بنك الإمارات دبي الوطني
Emirates NBD

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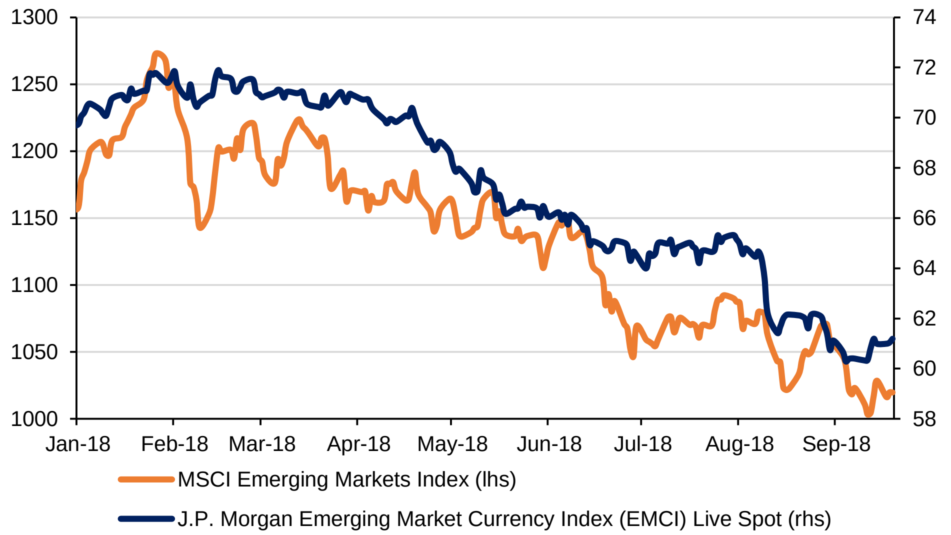
Monthly Insights

The passage of summer has seen no let up in the pressure on emerging markets with monetary policy normalization in the US and trade war rhetoric exposing fragilities in many parts of the world. In this context the GCC is holding up somewhat better and we are becoming slightly more constructive about the near term outlook.

- **Global macro:** Since our last edition the U.S. economy has been very strong, while the rest of the world appears to be facing a greater array of challenges and risks. From trade tariffs and protectionism, to monetary policy normalization, these are casting a cloud over the prospects for 2019 as well as exposing EM vulnerabilities.
- **GCC macro:** We are slightly more constructive on the GCC as we head into the final quarter of the year, largely on the back of increased oil production since the June OPEC meeting.
- **MENA macro:** Tightening global monetary conditions and increasing EM aversion will lead to higher debt servicing costs for MENA oil importers given persistent high debt loads and fiscal deficits.
- **EM Focus:** India
- **Interest rates:** The UST yield curve is being pushed higher as a result of a) higher than expected budget deficit in the US; b) rising trade war fears; c) QE unwinding, and d) the Fed's commitment to continue raising rates.
- **Credit:** Despite rising benchmark yields and the recent pick up in new issues, GCC bonds held up well on the back of credit spread tightening.
- **Currencies:** The dollar has fallen from its 2018 highs against the other major currencies despite the prospect of more monetary policy tightening from the Fed.
- **Equities:** Since the start of Q3 2018, the weakness in global equities along with performance differential has intensified as multiple factors plaguing investor sentiment emerged.
- **Commodities:** We outline our view for oil prices in 2019. The market will have to adjust to supply risks as output from Iran declines sharply while demand is at risk from the escalating trade war between the US and China.

Emerging markets in the spotlight



Source: World Bank, Emirates NBD Research.

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Content

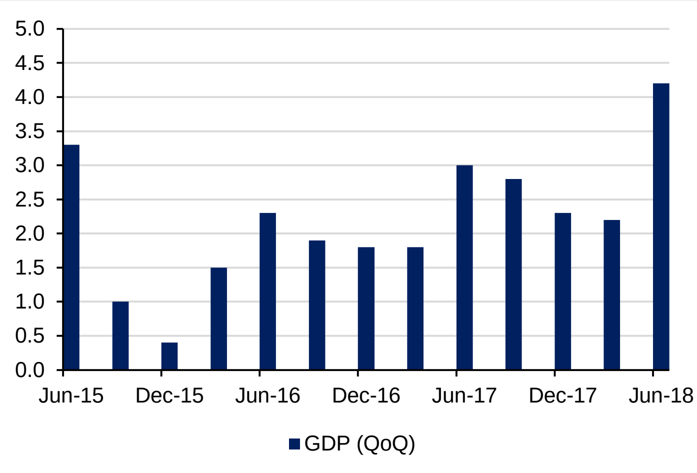
Global Macro

Since our last edition the U.S. economy has been very strong although there are starting to be some signs of slight loss of momentum and looking ahead these are expected to build. Meanwhile the rest of the world appears to be facing a greater array of challenges and risks. From trade tariffs and protectionism, to monetary policy normalization, these are casting a cloud over the prospects for 2019 as well as exposing EM vulnerabilities.

U.S. economy stays firm over summer

Over the summer U.S. GDP growth was reported at 4.2% in Q2, with monthly data also suggesting that Q3 growth will remain strong. Activity indicators such as the Markit PMI and the ISM indices point to a Q3 growth rate in excess of 3.0%. However, while this represents the continuation of above trend growth, as U.S. disposable income benefits from the impact of big tax cuts at the start of the year as well as a pick-up in wage growth, there are also signs that economic momentum may be beginning to turn. Consumption and investment are slowing gradually as interest rate hikes are feeding through onto borrowing costs, while the temporary surge in net exports in Q2 (related to the prospect of tariffs) is likely to reverse. Manufacturing also appears to be being held back by the stronger dollar. Aside from tariff-related effects, there has been a general slowdown in export volumes, amidst an 8% rise in the dollar's value since April.

U.S. GDP expands 4.2% in Q2 2018



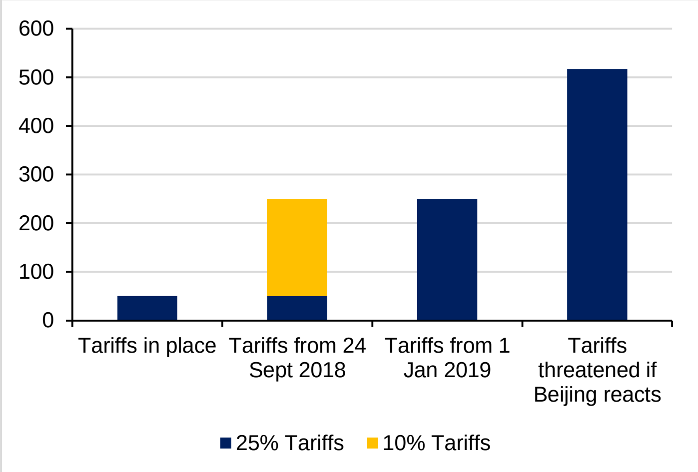
Source: Bloomberg, Emirates NBD Research

Meanwhile the labour market remains very tight, with the unemployment rate standing at 3.9% through July and August, and the broader U6 measure falling to a 17-year low of 7.4%. This tightness is finally starting to exert upward pressure on wages, with annual average hourly earnings rising by 0.4% in August, taking the y/y rate to a nine-year high of 2.9%. While headline and core CPI inflation eased back slightly in August this is likely to be temporary. Escalating tariffs with China and the strength of the dollar provide offsetting risks going forward, but the Fed appears intent on following through on its projected rate hikes, starting with another 25bps hike later this month and with another increase expected in December.

Growth to lose momentum in 2019

Our assumptions for next year are that the economy will slow, causing the Fed to hesitate about implementing the three rate hikes implied in its projections. Currently we have two hikes penciled in our forecasts, but much will depend on the interplay between a variety of forces and not only in the U.S. Trade tensions with China are clearly ratcheting higher, even as there has been a positive result with Mexico and as talks with Canada are ongoing. This week President Trump has said he will put a 10% tariff on USD200bn of Chinese goods to take effect on 24 September, and raise them again to 25% in 2019. After having already imposed 25% tariffs on USD50bn of Chinese goods earlier in the summer, this brings the total amount of Chinese imports subject to tariffs to USD250bn, which is approximately half of China's exports to the U.S. last year. Furthermore if China retaliates Trump will pursue tariffs on another USD267bn of Chinese goods. As a result China may skip the scheduled trade talks with the U.S. scheduled to take place on the 27-28 of this month. With the latest escalation U.S. consumers and Chinese exporters could face the consequences of such measures relatively soon. As such inflation data will bear careful watching in the US as increased tariffs work up through raw materials and possibly through agricultural goods prices. Chinese activity indicators will also become increasingly important as its economy is highly correlated to global trade flows, especially with the China market being an important export destination for many of other EM economies. The latest estimates of how much the Chinese economy could be affected suggest a reduction of 0.5% in real GDP growth.

Trump continues levying tariffs on China



Source: Bloomberg, Emirates NBD Research

Some are hopeful that the trade dispute between the US and China will be resolved by the time of the U.S. mid-term Congressional elections on November 6th, but this remains too optimistic in our view with a greater danger being that protectionism risks extend beyond this date and spread to take in other counterparts in Europe and Japan. In fact the mid-terms could deliver more than just continued trade tensions. Heightened domestic political uncertainty is likely to be an increasingly important theme in 2019 if the opposition Democrats seize control of Congress which appears likely. This could cause legislation to become gridlocked in the U.S. but it could also cause heightened uncertainty about Trump's future and thereby raise the risk of more destabilizing interventions overseas.

EM under pressure

EM pressures have also been another major theme of the last month or so, and to some extent these have already been a partial by-product of U.S. policies, either via the Fed hiking interest rates or through its 'weaponising' of trade and use of targeted sanctions. Idiosyncratic local issues have also been responsible for the intensity of the pressure, in the likes of Turkey and Argentina, but the broader responsibility has been one of a strengthening US dollar hurting currencies with large current account deficits and high external debt. To these were added concerns about protectionism and fears of a global trade war.

EM remains under pressure

Source: Bloomberg, Emirates NBD Research

The danger is that such underperformance in various parts of the emerging world becomes embedded and a source of disruption to the rest of it through sharp swings in capital flows and currencies and potentially movements of people. This would be particularly dangerous if bigger blocs like China and the EU become infected.

Usually at times of financial instability, institutions like the IMF and the U.S. Treasury can be relied upon to work with the governments in question to come up with policy prescriptions that narrow differences and stabilize investor sentiment and markets. This time around, however, the spirit of cooperation is distinctly lacking, and in the absence of this the broader themes of protectionism and U.S. monetary tightening will continue to expose fault lines and political differences that could spill over. Even before 2018 comes to an end, the contours of a more unstable world in 2019 are already coming into view.

Brexit negoitiations enter crucial period

One of the contours that we do know about is Brexit, with the only question being what form it will take. With the UK set to leave the EU at the end of March 2019, the mood around this event has been volatile during the summer, oscillating between fear and hope, but sentiment has most recently swung towards a Brexit deal being struck in the next couple of months. The main sticking point currently is how to maintain a relatively open border between the Republic of Ireland and Northern Ireland once the UK exits the customs union and single market. This is a political imperative but past experience makes us cautious in general and even more so about this issue, given the long history of poor relations and brinkmanship between the two sides.

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GCC Macro

We are slightly more constructive on the GCC as we head into the final quarter of the year, largely on the back of increased oil production since the June OPEC meeting. We have upgraded our 2018 GDP growth forecast for Saudi Arabia, and our estimates for the composition of growth in the UAE this year. The non-oil sectors have underperformed against our expectations at the start of the year, despite increased government spending and downsides risks to the 2019 growth outlook remain significant.

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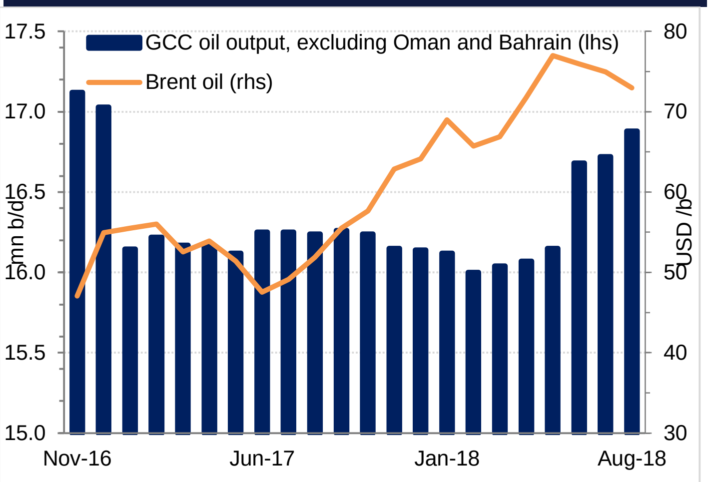
OPEC's decision in June to reduce over-compliance with the 2016 targets - ie increase production – has resulted in a significant rise in oil output from the GCC oil producers. We expect this higher production will be sustained through the rest of the year and have raised our oil sector GDP growth forecasts as a result.

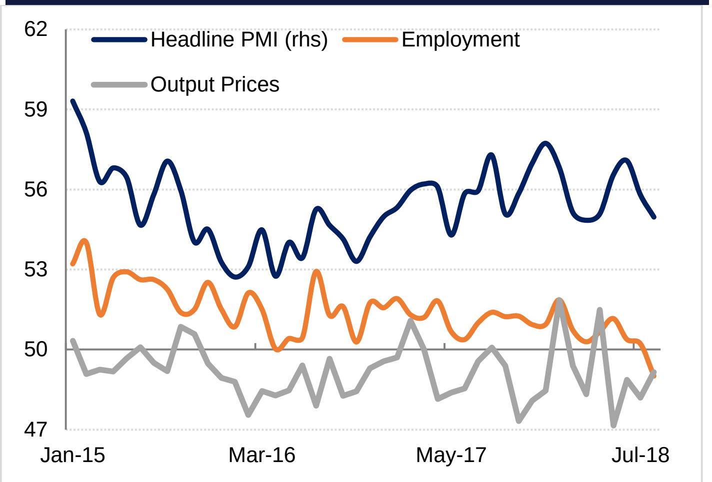
GCC oil production has increased



Source: Bloomberg, Emirates NBD Research

However, non-oil sector growth has not benefited as much as expected from increased government spending on the back of higher oil prices. In Saudi Arabia, total expenditure is up by more than 25% y/y (H1 2018), with defense spending accounting for about one-third of the increase. As spending on defense equipment is largely imported, it has limited impact on the domestic economy. Health & social development and 'general items' also benefitted from higher spending in H1 2018. Importantly, the pace of economic reform has slowed this year, even as social reforms have been implemented. The introduction of fees on expatriates has also led to an outflow of foreigners from the Kingdom, which in turn has had a softening impact on domestic demand. Private sector credit growth has recovered to just 1.1% in July, after contracting for most of 2017 and Q1 2018.

