth to remain relatively firm from 2018 onwards.

Inflation – the missing link

The missing link in all of these recoveries, however, remains inflation. The employment cost index increased by 0.5% in Q2, dragging the annual growth rate down to 2.4%, from 2.6% in Q1. There was also a subdued 1.6% annualized gain in the PCE deflator, another sign that underlying inflationary pressures have weakened a bit this year, while in July headline and core CPI inflation both rose by just 0.1% m/m, below expectations and keeping the y/y rates relatively steady at 1.7%. Thus after surprising markets with a 'hawkish' tightening in June the rhetoric from Fed officials through the summer has turned more and more dovish, dampening expectations of a further interest rate hike for the foreseeable future. This will give the Fed time to ascertain whether the easing in price pressures is as a result of temporary factors, as it suspects, or is perhaps the result of something more fundamental. It will also give it time to begin its long awaited balance sheet normalization policy, probably from next month.

US inflationary pressures have eased



Source: Bloomberg, Emirates NBD Research

Fed's balance sheet reduction to proceed slowly

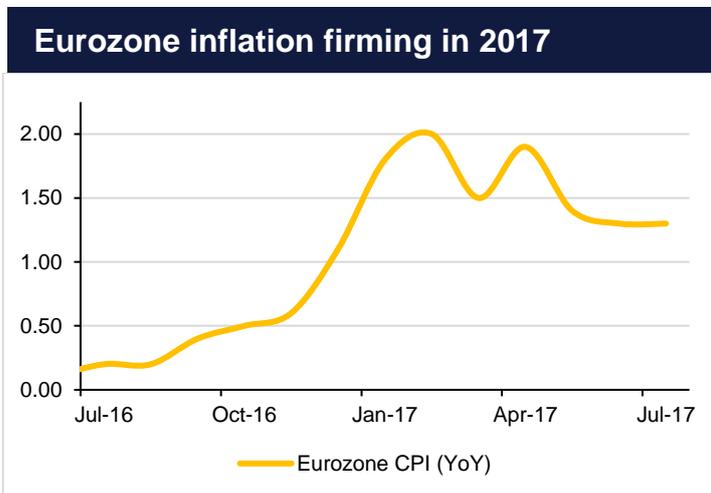
The Fed has been quite cautious in preparing markets for reducing its asset holdings. Its initial steps will be very small, with the Fed limiting the run-off in its balance sheet at just USD10bn a month to begin with. That is far slower than the pace of asset purchases under QE3 (USD80bn per month) and a small fraction of the overall size of the balance sheet (USD4.3trn). Indeed, assuming the Fed sticks to the blueprint that it first floated in the minutes to its May policy meeting and formally set out in an Addendum in June, the balance sheet would take around three years to reach \$2.5trn, its level prior to the beginning of QE3.

In the Eurozone and Japan too, inflation remains well below the 2.0% target thresholds, such that the ECB and BOJ remain cautious about discussing their QE exit strategies. In the BOJ's case this is

for the obvious reason that inflation is only barely positive, although there has been some speculation that the policy of targeting 10-year yields might be relaxed. In the Eurozone, however, there have been stirrings of returning pricing power as economic momentum has picked up this year causing headline and core inflation to reach 1.3% and 1.2% respectively. This means there is a stronger case for tapering, but President Draghi's is still being cautious about the timing. The current QE program runs out at the end of the year and so far Draghi has only indicated that the situation will be clarified in the autumn. Most likely a small tapering will be announced, beginning in 2018, but it may take until 2019 before rate hikes become contemplated. And in the UK, even with inflation at 2.7%, the Bank of England is sending mixed signals about when it will begin to raise interest rates, with the OIS now implying just a 24% chance of a hike in 2017.

deepening US-North Korea crisis will also be economically and financially disruptive for Asian economies. While the signs are currently encouraging that the world economy is on an improving trend, it can still not afford the intrusion of such factors to put that recovery at risk.

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Source: Bloomberg, Emirates NBD Research

Political risks to the fore

The other striking feature of the summer has been the growing incidence of political and geopolitical uncertainty. US-North Korea tensions are the latest manifestation, but this was predated by domestic political uncertainty in the US over the Russia probe, as well as by the difficulties of the White House in passing key legislation, in particular Healthcare reform. Our concern is that such a pattern of uncertainty and tension could recur regularly and get in the way of economic priorities and policies to promote growth. The US Congress will already face a challenging month when it returns from vacation to raise the debt ceiling and pass a budget by the end of September, which will take valuable time away from tax reform and any repeated effort to pass Healthcare reform. A report in the Washington Post recently suggested that corporate uncertainty about whether the Trump administration will be able to deliver on his election promises - including tax cuts, health care, renegotiating NAFTA and infrastructure spending - has forced many companies to put important hiring and investment decisions on hold, potentially impeding an economic expansion that appears ready to accelerate. With the Russia enquiry likely to take until 2018 at least to come to its conclusions, this could result in an extended period of paralysis on the domestic policy front. Externally too it may cause the Trump White House to seek distractions overseas, which many suspect to be the motive behind the North Korea stand-off. The risk is that a

GCC: An update on monetary indicators

At the half year mark, we review developments in the banking sectors of the largest GCC economies. While total bank deposits in the banking systems increased in H1 2017, this has been largely due to increased public sector deposits and masks some underlying trends.

Qatar sees outflow of non-resident deposits in June

The release of June monetary indicators in Qatar showed a decline in both foreign assets and foreign liabilities of the commercial banks, which was largely offset by rising domestic funding, from both government deposits and the central bank.

Commercial banks' balance sheets shrank by QAR 7.6bn in June. Foreign assets declined -QAR 7.7bn as funds due from banks abroad and investments abroad declined. Foreign liabilities of commercial banks fell -QAR 55.8bn in June, as non-resident deposits declined -QAR 13.9bn and funds due to banks abroad declined -QAR 41.8bn.

A further indication of the tighter liquidity conditions in Qatar since sanctions were imposed is the sharp rise in the 3m interbank rate, which increased more than 70bp to a peak of 2.6% at the end of July. However, this has declined to 2.4% this month, signalling some easing in liquidity conditions.

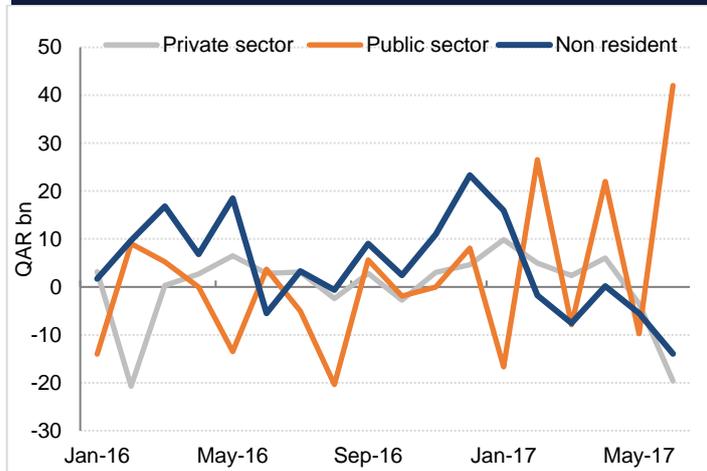
Government deposits in Saudi banks rise too

In Saudi Arabia too, increased public sector liquidity has more than offset withdrawals by businesses & individuals in H1 2017. Total bank deposits grew SAR 17.6bn in January through June, despite a SAR 22.8bn decline in business & individuals' deposits at commercial banks.

However, the main area of concern in Saudi Arabia is the continued decline in net foreign assets (NFAs) at SAMA. Although they rose slightly (USD 1.6bn) in June, year-to-date SAMA's NFAs have declined -USD 35.4bn, or an average of nearly USD 6bn per month.

The first quarter balance of payments data show that the current account recorded a surplus of USD 6.2bn, up from a deficit of -USD 20.3bn in Q1 2016 and -USD 2.3bn in Q4 2016. This reflects the positive impact of higher oil prices in Q1 2017 on export revenues. However, there was a significant net outflow of funds on the financial account (USD 18.4bn), in the 'other investment' component, largely due to the purchase of foreign currency & deposits abroad.

Qatar: monthly change in bank deposits

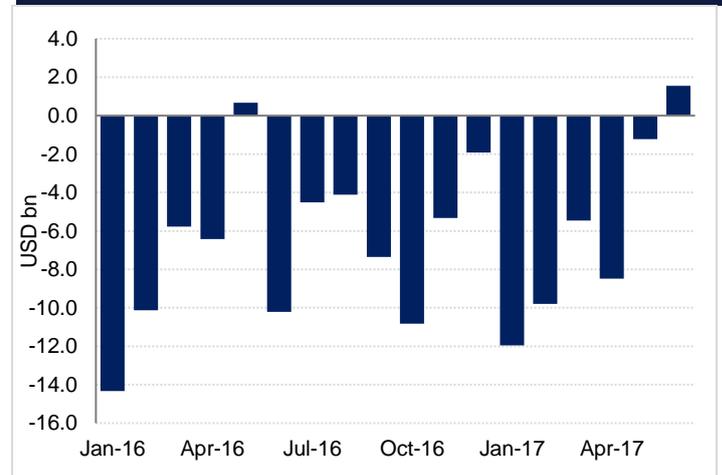


Source: Haver Analytics, Emirates NBD Research

The decline in external funding was offset by increased residents' deposits and increased funds from the Qatar Central Bank (QCB). Public sector deposits at commercial banks rose QAR 42.0bn last month, which was more than sufficient to offset both the drop in non-residents' deposits and the -QAR 19.6bn outflow of resident private sector deposits.

The commercial banks' balance sheet also shows funds due to QCB jumping more than QAR 30bn in June, to reach QAR 34.2bn at the end of last month. This helped to replace the loans due to banks abroad that were repaid or withdrawn following the imposition of trade sanctions by Saudi Arabia, the UAE, Bahrain and Egypt.

KSA: monthly change in SAMA's NFAs



Source: Haver Analytics, Emirates NBD Research

There was also a substantial outflow (USD 14.9bn) under 'net errors and omissions' in Q1 2017, which is often considered a measure of capital flight as these transactions are not recorded in any of the other components of the balance of payments. Effectively, unrecorded transactions accounted for nearly 55% of the decline in reserve assets in Q1 2017.

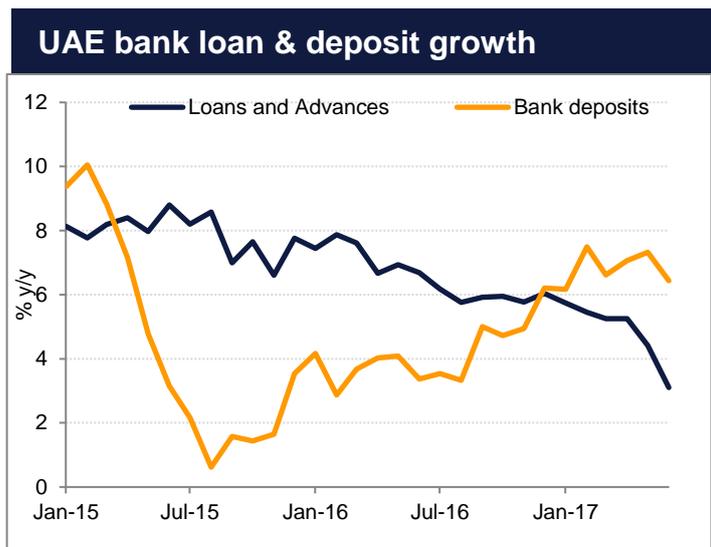
The rate of decline in net foreign assets has slowed sharply in Q2, suggesting that outflows on the financial account (and unrecorded transactions) have eased in recent weeks, as the current account surplus has probably narrowed.

UAE's deposit growth remains relatively stable in H1 2017.

Bank deposits growth has averaged 6.9% y/y in January through June, as strong domestic deposit growth has offset declining non-resident deposits. Once again, the public sector has been a key contributor to overall bank deposit growth in H1 2017.

Non-resident deposits (mainly from non-bank financial institutions abroad) declined by nearly -AED 20bn in H1 2017. Residents' deposits increased by more than AED 45bn however, despite corporate deposits shrinking by -AED 16.8bn. Government deposits increased by nearly AED 10bn since December 2016 while GRE deposits grew AED 21.2bn.

However credit growth has slowed sharply over the period, with loans and advances up just 3.1% y/y in June compared with 6.0% y/y in December 2016. Private sector credit growth has slowed as both businesses and individuals have curbed their borrowing, while public sector (GRE) loan growth has declined outright on an annual basis (-4.7% y/y in June).



