



بنك الإمارات دبي الوطني
Emirates NBD

Monthly
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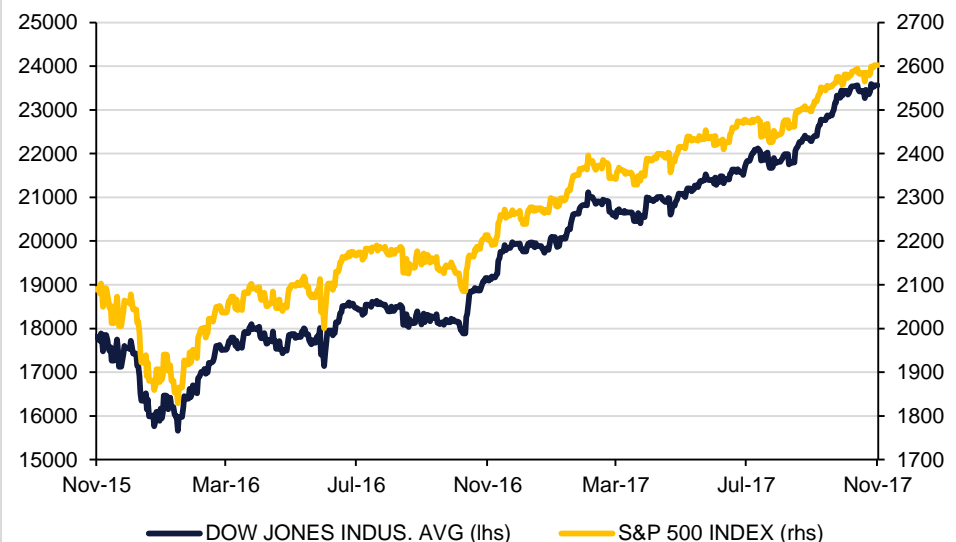
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Monthly Insights

The common take away regionally and globally is how economic performances have largely defied political risks and uncertainties in 2017. This provides grounds for optimism even though the world economy and our region will continue to face significant challenges next year.

- **Global macro:** This year has been an astonishing one in many respects, with global growth largely defying the doomsayers despite an increasing incidence of political and geopolitical risks.
- **GCC macro:** November has been a month of heightened political uncertainty and financial market volatility in the GCC. However, the economic fundamentals are constructive as we head into 2018.
- **MENA macro:** The outlook for North African energy importers is brighter.
- **Sector focus:** UAE's wholesale & retail trade sector overview.
- **Emerging market focus:** India
- **Interest rates:** Relentless demand for longer dated treasuries continue to flatten the UST curve amid solidifying expectations of one rate hike in December this year and further two to three in 2018.
- **Currencies:** Constructive data and receding political risks have aided the Euro in outperforming rival G-10 currencies over the last month. These gains have resulted in the single currency being the best performer year to date in 2017.
- **Equities:** 2017 has been a phenomenal year for global equities with all major indices trading at new all-time highs. With geopolitical risks largely contained and factors behind the move in 2017 still firmly in place, a reasonably confident argument for continuation of risk-on stance in 2018 can be made.
- **Commodities:** We are revising higher our oil price assumptions for 2018 even as we expect to see some challenging fundamentals from non-OPEC supply growth next year. Political risk will come back into play even if we see no direct risk to output.

“Trumpflation” remains alive as year-end approaches



Source: Bloomberg, Emirates NBD Research.

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Global Macro

Growth defies doomsayers in 2017

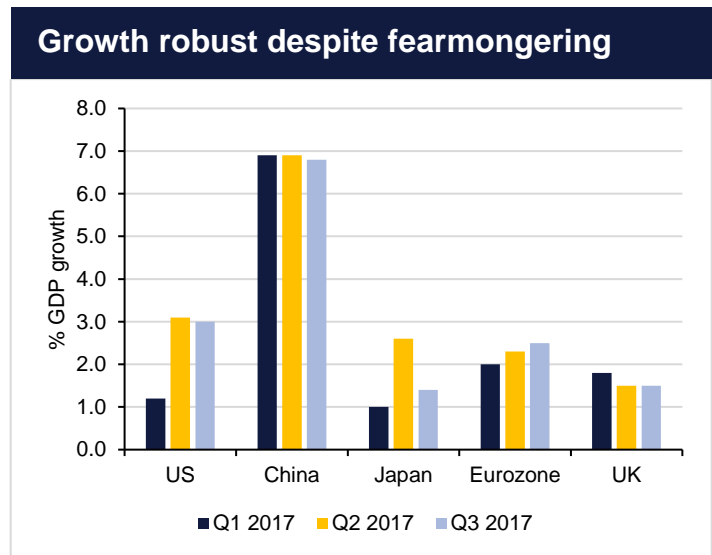
This year has been an astonishing one in many respects, with global growth largely defying the doomsayers despite an increasing incidence of political and geopolitical risks. For instance despite the initial concerns about the effect of the Trump Presidency on global trade the financial markets have largely embraced it with equities posting record highs. Positive surprises were also seen in the Eurozone where the economy has picked up momentum even as political risks mounted, whilst the UK has also demonstrated resilience in the face of Brexit uncertainties. China and Japan too have seen a year where growth has confounded expectations, despite the persistence of profound regional tensions.

As markets wind down into the end of the year there is no shortage of critical issues that are still outstanding and needing to be resolved. These include the passage of tax reform in the U.S., a probable rate hike by the Fed, the formation of a new government in Germany, and more meaningful progress in the UK-EU Brexit talks. An important OPEC meeting also looms in the coming days which will set the tone for oil prices in 2018, with OPEC leaders looking to decide whether to extend production cuts that currently end next March.

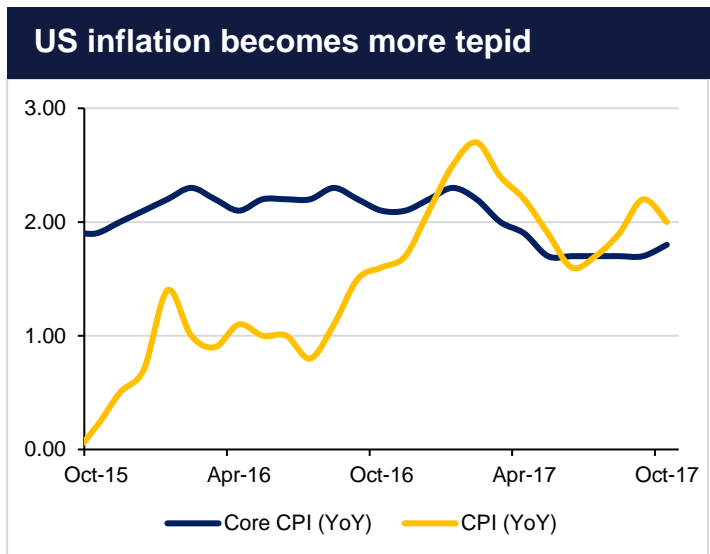
with a built-in Republican majority. The impact of tax cuts on the US economy in 2018 might in the end be quite limited, but they could breathe life into the Republican party's faltering election campaign approaching the mid-terms next autumn.

Fed more cautious

The recent messages about interest rates from the Fed have been relatively discouraging about the trajectory for rate hikes next year, even as there is broad unanimity about a rise occurring next month. The Fed is expected to raise the fed funds rate for a third time at the December FOMC meeting, and the Fed's dots imply 3x25bp rate hikes through 2018. However, markets are becoming more doubtful about whether these projections will be realized. Central to the outcome will be what happens to inflation. Recently, the Fed has begun to acknowledge that the current low levels of CPI inflation might not be 'transitory' and could reflect structural disinflationary factors such as the impact of demographics and technology. Core inflation inched up to 1.8% last month, but wage growth dipped back again in November following the hurricane impacted surge seen in September and October. Our central view for interest rates next year is to expect two hikes, but we see the chance of three if tax reform is implemented which would provide a further tailwind to an already strong economy deep into the ninth year of the economic cycle.



Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

Tax reform expectations reinvigorated

'Trumpflation' was the watchword at the start of the year, but confidence in it waned as healthcare repeal failed, only for expectations of tax reform to be reinvigorated again recently. As Congress returns from the Thanksgiving recess it will start work on the tax bill after a version passed the House a fortnight ago, and will now be taken up by the Senate. The debt limit which expires on December 8 will also be addressed. Both will be important bellwethers for the Trump White House, as failure to pass a tax bill this year would further damage its reputation in the absence of other legislative wins, while wrangles over the debt ceiling would also demonstrate Trump's inability to command and lead Congress even

Another factor that needs to be considered when thinking about interest rates is the leadership and the composition of the Fed. Once Janet Yellen steps down as Fed Chair in early February, probably to be replaced by Jerome Powell, there will be four key leadership positions to be filled including that of Vice Chair and President of the New York Fed. Whether the change in composition of the FOMC results in a more 'hawkish' or 'dovish' monetary policy stance remains to be seen as the new FOMC has to contend with the economic and financial conditions as it finds them. However the early impressions are that Powell will favour continuity in terms of policy setting keeping the pace of rate tightening gradual.

Investor confidence remains high in Eurozone

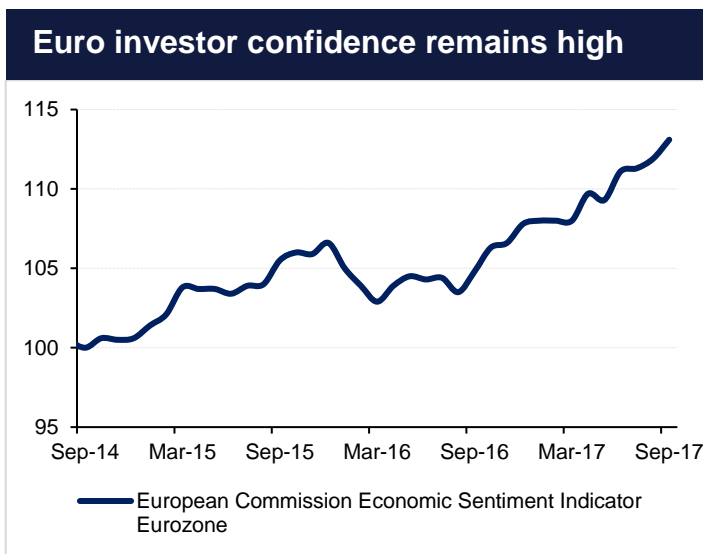
The experience of Europe in 2017 has been one which clearly illustrates how economic recoveries have been able to progress despite the persistence of political uncertainty. In one sense the outcome of the French election in the spring put to rest one of the main risks this year, allowing Eurozone GDP growth to be maintained at a healthy 0.6% q/q pace in Q3. However, political risks did not simply disappear in the second half of the year, with the Catalonia crisis and the election results in Germany both presenting significant challenges. What was remarkable was how they barely impacted investor confidence which continued to rise into the fourth quarter. Neither have these risks gone away either, with an election in Catalonia looming on December 21st and with the formation of a German government still proving problematic. Amidst such uncertainty the ECB will continue to tread warily when it comes to policy normalization in 2018. QE asset purchases will be reduced to EUR 30bn per month in January (from EUR 60bn currently) but they will be extended to the end of September 2018. Although clues have been dropped that this will likely be the end of QE, Draghi will remain unwilling to acknowledge such a likelihood until there is greater evidence that headline inflation is consistent with the target of 'below, but close to 2%'.

hand, but the Brexit tale will likely have many more twists and turns before the process concludes in 2019.

China avoids hard landing – Asia resilient

Finally, the other dominant fear at the start of the year revolved around Asia, and expectations of a hard landing for the Chinese economy, with the possibility of a US-China trade and currency wars. However, as was seen at the recent Communist party congress and with President Trump's trip to Asia, the economy has held up in China, political stability around President Xi has been cemented, and relations between many Asian countries, including China, and the US are relatively good. Furthermore Japan's economy has continued to grow now for seven consecutive quarters, and all of this while the threat of a US-North Korea confrontation has been ever present. As with other parts of the world 2017 began in Asia with a considerable overhang of risks and challenges, some of which have barely lifted. Through it all however, the capacity of the world economy to adapt and withstand them has been the striking feature and something that stands it in good stead as 2018 approaches.

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Source: Bloomberg, Emirates NBD Research

Brexit dampens UK growth forecasts

2017 for the UK will of course be defined by the ill-judged election called by PM Theresa May which saw her majority in parliament disappear and her government propped up by a smaller regional party. With May's credibility and support undercut it is not surprising that the Brexit negotiations have been tortuous, nor that pessimism about the UK's prospects is spreading. Recently UK budget forecasters revised GDP from 2.0% earlier, predicting GDP will grow by 1.5 percent in 2017 as the prospect of Brexit weighs on activity. Forecasters also cut GDP growth forecasts in 2019 and 2020 to 1.3 percent in both years, down from 1.7 and 1.9 percent previously. For 2021 and 2022, economic growth was still seen at 1.5 and 1.6 percent respectively. As the year-end approaches there are some glimmers of optimism that a 'financial settlement' might be close at

GCC Macro

November has been a month of heightened political uncertainty and financial market volatility in the GCC. However, the economic fundamentals are constructive as we head into 2018.

Markets reflect increased nervousness...

CDS spreads have narrowed over the last week, but they remain higher than they were before Saudi Arabia's anti-corruption crackdown in early November, and regional equity markets have underperformed their global peers. The unprecedented crackdown on senior princes and high profile business leaders has unsettled foreign investors, who are unsure about what this means for their own investments in the Kingdom, and how the situation will be resolved. Our view is that the recent events are yet another signal of a break from the past and continued commitment to structural reform in the kingdom, which has been driven by the crown prince over the last two years. Nevertheless, the outcome of the recent initiative is still unclear, and uncertainty is likely to remain elevated for several months.

speculators rather than reflecting an inability to provide USD at the official rate.

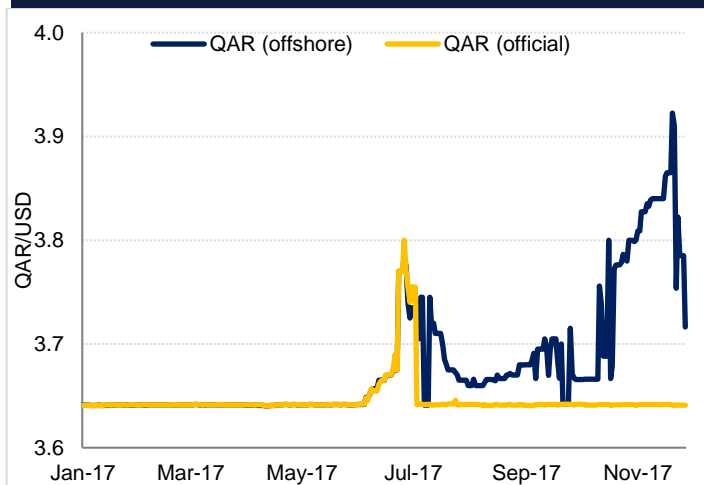
...even though economic data is encouraging

Financial market volatility aside, the fundamentals for the GCC economies remain solid and the outlook for 2018, notwithstanding further political upheaval, is constructive. PMI surveys for October showed the non-oil sectors in the UAE and Saudi Arabia expanding, and business optimism at the highest level this year. However, this was before the arrests in early November, which likely weighed on sentiment, if not actual output.

