بنك الإمارات دبي الوطني
Emirates NBD

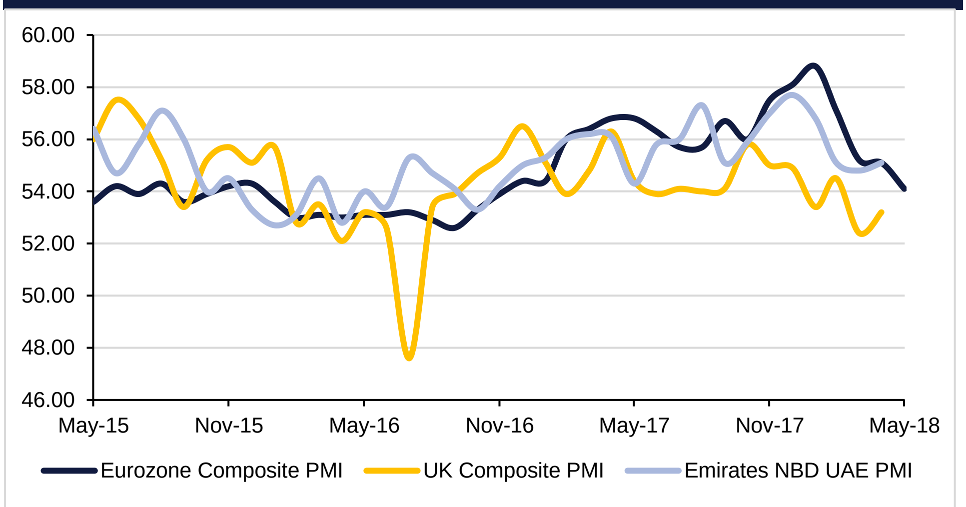
Monthly Insights

Monthly
24 May 2018

The synchronized global recovery is beginning to be challenged as fears of trade wars and geopolitical risks begin to show their impact. While the US economy remains firm, growth seems to be slowing in other parts of the developed world. Also higher rates, a dearer dollar and rising energy prices are becoming major headwinds for the EM economies.

- **Global macro:** While the U.S. economy shows signs of rebounding after a soft start to the year, the data elsewhere have been less encouraging. And the positive impact of strong growth on U.S. interest rates and on the dollar are also conspiring to exert pressures on emerging market economies and markets.
- **GCC macro:** Revisions to our oil production estimates for 2018 have triggered GDP growth downgrades across the GCC. However, higher oil prices have positive implications for budget deficits and current account balances.
- **MENA macro:** The Iranian rial and the Turkish lira have sold off at an even more rapid rate than that seen in emerging markets in general over the past several months, owing to idiosyncratic political risks.
- **Sector focus:** An update on the UAE's Happiness strategy.
- **Interest rates:** Divergence emerged between the rates market in the US where UST yields rose, and Europe, where subdued economic data and political uncertainty caused government yields to fall.
- **Credit:** Rising treasury yields and the strengthening dollar created a full blown bear market in EM risk assets. GCC bonds slipped lower despite improving oil prices and strengthening government financials.
- **Currencies:** The dollar has added to April's gains as data continues to suggest U.S. growth accelerated following a slow down in the first quarter.
- **Equities:** Notwithstanding several headwinds, global equity markets held onto their gains over the last month. While the broader equity indices closed in positive territory, the differential performance among major markets stood out as investors adjusted to emerging themes of higher oil prices and tighter liquidity conditions
- **Commodities:** We have revised higher our oil price forecasts in light of the US withdrawing from the Iran nuclear deal. Market balances are likely to tighten substantially in H2 as we do not expect other OPEC producers to fully compensate for the loss of Iranian barrels.

Global activity readings dipped at the start of the year



Source: Bloomberg, Emirates NBD Research.

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Content

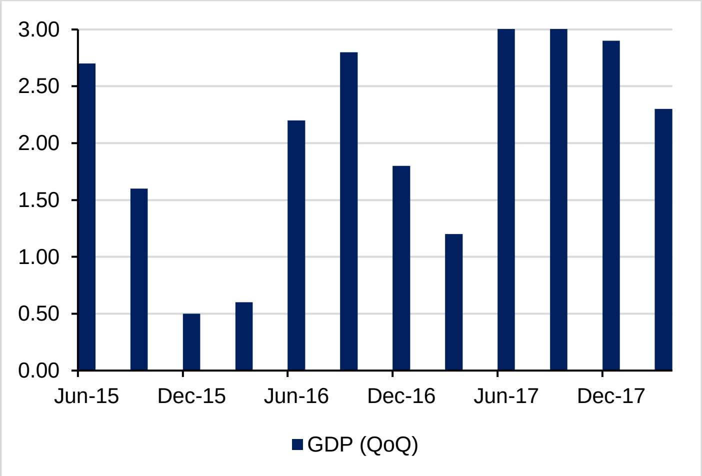
Global Macro

While the U.S. economy shows signs of rebounding after a soft start to the year, the data elsewhere have been less encouraging. And the positive impact of strong growth on U.S. interest rates and on the dollar are also conspiring to exert pressures on emerging market economies and markets.

Despite slowing in Q1, the US economy looks poised to recover in Q2

Although US Q1 GDP growth rate of 2.3% (annualized) was softer than in Q4 (2.9%), this was largely expected and it was still much stronger than the trends underway in the UK and in the Eurozone. US Q1 GDP is often a relatively weak figure historically due to problems with seasonal adjustments, but at 2.3% this year it was almost twice as strong as in Q1 a year ago, and it was also above estimates of where the trend rate of growth in the US is, usually seen as between 1.5-2.0%. As a consequence such a pace of growth is still likely to pressure the unemployment rate and maintain upward pressure on wages and prices, and thus keep alive expectations of another two Fed rate hikes in 2018 at least.

US GDP slowed in Q1 2018



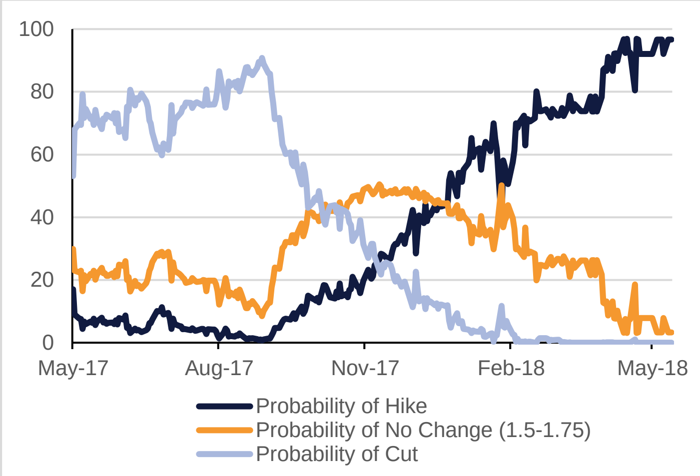
Source: Bloomberg, Emirates NBD Research

The main disappointment with this year's data was that consumption grew by only 1.1% annualized, from a 4.0% pace at the end of last year. That this happened even as taxes were cut was particularly concerning, although strength in business investment was strong, and exports also contributed positively. Consumption is likely to recover in Q2 as incomes continue to grow, and the housing sector is also likely to contribute more strongly in Q2. For the Fed it is likely to overlook the consumption slowdown for the time being, but it will be harder to ignore the pick-up in prices. The core PCE deflator rose to 2.5%, well above the Fed's 2.0% target, while other measures of wages were also strong rising by 2.9% y/y in the Q1 employment cost index.

Fed expected to raise rates again in June

While the Fed sat on its hands in early May, a June hike seems likely with the April jobs data also bouncing back from March. The US added 164k jobs in April, following an upwardly revised print of 135k jobs in the previous month. Jobs gains were widespread across industry and services. The headline unemployment number fell to 3.9%, its lowest level since 2001 and the first downward move in six months. Average hourly earnings held at 2.6% for the third month running**.** All told the jobs report gives signs of a steadily tightening labour market in the US and wage pressures at least heading in the right direction.

25bps Fed hike expected in June



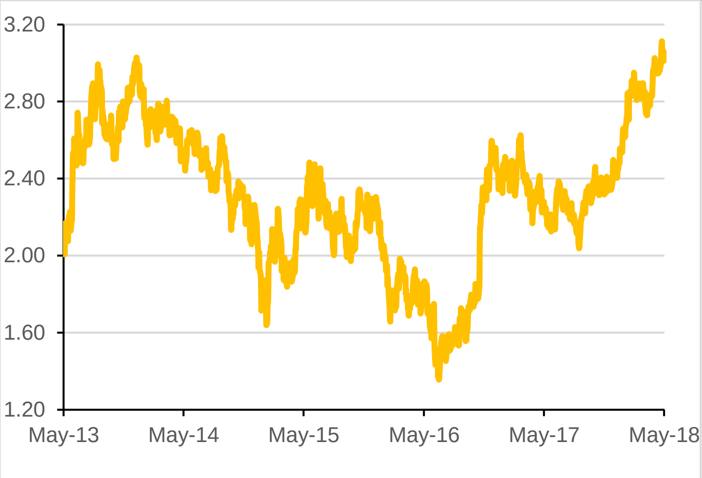
Source: Bloomberg, Emirates NBD Research

Other data has also been encouraging for stronger Q2 growth, notably US industrial production which climbed 0.7% m/m in April, exceeding analyst expectations of 0.6% and in line with the previous month, which was revised up from 0.5% previously. Manufacturing output was a key driver of the increase. This expanded 0.5%, compared to flat growth the previous month, supporting the view that tax cuts are starting to boost household spending. Other notable points include a 1.1% m/m gain in mining output, reflecting the increase in activity in the oil sector as global prices have risen. US retail sales also showed growth of 0.3% m/m in April, matching analyst expectations but down from an upward revised March growth figure of 0.8%. Despite the more modest headline expansion, the retail control group expanded by 0.4%, which together with the March revision suggests that the US economy remains fairly robust.

US 10 year yields surpass 3%

All in all the data has been sufficient to generate a break higher in US bond yields above 3.0% which is in turn exerting upward pressure under the dollar. The contrast in economic performance between the U.S. and other major economies is also responsible for exacerbating the strengthening dollar trend, with the UK economy almost stagnating in Q1, growing by just 0.1%, while Japan's GDP contracted for the first time in nine quarters in Q1, falling by -0.6%, compared to expectations of -0.1%. Meanwhile the Eurozone grew by 0.4% in the first quarter, but with that growth being constrained by the bloc's largest economy, Germany, which grew just 0.3%. Officials at the Bundesbank have previously laid the blame for the slow start to the year on factors such as adverse weather conditions and a flu epidemic weighing on consumption, and anticipate that growth will pick up over the remainder of 2018. Indeed, industrial production output in March exceeded expectations, suggesting the worst is probably past. However, EU economies from Portugal to Romania also had a weak first period according to flash results, and the ZEW investor sentiment survey for the Eurozone remains fairly weak at 2.4 in May. While up from 1.9 in April, this remains far off the 31.8 at the start of the year.

US 10 year yields break above 3%



Source: Bloomberg, Emirates NBD Research

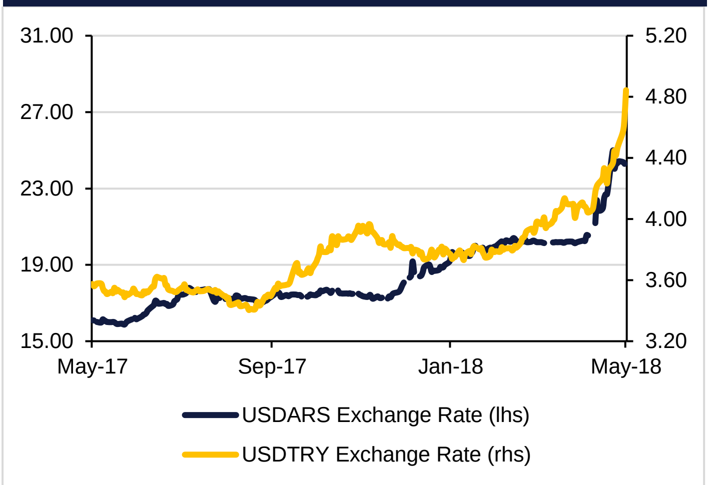
Bank of England holds in May

The upshot has been that the Bank of England remained on hold in May despite near universal expectations a month earlier that it would raise interest rates, while the ECB is likely to prolong the uncertainty over when it will begin the process monetary tightening.The BOJ also left monetary policy on hold, with overnight interest rates kept at minus -0.1%, 10-year bond yield capped at around zero percent and the BOJ continuing to buy assets at a pace of around JPY89tn a year. However, it also made a significant announcement, abandoning its pledge to hit its 2% inflation around fiscal 2019. The BOJ has been forced to postpone the time frame in which it will reach its 2% inflation forecast six times since 2013 when it first mentioned a two-year target for reaching it. As a consequence the overall message appears to be that monetary policy tightening is still as far away as it has always seemed, and much further away than it is elsewhere. We can still see the Bank of England raising rates in August, whilst the ECB will likely provide more guidance on policy in the summer as well.

EM under pressure as debt risks increase

The other upshot has been the unintended consequence of US policy tightening on a number of emerging markets, something akin to the 'taper tantrum' of 2013, but perhaps more threatening this time with up to two-thirds of EM debt dollar denominated. In many ways the story of the last month has been the weakness of EM, with Argentina and Turkey in the spotlight due to the idiosyncratic responses of their governments, but with a more general theme also playing out as higher US rates, a stronger dollar and firmer oil prices threaten capital flows to those countries with large deficits, high inflation, and reliance on foreign funding. A Fitch report has highlighted that EM debt securities have ballooned to USD19.3 trillion from USD 5 trillion a decade ago, with China apparently accounting for more than half of this increase. The Fitch report found that the Ukraine, Turkey and Argentina were 'the most vulnerable' but also warned a number of others about over reliance on external debt securities including the UAE. Neither are EM economies uniquely challenged by debt problems, with the new Italian coalition government pushing for debt relief on its 130% GDP national debt, threatening a resumption of a Eurozone debt crisis but on an altogether bigger scale than the Greek financial crisis.

