Monthly Insights

25 November 2020

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Highlights

Global macro: The rapid-fire succession of positive news with regards to Covid-19 vaccine trials in recent weeks has instilled a sense of optimism into global markets not seen in months. Nevertheless, the next several months will remain difficult, and policy missteps could slow the 2021 recovery.

GCC macro: Positive news on Covid-19 vaccines suggests there is light at the end of the covid tunnel. However, we expect the recovery in the GCC next year to be slow and uneven.

MENA macro: Oil production curbs and the Covid-19 pandemic have weighed heavily on the Iraqi economy in 2020, and we project a contraction of -12.5% this year. Looking ahead to 2021 we anticipate a return to growth, but output will remain substantially lower than it was in 2019 still, as a potential extension of OPEC+ mandated oil production curbs and a lingering pandemic fallout weighs on the recovery. We forecast a 3.4% expansion next year.

Currencies: The US election has dominated the FX landscape in the last few weeks. With that now behind us policy developments in the UK and EU will set the scene for a weaker USD as we head into 2021.

Financial Markets: US treasury markets have now absorbed the impact of Joe Biden becoming president-elect and several successful Covid-19 vaccine candidates. As yields have pushed upward we think there are still some strong forces ahead that will prevent them from popping too much higher.

Commodities: OPEC+ faces a challenging final meeting of the year as oil demand conditions remain soft and members begin to chafe at perpetual production restrictions.

Sector report: Dubai's real estate market had an interesting year in 2020 as enthusiasm for Expo 2020 supported market dynamics in Q1, before Covid-19 lockdowns in Q2 ground much of the activity in the market to a halt. Activity has picked up in Q3, however Covid-19 has changed the dynamics.

This will be the last Monthly Insights for 2020. We wish all our readers well over the festive season.

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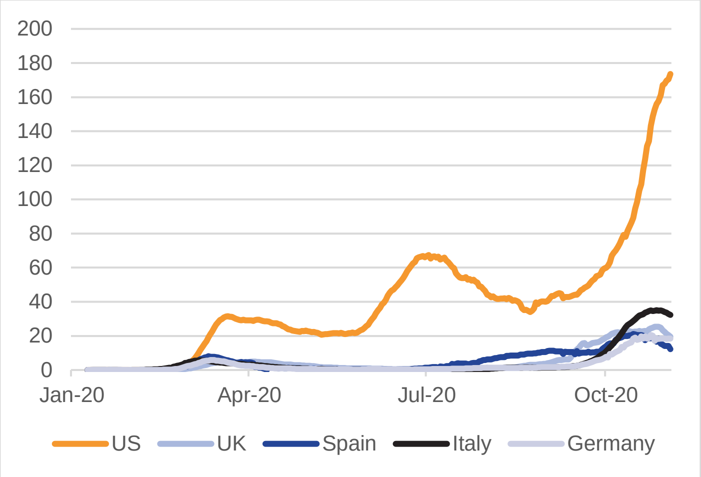
Global Macro

The rapid-fire succession of positive news with regards to Covid-19 vaccine trials in recent weeks has instilled a sense of optimism into global markets not seen in months. Bolstered by the US election results at the start of November – which have been taken as broadly positive for corporates – equity indices around the world have taken a leg higher as the belief that a return to normality is coming in 2021 strengthens. However, the latest high-frequency data from developed markets underscores the fact that the next several months will remain highly challenging for policymakers as they look to balance the needs of the ongoing health crisis with that of supporting the economy, and these present challenges could extend well into 2021.

New Covid-19 cases (7-dma '000)



Source: Bloomberg, Emirates NBD Research

Even once the pandemic recedes, the risk of 'pandemic hangovers' is stark as permanent job losses rise and businesses and governments become increasingly wary of spending, as highlighted by Bank of England (BoE) policymaker Michael Saunders in November. The outlook is certainly brighter than it was last month, but the path will remain especially difficult over the next several quarters, and the strength of the recovery thereafter will in large part depend on the policy response. Central banks remain committed to extensive quantitative easing programmes, but the outlook for fiscal support is more uncertain.

Positive news, but rollout will take time

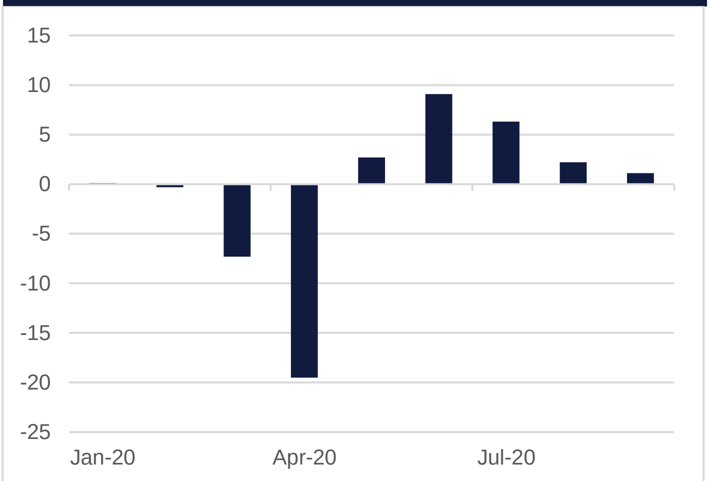
Starting with the November 9 announcement by Pfizer and BioNTech that their in-development Covid-19 vaccine had been over 90% effective in trials, we have subsequently seen similarly positive test results from Moderna and AstraZeneca also. This has enabled the public, policymakers, and investors to look with hope towards a post-pandemic future next year.

While these vaccines have testing stages yet to complete, and have not yet been approved by the appropriate bodies, the expectation is that this will follow rapidly. However, the production and distribution of such large quantities of vaccines as will be needed to successfully inoculate the world at large will take time, and will be uneven. The major developed markets have secured millions of vaccines from various sources, but poorer emerging economies may struggle to secure sufficient doses, as was focused on at the virtual November G20 summit chaired from Riyadh. The pandemic highlighted in the first place the hyper-connectivity of the global economy, and if weak country links remain, so too will the risks to the global recovery. Even within countries there will be difficult decisions as to whether to vaccinate the elderly and infirm first, or those younger citizens who are generally less susceptible to the virus but have more social interactions and are more productive. Mass rollout is not expected to begin for several months yet in any case.

Recovery has already slowed

In the meantime, the winter coronavirus surge has fulfilled many of the more pessimistic projections about a second (and in some cases third) wave made earlier in the year as new cases have been hitting new daily highs, and the third quarter economic rebound is set to give way to a fourth quarter contraction in many countries as they have been forced to reimpose a variety of restrictions on activity. Even in Q3 the slowdown in the UK's economic recovery was apparent, as despite the third quarter expanding by 15.5% q/q, the m/m growth in September had slowed to just 1.1%, compared to 2.2% in August and 6.3% in July. Since then, a blanket closure of non-essential retail and hospitality has been imposed in England. Similar moves have been seen across Europe, and while political considerations will prevent a nationwide shutdown in the US, the speed of the recent rise in cases has seen new restrictions imposed over the past several weeks in a number of states including California, Michigan, New Mexico and Washington.

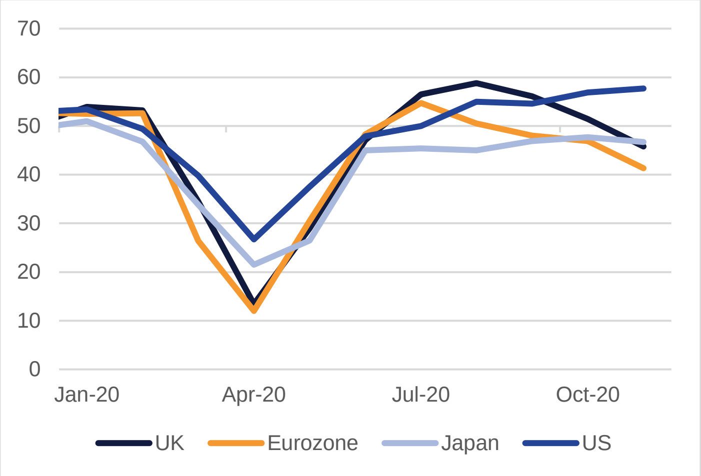
UK real GDP growth (% m/m) has already slowed



Source: Bloomberg, Emirates NBD Research

The effect of this has already been seen in the November PMI surveys for the UK and the Eurozone. In the UK, the services PMI fell to a six-month low of 45.8 as hospitality venues were closed, although manufacturing did manage to pick up from the previous month. In the single currency bloc, meanwhile, the headline PMI figure fell from a neutral 50.0 level in October to just 45.1, with services again the major underperformer in countries there. The US fared better, as its headline reading actually rose from 56.3 in October to 57.9, but with increasing numbers of states imposing restrictions there the likelihood is that this advantage over Europe will fade in the next survey. US retail sector data released a week earlier showed how consumer demand growth has already weakened there as the expansion fell to a six-month low of just 0.3%. In Japan, the PMI has yet to exceed 50 again since the pandemic began, and fell to 47.0 in November, from 48.0 the previous month. While the second wave will dissipate, until the vaccine has become widespread the risk of further lockdowns will remain to the fore, with further potential dips in output.

Services PMI indices face downwards pressure



Source: IMF, Emirates NBD Research

Permanent economic scarring remains a risk

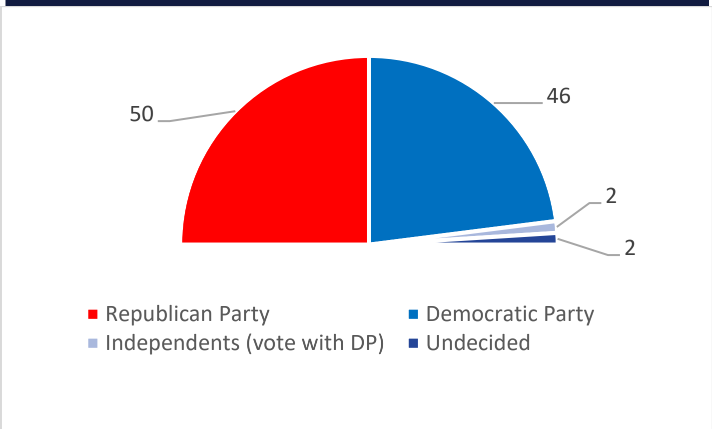
Although the light at the end of the tunnel is certainly far brighter than it was just a month ago, these rising cases, associated lockdowns and already apparent slowdown in developed market economies could see some of the present optimism moderate as we wait for mass vaccine rollouts, especially as the residual current pressures increase the risk of permanent scarring of the economy. While headline jobless numbers in the US have fallen dramatically since the peak of the crisis (U-3 has gone from 14.7% in March to 6.9% in October), the number of permanent job losses has been steadily rising, ticking up to 2.2% in October, from 1.5% in September.

Extended furlough schemes in Europe have kept the headline unemployment figure comparatively low and consumers spending, but as these come to an end in 2021 many businesses may find themselves forced to lay off staff if demand remains weak and corporate risk aversion mounts. Net savings have increased in Western economies, supporting greater consumption ahead, but this has been driven by the wealthy, while many at the more vulnerable end of the spectrum have seen their financial buffers eroded. As such, a too-hasty removal of support could jeopardise lower-income household spending given that the prospect of additional fiscal stimulus in the West is lower than seen earlier in 2020.