Higher oil prices will help with reducing budget deficits and allow some breathing room for governments that have been under pressure to curb spending over 2015-2016. The USD 5/b upward revision to our 2018 Brent oil price forecast (to USD 56/b) would result in an average GCC budget deficit (weighted by nominal GDP) of -6.8% in 2018, compared with -7.7% previously. This would reduce the pressure for further aggressive public sector spending cuts; or at least allow governments to mitigate cuts to subsidies – which are necessary for overall budget reform in the medium term – by offering additional social security or other compensation to lower income households.

Current account balances are also likely to improve in 2018 on higher oil prices. We forecast an average current account surplus (weighted by nominal GDP) of 3.7% of GDP next year, up from 1.5% previously. This should help to alleviate concerns about the sustainability of the GCC pegs following current account deficits in 2015 and 2016.

Offshore QAR trading weaker than official rate

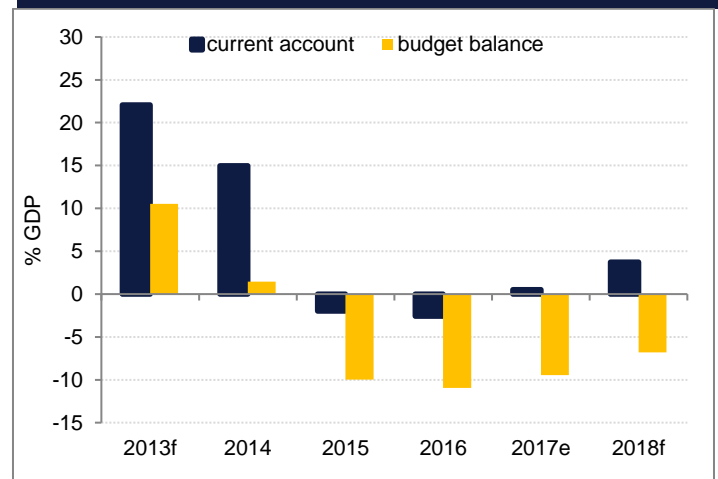


Source: Bloomberg, Emirates NBD Research

In Qatar, the spread between the official pegged exchange rate and the 'offshore' rate widened sharply last week, with the latter reaching 3.92 vs the official 3.64/USD before narrowing somewhat when the central bank reiterated its commitment to the peg. That there is a shortage of USDs is a little surprising given the size of Qatar's reserves. The central bank's stock of net foreign assets stood at USD 16.3bn at the end of September (about 10% of nominal GDP), although this has fallen by half since end of May.

Moreover, the central bank holds only a fraction of Qatar's sovereign assets, most of which are invested through QIA. While there is no official figure for AUM, these were estimated to be over USD 300bn, with nearly 60% invested in (relatively liquid) publicly listed securities, according to reports. The reported shortage of USD suggests that the central bank is reluctant to provide liquidity to

Higher oil prices positive for budgets and current accounts



Source: IHS Markit, Emirates NBD Research

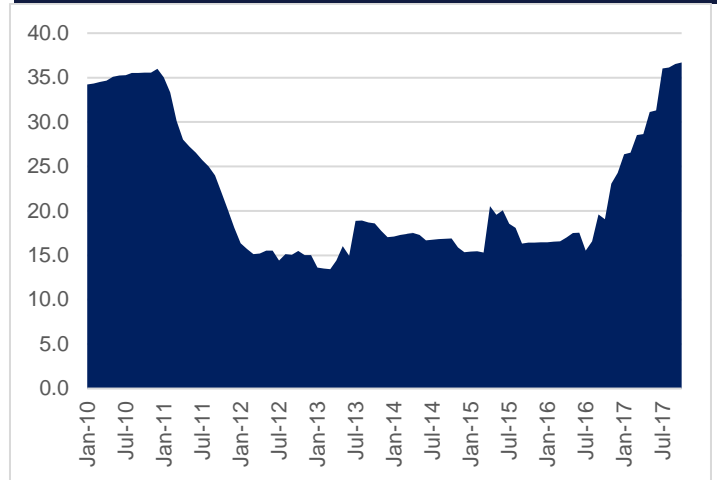
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MENA Macro

Outlook Brightening For North African Energy Importers

Although Egypt, Morocco and Tunisia have not had to contend with the fallout from lower oil prices which has buffeted the MENA region's net exporters since the H2 14 price slump, they have faced their own challenges over the period. Terrorist attacks, poor harvests, and severe economic reforms have all served to keep economic growth below par. The outlook for the economies remains fairly mixed, but all three are set to shake off some of their growth impediments and enjoy improving real GDP growth over the coming quarters, in our view.

Egypt net international reserves, USD bn



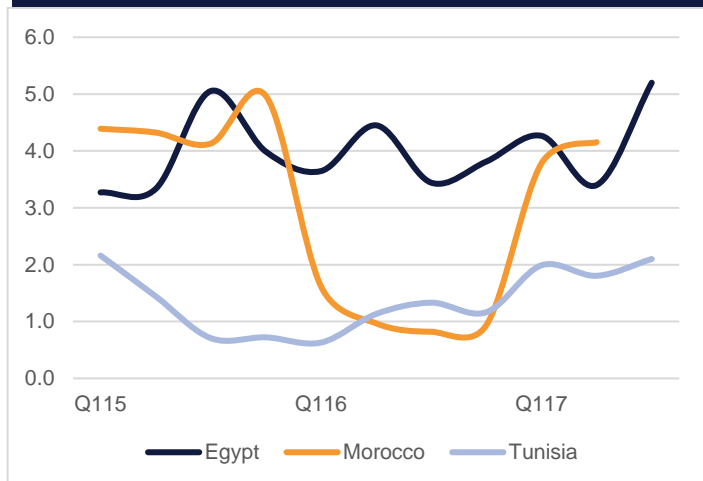
Source: Haver Analytics, Emirates NBD Research

As the base effects of the currency float pass through at the end of the year, we expect a sharp fall in inflation, which will enable the Central Bank of Egypt to loosen monetary policy and encourage an uptick in private consumption. Crucial in bolstering GDP growth in the coming fiscal year will be greater fixed investment, to complement the substantial uptick in portfolio inflows already seen. To this end, a new investment law passed in June, alongside the more competitive currency, should help encourage this. Maintaining the strong growth in visitor numbers seen in 2017 – up 53.4% y/y over January to September – will also support the expansion, although further security incidents the like of which occurred in the Sinai on November 23 threaten to derail this tourism recovery.

Morocco remains a top regional pick

Despite the lacklustre real GDP growth seen in 2016 (1.2%, the weakest in nearly two decades), the Moroccan economy remains one of the strongest of the MENA oil importers, with fiscal and current account deficits others in the region would be envious of. The weak growth last year was a result of a poor harvest constraining the agricultural sector, rather than any more sinister structural deterioration, and growth has bounced back in 2017 as more favourable weather conditions have boosted production once more. Real GDP growth has strengthened markedly, with Q1 and Q2 averaging 4.0% y/y, driven largely by agriculture. We forecast an expansion of 4.3% over the year.

Real GDP growth, % y/y



Source: Haver Analytics, Emirates NBD Research

Egypt's structural reforms are starting to bear fruit

Real GDP growth in Egypt has strengthened, with planning minister Hala al-Saeed telling the press in November that Q1 FY2017/18 had come in at 5.2% y/y. This bodes well for our forecast expansion of 4.9% over the year, which would mark the strongest growth rate since pre-revolution FY2009/10. The strong first quarter suggests that the economic reforms being undertaken in Egypt are now starting to bear fruit in terms of GDP growth. Egypt entered into an IMF programme in November 2016, and the removal of the overvalued Egyptian pound's peg to the US dollar, a key component of the associated economic reform, saw a rebalancing in the Egyptian economy. The trade deficit narrowed sharply, and reserves have risen to the highest level in decades. However, quarterly growth has to now been relatively unspectacular, as high inflation and very tight monetary policy have constrained consumption.

Morocco agricultural exports, % y/y



Source: Haver Analytics, Emirates NBD Research

While waning base effects will see the expansion rate slow – we forecast 3.7% next year, followed by 3.6% in 2019 – we nevertheless maintain a positive view on Morocco’s economy, a view shared by foreign investors which continue to enter the market. Morocco has successfully encouraged strong fixed investment inflows in recent years, through improving its business environment – Morocco has climbed from 129th globally in 2008’s Ease of Doing Business report to 69th in the 2018 edition – and through presenting itself as a relatively stable environment when compared to its North African peers. The automotives sector in particular has bolstered growth, and in July, French auto parts supplier Faurecia announced plans to open a third Moroccan plant.

Tourism recovery will bolster Tunisian economy

Tunisia remains the underperformer amongst the North African oil importers, with 3Q 17 growth of just 1.9% y/y. That said, even this weak performance marks a more rapid expansion than the 1.1% averaged over 2015 and 2016, and preliminary figures show the third quarter accelerated to 2.1%, supporting our forecast of 2.1% over the year. While Tunisia’s troubles are not behind it, we anticipate a continued, if slow, improvement in growth, forecasting a 3.3% expansion in 2018.

Hotels & restaurants, real growth % y/y



Source: Statistiques Tunisie, Emirates NBD Research

The Tunisian economy has struggled to deal with the sharp 25.2% drop in visitor numbers in 2015 prompted by a number of deadly terrorist attacks on tourists that year. Visitor numbers remained at similar levels in 2016, but there are green shoots of recovery in the sector. The restaurant and hotel industries enjoyed real growth of 8.1% y/y in H1 17, and the government predicts visitor numbers of 6.5mn over the year, which would represent an increase of 14.0%. The government of the UK, traditionally a significant source of visitors, has eased its negative travel advice regarding Tunisia and so numbers should expand further in 2018. As tourism is a major employer in Tunisia, this should support stronger consumption levels next year.

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Sector Focus

Dubai's wholesale & retail trade sector

The wholesale and retail trade sector is the largest sector in Dubai's economy, recording a share of roughly 25.0% of total GDP in Q1 2017. Growth in the sector accelerated to 1.3% y/y in Q1 2017, which is lower than we had expected. The Emirates NBD Dubai Economy Tracker surveys have shown the wholesale and retail trade sector being the best performing of the key sectors since the beginning of the year. As a result, we remain comfortable with our forecast of close to 3.0% growth in the sector in 2017, up from 1.3% in 2016.



Source: Markit, Emirates NBD Research

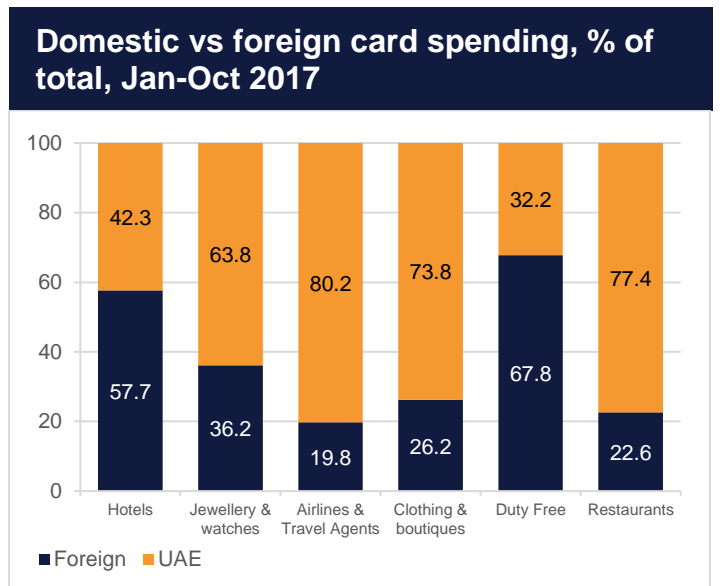
Visitors numbers at all Emaar malls reached 65mn in H1 2017, up by 7.0% y/y. Separately, gross leasing area (GLA) for Dubai's retail malls remained unchanged in Q3 2017 at around 3.4mn sq. m of total retail supply, according to Jones Lang LaSalle. Between 2014 and 2017, GLA is expected to grow at an average of roughly 5.5% per year. Over the next two years, around 998,000 sq. meters (+17.0%) of new retail space is expected to enter the Dubai market, reaching 4.1mn sq. meters of retail GLA.

Credit card spending picks up ahead of VAT

Retail spending is an important element of UAE's tourism strategy. With the implementation of 5% value-added tax (VAT) on various goods and services from January 2018, UAE retailers are likely to come under further margin pressure. Over the last couple of years, retailers have consistently reduced selling prices in order to remain competitive. The growing popularity of online shopping could also be a challenge to the retail sector.

Credit card spending in the UAE was 14.1% higher in Jan-Oct 2017 compared with the previous year, according to data compiled by Network International. Network International covers about 60% of the UAE market for e-commerce and point of sale (POS) transactions. Most of the growth in spending in Jan-Oct 2017 was on cards issued by UAE banks (mainly residents), which rose 15.4%

y/y and accounted for roughly 80.0% of total card spending in the UAE. Foreign spending (i.e. on cards issued by non-UAE banks) also increased 9.2% y/y for the same period compared with the -11.8% decline recorded in Jan-Oct 2016. In terms of overall spending by sector, restaurants enjoyed double-digit spending growth in Jan-Oct 2017, up by 18.1% y/y accounting for 15.8% of total card spending. Overall, the rise in spending still appears to be mainly from UAE residents rather than visitors.