ARS and TRY under pressure



Source: Bloomberg, Emirates NBD Research

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GCC Macro

Revisions to our oil production estimates for 2018 have triggered GDP growth downgrades across the GCC. However, higher oil prices have positive implications for budget deficits and current account balances.

Downgrades to 2018 growth forecasts

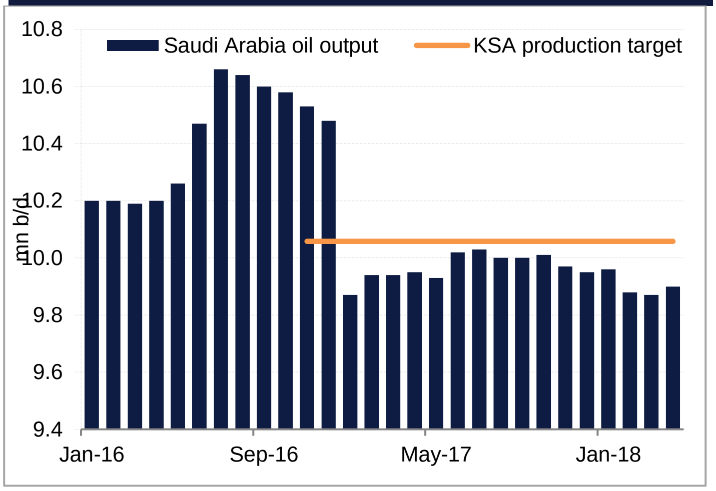
In our last Monthly Insights piece we highlighted the downside risks to GDP growth in the region as (over) compliance with OPEC production targets remained surprisingly strong and as survey data in the largest economy in the region was softer than anticipated in the first quarter.

The global geopolitical landscape has shifted significantly over the last month, and as a result, we have revised our forecasts for oil prices and oil output for the rest of the year. The result is that we now anticipate higher oil prices and lower production from GCC countries in 2018, relative to the start of the year.

Saudi Arabia GDP forecast revised down to 1.5% from 2.5%.

We had assumed a 1.5% increase in oil production in the Kingdom this year, as output had been limited to well below the OPEC agreed target for all of 2017. However, oil output from KSA declined -0.7% in January through April, compared with average 2017 production levels (according to Bloomberg estimates). Even with an assumed increase in production going forward to help mitigate the impact of Iran sanctions, we now think average oil output from Saudi Arabia this year will be just 0.5% higher than 2017.

Saudi Arabia oil production



Source: Bloomberg, Emirates NBD Research

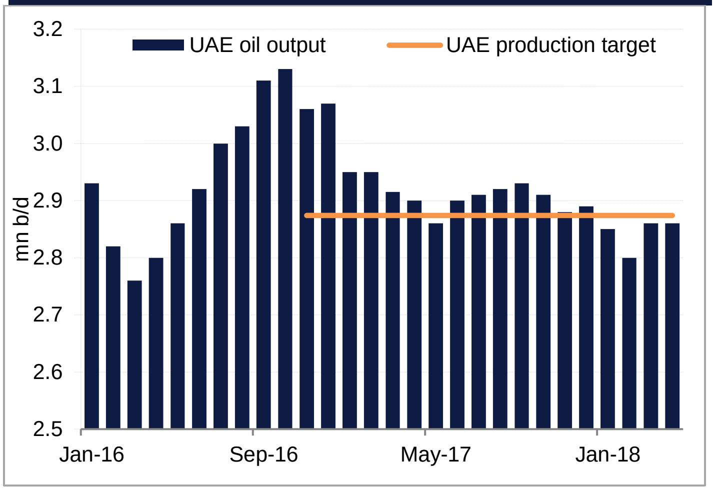
Given the soft PMI readings year to date (the headline index declined to its lowest level in the nearly 10-year history in April), we have also revised our forecast for non-oil sector growth in the Kingdom down to 2.3% from 3.3% previously. This is still much stronger than the 1.1% non oil GDP growth recorded in 2017 and reflects our expectation that fiscal stimulus and high oil prices will filter through to faster non-oil sector growth over the remainder of this year.

UAE economy grew 1.5% in 2017

Provisional data show that GDP growth last year slowed to 1.5% from 3.0% in 2016, slightly lower than our 2.0% forecast. Oil sector GDP contracted -1.7% y/y while non-oil sector growth accelerated slightly to 3.0%. Sector level data is not yet available, nor are revisions to prior years' data.

However, it is clear at this point that our expectation of a nearly 2% rise in oil production in 2018 is unachievable – the UAE's oil output has declined -2.3% in the year to April (Bloomberg estimates), and even with a modest increase in H2, it now looks like oil sector GDP will contract again this year by around -2%, pushing down our headline GDP forecast for 2018 to 2.2% from 3.4% previously. We retain our estimates for non-oil growth at 4.0% in 2018, pending the full release of 2017 GDP data by sector, as well as revisions to the prior data.

UAE oil production



Source: Bloomberg, Emirates NBD Research

Other GCC countries' 2018 growth forecasts have also been revised to varying degrees. In Oman, we expect a more modest rise in oil output than before, but we have revised our outlook for non-oil growth higher. As a result the downward adjustment to the headline GDP growth forecast in 2018 is a relatively modest -0.2 percentage points, to 2.6% y/y.

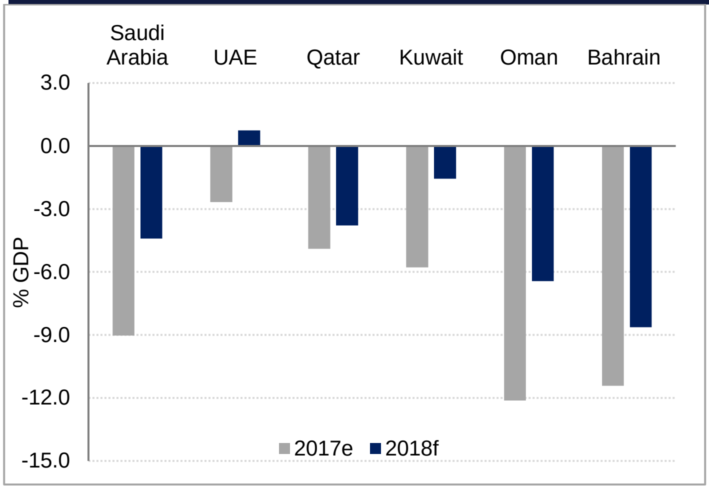
The impact is more significant for Kuwait, where we have pencilled in 1.8% GDP growth this year (2.8% previously) as oil production remains broadly unchanged from last year, rather than rising. In Bahrain, we have revised the 2018 growth estimate down to 2.9% from 3.4%, but this is largely due to weaker non-oil growth rather than lower oil output.

Fiscal and external balances to improve on higher oil prices

The flip side of lower expected oil production (and thus headline GDP growth) is that oil prices will be higher than we had anticipated at the start of this year. The USD 10/b upward revision to our average 2018 brent oil price forecast, to just under USD 70/b, means that budget revenues will be much higher than we had forecast, and as we don't expect expenditure to rise above what we had projected, fiscal deficits in the region will be much narrower.

In Saudi Arabia, we expect the budget deficit to narrow to -4.4% of GDP this year, well below our previous estimate of -7.5%. We now anticipate the UAE will record a small budget surplus this year (0.7% of GDP) rather than a deficit of -0.7%. The budget deficit for the GCC (calculated as a weighted-by-GDP average) is forecast at -3.0% of GDP, down from -5.6% previously and sharply lower than the 2017 average fiscal deficit of -6.9% of GDP.

GCC budget deficits



**Average is weighted by nominal GDP*
Source: Haver Analytics, Emirates NBD Research

The reduction in the borrowing requirements will be a further benefit, particularly for Bahrain and Oman, although projected deficits for both countries remain high relative to the rest of the GCC at -8.6% and -6.4% of GDP respectively. Nevertheless, this is a marked improvement from double digit deficits recorded in 2015 – 2017.

The average current account surplus is expected to widen to 7.2% of GDP this year from an estimated 2.4% in 2017, the highest surplus since 2014.

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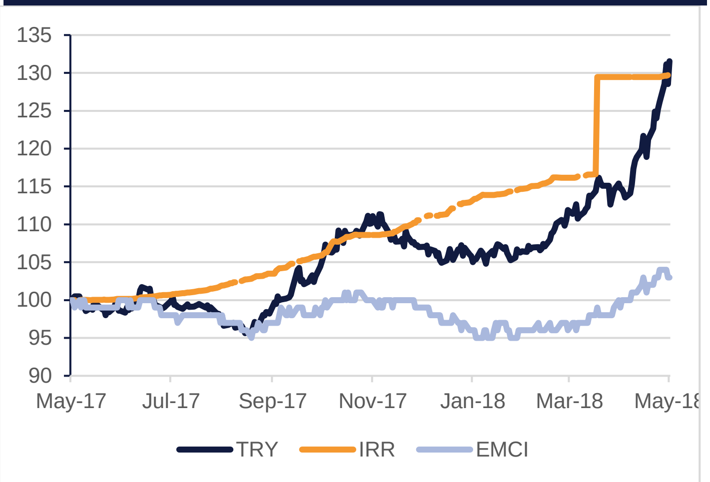
MENA Macro: IRR and TRY exceed broader EM sell-off

While many MENA economies will benefit from rising oil prices, and have currency pegs to the dollar which are more or less secure, the region's oil importers are facing a renewed challenge to their macroeconomic stability from higher oil prices, tightening global conditions, and a strengthening US dollar. Renewed dollar strength over the past several months has come at a cost to emerging market currencies, as evidenced by the decline in the JP Morgan EM FX index – made up of a basket of 10 major EM currencies – which has fallen to a more-than-two-year low in May.

This dynamic will have implications for inflation and the cost of servicing external debt loads throughout the region, but especially in Iran and Turkey, where idiosyncratic trends associated with political risk and heterodox monetary policies have seen the respective currencies sell off far more rapidly than the EM trend.

TRY, IRR, EMCI rebased 12 months



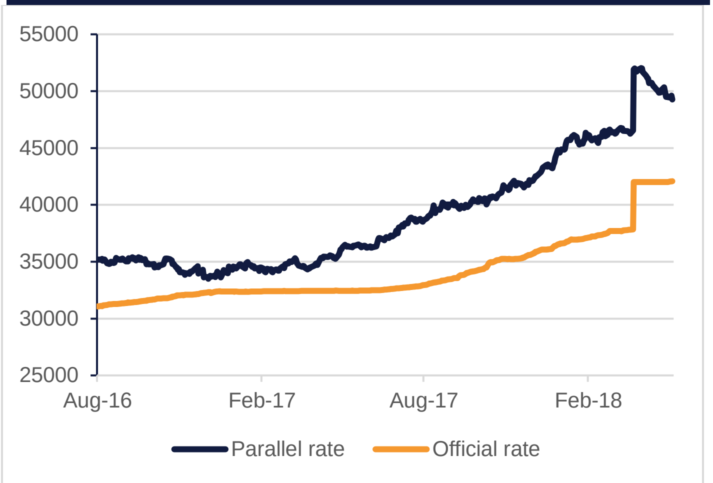
Source: Bloomberg, Emirates NBD Research

In Iran, officials have struggled to maintain the official rate for the lira as the US has declared it will withdraw from the JCPOA, while in Turkey, the freely floated lira has continued to break new record lows. While neither of these currencies have fared as badly against the dollar over the past 12 months as the Argentine peso, which has its own particular troubles, the currency sell-offs are indicative of a more general malaise within the two economies. Even if the two currencies should recoup some of their losses – a possibility more pertinent to the lira than the rial at present, but by no means guaranteed – a retracement to levels seen earlier this year is unlikely, meaning that inflationary pressures and rising external debt costs will exert a drag on the two markets.

Renewed sanctions will weaken rial

Despite being an oil exporter, the Iranian economy is not set to benefit from higher oil prices to the same degree as its Gulf neighbours, given the re-imposition of US sanctions against it this month, which we expect will knock as much as 500k b/d off its production levels. Alongside the fall in oil revenues, other exports will also be affected, and investment inflows, which had already been sluggish owing to widespread fears over renewed sanctions, will dry up further. Other government signatories to the Iran nuclear deal may continue to pay lip service to upholding the JCPOA, but firms with international exposure such as Total and Renault will ultimately be unlikely to risk US action against them, and will probably curtail their involvement in the country.

Spread remains wide – IRR/USD



Source: Haver Analytics, Emirates NBD Research

All of these factors will weigh heavily on the rial, which was already under significant pressure even before US President Donald Trump's May 9 announcement. The central bank was forced to devalue the official exchange rate from around IRR 37,000/USD to IRR 42,000/USD in April as the parallel market rate fell through the IRR 60,000/USD level for the first time. At the same time, the authorities declared that selling the rial at anything but the official rate would be punished with the same severity as dealing in narcotics as they tried to shore up the currency. On May 13, the central bank imposed further capital controls, for instance halving the amount of FX travelers can take when leaving the country by air.

Despite the government's best efforts, there have been anecdotal reports since that the parallel market rate has fallen through IRR 80,000/USD in some exchanges – unsurprising perhaps given the increasingly limited availability of the dollar at the official exchange rate, and deteriorating domestic sentiment. With newly installed US Secretary of State Mike Pompeo promising the 'strongest sanctions in history' against Iran in his speech to the Heritage Foundation on May 21, government efforts to shore up the rial will likely falter in the face of diminishing liquidity and widespread fear, and we expect the authorities will eventually be forced to implement a further devaluation to the official rate, to as much as IRR 60,000/USD in the first instance if it is to eradicate the parallel market.