UAE PMI components



Source: IHS Markit, Emirates NBD Research

Looking ahead, we expect the increase in oil production to feed through to the non-oil sectors of the economy, in particular manufacturing and transport & logistics, and we expect the survey data to continue to improve through Q4. Nevertheless, we have downgraded our forecast for non-oil GDP growth in the Kingdom to 1.6% from 2.3% previously. Overall however, the higher oil sector growth is likely to push headline GDP growth to 2% this year (previous forecast 1.5%) from -0.7% in 2017.

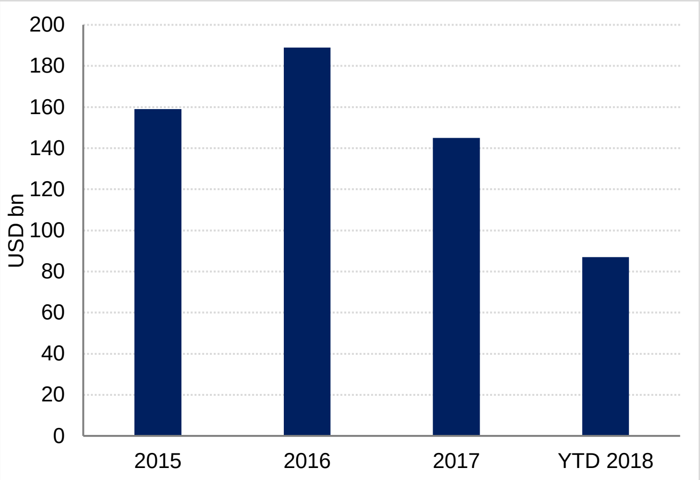
In the UAE, the average PMI in the year to August was 55.8, broadly unchanged from the same period last year and signaling a similar rate of non-oil sector growth. More importantly however, there has been no job growth in the UAE this year, according to the survey data. Although the government has provided more detail on a AED50bn stimulus package announced in early June, 70% of the funds appear to be allocated to the Ministry of Tolerance, the Sports Authority, Media Council and the Space program, which is likely to have a limited multiplier effect. Household consumption, which has declined in recent years, is likely to remain constrained. Firms continue to face margin pressures and are thus reluctant to boost hiring or salaries. Continued weakness in the real estate sector is also weighing heavily on sentiment. As a result, we retain our 2.2% growth forecast for the UAE this year, as the upgrade to oil sector growth has been offset by a downgrade to non-oil sector growth this year.

Risks abound in 2019

Our base-case scenario for 2019 is that a recovery in oil production, combined with stable oil prices will allow for a faster growth in the non-oil sector, particularly in the UAE, where preparations for Expo 2020 will need to be completed. However, there are several risks to this outlook. The first is the potential economic impact of a full-blown trade war between the US and China. If this results in a sharp slowdown in China's (and the rest of the world's) growth, it would have a negative impact on oil demand, oil prices and thus regional government's willingness to spend. For Dubai, a decline in the volume of global trade would have a direct negative impact on its economy, given that it is a major global trade hub.

The second key risk for the region in our view is that of a negative oil price shock, a potential consequence of risk 1 above. Despite the significant progress made over the last two years in restructuring GCC budgets, these remain overly reliant on oil. The lack of progress on real economic reform outside of the budget, also means that there has been little diversification of growth. A sharp decline in oil revenues would again require severe fiscal consolidation, increased debt financing, a further decline in accumulated reserves or some combination of these three options. However, the cushion of reserves is already much smaller than it was in 2015-2016, again raising questions about the sustainability of the currency pegs.

GCC external debt issuance



Source: Bloomberg, Emirates NBD Research

Finally, rising interest rates will continue to weigh on regional growth, as well as increasing the cost of borrowing for sovereigns and corporates which have issued a staggering USD 580bn in external debt (bonds, sukuk, syndicated loans) since 2015. In Saudi Arabia, the recent decision to raise debt financing for the sovereign wealth fund to invest highlights this risk, as PIF's investments are likely to be illiquid, long-term in nature with irregular (if any) dividends, leading to an asset-liability mismatch and refinancing concerns if market conditions deteriorate.

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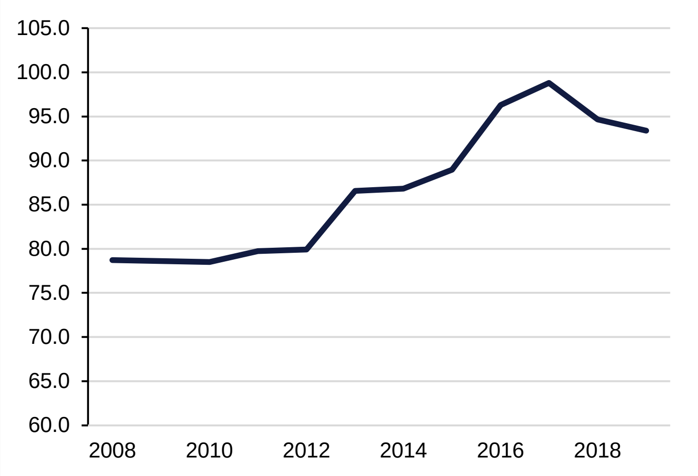
MENA Macro: Global tightening will raise debt-servicing costs

As the decade-long era of cheap money that was ushered in by the collapse of Lehman Brothers and the onset of the global economic crisis in 2008 draws to a close, the oil importers of the Middle East will have to contend with a toxic combination of onerous debt loads and rising interest rates. Combined with higher oil prices compared to the past several years – a boon for the hydrocarbon exporters of the region, but a dangerous burden for net importers – higher debt servicing costs will impede governments' ability to initiate essential investment, potentially weighing on long-term growth.

Government debt, % GDP, weighted regional average

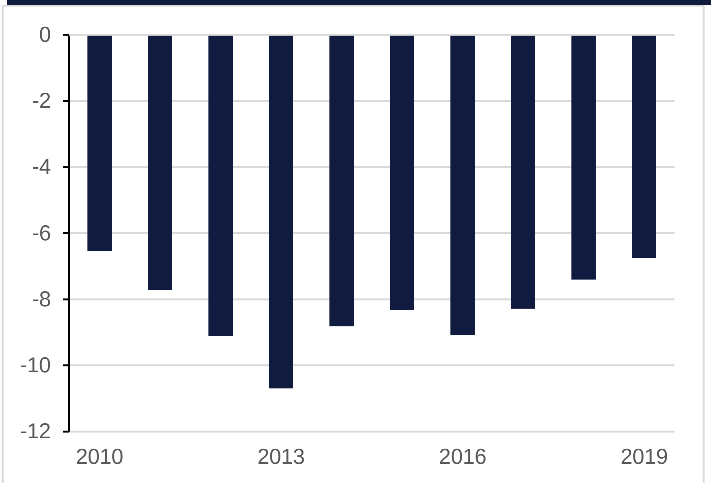


Source: Haver Analytics, Emirates NBD Research

The effect of the global economic crisis on the five oil importers of the MENA region – namely Egypt, Jordan, Lebanon, Morocco and Tunisia – was fairly modest as compared to many countries globally, and indeed to Dubai within the region. As their financial markets were relatively underdeveloped, and shares of foreign assets within them quite meagre, the contagion effects were limited, and while tourist arrivals and remittances from worse-affected developed markets slowed or even declined, weighted average real GDP growth remained buoyant, at 5.0% in 2009, compared to 6.9% in 2008. The far greater event of the past decade for these countries – and for Egypt and Tunisia especially – was the wave of regional protests which began in late 2010 and saw weighted average real GDP growth fall to just 2.1% in 2011.

Nevertheless, the 10-year anniversary of the Lehman Brothers collapse provides an opportune moment to look at the region's debt levels, and how it will cope as the post-Lehman era of extraordinarily loose monetary policy draws to a close. The US is likely at around the mid-point of its hiking cycle already, the UK initiated its first proper hike since the crisis last month (discounting that which followed the post-Brexit vote cut), and the ECB last week confirmed its plans to phase out its asset purchases by year-end. This is at the forefront of a confluence of factors which is already giving rise to increasing EM aversion. The sell-offs seen in Argentina and Turkey over the past several months have brought concerns to the fore, and while both countries have their own idiosyncratic issues, tightening monetary policy in developed markets, higher oil prices, high debt loads and persistent fiscal deficits are difficulties they share with the MENA oil importers.

Fiscal deficit, % GDP, weighted regional average

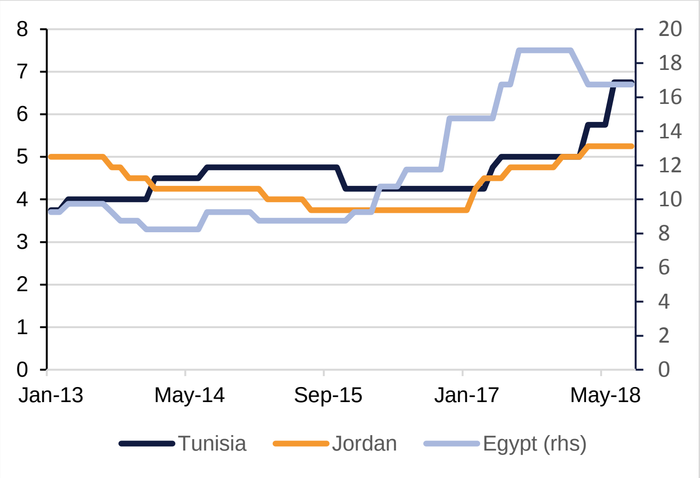


Source: Haver Analytics, Emirates NBD Research

A primary challenge for the MENA oil importers over the coming years will be the rising cost of their debt, the servicing of which already accounts for a sizeable proportion of total government expenditure. The weighted regional average government debt load for the five was 77.3% in 2008, and this was followed by a decade of very easy monetary policy globally which made such levels, while not ideal, fairly sustainable in terms of expenditure. With benchmark interest rates in Europe, Japan and the US close to or even less than zero, EM borrowing costs were also relatively muted despite ongoing risks. This was not only the case for dollar-denominated debt, which has become an increasingly popular option in the Middle East as global hunt for yield kept costs manageable, but local debt also, with central bank benchmark rates in the region having spent much of the past decade at comparatively low levels.

In 2018, we project that the debt load will stand at 93.7%, with individual countries' burdens having risen across the board save in Lebanon, which has fallen from 161.0% in 2008 to 156.2% - although this still makes it one of the most heavily indebted countries in the world. As global monetary conditions tighten, and risk-off sentiment rises, the cost of rolling over this debt will rise, placing a greater burden on government budgets. Maintaining interest rate differentials and containing oil-driven inflation has already led Tunisia and Jordan to begin hiking their benchmark interest rates in the past 18 months, and given the increasing aversion to EM in recent months, we no longer anticipate a third interest rate cut in Egypt this year. Already in Egypt we have seen a failure to resolve the disparity between at what yields investors are prepared to buy Egyptian debt and at what the government is prepared to pay, with the authorities having cancelled the past three weekly auctions for three- and five-year debt.

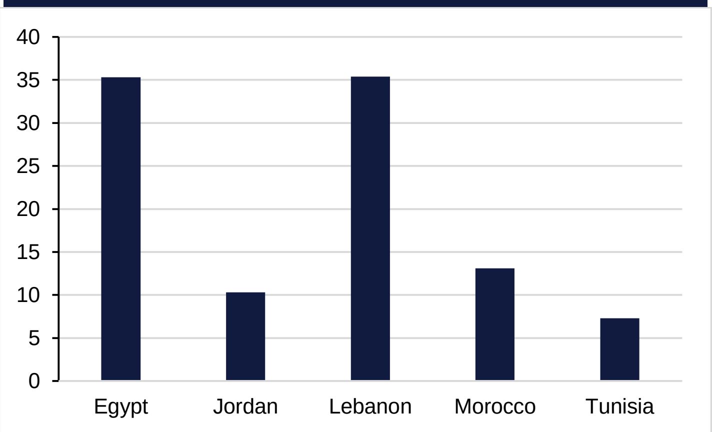
Benchmark rates rising, or cuts on hold



Source: Haver Analytics, Emirates NBD Research

With borrowing costs almost certain to rise, the likelihood is that the five countries will see a greater proportion of their expenditure channelled into the unproductive servicing of debt. Progress has been made on curbing fiscal deficits, which we project has fallen to a weighted average of 6.8% of GDP this year, compared to the recent peak of 10.4% in 2013. However, with the five countries still providing at least some fuel subsidies, elevated energy costs will prevent any rapid fiscal consolidation, and progress on reducing debt levels will be slow. Egypt already sees around a third of total expenditure go on debt-servicing, compared to 17.9% in 2008. Lebanon's debt-servicing burden stands at similar levels, while in Jordan, Morocco and Tunisia it stands at 10.3%, 13.1%, and 7.3% respectively.

Debt servicing, % of expenditure



Source: Haver Analytics, Emirates NBD Research

We are not of the view that these countries stand at the brink of crisis. The trajectory in terms of fiscal deficits is broadly in the right direction, much of their debt is of a concessional nature, and they have significant international support. This is either through the diaspora (eg Lebanon) or the international community given a perception that they are too vulnerable geopolitically to be allowed to fail (eg Jordan). Nevertheless, the rising burden of interest payments could weigh on their ability to make crucial long-term investment in physical and human capital, impeding future growth rates and economic development.

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EM Focus - India

Unlike H1 2018, India has not remained immune to pressures weighing on broad emerging markets. While the economy is evidently on a much stronger footing, strain on some macroeconomic parameters is fuelling investor anxiety.

These factors include resurfacing of twin deficit concerns, stickier momentum in core inflation and sustained rally in oil prices. These combined with contagion fear from other emerging markets and increasing political risk ahead of key elections does lay the ground for volatility across asset classes in India to remain at elevated levels.

Monsoons 2018

India has always been reliant on monsoon rains given their impact on crop levels and inflation. This year the importance of monsoon rains is magnified as a significant shortfall would create rural distress. Such rural distress at a time when they are already feeling the pinch from high fuel prices could force the government to spend more than budgeted to alleviate the pressure. More so given that general elections are only eight months away. Such pain points can also lead to less demand from the rural population which effectively can puncture the recovery in economic growth. For the record, agriculture accounts of 15% of GVA.

