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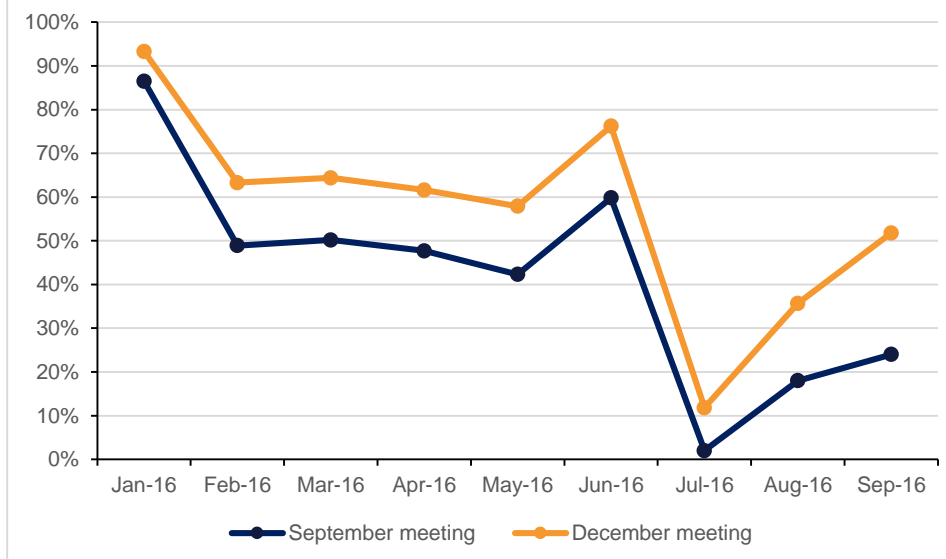
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Monthly Insights

With the summer now behind us the focus has shifted to the remaining outstanding issues of this year; namely Fed monetary policy and the US election. Regionally pending bond supply will be in focus amidst steady oil prices and improving economic data.

- **Global macro:** After a fraught start to the summer when volatility rose to its highest levels since January ahead of the Brexit referendum, conditions have calmed down significantly in the second half of it to the point where the global environment appears to be much more benign.
- **GCC macro:** PMI data for July and August suggests that economic growth in the GCC's largest economies gained momentum over the summer. However, margins have remained under pressure and firms remain reluctant to boost employment. Household consumption is slowing on the back of weak employment growth and increased utilities and fuel costs.
- **MENA macro:** Latest Purchasing Manager Indices (PMIs) for MENA's non-GCC economies point to relatively tepid private sector growth in Q3.
- **Fixed Income:** Global sovereign bonds performed well through the month as prevalent QE supported the bid for bonds and yields remained low amid muted inflation across the globe. Continued hunt-for-yield lifted EM cash corporate bonds and range-bound oil prices saw GCC bond prices grinding higher over the month.
- **Currencies:** The last 30 days have seen the dollar underperform as doubts have resurfaced about how quickly the Fed will continue to normalize monetary policy. Although prominent Fed officials have recently indicated that another rate hike will soon be on its way, the markets have taken this to mean that December is the most likely month with 52% seeing a hike by then.
- **Equities:** Global equity markets have had a stellar run since the start of 2H 2016 as search for income-generating assets intensified post-Brexit, with both implied and realised volatility drifting lower. It does appear that conditions remain ripe for equity markets to trend higher as transitory factors become structural in nature.
- **Commodities:** A bear-to-bull round trip for oil prices as markets contend with whether OPEC will come to an agreement to freeze production.

Odds of Fed taking action in 2016 rebound



Source: Bloomberg, Emirates NBD Research

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Global Macro

After a fraught start to the summer when volatility rose to its highest levels since January ahead of the UK's Brexit referendum, conditions have calmed down significantly in the second half of it to the point where the global environment appears to be relatively benign. Expectations for a September Fed rate hike have dwindled, while the impact of Brexit itself has so far been much less severe than the markets had feared. So much so that volatility is now close to the lowest levels it has been in two years.

Volatility at lowest in two years



Source: Bloomberg, Emirates NBD Research

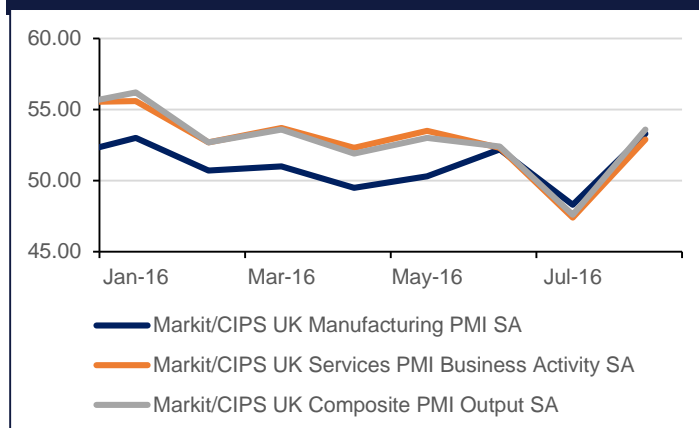
Brexit impact has not persisted..

Much of the reason for this decline in volatility is the fact that Brexit did not in the end turn into the storm that was expected with only sterling experiencing any lasting impact, and with other global markets largely unaffected. In fact global borrowing costs have continued to decline and equity markets have been strong through the summer.

Despite apocalyptic warnings before the referendum markets have been relatively reassured that Brexit may not in fact lead to the economic dislocation that was feared, with UK economic data largely holding up in the aftermath of the vote and political continuity being promised by the appointment of the new Theresa May-led Conservative government.

Although sentiment indicators in the UK showed an immediate negative reaction to the surprise referendum outcome, with the UK's manufacturing PMI plunging into contraction territory, these subsequently rebounded strongly with the manufacturing PMI posting its strongest reading since March 2015. The other 'harder' data available since then has been relatively comforting too, showing retail sales rising strongly in July, prices firming, applicants for unemployment benefit declining and the housing market steady.

UK PMIs rebound strongly in August



Source: Bloomberg, Emirates NBD Research

Or had knock on effects...

Further afield there was next to no contagion in to other neighboring economies either, with the Euro area PMI rising slightly in July and firming further in August, despite the Euro's currency appreciation against sterling. Japanese yen strength is seemingly not harming the Japanese economy much either, with its manufacturing PMI improving for the third straight month in August and unemployment continuing to decline. The US economy has also remained resilient, with jobs being added and other activity indicators firm, so much so that the Federal Reserve was sufficiently reassured to downgrade the risk posed to the US economy and to talk up the possibility of a rate hike.

Although the IMF downgraded its forecast for global growth in the wake of the UK Brexit decision, markets were surprised that its forecasts were not much worse given the warnings it made in the run up to the referendum. In fact the IMF said that if it had not been for Brexit it would have actually raised its global growth outlook for the first time in years. In the event global growth forecasts this year and next were lowered by just 0.1%. to 3.1% and 3.4% respectively, while its UK growth forecast was cut to 1.7% and 1.3% in the same period, nothing as bad as the IMF had previously implied and still better than many other leading economies in the world, including the Eurozone.

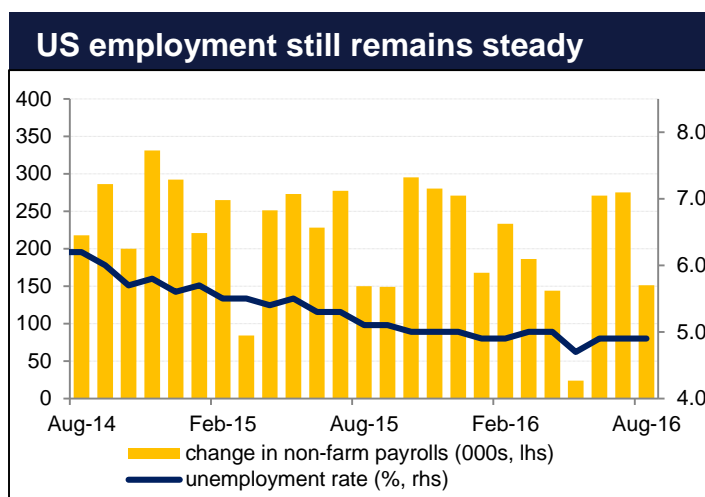
The fact that the new UK government seems in no hurry to trigger article 50 of the EU constitution to initiate exit talks also promises a more drawn out period of negotiations than many had expected, effectively kicking the reality of Brexit out as far as 2019. Mixed voices from EU countries about what kind of Brexit they will insist on are also providing some optimism that the UK may still manage to avoid draconian consequences, although warnings from other trading partners such as Japan are currently reminding markets about what might be at stake if a satisfactory negotiations outcome is not seen. With the Bank of England having already moved preemptively to cut interest rates to 0.25%, and with GBP having fallen by nearly 15%, the markets might even start to imagine that the near term prospects for the UK economy could actually be quite favourable. Export orders books were at a two-year high in August according to the Confederation of British Industry, with total order books 'comfortably above' the long-run average.

However, it is important not to get carried away by the relative calm that has prevailed for the last month or so. As it was probably right not to over react to the sharp drop in confidence levels seen in July, or indeed to the cataclysmic warnings before the referendum, so the improvement seen in the 'hard' data since the vote may also exaggerate the resilience of growth going forward. It is still likely that UK growth will be affected and it will take time for the full impact of Brexit to manifest itself, both on the UK economy as well as on its global trade partners and regional neighbors. Policymakers should remain vigilant to these risks even as the immediate clouds related to the issue might appear to have lifted.

Focus shifts back to the Fed

With the immediate impact of Brexit now behind us the focus has shifted to the remaining outstanding issues of this year; namely Fed monetary policy and the US election. The two are connected as the Fed is thought unlikely to raise interest rates around the time of the election in November, leaving only two options for a rate hike between now and the end of the year, either this month or in December. With senior Fed officials recently talking up the likelihood of a policy tightening in coming months at the Jackson Hole symposium, most market assumptions are that a December rate hike is now the most likely. However, this is largely premised on the assumption that Hillary Clinton will win the Presidency. If Trump were to win, however, all bets would be off. A December rate hike is also premised on the view that the Yellen Fed is almost perennially disposed to wait until the stars are perfectly aligned before hiking rates, a view that is quite understandable given past experience. However, there is still something a little strange about the Fed recently beginning to talk up a rate rise so far ahead of when they are actually planning to do it.

After all both domestic and international factors appear to be reasonably supportive of a move today, even if they are not quite at the 'perfect' place the Fed might prefer. The latest rise in US non-farm payrolls by 151k in August was a little weaker than expected but need not detract from the argument for hiking rates as early as this month, with the 3-month moving average for payrolls standing at 232k and the unemployment rate steady at 4.9%. Inflation readings are still below the Fed's two per cent target but are gradually moving towards it, something which a small rate rise will do little if anything to impede. Global conditions are also very benign right now, with oil prices steady and emerging markets much less volatile than they were at the start of the year, and with the Brexit referendum already a memory. This all suggests that the Fed has a window to hike rates without the risk of destabilizing financial markets if this is what they want to do.



From another perspective a rate hike is actually becoming more and more pressing not only for economic reasons but for the good of the financial system. Global bond guru Bill Gross of Janus Capital recently wrote in the Financial Times that 'Central bankers are threatening the engine of the economy' by keeping interest rates too low now for too long. Gross goes on to say that it is no coincidence that productivity has slumped parallel to the advent of QE and zero bound interest rates, or that investment has declined, saying that ultimately 'capitalism cannot function at the zero bound or with a minus sign as a yield'. Insurance companies and pension funds with long term liabilities have assumed higher future returns and will be left vulnerable if yields fail to return to more normal levels. Other distortions are also observable in asset markets from equity markets to bonds and commercial real estate.

The Fed does not appear to be at this level of awareness just yet, although there have been signs from some of its officials that a reappraisal of the appropriate level for interest rates could be on its way. The San Francisco Fed's John Williams for instance wrote recently that it is time to 'critically reassess prevailing policy frameworks' warning that there are limits to what monetary policy can do and hinting that fiscal policy should take more of the strain.

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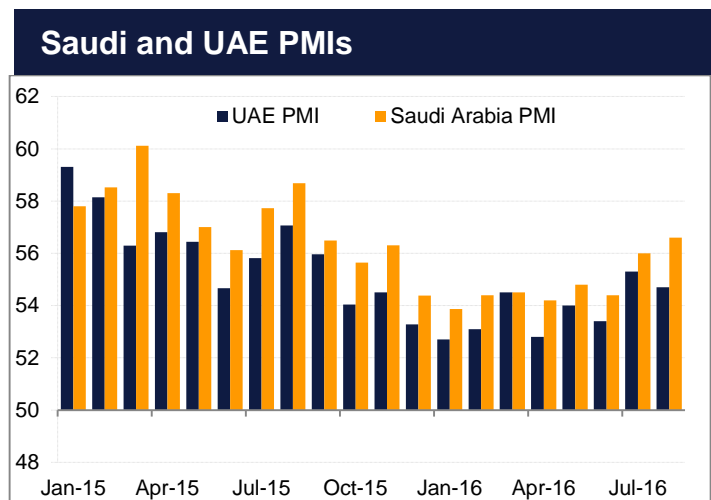
GCC Macro

PMI data for July and August suggests that economic growth in the GCC's largest economies gained momentum over the summer. However, margins have remained under pressure and firms remain reluctant to boost employment. Household consumption is slowing on the back of weak employment growth and increased utilities and fuel costs.

UAE's PMI averaged just 51.2 in January-August this year, down from 52.7 in the same period last year. The trend is similar in Saudi Arabia, where the employment index averaged 51.5 in the first eight months of this year, down from 52.8 in 2015.

At the same time, households are facing higher costs for utilities and fuel as subsidies are reduced. In Saudi Arabia, the water and electricity component of the cost of living index have increased by around 140% and 12% respectively this year, while fuel is up 60% y/y. Meanwhile, non-oil imports declined more than 20% y/y in H1 2016, with the decline across all categories except for arms and ammunition. Point of sales transactions have declined -6.1% y/y in January-July in nominal terms, where headline consumer inflation is running at around 4%, suggesting that sales volumes have declined by around 10% y/y.