Source: Network International, Emirates NBD Research

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

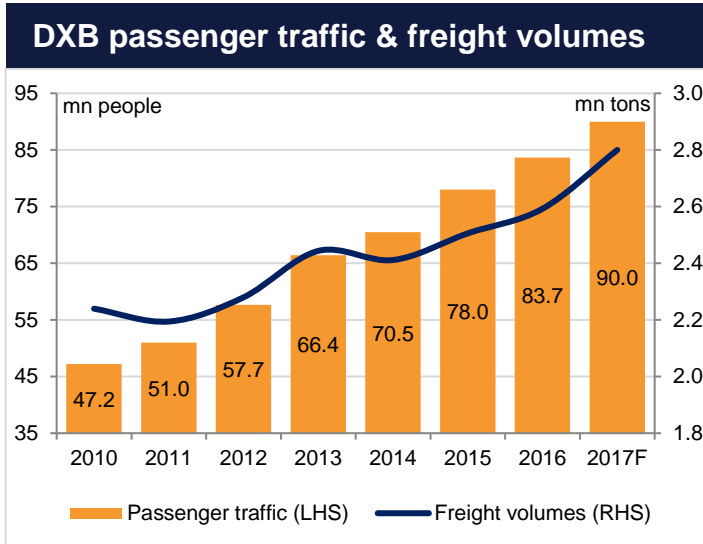
In terms of living costs, Dubai is the most expensive city in the MENA region for expatriates according to the 2017 Cost of Living Rankings by Mercer. Ranked 19th, Dubai continues to be the most expensive city in MENA for expatriates followed by Abu Dhabi (22), Beirut (52) and Riyadh (52), which have all climbed in this year's ranking. Jeddah (117), Kuwait city (111) and Muscat (92), are among the least expensive cities in the region. Cairo (183) is the least expensive city in the region plummeting more than ninety spots from 2016 following a major devaluation of its local currency.

Growth in tourism & hospitality supports retail

Tourism & hospitality is another key sector that could be affected by the introduction of VAT. Although hotel occupancy rates are still robust, the introduction of VAT in addition to the existing various municipality fees and tourism taxes could also push room rates higher. If VAT will be applied to the sector as expected, tourists could end up being charged as much as 30% on top of a basic room charge.

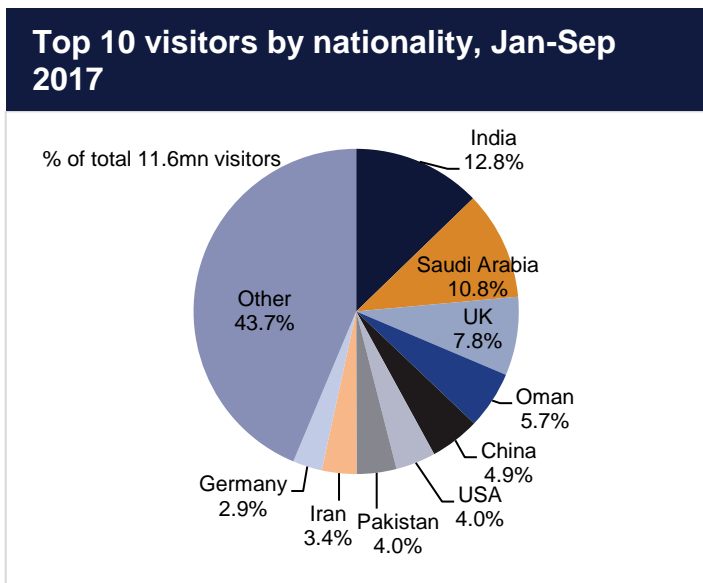
Passenger traffic along with airport and port freight volumes provide opportunities for Dubai's retail business to thrive. Passenger traffic at the Dubai International Airport (DXB) rose to 66.6 million in Jan-Sep 2017, up by 5.8% y/y. In September alone, 7.2mn passengers

passed through DXB, up by 1.7% y/y. Passenger traffic is expected to exceed 89 million at DXB by the end of 2017, according to Dubai Airports.



Source: Bloomberg, Dubai Airports, Emirates NBD Research

A strong tourism and hospitality industry should support retail spending. The number of tourists coming to Dubai and staying in hotels including holiday rentals and onboard cruise ships for at least one night reached 11.6 mn in Jan-Sep 2017, up by 7.5% compared with the same period last year. Dubai is on its way to achieving the ambitious travel and tourism strategy which aims to attract 20 million visitors to the emirate by the end of the decade, according to DTCM. A strong tourism and hospitality industry will also provide an important boost to retail and other associated industries and services.



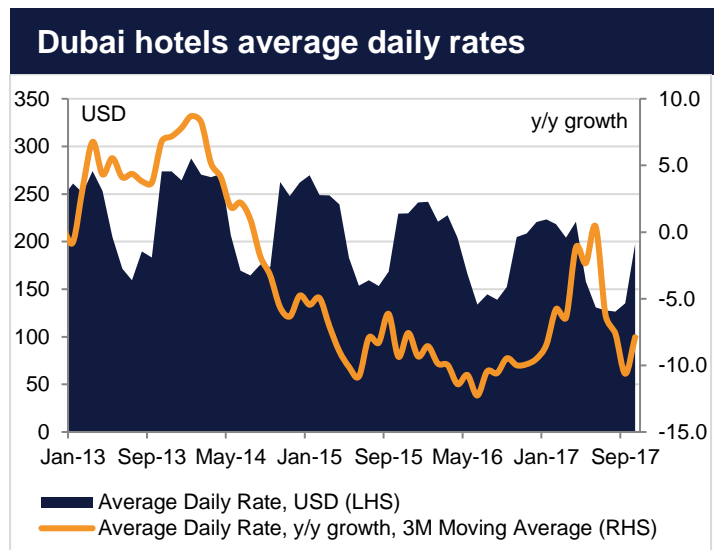
Source: Bloomberg, DTCM, DSC, Emirates NBD Research

The UAE continues to be the most competitive travel and tourism economy in the region by far, according to the 2017 Travel and Tourism Competitiveness Index (TTCI) by the World Economic Forum (WEF). Overall, the UAE ranked 29th out of 136 countries. The index measures the set of factors and policies that enable the

sustainable development of the travel and tourism sector, which in turn contributes to the overall competitiveness of a country. UAE's overall score was strengthened by its high performance for its overall business environment (5th), advanced ICT readiness (15th) and air transport infrastructure (3rd). It is also one of the most secure destinations (2nd) and has a developed hospitality and entertainment infrastructure (27th).

Hotel occupancy rates remained high averaging 75.9% in Jan-Oct, down from 76.7% the same period a year ago. According to the latest data from STR Global, the supply of hotel rooms in Dubai increased by 6.0% y/y in Jan-Oct 2017. With the supply of hotels rooms still outpacing demand growth, occupancy rates are likely to remain stable or ease slightly with demand gradually catching up in the run-up to the 2020 Expo. The supply of hotel rooms in Dubai increased by 7.3% y/y in October to 96,292 rooms. The Department of Tourism and Commerce Marketing (DTCM) is targeting 140,000 to 160,000 hotel rooms by the end of the decade.

Hotels have discounted room rates for a second consecutive year in 2017 in order to keep occupancy levels high, although the STR data also shows some improvement in pricing power since Q4 2016. In Jan-Oct 2017 RevPAR decreased by -3.9% y/y from -11.6% the same period a year ago. Substantial additional supply is likely to cap RevPAR growth in the coming months however.



Source: Bloomberg, STR Global, Emirates NBD Research

Separately, in terms of logistics infrastructure, the UAE ranked 13th overall and is the most logistics friendly economy in the region ahead of Qatar (30th overall) and Saudi Arabia (52nd overall), with a score of 3.94 (where 1 is the least friendly and 5 is the most friendly economy), according to the 2017 World Bank's Logistics Performance Index (LPI), measuring the logistics friendliness of 160 countries. UAE's strategic location along with its high level of infrastructure and logistic facilities make it an ideal location for companies to base their operations in order to serve regional markets.

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EM Focus - India

Notwithstanding some concerns over the disruption caused by the introduction of Goods & Services Tax in the short term, India has continued to see strong interest from foreign investors. This is likely to continue in 2018 amid expectations of a rebound in economic growth and corporate earnings and the Reserve Bank of India maintaining a relatively accommodative monetary policy. Nevertheless, domestic politics would be a key overhang in 2018 with several elections scheduled over the course of the year.

Rating agencies – Share the optimism

Moody's upgraded India's ratings by a notch to Baa2 from Baa3. This was the first ratings upgrade for the country since 2004. Moody's attributed the upgrade to expectations that 'continued progress on economic and institutional reforms will, over time, enhance India's high growth potential and its large and stable financing base for government debt, and will likely contribute to a gradual decline in the general government debt burden over the medium term'. The rating agency expects India's GDP growth to rise to 7.5% in FY 2018 and similar levels from FY 2019 onwards.

S&P did not follow Moody's in upgrading the rating and kept it unchanged at BBB-. S&P said it remains concerned about debt sustainability of both the central as well as state governments and low per capita income. However, the agency projected India's GDP growth to average 7.6% over 2017-2020.

While we do share S&P's concerns over fiscal slippages, the fact that the government has not succumbed to tinkering with the fiscal deficit target augurs well. It also appears that the GST system has started to stabilize as the government removed most items from the 28% category and further eased the compliance burden on the small and medium enterprises. This should result in higher tax collection and a lower deficit for the government to fund.

RBI and inflation

The latest inflation data showed some pick up with the CPI increasing to 3.58% in October 2017 from 3.28% in September and the WPI accelerated to 3.6% in October 2017 from 2.6% in September. The increase in both indices was largely on account of sharp rise in food inflation.

The Reserve Bank of India is expected to leave interest rates unchanged when it meets early next month even as the CPI remains below its target of 4%. The central bank is likely to be wary of upward pressure on prices in the short term owing to impact of low base effect and higher global commodity prices. It should also be noted that over the last month, the Indian crude basket price increased by 10% and that only a part of that increase has been passed onto consumers.

The RBI would also like to see the impact of GST on government finances and economic growth trajectory over a meaningful period before making a call on interest rates.

Inflation still below RBI's target



Source: Bloomberg

GST and economic data

With the roll-out of the GST denting economic activity, a lot of focus is on how quickly activity rebounds. High frequency data such as PMI and industrial production indicate that the negative impact of GST has started to wane even if some problems remain. The mining and manufacturing component of industrial production accelerated from 1.1% in Q2 2017 to 7.2% in Q3 2017. The pick-up in the construction and capital goods segment has also been encouraging. The manufacturing PMI has also shown a reading above the 50.0 level for the last three months.

In terms of government finances, the revenue collected under GST has improved progressively. The amount collected in October 2017 was the highest since the roll-out which helped to bring the average revenue shortfall of states down to 17.6% from 28.4% in August. We expect the revenue collection to improve further following latest steps taken by the government to ease processes associated with the GST.

Earnings

With Indian equity markets trading at all-time highs despite short-term disruptions, corporate earnings continue to be keenly tracked by investors. Aggregate revenue and profit grew 11% y/y and 6% y/y respectively in Q2 FY 2018. Importantly, margins improved across the board helped by input credit under the GST regime. The breadth of earnings was also positive with 80% of the companies reporting earnings inline or ahead of consensus estimates.

The consensus estimate for full year FY 2018 is for earnings to grow at 13% y/y. With the first half growth remaining flat, it appears that the consensus would need to be revised lower. The Nifty index is currently trading at 19.9x 12m forward earnings compared to the MSCI EM index which is trading at 12.8x 12m forward earnings. It is worth highlighting here that India has always traded at a premium to its emerging market peers.

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Interest Rates

Relentless demand for longer dated treasuries continue to flatten the UST curve amid solidifying expectations of one rate hike in December this year and further two to three in 2018.

Global Rates

President Trump has officially nominated Jerome Powell, to be the next Chair of the Federal Reserve, replacing Janet Yellen when her term expires on 01 February 2018. We don't expect the change of Fed Chair to trigger any change in the monetary policy regime and expect that the UST curve will remain hinged against the improving economic growth in the US.

Monthly economic data affirmed the underlying strength of the US economy. Core inflation inched a tick higher to 1.8% y/y in October from 1.7% in the previous month even though hourly wage growth lagged the pace, coming in at annualised 2.4% in October. While the tax-reform debate could dominate headlines in the coming weeks, it is unlikely that tax reform or a fresh spending stimulus will be seen for a while.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.29	+9	-3	+49
UK	1.40	+10	+9	+31
Germany	0.41	-2	-18	+36
Japan	0.05	+4	-1	+12
Brazil	4.57	+24	-13	-1
Russia	3.95	+26	-26	-4

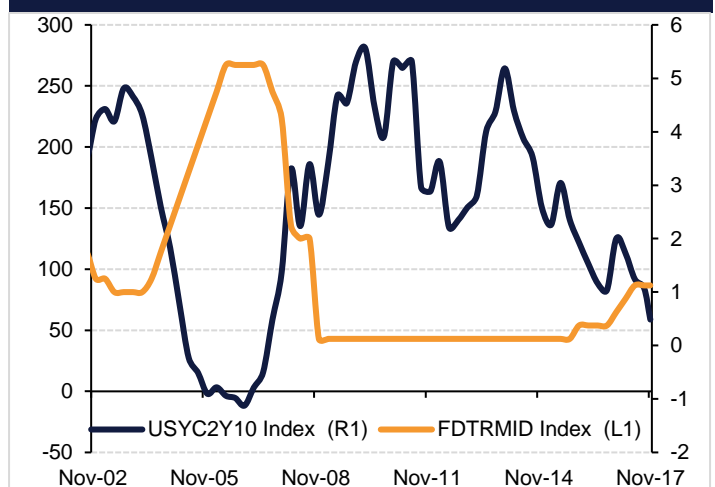
Source: Bloomberg

The flattening of the UST curve

The recent flattening of the U.S. yield curve is raising concerns that the levels are rapidly approaching a point at which the trend will induce an economic slowdown in the US. While we think its only natural to see curve flattening with the Fed raising interest rates in the face of stubbornly low inflation, there is no denying that the longer the trend continues, the more likely its effects could spread to bank earnings and the real economy. Also it would limit the Fed's ability to respond when these risks emerge.

Historically curves begin to flatten somewhere at or before the mid-point of any rate hike cycle. In the previous rate hike cycle of 2004 – 2006, 2yr10yr spread was at 190bps at the time of the first rate hike in June 2004 (fed rate rose from 1% to 1.25%). From there on, the curve began to flatten and reached its lowest point in the cycle at -12bps in December 2006. The level similar to the current level of 58bps was reached after four rate hikes equating a total of 200bps in March 2005 and ahead of the remainder five rate hikes equating to 225bps of additional increase.

