



بنك الإمارات دبي الوطني  
Emirates NBD

Monthly  
18 October 2017

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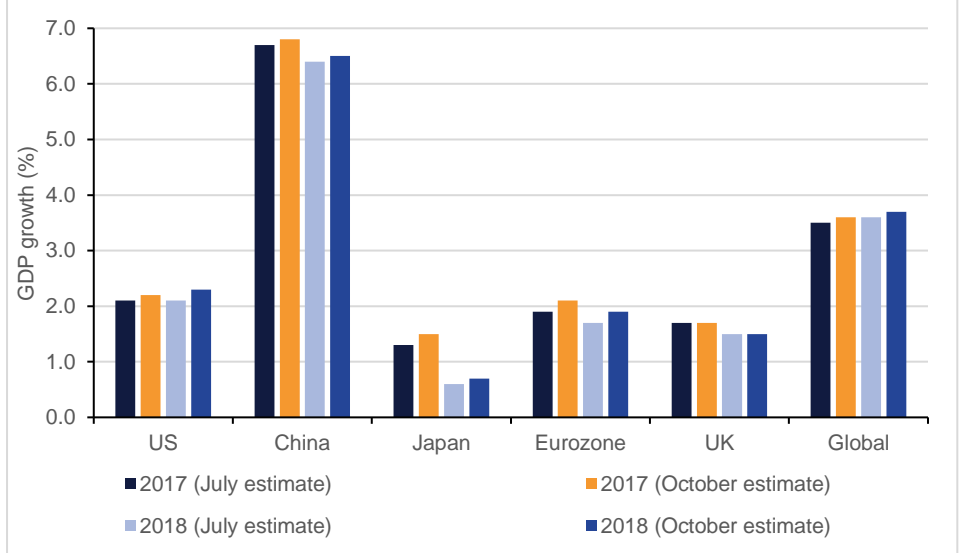
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# Monthly Insights

Global growth is on the mend with a broad-based recovery underway according to the IMF, taking in advanced economies and emerging ones including here in the GCC. This constructive outlook along with a tightening oil market is also providing welcome stability for petroleum prices.

- **Global macro:** Despite an increasing incidence of geopolitical risks and uncertainty the momentum in the world economy appears to be improving, such that the IMF felt able to upgrade its economic outlook at its October meetings. Amidst stronger growth discussions about policy adjustments are continuing.
- **GCC macro:** The latest monetary surveys for Saudi Arabia and Qatar showed a decline in the central banks' net foreign assets over the last few months, although there was an improvement m/m in Qatar in August.
- **Sector Focus:** UAE's agricultural and utilities sector overview.
- **Rates:** Upbeat monthly economic data further cemented prospects of a December rate hike in the US. However, the UST curve flattened, with long term yields remaining anchored at low levels as inflation continues to linger below the Fed's target range.
- **Credit:** Rising USD rates and substantial new supply weighed on GCC corporate bonds. However, positive sentiment on the back of higher oil prices and reducing government budget deficits in the region helped to contain the loss.
- **Currencies:** Although it remains the poorest performing G10 currency YTD in 2017, the dollar has outperformed its peers over the last month to pare some of those earlier losses.
- **Equities:** Over the last month, global equities continued their positive run as geopolitical risk was largely contained and macro-economic factors remained strong.
- **Commodities:** OPEC's production cuts have run for nine months. How OPEC measures how successful they have been in restoring balance to markets will be key in determining the outlook for oil in 2018.

## IMF makes upwards revision to global growth forecasts



Source: IMF, Emirates NBD Research.

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## Global Macro

Despite an increasing incidence of geopolitical risks and uncertainty, the momentum in the world economy appears to be improving, such that the IMF felt able to upgrade its economic outlook at its October meetings. Amidst stronger growth, discussions about policy adjustments are continuing.

### Global outlook upgraded

The IMF boosted its world GDP growth outlook in its latest half yearly meetings seeing improved activity in the U.S., China, the Eurozone, and Japan amid strengthening investment, production, and trade, with support from rising business and consumer confidence. Adding to the IMF's optimism is the increasingly broad-based nature of the recovery, with three-quarters of the world economy now growing making it the broadest recovery in a decade. Of the developed economies, only the UK was not revised higher by the IMF. Global growth now is projected to expand at a 3.6% pace in 2017 and 3.7% in 2018, versus prior estimates of 3.5% for this year and 3.6% for next year.

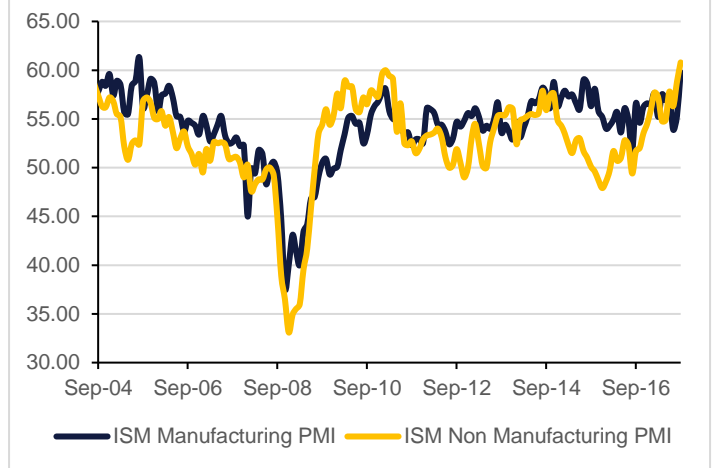
Characteristically the IMF's optimism was not without warnings however. In a chapter in its Global Financial Stability Report entitled Household Debt and Financial Stability, the IMF warned that increases in private sector credit, including household debt, could raise the likelihood of a financial crisis and lead to slower economic growth. At a time when interest rates are already being raised in the U.S. and in Canada, and where discussion is beginning elsewhere about unwinding extraordinary easing measures, such concerns about debt levels are well timed. Hence the IMF communique called on central banks to protect the fragile recovery by keeping interest rates low in countries where inflation is too low and economies are performing below potential. Other risks highlighted by the IMF included geopolitical risks, and the widening income gap between rich and poor countries fueling discontent with free trade and global cooperation. The IMF urged some countries with healthy finances, such as Germany and South Korea, to increase spending in order to spur growth, while Managing Director Christine Lagarde also appealed to countries to enact reforms that will make their economies more efficient, and to build buffers for the next slowdown.

### Market prepares for higher US interest rates...

The fourth quarter began with the market's focus turning to US tax stimulus plans and to the prospect of higher US interest rates. A month ago the markets put a low likelihood of a further rate hike from the Fed this year, but the last FOMC meeting sent a strong message that one is still likely, with the markets now seeing a 80% probability. The FOMC minutes from the September 19th meeting showed that 'many' participants thought another tightening in 2017 was warranted. While there was an active debate over inflation and wages, many saw some of the softening in inflation as due to idiosyncratic factors, although there was concern that other influences could be more persistent. However, despite a lot of discussion about low inflation and the various implications of it, we

still believe the minutes are consistent with a December tightening, with subsequent economic data supporting this likelihood as well.

### US activity indices reach multi-year highs

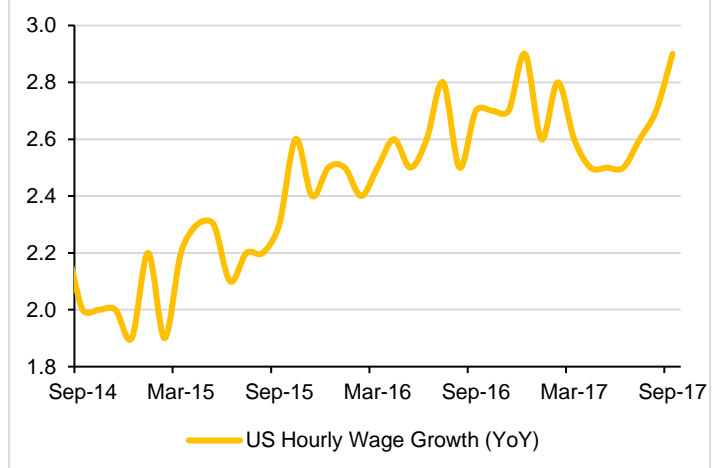


Source: Bloomberg, Emirates NBD Research

### ....as US data stays firm despite hurricanes

Despite Hurricanes Harvey and Irma, activity indicators have held up very strongly with the ISM manufacturing and non-manufacturing indices reach thirteen and twelve year highs respectively. Consumer confidence also remains near record highs while retail sales rose 1.2% in September putting real consumption on target to expand by 2.0% in the first release of GDP, with a headline growth rate expected to be 3.0% following 3.1% in Q2. The employment statistics were perhaps the most affected by the hurricanes, with payroll growth in particular seeing the biggest setback, falling by -33k. However, other measures of the labour market were healthy, especially wages which at 2.9% y/y appear to be finally hinting at a move into a higher trajectory. Core CPI inflation is still being restrained by the transitory factors the Fed highlighted in its September minutes, such as falls in vehicle and drug prices, but these are unlikely to be sustained and it should not be long before they start to reverse.

### US wages start to move higher



Source: Bloomberg, Emirates NBD Research

Another question with regard to monetary policy is about who will replace Fed Chair Janet Yellen when her term expires next February, and assuming she is not reappointed. President Trump has let it be known that he is considering his options, having been interviewing a number of candidates recently with a view to making an announcement in the coming weeks.

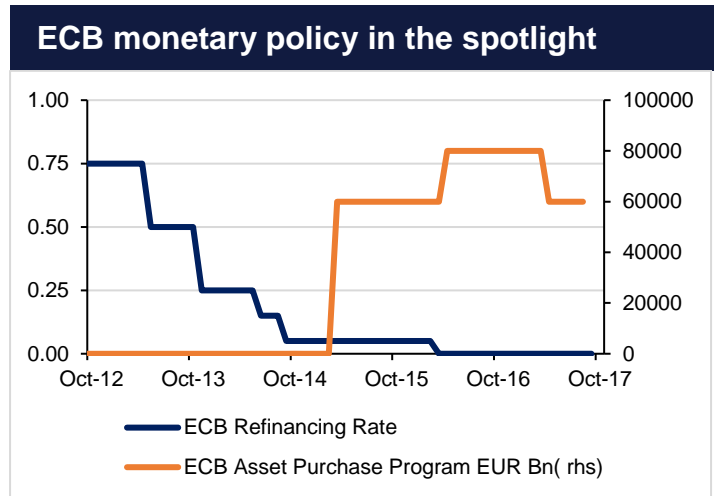
### New Fed Chair appointment also looms

Although the differences between the various candidates for the role might usually be considered to be relatively minor, in this instance there are some fairly important issues at stake. These are about whether to appoint a Fed Chair who will ensure continuity with the Yellen years, in terms of the process of monetary policy setting and over matters of regulatory oversight. Candidates who fall into this category beyond Janet Yellen herself might include Jerome Powell, an existing Fed Governor, and Neel Kashkarian a regional Fed President. The alternative, however, would be to appoint someone who might look at interest rate setting rather differently, by applying a more rules based system to the process of monetary policy-making, while also potentially lightening up the regulatory burden on the financial system, both approaches that have support in the Republican Congress. The prominent Stanford economist John Taylor is the most obvious candidate that comes to mind in view of the famous Taylor Rule that he authored, and he appears to be gaining support. Kevin Warsh, a former Fed governor in the Bush years, also has strong backing. The outcome therefore could have significant implications about how far interest rates are set to rise beyond what happens in December, with a Taylor appointment in particular likely to see tightening expectations ratchet higher.

Attention is also turning back to fiscal policy stimulus plans in the U.S., with the Republican Party recently proposing a package of sizeable tax cuts. So far the detail of such plans are fairly limited, but the likelihood is that they will entail increasing the fiscal deficit which will provide a further boost to economic growth. If passed, this will likely add to the argument to keep tightening monetary policy steadily in 2018 and beyond.

### Market eyes policy changes in Europe

Elsewhere, policy discussions are also underway in the UK and in the Eurozone, with markets looking to the 26th October ECB policy meeting for visibility on the its QE programme. After expectations a month ago that the ECB would move aggressively to taper its bond purchases, the mood has shifted towards a more gradual move in the last few weeks. Some reports have suggested that the ECB is considering a 9 months extension of QE but with bond purchases of EUR 30bn per month. This would cut the current months purchase volume in half, but with the longer than expected extension it would still mean an additional stimulus of EUR 270bn. At the same time, the ECB apparently wants to keep the option of another extension in place and strengthen the forward guidance on rates, which are only likely to rise after the end of asset purchases. So the upshot still appears to be that rates will not get hiked before 2019.



Source: Bloomberg, Emirates NBD Research

In the UK, the Bank of England still appears pre-committed to a rate hike in November, following the Bank's MPC meeting in September and notwithstanding mixed economic data over the last month. On the dovish side there was an unexpected downward revision in Q2 GDP growth to 1.5% y/y from 1.7%, as well as a sharp rise in the UK current account deficit up to 4.6% of GDP from 4.4% in the previous quarter. The GDP downgrade was largely on account of historical revisions, whereas the q/q figure was unrevised at 0.3% but still showed UK growth to be half that of the Eurozone in Q2. Markets believe this softness to be the beginning of the Brexit effect, although monthly activity data has provided a more positive contrast with the national accounts showing activity indices holding up. Inflation too has reached the top of the Bank's 1-3% target range, and although it is likely to fall back in coming months the Bank wants to use this opportunity to at least remove the emergency easing made in the aftermath of the Brexit referendum. Beyond a November hike, the Bank of England is likely to be at pains to emphasize that it will take further tightening steps very slowly.

### Political events also in Asia

Finally, Asia also faces significant political events in the coming month, and not only related to North Korea. China's 19th National Congress of the Communist Party convenes this week and President Xi is widely expected to be re-elected and is expected to outline another broad plan for economic growth in the coming years, albeit probably at a slightly slower pace than this year's expected 6.7%. Meanwhile Japan also faces an election on October 22, where polls show PM Abe's LDP party in the lead, which will help to keep current expansionist policies intact. So far these policies appear to be paying off. The Bank of Japan's Tankan index rose to a decade long high in Q3 with business conditions for large manufacturers rising to 22 from 17 in Q2, with the outlook component also rising strongly. Inflation also appears to be finally turning the corner with the BOJ's preferred measure of CPI (excluding fresh food) rising consistently since the start of the year.

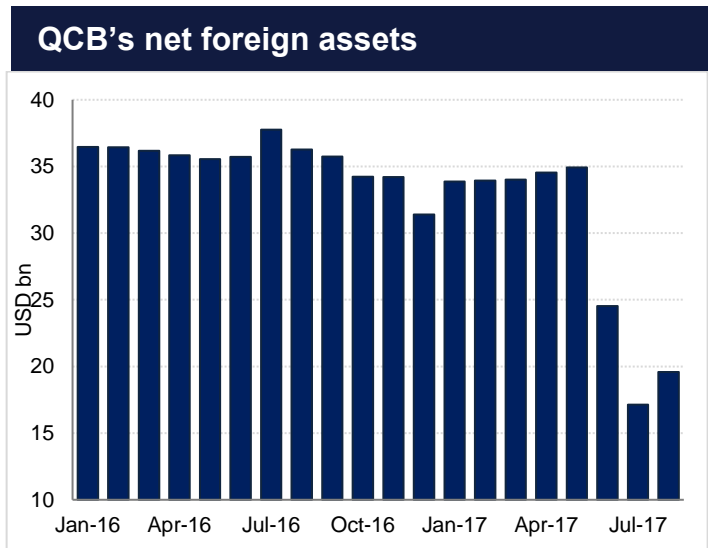
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## GCC Macro

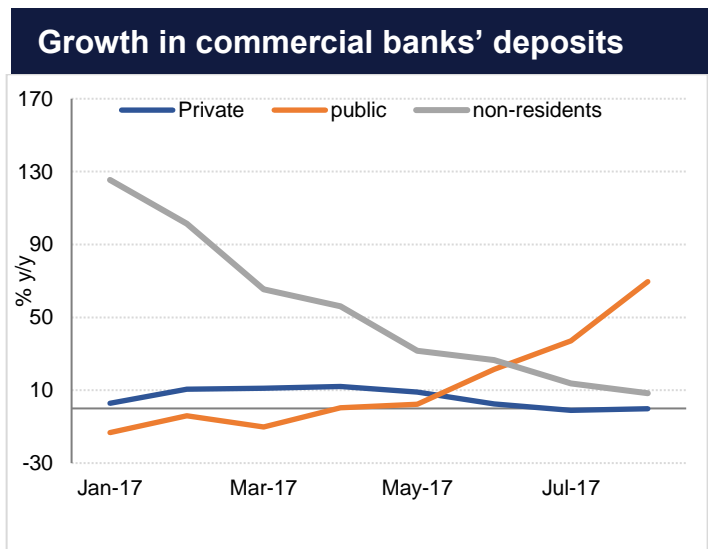
The latest monetary surveys for Saudi Arabia and Qatar showed a decline in the central banks' net foreign assets over the last few months, although there was an improvement m/m in Qatar in August.

