ISSUE 005
MARCH 2017

MENA MARKETS REVIEW

HIGHLIGHTS

- S&P and Dow Jones close the month in the negative for the first time this year
- The Fed raise interest rates by 25 bps, and indicated two more hikes in 2017
- Oil prices struggle to remain above $50/bbl as US crude inventories and shale production rise
- Fitch downgrades Saudi Arabia to A+
- Kuwait issues first international dollar bond

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MARCH 2017: MARKETS GET A SMALL DOSE OF REALISM

The first quarter of the year saw the January inauguration of a new US president, the unconventional Donald Trump, and the advent of a more “normal” or perhaps more “aggressive” Federal Reserve. The Fed raised its target rates in March when the earlier expectation had been for June 2017. These events and others (including the disappointing performance of anti-establishment voices in the Dutch election) were taken in stride by most markets, and were in line with expectations. The markets were looking for rising equity markets, a rising USD, and higher US interest rates. That is more or less what they got, except for the USD, which continues to baffle many, and especially against major currencies.

In the case of Mr. Trump and his agenda for a friendlier business environment, the expected gains are many (deregulation, tax cuts, infrastructure spending), and stocks had a very strong run after the election of 8 November. By quarter’s end (Q1), US stocks were up 13% (Dow Industrials) and 10% (S&P 500) since the US election and some 4-5% year-to-date (ytd).

Moreover, after a long stint of daily gains, US politics and the US legislative process finally caught up with markets late in Q1. Some (overdue) adjustment finally weighed in, primarily on the USD and US equities, especially after the Trump administration failed to secure enough support to pass its priority health care reform legislation. According to the broad consensus of late 2016, the USD was supposed to rise in 2017, at least in the first part of the year. That view was based on three arguments:

• The stronger US economy would imply a still tighter Fed policy stance, certainly relative to the eurozone and the ECB (and other countries).

• Trump’s economic agenda would further pump up the US economy.

• Political and election risk in Europe would weigh on the euro and help the USD.

These three factors remain in play but appear to have been largely discounted already. Furthermore, expectations are turning less supportive of the USD, in all three cases. EU economic numbers are relatively solid, and the days of aggressive ECB easing action may well be numbered. In fact, the eurozone outgrew the US in 2016 for the first time since the financial crisis (1.7% to 1.6%, in the US, real GDP growth). On the second point, the agenda of Mr. Trump and the Republicans is indeed in the pipeline but the rosy view of a smooth and timely policy unfolding has bumped into reality: Congressional votes have to be rounded; different groups and factions need to be satisfied, parliamentary rules get in the way, etc.

Finally, point-three above was deflated by the results of the Dutch election. These saw the far-right party do well but underperform expectations. Now fresh French polls show support for the mainstream candidates, so far, for the April-May presidential election.

So, the USD, which always had an extremely difficult time breaking the 1.05 level to the euro, was trading above 1.08 recently (euro up 3% ytd). Similarly, the JPY had a good run and traded near 111, or up 5.5% ytd. Many analysts revised their USD numbers lower for 2017.

For the Fed and interest rates, US rates are up roughly 40-50 basis points (bps) since the two rate hikes of December 2016 and March 2017 (two 25 bp hikes of the federal funds target). The 10-year note is currently around 2.4% after flirting briefly with the 2.6% level. European levels are moving in the same direction, when not impacted by flight-to-quality. At the same time, their low yields (sub-50 bps for Bunds), as well as near zero-yield Japanese 10-year notes are preventing US rates from rising too fast or too far.

Like equities and the USD, US rates also corrected slightly late in the quarter, driven in part by the more realistic expectations for the Trump economic and tax agenda. Mr. Trump and the Republicans (currently with zero help from the Democrats) were intent on, in that order: repealing and replacing Obamacare, cutting taxes, and pushing infrastructure spending.

The first part, health care reform, has now been postponed, or scrapped, for lack of sufficient

Congressional support. This should further weigh on expectations ahead. The US House of Representatives' failure to pass the American Health Care Act (ACHA, to replace Obamacare) was seen as a crucial first test of Mr. Trump's leadership in Washington and of his influence on his own party. Markets have thus turned more cautious in their anticipation of the other expected economic "goodies" (tax cuts, infrastructure spending) down the road.

