NBK CAPITAL STRUCTURED INVESTMENTS & ADVISORY

# MENA MARKETS REVIEW

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## HIGHLIGHTS

- Markets continued their advance in February supported by positive prospects for a US-China trade deal, in addition to an increasing conviction that the Fed is done raising rates during the current cycle.

- Developed markets advanced in sync with the US markets. The MSCI AC World Index added 2.50% bringing its year-to-date return to 10.50%. EM performance was mixed dragged down by South America, Russia, and Turkey.

- GCC markets performance was mixed with Saudi, Qatar and Oman down. The UAE markets were top performers, followed by Bahrain and Kuwait.

## US GROWTH SLOWS IN 4Q18, LIKELY TO EASE FURTHER IN Q1

The first estimate of 4Q18 GDP showed growth at an annualized 2.6% – slightly above the consensus of 2.2% but nevertheless slower than the 3.4% recorded in Q3. Consumer spending, worth around 70% of the economy, grew a solid 2.8% though slower than in Q3, while net exports remained a drag on growth due to export softness. The figures meant that growth in 2018 overall reached 2.9%, up from 2.2% in 2017 but slightly below the 3% targeted by President Trump despite a large fiscal stimulus earlier in the year. As this stimulus continues to fade and the lagged impact of earlier interest rate hikes feeds through, growth is seen slowing further going into 2019. ‘Nowcasts’ by both the Atlanta and New York Federal Reserve banks point to growth of below 1% in 1Q19.

Indeed, as data releases begin to return to normal following delays due to the shutdown, evidence of moderating growth has continued to build. Retail sales growth dropped to a more than two-year low in December as households rebuilt savings, while personal incomes in January fell month-on-month for the first time since late 2015. The housing market also continues to suffer, with home prices rising more slowly in December (4.2%, a six-year low) and existing home sales down 8.5% y/y in January. Consumer confidence bounced back in February following the end of the shutdown but remains well below its peak of last year. Still, with the labor market in decent shape (unemployment at 4% and wage growth above 3%), any downturn in consumer spending seems unlikely to be severe.

Away from the household sector, business activity is also decelerating, though from levels that pointed to overheating through much of last year. The downturn is most pronounced in manufacturing – often considered a lead indicator of overall economic health – amid softer global growth and concerns over the US-China trade dispute. The ISM manufacturing index, for example, hit a more than two-year low of 54.2 in February, and signaled that cost pressures are easing. Service sector growth is also trending lower, though the surprisingly robust ISM non-manufacturing index score of 56.7 in February points to a gentler pace of deceleration than in industry. Optimism in both sectors would be boosted by a US-China trade deal.

## EUROZONE MANUFACTURING REMAINS UNDER PRESSURE

Concerns over growth in the Eurozone persist, also with particular worry over the region’s important manufacturing sector which is exposed to the global slowdown and heightened trade tensions. February’s Eurozone composite PMI score of 51.9 points to economic growth of around 0.2% q/q in 1Q19 – unchanged from Q4 – though did at least edge up for the first time in six months suggesting a degree of economic stabilization. The manufacturing component fell to below 50, signaling contraction, with new orders declining by their most in six years, and the closely-watched German Ifo index points to a steep decline in business investment ahead. However, the relative strength of both the services sector and the labor market – unemployment remained at a decade low of 7.8% in January – provide some grounds for optimism that the region will avoid a recession.

Having ended its asset purchase stimulus program in December and signaled possible rate hikes in 2H19, the European Central Bank, like the Fed, appears to be shifting in a more dovish direction. Its growth forecasts for the region are expected to be revised down at its March meeting, and it looks likely to discuss restarting its program of offering cheap long-term loans to banks (“TLTROs”) to support credit growth. Also important is the persistent weakness in inflation: core inflation fell back to 1.0% y/y in February, well below the ECB’s “below but close to 2%” target.

Just weeks ahead of its scheduled exit from the EU, the UK has yet to agree the terms of its departure. Prime Minister Theresa May is seeking improved terms with the EU following the overwhelming rejection of her negotiated deal by parliament in January, but the chances of securing satisfactory changes to the contentious ‘backstop’ component currently look slim. Assuming that any new deal is again voted down, parliament looks likely to press for an extension to the UK’s exit date. This would have to be agreed by the EU and is complicated by the UK’s uncertain participation in the EU parliamentary elections in May. It is also unclear what any extension would achieve. Brexit uncertainty is not helping the UK economy, with the PMI index showing growth in the dominant services sector at 51.3 in February, consistent with near stagnation in 1Q19.

