بنك الإمارات دبي الوطني
Emirates NBD

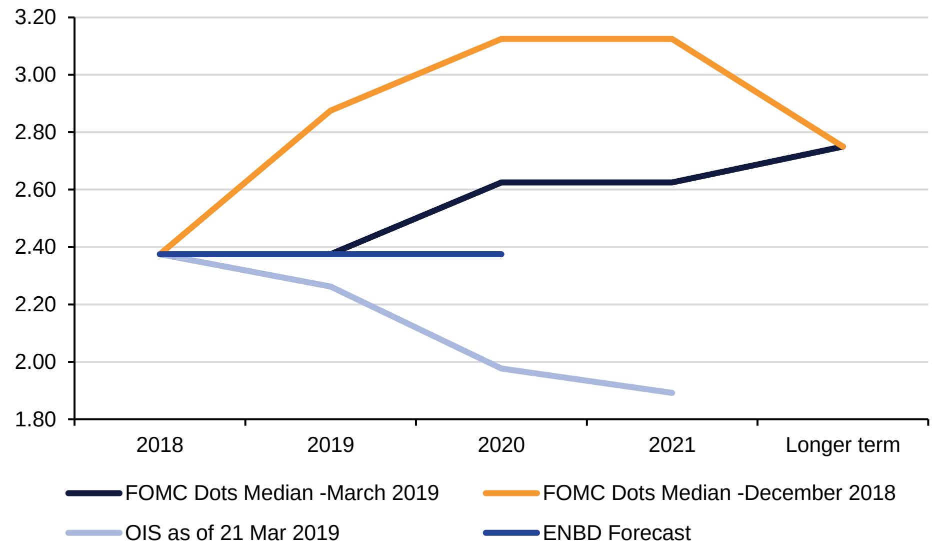
Monthly Insights

Monthly
21 March 2019

Global growth concerns have deepened over the last month, such that more central banks have turned dovish including the Federal Reserve. This not only has implications for the U.S. economy but also for the GCC which will no longer face the possible headwind of further rate hikes this year. To the extent that this also contributes to softening the dollar it will also be helpful.

- **Global macro:** The main development of the last month was the March FOMC meeting where the Federal Reserve turned dovish, downgrading its rate hike forecasts from two to zero in 2019. We have also adjusted our own forecasts to reflect no further U.S. interest rate hikes this year.
- **GCC:** Slower growth in tourist numbers in 2018 likely reflects the dirham's appreciation against key EM currencies. An increased supply of hotel rooms is weighing on revenues.
- **MENA macro:** We have made a modest upgrade to our real GDP growth forecast for Jordan in 2019 on the back of a successful investor conference held in the UK in February.
- **Currencies:** The dollar retreats in the aftermarth of the Federal Reserve shifting from a tightening bias to a neutral stance.
- **Equities:** As we approach the end of first quarter of 2019, global equities are on the verge of having their best quarter since mid-2010. This is in stark contrast to investor expectation at the start of 2019. At the moment, it appears that most headwinds at the beginning of the year have actually become tailwinds.
- **Commodities:** Political risk affects around 40% of OPEC's production capacity as sanctions, militant activity or untested political change hits several members. The uncertain outlook for production will help to keep a bid under oil prices even if output is in no serious risk of being disrupted.

A more benign interest rate outlook from the Fed



Source: Bloomberg, Emirates NBD Research.

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Content

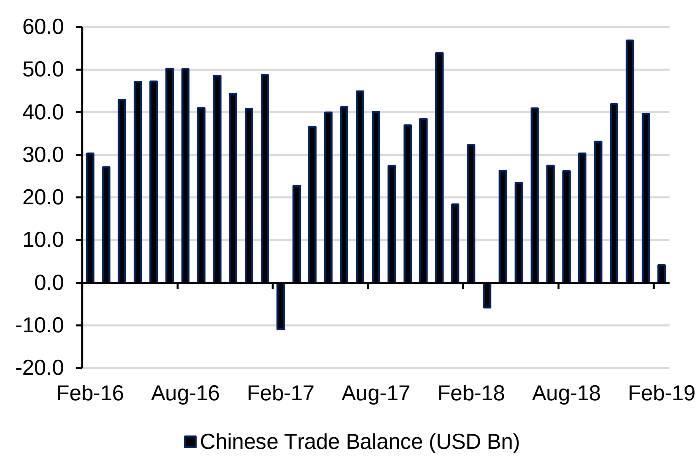
Global Macro

The last month has seen a ratcheting up of fears about global growth with the OECD downgrading its global growth forecast for the second time in less than four months. However, it has also seen a raft of policy announcements which show that policymakers are at least alert to the risks and where they can are trying to get ahead of them.

Growth concerns

China has been at the forefront of these fears. At the start of the month, China's National People's Congress lowered its official forecast for economic growth in 2019 to a range of between 6% - 6.5% as exports as well as domestic demand show signs of deceleration. It also announced tax cuts aimed at boosting the manufacturing sector. This was perhaps just as well as Chinese export data subsequently showed a huge 20.7% y/y plunge in February, the biggest deterioration since 2016 and far exceeding expectations. With markets concerned about the effects of trade tariffs on the world's second biggest economy, they could not have had a better illustration of the pain being felt.

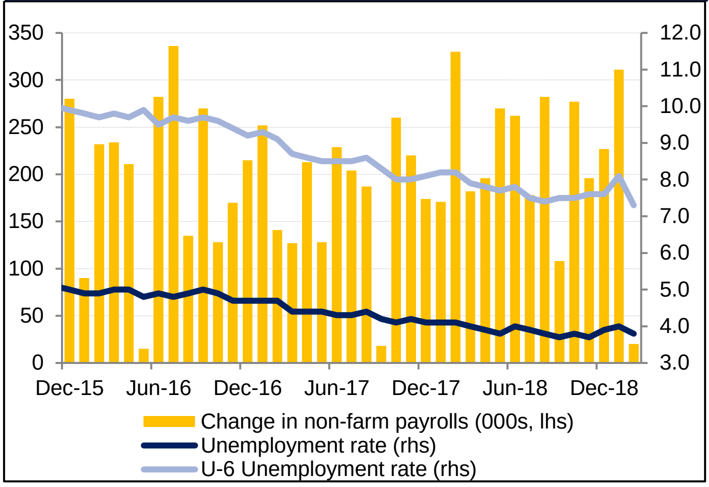
Chinese trade plunges



Source: Bloomberg, Emirates NBD Research

However, trade data from the US also appeared to show that there are no winners from this dispute, with the US trade deficit increasing by 12.5% in 2018 to reach USD 621bn, its highest since 2008, with the December deficit reaching a cycle-high USD 59.8bn. This is likely to result in a downward revision to US Q4 growth and see external pressure on the economy extend into Q1. Other U.S. data has been mixed. There were increases in consumer confidence and retail sales, but these were relatively slight (0.2%) and offset by a slowdown in inflation and disappointing production data. Even within the most high profile data release of the month, the February employment report, it contained elements that were themselves mixed.

U.S. employment undershoots in February



Source: Bloomberg, Emirates NBD Research

The 20,000 rise in non-farm payrolls in February did severely undershoot expectations, but there were special reasons behind this, including adverse weather effects which are likely to unwind in March. Also with January payrolls revised surprisingly strongly to 311k, the playing field is nothing like as bad as February's headline suggests, with the three-month average standing at 186k. Furthermore the unemployment rate dropped to 3.8% from 4.0% as the temporary effects of the January government shutdown unwound, and hourly earnings rose 0.4% m/m demonstrating that wage inflation is being seen with the yearly rate of wage inflation rising to 3.4% from 3.1%, the firmest pace since April 2009. We are also mindful of the fact that that the U.S. economy often slows down at the start of the year only to revive towards the middle of it, with the added complication of the government shutdown likely to accentuate this pattern.

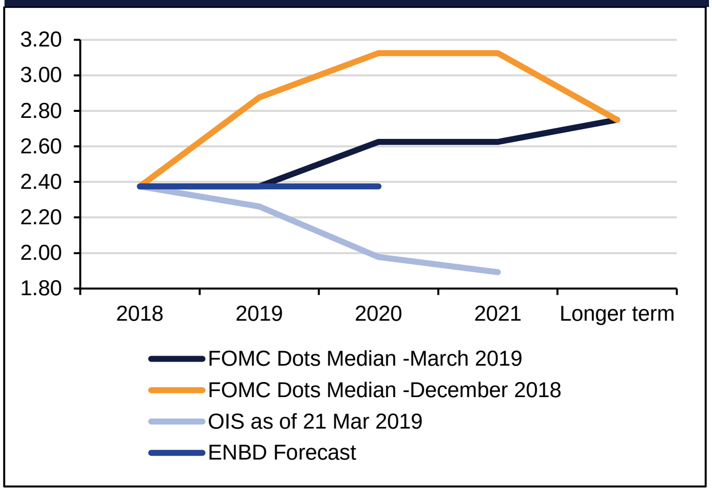
Fed turns dovish

In light of all this, the Fed saw fit to remove any tightening from its dot-plot projections through the rest of this year at its March FOMC meeting, only retaining one projected hike in 2020. While the Fed acknowledged that the labour market remains strong, it highlighted that 'Recent indicators point to slower growth of household spending and business fixed investment in the first quarter." The Fed's median GDP growth forecast was also revised down for both 2019 and 2020. While Fed Chairman Powell re-iterated that policy decisions remain dependent on data, our sense would be that it would take a very strong rebound in growth and inflation to get the Fed back on its tightening path. As this seems unlikely to happen (due to the overhang of trade fears, and the dwindling impact of the fiscal stimulus) the Fed has effectively finished its tightening cycle begun in 2015 and we have revised our forecasts accordingly.

Pervasive uncertainty

While markets are hoping that China can lead a recovery, and that the U.S. will avoid a recession, it is the Eurozone where most of the negative focus is. While Eurozone headline inflation increased to 1.5% in February, core inflation actually fell slightly to 1.0% from 1.1% in January. The increase in headline inflation was almost entirely due to increases in energy prices and other volatile components. Also, the final February manufacturing PMI was confirmed to be in contraction territory at 49.3. Weakness in Eurozone data saw the ECB downgrade its growth forecast for the year from 1.7% to 1.1%, and also restore emergency stimulus measures. President Draghi not only confirmed another round of TLTRO loans, but also pushed out the time frame for both rate hikes and a possible reduction of asset holdings until the end of the year. However, the track record of these measures has not been great, with its programs of bank liquidity and negative rates failing to sustain what has been a relatively soft economic recovery. Not surprisingly then Draghi was keen to stress that despite these measures the risks still remain tilted to the downside, with the interesting observation that central banks cannot solve the problem of 'pervasive uncertainty'. This is likely to be an evolving theme in which central banks increasingly seek to put the onus on governments to find solutions to low trend growth rates, amidst renewed concerns about 'secular stagnation'.

FOMC shifts to neutral



Source: Bloomberg, Emirates NBD Research

At its meeting on 15th March, the Bank of Japan was also dovish in its communication, highlighting the recent softness of production and exports and as a result, expectations for ultra-loose monetary policy continue. Indeed, with headline inflation 0.6% y/y in February and core inflation 1.1% during the same period, the central bank remains far from its 2% target and it would not be surprising to see additional stimulus measures introduced further down the road. As we go to print, the OIS has priced in a 32.2% chance of a rate cut by December of 2019.

