NBK CAPITAL STRUCTURED INVESTMENTS & ADVISORY

MENA MARKETS REVIEW

ISSUE 029

MARCH 2019

HIGHLIGHTS

- Equity markets continued to build on the positive performance since the beginning of the year and managed to end the first quarter of 2019 deep in positive territory.
- The MSCI AC World Index added another 1.0% in March for a Q1 return of 11.6%. Emerging markets also had a good month overall with the exception of Turkey which was down more than 10%.
- In the GCC, the effects of EM status upgrades and solid oil markets provided strong support which was reflected in a monthly return of 2.93% for S&P GCC Composite Index (9.6% YTD).
- Kuwait and Saudi led the pack with monthly returns of 7.4% for Kuwait and 3.85% for Saudi bringing their first quarter returns to 10.6% and 12.7% respectively.

MIXED SIGNALS ON US GROWTH, BUT BOND YIELDS DIVE

US GDP growth in 4Q18 GDP was revised down to an annualized 2.2% from the earlier estimate of 2.6%, driven by weaker but still decent growth in private consumption (2.5%) and investment (3.7%), and a fall in government spending. Growth for 2018 overall was unchanged at 2.9%, just short of President Trump's 3% goal. Given the fading impact of last year's fiscal stimulus, the late stage in the economic cycle, a potentially peaking labor market, trade tensions and the lagged impact of past policy tightening by the Federal Reserve, expectations are that growth will continue to soften this year. But although the downside risks are clear, data over the past month suggest that concerns of a sharp near-term slowdown may have been overblown. The Atlanta Fed's 'Nowcast' is now pointing to growth of 2.1% in 1Q19, much higher than the sub-0.5% performance it signaled less than one month ago.

For example, the ISM manufacturing activity index returned to above 55 in March and appears to have arrested the sharp decline seen in the second half of last year, while the services index rose to a robust 59.7 in February on strong order books. Away from industry, consumer sector signals have been mixed. Jobs growth slowed to a 17-month low of 20,000 in February, but the unemployment rate still ticked down to 3.8% while wage growth accelerated to a decade-high of 3.4% y/y. Consumer confidence has also recovered after plunging in January due to the government shutdown. However, retail sales fell 0.2% m/m in February following a very poor holiday season, while the disappointing 0.1% m/m rise in the broader consumer spending measure in January points to a weak contribution to GDP growth at the start of last quarter.

Concerns over economic prospects have been visible in the bond market, with the 10-year treasury yield sinking from 2.76% at the start of March to below 2.4% near the end of the month and the lowest in well over a year. This briefly triggered a so-called 'inversion' of the yield curve – where some shorter-dated bonds yield more than longer-term ones – which in the past has signaled an impending recession. While this yield gap is a technical measure and open to interpretation, it has lent support to the narrative of a weakening economy, to the Fed's recent rate hike "pause" and also possible interest rate cuts later in the year (which futures markets now see as more likely than not). Both President Trump's key economic advisor and his nominee to the Federal Reserve Board have recently argued the case for a 50-bps rate cut, a sign of continued Whitehouse pressure on the Fed to boost the economy. That case has also been enhanced by low inflation, which fell to 1.5% y/y in February on the CPI measure.

EUROPE FACING WEAKENING GROWTH AND POLITICAL PRESSURES

There has been more evidence of a worrying economic slowdown in the Eurozone, amid decelerating global growth, trade tensions, regional political uncertainty and the halt to monetary stimulus by the European Central Bank (ECB) late last year. The Eurozone flash composite PMI fell to 51.3 in March, pointing to just-positive growth but with the Q1 average significantly below 4Q18. Key to the downturn is weakness in the manufacturing component, which at 47.5 plunged deeper into contraction territory and to its lowest in six years, with Germany particularly affected. At the same time however, labor market data has continued to improve in most countries, with both unemployment (7.8%) and wage growth (2.3%) now at around decade bests. Although the labor market often lags developments in the rest of the economy, there is hope that this tightening will feed through into stronger consumption to cushion the region from a deeper industrial-led downturn.

