بنك الإمارات دبي الوطني
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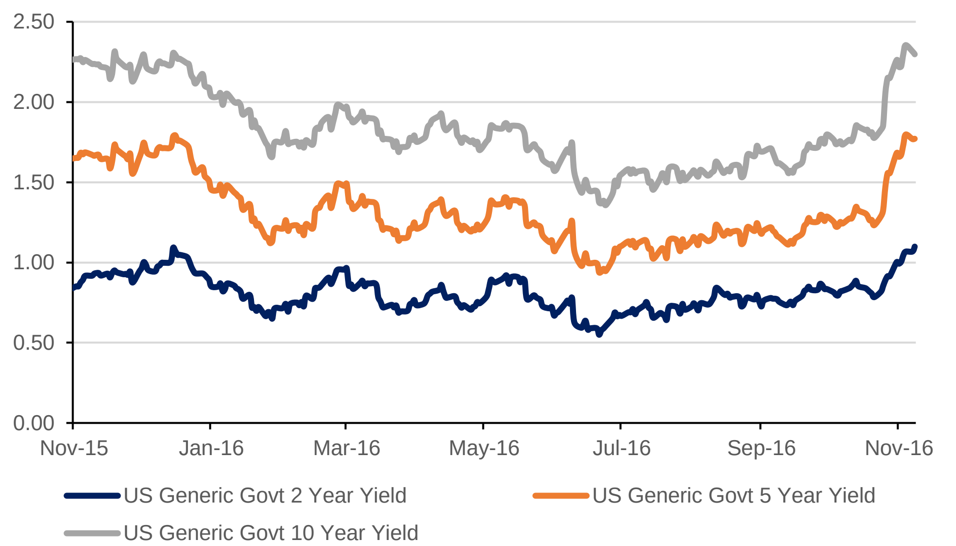
Monthly Insights

Markets appear to be at an inflection point as bond yields soar and the dollar surges in the wake of Donald Trump's surprise election win. Should these trends continue in 2017 they will add headwinds to regional growth and may make sovereign debt issuance more expensive. The next edition of this publication will be in January. We wish all our readers a peaceful and enjoyable holiday season.

- **Global macro:** After a tumultuous start to the year dominated by China risks and oil, in the end the black swans of Brexit and the Trump election eclipsed them as the signature events of the year.
- **GCC macro:** Economic activity in the GCC was relatively robust in Q3, with evidence of expansion in both the oil and non-oil sectors. However, additional fiscal tightening in Saudi Arabia and the likely impact on consumption and investment has led us to revise our 2016 and 2017 growth forecasts down to 1.4% and 1.8% respectively.
- **MENA macro**: Following the long-awaited devaluation of the Egyptian pound in early November, attention might soon shift to MENA's other currencies which could also be at risk of coming under significant downside pressure in the near term.
- **Sector Focus:** An overview of Dubai's real estate sector.
- **Fixed Income:** The surprised outcome of the US election caused violent market gyrations and a material sell off in bonds last month. Sovereign bond yields spiked and corporate bonds suffered in tandem despite some relief from stable commodity prices supporting credit spreads tightening.
- **Currencies:** Confounding most expectations about the impact of a Trump election win the USD has surged as markets race to price in the effects of Trump's economic policies.
- **Equities:** For the second time this year, equity investors were caught off guard by developments in the political world. However, what was remarkable was the speed with which the stock markets shifted gear from fear of the unknown to faith in Trump's vague economic plans.
- **Commodities:** The trajectory for oil prices will largely be determined by what action (or lack of action) OPEC takes at its next meeting at the end of November. We are cautiously optimistic that prices will be on a gradual upward path in 2017 with Brent oil averaging around USD 55/b.

Bond yields break out of downtrend



Source: Bloomberg, Emirates NBD Research

Content

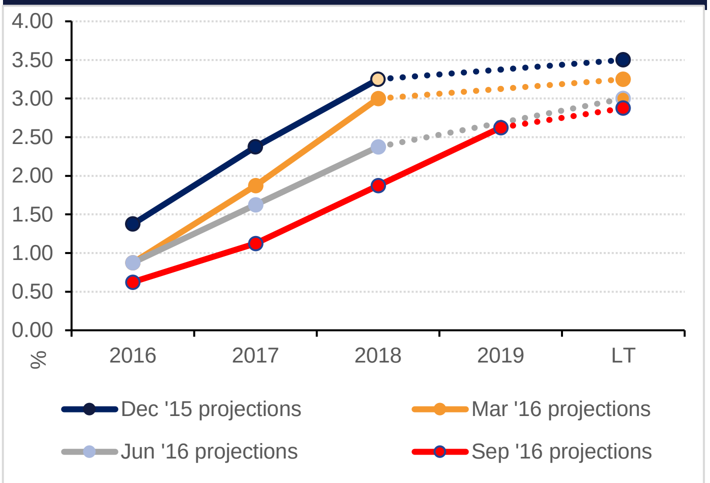
Global Macro

Unpredictability dominated 2016

2016 is coming to an end in circumstances that few thought likely. After a tumultuous start to the year dominated by China risks and oil, in the end these events were eclipsed by the black swans of Brexit and the Trump election win - the signature events of the year. Although China's outlook and the oil price will remain significant issues in 2017, it will be the disruptive impact of the Trump victory and the reverberations caused by Brexit that will be the dominant themes for some time to come, having impact arguably well beyond next year.

Assumptions at the start of 2016 about steadily improving growth, progressive tightening in US interest rates and a gradually firming in the dollar were quickly blown off course as the markets went into a tailspin in January, with confidence in Chinese markets vaporizing and the oil price collapsing. Although coordinated policy statements and actions eventually returned the markets to greater stability, the after effects on sentiment took longer to dispel with the Fed adopting an ultra- cautious approach to monetary policy normalization after having raised rates once last December. An increasing disconnect developed between the Fed's 'dot plot', which still implied a gradual tightening in policy, and the reality of an FOMC being in no hurry to raise interest rates as it confronted a sluggish economy in H1 and significant event risk in H2.

Fed dot plot proved unhelpfull in 2016



Source: Bloomberg, Emirates NBD Research

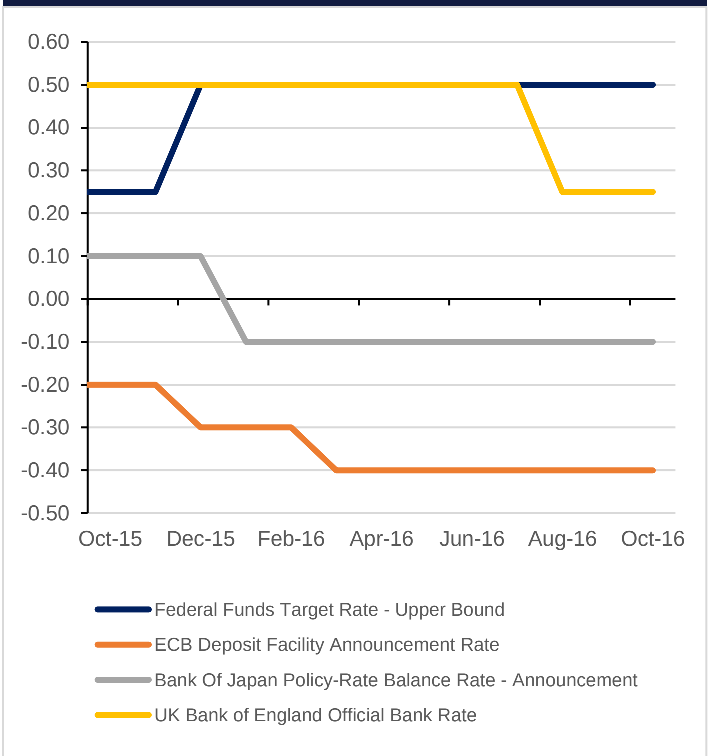
Thus even as the US economy recovered its poise around the middle of the year, the Brexit referendum result injected fresh uncertainty into markets which were still not fully recovered from their Q1 collapse. And although the initial economic consequences of Brexit also proved to be less serious than feared, the markets were not sufficiently reassured to lower their guard ahead of the US election, with volatility again spiking ahead of it and the Fed still seemingly paralyzed by uncertainty.

Looking at the year as a whole therefore, the world has coped much better with all the things thrown at it than many in the markets, including the Fed, were fearful of. China's economy did not fall off a cliff, despite apocalyptic warnings that it would. The oil price reversed after lurching briefly below USD30pb in January, going on to recover quite steadily from February onwards. As for Brexit and the Trump victories, these were events that in the end saw the peak of uncertainty occur ahead of them, with volatility subsequently falling back sharply once they were out of the way, and even as both outcomes were the ones that the markets had feared the most.

Central banks helped calm uncertainty

Another way of looking at it, however, is to ask what might have happened if central banks had not continued to backstop the world economy and financial markets at a time when the recoveries from the 2008/09 financial market crisis were still precarious? Despite global growth being at a six-year low, global trade being historically weak and with populations unhappy with globalization, financial markets recovered their buoyancy, largely because they have been continually supported by cheap liquidity courtesy of central banks. Over the course of the year, the Bank of Japan and the European Central Bank cut interest rates into negative territory and expanded QE programs, the PBOC eased monetary policy including by letting the CNY devalue, and the Bank of England cut interest rates further in the aftermath of Brexit. Even the Fed, by not raising rates as expected allowed the markets further time to enjoy an extended period of policy accommodation.

Central banks backstopped markets

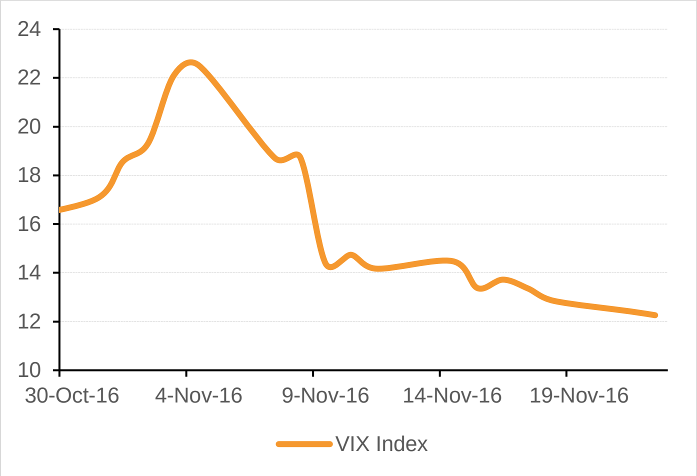


Source: Bloomberg, Emirates NBD Research

Markets warming to Trump

The question going forward will be how markets will cope with similar circumstances in the future following the inflection point that is the Trump election victory. The bull market in bond markets appears to be over, and official US interest rates look likely to be more assuredly heading higher, starting again next month. Other central banks are also facing limits in terms of what more they can do as never ending QE loses support. It is still very early to make exact projections about what the Trump White House will mean for growth and inflation beyond heading higher, but so far at least the markets are warming to the outline of what Trump's economics policy looks likely to be, give or take a few exceptions.

Volatility calms as market warms to Trump



Source: Bloomberg, Emirates NBD Research

The main aspects are for a fiscal stimulus based around a planned USD1 trillion increase in infrastructure spending over the next ten years, and substantial income and corporate tax cuts. Other elements include less regulation benefiting the financial and energy sectors. Less favorable however, is the threat of protectionism, raising concerns that rising trade barriers will undermine global trade flows and ultimately hurt US growth as well. The US withdrawal from the Trans-Pacific Partnership will be the first manifestation of this, but it is unclear where this strategy will lead.

The independent Committee for a Responsible Federal Budget (CRFB) has said that his plans would entail government borrowing being raised an extra USD5.3 trillion in the coming decade taking the national debt from 77% of GDP to 105% of GDP. Trump claimed his plan would work because 'we will double our growth rate and have the strongest economy in the world' with his team having previously talked of growth being raised from 2.0% to 3.5%. This would take the US growth rate back to where it was for much of the decade before the financial market crash in 2008/09 giving rise to sharp economic divergence between the US and the rest of the world.

There will be concerns that the Republican Congress could balk at such an increase in debt, but for the time being markets appear to be buying into the likelihood that a large fiscal stimulus is on its way, and that US growth will soon surpass most of its rivals. With the economy already near full employment, inflation expectations have been lifted, providing the Fed with even more reason to act to normalize interest rates, which will result in greater interest rate divergence as well.

Political divergence also a key theme

Beyond economic growth and interest rates, political divergence is also a key theme and is the one that could still derail the market rally. Donald Trump rode an enormous wave of populism that propelled him into the White House. Similar trends were observable in the Brexit referendum in the UK, but unlike that referendum the US election stands the chance of delivering policies that could generate very much stronger growth in a relatively short space of time. Such populism puts the US on a divergent path with many of its rivals, with the Eurozone mostly still resisting pressure from electorates for change.

However, so far all that has been seen since the election is the positive side of such populism. Trump has toned down the campaign's invective and rowed back on some of his most controversial plans, which has in turn reduced market volatility. However, it may not take much for the negative side to reappear. There is still the potential for an enormous amount of uncertainty about his fiscal plans and whether they will be passed by Congress. Furthermore his more controversial policies related to anti-globalization, trade and immigration have not gone away, and could undermine the expansion that his other policies are aimed at generating. Until the inauguration in January these may not be at the forefront of investors' minds but they cannot be counted on not to return once Trump finally takes office.

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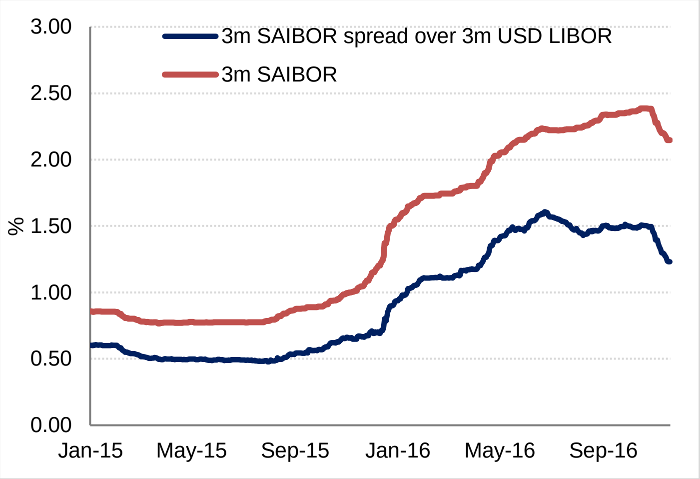
GCC Macro

Improved liquidity in Saudi Arabia post sovereign bond issue

The successful USD 17.5bn sovereign bond issue by the Kingdom of Saudi Arabia last month has contributed to easier liquidity condition in the domestic banking system. While the monetary survey data for October is not yet available, it seems likely that at least a portion of the bond proceeds have been transferred to the domestic banking system, with both government and private sector deposits likely to have increased over the last few weeks. The government has also started paying contractors, with local press reporting around SAR 40bn of outstanding payments had been made by 20 November. Another SAR 100bn of delayed payments is expected to be made by year-end.

As a result of the likely increase in bank deposits, the 3-month interbank rate has declined for the last two weeks, even as USD rates have continued to rise. The narrowing spread reflects the easier liquidity conditions in the Kingdom.

