Emirates NBD

Monthly Insights

23 July 2020

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Highlights

Global macro: There has been a slight return to normality in many countries, as an easing of restrictions has prompted sharp m/m resurgences in economic activity. Output remains off pre-pandemic levels, however, and fiscal and monetary policy look set to remain loose for some time.

GCC macro: We have downgraded growth forecasts in the region again as we take into account the latest economic data. However, a higher oil price forecast for this year and 2021 improve the budget forecasts slightly.

MENA macro: Algeria and Iraq will both face sizeable economic contractions this year. Not only are they dealing with the pandemic-related lockdowns but also the OPEC-mandated oil production curbs and lower prices, which will weigh heavily on these hydrocarbons-dependent economies.

India macro: We expect further interest rate cuts from the RBI despite persistently inflation as the bank priortitises growth.

Currencies: Dollar weakness has entrenched across most currency pairs with the Euro benefitting from a major EU coronavirus support package.

Financial Markets: Emerging market assets have displayed considerable resilience in light of the coronavirus pandemic. However, underlying conditions leave most markets at risk should unconventional monetary policies in developed market central banks start to be unwound.

Commodities: We have revised our outlook for oil prices higher for the rest of 2020. However, the heavy lifting will now be done by demand to make sure prices hold on to current levels.

Sector report: The coronavirus crisis has accelerated the growth in e-commerce in the UAE.

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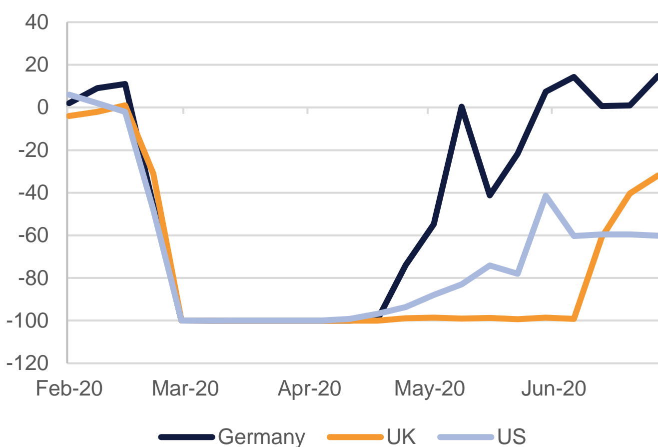
Global Macro

Just past the mid-point of the year it is clear that the global economy has undergone one of the greatest shocks in history, as efforts to control the spread of the coronavirus pandemic led to unprecedented lockdowns and curbs on freedom of movement. While the threat is by no means over – many countries continue to struggle with rising levels of infection, and the risk of a second wave remains salient – most major economies have begun easing these restrictions to varying degrees, enabling some semblance of a return to normal economic activity.

OpenTable restaurant bookings, %y/y



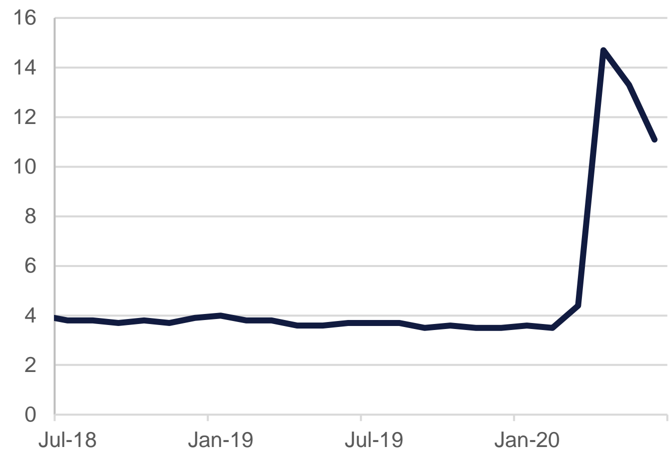
Source: Bloomberg, Emirates NBD Research

This has been reflected in many high-frequency data points over the past month: in the US, retail sales climbed 7.5% m/m in June, following the 18.2% gain recorded the previous month, while in Europe, restaurant bookings in Germany are now exceeding where they were at this time last year, and have also picked up from the -100% y/y slump in the UK and US, to -32.0% and -62.2% respectively. The US and China in particular have been surprising to the upside compared with market expectations, as per the Citi Surprises index.

Policy makers in developed markets will be looking to China's upside surprise of 3.2% y/y growth in Q2 with hope that this recovery will be replicated in their third quarters. China was first to be hit by the pandemic and its draconian response helped bring it under control comparatively quickly, enabling a resumption in most activity in Q2. That being said, the underlying growth data was more troublesome, indicating that the recovery from the -6.8% y/y contraction in Q1 was being led by fiscal stimulus and that the consumer was not faring quite so well. Retail sales fell -3.9% in Q2 while industrial production shored up the headline figure with a 4.4% increase.

The risk is that a similar experience will be seen in the major developed economies as they ease further on their lockdowns – leaving aside for the minute the surging cases in the US and the risk of greater rollbacks on easing. While many consumers will have saved money through the lockdown period and there will be some measure of pent-up demand driving a m/m recovery in demand for retail and leisure, the fact remains that many have to varying degrees lost their regular employment and are being supported by government furlough and cash hand-out schemes.

US unemployment, %



Source: Bloomberg, Emirates NBD Research

In the US, while unemployment fell back to 11.1% in June, from the peak of 14.7% in April, the rise in core unemployment to 5.9%, up from 5.0% the previous month, is concerning from the standpoint of a durable recovery. The supplemental USD 600 per week unemployment benefit that was approved by Congress four months ago is set to end at the end of July, impacting over 25m people who have benefitted from them. In the UK, while Chancellor Rishi Sunak did unveil a new raft of support measures in July, he reiterated that the furlough scheme would come to a close in October, declaring that to maintain it any longer would offer 'false hope that it will always be possible to return to the jobs they had before.' Job losses in developed markets are being concentrated in the low-paid retail and leisure sectors in particular, risking heightened inequality. Tensions between China and the US are another risk to manufacturing industries should a renewed trade war break out.

In this environment, it is little surprise that the IMF downgraded its 2020 global GDP forecast to a -4.9% contraction in June, 1.9 percentage points lower than its April forecast. France, Italy and Spain are projected to see the biggest shocks at -12.5%, -12.8% and -12.8%, but the UK and US will not fare much better with contractions of -10.2% and -8.0% respectively, while Japan's economy will shrink by -5.8% according to the Fund. As the report notes, however, there remains an even greater measure of uncertainty than in a normal year, given the ongoing threat of the virus. While there have been positive reports with regards the development of a vaccine in late July, the prospect of an effective treatment being developed and distributed remains some way off. In the meantime, policy makers on the fiscal and monetary fronts will have to do what they can to support their economies through this time of crisis.

2020 IMF world GDP growth forecast, % y/y

Source: IMF, Emirates NBD Research

Landmark Eurozone fiscal stimulus

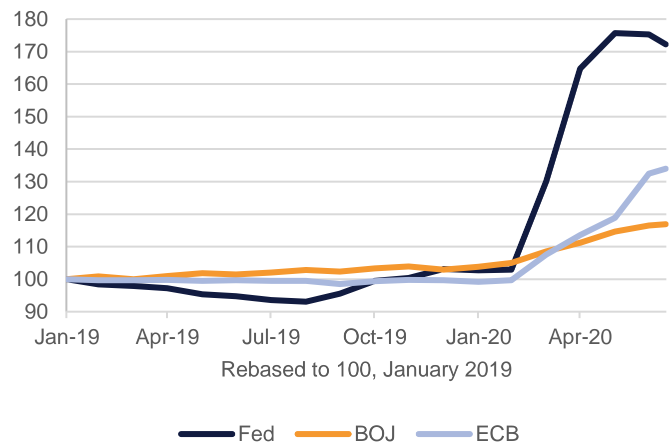
The past month has arguably been quieter in terms of big support pledges by governments as compared to the March-June period. However, in the early hours of July 21, EU leaders reached agreement on the EUR 750bn support package that had been mooted by the French and German leaders Emmanuel Macron and Angela Merkel back in May, in what could prove to be a seismic event in European history. Although a compromise was reached in terms of making roughly half of the package (EUR 360bn) in the form of low-interest loans, the EUR 390bn of grants marks a landmark collaborative fiscal response to a crisis, and potentially paves the way for greater fiscal integration down the line. The so-called 'frugal four' of Netherlands, Austria, Sweden and Denmark were eventually talked around after four days of reportedly contentious negotiations.

In the US, there has been less evidence so far of compromises being reached around the negotiating table as a number of fiscal cliffs edge closer, including the previously mentioned USD 600 pw unemployment supplement and the likelihood that any previous helicopter money will now have been spent. The Democratic-controlled House of Representatives have approved a USD 3.5tn package, but Congressional Republicans, and the White House, want something more in the region of USD 1tn. There is also ongoing disagreement over whether or not a President Trump-supported payroll tax cut should be included in the bill. Given the almost hand-to-mouth existence of a large proportion of American households, the risk is that removing the additional support before the economy is back on its feet – or indeed just as a second wave of infections forces renewed restrictions in some states – prompts a renewed drop-off in consumption levels.

Asset-purchases will continue

On the monetary policy front, central banks have largely been in a holding pattern over the past month, and we see little likelihood of this changing any time soon. Rates remain at extraordinarily low levels, with no indication that policymakers wish to take them even lower, while at the same time the moment for the removal of the additional asset-buying support has not yet been reached. This stance was reiterated by ECB President Christine Lagarde following the ECB's July 16 meeting, at which it opted to keep its benchmark deposit rate on hold at -0.5%, while maintaining its Pandemic Emergency Purchase Programme (PEPP) at EUR 1.35tn. She stressed that the recovery remained uncertain, and said that unless there were 'significant upside surprises', the baseline remained that the bank would use the 'entire envelope of PEPP.'

Central bank asset sheets



Source: Bloomberg, Emirates NBD Research

The FOMC is set to meet at the end of the month, and here also we expect no change in policy direction from the current highly accommodative stance, with the Fed funds target range at 0.0% to 0.25% and ongoing asset purchases. The minutes from the June meeting revealed that board members thought that the US fiscal response 'might prove to be insufficient', further underscoring the perceived need for monetary support. With regards the future direction of Fed policy, the minutes showed that while members were broadly in favour of greater forward guidance, few saw the need to underscore this with yield curve control measures, with many asking questions about its costs and benefits.