Meanwhile, regional GCC economies are showing signs of growing moderately, led by Kuwait and Qatar and the UAE. Oil prices have helped finances and sentiment by spending a good deal of time near $55 per barrel. Prices were pressured lower more recently, by strong US (shale-led) production, now exceeding 9 million barrels per day. The major story in the region the past few months has been the massive issuance of sovereign debt, more recently by Kuwait ($8 billion) and Oman ($5 billion) in what were very successful issues (in terms of both interest and pricing). Following 4Q16 issuance, Saudi is looking to issue international sukuk both for the sovereign and for Aramco ($2 billion). These issues are also helping relieve any liquidity pressures in the GCC countries

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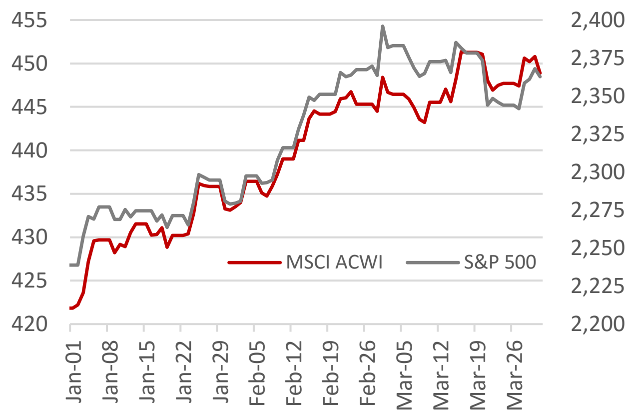
Global Equities

Global equities continue to perform well in March. The MSCI All Country World Index posted gains of 1.0% and 6.4% for the month and quarter, respectively. The S&P 500 and Dow Jones both closed the month down 0.04% and 0.7% respectively, marking March as the first full month of negative performance in 2017. In terms of quarterly performance, the S&P 500 gained 5.5% while the Dow Jones gained 4.6%. Markets seem to be reacting to President Trump's agenda and his recent failed attempt to ratify the American Health Care Act becoming more cautious in their expectations of the upcoming tax cuts and infrastructure spending. The Federal Reserve increased its benchmark interest rate by a quarter-point, as was anticipated, and indicated two more rate hikes can be expected within 2017.

Chart 1 : MSCI ACWI & S&P 500 Performance

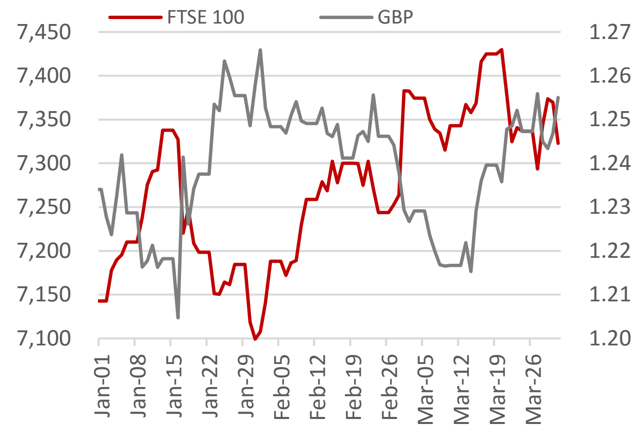


Source: Bloomberg

The Stoxx Europe 600 Index on the other hand performed extremely well ending the month of March up 2.9%, with an overall gain of 5.5% for Q1 2017. Although the Eurozone has been experiencing political and election risk this month with the Dutch election results and the upcoming French presidential election, the index appears to be unaffected. Investor sentiment has improved coming in above expectations in March, reaching a level not seen in nearly 10 years.

UK equities generated returns of 0.8% in March, lower than last month's gain of 2.3%, as measured by the FTSE 100. Markets appear to have retracted given the upcoming trigger of Article 50 by British Prime Minister Theresa May, which occurred on March 29 stating Britain will be out of the EU in 2 years by March 30, 2019. For Q1 2017 the index returned 2.5%.

