Monthly Insights

15 January 2020

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Preface

Global macro: Despite the imminent signing of a 'phase-one' trade deal between the U.S. and China, 2020 has already shown us that risks are unlikely to go away. With global growth this year only likely to improve marginally, if at all, the world economy and financial markets can little afford persistent trade fears or geopolitical risks to interfere with recoveries.

GCC macro: OPEC's decision at the end of last year to deepen oil production cuts in Q1 2020 will have a negative impact on the headline GDP growth of the GCC oil exporters this year.

MENA macro: While on the face of it Egypt's real GDP growth is strengthening, this belies the ongoing failure of the non-oil private sector to mount a lasting recovery. Government initiatives and lower interest rates should support this.

Sub-Saharan Africa macro: A new deal struck between Ethiopia and the IMF in December could pave the way for greater opening up of the African economy, providing scope for increased cooperation between it and the UAE.

Currencies: The dollar's improvement so far in 2020 has been tentative and while it has been across the board, it largely reflects weakness in two key currencies, the JPY and the GBP, which may not last.

Equities: Notwithstanding a momentary spike in geopolitical tensions at the start of 2020, global equities showed enough signs which indicated continuance of exuberance from 2019. With key short-term risks behind us, the focus is likely to shift to market and economic fundamentals even as investors keep an eye on developments in a politics laden 2020.

Commodities: Oil prices endured geopolitical risks to start the year even as the Middle East remains a criticial supplier of crude to international markets.

Sector Report: Dubai's tourism sector has seen growth in 2019 with international visitor numbers continuing to rise.

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Chief Economist & Head of Research

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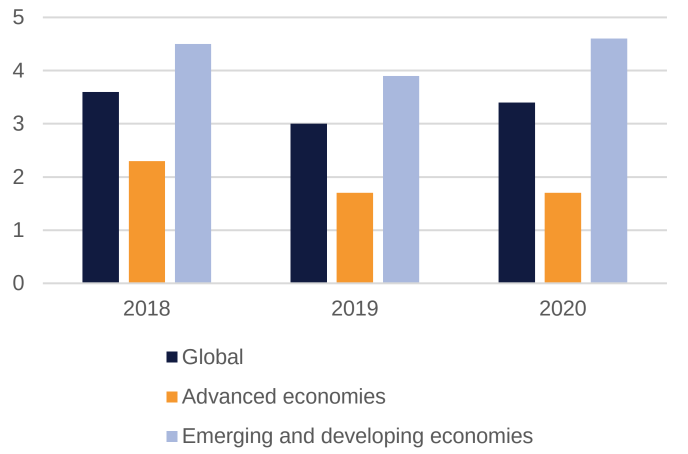
Global Macro: Modest acceleration, but risks to the downside

The consensus view is that there will be a moderate improvement in the world economy in 2020, with both Bretton Woods institutions projecting an acceleration in global GDP growth. The IMF anticipates 3.4% in 2020, compared to an estimated 3.0% last year while the World Bank forecasts 2.5% compared to a 2019 estimate of 2.4%. However, this improvement is building on a particularly weak base, with the IMF's 2019 estimate representing the slowest growth rate since the global economic crisis. Data releases around the world continue to paint a fairly bearish picture, with the last round of major manufacturing surveys for last year all sluggish at best – although this is in contrast to services which have generally held up.

Global GDP growth outlook weak



Source: IMF, Emirates NBD Research

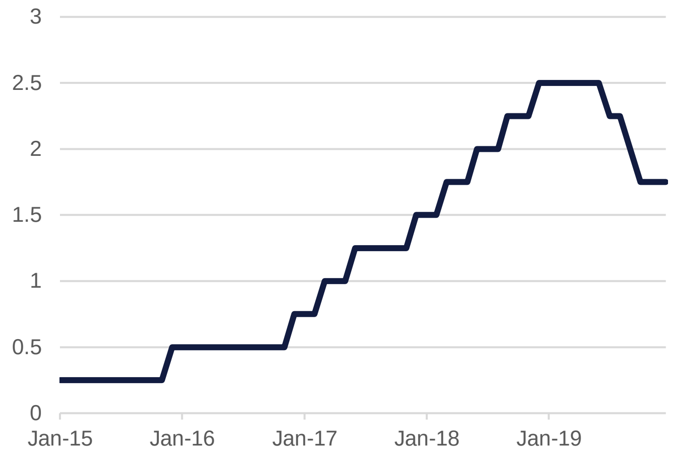
The relative optimism for the year ahead appears predicated on the growth-boosting effects of looser monetary policy implemented in both developed and emerging markets in 2019, and a moderate easing of tensions related to the US's trade wars, particularly that with China, and the Brexit issue. We would question, however, the potential longevity of this boost. The effectiveness of monetary easing is diminishing as major central banks run out of firepower, significant fiscal stimulus remains wanting for the most part, and the new normal with regards to US-China trade is for far higher tariffs than were previously in place, even if the likelihood of a further escalation has for now been reduced. Moreover, the risks to the outlook are weighted predominately to the downside.

Even aside from the ongoing threat of new fronts to the US's trade wars – the China phase one deal is still not signed at the time of writing, and an escalation with Europe remains on the cards – the flare-up of geopolitical risks in the Middle East in January illustrated that it might be increasingly difficult to predict the actions of a mercurial US president in an election year, especially one under greater pressure at home following an impeachment vote by the House of Representatives in December. Meanwhile, the risk of a no-deal Brexit is reduced but not negated and a market correction remains a possibility, if a slim one.

Trade fallout will continue to weigh on US

In the US, real GDP growth is likely to slow in 2020, even despite a moderately more positive outlook on the trade dispute with China. We forecast an expansion of 1.7%, compared to an estimated 2.3% last year. Although a phase one deal between the world's two largest economies is expected to be signed in January, this merely makes the imposition of new tariffs less likely, while those imposed over the past two years largely remain in place for the time being. This means that the average US tariff on Chinese imports will stay at around 19%, compared to just 3% at the start of 2018. Further, while the dispute with China and NAFTA looks set to be more quiescent, Europe remains in the Trump administration's sights.

One more Fed rate cut is our base case



Source: Bloomberg, Emirates NBD Research

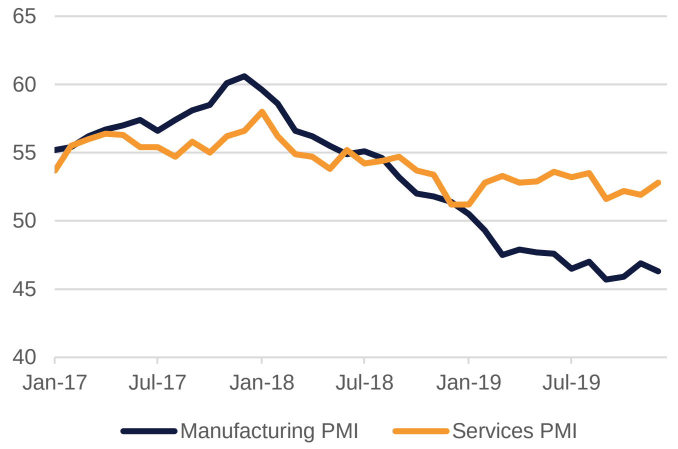
The US Chamber of Commerce has cautioned that 'American businesses and consumers are bearing the brunt of the global trade war', and this will likely weigh on the expansion rate this year, with private investment especially sluggish. The ISM Manufacturing PMI has been in sub-50 contractionary territory for the past five consecutive readings, with the December 47.2 print the weakest since June 2009. Boeing's decision to halt work on its 737 aircraft will be an additional drag on manufacturing and exports in the first half. With manufacturing likely to remain weak, the onus will continue to rest on the American consumer, who has to now supported growth – and to this end, the rate cuts enacted through 2019 should encourage financed purchases. Services have also fared moderately better, rising from 51.6 in November to 52.8 in December.

In light of this somewhat mixed outlook, we think it apt to maintain our forecast for one more rate cut this year, albeit with the risk tilted towards a neutral policy. This would make for a far more sedate year compared to the three quarter-point policy pivot seen in 2019. At its December meeting, the US Federal Reserve reiterated that the current policy was appropriate for the time being, but that it would 'continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures…' The market-implied probability for a rate cut in 2020 is around 50%, but only confidently at the end of the year.

Calls for Eurozone fiscal stimulus going unheeded

Similar to the US, the Eurozone has seen a disparity between its manufacturing and its services sectors. Factories were under pressure throughout 2019 as the Markit Manufacturing PMI averaged just 47.4 over the 12 months. European powerhouse Germany has been a particular weight on the bloc, as automotives production declined 9.0% y/y in 2019 on the back of trade tensions and a slowdown in China, and the outlook for 2020 is not especially more buoyant. While services have fared better, growth there has not been blistering either, with the PMI averaging 52.7, with a reading of 52.8 in December.

Autos sector weighing on manufacturing



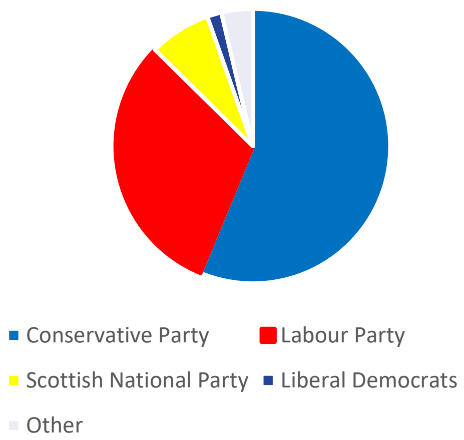
Source: Bloomberg, Emirates NBD Research

Crucially, inflation has also been weak, only perking up to 1.3% in December, and combined with slowing wage growth (2.6% y/y in Q3 compared with 2.8% in Q2), the ECB will be in no hurry to tighten monetary policy. This is especially the case as calls for fiscal stimulus within the bloc go unheeded, and we would expect ongoing calls from new ECB president, Christine Lagarde, for greater fiscal stimulus. For now there is little indication that these calls are falling on receptive ears, with the German attachment to a balanced budget still in place, just as it is in the Netherlands, despite some calls on the left for greater stimulus. As such, we anticipate that Eurozone real GDP growth will be flat on 2019 at a lacklustre 1.1%.

Conservative majority paves the way for Brexit

UK is starting 2020 with a modicum more positivity than seen over the past several years, as the majority won by the Conservative Party in the December general election has given the party a mandate to push through the departure from the EU, expected to go ahead on January 31. This gives businesses more certainty than seen over the course of the multiple delays to Brexit since former PM Theresa May failed to garner sufficient parliamentary support for her deal. However, some investment is likely to remain on the sidelines while a new trade deal is negotiated with the EU as there remains salient risk of a no-deal Brexit given PM Boris Johnson's stated commitment to a December 31 deadline. As such we forecast real GDP growth of 1.2% in 2020, compared to an estimated 1.4% last year.

Sizeable majority for new Conservative government



Source: Bloomberg, Emirates NBD Research

Nevertheless, we expect the newly appointed BoE governor, Andrew Bailey – set to take over from Mark Carney at the end of March – will keep interest rates on hold at 0.75% in 2020, despite two dissenting voices at the December meeting looking for a cut to 0.5%. Spending plans by the government – including a pledge to substantially boost the minimum wage alongside various infrastructure promises – could serve to boost inflation, while the residual uncertainty over Brexit makes keeping some firepower on hold in terms of rates a prudent policy.

Emerging markets will pick up the slack

In China we anticipate that the economic slowdown will continue, with growth set to drop to or below 6.0% for the first time in three decades. The trade dispute with the US, and its effect on China's economic trajectory, has forced the government to slow its deleveraging and economic recalibration efforts and there has been some piecemeal loosening of both monetary and fiscal policy. However, a return to the massive stimulus measures seen during previous rounds of concern over growth remains unlikely, and a managed slowdown as it seeks to become more of a consumption-focused economy is the base case scenario.

With China slowing, and the major developed economies either slowing or broadly flat, the anticipated acceleration in global growth will come from other emerging markets. While some of this will be generated by countries benefitting from a lower interest rate environment, much of the growth will be recovery driven, with a number of Latin American economies (Mexico and Brazil in particular) and Turkey for instance set to see an improvement in their outlook after a challenging 2019. Even so, the IMF's global forecasts are predicated on stronger growth in the MENA region than we currently envisage, especially given the commitment to ongoing oil production curbs. As such, the global expansion in 2020 will likely undershoot their projections. Global recession fears have waned, but the growth recovery from last year's multi-year low will be tepid at best.

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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	-2.5	-2.5	-2.5
Budget Balance % GDP	-2.6	-3.1	-3.4	-4.2	-4.5	-4.7	-4.8
CPI %	0.1	1.3	2.1	2.5	1.8	2.0	2.1
Eurozone							
Real GDP %	2.1	1.9	2.5	1.9	1.1	1.1	1.3
Current A/C % GDP	2.7	3.1	3.2	2.9	3.0	2.7	2.6
Budget Balance % GDP	-2.0	-1.6	-1.0	-0.5	-1.0	-1.1	-1.1
CPI %	0.2	0.2	1.5	1.8	1.2	1.3	1.3
UK							
Real GDP %	2.4	1.9	1.9	1.3	1.4	1.2	1.5
Current A/C% GDP	-4.9	-5.2	-3.5	-3.9	-4.4	-4.0	-4.0
Budget Balance % GDP	-4.5	-3.3	-2.5	-2.2	-2.1	-2.4	-2.6
CPI %	0.0	0.7	2.7	2.5	1.8	2.0	1.9
Japan							
Real GDP %	1.3	0.5	2.2	0.3	0.9	0.3	0.6
Current A/C % GDP	3.1	4.0	4.1	3.5	3.5	3.2	3.2
Budget Balance % GDP	-3.6	-3.5	-3.0	-2.4	-2.6	-3.0	-3.0
CPI %	0.8	-0.1	0.5	1.0	0.5	0.8	0.8
China							
Real GDP %	6.9	6.7	6.8	6.6	6.2	6.0	5.8
Current A/C % GDP	2.8	1.8	1.6	0.4	1.1	0.8	0.8
Budget Balance %GDP	-3.4	-3.8	-3.7	-4.1	-4.5	-4.4	-4.6
CPI%	1.4	2.0	1.6	2.1	2.9	2.9	2.7
India*							
Real GDP%	7.4	8.0	8.2	7.3	6.6	5.0	6.0
Current A/C% GDP	-1.1	-0.6	-1.5	-2.5	-2.5	-1.5	-1.5
Budget Balance % GDP	-3.5	-3.7	-3.9	-3.6	-3.5	-3.8	-3.8
CPI %	4.9	5.0	3.3	4.0	3.0	4.8	5.5

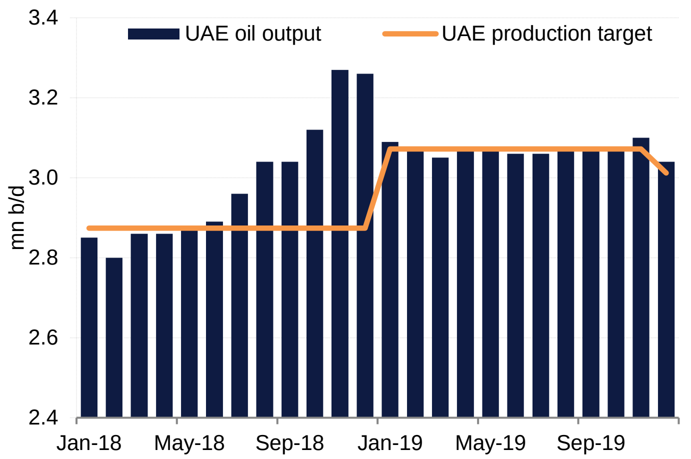
Source: Bloomberg, Emirates NBD Research
**For India the data refers to fiscal year (April – March)*

GCC Macro

In a year dominated by geopolitical and policy uncertainty globally, as well as slowing global economic growth, it is unsurprising that we found ourselves revising our GCC growth forecasts lower during the course of 2019. In Saudi Arabia, the negative impact of deeper-than-agreed cuts in oil production offset the fastest non-oil sector growth since 2015. Lower oil production weighed on headline GDP growth in most of the other GCC oil exporters as well, with the exception of the UAE, where oil production rose nearly 3% from average 2018 output and helped of compensate for sluggish non-oil sector growth.

OPEC's decision at the end of last year to deepen oil production cuts in Q1 2020 will have an impact on the headline GDP growth of the GCC oil exporters this year as well, with the UAE likely to be the most impacted. The new production targets imply a cut of around 2% in the UAE's oil output in the first quarter of this year, and even if production recovers to 2019 levels over the rest of this year, the oil sector is likely to weigh on overall GDP. Instead we expect the non-oil sectors, particularly in Dubai to drive headline GDP growth this year.

UAE cuts oil production from December to comply with new target

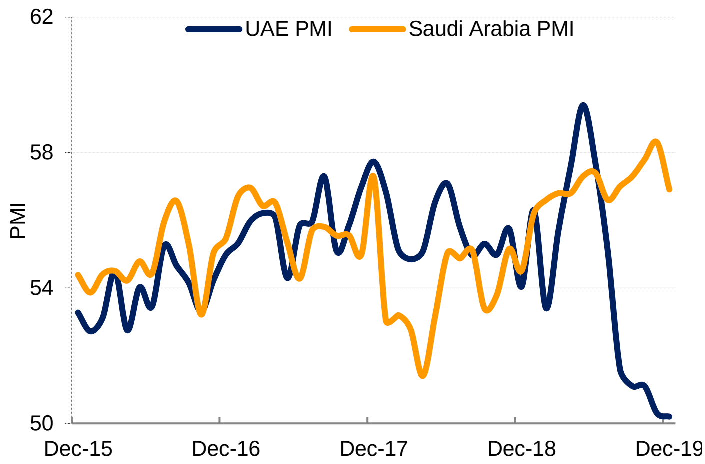


Source: Bloomberg, Emirates NBD Research

Survey data over the course of last year pointed to relatively subdued domestic demand, with little private sector employment growth and no growth in household incomes either. However, tourism figures showed an improvement on 2018, and we expect tourism to receive a further boost from Expo 2020, which will run from October 2020 through March 2021. Moreover, lower interest rates and weaker dollar should help restore price competitiveness and support investment and consumption across the region. On the back of the likely oil production cuts in the UAE, we have revised our 2020 growth forecast down to 1.6% from 2.4% previously.

In Saudi Arabia, the acceleration in non-oil sector growth last year is in our view due to both expansionary fiscal policy and structural reforms. The government has increased spending since 2017 and worked to improve the efficiency and effectiveness of this spending. Moreover, reforms to boost female participation in the workforce and open up key sectors of the economy are likely to continue to yield benefits to growth over the medium term. However, the 2020 budget makes provision for a -14% cut in overall budget spending over the next 3 years in a bid to reduce the fiscal deficit. As a result, we think non-oil sector growth is likely to slow somewhat in 2020, with some of the stimulus of the last few years being withdrawn. Overall, we expect the kingdom to register real GDP growth of 1.3% in 2020, up from an officially estimated 0.4% in 2019.

PMIs show diverging non-oil growth trends



Source: IHS Markit, Emirates NBD Research

We have also revised down our GDP growth outlooks for Kuwait and Oman on the back of expected lower oil production this year. There are significant challenges facing the new ruler of Oman including the country's fiscal deficit which the official budget estimates at 8% of GDP this year, as well as high youth unemployment and the prospect of further downgrades on sovereign debt ratings.

While oil prices rose on regional geopolitical tensions at the start of 2020, the fundamentals of supply and demand in the oil market suggest that the average price of Brent this year will likely be lower than 2019, so GCC governments cannot rely on higher oil revenues to help them reduce fiscal deficits. Where Saudi Arabia, the UAE and even Bahrain more recently have taken steps to raise non-oil revenues, Oman has delayed implementing VAT and other fiscal reforms, focusing instead on raising financing through privatisations. While this has helped to plug the budget gap, the underlying structure of Oman's budget also needs to be addressed.

Finally, although some of the key 2019 risks - including trade disputes and Brexit - appear to have receded for the time being, they have by no means been resolved. Regional tensions in the Middle East remain high, and to the extent that they deter investment, tourism and domestic consumption, pose a downside risk to non-oil sector growth in 2020.