Corporates in the UAE and Saudi Arabia are also facing a more challenging economic environment, as governments cut back on spending and liquidity conditions have tightened. Anecdotal evidence suggests that payments (including from the public sector) are being delayed and this is putting strain on corporate cash flows, particularly in Saudi Arabia. So while the purchasing managers' surveys are showing expansion so far in 2016, the rate of growth in the non-oil sector is slower on average than in 2015 for both the UAE and Saudi Arabia.



Source: Bloomberg, Emirates NBD Research

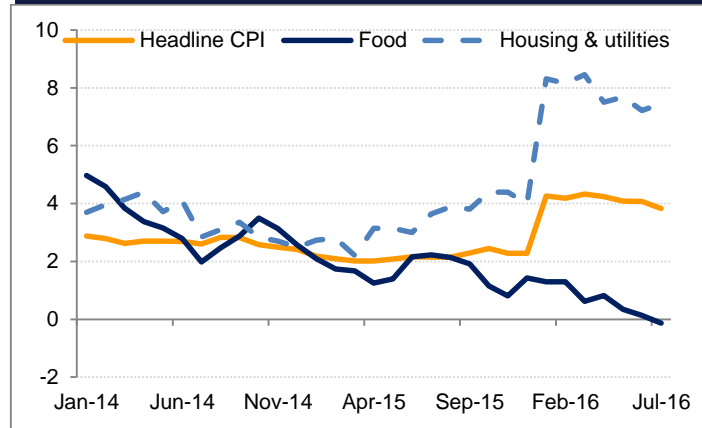
PMI data suggests that economic growth in the GCC's largest economies gained momentum over the summer. In Saudi Arabia, the headline PMI averaged 56.3 in the last two months, up from 54.3 and 54.5 in Q1 and Q2 respectively. The UAE's PMI averaged 55.0 in July-August, up from 53.4 in Q1 and Q2 2016. While the PMIs measure activity in the non-oil private sector, it is likely that increased oil production has fed through to the oil-related manufacturing sectors in both countries, but particularly in Saudi Arabia which has ramped up production sharply over the last two months. Indeed, where the UAE's PMI eased off slightly in August, Saudi Arabia's headline PMI increased further as crude output reached a new high.

In the UAE, the services sector performed relatively well over the summer season, with Dubai's travel & tourism and retail & wholesale trade sectors benefitting from increased visitors and holiday spending. However, firms' margins have remained under pressure as output prices have been reduced in order to compete for new business and sustain demand. We expect this trend to continue against a backdrop of USD strength. Recent announcements of a new mega-project in Dubai, as well as the opening of new theme parks and the prospect of a new bankruptcy law coming into effect by the end of this year should all support business optimism going into Q4 2016.

Household spending appears to be slowing

However, household consumption growth is facing headwinds in both Saudi Arabia and the UAE. Employment growth remains soft despite strong rises in output and new orders, as firms appear reluctant to increase their costs. The employment component of the

Saudi Arabia: Inflation



Source: Haver Analytics, Emirates NBD Research

Crude output rises, supporting growth

Oil output in Saudi Arabia rose to just under 10.7mn bpd in August according to Bloomberg estimates, although some estimates put it as high as 10.8-10.9mn bpd. Either figure would make it a new record high in terms of monthly oil production in the Kingdom. Year-to-date, Saudi crude output has averaged 10.4mn bpd according to Bloomberg, or 1.4% higher y/y. Growth in the UAE's oil production is up 1.6% y/y over January-August. Crude oil extraction accounts for nearly 40% of Saudi Arabia's GDP and just over 30% of the UAE's, so growth in this sector will go some way towards offsetting slower non-oil sector expansion.

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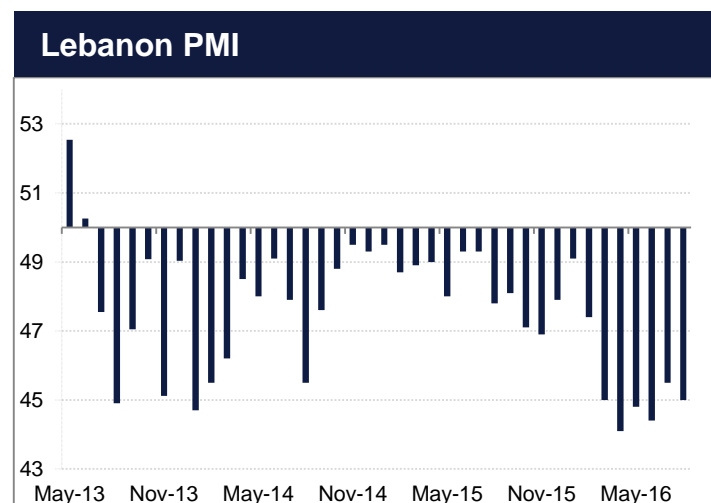
Non-GCC Macro

Purchasing Manager Indices for MENA's non-GCC economies point to relatively tepid private sector growth in Q3. Although PMI data is only available for Egypt, Lebanon and Turkey, the trends that are evident are likely to extend to the rest of the net-oil importing markets in the region. The external sector appears particularly weak, meaning there will be little hope of an export-led recovery this year.

Turkey's August PMI fell to 47.0 from 47.6 in July, marking the lowest level since April 2009. This also represented the sixth consecutive month that the headline PMI has been below the no-change 50 level. Through the first eight months of the year, the survey has averaged only 48.8, compared to 49.3 in the same time last year. A host of other data points released in recent weeks would seem to confirm what the PMI reports have been indicating in terms of a slowdown taking root across the Turkish economy. Tourist arrivals have been particularly affected by the recent uptick in political risk, with the number of visitors declining 37% y/y in July. Moreover, latest trade data also shows the value of exports falling 12% y/y, indicating that external demand is simply not going to be sufficient to boost growth in the near term.

while parliament has only managed to pass legislation for issues of the most pressing nature (issuing FX debt and garbage collection). Broader structural reforms are not a priority, and the task of managing the economy has fallen solely to the central bank whose stimulus programs can only do so much to spur domestic demand.

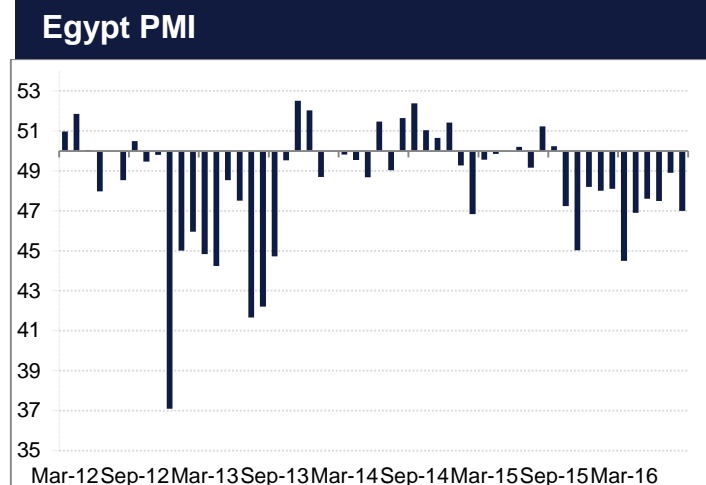
Despite the prolonged streak of PMI surveys showing deteriorating business conditions in Lebanon, GDP growth is estimated to have expanded by an average of 2.2% over the past three years. One reason may be the influx in Syrian refugees since 2011, who now account for over 25% of the population by official estimates (and significantly more by unofficial estimates), which may have helped support economic growth through increases in demand for local services, and driven overall household spending higher at a time of otherwise fragile consumer and business confidence.



Source: Markit, Emirates NBD Research

Q2 GDP for Turkey is due to be released on September 9, with consensus expectations seeing economic growth slow to 3.7%, compared to 4.8% in Q1. By regional standards, this would actually make the economy a relative outperformer. One of the main reasons why momentum has held up reasonably well has been the fact that household consumption accounts for a large share of overall GDP, which has been supported by hikes to the minimum wage.

Lebanon's PMI surveys have underperformed relative to the rest of the region, suggesting the private sector economy has been contracting since mid-2013. In August, the headline report fell to 45.0, from 45.5 in July. This represented the 38th straight month of decline (in the survey's history, there have only been two months above 50). A common theme from respondents to Markit's survey is that demand is being undermined by the political situation. Domestically, Lebanon has been without a president since 2014,



Source: Markit, Emirates NBD Research

Egypt's PMI also remains below the neutral 50-level, and in August dropped to a four-month low of 47.0. The FX situation remains the most problematic factor for private sector companies at the moment. Liquidity shortages and the depreciation of the EGP in the parallel market were cited as reasons behind the fall in Output (46.0) and New Orders (47.0), in addition to the deterioration in Suppliers' Delivery Times (44.5). Currency weakness also pushed the Purchase Price Index to its highest level in the survey's history (88.2), which forced firms to pass on these higher costs to customers, as evidenced by the Output Price Index rising to its second-highest level (59.3) since the PMI was introduced in 2011. Most concerning of all perhaps, employment also fell at its fastest pace in the survey's history (44.2).

There is cause for optimism, however, with the recent signing of a three-year USD12bn IMF Extended Fund Facility. Most importantly, the IMF program will help anchor a broader reform agenda that is aimed at stabilizing public debt, narrowing the budget deficit, introducing a more competitive exchange rate, and improving the business environment for private sector companies. Progress has already been in some areas, most recently with parliament's approval of a long-awaited VAT.

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Fixed Income

Global sovereign bonds performed well through the month as prevalent QE supported the bid for bonds and yields remained low amid muted inflation across the globe. Continued hunt-for-yield lifted EM cash corporate bonds. Low market volatility and range-bound oil prices saw GCC bond prices grinding higher over the month.

Short Term Rates

Short term rates have risen noticeably across the GCC economies mainly due to rising LIBOR rates and tightening banking sector liquidity. Three month LIBOR rate is the life and blood of financial systems in the GCC economies where currencies are pegged to the dollar. This rate is currently at 83 basis points, its highest in seven years. Three key factors contributing to this escalation in short term LIBOR rates are :

- Money market reforms: Global dollar liquidity is tightening due to falling supply of short term money that is mainly driven by new U.S money market regulation which comes into effect on October 14. In our view, this is the prime factor behind the rise in LIBOR from 62bps in June to 83bps now.
- Change in LIBOR rate calculation methodology: After years of scandals involving manipulation of LIBOR rates, regulators now require a broader set of data to be submitted for LIBOR setting and this is contributing to keeping LIBOR at elevated levels.
- Increasing expectations of rate hikes: Market is currently pricing 52% chance of a rate hike this year and this may keep LIBOR rates elevated for months or even quarters.

As at end of August, there were circa USD 169bn of CP and CDS maturing before Oct 14. LIBOR may continue to grind higher to the extent that banks choose to refinance it again in the shorter tenor money markets instead of finding alternate longer duration funding sources.

Regardless of the cause or permanence of the LIBOR rate increase, broader effect can already be seen throughout the GCC markets in the form of rising local rates.

Global Bonds

August has been an exceptionally quiet month. Even Janet Yellen's much-awaited appearance at Jackson Hole failed to provoke much reaction. Investor fatigue is justified in a market plagued with conflicting forces. Brexit turned out not to be the end of the world, US economy appears on solid grounds and European economic data is steady. And yet bond yields have fallen and rate hikes keep getting postponed in the face of deflation risk in Japan and slowing growth in China.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	1.537	-5.1	-18.0	-58.7
UK	0.659	-1.0	-60.5	-114.6
Germany	-0.114	-4.4	-16.2	-78.6
Russia (LC)	8.070	-34.0	-59.0	-344.0
China (LC)	2.783	+4.6	-19.9	-51.9
Japan	-0.050	+5.3	+7.8	-41.0

Source: Bloomberg

Shorter dated Gilts yields were lower after the first week of purchases by the Bank of England, however, long end buyback was uncovered as investors clearly did not want to sell their positions to the central bank. US treasuries also saw flattening of curve as ten year yields remained in narrow range but two year yields shifted upward, albeit only marginally, in response to hawkish comments from Fed officials. Adding to the bid in fixed income was the comforting performance of crude oil prices.

In the emerging market space, countries continued to release second quarter GDP which came in 6.7% for China, 7.1% for India, -3.8% for Brazil, -0.6% for Russia, estimated 3.6% for Turkey and estimated 0.2% for South Africa. Within GCC average GDP growth has remained above estimates (refer tables at the back for details), fuelled by record oil production.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	137	-6	-13	-25
US HY Corp	484	-39	-77	-54
EUR IG Corp	51	-1	-8	-5
EUR HY Corp	375	-34	-43	-48
USD EM	317	-13	-43	-82

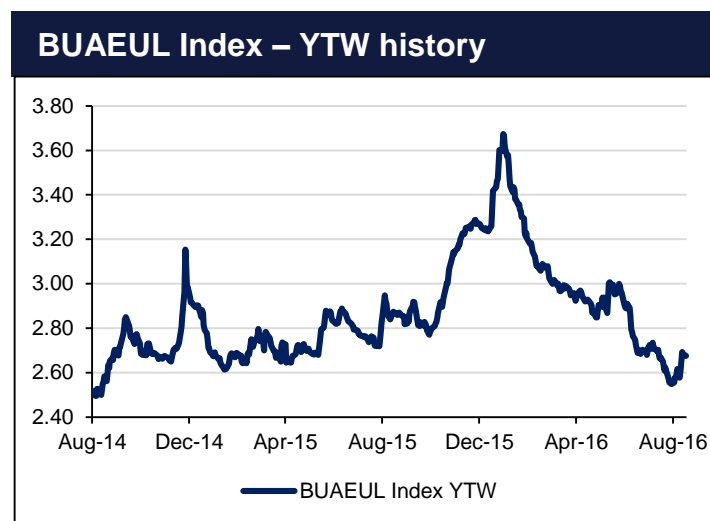
Source: Bloomberg

Capital inflow of over \$13.3 billion in the last one month has benefited EM bonds. EM USD cash bonds index recorded total return of 1.08% over the month and a spectacular 12.47% total return on YTD 2016.

GCC Bonds – Secondary market

GCC bonds have ground higher as crude oil prices appear to be stabilising around mid - USD40s/b. And although earnings reports generally surprised to the upside, its mainly the negative rates in large parts of the world that have driven capital in the region and delivered outsized returns for GCC bonds in 2016. Low volatility in the face of range-bound oil prices have boosted alpha too. YTD total

return on liquid UAE bonds has been 5.47% and that on the wider GCC is running at 6.31% (Bbg Barclays GCC total return index).