3m SAIBOR and spread over LIBOR



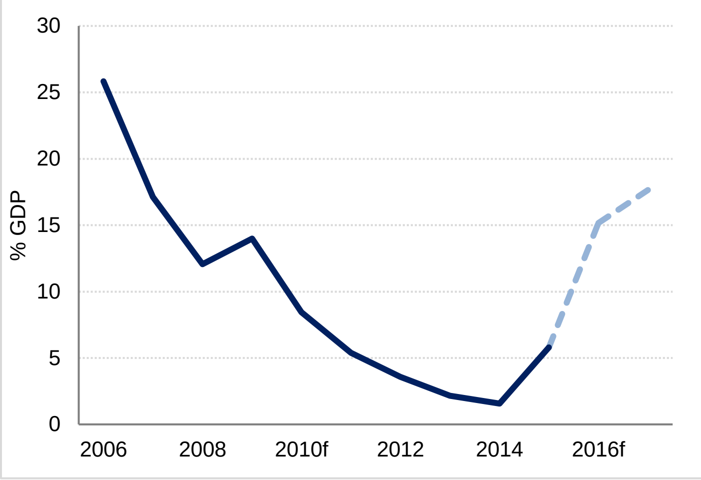
Source: Bloomberg, Emirates NBD Research

Public debt has more than doubled in 2016

We estimate that Saudi Arabia's stock of public debt has increased by SAR 223bn (USD 59.5bn) year-to-date. SAR 120bn (USD 32bn) was through domestic bonds while the balance was raised through a syndicated loan and the sovereign bond. We estimate public debt to GDP has increased to just over 15% of GDP this year, from under 6% in 2015.

In 2017, we expect the budget deficit to narrow as oil prices rise modestly and spending remains relatively constrained. As a result, the borrowing requirement is likely to be lower, and we forecast the government debt/ GDP ratio rising by less than three percentage points to 17.6% of GDP.

Saudi Arabia: Public sector debt/ GDP

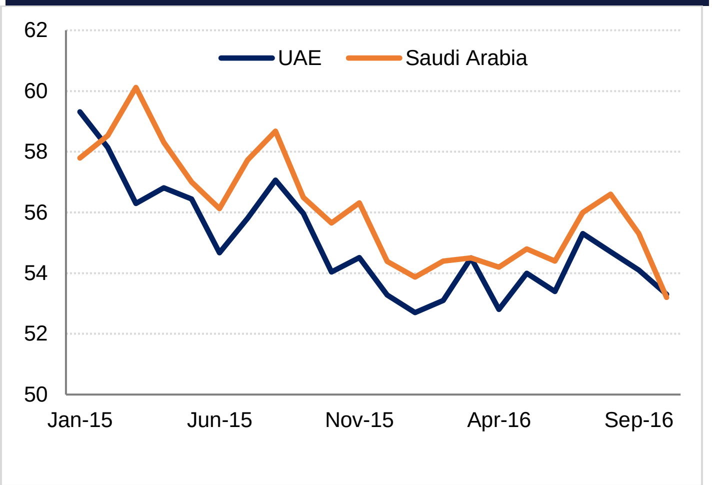


Source: Haver Analytics, Emirates NBD Research

Non-oil growth slowed at the start of Q4.

Non-oil sector expansion appears to have slowed in both Saudi Arabia and the UAE at the start of the fourth quarter, after a relatively strong Q3. Saudi Arabia's PMI declined to a series low of 53.2 in October on the back of slower output and new orders growth. The UAE's headline PMI fell to a six-month low with new order growth relatively sluggish and external demand remaining weak. However both PMI surveys indicated a modest expansion in non-oil private sector activity in October.

Purchasing Managers' Indices



Source: IHSMarkit, Emirates NBD Research

Overall, we expect GDP growth to have slowed across the GCC this year, with the exception of Qatar and Kuwait. Cuts to budget spending on the back of lower oil revenues has led to slower growth in the non-oil sector. Increased oil production has partially offset slower non-oil growth this year however, and we estimate headline growth for the GCC at 2.4% in 2016 (average growth is weighted by nominal GDP), down from 3.5% in 2015.

Slow and steady outlook for 2017

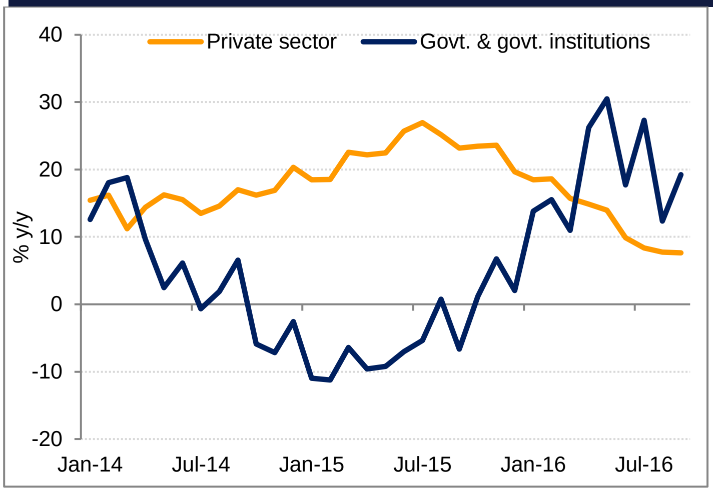
Looking ahead to next year, we forecast average growth of 2.8% in the GCC. We expect some acceleration in non-oil sector growth off this year's low base, and as government budget strains ease on higher oil prices. While we do not project a significant increase in government spending next year, we don't forecast further aggressive spending cuts in 2017 either. Higher oil revenues (the average oil price is expected to rise to USD 55pb next year from USD 44pb this year) should help with narrowing budget deficits and reduce some of the liquidity strains in domestic banking systems that were evident in 2016.

We continue to see the UAE as the best placed of the GCC economies in terms of its ability to withstand sustained lower oil prices. The economy is probably the most diversified in the region, the fiscal buffers are large and the budget is expected to be close to balanced next year. At this stage, we expect growth in the UAE to accelerate to 3.4% next year from an estimated 3.0% in 2016. Within the UAE, we expect Dubai to grow at a slightly faster rate than Abu Dhabi, given its infrastructure investment program ahead of Expo 2020.

Economic growth in Saudi Arabia is also expected to pick up slightly next year, but likely to remain relatively modest overall at 1.8%. Oil production is not projected to rise as much as it has this year, particularly if an agreement to limit OPEC output is reached later this month. However, higher oil prices should alleviate some of the liquidity strains in the domestic banking system, as the government's budget deficit and borrowing requirement is forecast to be much lower than in 2016.

While **Qatar's growth rate is expected to be the fastest in the GCC next year at over 5%** on the back of public sector infrastructure spending, we are cognisant of the impact this is already having on the domestic banking system and liquidity. Public sector borrowing from commercial banks has increased 13% in the year-to-September, while private sector borrowing is up just 4.4% over the same period.

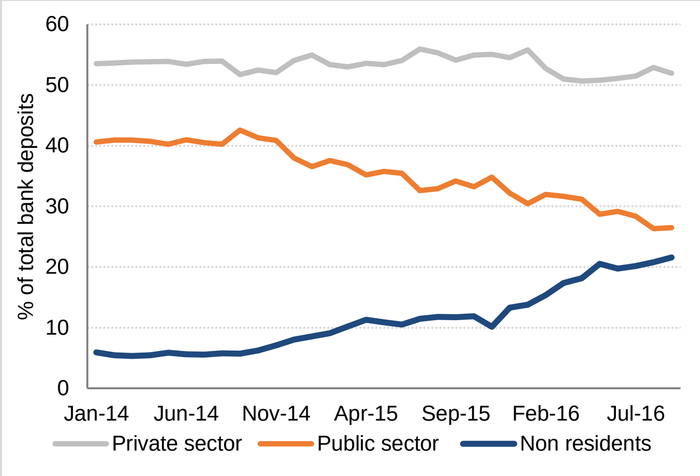
Qatar: bank loan growth



Source: Haver Analytics, Emirates NBD Research

At the same time, public sector deposits at commercial banks have declined -14% while private sector (residents') deposits are down -0.5%. Instead, Qatari banks have increasingly relied on non-resident deposits, and these have increased nearly 70% between in the first nine months of the year. The share of non-resident deposits has increased to 18.6% of total deposits so far in 2016, compared with just 6% in 2014. With US interest rates set to rise further next year, these (typically more volatile) non-resident deposits are likely to become more expensive to retain.

Qatar: bank deposits by source



Source: Bloomberg, Emirates NBD Research

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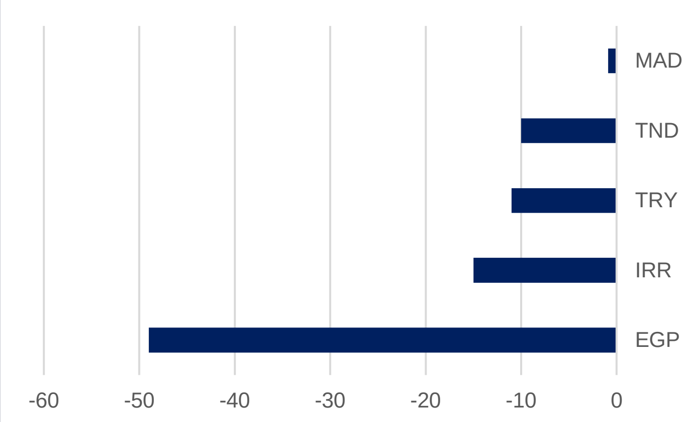
Non-GCC Macro

Following the long-awaited devaluation of the Egyptian pound in early November, attention might soon shift to MENA's other currencies which could also be at risk of coming under significant downside pressure in the near term. Many of the fundamental factors which led to the EGP devaluation are also a feature in the region's other economies, particularly weak levels of FDI, remittances, tourism and exports. Of course, the situation in Egypt was certainly more severe, as the economy's asymmetries had been larger and building for a longer period. Nevertheless, with the Turkish lira, Tunisian and Algerian dinars and Iranian rial all trading at record lows in the final months of 2016, it is useful to take stock of the extent of FX risks across the region as we head into 2017.

Levant Pegs Under the Spotlight

As the only remaining straight USD fixed exchange rate regimes, the focus is likely to settle on the Jordanian dinar and Lebanese pound in the first instance. Both economies are under strain (GDP growth has settled around 2% over the past five years), however it is the double-digit current account deficits in these markets which are particularly concerning in the context of FX risks. That said, in neither case do we expect to see a devaluation in 2017. Jordan might on the surface appear most at risk, with the level of FX reserves falling to a near three-year low in October at USD13.0bn.

FX % Against USD*



*Source: Bloomberg, Emirates NBD Research *Since Jan 1 '16*

While it could be argued that the manufacturing and tourism sectors could benefit from a weaker currency, these are outweighed by the benefits the economy receives from a fixed exchange rate. In particular, the USD peg acts as one of the only anchors of economic stability at a time when the political, security and social environment are still volatile. The IMF also noted this point in its recently published economic update on Jordan, and said the central bank's '*monetary policy will continue to be anchored by the exchange rate peg*'. Authorities appear committed to maintaining the JOD's dollar peg, and with the support of the IMF, we expect this exchange rate regime to continue over the medium term.

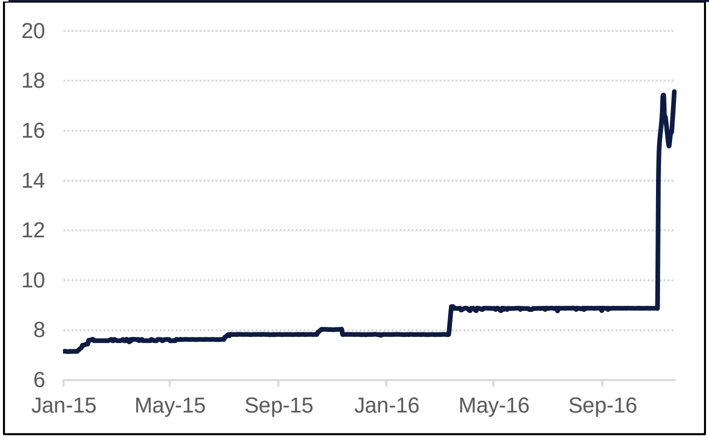
Lebanon does not benefit from an IMF program, however it does continue to possess a massive stock of FX reserves with which it can defend the LBP against devaluation risks. As of August, this financial arsenal had risen to an all-time high of USD35.7bn. In addition to FX reserves, the other main data point to watch in terms of devaluation risks is non-resident deposit inflows into the local banking sector, which are a critical source of foreign capital that helps underpin balance of payments stability.

Although such inflows are expanding at a significantly slower rate than historical trend, as of August they were up 3.8% y/y, representing a six-month high. There are valid concerns that an economic slowdown in Saudi Arabia could lead to weaker inflows over the medium term. However, confidence should have been given a boost following the successful nomination of a president and prime minister in October after several years of political gridlock, which in itself could play a big role in restoring confidence in the government's ability to respond to the economic slowdown.

North Africa Not Immune

FX risks are less pronounced in North Africa, as central banks in this region have already been more willing to allow for currency weakness in recent years, rather than using FX reserves to prevent depreciation. Since the start of 2015, the Algerian and Tunisian dinars have depreciated 21% and 18% respectively against the USD (11% and 8% against the euro). In the case of Tunisia, this FX flexibility is one factor that has helped ease balance of payments pressures, with the current account deficit in Q3 falling to its lowest level since 2010. As a result, the economic asymmetries are smaller than in Egypt, which means that going forward the currency should not need to adjust to the same extent. Although our core forecasts see further weakness through the end of 2017 (USD115.00/DZD and USD2.3000/TND), the extent of losses should be relatively contained.

Egyptian Pound



Source: Bloomberg, Emirates NBD Research

Morocco once again stands apart from its regional peers, as a more stable external position has allowed the central bank to continue its policy of managing the dirham against a basket of euros and dollars (with a ratio of 60-40). Latest data also shows little evidence that the currency is overvalued and in need of a significant adjustment. That said, 2017 will actually see an uptick in FX risks, as authorities appear intent on moving to a more flexible exchange rate regime, a decision which is being supported by the IMF. In the initial stages of reform, it is still unclear how much flexibility the central bank will actually permit, or if it plans to eventually move the MAD to a free float. Nevertheless, more volatility in the dirham will most likely be a feature of a less tightly managed exchange rate regime.

TRY Looks Precarious

The Turkish lira has been one of the worst performing currencies in the world this year, with losses against the USD of roughly 11% surpassed only by the Mexican and Argentine pesos. A significant increase in security risks, concerns over the direction of economic policy, sustained monetary policy easing and a host of negative economic data trends have all weighed on the currency, and pushed it to record lows around USD3.37/TRY at the time of publication. Given the economy's large external financing requirements and heighted risk profile, any period of sustained USD strength could also prove particularly problematic for the TRY. This is certainly a growing risk given the recent leg higher in the USD following the victory of President-elect Trump. At this stage the central bank also appears unlikely to hike interest rates or use FX reserves to defend the lira. We have revised our forecasts for the currency, and now see further depreciation towards USD3.6000/TRY by the end of 2017.

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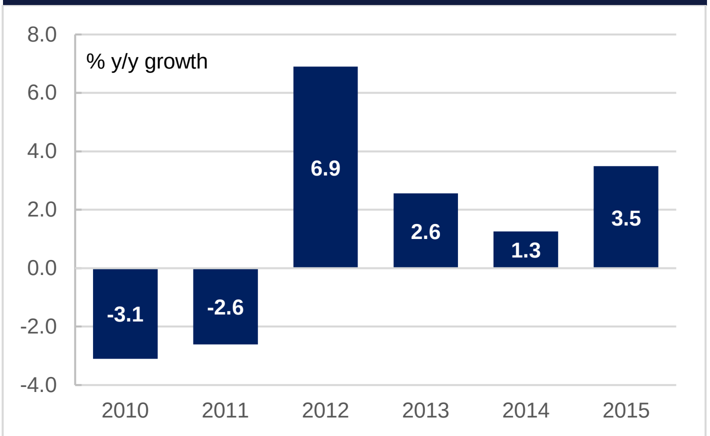
Sector Focus - Dubai real estate

Real estate sector grew 3.5% in 2015

The real estate sector accounted for 6.3% of Dubai's GDP in 2015. Growth in the sector accelerated to 3.5% y/y in 2015 from 1.3% in 2014, according to the revised data from Dubai Statistics Centre. However, the easing in real estate prices is still evident with several factors contributing such as lower oil prices weighing on confidence, increased supply, USD strength and economic developments in investors' home markets. None of these factors are likely to change materially in the near-term in our view.