In the US, the election results had fairly nuanced implications for further stimulus, but it is likely to be far less than had been proposed by the Democratic Party prior to the vote. Democratic candidate Joe Biden did win the popular and electoral college vote, but the anticipated blue wave did not materialise, meaning that the Senate is likely to (just) remain in Republican Party hands, pending the results of the Georgia re-runs. Even were the Democrats to win both of those seats and secure the deciding vote through Vice President Kamala Harris, their knife-edge majority would not be filibuster-proof, and would not be sufficient to push through any bold spending plans associated with green infrastructure projects or minimum wage pledges.

In the Eurozone, recalcitrance by Poland and Hungary over the rule of law issue has held back the EU's budget, and the trumpeted EUR 750bn coordinated Covid-19 recovery fund. The UK has extended its near-term support for those affected by the virus, but big government is anathema to many in the cabinet, and the chancellor of the exchequer's November pledge to freeze public sector wages has led to speculation that this heralds a return to the post-GFC austerity policies that arguably held back the economic recovery from the last crisis.

Senate remains on a knife-edge



Source: IMF, Emirates NBD Research

Greater stimulus appears more likely in the East, not least in Japan where new Prime Minister Yoshihide Sugo has embraced his predecessor's stimulatory Abenomics and has instructed his government to draw up plans for another stimulus package as the recovery there has slowed. This third package since the crisis began is likely to be worth at least USD 95bn, in addition to the total stimulus of USD 2.2tn already seen this year. The post-recession lost decade of the 1990s perhaps looms larger in the minds of Japanese policymakers than any such prospect does for Western governments concerned more at present with a rapid rise in public debt levels. China has also intimated that it will expand its fiscal stimulus, with more of its usual remedy of counter-cyclical infrastructure spending. Whichever policy wins out, the immediate post-Covid global economy will be a weaker one than seen at the start of 2020.

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Key Economic Forecasts – Global

US	2015	2016	2017	2018	2019	2020f	2021f
Real GDP %	2.9	1.6	2.4	2.9	2.3	-3.8	3.6
Current A/C % GDP	-2.2	-2.1	-1.9	-2.2	-2.2	-2.5	-2.5
Budget Balance % GDP	-2.6	-3.1	-3.4	-4.2	-4.7	-16.0	-10.0
CPI %	0.1	1.3	2.1	2.5	1.8	1.2	1.8
Eurozone							
Real GDP %	2.1	1.9	2.5	1.9	1.3	-8.0	4.5
Current A/C % GDP	2.8	3.3	3.2	3.1	2.7	2.3	2.4
Budget Balance % GDP	-2.0	-1.4	-0.9	-0.5	-0.6	-9.6	-5.7
CPI %	0.2	0.2	1.5	1.8	1.2	0.3	0.9
UK							
Real GDP %	2.4	1.9	1.9	1.3	1.5	-11.0	4.8
Current A/C% GDP	-4.9	-5.2	-3.5	-3.9	-4.3	-3.4	-3.5
Budget Balance % GDP	-4.5	-3.3	-2.5	-2.2	-2.1	-13.6	-7.2
CPI %	0.0	0.7	2.7	2.5	1.8	0.9	1.5
Japan							
Real GDP %	1.3	0.5	2.2	0.3	0.7	-5.4	2.5
Current A/C % GDP	3.1	4.0	4.1	3.5	3.5	2.8	3.1
Budget Balance % GDP	-3.6	-3.5	-2.9	-2.3	-2.6	-12.5	-7.5
CPI %	0.8	-0.1	0.5	1.0	0.5	0.0	0.1
China							
Real GDP %	7.0	6.8	6.9	6.7	6.1	2.1	7.0
Current A/C % GDP	2.8	1.8	1.6	0.4	1.2	1.3	0.8
Budget Balance %GDP	-3.4	-3.8	-3.7	-4.1	-4.9	-6.7	-5.8
CPI%	1.4	2.0	1.6	2.1	2.9	2.7	2.2
India*							
Real GDP%	7.4	8.0	8.3	7.0	6.1	4.2	-9.0
Current A/C% GDP	-1.1	-0.6	-1.5	-2.4	-0.9	-1.0	0.4
Budget Balance % GDP	-3.5	-3.6	-3.9	-3.6	-3.5	-4.6	-8.0
CPI %	4.9	5.0	3.3	4.0	3.7	4.8	5.8

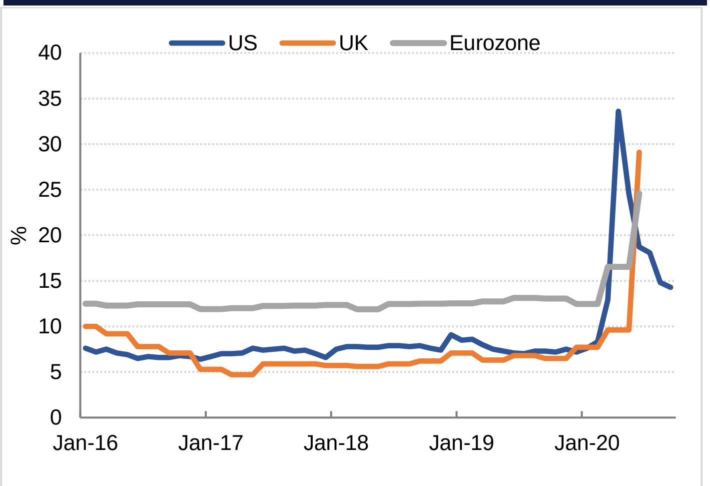
Source: Bloomberg, Emirates NBD Research
**For India the data refers to fiscal year (April – March)*

GCC Macro

Recent news that potentially three Covid-19 vaccines may be approved for emergency distribution by the end of the year suggests that there is some light at the end of the covid tunnel, despite the acceleration in the spread of the virus across the US and other parts of the world over the last few weeks. While estimates for Q4 GDP in the Eurozone, the UK and the US have been revised lower following the tightening of restrictions on movement and activity in October and November, there is arguably some upside risk to next year's growth forecasts as vaccines are expected to be rolled out for general use in Q1 2021.

While there are still risks to the outlook – not least from a lack of additional fiscal stimulus in the near term – the data suggests that overall, consumers in the larger developed economies are in a relatively good position to boost spending as restrictions are eased with the rollout of a vaccine, particularly when compared to their situation post-2009. To a large extent, this is due to the exceptional support from governments in the form of furlough schemes, extra unemployment benefits and direct payments to households and businesses in Q2 and Q3 2020. Record low interest rates have also eased debt financing costs for many households, contributing to a sharp rise in personal savings rates, which in turn provides scope for consumption to rebound next year as restrictions on activity are eased and employment recovers.

Household savings rates



Source: Bloomberg, Emirates NBD Research

In the GCC however, we expect the recovery from this year's recession to be slower and more uneven. The main reason is that government support during the pandemic was largely focused on liquidity provision through the central banks, rather than direct fiscal stimulus from governments to households and businesses. In the UAE, direct fiscal measures announced amounted to around 2% of GDP and these measures were largely focused on reducing costs for businesses by slashing fees, reducing rents and cancelling penalties rather than new spending by government or direct support for households to offset lost income.

Indeed, preliminary budget data show that government current spending in the UAE and Saudi Arabia declined y/y in Q2 2020 (and indeed for H1 2020). While Saudi Arabia did boost spending in Q3 2020, cumulative spending in the year to September was still -3.4% lower than in the same period in 2019. In contrast, US government spending rose 50% y/y in Q2 2020, before falling back slightly in Q3, although it remains more than 30% higher y/y. We recognize that governments in the oil producing GCC were constrained in their ability to provide additional fiscal support by the sharp decline in oil revenues as a result of the pandemic, and the fact that there is largely a "tax free" regime in place which makes it a very different model to most other economies where government revenue is largely derived from taxes. Nevertheless, the result is that many private sector businesses have restructured and reduced staffing levels, while households have been more cautious in spending even as economies re-opened over the summer.

Looking ahead, with only a modest rebound in oil prices expected in 2021 – we expect Brent oil to average USD 50/b in 2021, well below the budget break-even price in GCC countries - most governments in the region will likely prioritise deficit reduction over growth next year. Saudi Arabia has already hiked VAT to 15% from 5% previously, and increased customs duties on a range of goods, including food items. This has led to inflation accelerating to 6.1% y/y in July when the tax increases came into effect, before easing to 5.8% in October. We expect inflation to continue to fall back as the one-off tax hikes are now in the base, but higher prices will likely continue to weigh on household consumption and private sector investment in the coming months.

Oman has also proposed a series of new measures to boost revenue and reduce budget spending, although it remains to be seen whether a new income tax will be approved for 2022. In the meantime, VAT will come into effect next year and the government has already taken steps to reduce the public sector wage bill. Bahrain's new prime minister will likely also need to do more to bring the budget deficit down from an estimated -11.1% GDP this year.

The UAE is the only country in the region where we think there is room to pursue a more expansionary fiscal policy over the next couple of years in order to boost growth, even if it means running a wider budget deficit. Historically however the authorities have been prudent, and it is unclear if there is appetite for increased spending when oil prices are likely to remain relatively low. Instead, the government has announced a number of new structural reforms to make ~~life easier for expatriate residents and attract private~~ sector investment, including changes to personal and family laws, expanding the 10-year "golden visa" initiative to a wider group of professionals and allowing 100% foreign ownership for onshore companies in some sectors.

In the absence of more aggressive fiscal stimulus, the region's recovery will to a large extent be driven by the improving external environment, with a recovery in global trade and travel likely to be a key driver for the UAE in particular. This in turn depends on how quickly the new Covid-19 vaccines can be produced at scale, delivered and administered around the world.

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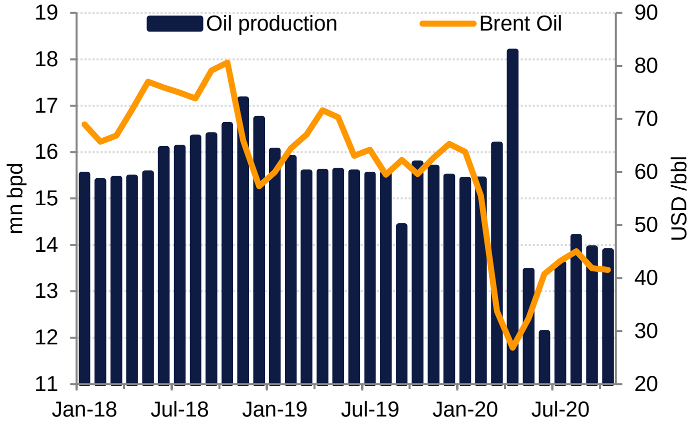
GCC in Pictures

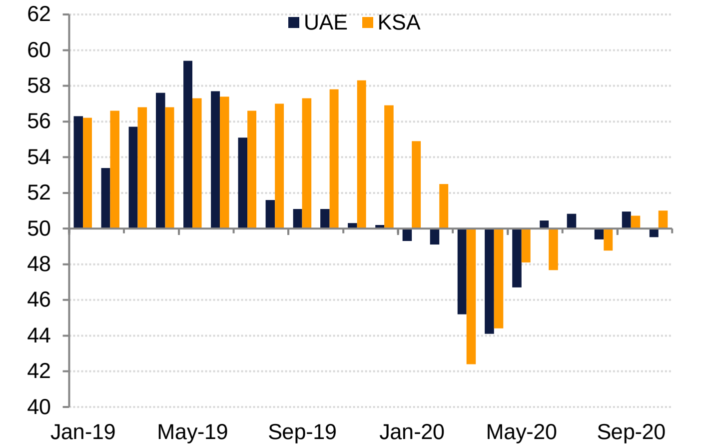
GCC Oil Production and Oil Price



Excludes Qatar, Bahrain and Oman

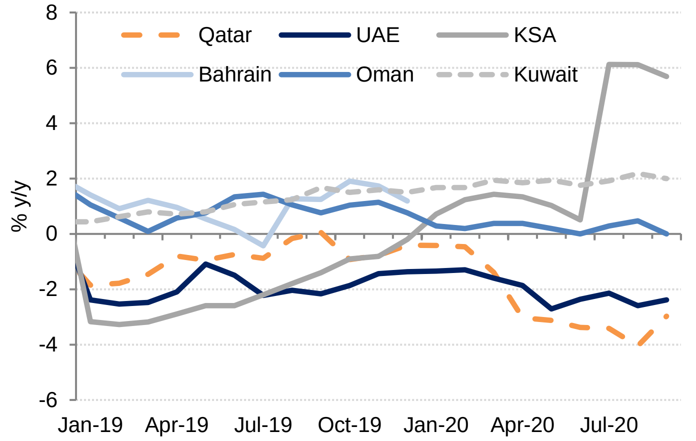
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



