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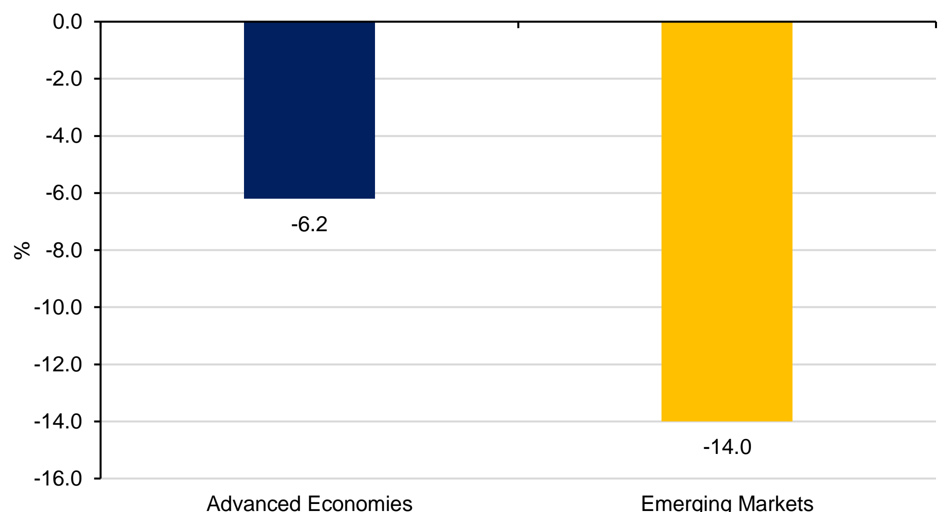
# Monthly Insights

**The risks to global growth posed by trade protectionism and geopolitics have intensified over the last few weeks, even as monetary policy has tightened further. Higher energy prices in H1 pose a challenge for EM economies and OPEC, but have provided room for GCC governments to boost spending and tackle some structural reforms.**

- **Global macro:** The global context remains a complicated one whereby on the one hand the growth picture looks encouraging, particularly in the U.S., but on the other hand there are multiple distractions and risks which are preventing a wholehearted resumption of confidence and may even lead to an eventual slowdown.
- **GCC macro:** Increased government spending in the GCC should help to mitigate the impact of VAT and higher fuel prices in the UAE and Saudi Arabia.
- **MENA macro:** Egypt's IMF reform programme is progressing apace, while those of Jordan and Tunisia are facing increasing hurdles as inflation rises.
- **Sector focus:** GCC's maritime strategy enters a new era.
- **Interest rates:** The Fed and the ECB made further progress on normalizing their monetary policies.
- **Credit:** GCC bonds were boosted higher by the falling benchmark UST yield curve even though credit spreads widened somewhat during the month.
- **Currencies:** Supported by renewed expectations of four Fed rate hikes in 2018, the dollar is on target to rise for a third consective month, with EM currencies losing out the most.
- **Equities:** In the last month, headwinds facing global equity markets have gathered pace. The domestic political issues in Europe, Brexit uncertainty and a trade war between the US and rest of the world continue to weigh on markets.
- **Commodities:** OPEC's spare capacity buffer is narrowing as long-term investment shortfalls and damage to producers' infrastructure takes their toll. Over the long run, this should help to put a floor under oil prices.

**World Bank's estimates of the percentage decline in global trade from increased tariffs by 2020**




*Source: World Bank, Emirates NBD Research.*

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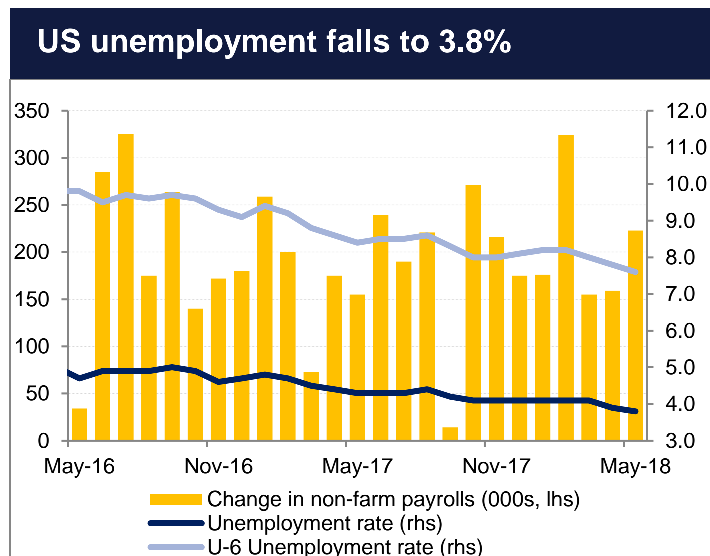
# Global Macro

**The global context remains a complicated one whereby on the one hand the growth picture looks encouraging, particularly in the U.S., but on the other hand there are multiple distractions and risks which are preventing a wholehearted resumption of confidence and may even lead to an eventual slowdown.**

## US economy firing on all cylinders

Looked at from the perspective of the U.S, economy, there is not much at the moment that looks wrong. Indeed the U.S. economy appears to be firing on all cylinders. US non-farm payrolls beat market expectations in May with 223k new jobs added, with a picture of labour market tightness across all sectors, and with the unemployment rate falling to 3.8%, the lowest since 2000. Average hourly earnings rose 0.3% m/m and 2.7% y/y, also higher than forecast, and separately, the ISM activity readings also rose by more than expected in May, signaling faster GDP growth in Q2. Not surprisingly as well measures of consumer confidence are strong with the University of Michigan's measure coming in at a three-month high of 99.3 in June, from 98.0 previously. The report also showed a further pick-up in households' inflation expectations. One-year ahead expectations climbed to a three-year high of 2.9%, from 2.8%, echoing the acceleration in actual inflation.

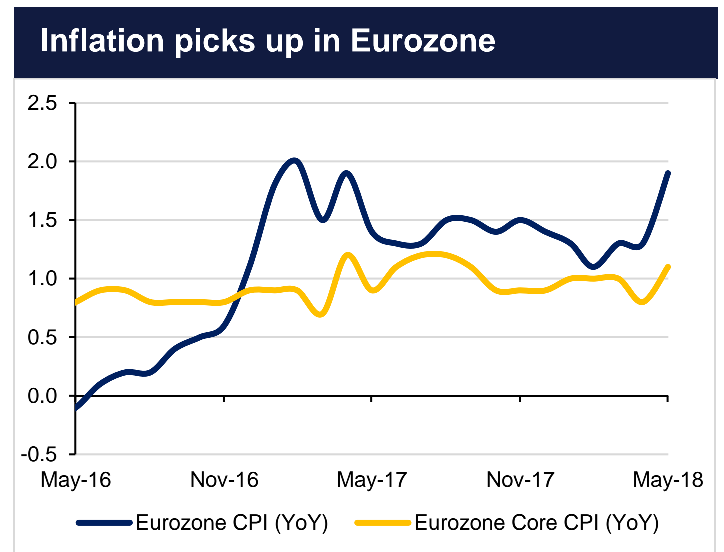



*Source: Bloomberg, Emirates NBD Research*

Accordingly the Federal Reserve's decision to raise rates again was not a surprise, with the Fed funds target rate being raised 25bps to between 1.75% and 2%. The rate hike was largely anticipated by the market and more attention was focused on the Fed's language about the outlook for the US economy as well as the trajectory for further rate rises in 2018. As far as the economy is concerned, the Fed is moving away from financial crisis-era language and described economic activity as solid and cut its pledge to keep rates low 'for some time' as well as signaling it could accept above-target inflation if it meant the economy continued to perform well. The FOMC also updated its projections for interest rates this year, expecting two more 25bps moves compared with just one more at its March meeting and held its projections for 2019 at three hikes.

## Eurozone growth slowing down

However, outside of the U.S. the picture looks quite different. Growth trends in Q2 in Europe have been much less encouraging, Industrial production in the Eurozone fell by 0.9% m/m in April, affirming a general slowdown in growth in the currency bloc, with output falling in all of the bloc's five largest economies. Retail sales during the month were also sluggish. Although part of the decline in output was related to lower energy output after a surge related to cold weather in February-March, it remains to be seen how much this will recover by in May. However, there was some positive employment data out from the Eurozone where employment rose by 0.4% in Q1 compared with Q4.



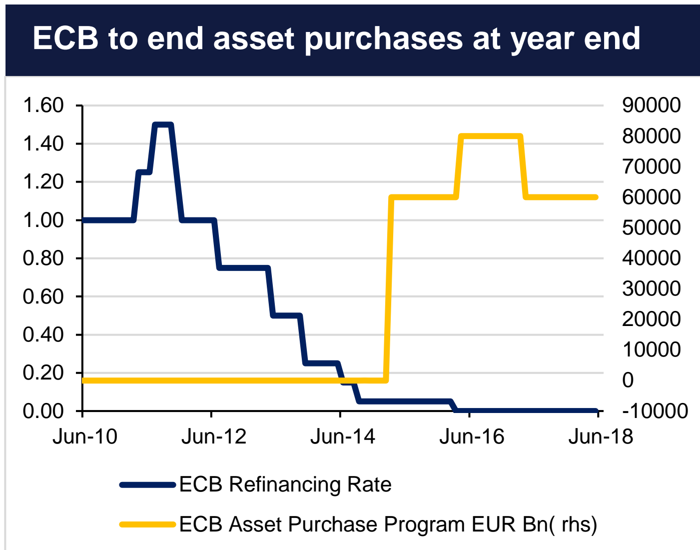

*Source: Bloomberg, Emirates NBD Research*

So even as the ECB announced plans to further taper down its asset purchase program, it was couched with hesitance. As per the latest decision, QE will be lowered to EUR 15bn a month after September and will be extinguished in December 2018. Interest rates will not, however, be hiked before summer 2019. The ECB president adopted a cautious approach reflecting continued readiness and ability to do more if needed, even though economic forecast was optimistic in nature. The ECB's macroeconomic projections reflect core inflation rising from 1.1% in 2018, 1.6% to 2019 and reach 1.9% by 2020 but GDP growth was likely to slow in the years ahead.

## Geopolitical factors are causing uncertainty

Much of the uncertainty emanates from trade tensions, which are mounting globally, but there are also political developments in Europe which are unsettling for businesses and consumers. Developments in Italy and Spain were of course the centre of attention just a fortnight ago, but the appointment of governments in both countries managed to calm some of the investor anxiety. While the immediate risk of another election in Italy has receded, the populist government of the Five Star Movement and the League looks set to clash with the EU and the ECB if they implement their election promises, including reducing the pensionable age,

introducing a 'citizen's income' and cutting taxes. The markets would be unwise to write-off these political developments quite so quickly, however. Indeed the ECB's plan to end its QE program will potentially bring forward the moment that it comes into conflict with the Italian government.




*Source: Bloomberg, Emirates NBD Research*

## Will the Bank of England hike in August?

These concerns have to some extent been overtaken by uncertainty over the future of Chancellor Merkel's coalition government in Germany over the subject of immigration policy. Ahead of the EU Summit on 28-29 June, there are also strains in the German-French relationship over the future of the EU, with Germany less enthusiastic than France about further integration. In the UK as well Brexit progress has been disappointing, with the UK government facing more defeats over its Brexit Bill, with in turn are overshadowing the monetary policy debate over the likelihood of an August rate hike. Inflation in the UK came in lower than expected at 2.4% y/y for May, steady on the April figure. The Bank of England had warned that inflation could accelerate over the coming months thanks to high oil prices but that it would eventually converge on its target of 2%. The softer than expected inflation data and mixed employment figures has put the probability of an August hike below 50%, which represents a fallback from around 60% in May.

## Trade escalation a risk to growth

Of course trade tensions are the paramount focus at the moment and the main source of uncertainty in terms of their potential to detract from growth. The political fallout between the U.S. and its allies appears to be deepening (as shown by the fractious G7 meeting in Canada), to say nothing of the growing gulf between the U.S. and China. Other countries like India are also stepping up with their own retaliatory measures. The United States this week approved tariffs on USD 50bn of imports from China on the grounds that China has long been stealing U.S. intellectual property. The specific products subject to tariffs of 25% include a list of 1,102 products, including aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles. In retaliation, China then imposed additional duties of 25% on 659 American products, and is also likely to lodge a complaint with the World Trade Organization. In response President Trump threatened tariffs on more Chinese imports, ordering officials to identify $200 billion of goods for additional levies of 10%. Taken together, tariffs on USD250bn represents about half of its 2017 China import bill. The Ministry of Commerce in Beijing then said it would retaliate with 'strong' counter measures. The developments suggest a deepening trade dispute that the IMF has described as one of the biggest risks to global growth. The World Bank has also said it could take the world economy back to the financial crisis of 2008. Under the scenario outlined in its latest global economic prospects report, the World Bank found a broad-based increase in the use of import tariffs worldwide would trigger a decline in global trade amounting to 9%. While the hit to growth around the world has so far been limited, the danger is that confidence and sentiment will soon start to sour and limit corporate expansion and investment plans.

## US will not avoid the fallout

Trade wars have a nasty habit of damaging the countries that start them the most, and this includes the US, where the agricultural sector is especially vulnerable to retaliatory measures from China. It may also leave U.S. corporates which derive significant revenues from Chinese sales also weaker. Of course, the US is also financially exposed to China, which is the biggest official foreign holder of its Treasuries. China appeared relatively open to offer concessions over the bilateral trade deficit previously, but this now looks unlikely. On the other side, with the summit with North Korean leader Kim Jong Un now past, the argument that Trump needs Beijing's help to pressure Pyongyang is far less relevant. But by the same token, China may also have less to lose from actually re-stoking tensions between the two countries. With the U.S. economy otherwise in good shape, it has to be wondered why such measures are really necessary at this moment. Away from the political implications, such escalating tariffs will probably deliver higher prices to the U.S. and weaker growth to China. In time there may also be monetary/currency policy responses which will spread the negative growth impact more widely. In most scenarios they probably decrease the chances that President Trump will make it to the next election without the U.S. economy suffering a meaningful slowdown, which will in course have negative implications for the rest of the world.

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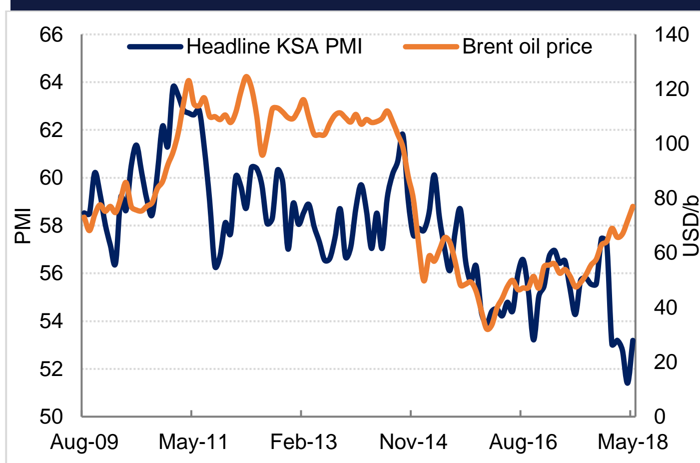
# GCC Macro

**Increased government spending in the GCC should help to mitigate the impact of VAT and higher fuel prices in the UAE and Saudi Arabia.**

In our January 2018 Monthly Insights, we predicted that governments across the GCC would increase spending this year following two years of relative austerity. For the UAE specifically, we noted that "the public sector [was] expected to be the main engine of growth this year…with infrastructure spending set to pick up as the country [prepared] to host Expo 2020, and some public sector wage growth likely as well." We also highlighted the fact that household consumption would be constrained by higher fuel costs (on the back of higher oil prices) as well as the impact of VAT on the general cost of living.

Six month on, fiscal data and recent announcements by the authorities in Dubai and Abu Dhabi show that this has largely been the case. Quarterly budget data for Saudi Arabia show that current spending increased nearly 24% y/y in Q1 2018, including wages, subsidies, grants, and social benefits paid to households to help mitigate the impact of VAT. However, capital spending was nearly -11% lower than in Q1 2017, so the total increase in budget spending was just under 18% y/y. The sectors which benefitted the most from the higher budget spending in the first quarter of this year were health & social development and military spending (which remains the largest category of budget spending). We expect the increase in government spending in Saudi Arabia to be maintained through the rest of this year, particularly as oil revenues are likely to be substantially higher than budgeted. However, we note that increased spending on military and defence is less likely to drive domestic economic activity as most of these goods are manufactured abroad and imported

**Saudi Arabia PMI and oil price**




*Source: Bloomberg, IHS Markit, Emirates NBD Research*

Indeed, the PMI survey data suggests that so far, the increased spending is not driving faster growth in the non-oil sector. While the headline PMI recovered slightly in May, it remains well below the series average.