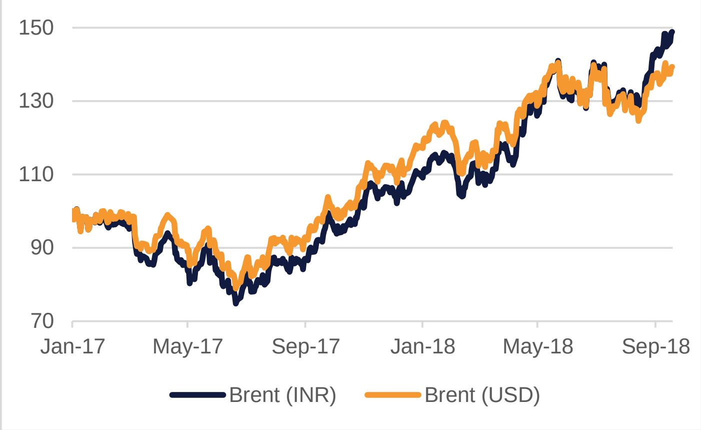
For the first three months of the monsoon season, rainfall has been in deficit at 94% of LPA. Worryingly, though the headline figure hides the wide variation in geographical distribution. On the positive side, data indicates that the total Kharif crop sowing at the end of August was broadly similar to that of last year.

Macroeconomic data

The stellar Q1 FY 2019 GDP print of 8.2% y/y has been overshadowed by worries over current account deficit and fiscal deficit. However, the GDP print did indicate that we are in the middle of a cyclical recovery even after taking into account the impact of low base on the GDP data. Agriculture (5.3% y/y) and industrial growth (10.2% y/y) were the primary drivers behind pick-up in growth.

On the current account deficit (CAD) front, the data showed a marginal improvement. The CAD for Q1 FY 2019 came in at 2.4% of GDP compared to 2.4% of GDP in Q1 FY 2018. However, balance of payments showed a deficit of 1.7% of GDP. The first such deficit since Q3 FY 2017 and widest since Q3 FY 2012. It is also worth looking at the deteriorating trade deficit position while analyzing the CAD. The FY 2019 year to date trade deficit is currently at USD 80.4bn, wider than USD 67bn in the same period last fiscal. With oil prices remaining high and demand for imports increasing due to improving demand, the monthly run rate of trade deficit is likely to remain between USD 15bn-USD 17bn. All this put together is likely to put further pressure on CAD with the recent INR depreciation acting an amplifier.

Oil prices rise sharply (normalized)



Source: Emirates NBD Research, Bloomberg

On the fiscal deficit side, the worry stems from lower than budgeted run-rate of GST collections and fears that the subsidy bill could increase if oil prices increase further. According to data released for the first five months of FY 2019, the monthly GST run rate is c. INR 900bn. By market estimates, this implies that the government needs to collect c.INR 1.1tn for the remaining months of FY 2019 to meet its revenue target. At the moment, it seems unlikely given that rates are still being rationalized lower rather than higher.

RBI – Start of a tightening cycle

The Reserve Bank of India (RBI) has raised interest rates by 25bps at each of its last two meetings. The central bank cited growing risks to inflation and increased confidence in the economic recovery as the reasons behind the move. After the first hike, it was interpreted that it was a preemptive move by the RBI, has not necessarily the start of a tightening cycle. However, the change in inflation expectations owing to high oil prices, sharp depreciation in the INR and pressure on other emerging markets has evidently pointed to the need for the RBI to continue to hike rates further. We expect the RBI to hike interest rate by another 50 bps in FY 2019. It is also possible that the central bank which has been maintaining a neutral stance despite rate hikes change its stance to hawkish.

In this context, it is worth noting that the CPI for August came in at 3.69% compared to 4.17% in July. However, core inflation (including petrol and diesel) remained elevated at 6% y/y (compared to 6.2% in July). Importantly, the monthly momentum in core inflation remained unchanged at 0.5% m/m. With high frequency data pointing to pick up in prices of several components of CPI, we expect inflation to pick-up marginally but still remain within the range of 4-6% for FY 2019.

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Interest Rates

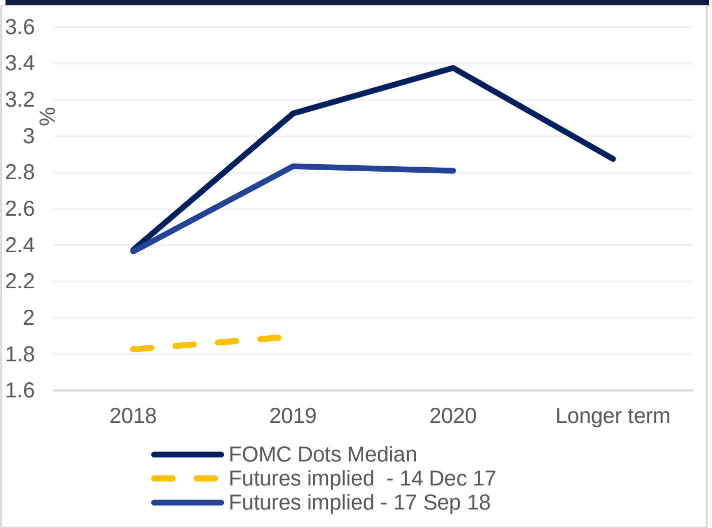
The UST yield curve was pushed higher last month by the combined effect of a) higher than expected budget deficit in the US, b) increasing fears of trade wars, c) QE unwinding and d) the Fed's commitment to continue raising rates.

US Rates

Impact of the disruptive trade talks and geopolitical risks has been minimal on the US economy so far. The broad-based strength of the economic data supports the Federal Reserve's near-certain move to raise interest rates later this month. As per the August employment report, while the unemployment rate was unchanged at 3.9%, annual average hourly earnings growth increased to 2.9%, a nine-year high.

The market is currently pricing four rate hikes between now and the end of the next year with a possible cut in 2020 while the Fed's projection reflects two more rate hikes in 2018, three in 2019 and one in 2020.

FOMC Dot Plot vs Market Expectations



Source: Bloomberg

Barring an exogenous event risk or a material increase in risk to the financial system from the recent sell off in EM assets or any political change in the US, we foresee no reason for the Fed to deviate from the path of its current rate hike projections.

Not surprisingly, the UST yield curve was pushed higher last month as investors positioned for the impact of a) higher than expected budget deficit in the US, b) increasing fears of trade wars, c) QE unwinding and d) the Fed's commitment to continue raising rates.

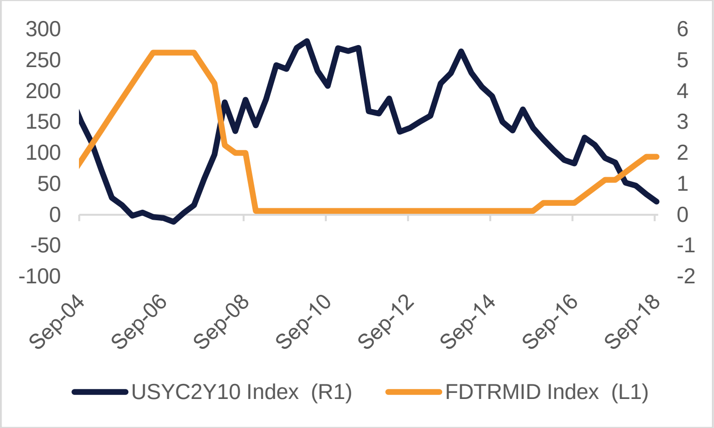
UST yield curve inversion is not to be feared

The spread between 2-year and 10-year US treasury yields is close to a decade low, narrowing to just 22bps in mid-September compared with more than 50bps at the start of the year. We expect the flattening of the UST curve to continue and for it to eventually invert, particularly as the Federal Reserve is set to raise rates again this month.

The last time the curve was inverted was in 2007. While some investors (and also policy makers) have fretted over the recession signals this phenomenon has historically sent, we think there are several other factors, as below, impacting the yield curve this time around. While the UST curve will likely invert soon, the inversion would probably be shallow as the economy is expected to avoid recession.

a) **Real rates are still accommodative.** It's not the shape of the yield curve that affects economic growth as much as the actual level of real rates. Restrictive real rates will constrain growth and vice-versa. The historical average real rate in the US over the last 50 years has been around 1.2%. By comparison, the current real rate of -0.8% is well into the accommodative territory and assuming no material pick up in inflation, the real rates will remain accommodative for at least until the mid of 2019.
b) **Term premium has structurally declined:** Inflation in the US has gradually become less eratic over time. From levels that fluctuated in the range of -15% to +25% in the last century, inflation level now fluctuates within a tight range of between 0% to 5% and mostly within the 2% to 4% band. With a more tamed inflation outlook, the term premium required to hold longer dated treasuries has gradually been reducing, which in turn is causing the 2y-10y spread to reduce.
c) **Demand/supply dynamics:** The USD still remains the reserve currency of the world and its appeal to investors in times of increasing geopolitical uncertainties remains unchallenged. Also since the Asian financial crisis in late nineties, central banks in emerging market economies have increased their holdings of USTs in order to build buffers to protect their currencies in times of need. Consequently the demand for 10yr USTs is high which keeps yields at much lower levels than what the US economic fundamentals would command. In contrast, due to the higher than expected budget deficit, the US government has been issuing higher than average amount of shorter dated notes this year thereby exerting upward pressure on shorter dated treasury yields.

UST 2-10yr spread



Source: Bloomberg

Global Rates

Europe seems to be emerging relatively unscathed from the softness in the first quarter. Latest data suggests that the economy fared a bit better in Q2 than in Q1. Even though ECB remains biased towards leaving interest rates on hold for possibly longer than 'through the summer' of 2019, yields on German Bunds began to increase as QE unwinding picks up pace.

In the UK, market expects Brexit to happen with a deal in place; however, despite solid economic data, no action is expected from the BoE until after the UK leaves the EU. That said, yield on government bonds increased in sympathy with their global peers.

10Yr Government Bond Yields

	Yield %	1M chg	3M chg	12M chg
US	2.99	+13	+7	+77
UK	1.53	+29	+21	+23
Germany	0.45	+15	+5	0
Japan	0.11	+2	+8	+10
Brazil	6.16	+52	+1	+181
Argentina	9.38	-13	+100	+382
Turkey	7.61	-68	+45	+279

Source: Bloomberg

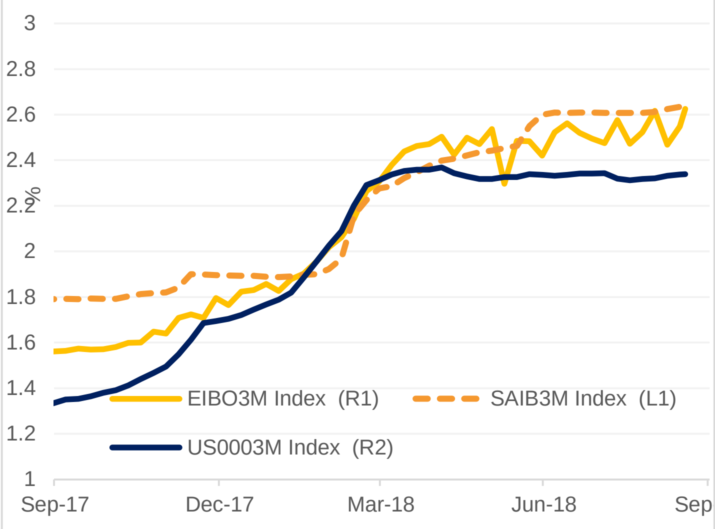
In addition to the fears of the negative impact of ongoing trade wars, emerging market sovereign bonds also suffered from the weakening of EM currencies against the dollar. Also, the rising oil prices have increased current account deficits and pressurized government budgets in several EM economies. Despite some respite in the last one month, overall yield on EM sovereign bonds have increased materially in the last one year.

GCC Local Rates

Interbank rates in Saudi Arabia remained largely unchanged over the summer months. The spread between 3M riyal interbank rate and dollar libor has gradually been rebounding from unusually low levels in March. At 30bps, the spread is still below long term average levels, however, given slower pace of credit growth compared with the deposit growth, liquidity in the KSA banking system is likely to remain high and continue to support SAIBOR-LIBOR spread at lower levels for sometime to come.

Interbank rates in the UAE have also remained generally stable over the last few months.

Local 3m interbank rates



Source: Bloomberg

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Credit Markets

GCC bonds held up well during the summer months despite rising benchmark yields and the recent pick up in new issues.

Global Bonds

The recent turmoil in EM currencies did find its way into the bond universe, however overall impact on credit bonds was relatively muted. US denominated bonds from emerging market issuers actually benefited from tightening credit spreads on the back of limited new supply amid range bound movement in benchmark yields.

US corporate bonds outperformed their peers with total return in the last three months on investment grade bond index being +0.87% and that on high yield bonds crossing 1.5%. By comparision, total return on USD denominated EM bonds was only +0.70% and the European aggregate bond index recorded a loss of -0.22%.

Global Corporate Bond OAS (bps)

	OAS	1M chg	3M chg	12M chg
US IG Corp	108	-3	-8	0
US HY Corp	318	-26	-15	-41
EUR IG Agg	73	-9	+5	+14
USD EM Agg	303	-9	+9	+57
GCC Agg	162	-13	-28	+1

Source: Bloomberg

As is expected in times of rising interest rates, despite the mild recent gains, total year-to-date return on all but the US high yield bonds, has been negative. EM bonds were the most affected, recording YTD loss of -3.31%.

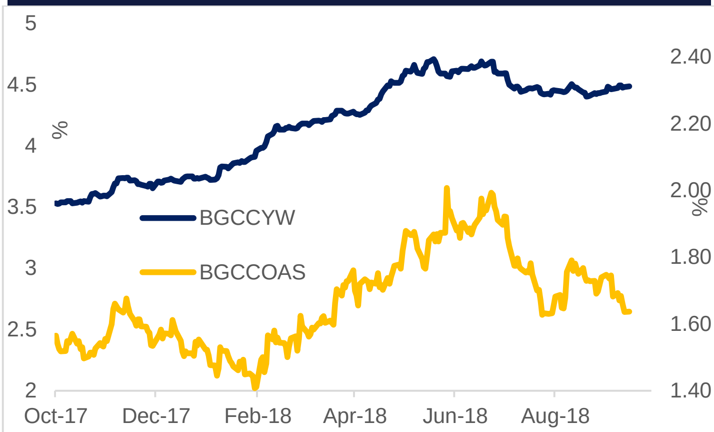
GCC Bonds – Secondary Market

Amid the volatile landscape for EM assets, GCC bonds generally held ground well. Though, EM volatility continues to weigh on GCC bonds, recent developments have mostly been positive including supportive oil prices, improving economic growth, lower budget deficits etc. That said, the average yield on Bloomberg GCC index has risen 6bps to 4.48% since the beginning of August, though still well below the 2018 high of 4.69% reached in mid May.

