بنك الإمارات دبي الوطني
Emirates NBD

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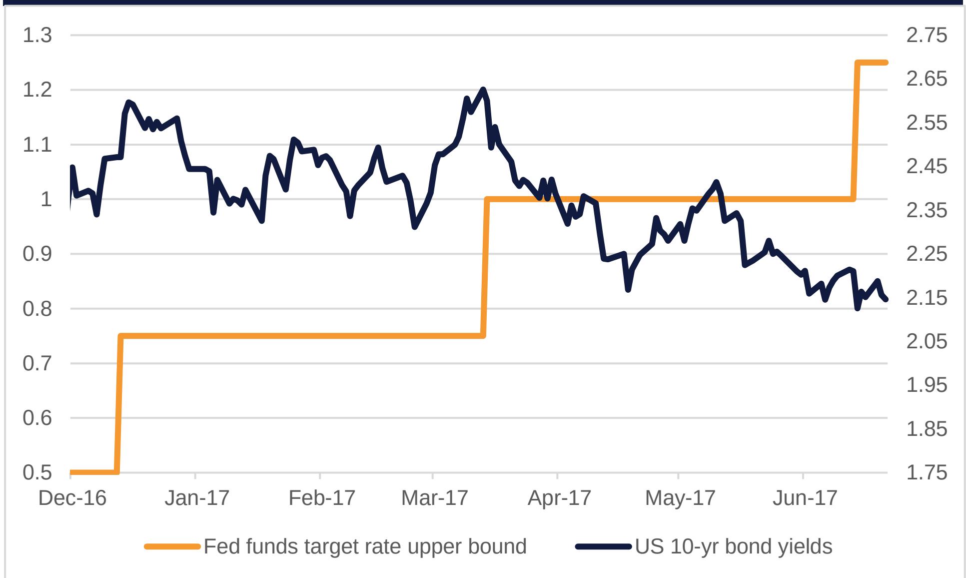
Monthly Insights

The middle of the year sees the market focus turning to central bank policy decisions with the Fed continuing to raise interest rates this month. Political issues are also demanding greater attention, especially in the US and the UK, but despite these concerns equity and fixed income markets remain resilient.

We would like to wish our readers Eid Mubarak. Our next edition will be in August.

- **Global macro:** Summer brings with it an opportunity for financial markets to pause and take stock of where things stand in the middle of the year. Although US interest rates were raised this month, what was expected to be a 'dovish tightening' turned into one a 'hawkish' one as the Fed stuck to its forecast for another hike this year and for more rises to come in 2018 and 2019.
- **GCC macro:** OPEC's decision at the end of May to extend the production cuts agreed in November 2016 has triggered growth downgrades across the GCC.
- **Non-GCC macro:** Egypt's foreign exchange position continued to strengthen in recent weeks, enabling the central bank to lift restrictions on foreign exchange transfers which had been in place since 2011.
- **Sector Focus:** An overview of Dubai's wholesale and retail trade sector
- **Currencies:** Having being in a downtrend since early May, the USD has been showing some encouraging signs of stabilization since early June. To be fair this has happened before in 2017, only for its rallies to peter out and be overwhelmed by the larger downtrend that has been in place since January. That decline since the start of the year has corresponded with the fall in bond yields, which few if any in the market anticipated would happen in the context of a tightening Fed.
- **Equities:** Global equity markets remain unfazed by political risk and a more hakwish Fed although some complacency among investors appears to be settling in.
- **Commodities:** MENA energy demand slowed in 2016 but was still the fastest growing region globally. Energy demand is dominated by natural gas and oil with the UAE showing a considerable natural gas deficit.

Fed raises rates but bond yields fall again



Source: Bloomberg, Emirates NBD Research

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Content

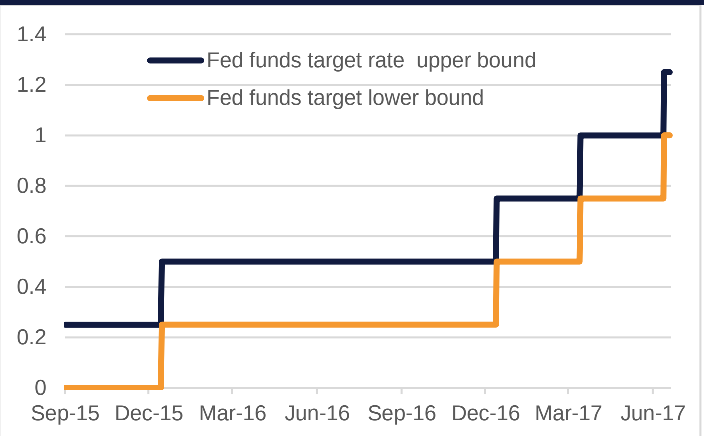
Global Macro

Summer brings with it an opportunity for financial markets to pause and take stock of where things stand in the middle of the year. Although US interest rates were raised this month, what was expected to be a 'dovish tightening' turned into one a 'hawkish' one as the Fed stuck to its forecast for another hike this year and for more rises to come in 2018 and 2019.

The focus shifting back to central banks

This was particularly surprising following a run of mediocre US economic data causing investors to question whether a further rate hike this year necessary. However, with the Bank of England and the Bank of Canada both also inching towards raising interest rates it does seem as if the market focus is shifting to the outlook for global monetary policy.

FED hikes rates second time in 2017



Source: Bloomberg, Emirates NBD Research

Politics is another dimension

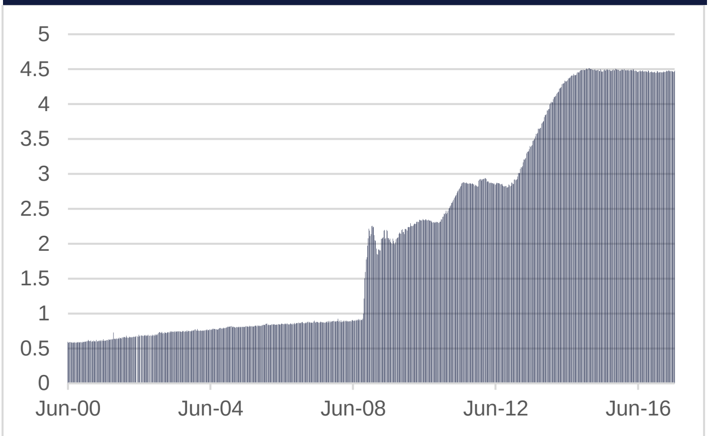
Adding to the uncertainty are the unfolding political events not least in in Washington, which have seen an intensification of the pressure on President Trump over allegations of Russian collusion and obstruction of justice. Further afield, the snap UK general election has brought Brexit back into focus, while the result has also raised questions about the likely longevity of the Theresa May government and also about the sustainability of UK growth. While Brexit and the Trump election were the 'dogs that didn't bark' much in 2016, it may only be from now onwards that the true consequences of these momentous events will start being felt.

Bond markets doubt the Fed

In the middle of the year it is usual practise to pause and review where things are relative to what was expected to happen at the start of it. On the surface at least things appear to have gone according to plan, as the Fed has raised interest rates twice so far in 2017 in line with our estimates at the start of it, as well as with the Fed's dots. However, this does not take into account the markets' reaction which has seen bond yields tumble and the dollar sell-off. The bond market is suggesting that the Fed's projections for both the US economy and for the fed funds rate are too optimistic. The elevated levels of US equities also speak of forecasts for rate hikes that are not really believed either. While the markets were able to absorb weak growth data in Q1 as a seasonal phenomenon, they are becoming less tolerant of it carrying over into Q2, with inflation remaining subdued and consumption growth weaker than expected.

Not only did the Fed stick with its outlook for interest rates reaching 3.0% by the end of 2019, but it also outlined details of its plan to normalize its USD4.5 trillion balance sheet, saying that it intends to start the unwinding process this year if the economy evolves as anticipated. Yellen's tone was also surprisingly dismissive of the recent data softness, and subsequent comments from other Fed officials suggest that her views are shared. Investors on the other hand are becoming nervous not only about the economic picture per se, but also about how political developments in Washington could intersect with sluggish growth to produce a much less rosy outlook particularly for next year.

FED balance sheet (USD trn)



Source: Bloomberg, Emirates NBD Research

White House drama delays US stimulus

While talk of collusion between the Trump campaign and the Russian government was largely dismissed as fanciful in the first months of Trump's Presidency, the firing of FBI Director James Comey in May introduced a greater sense that there may be substance to such allegations. Thus as the investigations into these issues intensified as a result of the firing, they also widened such that Trump is now being investigated for obstruction of justice. This would not matter so much if the business of government was carrying on implementing the pro-growth agenda that got Donald Trump elected. But five months into his Presidency this is far from the case, with hardly any legislative wins so far to show, and questions mounting about whether there will be any in the rest of 2017. This already puts the White House in a potentially precarious position heading into 2018, when mid-term elections and the Special Prosecutors findings loom. But it also puts the economy at greater risk of slowing if it is unlikely to get the benefit of major tax reform, regulatory overhaul, or a boost from infrastructure spending.

Global environment on the mend

Globally markets might take some solace from the fact that the economy outside of the US has been performing well. In particular there has been surprisingly good news in Europe both politically and economically, with strong Q1 growth extending into Q2 and with political risks related to the French elections fading. In fact, France appears now to have one of the strongest governments in the EU, and one that is targeting important structural reforms. However, a surprising election result in the UK - which saw Theresa May returned to office without a majority - has revived the possibility of Brexit being a much greater source of instability than was looking to be the case just a few months ago.

But UK is in a difficult space

While the election gave rise to some expectations that a 'soft' Brexit might now be favoured by the UK government , the first indications from the talks underway in Brussels are that this will not be the case as membership of the single market and the customs union appear to have been ruled out by both parties. In fact with a very tight timetable in which to execute a deal, and with Theresa May's leadership appearing precarious, it is not inconceivable that the UK could eventually crash out of the EU without an exit deal if the May government collapses. While Brexit and Trump's election last year were events that markets were able to absorb surprisingly calmly, it may only be from now onwards that the true consequences of these disruptive events will probably start being revealed.

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GCC: Growth downgrades

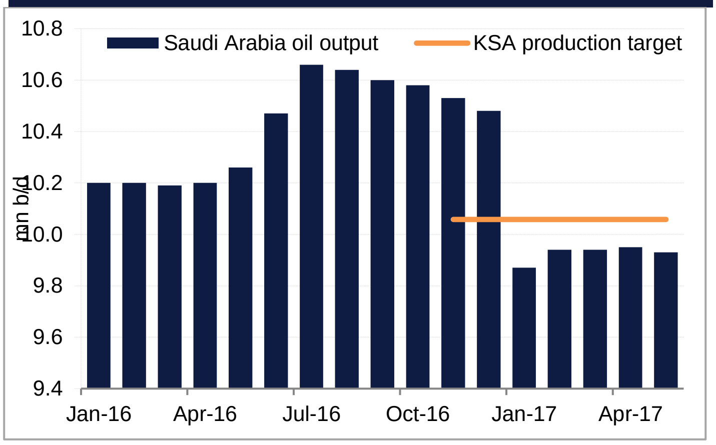
OPEC's decision at the end of May to extend the production cuts agreed in November 2016 will weigh on growth across the GCC. While GCC economies have made some progress on economic diversification over the last decade, the hydrocarbons sector accounts for the largest share of GDP in all of the region's economies.

At the start of this year, we had forecast a cut in oil production in H1 2017 followed by an increase in output in H2 once the OPEC agreement had expired. The decision to extend the cuts for another 9 months has forced us to downgrade our expectations for the oil sector this year, resulting in downward revisions to overall real GDP growth this year, even as non-oil sectors expand as expected.

Saudi growth now forecast at 0.5% in 2017

This is particularly evident in the GCC's largest economy, Saudi Arabia, which has cut oil output by more than it committed to in November 2016. Average oil output in January through May 2017 was 9.926 mn bpd according to Bloomberg estimates, below the agreed 10.058mn production target. If we assume that crude output stands at the agreed limit for the rest of the year, our estimates suggest that the oil sector component of GDP is likely to decline by -3.0% in 2017, compared with our initial forecast of no change this year. Our outlook for non-oil growth is broadly unchanged, and PMI data year-to-date point to an acceleration of non-oil growth in 2017 relative to 2016. We have therefore revised down our real GDP growth forecast for 2016 to 0.5% from 1.8% previously, on the back of lower crude oil production.

KSA has cut oil output by more than required



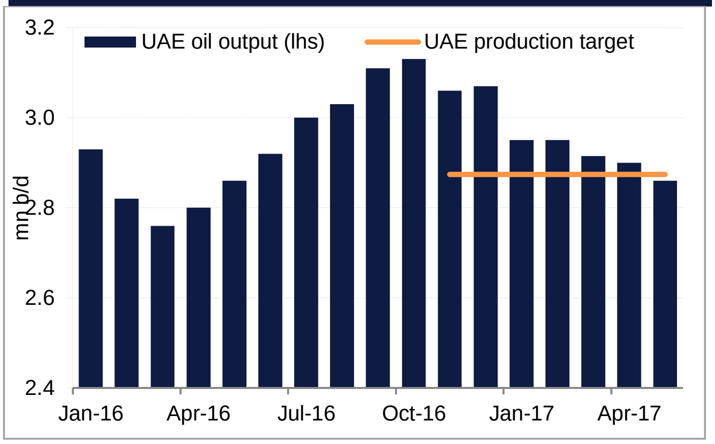
Source: IHS Markit, Emirates NBD Research

UAE growth forecast revised down to 2.0% in 2017

The UAE has the most diversified economy in the GCC with just under a third of real GDP coming from the hydrocarbons sector. In Q1 2017, the UAE's oil output was higher than the target agreed with OPEC, but this has fallen into line in May. If oil production remains at the agreed level for the rest of this year, then the oil sector is forecast to contract by -2.0% in 2017, compared with our previous forecast of 2% growth. As a result, we have revised down our 2017 UAE real GDP growth forecast to 2.0% from 3.4% previously.

Recently released data shows that the UAE's real GDP growth slowed to 3.0% in 2016, exactly in line with our forecast. Our expectation is now for growth to slow further in 2017, although it is important to note that the downgrade is entirely due to lower oil output. We continue to expect faster growth in the non-oil sectors this year relative to 2016.

Oil output cuts to weigh on UAE growth



Source: Bloomberg, Emirates NBD Research

Kuwait's growth downgraded to -1.0% this year

The impact of extending OPEC's production cuts on Kuwait's GDP growth is also likely to be quite severe, as oil output is now expected to decline by nearly 6% this year. As a result, we expect the oil sector component of GDP to contract by -5%. This suggests that Kuwait's overall GDP growth is likely to be negative this year; despite relatively robust non-oil sector expansion, before rebounding in 2018 on a recovery in oil production. However we note that 2016 GDP data has yet to be released, and it's possible that once this is available our forecasts for 2017 and 2018 will have to be reviewed again.

We will be reviewing our growth forecasts for the rest of the GCC countries in due course, as the risks there have shifted to the downside as well. Moreover, with the OPEC cuts extended to end-March 2018, our GCC growth forecasts for next year will be revisited as well. A more comprehensive update to our GCC outlook will be published in our Quarterly publication, due next month.

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Non-GCC: Egypt focus

Egypt's foreign exchange position continued to strengthen in recent weeks, enabling the central bank to lift restrictions on foreign exchange transfers which had been in place since 2011.

Limits on foreign currency transfers lifted in June

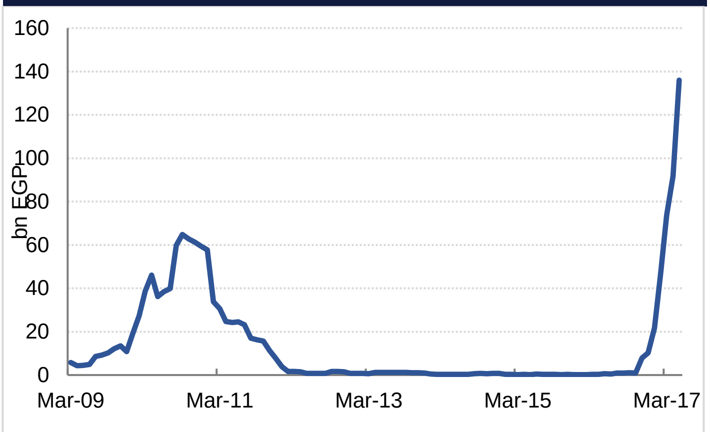
The central bank announced mid-June that that the USD 100k monthly cap on foreign currency transfers was no longer in place, citing progress with economic reforms and a recovery in the country's official reserves. Gross official reserves at the central bank rose to USD 31.1bn in May, the highest level since early 2011.

Several factors have contributed to the recovery in FX reserves. The devaluation of the EGP in November has helped to narrow the trade deficit, with exports rising 8.4% y/y in April while imports declined -13.9% y/y in USD terms. PMI survey data for May also point to improved external demand, with the new export orders component rising to the highest level since the survey began in 2011. Separately, the central bank reported that the current account deficit for the first 9 months of the current fiscal year (ending 30 June 2017) had declined by -12.4% y/y.

Capital inflows continue to rise

Furthermore, capital inflows have increased sharply since the IMF approved the extended fund facility towards the end of last year, the first review of which was completed in May. Once the IMF Executive Board approves the review, a further USD 1.25bn will be released to Egypt bringing total IMF funds extended to Egypt under the program to USD 4bn.

Foreign holdings of t-bills



Source: Haver Analytics, Bloomberg, Emirates NBD Research

Egypt also issued a USD 3bn Eurobond in May, which helped to push official reserves above USD 31bn last month. This brings the total Eurobond issuance by Egypt to USD 7bn year-to-date and reflects increased investor appetite for Egyptian securities. In addition to the longer-dated Eurobonds, the finance ministry also increased issuance of t-bills. Bloomberg reports that foreign holdings of Egypt's t-bills rose 15% in June alone, reaching a total of EGP 170.9bn compared with just EGP 6.6bn before the currency devaluation in November 2016.

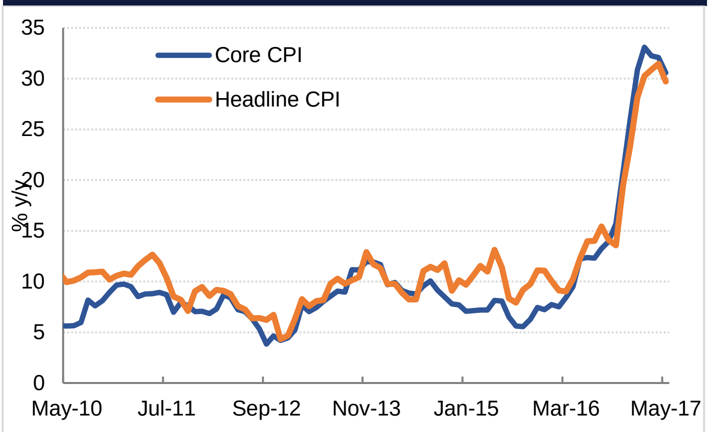
Inflation remains high but starting to ease

While the EGP depreciation has helped to stabilize Egypt's external financial position, it has pushed inflation to record levels domestically. Headline inflation eased slightly to 29.7% y/y in June (core: 30.6% y/y), the first decline in the inflation rate since November, but this remains exceptionally high. Food inflation stood at 41.1% y/y in May.

The authorities have stressed their desire to bring inflation down, and this likely was a big factor in the CBE's surprise decision to hike interest rates by 200bp at the May meeting. However, with the primary driver of inflation being the sharp depreciation in the EGP, higher interest rates are in our view unlikely to be effective in bringing inflation lower and at the margin are likely to be negative for real growth.

The government has also taken steps to mitigate the impact of subsidy cuts and the higher cost-of-living on poorer household through a USD 2.5bn social aid programme, which was approved at the end of May and passed by parliament earlier this week. The package of measures includes income tax exemptions, bonuses for public sector employees and increased pension payments and cash subsidies from 1 July 2017.

Egypt core & headline CPI



Source: Haver Analytics, Emirates NBD Research

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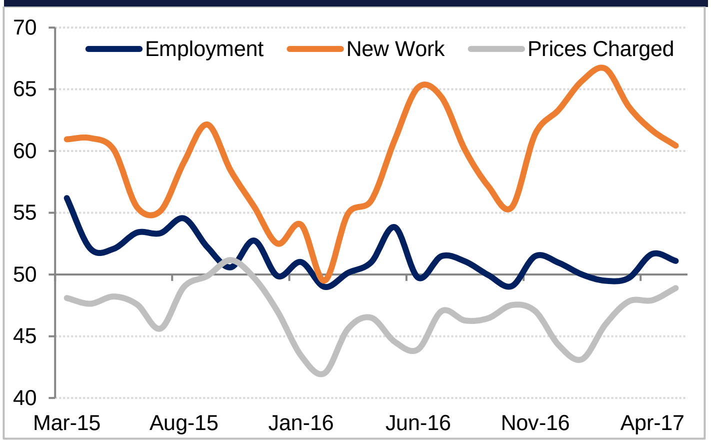
Sector Focus

Dubai's wholesale and retail trade sector

The wholesale and retail trade sector is the largest sector in Dubai's economy, recording a share of 27.5% of total GDP in 2016. Growth in the sector accelerated to 1.3% y/y in 2016, which is lower than we had expected. The Dubai Economy Tracker survey showed a strong start to 2017, signaling the highest expansion in non-oil private sector activity in nearly two years, while the wholesale and retail trade sector index is the best performing of the key sub-sectors since the beginning of the year.

The wholesale & retail trade sector saw strong expansion in May, albeit at a slower rate than in April. New orders rose sharply, supported by further promotional activity although selling prices decreased at a slower rate than in March and April. Input costs were also broadly unchanged last month, providing some relief from the ongoing margin squeeze. Employment in the trade sector increased slightly in May and firms continued to build up inventories in anticipation of future demand, although at a slower rate than April. Business expectations rose in May despite the easing in output growth.

Wholesale and retail sector indicators



Source: Markit, Emirates NBD Research

Visitors numbers at all Emaar malls reached 34mn in Q1 2017, up by 10% y/y. Separately, gross leasing area (GLA) for Dubai's retail malls remained unchanged in Q1 2017 at around 3.4mn sq. m of total retail supply, according to Jones Lang LaSalle. Between 2014 and 2016, GLA grew at an average of roughly 8.5% per year. Over the next three years, around 886,000 sq. meters (+22.0%) of new retail space is expected to enter the Dubai market, reaching 4.1mn sq. meters of retail GLA.

Dubai's retail sector remained resilient in 2016, with high occupancy levels in major retail hubs and many malls approaching full capacity. Dubai has retained its position as the second most important international retail destination globally for 2016 according to the latest CBRE's "How Global is the Business of Retail" report. The report identifies the most active international retailers and their top target markets at city level. CBRE examines retailers' presence and expansion by surveying major international retailers across 166 cities and 51 countries. Dubai is the second most popular destination with 57.3% of retailers present, followed by Shanghai with 54.4% and New York with 46.6% in 2016. London came top with 57.9% of retailers present.

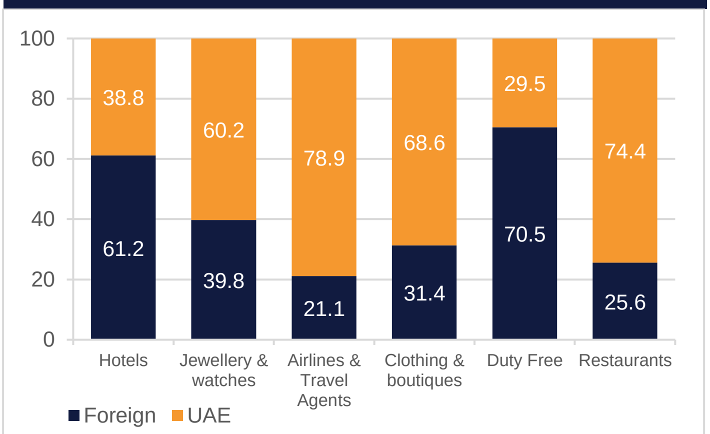
Separately, the UAE ranked 5th most suitable market for expansion among international retailers, according to the 2017 Global Retail Development index by A.T. Kearney, up by two places compared to 2016. UAE remained the most attractive market in the region with retail sales exceeding USD 73bn in 2016, up by roughly 6.0% y/y. While a new VAT tax implemented in 2018 will have an impact on retail sales, UAE's retail prospects remain bullish as e-commerce platforms will further boost growth in the sector.

Foreign spending rebounds in 2017

Credit card spending in the UAE was 13.5% higher in Jan-May 2017 compared with the previous year, according to data compiled by Network International. Network International covers about 60% of the UAE market for e-commerce and point of sale (POS) transactions. Most of the growth in spending in Jan-May 2017 was on cards issued by UAE banks (mainly residents), which rose 14.5% y/y and accounted for 76.2% of total card spending in the UAE. Foreign spending (i.e. on cards issued by non-UAE banks) also increased 10.3% y/y for the same period compared with the -5.7% decline recorded in Jan-May 2016.

In terms of overall spending by sector, restaurants enjoyed double-digit spending growth in Jan-May 2017, up by 15.1% y/y accounting for 15.5% of total card spending. Overall, the rise in spending still appears to be mainly from UAE residents rather than visitors. The relatively modest growth in sales of luxury consumer goods as well as sales on clothing and boutiques highlights the impact of the strong USD making these items cheaper elsewhere, a theme which is likely to persist this year. Caution with respect to luxury goods may also reflect weaker consumer confidence and increased uncertainty about economic growth and job prospects among GCC residents.

Domestic vs foreign card spending, % of total, Jan-May 2017



Source: Network International, Emirates NBD Research

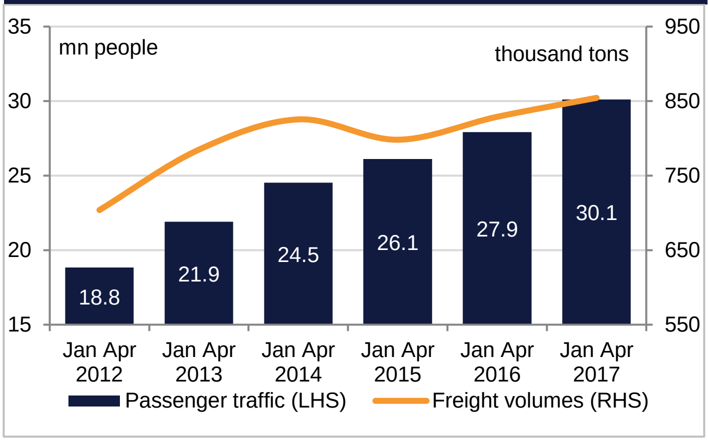
The breakdown of foreign spending growth suggests that Dubai's attractiveness as a shopping destination has improved in 2017, with expansion in visitor spending on hotels, luxury goods and duty free sales. The robust rise in foreign spending on airlines and travel agents highlights Dubai's importance as a global transport hub.

Growth in tourism and hospitality supports retail trade

Passenger traffic along with airport and port freight volumes provide opportunities for Dubai's retail business to thrive. Passenger traffic at the Dubai International Airport (DXB) rose to 30.1 million in Jan-Apr 2017, up by 7.8% y/y. In April alone, 7.6mn passengers passed through DXB, up by 9.2% y/y. Passenger traffic is expected to exceed 89 million at DXB by the end of 2017, according to Dubai Airports. Separately, freight volumes at DXB also increased by 2.0% y/y in April 2017 to 217,788 tons. Year to date volumes totaled 854,359 tons, up by 3.1% over Jan-Apr 2016.

A strong tourism and hospitality industry should support retail spending. The number of tourists coming to Dubai and staying in hotels including holiday rentals and onboard cruise ships for at least one night reached 6.04 mn in Jan-Apr 2017, up by 12.9% compared with the same period last year. Western Europe was the lead tourist region for Jan-Apr, accounting for 22% of the total figure, followed by the GCC (19%) and South Asia (17%).

DXB passenger traffic & freight volumes



Source: Bloomberg, Dubai Airports, Emirates NBD Research

Separately, the number of Russian tourists recorded the highest monthly figure in DTCM's history in March with 62,000 tourists, making this the fastest growing segment by nationality. For Jan-Apr 2017, the number of Russian tourists more than doubled (108.9% y/y) to 188,000 tourists with both the easing of visa rules and the RUB/USD appreciation likely contributed to the recovery in the number of visitors from Russia since H2 2016.

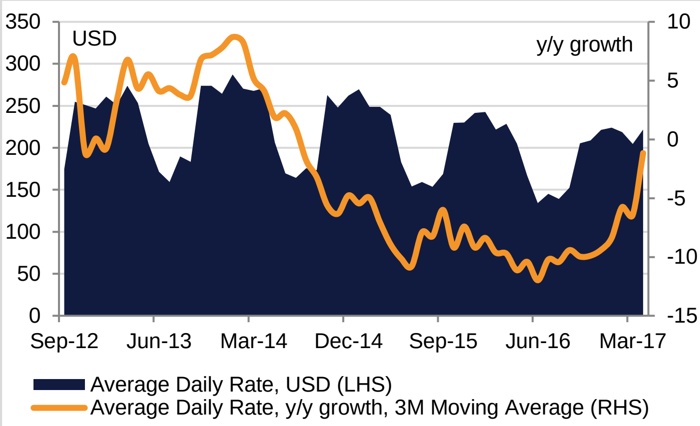
Dubai is on its way to achieving the ambitious travel and tourism strategy which aims to attract 20 million visitors to the emirate by the end of the decade, according to DTCM. A strong tourism and hospitality industry will also provide an important boost to retail and other associated industries and services.

Hotel occupancy rates remained high averaging 86.2% in Jan-Apr, up from 82.6% the same period a year ago. According to the latest data from STR Global, the supply of hotel rooms in Dubai increased by 10.9% y/y in Jan-Apr 2017. With the supply of hotels rooms still outpacing demand growth, occupancy rates are likely to remain stable or ease slightly with demand gradually catching up in the run-up to the 2020 Expo.

The supply of hotel rooms in Dubai increased by 16.4% y/y in April to 90,822 rooms. The Department of Tourism and Commerce Marketing (DTCM) is targeting 140,000 to 160,000 hotel rooms by the end of the decade. Data from STR Global also shows that a further 19,891 hotel rooms are currently under construction in Dubai, of which 7,554 are due to come online by year end. Another 23,582 hotel rooms are in planning stages.

Hotels have discounted room rates through most of 2016 in order to keep occupancy levels high, although the STR data also shows some improvement in pricing power since Q4 2016. In Jan-Apr 2017 RevPAR decreased by -3.2% y/y but was up 8.2% m/m. Substantial additional supply is likely to cap RevPAR growth in the coming months however.

Dubai hotels average daily rates



Source: Bloomberg, STR Global, Emirates NBD Research

Bank credit to wholesale and retail trade sector

Lending to the wholesale and retail trade sector slowed by -5.2% y/y in Q1 2017 (AED 152.3bn) with loans to this sector accounted for 10.3% of total bank loans. Within the trade sector, wholesale trade accounted for 70.6% of trade loans and retail for the remaining 29.4%. There is scope to further increase the availability of credit to the trade sector as a whole over the coming years, but there is also potential for bank credit to further support the retail sub-sector in order to diversify the base.

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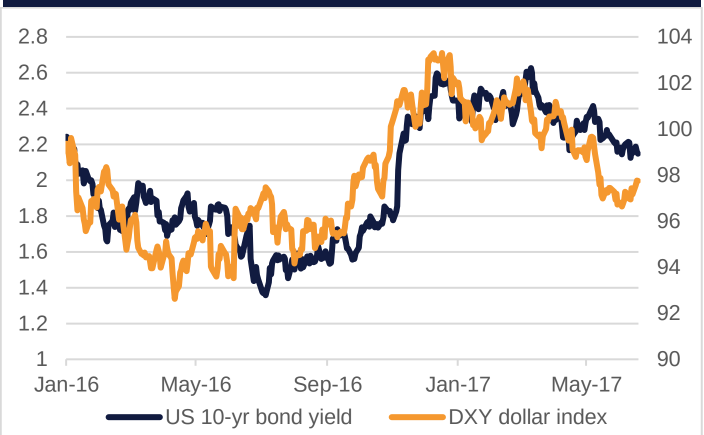
Currencies

Having being in a downtrend since early May, the USD has been showing some encouraging signs of stabilization since early June. To be fair this has happened before in 2017, only for its rallies to peter out and be overwhelmed by the larger downtrend that has been in place since January. That decline since the start of the year has corresponded with the fall in bond yields, which few if any in the market anticipated would happen in the context of a tightening Fed.

USD has followed bond yields lower in 2017

The Fed has now raised rates twice so far in 2017, consistent with its dot plot at the start of the year, but despite this both bond yields and the dollar have remained under pressure. Most prominently bond yields have been held down by the lack of upward traction in inflation, which has raised questions about the Fed's overarching policy of raising interest rates over the coming years. The messaging from the Fed remains hawkish for this year and next, but the markets do not appear to be listening and will likely remain cautious about the outlook while the economic data remains mediocre. The US Economic Surprise Index is at its lows for the year, as incoming economic data casts doubt on a strong rebound in the economy from a soft first quarter where US real GDP grew by just 1.2%. Periodic bouts of risk aversion have also given rise to 'yield seeking' behavior on the part of investors, although with the VIX index currently close to the lows of the year, this is less of a factor right now, as shown by the recent rise in USDJPY.

USD & 10Y bond yields



Source: Bloomberg

But period of weakness may be approaching an end

However, as our sense is that there are now limits to further declines in bond yields, as the 10-year approaches the psychologically important 2.0% level, we also suspect that the period of sustained USD weakness may also be coming to an end, or at least be due a pause. Admittedly bond yields may struggle to recapture the highs of the year, suggesting that outright USD gains might also be more muted than we expected in January, and we are making revisions to our forecasts to take this into account. However, ultimately we do still see US yields reversing higher as the economy picks-up momentum again probably after the summer, which should still feed through into a firmer USD over time as well.

Our bullish dollar views have moderated

Furthermore dollar exchange rate moves are not only a function of US bond yields alone, nominal or real, but rather a product of relative yields especially when it comes to individual currency pairs (see page 17). Here we still see the argument being for renewed divergence between US and overseas rates, in Europe and Asia and across many emerging markets, which should in turn support the dollar on key crosses. While we still see the Fed keeping to its commitment to raise rates further in 2017, other central banks have been more equivocal about their QE exit strategies. The ECB recently dampened sentiment that had developed about QE tapering beginning this year, with any direct rate tightening probably now being postponed until 2019. Political risk in the Eurozone has declined, however, in the wake of the French elections, which probably is an argument for not expecting the EUR to drop by as much as we previously thought. The situation regarding Greece has also stabilized a little helped by the latest agreement to extend Athens the next tranche of bailout money. We are raising our end Q4 forecast to 1.05 from 1.03, and our Q3 forecast is now 1.08.

Sterling held up following the election

Sterling has held up surprisingly well following the unexpected UK election result, and as Brexit negotiations have got underway, but this was largely because the Bank of England Monetary Policy Committee appeared to move closer to sanctioning a rate hike at its latest policy meeting. However, subsequent comments from Governor Carney have shed a more dovish light on the MPC's deliberations, drawing a distinction between inflation that it is exchange rate generated and that which is domestically driven. Carney said that now is not the time to raise interest rates, adding the domestic inflation pressures are subdued, and there are mixed signals on consumer spending and investment. Carney said any rate increases will be limited and gradual as the Bank must see how the economy reacts to the reality of Brexit.

GBPUSD at 2 month lows

Source: Bloomberg

But downside GBP risks remain

As our sense is that the true reality of Brexit is only about to start emerging, the pound could well see further bouts of weakness and volatility before it is able to recover consistently. In particular with the election leaving the May government less stable and more fragile, we would be concerned about the possibility of it collapsing prematurely and forcing another general election. With the Conservative Party having won the last election without an outright majority, the risk of a Labour Party victory in a future one cannot be ignored, bringing with it attendant risks of increased public spending, higher taxes and other potentially unorthodox policies which markets are likely to be uneasy about. Consequently we are maintaining our near term forecasts looking for GBP to pull back towards 1.25 and extending this forecasts out over Q3. But we are also reining in our longer term forecast seeing it take longer for Cable to recover to 1.35 and above, with our Q4 forecast of 1.30 contingent on the rather precarious assumption that the current government survives the year intact.

USDJPY poised to break higher?

USDJPY has recently staged a good recovery climbing above 111.00 to make a fresh two-week high at 111.79. EURJPY, GBPJPY and other yen crosses also climbed as the yen underperformed. This came as the Bank of Japan (BOJ) remained on hold in June, with its dovish message contrasting with those of the Fed and the BOE. The BOJ left both its policy and economic assessment unchanged, though it emphasized a determination to maintain accommodative policy in the face of low inflation despite an improvement in economic conditions. Most noticeably it declined to discuss an exit strategy from current QE policies. USDJPY has sustained weeks of underperformance driven by an assortment of risk events and concerns, but now appears capable of making further gains. Although our former end -Q2 forecast of 116 looks out of reach it would not be surprising to us if it pushes up towards 114 before the end of the month, beyond which we continue to see upside risks in the second half of the year.

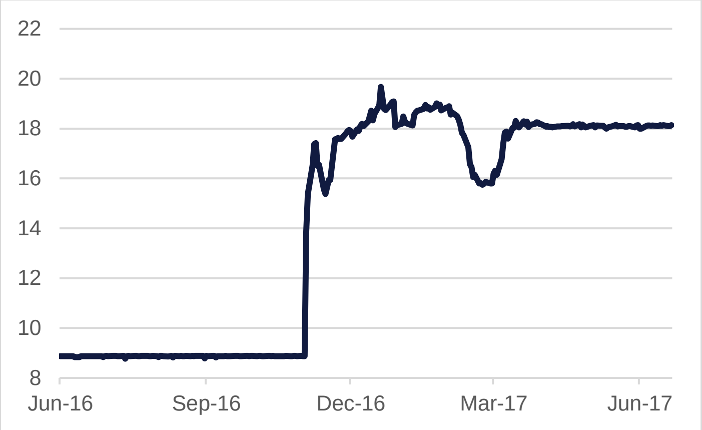
Nuanced central banks

Outside of these major currencies, a steadier pace of USD appreciation is also expected to be seen against other currencies. Commodity currencies are to some extent being weighed on by weaker oil prices, but more nuanced outlooks for policy tightening are also drivers. For instance the recent rise in the CAD reflects hawkish comments from the Bank of Canada, where Senior Deputy Governor Carolyn Watkins implied that the next move in Canadian interest rates was likely to be higher as the BOC assesses the need for maintaining the current stimulus. With interest rates currently standing at 0.5% this message is perhaps understandable, whereas the RBA and the RBNZ, which already have much higher rates, are less likely to embark on any major policy changes for a while.

EGP forecasts revised up

In our own region, the stability of the EGP has been a hallmark since March, after the devaluation last November gave rise to a few months of renewed volatility. As we point out in our non-GCC section Egypt's fundamentals are beginning to improve which is having the benefit of strengthening the Central Bank's foreign exchange position, which has recently allowed the authorities to lift restrictions on FX transactions. While we have previously thought that the EGP would remain broadly steady over the year as a whole, our confidence is growing that market forces would justify a firmer EGP and we have revised down our USDEGP forecasts modestly. Not only does this reflect Egypt's improving fundamentals, but it would also lend support to the ongoing efforts to rein in inflation.

USDEGP exchange rate



Source: Bloomberg

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Equities

Notwithstanding negative political surprises in the UK and hawkish undertones in the Fed's language at its last meeting, global equities continue to retain interest from investors. A lack of market reaction and continued low volatility does point to a sense of complacency. When low bond yields and sustained weakness in commodity prices are thrown in the mix, the situation warrants caution. Nevertheless, solid earnings growth and still favourable macroeconomic conditions should provide support in case of a pull back.

With the exception of GCC equities, most equity markets built on the gains of the previous month. The MSCI World index rallied +1.5% 1m to take its year to date gains to +10.2%. Gains were led by developed markets with the S&P 500 index adding +1.5% to touch new highs. The pace of gains in emerging market equities slowed amid sell-off in commodity dominant indices of Bovespa (-9.6% 1m) and MSCI Russia (-12.8% 1m). The Istanbul 100 index has been a standout performer with gains of +3.2% 1m. The MSCI Arabian Markets index dropped -0.9% 1m mainly on the back of the drop in the Qatar Exchange (-9.0% 1m) as a diplomatic dispute emerged between Qatar and several other GCC countries.

While volatility did increase, it still remains well below long-term averages. The VIX index and the V2X index jumped +10.8% 1m and +6.1% 1m respectively while the JP Morgan EM Volatility index remained flat.

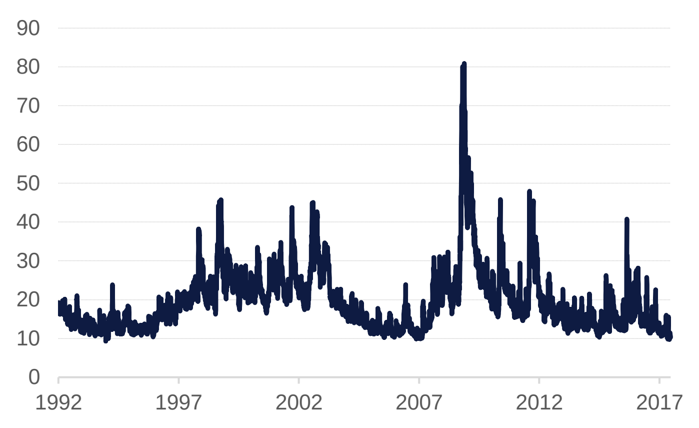
With major events behind us, there is no single event on the horizon which is likely to shape the direction of equity markets over the summer. More so when it appears that there is a growing coherence among global central banks over the direction of monetary policy and a synchronized growth in major economies. In that backdrop, it is likely that the price action could well hinge on day to day political developments and commodity prices, especially oil. However, if recent market movement is any guide then it is safe to assume that their impact will be limited and short-lived.

Volatility – anything to fear?

Despite an increase in risk events since the start of the year, volatility has barely scratched the surface as exemplified by the VIX index. The index measures financial markets' expected volatility over the next 30 days based on the implied volatility from a wide range of S&P 500 options. While the lowest reading for the index was 9.31 in December 1993, the index touched 9.77 in early May this year and the average for this year at 11.64 is one of the lowest on record.

The low levels have confounded investors' expectations of mean reversion to normal levels and have left investors scrambling for plausible reasons. One possible explanation is the fact that since the start of 2017, there have been only three trading days where the S&P 500 index has moved up or down by more than 1%. By historical standards, this is an extremely low number with only five instances since 1929 when this has happened before. It is also worth noting here that the correlation between VIX and the trailing three-month S&P 500 volatility is over 90%.

Vix at multi-year lows



Source: Eikon, Emirates NBD Research.

If we look at the last time when the VIX index touched its all-time lows in December 1993, the S&P 500 index dropped -9.0% in two months. The move at the time was triggered by the first of the seven rate hikes by the Federal Reserve. We believe the situation is different this time even if the Fed is in the midst of another tightening cycle. The Fed has made in clear that the hikes will be gradual with four indicated over the next 18 months. The balance sheet reduction is also likely to be a slow burner. The current macroeconomic picture and the underlying strength in corporate earnings indicate that the volatility could remain low for a considerable period of time despite it been a mean-reverting asset. The index was below the 20th percentile for much of 1993-1995 and 2005-2006.

Emerging Markets – Can the rally sustain?

One consistent theme in 2017 has been the strength of emerging market equities. Judging by different parameters it appears that the momentum is likely to continue into the second half of 2017.

For example, the spread between the emerging market bonds and US treasuries has not widened despite a marginal pullback in equities. If the already tight spread can tighten further then emerging market stocks are likely to receive further boost. The spread also reflects the view that political risk in developed markets are now at par with those in emerging markets. It was long held that the political risk in developed markets was about movements along curves rather than a major step shift in the curves. However, the Brexit referendum, the victory of Donald Trump and the recent election result in the UK has shown consistently over the last twelve months that it is not necessarily true anymore. This in turn reduces the political risk premium for emerging market equities over developed market equities.

Similarly, inflows into emerging markets and appreciation in EM currencies are additional tailwinds. After suffering outflows of USD 34bn from June 2015 to February 2016, net inflows of USD 35bn through early 2017 have fully recouped earlier outflows. In emerging markets context, currency dynamics are an important component in investors' total return. There is a strong positive correlation of 0.81 between EM equities and EM currencies as both benefit from increasing foreign capital flows. And with the strength in the USD fading away owing to delay in fiscal stimulus from the Trump administration and despite interest rates hikes from the Fed, the environment remains conducive for emerging market equities.

MENA Equities – Multiple factors at play

The decision of several Gulf countries cut diplomatic ties with Qatar has introduced a new factor for regional equities even as existing issues remain in play. The trajectory of oil prices following the OPEC meeting where producers agreed to extend the cuts has ensured fiscal reforms remain the key catalyst over the medium term. The MSCI decision to consider including Saudi Arabian equities in the EM index could well be a momentum changing event over the short term.

While it is too early to quantify the economic impact of the diplomatic impasse, it is fair to assume that the effect will be strongest on the Qatari economy as it depends on other Gulf countries for nearly 20% of its imports and almost half of its tourists. Needless to say, the impact on the broader economy will be felt on Qatari stocks. For example, banking sector stocks are likely to take a hit should the impasse persist as they rely heavily on foreign cash. According to data, non-resident deposits accounted for nearly 24% of total deposits. This is in comparison to 1.2% in Saudi Arabia and 12% in the UAE. The early market movements suggest the same with the Qatar Exchange losing -8.2% since the decision.

After much anticipation MSCI has included Saudi Arabia on a watch list for possible inclusion into the MSCI EM Index, with a full upgrade potentially going to come sometime in the next 12 months. The achievement by the Kingdom follows years of effort to comply with rigorous investor friendly rules such as facilitating access by foreigners to its market and implementing T+2 settlement rules, and it may draw billions of dollars of passive funds into the Saudi market when it is finally included in the index. It should also help the progress of diversification already underway in Saudi Arabia and put it in a good position to meet many of its 2030 Transformation plans. The inclusion could also have broader positive implications for other regional equity markets, creating greater awareness of the Middle East region in the minds of global investors.

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Asset Class Returns

	2009	2010	2011	2012	2013	2014	2015	2016	2017 ytd
Global Equities	30.87%	12.41%	-4.99%	16.56%	27.42%	5.57%	-0.28%	8.19%	9.76%
DM Equities	32.63%	8.34%	-11.68%	17.96%	23.43%	-4.32%	-0.28%	1.59%	13.10%
EM Equities	78.55%	19.24%	-18.16%	18.62%	-2.31%	-1.96%	-14.60%	11.54%	17.79%
FM Equities	11.32%	22.19%	-18.43%	8.47%	25.94%	6.61%	-14.78%	2.66%	13.08%
GCC Equities	13.58%	15.29%	-9.24%	8.00%	26.03%	1.31%	-14.85%	7.93%	0.66%
Dev Sov Bonds*	-	6.04%	6.41%	1.41%	-4.59%	0.11%	-2.47%	1.70%	2.39%
Treasuries*	-	6.00%	9.77%	2.03%	-3.37%	6.19%	0.85%	1.03%	1.18%
HY Corp Bonds*	-	12.00%	2.66%	18.63%	7.55%	-0.26%	-4.65%	14.78%	5.07%
UAE USD Bonds*						5.57%	1.78%	4.22%	2.44%
Commodities	18.72%	16.67%	-13.37%	-1.14%	-9.58%	-17.04%	-24.70%	11.40%	-4.50%
Gold*	24.73%	29.48%	10.06%	7.14%	-27.97%	-1.34%	-10.20%	8.56%	6.81%
Oil (Brent)*	70.94%	21.58%	13.33%	3.47%	-0.28%	-48.26%	-34.97%	52.41%	-8.80%
Global REITs	28.47%	31.37%	5.68%	21.08%	-2.10%	33.51%	0.70%	6.51%	1.06%
Hedge Funds	9.15%	7.34%	-5.15%	5.04%	7.37%	1.43%	0.61%	3.59%	3.52%

Source: Bloomberg, Emirates NBD Research

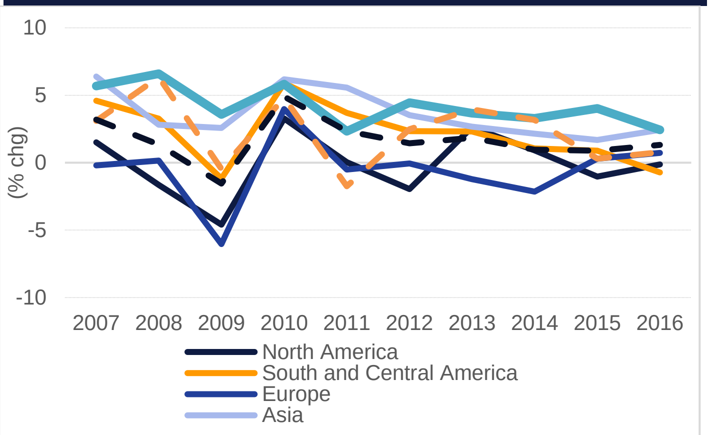
*Indices used - Global Equities (MXWO index), DM Equities (MXEA Index), EM Equities (MXEF Index), FM Equities (MXFM Index), GCC Equities(SEMGPCPD Index) Dev Sov Bonds (BGSV Index), Tresuries (BUSY Index), HY Corp Bonds (BHYC Index), UAE USD Bonds (BUAEUL Index), Commodities (BCOM Index), Gold and Oil (Spot Prices) Global REITS (ENXG Index), Hedge Funds (BBHFUNDS Index). * shows price change while others show total return*

Commodities

Energy demand in MENA slowed in 2016 as the impact of low oil prices dragged on economic activity in both oil exporters and importers. Nevertheless, demand growth was still faster than global aggregate levels and the region's relentless growth in energy demand continues. Total demand is largely met by oil and gas given the region's ample reserves.

Total energy demand in the Middle East and North Africa expanded by 2.4% in 2016, its slowest pace of growth since 2011 when political disruptions across the region affected economic activity. Despite the slow growth relative to recent performance, MENA remained the fastest growing region in terms of energy demand. As a share of global energy demand, MENA remains relatively small, accounting for less than 8% of total energy consumption compared with Asia which accounts for more than 42% of total demand.

MENA fastest growing market for energy

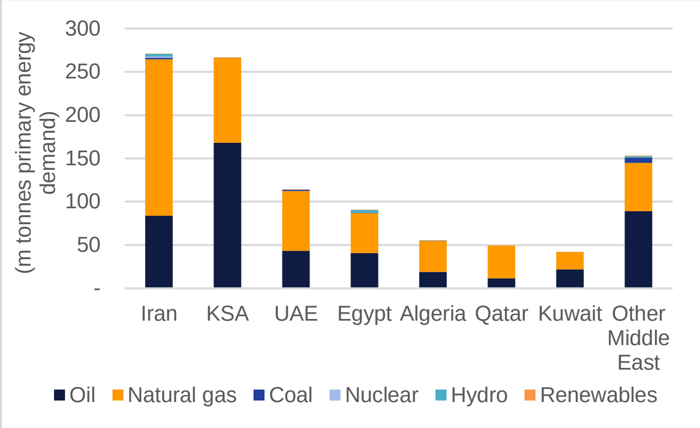


Source: BP Statistical Review of World Energy 2017, Emirates NBD Research.

When measured over a longer-time frame the scale of the region's energy demand challenges appears stark. In the last 10 years, the length of the current global business cycle, MENA demand has risen by 42% compared with 33% in Asia and declines in both North America and Europe. However, on a generational basis MENA energy demand has more than doubled, the fastest global growth rate and consistently tracks Asia, a far larger market.

The energy mix in MENA is heavily skewed by the availability of natural resources and sees a much larger share of hydrocarbons in total demand than other regions. Oil and gas together accounted for 98% of total energy demand in 2016 with coal taking less than 1%, nuclear a negligible level and total renewables at 0.9%. Global balances show a more even split between oil, gas and coal considering the solid fuel's use in power generation but a shortage of available reserves in MENA has blunted coal-fired generation.

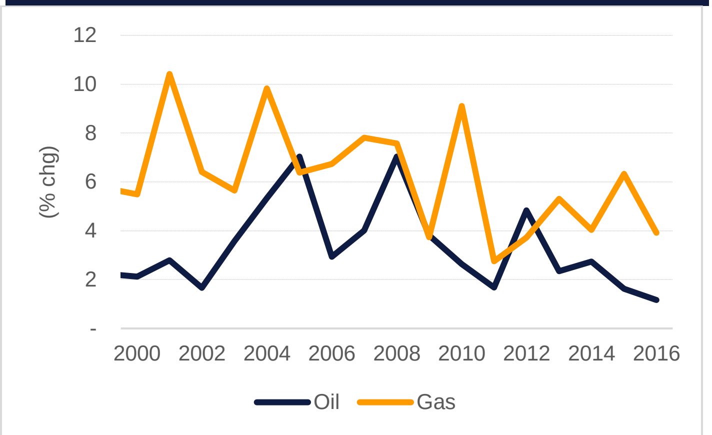
Regional dominated by hydrocarbons



Source: BP Statistical Review of World Energy 2017, Emirates NBD Research.

At a national level, the energy mix largely reflects the regional. Saudi Arabia is the region's largest oil market, consuming 168m tonnes in 2016, more than twice as much as the next biggest market Iran. For gas, its ample reserves and constrained export availability means that Iran is the region's largest consumer. Among the main regional sources of energy, natural gas is expanding at a faster pace than oil.

Natural gas demand remains high



Source: BP Statistical Review of World Energy 2017, Emirates NBD Research.

The UAE moved into a consistent natural gas deficit in 2008 and has built up import infrastructure to help meet domestic needs. A critical component in bringing gas into the country is the Dolphin Energy pipeline that imports gas from Qatar. Dolphin gas accounts for more than a quarter of domestic demand and also feeds into the gas distribution system in Oman. To help diversify sources of natural gas imports, Dubai and Abu Dhabi have installed floating storage and regasification units (FSRU) and have brought in LNG from as far afield as Trinidad and Tobago and Australia. Sharjah National Oil Company has also signed an MoU to set up an FSRU at the Hamriyah port to help alleviate demand pressure in the emirate.

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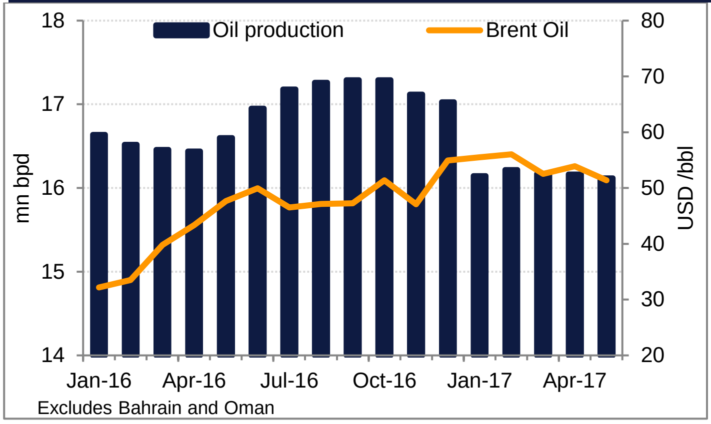
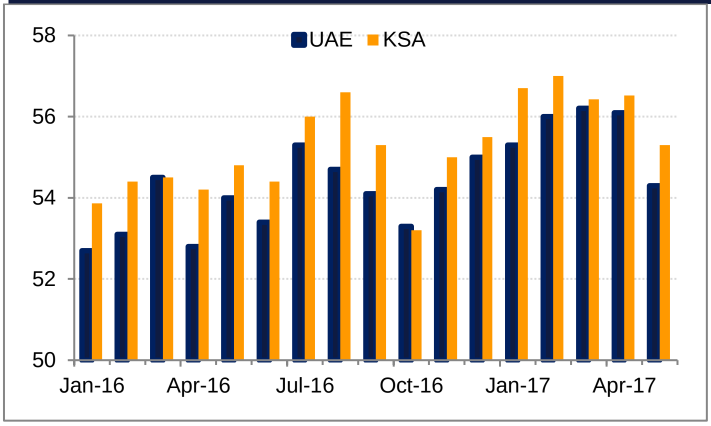
GCC in Pictures

GCC Oil Production and Oil Price



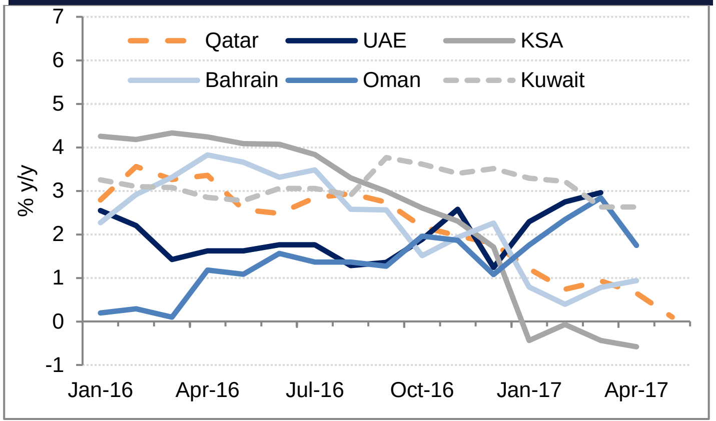
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



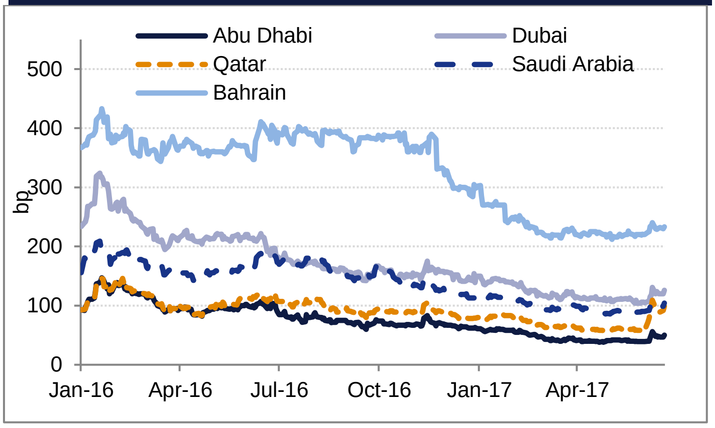
Source: Markit, Emirates NBD Research

Inflation



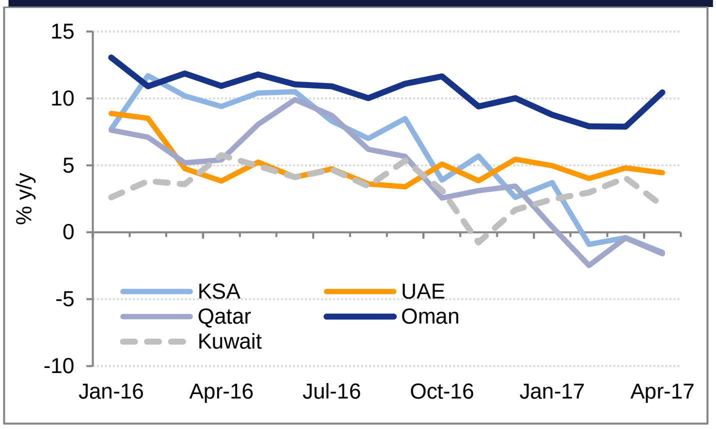
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



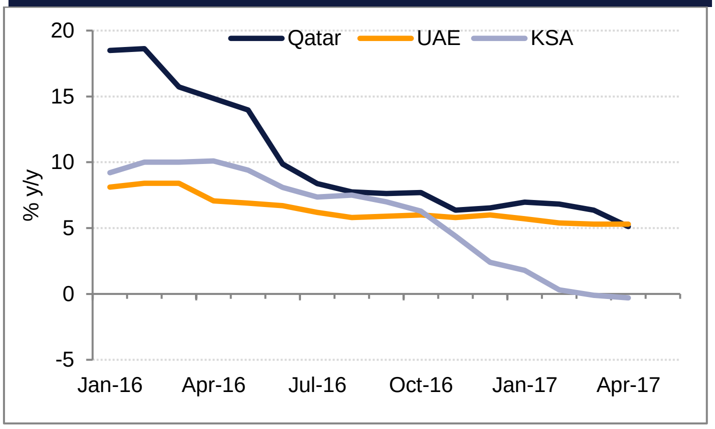
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