Dubai's real estate sector growth



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

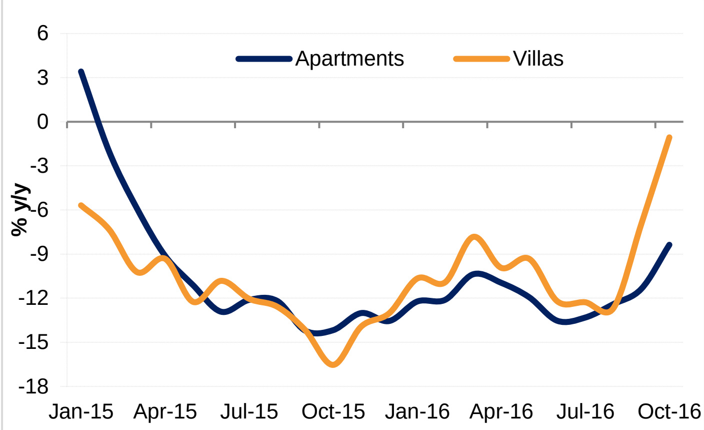
Dubai residential property prices show signs of stabilising

Residential property prices, have continued to ease on an annual basis in October, but at a slower pace than before. Phidar Advisory's Dubai 9/5 House Price Index, which is based on DLD data but includes only nine apartment communities and five villa communities in investor zones in Dubai, showed apartment prices down -8.4% y/y and villa prices down -1.1% y/y in October. On a m/m basis however, villa prices have risen for the second consecutive month, while apartment prices increased in October. Apartments account for about 90% of residential real estate transactions in Dubai.

The lower-priced segments of the market have fared better than the luxury (premium) segment. Prices of standard villas were up nearly 20% y/y in September and October, while mid-range villa prices were up 6.6% y/y in October. In contrast, luxury villa prices declined -10.3% y/y last month. The trends are similar for apartments, with standard apartment prices down just -1.2% y/y while mid-range and luxury apartment prices fell -10.1% y/y and -13.4% y/y respectively.

However, we caution that the autumn months are typically stronger in terms of real estate activity, and we would be unsurprised to see some traction in the monthly transaction and price data as people are usually more optimistic over a new real estate season. The strength of the USD still remains a constraint on demand, particularly for foreign investors.

Dubai residential property prices

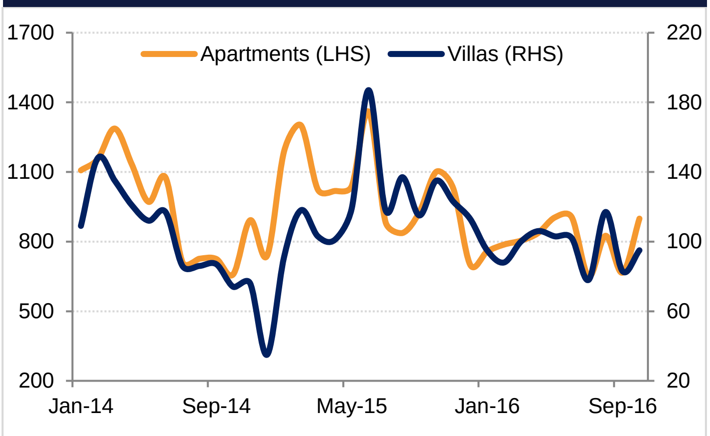


Source: Phidar Advisory, Emirates NBD Research

Transaction volumes increased m/m in October

We have noted in previous reports that the decline in residential real estate prices over the last year has been accompanied by lower transaction volumes. This has been particularly evident in the villa sector. Overall, total transaction volumes declined by -29.6% y/y in October. On a monthly basis, the total number of sales was up 32.7% m/m in October due to higher apartment transactions (35.0% m/m). The number of villas sales recorded in October was also up by 14.5% m/m.

Dubai residential transaction volumes (whole of Dubai)



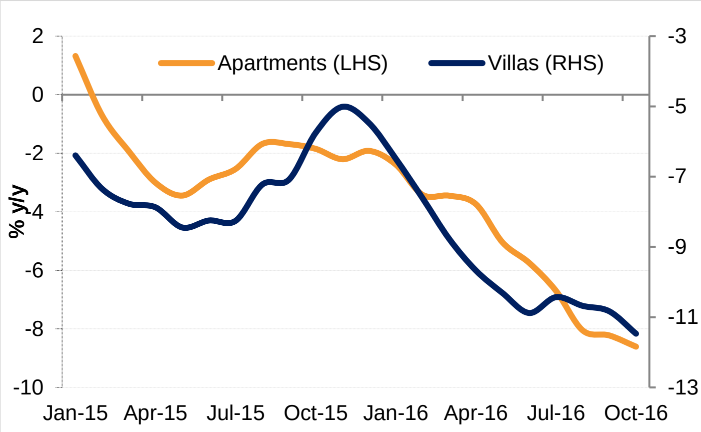
Source: Phidar Advisory, Emirates NBD Research

Looking at the areas included in Phidar Advisory's 9/5 Index, both apartment and villa transactions increased m/m in October, with most of the added activity in the low-range (or standard) segment for apartments and the middle (standard plus) segment for villas. Overall, affordability is still a constraint but there is demand for residential properties at the lower priced end of the market.

Rents keep falling

Rents in the Dubai 9/5 Index areas have declined on an annual basis in October, more or less aligned with the annual fall in sales prices. Apartment rents were down -0.5% m/m (-8.6% y/y) in October while villa rents were also down -0.9% m/m (-11.5% y/y) the same month. Yields on apartments eased slightly at 7.7% while yields on villas were lower at 4.6% in October compared to 4.8% in September. Rental yields are still relatively high as the softening of the rental market should keep putting downward pressure on sales prices.

Dubai residential rents



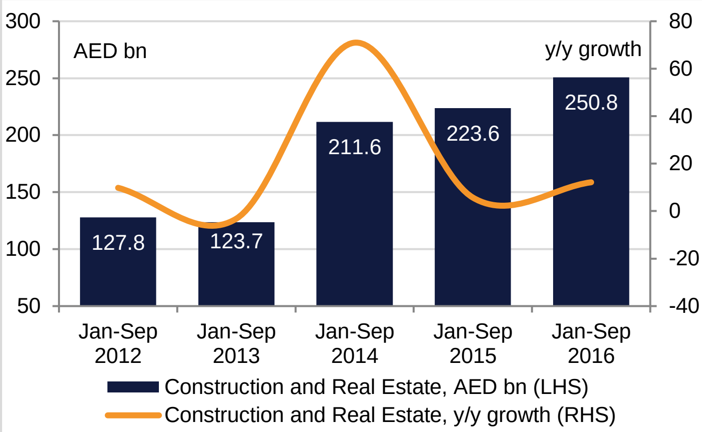
Source: Phidar Advisory, Emirates NBD Research

Bank credit to construction & real estate sector robust

Lending to the construction and real estate sector expanded 12.2% y/y in Jan-Sep 2016, up from 5.7% y/y in Jan-Sep 2015, with loans to this sector accounting for 17.3% of total bank loans. Demand growth for loans in the sector was slightly down in Q3 2016 compared with the previous quarter but is expected to improve in the December quarter, according to the Q3 2016 Credit Sentiment Survey by the UAE Central Bank. The survey revealed a downward trend in overall credit appetite for both business and personal loans. The current tightening of credit conditions for business loans highlights the reversing conditions towards a slower growth path consistent with other indicators of economic activity.

In Jan-Sep 2016, bank credit to the construction and real estate sector reached AED 251bn compared with AED 224bn in Jan-Sep 2015 as the chart below shows. We expect credit to construction and real estate to further increase in 2017 given the number of projects underway.

Bank credit to the construction & real estate sector*



**The big jump between Jan-Sep 2013 and Jan-Sep 2014 is due to UAECB's re-classification of customers by the introduction of new reporting forms.*
Source: UAE Central Bank, Emirates NBD Research

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Fixed Income

Being bond bullish had paid off for much of this year. However, the surprise outcome of the US election caused violent market gyration and saw a material sell off in bonds last month. Sovereign bonds yields spiked and corporate bonds suffered in tandem despite some relief from stable commodity prices supporting credit spreads tightening. Investors have begun to think about the risk of inflation picking up faster than previous expectations, particularly in the US.

Global Bonds

Global risks such as hard landing in China, political turmoil in Europe, military conflicts in the middle east etc have subsided substantially in the recent past. However, volatility in the global financial markets was high last month owing to the surprised outcome of the US election. Fixed income markets were particularly affected as a result of rising sovereign yields.

Macro-economic data releases out of the US have consistently been positive over the last few weeks. In addition, the fiscal stimulus bias of President elect Trump's policies has raised hopes for higher economic growth in the US and faster pick- up in inflation. Not only a rate hike probability at the 13-14 December 2016 meeting of the Fed now well cemented but also the path of future rate hikes is expected to be revised upward. As a consequence, UST curve steepened materially, causing a loss of 2.99% for the US Treasury bond index during the month. Nonetheless, looking at the current YTD gain of 1.30%, total return for the whole of 2016 for treasury investors is likely to remain positive.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.312	+57.7	+76.6	+7.4
UK	1.359	+27.3	+81.6	-51.7
Germany	0.216	+21.3	+31.4	-31.2
Russia	4.434	+53.2	+56.1	-
Brazil	5.334	+84.5	+100.3	-49.3
Japan	0.020	+8.9	+13.0	-29.4

Source: Bloomberg

Performance of the UK economy is surprisingly resilient in the face of Brexit fears, however, currency is lingering near three decade lows. Higher inflation arising from the weakened currency has tied BoE's hands for further rate cuts. The BoE not only held policy rates stable in its November meeting but also scrapped the implicit easing bias. Nevertheless, shorter dated Gilt yields narrowed though 10yr yields rose 27bps to 1.36% in sympathy with the UST. Economic data out of the Eurozone has remained within the expected range and presented no new impetus for material change in ECB's thinking. Investors widely expect ECB to acknowledge that its stimulus program will need to run for longer even though some tapering may be justified. Underlying inflationary pressure in the Eurozone remain weak and show no sign of picking up and this in turn left European sovereign bonds losing less ground relative to the US.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	130.0	-	-6.0	-25.0
US HY Corp	463.0	+9.0	-32.0	-140.0
EUR IG Agg	73.0	+15.0	+16.0	+15.0
EUR HY Corp	430.0	+51.0	+40.0	+12.0
USD EM Agg	317.0	+10.0	-	-53.0

Source: Bloomberg

Even in absence of any material negative idiosyncratic development in emerging markets, EM bonds slipped under the weight of real and expected outward flight of capital as dollar liquidity tightens across the globe. Rising yields in the developed world will see reduction in capital inflow into the EM market and reduce the technical bid for EM bonds. Last month has already seen over $11 billion of cash outflow from EM markets. Brazilian 10yr sovereign bond yields rose 84bps during the month while 10yr Mexican yields were up a stellar 133 bps post the US election outcome.

GCC Bonds – Secondary market

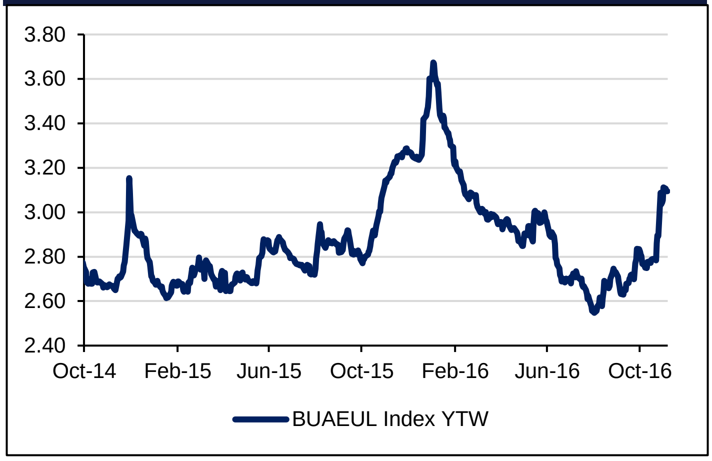
Being bond bullish had paid off for much of this year. However, the surprise outcome of the US election caused violent market gyration and saw a material sell off in bonds last month. Although President elect Mr Trump's exact policies are not yet clear, market has already priced in a steeper curve. In addition, investors may be exercising slight more cautiousness in the face of heightened uncertainty around new President's foreign policies relating to this region.

Longer dated GCC bonds got particularly hammered during the month. Even with some cushion provided by narrowing of credit spreads from 5-15bps, BHRAIN 44s, QATAR 42s, INTPET 41s etc all lost more than six points in price terms.

Notwithstanding the shorter time to next-call-date, investors remained cautious on bank perpetual securities after Standard Chartered and Commerzbank announced intention to not redeem their respective junior bonds at first call dates next year. Though Z-spreads generally tightened, barring that on ADIB 49s, overall yield on Tier 1 securities widened 25bps to 50bps causing more than a point fall in price terms.

The correlation of GCC credit spreads to oil is extremely high. During the era of high oil prices, GCC premium over US IG bonds had gradually narrowed from over 100bps in early 2000s to a level of almost negative 15bps in 1H2015 when GCC bonds were actually trading more expensive in price terms than average US IG bonds. As oil prices tumbled, this trend reversed course and we think the current GCC premium of average 13bps over the US IG is well justified.

BUAEUL Index – YTW history



Source: Bloomberg

GCC sukuk universe on an average has higher proportion of lower rated credits than the conventional bond universe in the region. Given the closely held nature of these securities and bigger cushion of credit spreads, sukuk universe outperformed the conventional bonds during the month. Average yield on conventional bonds across all GCC jurisdiction widened 31bps during the month while that on sukuk tightened by 2bps to 3.78%.

Credit downgrades in the region have plateaued, however the risk remains to the downside as government budget deficits remain high, FX reserves continue to deplete and debt burdens set to increase. That said, rating actions at least during the past month were largely neutral with several rating affirmation such as SABIC at A-/stable, Dolphin Energy at A+/stable and IPIC at AA/stable. Moody's also revised the outlook on Oman's banking system from negative to stable.

Despite previous downgrades more than 90% of the universe is still high grade / investment grade, rendering it quite sensitive to rising UST yields. In an environment of depleting risk appetite for EM bonds, we expect GCC bonds to perform better than other emerging market bonds mainly because of a) their previous oversold position; b) increasing hopes of stability in oil prices; c) increasing traction of the sovereigns in reigning in budget deficits; d) higher credit ratings (avg credit rating of EM sovereigns is BB+ while that of GCC sovereigns is still in the A category); e) lack of alternate local currency market for gaining exposure to the region etc.

However we remain cognisant of the possibility of increasing NPLs in the banking sector dampening investors appetite. Lower global growth will reduce growth opportunities for global trade and real estate which are also some of major issuers in the GCC universe.

GCC Bonds - Primary Market

The most awaited and the most talked about deal of the year, the $17.5bn sovereign bond from the Kingdon of Saudi Arabia finally saw the light of the day last month. Despite worries about high new supply in the region, the KSA deal received orders worth over $65 billion and was well placed overseas, particularly the 10 year and the 30 year tranches. Though the deal debut well in the primary market, bonds from Saudi Arabia have underperformed the wider GCC market post the US election outcome. KSA 46s have fallen around four points since its issue only three weeks ago.