Production will fall again

Source: Bloomberg, Emirates NBD Research

CBRT move a start

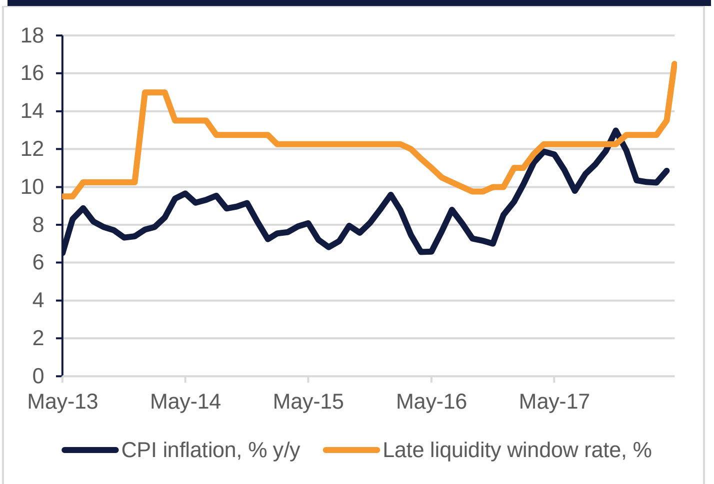
In Turkey, the lira had been getting close to TRY 5.0000/USD on May 23 before the central bank intervened and implemented an emergency 300bps hike to its late liquidity window – its monetary policy tool of choice among an array of interest rates. This raised the rate to 16.50%, and offered some support to the lira which recouped some of its losses and was trading at TRY 4.5700 at the start of May 24. However, the lira was at 4.6980 at the time of writing later that day, implying that bolder steps might be needed to provide a more meaningful backstop, and investors will need to trust the Turkish authorities' commitment to orthodox monetary policy if the sell-off is not to resume again.

TRY - hitting new lows

Source: Bloomberg, Emirates NBD Research

Alongside the more general challenges facing other EM oil importers with current account deficits, there have also been significant concerns over heterodox monetary policies in Turkey, alongside an expansionary fiscal policy. Despite elevated inflation, which climbed to levels not seen since 2003 in November and remains at multi-year highs, the central bank has been slow to raise interest rates, especially when global tightening and the reliance of the Turkish economy on portfolio inflows are taken into account. Although the 75 bps hike to the late liquidity window rate in April exceeded expectations, this was still less than might have been expected given the circumstances. In the intervening weeks, even the little reassurance offered to markets by this move was superseded by statements by President Recep Tayyip Erdogan on monetary policy on May 15. President Erdogan told Bloomberg that should he win the snap election he called in April next month, he would assume greater control over monetary policy. Having previously declared himself an enemy of high rates, believing that they in fact fuel inflation, sentiment towards the TRY weakened rapidly.

CBRT implements emergency hike



Source: Bloomberg, Emirates NBD Research

The CBRT move on May 23 was apparently done with the backing of the government, with Deputy Prime Minister Mehmet Simsek, saying 'It's high time to restore monetary policy credibility and regain investor confidence.' There were also some placatory statements from President Erdogan in a television interview, pledging that Turkey had the means to stabilise the currency in the short term. He also talked about how new measures to reduce inflation and narrow the current account deficit would be adopted after the June 24 elections, which he is likely to win. Given his previous statements on monetary policy, markets are likely to remain circumspect as they await further details.

In light of this, the upcoming June 7 MPC meeting will remain in particular focus especially if the TRY remains weak. Beyond that, all eyes will be on the elections, and the direction monetary policy takes when President Erdogan likely cements his control.

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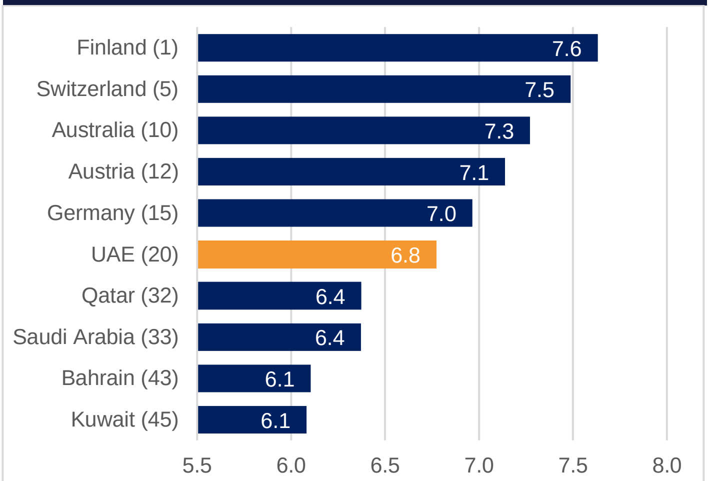
Sector Focus

UAE is the 20th happiest nation worldwide

The UAE is the happiest country in the Arab world for the fourth consecutive year in 2018, according the latest World Happiness Report (put together by the Sustainable Development Solutions Network for the United Nations). UAE ranked 20th overall among 156 countries, up one place from 2017, followed by Qatar (32nd), Saudi Arabia (33rd), Bahrain (43rd) and Kuwait (45th). Finland is the world's happiest country, rising from the 5th place last year to take the top spot from Norway while Australia ranked 10th. UAE ranked first globally in six out of the nineteen indicators such as convenience of the city for people from different countries to live in, being healthy to perform daily activities, satisfaction with efforts to preserve the environment, percentage of full-time employed population, satisfaction with roads and highways, and availability of mobile phones for personal calls.

The UAE Government aims to make the country amongst the top five happiest countries in the world by 2021. As a result, the post of the Minister of State for Happiness was created in February 2016, responsible for harmonising all government plans, programmes and policies to achieve a happier society. Following a Cabinet reshuffle last year, an additional portfolio was added to the Minister of State for Happiness to become the Minister of State for Happiness and Wellbeing.

Ranking of happiness, 2018



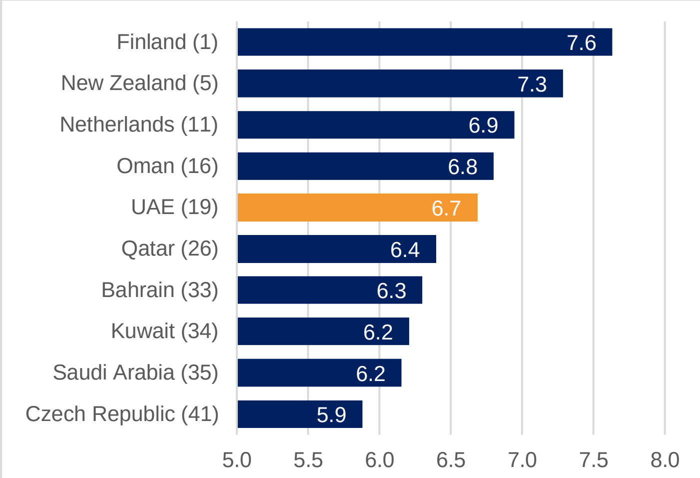
Source: UN World Happiness Report, Emirates NBD Research

Immigration and happiness

Large scale international migration has increased considerably in recent years from 153mn people living outside their country of birth in 1990 to 244mn in 2015, an increase of roughly 60%, according to the 2018 World Migration Report. In Western Europe for example, most countries have immigrants at a range of 10-15% of the population. The same stands for United States, while Canada, Australia and New Zealand range between 20-30%. The highest percentage of foreign-born population can be found in the UAE and Kuwait, with both recording over 70% of the population.

Measuring the happiness of both expatriates and Emiratis, the report shows that UAE scores highly on the index relating to quality of life for locals, securing a robust 7.2, a score that ranks it 11th worldwide when it comes to the happiness of locals. Foreigners living in UAE ranked as the 19th happiest people in the world, coming ahead of countries like the United Kingdom, Singapore, Belgium, Germany and France. Yet, more proof establishing UAE's position as accommodating and supporting an environment fit for expat arrivals.

Ranking of expat happiness, 2018



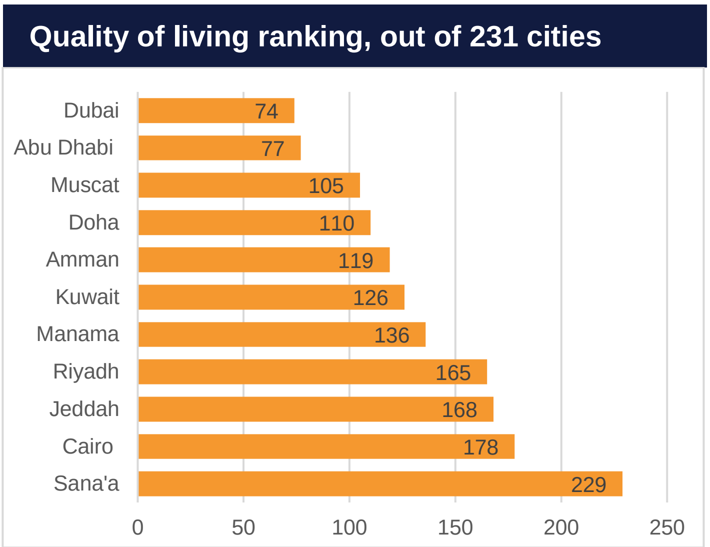
Source: UN World Happiness Report, Emirates NBD Research

Dubai remains highest for quality of living across the Middle East

Dubai remains one of the most attractive destination for expatriates, according to the 2018 Mercer's annual Quality of Living survey. Specifically, Dubai (74) is the city with the highest quality of living across the Middle East, followed closely only by Abu Dhabi (77), up two places compared with 2017. Both ranking 65th, Dubai and Abu Dhabi top the regional list for City Sanitation. With Damascus (225), Sana'a (229) and Baghdad (231) recording the lowest score in the region for quality of living, only three other Middle East cities made the top 120, including Muscat (105), Doha (110), and Amman (119).

Overall, UAE has recorded the highest increase in living standards (+12.2%) in the region, following intensive efforts over the past twenty years (ranking in 1998 vs ranking in 2018) to improve infrastructure (airports, public transport, etc.) and recreational and entertainment facilities while developing their tourism and transport infrastructure. Many international companies have based their regional headquarters in the UAE, causing an influx of expatriates.

The international recognition of Dubai as one of the best cities to live, work and retire can further accelerate profitable business growth and societal progress. Moving in this direction, UAE recently approved changes to rules governing expatriate residency and foreign ownership of companies. The changes, that will allow 100% ownership of businesses by foreign investors in some sectors and permit residency visas for some expats for as long as 10 years, will take place by the end of this year and are expected to stimulate investment in the country. Part of the circa AED 164bn that expats currently remit abroad may stay on onshore and be invested in local assets.



Source: Mercer, Emirates NBD Research

The gender gap challenge

The MENA region continued its progress by closing more than 60% of its overall gender pay gap for a second consecutive year in 2017, according to the latest Global Gender Gap Report by the World Economic Forum (WEF). Unfortunately, it continued to rank last globally on the overall Index measuring gender equality across four key areas: health, education, economy and politics. In 2017, the region's best-performing countries were Tunisia, UAE and Bahrain, having closed between 65% and 63% of their overall gender gaps.

UAE (120) remained the top performer in the GCC, climbing several spots on the back of notable improvements on gender parity in ministerial positions and wage equality for similar work, and comes close to fully closing its gender gap on the Educational Attainment subindex. It has also recorded a robust score on the Health and Survival subindex over the past decade. One of the goals of UAE Vision 2021 involves the country becoming one of the world's top 25 places for gender equality.

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Interest Rates

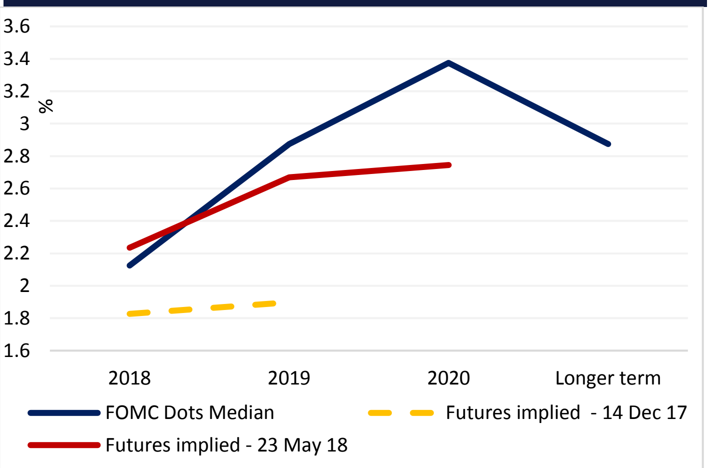
Divergence emerged between the rates market in the US where UST yields rose, and Europe, where subdued economic data and political uncertainty caused government yields to fall.

US Rates

Monthly economic data in the US continued to surprise on the upside with unemployment rate in April falling to 3.9% and wage growth remaining stable at 2.6%. Inflation, as measured by core PCE, reached 1.9% y/y, a level that Fed officials had originally expected to be reached only by the end of this year. However, the latest FOMC meeting minutes reflect little urgency for accelerating the path of rate hikes as Fed officials remained comfortable with a modest overshoot in inflation above their target of 2% in the short term. That said, futures-implied probability of rate hikes has moved closer to three more hikes this year compared with the median of two that are implied by the Fed's dot plot.

Later this month, the Senate Banking Committee will hold the nomination hearing for Richard Clarida and Michelle Bowman to become members of the Fed Board. Neither candidate alters our outlook for Fed policy. One of President Trump's previously announced nominees, Marvin Goodfriend, has faced opposition in the Senate. Republicans hold a very slim 51-49 majority in the Senate, meaning there is virtually no room for error in approving the President's nominees if all Democrats unite in opposition.

FOMC Dot Plot vs Market Expectations



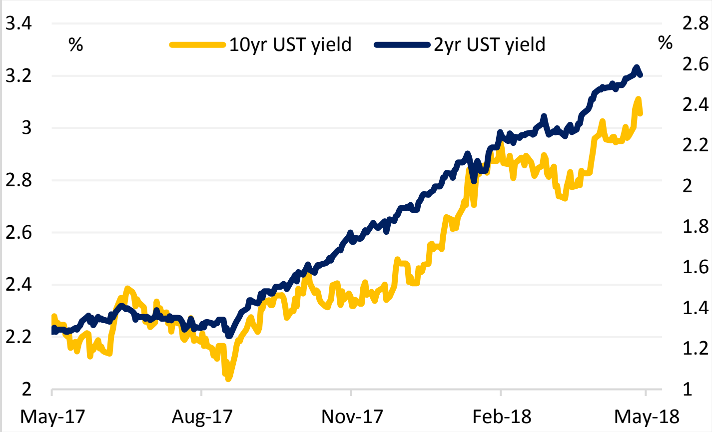
Source: Bloomberg

UST curve flattened further

Financial conditions in the US tightened during the month as yields rose across the curve. The upward push to UST yields is emanating from several sources including a) a hawkish Fed; b) higher supply of treasuries; c) rising term premium as higher inflation becomes more certain, and d) the general trend of rising yields on comparable securities such as the German bunds.

