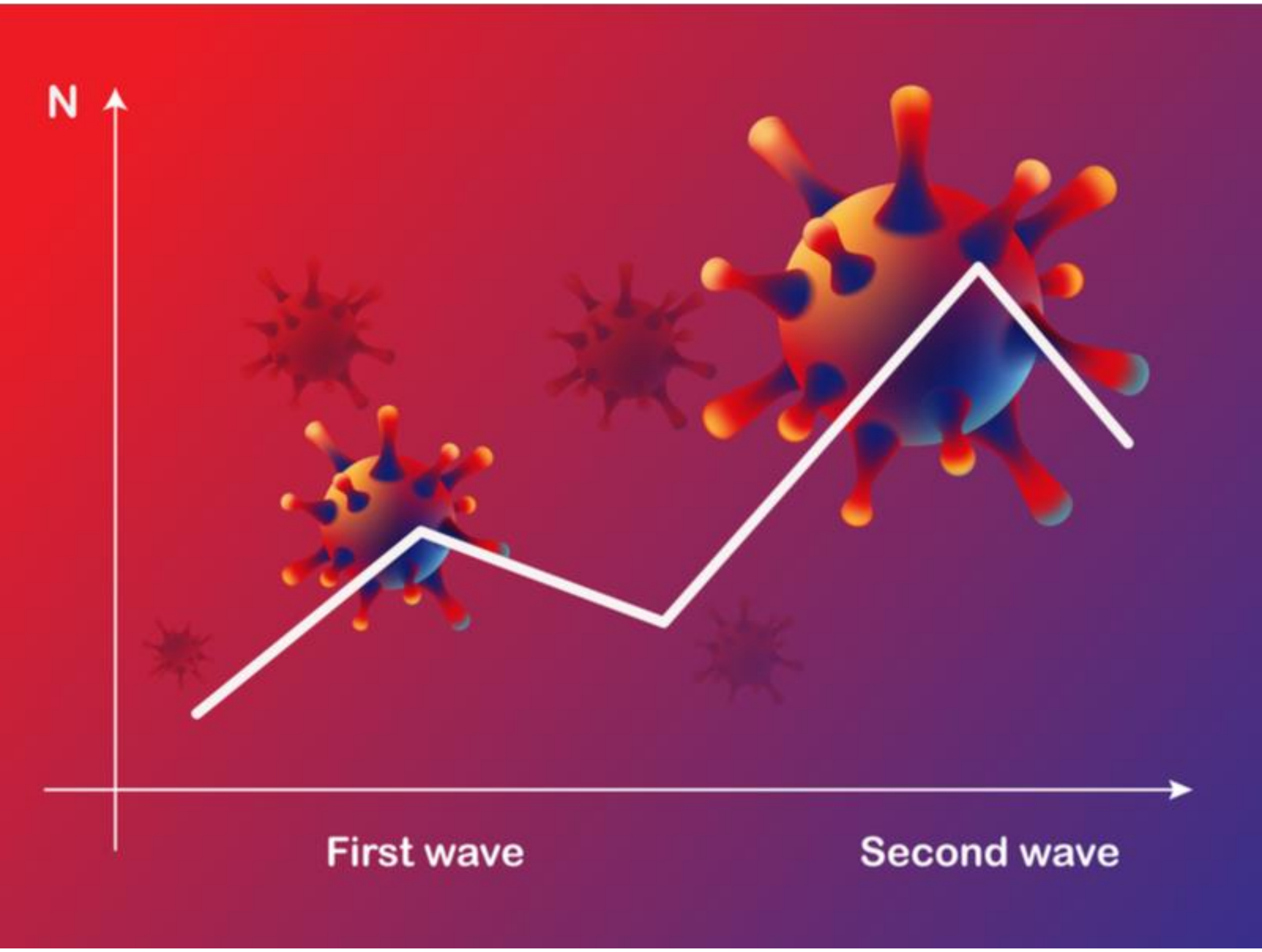

Monthly Insights

15 October 2020

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Highlights

Global macro: Although the IMF has upgraded its 2020 growth forecasts, it has revised down those for 2021. While some of this is attributable to base effects, the ongoing pandemic crisis and governments' fiscal response to this will also be key, with the scale and scope of further support in question.

GCC macro: We highlight a few key themes that emerged when we analysed the economic and survey data across the GCC in recent months.

MENA macro: Despite the disruption caused by the pandemic crisis, price growth in North African countries has been fairly benign through 2020, with CPI inflation generally falling short of where we had expected it to, aided by favourable food prices and appreciating currencies. We expect that inflation will largely pick up from hereon in, or at least that the disinflation will slow, as currency appreciation peters out and domestic demand picks up again as economies recover from the coronavirus crisis.

India macro: Although India is on course for its biggest economic contraction on record, our belief is that the worst is now past, and the nascent recovery we have seen in recent data points should start to become entrenched over the coming months.

Currencies: Political developments – US presidential elections, Brexit – and the impact of surging coronavirus cases in Europe are likely to be the main drivers for currency markets in the coming weeks.

Financial Markets: Egypt launched the MENA region's first sovereign green bond, opening up the region's financial markets to a new pool of investors. Take-up of green debt has been so far limited in MENA but has scope for expansion thanks to ambitious renewable energy targets.

Commodities: Oil markets face a tentative outlook in the final months of 2020 as Covid-19 cases re-emerge and fiscal support for economies expires. OPEC+ will need to carefully monitor demand conditions in coming months to assess whether the market can indeed absorb an increase in production from the start of 2021.

Sector report: Dubai's tourism sector is gradually charting a path to normalization, after Covid-19 mandated significant lockdown measures. Normalization will remain dependent on the development and global rollout of a vaccine and the resumption of global travel.

Emirates NBD

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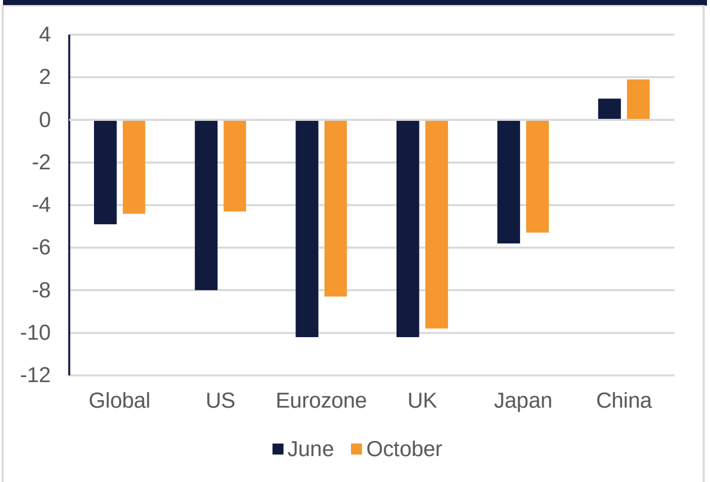
Global Macro

The IMF upgraded its 2020 global growth forecast in October, now projecting an economic contraction to the tune of -4.4%, half a percentage point stronger than the June forecast of -4.9%. The bulk of the world's major economies have been upgraded by the Fund, on the back of what was a more rapid than previously anticipated recovery from the Q2 nadir caused by the Covid-19 pandemic and associated lockdowns. Significantly however, at the same time the projections for 2021 have for the most part been downgraded. While some of this can be attributed to base effects from a smaller than previously anticipated contraction this year, it also underlines the challenges posed by a virus that continues to spread rapidly – and indeed is accelerating in a number of major economies in Europe – and by a more uncertain outlook with regards fiscal support than was seen during the initial wave earlier this year.

IMF 2020 growth forecasts revised up from June outlook…

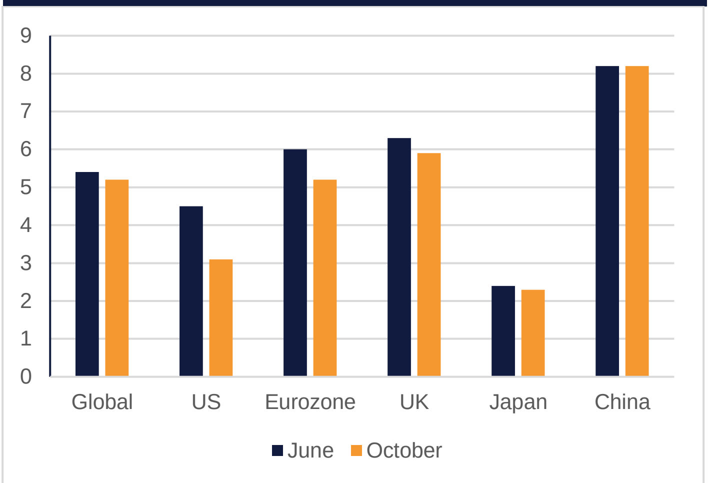


Source: IMF, Emirates NBD Research

In our last Monthly Insights, we examined the outlook for monetary policy, and how the major developed market (DM) central banks remained ready to boost asset purchases further if necessary, even after the extraordinary loosening of policy already enacted since the crisis began. On the other hand, language from governments of late, and their actions, have been far more circumspect given the undeniable political considerations involved in boosting stimulus and support and widening budget shortfalls still further. At the time of writing, a new US fiscal stimulus package prior to November elections looks more unlikely than ever.

As we head into winter and its attendant risks of renewed surges in cases and associated lockdowns, the key variable to growth in 2021 and beyond could now prove to be government support, or lack thereof, for beleaguered industries and laid-off workers. Should otherwise viable businesses find themselves unable to operate any longer, the future growth path will be far more uncertain once the pandemic crisis fades. Entrenched higher unemployment rates will be both a drag on growth as private consumption is hit, and an ongoing burden on government finances long after face coverings have ceased to be the norm. As the IMF noted in its October Fiscal Monitor, 'With many workers still unemployed, small businesses struggling, and 80-90 million people likely to fall into extreme poverty in 2020 as a result of the pandemic—even after additional social assistance—it is too early for governments to remove the exceptional support.'

…but 2021 projections now lower



Source: IMF, Emirates NBD Research

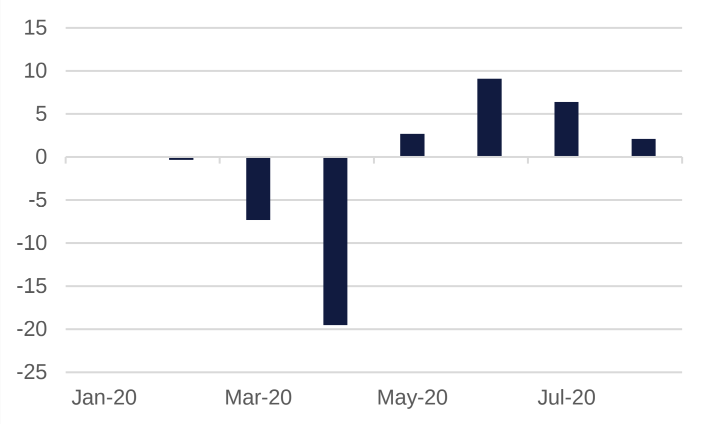
There is little doubt that the global economy is in a stronger place now than it was several months ago, and this was captured by the IMF's 2020 upgrades. Restrictions on domestic and international movement and activity are far looser than they were in the initial months of the pandemic, enabling a resumption of activity in most sectors in most countries.

Global composite PMI slowing

Source: Bloomberg, Emirates NBD Research

The JP Morgan global composite PMI has now recorded three consecutive months of expansionary 50.0-plus readings, and real-time indicators such as Google mobility data and OpenTable restaurant bookings underscore the improvement. That being said, the recovery is slowing, and the September global PMI reading was, at 52.1, lower than August's 52.4. The Citi economic surprises index is still positive, but the upside surprises are moderating, with the global index at 72 on October 13, the lowest level since July. Meanwhile, GDP growth in the UK came in at just 2.1% m/m in August, compared to a median forecast of 4.6%.

