NBK CAPITAL STRUCTURED INVESTMENTS & ADVISORY

MENA MARKETS REVIEW

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HIGHLIGHTS

- Trade tensions, which seem to be the strongest market player this year, are back on the market's side this month as a broad-based rally swept global markets in June.

- Markets were also supported by expectations that central banks will start loosening policy. The MSCI AC World Index was up 6.36% during the month, while the MSCI Emerging Markets Index advanced by 5.70%.

- GCC Markets, which did well overall despite the shorter trading month, were affected by geopolitical tensions and military tensions in the Gulf between the US and Iran.

- Saudi Arabia ended up a top performer with the Tadawul All Share index up 3.58%, while Kuwait was supported by the MSCI emerging market status upgrade which took the Boursa Kuwait Premier Market Index up by 2.16%, making it the top GCC performer for the first half of 2019.

Fed paves the way for future rate cuts

The Federal Reserve as expected left interest rates on hold at 2.25-2.50% in June but paved the way for looser policy by dropping calls for 'patience' in future rate changes and committing to "act as appropriate to sustain the expansion". Although recent economic activity data is by no means all bad, the Fed is mulling a rate cut as 'insurance' against a future slowdown, as well as low inflation, which was unchanged at 1.6% y/y in May on the Fed's preferred core PCE measure and well below the 2% target. Financial markets – as well as President Trump – are increasingly expectant of looser policy, with futures markets certain of at least a 25bps cut in July and pricing in a 92% chance of at least 50 bps in cuts by year-end. However, some analysts believe that markets are getting ahead of themselves and the Fed's own 'dot plot' projections still point to no change in rates this year.

Surveys of manufacturing activity have weakened and are among the Fed's key concerns. The Empire State survey plunged into contraction territory in June while the closely-watched ISM manufacturing index slipped to just 51.7 having already slowed markedly since last year. The hope is that weakness is exaggerated by tariff and trade fears that need not materialize if US-China tensions can be diffused, while the more domestically-oriented service sector remains solid. Consumer spending for example rebounded to 4.4% y/y in April-May and consumer confidence remains at historically high levels backed up by 50-year-low unemployment of 3.6% and 3%+ earnings growth. Even so, with the economic expansion now the longest in US history at 121 months, a sizeable slowdown in GDP growth looks almost certain. 'Nowcast' estimates point to annualized GDP growth of only 1-1.5% in both 2Q19 and 3Q19, less than half of the 3.1% recorded in Q1, which was lifted by a strong rise in inventories.

Manufacturing weakness also weighs on Europe

Manufacturing weakness is also weighing on Europe's economy, with the Eurozone manufacturing PMI remaining in contraction territory in June at 47.6 and Germany the worst performer at 45.0 – reflecting the global slowdown, regional political uncertainties and problems in the crucial auto sector. The figures suggest that manufacturing output may have fallen 0.7% q/q in 2Q19, perhaps limiting growth in overall GDP to 0.2-0.3% down from 0.4% in Q1. The consensus view is that growth will pick up in H2 if global trade recovers, helped by an improving labor market where wage growth rose to a 10-year high of 2.5% in 1Q19 and unemployment fell to 7.5% in May. However, business confidence remains low and there are risks to the outlook from fresh US tariffs, Brexit, and rising public debt in Italy, despite some recently announced cuts to spending.

Against this backdrop and also core inflation that rose but remained well below the 'close to but below 2%' target at 1.1% y/y in June, the European Central Bank (ECB) declared its readiness to implement fresh stimulus. This could be in the form of interest rate cuts, or more likely a resumption of the bond purchase program that it halted last December, combined with stronger forward guidance on policy. Unless the outlook deteriorates further, the ECB may wait until its September policy meeting for any major policy shift. ECB president Mario Draghi leaves his post in October and some analysts hope for a program of long-term quantitative easing to be announced not just as the most effective policy option, but as a way of committing his successor, currently slated to be former IMF chief Christine Lagarde, to future stimulus.

The UK economy is also showing signs of a steeper downturn, with quarterly growth estimated to be close to zero in 2Q19 (0.5% in Q1) and the construction PMI plunging to a decade low of 43.1 in June amid delays to investment caused by Brexit-related uncertainty. Former London Mayor Boris Johnson is currently favorite to replace outgoing prime minister Theresa May when the governing Conservative party elects a new leader on 22nd July and has pledged to seek changes to the negotiated withdrawal agreement with the EU or sanction a 'no deal' exit at the end of

October. Neither option will be easy to deliver and given the government's wafer-thin majority in parliament, the chances of a general election are considerable, the outcome of which would be highly unpredictable for Brexit. Bank of England governor Mark Carney hinted recently that interest rates could be cut from their current 0.75% given Brexit and global risks, contrasting earlier official guidance of 'gradual' and 'limited' rate hikes.