Total debt raised so far in the GCC capital markets has been circa $157 billion including $69 billion in the fixed rate public bonds/sukuk and circa $88 billion in syndicated loans. Loan issuance has been higher than bonds in the previous few years which is likely to be less skewed next year as liquidity gets tighter in international banking systems.

Debt issuance is likely to remain relatively high next year as GCC sovereign struggle to balance their budgets. In addition to the $70 billion that needs refinancing over the next three years, we expect circa $40 billion in new issue from GCC sovereigns (KSA-USD15bn, Qatar-USD10 bn, Kuwait-USD10bn, Bahrain/ Oman-USD 5bn).

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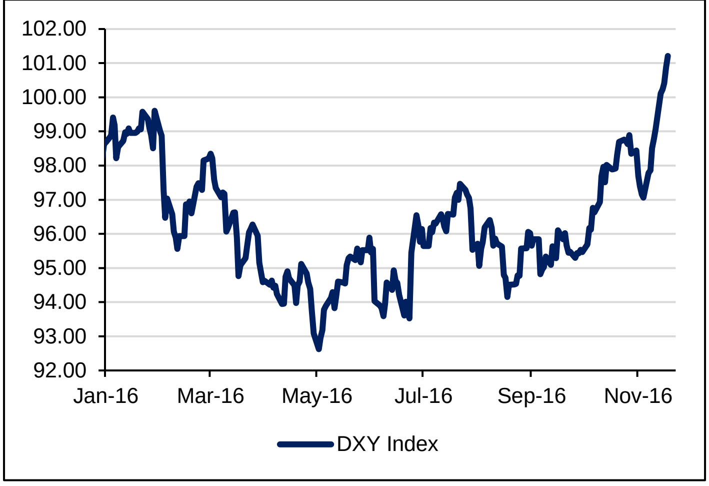
Currencies

Confounding most expectations about the impact of a Trump election win the USD has surged as markets race to price in the effects of Trump's economic policies, having been caught short and unprepared for the Trump victory. With financial markets in general responding well to the election, this has allowed the Fed to continue to prepare the market for another interest rate rise next month, and for the focus to switch to how many more there will be in 2017.

USD surges in aftermath of Trump victory



Source: Bloomberg

The focus on the transition between the Obama and Trump administrations is probably enough to keep optimism about the future relatively high in the near term, leaving the markets to speculate on Trump's agenda and what it might mean for global capital flows. It is also helpful that the economic data recently released has also been supportive with Fed officials noting that growth and prices are nearing the Fed's dual mandates. Fed Vice Chair Stanley Fischer has also indicated that growth could be a little faster, and indicated that the Fed will be taking fiscal policy and infrastructure investment into account when setting policy in the future, although other officials have cautioned that the details of those policies will have to be seen first before the Fed can consider reacting.

EUR to be weighted by uncertainty…

The contrast between the US and Europe is also a striking feature, with the US now moving ahead with new policies after a years of relative inertia, while Europe (and the Eurozone in particular) still appears to be resisting change. Accordingly the focus is turning to the Italian referendum and the Austrian election on the 4th December, which will set the tone for the French and German elections next year. Political upsets cannot be ruled out, given the global populist trend, but in the first instance wins for opposition parties will create question-marks about the sustainability of the European model which would be likely to weigh on the single currency. The ability to expand fiscal policy is currently circumscribed by the Stability and Growth Pact, but such limits make it all the more likely that populations will want to break free from the Eurozone's strictures.

In this context the EUR will suffers from the likelihood that without any other source of stimulus the ECB will probably renew its asset purchase programme for another six-months from next March, given the weakness of inflation and the pressure on long rates in peripheral countries. The search for yield will then drive capital flows away from the Eurozone towards just the US with the potential for better growth rates and higher interest rates.

…while dollar poised to outperform

Technical observations support the short term outlook for a stronger dollar. The Dollar Index is currently around 101.20, an almost 4.0% gain from just before the election. While secondary indicators such as the RSI suggest that the dollar has been overbought and that we may see profit taking, the risk is that we still see further upside into the end of the year. A successful break of 101.80, the 20 year 61.8% Fibonacci retracement opens the door for advancement towards 110, levels last seen in 2002. In EURUSD terms we anticipate that 2017 will be a year in which it flirts again with parity.

USDJPY's gains have been the most impressive rising by 6.0% since Trump was elected. Improved risk appetite has encouraged a squaring of long JPY positions, which probably has further to go considering the still large overhang in the market. The BOJ's efforts to control the JGB yield curve should also be beneficial for USDJPY especially as US rates begin to rise again, as the BOJ makes good on its promise to cap the 10-year JGB yield at zero percent.

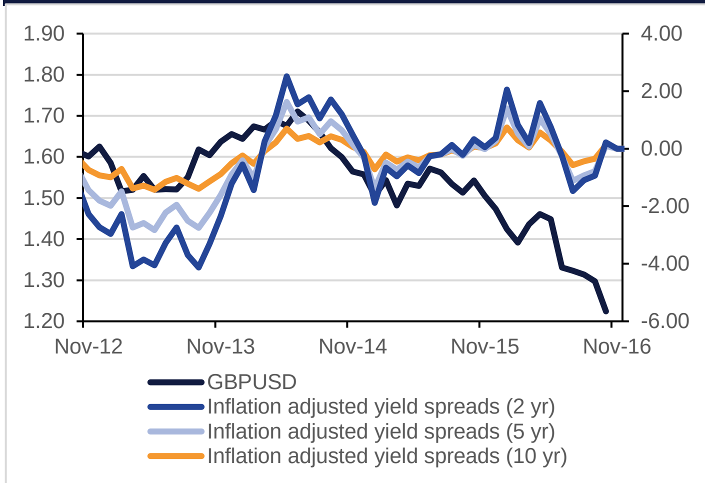
JPY weakness is a positive development for Japan which has also enjoyed firm economic data lately in the form of strong Q3 GDP reading of 2.2% q/q annualized. Such an unanticipated currency windfall should provide a further underpinning to growth, particularly the export sector which was the source of the GDP strength in Q3.

A focus on GBP in 2017

When thinking about currencies in 2017 and where they will go we start by looking at exchange rates relative to their interest rate differentials, in particular differentials adjusted for inflation. In the past when inflation and interest rates have behaved relatively normally, and before such concepts as QE and negative interest rates we found that there was a reasonable correlation between dollar exchange rates and two-year yield differentials.

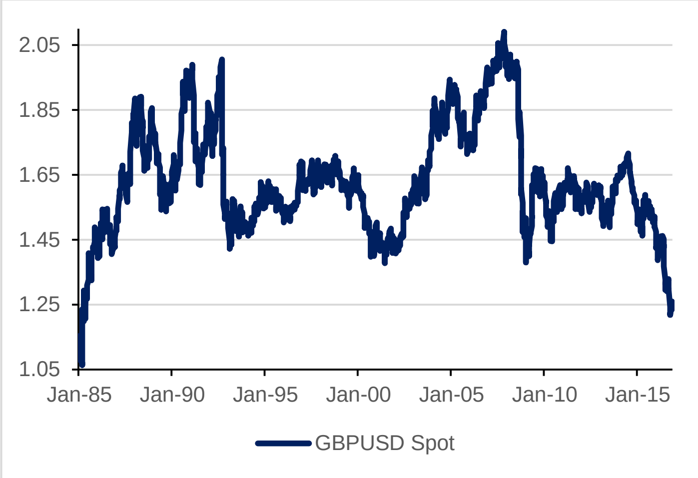
In fact most major USD pairs are showing consistency with this approach but with the notable exception of GBP where there has been a significant deviation from yield differentials. This became most striking in November 2015, when a Brexit referendum was anticipated, and which then became a substantial discount in the run up to and in the aftermath of the June 2016 referendum. Inspection of GBPUSD price action compared to the inflation adjusted yield spreads between 2,5 and 10 year generic government bond yields show that GBP trades far below the value implied by rate differentials, demonstrating that a Brexit discount has become very visible, especially when compared to other currency pairs which are behaving normally.

GBPUSD trades at discount



Source: Bloomberg

GBPUSD historically



Source: Bloomberg

Furthermore, anticipation of whether the UK will experience a 'hard' or 'soft' Brexit are responsible for this discount variously widening and narrowing depending on the news, with the 'flash crash' seen in October when GBP reached as low as 1.1490 being caused by a combination of thin liquidity and headlines related to the UK's Brexit prospects. Technically and historically the fact that the pound reached as low as this level, which was a 30-year low, even before Brexit negotiations have started, suggests that the coming year could easily see volatility in GBP remain elevated, with such sharp swings to be expected especially in the context of torturous Brexit talks and given the possibility of a snap General Election.

Just over 30 years ago the pound fell briefly below 1.05 (see graph) as oil prices weakness saw its petro currency status undermined, although the G5 Plaza accord subsequently helped it and other major currencies to recover strongly at the dollar's expense. Long term measures of fair value will become relevant for sterling again, although these are likely to have fallen from estimates close to 1.60-1.70 a few years ago to closer to 1.30-1.40 today. The UK has amounted a current account deficit of 6% of GDP in recent years even as the pound was perceived to be cheap at around 1.50, suggesting that the real effective equilibrium rate for it is actually somewhat lower. Recent signs of a resurgence in UK export activity in the wake of the pound's recent decline is supportive of this. The pound looks like it will experience another difficult year in 2017, with Brexit talks weighing on it and as the Fed raises US interest rates, but down the line a reversion back towards this new equilibrium still appears likely.

Correlation of daily currency movements over the last one month

PAIR	EUR/USD	EUR/GPB	EUR/JPY	GBP/USD	USD/JPY	USD/CAD	AUD/USD	NZD/USD
EUR/USD		0.355	0.018	0.466	-0.768	-0.326	0.458	0.595
EUR/GBP	0.355		0.203	-0.660	-0.147	-0.357	0.308	0.359
EUR/JPY	0.018	0.203		-0.196	0.6268	-0.393	0.291	-0.003
GBP/USD	0.466	-0.660	-0.196		-0.488	0.075	0.075	0.128
USD/JPY	-0.768	-0.147	0.627	-0.488		0.005	-0.175	-0.465
USD/CAD	-0.326	-0.357	-0.393	0.075	0.005		-0.596	-0.540
AUD/USD	0.458	0.308	0.291	0.075	-0.175	-0.596		0.751
NZD/USD	0.595	0.359	-0.003	0.128	-0.465	-0.540	0.751	

Source: Bloomberg, Emirates NBD Research

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Equities

For the second time this year, equity investors were caught off guard by developments in the political world. However, what was remarkable was the speed with which the stock markets shifted gear from fear of the unknown to faith in Trump's vague economic plans.

The performance of equity markets over the last month can be broken into caution (pre-election) and reflation (post-election) trades. The reflation trade has been driven by combination of USD strength and perceived benefits of Trump's policies to the US economy. The MSCI World index has rallied +1.1% since 8 November 2016 mainly on the back of strength in developed markets. The MSCI G7 index has gained +1.7% in the same period. Within the developed market space, the Nikkei (+5.5%) benefitted from USD strength and the S&P 500 index (+2.7%) gained from focus on growth. Emerging markets felt the after-effects of stronger USD with the MSCI Emerging markets index losing -6.1%. Regional equities have held their own mainly on the back of local factors with MSCI Arabian market index adding +0.5%.

Market movements over the last two weeks has provided us with an early glimpse into the trends which are likely to dominate equity markets in 2017. These include greater focus on economic growth driven by fiscal stimulus, political concerns in Europe, impact of stronger USD and trajectory of commodity prices. Keeping these trends and recent moves in equity markets in mind, we would be cautiously optimistic heading into 2017. While growth in the short term could receive a boost from fiscal spending, rising costs amid a tighter monetary policy environment could be a drag. This coupled with heightened earnings expectations and steep valuations does lay the ground for disappointment should the political action not match the rhetoric. If potential trade wars, political risks and probable disruption in some emerging markets are added to the mix, the longer term risks get skewed to the downside.

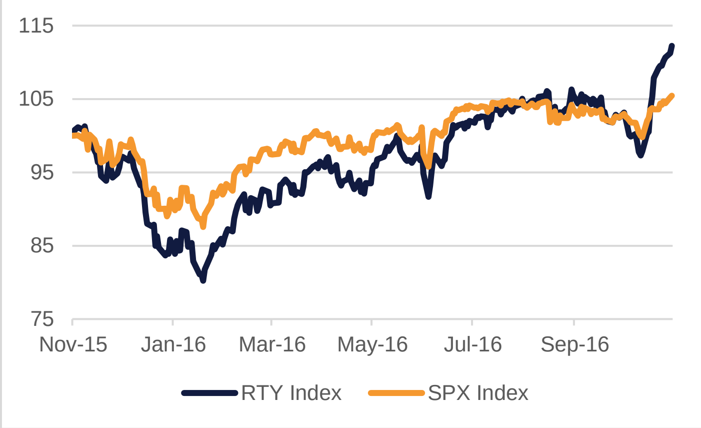
Key trends

The recent rally in equity markets following the victory of Donald Trump has been accompanied by shift in trends seen earlier in the year. We look at some of those trends and probability of them continuing into 2017.

Growth over Value

One of the distinctive feature of the recent rally has been the outperformance of growth stocks over value stocks. The reasons are understandable given that markets seem to be buying into Trump's election promise of spending USD 1tn to boost US infrastructure and make a bid to double US GDP growth from current levels of 2%. The Russell 200 index, which represents the small cap stocks concentrating on the US economy, has rallied +11.6% since the election results compared to a +2.7% gain in the S&P 500 index. Up until the election results, the Russell 200 index had moved in line with the broader S&P 500 index with both indices adding +5.0%.

Cyclicals leading US equities to new highs



Source: Bloomberg, Emirates NBD Research

The same trend has been observed in Europe. In fact, in Europe this started a tad early with the ratio of European cyclicals relative to defensives hitting the highest level since 2007 following a 20% rally from its four-year low in July. The broader European stock index has remained flat during that period.

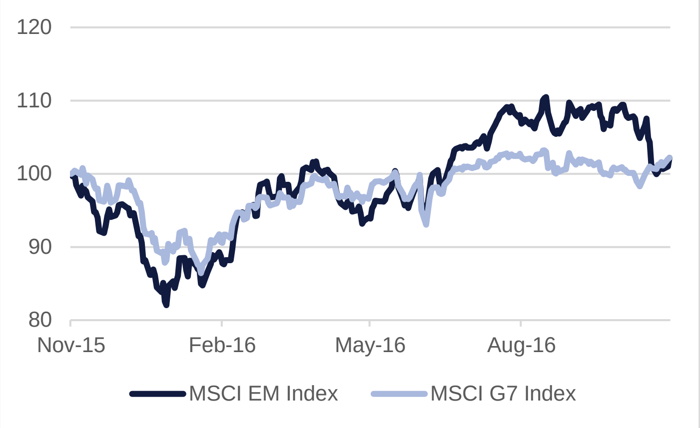
This decoupling can be attributed improvement in growth prospects which is also reflected in rising bond yields. It is worth noting that since 2009, bond yield have tracked global PMIs. For example, in July when US 10y bond yield were 1.4% and global PMIs were around 51, bond yields were discounting global PMIs to drop further. However, since then global PMIs have jumped 2.5 points which suggests that the recent increase in yield has only brought bonds yield in line with the increase in the PMIs. And with markets putting their faith in Donald Trump's fiscal plans it would not be surprising to see this trend of cyclicals outperforming the broader index continue.

Developed markets over Emerging markets

Another visible trend has been the underperformance of emerging market equities. Since 8 November 2016, the MSCI emerging market equities index has declined -6.1% compared to a gain of +1.1% in the MSCI World index. It is worth highlighting here that despite the recent underperformance, the MSCI EM index has rallied +8.0% ytd compared to gains of +3.0% ytd in the MSCI World index.