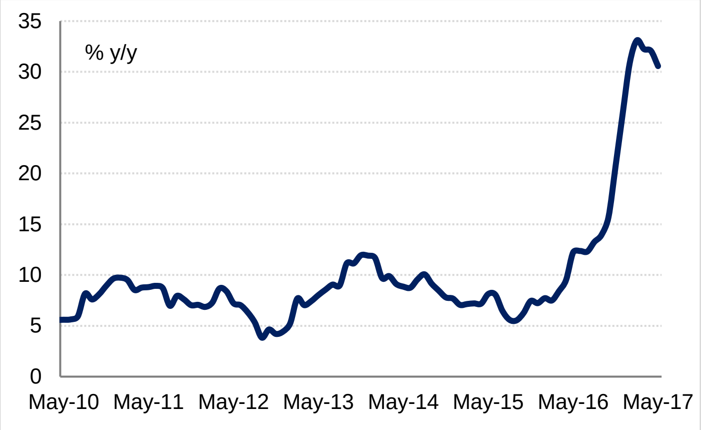
Private sector credit*



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

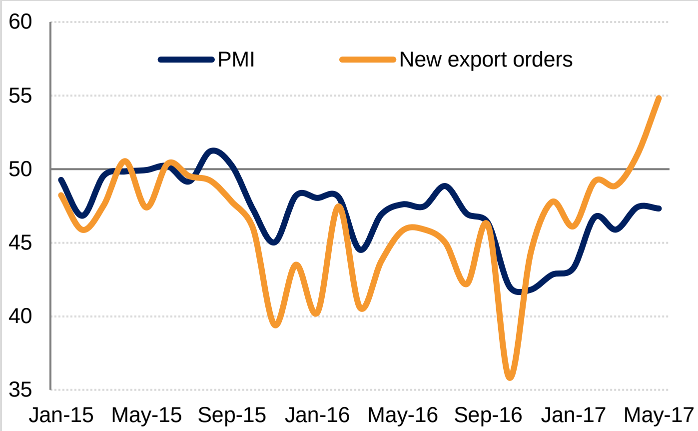
MENA in Pictures

Egypt – Core Inflation



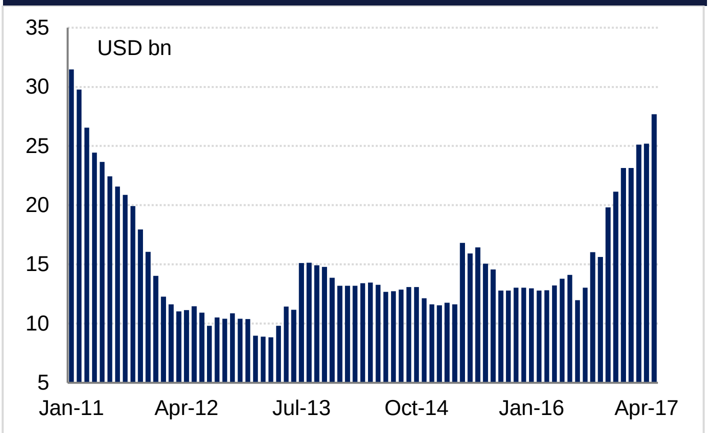
Source: Havers, Emirates NBD Research

Egypt PMI & new export orders



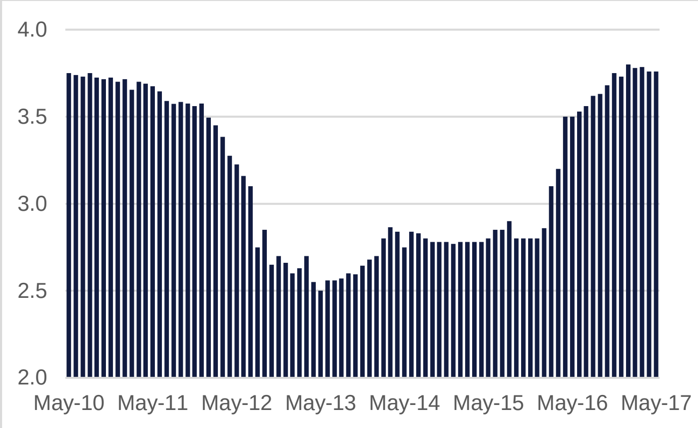
Source: Markit, Emirates NBD Research

Egypt FX reserves



Source: Havers, Emirates NBD Research

Iran Oil Production, mn b/d

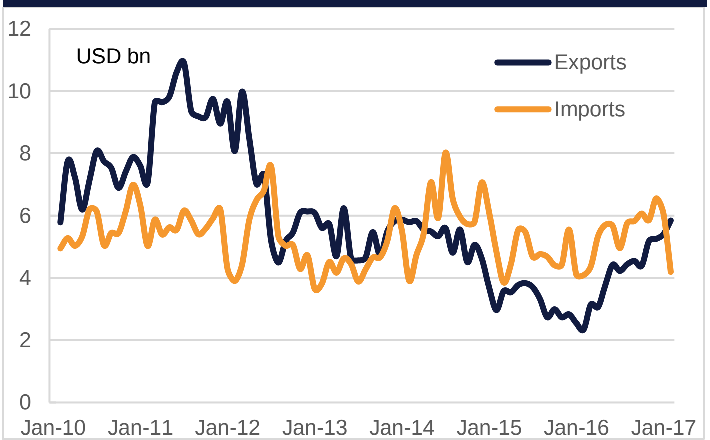


Source: Bloomberg, Emirates NBD Research

Iran Exchange Rates

Source: CBI, Emirates NBD Research

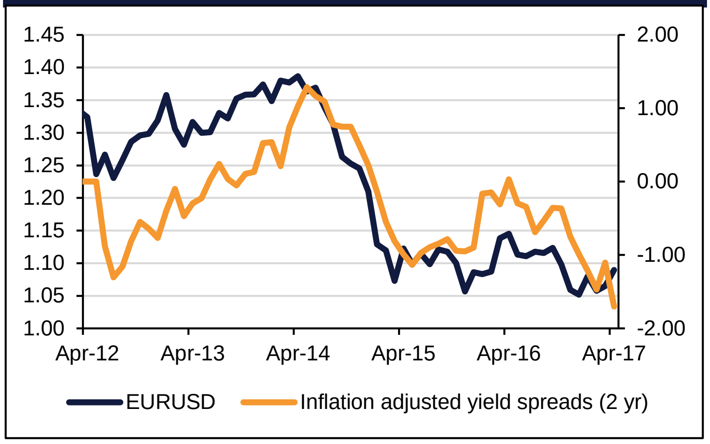
Iran Trade



Source: Bloomberg, Emirates NBD Research

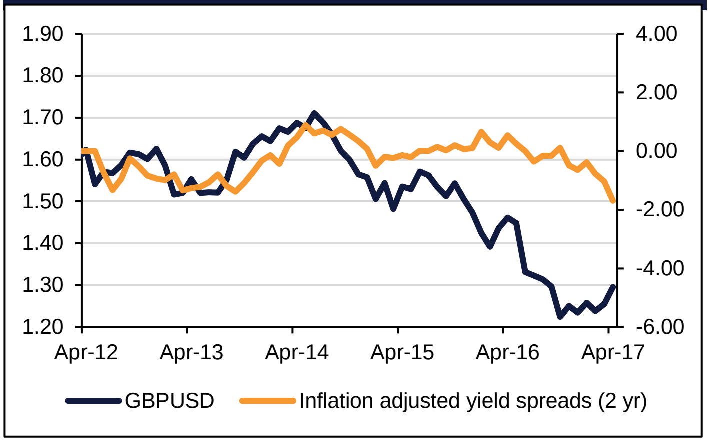
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



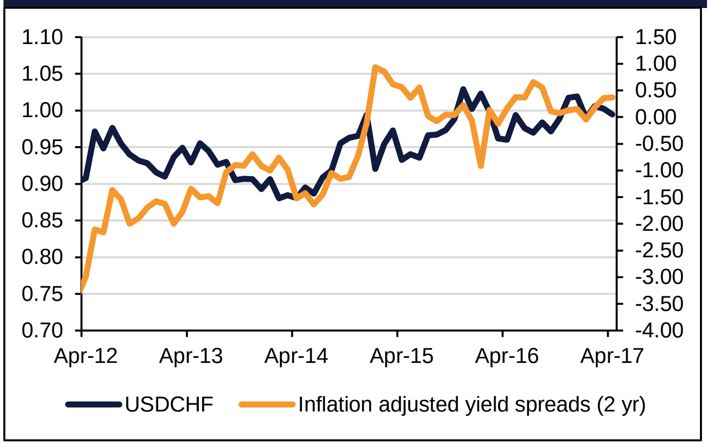
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



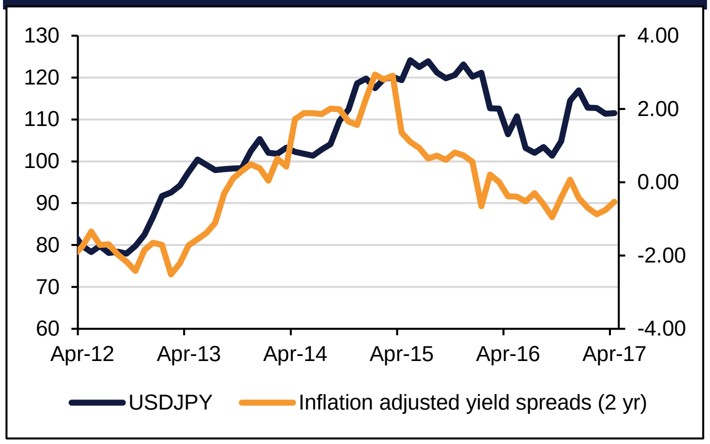
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



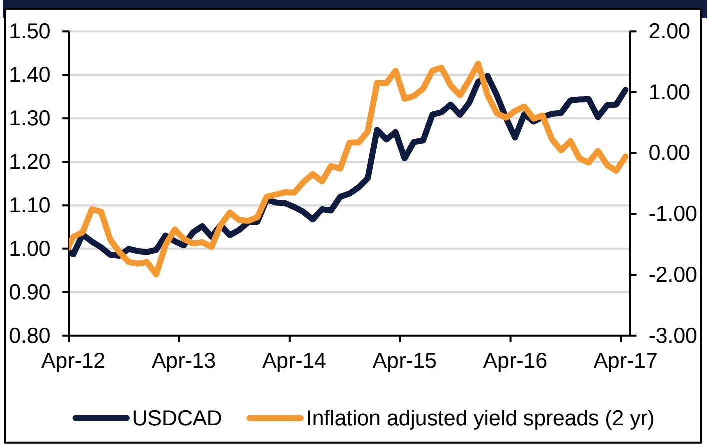
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



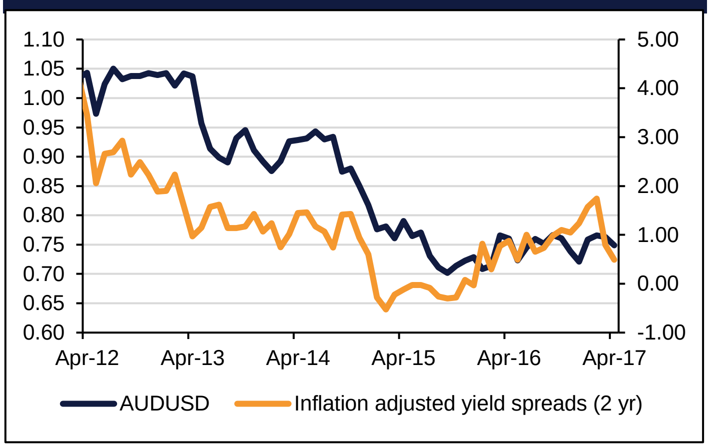
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

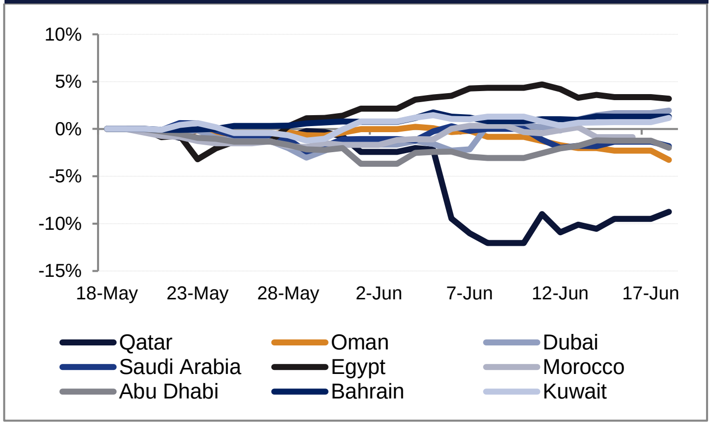
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

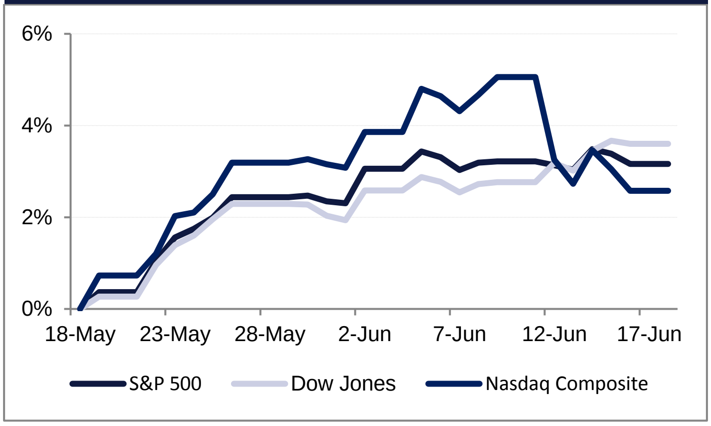
Major Equity Markets

MENA Equity Markets



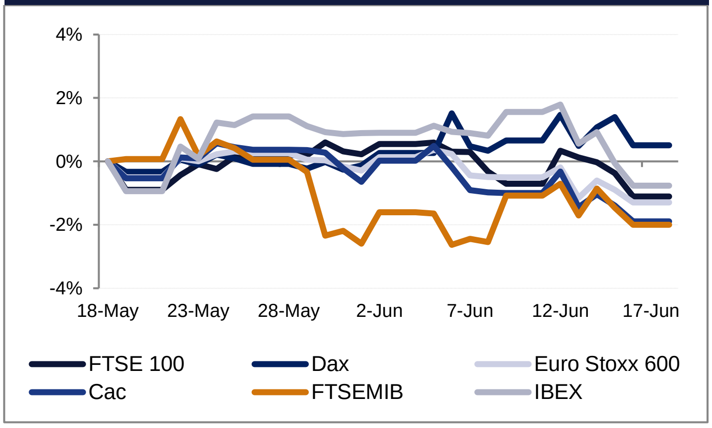
Source: Bloomberg, Emirates NBD Research

US Equity Markets



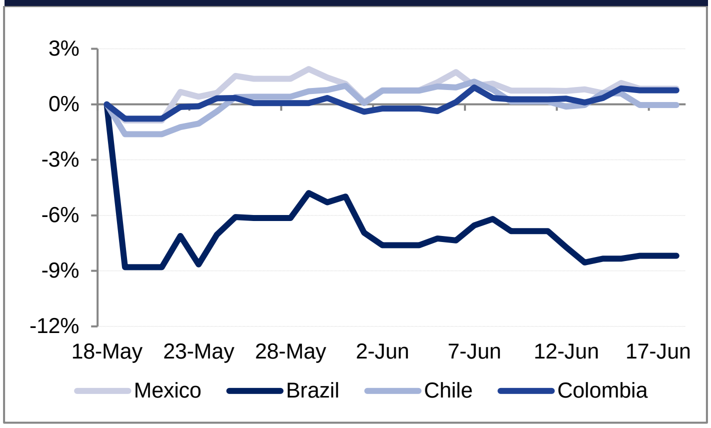
Source: Bloomberg, Emirates NBD Research