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Key Economic Forecasts – Global

US	2015	2016	2017	2018	2019	2020f	2021f
Real GDP %	2.9	1.6	2.4	2.9	2.3	-5.5	3.9
Current A/C % GDP	-2.2	-2.1	-1.9	-2.2	-2.2	-2.2	-2.4
Budget Balance % GDP	-2.6	-3.1	-3.4	-4.2	-4.7	-17.2	-10.4
CPI %	0.1	1.3	2.1	2.5	1.8	0.9	1.6
Eurozone							
Real GDP %	2.1	1.9	2.5	1.9	1.3	-8.2	5.5
Current A/C % GDP	2.8	3.3	3.2	3.1	2.7	2.8	2.7
Budget Balance % GDP	-2.0	-1.4	-0.9	-0.5	-0.6	-9.6	-4.5
CPI %	0.2	0.2	1.5	1.8	1.2	0.4	1.1
UK							
Real GDP %	2.4	1.9	1.9	1.3	1.5	-8.9	6
Current A/C% GDP	-4.9	-5.2	-3.5	-3.9	-4.3	-3.8	-3.9
Budget Balance % GDP	-4.5	-3.3	-2.5	-2.2	-1.9	-12.2	-7.0
CPI %	0.0	0.7	2.7	2.5	1.8	0.8	1.4
Japan							
Real GDP %	1.3	0.5	2.2	0.3	0.7	-4.9	2.5
Current A/C % GDP	3.1	4.0	4.1	3.5	3.5	3.1	3.3
Budget Balance % GDP	-3.6	-3.5	-2.9	-2.3	-2.6	-11.0	-6.6
CPI %	0.8	-0.1	0.5	1.0	0.5	-0.1	0.2
China							
Real GDP %	7.0	6.8	6.9	6.7	6.1	1.8	8.0
Current A/C % GDP	2.8	1.8	1.6	0.4	1.2	0.5	0.8
Budget Balance %GDP	-3.4	-3.8	-3.7	-4.1	-4.9	6.7	-6.0
CPI%	1.4	2.0	1.6	2.1	2.9	2.8	2.2
India*							
Real GDP%	7.4	8.0	8.3	7.0	6.1	4.2	-4.7
Current A/C% GDP	-1.1	-0.6	-1.5	-2.4	-0.9	-1.0	-0.1
Budget Balance % GDP	-3.5	-3.6	-3.9	-3.6	-3.5	-4.6	-7.0
CPI %	4.9	5.0	3.3	4.0	3.7	4.8	3.9

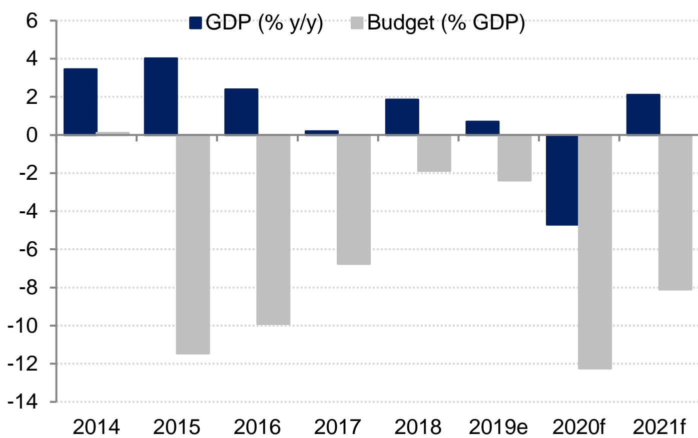
Source: Bloomberg, Emirates NBD Research
**For India the data refers to fiscal year (April – March)*

GCC Macro

GDP forecasts revised lower, again

At the half-year mark, we have again revised our growth forecasts lower for most of the GCC countries. The downgrades take into account newly available GDP and budget data for some countries, June PMI readings for the UAE and Saudi Arabia, and the latest oil production estimates from Bloomberg. The biggest revisions were for the smaller economies in the region, with the UAE growth forecast remaining unchanged at -5.5% this year and Saudi Arabia revised slightly lower to -4.2%. On a nominal-GDP-weighted basis, we estimate a contraction of -4.7% in real GDP this year, compared with -4.0% previously.

Average* GCC growth & budget balance



*Weighted by nominal GDP

Source: Haver Analytics, Emirates NBD Research

Q1 GDP data showed the Saudi economy contracting -1.0% y/y, largely on the back of a contraction in the oil sectors. This likely worsened in Q2 with oil production in May and June was sharply lower than in Q1, as OPEC+ agreed to deeper cuts in the face of collapsing demand for oil and declining prices. The PMI data also points to a contraction in the non-oil sectors in Q2. While household spending likely improved in June as purchases were brought forward before the higher VAT rate came into effect in July, we expect higher prices for goods and services to prove a headwind to recovery in H2 2020.

In the UAE too, oil production cuts would have weighed on overall economic activity in Q2. While the June PMI showed the economy stabilizing (with the first reading above 50.0 in six months), this followed three months of relatively steep contraction in output. Private sector employment continued to decline in June, as it has since the start of this year. Job losses together with cuts to salaries from March are likely to weigh on domestic demand, even as there are tentative signs of an improving external environment.

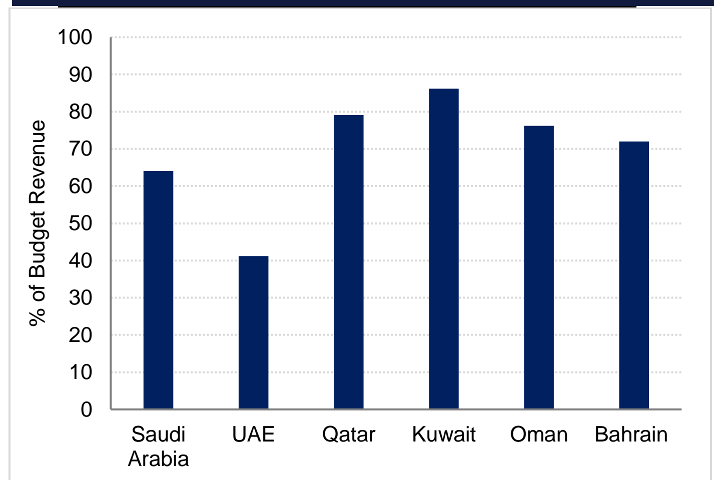
Higher oil price assumption improves fiscal outlook slightly

The upgrade to our oil price forecast for this year has had a modest positive impact on regional budgets, with the average (again weighted by nominal GDP) GCC fiscal deficit forecast at -12.2% of GDP, compared with -12.9% previously, sharply wider than the -2.4% average deficit in 2019.

Kuwait is likely to have the biggest budget shortfall in the region this year at -22.5% of GDP, reflecting the lack of diversification of budget revenues – oil and gas income is expected to amount to more than 82% of total budget revenue this year, the highest proportion in the GCC. The government has been unable to issue external debt to finance the budget deficit this year as parliament has yet to approve a new debt law. If this law is approved, Kuwait will look to raise USD 13-16bn in external debt before year-end, according to Reuters reports.

Ratings agency S&P revised its outlook on Kuwait's sovereign debt (AA-) to negative in mid-July to take into account the depletion of Government Reserve Fund, which has been used to finance budget shortfalls since 2017 when the old debt law expired. S&P's estimate of the budget deficit this year is significantly higher than our own at almost 40% of GDP. Kuwait is also scheduled to hold parliamentary elections in November this year.

Oil and gas income as a % of total budget revenue (2019)



Source: Haver Analytics, Emirates NBD Research

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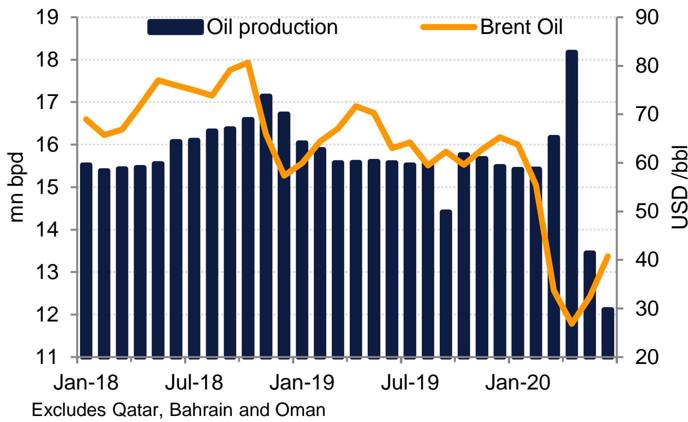
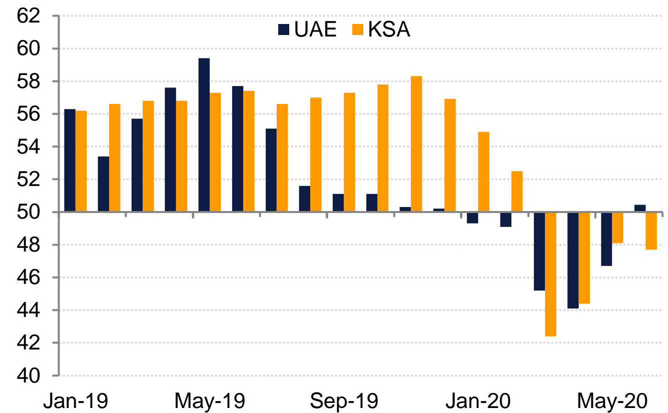
GCC in Pictures

GCC Oil Production and Oil Price



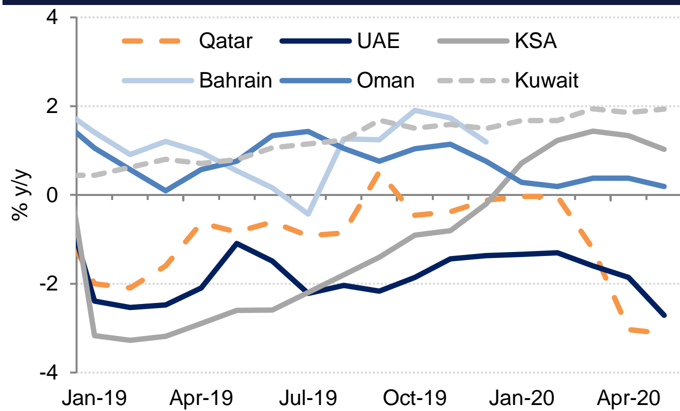
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



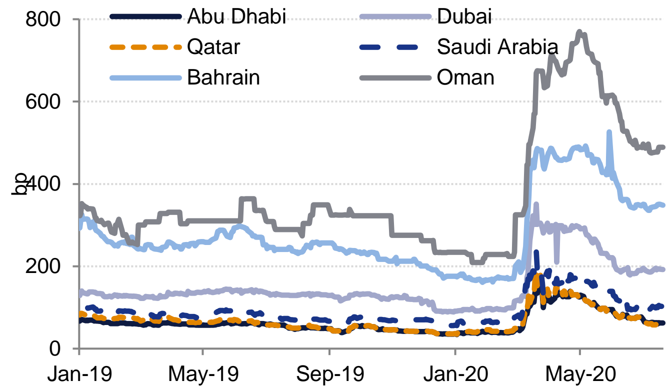
Source: IHS Markit, Emirates NBD Research

Inflation



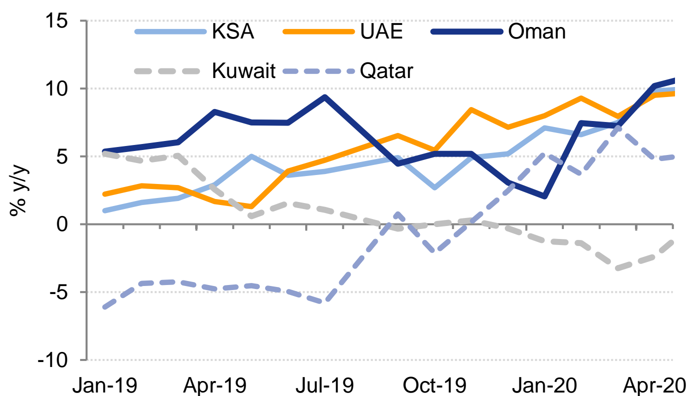
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



