ISSUE 003

JANUARY 2017

MENA MARKETS REVIEW

HIGHLIGHTS

- Trump’s inauguration speech focuses on economic growth
- Dow Jones Industrial Average closes over 20,000 for first time
- Emerging Markets outperform the UK, Euro Area and Japan
- Kuwait equity market best performer in the GCC
- Kuwait & Oman announce budgets for 2017/2018

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GLOBAL MACROECONOMICS

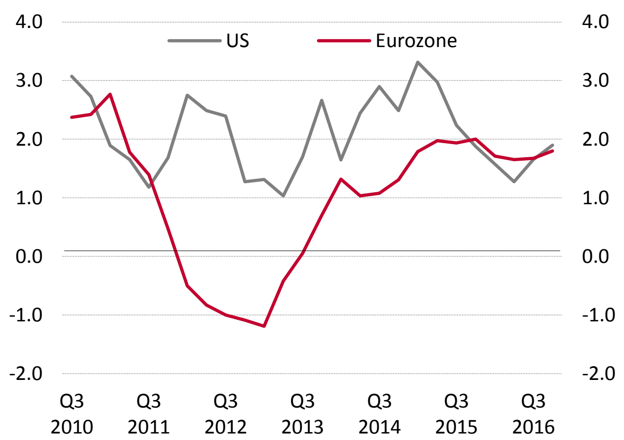
Financial markets, especially US markets, had a big run-up following the election of Donald Trump on November 8, 2016. Since the election, the S&P 500 Index is up close to 7%, the USD is higher against the EUR, and US interest rates have moved up as well. These moves were backed by positive US data late in 2016, an expected and realized 25 bps rate hike by the Federal Reserve in December, and of course election related optimism. That optimism followed the election of a Republican president, backed by an undivided government in the Congress, promising tax cuts, streamlined regulation, and stimulus spending. Other markets worldwide rose in sync with the US, more or less, with the GCC markets up significantly since the US election, and modestly for the year, led so far this time by Kuwait. The incoming Trump administration promises to be unconventional in many ways, and will likely have repercussions, both political and economic, on the world at large. We expect to see significant reductions in the US regulatory burdens (environment, finance, health…), lower taxes, increased defense, and infrastructure spending. While it is too early to quantify the impact of these actions, they will clearly improve economic growth in the US over time, provided there are no trade frictions or disruptions with major partners. It is reasonable to see US growth rising from the current 1.5-2.0% mire, and more toward 3.0%, over time. This outlook has led equities, interest rates and the USD higher, and is pointing to more of the same.

Following those big market moves, however, things appeared to be consolidating and taking a breather in the past few days of January. The focus is now on the new Trump administration: policy execution in the near term and policy direction for the near future. The markets are impressed by the speed and intensity of action: several orders and directives in the first few days of office, including re-opening the door on two large oil pipelines, previously stalled (Keystone XL, and Dakota Access). But the markets now appear a bit more concerned about issues around execution, potential overreach, policy delivery (e.g. on tax cuts and health care reform). It will be a while before the new administration finds its footing and before markets (and media) get used to Mr. Trump's new, unprecedented, modus operandi.

The above re-emphasizes what all analysts were/are worried about for the period ahead. The political uncertainty is affecting all sorts of outcomes, and not just for the US. The Brexit election is over, but the questions on "how" and "when" keep compounding. The Trump election is over, but the full economic implications and impact are as clear as mud. And of course, this could be a foretaste of the major elections that await in the Netherlands, France, Germany and others, later this year.

On more familiar grounds, the GDP numbers for the major economies confirm the current steady outlook. The US posted 1.9% GDP growth in Q4 (qoq, ann.), putting the year at 1.6%, below the 2.6% growth of 2015. For the first time since 2008, the Eurozone's economy posted a better performance than the US. It grew 1.7% in 2016, though below its 1.9% rate in 2015. China grew 6.7%, off from 6.9% the year before.