Option adjusted credit spread on the GCC bond index at 174bps also is well below the 194bps reached in June this year although it has increased by 5bps over the last one month.

The high probability of being included in the JP Morgan's widely tracked Emerging Market Bond Index (EMBI) is providing a technical bid for GCC bondsd which is helping to push the spreads tighter.

Bbg GCC Credit Index – YTW & OAS



Source: Bloomberg

Also despite the fact that the new taxes, subsidy cuts, and labor market measures will weigh on regional activity for some time to come, overall investor sentiment on GCC sovereigns is constructive on the back of higher oil prices. Five year CDS spreads on GCC sovereigns have tightened in the recent past with KSA at 77bps (-8bps, m/m), Abu Dhabi at 63bps (-2bps, m/m), Dubai at 118bps (-8bps, m/m) and Bahrain at 350bps (-41bps, m/m) respectively.

The concern relating to the exposure of GCC banks to Turkey was short lived. However, ACWA Power's INTWT 39s fell materially as the company delayed its IPO offering after its Turkish subsidiary was pummeled by the lira's plunge. Investors worried about repayments on U.S. dollar-debt linked to ACWA's Turkish power plant as the lira's slide will erode profitability in dollar terms from the electricity generated at that facility. Yield on INTWT 39s increased 42 bps during the month to 6.38%.

As is expected in times of good economic growth, high yield bonds around the world have been outperforming their investment grade counterparts in the recent past. In GCC, in the recent month, Oman and Bahrain sovereign bonds have been some of the best performers. Yield on OMAN 26s tightened 25bps to 5.76% during the month without any material catalyst and that on BHRAIN 26s narrowed 24bps to 7.47%. Government related entities in the two jurisdictions such as MAZOON 27s and MUMTAK 21s also gained almost a point in price with yield tightening 16bps to 5.70% and 26bps to 6.01% respectively.

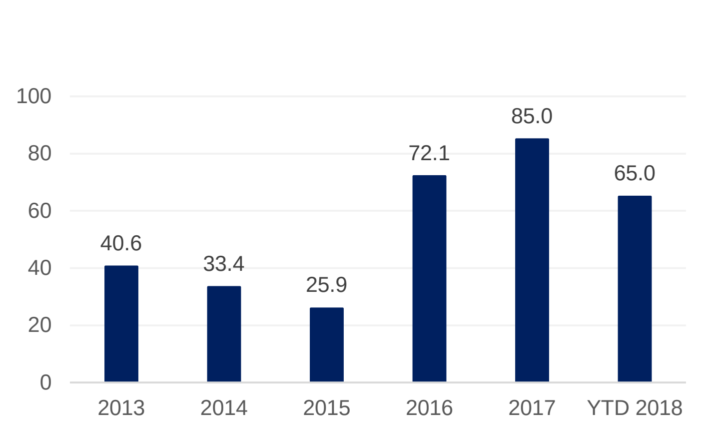
In the UAE, the cost of funding the EXPO 2020 related construction appear to have stretched financials of the Emirate of Dubai. While Dubai government is unrated, several of its majority owned corporates felt the heat. S&P downgraded Dubai Inc owned issuers, DEWA and DIFC, by one notch to BBB and BBB- respectively citing concerns about the government's ability to provide support in times of need.

GCC Bonds - Primary Market

Activity in the primary market was revived this month after the summer lull. Within a span of two weeks, several issuers including Apicorp, KSA, Al Hilal, ADIB, DP World, National Bank of Oman etc. have tapped the market successfully with Aldar, Al Ahli etc on the road now.

Year to date total bonds and sukuk from the GCC region reached $60 billion and appears well on the path to achieve our full year target of between $80 - $90 billion of new supply this year.

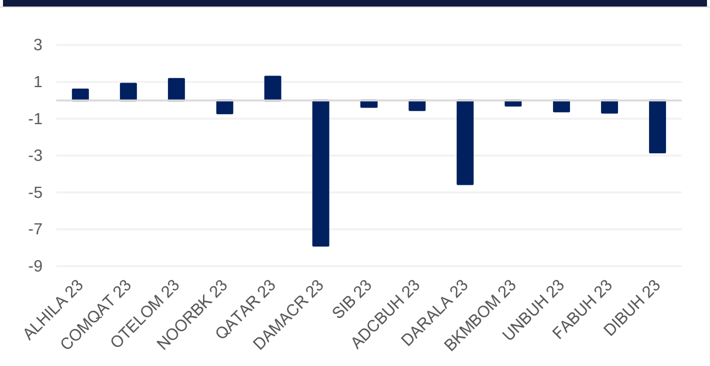
GCC New issues (USD'bn)



Source: Bloomberg

YTD performance of the new issues has largely been mixed, depending more on the volatility in the global fiancnial market at the time of the issue than on the actual credit quality of the issuer.

Select GCC New issues – YTD Chg in price ($)



Source: Bloomberg

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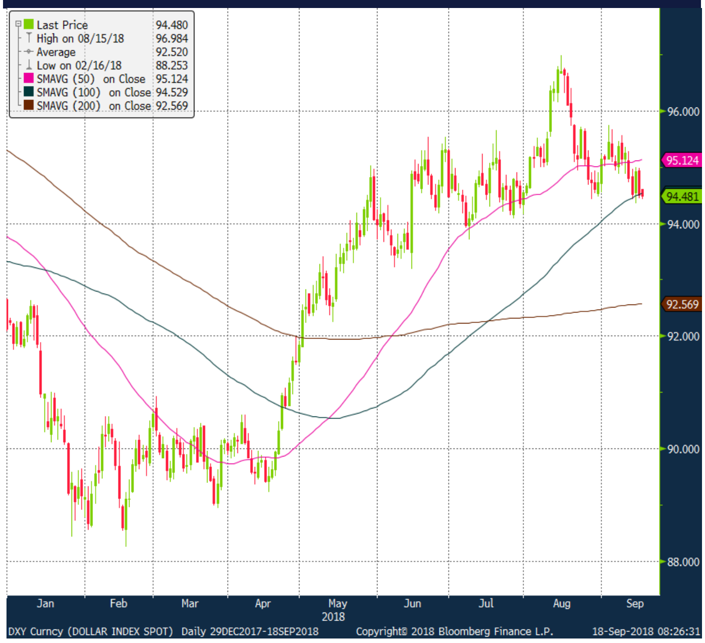
Currencies

DXY index retreats from 2018 highs

Over the last month, the Dollar Index has fallen 0.81% to 94.89. This decline has taken the index below the 50-day moving average (95.124), a former support level which is a sign that further declines may lie ahead. This view is supported by a fifth weekly close below the resistive 100-week moving average (95.428). In addition, the price now sits just above the 100-day moving average (94.529) a technical level which has not been breached since April 2018. Should the index realize a daily close below this level, a further decline towards the 61.8% one-year Fibonacci retracement (93.649) is a one possible outcome.

While the dollar should continue to enjoy a degree of support due to tightening monetary policy from the Federal Reserve, as two more 25bps rate hikes expected this year, it remains vulnerable to geopolitics and escalating trade tensions and we expect the dollar to weaken against most of the other major currencies during the fourth quarter, particularly if the market believes that other central banks will remove accommodative policy at a faster rate than expected.

DXY close to 100-day MA

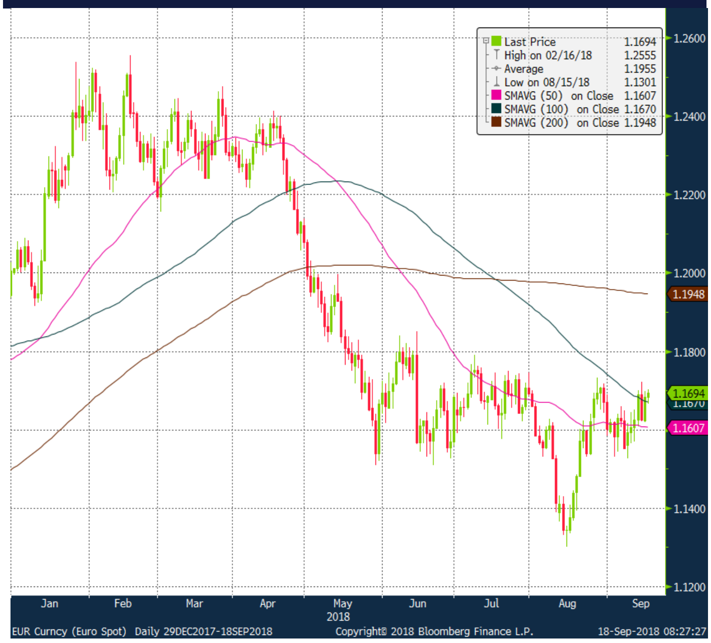


Source: Bloomberg

EUR to continue rebound as ECB remove accommodation

Despite several false breakouts for EURUSD below its 50-month moving average over the last few months, none of these breakouts were sustained and the immediate danger of a much more significant decline was avoided. Indeed, EURUSD has pared the declines of August so far this month and looks ready to regain more of the ground lost in 2018. One of the major drivers behind this appreciation has been language from policy makers at the European Central Bank who maintain their expectations to end the $3 trillion asset purchase program by the end of the year. This was communicated by President Draghi at the central bank's meeting in September and was reinforced by statements from ECB Executive Board member Benoit Coeure who further indicated that the central bank may need to "clarify the pace at which it expects to remove policy accommodation", and then by Governing Council member Vitas Vasiliauskas who stated there is "No ground to talk about extension of ECB stimulus". As we go to print, markets do not expect a rate hike until the second half of 2019, with the OIS pricing in a 66.7% probability of an increase in interest rates in September. Despite this, the euro is likely to strengthern as accommodative policy gets revoked and QE ends

Euro breaks below 50-week MA



Source: Bloomberg

At the time of writing, EURUSD is trading at 1.1694, having broken above the 100-day moving average (1.1670) for the first time since April 2018. Should we see consecutive daily closes above this level, it is a good technical indicator that the euro will continue its rebound. We expect a close above 1.1670 to result in further gains for the cross, with the next level of significant restistance being 1.1780, the 38.2% one-year Fibonacci retracement.

GBPUSD hits seven-week high

2018 has been a rollercoaster for sterling which has swung between the best performing and worst performing of the major currencies. The main driver for this reverse in fortunes has been fear over the UK leaving the EU without a deal in March 2019. More recently, these fears have been calmed with comments from EU Brexit negotiator Michel Barnier that a deal would be possible by November if the UK would be more flexible on some of its positions. In addition, economic data has been more supportive with reports showing that the economy expanded 0.6% in the 3 months leading to July compared with 0.4% in June and the labour market showing eveidence of tightening with weekly earnings climbing 2.9% y/y in July, up from 2.7% y/y the previous month. With all these positive developments, GBPUSD was able to climb to a seven-week high despite warnings from the IMF saying that the UK leaving the EU without a deal would entail 'substantial costs'.

GBPUSD tests 100-day MA

Source: Bloomberg

These gains have resulted in GBPUSD climbing to 1.3164, breaking back above the 50-day moving average (1.2987) for the first time since April 2018 and closing the week above the 100-week moving average (1.3090) for the fist time in seven weeks. At the current level, the price is close to the 100-day moving average (1.3169) and we expect a break and daily close above this level is likely to be followed by a further climb towards the 1.3320 level, not far from the 38.2% one-year Fibonacci retracement.

JPY underperforms in September

As we approach the third week of September, the yen has lost ground against the other major currencies. Despite gaining some strength in the aftermath comments from Prime Minster Shinzo Abe that the Bank of Japan's radical easing policy should not continue indefinitely and from safe haven bids as trade escalations have escalated (see macro), JPY was unable to hold onto any of these gains and USDJPY has climbed above the 112 handle as U.S. 10-year yields flirted with 3%. Currently trading 112.22, USDJPY has sustained its break of the 50-day moving average (111.38) and is approaching the 76.4% one-year Fibonacci retracement (112.33) as predicted [last week](). A break of this level may trigger additional gains towards the 200-week moving average (113.26)

USDJPY breaks back above 50-day MA

Source: Bloomberg

INR hits record low

The INR is among the worst performing emerging market currencies so far in 2018. The USDINR pair has lost c.12% ytd to trade at record lows. If sustained, this would be its biggest single-year loss since 2011. The quantum and pace of decline has been deeper than anticipated by us at the start of the year. We had projected USDINR weakness to peak around 68.0 level. However, the combination of stickier gain in oil prices, broad pressure on emerging markets and strength in the USD has led to a significant correction.

While most domestic macroeconomic indicators remain strong, the visible impact of high oil prices on the current account and fiscal deficit is weighing on investor sentiment. This coupled with heavy election calendar over the next three months, escalating trade war between the US and China are likely to keep volatility in the INR at elevated levels in the short term. While the government has announced some interim measures, they have rightly refrained from intervening directly in markets.

We have understandably revised our forecasts. We now expect USDINR to end the year around 71.0 levels. Our forecast reflects our view that oil prices will not extend gains much beyond USD 80/bbl, favorable results for the incumbent in elections and limited room for the USD to rise further. However, we concede that situation remains fluid and a contrary move in any of these factors could have an outsized impact on USDINR.

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Equities

Since the start of Q3 2018, the weakness in global equities along with performance differential has intensified as multiple factors plaguing investor sentiment emerged.

Evidently, a multi-front trade war became a reality as did threat of sanctions. This along with lack of progress on Brexit, contagion fears among emerging economies and elevated political risk across countries proved a perfect recipe for investors to pare risks. Notwithstanding continued strong economic data and corporate earnings, caution is warranted on equities as we head into a period dominated by key political events across various regions. More so when there are little signs of any appetite to resolve the ongoing disputes.

The MSCI World index has gained +2.9% 3m primarily on the back of strength in US and Japanese equities. The outperformance of US equities is in fact a defining trend of 2018. The S&P 500 index has rallied +5.1% 3m and +8.6% ytd compared to a drop of -3.0% 3m and -6.5% ytd in the MSCI All Country World excluding US index. It is worth pointing out that while the US equities have outperformed their global peers, the rally is increasingly getting shallower. About 67% of S&P 500 members are currently trading above their 200-day moving average compared with 72% when the index hit a new high in August and 83% during the previous high in January 2018. Japan has been another notable outperformer with gains of +6.5% 3m.