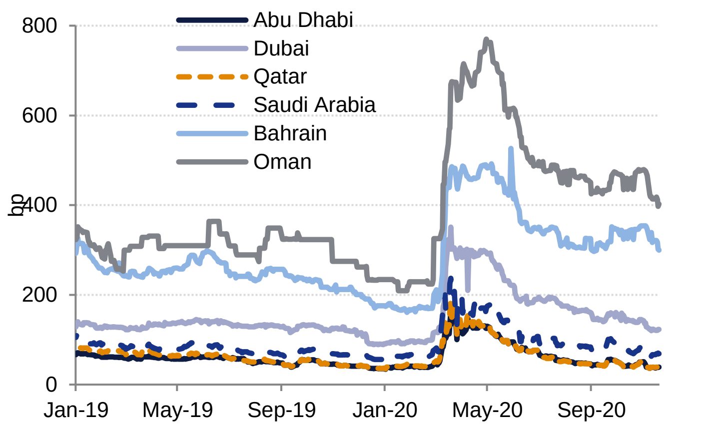
Source: IHS Markit, Emirates NBD Research

Inflation



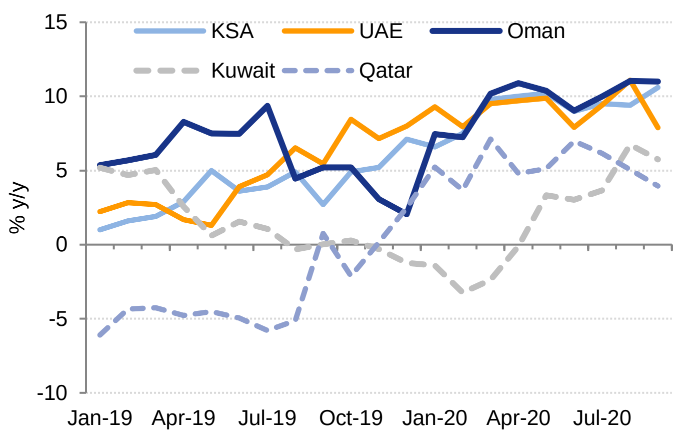
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



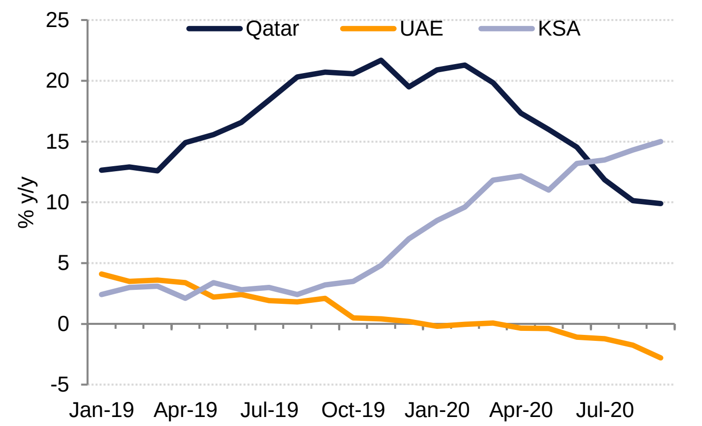
Source: Bloomberg

Money supply (ex government. deposits)



Source: Haver Analytics, Emirates NBD Research

Private sector credit*



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

Key Economic Forecasts - GCC

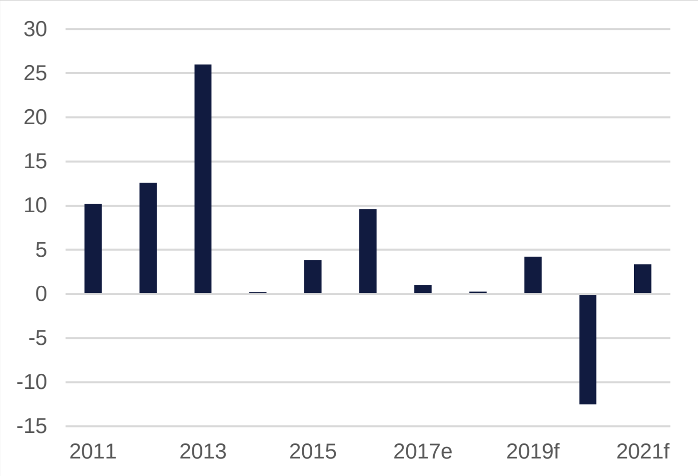
United Arab Emirates	2017	2018	2019e	2020f	2021f
Nominal GDP $bn	385.9	422.5	421.4	360.3	382.0
Real GDP %	2.4	1.2	1.7	-6.9	1.9
Current A/C % GDP	7.1	9.6	7.0	1.4	4.1
Budget Balance % GDP	-0.2	5.8	5.5	-6.9	-4.8
CPI %	2.0	3.1	-1.9	-2.0	0.0
Saudi Arabia					
Nominal GDP $bn	688.6	786.5	793.0	684.0	744.2
Real GDP %	-0.7	2.4	0.3	-5.2	3.3
Current A/C % GDP	1.5	9.0	6.3	-3.3	0.3
Budget Balance % GDP	-9.2	-5.9	-4.5	-13.9	-7.1
CPI %	-0.8	2.5	-1.2	3.5	2.0
Qatar					
Nominal GDP $bn	166.9	191.4	183.5	148.1	177.5
Real GDP %	1.6	1.5	-0.2	-4.0	2.6
Current A/C % GDP	3.8	8.7	2.3	-5.1	-1.0
Budget Balance % GDP	-6.6	2.2	0.9	-10.5	-5.1
CPI %	0.3	0.1	-0.9	-2.1	1.0
Kuwait					
Nominal GDP $bn	120.7	140.6	134.6	107.0	115.6
Real GDP %	-4.7	1.2	0.4	-7.4	2.0
Current A/C% GDP	8.0	14.1	16.4	-7.4	-1.9
Budget Balance % GDP	-8.9	-3.0	-13.8	-30.8	-20.8
CPI %	1.6	0.6	1.1	2.3	1.5
Oman					
Nominal GDP $bn	70.5	79.7	76.2	66.0	69.0
Real GDP %	0.3	0.9	-0.8	-4.4	1.4
Current A/C % GDP	-15.6	-5.4	-5.4	-20.4	-14.5
Budget Balance % GDP	-13.9	-8.7	-9.1	-15.4	-11.7
CPI %	1.6	0.9	0.1	0.0	1.0
Bahrain					
Nominal GDP $bn	35.5	37.7	38.6	35.9	38.4
Real GDP %	4.3	1.8	1.8	-5.0	3.2
Current A/C % GDP	-4.1	-6.5	-2.1	-8.5	-5.0
Budget Balance % GDP	-10.0	-6.3	-4.7	-11.1	-7.8
CPI %	1.4	2.1	1.0	-2.0	1.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	458	519	525	454	492
Real GDP %	0.2	1.8	0.6	-5.6	2.7
Current A/C % GDP	8.2	16.4	11.9	-2.6	3.0
Budget Balance % GDP	-6.8	-1.9	-2.3	-13.0	-7.6
CPI %	0.1	2.4	-0.5	1.6	1.9

Source: Haver Analytics, National sources, Emirates NBD Research

MENA Macro: Iraq

Oil production curbs and the impact of the Covid-19 pandemic have weighed heavily on the Iraqi economy in 2020, and we project a contraction of -12.5% this year. Looking ahead to 2021 we anticipate a return to growth, but output will remain substantially lower than it was in 2019 still, as a potential extension of OPEC+ mandated oil production curbs and a lingering pandemic fallout weighs on the recovery. As such we have made a substantial downward revision to our 2021 growth forecast, now envisaging growth of just 3.4% compared to our previous expectation of 5.9%.

Real GDP growth, % y/y



Source: UN, Emirates NBD Research

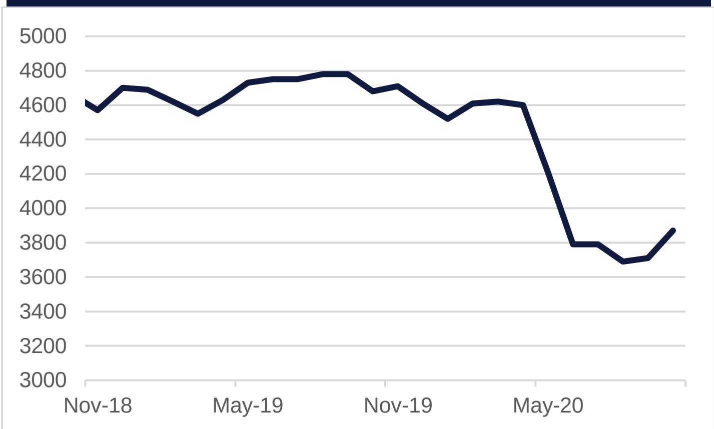
Growth will likely remain lower than previous expectations over the medium term also as the government looks to shore up its finances in the lower oil price environment. While developed market governments have throughout the pandemic crisis boosted quantitative easing through supportive central banks, emerging markets do not all have the same options available, especially without jeopardising currency pegs or risking upwards inflation. Iraq's fiscal position has weakened substantially this year, and while there is political pushback, some measure of austerity seems likely over the next several years.

Oil will weigh heavily on growth

The oil industry remains the predominant economic sector in Iraq, accounting for some two thirds of GDP, and the source of over 90% of state revenues. As such, the economy has been hit in both real and financial terms this year, as Iraq – along with other oil producers in the region – has been cutting production, without managing to enjoy the success of this policy boosting prices to any significant degree – much less to levels that would balance budgets. In the second quarter, the Iraqi economy contracted by -11.5% y/y in GVA terms as the oil sector declined by -10.5%, and these pressures will have if anything been even more acute in the second half of the year as deeper production cuts have been implemented.

While Iraq missed some of its OPEC+ oil production cuts earlier in 2020, it subsequently pledged to make up for this, and over June to October, output has averaged just 3.8mn b/d. This is substantially lower than the 4.5mn b/d averaged over January to May, and the 4.7mn b/d averaged in 2019. We envisage that production over the year as a whole will be -14.0% lower than in 2019, contributing to our expectation of a -12.5% contraction in GDP. In 2021, our assumption presently is that production will be broadly flat, enabling a return to headline growth driven by a partial recovery in the non-oil sector as pandemic related restrictions fade. However, should OPEC+ look to extend production cuts further into 2021 as is being mooted, this would pose substantial downside risk to our projections. A three-month extension would result in a y/y production decline of -1.5% in 2021, while a six-month extension would see production fall -3.0% y/y. Producer countries' willingness to absorb these continued production curbs is being tested, and there have been reports that Iraq, along with the UAE and Kuwait, are starting to push back against this scenario.