Meanwhile Eurozone inflation continues to trend lower, with the headline rate edging down to 1.4% y/y in March from 1.5% in February, while the core rate fell to just 0.8%. Both are well below the ECB's goal of "below but close to 2%". The bank revised down both its growth (1.1% from 1.7% in December) and inflation (1.2% from 1.6%) forecasts for 2019 in March, and now projects that inflation will remain below target through 2021. Like the Fed, it has abruptly changed course recently and after having ended its asset purchase stimulus program in December, has now restarted a program of offering cheap long-term loans to banks to boost credit and promised to not raise interest rates until at least next year – around six months longer than previously stated. However, with a possibility of a rate *cut* later this year by the Fed now being debated, talk of even a delayed rate hike by the ECB is beginning to sound outdated.

The UK parliament again voted down prime minister Theresa May's Brexit withdrawal deal with the EU, forcing her to apply to extend the UK's scheduled end-March departure date, now set for 22nd May but still contingent on the deal being passed. In a bid to break the impasse, May has offered to collaborate with the opposition Labour Party on the nature of the future trading relationship with the EU (which will be negotiated after her withdrawal deal passes) or failing that with parliament as a whole, which could end up with a soft form of Brexit such as a customs union or a second referendum. Embattled PM May is under pressure from within her own party to stand down, which could trigger a general election and usher in either a more anti-EU government or the left-wing Labour party, with new Brexit objectives. Brexit-related pressures may be starting to weigh on the until-now resilient UK economy, with the services PMI at 48.9 in March and the manufacturing measure rising to 55.1 but helped by uncertainty-driven stockpiling.

Japanese weakness leads to stimulus speculation

Ongoing trade tensions between the US and China as well as a softer global economic climate continue to weigh on the Japanese external sector. In spite of a slight improvement, Japanese exports declined for the third straight month in February (-1.2% y/y versus -8.4% in January). Imports also fell, by a sharper 6.6% y/y in February versus a 0.8% drop in January, reflecting continued softness in domestic demand. The weakness in Japan's external and domestic sectors has sparked speculation of further stimulus ahead. However, during its policy meeting last month, the Bank of Japan stood pat on its monetary policy and the bank's governor ruled out the possibility of further stimulus in the near term.

Chinese stimulus measures may be taking effect

Economic activity in China appears to have hit a trough in early 2019. According to the official and Caixin PMI survey indices, manufacturing activity reversed its decline and climbed to multi-month highs of 50.5 and 50.8, respectively, in March. The improvement was mainly thanks to a raft of policy measures aimed at propping up the private sector. Meanwhile, the official services PMI also witnessed an uptick, rising from 54.3 in February to 54.8 in March. However, export growth remains sluggish amid a softer global economic climate and an ongoing trade rift with the US. Indeed, export growth fell by a sharp 20.7% y/y in February (the timing of the Lunar New Year holiday also weighed on the data). This may prompt the government to implement further expansionary measures to counteract the ongoing weakness in the external sector.

Oil rally continues amid OPEC+ production cuts

International benchmark Brent crude closed out March with its best quarterly performance since 2009, rising 27% to $68.4/bbl. Prices have been buoyed by signs that the market is tightening. Led by Saudi Arabia, which appears determined to drain excess supplies from the market, OPEC-11 compliance with targeted production cuts reached 106% in February, with production down 812 kb/d to 25.9 mb/d from its reference level of last September/October. Non-OPEC compliance, meanwhile, improved to 52% in February from 25% in January. Russia reiterated that it intends to fully comply soon.

OPEC-11's efforts have been augmented by falling output from Iran and Venezuela due to a combination of political turmoil, mismanagement and US sanctions as well as by lower supplies from Canada and Libya. Even in the US, data has been less bullish of late. While US crude production continues to break new ground, reaching 12.1 mb/d in the week-ending 22 March, the number of oil drilling rigs has fallen for six consecutive weeks. Indeed, in early March the US Energy Information Administration cut its oil production forecasts, by 110 kb/d to 12.3 mb/d in 2019 and by 170 kb/d to 13.03 mb/d in 2020. Drilling in the smaller shale plays has become more circumspect amid a focus on shareholder returns.