Much like other central banks, the RBA has become more cautious. In the latter half of February, Governor Lowe communicated that policy makers had shifted from a tightening bias to a neutral stance, highlighting the slowdown in global growth and increasing risks. As of 19th March, Australia's three-year bond yield has fallen below the central bank's policy rate for the first time since 2016 as the markets begin to price in expectations of a rate cut from the RBA with the OIS showing a 54.0% chance of a rate cut by July 2019 and a 78.8% chance of a cut by December 2019. Other central banks have gone further with both the Reserve Bank of India and the Central Bank of Egypt cutting interest rates in late February and the central bank of Turkey cut reserve requirements. With the Fed standing pat through the rest of the year, other central banks, especially in emerging markets, may now use this reprieve to cut interest rates further.

Brexit hardball

With just a week to go before the 29th March Brexit deadline, UK headlines have of course continued to be dominated by this issue. Prime Minister May failed to win support for her Brexit deal for a second time and Parliament adopted a motion opposing a no-deal Brexit. May had hoped to put a third vote before Parliament on March 19th, but the speaker of the UK's house of commons blocked this. The PM is now seeking a short extension to the UK's EU membership to 30th June, with any such agreement being contingent on all 27 member states supporting the extension and also on parliament supporting May's deal.

Such an outcome would undoubtedly be welcomed by markets, although this reaction might be dampened if it is also contingent on another referendum which is still possible. It may also reopen talk of another increase in interest rates by the Bank of England. UK economic data has remained remarkably upbeat through all of the noise of Brexit, but a monetary policy response might still be seen as premature, especially as it would buck the dovish tone coming from the rest of the world.

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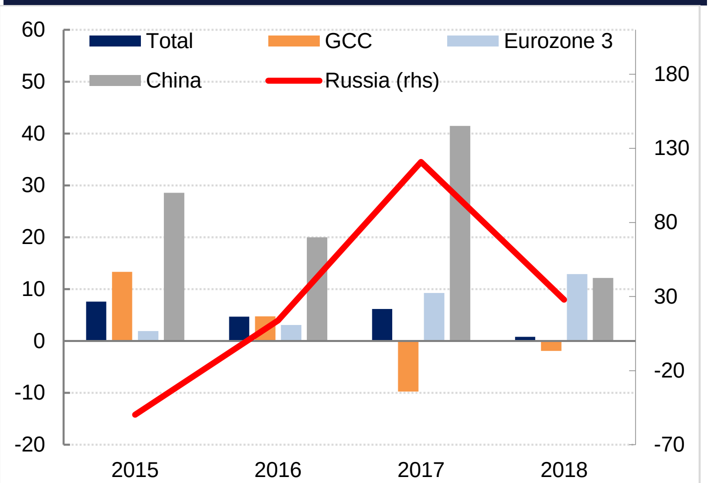
GCC: Dubai tourism update

Growth in international visitor numbers to Dubai slowed sharply in 2018, to just 0.8% y/y. India continues to top the list of countries from which Dubai's international visitors come, although the number of Indian nationals visiting Dubai declined -2.0% y/y in 2018. There were fewer visitors from the UK (the third largest source market), Iran, Pakistan, the Philippines and Jordan last year compared to 2017. Three GCC countries made the top 10 list, although the total number of visitors from Saudi Arabia, Oman and Kuwait declined for the second year running.

Growth in visitor numbers by geography



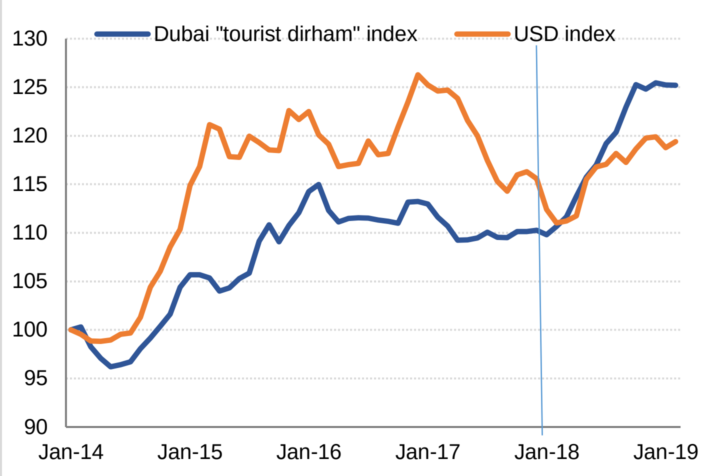
Source: DTCM, Emirates NBD Research

In contrast, there was a 28% rise in Russian visitors last year, although monthly data show that this growth was largely in H1 2018; the number of Russians visiting Dubai in H2 2018 was lower than in H2 2017. Chinese visitors rose 12% y/y in 2018, and there was also strong growth (13%) in visitors from Western Europe, excluding the UK. However the fastest growing market in 2018 was Nigeria: the number of Nigerians visiting Dubai was up 36% y/y in 2018 and this growth has continued in January 2019 (45.5% y/y).

Data for January 2019 shows only a modest 1.3% rise in total visitor numbers compared with January 2018, with the number of Indian visitors down -12.3% y/y and GCC visitor numbers down nearly -5% y/y in January. The UK has slipped from the third largest source market for international visitors, to fifth place, with more Chinese and Omani visitors coming to Dubai in January than Brits.

One of the main reasons for the softer growth in visitor numbers last year was the strengthening of the USD, particularly against the EM countries from which Dubai's visitors come. We constructed a "Dubai Tourism Dirham" index, which reflects a basket of currencies weighted by the number of visitors to Dubai from that market. Chart 2 below shows that since the start of last year, the "Dubai Tourist Dirham" has appreciated by more than the Bloomberg dollar index (which reflects the strength of the USD against the US's main trade partners).

USD appreciation weights on tourism

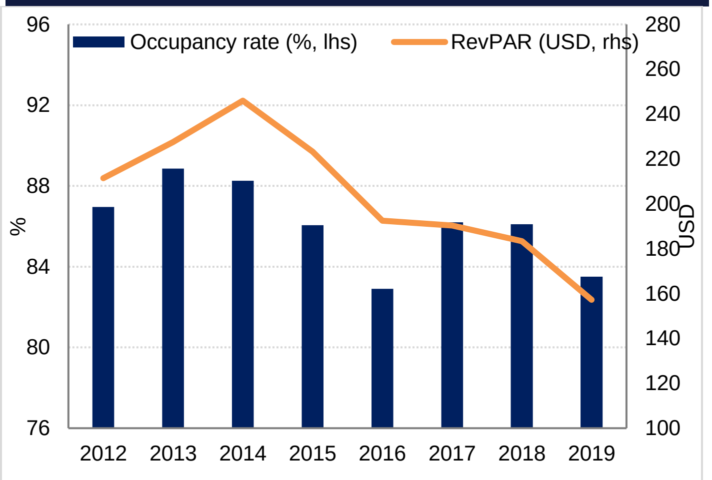


Source: Bloomberg, Emirates NBD Research

To the extent that we expect the USD to weaken going forward, given the Fed's more dovish rate outlook, the currency should become more supportive of growth in visitor numbers to Dubai in the second half of this year through 2020.

However, in the meantime, **the softness in tourist demand has come at a time of increased supply in the hospitality sector**, as more new hotel rooms are being delivered. DTCM data shows the number of hotel rooms in Dubai up 8.5% y/y in January, with visitor numbers up just 1.3% over the same period. The resulting excess supply has weighed on prices. RevPAR declined -15.3% y/y in January and -12.2% y/y in February (STR Global data), as hotels sought to keep occupancy rates stable. Even with the price discounting however, hotel occupancy was modestly lower in January and February compared with a year earlier. Supply is expected to rise significantly this year and next, with demand likely to recover through 2020.

Oversupply weights on hospitality sector



Source: STR Global, Emirates NBD Research

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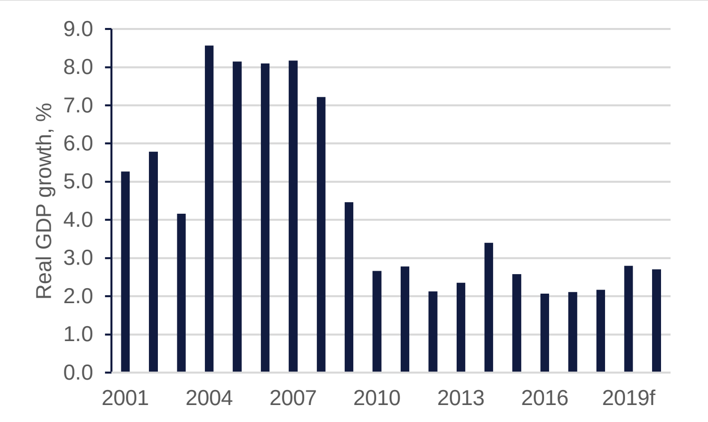
MENA Macro: London investment conference brightens Jordan outlook

We have made a modest upgrade to our real GDP growth forecast for Jordan in 2019 on the back of a successful investor conference held in the UK in February. The outlook for the kingdom is the brightest it has been for several years on the back of this development and improving regional security, although ongoing austerity efforts will continue to weigh on output.

We have revised up our real GDP growth forecast for Jordan in the wake of a UK-sponsored investment conference held in London on February 28th. The 'Jordan: Growth and Opportunity' event was attended by representatives of tens of countries and multilateral organisations, with the aim of enticing international support and greater private investment into the country. Where previously we had projected an expansion of 2.5% this year, we now forecast growth of 2.8%, putting us above consensus expectations of 2.6%. The revision has been driven by an upgrade to our outlook for investment growth in the country as the UK's underwriting of a USD250mn World Bank loan should provide an anchor for lowering Jordan's borrowing costs, and encourage greater private sector interest.

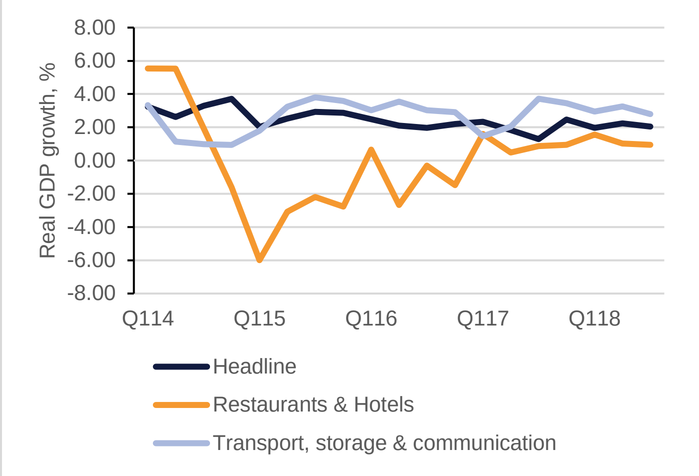
Persistently weaker growth



Source: Bloomberg, Emirates NBD Research

Gross fixed capital formation has been a drag on Jordan's real GDP growth in recent years, contracting by an average 6.4% annually over 2015 to 2017. We estimate a modest return to growth in investment at 2.0% last year, and now forecast a pick-up to 5.0% in 2019, in part on the back of the recent conference, and in part owing to a more conducive environment generally. Sectors targeted for greater investment at the conference included tourism, logistics and information technology, tying in with what we see as the likely growth industries in Jordan in the coming years.