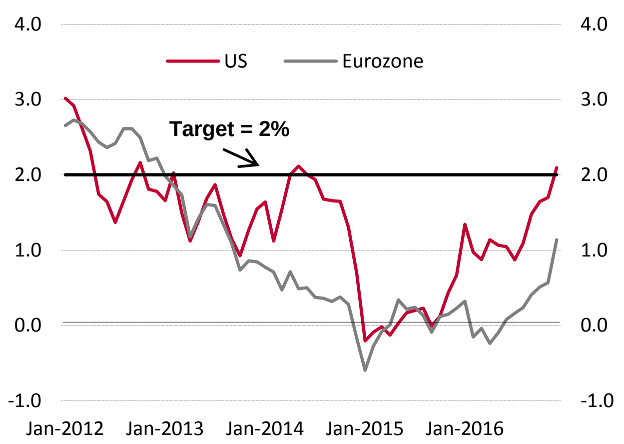
Chart 1: US & Eurozone GDP (%y/y)



Source: Thomson Reuters Datastream

Most inflation numbers have gotten firmer in recent months for most economies, thanks in part to higher oil prices. In that light, the growth and inflation data are now relieving the pressure on the major central banks. The ECB can afford to be less “easy” at some point, and the US can afford to be "tighter" going forward. Those fundamental pro-EU factors may well be a big reason behind the USD’s recent correction, and its difficulty in sustaining the 1.05 level, or better, versus the EUR.

Chart 1: US & Eurozone Inflation vs Target



Source: Thomson Reuters Datastream

The politics mentioned above, are currently favoring the EUR, because all eyes are on President Trump and his new unfamiliar, sometimes unnerving, style. However, it is very likely that, throughout this year, the political pendulum would swing back and forth between the US and the EU (and their markets) as major elections unfold ahead: Netherlands (March, parliamentary), France (April-May, presidential), and Germany (October, parliamentary). The results of these elections will likely feed off of one another. They will also be the more disruptive, the more they resemble what happened in the UK and the US recently. In other words the key will be how anti-establishment/anti-EU the results turn out to be.

Under our baseline, and not withstanding some politically induced volatility, the Fed should be poised to raise its target federal funds rate twice this year, around mid-year and sometime in Q4. That much is expected by the markets, and the GCC countries are expected to follow suit. As mentioned above these GCC markets have in general done well since Q4, though some recent Q4 earnings have been mixed. Still, the perception is one of renewed interest in those markets (domestic and international), buoyed by economic reforms and plans, and the fact that oil prices seem to be holding in the mid-50s (Brent), as OPEC-and-allies appear to be controlling production, more or less as promised.

Egypt also seems to be on the mend, as it was able to easily raise $ 4 billion in international debt in January, following the recent signing of a package with the IMF.

Oil prices remain the key to sentiment in the GCC for both the markets and the economies. We continue to expect moderate GDP growth in the GCC for the next 2 years, close to 2% on an overall basis, and around 3% on a non-oil basis (led by Kuwait and Qatar). Oil prices should continue to improve gradually over this year and next, especially if the OPEC-non OPEC production deal is adhered to, and US shale production remains contained.

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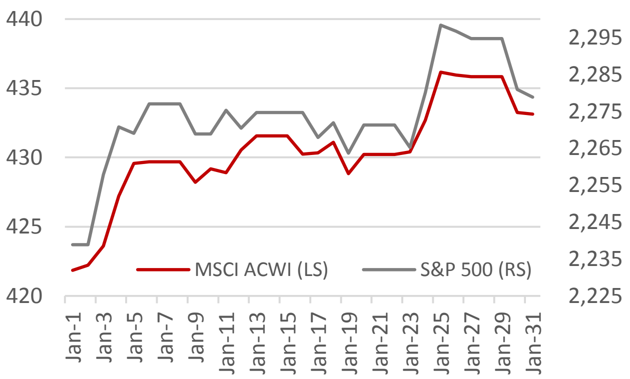
Global Equities

