بنك الإمارات دبي الوطني
Emirates NBD

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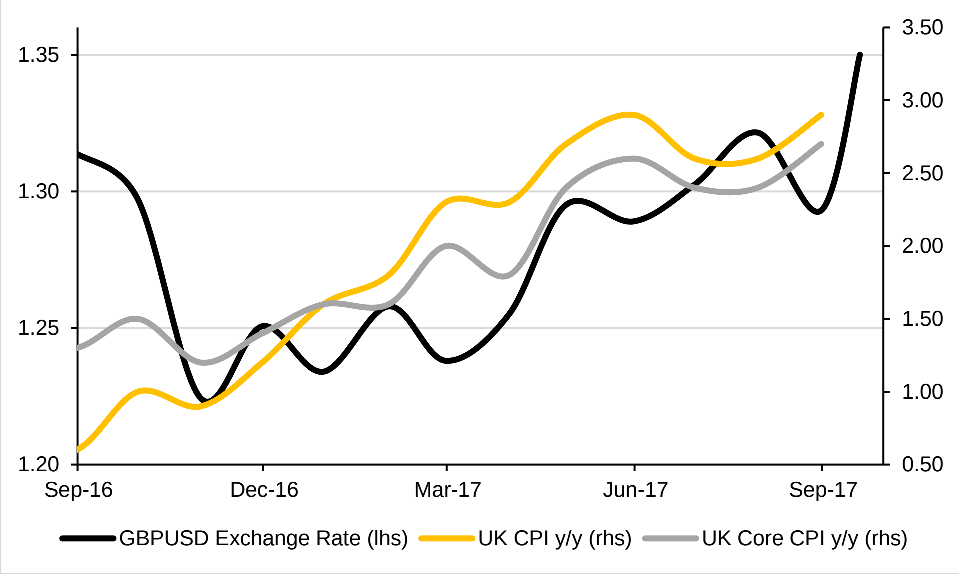
Monthly Insights

With the summer behind us but with only half of September gone, the challenge of anticipating and calibrating the key factors that will define where markets go through the rest of this year is already quite immense.

- **Global macro:** Geopolitical risks on the Korean peninsula and natural disasters across large areas of United States and the Caribbean may be at the extremes of what markets usually think about, but they are complicating perceptions about growth, inflation and policy responses.
- **GCC macro:** As we head into Q4, data on the non-oil sectors show faster growth, but with very little jobs growth. Budget deficits are narrowing as oil revenues improve, but reform momentum has slowed.
- **Sector Focus:** An overview of Dubai's real estate sector.
- **Rates:** Improving inflation data out of the US raised the December rate hike prospects to 50%, causing rates curves to shift upward and sovereign bond prices to fall during the month.
- **Credit:** Rising benchmark sovereign yields weighed on corporate bond prices though much was counter balanced by tightening credit spreads amid manageable new supply and higher oil prices.
- **Currencies:** Supported by constructive UK economic data, sterling outperformed the other FX majors in the last month helped along by a more hawkish Bank of England.
- **Equities:** Notwithstanding the emergence of geopolitical risks over the past month, global equities are heading into the final quarter of 2017 with positive momentum.
- **Commodities:** Oil markets are assessing whether OPEC needs to or has the will to extend its current production cuts beyond the end of 2018.

Sterling benefits from rising UK inflation and a hawkish BOE



Source: Bloomberg, Emirates NBD Research.

Content

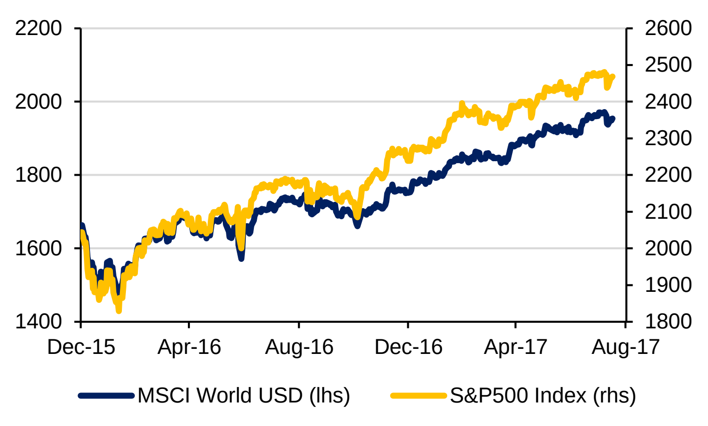
Global Macro

With the summer behind us but with only half of September gone, the challenge of anticipating and calibrating the key factors that will define where markets go through the rest of this year is already quite immense. Geopolitical risks on the Korean peninsula and natural disasters across large areas of United States and the Caribbean may be at the extremes of what markets usually think about, but they are complicating perceptions about growth, inflation and policy responses. The extension of the US debt cliff until December has added another dimension of risk to US markets, while major central banks appear to gearing up for some kind of synchronized tightening of monetary policy.

Global fundamentals boost equity markets

Despite such a list of issues to contend with equity markets in the US continue to trade at record highs, with strong expectations about growth underpinning them and ample liquidity broadly offsetting concerns about tail risks. From a markets point of view the limited impact of North Korea tensions on safe havens is understandable in the context of historical experience which has never seen tensions spillover into outright military conflict. This time we are concerned that the markets are being too sanguine about the risks, although we recognize that it is very tempting to look through them while the world's economic fundamentals appear to be improving.

Equity markets remain near record levels

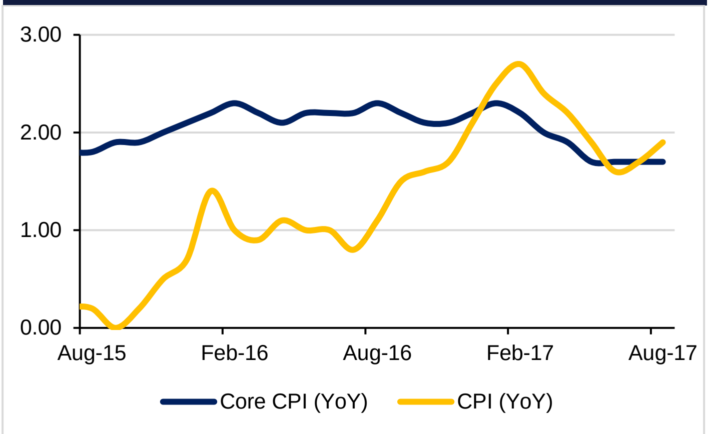


Source: Bloomberg, Emirates NBD Research

US inflation ticks higher

Although August saw a dip in the pace of economic activity in the US, this was largely on account of disruptions caused by Hurricane Harvey which made landfall that month, impacting industrial production and auto sales. The labour market was also negatively affected, which is likely to carry over into September given the further disruption caused by Hurricane Irma. At the same time, however, it is feasible that inflation will receive a boost from hurricane related issues. Headline inflation already rose more than expected in August, by 0.4% m/m taking the y/y rate up to 1.9%. Although core prices also rose by more than expected (0.2%), the y/y rate remained steady at 1.7%. Other factors are also hinting at inflation picking up through the end of the year, including the recent reversal in oil prices with Brent having recovered to levels last seen in April (see Commodities). The softness of the dollar should be another factor that will play through into firmer import prices over time.

US inflation ticks up in August

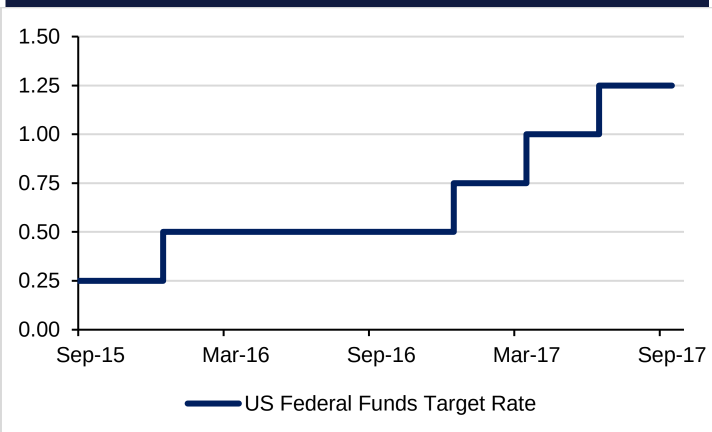


Source: Bloomberg, Emirates NBD Research

Normalization of monetary policy to continue

Accordingly we think that the Fed will keep the door open to tightening monetary policy at the end of the year when it meets later today, which is still our working assumption (see Fixed Income). In fact we would not be surprised if the dot plot continues to point to three further hikes in 2018 and 2019 as well, in spite of recent commentary from some FOMC members casting doubt on the likelihood of another move this year. The resignation of the hawkish Fed Vice Chair Stanley Fischer has admittedly added some uncertainty to the Fed outlook, especially as it means there are now four vacancies on the FOMC to be filled. Another factor that has added to overall policy uncertainty is the postponement of the debt ceiling deadline to the end of the year.

FOMC to hike a third time in 2017?



Source: Bloomberg, Emirates NBD Research

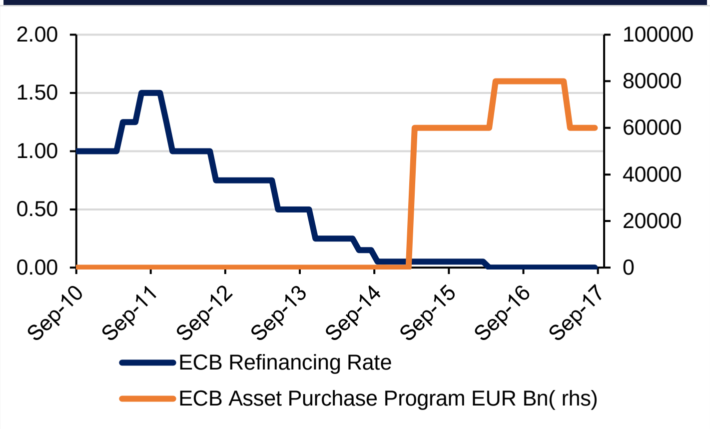
Seemingly out of the wish to prioritize funds for dealing with the damage caused by Hurricane Harvey President Trump made a surprise intervention into the debt ceiling debate by agreeing to a Democratic Party proposal to extend the $19.8 trillion debt limit for three months, against the wishes of his own Republican Party and overriding his Treasury Secretary Steve Mnuchin. While the avoidance of debt cliff at the end of this month might normally be seen as something to be welcomed, its mere postponement until early December is arguably a much worse scenario. Markets would rather get the issue over with now than have it hanging around for the rest of the year. It will only extend the period of uncertainty among investors and corporations; it will complicate the process of delivering meaningful tax reform; and it will reduce the chances of this and other key legislation being achieved at all this year and perhaps even next. From the Fed's perspective it will also make the December 13th interest rate decision a much closer run thing.

Other central banks consider tightening

Probably what might also make a difference for the Fed would be if the process of policy normalization by other central banks was also getting underway. The ECB and the Bank of England both appear to be preparing the markets for some unwinding of emergency monetary policy measures, although the degree to which both are prepared to go is still subject to a lot of uncertainty.

The ECB's message comes after Q2 growth was confirmed at 0.6% with recovery becoming more balanced across countries and sectors. Survey data for the third quarter so far suggest that the strengthening trend continues and that for the time being the strong EUR does not appear to be harming business sentiment. No surprise then that the ECB is getting more optimistic about the outlook for growth, raising its forecasts following its September Council meeting. However, the absence of inflation is still holding it back from pulling the trigger on tapering QE, with the strong EUR even being cited for it revising of its inflation forecasts slightly lower. ECB President Draghi has already indicated that October will be the month in which tapering plans will be outlined, but it may not be until 2018 that actual reductions in its EUR 60bn bond buying program begin, with interest rate rises only likely to follow in 2019.

Era of QE coming to an end



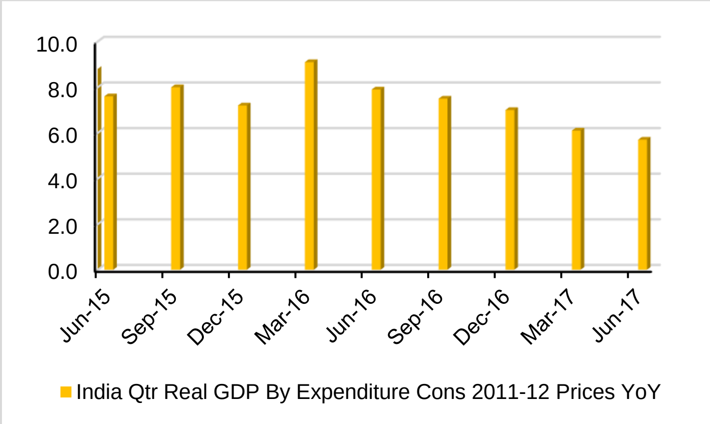
Source: Bloomberg, Emirates NBD Research

The Bank of England meanwhile gave a hawkish message at its September MPC meeting, following on from inflation data that showed prices rising at their fastest pace since 2013. The MPC warned of an imminent rate hike should the data continue to surprise positively, which markets have taken to mean November. However, such warnings have been heard before only for the Bank to disappoint, giving rise to a reputation for it 'crying wolf'. Indeed only a few days later Governor Carney already appears to be 'rowing back' a little from the tone of the Bank's earlier comments saying that 'any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent'. The UK economy grew 0.3% q/q in Q2, half the pace of the Eurozone economy, but in other respects the BNritish economy appears to be in relatively healthy state, with the survey data in particular quite buoyant in Q3. This despite largely negative coverage of the Brexit negotiations, which remain a source of medium term uncertainty. After its latest remarks it would be a very big volte face for the BOE not to raise interest rates in November, but much will depend on whether inflation continues to rise at its recent pace.