Emerging market and MENA equities has underperformed the broader market with the MSCI EM index losing -6.0% 3m and the S&P Pan Arab Composite index dropping -3.6% 3m. It appears that MENA equities are being caught up in the broad contagion impact in various emerging markets. The decision of the MSCI to include Saudi Arabia in its MSCI EM index has had limited impact with the Tadawul actually losing -7.6% 3m. The underperformance of Saudi Arabian equities also brings into focus the declining correlation between oil prices and equity prices at a time when oil prices are actually rising. The weekly correlation between the Tadawul and Brent prices has dropped to 0.21 in 2018 compared to 0.31 dating to 2014. Within emerging markets, Indian equities continue to hold onto their gains and outperform their BRIC peers. The MSCI India index has gained +6.6% 3m compared to a drop of -10.1% 3m in the MSCI BRIC index.

With things seemingly turning more volatile, investors are likely to eye Q3 2018 earnings season to calm nerves and justify current levels. However, it is more than likely that the ongoing trade war, mid-term elections in the US and other emerging markets and sanctions overshadow the positives as we head into the year end. The probability of the same increases when looked in context of a weaker correction in most developed market equities, a lag in transmission of adverse impact of tariffs on economies involved and tightening of monetary policy across the world.

Politics – A dominant factor

Politics, at the moment, is a multifaceted factor in global markets. It now encompasses much more than simply election results and has become a more important factor given the rise of bilateralism at the cost of multilaterism. The ongoing trade war and Brexit negotiations are examples of how complex and engaging politics has become for financial markets. Over the next three months, politics is likely to play a dominant role in how asset prices behave as during the period we are likely to see mid-term elections in the US, conclusion of Brexit negotiations and series of elections in India and Brazil.

Trade War

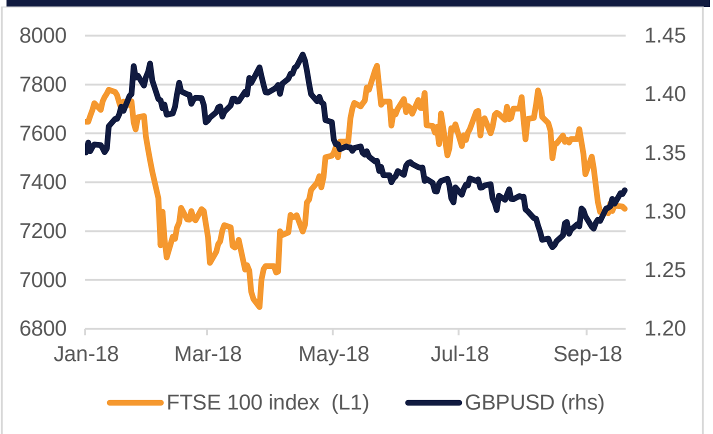
At the moment it is hard to quantify the impact of the current exchange of tariffs between the US and China. However, it is hard to ignore that investors at the moment appear to favour US assets possibly with the presumption that China has more to lose if negotiations drag on. The same is reflected in performance of Chinese equities with the Shanghai Composite index losing -17.5% ytd compared to ytd gains of +8.6% in the S&P 500 index.

However, we concur with the opinion that politics and not economics is the motivating factor behind the current trade policy of the US and that there is little incentive for President Donald Trump to negotiate seriously before the mid-term elections. As such, it will be hard for the US to remain unaffected given the likely impact of the same on US corporate margins. The vulnerability increase further given the maturity of current economic cycle, the impact of stronger USD and the fact that most of it is already discounted in emerging markets but not in US markets.

Brexit

UK equities have underperformed the wider Eurozone equities amid increasing rhetoric around Brexit. The FTSE 100 index has dropped -3.6% 3m and -4.7% ytd compared to a drop of -0.9% 3m and -2.4% ytd in the Euro Stoxx 600 index. However, as we move closer to the deadline chances are improving that both EU and UK will reach an understanding and the 'no deal' outcome will be avoided.

UK equities inversely correlated to GBP



Source: Bloomberg, Emirates NBD Research

Assuming that scenario as a base case, UK equities are likely to continue to underperform. The primary reason for the same is that the relative performance of UK equities is inversely correlated to the GBP as they are more exposed to foreign revenues than any other developed markets. Within the UK, FTSE 100 has nearly 71% of revenues coming from abroad compared to 47% for FTSE 250 companies. It is no surprise then to see FTSE 250 index outperform the FTSE 100 index so far this year with ytd and 3m losses of only -1.0% and -1.6% respectively.

It is also worth highlighting that GBP is a key driver of UK earnings revisions and the recent trend of stronger UK earnings relative to Eurozone earnings can be attributed to weaker GBP.

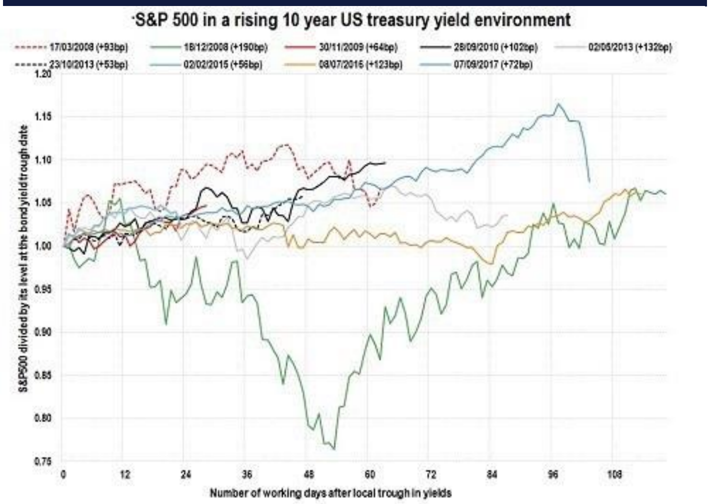
A Brexit deal is expected to be positive for the GBP.

Monetary Policy – A growing factor

At the start of the year, most central banks with the exception of the US were expected to continue with the status quo of easy monetary policy. However, political and economic developments over the past three months has seen monetary policy tighten across the globe. For example, the Federal Reserve has so far raised rates by 50 bps, Reserve Bank of India by 50 bps, Central Bank of Turkey by 1600 bps (1 week repo), Bank of Russia reversed early year trend by raising rates by 25 bps and Bank of Indonesia by 125 bps (7d reverse repo). While the quantum is important, the fact that these hikes marked the reversal of trend and were in a sense forced is more significant. As is the fact that these have come despite most of these economies experiencing early cycle growth.

The impact of increasing tighter financial condition is already being felt on emerging markets. The resulting correction has legs to continue as higher rates in the US will result in competition for capital and reduce the need for investors to hunt for yields when risk-free yields are higher than inflation rates. Also the fact that most EM central banks are indicating further hikes in 2018 is also weighing on investor sentiment. Obviously, the resultant impact is repricing of risk premium and heightened volatility. However, cheap relative valuation could provide some support in the short term to broad emerging markets.

S&P and Yields



Source: St. Louis Federal Reserve

The rising 10y US Treasury yield, if sustained over 3%, is also likely to weigh on US equities. As the differential between dividend yield for S&P 500 index and 10y USTs widens, there is greater incentive for investors to switch. The S&P 500 dividend yield is projected to be around 2% compared to 2y UST yield of 2.8% and 10y UST yield of 3.05%. However, a study tracking evolution of S&P 500 index during periods of significant cumulative increases in bond yields shows that since 2008, US equities tend to remain flat or rise during period of rising yields. It appears that the negative impact of higher rates on equity prices is compensated by the improved economic outlook and decline in risk premium. The caveat to the study is that the current rise in yields is coinciding with maturing growth trajectory of the US economy, record length of the current bull run of US equities and signs of rising equity risk premium.

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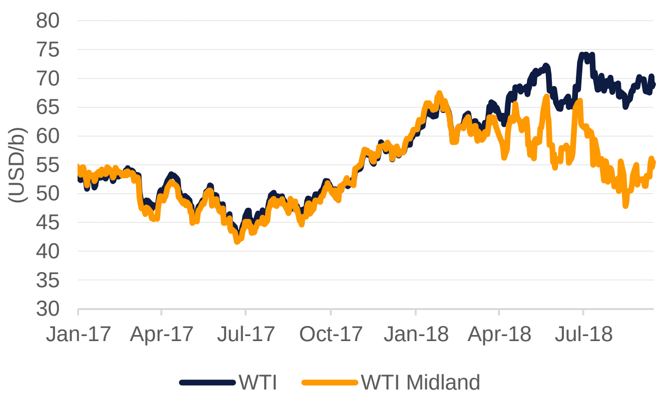
Commodities

For the last five months oil prices have kept to a narrow range, buffeted by concerns that a trade war between the US and China could wreak havoc on the global economy but supported by emerging supply constraints. As we look ahead to 2019 we don't see either of these dynamics resolving themselves and it's more likely they will intensify. The market is having to adjust to managing scarcity of supply after several years of being awash in too much oil while demand, which had been taken for granted in the last few years, is at risk of disappointing. As we examine these issues in more detail we begin to have more of a conviction view on the trajectory for prices in 2019.

Oil supply is now emerging as one of the major upside risks for prices. After spending 2014-17 coping with a glut of oil from unconventional production in the US, market share-targeting OPEC volumes and rising offshore and oil sands production in Brazil and Canada, the near term outlook for oil supply growth is more uncertain. The IEA projects that in 2019 non-OPEC supply growth will rise by 1.8m b/d compared with 2m b/d estimated for 2018. That is still an elevated pace of growth but constraints are emerging that could put a dampener on output.

Tough times in Texas

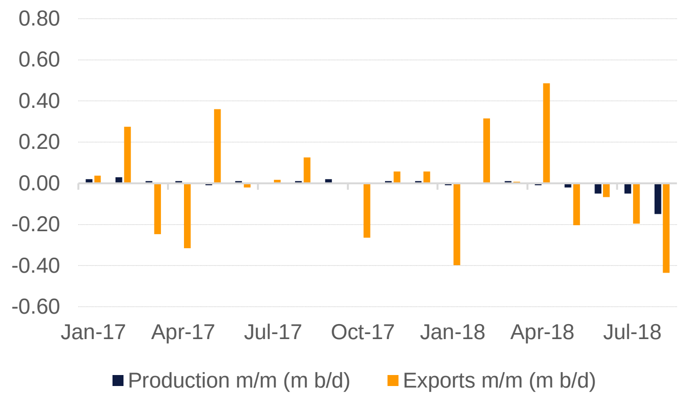


Source: EIKON, Emirates NBD Research.

In the US a shortage of takeaway capacity in the key producing state of Texas is acting as a brake on development. The EIA recently lowered its projection for US oil supply growth to less than 1m b/d in 2019 compared with 1.3m b/d for 2018 specifically on insufficient pipeline capacity to absorb the high volumes of output. The upcoming survey of energy firms from the Dallas Federal Reserve will give a clearer view on the pipeline issue as at the start of Q3 more than 50% of firms surveyed said lack of crude pipeline capacity would limit supply growth. As we have outlined in previous reports, the shortage of pipeline capacity is contributing to a significant discount for WTI at Midland in the Permian basin. In mid-August the wide discount pushed WTI Midland below USD 50/b, its lowest level since October 2017. At these levels there is little headroom for producers to operate profitably, even if they are prepared to pay the cost of transiting by truck or train to seaborne export terminals to take advantage of higher prices. Some relief will come in 2019 when several new oil pipelines and expanded export terminals along the Gulf coast of Texas begin operating.

The most immediate supply risks, however, come from OPEC. Venezuela's oil production appears to be in near perpetual decline with few signs on the horizon of any recovery. So far the US government has been reticent to impose direct sanctions on Venezuela's oil sector for fear of worsening market tightness. But on Iran the US is taking a much more hardline stance and is actively pushing importers of Iranian crude to cut their levels to zero once energy related sanctions come into effect in November. Recent market surveys of Iranian output show a sharp decline in production in August—down by 150k b/d according to Reuters—and an even larger slump in exports. Shipments fell by more than 430k b/d last month, according to data from Reuters, accelerating a downward trend that has been in place since April 2018. The degree of compliance with US sanctions already appears to be high with major consumers such as India or South Korea cutting imports heavily. Considering the US is offering importers little leeway on Iran we expect the disruption to supply will now be larger than our initial estimates and see production falling at least 750k b/d in 2019 and believe there is a risk of an even larger decline.

Iran's production starting to drop



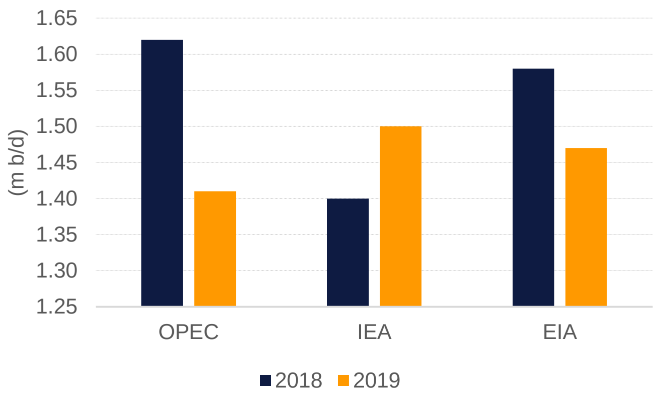
Source: EIKON, Emirates NBD Research.

OPEC's efforts to unwind some of the 'overcompliance' with its 2017 production cut agreement has compressed the producer bloc's spare capacity, weakening another one of the market's abilities to respond to price shocks. Since its June meeting OPEC production has increased with the bulk of the increase provided by Saudi Arabia, Iraq, the UAE and Kuwait. However, the increase has meant that collective spare capacity among these countries has fallen from nearly 3m b/d at the end of 2017 to less than 2.3m b/d. We expect that the higher levels from key OPEC members mean that collective spare capacity will narrow further in 2019 and that OPEC will be producing at more than 93% of total capacity by end-2019.

Commentary from Saudi Arabia oil market officials suggests to us that the kingdom will be much more responsive in setting production levels going forward. After hitting a 2018 high of 10.6m b/d in June (Reuters data) production has edged downward as Saudi isn't prepared to flood the market with excessive crude. This will be a shift in Saudi oil policy which previously had been to keep output reasonably stable over a six-month to one year time frame. We expect there will be more variance in production levels going forward, responding to near term market signals, particularly demand.