Global equities continued to improve, as measured by the MSCI All Country World Index, which was up 2.7% for the month of January. U.S. stocks, as measured by the S&P 500, also ended the month of January up 1.8%. The Dow Jones Industrial Average following its strong performance last month, also ended the month of January up 0.5%. After reaching a record level in the month of December 2016, the Dow finally closed above 20,000 for the first time. U.S. data continue to support the Federal Reserve's position on tighter monetary policy and higher interest rates as the US is close to full employment and moving towards its 2 percent inflation target. Equity markets are reacting to positive sentiment, following Donald Trump's inauguration on January 20. President Trump's speech appeared to focus on economic growth including key points such as infrastructure spending and improving labor conditions, reassuring he would deliver on his many promises.

Chart 2: MSCI ACWI & S&P 500 Performance

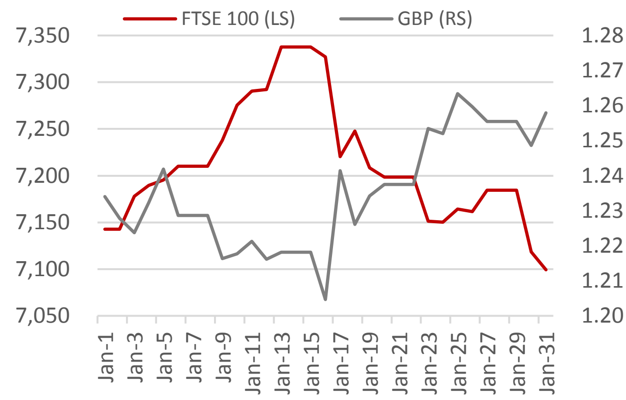


Source: Bloomberg

Overseas however, European equities' performance fell following last month's high, ending January down 0.4%, as measured by the Euro Stoxx 600 Index. The ECB left policy rates unchanged as expected. Italian bank stocks were affected after the EU asked Italy to make further cuts to its 2017 budget deficit.

UK equities delivered somewhat poor performance, as measured by the FTSE 100, down 0.6% for the month, following Theresa May's speech of a "hard" Brexit which combined with a weaker USD driven by uncertainty regarding Trump's policies, led to a rally in the sterling.

Chart 3: FTSE 100 & GBP



Source: Bloomberg

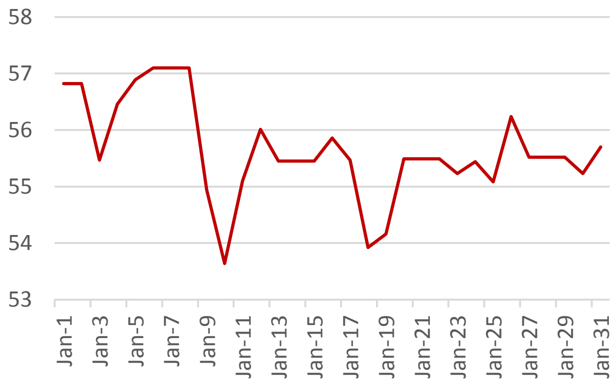
Emerging Markets bounced back in January, posting gains of 5.5%, as measured by the MSCI EM Index. The index remains resilient despite negative implications surrounding Trump's trade policy as well as prospects of higher U.S. interest rates and the impact on the different currencies.

In Asia, Japan's Nikkei ended the month down 0.4%, as the yen's appreciation has slowed. The same concerns also exist among investors regarding the policies of Trump's administration and its potential implications.

Commodities were mixed for the month with oil down 2.0% and gold up 5.5%. Investors unsure about the impact of a "hard" Brexit and the upcoming elections in Europe seem to be moving towards gold.

Oil was down 2.0% for the month as prices dropped slightly from the high of $56.82/bbl at the end of 2016. Currently oil prices have steadied around $55/bbl as markets anticipate further supply cuts from OPEC and non-OPEC countries. The GCC nations make up the majority of production cuts implemented thus far with Saudi Arabia leading the group. OPEC as a whole has cut output by 958,000 bpd below the promised cuts of 1.164 million bdp. While Saudi Arabia has cut production by 564,000 bdp in January, which is 16%, more than the pledged reduction of 486,000 bpd back in November.