UK real GDP growth, % m/m



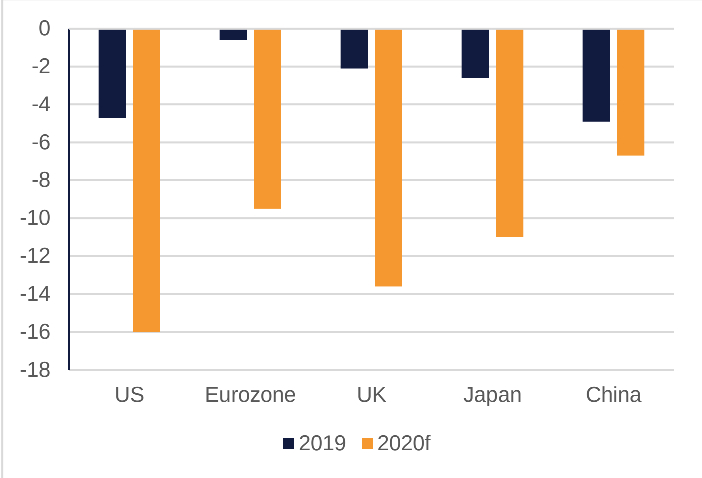
Source: Bloomberg, Emirates NBD Research

This latest underwhelming growth figure from the UK is particularly pertinent, given it covered a period in which the government's 'eat out to help out' scheme was launched, and when restrictions were fairly light. Over recent weeks new Covid-19 case numbers have surged, and the UK government has introduced a series of stricter measures aimed at curbing its spread which will add downside risks through the remainder of 2020 and into 2021. This is especially the case given that many businesses, especially those in the hospitality sector, were already on their knees from the previous bout of restrictions. Major Eurozone economies including Netherlands, France, Spain and Germany are going through similar circumstances.

However long this wave of the virus lasts, what seems certain is that many more businesses will go under, and many more jobs will be lost. The question is, how much government support will there be to try and keep what are otherwise viable businesses and professions alive. During the initial wave of the pandemic, the UK, along with other DM governments, unleashed a massive amount of fiscal support in the form of tax breaks and a furlough scheme that would pay the bulk of wages of staff whose places of employment had been forced to temporarily close. This furlough scheme comes to an end this month, and while Chancellor of the Exchequer Rishi Sunak has expanded the Job Support Scheme to cover workers in companies forced to close because of tighter restrictions, there has been an emphasis in tone that not all jobs will be supported indefinitely and the prerequisites have been tightened.

The UK's public debt load has risen to greater than national output for the first time since 1963, and the Conservative government will be casting an increasingly wary eye on this indicator. The IMF projects that DM sovereign debt will rise by 20 percentage points to 125% of GDP by the end of next year.

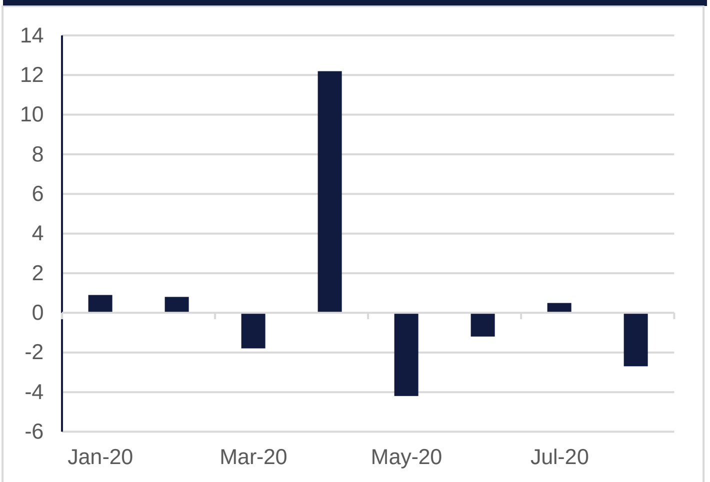
Fiscal deficits (% GDP) widening sharply



Source: Bloomberg, Emirates NBD Research

In the Eurozone economies, the pledges of greater support have varied from country to country, but a September meeting by the currency bloc's finance ministers in Berlin did see a joint pledge that there would be no policy cliff-edge. However, this was not accompanied by any pledges for further spending boosts. In addition, the much-heralded Next Generation EU funding, which seemingly marked the advent of greater fiscal cooperation by the bloc's members, has not yet been implemented. The acquiescence to the spending programme by the so-called 'frugal four' in crunch negotiations is not assured, especially given their public's ambivalence at best towards shared Eurozone fiscal responsibility for aiding countries out of the crisis.

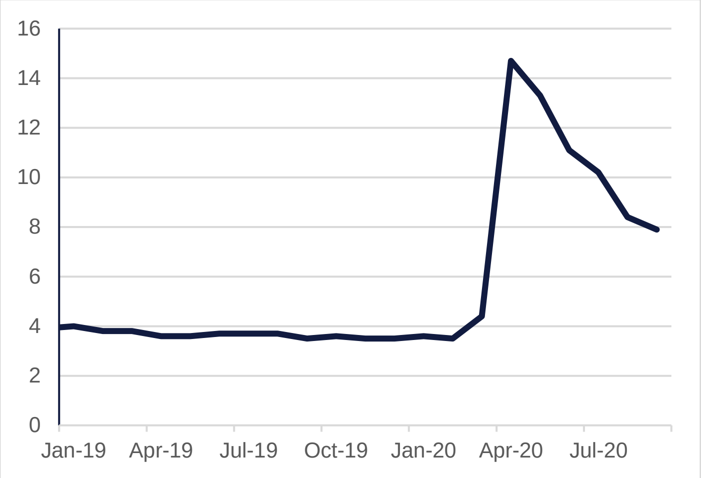
US personal income, % m/m



Source: Bloomberg, Emirates NBD Research

Politics is also playing a part in the US' recovery and future growth path, as the fiscal support of USD 600/week which came to an end in July has still yet to be replaced by anything meaningful, as the (Democrat-led) House of Representatives remains at loggerheads with the White House administration with regards the scale and scope of any further support package. On October 14 any hopes of a pre-election deal were dashed, as Steven Mnuchin said that he and House Speaker Nancy Pelosi were still 'far apart' on what they were looking for, blaming the Democrats for an 'all-or-nothing' approach to the negotiations.

US U-3 unemployment, %



Source: Bloomberg, Emirates NBD Research

Consumer sentiment in the US has been improving in recent months, hitting 80.4 in September, the highest level since the start of the crisis in the US in March. The headline U-3 unemployment rate has meanwhile dipped to 7.9%, from a peak of 14.7% in April. However, the number of permanent job losses continues to rise, increasing by 345,000 in September to 3.8mn, and this is troubling for the longer-term economic recovery, especially as the consumer has been the lynchpin of US growth in recent years. Depending on the victor of the November elections we could see a significant new stimulus package that could help reverse some of this trend, but the longer this takes to implement, the greater the risk to the sustainable recovery.

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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	-4.5	3.0
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	-17.0	-10.0
CPI %	0.1	1.3	2.1	2.5	1.8	1.1	1.8
Eurozone							
Real GDP %	2.1	1.9	2.5	1.9	1.3	-9.0	4.8
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	-5.0
CPI %	0.2	0.2	1.5	1.8	1.2	0.3	1.0
UK							
Real GDP %	2.4	1.9	1.9	1.3	1.5	-11.0	5.2
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	-5.7	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	-11.0	-7.5
CPI %	0.8	-0.1	0.5	1.0	0.5	0.0	0.2
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	5.5

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

GCC Macro

As we parse the economic and survey data that have been released in the GCC over the last few weeks, a few key themes are worth highlighting.

Preliminary Q2 GDP data for Saudi Arabia and Bahrain showed sizeable contractions in the non-oil sectors. In Saudi Arabia, the non-oil sectors contracted -8.2% y/y but the private non-oil sectors contracted -10.1% y/y. In Bahrain, the non-oil sector shrunk -10.7% y/y in Q2 2020. Unsurprisingly, hospitality, transport and trade were the hardest hit sectors. Kuwait and the UAE released Q1 GDP data which showed the non-oil sectors in both countries contracting even before the strict lockdowns came into effect in Q2.

Q3 survey data did not indicate a sharp rebound post-lockdown. PMI data for Q3 in Saudi Arabia was disappointing. Despite easing restrictions and allowing most businesses to reopen in June, the PMI survey showed output and new work in the private sector rising only in September – and fairly modestly at that. This suggests that at best, the non-oil private sector stabilized in Q3 after contracting in Q2. As a result of the Q2 GDP data and the lackluster PMI surveys in Q3, we downgraded our full-year GDP growth estimate for Saudi Arabia to -5.2% from -4.2% previously.

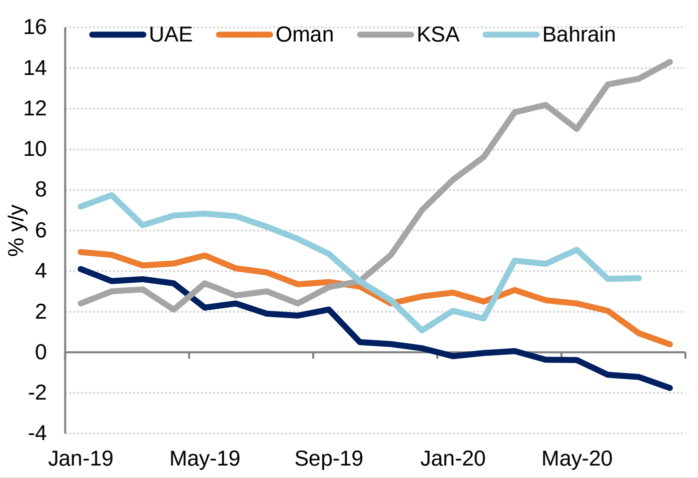
In the UAE the PMI survey data was more encouraging in Q3, with firms reporting higher output and new work every month. However, the rate of growth was modest when compared to the extent of contraction in March through May, and output and new work indices were below their series averages.

Jobs losses in the private sector continue to mount. Official data showed the unemployment rate among Saudi nationals rose to 15.4% in Q2 2020 from 11.8% in Q1. More than 64k jobs were lost in the private sector in Q2, with the number of Saudi nationals employed in the private sector falling by 39k despite government support for nationals employed in the many sectors affected by the coronavirus including travel, tourism and entertainment. The employment component of the PMI survey for Saudi Arabia remained in contraction territory in the third quarter.

While there are no official figures for jobs lost in the UAE's private sector, the PMI survey has showed a decline in private sector employment every month since the start of the year, with the lowest reading in the series history recorded in August. Private sector firms have reduced headcount as margins are pressured further by price discounting, and as they have focused on cutting costs.

Private sector credit growth slowed, with the exception of Saudi Arabia where it accelerated to 14.3% y/y in August. In the UAE, private sector credit contracted -1.8% y/y in August, the fifth consecutive month of decline. Oman's private sector credit growth slowed to just 0.4% y/y in August from 3.4% in August 2019, while Bahrain's slowed to 3.6% y/y in July from 6.2% y/y the prior year. All of this is a further indication of softer domestic demand, and perhaps in some cases a tightening in lending criteria in response to higher NPLs.

Private sector credit growth has slowed



Source: Haver Analytics, Emirates NBD Research

Fiscal consolidation is a priority. Saudi Arabia's preliminary budget statement showed a cut to government spending of -7.3% in 2021, after VAT was tripled and customs duties increased in June/July 2020, and despite the economy entering recession in Q2. This suggests that the main policy goal is reducing the budget deficit, rather than boosting economic growth.

Oman has finally confirmed that VAT will be introduced in April 2021, following the appointment of a new finance minister and central bank chairman in August, signaling that the new sultan is committed to fiscal reform. While the timing is not ideal from a growth perspective, Oman is under immense pressure to reduce its budget deficit after being downgraded by three ratings agencies this year, and as debt to GDP is on track to exceed 70% next year.

As we head into the final stretch of 2020, the world remains in the grip of the Covid-19 pandemic with parts of Europe, the UK and some US states experiencing a "second wave" of infections as winter approaches. In the GCC, the UAE and Saudi Arabia have had better success in containing the spread of the coronavirus than some of the smaller countries in the region, and most restrictions on activity have been lifted. Nevertheless, in the absence of fiscal stimulus, a rebound in the regional economies will to a large extent be driven by what happens in the rest of the world, and the impact on energy markets and global trade. While we expect the GCC economies to continue their recovery in Q4, the outlook remains uncertain and risks abound.