The broad consensus behind the underperformance is that an increase in government spending in developed markets will boost inflation expectations and that is likely to hasten the Fed's interest rate hiking cycle which is turn will negatively impact EM assets. The rhetoric of President-elect on global trade and the announcement of his intention to pull out from Trans-Pacific Partnership suggests that trade-wars may be on the anvil and in the past emerging markets have remained vulnerable to trade disputes.

Developed markets catching up with emerging markets



Source: Bloomberg, Emirates NBD Research

Having said that, the fundamentals in emerging markets look much better than they were at the start of the year. The Markit EM manufacturing index recorded its third straight reading above 50 and built on the upward trend that started in September 2015. Corporate earnings have also shown some strength in recent quarters following years of decline. The 2017 earnings expectations for MSCI EM index has been revised higher by +0.3% in the last three months compared to a -0.6% revision in the MSCI World index. Another factor in favour of emerging markets is valuations. The MSCI EM index is currently trading at 11.3x 2017E earnings compared to 10-year average of 11.1x while the MSCI World index is trading at 15.7x 2017E earnings compared to 10-year average of 13.6x.

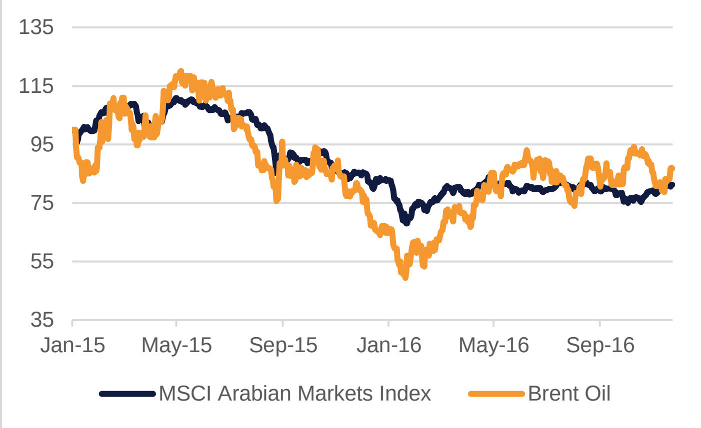
Looking ahead into 2017, it does appear that the performance of broader EM equities is expected to be weaker. However, there will be pockets of opportunities. For example, any increase in protectionist measures would disrupt manufacturing economies but support commodity plays. Similarly, because of the beta overlay self-sufficient high growth stories like India may draw investor interest.

MENA markets – More local than global

The moves in MENA markets have been driven more by local catalysts than by developments in broader equity markets. The dislocation is mainly on the back of series of economic measures taken by some of the GCC countries and the magnitude of its impact on the broader region.

One observation has been the breakdown in correlation between oil prices and regional equity markets. The weekly correlation between Brent oil and MSCI Arabian markets index has declined from 0.624 in 2015 to 0.569 in 2016 so far. The shift is sharper in H2 2016 with correlation breaking down completely at -0.015 since start of July 2016. This clearly indicates that investors have started to look beyond oil and focus on the reform measures undertaken by governments to mitigate the long term impact of weaker oil prices. This trend is likely to continue in 2017 as these reform measures gather pace in other GCC markets.

Correlation between oil prices and MENA equities break down



Source: Bloomberg, Emirates NBD Research

Speaking of reforms and the impact it can have, the recent performance of Eyptian equities stand out. The EGX 30 index has rallied +35.1% in EGP terms since the government decided to free float the currency. The decision also provided the impetus to the countyr's negotiations with the IMF and eventually helped it conclude. As a result, the interest of foreign investors revived. Since devaluation, foreign investors have been net buyers in each trading session and in aggregate have bought stocks worth EGP 3.2bn since 3 November 2016.

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Commodities

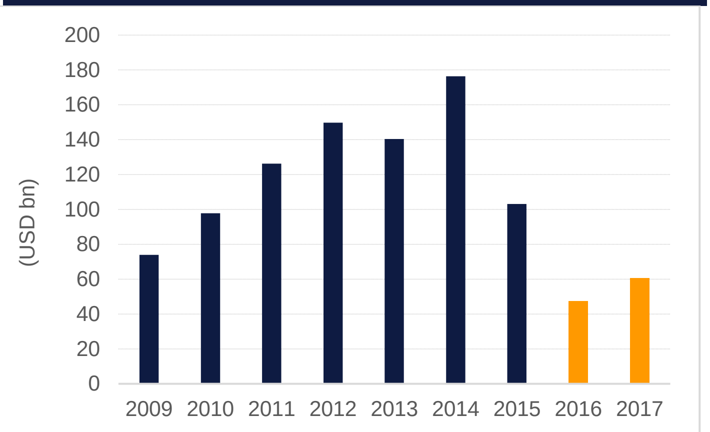
The trajectory for oil markets in 2017 will largely be set by what happens in Vienna at the end of November. OPEC is poised to implement its first production cuts in eight years if it does indeed adhere to the deal agreed in Algeria at the end of September. A failure to remove barrels from the market will most likely see crude prices start 2017 off on the backfoot but even a production cut to the range OPEC has agreed may not be enough to sustainably balance markets and see prices rise much above current levels.

Non-OPEC output to recover in 2017…

Whatever OPEC decides at the end of November, the rebalancing of oil markets will be a moving target for much of 2017. All the major international forecasting agencies—EIA, IEA and OPEC itself—expect non-OPEC supplies to expand in 2017, reversing this year's decline. Major contributions to supply growth are expected from Brazil (250k b/d increase expected by OPEC), Canada (170k b/d) and Kazakhstan (210k b/d) thanks to a full year of output from the Kashagan oil field. Overall, OPEC expects an increase of over 200k b/d from non-OPEC suppliers while the IEA is more bullish, forecasting nearly 500k b/d of more non-OPEC supplies to enter markets.

The major question mark for supply next year is what will happen in the US. The EIA estimates crude output has fallen more than 500k b/d since the start of 2016 and it is down almost 1m b/d from its mid-2015 peak. However, for most of Q3 2016 US output stabilised at around 8.5m b/d and ticked up sharply at the start of November to just shy of 8.7m b/d.

North America E&P capex set to expand



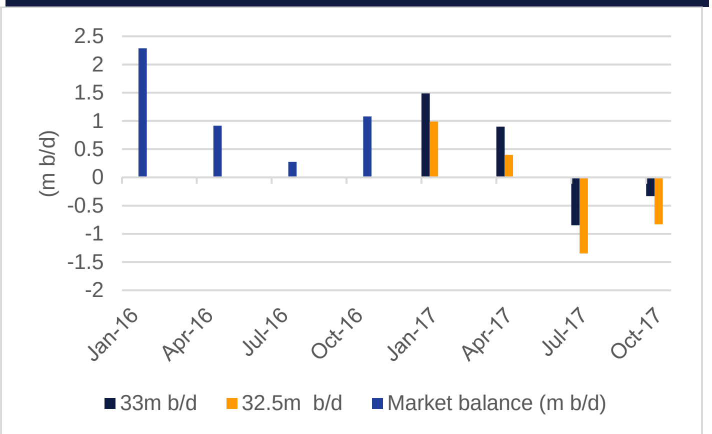
Source: Bloomberg, Emirates NBD Research. Note: Capex consensus estimates for North American independent E&P companies.

Market activity does seem to indicate that some stabilization, if not expansion of output is on the cards. Producer shorts have moved consistently upward in 2016, taking advantage of fleeting rallies in oil futures while after bottoming out in May this year, the US oil drilling rig count has now risen more than 130 rigs (up 42%). Market consensus also expects an uptick in capex from North American E&P companies next year to over USD 60bn, far below recent highs of nearly USD 180bn but still an improvement on 2016. All the major agencies are aligned in forecasting a decline in US output next year but it may be prudent to expect to be surprised to the upside.

…but demand will be worse off

The demand side of the oil market ledger makes for some less inspiring reading. Consensus among the major forecasting agencies is for demand growth to slow next year despite some relatively strong performances from India and other Asian markets. OECD demand growth will essentially vanish as Europe will see no growth in oil consumption at best and potentially move back to negative if political risks disrupt the trajectory of Europe's economy. Middle East oil demand growth in our view can no longer be taken as a granted as consumption has slowed sharply this year as low oil prices take their toll on some of the major consumers, concentrated in the GCC economies.

Cut won't balance markets immediately



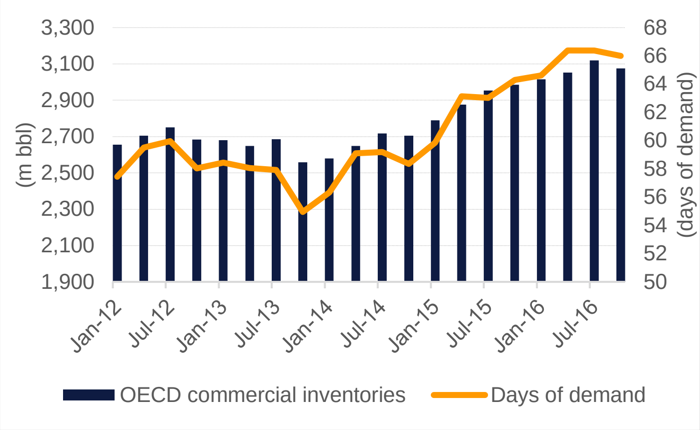
Source: OPEC Monthly Oil Market Report, Emirates NBD Research.

Using OPEC's current 2017 supply and demand forecasts as a baseline, the bloc's proposed production cut targets of 32.5m-33m b/d won't be enough to balance markets with any immediate impact. Even the lower target would contribute to a market surplus of nearly 1m b/d in Q1 and a deficit starting to emerge by the second half of the year. But that deficit is contingent on non-OPEC supplies restraining output growth to around 200k b/d.

Inventories can spoil the party

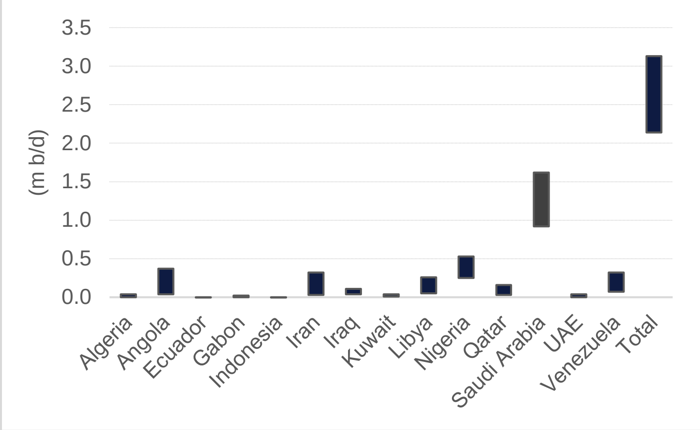
But a balance of oil market flows is just one part of the story. Crude inventories held in OECD economies are on track to enter 2017 with over 3bn bbl of crude stockpiled, representing close to 70 days of forward demand. Spot prices may react sharply to expectations of production levels but any steep upward movement will slam hard into this wall of stockpiled crude and products.

Market carrying unprecedented stockpiles



Source: IEA Oil Market Report, Emirates NBD Research.

OPEC has some room to expand



Source: IEA Oil Market Report, Bloomberg, Emirates NBD Research. Note: range of spare capacity estimates.

Will a cut be enough?

If OPEC members want to get prices back on a higher trajectory any market action will have to meet several criteria in our view:

- A cut must occur. OPEC has successfully talked up the market several times in 2016 only to follow with higher output. A failure to match talk with changes to physical supply will see a sharp vote of no confidence from prices.
- The cut will probably need to be deeper than the 32.5m – 33m b/d target already announced. Cutting this amount will only see a deficit emerge in Q3 2017 and that is a tentative forecast on non-OPEC supply not growing much.
- The cut must last. If the cut only last six months and then OPEC members try to recover higher output targets later in the year, the market will most likely move back into surplus by the end of 2017.

But any OPEC decision won't be taken in a vacuum. Failure to provide details and follow through on the Algiers agreement has already seen oil prices slump and getting them back to convincingly hold at USD 50/b will be a first challenge. There is also no guarantee that a cut will result in the kind of price increase most OPEC governments would be hoping for.

Higher prices for OPEC also mean higher prices for other producers. Calibrating the right amount of oil to take out of the market to ensure prices rise but don't encourage non-OPEC producers will probably need more finesse than the futures market has the attention for.

The most significant challenge though is whether any cut agreement will be accepted and adhered to. Already, Iran, Nigeria and Libya will be exempt and Iraq has announced it has no intention to limit its own production. Total spare capacity in OPEC is estimated between 2.1m - 3.1m b/d. Any slippage or cheating from members could keep markets stubbornly in surplus.

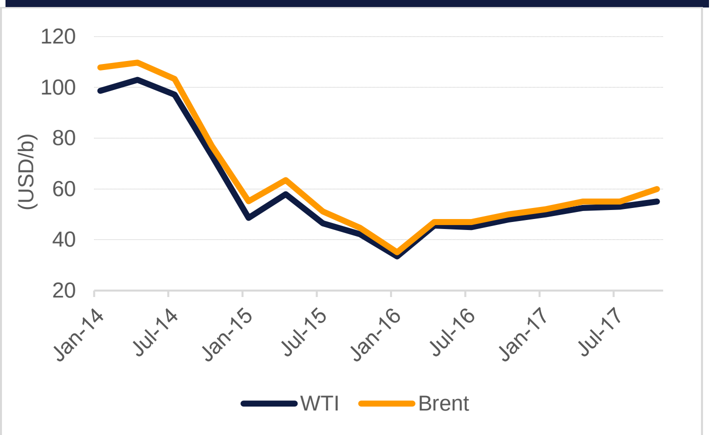
So where do prices go next year?

Considering the intensity of market scrutiny over what happens at OPEC's meeting on November 30th, we expect the producers' bloc will endorse a form of action, most likely a cut to the lower end of OPEC's proposed range.

For 2017 we are still cautiously optimistic about the direction for oil prices and expect futures to average around USD 55/b for Brent and about USD 53/b for WTI, generally rising over the course of the year as the market tightens. If OPEC fails to implement its production cut then we could be facing another step down in oil and delaying the process of market rebalancing probably at least another six months.

Upside risks are far harder to sketch out in the current market conditions. Demand spikes occur with far less frequency than supply shocks and the availability of inventories and assets near to completion (at least in oil market terms) would mean any irrational rally will be hastily brought down to earth.

Emirates NBD Research oil price forecasts



Source: Bloomberg, Emirates NBD Research.

