



Monthly Insights

13 February 2020

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Preface

Global macro: The optimism that greeted the signing of a 'phase one' trade deal between the US and China last month has been derailed by the outbreak of the coronavirus in China. It will take time to ascertain the durable economic impact of the disease, but first quarter activity at a minimum will be negatively impacted. Markets have been quicker to react, with oil and metals in particular moving sharply downward.

GCC macro: Downside risks to our 2020 GDP growth forecasts have increased as a result of the coronavirus. Survey data for January pointed to a soft start to the year in the region's three largest economies.

Sub-Saharan Africa macro: The GCC is emerging as a critical contributor to Africa's growth trajectory in terms of FDI, with the UAE in particular investing in a range of projects across the extractive and consumer-focused sectors. Given the projected growth in Africa and the opportunities for scale the market presents to UAE firms, we expect that this trend will continue.

MENA macro: Lebanon's political and economic crisis continues. It is less than one month until its USD 1.2bn March 2020 Eurobond is set to mature, and it is as yet unclear whether the government will pay its debts or default for the first time through its decades of economic and political turbulence. As a result, yields on the issuance have hit 436%.

Currencies: Investor fears over the impact of the coronavirus epidemic have been the dominant feature of currency markets over the last month. This has benefited the US dollar and the Japanese yen which have been the best performing major currencies.

Equities: Over the last month, global equities continued to build onto gains from 2019. Investors, largely, shrugged off the impact of coronavirus as they factored in the probable stimulus from governments and central banks should the situation worsen, a rather upbeat economic data releases from most economies and robust corporate earnings.

Fixed Income: The spike in negative yielding bonds over the course of 2019 pushed investors into riskier debt as they chased yield. It was no surprise than to see the Bloomberg Barclays Global High Yield Total Return index deliver +12.6% return last year. So far this year, the Bloomberg Barclays Global High Yield Total Return index has delivered +0.7% return.

Commodities: Metals markets have been brutalized by the collapse in industrial activity in China in response to the coronavirus outbreak. Conditions may deteriorate further, taking prices down with them while precious metals may display some resilience.

Sector Report: The Emirate of Abu Dhabi diversification programme under Economic Vision 2030 highlights the manufacturing sector as one of the key drivers for that diversification aim.

Timothy Fox
Chief Economist & Head of Research

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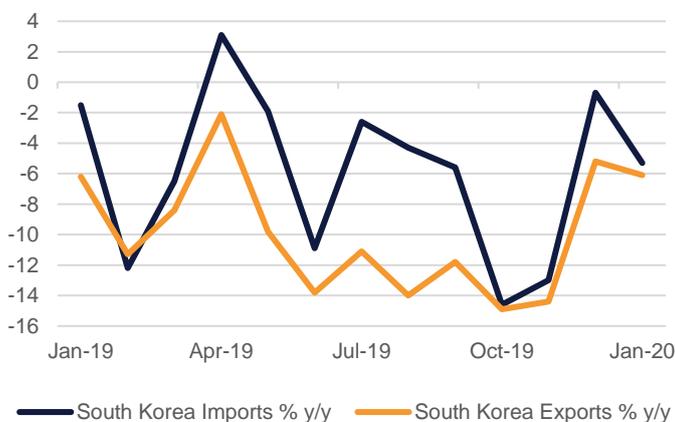
Global Macro

With 60,373 cases reported in over 25 countries around the world as of February 13, the coronavirus outbreak which began in China has dominated headlines and moved markets in recent weeks. However, the real effect on the Chinese and global economies will take longer to be apparent. While comparisons are drawn with the 2003 SARS outbreak, which is certainly indicative, there are significant differences which have developed over the past 17 years. An average growth rate of near 10% per annum has seen China's economy grow from less than one twentieth of global GDP then to around a fifth today. At the same time it has become more fully integrated into global markets. Having only joined the WTO in 2001, China is now a key global player, whether in terms of its voracious demand for raw materials, its increasingly powerful domestic consumer, or its traditional manufacturing base.

Two decades of globalisation will magnify coronavirus impact

The virus's impact on the tourism and aviation sectors will be one of the most acutely felt in the near term (see [Coronavirus will drag on global growth in Q1](#)). Meanwhile, with factory closures and travel restrictions in place there is little doubt that China's supply chains will be impacted, with potential for knock-on effects on the rest of the global manufacturing pipeline. This will exacerbate the negative impact of 2019's trade wars, though it is still hard to ascertain just how severe the impact will be. South Korea, for instance – considered a bellwether for global trade given its central position in international supply chains and the fact that it is the first major export economy to publish data – has already been under pressure in 2019 owing to trade wars. While the ministry of trade asserted that its y/y decline in January was not attributable to the coronavirus, we will be watching for the February figures with interest, and likewise those of Taiwan.

Supply chain disruption will hit trade



Source: Bloomberg, Emirates NBD Research

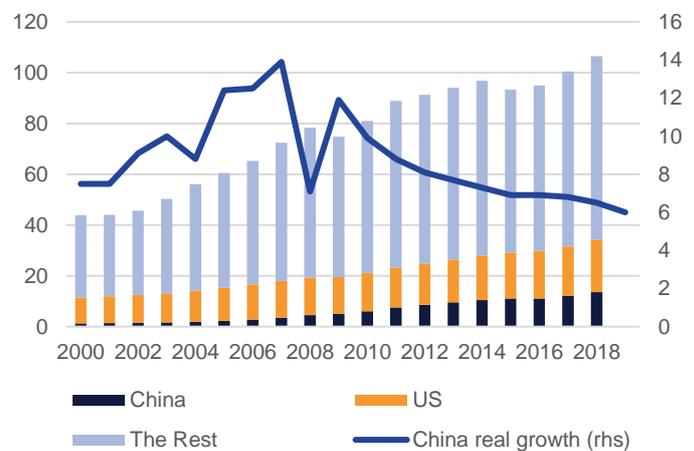
We have also been watching the shipping sector, where dry bulk shipping rates have plummeted in line with commodities prices. In terms of container shipping, the primary Shanghai Containerised Freight Index has not restarted following the extended New Year

holiday but the Ningbo Containerised Freight Index saw a 3.9% w/w drop in the composite measure and a 7.6% decline on spot rates to North Europe in the week ending February 7, implying a paucity of demand for box-shipping. The index report described demand as 'seriously insufficient.'. Meanwhile, container shipping companies have been telling customers that rates will fall in the near term – although with the caveat that once activity resumes, unfulfilled demand could see a sharp spike in rates subsequently.

This would be our expectation – that while the coronavirus is presenting a significant threat to Q1 growth, much of the impact will be short lived, and some pent-up demand and backlogs should see a comparatively strong rebound in its wake, prompting a v-shaped recovery, as seen in 2003. The authorities in China will put their economic recalibration efforts to the side this year as they focus on maintaining growth over curbing debt and the PBOC has already implemented a number of special lending funds.

However, this outlook is predicated on the disease being brought under control soon, and the risk is that the outbreak is not contained in the near term and that the effects spillover into subsequent quarters. In either eventuality it seems inevitable that there will be a negative impact on growth this year, with China unlikely to meet its predicted 5.9% - which would have already been the weakest expansion in decades.

China's share of global GDP, USDtn



Source: Bloomberg, Emirates NBD Research

The disease will also weigh on global growth this year; the IMF's forecast of 3.3% in 2020, which was already downgraded from a previous projection of 3.4%, is likely to be undershot. A worse-than-expected performance in China will weigh on the headline figure, but so will its effect on other economies, not least the rest of East and Southeast Asia. A recovery in countries such as Brazil was expected to bolster growth this year while China and DM underperformed, but South American exposure to China will likely see it also fall short of expectations. Given the ongoing uncertainty we are keeping our growth forecasts unchanged for the time being, but the risks are certainly weighted to the downside, a view shared by the US Federal Reserve.

Wealth effect risk could derail US consumer

The Fed's language around the outbreak has strengthened in recent weeks, going from a 'wild card' threat to 'a new risk to the outlook' that is being 'closely monitored.' As such, the outbreak, along with the commentary following the January rate decision, has reaffirmed our view that the most likely next rate move by the Fed will be down, while a hike this year is becoming ever more unlikely; at present the markets are pricing in 0% chance of a rate hike through January next year.

month – it is by no means over, and the uncertainty and potential extra costs from tariffs are weighing on business activity.

ISM Manufacturing Index has been under pressure



Source: Bloomberg, Emirates NBD Research

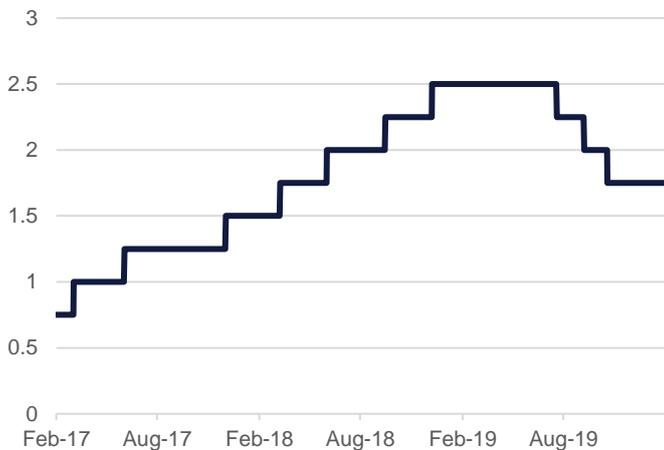
In such an environment, maintaining consumer confidence will be key, and the Fed would look to support this. In Q4 GDP results, consumer spending slowed to 1.8% in Q4 from 3.2% in Q3 2019, below expectations. With US majors such as Apple and Starbucks curtailing their activity in China, the immediate threat to the US economy would be that a negative stock price impact induces the wealth effect, especially given that the consumer was the lynchpin of US growth last year. However, while US equity indices did reflect some risk-off sentiment as the coronavirus story developed, this appears to have been shrugged off once more for now.

Eurozone growth will remain weak absent fiscal or monetary stimulus

The Eurozone has also followed the prevailing global trend of a manufacturing sector under pressure offset modestly by the services sector, and the developments over the past month will have done little to prompt a reversal in the current quarter. While the January manufacturing PMI for the Eurozone did mark an improvement, climbing from 46.3 to 47.9, it remained resolutely below the neutral 50.0 level. By contrast, the services PMI came in at 52.5, although this marked a climb-down from the 52.8 in December, and retail sales in December contracted by 1.6% m/m in December.

With exposure to the coronavirus fallout, the ongoing threat of renewed trade wars with the US, Brexit negotiations, and political strife in France, Germany and Italy, we see little at present that would prompt us to revise our growth projection up from the current 1.0%, especially given an ongoing reluctance by most governments to boost fiscal spending. The bloc is meeting this month to discuss its new seven-year budget for the first time since the UK's departure from the EU in January, which will have left a EUR12bn hole in the finances. The issue is proving contentious between the wealthier states which are looking to limit the budget to 1% of GNI, and 15 of

One more Fed rate cut remains our base case



Source: Bloomberg, Emirates NBD Research

Although the labour market continues to expand in the US, we believe that there remains some underlying weakness and threats in the US economy that will preclude any tightening this year in the absence of any marked acceleration in activity and price growth. Non-farm payrolls rose by a stronger-than-expected 225,000 in January, while unemployment remains near its fifty-year lows at 3.6%, and consumer confidence remains near multi-decade highs. However, while November and December both saw CPI inflation exceed 2.0% y/y, in January Powell repeated his assertion that he wishes to see price growth consistently exceed that level before rates are raised. With the coronavirus outbreak prompting a downturn in commodity prices, the chance of this happening is even less likely. Further, the Fed will be reluctant to dampen activity through hiking too early, probably preferring to let the economy run a little hot before stepping in; the forced policy-pivot last year following the four rate hikes in 2018 will be at the forefront of the FOMC's collective mind.

Aside from the positive consumer story in the US, the manufacturing sector and business investment both remain fragile. While the ISM manufacturing PMI did rise to 50.9 in January, this was the first positive reading since July – and will likely take another hit thanks to coronavirus-related supply chain disruption. Real growth in private fixed investment, meanwhile, declined to just 0.2% y/y in Q4 last year, the weakest level since Q1 2010. While the threat from trade wars has diminished following the signing of the phase one deal with China in January – and there were reports last week that China would cut tariffs on USD 75bn of US imports by 50% this

the poorer member states who are calling for spending to be maintained in real terms in order to pursue the cohesion policy.

and the Bank of England has downgraded its real GDP growth projection to 0.8%.

Eurozone growth remains weak (% y/y)



Source: Bloomberg, Emirates NBD Research

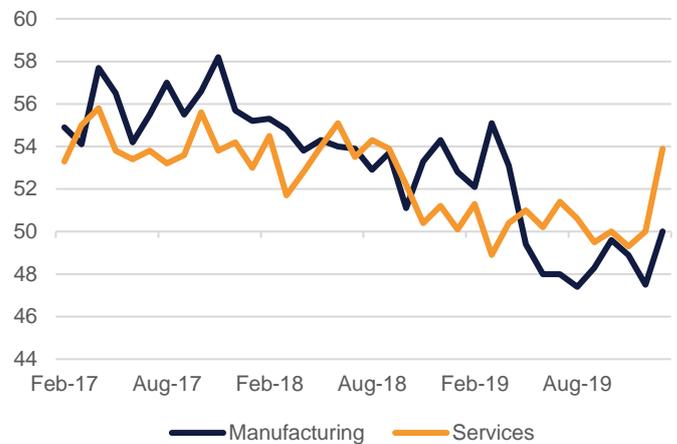
In the absence of a concerted fiscal push to boost growth, all eyes will be on Christine Lagarde's new presidency at the ECB, but we expect little new in the way of further stimulus here either, even despite more dovish language around the coronavirus this week from ECB Chief Economist Philip Lane. While Mario Draghi pushed through the last round of stimulus prior to his departure reportedly against consensus, reports indicate that Lagarde is pursuing a far more collaborative decision-making process, and has called on fiscal policy to do more. Further, she has a number of times highlighted that there is limited room for any more monetary stimulus, especially given the ECB's assessment that the Eurozone economy 'remains relatively resilient'. As such we expect that the deposit rate will remain on hold at -0.5% this year, although tinkering around the edges with greater quantitative easing remains possible.