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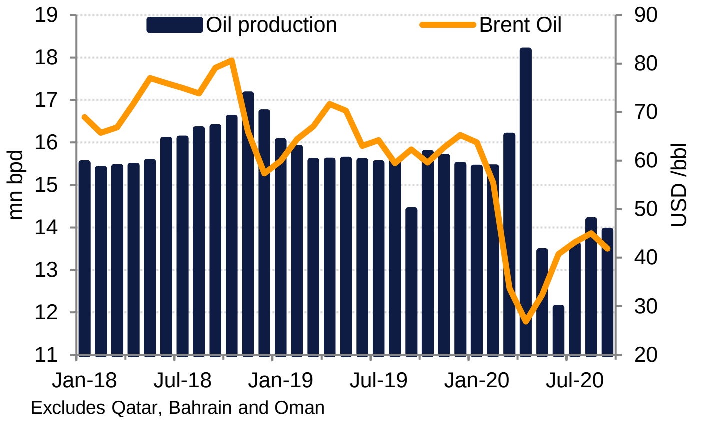
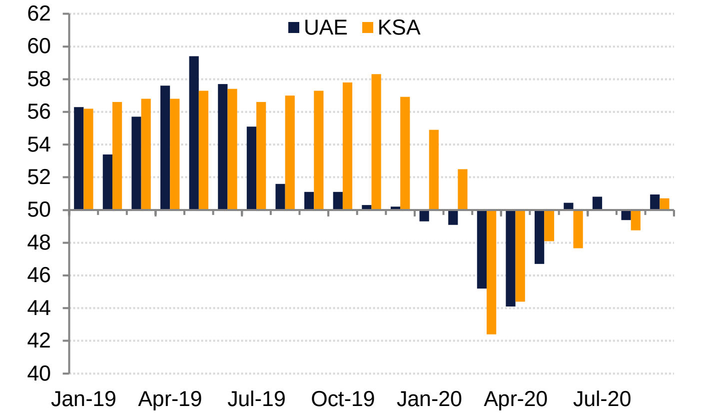
GCC in Pictures

GCC Oil Production and Oil Price



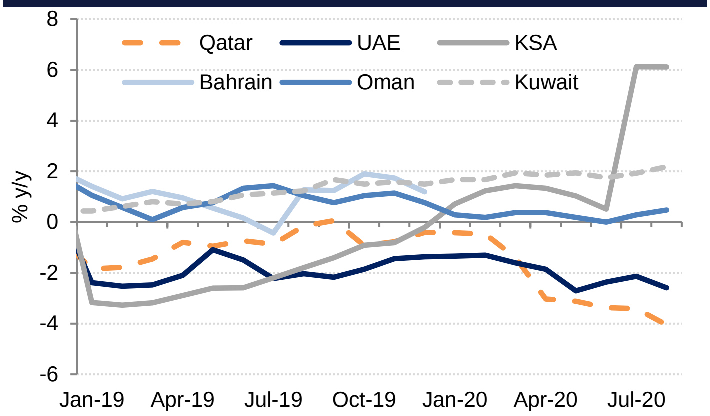
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



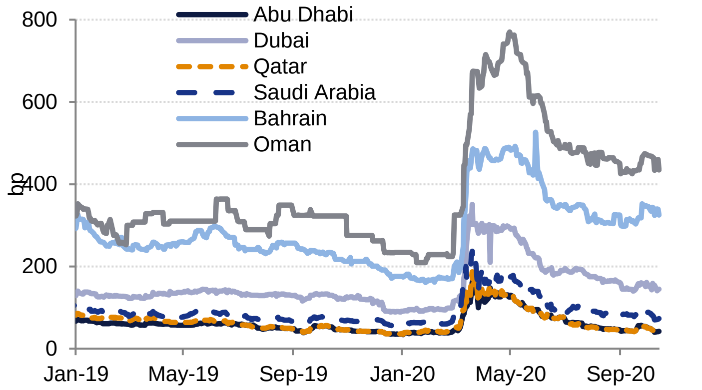
Source: IHS Markit, Emirates NBD Research

Inflation



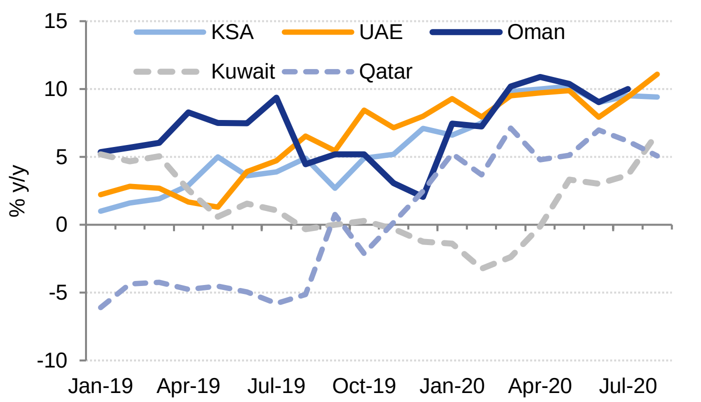
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



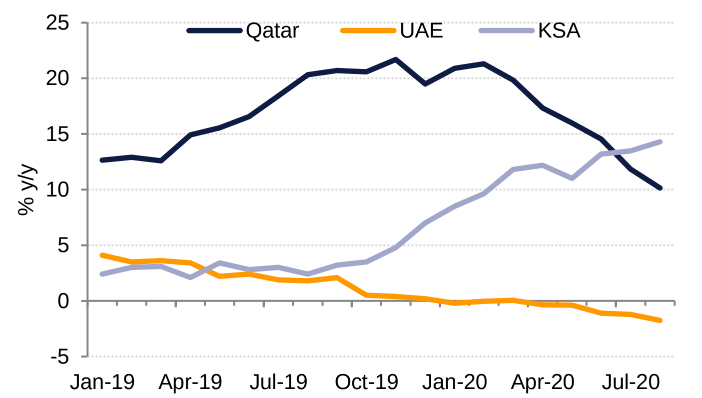
Source: Bloomberg

Money supply (ex government. deposits)



Source: Haver Analytics, Emirates NBD Research

Private sector credit*



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

Key Economic Forecasts - GCC

United Arab Emirates	2017	2018	2019e	2020f	2021f
Nominal GDP $bn	385.9	422.5	421.4	366.6	385.6
Real GDP %	2.4	1.2	1.7	-5.5	1.2
Current A/C % GDP	7.1	9.6	7.0	1.4	4.0
Budget Balance % GDP	-0.2	5.8	5.5	-6.8	-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	-9.1
CPI %	-0.8	2.5	-1.2	3.5	2.0
Qatar					
Nominal GDP $bn	166.9	191.4	183.5	148.0	178.4
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	79.2	76.0	67.2	70.7
Real GDP %	0.3	1.8	1.1	-4.4	1.4
Current A/C % GDP	-15.6	-5.4	-5.5	-20.0	-14.2
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	455	492
Real GDP %	0.2	1.9	0.7	-5.3	2.5
Current A/C % GDP	8.2	16.4	11.9	-2.5	3.0
Budget Balance % GDP	-6.8	-1.9	-2.3	-13.0	-8.5
CPI %	0.1	2.4	-0.5	1.6	1.9

Source: Haver Analytics, National sources, Emirates NBD Research

MENA Macro: North African inflation will rise from low levels

Despite the disruption caused by the pandemic crisis, price growth in North African countries has been fairly benign through 2020, with CPI inflation generally falling short of where we had expected it to, aided by favourable food prices and appreciating currencies. Looking to support growth, Egypt, Morocco and Tunisia have all cut rates as they take advantage of these easing price pressures and ultra-loose monetary policy in developed markets.

We expect that inflation will largely pick up from hereon in, or at least that the disinflation will slow, as currency appreciation peters out and domestic demand picks up again as economies recover from the coronavirus crisis. In addition, global food prices, which have helped to keep price growth in North Africa fairly slow this year (food makes up a significant proportion of the three countries' food baskets) are starting to pick up once more. In September, the FAO global food price index increased by 5.0% y/y, the fastest acceleration since February.

Tunisia

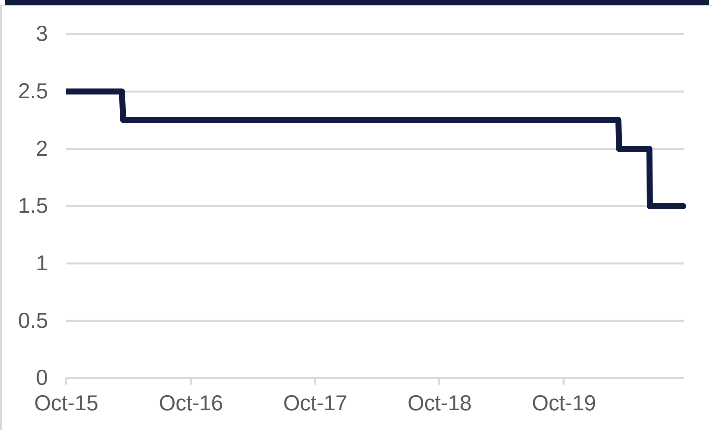
In Tunisia, CPI inflation has averaged just 5.8% y/y over January to September this year, compared to 6.7% in 2019 and 7.3% in 2018. Food prices have been a driver of this, having averaged y/y growth of just 4.6% over the year so far. In this environment, the Banque Centrale de Tunisie has been able to loosen monetary policy, and it followed up the 100 basis points (bps) cut it made to its benchmark interest rate in March with a further 50bps cut in September. This takes the benchmark rate to 6.25%, levels last seen in 2018. Prior to this year the bank had been engaged in a fairly aggressive hiking cycle, as it sought to contain the rapid price growth.

CPI (% y/y)

Source: Haver Analytics, Emirates NBD Research

We expect that the BCT will keep rates on hold at these levels through 2021, given our expectation that inflation will be fairly flat next year. We forecast an average of 5.8%, compared to our 2020 projection of 5.6%. The risks to our inflation outlook are likely to the upside, as food price inflation was 5.3% in September, the highest level since April, and the TND's appreciation has stalled. Nevertheless, with a need to stimulate the recovery, the prospect of renewed hiking is remote for the time being.

Benchmark interest rate, %

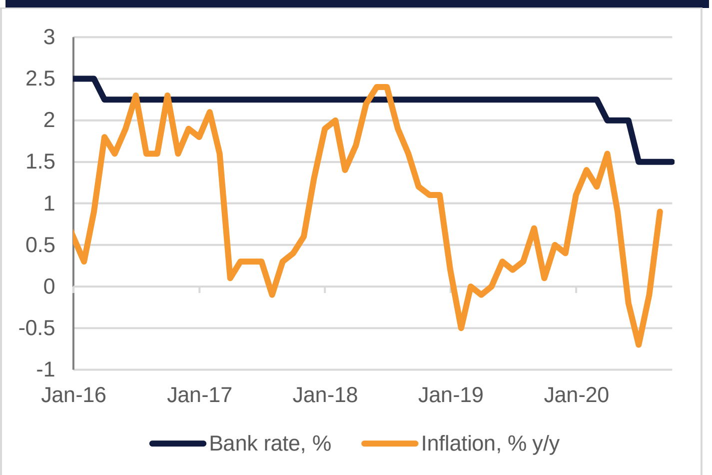


Source: Haver Analytics, Emirates NBD Research

Morocco

In Morocco, price growth has been low for several years now, averaging just 1.2% y/y over the five years to December 2019. 2020 has been no exception, with inflation averaging 0.6% over January to August – although there was an acceleration in August as CPI inflation hit 1.4% m/m (a nine-year high), compared to -0.3% the previous month. On an annual basis, price growth also turned positive in August, hitting 0.9% y/y. Food and education were the key drivers of the August acceleration, and we forecast that price growth will continue to pick up through the final four months of the year. We hold an annual average inflation forecast of 0.8% this year, and the same for 2021. The risk is again to the upside, given the challenges to the agricultural sector this year. Food price inflation has generally been low, averaging 0.9% ytd, but the August uptick to 1.4% y/y could be a harbinger of further rises as harvests prove meagre.