Source: Haver Analytics, Emirates NBD Research

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EM Focus - India

India has been the consensus trade even since the new government took office in mid-2014. However, it is only this year that the markets have lived up to that promise with both the stock market and the currency delivering strong returns. So far this year, the MSCI India has rallied +18.1% and the INR has gained +5.9%. With the government continuing to build on incremental reforms and the Reserve Bank of India reverting to easing monetary policy, we expect India to remain investors' favoured destination among emerging markets over the near to medium term.

Monsoon

The importance of monsoon rains in terms of its impact on the inflation trajectory and rural demand have been highlighted before. Hence, near normal rains as we approach mid monsoon season is a positive catalyst for growth in the second half of FY 2018. According to IMD, the cumulative rainfall at the end of July 2017 was a surplus of 2%. The geographical distribution showed that nearly 80% of the country receiving normal to excess rainfall.

The positive follow-through is reflected in sowing of Kharif crops which has increased 3.3% y/y at the end of July 2017. This augurs well for food prices going ahead especially in context of the latest inflation data (see below).

RBI and Inflation

Earlier this month, the Reserve Bank of India (RBI) cut the repo rate by 25 bps to 6.0%. However, the central bank retained the neutral stance and reiterated that the incoming data will determine the future outlook. The central bank said that the 'upside risks to inflation have either reduced or not materialized' which in turn opened the room for easing. While the RBI retained the GVA forecast at 7.3%, it acknowledged the weakness in recent economic data and the need to 'reinvigorate private investment'.

The inflation data post the meeting bore out the diminishing risk of inflation overshooting the RBI's target range. The consumer price index (CPI) for July rose to 2.4% y/y from 1.5% in June, while wholesale prices (WPI) rose 1.9% y/y from 0.9% in June. While the CPI was higher than consensus expectation of 2.0%, it remained well below the RBI's target of 4%. The increase was driven by a 2.8% m/m increase in food items.

The data also brought to the fore the need for the RBI to remodel its inflation forecasting tool. The economic survey presented by the government pointed out that over the last 14 quarters, inflation had been over estimated by more than 100 bps in six quarters with an average error of 180 bps. The survey highlighted the convergence between CPI and WPI inflation and argued that India has perhaps undergone a structural shift from high to low inflation over the last three years.

All things put together it supports our view that the RBI should have enough room for another rate cut before the end of 2017. Notwithstanding the potential impact of an increase in government employee pay, the benign global inflation outlook, limited impact of GST and contained commodity prices will provide the RBI with the buffers it seeks.

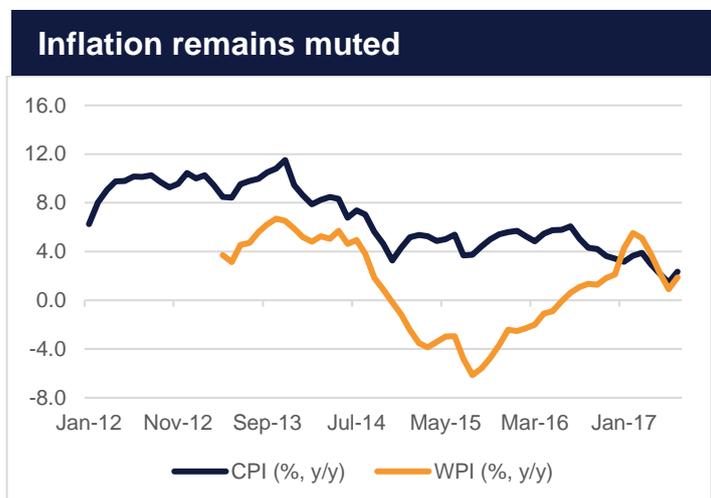
GST and economic data

The Goods and Services Tax (GST) was finally implemented at the start of Q2 FY 2018. Contrary to wide-spread apprehension, the roll-out seems to have gone well. However, it is still early days and anecdotal evidence and economic data suggests that businesses are still to come to grips with the new system. It is expected that it will take at least two quarters before the benefits of the transition can be seen.

The economic data released post implementation suggest that the anticipated disruption in economic activity has played out as expected. The industrial production data for June 2017 declined 1% m/m as GST-related uncertainty led to destocking and weighed on demand. The decline was across the board with the exception of infrastructure goods. The manufacturing PMI data for July 2017 also reflected the anxiety as it declined to 47.9, the lowest level in eight years. The output index dropped by 5.4 points while the new orders index declined 5.5 points.

Since, the disruption was expected, not too much should be read into the data. It will be critical to see the pace of recovery in economic activity as the GST system stabilizes. However the limited time between demonetization and GST roll-out could slow the pace down, especially considering that after effects of demonetization can still be felt on economic activity.

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Source: Bloomberg

Interest Rates

Weaker than expected inflation data in the developed world caused wide spread decline in sovereign yields during the month. In addition, the risk-off tone triggered by increased tension between the US and North Korea led to a mini rally in safe haven assets.

Global Rates

Markets were lifted from a state of inertia as geopolitical tension ramped up last month. The CBOE Volatility Index jumped more than 45% to its YTD high of 16, after President Trump tweeted that further threats from North Korea will be met with “fire and fury”. That said, the storm seems to have subsided as we go to print now.

Away from the geopolitical developments, lack of inflation appears to be the main dilemma facing major central banks. Inflation has fallen globally with the pace of price rises ‘below target’ in almost all of the 26 inflation-targeting economies. Barring the UK where a weaker currency has translated into CPI running at above 2.5%, inflation in G10 countries has remained below 2% for most of this decade. This is despite solid GDP growth and improving employment levels now.

In the US, July core CPI (0.1% MoM) surprised to the downside for the fifth consecutive month and core PCE for July will likely fall to 1.4% year-on-year (released August 31). In fact the 3-month annualized rate of inflation in June was one of the lowest in history despite slight dollar weakness boosting import prices.

as of June 2017. Also with emergence of newer technologies, corporates are facing competition that can emerge from unexpected places – not necessarily from markets or jurisdictions near to them - which leads to reduced margins and downward pressure on prices.

We think inflation in the US should bounce sufficiently enough in the second half of the year to allow the Fed to hike at least once more before year end and begin its balance sheet unwind. Though market implied probability of a rate hike before December has fallen below 40% rhetoric from Fed officials remains relatively consistent with a December move. That said, with the meeting still four months away, the eventual outcome remains largely dependent on upcoming information (i.e. inflation data).

Despite improving GDP growth of over 1.6%, inflation in the Eurozone also remains muted at 1.3% and that in Japan is below 0.5%. Lowered inflation expectations have also lowered the term premium for long term rates. Also rising geopolitical risks and low confidence in sustainability of the current healthy economic growth in the US lead investor to seek the safety of safe haven assets, thereby causing decline in yields on 10yr Bunds and Gilts by 17bps and 21bps to 0.42% and 1.09% respectively.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.24	-9	-10	+69
UK	1.09	--21	-4	+57
Germany	0.42	-17	0	+50
Japan	0.03	-3	+1	+13
Brazil	4.61	-9	+8	+37
Russia	4.00	-20	+1	+10

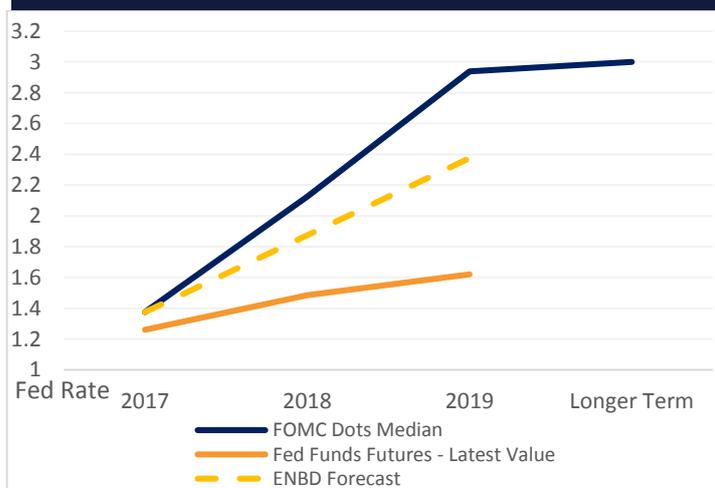
Source: Bloomberg

UST curve likely to move in a narrow range

The UST curve had a steepening bias in the first half of July, as Fed official’s rhetoric remained hawkish. However, weaker than expected inflation data has changed this dynamic in August. The 2yr-10yr spread has fallen from 98bps in early July to 90bps now.

Nevertheless, we see the potential for the curve to steepen from here in the coming quarter as Fed and possibly other major central banks announce balance sheet optimisation. There is more than \$13 trillion worth of Federal Reserve, ECB, Bank of England and Bank of Japan balance-sheet liquidity in the global economy, a large body of which may be ready to begin being shipped out within the next 12 – 18 months, the Fed will lead the retreat “relatively soon.” The consensus is for announcement in September and commencement by October.

FOMC Dot Plot vs Market Expectations



Source: Bloomberg

Text book explanations of inflation factors are failing to explain the current situation. Inflation pick up may be taking a while as wage growth remains sluggish partly due to excess capacity in the US labour market. Though the unemployment level is low, the participation rate in the US has come down considerably over the last two decades, from close to 70% in the 1990s to less than 63%



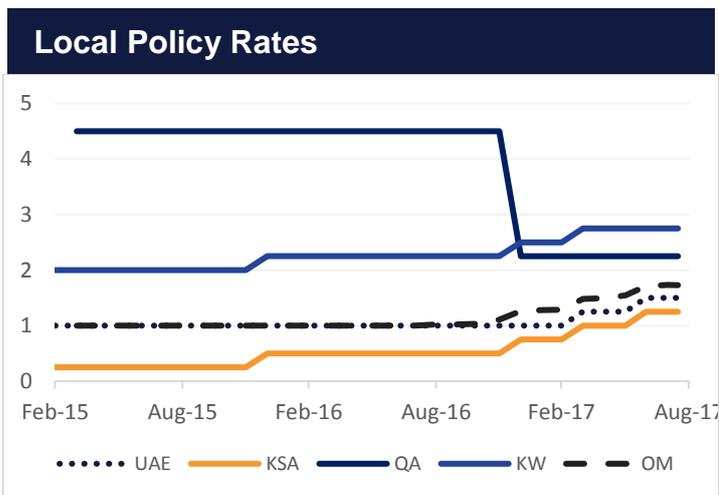
Source: Bloomberg

GCC Local Rates

Given pegged currencies, central banks in GCC countries are expected to follow US rate hikes even at a time when GDP growth in the region is slowing, however, each country is managing this dilemma very differently.

In the current rate hike cycle, Saudi Arabia Monetary Authority and Bahrain Central Bank have raised policy rates in lockstep with the Fed rate hikes. In contrast, Qatar maintained a high policy rate (Repo rate) of 4.50% even when Fed rate was near zero. In view of economic pressure, Qatar halved its policy rate to 2.25% in December last year and has retained it there despite the US raising rates three times in the last one year.

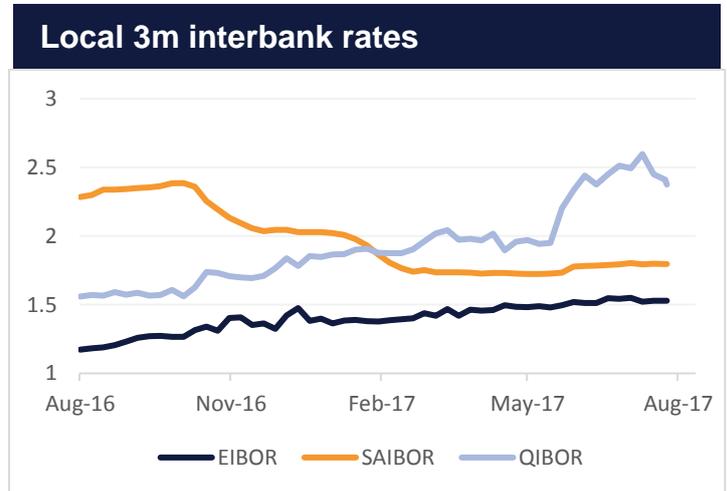
UAE Central Bank and Kuwait are more or less following the Fed trend albeit at a slower pace. Oman policy rates are set over night and are the most flexible.