### Japanese exports face headwinds from weak demand

Japan's external sector continues to face headwinds. Exports registered their largest decline, at -8.4% y/y, in over two years in January, mainly on the back of weaker Chinese demand. Imports also fell by 0.8% y/y, reflecting continued softness in domestic demand. Retail sales and industrial production growth also remained subdued during the same period, at 0.6% y/y and 0.0%, respectively. With core inflation, which excludes food costs, holding steady at 0.8% y/y in January, far below the central bank's target of 2%, and economic activity remaining weak, this further reaffirms the Bank of Japan's ultra-loose monetary policy stance.

### Chinese government lowers growth 2019 target

In a bid to prop up its slowing economy amid weaker external demand and the ongoing trade dispute with the US, China has vowed to cut taxes and fees, boost infrastructure investment and up its lending efforts to small firms. During its annual Congress meeting, the government announced that it is penciling in a slower growth target range of 6.0-6.5% versus reported growth of 6.6% in 2018. Indeed, factory activity continues to struggle to eke out gains. According to the official PMI, factory activity was at it is weakest in three years in February and fell for the third consecutive month. Meanwhile, consumer price inflation continued to decelerate, slowing from 1.9% y/y in December to 1.7% in January while producer price inflation slowed to a multi-year low of just 0.1%, paving the way for further government policy stimulus.

### Oil rally continues amid OPEC+ production cuts

Brent crude oil continued its early year rally last month, closing February up 7% m/m at $66/bbl following a 15% rise in January. The rise has been driven primarily but not exclusively by the efforts of OPEC and its Vienna agreement partners to drain excess supplies from the market by the end of 1H19. OPEC-11 compliance hit 85% in January, thanks to Saudi Arabia and Kuwait, who quickly pared back production to within quota levels. Oil's rise prompted US President Trump to tweet that prices were "getting too high" and that OPEC should "relax and take it easy". The imposition of US sanctions on Venezuela in January, the impending expiry of the 180-day US sanctions waivers on Iran in May and crude rationing in Canada due to pipeline bottlenecks, also supported prices, as has the seemingly improving prospects of a US-China trade deal.

### Mixed news for GCC business activity

It was a mixed bag for GCC private sector activity in February. While the Saudi non-oil economy continued to gain traction, with the PMI rising to a 14-month high of 56.6 on stronger domestic business, the UAE PMI retreated to a more than two-year low of 53.4 on a slowdown in new orders and output. Employment growth, though, was weak across the board. Saudi private sector credit growth also underwhelmed, moderating to 2.4% y/y in January from 2.9% y/y in December. In Dubai, the deflationary trend in residential real estate prices continued into 2019, with price declines accelerating to 9.4% y/y in January due to a combination of more stringent loan-to-value regulations, increased supply and changing demand patterns. In Bahrain, the cabinet approved a draft state budget for the next two years that should see the fiscal deficit shrink from $2.3 billion (6% of GDP) in 2018 to $1.6 billion (4% of GDP) by 2020. Subsidy cuts are on the cards, while revenue-generating measures such as VAT have been introduced.

Outside the GCC, Egypt's PMI fell to 48.2 in February. This was the lowest reading since September 2017 and the sixth consecutive month in contractionary territory. The soft PMI highlights some weakness in the recovery of the non-oil private sector, as Egypt's economic reform program continues.

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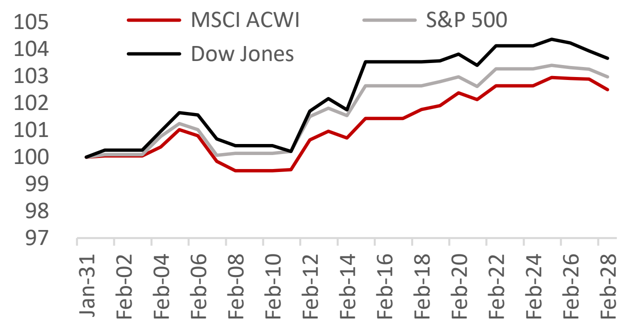
## Global Equities

Global markets continued their steady rise during February supported by encouraging signs from the trade negotiations between the US and China and an increasing conviction that the Fed will not raise rates during 2019. Recent comments by Chairman Powell and Vice Chairman Clarida suggest that the economy is in a good place and that further rate increases will be contingent on economic data. Within this context, and while the US economy will remain in expansionary mode, market watchers are expecting a further downgrade to the US outlook to be issued by the Fed at the March FOMC meeting.