Benchmark rate cut to record low



Source: Bloomberg, Emirates NBD Research

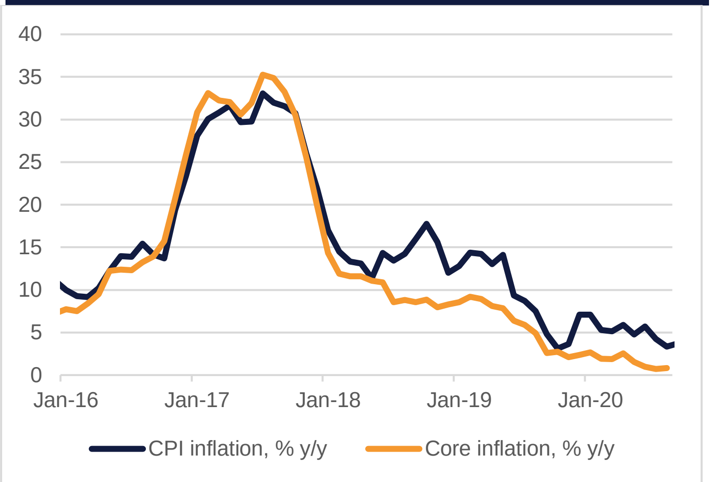
'will not hesitate to utilize all available tools to support the recovery of economic activity'.

Despite this anticipated continuation of the modest acceleration in price growth, we do not expect any hikes from the central bank, given inflation will remain at very low levels and there remains for now 'weak demand pressures', as noted by the central bank. On the other hand, additional easing is also unlikely. The Moroccan central bank, the Bank al-Maghrib (BAM), opted to keep its benchmark interest rate on hold at 1.5% at its September 22 meeting, despite acknowledging that the economic outlook for the country had deteriorated. Given that the economy will only see a marked improvement once the coronavirus pandemic eases and demand is unshackled once more, we expect no further cuts from the current all-time low. Until all restrictions are eased, tourists return, or rains improve, any further cuts are unlikely to have any material impact on improving growth.

Egypt

CPI inflation in Egypt has been especially low in recent months, and the fact that price growth came in under 4.0% in September means that renewed discussion with the IMF should have been triggered with regards potentially adjusting its targets and policy. Inflation rose in September but was still just 3.7% y/y. This was up from 3.4% the previous month, which was itself the second-lowest level in 14 years. As with Morocco and Tunisia, food prices have been one of the key drivers of the slower price growth, and have helped to offset rises in other parts of the basket caused by pandemic-induced supply chain disruptions. Our expectation is that inflation will accelerate modestly from here, to end the year nearer the bottom of the CBE's 9% ±3 percentage points target range – we forecast CPI inflation of 5.0% at year-end.

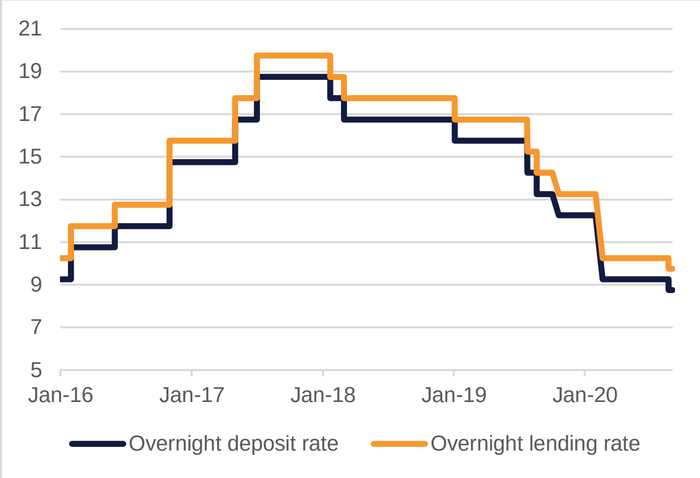
Inflation has fallen



Source: Haver Analytics, Emirates NBD Research

The slower-than-expected price growth has enabled the Central Bank of Egypt to continue cutting rates this year, while maintaining sizeable real interest rates and not jeopardising international investor inflows. At its September meeting the CBE cut its benchmark deposit rate by 50bps, taking it to 8.75% – levels last seen in 2015. While our core view is that a modest rise in inflation from here would see the bank now remain on hold through the remainder of 2020, should it remain at these very low levels in October there is scope for a further 50bps cut at the upcoming November 12 MPC meeting. This view is reinforced by the MPC's comparatively dovish language in its previous communiqué that it

Benchmark rates at multi-year lows



Source: Haver Analytics, Emirates NBD Research

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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	158.5	192.6	232.2	253.5
Real GDP %	3.4	3.7	3.6	-2.1	3.2
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	223.3	245.8
Real GDP %	1.0	0.3	4.2	-9.0	5.9
Current A/C% GDP	9.0	15.9	6.5	-5.2	-3.4
Budget Balance % GDP	-1.8	8.3	-1.1	-19.7	-17.1
CPI %	0.7	0.4	-0.2	0.9	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	377.4	446.8	530.1
Real GDP %	4.1	-1.4	-3.5	-5.3	1.8
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

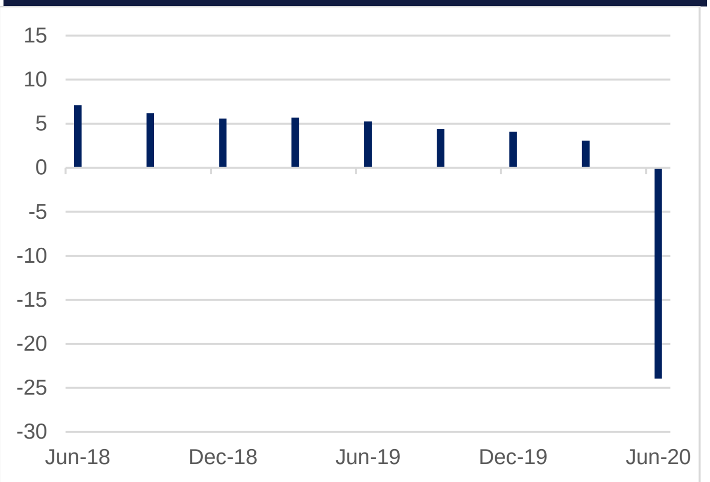
India Macro

Although India is on course for its biggest economic contraction on record, our belief is that the worst is now past, and the nascent recovery we have seen in recent data points should start to become entrenched over the coming months. New Covid-19 cases appear to have peaked, while easing lockdowns and an accommodative stance from the central bank all suggest to us that India will see activity continue to improve from hereon in – although we still forecast a -9.0% contraction this year.

Timely indicators improving

India's Q2 contraction was one of the largest among major economies, coming in at -23.9% y/y. However, all indications are that activity in India has already picked up over the past several months as lockdowns have eased, and we forecast a contraction of 9.0% in 2020/21.

Real GDP growth plummeted in Q1 (% y/y)

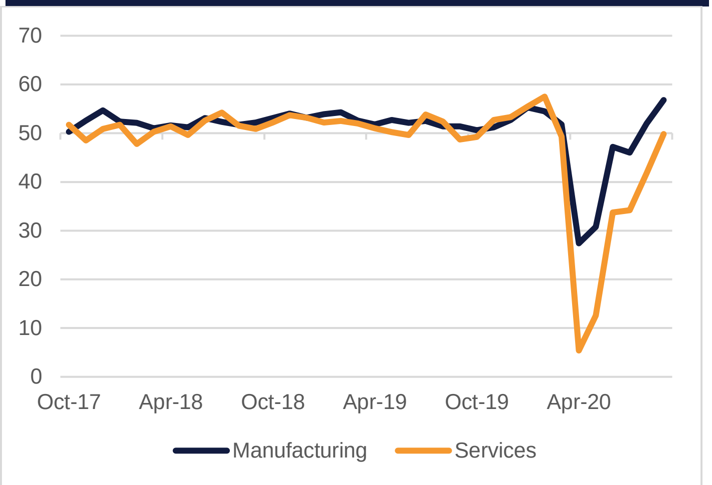


Source: Bloomberg, Emirates NBD Research

This improvement is best exemplified by the PMI surveys, with the manufacturing PMI hitting a high of 56.8 in September, compared to the nadir of 27.4 in April. This was the second consecutive month of expansionary readings. The services sector has been somewhat slower to recover, still at a contractionary 49.8 in September, and this is concerning from a growth perspective given it accounts for more than half of GDP and industries such as hospitality and tourism will remain under pressure. Nevertheless, the services PMI has staged a remarkable improvement from the 5.0 recorded in April.

Other timely data that point towards improving conditions include Google mobility data – footfall at workplaces is now down by an average of just -24% from the pre-pandemic baseline over the past week, compared to -65% in the second week of April – and industrial production, which was down just -8.0% y/y in August, from -57.3% in April. RBI Governor Shaktikanta Das included an addendum to his statement following the October MPC meeting which showed an improvement in a range of other indicators including sales for assorted agricultural goods, freight traffic, and autos production.

Indian PMI is mounting a recovery

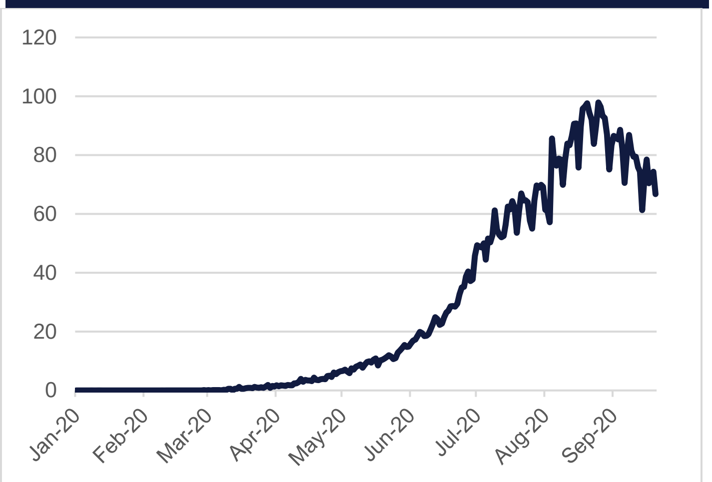


Source: Bloomberg, Emirates NBD Research

Covid-19 pressures are easing

Our expectation would be for this trend of amelioration to continue over the remainder of the fiscal year (to March), although this is dependent on the ongoing improvement with regards to the Covid-19 pandemic. New Covid-19 cases in India averaged 72,061 a day over the seven days to October 11. While this is still by some margin the highest daily case number globally – the US is in second place with an average of 48,793 new cases a day over the same week in October – it is down considerably from the 90,972 average new daily cases India recorded just a month earlier over the week to September 11. Should this trend continue, it will enable an ongoing recovery in output as the need for ongoing restrictions on movement will be mitigated, while people should become less wary of participating in economy-boosting activity.

New Covid-19 cases, daily '000



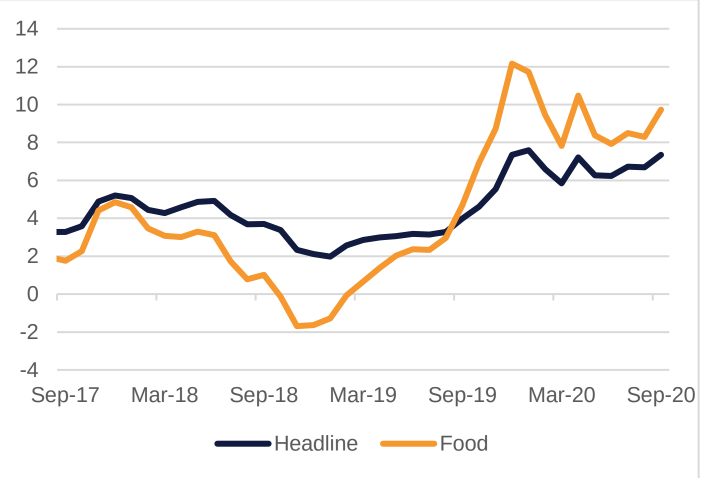
Source: Bloomberg, Emirates NBD Research

Actions by the central bank should also serve to support growth over the coming months, even if it does not manage to cut interest rates further in 2020. The RBI's MPC opted to keep its benchmark interest rate on hold at 4.0% on October 9, when it held its delayed policy-setting meeting. Persistently high inflation has hampered the central bank's efforts to support economic activity through lower rates. That being said, while it did not make any change to the benchmark rate, the bank did do almost everything else in its power to boost liquidity, including providing INR 1tn of 'on-tap' TLTRO of up-to three-year tenors, extending the period for which banks can increase the proportion of their investments allowed to be classified held to maturity from 19.5% to 22% until March 2022, and increasing banks' allowed exposure to retail credit, amongst other measures. We believe that these measures should help support the nascent economic recovery in India, even if the central bank is unable for now to implement further cuts to its benchmark interest rate.