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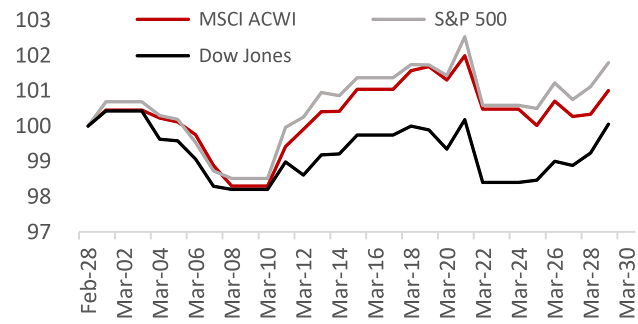
Global Equities

Equity markets continued to build on the positive performance since the beginning of the year and managed to end the first quarter of 2019 deep in positive territory. Dovish central banks policies across major economies and renewed hopes of progress in the US-China trade talks helped keep the markets afloat. The MSCI All Countries World Index added 1% during March to end the quarter with an advance of 11.6%, while the MSCI Emerging Markets Index added 0.68% bringing its first quarter returns to a little under 10% at 9.56%.

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

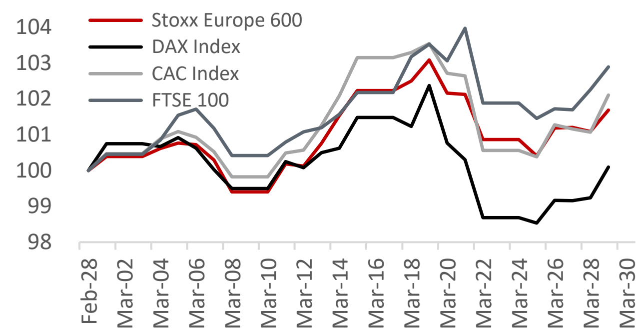


Source: Bloomberg *(figures rebased)*

As was expected, the FOMC summary of economic projections following the March Fed meeting showed a downgrade of the general outlook of the US economy. Real GDP for the current year and next is now expected to grow at 2.1% and 1.9% compared to December projections of 2.3% and 2.0%. The rate of unemployment is now expected to edge up to 3.7% and 3.8% in 2019 and 2020 compared to previous estimates of 3.5% and 3.6% respectively. Actual fourth quarter GDP for the US was revised down to 2.2% from a previous estimate of 2.6%. Real GDP for 2018 is now up by 2.9% compared to 2.2% for 2017. The deceleration in the fourth quarter reflects a slowdown in momentum caused, at least partially, by the fading effect of the tax cut stimulus and government spending. Manufacturing activity picked up in March as the ISM manufacturing PMI advanced to 55.3 compared to 54.2 in February. Inflation remained subdued with the Core Personal Consumption Expenditures (PCE) increasing only 0.1% month-on-month in January against expectations of an increase of 0.2%. On a year-over-year basis, Core PCE recorded 1.8% in January down from a revised 2.0% the previous month.

US Indices had a solid quarter with the S&P 500 and Nasdaq Composite posting quarterly returns of 13.1% and 16.5% after returning 1.8% and 2.6% in March. The Down Jones Industrial Average, on the other hand, remained practically unchanged at 0.05% during March and underperformed for the quarter with a gain of 11.15%. The 10-year Treasury yields declined steadily during the month, retreating from 2.75% at the beginning of March to 2.4% as of month-end hitting a 15-month low.