The outlook for demand in 2019 is more mixed. Among the major forecasting agencies only the IEA is expecting demand growth will accelerate next year, from 1.4m b/d to 1.5m b/d. OPEC is expecting a much sharper slowdown while the EIA is becoming increasingly pessimistic. A healthy pace of US oil demand can't be taken for granted as the economic cycle is in a highly mature phase and the one-off factor of lower corporate tax rates fades next year. A recession in the economy remains unlikely but the brisk pace of economic growth this year looks unlikely to be repeated.

Mixed outlook for demand in 2019

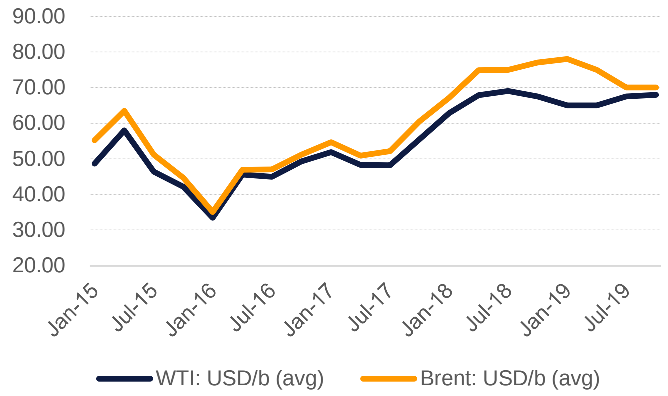


Source: OPEC, IEA, EIA, Emirates NBD Research.

More concern though lies in the performance of emerging markets. The recent rapid sell-off in emerging assets is providing another negative risk for commodities in the near term, compounding fears of what a trade war between the US and China could have on overall commodity demand. Where the financial market pain has been most acute, however, is in relatively small oil consumers: Turkey and Argentina represent just 1% and 0.7% of global oil demand respectively. The outlook for China and India is far more critical. Economic fundamentals still appear good enough to support a healthy level of demand growth in 2019 and neither has seen as sharp increase in the cost of imported oil as the more stressed EMs. But the escalating trade war between China and the US does pose a serious downside risk for trade and oil demand in 2019.

In terms of oil market balances a swing into surplus in Q1 will be temporary and overall the market will be roughly balanced next year. The decline in OECD inventories—both in absolute level and measured against demand—means the market has lost an additional shock absorber which will allow prices to remain elevated.

Emirates NBD Research oil price views



Source: EIKON, Emirates NBD Research.

With these supply (price positive) and demand (price negative) conditions to be reinforced in 2019 we are building more of a conviction view for the outlook on prices next year. We expect Brent futures will record an average of USD 73/b and don't discount sustained periods above USD 80/b as the market reacts to a shortage of Iranian barrels. The trajectory for WTI is lower, particularly in H1 2019 until the pipeline constraints are overcome. We expect WTI futures will average USD 66/b with the spread between the two benchmarks remaining wide for most of the year.

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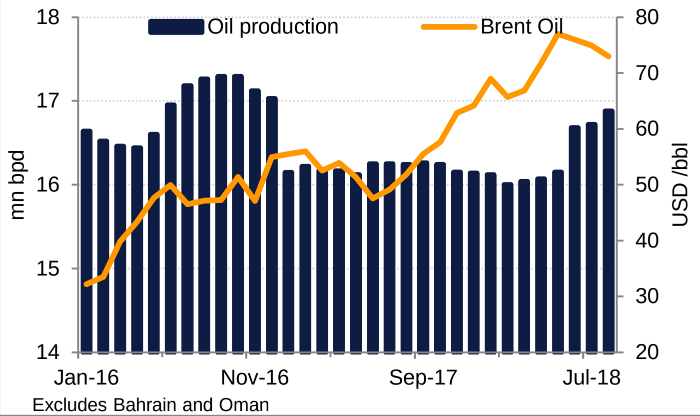
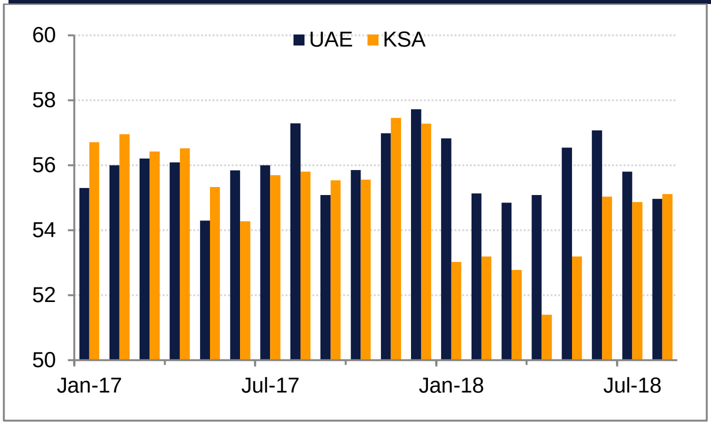
GCC in Pictures

GCC Oil Production and Oil Price



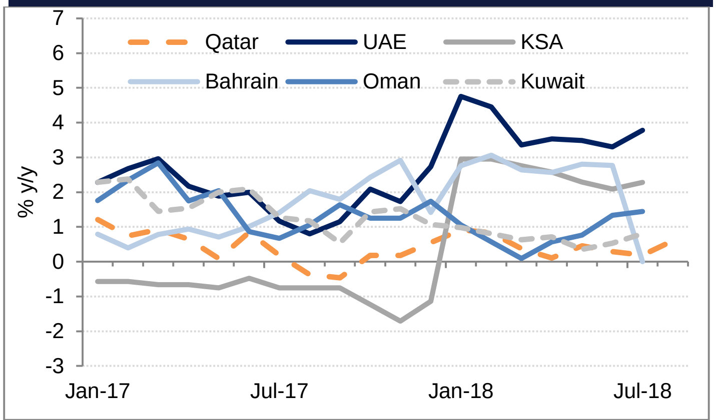
Source: Bloomberg, Emirates NBD Research

Purchasing Managers' Index



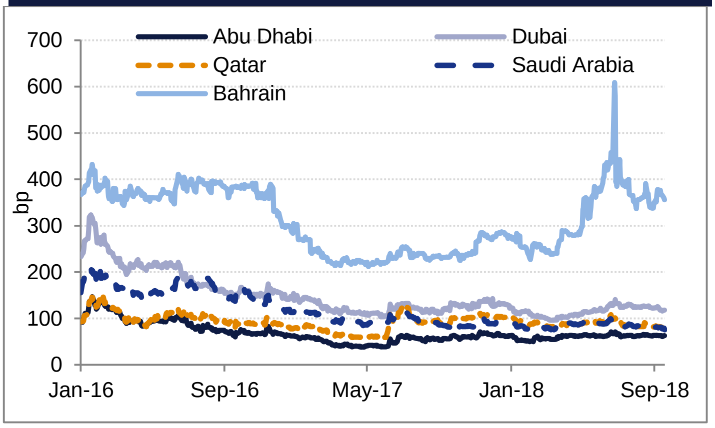
Source: IHS Markit, Emirates NBD Research

Inflation



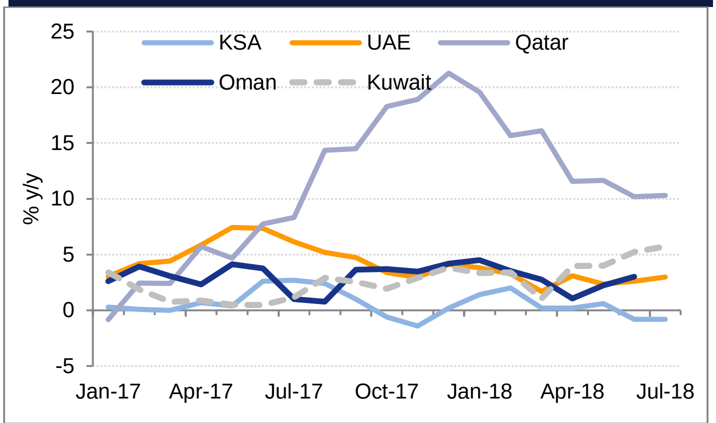
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



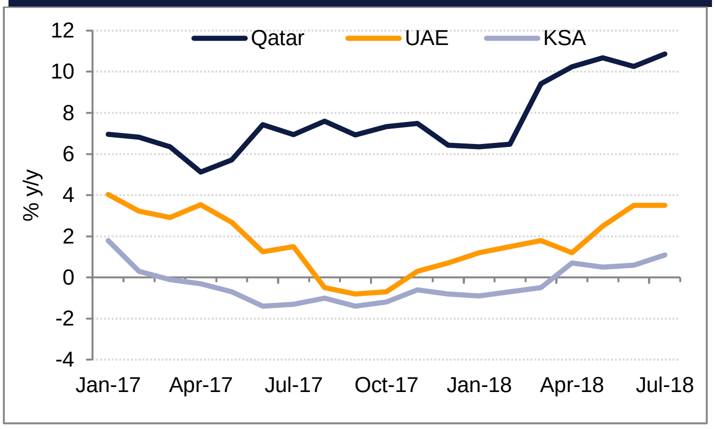
Source: Bloomberg

Money supply (ex Government. deposits)



Source: Haver Analytics, Emirates NBD Research

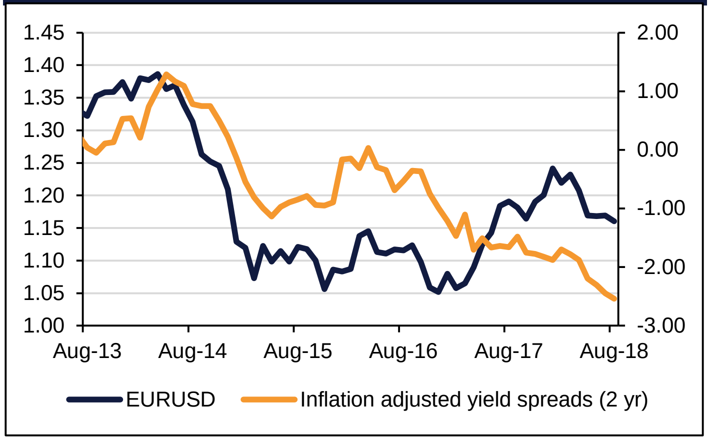
Private sector credit*



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

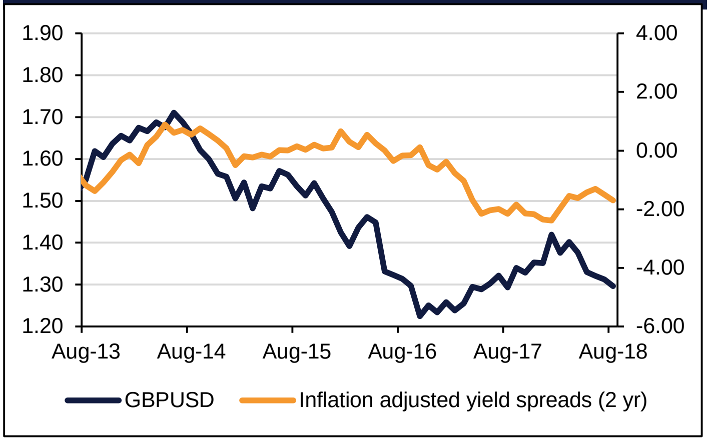
FX–Major Currency Pairs & Real Interest Rates

Interest Rate Differentials–EUR



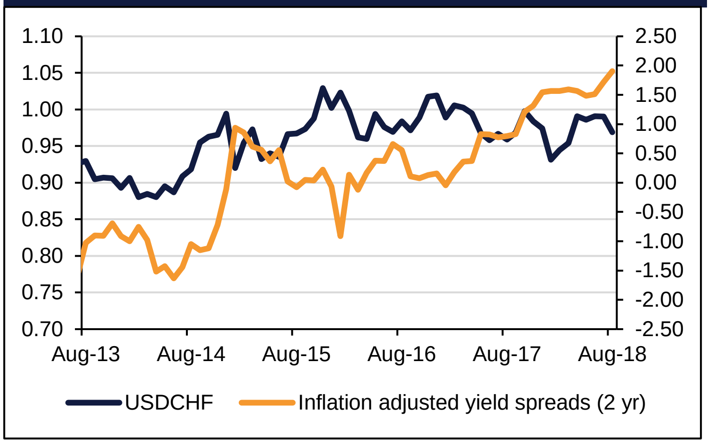
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-GBP



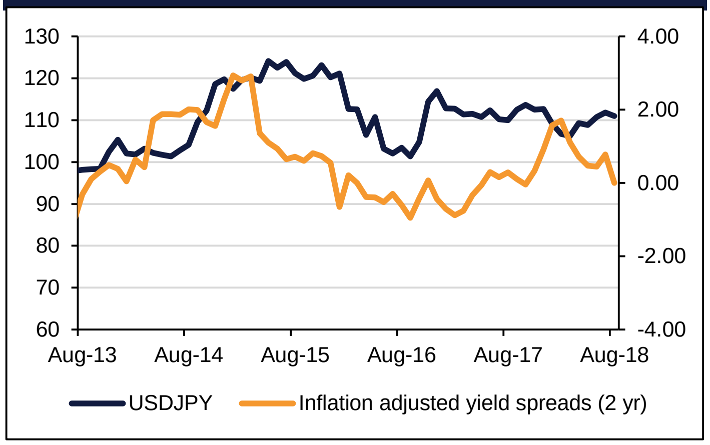
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CHF



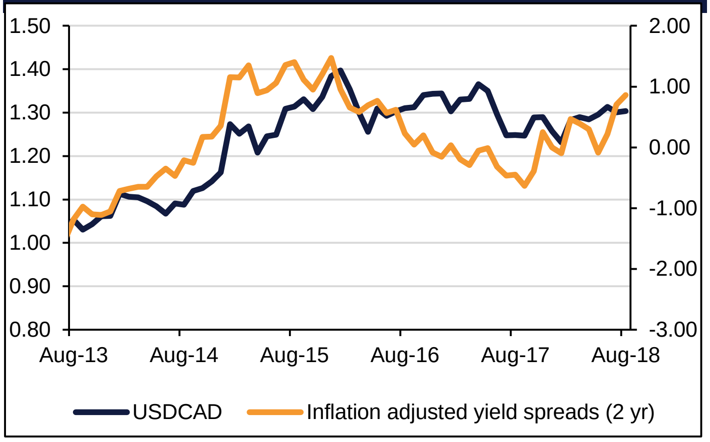
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-JPY