### QCB's NFAs decline –USD 15.3bn since end-May

Since the end of May, QCB's net foreign assets have declined by –USD 15.3bn to USD 19.6bn, a drop of more than 43%. However, the overall NFA position has improved as commercial banks' net foreign liabilities have declined by more than 20%.



Source: IHS Markit, Emirates NBD Research



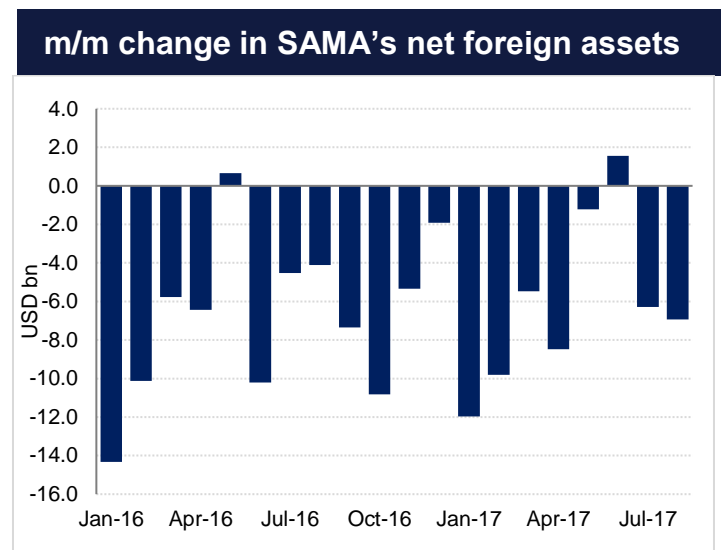
Source: IHS Markit, Emirates NBD Research

This was partly due the decline –USD9.8bn in non-resident deposits at commercial banks since sanctions were imposed in early June. Private sector (resident) deposits also fell -USD 7.7bn from June through August, but the impact of these withdrawals on banking sector liquidity was mitigated by sharply higher public sector

deposits (+USD 26bn) in Qatar's commercial banks. Overall, total bank deposits rose USD 8.6bn (4.1%) since end-May.

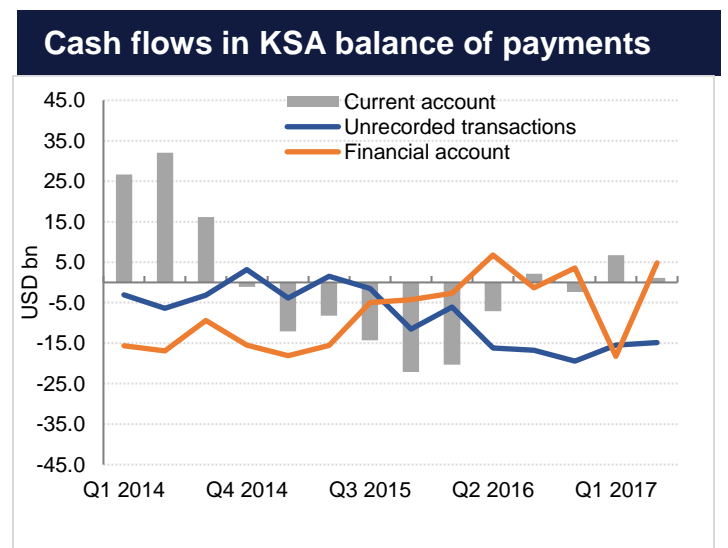
### SAMA's NFAs down –USD 48.6bn ytd

Despite a solid improvement in the fiscal balance and a surplus on the current account of the balance of payments in H1 2016, and a USD 9bn international sukuk issue in April, SAMA's net foreign assets have declined by nearly USD 49bn in the year to August. The total stock of SAMA's NFAs stood at USD 480bn at end-August, the lowest level since April 2011.



Source: Haver Analytics, Emirates NBD Research

Balance of payments data for H1 2017 show that the current account posted a surplus of USD 7.8bn in the year to June, largely on the back of higher oil prices. While the financial account recorded a net inflow of funds in Q2 2017, for H1 2017 there was a total net outflow of USD 13.4bn on the financial account, compared with a net inflow of USD 4.1bn in H1 2016. The main reason was the acquisition of financial assets abroad, particularly the purchase of foreign currency and deposits abroad.



Source: Haver Analytics, Emirates NBD Research

Of greater concern to us however, is the significant amount of unrecorded outflows which are reflected in the 'errors and omissions' line of the balance of payments. In H1 2017, -USD 30.3bn of outflows on the balance of payments was unrecorded, nearly 36% more than in H1 2016. Total reserve assets declined by -USD 36.4bn in H1 2017, which means that unrecorded transactions (capital flight) accounted for more than 80% of the decline in reserves in the first half of this year.

The additional USD 13bn decline in SAMA's net foreign assets in July and August suggest that the balance of payments has seen further outflows in Q3 2017. However, the September/ October reserves data should benefit from the USD 12.5bn bond issue by the Kingdom on 27 September.

### **IMF revises Saudi GDP growth forecasts lower**

In its 2017 Article IV country report, published in early October, the IMF revised its real growth forecast for Saudi Arabia lower to 0.1% (from 0.4% previously), largely on the back of the decline in oil output. Saudi Arabia has cut average oil production this year by more than it had agreed with OPEC in November 2016. The Fund also revised down its 2018 growth forecast slightly to 1.1% from 1.3%.

PMI survey data suggests that non-oil growth has remained solid through Q3, and we are broadly optimistic that non-oil growth is likely to accelerate somewhat in Q4 2017. As a result, we maintain our 0.5% overall GDP growth forecast for 2017, rising to 2.5% in 2018 as we expect oil production to rebound next year.

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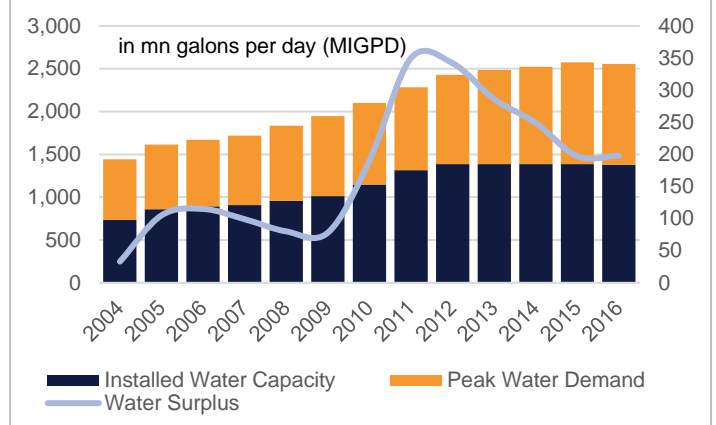
## Sector Focus

### UAE agriculture increasingly relying on international projects

UAE dependence on imported food and agricultural products, despite efforts to develop its own agriculture sector, is the reason the UAE has been investing abroad, primarily in African farms but also in South American, Asian and European farms. UAE investors have been involved so far in at least 28 agricultural deals covering 2.3 million hectares of land for agricultural use worldwide, according to Landmatrix. In total, cross-border agricultural investments by GCC countries reached 4.3 million hectares of agricultural land. Of this, Africa accounted for 88.0% followed by South America, Europe and Asia with 11.0%, 0.9% and 0.1% of the total area, respectively.

water in line with both local and international regulations. UAE aims to reduce total demand for water resources by 21.0%, reduce the water scarcity index by three degrees, increase the reuse of treated water to 95.0% as well as increase the national water storage capacity. Overall, GCC countries have announced over USD 100bn of investments in desalination and water recycling in 2017 and over USD 200bn of investments in energy efficiency as well as renewable and nuclear energy in 2018.

### UAE total water capacity, in MIGDP



Source: Bloomberg, MEED, DEWA, ADWEC, Emirates NBD Research

### UAE international agricultural projects by target country, in hectares, as of Q3 2017

Target Country	Hectares	% of total
South Sudan - Al Ain Wildlife	1,680,000	74.2
Zimbabwe - Dubai World	290,000	12.8
Egypt - Janan	42,000	1.9
Egypt - Al Dahra	40,000	1.8
Sudan - Al Dahra	34,802	1.5
Sudan - AD Development Fund	30,000	1.3
Sudan - Jenaan	22,257	1.0
Sierra Leone - Miro Forestry	21,000	0.9
Egypt - Jenan	20,000	0.9
Other	82,599	3.7
<b>Total</b>	<b>2,262,658</b>	<b>100</b>

Source: Landmatrix, Emirates NBD Research

The UAE ranked as one of the most secure economies in the MENA region, according to the 2017 Global Food Security Index by the Economist Intelligence Unit (EIU). Overall, the UAE ranked 33rd out of 113 countries. The index measures food affordability and availability, nutritional quality and food safety. The UAE's overall score was strengthened by the increased access to financing for farmers and the strong presence of food safety net programs while low public expenditure on agricultural research and development (R&D) as well as the volatility of the agricultural production needs to be addressed.

### UAE water security strategy 2036 unveiled

The UAE's installed water capacity (including desalination and fresh water) declined marginally in 2016 reaching 1,378 mn gallons per day (MIGPD), down -0.6% y/y. Similarly, UAE peak demand reached 1,137 MIGPD for the same year, down -0.8% y/y, with Abu Dhabi accounting for 39.6% of the total followed by the rest of the UAE (31.0%) and Dubai (29.4%). UAE demand for fresh water is projected to grow by 30% by 2030, according to Masdar Institute.

The UAE Ministry of Energy recently unveiled the UAE Water Security Strategy 2036, aiming to ensure sustainable access to

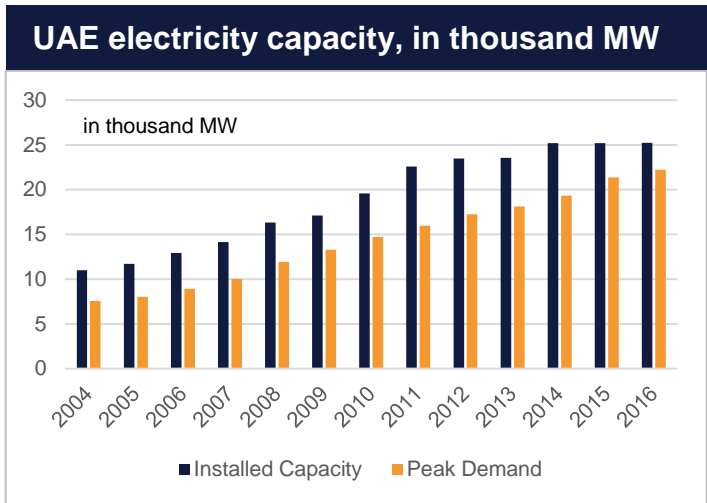
### Overview of the GCC power market

The GCC currently represents 47.0% or 148 Gigawatts (GW) of the current MENA power generating capacity. The GCC's rising demand for energy is driven by strong population growth, industrialisation, low electricity prices and high income levels. The GCC would need USD 85bn for the addition of 69 GW of generating capacity and another USD 52bn for transmission and distribution (T&D) by 2020 with power capacity expanding at an average annual rate of roughly 8.0% over the next five years. Saudi Arabia ranks first in terms of necessary capacity additions, with investments worth USD 71bn required in order to increase capacity to 114GW by 2020, according to Arab Petroleum Investments Corporation (Apicorp).

### UAE boasting a highly advanced power sector

UAE currently records the highest reserve margin (installed capacity over and above the capacity needed to meet peak demand levels) among its GCC peers, with both Abu Dhabi and Dubai recording reserve margins of roughly 25%. UAE installed capacity remained unchanged in 2016 reaching 25,220MW. Separately, UAE peak demand reached 22,216MW in for the same period, up 3.9% y/y, with Dubai accounting for 35.9% of the total followed by Abu Dhabi (28.1%) and the rest of the UAE (36%).

Fostering the country's commitment to renewable energy, Dubai recently announced the Dubai Clean Energy Strategy 2050, which aims to provide 7.0% of Dubai's energy from clean energy sources by 2020, 25.0% by 2030, and 75.0% by 2050. The focus towards clean energy is complemented by Dubai's vision of becoming the world's smartest city by 2017.



Source: Bloomberg, MEED, ADWEC, DEWA, Emirates NBD Research

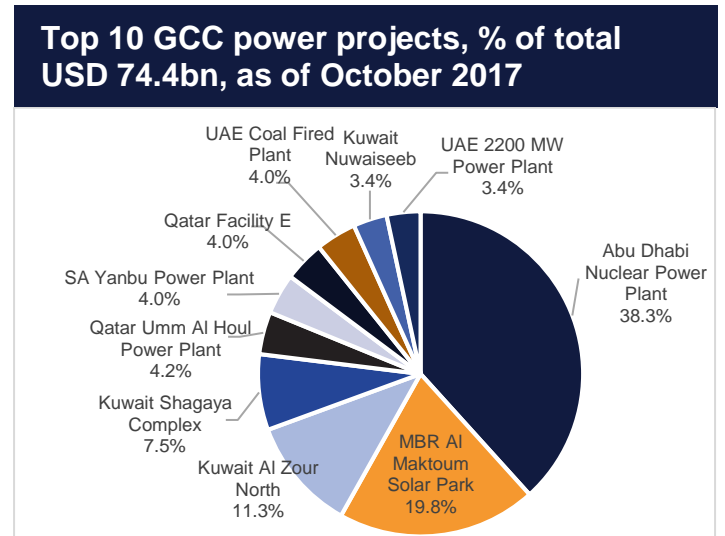
### Saudi's rising power demand to be financed by private sector

Saudi Arabia's private sector is expected to invest USD 133.3bn in electricity projects (introducing public-private partnerships) over the next ten years amid rising power demand in the Kingdom. Peak electricity is expected to hit 90,000 megawatts (MW) in 2022 with currently installed capacity at roughly 70,000 MW. In June last year, Saudi Electricity Company (SEC) invited expressions of interest in building two solar power plants at Al-Jouf and Rafha in the north of the country. Saudi Arabia's energy consumption is expected to double by 2030, with the government taking measures to develop renewable energy sources in order to meet the country's growing demand for power. As the biggest power market in the GCC, we estimate an uptrend in investment projects in utilities over the next ten years, to meet rising demand from a growing population.

Saudi Arabia is planning to construct sixteen nuclear power reactors over the next twenty years at a cost of more than USD 80bn, with the first reactor operating in 2022. In addition, an electricity grid connecting Saudi Arabia and Egypt is likely to be fully operative before mid-2019. However, regulations governing the development of the power sector, awaited by foreign investors who already set up offices in the country in anticipation of numerous power projects, have still not been approved.