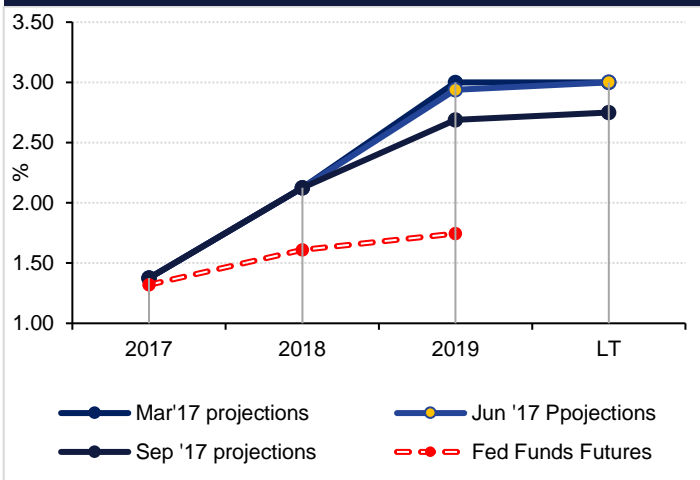
2yr10yr spread narrows with rate hikes



Source: Bloomberg

Most market participants ascribe the falling long term yields to stubbornly muted inflation, however, we believe the bigger factor is the unabated relentless demand for treasuries which has led to

FOMS Dot Plot vs Market Expectations



Source: Bloomberg

Consumer confidence in the Eurozone is at its highest level since 2001. While economic data is comfortably strong, political uncertainty in Germany and Spain will likely be an overhang on sentiment in the region. That said, although voters in Germany might have to return to the polls, expectations are building up for tax cuts once a government is formed. Tax cuts are also on the cards in France, the Netherlands and Austria.

Little progress made to date on Brexit is raising prospects of a 'Hard Brexit' which in turn would be detrimental for the economic growth in the country. That said, some negative impact may be absorbed by the populist budget recently announced. The BOE raised interest rates by 25bps in November, but will proceed cautiously with further tightening in 2018.

lower yields on the longer end of the curve. Some of the reasons for the strong demand for treasuries are as follows:

Investors lack alternative safe havens. Gold is illiquid and other safe government papers across the world are largely low yielding. High yielding currencies such as AUD and CAD are also reasonably illiquid for large size investments.

Adoption of Basel III requires banks to hold more of the treasury paper than under the previous regime. With banks across the globe gradually adopting basel III framework, the bid for treasuries from banks is likely to continue.

Investors don't believe that the Fed will raise rates too aggressively: Circa 50% of the US treasury debt is directly or indirectly held by US government or government related entities. Investors don't believe that the Fed will raise rates too aggressively which could affect the financial position of these entities materially. With expectations of tamed Fed and lower number of rate hikes in the future, investors remain confident and comfortable in buying treasuries.

Supply of US treasuries is expected to be low in the coming few years than it has been in the last few years. So with decreasing supply and increasing demand, the technical dynamics for treasury yields are biased towards tightening.

Arbitrage opportunities. The global bond market is still awash in central bank purchases, particularly by ECB and BoJ. Over the last few years, the yield spread between 10-year Treasuries and German bunds has grown wider, creating an opportunity for overseas investors to add U.S. debt. ECB Plans to continue buying bonds through September 2018, albeit at half the current pace from January. And as long as the ECB continues to buy the long end of the curve, they will continue to have indirect effect on long end treasuries and thereby aiding UST curve flattening.

Corporate borrowing patterns are shifting from bank loans to capital markets and this leaves banks with extra cash to be deployed into other securities.

The pools of retirement savings and insurance money are ever increasing as the world population ages and penetration of insurance products deepens. Aging population across the globe is also seeing asset allocation shifting to safer classes thereby increasing allocation to treasuries. Insurance and pension funds that are always seeking duration find longer dated treasuries as the best way to get it. Also influx of fixed income focused ETFs in the recent years is fueling the demand for liquid securities such as the USTs.

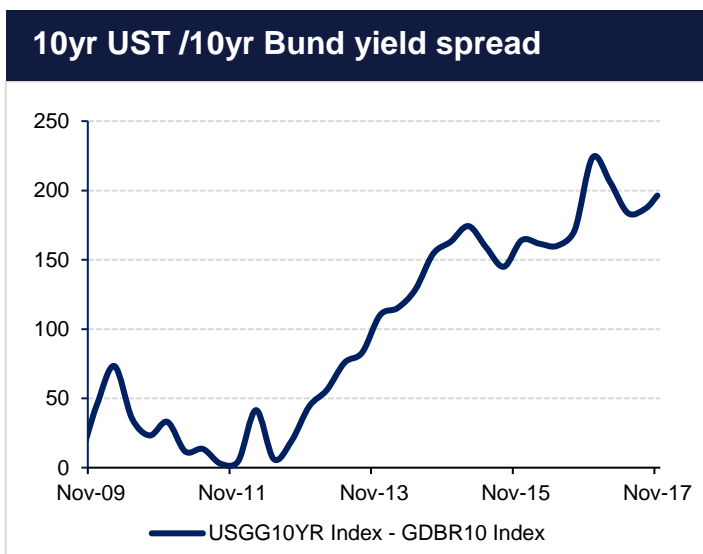
Emerging market sovereigns are beefing up their FX reserves to hedge against external vulnerabilities such as the one faced by the Asian countries in late 90s. Some sovereign such as China and Japan also use USD reserves to protect their currencies and maintain their export competitiveness.

Treasury recently announced that it wants to focus increased issuance in bills and shorter-dated coupon maturities, like two- and five-year notes. That creates relative scarcity at the long end of the curve and a premium at the short end to absorb the extra supply.

What does flatter UST yield curve mean for GCC banks

Given the pegged currencies, UST curve movements translate into similar trends for the local currency curves in the GCC region with mild variation and tend to have direct impact on the banks' operating performance. Banks typically prefer a steeper yield curve because they generate income from the spread between long-dated loans and deposits that are priced on shorter-term rates. Without the gap, their performance suffers. The impact of flattening curve is becoming visible in the share prices of the US banks although actual impact on profitability of the GCC banks is yet to emerge.

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Source: Bloomberg

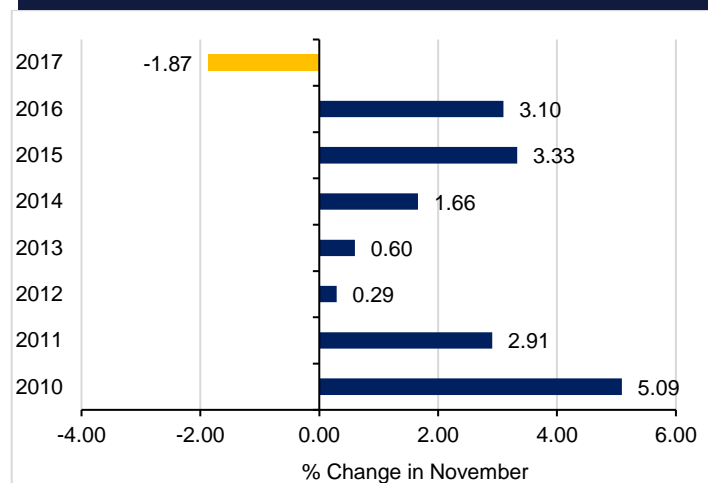
Currencies

Constructive data and receding political risks have aided the Euro in outperforming rival G-10 currencies over the last month. These gains have resulted in the single currency being the best performer year to date in 2017.

USD breaks from seasonality

Since our last monthly update, the dollar has had mixed fortunes. Despite initially gaining 1.76% to trade as high as 95.15 on the 27th October, the Dollar Index has declined over the remainder of the last 30 days and currently trades 0.56% lower at 92.79. This movement has resulted in the index being on target to fall in November for the first time since 2009. This is despite reasonably constructive economic data released during this period with reports showing that the U.S. economy expanded 3.0% q/q in Q3, personal consumption remained supportive of further growth and that the unemployment rate fell to a 16 year low of 4.1%.

USD falls for first November since 2009



Source: Emirates NBD Research, Bloomberg

This break from the pattern can mainly be attributed to guidance from Federal Reserve officials who have recently communicated concerns about financial stability and tepid inflation. To add to market concerns, the minutes released from the FOMC's November meeting showed a divide between participants, some of whom believed that the tightening labour market would cause "increasing upside risks to inflation", while others believed that current low levels of inflation might not only be a symptom of transitory factors, but also "influenced by developments that could prove more persistent".

USD looks technically vulnerable

Technical analysis of the index reveals that further losses may lie ahead for the dollar. At 92.79, the price is currently below the 50 day (93.65) and 100 day (93.51) moving averages, levels that we have seen closes below for three consecutive days. In addition, the index ended last week with a close below the 200 week moving average

(93.35). These technical vulnerabilities would be compounded by a daily close below 92.54 (the support baseline from September) which has the potential to trigger a retest of the 1 year lows of 91.01.

DXR closes below 200 week MA



Source: Bloomberg

EUR outperforms in November

Constructive data and a retreat of risk factors have helped the Euro outperform in November and be the best performing G-10 currency year to date. The geopolitical risks posed by the uncertainty of fresh elections have been eased by the opposition SPD showing that they are prepared to discuss the formation of another Grand Coalition. At the same time, progress with Brexit negotiations appears to be moving forward and while the risks have not completely abated, the market appears to be less alarmed.

Economic data has also been supportive of the single currency, with surveys showing that optimism about recovery remains high. The Eurozone November Markit Composite PMI rose to 57.5, the highest level since April 2011, with the new orders component rising to 56.9, the highest level since February 2011. This was confirmed by the ZEW Eurozone Expectation of Economic Growth Index which rose to 30.9 in November up from 26.7 the previous month and the IFO surveys, which, have shown that German business optimism has climbed to record levels.

The hard data has confirmed what the surveys have captured, showing that the Eurozone aggregate GDP showed healthy growth of 0.6% q/q in Q3 following 0.7% in Q2 (2.6% y/y vs 2.5%), unemployment fell to 8.9% in September and the trade balance widened to EUR 25bn in September from EUR 21bn in August.

Having risen for four consecutive weeks and made several key breakthroughs, EURUSD currently trades at 1.1920. Analysis of the

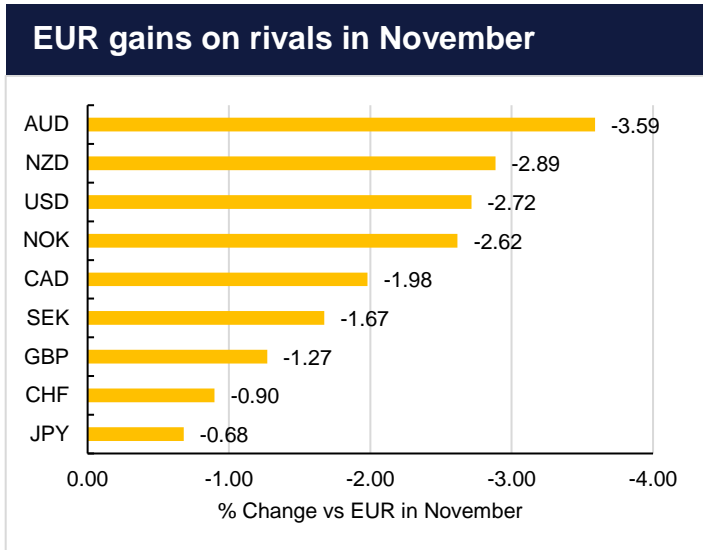
daily candle chart shows that the daily downtrend that had been in effect since 11 September 2017 has been reversed, with higher lows and higher highs forming. In addition, the pair has broken through and closed firmly above the 50 day and 100 day moving average for four consecutive days. This creates further upside risk in the short term.

GBP approaches our Q4 forecast

With economic data a little more mixed, GBP's gains have been mostly a result of dollar softness and progress being made with Brexit. Prime Minister May is set to meet the EU President Juncker and EU chief negotiator Barnier on the 4th December with the outcome of the meeting likely to be a significant driver for sterling.

Supportive economic data included reports that showed Q3 GDP accelerated to 0.4% q/q from 0.3% and industrial production expanded 2.5% y/y in September, confirming the survey data. Headline inflation remained at 3.0% y/y in October, taking pressure off the Bank of England to continue with their tightening of monetary policy, the OIS currently implying a 57.2% chance of an increase in interest rates by August 2017.

After appreciating for a third week, GBPUSD is trading at 1.3324, levels last seen in September. From a technical viewpoint, risks remain to the upside for the cable. It is noteworthy that recent gains have resulted in a break and close above the 100 week moving average (1.3214) which had acted as a level of resistance for the previous six weeks. The close above this level reinforces our confidence that GBPUSD will reach our Q4 forecast of 1.34 over the next month.



Source: Bloomberg

JPY benefits from shift in BOJ stance

Over the last month, USDJPY has fallen 0.88% to currently trade at 111.22, having earlier reached highs of 114.73 on 6 November. The cross found itself under pressure as JPY benefited from safe haven bids amid geopolitical uncertainty and risk aversion as well as a narrowing of yield differentials. In addition, data out of Japan has been constructive with the Manufacturing PMI rising to 53.8 in November from 52.8 in October, the highest since 2014. However, the main driver of JPY strength has been the announcement that the BoJ was reducing the size of its JGB purchases by JPY 10bn. Markets have interpreted this as a signal that the central bank is starting to shift away from its dovish mindset and will allow the yield curve to start steepening.

At its current levels, USDJPY is trading near the eleven week lows and looks technically fragile. Over the previous week, we have seen strong resistance at 50 day MA of 112.82 which halted any advances. The decline in price also takes the cross below the 38.2% one year Fibonacci retracement (111.63) which acted as a resistance level towards the end of the week. In addition, there has been a sustained breach of the 100 day and 200 day moving averages (111.72 and 111.66 respectively). The fact that this strong level of support was broken means that USDJPY may be vulnerable to further declines in the short term.

Analysis of the weekly candle chart reinforces this gloomy outlook as the former supporting 200 week moving average (112.10) is now serving as a resistance level.



Source: Bloomberg

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Equities

2017 has been a phenomenal year for global equities with all major indices trading at new all-time highs. Gains have been driven by loose monetary policy, robust corporate earnings and a synchronized pick-up in growth. It is worth noting that so far the MSCI World index has given positive return every month in 2017. As we head into 2018, a few fundamental concerns are just beginning to emerge i.e. flattening of the US yield curve and weakness in high yield fixed income space. However, with geopolitical risks largely contained and factors behind the move in 2017 still in place, a reasonably confident argument for continuation of risk-on stance in 2018 can be made.

The breadth of rally in equities was more mixed last month compared to the trend seen in 2017 as politics in Europe over the formation of a government in Germany and Brexit put pressure on European equities. MENA equities, too, came under pressure following a rather surprising step by Saudi Arabia to crackdown on high-level corruption. The MSCI World index added +1.0% 1m to take its year to date gains to +17.4%. All major sub-indices with the exception of the MSCI Arabian Markets index (-1.2% 1m, -2.6% ytd) followed the same trend. The impact of the domestic action in Saudi Arabia was felt more in other regional markets as the Tadawul received support from government-related funds. The Tadawul is +0.4% 1m while the DFM index is -5.7% 1m and the Qatar Exchange -4.4% 1m.