Growth moderates in Asia

Finally Asian economic growth appears to have a hit a small speed bump, with activity in China slowing a little in Q3, and Indian economic growth also slowing in Q2 on account of the combined effects of the GST. India's GDP for Q2 2017 slowed down to 5.7% from 6.1% in Q1 2017. Having said that there were a few positive signs in the underlying data. The core GVA (Gross Value Added) which captures the pulse of the economy increased 170 bps to 5.5% y/y and there were signs of further progress in the infrastructure sector with gross fixed capital formation coming in at 1.6%. The negative surprise came from the decline in government spending and destocking on account of the GST.

Indian growth moderates in Q2 2017



Source: Bloomberg, Emirates NBD Research

We remain broadly constructive on the growth trajectory of the Indian economy, however. While we think that another quarter of disruption owing to GST is possible, the fact that demonetization is nearing completion and the monsoon season is panning out favourably suggests that further downside risks are reduced. High frequency data such as manufacturing PMI (rebounded to 51.2 in August from 47.9 in July) and core infrastructure index (2.4% in July compared to 0.8% in June) suggest that the worst may be behind us.

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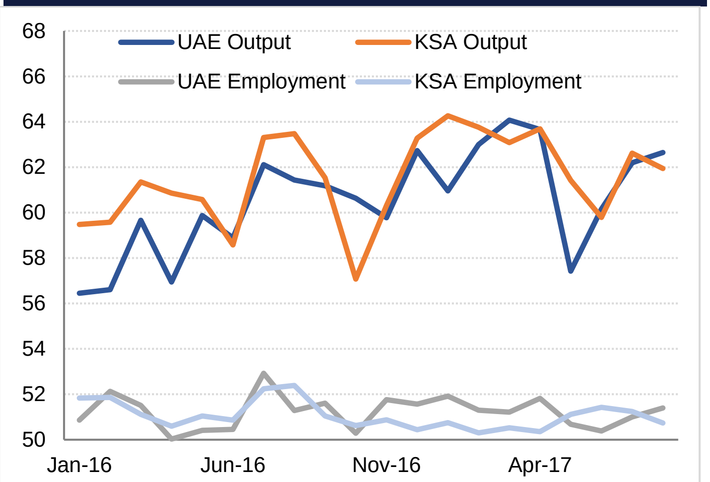
GCC: Headline strength but with caveats

Non-oil sector growth data is encouraging

On the oil side, the GGC's average production year-to-date is broadly in line with the production limits agreed last November, with Saudi Arabia and Kuwait bearing the brunt of the production cuts. However, the non-oil sector data has been largely positive, with the headline Purchasing Managers' Indices for Saudi Arabia and the UAE pointing to faster growth in the non-oil sectors this year relative to 2016.

Here too there is a caveat: while the output and new orders data has been very strong, employment growth has been very modest and firms have had to adjust to tighter margins as input costs have risen while selling prices have declined on average (in the UAE), or been broadly unchanged (in Saudi Arabia). As things stand at the end of Q3, we are comfortable with our forecast of slower real GDP growth in the GCC this year, largely on the back of the decline in oil output. Provided OPEC's production cuts are not extended beyond the end of Q1 2018, we expect GDP growth to accelerate next year as both oil and non-oil sectors grow at a faster rate.

PMIs: Economic growth but few new jobs



Source: IHS Markit, Emirates NBD Research

Fiscal balances are also looking healthier across the GCC this year, helped by a more than 20% increase in average oil prices in the year to August, compared with the same period last year. Saudi Arabia's Q2 budget update showed a halving of the deficit in H1 2017 (to -SAR 72.7bn) relative to H1 2016. Looking beyond the headline figure however, the data is less encouraging. The rise in total budget revenue was entirely due to higher oil prices, as non-oil revenues declined nearly -12% y/y in H1 2017, suggesting little progress is diversifying budget revenue away from oil.

But reform momentum has slowed

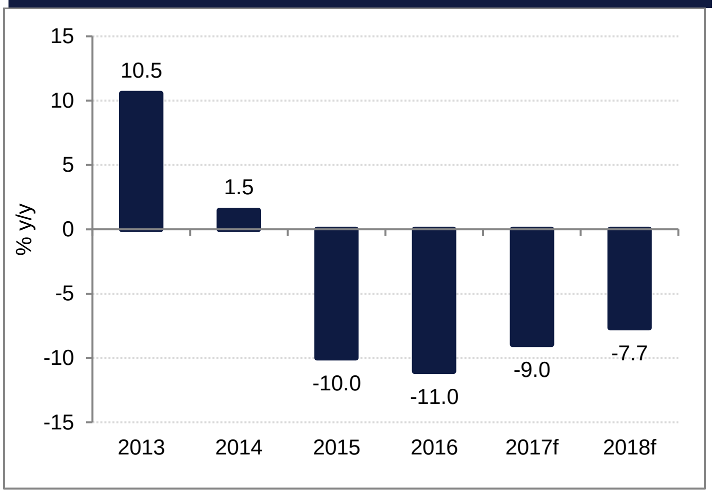
Progress on privatization has been slow; initial timeframes for the airport privatizations (Q1 2017) have passed and recent press reports suggest that the flagship Aramco IPO may also be delayed into 2019. Privatization, or the sale of stakes in state assets, was one of the initiatives under the Vision 2030 program which aimed to not only facilitate an opening up of the economy and transfer of knowledge and investment, but also to raise funds which would then be reinvested by the Public Investment Fund to generate additional investment income for the budget.

On the expenditure side, current spending declined just -2.4% y/y in H1 2017, and wages & salaries still accounted for nearly 52% of total expenditure. The authorities' decision to reinstate public sector bonuses and allowances that had been cancelled in October 2016 would not have helped to contain spending on wages & salaries in H1 2017. While the amount spent on subsidies and grants have declined this year, further cuts to energy and fuel subsidies that had been expected in July have been postponed, although there is some discussion around these being applied towards the end of this year.

In this context, it was unsurprising to see reports that the authorities are reviewing and revising the targets that had been set out in the National Transformation Program published last year. Those targets, which included increasing non-oil revenues by 224% and reducing wages & salaries to 40% of the total budget by 2020, were always going to be difficult to achieve. The authorities are expected to publish a more focused program, likely with extended deadlines, next month.

Despite these setbacks, we expect to see Saudi Arabia's fiscal deficit narrow to -12.5% of GDP this year from -13.6% in 2016, and we expect further narrowing of the deficit to 10.8% in 2018. A similar trend is likely to be evident across the GCC, as all oil exporters' budgets are set to benefit from higher oil prices this year. We have forecast the average (weighted by nominal GDP) GCC budget deficit to decline to -9.0% of GDP this year from -11.0% in 2016.

GCC budget deficit set to narrow



Source: Haver Analytics, Emirates NBD Research

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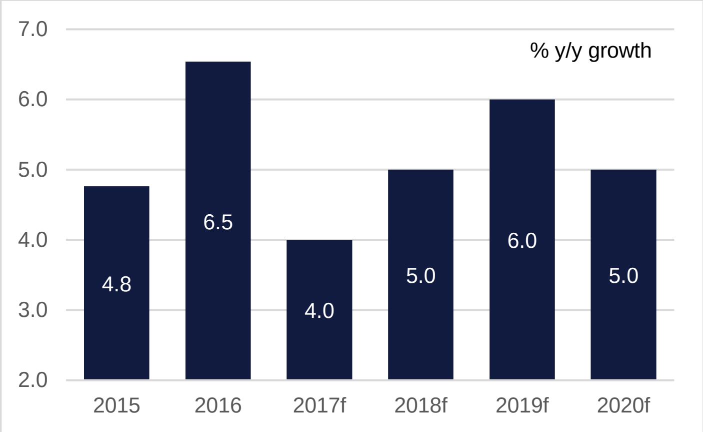
Sector Focus - Dubai real estate

Real estate services sector grew 7.2% y/y in Q1 2017

The real estate services sector accounted for 7.0% of Dubai's GDP in Q1 2017. Growth in the sector accelerated to 7.2% y/y in Q1 2017 from 5.3% in Q1 2016, according to the revised data from Dubai Statistics Centre. However, the easing in real estate prices is still evident with several factors contributing in particular the overhang of supply. None of these factors are likely to change materially in the near-term in our view. However, higher oil prices and improved sentiment ahead of Expo 2020 suggest that further downside may be limited. Our estimates suggest that Dubai's real estate services sector is likely to expand at a slower pace in 2017, up 4.0% y/y before gradually accelerating to 5.0% in 2018 and 6.0% in 2019.

Dubai's real estate services sector growth



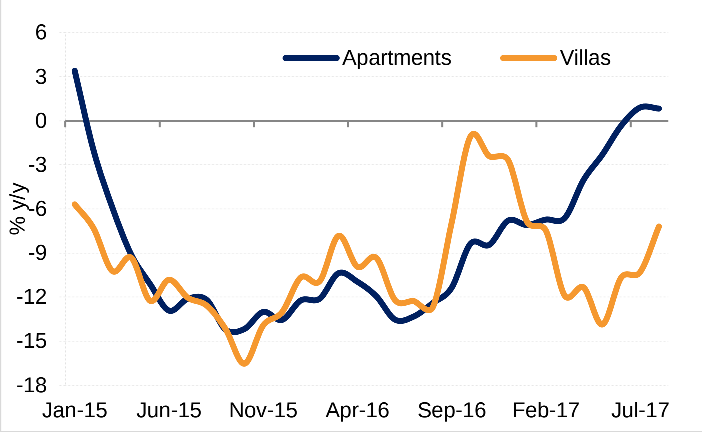
Source: Dubai Statistics Centre (DSC), Emirates NBD Research

Dubai apartment prices show signs of stabilisation in 2017

Residential property prices continued to decline in Jan-Aug 2017, according to the latest data from Phidar Advisory. However, apartment prices have fared much better than villas. Phidar Advisory's Dubai 9/5 House Price Index, which is based on DLD data but includes only nine apartment communities and five villa communities in investor zones in Dubai, showed that the apartment prices recorded positive growth for a second consecutive month in August, up 0.8% y/y, compared with -7.1% y/y in January. Villa prices fell -7.2% y/y in August. Apartments account for about 90% of residential real estate transactions in Dubai.

The medium priced segments of the apartment market have coped better than the luxury (premium) segment. Low and mid-range (standard and standard-plus) apartments recorded positive growth in August, up by 0.5% and 2.4% y/y, respectively. Separately, premium villas saw price declines slowing, down -4.9% compared with -16.5% the same month last year. While there is evidence that residential real estate prices may be stabilizing, higher interest rates, declining rents and increasing supply are likely to remain headwinds for the sector this year.

Dubai residential property prices



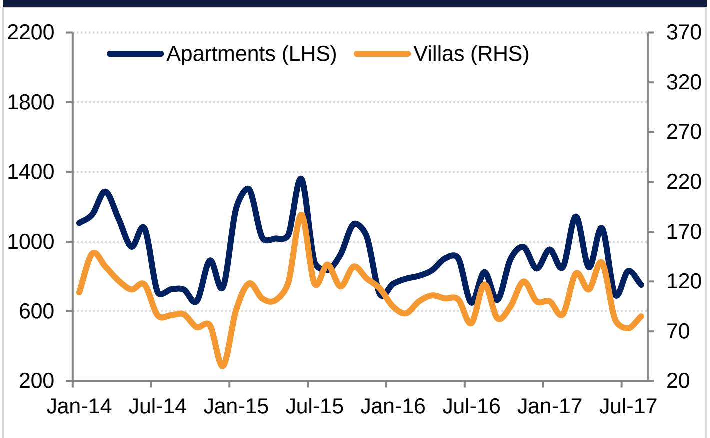
Source: Phidar Advisory, Emirates NBD Research

Transaction volumes higher in Jan-Aug 2017 compared with Jan-Aug 2016

The slower contraction in residential real estate prices over the first eight months of 2017 has been accompanied by higher transaction volumes in all areas of Dubai. This has been particularly evident in the apartments sector. Overall transaction volumes increased by 9.8% y/y in Jan-Aug 2017 compared with -24.6% decline recorded in Jan-Aug 2016.

Looking at the areas included in Phidar Advisory's 9/5 Index, overall transaction volumes have fallen by -14.3% y/y in Jan-Aug 2017, mainly driven by the significantly lower transaction volumes on villas. With most of the activity in the standard segments of the market, affordability is still a constraint, but that there is still demand for residential properties at the lower priced end of the market.

Dubai residential transaction volumes (whole of Dubai)

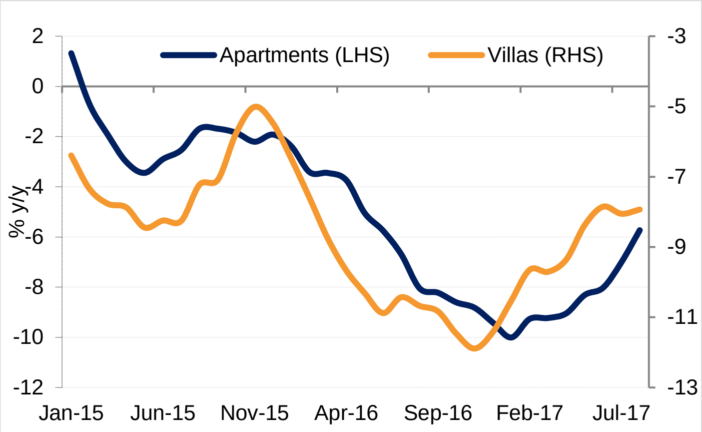


Source: Phidar Advisory, Emirates NBD Research

Rents ease at a slower rate while yields remain high

Rents in the Dubai 9/5 Index areas have declined at a slower rate on an annual basis in August, more or less aligned with the annual fall in sales prices, especially for villas. Apartment and villa rents were down in August by -5.7% and -7.9% y/y, respectively. Yields on apartments fell in August at 7.4% compared with 7.9% the same month in 2016. Similarly, yields on villas also fell at 4.9% compared with 5.0% in August last year.