Risks to outlook

The RBI's accommodative stance has been hamstrung by persistently high inflation, which has to date defied expectations that easing bottlenecks and supply chain disruptions caused by the pandemic should see price growth slow. Indian CPI inflation ticked up to 7.3% y/y in September, up from 6.7% in July and August. This was also faster than the consensus estimate of 6.9%. In light of the acceleration in inflation last month the likelihood of a further 2020 interest rate cut by the RBI is looking increasingly less likely. Should inflation continue on this trend it could dampen India's economic recovery through both eroding purchasing power – the rapid price growth has been driven by food prices, which make up 46% of the basket – and pushing any more rate cuts back even further.

CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

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Currencies

Dollar benefits from risk-off tone

Towards the end of September the USD gained bullish momentum and broke through the 94 handle for the first time since late July. Around this time financial markets were shaken due to concerns over rising Covid-19 cases, especially in Europe, which drove demand for safe haven assets. This pushed the DXY index to a three-month high of 94.742. This resurgence appears to have been corrective in nature, a result of the major risk-off tone around this time which also coincided with a downturn in US equities. Since then then the DXY index has been locked in a downwards trend and is currently hovering just above the 93 handle. The USD has fallen below the 50-day moving average of 93.281, signalling further downside movement. This comes off the back of a general improvement in risk appetite in October. The news that US President Donald Trump contracted Covid-19 did not have the same effect on currencies as it did other asset classes and while there has been mixed reporting on his overall condition out of the White House, he appears to have made a swift recovery.

Economic data out of the US is still a mixed bag: consumer confidence reached a seven-month high, along with private sector job growth reaching its strongest level in three months but non-farm payrolls added the smallest gain since the job recovery started in May. Concern about the fate of a new fiscal stimulus package has also been weighing on the USD. As of mid-October it appeared that Nancy Pelosi, the Democrat Speaker of the House, and Steve Mnuchin, the Treasury Secretary, were making little headway toward an agreement. All eyes will be firmly fixed on the presidential election in November, but as sentiment remains steady, the USD is likely to remain around the same level as well.

USD remains soft

Source: Bloomberg, Emirates NBD Research.

Brexit in focus for sterling

It has been a volatile few weeks for the GBP since September. The currency has mainly fluctuated between the 1.27 and 1.30 big figures. There have been several whipsaws during this time as negotiations continue between the EU and the UK about Brexit. UK Prime Minister Boris Johnson's proposed Internal Market Bill led to particularly negative rhetoric from the EU and has even led to the threat of legal action. Recently the EU Vice President Maros Scefcovic stated that a no-deal Brexit was becoming "ever more likely," setting up detrimental sentiment toward sterling. A surge in Covid-19 cases has also placed the UK under the spotlight, resulting in the introduction of renewed lockdown measures as well as a new system laid out by the Chancellor of the Exchequer, Rishi Sunak, to help the economy weather the crisis, which involves an extension of the 15% VAT cut for the hospitality sector and a plan for the government to cover up to two-thirds of "viable" workers' hours. This has helped GBP rebound above the 1.28 figure in recent weeks, but the currency remains particularly erratic. Maintaining levels at or above 1.30 may prove challenging, however. Political developments remain the single strongest influence on the GBP and will remain so for the foreseeable future, and with that in mind there is still considerable downside risk for sterling.

EUR benefits from dollar weakness

Source: Bloomberg, Emirates NBD Research.

Rising virus cases raises pressure in Europe

After briefly dropping to lows of 1.1616 at the end of September, the EUR has regained its position above the 1.18 handle at 1.1826, marking a break above the 50-day moving average of 1.1801. This resurgence comes off the back of broad-based USD weakness. While sentiment in the US may be steady for now, concerns over the ever-growing number of Covid-19 cases in Europe are becoming much more intense. Recently the continent recorded over 100,000 daily cases for the first time, prompting various countries to impose new lockdown restrictions as well as a state of emergency in Madrid. ECB President Christine Lagarde has expressed concerns over the uncertain recovery, weighing on the EUR but has also reiterated their position that the exchange rate is not a target, resulting in some stabilization. Like many other countries during this period, economic data out of the region has offered a mixed bag, none more so than the PMIs. Germany and Italy's composite PMI data rose to 54.7 and 50.4 from 54.4 and 49.5 respectively, but France's composite PMI data fell to 48.5 from 51.6.

USDJPY stays quiet under new PM

USDJPY has remained relatively quiet when compared with other major currencies. The pairing has rebounded from lows of 104 and currently trades around 105.61. The 38.2% one-year Fibonacci retracement of 105.41 was only recently breached, with the 50-day moving average of 105.80 being the next key indicator to look out for. Week-by-week movement has been comparatively modest since September as the pairing reacts to the varied news coming out of the US.

Dovish tone from Antipodean central banks

Despite a slight dip at the end of September, the AUD has retained its position comfortably above the 0.7 handle. The currency has recouped the majority of its losses and trades around 0.7240, marking a break above the 50-day moving average of 0.7208. The RBA's dovish tone in its policy statement for early October caused the currency to come under strong selling pressure but the risk-on environment which has weighed on the greenback in recent times has resulted in significant gains for the AUD.

The NZD has also managed to recoup a lot of the losses it experienced at the end of September. The currency recently rose above 0.6650 and currently trades around 0.6670, marking its best performance since late August. This is a price higher the 50-day moving average of 0.6632 and consolidation of these gains is like to keep the currency in an upwards trend. The prospect of negative rates is still one of the biggest influences on the currency, as the New Zealand election next week is expected to offer no significant risk to the kiwi.

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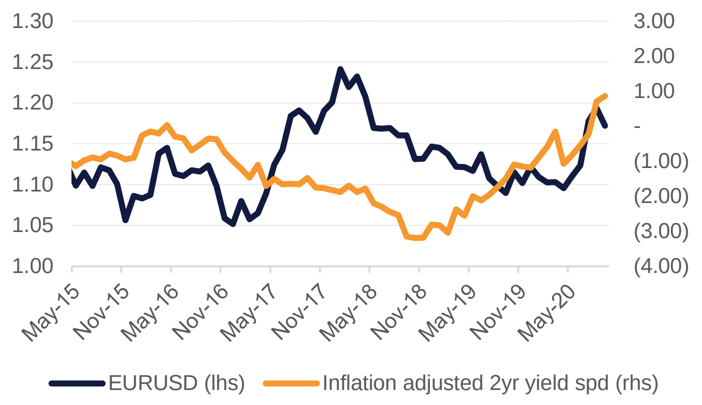
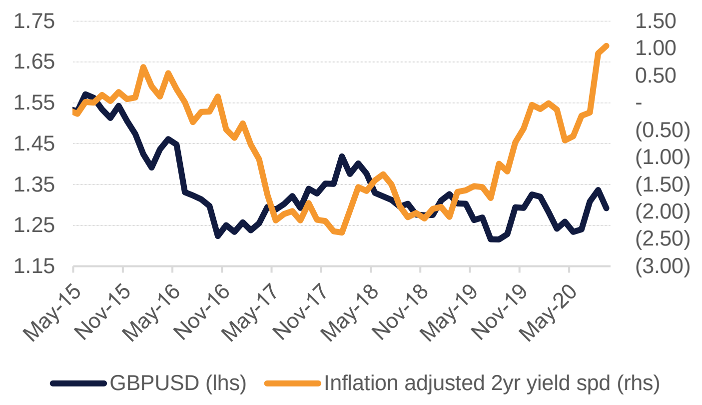
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



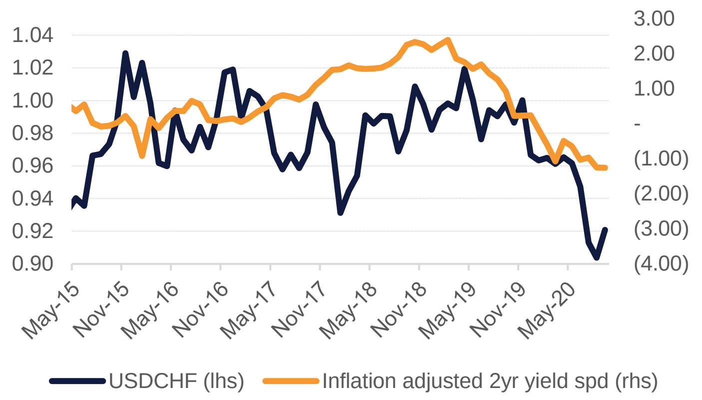
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



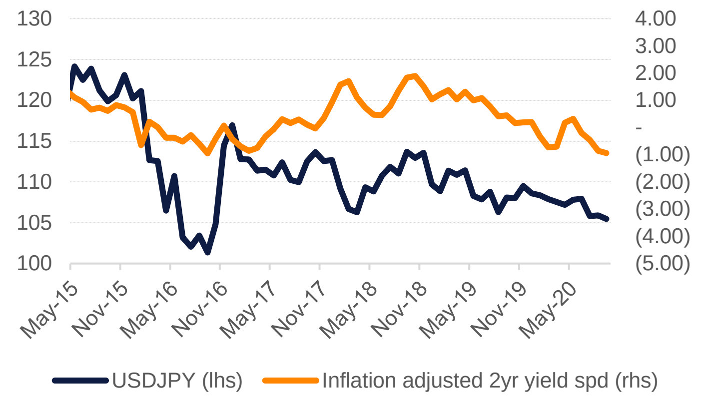
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



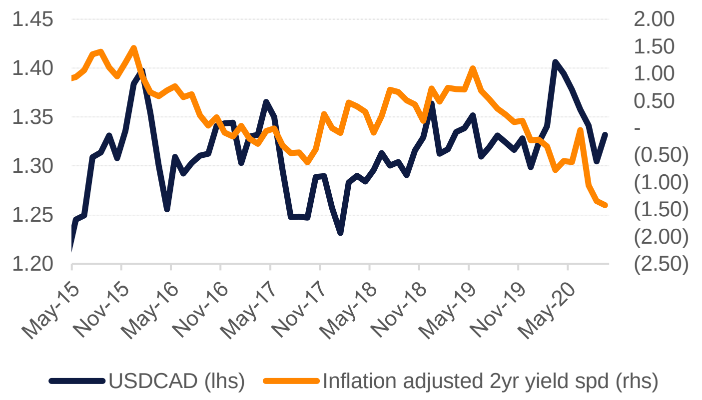
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