Source: Bloomberg

The general myth that the local bid for bonds has reduced sounds logical in the face of strained liquidity in the GCC banking systems. However, looking at facts we notice that while share of new issues take up is lower by GCC investors this year, the absolute amount of buying may still be higher than the previous years as the region has seen record new supply.

With 26% of global IG bond index yielding below one percent, the attractiveness of GCC bonds offering an average 4% yield has increased. Since most of the issuance has come from highly rated sovereign sector, demand has remained high not only from the local bank ALM books that benefit from zero risk weighting for sovereign risk but also from international pension/insurance funds that are attracted to A/A+ range rating on four of the six GCC sovereigns.

While supply from GCC is likely to remain elevated, we are cautiously optimistic about the credit spreads to remain range bound as demand for the GCC paper is accelerating faster than supply. The main factors supporting increased demand are a) attractive relative value; b) sovereign issuers that attract interest from pension/insurance funds; c) high credit ratings; d) cheap, abundant liquidity in Asia and Europe and e) lack of alternate products to get access to GCC risk.

The silver lining emanating from low oil prices is the increasing depth of the GCC capital markets. Increased international participation has introduced investors that churn their portfolio more than the traditional hold-to-maturity local investors. Chunky recent sovereign deals has increased market depth and higher portfolio churn has improved liquidity in the GCC bond market. Average ticket size in the region has increased to circa USD 2-5mn from average USD 1-2mn few years ago.

GCC Bonds - Primary Market

The new issue calendar got fired up last week after several weeks of summer lull. We are seeing deals well oversubscribed and secondary market spreads remaining resilient. Year to date new

issuance at circa USD 40 bn (including fixed and floating USD denominated bonds) is at a record high and has already crossed the total for the entire 2015. We expect another circa USD 30-40bn before the end of the year.

Beside possible refinance of the upcoming maturities of USD 6.9bn before December 2016 and circa USD 13bn in first half of 2017, new issuers are likely to come to market opportunistically to lock in low rates ahead of the Fed rate hike cycle picking up steam. The most prominent and hotly awaited name is the debut dollar denominated issue from Saudi Arabia sovereign which is likely to be over USD 10bn and expected to surface in end September / early October. While Dubai government, Kuwait and Bahrain have already announced intension to tap the market this year, we will not be surprised to see further issuance from Oman or Qatar given that all GCC sovereigns are likely to record sizeable budget deficit even in 2017 as oil prices remain low.

Beside sovereigns, the sector most likely to require funding is the GREs that were traditionally funded by government but now may have to tap the capital markets. TAQA, IPIC, Qtel, SECO etc appear primed to need capital market funding over the next six months.

The two factors in the past that pushed banks to take extra debt was the fast growing loan books and aggressive appetite for international expansion. While both these factors have become mundane, falling oil revenue deposits have reduced liquidity in the banking sector particularly in Saudi Arabia and Qatar. In the banking space we expect issuance to shift from capital securities to more of senior debt. That said there is likely to be a preference for syndicated loan market over the capital market debt given the favourable terms available from Asian banks.

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Currencies

The last 30 days have seen the dollar underperform as doubts have resurfaced about how quickly the Fed will continue to normalize monetary policy. Although prominent Fed officials have recently indicated that another rate hike will soon be on its way, the markets have taken this to mean that December is the most likely month with 52% seeing a hike by then.

In contrast FX markets appear to be reducing their bets on a US interest rate hike this month with estimates for a hike at the FOMC on the 21st falling to 32% in the aftermath of the US August employment report, and to 24% following the latest ISM services data. This was down from the 45% peak seen immediately after the Jackson Hole symposium, but it is still well up from the near zero% seen in July. The DXY Dollar Index, a measure of dollar strength against major currencies declined by 2.33% to 94.79 since July when we last wrote, but its recent behavior suggests a greater amount of uncertainty about the outlook.

Dollar breaks lower in early September

Following the disappointing ISM Non-Manufacturing PMI report, the dollar index broke out of its range, closing below its 100 day MA of 95.212. In the short term, this signals that further weakness is likely to follow until the Fed gives the market clear direction on its intention to raise interest rates. In order to reverse its current downtrend, DXY needs to close above its 100 day MA, putting it back in its former range where support was the 100 day MA and resistance the 200 day MA. This needs to be followed by a close above the 200 day MA of 96.226 (closely coinciding with the one year 50% Fibonacci retracement of 96.215) which would clear the path for a climb towards the one year 61.8% Fibonacci retracement of 97.228. For this to happen a September rate hike would certainly help, with real adjusted yield differentials showing a clear correlation with most USD crosses. USD Libor has already moved higher in recent weeks, and although this largely reflects some technical issues related to money market funds (see Fixed Income on page 7) it still hints that the broad trend in US interest rates is changing and becoming more supportive of the USD.

JPY still top performer in 2016

The JPY remains the strongest performer of 2016 benefiting from disappointment with earlier BOJ easing steps and from periodic bouts of risk aversion. Its recent relative softness is more to do with the Fed however, and with the prospect for diverging monetary policy between it and the BOJ later this month. So much so that recent encouraging economic data out of Japan including retail sales (1.4% m/m in July), a fall in the unemployment rate to 3.0% (the lowest level since 1995), and improvements in the PMIs have been largely overlooked.

With a September Fed rate hike looking doubtful but not completely ruled out, and more BOJ easing steps on their way according to governor Kuroda, the scope would seem to exist for further gains in the run-up to the FOMC and BOJ meetings on the 20-21st of this month. Mindful of USDJPY100 acting as a massive psychological barrier and offering very strong technical support, and while the USDJPY failed to build on its close above the 100 day MA of 102.67 on 7th of September, we feel substantial support at the 100 level could help it make another attempt at this level before going on to attempt to reach the one year 23.6% Fibonacci extension of 104.86.

Can USDJPY upside build?

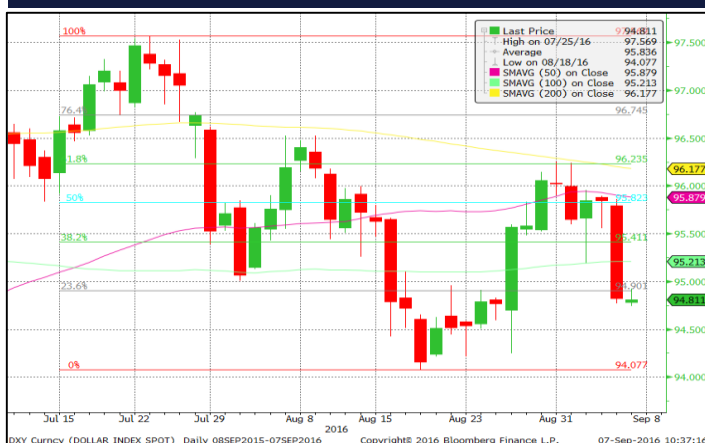


Source: Bloomberg, Emirates NBD Research

ECB to weigh on Euro

The Euro also appears quite heavy following recent subdued activity and inflation readings. Business and consumer surveys for the Eurozone showed declines in August sentiment across the board, possibly a reflection of the security issues that dominated Europe in the summer months. Economic confidence fell to 103.5 from 104.6, while the business climate index dipped to 0.02 from 0.39 and consumer confidence remained unchanged at -8.5. Headline inflation was also unchanged at 0.2% y/y in August whilst core inflation dipped to 0.8%. The weakening prospects for the Eurozone economy will keep the pressure on the ECB to provide more stimulus to growth possibly as early as this week, although it may prefer to wait to see what the Fed does later this month before acting. Any sustained break below 1.1130, the 50 and 100 day MA, provides the opportunity for bears to target 1.0913, the June 2016 low and near the 38.2% 1 year Fibonacci retracement. Further out, the risk is that political strains will mount in 2017, with elections

Dollar breaks below its 100 day MA



Source: Bloomberg, Emirates NBD Research

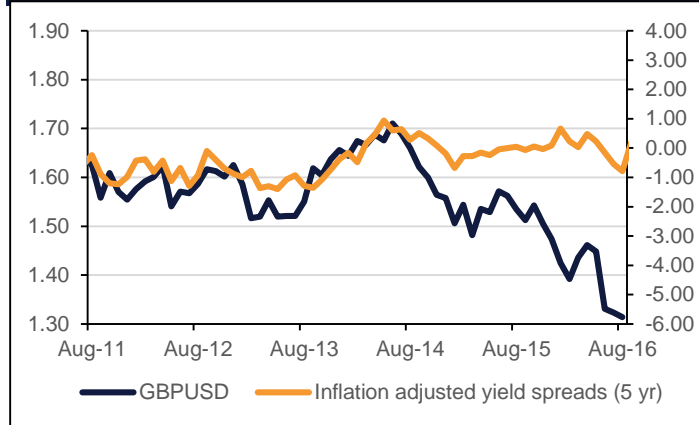
due in France and Germany, which will further compound the headwinds facing growth and the challenges facing the ECB.

Sterling rebounds as data surprises positively

Having fallen by more than 30% against some major currencies (33% vs NZD, 31% vs JPY) over the last 12 months, the pound has finally enjoyed a month of relatively good performance, paring losses against all of its rivals, with the exception of the NZD. This recovery has been spurred on by more economic data that has confounded assumptions that the UK economy would weaken in the aftermath of the Brexit referendum. Most strikingly the strong bounce back in the composite PMI activity index to 53.6 in August, up from 47.6 in July, demonstrated that the 'shock value' of Brexit was shortlived. Growth in retail sales, continued firmness in the labour market and a pick-up in prices are all evidence that the markets overestimated the immediate negative economic consequences of Brexit. Some of the improvement in the data may already be a reflection of the softer pound, such as the improvement in export orders reported by the CBI. To the extent that this is the case any further recovery in the value of the pound might be seen to be unwelcome, especially after the Bank of England cut interest rates proactively in August in order partially to ensure a softer currency.

The chart below illustrates the risk that GBP could even rally a bit further based on inflation adjusted sovereign bond yield spreads, something that could be even more alarming if it is sustained. However, as we still think there is a risk that the economic environment may not remain as benign as it currently appears, especially once the Brexit negotiations get underway, we retain our view that GBP will fall back again especially against the USD if the Fed follows through on its recent tightening rhetoric. Further out the possibility is rising that the new May government could call an early snap general election in 2017 which would further complicate the outlook, even though the probability currently is that the Conservatives would easily win.

Sterling trades at discount



Source: Bloomberg, Emirates NBD Research

AUD and NZD firm despite record low rates

Despite the RBA and RBNZ cutting benchmark rates to record lows of 1.50% and 2.00% respectively and expectations of further cuts to come, both currencies find themselves continuing to outperform the market, in particular the NZD which has been the second best performer of 2016, with NZDUSD appreciating 7% YTD and reaching a 14 month high of 0.7433 on 9th of September 2016. Until the uncertainty over the Fed raising rates in 2016 clears, we expect AUD and NZD to continue to enjoy support from yield seeking investors.

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Correlation of daily currency movements over the last one month

PAIR	EUR/USD	EUR/GBP	EUR/JPY	GBP/USD	USD/JPY	USD/CAD	AUD/USD	NZD/USD
EUR/USD		0.149	-0.347	0.637	-0.848	-0.526	0.691	0.807
EUR/GBP	0.149		-0.144	-0.666	-0.185	-0.032	-0.105	-0.146
EUR/JPY	-0.347	-0.144		-0.155	0.7910	0.345	-0.174	-0.436
GBP/USD	0.637	-0.666	-0.155		-0.498	-0.374	0.596	0.721
USD/JPY	-0.848	-0.185	0.791	-0.498		0.541	-0.549	-0.774
USD/CAD	-0.526	-0.032	0.345	-0.374	0.541		-0.647	-0.603
AUD/USD	0.691	-0.105	-0.174	0.596	-0.549	-0.647		0.841
NZD/USD	0.807	-0.146	-0.436	0.721	-0.774	-0.603	0.841	

Source: Bloomberg, Emirates NBD Research

Equities

Global equity markets have had a stellar run since the start of 2H 2016 as search for income-generating assets intensified post-Brexit, with both implied and realised volatility drifting lower. It does appear that conditions remain ripe for equity markets to trend higher as transitory factors become structural in nature. These include low sovereign yields, stability in commodity prices and continued absence of active monetary policy divergence among global central banks.

Though marked by subdued volumes, the rally in equity markets have been broad based. The MSCI World index has rallied +5.1% since the start of Q3 2016. All the other sub-indices have also remained in positive territory with the MSCI EAFE index, the MSCI Emerging Markets index and the MSCI Arabian Markets index rallying +6.7%, +9.1% and +1.3% respectively over the same period. The relative underperformance of regional equities can be attributed to -4.1% decline in Brent prices and low investor participation due to seasonal lull.

Despite the near-term spike, volatility since start of 2H 2016 has declined across the board. While the VIX index and the V2X index dropped -7.5% 3m and -24.3% 3m respectively, the JP Morgan EM Volatility index declined -3.3% 3m.

The discourse leading up to the end of the year is likely to be dominated by central banks and political developments. Markets, on both fronts, are pricing in favorable outcomes. The price action suggests that they expect Federal Reserve, if they move, to only hike in December, the Bank of Japan to move deeper into negative interest rate territory and Bank of England and European Central Bank to maintain quantitative easing programs well into 2017. On

the political front, it appears that Italian referendum is expected to be a non-event and Hillary Clinton to win US elections. The odds of a negative surprise on both counts is not as low as the market is pricing in and therein lies the risk of disruption. This is especially concerning when most indices are at year highs, valuations rich and volatility at year lows.