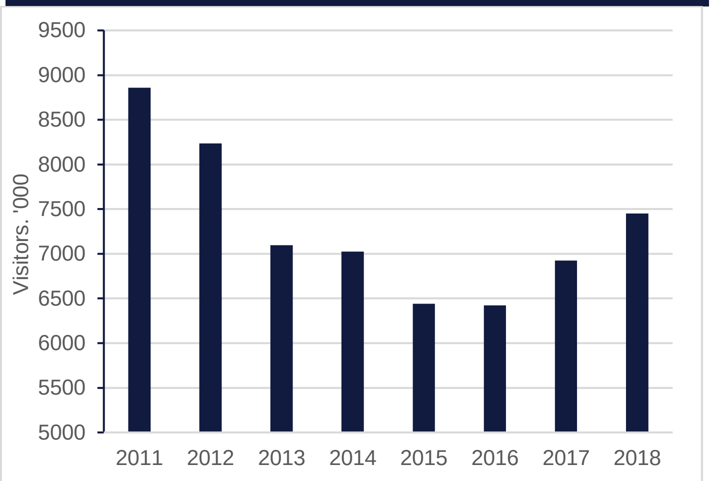
Growth sectors



Source: Haver Analytics, Emirates NBD Research

Improving regional security (albeit with a high risk of setbacks) will encourage an ongoing increase in visitor numbers to Jordan in 2019, following robust growth of 7.7% last year. 7.5mn visitors came to Jordan in 2018, approaching the highs of 8.9mn recorded in 2011, just as regional security began to deteriorate, and we expect a further increase this year. The improving political situation will also be a boon for Jordan's considerable transit activity. The transport component of GDP accounts for over 8.0% of total output, and will likely benefit from the reopening of a border crossing with Iraq last year.

Tourism picking back up

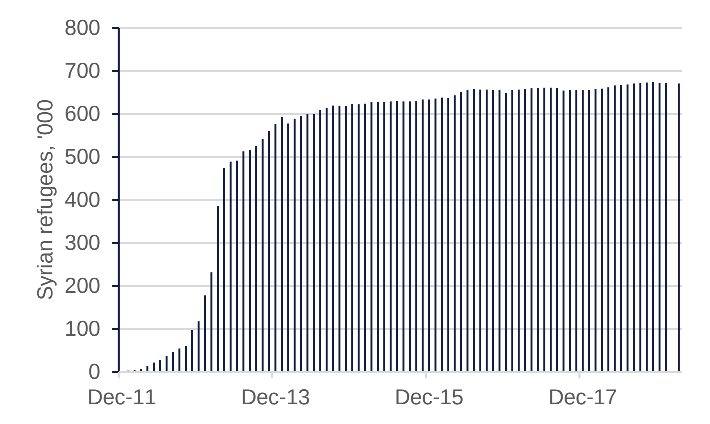


Source: Haver Analytics, Emirates NBD Research

Not immune to regional strife

The international commitment to Jordan – the conference was attended not only by UK Prime Minister Theresa May, but also US Treasury Secretary Steven Mnuchin – reaffirms the perception that Jordan is considered too strategically important to fail under the weight of regional geopolitical pressures. Through the recent years of conflict in neighbouring Syria and Iraq, Jordan has remained comparatively settled, and it has long been understood that international support would underpin its reform efforts.

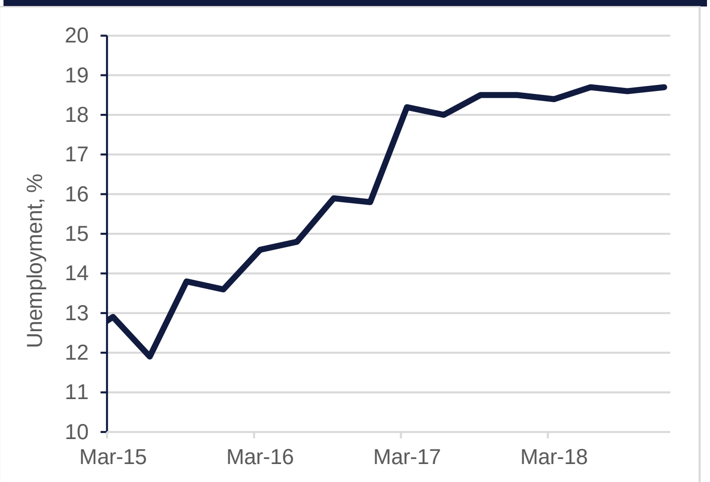
Refugees remain a burden



Source:UNHCR, Emirates NBD Research

That being said, Jordan has by no means come away unscathed by the regional unrest, and the average growth rate of 2.4% since 2011 contrasts sharply with the 6.3% averaged over the preceding 10 years. Government finances have been weighed down by dealing with the large number of refugees from Syria. Although down on previous months, the 670,238 Syrian refugees registered in Jordan by the UNHCR in March was up 1.7% y/y. Efforts to curb spending and bring down debt, supported by an IMF reform programme, have brought down governments as the public have pushed back, most recently in 2018.

Unemployment at decade-highs



Source: Haver Analytics, Emirates NBD Research

Aside from boosting investment, the London conference should also help Jordan cope with the pressures related to this refugee population, as a USD50mn aid package was announced. Crucially, this will be provided in the form of cash transfers rather than foodstuffs and other provisions. Not only should this help foster a sense of dignity and independence amongst recipients, but it should also save costs related to transport and storage, and help inject funds into the local economy.

Austerity will remain a drag

While the aid package for refugees is positive for private consumption levels, this will only go some small way to offset the drag on the economy exerted by ongoing austerity measures. The IMF has been insistent regarding the need to continue with fiscal consolidation and reform efforts, and while the new government under Omar al-Razzaz is seeking to implement this through more progressive taxes, reducing the burden on the poor, government spending will nevertheless remain constrained, despite sporadic protests. Looking ahead, the success of the conference held in London in February will be measured by how effectively the investment generated engenders new jobs for Jordan's burgeoning labour force. Unemployment rose to 18.7% in Q4 2018, the highest level recorded on the 10-year series.

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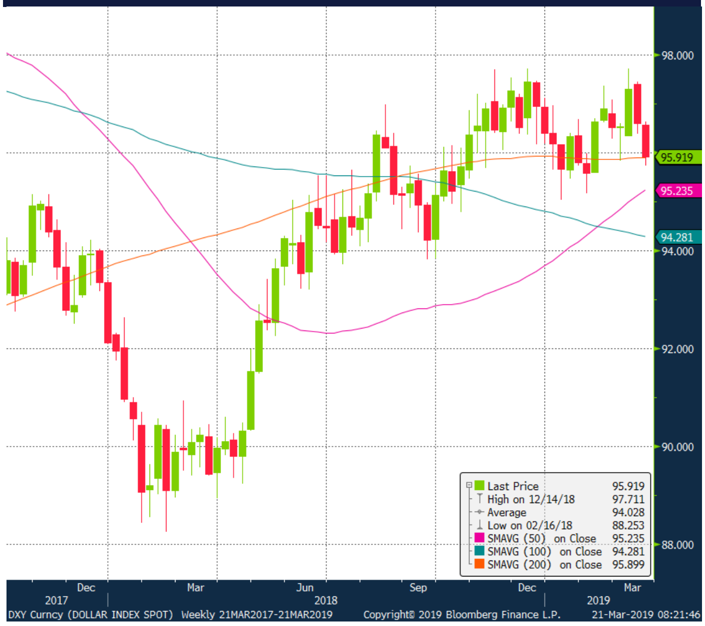
Currencies

Dollar weakens in aftermath of FOMC

The USD has weakened over the last 30 days, with the Dollar Index falling 0.56% to currently trade at 95.919. The index climbed to a 2019 high of 97.710 earlier in March but surrendered these gains due to diminished expectations of additional monetary policy tightening from the Federal Reserve. While the Fed ultimately left interest rates unchanged (2.25-2.50%), the recent softness in economic data and trade concerns also resulted in FOMC members lowering their expected number of rate hikes for 2019 from two at their December 2018 meeting to none during the March 2019 FOMC. This shift in stance brings the forecasts closer to market projections, which previously expected that the current tightening cycle had ended with the OIS now implying a 48.2% chance of a rate cut by January 2020.

DXY sits at 200-week moving average



Source: Bloomberg

Support near the 200-day moving average (95.850) and 200-week moving average (95.899) have helped slow further declines and as we go to print, the index is trading just above these levels at 95.904. We expect a retest and break of these level to be followed by a test of the 76.4% one-year Fibonacci retracement (95.642). A break of this level is likely to catalyze a more significant decline towards the 50-week moving average (95.235) and then the 61.8% one-year Fibonacci retracement (94.361). A higher risk of this scenario is demonstrated by the 14-week Relative Strength Indicator (RSI) which is currently at 48.79 and bearish in momentum.

GBP still sitting on Brexit knifedge

GBPUSD was able to hit a new 2019 high of 1.3381 on March 13th. These gains were a result of increased optimism over a "no deal" Brexit being avoided after UK Prime Minister May failed to win support for her deal and Parliament adopted a motion that delays leaving the European Union, in effect aiming to prevent a no-deal Brexit. Since then, optimism has faded to an extent and the pound has retreated back towards 1.32. On March 20th, May requested to delay Brexit until the end of June, allowing her more time to get her deal approved by Parliament. However, there are still not insignificant risks of a no-deal Brexit on 29th March as European Council President Tusk said the EU would only approve the short extension if the existing deal was approved by the UK's parliament next week. Such an approval is still not secure, and failure to pass it would clearly renew pressure on the pound.

Sterling awaits clarity on Brexit

Source: Bloomberg

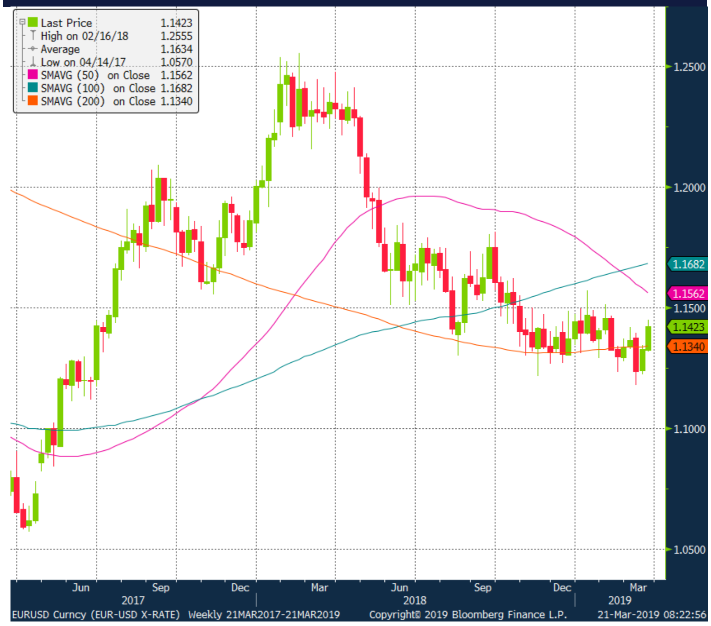
The 1.26% gain of the last 30 days has taken GBPUSD to 1.3215. Of technical significance is that the 50-day moving average (1.3061) has provided support during this period and last week, there was a break above the 100-week moving average (1.3221). Currently the price is trading slightly below this level and a weekly close below the 100-week moving average will be bearish. Should this happen, we expect initial support at the 50-week moving average (1.3100). Should this level falter and be followed by a break of the 50-day moving average, further declines can be expected towards the 23.6% one-year Fibonacci retracement of 1.2898.