Chart 2: FTSE 100 & GBP



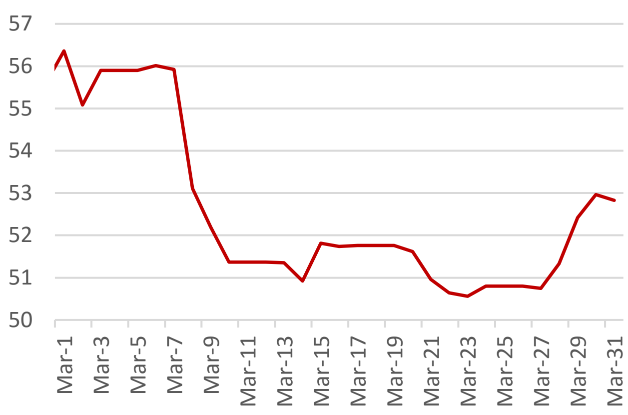
Source: Bloomberg

March appeared to be promising for Emerging Markets, with the MSCI EM index generating returns of 2.4%. The index continues to push forward posting a gain of 11.2% for the first quarter of 2017, although markets witnessed some profit taking this month following several weeks of gains.

In Asia, Japan's Nikkei dropped, ending the month and the quarter down 1.1%. The Bank of Japan decided not to raise rates following the Fed's decision, indicating that they are optimistic about their future economy and will most likely not expand their monetary stimulus program anytime soon.

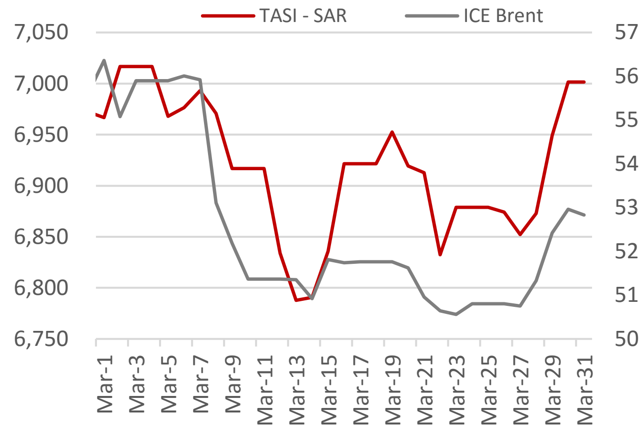
Commodity performance was mixed this month with gold almost flat at 0.1% (rounded) and oil down 5.0%. For the quarter, gold posted a gain of 8.9% while oil posted a loss of 7.0%. Oil prices continue to show signs of weakness as US crude inventories and shale oil production rise thereby challenging OPEC's efforts to support falling prices. Oil prices have been struggling to remain above the $50/bbl, falling below this level for the first time this year during the month of March.

Chart 3: Oil Prices – USD per Barrel (BRENT)



Source: Bloomberg

Chart 4: TASI & Brent



Source: Bloomberg

REGIONAL EQUITIES

MENA equities remain in negative territory with the S&P Pan Arab Composite losing 1.6% in March and 0.4% for the quarter. Regional equity performance appears to have followed international markets along with falling oil prices. Following the Fed rate hike, the GCC nations Saudi Arabia, Kuwait, United Arab Emirates and Bahrain, proceeded to do the same raising key rates by a quarter of a percentage point, followed soon after by Qatar.

The Saudi Tadawul All Share Index recovered slightly in March following last month's poor performance, up 0.4%; however, the index was down 2.9% for the quarter. In addition, Fitch downgraded the sovereign by one notch to A+ due to a greater than expected budget deficit in 2016, which was -17.3% of GDP. Following the 2017 budget announcement however, Saudi Arabia expects to achieve a budget surplus by 2019. Details of the budget include rationalizing government expenditure, cost savings from energy and water-price reform, new non-oil revenue sources and enabling private sector growth.