Chart 2: European and UK Equities



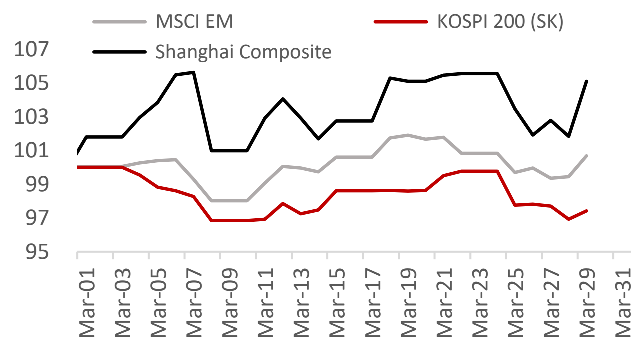
Source: Bloomberg *(figures rebased)*

Markets in Europe joined the rally with the Stoxx Europe 600 Index adding 1.7% for a first quarter performance of 12.3%. The German Dax and French CAC40 added 0.09% and 2.1% respectively bringing their first quarter returns to 9.16% and 13.10% respectively. Manufacturing activity extended its weakness as the Markit Manufacturing PMI for March declined further to 47.5 from 49.3 in February. European inflation remained weak as the headline Consumer Price Index (CPI) registered 1.4% in March against expectations of it remaining stable at 1.5% and the core CPI declining to 0.8% against expectations of 0.9% and a February reading of 1.0%.

In the UK, equity markets seemed to ignore the chaos caused by the Brexit as the parliament rejected the Prime Minister's plan for the third time. The FTSE 100 advanced by 2.89% during March boosting the first quarter performance to 8.2%. Recent data showed that the UK GDP advanced by 0.2% during Q4 of 2018 bringing its overall growth for last year to 1.4%. Industrial activity, on the other hand, picked up markedly during March with the Markit Manufacturing PMI climbing to a 12-month high of 55.1 up from a revised 52.1 for February.

Japanese equities underperformed most developed markets during March as the Nikkei 225 Index retreated by 0.84% resulting in a first quarter performance of 5.95%. The Nikkei manufacturing PMI improved marginally compared to the previous month but remained below the 50 level at 49.2. Unemployment, on the other hand, improved to 2.3% in March compared to 2.5% for the previous month.

Chart 3: MSCI EM vs South Korea vs China



Source: Bloomberg *(figures rebased)*

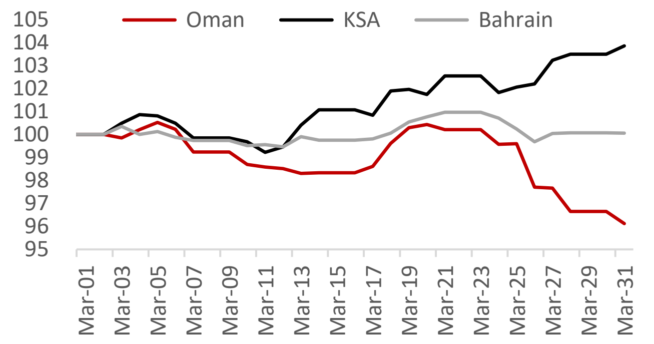
Emerging markets were mostly up during March. The MSCI Emerging Markets Index rose 0.68% during the month boosting its performance for the first quarter to 9.56%. MSCI Asia Ex-Japan Index added 1.52% during the month pushing its Q1 returns to 11.21%. Notable decliners included Turkey as the Borsa Istanbul 100 Index declined by 10.3% shrinking its year-to-date return to 2.75%. Russian equities advanced by a marginal 0.48%, while Asian markets were mostly positive with India's NIFTY 50 and Shanghai Composite leading with advances of 7.70% and 5.1% respectively.

Regional Equities

Meanwhile oil markets continued their recovery and posted their strongest quarter in almost a decade. Markets were supported by the OPEC+ production cut, tensions in Venezuela, and renewed pressures on Iranian oil exports. Brent closed the quarter at $68.4/bbl, up 3.6% in March and 27.12% for the quarter. WTI ended March at $60.14/bbl, adding 5.1% during the month and 32.44% over the first quarter.

GCC markets had a solid month overall supported by a conducive global markets backdrop and rallying oil prices. During March the S&P GCC Composite added 2.93% on top of an already strong first two months of 2019 bringing its performance for the first quarter of the year to 9.56%. This performance was supported primarily by large gains in Kuwait and Saudi Arabia, which saw their market indices reach double digit gains for the quarter.