Amid rising yields, the UST curve maintained its flattening bias. The 2yr10yr spread has fallen from 53bps last month to circa 46bps now and may signify that we are likely to have crossed the mid point in the current rate hike cycle.

Rising UST yields



Source: Bloomberg

Global Rates

Economic data out of the Eurozone became a little subdued with inflation in April falling to 1.2% from 1.3% in the previous month and preliminary estimates of manufacturing and services PMIs reflecting deceleration of growth. However, factors affecting the PMIs are likely to be transitory and may fade away with a softening currency. That said, yields on 10 year German Bunds fell during the month to 0.53% (-10bps m/m).

Rising noise around Italian politics and the country's high indebtedness caused the yield on 10yr Italian sovereign bonds to rise 56bps to 2.35% though still at a level that is half of Greek 10 yr yields at 4.32%. The new government is likely to push for forgiveness of at least part of its EUR 250bn debt and at the same time seek to raise more debt to fund budget deficits.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	3.03	+6	+16	+75
UK	1.48	-6	-5	+39
Germany	0.53	-10	-12	+12
Japan	0.03	-2	-1	0
Brazil	5.41	+42	+55	+56
Argentina	7.29	+56	+60	
Egypt	6.87	+16	+46	

Source: Bloomberg as at 22 May 2018

The annualized rate of GDP growth in the UK is estimated to have fallen to 1.2% in the 1Q vs 1.4% previously, forcing BoE to leave rates unchanged at its last meeting. However, expectations of at least one rate hike before the end of this year remain well entrenched. Yields on 10yr gilts fell 6bps to 1.47% and the 2yr10yr gilt spread steepened slightly to 66bps during the month.

The BoJ is expected to remain fully accommodative until at least 2019, diverging further from other central banks' policies as inflation remain persistently low despite the tight labour market conditions. Core CPI came in only at **an annualized rate of 0.7% in April -- not even halfway to the BoJ's 2% target.**

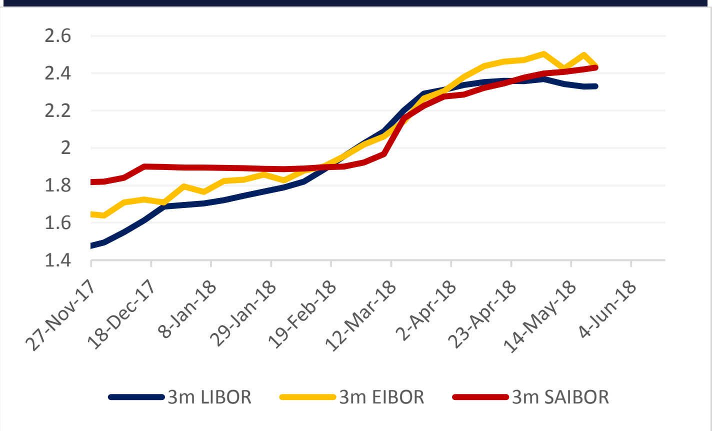
In the EM space, Argentina raised rates four times in less than a month to 40% as the government tried to halt currency depreciation, partly contributing to the 56bps increase in 10yr Argentina government bond yields to 7.29%.

Having loosened policy earlier in 2018, the Central Bank of Egypt was on hold at 17.75%, as it expects inflation to remain high amid rising energy prices and the impact of subsidy cuts to filter through. Egypt's credit-rating was upgraded one notch to B by S&P that cited strengthening economic growth in the country and its rising external foreign exchange reserves. However yields on USD denominated Egyptian government bonds rose 16bps during the month to 6.87%, mostly in sync with the sell off in wider EM bonds.

Local Rates

Lower loan growth on the back of slowing economic growth and higher deposit growth arising from rising oil prices continues to boost liquidity in the GCC banking systems. This in turn has reduced the spread between the USD LIBOR and local interbank rates to historical lows. However the spread between the 3m EIBOR - LIBOR increased from a negative of circa 9bps in March to positive 11bps now mainly as a consequence of increased volatility in the EIBOR rates after the Central Bank of the UAE adopted a revised methodology for setting EIBOR rates in mid April.

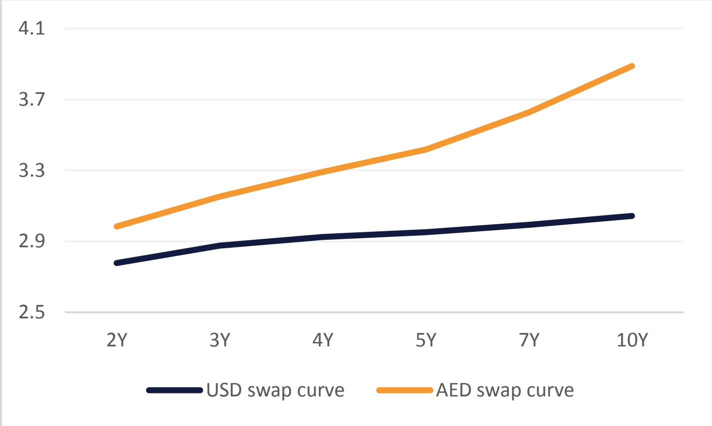
Local 3m interbank rates



Source: Bloomberg data as at 22 May 2018

The spread between 3m SAIBOR - LIBOR has also reverted to +9bps after touching a decade low of -18bps in March this year. In contrast, QIBOR spreads over LIBOR have remained elevated as the country continues to be boycotted by depositors in iits neighbouring countries. Interbank 3m QIBOR rate closed the month at 2.63%, reflecting spread of 30bps over LIBOR.

AED vs USD swap curve



Source: Bloomberg data as at 22 May 2018

Rising UST yields caused similar movements in the USD swap curve. AED swap curve followed suite with minimal resistance. The recent volatility in AED-USD swap basis spread is attributed to the volatility in underlying EIBOR rates.

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Credit Markets

Rising treasury yields and a strengthening dollar created a full blown bear market in emerging market bonds. GCC bonds slipped lower despite improving oil prices and strengthening government financials.

Global Bonds

Rising inflation expectations and an increasing possibility of US rate hikes becoming faster and steeper than currently priced in, pushed the UST yield curve higher during the month. Yields on 2yr, 5yr and 10yr treasuries closed at 2.55% (+8bps m/m), 2.85% (+3bps m/m) and 3.03% (+6bps) respectively.

In addition, investors' risk appetite waned in the face of fears of a) capital outflows from EM markets; b) negative impact of strengthening USD on EM currencies; c) impact of rising energy prices as most EM countries are oil importers; d) negative impact of potential trade wars on EM economies; and e) substantial geopolitical risks. Also the negative impact of rising cost of debt on corporate earnings weighed on investors' mind. Consequently credit spreads on corporate bonds from most jurisdictions increased during the month. Investors' derived limited comfort from global backdrop of steady growth, relatively low inflation and cautious central banks.

With 28bps widening in average credit spreads to 265bps, EM bonds registered a net loss of 1.44% for the month followed by a loss of -0.59% on the US IG corporate bond portfolios.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	108	+2	+14	-4
US HY Corp	336	+13	-8	-24
EUR IG Agg	60	+13	+9	-3
USD EM Agg	265	+28	+43	+3

Source: Bloomberg

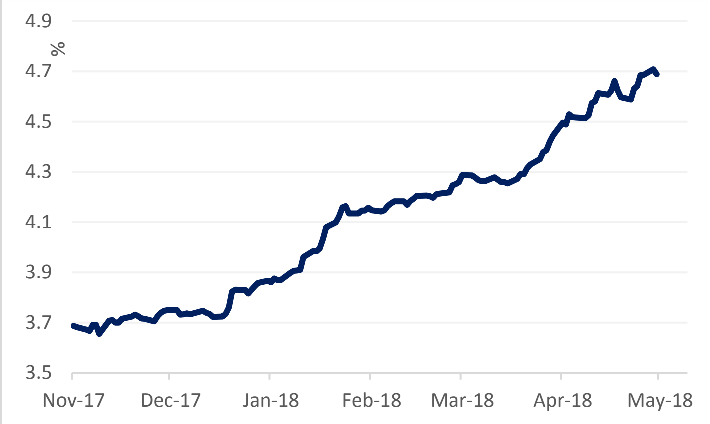
Despite supportive benchmartk yield curves in the Euro-area, corporate bonds in Europe remained under pressure as softening economic data caused credit spreads to widen.

GCC Bonds – Secondary Market

Limited rating changes, contained new supply and rising oil prices provided a constructive backdrop for GCC bonds. However, bonds in the region fell in price during the month, moving much in sync with macro events and the ongoing sell off in EM assets.

Average yields on Bloomberg GCC index rose 20bps to 4.69%, reflecting a combination of benchmark yield widening and 13bps increase in credit spreads to 185bps.

Bbg Barclays GCC Credit Index – YTW %



Source: Bloomberg

Oil prices received a significant boost from supply disruptions (Venezuela, Iran sanction etc), closing the month 6% higher at $79/b Despite strengthening oil prices, CDS levels on GCC sovereigns had a widening bias with 5yr CDS on Bahrain rising by 105bps during the month to 385bps after the sovereign failed to raise sufficient funds at its preferred price level last month. Bahrain cash bonds were also amongst the worse performers in the GCC cash bonds space.

The only sovereign that clearly benefited from rising oil prices was the Sultanate of Oman. Yields on the Oman curve tightened as fears of a rating downgrade receded in the face of rising oil prices.

Kuwait Energy bonds continued to suffer after its failed attempt to complete an IPO. The company now plans to sell part or all of its business to international investors, however, KUWAIE 19s fell further to yield 13.51% (+30bps m/m). In contrast, yield on GEMS Education, GMSEDU Perp, tightened 44bps to 4.62% pending completion of its IPO which seems to have been delayed slightly.

Dana Gas continued its efforts to reach an agreement with key holders of $700 million of its Islamic bonds to restructure the securities. Sukuk holders are believed to have agreed to accept an immediate cash payout of 20 cents to the dollar and to roll the rest into a three-year security at 4% coupon with no convertible option. Dana Gas will pay a further 20% of the sukuk after two years and will raise the coupon to 6% if it fails to do so. Though final confirmation of the agreement is still pending, the defaulted DANAGS 9% 17s had a mini rally. The sukuk price rose to over $95 and yield tightened 66bps to 9.56%.

The Quarterly report released by the Saudi Finance Ministry reflected KSA's budget deficit increasing to SAR 34.3 bn in 1Q 2018 vs SAR26.2 bn last year as expenditure increased to fund military spending and social benefits. As per media reports, some contractors in Saudi Arabia are still struggling to get paid on time by the government. Nevertheless, the KSA curve remained stable and well bid with credit spreads on KSA 26s tightening 4bps to 132bps.

Dubai Aerospace bonds benefited from improved financial liquidity at the company after it finalsied on a $480 million loan. Yield on DUBAEE 20s tightened by 10bps to 4.20%.

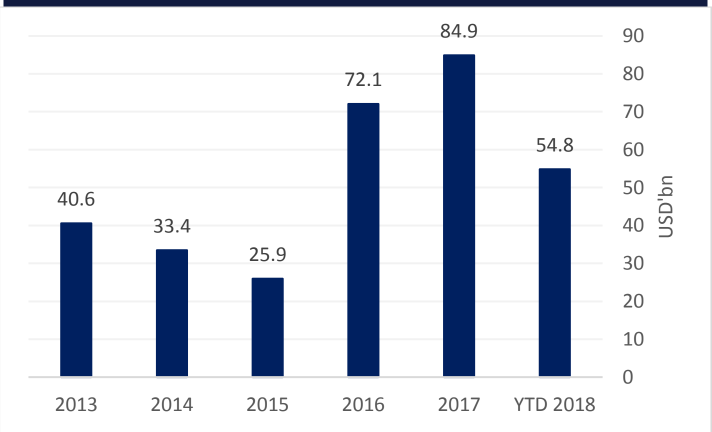
S&P cut Ezdan Holdings' credit rating from BB- to B and lowered the rating on its sukuk from B+ to B-, citing the risk of the company breaching maintenance covenants under several key bank loans and sukuk and thereby facing acceleration of repayments. As a result of falling occupancy levels in Ezdan's residential portfolio, the company is at the risk of breaching covenants that require it to maintain Net Debt / EBITDA < 8.0x and a minimum debt service cover of > 1.1x. ERESQD 22s fell more than $8 in price during the month to close at $78.5. Yield on the bonds widening by more than 421bp sto 13.29%.

Fitch upgraded Rasgas from A to AA- though kept the rating outlook at negative - in line with the outlook on its parent, the State of Qatar. As per Fitch, the rating reflects the status of RasGas as an integral part of Qatar's oil and gas industry, the ownership and control links between RasGas and the state, as well as their expectation that state support would be forthcoming if needed. RASGAS bonds remained largely unchanged.

GCC Bonds - Primary Market

After the hectic pace of new issues recorded in March / April when more than $25 billion were raised, activity in the GCC primary market slowed last month. The only notable new issue was a $ 500 million, 5 year, Reg S bond from A2 rated Commercial Bank of Qatar that priced at MS + 212.5bps, circa 25bps inside the initial guidance.

GCC New issues (USD'bn)



Source: Bloomberg

Though, QIB raised $100 million via 3yr floating rate sukuk at 3mL + 170bps and QNB raised $1.5 billion in a floating rate note with 3yr maturity that priced at 3mL + 135bps, much of it was placed outside of the GCC.

In non-USD space, First Abu Dhabi ban raised CNY 1.1 billion in 3year security at an all-in coupon cost of 4.8%.

Total year-to-date issuance from GCC issuers reached $55 billion of which 92% has been denominated in the USD, 2.23% in Chinese Renminbi and remained split across HKD, AUD, SAR, and CHF.

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Currencies

Yields, data and geopolitics support the USD…

May has seen the dollar add to April's gains, as sentiment on the greenback continued to improve amid brighter fundamental support. Investors continued to be bullish on the dollar as 10 year yields climbed above 3% for the first time since January 2014 and expectations for higher interest rates continued due to constructive economic data. A tempering of geopolitics has also helped the dollar's momentum and with concerns over a looming trade war with China abating, conditions were almost optimal for dollar strength to resurface.