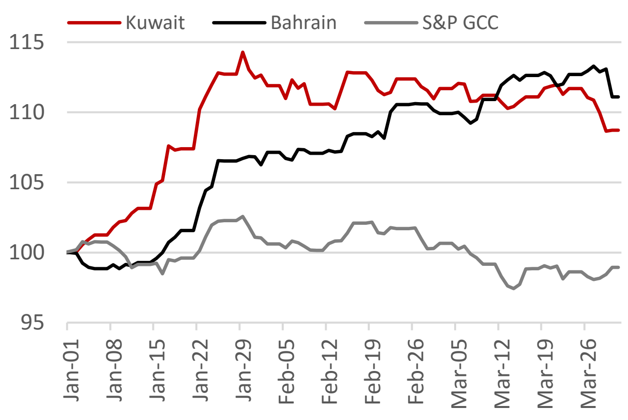
UAE equities followed the same trend, posting losses in March. Dubai's DFM General Index ended the month down 4.1% and the quarter down 1.4% while Abu Dhabi's ADSM General Index ended the month down 2.4% and the quarter down 2.3%. The UAE market tends to be heavily influenced by international markets and showed signs of retreat on the back of disappointing dividend announcements among other factors.

The Qatar Exchange Index retreated this month, down 2.9%, following last month's 1.0% gain. For the quarter, the index was down 0.4%. Qatar witnessed the second tranche of its upgrade to FTSE's emerging market index and expected up to $1 billion in new inflows as a result. The Qatari market is unlikely to see a rebound following the upgrade absent a catalyst. In addition, S&P has revised its outlook on Qatar to negative from stable with a country rating of 'AA/A-1+'. This step, by the rating agency, was taken to reflect its concern regarding liquidity risk should external debt continue to outpace external liquid asset growth.

The Kuwait Weighted Index retreated further shedding 2.5% in March; however, for the quarter it still posted a gain of 8.7%. The index continues to lose momentum following strong gains at the start of the year. The price index broke and held above the "7000" level for the first time since 2014. Kuwait issued its first international bond in March, raising $8 billion at a superior pricing to other GCC bonds. The two tranches include a 5-year bond at a yield of 2.88% and a 10-year bond at a yield of 3.62%.

Bahrain Bourse All Share Index continues to be the best performer among the GCC for the second month in a row, posting gains of 0.5% in March and gains of 11.1% for the quarter.

Chart 5: Relative Performance of Kuwait, Bahrain & GCC

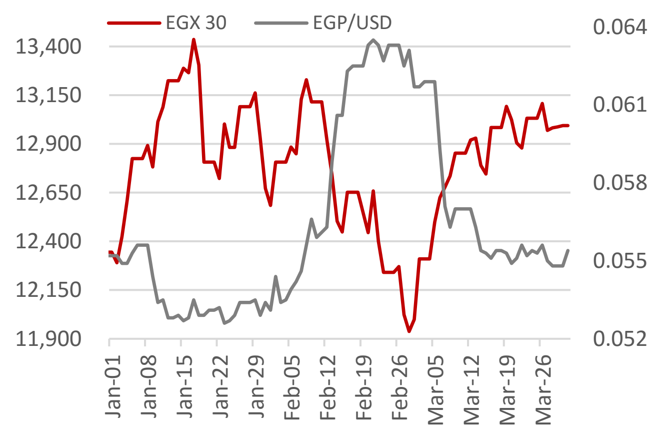


Source: Bloomberg *(figures normalized)*

Oman's MSM 30 index posted losses of 4.0% for the month and the quarter. The Sultanate's $5 billion international bond issued earlier in March accounts for most of the government's foreign borrowing plan for 2017. Oman's central bank also plans to float OMR 450 million worth of government development bonds in separate issues to partially cover the forecasted deficit in 2017 as well as repay a maturing bond issue. This new bond issue will bring the total issuances up to OMR 600 million for the year.