Chart 4: Performance of Oman, KSA, & Bahrain



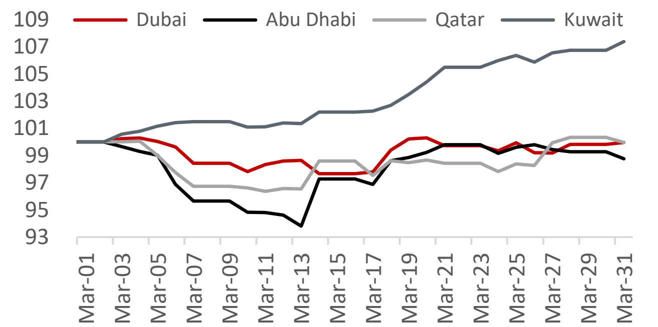
Source: Bloomberg *(figures rebased)*

In Saudi Arabia, the Tadawul All Share Index advanced by 3.85% in March resulting in a year-to-date return of 12.68%. The market performance was boosted by a solid oil market in addition to the effect of the FTSE Russell upgrade which effectively started on 18 March with the initial 10% of the total weight. According to a statement by FTSE Russell, a total of around USD 6-7 billion are projected in passive inflows to the Saudi Market by the end of the transition in March 2020.

In terms of economic developments, the Saudi economy grew by 3.59% during the fourth quarter compared to a year earlier, up from 2.5% in the third quarter. This growth was predominately driven by the expansion in the oil sector which grew by around 6.0% while the non-oil sector grew at a much slower rate of 1.8%. Overall, the Saudi economy grew by 2.21% during 2018.

Kuwait, on the other hand, was the leading performer among its GCC peers in March. The Boursa Kuwait All Share Index added 7.38% during the month bringing its first quarter return to 10.6%. The Index is up 12.36% for the full year since its inception on April 1, 2018. The Kuwaiti market was supported by buying interest in the Premier market names as evidenced by the Boursa Kuwait Premier Market Index which ended March up 9.21% to bring its Q1 2019 performance to 13.66% compared to 3.02% increase in the Main Market Index for March and 3.77% for the quarter.

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



Source: Bloomberg *(figures rebased)*

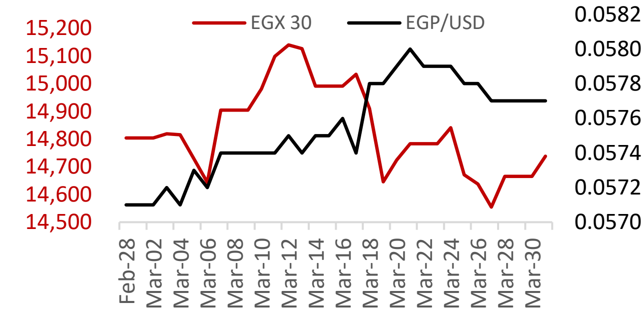
After a solid performance in February, the UAE markets took a breather with Dubai DFM general Index virtually unchanged at -0.03% and the Abu Dhabi ADX General Index down 1.23%. Both Indices are still positive for the year with respective returns of 4.15% and 3.25% for the first quarter of 2019.

In Doha, the Qatar Exchange Index managed to recover earlier declines which initially brought the index down as much as 3.63% during the first ten days of the month to finish the month practically flat at -0.04%. The Index performance is still negative for the year down 1.86% on the back of the solid performance of almost 21% during 2018.

Bahrain traded flat for most of the month with a slight tilt to the downside. The Bahrain Bourse All Share Index ended the month virtually unchanged at 0.05%. Its performance during the first quarter is still among the top in the MENA region at 5.69%. The Omani market, on the other hand, is still struggling with losses as the MSM 30 Index again registered a decline of 3.88% during the month bringing its losses since the beginning of the year to 7.87% and on a one-year trailing basis to 16.6%.

The broader S&P Pan Arab Index managed to advance by 2.31% during March despite the marginal decline of Egypt's EGX 30 and declines of 2.07% and 3.14% in Morocco and Jordan respectively thanks to support from the Saudi and Kuwaiti markets.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

After an initial surge which brought Egypt's EGX 30 above the 15,000 level during the second week of March, the index ended the month down 0.45%. It is still up, however, 13.06% for the first quarter.