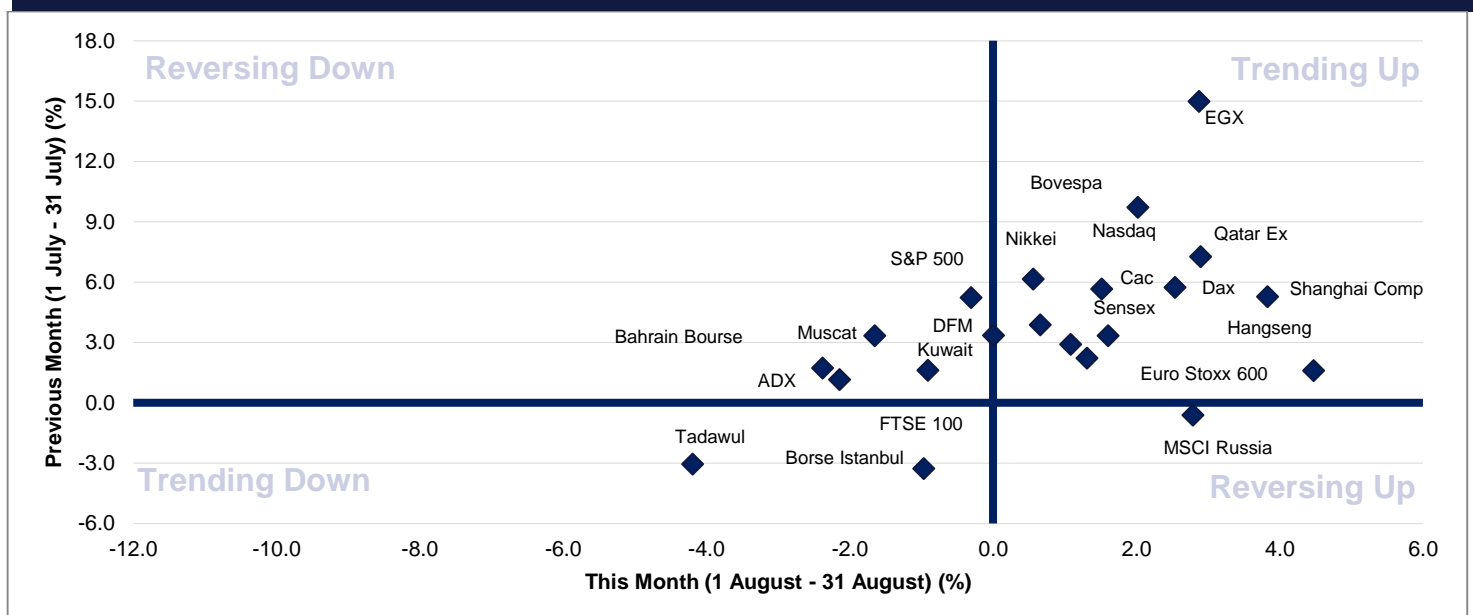
Valuations – A potential drag

The current rally in equity markets is being driven by multiple expansion rather than earnings growth. The current rate of multiple expansion would be unsustainable if not followed up by pick-up in earnings.

The MSCI World index is currently trading at 17.7x 2016E and 15.7x 2017E earnings compared to the 10-year average of 13.6x. Similarly, the MSCI EM index is trading at 13.4x 2016E and 11.8x 2017E earnings compared to the 10-year average of 11.0x. As per Bloomberg, the trailing 12-month P/E ratio for the MSCI World index and the MSCI EM index stands at 22.5x and 15.4x respectively.

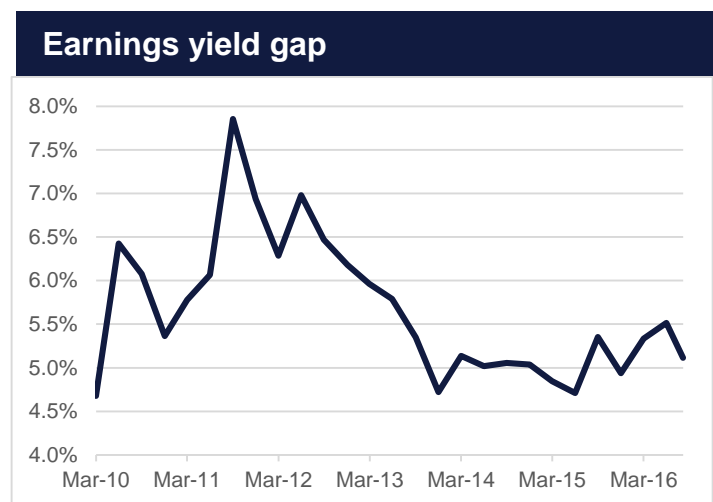
The fact that trailing P/E ratios are significantly higher than the forward P/E ratio indicates that consensus expectations are for double digit earnings growth in 2017. The anticipated earnings growth is driven by expected rebound in the energy sector. However, even when the earnings from the energy sector is stripped out, the expectation for EPS growth remains in high single digits. This looks unlikely given the experience of recent past and the expected pace of global economic growth. Over the last two decades, global earnings have grown by more than 10% on nine occasions but most of them were during 2000's when global economic growth was topping 5%.

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

With the IMF forecasting global GDP growth of 3.4% in 2017, the current expectation of EPS growth looks optimistic. It is also worth noting here that 2017 earnings expectations for the MSCI World index has been revised lower by -1.7% over the last three months.



Source: Bloomberg, Emirates NBD Research

Having said that, equities continue to appear cheap when compared to bonds with the current global earnings yield gap of 5.1%. The global earnings yield gap is calculated as the difference between the inverse of the MSCI World PE ratio and the Bloomberg G7 sovereign yield (see chart above). It shows that while valuations are high compared to historical averages, it has been at higher levels before. By contrast, bond yields have never been lower before. This should continue to offer some support to equities more so when seen in light that we are yet to see a significant rotation of bonds and into equities. According to data from EPFR Global, equities since at the start of the year have seen outflows of USD 130bn while bonds have seen inflows of USD 148bn. This ties in well with the ongoing debate over 'lower for longer interest rates' which in turn could be a significant factor in ensuring continued multiple expansion.

Developed Markets

US over Europe

At the start of the year, European equities were a consensus buy with divergence in monetary policy and higher earnings growth cited as key reasons. However, since the start of 2H 2016, US equities have outperformed its developed market peers with the S&P 500 index adding +3.5% 3m compared to +0.9% 3m gain in the Euro Stoxx 600 index and +1.7% 3m rally in the Nikkei index. Interestingly, one developed market which has outperformed US equities over the last three months has been UK with FTSE 100 index adding +8.6% 3m.

The gain in US equities can be attributed to sustained economic growth supported by robust share buyback yield and continued accommodative monetary policy from the Federal Reserve. In fact, lack of move from the Fed has actually helped the USD weaken enough to support US equities. While earnings growth continue to remain weak as seen in Q2 2016 and valuations remain rich, earnings revisions have stabilized from the lows seen early in 2016.

The outperformance of US equities has also been helped by relative underperformance of European equities on account of concerns over the health of the banks and political risks emanating primarily from Brexit. Having said that, it must be noted that despite underperformance, the Euro Stoxx 600 index is trading close to its 52-week highs.

MENA Markets

Capital market reforms gather pace

Regional markets have remained subdued since the start of 2H 2016 with the S&P Pan Arab Composite index closing flat over the last 3 months. This can be attributed to lack of investor participation and the seasonal lull. However, authorities have stepped up and initiated a series of capital market reforms which should help regional equity markets going forward.

In UAE, Nasdaq Dubai opened equity futures market at the start of this month to trade single stock futures on the shares of 10 UAE companies which together account for about 55% of the traded value of all listed equities. The stocks include Emaar Properties, Arabtec, DP World, Dubai Parks & Resorts, Etisalat, First Gulf Bank, Union Properties, Aldar Properties, Damac and Dubai Islamic Bank. The contracts have maturities of one, two or three months and will be settled in cash. The initial reaction so far has been lukewarm but should gather pace at the start of Q4 2016.

The CMA in Saudi Arabia fast tracked changes in QFI rules. The changes include reducing the threshold for QFI from USD 5bn to USD 1bn and increasing the investment limits of QFIs in individual companies and aggregate foreign ownership limits. Additionally, the CMA decided to adopt book building process for pricing the IPOs. The regulator also decided to allow QFIs to participate in the IPOs. The decision will come into effect from start of 2017. The IPO rules do prepare base for the massive part privatization plans announced earlier in the year. The critical changes still pending for implementation is the introduction of T+2 settlement cycle which is likely to happen sometime in H1 2017.

Emerging Markets

Among equities, emerging markets are the best performers both on a 3m and year to date basis. The MSCI EM index has rallied +10.5% 3m and +16.3% ytd. The rally in emerging economies is led by Latin American markets with Asian Emerging Markets slow to catch up. The MSCI EM Latin America Index has rallied +16.2% 3m. Much of the gains has been driven by the Bovespa index (+19.1% 3m) which has benefitted from reduction in risk premium following the impeachment of President Rousseff and subsequent appointment of Michel Temer who has promised to implement market friendly reforms.

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Commodities

Oil markets have gone nearly full circle in the third quarter, moving into a bear market to the end of July and then rising sharply by mid-August and now showing just how jittery the market still is. The main catalyst behind these wide moves has been market speculation over whether and when OPEC would take some form of market action, most likely in the form of a production freeze. Previous attempts to broker a deal to freeze output growth in February and April came to naught and this time too we are doubtful it will be achieved nor would it provide the long-term boost to oil markets OPEC members sorely need.

Have conditions in oil markets changed enough to suggest freezing output would be beneficial? The general trend of markets rebalancing has remained intact over the course of 2016. Crude oil production in the US has fallen by over 450k b/d so far this year up to the end of August while data from Canada, China, Brazil and Mexico all point to lower output this year. There are also tentative signs that inventories in Europe and Asia are being drawn down, albeit they still aren't anywhere close to being described as tight. These improving conditions—and the fact that oil prices have held in a range between USD 45-50/b since mid-April—would suggest that the time is right for OPEC's lower-cost producers to actually capture more market share, rather than less.

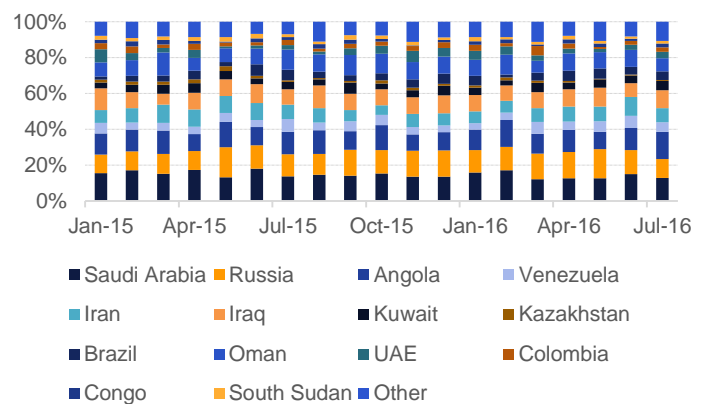
And indeed this has been the case. Crude oil production from OPEC hit a new record level in August according to latest market estimates. Total output hit 33.69m b/d, up 120k b/d month-on-month and more than 670k b/d on the same month last year. Production increases were concentrated in the Middle East where output from the GCC members rose 140k b/d while Iran and Iraq increased production by 130k b/d. Nigeria recorded another sizeable decrease in output (130k b/d) while Venezuela's production continues to limp along.

been the return of Iran to oil markets after sanctions were lifted in January but Iraq and Saudi Arabia have also made sizeable contributions (336k b/d and 115k b/d respectively). Elsewhere, changes in production have been more mixed and output has fallen most extensively in Nigeria and Venezuela (277k b/d and 100kb/d respectively) among the major producers.

Russia has been stealing a march on OPEC's markets

But while OPEC's big producers have been increasing output, so too has one of their major competitors: Russia. Output there has pushed higher in 2016 (up 133k b/d to the end of August on 2015 average levels) and is at elevated levels (10.8m b/d on average in 2016) relative to historic performance. Russia has also been aggressively pushing oil into China, taking an average of 13.5% of the country's total imports from January to July, compared with 12.7% last year. Meanwhile, Saudi Arabia's share has dipped from more than 15% to just over 14% and OPEC's share more generally has fallen. Russia has also been cementing its position as the dominant exporter of crude to the EU while Saudi Arabian exports to the bloc have dipped according to the most recent data from Eurostat.

Fighting for control of China's oil imports

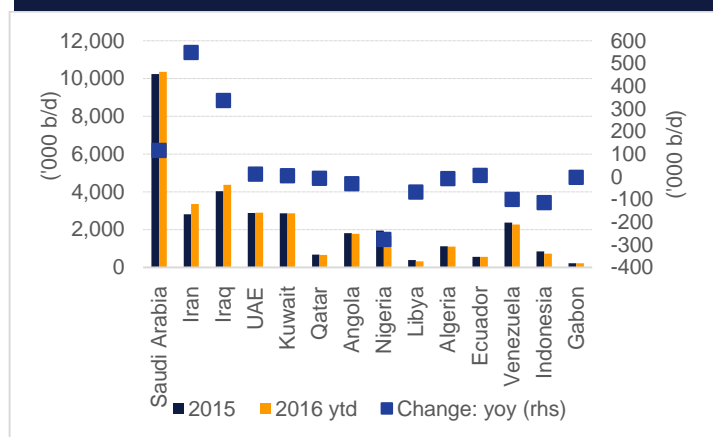


Source: Bloomberg, Emirates NBD Research.

Russia then is the producer for OPEC to do a deal with. For all of the market's attention on US shale, US crude oil exports remain negligible. Since a ban on US crude exports was lifted at the end of 2015 they have risen but are not nearly at a level to concern OPEC producers, just 480k b/d on average this year compared with over 5m b/d from Russia.

Hence the enormous frenzy surrounding a joint statement from the energy ministers of Saudi Arabia and Russia on the sidelines of the G20 meeting in China. Whatever the announcement was, it wasn't an agreement to freeze production. Both countries agreed to cooperate to support global oil markets but fell short of announcing any concrete action. Indeed, nearly immediately after the statement Saudi Arabia's energy minister, Khalid al Falih, said no freeze was needed at present. To us, this puts paid to any possibility that a deal will be achieved at the upcoming OPEC meeting.

OPEC production already at record levels



Source: Bloomberg, Emirates NBD Research.

OPEC's production has increased by 464k b/d as of the end of August compared with average 2015 output, nearly matching the decline in US volumes. The main catalyst behind this increase has

When is a freeze not a freeze?