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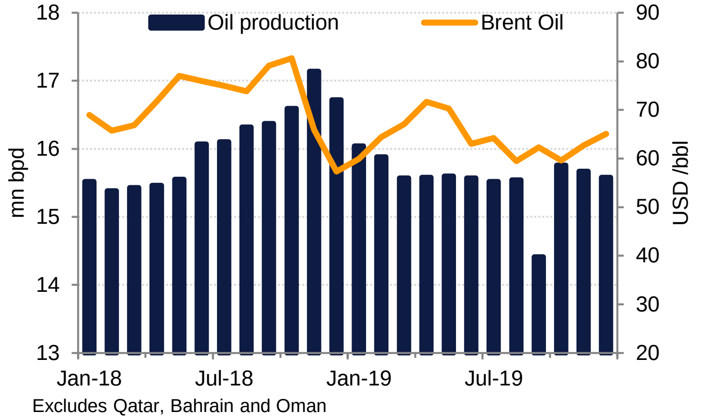
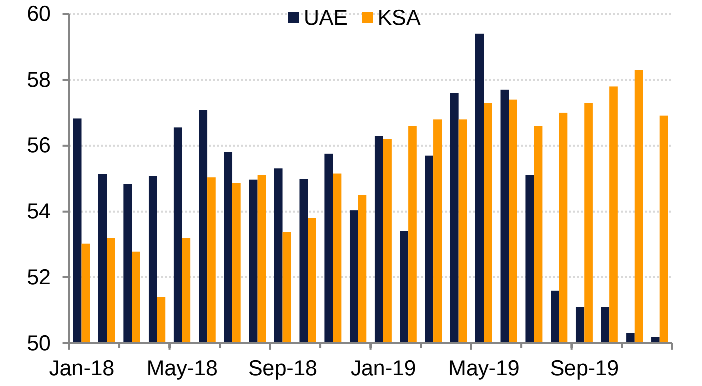
GCC in Pictures

GCC Oil Production and Oil Price



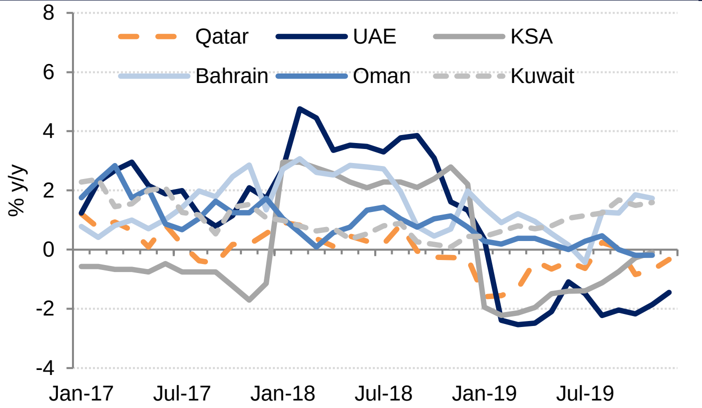
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



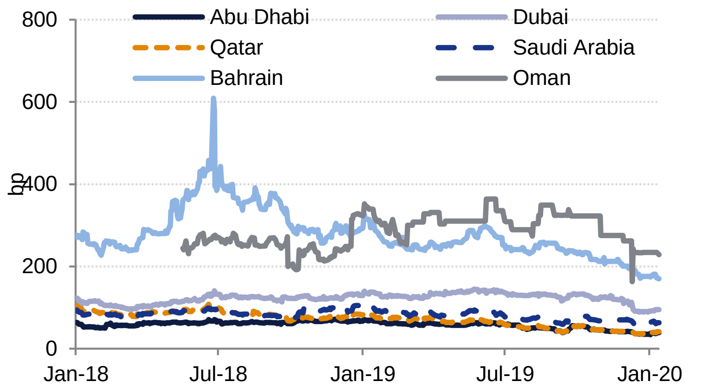
Source: IHS Markit, Emirates NBD Research

Inflation



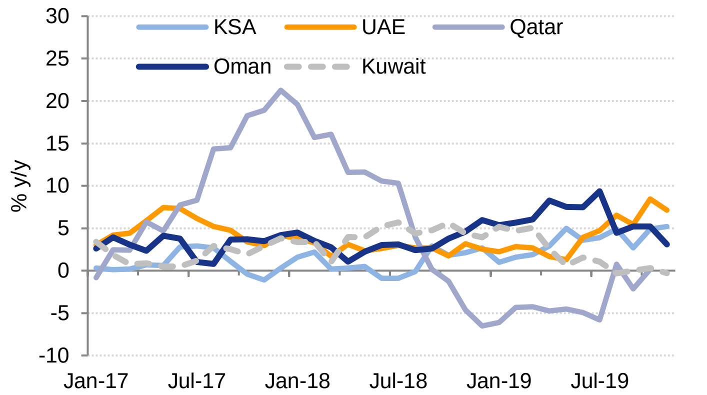
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



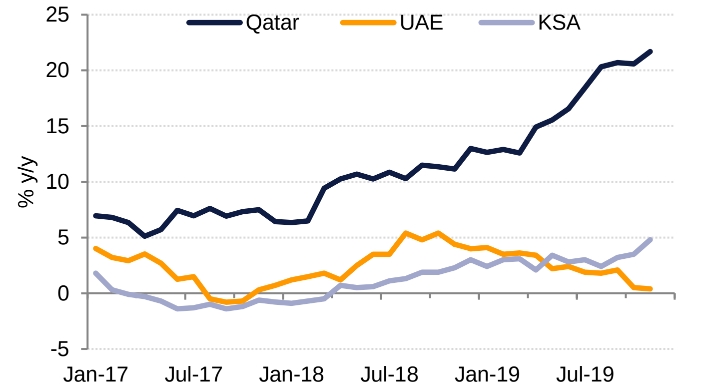
Source: Bloomberg

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	188.2	195.2	223.9
Real GDP %	1.1	1.4	0.6	2.0	2.6
Current A/C % GDP	3.8	8.7	4.2	0.0	0.7
Budget Balance % GDP	-6.6	2.2	1.9	0.1	0.5
CPI %	0.4	0.2	-0.7	1.5	1.5
Kuwait					
Nominal GDP $bn	119.5	141.5	138.2	137.2	146.7
Real GDP %	-3.5	1.2	0.1	1.2	2.2
Current A/C% GDP	8.0	14.4	9.5	4.7	6.8
Budget Balance % GDP	-9.0	-3.0	-6.8	-10.9	-9.6
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	1.8	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	-6.6	-5.8	-4.4
CPI %	1.4	2.1	1.1	1.5	2.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	456	515	506	505	531
Real GDP %	-0.3	1.9	0.5	1.5	2.2
Current A/C % GDP	8.1	15.7	11.1	6.0	4.4
Budget Balance % GDP	-7.1	-2.2	-3.9	-5.6	-4.8
CPI %	0.1	2.4	-0.3	2.4	2.7

Source: Haver Analytics, National sources, Emirates NBD Research

MENA Macro : Egyptian private sector recovery lagging

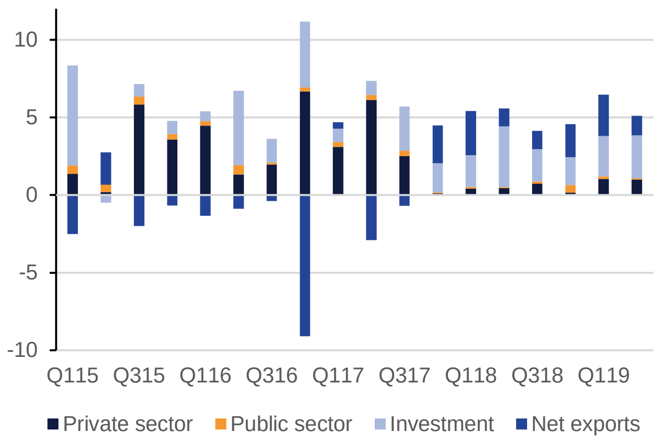
We have maintained our real GDP growth forecast for Egypt in the current fiscal year 2019/20 (ending June 30) at 5.7%, which would mark a slight acceleration on the 5.6% recorded last year, and potentially the fastest rate of growth since 2007/2008. We also hold to the view that there will be a modest acceleration next year, to 5.9%.

Nevertheless, while on the face of it these projections paint a positive picture the reality is that the private sector has yet to make a substantial recovery, and the latest PMI index indicates that its rebound is not imminent either. There are factors which should support the private sector in 2020 – monetary policy developments, an easing reform schedule, and government initiatives aimed at giving it a shot in the arm should all play a part – but government economic expansion targets cited over the past several years will remain for now a pipe dream until the private sector begins to play a more significant role in growth generation.

Growth has been flat

While quarterly y/y real GDP growth remains far stronger than it was prior to the IMF-sponsored reform programme, it has been fairly flat over the past year, coming in consistently between 5.6% and 5.7% for four quarters. Last year the economic expansion remained driven by public investment and external rebalancing, as has been the case for several years now. While government consumption expanded 3.0% and investment by 13.1%, private consumption remained weak with growth of just 0.9%. Exports declined 1.8%, but this was offset by an 8.7% decline in imports, aided by the offshore gas bonanza which prompted a 7.5% decline in petroleum imports last fiscal year, according to balance of payments data.

Investment driving growth



Source: Haver Analytics, Emirates NBD Research.

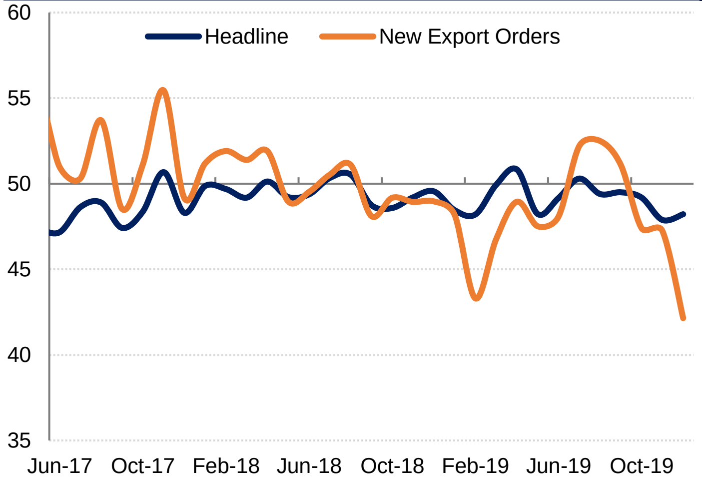
In numerous Central Bank of Egypt (CBE) communiqués, the monetary policy committee has noted the weak performance of the private sector, stating for instance in March that 'available data indicate that net external demand continued to support economic activity, while private domestic demand remained contained.'

The last communiqué, following the November meeting (December's was postponed to January 16), painted a moderately more positive picture for the private sector, noting 'The contribution of real output growth by the private sector witnessed a broad-based increase in 2019 Q2 for the first time since 2017 Q2, and real private demand growth has been picking up to support the stability of real aggregate demand growth.' While admittedly the 1.3% real growth was the strongest in seven quarters, it remains far off the 4.6% averaged in the two years prior to the start of the reform programme. Further, the latest purchasing managers' index (PMI) data for Egypt indicates that the private sector remains under pressure.

PMI index still contractionary

The Egyptian non-oil private continued to contract in December, if at a moderately slower pace as compared to the previous month. The index rose from 47.9 to 48.2, still short of the neutral 50.0 level which delineates expansion and contraction. This was the fifth consecutive sub-50.0 reading, and contributed to an average 49.1 over calendar 2019, a deterioration from the 49.5 averaged in 2018. Indeed, the fourth quarter average of 48.4 was the worst since Q3 2017, and the sub-indices of the latest survey gave little indication that there would be a significant improvement in the coming months. New export orders looked particularly weak, falling to levels not seen since prior to the pound's late-2016 devaluation, when the currency was particularly uncompetitive and an imminent move lower was anticipated. New orders more generally remained sub-50.0, and employment contracted for a second consecutive month.

PMI weighed down by new export orders



Source: Haver Analytics, Emirates NBD Research

Reasons to be positive

All that being said, we maintain that the private sector should see an improvement, and while the forward-looking components of the PMI survey suggest that the recovery may come too late to make any significant impact on this fiscal year, we are more positive with regards to 2020/21. There are a number of factors which support this outlook, not least the easing pressures from the reform programme itself which the private sector has arguably borne the brunt of over the past several years, having to deal with 42% utility tariff hikes for factories for instance.

Inflation has come down markedly from recent highs, and we expect it will remain securely within the CBE's target range of 9% ± 3 this year. This should enable further monetary easing by the central bank, making borrowing costs lower – and also spurring more government spending which will provide another boost to the private sector. The government is aware of the need to stimulate activity, and in December it announced an initiative which will see loans to smaller factories at lower rates in a bid to achieve this. Egypt continues to see an improvement on its macroeconomic fundamentals, and it remains a highly attractive carry trade, but the failure to now to stimulate inclusive growth outside of government activity and external rebalancing could curtail the strength and longevity of the economic recovery if not remedied.

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Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2017	2018	2019e	2020f	2021f
Nominal GDP $bn	225.8	241.5	291.8	349.0	370.7
Real GDP %	4.1	5.3	5.6	5.7	5.9
Current A/C % GDP	-6.4	-2.5	-2.9	-3.0	-3.1
Budget Balance % GDP	-10.83	-9.84	-8.60	-7.88	-7.34
CPI %	29.6	14.4	9.4	7.0	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	2.3	2.3	2.7
Current A/C % GDP	-10.8	-7.1	-2.9	-3.0	-3.9
Budget Balance % GDP	-2.7	-2.6	-2.2	-2.3	-2.7
CPI %	3.3	4.5	0.3	1.8	2.5
Lebanon					
Nominal GDP $bn	52.1	62.3	66.1	70.5	73.3
Real GDP %	0.6	0.2	0.2	1.3	1.2
Current A/C % GDP	-23.3	-19.9	-19.8	-19.4	-21.0
Budget Balance % GDP	-7.0	-10.8	-8.7	-7.7	-7.5
CPI %	4.5	6.1	2.5	3.4	2.9
Morocco					
Nominal GDP $bn	109.6	117.9	118.6	125.3	130.6
Real GDP %	4.2	3.0	2.7	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	36.8	34.5	32.6	34.4	35.5
Real GDP %	1.7	2.5	1.5	2.3	3.1
Current A/C % GDP	-11.1	-12.9	-12.6	-11.5	-10.3
Budget Balance % GDP	-6.7	-5.6	-5.1	-4.7	-4.4
CPI %	5.3	7.4	6.7	6.0	6.8
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	147.8	158.8	193.0	233.7	249.2
Real GDP %	3.38	3.66	3.81	4.24	4.50
Current A/C % GDP	-8.3	-6.5	-5.7	-5.5	-5.8
Budget Balance % GDP	-7.6	-7.5	-7.0	-6.5	-6.1
CPI %	15.8	9.1	5.7	4.9	5.6

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	160.2	167.6	165.5	165.0	166.6
Real GDP %	3.2	0.4	1.6	1.0	2.0
Current A/C % GDP	-12.3	-13.3	-10.4	-8.7	-7.9
Budget Balance % GDP	-13.0	-6.5	-9.2	-9.5	-10.5
CPI %	5.8	6.0	3.5	2.6	3.3
Iran					
Nominal GDP $bn	441.8	446.9	422.4	493.2	604.6
Real GDP %	12.4	3.3	-4.2	-7.6	0.5
Current A/C % GDP	3.7	3.5	3.7	-0.2	-1.4
Budget Balance % GDP	-4.8	-5.1	-4.2	-4.4	-3.9
CPI %	8.7	10.0	21.0	38.7	25.0
Iraq	441.8	446.9	433.4	494.1	586.2
Nominal GDP $bn	165.2	166.2	215.5	243.3	250.7
Real GDP %	9.6	1.0	0.3	4.2	4.1
Current A/C% GDP	1.3	9.0	16.3	11.4	10.9
Budget Balance % GDP	-15.0	-1.8	8.3	-3.8	-3.4
CPI %	1.3	0.7	0.4	0.0	0.6
Libya					
Nominal GDP $bn	43.6	63.3	76.1	88.2	104.2
Real GDP %	-6.9	34.8	7.6	5.4	10.4
Current A/C% GDP	-10.2	-9.5	-2.1	-2.6	-2.9
Budget Balance % GDP	-18.1	-10.6	-7.1	-6.3	-5.9
CPI %	9.5	25.0	11.5	10.0	8.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	312.4	307.4	293.2	340.9	414.8
Real GDP %	8.7	5.3	-0.7	-2.2	2.4
Current A/C % GDP	0.5	0.4	3.4	0.2	-0.1
Budget Balance % GDP	-8.0	-6.9	-3.0	-4.8	-4.8
CPI %	6.1	8.2	12.3	21.1	14.9

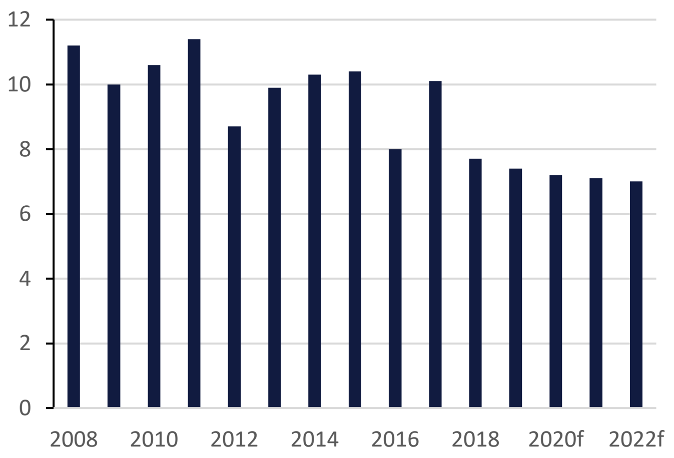
Sub-Saharan Africa Macro: IMF deal could strengthen UAE-Ethiopia ties

A new deal struck between Ethiopia and the IMF in December could pave the way for greater opening up of the African economy, providing scope for increased cooperation between it and the UAE. Relations between the two countries have been strengthening in recent years, and the Ethiopian market of 105mn people – the fastest-growing economy in the world over the past decade, and tipped to become the manufacturing hub of Sub-Saharan Africa – could provide significant opportunities to GCC firms.

Economic and political liberalisation continues apace

We have written previously how the accession of Abiy Ahmed as Ethiopian prime minister in 2018 heralded an economic and political sea change in the landlocked East African economy (see Monthly Insights October 2018). The new leader rapidly pursued political détente at home and achieved a peace deal with neighbouring Eritrea after some 20 years of largely frozen conflict – an achievement which won him the Nobel Peace Prize in October last year. Equally significant, he has also overseen a renewed push towards economic liberalisation, moving away from the state-driven development model which had to now been the modus operandi of the formerly socialist country.

Real GDP growth is the strongest globally



Source: IMF, Emirates NBD Research.

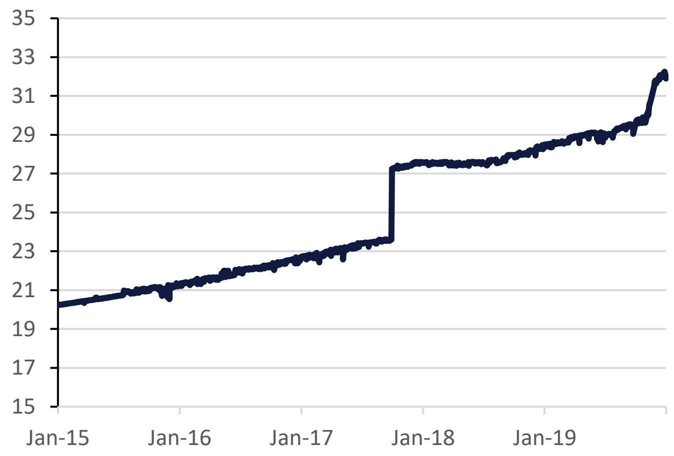
While progress on some of the government's economic aims has arguably been slow – the part privatisation of Ethio Telecom being a case in point – the government remains committed to its 'Homegrown Economic Reform Plan', and the new deal with the IMF underscores this. Under the agreement, Ethiopia will receive USD 2.9bn over three years to support the programme, which 'aims to address foreign exchange shortages and external imbalances; reform state-owned enterprises (SOEs); safeguard financial stability; and strengthen domestic revenue mobilisation' according to the IMF statement.

Further birr devaluation likely

What the IMF's support will likely entail is a managed devaluation of the birr, widely held to be significantly overvalued at its current ETB 32.25/USD, even following a sizeable 15% devaluation in October 2017. Indeed, there has already been a move lower since December as the currency fell from ETB 30.59/USD at the start of last month to its present level, moving it gradually closer to its more realistic black market rate of around ETB 40/USD.

While Ethiopia has achieved spectacular growth of late, averaging 9.5% over the past 10 years, this has not come without a cost to its macroeconomic stability. The current account deficit has been persistently wide (6.4% of GDP last year), government debt has risen to 62% of GDP, and FX reserves have been perilously low at times. These imbalances were brought to the fore as domestic political risk rose in 2018, slowing remittances and other FX inflows, and prompting the UAE to deposit USD 1bn at the central bank in June in order to support the economy. The UAE also pledged USD 3bn in aid and investments to the country.

Further ETB/USD devaluation likely



Source: Bloomberg, Emirates NBD Research

A more competitive currency, combined with easier access to foreign firms, the partial privatisation of key state assets, and the policy anchor and financial support provided by the IMF, should help entice greater inflows of foreign capital into Ethiopia, and the UAE and other GCC economies are likely to be watching these developments with interest. The IMF support has been described as a Western great power counter play to the massive Chinese investment into the country, with Chinese entities having loaned over USD 13bn over 2006 to 2015 according to the Financial Times.

However, we believe that the Gulf states are perhaps the best placed to capitalise on any further liberalisation, especially given the support given by the UAE to Ethiopia over the past few years for instance. This has not only been financial, but the Gulf was also instrumental in brokering the rapprochement between Ethiopia and Eritrea.

This engagement has continued apace in recent months, and in November, the UAE's minister of economy, Sultan bin Saeed Al Mansouri, received the Ethiopian trade and industry minister, Fetlework Gebre-Egziabher, with the two emphasising their cooperation in a number of fields. Al-Mansouri described Ethiopia as 'an essential gate for the UAE's investments in East African markets.' From a logistical standpoint, this is supported by the growing presence of DP World in the region, which through its concession at the Somaliland port of Berbera, and logistics centres in landlocked Ethiopia itself, stands in a good position to facilitate greater trade flows between the two countries.

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Currencies

USD starts 2020 firmer

The dollar has firmed tentatively since start of the year with the Dollar Index (DXY) increasing 1.02% to its current level of 97.373. While this improvement has been across the board, it largely reflects weakness in two key currencies, the JPY and the GBP, which may not last. In the background of course, the market perception that the Federal Reserve's easing cycle is close to an end and that interest rates are likely to remain on hold through 2020 has been a supportive factor . However, confidence about a US-China trade deal has also taken over from early year geopolitical tensions to prompt renewed risk appetite favouring the USD over the JPY in particular. Also GBP has lost ground after initially having a promising start to the year, as UK economic data has disappointed and the message from the Bank of England (BOE) has turned more dovish.

Analysis of the daily candle charts reveals that the DXY has been in a daily downtrend since October 1, 2019. However, a break and close above the 50-day moving average (97.598) potentially exposes the resistiant 200-day moving average (98.709) to be tested. It is noteworthy that this level has acted as a resistance level since failed as a support in the first week of December 2019. Should a sustained break occur, the dollar will appreciate in the short-term. With this said, we believe that over the course of the year the dollar will gradual soften as U.S. economic growth slows to trend.

DXY continues to remain supported

Source: Bloomberg

Euro declines in January

So far EURUSD has declined by of 0.75% in 2020, the price falling to 1.1130. The weight on the single currency emenates from the ongoing softness of the Eurozone economy, with manufacturing in decline and plenty of slack in employment. Markets pereceive the the ECB as unlikely to change their ultra loose monetary policy for a considerable period of time, with the OIS showing that investors do not expect an increase in interest rates from the ECB this year, with an 18.6% change of a hike priced in by December 2020.Regardless of whether the Fed cuts again or keeps monetary policy on hold, there is a much greater sense of certainty that the ECB cannot do much to escape from negative rates. EURUSD has been trending lower since early 2018, dropping from levels near 1.2500 and posting a 32-month low at 1.0879 in early October 2019, the low point of the trend. For our part we see the USD's interest rate adavantage offering it less protection in 2020, especially if we are right in thinking that the Fed could cut rates again. While this is not expected to help the EUR significantly, we still see it benefiting from pressure we exepct to fall onto the dollar as the US election nears and as growth remains tepid.

In the near term the most significant technical observation is the EUR's failure to sustain the break above the 50-week moving average (1.1174). The price has not seen a weekly close above this level since May 2018. While the price stays below this level, downside pressures will persist. We expect the next level of support to be the 50-day moving average (1.1091), a level which prevented further declines over the previous week. Should this level falter, the 100-day moving average (1.1065) can expect to be tested in quick succession. On the other hand a break of the 50-week moving average will be bullish for the price and may result in further gains, initially towards the 50% one-year Fibonacci retracement (1.1197).

EURUSD unable to overcome 50-week MA

Source: Bloomberg

GBP under pressure

Following a rally in December 2019, boosted by the Conservative Party's victory at the UK General Election, GBPUSD finds itself under pressure again. While Brexit uncertainties have reduced to some extent, the nature of the uncertainty has changed from being will the UK leave the EU in 2020 to what form of trading relationship will transpire after its departure? Softer economic data has also resulted in the Bank of England adopting a more dovish tone. While in Q4 2019 the OIS was pricing in the probability of an interest rate hike in the second half of 2020, presently the market is pricing in a 50.2% change of a rate-cut at January's MPC meeting.

GBPUSD has fallen by almost 2% in January so far and is currently trading at 1.3001, not far from the 5-day moving average (1.3000). Of note is that this decline has meant the price is now below the 200-week moving average (1.3074) and the 100-week moving average (1.3011). However, analysis of the daily candle chart shows that the price has remained in an uptrend since August 2018. Therefore while the price remains above 1.3010, a level also not far from the 50-day moving average (1.3016). While in the short-term this could lead to further losses for GBPUSD, we expect the pound to be an outperformer in 2020. In the medium-term, we expect that a break above the 200-week moving average would be likely to result in a retest of the 76.4% one-year Fibonacci retracement (1.3147). Should this level also be penetrated, it could catalyze a more significant rise towards the 1.35 level. Our base case at the moment is that the BOE will not cut interest rates this month, and that the some form of compromise will be reached over the future trading relationship with the EU.

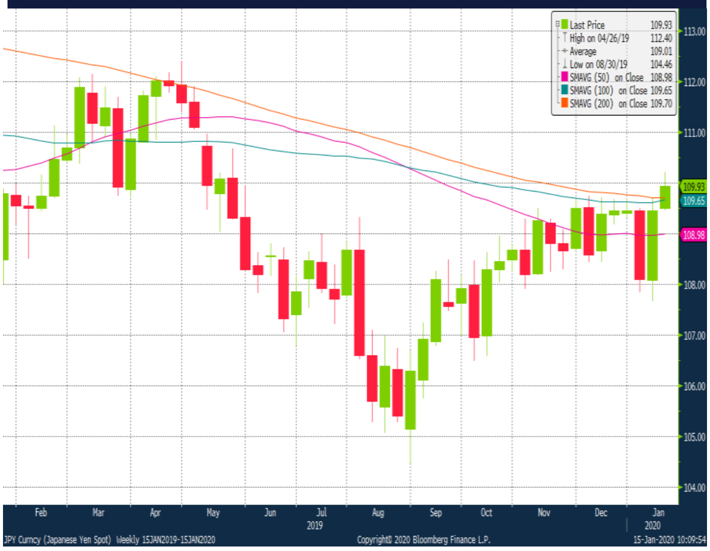
GBPUSD weekly candle chart

Source: Bloomberg

JPY softens as risk appetite improves

As risk appetite has resurfaced in the market ahead of a phase-one trade deal between the US and China, the JPY has been the biggest casualty, with USDJPY climbing in line with rising U.S. Treasury yields to above 110 to reach the highest levels in eight months. However, as we mention in Global Macro, we do not expect this preliminary trade deal to be the end of trade tensions and can quite easily envisage the negoatiations over a second phase to be even tougher. Furthermore there are increasing chances that the US-China trade dispute will morph into a wider deterioration in trade relations between the US and the rest of the world. Geoploitical risks are unlikely to be very far from the surface in 2020 either, as the recent US-Iran tensions have demonstrated. The JPY is likely to continue to to fluctuate with risk appetite in 2020 therefore, and its recent setback is only likely to be temporary.

USDJPY tests 110 level



Source: Bloomberg

As we go print, USDJPY is trading at 110.01 after a 1.30% gain in 2020. This move has taken the price back above the 61.8% one-year Fibonacci retracement well as the 50-day moving average (109.00), 50-week moving average (108.97) and 50% one-year Fibonacci retracement (108.43). Importantly, the cross has broken the 200-week moving average (109.71) and is testing the 110 levels last seen in May 2019. Should we see a weekly close above the 110.50, not far from the 76.4% one-year Fibonacci retracement, it could trigger a retest of the one year highs of 112.40.

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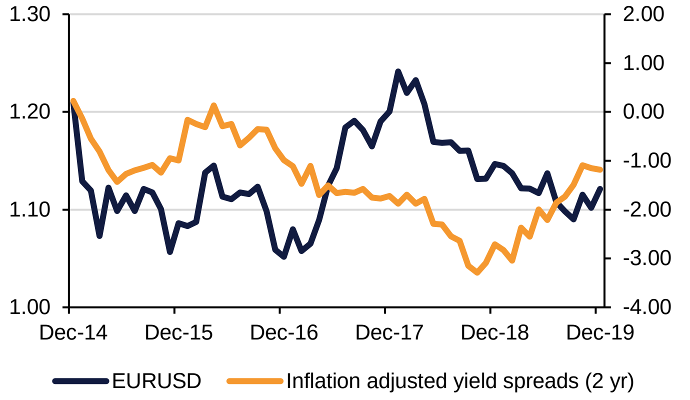
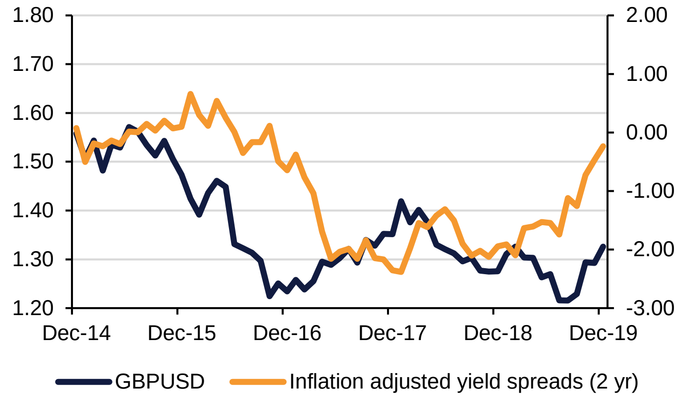
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



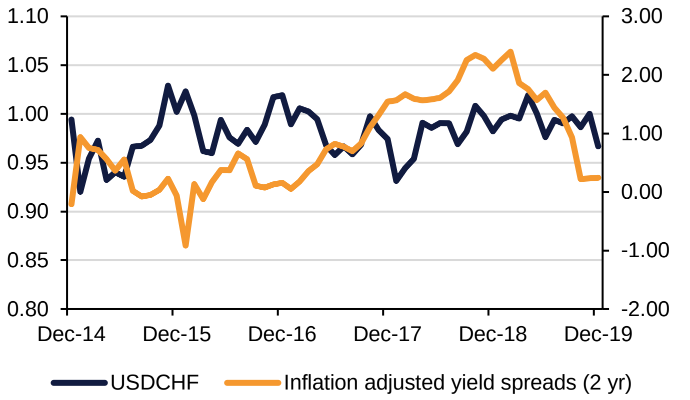
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



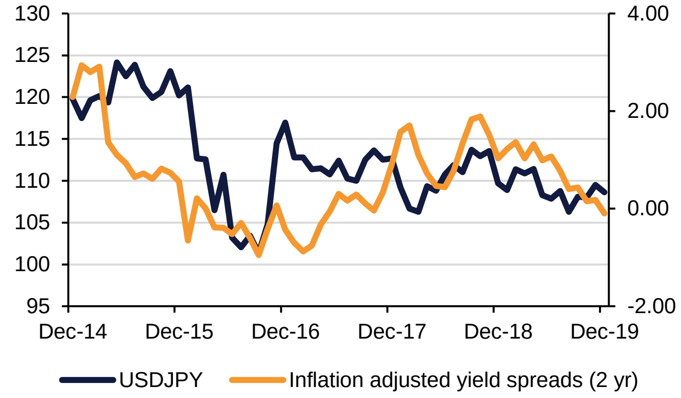
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



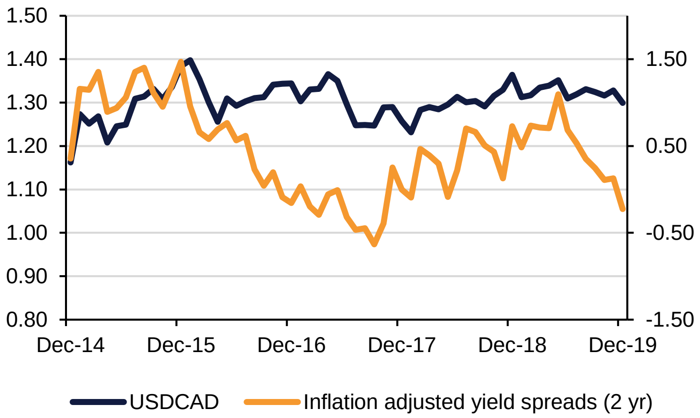
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



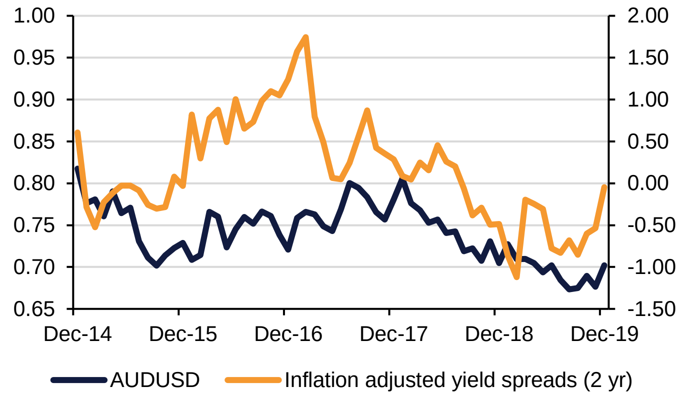
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	15-Jan	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EUR/USD	1.1128	1.1200	1.1400	1.1500	1.1700	1.1191	1.1254	1.1380
USD/JPY	109.91	110.00	108.00	107.00	107.00	109.36	108.81	107.70
USD/CHF	0.9672	0.9500	0.9400	0.9300	0.9300	0.9611	0.9550	0.9428
GBP/USD	1.3018	1.3300	1.3600	1.4000	1.4400	1.3054	1.3091	1.3162
AUD/USD	0.6895	0.7100	0.7200	0.7300	0.7300	0.6910	0.6925	0.6952
NZD/USD	0.6614	0.6500	0.6600	0.6700	0.6700	0.6624	0.6632	0.6644
USD/CAD	1.3059	1.2800	1.2600	1.2400	1.2400	1.3058	1.3058	1.3063
EUR/GBP	0.8548	0.8421	0.8382	0.8214	0.8125	0.8573	0.8597	0.8647
EUR/JPY	122.31	123.20	123.12	123.05	125.19	122.31	122.31	122.31
EUR/CHF	1.0763	1.0640	1.0716	1.0695	1.0881	1.0756	1.0747	1.0730

FX Forecasts - Emerging						Forwards		
	15-Jan	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
USD/SAR*	3.7524	3.7500	3.7500	3.7500	3.7500	3.7503	3.7505	3.7517
USD/AED*	3.6729	3.6730	3.6730	3.6730	3.6730	3.6739	3.6751	3.6772
USD/KWD	0.3035	0.3020	0.3020	0.3020	0.3020	0.3039	0.3044	--
USD/OMR*	0.3848	0.3850	0.3850	0.3850	0.3850	0.3854	0.3860	0.3878
USD/BHD*	0.3770	0.3770	0.3770	0.3770	0.3770	0.3771	0.3773	0.3777
USD/QAR*	3.6640	3.6400	3.6400	3.6400	3.6400	3.6610	3.6574	3.6488
USD/EGP	15.8903	15.7500	15.7500	15.5000	15.5000	16.1600	16.4550	17.1350
USD/INR	70.853	72.000	71.000	70.000	68.000	71.5500	72.3000	73.8400
USD/CNY	6.8868	7.1000	7.2000	7.2000	7.2000	6.9072	6.9247	6.9652
USD/SGD	1.3476	1.3500	1.3300	1.3100	1.3000	1.3465	1.3450	1.3425

FX Forecasts - MENA					
	15-Jan	Q1 2020	Q2 2020	Q3 2020	Q4 2020
USD/MAD	9.5833	9.5000	9.5000	9.4000	9.4000
USD/TND	2.8121	2.8000	2.8000	2.7000	2.7000
USD/TRY	5.8931	6.0000	6.2000	6.2000	6.3000

Data as of 15 January 2020
Source: Bloomberg, Emirates NBD Research

Equities

Notwithstanding a momentary spike in geopolitical tensions at the start of 2020, global equities showed enough signs of the continuance of exuberance from 2019. With key short-term risks behind us, the focus is likely to shift to market and economic fundamentals even as investors keep an eye on developments in politics laden 2020.

Most major equity indices are in positive territory for the year and volatility continues to remain in the bottom quartile. While it is still early days, emerging market equities have outperformed developed market equities as risk appetite continues. This is a trend that is widely expected to be common in 2020 as a firm trade truce is reached between the US and China and global monetary policy continues to remain accommodative even after accounting for neutral stance. The MSCI EM index has rallied +2.6% ytd on the back of broad-based strength. Most notable among outperformers have been Turkish and Russian equities with gains of +5.4% ytd and +4.6% ytd respectively.

Markets to watch for

Turkey

Unlike most emerging markets, Turkey is in the middle of monetary and fiscal policy stimulus. The Central Bank of the Republic of Turkey (CBT), after having delivered 1200 bps of easing, is widely expected to reduce interest rates further by as much as 350 bps in 2020. Importantly, much of that is forecasted to be frontloaded. With inflation continuing to ease, the CBT can potentially retain a dovish bias until the end-2021. The wide output gap continues to feed into disinflation. The continued easing of interest rates is likely to drive sharp upticks in lending which in turn should ease some pressure on non-performing assets.

On the fiscal side, the government is committed to reining in fiscal deficit to around 3% of GDP in 2020. We believe that the target appears ambitious and unwarranted at the moment given that domestic economic recovery is still in early stages and global growth firmer but fragile.

Beyond supportive and stimulus-driven macro fundamentals, Turkish equities should gain strength from favorable technical factors also. The Borsa Istanbul 100 index is currently trading at 6.8x 12m forward earnings and 5.1x 12m forward EV /EBITDA. The expected dividend yield is 4% for 2020. This indicates a sharp discount to the MSCI EM index which is trading at 13.2x 12m forward earnings and 9.3x 12m forward EV/EBITDA multiples. The expected dividend yield for the MSCI EM index stands at 2.93%. It must be highlighted here that the reduction in interest rates should continue to drive earnings re-rating in 2020. Further, investor positioning also remains supportive. According to market data, investors are overweight Turkish equities relative to the MSCI EM but the extent of longs is at the lower end of the historical overweight positions.

UK

The UK election at the end of 2019 has provided much needed clarity on the timeline of the Brexit process. Our base case assumes that the UK and EU will reach an interim trade agreement by the 31 December 2020 deadline.

The bullish case for UK equities lies beyond the Brexit quagmire. From a fundamental perspective, the new government is expected to loosen its purse strings as it seeks to fulfill its promises made to voters. There is also a growing expectation that the Bank of England, which has remained on hold for the better part of global easing, will cut interest rates at least once in the first half of 2020. The combination of additional fiscal spending coupled with some sort of monetary easing could provide an impetus to UK equities.

The UK equity market is unique in a way that the broader FTSE 100 index is more international than domestic in nature. The FTSE 250 index is the one that captures most domestically oriented corporates and the one which should possibly be looked into. The FTSE 250 index is currently trading at 15.1x 12m forward earnings compared to the MSCI G7 index which is trading at 17.5x 12m forward earnings. On an EV/EBITDA multiple, the FTSE 250 index is trading at 8.8x 12m forward compared to the MSCI G7 index which is trading at 11.7x. The Euro Stoxx 600 index is trading at 9.5x 12m forward EV/EBITDA multiples and 15.5x 12m forward earnings.

The only caveat to the bullish case remains that some sectors in the UK may well prove to be value traps as the relationship between the UK and EU changes as they negotiate on a new trade agreement.

Kuwait

At the end of 2019, MSCI decided to upgrade Kuwait to the emerging market category. Kuwaiti stocks will have approximately 0.69% weight in the MSCI Emerging Market index which in turn should bring in as much as USD 3.8bn in passive funds to the country. As has been the trend in the region in the past couple of years, Kuwaiti stocks are expected to see sustained investor's interest leading up to the implementation date of May 2020. This should provide support to the market.

Notwithstanding a momentary spike in geopolitical tensions at the start of 2020, global equities showed enough signs which indicated continuance of exuberance from 2019.

Having said that the decision was widely expected and hence no surprise to see the Boursa Kuwait Premier Market index (KWSEPM) rally as much as 32.4% in 2019. The outperformance becomes stark when compared to a 6.1% gain in 2019 in the MSCI Arabian Markets index. The KWSEPM index is currently trading at 15.5x 12m forward earnings with a projected 2020 dividend yield of 5.4%. While the valuations are at a slight premium to the broader MSCI EM index, they are at typical pre-MSCI flow levels based on past such instances.

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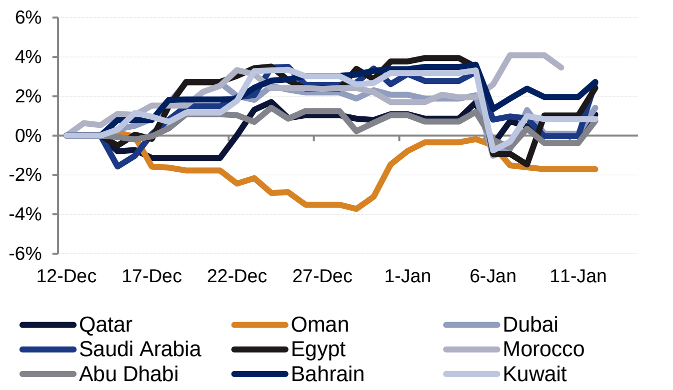
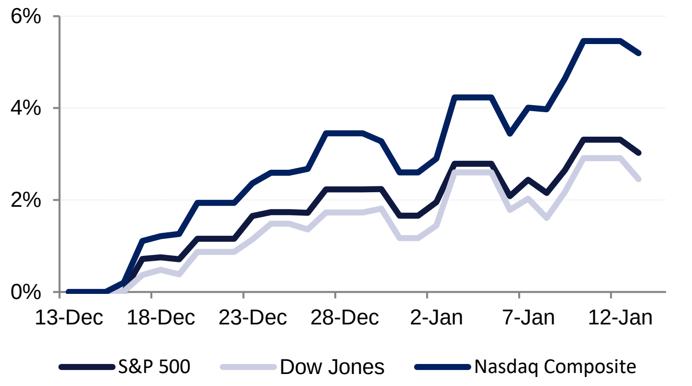
Major Equity Markets

MENA Equity Markets



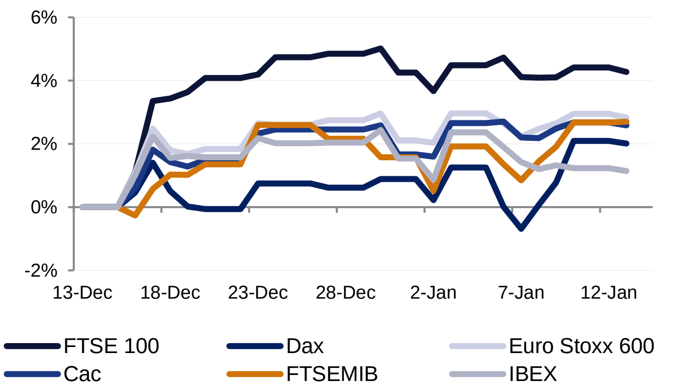
Source: Bloomberg, Emirates NBD Research

US Equity Markets



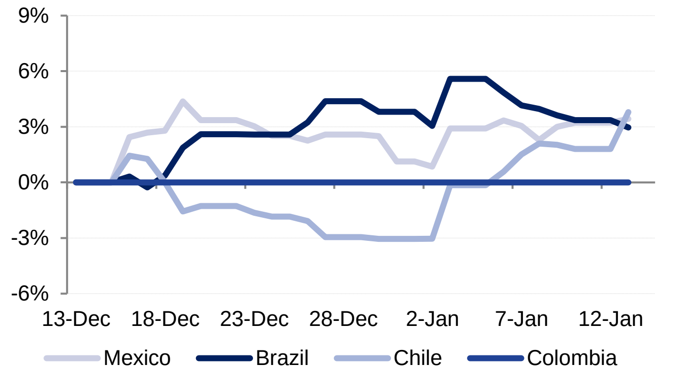
Source: Bloomberg, Emirates NBD Research

European Equity Markets



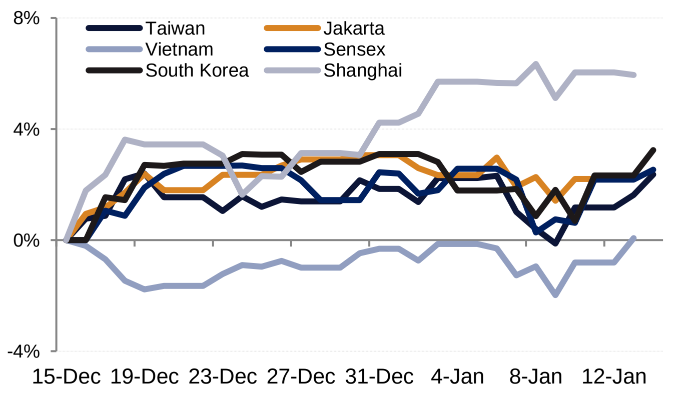
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



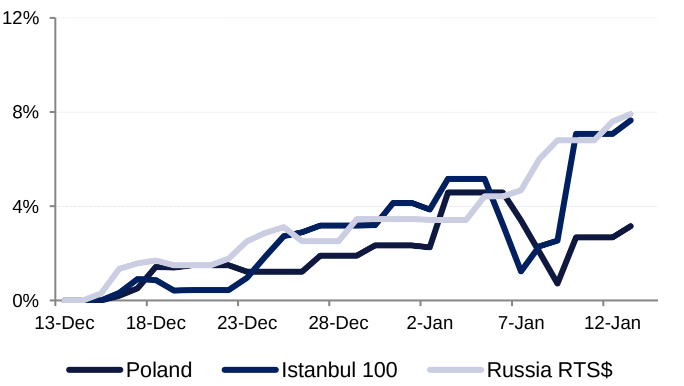
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

US Treasuries Forecasts							
	Current	3M	6M	12M			
2y	1.57	1.70	1.75	1.80			
10y	1.83	1.95	2.00	2.00			
2s10s (bp)	16	25	25	20			
3M Libor							
3m	1.83	2.00	2.00	1.85			
3M Eibor							
3m	2.01	2.25	2.25	2.00			
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	0.50	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	5.15			
SAMA (reverse repo)	2.00	1.75	1.50	1.50			
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	1.75	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 14 January 2020

Commodities

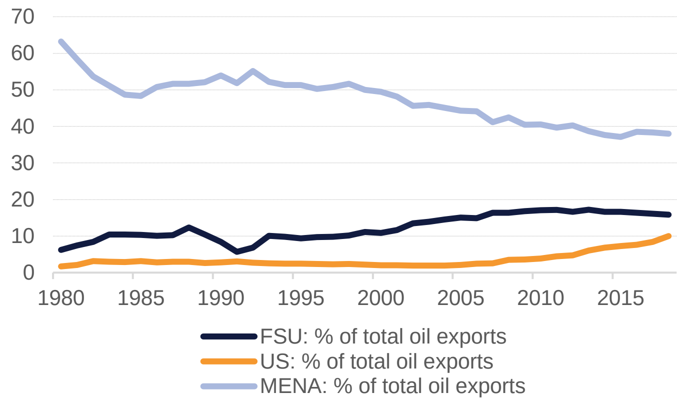
Oil markets have oscillated sharply to start 2020 as geopolitical tensions between the US and Iran escalated rapidly. Brent prices spiked in the aftermath of a US drone strike killing a senior Iranian military officer, moving to nearly USD 72/b as fears that military intervention in the Middle East could disrupt flows of crude from the region. In the end, however, oil prices adjusted lower as it became clear the tensions caused no change to oil market fundamentals. Markets are displaying relative indifference to a tense geopolitical setting but that resilience is well borne out by current market fundamentals.

Geopolitics a trend for 2019

In 2019, oil markets endured several phases of rising geopolitical tension as oil tankers were attacked in the Strait of Hormuz, a US naval drone was shot down in the region and oil production infrastructure in Saudi Arabia was taken offline temporarily by missile strikes. However, while oil prices spiked in response to all those incidents, none of them led to prices maintaining those elevated levels. Likewise, the week-on-week change in response to the January US drone strike saw Brent futures decline by more than 5%.

The failure of the oil market to hold onto higher prices as a result of elevated geopolitical risks reflects a few dynamics, most notable of which is the growth of alternative suppliers to the Middle East. In the 1980s, the Middle East and North Africa dominated the supply of crude to international markets, accounting for more than 53% of total traded oil on average. That market share held roughly steady until the 2000s as Russia's share of oil markets expanded significantly. In the last decade, the Middle East and North Africa has endured a greater challenge as more of its oil market share has eroded thanks to enormous growth in supplies from traditional importing regions—such as the US and Canada. In 2018, MENA's share of traded oil markets fell to just 38%, a level compounded by voluntary production restraint thanks to OPEC+ production cuts and US sanctions on Iran.

MENA losing ground to other producers



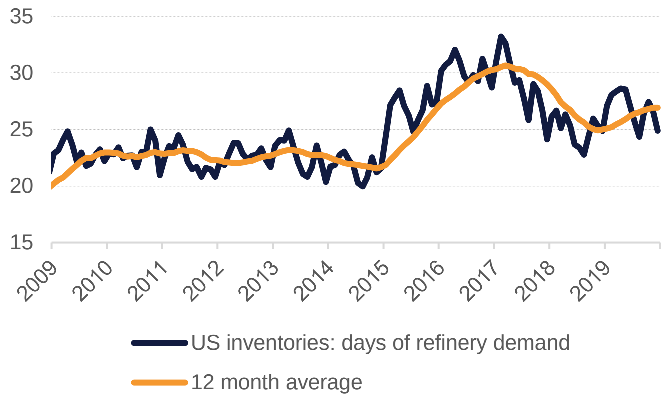
Source: BP, Emirates NBD Research.

This waning influence of the Middle East on crude and product markets is perhaps most evident in the US where its share of total imports has declined from steady levels of around 20-25% between 1993-2012 to just 10% in the most recent data prints. A surge of domestic production and greater flows from Canada and Latin America has allowed the US to displace much of the crude from the Middle East. But the impact is being felt further afield as well. The US has now displaced the UAE as a larger crude oil exporter to South Korea, one of the UAE's most critical markets. In China, the Middle East's share of total imports has steadily declined over the last 10 years—impacted by sanctions on Iran to be sure but also thanks to an expansion of Russia's share of the market along with Latin American producers.

Inventories still remain wide

An abundance of global inventories of crude and products also helps to act as a relief to markets in periods of geopolitical stress. While crude stocks in the US have drawn from their excessive levels in 2015-16 they still remain at historically high levels. Measured against refinery intake, US crude stocks averaged around 27 days of demand in the past 12 months compared with levels closer to 20-22 days for the first half of the decade. In north-west Europe, product stocks have also stabilized at a new higher absolute level over the last few years, reflecting the heavy supply picture oil markets have endured over the last few years.

US inventories normalize at higher levels



Source: Bloomberg, Emirates NBD Research.

We expect OECD commercial inventories of crude and products to record an average of 63 days of demand in 2020, an increase from 61 estimated for 2019. When compared against their rolling two-year average, quarterly stocks measured in days of demand display a relatively strong correlation with moves in average Brent prices. When days of demand are 2% higher than their rolling two-year average, prices risk year-on-year declines in a range of 5.6% to as high as 50%. Our expectation is for days of demand to break through the 2% barrier in the first half of 2020, acting as a substantial drag on prices trying to push higher on geopolitical risk.

Snap higher in oil sends shocks to demand

An element of geopolitical risks is likely always inherent in oil prices, widening or narrowing depending on the context. However, as it widens and pushes overall prices higher, the fundamentals-component of oil prices shrinks as consumption adjusts downward in response to higher prices. When geopolitical risk dissipates, oil prices tend to settle at those new lower fundamentals-based levels.

Any snap higher in oil prices on the back of elevated geopolitical risks coming at an unwelcome time for the global economy. Industrial production in nearly every economy is in the doldrums and trade growth is insipid. For economies highly dependent on oil imports, a spike in prices can lead to a highly elastic negative demand response, particularly when emerging market currencies remain fraught with trade war risks.

Oil prices at USD 70/b would imply a downward demand correction based on the IEA's long-run elasticity estimates. Were prices to sustain a move above USD 70/b and stay in a range between USD 70-80/b, oil consumption growth could see around 750k b/d shaved off current levels. With Brent prices thus at around USD 65/b to start the year, we may be near the top of what the oil market can actually endure given current demand conditions.

With more alternative producers available and still sizeable inventories, the oil market can endure political risk from the Middle East better than perhaps any time in the last 30 years. However, none of the risks have actually impacted oil production for a sustained period. Even the attacks on Aramco facilities in September 2019 were quickly repaired and output resumed quickly. With almost 30% of global crude emanating from countries in or around the Gulf region, political risk cannot be discounted entirely.

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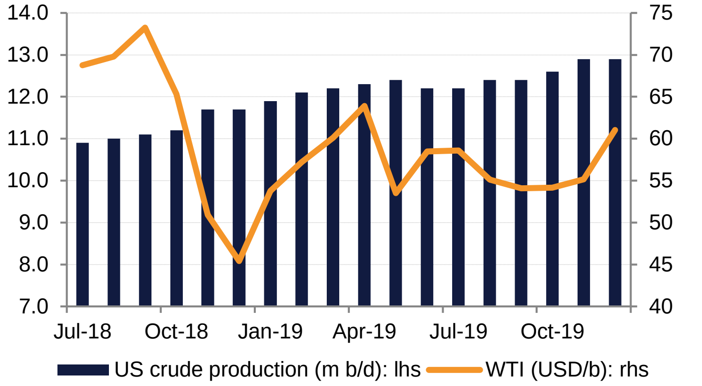
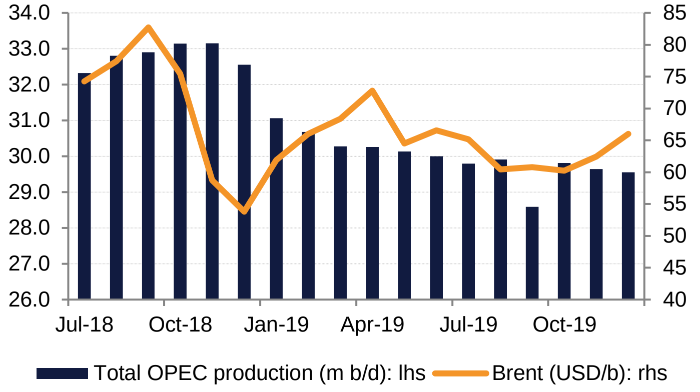
Major Commodities Markets

US oil production and price



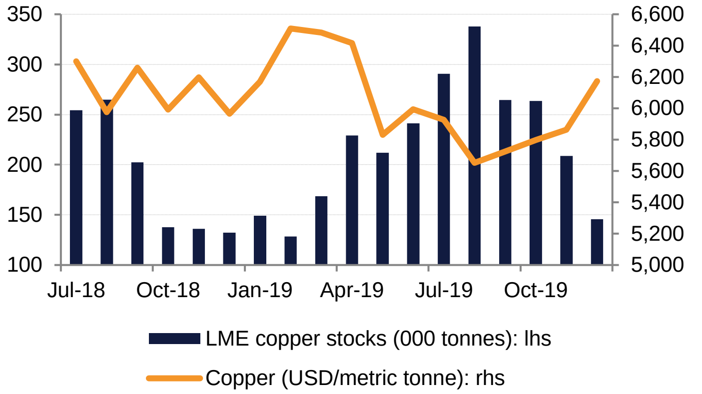
Source: Bloomberg, Emirates NBD Research

International oil production and price



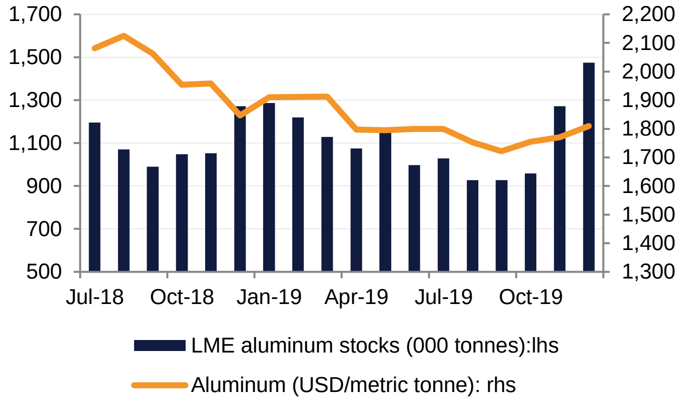
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



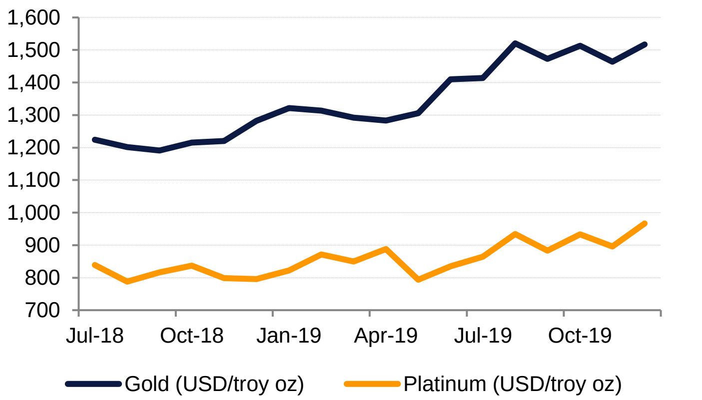
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



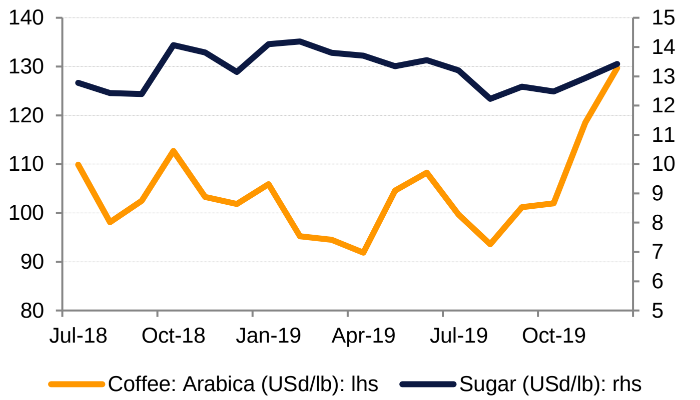
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	2020Q1	Q2	Q3	Q4	2019	2020
Energy							
WTI	58.13	55.00	52.00	55.00	56.50	57.03	54.63
Brent	64.40	58.00	55.00	57.50	58.00	64.19	57.13
Precious metals							
Gold	1,552.74	1,450.00	1,475.00	1,450.00	1,450.00	1,392.40	1,456.25
Silver	17.82	17.00	16.50	16.00	15.75	16.20	16.31
Platinum	992.04	1,000.00	900.00	950.00	975.00	864.97	956.25
Palladium	2,194.72	1,650.00	1,600.00	1,550.00	1,500.00	1,539.86	1,575.00
Base metals							
Aluminum	1,809.00	1,800.00	1,850.00	1,900.00	1,950.00	1,813.14	1,875.00
Copper	6,302.00	6,000.00	5,800.00	5,750.00	5,750.00	6,023.08	5,825.00
Lead	1,948.00	2,072.31	2,011.52	1,996.26	1,996.26	2,004.91	2,019.09
Nickel	13,870.00	17,500.00	16,000.00	15,000.00	14,500.00	13,938.00	15,750.00
Tin	17,430.00	16,500.00	17,000.00	17,750.00	18,000.00	18,612.26	17,312.50
Zinc	2,373.50	2,389.58	2,323.46	2,306.84	2,306.84	2,509.85	2,331.68
Iron ore	84.75	90.00	85.00	75.00	70.00	93.32	80.00

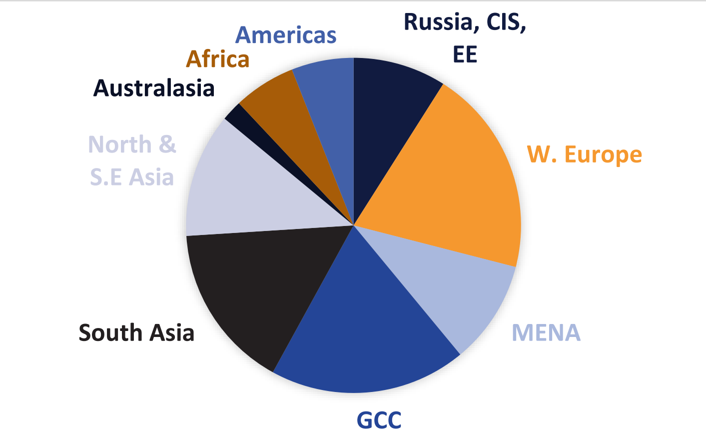
Prices as of 15 January 2020. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

Sector Report

Dubai's tourism sector looks to 2020

Dubai's tourism sector continues to play an important role in the economic growth strategy of the emirate. Competition from other GCC countries that are now actively developing their tourism sectors, regional geopolitical headwinds, and an elevated level of room supplies all pose challenges. However with Expo 2020 on the horizon the sector will get a much needed boost to pick up supply slack and refresh its tourism offering, especially as Expo will come with a differentiated offering, and aim to attract a wider tourist demographic. The announcement of a 5 year tourist visa by the UAE in January is a step forward, especially given the importance of international tourism spend to the sector's growth.

Top markets by region 2019



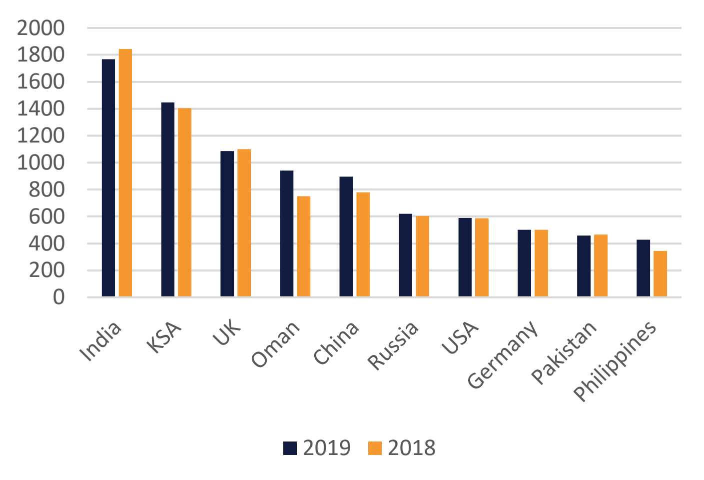
Source: DTCM

Data from Dubai Tourism for the January to November 2019 period showed that India remain the largest international source market for Dubai tourists at 1.767 million visitors, in absolute terms, though it declined by 4% compared to the same period last year, the UK was the 3rd largest source market for Dubai, though it also declined by 1% compared to the same period last year at 1.086 million tourists. Russia ranked 6th as an international source market, growing at a modest 3% compared to the same period last year with 621,000 tourists.

Other international markets fared much better as source markets for Dubai tourists, with the number of Chinese tourists growing at a healthy clip of 15% compared to the same period last year, bringing in 895,000 tourists, and the Philippines growing at a very robust 24%, bringing in 428,000 tourists and is the 10th largest markets for tourists inflows to the emirate.

Regionally Oman, was the fastest growth market for tourists to Dubai at 25% growth, with 941,000 tourists placing it in the 4th place for Dubai, while the Saudi Arabia was the second largest source market, however it grew at a more modest 3%.

Visitors by country 000's (Jan-Nov 2019)



Source: DTCM

Tourism remains a significant growth driver

Statistics from the World Travel & Tourism council show that Dubai ranked as the third biggest city in the world for international tourism in its Cities Report for 2019. The report estimated international tourism spending in Dubai totaling USD 27.9 billion, out of a Middle East & North Africa region that contributes USD 92 billion to global tourism GDP. Furthermore the report noted that Dubai is among the most reliant on international visitor spending in the region, with 89% of the total travel and tourism spend coming from it.

The figures reflect the importance international tourist flows to the emirate's tourism sector. This has been part of a wider strategy of the emirate expand its global source markets for tourists, picking up slack from some of the larger "traditional" source markets to enhance diversification. However the overreliance on international tourism spend, also poses challenges in an environment where any increase in regional geopolitical tensions could pose a threat.

UAE Introduces five year tourism VISA

In January the UAE approved the issuance of a five-year multi-entry tourist visa for all nationalities visiting the country. While specifics around the visa are yet to be announced, sources have indicated that holders of the five year multiple entry tourist visa may be allowed to stay for six months at a stretch. The decision comes in conjunction with the country's preparation to hold Expo 2020 Dubai, and as the UAE is stepping up its sector's competitiveness vis-vis its neighbors to ease tourist access, with Saudi Arabia last September opening applications for online visas.

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