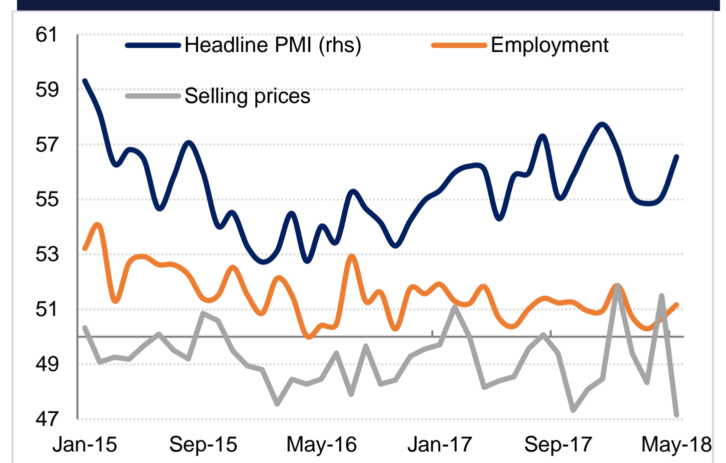
The UAE does not publish quarterly fiscal accounts, but here too there are indications that spending has increased this year, and probably by slightly more than we had anticipated in January. In addition to an annual bonus for all public sector employees, the government of Abu Dhabi also announced a AED 50bn stimulus package (over three years). Details on where the money will be spent are still to be released, but at least a portion will likely be used to fund 10,000 new jobs for Emiratis. However, the Abu Dhabi municipality has also announced it will increase the tax on expats resident in the emirate to 5%-7.5% of annual rents, from 3% currently.

## Dubai focuses on reforms and tax cuts

Dubai has also recently announced several reforms and measures to stimulate growth in the emirate and ease some pressure on households. However, these measures are geared towards reducing the cost of doing business and lowering taxes, rather than increasing budget spending. They include reducing the municipal tax for businesses, writing off administrative fines owed by businesses, and scrapping 19 fees related to aviation. Dubai has also frozen school fees for the next academic year, providing some relief for households facing higher fuel costs (up more than 22% y/y in H1 2018) and VAT.

Survey data for Dubai and the UAE more broadly have been encouraging; both the UAE PMI and the Dubai Economy Tracker have posted readings in the mid-50s so far this year, with the Dubai Economy Tracker rising to 57.6 in May. While these figures suggest a solid expansion in the non-oil private sectors, this appears to be occurring on the back of price discounting by firms which are competing to attract new business. As a result of these margin pressures, firms appear to be reluctant to increase employment or wages. In this respect, the measures announced by Dubai to reduce the administrative costs to businesses should provide some relief, even in the short-term.

**UAE PMI components**




*Source: IHS Markit, Emirates NBD Research*

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# MENA Macro: Diverging fortunes on IMF reform programmes

**There have been mixed levels of success in implementing IMF support programmes in the MENA region over the past two years. In Egypt, the reform plan has progressed in a relatively textbook manner and while there has been significant hardship inflicted upon citizens, there are signs that the measures taken by the government are starting to reap the expected economic rewards.**

In Tunisia and Jordan, meanwhile, the progress has been more haphazard and the removal of the Jordanian prime minister following significant street protests in June illustrates the inherent difficulties associated with pushing through sometimes unpopular policies in the pursuit of balanced budgets. With conditions for emerging markets becoming more and more difficult in an environment of rising oil prices and global monetary policy tightening, these countries will likely find it increasingly challenging to meet their IMF targets.

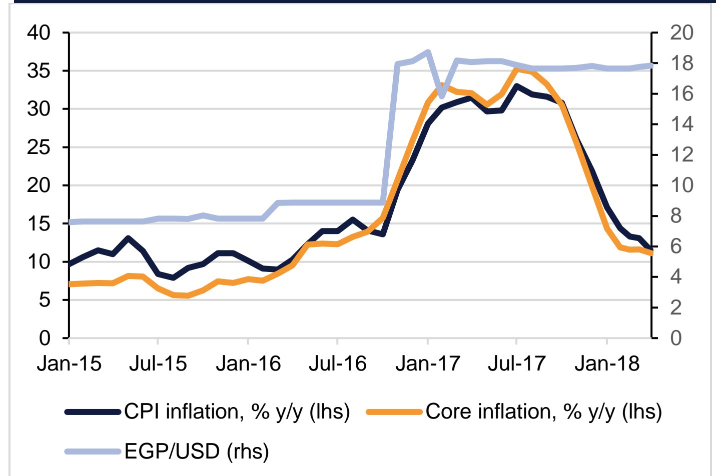
**Brent crude, USD/b**

*Source: Bloomberg, Emirates NBD Research*

## Egypt's reforms have progressed

Egypt took a series of bold moves when it entered into its IMF programme in November 2016, most notably removing the Egyptian pound's peg to the US dollar. This led to a sharp depreciation of the currency and inevitably high inflation rates. These were also fuelled by a reduction in state subsidies on energy and utilities, and a hike to tax rates such as VAT, as the authorities looked to narrow the wide fiscal deficit. Monetary policy was tightened severely in order to constrain this rapid price growth, serving to dampen private consumption further. However, while consumption was hit by these measures, they served to encourage a rapid inflow of portfolio investment into the country, stabilising the currency and boosting reserves. FDI and exports have also started to pick up, imports are down and real GDP growth has begun to strengthen.

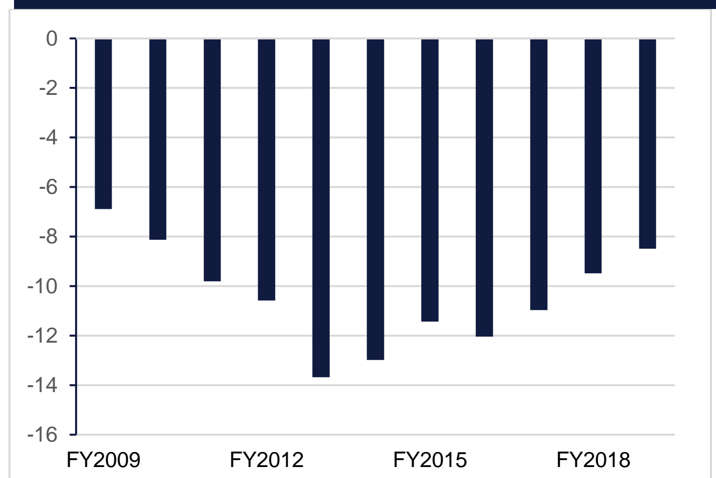
**Egypt inflation & EGP**




*Source: Bloomberg, Emirates NBD Research*

With the currency move now in the base, inflation has fallen to just 11.4% in the latest print, compared with a peak of 33.0% in July last year. This has enabled the Central Bank of Egypt (CBE) to begin normalising policy, with 200bps of cuts implemented so far in 2018. The CBE has remained faithful to IMF cautions against premature cutting, however, and chose to pause its rate cutting at its last MPC meeting on May 17, even despite the sharp decline in price growth, which had fallen to 13.1% at the time. The substantial leg lower inflation took last month raises the possibility that the CBE will implement another cut at its next meeting on June 28, but we hold to the view that rates will be maintained at current levels once more, given higher oil prices and the fresh round of subsidy cuts set to be introduced with the new fiscal year in July.

**Egypt budget balance, % GDP**




*Source: Haver Analytics, Emirates NBD Research*

According to government announcements, cuts to electricity subsidies will see prices rise by an average 21% for households, and 42% for factories, with the aim of all electricity subsidies removed by fiscal 2021-22. Petrol will rise by as much as 50%, and cooking gas by over 60%. The effect of these on lower income households will be somewhat mitigated by new social spending

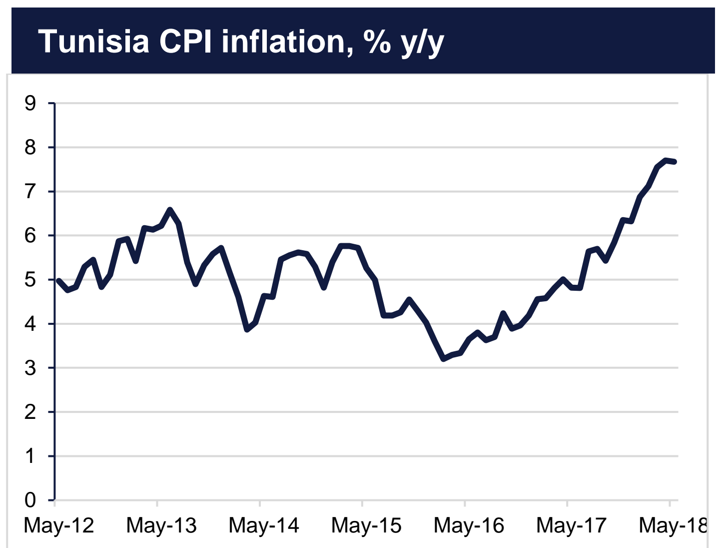
plans. The need to reduce the government's subsidy programme has been highlighted by the rise in global oil prices seen at the start of 2018 forcing the government to adjust its deficit target for the current fiscal year upwards. We forecast a budget shortfall equivalent to 9.5% of GDP this year, falling narrowly to 8.5% in 2018/19.

## Tunisia and Jordan's reform programmes proving difficult

The reform path has been somewhat less linear in Tunisia and Jordan, as efforts to narrow fiscal deficits have put increasing pressure on households which have at times pushed back with street protests. Tunisia has already seen one of its IMF payment tranches delayed in December 2016 owing to a failure to curb expenditure sufficiently quickly, and protests in early 2018 have elicited further government concessions on spending. Tunisia did pass the second review of its current programme in March, but an IMF statement released in May called for more progress on reducing the fiscal deficit, protecting the poor, and cutting fuel subsidies, all of which aims will become increasingly difficult with higher oil prices.

In early June, government sources told Reuters that it would be raising fuel prices while maintaining wages at present levels. With CPI inflation already at its highest levels since 1991, this will exert increased pressure on households, while central bank hikes to its benchmark rates will further constrain consumption.

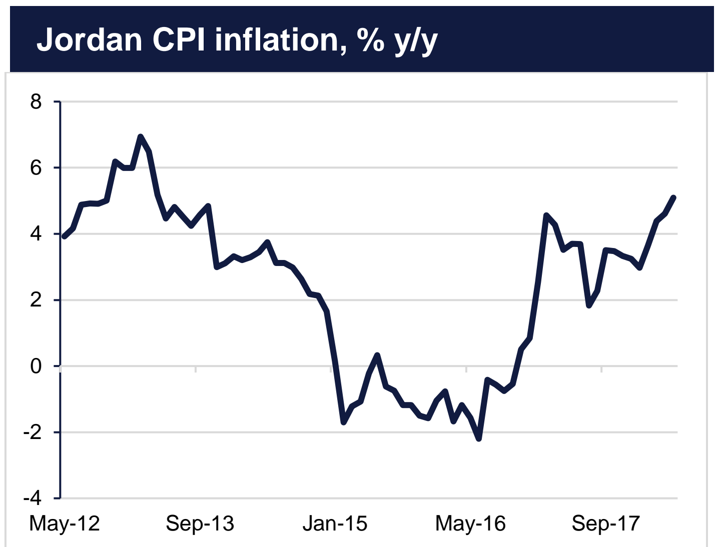
**Tunisia CPI inflation, % y/y**




*Source: Bloomberg, Emirates NBD Research*

Meanwhile, the most salient recent example of popular opposition potentially derailing IMF reforms is the street protests which led to the forced resignation of Jordanian Prime Minister Hani Mulki at the start of June. Mulki had been determined to push through planned tax hikes as part of Jordan's IMF reform package, but with inflation having already risen to a five-year high in May, the population became increasingly opposed to ongoing austerity measures.

**Jordan CPI inflation, % y/y**




*Source: Bloomberg, Emirates NBD Research*

New Prime Minister Omar Razzaz faces a challenge in reconciling the twin aims of placating the Jordanian population – and trade unions which have promised fresh protests if he does not deliver – and the IMF and international investors. However, he will be aided in this regard by a USD2.5bn aid package pledged from the UAE, Saudi Arabia and Kuwait in the wake of the upheaval. The support will be in the form of a direct deposit to the Jordanian central bank, some funding for the budget for the next five years and guarantees from the GCC countries to allow Jordan to access World Bank financing. Given western perceptions of Jordan as too geopolitically important to fail, other multi- and unilateral funding will also likely be forthcoming. Nevertheless, narrowing the budget deficit will become increasingly difficult under these circumstances, and we have revised our 2018 forecast from 2.3% of GDP to 2.6%.

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# Sector Focus

## GCC's maritime strategy enters a new era

As the GCC is trying to pivot to the East with a focus on the Western Indian Ocean (including the Suez Canal, the Red Sea, the Bab-el-Mandeb, the Gulf of Aden, the Gulf of Oman, the Arabian Sea, the Arabian Gulf) a new era dawns in terms of energy exports, trade and new market routes. Focused on economic diversification, the GCC's post-oil economic strategy aims to boost foreign direct investment (FDI) by attracting funds and international partners for infrastructure projects in the region. Saudi Arabia and the UAE pursue a more active geopolitical role that has to be supported by increased maritime power and seafaring expertise. On the other shore of the Arabian Gulf, Iran still seeks economic recovery and industrial modernisation after years of international sanctions. GCC's maritime competition in the Western Indian Ocean dictates new alliances with Eastern African and Asian players, adding to the traditional map of rivalries in the Indian Ocean (China vs India, India vs Pakistan). This competition can be traced along three routes of geostrategic influence, namely through commercial ports, military agreements and bases, and blockage or choke points (e.g. Hormuz Straight, Bab-el-Mandeb, Suez Canal, etc.)

The development of commercial ports and the establishment of Special Economic Zones (SEZs) can be the driver of economic industrialization and growth. GCC's focus on maritime infrastructure supports a new pattern of urban development, that of commercial ports combined with new planned cities and mega projects. This includes city transforming investments such as the newly constructed King Abdullah Economic City (KAEC), NEOM in Saudi Arabia, and Duqm in Oman. In this context, innovative infrastructures, such as global container ports and free zones have become drivers of post-oil economic diversification and growth.

## US-China trade war and the impact on the GCC

Last month, US President Trump implemented his promised trade tariffs, imposing 25% and 10% on steel and aluminum imports; with new US tariff regulations, targeting Chinese goods estimated at between USD 50-60bn, according to Stratfor Global Intelligence (SGI). As the GCC is one of China's major trading partners, this recent fallout implies that Chinese imports will become more expensive across the region. China is the UAE's second largest trading partner, accounting for 7.3% of its total trade value in 2017 (USD 35.8bn). Chinese imports to the UAE reached USD 23.6bn and imports from Hong Kong at USD 3.25bn for the same period, according to Bloomberg data.

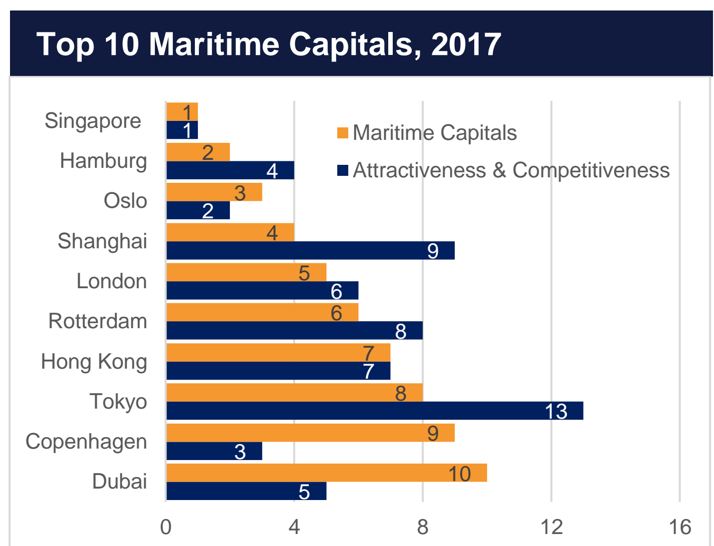
Similarly, as concerns of a global trade war escalate and other countries adopt a more protectionist stance, demand for some of UAE's exports will fall. Demand for GCC's energy products depends largely on the needs of Chinese industrial and commercial producers, which is the region's biggest customer for crude and increasingly for gas too. Potential fluctuation in the financial markets is another factor that could impact the UAE, whose AED currency is pegged to the USD.

## Transport & Logistics a driver for Dubai's maritime sector growth

The rising demand for freight handling and logistics, as well as the expansion of the leisure sub-segment, are the main drivers in Dubai's maritime sector growth, helping Dubai to strengthen its position as a global industry leader. That is, Dubai's maritime industry accounted for roughly 7.0% of Dubai's GDP in 2017, a 25.0% increase over 2011, according to latest government estimates. The sector is composed of more than 5,500 companies engaged in some 13,000 activities and providing 75,000 domestic jobs, from shipbuilding, maritime engineering operations, container logistics and dry bulk cargo handling to port services, and dredging. As an international shipping hub, in recent years Dubai has experienced slower trade, amidst lower oil prices and a global oversupply of container shipping capacity. However, compared with many other maritime clusters, Dubai appears to be well positioned to endure the current period of relatively slow growth.

Evidence to that, Dubai was ranked as the most competitive maritime capital in the MENA region for 2017 and the tenth most competitive overall, up three places compared with the 2015 report, according to the latest international maritime industry report by the Norway based, Menon Business Economics Group. Dubai was also the fifth most competitive maritime cluster globally for the same year with the report assessing maritime facilities of various cities in terms of attractiveness and competitiveness, finance and law, technology, ports and logistics, and shipping. Based on the same report, Dubai is expected to further grow in importance in the near future, becoming the sixth most dominant maritime capital globally, by 2022.