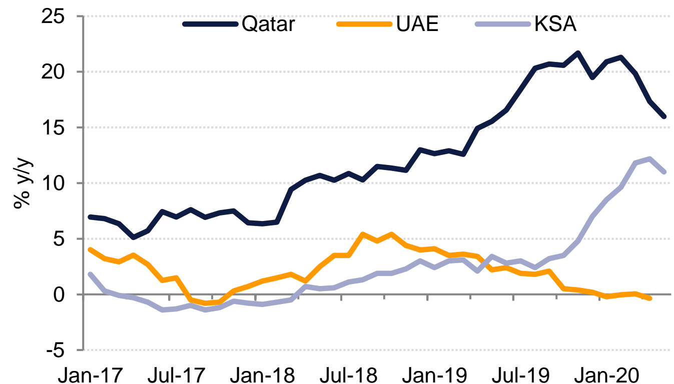
Source: Bloomberg

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

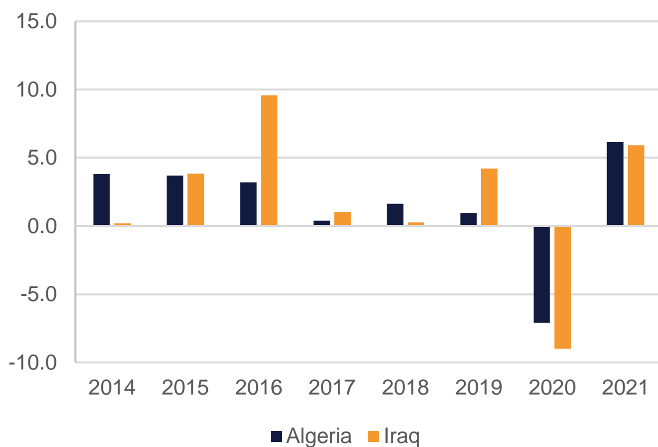
United Arab Emirates	2017	2018	2019e	2020f	2021f
Nominal GDP $bn	385.9	422.5	421.4	366.6	385.6
Real GDP %	2.4	1.2	1.7	-5.5	1.2
Current A/C % GDP	7.1	9.6	7.0	1.4	4.2
Budget Balance % GDP	-0.2	5.8	5.5	-6.8	-4.8
CPI %	2.0	3.1	-1.9	-2.0	0.0
Saudi Arabia					
Nominal GDP $bn	688.6	786.5	793.0	693.6	748.0
Real GDP %	-0.7	2.4	0.3	-4.2	2.6
Current A/C % GDP	1.5	9.0	6.3	-3.7	-1.4
Budget Balance % GDP	-9.2	-5.9	-4.5	-13.7	-9.0
CPI %	-0.8	2.5	-1.2	1.8	2.0
Qatar					
Nominal GDP $bn	166.9	191.4	183.5	148.0	178.4
Real GDP %	1.6	1.5	-0.2	-4.0	2.6
Current A/C % GDP	3.8	8.7	2.3	-5.1	-1.0
Budget Balance % GDP	-6.6	2.2	0.9	-10.5	-5.1
CPI %	0.4	0.3	-0.8	-1.5	1.0
Kuwait					
Nominal GDP $bn	120.7	140.6	134.6	108.1	116.8
Real GDP %	-4.7	1.2	0.4	-6.6	2.0
Current A/C% GDP	8.0	14.1	16.4	-7.3	-1.9
Budget Balance % GDP	-8.9	-3.0	-14.9	-22.5	-15.8
CPI %	1.6	0.6	1.1	1.5	1.5
Oman					
Nominal GDP $bn	70.5	79.2	76.0	67.2	70.7
Real GDP %	0.3	1.8	1.1	-4.4	1.4
Current A/C % GDP	-15.6	-5.5	-6.9	-18.7	-8.0
Budget Balance % GDP	-13.9	-8.7	-9.1	-15.4	-11.7
CPI %	1.6	0.9	0.1	0.0	1.0
Bahrain					
Nominal GDP $bn	35.5	37.7	38.6	36.4	38.0
Real GDP %	4.3	1.8	1.8	-3.7	1.0
Current A/C % GDP	-4.1	-6.5	-2.1	-4.2	-1.6
Budget Balance % GDP	-10.0	-6.3	-4.8	-10.4	-7.7
CPI %	1.4	2.1	1.0	-2.0	1.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	458	519	525	461	494
Real GDP %	0.2	1.9	0.7	-4.7	2.1
Current A/C % GDP	8.2	16.4	11.9	-2.6	2.7
Budget Balance % GDP	-6.8	-1.9	-2.4	-12.2	-8.1
CPI %	0.1	2.4	-0.5	1.3	1.9

Source: Haver Analytics, National sources, Emirates NBD Research

MENA Macro: Oil production curbs will hit Algeria and Iraq

OPEC-mandated oil production curbs are not only weighing on economic growth in the GCC within the MENA region; Algeria and Iraq will also both see their economic activity curtailed by lower output this year (we are leaving aside Iran, Libya and Yemen, which all have their own particular political troubles weighing on their oil sectors). Combined with the feed-through of lower oil prices to the rest of the economy, and the impact of the coronavirus pandemic on both supply and demand dynamics generally, both the Iraqi and Algerian economies are set to see sizeable real GDP contractions in 2020.

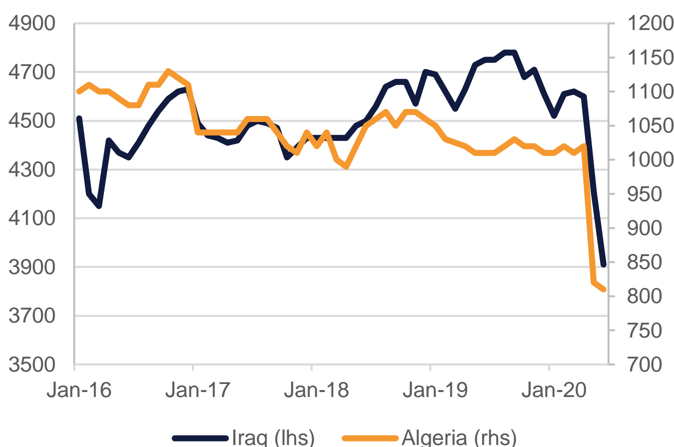
Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

We forecast Iraq will endure negative growth of -9.0% in 2020, while Algeria will shrink by -7.1%, with risks predominately weighted to the downside in both cases. In 2021 we project a nascent recovery with growth of 5.9% and 6.2% respectively, but both of these projections are predicated on the pandemic being brought to heel – both domestically and on the global stage – and on an increase in oil output.

Oil production, b/d ’000

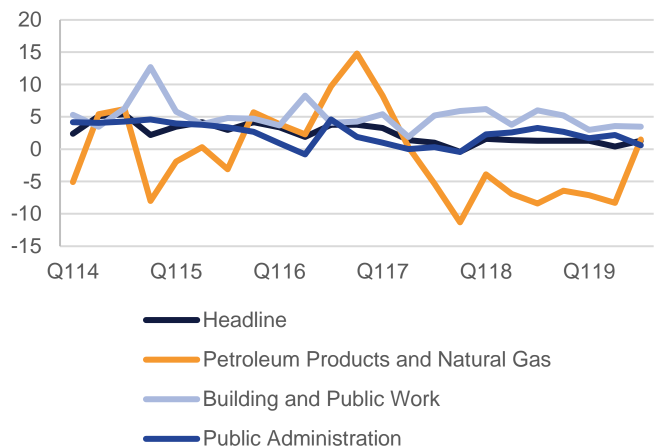


Source: Haver Analytics, Emirates NBD Research

Algeria

Oil production in Algeria has fallen sharply over the past two months, in line with new OPEC production cuts agreed in a bid to try and raise prices once more after several months of cripplingly low levels. Algeria’s oil production had been steady at around 1m b/d for the past several years, but this has fallen by some 20% to just 815k b/d over May and June. The hydrocarbons sector accounted for just over a quarter of GDP in 2019, and while this has fallen sharply over the past decade or so (it was more than double, at 54.6% in 2008), the cut in production this year will weigh heavily on growth. It will also, alongside the lower prices generally, weigh on other facets of the Algerian economy.

Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

Oil and gas exports account for over 90% of Algerian exports, and we have already seen a 9% depreciation in the dinar this year, accompanied by the ongoing precipitous decline in FX reserves which began (from an admittedly high base) in 2014. Proceeds from the sale of hydrocarbons are also essential to government finances at some 40% of revenue and finance minister Aymen Benabderahmane reported in July that the concurrent crises have cost public sector companies, mainly in transport and energy, more than USD 1bn in losses. The government decided to halve the budget for 2020 in May.

These pressures will compound the negative effects the coronavirus pandemic has had on the economy, as most activity was shut down from mid-March as the authorities sought to curb the disease’s spread. The restrictions were eased in June, but there remains a risk of their being reimposed should local flare-ups take hold; on July 10, travel restrictions were reintroduced barring people from travelling to and from different provinces, including the capital Algiers.

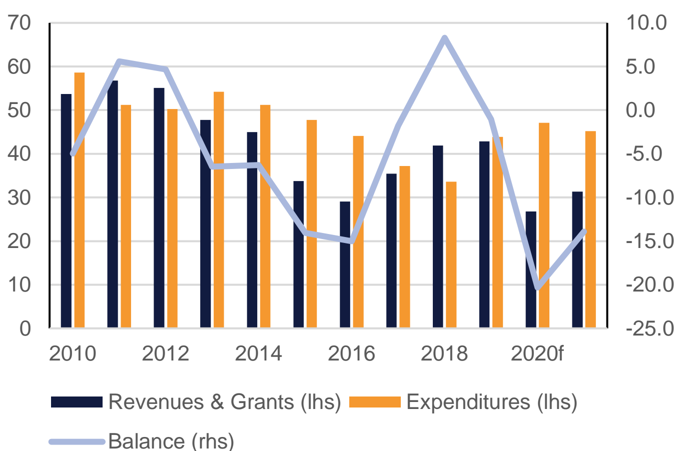
USDDZD depreciation

Source: Bloomberg, Emirates NBD Research

Iraq

Meanwhile, Iraq is being encouraged by the rest of the OPEC producers' bloc to adhere more strictly to its mandated production curbs than it has in the past. There has actually already been greater compliance over the past two months – Iraq produced just 3.9m b/d in June, the lowest level since H1 2015 – but this looks set to head lower still. Even as OPEC looks to ease back on some of its recent cuts from August, Iraq has pledged to cut further until September in order to make up for not being fully compliant with its cuts target in May and June – even June was only 90% compliant. Iraq's oil production averaged 4.7mn b/d in 2019, and given the sector accounts for over half of GDP, these substantial cuts will weigh heavily on the headline GDP figure.

Fiscal position, % GDP



Source: Bloomberg, Emirates NBD Research

As with Algeria, the oil production limit is far from the only issue facing the Iraqi economy. Iraq has not been immune to the coronavirus pandemic, and first implemented a curfew and lockdown on March 22. This was eased to coincide with Ramadan, but a subsequent resurgence in new case numbers saw restrictions reimposed in late May. There has been a partial easing of these once again in June, but there remain significant restrictions, and the non-oil sector is set to shrink considerably. In addition to the restrictions on activity, the non-oil sector will also suffer owing to the much-diminished inflows to the oil sector, due to the double whammy of both lower production and lower prices.