European Equity Markets



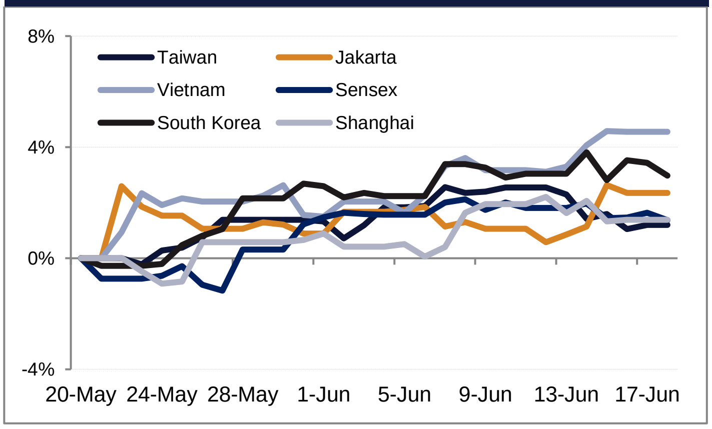
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



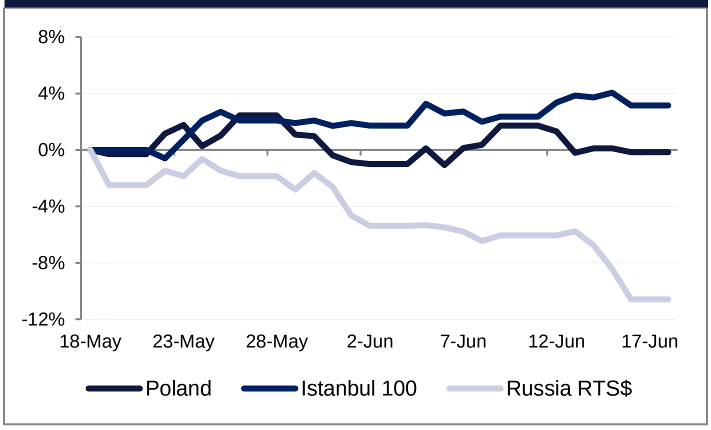
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

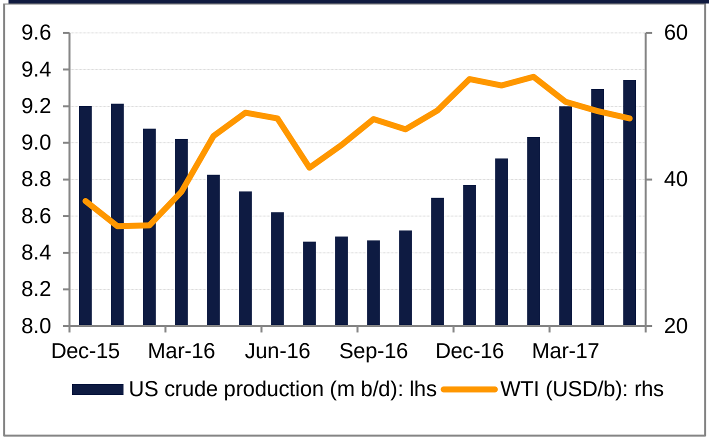
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

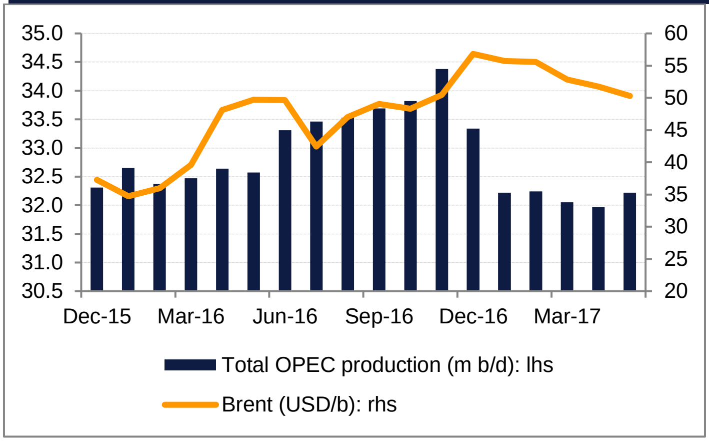
Major Commodities Markets

US oil production and price



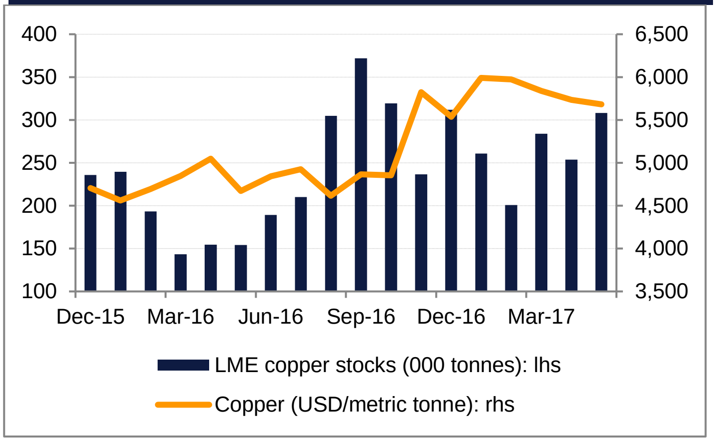
Source: Bloomberg, Emirates NBD Research

International oil production and price



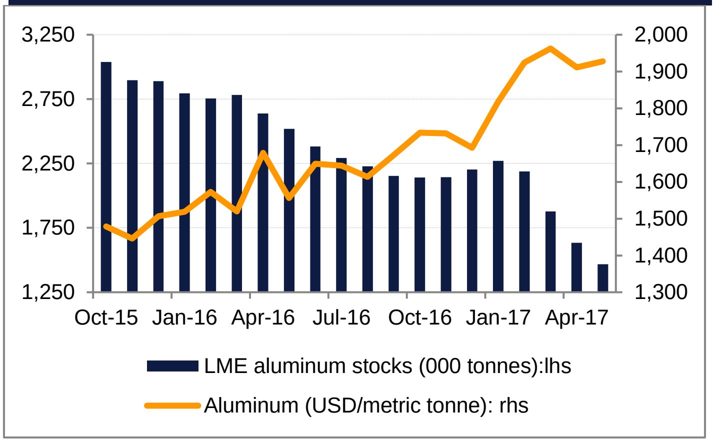
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



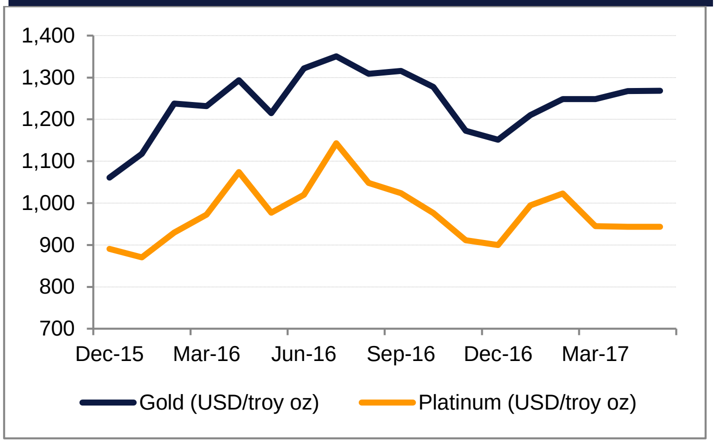
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



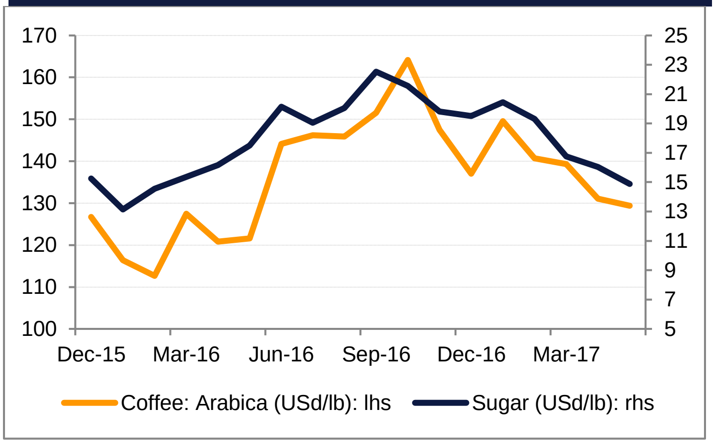
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2014	2015	2016e	2017f	2018f
Nominal GDP $bn	403.5	358.2	349.0	434.8	
Real GDP %	3.3	3.8	3.0	2.0	
Current A/C % GDP	10.0	3.4	-2.2	-0.3	
Budget Balance % GDP	5.0	-2.1	-3.2	-0.8	
CPI %	2.3	4.1	1.6	2.5	
Saudi Arabia					
Nominal GDP $bn	756.4	651.8	639.6	691.0	
Real GDP %	3.7	4.1	1.7	0.5	
Current A/C % GDP	9.6	-9.1	-4.2	-11.1	
Budget Balance % GDP	-2.3	-15.0	-13.6	-9.8	
CPI %	2.7	2.2	3.5	2.8	
Qatar					
Nominal GDP $bn	206.2	164.6	152.5	170.4	189.5
Real GDP %	3.5	3.3	2.0	3.5	3.8
Current A/C % GDP	29.5	12.7	1.2	4.4	6.1
Budget Balance % GDP	12.3	1.2	-8.4	-4.6	-4.7
CPI %	3.3	1.9	2.7	3.0	3.5
Kuwait					
Nominal GDP $bn	166.3	116.9	95.5	103.6	
Real GDP %	0.5	1.8	2.1	-1.0	
Current A/C% GDP	32.6	5.1	-1.7	7.2	
Budget Balance % GDP	7.4	-13.1	-17.2	-9.3	
CPI %	2.9	3.3	3.2	3.5	
Oman					
Nominal GDP $bn	80.9	69.7	72.5	78.5	86.9
Real GDP %	2.5	5.7	3.7	0.9	2.8
Current A/C % GDP	5.2	-15.5	-17.7	-11.7	3.1
Budget Balance % GDP	-3.4	-17.2	-17.5	-9.8	-5.0
CPI %	1.0	0.1	1.1	1.5	2.0
Bahrain					
Nominal GDP $bn	33.4	31.1	31.9	34.4	36.8
Real GDP %	4.4	2.9	3.0	2.2	2.6
Current A/C % GDP	4.6	-2.4	-4.9	-5.3	-3.6
Budget Balance % GDP	-3.6	-13.0	-15.9	-12.9	-11.0
CPI %	2.7	1.8	2.8	2.0	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	493.6	430.7	424.7	471.7	
Real GDP %	3.2	3.8	2.3	1.2	
Current A/C % GDP	14.2	-2.3	-3.6	-4.9	
Budget Balance % GDP	2.2	-9.7	-10.8	-6.7	
CPI %	2.6	2.6	2.7	2.7	

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2014	2015	2016	2017f	2018f
Nominal GDP $bn	305.4	332.6	332.2	180.9	196.1
Real GDP %	2.9	4.4	4.3	3.5	4.9
Current A/C % GDP	-1.0	-2.7	-4.5	-2.7	-1.3
Budget Balance % GDP	-12.98	-12.53	-13.95	-10.05	-8.98
CPI %	10.1	10.4	13.7	16.0	11.0
Jordan					
Nominal GDP $bn	35.8	37.5	38.9	40.3	41.7
Real GDP %	3.1	2.4	2.0	2.8	3.0
Current A/C % GDP	-7.3	-9.1	-10.3	-9.8	-9.6
Budget Balance % GDP	-2.3	-3.5	-3.2	-2.9	-2.6
CPI %	2.8	-0.9	-0.8	2.0	2.0
Lebanon					
Nominal GDP $bn	48.6	50.1	55.1	61.8	68.5
Real GDP %	1.8	1.5	2.4	3.1	3.3
Current A/C % GDP	-23.9	-16.1	-16.0	-15.6	-15.7
Budget Balance % GDP	-6.3	-7.9	-7.3	-7.5	-7.7
CPI %	-8.0	-3.8	-1.0	3.0	4.5
Tunisia					
Nominal GDP $bn	47.6	41.1	41.3	41.1	45.0
Real GDP %	2.3	0.8	1.1	2.8	4.0
Current A/C% GDP	-9.0	-9.4	-8.3	-7.4	-6.5
Budget Balance % GDP	-5.1	-5.1	-6.8	-6.4	-6.0
CPI %	5.5	4.9	3.7	5.0	5.0
Morocco					
Nominal GDP $bn	109.7	100.7	116.8	125.8	135.6
Real GDP %	2.6	4.5	1.0	4.7	4.8
Current A/C % GDP	-5.7	-2.1	-4.1	-2.9	-2.1
Budget Balance % GDP	-5.2	-4.7	-3.8	-3.1	-2.5
CPI %	0.4	1.6	1.6	3.0	3.0
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	203.3	224.9	222.9	123.8	134.1
Real GDP %	2.70	3.75	3.08	3.66	4.37
Current A/C % GDP	-5.0	-4.7	-6.2	-5.6	-4.7
Budget Balance % GDP	-9.4	-9.6	-10.1	-6.8	-6.2
CPI %	5.7	6.4	8.2	8.3	6.5