Egypt's EGX 30 rebounded following last month's loss of 5.8%, positing gains of 8.9% for March and 5.3% for the quarter. Concerns over the expected stamp duty on EGX transactions seems to have faded. The expected 0.125% levy will be on all transactions of shares and bonds as well as over-the-counter deals. However, on transactions pertaining to more than a third of company's stock, a levy of 0.3% will be imposed. This tax could generate EGP 1-1.5 billion, which would represent only 0.05% of GDP. The budget deficit contracted during 2H2016 to 11.4% of GDP vs 12.6% in 2H2015 as wage and subsidy growth stabilized. The African Development Bank disbursed the second $500 million loan tranche to Egypt as part of a 3-year 3-tranche $1.5 billion loan to enhance the country's budget. The World Bank also paid out another $1 billion to Egypt, part of its $3 billion loan program.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

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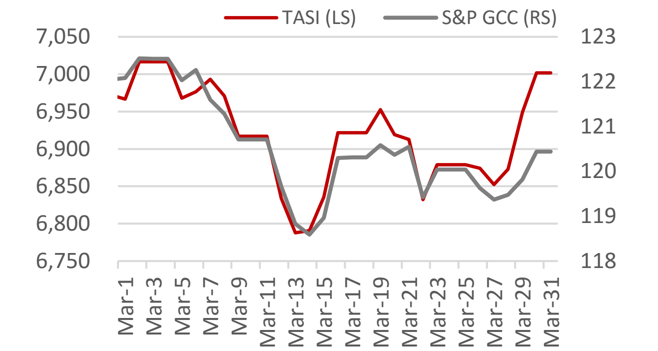
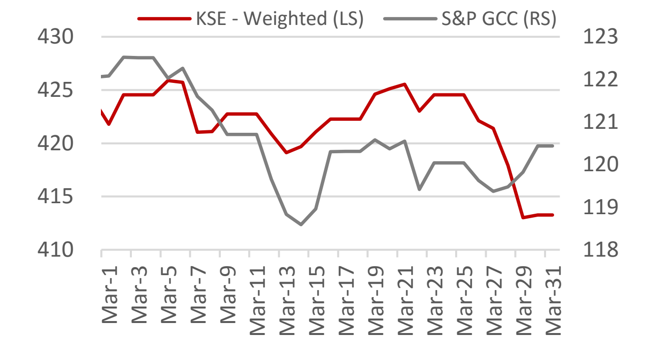
Stock Market Performance – *as of March 31, 2017:*