Dubai residential rents

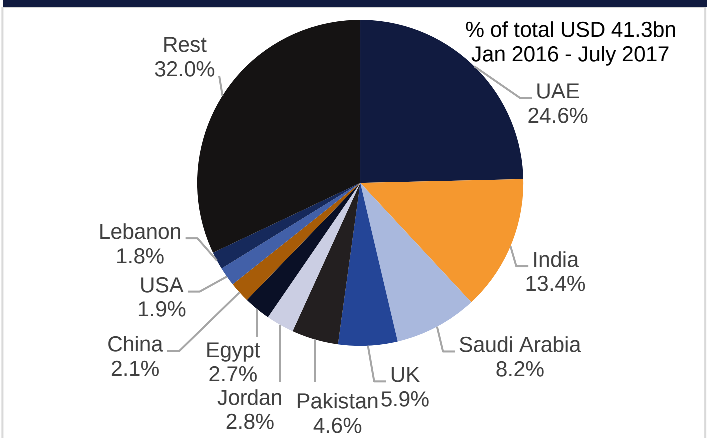


Source: Phidar Advisory, Emirates NBD Research

Growing investor confidence in the real estate market

The value of real estate investments reached USD 41.3bn over the past 18 months, according to Dubai Land Department (DLD). Separately Dubai's property market attracted investors from 217 countries globally with UAE nationals topping the list with USD 10.2bn or 24.6% of the total. India ranked second (USD 5.6bn), followed by Saudi Arabia (USD 3.4bn), UK (USD 2.4bn) and Pakistan (USD 1.9bn). Apart from UAE and Saudi Arabia, citizens from three other Arab countries appeared on the list, with investors from Jordan, Egypt, China, USA and Lebanon ranked sixth to tenth respectively with a combined investment value of USD 4.6bn.

Dubai's top 10 investors in real estate



Source: Dubai Land Department, Emirates NBD Research

Grade A office prices increased for a third consecutive month in August

The Dubai office market declined at a slower pace in Jan-Aug 2017 with Phidar Advisory's commercial price index showing overall office prices down -5.8% y/y in August, with the high quality segment (Grade A) recording positive growth for a third consectuve month in August, up 1.2% y/y. On a m/m basis, the average monthly price decline for offices in Jan-Aug 2017 was -0.4% per month compared with -1.9% per month in Jan-Aug 2016.

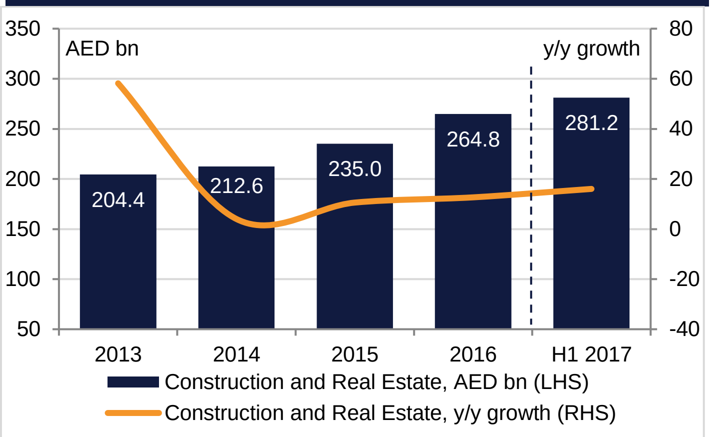
Rents for Grade A buildings (predominantly at DIFC, One Central and Downtown) were down -10.5% y/y in August. Rents in the remaining areas however eased at a slower rate for the same period, more or less aligned with the annual fall in sales prices. Overall, office rents were down in August by -6.0% y/y compared with -7.5% y/y the same month last year.

Yields on offices remained unchanged in August at 7.8% averaging 7.8% in Jan-Aug 2017 compared with 7.5% in Jan-Aug 2016 with the lower segment (Grade C) recording the highest reading in August at 8.2% averaging 8.3% in Jan-Aug 2017 compared with 8.8% in the same peiod last year.

Bank credit to construction & real estate services sector robust

Lending to the construction and real estate services sector expanded 16.0% y/y in H1 2017, up from 12.1% y/y in H1 2016, with loans to this sector accounting for 19.3% of total bank loans. In H1 2017, bank credit to the construction and real estate services sector reached AED 281.2bn compared with AED 216.2bn in H1 2016 as the chart below shows. We expect credit to construction and real estate services to further increase in 2017 given the number of projects underway.

Bank credit to the construction & real estate services sector



Source: UAE Central Bank, Emirates NBD Research

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Interest Rates

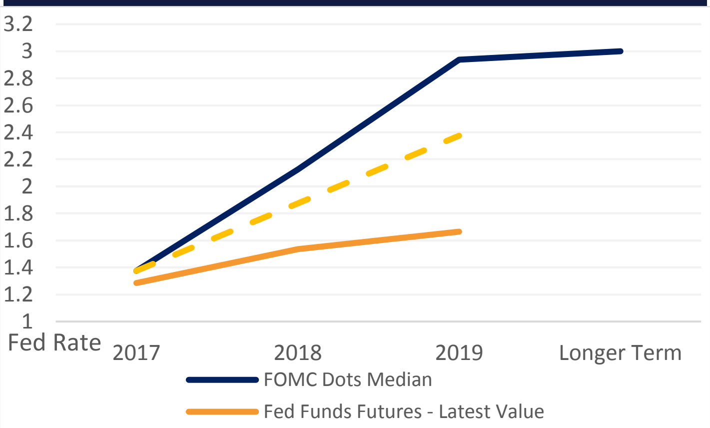
Improving inflation data out of the US raised the December rate hike prospects to 50%, causing sovereign yield curves to shift upward and bond prices to fall during the month. Investors are surprisingly sanguine against the risk of tension escalating between the US and North Korea, as economic growth around the world retains a positive bias.

Global Rates

The US debt ceiling and spending bill debates have been pushed back to December and tension with North Korea seem to be moving towards sanctions rather than an outright military confrontation, at least for the time being. In such environment the focus seems to have shifted back to the economic data in the developed world where policy tightening at the BoE, ECB and Fed is becoming all the more likelier.

Short dated rates were rattled by higher than expected August inflation data out of the US which raised the prospects of a December rate hike close to 50%. Annualised inflation in August increased to 1.9% vs 1.7% in the previous month and is in line with our expectations that despite technology's disinflationary impact on prices, inflation should pick up in the coming months, albeit sluggishly, as a result of a) softer currency, b) buying spree post the hurricane damage, c) tight labour market conditions and d) rising energy prices. Rising inflation will likely provide enough ammunition to Fed officials for raising rates faster than the current futures implied probability which reflects only one rate hike between now and end of 2018. At its 20 September meeting, the Fed is likely to unveil plans to reduce its balance sheet by letting its bond holdings mature. Fed officials have indicated the size and pace of such a reduction is likely to be gradual to minimise the impact on markets. The Fed's updated inflation and interest rate forecasts are also likely to be addressed though we will not be surprised to see them unchanged.

FOMS Dot Plot vs Market Expectations



Source: Bloomberg

Across the Atlantic, Bank of England voted 7-2 to keep rates unchanged this month but that was delivered with a pretty strong dose of hawkishness. Though we wonder if BoE will have the nerve to raise its policy rate in the face of weakening growth and ongoing Brexit uncertainty, futures implied probability reflects more than 57% chance of a rate hike before the end of the year. Yield on 10yr Gilts were up 22bps during the month to 1.30%. Even Bund yields were up 4bps during the month to 0.45% as ECB prepares for QE tapering.

10Yr Government Bond Yields

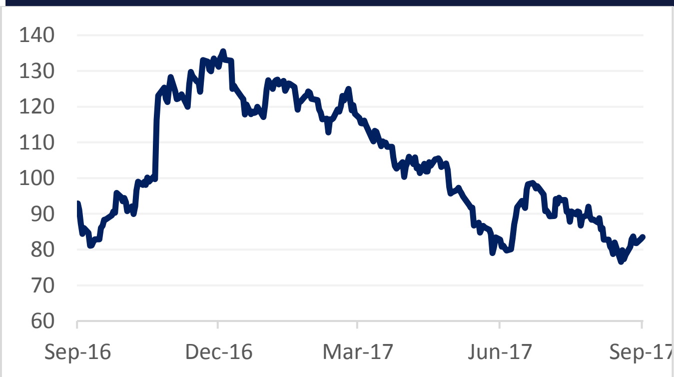
	Yield %	1M chg	3M chg	12M chg
US	2.22	+3	+4	+51
UK	1.30	+22	+27	+43
Germany	0.45	+4	+17	+44
Japan	0.03	-	-2	+7
Brazil	4.36	-19	-40	-45
Russia	3.73	-27	-31	-20

Source: Bloomberg

UST curve likely to steepen from here, albeit sluggishly

After falling to as low as 2.03% in early September, yields on 10yr treasuries traced their way up to the level seen at this time last month i.e 2.22%. Medium to long term UST yields have fallen in recent months - even as the Federal Reserve has pressed on with normalising policy. Softening of US inflation and scaled-down expectations for stimulative tax reform are part of the story. The 2yr10yr spread has narrowed from at 123bps at the beginning of the year to 82bps now.

UST 2y-10yr spread (bps)



Source: Bloomberg

We see the economic expansion over time feeding into upward pressure on wages and inflation. A gradual approach to monetary policy normalisation and unwinding of the Fed's balance sheet should eventually result in higher yields and a steeper yield curve.

In addition to the risk of deficit-financed tax cuts, another factor fuelling a yields surge will be the increase in net issuance of treasuries to fund mounting health care and social security obligations. However, we think high demand for safe haven assets, particularly the ones with some income (Yield on 10yr UST is 2.22% vs 0% yield on 10yr JGBs) compared with the shortage of safe haven assets globally will likely moderate any material spike in UST yields.

US swap spreads compression reverse trend

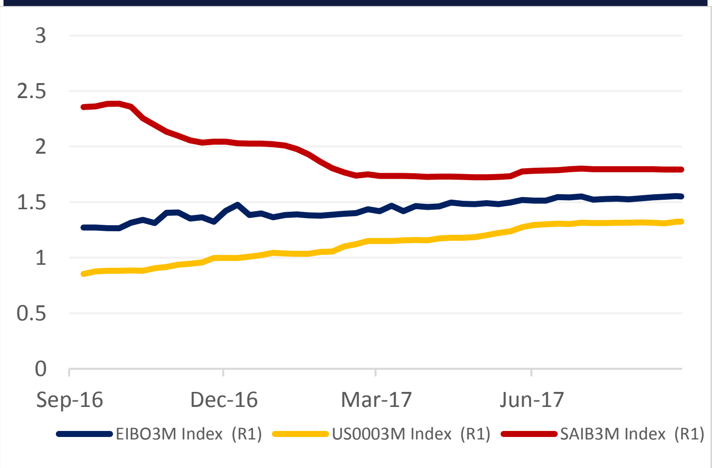
Yields on US treasuries rose across the curve during the month with 2yr, 5yr and 10yr closing at 1.39% (+8bps), 1.82% (+6bps) and 2.22% (+3bps) respectively. Swap rates followed treasury yields with 3yr and 5yr swap rates rising to 1.73% (+7bps) and 1.88% (+6bps) on the month.

The swap spread over treasuries halted their compression trend. Though swap spreads beyond the seven year part of the curve still remain negative, the 10yr swap spread over treasury reduced by half from -6bps to -3bps during the month.

GCC Local Rates

Local rates had minimal catalyst for change. SAIBOR, EIBOR and QIBOR rates, all traded in a tight range.

Local 3m interbank rates



Source: Bloomberg

Liquidity in the regional banking systems remained ample as loan to deposit ratios have not changed materially in the recent months barring in Qatar. Though data for August is not yet available, loan to deposit ratio in Qatari banking system may have increased as lending continued at previous level while deposits may have declined. That said 3m QIBOR moved in a 3bp range between 2.41% and 2.44% during the month.

AED swap curve steepened more than its dollar counterpart, particularly in the shorter end of the curve. Dirham 3yr and 5yr swaps rates increased to 2.32% (+11bps on the month) and 2.81% (+10bps) while USD 3yr and 5yr rates increased by 7bps and 6bps respectively. The increasing spread between the dirham and dollar swap curves is indicative of possible increase in rates hedging activity in the region.

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Credit Markets

Rising benchmark sovereign yields weighed on corporate bond prices though much was counter balanced by tightening credit spreads amid manageable new supply and higher oil prices.

Global Bonds

The goldilocks scenario of low inflation and low interest rates amid sustained and synchronized global growth provides a solid platform for credit investors. Global corporate bonds generally faired well during the month with credit spreads tightening even though benchmark yields had a widening bias.

Though Euro credit bonds did impressively well last year, boosted by the QE led liquidity, gains this year have become limited as ECB's tapering looms and negative rates possibly come to an end soon. Whilst credit spreads remained rangebound, yield increased by 3bps to 55bps for the Euro IG bond index on the back of rising yields on the benchmark curve.