BoJ signals potential easing if downside risks escalate

The Bank of Japan left monetary policy on hold last month but, like the Fed and ECB, signaled the potential to adopt further stimulus measures if the global economic outlook continues to worsen. Growth in Japanese exports fell for the sixth consecutive month in May (-7.8% y/y) mainly on the back of weaker Chinese demand for semiconductor manufacturing equipment and car parts, a sign that the ongoing trade war with the US has sapped Chinese manufacturers' appetite for intermediate products. Imports also fell in May (-1.5% y/y) after growing by a decent 6.4% y/y in the previous month, reflecting the underlying softness in domestic consumption.

China looks to boost investment amid growth concerns

The Chinese government announced that it plans to further liberalize key sectors including finance and manufacturing as soon as next year, in a bid to prop up foreign investment inflows. The announcement comes amid signs of continued economic weakness, not least because of trade tensions with the US. Indeed, the latest PMI data came in softer than expected. The private Caixin manufacturing PMI slipped into contraction territory in June for the first time in months. The official manufacturing PMI also pointed to a contraction coming in at 49.4, unchanged from May's reading. On the upside, the official non-manufacturing PMI was broadly unchanged at a decent 54.2. Meanwhile the renminbi, having fallen sharply in May on trade and growth concerns, was more stable through June, amid trade talk progress and US dollar softness.

Growth fears overshadow OPEC+ supply cut extension

Concerns over the weakening global economy have pressured oil prices, even as OPEC+ extended its production cut agreement for nine months to March 2020. In June, oil prices had been whipsawed by opposing, bullish and bearish forces. Brent fell to its lowest level since January in mid-month as US-China trade tensions escalated before geopolitics – the attacks of ships off the Strait of Hormuz and Saudi infrastructure – and the long-awaited drawdown in US crude stocks pushed Brent back up to close the month up 3% at $66.6/bbl. The downing of a US drone by Iran and the subsequent abortive US airstrike and sanctions applied to Iran's Supreme Leader Ali Khamenei only served to further raise oil's geopolitical risk premium. However, Brent subsequently eased back to $62.4/bbl in early July as global growth concerns reasserted themselves.

GCC non-oil growth signals continue to strengthen

Non-oil activity in the GCC continued to gather momentum, with both the Saudi and UAE PMIs comfortably in expansion territory (57.4 and 57.7, respectively) in June, driven by increases in new orders and output. Employment gains, however, were negligible. Official data show Saudi GDP expanded 1.7% y/y in 1Q19, up on the 1.5% recorded a year earlier, led by 2.1% growth in the non-oil sector. Meanwhile growth in Qatar picked up to 0.9% y/y in 1Q19 from 0.3% in 4Q18, with non-hydrocarbon growth at 1.6%. Finally, according to UNCTAD, foreign direct investment flows to the GCC edged up 0.1% in 2018 to $17.4 billion, with the UAE attracting the lion's share ($10.4 billion). Moves to attract FDI and foreign expertise have accelerated across the GCC. Saudi, like the UAE and Qatar, is offering skilled expats permanent residency and is relaxing limits on foreign ownership of listed firms in strategic investors.

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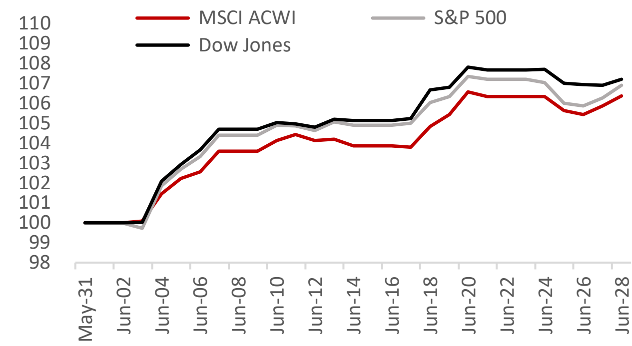
GLOBAL EQUITIES

Global Markets managed to recover all of the losses incurred in May, after the US-China trade talks broke down, and resumed the drive upwards in continuation of the trend that persisted since the beginning of the year. Markets were buoyed by renewed hopes that the escalation between the US and China over trade tariffs will be contained and the two countries will go back to the negotiation table. Something which has actually materialized during the G-20 meetings in Tokyo where the two Presidents of the US and China met and agreed to hold off on new tariffs and to resume trade talks.