EURUSD benefits from dollar softness

Gains over the last two weeks have resulted in EURUSD rising over the last month. However, this result is more a symptom of USD softness rather than market confidence in the common currency. Eurozone data has continued to disappoint in Q1 2019, with February's manufacturing PMI showing contraction (49.3) and February's core inflation falling to 1.0% from 1.1% the previous month. In addition, Q4 2018 GDP was softer than expected at 1.1% y/y (est. 1.2% y/y). With the ECB now more cautious (see Global Macro), expectations for tightening of monetary policy in 2019 have evaporated.

Technically there have been some significant developments for EURUSD in March. Having fallen as low as 1.1177 on March 7th, the price has since rebounded and is currently trading at 1.1419. This move is significant as it has taken the cross above many key technical levels including the 50-day (1.1356), 100-day (1.1368) and 200-week (1.1340) moving averages. We expect further gains over the balance of the month and maintain our Q1 2019 forecast of 1.15.

EURUSD back above 200-week MA



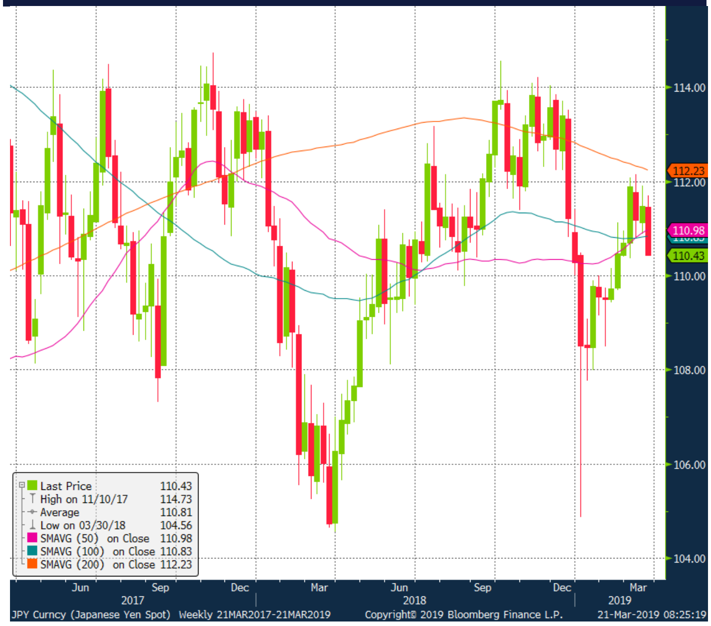
Source: Bloomberg

USDJPY follows yields lower

The post FOMC decline in U.S. Treasury yields has driven USDJPY lower. The last month's 0.28% decline has taken the price to 110.55, back below the 200-day and 100-day moving averages (111.45 and 111.24). In addition the price is currently on course to close the week below the previously supportive 50-week moving average (110.98). We expect mild support at the 50-day moving average (110.36) followed by stronger support at the 50% one-year Fibonacci retracement (109.56).

In the medium term, we expect USDJPY to continue to be driven by yields and risk appetite. Despite the Federal Reserve shifting to a neutral bias for 2019, the Bank of Japan was also dovish in its communication at the March meeting, highlighting the recent softness of production and exports. As a result, JPY is likely to remain soft in the medium term as expectations for ultra-loose monetary policy continue.

USDJPY to retake 100-week MA?



Source: Bloomberg

INR rallies

Notwithstanding the heightened geopolitical risk, sustained rise in oil prices and elevated domestic political risk (general elections) over the past month, the INR has rallied +4.0% against the USD. The move, which makes the INR the best performing emerging market currency over the past month, is in sharp contrast to the moves at the start of the year. While a flatlining of the USD has helped, the primary driver appears to be improved investor sentiment. Foreign investors have put in more than USD 3bn into Indian equities and bonds this month and the trade deficit dropped to a 17-month low in February 2019.

Overall, the move is in line with our forecast trend but at a faster pace. We had expected the USDINR to breach 69.0 post-election results in Q2 2019. Despite the move, we retain our forecast of 69.0 for Q2 2019. We believe that volatility will increase and investors will turn cautious closer to actual election dates and ahead of results.

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Equities

As we approach the end of first quarter of 2019, global equities are on the verge of having their best quarter since mid-2010. This is in stark contrast to investor expectation at the start of 2019. At the moment, it appears that most headwinds at the beginning of the year have become tailwinds.

One key constant has been the softer outlook over global growth. However, markets have largely shrugged much of this off as many key data points are jumping around with little sign of an overall trend. For example, the US payrolls data oscillated from the biggest beat in 30 months to the largest miss since 2015. Similarly, China's loan growth jumped to a record at the start of the year before dropping to the weakest level in two years.

Overall, the MSCI All Country index extended its gains to 12.4% for the year with all major sub-indices rallying. The MSCI G7 index, the MSCI Emerging Markets index and the MSCI Frontier Markets index are up +12.7% ytd, +10.9% ytd and +7.8% ytd respectively. Chinese equities are at the forefront of this rally with the Shanghai Composite index recouping almost all of its 2018 losses in less than a quarter with gains of +23.9% ytd. The Tadawul with gains of +10.6% ytd is another bright spot as investors build positions ahead of formal inclusion in key emerging markets indices of MSCI and FTSE Russell over the next three months.

One interesting feature of the current rally in equities has been lack of flows. Unlike 2018, when the strong start to the year was backed by strong inflows, the sharp rally at the start of 2019 has actually been marked by outflows. According to data from EPFR, equity funds saw an outflow of USD 50.6bn in the first two months of 2019. Broken down by region, developed market saw an outflow of USD 68.7bn and emerging markets saw an inflow of USD 18.1bn. Further, both active and passive funds lost assets under management.

Notwithstanding a V-shaped rally in Q1 2019, it appears there are enough catalysts to keep the current strength underpinned in the near term. These include the Federal Reserve forecasting no rate hike in 2019, China boosting liquidity and providing clear signal of a fiscal stimulus, the positive impact from the commodity complex following OPEC+ determination to keep oil prices above USD 60/bbl and possible conclusion of at least a partial trade deal between the US and China. Apart from these, technical factors such as MSCI reweighting of Chinese stocks in its indices and a probably delay in Brexit should also help investor sentiment.

Key Markets

So far this year, the performance of European and Chinese equities have been in sharp contrast to 2018. Both these markets have recouped their 2018 losses and have outperformed their benchmarks.

China

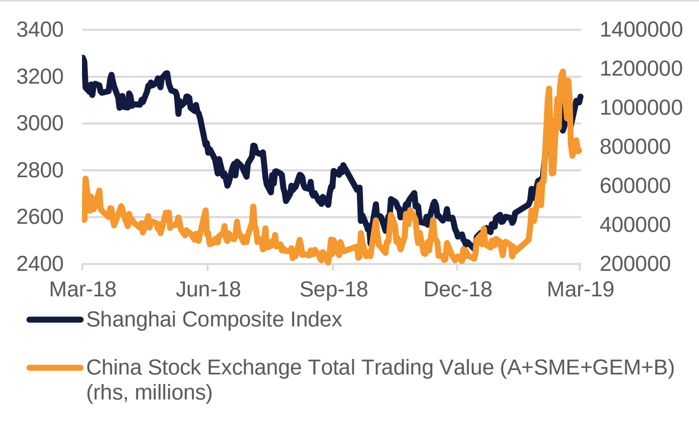
Chinese equities are among the best performing so far this year. While the overarching theme has been hope of some sort of a deal with the US on the trade front following tangible progress and fiscal stimulus by the government, there have been other notable factors fueling the rally.

MSCI, at the start of the month, said that it will increase the inclusion factor of China-A shares (CNY denominated) from 5% to 20% in its benchmark indices. This will be done in three steps in May, August and November this year. On completion of the three-step process, the weighting of Chinese stocks in the MSCI EM index will jump to 3.3% from c.0.7% currently. MSCI estimates that this will potentially draw more than USD 80bn of new foreign inflows into China.

Another key development this year has been rule changes made by the China Securities Regulatory Commission. The changes include:

- Revisions to scrap the requirement that a margin call must be made if the stock's value falls below 130 percent of the loan value
- More types of collateral will be accepted in margin trading and short selling
- Plan to encourage securities companies to invest in stocks and exchange-traded funds by lowering capital requirement for riskier assets
- Expanding the scope for the Qualified Foreign Institutional Investor and RMB Qualified Foreign Institutional Investor programs

Investor sentiment improves in China



Source: Bloomberg

These measures together have helped trading volumes jump higher as investor confidence picks up. The number of Chinese stock investors had climbed to 147.5 million in January 2019, while market turnover soared to 2015 highs. Retail investors accounted for 99.6 percent of total investors.

Another key driver has been low valuation even after taking into account weak earnings forecast. The Shanghai Composite index is currently trading at a 12M forward PE multiple of 11.8x, a discount to the MSCI EM index which is trading at a 12m forward PE multiple of 12.4x. The discount is wider when measured against SHCOMP's 10-year moving average PE multiple of 18.8x.

Europe

At the start of the year, the outlook for European equities was bleak amidst negative sentiment about the impact of trade wars on Europe, weak economic fundamentals, fear of seeping populism and Brexit negotiations weighed on investor sentiment. However, a lot of these factors have dissipated or not played out to the extent expected which in turn has helped European equities.

The European Central Bank has also provided investors with a 'central bank put' as it announced a new two-year Targeted Longer-Term Refinancing Operation (TLTRO) and also changed its forward guidance to rule out any rate hike this year. The renewed dovishness of the ECB provides a floor to EUR/USD.

Another factor driving European equities has been the relative bottoming out of earnings estimates. The downward revision to earnings estimates is sharper in the US than in Europe over the last six months. The consensus earnings estimates indicate a higher EPS growth in Europe of 5% compared to 4% in the US. Obviously, FX is also a key driver of earnings in both regions. A weaker EUR is generally considered positive for earnings revision. The EUR, so far in 2019, has dropped -0.4%.

Keeping both these factors in mind, the valuation differential between US and European equities have also favoured the latter. The Euro Stoxx 600 index is currently trading at a PE multiple of 14x 12m forward earnings compared to the S&P 500 index which is trading at 12m forward PE multiple of 16.9x. It is worth noting that the dividend yield difference between both regions remain high with the Euro Stoxx 600 index expected to yield 3.9% versus 2.4% for the S&P 500 index. At a time when global yields have tumbled as most central banks have taken a dovish turn, the higher dividend yield provides an additional incentive for investors.

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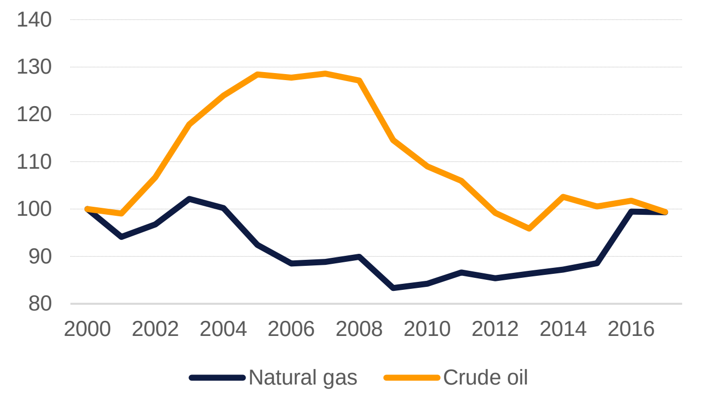
Commodities

News that Algeria's incumbent president, Abdelaziz Bouteflika, will not seek re-election has pushed another OPEC member into political uncertainty. Algeria's impact on crude markets is limited and a change in laws governing hydrocarbon investment, if a result of new government, won't necessarily lead to a turnaround in the production trajectory. However, the change of leadership does raise the share of OPEC capacity that is 'at risk' as a consequence of international sanctions, militant activity or untested political change.

Algeria is a relatively small crude oil producer, accounting for a little more than 3% of OPEC's production in 2018, and output has been in steady decline for years as an onerous investment climate (stringent limits on foreign ownership and high taxes on hydrocarbon income) has deterred investment. In recent years Algeria has focused more investment on natural gas as domestic demand has been growing rapidly.

Algeria's crude oil production in decline

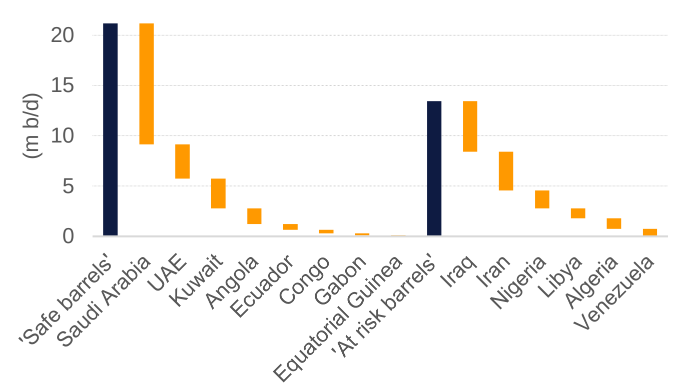


Source: BP Statiscial Review of World Energy, Emirates NBD Research. Note 2000=100.

The IEA estimates that OPEC's total capacity in 2019 is around 34.6m b/d with Saudi Arabia controlling the largest share (roughly 35% of the total). Of that 34.6m b/d total, roughly 61% are unencumbered by political risk. That leaves almost 40% of OPEC's total output at risk. Iraq holds the largest share of these barrels at an estimated 5m b/d of capacity. While militant groups in the country have largely been defeated the risk of a flare-up is not zero and persistent debate between the central government and KRG over revenue allocation hangs over the country's outlook.

Both Iran and Venezuela find themselves under US sanctions that will deter international investment and the Latin American nation is also undergoing profound political unrest. The IEA estimates Venezuela's production capacity this year at just 750k b/d. That compares with production of as much as 2.5m b/d as recently as 2014. Should a political transformation occur in Venezuela it does not guarantee an improvement in the investment environment or oil production capacity even though the country holds the world's largest crude reserves.

OPEC barrels exposed to political risk



Source: IEA, Emirates NBD Research.

In Nigeria, militant activity in the oil producing Niger delta region has disrupted output in the past and the re-election of incumbent president Muhammadu Buhari may risk a resumption of fighting. Meanwhile, Libya remains riven following the end of the 2011 civil war with oil production routinely disrupted by unrest.

Politics may affect sentiment more than output

While these political risks affecting individual countries may not end up affecting production much they will raise anxiety about OPEC's ability to reliably supply markets and will thus keep an underlying bid to crude prices. OPEC members that are party to the December 2018 production cut agreement are already producing 3m b/d below their collective capacity and 500k b/d of that unused capacity is held in countries where the market may discount the ability to raise output quickly.

OPEC officials in recent days have stressed that the April meeting will see no decision on the current production cuts and that the process of rebalancing markets is still a work in progress. Our expectation remains that economic conditions in key members will lead to an increase in output in H2 2019 as those with flexible capacity try to capture the benefit of higher prices and replace output impacted by sanctions.

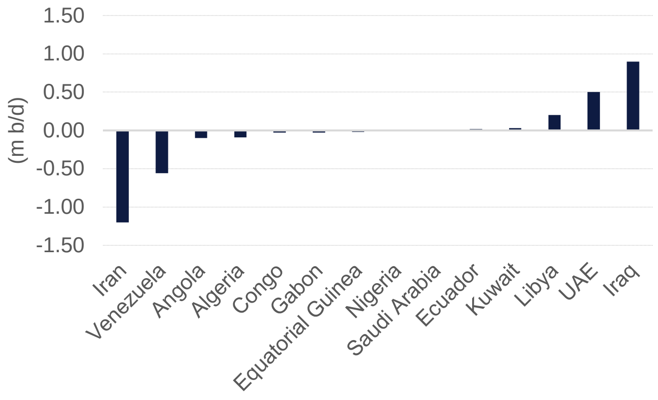
Sanctions threaten OPEC's long-term market share

The IEA's long-term projections expect a decline of nearly 400k b/d in total OPEC capacity as sanctions on Iran and Venezuela do long-term damage to the upstream investment climate in both countries. We would note that the forecast period provided by the IEA covers an additional election cycle in the US under which administration policy towards both Iran and Venezuela could change.

A collective sanctions-induced decline in capacity of 1.76m b/d in Iran and Venezuela from 2018-24 may appear appealing for other OPEC producers to make up that lost ground. However, the IEA projects a substantial increase in non-OPEC over the same period:

an increase of around 6m b/d led by capacity additions in the US. OPEC's room for manoeuvre, particularly over the next two years, will be limited should the producers' bloc seek to avoid contributing to a market surplus. The call on OPEC in 2020 is estimated at just 30.13m b/d (and 30.4m b/d in 2021). That compares with January production levels of 30.83m b/d estimated by the IEA.

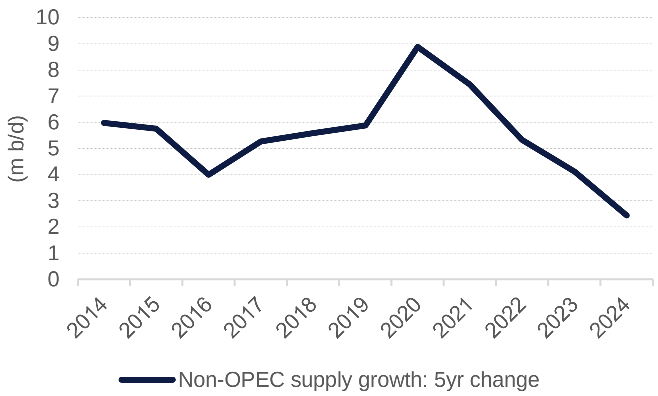
Change in crude oil production capacity



Source: IEA Oil Market Report 2019.

By the end of the 2018-24 period, however, the long-term (five-year) pace of growth in non-OPEC supply will have slowed from recent highs as the impact of the shale boom accrues into the base.

Shale impact wanes by 2024



Source: IEA Oil Market Report 2019.

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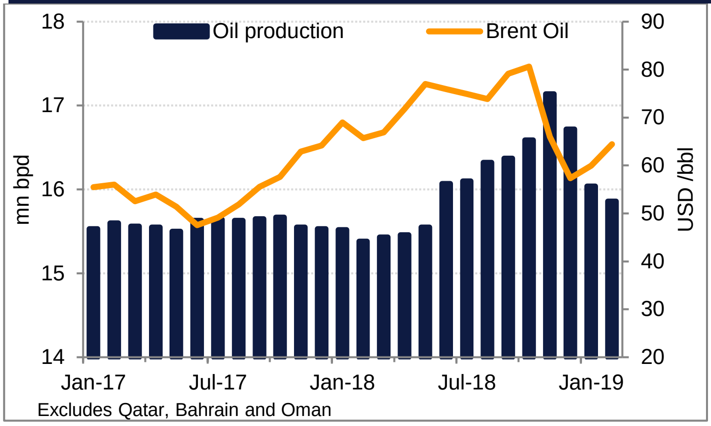
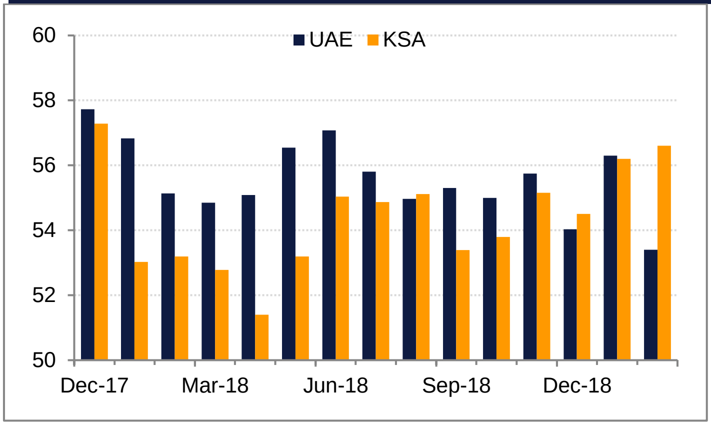
GCC in Pictures

GCC Oil Production and Oil Price



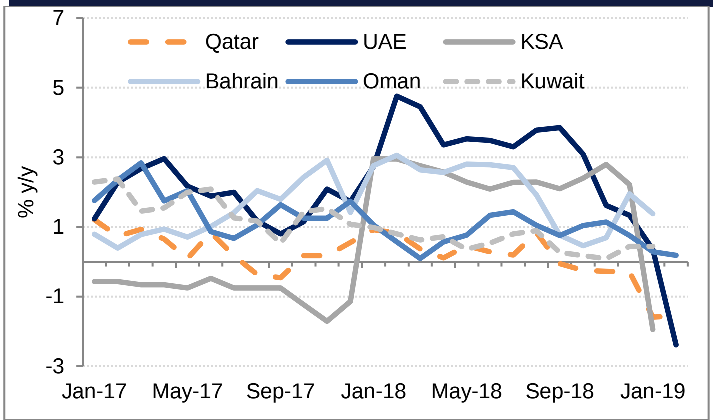
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



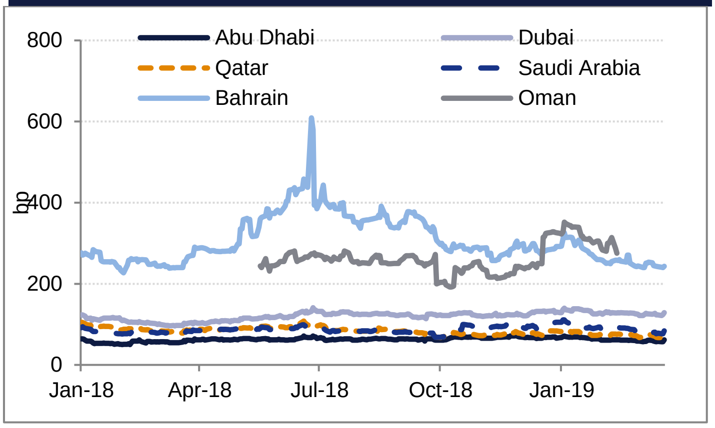
Source: IHS Markit, Emirates NBD Research

Inflation



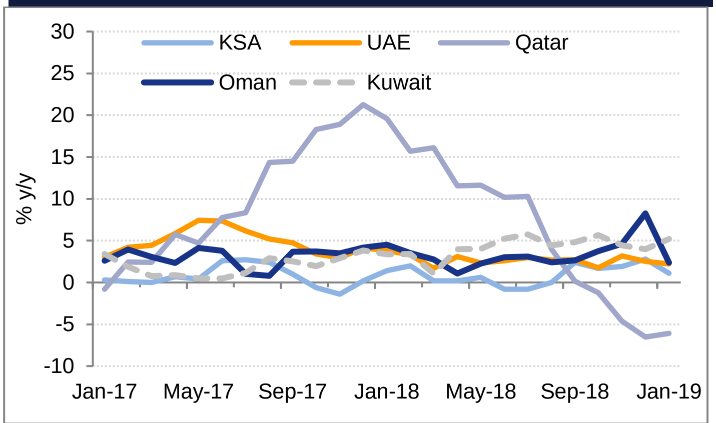
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