Credit spreads in the developed world continued their narrowing trend with CDS levels on US IG touching 56bps – its three year low. Though compensation for credit risk has reduced substantially in the US, the strong economic growth in the US compared with Eurozone kept the bid for USD bonds high.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	108	-3	-3	-31
US HY Corp	359	-31	-1	-140
EUR IG Agg	59	-1	-2	+1
USD EM Agg	246	-18	-17	-77

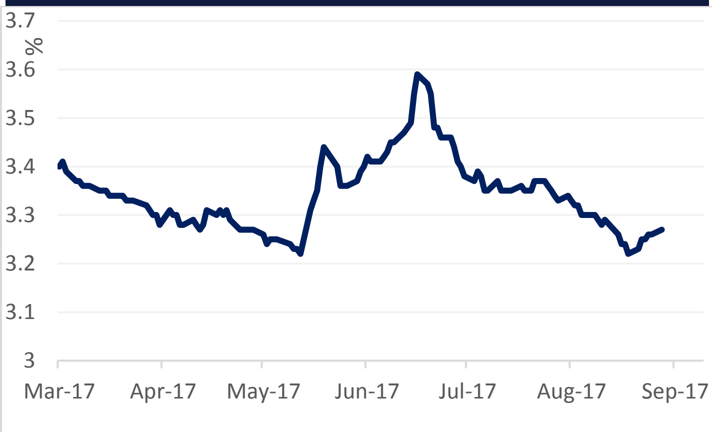
Source: Bloomberg

YTD return on emerging market bonds is currently running at almost double of its US counterpart (7.75% for the US EM index vs 3.29% for the US aggregate index). Last month recorded continued gains with credit spreads grinding tighter particularly as new supply was relatively low in the quarter and commodity prices and currency valuation had minimal spikes.

GCC Bonds – Secondary market

Regional GCC bond market was well bid causing credit spread tightening on the back of higher oil prices, manageable new supply, positive news around new project launches in the region, and constructive news relating to reduction in government budget deficits etc. Option adjusted spreads on Bloomberg Barclays GCC index narrowwd 12bps to 134bps bringing the average yield down by 5bps to 3.27%.

Bbg Barclays GCC Credit Index – YTW %



Source: Bloomberg

CDS levels on GCC sovereigns traded in a tight range, barring Saudi Arabia that tightened 11bps to 81bps without a material catalyst. Qatar, Dubai and Bahrain closed at 90bps (-4bps), 117bps (-3bps) and 233bps (+3bps) respectively.

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 3% during the month to USD 55.40/b.

During the month, Bahrain raised $3 billion after being well oversubscribed for its 7yr, 12 yr and 30 yr tranches that priced at 5.25%, 6.75% and 7.50% respectively. Swapping / flipping activity in the Bahrain curve actually resulted in good bid tone and Bahrain bonds recorded price increase across the curve. The freshly issued BHRAIN 29s debut well in the secondary market with yield tightening a bp and pricing rising to $100.12.

During the month Moody's upgraded Dubai Islamic Bank from Baa1 to A3 citing improving profitability and better asset quality. The upgrade was well and DIB bonds were already trading rich for their rating even before the upgrade. DIBUH 22s have seen Z-spread tightening of over 15bps in the last quarter to 129bps.

Fitch downgraded Qatar's rating from AA to AA- and consequently effected a one notch downgrade of ratings on several Qatari banks and GREs such as Qtel. Also S&P revised the outlook on several Qatari Banks to negative, citing concerns about negative impact of the political rift on the Qatar economy and risks from increasing reliance on external funding. That said, impact on Qatari bonds was minimal. Z-spread on QNBK curve narrowed 5 – 15bps with QNBK 21s closing at Z-spread of 127bps (-10bps during the month).

In the sukuk space, Dana Gas bondholders, including BlackRock and Goldman Sachs submitted a proposal to the company to resolve the ongoing dispute over the $700 million sukuk. The proposal includes part payment of $300 million and extension of the remainder for another three years. The proposal has not been accepted by the company and bond prices remained largely unchanged.

Bonds from Saudi Arabia, particularly the KSA curve, were under scrutiny in response to the announcement that the Government intends to redo the plan to overhaul its government and economy by 2020, after noting that its rushed National Transformation Plan 2030 launched last year led to overlap with other programs. Saudi Arabia is also believed to be preparing contingency plans for a possible delay to the IPO of Aramco by a few months into 2019. KSA 26s closed the month slightly lower at $99.65 and YTW of 3.30% (+3bps on the month).

GCC Bonds - Primary Market

Primary market recorded healthy issuance of circa $3.63 billion last month, including $3 billion raising by the Bahrain sovereign, taking the year-to-date total issuance of USD denominated bonds to $51 billion. The current pace augurs well to meet or beat the total issuance of circa $72 billion delivered in the whole of 2016.

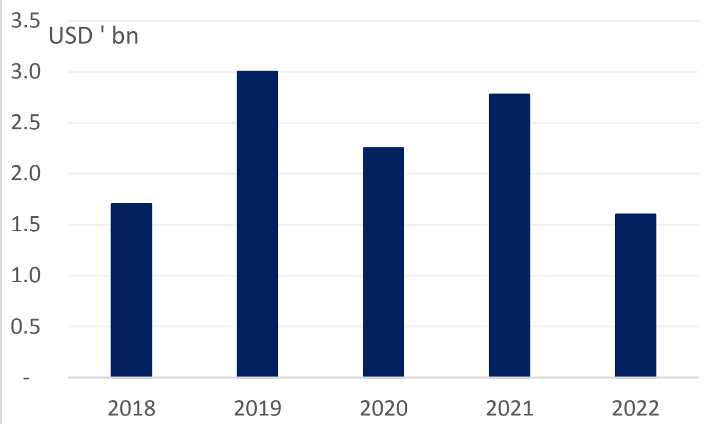
As the standoff between Qatar and its neighbours continues, Qatari banks are tapping funding sources outside of the GCC. Qatar National Bank completed sale of a $630 million Formosa bond during the month, issuing the 30 year bond in Taiwan which pays an annual coupon of 5% and is callable every five years.

Looking ahead, currently we have the Islamic Development Bank roadshowing for a 5yr benchmark sized offering. In addition below candidates are likely to tap the market soon.

- Adnoc is looking for up to $7 billion in funding including $2 billion in asset backed project finance debt.
- Commercial Bank of Qatar is also believed to be in the market to raise upto $500 million in privately placed bonds or loans.
- Sultanate of Oman is said to be working with international lenders in a bid to raise fresh US dollar funding.
- S&P assigned BBB+ rating to the Saudi British Bank's sukuk program leading to the possibility of new sukuk issuance.
- Taqa and Investcorp have to refinance upcoming maturities

YTD perpetual issuance has been $1.6 billion compared with $950 million in all of 2016 and $3.75 billion in 2015. With upcoming maturities of more than $1.7 between now and the end of 2018, we expect increased issuance of perpetual bonds in the coming months.

Upcoming maturity (next call date) of GCC perpetual securities



Source: Bloomberg

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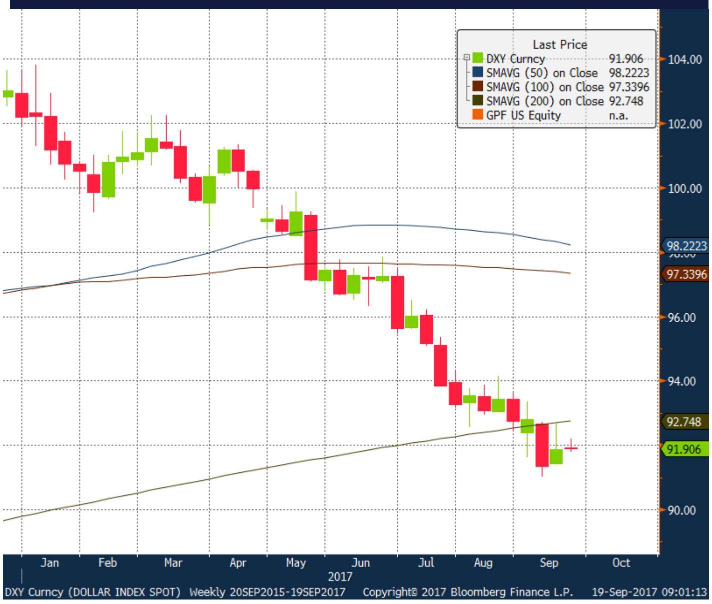
Currencies

The dollar continues to be the worst performing currency of 2017 as the market struggles to understand the intentions of the Fed and deal with an unpredictable President Trump. Meanwhile there has been an increased focus on other central banks, including the BOC which is expected to hike for a third time before the year-end, and the BOE and ECB which are predicted to announce changes to monetary policy soon.

USD softens over the last month

Over the last month, we have seen USD underperform relative to the other major currencies, with only JPY and NZD softening by more. Analysis of the Dollar Index shows that over the last month the index has fallen by 1.80% to 91.949, having set a one year low of 91.011 on September 8th. These declines reinforce the daily trend that has been in effect since January 3rd 2017 and indicate that the dangers remain to the downside. In addition to this, the 200 week moving average (92.69), which previously acted as a support has now acted as a resistance for a second consecutive week, with a weekly close below this key level. The last time the index traded below this key level was in May 2014 and, combined with the strong daily downtrend, signals that to catalyze a reversal in price action, there needs to be significant dollar supportive news in the form of either a rate hike from the Federal Reserve or stimulus from the Trump administration.

Dollar index remains below 200 week MA



Source: Bloomberg

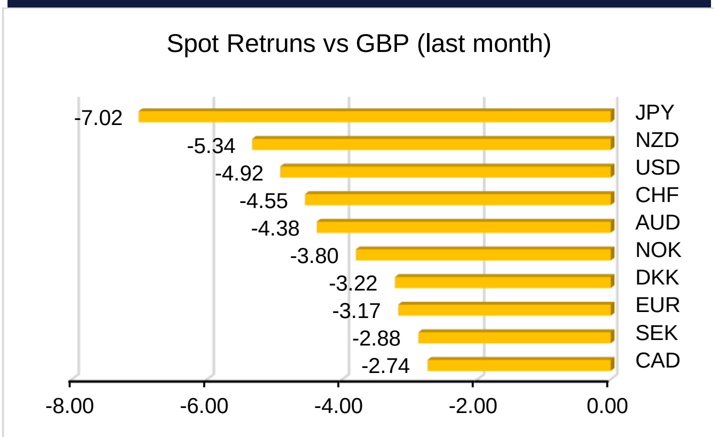
While the index remains below the 200 week moving average, the path of least resistance is for further declines and while uncertainty over a hike in December and stimulus persist, a second test of 91.36 (the 50% five year Fibonacci retracement) remains the most likely short-term scenario. A break of this level will expose the index to further weakness towards 88.42, the 38.2% five year Fibonacci retracement.

The market will now pay close attention to the conclusion of the FOMC meeting. While there is no expectation of an outright policy change, the post meeting statement will be carefully scrutinized for changes to the dot plot and for other clues about wheher the uptick in August inflation prefaces the start of a much bigger increase. The market will also pay attention to when the balance sheet runoff is likely to commence.

GBP outperforms as BOE turns hawkish

Supported by constructive economic data this month, sterling outperformed the other majors. Confidence in the UK economy was given a boost after economy data showed that the unemployment rate had unexpectedly fallen to 4.3% in July. Furthermore, market expectations on the Bank of England to remove some degree of accommodation of monetary policy were renewed after firmer than expected inflation. Data showed that consumer price inflation accelerated to 2.9% y/y in August from 2.6% y/y in July, with the same report showing that core inflation has accelerated to 2.7% y/y, reaching the highest levels seen since 2013. Despite the Bank of England's MPC voting 7-2 to keep monetary policy unchanged and the benchmark interest rate remaining at a record low of 0.25%, policy makers signaled that the bank would look to withdraw stimulus "over the coming months." According to the OIS, the current implied probability of a rate hike by December 2017 stands at 71.2% in comparison to 25.8% at the start of September.

GBP outperforms



Source: Bloomberg

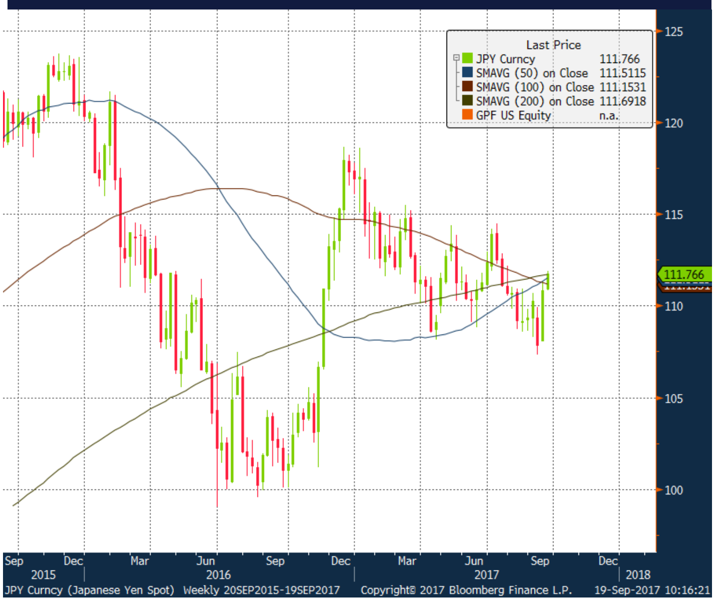
Over the course of the last month, GBPUSD has risen 5.30% to its present level of 1.3550. This large move has had many key technical developments and took cable as high as 1.3619, a new 2017 high and a level not seen since the outcome of the referendum on June 24th 2016. Analysis of the daily candle chart shows that the daily uptrend which started on January 17th 2017 is firmly intact with a consistent pattern of higher highs and higher lows being evidence. In addition the movement of the last month has seen a firm confirmed break above both the 50 day and 100 day moving averages (1. 3051 and 1.2962 respectively) as well as the 100 week moving average (1.3386). These movements are technically very bullish and the longer term risk is that we see further rises towards the five year 38.2% Fibonacci retracement of 1.3885. Accordingly, we have revised our end of year forecast to 1.38 (forecasts can be found on page 26).

JPY weakens as haven bids unwind

JPY was the softest performing major currency over the last month, a performance which now means it is the second worst performing G-10 currency YTD (after USD). Despite initially performing well after being driven on by safe haven bids, JPY softened over the last two weeks as the markets became desensitized to political risks generated by the sabre rattling between President Trump and North Korea. The JPY also came under pressure following the release of the final Q2 2017 GDP figure which showed drastically lower than previously estimated growth of 2.5% annualized q/q, compared with the intial 4.0%.

Over the course of the month, USDJPY has risen 2.02% to reach its current levels of 111.80. Of note is the price action of this previous week which has shown many key developments. Firstly, the 50 week MA (111.51) which previously acted as a resistance has been broken, as has the 100 week MA (111.15) and 200 week MA (111.69). A weekly close above these levels would indicate that further gains lie in store, and a break of the 200 day moving average (112.25) will be seen by JPY bears as a green light to target the one year 76.4% Fibonacci retracement of 114.28

USDJPY sits at key level



Source: Bloomberg

Euro resilience despite headwind concerns

Year-to-date (YTD) the Euro remains one of the strongest performers out of the G-10 currencies, with only SEK giving a stronger performance. In many ways the strong euro is already showing headwinds to the economy as it is suspected of being partly responsible for a 1.1% m/m fall in aggregate exports and 0.7% m/m increase in imports in July, causing a narrowing of the Eurozone trade surplus to EUR 18.6b. It has also been clearly signaled that the ECB has some concerns over the recent EUR appreciation, with Executive Board member Benoit Coeure stating that "exogenous shocks to the exchange rate, if persistent, can lead to an unwarranted tightening of financial conditions with undesirable consequences for the inflation outlook" and "the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring."

Over the last 30 days, EURUSD has risen 2.36% to 1.2000, having traded as high as 1.2092 on the 8th of September and remains on course of a seventh consecutive month of gains. Of note is that the 50 month moving average (1.1846) has been firmly broken and is not acting as a support. While this support level holds, further gains can be expected and we expect further short term gains towards 1.2167, the 50% five year Fibonacci retracement.

EURUSD finds support at 50 month MA

Source: Bloomberg

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Equities

Notwithstanding the emergence of geo-political risks over the past month, global equities are heading into the final quarter of 2017 with positive momentum. It can be rightly argued that most, if not all, equity markets are benefitting from 'goldilocks' economic growth – strong enough to provide a buffer to risk appetite without causing a major change in monetary policy trajectory. If the recovery in commodity prices and strong earnings growth trajectory are added to the mix, then a case can be made that equities are likely to end what has been a very strong 2017 on a firm footing.

The rally in equities over the last one month was broad based. The MSCI World index added +3.1% 1m with all sub-indices closing in positive territory. With North Korea dominating headlines over the past month, it was ironic to see all countries at the center of the crisis i.e. South Korea, Japan and the US leading the rally. The S&P 500 index, the Topix index and the Kospi index added +3.2% 1m, +4.3% 1m and +2.4% 1m respectively. The move clearly reflects the waning impact of the tension on risk appetite. The MSCI Arabian Markets index gained +2.2% 1m helped by +5.8% 1m rally in oil (Brent) prices. However, the Qatar Exchange (-9.0% 1m) remained an exception to the broad move as prolonged political stalemate affected foreign institutional investor sentiment negatively.

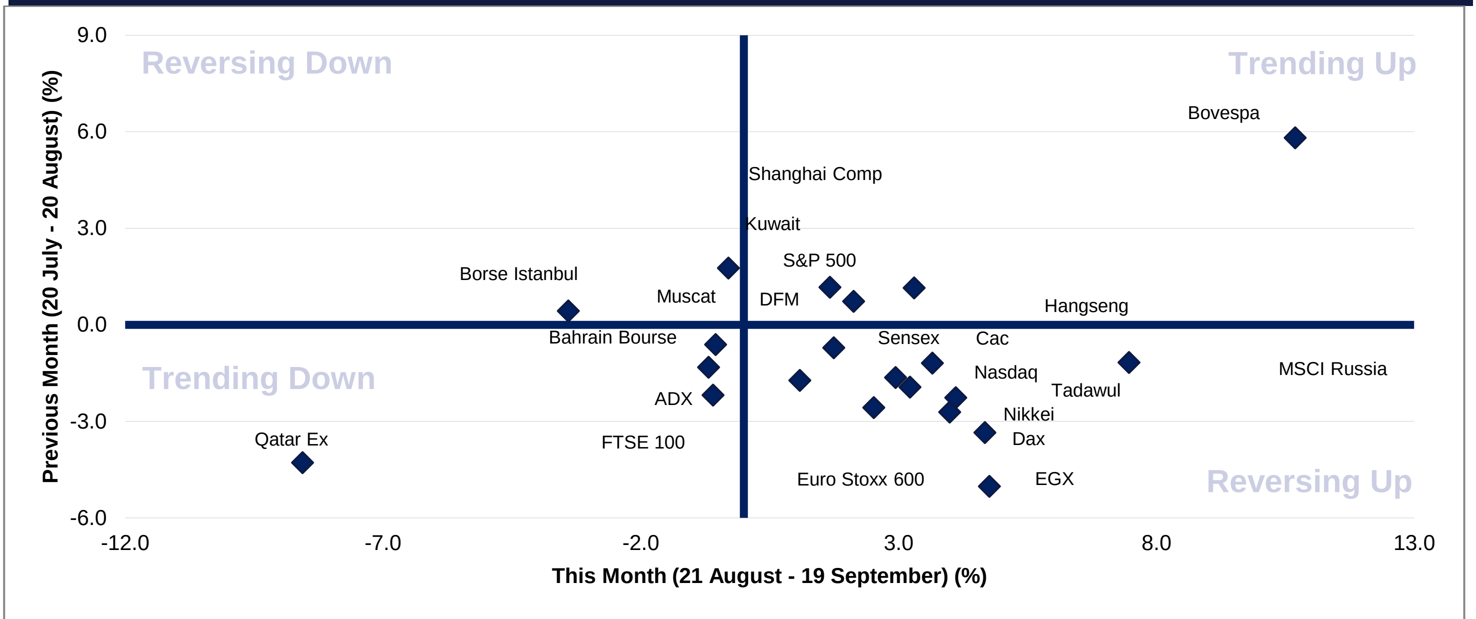
Despite short spikes, volatility has actually declined over the last one month. The VIX index and the V2X index dropped -30.1% 1m and -31.5% 1m while the CBOE EM ETF volatility index declined -24.2% 1m. However, it is worth pointing out that the six month VIX futures relative to the one-month futures are currently trading at their highest level since May 2017.

With major equity indices currently trading at or near to all-time highs, it is no surprise that concerns are building about the pace of gains. Much of the caution stems from growing hawkish undertone from central banks in developed markets, perceived stretch valuations and unpredictable geo-political landscape. The current market moves suggest that these concerns have not developed to the extent that it may warrant a change in risk appetite and any pullback on account of these would most likely be seen as buying opportunity by investors.

Central banks – Will they, won't they?

The most talked about concern at the time is the end of an ultra-easy monetary policy. In theory, it seems right as loose monetary policy boost prices of risk assets and hence valuations should deflate and markets correct when that support is removed. While tightening in monetary policy is a headwind, the net effect depends on the pace of the economic growth. With the current trajectory of global growth looking resilient, it will not come as a surprise to see the net effect being positive. Having said that, it is quite likely that the changing tone in central bank policy could lead to short-term volatility as most investors seem to be underpricing the possibility and pace of that change. The same was visible last week when the FTSE 100 index dropped -2.5% after the Bank of England suggested that a possible rate hike is coming as soon as later this year.

Equity Trends



Source: Bloomberg, Emirates NBD Research

Reversing Down – Up previous period & down this period; Trending Down – Down previous and this period; Trending Up – Up Previous and this period; Reversing Up – Down previous period and up this period.

However, the follow-up comments from the BoE governor suggested that the pace will be slow and gradual and therein lies the conundrum or rather opportunity for equity investors. We believe that central banks will tighten monetary policy at a slower and more predictable pace. Also interest rates are expected to rise to lower peaks than in the past which in turn could drive earnings growth for an extended period. The fact that a predictable rate path allows companies to extend their debt maturity also lessens the impact of the same on the company's bottom-line.

Valuations – Higher for longer?

The most common trend is to compare the current valuation of equity indices with their 10-year average. On that parameter most equity indices are currently trading at stretch valuations. The MSCI World index is currently trading at 17.8x 2017E earnings compared to its 10-year average of 13.8x. Similarly, the MSCI EM index is trading at a 22.2% premium to its 10-year average. In terms of individual indices, the S&P 500 index is currently trading at 19.4x 2017E earnings, a 34.7% premium to its 10-year average.

While these indicators do present a broad picture, it does not necessarily present the full picture. Especially at a time when there has been a structural change in global economy with the advent of technology and changes in productivity patterns. The same has led to a lower inflation trajectory which is likely to lead to lower peak interest rates which in turn could sustain the current earnings multiples for longer than in the past.

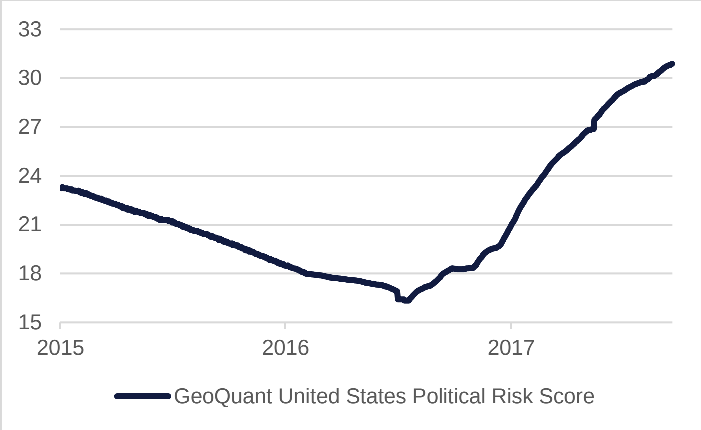
Additionally as earning multiples expand, the dominant factor becomes the earnings growth and dividend yield. When the current earnings growth revisions and difference between the bond yields and dividend yields are considered then a case can be made out that perhaps equity markets are not as expensive as they are made out to be. Most markets are expected to see high-single digit earnings growth over the next twelve months. For example, the earnings for the MSCI World index is expected to growth at 9.5% in 2018E and 11.9% for the MSCI EM index. On the yield space, the dividend yield for S&P 500 index is currently 2.2% compared to 0.4% in real rates. The real rates takes the current 10y government bond yield and adjusts it for inflation. The trend is similar in most developed markets and should act as another underpinning factor in case of pullbacks in broad equity markets.

Politics – Heading into the unknown

The primary reason for pullbacks in equity markets over the last six months has been geo-political developments. It is likely that this wildcard is likely to remain the driving factor as we head into the year-end. More so when the inconsistency between rhetoric and action under Donald Trump continues to widen. The case in point is his reaction to North Korea which caused a pull-back in equities but it rebounded almost immediately after the US watered down its demands regarding UN sanctions.

The next three months will be punctuated by political events which could create fresh uncertainty for global markets. These include German elections, the ongoing Brexit negotiations, the North Korea conundrum and the US debt ceiling. However, much of the political uncertainty is centered around the US which is reflected in the GeoQuant United States Political Risk score which is at its highest level in the last five years. If the scenario around the immediate issue of US debt ceiling is considered, the recent extension for three months has complicated the prospects for a wider deal as well as for the likelihood of other legislative 'wins'. Indeed, the fact that the deadline is now closer to the last FOMC meeting of the year is likely to create another dimension of uncertainty as we move closer to the debate.

US – the source of most political risk



Source: Bloomberg, Emirates NBD Research

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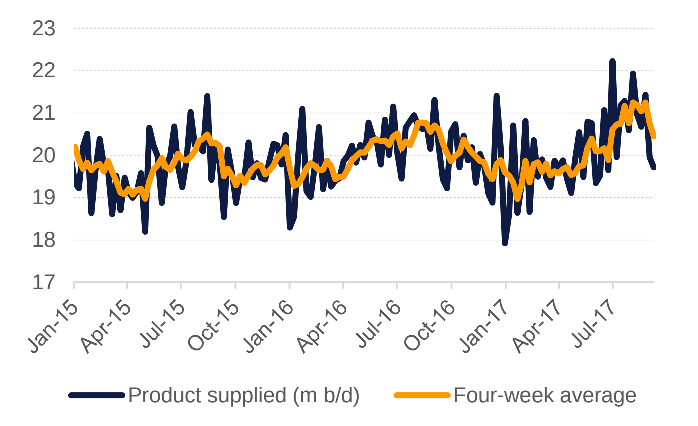
Commodities

Oil markets are currently fixated on whether OPEC will extend its existing production cut beyond its scheduled expiry in March 2018. Saudi Arabia's energy minister, along with ministers from smaller producers, have spoken favorably about extending the deal and the proposal is also under scrutiny from Russia, OPEC's main partner in the deal. Oil prices have been holding in a reasonably narrow range for much of 2017 compared with a year ago and assessments from the major forecasting agencies all point to better times ahead for oil. Why then should a further extension of the cuts be under discussion?