UK growth outlook is predicated on an orderly trade transition

The UK has started the year on the front foot; in January, the manufacturing sector PMI rose to 50.0, the strongest reading since May last year, while the services PMI far exceeded expectations at 53.9. The composite index hit 53.3, the strongest reading since September 2018. Business confidence improved sharply following the election of Boris Johnson's Conservative government in December, as its 80-seat majority should preclude the logjams seen during the previous administration. The Institute of Directors' tracker reached 21% positive in December, compared to negative 18% the previous month, the largest swing seen by the index. Preliminary GDP data showed 0.0% q/q growth in the final quarter of 2019, but December saw a bounce of 0.3% m/m as greater certainty prevailed.

That being said, while the UK has now officially left the EU following several delays last year, in many respects the hard work starts now as the two parties look to settle their future trading relationship. Both sides are starting out with tough negotiating positions over regulatory alignment, fishing rights, financial passporting and even the future of Gibraltar. The recent decline in the GBP exchange rate to November levels is indicative of the challenges still remaining,

A positive start to the year in UK's January PMI survey



Source: Bloomberg, Emirates NBD Research

Although the BoE has indicated it is cognizant of the threats to UK growth, it nevertheless left the bank rate on hold at its January meeting, and we expect that it will remain at 0.75% throughout the year. While the market-implied probability of a rate cut had oscillated in the run-up to the decision on the back of mixed data results and some tonally more dovish language from governor Mark Carney and other MPC members, in the end the 7-2 vote to keep the rate pat was in line with the previous meeting. The circumstance which might change the outlook would be if a hard break from the EU at the end of the transition period on December 31 became more likely, in which case the bank might wish to deploy some of its firepower to shore up demand. Indeed, the bank's communiqué reiterated that its projections are 'based on the assumption of an immediate but orderly move, at the beginning of next year, to a deep free trade agreement between the United Kingdom and the European Union.'

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Key Economic Forecasts – Global

US	2015	2016	2017	2018	2019e	2020f	2021f
Real GDP %	2.9	1.6	2.4	2.9	2.3	1.7	1.9
Current A/C % GDP	-2.2	-2.3	-2.3	-2.4	-2.4	-2.4	-2.4
Budget Balance % GDP	-2.6	-3.1	-3.4	-4.2	-4.7	-4.8	-4.7
CPI %	0.1	1.3	2.1	2.5	1.8	2.1	2.1
Eurozone							
Real GDP %	2.1	1.9	2.5	1.9	1.2	1.1	1.3
Current A/C % GDP	2.8	3.3	3.2	3.1	2.8	2.7	2.6
Budget Balance % GDP	-2.0	-1.4	-0.9	-0.5	-0.9	-1.1	-1.1
CPI %	0.2	0.2	1.5	1.8	1.2	1.3	1.4
UK							
Real GDP %	2.4	1.9	1.9	1.3	1.1	1.2	1.5
Current A/C % GDP	-4.9	-5.2	-3.5	-3.9	-4.4	-3.9	-3.8
Budget Balance % GDP	-4.5	-3.3	-2.5	-2.2	-2.2	-2.4	-2.4
CPI %	0.0	0.7	2.7	2.5	1.8	1.7	1.9
Japan							
Real GDP %	1.3	0.5	2.2	0.3	1.0	0.3	0.6
Current A/C % GDP	3.1	4.0	4.1	3.5	3.5	3.3	3.3
Budget Balance % GDP	-3.6	-3.5	-3.0	-2.4	-2.6	-2.9	-2.7
CPI %	0.8	-0.1	0.5	1.0	0.5	0.7	0.6
China							
Real GDP %	7.0	6.8	6.9	6.7	6.1	5.5	5.8
Current A/C % GDP	2.8	1.8	1.6	0.4	1.1	0.8	0.5
Budget Balance % GDP	-3.4	-3.8	-3.7	-4.1	-5.4	-4.8	-4.6
CPI %	1.4	2.0	1.6	2.1	2.9	3.1	2.2
India*							
Real GDP %	7.4	8.0	8.3	7.0	6.1	5.0	6.0
Current A/C % GDP	-1.1	-0.6	-1.5	-2.5	-2.5	-1.3	-1.6
Budget Balance % GDP	-3.5	-3.7	-3.9	-3.6	-3.5	-3.7	-3.5
CPI %	4.9	5.0	3.3	4.0	3.7	4.4	4.3

Source: Bloomberg, Emirates NBD Research

*For India the data refers to fiscal year (April – March)

GCC Macro

2020 has had an eventful start, and not in a good way. The ratcheting up in geopolitical tensions between the US and Iran at the start of the year with the assassination of an Iranian general in Iraq, followed by retaliatory strikes on US military bases in Iraq was unexpected. While these tensions have eased somewhat, the impact of coronavirus on China's economy and global supply chains is still playing out. These developments have almost certainly contributed to the softer survey data across the region in January.

The Saudi PMI declined to 54.9 in January, the lowest reading in more than a year, while the UAE PMI fell below the neutral 50.0 level for the first time since August 2009. The weakness in the non-oil sectors of the UAE appears to be concentrated in Abu Dhabi; the Dubai PMI also declined in January to 50.6 but remains (just) in expansion territory.

The employment index in both the UAE and Dubai PMIs fell to record lows, indicating a decline in private sector jobs in January. First Abu Dhabi Bank confirmed "hundreds" of job cuts in recent weeks (likely reflected in the January survey), while Reuters reported that Dubai Islamic Bank is mulling more than 500 job cuts following its acquisition of Noor Bank, suggesting that the employment outlook remains relatively weak in the near term, posing a downside risk to household spending.

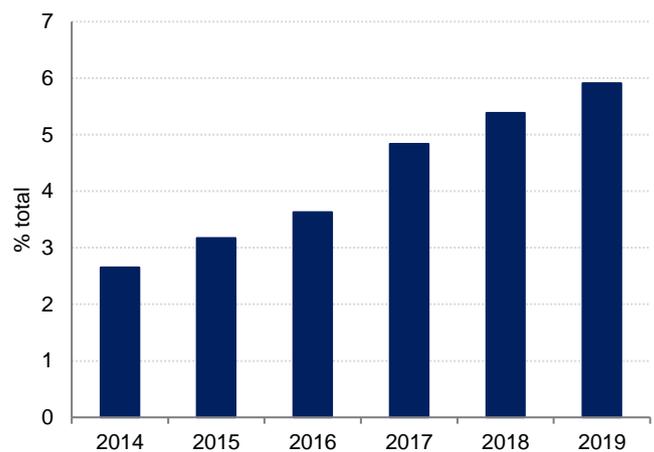
In Qatar, the headline PMI declined to 48.7 in January as all the components of the survey were in contraction territory. This marks the 10th consecutive month of sub-50 readings in the Qatar PMI series.

impact on hydrocarbon sector GDP growth, particularly in Saudi Arabia, the UAE and Kuwait.

The risks to non-oil sector growth stem from weaker Chinese growth (China is the main non-oil trade partner for the UAE and Saudi Arabia), disruptions to flights and global supply chains, and the impact on tourism in the region.

Dubai is particularly vulnerable on this front, being both a trade and transport hub as well as a tourist destination. International visitor spending accounted for around 25% of Dubai's nominal GDP in 2018 (source: Mastercard). China is the fifth-largest source market for Dubai with 989,000 visitors in 2019. It is also one of the fastest growing at 15% y/y in 2019. Chinese visitors accounted for 6% of all international visitors to Dubai last year, up from 2.7% in 2014. The impact of an extended period of closed borders could affect growth in tourism from non-Chinese markets as well.

Chinese visitors to Dubai as a share of total international visitors



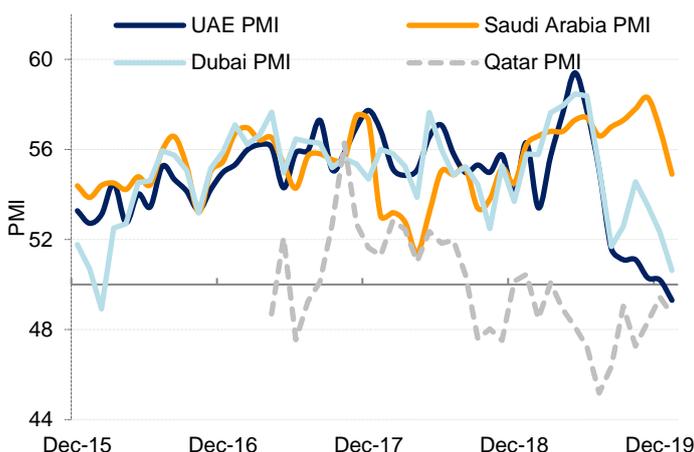
Source: DTCM, Emirates NBD Research

Disruptions to flights – the UAE has cancelled all flights to China except Beijing from 5 February – will also have an impact on the UAE's transport and logistics sector which accounts for around 8% of the UAE's non-oil economy. Dubai is a hub for global air travel, and China has become an increasingly important driver of passenger traffic through Dubai airports. The number of Chinese passengers travelling through Dubai grew 5% in 2019 to 3.7mn, even as overall passenger traffic through Dubai airport declined y/y.

It is too early to say how big the impact on these key non-oil sectors will be, as it depends on how long the travel restrictions are in place and the extent to which manufacturing in China and global supply chains are affected. However, the risks to our 2020 growth forecasts for the GCC are heavily skewed to the downside at this stage.

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GCC PMIs soften at the start of 2020

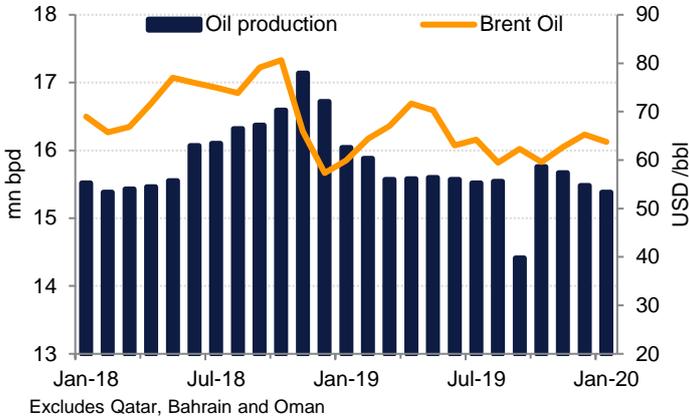


Source: IHS Markit, Emirates NBD Research

Coronavirus poses another downside risk to both the oil and non-oil sector growth outlooks in the GCC. While OPEC+ does not appear ready to deepen or extend production cuts yet, this appears to be largely due to Russia's resistance to further cuts. Lower oil prices have a direct and significant impact on fiscal deficits in the region, with Oman and Bahrain particularly vulnerable on this front. Moreover, if OPEC+ decides to deepen or extend crude oil production cuts in the coming months, this will have a negative

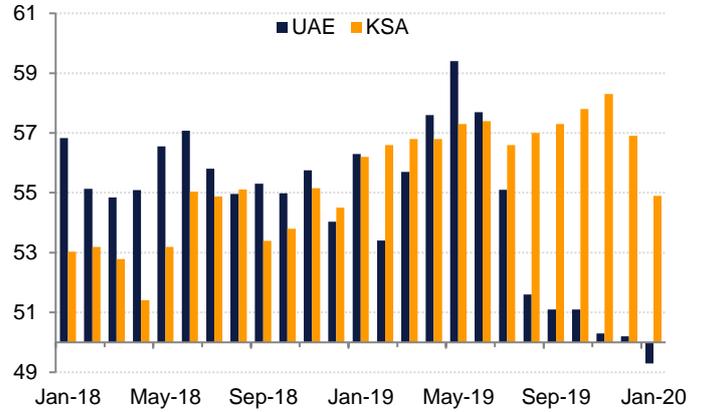
GCC in Pictures

GCC Oil Production and Oil Price



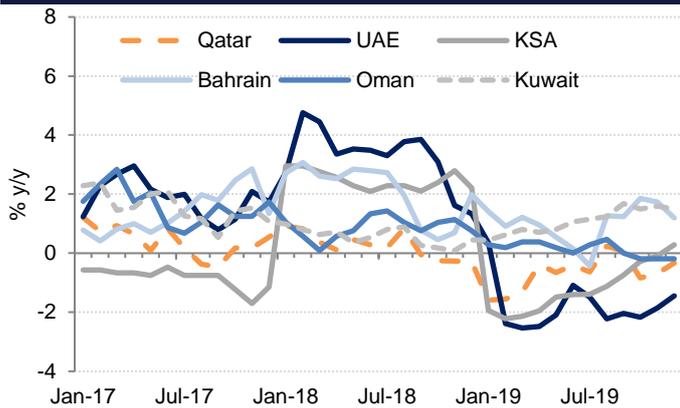
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