DXY breaks out of downtrend

Source: Bloomberg

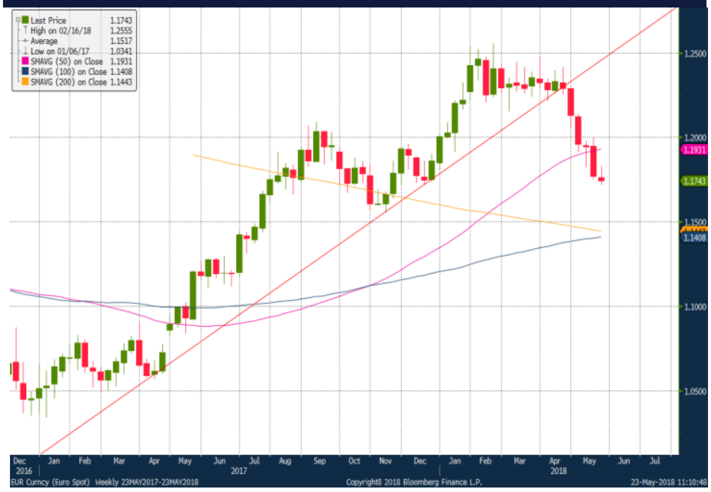
…prompting a break of the former downtrend

Over the last 30 trading days, the Dollar Index has risen 4.59% to reach 93.68 in a move which has many key technical developments. The index broke above the former resistive 100 day moving average (90.613), for the first time since December 2017 and with this key level providing support, continued to compound additional gains and break above the 200 day moving average (91.947). The same move has resulted in a break of the former daily downtrend that had been in effect since January 2017. Analysis of the weekly candle chart also shows that further gains may lie ahead for the dollar in the short term. On May 18th, the Index closed above the resistive 50 week moving average (92.498) for the first time since May 2017. While the price remains above this level, further upside is likely for the USD.

EUR becomes a casualty amid Italian chaos

On the other side of the Atlantic, the Euro found itself under pressure as investor concerns focused on a slowdown in economic data and geopolitical tensions weighed on sentiment. A slowdown in Q1 GDP to 0.4% q/q from 0.7% in Q4 2017 was initially expected to be a temporary road bump, however economic data released since then have indicated that the rebound may take longer than expected. PMIs have suggested that the anticipated rebound in April has not materialized with the Eurozone aggregate PMI contracting further from March as a firmer Euro has continued to weigh on sentiment. The ZEW and IFO surveys have reinforced these concerns. Weighing equally, if not more, on the common currency are concerns over the formation of a new Italian government consisting of populist Eurosceptic parties.

Euro breaks below 50 week MA



Source: Bloomberg

EUR falls more than 5%

EURUSD has fallen over 5.4% over the last month, reaching 1.1705. As well as hitting new 2018 lows, the price is on target to close below the 50 week moving average (1.1931) for a second consecutive week. There are many key technical factors to consider regarding where the price will head next. Should the selling pressure continue, a daily close below 1.1660 (not far from the 38.2% one year Fibonacci retracement of 1.1662), is likely to cause further declines towards 1.1450. On the other hand, should EURUSD find support at the current level, we expect a retest of 1.1830 a close above which will put 1.20 (close to the 200 day MA and 61.8% one year Fibonacci retracement) in sight before the end of the current quarter. With the 14 day RSI (Relative Strength Indicator) currently showing oversold conditions at 26.23, it cannot be ruled out that support will soon be found. Accordingly, we have adjusted our Q2 forecast for EURUSD to 1.20.

GBP capitulates amid soft data and renewed Brexit concerns

In our April edition of Monthly Insights, we made comments concerning the technical vulnerability of GBPUSD. These views have come to fruition with the price falling from 1.3953 to 1.3375 during this period. This pressure on the pound is the result of concerns over the next round of Brexit talks, a more hesitant Bank of England and a slowdown in economic data. While at the start of April, the Bank of England was widely expected to raise interest rates at their 10th May meeting, sentiment on this quickly reversed as economic data continued to stagnate and as we go to print, the market is currently pricing in 4.4% chance of a 25bps rate hike at the June meeting and a 64.4% chance of a hike by the end of 2018.

The slowdown in economic data was summarized by BOE Governor Mark Carney who testified before the Treasury committee on May 22nd that "Inflation came in lower, economic momentum, a number of signs were lower, then ultimately the hard data came in lower as well."

GBPUSD breaks below 200 day MA

Source: Emirates NBD Research, Bloomberg

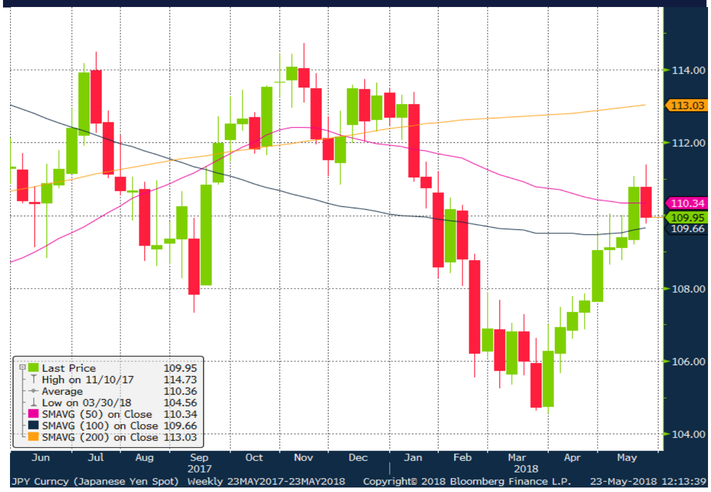
…taking out key levels

The decline in GBPUSD has taken the price to new 2018 lows, as well as resulting in a close below the 200 day moving average (1.3570). This development does not bode well for GBP which has also broken below the 50% one year Fibonacci retracement (1.3483). A weekly close below this level may result in a test of the 1.32 level, last seen in November 2017. However, we believe that negative sentiment on GBPUSD is exaggerated and expect upward revisions for Q1 GDP to help recoup some of the losses. Accordingly we have revised down our forecasts for 2018. While we maintain our expectation for sterling to strengthen over the remainder of the year, the previous month's free-fall has been taken into consideration.

JPY softens amid rising yields and risk appetite

A rise in 10 year yield, improved risk appetite and abated fear of a potential trade war has helped USDJPY climb from 107.18 to 109.85 over the last 30 days. The price has climbed as high as 111.40 on May 21st before renewed concerns over uncertainty of the US-North Korea summit pushed the price lower. Gains since the start of May have taken USDJPY back above the 100 week moving average (109.66) for the first time since February, and this former resistance level is now likely to provide weekly support. Close to this level is an additional support at 109.65 in the form of the 50% one year Fibonacci retracement. While the weekly closing price remains above these levels, a retest of the 200 day moving average (110.21) remains the most likely path. A daily close above this level may be followed by a retest of 110.85, the 61.8% one year Fibonacci retracement which the pair failed to sustain a breach of earlier in May. On the other hand, a weekly close below 109.60 is likely to renew bullish sentiment on JPY and initially drive the pair towards the 100 day moving average (108.35).

USDJPY to find support at 100 week MA?



Source: Emirates NBD Research, Bloomberg

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Equities

Notwithstanding several headwinds, global equity markets held onto their gains over the last month. While the broader equity indices closed in positive territory, the differential performance among major markets stood out as investors adjusted to emerging themes of higher oil prices and tighter liquidity conditions.

In the immediate term, the toning down of rhetoric on trade war, easing of geopolitical tensions and a solid Q1 2018 earnings season helped offset concerns over tighter monetary policy and domestic politics in the UK, the US and Italy. However with none of concerns seeing firmer resolutions, we remain cautious on equity markets, especially as we head towards a period dominated by political risks.

Global equities moved into positive territory for the year following gains over the past month. The MSCI World index added +1.5% 1m to take its year to date gains to +1.2%. Gains were primarily driven by strength in developed market equities as most other sub-indices closing in negative territory. The MSCI G7 index added +1.7% 1m while the MSCI Arabian Markets index and the MSCI EM index fell -3.0% 1m and -1.4% 1m respectively. Japanese and European equities received a boost from sharp drop in USD/JPY (-0.8% 1m) and the EUR/USD (-4.0% 1m) respectively. Within emerging markets, Turkey's Istanbul 100 index (-7.8% 1m) and India's Nifty index (-1.3% 1m) dragged the broader index lower.

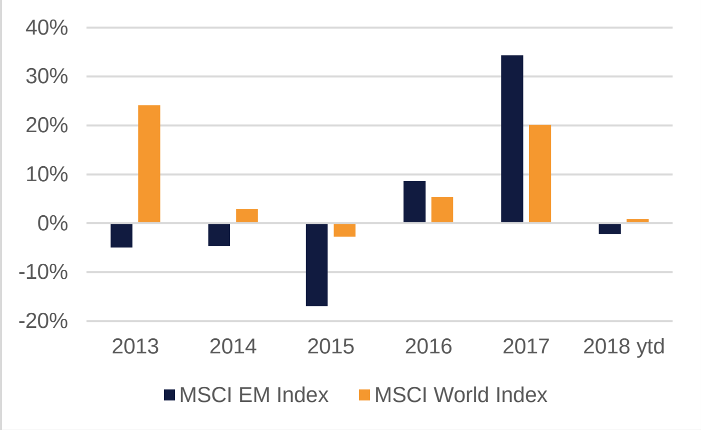
With the earnings season, the strongest factor in favour of equities, now behind us, global equities appear to be caught in a negative dynamic. Politics in Italy and Turkey, sharp and fast rises in oil prices and continued strength in the USD accompanied by a move up in treasury yields are all factors which could weigh on investor sentiment. The impact could be more pronounced given lack of positive catalysts on the horizon. The trade talks between the US and China are expected to remain work-in-progress without necessarily resulting in firm deliverables in the near term.

Emerging Markets

After outperforming global equity markets for the last two years, emerging market equities have underperformed since the start of 2018. The underperformance has been more pronounced in Q2 2018 as many headwinds weighed on investor sentiment. These included sharp rise in bond yields, growing perception of a tighter than anticipated monetary policy tightening in the US, the onset of a trade war and sharp rally in oil prices. The MSCI EM index has dropped -2.2% ytd compared to +0.9% ytd gain in the MSCI World index. Since the start of Q2 2018, the MSCI EM index has dropped -3.2% compared to a gain of +2.7% in the MSCI World index.

It is worth pointing out that despite the underperformance, emerging markets have seen sustained inflows. At the end of last week, EM equities had aggregate inflows of USD 57bn year to date.

EM equities underperform



Source: Bloomberg

Key factors

Interest rates & USD

The sell-off in emerging market equities coincided with increasing treasury yields. Since the start of April, the10-year US treasury yields have gone from 2.73% to touch a high of 3.11%. The move was partly driven by repricing of expectations over potential rate hikes by the Federal Reserve and firming up of inflation expectations. A perceived shift in monetary policy of the US does cause short-term volatility in emerging markets, as highlighted by the the 'taper tantrum' in 2013. Having said that, history also suggests that the impact over the medium term is more neutral. For example, during late 1990s and mid 2000s EM stocks outperformed broader equity indices even as the Federal Reserve was increasing interest rates.

MSCI EM index – Debt to Equity ratio

Source: Bloomberg

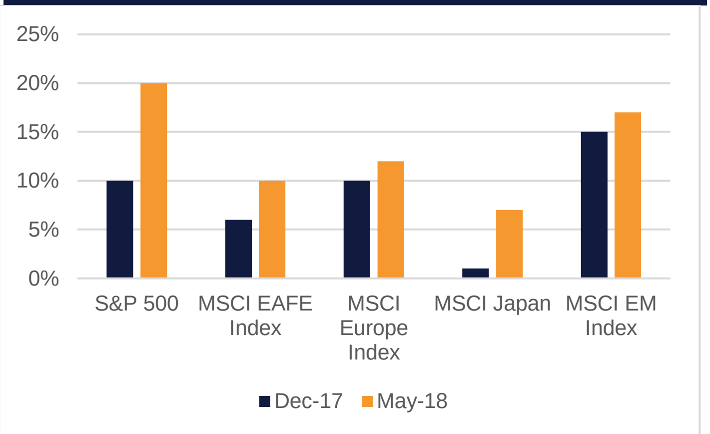
However, the rising rate environment does bring into focus the levered profile of companies in emerging markets. The weighted average debt to equity ratio of companies' part of the MSCI EM index has increased to 100.6% at the end of 2017 compared to 63.5% in 2005 and 69.8% in 1998. Interestingly, among major EM economies, Indian and South Korean companies have a lower debt to equity ratio at the end of 2017 compared to 1997 but still fairly considerable. The debt to equity ratio of Indian companies' part of the MSCI EM index at the end of 2017 was 128.5%. The sharp rise in interest rates increases the cost of servicing the debt. The cost increases further as a significant part of these debt obligations are in the USD and most EM currencies have depreciated sharply over the last two months.

Another factor to note is that a tighter monetary policy could lead to a stronger USD which in turn could lead to weakness in EM currencies. The weakness, if sustained, could force central banks in emerging economies could increase interest rates earlier than anticipated. For example, Turkey was forced to raise interest rates by 300 bps following -11.1% decline in TRY since the start of May 2018. Similarly, Indonesia raised rates by 25 bps for the first time since 2014.

Earnings

While the fiscal fundamentals have weakened since the start of Q2 2018, the economic fundamentals look robust. The expectation of a stronger GDP growth has translated into an improved earnings growth outlook. According to FactSet, earnings in 2018 could grow 17% for the MSCI EM index. This is higher than expectations for the S&P 500 index. Earnings for companies in S&P 500 index is expected to grow at 13% (excluding the tax impact) and 20% (including the tax impact) in 2018. Importantly, the estimates have been revised higher by 2% since the start of 2018 which indicates a positive momentum. As is the case with developed market equities, we expect earnings growth to provide a cushion to emerging market equities in case the sell-off intensifies.