**Top 10 Maritime Capitals, 2017**

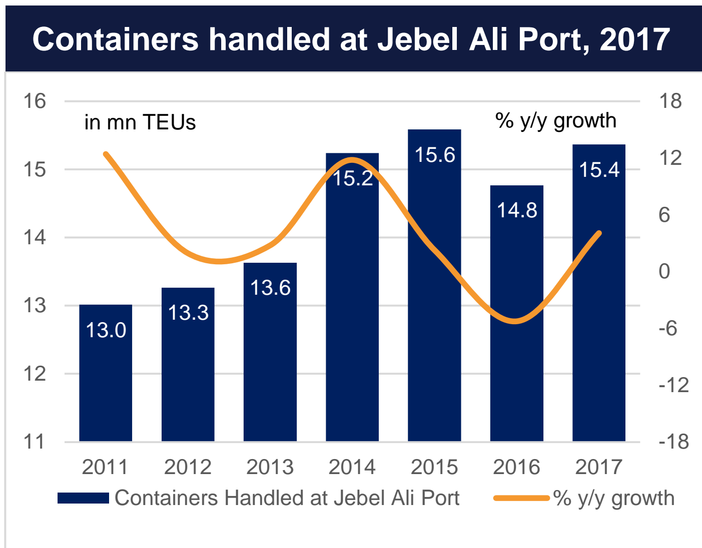



*Source: Menon Business Economics Group, Emirates NBD Research*

Much of the increase in Dubai's maritime trade and logistics has been driven by its largest ports and logistics company DP World, posting robust figures in freight handling last year. DP World's international network of terminals handled 70.1m standard twenty

foot equivalent units (TEUs) of containers in 2017, up 10.1% over the previous year. Handling activity in UAE grew by 4.1% y/y to 15.4m TEUs. Performance in DP's global network was also positive, Australia and Americas segment grew by 18.8% while Middle East, Europe and Africa operations expanded by 7.6% y/y driven by strong performance in Europe and recovery in the UAE. Market conditions in the Asia Pacific and Indian Subcontinent region were generally positive with container volume growth doubling to reach over 10m TEUs, boosted by the consolidation of DP World's Pusan terminal in South Korea.

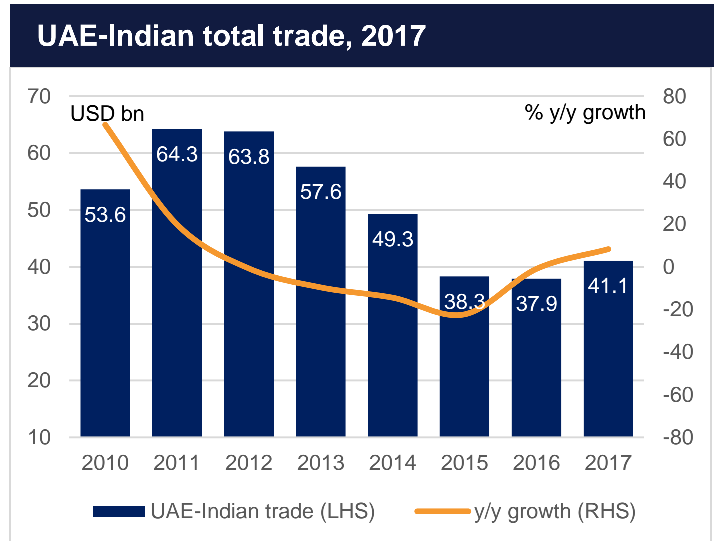
**Containers handled at Jebel Ali Port, 2017**




*Source: Dubai Statistics Centre (DSC), Emirates NBD Research*

As one of the fastest growing markets for international trade, Dubai seeks to strengthen its ties with India by investing in logistics and shipping infrastructure projects throughout the country. Earlier this year, Dubai signed a memorandum of understanding (MOU) with DP World and the regional government of Jammu and Kashmir to jointly explore and develop a multi modal logistics hub and park in Jammu, including facilities for the transfer of containers, bulk and break-bulk cargo. This agreement followed the USD 1.2bn invested by DP World during the expansion of the Nhava Sheva Gateway Terminal at Mumbai's Jawaharlal Nehru Port, back in 2014. These developments pave the way for a futher increase in bilateral trade between India and the UAE, which rose by 8.3% in 2017 to reach USD 41.1bn, targeted to reach USD 100bn by 2020, according to DP World. Efforts to further strengthen trade ties will be facilitated by the latest agreement between India and the UAE earlier this year to conduct transactions directly in each other's currencies, eliminating the need to use USD as an intermediary currency.

**UAE-Indian total trade, 2017**




*Source: Bloomberg, Emirates NBD Research*

## The leisure sub-segment central to Dubai's maritime diversification

Given Dubai's strong presence in the transport and logistics segments, efforts are being made to diversify the maritime industry into other areas in order to solidify Dubai's overall maritime position globally. A segment of significant growth potential is the leisure sector, with officials targeting the development of yachting services, construction, maintenance and berthing facilities. Dubai Maritime City Authority (DMCA) has recently unveiled the features of 'Sea Dubai' initiative, an instrumental project for the development of the maritime leisure sector in Dubai. The 'Sea Dubai' initiative aims to facilitate recreational maritime activities with a focus on creating high quality tourism services and new jobs within the maritime leisure sector. In January last year, Meraas Holding announced plans to construct a new 1,400 berth marina at Dubai Harbour, a nearly 50% increase on Dubai's existing 3,000 berthing slots. The marina will have the capacity to accommodate some of the world's largest private yachts, including vessels up to 85 metres in length. In addition, Dubai Properties launched another marina in March this year, with the 157 slip facility to be located on the Dubai Canal, close to the centre of the city and part of a larger mixed purpose waterfront development.

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# Interest Rates

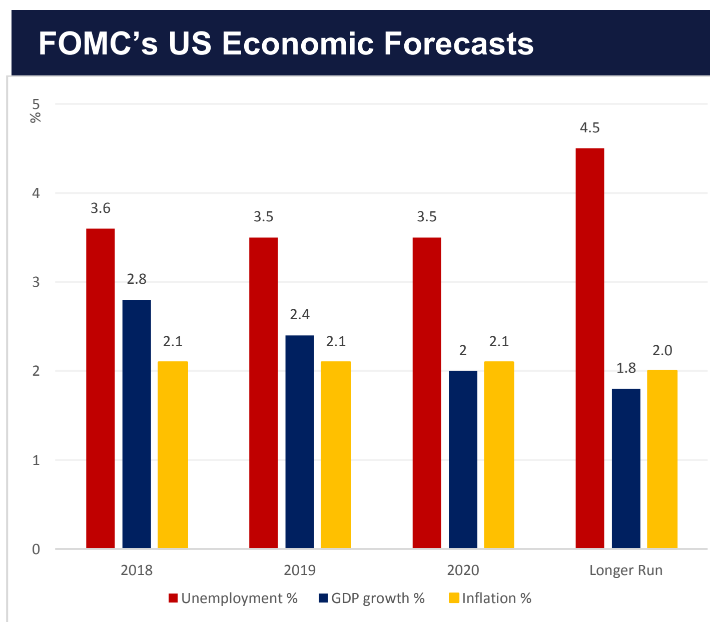
**The Fed and the ECB made further progress on normalizing their monetary policies, however, their respective yield curves were dragged lower by the safe haven bid during the month.**

## US Rates

In a much anticipated move, at its mid-June meeting, the US Federal Reserve raised the Fed Funds Target Rate by 25bps to a range of 1.75% - 2.00% and raised the median forecast for the total number of rate hikes this year to four from three earlier. For the first time, in a very long time, the Fed's message was more hawkish than we expected.

The updated economic forecast released by the Fed reflects expectations of core inflation rising over Fed's target of 2.0% before the end of this year. We note that despite the recent increase in global turbulence from trade talks and geopolitical developments, the impact of these on US economic fundamentals has been limited so far. In fact, GDP growth in 2Q18 is likely to be one of the strongest since the financial crisis.

**FOMC's US Economic Forecasts**



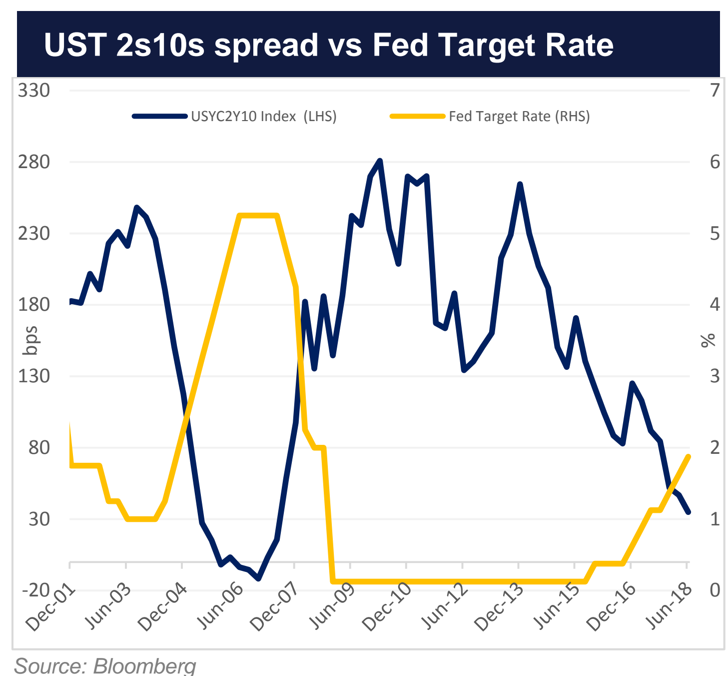

*Source: Bloomberg*

Notwithstanding the upward revision of the dot plot, UST yields fell across the curve as a result of higher safe haven demand in the face of conflicting trade talks between the US and China. Yields on 2yr, 5yr, 10yr and 30yr USTs narrowed during the month at 2.51% (-4bps), 2.74% (-15bps), 2.90% (-16bps) and 3.00% (-20bps) respectively. Also the curve flatten noticeably. The combination of a hawkish Fed decision and Fed Chair, Powell's lack of concern about the flatness of the yield curve helped propel both 2s10s and 5s30s to new flats of the cycle. The 2s10s spread has reduced to 35bps from over 90bps at the same time last year.

Nothing matters more for the shape of the yield curve than the relative stance of monetary policy. In observing prior monetary policy tightening cycles, we note that the longer end (10yr and beyond) of the treasury curve tend to become near perfectly flat shortly after the Fed policy stance transitions into restrictive territory. We estimate the current neutral nominal policy rate to be between 2% and 2.5%. When the Fed's policy rate is below the neutral rate, monetary policy is considered to be accommodative. When the Fed's policy rate is above the neutral rate, monetary policy is considered to be restrictive.

By this measure, since the Fed's December 2015 hike, its policy stance has gone from approximately 175 to 225 bps accommodative to just about 25 to 75 bps accommodative. If we assume a relatively stable neutral rate in the near term, the Fed appears to now be very close to transitioning from an accommodative policy to a restrictive policy stance for the first time in more than a decade. Last month's price action in the Treasury market suggests that investors have been pulling forward their expected timing of this transition in the current cycle. We feel that the Fed will hike until slightly past neutral, but the inference on where neutral is will be clouded by the acceleration in the economy because of fiscal policy.

**UST 2s10s spread vs Fed Target Rate**




*Source: Bloomberg*

## Global Rates

The ECB outlined its plan for reducing the QE to Euro 15bn per month from September this year, ending QE totally by December 2018 and possibly raising rates by mid-2019 – albeit all data dependent. However, the ECB President, Mario Draghi's comments about remaining patient in determining the timing of the first rate hike, particularly in the face of the recent deacceleration of economic activity, created a shrinking bias for the Eurozone yields. Yields on 10yr Bunds narrowed 21bps to 0.37% and 2s10s Bund spread narrowed from 114bps last month to 100bps now.

In the periphery space, with the risk of an Italian exit from the Euro zone falling, the spread between the 10yr BTPs and the German Bunds narrowed to 218bps from 289bps last month.

**10Yr Government Bond Yields**

| | Yield % | 1M chg | 3M chg | 12M chg |
|---|---|---|---|---|
| US | 2.90 | -16 | - | +74 |
| UK | 1.28 | -22 | -21 | +29 |
| Germany | 0.37 | -21 | -21 | +11 |
| Japan | 0.03 | -2 | - | -1 |
| Brazil | 6.15 | +63 | +121 | +133 |
| Russia | 4.95 | +7 | +41 | +82 |
| Turkey | 7.24 | +13 | +135 | +220 |

*Source: Bloomberg*

In the UK, GDP growth is likely to increase to 1.7% by 2019 according to the Bank of England (BoE), even though the beneficial effects on exports of the pound's fall may be fading. Aided by sustained increase in real wages, the BoE is likely to have enough ammunition to raise rates at least once this year. However, yield on 10yr Gilts followed suit with the USTs and closed the month 22bps lower to 1.28%.

The recent slowdown in GDP growth in Japan alludes to the economy running into capacity constraints. With inflation set to remain well below the 2% target for a sustained period, we still think policy tightening is a long way off. Yields on 10yr JGB's remained anchored around the BoJ's target of 0%.

Emerging market economies are being rattled by the fears of trade wars and capital outflows. Yields on 10yr Brazilian bond widened 65bps to 6.15% and that on Argentina widened 86bps to 8.21%. We think, though the trade wars or the potential thereof, will likely dent risk appetite, the actual reduction in global trade may be minimal. Imposition of tariffs will likely cause redistribution of global trade. A lot of the tax will probably be avoided. China may export less to the US, but more elsewhere. The rest of the world may export more to the US but less elsewhere, as Chinese products are diverted.

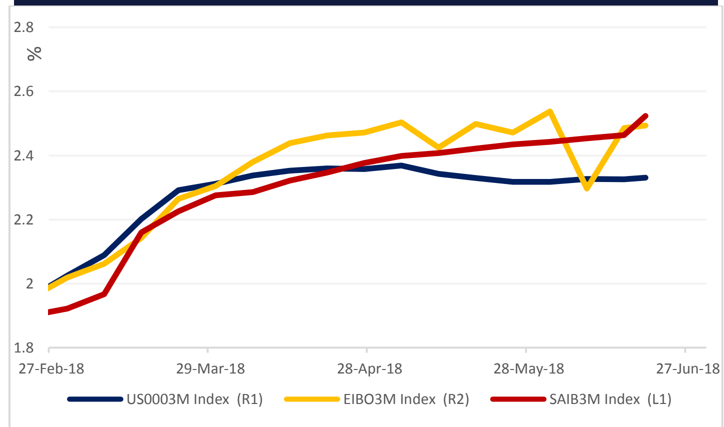
## GCC Local Rates

Four of the six central banks in the GCC mirrored the Fed rate hike.

- The Saudi Arabian Monetary Agency raised the repo rate and the reverse repo rate by 25bps each to 2.50% and 2.00% respectively.
- Bahrain raised its one-week deposit facility from 2% to 2.25%, overnight deposit rate from 1.75% to 2% and adjusted the one-month deposit rate from 2.65% to 3%.The lending rate was raised by 0.25% to 4%.
- The UAECB raised its repo rate by 25bps to 2.25%.
- The Central Bank of Oman's repo rate increased from 2.38% in end March to 2.58% now.
- Kuwait's central bank decided to keep the discount rate unchanged at 3% and Qatar's repo rate also remained unchanged at 2.50%

The US interbank rates market had fully priced-in the June Fed rate hike and therefore the main benchmark interbank rate, 3mLIBOR, changed little post the hike. Similarly interbank rates in the region also remained largely range-bound.

**3m interbank rates**




*Source: Bloomberg*

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# Credit Markets

**GCC bonds were boosted by the falling benchmark UST yield curve even though credit spreads widened somewhat during the month.**

## Global Bonds

USD denominated bonds benefited from falling UST yield curve as safe haven bid ensuing from the escalating trade wars boosted demand for the US treasuries. Yields on 2yr, 5yr, 10yr and 30yr USTs narrowed during the month at 2.51% (-4bps), 2.74% (-15bps), 2.90% (-16bps) and 3.00% (-20bps) respectively.

US treasury bonds were the best performer with an average return of 0.93% last month, followed by US corporate bonds recording monthly return of 0.64%. Eurozone remained in the green as well, however, the selloff in emerging market bonds showed few signs of abating as a combination of mounting trade-war concerns, slightly hawkish Federal Reserve, falling commodity prices and weakening EM currencies sapped risk appetite. The Bloomberg Barclays index of EM USD bonds lost -0.4% during the month.