Time to diversify?

Both Iraq and Algeria have seen bouts of social unrest over the past two years, and the current crisis runs the risk that there will be renewed instability once the pandemic eases and people feel free to take to the streets and protest once more. As such, the two governments – both relatively newly appointed following the popular dismissal of the previous administrations – have been stressing the need for economic diversification even more stridently.

The Algerian government has announced that it will look to develop a new 'economic and social revival plan', which is less reliant on the hydrocarbons sector and that will allow the private sector greater influence. Algeria has been run on the developmental state model for the past several decades, with very little foreign or private sector participation allowed. However, the protests which swept long-serving President Abdelaziz Bouteflika from power last year have brought in a new government which is apparently prepared to break with the system of the past. President Abdelmdjid Tebboune was talking up the necessity of diversification even before the recent oil price drop, and the events of the past several months will have made it even more pressing. According to a statement from Tebboune, 'no distinction must be made between the public and private sectors in creating wealth and jobs.'

In Iraq, Mustafa al-Kadhimi was appointed as the new prime minister in May, the third person to be nominated for the position since protests prompted Adel Abdul Mahdi's resignation in late November. He has also called for greater diversification, castigating previous regimes over the past two decades for an apparent failure to develop any real economy. With an eye on corruption and bloated public sector payrolls, he has pledged to reduce Iraq's massive overreliance on the proceeds of oil. As with Algeria, however, any chance of diversifying will be constrained by limited funds to invest at present.

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Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2017	2018	2019	2020f	2021f
Nominal GDP $bn	225.8	241.5	291.7	328.2	330.9
Real GDP %	4.1	5.3	5.6	3.2	2.0
Current A/C % GDP	-6.4	-2.5	-3.7	-4.7	-4.1
Budget Balance % GDP	-10.8	-9.8	-8.6	-8.8	-10.7
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	42.3	43.7	43.7	46.5
Real GDP %	2.1	2.0	2.1	-3.9	2.9
Current A/C % GDP	-10.8	-7.0	-2.8	-7.3	-5.8
Budget Balance % GDP	-2.7	-2.6	-2.2	-6.9	-4.2
CPI %	3.3	4.5	0.3	2.4	3.0
Lebanon					
Nominal GDP $bn	52.1	62.3	65.9	62.0	63.8
Real GDP %	0.6	0.2	-0.3	-12.9	-3.4
Current A/C % GDP	-23.3	-21.4	-17.5	-19.1	-15.4
Budget Balance % GDP	-7.0	-10.8	-9.5	-12.2	-11.7
CPI %	4.5	6.1	10.1	40.0	20.0
Morocco					
Nominal GDP $bn	109.6	118.1	119.7	115.5	122.5
Real GDP %	4.2	3.1	2.5	-5.8	4.3
Current A/C % GDP	-3.4	-5.3	-4.1	-6.1	-5.0
Budget Balance % GDP	-3.4	-3.7	-4.1	-7.1	-6.8
CPI %	0.8	1.8	0.3	1.0	0.8
Tunisia					
Nominal GDP $bn	40.1	35.7	33.4	32.2	33.8
Real GDP %	2.0	2.6	0.9	-6.2	5.0
Current A/C % GDP	-10.2	-12.5	-10.6	-11.4	-9.8
Budget Balance % GDP	-6.2	-5.4	-4.2	-8.3	-7.8
CPI %	5.3	7.4	6.7	6.0	5.8
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	147.3	158.5	192.6	219.8	220.7
Real GDP %	3.4	3.7	3.6	-1.4	2.1
Current A/C % GDP	-8.3	-6.6	-5.8	-7.1	-5.9
Budget Balance % GDP	-7.6	-7.6	-7.0	-8.7	-9.3
CPI %	15.7	9.1	6.6	8.9	7.3

Source: Haver Analytics, National sources, Emirates NBD Research

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

Key Economic Forecasts – Non-GCC Oil Exporters

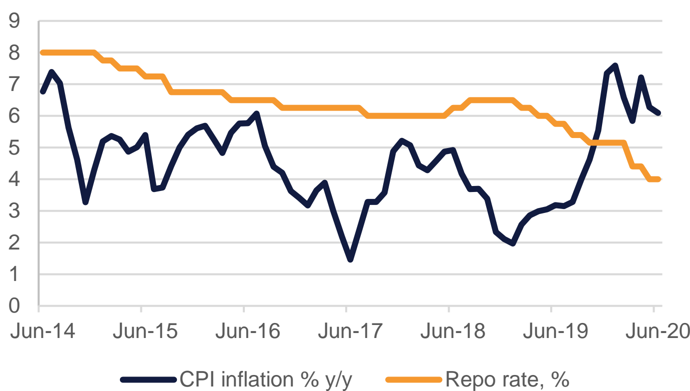
Algeria	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	167.6	165.5	163.2	141.3	136.9
Real GDP %	0.4	1.6	1.0	-7.1	6.2
Current A/C % GDP	-13.3	-10.4	-8.7	-10.2	-10.0
Budget Balance % GDP	-6.5	-9.2	-9.5	-16.0	-14.1
CPI %	6.0	3.5	2.3	2.5	3.2
Iran					
Nominal GDP $bn	446.9	422.4	528.6	627.1	735.8
Real GDP %	3.3	-4.2	-8.7	-6.0	1.7
Current A/C % GDP	3.5	3.7	-0.2	-2.2	-2.2
Budget Balance % GDP	-5.1	-4.2	-4.3	-6.0	-5.6
CPI %	10.0	21.0	38.7	27.5	20.0
Iraq					
Nominal GDP $bn	166.2	215.5	243.3	223.3	245.8
Real GDP %	1.0	0.3	4.2	-9.0	5.9
Current A/C% GDP	9.0	15.9	6.5	-5.2	-3.4
Budget Balance % GDP	-1.8	8.3	-1.1	-19.7	-17.1
CPI %	0.7	0.4	-0.2	0.9	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	-17.0	-4.6	-6.5	-6.7	-6.2
Budget Balance % GDP	-26.8	-15.8	-15.6	-13.8	-12.5
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	446.8	530.1
Real GDP %	4.1	-1.4	-3.5	-5.3	1.8
Current A/C % GDP	0.4	3.5	-1.0	-4.3	-3.5
Budget Balance % GDP	-7.4	-3.2	-4.2	-9.7	-8.8
CPI %	7.6	12.4	22.3	17.4	13.2

Emirates NBD

India Macro

Inflation in India has been exceeding the RBI's target range this year, making a further cut to the repo rate at the bank's August monetary policy committee meeting less of a certainty even as the bank's commitment to spurring growth remains in play. Nevertheless, for the time being we are maintaining our outlook for a year-end rate of 3.5%, implying a further 50bps of cuts from the current 4.0%. As the RBI noted in May, with growth floundering 'the policy space to address growth concerns needs to be used now rather than later to support the economy.'

Real rates have turned negative



Source: Haver Analytics, Emirates NBD Research

The Reserve Bank of India was already adopting a looser monetary policy stance even before the outbreak of the coronavirus pandemic, after India's 4.2% real GDP growth in fiscal 2019/20 (ended March) was the slowest in eight years – only part of which can be attributed to the virus. The RBI has cut by a cumulative 115bps since the start of the year, with an unscheduled cut of 40bps in May taking the benchmark rate to a record low of 4.0%. Even in doing so, the MPC's communiqué underlined the prospect of further cuts, stating that all members were in favour of the cut and for 'maintaining the accommodative stance as long as it is necessary to revive growth and mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within the target.'

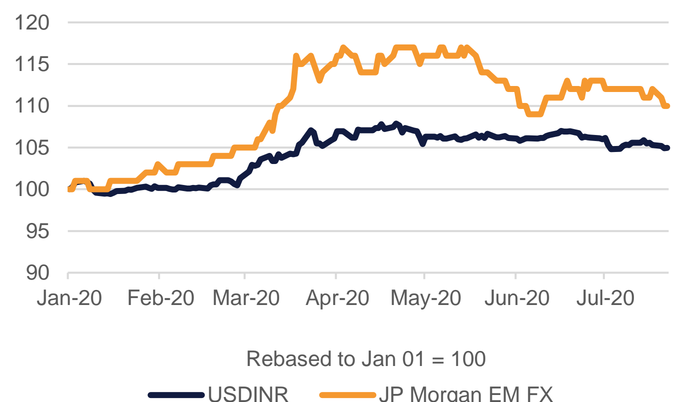
The inflation prints over the past six months raise some questions regarding what the August decision will be, given that CPI inflation has averaged 6.6% over January to June – some measure above the 4.0% ± 2 percentage points target range. However, the 6.1% June figure was the lowest since March, and indications are that much of the recent upward price pressure has been driven by supply chain dislocation as a result of Covid-19-related lockdowns. With some of this expected to ease, a favourable monsoon promised (boding well for food prices), oil prices set to remain relatively low and demand pressures fairly weak, inflation is expected to moderate in H2, potentially giving the RBI the space to cut further over the remainder of the year and to maintain the growth stimulus it has pledged.

India FX reserves, USDbn

Source: Haver Analytics, Emirates NBD Research

This is despite the fact that doing so would keep real rates in negative territory, as the bank is clearly prioritising boosting growth over maintaining any portfolio inflows into its local debt market. Arguably, it has been given the room to do this by India's first current account surplus in over a decade over the January-March quarter, which will almost certainly have been followed by another in the period ended in June. A lower trade deficit drove the reversal, and with oil prices having remained low, while other imports will likely have dipped during the lockdown, this trend will have continued. Equally, India's services exports were likely less constrained by the pandemic than the trade in goods.

INR has been comparatively stable



Source: Haver Analytics, Emirates NBD Research

India already saw a decline in foreign portfolio investment into debt over January-May (offset partially by greater foreign interest in equities), and this will likely have accelerated, but the improvement in the current account should grant the RBI the firepower to deal with these outflows without prompting a run on the rupee if it cuts rates further. Foreign reserves have risen USD 46bn so far this year to a record high of USD 507bn, over 12 months' of import cover.

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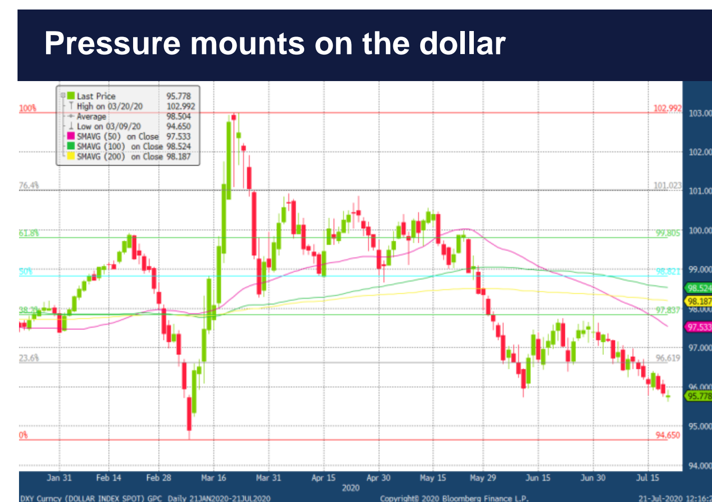
Currencies

Dollar weakness takes hold

Halfway through June the dollar began a gradual recovery from its monthly lows of 94.650 on its DXY index, a measure of the currency against a basket of major competitors. Its highest point was reached at the very end of the month at 97.802, just shy of the 38.2% one-year Fibonacci retracement of 97.837. The dollar has subsequently lost momentum and has been locked in a downwards trend since the beginning of July. The currency has frequently tested the 97 handle but has struggled to breach through this point, mainly hovering within the 95 – 97 region. Risk averse market conditions have persisted amid intensifying coronavirus fears, with the US setting daily record infection numbers. Growing tensions between the US and China have also dampened market mood. Disagreements over Hong Kong and, more recently, the South China Sea has further strained relations, with the two nations continuing to employ negative rhetoric against one another. The dollar's traditional safe-haven role is likely to continue as the Fed has repeatedly expressed a reluctancy to employ negative interest rates, but for the time being, the bearish sellers are edging the bulls.