Volatility did increase marginally but remained towards the low end of this year's range. The VIX index and the V2X index added +0.7% 1m and +8.4% 1m to close at 9.87 and 13.5 respectively. The BAML GFSI Skew Indicator which tracks demand for volatility protection in major markets fell to its lowest level in the last six months.

Politics is likely to dominate discourse heading into the year-end with the tax bill in the US, German coalition talks and Brexit in Europe, state election results in India and ongoing uncertainty in MENA. While headway has been made in most of these situations, a prolonged wait for final resolution cannot be ruled out. However, if the recent price action is any guide then it is unlikely to have a major impact on markets unless there is a complete breakdown.

2018 – The Base Case

Over the last month, there were moments when global equities witnessed modest corrections. The price action prompted questions as to whether the current rally in global equities has legs to run further. With most equity markets delivering double digit gains it is not surprising to see investors looking for reasons to turn cautious. While arguments can be made about the pace of extension of the current rally in 2018, at the moment there appears to be no catalyst which could likely end the current bull run.

Earnings – On firm footing

The trends from Q3 2017 corporate earnings indicate that the benefits of a sustained growth environment is feeding through to balance sheets. According to FactSet, 74% of companies of the

S&P 500 index beat consensus profit estimates while 66% of them beat consensus revenue estimates. On an aggregate basis, earnings grew at 6.3% in Q3 2017 compared to estimates of 3.1% at the end of the quarter.

The earnings in Europe are not as upbeat as in the US but still very encouraging. Based on the earnings reported so far (c.50% of companies of the Euro Stoxx 600 index), earnings are expected to grow 1.3% y/y and revenues 3.6% y/y. So far 46% of companies have beaten consensus revenue and profit estimates. The trend in Asian and emerging market equities is similar.

Looking ahead, the projected earnings look even more encouraging. In November, the Global Earnings Revisions Ratio jumped from 1.05 to 1.09. This suggests that there has been no net new downgrades and that high EPS forecasts across region remains on a firm footing. In terms of region, the earnings revision ratio increased in the US and Europe to 1.22 and 0.95 respectively and remained around 1.0 in Asia and Emerging Markets.



Source: Bloomberg

In terms of market performance, historical data suggests that subsequent 12-month market performance tends to be sluggish when the revision ratio is between 0.5 and 0.9 and rally when the revision ratio is above 1.0. The earnings revision ratio measures the number of stocks for which the consensus earnings estimates has risen relative to the number of stocks for which it has declined.

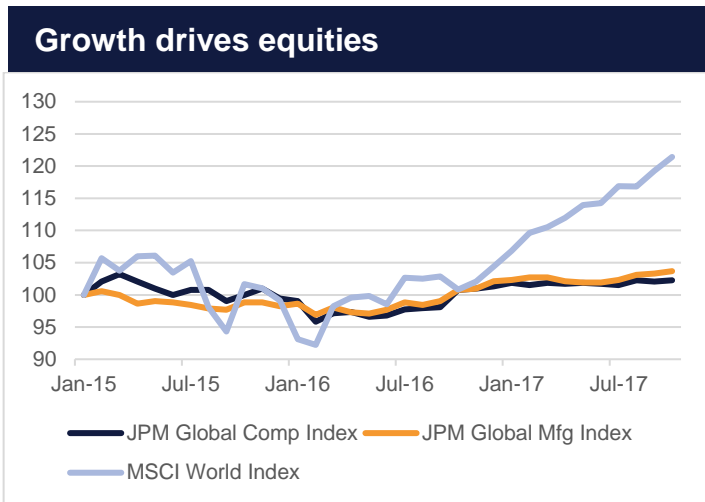
Economic Data – Stronger & Synchronized

The consensus estimate is pointing to a second year of acceleration in global growth to 3.6% in 2018 from 3.5% in 2017 and 3.2% in 2016. This coupled with the fact that inflation expectations continue to remain subdued suggests that the current 'goldilocks' conditions could continue into 2018. Growth in the US is expected to remain robust and to continue to gather pace in Europe and emerging markets.

The JP Morgan Global Composite PMI is currently at 54.0 and the JP Morgan Global Manufacturing PMI is currently at 53.5. The reading for the manufacturing PMI index is at its highest since the start of the series. There is a strong correlation between the PMI data and equity market performance as seen in the chart below. The

chart also shows that equity performance gathers pace when the PMI is rising consistently.

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Source: Bloomberg, Emirates NBD Research

One key risk to is that the current low inflation environment may not be sustained in 2018. With commodity prices showing signs of sustained rebound and low base effect likely to kick in in H1 2017, inflation could possibly surprise on the upside. This could force central banks to tighten monetary policy at a faster pace than the markets currently anticipates which in turn could potentially puncture the current rally in global equities. Having said that the probability of this happening in a synchronized manner is low and could well be contained to a major economy, most likely the US.

Valuations – More room to grow

Every time a major equity index makes a new all-time high, invariably the discussion reverts to valuations. Most investors tend to compare the current price to earnings ratio with the historical 5y and 10y averages and draw a conclusion from the difference. This approach has certain flaws as it does not account for the changed economic environment and the current economic cycle.

Currently, the MSCI World index trades at 21.3x price to earnings ratio. According to a study, a P/E ratio around that level has been followed by a total return of -5.0% to +45% with an average of +17.5%. Within developed markets, the MSCI US index is currently trading at a premium with P/E ratio of 23.0 compared to 18.0x for the MSCI Europe Index and 15.0 for the MSCI Japan index. However, it is worth noting that the multiples for the MSCI US index are driven higher by the technology stocks. The S&P Information and Technology index is trading at 25.0x earnings and has c. 20% weightage in the S&P 500 index. The trend is similar for European and Japanese equities in terms of specific sector driving up multiples.

Hence, it would make sense to see where the sector PE ratios are compared to their historical averages rather than individual country indices. Most sector PE ratio are currently between 65% and 80% of their 15 year highs and at levels similar to their 15 year averages, implying that current valuations don't look that stretched. More so, when seen through the prism of robust earnings growth and an early stage broad based economic growth cycle.

Commodities

Oil markets rallied to their strongest level in more than two years in November, pushing back above USD 60/b for Brent futures. Oil has had a very strong second half of the year, up more than 30% as of late November as the impact of OPEC's production cut agreement with non-OPEC producers and robust demand have helped to cut down on global inventories. Political risk has also provided more legs to the oil rally and we suspect the market may now increasingly price in the potential for supply disruptions in 2018. We still see some challenging fundamental issues at play next year, particularly from non-OPEC supply, but we are still revising our oil price forecasts for 2018 higher.

Oil demand is expected to grow by 1.4m b/d next, a slower rate than the buoyant growth of more than 1.6m b/d estimated for 2017. Consumption growth next year will be at a faster pace than long-term averages but will be wholly dependent on emerging markets. After three consecutive years of growth, OECD oil demand is set to flatline in 2018 thanks to a contraction in demand growth in OECD Asia (mostly Japan). Oil consumption in emerging markets will accelerate in 2018 to 1.36m b/d from 1.23m b/d as most economies will remain on a solid footing next year. Oil demand growth in China will slow next year but the decline will be offset by strong growth in India (over 300k b/d).

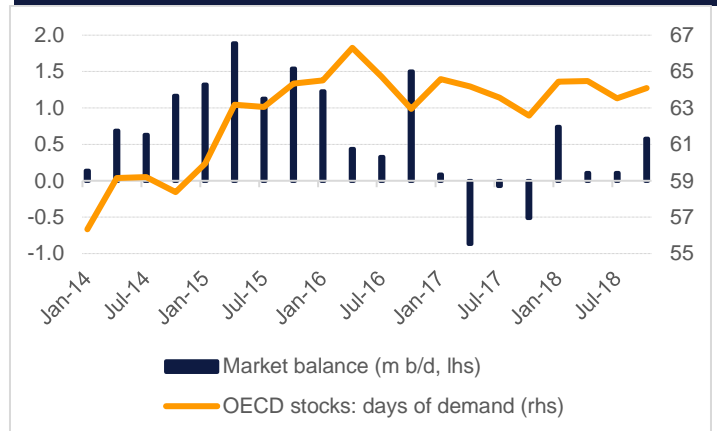
Non-OPEC supply growth set to recover strongly

Non-OPEC production will recover strongly in 2018, expanding by over 1.5m b/d compared with growth of 0.69m b/d in 2017. The strongest gains will be seen in North America and Brazil. Oil production in the US has recovered all of the decline in production from 2015 to mid-2016 and has managed to expand to near record high levels. Total production in mid-November of over 9.6m b/d is not far off historic highs of just over 10m b/d (hit in the early 1970s) and even assuming the slower growth rate expected by OPEC (860k b/d compared with more than 1m b/d from the IEA), the US is set to hit a new record high next year.

The drilling rig count in the US has begun to taper off at around 750 oil rigs, far off from pre-crash highs of more than 1,500. But at the same time drilling productivity has continued to increase and the stock of drilled but uncompleted wells has risen to more than 5,000. Along with an attractive forward curve for hedging opportunities, even if shale producers stick to focusing on profitability at the expense of growth, the conditions for further US production growth look positive.

As demand growth slows and non-OPEC supply growth accelerates, the call on OPEC, the amount of oil from the bloc needed to balance markets, will fall in 2018. From an estimated 32.7m b/d in 2017 the amount of oil needed from OPEC will decline to 32.5m b/d, slightly less than where OPEC collectively has been producing from June to September. Whether the oil market deficit that emerged in Q2 2017 endures next year will largely be down to how strong OPEC complies with its production cut agreement.

Market balance for 2018



Source: IEA, Emirates NBD Research.

We expect that OPEC and its partners will agree to extend their current production cuts but that there may be some dispute over how long the cuts should remain in place. Saudi Arabia appears to favour a nine months extension of the deal while Russia, not an OPEC member, looks to cuts that can adapt to market conditions (and thus may expire sooner). Public disagreement between members would threaten the sustainability of the rally in oil futures and without a steadfast commitment to lengthen the cuts for all of 2018, OPEC risks disappointing the markets.

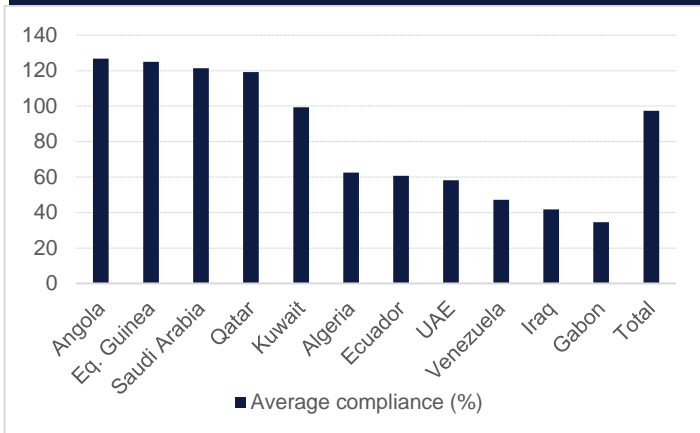
Burden of balancing weighs heavily on OPEC

OPEC members' compliance with production targets set in the December 2016 agreement has been strong this year and one of the main contributors to oil prices rising significantly from 2016 levels. Production estimates from the IEA pin overall compliance among the OPEC producers that are party to the cuts at 97% on average from January-September and from its partners at around 63%. Adherence to the deal has been declining, however, from more than 115% in January to 88% in September from the OPEC producers.

The strong aggregate levels of compliance has been achieved by some countries over-cutting and taking on more than their expected share of the burden. Saudi Arabia's average compliance in 2017 has been around 120% as it has slashed output to less than 10m b/d for several months, while Angola has also been an over-achiever, although this is largely down to naturally declining output at older fields. Compliance across the rest of MENA has been more mixed, ranging from effectively 100% in Kuwait and Qatar to low levels in the UAE and Iraq.

The rally in oil prices to more than USD 60/b for Brent is, to us, a negative risk for compliance in the short run. Oil producers may see the rally and backwardation in the Brent curve as a strong sign that the market can withstand more oil and undo some of the impact of the cuts in short order.

OPEC compliance in 2017



Source: IEA, Emirates NBD Research.

We expect to see an increase in oil production from most OPEC producers as they seek to support growth in domestic economies and the risk of losing more market share to alternative producers is acute. As a consequence we forecast the oil market returning to surplus in 2018 and for inventories to resume their upward climb. The surplus will be far narrower than what the market endured in 2014-16 but will nevertheless unwind some of the success OPEC had in drawing down stocks in 2017.

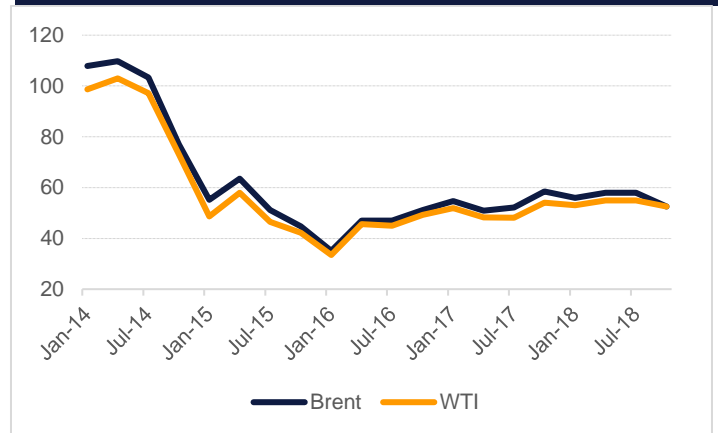
The major unknown variable for oil prices going into 2018 remains political risk. Starting with the independence referendum by the Kurdistan Regional Government, US president Donald Trump de-certifying Iran's compliance with the nuclear deal and extending to the corruption investigations underway in Saudi Arabia, oil futures have reincorporated political risk in a way that had largely been absent from 2014-16. However, political risk is a challenging and nebulous dynamic and in reality impossible to price correctly. At the moment we see no direct, significant challenge to oil production as a result of current geopolitical tensions in the Middle East.

The forward curves for both Brent and WTI are now in backwardation, a sign of a tightening market but the process to flip the curve has been long with several reversals. We are not entirely confident we have seen the end of contango in the near term considering the backwardation in Brent has been reasonably narrow compared with historic levels of tightness. Beyond fundamentals, investors have taken enormous long positions in oil futures, for Brent in particular. Even if OPEC follows through with what the market expects at its November meeting, profit taking could see considerable positions being closed out and weigh down the front of the curve.