**Global Corporate Bond OAS (bps)**

| | OAS | 1M chg | 3M chg | 12M chg |
|---|---|---|---|---|
| US IG Corp | 117 | +8 | +12 | +6 |
| US HY Corp | 333 | -4 | -10 | -27 |
| EUR IG Agg | 68 | +6 | +17 | +7 |
| USD EM Agg | 294 | +25 | +62 | +31 |

*Source: Bloomberg*

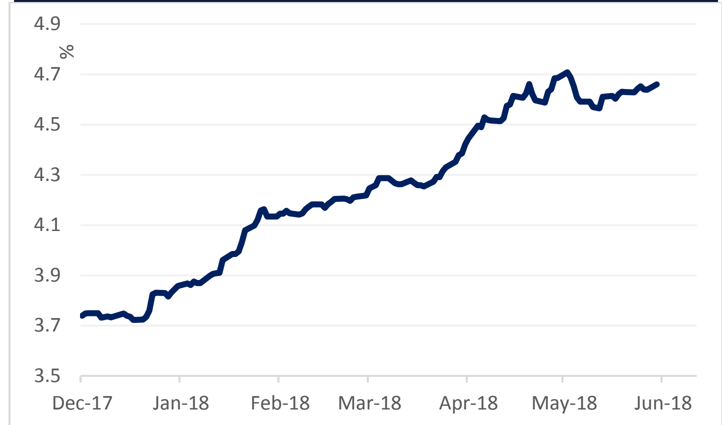
Though monthly return on DM corporates bond portfolios was positive as a result of lowered benchmark yields, credit spreads generally increased in response to fears that trade wars will dampen global growth in the coming months.

Credit spread widening was the highest for the EM bonds which overshadowed the benefit of UST curve tightening. That said, Indian sovereign bonds rallied after policy makers eased some rules to provide foreign funds more flexibility to invest in the securities. The cap on total foreign portfolio investment in any single federal government security was raised to 30% from 20%, according to a statement from the RBI last week, where other changes were also listed.

## GCC Bonds – Secondary Market

Despite the wide spread sell off in the EM bonds, GCC bonds held ground relatively well as GCC fundamentals remain strong and valuations are inexpensive relative to the developed world. Monthly return on Bloomberg Barclays GCC bond index was +0.59% and that on GCC sukuk index was +0.87%. Limited new supply and high oil prices were the obvious supporting pillars for the GCC bond portfolios.

**Bbg Barclays GCC Credit Index – YTW %**




*Source: Bloomberg*

The Abu Dhabi government announced a new fiscal stimulus package of $13.6 billion to be spent over the next three years to support economic growth. Given rising oil revenues and income received on investments, the Abu Dhabi government is well placed to fund this extra expenditure without additional debt, however, balance sheet optimization efforts may see the Emirate tapping international bond markets this year. ADGB curve was range – bound and 5yr CDS spreads remained anchored at below 70bps last month.

Several reforms were in-acted in the UAE last month relating to the visa rules, waiver of transaction fees, freezing of school fees, allowing 100% foreign ownership of companies in certain sectors, support for the SMEs, new fiscal spending etc. in order to bolster economic growth (see GCC Macro Page 5). The ensuing positive sentiment helped support Dubai Government bonds with yield and Z-spread on DUGB 23s tightening 16bps to 3.88% and 9bps to 99bps respectively.

Saudi Arabia, Kuwait and the U.A.E. pledged $2.5 billion to help support Jordan's economy which set an example of how the neighbours can provide support to the Bahraini sovereign, if and when needed. However, default insurance on Bahrain debt continued to increase with 5yr CDS almost doubling in the last six months from 227bps in February this year to over 435bps now. In the cash bond space, Z-spread on Bahrain 23s increased 90bps last month to 501bps now. This is despite S&P affirming the rating on Bahrain at B+/stable citing expectations of real economic growth averaging 2.5% over 2018-2021. S&P expects current account deficits to narrow in the coming years and financial backing for Bahrain's exchange rate arrangement from neighboring countries to be forthcoming, if needed.

DIB's perpetual bonds got a boost after its 5.1 billion-dirham rights offering received subscriptions in excess of 14 billion dirhams. Z-spread on DIBUH 6.25% Perp with a call date in March 2019 tightened by 27bps to 203bps.

Emirates NBD

Fitch revised the outlook on Qatar's AA rating to stable from negative, citing the country's success in managing the fallout from last year's rupture of trade, financial and diplomatic relations with the Quartet consisting of the UAE, Saudi Arabia, Bahrain and Egypt. Fitch noted the stability in Qatar's banking sector and expects government budget to post a surplus of 2.9% of GDP in 2019. Qatar bond curve remained range-bound with slight bias for yield tightening. Yield on Qatar 21s fell 10bps to 3.66% and Z-spread tightened 2bps to 82bps during the month.

We think the worst for GCC bonds is probably behind us, barring any unforeseen geopolitical risk. Rising oil revenues are assisting sovereign budgets which will limit the need for new debt and economic growth in the region is expected to pick up pace. We also believe that US inflation will ultimately remain contained, and this should help UST yield curve tightening and support the performance of USD denominated bonds in the longer term.

## GCC Bonds - Primary Market

GCC primary market had a muted month, much in sync with the Ramadan induced slowing of activity. The only notable deal was the addition of $300 million by the B2/B- rated Shelf Drilling to its 8.25% senior notes due in 2025 at spread of T+522 bps. Post the new tap, SHLFDI 25s traded well in the secondary market at a yield of 7.72%.

Total YTD new issuance in the GCC primary market stands at $56 billion. Looking ahead, Saudi Basic Industries Corp is believed to be in talks with the banks for a potential U.S. dollar-denominated bond which will be used to refinance a $3 billion bridge loan the company raised earlier this year.

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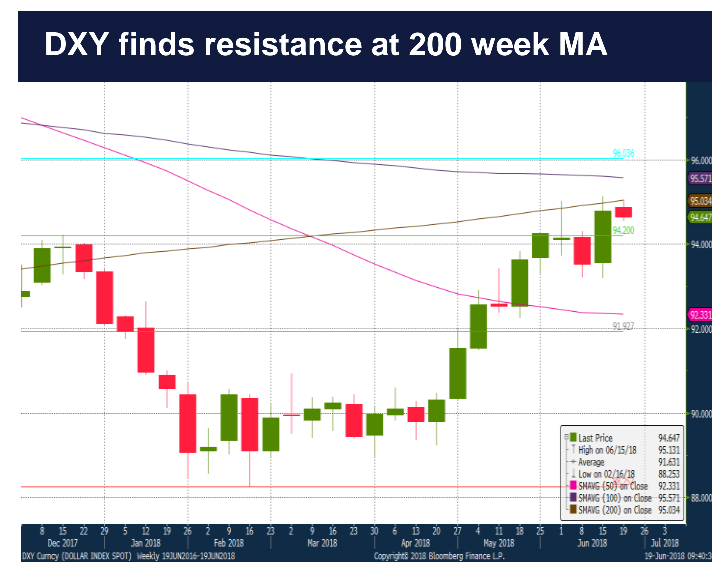
# Currencies

## Faster pace of rate hikes spur USD strength

Over the last month, increasingly solid fundamentals have been constructive for the dollar. Firmer economic data suggests that the US economy is likely to have rebounded after slower growth in Q1 2018 and the Federal Reserve not only raised interest rates by 25bps at their meeting earlier this month, but has made upward revisions to its economic forecasts. These revisions were justified by strong data releases. Solid employment data in May showed that 223,000 new jobs were added, reducing the unemployment rate and underemployment rates down to 3.8% and 7.6% respectively. In addition, wage growth accelerating to 2.7% y/y and headline consumer inflation rising to 2.8% y/y (above the central bank's 2% target) during this period give further evidence that the economy is performing well. Under these conditions, Fed policy makers also expect to raise interest rates two additional times over the balance of 2018.




Source: Bloomberg

## The dollar index rises almost 1.6%

The last 30 trading days have seen the Dollar Index rise 1.58%, to reach 94.617 and remain in the daily uptrend that has been in effect since 12 April 2018. In Addition, the price broke above the 50% one year Fibonacci retracement (93.062) which is now acting as a support level and has built on this gains to advance above the 61.8% one year Fibonacci retracement (94.197). As it stands, further advances have only been halted by the 200 week moving average (95.034) and a weekly close above this level is likely to result in further gains towards the 96 handle.

Over the month ahead, the biggest challenge determining whether the dollar can hold onto its gains will be whether US economic data continues to show underlying strengthin in turn justifying additional rate hikes. Should the labor market continue to show tightness and inflationary pressures persist, further appreciation for the USD can be expected.

## ECB communication causes euro to fall

The Euro has also come under pressure due to political uncertainty in the Eurozone. Initially being driven down to a 2018 low of 1.1510 on the 29 May 2018 amid concerns over a trade stand-off with the US and concerns over the formation of the Italian government, more constructive economic data out of the Eurozone's largest economy (Germany) was able to help EURUSD recover and retake the 1.1850 candle during the first two weeks of June. However, in the aftermath of the ECB's June policy meeting, the euro found itself under selling pressure and fell back below the 1.1620 level, despite clarification from the central bank on its exit strategy from its loose monetary policy.

While ECB President Mario Draghi communicated that the central bank intends to end the asset purchase program at the end of the year, it was also clarified that no increase in interest rates is expected before September 2019. As this fell in line with the existing market expectations, it resulted in long Euro positions taking profit.

Source: Bloomberg

There are many key technical observations revealed by analysis of the EURUSD daily candle chart. Firstly, the daily downtrend that has been in effect since 19 April 2018 remains firmly intact. Furthermore, the resistance level at the 50% one year Fibonacci retracement (1.1837) has remained intact and capped recoveries. Finally, the downward move over the last month has taken the price below the formerly supporting 38.2% one year Fibonacci retracement (1.1668) that we identified as a key support area in our May Monthly Insights. Should a weekly close below this key level be realized, a retest of the 1.15 level becomes a risk.

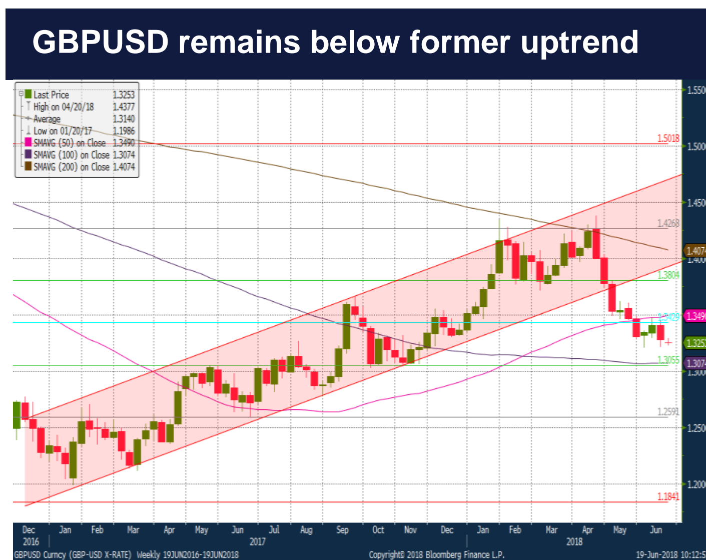
## Brexit risks overshadow sterling

Despite some encouraging economic data, GBP has been hard pressed to find support and remains under pressure. Concerns over the stability of Prime Minister May's position and renewed fears over the current round of Brexit talks have weighed on the pound as investors begin to heed the warning behind Michel Barnier, the chief Brexit negotiator's words that "there's always a risk" that talks collapse and no deal is reached. Such fears have resulted In

GBPUSD falling an additional 1.79% over the last month to reach 1.3225, levels last seen in December 2017.

Analysis of the weekly candle chart shows that these movements confirm a distinct break out of the former weekly uptrend that had been in effect since January 2017. In addition the 1.3430 level has now provided active resistance for the last five weeks, increasing the risk that the price slides further towards the 1.3050 levels, below the 100 week moving average of 1.3055.

**GBPUSD remains below former uptrend**



Source: Bloomberg

## …raising doubts about the BoE

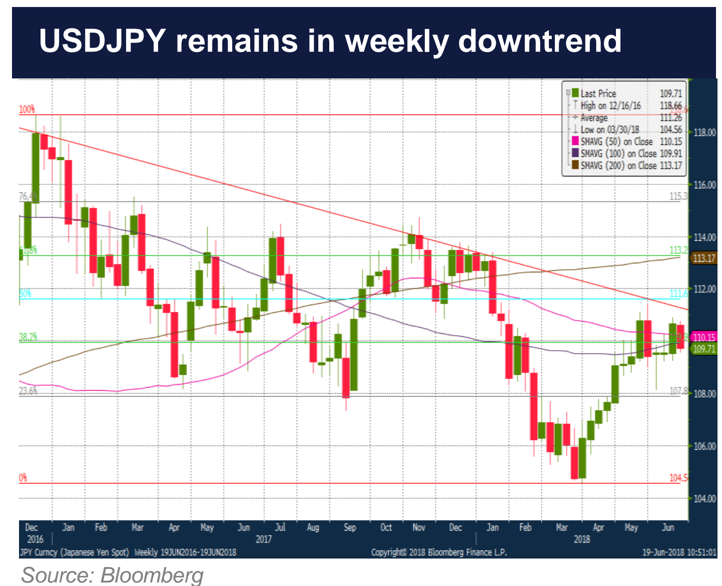
While we maintain our views that the pound has been oversold, we cannot discount that more Brexit related volatility could be on its way. UK inflation (2.4% y/y in May) remains above the Bank of England's 2% target rate and the labour market continues to show encouraging wage growth and increasing tightness. This could justify the Bank of England tightening monetary policy before the end of the year, which should be GBP supportive. However, this prospect could quickly be overshadowed by more negative Brexit developments leaving the pound's recovery (which we still expect overall) at risk.

## Safe haven bids strengthen JPY

JPY's status as a safe haven asset has helped it appreciate amid investor fears over escalations in potential trade wars between the U.S. and the rest of the world. This is in spite of Japan being a net exporter and also despite normalization of monetary policy from the Bank of Japan remaining far out of reach. Economic data has shown that inflation slowed to 0.4% y/y in May, far from the BoJ's 2% mandate, while GDP was confirmed to have contracted 0.6% q/q in Q1 2017. Such results have called for former supporters of the central bank's inflation target, such as former official Watanabe, to call for abandonment of current monetary policy.

We expect USDJPY to trade in the 108.50-111 range over the next quarter, as the currency is likely to fluctuate with market risk appetite. On one hand it will be supported by climbing U.S. treasury yields, while on the other hand, it will be weighed by persistent concerns over trade conflict and geopolitics resulting in safe haven bids.

**USDJPY remains in weekly downtrend**



Source: Bloomberg

## EM currencies suffer the most

Over the last 30 days, emerging market currencies have been the biggest casualties of the dollar's resurgence, consistent with the prospect of restricted global trade and uncertainty on political fronts. The Turkish Lira has surrendered significant ground, with USDTRY rising 7.7% to reach 4.7533, while the Argentine Peso has capitulated, USDARS rising 26.5% to reach 27.7658 and the South African Rand has reached 2018 lows. In contrast, Asian currencies have been more resilient with USDCNY rising only 1.67% to 6.4768 while USDSGD rose 1.29% to 1.3571 during the same period.

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# Equities

**In the last month, headwinds facing global equity markets have gathered pace. The domestic political issues in Europe, an uncertain position of the UK on Brexit and a trade war between the US and rest of the world continue to weigh on markets.**

With progress on these factors in late May proving to be difficult, investors appear to have finally faced reality and recalibrated their positions. While strong earnings and economic growth continue to provide a backstop for global equities, the growing political uncertainty and length of the current bull-run keeps us cautious on equities in the short term. The trend of 'higher volatility and lower return' is expected to come back into focus.

The MSCI World index added +0.2% 1m primarily on the back of strength in US and MENA equities. The S&P 500 index added +2.2% 1m while the S&P Pan Arab Composite index gained +2.3% 1m. The Tadawul added +3.2% 1m as Saudi Arabian equities continued to attract interest from foreign investors ahead of the MSCI decision on including it in its MSCI EM index. We assign a high probability to a favourable decision. European equities continued to underperform US equities despite weakness in the EUR as political considerations and implications of a trade war weighed on investor sentiment. The same held true for emerging market equities as well. The Euro Stoxx 600 index and the MSCI EM index dropped -3.0% 1m and -2.8% 1m respectively. The touted success of the US-North Korea summit did little for South Korean equities. The Kospi index dropped -4.9% 1m.

With things taking a turn for the worse, investors will be eyeing Q2 2018 earnings season to provide positive catalysts. However, it is probable that domestic politics in the UK and Germany and the current standoff between the US and China on trade could act as speed breakers even if the earnings season pans out as expected. The OPEC meeting scheduled for later this week cannot be neglected either given the public differences between members preceding the meeting. More so given the broad sell-off in commodities over the past month. The S&P GS Commodities Index has dropped -4.5% 1m.