Source: Bloomberg

Interbank rates also reflect different story in different jurisdiction. In Qatar, 3m interbank rates have risen materially since the onset of the diplomatic impasse while EIBOR rates have remained range-bound. 3m SAIBOR, after peaking at about 2.40% late last year, drifted lower after regulators injected liquidity in the local banking

system and continues to maintain stamina at levels below 1.8%. However liquidity may get sapped by the ongoing government bond issuance in the local market which may see 3m SAIBOR ascend from here.



Source: Bloomberg

Looking ahead, oil prices are likely to remain in a narrow range around the \$50/b mark and unlikely to cause any material dent in the liquidity in local banking systems.

In such scenario we expect local policy rates and interbank rates to largely follow the Fed rate trajectory.

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Credit Markets

Falling benchmark sovereign yields boosted corporate bond prices despite slight increase in credit spreads. GCC bond investors benefited from positive sentiment arising from improvement in oil prices and minimal new supply in the summer months.

Global Bonds

Emerging market credit spreads exhibited a strong correlation to external factors amid summer induced low trading volumes. The recent increase in volatility arising from geopolitical risks and the direction of key EM externalities -- notably oil prices, China growth and the U.S. dollar – have been the primary driver of spread widening in the last month. However, while credit spreads widened, overall cash prices were supported by the falling benchmark yields on the back of changed US rate hike expectations.

The bull flattening of the UST curve with yields on 30yr and 5yr treasuries closing the month at 2.78% (-13bps) and 1.74%(-12bps) respectively pushed corporate bond prices higher. During the month investors collected total return of 0.89% on the USD denominated emerging market bonds which equates to a healthy return of 10.68% on an annualized basis.

p.a. in the region and benchmark UST yields tightened thereby driving bond prices higher.

Contrasting the credit spread widening on cash bonds, CDS levels on GCC sovereigns remained well anchored near the previous month's level with Dubai, Saudi Arabia and Qatar 5yr CDS spreads closing at 117 (-7bps), 94bps (-11bps) and 90bps (-14bps) respectively.

The month was dominated by news on Qatari financials. According to Qatar central bank data, foreign deposits, that account roughly 22% of overall deposits in the Qatari banking system, dropped 7.6% to 170.6 billion riyals (\$47 billion) from a month earlier though overall deposits climbed 1.1% helped by a jump in domestic funds as Qatar's sovereign wealth fund, the Qatar Investment Authority, injected deposits into local banks to shore up liquidity in the system. Nevertheless, Moody's lowered the outlook on Qatar's banking system to negative from stable due to weakening operating conditions and continued funding pressures facing Qatari banks. Moody's is concerned that prolonged regional dispute could trigger outflows of foreign deposits and other external funding.

The Qatar 3m interbank offered rate, climbed to as high as 2.60% during the month before closing down at 2.41%. Several Qatari banks including QNB, Doha Bank and CBQ etc are preparing to approach capital market for more funding in the near future. Given the current vulnerabilities, shorter dated Qatari bank bonds suffered during the month. QIBKQD 17s and QIIK 17s recorded yield widening of 21bps and 7bps respectively.

The credit rating upgrade/downgrade ratio was skewed towards downgrade during the month. Moody's downgraded Bahrain to B1 from Ba2 and continued the negative outlook citing expectations that government credit profile will continue to weaken materially in coming years for lack of "clear and comprehensive consolidation strategy. Moody's expects fiscal deficits to stay in double-digits in 2017 and 2018; sees interest payments consuming as much as 21% of budgetary revenue this year and sees government debt-to-GDP ratio crossing 100% by 2020. The impact of the rating downgrade on the Bahrain curve was minimal. In fact credit protection cost on 5yr Bahrain risk (5yr CDS level) has reduced from 254bps at the beginning of July to 230bps now. Investors' complacency against credit quality deterioration appears centred on the expectation of support from Saudi Arabia.

Moody's also downgraded Oman from Baa1 to Baa2 with negative outlook, reflecting their view that Oman's progress towards addressing structural vulnerabilities to a weak oil price environment has been more limited than expected. Moody's sees continued high fiscal deficits averaging close to 9% of GDP until 2020 and current account deficits of 12% of GDP on average in 2017-18. OMANGS 22s and OMANGS 24s traded in a tighter range last month with yields at 3.64% and 4.43%

One of the top performing bond last month was DPWDU 37 that recorded 25bps tightening in yield to 5.05% and over three points increase in price after Fitch upgraded the credit rating on DP world from BBB to BBB+ citing the group's solid and stable cash flow generation and flexible capital expenditure.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	114	+6	+2	-28
US HY Corp	398	+19	+35	-124
EUR IG Agg	85	+2	-11	-2
USD EM Agg	270	+3	-14	-45

Source: Bloomberg

Though economic growth in the US is much stronger than in the Eurozone, the supportive hand of the central bank is still keeping a floor under the European bonds which in turn outperformed their US counterparts. US high yield bond index recorded a month of negative returns mainly as a result of high energy related issuers in the index constituents got negatively impacted by the volatility in oil prices.

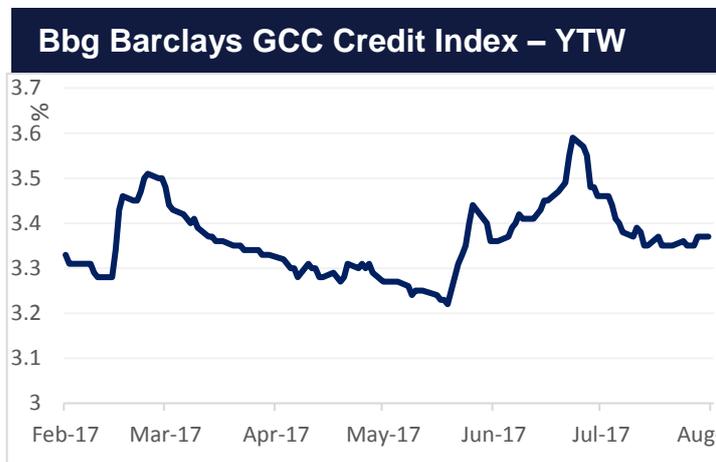
GCC Bonds – Secondary market

Rising geopolitical tensions, slippery oil prices and prospect of slower economic growth in the region than expected earlier this year have made investors cautious about the GCC risk. Option adjusted credit spread on Bloomberg Barclays GCC credit index has risen 20bps over the last quarter from 130bps in May to circa 150bps now. However, total return for the GCC index remained positive as investors enjoy par weighted coupon collection of average 4.11%

Quarterly result announcements were largely positive. TAQA returned to profit in Q2 2017 after a hiatus of several quarters, reporting a profit of AED 35mn compared to a loss of AED 588mn last year. TAQA 36s rose circa 3 points during the month with yield falling 20bps to 4.44%.

Emaar Malls reported net income of 482 million dirhams in 2Q vs expectations of 467 million dirhams despite lower revenue mainly as a result of drop in operating expenses. EMAARM 24s remained largely unchanged at yield of 3.86%.

Dar Al Arkan Real Estate's weaker than expected result reflecting 2Q net of 10.9 million riyals vs 43.2 million riyals caused a visible decline in bond prices. DARALA 19s closed down by more than a point to \$99.68 and yield of 6.59%.



Source: Bloomberg

Bonds from Saudi Arabia are benefiting from positive sentiment arising from the first increase in foreign reserves. SAMA (Saudi Arabia Monetary Authority) reported FX reserves of USD 493.2 billion in June, up from USD 491.7 billion in May. It was the first increase since May 2016. KSA 27s closed up by more than a point during the month with Z-spread at 118bps.

GCC Bonds - Primary Market

Primary market recorded healthy issuance of circa \$3.2 billion in July though bulk of it was not shown to the local investors and was placed directly in the international market via private placement.

Dubai Aerospace, rated Ba3/BB and owned by the Dubai Government, raised \$2.3 billion across three, five and seven year tranches that priced at T + 249bps (\$500 million), T+ 267bps (\$800 million) and T+294bps (\$1bn) respectively. The deal was sole managed by Morgan Stanley and sold mostly outside the region.

Elsewhere, Abu Dhabi Commercial Bank raised USD 320mn through the sale of a five-year Formosa bond which was placed with institutional investors. Topaz Marine also issued 9.125% 2022

senior notes to raise USD 375mn. The company used the proceeds to repurchase and redeem existing USD 350mn 2018 notes.

Looking ahead, the pipeline for new issues look healthy with following issuers in preparation:

- Adnoc is looking for up to \$7 billion in funding including \$2 billion in asset backed project finance debt.
- QNB held early discussions with international banks about the possibility of a private placement, bond sale or loan in the fourth quarter and Doha Bank is seeking to raise funds via private placement of bonds with 5yr, 7yr and 10yr tenures.
- Commercial Bank of Qatar is also believed to be in the market to raise upto \$500 million in privately placed bonds or loans.
- Bahrain sovereign is believed to have mandated five banks, including JPMorgan Chase & Co. and Citigroup Inc., to manage the sale of Eurobonds.
- Sultanate of Oman is said to be working with international lenders in a bid to raise fresh US dollar funding.
- In the supra space, Islamic Development Bank plans to sell benchmark sized sukuk to refinance USD 500 million bond maturing in October.
- S&P assigned BBB+ rating to the Saudi British Bank's sukuk program leading to the possibility of new sukuk issuance.
- Kuwait's Cabinet has approved a draft law allowing the government to increase borrowing from current ceiling of KWD 10 billion to borrow up to KWD25bn (approx. US\$82bn) in 30-year debt.
- Taqa and Investcorp have to refinance upcoming maturities

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Currencies

After a summer spent in the doldrums, the dollar has begun August with a little more promise as the latest economic data has provided some reassurance about growth.

The dollar has depreciated over most of 2017 and since May it has lost ground more or less consistently after former FBI Director Comey was fired. Further signs of the Trump White House's dysfunctionality have added to its problems and US-North Korea tensions have clearly been another distraction, although the market response to the issue has been relatively muted overall.

North Korea effect surprisingly muted

Considering the noise and rhetoric about the North Korea stand-off, the FX markets along with other financial markets reacted relatively calmly to it. The losses for the Korean Won (KRW) were a case in point, falling by just 1.64% against the USD in the week when the crisis erupted, contained by the 200 day moving average and failing to reach the 1158 highs seen in June. Against the JPY, the regional safe haven, it was down by an equally manageable 3.0%. This relatively muted reaction was mirrored in other financial markets, where corrections were seen rather than full reversals in trends, and these corrections are themselves already reversing. USDJPY is back above 110 after retesting the lows at 108-109 seen in April and June, while gold has also given up the gains it saw in the immediate aftermath. Going forward, we would not discount a repeat of such sabre rattling, which could cause uncertainty about both US and Asian economic performance as well as their financial markets.

outlook over the rest of the year given the conflicting pressures from the economy and from Washington related political risks which are threatening policy paralysis. While expectations about ECB tightening have undoubtedly developed just as doubts about Fed tightening have also arisen, interest rate differentials do not appear to provide as much basis for EURUSD's spike higher as might be imagined (see page 19). Spreads imply that fair value for EURUSD is probably closer to 1.10-1.12, although expectations of ECB tapering are probably still a factor underpinning the EUR for the time being.

EURUSD sits at strong support level



Source: Bloomberg

As we go to print, EURUSD sits at 1.1747 and remains in the daily uptrend that has been in effect since April 11th 2017. In addition, the 38.2% five year Fibonacci retracement (1.1736) has now held firm and a close below this level has not been realized since it was first breached on the 28th of July 2017. Until there is a firm close below this level, the risks remain to the upside. A break of this level, however, would be likely to be followed by a test towards 1.16, where there would be strong support as this contains the supporting base of the daily uptrend. Below this level, the next support would come in at 1.1540, the 76.4% one year Fibonacci retracement. To summarize, the EURUSD has plenty of support levels to break through if it is to begin to reverse the thirteen big figures gained so far this year.

USD recovery to be skittish

Overall we still expect the USD to recover, and suspect that EURUSD may be in the process of peaking given that speculative trading positions in the euro are extremely long. However, we see less potential for the USD to rally than previously, as any pause in political tensions looks likely to be temporary. The next big Congressional challenge is to raise the USD20 trillion debt ceiling before the end of next month, or risk the possibility of a government shutdown. After that tax reform will be high on the agenda, with limited time to deliver it before the end of the year. The Russian

USDKRW contained by moving averages



Source: Bloomberg

FX forecasts revised

With the USD having fallen more than we had expected in recent weeks, we are revising our forecasts to reflect a more balanced

enquiry will also remain a destabilizing factor potentially prohibiting a more significant dollar recovery before 2018 when its findings are likely to be announced. Given this litany of domestic problems, more external and foreign distractions would not be a surprise which could in turn set off recurring bouts of risk aversion, leaving the dollar relatively skittish in the months ahead.