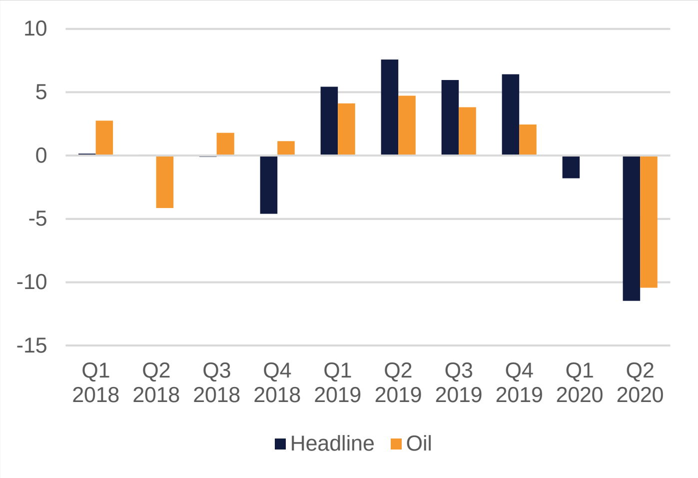
Oil production, b/d '000



Source: Bloomberg, Emirates NBD Research

It is not only through the oil sector itself that these production curbs weigh on the real economy – given that oil proceeds account for the vast majority of government revenues, the low prices and lower output have impacted this, with subsequent implications for government spending, and private consumption. The IMF estimates that Iraq's breakeven oil price in 2020 was USD 60.4/b, but Brent has so far averaged just USD 42.4/b. Combined with lower output, this leads us to project that Iraq's fiscal deficit will widen from -1.1% of GDP in 2019 to -20.3% this year. While we do anticipate an improvement next year, this will likely stall at around -15% of GDP. Already in 2020, these budget constraints have led to delays to public sector employees' salary disbursement on two separate occasions, and finances will remain similarly tight next year as the government looks to contain the expansion in public debt. In late November it was reported that Iraq's acute shortage of funds had led it to seek an up-front payment of USD 2bn for a long-term crude contract.

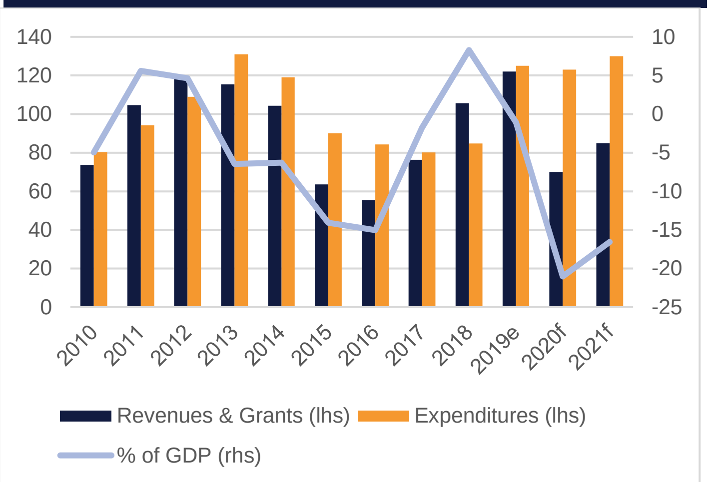
Real GDP, % y/y



Source: Haver Analytics, Emirates NBD Research

Aside from the oil sector and public sector employees, the hospitality and retail sectors are also struggling, both as a by-product of the crunch in the first two resulting in constrained household spending, and by specific restrictions and changes to behaviour patterns brought on by the pandemic. Wholesale and retail trade and hotels was down -12.2% y/y in Q2, and while an easing of restrictions should have seen this improve in the months since, the lower household spending power, through job losses and salary cuts, will preclude a return to 2019 levels of demand. The World Bank concluded in a study published in November that as many as 5.5mn Iraqis could fall into poverty due to the crises of 2020, in addition to the existing pre-crisis poor of 6.9mn. That would represent over a quarter of the total population of some 40mn people.

Iraq's fiscal position. IQD tn



Source: Haver Analytics, Emirates NBD Research

In this environment, the challenge to technocratic Prime Minister Mustafa al-Kadhimi to ensure that Iraq's 2020 oil/Covid-19 recession does not inflict lasting scars that hold back the recovery over the years to come will be immense. Maintaining social cohesion will also be difficult, and there remains the risk that the mounting pressures see people resume the wide street protests that brought al-Kadhimi to power in the first place last year. There have already been instances of protests in Iraq earlier in 2020. The need to diversify the economy away from its over-reliance on oil has never been so stark, but nor has the pathway to do so often been so fraught.

Oil prices are unlikely to return to the highs of the recent past, but the government will need to navigate a way out of this that does not overly threaten social stability. Already we have seen pledges to slash expenditure on the public sector wage roll and pension costs by half as a proportion of GDP over the next three years which would limit the spending power of a large proportion of Iraqi households. Meanwhile, while a devaluation of the dinar would boost government revenues in local currency terms, and could prove the only way to improve the fiscal position, it would also hike import costs and inflation, without delivering any particular boost to exports or economic growth.

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Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2017	2018	2019	2020f	2021f
Nominal GDP $bn	225.8	241.5	291.7	342.6	372.8
Real GDP %	4.1	5.3	5.6	3.8	2.8
Current A/C % GDP	-6.4	-2.5	-3.7	-4.7	-4.1
Budget Balance % GDP	-10.8	-9.8	-8.6	-8.8	-10.6
CPI %	29.6	14.4	9.4	5.0	5.9
Jordan	332.4	225.8	241.6	299.2	368.4
Nominal GDP $bn	40.7	42.3	43.7	43.7	46.5
Real GDP %	2.1	2.0	2.1	-3.9	2.9
Current A/C % GDP	-10.8	-7.0	-2.8	-7.3	-5.8
Budget Balance % GDP	-2.7	-2.6	-2.2	-6.9	-4.2
CPI %	3.3	4.5	0.3	2.4	3.0
Lebanon					
Nominal GDP $bn	52.1	62.3	65.9	54.4	58.3
Real GDP %	0.6	0.2	-0.3	-27.2	1.9
Current A/C % GDP	-23.3	-21.4	-17.5	-19.7	-15.9
Budget Balance % GDP	-7.0	-10.8	-9.5	-12.2	-11.7
CPI %	4.5	6.1	10.1	90.0	20.0
Morocco					
Nominal GDP $bn	109.6	118.1	119.7	115.5	122.5
Real GDP %	4.2	3.1	2.5	-5.8	4.3
Current A/C % GDP	-3.4	-5.3	-4.1	-6.1	-5.0
Budget Balance % GDP	-3.4	-3.7	-4.1	-7.1	-6.8
CPI %	0.8	1.8	0.3	1.0	0.8
Tunisia					
Nominal GDP $bn	40.1	35.7	33.4	32.2	33.8
Real GDP %	2.0	2.6	0.9	-6.2	5.0
Current A/C % GDP	-10.2	-12.5	-10.6	-11.4	-9.8
Budget Balance % GDP	-6.2	-5.4	-4.2	-8.3	-7.8
CPI %	5.3	7.4	6.7	6.0	5.8
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	147.3	158.4	192.6	232.5	256.1
Real GDP %	3.4	3.7	3.6	-2.3	3.5
Current A/C % GDP	-8.3	-6.6	-5.8	-6.9	-5.8
Budget Balance % GDP	-7.6	-7.6	-7.0	-8.6	-9.3
CPI %	15.7	9.1	6.6	11.9	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	2016	2017	2018e	2019f	2020f
Nominal GDP $bn	167.6	165.5	163.2	141.3	136.9
Real GDP %	0.4	1.6	1.0	-7.1	6.2
Current A/C % GDP	-13.3	-10.4	-8.7	-10.2	-10.0
Budget Balance % GDP	-6.5	-9.2	-9.5	-16.0	-14.1
CPI %	6.0	3.5	2.3	2.5	3.2
Iran					
Nominal GDP $bn	446.9	422.4	528.6	627.1	735.8
Real GDP %	3.3	-4.2	-8.7	-6.0	1.7
Current A/C % GDP	3.5	3.7	-0.2	-2.2	-2.2
Budget Balance % GDP	-5.1	-4.2	-4.3	-6.0	-5.6
CPI %	10.0	21.0	38.7	27.5	20.0
Iraq					
Nominal GDP $bn	166.2	215.5	243.3	215.8	232.5
Real GDP %	1.0	0.3	4.2	-12.5	3.4
Current A/C% GDP	9.0	15.9	6.5	-6.0	-5.0
Budget Balance % GDP	-1.8	8.3	-1.1	-21.0	-16.5
CPI %	0.7	0.4	-0.2	0.2	1.0
Libya					
Nominal GDP $bn	35.4	34.1	35.3	40.9	44.4
Real GDP %	30.3	0.9	2.7	-1.7	-14.9
Current A/C% GDP	-17.0	-4.6	-6.5	-6.7	-6.2
Budget Balance % GDP	-26.8	-15.8	-15.6	-13.8	-12.5
CPI %	25.0	11.5	10.0	8.5	7.0
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	314.5	302.5	385.1	448.7	535.0
Real GDP %	4.1	-1.4	-2.4	-7.2	1.4
Current A/C % GDP	0.4	3.5	-1.0	-4.3	-3.5
Budget Balance % GDP	-7.4	-3.2	-4.2	-9.7	-8.8
CPI %	7.6	12.4	22.3	17.4	13.2

Currencies

Dollar remains soft as transition gathers pace

Politics has dominated the narrative around the US dollar as the DXY index, a measure of the dollar against a basket of major currencies traded from a monthly high of 94.302 just after Election Day only to fall dramatically to lows of 92.130 in the days following. Since then the DXY has remained locked within a range of 92 – 93.5 and is currently sitting around 92.4. US President Donald Trump has shown no willingness to ease his rhetoric regarding voter fraud in a bid to overturn the loss he suffered in the election and this will likely continue to weigh on the greenback. Moreover, a Republican majority in the Senate is likely to add further uncertainty over president-elect Joe Biden's ability to introduce fiscal stimulus, tax hikes and more for 2021. US GDP in Q3 came back better than expected at 33.1%, a dramatic increase from a drop in Q2 of -31.4% but these results have been hampered by concerns over the ever-rising number of Covid-19 cases in the country.

November has been a particularly bad month for the US, as the number of people hospitalized with the virus as well as the number of new infections reported continues to break records, in some cases on a daily basis, leading to fresh lockdown restrictions imposed on states all over the nation. Successful vaccine test results led to renewed market optimism, providing a slight boost for the USD, but this euphoria has dissipated somewhat. For the USD to regain ground above the 94 handle and remain there, some stability is required but so far there are few signs of the US getting control of the virus. The longer this situation continues the longer the USD will remain in a soft position, potentially well into 2021.

USD holds steady

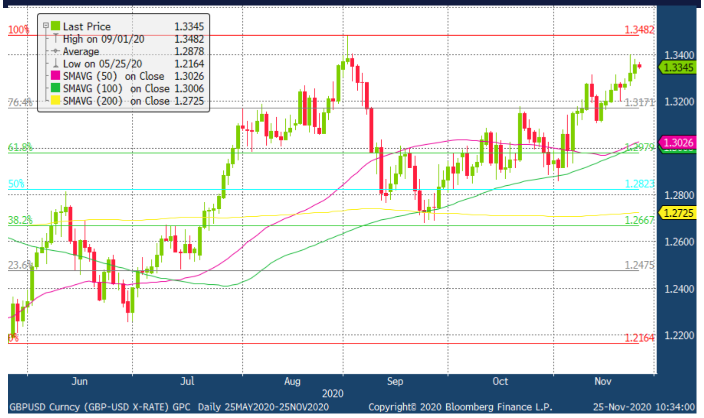
Source: Bloomberg, Emirates NBD Research.