**Chart 1: MSCI ACWI, S&P 500 & Dow Jones**

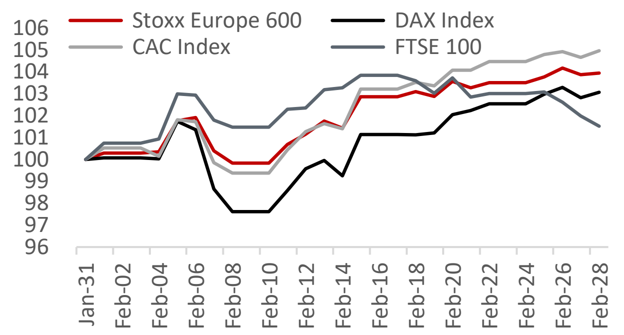



Source: Bloomberg *(figures rebased)*

The MSCI All Countries World Index ended February up 2.50%, bringing its year-to-date gains to 10.5% driven mainly by the robust performance of the US and European markets. Major US Indices continued their drive upwards for the second month of the year to reach double-digit returns. The Dow Jones Industrial Average led the pack with a gain of 3.67% for February, followed by the Nasdaq and the S&P 500 with gains of 3.44% and 2.97% respectively. The tech-heavy Nasdaq is now up 13.5% for 2019. Treasuries remained stable with the 10-year trading in a narrow range between 2.6% and 2.7% during most of February. It edged up to 2.75% after the release of the US GDP data and the Dollar strengthened.

GDP figures which were delayed by almost a month because of the partial US government shutdown, showed that the US economy cooled less than expected during the fourth quarter of 2018. US GDP grew by an annualized 2.6% during the last 3 months of 2018 compared to an estimate of 2.2%-2.3% and a third quarter growth of 3.4%. Manufacturing activity decelerated in February as the ISM manufacturing PMI recorded 54.2 down from 56.6 in January and compared to estimates of 55.5. Inflation, on the other hand, remained well contained as core personal consumption expenditures rose by an annualized 1.7% during the fourth quarter.

**Chart 2: European and UK Equities**




Source: Bloomberg *(figures rebased)*

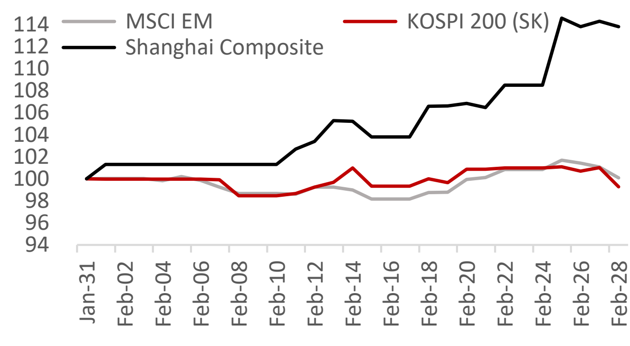
Markets in developed Europe followed suit with major European indices ending the month in the green. The Stoxx Europe 600 Index added 3.94% in February for a 10.4% gain for 2019. The German Dax and French CAC40 added 3.07% and 4.96% respectively bringing their year-to-date gains to 9.1% and 10.8%. Industrial activity remained weak, however, as the Markit Manufacturing PMI declined below the 50.0 mark in February recording 49.3 compared to 50.5 in January. The preliminary numbers of the Markit Services PMI, on the other hand, showed a marked improvement at 52.3 up from 50.8 last month.

In the UK, the FTSE 100 underperformed its peers adding 1.52% during February to bring its total return this year to 5.15%. Industrial activity retreated marginally as the Markit Manufacturing PMI declined to 52.0 meeting expectations and compared to revised reading of 52.6 for January. Consumer confidence edged up to -13 compared to -14 for the previous month.