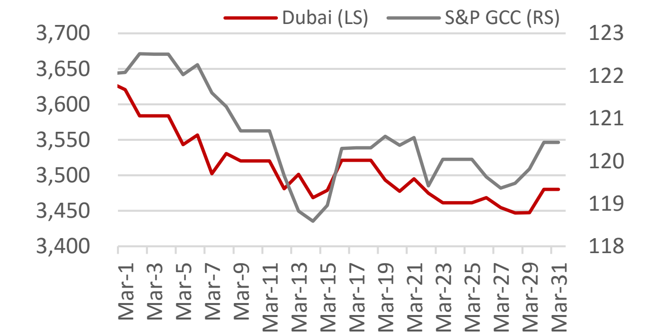
Saudi Arabia



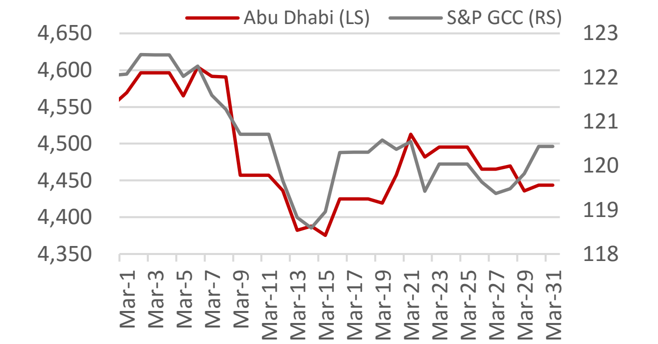
Kuwait



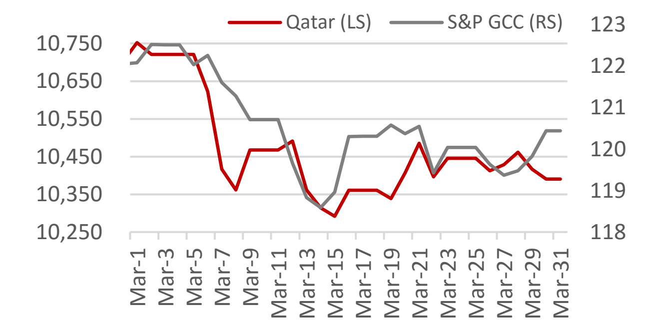
Dubai



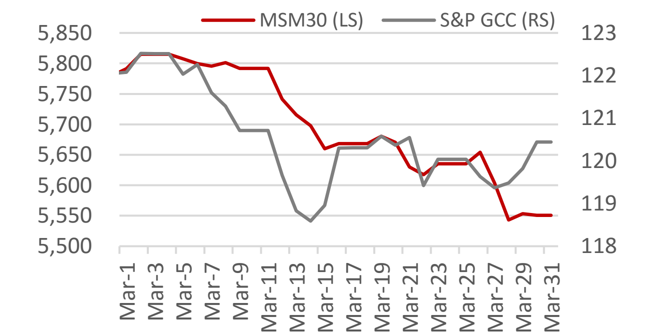
Abu Dhabi



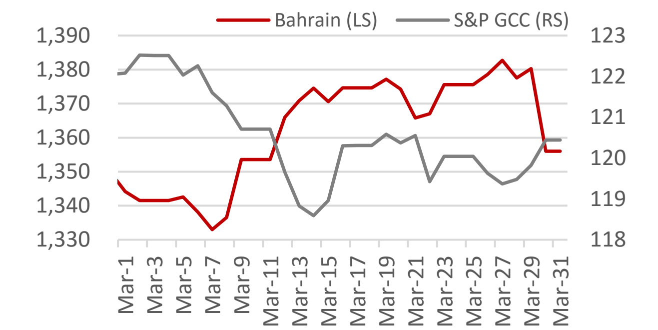
Qatar



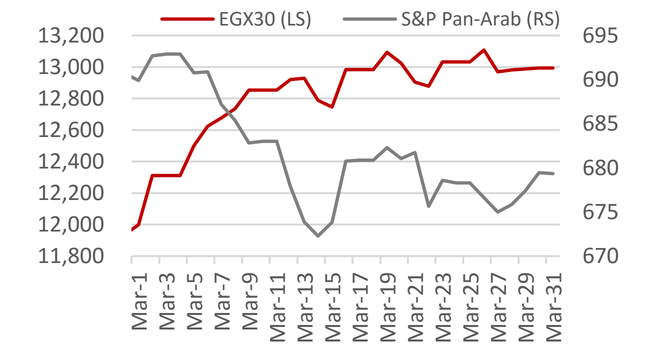
Oman



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.

Market Data – *as of March 31, 2017:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	448.87	0.98%	6.41%	6.41%	12.71%
MSCI EAFE (USD)	1,792.98	2.28%	6.47%	6.47%	8.53%
MSCI EM (USD)	958.37	2.35%	11.15%	11.15%	14.53%
US					
S&P 500 Index	2,362.72	-0.04%	5.53%	5.53%	14.71%
Dow Jones Industrial Average	20,663.22	-0.72%	4.56%	4.56%	16.84%
NASDAQ Composite Index	5,911.74	1.48%	9.82%	9.82%	21.39%
Russell 2000 Index	1,385.92	-0.06%	2.12%	2.12%	24.41%
Developed					
Euro Stoxx 600	381.14	2.94%	5.46%	5.46%	12.92%
FTSE 100 Index	7,322.92	0.82%	2.52%	2.52%	18.59%
DAX Index	12,312.87	4.04%	7.25%	7.25%	23.55%
CAC 40 Index	5,122.51	5.43%	5.35%	5.35%	16.82%
Nikkei 225	18,909.26	-1.10%	-1.07%	-1.07%	12.83%
Hang Seng Index	24,111.59	1.56%	9.60%	9.60%	16.05%
Emerging Markets					
Russia Stock Exchange	1,995.90	-1.96%	-10.61%	-10.61%	6.67%
Turkey - Borsa Istanbul 100 Index	88,947.40	1.68%	13.83%	13.83%	6.82%
MSCI Asia ex Japan	582.00	3.13%	13.15%	13.15%	14.66%
Shanghai Composite	3,222.51	-0.59%	3.83%	3.83%	7.28%
India - NIFTY 50	9,173.75	3.31%	12.07%	12.07%	18.55%
Taiwan Stock Exchange	9,811.52	0.63%	6.03%	6.03%	12.20%
Brazil Ibovespa Index	64,984.07	-2.52%	7.90%	7.90%	29.82%
Mexico Stock Exchange	48,541.56	3.60%	6.35%	6.35%	5.80%
MENA					
S&P Pan Arab (USD)	679.36	-1.64%	-0.52%	-0.52%	8.59%
S&P GCC Composite (USD)	120.44	-1.32%	-1.05%	-1.05%	10.06%
KSA - Tadawul All Share Index	7,001.63	0.42%	-2.90%	-2.90%	12.51%
Dubai - DFM General Index	3,480.43	-4.13%	-1.43%	-1.43%	3.72%
Abu Dhabi - ADX General Index	4,443.53	-2.38%	-2.26%	-2.26%	1.21%
Qatar Exchange Index	10,390.60	-2.91%	-0.44%	-0.44%	0.14%
Kuwait Weighted Index	413.27	-2.54%	8.73%	8.73%	14.85%
Oman - Muscat Securities Market 30 Index	5,550.60	-3.97%	-4.01%	-4.01%	1.52%
Bahrain Bourse All Share Index	1,355.99	0.47%	11.11%	11.11%	19.88%
Egypt - EGX 30	12,994.80	8.86%	5.26%	5.26%	72.69%
Morocco - MADEX	9,264.29	-5.12%	-2.96%	-2.96%	21.73%
Jordan - ASE Index	2,250.18	1.69%	3.68%	3.68%	4.57%