Brexit at the forefront for Sterling

Sterling has been on the up in recent weeks. Since November the GBP has traded from lows of 1.2861 to highs of 1.3310, its strongest point since September and is currently hovering around 1.3280. USD weakness has provided a boost for the currency, but Brexit headlines remain the primary driving force for movement in either direction. The contradictory nature of these headlines has resulted in regular whipsaws, with British PM Boris Johnson stating that the UK would prosper without a deal and some EU officials claiming that talks could collapse. On the other hand, there have been reports of compromises on fisheries and just recently the president of the EU commission, Ursula von der Leyen, has said there has been "more movement" on problematic issues. These conflicting reports have been churned out for months now and will likely continue to do so before any major announcement is made. The informal deadline set by Boris Johnson, the second of its kind, of November 15th has come and gone , indicating that both sides are striving for a deal but progress is exceptionally slow. The GBP dipped in the run up to the deadline but quickly rebounded in the following weeks.

Recently the UK reached an agreement with Canada to continue trading under the same terms as the current EU agreement once the Brexit transition period ends, providing a slight boost and renewed confidence for Sterling. It is exceedingly difficult to predict what lies in wait for the GBP given the political uncertainty surrounding Brexit but market expectations remain optimistic that a deal between the UK and the EU will be reached soon. Since the September low of 1.2679 there has been a steady appreciation for Sterling, and we expect this to continue into 2021.

GBP climbs on Brexit optimism



Source: Bloomberg, Emirates NBD Research.

Europe aims to rebuild

After dipping to lows of 1.1620 following the US presidential election, the EUR has been trading between 1.1750 – 1.19 for almost all of November and trades at 1.1857 at the time of writing. Rising Covid-19 cases have been at the forefront of developments in the region. Rhetoric from ECB President Christine Lagarde has been noticeably dovish with no reference to monetary policy in her latest speech and instead reiterated the heightened level of uncertainty. Previously Lagarde said that the ECB will focus on more emergency bond purchases and loans for banks in their new stimulus package, and that inflation in the bloc will likely remain negative for longer than expected following the new restrictions on economic activity. The EU have set a budget of EUR 1trn until 2027 – plus the EUR 750bn recovery plan – to help rebuild the region's economy.

USDJPY dips as Japan recovers

USDJPY has experienced a relatively low-key month in November, the only anomaly being a one-day surge from multi-month lows of 103.24 to highs of 105.58. The pairing has slowly declined since then and currently trades around 103.86, sitting just above the 23.6% one-year Fibonacci retracement of 103.80. Japanese GDP data has come back slightly better than expected on all fronts, including an annualized growth of 21.4% in Q3, its highest expansion since 1968, providing a boost for the Yen. Japanese PM Suga Yoshihide has called for a third supplementary budget to finance a fresh stimulus package to support the economy that will likely be in the region of JPY 10trn to JPY 15trn. The pairing has been in steady decline for a few months now following broad-based USD weakness, but we expect a slight rally to take place leading into 2021, consolidating gains around the 105 handle.

Renewed optimsm lifts Antipodean currencies

Both Antipodean currencies have benefitted greatly from positive market sentiment. The AUD advanced by 3.91% since the start of November and currently trades around 0.73. Record Chinese steel production has driven demand for iron ore, and commodities in general, to unprecedented highs, boosting the AUD.

The NZD has surged dramatically in November and just recently reached its highest point since 2018 at 0.6951, an increase of 4.77% since the start of the month. The kiwi has been given a tremendous boost thanks to the RBNZ's decision to keep rates at 0.25% until next year, eliminating speculation regarding negative rates that regularly bought the currency down.

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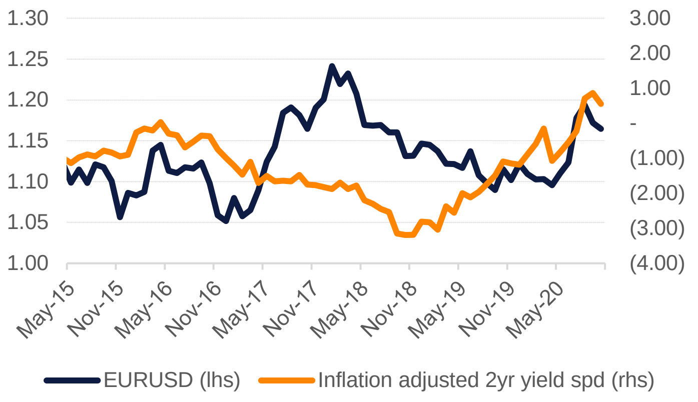
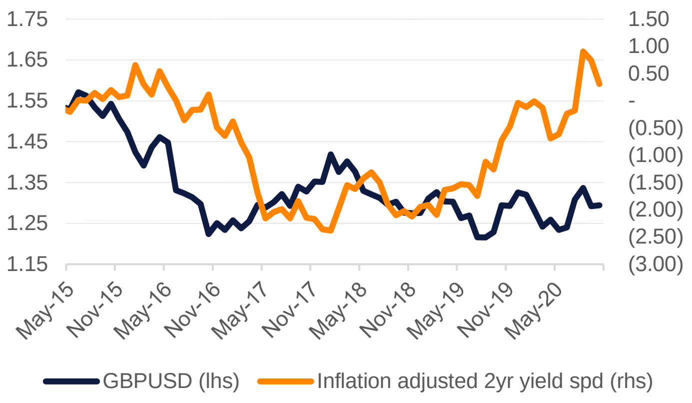
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



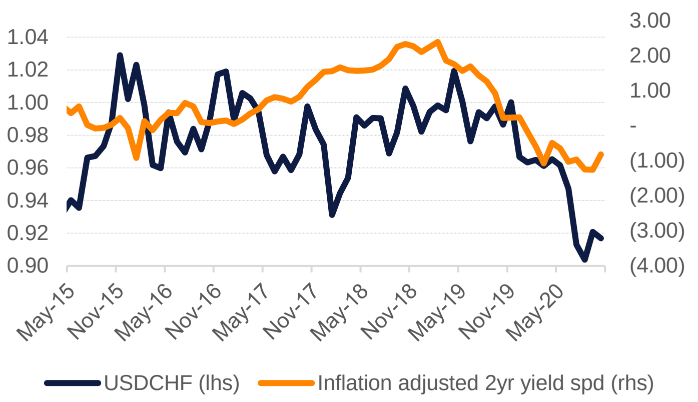
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



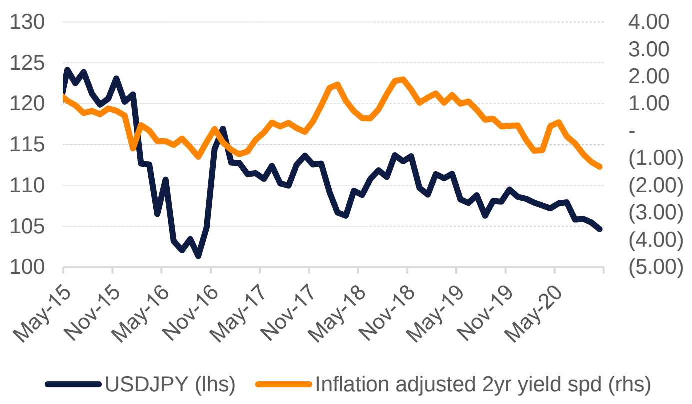
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



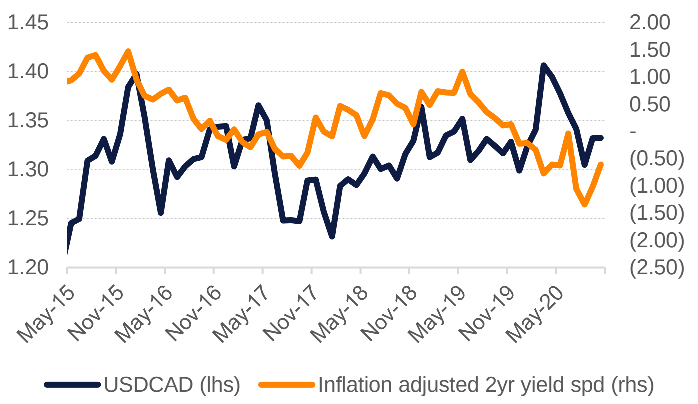
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



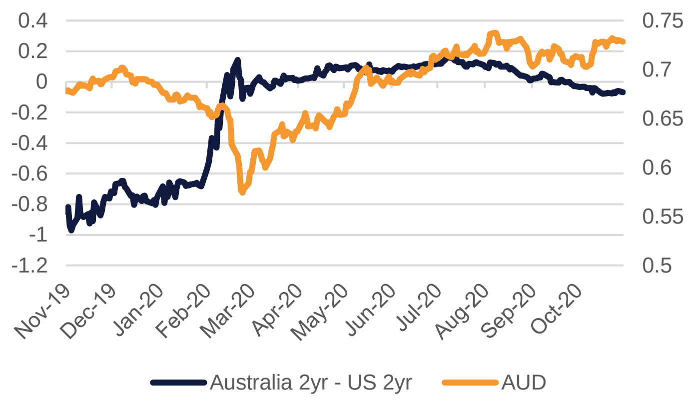
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

FX Forecasts

	FX Forecasts - Major						Forwards		
	Last	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	3m	6m	12m
EUR/USD	1.1892	1.1800	1.2000	1.2000	1.2100	1.2300	1.1984	1.2024	1.2073
USD/JPY	104.44	105.00	105.00	105.00	107.00	108.00	103.80	103.60	103.33
USD/CHF	0.9113	0.9400	0.9400	0.9700	0.9700	0.9700	0.9018	0.8979	0.8930
GBP/USD	1.3357	1.3000	1.3200	1.3200	1.3500	1.3500	1.3347	1.3357	1.3369
AUD/USD	0.7361	0.7200	0.7200	0.7400	0.7500	0.7500	0.7391	0.7397	0.7403
NZD/USD	0.6978	0.6500	0.6500	0.6750	0.6800	0.6850	0.7031	0.7032	0.7031
USD/CAD	1.2998	1.3500	1.3500	1.3300	1.3300	1.3000	1.2983	1.2979	1.2980
EUR/GBP	0.8903	0.9077	0.9091	0.9091	0.8963	0.9111	0.8979	0.9002	0.9031
EUR/JPY	124.20	123.90	126.00	126.00	129.47	132.84	124.39	124.56	125.41
EUR/CHF	1.0837	1.1092	1.1280	1.1640	1.1737	1.1931	1.0807	1.0796	1.0782

	FX Forecasts - Emerging						Forwards		
	25-Oct	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	3m	6m	12m
USD/SAR*	3.7507	3.7500	3.7500	3.7500	3.7500	3.7500	3.7514	3.7522	3.7539
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6730	3.6733	3.6737	3.6755
USD/KWD	0.3057	0.3020	0.3020	0.3020	0.3020	0.3020	0.3062	0.3068	0.3080
USD/OMR*	0.3848	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3863	0.3891
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3770	0.3774	0.3778	0.3786
USD/QAR*	3.6737	3.6400	3.6400	3.6400	3.6400	3.6400	3.7032	3.7018	3.6990
USD/EGP	15.6339	15.6500	15.6000	15.7500	15.8000	16.0000	15.9950	16.3475	17.1771
USD/INR	73.9750	74.0000	74.0000	72.0000	71.0000	70.0000	74.6500	75.4800	77.0700
USD/CNY	6.579	6.6000	6.5000	6.5000	6.3000	6.3000	6.624	6.668	6.751
USD/SGD	1.342	1.3400	1.3400	1.3200	1.3000	1.3000	1.3421	1.3417	1.3409

	FX Forecasts - MENA					
	25-Oct	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
USD/MAD	9.0959	9.0000	9.0000	9.1000	9.1000	9.2000
USD/TND	2.7395	2.7500	2.7000	2.8000	2.8000	2.9000
USD/TRY	8.0038	7.8000	7.6000	7.8000	7.9000	8.1000

Data as of 25 November 2020
Source: Bloomberg, Emirates NBD Research

Financial Markets

Treasury markets have consistently sold off in the back half of the year as investors grew more confident that vaccines would be developed to help bring an end to the Covid-19 pandemic and that Joe Biden, the Democratic candidate, would win the US presidential election and would bring about significant fiscal stimulus. Both those dynamics are now "baked in the cake" with several major pharmaceutical companies achieving highly successful test results for their Covid-19 vaccines and US government institutions officially recognizing Joe Biden as the victor in November's election.

We were a little more downbeat on how well the economic recovery would have taken hold in the second half of the year and our UST targets have undershot the market. However, we retain a cautious outlook on the factors that would allow USTs to weaken further and see yields pop much higher, particularly in the first half of 2021. While we are marking some of our forecasts to market we are only marginally more bearish on USTs than we were previously.

UST yields pick up in H2

Source: Bloomberg, Emirates NBD.

It's still Covid

Vaccine headlines have garnered nearly as much attention as the outcome of the presidential election in the past few weeks. Two of the vaccine candidates, one from Pfizer and another from Moderna, have had high levels of effectiveness (more than 90%) and may be authorized for emergency use by the US FDA by the end of the year. While the prospect of a vaccine being developed is undoubtedly welcome news, there is a very real difference between front line medical staff being issued with an emergency vaccine and a return to normal economic activity, globally. The progress of Covid-19 cases, and subsequent burdens on public health systems, with still then be the dominating policy issue as we turn the year into 2021. Several US states have had to reintroduce some form of lockdown measures as case numbers have risen dramatically in the last few months, and in some cases deaths have followed suit.

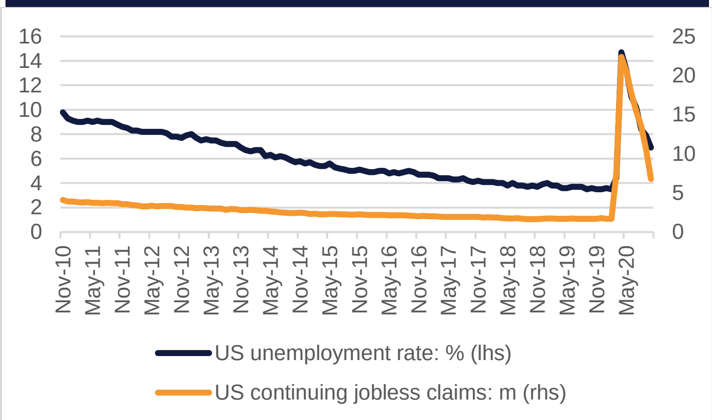
The European experience with Covid-19, where seeming more coordinated public action allowed governments to get control of the virus after a disastrous first few months, shows the economic risks of needing to have to re-impose lockdown measures. Services sector PMI numbers across the Eurozone and UK have slumped to levels well under the 50 neutral measure. While we think it is a remote risk that nation or statewide lockdowns would be imposed again in the US, the Biden administration is more likely to take a more forceful public health response at the expense of the economy than the outgoing Trump team.

Upswing from government spending will fade

Even as the number of new Covid-19 cases have risen sharply in the US in the final months of the year, some economic data has been promising, helping to underpin a story of a recovering economy. The headline unemployment rate has come down from a peak near 15% in April to around 7% now. Retail sales and consumer confidence indicators have stabilized after sharp drops earlier in the year. PMI numbers have more than beat the saggy figures in the Eurozone, with both services and manufacturing holding up well.

But H2 2020 benefitted from the enormous fiscal stimulus unleashed by the US earlier this year to offset the damage caused by the pandemic. For 2021 with President-elect Biden facing a split Congress, and potentially outright hostile Senate, the fiscal tide will be turning in the US. Disputes between congressional Republicans and Democrats over the scale of stimulus required are not insignificant. Senate majority leader, Republican Mitch McConnell, has pointed to the improving labour market in the US as a sign that such large levels of spending aren't required as the economy is improving and has proposed spending closer to USD 500bn (roughly 2% of GDP). Meanwhile his opponents in the House have targeted somewhere closer to USD 2tn (roughly 9% of GDP) in additional spending.

Recovery underway but far from finished



Source: Bloomberg, Emirates NBD.

Even if a Biden administration were to split the difference, the nature of the spending would be significant in terms of boosting inflation expectations and any anticipated change in Fed rates. Helping to compensate state and local governments for health spending, providing unemployment benefits or providing cash handouts all help to repair the damage caused by Covid-19. They are quite different from new spending that will stimulate growth above and beyond pre-pandemic levels of output that would help to lift inflation and real rate expectations. With politics in the US likely to frustrate long-run inflation boosting measures such as higher minimum federal wages, upskilling or green infrastructure spending, 2021 may prove to be a year where fiscal spending is neutral to negative in terms of its growth effects.

Even as the economy is recovering better than many had expected, the US will still start 2021 with not far off 6m people unemployed, more than twice as high as average levels in the last few years. Consumer behavior adopted during the pandemic—favouring online shopping, remote working, takeout meals—will still likely linger on well into 2021, vaccines or not.

Fed has free hand…to buy USTs

The one economic agent in the US relatively free of political interference is the Federal Reserve and we expect no change in rates in 2021, or indeed likely for several years thereafter either. But it too has had some of its optionality in how to respond to crises removed. The outgoing Treasury Secretary, Steve Mnuchin, successfully managed to get the Fed to give back funds meant to provide liquidity in municipal bond and money markets as well as money that could have been used to buy up corporate debt in primary and secondary markets.

This leaves forward guidance and asset purchases as the two main tools the Fed has left to continue to support the economy. With rates to remain unchanged for the foreseeable future, and forward guidance preferring to see inflation take off from its current minimal levels (PCE inflation has risen to 1.5% as of September), we expect the Fed to lean on additional quantitative easing to support the recovery. A potential top-up to the current USD 80bn of monthly purchases of Treasury securities or more targeting of the longer end of the curve would be positive for USTs in our view and help to bring longer-dated yields down from current levels of between 0.8-0.9%.

We are revising our view for 10yr USTs moderately higher, pinning them toward the higher end of the ranges we had been forecasting previously. However, we still only expect yields to reach 1.1% on the 10yr by the end of 2021, hardly an assessment of a blistering recovery in growth and inflation. We also expect to see a modest flatting of the curve from the more than 70bps it has reached on the UST 2s10s for at least the first half of 2021.

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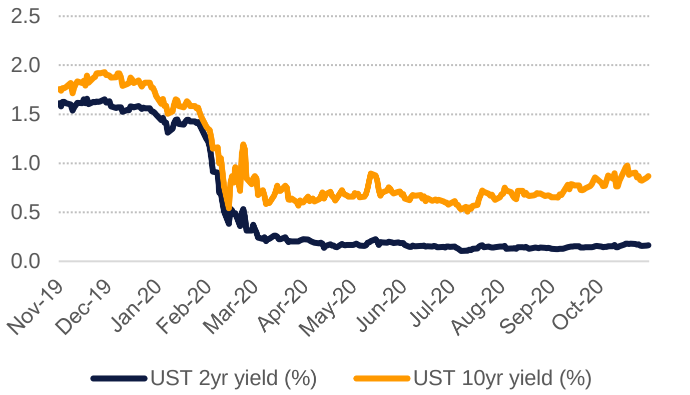
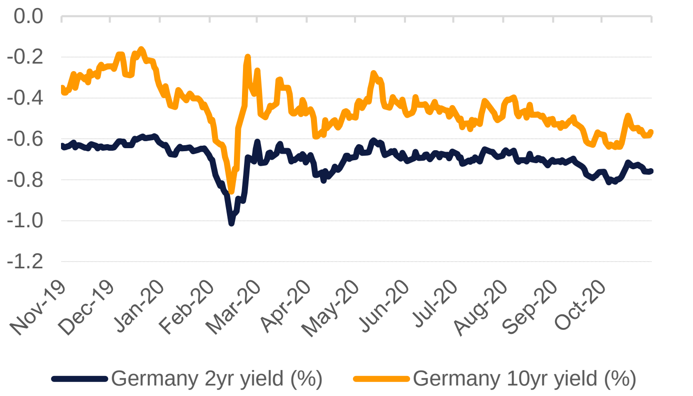
Financial markets