Chart 4: Oil Prices Development - USD per Barrel (BRENT)



Source: Bloomberg

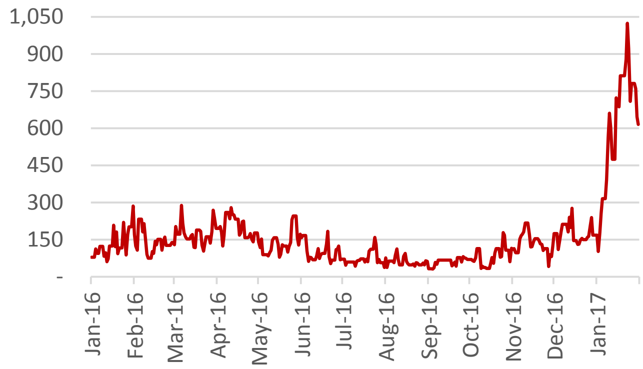
Regional Equities

MENA equities continue to perform well. The S&P Pan Arab Composite was up 1.6% in January, supported by the rally in the Kuwait Boursa.

The Saudi Tadawul All Share Index generated yet again the lowest return among the GCC countries, ending the month down 1.5%. This was due to generally weak earnings. After the rally in Saudi equities during the last two months of 2016, investors seem to be taking profits.

The Kuwait Weighted Index was the best performing GCC index in January up 12.4% as it continues its strong rally since the start of the year. The daily trading volume has increased significantly in the first month of 2017; trading in January was approximately one third of all the value traded in 2016. This rally is seen as long overdue and one trigger may be the acquisition of Americana and the impending minority share buyout. In addition, the change in the composition of the frontier market indices and expectation that Kuwait's weight will increase may also be a factor. Most sectors closed out the month in positive territory, led mainly by real estate and banks.

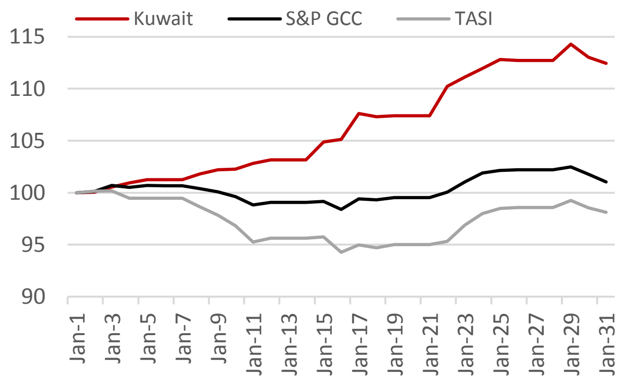
Chart 5: KSE Volume (millions)



Source: Bloomberg

According to the 2017/2018 budget announcement, Kuwait plans to increase spending to KWD 21.2b from 19.6b in 2016. Kuwait expects oil revenue to rise more than 30% during the fiscal year and the budget is based on an oil price of $45 per barrel with expected output of 2.8 million bpd. This is expected to reduce the budget deficit to KWD 7.9b down from KWD 9.7b. The total spending includes funds allocated to the Future Generations Fund of KWD 1.3b up from KWD 1b in 2016. Capital expenditure is expected to reach KWD 3.4b and the plan is to increase investments in petrochemicals and refining with the aim of creating jobs.