Oil price assumptions revised higher

We have revised our oil price assumptions higher for 2018 to USD 56/b for Brent and roughly USD 54/b for WTI, up from USD 51/b and 48/b respectively. Prices are likely to dip in Q1 as the market shifts back into surplus and then hover at their strongest levels in the middle of the year before sliding again in the final months as we expect to see worsening compliance with the OPEC cuts and non-OPEC production growth remains robust.

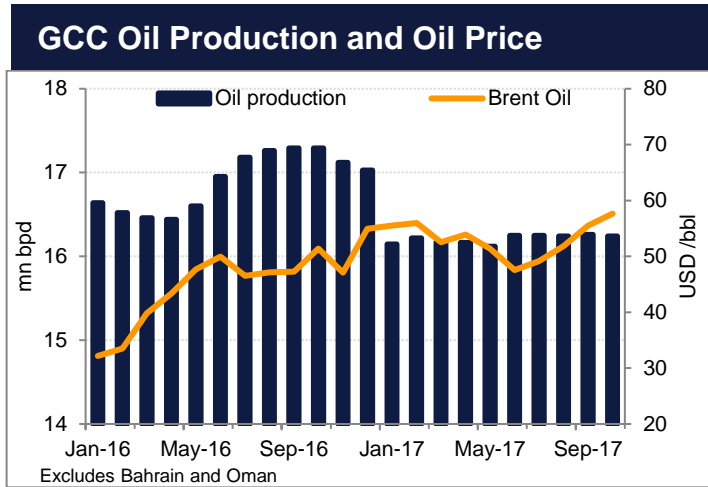
Emirates NBD Research oil price forecast



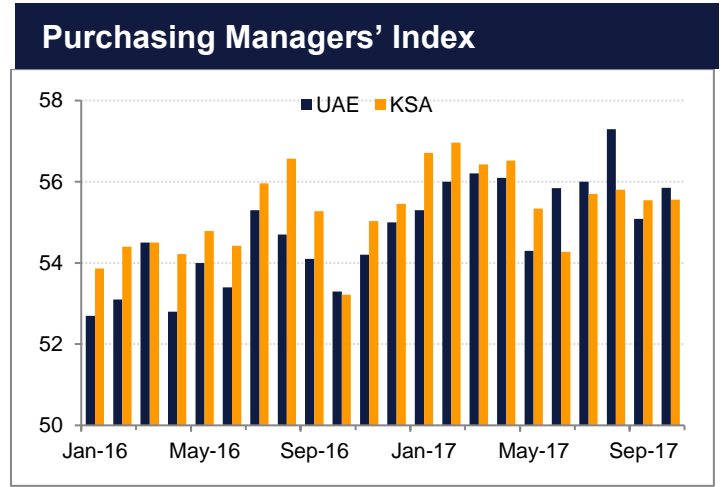
Source: EIKON, Emirates NBD Research. Note: quarterly average.

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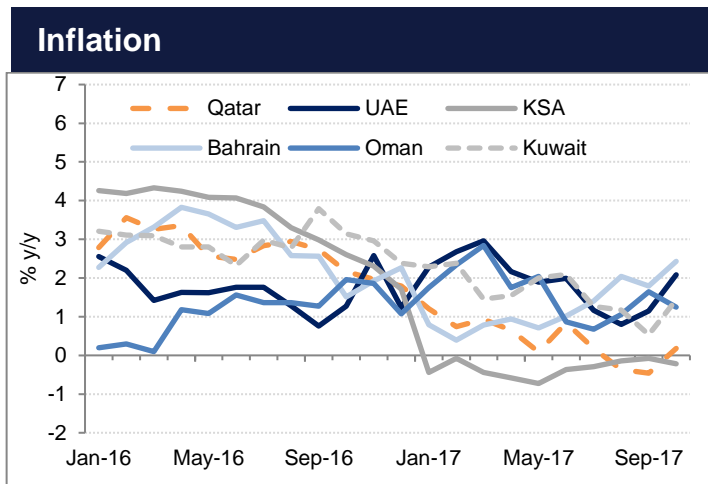
GCC in Pictures



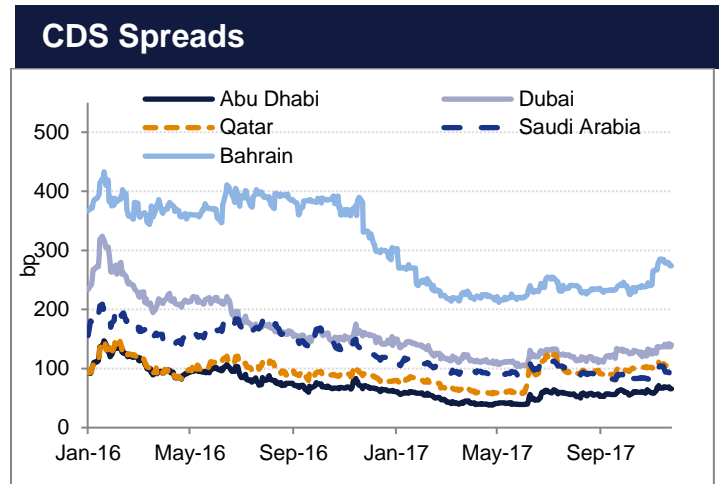
Source: Bloomberg, Emirates NBD Research



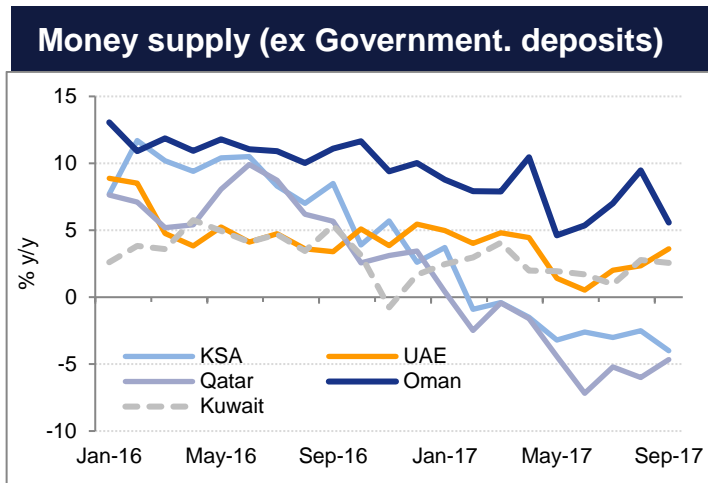
Source: IHS Markit, Emirates NBD Research



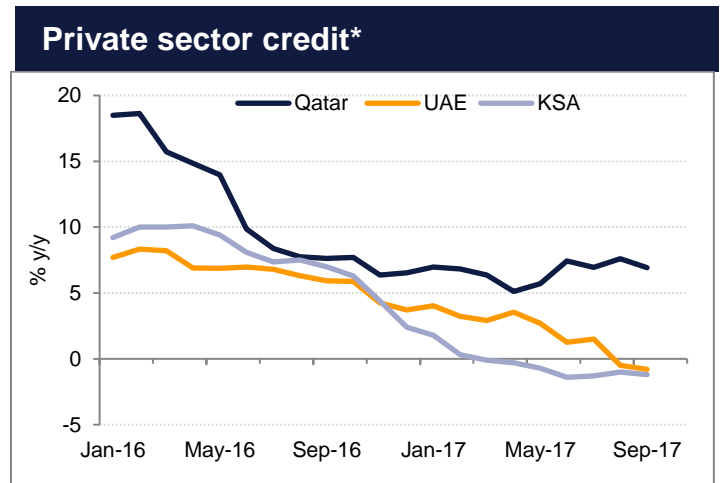
Source: Haver Analytics, Emirates NBD Research



Source: Bloomberg

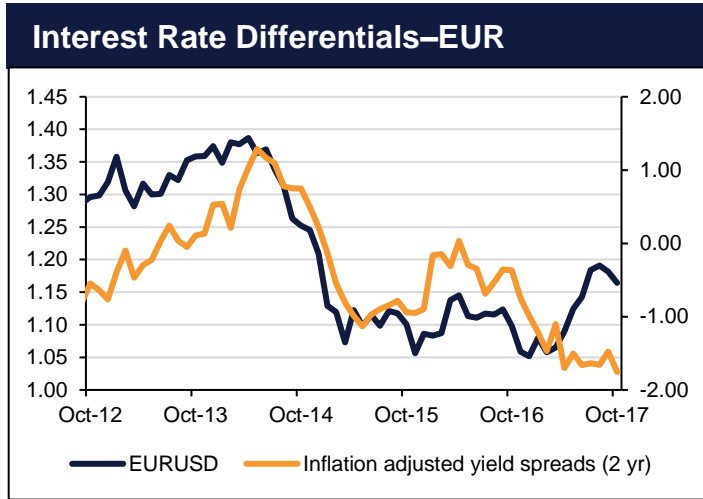


Source: Haver Analytics, Emirates NBD Research

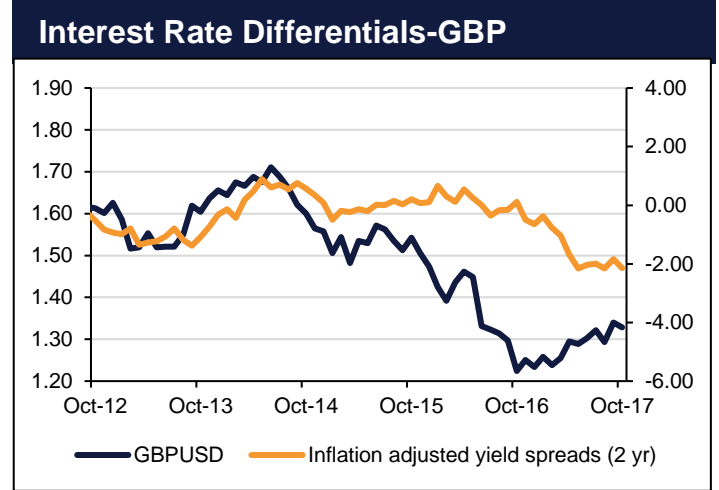


*Qatar data is bank loan growth to private sector, not total private sector credit. Source: Haver Analytics, Emirates NBD Research

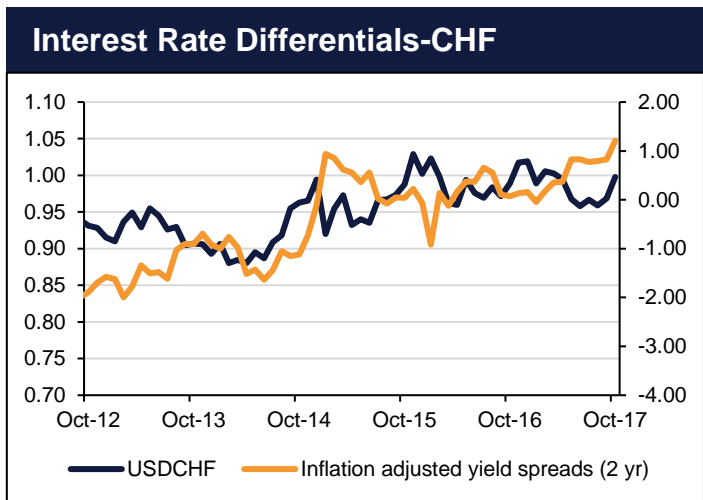
FX-Major Currency Pairs & Real Interest Rates



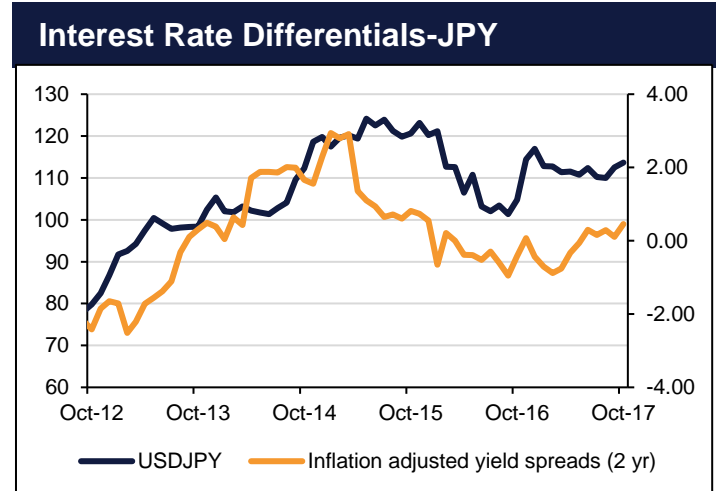
Source: Bloomberg, Emirates NBD Research



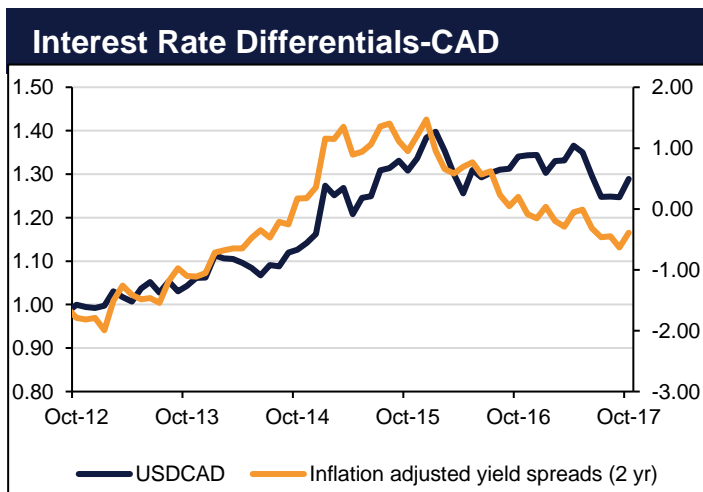
Source: Bloomberg, Emirates NBD Research



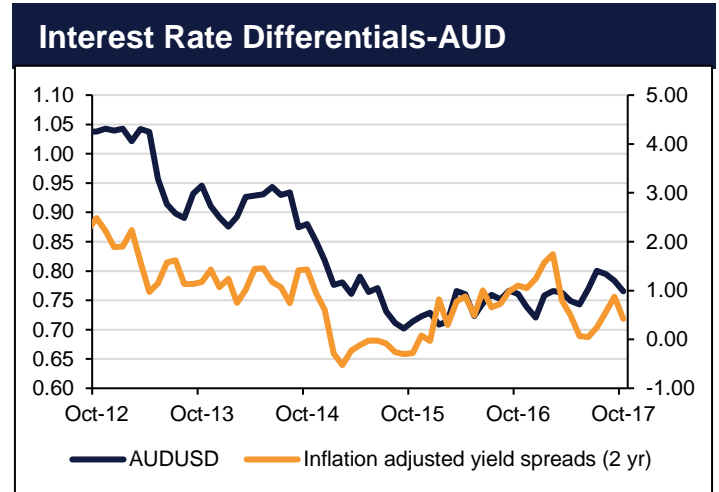
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