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

Market Data – *as of March 31, 2017:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	540.73	0.23%	1.56%	1.56%	-1.85%
Barclays US Agg Bond	1,992.51	-0.05%	0.82%	0.82%	0.44%
Bloomberg US Gov Bond Index	124.40	-0.04%	0.69%	0.69%	-1.31%
Bloomberg Barclays US Corp Bond Index	2,760.12	-0.23%	1.22%	1.22%	3.31%
Bloomberg Barclays US Corp High Yield Bond Index	1,862.81	-0.22%	2.70%	2.70%	16.39%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	103.31	0.19%	2.26%	2.26%	-4.26%
Bloomberg Global Corp Bond Index ex US (USD)	125.77	-0.05%	1.48%	1.48%	0.81%
JPM Emerging Market Bond Index (USD)	767.91	0.35%	3.90%	3.90%	8.82%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,243.81	0.18%	3.89%	3.89%	15.06%
US Treasury Yields (%)	Current		3 M ago	6 M ago	12 M ago
3 Month Yield	0.75	0.50	0.27	0.20	0.75
2 Year Yield	1.25	1.19	0.76	0.72	1.25
5 Year Yield	1.92	1.93	1.15	1.20	1.92
10 Year Yield	2.39	2.44	1.59	1.77	2.39
30 Year Yield	3.01	3.07	2.32	2.61	3.01
Global Treasury Yields (%)	Current		3 M ago	6 M ago	12 M ago
British 10 Year Gilt	1.14	1.24	0.75	1.42	1.14
German 10 Year Bund	0.33	0.21	-0.12	0.15	0.33
Japan 10 Year Treasury	0.07	0.05	-0.09	-0.03	0.07

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,249.20	0.06%	8.86%	8.86%	1.33%
Silver Spot	18.27	-0.25%	14.68%	14.68%	18.32%
Energy					
WTI Crude					
Brent Crude	50.60	-6.31%	-5.81%	-5.81%	31.98%
Natural Gas	52.83	-4.96%	-7.02%	-7.02%	33.41%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.07	0.72%	1.28%	1.28%	-6.40%
GBP-USD X-RATE	1.26	1.37%	1.70%	1.70%	-12.60%
USD-JPY X-RATE	111.39	-1.22%	-4.76%	-4.76%	-1.05%
KWD-USD X-RATE	3.28	0.16%	0.22%	0.22%	-0.99%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	0.98	1.15	1.42	1.80
Saudi Interbank	1.31	1.74	2.01	2.21
Emirates Interbank	1.05	1.47	1.69	2.22
Qatar Interbank	1.72	1.95	2.24	2.66
Kuwait Interbank	1.31	1.56	1.81	2.13

Source: Bloomberg

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