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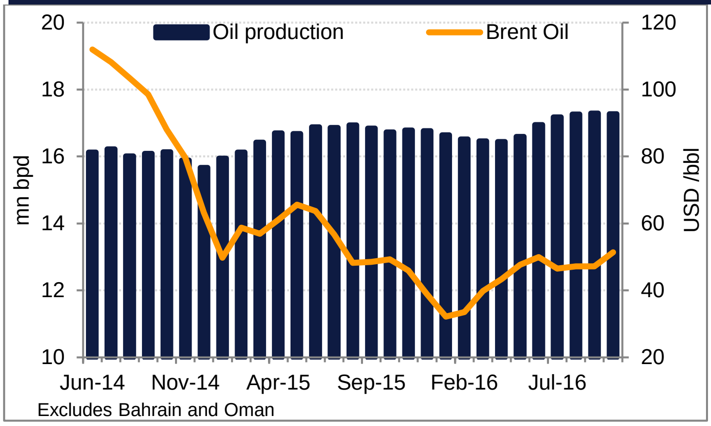
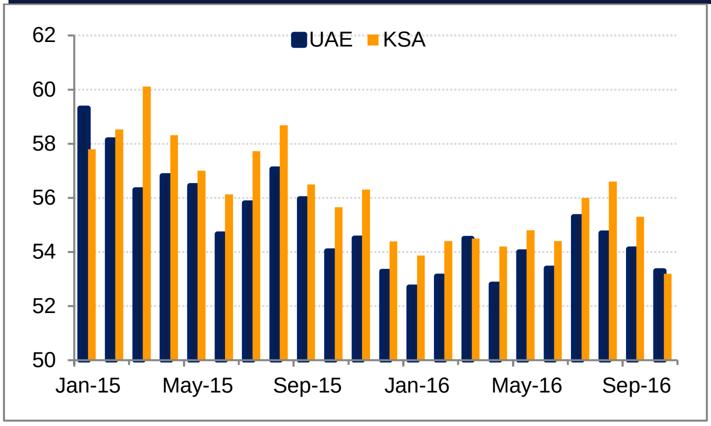
GCC in Pictures

GCC Oil Production and Reference Price



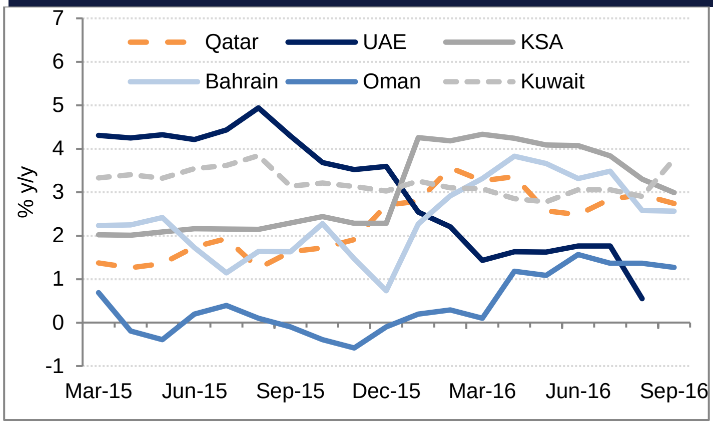
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



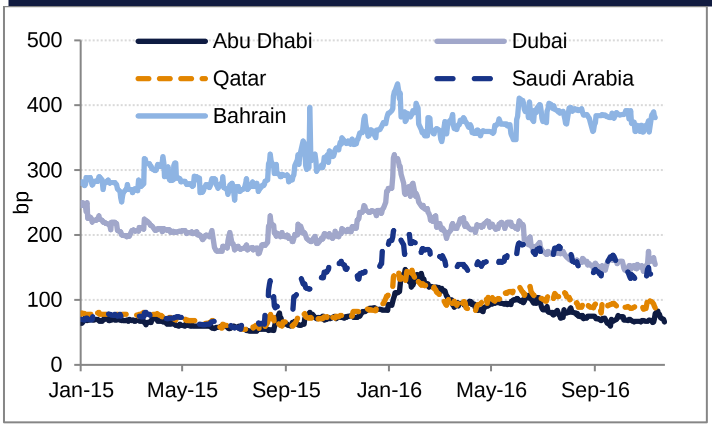
Source: Markit, Emirates NBD Research

Inflation



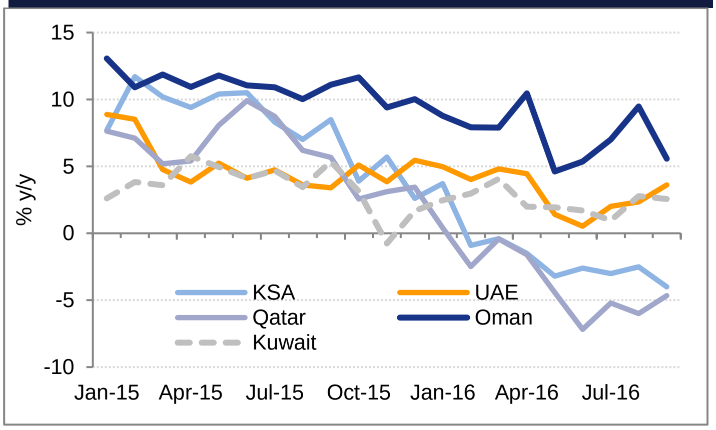
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



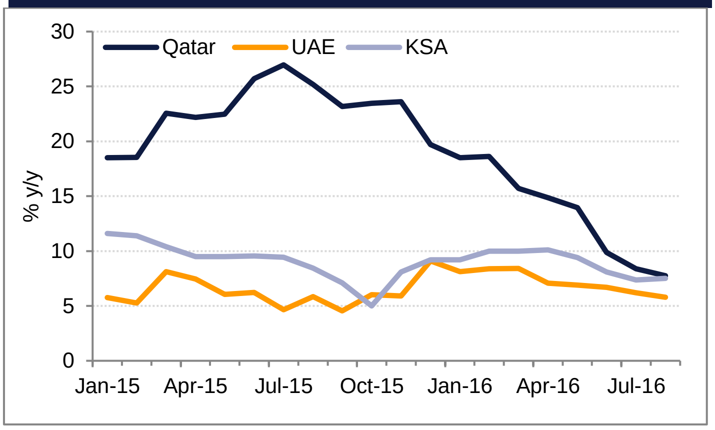
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

Private sector credit*



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

MENA in Pictures – USD Exchange Rates

Algeria

Source: Bloomberg, Emirates NBD Research

Egypt

Source: Bloomberg, Emirates NBD Research

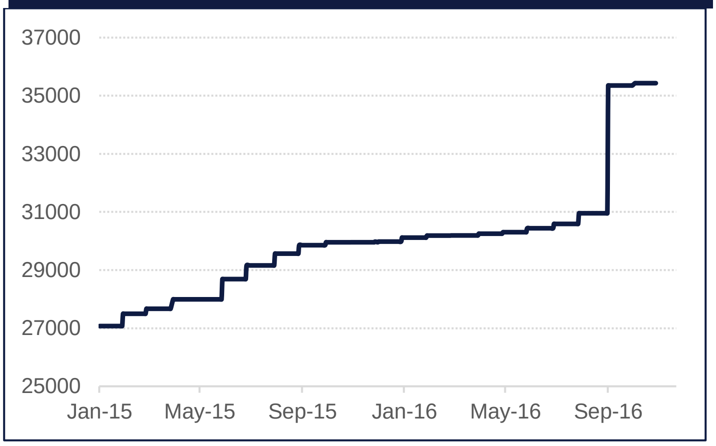
Morocco

Source: Bloomberg, Emirates NBD Research

Tunisia

Source: Bloomberg, Emirates NBD Research

Iran



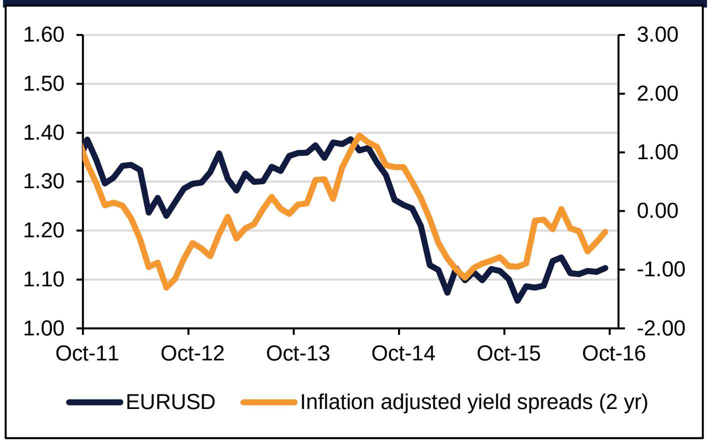
Source: Bloomberg, Emirates NBD Research

Turkey

Source: Bloomberg, Emirates NBD Research

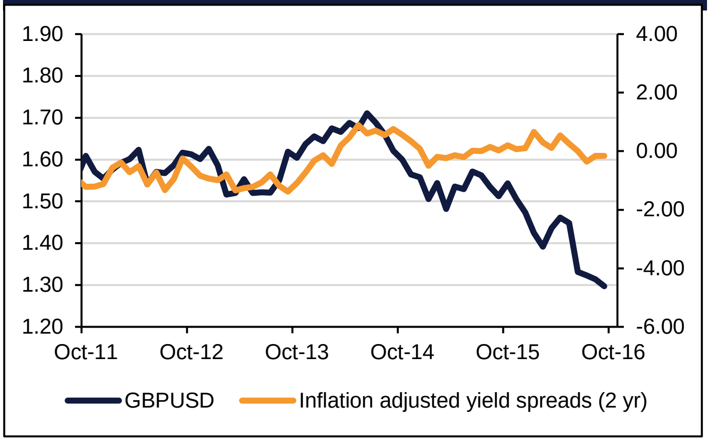
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



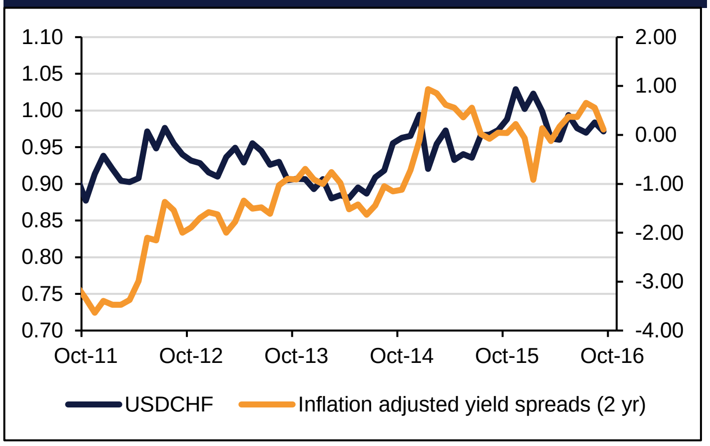
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



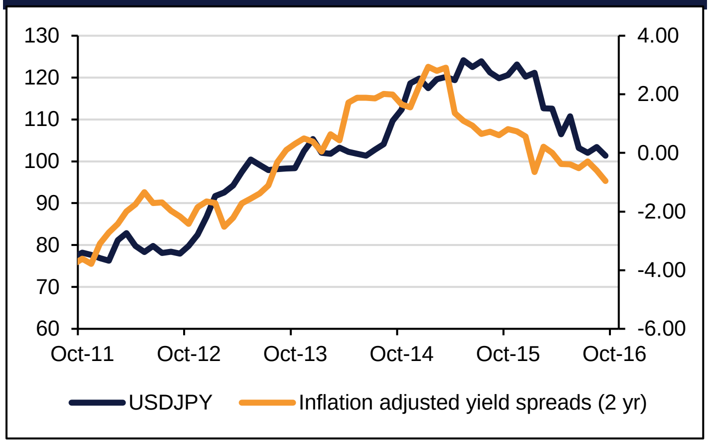
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



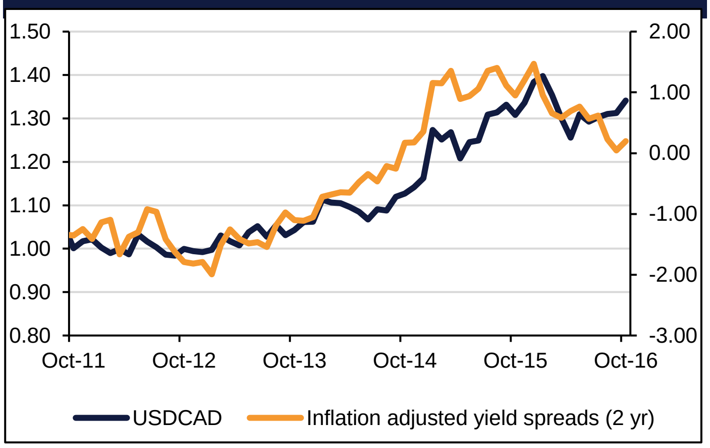
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



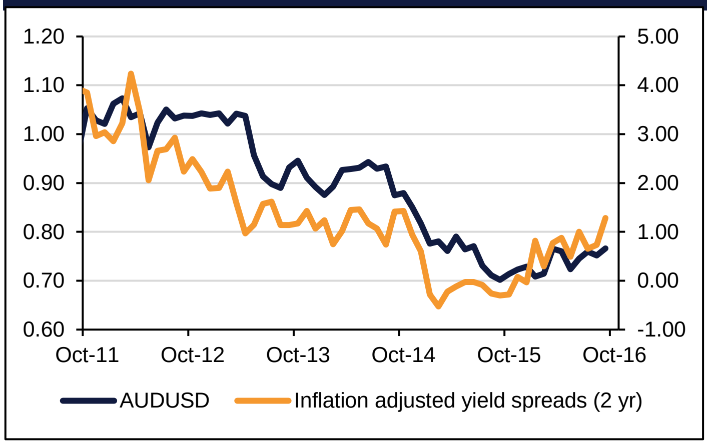
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

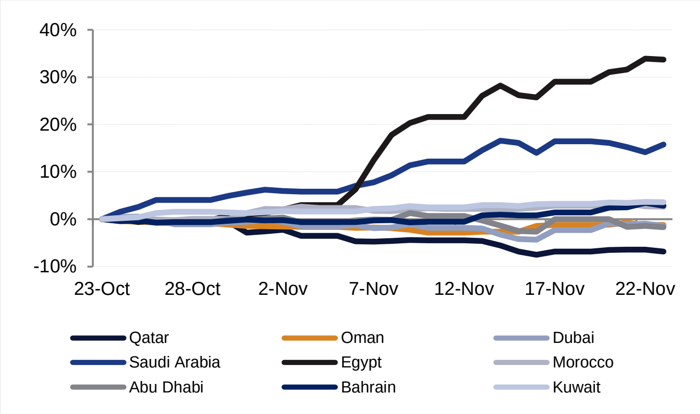
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

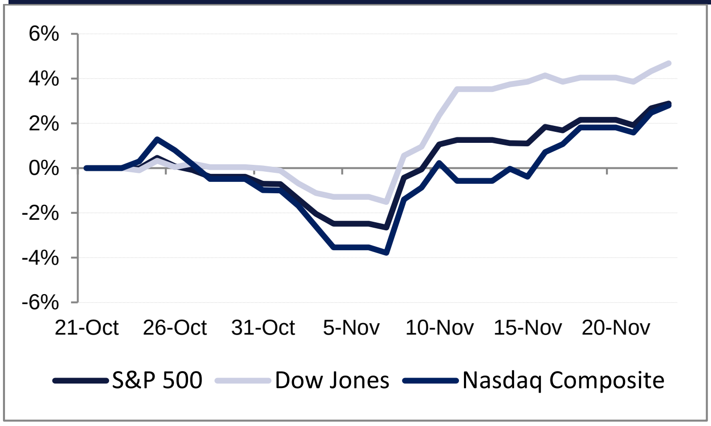
Major Equity Markets

MENA Equity Markets



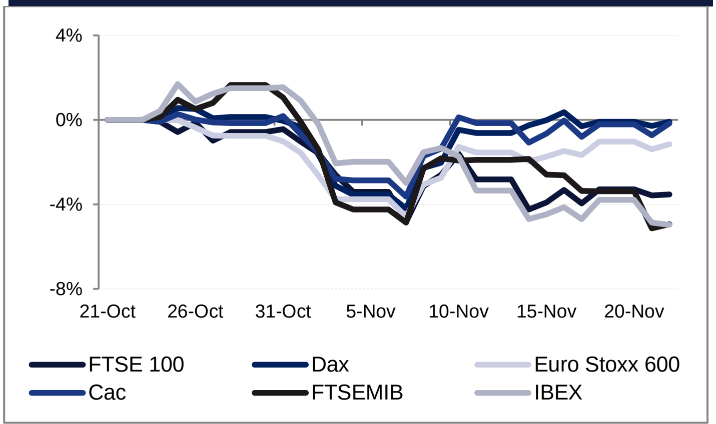
Source: Bloomberg, Emirates NBD Research