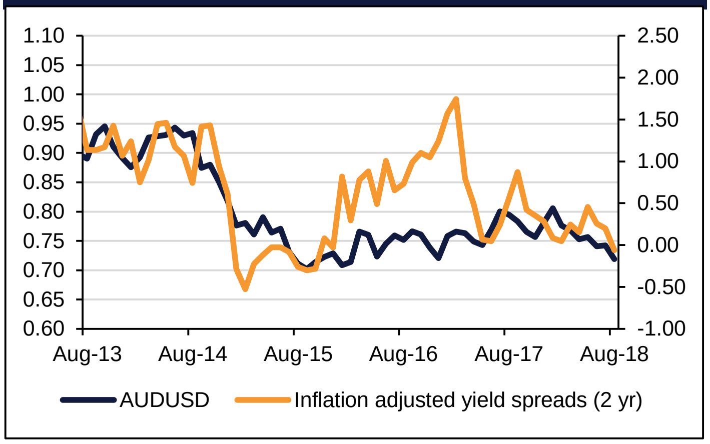
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials-CAD



Source: Bloomberg, Emirates NBD Research

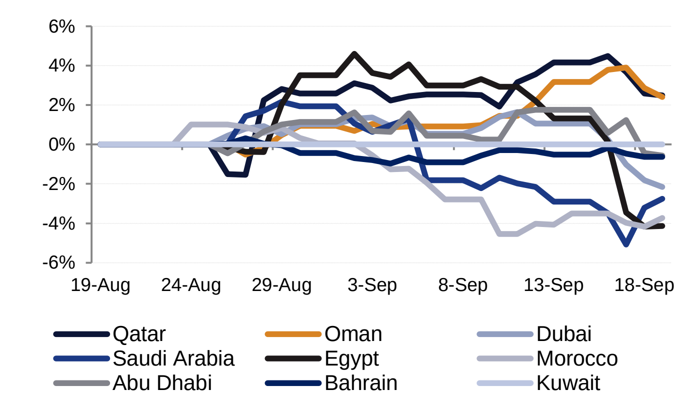
Interest Rate Differentials-AUD



Source: Bloomberg, Emirates NBD Research

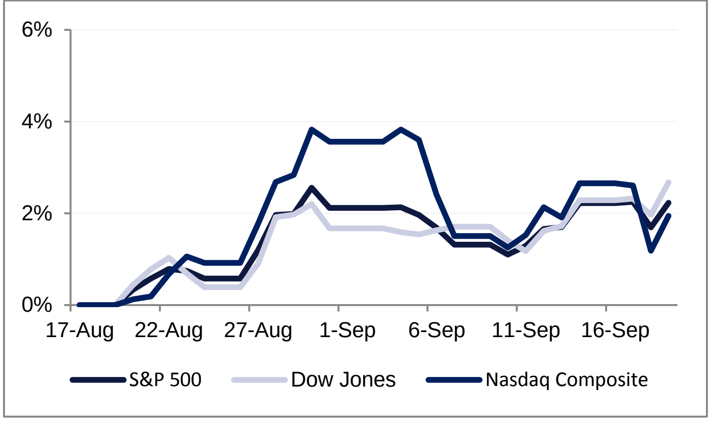
Major Equity Markets

MENA Equity Markets



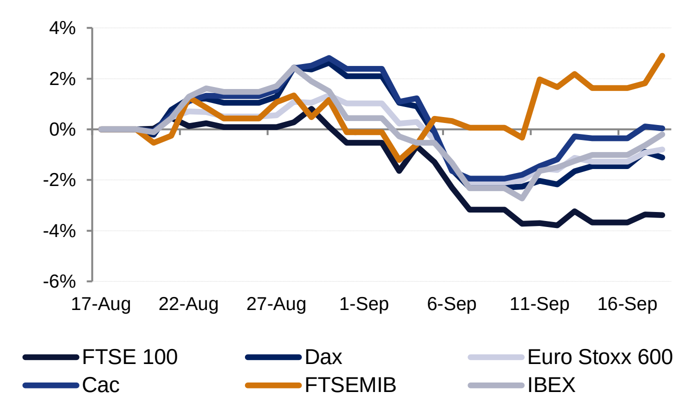
Source: Bloomberg, Emirates NBD Research

US Equity Markets



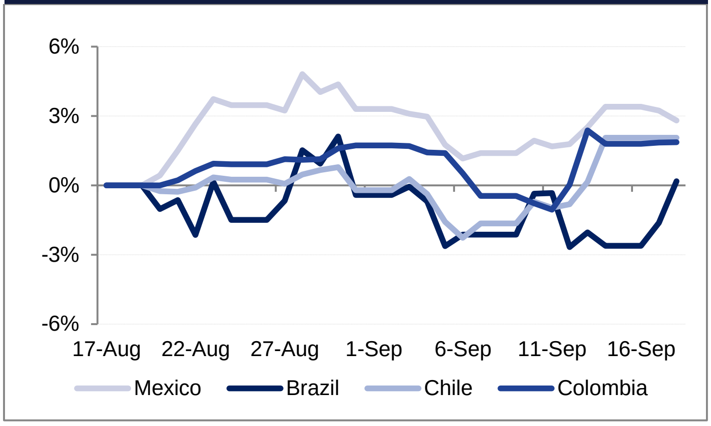
Source: Bloomberg, Emirates NBD Research

European Equity Markets



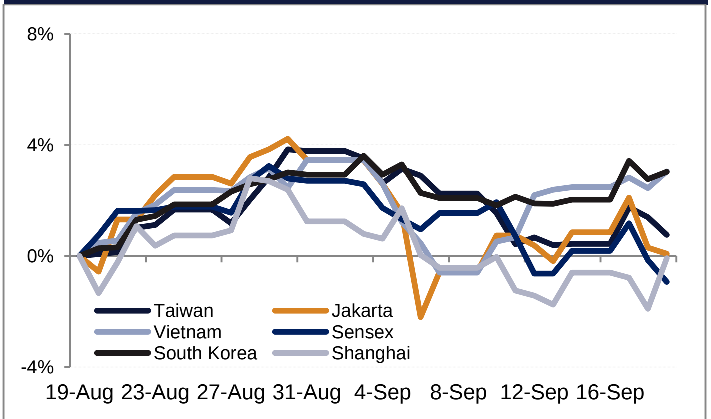
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



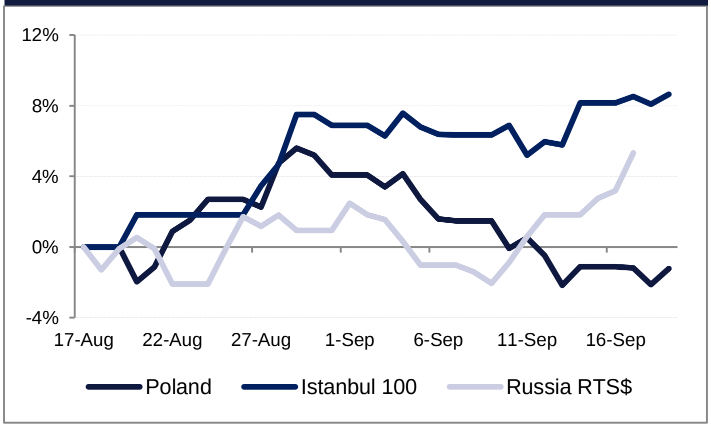
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

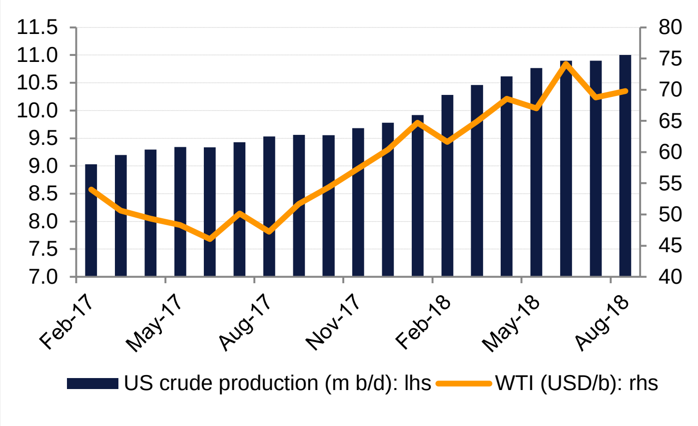
Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