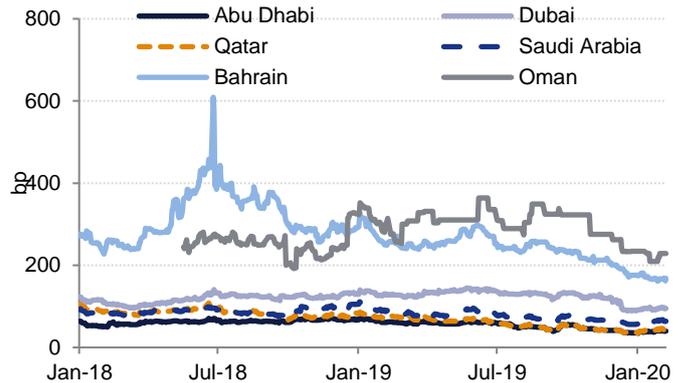
Source: IHS Markit, Emirates NBD Research

Inflation



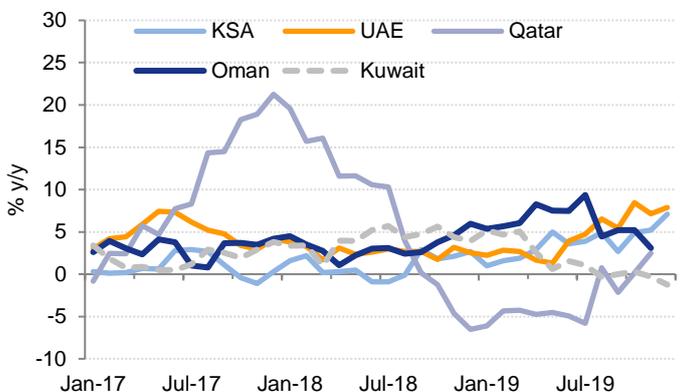
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



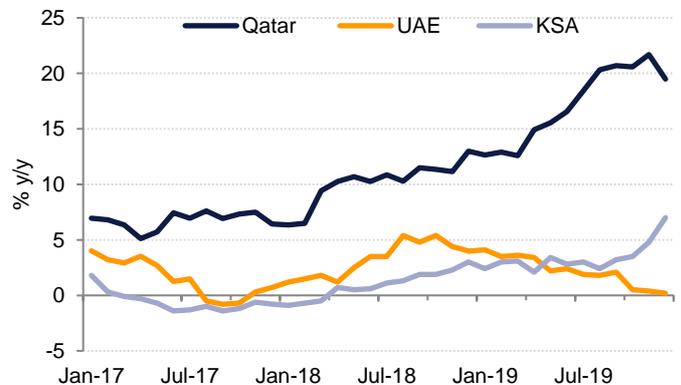
Source: Bloomberg

Money supply (ex government. deposits)



Source: Haver Analytics, Emirates NBD Research

Private sector credit*



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

Key Economic Forecasts - GCC

United Arab Emirates	2017	2018	2019e	2020f	2021f
Nominal GDP \$bn	378.0	414.5	414.7	417.1	438.7
Real GDP %	0.5	1.7	2.0	1.6	2.4
Current A/C % GDP	7.3	9.1	7.6	5.2	2.8
Budget Balance % GDP	-1.4	1.2	-1.6	-2.8	-3.0
CPI %	2.0	3.1	-2.0	0.0	2.0
Saudi Arabia					
Nominal GDP \$bn	688.6	782.5	767.1	765.2	807.5
Real GDP %	-0.7	2.2	-0.4	1.3	2.0
Current A/C % GDP	1.5	9.0	4.7	1.5	2.6
Budget Balance % GDP	-9.2	-4.3	-5.2	-7.2	-6.0
CPI %	-0.8	2.5	-1.0	2.0	2.0
Qatar					
Nominal GDP \$bn	166.9	191.4	183.7	190.6	219.0
Real GDP %	1.1	1.4	-1.3	2.0	2.6
Current A/C % GDP	3.8	8.7	4.3	0.0	0.7
Budget Balance % GDP	-6.6	2.2	-1.3	-3.3	-2.5
CPI %	0.4	0.3	-0.7	1.5	1.5
Kuwait					
Nominal GDP \$bn	119.5	141.5	138.9	138.0	147.5
Real GDP %	-3.5	1.2	0.5	1.2	2.2
Current A/C % GDP	8.0	14.4	9.4	4.7	6.7
Budget Balance % GDP	-9.0	-3.0	-13.4	-15.9	-12.6
CPI %	1.6	0.6	1.0	1.5	1.5
Oman					
Nominal GDP \$bn	70.5	79.2	79.2	77.9	81.8
Real GDP %	0.3	1.8	1.1	1.1	1.8
Current A/C % GDP	-15.6	-5.5	-6.4	-8.9	-6.5
Budget Balance % GDP	-13.9	-6.6	-10.0	-10.1	-8.3
CPI %	1.6	0.9	1.0	2.5	2.5
Bahrain					
Nominal GDP \$bn	35.4	37.7	39.0	39.9	41.9
Real GDP %	3.8	1.7	2.0	2.0	2.4
Current A/C % GDP	-4.5	-5.9	-6.3	-7.8	-7.2
Budget Balance % GDP	-10.0	-6.3	-5.9	-5.4	-4.4
CPI %	1.4	2.1	1.1	1.5	2.0
GCC (Nominal GDP weighted avg)					
Nominal GDP \$bn	456	518	509	508	534
Real GDP %	-0.3	1.9	0.3	1.5	2.2
Current A/C % GDP	8.1	15.6	11.1	6.0	4.4
Budget Balance % GDP	-7.1	-2.3	-4.8	-6.4	-5.4
CPI %	0.1	2.4	-0.4	2.4	2.7

Source: Haver Analytics, National sources, Emirates NBD Research

Sub-Saharan Africa Macro : Attracting FDI from the GCC

The GCC is emerging as a critical contributor to Africa's growth trajectory in terms of FDI. While the UK's Africa investment summit held in London in January garnered significant press coverage, Britain is not alone in looking to the region as a growth opportunity in a period of weak growth in Europe and other developed markets. France, another long-term presence in the continent, has its own major Africa investment summit planned in June, but what is of interest to us is the rise of non-traditional players on the continent.

China's growing presence in Africa over the past two decades is well known, but GCC states, in particular the UAE, are also making their presence felt. Indeed, the UAE has its own annual forum focused on investment in Africa, and has become one of the biggest sources of FDI in recent years. At the launch of the Global Business Forum Africa event in 2019, Dubai Chamber chairman Saif al-Ghurair said: 'The African market is a market of strategic importance to Dubai and a key focus of Dubai Chamber's expansion strategy and we are closely monitoring developments and the business climate in Africa to identify growth opportunities available for our members.' We anticipate that the UAE's appetite for new markets, and Africa's anticipated growth trajectory, will see this relationship continue to strengthen.

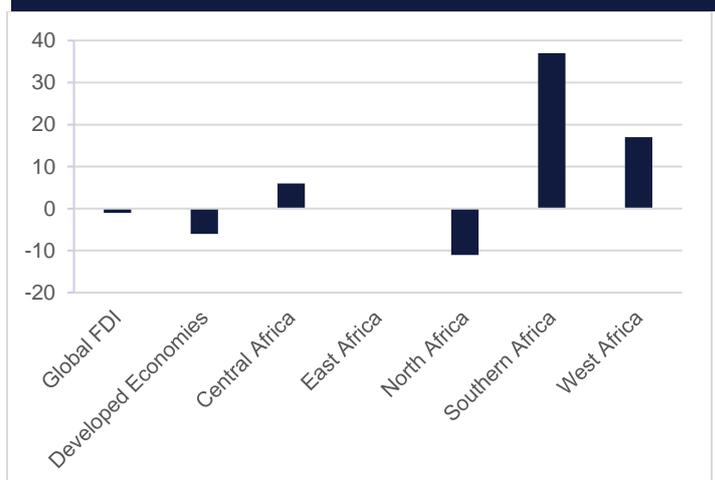
The case for Africa

There are manifold reasons for investing in Africa, but essentially it presents significant opportunities for governments and corporates looking for a higher rate of return than can be found elsewhere. Its comparative underdevelopment, with most of its 54 countries classed as frontier or emerging, means that growth is coming from a low base, providing ample room for expansion. Further, the continent has seen a huge youth bulge, and whether that is seen as a potential dividend or a ticking time bomb, the fact remains that by 2050 over a quarter of global consumers are expected to be African. Urbanisation continues apace and purchasing power is rising.

In 2020, the IMF predicts that Sub-Saharan Africa (SSA) will see real GDP growth of 3.5%, outpacing its 3.3% forecast for global growth. Only Emerging and Developing Asia is expected to grow faster, although it should be noted that the sluggish growth projected in South Africa (0.8%) and a modest expansion anticipated in Nigeria (2.5%) will induce a significant drag on SSA's growth as a whole given the two economies' outsized share of the region's GDP. Particularly attractive are those countries with effective governments and investment strategies; Rwanda, Senegal, Ethiopia and Côte d'Ivoire are consistently among the fastest-growing economies in the world, and are increasingly open to foreign investment.

These higher potential returns of course come with attendant higher risk, and SSA faces a myriad of challenges, both long- and short-term. The region has long struggled with an infrastructure deficit and poor governance which weigh on growth and deter investment. More immediately, the resurgence in elevated government debt levels over the past several years and the hit to commodity prices from the coronavirus in recent weeks raises concerns around sustainability in undiversified economies with an overreliance on one particular commodity for export and fiscal revenue. However, factors such as the launch of the Africa Continental Free Trade Area (AfCFTA) last year, which will be the largest free-trade bloc by the number of party states once it is fully operational, should help mitigate some of these concerns and provide a fillip to investment over the next decade. If the FTA is successful, the ability to access a continent-wide market will be particularly appealing for foreign companies looking for scale opportunities.

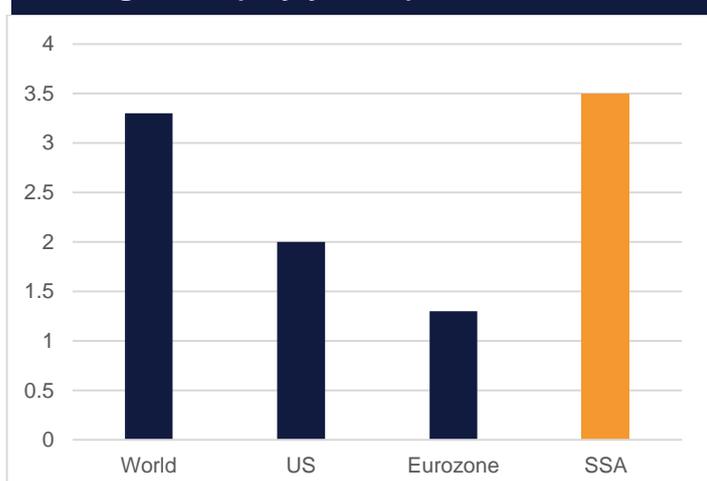
SSA outperforming global FDI (% y/y 2019)



Source: UNCTAD Investment Trends Monitor January 2020, Emirates NBD Research

The attractiveness of Africa for FDI was underlined in 2019. While global FDI fell by 1% y/y last year, according to UNCTAD data, FDI into Southern Africa rose 37%, West Africa 17% and Central Africa 6% while East Africa remained flat. Africa as a whole saw growth of 3% with the North Africa region weighing on the continent. By

Sub-Saharan Africa will exceed global real GDP growth (% y/y 2020)



Source: IMF World Economic Outlook January 2020, Emirates NBD Research.

contrast to this strong expansion, the EU saw a 15% decline in FDI inflows, while FDI into North America was flat.

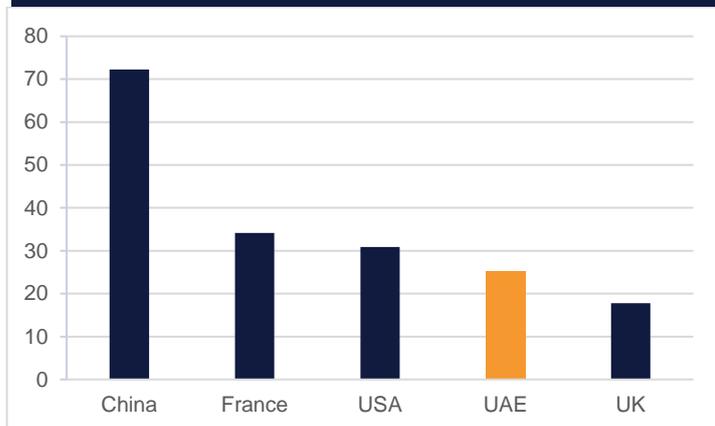
New players on the scene

The London conference came just weeks before the departure of the UK from the EU on January 31 and was reflective of the Conservative government's desire to secure new trade deals around the world. Similarly, the French conference will likely reflect a desire to maintain its advantage in francophone West Africa at a time when it seems to be losing some political and economic capital in the region – as demonstrated by the December decision by the West African bloc of eight UEMOA states to kill its CFA franc after 65 years.

to essential natural resources complements the search for profit, as per China's investment into offshore oil in Angola or French energy firm Orano (previously Areva)'s uranium-mining activity in Niger. Notable to us in this regard is the UAE's Emirates Global Aluminium's USD 1.4bn upstream investment in a bauxite mine in Guinea, West Africa, while Saudi Arabia has not only pursued energy security (investing in oil refineries in South Africa) but also food security. A partnership deal with Sudan is aimed at facilitating Saudi Arabian investment into the Sudanese agricultural sector in a bid to ensure the import of sufficient food products.