US Equity Markets



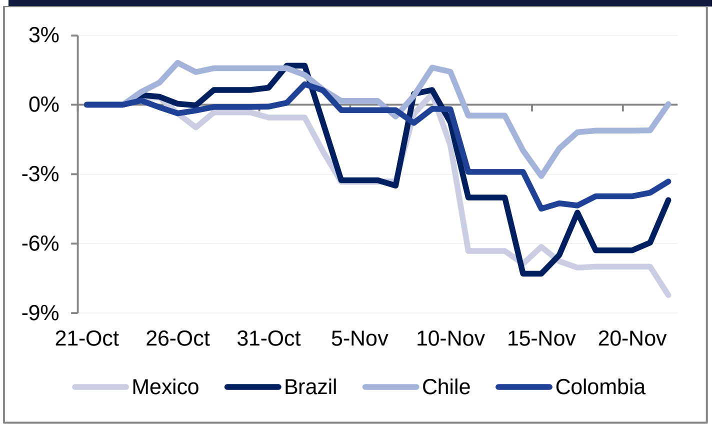
Source: Bloomberg, Emirates NBD Research

European Equity Markets



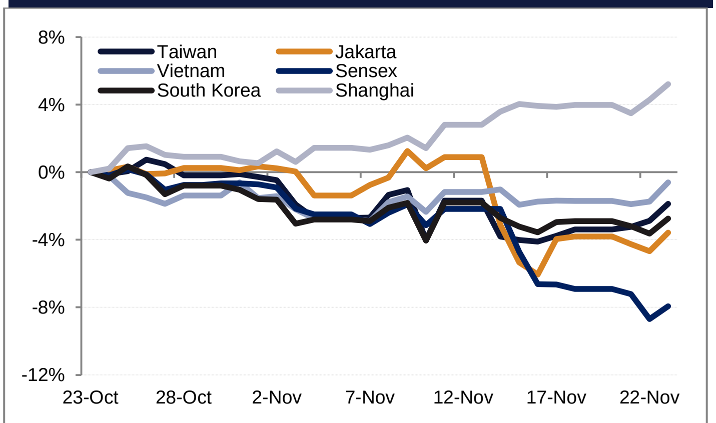
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



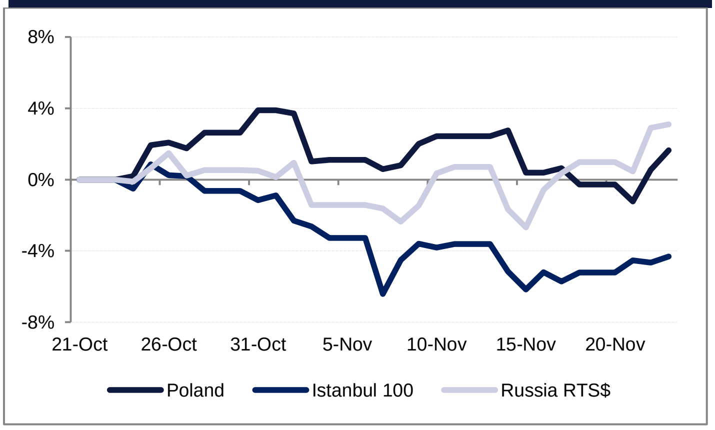
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

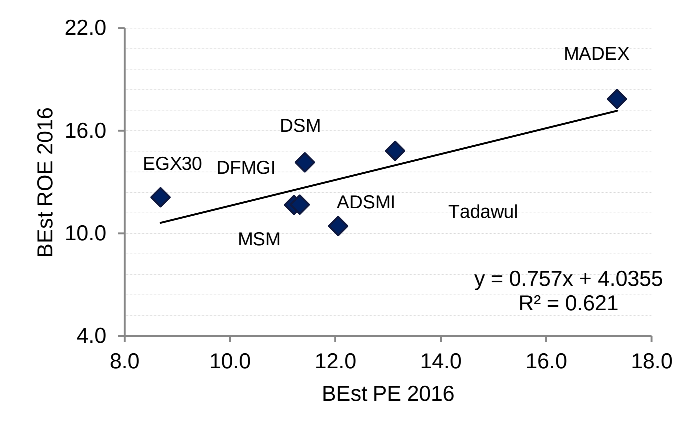
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

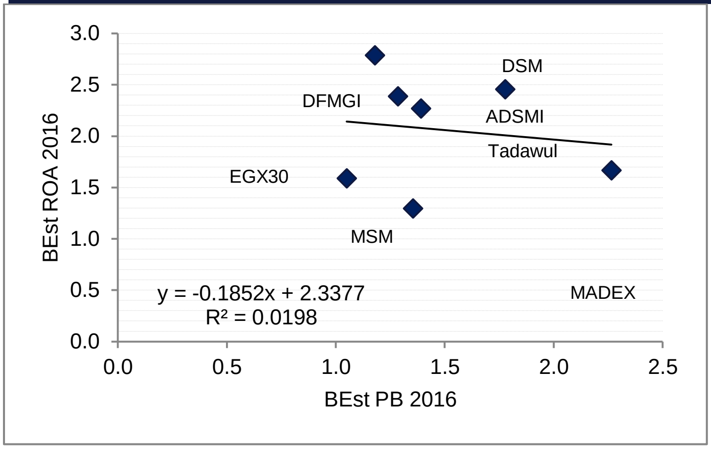
Major Equity Markets

MENA Equity Indices PE/ROE 2016E



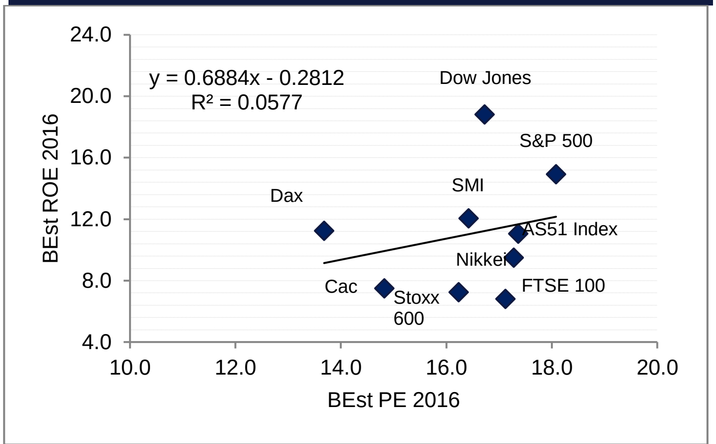
Source: Bloomberg, Emirates NBD Research

MENA Equity Indices PB/ROA 2016E



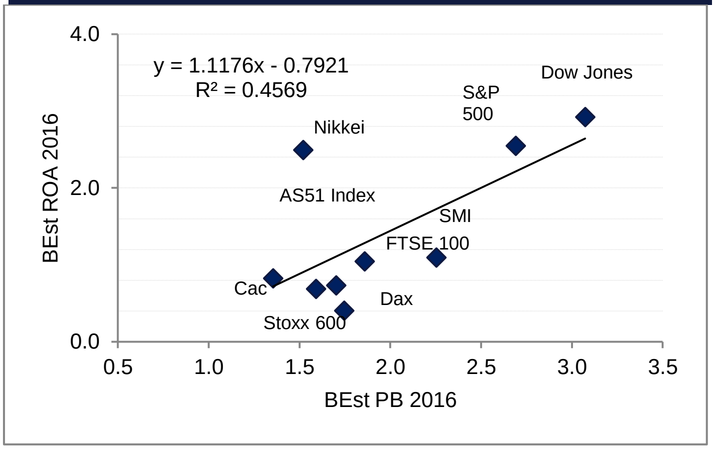
Source: Bloomberg, Emirates NBD Research

D. Market Equity Indices PE/ROE 2016E



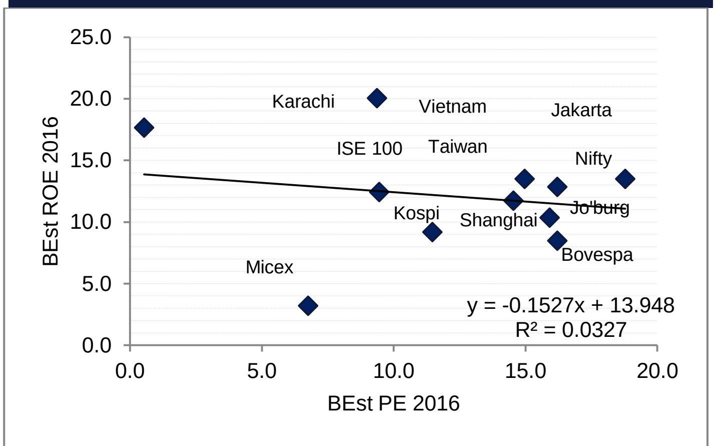
Source: Bloomberg, Emirates NBD Research

D. Market Equity Indices PB/ROA 2016E



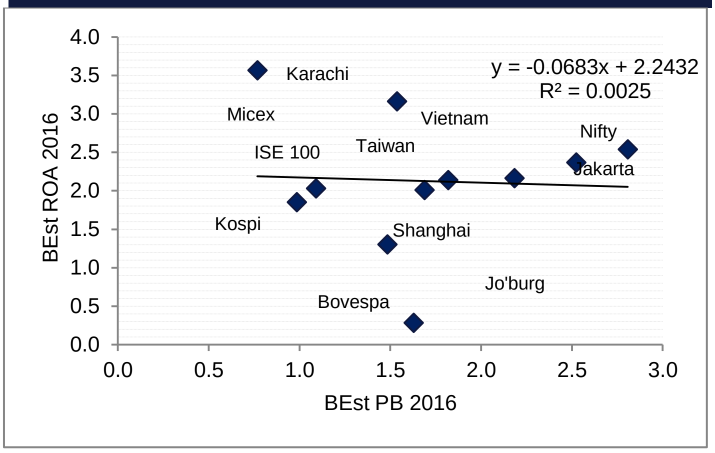
Source: Bloomberg, Emirates NBD Research

E. Market Equity Indices PE/ROE 2016E



Source: Bloomberg, Emirates NBD Research

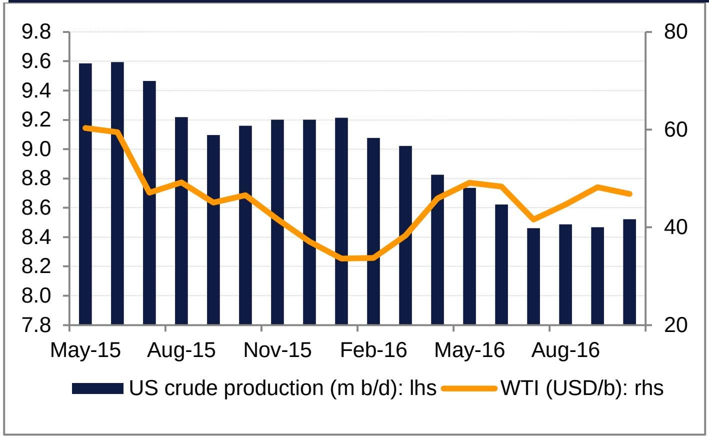
E. Market Equity Indices PB/ROA 2016E



Source: Bloomberg, Emirates NBD Research

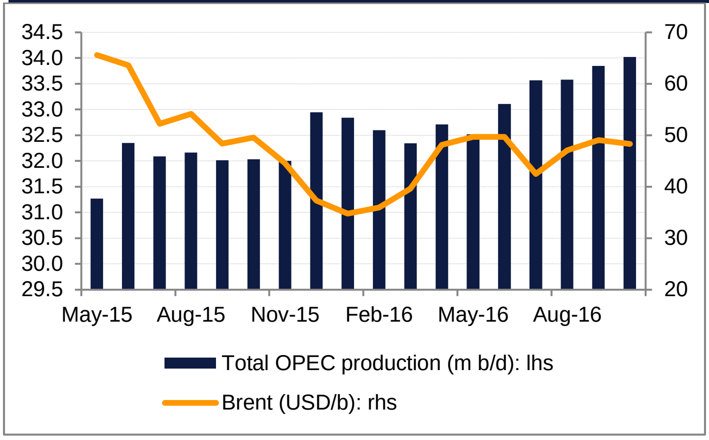
Major Commodities in Pictures

US oil production and price



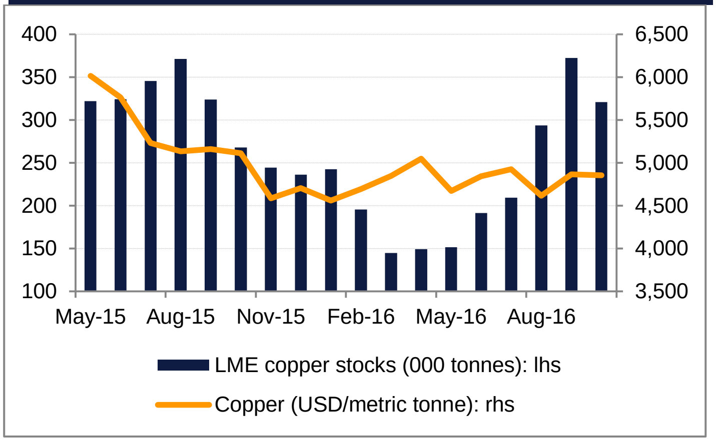
Source: Bloomberg, Emirates NBD Research

International oil production and price



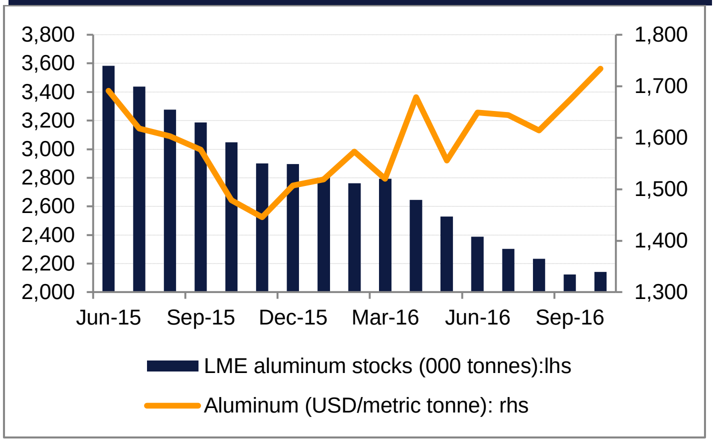
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



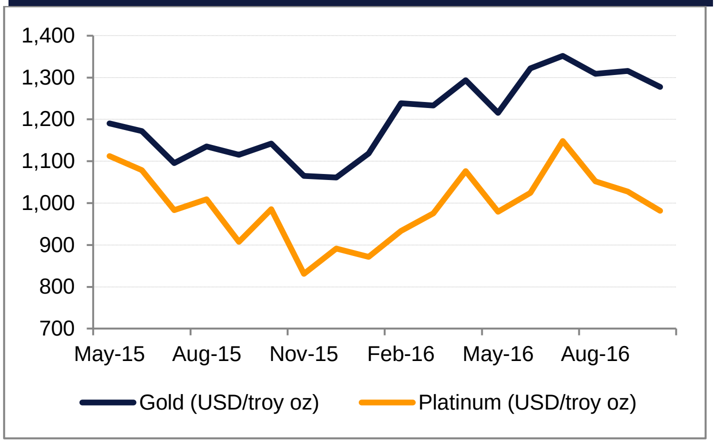
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