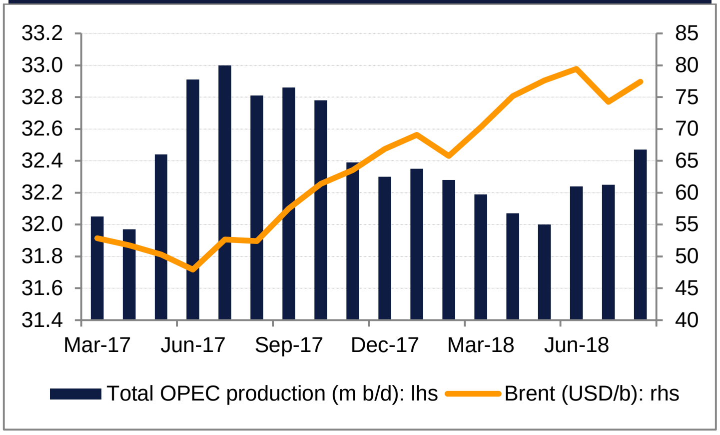
Major Commodities Markets

US oil production and price



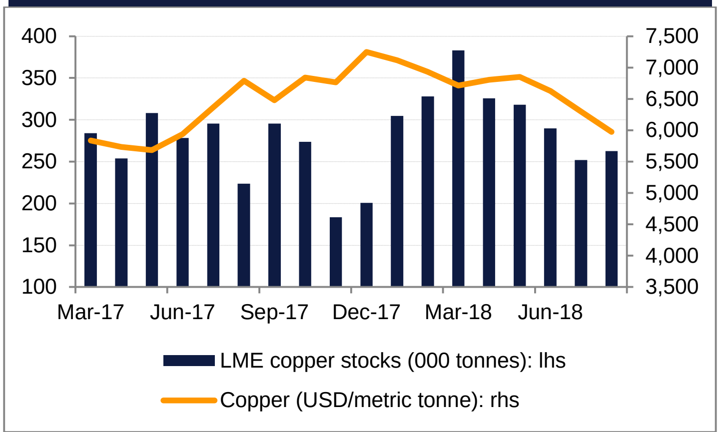
Source: EIKON, Emirates NBD Research

International oil production and price



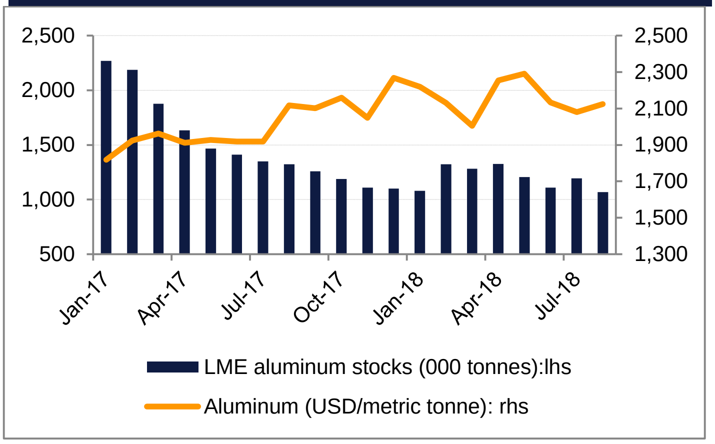
Source: EIKON, Emirates NBD Research

Copper stocks and price



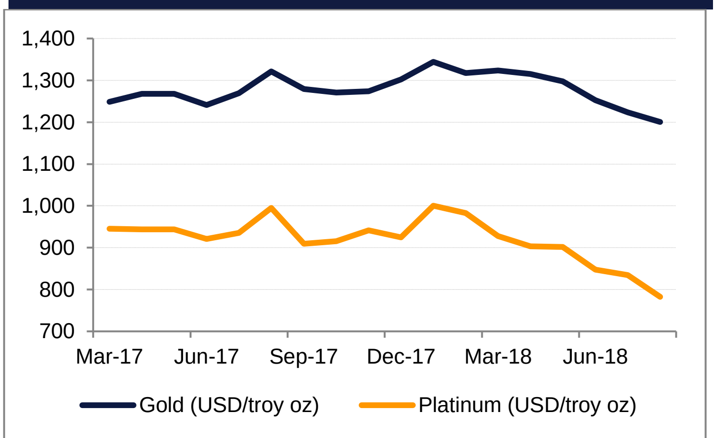
Source: EIKON, Emirates NBD Research

Aluminum stocks and price



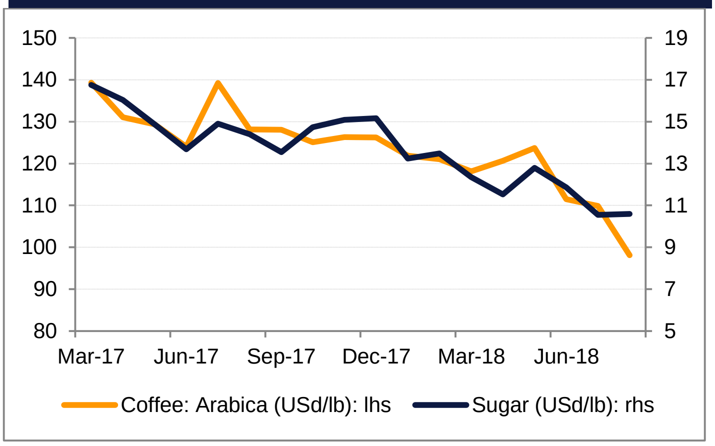
Source: EIKON, Emirates NBD Research

Precious metals prices



Source: EIKON, Emirates NBD Research

Agriculture prices



Source: EIKON, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2015	2016	2017	2018f	2019f
Nominal GDP $bn	358.4	357.3	382.8	426.8	448.7
Real GDP %	5.1	3.0	0.8	2.2	3.6
Current A/C % GDP	4.7	2.4	3.6	7.1	6.9
Budget Balance % GDP	-3.4	-4.2	-2.6	1.3	2.0
CPI %	4.1	1.6	2.0	3.5	1.7
Saudi Arabia					
Nominal GDP $bn	654.3	644.9	683.8	769.2	803.0
Real GDP %	4.1	1.7	-0.7	2.0	2.4
Current A/C % GDP	-8.7	-3.7	2.2	9.1	9.1
Budget Balance % GDP	-15.8	-12.9	-9.3	-2.7	-1.8
CPI %	1.2	2.1	-0.8	2.5	2.0
Qatar					
Nominal GDP $bn	164.6	152.5	167.6	192.3	203.2
Real GDP %	3.3	2.0	1.2	3.0	3.6
Current A/C % GDP	8.4	-5.4	3.8	8.1	13.4
Budget Balance % GDP	-1.9	-9.0	-4.9	-0.7	0.0
CPI %	1.9	2.7	0.4	1.0	2.0
Kuwait					
Nominal GDP $bn	114.6	109.4	119.5	139.0	148.3
Real GDP %	0.6	2.9	-3.5	1.8	3.0
Current A/C% GDP	3.5	-4.6	6.3	14.4	15.3
Budget Balance % GDP	-13.4	-13.9	-5.3	0.4	2.4
CPI %	3.3	3.2	1.6	1.0	2.0
Oman					
Nominal GDP $bn	68.8	66.7	72.5	84.1	87.7
Real GDP %	4.7	5.4	1.0	2.6	3.6
Current A/C % GDP	-15.9	-18.5	-8.6	-0.4	-2.4
Budget Balance % GDP	-17.5	-20.6	-12.1	-6.4	-6.1
CPI %	0.1	1.1	1.6	1.0	3.0
Bahrain					
Nominal GDP $bn	31.1	32.2	35.3	38.9	41.0
Real GDP %	2.9	3.2	3.9	2.9	3.4
Current A/C % GDP	-2.4	-4.6	-3.9	-1.6	-0.4
Budget Balance % GDP	-13.0	-13.5	-11.4	-8.0	-5.9
CPI %	1.8	2.8	1.4	2.5	3.0
GCC (Nominal GDP weighted avg)					
Nominal GDP $bn	433	428	453	501	515
Real GDP %	4.0	2.4	-0.1	2.2	3.0
Current A/C % GDP	-2.4	-3.1	2.4	7.1	6.0
Budget Balance % GDP	-10.8	-10.7	-7.0	-3.1	-3.1
CPI %	2.2	2.1	0.4	2.4	2.0

Source: Haver Analytics, National sources, Emirates NBD Research

Key Economic Forecasts – Non-GCC Oil Importers

Egypt*	2015	2016	2017e	2018f	2019f
Nominal GDP $bn	332.6	332.4	223.0	236.5	276.8
Real GDP %	4.4	4.3	4.2	5.3	5.5
Current A/C % GDP	-3.7	-6.0	-6.7	-2.8	-2.7
Budget Balance % GDP	-11.43	-12.05	-10.96	-9.54	-8.54
CPI %	10.4	13.7	29.6	15.0	12.0
Jordan					
Nominal GDP $bn	37.5	38.7	40.3	41.7	43.2
Real GDP %	2.4	2.0	2.2	2.4	3.0
Current A/C % GDP	-9.1	-9.5	-10.5	-8.9	-9.3
Budget Balance % GDP	-3.4	-3.2	-2.7	-2.9	-2.5
CPI %	-0.9	-0.8	3.3	3.9	3.8
Lebanon					
Nominal GDP $bn	50.1	51.1	57.8	63.4	68.5
Real GDP %	0.8	1.0	1.6	1.8	2.7
Current A/C % GDP	-17.3	-20.7	-21.2	-20.9	-20.2
Budget Balance % GDP	-8.0	-9.8	-6.9	-6.5	-5.8
CPI %	-3.8	-0.8	4.5	6.0	5.0
Morocco					
Nominal GDP $bn	101.3	103.3	114.9	121.3	129.3
Real GDP %	4.5	1.1	4.1	3.3	3.6
Current A/C % GDP	-1.9	-3.7	-2.7	-2.1	-1.9
Budget Balance % GDP	-4.5	-4.2	-4.0	-3.2	-2.7
CPI %	1.6	1.6	0.8	2.2	3.0
Tunisia					
Nominal GDP $bn	43.0	41.7	39.0	40.1	41.3
Real GDP %	1.1	1.0	1.7	2.2	2.9
Current A/C % GDP	-8.9	-8.9	-10.7	-9.4	-8.6
Budget Balance % GDP	-4.8	-6.2	-6.3	-5.6	-5.4
CPI %	4.9	3.7	5.3	6.9	6.8
Oil Importers (GDP weighted avg)					
Nominal GDP $bn	224.3	223.9	146.1	155.1	181.7
Real GDP %	3.71	3.05	3.47	3.91	4.35
Current A/C % GDP	-5.3	-7.3	-8.1	-6.0	-5.6
Budget Balance % GDP	-8.8	-9.4	-7.7	-6.8	-6.1
CPI %	6.4	8.5	15.3	9.2	8.0

Source: Haver Analytics, National sources, Emirates NBD Research
**Egypt data refers to fiscal year (July-June)*

Key Economic Forecasts – Non-GCC Oil Exporters

Algeria	2015	2016	2017e	2018f	2019f
Nominal GDP $bn	166.4	159.1	165.6	165.8	167.0
Real GDP %	3.7	3.3	1.6	2.4	2.1
Current A/C % GDP	-12.9	-12.3	-13.2	-9.7	-8.4
Budget Balance % GDP	-15.3	-13.1	-6.6	-6.4	-5.0
CPI %	4.4	5.8	6.0	4.9	5.3
Iran					
Nominal GDP $bn	419.6	441.8	442.3	403.9	400.8
Real GDP %	-1.4	12.4	4.4	-0.5	-2.0
Current A/C % GDP	0.3	3.7	4.9	1.9	-0.7
Budget Balance % GDP	-5.3278	-4.7595	-4.9863	-3.716	-3.0416
CPI %	15.8	8.7	10.0	12.5	13.5
Iraq					
Nominal GDP $bn	164.2	165.2	184.6	212.8	240.6
Real GDP %	4.0	11.0	-0.3	2.4	4.3
Current A/C% GDP	2.5	1.7	1.7	3.7	4.0
Budget Balance % GDP	-13.0	-14.5	-6.6	-1.8	-1.4
CPI %	1.2	1.3	0.9	2.0	3.0
Libya					
Nominal GDP $bn	34.4	43.6	63.3	88.5	104.2
Real GDP %	-0.1	-6.9	34.8	27.3	9.7
Current A/C% GDP	-9.4	-10.2	-9.5	-8.6	-8.7
Budget Balance % GDP	-21.8	-18.1	-10.6	-4.2	-4.0
CPI %	9.5	9.5	25.0	11.5	10.0
Oil Exporters (GDP weighted avg)					
Nominal GDP $bn	300.0	312.4	305.2	279.5	281.8
Real GDP %	0.8	9.0	5.5	3.7	1.7
Current A/C % GDP	0.4	0.6	-0.3	-1.3	-2.7
Budget Balance % GDP	-6.3	-7.9	-7.8	-5.0	-3.4
CPI %	9.7	6.1	8.1	8.6	9.0

Key Economic Forecasts - Global

US	2014	2015	2016	2017	2018f	2019f
Real GDP %	2.6	2.9	1.5	2.2	2.7	2.5
Current A/C % GDP	-2.1	-2.4	-2.4	-2.3	-3.0	-2.5
Budget Balance % GDP	-2.7	-2.6	-3.1	-3.4	-3.5	-4.7
CPI %	1.6	0.1	1.3	2.1	2.5	2.3
Eurozone						
Real GDP %	1.3	2.1	1.8	2.4	2.3	1.8
Current A/C % GDP	2.4	3.2	3.3	3.5	2.8	3.2
Budget Balance % GDP	-2.5	-2.0	-1.5	-0.9	-1.6	-0.9
CPI %	0.4	0.0	0.2	1.5	1.5	1.7
UK						
Real GDP %	3.1	2.3	1.9	1.7	1.5	1.5
Current A/C% GDP	-5.3	-5.2	-5.8	-3.9	-3.3	-3.3
Budget Balance % GDP	-5.3	-4.1	-2.9	-1.8	-2.8	-1.8
CPI %	1.5	0.0	0.7	2.7	2.6	2.1
Japan						
Real GDP %	0.4	1.4	0.9	1.8	1.2	1.0
Current A/C % GDP	0.8	3.1	3.8	4.0	3.5	3.8
Budget Balance % GDP	-7.7	-6.7	-5.7	-3.5	-4.8	-3.8
CPI %	2.7	0.8	-0.1	0.5	1.0	1.1
China						
Real GDP %	7.3	6.9	6.7	6.9	6.5	6.3
Current A/C % GDP	2.3	2.8	1.8	1.3	1.3	0.6
Budget Balance %GDP	-1.8	-3.4	-3.8	-3.7	-3.5	-3.5
CPI%	2.0	1.4	2.0	1.6	2.2	2.3
India*						
Real GDP%	6.4	7.4	8.2	7.1	7.3	7.8
Current A/C% GDP	-1.4	-1.1	-0.6	-1.5	-2.0	-2.8
Budget Balance % GDP	-4.3	-3.5	-3.7	-3.9	-3.5	-3.3
CPI %	6.7	4.9	5.0	3.3	3.9	4.6

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

FX Forecasts

	FX Forecasts - Major					Forwards		
	18-Sep	Q3 2018	Q4 2018	Q1 2019	Q2 2019	3m	6m	12m
EUR/USD	1.1690	1.1700	1.2000	1.2300	1.2500	1.1772	1.1869	1.2071
USD/JPY	112.07	110.00	112.00	110.00	110.00	111.34	110.47	108.70
USD/CHF	0.9619	0.9800	0.9800	0.9800	0.9800	0.9542	0.9454	0.9278
GBP/USD	1.3146	1.2700	1.3100	1.3500	1.4000	1.3198	1.3262	1.3389
AUD/USD	0.7206	0.7300	0.7500	0.7550	0.7550	0.7207	0.7215	0.7239
NZD/USD	0.6596	0.6700	0.6900	0.7100	0.7100	0.6597	0.6604	0.6627
USD/CAD	1.3028	1.2950	1.2700	1.2700	1.2700	1.3006	1.2984	1.2945
EUR/GBP	0.8893	0.9213	0.9160	0.9111	0.8929	0.8920	0.8950	0.9015
EUR/JPY	131.01	128.70	134.40	135.30	137.50	131.01	131.01	131.01
EUR/CHF	1.1245	1.1466	1.1760	1.2054	1.2250	1.1234	1.1221	1.1200
	FX Forecasts - Emerging					**Forwards**		
	18-Sep	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**3m**	**6m**	**12m**
USD/SAR*	3.7506	3.7500	3.7500	3.7500	3.7500	3.7502	3.7506	3.7547
USD/AED*	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6741	--
USD/KWD	0.3028	0.3020	0.3020	0.3020	0.3020	0.2963	0.2913	--
USD/OMR*	0.3848	0.3850	0.3850	0.3850	0.3850	0.3856	0.3864	0.3885
USD/BHD*	0.3771	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3788
USD/QAR*	3.6571	3.6400	3.6400	3.6400	3.6400	3.6547	3.6541	3.6533
USD/EGP	17.9150	17.9000	18.0000	18.1250	18.2500	18.3650	18.9250	19.9550
USD/INR	72.491	72.000	71.000	71.000	68.000	73.5800	74.4700	76.0700
USD/CNY	6.8623	6.7000	6.9000	7.1000	7.1000	6.9001	6.9221	6.9563
USD/SGD	1.3705	1.3500	1.3300	1.2900	1.2900	1.3683	1.3652	1.3581

Data as of 18 September 2018
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	**3M**	**6M**	**12M**	**3M**	**6M**	**12M**
2y	2.96	3.15	3.35	3.40			
10y	3.11	3.20	3.35	3.30			
2s10s (bp)	15	5	0	-10			
US Treasurys Forecasts					**US Treasurys Forecasts**		
2y	2.80	3.00	3.25	3.25			
10y	3.04	3.10	3.25	3.20			
2s10s (bp)	24	10	0	-5			
3M Libor					**3M Libor**		
3m	2.33	2.50	2.70	3.20			
3M Eibor					**3M Eibor**		
3m	2.62	2.70	2.90	3.40			
Policy Rate Forecasts							
	Current %	**3M**	**6M**	**12M**			
FED (Upper Band)	2.00	2.25	2.50	3.00			
ECB	0.00	0.00	0.00	0.25			
BoE	0.75	0.75	0.75	1.00			
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)	6.50	6.75	7.00	7.00			
SAMA (reverse repo)	2.25	2.50	2.75	3.25			
UAE (1W repo)	2.25	2.50	2.75	3.00			
CBK (o/n repo rate)	1.75	2.00	2.25	2.50			
QCB (repo rate)	2.50	2.75	3.00	3.50			
CBB (o/n depo)	2.25	2.50	2.75	3.25			
CBO (o/n repo)	2.64	2.90	3.15	3.65			
CBE (o/n depo)	16.75	16.75	15.75	14.75			

Source: Bloomberg, Emirates NBD Research

Commodity Forecasts

Global commodity prices							
	Last	2019Q1	Q2	Q3	Q4	2018	2019
Energy							
WTI	69.93	65.00	65.00	67.50	68.00	65.68	66.38
Brent	79.05	78.00	75.00	70.00	70.00	73.52	72.00
Precious metals							
Gold	1,202.20	1,300.00	1,350.00	1,350.00	1,380.00	1,297.62	1,345.00
Silver	14.21	16.50	17.00	17.50	17.75	16.31	17.19
Platinum	814.24	850.00	900.00	950.00	950.00	877.02	912.50
Palladium	1,011.35	1,000.00	1,050.00	1,150.00	1,150.00	989.78	1,087.50
Base metals							
Aluminum	2,042.50	2,050.00	2,150.00	2,150.00	2,250.00	2,167.67	2,150.00
Copper	6,134.00	6,500.00	7,000.00	7,250.00	7,500.00	6,599.94	7,062.50
Lead	2,075.00	2,268.90	2,422.50	2,498.62	2,574.44	2,322.79	2,441.11
Nickel	12,515.00	13,000.00	12,500.00	12,250.00	11,850.00	13,902.95	12,400.00
Tin	18,985.00	21,000.00	20,750.00	20,750.00	20,500.00	20,359.13	20,750.00
Zinc	2,405.00	2,956.11	3,144.85	3,238.07	3,330.75	3,054.73	3,167.44

Prices as of 19 September 2018. Note: prices are average of time period unless indicated otherwise.
Source: EIKON, Emirates NBD Research

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