Pressure mounts on the dollar



Source: Bloomberg, Emirates NBD Research.

Euro to benefit from EU deal

Broad-based dollar weakness has proven beneficial for the EUR. In July the currency established an upwards trend to reach highs above 1.1500, its highest point in over a year. Market sentiment has been the key driver in the region. European nations have responded swiftly to the outbreak resulting in a slow but steady decline of cases, as oppose to the US where the case numbers have increased rapidly in July. In July the EU agreed on a massive coronavirus recovery package, with the leaders settling on a EUR 750bn deal. The currency has moved well beyond the 76.4% one-year Fibonacci retracement of 1.1332 and has also far exceeded the 50-day (1.1215), 100-day (1.1075) and 200-day (1.1067) moving-averages.

We expect the EUR to continue to show strength toward the end of the year as conditions in the Eurozone stabilize or improve relative to the US and with the support package out of the way there are few major political hurdles, unlike the presidential election in the US. While peripheral economies face strained fiscal conditions we expect the support package to help shift market anxiety elsewhere and allow countries that still have fiscal room—eg Germany—to maintain accommodative policies should virus conditions worsen.

Real rate differentials have also improved in favour of the Euro over the last few months helping to support a pull into the Euro. As a result we have brought our expectation for a solid appreciation in the EUR forward and see it maintaining—or pushing above—current levels by the end of the year.

EUR rallies on improved market sentiment

Source: Bloomberg, Emirates NBD Research.

Sterling pushed higher but risks remain

Sterling has picked up some steam in July. The currency rallied from lows of 1.2262 at the end of June and now hovers around the 1.26 – 1.28 region. This exceeds the 50-day (1.2474) and 100-day (1.2417) and the 200-day (1.2704) moving averages. Economic data out of the UK has showed some promise as CPI and manufacturing production were better than expected, but the country's overall GDP growth has dipped from 5.5% to 1.8% m/m. The Bank of England kept rates unchanged at 0.1% at its June MPC meeting, but added further stimulus to its quantitative easing programme which now totals GBP 745bn. Brexit concerns continue to loom over the nation as negotiations with the EU are seemingly making little progress. A Free-Trade Agreement with Australia has been brought up several times as well, with both countries apparently eager to achieve a formal partnership. This has the potential to apply pressure on the EU and perhaps accelerate negotiations. If this were to occur it would prove highly beneficial for Sterling, as uncertainty would decrease dramatically.

However, as political focus remains on domestic responses to the coronavirus in both the UK and the EU the issues around Brexit have been pushed out of priority focus. Both sides remain at a standoff with respect to whether a meaningful deal can be reached

by the end of the UK's transition period. A deal related to goods may be acheiveable by the end of the year, helping to temper some of the cliff-edge risks of a no deal Brexit but anxiety over what the future relationship between the UK and the EU will be is likely to act as a drag on sterling, if not necessarily push it lower.

JPY looks to political risks in months ahead

USDJPY has been relatively tentative despite the dollar's overall weakness. An early spike in June of 109.59 has been eroded and the pairing has been trading in the 106 – 108 region ever since as markets balance economic recovery with an uptick in virus cases. July provided further declines, with the currency reaching a monthly low of 106.71, the same level as the 50% Fibonacci retracement, not quite as low as July's reading of 106.07 but serves to highlight investor's sentiment in the pairing.

We suspect USDJPY could start to fall as we approach the US election when rhetoric around trade from the Trump administration could become more hostile. But in a situation where it becomes clearer that the Democratic candidate Joe Biden is likely to win we still expect there could be downside for the pair as markets grow anxious over the scale of progressive policies that the Democrats could introduce. This would be even more exacerbated in situation where the Democrats gain greater control of congress.

Aussie and Kiwi get a risk on boost

The AUD's recovery from March lows not seen in over a decade, has been steady and consistent. It has now gone beyond pre-pandemic levels, over the 0.7 mark at 0.7130. July saw the Reserve Bank of Australia keep the benchmark rate steady at 0.25%, a historic low for the country. The outlook for AUD remains balanced between whether the global economy gets control over the coronavirus pandemic or if economic and political risks again escalate. There has been a resurgence of Covid-19 cases across several Australian states but we would expect strong adherence to government regulations to help bring it under control. The RBA's yield curve control policy is among the more contained measures that developed market central banks have adopted and governor Philip Lowe has suggested that additional unorthodox policies are unlikely (eg negative rates). If there is more clarity on the outlook for a vaccine being developed and deployed on a wide scale then we think there could be considerable upside in the AUDUSD.

The NZD has recovered in a similar fashion, not quite as dramatic as its Australian counterpart, but still reaching pre-pandemic levels around 0.6640. New Zealand has had relative success in containing the virus while the RBNZ has unleashed substantial QE to support the economy. However, as the country's bond market is comparatively smaller than other developed markets the central bank may need to target foreign assets for purchases which could help to support growth by pushing the Kiwi lower. While the exchange rate will be a focus for the RBNZ we nevertheless think the Kiwi should benefit from an improvement in global growth next year, helping to push it higher against the USD.

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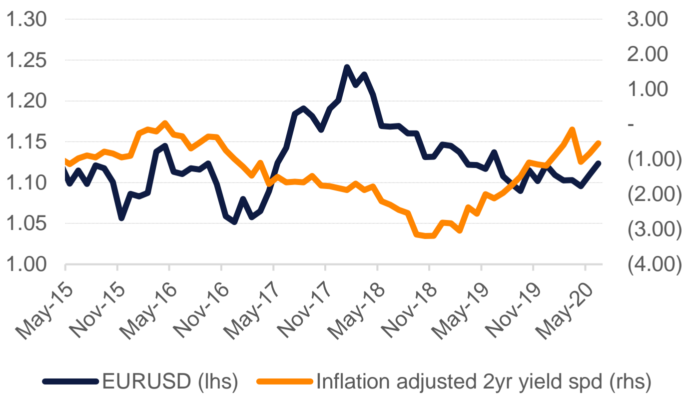
Emirates NBD

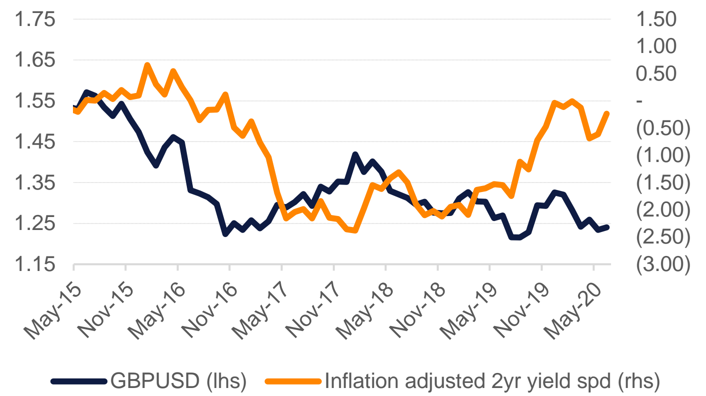
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



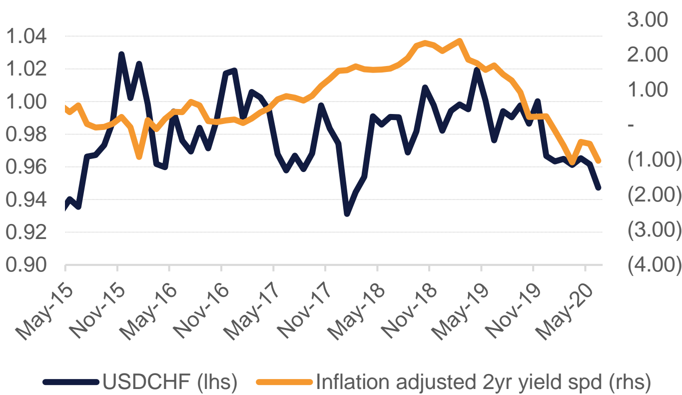
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



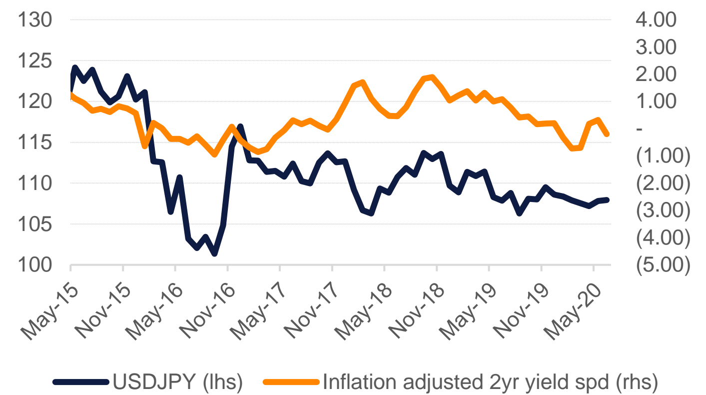
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



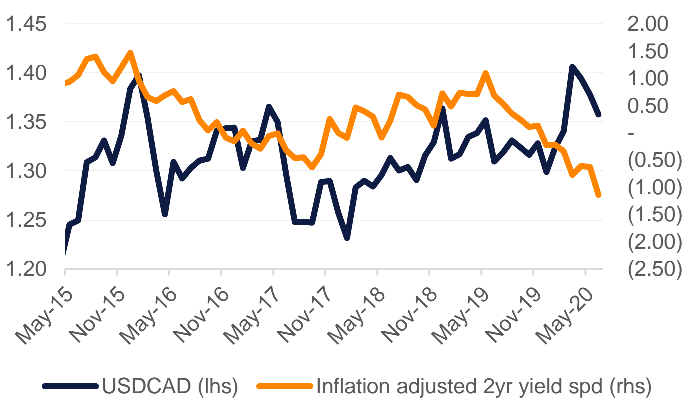
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