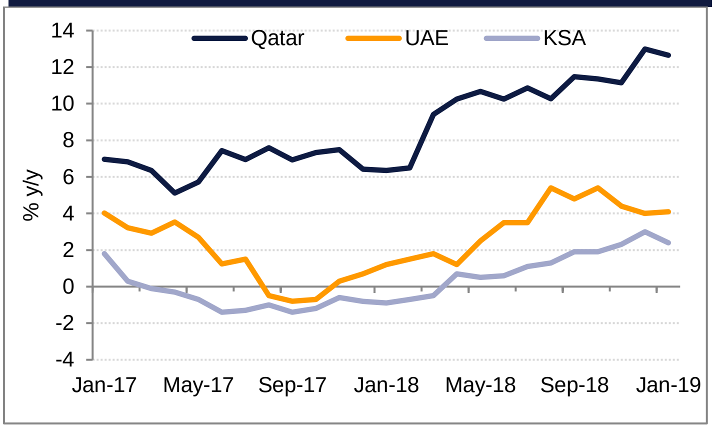
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

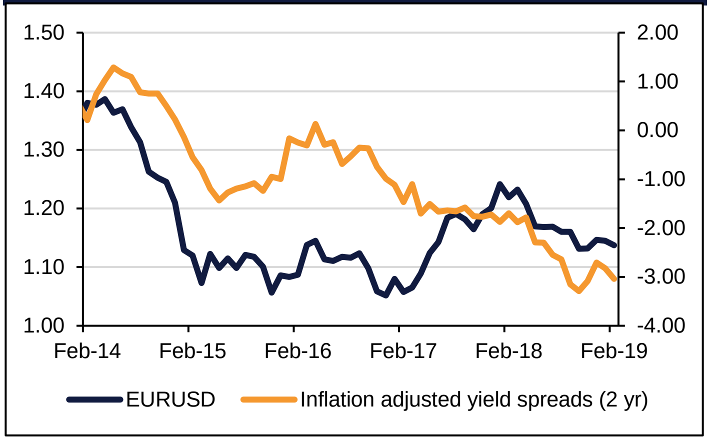
Private sector credit*



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

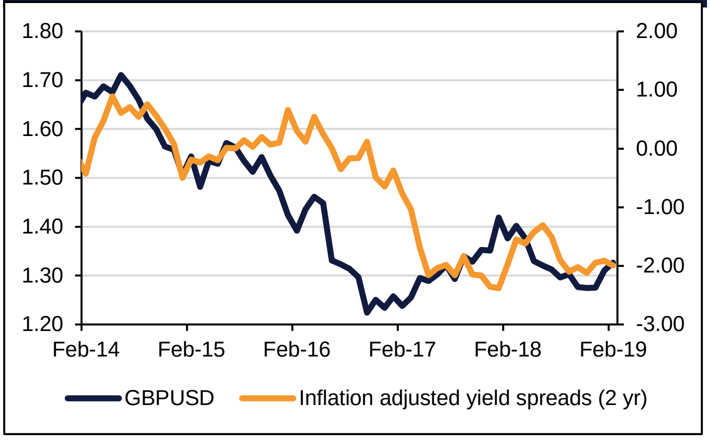
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



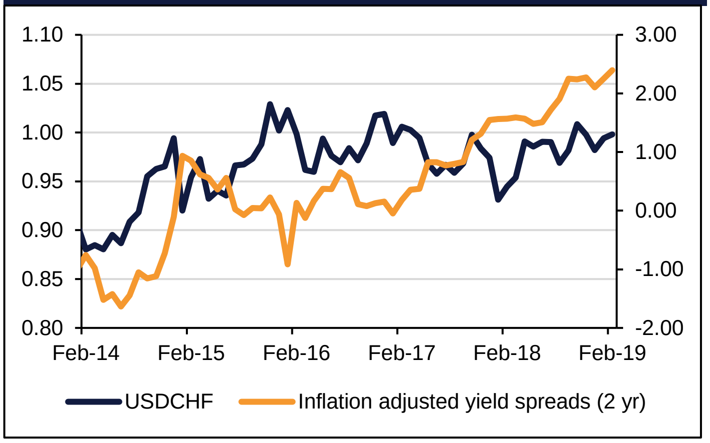
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



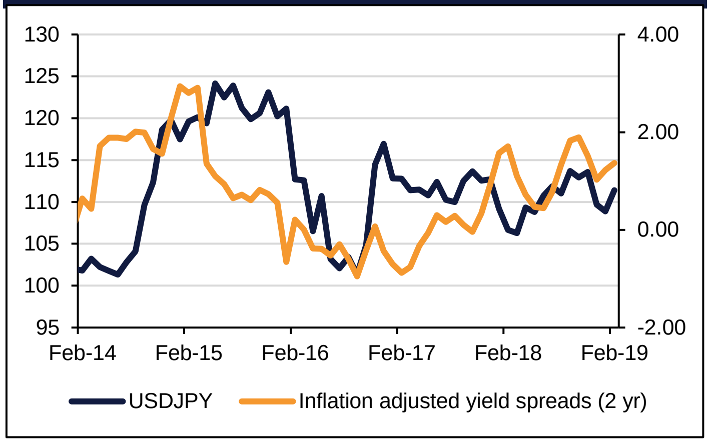
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



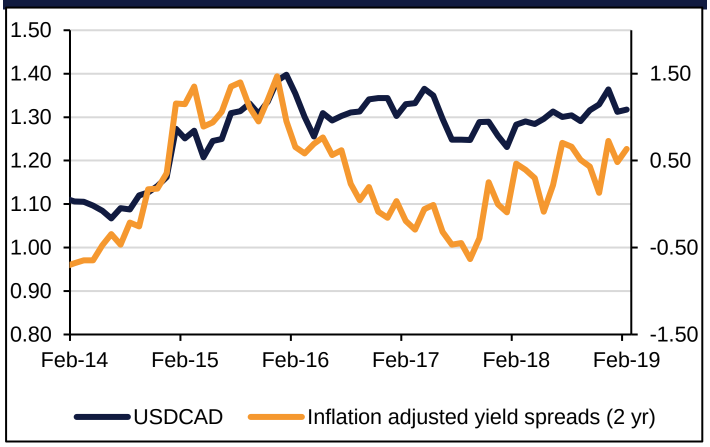
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



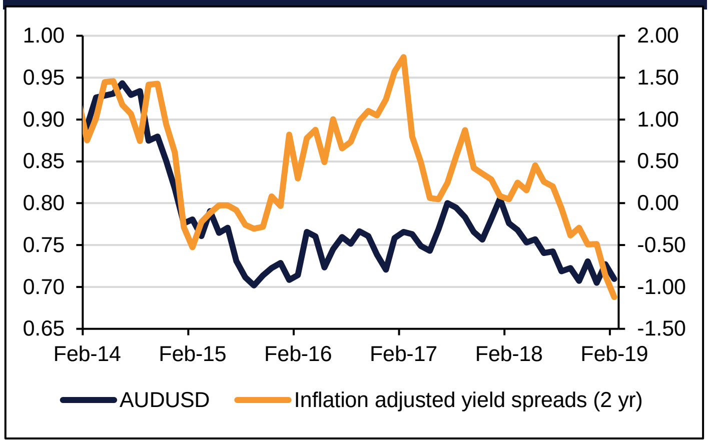
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

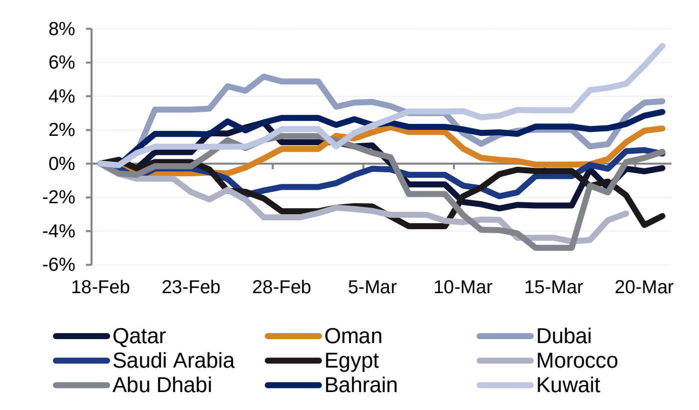
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

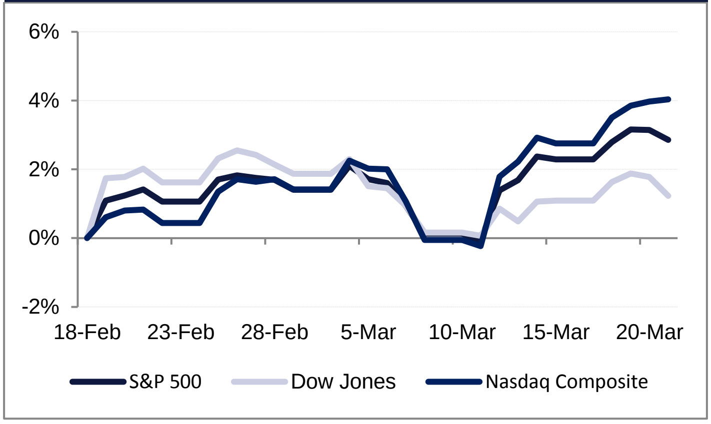
Major Equity Markets

MENA Equity Markets



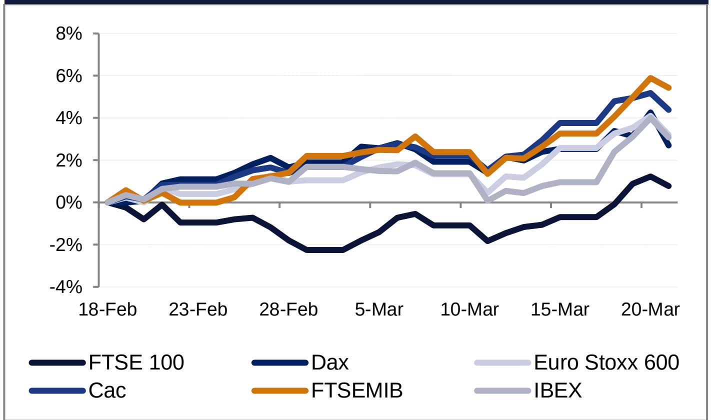
Source: Bloomberg, Emirates NBD Research

US Equity Markets



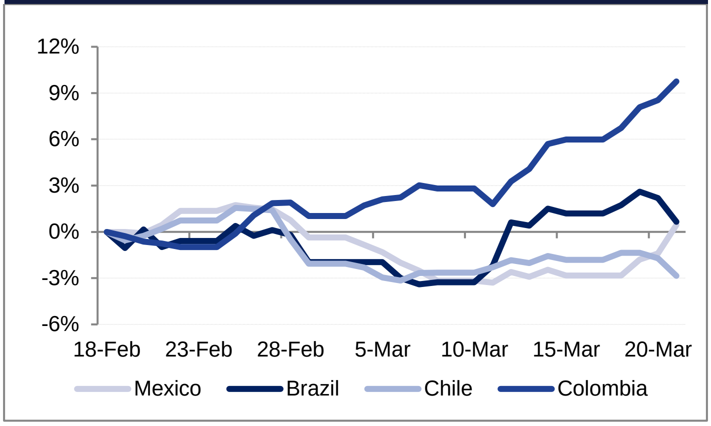
Source: Bloomberg, Emirates NBD Research