GBP loses momentum

GBP benefited from the USD's softness over the last two months, but it has recently lost momentum following the July Monetary Policy Committee (MPC) meeting at which the support for higher UK interest rates appears to have waned, with dissenters on the committee in favor of hiking falling to two from three at the prior meeting in June, and with the Bank revising down both growth and inflation forecasts.

The minutes showed that the majority of the MPC members are concerned that the economy will slacken further, anticipating further erosion in average real household incomes and highlighting that Brexit-related uncertainties are holding back investment decisions. However, the central bank still retained an overall bias to tighten, with a reversal of the August 2016 post-Brexit vote 'emergency' rate hike still seen by many as most likely. This may not happen until early 2018 however, and will depend on upcoming data and on the progress of the Brexit talks. In this context we think GBP will remain relatively volatile, although its establishment of an upside bias since the election reinforces our expectation of higher levels by the end of the year.

to the downside and this previous support level (from 26th and 27th of July) now acts as a weak resistance. The next weak support level will be in the 1.2915-1.2936 zone, which contains both the 50 day moving average (1.2936) and the 61.8% one year Fibonacci retracement (1.2917).

Kiwi underperforms as RBNZ threatens intervention

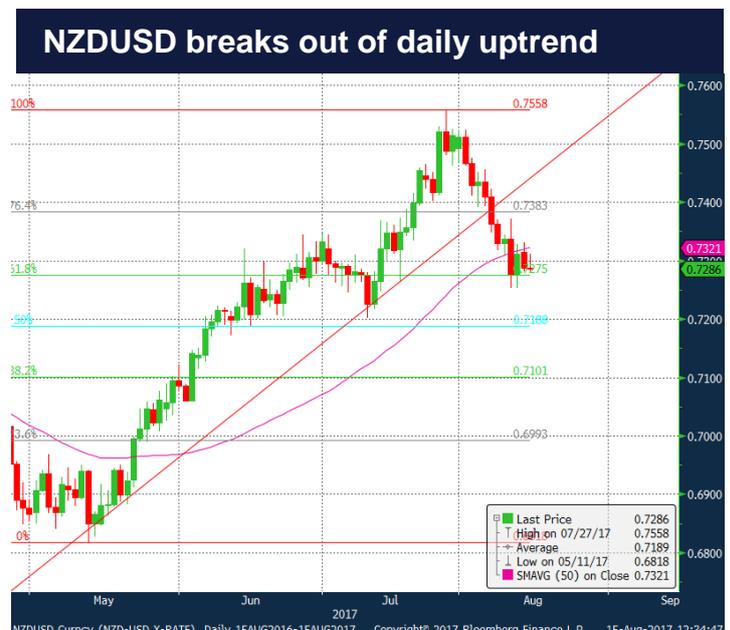
NZD has been the worst performing G-10 currency so far in August. A combination of softer than expected economic data and a dovish central bank have helped NZDUSD depreciate 3.0% month to date.

Recent data has shown that retail card spending has declined 0.5% m/m in July following a 0.1% decline the previous month, while food prices declined 0.2% in the same period. In addition the Manufacturing PMI slowed from 56.2 in June to 55.4 in July while the Real Estate Institute of New Zealand reported that house sales in July were down 24.5% y/y. In addition, RBNZ Governor Wheeler stated in front of a Parliamentary committee last Thursday that "in terms of tools open to the bank, we do have intervention capability", causing a further sell off in the currency.

Technically, NZDUSD has broken up of the daily uptrend that had been in effect since 12th May 2017 and had three subsequent closes below the 50 day moving average (currently 0.7321), for the first time it has closed below this level since May 19th 2017. A close below the 61.8% one year Fibonacci level would pave the way for further downside with declines towards the 100 day MA of 0.7149 being a distinct possibility.



With GBPUSD currently trading at 1.2938, it looks technically vulnerable. Remaining below the 76.4% one year Fibonacci level (1.3066), following its closed break the previous week, risks remain



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Equities

Global equities have taken the negative political risks in their stride and continued their positive run. They appear to be drawing their strength from upbeat corporate earnings, widening base of economic growth and benign inflation outlook. While it is easy to argue that equity markets are currently in a sweet spot, there are enough reasons to warrant caution including taking easy monetary policy for granted and growing probability of geopolitical tension worsening. The upcoming German election and ongoing Brexit negotiation could also develop into an overhang as we head into the year-end.

With the exception of GCC equities, most equity markets built onto the gains of the previous month. The MSCI World index added +0.2% 1m to take its year to date gains to +11.5%. It is quite ironic that the S&P 500 index is flirting with all-time highs despite the US being the focal point of most political risk. The pace of gains in emerging markets slowed down over the past month as political developments in developed markets weighed on investor sentiment. The MSCI EM index added +0.6% 1m helped by +3.0% 1m gain in the MSCI BRIC index. The MSCI Arabian Markets index dropped -1.3% 1m as weak corporate earnings and continued political stalemate overshadowed the slight recovery in oil prices.

Volatility has picked up over the course of last month with the VIX index and the V2X index jumping +23.8% 1m and +17.9% 1m respectively. The CBOE EM ETF volatility index has also increased +21.5% 1m. However, it is worth pointing out that despite the recent increase, the VIX index remains on track to record the smallest daily swings since 2009.

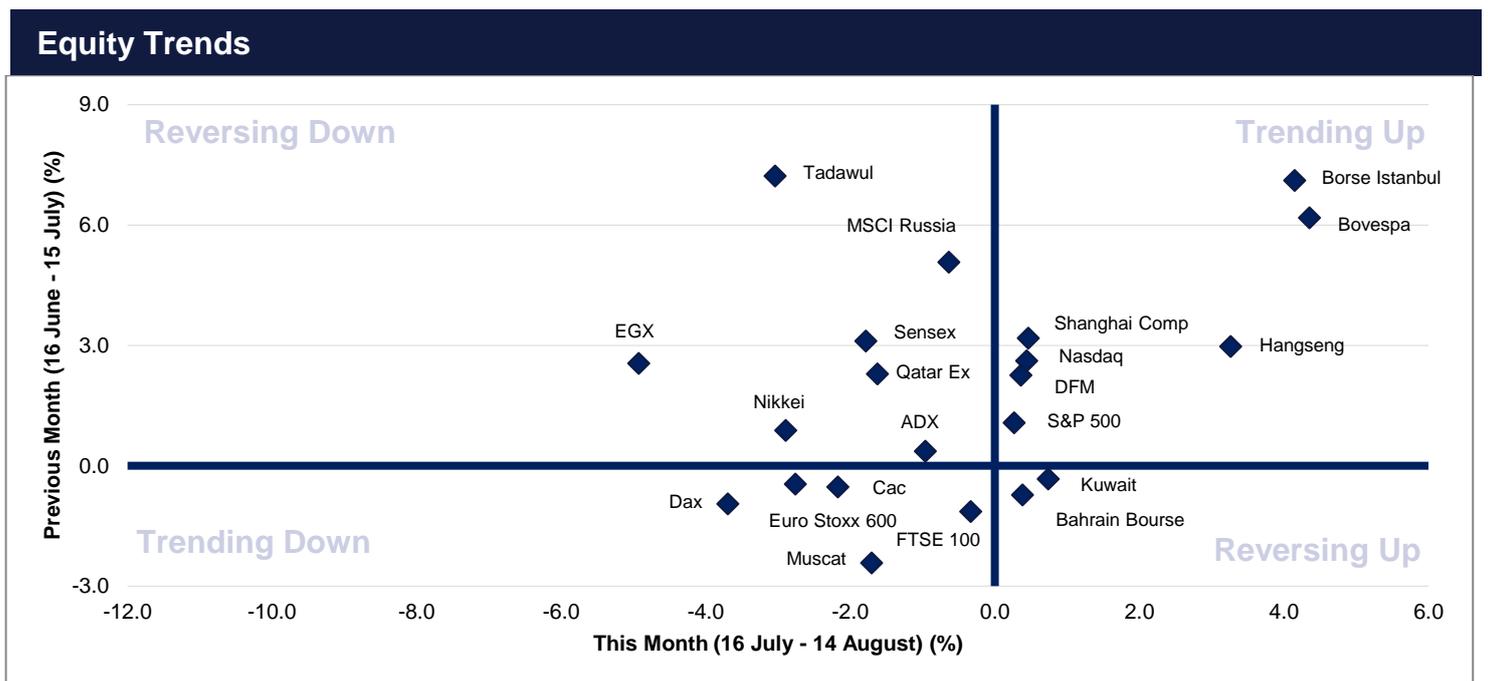
The ability of Donald Trump to manufacture political risk could well turn out to be the defining catalyst for equity markets over the next few months. So far the markets have remained sanguine but they are becoming increasingly prone to adverse reactions given the record levels they are currently trading at. Having said that, growing synchronization in global growth, ample liquidity and sustained earnings growth would act as a strong buffer in case of any pullback.

Global equities & broken correlations

One unique trend which has marked the current rally in global equities have been the breakdown on traditional lockstep moves which characterized financial assets in the previous years. The trend has not remained confined to a particular region or a particular asset class but has become more widespread as the rally continues.

The most stable was the positive correlation between long-term US Treasury yields and equity returns. The monthly correlation between the S&P 500 index and 10y UST yields since the start of 2017 has become negative -0.34 compared to positive +0.32 since 2012 and +0.28 since 2005. This shows how easy monetary policy driven by benign inflation has been a key factor in the current rally and that deflation was an overstated driver.

Another correlation which has held steady is between gold and equity prices. The monthly correlation between gold and the MSCI World index has increased to positive +0.89 since the start of 2017 compared to positive +0.13 since the start of 2005. This suggests that despite lack of inflation driving equity prices higher, investors are using gold as a hedge against political risks.



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.

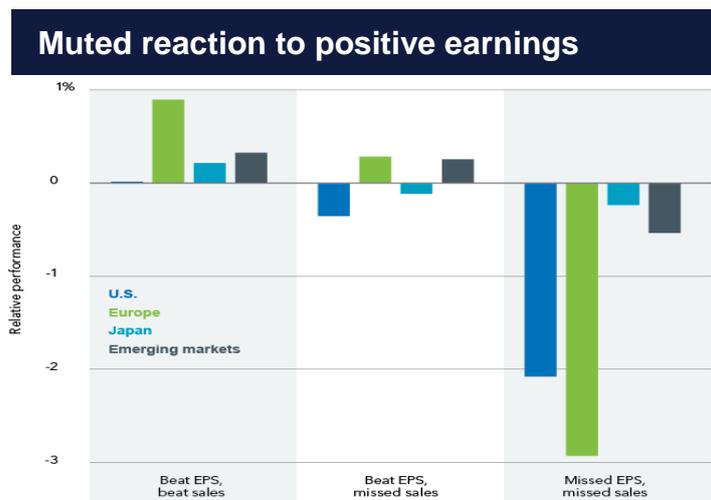
The correlation between US dollar and equity markets also seems to have changed. Compared a long term weekly correlation (since 2005) of negative -0.41 between the DXY index and the MSCI Emerging Markets index, the correlation since the start of 2017 is -0.09. Similarly, the correlation between the S&P 500 index and the DXY index since the start of 2017 is positive +0.52 compared to -0.31 since the start of 2012 and -0.47 since the start of 2005.

Regional equities were always considered a proxy to oil prices but is not necessarily true anymore. Since the start of 2017, the monthly correlation between Brent oil prices and the S&P Pan Arab Composite index is actually negative -0.11 compared to positive +0.46 when calculated since 2012 and positive +0.48 when calculated since 2005. This would suggest that attempts by countries in the region to diversify their revenues away from oil and initiate structural reforms are being noted by investors.

Earnings – More or Less?

As we approach the end of Q2 2017 earnings season, it is clearly evident that the past quarter has seen one of the strongest earnings growth in the recent past. And notably, the increase has not been constrained to the US equities alone.

At the time of this writing, nearly 91% of companies in the S&P 500 index had reported earnings. According to FactSet, 73% of those companies beat profit estimates and 69% of them reported positive sales surprise. The aggregate earnings growth is 10.2%, the second highest y/y increase since Q4 2011. In the Eurozone, 51% of companies that have reported earnings have beaten profit estimates while 53% have exceeded revenue estimates. According to estimates from Reuters, earnings is expected to grow 15% in Q2 2017. The earning season in emerging markets are still ongoing but early indications suggest that earnings growth has reached an inflection point.