Japanese equities continued their recovery that started with the new year as the Nikkei 225 Index added 2.94% in February and is now up 6.85% for the year. The

Nikkei Manufacturing PMI came in at 48.9 in February slightly above expectations of 48.5 but lower than the 50.3 recorded for January, while the unemployment rate edged up to 2.5% in February from 2.4% the previous month.

**Chart 3: MSCI EM vs South Korea vs China**




Source: Bloomberg *(figures rebased)*

After a strong start of the year, emerging markets seem to have taken a breather during February as the MSCI EM index advanced marginally by 0.10% during February. Geopolitical tensions in Venezuela and the threat of war took a toll on Central and South American markets. Equity markets in Brazil and Mexico declined by 1.86% and 2.65% respectively. Other notable decliners included the Russian Stock exchange which lost 1.42% during February. Emerging Asia, on the other hand, had a nice run during the month as the MSCI Asia ex-Japan advanced by 2.05% bringing its year-to-date gains to 9.48%.

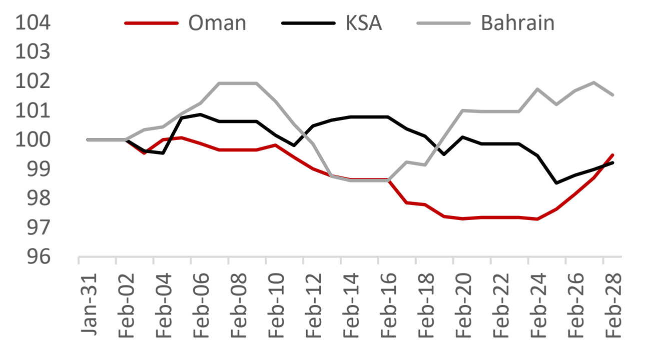
## Regional Equities

The OPEC+ agreement to curb oil production in a bid to stabilize oil markets seems to be working as oil prices continued to trend higher for most of February. Brent gained almost 7.0% for the month, while WTI added around 6.4%, which brings their total gain for 2019 to 22.7% and 26.0% respectively. Oil price recovery, however, was abruptly interrupted by the comments of President Trump warning OPEC to "take it easy" in their supply cuts.

The performance of the GCC equity markets was mixed during February after the strong performance of the previous month. The S&P GCC Composite declined by 0.87% pressured by a weak Saudi market which traded side-ways during most of the past four weeks, and a declining Qatari market which had its worst month since February 2018.

In Saudi Arabia the Tadawul All Share Index declined marginally by 0.79% after almost a 10% gain in January. The market has been benefiting from the inclusion to the FTSE Russell Emerging Markets index and is expected to receive passive inflows of around $15-20 billion as per the CEO of the stock exchange.

**Chart 4: Performance of Oman, KSA, & Bahrain**



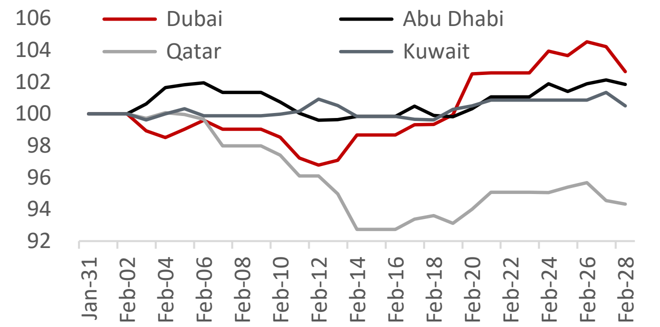

Source: Bloomberg *(figures rebased)*

Saudi Arabia will be the largest Middle Eastern market in the FTSE Emerging Markets Index with a weighting of around 2.88% and 0.27% in the FTSE Global Equity Index Series as per the FTSE Russell. The market inclusion will happen in several tranches with 10% of the total weight on March 18, 15% on April 22, and three equal tranches of 25% on June, September 2019 and March 2020.

The Bahraini market seems to be starting the year on a good note with the Bahrain Bourse All Share Index up 1.53% February bringing its returns for the first two months of the year to 5.64%. Also, in February, Fitch affirmed Bahrain's rating at BB- with a stable outlook, citing a strong financial backing from GCC neighbors, a large and developed financial sector, and a high GDP per capita.

In Doha, the Qatar Exchange Index lost 5.68% for the month and sending its year-to-date return to a negative 1.82%. This was the stock market's worst monthly performance since February 2018 when it declined by 5.99% but still managed to finish the year with a return of 20.8%.