European Equity Markets



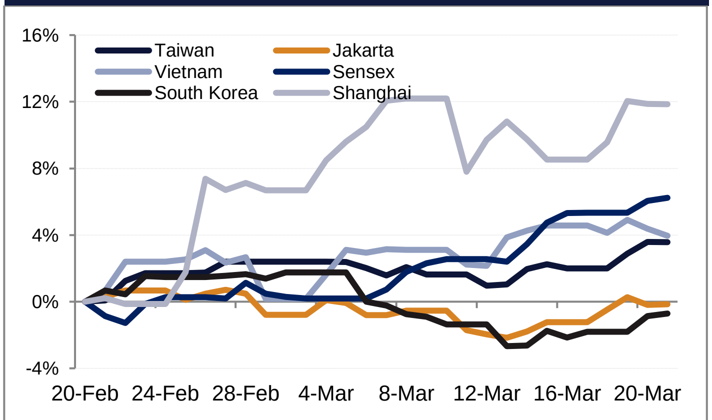
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



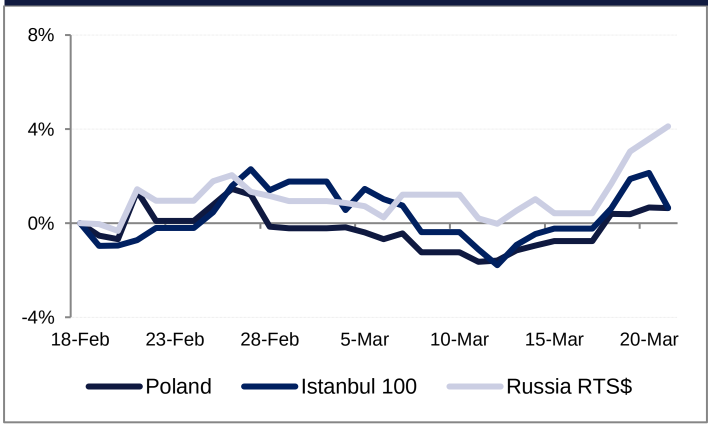
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

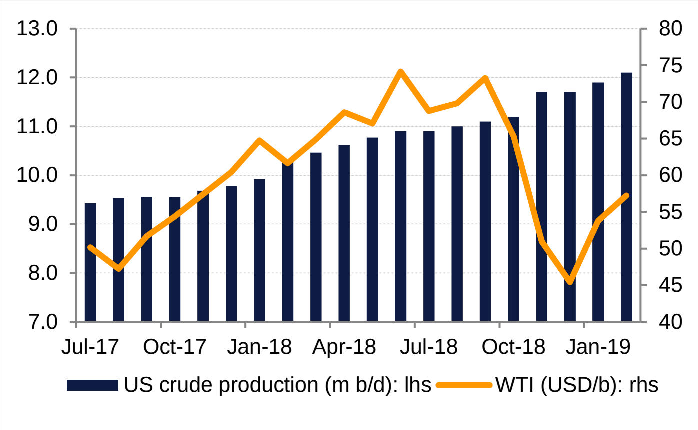
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

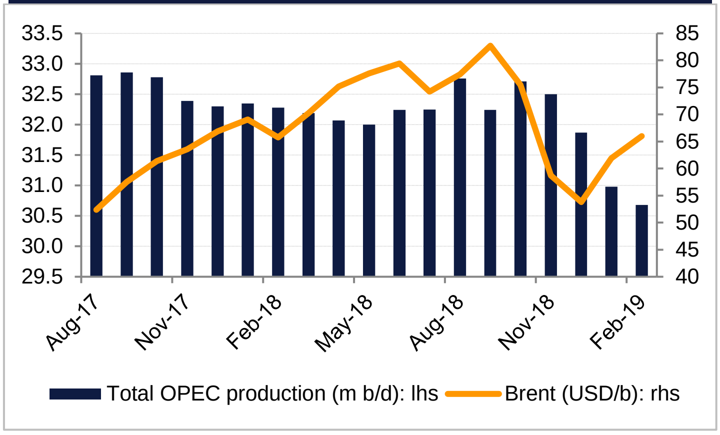
Major Commodities Markets

US oil production and price



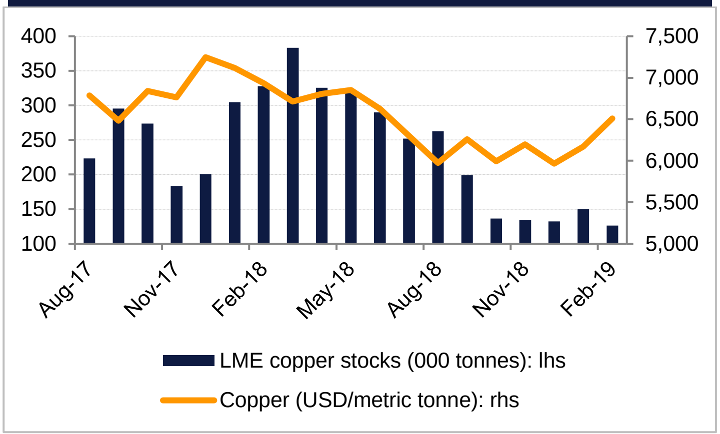
Source: EIKON, Emirates NBD Research

International oil production and price



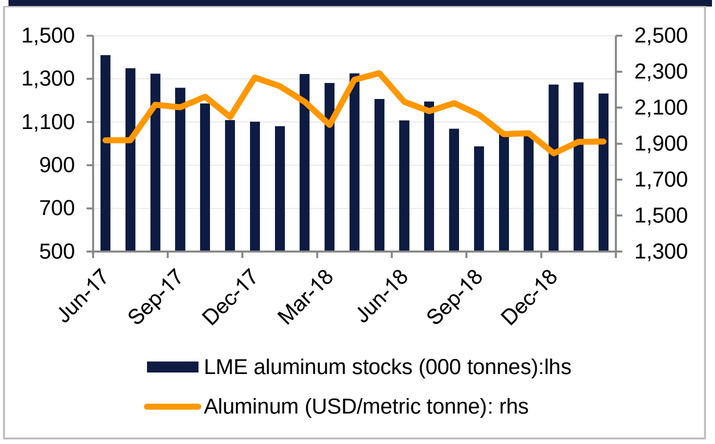
Source: EIKON, Emirates NBD Research

Copper stocks and price



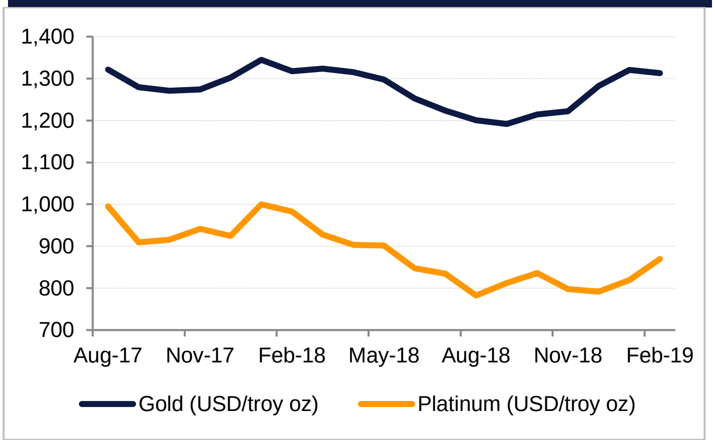
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



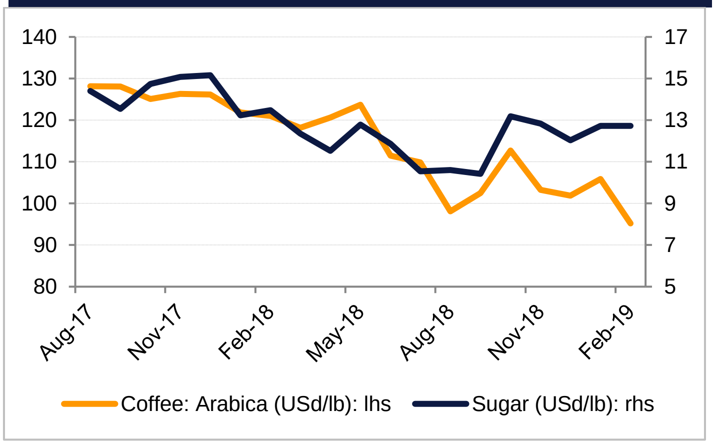
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	357.3	382.8	427.2	436.5	459.0
Real GDP %	3.0	0.8	2.4	3.1	3.5
Current A/C % GDP	3.7	6.9	6.9	4.8	3.9
Budget Balance % GDP	-4.0	-2.2	-3.0	-2.9	-4.1
CPI %	1.6	2.0	3.1	1.5	2.0
Saudi Arabia					
Nominal GDP $bn	644.9	683.8	783.5	780.5	813.0
Real GDP %	1.7	-0.9	2.2	2.0	1.6
Current A/C % GDP	-3.7	1.5	9.4	6.7	6.5
Budget Balance % GDP	-12.9	-9.3	-4.6	-5.6	-5.6
CPI %	2.1	-0.8	2.5	2.0	2.0
Qatar					
Nominal GDP $bn	151.7	166.9	191.0	195.4	207.9
Real GDP %	1.8	1.1	3.1	3.6	4.0
Current A/C % GDP	-5.5	3.8	10.2	5.7	4.9
Budget Balance % GDP	-9.2	-5.8	-0.3	1.0	1.0
CPI %	2.7	0.4	0.2	1.5	2.0
Kuwait					
Nominal GDP $bn	109.4	119.5	140.5	141.0	148.0
Real GDP %	2.9	-3.5	2.6	1.6	2.4
Current A/C% GDP	-4.6	6.3	13.0	7.2	12.2
Budget Balance % GDP	-13.9	-9.0	-2.9	-5.5	-5.8
CPI %	3.2	1.6	0.6	1.0	1.5
Oman					
Nominal GDP $bn	65.9	70.7	80.1	80.9	84.3
Real GDP %	5.0	-0.9	2.9	3.1	3.1
Current A/C % GDP	-18.8	-15.2	-5.7	-7.1	-6.2
Budget Balance % GDP	-20.9	-13.8	-6.2	-8.0	-7.1
CPI %	1.1	1.6	0.9	1.5	2.5
Bahrain					
Nominal GDP $bn	32.3	35.4	39.1	40.0	41.7
Real GDP %	3.2	3.9	2.0	2.0	2.4
Current A/C % GDP	-4.6	-3.9	-2.1	-4.2	-7.2
Budget Balance % GDP	-13.5	-10.0	-6.8	-6.4	-6.0
CPI %	2.8	1.4	2.1	3.5	2.5
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	429	454	518	517	539
Real GDP %	2.3	-0.3	2.4	2.5	2.6
Current A/C % GDP	-2.8	2.7	8.1	5.2	5.2
Budget Balance % GDP	-10.6	-7.2	-3.7	-4.3	-4.5
CPI %	2.1	0.4	2.1	1.7	2.0