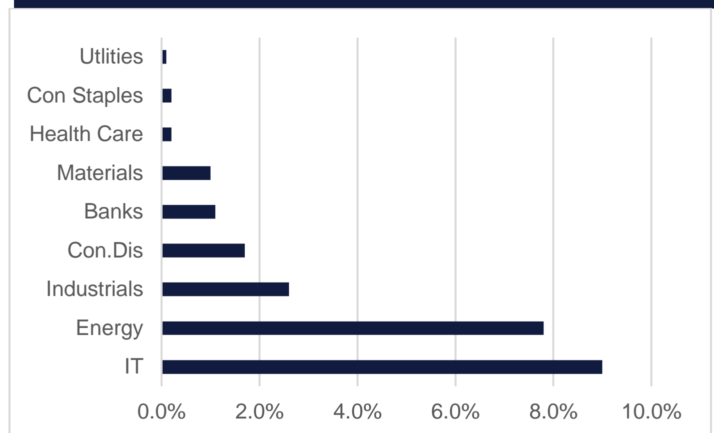
## Trade Breakdown – Implications

While the US appears to have opened multi-front attacks on the trade front, the focus remains on the outcome between the US and China. As has been the norm during his presidency, Donald Trump announced midway through talks that he is imposing tariffs of 25% on USD 50bn worth of Chinese goods and has asked his commerce department to identify goods worth USD 200bn for additional tariffs. The response from China was swift and proportionate. While it is difficult to quantify the impact on economic growth and/or earnings of companies, it can be reasonably expected that global equity markets will be unable to insulate themselves from any resulting disruptions in global trade.

In order to understand the possible impact of a full-blown trade war we look at revenue exposure of Chinese companies to the US and vice-versa. Based on the MSCI Economic Exposure database, it can be noted that Chinese information & technology and energy sectors are most exposed to the US. On the other hand, US companies related to materials, consumer staples and energy sectors have high exposure to China. Looking at the quantum of revenue exposure, it does appear that US companies have more exposure to China.

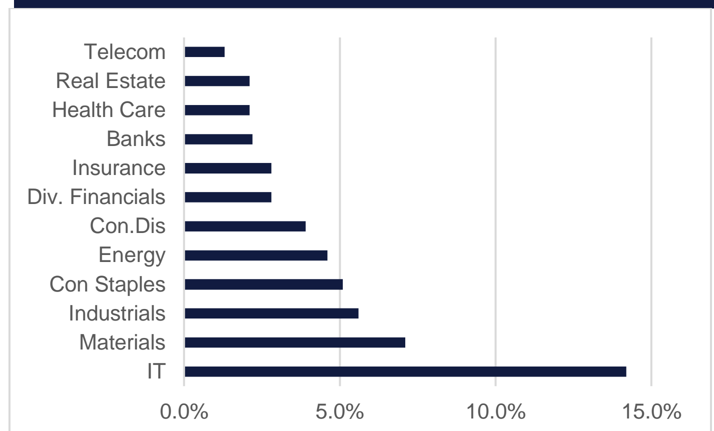
The correction in broad sectors bears out this position. Since the latest announcement by the US President, the MSCI USA Materials index has dropped -3.6% and the MSCI USA Industrials index has declined -3.7%. The trend is similar on a broad equity market basis as well. The MSCI World Materials index and the MSCI World Industrials index has dropped -4.5% and -3.2% over the same period.

**Revenue exposure of Chinese companies to the US**




*Source: MSCI, Emirates NBD Research*

**Revenue exposure of US companies to China**




*Source: MSCI, Emirates NBD Research*

From a wider world perspective, it can be noted that developed market companies have more exposure to the US within the healthcare and consumer discretionary sector. In contrast, emerging market and Asian companies have more exposure to China. The exposure is based on information provided by the MSCI

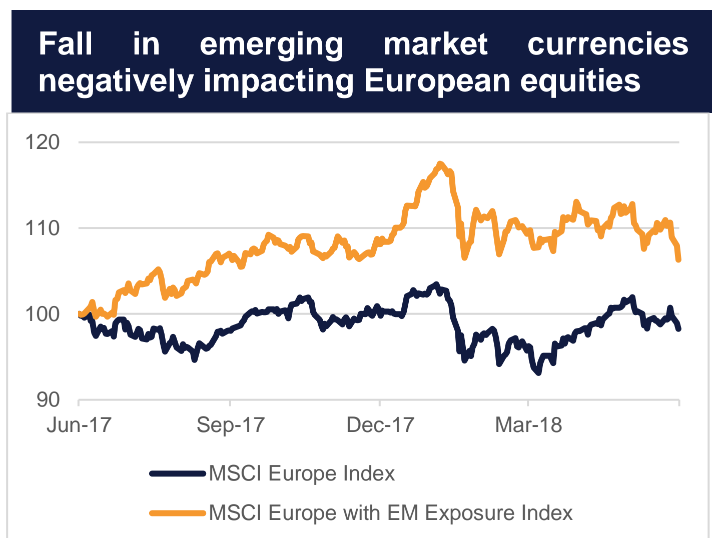
with relation to the MSCI China Index, MSCI USA Index, MSCI World Ex-USA index and the MSCI Emerging Markets index.

## EM currencies – A side effect

Another notable trend has been the consistent decline in EM currencies as economies feel the impact of strength in the USD, repercussions of restricted global trade and uncertainty on political front. The JP Morgan EM Currencies Index has dropped -2.2% 1m and -8.1% 3m. While the impact of the same is visible on EM equity markets, it is also probable that European equity markets are getting caught in the cross-fire.

European equities have underperformed their peers since the start of this year despite continued easy monetary policy, a sustained pick-up in economic growth and recovery in corporate earnings. The Euro Stoxx 600 index has dropped -2.9% 1m and -1.5% ytd compared to a drop of -0.4% 1m and gain of +0.4% ytd in the MSCI World index. The S&P 500 index has gained +1.8% 1m and +3.3% 3m. While many domestic factors are at play, it is also worth highlighting that European companies are more exposed to the global economy than other developed market peers. According to market estimates, 18% of revenues for European companies come from North America and 32% from emerging markets. It is no surprise then to see companies exposed to emerging markets taking a hit. The MSCI Europe with EM Exposure index has dropped -4.9% 1m and -3.1% 3m. This is in contrast to +2.0% 3m gain in the broader MSCI Europe Index. The breakdown of the MSCI Europe with EM Exposure index shows that consumer staples (24.52%), materials (16.82%) and industrial (11.82%) sectors together account for more than 50% of the total index.

**Fall in emerging market currencies negatively impacting European equities**




*Source: Bloomberg, Emirates NBD Research*

On a broad comparable basis, ex-European companies with EM exposure have fared better. The MSCI USA with EM Exposure index has remained flat on a 1m basis and declined -0.3% 3m. Similarly, the MSCI World with EM exposure index has dropped -2.3% 1m and -1.0% 3m.

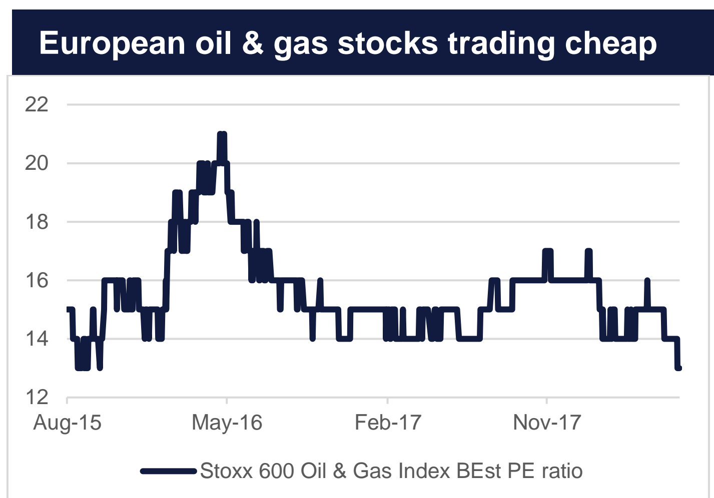
## Oil & Stocks

As a wider OPEC+ group of countries prepare to raise output, the focus has shifted back to oil & gas companies. Oil prices (Brent) have dropped -4.0% 1m but is still up +12.7% ytd. Given the recent developments in Iran and Venezuela and the proposed follow-up action suggested by OPEC and Russia, it can be safely argued that we have seen the peak in oil prices for 2018. Emirates NBD forecasts oil (Brent) to average USD 69/bbl in 2018 and 65/bbl in 2019.

If oil prices decline further, the impact is likely to be felt on broader equity markets. The reason can be found in the performance of oil & gas stocks in the recent past. For example, within the S&P 500 index and the Euro Stoxx 600 index, the oil & gas sector stocks are the best performing ones with returns of +15.7% 3m and +14.7% 3m respectively. The case is similar on a broad basis with the MSCI World Oil and Gas Exploration index returning +12.9% 3m. It is worth reiterating that energy sector accounts for 6.6% in the MSCI World index.

Having said that, oil & gas sector stocks should find support from cheap valuations. The oil & gas stocks in the S&P 500 index and the Euro Stoxx 600 index, on a price to earnings ratio basis, is trading -0.2 and -0.3 standard deviation versus 5-year average respectively. This effectively implies that oil & gas companies are trading at multiples similar to that at the end of 2015 when forecast for oil prices were much weaker than currently.

**European oil & gas stocks trading cheap**




*Source: Bloomberg, Emirates NBD Research*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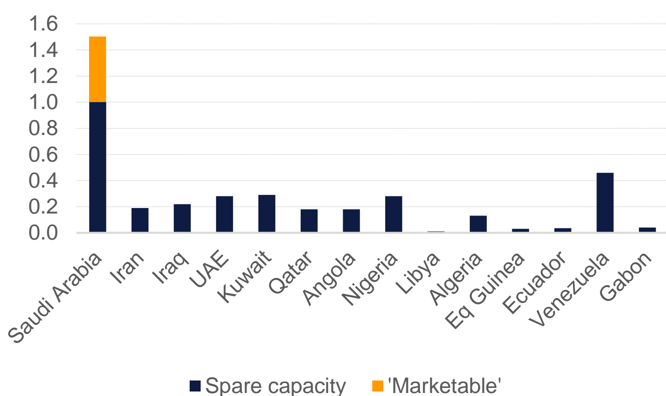
# Commodities

**The divisions within OPEC ahead of its June meeting are falling largely on the lines of those members that have the spare capacity to raise output and those that are currently producing at peak levels. Regardless of the outcome of the meeting—whether the producers' bloc chooses to raise output or not—OPEC's overall spare capacity has tightened in recent years and would be squeezed further if production increases. This shortage of headroom in the oil market should help to keep a long-term floor under prices.**

Market estimates of OPEC total capacity vary in a range around 35m b/d compared with production in May of 31.7m b/d. Of the total capacity, a third is held by Saudi Arabia (11.5m b/d according to Bloomberg estimates) while the UAE holds nearly 9% of total capacity. Iran and Iraq represent 24% of total OPEC capacity between them.

The breakdown of spare capacity is more tilted in Saudi Arabia's favour. Bloomberg estimates that OPEC's total spare capacity is hovering around 3.8m b/d of which almost 40% (1.5m b/d) is held by Saudi Arabia alone. Saudi Arabia has long held a policy of maintaining a sizeable buffer of spare capacity that it can use to dampen excess volatility and we see little chance that this will change in the medium term. We would thus adjust Saudi Arabia's reserve spare capacity downward and pin it closer to 1m b/d, giving the kingdom around 500k b/d of marketable headroom in the current market. The UAE and Kuwait hold 15% of total spare capacity (570k b/d) while Iran has less than 5% of the total (less than 200k bb/d).

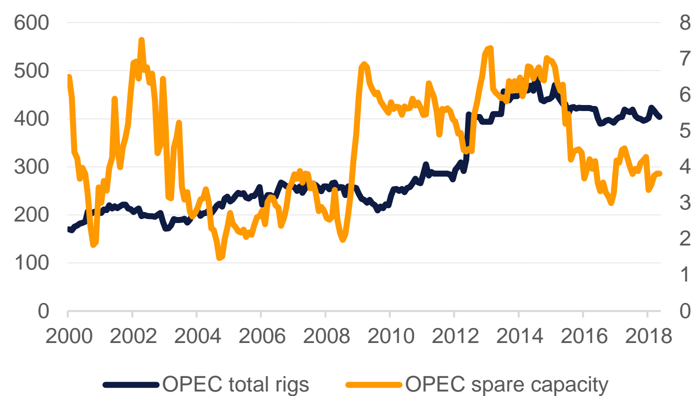
**OPEC's spare capacity**




*Source: Bloomberg, Emirates NBD Research.*

Spare capacity is not a static figure and reflects the dynamics of OPEC members' investment regimes as well as specific production policies. OPEC's spare capacity in the last 10 years peaked in February 2013 at over 7.2m b/d as Iranian production hit a trough under the impact of sanctions. Since then it has steadily moved downward—in part because Iranian production has recovered but also as capacity has deteriorated in Venezuela. The re-imposition of sanctions on Iran means that production held back off the market will contribute to an increase in spare capacity in the short run but that increase will be tempered by what appears to be permanent damage to Venezuela's and Libya's oil industries.

**OPEC rig count**

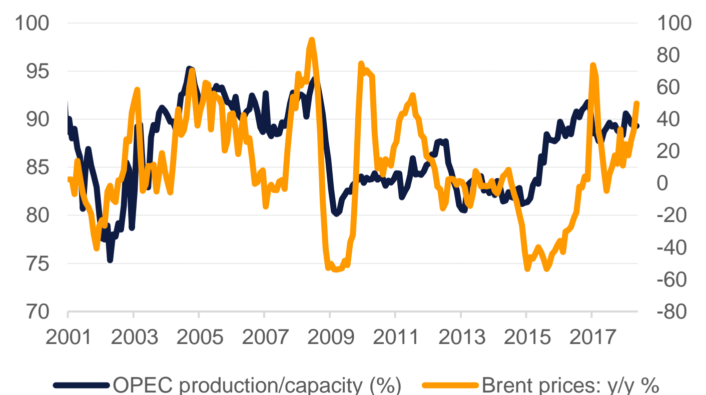



*Source: EIKON, Emirates NBD Research.*

For spare capacity to act as a buffer to the market oil producers need to make consistent investment to avoid prices blowing out. The drilling rig count for OPEC members provides a proxy for upstream investment and it has held relatively steady over the last five years, even as oil prices crashed. Among the Middle East members (but excluding Iran where data is not available) the drilling rig count is up nearly 40% from June 2013 to May 2018. Both the UAE and Kuwait have been investing heavily in upstream development (their rig counts are up 86% and 74% respectively) as both countries have ambitions to raise production capacity by the end of the decade.

In Latin America and Africa, however, there has been a sharp decline in drilling activity that is now affecting output. In Venezuela the drilling rig count has plunged to new lows of just 28 rigs in May 2018 compared with 54 rigs at the same time last year. Production in Venezuela was down 27% y/y in May and there is little sign of the deterioration abating by the end of the year.

**Short headroom allows for price gains**




*Source: EIKON, Emirates NBD Research.*

With the GCC operating the only marketable spare capacity among OPEC members and likely to entrench that position further going

Emirates NBD

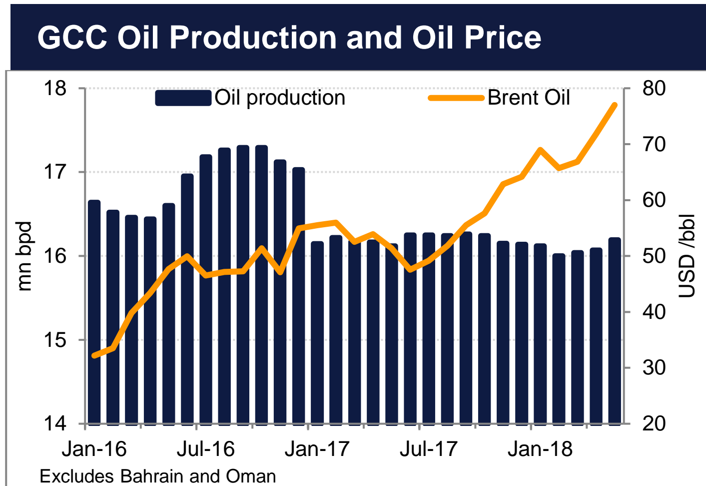
into the next decade, production decisions in these countries carry special weight. Oil prices are not determined by OPEC countries alone—alternative producers, demand conditions, the value of the US dollar among other factors all play an important role—but the concentration of pricing power in a few countries cements their significance on global oil markets for at least the next decade.

Since the OPEC+ agreement has been in place, production as a share of total capacity among OPEC members has been running at just below 90%, a relatively high (tight) level. We expect this ratio to creep upward over the rest of 2018 and into next year. Front month prices react to near-term production decisions; hence we would expect prices to decline should OPEC raise output considerably at its June meeting. However, in the longer run with further declines in total capacity expected, OPEC's pending shortfall in spare capacity will help set a floor under crude prices.