### GCC power projects, 2017-2020

The total value of GCC power projects is estimated at USD 252bn over the next five years (as of October 2017). Saudi Arabia (KSA) is expected to register the highest project value among the GCC countries over the 2017-2020 period worth USD 71bn followed by the UAE (USD 34bn), Kuwait (USD 12bn), Qatar (USD 9bn), Oman (USD 8bn) and Bahrain (USD 3bn), according to Arab Petroleum Investments Corporation (Apicorp). While the sharp decline in oil prices since mid-2014 has caused the scaling back or cancellation of many power projects, investments in the sector have continued to move ahead.



Source: Bloomberg, Apicorp, Emirates NBD Research

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## Interest Rates

**Upbeat monthly economic data further cemented prospects of a December rate hike in the US. However, the UST curve flattened, with long term yields remaining anchored at low levels as inflation continues to linger below the Fed's target range.**

### Global Rates

Monthly economic data affirmed the underlying strength of the US economy. The unemployment rate has fallen to a 16-year low of 4.2% from 4.4%, while average hourly earnings increased by 0.5% m/m, lifting the annual growth rate to a nine-month high of 2.9%. The data came on the back of surprisingly strong manufacturing and non-manufacturing activity for the month.

As widely expected, the FOMC left the Fed funds target range unchanged (at 1.00-1.25%) at its September meeting, while confirming its conviction to continue normalizing rates along with balance sheet unwinding that will commence this month at the rate of USD 10bn per month. Markets were surprised on the hawkish side by the dot plot being left unchanged for 2017 and 2018, implying another 25bp rate hike this year and three hikes next year, though projections for rates in the longer run were revised down to 2.75%. Together, the strong data and hawkish tone of Fed officials has raised expectations of a December rate hike to over 80% now, up from 50% previously.

While the tax-reform debate could dominate headlines in the coming weeks, it is unlikely that tax reform or a fresh spending stimulus will be seen for a while. The more pressing question for the Fed right now is whether US inflation rebounds or not. September core CPI came in at 1.7% YoY, marginally below consensus of 1.8%. Low inflation has helped convince the markets that the Fed will not follow through on its policy forecast, as markets are pricing in just one hike next year and term premiums have not reacted to the Fed's increasingly hawkish balance sheet plans.

Economic data in Eurozone was generally upbeat as well. September PMIs rebounded to their Q2 highs, suggesting that economic momentum remains very strong in Q3. However, Eurozone core CPI remained muted at only 1.2% YoY in September and is likely to linger around this level in the coming months, allowing the ECB to remain dovish despite the expected announcement of QE tapering. Though German Chancellor Angela Merkel won the general election and will remain Chancellor, the weakness of the two traditional main parties implies that the negotiations to form a governing coalition will be complex and will likely take several weeks. In addition, the Catalonia crisis kept investors a bit on edge in early October. Political uncertainty and a dovish ECB kept a lid on 10yr Bund yields that closed the month 2bps lower at 0.41%.

S&P cut China's sovereign rating from AA- to A+ last month and Moody's cut the UK's rating from Aa1 to Aa2. These actions had little market impact because the downgrades were expected but they still confirm the long-term weakening in fundamentals in the two countries. The ratings downgrade, low unemployment and inflation running at higher than BoE's target all combined to advance yields on 10yr Gilts by 7bps to 1.37% during the month.

The BoJ left its monetary stance unchanged during the month and is expected to remain fully accommodative until at least 2019, diverging further from other central banks' policies as inflation remains persistently low despite the tight labour market conditions.

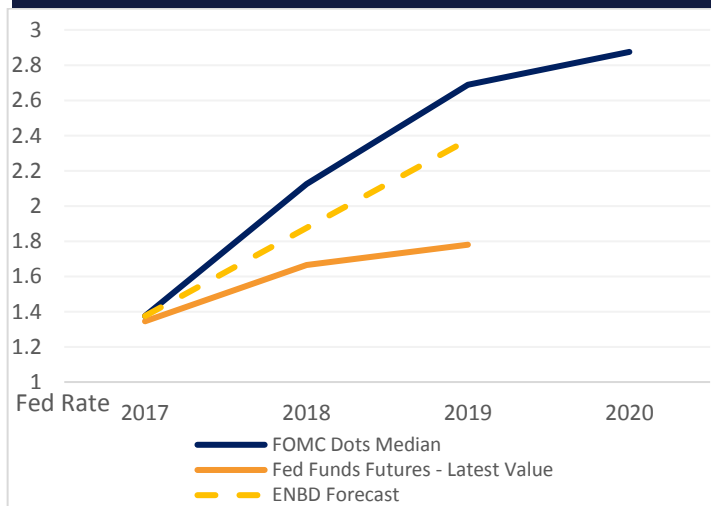
### 10Yr Government Bond Yields

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

Source: Bloomberg

In the EM space, several central banks met during the month. Bank Indonesia opted to cut its policy rate for a second consecutive month, moving to 4.25% from 4.50%, acting against consensus that it would remain on hold. Banco de Mexico held its overnight rate at 7%, saying that inflation had likely reached its ceiling and not expecting recent natural disasters to have an impact on longer term inflation outcomes. Having tightened policy earlier in 2017, the Central Bank of Egypt was on hold at 18.75%, although it expects a significant decline in inflation in coming months. Nigeria's central bank held rates at 14%, balancing a weak domestic growth environment with elevated inflation. The Central Bank of Sri Lanka left its lending and deposit facility rates unchanged at 8.75% and 7.25% respectively; monetary policy has been tightened in recent quarters given relatively high inflation. In Pakistan, monetary

### FOMC Dot Plot vs Market Expectations



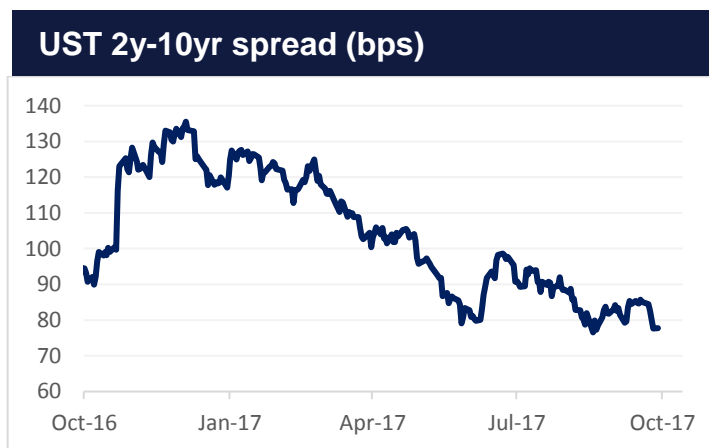
Source: Bloomberg

authorities also left rates steady at 5.75%, as they see growth picking up to 6% in 2018, while inflation should remain contained.

### UST curve flattened further

Weak inflationary pressures kept long term yields anchored at low levels, even though UST yield curve shifted upwards in response to strong economic data and hawkish tone of the Fed officials during the month. 2yr UST yields rose 13bps to 1.51% - its highest level post the financial crisis. In contrast 10yr yields are only at 2.29% (+9bps m/m) materially lower than around 3.50% in 2011 and 3.0% in 2014.

The 2yr10yr yield spread has almost halved from 135bps at the beginning of this year to 77bps now as inflation remains illusive. The 2yr 10yr spread normally begins to flatten around the mid-point in a rate hike cycle. The current Fed target rate is roughly at half of its 2.75% target for the long-term rate and this should signify continuation of flattening of the 2yr10yr curve.



Source: Bloomberg

There was little change in swap spreads over treasuries during the month. Yields on US treasuries rose across the curve during the month and swap rates followed suit with 3yr and 5yr swap rates rising to 1.87% (+11bps) and 2.00% (+9ps) respectively. Swap spreads beyond the seven year part of the curve continue to remain negative with 10yr swap spread over treasury staying close to -4bps over the month.

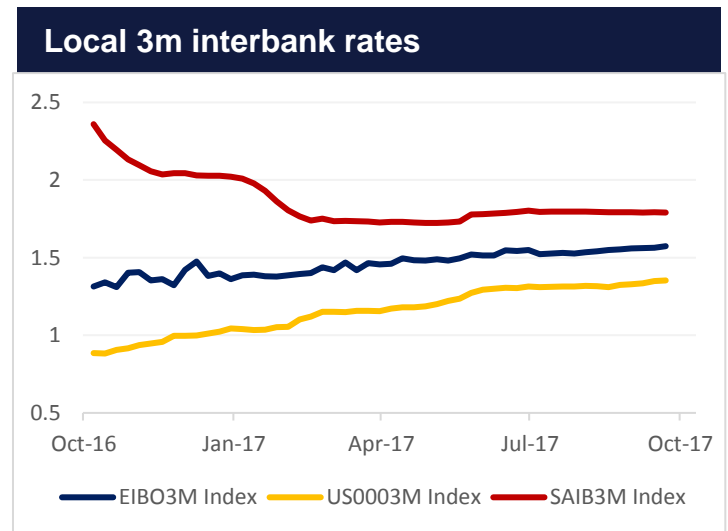
### GCC Local Rates

Economic growth in the GCC has slowed considerably over the last two years which has reduced demand for credit/loans, leaving the local banking systems flushed with liquidity. Though local interbank rates moved up in tandem with the increase in short term USD rates, the spread between the 3m LIBOR and 3m local rates (EIBOR and SAIBOR) narrowed further.

The 3mEIBOR spread over 3mLIBOR reduced by another 2bps during the month to 21bps and is less than half of where it began the year and is currently at its lowest level post the financial crisis. After spiking to 54bps in 2015 in response to falling deposits in the banking system due to low oil prices, this spread has gradually narrowed to its current level and may continue to compress further

as the direction of economic growth in the US and UAE remains divergent.

The situation is similar in Saudi Arabia. While 3m SAIBOR rate remained largely unchanged during the month at 1.79%, its spread over 3mLIBOR narrowed 3bps to 44bps and is a fraction of 160bps where it was in end 2016.



Source: Bloomberg

AED swap curve also narrowed its spread differential over its dollar counterpart. Dirham 3yr and 5yr swaps rates are currently at 2.36% (+4bps m/m) and 2.77% (-7bps m/m) while USD 3yr and 5yr swap rates increased by 11bps and 9bps respectively. Though the spread differential between the AED and USD 5yr swap rates has decreased this month, it remains at almost 3.5x the spread differential between the short term 3m rates and there may be room for it to narrow further.

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## Credit Markets

**Rising USD rates and substantial new supply weighed on GCC corporate bonds. However, positive sentiment on the back of higher oil prices and reducing government budget deficits in the region helped to contain the loss.**

### Global Bonds

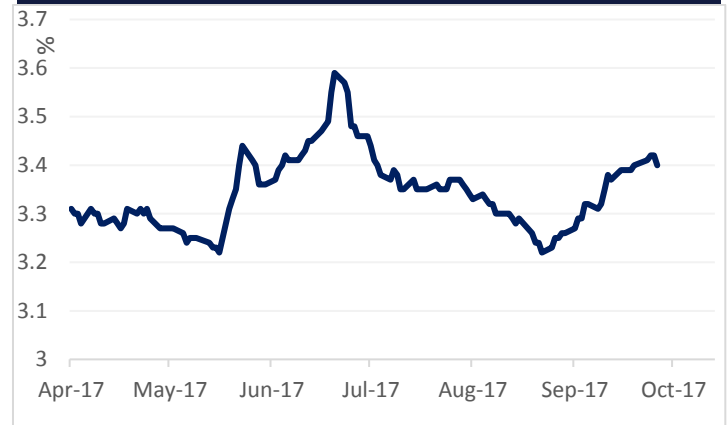
Material increase in yields on US treasuries proved detrimental to the USD denominated corporate bond market, however, the global backdrop of steady growth, low inflation and cautious central banks remained supportive of risk appetite and kept the bid for credit intact.

Credit spreads on US corporate bonds tightened over the month as investor sentiment was boosted by expectation of reduction in corporate tax from 35% to 20% under the new tax reform proposal. With credit spread tightening outweighing the benchmark yield widening, US IG index became the best performing credit market in the developed world.

In contrast, though total return was marginally positive, strengthening USD and reduction in capital flows to emerging market bonds saw yields on EM bonds rising to 4.46% during the month.

bid supported credit spreads to remain largely stable with a narrowing bias. In fact the option adjusted spread on the Bbg Barclays GCC index recorded two bps tightening during the month to 132bps.

### Bbg Barclays GCC Credit Index – YTW %



Source: Bloomberg

Oil prices received a boost from media reports that OPEC and its allies are discussing extending oil production cuts that expire in March 2018 by at least three months, potentially prolonging them well into the second half of next year in an effort to boost prices. Brent futures rose 4% during the month to USD 58.4/b. Despite strengthening oil prices, CDS levels on GCC sovereigns had a slight widening bias barring Saudi Arabia which benefited from plethora of positive news. 5yr CDS on Abu Dhabi and Dubai widened 5bps to 63bps and 152bps respectively during the month and that on Qatar widened 11bps to 103bps while KSA CDS remained rangebound at 83bps.

High-yield bonds such as DARALA, TPZMAR, BHRAIN curve etc outperformed their investment grade counterparts. Local investors' interest in acquiring bonds of Dubai Aerospace (which were entirely placed in international markets in July this year) remains high. Price of DUBAEES 20s and 22s increased circa half a point during the month to close at yield of 3.20% (-15bps) and 3.75 (-20bps) respectively. Given its ownership by the Dubai government, DUBAEES bonds still look attractive compared with EMIRAT 23s at 3.58% and DUGB 21 at 2.92%.

Large new issues by the sovereign depressed the price of KSA's bonds in the secondary market even though S&P affirmed Saudi Arabia's rating at A- during the month, citing expectations of government taking steps to consolidate public finances and maintaining liquid assets close to 100% of GDP over the next two years. KSA also had positive validation from the IMF's report which expects KSA reforms to boost its budget by \$90 billion by 2020 from new taxes and planned cuts in subsidies. Nevertheless, the yield on KSA 27s sukuk closed up by 4 bp to 3.33% compared to a 9bps widening in KSA 26s bond to 3.38% - reflecting the support of sharia investors for sukuk securities.

Bargain hunters supported bonds from Oman which are mainly issued by the sovereign, GREs and financials. Oman 21s gained

### Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	98	-10	-6	-32
US HY Corp	348	-11	-12	-119
EUR IG Agg	60	0	+1	+1
USD EM Agg	243	-3	-23	-70

Source: Bloomberg

European corporate bonds are yet to show the impact of upcoming QE tapering by the ECB. That said, while credit spreads on EUR denominated bonds have remained range-bound, the average yield has almost doubled over the last one year to 0.50% now from 0.28% at the same time last year.

The International Monetary Fund (IMF) released its semi-annual World Economic Outlook (WEO), modestly revising up its global growth projections (+0.1%) for 2017 and 2018. The IMF estimates that global growth will print 3.6% in 2017 and 3.7% in 2018. It highlighted that advanced economies were largely behind the upward revision in 2017 while emerging markets drove the revisions in 2018.

### GCC Bonds – Secondary market

GCC bond market had a volatile months with the average yield on Bloomberg GCC index rising circa 13bps to 3.40%, much in sync with the increase in benchmark yields. However, the improving local

quarter of a point with yield tightening 6bps to 3.36% as the country announced plans to create 25000 state jobs by year-end. The new jobs plan boosted expectations of higher economic growth although government will need to fund this via higher debt. Oman sovereign had mandated banks few weeks ago for a benchmark sized offering, however is yet to tap the market.

Though corporate and financial sector bonds from Qatar traded sideways during the month, Qatar's sovereign curve responded negatively to the news about 2Q GDP growth slowing to 0.6% from 2.5% in 1Q 17. The yield on Qatar 26s increased 21bps to 3.49% during the month.

Bahrain expects GDP growth to reach 3% this year boosted by about USD 30bn of capital spending to stimulate growth. Credit spreads on Bahrain curve narrowed further during the month with Z-spread on BHRAIN 26s closing at 384bps (-16bps m/m).

In the corporate space, yield on KUWAIE 19s widened more than 298bps to 18.17% as cash continued to deplete to fund capex and operating expense at a time when operating profit is declining. Investors remained wary of the liquidity situation, even though the company has repeatedly stated its plan to continue working on the IPO Plan.

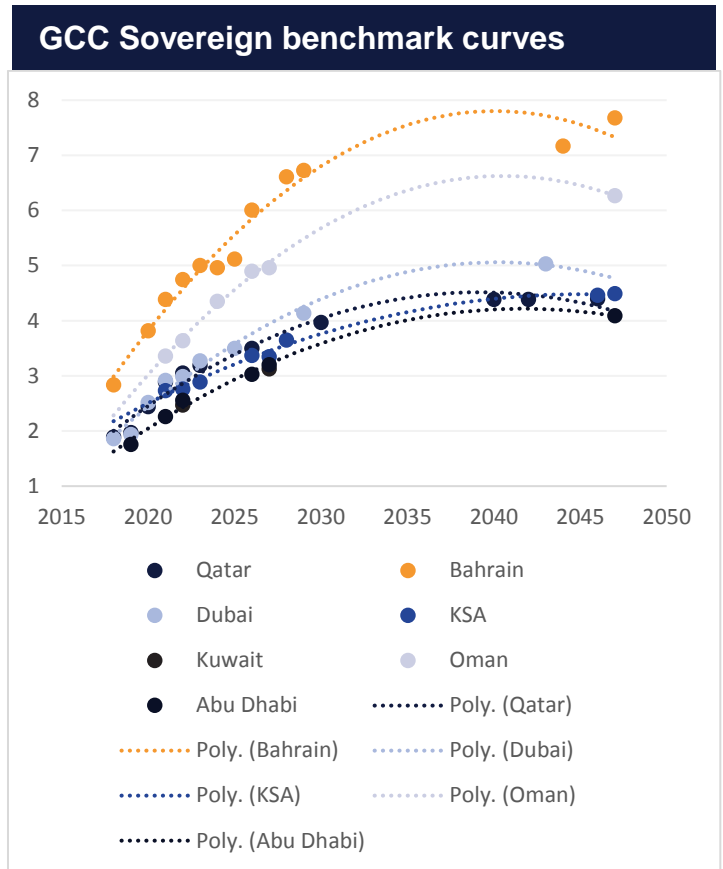
The U.K. trial probing USD 700mn of Dana Gas sukuk commenced last month, but has now been put on stay until Nov 12 to allow Dana Gas to appeal an injunction in the U.A.E. blocking its participation in case.

## GCC Bonds - Primary Market

Activity in the primary market was dominated by sovereign issuance. During the month KSA raised USD 12.5bn against an order book of circa USD 40bn, Bahrain raised USD 3bn and Abu Dhabi government tapped the market for USD 10bn across three tranches. KSA sold USD 3bn in 5.5y, USD 5bn in 10.5y tranche and USD 4.5bn in 30y tranche which priced at T+ 110bps, T+145bps and T+180bps over USTs respectively. ADGB priced its 5yr, 10yr and 30yr bond tranches at T+65, T+85 and T+130bps respectively from an order book of over \$30 billion. Bahrain raised USD 3bn after being well oversubscribed for its 7yr, 12 yr and 30 yr tranches that priced at 5.25%, 6.75% and 7.50% respectively.

Also Emirates NBD raised AUD 200mn at MS+200 bps and Qatar National Bank completed sale of a USD 630mn Formosa bond during the month, issuing the 30 year bond in Taiwan which pays an annual coupon of 5% and is callable every five years. ADCB also tapped the Kangaroo market for a total of AUD 400mn, issuing AUD 150mn in 10yr note at MS+170bps.

YTD total fixed rate dollar denominated issuance in the GCC now stands at USD 74bn and augurs well to meet or beat our total issuance estimate for whole of 2017 at between USD 80- 85bn.



Source: Bloomberg

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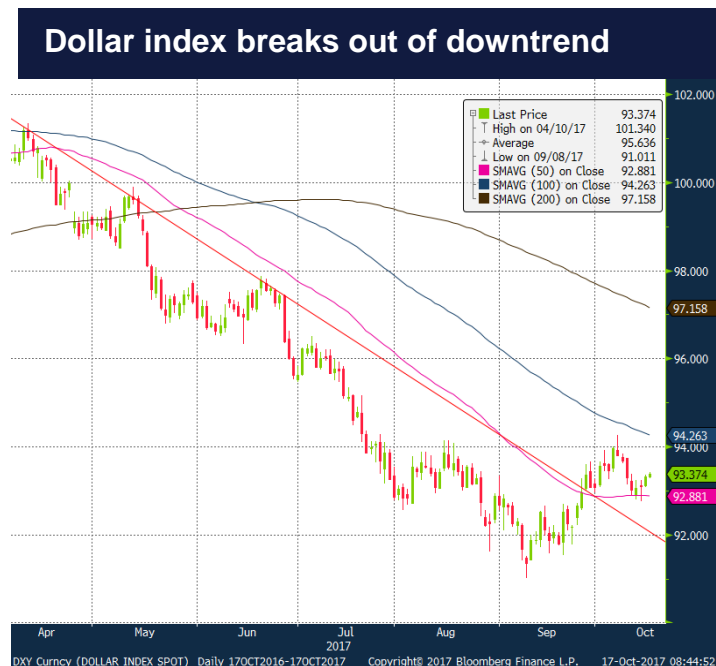


## Currencies

**Although it remains the poorest performing G10 currency YTD in 2017, USD has outperformed its peers over the last month and rebounded to pare some of those earlier losses.**

### Dollar rebounds

Since our last edition, upside surprises in US economic data have been constructive for the dollar. Despite market concerns over the aftermath of Hurricanes Harvey and Irma, sentiment continues to remain positive. This has been reaffirmed by Markit PMIs showing expansion, ISM PMIs showing the highest readings since August 2005 and consumer confidence remaining near its 16 year highs. Any market fears or concerns have been eased by policy makers stating that they would overlook any temporary anomalous pieces of data that resulted from natural disasters. This led to a positive response to September's employment data which showed that while the non-farm payrolls showed that 33,000 jobs were lost in August, the unemployment rate fell to 4.2% (the lowest since February 2001) and average hourly earnings increased 2.9% y/y. Such developments increased market expectations of a rate hike to 80.2% in December, compared with 46.7% one month earlier.

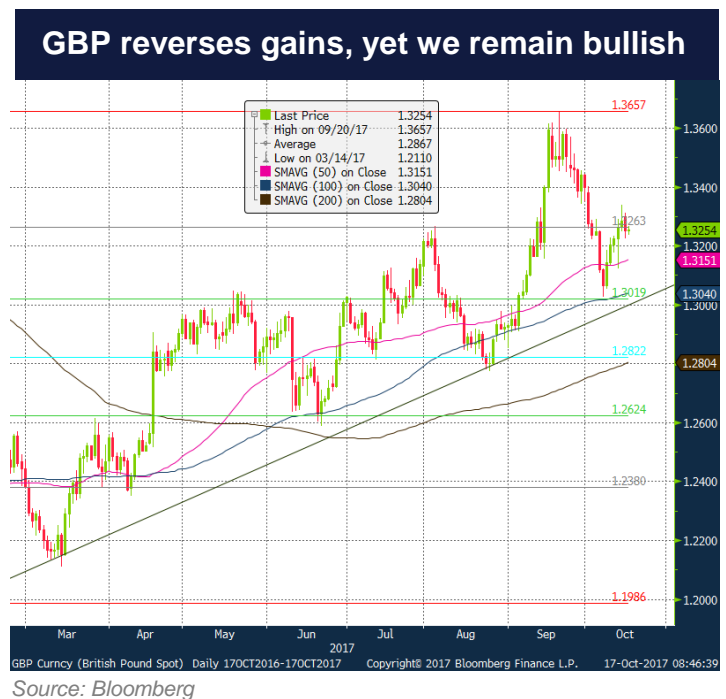


The dollar index has appreciated 1.72% over the last month and currently trades at 93.375. Analysis of the daily candle chart shows that the dollar index has broken out of the daily downtrend that began on April 10th, 2017 and has found support at the 50-day moving average. While the index continues to remain above this level, we anticipate further gains with the first target being the 23.6% one-year Fibonacci retracement of 94.034. Furthermore, it is noteworthy that risks to the upside may be reinforced if a hawk is appointed as the next Fed Chair, with John Taylor apparently moving into the frame.

### GBP hurt by mixed data and uncertainty

It has been a painful month for the pound, which has seen a 180 degree reversal in its performance, going from the best performing G10 currency to the second worst over the last 30 days. The main drivers of this turn around have been political uncertainty and renewed concerns over Brexit and its likely effect on growth. Sterling came under pressure after Q2 GDP was revised downwards from 1.7% y/y to 1.5% y/y. This downwards revision was accompanied by an increase in the current account deficit of 4.6% of GDP compared with 4.4% in Q1.

Political uncertainty has played an equal role in punishing the pound, with Prime Minister May remaining under pressure following growing unrest within her own party over her leadership and the state of her negotiations over Brexit. However, given the recent uptick in inflation and the low unemployment rate markets are expecting a shift in policy from the Bank of England, which has become more hawkish. Indeed after Governor Mark Carney made comments that an increase in interest rates may be expected in the near term, the market is pricing in an 84.3% chance of a rate hike in 2017, up from 72.8% a month earlier.



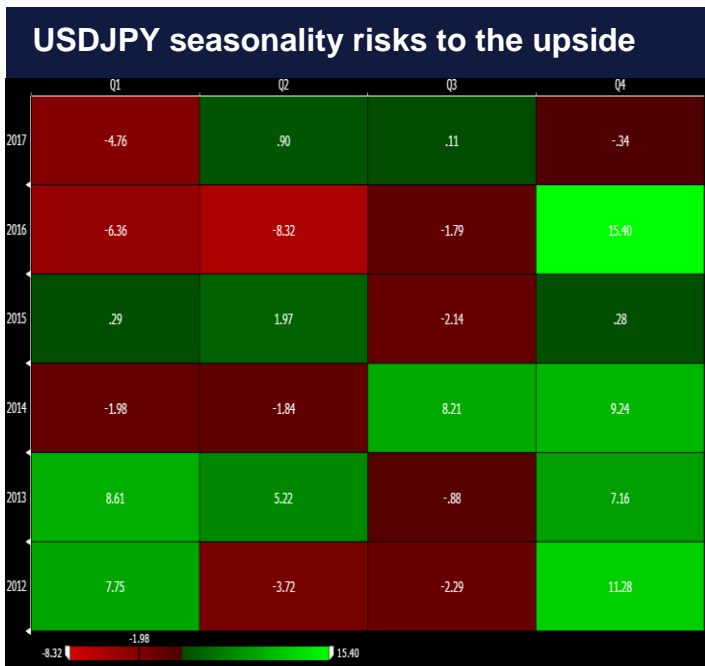
Despite the overall negative performance this month, sterling has done well over the last week and has outperformed the other major currencies, with GBPUSD currently trading at 1.3250. Of note is that during this period, Cable has consistently found support near its 50 day moving average (1.3151). We are looking for a confirmed break of the 76.4% one year Fibonacci retracement (1.3263) to reinforce our bullish sentiment on sterling and, unless UK data disappoints in the week ahead, we expect further gains towards 1.34 to be the likely path.

### USDJPY usually strengthens in fourth quarter

The last month has witnessed JPY benefit from safe haven bids amid geopolitical uncertainty over North Korea and the outcome of

the Catalan referendum. While risk aversion has been the main catalyst driving JPY's performance, markets are now more bullish on the Japanese economy after constructive economic data. Reports showed that industrial production increased 5.3% y/y in August compared with 4.7% the previous month, while during the same period, inflation accelerated to 0.7% y/y from 0.4% y/y.

Despite this, inflation remains far from the BOJ target which means that monetary policy is likely to remain accommodative unlike in other major economies. Furthermore, USDJPY has appreciated in every fourth quarter of the last five consecutive years, a pattern which we think is likely to be repeated.



### Are Euro's fortunes turning?

Although the Catalan issue appears to have eased, it has not been entirely resolved and will continue to weigh on the Euro. This is significant because it also increases market fears over separatist referendums elsewhere in the EU, on top of the Brexit divorce in the UK.

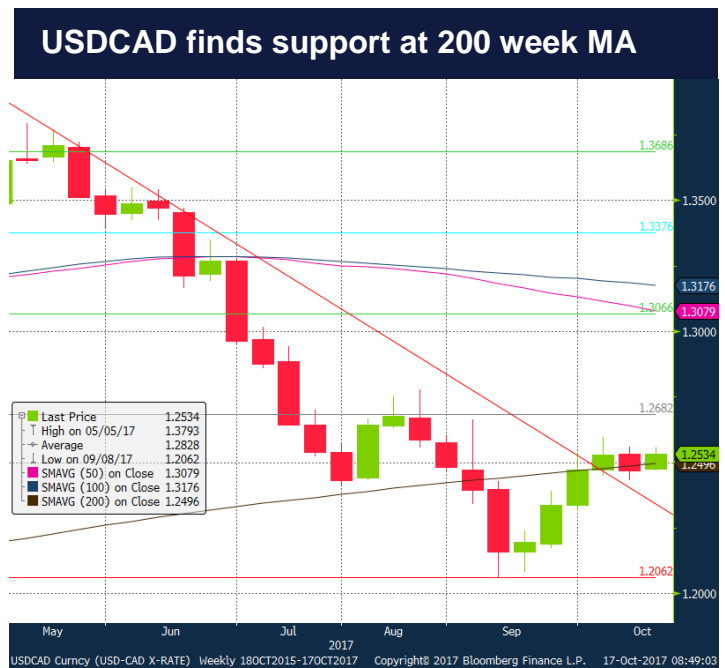
A surprise may also be in store for those expecting the ECB to announce a firm end date for the end of its asset purchases. With inflation still not at the ECB's 2% target rate and President Draghi still citing slackness in the labour market, should the central bank not announce a firm date for the end of QE at their upcoming meeting, the market may find itself wrong footed.

Having declined 1.6% over the last month, EURUSD currently trades at 1.1761. While the daily closes remain below the 50 day moving average (1.1846), we expect further declines towards our Q4 forecast of 1.15 to be the most likely. A break and close below the 200 week moving average (1.1693) would reinforce this likelihood, suggesting that the Euro's fortunes are beginning to turn.

### Amidst mixed data, CAD underperforms

Over the last 30 days, the CAD has been the worst performing G10 currency following lowered growth expectations. Despite data showing that retail sales grew 0.4% m/m for the same period and inflation increasing to 1.4% y/y in August vs 1.2% y/y in July, GDP slowed to 3.8% y/y in July compared with 4.4% the previous month. Indeed, sentiment on the CAD was not even bolstered by a 4/7% increase in hydrocarbon prices over the last month.

Having risen 1.58% over the last 30 days, USDCAD currently trades at 1.2533. This price action confirms a break out of the former weekly downtrend and takes the cross back above its 200 week moving average which now appears to act as a support (see chart). While the price stays above this level, a climb towards the 100 day moving average (1.2709) remains a possibility.



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## Equities

Over the last month, global equities continued their positive run as geopolitical risk was largely contained and macro-economic factors remained supportive. The argument that all factors i.e., strong earnings growth, benign inflation trajectory and ample liquidity remain conducive for a sustained rally in equity markets seems to be winning the day. At the moment, there appears to be no catalyst on the horizon which could negate the current momentum. The equity market appears to remain on track to end the year on as firm a footing as it started the year with.

The rally in equities over the last month was broad based with only MENA equity markets remaining an exception. The MSCI World index added +2.1% 1m on the back of +2.7% 1m move in the MSCI EM index and +2.3% 1m move in the MSCI G7 index. The MSCI Arabian Markets index dropped -3.9% 1m on the back of sharp pull backs in the Tadawul (-5.7% 1m) and the KWSE index (-3.8% 1m). The decline in the Tadawul can be attributed to the decision of the FTSE index provider to wait longer before including Tadawul in its emerging markets index. The absence of momentum in the reform process in Saudi Arabia also seems to be playing a part in investor sentiment. It is worth noting that Brent oil prices rallied +4.4% over the last one month.

Volatility remained in the low end of the range it has remained in for the better part of 2017. The VIS index and the V2X index declined -3.1% 1m and -4.3% 1m respectively. In fact, despite the VIX index

heading for its lowest-ever annual average, the number of short positions against the index touched a record high earlier this month. The CBOE EM ETF Volatility index gained +1.5% 1m.

A synchronized pick-up in growth and reasonably closely aligned monetary policies across economies are likely to fuel the current rally in global equities further in our view. With most major indices trading at or near to all-time highs we could see bouts of pull-back in light of the ongoing earnings season. However, the pull-back would be seen as a buying opportunity by investors who have missed out on the current rally. More so, when there are little signs of risk appetite waning.

### Equities – the outperformer

In the first nine months of 2017, global equity markets have outperformed all asset classes on the back of broad pick-up in economic growth, improved earnings trajectories across economies and broadly supportive outcomes for most geopolitical events so far this year. The MSCI World index has returned 16.5% 9m 2017 followed by +11.1% 9m 2017 gain in gold. Therein perhaps lies the paradox of this year as gold is generally considered a proxy for risk aversion and a hedge against increasing inflation.

Much of the outperformance in global equities was driven by a +28.1% return from emerging market equities. In fact, returns from the MSCI EM index was the highest among all asset classes by a wide margin. The MSCI EAFE index and the MSCI FM index has returned +20.5% and +24.8% respectively in the first nine months of 2017.

### Asset Class Returns

	2009	2010	2011	2012	2013	2014	2015	2016	9m 2017
Global Equities	30.87%	12.41%	-4.99%	16.56%	27.42%	5.57%	-0.28%	8.19%	16.53%
DM Equities	32.63%	8.34%	-11.68%	17.96%	23.43%	-4.32%	-0.28%	1.59%	20.47%
EM Equities	78.55%	19.24%	-18.16%	18.62%	-2.31%	-1.96%	-14.60%	11.54%	28.08%
FM Equities	11.32%	22.19%	-18.43%	8.47%	25.94%	6.61%	-14.78%	2.66%	24.82%
GCC Equities	13.58%	15.29%	-9.24%	8.00%	26.03%	1.31%	-14.85%	7.93%	4.60%
Dev Sov Bonds*	-	6.04%	6.41%	1.41%	-4.59%	0.11%	-2.47%	1.70%	6.00%
Treasuries*	-	6.00%	9.77%	2.03%	-3.37%	6.19%	0.85%	1.03%	2.26%
HY Corp Bonds*	-	12.00%	2.66%	18.63%	7.55%	-0.26%	-4.65%	14.78%	9.15%
UAE USD Bonds*						5.57%	1.78%	4.22%	4.14%
Commodities	18.72%	16.67%	-13.37%	-1.14%	-9.58%	-17.04%	-24.70%	11.40%	-3.49%
Gold*	24.73%	29.48%	10.06%	7.14%	-27.97%	-1.34%	-10.20%	8.56%	11.10%
Oil (Brent)*	70.94%	21.58%	13.33%	3.47%	-0.28%	-48.26%	-34.97%	52.41%	1.27%
Global REITs	28.47%	31.37%	5.68%	21.08%	-2.10%	33.51%	0.70%	6.51%	4.45%
Hedge Funds	9.15%	7.34%	-5.15%	5.04%	7.37%	1.43%	0.61%	3.59%	7.51%

Source: Bloomberg, Emirates NBD Research

Indices used - Global Equities (MXWO index), DM Equities (MXEA Index), EM Equities (MXEF Index), FM Equities (MXFM Index), GCC Equities (SEMGPCPD Index) Dev Sov Bonds (BGSV Index), Treasuries (BUSY Index), HY Corp Bonds (BHYC Index), UAE USD Bonds (BUAEUL Index), Commodities (BCOM Index), Gold and Oil (Spot Prices) Global REITs (ENXG Index), Hedge Funds (BBHFUNDS Index). \* shows price change while others show total return

The outperformance of emerging markets has been a departure from Q4 2016 but a consistent trend so far this year as they benefitted from “dovish hikes” by the Federal Reserve, valuation differentials and improving macro fundamentals. The strength in commodity prices has also helped the emerging market index.

For the MENA region, the performance so far this year has been uneven despite a relatively stable oil price backdrop. The S&P Pan Arab Composite index did return +4.6% 9m 2017 but has given up all its gains since then. The Qatar Exchange has been the biggest outlier with the index losing +21.1% ytd following the political fallout with its GCC neighbors.

### **EM Equities – how much further?**

Emerging market equities have had the best run in 2017 and this invariably leads to skepticism over the length and strength of the current rally. If the economic, valuation and flow factors are to be considered then it would appear that the rally could continue for a while longer.

The key determinant of that could well be how the economic growth trajectory plays itself out. It could be argued that the cyclical components in the emerging markets growth story is still in the early stages compared to that of developed markets and that could lead to a stronger growth profile over the medium term. Most EM economies are still in mid stages of their loose monetary policy which could continue for much longer than developed markets amid lack of inflationary pressures.

Despite the rally this year, valuations in emerging markets do not appear stretched on a relative basis. The MSCI EM index is currently trading at 12.7x 12-month forward earnings compared to the MSCI G7 index which is trading at 17.0x 12-month forward earnings. The MSCI World index is trading at 16.9x 12-month forward earnings. This suggests that emerging market equities are among the cheapest in the world. This when considered with the fact that it has the highest earnings growth forecast of c.23% would further enhance appeal of emerging market equities.

Additionally, flows into emerging markets continue to remain strong and yet it does not appear to be overcrowded. According to market data, emerging market equities have received inflows of USD 65.7bn ytd. It is worth noting that the flows into emerging markets so far in 2017 is just about 40% of the money that flowed out between Q2 2013 and 2016.

### **MENA – where are the catalysts?**

MENA equities have had a very uneven 2017 as most markets grappled with lack of catalysts, emergence of new geopolitical tensions and a slower pace of implementing economic reforms.

At the start of 2017, it was argued that Saudi Arabia would perhaps be included in the broader emerging market indices as the pace of financial market reforms gathered pace which in turn would make the market more attractive for foreign investors. However, that has not happened as both the MSCI and the FTSE index provider have decided to wait longer before making a decision on the inclusion. Hence, one positive catalyst which was expected to reinvigorate

markets has not come through. Having said that it must be highlighted here that the KWSE index has rallied +15.7% ytd as the FTSE decided to include the index on expected lines.

It was also expected that as part of the reform process, governments across the region would look to capital markets to raise funds by selling a part of their state-owned companies in IPOs. This step was expected to increase the depth of capital markets and attract a newer set of investors into the region. This catalyst has also not materialized.

Additionally, the political fall out between Qatar and other GCC countries have introduced a greater degree of geopolitical uncertainty. While so far the impact has been limited to the Qatari stock market, the lingering uncertainty could deter foreign institutional investors from looking at the region.

If we put all these factors together, then it appears that regional equity markets could continue to remain subdued heading into the year end.

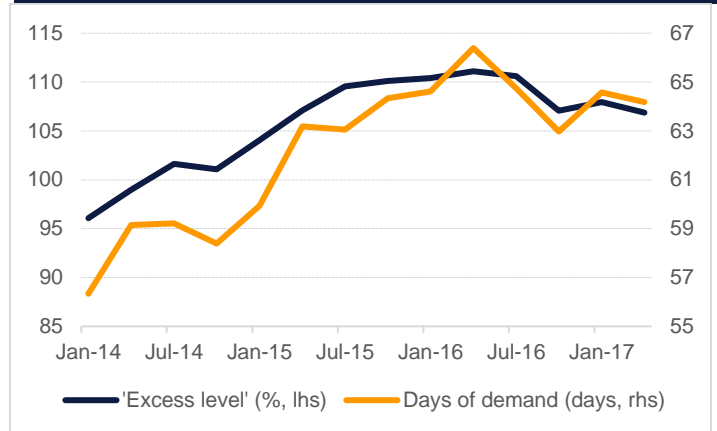
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## Commodities

Nine months into OPEC's agreement to limit production, can we pass judgement on how effective the cuts have been in restoring balance to crude markets or in changing the outlook for oil prices? How OPEC assesses its success will determine whether it extends its production cuts or chooses to broaden or deepen them. In order to keep markets from blowing back into surplus next year, we believe the only option is for OPEC producers to maintain or improve existing levels of compliance. However, that may impose economic conditions few producers would be able to endure.

The main target of OPEC's deal with its partners to limit production was to cut down on the overhang of inventories and bring them closer to their five-year average level. On this measure OPEC has achieved a qualified success. OECD stocks have stabilized for most of 2017 and in the US, where the most transparent data is available, they have declined substantially since hitting a record high in March 2017. In the trading hubs of Singapore and ARA in North West Europe, product inventories have also drawn down. Indeed the OPEC cuts have been a considerable factor, along with faster demand in H1 2017, in shifting the overall crude market balance into deficit in Q2 2017, from substantial surpluses in 2015-16.

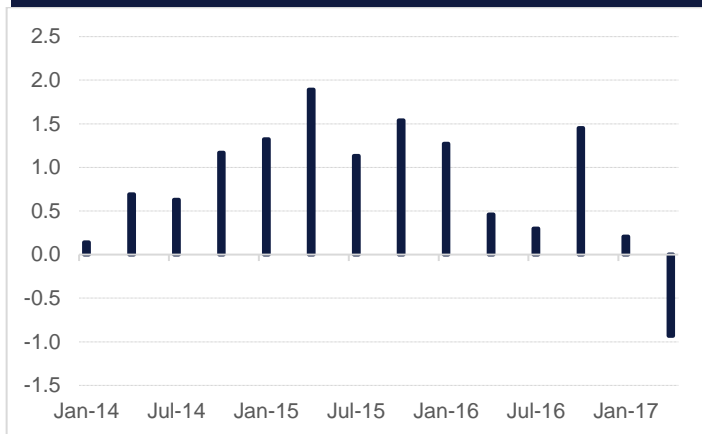
### Stocks still ample compared with demand



Source: IEA, Emirates NBD Research. Note: OECD commercial stocks measured against OECD demand.

Before the production cuts came into effect, the market was likely discounting how well OPEC members would comply with their production cuts. But on this metric, OPEC collectively has performed well, achieving average compliance in the first eight months of over 100% according to the latest figures from the IEA. In barrel terms, the OPEC cutters produced 1.05m b/d less in August than they did in December 2016 with the consequent impact of slower economic growth, or in the case of Saudi Arabia, a contraction in the economy for the first two quarters of the year.

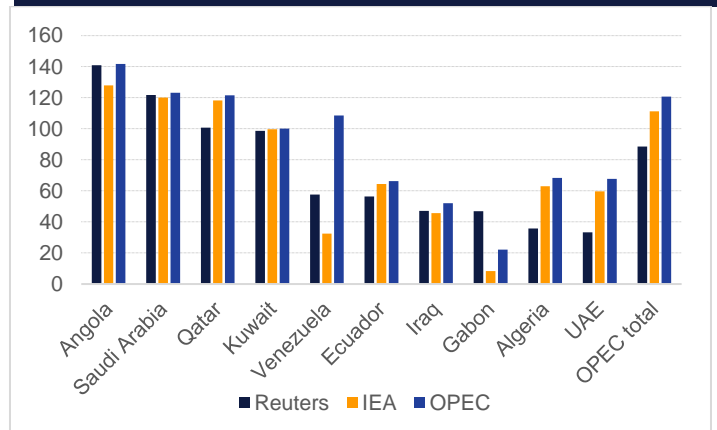
### Market beginning to draw down on stocks



Source: IEA, Emirates NBD Research.

Where we qualify this success, however, is the use of a five-year average as a target to measure victory. The 'excess' inventory level has narrowed to within 7% of the five-year average of OECD commercial inventories. But the underlying average level has increased enormously as stocks absorbed the impact of shale and elevated MENA production, making convergence easier and a less useful measure to infer whether markets have tightened. When measured against demand, even considering the more than 2.3m b/d y/y jump in Q2 2017, OECD stocks still account for more than 64 days of demand, compared with an historic average (1995-2016) of closer to 55 days. We expect inventories won't move back below 60 days of demand until the end of the decade at earliest, keeping the market amply supplied in the near term.

### Compliance with cuts uneven in OPEC



Source: IEA, OPEC, EIKON, Emirates NBD Research. Note: average compliance with targeted level Jan to August.

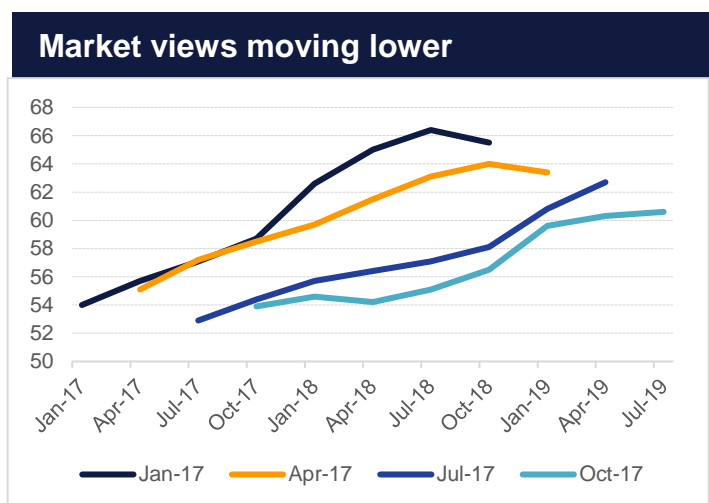
However, the high level of aggregate compliance has been achieved unevenly. Saudi Arabia and Angola have contributed more than their allocated share of production cuts, hitting compliance of more than 100%. Elsewhere, performance has been more mixed and has shown an inconsistent trend throughout the year. Iraq's compliance has averaged less than 50% according to the IEA while the UAE has also underperformed. We expect that overall compliance will weaken in coming months as producers will be wary of accepting further declines in domestic economies in the effort of balancing the global crude market.

Even as compliance with production targets has been strong, OPEC has been able to maintain exports on an increasing trend. Total OPEC crude exports hit 25.88m b/d in September, up 500k b/d since the start of the year. Libya and Nigeria, neither of which are part of the production cut, have been the major contributors to the higher export levels but Iran and Iraq have also been positive contributors. Compliance, then, has also been a qualified success but is at major risk of slipping in 2018 and pushing the market back into surplus.

In our view, achieving a higher oil price was not a primary objective for OPEC but was expected to be a residual effect of an overall tighter market. Nevertheless, oil prices have struggled this year and as of mid-October were up only 2.6% for Brent and still down on the year for WTI. The impact of production cuts has succeeded in turning around market sentiment: the Brent long/short ratio for speculative positions hit nearly nine to one in early October and overall speculative length in oil futures is at its highest in USD terms (over USD 43.9bn) since March.

More crucially, the forward curve for Brent flipped into backwardation from early August and has managed to hold the structure in place. A backwardated market should notionally be more supportive for OPEC exporters, pricing at the front of the curve than for producers hedging forward production. The resilience of the backwardation though will again be down to OPEC maintaining discipline with the production cuts and keeping output under control.

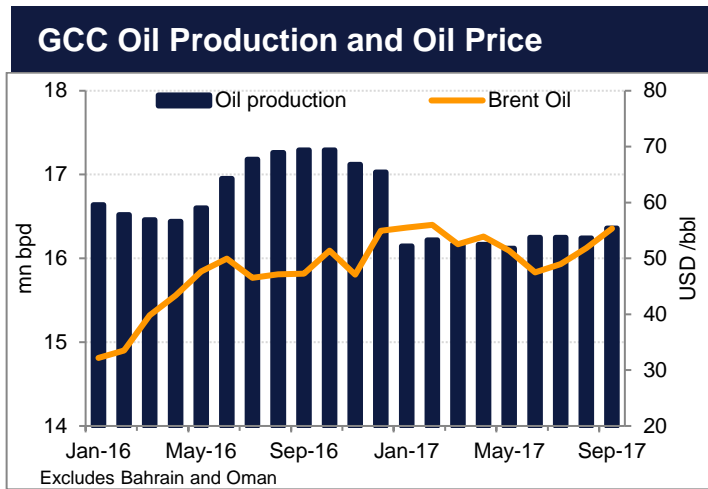
Market consensus, however, appears to be discounting the ongoing impact of OPEC's production cuts on support prices. The consensus average for Brent futures in 2018 has declined from around USD 65/b in January 2017 to just over USD 55/b as of September as banks and forecasting agencies cut their views for next year. We are on the bearish side of consensus, expecting Brent to average USD 51/b in 2018



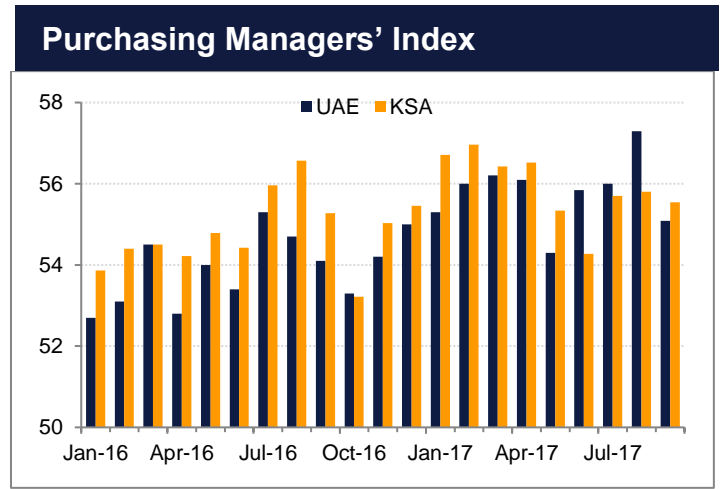
Source: Focus Economics, Emirates NBD Research. Note: consensus of average Brent prices (USD/b).

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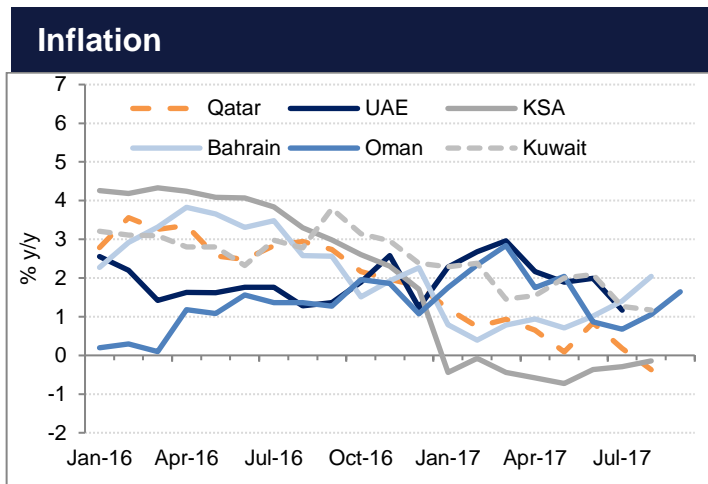
## GCC in Pictures



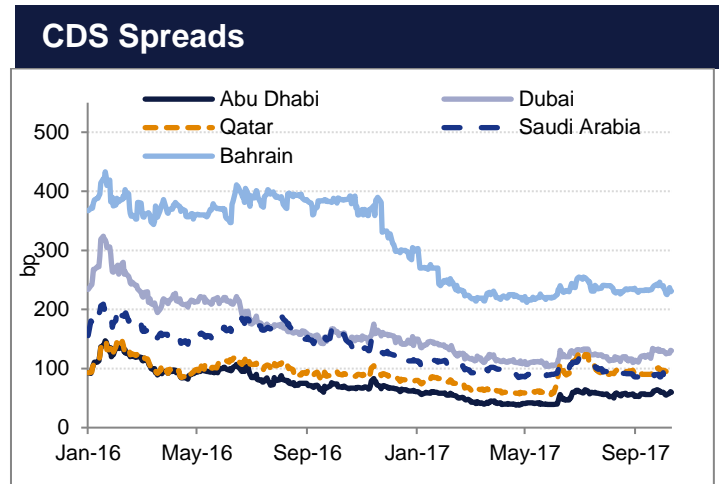
Source: Bloomberg, Emirates NBD Research



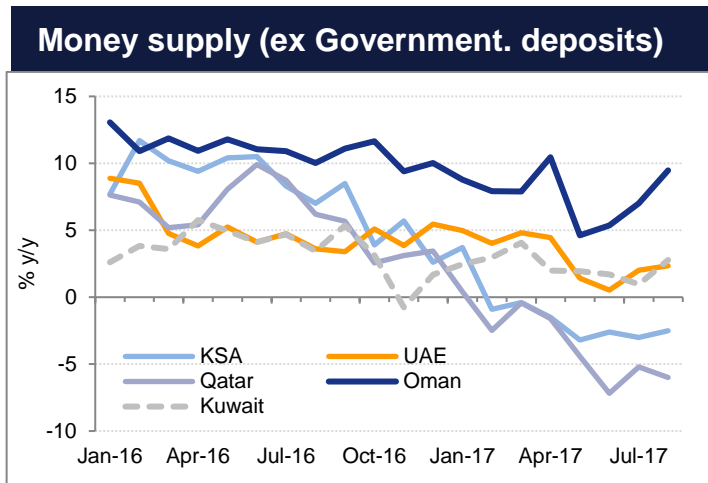
Source: Markit, Emirates NBD Research



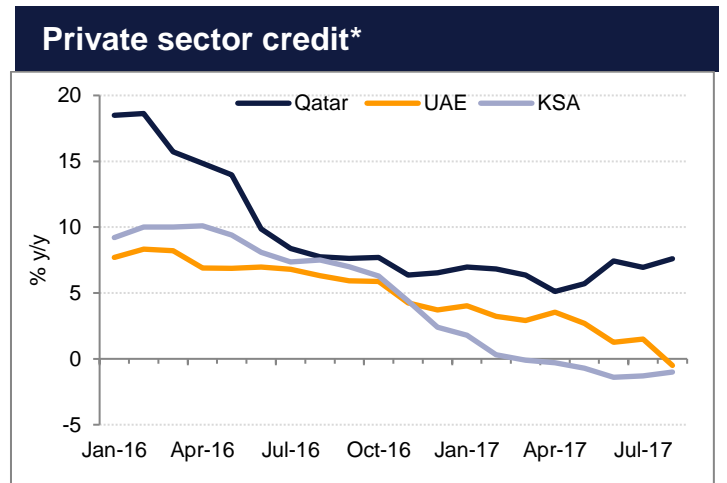
Source: Haver Analytics, Emirates NBD Research



Source: Bloomberg

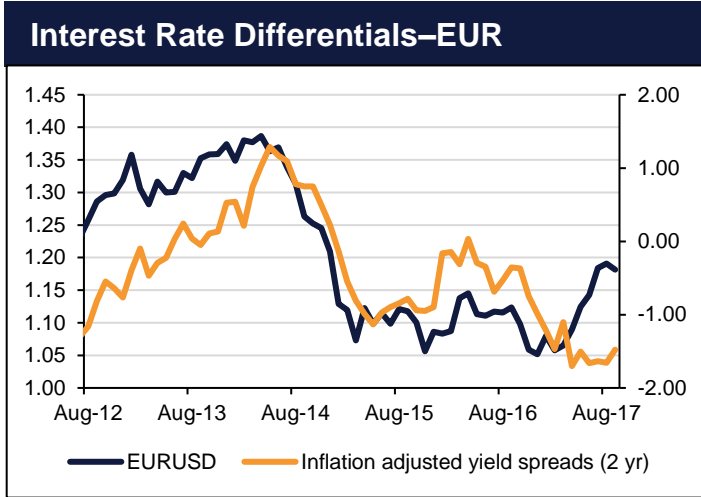


Source: Haver Analytics, Emirates NBD Research

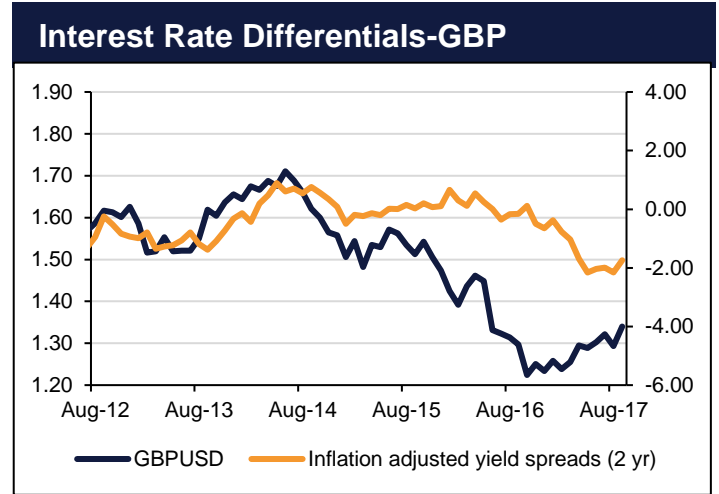


\*Qatar data is bank loan growth to private sector, not total private sector credit. Source: Haver Analytics, Emirates NBD Research

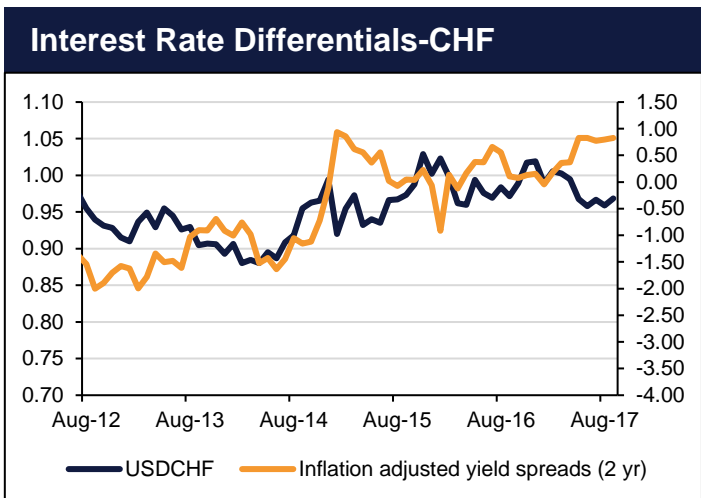
## FX-Major Currency Pairs & Real Interest Rates



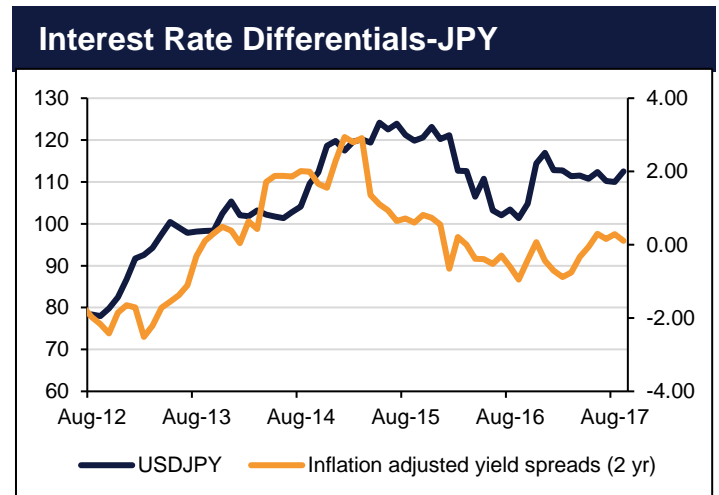
Source: Bloomberg, Emirates NBD Research



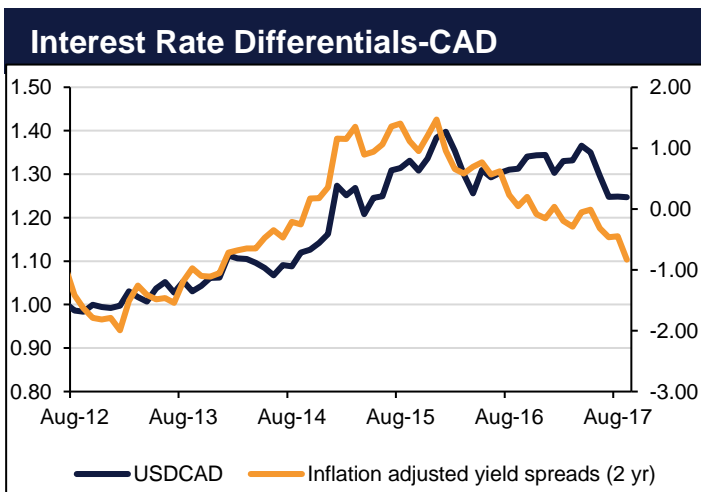
Source: Bloomberg, Emirates NBD Research



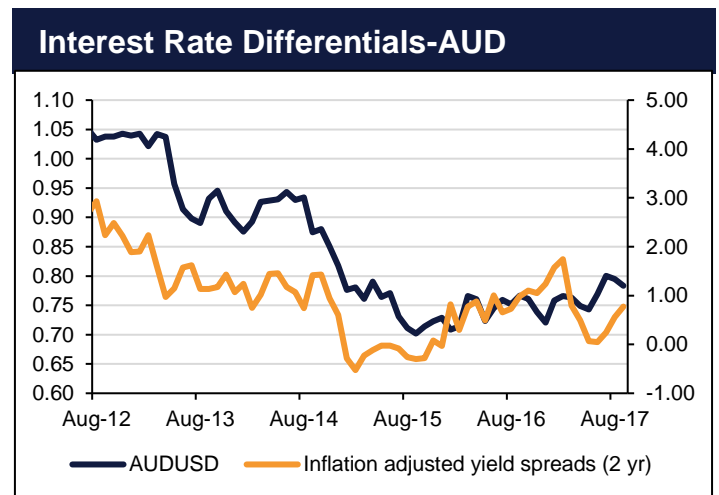
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research



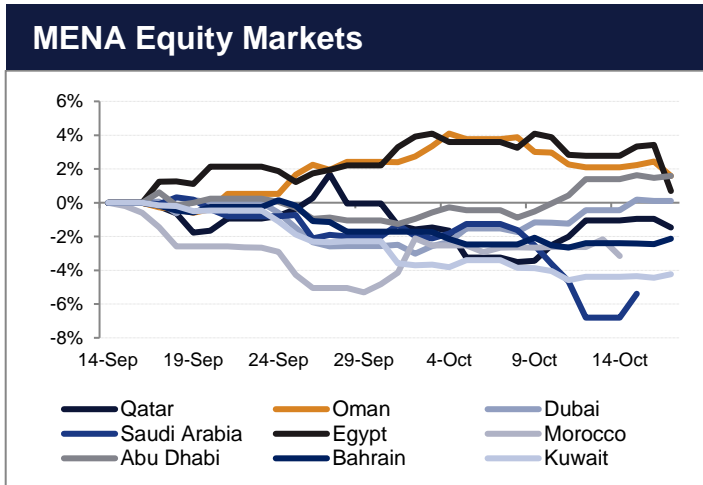
Source: Bloomberg, Emirates NBD Research



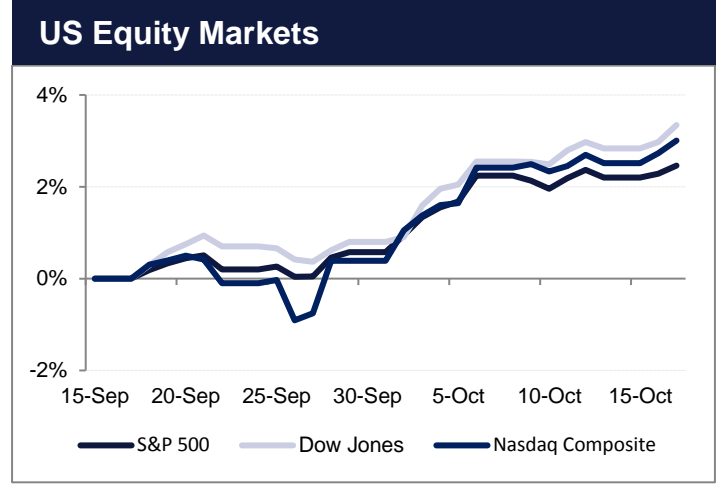
Source: Bloomberg, Emirates NBD Research



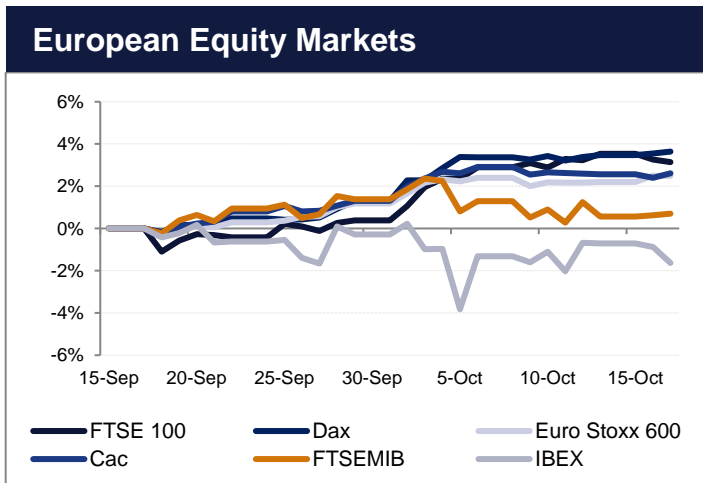
## Major Equity Markets



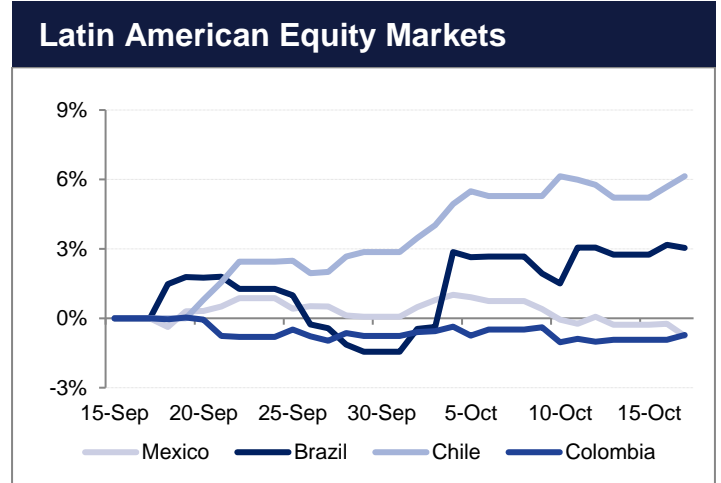
Source: Bloomberg, Emirates NBD Research



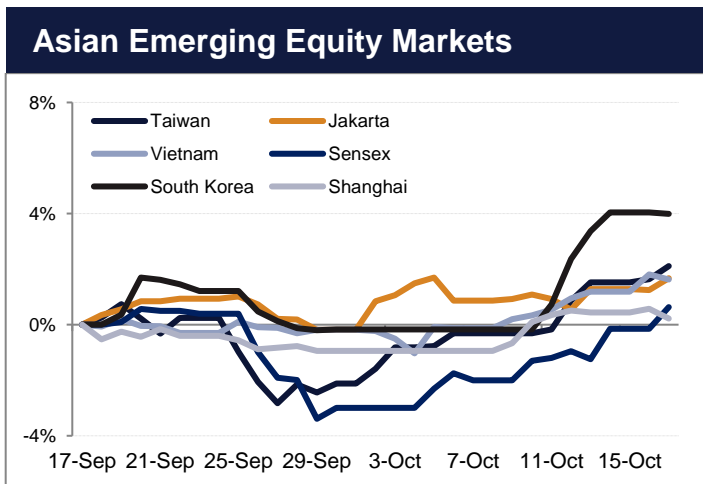
Source: Bloomberg, Emirates NBD Research



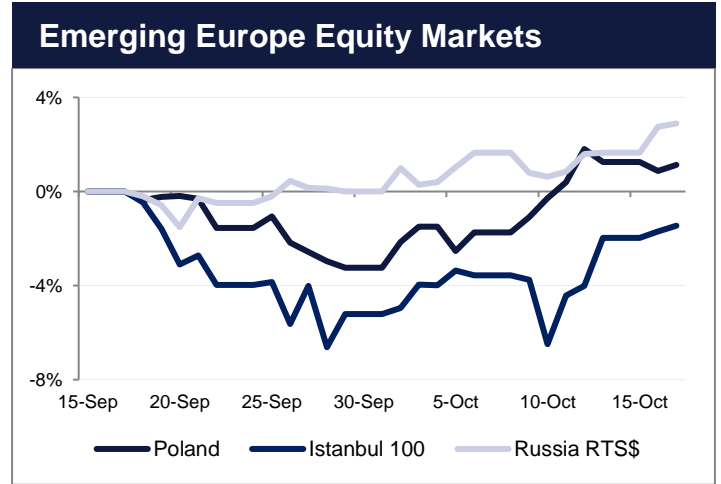
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research



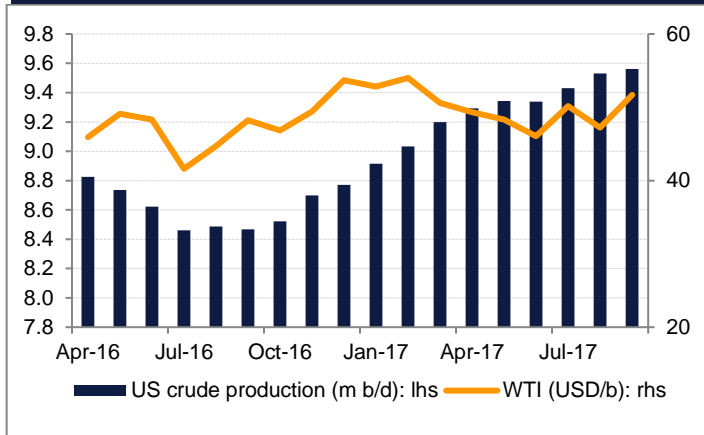
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

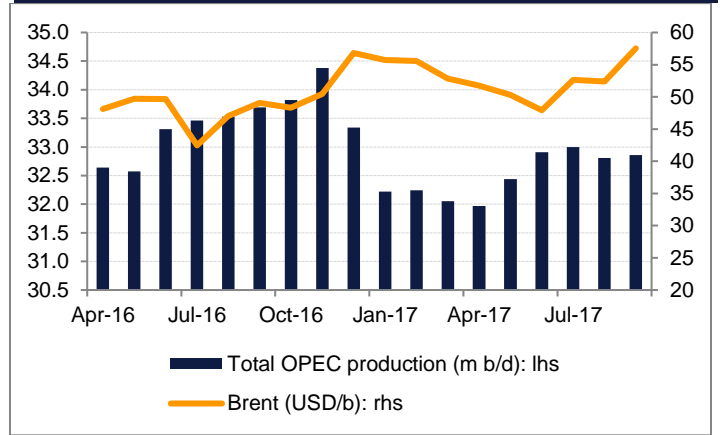
## Major Commodities Markets

### US oil production and price



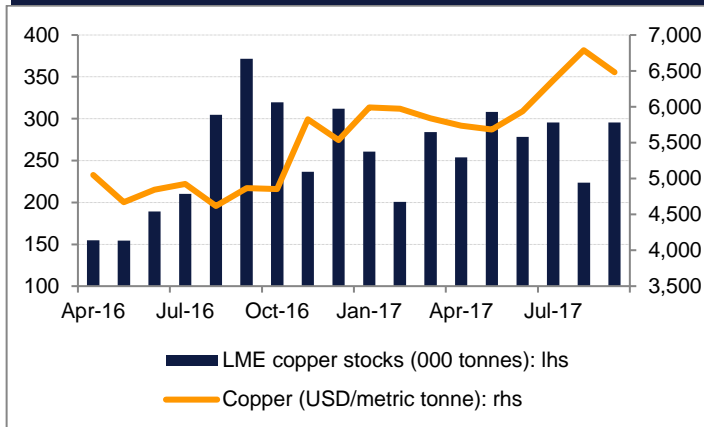
Source: EIKON, Emirates NBD Research

### International oil production and price



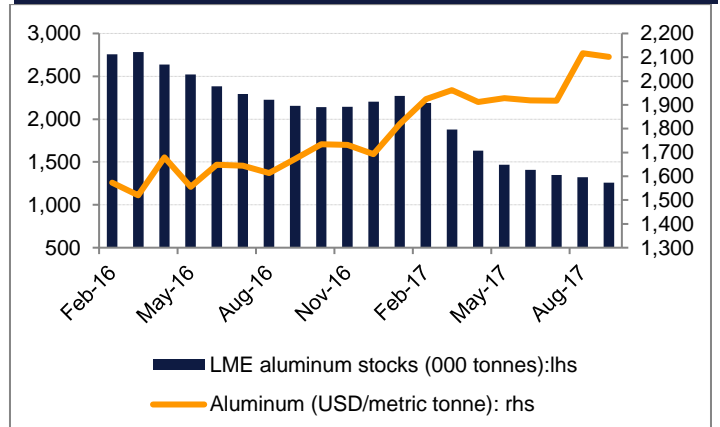
Source: EIKON, Emirates NBD Research

### Copper stocks and price



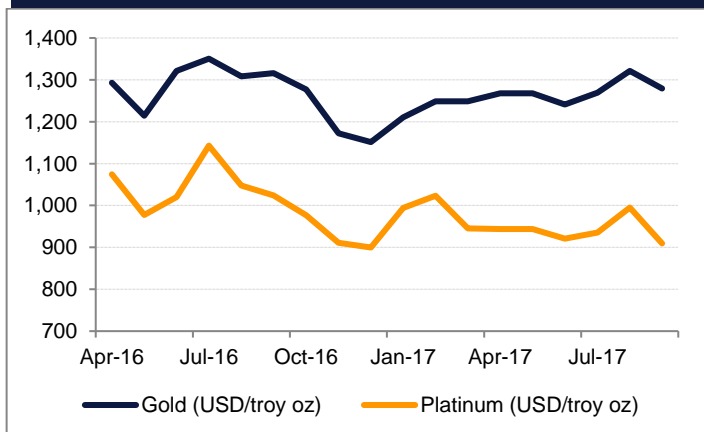
Source: EIKON, Emirates NBD Research

### Aluminum stocks and price



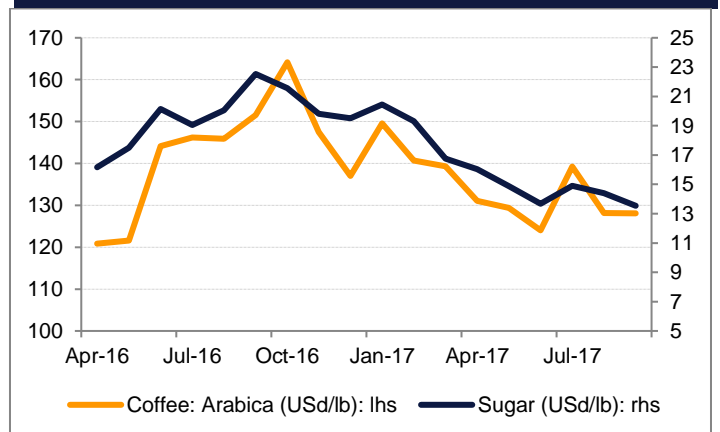
Source: EIKON, Emirates NBD Research

### Precious metals prices



Source: EIKON, Emirates NBD Research

### Agriculture prices



Source: EIKON, Emirates NBD Research

## Key Economic Forecasts - GCC

United Arab Emirates	2014	2015	2016e	2017f	2018f
Nominal GDP \$bn	403.5	358.2	349.0	434.7	462.8
Real GDP %	3.3	3.8	3.0	2.0	3.4
Current A/C % GDP	13.3	4.7	2.4	2.4	2.0
Budget Balance % GDP	1.9	-3.4	-4.3	-3.0	-2.2
CPI %	2.3	4.1	1.6	2.5	3.5
Saudi Arabia					
Nominal GDP \$bn	756.4	651.8	639.6	678.8	711.2
Real GDP %	3.7	4.1	1.7	0.5	2.5
Current A/C % GDP	9.6	-9.1	-4.6	-0.8	0.5
Budget Balance % GDP	-2.3	-15.0	-13.6	-12.8	-11.5
CPI %	2.7	2.2	3.5	2.8	3.5
Qatar					
Nominal GDP \$bn	206.2	164.6	152.5	165.3	175.1
Real GDP %	3.5	3.3	2.0	2.5	3.5
Current A/C % GDP	29.5	12.7	1.2	4.1	4.9
Budget Balance % GDP	12.3	1.2	-8.4	-4.6	-4.7
CPI %	3.3	1.9	2.7	3.0	3.5
Kuwait					
Nominal GDP \$bn	166.3	117.3	113.3	102.5	104.8
Real GDP %	0.5	0.6	3.5	-1.2	2.1
Current A/C % GDP	32.6	5.1	-1.5	4.2	4.9
Budget Balance % GDP	7.4	-13.1	-14.3	-11.8	-6.4
CPI %	2.9	3.3	3.2	3.0	3.5
Oman					
Nominal GDP \$bn	80.9	69.7	66.2	77.4	81.0
Real GDP %	2.5	5.7	3.7	1.0	2.3
Current A/C % GDP	5.2	-15.5	-19.4	-13.4	-2.5
Budget Balance % GDP	-3.4	-17.2	-17.5	-11.2	-9.9
CPI %	1.0	0.1	1.1	2.0	2.0
Bahrain					
Nominal GDP \$bn	33.4	31.1	31.9	33.9	35.3
Real GDP %	4.4	2.9	3.0	2.2	2.4
Current A/C % GDP	4.6	-2.4	-4.7	-4.9	-2.6
Budget Balance % GDP	-3.6	-13.0	-13.6	-14.7	-14.9
CPI %	2.7	1.8	2.8	1.4	2.0
GCC (Nominal GDP weighted avg)					
Nominal GDP \$bn	493.6	430.6	421.9	465.5	490.0
Real GDP %	3.2	3.7	2.4	1.1	2.8
Current A/C % GDP	15.0	-2.0	-2.6	0.3	1.5
Budget Balance % GDP	1.5	-10.0	-10.9	-8.9	-7.7
CPI %	2.6	2.6	2.7	1.9	3.4

Source: Haver Analytics, National sources, Emirates NBD Research

## Key Economic Forecasts – Non-GCC Oil Importers

<b>Egypt*</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017f</b>	<b>2018f</b>
<b>Nominal GDP \$bn</b>	305.4	332.6	332.2	180.9	196.1
<b>Real GDP %</b>	2.9	4.4	4.3	3.5	4.9
<b>Current A/C % GDP</b>	-1.0	-2.7	-4.5	-2.7	-1.3
<b>Budget Balance % GDP</b>	-12.98	-12.53	-13.95	-10.05	-8.98
<b>CPI %</b>	10.1	10.4	13.7	16.0	11.0
<b>Jordan</b>					
<b>Nominal GDP \$bn</b>	35.8	37.5	38.9	40.3	41.7
<b>Real GDP %</b>	3.1	2.4	2.0	2.8	3.0
<b>Current A/C % GDP</b>	-7.3	-9.1	-10.3	-9.8	-9.6
<b>Budget Balance % GDP</b>	-2.3	-3.5	-3.2	-2.9	-2.6
<b>CPI %</b>	2.8	-0.9	-0.8	2.0	2.0
<b>Lebanon</b>					
<b>Nominal GDP \$bn</b>	48.6	50.1	55.1	61.8	68.5
<b>Real GDP %</b>	1.8	1.5	2.4	3.1	3.3
<b>Current A/C % GDP</b>	-23.9	-16.1	-16.0	-15.6	-15.7
<b>Budget Balance % GDP</b>	-6.3	-7.9	-7.3	-7.5	-7.7
<b>CPI %</b>	-8.0	-3.8	-1.0	3.0	4.5
<b>Tunisia</b>					
<b>Nominal GDP \$bn</b>	47.6	41.1	41.3	41.1	45.0
<b>Real GDP %</b>	2.3	0.8	1.1	2.8	4.0
<b>Current A/C % GDP</b>	-9.0	-9.4	-8.3	-7.4	-6.5
<b>Budget Balance % GDP</b>	-5.1	-5.1	-6.8	-6.4	-6.0
<b>CPI %</b>	5.5	4.9	3.7	5.0	5.0
<b>Morocco</b>					
<b>Nominal GDP \$bn</b>	109.7	100.7	116.8	125.8	135.6
<b>Real GDP %</b>	2.6	4.5	1.0	4.7	4.8
<b>Current A/C % GDP</b>	-5.7	-2.1	-4.1	-2.9	-2.1
<b>Budget Balance % GDP</b>	-5.2	-4.7	-3.8	-3.1	-2.5
<b>CPI %</b>	0.4	1.6	1.6	3.0	3.0
<b>Oil Importers (GDP weighted avg)</b>					
<b>Nominal GDP \$bn</b>	203.3	224.9	222.9	123.8	134.1
<b>Real GDP %</b>	2.70	3.75	3.08	3.66	4.37
<b>Current A/C % GDP</b>	-5.0	-4.7	-6.2	-5.6	-4.7
<b>Budget Balance % GDP</b>	-9.4	-9.6	-10.1	-6.8	-6.2
<b>CPI %</b>	5.7	6.4	8.2	8.3	6.5

Source: Haver Analytics, National sources, Emirates NBD Research

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

## Key Economic Forecasts – Non-GCC Oil Exporters

	2014	2015	2016	2017f	2018f
<b>Algeria</b>					
Nominal GDP \$bn	213.5	165.3	165.4	186.1	214.3
Real GDP %	2.2	2.3	3.4	3.6	4.2
Current A/C % GDP	-4.3	-16.6	-17.3	-10.9	-8.7
Budget Balance % GDP	-7.3	-16.0	-14.3	-10.7	-8.2
CPI %	3.9	4.4	6.0	7.0	5.0
<b>Libya</b>					
Nominal GDP \$bn	48.1	34.4	36.2	40.1	44.7
Real GDP %	-24.0	-10.2	-0.9	10.3	11.3
Current A/C % GDP	-10.5	-9.4	-12.3	-15.0	-17.0
Budget Balance % GDP	-41.4	-23.6	-20.7	-18.8	-17.6
CPI %	2.4	9.5	9.5	10.5	11.5
<b>Iran</b>					
Nominal GDP \$bn	503.6	423.7	420.1	406.6	434.1
Real GDP %	5.9	3.7	7.2	4.1	5.0
Current A/C % GDP	3.1	2.1	3.8	5.3	5.8
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	8.5	11.1	12.0
<b>Iraq</b>					
Nominal GDP \$bn	192.8	164.2	229.6	247.2	288.3
Real GDP %	-0.6	-2.4	8.7	3.5	5.1
Current A/C % GDP	12.7	2.5	-5.3	-5.7	-5.5
Budget Balance % GDP	-6.1	-13.6	-10.7	-6.6	-4.6
CPI %	3.0	1.2	1.0	4.5	6.5
<b>Oil Exporters (GDP weighted avg)</b>					
Nominal GDP \$bn	301.3	295.9	294.5	314.9	239.4
Real GDP %	1.9	1.5	6.5	4.1	5.2
Current A/C % GDP	2.7	-2.3	-3.5	-1.9	-7.7
Budget Balance % GDP	-7.5	-10.1	-9.7	-7.4	-7.1
CPI %	9.4	6.2	7.2	8.9	6.3

## Key Economic Forecasts - Global

US	2013	2014	2015	2016f	2017f	2018f
Real GDP %	2.2	2.4	2.4	1.8	2.5	2.5
Current A/C % GDP	-2.3	-2.3	-2.6	-2.7	-2.7	-2.9
Budget Balance % GDP	-3.3	-2.8	-2.5	-2.5	-3.0	-3.4
CPI %	1.5	1.6	0.1	1.7	2.3	2.5
Eurozone						
Real GDP %	-0.3	0.9	1.5	1.5	1.7	1.5
Current A/C % GDP	1.8	2.4	3.0	2.7	2.6	2.8
Budget Balance % GDP	-2.9	-2.6	-2.0	-2.0	-1.6	-1.6
CPI %	1.3	0.4	0.0	0.9	1.5	1.5
UK						
Real GDP %	1.7	2.9	2.4	2.0	1.7	2.0
Current A/C % GDP	-4.5	-5.1	-4.5	-4.0	-4.0	-3.3
Budget Balance % GDP	-5.9	-5.4	-4.3	-3.2	-2.0	-2.8
CPI %	2.6	1.5	0.5	1.9	2.0	2.6
Japan						
Real GDP %	1.6	0.0	0.5	0.9	1.0	0.5
Current A/C % GDP	0.8	0.5	3.0	3.2	3.0	3.5
Budget Balance % GDP	-7.8	-7.1	-6.0	-6.0	-5.0	-4.8
CPI %	0.3	2.7	0.8	0.8	1.5	1.0
China						
Real GDP %	7.7	7.3	6.9	6.5	6.3	6.1
Current A/C % GDP	1.5	2.1	2.7	2.8	2.5	1.9
Budget Balance % GDP	-1.8	-1.8	-2.5	-3.0	-3.0	-3.5
CPI %	2.6	2.0	1.4	1.7	2.0	2.2
India*						
Real GDP %	4.7	6.9	7.4	8.0	6.6	7.8
Current A/C % GDP	-2.6	-1.4	-1.5	-1.5	-1.0	-2.0
Budget Balance % GDP	-5.9	-4.8	-4.1	-3.9	-3.9	-3.3
CPI %	10.9	6.4	7.0	5.0	4.5	4.0

Source: Bloomberg, Emirates NBD Research

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



## FX Forecasts

FX Forecasts - Major						Forwards		
	17-Oct	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
EUR/USD	1.1769	1.1500	1.1500	1.1800	1.2000	1.1832	1.1896	1.2038
USD/JPY	112.17	114.00	116.00	118.00	120.0000	111.64	111.08	109.83
USD/CHF	0.9781	1.0000	1.0400	1.0400	1.0400	0.9719	0.9656	0.9525
GBP/USD	1.3253	1.3400	1.3600	1.4000	1.4200	1.3292	1.3330	1.3404
AUD/USD	0.7845	0.7500	0.7200	0.7000	0.7200	0.7837	0.7832	0.7822
NZD/USD	0.7167	0.6900	0.7000	0.7100	0.7100	0.7155	0.7146	0.7131
USD/CAD	1.2534	1.2400	1.2500	1.2600	1.2600	1.2526	1.2523	1.2516
EUR/GBP	0.8880	0.8582	0.8456	0.8429	0.8451	0.8901	0.8924	0.8981
EUR/JPY	132.01	131.10	133.40	139.24	144.00	132.01	132.01	132.01
EUR/CHF	1.1512	1.1500	1.1960	1.2272	1.2480	1.1500	1.1487	1.1466

FX Forecasts - Emerging						Forwards		
	17-Oct	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
USD/SAR*	3.7504	3.7500	3.7500	3.7500	3.7500	3.7520	3.7546	3.7631
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6740	3.6754	--
USD/KWD	0.3020	0.3050	0.3050	0.3050	0.3050	0.3037	0.3055	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3866	0.3893
USD/BHD*	0.3773	0.3770	0.3770	0.3770	0.3770	0.3776	0.3781	0.3793
USD/QAR*	3.8000	3.6400	3.6400	3.6400	3.6400	3.8005	3.8045	3.8130
USD/EGP	17.6509	17.5000	17.2500	17.0000	16.8000	18.1400	18.5900	19.5750
USD/INR	64.720	65.000	66.000	66.000	66.000	65.6000	66.2500	67.4700
USD/CNY	6.5898	6.9000	7.0000	7.0000	7.1000	6.6515	6.6897	6.7610

Data as of 17 October 2017

Source: Bloomberg, Emirates NBD Research

## Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.80	1.90	2.05	2.20			
10y	2.28	2.47	2.58	2.75			
2s10s (bp)	48	57	53	50			
US Treasurys Forecasts					US Treasurys Forecasts		
2y	1.54	1.70	1.85	2.05			
10y	2.31	2.50	2.60	2.75			
2s10s (bp)	77	80	75	70			
3M Libor					3M Libor		
3m	1.35	1.60	1.85	2.10			
3M Eibor					3M Eibor		
3m	1.57	1.82	2.05	2.30			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED (Upper Band)	1.25	1.50	1.75	2.00			
ECB	0.00	0.00	0.00	0.00			
BoE	0.25	0.50	0.75	0.75			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-0.75	-0.75			
RBA	1.50	1.50	1.50	1.75			
RBI (repo)	6.00	6.00	5.75	5.75			
SAMA (r repo)	1.25	1.50	1.75	2.00			
UAE (1W repo)	1.50	1.50	1.75	2.00			
CBK (discount rate)	2.75	2.75	3.00	3.00			
QCB (Repo rate)	2.25	2.25	2.50	2.50			
CBB (o/n depo)	1.25	1.50	1.75	2.00			
CBO (o/n repo)	1.72	1.75	2.00	2.25			

Data as of 20 September 2017

Source: Bloomberg, Emirates NBD Research

## Commodity Forecasts

Global commodity prices									
	Current	2017Q1	Q2	Q3	Q4	2018Q1	Q2	2017	2018
<b>Energy</b>									
WTI	52.14	51.91	48.25	48.17	48.50	48.50	47.50	49.21	48.50
Brent	58.29	54.68	50.87	52.18	51.50	52.50	49.50	52.31	51.13
<b>Precious metals</b>									
Gold	1,286.55	1,220.24	1,257.89	1,275.00	1,180.00	1,195.02	1,225.07	1,233.28	1,240.10
Silver	17.06	17.48	17.19	18.00	16.00	16.15	16.30	17.17	16.38
Platinum	928.45	982.33	938.13	932.00	960.00	986.78	1,012.07	953.12	1,023.97
Palladium	983.00	767.48	817.29	826.87	836.46	836.46	836.46	812.03	836.46
<b>Base metals</b>									
Aluminum	2,134.50	1,856.60	1,913.36	2,050.00	2,000.00	1,900.00	1,900.00	1,954.99	1,931.25
Copper	7,049.00	5,857.38	5,692.37	6,250.00	6,000.00	5,750.00	5,750.00	5,949.94	5,625.00

Prices as of 18 October 2017. Note: prices are average of time period unless indicated otherwise.  
Source: EIKON, Emirates NBD Research

## Global Equities Market Watch

Index	Last Close	ADV Traded 30d USD mn	Mtd % chg	Ytd % chg	%members above 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	22,957	6,895	2.6	16.3	87	18.6	3.7	2.3
S&P 500 Index	2,558	35,723	1.5	14.2	73	19.4	3.1	1.9
Nasdaq Composite Index	6,624	22,681	1.9	23.0	63	24.2	4.0	1.1
FTSE100 Index	7,527	6,876	1.9	5.2	63	15.3	1.9	4.1
DAX Index	13,004	3,872	1.3	13.2	73	14.5	1.8	2.8
CAC 40 Index	5,363	3,775	0.6	10.3	82	15.8	1.6	3.1
Swiss Market Index	9,275	2,574	1.2	12.8	95	18.5	2.5	3.3
Nikkei Index	21,256	12,226	4.8	11.6	84	18.3	1.8	1.8
S&P/ASX 200 Index	5,847	3,054	3.7	4.0	67	16.1	1.9	4.4
Stoxx Europe 600 Index	391	30,168	0.6	8.0	74	16.3	1.9	3.3
Dubai Financial Market General Index	3,657	67	2.2	3.2	50	12.5	1.2	4.2
Abu Dhabi Sec Market General Index	4,524	65	2.1	-1.3	48	12.2	1.4	4.6
Tadawul All Share Index	6,977	808	-4.0	-3.0	37	14.4	1.5	3.6
Istanbul SE National 100 Index	106,475	1,448	4.0	36.9	75	8.8	1.3	3.7
Egyptian Exchange Index	13,525	47	-2.6	9.6	73	10.6	1.9	3.1
Kuwait Stock Exchange Index	6,636	85	-0.5	15.7	44	-	-	-
Bahrain Bourse All Share Index	1,278	3	-0.1	5.1	-	-	-	-
Muscat Securities Index	5,095	11	-0.9	-12.0	20	11.5	1.0	5.4
Qatar Exchange Index	8,300	42	-1.0	-21.2	-	11.9	1.4	4.5
MADEX Free Float Index	10,089	15	2.0	5.5	84	19.0	2.7	3.4
Hong Kong Hang Seng Index	28,693	4,021	4.1	30.4	94	13.0	1.3	3.2
Shanghai Composite Index	3,378	35,147	0.7	8.6	38	14.7	1.6	2.0
Korea Stock Exchange Index	2,480	4,692	3.8	22.6	34	10.6	1.1	1.6
BSE Sensex	32,634	86	4.2	22.5	71	20.9	2.9	1.4
Nifty	10,231	1,584	4.6	25.0	82	20.4	3.0	1.4
Karachi Stock Exchange Index	40,791	59	-4.0	-14.8	13	9.1	1.5	5.8
Taiwan SE Weighted Index	10,774	3,686	3.3	15.9	70	15.2	1.9	3.8
Bovespa Brasil Sao Paulo SE Index	76,892	2,240	2.6	26.6	92	14.9	1.7	2.7
Micex Index	2,106	528	0.7	-6.3	63	7.3	0.7	5.2
FTSE/JSE Africa All Share Index	58,164	1,789	4.1	14.3	62	16.2	1.8	3.2
Vietnam Ho Chi Minh Stock Index	819	135	3.0	24.6	64	16.8	2.6	2.4
Jakarta SE Composite Index	5,950	380	0.8	12.3	49	17.6	0.1	2.1
FTSE Bursa Malaysia KLCI Index	1,754	205	-0.4	6.5	60	16.4	1.6	3.3
Mexican Stock Exchange	49,721	358	-1.2	9.0	35	18.3	2.5	2.2

Prices as of 16 October 2017

Source: Bloomberg, Emirates NBD Research

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