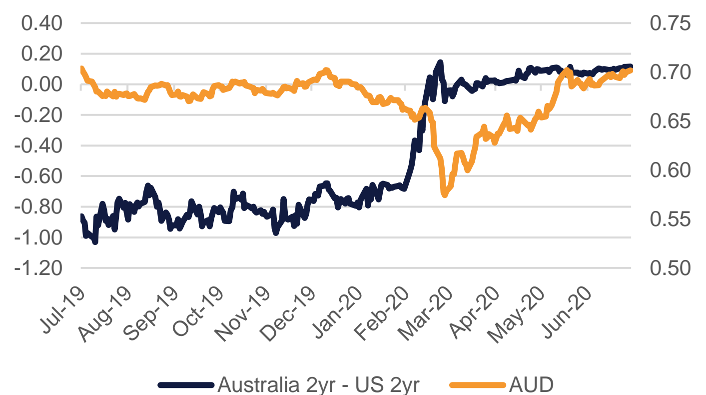
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	22-July	Q3 2020	Q4 2020	Q1 2021	Q2 2021	3m	6m	12m
EUR/USD	1.153	1.1400	1.1500	1.1700	1.1850	1.1565	1.1592	1.1636
USD/JPY	106.80	107.00	105.00	105.00	107.00	106.65	106.44	106.77
USD/CHF	0.933	0.9500	0.9400	0.9400	0.9700	1.2725	1.2735	1.2744
GBP/USD	1.273	1.2500	1.2500	1.3000	1.3500	0.9290	0.9261	0.9213
AUD/USD	0.713	0.7000	0.6800	0.6800	0.7200	0.7167	0.7168	0.7165
NZD/USD	0.664	0.6400	0.6500	0.6500	0.6750	0.6674	0.6672	0.6668
USD/CAD	1.346	1.3600	1.3600	1.3300	1.3000	1.3437	1.3433	1.3438
EUR/GBP	0.905	0.9120	0.9200	0.9000	0.8778	0.9088	0.9103	0.9130
EUR/JPY	123.11	121.9800	120.7500	122.850	126.7950	123.35	123.39	124.24
EUR/CHF	1.076	1.0830	1.0810	1.0998	1.1495	1.0744	1.0736	1.0720

FX Forecasts - Emerging						Forwards		
	22-July	Q3 2020	Q4 2020	Q1 2021	Q2 2021	3m	6m	12m
USD/SAR*	3.7503	3.7500	3.7500	3.7500	3.7500	3.7549	3.7581	3.7653
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6746	3.6783
USD/KWD	0.3072	0.3020	0.3020	0.3020	0.3020	0.3079	0.3083	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3864	0.3879	0.3910
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3760	0.3760	0.3782
USD/QAR*	3.6564	3.6400	3.6400	3.6400	3.6400	3.6617	3.6619	3.6623
USD/EGP	15.9878	16.0000	16.0000	16.5000	17.0000	16.6100	17.0200	17.8900
USD/INR	74.761	75.0000	73.0000	72.0000	70.0000	75.4700	76.1900	77.7100
USD/CNY	7.012	7.0000	7.2000	7.1000	7.0000	7.0435	7.0803	7.1475
USD/SGD	1.382	1.4000	1.4000	1.3800	1.3500	1.3865	1.3860	1.3853

FX Forecasts - MENA					
	22-July	Q3 2020	Q4 2020	Q1 2021	Q2 2021
USD/MAD	9.4499	9.5000	9.6000	9.7000	9.7000
USD/TND	2.7940	2.7500	2.8000	3.0000	3.0000
USD/TRY	6.8483	6.8000	6.7000	6.6000	6.8000

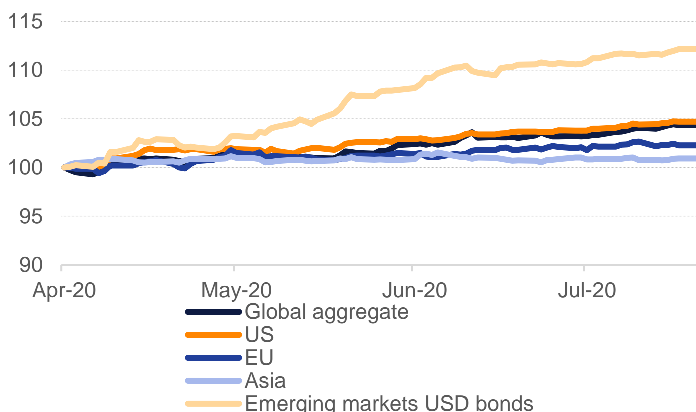
Data as of 22 July 2020
Source: Bloomberg, Emirates NBD Research

Financial Markets

As financial markets generally have swung upward in response to economies easing lockdown conditions, emerging market assets have emerged as one of the star performers. Whether in equity, bond or FX markets, emerging markets have not only shown resilience to the economic effects of the Covid-19 pandemic but in some cases have shown considerable out-performance. The upswing is all the more surprising given that emerging and frontier markets account for eight of the top 10 countries with the most cases of Covid-19. Emerging markets have been a beneficiary of the aggressive unorthodox monetary policies undertaken by central banks globally but their soft underlying fundamentals suggest that any tapering of liquidity could prompt a rapid and deep sell-off.

Bond markets have had a relatively good crisis with the global aggregate index advancing by more than 4% year-to-date (ytd) as of mid-July as investors have flocked to risk-haven assets. On a ytd basis EM bonds have gained less than 1% but since the start of the second quarter they have managed to substantially outperform. EM USD-denominated bond have rallied more than 12% since the beginning of April, significantly outpacing US, European and Asian markets. Spreads over Treasuries have also compressed considerably: spreads peaked at more than 700bps in mid-March but have now tightened to around 390bps, although they have struggled to regain pre-crisis levels at around 300bps.

Bond performance Q2 - present



Source: Emirates NBD Research, Bloomberg. Note: Apr 1 = 100

The story is roughly similar in EM equity markets. Since the start of the year EM equities have been roughly flat but since Q2 began have managed a 27% rally, recovering most of their Covid-19 induced sell-off and tracking the performance of global benchmarks and the S&P 500 closely. Beyond performance, valuations have also risen considerably. The MSCI EM index P/BEst ratio has shot well above its five-year average to 17x with some countries seeing particularly elevated valuations: the Bovespa index is trading at more than 30x estimated earnings as of mid July.

EM equity values spike

Source: Emirates NBD Research, Bloomberg.

FX has been the relative underperformer among EM assets as the carry trade of holding EM currencies has lost appeal as central banks have slashed rates. Among the 17 major emerging markets, central banks have collectively cut rates by more than 2800bps since the start of the year. Nevertheless FX across the board in emerging markets have recovered from their weakest levels as of mid July.

EM domestic conditions appear soft

In our view domestic variables can't be the main driver behind the performance of EM assets in recent months. The cut in central bank rates reflect the soft economic conditions present in most of these economies and many are enduring serious coronavirus crises. Brazil has recorded more than 2m cases while India has over 1m. Extensive lockdowns are unaffordable for many emerging market economies but the build-up in the number of coronavirus cases will place heavy burden on domestic health care services until a vaccine can be deployed extensively.

Near-term economic data has showing an improvement with PMIs across many emerging markets improving in their most recent prints as lockdown conditions have eased. But as we have noted elsewhere the PMIs provide an indication of month/month improvement or deterioration and don't provide an answer as to whether conditions have returned back to or above pre-coronavirus levels. Taken as a whole, data from emerging markets remains soft: the Citi economic surprise index for emerging markets has moved back into negative territory while the G10 index has improved considerably.

EM data underperforming G10

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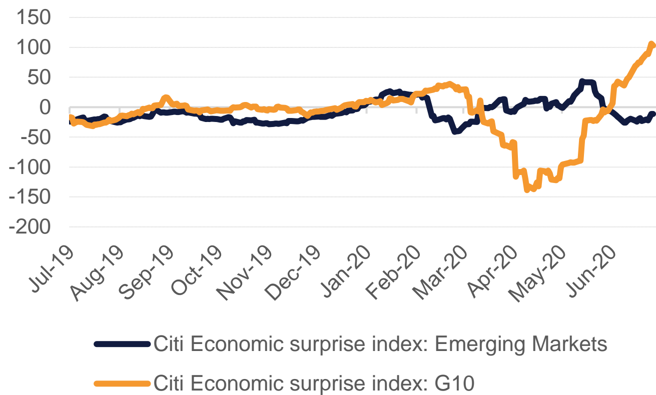
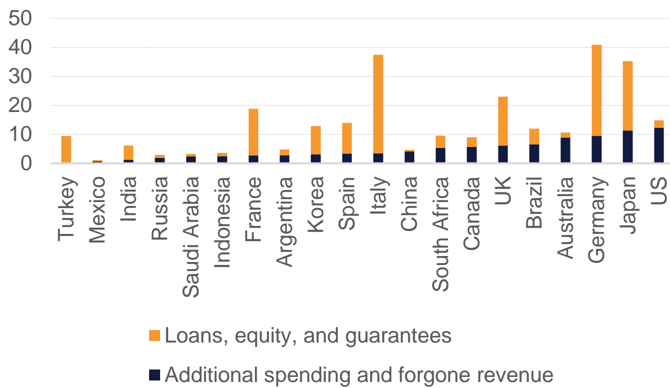


Source: Bloomberg

Emerging markets have also deployed far lower levels of fiscal firepower to offset the impact of Covid-19 with the IMF estimating that EMs have spent around 5% of GDP in additional spending and loans as a result of the crisis compared with nearly 20% in developed markets.

EM fiscal support has been minimal



Source: IMF, Emirates NBD Reserach

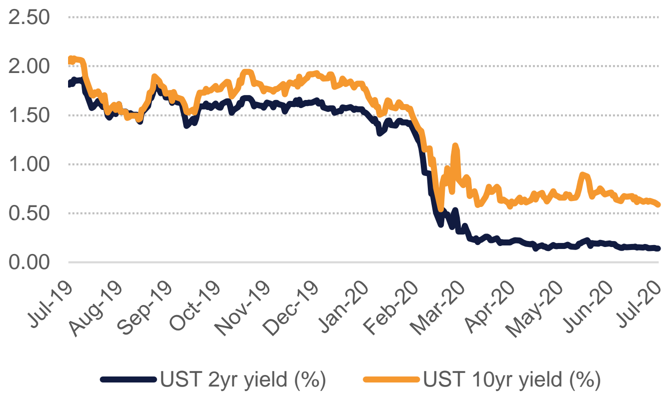
The outperformance of EM assets is linked principally to the abundance of liquidity that developed market central banks have thrown at markets to prevent a seizure in financial conditions. Recent bond issuances from emerging market sovereigns have been considerably oversupplied: Indonesia received around USD 8.6bn worth of orders for its triple tranche USD 4.3bn issue in April while Qatar saw orders of around USD 25bn for its USD 5bn issuance, also in April.

Policy makers from the Fed, ECB and Bank of England have all indicated they expect either rates to remain low for a long period or that the full amount of their QE programmes will be deployed to support markets and economies. The liquidity provided from developed central banks should help to provide a consistent bid under EM assets even as domestic conditions remain weak and policy maneuverability is limited.