Earnings growth forecast 2018



Source: FactSet, Bloomberg

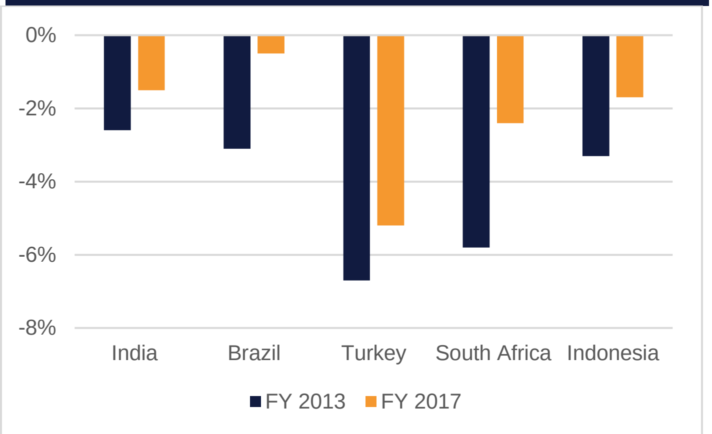
A relatively cheaper valuation compared to developed market equities should provide an additional buffer to emerging market equities. The MSCI EM index is currently trading at 12.2x 2018E earnings compared to its 10-year average of 11.0x. The MSCI World index is currently trading at 16.2x 2018E earnings, the S&P 500 index at 17.2x 2018E earnings and Euro Stoxx 600 index at 15.1x 2018E earnings.

Oil prices

The oil price is one factor which does not have a consistent impact across emerging market economies. This is because the group of emerging economies consist of countries which are net importers and net exporters. Hence, it is hard to quantify the impact of sharp increase in oil prices on emerging markets as a whole. However, it is worth noting that India and China, two of biggest emerging market economies, are among the world's largest oil importers and hence we could see a cascading impact on these economies. For example, according to market estimates every USD 10 per barrel increase in oil prices worsens India's current account deficit by 0.4% of GDP, increases inflation by 30-40 bps, negatively impacts growth by 15bps and worsens fiscal deficit by 0.1% of GDP.

Having said that, we do note that most of emerging economies have improved their fiscal position to withstand higher oil prices. For example, the current account deficit of all economies earlier classified as 'fragile five' have improved relative to 2013. Yet, should oil prices sustain at these levels over a longer period of time, we do expect the negative impact to filter through to financial markets of countries who rely heavily on oil imports.

Current account deficit – Fragile Five



Source: Bloomberg

Politics

At a time when there are several headwinds for emerging markets, political events tend to have an oversized impact on financial markets. Over the next few months, quite a few emerging markets have looming political events. The recent election result in Malaysia reflects the risk these events present to financial markets. The FTSE Bursa Malaysia KLCI index has dropped -4.9% since the start of May 2018 after a surprise win for former Prime Minister Mahathir Mohamad.

Currently, the political risks extend beyond elections with various trade agreements and/or arrangements being re-negotiated. These include the NAFTA agreement and current talks between the US and China. Both these developments have the potential to further disrupt emerging market equities. Additionally, the upcoming election in Turkey would also be keenly watched given the recent turmoil in its financial markets.

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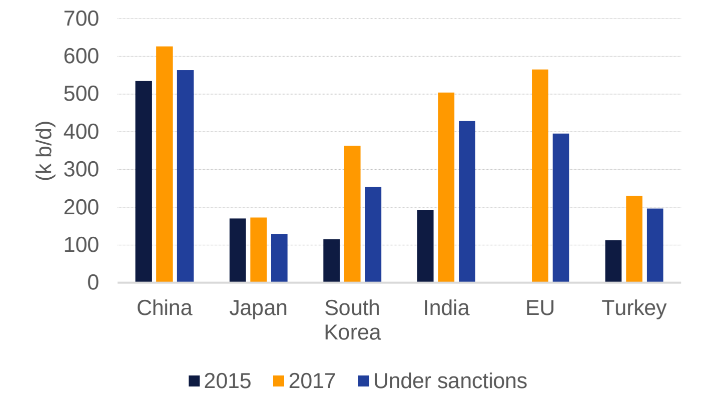
Commodities

Several of the upside risk factors we highlighted last month have come to pass, most crucially the US withdrawal from the Iran nuclear deal. We expect Iran's crude output and exports will now decline and will lead to a deeper market deficit than we had projected at the start of the year. As a result we have revised upward our forecasts for crude oil prices this year.

President Donald Trump withdrew the US from the JCPOA, the Iran nuclear deal, and ordered the Treasury and State Departments to re-impose sanctions on Iran that were lifted in 2016. The first round of sanctions will come into effect in 90 days targeting purchases of US dollars by the Iranian government and specific trade in metals and Iran's car industry. After 180 days, the US will begin to impose sanctions related to Iran's sale of crude oil and the Treasury Department has specifically noted it will take steps to actively reduce Iran's crude exports.

We had anticipated that the US would withdraw from the JCPOA and president Trump has taken a more aggressive approach to dealing with Iran than many in the market had likely expected. The European signatories to the deal have announced they would still abide by the terms and not impose their own sanctions: EU sanctions on insurance were particularly effective in disrupting Iranian exports when they were imposed in 2012. However, even if the EU does not follow the US's lead in re-imposing sanctions, EU-based companies may seek to cut back on purchases of Iranian crude to avoid penalties.

Buyers of Iranian crude to scale back



Source: Eikon, Emirates NBD Research.

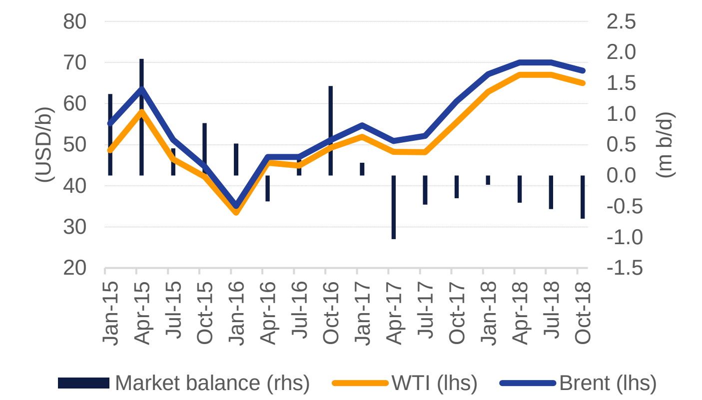
Of the more than 1m b/d increase in exports Iran was able to achieve after sanctions were lifted, we expect at least 500k b/d will be cut by the end of the year. Iran's oil production will fall by over 4% this year but the full impact of lower volumes will be felt in 2019 as importers continue to cut their imports.

We expect that other members of OPEC will adjust production to compensate for the disruption to Iranian volumes but it won't be sufficient to offset all of the decline in Iran's output. Saudi Arabia is likely to adjust output only in coordination with other producers in OPEC and we expect that it will only raise output so that it is 100% compliant with the terms of the OPEC production cut agreement (Saudi Arabia has been over-cutting and thus hitting its target would mean higher output). For the UAE, hitting 100% compliance means production can increase from the low levels recorded in Q1 but in year on year terms output will still be lower (2.2%) considering its failure to hit targeted levels in 2017. Production from the GCC had been lower than we anticipated to start the year as producing nations sought to aggressively draw down inventories and target higher prices. On an aggregate MENA basis, overall production growth from the region will be close to flat in 2018 even with increasing output in H2.

OPEC's next meeting is scheduled for June and how the producers' bloc will address the unanticipated outages from Venezuela and Iran will likely be a critical part of the agenda. Were OPEC to announce that they are dismantling the deal early oil prices would most likely slump, even taking into account the lower volumes from Iran and Venezuela, and hence we doubt OPEC would be prepared to endorse an early exit from the deal.

Our lower forecast for Iranian oil production with limited offsetting output from OPEC has reshaped our projections for overall oil market balances and we now expect a much deeper deficit in H2 2018 of around 600k b/d. A deficit this wide will help to push days of forward cover in OECD stocks back below the +60 days they have recorded in 2015-17 and closer to their long-term average of around 55 days.

Emirates NBD Research oil price forecasts



Consequently we are revising our oil market forecasts and now anticipate that Brent crude futures will record an average of USD 69/b in 2018. A potential move to as high as USD 80/b appears possible in the current climate. Prices should begin to taper off slightly by the end of the year even with a relatively wide market deficit as we think the risk of a broader slowdown in global growth will become more apparent by the end of 2018, weighing on commodity prices. We expect that WTI prices will also move higher in line with Brent and record an average of USD 65/b this year.

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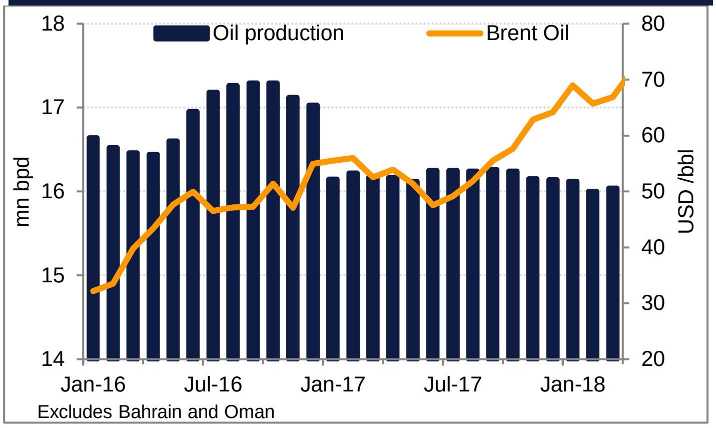
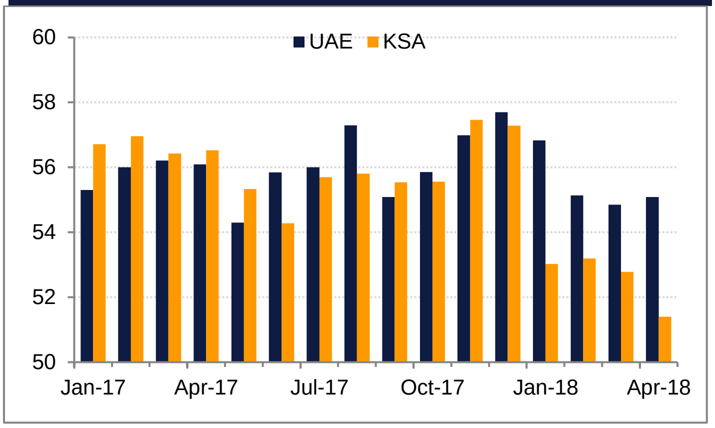
GCC in Pictures

GCC Oil Production and Oil Price



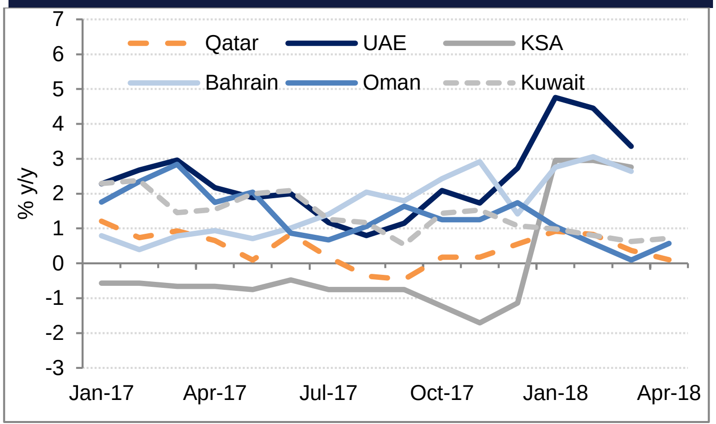
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



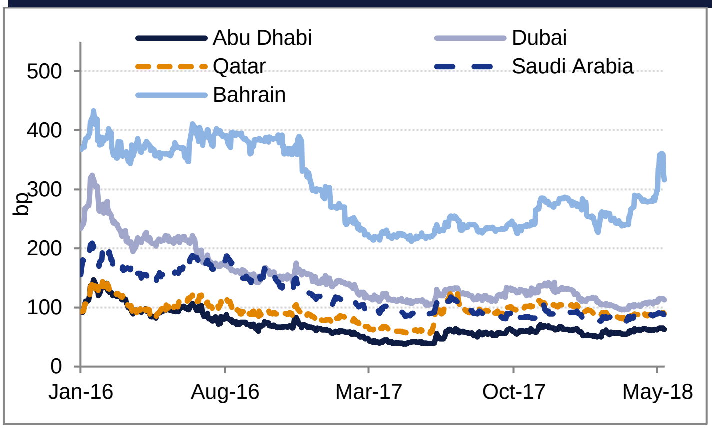
Source: IHS Markit, Emirates NBD Research

Inflation



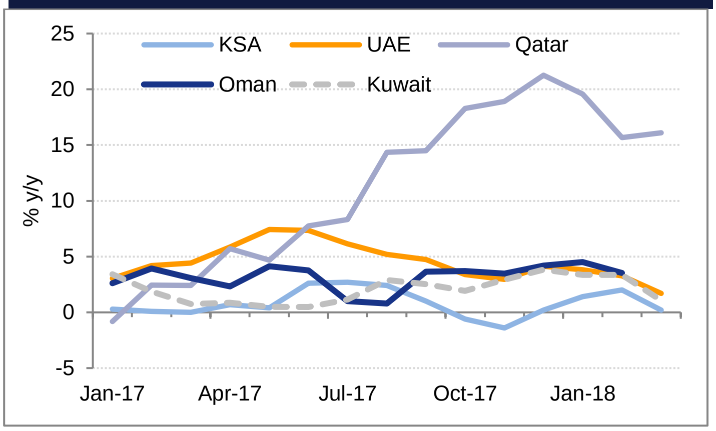
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



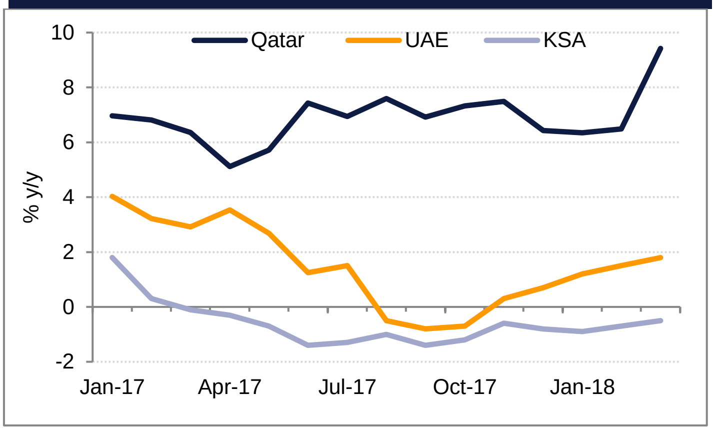
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