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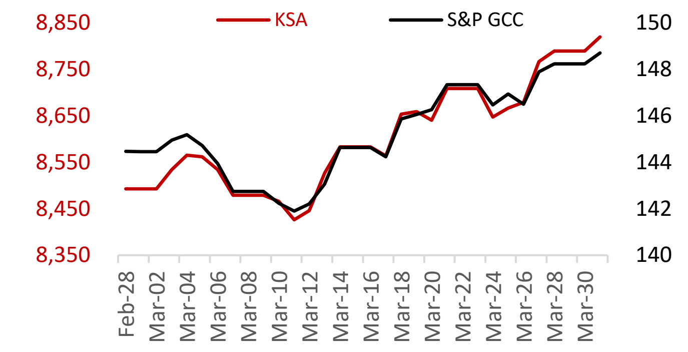
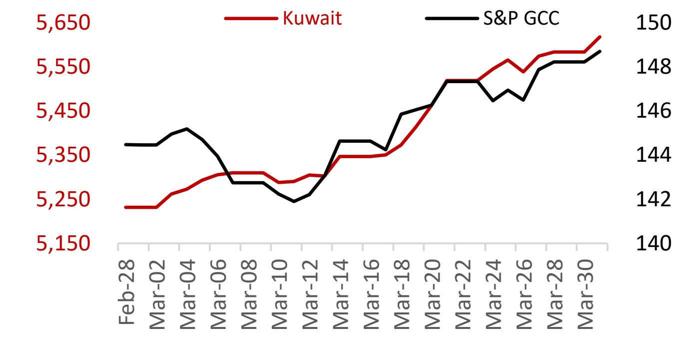
Stock Market Performance – *as of March 31, 2019:*