But even beyond Mr Falih's comments, how could a freeze work in practice? The only positive outcome of an OPEC meeting in the past few years has been the appointment of a new secretary-general and most meetings have been fractious rather than friendly. A major obstacle to a freeze deal is what place Iran holds in OPEC. The country's deputy petroleum minister said the country would be prepared to freeze output once it had hit its pre-sanctions share of oil markets. If Iran held to this policy then it would need output to rise by more than 400k b/d to over 4m b/d to capture the around 12% share of OPEC production it had prior to sanctions being removed.

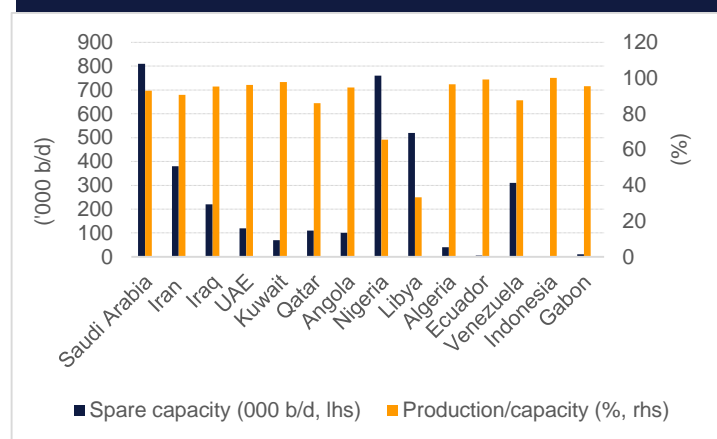
having an impact. Demand growth from the Middle East is particularly uncertain if consumers are exposed to rising prices now that subsidy reform has gather pace across the region. Already this year we are seeing a major slowdown in oil consumption, particularly among oil producers.

Finally, discussion of a market supporting freeze would threaten to undo the hard work of putting a dent into production from higher-cost producers. As oil prices have bounced off lows at the start of the year thanks to verbal market intervention from OPEC, so too has drilling activity and producer hedging in the US. The EIA is already projecting US output will decline at a slower pace next year based on a WTI price forecast of USD 51.58/b, below consensus expectations.

The interest in upcoming OPEC meetings will keep oil markets choppy, particularly as discussion of a freeze will continually get floated. But ultimately we think a freeze remains a point of discussion rather than an effective and easily accepted market strategy.

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Some in OPEC do have room to expand



Source: Bloomberg, Emirates NBD Research.

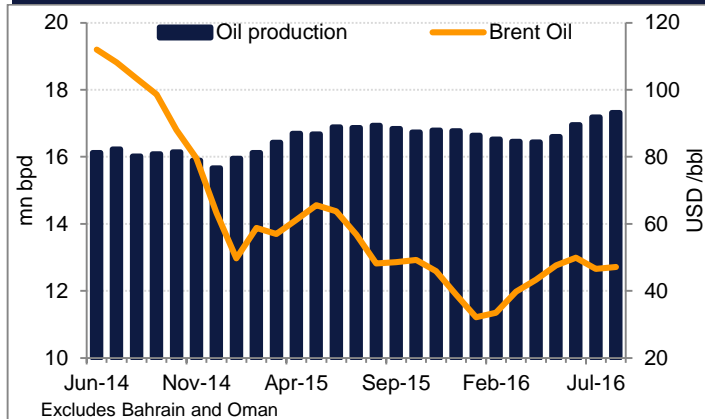
Likewise, Nigeria and Libya are producing far below their capacity or historic share of total OPEC output and we doubt they would be prepared to accept a freeze at their currently depressed levels. One possible formulation of a freeze, then, would be to carve out growth allowances for countries where production has dipped for reasons not related to policy. This would mean an increase of 1.7m b/d to OPEC's currently elevated levels if Iran, Nigeria and Libya were given permits to raise output, taking OPEC production above 35m b/d for the first time. Iraq's ambitions would also need to be contained as the country is now reversing policy and encouraging oil companies to raise output to bring in as much revenue to the government as possible.

Freezing at record levels when demand growth is set to slow

Where would all this extra oil be needed? The three major oil market institutions—the IEA, OPEC and the US government's EIA—all project oil consumption growth will slow in 2017 with what demand growth there is to be concentrated in emerging markets. India's demand prospects remain good but even with the fastest expected demand growth in the world, India will need less than 300k b/d to accommodate its marginal demand next year. China's projected demand growth appears too sanguine for us at present: demand for diesel—still the dominant component of Chinese oil demand—has been languishing as government efforts to curb excess industrial capacity and clean up the country's energy mix away from coal are

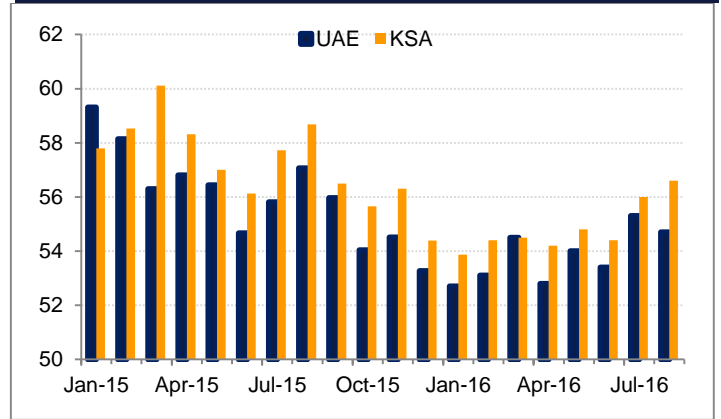
GCC in Pictures

GCC Oil Production and Reference Price



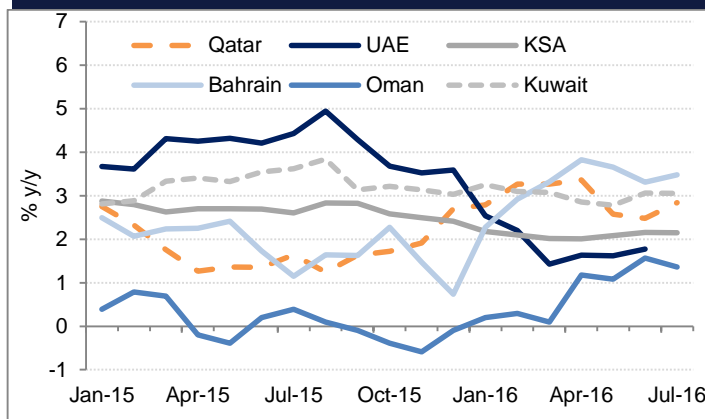
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



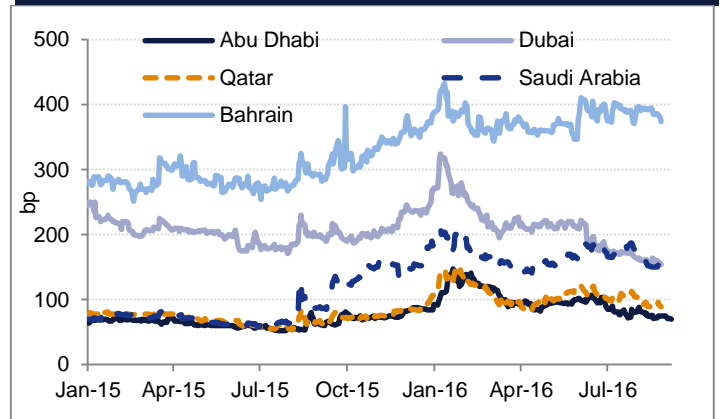
Source: Markit, Emirates NBD Research

Inflation



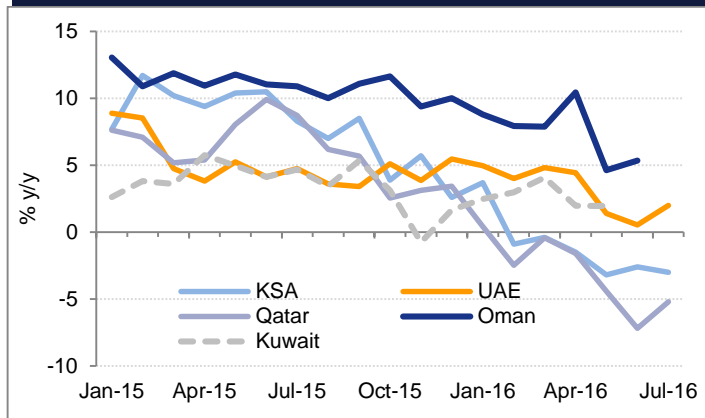
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



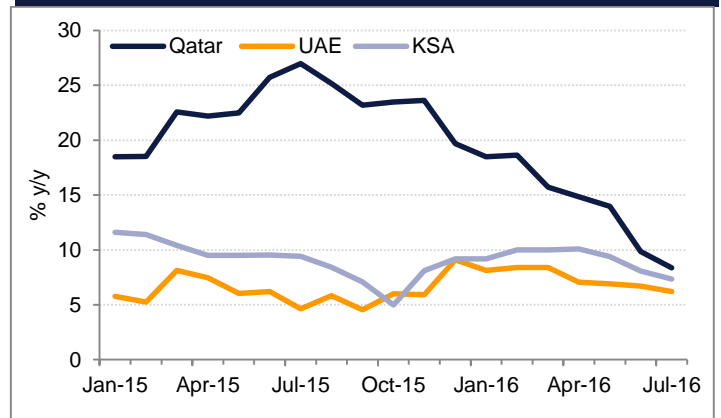
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

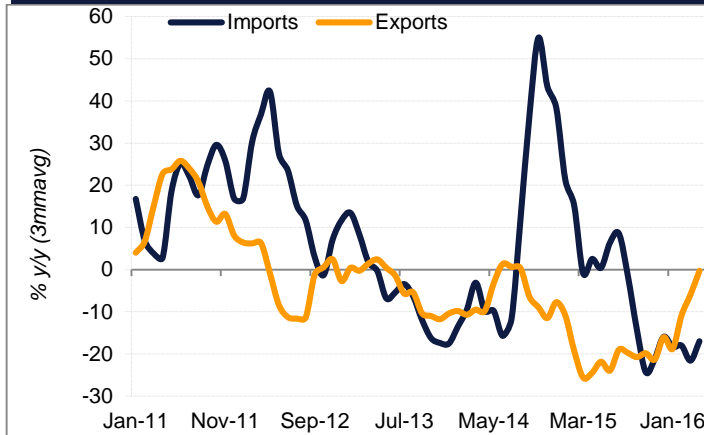
Private sector credit*



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

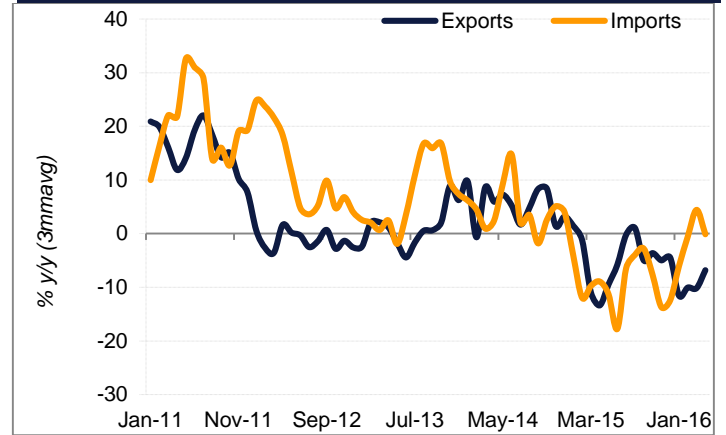
MENA in Pictures – Goods Trade

Egypt



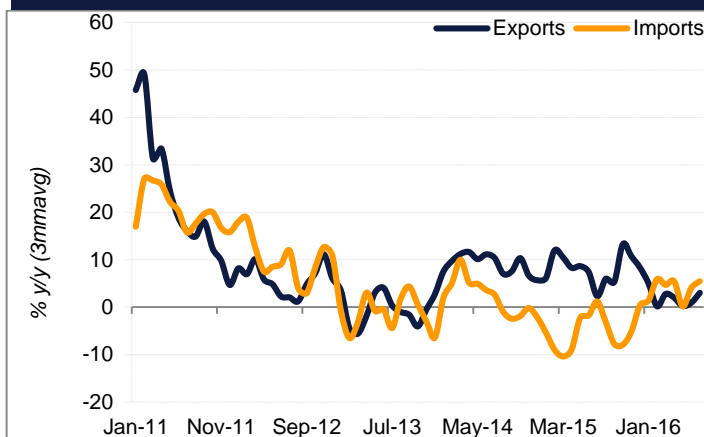
Source: Haver Analytics, Emirates NBD Research

Jordan



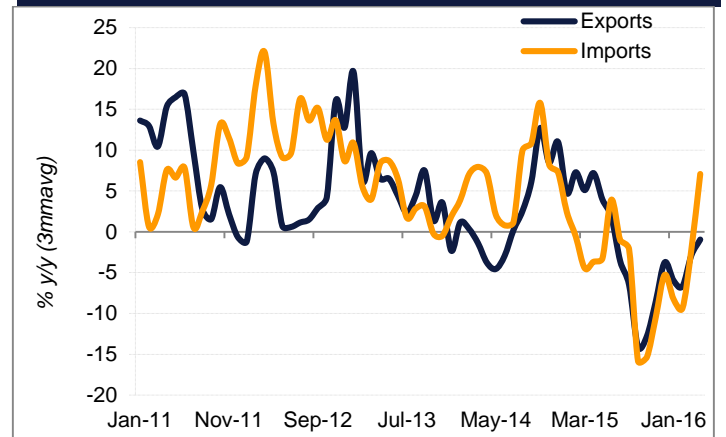
Source: Haver Analytics, Emirates NBD Research

Morocco



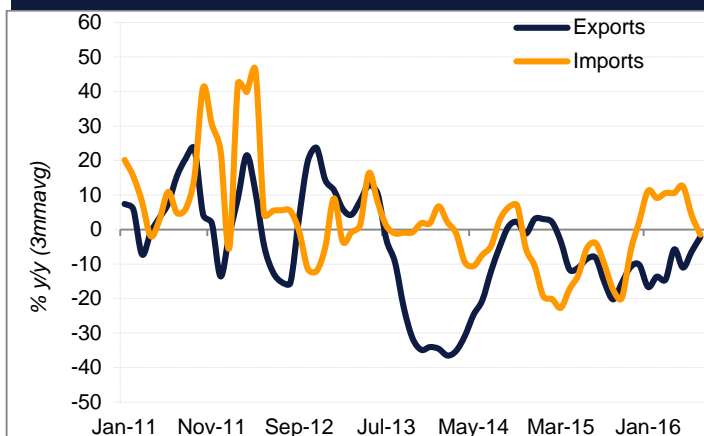
Source: Haver Analytics, Emirates NBD Research