While the primary sector garners the bulk of GCC interest, it is by no means alone, and there are a number of UAE firms targeting the growing African consumer also. In 2016, Majid al-Futtaim opened its first Carrefour hypermarket in SSA, launching a store in the Kenyan capital, Nairobi. Al-Ghurair also has sizeable operations in the continent, in printing especially, while Emaar Hospitality Group has opened an Address hotel in the Togolese capital Lomé. All of these operations are underpinned by the UAE's transport and logistics sector. Emirates airline serves 15 different countries in Sub-Saharan Africa, and a further four countries in North Africa. FlyDubai serves eight countries. Meanwhile, the growing presence of DP World in the region, with box facilities around the continent, will facilitate the growing trade volumes between the two regions.

Pan-African FDI (USDbn) by source, 2014-2018

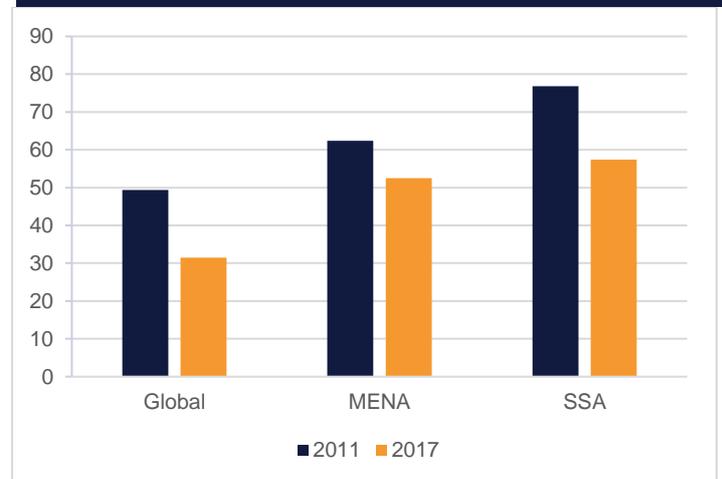


Source: FDI Intelligence and EY Africa Attractiveness Report 2019, Emirates NBD Research

Both countries have traditionally dominated FDI in Africa. In recent years they have been among the largest source countries, alongside the US (by dint of its sheer scale), China, and South Africa in a positive case of intra-African investment. What is of most interest to us, however, is the growing appetite for African investment shown by the GCC. The UAE in particular has become a key player, implementing 189 projects over 2014-2018, placing it sixth in terms of countries investing in the continent according to an EY report. In terms of capital invested – USD 25.3bn – it ranks in fourth place, ahead of the UK. While the historical and geographical links make East Africa the primary focus of the Gulf states ([see IMF deal could strengthen UAE-Ethiopia ties in our January Monthly Insights](#)), they are by no means limiting their involvement to that region, but have pursued interests around the continent.

As has long been the case, the bulk of this investment into Africa last year, across the span of the continent, was into the extractive sectors. Africa has significant mineral wealth and countries often lack the capital and expertise to implement high-cost extraction projects without significant external support, thus providing scope for significant FDI inflows, whether it be into offshore oil & gas fields or inland iron ore deposits. For investors, a desire to secure access

Unbanked over-15 population (%)



Source: Global Index Database, Emirates NBD Research

Although the rise of mobile money has to some degree leapfrogged the need for bricks and mortar banking, ongoing urbanisation and a massive unbanked population presents opportunities for banks also.

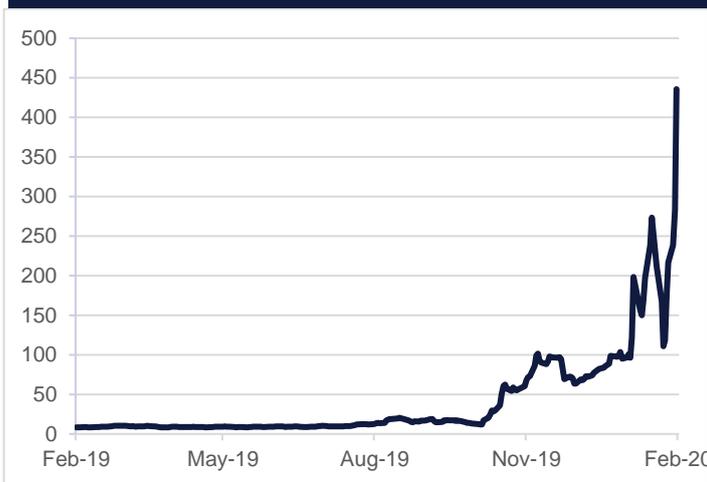
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MENA Macro : Uncertainty reigns in Lebanon as crunch time nears

It is less than one month until Lebanon's USD 1.2bn March 2020 Eurobond is set to mature, and it is as yet unclear whether the government will pay its debts or default for the first time through its decades of economic and political turbulence. Some fudge between the two looks likely at present, but with yields on the security at 436% at the time of writing on February 13, uncertainty reigns.

It is as yet unknown exactly what the government's rescue plan entails in terms of the economy, but it reportedly envisages tapping international lenders for soft loans. The IMF and World Bank have been asked for their assistance in drafting the plan – although the politically unpalatable demands the Bretton Woods institutions would likely make mean that they are not asked for financial assistance. Even foreign governments usually amenable to bailing Lebanon out would want to see some difficult decisions made by the Lebanese authorities before doing so. The UN Special Coordinator for Lebanon, Jan Kubis, said 'If you don't help yourselves, why do you expect assistance from the outside world?'

Eurobond March 2020, % yield

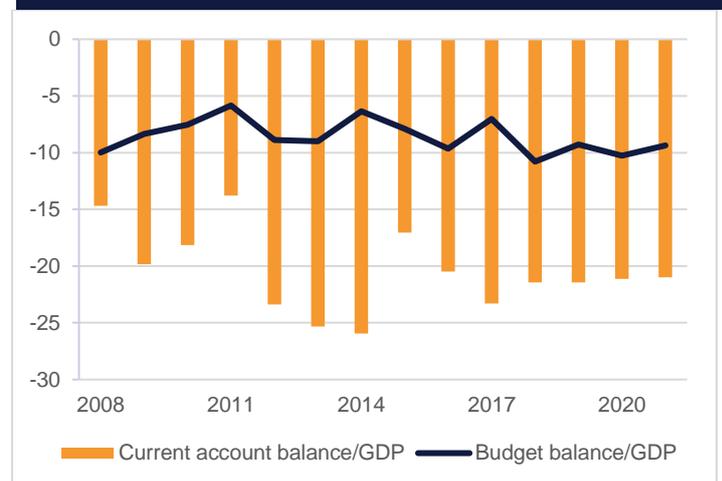


Source: Haver Analytics, Emirates NBD Research.

Failure by successive governments over recent years to implement essential reforms and start to curb the economic imbalances in Lebanon – namely wide fiscal and current account deficits of around 10% and 20% respectively, coupled with one of the highest debt/GDP levels in the world – has come to a head this year as confidence in the system has started to wane. International creditors have tired of propping the country up while material adjustment efforts have been wanting. The funds promised in Paris in 2018 are yet to be forthcoming as the required progress has not been met, and GDP growth has been anaemic at best. As a result, the steady inflow of foreign deposits which Lebanon has relied on to prop up the banking system started to decline for the first time, prompting concerns over its ability to meet its obligations.

Lebanon has been embroiled in a political crisis since October 2019, which has rapidly exacerbated these longstanding structural issues in the local economy. Protesters initially came to the streets to demonstrate against a proposed tax on VOIP provider WhatsApp, but these manifestations metastasized into calls for a whole new political system. Prime Minister Saad Hariri resigned at the end of October but no government formed since has managed to convince the people on the streets that they are capable of implementing their desired change. A confidence vote held in the parliament on February 11 – which Hassan Diab's government won – prompted numerous clashes. Although the government has promised to address not only fixing the battered finances but also corruption and the judicial system, it has yet to convince protesters of its good intentions.

Twin deficits are wide



Source: Haver Analytics, Emirates NBD Research

With regards the upcoming Eurobond payment, it is uncertain what will happen, with reports suggesting a decision will be made on Thursday February 13. It has been mooted that foreign holders of the debt will lose out, while local institutions will be paid off in order to save blowing a hole in their balance sheets. Central bank governor Riad Salameh has indicated he is ready to pay the debt if instructed. The issue comes down to where the government decides its priorities lie, or from what side it will receive the most pressure. Reserves are dwindling as inflows dry up, and if these are used to pay back creditors rather than sourcing potentially crucial imports, it could prompt a whole new round of public unrest. Diab pledged that he would ensure that these crucial imports are secured in parliament this week, contributing to the March Eurobond's rapid fall. Local lenders have said that there is no time to restructure debt, while a group of international creditors have joined together to speak to the government about its options.

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Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2017	2018	2019e	2020f	2021f
Nominal GDP \$bn	225.8	241.5	291.6	348.8	382.1
Real GDP %	4.1	5.3	5.6	5.7	5.9
Current A/C % GDP	-6.4	-2.5	-3.7	-2.8	-3.0
Budget Balance % GDP	-10.8	-9.8	-8.6	-7.3	-6.5
CPI %	29.6	14.4	9.4	7.5	8.0
Jordan	332.4	225.8	241.6	299.2	368.4
Nominal GDP \$bn	40.7	41.5	42.5	43.5	44.5
Real GDP %	2.1	2.0	2.1	2.3	2.7
Current A/C % GDP	-10.8	-7.1	-3.6	-4.7	-5.9
Budget Balance % GDP	-2.7	-2.6	-2.2	-2.3	-2.6
CPI %	3.3	4.5	0.3	1.8	2.5
Lebanon					
Nominal GDP \$bn	52.1	62.3	65.9	68.7	73.3
Real GDP %	0.6	0.2	-0.3	-1.5	1.2
Current A/C % GDP	-23.3	-21.4	-21.4	-21.1	-21.0
Budget Balance % GDP	-7.0	-10.8	-9.3	-10.3	-9.4
CPI %	4.5	6.1	2.5	3.4	2.9
Morocco					
Nominal GDP \$bn	109.6	117.9	118.2	124.7	131.0
Real GDP %	4.2	3.0	2.5	3.0	3.3
Current A/C % GDP	-3.4	-5.5	-4.1	-3.8	-4.2
Budget Balance % GDP	-3.4	-3.4	-4.2	-3.8	-3.5
CPI %	0.8	1.8	0.2	0.6	0.8
Tunisia	103.3	109.6	117.9	119.1	123.7
Nominal GDP \$bn	40.1	35.6	33.6	35.4	36.4
Real GDP %	2.0	2.4	1.6	2.3	3.1
Current A/C % GDP	-10.2	-12.5	-12.2	-11.2	-10.0
Budget Balance % GDP	-6.7	-5.6	-5.1	-4.7	-4.4
CPI %	5.3	7.4	6.7	6.0	5.8
Oil Importers (GDP weighted avg)					
Nominal GDP \$bn	147.3	158.6	192.6	233.6	257.5
Real GDP %	3.4	3.6	3.7	3.9	4.5
Current A/C % GDP	-8.3	-6.6	-6.4	-5.6	-5.8
Budget Balance % GDP	-7.6	-7.5	-7.0	-6.4	-5.9
CPI %	15.7	9.1	5.7	5.2	5.5

Source: Haver Analytics, National sources, Emirates NBD Research

*Egypt data refers to fiscal year (July-June)

Key Economic Forecasts – Non-GCC Oil Exporters

	2016	2017	2018e	2019f	2020f
Algeria					
Nominal GDP \$bn	167.6	165.5	163.4	166.0	170.7
Real GDP %	0.4	1.6	1.0	2.0	2.1
Current A/C % GDP	-13.3	-10.4	-8.7	-7.9	-7.2
Budget Balance % GDP	-6.5	-9.2	-9.5	-9.5	-9.1
CPI %	6.0	3.5	2.4	2.3	3.2
Iran					
Nominal GDP \$bn	446.9	422.4	528.6	648.7	762.3
Real GDP %	3.3	-4.2	-8.7	-2.8	1.7
Current A/C % GDP	3.5	3.7	-0.2	-1.2	-1.5
Budget Balance % GDP	-5.1	-4.2	-4.3	-4.7	-5.4
CPI %	10.0	21.0	38.7	27.5	20.0
Iraq					
Nominal GDP \$bn	166.2	215.5	243.3	247.5	268.8
Real GDP %	1.0	0.3	4.2	2.6	4.3
Current A/C % GDP	9.0	15.9	11.1	8.4	7.4
Budget Balance % GDP	-1.8	8.3	-4.6	-3.4	-3.2
CPI %	0.7	0.4	-0.2	0.8	1.0
Libya					
Nominal GDP \$bn	35.4	34.1	35.3	40.9	44.4
Real GDP %	30.3	0.9	2.7	-1.7	-14.9
Current A/C % GDP	-9.5	-2.1	-2.6	-2.7	-2.6
Budget Balance % GDP	-10.6	-7.1	-6.2	-5.5	-5.1
CPI %	25.0	11.5	10.0	8.5	7.0
Oil Exporters (GDP weighted avg)					
Nominal GDP \$bn	314.5	302.5	377.4	463.5	550.5
Real GDP %	4.1	-1.4	-3.5	-0.9	1.6
Current A/C % GDP	0.7	3.6	0.3	-0.5	-0.6
Budget Balance % GDP	-6.7	-2.8	-4.8	-5.1	-5.5
CPI %	7.6	12.4	22.3	17.2	13.1

Currencies

Dollar benefits from coronavirus uncertainty

Investor fears over the impact of the coronavirus epidemic have been the dominant feature of currency markets over the last month. This has primarily benefited the US dollar and the Japanese yen which have been the best performing major currencies during this period. Due to the US economy presently outperforming other developed economies, the dollar is being used by risk averse investors as a safe haven asset. In addition economic data out of the US has seen an improvement with employment and PMIs outperforming (see Global Macro). This has offset the concerns over coronavirus from a policy perspective such that the Fed remains on hold, with Fed Chair Jerome Powell's semi-annual testimony to Congress giving no hint that a cut in interest rates is near.