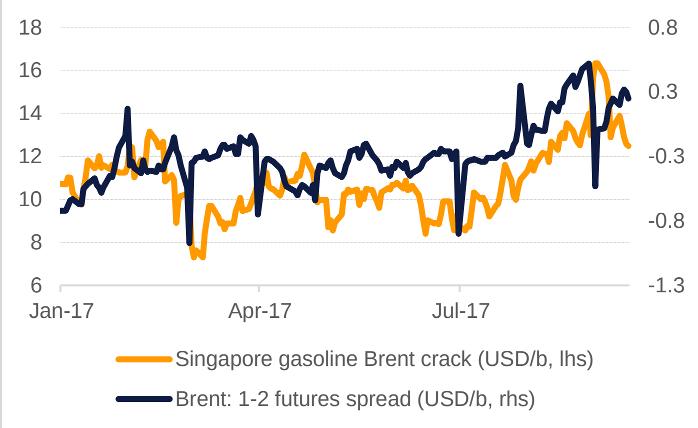
In their latest assessments of oil markets, both OPEC and the IEA (roughly representing producers and consumers) revised higher their demand expectations for 2017 and 2018 thanks to strong performance from the US and European economies. Prior to the impact of Hurricane Harvey, US refinery product supplied—a rough measure of demand—had indeed been running at strong levels, supported by the robust performance of the economy while most OECD European countries had seen good demand growth year-to-date as of July. Demand is set to slow next year—from 1.42m b/d to 1.35m b/d according to OPEC's view—but will nevertheless be above long-term trends.

US demand has been strong in 2017



Both agencies have also increased their 'call' on OPEC crude, the amount of oil needed from the producers' bloc to balance markets. The catalyst that allows for more OPEC oil is lower expectations for non-OPEC supply growth of less than 1m b/d in 2018. Hurricane Harvey shook markets and hit oil production in the US harder than anticipated (output fell nearly 750k b/d) and recovery is ongoing. As a one-off factor this will provide some near-term space for other producers, including OPEC members, to exploit and the market has reacted significantly to the apparent tightening. Brent futures have begun widening into a stronger backwardation and refinery cracks in Europe and Asia have expanded substantially.

Prices point to a tightening market



Source: EIKON, Emirates NBD Research.

There have been further signs of rebalancing apparent from global inventory data. Over the course of the summer US stocks of crude declined steadily, in line with seasonal trends, and for most of July and August stocks were below their level one year earlier. When taking total petroleum stocks (crude and products) into account, the decline is more muted but still heading in the right direction.

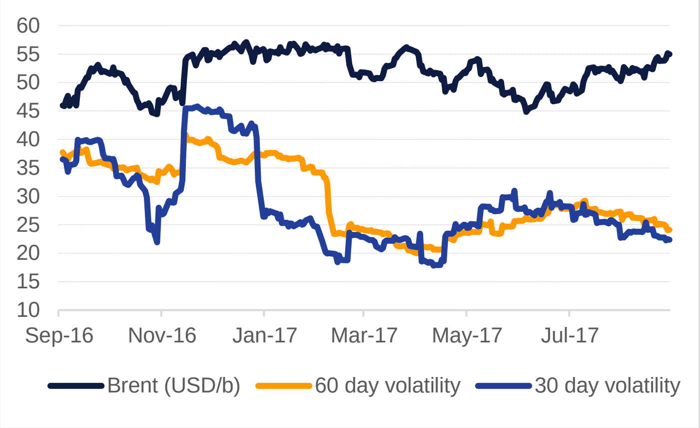
Pretend to extend?

If oil market fundamentals are looking a little firmer then what explains the open discussion about extending production cuts further into 2018? We believe there are several reasons, some interconnected, over why OPEC would talk up the possibility of extending cuts.

When the production cut deal was initially announced to the market its aim was to draw down on global inventories but there was no clear indication as to how it could come to an end. Among the OPEC members liable for the cuts, output has fallen by 1.1m b/d as of August according to OPEC's monthly report. Assuming this level of oil is held off the markets until March next year a sudden increase in oil supply of over 1m b/d would send prices plunging and reverse any backwardation apparent in futures curves. If talks of extending production cuts are successful in shifting the overall market higher the scale of any correction following OPEC returning to full output would be less damaging.

Oil prices may be at uncomfortable levels for the economies and governments of most OPEC members but they have not been volatile. Whether measured from options markets, standard deviations or through the OVX index, oil market volatility has collapsed from the roller coaster of 2016 to far more muted levels. A stable oil price, even if a low one, allows for economic adjustments in OPEC economies to carry on at a more sustained pace than if prices were oscillating between USD 30/b to USD 70/b.

Oil volatility at lower levels



Source: EIKON, Emirates NBD Research.

OPEC members may also have now grown fully aware of the challenge posed by new producers in the US. Production fell sharply ahead of Hurricane Harvey (nearly 750k b/d) but then recovered 572k b/d a week later. The EIA has tempered its production growth forecasts for the US in 2017-18 but the industry has consistently surprised on the upside, leaving forecasting agencies to play catch-up. The more OPEC talks the market up, helping drag oil prices higher, the more opportunity they give for more nimble producers to hedge actively. Hedging off WTI has yet to hit the elevated levels we saw in 2015 when it was vital to keep producers in business but producer shorts using Brent contracts are at strong levels.

As far as the GCC members of OPEC are concerned, they are not standing idle in the transformation of their economies while the production cut is in place. The trajectory for reforms in Saudi Arabia in particular is under scrutiny and the ambitions of the National Transformation Program are being prioritized but we would still expect to see the IPO of Saudi Aramco carried out. More than higher prices, a more sustainable and constructive near-term outlook for oil—i.e. with narrower inventories and a tighter supply picture—would allow Aramco hit its highest valuation. We are of the view though that the IPO will respond to market conditions more than Saudi Arabia can unilaterally set them.

We maintain our forecast for higher Middle East crude output in 2018 than this year as producers will be unprepared to accept further erosion of market share even if it means accepting lower oil prices. An extension of the deal may be announced but we expect compliance would be even more uneven than it has been in 2017.

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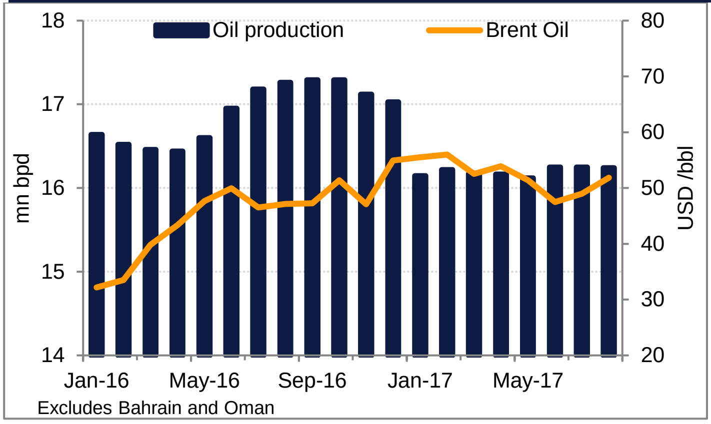
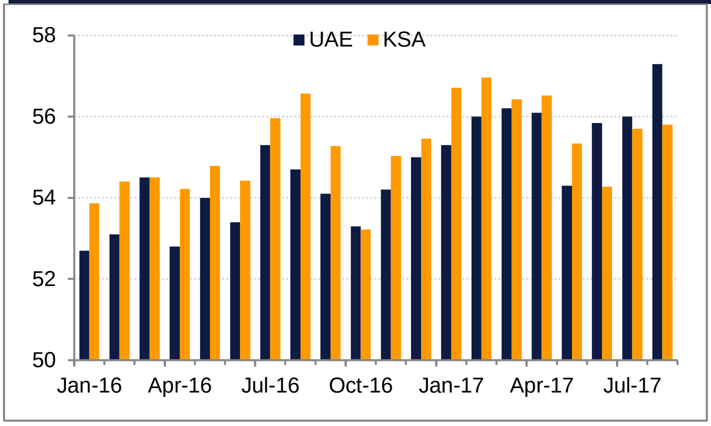
GCC in Pictures

GCC Oil Production and Oil Price



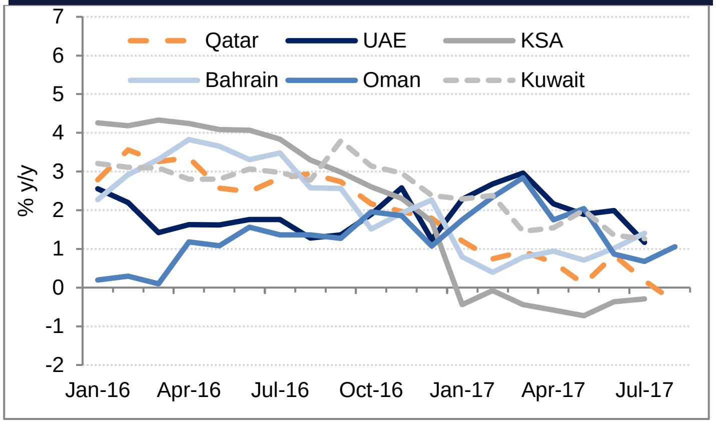
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



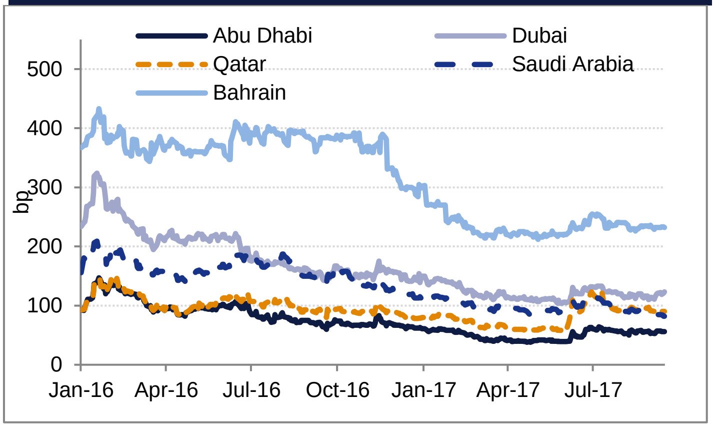
Source: Markit, Emirates NBD Research

Inflation



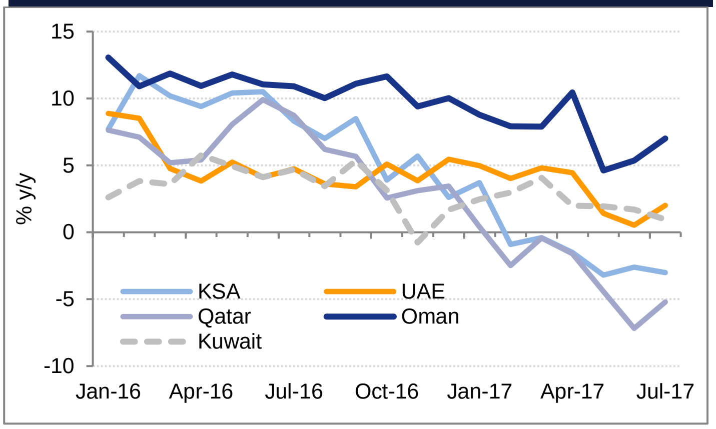
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



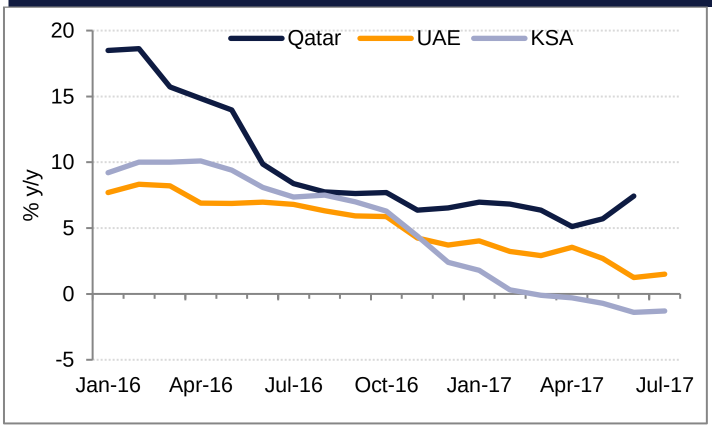
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