Chart 5: Rebased Relative Performance of Kuwait, TASI & GCC

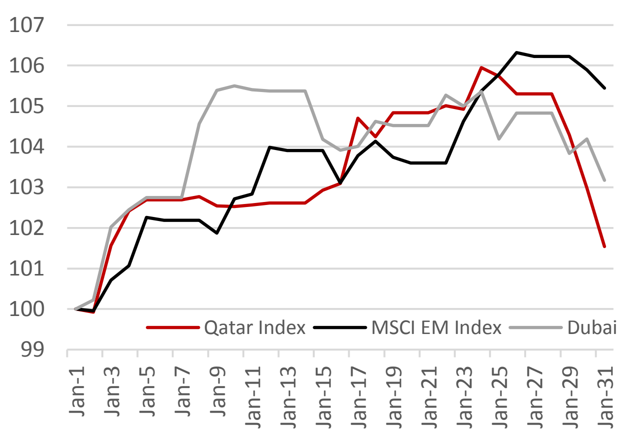


Source: Bloomberg *(figures normalized)*

The Qatar Exchange Index continues to perform well in January, up 1.5% for the month. Banking along with real estate were the main sector drivers for the month. The Index, along with the other GCC indices, continue to benefit from stability in oil prices.

Dubai ended the month of January up 3.2%, as measured by the DSM General Index, driven mainly by the real estate and construction and banks sectors. The index along with other indices posted gains for the month driven by positive sentiment coming from the DJIA breaking the 20,000 mark for the second time and closing above said mark for the first time.

Chart 6: Rebased Relative Performance of Qatar, Dubai & EM



Source: Bloomberg *(figures normalized)*

Abu Dhabi ended the month almost flat at 0.05%, as measured by the ADSM General Index. There was mixed performance across the different sectors.

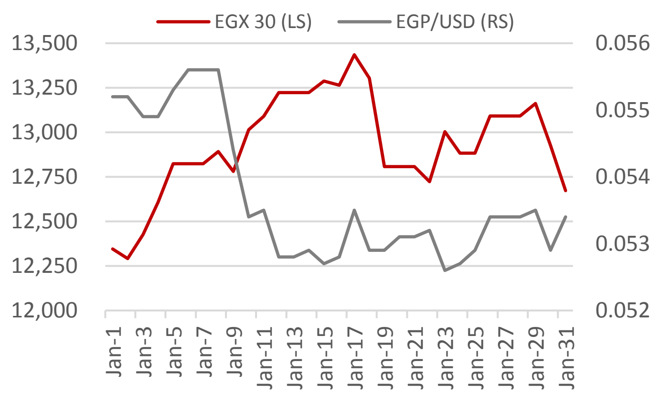
Oman's MSM 30 index closed in January with a marginal loss of 0.11%. The index appears to have lost momentum following the 5.4% gain in December of last year. Sector performance was mixed, however the banking sector was able to reduce overall index losses.

Oman released its budget plan for 2017 this month and is projecting a smaller deficit of OMR 3b vs OMR 3.3b in 2016, after factoring in new austerity measures and tightening up on expenditures. Government expenditure in 2017 is estimated to be OMR 11.7b down from 11.9b in 2016. Government revenues, on the other hand, are estimated to grow to OMR 8.7b in 2017 from 8.6b in 2016.

Bahrain Bourse All Share Index did significantly well posting a gain of 6.8% for the month, mainly driven by the commercial bank sector.

Egypt's EGX 30 continues to generate positive returns, up 2.7% for the month. The index appears to benefit from positive investor sentiment following the success of the government's first public bond sale worth USD 4bn, which was more than three and a half times oversubscribed, and according to Egyptian sources, the largest coming out of Africa. Also supporting the index was the devaluation of the Egyptian pound, which took place in November 2016 and the USD $12b loan agreement from the International Monetary Fund.