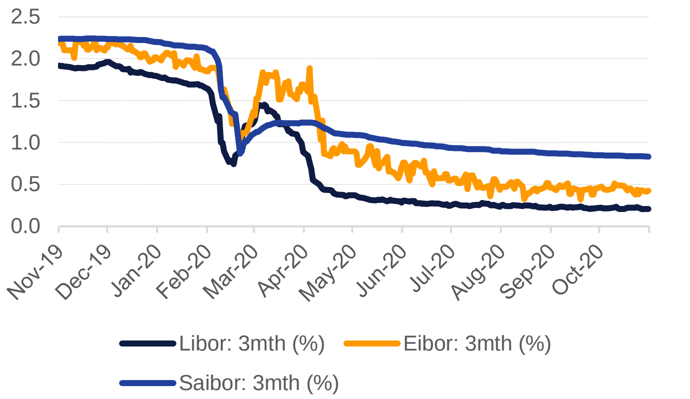
US Treasuries: 1yr



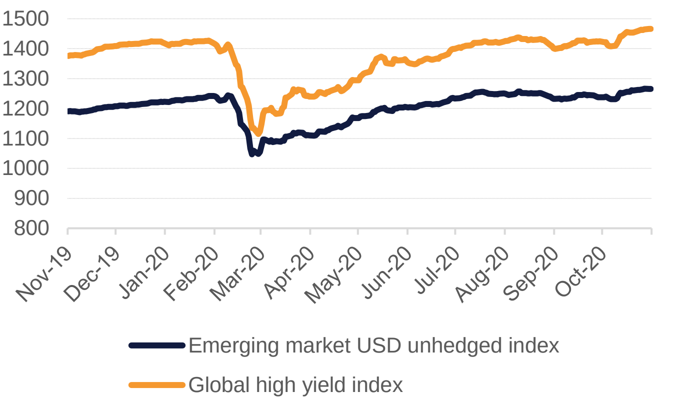
Germany Bunds: 1yr



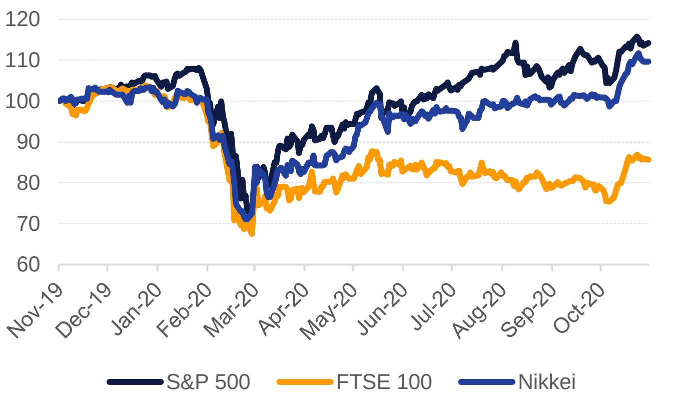
Funding markets



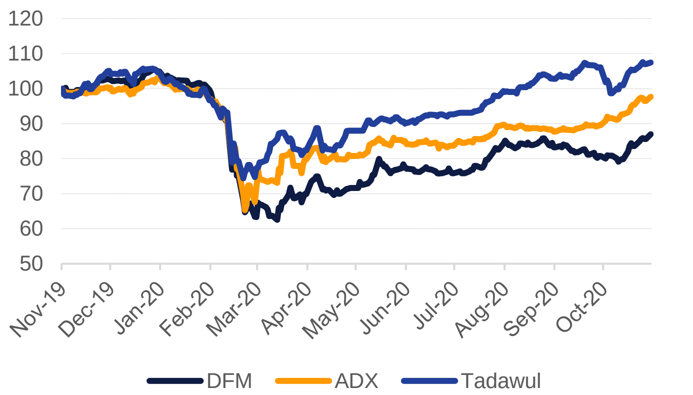
Bond markets



Equities 1yr performance



MENA equities 1yr performance



Interest Rate Forecasts

US Treasuries Forecasts						
	Current	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2020
2y	0.16	0.18	0.20	0.25	0.30	0.40
10y	0.87	0.80	0.85	0.90	1.00	1.10
3M Libor						
3m	0.21	0.28	0.3	0.35	0.35	0.40
3M Eibor						
3m	0.41	0.43	0.5	0.55	0.55	0.60
Rates forecasts						
	Current %	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
FED (Upper Band)	0.25	0.25	0.25	0.25	0.25	0.25
ECB (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE	0.10	0.05	0.05	0.05	0.05	0.05
BoJ	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
SNB	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
RBA	0.10	0.10	0.10	0.10	0.10	0.10
RBI (repo)	4.00	4.00	3.75	3.75	3.75	3.75
SAMA (reverse repo)	0.50	0.50	0.50	0.50	0.50	0.50
UAE (Repo rate)	0.75	0.75	0.75	0.75	0.75	0.75
CBK (o/n repo rate)	1.00	1.00	1.00	1.00	1.00	1.00
CBB (o/n depo)	0.75	0.75	0.75	0.75	0.75	0.75
CBO (o/n repo)	0.50	0.50	0.50	0.50	0.50	0.50
CBE (o/n depo)	8.25	8.25	8.25	8.25	8.25	8.25

Source: Bloomberg, Emirates NBD Research
As of 24 November 2020

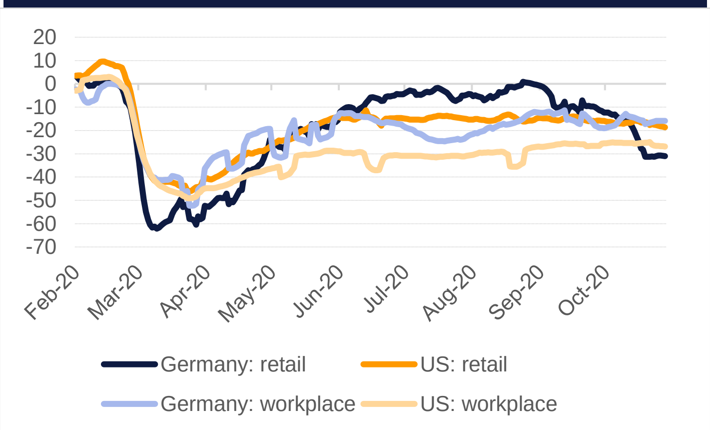
Commodities

The enormous production cutbacks taken by OPEC+ members from May this year have helped to restore order to oil markets. Oil prices were in free fall in March-April as demand faced an abrupt shock thanks to Covid-19 restrictions taking hold first in China and then across Europe, the United States and other markets. Not helping matters was the disastrous price war between Russia and Saudi Arabia after OPEC+ failed to reach agreement on output cuts during an extraordinary meeting in early March. By early April with Brent prices below USD 30/b OPEC+ managed to cobble together a deal to cut output by 9.7m b/d, tapering the level of cuts out until April 2022.

Since the start of June, when cuts really began to have an impact, oil prices have been reasonably stable and have held in a roughly USD 8/b range for Brent futures, topping out at around USD 46/b and finding a floor at around USD 37/b. Time spreads have also normalized after dropping precipitously in March-May: 1-12 month Brent time spreads reached a maximum contango of more than USD 16/b in March and have recovered to a far more muted level of below USD 2/b at present.

Inventories, which blew out to more than 3.2bn bbl in OECD stocks, have also started to move lower. Thanks to lockdown measures being eased over the summer and a faster than expected recovery in economic activity, the oil market almost certainly has been in a deficit in H2 2020 of around 2.4-2.5m b/d. Nevertheless, stocks are still high when measured against demand which is some ways off pre-pandemic levels. OECD stocks measured in days of demand peaked at more than 85 days in Q2 before falling to 75 in Q3 and are on track to reach 70 days in Q4. For 2019 by comparison, OECD stocks averaged around 60 days of consumption.

Activity slows in Q4



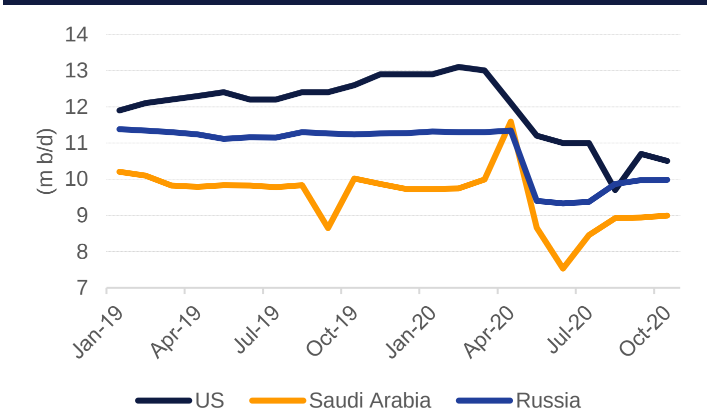
Source: Google, Emirates NBD Research. Note 7day average

While Q3 2020 represented a rapid pickup in activity the outlook for the end of the year and into 2021 is much more tentative. As the number of new Covid-19 cases has increased rapidly among major economies over the last few months, policymakers have responded by returning to lockdowns, albeit in a less onerous way than earlier this year. Mobility data from Google shows a sharp drop in Germany's retail activity from October as new lockdown measures—admittedly among the less onerous than others underway in Europe—have taken effect. In the US, retail mobility data has hit a plateau at around 15%-20% below Covid-19 conditions and is likely to worsen as states have reimposed lockdown measures. PMI numbers for major economies are showing a slowdown into Q4 as non-essential businesses are shut.

The outlook for 2021 will be entirely contingent on how fast economies can return to pre-pandemic levels of activity. The IEA's expectations for 2021 are for oil demand growth of more than 6% but after a collapse of nearly 9% this year, oil consumption will on average be only slightly bigger than it was in 2016. News of successful vaccine test results have helped to boost oil prices in recent weeks but the vaccines themselves are unlikely to have a material near-term impact on oil consumption. Emergency use of vaccines will not provide a confidence boost to consumers or businesses that they can return to pre-pandemic activity on a wide-scale and the logistical challenges in providing vaccines will mean oil demand won't benefit likely until well into 2021.

OPEC+ thus faces a smaller oil market which it has tried to accommodate via its unprecedented production cuts. In terms of restoring some stability to markets and helping to prevent an even worse blowout of inventories the cuts have been successful this year. However, the cuts haven't yet succeeded in boosting prices near to levels that help OPEC+ economies avoid fiscal or balance of payments difficulties. Among the GCC economies we cover, the UAE has the lowest breakeven oil price for its fiscal balance but at around USD 75/b it is still some USD 30/b away from current Brent futures.

Output to creep higher, not lower



Source: Bloomberg, Emirates NBD Research.

Nor do conditions appear to materially favour prices going much higher next year. We retain our forecasts for Brent to gain in 2021 but only to an average of around USD 50/b as lower levels of output from OPEC+ and others result in inventory draws of material importance only in the second half of the year. Production from countries not party to the OPEC+ deal has actually been increasing in recent months with Libya's production now close to 1m b/d according to the country's national oil company while US production has stabilized at around 11m b/d since June, momentary interruptions from hurricanes notwithstanding.

As we have noted previously OPEC cuts, whether in coordination with producers like Russia or not, really control the bottom of the market and in and of themselves can't help push prices excessively higher without a synchronous rise in demand or other extraneous variables (sanctions on a major producer or a sharply weaker dollar for instance).

Beyond the scale of the production cuts agreed by OPEC+--roughly 10m b/d of output taken out initially—the length of the agreement always appeared challenging to us. OPEC+ producers are meant to gradually taper their cuts out until 2022 with an increase in output of around 2m b/d set for the start of 2021. Such a lengthy agreement extends the perennial problem of whether countries hit and stick to their production targets. This year OPEC+ has introduced a novel measure to make underperforming members 'make up' for past excess production by deepening cuts later on; the UAE for instance overproduced during the summer months and has now had to cut back sharply.

But by calling out recalcitrant members, OPEC+ under the leadership of Saudi Arabia risks building resentment and could threaten the stability of oil market diplomacy over the duration of the deal. Press reports in mid-November suggested that the UAE itself could consider leaving OPEC if the production cuts failed to meet the country's economic objectives. ADNOC's own investment plans—aiming to hit production capacity of 5m b/d by 2030—would also seem to imply that production restraint can't be a tool used by OPEC+ in perpetuity.

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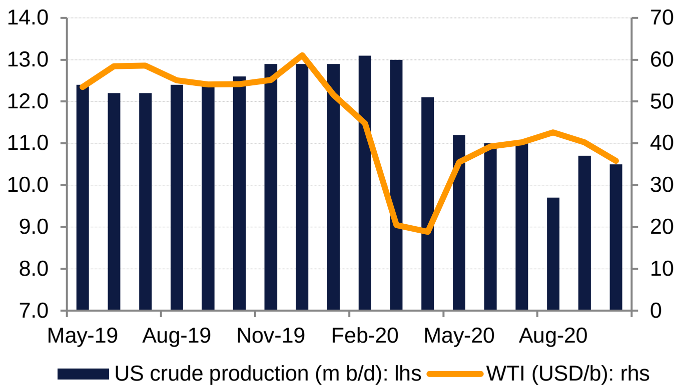
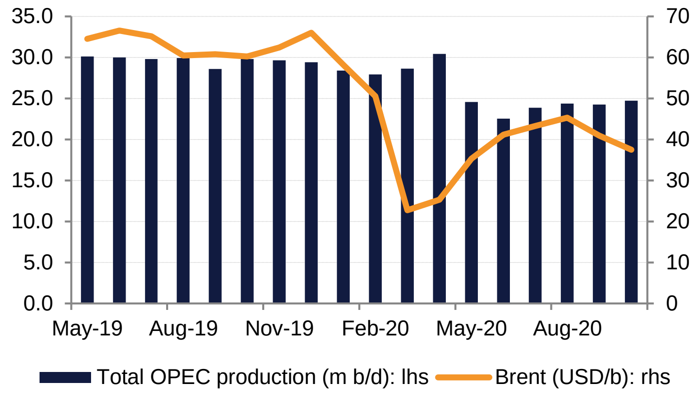
Major Commodities Markets