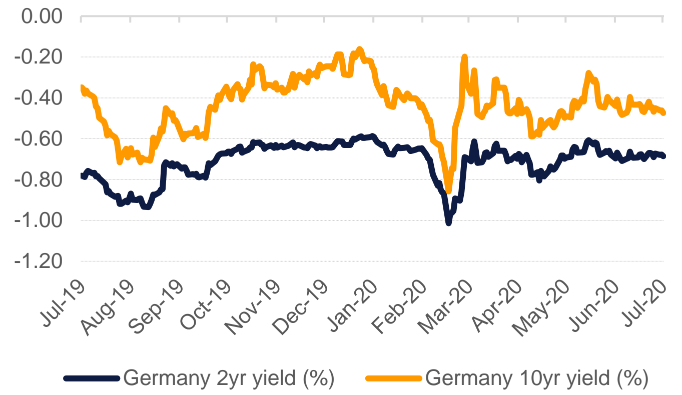
Emirates NBD

Financial markets

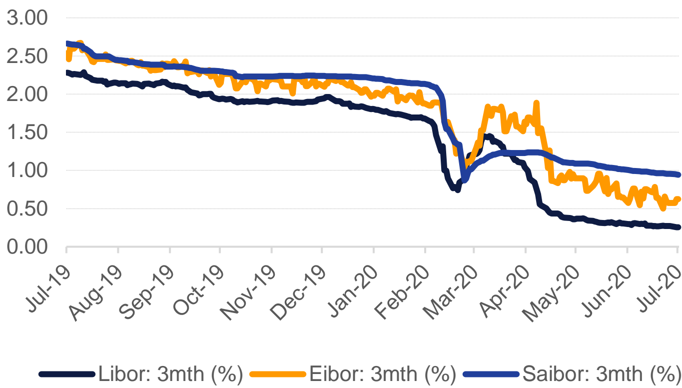
US Treasuries: 1yr



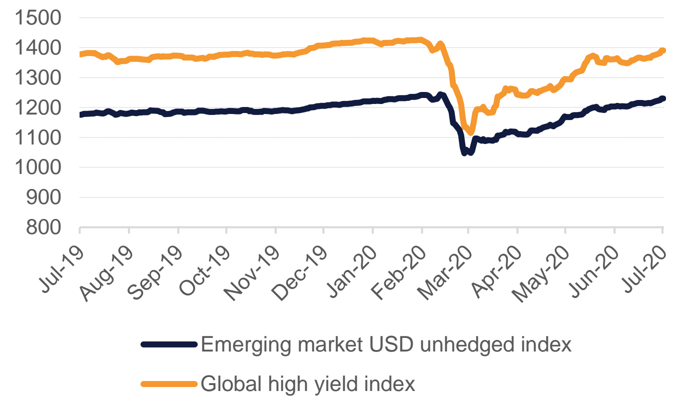
Germany Bunds: 1yr



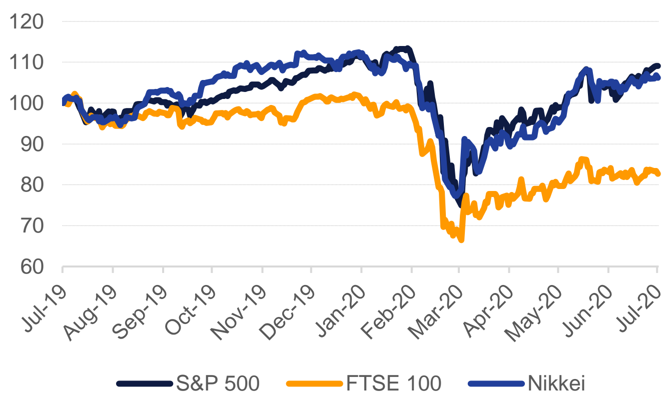
Funding markets



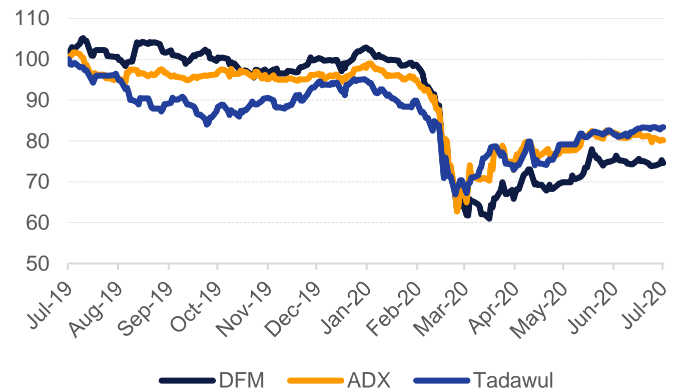
Bond markets



Equities 1yr performance



MENA equities 1yr performance



Source: Bloomberg, Emriates NBD Research. Note: rebased 1yr equity market performance.

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Interest Rate Forecasts

US Treasuries Forecasts					
	Current	Q3 2020	Q4 2020	Q1 2021	Q2 2021
2y	0.14	0.15 – 0.20	0.20 – 0.30	0.30 – 0.45	0.45 – 0.65
10y	0.59	0.55 – 0.65	0.65 – 0.85	0.85 – 1.10	1.00 – 1.25
3M Libor					
3m	0.26	0.25	0.28	0.3	0.35
3M Eibor					
3m	0.62	0.65	0.68	0.7	0.75
Rates forecasts					
	Current %	Q3 2020	Q4 2020	Q1 2021	Q2 2021
FED (Upper Band)	0.25	0.25	0.25	0.25	0.25
ECB (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50
BoE	0.10	0.05	0.05	0.05	0.05
BoJ	-0.10	-0.10	-0.10	-0.10	-0.10
SNB	-0.75	-0.75	-0.75	-0.75	-0.75
RBA	0.25	0.25	0.25	0.25	0.25
RBI (repo)	4.00	3.75	3.50	3.50	3.50
SAMA (reverse repo)	0.50	0.50	0.50	0.50	0.50
UAE (Repo rate)	0.75	0.75	0.75	0.75	0.75
CBK (o/n repo rate)	1.00	1.00	1.00	1.00	1.00
CBB (o/n depo)	0.75	0.75	0.75	0.75	0.75
CBO (o/n repo)	0.50	0.50	0.50	0.50	0.50
CBE (o/n depo)	9.25	9.25	9.25	9.25	9.25

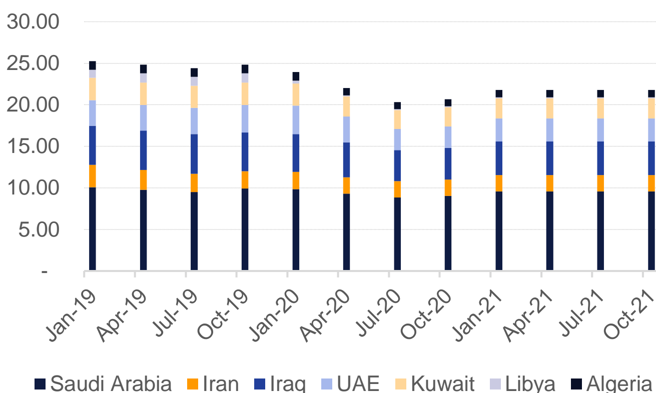
Source: Bloomberg, Emirates NBD Research
As of 22 July 2020

Commodities

We have revised our oil price assumptions for 2020 higher as OPEC+ cuts and a recovering demand picture should help markets tighten in the second half of the year. At USD 42.55/b for Brent futures oil prices will still be down by 34% y/y and well below levels that allow governments across MENA to run balanced budgets, let alone expenditure that will help offset the economic effects of the coronavirus pandemic. Downside risks to our forecast remain considerable with a potential for a relapse into lockdowns a major threat to the sustainability of oil demand.

Supply-side adjustments from OPEC+ and other market-oriented producers, such as the US shale patch, will help to push the oil market into deficit in H2 2020 after an enormous build in inventories in Q2 2020. However, from here on out the impact on balances from the supply side will be more muted. Oil prices managed an extensive rally in Q2 2020 to trade in the low USD 40/b range for Brent futures thanks to the OPEC+ agreement which saw nearly 10m b/d removed from the market. From August production from OPEC+ countries is actually set to increase as the deep level of cuts is tapered. Another sizeable cut to output appears unlikely to us, even if prices stumble. According to the terms of the OPEC+ agreement, exporters will be producing below their baseline levels until the middle of 2022—an additional cut beyond these already depressed levels would sap the economic momentum away from OPEC+ economies.

MENA production (m b/d)

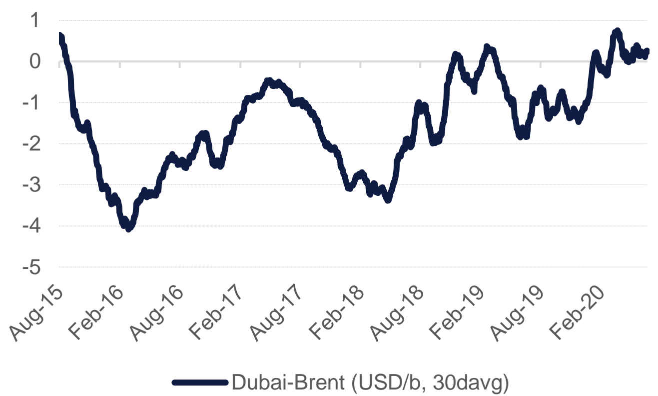


Source: OPEC, Emirates NBD Research.

Beyond OPEC+ the major cut to output has also already occurred. The EIA's projections expect that May 2020 will have borne the brunt of the decline in US output and that from June 2020 until the end of 2021 production will hold relatively flat at around 11m b/d. The recent tapering-off of the US drilling rig count would suggest that most of the blood-letting has already happened in the US and that stabilization, if not necessarily growth, will be the trajectory for the next several months.

As the oil demand profile shifts to favour gasoline—oriented around private transport—rather than diesel—more likely to be used in public transport vehicles—many crude grades from MENA will be at a disadvantage. The heavy, sour grades that dominate the GCC's production are geared toward production of heavier—industrial—fuels like diesel or jet/kerosene. OPEC(+) production cuts tend to exert an upward pull on Dubai-linked crudes and this year heavy, sour grades have been trading at a premium to Brent (all the more surprising considering that the IMO 2020 marine fuel regulations came into effect at the start of the year and should have widened the sweet/sour spread in favour of sweeter crudes).

Heavy, sour premium at an end?



Source: Bloomberg, Emirates NBD Research.

As OPEC+ tapers its cuts we expect the discount for Dubai-linked (heavy, sour barrels) to widen again as these grades become more available. Disruptions to production in Venezuela and Iran have also helped support the heavy, sour barrel in the past few years but we don't expect there to be much additional support from sanctions on these countries' oil industries.

Increasing output from OPEC should also help to dampen time-spreads in the Dubai market. After plunging into a contango of as much as USD 6/b during the height of coronavirus lockdowns in April, 1-3 month time spreads for Dubai swaps have strengthened and moved into a tentative backwardation—stronger than either Brent of WTI futures. Increasing volumes from OPEC+ amid a wall of product inventories and weak refining margins—particularly in Asia—should help to push time spreads back into contango even as headline oil market balances are in deficit.