Chart 7: EGX 30 Index & EGP/USD



Source: Bloomberg

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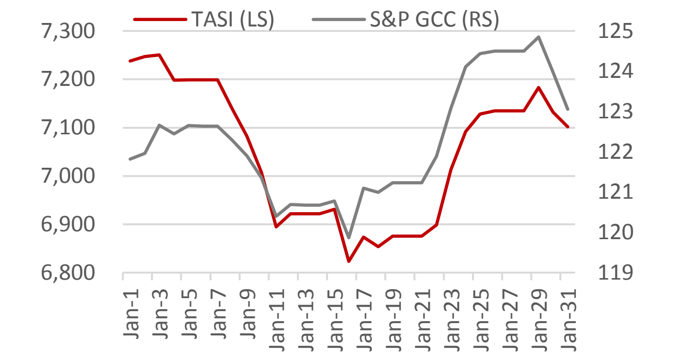
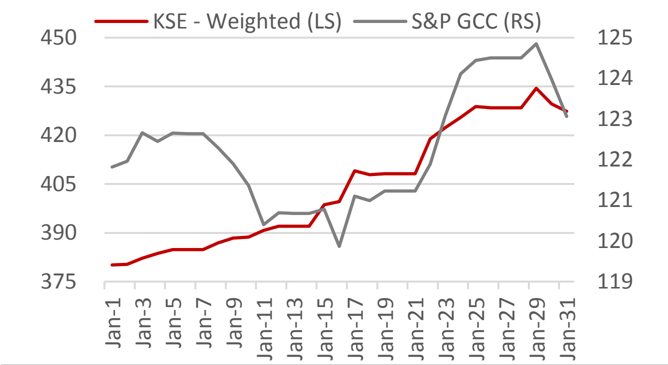
Stock Market Performance – *as of January 31, 2017:*