Tunisia



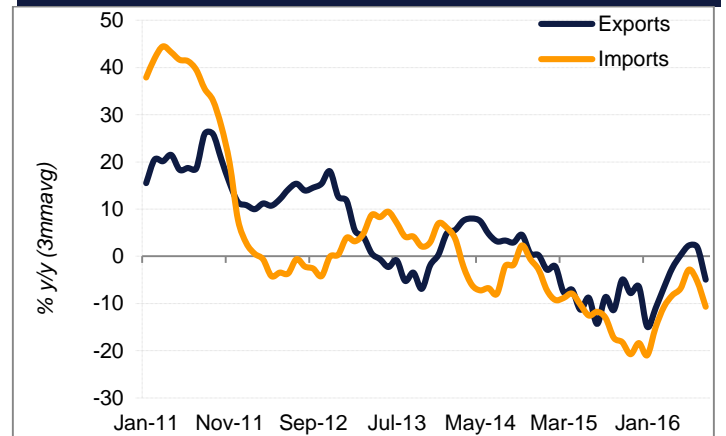
Source: Bloomberg, Emirates NBD Research

Lebanon



Source: Haver Analytics, Emirates NBD Research

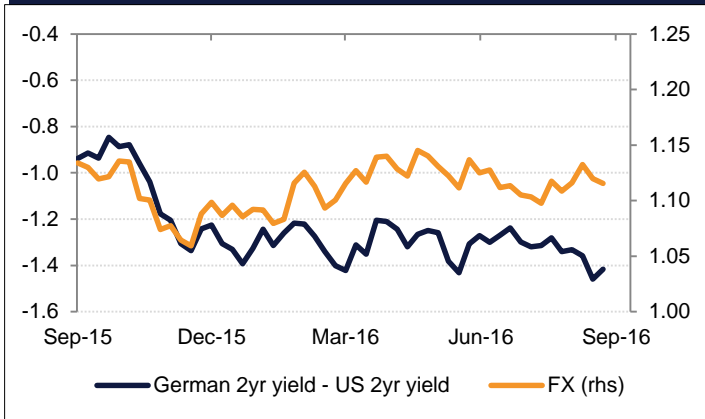
Turkey



Source: Haver Analytics, Emirates NBD Research

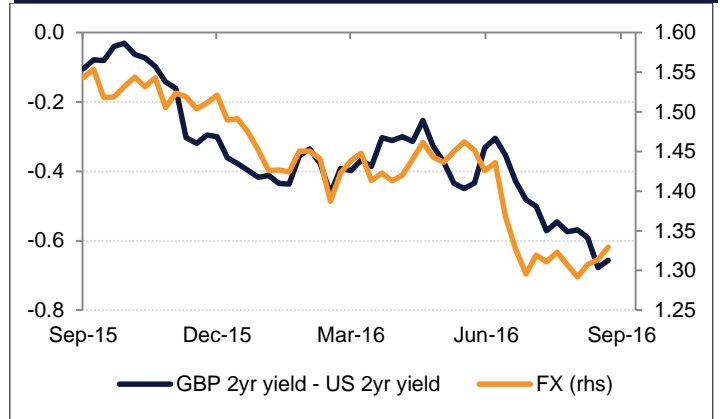
FX-Major Currency Pairs & Interest Rates

Interest Rate Differentials-EUR



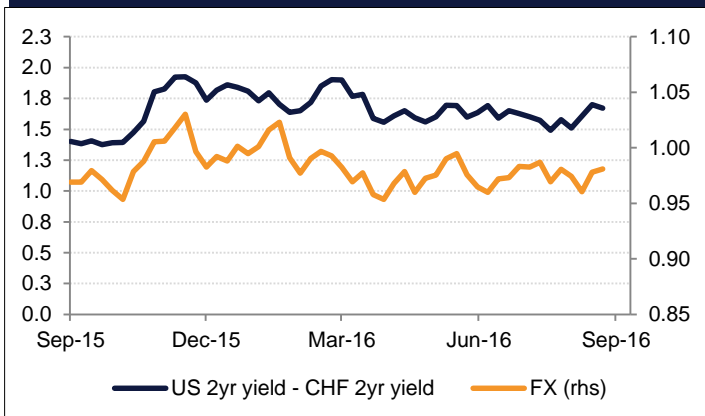
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



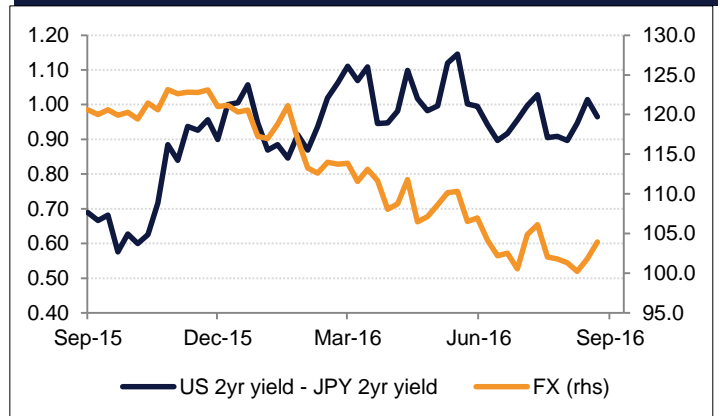
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



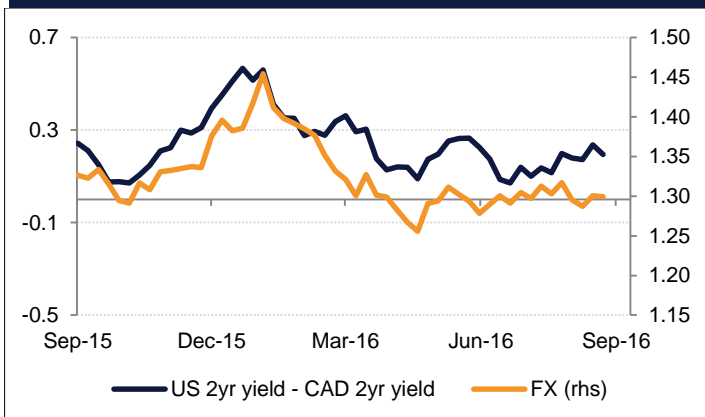
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



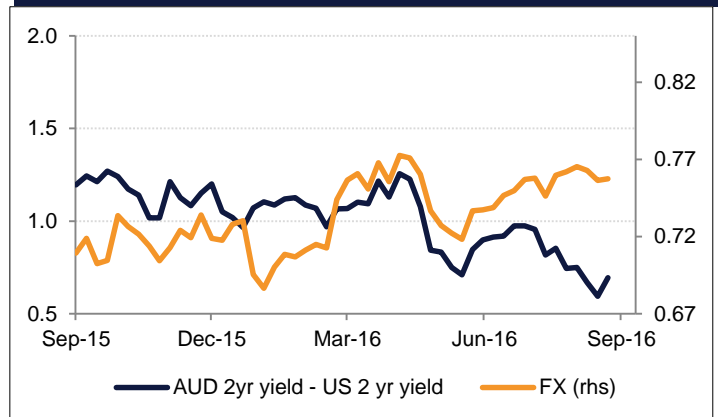
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

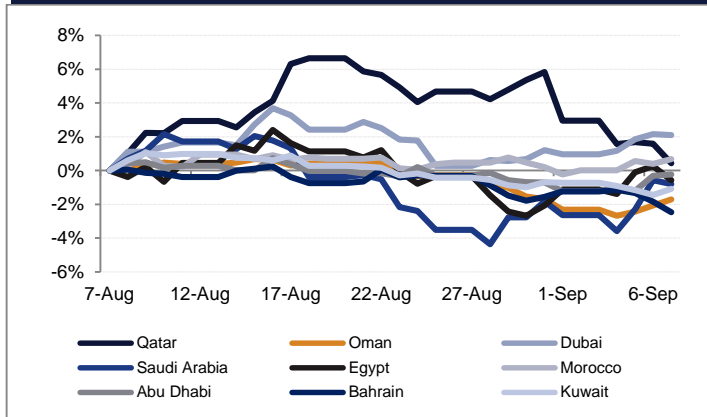
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

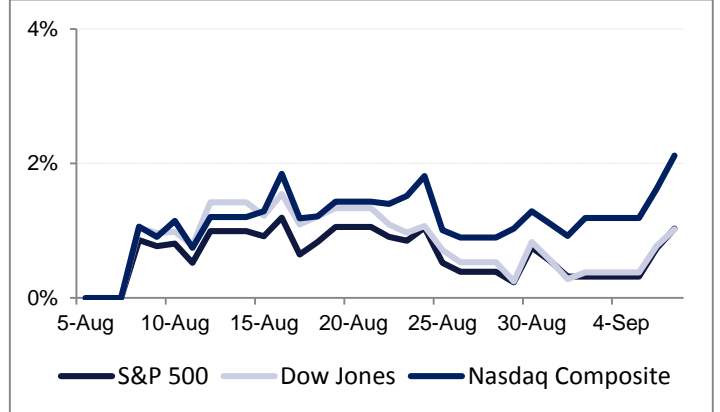
Major Equity Markets

MENA Equity Markets



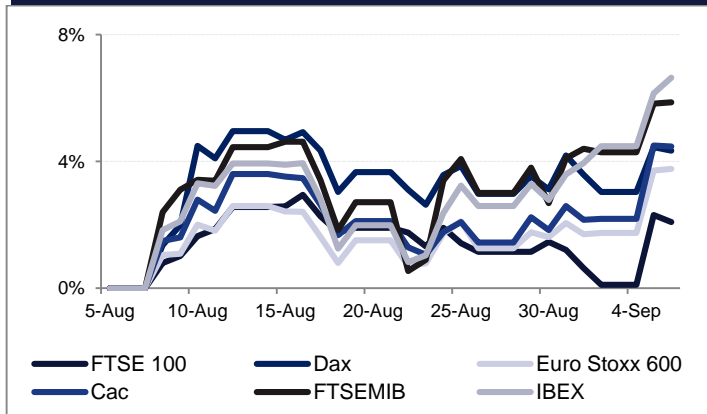
Source: Bloomberg, Emirates NBD Research

US Equity Markets



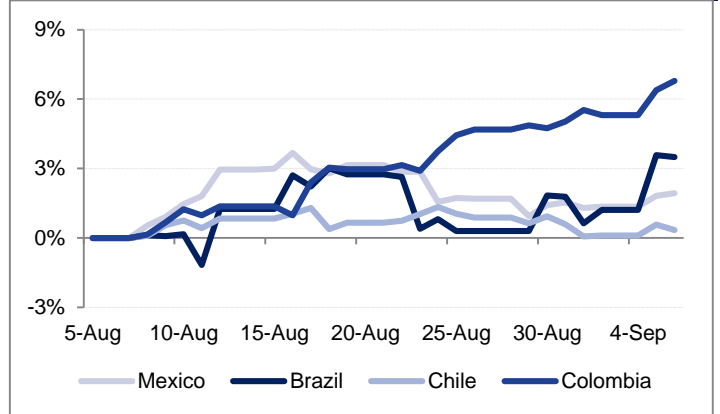
Source: Bloomberg, Emirates NBD Research

European Equity Markets



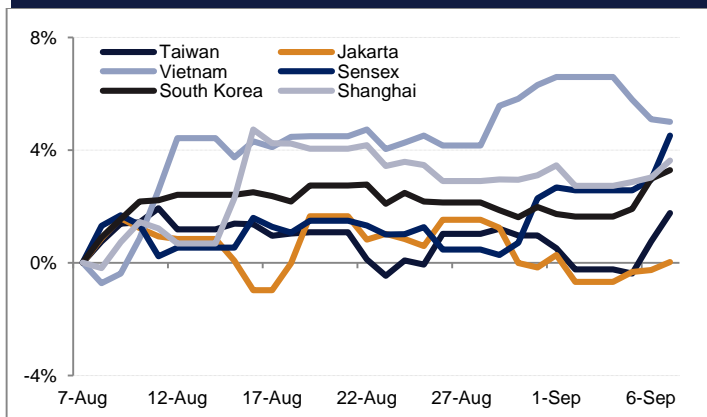
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



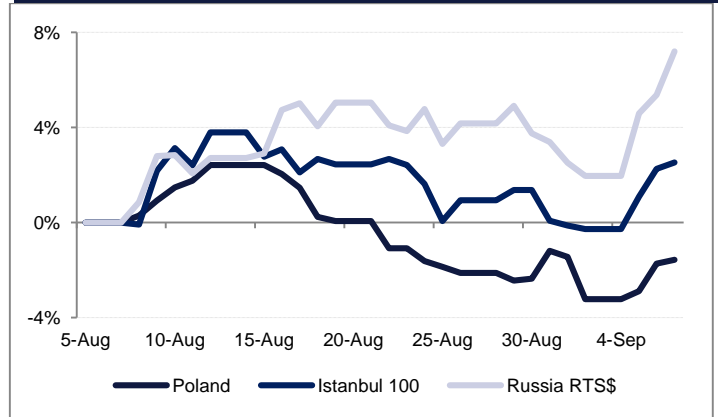
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