Source: Bloomberg, Blackrock
The indexes used are the S&P 500 Index for the U.S., the STOXX Europe 600 Index for Europe, the Tokyo Stock Exchange Price Index for Japan, and the MSCI Emerging Markets Index for emerging markets.

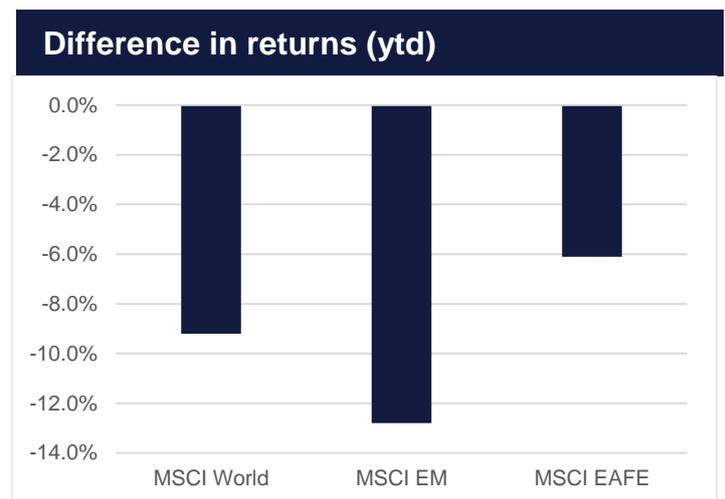
Against this backdrop, it is worth noting the lack of movement in stock prices of companies that have reported earnings in line or better than consensus estimates. For example, the S&P 500

companies beating revenue and profit estimates have on average traded flat compared on the day after the earnings release. However, the same is not true for companies that have missed estimates.

If stock price movements for companies that have missed estimates is used as a yardstick then it can be argued that strength in earnings has been a key factor in the resilience of equity markets. However, the lack of enthusiasm does indicate signs of fatigue setting in. This coupled with possibility of earnings growth in H2 2017 falling below the rate achieved in H1 2017, suggests caution is warranted. A higher y/y base, currency movements and contained energy price are likely to weigh on H2 2017 earnings. For example, the earnings revision ratio in Europe has dropped to one-year low because of sharp gains in the EUR.

Value or Growth ?

Another trend which has marked the rally so far this year has been the outperformance of growth stocks. This is in sharp contrast to 2016 when value stocks led the rally. The reason for the same can be put down to the unwinding of the reflation trade and benign bond yields. However, if the experience of 2015-2016 and of last week is considered then it would not be a surprise to see some contrarian calls been made heading into the year end. More so as the period is likely to be marked by an increase in political risks. The contrarian call would make further sense given the valuation differential. The MSCI EM Value index is currently trading at 12.1x earnings compared to 22.1x for the MSCI EM Growth index. Similarly, the MSCI EAFE Value index is currently trading at 16.8x earnings relative to the MSCI EAFE Growth index which is trading at 23.3x.



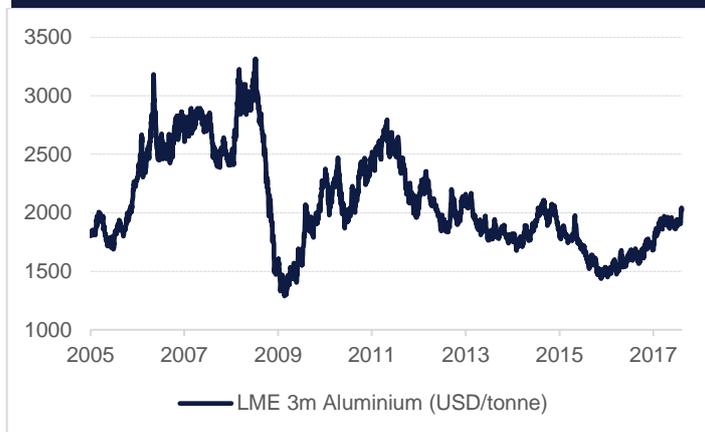
Source: Bloomberg

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Commodities

Industrial metals have been outperformers so far in 2017 with some metals recently hitting multi-year highs. LME aluminium futures broke through USD 2,000/tonne in early August for the first time since the end of 2014 and the wider LME index has surged since the start of the third quarter. Broadly positive economic performance in major economies, most notably China, is helping boost metals but the root causes for price gains are largely discrete to each specific commodity. Headline fundamentals have been supportive in the short-term but we caution that supportive factors could wane in coming quarters.

Aluminium rallying strongly



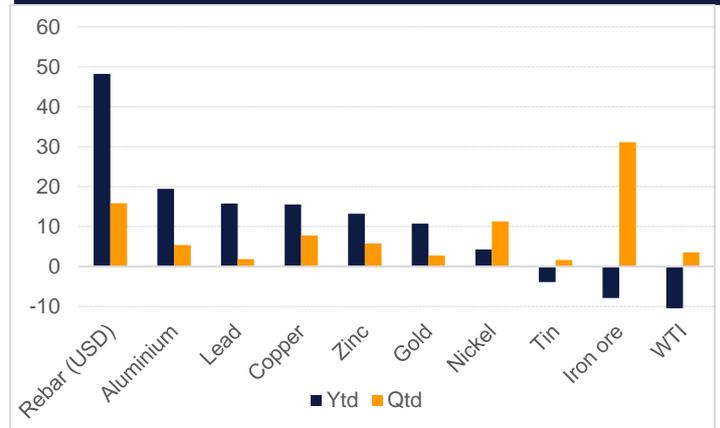
Source: EIKON, Emirates NBD Research.

Base metals, steel and related products have outperformed the usual attention grabbing commodities of oil and gold so far this year. Aluminium futures on the LME are up almost 20% year to date (ytd), copper has gained almost 16% and humble SHFE rebar has risen nearly 50% in USD terms. In contrast, gold has gained 11% and is subject to the market's changing views on Fed action and geopolitics while oil prices have lost ground ytd as the market continues to grapple with excess supply. Metals prices also look to be maintaining their momentum halfway through the third quarter. Iron ore, which has suffered ytd, has jumped over 30% since the end of June while most of copper's gains have come since the end of June.

Some metals in more demand than others

Consistent economic growth across all major economies is helping to change the narrative for commodities generally but iron ore, steel and copper have particularly benefitted from demand side factors. In China, a government backed infrastructure push has helped to support construction-oriented commodities while positive, but not blistering, manufacturing is maintaining demand for value-added metals such as copper and aluminium. Iron ore imports have risen almost 8% ytd as of the end of July as Chinese steelmakers chase high domestic prices as construction activity is elevated. In contrast, copper imports are down 15% ytd as manufacturing begins to cool as export orders have slipped.

Metals outperforming this year



Source: EIKON, Emirates NBD Research. Note: % change as of August 15 2017.

China's infrastructure push has some political roots as the government prepares for the 19th Party Congress later this year. Infrastructure spending is an easy way for the government to ensure that overall economic growth runs smoothly ahead of the congress but means that spending could wane after the event and into 2018. Persistent concerns about high levels of local government debt may outweigh keeping growth at the top end of the government's target growth range.

Copper prices rallied at the end of 2016 on hopes that US President Donald Trump would unveil a major infrastructure spending plan. But with the administration caught up in a domestic political morass, copper prices generally lingered until July when China's government announced it was reviewing whether to continue importing scrap copper. Overall volumes of scrap metal are likely to be limited but the anticipated tightening has helped to push copper prices back above USD 6,000/tonne.

Supply crackdown supporting prices as well

Metals prices have also received a boost this quarter from expectations of tightening supply. In the first quarter China's government announced plans to limit steel and aluminium production during the winter months to alleviate pollution problems in major cities. There has been a simultaneous push to cut down on excessive and illegal capacity in China's heavy industries. In early August, the government in Shandong province ordered the closure of over 3.2m tonnes of aluminium capacity that had been built without permits. Environmental inspectors have also spread out across the country to examine smelters that may be contributing to pollution problems, with more capacity closures likely as a result.

The winter-months' shutdown has been widely expected by the market but there is growing consensus that it will be enforced strictly, helping aluminium prices hit their highest levels in the past two years and also widening the gap between SHFE and LME prices. High prices have helped push Chinese production to record levels—2.93m tonnes in June, the second highest on record but data for July show the supply curbs beginning to have an effect: aluminium output fell more than 8% month/month according to data from the National Bureau of Statistics.

Shanghai aluminium premium widening



Source: EIKON, Emirates NBD Research.

There are some specific risks to aluminium that could see prices come back down to earth in the near term, however. The scale of shutdowns in China, while impressive so far, may overwhelm markets going forward, particularly as the industry is able to swap capacity allocations between producers and new, more efficient smelters can come in to replace older ones. Also there is a serious risk that the US may impose restrictions on imports of Chinese aluminium on national security grounds. While actual imports into the US are small, if the US market became unavailable, Chinese metal would have to seek a home elsewhere, most likely into LME stocks, erasing the consistent decline we've seen most of this year.

Copper has also benefited from expectations of supply disruptions as threats of labour disputes in Indonesia, Chile and Peru have all supported prices while wildfires near a mine in Canada also added legs to copper's recent rally. These discrete risks for the copper market are likely to remain in place in the medium term, particularly if higher commodity prices encourage mine workers to demand greater participation in the upside. However, new mines are set to come on stream in 2018 which will help to release some pressure from copper markets next year.

Inventories in China and investor positions point to worries ahead

Supply and demand headlines are creating an impression of balancing markets in the metals space but China's inventory picture tells a different story. The construction binge is helping keep steel inventories roughly in line with long-term averages but iron ore stored at Chinese ports has built to excessive levels and is likely to bring the rally back down to earth once construction spending slows further.

The size of aluminium inventories is even starker. As of early August they were running more than 2.5x larger than their 1yr average as high domestic output has contended with reasonable demand levels. These excessive stocks are weighing on local premiums in China, which are now actually at a discount, and should act as a brake on significant further moves upward in prices. The gain in Chinese inventories contrasts with the steady decline in LME stocks since the start of the year, although metal held on warrant has effectively stabilized since April.

China inventories at elevated levels



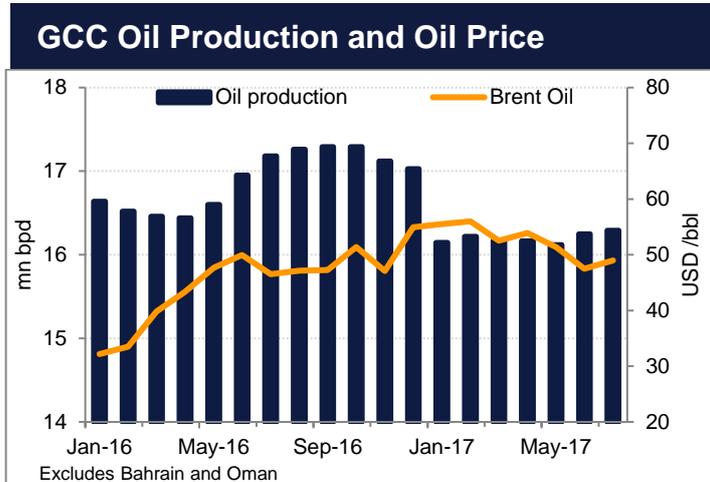
Source: EIKON, Emirates NBD Research. Note: aluminium stocks are SHFE and iron ore at ports.

Investor positioning in copper and aluminium also suggests some caution is warranted. Speculative net length in copper is near record levels in data going back to 2014 and the long/short ratio is also well above historic levels. The scenario in aluminium is roughly similar although on an absolute basis, the long positioning is not as extreme.

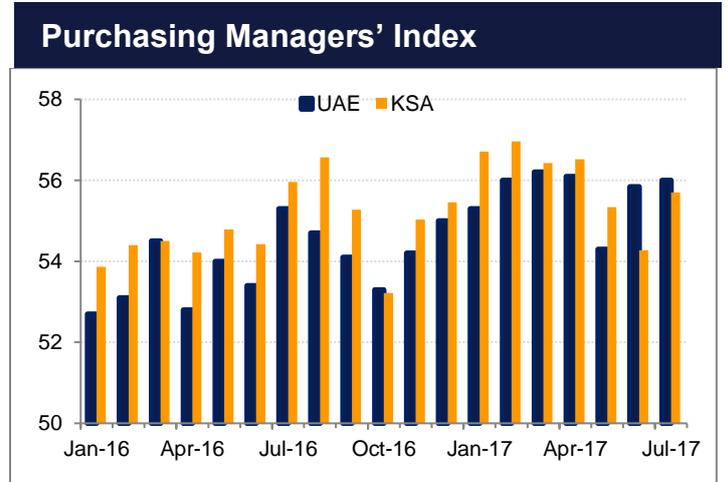
Industrial metals look poised for a correction based on technical and fundamental factors in the near term and we are holding our forecasts steady at this time. However, we are ruling out prices returning to the despair of most of 2015 and early 2016 as the overwhelming upward pull of economic growth will keep metals resilient.