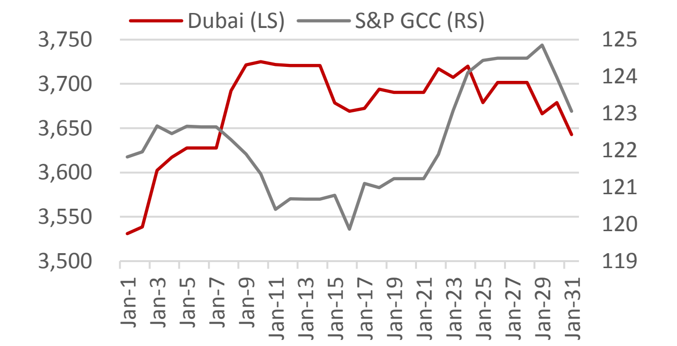
Saudi Arabia



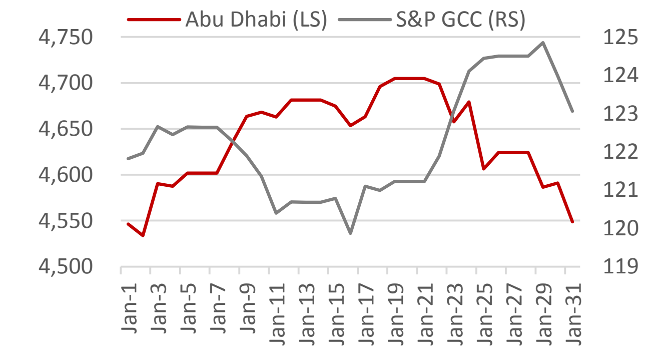
Kuwait



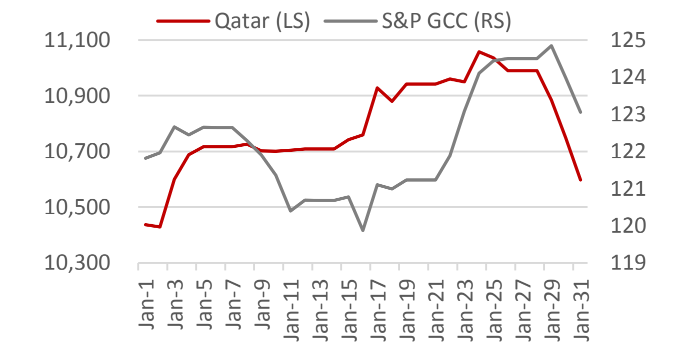
Dubai



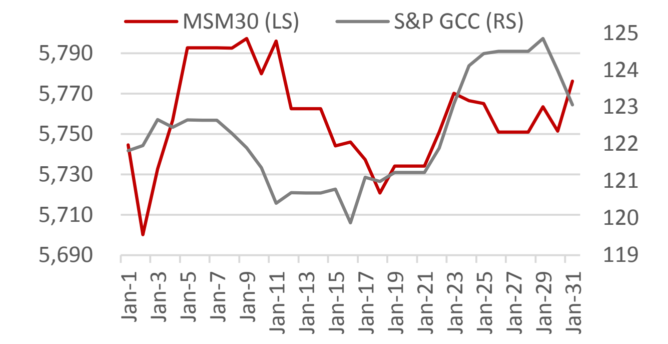
Abu Dhabi



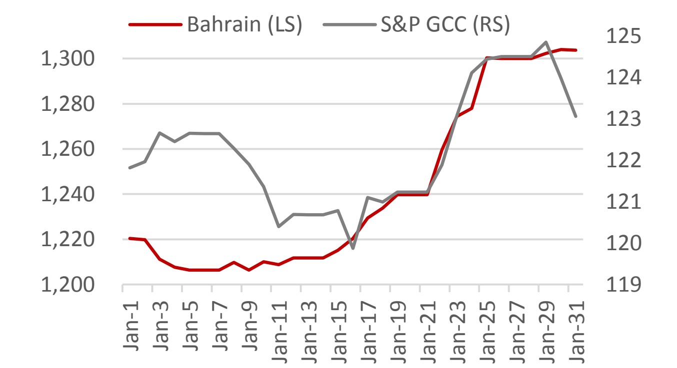
Qatar



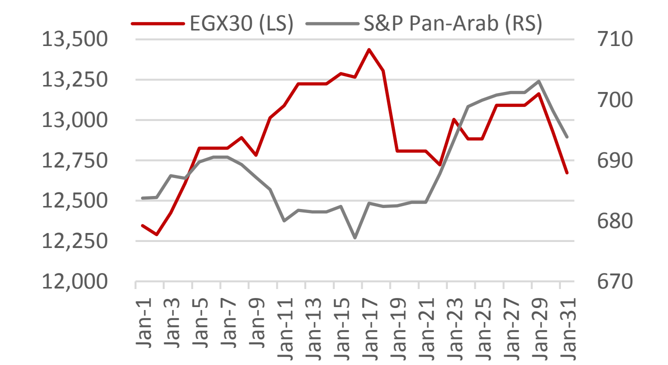
Oman



Bahrain



Egypt



LS: Left-side
RS: Right-side
All indices are in local currencies, except for the S&P GCC and S&P Pan Arab which are denominated in USD.

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Market Data – *as of January 31, 2017:*

Equity*	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	433.13	2.68%	2.68%	2.68%	15.20%
MSCI EAFE (USD)	1,732.38	2.87%	2.87%	2.87%	7.94%
MSCI EM (USD)	909.23	5.45%	5.45%	5.45%	22.42%
US					
S&P 500 Index	2,278.87	1.79%	1.79%	1.79%	17.51%
Dow Jones Industrial Average	19,864.09	0.51%	0.51%	0.51%	20.76%
NASDAQ Composite Index	5,614.79	4.30%	4.30%	4.30%	21.52%
Russell 2000 Index	1,361.82	0.35%	0.35%	0.35%	31.91%
Developed					
Euro Stoxx 600	360.12	-0.36%	-0.36%	-0.36%	5.42%
FTSE 100 Index	7,099.15	-0.61%	-0.61%	-0.61%	17.15%
DAX Index	11,535.31	0.47%	0.47%	0.47%	18.22%
CAC 40 Index	4,748.90	-2.33%	-2.33%	-2.33%	8.12%
Nikkei 225	19,041.34	-0.38%	-0.38%	-0.38%	6.58%
Hang Seng Index	23,360.78	6.18%	6.18%	6.18%	19.22%
Emerging Markets					
Russia Stock Exchange	2,217.39	-0.69%	-0.69%	-0.69%	25.05%
Turkey - Borsa Istanbul 100 Index	86,295.72	10.44%	10.44%	10.44%	17.49%
MSCI Asia ex Japan	546.16	6.19%	6.19%	6.19%	18.29%
Shanghai Composite	3,159.17	1.79%	1.79%	1.79%	17.49%
India - NIFTY 50	8,561.30	4.59%	4.59%	4.59%	13.31%
Taiwan Stock Exchange	9,447.95	2.10%	2.10%	2.10%	15.83%
Brazil Ibovespa Index	64,670.78	7.38%	7.38%	7.38%	59.41%
Mexico Stock Exchange	47,001.06	2.98%	2.98%	2.98%	7.72%
MENA					
S&P Pan Arab (USD)	693.85	1.60%	1.60%	1.60%	17.03%
S&P GCC Composite (USD)	123.06	1.10%	1.10%	1.10%	18.00%
KSA - Tadawul All Share Index	7,101.86	-1.51%	-1.51%	-1.51%	18.65%
Dubai - DFM General Index	3,642.85	3.17%	3.17%	3.17%	22.24%
Abu Dhabi - ADX General Index	4,548.82	0.05%	0.05%	0.05%	10.77%
Qatar Exchange Index	10,597.22	1.54%	1.54%	1.54%	10.99%
Kuwait Weighted Index	427.38	12.44%	12.44%	12.44%	21.52%
Oman - Muscat Securities Market 30 Index	5,776.17	-0.11%	-0.11%	-0.11%	10.82%
Bahrain Bourse All Share Index	1,303.70	6.82%	6.82%	6.82%	10.14%
Egypt - EGX 30	12,672.49	2.65%	2.65%	2.65%	114.54%
Morocco - MADEX	10,020.82	4.96%	4.96%	4.96%	37.98%
Jordan - ASE Index	2,161.47	-0.41%	-0.41%	-0.41%	1.17%