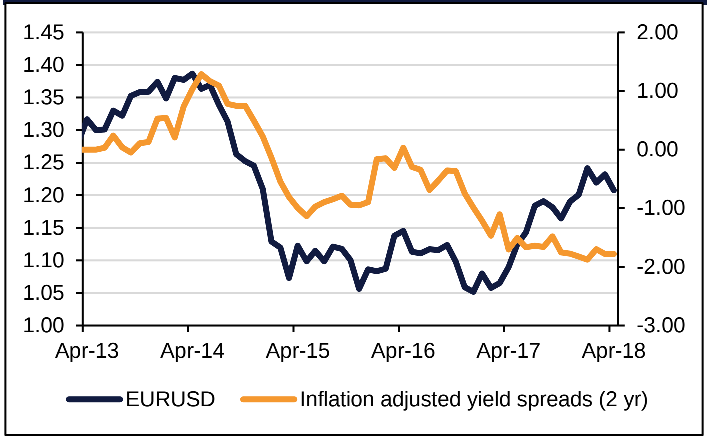
Private sector credit*



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

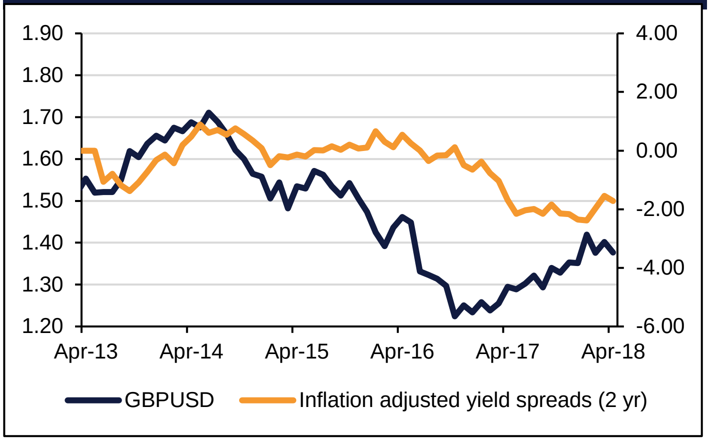
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



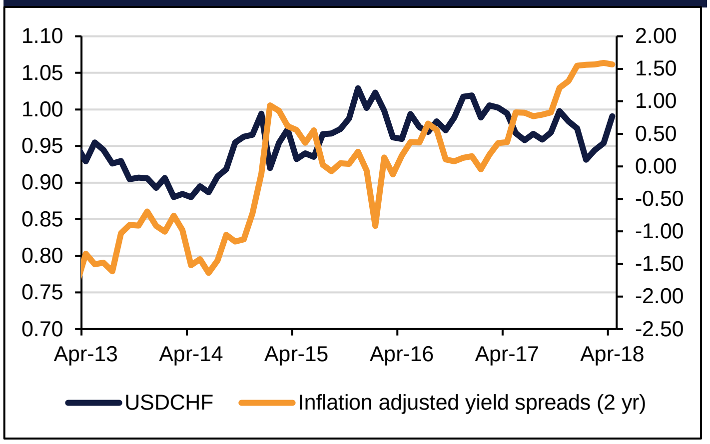
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



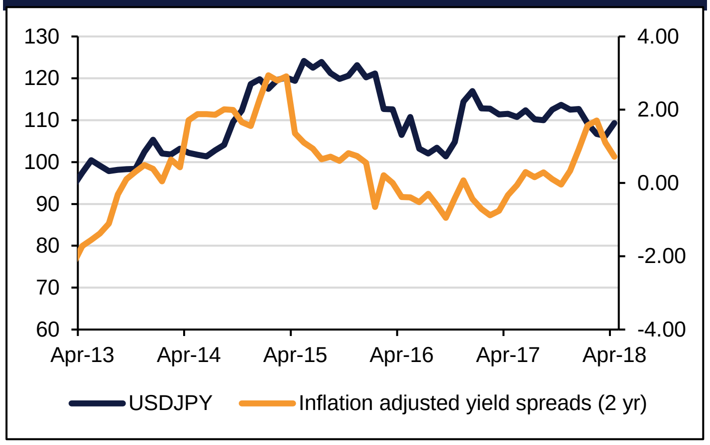
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



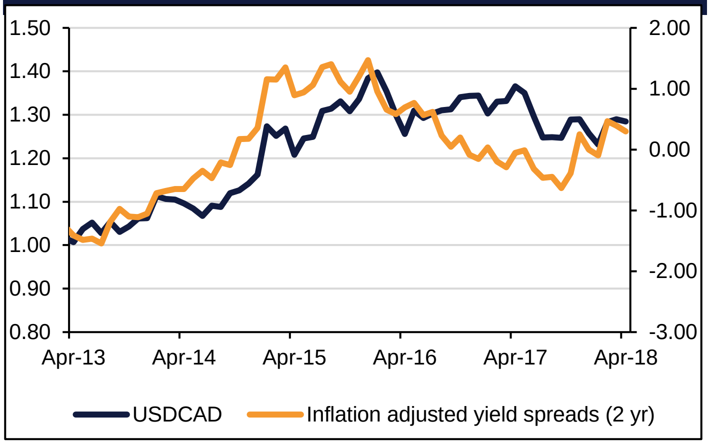
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



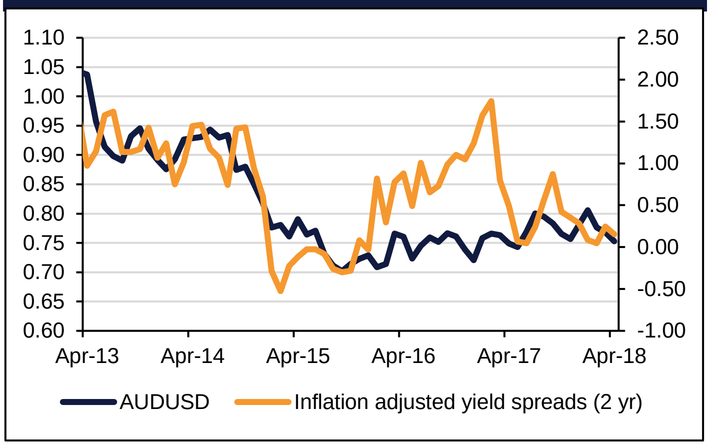
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

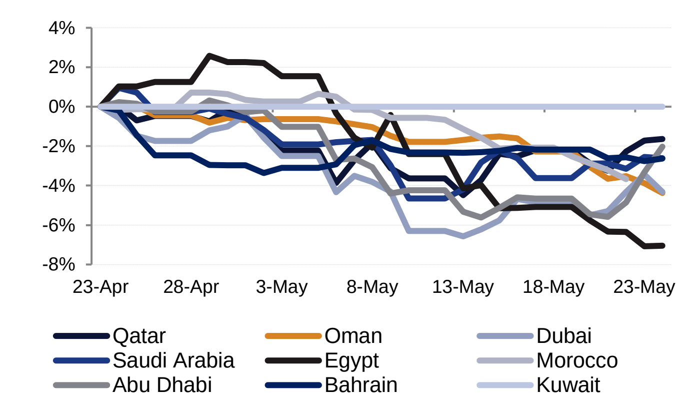
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

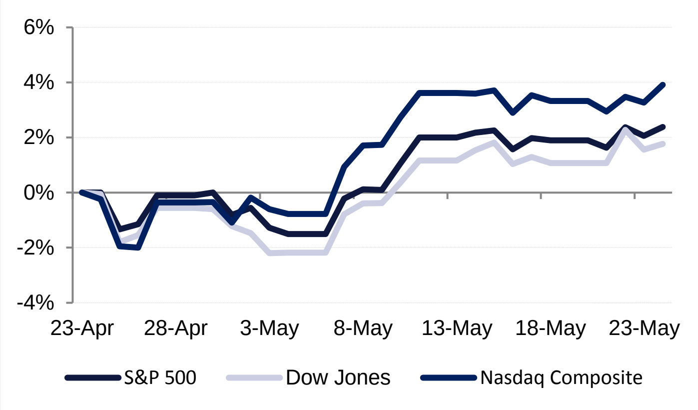
Major Equity Markets

MENA Equity Markets



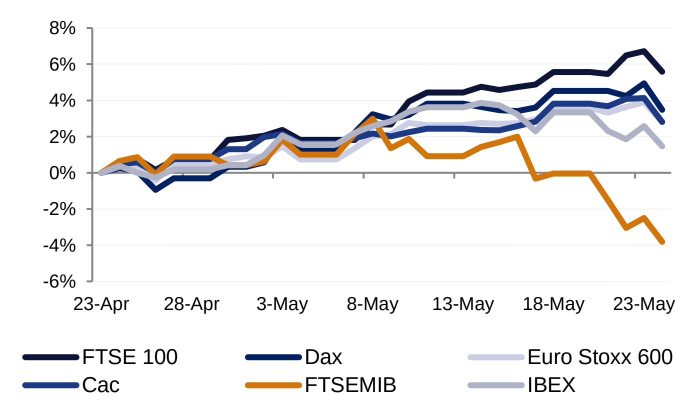
Source: Bloomberg, Emirates NBD Research

US Equity Markets



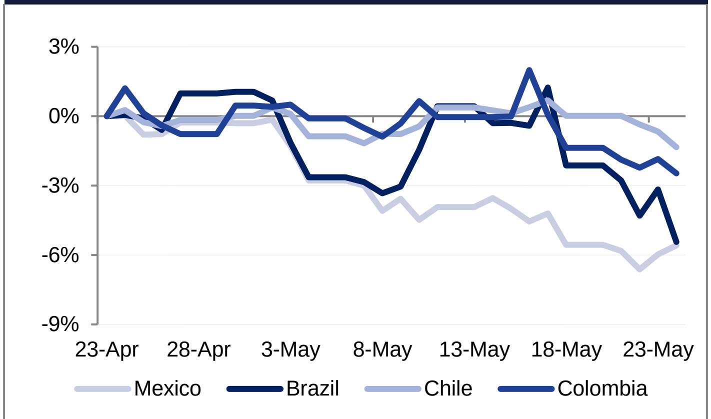
Source: Bloomberg, Emirates NBD Research

European Equity Markets



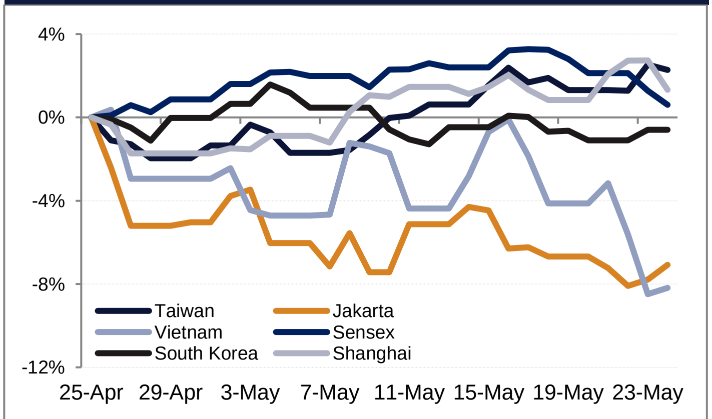
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



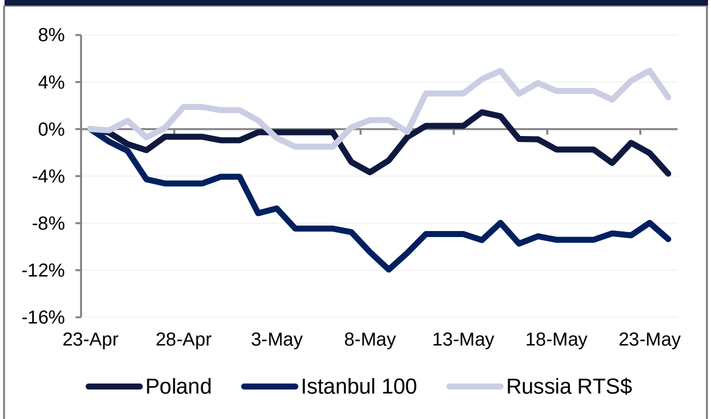
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

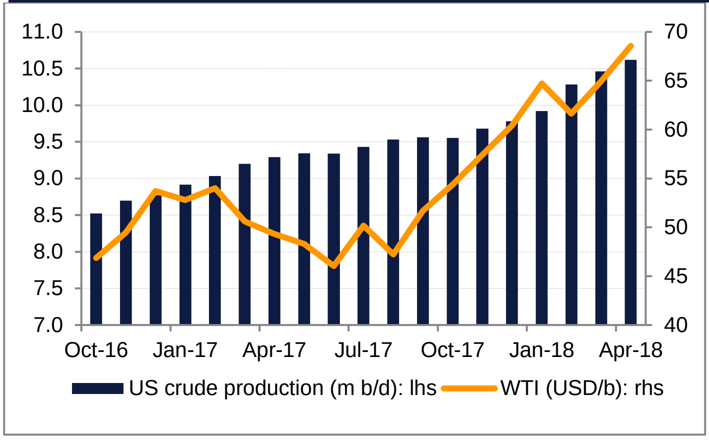
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