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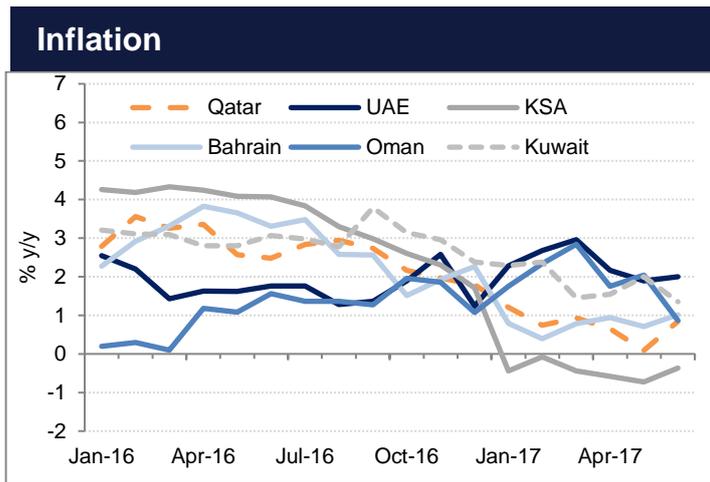
GCC in Pictures



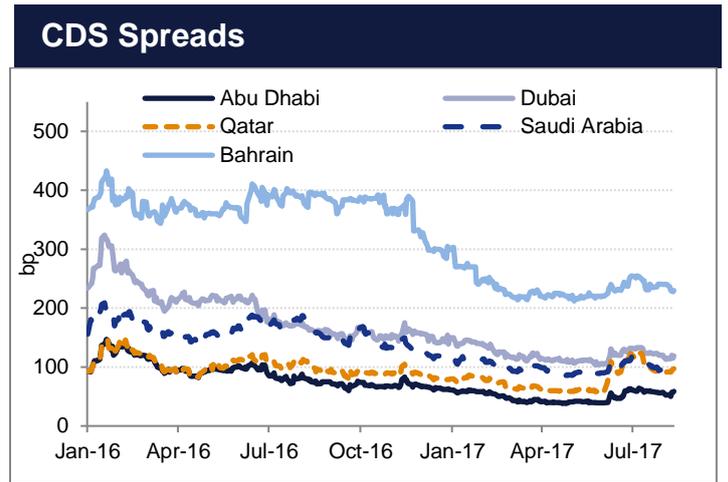
Source: Bloomberg, Emirates NBD Research



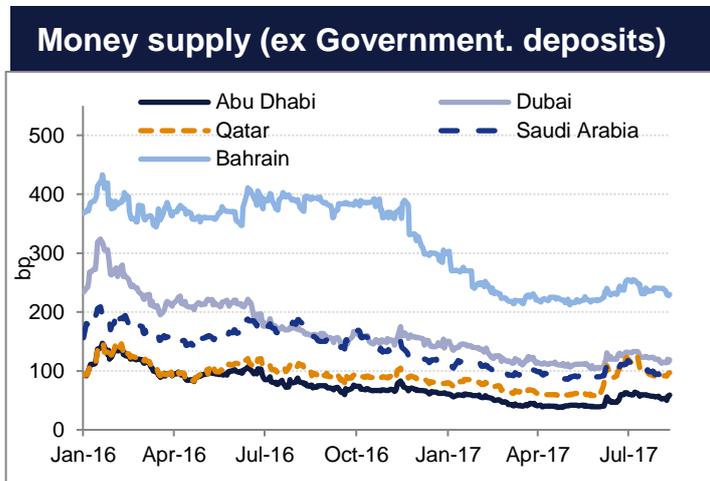
Source: Markit, Emirates NBD Research



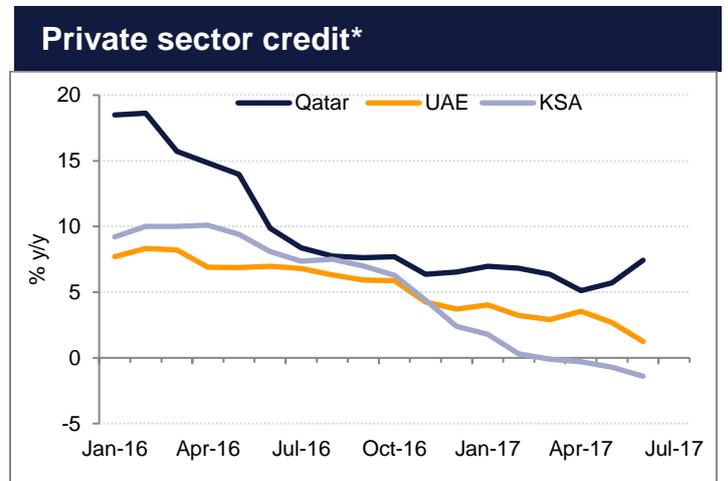
Source: Haver Analytics, Emirates NBD Research



Source: Bloomberg

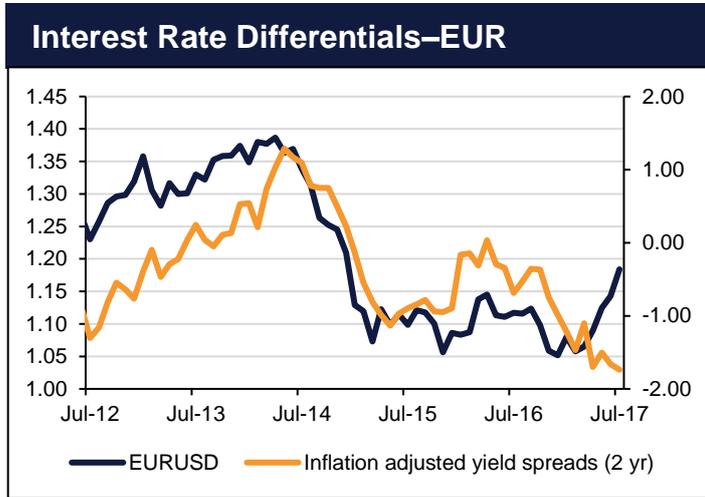


Source: Haver Analytics, Emirates NBD Research

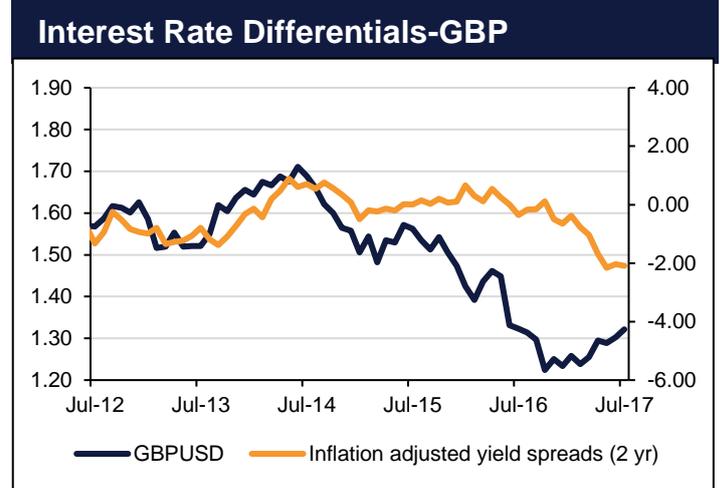


*Qatar data is bank loan growth to private sector, not total private sector credit. Source: Haver Analytics, Emirates NBD Research

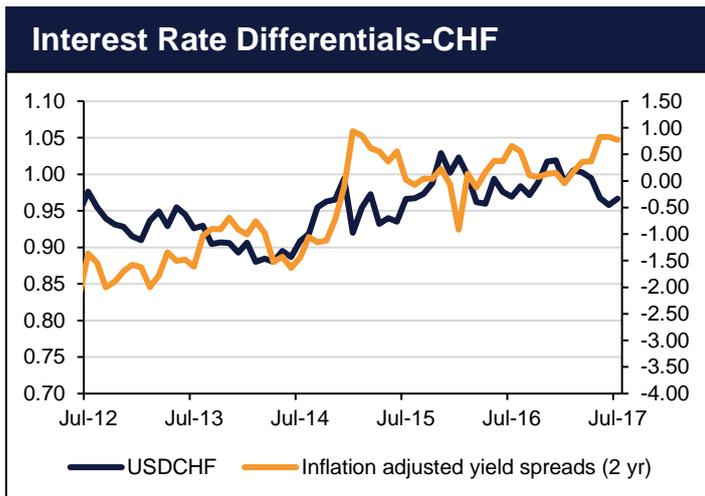
FX-Major Currency Pairs & Real Interest Rates



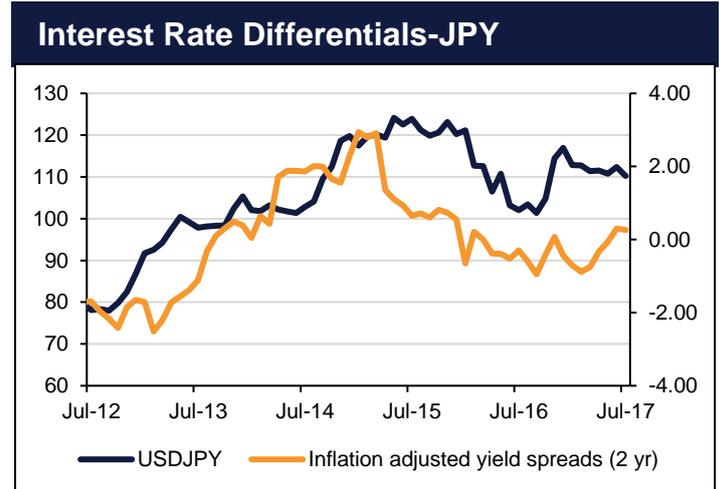
Source: Bloomberg, Emirates NBD Research



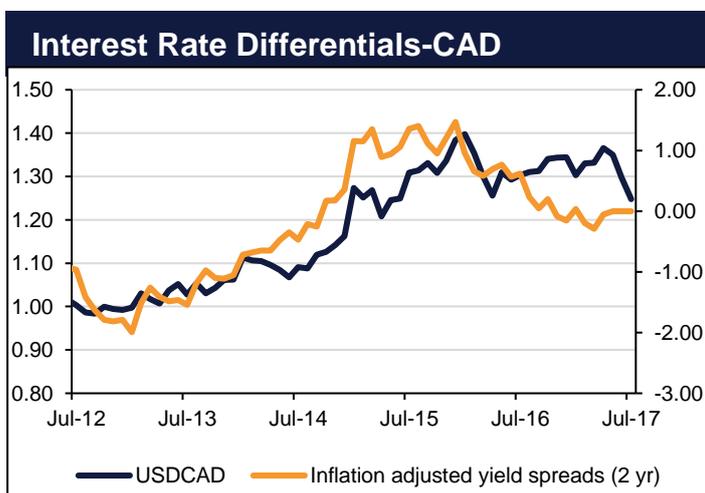
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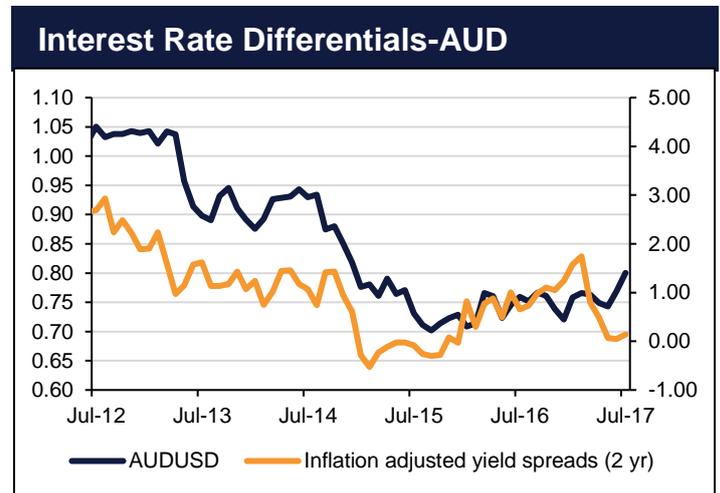
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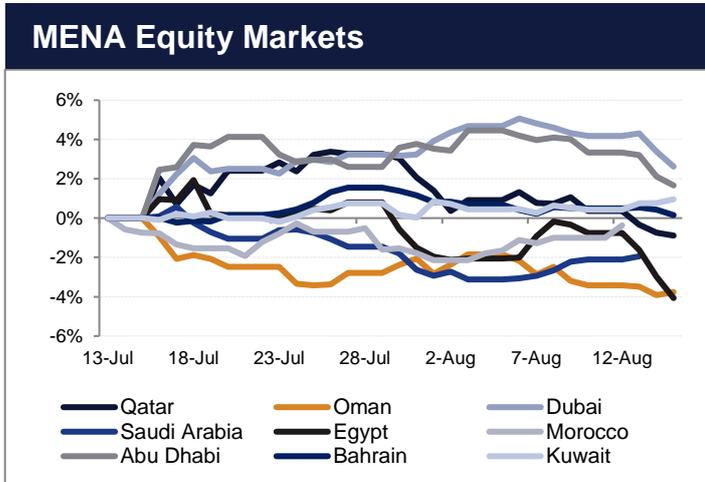


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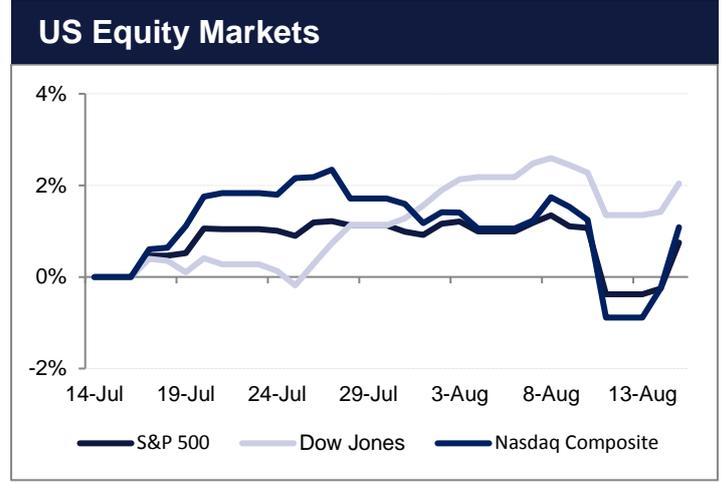


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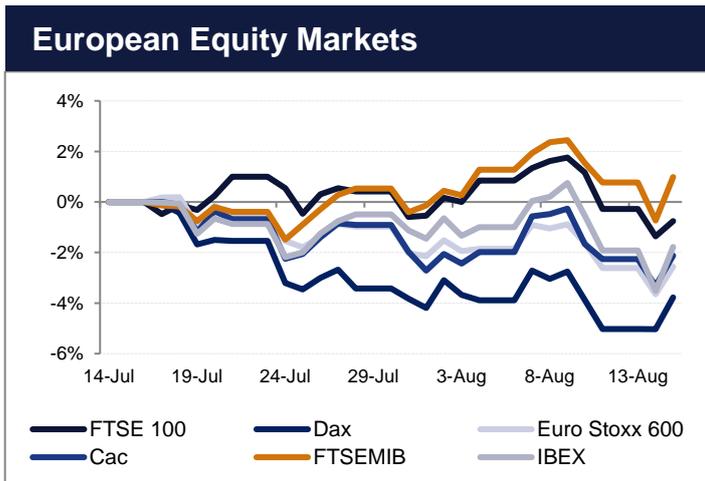
Major Equity Markets



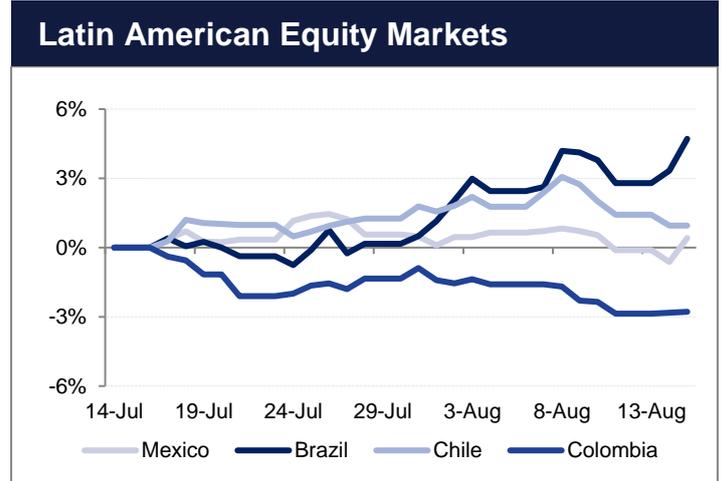
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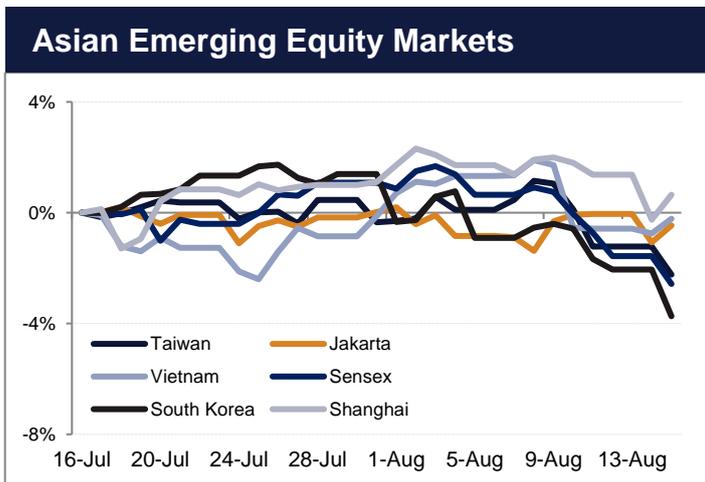
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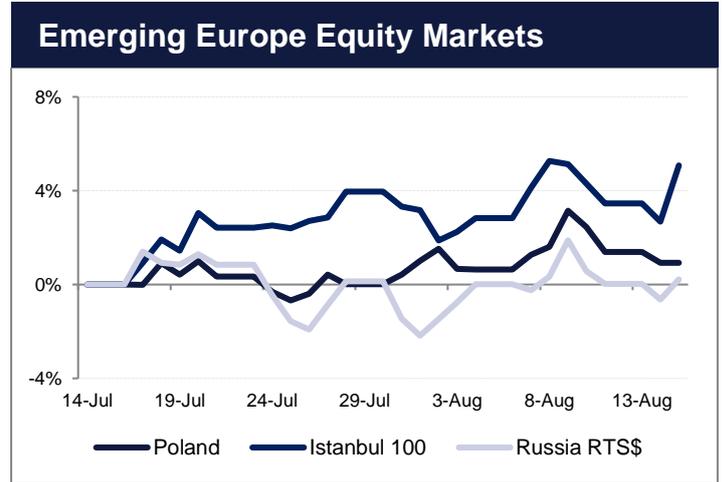
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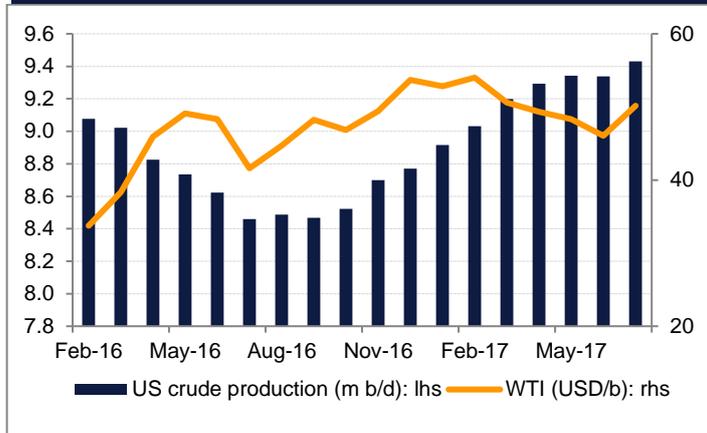
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

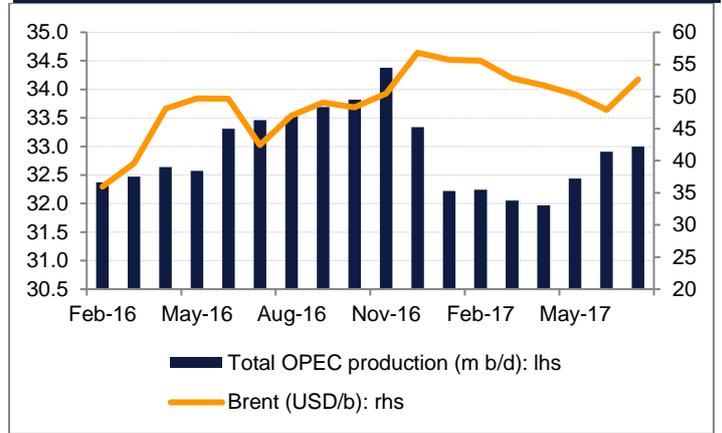
Major Commodities Markets

US oil production and price



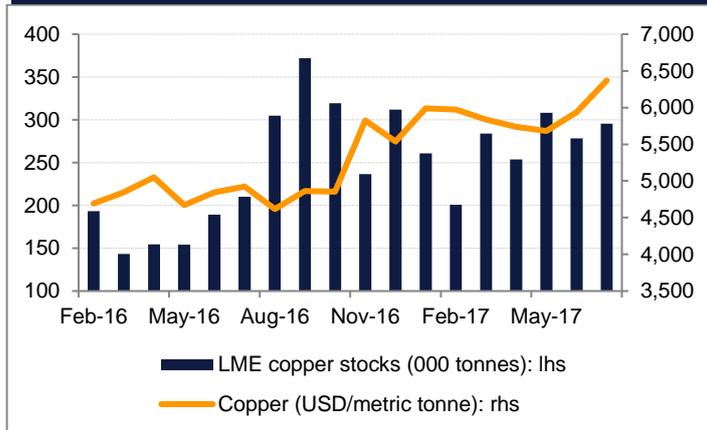
Source: EIKON, Emirates NBD Research

International oil production and price



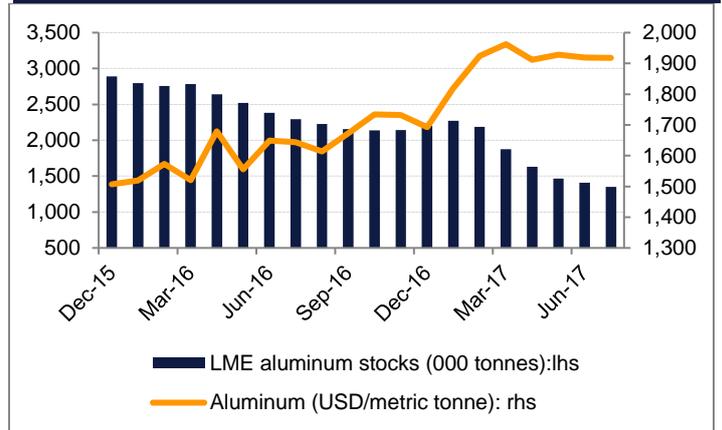
Source: EIKON, Emirates NBD Research

Copper stocks and price



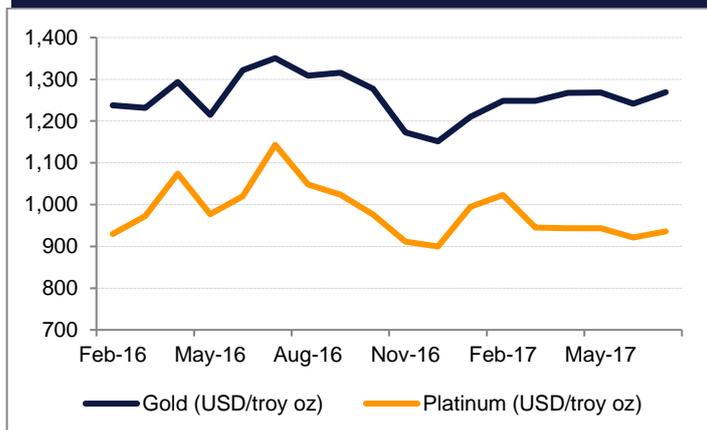
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