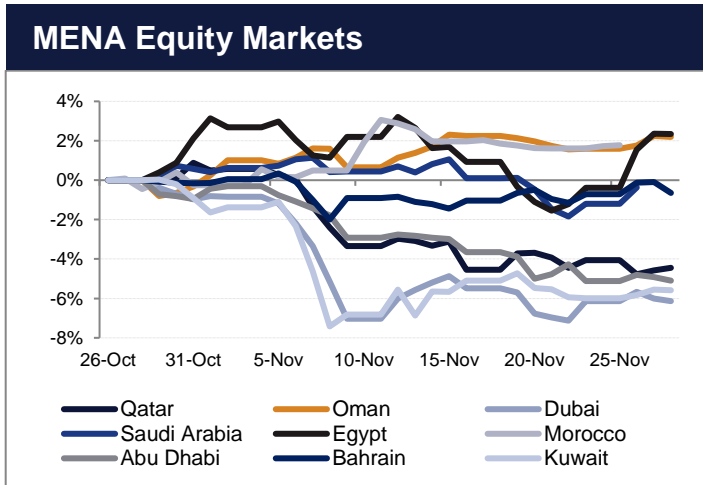


Source: Bloomberg, Emirates NBD Research

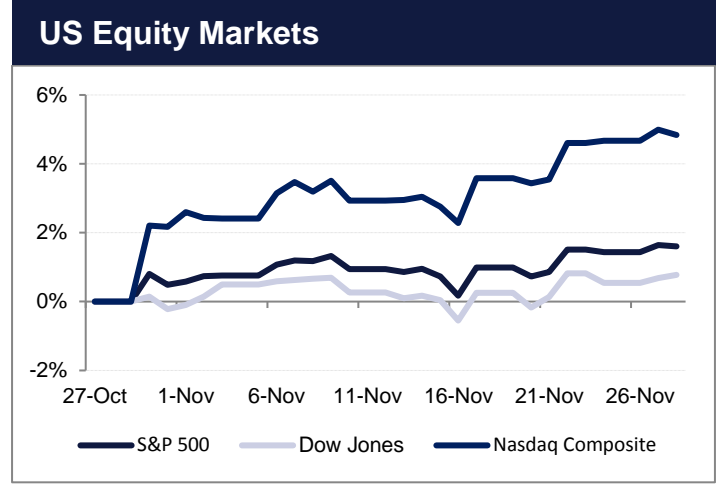


Source: Bloomberg, Emirates NBD Research

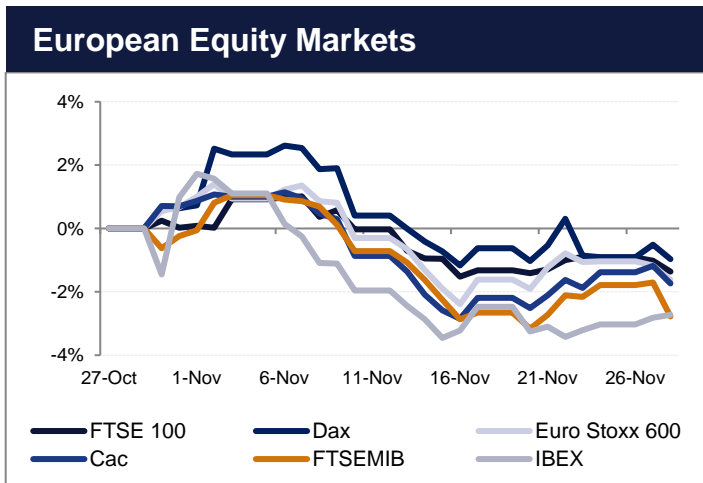
Major Equity Markets



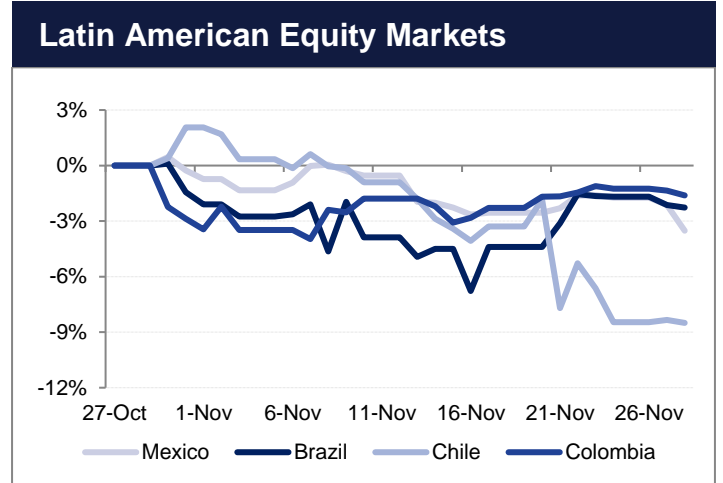
Source: Bloomberg, Emirates NBD Research



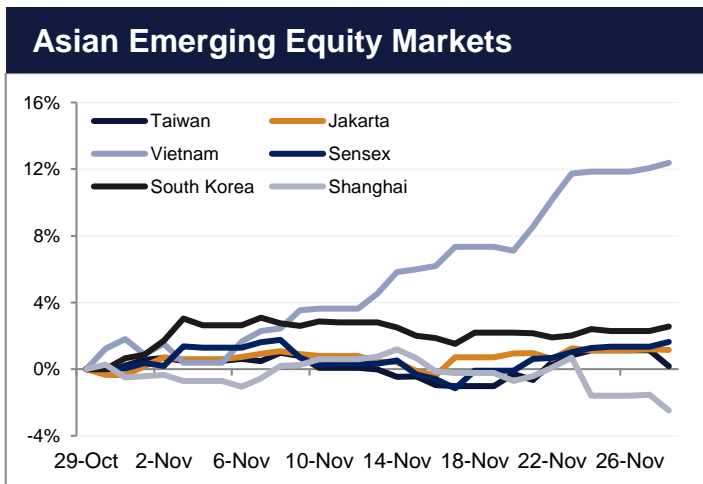
Source: Bloomberg, Emirates NBD Research



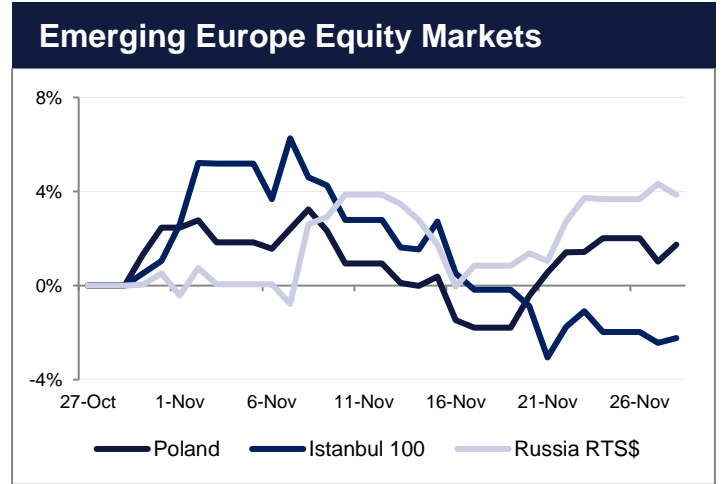
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research



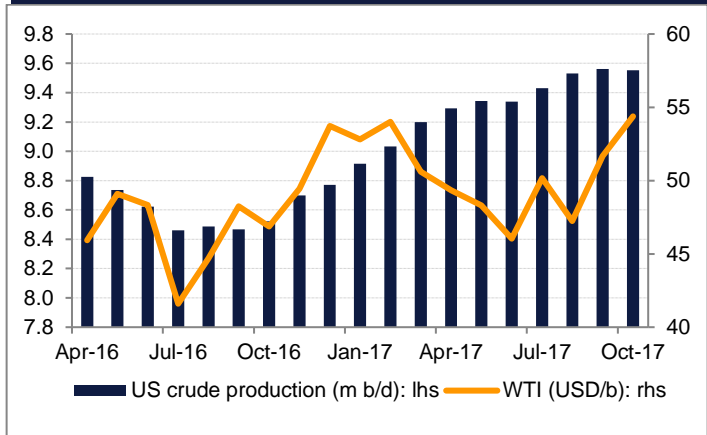
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

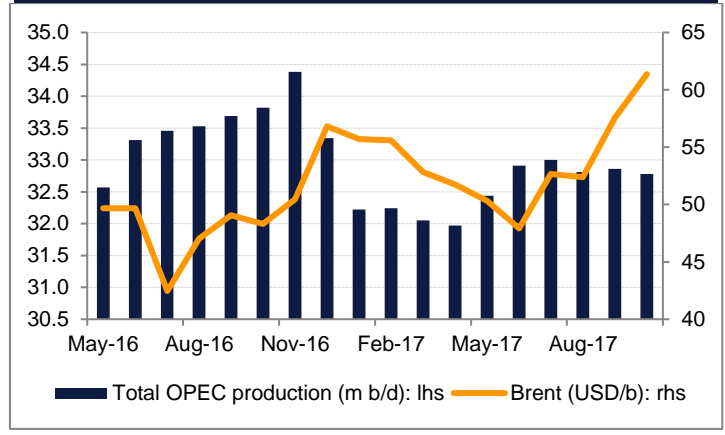
Major Commodities Markets

US oil production and price



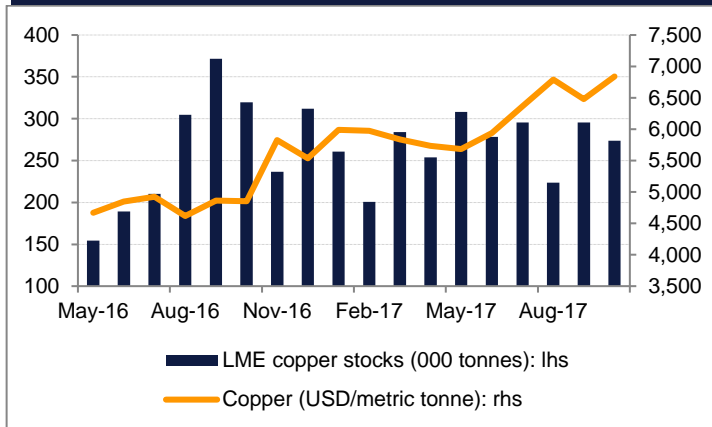
Source: EIKON, Emirates NBD Research

International oil production and price



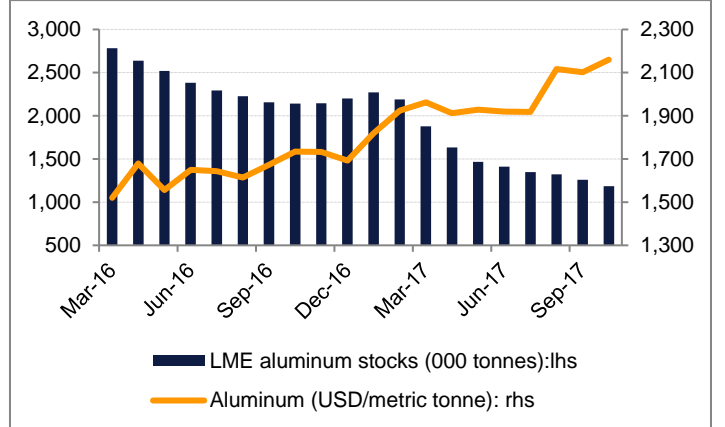
Source: EIKON, Emirates NBD Research

Copper stocks and price



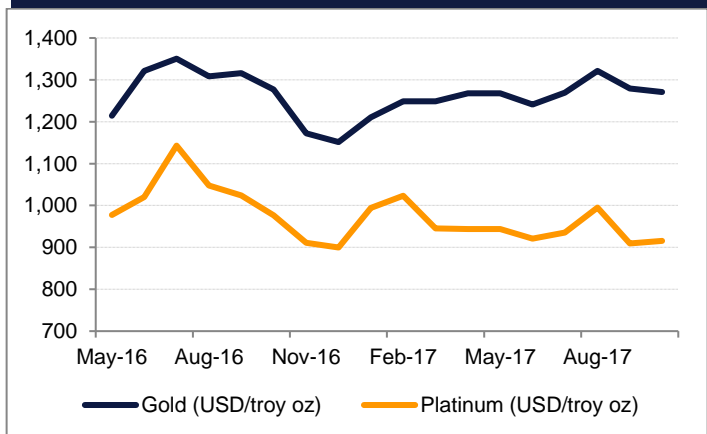
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



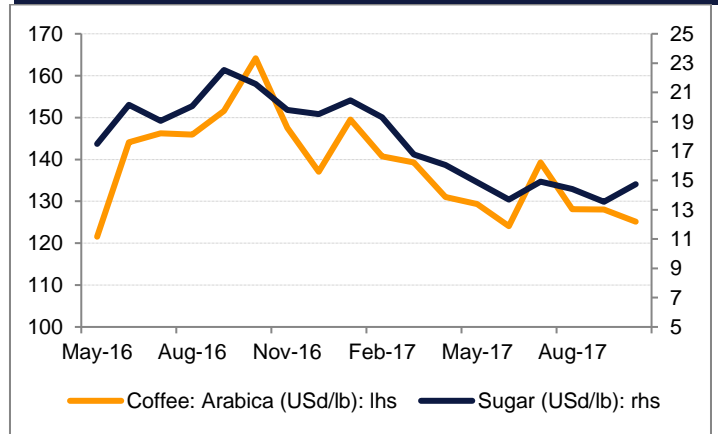
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2014	2015	2016e	2017f	2018f
Nominal GDP \$bn	403.5	358.2	349.0	369.8	398.0
Real GDP %	3.3	3.8	3.0	2.0	3.4
Current A/C % GDP	13.3	4.7	2.4	2.9	3.6
Budget Balance % GDP	1.9	-3.4	-4.3	-3.5	-1.5
CPI %	2.3	4.1	1.6	2.5	3.5
Saudi Arabia					
Nominal GDP \$bn	756.4	651.8	639.6	678.8	711.2
Real GDP %	3.7	4.1	1.7	0.5	2.5
Current A/C % GDP	9.6	-9.1	-4.6	-0.8	2.7
Budget Balance % GDP	-2.3	-15.0	-13.6	-12.8	-9.5
CPI %	2.7	2.2	3.5	1.0	3.5
Qatar					
Nominal GDP \$bn	206.2	164.6	152.5	165.3	179.4
Real GDP %	3.5	3.3	2.0	2.5	3.5
Current A/C % GDP	29.5	12.7	1.2	3.6	5.0
Budget Balance % GDP	12.3	1.2	-8.4	-5.4	-5.0
CPI %	3.3	1.9	2.7	0.5	2.5
Kuwait					
Nominal GDP \$bn	166.3	117.3	113.3	102.5	108.7
Real GDP %	0.5	0.6	3.5	-1.2	2.1
Current A/C % GDP	32.6	5.1	-1.5	4.2	9.1
Budget Balance % GDP	7.4	-13.1	-13.5	-11.5	-7.7
CPI %	2.9	3.3	3.2	3.0	3.5
Oman					
Nominal GDP \$bn	81.0	68.8	66.7	73.8	78.9
Real GDP %	2.8	4.7	5.4	1.0	2.3
Current A/C % GDP	5.2	-15.9	-18.5	-8.2	6.0
Budget Balance % GDP	-3.4	-17.5	-20.6	-11.8	-8.6
CPI %	1.0	0.1	1.1	2.0	2.0
Bahrain					
Nominal GDP \$bn	33.4	31.1	31.9	34.2	36.2
Real GDP %	4.4	2.9	3.0	3.0	3.0
Current A/C % GDP	4.6	-2.4	-4.7	-4.9	-1.7
Budget Balance % GDP	-3.6	-13.0	-13.6	-14.5	-13.7
CPI %	2.7	1.8	2.8	1.7	2.0
GCC (Nominal GDP weighted avg)					
Nominal GDP \$bn	493.5	430.8	423.1	450.7	473.3
Real GDP %	3.2	3.6	2.5	1.1	2.8
Current A/C % GDP	15.0	-2.0	-2.6	0.5	3.7
Budget Balance % GDP	1.5	-10.0	-10.9	-9.4	-6.8
CPI %	2.6	2.6	2.8	1.5	3.3