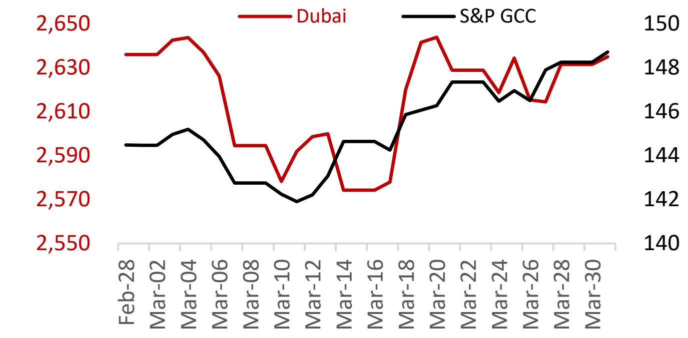
Saudi Arabia



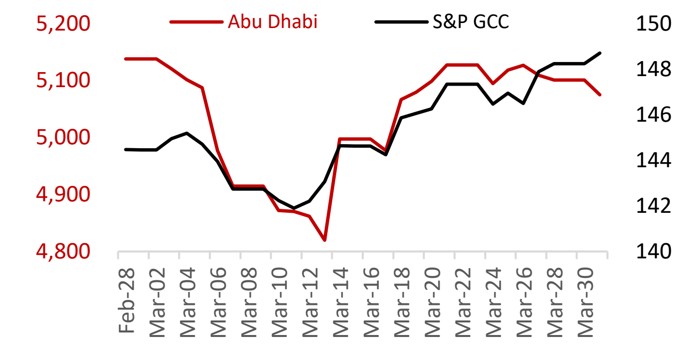
Kuwait



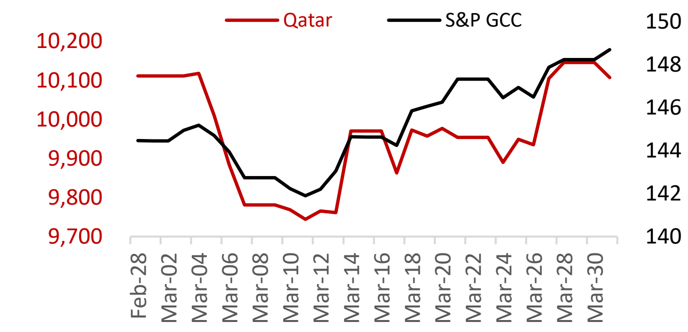
Dubai



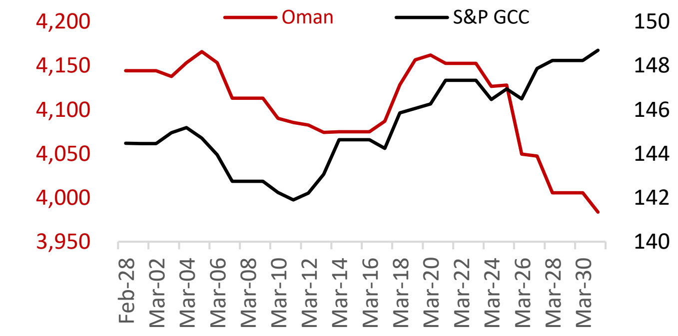
Abu Dhabi



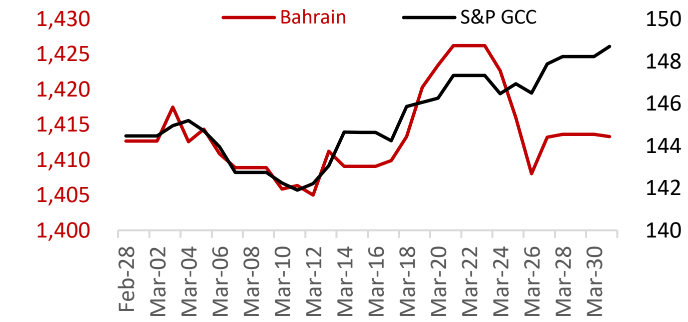
Qatar



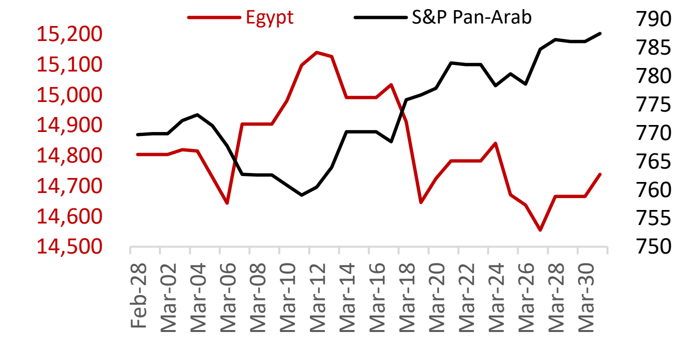
Oman



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 March 31, 2019:*

Equity*	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	508.55	1.01%	11.61%	11.61%	0.62%
MSCI EAFE (USD)	1,875.43	0.09%	9.04%	9.04%	-6.33%
MSCI EM (USD)	1,058.13	0.68%	9.56%	9.56%	-9.51%
US					
S&P 500 Index	2,834.40	1.79%	13.07%	13.07%	7.33%
Dow Jones Industrial Average	25,928.68	0.05%	11.15%	11.15%	7.57%
NASDAQ Composite Index	7,729.32	2.61%	16.49%	16.49%	9.43%
Russell 2000 Index	1,539.74	-2.27%	14.18%	14.18%	0.67%
Developed					
Stoxx Europe 600	379.09	1.69%	12.27%	12.27%	2.22%
FTSE 100 Index	7,279.19	2.89%	8.19%	8.19%	3.15%
DAX Index	11,526.04	0.09%	9.16%	9.16%	-4.72%
CAC 40 Index	5,350.53	2.10%	13.10%	13.10%	3.55%
Nikkei 225	21,205.81	-0.84%	5.95%	5.95%	0.22%
Hang Seng Index	29,051.36	1.46%	12.40%	12.40%	-3.46%
Emerging Markets					
Russia Stock Exchange	2,497.10	0.48%	5.39%	5.39%	9.78%
Turkey - Borsa Istanbul 100 Index	93,784.18	-10.28%	2.75%	2.75%	-18.34%
MSCI Asia ex Japan	663.49	1.58%	11.21%	11.21%	-7.25%
Shanghai Composite	3,090.76	5.09%	23.93%	23.93%	-2.21%
India - NIFTY 50	11,623.90	7.70%	7.01%	7.01%	14.93%
Taiwan Stock Exchange	10,641.04	2.42%	9.39%	9.39%	-1.89%
Brazil Ibovespa Index	95,414.55	-0.18%	8.56%	8.56%	11.77%
Mexico Stock Exchange	43,281.28	1.07%	3.94%	3.94%	-6.16%
MENA					
S&P Pan Arab (USD)	787.45	2.31%	8.06%	8.06%	7.55%
S&P GCC Composite (USD)	148.70	2.93%	9.56%	9.56%	14.25%
KSA - Tadawul All Share Index	8,819.44	3.85%	12.68%	12.68%	12.05%
Dubai - DFM General Index	2,634.86	-0.03%	4.15%	4.15%	-15.24%
Abu Dhabi - ADX General Index	5,074.65	-1.23%	3.25%	3.25%	10.67%
Qatar Exchange Index	10,107.42	-0.04%	-1.86%	-1.86%	17.88%
Boursa Kuwait All Share Index	5,617.82	7.38%	10.60%	10.60%	12.36%
Oman - Muscat Securities Market 30 Index	3,983.66	-3.88%	-7.87%	-7.87%	-16.55%
Bahrain Bourse All Share Index	1,413.32	0.05%	5.69%	5.69%	7.20%
Egypt - EGX 30	14,737.88	-0.45%	13.06%	13.06%	-15.54%
Morocco - MADEX	8,850.09	-2.07%	-4.15%	-4.15%	-16.20%
Jordan - ASE Index	1,929.50	-3.14%	1.08%	1.08%	-13.60%