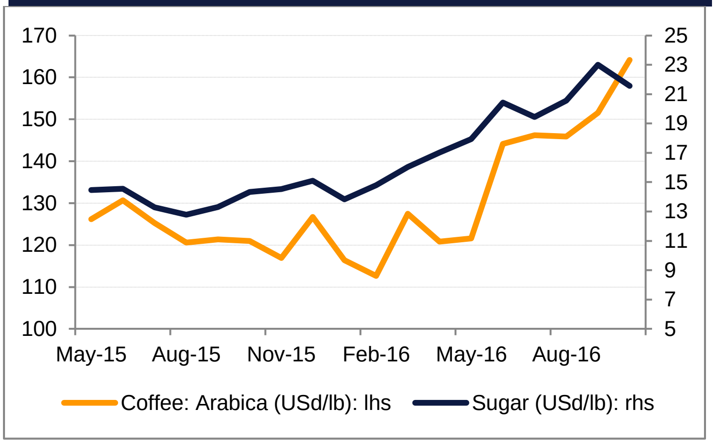
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2013	2014	2015	2016f	2017f
Nominal GDP $bn	388.9	402.2	370.5	373.3	412.7
Real GDP %	4.7	3.1	3.8	3.0	3.4
Current A/C % GDP	19.1	10.0	3.3	2.3	5.1
Budget Balance % GDP	10.4	5.0	-2.1	-3.4	-0.1
CPI %	1.1	2.3	4.1	2.5	3.5
Saudi Arabia					
Nominal GDP $bn	744.3	753.8	653.2	642.2	710.6
Real GDP %	2.7	3.6	3.4	1.4	1.8
Current A/C % GDP	18.0	10.0	-3.9	-6.7	-3.3
Budget Balance % GDP	6.5	-2.3	-14.8	-13.9	-7.9
CPI %	3.5	2.7	2.2	2.5	2.8
Qatar					
Nominal GDP $bn	201.9	210.1	166.5	166.9	195.5
Real GDP %	4.8	5.0	3.5	4.3	5.2
Current A/C % GDP	31.0	25.1	8.1	-1.1	0.0
Budget Balance % GDP	15.6	7.4	-4.8	-7.1	-6.9
CPI %	3.1	3.3	1.8	2.5	3.0
Kuwait					
Nominal GDP $bn	175.8	166.3	116.9	96.6	111.9
Real GDP %	1.1	0.5	1.8	2.7	3.0
Current A/C% GDP	39.5	32.3	7.3	-1.0	9.4
Budget Balance % GDP	25.9	7.4	-13.1	-17.3	-8.9
CPI %	2.7	2.9	3.3	3.5	3.5
Oman					
Nominal GDP $bn	78.8	80.9	69.7	71.4	79.6
Real GDP %	4.4	2.5	5.7	3.1	2.6
Current A/C % GDP	6.9	5.2	-15.5	-18.7	-10.9
Budget Balance % GDP	-0.3	-3.4	-17.2	-13.3	-8.7
CPI %	2.1	1.0	0.1	1.0	1.5
Bahrain					
Nominal GDP $bn	32.5	33.4	31.1	31.9	34.5
Real GDP %	5.4	4.4	2.9	2.6	3.5
Current A/C % GDP	7.9	3.4	-2.8	-5.0	-2.7
Budget Balance % GDP	-3.4	-3.6	-13.0	-16.0	-12.7
CPI %	3.3	2.7	1.9	3.5	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	483.4	491.6	434.1	430.5	474.8
Real GDP %	3.4	3.3	3.5	2.4	2.8
Current A/C % GDP	21.5	13.8	-0.2	-3.8	-0.1
Budget Balance % GDP	10.1	1.6	-10.2	-10.5	-5.9
CPI %	2.7	2.6	2.6	2.5	3.0

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2013	2014	2015	2016f	2017f
Nominal GDP $bn	281.9	301.4	330.7	340.6	263.7
Real GDP %	2.1	2.2	4.2	4.1	3.9
Current A/C % GDP	-2.4	-1.0	-3.9	-5.5	-4.4
Budget Balance % GDP	-13.67	-12.98	-12.53	-14.03	-10.35
CPI %	9.5	10.1	10.4	13.4	14.0
Jordan					
Nominal GDP $bn	29.6	31.5	33.1	33.9	35.6
Real GDP %	2.8	3.1	2.4	2.6	3.0
Current A/C % GDP	-11.9	-8.3	-10.5	-11.8	-11.1
Budget Balance % GDP	-6.3	-2.6	-3.9	-2.3	-1.8
CPI %	5.5	2.8	-0.9	0.0	2.0
Lebanon					
Nominal GDP $bn	47.2	49.6	54.3	59.7	66.5
Real GDP %	3.0	2.0	1.6	2.4	2.6
Current A/C % GDP	-25.2	-23.3	-15.0	-14.9	-14.7
Budget Balance % GDP	-8.9	-6.2	-7.4	-6.7	-7.0
CPI %	4.2	-8.0	-3.8	2.0	3.0
Tunisia					
Nominal GDP $bn	46.2	46.7	41.8	40.8	42.2
Real GDP %	3.0	2.9	0.5	1.3	2.5
Current A/C% GDP	-8.4	-9.1	-9.3	-8.4	-7.5
Budget Balance % GDP	-6.9	-5.0	-5.0	-6.8	-6.5
CPI %	6.1	5.5	4.9	3.5	5.0
Morocco					
Nominal GDP $bn	106.7	109.7	100.7	117.5	126.5
Real GDP %	4.5	2.6	4.5	0.2	4.7
Current A/C % GDP	-7.4	-5.7	-1.9	-2.2	-1.5
Budget Balance % GDP	-5.6	-5.2	-4.7	-4.2	-3.5
CPI %	1.8	0.4	1.6	3.0	3.0
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	281.9	201.3	223.5	229.9	174.0
Real GDP %	2.1	2.38	3.62	2.88	3.78
Current A/C % GDP	-6.6	-5.1	-5.4	-6.4	-5.7
Budget Balance % GDP	-10.6	-9.5	-9.6	-10.2	-7.4
CPI %	6.9	5.6	6.4	8.7	8.5

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2013	2014	2015	2016f	2017f
Nominal GDP $bn	209.7	213.5	184.3	183.8	188.1
Real GDP %	2.8	3.8	3.8	3.3	2.1
Current A/C % GDP	0.5	-4.3	-14.9	-14.5	-8.0
Budget Balance % GDP	-0.4	-7.3	-14.4	-12.8	-9.0
CPI %	4.1	3.9	4.4	6.5	5.0
Libya					
Nominal GDP $bn	65.8	41.3	38.2	40.7	45.9
Real GDP %	-52.1	-24.0	-12.1	9.2	10.2
Current A/C % GDP	24.6	-12.2	-8.5	-10.9	-13.1
Budget Balance % GDP	-7.8	-48.1	-21.4	-18.4	-16.4
CPI %	2.6	2.4	9.5	9.5	10.5
Iran					
Nominal GDP $bn	425.8	497.9	411.2	434.3	503.1
Real GDP %	4.3	4.1	1.5	4.6	5.4
Current A/C % GDP	3.7	1.8	3.1	4.1	4.2
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	11.0	13.0	11.0
Iraq					
Nominal GDP $bn	205.2	225.4	294.3	327.8	363.1
Real GDP %	5.6	-3.9	3.2	8.0	6.4
Current A/C% GDP	11.0	10.8	1.4	-2.6	-3.2
Budget Balance % GDP	-6.9	-6.0	-14.4	-13.6	-9.3
CPI %	1.9	3.0	1.2	1.0	4.5
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	299.7	353.8	313.7	336.0	383.9
Real GDP %	-2.8	1.1	3.1	4.3	5.0
Current A/C % GDP	6.7	2.9	-2.1	-2.7	-1.1
Budget Balance % GDP	-4.6	-7.1	-10.3	-10.1	-7.4
CPI %	19.1	9.7	6.5	7.7	7.8

Key Economic Forecasts - Global

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

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

FX Forecasts

	FX Forecasts - Major					Forwards		
	Spot 22.11	**1M**	**3M**	**6M**	**12M**	**3M**	**6M**	**12M**
EUR/USD	1.0657	1.0500	1.0200	1.0000	1.0000	1.0707	1.0753	1.0859
USD/JPY	110.65	110.00	112.00	115.00	120.00	110.14	109.66	108.59
USD/CHF	1.0077	1.0300	1.0500	1.1000	1.1000	1.0018	0.9960	0.9838
GBP/USD	1.2489	1.2200	1.1800	1.2500	1.3500	1.2518	1.2543	1.2599
AUD/USD	0.7412	0.7200	0.7000	0.6800	0.6500	0.7395	0.7380	0.7353
USD/CAD	1.3380	1.3500	1.3400	1.3200	1.3000	1.3367	1.3355	1.3327
EUR/GBP	0.8533	0.8607	0.8644	0.8000	0.7407	0.8553	0.8572	0.8619
EUR/JPY	117.91	115.50	112.20	112.00	115.00	117.91	117.91	117.91
EUR/CHF	1.0739	1.0815	1.0710	1.1000	1.1000	1.0726	1.0711	1.0682
NZD/USD	0.7080	0.7000	0.6700	0.6500	0.6700	0.7058	0.7039	0.6999
	FX Forecasts - Emerging					**Forwards**		
	Spot 22.11	**1M**	**3M**	**6M**	**12M**	**3M**	**6M**	**12M**
USD/SAR*	3.7508	3.7500	3.7500	3.7500	3.7500	3.7594	3.7703	3.8041
USD/AED*	3.6730	3.6700	3.6700	3.6700	3.6700	3.6751	3.6779	3.6871
USD/KWD	0.3047	0.2900	0.2900	0.2900	0.3000	0.3054	0.3074	-
USD/OMR*	0.3850	0.3800	0.3800	0.3800	0.3800	0.3860	0.3879	0.3940
USD/BHD*	0.3770	0.3760	0.3760	0.3760	0.3760	0.3777	0.3784	0.3804
USD/QAR*	3.6413	3.6400	3.6400	3.6400	3.6400	3.6492	3.6557	3.6702
USD/EGP	17.6021	16.0000	16.5000	17.0000	18.0000	17.8500	18.3000	18.8500
USD/INR	68.163	69.000	68.000	68.000	66.000	68.8800	69.6100	71.1200
USD/CNY	6.5753	6.6000	6.7000	6.8000	6.9000	6.9610	7.0110	7.0945

Data as of 22 November 2016
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.28	1.65	1.85	2.05	1.38	1.47	1.64
10y	2.13	2.45	2.60	2.80	2.16	2.20	2.28
2s10s (bp)	86	80	75	75	78	73	63
US Treasurys Forecasts							
2y	1.09	1.40	1.60	1.80			
10y	2.31	2.50	2.70	2.80			
2s10s (bp)	122	110	110	100			
3M Libor							
3m	0.92	1.10	1.30	1.50			
3M Eibor							
3m	1.38	1.65	1.85	2.05			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED	0.25-0.50	0.75	1.00	1.25			
ECB	0.00	0.00	0.00	0.00			
BoE	0.25	0.25	0.25	0.25			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-1.00	-1.00			
RBA	1.50	1.50	1.25	1.25			
RBI (repo)	6.25	6.25	6.00	5.75			
SAMA (r repo)	0.50	0.75	1.00	1.25			
UAE (1W repo)	1.00	1.25	1.50	1.75			
CBK (dis. rate)	0.75	1.00	1.25	1.50			
QCB (o/n depo)	0.75	1.00	1.25	1.50			
CBB (1W depo)	0.50	0.75	1.00	1.25			
CBO (o/n repo)	1.00	1.25	1.50	1.75			

Data as of 23 November 2016

Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Current	2016Q1	q2	q3	q4	2017q1	2016 avg
Energy							
Crude oil: WTI (USD/b)	47.89	33.45	45.49	44.94	48.00	50.00	43.00
Crude oil: Brent (USD/b)	48.98	35.08	46.97	46.98	50.00	52.50	44.76
Crude oil: OPEC Reference	44.34	29.96	42.30	42.89	48.50	50.44	40.91
Precious metals							
Gold (USD/t oz)	1,213.73	1,181.10	1,258.26	1,334.95	1,290.00	1,275.00	1,266.08
Platinum (USD/t oz)	945.00	915.61	1,004.40	1,087.95	950.00	950.00	989.49
Base metals							
Aluminum (USD/metric tonne)	1,760.00	1,514.73	1,582.57	1,633.01	1,650.00	1,685.00	1,595
Copper (USD/metric tonne)	5,613.00	4,666.19	4,728.35	4,794.42	5,000.00	5,000.00	4,797

Prices as of 23 November 2016. Note: prices are quarterly average 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	19,024	6,752	4.9	9.2	77	17.4	3.2	2.5
S&P 500 Index	2,203	36,915	3.6	7.8	69	18.5	2.8	2.1
Nasdaq Composite Index	5,386	20,383	3.8	7.6	66	22.4	3.5	1.2
FTSE100 Index	6,820	6,627	-1.9	9.2	50	16.5	1.7	4.2
DAX Index	10,714	3,552	0.5	-0.3	69	13.3	1.6	3.1
CAC 40 Index	4,548	3,585	0.9	-1.9	63	14.6	1.3	3.7
Swiss Market Index	7,742	3,086	-1.1	-12.2	55	16.6	2.2	3.8
Nikkei Index	18,163	13,389	4.2	-4.6	82	18.3	1.6	1.8
S&P/ASX 200 Index	5,413	3,476	3.1	3.6	48	16.2	1.8	4.4
Stoxx Europe 600 Index	341	28,502	0.6	-6.8	57	15.7	1.7	3.7
Dubai Financial Market General Index	3,291	114	-1.4	4.3	42	11.0	1.2	4.6
Abu Dhabi Sec Market General Index	4,219	56	-2.0	-2.2	48	11.1	1.4	5.4
Tadawul All Share Index	6,602	1,084	9.8	-4.5	43	14.0	1.5	3.5
Istanbul SE National 100 Index	75,812	1,101	-3.5	5.7	46	9.0	1.0	3.3
Egyptian Exchange Index	11,520	82	37.4	64.4	97	14.9	1.9	2.1
Kuwait Stock Exchange Index	5,515	50	2.2	-1.7	47	-	-	-
Bahrain Bourse All Share Index	1,184	1	3.1	-2.6	-	-	-	-
Muscat Securities Index	5,521	6	0.7	2.1	37	8.6	1.1	6.5
Qatar Exchange Index	9,741	50	-4.2	-6.6	15	12.3	1.7	4.1
MADEX Free Float Index	8,693	11	0.5	19.8	71	17.8	2.4	3.8
Hong Kong Hang Seng Index	22,678	3,163	-1.0	3.6	66	12.6	1.2	3.5
Shanghai Composite Index	3,248	33,637	4.7	-8.3	87	15.4	1.6	1.8
Korea Stock Exchange Index	1,983	3,708	-0.9	1.4	35	11.4	1.0	1.7
BSE Sensex	25,961	98	-6.8	-0.3	47	17.8	2.6	1.7
Nifty	8,002	1,398	-7.0	1.0	37	17.8	2.5	1.6
Karachi Stock Exchange Index	42,632	100	7.0	30.0	89	9.7	1.7	5.2
Taiwan SE Weighted Index	9,133	1,988	-1.2	10.1	52	14.7	1.7	3.9
Bovespa Brasil Sao Paulo SE Index	61,954	2,270	-4.6	42.9	72	16.1	1.5	2.5
Micex Index	2,066	472	3.8	17.3	70	6.9	0.8	4.5
FTSE/JSE Africa All Share Index	51,118	1,481	1.0	0.8	58	15.8	1.8	3.1
Vietnam Ho Chi Minh Stock Index	682	82	1.1	18.0	55	15.7	2.1	2.6
Jakarta SE Composite Index	5,205	442	-4.2	13.1	53	17.1	2.3	1.9
FTSE Bursa Malaysia KLCI Index	1,629	229	-2.9	-4.0	50	16.3	1.6	3.2
Mexican Stock Exchange	44,869	530	-6.5	4.4	29	19.8	2.4	2.1

Prices as of 22 November 2016
Source: Bloomberg, Emirates NBD Research

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