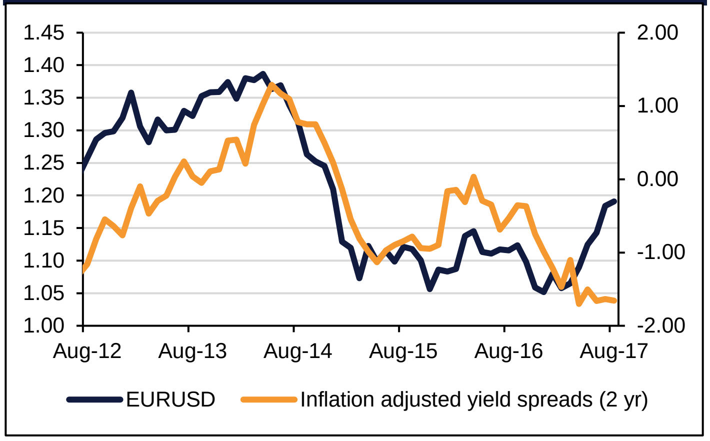
Private sector credit*



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

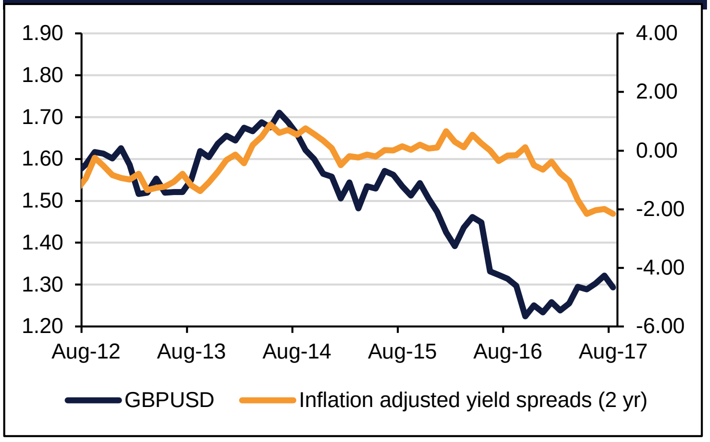
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



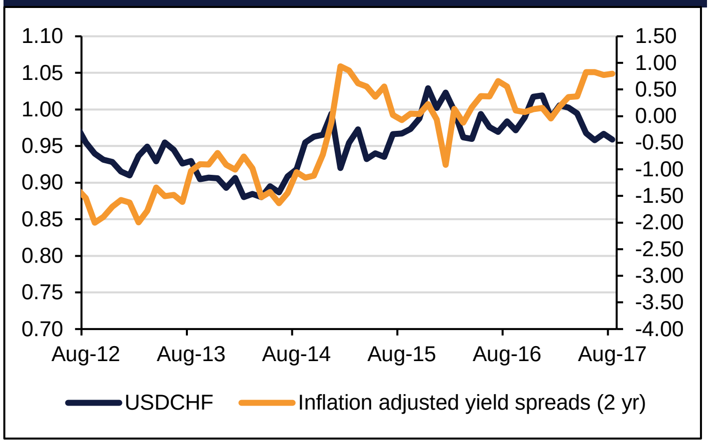
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



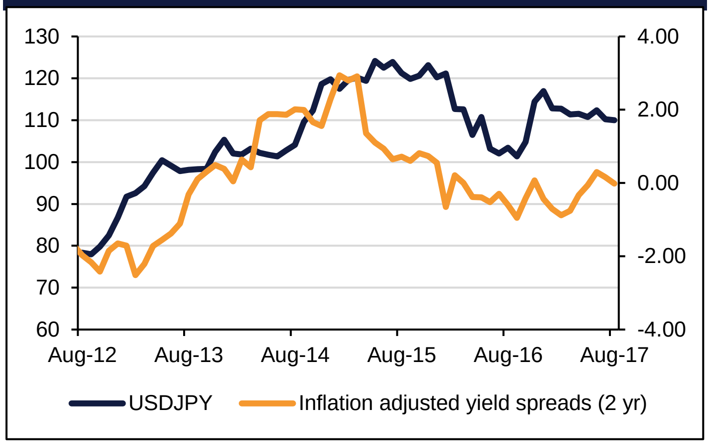
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



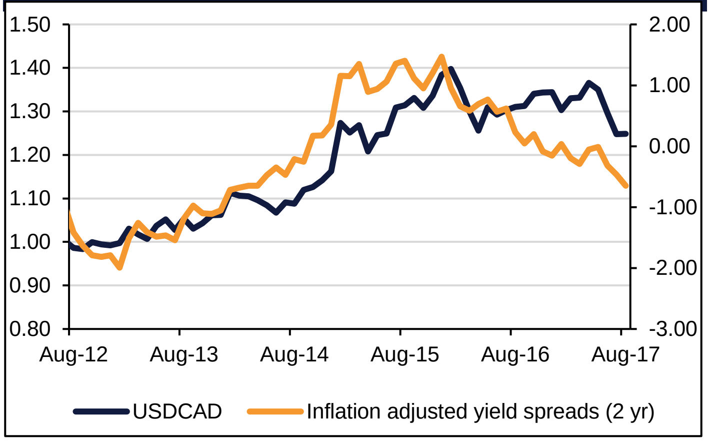
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



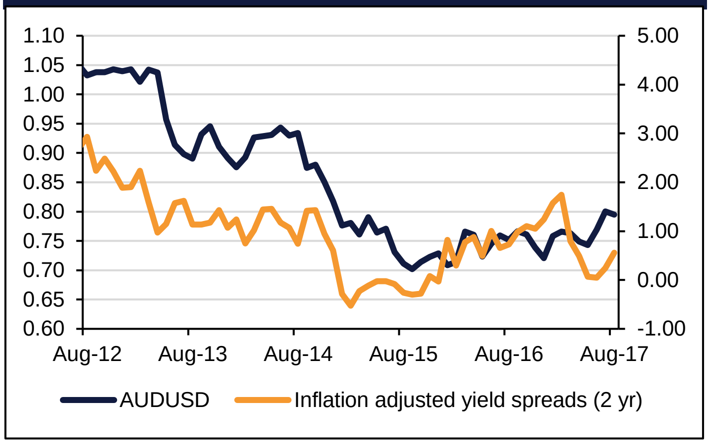
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

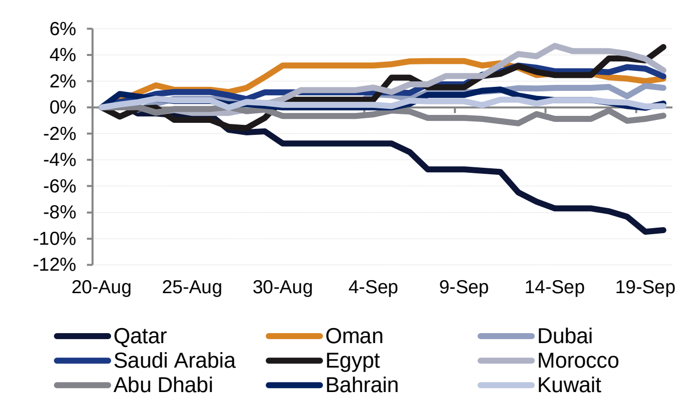
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

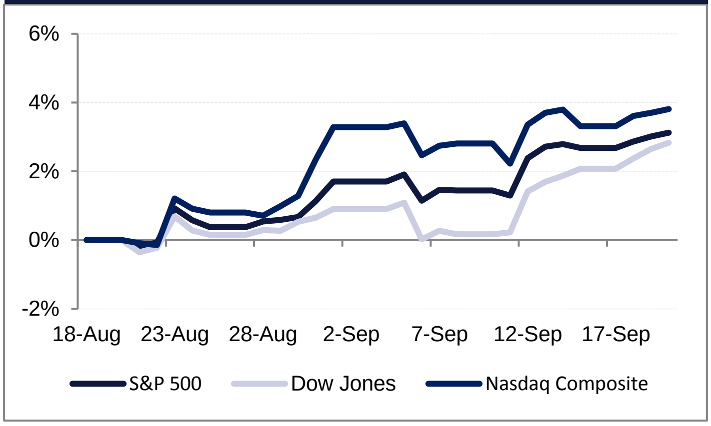
Major Equity Markets

MENA Equity Markets



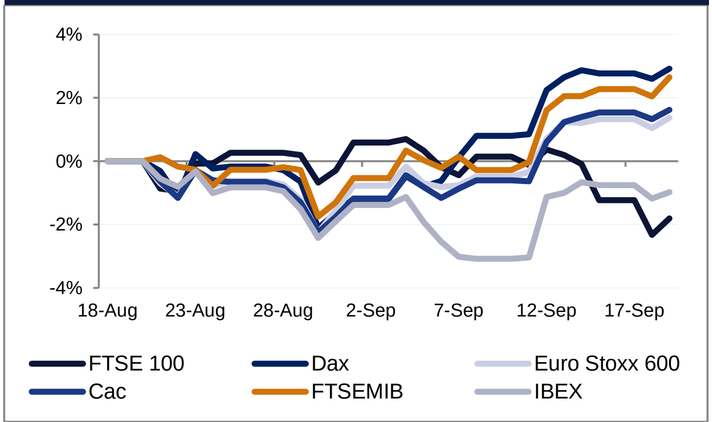
Source: Bloomberg, Emirates NBD Research

US Equity Markets



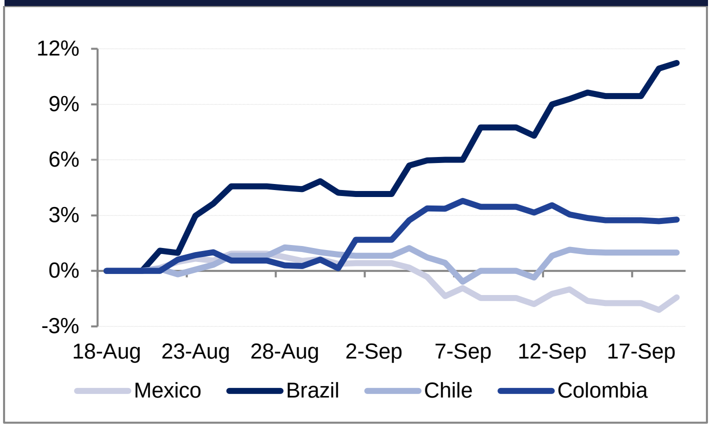
Source: Bloomberg, Emirates NBD Research

European Equity Markets



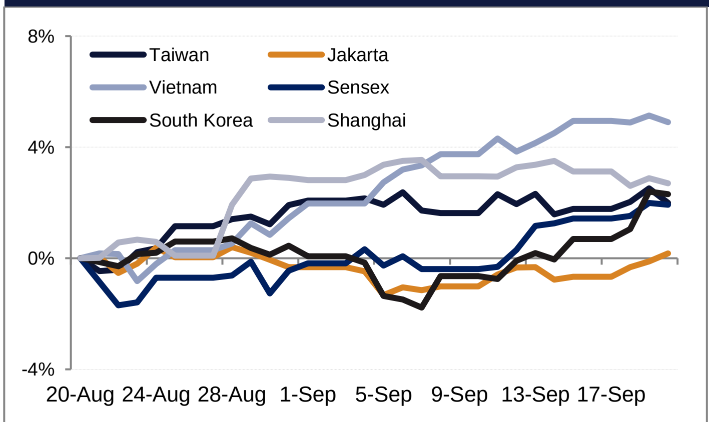
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



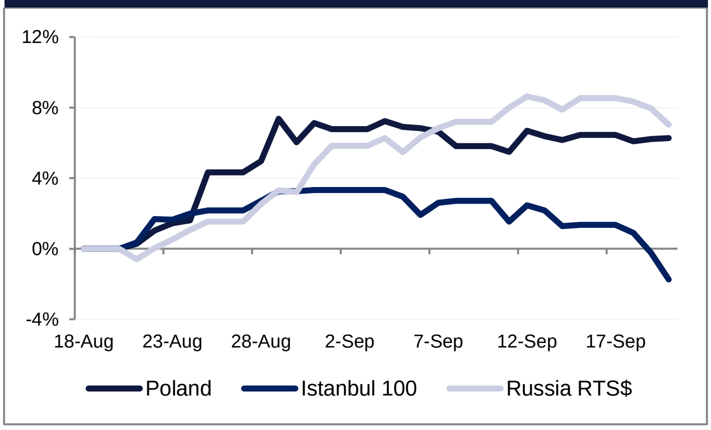
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

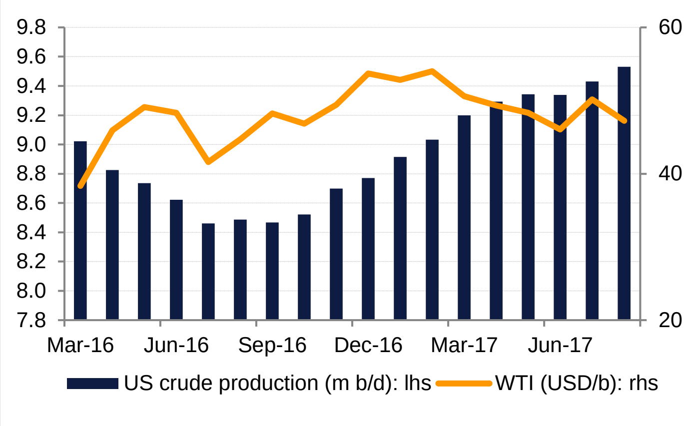
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