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2014	2015	2016	2017f	2018f
Nominal GDP $bn	213.5	165.3	165.4	186.1	214.3
Real GDP %	2.2	2.3	3.4	3.6	4.2
Current A/C % GDP	-4.3	-16.6	-17.3	-10.9	-8.7
Budget Balance % GDP	-7.3	-16.0	-14.3	-10.7	-8.2
CPI %	3.9	4.4	6.0	7.0	5.0
Libya					
Nominal GDP $bn	48.1	34.4	36.2	40.1	44.7
Real GDP %	-24.0	-10.2	-0.9	10.3	11.3
Current A/C % GDP	-10.5	-9.4	-12.3	-15.0	-17.0
Budget Balance % GDP	-41.4	-23.6	-20.7	-18.8	-17.6
CPI %	2.4	9.5	9.5	10.5	11.5
Iran					
Nominal GDP $bn	503.6	423.7	420.1	406.6	434.1
Real GDP %	5.9	3.7	7.2	4.1	5.0
Current A/C % GDP	3.1	2.1	3.8	5.3	5.8
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	8.5	11.1	12.0
Iraq					
Nominal GDP $bn	192.8	164.2	229.6	247.2	288.3
Real GDP %	-0.6	-2.4	8.7	3.5	5.1
Current A/C% GDP	12.7	2.5	-5.3	-5.7	-5.5
Budget Balance % GDP	-6.1	-13.6	-10.7	-6.6	-4.6
CPI %	3.0	1.2	1.0	4.5	6.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	301.3	295.9	294.5	314.9	239.4
Real GDP %	1.9	1.5	6.5	4.1	5.2
Current A/C % GDP	2.7	-2.3	-3.5	-1.9	-7.7
Budget Balance % GDP	-7.5	-10.1	-9.7	-7.4	-7.1
CPI %	9.4	6.2	7.2	8.9	6.3

Key Economic Forecasts - Global

US	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.2	2.4	2.4	1.8	2.5	2.5
Current A/C % GDP	-2.3	-2.3	-2.6	-2.7	-2.7	-2.9
Budget Balance % GDP	-3.3	-2.8	-2.5	-2.5	-3.0	-3.4
CPI %	1.5	1.6	0.1	1.7	2.3	2.5
Eurozone						
Real GDP %	-0.3	0.9	1.5	1.5	1.7	1.5
Current A/C % GDP	1.8	2.4	3.0	2.7	2.6	2.8
Budget Balance % GDP	-2.9	-2.6	-2.0	-2.0	-1.6	-1.6
CPI %	1.3	0.4	0.0	0.9	1.5	1.5
UK						
Real GDP %	1.7	2.9	2.4	2.0	1.7	2.0
Current A/C% GDP	-4.5	-5.1	-4.5	-4.0	-4.0	-3.3
Budget Balance % GDP	-5.9	-5.4	-4.3	-3.2	-2.0	-2.8
CPI %	2.6	1.5	0.5	1.9	2.0	2.6
Japan						
Real GDP %	1.6	0.0	0.5	0.9	1.0	0.5
Current A/C % GDP	0.8	0.5	3.0	3.2	3.0	3.5
Budget Balance % GDP	-7.8	-7.1	-6.0	-6.0	-5.0	-4.8
CPI %	0.3	2.7	0.8	0.8	1.5	1.0
China						
Real GDP %	7.7	7.3	6.9	6.5	6.3	6.1
Current A/C % GDP	1.5	2.1	2.7	2.8	2.5	1.9
Budget Balance %GDP	-1.8	-1.8	-2.5	-3.0	-3.0	-3.5
CPI%	2.6	2.0	1.4	1.7	2.0	2.2
India*						
Real GDP%	4.7	6.9	7.4	8.0	6.6	7.8
Current A/C% GDP	-2.6	-1.4	-1.5	-1.5	-1.0	-1.0
Budget Balance % GDP	-5.9	-4.8	-4.1	-3.9	-3.9	-3.6
CPI %	10.9	6.4	7.0	5.0	4.8	5.0

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

FX Forecasts

FX Forecasts - Major						Forwards		
	19-June	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR/USD	1.1149	1.1000	1.0800	1.0500	1.0500	1.1204	1.1260	1.1380
USD/JPY	111.53	114.00	118.00	120.00	120.00	111.08	110.60	109.52
USD/CHF	0.9757	1.0100	1.0300	1.0500	1.1050	0.9699	0.9639	0.9515
GBP/USD	1.2744	1.2500	1.2500	1.3000	1.3500	1.2781	1.2816	1.2892
AUD/USD	0.7600	0.7400	0.7200	0.7000	0.7000	0.7590	0.7582	0.7566
NZD/USD	0.7232	0.7000	0.6800	0.6700	0.6700	0.7220	0.7208	0.7182
USD/CAD	1.3219	1.3300	1.3400	1.3200	1.3000	1.3198	1.3183	1.3155
EUR/GBP	0.8752	0.8800	0.8644	0.8076	0.7777	0.8770	0.8790	0.8831
EUR/JPY	124.33	125.40	127.44	126.00	126.00	124.33	124.33	124.33
EUR/CHF	1.0877	1.1111	1.1124	1.1025	1.1025	1.0866	1.0853	1.0828
FX Forecasts - Emerging						**Forwards**		
	19-June	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
USD/SAR*	3.7500	3.7500	3.7500	3.7500	3.7500	3.7523	3.7556	3.7693
USD/AED*	3.6729	3.6720	3.6720	3.6720	3.6720	3.6744	3.6760	#N/A N/A
USD/KWD	0.3035	0.3050	0.3050	0.3050	0.3050	0.3043	0.3062	#N/A N/A
USD/OMR*	0.3849	0.3850	0.3850	0.3850	0.3850	0.3857	0.3870	0.3920
USD/BHD*	0.3773	0.3770	0.3770	0.3770	0.3770	0.3777	0.3783	0.3795
USD/QAR*	3.6699	3.6400	3.6400	3.6400	3.6400	3.6783	3.6868	3.7163
USD/EGP	18.1007	18.000	17.750	17.500	17.250	18.4150	18.7925	19.6000
USD/INR	64.425	66.000	64.000	65.000	65.000	65.2800	65.9500	67.2500
USD/CNY	6.8195	7.0000	7.1000	7.2000	7.2000	6.8740	6.9190	7.0080

Data as of 16 June 2017
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.55	1.65	1.85	2.05	1.61	1.67	1.77
10y	2.14	2.45	2.60	2.80	2.15	2.18	2.24
2s10s (bp)	59	80.00	75.00	75.00	54	51	47
US Treasurys Forecasts							
2y	1.34	1.40	1.60	1.80			
10y	2.16	2.50	2.70	2.80			
2s10s (bp)	81	110	110	100			
3M Libor							
3m	1.28	1.28	1.44	1.74			
3M Eibor							
3m	1.51	1.51	1.71	2.11			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED	1.00-1.25	1.25	1.50	1.75			
ECB	0.00	0.00	0.00	0.00			
BoE	0.25	0.25	0.25	0.25			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-1.00	-1.00			
RBA	1.50	1.50	1.25	1.25			
RBI (repo)	6.25	6.25	6.25	6.50			
SAMA (r repo)	1.00	1.25	1.50	1.75			
UAE (1W repo)	1.25	1.50	1.75	2.00			
CBK (discount rate)	2.75	3.00	3.25	3.50			
QCB (Repo rate)	2.25	2.75	3.00	3.25			
CBB (o/n depo)	1.00	1.25	1.50	1.75			
CBO (o/n repo)	1.00	1.50	1.75	2.00			

Data as of 16 June 2017
Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Current	2016 avg	2017q1	Q2	Q3	Q4	2017 avg
Energy							
WTI (USD/b)	43.25	43.32	51.91	50.00	53.00	55.00	52.48
Brent (USD/b)	45.72	45.04	54.68	53.00	55.00	55.00	54.42
OPEC Reference (USD / b)	43.90	40.68	52.03	51.41	53.35	58.20	52.54
Precious metals							
Gold (USD/troy oz)	1,245.53	1,247.82	1,220.24	1,275.00	1,2750.00	1,180.00	1,237.56
Silver (USD/troy oz)	16.45	17.10	17.48	17.50	18.00	16.00	17.24
Platinum (USD/troy oz)	920.20	987.79	982.33	902.50	932.00	960.00	944.21
Palladium (USD/troy oz)	868.75	613.89	767.48	777.07	786.65	796.23	781.86
Base metals							
Aluminum (USD/metric tonne)	1,886.50	1,609.83	1,856.60	1,875.00	1,850.00	1,850.00	1,857.90
Copper (USD/metric tonne)	5,657.00	4,870.75	5,857.38	5,800.00	5,500.00	5,350.00	5,626.85

Prices as of 21 June 2017. Note: prices are quarterly average unless indicated otherwise.
Source: EIKON, Emirates NBD Research

Global Equities Market Watch

Index	Last Close	ADV Traded 30d USD mn	Mtd % chg	Ytd % chg	%membera bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	21,384	7,137	1.8	8.2	83	17.7	3.6	2.4
S&P 500 Index	2,433	38,120	0.9	8.7	75	18.7	3.0	2.0
Nasdaq Composite Index	6,152	25,260	-0.8	14.3	60	23.4	3.8	1.1
FTSE100 Index	7,464	6,657	-0.8	4.5	80	15.1	1.9	4.2
DAX Index	12,753	3,994	1.1	11.1	97	14.0	1.8	2.9
CAC 40 Index	5,263	4,152	-0.4	8.2	92	15.5	1.5	3.2
Swiss Market Index	8,963	3,166	-0.6	9.0	95	18.0	2.4	3.4
Nikkei Index	19,943	13,029	1.5	4.3	76	17.4	1.6	1.9
S&P/ASX 200 Index	5,774	3,952	0.9	1.9	64	16.1	2.0	4.4
Stoxx Europe 600 Index	3,459	88	3.2	-2.4	56	10.4	1.2	4.3
Dubai Financial Market General Index	4,502	48	1.7	-1.0	64	12.3	1.3	4.3
Abu Dhabi Sec Market General Index	6,821	684	-0.6	-5.3	38	14.2	1.5	3.3
Tadawul All Share Index	98,737	1,422	0.7	25.7	90	9.3	1.3	3.3
Istanbul SE National 100 Index	13,479	48	1.3	9.4	80	12.0	1.9	2.7
Egyptian Exchange Index	6,811	34	0.2	18.3	59	--	--	--
Kuwait Stock Exchange Index	1,327	2	0.3	8.4	--	--	--	--
Bahrain Bourse All Share Index	5,248	4	-3.2	-9.2	37	9.8	0.9	--
Muscat Securities Index	9,258	67	-7.3	-12.1	16	14.1	1.8	3.6
Qatar Exchange Index	9,499	16	1.6	0.5	85	17.9	2.6	3.6
MADEX Free Float Index	3,459	88	3.2	-2.4	56	10.4	1.2	4.3
Hong Kong Hang Seng Index	25,626	4,013	-0.1	16.5	86	12.4	1.2	3.4
Shanghai Composite Index	3,123	25,108	0.2	0.6	23	13.7	1.5	2.0
Korea Stock Exchange Index	2,362	5,316	0.6	16.5	69	10.2	1.1	1.6
BSE Sensex	31,056	106	-0.3	16.6	73	18.9	2.8	1.6
Nifty	9,588	1,568	-0.3	17.1	76	18.3	2.7	1.6
Karachi Stock Exchange Index	46,859	126	-7.4	-2.0	49	11.0	1.8	4.9
Taiwan SE Weighted Index	10,157	2,727	1.2	9.8	64	14.4	1.8	3.9
Bovespa Brasil Sao Paulo SE Index	61,626	2,123	-1.7	2.3	56	11.4	1.4	3.7
Micex Index	1,823	585	-4.1	-18.4	20	6.0	0.6	8.6
FTSE/JSE Africa All Share Index	50,832	1,743	-5.1	0.4	43	13.3	1.8	3.4
Vietnam Ho Chi Minh Stock Index	761	181	3.2	14.5	72	15.0	2.5	2.4
Jakarta SE Composite Index	5,724	426	-0.3	8.1	56	16.1	2.4	2.1
FTSE Bursa Malaysia KLCI Index	1,791	261	1.4	9.1	80	16.8	1.7	3.1
Mexican Stock Exchange	49,221	393	0.9	7.8	60	18.0	2.4	2.2

Prices as of 16 June 2017
Source: Bloomberg, Emirates NBD Research

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