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2014	2015	2016	2017f	2018f
Nominal GDP \$bn	305.4	332.6	332.2	192.9	249.8
Real GDP %	2.9	4.4	4.3	4.3	4.9
Current A/C % GDP	-0.9	-3.7	-6.0	-7.7	-3.9
Budget Balance % GDP	-12.98	-12.53	-13.95	-9.83	-7.93
CPI %	10.1	10.4	13.7	24.0	12.0
Jordan					
Nominal GDP \$bn	35.8	37.5	38.9	40.3	41.7
Real GDP %	3.1	2.4	2.0	2.8	3.0
Current A/C % GDP	-7.3	-9.1	-10.3	-9.8	-9.6
Budget Balance % GDP	-2.1	-3.4	-3.2	-3.1	-2.8
CPI %	2.8	-0.9	-0.8	2.0	2.0
Lebanon					
Nominal GDP \$bn	48.6	50.1	55.1	61.8	68.5
Real GDP %	1.8	1.5	2.4	3.1	3.3
Current A/C % GDP	-23.9	-16.1	-16.0	-15.6	-15.7
Budget Balance % GDP	-6.3	-7.9	-9.2	-9.3	-9.5
CPI %	-8.0	-3.8	-1.0	3.0	4.5
Tunisia					
Nominal GDP \$bn	47.6	41.1	41.3	40.8	44.4
Real GDP %	2.3	0.8	1.1	2.1	3.3
Current A/C % GDP	-9.0	-9.4	-9.1	-8.3	-7.5
Budget Balance % GDP	-5.1	-5.1	-6.1	-5.6	-5.2
CPI %	5.5	4.9	3.7	5.0	5.0
Morocco					
Nominal GDP \$bn	109.9	101.3	103.6	117.9	125.8
Real GDP %	2.7	4.5	1.2	4.3	3.7
Current A/C % GDP	-6.3	-1.9	-3.9	-3.6	-3.0
Budget Balance % GDP	-5.2	-4.5	-4.1	-3.5	-2.9
CPI %	0.4	1.6	1.6	3.0	3.0
Oil Importers (GDP weighted avg)					
Nominal GDP \$bn	203.3	224.9	222.9	123.8	134.1
Real GDP %	2.67	4.55	1.22	4.30	3.73
Current A/C % GDP	-5.0	-4.7	-6.2	-5.6	-4.7
Budget Balance % GDP	-9.4	-9.6	-10.1	-6.8	-6.2
CPI %	5.5	7.0	7.0	6.0	6.0

Source: Haver Analytics, National sources, Emirates NBD Research

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2014	2015	2016	2017f	2018f
Nominal GDP \$bn	213.5	165.3	165.4	186.1	214.3
Real GDP %	2.2	2.3	3.4	3.6	4.2
Current A/C % GDP	-4.3	-16.6	-17.3	-10.9	-8.7
Budget Balance % GDP	-7.3	-15.4	-13.0	-9.4	-6.8
CPI %	3.9	4.4	5.8	7.0	5.0
Libya					
Nominal GDP \$bn	48.1	34.4	36.2	42.5	47.6
Real GDP %	-24.0	-10.2	-0.9	37.6	11.7
Current A/C % GDP	-10.5	-9.4	-12.3	-14.2	-16.0
Budget Balance % GDP	-41.4	-23.6	-20.7	-18.8	-17.6
CPI %	2.4	9.5	9.5	25.0	11.5
Iran					
Nominal GDP \$bn	503.6	423.7	420.1	406.6	434.1
Real GDP %	5.9	3.7	7.2	4.1	5.0
Current A/C % GDP	3.1	2.1	3.8	5.3	5.8
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	8.5	11.1	12.0
Iraq					
Nominal GDP \$bn	192.8	164.2	229.6	247.2	288.3
Real GDP %	-0.6	-2.4	8.7	3.5	5.1
Current A/C % GDP	12.7	2.5	-5.3	-5.7	-5.5
Budget Balance % GDP	-6.1	-13.6	-10.7	-6.6	-4.6
CPI %	3.0	1.2	1.0	1.0	2.0
Oil Exporters (GDP weighted avg)					
Nominal GDP \$bn	301.3	295.9	294.5	314.3	238.7
Real GDP %	1.9	1.5	6.5	5.4	5.3
Current A/C % GDP	2.7	-2.3	-3.5	-1.9	-7.7
Budget Balance % GDP	-7.5	-9.9	-9.5	-7.2	-6.6
CPI %	9.4	6.2	7.2	8.6	4.0

Key Economic Forecasts - Global

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

Source: Bloomberg, Emirates NBD Research

*For India the data refers to fiscal year (April – March)

FX Forecasts

FX Forecasts - Major						Forwards		
	27-Nov	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
EUR/USD	1.1951	1.1500	1.1500	1.1800	1.2000	1.2019	1.2088	1.2244
USD/JPY	111.17	114.00	116.00	118.00	120.00	110.63	110.05	108.73
USD/CHF	0.9783	1.0000	1.0400	1.0400	1.0400	0.9716	0.9650	0.9509
GBP/USD	1.3338	1.3400	1.3600	1.4000	1.4200	1.3379	1.3420	1.3507
AUD/USD	0.7622	0.7500	0.7200	0.7000	0.7200	0.7618	0.7616	0.7616
NZD/USD	0.6883	0.6900	0.7000	0.7100	0.7100	0.6874	0.6868	0.6859
USD/CAD	1.2696	1.2400	1.2500	1.2600	1.2600	1.2682	1.2668	1.2642
EUR/GBP	0.8960	0.8582	0.8456	0.8429	0.8451	0.8983	0.9007	0.9064
EUR/JPY	132.86	131.10	133.40	139.24	144.00	132.86	132.86	132.86
EUR/CHF	1.1691	1.1500	1.1960	1.2272	1.2480	1.1677	1.1665	1.1642
FX Forecasts - Emerging						Forwards		
	27-Nov	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
USD/SAR*	3.7502	3.7500	3.7500	3.7500	3.7500	3.7531	3.7567	3.7693
USD/AED*	3.6729	3.6730	3.6730	3.6730	3.6730	3.6740	--	--
USD/KWD	0.3015	0.3050	0.3050	0.3050	0.3050	0.3028	0.3043	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3870	0.3923
USD/BHD*	0.3777	0.3770	0.3770	0.3770	0.3770	0.3781	0.3788	0.3806
USD/QAR*	3.7340	3.6400	3.6400	3.6400	3.6400	3.7243	3.7242	3.7280
USD/EGP	17.7158	17.5000	17.2500	17.0000	16.8000	18.1700	18.6500	19.6200
USD/INR	64.615	65.000	66.000	66.000	66.000	65.2200	65.8600	67.1100
USD/CNY	6.5978	6.7000	6.9000	7.0000	7.1000	6.6418	6.6803	6.7485

Data as of 27 November 2017

Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.92	1.95	2.05	2.20			
10y	2.32	2.47	2.58	2.75			
2s10s (bp)	40	57	53	50			
US Treasurys Forecasts					US Treasurys Forecasts		
2y	1.75	1.80	1.85	2.05			
10y	2.32	2.50	2.60	2.75			
2s10s (bp)	57	80	75	70			
3M Libor					3M Libor		
3m	1.47	1.60	1.85	2.10			
3M Eibor					3M Eibor		
3m	1.62	1.82	2.05	2.30			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED (Upper Band)	1.25	1.50	1.75	2.00			
ECB	0.00	0.00	0.00	0.00			
BoE	0.25	0.50	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	1.75			
RBI (repo)	6.00	6.00	5.75	5.75			
SAMA (r repo)	1.25	1.50	1.75	2.00			
UAE (1W repo)	1.50	1.50	1.75	2.00			
CBK (discount rate)	2.75	2.75	3.00	3.00			
QCB (Repo rate)	2.25	2.25	2.50	2.50			
CBB (o/n depo)	1.25	1.50	1.75	2.00			
CBO (o/n repo)	1.72	1.75	2.00	2.25			

Data as of 27 November 2017

Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices									
	Current	2017Q3	Q4	2018Q1	Q2	Q3	Q4	2017	2018
Energy									
WTI	57.73	48.17	54.00	53.00	55.00	55.00	52.50	50.58	53.88
Brent	63.63	52.18	58.50	56.00	58.00	58.00	52.50	54.06	56.13
Precious metals									
Gold	1,294.01	1,278.79	1,250.00	1,200.00	1,185.00	1,150.00	1,180.05	1,251.73	1,178.76
Silver	17.02	19.84	17.00	16.85	16.00	15.00	15.15	17.88	15.75
Platinum	946.65	951.74	960.00	986.78	1,012.07	1,036.61	1,060.42	958.05	1,023.97
Palladium	1,004.05	900.21	909.79	890.00	850.00	850.00	875.00	848.69	866.25
Base metals									
Aluminum	2,118.00	2,027.37	2,125.00	2,100.00	2,000.00	1,950.00	1,975.00	1,980.58	2,006.25
Copper	6,866.50	6,388.02	6,750.00	6,500.00	6,250.00	6,250.00	6,150.00	6,171.94	6,287.50

Prices as of 28 November 2017. Note: prices are average of time period unless indicated otherwise.

Source: EIKON, Emirates NBD Research

Global Equities Market Watch

Index	Last Close	ADV Traded 30d USD mn	Mtd % chg	Ytd % chg	%members bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	23,581	6,847	0.9	19.3	87	18.8	3.7	2.2
S&P 500 Index	2,601	36,283	1.0	16.2	70	19.5	3.1	1.9
Nasdaq Composite Index	6,879	24,334	2.2	27.8	61	24.5	4.1	1.0
FTSE100 Index	7,384	6,415	-1.5	3.4	58	14.9	1.9	4.2
DAX Index	13,000	4,482	-1.7	13.2	69	14.7	1.8	2.8
CAC 40 Index	5,360	4,029	-2.6	10.2	73	15.8	1.6	3.1
Swiss Market Index	9,264	2,688	0.2	12.7	75	19.0	2.5	3.3
Nikkei Index	22,496	15,949	2.2	17.6	80	19.1	1.9	1.7
S&P/ASX 200 Index	5,989	3,244	1.3	5.6	72	16.4	2.0	4.3
Stoxx Europe 600 Index	385	31,517	-2.6	6.5	63	16.1	1.9	3.4
Dubai Financial Market General Index	3,445	92	-5.4	-2.6	31	11.4	1.2	4.4
Abu Dhabi Sec Market General Index	4,275	32	-4.4	-5.8	36	10.8	1.3	4.9
Tadawul All Share Index	6,939	846	0.1	-3.8	30	13.9	1.5	3.6
Istanbul SE National 100 Index	104,760	1,731	-4.9	34.1	49	8.5	1.3	3.9
Egyptian Exchange Index	14,220	46	-0.9	15.2	80	10.9	2.0	3.1
Kuwait Stock Exchange Index	6,255	50	-3.9	8.9	25	-	-	-
Bahrain Bourse All Share Index	1,270	2	-0.5	4.1	-	-	-	-
Muscat Securities Index	5,108	12	2.0	-11.6	27	11.2	1.0	5.8
Qatar Exchange Index	7,768	36	-4.9	-25.6	-	11.7	1.4	4.5
MADEX Free Float Index	10,277	11	1.9	7.6	82	19.0	2.9	3.3
Hong Kong Hang Seng Index	29,686	4,985	4.3	34.0	80	13.3	1.4	3.4
Shanghai Composite Index	3,322	33,614	-2.2	6.9	24	14.7	1.6	2.0
Korea Stock Exchange Index	2,508	5,336	-0.4	24.1	45	10.8	1.1	1.6
BSE Sensex	33,724	227	1.4	26.5	81	22.0	2.9	1.4
Nifty	10,400	1,882	0.5	26.9	82	21.1	3.0	1.4
Karachi Stock Exchange Index	40,032	51	0.5	-16.7	15	9.1	1.4	6.1
Taiwan SE Weighted Index	10,751	3,846	-0.8	15.7	64	15.1	1.9	3.7
Bovespa Brasil Sao Paulo SE Index	74,059	2,104	-0.3	23.0	74	14.2	1.6	2.8
Micex Index	2,146	642	4.0	-3.9	62	7.3	0.8	5.3
FTSE/JSE Africa All Share Index	60,158	1,496	2.0	18.8	51	16.3	1.9	3.1
Vietnam Ho Chi Minh Stock Index	939	169	12.0	41.0	57	19.5	3.1	2.0
Jakarta SE Composite Index	6,065	396	0.2	13.6	43	17.9	2.6	2.0
FTSE Bursa Malaysia KLCI Index	1,720	224	-1.9	4.5	34	16.2	1.6	3.4
Mexican Stock Exchange	47,275	397	-2.8	3.6	23	17.6	2.4	2.3

Prices as of 27 November 2017

Source: Bloomberg, Emirates NBD Research

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