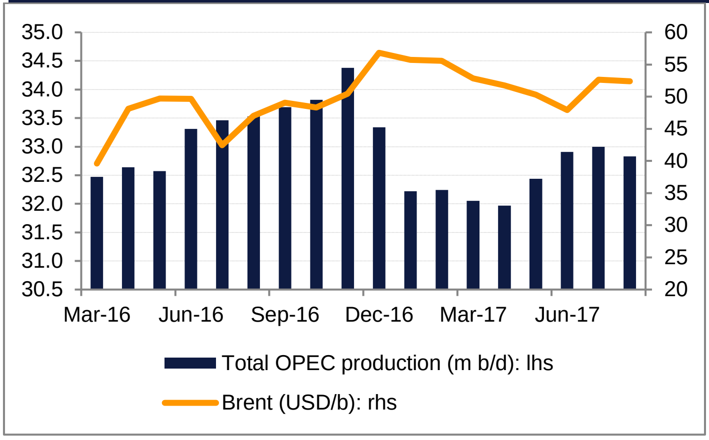
Major Commodities Markets

US oil production and price



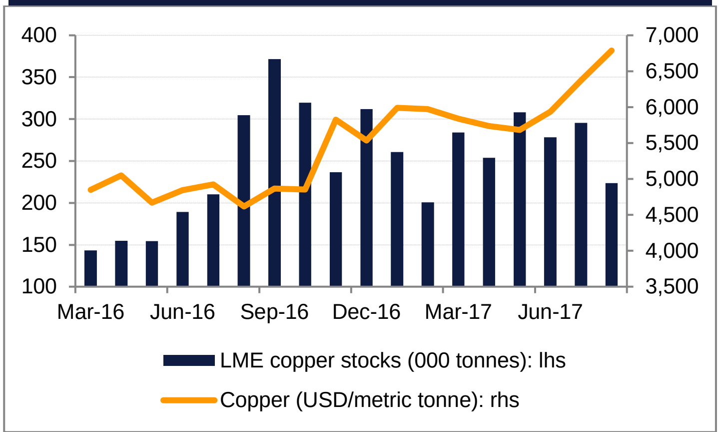
Source: EIKON, Emirates NBD Research

International oil production and price



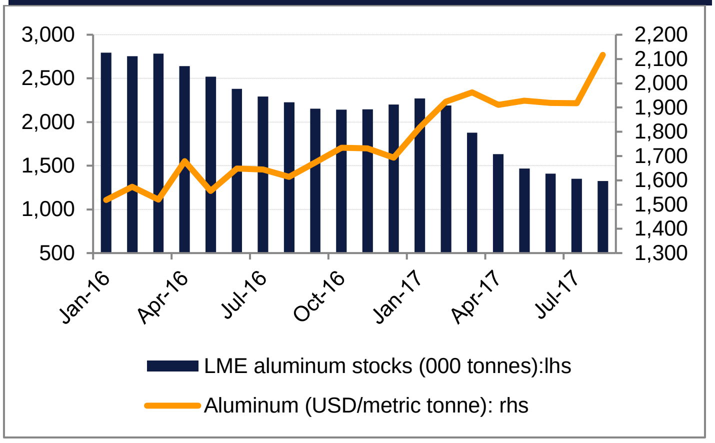
Source: EIKON, Emirates NBD Research

Copper stocks and price



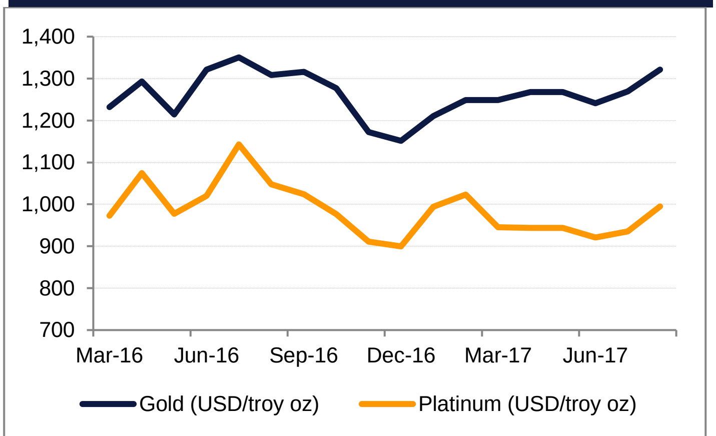
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



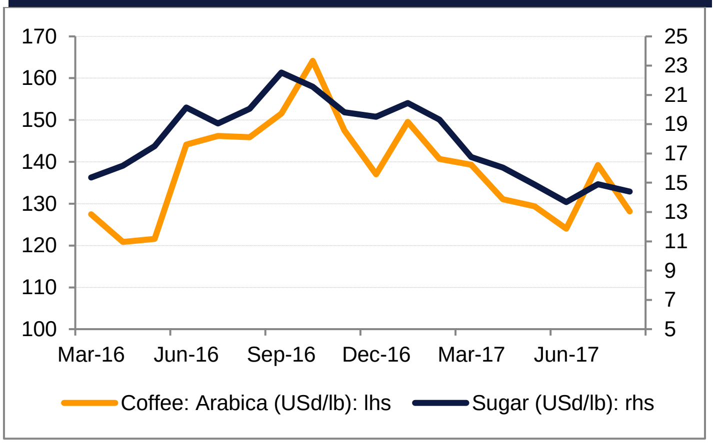
Source: EIKON, Emirates NBD Research

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	116.9	95.5	101.1	103.4
Real GDP %	0.5	1.8	2.1	-1.0	2.2
Current A/C% GDP	32.6	5.1	-1.7	4.3	5.0
Budget Balance % GDP	7.4	-13.1	-16.9	-12.0	-6.5
CPI %	2.9	3.3	3.2	3.0	3.5
Oman					
Nominal GDP $bn	80.9	69.7	72.5	77.4	81.0
Real GDP %	2.5	5.7	3.7	1.0	2.3
Current A/C % GDP	5.2	-15.5	-17.7	-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	430.7	424.7	465.7	490.3
Real GDP %	3.2	3.8	2.3	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	-11.0	-9.0	-7.7
CPI %	2.6	2.6	2.7	2.7	3.4

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

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

Algeria	2014	2015	2016	2017f	2018f
Nominal GDP $bn	213.5	165.3	165.4	186.1	214.3
Real GDP %	2.2	2.3	3.4	3.6	4.2
Current A/C % GDP	-4.3	-16.6	-17.3	-10.9	-8.7
Budget Balance % GDP	-7.3	-16.0	-14.3	-10.7	-8.2
CPI %	3.9	4.4	6.0	7.0	5.0
Libya					
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
Iran					
Nominal GDP $bn	503.6	423.7	420.1	406.6	434.1
Real GDP %	5.9	3.7	7.2	4.1	5.0
Current A/C % GDP	3.1	2.1	3.8	5.3	5.8
Budget Balance % GDP	-0.5	-0.7	-0.7	-0.7	-0.7
CPI %	37.4	15.9	8.5	11.1	12.0
Iraq					
Nominal GDP $bn	192.8	164.2	229.6	247.2	288.3
Real GDP %	-0.6	-2.4	8.7	3.5	5.1
Current A/C% GDP	12.7	2.5	-5.3	-5.7	-5.5
Budget Balance % GDP	-6.1	-13.6	-10.7	-6.6	-4.6
CPI %	3.0	1.2	1.0	4.5	6.5
Oil Exporters (GDP weighted avg)					
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		
	18-Sept	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
EUR/USD	1.1954	1.2000	1.1800	1.1500	1.1500	1.2011	1.2075	1.2209
USD/JPY	111.57	110.00	114.00	116.00	118.00	111.11	110.56	109.40
USD/CHF	0.9615	0.9600	1.0000	1.0400	1.0400	0.9559	0.9498	0.9375
GBP/USD	1.3495	1.3500	1.3800	1.4000	1.4200	1.3531	1.3567	1.3637
AUD/USD	0.7958	0.7700	0.7500	0.7200	0.7000	0.7949	0.7940	0.7921
NZD/USD	0.7263	0.7100	0.6900	0.7000	0.7100	0.7250	0.7240	0.7218
USD/CAD	1.2291	1.2200	1.2400	1.2500	1.2600	1.2286	1.2286	1.2292
EUR/GBP	0.8857	0.8889	0.8551	0.8214	0.8099	0.8875	0.8898	0.8951
EUR/JPY	133.35	132.00	134.52	133.40	135.70	133.35	133.35	133.35
EUR/CHF	1.1496	1.1520	1.1800	1.1960	1.1960	1.1484	1.1471	1.1448
FX Forecasts - Emerging						**Forwards**		
	18-Sept	**Q3 2017**	**Q4 2017**	**Q1 2018**	**Q2 2018**	**3m**	**6m**	**12m**
USD/SAR*	3.7501	3.7500	3.7500	3.7500	3.7500	3.7533	3.7577	3.7696
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6740	3.6755	--
USD/KWD	0.3014	0.3050	0.3050	0.3050	0.3050	0.3031	0.3049	--
USD/OMR*	0.3850	0.3850	0.3850	0.3850	0.3850	0.3859	0.3870	0.3908
USD/BHD*	0.3772	0.3770	0.3770	0.3770	0.3770	0.3776	0.3780	0.3795
USD/QAR*	3.6850	3.6400	3.6400	3.6400	3.6400	3.7122	3.7180	3.7340
USD/EGP	17.6299	17.7500	17.5000	17.2500	17.0000	--	---	--
USD/INR	64.140	65.000	65.000	66.000	66.000	64.7600	65.3700	66.6200
USD/CNY	6.5752	6.700	6.900	7.000	7.000	6.6265	6.6590	6.7265

Data as of 18 September 2017
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	1.65	1.75	2.07	2.20			
10y	2.19	2.42	2.78	2.95			
2s10s (bp)	54	67	71	75			
US Treasurys Forecasts							
2y	1.30	1.55	1.80	2.05			
10y	2.22	2.45	2.80	2.95			
2s10s (bp)	92	95	100	90			
3M Libor							
3m	1.32	1.56	1.82	2.05			
3M Eibor							
3m	1.55	1.90	2.15	2.40			
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	0.25	0.25	0.50			
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	1.75	2.00	2.25			
CBK (discount rate)	2.75	2.75	3.00	3.00			
QCB (Repo rate)	2.25	2.25	2.25	2.25			
CBB (o/n depo)	1.25	1.50	1.75	2.00			
CBO (o/n repo)	1.72	2.00	2.25	2.50			

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
Energy									
WTI	49.75	51.91	48.25	46.50	48.50	48.50	47.50	48.79	48.50
Brent	55.30	54.68	50.87	49.00	51.50	52.50	49.50	51.51	51.13
Precious metals									
Gold	1,313.50	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	17.31	17.48	17.19	18.00	16.00	16.15	16.30	17.17	16.38
Platinum	953.00	982.33	938.13	932.00	960.00	986.78	1,012.07	953.12	1,023.97
Palladium	915.00	767.48	817.29	826.87	836.46	836.46	836.46	812.03	836.46
Base metals									
Aluminum	2,136.50	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	6,563.00	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 20 September 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	%membera bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	22,371	6,992	1.9	13.2	73	18.4	3.6	2.4
S&P 500 Index	2,507	35,005	1.4	12.0	69	19.2	3.0	2.0
Nasdaq Composite Index	6,461	22,391	0.5	20.0	56	24.2	3.9	1.1
FTSE100 Index	7,275	6,010	-2.1	1.9	60	15.1	1.9	4.2
DAX Index	12,562	3,619	4.2	9.4	73	13.8	1.7	2.9
CAC 40 Index	5,237	3,504	3.0	7.7	82	15.5	1.6	3.2
Swiss Market Index	9,093	2,481	1.9	10.6	95	18.1	2.4	3.3
Nikkei Index	20,299	10,726	3.3	6.2	69	17.5	1.7	1.9
S&P/ASX 200 Index	5,714	3,492	-0.2	0.7	61	15.9	1.9	4.4
Stoxx Europe 600 Index	382	27,026	2.2	5.7	73	15.9	1.9	3.4
Dubai Financial Market General Index	3,655	49	0.5	3.5	44	11.0	1.2	4.0
Abu Dhabi Sec Market General Index	4,464	44	-0.1	-1.8	44	12.0	1.3	4.7
Tadawul All Share Index	7,351	756	1.3	2.0	49	14.8	1.6	3.3
Istanbul SE National 100 Index	104,918	1,502	-4.6	34.3	76	8.9	1.3	3.5
Egyptian Exchange Index	13,730	32	2.3	11.2	77	11.3	1.9	2.7
Kuwait Stock Exchange Index	6,893	66	0.0	19.9	66	-	-	-
Bahrain Bourse All Share Index	1,303	1	0.0	6.7	-	-	-	-
Muscat Securities Index	4,998	7	-1.1	-13.6	17	10.3	0.9	5.8
Qatar Exchange Index	8,289	38	-5.8	-20.6	-	13.1	1.6	3.9
MADEX Free Float Index	10,267	13	1.3	7.5	87	19.4	2.8	3.3
Hong Kong Hang Seng Index	28,051	4,559	0.5	27.7	94	12.7	1.3	3.4
Shanghai Composite Index	3,357	37,228	0.1	8.4	42	14.8	1.6	2.0
Korea Stock Exchange Index	2,416	4,313	2.1	19.1	41	10.3	1.1	1.6
BSE Sensex	32,402	101	2.1	21.7	65	20.8	3.0	1.4
Nifty	10,148	1,603	2.3	23.9	75	20.2	2.9	1.5
Karachi Stock Exchange Index	43,253	66	5.1	-9.4	29	9.6	1.6	5.6
Taiwan SE Weighted Index	10,576	3,590	-0.8	13.5	74	15.0	1.8	3.8
Bovespa Brasil Sao Paulo SE Index	75,974	2,070	7.3	26.1	97	14.6	1.7	2.9
Micex Index	2,049	514	1.3	-8.2	57	7.0	0.7	5.3
FTSE/JSE Africa All Share Index	56,011	1,583	-0.9	10.6	53	15.9	1.7	3.2
Vietnam Ho Chi Minh Stock Index	806	146	2.8	21.1	66	16.5	2.5	2.5
Jakarta SE Composite Index	5,901	348	0.7	11.4	46	16.9	2.6	2.1
FTSE Bursa Malaysia KLCI Index	1,777	191	0.0	8.0	73	16.6	1.6	3.2
Mexican Stock Exchange	50,265	345	-1.8	10.1	56	18.9	2.6	2.2

Prices as of 19 September 2017
Source: Bloomberg, Emirates NBD Research

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