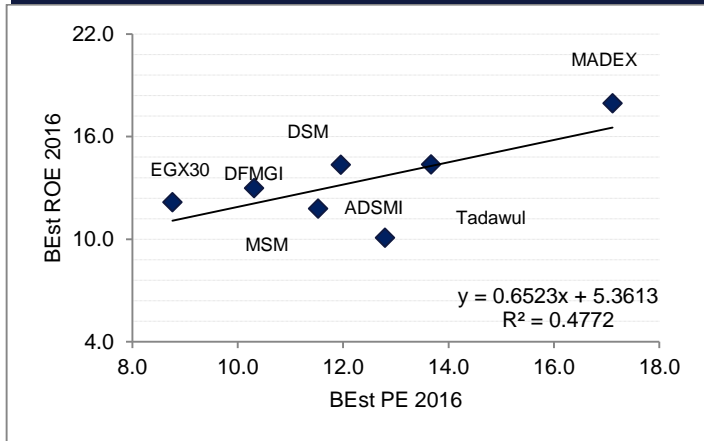
Emerging Europe Equity Markets



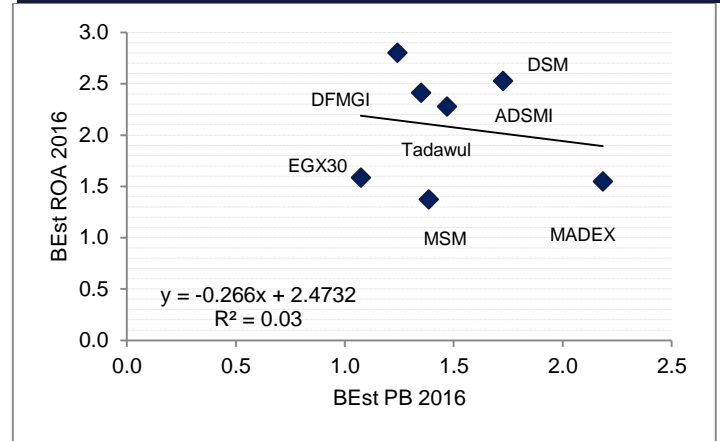
Source: Bloomberg, Emirates NBD Research

Major Equity Markets

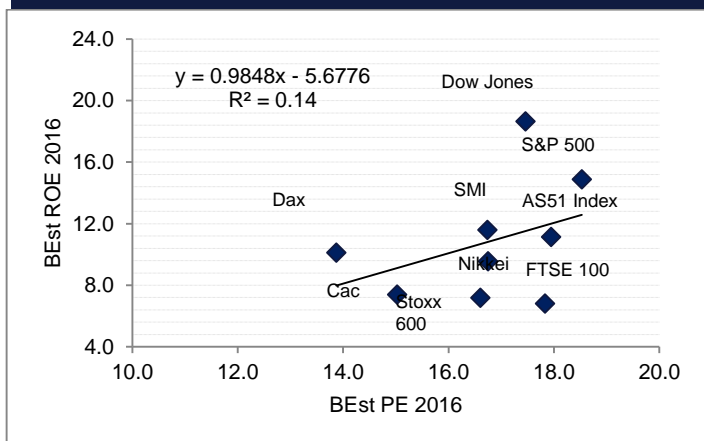
MENA Equity Indices PE/ROE 2016E



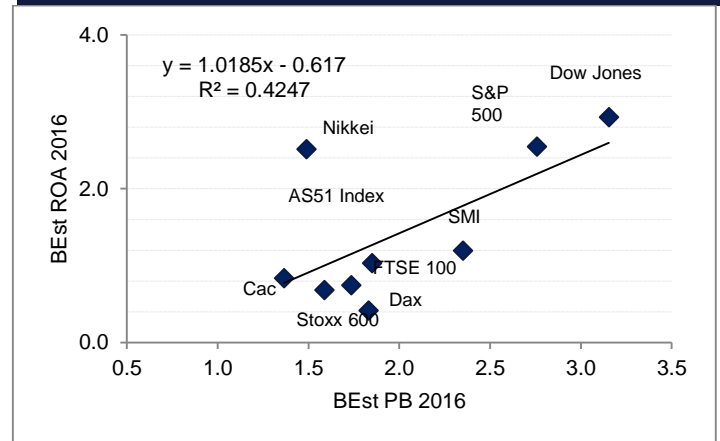
MENA Equity Indices PB/ROA 2016E



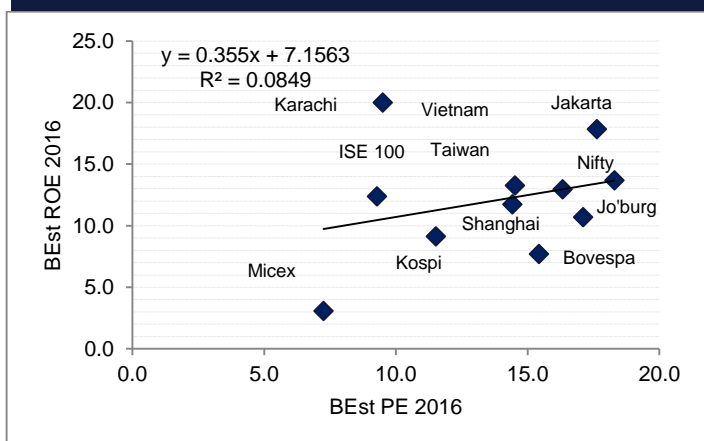
D. Market Equity Indices PE/ROE 2016E



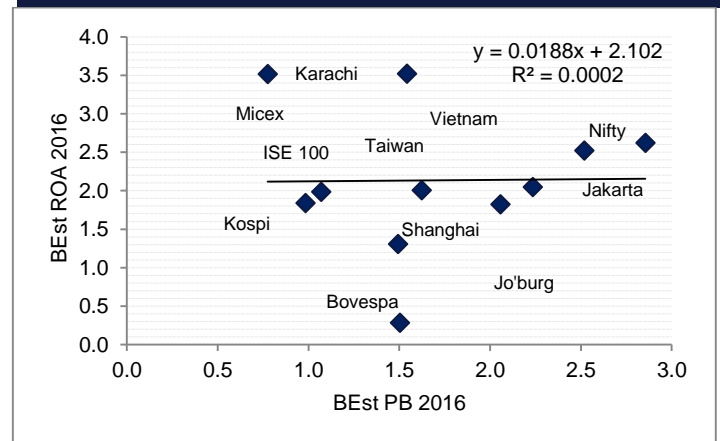
D. Market Equity Indices PB/ROA 2016E



E. Market Equity Indices PE/ROE 2016E

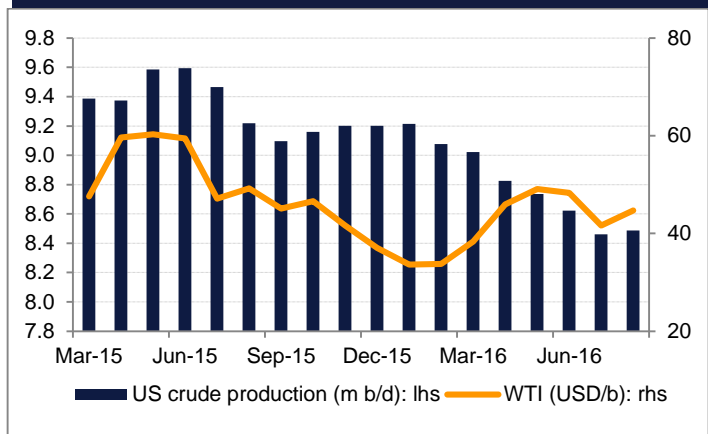


E. Market Equity Indices PB/ROA 2016E



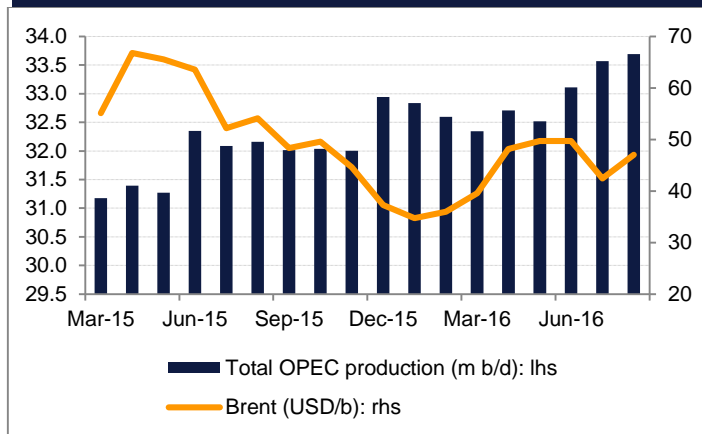
Major Commodities in Pictures

US oil production and price



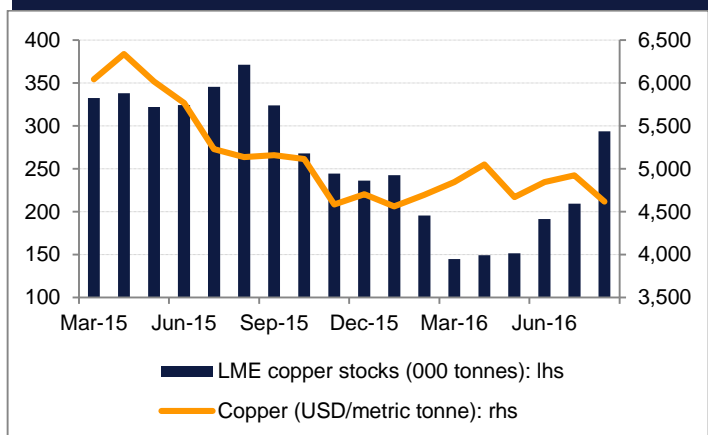
Source: Bloomberg, Emirates NBD Research

International oil production and price



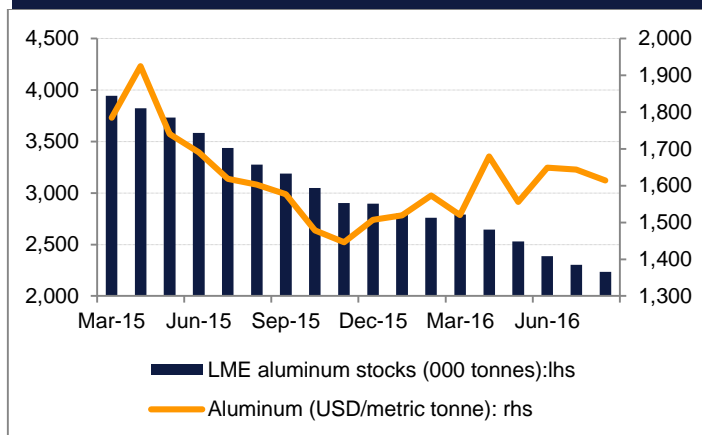
Source: Bloomberg, Emirates NBD Research

Copper stocks and price



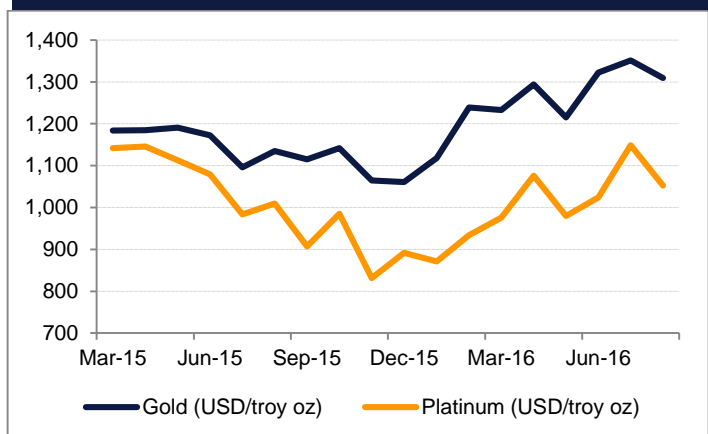
Source: Bloomberg, Emirates NBD Research

Aluminum (USD/metric tonne)



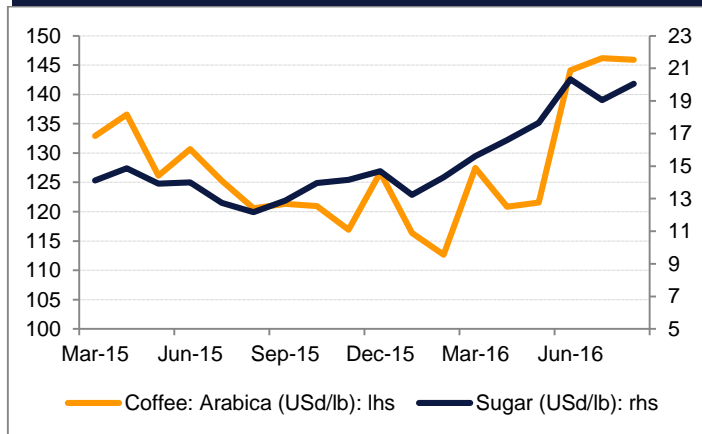
Source: Bloomberg, Emirates NBD Research

Precious metals prices



Source: Bloomberg, Emirates NBD Research

Agriculture prices



Source: Bloomberg, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2013	2014	2015	2016f	2017f
Nominal GDP \$bn	388.9	402.2	370.5	373.3	412.7
Real GDP %	4.6	3.1	3.8	3.0	3.4
Current A/C % GDP	18.4	13.6	0.7	-2.5	0.5
Budget Balance % GDP	10.4	5.0	-3.8	-5.3	-1.4
CPI %	1.1	2.3	4.1	2.5	3.5
Saudi Arabia					
Nominal GDP \$bn	744.3	753.8	653.2	648.5	722.4
Real GDP %	2.7	3.6	3.4	1.9	2.6
Current A/C % GDP	18.0	10.0	-3.9	-6.7	-3.3
Budget Balance % GDP	6.5	-2.3	-15.0	-13.8	-7.8
CPI %	3.5	2.7	2.2	2.5	2.8
Qatar					
Nominal GDP \$bn	201.9	210.1	166.5	166.9	195.5
Real GDP %	4.6	4.2	3.7	4.2	5.1
Current A/C % GDP	31.0	25.1	8.1	-1.1	0.0
Budget Balance % GDP	15.6	7.4	-4.8	-7.1	-6.9
CPI %	3.1	3.3	1.8	2.5	3.0
Kuwait					
Nominal GDP \$bn	175.8	167.3	122.0	116.3	133.4
Real GDP %	0.6	0.1	0.5	2.0	2.8
Current A/C % GDP	40.5	31.8	11.8	3.1	12.4
Budget Balance % GDP	25.9	7.4	-15.0	-13.6	-6.9
CPI %	2.7	2.9	3.3	3.5	3.5
Oman					
Nominal GDP \$bn	78.1	81.7	70.2	77.8	87.4
Real GDP %	4.6	2.5	3.6	3.3	3.1
Current A/C % GDP	7.0	5.0	-15.4	-15.9	-6.7
Budget Balance % GDP	-0.3	-3.4	-17.1	-12.2	-7.9
CPI %	2.1	1.0	0.1	1.0	1.5
Bahrain					
Nominal GDP \$bn	32.5	33.4	31.1	31.9	34.5
Real GDP %	5.4	4.4	2.9	2.6	3.5
Current A/C % GDP	7.9	3.4	-2.8	-5.0	-2.7
Budget Balance % GDP	-3.4	-3.6	-13.0	-16.0	-12.7
CPI %	3.3	2.7	1.9	3.5	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP \$bn	483.5	491.3	433.3	430.0	477.3
Real GDP %	3.3	3.2	3.3	2.6	3.2
Current A/C % GDP	21.4	14.6	-0.5	-4.6	-0.8
Budget Balance % GDP	10.1	1.6	-10.9	-10.7	-6.1
CPI %	2.7	2.6	2.6	2.5	3.0