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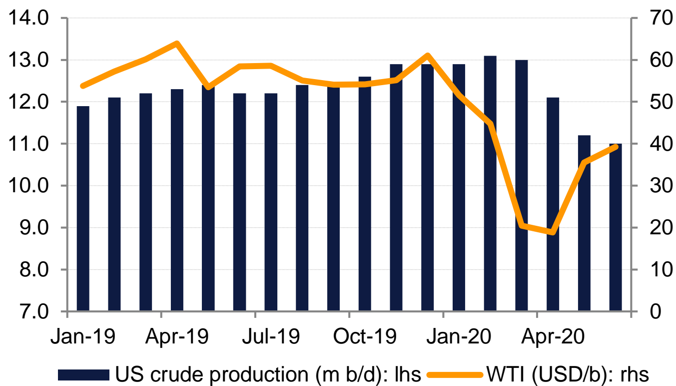
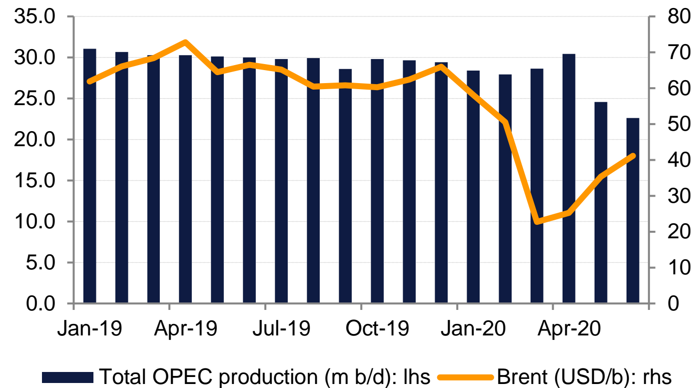
Major Commodities Markets

US oil production and price



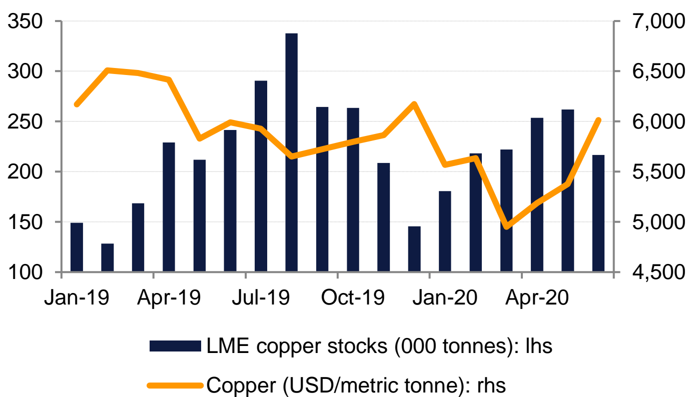
Source: Bloomberg, Emirates NBD Research

International oil production and price



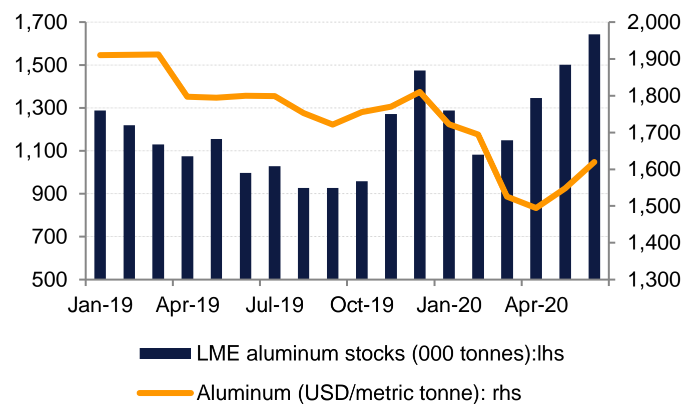
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



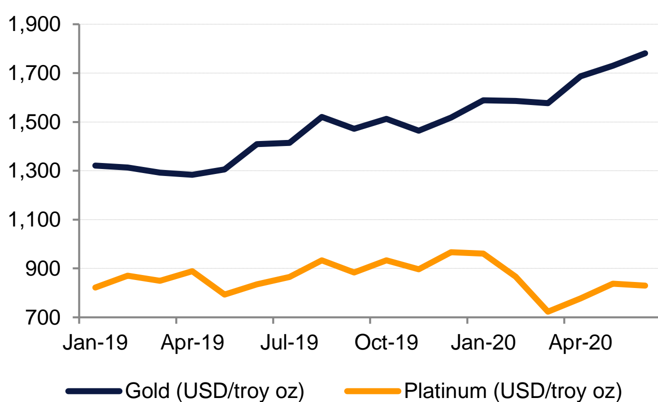
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



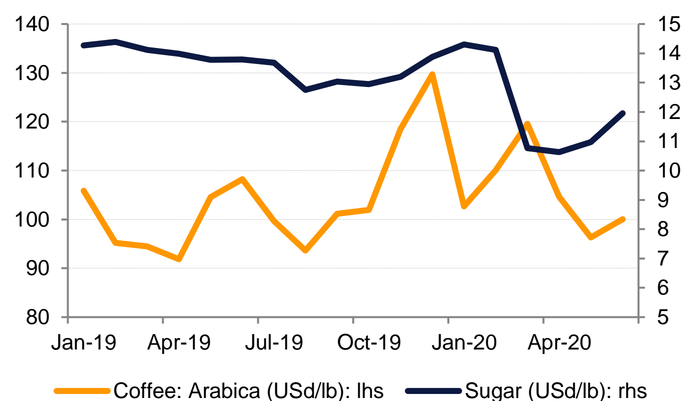
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

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Commodity Forecasts

Global commodity prices							
	Last	2020Q3	Q4	2021Q1	2021Q2	2020	2021
Energy							
WTI	41.38	37.00	40.00	42.50	47.50	37.70	46.88
Brent	43.88	42.00	44.00	47.50	50.00	42.55	50.00
Precious metals							
Gold	1,853.74	1,790.00	1,790.00	1,750.00	1,700.00	1,718.90	1,675.00
Silver	21.81	17.11	17.11	16.73	16.25	16.88	16.02
Platinum	887.34	800.00	900.00	1,000.00	900.00	849.22	912.50
Palladium	2,117.32	1,900.00	1,800.00	1,800.00	1,750.00	1,995.90	1,750.00
Base metals							
Aluminum	1,696.50	1,550.00	1,600.00	1,600.00	1,650.00	1,598.60	1,650.00
Copper	6,534.50	6,000.00	6,250.00	6,300.00	6,400.00	5,822.73	6,462.50
Lead	1,848.00	1,750.00	1,786.46	1,793.60	1,807.84	1,766.89	1,816.64
Nickel	13,466.00	13,000.00	13,500.00	14,000.00	14,000.00	12,895.88	14,187.50
Tin	17,565.00	16,950.00	17,000.00	17,000.00	17,250.00	16,466.29	17,312.50
Zinc	2,245.00	2,000.00	2,083.33	2,100.00	2,133.33	2,046.45	2,154.17

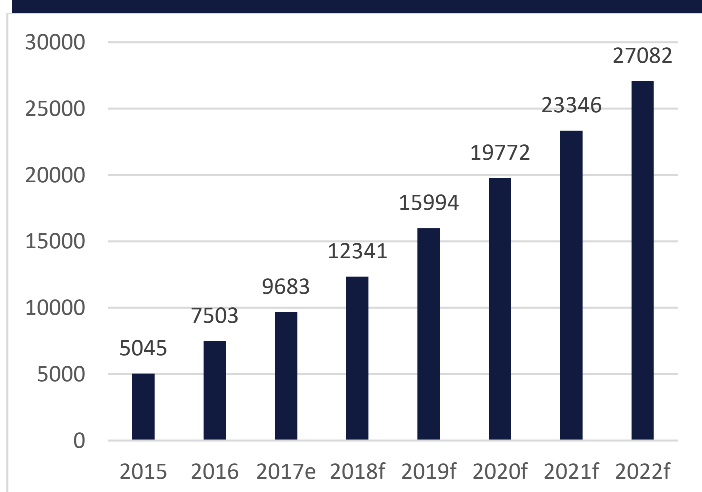
Prices as of 22 July 2020. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

E-Commerce platforms boom

E-commerce and the infrastructure that enables it have played a key role in allowing a wide spectrum of economic activities in the UAE to move ahead during the Covid-19 lockdowns. Traditional bricks and mortar businesses that had limited or no e-commerce windows have had to adapt by adding online retail channels to enable them to carry-on their activities when restrictions clamped down on consumer mobility. We expect digital shopping channels to experience significant growth, replacing a larger portion of in-store retail prior to Covid-19, as consumers remain cautious in an global environment where the risks from Covid-19 remain a present reality.

Statistics at the onset of the crisis reflect this trend of booming e-commerce sales. The UAE's regulatory authority (TRA) said the number of stores providing e-services for consumers in the UAE rose by 150 percent between the end of March and early April, as lockdowns began. One retail app platform developer, Instashop, said in June that it had on-boarded nearly 500 local outlets since the Covid-19 outbreak and their clients have seen an increase of up to 120% in the number of orders and a surge of up to 80% in basket value. Dubai-based Majid Al Futtaim (MAF), which runs 24 shopping malls, has seen a surge in online sales, with a 59% y/y increase in online customers in March 2020. A steady uptick in e-commerce sales had already been predicted well before the coronavirus crisis: a white paper published by Dubai Chamber and Visa in June 2019 forecasted the UAE e-commerce industry's sales to reach USD 27bn in 2022 from an estimated USD 16bn in 2019. The Covid-19 pandemic will likely amplify and accelerate that growth.

UAE E-Commerce Sales (USD mn)



Source: Visa, Dubai Chamber, Emirates NBD Research.

The grocery basket goes digital

A recent report by the Dubai Chamber looked at the impact of Covid-19 in altering consumer behavior, and one particular area of focus was grocery shopping, traditionally a "high-touch" engagement with most UAE consumers visiting their local groceries, supermarkets, or hypermarkets to get their daily essentials. The report which used data collated with Google Trends showed UAE consumers' interest in "online groceries" related searches booming exponentially during the lockdown before beginning to plateau in May as the lockdowns eased. Carrefour's online sales for example have increased by 300% in the UAE and by 100% in Saudi Arabia during the Covid-19 lockdown period. The hypermarket chain plans to build upto 50 dark stores (fulfillment centers) in the GCC, Egypt and Pakistan by year end. Data from MasterCard confirmed that trend, as it showed that online card payments for groceries in UAE saw a 99% y/y growth in February, a 252% y/y growth in March, and 316% y/y growth in April.

Google search for "online grocery" in the UAE (interest over time)

Source: Google Trends, Emirates NBD Research.

Food delivery platforms have played a crucial role in enabling e-grocery channels to work, as many of these delivery partners had started to position themselves pre-Covid to serve that channel. While consumers in the UAE are gradually regaining the confidence to shop again at physical grocery outlets, the long term prospects for moving a good chunk of grocery shopping online are growing, especially as more effective delivery solutions are built. Furthermore the construction of fullfilment facilities such as those by Carrefour, will add a crucial dimension to the instrasturcture needed for the e-groceries segment in the UAE to grow further.

Mobile apps a key e-commerce tool in the region

Mobile application development has become a crucial tool for businesses in the wider Middle East region onboarding more of their activities onto e-commerce platforms. With mobile phones monopolizing most consumers "eye-space" for a significant part of any given day, the convenience of carrying out their shopping needs instantly means more e-shopping is being carried out through those devices rather than a desktop. Covid-19 boosted that trend, as lockdowns pushed more people to carry-out personal retail through

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their mobiles. A report by PWC showed that prior to the Covid-19 lockdowns, 31% of Middle East consumers used their mobiles for daily and weekly shopping, while 44% placed an order using a mobile app, this compared against 27% who used desktop computers daily and weekly shopping during that period.

After Covid-19 the overall trend across all devices, mobile, desktop and tablet increased (probably due to stay at home measures allowing consumers to use multiple devices), shopping using mobile apps lead by a good margin. The report showed that in May 2020 53% of respondents in the Middle East increased their use of mobile phones for shopping in response to Covid-19, 39% said they had increased their shopping via computer, with 31% using a tablet more often for their purchases. The PWC survey points to “sticky” long term trends with 92% of those consumers who increased their shopping via mobile phones saying they were “very likely” (63%) or “likely” (29%) to continue with this purchase method once restrictions were fully removed.

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