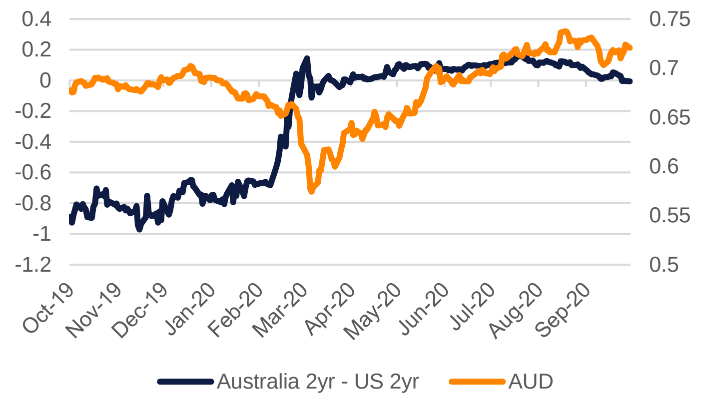
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	14-Oct	Q4 2020	Q1 2021	Q2 2021	Q3 2021	3m	6m	12m
EUR/USD	1.1746	1.1800	1.2000	1.2000	1.2100	1.1765	1.1787	1.1836
USD/JPY	105.48	105.00	105.00	105.00	107.00	105.25	105.13	105.39
USD/CHF	0.9150	0.9400	0.9400	0.9700	0.9700	1.2961	1.2967	1.2979
GBP/USD	1.2937	1.3000	1.3200	1.3200	1.3500	0.9119	0.9096	0.9047
AUD/USD	0.7161	0.7200	0.7200	0.7400	0.7500	0.7174	0.7175	0.7177
NZD/USD	0.6651	0.6500	0.6500	0.6750	0.6800	0.6665	0.6664	0.6671
USD/CAD	1.3139	1.3500	1.3500	1.3300	1.3300	1.3136	1.3135	1.3134
EUR/GBP	0.9079	0.9077	0.9091	0.9091	0.8963	0.9077	0.9090	0.9119
EUR/JPY	123.90	123.90	126.00	126.00	129.47	123.82	123.92	124.75
EUR/CHF	1.0748	1.1092	1.1280	1.1640	1.1737	1.0728	1.0722	1.0709
FX Forecasts - Emerging						**Forwards**		
	14-Oct	Q4 2020	Q1 2021	Q2 2021	Q3 2021	3m	6m	12m
USD/SAR*	3.7507	3.7500	3.7500	3.7500	3.7500	3.7521	3.7537	3.7575
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6743	3.6764
USD/KWD	0.3057	0.3020	0.3020	0.3020	0.3020	0.3065	0.3072	0.3083
USD/OMR*	0.3848	0.3850	0.3850	0.3850	0.3850	0.3862	0.3875	0.3906
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3760	0.3760	0.3785
USD/QAR*	3.6737	3.6400	3.6400	3.6400	3.6400	3.6797	3.6773	3.6752
USD/EGP	15.6972	15.6500	15.6000	15.7500	15.7000	16.1750	16.6075	17.5250
USD/INR	73.3038	73.0000	72.0000	70.0000	70.0000	74.010	74.820	76.330
USD/CNY	6.730	7.2000	7.1000	7.0000	7.0000	6.778	6.819	6.899
USD/SGD	1.357	1.4000	1.3800	1.3500	1.3200	1.3571	1.3568	1.3561

FX Forecasts - MENA					
	14-Oct	Q4 2020	Q1 2021	Q2 2021	Q3 2021
USD/MAD	9.2233	9.3000	9.6000	9.7000	9.7000
USD/TND	2.7671	2.8000	2.8000	3.0000	3.0000
USD/TRY	7.6648	8.0000	8.1000	8.2000	8.1000

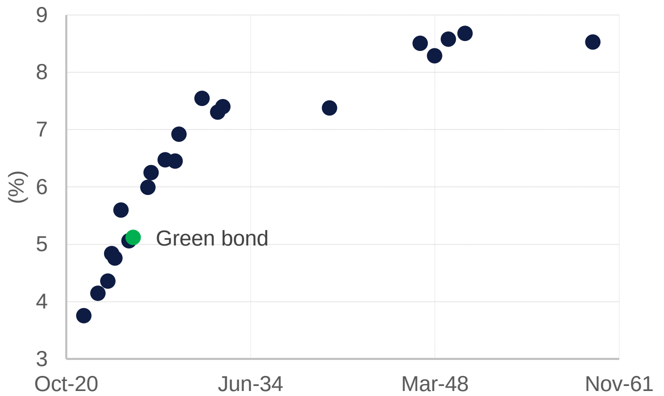
Data as of 14 October 2020
Source: Bloomberg, Emirates NBD Research

Financial Markets

Egypt has issued the Middle East and North Africa's first sovereign green bond in a deal that was heavily oversubscribed and opened up a new avenue for sovereigns in the region to diversify their funding sources. Green bonds are a subset of the environment, social and governance (ESG) investment universe and have grown substantially over the last few years. However, take-up has so far been relatively limited in the MENA region—either among corporate or government borrowers—despite increasing appetite among investors for ESG investment options.

Egypt priced its five-year USD green bond at 5.25% and raised USD 750mn. The total order book was USD 3.7bn, allowing Egypt to tighten its pricing below initial guidance of around 5.75% and tighter than the Eurobond Egypt issued earlier this year (USD 1.25bn at 5.75% for a four-year deal). Egypt will use the bond to support projects in clean transport, renewable energy, climate change adaptation and energy efficiency among other green project goals.

Egypt USD curve



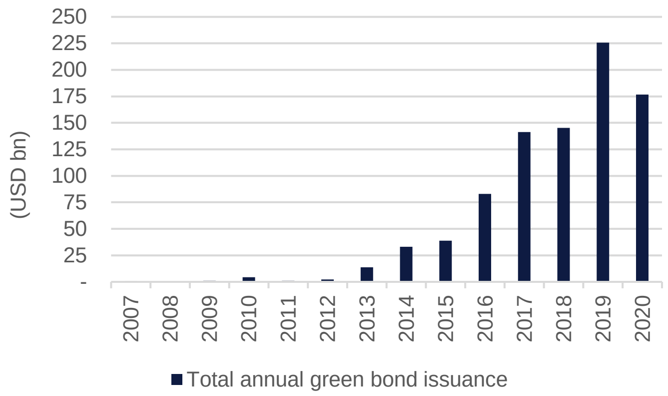
Source: Bloomberg, Emirates NBD. Note: bid yield Oct 2014.

Green bonds have no universally accepted definition but broadly encompass bonds that are used for environmental or climate-oriented projects. Several standards currently exist to ascribe whether a bond is 'green' (eg, the Climate Bonds Initiative, the ICMA Green Bond Principles or the EU taxonomy for sustainable activities) and issuers must be able to identify or quantify the environmental impact of the proceeds. Just as credit rating agencies continually monitor the credit worthiness of a borrower, green bonds are continually evaluated to ensure their funds are directed to projects as originally mandated and thus require a high degree of transparency.

Market for green debt has grown quickly

The market for green bonds has grown tremendously over the last decade and a half. By the end of 2007 just USD 807mn was raised through green bond issuances while more than USD 225bn was raised in 2019. Total green bond issuance so far this year has been strong, up 6% y/y as of the end of September compared with the same period in 2019. The Covid-19 pandemic has enhanced investors' awareness of ESG trends with funds directed toward ESG exchange traded funds (ETFs) at USD 42.9bn year-to-date as of early October. Shifting demographics among investors— towards a younger clientele potentially more focused on the social impact of their investment choices —should help to expand the appetite for ESG investment, and green bonds, further.

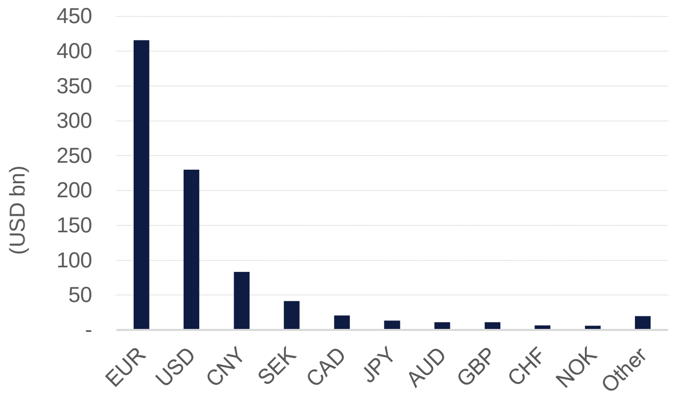
Green bond market rising quickly



Source: Bloomberg, Emirates NBD. Note: 2020 is ytd as of mid-October

The Euro and US dollar account for the largest share of green bond issuance, accounting for 48% and 27% of the total value of current bonds despite them being taken up by an increasingly broad number of countries, Egypt being the latest sovereign example. Corporates still dominate the total share of active green bonds, accounting for more than three quarters of the market with industrial firms the largest borrowing sector at 35% of the total universe. Banks have also begun tapping the market for green bonds, directing the proceeds to green energy or climate oriented projects.

Euro and USD dominate share of market



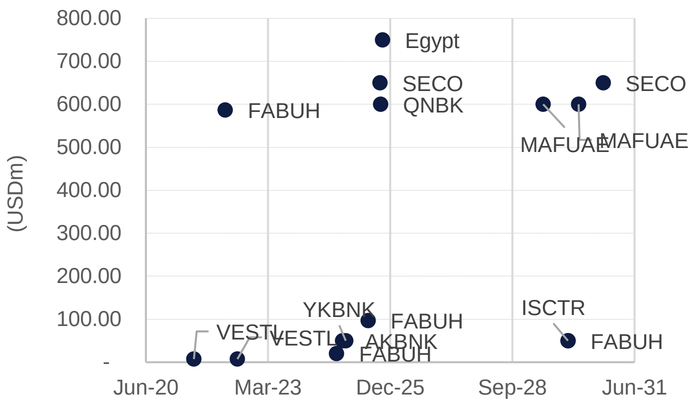
Source: Bloomberg, Emirates NBD.

European nations dominate the issuance of sovereign green bonds but emerging market economies have been increasing their use of the market to diversify their funding options. In 2020, Indonesia, Mexico, Pakistan, Thailand and Tanzania have all issued sovereign green bonds or sukuk along with Egypt.

Room to grow for MENA green bonds

There are 15 active bonds or sukuk in the Middle East, North Africa and Turkey region classified as green bonds with a total universe of around USD 4.8bn. In the UAE, Majid al Futtaim has issued two green sukuk (USD 600m each in two separate deals in 2019) while FAB has four securities in the market.

MENAT green bond universe



Source: Bloomberg, Emirates NBD Research.

A green bond initiative for Abu Dhabi's department of energy was announced at the start of 2020 but has yet to issue any debt. The UAE has an ambitious energy strategy that it will unfold over the coming decades with a target of having 44% of the country's energy mix met by clean energy by 2050 (with 38% from gas, 12% from clean coal and 6% from nuclear power). Expanding the UAE's existing renewable power facilities along with new projects will require considerable capital and we would expect to see greater take-up of green finance, including green bonds, over the coming years. At the corporate level there is also likely to be use of green financing options for energy efficiency or climate change mitigation projects.

Well governed and transparent green bonds could open up the Middle East debt space to a wider pool of investors that may otherwise have looked askance at the region. The economy of the MENA region still relies enormously on oil and gas production and the climate footprint of many economies is high: carbon emissions per unit of GDP are about 1.25x higher in the UAE than they are in the US. Hence there may be some investor skepticism of how "green" bonds from the region actually are. It will be imperative then that projects are outlined first and financing follows, rather than the opposite, to keep investor demand for regional green debt healthy.