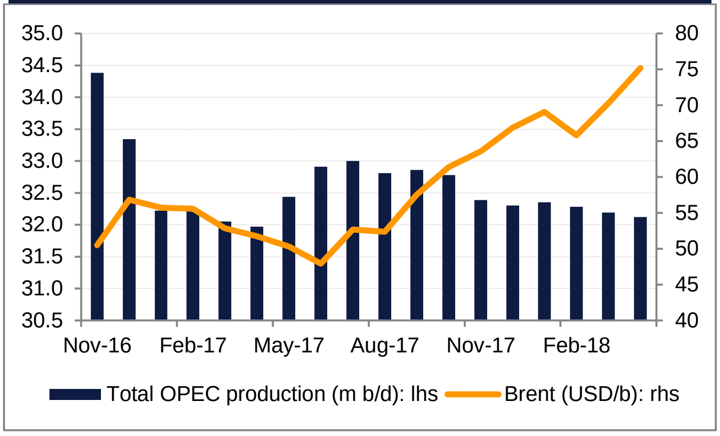
Major Commodities Markets

US oil production and price



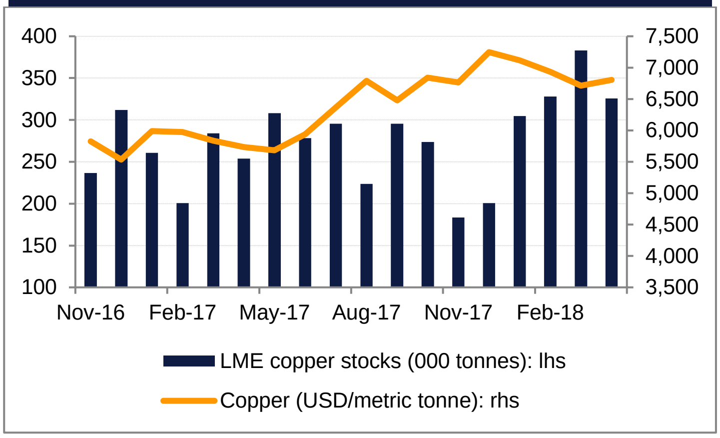
Source: EIKON, Emirates NBD Research

International oil production and price



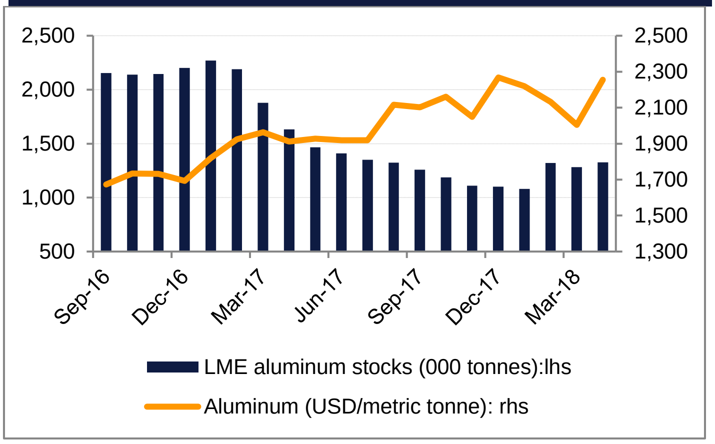
Source: EIKON, Emirates NBD Research

Copper stocks and price



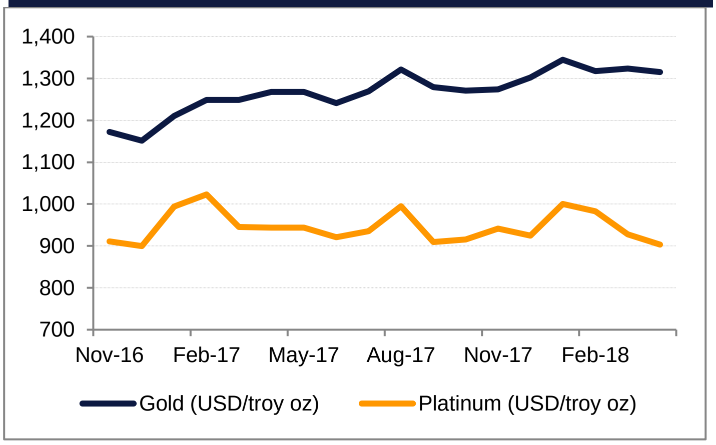
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



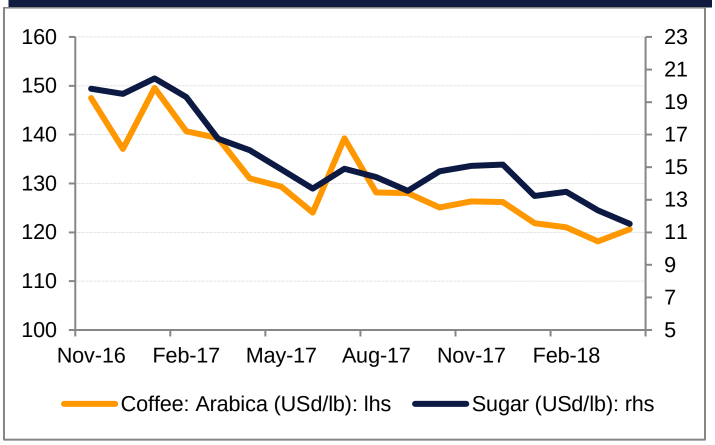
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2015	2016	2017	2018f	2019f
Nominal GDP $bn	358.2	349.0	373.2	410.4	429.5
Real GDP %	3.8	3.0	2.0	2.2	3.9
Current A/C % GDP	4.7	2.4	3.7	6.6	5.6
Budget Balance % GDP	-3.4	-4.3	-2.7	0.7	1.9
CPI %	4.1	1.6	2.0	3.5	3.0
Saudi Arabia					
Nominal GDP $bn	651.8	639.6	679.1	729.8	771.9
Real GDP %	4.1	1.7	-0.7	1.5	2.7
Current A/C % GDP	-8.7	-3.7	2.2	9.0	6.5
Budget Balance % GDP	-15.0	-13.6	-9.0	-4.4	-5.0
CPI %	2.2	3.5	-0.2	3.5	3.0
Qatar					
Nominal GDP $bn	164.6	152.5	167.6	181.5	194.3
Real GDP %	3.3	2.0	1.2	3.4	4.7
Current A/C % GDP	8.4	-5.4	3.8	6.7	9.6
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	7.8	3.9
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	431	423	448	482	509
Real GDP %	3.7	2.4	0.2	2.0	3.3
Current A/C % GDP	-2.4	-3.1	2.4	7.2	5.7
Budget Balance % GDP	-10.4	-11.0	-6.9	-3.0	-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	-2.2	-1.9
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)*

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	-13.6	-11.5	-10.2
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	-4.0
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		
	23-May	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR/USD	1.1718	1.2000	1.2300	1.2500	1.2800	1.1803	1.1891	1.2088
USD/JPY	109.95	108.00	110.00	112.00	110.00	109.23	108.47	106.76
USD/CHF	0.9916	0.9800	0.9800	0.9800	0.9800	0.9835	0.9752	0.9575
GBP/USD	1.3389	1.3700	1.4000	1.4200	1.4500	1.3450	1.3510	1.3639
AUD/USD	0.7532	0.7600	0.7550	0.7550	0.7550	0.7537	0.7544	0.7564
NZD/USD	0.6899	0.7000	0.7100	0.7100	0.7100	0.6900	0.6904	0.6919
USD/CAD	1.2886	1.2700	1.2700	1.2700	1.2700	1.2859	1.2837	1.2799
EUR/GBP	0.8752	0.8759	0.8786	0.8803	0.8828	0.8776	0.8802	0.8863
EUR/JPY	128.84	129.60	135.30	140.00	140.80	128.84	128.84	128.84
EUR/CHF	1.1619	1.1760	1.2054	1.2250	1.2544	1.1608	1.1596	1.1574
	FX Forecasts - Emerging					**Forwards**		
	23-May	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**3m**	**6m**	**12m**
USD/SAR*	3.7503	3.7500	3.7500	3.7500	3.7500	3.7499	3.7505	3.7538
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6731	3.6733	--
USD/KWD	0.3022	0.3020	0.3020	0.3020	0.3020	0.2966	0.2946	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3861	0.3885
USD/BHD*	0.3777	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3804
USD/QAR*	3.6528	3.6400	3.6400	3.6400	3.6400	3.6586	3.6605	3.6655
USD/EGP	17.9352	17.2500	17.2500	17.0000	17.0000	18.6400	19.2000	20.1950
USD/INR	68.325	66.500	67.000	67.000	67.000	69.3200	70.1100	71.5400
USD/CNY	6.3882	6.5000	6.7000	6.9000	7.1000	6.4183	6.4423	6.4858
USD/SGD	1.3449	1.3000	1.2900	1.2900	1.2900	1.3423	1.3393	1.3336

Data as of 23 May 2018
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	2.76	2.80	2.85	2.80			
10y	3.04	3.06	3.06	2.98			
2s10s (bp)	28	26	21	18			
US Treasurys Forecasts					US Treasurys Forecasts		
2y	2.52	2.55	2.65	2.65			
10y	3.00	3.10	3.10	2.95			
2s10s (bp)	48	50	45	30			
3M Libor					3M Libor		
3m	2.33	2.55	2.70	2.80			
3M Eibor					3M Eibor		
3m	2.47	2.60	2.85	2.90			
Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED (Upper Band)	1.75	2.00	2.25	2.50			
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)	6.00	6.00	6.25	6.50			
SAMA (reverse repo)	1.75	2.25	2.50	2.75			
UAE (1W repo)	2.00	2.25	2.50	2.75			
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)	1.75	2.00	2.25	2.50			
CBO (o/n repo)	2.40	2.65	2.85	3.10			
CBE (o/n depo)	16.75	16.75	15.75	14.75			

Data as of 24 Mayl 2018
Source: Bloomberg, Emirates NBD Research

Emirates NBD

Commodity Forecasts

Global commodity prices							
	Last	**2018Q1**	**Q2**	**Q3**	**Q4**	**2017**	**2018**
Energy							
WTI	71.55	62.87	67.00	67.00	65.00	50.94	65.47
Brent	79.40	67.18	70.00	70.00	68.00	54.56	68.79
Precious metals					**Precious metals**		
Gold	1,926.72	1,329.84	1,250.00	1,275.00	1,325.00	1,277.65	1,294.96
Silver	16.50	16.75	17.00	18.00	18.00	16.77	17.56
Platinum	909.00	976.66	900.00	925.00	975.00	936.04	944.16
Palladium	982.77	1,032.40	1,100.00	1,175.00	1,200.00	946.30	1,126.85
Base metals							
Aluminum	2,270.00	2,159.23	2,400.00	2,250.00	2,000.00	2,073.62	2,202.31
Copper	6,867.00	6,995.88	6,500.00	6,250.00	6,250.00	6,618.94	6,498.97
Lead	2,476.50	2,516.62	2,360.00	2,280.00	2,280.00	2,424.05	2,358.96
Nickel	14,650.00	13,330.15	11,750.00	11,500.00	11,500.00	11,124.45	12,020.04
Tin	20,625.00	21,092.55	20,000.00	21,250.00	21,250.00	20,041.911	20,898.14
Zinc	3,029.00	3,3391.44	3,192.00	3,090.00	3,090.00	3,078.91	3,190.84

Prices as of 24 May 2018. Note: prices are average of time period unless indicated otherwise.
Source: Bloomberg, 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	24,887	8,052	3.0	0.7	63	16.4	3.8	2.3
S&P 500 Index	2,733	41,812	3.2	2.2	62	17.2	3.1	2.0
Nasdaq Composite Index	7,426	28,586	5.1	7.6	59	22.4	4.3	1.0
FTSE100 Index	7,788	6,616	3.7	1.3	83	14.2	1.9	4.2
DAX Index	12,977	4,716	2.9	0.5	62	13.4	1.7	3.1
CAC 40 Index	5,566	4,152	0.8	4.8	65	15.0	1.6	3.2
Swiss Market Index	8,795	2,734	-1.0	-6.3	65	15.4	2.3	3.7
Nikkei Index	22,690	12,660	-0.1	-1.4	62	16.4	1.7	1.9
S&P/ASX 200 Index	6,033	3,440	0.9	-0.5	65	16.1	2.0	4.4
Stoxx Europe 600 Index	393	32,661	1.9	0.9	70	15.0	1.8	3.5
Dubai Financial Market General Index	2,947	53	-3.8	-12.5	31	7.9	1.0	5.4
Abu Dhabi Sec Market General Index	4,586	34	-2.1	3.9	41	11.4	1.5	5.5
Tadawul All Share Index	8,039	1,150	-2.1	11.2	50	15.3	1.8	3.4
Istanbul SE National 100 Index	101,892	1,616	-2.3	-11.7	18	7.2	1.1	4.6
Egyptian Exchange Index	16,663	56	-8.9	10.9	80	13.7	2.5	2.2
Bahrain Bourse All Share Index	4,718	23	-1.3	-	44	12.9	1.3	4.8
Muscat Securities Index	1,267	2	0.7	-4.9	-	-	-	-
Qatar Exchange Index	4,557	6	-3.6	-10.6	43	9.5	0.8	5.5
MADEX Free Float Index	9,000	56	-1.2	5.6	55	12.5	1.4	4.6
Hong Kong Hang Seng Index	30,666	5,213	-0.6	2.3	67	11.9	1.3	3.5
Shanghai Composite Index	3,169	27,832	2.5	-4.4	22	12.4	1.5	2.4
Korea Stock Exchange Index	2,472	7,692	-2.0	-0.1	59	9.6	1.1	2.0
BSE Sensex	34,345	82	-1.9	1.3	48	18.1	2.6	1.6
Nifty	10,430	1,824	-2.6	-0.6	36	17.5	2.6	1.7
Karachi Stock Exchange Index	42,772	45	-6.2	5.4	42	9.4	1.5	5.7
Taiwan SE Weighted Index	10,886	4,267	2.6	2.8	49	14.1	1.8	4.0
Bovespa Brasil Sao Paulo SE Index	80,867	2,653	-6.1	5.8	48	12.2	1.7	3.6
FTSE/JSE Africa All Share Index	57,043	1,554	-2.0	-4.1	48	14.8	1.9	3.4
Vietnam Ho Chi Minh Stock Index	989	198	-7.1	-0.8	33	16.8	3.0	1.4
Jakarta SE Composite Index	5,792	433	-1.1	-6.7	42	14.8	2.2	2.3
FTSE Bursa Malaysia KLCI Index	1,804	323	-4.7	-0.8	62	16.3	1.7	3.4
Mexican Stock Exchange	45,777	357	-5.3	-7.2	21	16.0	2.1	2.5

Prices as of 23 May 2018
Source: Bloomberg, Emirates NBD Research

Disclaimer

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