US oil production and price



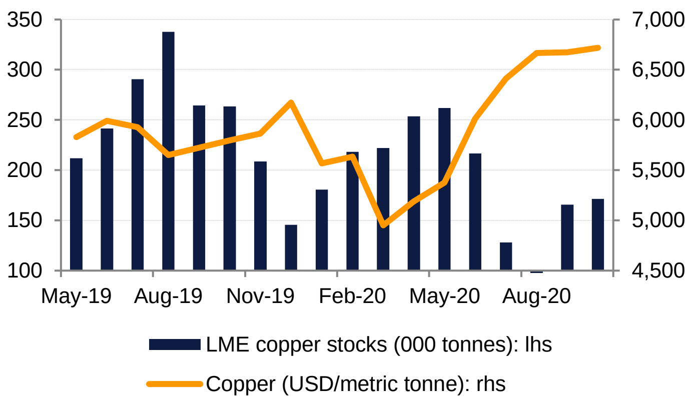
Source: Bloomberg, Emirates NBD Research

International oil production and price



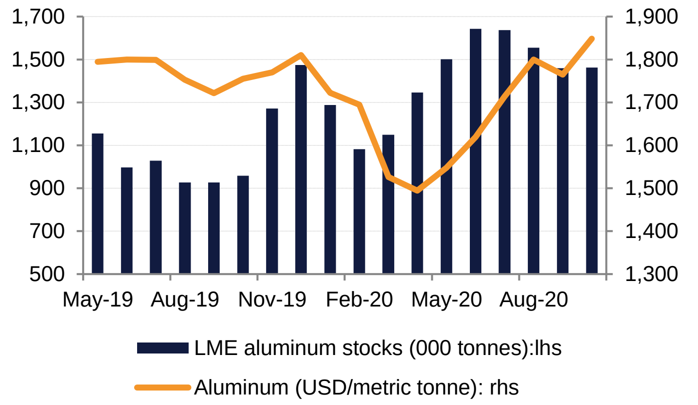
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



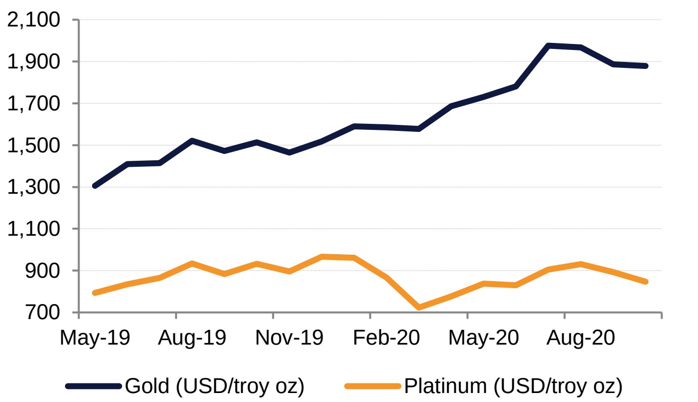
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



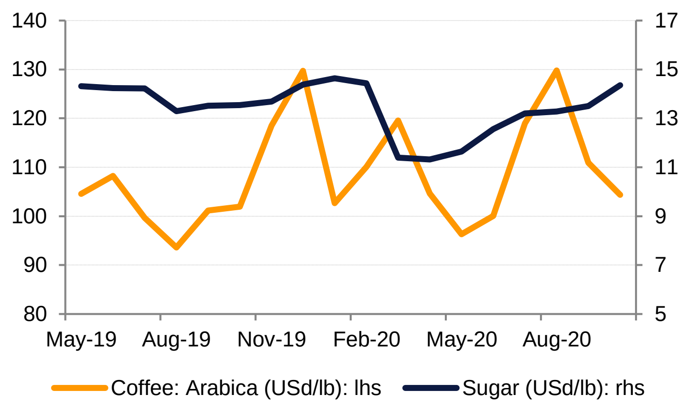
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

	Last	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2020	2021
Global commodity prices								
Energy								
WTI	45.36	40.00	42.50	47.50	47.50	50.00	38.68	46.88
Brent	48.37	44.00	47.50	50.00	50.00	52.50	42.89	50.00
Precious metals								
Gold	1,805.71	1,790.00	1,750.00	1,700.00	1,650.00	1,600.00	1,749.23	1,675.00
Silver	23.24	17.11	16.73	16.25	15.78	15.30	18.69	16.02
Platinum	966.29	900.00	1,000.00	900.00	900.00	850.00	875.52	912.50
Palladium	2,339.71	1,800.00	1,800.00	1,750.00	1,750.00	1,700.00	2,063.94	1,750.00
Base metals								
Aluminum	1,986.50	1,700.00	1,720.00	1,750.00	1,750.00	1,775.00	1,671.70	1,748.75
Copper	7,293.00	6,500.00	6,500.00	6,600.00	6,600.00	6,750.00	6,013.55	6,612.50
Lead	2,022.50	1,891.42	1,891.42	1,905.97	1,905.97	1,927.63	1,828.97	1,907.75
Nickel	16,242.00	14,500.00	14,500.0	15,000.00	15,000.00	15,250.00	13,468.08	14,937.50
Tin	18,693.00	17,000.00	17,000.0	17,250.00	17,500.00	17,500.00	16,647.41	17,312.50
Zinc	2,757.00	2,350.25	2,350.25	2,386.41	2,386.41	2,440.65	2,201.95	2,390.93

Prices as of 25 November 2020. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

Sector Report: Dubai Real Estate

Dubai's real estate market had an interesting year in 2020, as enthusiasm for Expo 2020 supported market dynamics in Q1, before Covid-19 lockdowns in Q2 ground much of the activity in the market to a halt. Q1 saw 9.7% growth in the number of real estate sales transactions when compared to Q1 2019 according to data from Property Finder. Q1 2020 also recorded the highest number of transactions since Q1 2017. With Dubai in full lockdown in April, partially locked down in May due to Covid-19, Q2 as a whole was severely impacted. Dubai saw 5,605 sales transactions in Q2 2020 worth AED 11.05bn, down almost 40% in value terms against Q2 2019. May was a low point for transactions, especially given the 45-60 days cycle for property sales. The secondary market saw 40% of the transactions in Q2, while off-plan accounted for 60% of the transactions.

June saw the market begin to turn around, probably due to pent-up demand coupled with better prices and a move by the central bank to lower down-payments and funds required to acquire a property. Also sales enquiries were picking up in June, particularly in the villas and townhouses segment, probably a preference for many families locked down in more confined apartment spaces. In June, the volume of sales transactions was 2,361 worth AED 4.9bn and the secondary market, for the first time since the lockdown began, had higher sales transactions than off-plan transactions during that month.

Transactions recovered partially in Q3

Dubai Land Department data compiled by Property Finder showed Q3 2020 totaled 8,675 property sales transactions up 55.1% q/q. The total value of the transactions in Q3 averaged AED 18.1bn, 65% higher q/q. The breakdown of the transactions for Q3 was 37.3% off plan and 62.7% secondary market, this represents a 21.7% rise in the secondary market when compared to Q2 2020. This likely reflects a slowdown in the number of new projects launched in Q3.

In October 2020, Dubai recorded a total of 3,393 sales transactions worth AED 6.92bn. Measured month on month this was 11.5% lower than September but 38.6% higher than August. The total value of the transactions was 22.2% lower than September but 48.1% higher than August.

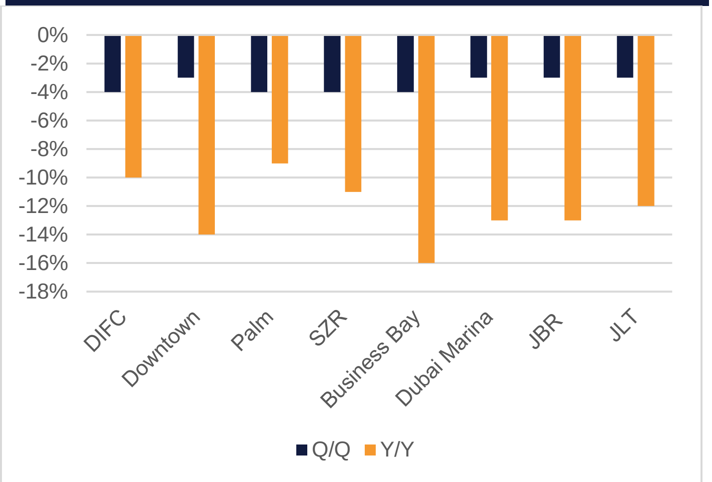
Market dynamics have changed

Covid-19 has brought a change to market dynamics, with some of these likely to be persistent over the longer-term. For one, payment terms for rentals are more important now. Landlords are accepting a higher number of cheques to ease the financial load on tenants. In addition, data from Property Finder shows that rental enquiries for villas in Dubai is going up, in addition to searches for villas/townhouses with outside space such as gardens, balconies and pools. People are now looking for bigger properties, moving from smaller family apartments to villas and townhouses. This is an indication that people are valuing personal, outside space in their homes, especially as work from home trends and in for some families homeschooling are likely to remain in place for some time.

Rents continue to soften

Data from Asteco shows that residential rents in Dubai continue to decline, as more tenants move out of their homes amid the challenges resulting from the coronavirus pandemic. In Q3 villa rents fell by 2% q/q and 9% y/y. The decline in apartment rents was more pronounced, dropping 4% q/q and 13% y/y. The property consultancy pointed to new trends in the market of tenants who are looking at usable outdoor space like larger balconies and gardens, additional storage and more building/ community amenities. Asteco noted that properties that are within walking distance to retail and leisure facilities are attracting more interest as well.

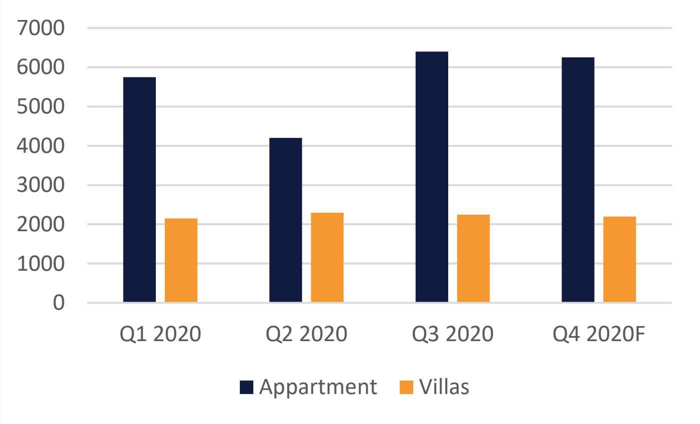
Dubai rents by area



Source: Asteco, Emirates NBD Research

Breaking down the data by areas shows apartment rents dropped the most in Dubai Sports City, which registered a decline of 17% y/y, Business Bay 16% y/y and Jumeirah Village and Downtown Dubai, both down 14% y/y. Apartments in Dubai Marina, Jumeirah Beach Residence and Deira recorded 13% y/y declines, while those in the Greens, Jumeirah Lakes Towers and Discovery Gardens fell by 12% y/y. In International City and on Sheikh Zayed road, apartment rents dropped 11% y/y, while in the Dubai International Financial Centre (DIFC) and Palm Jumeirah declines were at 10% y/y and 9% y/y, respectively.

Villa and Apartment supply in Dubai



Source: Asteco, Emirates NBD Research

According to data from Asteco, apartment and office supply went up in Q3 2020 with 6,400 units and 1.14 million sq.ft. office space handed over (up from 4,200 units and 0.3 million sq.ft. in the previous quarter). 2250 new villa units were delivered in Q3 2020. Overall apartment, villa and office sales prices declined by 2%, 1% and 2% over Q2 2020 and 10%, 10% and 8% Q3 2019.

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