Since the start of the year, the Dollar Index has risen by 2.45%, with the index currently trading at 98.771. This appreciation has been accompanied by many technical developments which lead us to believe that dollar strength may persist in the short-term. Firstly, the price is on target to close for a second week above the 50-week moving average (97.648) which it broke above during the first week of February. This level is now likely to provide support. In addition, analysis of the daily candle chart shows that after the 50-day moving average (97.537) provided support at the start of February, the 200-day moving average and 100-day moving average (97.757 and 97.853 respectively). While the index has daily closes above the 97.50 level, it is likely to remain firm.



Source: Bloomberg

Euro remains under pressure

Weak growth in the Eurozone has continued to weigh on the common currency and kept the euro under pressure. Investors remain concerned over the risk of increasing trade tensions with the United States and the United Kingdom and the negative impact that this has on manufacturing. Coronavirus in China adds another dimension of risk as the region (particularly Germany) has strong

export connections with China, which also connects it via supply routes. These factors exert headwinds to growth, and contribute to the belief that further stimulus may be needed from the ECB, particularly with inflation risks remaining to the downside. Political uncertainty also exists in Germany, with Chancellor Merkel's intended successor having to stand down, casting doubt on succession, continuity and medium term policy direction. These are all factors that limit the EUR's upside in the near term, especially when aligned with the ongoing overhang of negative interest rates.

Year to date, EURUSD has declined 3.72% and fallen to its current level of 1.0905. During the first week of February price saw a weekly close below the 1.10 level for the first time since October 2019. This was the lowest weekly close since September 2019 although the price is currently on target to close this week even lower. Looking at the daily candle chart since the start of this month reveals many technical observations. Despite attempting to rise, the cross failed to advance beyond the resistive 61.8% one-year Fibonacci retracement (1.1096). Following the selling pressure encountered here, the price broke below the support at the 50-day moving average (1.1069) and continued to decline. The move also took the price below the 23.6% one-year Fibonacci retracement (1.1013) which has since been a level of resistance. While the price remains below this key level, the downside risks will prevail. There may be a short reprieve as the 14-day RSI (Relative Strength Index) which is bearish in momentum and reveals that EURUSD may currently be oversold. However any gains from investors taking profits on short positions is likely to encounter resistance at the 23.6% one-year Fibonacci.



Source: Bloomberg

GBP volatile as trade talks in focus

With the United Kingdom's departure from the European Union ratified by European Parliament, the pound has had a volatile two weeks. Despite UK economic data being constructive, market attention has now turned to the future trade talks between the UK

and the EU. Signals that these will start with an acrimonious tone have decreased appetite for sterling and caused GBPUSD to falter.

2020 has seen GBPUSD fall by 2.29% to the current price of 1.2953. These declines have taken the price below the 50-day moving average (1.3075). Over the last few days, the price appears to have found support at the 100-day moving average (1.2914) however downside risks remain. Analysis of the weekly candle chart shows that earlier this month, the price shattered the 100-week and 200-week moving averages (1.2966) and (1.3044) which failed as support levels. This is noteworthy as the 100-week moving average had provided weekly support since the start of the year and now appears to be providing some degree of resistance. With this said, the price has now climbed back above the 61.8% one-year Fibonacci retracement (1.2920). If the cross can close the week above the 100-week moving average, it could put a halt on further declines for GBPUSD.



JPY supported by safe haven bids

The Japanese yen has been the second best performing major currency, taking on the JPY's usual role as a haven. With uncertainty likely to remain a dominant theme in the market, support for JPY is likely to remain and we expect the fortunes of the yen to continue to be aligned with the performance of equity markets and risk appetite.

USDJPY is currently trading at 109.77, 1.07% higher since the start of the year. The current level is not far from the psychologically significant level of 110 which has been tested several times with a meaningful break failing to materialize. Analysis of the daily candle chart shows some bullish signs for USDJPY. The price has recently found strong support at the 200-day moving average (108.39) in February and since then has climbed and closed above both the 50-day and 100-day moving averages (108.83 and 109.23

respectively). Last week's close above the 200-week moving average (109.68) is also bullish for the price and we would expect daily close above the 110 level to trigger further appreciation, initially towards the 76.5% one-year Fibonacci retracement (110.53).



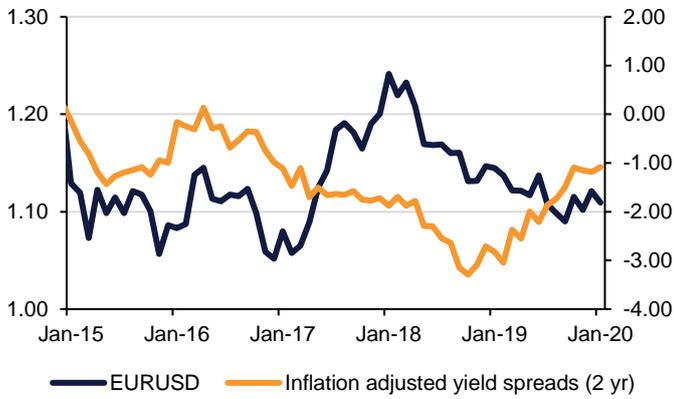
CHF also underpinned

Thus far the Swiss Franc's gains are not only due to demand for the traditional haven due to market risk aversion but may also be due to market expectations for a change in behaviour from the SNB (Swiss National Bank). While the SNB has habitually sought to intervene in markets and limit appreciation of the CHF, the re-addition of Switzerland to the US Treasury Monitoring List as a suspected currency manipulator is expected to make the central bank hesitate from here on. As such CHF firmness is likely to continue as long as market risks and uncertainties loom.

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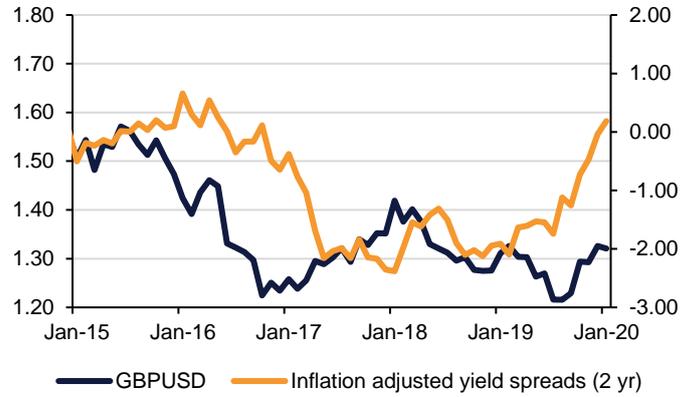
FX—Major Currency Pairs & Real Interest Rates

Interest Rate Differentials—EUR



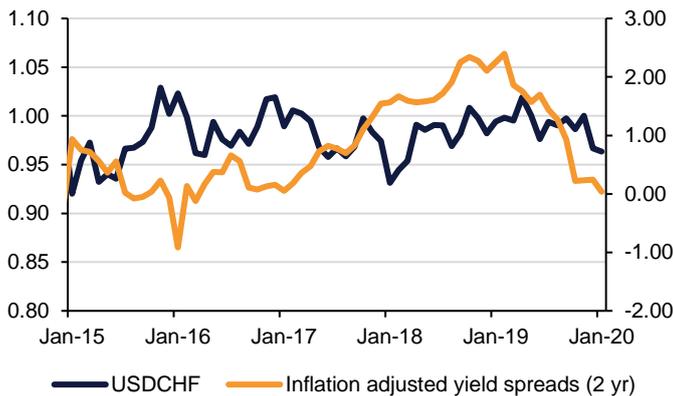
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



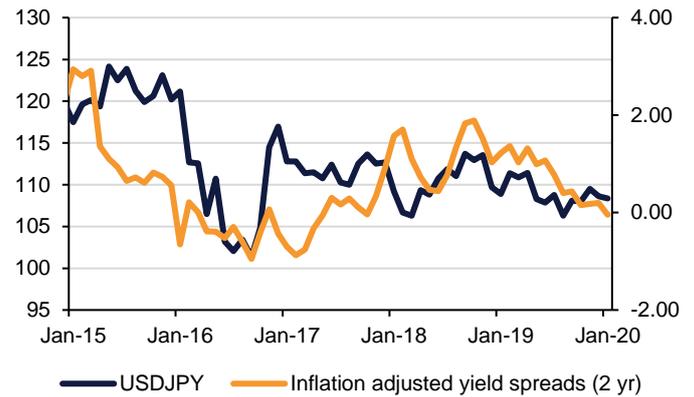
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



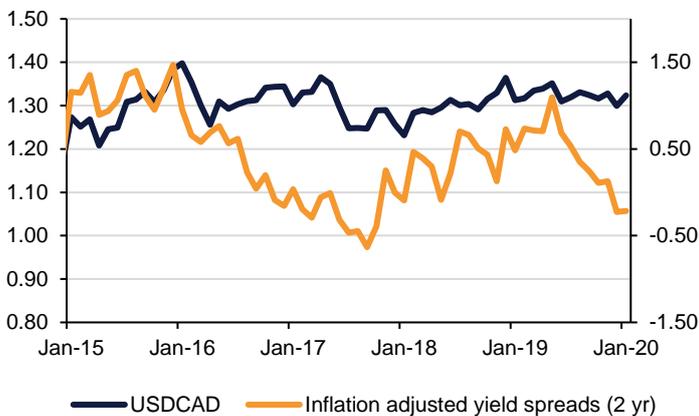
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



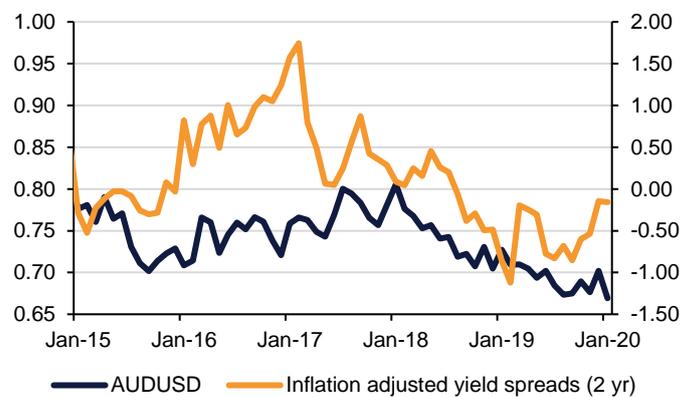
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	12-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EUR/USD	1.0913	1.1200	1.1400	1.1500	1.1700	1.0973	1.1032	1.1149
USD/JPY	109.90	110.00	108.00	107.00	107.00	109.37	108.84	107.79
USD/CHF	0.9762	0.9500	0.9400	0.9300	0.9300	0.9702	0.9642	0.9526
GBP/USD	1.2967	1.3300	1.3600	1.4000	1.4400	1.2998	1.3028	1.3087
AUD/USD	0.6733	0.6700	0.6850	0.7000	0.7100	0.6744	0.6755	0.6775
NZD/USD	0.6466	0.6500	0.6600	0.6700	0.6700	0.6472	0.6478	0.6484
USD/CAD	1.3273	1.3250	1.3200	1.3000	1.2800	1.3274	1.3275	1.3279
EUR/GBP	0.8416	0.8421	0.8382	0.8214	0.8125	0.8442	0.8468	0.8519
EUR/JPY	119.94	123.20	123.12	123.05	125.19	119.94	119.94	119.94
EUR/CHF	1.0654	1.0640	1.0716	1.0695	1.0881	1.0646	1.0638	1.0620

FX Forecasts - Emerging						Forwards		
	12-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
USD/SAR*	3.7508	3.7500	3.7500	3.7500	3.7500	3.7498	3.7497	3.7508
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6738	3.6749	3.6771
USD/KWD	0.3048	0.3020	0.3020	0.3020	0.3020	0.3052	0.3056	#N/A N/A
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3859	0.3877
USD/BHD*	0.3770	0.3770	0.3770	0.3770	0.3770	0.3772	0.3774	0.3778
USD/QAR*	3.6658	3.6400	3.6400	3.6400	3.6400	3.6670	3.6675	3.6685
USD/EGP	15.7311	15.7500	15.7500	15.5000	15.5000	16.0150	16.3650	17.0815
USD/INR	71.276	71.000	69.000	68.000	68.000	71.9400	72.6100	74.0000
USD/CNY	6.9663	7.1000	7.2000	7.2000	7.2000	6.9853	7.0028	7.0394
USD/SGD	1.3860	1.3500	1.3300	1.3100	1.3000	1.3854	1.3848	1.3842

FX Forecasts - MENA					
	12-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020
USD/MAD	9.6830	9.6500	9.5000	9.4000	9.4000
USD/TND	2.8337	2.8000	2.8000	2.7000	2.7000
USD/TRY	6.0167	6.0000	6.2000	6.2000	6.3000

Data as of 12 February 2020

Source: Bloomberg, Emirates NBD Research

Equities

Over the last month, global equities continued to build on gains from 2019. Investors largely shrugged off the impact of coronavirus as they factored in the probable stimulus from governments and central banks should the situation worsen, rather upbeat economic data releases from most economies and robust corporate earnings. The JP Morgan Global Composite PMI reading is now at its highest level since March 2019.