**Chart 5: Performance of Dubai, Abu Dhabi, Qatar & Kuwait**




Source: Bloomberg *(figures rebased)*

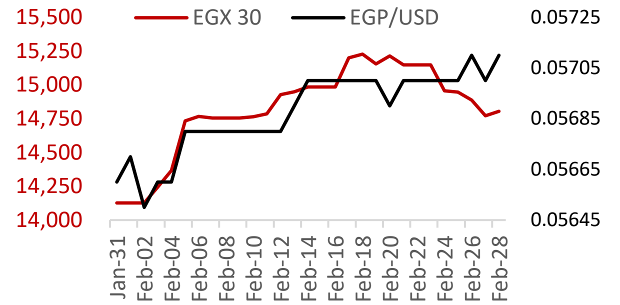
The equity markets in the UAE were the best performers among their GCC peers. Dubai's DFM General Index added 2.66% for a 4.19% year-to-date return, while Abu Dhabi's ADX General Index posted a return of 1.84% boosting its total return for the year to 4.53%.

Kuwait had a relatively quiet month as the Boursa Kuwait All Share Index increased marginally by 0.49%. There was an obvious preference for larger cap, blue-chip names which caused the Premier market to outperform with a return of 0.96% in February bringing its total for the year to 4.08% against 2.99% for the general market.

Oman's is still suffering from weak performance and lack of investors' appetite. The MSM 30 retreated by 0.53% in February and is now down 4.15% for the year on top of the 15.2% decline that it had suffered during 2018. The index is down 17.2% on a trailing twelve months basis.

The broader MENA region was impacted by the declines in Qatar and Saudi Arabia as the positive performance in the UAE and Egypt did little to support performance. The S&P Pan Arab Index ended the month down 0.77% but is still comfortably in the green for the year with an overall return of 5.62%.

**Chart 6: EGX 30 Index & EGP/USD**




Source: Bloomberg

Egypt's EGX 30 continued its robust performance for the second month this year adding 4.79% which brought its total return for 2019 to 13.56%. The index is now very close to recouping all of last year's losses and at its current level of 14,804, is only a couple of hundred points away from breaking even.

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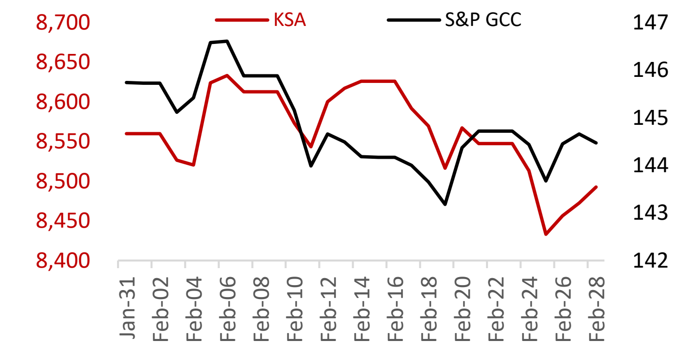
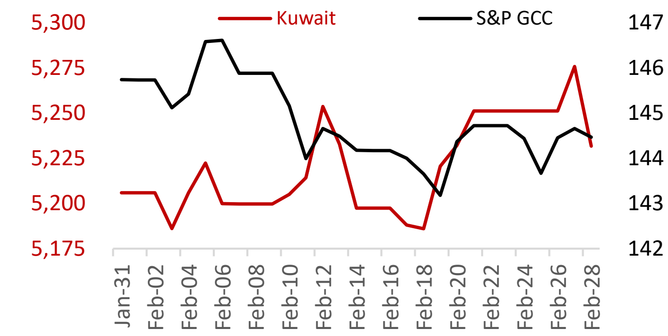
**Stock Market Performance** – *as of February 28, 2019:*