**Edward Bell**
**+9714 230 7701**

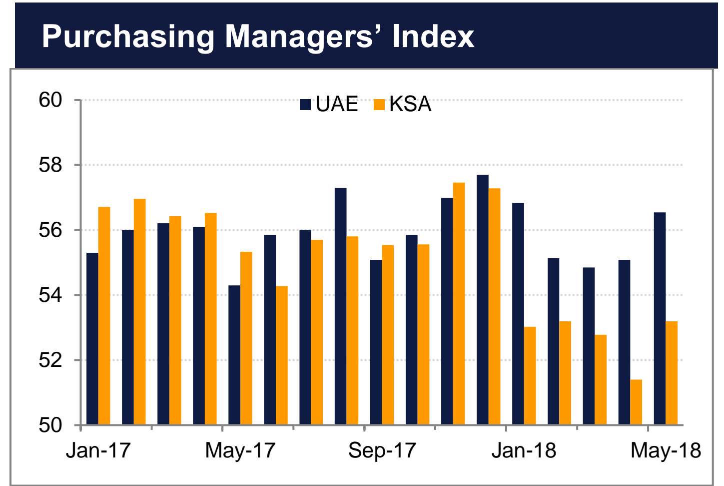
## GCC in Pictures

### GCC Oil Production and Oil Price



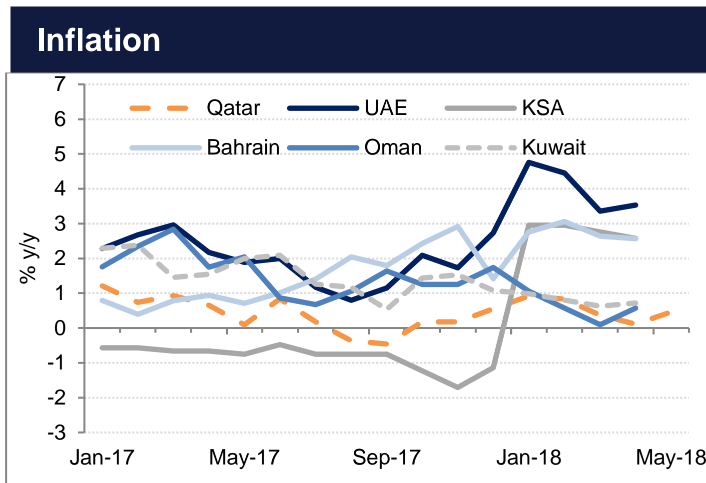

*Source: Bloomberg, Emirates NBD Research*

### Purchasing Managers' Index



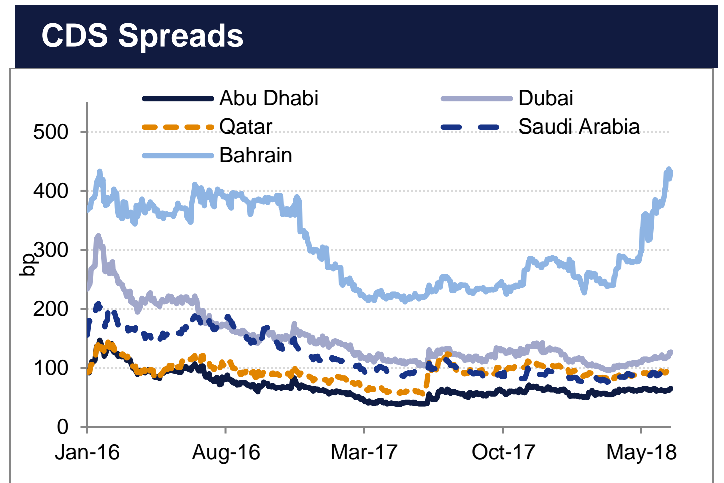

*Source: IHS Markit, Emirates NBD Research*

### Inflation



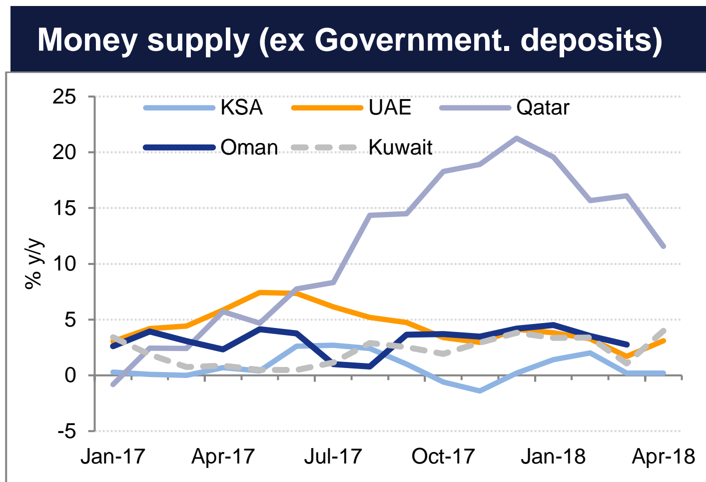

*Source: Haver Analytics, Emirates NBD Research*

### CDS Spreads



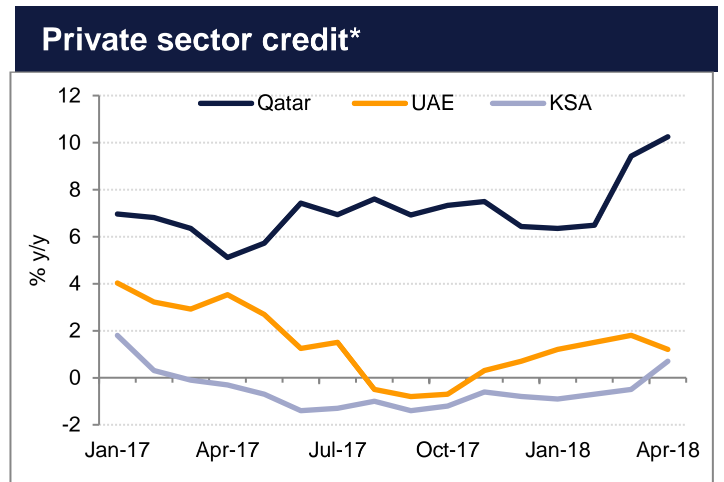

*Source: Bloomberg*

### Money supply (ex Government. deposits)



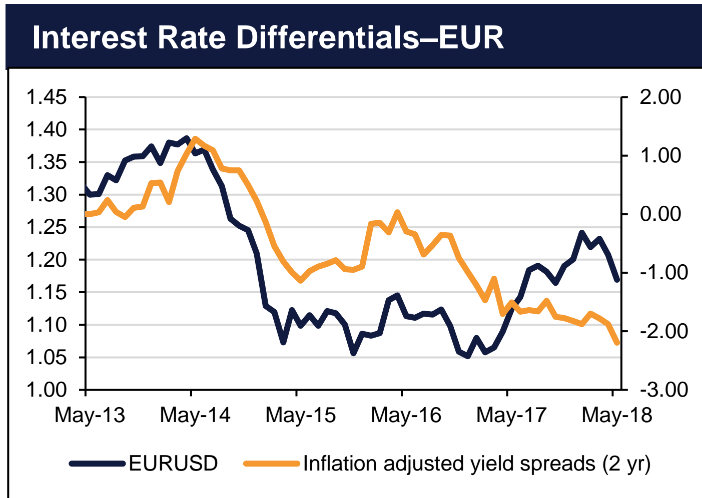

*Source: Haver Analytics, Emirates NBD Research*

### Private sector credit*

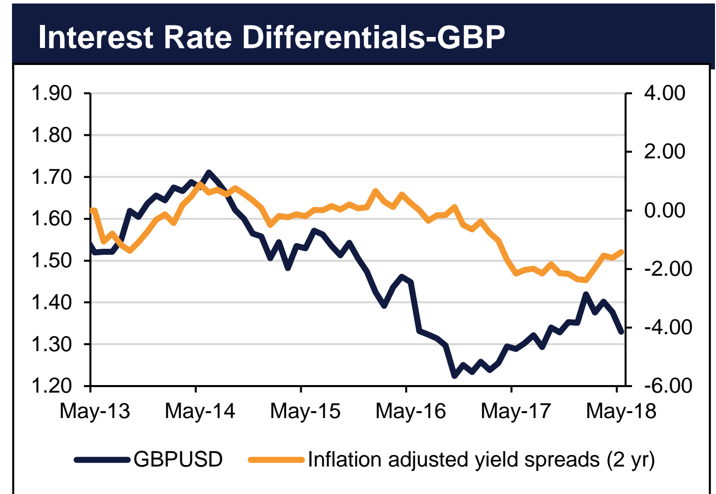



**Qatar data is bank loan growth to private sector, not total private sector credit. Source: Haver Analytics, Emirates NBD Research*

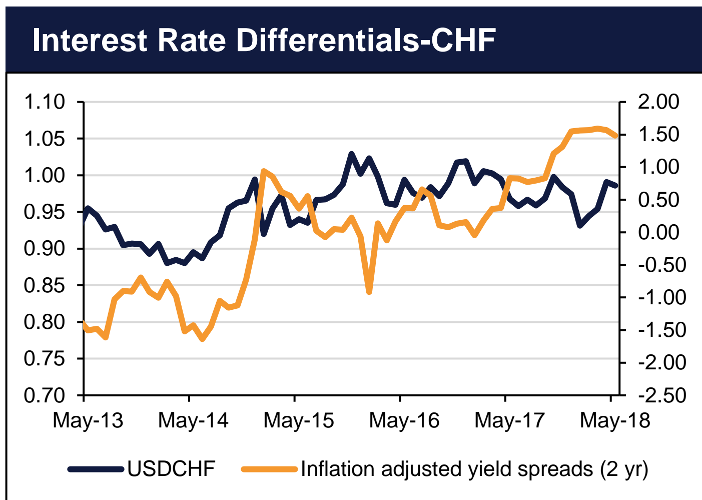
## FX–Major Currency Pairs & Real Interest Rates



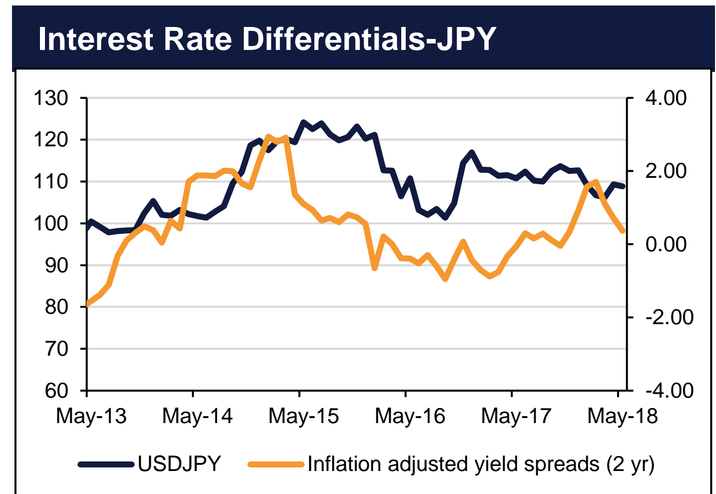

*Source: Bloomberg, Emirates NBD Research*



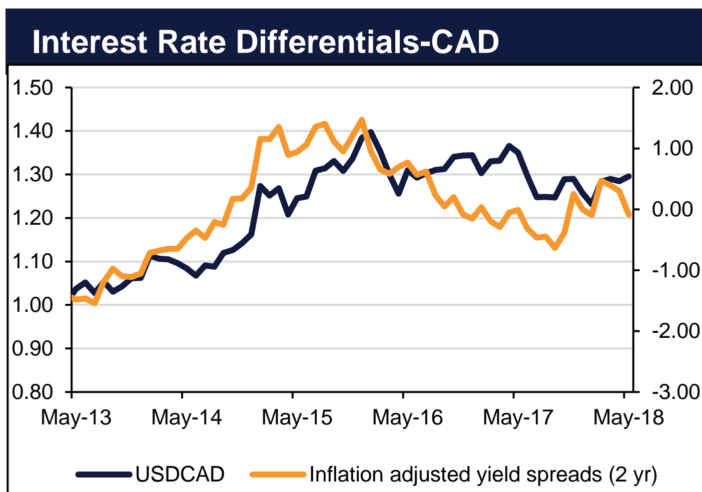

*Source: Bloomberg, Emirates NBD Research*



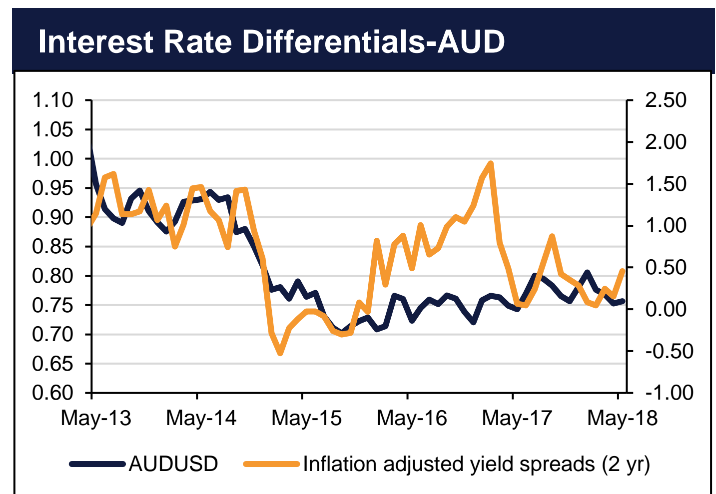

*Source: Bloomberg, Emirates NBD Research*




*Source: Bloomberg, Emirates NBD Research*

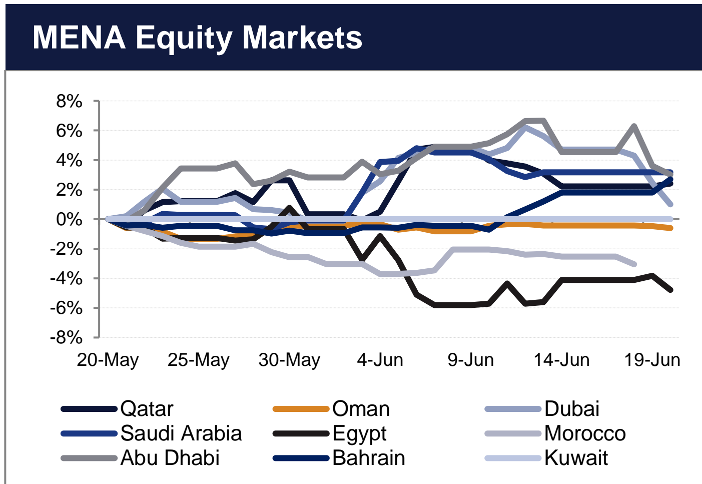



*Source: Bloomberg, Emirates NBD Research*

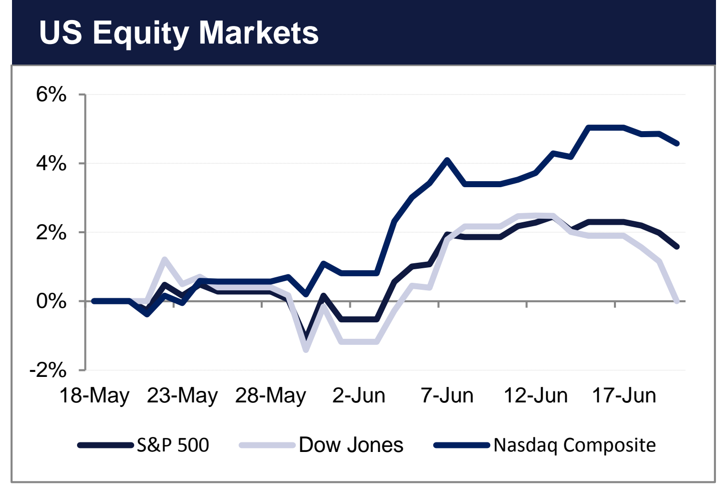



*Source: Bloomberg, Emirates NBD Research*

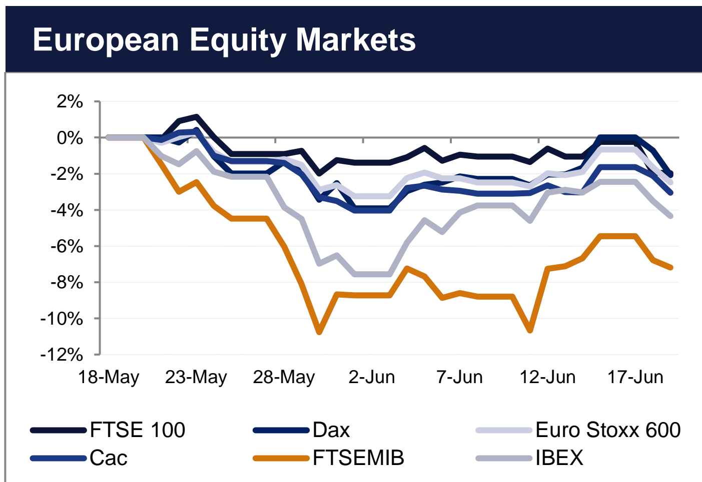
## Major Equity Markets



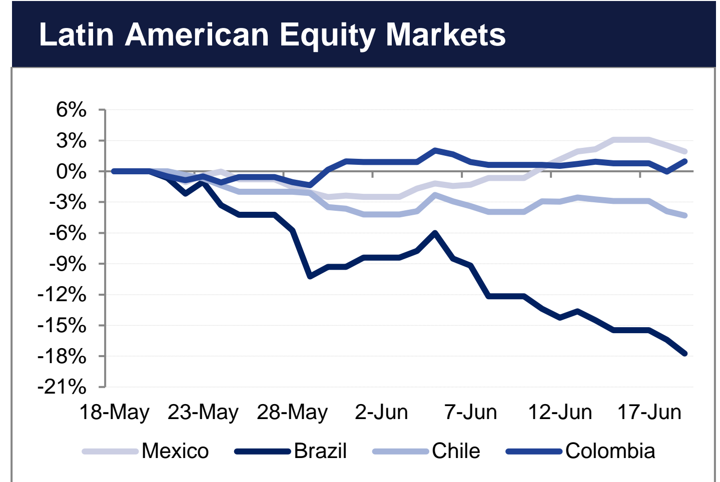

Source: Bloomberg, Emirates NBD Research



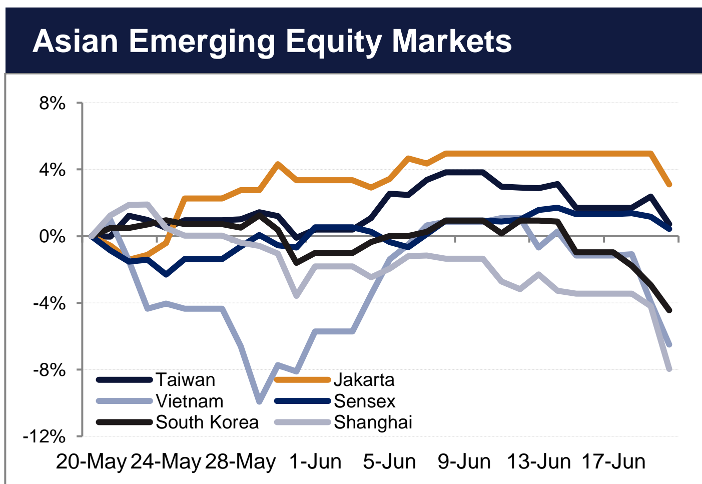

Source: Bloomberg, Emirates NBD Research



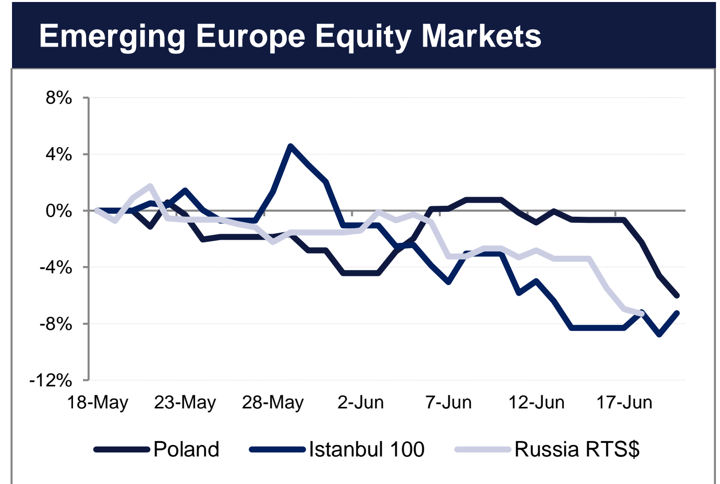

Source: Bloomberg, Emirates NBD Research




Source: Bloomberg, Emirates NBD Research



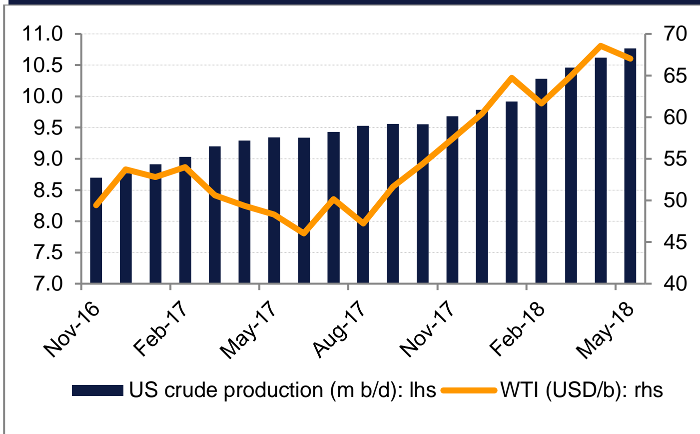

Source: Bloomberg, Emirates NBD Research




Source: Bloomberg, Emirates NBD Research

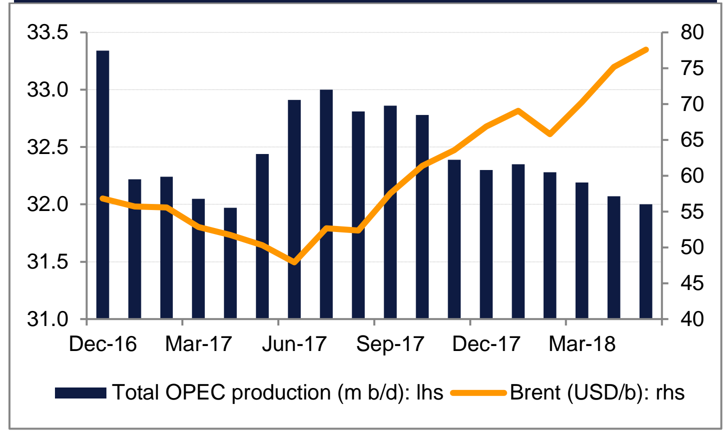
## Major Commodities Markets

### US oil production and price



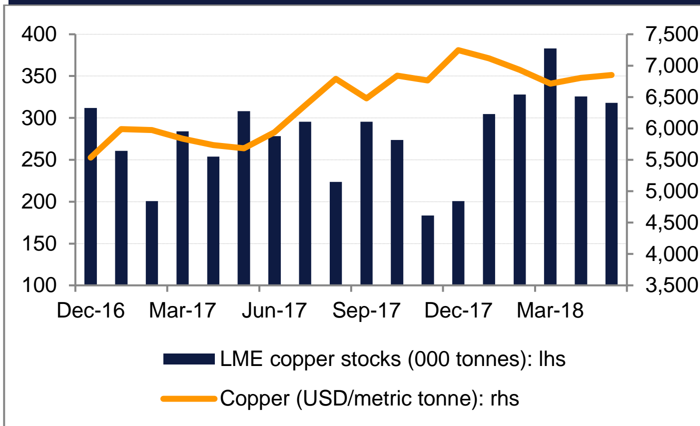

Source: EIKON, Emirates NBD Research

### International oil production and price



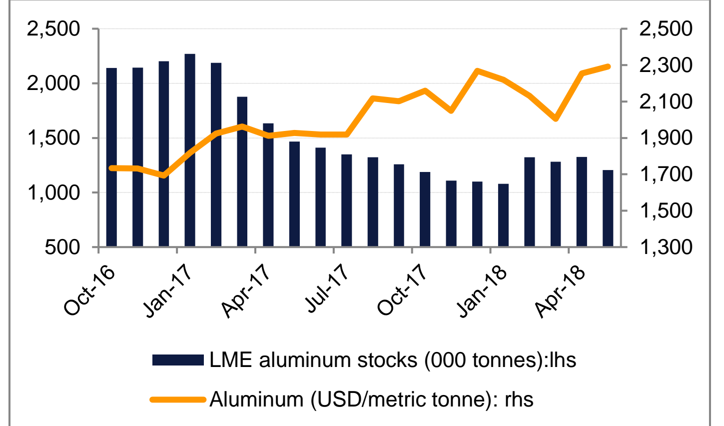

Source: EIKON, Emirates NBD Research

### Copper stocks and price



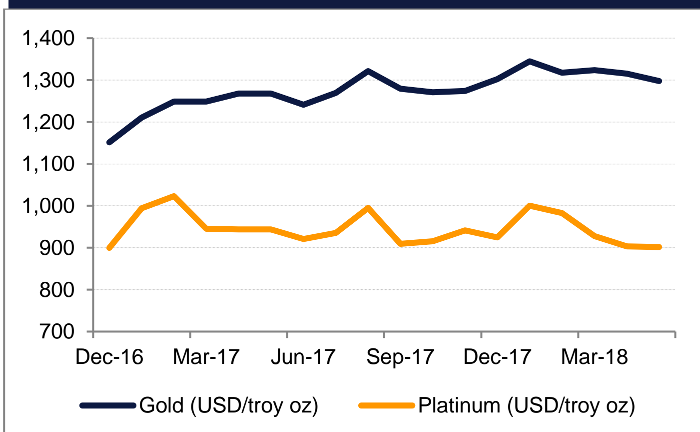

Source: EIKON, Emirates NBD Research

### Aluminum stocks and price



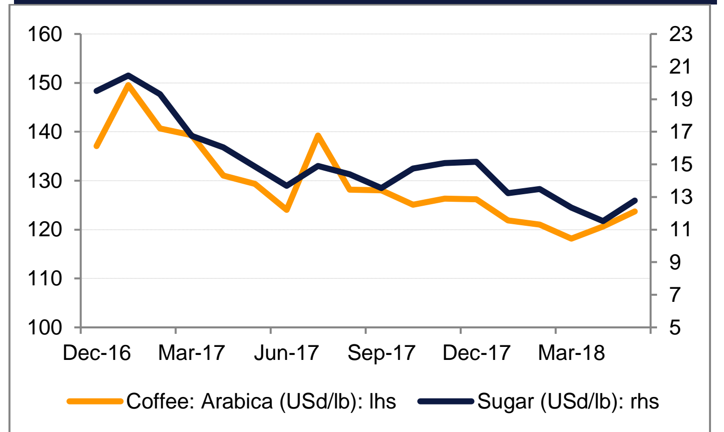

Source: EIKON, Emirates NBD Research

### Precious metals prices




Source: EIKON, Emirates NBD Research

### Agriculture prices




Source: EIKON, Emirates NBD Research

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## Key Economic Forecasts - GCC

| United Arab Emirates | 2015 | 2016 | 2017 | 2018f | 2019f |
|---|---|---|---|---|---|
| **Nominal GDP $bn** | 358.4 | 349.0 | 378.7 | 414.8 | 434.2 |
| **Real GDP %** | 3.8 | 3.0 | 1.5 | 2.2 | 3.9 |
| **Current A/C % GDP** | 4.7 | 2.4 | 3.7 | 6.6 | 5.5 |
| **Budget Balance % GDP** | -3.4 | -4.3 | -2.6 | -0.2 | 1.9 |
| **CPI %** | 4.1 | 1.6 | 2.0 | 3.5 | 3.0 |
| Saudi Arabia | | | | | |
| **Nominal GDP $bn** | 654.3 | 644.9 | 683.8 | 758.2 | 785.1 |
| **Real GDP %** | 4.1 | 1.7 | -0.7 | 1.5 | 2.7 |
| **Current A/C % GDP** | -8.7 | -3.7 | 2.2 | 8.7 | 6.4 |
| **Budget Balance % GDP** | -15.8 | -12.9 | -9.3 | -4.3 | -4.9 |
| **CPI %** | 2.2 | 3.5 | -0.2 | 3.5 | 3.0 |
| Qatar | | | | | |
| **Nominal GDP $bn** | 164.6 | 152.5 | 167.6 | 187.6 | 197.7 |
| **Real GDP %** | 3.3 | 2.0 | 1.2 | 3.4 | 4.7 |
| **Current A/C % GDP** | 8.4 | -5.4 | 3.8 | 6.4 | 9.4 |
| **Budget Balance % GDP** | -1.9 | -9.0 | -4.9 | -3.8 | -3.0 |
| **CPI %** | 1.9 | 2.7 | 0.4 | 1.5 | 2.0 |
| Kuwait | | | | | |
| **Nominal GDP $bn** | 114.6 | 110.9 | 120.1 | 135.3 | 141.4 |
| **Real GDP %** | 0.6 | 3.5 | -2.9 | 1.8 | 3.0 |
| **Current A/C% GDP** | 3.5 | -4.5 | 6.3 | 8.5 | 7.4 |
| **Budget Balance % GDP** | -13.4 | -13.8 | -5.8 | -1.6 | -2.5 |
| **CPI %** | 3.3 | 3.2 | 1.6 | 2.0 | 3.5 |
| Oman | | | | | |
| **Nominal GDP $bn** | 68.8 | 66.7 | 75.0 | 84.1 | 87.7 |
| **Real GDP %** | 4.7 | 5.4 | 1.0 | 2.6 | 3.6 |
| **Current A/C % GDP** | -15.9 | -18.5 | -8.3 | -0.4 | -2.4 |
| **Budget Balance % GDP** | -17.5 | -20.6 | -12.1 | -6.4 | -6.1 |
| **CPI %** | 0.1 | 1.1 | 1.6 | 2.0 | 3.0 |
| Bahrain | | | | | |
| **Nominal GDP $bn** | 31.1 | 32.2 | 35.3 | 37.7 | 39.8 |
| **Real GDP %** | 2.9 | 3.2 | 3.9 | 2.9 | 3.4 |
| **Current A/C % GDP** | -2.4 | -4.6 | -3.9 | -2.3 | -1.8 |
| **Budget Balance % GDP** | -13.0 | -13.5 | -11.4 | -8.6 | -8.7 |
| **CPI %** | 1.8 | 2.8 | 1.4 | 2.5 | 3.0 |
| GCC (Nominal GDP weighted avg) | | | | | |
| **Nominal GDP $bn** | 433 | 427 | 452 | 500 | 518 |
| **Real GDP %** | 3.7 | 2.4 | 0.1 | 2.0 | 3.3 |
| **Current A/C % GDP** | -2.4 | -3.1 | 2.4 | 7.1 | 5.9 |
| **Budget Balance % GDP** | -10.8 | -10.7 | -7.0 | -3.1 | -2.9 |
| **CPI %** | 2.6 | 2.8 | 0.7 | 3.0 | 2.9 |

*Source: Haver Analytics, National sources, Emirates NBD Research*

## Key Economic Forecasts – Non-GCC Oil Importers

| Egypt* | 2015 | 2016 | 2017e | 2018f | 2019f |
|---|---|---|---|---|---|
| **Nominal GDP $bn** | 332.6 | 332.4 | 189.9 | 243.1 | 290.5 |
| **Real GDP %** | 4.4 | 4.3 | 4.2 | 5.2 | 5.5 |
| **Current A/C % GDP** | -3.7 | -6.0 | -6.9 | -3.0 | -2.8 |
| **Budget Balance % GDP** | -11.43 | -12.05 | -10.96 | -9.48 | -8.49 |
| **CPI %** | 10.4 | 13.7 | 29.6 | 15.0 | 12.0 |
| **Jordan** | | | | | |
| **Nominal GDP $bn** | 37.5 | 38.7 | 40.3 | 41.7 | 43.2 |
| **Real GDP %** | 2.4 | 2.0 | 2.1 | 2.6 | 2.6 |
| **Current A/C % GDP** | -9.1 | -9.5 | -10.5 | -10.4 | -9.7 |
| **Budget Balance % GDP** | -3.4 | -3.2 | -2.7 | -2.6 | -2.3 |
| **CPI %** | -0.9 | -0.8 | 3.3 | 3.9 | 3.8 |
| **Lebanon** | | | | | |
| **Nominal GDP $bn** | 50.1 | 51.1 | 57.8 | 63.4 | 68.5 |
| **Real GDP %** | 0.8 | 1.0 | 1.6 | 1.8 | 2.7 |
| **Current A/C % GDP** | -16.2 | -19.3 | -20.0 | -20.3 | -20.1 |
| **Budget Balance % GDP** | -8.0 | -9.8 | -6.9 | -6.5 | -5.8 |
| **CPI %** | -3.8 | -0.8 | 4.5 | 4.3 | 4.0 |
| **Morocco** | | | | | |
| **Nominal GDP $bn** | 101.3 | 103.6 | 115.1 | 120.8 | 128.7 |
| **Real GDP %** | 4.5 | 1.2 | 4.0 | 2.7 | 3.6 |
| **Current A/C % GDP** | -1.9 | -3.9 | -2.7 | -2.1 | -1.9 |
| **Budget Balance % GDP** | -4.5 | -4.2 | -4.0 | -3.2 | -2.7 |
| **CPI %** | 1.6 | 1.6 | 0.8 | 2.2 | 3.0 |
| **Tunisia** | | | | | |
| **Nominal GDP $bn** | 43.0 | 41.7 | 39.0 | 40.0 | 41.2 |
| **Real GDP %** | 1.1 | 1.0 | 1.7 | 2.0 | 2.9 |
| **Current A/C % GDP** | -8.9 | -8.9 | -10.7 | -9.5 | -8.7 |
| **Budget Balance % GDP** | -4.8 | -6.2 | -6.3 | -5.4 | -5.2 |
| **CPI %** | 4.9 | 3.7 | 5.3 | 6.9 | 6.8 |
| **Oil Importers (GDP weighted avg)** | | | | | |
| **Nominal GDP $bn** | 224.3 | 223.9 | 126.2 | 159.2 | 190.9 |
| **Real GDP %** | 3.71 | 3.07 | 3.39 | 3.72 | 4.35 |
| **Current A/C % GDP** | -4.8 | -5.4 | -6.4 | -6.0 | -4.2 |
| **Budget Balance % GDP** | -8.8 | -9.4 | -7.4 | -6.7 | -6.1 |
| **CPI %** | 6.4 | 8.5 | 14.3 | 9.1 | 8.0 |