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2013	2014	2015	2016f	2017f
Nominal GDP \$bn	281.9	301.4	330.7	338.2	349.1
Real GDP %	2.1	2.2	4.2	3.3	3.9
Current A/C % GDP	-2.4	-1.0	-3.9	-6.0	-5.0
Budget Balance % GDP	-13.67	-12.98	-12.53	-14.03	-10.35
CPI %	9.5	10.1	10.4	13.4	14.0
Jordan	262.3	268.1	286.4	312.1	333.5
Nominal GDP \$bn	29.6	31.5	33.1	34.6	37.0
Real GDP %	2.8	3.1	2.4	2.6	3.0
Current A/C % GDP	-11.9	-8.3	-10.2	-8.8	-7.8
Budget Balance % GDP	-6.3	-2.6	-3.9	-3.6	-3.2
CPI %	5.5	2.8	-0.9	2.0	4.0
Lebanon					
Nominal GDP \$bn	47.2	49.6	54.3	59.7	66.5
Real GDP %	3.0	2.0	1.6	2.4	2.6
Current A/C % GDP	-25.3	-23.5	-14.1	-13.9	-13.6
Budget Balance % GDP	-8.9	-6.2	-7.4	-7.1	-7.2
CPI %	4.2	-8.0	-3.8	2.0	3.0
Tunisia					
Nominal GDP \$bn	46.2	46.7	41.8	40.8	42.2
Real GDP %	3.0	2.9	0.5	1.3	2.5
Current A/C % GDP	-8.4	-9.1	-9.3	-8.4	-7.5
Budget Balance % GDP	-6.9	-5.0	-5.0	-5.5	-4.6
CPI %	6.1	5.5	4.9	3.5	5.0
Morocco	3.5	5.6	6.1	6.3	5.8
Nominal GDP \$bn	106.7	109.7	100.5	118.9	128.0
Real GDP %	4.5	2.6	4.5	1.7	4.7
Current A/C % GDP	-7.4	-5.7	-1.9	-2.2	-1.4
Budget Balance % GDP	-5.6	-5.2	-4.7	-4.1	-3.4
CPI %	1.8	0.4	1.6	3.0	3.0
Oil Importers (GDP weighted avg)	174.3	177.6	189.6	208.0	219.9
Nominal GDP \$bn	281.9	201.3	223.5	227.8	234.1
Real GDP %	2.1	2.38	3.62	2.71	3.79
Current A/C % GDP	-6.6	-5.1	-5.3	-6.4	-5.5
Budget Balance % GDP	-10.6	-9.5	-9.6	-10.1	-7.8
CPI %	6.9	5.6	6.4	8.8	9.4

Source: Haver Analytics, National sources, Emirates NBD Research

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

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2013	2014	2015	2016f	2017f
Nominal GDP \$bn	209.7	213.5	184.4	171.9	183.9
Real GDP %	2.8	3.8	3.9	3.3	2.1
Current A/C % GDP	0.5	-4.4	-17.2	-17.5	-10.6
Budget Balance % GDP	-0.4	-7.3	-14.4	-13.2	-9.3
CPI %	4.1	3.9	4.4	4.0	5.0
Libya					
Nominal GDP \$bn	65.8	41.3	38.2	40.7	45.9
Real GDP %	-52.1	-24.0	-12.1	9.2	10.2
Current A/C % GDP	24.6	-12.2	-8.5	-10.9	-13.1
Budget Balance % GDP	-7.8	-48.1	-21.4	-18.4	-16.4
CPI %	2.6	2.4	9.5	9.5	10.5
Iran					
Nominal GDP \$bn	510.7	425.8	497.9	415.4	419.3
Real GDP %	-1.9	4.3	4.1	1.5	4.6
Current A/C % GDP	5.2	3.7	3.6	4.9	5.5
Budget Balance % GDP	0.3	-0.5	-0.7	-0.7	-0.7
CPI %	28.7	37.4	15.9	9.0	11.0
Iraq					
Nominal GDP \$bn	205.2	225.4	294.3	327.8	363.1
Real GDP %	5.6	-3.9	3.2	8.0	6.4
Current A/C % GDP	11.8	-1.3	-7.7	-5.7	-3.6
Budget Balance % GDP	-6.9	-6.0	-14.4	-13.6	-9.3
CPI %	1.9	3.0	1.8	3.0	4.5
Oil Exporters (GDP weighted avg)					
Nominal GDP \$bn	299.7	353.8	316.0	327.7	374.2
Real GDP %	-2.8	1.1	3.1	4.4	5.0
Current A/C % GDP	7.0	0.1	-4.6	-3.4	-1.1
Budget Balance % GDP	-4.6	-7.1	-9.9	-9.1	-6.5
CPI %	19.1	9.7	5.8	6.9	7.8

Key Economic Forecasts - Global

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

Source: Bloomberg, Emirates NBD Research

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

FX Forecasts

FX Forecasts - Major						Forwards		
	Spot 07.09	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.1251	1.0900	1.0700	1.0500	1.0200	1.1293	1.1341	1.1444
USD/JPY	101.46	106.00	108.00	110.00	112.00	101.07	100.62	99.69
USD/CHF	0.9688	1.0000	1.0300	1.0500	1.1000	0.9640	0.9586	0.9478
GBP/USD	1.3411	1.2800	1.2500	1.3000	1.3500	1.3434	1.3461	1.3518
AUD/USD	0.7670	0.7300	0.7000	0.6800	0.6500	0.7653	0.7637	0.7608
USD/CAD	1.2847	1.3200	1.3400	1.3200	1.3000	1.2841	1.2835	1.2823
EUR/GBP	0.8390	0.8516	0.8560	0.8077	0.7556	0.8407	0.8426	0.8466
EUR/JPY	114.16	115.54	115.56	115.50	114.24	114.16	114.16	114.16
EUR/CHF	1.0901	1.0900	1.1021	1.1025	1.1220	1.0888	1.0873	1.0847
NZD/USD	0.7430	0.7000	0.6700	0.6500	0.6200	0.7404	0.7380	0.7338
FX Forecasts - Emerging						Forwards		
	Spot 07.09	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7503	3.7500	3.7500	3.7500	3.7500	3.7546	3.7631	3.7891
USD/AED*	3.6729	3.6700	3.6700	3.6700	3.6700	3.6746	3.6759	3.6830
USD/KWD	0.3019	0.2900	0.2900	0.2900	0.3000	0.3080	0.3158	-
USD/OMR*	0.3850	0.3800	0.3800	0.3800	0.3800	0.3860	0.3875	0.3933
USD/BHD*	0.3770	0.3760	0.3760	0.3760	0.3760	0.3775	0.3781	0.3804
USD/QAR*	3.6414	3.6400	3.6400	3.6400	3.6400	3.6478	3.6553	3.6688
USD/EGP	8.8811	9.0000	10.00	11.00	11.50	10.7250	11.6250	12.5750
USD/INR	66.525	67.000	66.000	65.000	65.000	67.1200	68.0000	69.8800
USD/CNY	6.5753	6.6000	6.7000	6.8000	6.9000	6.7135	6.7535	6.8300

Data as of 7 September 2016

Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	0.98	1.05	1.35	1.60	1.00	1.02	1.07
10y	1.39	1.85	2.15	2.40	1.40	1.42	1.47
2s10s (bp)	41	80	80	80	40	40	40
US Treasurys Forecasts							
2y	0.73	0.24	0.26	0.28			
10y	1.53	1.54	1.67	2.34			
2s10s (bp)	81	129	142	206			
3M Libor							
3m	0.83344	1.10	1.25	1.50			
3M Eibor							
3m	1.20657	1.48	1.70	2.00			
Policy Rate Forecasts							
	Current%	3M	6M	12M			
FED	0.25-0.50	0.50	0.75	1.00			
ECB	0.00	0.00	0.00	0.00			
BoE	0.50	0.50	0.50	0.75			
BoJ	-0.10	-0.10	-0.10	-0.10			
SNB	-0.75	-0.75	-1.00	-1.00			
RBA	1.75	1.75	1.50	1.50			
RBI (repo)	6.50	6.25	6.25	6.00			
SAMA (r repo)	0.50	0.75	1.00	1.25			
UAE (1W repo)	1.00	1.25	1.50	1.75			
CBK (dis. rate)	2.25	2.50	2.75	3.00			
QCB (o/n depo)	0.75	1.00	1.25	1.50			
CBB (1W depo)	0.75	1.00	1.25	1.50			
CBO (o/n repo)	1.00	1.25	1.50	2.00			

Data as of 7 September 2016

Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Current	2015q4	2016q1	q2	q3	q4	2016 avg
Energy							
Crude oil: WTI (USD/b)	44.92	42.18	33.45	45.59	43.00	48.00	42.51
Crude oil: Brent (USD/b)	47.35	44.71	35.08	46.97	47.00	50.00	44.76
Crude oil: OPEC Reference	43.57	39.72	29.96	42.30	45.59	48.50	41.59
Precious metals							
Gold (USD/t oz)	1,351.41	1,103.76	1,181.10	1,258.26	1,320.00	1,290.00	1,262.34
Platinum (USD/t oz)	1,102.61	908.62	915.61	1,004.40	1,050.00	950.00	980.00
Base metals							
Aluminum (USD/metric tonne)	1,589.00	1,506.95	1,514.73	1,582.57	1,600	1,650	1,587
Copper (USD/metric tonne)	4,620.00	4,876.94	4,666.19	4,728.35	5,000	5,250	4,911

Prices as of 7 September 2016. Note: prices are quarterly average unless indicated otherwise.

Source: Bloomberg, Emirates NBD Research

Global Equities Market Watch

Index	Last Close	ADV Traded 30d USD mn	Mtd % chg	Ytd % chg	%membera bove 200d MA	BEst PE	BEst PB	BEst Dvd Yld
Dow Jones Industrial Average Index	18,538	5,359	0.7	6.4	87	17.5	3.2	2.6
S&P 500 Index	2,186	29,531	0.7	7.0	81	18.6	2.8	2.1
Nasdaq Composite Index	5,276	16,422	1.2	5.4	65	22.6	3.5	1.2
FTSE100 Index	6,826	5,579	0.7	9.4	77	17.6	1.8	4.0
DAX Index	10,687	2,773	0.9	-0.5	72	13.9	1.6	3.1
CAC 40 Index	4,530	2,672	2.1	-2.3	70	15.0	1.4	3.7
Swiss Market Index	8,304	2,069	1.2	-5.8	65	18.0	2.4	3.5
Nikkei Index	17,082	12,346	0.7	-10.6	45	16.9	1.5	1.9
S&P/ASX 200 Index	5,414	3,315	-0.2	2.4	73	16.9	1.9	4.4
Stoxx Europe 600 Index	349	21,880	1.7	-4.5	72	16.5	1.7	3.6
Dubai Financial Market General Index	3,544	81	1.1	12.5	69	11.6	1.2	4.2
Abu Dhabi Sec Market General Index	4,515	38	0.7	4.5	66	12.0	1.5	5.1
Tadawul All Share Index	6,190	792	1.8	-10.4	25	13.0	1.4	3.7
Istanbul SE National 100 Index	77,995	1,033	2.7	8.7	58	9.5	1.1	3.2
Egyptian Exchange Index	8,202	55	0.5	17.1	48	10.3	1.4	2.6
Kuwait Stock Exchange Index	5,400	20	-0.4	-3.8	39	-	-	-
Bahrain Bourse All Share Index	1,128	2	-1.2	-7.2	-	-	-	-
Muscat Securities Index	5,769	6	0.6	6.7	77	8.8	1.1	6.1
Qatar Exchange Index	10,713	68	-2.5	2.7	90	13.5	1.7	3.8
MADEX Free Float Index	8,152	5	0.9	12.4	77	17.1	2.2	4.1
Hong Kong Hang Seng Index	23,788	3,167	3.5	8.5	88	13.1	1.2	3.4
Shanghai Composite Index	3,091	28,423	0.5	-12.4	60	14.5	1.5	2.0
Korea Stock Exchange Index	2,067	3,803	1.5	5.3	50	11.7	1.0	1.7
BSE Sensex	28,978	98	2.0	11.1	83	18.2	2.9	1.6
Nifty	8,943	1,387	1.8	12.6	82	18.6	2.9	1.4
Karachi Stock Exchange Index	39,689	75	0.3	21.7	82	9.6	1.6	5.5
Taiwan SE Weighted Index	9,182	2,201	2.1	11.0	68	14.8	1.7	3.8
Bovespa Brasil Sao Paulo SE Index	60,129	1,665	3.8	38.7	91	15.6	1.5	2.7
Micex Index	2,040	383	3.4	15.8	84	7.3	0.8	4.3
FTSE/JSE Africa All Share Index	53,680	1,642	1.8	5.9	71	17.2	2.0	2.8
Vietnam Ho Chi Minh Stock Index	664	98	-1.9	14.3	61	16.7	2.2	2.5
Jakarta SE Composite Index	5,372	467	-0.2	17.1	69	17.7	2.5	1.8
FTSE Bursa Malaysia KLCI Index	1,690	208	0.7	-0.1	73	16.9	1.7	3.1
Mexican Stock Exchange	47,627	365	0.2	10.8	80	21.2	2.6	1.8

Prices as of 6 September 2016

Source: Bloomberg, Emirates NBD Research

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