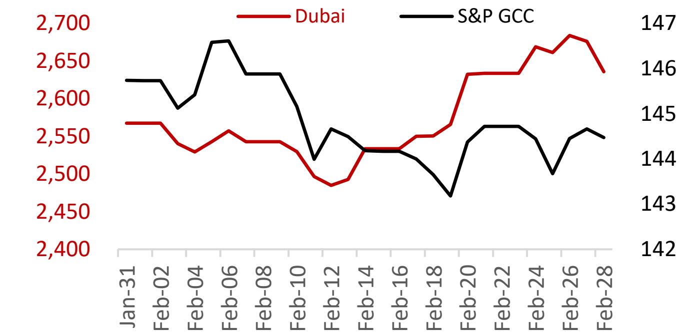
## Saudi Arabia



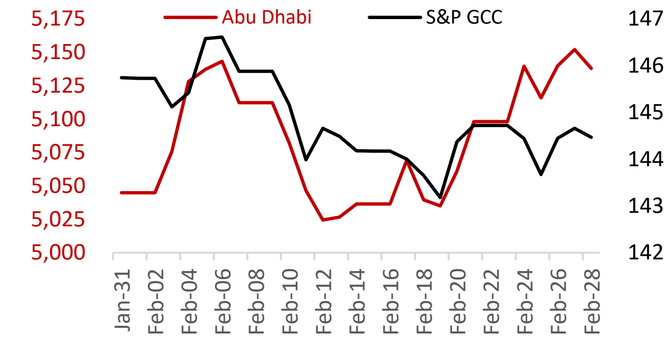

## Kuwait



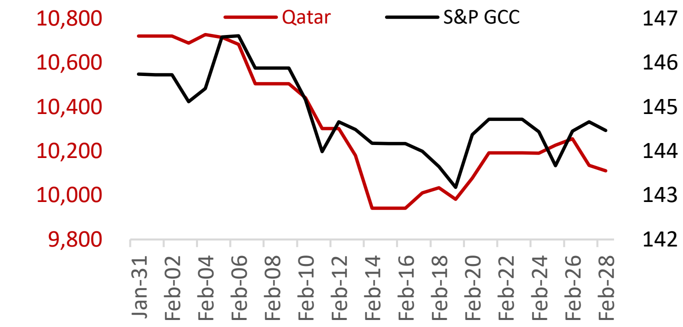

## Dubai



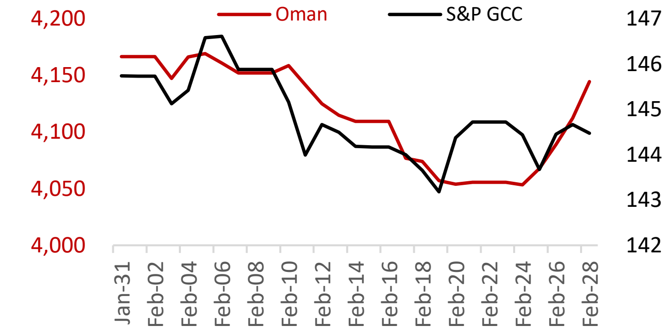

## Abu Dhabi



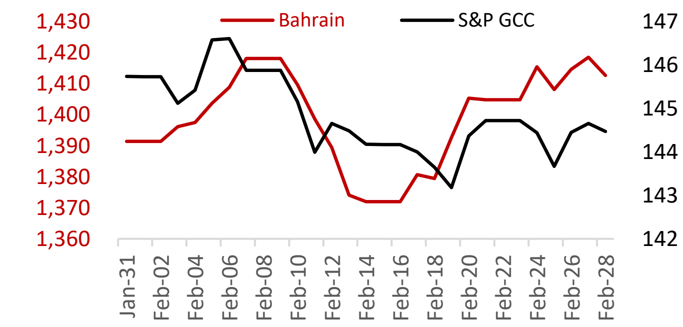

## Qatar



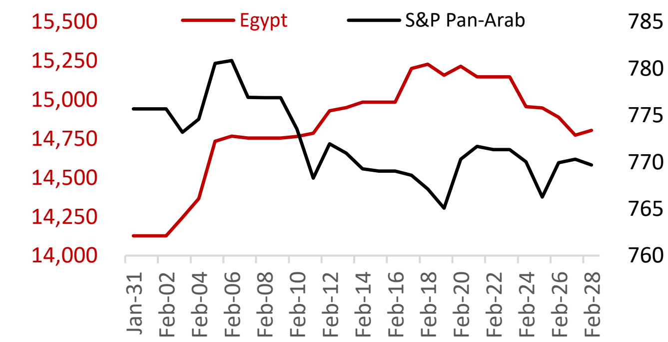

## Oman




## Bahrain




## Egypt




*All indices are in local currencies, except for the S&P GCC and S&P Pan Arab, both of which are denominated in USD.*
*Source: Bloomberg*