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

Market Data – *as of March 31, 2019:*

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Aggregate Bond (USD)	577.99	1.55%	2.46%	2.46%	0.46%
Barclays US Aggregate Bond	2,106.83	1.92%	2.94%	2.94%	4.48%
US Government Total Return Value Unhedged (USD)	2,230.47	1.89%	2.10%	2.10%	4.20%
Bloomberg Barclays US Corp Bond Index	2,974.53	2.50%	5.14%	5.14%	4.94%
Bloomberg Barclays US Corp High Yield Bond Index	2,047.94	0.94%	7.26%	7.26%	5.93%
Global Treasury ex US Total Return Index Value Unhedged	642.29	0.92%	1.39%	1.39%	-3.82%
Global Agg Corporate Total Return Index Value Unhedged	260.15	1.63%	4.15%	4.15%	1.28%
JPM Emerging Market Bond Index (USD)	821.52	1.45%	6.59%	6.59%	3.52%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,327.71	0.23%	6.26%	6.26%	2.19%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	2.381	2.371	2.196	1.700	2.381
2 Year Yield	2.260	2.516	2.819	2.266	2.260
5 Year Yield	2.233	2.555	2.953	2.562	2.233
10 Year Yield	2.405	2.718	3.061	2.739	2.405
30 Year Yield	2.814	3.022	3.206	2.974	2.814
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.000		1.269	1.573	1.350
German 10 Year Bund	-0.070		0.242	0.470	0.497
Japan 10 Year Treasury	-0.081		0.003	0.130	0.040

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,292.38	-1.59%	0.77%	0.77%	-2.50%
Silver Spot	15.12	-3.16%	-2.43%	-2.43%	-7.69%
Energy					
WTI Crude	60.14	5.10%	32.44%	32.44%	-7.39%
Brent Crude	68.39	3.57%	27.12%	27.12%	-2.68%
Natural Gas	2.66	-5.33%	-9.46%	-9.46%	-2.60%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.122	-1.35%	-2.17%	-2.17%	-8.80%
GBP-USD	1.304	-1.72%	2.20%	2.20%	-7.01%
USD-JPY	110.860	-0.48%	1.07%	1.07%	4.16%
KWD-USD	3.289	-0.16%	-0.23%	-0.23%	-1.41%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	2.495	2.600	2.660	2.711
Saudi Interbank	2.736	2.868	2.966	3.149
Emirates Interbank	2.616	2.848	3.065	3.206
Qatar Interbank	2.662	2.887	3.084	3.383
Kuwait Interbank	2.438	2.688	2.938	3.125

Source: Bloomberg

Disclaimer: