NBK CAPITAL STRUCTURED INVESTMENTS & ADVISORY

MENA MARKETS REVIEW

ISSUE 034

AUGUST 2019

HIGHLIGHTS

- Markets remained under pressure during the month of August amid continued trade tensions and fears that they would trigger a global slowdown

- The MSCI AC World Index retreated by 2.57% in August, while the MSCI EM Index dropped by 5.08% shrinking its year-to-date gain to 1.92%

- Oil trended down during the month, pressured by fears of a stalling global economy and a demand slowdown, and an increasing US output which reached a record 12.5 mb/d. Brent closed down 5.94% while WTI declined by 7.27% during August.

- GCC markets were largely negative against a backdrop of declining global markets and a general risk-off stance. The S&P GCC Composite shed 6.23% weighed down by Saudi Arabia which witnessed the largest regional decline after the momentum of the MSCI upgrade started to wear off.

US MANUFACTURING ACTIVITY IN CONTRACTION TERRITORY

The US economy has continued to display mixed signals, with real signs of trouble for manufacturing contrasting a consumer sector still in very good shape. The manufacturing PMI, for example, at 50.3 in August recorded its lowest reading in a decade on deteriorating auto demand and a tariff and trade tension-linked fall in export orders. The equivalent ISM survey was even weaker, pointing to outright contraction in activity. However, consumer spending rose a solid 4.1% y/y in July and confidence remains strong, backed up by a tight labor market. There was also upbeat news from the revised national accounts for 2Q19, which saw private consumption upgraded to an annualized 4.7% q/q from 4.3% before, despite a downgrade to GDP growth from 2.1% to 2.0%. Since consumer spending accounts for 70% of the economy and is still doing well, GDP growth is so far not expected to slow much in Q3, at 1.5-2.0%.

Nevertheless, the challenge facing the Federal Reserve is becoming ever more acute. Having cut rates by 25 bps in July, the bank is under pressure from both the financial markets and President Trump to loosen policy much further over coming months and "get ahead" of a future downturn as well as tackling low inflation, which was unchanged 1.6% y/y in July on the core PCE measure. But minutes of the last Fed meeting show that FOMC members were divided over July's cut, and given the ambiguous data there is a risk that the Fed could dent its credibility and deploy its limited firepower too soon. Futures markets take a dovish view, now pricing in a mid-September rate cut with certainty, and a near-90% chance of another cut by year-end. Fed policy will be influenced by the ability of the US and China to reach an agreement on the trade war, which despite the announcement of a return to official-level talks over coming weeks, still looks some way off.

EUROPEAN GROWTH FALLS AS ECB MULLS INFLATION TARGET SHIFT

The European economy remains particularly exposed to weaker world growth. Retail sales in the crucial but export-dependent German economy – worth 30% of Eurozone GDP – dropped a larger-than-expected 2.2% m/m in July, while unemployment rose in August, raising fears that external weakness is filtering through to the domestic economy. Indeed, having fallen in Q2, GDP could decline again in Q3, putting Germany officially in recession. Eurozone growth, which slowed to just 0.2% q/q in Q2, could come in at little more than 1% this year overall.

The European Central Bank (ECB) is set to make the shift to looser policy in mid-September, including a cut in the deposit rate from its current -0.4%, stronger forward guidance and a possible restart of the bank's asset purchase program that it ended last December. But there is debate within the ECB about the efficacy of fresh stimulus, including the financial distortions caused by negative interest rates and the number of available bonds eligible for purchase. While likely to support monetary loosening, Christine Lagarde, who will replace current ECB chief Mario Draghi on November 1st, has called for European governments to do more on fiscal policy to promote growth.

In the UK, the Brexit drama took a further turn when the new PM Boris Johnson, looking to reinforce his negotiating hand with the EU, opted to close parliament for five weeks from mid-September and reduce opposition to his threat to take the UK out of the EU without a deal at the end of October. Parliament however looks set to speed through legislation to block a 'no deal' exit, which would force Johnson to ask the EU for a fresh minimum three-month extension. A general election now looks all but inevitable, the result of which may still not be decisive for Brexit if it yields a minority government with a commitment to a second referendum. The uncertainty continues to hurt the UK economy, where construction orders fell the fastest in 10 years in August and the pound hit a 34-year low of $1.21 in August.

Japanese growth beats expectations

Japan's economic growth slowed from an annualized 2.2% in 1Q19 to a much better-than-expected 1.8% in 2Q19, as a pick-up in capital spending helped offset some of the ongoing weakness in the external sector. The strong growth rate has raised the stakes for a planned increase in the consumption tax from 8% to 10% in October. Analysts are penciling in a GDP contraction for Q3 if the much-delayed tax hike is imposed, as downward pressures from the external sector are compounded by potentially weaker growth in consumption. Meanwhile, the Bank of Japan made its biggest bond purchase cut since it embarked on its yield-curve control policy back in 2016, after a bond rally pushed bond yields near record lows. It now plans to buy between ¥250 and ¥550 billion of 10-year notes at each operation in September, as opposed to between ¥300 and ¥650 billion in August.

Yuan slides on trade tensions, growth concerns

According to the latest official PMI, Chinese factory activity remained in contractionary territory in August (49.5), consistent with the ongoing softness in domestic conditions and downward pressures on the external sector. While the private manufacturing survey surprised on the upside, pointing to an expansion in activity in August (50.4), export orders continued to fall. Amid signs of ongoing softness in the economy, China's central bank lowered corporate borrowing costs in a bid to prop up investments and ultimately growth. If trade tensions with the US continue to escalate, we are likely to see further pro-growth measures in the months ahead. Meanwhile, the yuan continued to fall further past RMB7/US$1 throughout August for the first time in 11 years, averaging RMB7.02 versus RMB6.88 in July.

Oil prices down again on trade war concerns

Worries over the global economic outlook continue to weigh on oil prices. Brent crude fell 7.3% in August to close at $60.4/bbl, the steepest monthly fall since May's decline of 11.4%. Brent, though still returning a robust 12% year-to-date, has lost about 19% of its value since its 2019-peak of $75 in April. The US administration's recourse to trade protectionism, engaging in escalating tit-for-tat rounds of tariffs with China – the latest of which sees China imposing tariffs on a range of US goods including oil – has been significantly bearish for global growth, oil demand and, by extension, oil prices. The weakening economic backdrop has led the IEA to revise down its projection for global oil demand growth in 2019 for a third time this year, by 100 kb/d to 1.1 mb/d. Meanwhile, demand-side worries have, along with surging US crude production (+800 kb/d to 12.5 mb/d in 2019), undermined OPEC+ efforts to limit supplies and eliminate the supply overhang, even while the producers' group serially over-complies (141% in July).

UAE lending growth up, despite weak property sector

In Saudi Arabia, indicators of consumer spending improved in July, with POS transactions rising (+18.7% y/y), but private sector credit growth remained low, slowing for a second month in a row in July (+3.4%). Lending growth in the UAE, however, rose to a more-than-two-year high of 5.1% in July, on the back of stronger public sector credit growth. Residential property prices in Dubai, however, continued to decline in July (-8.5%). And in more downbeat news, the UAE PMI fell to a multi-year low of 51.6 in August. In Kuwait, growth in the NBK consumer spending index eased slightly to 2.7% y/y in August but is still up on earlier in the year, backed by last December's easing in lending restrictions by the central bank. Finally, Omani authorities reported the country's budget deficit halving to a five-year low of OMR 661 million in the first half of 2019. Increases in oil, gas and corporate tax earnings boosted revenues (+11.4% y/y) while expenditures were down (-2.8%) due to lower investment; current spending was broadly unchanged.

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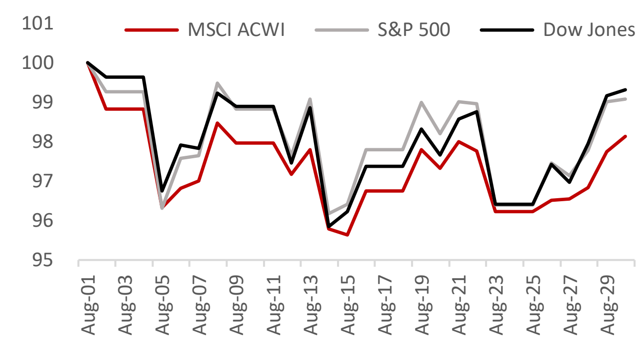
Global Equities

Markets remained under pressure during the month of August amid continued trade tensions and fears that they would trigger a global slowdown. The MSCI AC World Index retreated by 2.57% in August, while the MSCI EM Index dropped by 5.08% shrinking its year-to-date gain to 1.92% down from 7.38% as of last month. The sharp drop in emerging markets was driven by concerns of slowing growth and trade tensions especially after the downgrade of Argentina and the effect of increased tariffs on the Chinese economy and currency stability.

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

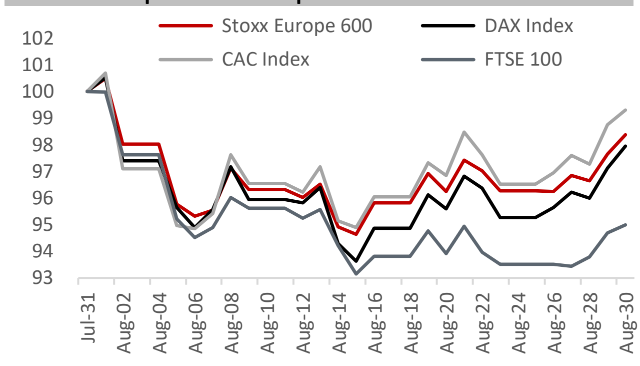


Source: Bloomberg *(figures rebased)*

The effects of trade tensions are starting to reflect into the US economy as the 2Q 2019 GDP was revised down marginally to 2.0% from 2.1% previously and compared to 3.1% for 1Q 2019. The downward revision was mainly driven by a decline in exports and investments, despite stronger consumer spending which was up by 4.7%. Overall the US GDP is now up 2.6% for the first half of the year. The Michigan Consumer Sentiment Index retreated to 89.8 in August against estimates of 92.1 dropping to a three-year low on concerns that trade wars will negatively impact the US economy. Inflation, on the other hand, remained tame as the Federal Reserve preferred measure, the core Personal Consumption Expenditures (core PCE) recorded 1.6% in July and 1.7% for the second quarter, both below the Fed's target of 2.0%.

Major US indices finished the month of August in the red. The S&P 500 and the Down Jones Industrial Index (DJI) declined by 1.81% and 1.72% during August, while the losses for the tech-heavy NASDAQ were relatively more severe with a decline of 2.60%. All three indices, however, managed to close off their beginning-of-month lows when the S&P 500 and DJI were down by more than 4.0% while the NASDAQ was down 5.50%. Treasury yields continued their steep decline triggered by the outlook on interest rate levels and intensifying concerns about an imminent recession. The yield on 10-year treasury bonds ended the month at 1.506% down from 2.021% at the end of July. The two and thirty-year yields, on the other hands, have dropped from 1.89% and 2.53% to 1.50% and 1.96% respectively in August.

Chart 2: European and UK Equities

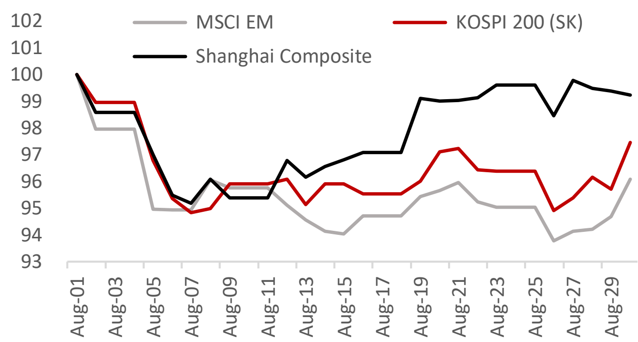


Source: Bloomberg *(figures rebased)*

European markets followed the general direction of global markets and trended down during the month. The Stoxx Europe 600 ended August down by 1.63% after managing to recover most of the losses incurred during the first two weeks when it was down by as much as 5.4%. The same trend was followed by the French and German markets with the CAC40 and DAX closing down 0.70% and 2.05% respectively. Both indices were trading down 5.11% and 6.37% respectively by mid-August before slowly recovering during the second half of the month. On the economic front, manufacturing activity picked up marginally but remained weak with preliminary figures showing the Markit Manufacturing PMI edging higher to 47.0 in August from 46.5 the previous month. The Markit Services PMI, on the other hand, remained robust recording 53.4 compared to estimates of 53.0 and a previous reading of 53.2. Eurozone inflation remained weak at 1.0% during August, raising market expectations that the ECB will ease monetary policy in September.

In the UK, political tensions intensified on the back of the Prime Minister's decision to suspend parliament for a period of 5 weeks starting mid-September which was seen as an attempt to make the MPs ability to block a "no deal" Brexit harder. The stock market responded to the old renewed uncertainty by a sharp decline with the FTSE 100 closing the month down 5.0% after failing to recover its losses like its European counterparts. In the meantime, the Gfk Consumer Confidence Index revisited its December 2018 dropping to -14 in August from -11 the previous month, while the CPI surprised on the upside recording 2.1% year-on-year compared to consensus expectations of 1.9% and a previous month's reading of 2.0%. The Markit Manufacturing PMI, on the other hand, dropped to 47.4 in August from 48.0 in July. The index was expected to show an improvement to 48.4 during the month.

Chart 3: MSCI EM vs South Korea vs China



Source: Bloomberg *(figures rebased)*

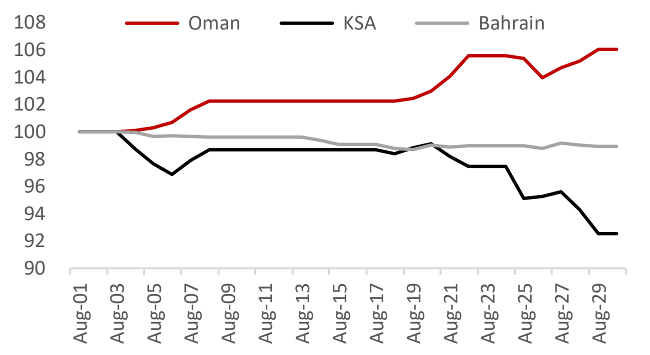
Emerging markets underperformed their global peers significantly with the MSCI EM and MSCI Asia ex-Japan dropping 5.08% and 4.61% respectively. The declines were mainly driven by trade and FX tensions in addition to the downgrade of Argentina. The Argentinian stock market lost 38% in one day after the country's downgrade to close the month of August down 41.5%. Turkey's Boursa Istanbul Index was down 5.25%. Other emerging markets fared better with India's Nifty 50 down 0.85% and Brazil's Ibovespa Index down 0.67%. Mexico Stock Exchange, on the other hand, gained 4.31% to return to the green for the year with a total year-to-date return of 2.36%

Regional Equities

Oil trended down during the month of August pressured by fears of a global recession and a demand slowdown, amid ever increasing US output which reached a record 12.5 mb/d during the third week of August. Despite a large drawdown in US crude stocks of 10 million barrels which took inventories to their lowest level since October, oil prices closed the month in the red as the market attributed the drawdown to hurricane fears rather than a pickup in market demand. Brent closed the month down 5.94%, while WTI was down 7.27%.

GCC markets ended the month of August in the red as the S&P GCC Composite shed 6.23% dragged down mostly by the Saudi and UAE Markets.

Chart 4: Performance of Oman, KSA, & Bahrain



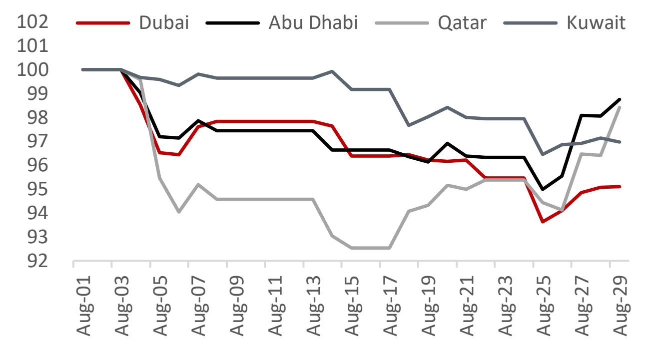
Source: Bloomberg *(figures rebased)*

Saudi Arabia witnessed the largest decline among its GCC peers as the Tadawul All Share Index retreated by as much as 8.16% closing at the month's low just above the 8,000 level. The month witnessed the second and final phase of the Saudi market inclusion in the MSCI Index which was fueling the market rally during the preceding few months but failed to provide momentum this time around. The market was pressured by receding passive fund flows from foreign investors after the effects of the upgrade started to fade. It was also under pressure from declining bank stocks especially during the last week of the month.

The Tadawul Banks index was down 11.70% during the month of August.

In the UAE, Dubai's DFM General Index closed the month of August down 5.47%, becoming the second worst performer in the GCC after the Saudi market. This comes after a particularly strong performance for the previous month when the Dubai market was the top performer with a gain of 9.77%. The overall tense international scene, including trade tensions and weak oil markets, in addition to general risk-off mode in global market, have done little to support GCC markets. In Abu Dhabi, the ADX General Index declined by 2.86%. Dubai and Abu Dhabi are still positive for the year though, with 9.05% for the DFM and 5.10% for the ADX.

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



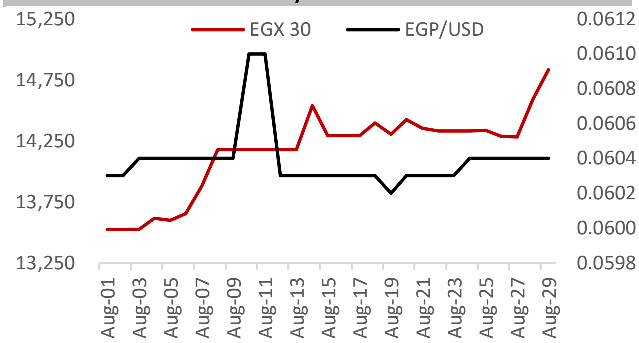
Source: Bloomberg *(figures rebased)*

The Kuwaiti market was almost at par with that of Abu Dhabi as the Boursa Kuwait All Share Index retreated by 2.87% on the back of generally negative sentiments globally and a risk-off stance, in addition to some profit taking following the market's strong performance over the past few months. The Boursa Kuwait Premier Market Index actually did underperform the general market and declined by 3.21% during the month of August. The Kuwaiti market remains the top regional performer for the year so far with the All Share Index up 17.0% and the blue-chip Premier index up 23.9%.

In Bahrain, losses were relatively milder with the Bahrain Bourse All Share Index down for the month by 0.94%. Equities in Bahrain were the second best performers in the GCC after Kuwait with a total return year-to-date of 13.81%.

Oman finally broke its losing streak and advanced by 6.49% in August. This marks its first positive month since September 2018. On a year-to-date basis, however, it is still the worst GCC performer with a decline of -7.38% up from -13.0% as at the end of July.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

In the broader MENA region, the S&P Pan Arab Index slightly outperformed its GCC counterpart, declining by 5.06%. It was supported by a positive performance in Egypt and Morocco.

In Egypt, the equity market bounced back strongly by 10.77% during August following a steep drop of 5.0% in July. The EGX30 closed the month at 14,835, just a few points shy of the key resistance level of 15K. For the year, the market index is now up 13.81%. The Moroccan MADEX added 0.83% during August for a year-to-date total performance of 3.35%.

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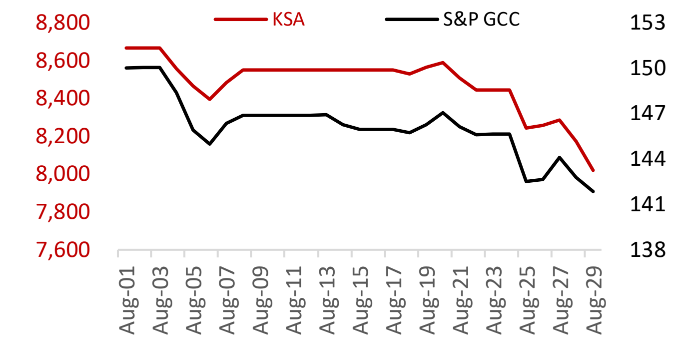
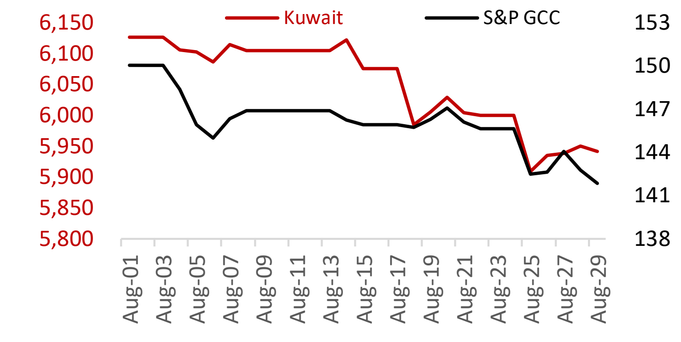
Stock Market Performance – *as of August 30, 2019:*

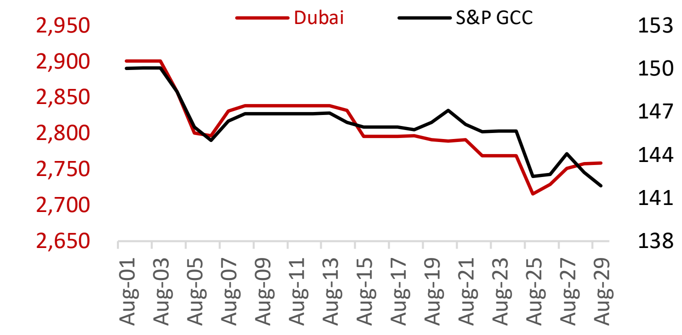
Saudi Arabia



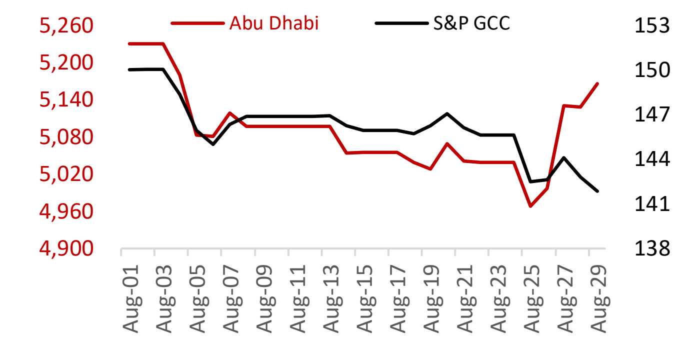
Kuwait



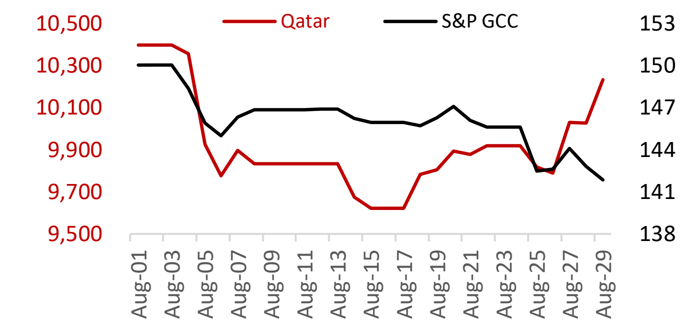
Dubai



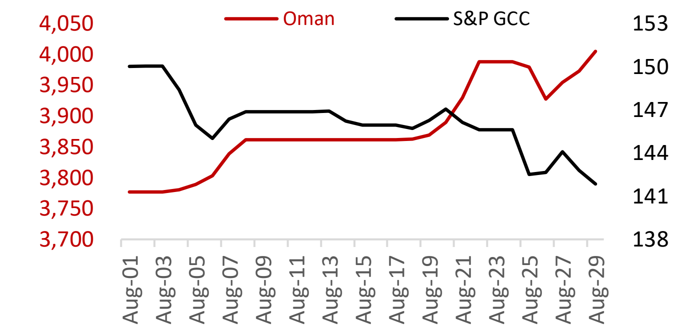
Abu Dhabi



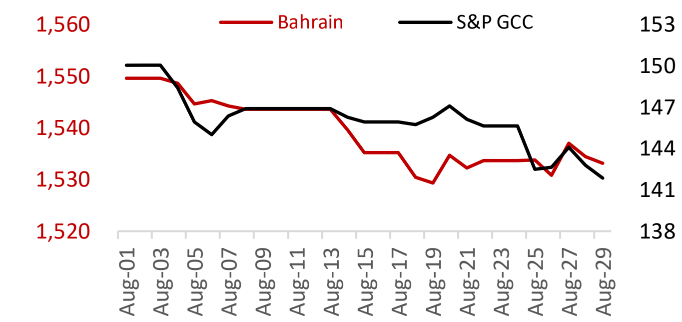
Qatar



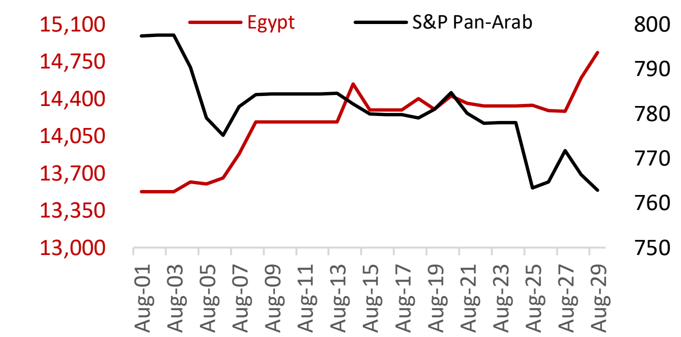
Oman



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

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Market Data – *as of August 30, 2019:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	510.88	-2.57%	-2.40%	12.12%	-2.56%
MSCI EAFE (USD)	1,842.58	-2.87%	-4.15%	7.13%	-6.76%
MSCI EM (USD)	984.33	-5.08%	-6.69%	1.92%	-6.95%
US					
S&P 500 Index	2,926.46	-1.81%	-0.52%	16.74%	0.87%
Dow Jones Industrial Average	26,403.28	-1.72%	-0.74%	13.19%	1.60%
NASDAQ Composite Index	7,962.88	-2.60%	-0.54%	20.01%	-1.55%
Russell 2000 Index	1,494.84	-5.07%	-4.58%	10.85%	-13.71%
Developed					
Stoxx Europe 600	379.48	-1.63%	-1.40%	12.39%	-1.53%
FTSE 100 Index	7,207.18	-5.00%	-2.94%	7.12%	-4.11%
DAX Index	11,939.28	-2.05%	-3.71%	13.07%	-4.44%
CAC 40 Index	5,480.48	-0.70%	-1.06%	15.85%	0.04%
Nikkei 225	20,704.37	-3.80%	-2.69%	3.45%	-9.47%
Hang Seng Index	25,724.73	-7.39%	-9.87%	-0.47%	-8.66%
Emerging Markets					
Russia Stock Exchange	2,740.04	0.02%	-0.93%	15.65%	17.55%
Turkey - Borsa Istanbul 100 Index	96,718.48	-5.25%	0.24%	5.97%	3.69%
MSCI Asia ex Japan	609.01	-4.61%	-6.68%	2.08%	-9.00%
Shanghai Composite	2,886.24	-1.58%	-3.11%	15.73%	5.42%
India - NIFTY 50	11,023.25	-0.85%	-6.49%	1.48%	-5.60%
Taiwan Stock Exchange	10,618.05	-1.90%	-1.05%	9.16%	-4.29%
Brazil Ibovespa Index	101,134.60	-0.67%	0.17%	15.07%	32.37%
Mexico Stock Exchange	42,622.50	4.31%	-1.25%	2.36%	-14.16%
MENA					
S&P Pan Arab (USD)	762.45	-5.06%	-4.21%	4.63%	2.64%
S&P GCC Composite (USD)	141.83	-6.23%	-5.65%	4.50%	3.96%
KSA - Tadawul All Share Index	8,019.77	-8.16%	-9.09%	2.47%	0.90%
Dubai - DFM General Index	2,758.60	-5.47%	3.76%	9.05%	-2.87%
Abu Dhabi - ADX General Index	5,165.57	-2.86%	3.73%	5.10%	3.58%
Qatar Exchange Index	10,232.85	-2.59%	-2.13%	-0.64%	3.50%
Boursa Kuwait All Share Index	5,941.13	-2.87%	1.87%	16.96%	15.76%
Oman - Muscat Securities Market 30 Index	4,004.86	6.49%	3.09%	-7.38%	-9.38%
Bahrain Bourse All Share Index	1,533.09	-0.94%	4.22%	14.64%	14.57%
Egypt - EGX 30	14,835.36	10.77%	5.21%	13.81%	-7.33%
Morocco - MADEX	9,542.19	0.83%	3.91%	3.35%	1.10%
Jordan - ASE Index	1,821.11	-2.79%	-2.95%	-4.59%	-8.29%

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

Market Data – *as of August 30, 2019:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Aggregate Bond (USD)	610.69	2.43%	2.27%	8.26%	8.86%
Barclays US Aggregate Bond	2,232.89	2.59%	2.82%	9.10%	10.21%
US Government Total Return Value Unhedged (USD)	2,371.64	3.36%	3.25%	8.56%	10.37%
Bloomberg Barclays US Corp Bond Index	3,223.39	3.14%	3.72%	13.94%	13.30%
Bloomberg Barclays US Corp High Yield Bond Index	2,119.43	0.40%	0.97%	11.00%	6.54%
Global Treasury ex US Total Return Index Value Unhedged	676.02	2.24%	1.64%	6.71%	7.50%
Global Agg Corporate Total Return Index Value Unhedged	275.75	1.92%	1.99%	10.40%	8.99%
JPM Emerging Market Bond Index (USD)	866.93	0.55%	1.70%	12.49%	12.85%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,326.75	-4.64%	-3.49%	6.18%	8.62%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	1.977		2.340	2.430	2.097
2 Year Yield	1.504		1.922	2.553	2.649
5 Year Yield	1.387		1.911	2.556	2.750
10 Year Yield	1.496		2.125	2.753	2.855
30 Year Yield	1.963		2.569	3.123	3.003
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	0.479		0.886	1.296	1.455
German 10 Year Bund	-0.700		-0.202	0.183	0.346
Japan 10 Year Treasury	-0.269		-0.094	-0.007	0.111

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,520.38	7.54%	7.86%	18.55%	26.70%
Silver Spot	18.38	12.98%	19.99%	18.59%	26.30%
Energy					
WTI Crude	55.10	-5.94%	-5.76%	21.34%	-21.57%
Brent Crude	60.43	-7.27%	-9.20%	12.32%	-22.30%
Natural Gas	2.29	2.33%	-1.00%	-22.28%	-20.49%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.098	-0.85%	-3.44%	-4.23%	-5.90%
GBP-USD	1.216	-0.02%	-4.25%	-4.69%	-6.56%
USD-JPY	106.280	-2.30%	-1.46%	-3.11%	-4.23%
KWD-USD	3.290	0.21%	-0.16%	-0.19%	-0.43%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	2.089	2.138	2.037	1.974
Saudi Interbank	2.411	2.420	2.397	2.400
Emirates Interbank	2.316	2.438	2.292	2.430
Qatar Interbank	2.629	2.747	2.876	3.104
Kuwait Interbank	2.625	2.813	3.000	3.250

Source: Bloomberg

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