**Market Data** – *as of February 28, 2019:*

| Equity* | Last Price | % Change | | | |
|---|---|---|---|---|---|
| | | Monthly | Quarterly | YTD | 1Yr Trailing |
| Global | | | | | |
| MSCI AC World Index (USD) | 503.48 | 2.50% | 10.49% | 10.49% | -2.82% |
| MSCI EAFE (USD) | 1,873.72 | 2.33% | 8.94% | 8.94% | -8.68% |
| MSCI EM (USD) | 1,050.95 | 0.10% | 8.82% | 8.82% | -12.07% |
| US | | | | | |
| S&P 500 Index | 2,784.49 | 2.97% | 11.08% | 11.08% | 2.60% |
| Dow Jones Industrial Average | 25,916.00 | 3.67% | 11.10% | 11.10% | 3.54% |
| NASDAQ Composite Index | 7,532.53 | 3.44% | 13.52% | 13.52% | 3.57% |
| Russell 2000 Index | 1,575.55 | 5.08% | 16.83% | 16.83% | 4.17% |
| Developed | | | | | |
| Stoxx Europe 600 | 372.80 | 3.94% | 10.41% | 10.41% | -1.80% |
| FTSE 100 Index | 7,074.73 | 1.52% | 5.15% | 5.15% | -2.17% |
| DAX Index | 11,515.64 | 3.07% | 9.06% | 9.06% | -7.40% |
| CAC 40 Index | 5,240.53 | 4.96% | 10.78% | 10.78% | -1.50% |
| Nikkei 225 | 21,385.16 | 2.94% | 6.85% | 6.85% | -3.10% |
| Hang Seng Index | 28,633.18 | 2.47% | 10.79% | 10.79% | -7.17% |
| Emerging Markets | | | | | |
| Russia Stock Exchange | 2,485.27 | -1.42% | 4.89% | 4.89% | 8.21% |
| Turkey - Borsa Istanbul 100 Index | 104,529.90 | 0.44% | 14.53% | 14.53% | -12.12% |
| MSCI Asia ex Japan | 653.16 | 2.05% | 9.48% | 9.48% | -10.34% |
| Shanghai Composite | 2,940.95 | 13.79% | 17.93% | 17.93% | -9.77% |
| India - NIFTY 50 | 10,792.50 | -0.36% | -0.64% | -0.64% | 2.86% |
| Taiwan Stock Exchange | 10,389.17 | 4.60% | 6.80% | 6.80% | -3.94% |
| Brazil Ibovespa Index | 95,584.35 | -1.86% | 8.76% | 8.76% | 11.99% |
| Mexico Stock Exchange | 42,823.80 | -2.65% | 2.84% | 2.84% | -9.73% |
| MENA | | | | | |
| S&P Pan Arab (USD) | 769.69 | -0.77% | 5.62% | 5.62% | 8.83% |
| S&P GCC Composite (USD) | 144.47 | -0.87% | 6.45% | 6.45% | 15.29% |
| KSA - Tadawul All Share Index | 8,492.70 | -0.79% | 8.51% | 8.51% | 14.48% |
| Dubai - DFM General Index | 2,635.78 | 2.66% | 4.19% | 4.19% | -18.75% |
| Abu Dhabi - ADX General Index | 5,137.81 | 1.84% | 4.53% | 4.53% | 11.75% |
| Qatar Exchange Index | 10,111.62 | -5.68% | -1.82% | -1.82% | 16.85% |
| Boursa Kuwait All Share Index | 5,231.66 | 0.49% | 2.99% | 2.99% | 4.63% |
| Oman - Muscat Securities Market 30 Index | 4,144.47 | -0.53% | -4.15% | -4.15% | -17.17% |
| Bahrain Bourse All Share Index | 1,412.66 | 1.53% | 5.64% | 5.64% | 3.12% |
| Egypt - EGX 30 | 14,803.97 | 4.79% | 13.56% | 13.56% | -4.32% |
| Morocco - MADEX | 9,037.18 | -2.00% | -2.12% | -2.12% | -15.62% |
| Jordan - ASE Index | 1,992.12 | 2.08% | 4.36% | 4.36% | -10.25% |