Having said that, a clear distinction emerged between the performance of the developed market and emerging market equities. In contrast to the trend observed over the last 6 months, emerging market equities underperformed broader markets. With China is at the center stage of the virus outbreak and considering its trade linkages to Asian emerging economies, the move is understandable. The MSCI EM index has dropped -3.0% 1m compared to gains of +1.2% 1m in the MSCI All Country World index. Within EM complex, Chinese and Russian equities have borne the brunt with the Shanghai Composite index losing -5.5% 1m and the MSCI Russia index declining -6.7% 1m. Even within global markets, there have been pockets of sharp declines mainly in sectors bearing the first-degree impact from the virus. The MSCI World Commodity Producers Price index dropped -8.2% 1m and the MSCI World Air Freight & Logistics index declined -4.0% 1m.

markets have turned out better than expected. In the US, where 57% of companies have reported earnings so far, 75% of those companies have beaten consensus EPS estimates. In Europe, nearly 38% of companies have reported earnings and 64% of those companies have reported EPS ahead of consensus estimates. The number of Japanese companies who have so far reported earnings ahead of forecasts stands at 51%. Looking ahead, however, one needs to be wary of the ongoing earnings downgrade cycle. Since the start of the year, all major equity indices have seen earnings expectations for this year lowered further even before accounting for the impact of coronavirus on earnings.

With economic data showing signs of optimism and central banks retaining an accommodative bias, the short term direction of equity markets could well be decided by conditions surrounding the coronavirus. So far, early signs are emerging that the pace of growth and spread is starting to slow down and if that continues then that could provide further succor to risk assets. Additionally, the increasing probability of some Asian economies providing fiscal stimulus to offset the economic impact of the viral outbreak could be another catalyst for equity markets to rally.

Equities & Epidemics

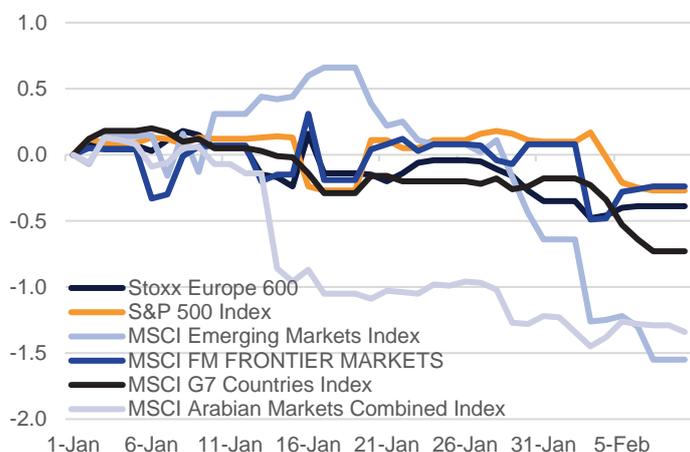
With the coronavirus outbreak holding the potential of becoming an epidemic, we look at some of the questions that are cropping up related to its impact on equity markets.

Is past a good guide?

The most obvious thing for investors to do is to see the impact past instances of such an outbreak has had on equity markets and then try and extrapolate the same in the current situation.

As we can see in all instances, the impact has dissipated over the 3-month and 6-month time horizon. One plausible reason for a muted impact of such outbreaks on equity markets could be that infections tend to taper off within 2-3 months. Further, as in the example of SARS 2003, economic activity tends to rebound as sharply as the downturn. The retail sales in China touched a low of 4.3% y/y in May 2003 before rebounding to as high as 17.8% y/y in May 2004. The average growth of retail sales in twelve months of 2003 was 9.0% and in twelve months of 2004, it was 13.3%.

Earnings continue to be revised lower



Source: Bloomberg, Emirates NBD Research

One of the pillars of support for equity markets has been the ongoing Q4 2019 earnings season. The Q4 2019 earnings across developed

Investors, largely, shrugged off the impact of coronavirus as they factored in the probable stimulus from governments and central banks should the situation worsen, rather upbeat economic data releases from most economies and robust corporate earnings.

Market Return (MSCI World index)

	1m (%)	3m (%)	6m (%)
SARS	8.64	16.36	21.51
Avian Flu	-0.18	2.77	10.05
Dengue Fever	1.07	7.09	9.68
Swine Flu	10.96	19.73	39.96
Cholera	-2.35	7.02	13.61
MERS	-0.29	2.15	8.58
Ebola	-0.09	2.37	4.37
Rubeola	-1.71	1.92	2.29
Zika	-6.05	-0.88	-0.57
Ebola	-7.42	-13.74	-3.49
Measles	6.46	4.51	12.02

Source: FactSet, Emirates NBD Research

While it is too early to predict the pace of rebound, a few caveats need to be kept in mind while expecting a repeat of past moves. The most important being that we are now into late cycle economic growth trajectory. Secondly, China now has deeper linkages to a greater integrated global economy (see *Global Macro on Page 5*) which in turn has the potential to carry the impact wider. The fact that losses in global equity markets have been limited both in terms of size and spread also makes the past example of rebounds more irrelevant.

How will governments and central banks react?

Before we dwell on the steps already announced or likely to be announced, it must be kept in mind that the current viral outbreak comes at a time when both Chinese and global economy were showing signs of a slowdown and when central banks have been more proactive than ever before to provide accommodation even at first signs of slowdown. This background has led to the belief among investors that most affected economies will provide some stimulus at the very least. There is also an emerging view that this also lends greater support to the view that global central banks will keep interest rates lower for longer.

The early indications point to that direction. China has already announced some measures and is suggesting that it will take more steps to ensure that the growth rate for 2020 remains as closely aligned as possible to the initial target. Singapore has also confirmed that it will be taking special measures to support the economy in its budget statement. The People's Bank of China has provided additional liquidity, loosened lending restrictions, pared rates in its repurchase, or repo operations and expectations are growing that a rate cut will be made as soon as next month. The

Chairman of the US Federal Reserve has also said that there are risks to the outlook even as it adopted a wait and watch approach to gauge the actual impact.

All this put together not only explains the recent moves in equity markets but also makes it likely that for equities hold onto their gains. However, the strength of those gains would depend on the depth of measures announced. If the impact of fiscal stimulus provided by China in 2009 is any guide, then we could see a sharp rebound in Chinese equities, to begin with, which will eventually spill over to global equities. The Shanghai Composite index added +14% in two months since the measures were announced even as the MSCI World index dropped.

Chinese equities rallied sharply in 2009 on fiscal stimulus



Source: Bloomberg, Emirates NBD Research

Nothing to worry about?

Notwithstanding the 'stimulus expectation' strength in the equity market so far, investors should be wary of spillover impact from other asset classes which so far have suffered from the adverse impact on the global economy. The most obvious one is commodities. The SPGSCI index has dropped -10.6% 1m and Brent oil prices have declined -15.3%. It must be remembered that the energy and materials sectors together account for c.9% in the MSCI World index and c.15% in the MSCI EM index.

The copper/gold ratio which is generally considered bell-weather for the global economy has dropped to levels last seen in 2016. It must be noted that equities have a positive correlation to this ratio. While so far, it has not followed the trend, a sustained decline in the ratio could see equities moving back to the trend.

Can weakness in other asset class spill onto equities ?



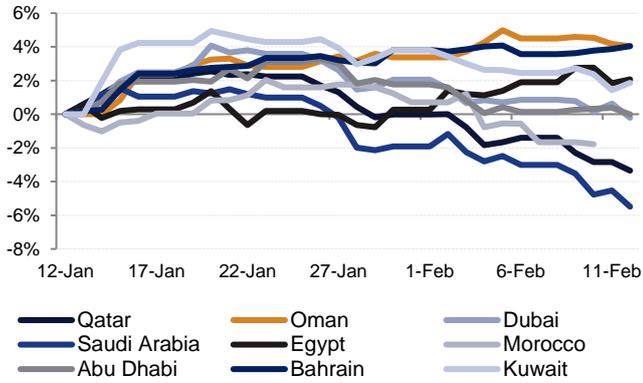
Source: Bloomberg, Emirates NBD Research

Beyond commodities, we have seen a sharp decline in both short-term and mid-term treasury yields. The 2y UST and 10y UST yields have dropped -8.7% 1m and -11.1% 1m respectively. A sustained lower rate environment would hurt net interest margins of banks, a key engine of banking sector profit. Banks also carry a significant weight on global equity indices.

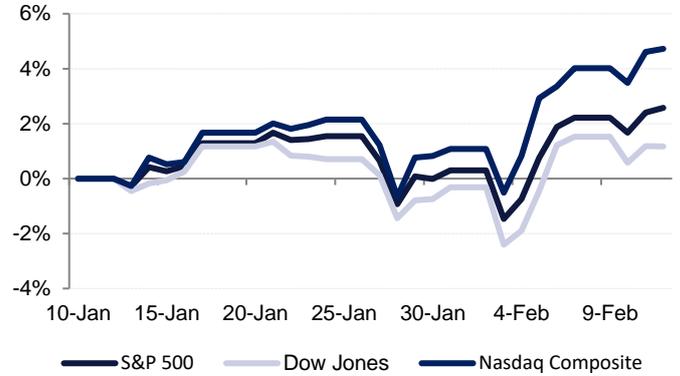
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Major Equity Markets

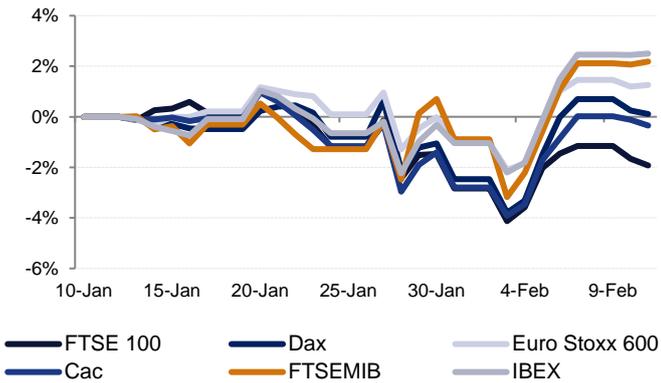
MENA Equity Markets



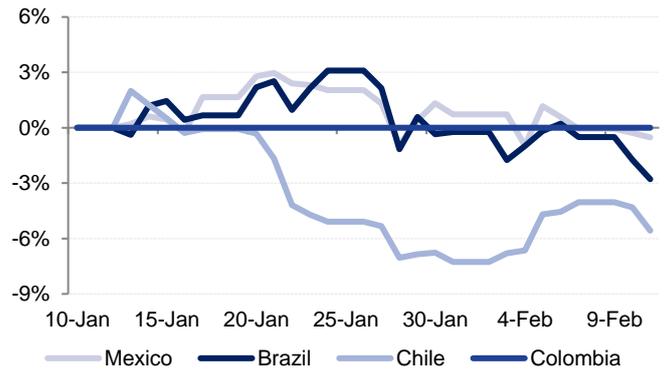
US Equity Markets



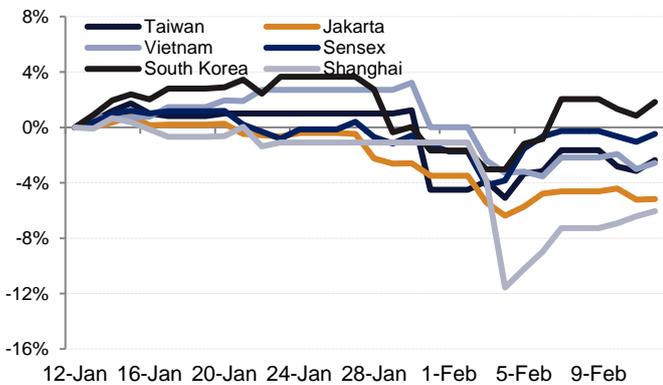
European Equity Markets



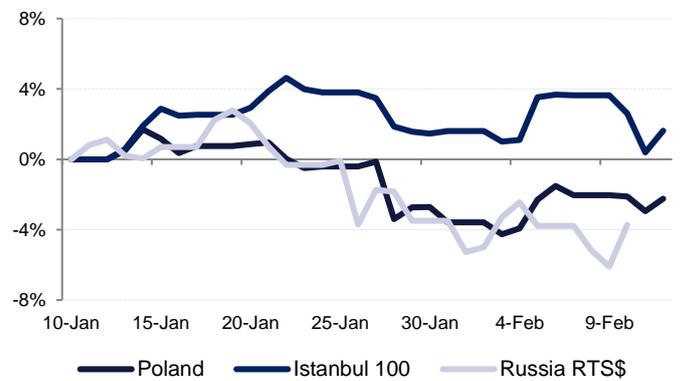
Latin American Equity Markets



Asian Emerging Equity Markets



Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

Fixed Income

High yield bonds delivered double-digit returns in 2019

The spike in negative yielding bonds throughout 2019 pushed investors into riskier debt as they chased yield. It was no surprise then to see the Bloomberg Barclays Global High Yield Total Return index deliver a +12.6% return last year. At one point during 2019, the total value of debt yielding negative returns stood at USD 17tn. While that number has come down since, it has increased this year from USD 11.2tn to USD 13.1tn at the time of this writing.

Will 2020 be any different?

There is an emerging argument for investors to move up in credit quality as economic growth slows. However, with treasury yields dropping further owing to geopolitical developments at the start of 2020, investors could be tempted to stick with 'chasing the yield' rather than starting 'to look for value'. It is no surprise then to see that the YTW on Bloomberg Barclays Global High Yield index (5.67%), despite heightened worries in emerging markets, is within 20 bps of the lows of 5.47% seen at the start of 2020.

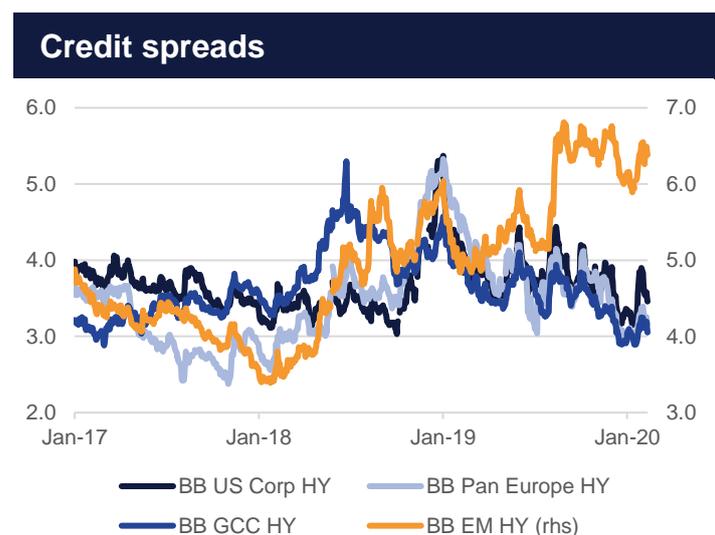
So far this year, the Bloomberg Barclays Global High Yield Total Return index has delivered a +0.7% return. Within the high yield space, the Bloomberg Barclays USD EM High Yield index has delivered 1.5% ytd, the Bloomberg Barclays US Corporate High Yield index and the Bloomberg Barclays Pan European High Yield index has returned 1.05% each. The Bloomberg Barclays GCC High Yield index has returned +1.3% ytd.

In terms of spread, most high yield sub-indices indicate that they are a bit wider compared to the start of the year. However, as seen last year wider spreads do not necessarily mean lower prices. Further, while high yield spreads are tighter than long-term averages, they are still wider than historical tight. With economic fundamentals improving and technical remaining supportive it will not be surprising to see 'chase the yield' theme continue.

The flow data appear to corroborate that theory. While the quantum of flows into high yield debt has slowed, they remain positive. According to data as of 5 February 2020 from EPFR Global, non-US high yield debt has seen inflows of USD 1.68bn (versus USD 13.8bn in 2019) while US high yield debt has seen inflows of USD 1.2bn (versus USD 24.1bn in 2019).

Relative value

Generally, the yield to worst (YTW) is considered an important indicator of future high yield returns. Following a significant move down in YTW 2019, the consensus view remains apprehensive of high yield markets' ability to repeat the performance. The view is not specific to high yielding debt but rather to the wider fixed income market. The YTW on Bloomberg Barclays Global High Yield index dropped from 7.65% at the start of 2019 to 5.63% at the end of 2019, a 226 bps change. Similar moves were also seen in high yielding debts of US corporate, emerging markets and European corporates.



Source: Bloomberg, Emirates NBD Research

Yield to duration			
	YTW (%)	Duration	Yield per unit of duration
BB US Corporate HY	5.15	3.09	1.66
BB EM Asia USD HY	6.79	2.87	2.37
BB EM HY	7.96	5.26	1.51
BB GCC HY	4.66	5.71	0.82
BB EM USD Aggregate	4.72	6.45	0.73
BB US Aggregate	2.09	6.24	0.33
BB US Treasury	1.59	6.7	0.23

Source: Bloomberg, Emirates NBD Research

'Investors could be tempted to stick with 'chasing the yield' rather than starting 'to look for value'

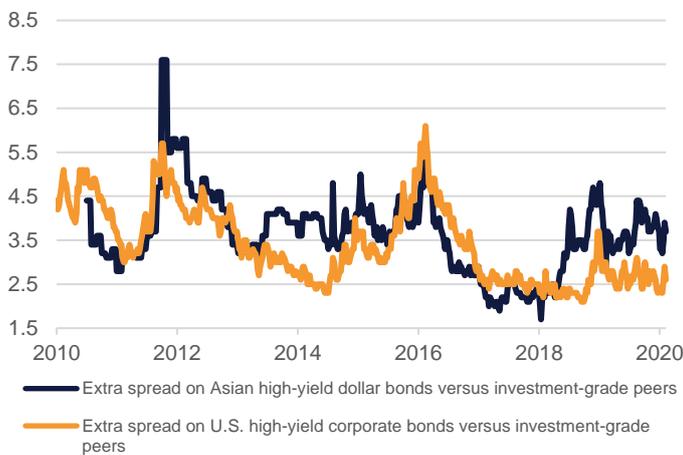
While YTW is a good barometer, there is a strong case to benchmark returns from high yielding debt to other fixed income securities on a duration basis. The following table indicates that on a yield to duration basis, high yield debt remains a relatively attractive proposition.

In terms of extra spread over investment-grade securities, some high yield debt is still yielding in line with the 10-year averages. The Asia HY USD bonds are yielding 3.7% excess, in line with the 10y average spread. However, the US corporate HY bonds are currently yielding 80 bps lower than the 10y spread over corresponding investor grade bonds.

BB while the JP Morgan Asia Non-Investment Grade Diversified index has 61.5% of BB rated bonds.

However, default rate in Asian high yield space is expected to increase in 2020. More so as the impact of coronavirus is felt the hardest on Asian economies. According to data from Bloomberg nearly USD 2.1bn of offshore notes in China which yield more than 15% are due in March 2020. With a major part of Chinese economy under lockdown, some issuers may find it hard to service or refinance them. It is no surprise then to see the spreads on Chinese high yield debt as high as 247 bps.

Asian HY USD debt still providing extra yield over IG grade in line with 10y average



Source: Bloomberg, Emirates NBD Research

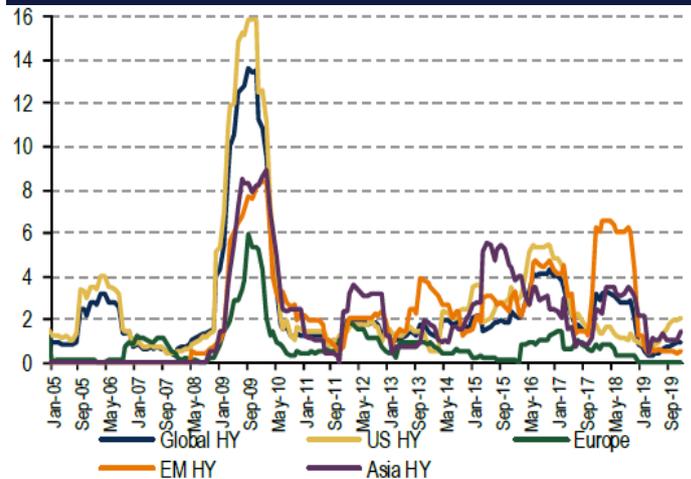
Default risk

The key risk to high yield debt remain default rates. Before we dwell on that, it is worth highlighting that higher rated high yield debt has actually underperformed the broader index. The Bloomberg Barclays Global High Yield Corporate Ba/B index (1-5 year) has returned 0.18% ytd compared to 0.36% from the broader Bloomberg Barclays Global High Yield Corporate (1-5 year) index.

In terms of rating changes, so far in 2020, S&P has downgraded 65 issuers and upgraded 29 issuers in the US. In the Asia Pacific ex-Japan region, the rating agency has downgraded 5 and upgraded 1 issuer. In the Africa and Middle East region, S&P has so far downgraded 1 issuer. All the data pertains to high yield issuers.

The default rate has moved in line with the trend seen in the upgrade/downgrade ratio. According to Fitch the US high yield default rate finished at 2019 at 3.3%, the highest level since 2016 and above the non-recessionary 2.4% level. According to market data, the default rates in Asia high yield debt space was low at 1% in 2019 compared to Latin America (1.6%) and the Middle East (1.6%). In our view that is primarily a function of more high quality bonds in Asia compared to other markets. According to market data, Bloomberg Barclays US High Yield index has 48% of bonds rated

Global default rate by amount



Source: BofA Global Research, Wind

Having said that, it should also be noted that the high yield issuance calendar in 2019 was dominated by refinancing activity. With issuers able to take advantage of lower rates to increase the financing period, they should be able to withstand any transient slowdown in economic activity which in turn should provide comfort to investors.

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Interest Rate Forecasts

US Treasuries Forecasts							
	Current	3M	6M	12M			
2y	1.44	1.55	1.70	1.75			
10y	1.60	1.70	1.85	1.90			
2s10s (bp)	16	15	15	15			
3M Libor							
3m	1.70	1.75	1.80	1.85			
3M Eibor							
3m	1.98	2.05	2.10	2.10			
Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED (Upper Band)	1.75	1.75	1.50	1.50			
ECB (deposit rate)	-0.50	-0.50	-0.50	-0.50			
BoE	0.75	0.75	0.75	0.75			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-0.75	-0.75			
RBA	0.75	0.75	0.50	0.50			
RBI (repo)	5.15	5.15	5.15	4.90			
SAMA (reverse repo)	2.00	2.00	1.75	1.75			
UAE (Repo rate)	2.25	2.00	1.75	1.75			
CBK (o/n repo rate)	2.50	2.50	2.50	2.50			
CBB (o/n depo)	2.00	2.00	1.50	1.50			
CBO (o/n repo)	2.77	2.52	2.52	2.25			
CBE (o/n depo)	13.25	11.25	10.25	9.25			

Source: Bloomberg, Emirates NBD Research
As of 12 February 2020

Commodities

Metals markets have been shaken by the coronavirus outbreak in China and the subsequent halt to the industrial heart of the world's most important consumer of raw materials. Copper forwards endured 14 consecutive days of decline and all industrial metals have so far declined year to date. How long China's economy will be disrupted by the virus remains an enormous unknown variable. However, the outbreak has stifled sentiment towards metals generally and will act as a general drag on prices. Moreover, stimulus measures the Chinese government have introduced will likely impact the services sector more than boosting industrial or infrastructure activity.

Conditions for industrial metals were already looking soft to start 2020 given that manufacturing was flat or in decline in most markets last year. Soft manufacturing PMIs and sluggish global trade levels more than outweighed inventory draws across most of the LME complex and helped to push our assessment of metals markets conditions to multi-year lows (figures below 50 would imply a lower level for the LMEX index of base metal prices).

automotive industries. Two particularly heavy days of deliveries into LME copper stockpiles at the end of January have yet to be run down and levels may rise further as shipments to China are deferred to other destinations.

Base metals slump on coronavirus



Source: Bloomberg, Emirates NBD Research. Note: USD/tonne.

We had a better outlook for aluminium given that it tends to front-run economic recoveries and excessive inventories have largely been drawn down. However, the extensive shutdown of industry in China will likely nullify that argument and we are revising our outlook for prices down to an average of USD 1,792/tonne, a 1.1% decline y/y. Substantial new capacity outside of China had been poised to come on stream in 2020, further weighing on the outlook for prices in the short term.

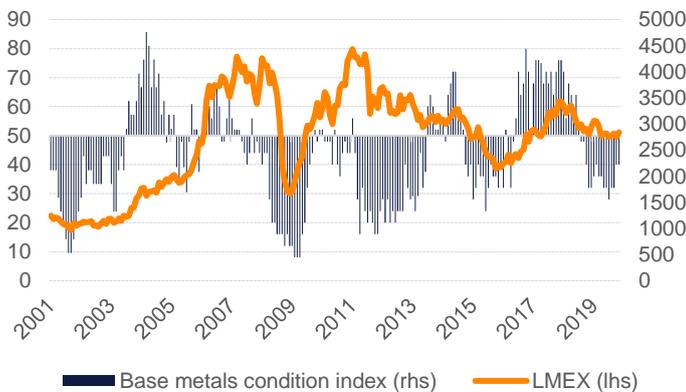
We are marking our nickel forecasts to market as our previous views looks untenable in light of the slump that will hit China's economy. Already inventories have jumped as supply chains get backed up while exports of ore from Indonesia surged last year meaning raw material inputs should be ample. We now expect prices to average USD 14,375/tonne with an H1 particularly at prone of weakness related to the slowdown in Chinese industrial demand.

Precious metals show strength selectively

Where industrial metals have slumped, precious metals have displayed some resilience. Gold prices are up 3.5% year to date, bolstered by the coronavirus outbreak as well as an escalation of geopolitical tensions in the Middle East at the start of the year. Safe-haven bids will help to keep gold supported in the short-term but barring a sizeable impact from the coronavirus on markets beyond China—particularly the US or European markets—we are skeptical that there is sustained upside for gold prices.

We expect central banks to largely be on the sidelines of commodity markets this year as rates are already quite low in most markets. Indeed, gold only gets a significant boost when rates cuts are from peak levels (see our August 2019 Monthly Insights). While the

Metals prices already under pressure



Source: Bloomberg, Emirates NBD Research.

Copper prices endure protracted slump

Our initial disposition toward base metals in 2020 was for relatively muted performance in the major markets of aluminium and copper (a 3.4% gain and 3.3% decline respectively). While it was becoming clear toward the end of H2 2019 that some form of a trade deal between China and the US was in the offing, we didn't expect that it would set a fire under commodity markets, particularly as the overall level of tariffs remains quite high and trade volumes persist at sluggish levels. Indeed we were, and remain, below consensus on the outlook for copper this year. Our projection for a Q1 average of USD 6,000/tonne on LME 3mth forwards hews close to the year-to-date average of around USD 5,980/tonne and we expect prices to be at risk of moving lower over the rest of the year.

Copper inventories in China have already started to increase as demand centres are affected by the slowdown, particularly in the

impact of the coronavirus will shake China's economy it may not be enough to derail the performance of the US economy, the outlook for rates, or more importantly the trajectory for US equities.

Gold and palladium push higher



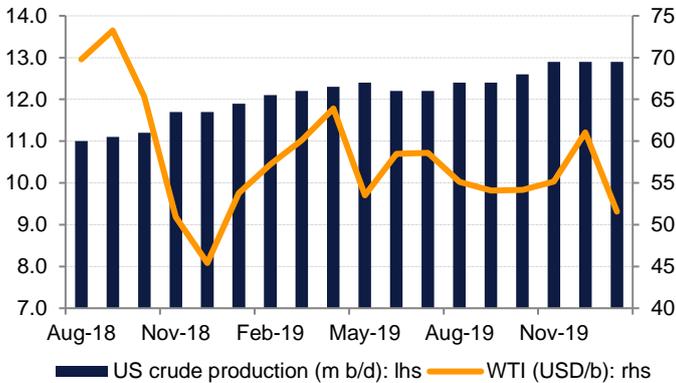
Source: Bloomberg, Emirates NBD Research. Note: USD/troy oz.

The outlook for both silver and platinum is more distressing given their prominence in industrial processes. But the most substantial move in metals this year has been in palladium, up more than 20% year to date. Power shortages in South Africa, a significant producer, have combined with depleted inventories and physical metal pulled out of ETF holdings to create a bullish whirlwind for the metal. While palladium demand will also struggle with an industrial slowdown in China, the relative scarcity for its supply position means elevated price levels appear more sustainable. We have revised up our forecast for palladium this year to an average of around USD 1,990/troy oz.

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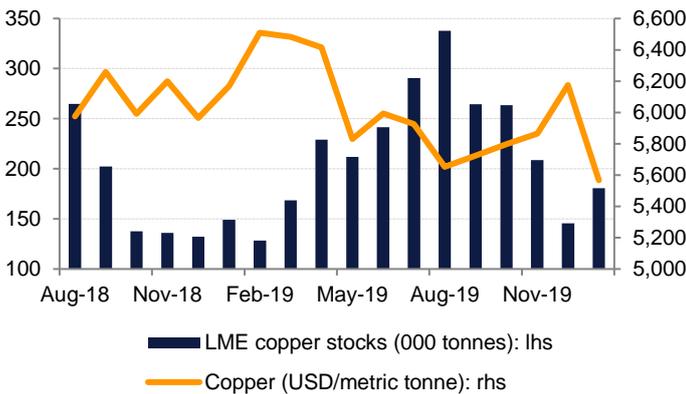
Major Commodities Markets

US oil production and price



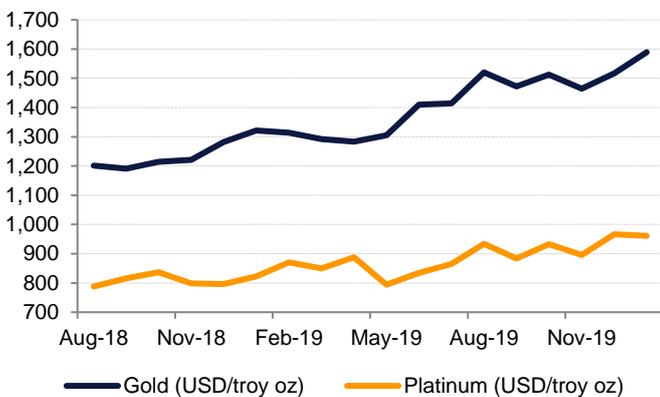
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



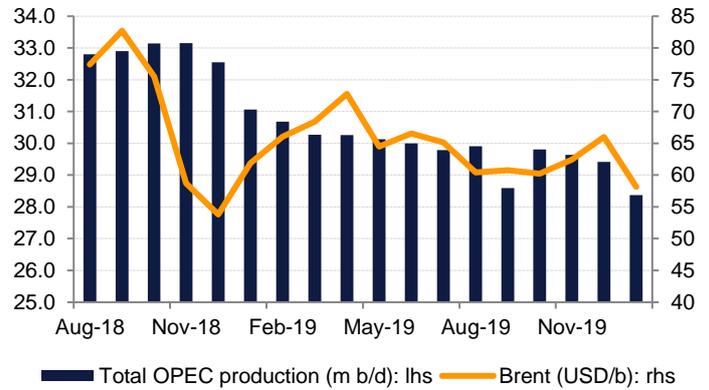
Source: Bloomberg, Emirates NBD Research

Precious metals prices



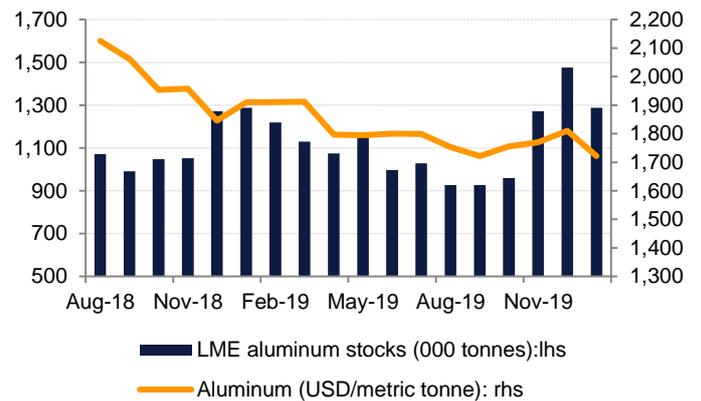
Source: Bloomberg, Emirates NBD Research

International oil production and price



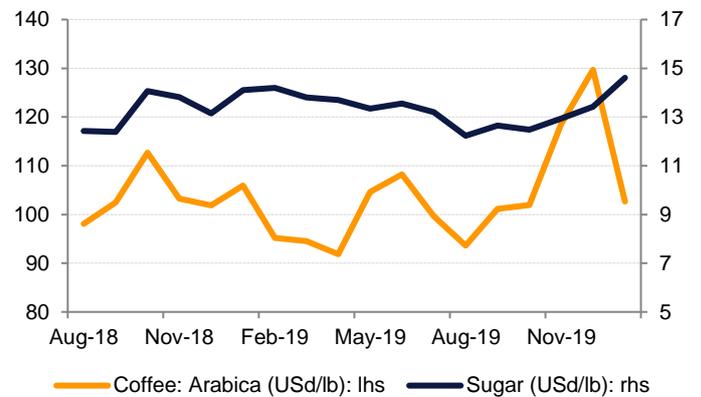
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	2020Q1	Q2	Q3	Q4	2019	2020
Energy							
WTI	50.20	55.00	52.00	55.00	56.50	57.03	54.63
Brent	54.06	58.00	55.00	57.50	58.00	64.19	57.13
Precious metals							
Gold	1,566.96	1,550.00	1,500.00	1,450.00	1,450.00	1,392.40	1,487.50
Silver	17.78	17.00	16.50	16.00	15.75	16.20	16.31
Platinum	963.77	1,000.00	900.00	950.00	900.00	864.97	937.50
Palladium	2,359.17	2,250.00	2,000.00	2,000.00	1,900.00	1,539.86	2,037.50
Base metals							
Aluminum	1,702.00	1,800.00	1,750.00	1,800.00	1,820.00	1,813.14	1,792.50
Copper	5,667.00	6,000.00	5,800.00	5,750.00	5,750.00	6,023.08	5,825.00
Lead	1,796.00	2,072.31	2,011.52	1,996.26	1,996.26	2,004.91	2,019.09
Nickel	12,885.00	13,500.00	14,000.00	15,000.00	15,000.00	13,938.00	14,375.00
Tin	16,325.00	16,000.00	16,500.00	17,750.00	17,900.00	18,612.26	17,037.50
Zinc	2,134.00	2,389.58	2,323.46	2,306.84	2,306.84	2,509.85	2,331.68
Iron ore	83.91	90.00	85.00	75.00	70.00	93.32	80.00

Prices as of 11 Feb 2020. Note: prices are average of time period unless indicated otherwise.

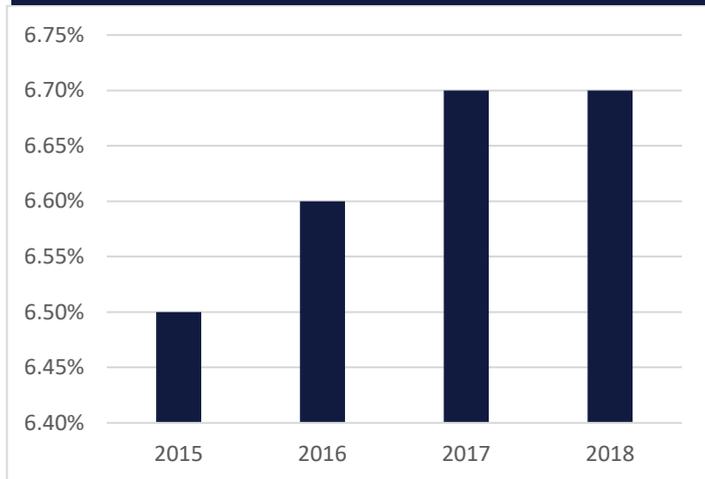
Source: EIKON, Emirates NBD Research

Sector Report

Abu Dhabi focuses on manufacturing

The Emirate of Abu Dhabi's diversification programme under Economic Vision 2030 highlights the manufacturing sector as one of the key drivers. Among the sectors where the emirate of Abu Dhabi has significant investments and development plans are Aluminum, Steel, Petrochemicals, and Aerospace manufacturing.

Manufacturing share in Abu Dhabi's GDP



Source: SCAD

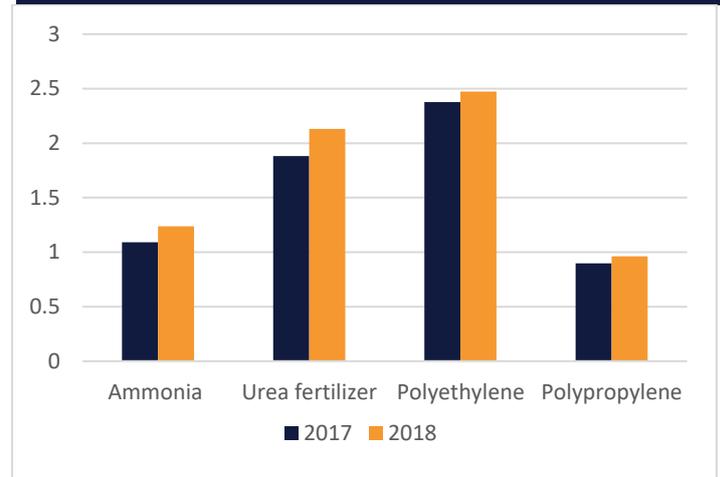
Alumium and Steel Sectors adapt to new dynamics

Aluminum is one of the key metals sector for the emirates, with Abu Dhabi investing heavily in both upstream and downstream alumina facilities. Emirates Global Aluminum (EGA) new Al Taweelah alumina refinery which began operations in April 2019 with one million tons of alumina is expected to reach full capacity in the first half of 2020. The refinery converts bauxite ore into alumina, the feedstock for aluminum smelters. Once full production is achieved, the plant would meet 40% of EGA's alumina needs. With aluminum smelters being energy intensive, the UAE has a natural competitive advantage in that sector. The aluminum sector alone is estimated to account for 1.4% of the UAE's economy and employs close to 60,000 people.

The steel sector in Abu Dhabi is actively looking at shifting its focus from supplying the construction sector to opportunities in downstream manufacturing industries. Given that most key projects around Expo 2020 are close to completion, domestic demand for steel is likely to fall especially in 2021. The CEO of Emirates Steel noted last year that "The GCC steel producers should shift their focus towards the manufacturing industry". Given the scale of industrial projects in Abu Dhabi and around the region, slack in demand from the construction sector is likely to be compensated by

industrial demand. Emirates Steel, the UAE's largest steel producer, is estimated to have kept steel output at 3.1 million tons in 2019, the same level as output for 2018. About 20% of production is exported to other Gulf States, while more than 70% is consumed domestically

Abu Dhabi Key Petrochemicals Output (Million metric tons)



Source: SCAD

Petrochemicals sector focusing on value add

Abu Dhabi is actively investing in its petrochemicals sector, as it looks at extracting maximum value added out of its oil sector, by converting oil barrels into higher value products. The emirate has been focusing on expanding its downstream mix and capitalizing on growth in high-value products, petrochemicals are key. Over the next five years Abu Dhabi National Oil Company (ADNOC), has plans to invest USD 45bn in the downstream segment, as part of its 2030 growth strategy. One of the key projects is developing the Ruwais complex into the world's largest integrated refining and chemicals site. By 2025 the emirate plans to triple petrochemicals output to 14.4m tons, refine nearly half of the crude oil produced in Abu Dhabi, and using 20% of that towards the petrochemicals sector. The emirate will focus on Asia as key export market, with the continent expected to account for two-thirds of new global demand for petrochemicals over the next 20 years.

Aerospace sector a growing focus

Investing in the Aviation sector makes strategic sense to Abu Dhabi. In a region with one of the business global aviation hubs, demand for components and spare parts is high. One of Abu Dhabi's leading quasi sovereigns Mubadala has been driving strategic investments in the aerospace sector. Through its subsidiary the Mubadala Investment Company it owns Strata Manufacturing, an advanced composite aero structures manufacturing company. Strata was established in 2009 and is a tier-one supplier of components to Airbus and Boeing.

In the city of Al Ain within the emirate of Abu Dhabi, The Nibras Al Ain Aerospace Park is jointly owned by Mubadala and Abu Dhabi Airport Company as a platform to supporting the establishment of a sustainable aerospace industry in the emirate. Once complete the park will allocate five square kilometers to the aerospace industry.

The emirate will need to continue committing to the aerospace sector by expanding its portfolio of original equipment manufacturer (OEM) activities. In the long run investing heavily in aerospace research and development will be key to maintaining the emirate's competitive advantage.

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