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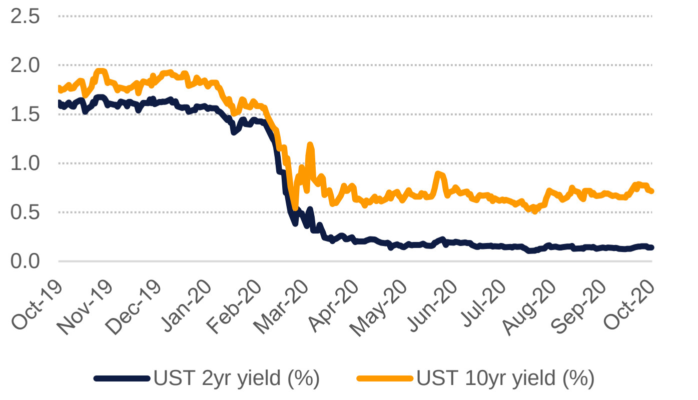
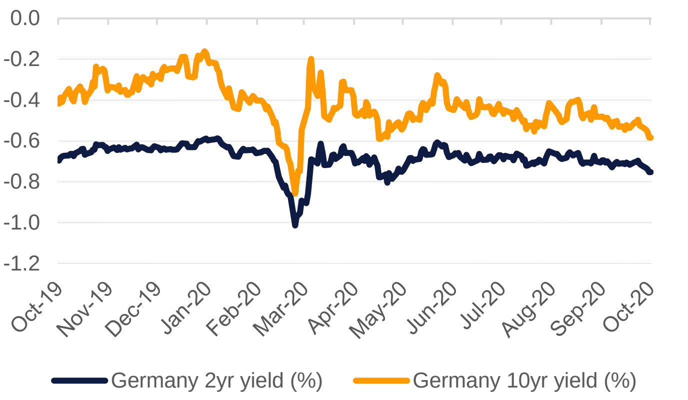
Financial markets

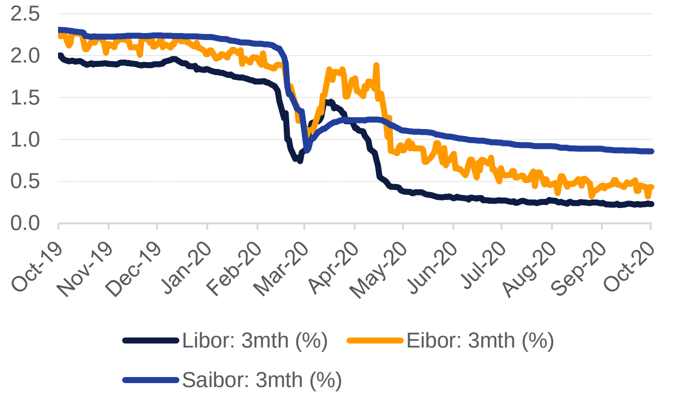
US Treasuries: 1yr



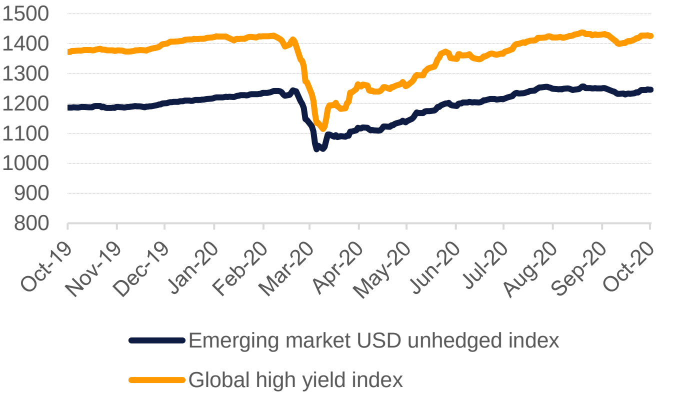
Germany Bunds: 1yr



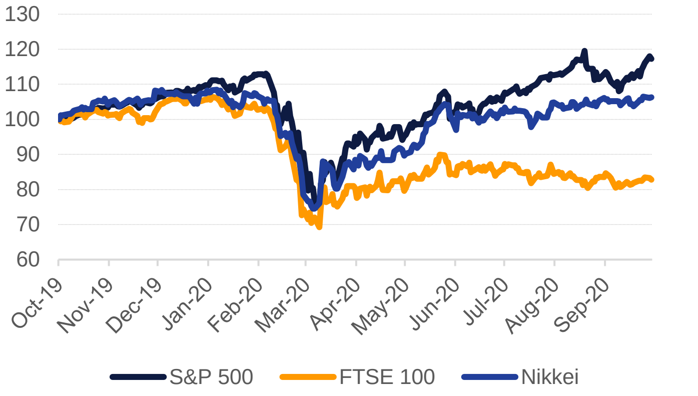
Funding markets



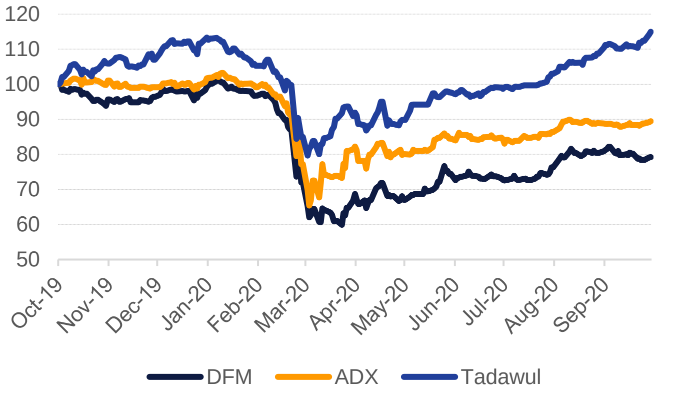
Bond markets



Equities 1yr performance



MENA equities 1yr performance



Source: Bloomberg, Emirates NBD Research. Note: rebased 1yr equity market performance.

Interest Rate Forecasts

US Treasuries Forecasts					
	Current	Q4 2020	Q1 2021	Q2 2021	Q3 2021
2y	0.14	0.18 - 0.25	0.20 - 0.30	0.25 - 0.35	0.30 - 0.45
10y	0.72	0.50 - 0.65	0.60 - 0.75	0.70 - 0.85	0.80 - 1.00
3M Libor					
3m	0.23	0.28	0.30	0.35	0.35
3M Eibor					
3m	0.43	0.68	0.7	0.75	0.75
Rates forecasts					
	Current %	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**
FED (Upper Band)	0.25	0.25	0.25	0.25	0.25
ECB (deposit rate)	-0.50	-0.50	-0.50	-0.50	-0.50
BoE	0.10	0.05	0.05	0.05	0.05
BoJ	-0.10	-0.10	-0.10	-0.10	-0.10
SNB	-0.75	-0.75	-0.75	-0.75	-0.75
RBA	0.25	0.25	0.25	0.25	0.25
RBI (repo)	4.00	4.00	3.75	3.75	3.75
SAMA (reverse repo)	0.50	0.50	0.50	0.50	0.50
UAE (Repo rate)	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
CBB (o/n depo)	0.75	0.75	0.75	0.75	0.75
CBO (o/n repo)	0.50	0.50	0.50	0.50	0.50
CBE (o/n depo)	9.25	9.25	9.25	9.25	9.25

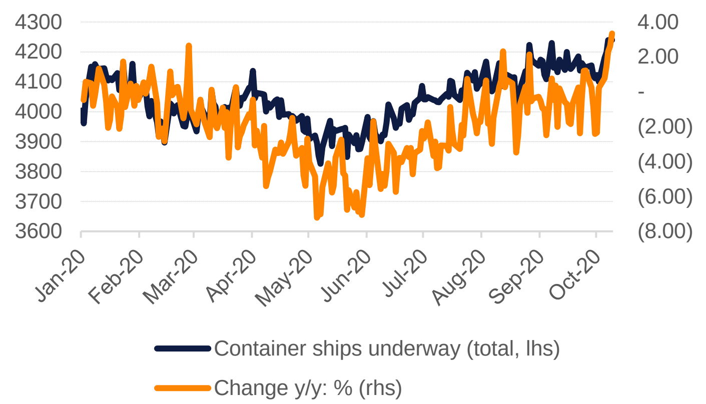
Source: Bloomberg, Emirates NBD Research
As of 15 October 2020

Commodities

Oil markets have entered Q4 roughly on target with where we thought they would be with Brent prices in the low to mid USD 40/b range. Compared with the absolute calamity of Q2, oil markets have recovered considerably thanks to demand improving—albeit not back to pre-pandemic levels—and production cutbacks from OPEC+ members and market oriented producers in the US and elsewhere. However, the outlook for oil for the next several months appears increasingly uncertain as a resurgence of Covid-19 cases in major economies along with an absence of additional fiscal stimulus raises doubts over the sustained performance of the global economy.

Demand conditions to be certain have improved from the 16m b/d y/y drop in demand estimated for Q2 by the IEA (new estimates will be released mid-October). In the US total petroleum products demand had jumped by 33% from its year-to-date trough by early October. In China too oil demand has recovered from its sharp drop in Q1 and is on track for a marginal decline on an annual basis. Conditions over the last few months had appeared broadly positive for oil and commodities in general: manufacturing was leading the economic rebound, global trade had demonstrated a v-shaped recovery and monetary conditions remained highly accommodative.

Trade on its way to recovery



Source: Bloomberg, Emirates NBD Research.

However, the virulent and unpredictable nature of the Covid-19 virus has forced countries that seemingly had the pandemic under some control to question whether they opened their economies too early as they contend with a resurgence in the number of cases. France, the UK and Spain among other European economies have all seen recent daily case numbers rise well above the initial outbreaks, prompting halts to economic activity, particularly in the services sector. In the US too cases have been increasing recently after a summer lull. Even as the mortality rate from Covid-19 has stayed relatively steady over the last few months as health services manage the disease better, the persistence of the virus—perhaps best exemplified by the infection of the US president, the most secure person in the world—continues to act as a drag on the outlook for the oil market.

With oil market conditions at the end of Q3 perhaps as good as they will get for the time being—demand down by roughly 8% y/y, oil prices stuck at levels that don't allow any OPEC+ economies to balance budgets—there is increasing anxiety over whether the OPEC+ deal can carry out as planned. From January 2021 the bloc is meant to increase production by roughly 2m b/d as the sharp cuts introduced from May 2020 are tapered gradually out to 2022. But a flood of OPEC+ oil at a time when demand is at risk of plateauing or dipping again would overwhelm refineries and seriously threaten the outlook for prices in 2021. Refining margins globally are around 50% lower y/y as of mid-October and crack futures don't show much positivity in the months ahead.

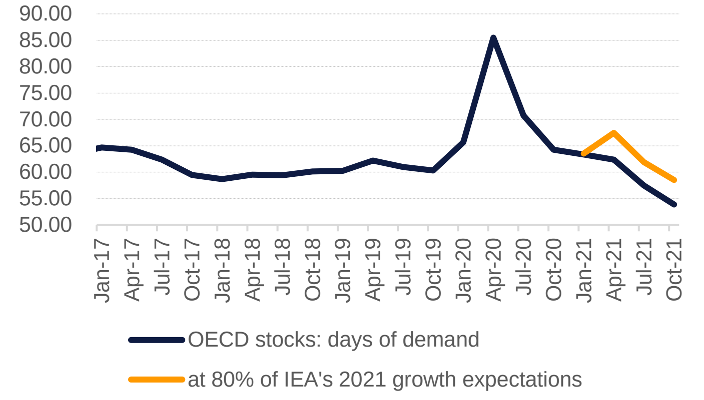
NYMEX 321 crack strip

Source: Bloomberg, Emirates NBD Research.

OPEC+ is also having to contend with the recent political stabilization in Libya that is allowing the country to significantly increase its production—from roughly 150k b/d in September to around 600k b/d in late October. An additional political risk for OPEC+ producers surrounds what would happen to Iran's ability to export oil should Joe Biden win the US presidential election in November and re-commit the US to the JCPOA (the Iran nuclear deal). While we don't expect an immediate increase in Iranian production from November should Biden win, markets may price in a return of those barrels for some point in 2021.

With an outlook for 2021 that appears so precarious OPEC+ can't afford any slippage in compliance with production targets or for demand to deviate substantially from current market expectations. Even at just 80% of the IEA's growth forecast for 2021, the increase in OPEC+ output from January would keep OECD crude stocks at almost 63 days of demand, compared with less than 60 days on the baseline demand level. A return to lockdowns or protracted slump in activity if unemployment spikes in response to an absence of government support would sour the outlook even further. The focus for OPEC+ will need to be whether they can indeed afford to increase output or delay by several months to identify where demand conditions have normalized.

Average OPEC+ compliance May - August



Source: IEA, Emirates NBD Research.

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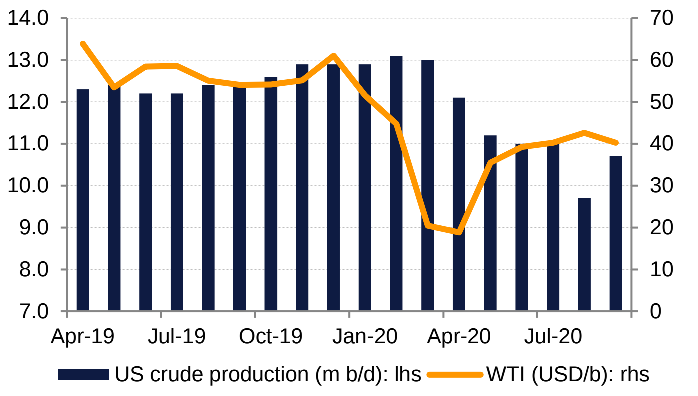
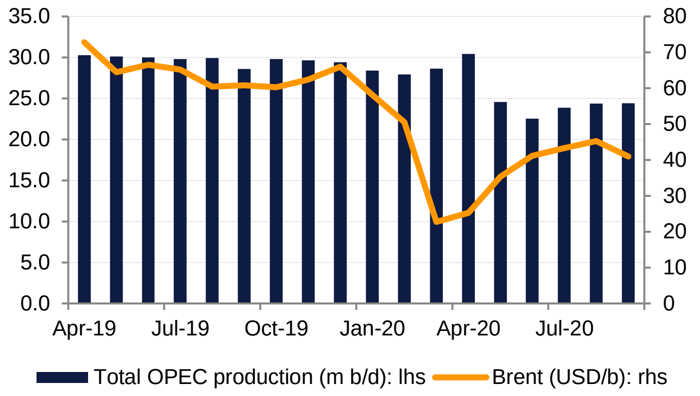
Major Commodities Markets

US oil production and price



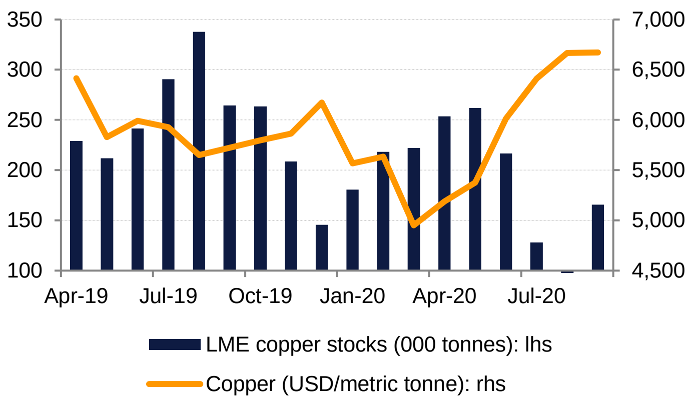
Source: Bloomberg, Emirates NBD Research

International oil production and price



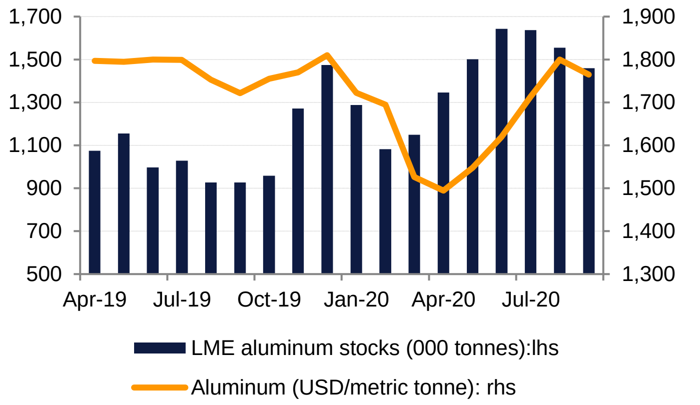
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



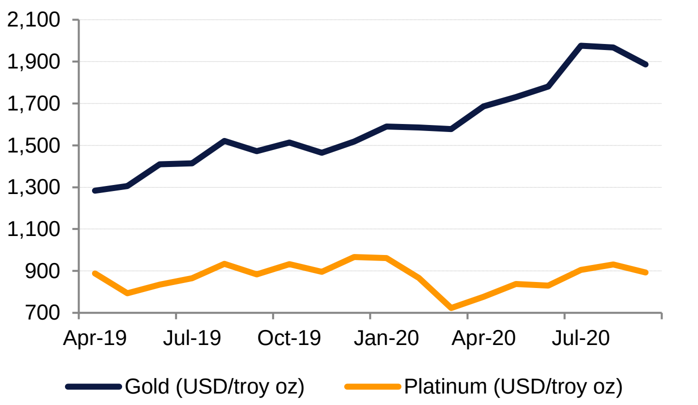
Source: Bloomberg, Emirates NBD Research

Aluminum stocks and price



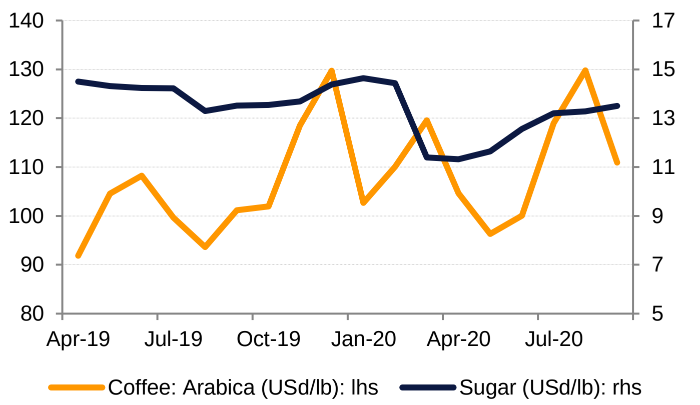
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	**2020Q3**	**Q4**	**2021Q1**	**2021Q2**	**2020**	**2021**
Energy							
WTI	39.96	40.92	40.00	42.50	47.50	38.68	46.88
Brent	42.26	43.34	44.00	47.50	50.00	42.89	50.00
Precious metals							
Gold	1,898.73	1,911.30	1,790.00	1,750.00	1,700.00	1,749.23	1,675.00
Silver	24.18	24.36	17.11	16.73	16.25	18.69	16.02
Platinum	869.97	905.20	900.00	1,000.00	900.00	875.52	912.50
Palladium	2,363.64	2,172.16	1,800.00	1,800.00	1,750.00	2,063.94	1,750.00
Base metals							
Aluminum	1,858.00	1,742.43	1,700.00	1,720.00	1,750.00	1,671.70	1,748.75
Copper	6,692.00	6,513.29	6,500.00	6,500.00	6,600.00	6,013.55	6,612.50
Lead	1,801.50	1,893.35	1,891.42	1,891.42	1,905.97	1,828.97	1,907.75
Nickel	15,040.00	14,288.82	14,500.00	14,500.00	15,000.00	13,468.08	14,937.50
Tin	18,255.00	17,674.48	17,000.00	17,000.00	17,250.00	16,647.41	17,312.50
Zinc	2,417.00	2,355.06	2,350.25	2,350.25	2,386.41	2,201.95	2,390.93

Prices as of 14 October 2020. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

Sector Report: Dubai Tourism

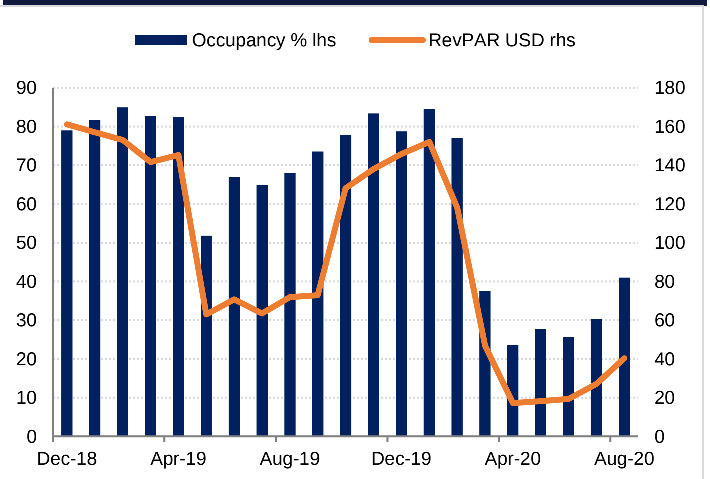
Dubai's tourism sector is gradually charting a path to normalization, after Covid-19 mandated significant lockdown measures in Q2 especially. Almost every subsector within the emirate's wider tourism umbrella has been directly impacted by the pandemic, with operating capacity significantly curtailed as tourism flows dried up in Q2. Policy response to the pandemic was key, and the emirate has been very pragmatic in dealing with the fallout on the sector. It focused on a number of key priorities, the first being safety and health standards, followed by an early opening up the emirate, even as the dynamics of the pandemic remained in flux.

Normalization will remain dependent on the development and global rollout of a vaccine and the resumption of global travel as governments around the world ease restrictions. Businesses in the sector have taken a number of steps to contain the impact of the pandemic and allow them to better plan for recovery, from targeting the domestic travel market to absorb excess capacity, to promoting hygiene and safety standards that have become industry norms. The path ahead remains challenging, especially as the situation concerning the pandemic remains in flux. However, decisive business decisions coupled with proactive policy response is key.

Hotels

The timing of the pandemic was particularly challenging for Dubai's hotel sector as in the run-up to Expo 2020 Dubai had been ramping up hotel capacity to cater to the mega-event that was expected to start in October 2020. In just one year between January 2019 and January 2020, the emirate added almost 11k new hotel rooms according to figures by STR Global. This resulted in significant overcapacity in Dubai's hotel sector once borders were closed in March. In response, many operators temporarily closed hotels or floors in hotels, reducing the supply of rooms in the market. The number of hotel rooms in Dubai declined from 119K in February to almost 97K in April according to data by STR Global.

Dubai hotel occupancy and RevPAR



Source: STR Global, Emirates NBD Research

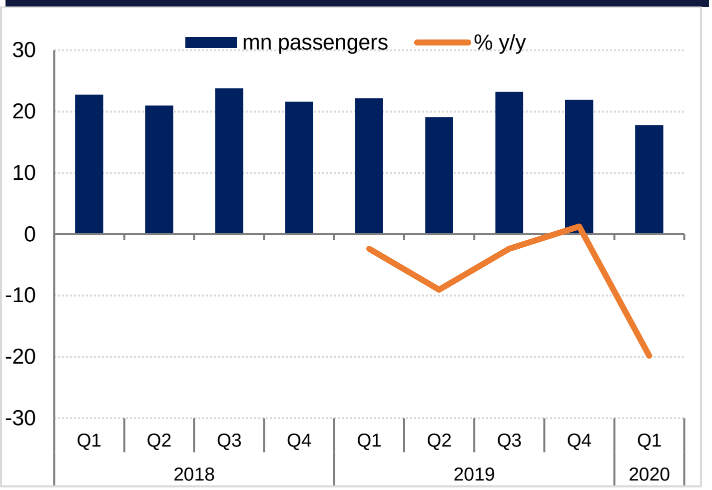
Once restrictions were lifted, Dubai's hotel operators offered price cuts in order to encourage staycations, especially given the non-seasonal nature of those breaks, (i.e beach breaks during the hot midsummer months). The efforts did have some success; while levels in absolute terms remain significantly below February numbers, hotel occupancy has recovered from the April low, reaching 41% in August, and RevPAR has more doubled over the same period. Nevertheless, both hotel occupancy and RevPAR remain well below year-ago levels.

Given Dubai's hotel industry is highly geared towards international travel, achieving pre-pandemic levels will be a challenge until a vaccine is rolled out globally and other countries' quarantine restrictions are eased. The employment component of Dubai's travel & tourism employment component of the PMI contracted sharply to 39.7 in March from 49.9 in February, and while improving in subsequent months, it remained in contraction territory through that period, with the latest reading in September at 46.6.

Aviation

Dubai's aviation sector has been a global industry leader in responding to the pandemic. Emirates has led the industry in setting the standard for safe travel in a global environment that remains dictated to by the dynamics of the pandemic. Early on Emirates introduced many measures to gain passenger trust including the provision of complementary hygiene kits to all passengers at check-in counters at Dubai International Airport and mandatory Covid-19 tests for all flights. Furthermore all cabin crew are fitted with full PPE kits and the airline highlights other measures including on board HEPA cabin air filters keep circulated air inflight at 99.97% filtration rate.

Dubai Airport passenger traffic



Source: Dubai Airports, Emirates NBD Research

Emirates is currently flying to 99 destinations, up from nine when the emirate resumed international travel operations in May. This means the airline is now serving close to 61% of its pre-pandemic destinations total of 161. This number continues to rise weekly and the airline has worked with policymakers in its network footprint with assurances over safe travel standards. The frequency of flights to these destinations is much lower, however, and constantly evolving global travel restriction will likely keep passenger growth slow. This gradual global restart is allowing the airline to work on its productivity metrics, and map the road ahead for the post-Covid-19 aviation market with more confidence.

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