**All Indices are in local currency, unless otherwise noted.*
*Source: Bloomberg*

**Market Data** – *as of February 28, 2019:*

| Fixed Income | Last Price | % Change Monthly | Quarterly | YTD | 1Yr Trailing |
|---|---|---|---|---|---|
| **Bond Indices** | | | | | |
| J.P. Morgan Global Aggregate Bond (USD) | 569.17 | -0.50% | 0.90% | 0.90% | 0.10% |
| Barclays US Aggregate Bond | 2,067.14 | -0.06% | 1.00% | 1.00% | 3.17% |
| US Government Total Return Value Unhedged (USD) | 2,189.05 | -0.26% | 0.21% | 0.21% | 3.21% |
| Bloomberg Barclays US Corp Bond Index | 2,901.84 | 0.22% | 2.57% | 2.57% | 2.63% |
| Bloomberg Barclays US Corp High Yield Bond Index | 2,028.86 | 1.66% | 6.26% | 6.26% | 4.31% |
| Global Treasury ex US Total Return Index Value Unhedged | 636.46 | -1.30% | 0.47% | 0.47% | -3.12% |
| Global Agg Corporate Total Return Index Value Unhedged | 255.98 | 0.19% | 2.49% | 2.49% | 0.09% |
| JPM Emerging Market Bond Index (USD) | 809.76 | 0.62% | 5.07% | 5.07% | 2.43% |
| Bloomberg Barclays EM High Yield Bond Index (USD) | 1,324.66 | 1.07% | 6.02% | 6.02% | 2.05% |
| **US Treasury Yields (%)** | **Current** | | **3 M ago** | **6 M ago** | **12 M ago** |
| 3 Month Yield | 2.433 | | 2.342 | 2.094 | 1.652 |
| 2 Year Yield | 2.514 | | 2.787 | 2.627 | 2.250 |
| 5 Year Yield | 2.512 | | 2.813 | 2.738 | 2.640 |
| 10 Year Yield | 2.715 | | 2.988 | 2.860 | 2.861 |
| 30 Year Yield | 3.080 | | 3.290 | 3.019 | 3.124 |
| **Global Treasury Yields (%)** | **Current** | | **3 M ago** | **6 M ago** | **12 M ago** |
| British 10 Year Gilt | 1.302 | | 1.364 | 1.427 | 1.501 |
| German 10 Year Bund | 0.183 | | 0.313 | 0.326 | 0.656 |
| Japan 10 Year Treasury | -0.022 | | 0.092 | 0.107 | 0.053 |

| Commodities | Last Price | % Change Monthly | Quarterly | YTD | 1Yr Trailing |
|---|---|---|---|---|---|
| **Precious Metals** | | | | | |
| Gold Spot | 1,313.32 | -0.60% | 2.40% | 2.40% | -0.38% |
| Silver Spot | 15.61 | -2.80% | 0.76% | 0.76% | -4.89% |
| **Energy** | | | | | |
| WTI Crude | 57.22 | 6.38% | 26.01% | 26.01% | -7.17% |
| Brent Crude | 66.03 | 6.69% | 22.73% | 22.73% | 0.38% |
| Natural Gas | 2.81 | -0.07% | -4.35% | -4.35% | 5.44% |

| Currencies | Last Price | % Change Monthly | Quarterly | YTD | 1Yr Trailing |
|---|---|---|---|---|---|
| EUR-USD | 1.137 | -0.67% | -0.84% | -0.84% | -6.75% |
| GBP-USD | 1.326 | 1.17% | 3.99% | 3.99% | -3.61% |
| USD-JPY | 111.390 | 2.30% | 1.55% | 1.55% | 4.42% |
| KWD-USD | 3.294 | -0.18% | -0.07% | -0.07% | -1.04% |

| Interbank Rates (%) | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| London Interbank | 2.490 | 2.615 | 2.686 | 2.865 |
| Saudi Interbank | 2.760 | 2.911 | 3.020 | 3.251 |
| Emirates Interbank | 2.630 | 2.863 | 3.075 | 3.305 |
| Qatar Interbank | 2.717 | 2.913 | 3.113 | 3.350 |
| Kuwait Interbank | 2.375 | 2.625 | 2.875 | 3.125 |

*Source: Bloomberg*

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