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	332.4	225.8	241.5	285.4	335.6
Real GDP %	4.3	4.1	5.3	5.3	5.9
Current A/C % GDP	-6.0	-6.4	-2.5	-2.3	-2.0
Budget Balance % GDP	-12.05	-10.83	-9.84	-9.64	-8.21
CPI %	13.7	29.6	14.4	12.0	12.0
Jordan					
Nominal GDP $bn	39.2	40.7	41.7	43.2	44.6
Real GDP %	2.1	2.1	2.2	2.8	2.7
Current A/C % GDP	-9.4	-10.6	-9.2	-8.8	-8.3
Budget Balance % GDP	-3.2	-2.7	-2.7	-2.5	-2.2
CPI %	-0.8	3.3	4.5	3.2	2.4
Lebanon					
Nominal GDP $bn	51.1	57.3	62.4	66.3	70.9
Real GDP %	1.0	0.6	0.8	0.9	1.7
Current A/C % GDP	-20.5	-21.2	-19.6	-20.5	-20.9
Budget Balance % GDP	-9.8	-6.9	-9.6	-9.9	-7.9
CPI %	-0.8	4.5	6.3	5.4	4.8
Morocco					
Nominal GDP $bn	103.3	109.6	118.8	121.0	127.5
Real GDP %	1.1	4.1	3.0	2.7	3.0
Current A/C % GDP	-4.2	-3.6	-3.5	-3.4	-3.1
Budget Balance % GDP	-4.2	-3.5	-3.7	-3.4	-3.0
CPI %	1.6	0.8	1.9	2.0	2.1
Tunisia					
Nominal GDP $bn	41.7	36.8	34.5	30.6	30.6
Real GDP %	1.0	1.7	2.5	2.7	3.0
Current A/C % GDP	-8.9	-11.1	-11.1	-9.4	-8.9
Budget Balance % GDP	-6.2	-6.7	-4.8	-4.6	-4.1
CPI %	3.7	5.3	7.4	6.8	5.5
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	223.8	147.3	158.9	189.0	224.7
Real GDP %	3.02	3.33	3.75	3.83	4.45
Current A/C % GDP	-7.4	-8.3	-6.0	-5.6	-5.1
Budget Balance % GDP	-9.4	-7.6	-7.4	-7.4	-6.4
CPI %	8.5	15.6	9.1	8.0	8.1

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	160.2	165.6	164.1	167.4	173.3
Real GDP %	3.3	1.6	1.8	2.2	2.0
Current A/C % GDP	-12.3	-13.2	-8.9	-7.6	-6.5
Budget Balance % GDP	-13.1	-6.6	-6.9	-8.4	-7.6
CPI %	5.8	6.0	4.0	5.3	6.0
Iran					
Nominal GDP $bn	441.8	446.9	433.4	494.1	586.2
Real GDP %	12.4	3.3	-1.9	-4.0	3.8
Current A/C % GDP	3.7	3.6	3.8	-0.2	-1.4
Budget Balance % GDP	-4.7704	-5.0785	-4.1275	-4.1992	-3.6763
CPI %	8.7	10.0	21.0	31.2	17.5
Iraq	441.8	446.9	433.4	494.1	586.2
Nominal GDP $bn	165.2	184.6	214.7	242.8	251.2
Real GDP %	11.0	-0.3	3.5	4.3	4.6
Current A/C% GDP	1.3	8.1	24.5	18.9	13.2
Budget Balance % GDP	-14.5	-6.6	-4.4	-4.0	-3.8
CPI %	1.3	0.7	0.4	1.0	1.1
Libya					
Nominal GDP $bn	43.6	63.3	76.1	88.2	96.7
Real GDP %	-6.9	34.8	7.6	5.4	10.4
Current A/C% GDP	-10.2	-9.5	-2.1	-2.6	-2.9
Budget Balance % GDP	-18.1	-10.6	-7.1	-6.3	-5.9
CPI %	9.5	25.0	11.5	10.0	8.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	312.4	308.3	300.1	341.5	403.4
Real GDP %	9.0	4.9	1.2	-0.2	4.3
Current A/C % GDP	0.5	0.4	5.4	2.1	0.7
Budget Balance % GDP	-7.9	-7.8	-6.1	-4.7	-4.4
CPI %	6.1	8.0	12.4	17.7	10.9

Key Economic Forecasts - Global

US	2014	2015	2016	2017	2018f	2019f
Real GDP %	2.6	2.9	1.5	2.2	2.7	2.5
Current A/C % GDP	-2.1	-2.4	-2.4	-2.3	-3.0	-2.5
Budget Balance % GDP	-2.7	-2.6	-3.1	-3.4	-3.5	-4.7
CPI %	1.6	0.1	1.3	2.1	2.5	2.3
Eurozone						
Real GDP %	1.3	2.1	1.8	2.4	1.9	1.5
Current A/C % GDP	2.4	3.2	3.3	3.5	3.2	3.0
Budget Balance % GDP	-2.5	-2.0	-1.5	-0.9	-0.7	-0.9
CPI %	0.4	0.0	0.2	1.5	1.7	1.5
UK						
Real GDP %	3.1	2.3	1.9	1.7	1.3	1.5
Current A/C% GDP	-5.3	-5.2	-5.8	-3.9	-3.5	-3.3
Budget Balance % GDP	-5.3	-4.1	-2.9	-1.8	-1.4	-1.6
CPI %	1.5	0.0	0.7	2.7	2.5	2.1
Japan						
Real GDP %	0.4	1.4	0.9	1.8	0.8	1.0
Current A/C % GDP	0.8	3.1	3.8	4.0	3.6	3.6
Budget Balance % GDP	-7.7	-6.7	-5.7	-3.5	-3.2	-3.5
CPI %	2.7	0.8	-0.1	0.5	1.0	1.0
China						
Real GDP %	7.3	6.9	6.7	6.9	6.6	6.3
Current A/C % GDP	2.3	2.8	1.8	1.3	0.4	0.1
Budget Balance %GDP	-1.8	-3.4	-3.8	-3.7	-3.6	-4.0
CPI%	2.0	1.4	2.0	1.6	2.1	2.3
India*						
Real GDP%	6.4	7.4	8.2	7.1	7.3	7.8
Current A/C% GDP	-1.4	-1.1	-0.6	-1.5	-2.0	-2.8
Budget Balance % GDP	-4.3	-3.5	-3.7	-3.9	-3.5	-3.3
CPI %	6.7	4.9	5.0	3.3	3.9	4.6

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

FX Forecasts

FX Forecasts - Major						Forwards		
	21-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EUR/USD	1.1413	1.1500	1.1500	1.1800	1.2000	1.1503	1.1590	1.1766
USD/JPY	110.70	111.00	113.00	112.00	110.00	109.90	109.11	107.52
USD/CHF	0.9926	1.0000	1.0000	0.9800	0.9700	0.9839	0.9756	0.9591
GBP/USD	1.3198	1.2500	1.3000	1.3500	1.4000	1.3259	1.3316	1.3424
AUD/USD	0.7116	0.7300	0.7550	0.7700	0.8000	0.7128	0.7141	0.7169
NZD/USD	0.6883	0.6800	0.6900	0.7100	0.7400	0.6894	0.6906	0.6926
USD/CAD	1.3305	1.3250	1.2850	1.2600	1.2500	1.3275	1.3247	1.3193
EUR/GBP	0.8649	0.9200	0.8846	0.8741	0.8571	0.8677	0.8706	0.8766
EUR/JPY	126.38	127.65	129.95	132.16	132.00	126.38	126.38	126.38
EUR/CHF	1.1328	1.1500	1.1500	1.1564	1.1640	1.1318	1.1307	1.1284

FX Forecasts - Emerging						Forwards		
	21-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
USD/SAR*	3.7502	3.7500	3.7500	3.7500	3.7500	3.7505	3.7514	3.7552
USD/AED*	3.6731	3.6730	3.6730	3.6730	3.6730	3.6735	3.6742	3.6763
USD/KWD	0.3032	0.3020	0.3020	0.3020	0.3020	0.3032	0.3033	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3865	0.3885
USD/BHD*	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3784
USD/QAR*	3.6538	3.6400	3.6400	3.6400	3.6400	3.6544	3.6550	3.6557
USD/EGP	17.3000	18.0000	18.1250	18.2500	18.2500	17.6950	18.1250	19.1000
USD/INR	68.833	70.000	70.000	68.000	68.000	69.3100	69.9700	71.2200
USD/CNY	6.6791	6.9000	7.0000	7.1000	7.2000	6.6859	6.6949	6.7115
USD/SGD	1.3468	1.3500	1.3200	1.3000	1.2900	1.3445	1.3420	1.3369

FX Forecasts - MENA					
	21-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019
USD/MAD	9.5624	9.5000	9.6000	9.6000	9.7000
USD/TND	2.9992	3.0800	3.1000	3.1500	3.2000
USD/TRY	5.4439	5.4000	5.5000	5.6000	5.7000

Data as of 21 March 2019
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	2.50	2.50	2.50	2.50			
10y	2.54	2.55	2.55	2.55			
2s10s (bp)	4	5	5	5			
US Treasuries Forecasts							
2y	2.39	2.40	2.40	2.40			
10y	2.52	2.55	2.55	2.55			
2s10s (bp)	13	15	15	15			
3M Libor							
3m	2.61	2.70	2.70	2.70			
3M Eibor							
3m	2.79	2.85	2.85	2.85			
Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED (Upper Band)	2.50	2.50	2.50	2.50			
ECB	0.00	0.00	0.00	0.00			
BoE	0.75	0.75	0.75	0.75			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-0.75	-0.75			
RBA	1.50	1.50	1.50	1.50			
RBI (repo)	6.25	6.00	6.00	6.00			
SAMA (reverse repo)	2.50	2.50	2.50	2.50			
UAE (1W repo)	2.75	2.75	2.75	2.75			
CBK (o/n repo rate)	2.50	2.50	2.50	2.50			
QCB (repo rate)	2.50	2.50	2.50	2.50			
CBB (o/n depo)	2.50	2.50	2.50	2.50			
CBO (o/n repo)	3.00	3.00	3.00	3.00			
CBE (o/n depo)	16.75	15.75	15.75	14.75			

Source: Bloomberg as at 21 Mar 2019, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	2019Q1	Q2	Q3	Q4	2018	2019
Energy							
WTI	60.25	50.00	57.50	60.00	60.00	64.76	56.88
Brent	68.64	61.00	67.50	67.50	63.00	71.53	64.75
Precious metals							
Gold	1,318.25	1,300.00	1,350.00	1,350.00	1,380.00	1,268.85	1,345.00
Silver	15.56	15.00	15.25	15.50	15.00	15.69	15.19
Platinum	869.10	850.00	900.00	950.00	950.00	877.68	912.50
Palladium	1,616.50	1,345.00	1,375.00	1,275.00	1,200.00	1,027.51	1,298.75
Base metals							
Aluminum	1,937.50	1,925.00	1,950.00	1,900.00	1,850.00	2,114.59	1,906.25
Copper	6,522.50	6,000.00	6,250.00	6,500.00	6,575.00	6,547.63	6,331.25
Lead	2,053.50	1,936.35	2,007.35	2,078.01	2,099.11	2,249.46	2,030.21
Nickel	13,275.00	12,125.00	12,500.00	12,750.00	13,250.00	13,182.34	12,656.25
Tin	21,370.00	21,000.00	20,750.00	20,750.00	20,500.00	20,081.72	20,750.00
Zinc	2,869.50	2,512.90	2,599.80	2,686.12	2,711.84	2,895.11	2,627.67
Iron ore	85.41	80.00	75.00	65.00	60.00	69.41	70.00

Prices as of 21 March 2019. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

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