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

Market Data – *as of January 31, 2017:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	536.72	0.81%	0.81%	0.81%	1.70%
Barclays US Agg Bond	1,980.25	0.20%	0.20%	0.20%	1.68%
Bloomberg US Gov Bond Index	123.84	0.24%	0.24%	0.24%	-0.56%
Bloomberg Barclays US Corp Bond Index	2,735.18	0.31%	0.31%	0.31%	6.43%
Bloomberg Barclays US Corp High Yield Bond Index	1,840.19	1.45%	1.45%	1.45%	21.00%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	102.71	1.67%	1.67%	1.67%	2.47%
Bloomberg Global Corp Bond Index ex US (USD)	125.06	0.91%	0.91%	0.91%	5.20%
JPM Emerging Market Bond Index (USD)	749.69	1.44%	1.44%	1.44%	12.21%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,219.00	1.81%	1.81%	1.81%	19.09%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	0.51		0.36	0.25	0.30
2 Year Yield	1.20		0.82	0.64	0.80
5 Year Yield	1.91		1.26	1.03	1.36
10 Year Yield	2.45		1.80	1.50	1.95
30 Year Yield	3.06		2.57	2.25	2.76
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.42		1.17	0.64	1.62
German 10 Year Bund	0.44		0.13	-0.10	0.35
Japan 10 Year Treasury	0.09		-0.06	-0.08	0.06

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,210.72	5.51%	5.51%	5.51%	7.29%
Silver Spot	17.56	10.22%	10.22%	10.22%	22.35%
Energy					
WTI Crude	52.81	-1.69%	-1.69%	-1.69%	67.01%
Brent Crude	55.70	-1.97%	-1.97%	-1.97%	62.68%
Natural Gas	3.12	-16.30%	-16.30%	-16.30%	44.84%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.08	2.67%	2.67%	2.67%	-0.83%
GBP-USD X-RATE	1.26	1.94%	1.94%	1.94%	-12.85%
USD-JPY X-RATE	112.80	-3.56%	-3.56%	-3.56%	-6.77%
KWD-USD X-RATE	3.28	0.30%	0.30%	0.30%	-0.52%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	0.78	1.03	1.35	1.71
Saudi Interbank	1.74	1.99	2.18	2.39
Emirates Interbank	1.00	1.41	1.66	2.10
Qatar Interbank	1.59	1.86	2.14	2.58
Kuwait Interbank	1.19	1.44	1.75	2.06

Source: Bloomberg

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