Emirates NBD

بنك الإمارات دبي الوطني

Monthly

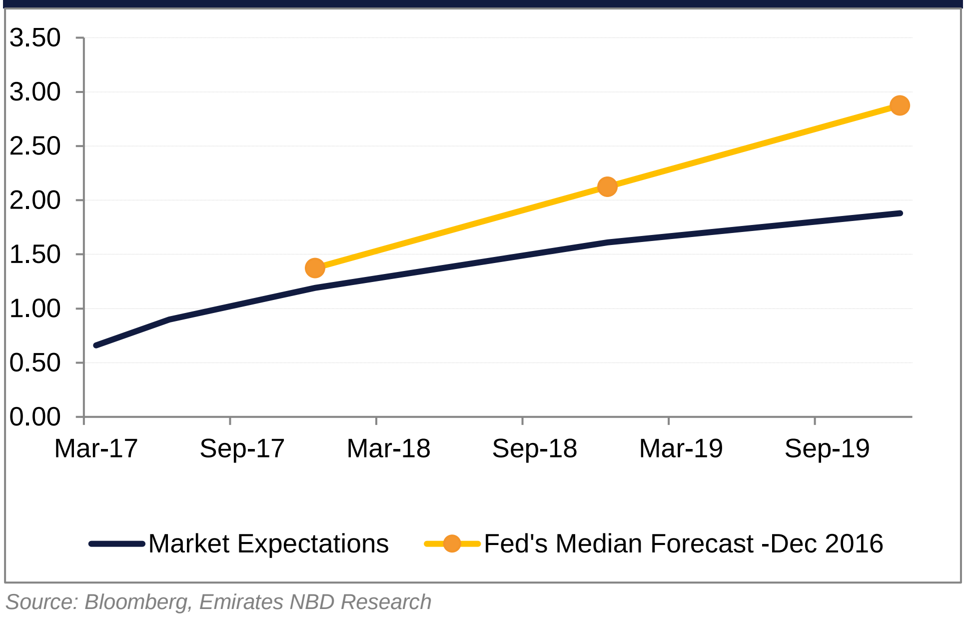
15 February 2017

# Monthly Insights

**The first month of the Trump Presidency has seen rising uncertainty about many of the assumptions that have been taken for granted by markets for decades. This uncertainty is not only about the US economy and policy making, but also has an impact on other parts of the world that rely on the US for trade, security and investments.**

- **Global macro:** The last month since our January edition has been an eventful one, with the Trump Presidency overshadowing developments in the US economy and to some extent in the wider world.
- **GCC macro:** The largest GCC economies started 2017 on a strong note, with both Saudi Arabia's and the UAE's purchasing managers' indices showing faster expansion in the non-oil private sector in January.
- **MENA macro**: Inflationary pressures are likely to build across North Africa and the Levant in 2017, particularly in Egypt where November's EGP devaluation is leading to a spike in imported prices.
- **Sector Focus:** An overview of Dubai's real estate sector.
- **Emerging Market Focus:** India
- **Interest Rates:** Anticipated pro-growth policies of President Trump are causing higher sovereign yields.
- **Credit Markets:** Expectations of higher global growth boosted appetite for risk assets leading to tightening of credit spreads during the month.
- **Currencies:** Constructive US economic data was unable to fully reverse the dollar's soft start to 2017 as markets continued to show concern over President Trump's initial focus on protectionism especially in the absence of details about fiscal policy expansion.
- **Equities:** Notwithstanding the focus on Donald Trump's policies, equity market investors seem to be coming to grips with the working style of the new US President. The positive sentiment has been helped by better than expected corporate earnings and upbeat economic data.
- **Commodities:** OPEC managed to achieve a high level of compliance in the first month of its production cut agreement but has it cut too deep too early? So far oil prices have largely shrugged in the face of the strong OPEC figures suggesting other factors have more weight in the current market.

**US rates: the market is still more dovish than the Fed**




*Source: Bloomberg, Emirates NBD Research*

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# Content

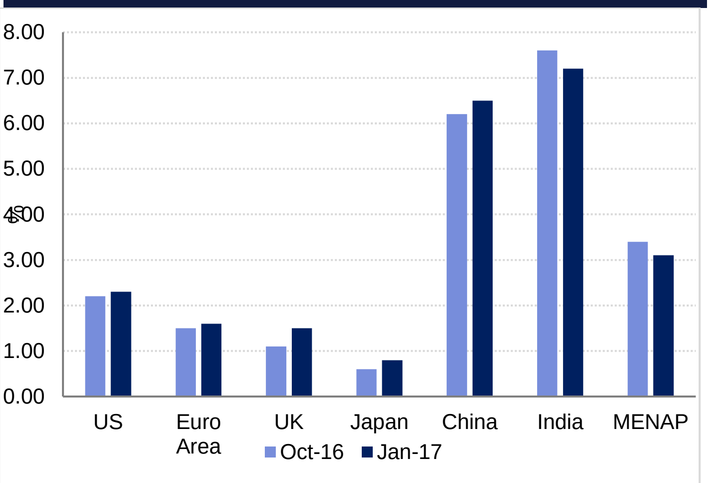
# Global Macro

**The last month since our January edition has been an eventful one, with the Trump Presidency overshadowing developments in the US economy and to some extent in the broader world as well. With US fiscal policy facing greater uncertainty and priority appearing to be given to trade policies, immigration and protectionism, doubts are being cast on many of the assumptions about the 2017 outlook.**

## Global outlook still looks positive

On the surface at least the trends in the US and the world economy in January have continued much as they left off in 2016, with activity data continuing to improve around the world prompting growth forecasts to be raised and thoughts of further monetary tightening to be considered, and not just in the United States. The US ISM manufacturing index continued its improvement seen since last summer, while the momentum in jobs growth has also increased. Elsewhere PMI indicators have also largely held onto the improvements seen at the end of 2016, indicating modestly improving growth trajectory. These advances were largely reflected in the IMF's revised global growth forecasts published in January under the title 'A Shifting Global Economic Landscape'. Although the IMF kept its forecast for global growth unchanged at 3.4% this year in its January update to its WEO, most forecasts for developed markets growth were revised higher (unwinding the downward revisions in October 2016). The US growth forecast for 2017 was revised up slightly to 2.3% from the October report while the IMF reversed its October downgrade of the UK's growth taking it back up to 1.5% from 1.1% previously. 2017 forecasts for the Eurozone, Japan and China were revised higher to 1.6%, 0.8% and 6.5% respectively. The IMF did however, downgrade the growth outlook for emerging markets, with Mexico now expected to grow just 1.7% in 2017, 0.6pp lower than the previous forecast. India and Brazil 2017 forecasts were also revised down to 7.2% and 0.2% respectively.

**IMF upgrades developed economies outlook in 2017**




*Source: Bloomberg, Emirates NBD Research*

The tone of February FOMC statement captured the cautiously improving mood in the US as although it was broadly similar to the one published in December, it took a slightly more hawkish tone. Indeed, the first paragraph added a sentence that read '*Measures of consumer and business sentiment have improved of late*', while the second paragraph was changed to '*Inflation* will *rise to 2% over the medium term*', compared to last meeting's statement that simply said *'Inflation* is expected *to rise to 2% over the medium term*'. These are relatively small changes of course, but they illustrate the likelihood that should the economy continue on track the justification for three rate hikes projected in the December 'dot plot' will be made. Janet Yellen's subsequent comments in her semi-annual testimony to Congress provided further validation of this, as she kept open the possibility of a March rate hike by saying that 'waiting too long to remove accommodation would be unwise'.

## But Trump policies cast a shadow

Such assumptions are coming under increasing scrutiny however, due to the messages and communications from the Trump White House. Whereas the markets had believed prior to the inauguration that Trump would promote pro-growth policies, via fiscal reflation and deregulation, the first few weeks of the administration have actually been dominated by protectionist rhetoric and trade threats which on their own would likely have negative consequences for growth, both globally and in the US. Having withdrawn from the Trans Pacific Partnership, promised to renegotiate Nafta and threatened Mexico and China with tariffs, criticism of global trade deals and of the financial practices of America's global trading partners, have been some of the hallmarks so far of the Trump presidency. Latterly Trump has begun to soften his tone a little bit and has indicated that a major initiative on tax is on its way in the coming weeks. He has also reiterated that he would look to roll back regulation. Without such measures the markets would be likely to look at the prospects for reflation much more skeptically, and the Fed may even begin to question if three interest rate hikes this year will be absolutely necessary. Such thoughts are already being partly reflected in a reduced likelihood of a Fed rate hike in March, illustrating how even positive economic data is increasingly being 'Trumped' by the President's more controversial agenda.

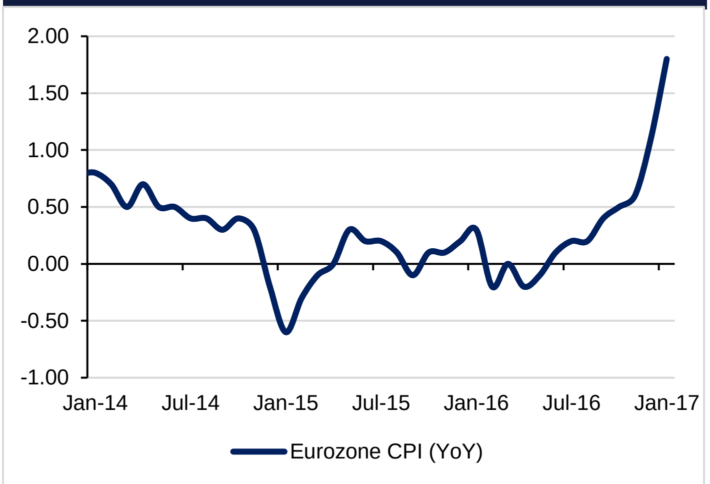
## Clean Brexit

The Bank of England is also facing speculation that it will be the next major central bank to tighten monetary policy later this year, at least reversing the emergency rate cut that followed the Brexit referendum last summer. There has been a relatively sharp upturn in inflation since the end of last year as a result of the increase in energy prices and the weakness of sterling, with headline inflation in January lifting to two and a half year high of 1.8% y/y, up from 1.6% in December. Although the Bank of England raised its growth outlook recently to 2.0% for this year, up markedly from the 1.4% growth it predicted in November, it appeared at pains to resist the conclusion that higher interest rates might be on their way. The Bank said in its quarterly Inflation Report that the equilibrium unemployment rate has dropped, implying that monetary policy can stay looser for longer. Of course Brexit could present complications to this although the markets have so far been reassured that the government is making progress towards triggering Brexit in March, illustrated by the relatively smooth passage of its Brexit Bill through Parliament. The last month has shown that the UK government is keen to make a clean break with the EU, which we think the markets would welcome. As time has gone by since the referendum more and more institutions have been forced to raise their growth outlook for the UK economy, acknowledging effectively that the doom laden forecasts that circulated around the time of the referendum were wrong, with the EU Commission being the latest to capitulate by raising its UK forecasts..

## Inflation points to ECB QE exit

The EU also raised its Eurozone growth forecast to 1.6% this year from 1.5%, while its inflation projection has been raised to 1.7% from 1.4%. Euro area business and consumer surveys have maintained their strong performance at the end of last year, with GDP growth for that quarter rising by a solid 0.5% q/q. January inflation jumped to 1.8% y/y from 1.1% y/y, albeit with the core remaining steady at 0.9%. This upturn in price pressures at a headline level largely reflects the rise in energy prices, and for this reason cannot be counted on to continue. However, it has not surprisingly added to pressure on the ECB to reconsider its commitment to asset purchases through the end of the year, with the Bundesbank in particular arguing for an early exit from QE. For the time being ECB President Draghi is resisting this pressure, reassuring markets that nothing has particularly changed since December when QE program was adjusted. Of course he is likely to have one eye on the numerous political risks in the Eurozone over the year which could throw up a number of unexpected outcomes. How long he will be able to maintain current expansionary policy in the face of such inflation data is uncertain, however, with QE tapering before the end of the year something that is becoming increasingly likely.

**Eurozone inflation picks up**

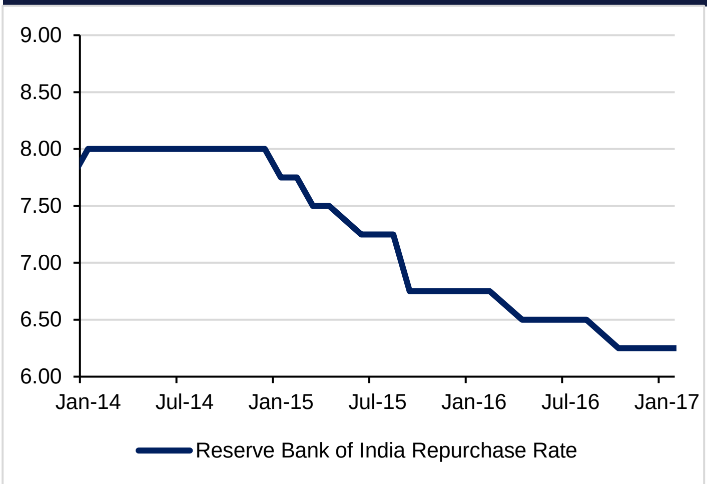



*Source: Bloomberg, Emirates NBD Research*

## End to RBI's easing cycle?

The main development in India has been the budget and the subsequent decision by the Reserve Bank to leave interest rates unchanged at 6.25%. Not only was the decision surprising, the tone was also more hawkish with the RBI changing its stance to neutral from accommodative. The bank said the change in stance was to gain more flexibility which in turn suggests that the easing cycle in India may be coming to a premature end, at least in the short term. The inflation outlook continues to remain benign with projections of 4% to 4.5% in H1 FY 2018 and 4.5% to 5.0% in H2 FY 2018, well within the target range. However, capacity utilization has tightened a little recently and firmer oil prices may also exert some upward pressure on prices, to say nothing of the possible effects of demonetization further down the road. We have included a new dedicated section on Emerging Markets which looks at India this month in more detail (see page 10).

**RBI ends easing cycle**




*Source: Bloomberg, Emirates NBD Research*

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# GCC Macro

**The largest GCC economies started 2017 on a strong note, with both Saudi Arabia's and the UAE's purchasing managers' indices showing faster expansion in the non-oil private sector in January.**

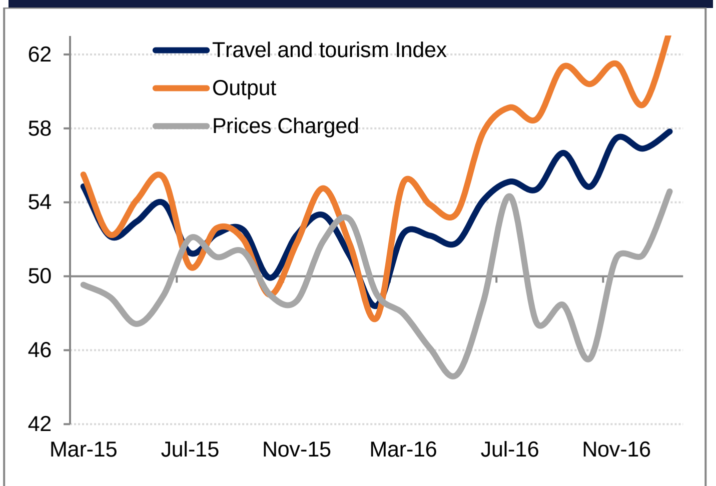
The Saudi PMI rose to the highest level in nearly a year-and-a-half, on the back of faster rises in output and new orders. Encouragingly, firms were more optimistic at the start of this year than they were just three months ago, when business sentiment fell to its lowest level on record. Several factors likely contributed to the more upbeat outlook in our view, including the settlement of arrears by the government, easing liquidity conditions in the banking sector (reflected in lower interest rates) and the relative stability of oil prices above USD 50/b over the last couple of months.

In the UAE too, the data has been encouraging, with evidence of recovering external demand after a relatively soft 2016. Output and order growth remain very strong, although firms have continued to offer incentives and promotions in order to remain competitive, further squeezing margins.

## Dubai's tourism sector sees stronger demand

Dubai's travel and tourism sector appears to have bucked this trend over the last three months however, according to the Dubai Economy Tracker survey. Prices charged in this sector in January rose at the fastest rate since the survey began nearly 2 years ago, suggesting that underlying demand has strengthened. Easing of visa rules for Chinese nationals in Q4 2016 likely helped to boost demand from this segment of the market. Indeed the number of Chinese visitors to Dubai grew 20% y/y in December 2016, making this the fastest growing segment by nationality.

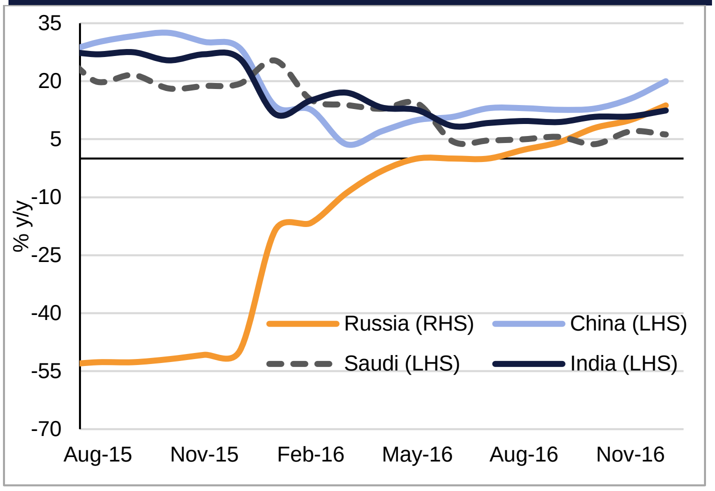
**Dubai Economy Tracker: Travel & tourism**




*Source: IHS Markit, Emirates NBD Research*

The second fastest growth in terms of visitors to Dubai by nationality in December 2016, was Russia (13.7% y/y). The 30% appreciation in RUB/USD over the last year had likely contributed to the recovery in the number of visitors from Russia during the course of 2016, and the UAE government's recent announcement that Russians will now also be able to get visas on arrival in the UAE, should further support demand in this market going forward.

**Dubai visitor numbers by nationality**




*Source: DTCM, Emirates NBD Research*

## Kuwait announces larger budget for FY 2017/2018

Kuwait is planning to increase spending in the 2017/18 fiscal year. The new budget (effective 1 April 2017) makes provision for KWD19.9bn in spending, in line with our forecast, and up from an estimated KWD19.0bn in 2016/17. Oil revenues are expected to rise this year, but the official estimate for budget revenues is based on a forecast oil price of USD45/b, well below our forecast of USD55/b. As a result the projected deficit (KWD 6.6bn) is significantly wider than our forecast (KWD 3.0bn). Kuwait said it plans to IPO its power generating company this year as part of broader economic reforms, and has also mandated banks to prepare for a sovereign bond issue, expected to raise USD 10bn to go towards financing the budget deficit.

In something of a contrast, Qatari Finance Minister Ali al Emadi said recently that given the 'very comfortable' level of oil prices, Qatar may not issue another sovereign bond this year. We had expected another USD 10bn bond issue from Qatar this year, as the country has an ambitious infrastructure investment program which will be executed over the next five years. While we still believe a bond issue from Qatar is likely, the Finance Minister's comments reflect the relief that oil prices around USD 55pb provide to governments in the region, in terms of alleviating the need to find additional cuts to spending, which would have weighed further on growth this year.

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# Non-GCC Macro

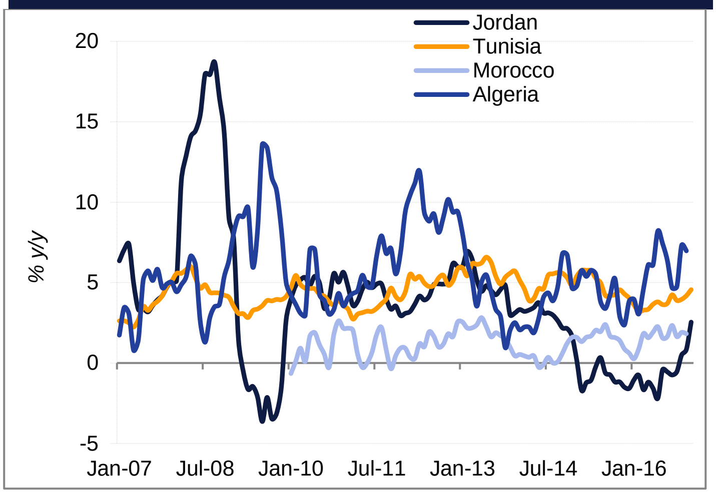
**Inflation in Egypt has continued to rise at the start of 2017, with headline CPI hitting 28.2% y/y in January, compared to 23.3% in December and 10.1% in January 2016. In month-on-month terms, prices rose 4.1%. Core CPI meanwhile surged 5.0% m/m and 30.8% y/y. The introduction of new excise taxes in September and subsidy reforms in November have played some role in this inflationary spike, but the biggest factor has obviously been the devaluation of the EGP.**

This has also been reflected in the Output Price Index of the monthly Purchasing Managers' Index (PMI) for Egypt, which hit its highest level in our time series in January at 71.2. Given the magnitude of the EGP's devaluation last year, inflation is likely to remain at these levels for the majority of 2017, and only trend lower once the pass-through from the exchange rate fluctuation fades out of the base.

## Pressures building across region

Inflation is also rising across the rest of North Africa and the Levant. In Jordan, headline CPI has now increased to its highest level in over two years at 2.5% y/y. Stripping out food prices, which are actually in deflation in Jordan, core price pressures are also at a multi-year high of 4.4% y/y. In Tunisia, inflation has been gradually grinding upwards, and came in at a 19-month high of 4.6% y/y in January, while in Algeria prices rose 7.0% at the end of 2016, marking the highest average in four years. Clearly, exchange rate fluctuations are not the dominant factor in this broader regional trend, as each of these economies operates a different FX regime ranging from straight USD peg to managed crawl.

**Regional Inflation Trends**




*Source: Haver, Emirates NBD Research*

Looking ahead to the rest of 2017, inflation is likely to continue trending upwards across much of the region. Domestically, while fundamental demand conditions are still relatively weak by historical standards, consumption and investment are expected to increase in several markets, which could add to upside pressures. Moreover, to the extent that the IMF's presence in several countries results in further revenue raising measures (i.e. excise taxes and higher VAT rates) and expenditure cuts (i.e. lower energy subsidies), such reforms could also pose a risk to the inflation outlook.

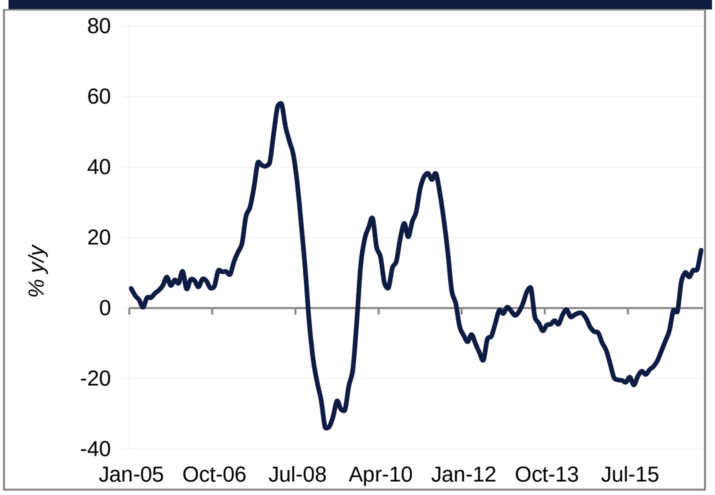
More importantly perhaps, from an external perspective global commodity prices are on the rise, which will eventually feed through into an increase in local prices despite the presence of large-scale subsidy regimes. Indeed, our base case sees oil prices increasing roughly 20% this year relative to 2016 on the back of OPEC's agreement to cut output. More importantly perhaps, global food prices have also been climbing upwards, which given the disproportionate weight of food in CPI baskets, could have a large impact on headline CPI this year. According to the UN's Food and Agricultural World Food Price Index, prices increased 16.4% y/y in January, marking the strongest pace of growth since 2011.

## Monetary policy set to tighten?

The uptrend in inflation will complicate efforts at boosting private sector growth this year. In such an environment, central banks in MENA could be forced to adopt more aggressive monetary policies than originally forecast (particularly in the context of likely policy tightening by the U.S. Fed). Jordan has already hiked interest rates 25bps, while the EGP's devaluation was accompanied by 300bps in tightening by the CBE. Tunisia looks like it might be the next candidate to raise rates, as stronger inflationary pressures and persistent pressure on FX reserves might soon force authorities to tighten policy in an effort to stem weakness in the TND.

It is important to distinguish between short-term swings in inflationary trends driven by exchange rate fluctuations, global commodity prices and economic reforms on the one hand, with longer-term structural inflation caused by supply constraints on the other. Looking at inflation trends since 2000, most of MENA's non-GCC economies have managed to post average headline CPI rates in the low single-digits. Two countries stand out however, with Egypt and Iran posting average annual inflation of 8.4% and 17.6% respectively over this time period.

**Global Food Prices**




*Source: UN FAO, Emirates NBD Research*

In recent years some of this upwards price pressure was caused by rapid expansions in the domestic money supply as a result of central bank financing of government spending. More broadly, structurally high inflation could also be seen as a failure to invest sufficiently into domestic supply networks and basic infrastructure, as upticks in economic growth quickly run into capacity constraints. As a result, in order to increase the chances of maintaining inflation in the low single digits over the longer term, these economies will need to encourage greater CAPEX in the near term.

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# Sector Focus

## Real estate sector grew 6.8% in Q3 2016

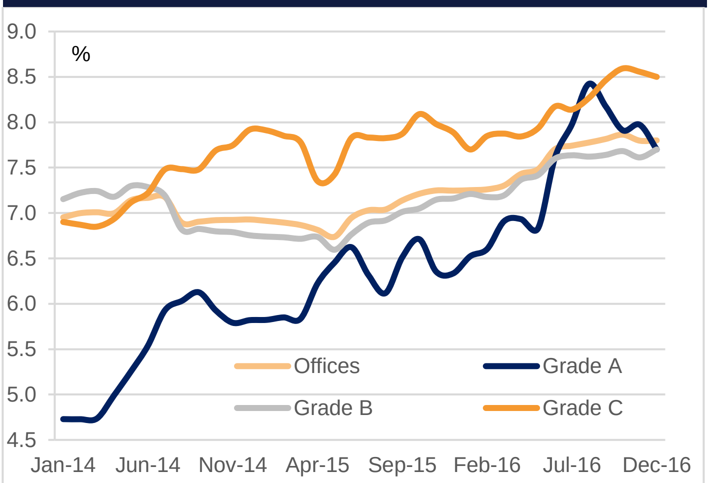
The real estate sector accounted for 6.3% of Dubai's GDP in Q3 2016. Growth in the sector accelerated to 6.8% y/y in Q3 2016 from 3.3% in Q3 2015, according to the revised data from Dubai Statistics Centre. However, the easing in real estate prices is still evident with several factors contributing such as increased supply, USD strength and economic developments in investors' home markets. None of these factors are likely to change materially in the near-term in our view. However, higher oil prices and improved sentiment ahead of Expo 2020 suggest that further downside may be limited. We retain our estimate of 3.5% for Dubai's real GDP growth in 2016 and 4.0% for 2017.

## Dubai office yields remain high in 2016

The Dubai office market eased further in 2016 with Phidar Advisory's commercial price index showing overall office prices down -16.4% y/y in December, with the high quality segment (Grade A) being affected the most, down -19.4% y/y for the same period. On a m/m basis, the average monthly price decline for offices in 2016 was -1.5% per month compared with -0.9% per month in 2015.

Rents for Grade A buildings (predominantly at DIFC, One Central and Downtown) were down -1.7% y/y in December. Rents in the remaining areas, however, declined at a higher pace for the same period, more or less aligned with the annual fall in sales prices. Overall, office rents were down in December by -9.4% y/y compared with -6.4% y/y the same month last year. However, yields on offices remained unchanged in December at 7.8% averaging 7.6% in 2016 compared with 7.0% in 2015.

**Dubai commercial yields**




*Source: Phidar Advisory, Emirates NBD Research*

## Supply highest since 2012

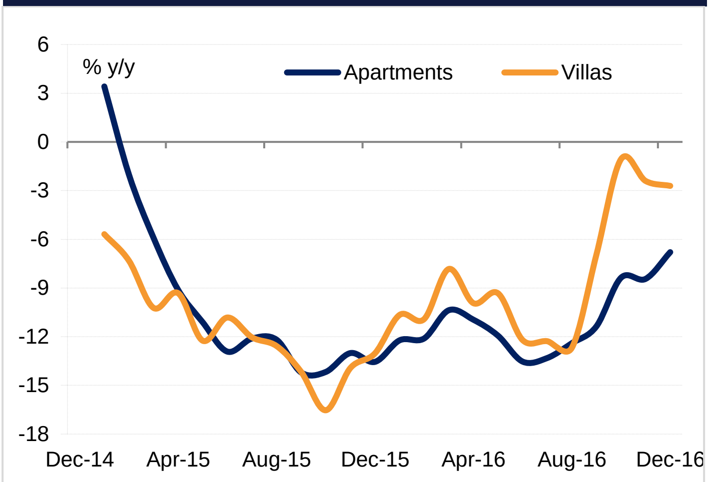
According to Jones Lang LaSalle (JLL), a total of stock to 8.6 million sq.m of Gross Leasable Area (GLA) entered the Dubai office market in 2016, the highest since 2012 (7.6 million sq.m). The majority of these completions were in Business Bay and TECOM A & B. Notable completions were Westbury Square and B2B Office Tower in Business Bay, as well as The Butterfly in Dubai Media City. Approximately 10,300 sq.m of office space was completed in Q4 2016, including The Edge in Dubai Internet City. 2017 is expected to witness the completion of approximately 300,000 sq.m of office space, with 30% of the expected supply in Business Bay, 22% in the Greens (Onyx Towers) and 20% in JLT (Amesco Tower), highlighting a shift away from the Central Business District (CBD) to other areas in the city.

## Dubai residential property prices ease at a slower rate

Residential property prices declined in 2016, but at a slower pace than in 2015. Phidar Advisory's Dubai 9/5 House Price Index, which is based on Dubai Land Department (DLD) data but includes only nine apartment communities and five villa communities in investor zones in Dubai, showed apartment prices down -6.8% y/y and villa prices down -2.7% y/y at the end of December. On a m/m basis, the average monthly price decline for apartments in 2016 was -0.6% per month compared with -1.2% per month in 2015. For villas, prices fell an average -0.2% per month in 2016 vs -1.1% per month in 2015. Apartments account for about 90% of residential real estate transactions in Dubai.

The lower-priced segments of the market have fared better than the luxury (premium) segment. Low and mid-range (standard and standard-plus) villas saw price rises in Q4 2016, up by 15.0% and 2.8% y/y, respectively, while standard apartments saw prices decline only -1.3% y/y for the same quarter. However, we caution that the last quarter is typically stronger in terms of real estate activity and the improvement may not be sustained in Q1 2017. The strength of the USD still remains a constraint on demand, particularly for foreign investors.

**Dubai residential property prices**




*Source: Phidar Advisory, Emirates NBD Research*

## Transaction volumes lower in Q4 16 compared with Q4 15

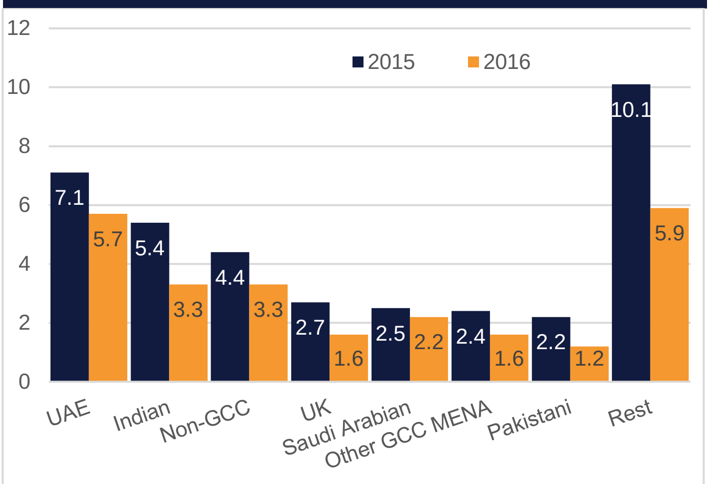
We have noted in previous reports that the decline in residential real estate prices over the last year has been accompanied by lower transaction volumes in all areas of Dubai. This has been particularly evident in the villa sector. Overall, transaction volumes declined by -16.1% y/y in Q4 2016 compared with 29.0% growth recorded in Q4 2015. On an annual basis however, the total number of sales was up by 16.4% y/y in December due to higher apartment transactions (20.9% y/y). The number of villas sales recorded in December was down by -11.5% y/y for the same period.

Looking at the areas included in Phidar Advisory's 9/5 Index, both apartment and villa transactions decreased y/y in Q4 2016, with most of the activity in the high-range (or premium) segment for apartments and the standard segment for villas. Overall, affordability is still a constraint but there is demand for residential properties at the lower priced end of the market.

## Lower investment in real estate in 2016

The total value of real estate transactions (including land sales and mortgage transactions) in Dubai reached USD 70.5bn in 2016, down by -3.7% compared with the 22.5% jump in 2015, according to the latest report from the Dubai Land Department (DLD). Similarly, the total value of real estate investment transactions reached USD 36.8bn in 2016, down by -32.6% compared with 2015.

### Investment in Dubai real estate, of total USD 36.8bn, by nationality




*Source: Dubai Land Department, Emirates NBD Research*

## Rental yields remain high in 2016

Rents in the Dubai 9/5 Index areas declined on an annual basis in December, more or less aligned with the annual fall in sales prices. Apartment and villa rents were down in December by -9.4% and -11.4% y/y, respectively. Yields on apartments remained unchanged in December at 7.7% averaging 7.8% in 2016 compared with 7.4% in 2015. Similarly, yields on villas remained unchanged in December at 4.6% averaging 4.7% in 2016 compared with 4.8% in 2015.

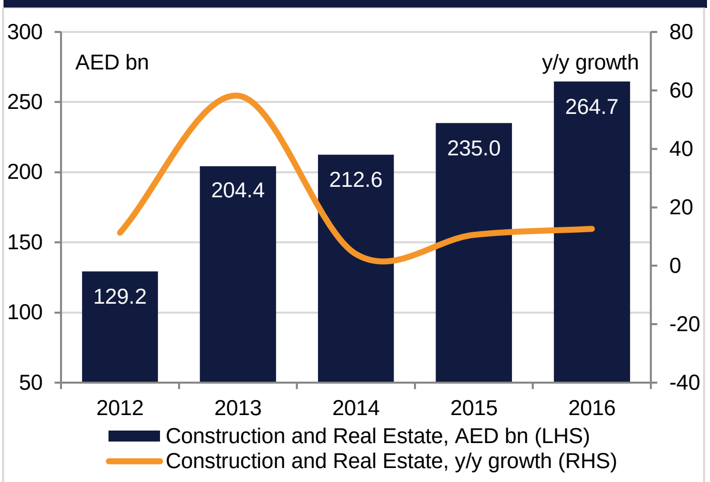
## Pace of supply picks up

According to Jones Lang LaSalle (JLL), Dubai residential market witnessed the delivery of 14,600 residential units in 2016, the highest level since 2012 (16,000 units), with a total stock reaching 471,000 units at the end of 2016. Contributing to the volume of completions were 1,500 villas for Emirates staff in Meydan and 690 units in Wasl Oasis II in Muhaisnah. Q4 2016 witnessed the completion of more than 1,000 Mira townhouses in Reem Community by Emaar and 1,200 apartment units in City Walk Phase 1 by Meraas. There are 31,000 and 24,000 units scheduled for completion in 2017 and 2018, respectively. Dubai South is gaining prominence, with 550 units scheduled for completion in 2017 and another 10,000 units announced and in the pipeline. Based on the historic materialization rate of 35%, we expect actual deliveries to be lower than those announced.

## Bank credit to construction & real estate sector robust

Lending to the construction and real estate sector expanded 12.6% y/y in 2016 to AED 265bn, up from 10.6% y/y in 2015, with loans to the sector accounting for 18.2% of total bank loans. Demand growth for loans in the sector softened modestly in Q4 2016 compared with the previous quarter but is expected to improve in the March 2017 quarter, according to the Q4 2016 Credit Sentiment Survey by the UAE Central Bank. We expect credit to construction and real estate to further increase in 2017 given the number of projects underway.

### Bank credit to the construction & real estate sector*




**The big jump between 2012 and 2013 is due to UAECB's re-classification of customers by the introduction of new reporting forms.*
*Source: UAE Central Bank, Emirates NBD Research*

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# Emerging Market Focus - India

**In India, the start of 2017 has been marked by relative calm following the relative uncertainty in the last quarter of 2016. While the central bank has surprised on the monetary policy front, the government has remained true to expectations on the fiscal policy front. Looking ahead, the immediate direction could be shaped by how the political results pan out in crucial state elections in the next month. Any reversals for the ruling political dispensation could spark volatility in capital markets.**

## Budget - Continuity

The budget for FY 2017-2018 presented by the Government of India reflected policy continuity as it put its focus on economic growth, fiscal consolidation and attracting foreign inflows. It also appeared that the government wanted to minimise disruption when the effects of demonetization are still working their way through the economy and a complete overhaul of India's taxation system is due to come into effect mid-way through the year.

As part of its bid to continue to stimulate the economy, the government set its fiscal deficit target at 3.2% of GDP for FY 2018 compared to 3.5% for FY 2017E and initial target of 3.0% for FY 2018 in the fiscal consolidation roadmap. The government has proposed a 7% increase in overall government expenditure with an 11% increase in capital expenditure and 10% increase in rural sector spending.

While no major changes have been made to indirect taxes (in light of the Goods & Services Tax), the government gave some concessions on the direct tax front to boost investments and consumption. The government reduced corporate tax rate for companies with turnover below INR 500mn by 5% to 25%. This step should benefit c.96% of companies. Similarly on the personal tax front, the government reduced income tax rates by 5% for some brackets of income. Together, these steps are aimed at not only providing a boost to consumption but also an impetus for greater tax compliance. The government also made no changes to taxes on capital market transactions.

On the foreign investment front, the government proposed to abolish the FIPB (Foreign Investment Promotion Board). This indicates that more easing on the foreign direct investment policy is on the cards.

## RBI – Surprises

The Reserve Bank of India (RBI), at its last meeting, kept interest rates on hold at 6.25%. Not only was the decision surprising, the tone was also more hawkish with the RBI changing its stance to neutral from accommodative. The bank said the change in stance was to gain more flexibility which in turn suggests that the easing cycle in India may be coming to a premature end, at least in the short term. In the current cycle, interest rates have been cut by 175 bps from 8% in January 2015 to currently 6.25%.

The inflation outlook continues to remain benign with projections of 4% to 4.5% in H1 FY 2018 and 4.5% to 5.0% in H2 FY 2018. The inflation data for January 2017 confirmed the outlook with the CPI coming in at +3.2% y/y, lower than previous month's reading of 3.41%. While keeping interest rates on hold last week, the Reserve Bank of India, had suggested that they expect the decline to be transitory as the effects of demonetization wane over the next couple of months.

## Economic data – Aftereffects remain

The economic data was expected to remain under pressure following the impact demonetization had in the last two months of 2016. While the industrial production data for December declined by -2.5% m/m, other high frequency data like the composite PMI and auto sales have shown signs of mean reversal in January 2017. The passenger vehicle sales in January grew 14% in January while the composite PMI jumped by 2 points in January to 49.4.

## Markets – In line

The market has taken the budget and the RBI decision in its stride. The MSCI India index has gained +7.1% ytd compared to a +8.3% rally in the MSCI EM index and +4.1% gain in the MSCI World index. A part of the gain can be attributed to broad risk-on environment in global equities.

The INR has gained +1.5% ytd, helped by relative USD underperformance and the government's decision to stick to fiscal consolidation.

With the easing cycle seemingly coming to an end, it is worth noting how the markets have reacted to it in the past. On an average in the last three cycles, the bond yield have spiked c.130 bps in one year after the policy rates have bottomed. In contrast, equity markets have rallied in one year and that could be attributed to lower interest rates translating into higher earnings and the relative attractiveness of equities compared to bonds.

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# Interest Rates

**Central banks have stepped back from the spotlight for the time being. Anticipated pro-growth policies of President Trump including tax cuts and reduced regulation are driving expectations of higher growth, higher inflation and higher rates in the US.**

## Global Rates

The FOMC, in its January meeting,  made no changes to its policy stance and provided little new information about either the timing of the next rate hike or the Fed's prospective plans to shrink its balance sheet. Central banks have stepped back from the spotlight for the time being, but attention should return to monetary policy later this year, as the Fed considers changing its reinvestment policy and balance sheet easing could slow in the Eurozone and Japan.

The US interest rates market is going through a tug of war between expectations of an upswing in growth and the probable impact of ongoing tightening. Anticipated pro-growth policies of President Trump including tax cuts, infrastructure  spending, and cutting back regulatiosn are driving improvements in investor sentiment and are the main pillars supporting exuberance in the equity markets and higher  yields in the rates space.  However, we are concerned that some of these perceived benefits may yet turn out to be double-edged.

It is likely that investors experience the negative impact of Fed rate tightening before they see higher growth. The most recent example of this was the last US payroll data that reflected an increase in job numbers albeit with weaker wage growth. In fact higher interest rates and a strengthening dollar could actually dampen growth.

**10Yr Government Bond Yields**

| | Yield % | 1M chg | 3M chg | 12M chg |
|---|---|---|---|---|
| US | 2.47 | +6.8 | +24.6 | +71.6 |
| UK | 1.31 | -5.3 | -6.9 | -12.1 |
| Germany | 0.36 | +2.8 | +5.7 | +12.6 |
| Russia | 4.10 | -17.6 | -23.3 | - |
| Brazil | 4.70 | -28.9 | -48.4 | -225.9 |
| Japan | 0.08 | +4.2 | +8.8 | +0.3 |

*Source: Bloomberg*

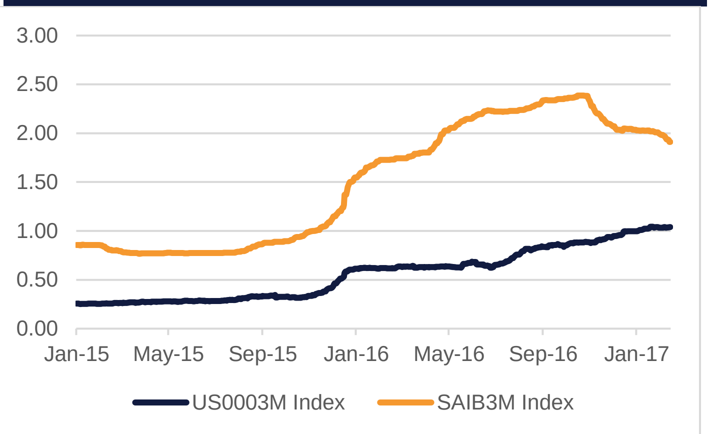
Treasuries fluctuated in response to these changing sentiments albeit with a falling bias. Yields on 2yr, 5yr and 10yr treasuries rose during the month, now trading at 1.21% (+1bp),  1.92% (+2bps) and 2.44% (+5bps) respectively. Though 10yr UST yield are at the higher end of their 1.35% - 2.60% range over the last years, they are yet to touch the 3.02% mark reached in late 2013 when investors were spooked by talk of QE tapering. We note that similar sentiment could emerge as and when Fed hints about shrinking its balance sheet.

Although the current 10yr-2yr spread at circa 124bps is materially higher than the 83bps reached few weeks before the December 2016 rate hike, there appears scope for further steepening of the curve probably around the time of the next rate hike towards end of 2Q this year. That said, in view of the lower average growth rate and more tamed inflation outlook, final Fed target rate in this cycle is likely to be lower than in the previous rate hike cycles. We expect the 10yr-2yr curve to flatten somewhat by the beginning of the next year.

In Europe, though monetary policy is still accommodative, the end game appears in sight. In addition, political headwinds are increasing, leading to greater uncertainty. Rates in Europe appear to have little room for falling.  In fact yields on 10 yr French bonds rose 20bps to 1.02% during the month as a result of increasing noise around anti-establishment policies of president candidate Le Penn. In the periphery space, Greece yields have risen 42bps to 7.26% pricing a real risk of further disagreemernts with creditors.

## GCC Local Rates

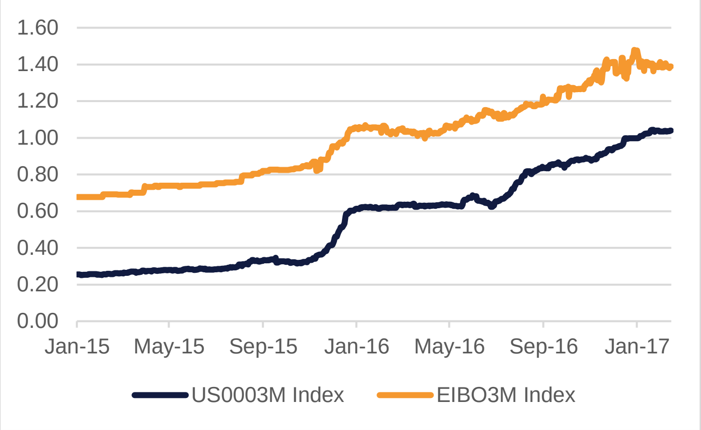
**3m SAIBOR – LIBOR Rates**




*Source: Bloomberg*

Interbank rates in the two main GCC markets i.e the UAE and the Saudi Arabia have eased somewhat in the recent past as a result of multiple factors such as a) improvement in oil prices from a low of $32 in Jan 2016 to average $55 now; b) Inflow of capital into the local systems from large sovereign bond issues done in the international markets; c) slower pace of private sector credit growth as economic growth slows and d) increased involvement of central banks to ensure adequate liquidity is maintained in the local banking systems..

## 3m EIBOR - LIBOR rates




*Source: Bloomberg*

The current 3m EIBOR – LIBOR spread at 35bps is close to its lowest since the financial crisis and a reflection of higher than usual LIBOR rates than any material change in liquidity conditions in the UAE banking system.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# Credit Markets

**Positive sentiment driven by expectations of higher global growth boosted appetite for risk assets during the month. Although not much has changed on the fundamental front, credit spreads on corporate bonds have tightened close to their lowest since the 2008 crisis. High yield bonds particularly benefited from the risk-on rally.**

Although the price of cash bonds in the US suffered from rising benchmark yields, emerging markets bonds were mostly in the green during the month.

The Indian government's plan to inject capital of circa 100 billion rupees in the public sector banks as part of FY2018 budget did little to alter pricing on Indian bank bonds, which generally trade rich relative to their similar rated peers mainly due to a) scarcity value; b) expectations of government support; and c) well developed local capital markets that could be tapped in times of stress. 5yr CDS on Baa3 rated State Bank of India is circa 130bps vs 153bps on A3 rated Emirates NBD and 156bps for BBB+ rated NCB.

## Global Corporate Bond OAS (bps)

| | OAS | 1M chg | 3M chg | 12M chg |
|---|---|---|---|---|
| US IG Corp | 128 | +1 | -10 | -88 |
| US HY Corp | 389 | -15 | -81 | -453 |
| EUR IG Agg | 96 | -2 | +5 | -32 |
| EUR HY Corp | 302 | -2 | -77 | -295 |
| USD EM Agg | 270 | -19 | -63 | -199 |

*Source: Bloomberg*

CDS levels on GCC sovereigns had a narrowing bias as oil remained supported around the $55/b level. Dubai Inc is generally outperforming the rest of the region given its diversified economy and healthy result announcements from most Dubai based corporates. The CDS level on Dubai closed lower by 24bps to 121bps while those on Abu Dhabi, Qatar and Saudi Arabia were down by 7 - 14bps to 56bps, 72bps and 102bps respectively.

## GCC Bonds – Secondary market

With minimal idiosyncratic news and stable oil prices, GCC bonds had a month of range bound trading. Though benchmark UST yields had slight widening bias, credit spread tightening, particularly in the high yield segment was enough of a compensation, thereby seeing slight capital gains in the bond prices. BUAEUL index closed with YTW at 3.07% (-5bps). Credit spreads on BBG Barclays index reflect 9bps reduction to 132bps - its lowest level in the last one year.

## BUAEUL Index – YTW history


*Source: Bloomberg*

Mirroring the global trend, the two types of bonds that outperformed last month were either in the high yield category or had long duration. With 30yr UST yields declining 4bps to 3.00% in the last one month, likes of IPIC 41s, BHRAIN 44s, QATAR 40s etc gained more than a point or two. Also tightening of credit spreads on the back of positive oil sentiment saw high yield bonds from Bahrain and Kuwait do well.

Given the small size of the GCC bond universe compared to the available demand, bargain hunters are quick to emerge whenever any bond with any kind of linkage to a strong government falls. EAPART 20s and EAPART 21s that had previously fallen by more than $5 each on the back of resignation of senior management and rumours about possible reviewing of investment strategy, regained almost all of the lost ground within a span of two weeks.

In the medium term, the risk of capital losses from rising US interest rates is highest for the sovereign sector given the prevalence of longer dated and higher rated bonds in this segment. However, for the time being, the performance of this sector is well supported by a) rising oil prices, b) no new supply YTD and c) range-bound benchmark yields amid low expectations of US rate hikes in the first half of this year.

Corporate result announcements during the month were mostly either in-line or better than expectations. While the banking sector generally reported a slight increase in NPLs, earnings growth remained healthy. The Real Estate sector also reported stable results.

Rating agencies were reasonably active last month. S&P affirmed Abu Dhabi's rating at AA/stable, citing its strong net fiscal asset position of over 200% of GDP. S&P expects government debt to average 6.7% of GDP in 2017-2020, more than double the 2.6% of GDP average over 2013-2016. Abu Dhabi government was road-showing in Asia last month though details of any new deal are yet to emerge.

Towards the end of January, S&P affirmed rating on Ras Al Khaimah at A/stable, citing expectation of continued fiscal surplus, economic growth of circa 3% in this year and continuation of support from the federal government. In contrast Sharjah's rating was downgraded by one notch to BBB+/stable as the emirate recorded fiscal deficits larger than anticipated and debt rising to circa 17% of GDP in 2016 vs the previous expectation of 14% of GDP. The impact of these rating changes on their respective bond prices was minimal.

S&P's ratings on GCC issuers are generally lower than those assigned by Moody's. However, Aldar Properties has been an exception. While S&P upgraded its rating on Aldar from BBB- to BBB in 3Q last year, Moody's only upgraded the rating from Baa3 to Baa2 last week. Yield on ALDAR18s narrowed 9bps to 2.59% during the month though is well above its 2.06% level traded in August last year.

## GCC Bonds - Primary Market

With less than $3.0 billion issued year-to-date, new supply in the GCC primary market has been lower than expected. During the month, Investment Corp of Dubai (unrated), the Dubai government's investment vehicle, priced a 10 year dollar sukuk at MS+265bps, 25 bps tighter than the initial price guidance of MS+290bps. The deal was more than three times oversubscribed with orders worth $3.1bn and debut well in the secondary market, currently trading over three points higher than the issue price. Current yield of 4.62% on INVCOR 27s still appears attractive compared with DUGB 29s at 4.29% although we note the zero risk weighting of DUGB paper compared with 100% risk weighting of ICD in the bank ALM books.

DIB also priced a mega $1 billion, 10 year sukuk at S+170bps, 15bps tighter than initial guidance. While the deal enjoyed 2.2x oversubscription, it did little to address investors' concerns about GCC bond universe being dominated by financials and sovereigns. Lack of diversified corporate issuers limits investors' appetite due to single name exposure limits getting hit.

Equate Petrochemicals' $500 million 7yr sukuk that offered some sectoral diversification to investors received over $4.0 billion in subscription and priced at MS+175bps circa 35 bps tighter than the initial guidance of MS+210bps.

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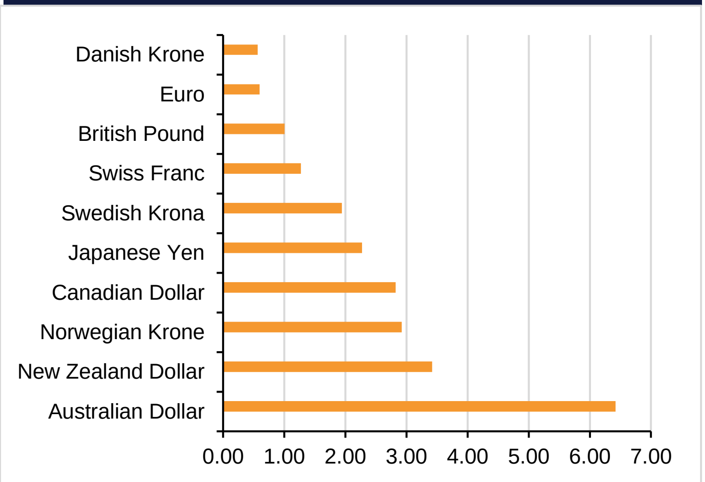
# Currencies

**Constructive US economic data was unable to fully reverse the dollar's soft start to 2017 as markets continued to show concern over President Trump's initial focus on protectionism especially in the absence of details about fiscal policy expansion. Markets have seen their positive dollar outlook brought into question by comments from Trump and his cabinet regarding the dollar being too strong, and about other governments manipulating their currencies to obtain trade advantages.**

## Trump focuses on currency strength

Currencies and trade policy have been at the forefront of the Trump White House in the weeks since the inauguration. Having withdrawn from the Trans Pacific Partnership, promised to renegotiate Nafta and threatened Mexico and China with tariffs, criticism of global trade deals and of the financial practices of America's global trading partners have been some of the hallmarks so far of the Trump Presidency. Early in his administration, Donald Trump took aim at Japan and China saying *'you look at what China is doing, you look at what Japan has done over the years. They play the money market, they play the devaluation market and we sit there like a bunch of dummies'.*

**Dollar remains lower YTD vs other majors**




*Source: Bloomberg*

In the past, Mr Trump threatened to name China as a currency manipulator as soon as he took office, even though its current account surplus is less than 3 per cent of GDP and its forex reserves are falling rather than going up, factors that put it outside of the US treasury's formal definition of "currency manipulation".

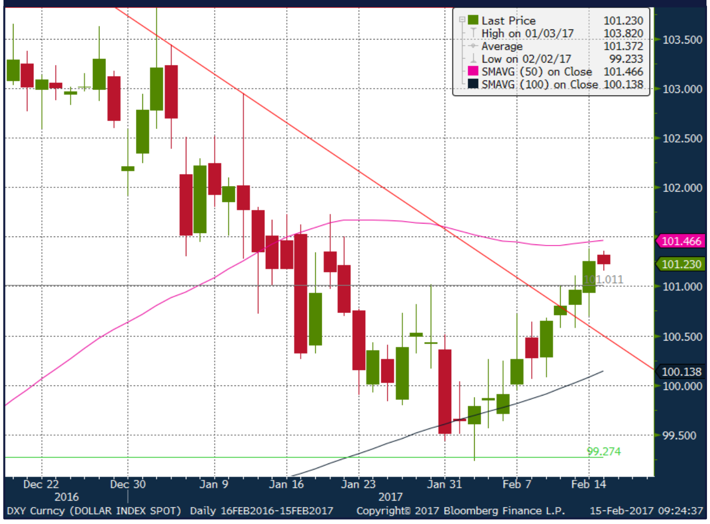
Mr Trump's advisers then moved on to criticise Germany, one of the US's oldest allies, pointing to an undervaluation of the euro and the surge in Germany's current account surplus. Germany's posting of a record trade surplus in 2016 is something that will not have gone unnoticed in Washington either. Such criticism only really makes sense, however, if Germany is seen as operating in isolation and outside of the Eurozone, which obviously is not the case. If Germany was operating in a world in which monetary union did not exist , the Deutschemark, would clearly be stronger, with equilibrium estimates of the EURUSD exchange rate even standing closer to 1.18 compared to a current spot rate of 1.06. However, to think in such terms is clearly unrealistic, and is probably more symptomatic of Trump's broader antipathy to the EU itself.

Such rhetoric from the White House clearly had an impact in causing short term volatility in major currency pairs, but it is also observable that the more time has gone by markets have become less sensitive to the daily communications from President Trump. Since the start of February, the USD has actually gained on most of the other majors, with the exception of AUD.

## But dollar recovery looks likely to start

Analysis of the Dollar Index demonstrates this. On the 2nd of February, the Index broke above the 100 day MA and has stayed above this level since then. In addition, inspection of the daily candle chart shows that the index broke above the daily downward resistance trend line that has been in effect since the 4th of January 2017. This advanced further and was able to overcome the one year 76.4% Fibonacci retracement of 101.011 following Yellen's semi-annual testimony to congress. We expect a close above the 50 day MA of 101.47 to open the way for further gains towards new yearly highs.

**Dollar Index appears to have rebounded**



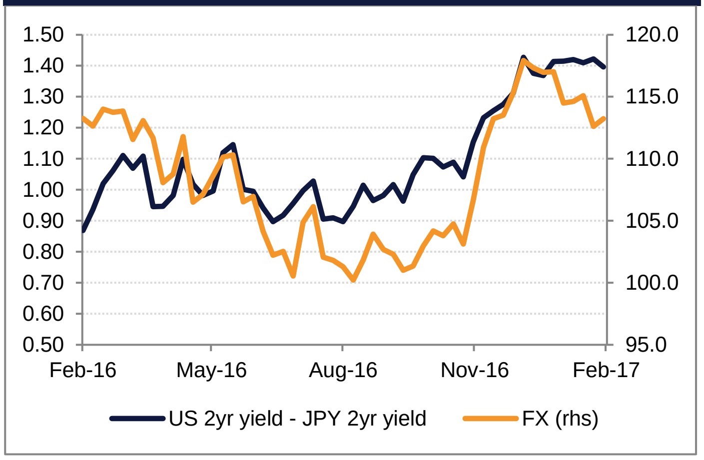

*Source: Bloomberg*

In line with our longstanding bearish Euro view, EURUSD has softened again. Despite economic data which has demonstrated recovery in the Eurozone, the single currency has come back under pressure due to concerns related to the resurfacing of the Greek debt crisis and uncertainty ahead of the upcoming European elections. Markets are also aware that for all of the firmness of Eurozone economic data, the ECB is unlikely to begin tapering QE anytime soon, at least not until the second half of the year at the earliest. Having found resistance at 1.0829 (close to the 1.0828 level we highlighted), EURUSD's continued decline reaffirms out bearish outlook. The break and subsequent close below the 50 day MA of 1.0593 leads us to believe further declines are in store for the pair towards our Q1 2017 forecast of 1.05.

## USDJPY guided by rate differentials

Over the last 30 days, we have seen JPY benefit from safe haven bids as market concerns over Trump's statrments have kept risk appetie suppressed. Such bids initially caused the USDJPY to drop to 111.80, and even though it subsequently recovered from here over the course of the month its has depreciated 0.89% to 114.39 today. However it has become apparent that the relationship between rate differentials and the currency has resurfaced, with the widening yield spreads again driving the exchange rate higher. We expect this pattern to continue should risk aversion subside further and expect the rate differentials to push USDJPY higher over the course of the year, with our end-year forecast being 124.

### USDJPY guided by yields




*Source: Bloomberg*

## GBP recovers from early year Brexit lows

Sterling has recently pared some of its early year losses related to Brexit as greater transparency about the UK government's negotiating approach has been broadly welcomed by the markets. Positive UK economic data has also been helpful, with the British economy expanding faster than expected in Q4 2016, growing by 2.2% y/y, making it the fastest growing economy in the G7 last year. Most importantly attention is turning to whether the Bank of England will be able to sustain zero interest rates through the remainder of the year, as inflation has been climbing steeply in part due to the plunge in sterling in the second half of last year.

Analsysis of the positioning of swap traders shows that the market is pricing in a 23.7% chance of a rate hike by the Bank of England by December 2017. We would concur wiith this view, and would even see the risks as slightly higher. Accordingly our assumption is that while GBP weakness can be expected to return in the context oif Article 50 being formally triggered next month, it may not necessarily last for long, especially in the context of the political landscape in Europe worsening.

### 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 | | -0.208 | -0.258 | 0.678 | -0.738 | -0.663 | 0.751 | 0.772 |
| EUR/GBP | -0.208 | | 0.048 | -0.857 | 0.149 | 0.322 | -0.108 | -0.373 |
| EUR/JPY | -0.258 | 0.048 | | -0.171 | 0.8422 | 0.366 | -0.252 | -0.432 |
| GBP/USD | 0.678 | -0.857 | -0.171 | | -0.497 | -0.580 | 0.461 | 0.680 |
| USD/JPY | -0.738 | 0.149 | 0.842 | -0.497 | | 0.628 | -0.595 | -0.734 |
| USD/CAD | -0.663 | 0.322 | 0.366 | -0.580 | 0.628 | | -0.613 | -0.629 |
| AUD/USD | 0.751 | -0.108 | -0.252 | 0.461 | -0.595 | -0.613 | | 0.733 |
| NZD/USD | 0.772 | -0.373 | -0.432 | 0.680 | -0.734 | -0.629 | 0.733 | |

*Source: Bloomberg, Emirates NBD Research*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# Equities

**Notwithstanding the focus on Donald Trump's policies, equity market investors seem to be coming to grips with the working style of the new US President. The positive sentiment has been helped by better than expected corporate earnings and upbeat economic data. Having said that, it does appear that the markets are underpricing the risks of a negative surprise on the policy front especially with political uncertainty lurking maintaining the possibility of a spike in volatility.**

So far in 2017, equity markets have consolidated their gains of Q4 2016. The MSCI World index has rallied +4.1% ytd and contrary to expectations gains were led by emerging markets. The MSCI Emerging Markets index has added +8.3% ytd compared to a gain of +4.1% in the MSCI G7 index. Amid developed markets, the S&P 500 index has outperformed with gains of +4.4% ytd. MENA equities, too, have held onto their gains with the exception of Saudi Arabia. The Tadawul has declined -2.5% ytd. The underperformance can be attributed to mixed earnings season and lack of momentum in oil prices. The ICE Brent futures have declined -2.0% ytd.

Volatility has remained low across the board. The VIX index, the V2X index and the JP Morgan EM Volatility index have dropped -23.5% ytd, -19.2% ytd and -13.0% ytd respectively.

With the earnings season coming to a close, much of the impetus to equity markets could come from how far Donald Trump moves in implementing his economic policies. He is expected to unveil a complete overhaul of business taxes in the US in the next two to three months. Another key factor for equity markets would be how the political events pan out, with Greece at the forefront again. With key European elections scheduled over the remaining months of 2017, a solution to the brewing fiscal crisis in Greece could be hard to achieve. With earnings trend remaining mixed, investors in regional equities are likely to pay greater attention to how the oil trajectory shapes up given the continuous build-up in oil inventory in the US.

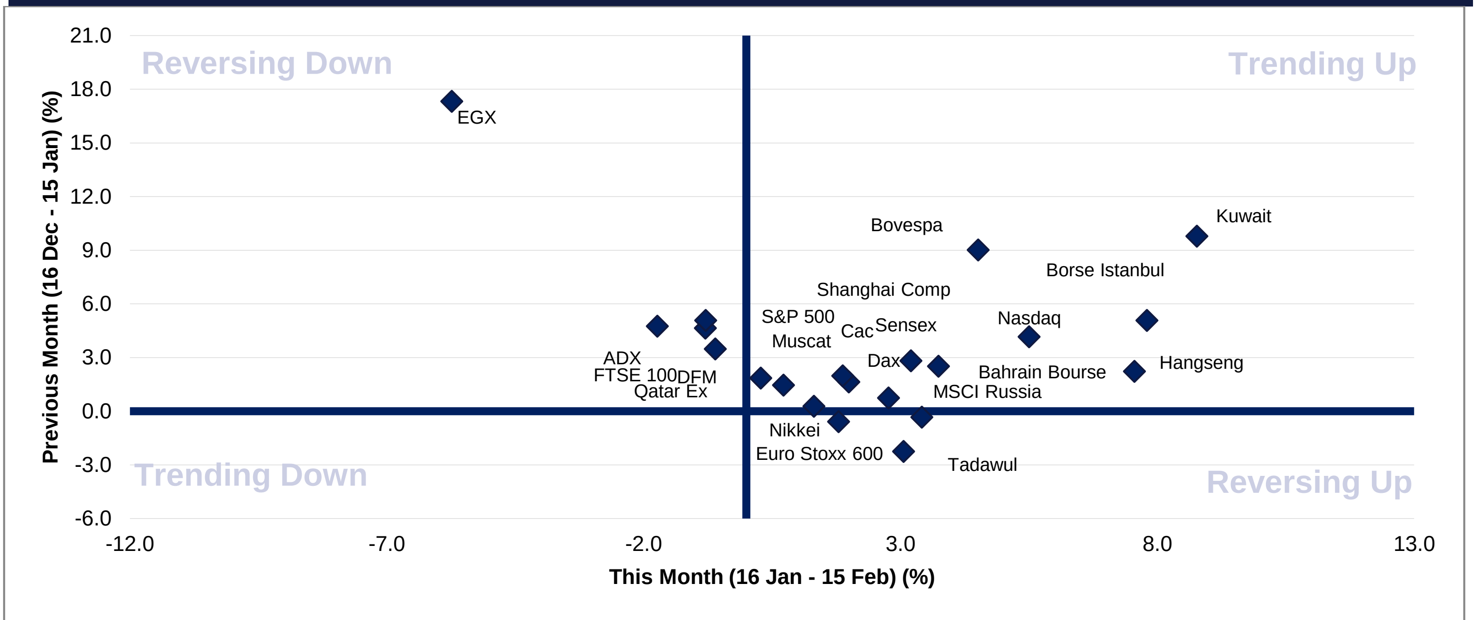
## Earnings & Valuations

### Earnings

Nearly 71% of companies in the S&P 500 index have reported earnings for Q4 2016. According to FactSet, 67% of those companies have beaten consensus estimates and 52% have beaten sales estimates. The blended earnings growth for the S&P 500 index is 5.0%. This is relative to the estimated earnings growth of 3.1% at the end of 2016. In terms of guidance, 57 S&P 500 companies have issued negative EPS guidance and 25 S&P 500 companies have issued positive EPS guidance.

In Europe, 220 companies have reported and the median company beat sales and EPS estimates by 94 bps and 74 bps respectively. The revenues and earnings have grown by 4% y/y and 6% y/y respectively. For the first time since Q1 2015, the earnings beat was complemented with a significant beat on revenues. It is also worth noting that the consensus estimates have been revised higher in light of the beat in earnings. The earnings in Europe is expected to grow 14% y/y overall and 9% excluding Energy & Material stocks. At a regional level, companies in the UK, Italy and France did better than their counterparts in Spain and Germany.

**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.*

Within the EM space, nearly 116 Indian companies tracked by Axis Capital have reported earnings. The aggregate EBITDA growth has been 150 bps above expectations at 15% y/y and profit growth has been marginally down by 50 bps at 14% y/y. The revenues growth has been in line with expectations at 6% y/y.

Within regional equities, the earnings season in Saudi Arabia has come to a close. According to Bloomberg, the aggregate revenues have grown by 2.5% while earnings have declined by 10.1%.

**Valuations**

The recent rally in equity prices have made pockets of global equities slightly expensive from a valuation perspective should volatility pick up. In fact, all major indices are currently trading above their 10-year averages.

The S&P 500 index is currently trading at 17.9x 2017E earnings compared to its 10 year average of 14.2x. Similarly, the Euro Stoxx 600 index is trading at 15.1x 2017E earnings, a 22.7% premium to the 10-year average of 12.3x.

Broadly speaking, the MSCI World index is currently trading at 16.7x 2017E earnings and 15.1x 2017E earnings compared to its 10-year average of 13.7x while the MSCI EM index is currently trading at 12.4x 2017E earnings and 11.1x 2018E earnings relative to its 10-year average of 11.1x. The premium exists despite positive revisions to earnings expectations over the last one month. The earnings expectations for the MSCI World index has been revised +0.4% while the MSCI EM expectations have been revised upwards by +1.6%.

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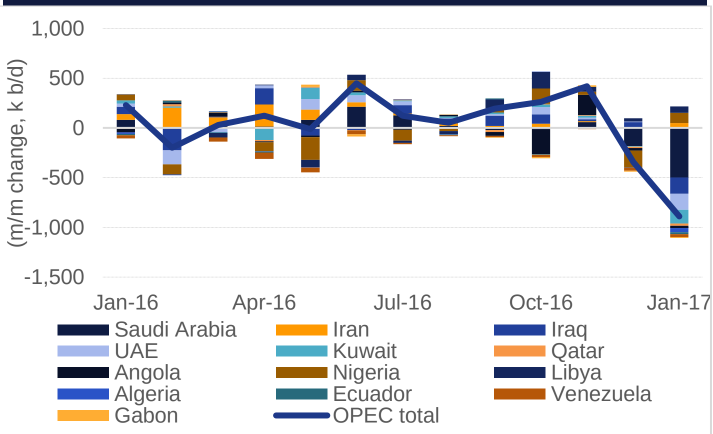
# Commodities

**One month in to its agreement to cut production, OPEC has managed to achieve a high level of compliance. For the countries that are party to the agreement, they managed to cut collective output month on month by 1.06m b/d in January, coming close to full compliance with the targeted output level. Previous deals to limit output have been plagued by generally poor adherence by OPEC members as producers have incentive to cheat if prices do rise and face little consequence if they over-produce. With only one month down out of at least six, it will still take some time to determine if cutting production was indeed the right strategy to help balance markets.**

Collective compliance appears high but the distribution between OPEC members is varied. Saudi Arabia has taken a larger than required cut (598k b/d from its baseline level compared with 486k b/d required by the agreement), once again playing the role of a swing producer. Angola also 'over-cut' although we would expect this to reverse as new oilfields will come online ahead of schedule. Qatar, Kuwait and Algeria all came close to hitting their cut targets and we would expect compliance to remain strong among the GCC producers. Iran also contributed to limiting output by missing the higher level it was allowed to reach.

However, some producers have ground to make up. Most notable is Iraq where output fell 85k b/d, compared with its target cut of 210k b/d and the UAE where output fell just 82k b/d from baseline levels compared with pledged cuts of 139k b/d. The UAE's under-performance in this regard follows on from production hitting a plateau at the end of last year and plans to hit mandated levels as an average over the duration of the agreement, rather than in one month.

**OPEC slams the brakes on output**




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

## Has OPEC cut too much too soon?

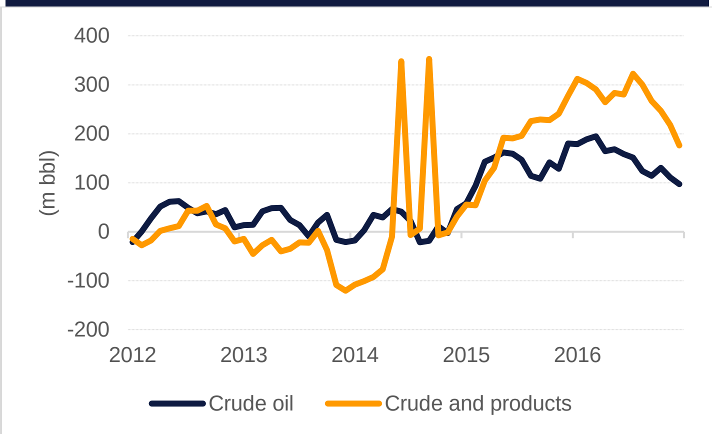
On aggregate, OPEC managed to remove more than 1.35m b/d from the market from its baseline level, although the size of the cut is just 441k b/d when including the output of Nigeria and Libya who have been excused from the deal. The size of the initial cut, however, and burden that Saudi Arabia and some of its partners in the GCC have taken in absorbing most of the cuts makes us cautious about whether sustained month-on-month declines in production can be achieved. OPEC has set a rod for its own back to ensure production stays at the current low levels as for many producers the only direction of travel would be higher. Even in Saudi Arabia, where we would expect the highest degree of compliance with the deal, production may start to climb from April in line with seasonal trends of higher oil demand in the summer months.

The oil market has held reasonably steady so far in 2017 with Brent futures trading in a range between USD 54-58/b. The level of OPEC compliance has served to reinforce this range, rather than push prices higher, which highlights to us the importance of factors beyond OPEC's monthly production levels.

Output from non-OPEC producers, particularly other national oil companies—in Russia, Mexico or Oman for example—had been pledged to decline in coordination with the OPEC deal and so far signs are good that some major producers are following suit. Russian production fell 100k b/d in January, its largest decline since August, meeting slightly less than a third of its agreed cuts. Data out of Oman has yet to be released but we would expect at least some initial compliance in line with its GCC peers.

The paucity of data coming from OPEC and other NOC producers means that some of the direction for prices is surrendered to the nearest available source of oil market data: the US. Crude production there has been on a consistently upward trend since October 2016 and is now within sight of hitting 9m b/d. The outlook for US production has also been steadily revised higher: the EIA has recently revised up its forecasts for production in 2017 and expects output to average around 9m b/d—which looks to be an underestimate in our view. Producers in the US had been able to take advantage of a generous contango structure in WTI to hedge forward production and the potential of changes to corporate tax structures in the US may see WTI surge to a premium over Brent, potentially extending the timeline for production growth from the US.

**OECD stocks remain well above average**




*Source: IEA, Emirates NBD Research. Note: Difference between monthly level and five year rolling average.*

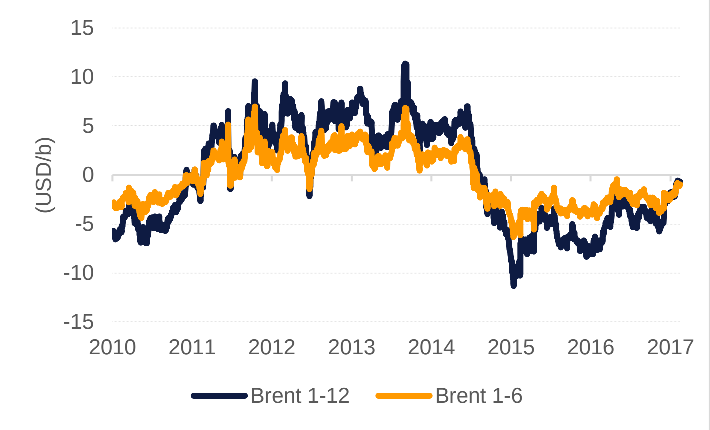
While OPEC has little control over whether other oil producers limit their own production, a key objective of the deal was to help markets rebalance by forcing a drawdown of the excessive inventories that have built up in crude and product markets since 2014. Data from IEA showed that OECD inventories were indeed tempering at the end of 2016 although they were still at exceptionally wide levels when compared with their five-year averages.

## Inventories yet to give ringing endorsement of OPEC deal

OECD inventory data is only available on a monthly basis, and with several months delay, meaning that full January inventory figures won't be available until March from the IEA. That leaves market surveys of stockpiles as the most readily available indicator and looking to the US, the numbers are pointing in the wrong direction. US crude stocks have built steadily in 2017 and are now within sight of re-touching their maximum level of 512m bbl. Beyond the overall level, the trajectory of inventories has been steadily higher, including the second highest weekly build ever—13.8m bbl—reported in early February.

A flip of the oil futures curve into a more assured backwardation would send a stronger signal that inventories are indeed tightening at a fast pace and curbing the excess in the market. So far December Brent spreads for 2017 into the next two years have flipped into what we could describe as a tentative backwardation, holding below USD 1.50/b. Prior stretches of backwardation saw long dated spreads as wide as USD 11/b. If indeed the backwardation deepens thanks to rising near term prices (against which OPEC producers price their exports compared with independent producers who are more likely to hedge further down the curve) then we could more confidently view the OPEC deal to cut output as a success.

**Brent's tentative backwardation**




*Source: Bloomberg, Emirates NBD Research.*

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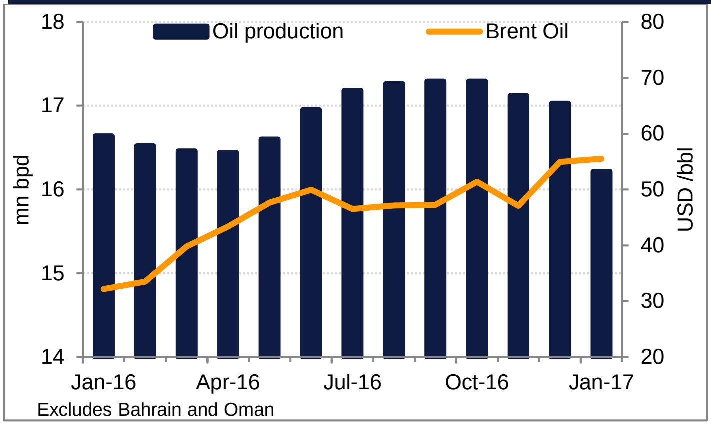
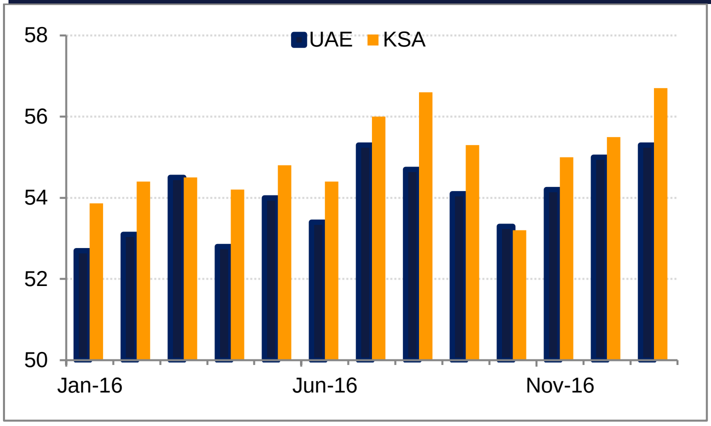
# GCC in Pictures

## GCC Oil Production and Oil Price



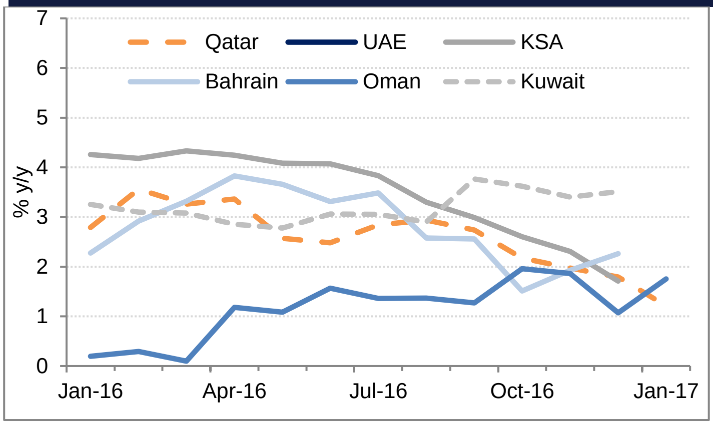

Source: Bloomberg, Emirates NBD Research

## Purchasing Managers' Index



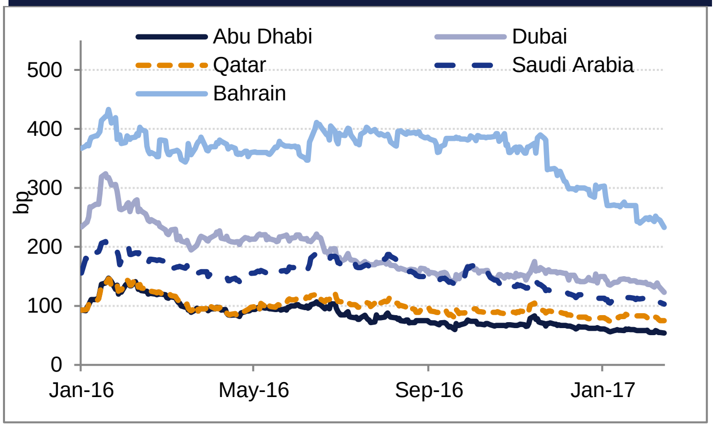

Source: Markit, Emirates NBD Research

## Inflation



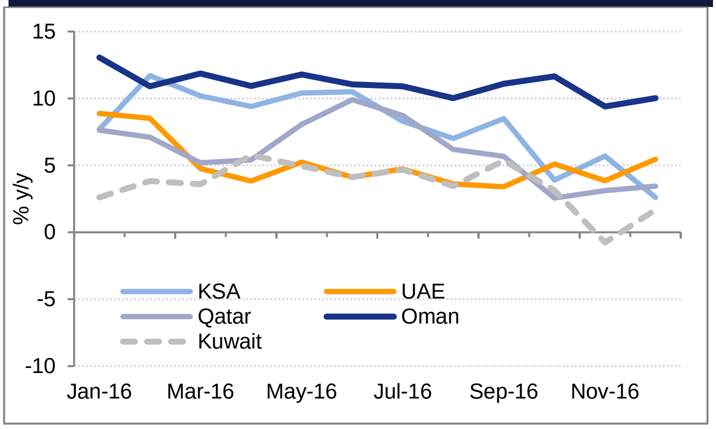

Source: Haver Analytics, Emirates NBD Research

## CDS Spreads



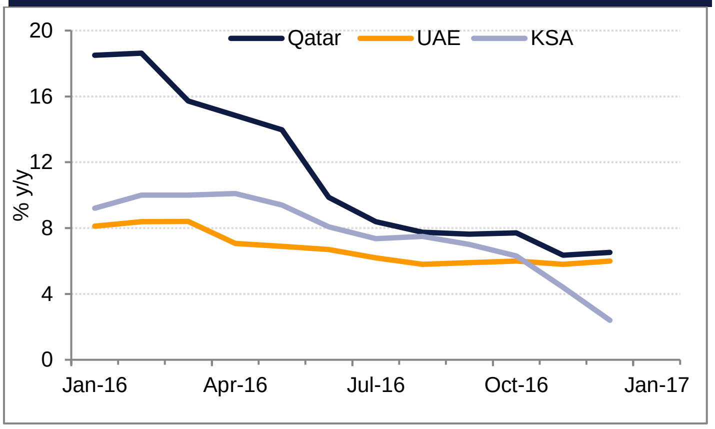

Source: Bloomberg

## Money supply (ex Government. deposits)




Source: Haver Analytics, Emirates NBD Research

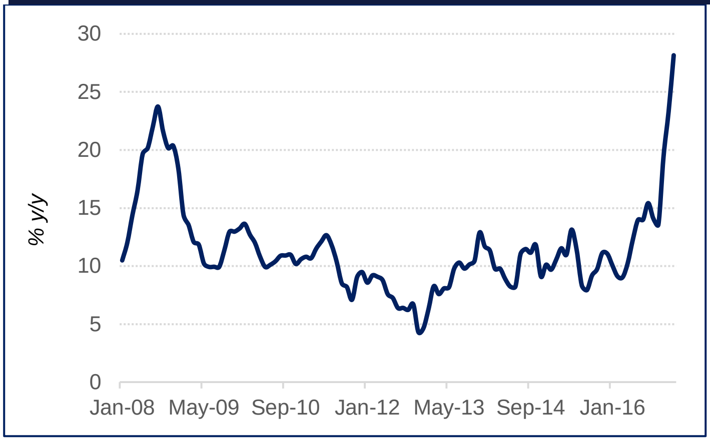
## Private sector credit*




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

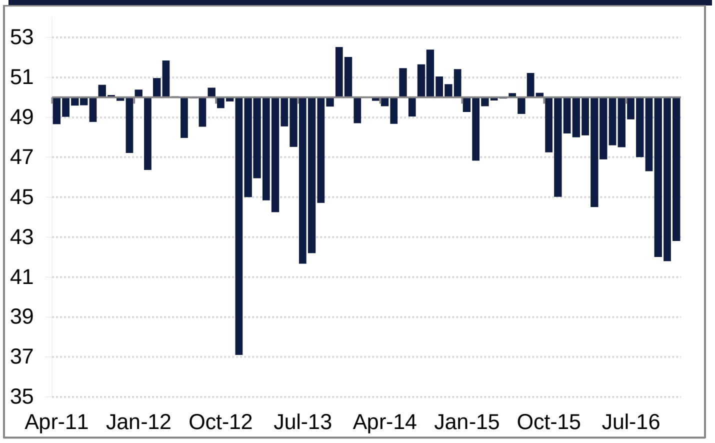
## MENA in Pictures

### Egypt – Core Inflation



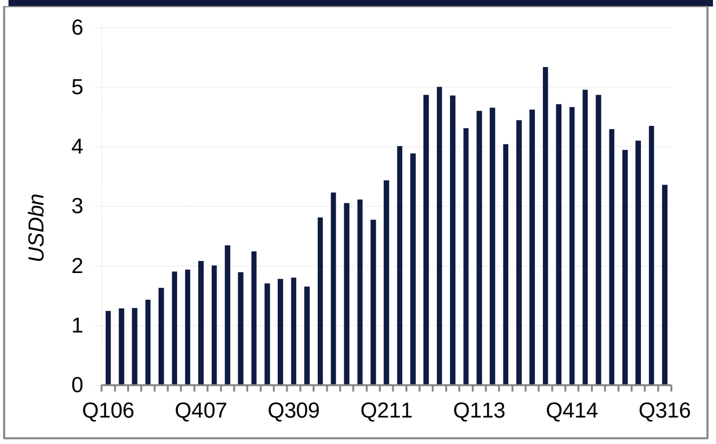

*Source: Havers, Emirates NBD Resea*

### Egypt PMI



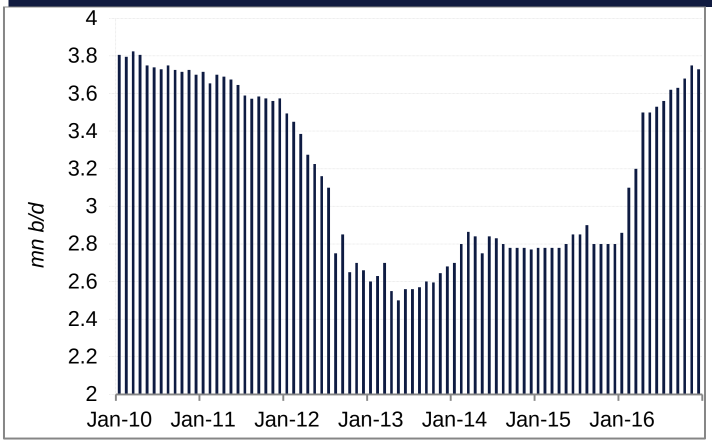

*Source: Markit, Emirates NBD Research*

### Egypt Remittance Inflows



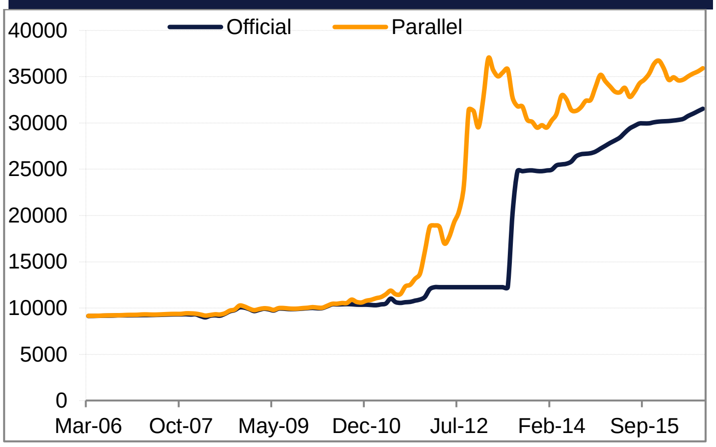

*Source: Havers, Emirates NBD Research*

### Iran Oil Production



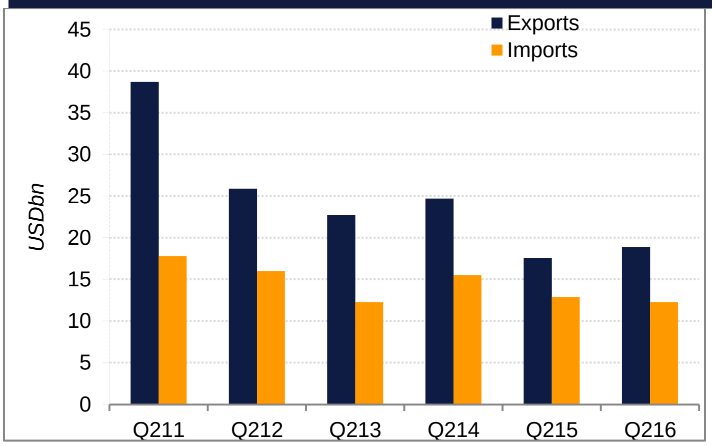

*Source: Havers, Emirates NBD Research*

### Iran Exchange Rates




*Source: CBI, Emirates NBD Research*

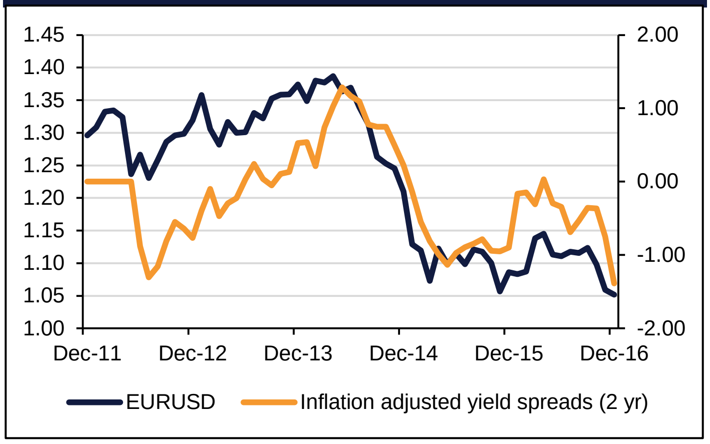
### Iran Trade




*Source: Bloomberg, Emirates NBD Research*

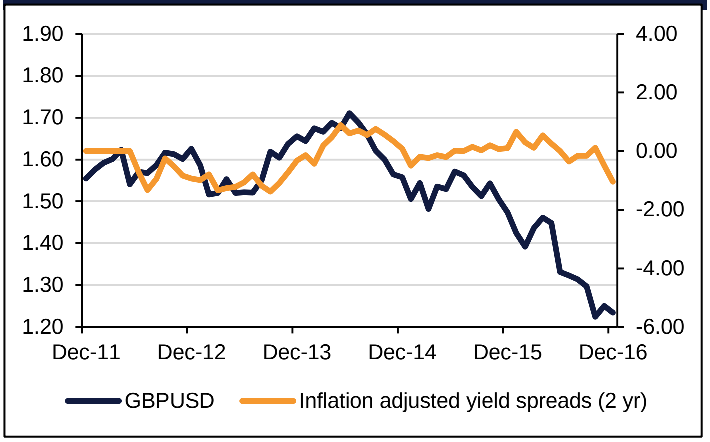
## FX–Major Currency Pairs & Real Interest Rates

### Interest Rate Differentials–EUR



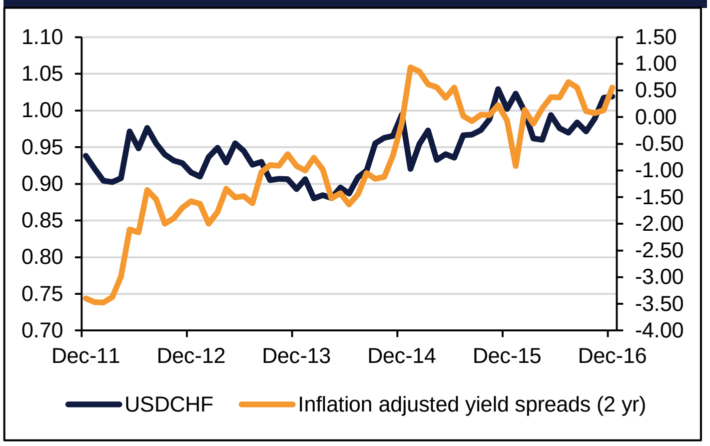

*Source: Bloomberg, Emirates NBD Research*

### Interest Rate Differentials-GBP



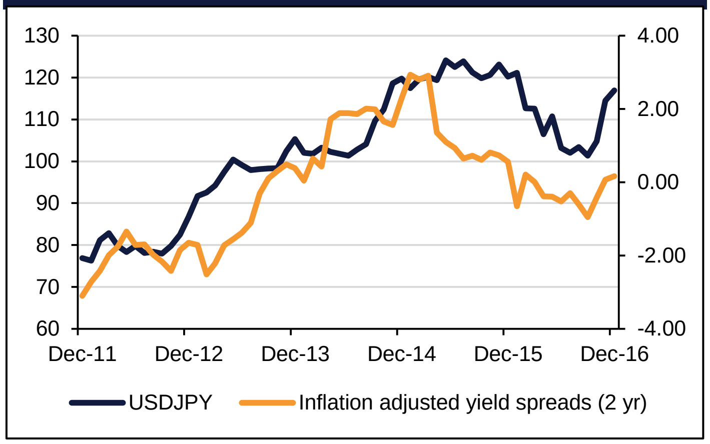

*Source: Bloomberg, Emirates NBD Research*

### Interest Rate Differentials-CHF



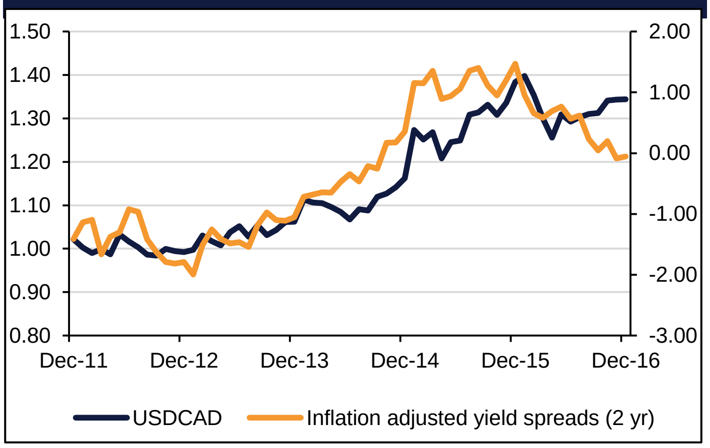

*Source: Bloomberg, Emirates NBD Research*

### Interest Rate Differentials-JPY



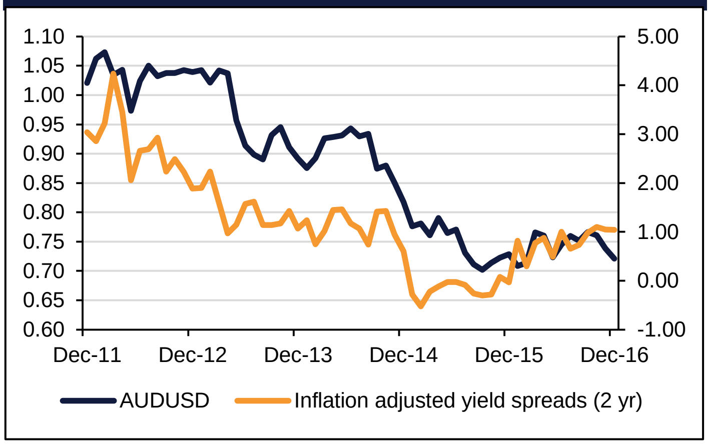

*Source: Bloomberg, Emirates NBD Research*

### Interest Rate Differentials-CAD




*Source: Bloomberg, Emirates NBD Research*

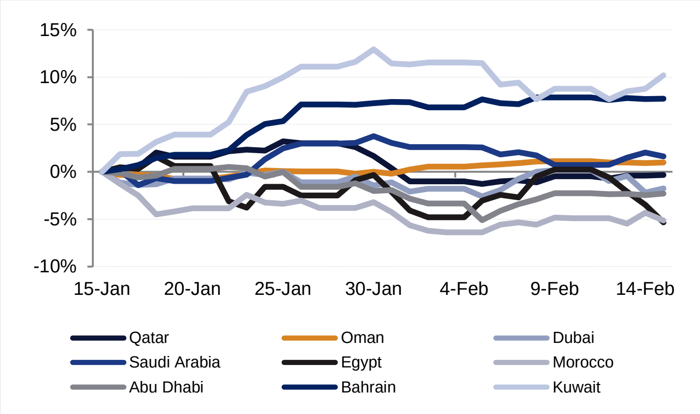
### Interest Rate Differentials-AUD




*Source: Bloomberg, Emirates NBD Research*

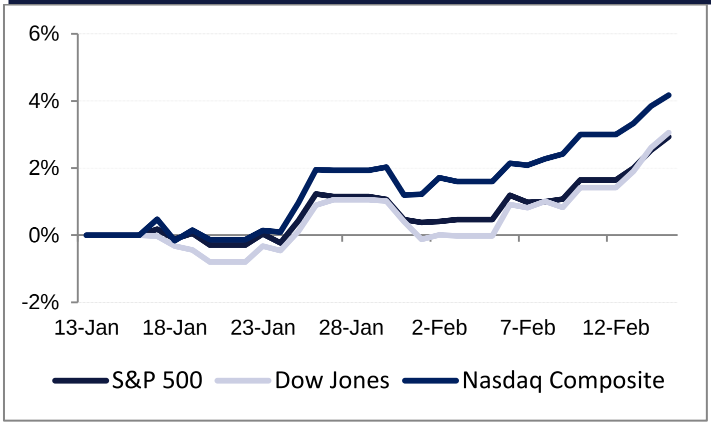
## Major Equity Markets

### MENA Equity Markets



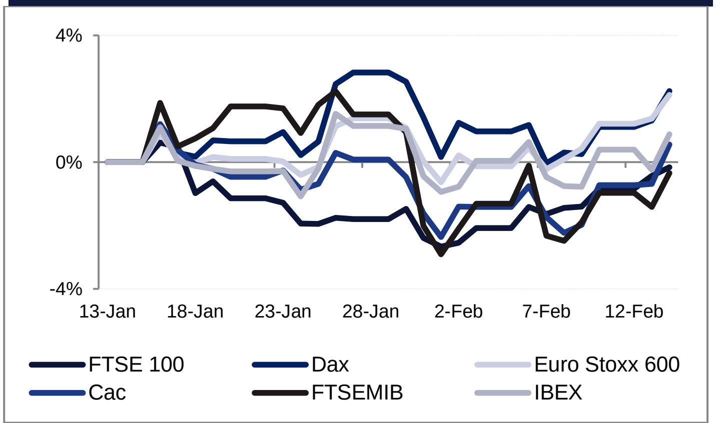

Source: Bloomberg, Emirates NBD Research

### US Equity Markets



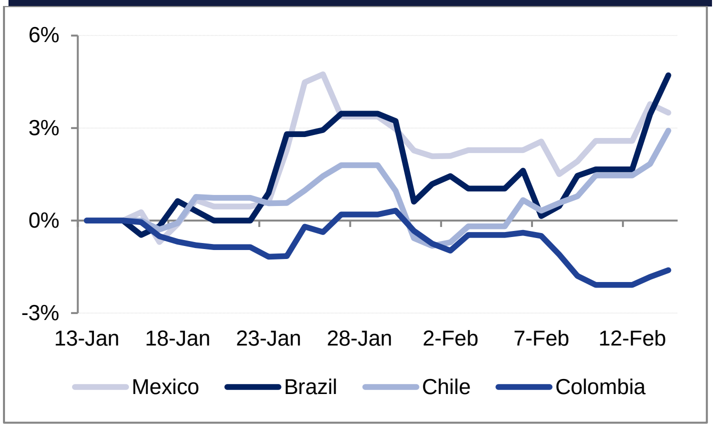

Source: Bloomberg, Emirates NBD Research

### European Equity Markets



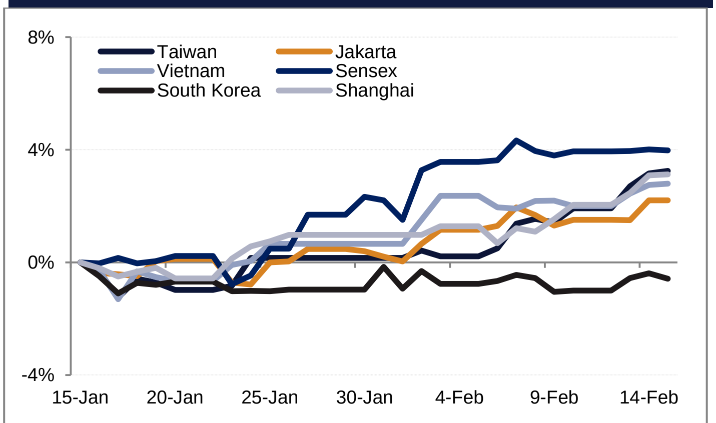

Source: Bloomberg, Emirates NBD Research

### Latin American Equity Markets



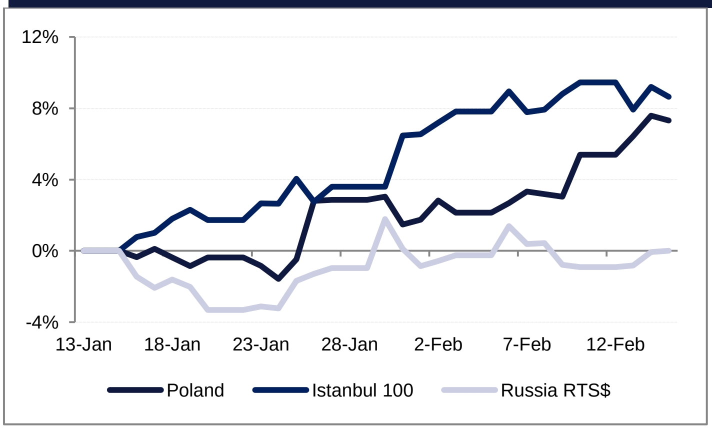

Source: Bloomberg, Emirates NBD Research

### Asian Emerging Equity Markets




Source: Bloomberg, Emirates NBD Research

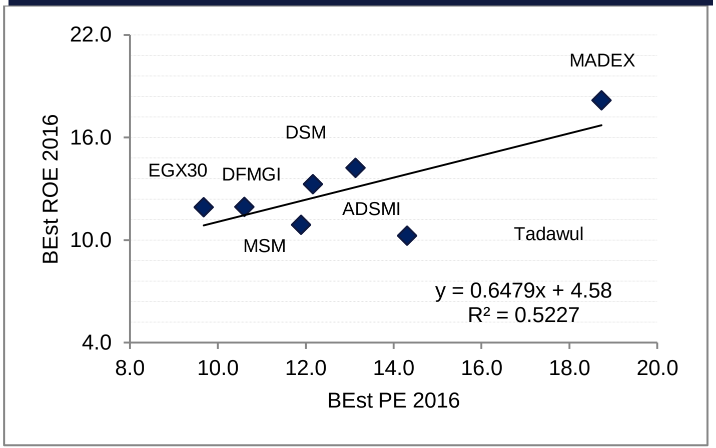
### Emerging Europe Equity Markets




Source: Bloomberg, Emirates NBD Research

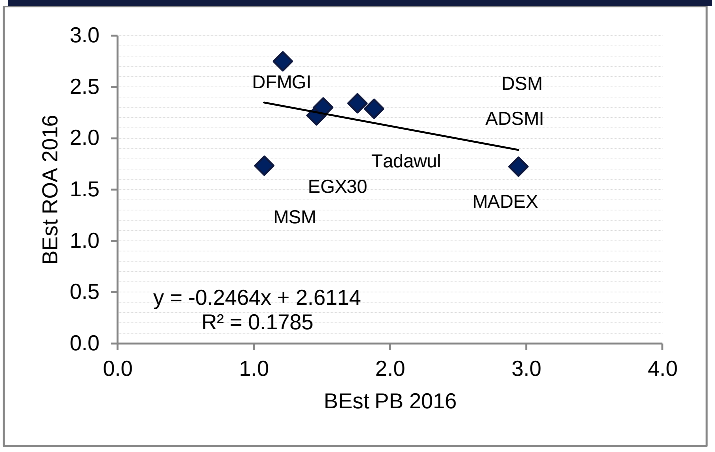
## Major Equity Markets

### MENA Equity Indices PE/ROE 2016E



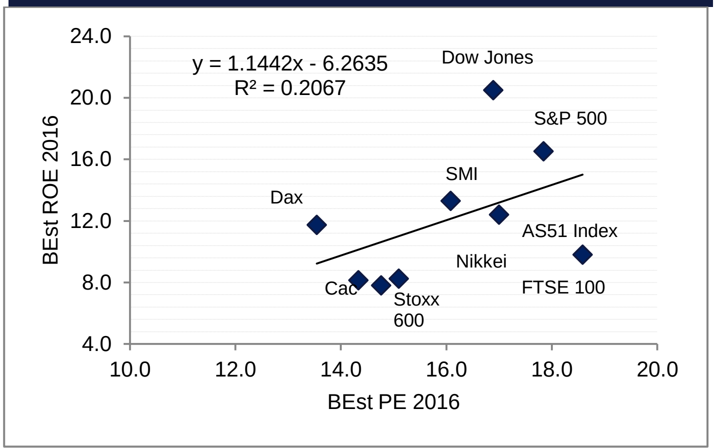

*Source: Bloomberg, Emirates NBD Research*

### MENA Equity Indices PB/ROA 2016E



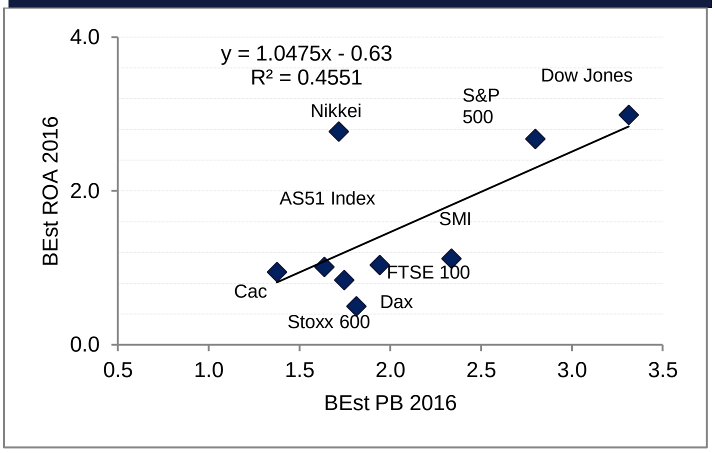

*Source: Bloomberg, Emirates NBD Research*

### D. Market Equity Indices PE/ROE 2016E



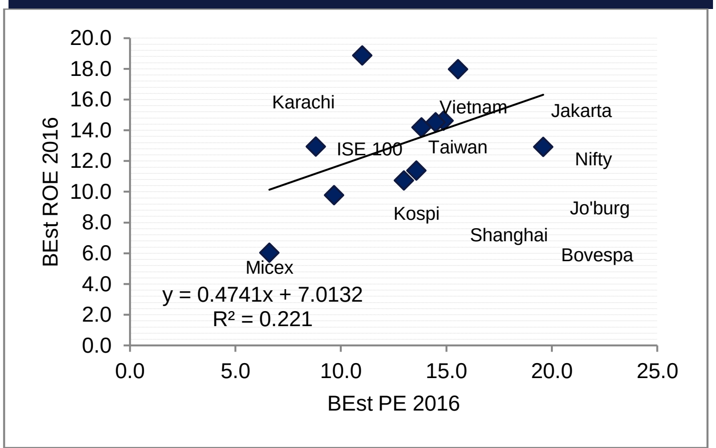

*Source: Bloomberg, Emirates NBD Research*

### D. Market Equity Indices PB/ROA 2016E



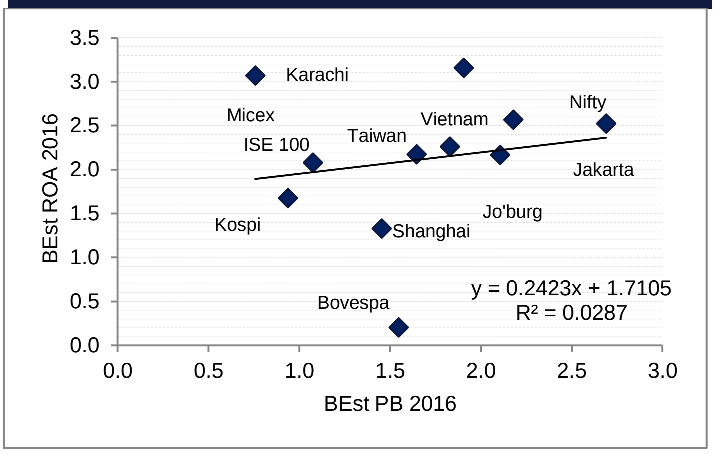

*Source: Bloomberg, Emirates NBD Research*

### E. Market Equity Indices PE/ROE 2016E




*Source: Bloomberg, Emirates NBD Research*

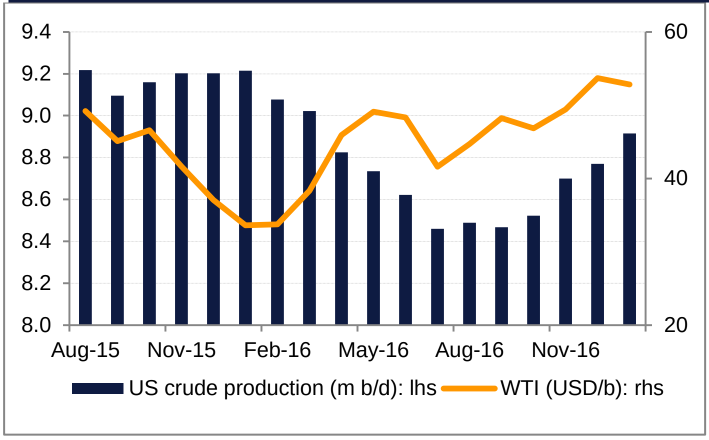
### E. Market Equity Indices PB/ROA 2016E




*Source: Bloomberg, Emirates NBD Research*

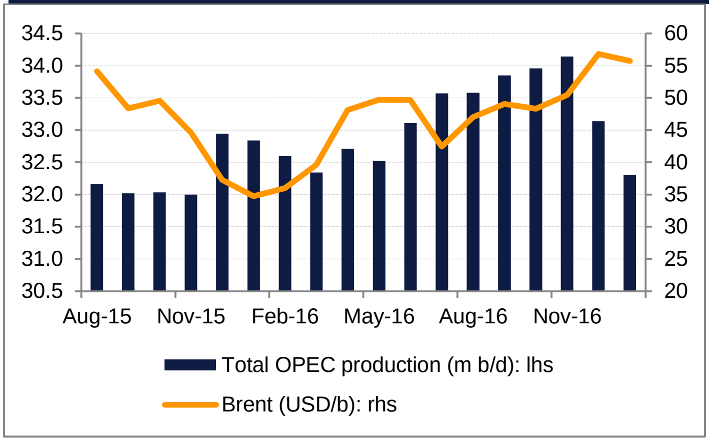
## Major Commodities Markets

### US oil production and price



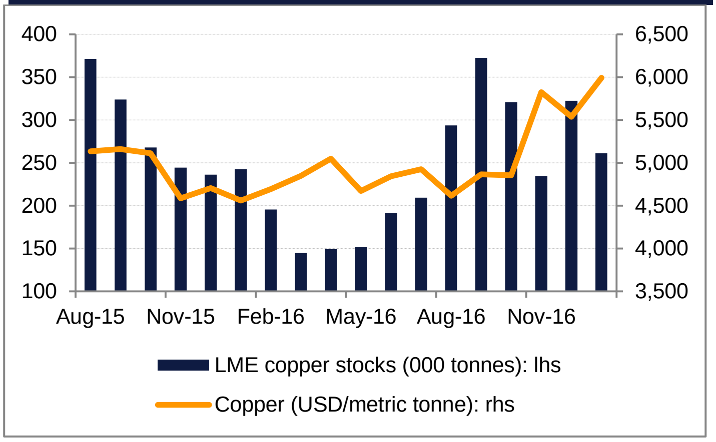

*Source: Bloomberg, Emirates NBD Research*

### International oil production and price



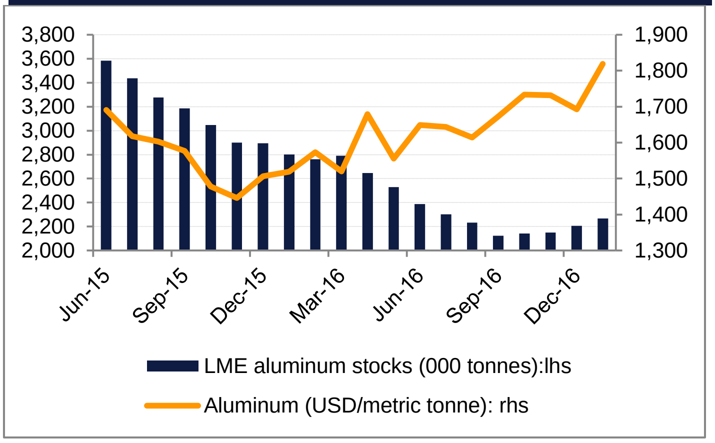

*Source: Bloomberg, Emirates NBD Research*

### Copper stocks and price



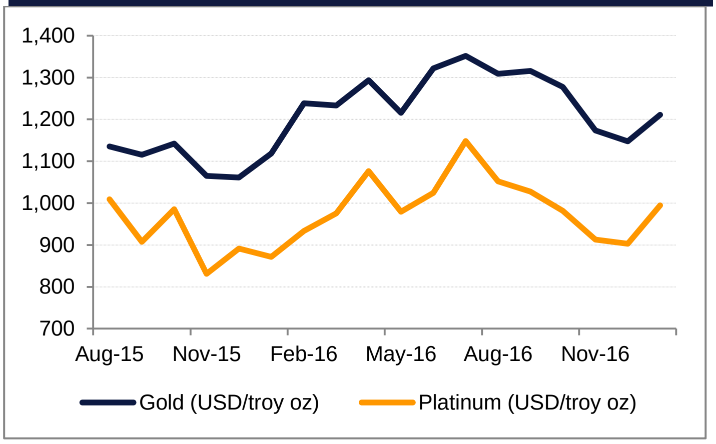

*Source: Bloomberg, Emirates NBD Research*

### Aluminum stocks and price



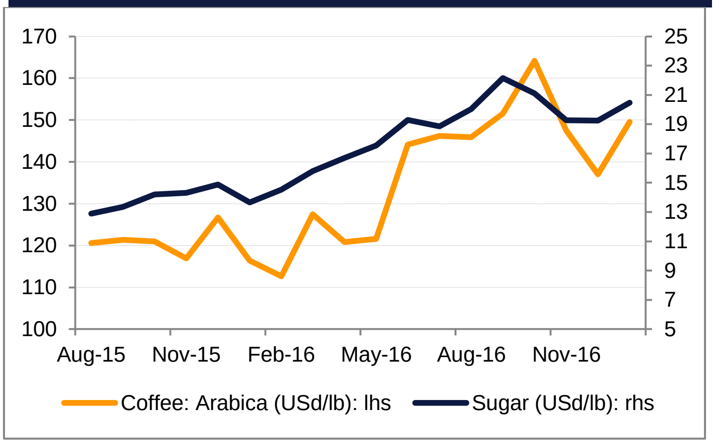

*Source: Bloomberg, Emirates NBD Research*

### 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 | 210.1 | 166.5 | 166.5 | 189.6 | 213.8 |
| Real GDP % | 5.0 | 3.5 | 2.7 | 3.7 | 4.3 |
| Current A/C % GDP | 25.1 | 8.1 | -2.0 | -0.5 | -0.4 |
| Budget Balance % GDP | 12.1 | 1.2 | -7.7 | -4.1 | -4.2 |
| CPI % | 3.3 | 1.9 | 2.0 | 3.0 | 3.5 |
| **Kuwait** | | | | | |
| Nominal GDP $bn | 166.3 | 116.9 | 95.9 | 107.3 | 120.3 |
| 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 | -9.2 | 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 | -18.5 | -10.0 | -3.8 |
| CPI % | 1.0 | 0.1 | 1.0 | 1.5 | 2.0 |
| **Bahrain** | | | | | |
| Nominal GDP $bn | 33.4 | 31.1 | 31.9 | 34.0 | 36.3 |
| Real GDP % | 4.4 | 2.9 | 3.5 | 2.3 | 2.8 |
| Current A/C % GDP | 4.6 | -2.4 | -5.2 | -5.3 | -3.7 |
| Budget Balance % GDP | -3.6 | -13.0 | -15.9 | -12.9 | -11.0 |
| CPI % | 2.7 | 1.9 | 2.9 | 3.0 | 3.5 |
| **GCC (Nominal GDP weighted avg)** | | | | | |
| Nominal GDP $bn | 491.6 | 434.1 | 426.5 | 466.1 | 509.2 |
| Real GDP % | 3.3 | 3.5 | 2.2 | 2.5 | 3.2 |
| Current A/C % GDP | 13.7 | -2.8 | -8.5 | -5.4 | -1.0 |
| Budget Balance % GDP | 2.2 | -9.6 | -11.0 | -6.7 | -3.4 |
| 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 | 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)*

## FX Forecasts

| FX Forecasts - Major | | | | | | Forwards | | |
|---|---|---|---|---|---|---|---|---|
| | 15-Feb | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | 3m | 6m | 12m |
| **EUR/USD** | 1.0580 | 1.0500 | 1.0200 | 1.0000 | 1.0000 | 1.0623 | 1.0674 | 1.0796 |
| **USD/JPY** | 114.38 | 116.00 | 120.00 | 122.00 | 124.00 | 113.95 | 113.43 | 112.17 |
| **USD/CHF** | 1.0062 | 1.0300 | 1.0500 | 1.1000 | 1.1000 | 1.0011 | 0.9949 | 0.9811 |
| **GBP/USD** | 1.2465 | 1.2200 | 1.1800 | 1.2500 | 1.3500 | 1.2490 | 1.2522 | 1.2599 |
| **AUD/USD** | 0.7671 | 0.7300 | 0.7200 | 0.7000 | 0.7000 | 0.7655 | 0.7642 | 0.7620 |
| **USD/CAD** | 1.3073 | 1.3500 | 1.3400 | 1.3200 | 1.3000 | 1.3063 | 1.3048 | 1.3009 |
| **EUR/GBP** | 0.8487 | 0.8607 | 0.8644 | 0.8000 | 0.7407 | 0.8504 | 0.8524 | 0.8568 |
| **EUR/JPY** | 121.01 | 121.80 | 118.32 | 120.00 | 122.00 | 121.01 | 121.01 | 121.01 |
| **EUR/CHF** | 1.0645 | 1.0815 | 1.0710 | 1.1000 | 1.1000 | 1.0633 | 1.0620 | 1.0591 |
| **NZD/USD** | 0.7174 | 0.6900 | 0.6700 | 0.6500 | 0.6700 | 0.7155 | 0.7137 | 0.7106 |
| **FX Forecasts - Emerging** | | | | | | **Forwards** | | |
| | **15-Feb** | **Q1 2017** | **Q2 2017** | **Q3 2017** | **Q4 2017** | **3m** | **6m** | **12m** |
| **USD/SAR*** | 3.7504 | 3.7500 | 3.7500 | 3.7500 | 3.7500 | 3.7514 | 3.7542 | 3.7664 |
| **USD/AED*** | 3.6729 | 3.6700 | 3.6700 | 3.6700 | 3.6700 | 3.6749 | 3.6771 | -- |
| **USD/KWD** | 0.3053 | 0.2900 | 0.2900 | 0.2900 | 0.3000 | 0.3048 | 0.3063 | -- |
| **USD/OMR*** | 0.3850 | 0.3800 | 0.3800 | 0.3800 | 0.3800 | 0.3862 | 0.3880 | 0.3933 |
| **USD/BHD*** | 0.3770 | 0.3760 | 0.3760 | 0.3760 | 0.3760 | 0.3774 | 0.3776 | 0.3785 |
| **USD/QAR*** | 3.6413 | 3.6400 | 3.6400 | 3.6400 | 3.6400 | 3.6455 | 3.6495 | 3.6605 |
| **USD/EGP** | 16.6000 | 17.0000 | 17.5000 | 18.0000 | 18.2500 | 17.1000 | 17.5500 | 18.3500 |
| **USD/INR** | 66.950 | 67.000 | 67.000 | 66.000 | 65.000 | 67.6100 | 68.4000 | 69.9800 |
| **USD/CNY** | 6.8638 | 7.0000 | 7.1000 | 7.2000 | 7.4000 | 6.9217 | 6.9745 | 7.0800 |

*Data as of 15 February 2017*
*Source: Bloomberg, Emirates NBD Research*

## Interest Rate Forecasts

| USD Swaps Forecasts | | | | | Forwards | | |
|---|---|---|---|---|---|---|---|
| | Current | 3M | 6M | 12M | 3M | 6M | 12M |
| 2y | 1.56 | 1.60 | 1.75 | 2.00 | 1.67 | 1.79 | 1.98 |
| 10y | 2.40 | 2.48 | 2.67 | 2.75 | 2.43 | 2.50 | 2.58 |
| 2s10s (bp) | 85 | 82 | 82 | 72 | 76 | 71 | 60 |
| US Treasurys Forecasts | | | | | | | |
| 2y | 1.23 | 1.30 | 1.45 | 1.70 | | | |
| 10y | 2.47 | 2.55 | 2.70 | 2.85 | | | |
| 2s10s (bp) | 124 | 125 | 125 | 115 | | | |
| 3M Libor | | | | | | | |
| 3m | 1.04 | 1.15 | 1.35 | 1.55 | | | |
| 3M Eibor | | | | | | | |
| 3m | 1.38 | 1.50 | 1.75 | 1.95 | | | |
| Policy Rate Forecasts | | | | | | | |
| | Current% | 3M | 6M | 12M | | | |
| FED | 0.50-0.75 | 0.75 | 1.00 | 1.25 | | | |
| 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) | 0.75 | 0.75 | 1.00 | 1.25 | | | |
| UAE (1W repo) | 1.00 | 1.00 | 1.25 | 1.50 | | | |
| CBK (o/n repo) | 0.75 | 0.75 | 1.00 | 1.25 | | | |
| QCB (Repo rate) | 2.25 | 2.25 | 2.50 | 2.75 | | | |
| CBB (o/n depo) | 0.75 | 0.75 | 1.00 | 1.25 | | | |
| CBO (o/n repo) | 1.00 | 1.00 | 1.25 | 1.50 | | | |

*Data as of 15 February 2017*
*Source: Bloomberg, Emirates NBD Research*

## Commodity Forecasts

| Global commodity prices | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | 2016 avg | 2017q1 | Q2 | Q3 | Q4 | 2017 avg |
| **Energy** | | | | | | | |
| WTI (USD/b) | 52.87 | 43.32 | 50.00 | 52.50 | 53.00 | 55.00 | 52.63 |
| Brent (USD/b) | 55.71 | 45.04 | 52.00 | 55.00 | 55.00 | 60.00 | 55.50 |
| OPEC Reference (USD / b) | 53.47 | 40.68 | 50.44 | 53.35 | 53.35 | 58.20 | 53.84 |
| **Precious metals** | | | | | | | |
| Gold (USD/troy oz) | 1,226.27 | 1,247.82 | 1,180.00 | 1,160.00 | 1,120.00 | 1,150.00 | 1,152.50 |
| Silver (USD/troy oz) | 17.93 | 17.10 | 16.00 | 15.30 | 15.66 | 16.00 | 15.74 |
| Platinum (USD/troy oz) | 1,000.20 | 987.79 | 950.00 | 902.50 | 932.00 | 960.00 | 936.13 |
| Palladium (USD/troy oz) | 780.10 | 613.89 | 703.09 | 712.67 | 722.25 | 731.83 | 717.46 |
| **Base metals** | | | | | | | |
| Aluminum (USD/metric tonne) | 1,887.00 | 1,609.83 | 1,685.00 | 1,700.00 | 1,725.00 | 1,750.00 | 1,715.00 |
| Copper (USD/metric tonne) | 6,021.00 | 4,870.75 | 5,750.00 | 5,800.00 | 5,500.00 | 5,350.00 | 5,600.00 |

*Prices as of 15 Februray 2017. Note: prices are quarterly average unless indicated otherwise.*
*Source: Bloomberg, Emirates NBD Research*

## Global Equities Market Watch

| Index | Last Close | ADV Traded 30d USD mn | Mtd % chg | Ytd % chg | %membera bove 200d MA | BEst PE | BEst PB | BEst Dvd Yld |
|---|---|---|---|---|---|---|---|---|
| Dow Jones Industrial Average Index | 20,504 | 6,364 | 3.2 | 3.8 | 83 | 17.1 | 3.4 | 2.5 |
| S&P 500 Index | 2,338 | 34,150 | 2.6 | 4.4 | 77 | 18.0 | 2.8 | 2.1 |
| Nasdaq Composite Index | 5,783 | 19,300 | 3.0 | 7.4 | 67 | 21.9 | 3.6 | 1.2 |
| FTSE100 Index | 7,269 | 6,130 | 2.4 | 1.8 | 71 | 14.8 | 1.8 | 4.2 |
| DAX Index | 11,772 | 3,424 | 2.1 | 2.5 | 93 | 13.7 | 1.7 | 3.0 |
| CAC 40 Index | 4,896 | 3,377 | 3.1 | 0.7 | 77 | 14.5 | 1.4 | 3.6 |
| Swiss Market Index | 8,426 | 3,072 | 1.6 | 2.5 | 75 | 16.9 | 2.3 | 3.6 |
| Nikkei Index | 19,239 | 12,521 | 2.1 | 1.7 | 88 | 18.5 | 1.7 | 1.8 |
| S&P/ASX 200 Index | 5,755 | 3,062 | 3.3 | 2.5 | 64 | 16.2 | 2.0 | 4.4 |
| Stoxx Europe 600 Index | 370 | 28,185 | 2.8 | 2.4 | 78 | 15.2 | 1.8 | 3.6 |
| Dubai Financial Market General Index | 3,653 | 175 | 0.3 | 3.4 | 64 | 10.5 | 1.2 | 4.2 |
| Abu Dhabi Sec Market General Index | 4,573 | 86 | 0.4 | 0.4 | 56 | 12.1 | 1.5 | 5.1 |
| Tadawul All Share Index | 7,033 | 1,117 | -1.0 | -2.5 | 77 | 14.3 | 1.5 | 3.3 |
| Istanbul SE National 100 Index | 88,082 | 1,275 | 2.3 | 13.0 | 82 | 8.9 | 1.1 | 3.3 |
| Egyptian Exchange Index | 12,504 | 64 | -1.3 | 1.3 | 83 | 11.5 | 1.8 | 3.1 |
| Kuwait Stock Exchange Index | 6,751 | 182 | -1.2 | 17.4 | 91 | - | - | - |
| Bahrain Bourse All Share Index | 1,308 | 3 | 0.7 | 7.5 | - | - | - | - |
| Muscat Securities Index | 5,819 | 6 | 0.8 | 0.7 | 67 | 9.7 | 1.1 | - |
| Qatar Exchange Index | - | 57 | 0.7 | 2.2 | - | - | - | - |
| MADEX Free Float Index | 10,068 | 28 | 0.5 | 5.5 | 87 | 18.9 | 3.0 | 3.4 |
| Hong Kong Hang Seng Index | 23,703 | 2,819 | 2.6 | 8.9 | 86 | 11.9 | 1.2 | 3.5 |
| Shanghai Composite Index | 3,218 | 24,426 | 1.7 | 3.5 | 63 | 13.7 | 1.5 | 2.0 |
| Korea Stock Exchange Index | 2,075 | 3,593 | 0.8 | 2.8 | 39 | 9.7 | 0.9 | 1.8 |
| BSE Sensex | 28,339 | 84 | 1.8 | 5.7 | 60 | 19.4 | 2.7 | 1.6 |
| Nifty | 8,792 | 1,320 | 2.0 | 6.7 | 71 | 19.7 | 2.7 | 1.5 |
| Karachi Stock Exchange Index | 49,768 | 145 | 1.6 | 3.6 | 92 | 11.0 | 1.9 | 4.8 |
| Taiwan SE Weighted Index | 9,719 | 2,359 | 3.7 | 5.9 | 78 | 13.8 | 1.7 | 4.0 |
| Bovespa Brasil Sao Paulo SE Index | 66,713 | 1,837 | 3.2 | 10.8 | 81 | 13.1 | 1.6 | 3.2 |
| Micex Index | 2,142 | 551 | -4.1 | -4.7 | 78 | 6.5 | 0.8 | 4.9 |
| FTSE/JSE Africa All Share Index | 52,466 | 1,403 | -0.6 | 3.6 | 65 | 14.9 | 1.8 | 3.1 |
| Vietnam Ho Chi Minh Stock Index | 706 | 88 | 2.0 | 7.0 | 53 | 14.5 | 2.1 | 2.7 |
| Jakarta SE Composite Index | 5,381 | 399 | 1.6 | 1.6 | 64 | 15.6 | 2.3 | 2.1 |
| FTSE Bursa Malaysia KLCI Index | 1,709 | 214 | 2.2 | 4.1 | 77 | 16.1 | 1.6 | 3.3 |
| Mexican Stock Exchange | 47,391 | 368 | 0.8 | 3.8 | 31 | 17.2 | 2.3 | 2.1 |

*Prices as of 14 February 2017*
*Source: Bloomberg, Emirates NBD Research*

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