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

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## Key Economic Forecasts – Non-GCC Oil Exporters

| Algeria | 2015 | 2016 | 2017e | 2018f | 2019f |
|---|---|---|---|---|---|
| **Nominal GDP $bn** | 166.4 | 159.1 | 165.9 | 166.9 | 169.0 |
| **Real GDP %** | 3.7 | 3.3 | 1.8 | 2.4 | 2.1 |
| **Current A/C % GDP** | -12.9 | -12.3 | -13.2 | -9.7 | -8.4 |
| **Budget Balance % GDP** | -15.3 | -13.5 | -10.2 | -8.7 | -7.3 |
| **CPI %** | 4.4 | 5.8 | 6.0 | 5.4 | 5.8 |
| Iran | | | | | |
| **Nominal GDP $bn** | 419.6 | 441.8 | 442.3 | 403.9 | 400.8 |
| **Real GDP %** | -1.4 | 12.4 | 4.4 | -0.5 | -2.0 |
| **Current A/C % GDP** | 0.3 | 3.7 | 4.9 | 1.9 | -0.7 |
| **Budget Balance % GDP** | -5.3278 | -4.7595 | -4.9863 | -3.6162 | -2.8692 |
| **CPI %** | 15.8 | 8.7 | 10.0 | 12.5 | 13.5 |
| Iraq | | | | | |
| **Nominal GDP $bn** | 164.2 | 165.2 | 184.6 | 212.8 | 240.6 |
| **Real GDP %** | 4.0 | 11.0 | -0.3 | 2.4 | 4.3 |
| **Current A/C% GDP** | 2.5 | 1.4 | 1.3 | 1.1 | 1.0 |
| **Budget Balance % GDP** | -13.0 | -14.5 | -9.8 | -8.6 | -8.3 |
| **CPI %** | 1.2 | 1.3 | 0.9 | 2.0 | 3.0 |
| Libya | | | | | |
| **Nominal GDP $bn** | 34.4 | 43.6 | 63.3 | 89.6 | 111.6 |
| **Real GDP %** | -0.1 | -6.9 | 34.8 | 27.3 | 9.7 |
| **Current A/C% GDP** | -9.4 | -11.0 | -11.1 | -12.0 | -12.2 |
| **Budget Balance % GDP** | -23.6 | -19.6 | -12.3 | -5.4 | -5.3 |
| **CPI %** | 9.5 | 9.5 | 25.0 | 11.5 | 10.0 |
| Oil Exporters (GDP weighted avg) | | | | | |
| **Nominal GDP $bn** | 300.0 | 312.4 | 305.2 | 279.4 | 281.3 |
| **Real GDP %** | 0.8 | 9.0 | 5.5 | 3.8 | 1.7 |
| **Current A/C % GDP** | 0.4 | 0.5 | -0.5 | -2.3 | -3.9 |
| **Budget Balance % GDP** | -6.4 | -8.0 | -8.6 | -6.8 | -5.9 |
| **CPI %** | 9.7 | 6.1 | 8.1 | 8.6 | 9.0 |

## Key Economic Forecasts - Global

| US | 2013 | 2014 | 2015 | 2016 | 2017 | 2018f |
|---|---|---|---|---|---|---|
| **Real GDP %** | 1.6 | 2.6 | 2.9 | 1.5 | 2.3 | 2.7 |
| **Current A/C % GDP** | -2.3 | -2.3 | -2.6 | -2.7 | -2.7 | -3.0 |
| **Budget Balance % GDP** | -3.3 | -2.8 | -2.5 | -2.5 | -3.0 | -3.5 |
| **CPI %** | 1.5 | 1.6 | 0.1 | 1.7 | 2.3 | 2.5 |
| **Eurozone** | | | | | | |
| **Real GDP %** | -0.2 | 1.3 | 2.1 | 1.8 | 2.4 | 2.3 |
| **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 %** | 2.1 | 3.1 | 2.3 | 1.9 | 1.8 | 1.5 |
| **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 %** | 2.0 | 0.4 | 1.4 | 0.9 | 1.7 | 1.2 |
| **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 %** | 7.8 | 7.3 | 6.9 | 6.7 | 6.9 | 6.5 |
| **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 | 7.3 |
| **Current A/C% GDP** | -2.6 | -1.4 | -1.5 | -1.5 | -1.0 | -2.0 |
| **Budget Balance % GDP** | -5.9 | -4.8 | -4.1 | -3.9 | -3.9 | -3.3 |
| **CPI %** | 10.9 | 6.4 | 7.0 | 5.0 | 4.5 | 5.5 |

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

## FX Forecasts

| | FX Forecasts - Major | | | | | Forwards | | |
|---|---|---|---|---|---|---|---|---|
| | 20-Jun | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | 3m | 6m | 12m |
| **EUR/USD** | 1.1573 | 1.2200 | 1.2500 | 1.2800 | 1.2900 | 1.1655 | 1.1741 | 1.1935 |
| **USD/JPY** | 110.15 | 110.00 | 112.00 | 110.00 | 110.00 | 109.42 | 108.66 | 106.97 |
| **USD/CHF** | 0.9955 | 0.9800 | 0.9800 | 0.9800 | 0.9800 | 0.9875 | 0.9792 | 0.9613 |
| **GBP/USD** | 1.3159 | 1.3800 | 1.4100 | 1.4400 | 1.4700 | 1.3215 | 1.3274 | 1.3403 |
| **AUD/USD** | 0.7394 | 0.7550 | 0.7550 | 0.7550 | 0.7550 | 0.7393 | 0.7398 | 0.7417 |
| **NZD/USD** | 0.6907 | 0.7100 | 0.7100 | 0.7100 | 0.7100 | 0.6907 | 0.6910 | 0.6923 |
| **USD/CAD** | 1.3285 | 1.2700 | 1.2700 | 1.2700 | 1.2700 | 1.3263 | 1.3239 | 1.3186 |
| **EUR/GBP** | 0.8795 | 0.8841 | 0.8865 | 0.8889 | 1.3605 | 0.8819 | 0.8845 | 0.8905 |
| **EUR/JPY** | 127.48 | 134.20 | 140.00 | 140.80 | 220.00 | 127.48 | 127.48 | 127.48 |
| **EUR/CHF** | 1.1521 | 1.1956 | 1.2250 | 1.2544 | 1.9600 | 1.1509 | 1.1497 | 1.1473 |
| | **FX Forecasts - Emerging** | | | | | **Forwards** | | |
| | **20-Jun** | **Q3 2018** | **Q4 2018** | **Q1 2019** | **Q2 2019** | **3m** | **6m** | **12m** |
| **USD/SAR*** | 3.7504 | 3.7500 | 3.7500 | 3.7500 | 3.7500 | 3.7502 | 3.7512 | 3.7557 |
| **USD/AED*** | 3.6730 | 3.6730 | 3.6730 | 3.6730 | 3.6730 | 3.6733 | 3.6734 | -- |
| **USD/KWD** | 0.3027 | 0.3020 | 0.3020 | 0.3020 | 0.3020 | 0.2956 | 0.2911 | -- |
| **USD/OMR*** | 0.3850 | 0.3850 | 0.3850 | 0.3850 | 0.3850 | 0.3854 | 0.3860 | 0.3884 |
| **USD/BHD*** | 0.3779 | 0.3770 | 0.3770 | 0.3770 | 0.3770 | 0.3783 | 0.3791 | 0.3815 |
| **USD/QAR*** | 3.6502 | 3.6400 | 3.6400 | 3.6400 | 3.6400 | 3.6523 | 3.6540 | 3.6590 |
| **USD/EGP** | 17.8599 | 17.7500 | 18.0000 | 18.0000 | 18.0000 | 18.4900 | 19.0600 | 19.9900 |
| **USD/INR** | 68.383 | 67.000 | 67.000 | 67.000 | 67.000 | 69.0200 | 69.8200 | 71.3000 |
| **USD/CNY** | 6.4853 | 6.7000 | 6.9000 | 7.1000 | 7.1000 | 6.5180 | 6.5455 | 6.5925 |
| **USD/SGD** | 1.3570 | 1.3100 | 1.2900 | 1.2900 | 1.2900 | 1.3544 | 1.3515 | 1.3457 |

*Data as of 20 June 2018*
*Source: Bloomberg, Emirates NBD Research*

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## Interest Rate Forecasts

| USD Swaps Forecasts | | | | | Forwards | | |
|---|---|---|---|---|---|---|---|
| | Current | 3M | 6M | 12M | 3M | 6M | 12M |
| 2y | 2.81 | 2.90 | 2.95 | 3.05 | | | |
| 10y | 2.97 | 3.05 | 3.06 | 3.10 | | | |
| 2s10s (bp) | 16 | 15 | 11 | 05 | | | |
| US Treasurys Forecasts | | | | | US Treasurys Forecasts | | |
| 2y | 2.55 | 2.70 | 2.85 | 2.95 | | | |
| 10y | 2.90 | 3.00 | 3.00 | 2.95 | | | |
| 2s10s (bp) | 35 | 30 | 15 | 0 | | | |
| 3M Libor | | | | | 3M Libor | | |
| 3m | 2.33 | 2.50 | 2.70 | 2.85 | | | |
| 3M Eibor | | | | | 3M Eibor | | |
| 3m | 2.47 | 2.60 | 2.85 | 3.00 | | | |
| Policy Rate Forecasts | | | | | | | |
| | Current % | 3M | 6M | 12M | | | |
| FED (Upper Band) | 2.00 | 2.25 | 2.50 | 2.75 | | | |
| ECB | 0.00 | 0.00 | 0.00 | 0.00 | | | |
| BoE | 0.50 | 0.75 | 0.75 | 1.00 | | | |
| BoJ | -0.10 | -0.10 | -0.10 | -0.10 | | | |
| SNB | -0.75 | -0.75 | -0.75 | -0.75 | | | |
| RBA | 1.50 | 1.50 | 1.50 | 1.75 | | | |
| RBI (repo) | 6.25 | 6.50 | 6.50 | 6.75 | | | |
| SAMA (reverse repo) | 2.00 | 2.25 | 2.50 | 2.75 | | | |
| UAE (1W repo) | 2.25 | 2.50 | 2.75 | 3.00 | | | |
| CBK (o/n repo rate) | 1.75 | 2.00 | 2.25 | 2.50 | | | |
| QCB (repo rate) | 2.50 | 2.75 | 3.00 | 3.25 | | | |
| CBB (o/n depo) | 2.00 | 2.25 | 2.50 | 2.75 | | | |
| CBO (o/n repo) | 2.55 | 2.75 | 3.00 | 3.25 | | | |
| CBE (o/n depo) | 16.75 | 16.75 | 15.75 | 14.75 | | | |

*Source: Bloomberg, Emirates NBD Research*

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## Commodity Forecasts

| Global commodity prices | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Last | 2018Q1 | Q2 | Q3 | Q4 | 2017 | 2018 |
| **Energy** | | | | | | | |
| **WTI** | 65.48 | 62.87 | 67.00 | 67.00 | 65.00 | 50.94 | 65.47 |
| **Brent** | 75.50 | 67.18 | 70.00 | 70.00 | 68.00 | 54.56 | 68.79 |
| **Precious metals** | | | | | | | |
| **Gold** | 1,273.45 | 1,329.84 | 1,250.00 | 1,275.00 | 1,325.00 | 1,277.65 | 1,294.96 |
| **Silver** | 16.28 | 16.75 | 17.00 | 18.00 | 18.00 | 16.77 | 17.56 |
| **Platinum** | 856.75 | 976.66 | 900.00 | 925.00 | 975.00 | 936.04 | 944.16 |
| **Palladium** | 971.00 | 1,032.40 | 1,100.00 | 1,175.00 | 1,200.00 | 946.30 | 1,126.85 |
| **Base metals** | | | | | | | |
| **Aluminum** | 2,185.00 | 2,159.23 | 2,400.00 | 2,250.00 | 2,000.00 | 2,073.62 | 2,202.31 |
| **Copper** | 6,826.00 | 6,995.88 | 6,500.00 | 6,250.00 | 6,250.00 | 6,618.94 | 6,498.97 |
| **Lead** | 2,418.50 | 2,516.62 | 2,360.00 | 2,280.00 | 2,280.00 | 2,424.05 | 2,358.96 |
| **Nickel** | 14,875.00 | 13,330.15 | 11,750.00 | 11,500.00 | 11,500.00 | 11,124.45 | 12,020.04 |
| **Tin** | 20,410.00 | 21,092.55 | 20,000.00 | 21,250.00 | 21,250.00 | 20,041.911 | 20,898.14 |
| **Zinc** | 3,022.00 | 3,3391.44 | 3,192.00 | 3,090.00 | 3,090.00 | 3,078.91 | 3,190.84 |

*Prices as of 20 June 2018. Note: prices are average of time period 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 | 24,700 | 8,478 | 1.2 | -0.1 | 63 | 16.2 | 3.8 | 2.3 |
| S&P 500 Index | 2,763 | 44,859 | 2.1 | 3.3 | 61 | 17.4 | 3.2 | 1.9 |
| Nasdaq Composite Index | 7,726 | 30,468 | 3.8 | 11.9 | 62 | 23.4 | 4.5 | 1.0 |
| FTSE100 Index | 7,604 | 7,070 | -1.0 | -1.1 | 75 | 13.7 | 1.8 | 4.3 |
| DAX Index | 12,678 | 5,189 | 0.6 | -1.9 | 47 | 13.1 | 1.6 | 3.2 |
| CAC 40 Index | 5,391 | 4,701 | -0.1 | 1.5 | 58 | 14.6 | 1.6 | 3.3 |
| Swiss Market Index | 8,463 | 2,826 | 0.1 | -9.8 | 40 | 14.9 | 2.2 | 3.8 |
| Nikkei Index | 22,278 | 12,950 | 1.6 | -0.9 | 44 | 16.2 | 1.7 | 2.0 |
| S&P/ASX 200 Index | 6,102 | 3,654 | 2.7 | 1.8 | 67 | 16.2 | 2.0 | 4.4 |
| Stoxx Europe 600 Index | 383 | 35,166 | 0.0 | -1.5 | 60 | 14.6 | 1.8 | 3.6 |
| Dubai Financial Market General Index | 2,939 | 65 | -0.9 | -12.8 | 25 | 8.0 | 1.0 | 5.4 |
| Abu Dhabi Sec Market General Index | 4,562 | 37 | -1.3 | 3.4 | 42 | 11.3 | 1.5 | 5.5 |
| Tadawul All Share Index | 8,270 | 926 | 1.3 | 14.4 | | | | |
| Istanbul SE National 100 Index | 94,437 | 1,488 | -6.2 | -18.1 | 15 | 6.7 | 1.0 | 4.8 |
| Egyptian Exchange Index | 16,068 | 43 | -2.1 | 7.0 | 60 | 12.4 | 2.3 | 2.5 |
| Bahrain Bourse All Share Index | 4,805 | 23 | 2.2 | | 38 | 13.2 | 1.4 | 4.7 |
| Muscat Securities Index | 4,588 | 2 | 2.9 | -2.2 | | | | |
| Qatar Exchange Index | 4,589 | 11 | -0.4 | -10.0 | 57 | 9.3 | 0.8 | 5.5 |
| MADEX Free Float Index | 9,924 | 138 | 1.6 | 5.8 | | | | |
| Hong Kong Hang Seng Index | 29,468 | 5,298 | -2.3 | -0.5 | 47 | 11.4 | 1.3 | 3.6 |
| Shanghai Composite Index | 2,908 | 26,384 | -5.7 | -11.7 | 10 | 11.5 | 1.4 | 2.6 |
| Korea Stock Exchange Index | 2,340 | 7,884 | -2.4 | -4.2 | 42 | 9.1 | 1.0 | 2.1 |
| BSE Sensex | 35,287 | 93 | 0.4 | 4.1 | 55 | 18.3 | 2.7 | 1.6 |
| Nifty | 10,710 | 1,886 | 0.2 | 2.1 | 54 | 18.0 | 2.7 | 1.6 |
| Karachi Stock Exchange Index | 43,683 | 44 | 1.5 | 7.4 | 48 | 9.7 | 1.6 | 5.5 |
| Taiwan SE Weighted Index | 10,904 | 4,883 | 0.5 | 2.7 | 53 | 13.9 | 1.8 | 4.1 |
| Bovespa Brasil Sao Paulo SE Index | 71,394 | 3,077 | -7.0 | -6.6 | 22 | 10.8 | 1.5 | 4.1 |
| FTSE/JSE Africa All Share Index | 56,253 | 1,643 | 0.2 | -5.5 | 34 | 14.0 | 1.8 | 3.5 |
| Vietnam Ho Chi Minh Stock Index | 962 | 175 | 0.1 | -1.2 | 28 | 16.6 | 3.1 | 1.5 |
| Jakarta SE Composite Index | 56,253 | 510 | -2.4 | -8.1 | | | | |
| FTSE Bursa Malaysia KLCI Index | 1,715 | 411 | -1.3 | -4.4 | 48 | 16.5 | 1.7 | 3.3 |
| Mexican Stock Exchange | 46,488 | 362 | 4.1 | -5.8 | 21 | 16.1 | 2.1 | 2.5 |

*Prices as of 19 June 2018*
*Source: Bloomberg, Emirates NBD Research*

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