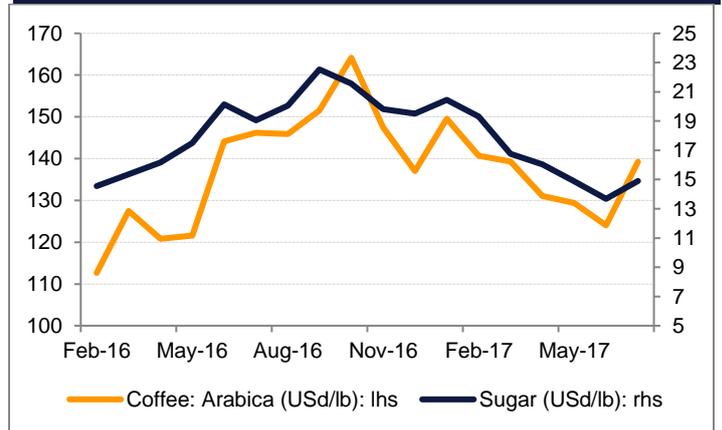
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2014	2015	2016e	2017f	2018f
Nominal GDP \$bn	403.5	358.2	349.0	434.7	458.3
Real GDP %	3.3	3.8	3.0	2.0	3.4
Current A/C % GDP	10.0	3.4	-2.2	-1.1	-1.6
Budget Balance % GDP	5.0	-2.1	-3.2	-1.7	-1.9
CPI %	2.3	4.1	1.6	2.5	3.5
Saudi Arabia					
Nominal GDP \$bn	756.4	651.8	639.6	678.8	711.2
Real GDP %	3.7	4.1	1.7	0.5	2.5
Current A/C % GDP	9.6	-9.1	-4.2	-12.5	-11.3
Budget Balance % GDP	-2.3	-15.0	-13.6	-11.0	-10.6
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	2.5	3.5
Current A/C % GDP	29.5	12.7	1.2	3.9	4.5
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	95.5	101.1	103.4
Real GDP %	0.5	1.8	2.1	-1.0	2.2
Current A/C % GDP	32.6	5.1	-1.7	4.3	5.0
Budget Balance % GDP	7.4	-13.1	-16.9	-12.0	-6.5
CPI %	2.9	3.3	3.2	3.0	3.5
Oman					
Nominal GDP \$bn	80.9	69.7	72.5	77.4	81.0
Real GDP %	2.5	5.7	3.7	1.0	2.3
Current A/C % GDP	5.2	-15.5	-17.7	-13.4	-2.5
Budget Balance % GDP	-3.4	-17.2	-17.5	-11.2	-9.9
CPI %	1.0	0.1	1.1	2.0	2.0
Bahrain					
Nominal GDP \$bn	33.4	31.1	31.9	33.9	35.3
Real GDP %	4.4	2.9	3.0	2.2	2.4
Current A/C % GDP	4.6	-2.4	-4.7	-4.9	-2.6
Budget Balance % GDP	-3.6	-13.0	-13.6	-14.7	-14.9
CPI %	2.7	1.8	2.8	1.4	2.0
GCC (Nominal GDP weighted avg)					
Nominal GDP \$bn	493.6	430.7	424.7	465.3	487.9
Real GDP %	3.2	3.8	2.3	1.1	2.8
Current A/C % GDP	14.2	-2.3	-3.6	-6.1	-4.8
Budget Balance % GDP	2.2	-9.7	-10.8	-7.7	-7.2
CPI %	2.6	2.6	2.7	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	1.7	2.0
Current A/C % GDP	-4.5	-5.1	-4.5	-4.0	-4.0	-3.3
Budget Balance % GDP	-5.9	-5.4	-4.3	-3.2	-2.0	-2.8
CPI %	2.6	1.5	0.5	1.9	2.0	2.6
Japan						
Real GDP %	1.6	0.0	0.5	0.9	1.0	0.5
Current A/C % GDP	0.8	0.5	3.0	3.2	3.0	3.5
Budget Balance % GDP	-7.8	-7.1	-6.0	-6.0	-5.0	-4.8
CPI %	0.3	2.7	0.8	0.8	1.5	1.0
China						
Real GDP %	7.7	7.3	6.9	6.5	6.3	6.1
Current A/C % GDP	1.5	2.1	2.7	2.8	2.5	1.9
Budget Balance % GDP	-1.8	-1.8	-2.5	-3.0	-3.0	-3.5
CPI %	2.6	2.0	1.4	1.7	2.0	2.2
India*						
Real GDP %	4.7	6.9	7.4	8.0	6.6	7.8
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)

FX Forecasts

FX Forecasts - Major						Forwards		
	15-Aug	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
EUR/USD	1.1743	1.1500	1.1200	1.1000	1.1200	1.1801	1.1867	1.1992
USD/JPY	110.35	114.00	116.00	118.00	120.00	109.87	109.30	108.20
USD/CHF	0.9742	0.9800	1.0100	1.0400	1.0400	0.9685	0.9620	0.9503
GBP/USD	1.2943	1.3200	1.3500	1.3800	1.4000	1.2983	1.3026	1.3104
AUD/USD	0.7837	0.7500	0.7200	0.7000	0.7000	0.7828	0.7819	0.7803
NZD/USD	0.7286	0.7100	0.6900	0.7000	0.7100	0.7273	0.7261	0.7239
USD/CAD	1.2744	1.2700	1.3000	1.3000	1.3000	1.2731	1.2722	1.2708
EUR/GBP	0.9074	0.8712	0.8296	0.7971	0.8000	0.9091	0.9111	0.9152
EUR/JPY	129.59	131.10	129.92	129.80	134.40	129.59	129.59	129.59
EUR/CHF	1.1440	1.1270	1.1312	1.1440	1.1648	1.1429	1.1416	1.1395

FX Forecasts - Emerging						Forwards		
	15-Aug	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
USD/SAR*	3.7503	3.7500	3.7500	3.7500	3.7500	3.7535	3.7573	3.7698
USD/AED*	3.6730	3.6720	3.6720	3.6720	3.6720	3.6743	3.6757	--
USD/KWD	0.3019	0.3050	0.3050	0.3050	0.3050	0.3040	0.3063	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3861	0.3873	0.3915
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3776	0.3782	0.3795
USD/QAR*	3.6645	3.6400	3.6400	3.6400	3.6400	3.6810	3.6870	3.7125
USD/EGP	17.7474	17.7500	17.5000	17.2500	17.0000	18.1150	18.6300	19.6000
USD/INR	64.123	65.000	65.000	66.000	66.000	64.7700	65.4200	66.7000
USD/CNY	6.6776	7.0000	7.1000	7.2000	7.4000	6.7195	6.7605	6.8355

Data as of 15 August 2017

Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.57	1.65	1.85	2.05	1.65	1.73	1.80
10y	2.18	2.32	2.56	2.80	2.24	2.30	2.36
2s10s (bp)	61	67	71	75	59	57	55
US Treasurys Forecasts							
2y	1.31	1.40	1.60	1.85			
10y	2.21	2.35	2.60	2.80			
2s10s (bp)	90	95	100	95			
3M Libor							
3m	1.28	1.28	1.44	1.74			
3M Eibor							
3m	1.51	1.51	1.71	2.11			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED (Upper Band)	1.25	1.25	1.50	1.75			
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	-0.75	-0.75			
RBA	1.50	1.50	1.50	1.75			
RBI (repo)	6.00	6.00	5.75	5.75			
SAMA (r repo)	1.25	1.25	1.50	1.75			
UAE (1W repo)	1.50	1.50	1.75	2.00			
CBK (discount rate)	2.75	2.75	3.00	3.00			
QCB (Repo rate)	2.25	2.25	2.25	2.25			
CBB (o/n depo)	1.25	1.25	1.50	1.75			
CBO (o/n repo)	1.72	1.75	2.00	2.25			

Data as of 15 August 2017

Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Current	2016 avg	2017q1	Q2	Q3	Q4	2017 avg
Energy							
WTI (USD/b)	47.62	43.32	51.91	48.25	46.50	48.50	48.79
Brent (USD/b)	50.80	45.04	54.68	50.87	49.00	51.50	51.51
Precious metals							
Gold (USD/troy oz)	1,275.05	1,247.82	1,220.24	1,257.89	1,275.00	1,180.00	1,233.28
Silver (USD/troy oz)	16.87	17.10	17.48	17.19	18.00	16.00	17.17
Platinum (USD/troy oz)	955.75	987.79	982.33	938.13	932.00	960.00	953.12
Palladium (USD/troy oz)	894.95	613.89	767.48	817.29	826.87	836.46	812.03
Base metals							
Aluminum (USD/metric tonne)	2,039.50	1,609.83	1,856.60	1,913.36	1,850.00	1,850.00	1,867.49
Copper (USD/metric tonne)	6,417.00	4,870.75	5,857.38	5,692.37	5,500.00	5,350.00	5,599.94

Prices as of 15 August 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	%members bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	21,994	6,157	0.5	11.3	87	18.0	3.7	2.4
S&P 500 Index	2,466	34,705	-0.2	10.1	71	18.9	3.0	2.0
Nasdaq Composite Index	6,340	23,276	-0.1	17.8	51	23.9	3.9	1.1
FTSE100 Index	7,354	6,753	0.2	3.4	66	15.1	1.9	4.2
DAX Index	12,165	4,018	0.6	6.2	60	13.4	1.7	3.0
CAC 40 Index	5,122	3,810	0.9	5.7	82	15.1	1.5	3.3
Swiss Market Index	9,031	2,578	-0.6	9.6	95	18.0	2.4	3.3
Nikkei Index	19,537	11,120	-0.9	3.3	57	16.7	1.6	1.9
S&P/ASX 200 Index	5,730	3,252	0.6	1.6	60	15.9	1.9	4.5
Stoxx Europe 600 Index	376	29,455	-0.3	4.2	76	15.7	1.8	3.5
Dubai Financial Market General Index	3,586	71	-1.5	1.4	47	10.8	1.2	4.1
Abu Dhabi Sec Market General Index	4,481	36	-2.1	-1.7	57	12.1	1.3	4.6
Tadawul All Share Index	7,125	736	0.1	-1.5	56	14.4	1.5	3.3
Istanbul SE National 100 Index	109,537	1,367	1.3	39.4	98	9.5	1.3	3.2
Egyptian Exchange Index	13,135	31	-2.3	6.2	67	11.5	1.9	2.4
Kuwait Stock Exchange Index	6,859	45	-0.1	19.1	51	-	-	-
Bahrain Bourse All Share Index	1,319	2	-1.2	7.5	-	-	-	-
Muscat Securities Index	4,978	6	-1.7	-14.6	27	10.2	0.9	6.1
Qatar Exchange Index	9,192	46	-2.9	-12.5	16	14.3	1.8	3.5
MADEX Free Float Index	10,077	13	0.8	5.1	89	18.9	2.8	3.4
Hong Kong Hang Seng Index	27,250	4,329	-0.5	23.5	94	12.8	1.3	3.4
Shanghai Composite Index	3,237	34,103	-0.7	4.8	30	14.4	1.6	2.0
Korea Stock Exchange Index	2,334	4,587	-2.9	15.2	48	9.9	1.1	1.7
BSE Sensex	31,449	111	-3.3	18.1	77	20.3	2.8	1.5
Nifty	9,794	1,579	-2.8	19.6	80	19.6	2.8	1.5
Karachi Stock Exchange Index	45,288	76	-4.6	-8.2	37	9.5	1.7	5.6
Taiwan SE Weighted Index	10,225	3,222	-1.1	11.4	55	14.6	1.8	3.9
Bovespa Brasil Sao Paulo SE Index	68,285	1,660	3.6	13.4	81	13.2	1.5	2.9
Micex Index	1,952	473	1.1	-13.1	55	6.0	0.7	5.6
FTSE/JSE Africa All Share Index	55,466	1,330	-0.3	8.6	52	15.9	1.8	3.2
Vietnam Ho Chi Minh Stock Index	776	151	-1.6	16.0	68	14.5	2.5	2.6
Jakarta SE Composite Index	5,801	345	-0.1	10.2	52	16.6	2.6	2.1
FTSE Bursa Malaysia KLCI Index	1,771	187	0.7	8.0	60	16.3	1.7	3.2
Mexican Stock Exchange	51,167	393	0.3	12.1	63	19.0	2.6	2.3

Prices as of 14 August 2017

Source: Bloomberg, Emirates NBD Research

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