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

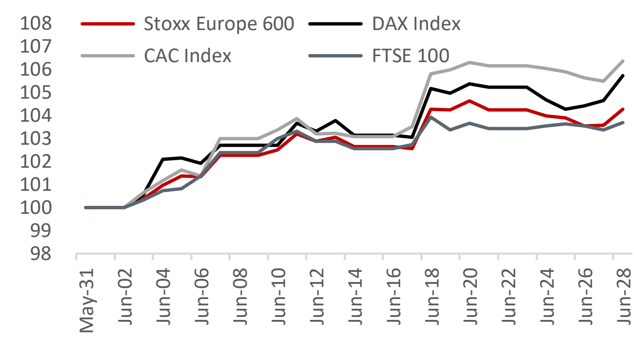


Source: Bloomberg *(figures rebased)*

Earlier in the month, the Federal Reserve voted 9-1 to keep the benchmark rate unchanged in a target range of 2.25% to 2.50%. Although the Fed didn't formally expect a rate cut until 2020 according to the dot-plot, the market is still expecting a cut that would come as soon as July. The Dot plot shows the median Federal Funds rate at 2.1% in 2020 down from 2.6% in its March projections. Inflation was seen running below target and projections of the headline PCE inflation numbers were taken down to 1.5% for 2019 down from a projection of 1.8% in March. Ten-year Treasuries touched the 2.0% level for the first time since November 2016 after having dropped from around 2.50% since the beginning of May. Concerns about a weakening US economy are still lingering in the background as US Manufacturing remained somewhat weak as the ISM Manufacturing Index edged lower to 51.7 in June from a reading of 52.1 in May.

International Indices had a strong month with the MSCI AC World Index rallying 6.36% to close the quarter at 2.93% and to record a mid-year performance of 14.88%. Major US indices recorded robust returns for the month of June recovering all of their previous month's losses and getting closer to new records. The S&P 500 and the Down Jones Industrial Average were up 6.89% and 7.19% recording returns for the first six months of the year of 17.35% and 14.03% respectively. The tech-heavy Nasdaq was also on track to break new records. It closed the month of June at 8,006.24 and up 7.42% for June, 3.58% for the second quarter, and 20.66% for the first half of the year.

Chart 2: European and UK Equities

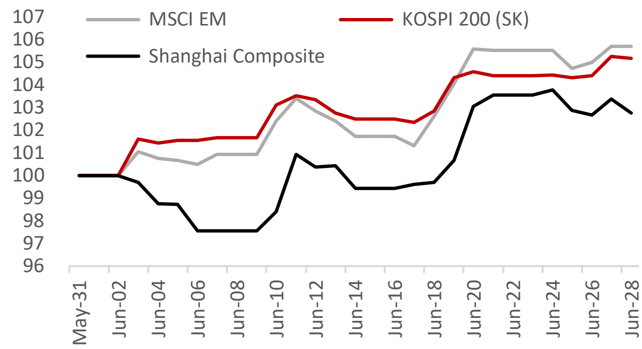


Source: Bloomberg *(figures rebased)*

Over in Europe the picture was largely similar with a broad-based rally across markets. The Stoxx Europe 600 bounced back by 4.28% returning to positive territory for the quarter at 1.52%. The German DAX was up 5.73%, while the French CAC40 added 6.36% recording 17.42% and 17.09% for the first half of the year. Manufacturing activity continued to weaken, however, with the Markit Manufacturing PMI down to 47.6 in June from 47.7 in May and market expectations of 47.8.

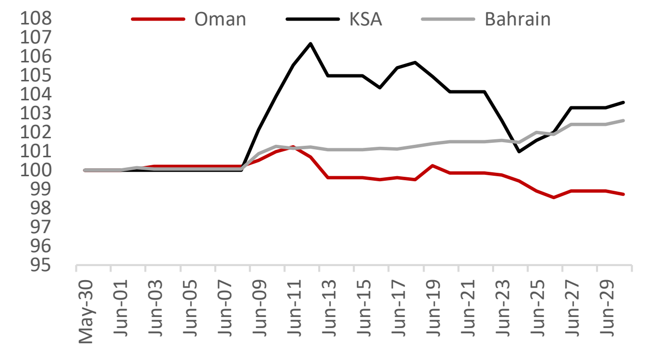
In the UK, the FTSE 100 ended the month of June up 3.69% reversing last month's losses and closing the second quarter in the green. The Index is up 10.37% for the first half of the year. The Markit manufacturing PMI recorded 48.0 in June down from 49.4 the previous month, continuing its downward trend which started around the end of 2017.

Chart 3: MSCI EM vs South Korea vs China



Source: Bloomberg *(figures rebased)*

Chart 4: Performance of Oman, KSA, & Bahrain



Source: Bloomberg *(figures rebased)*

In Japan, revised GDP figures for the first quarter of 2019 showed a growth of 2.2%, 0.1% better than the 2.1% preliminary data showed earlier. As to manufacturing activity, the Nikkei Manufacturing PMI showed a slight decline to 49.3 in June from a previous reading of 49.8. Equity markets, however, joined the global rally as the Nikkei 225 Index added 3.28% in June returning to positive territory for the quarter at 0.33%, while advancing 6.30% during the first half of the year.

Emerging markets also rallied while slightly underperforming. The MSCI EM Index added 5.70% in June to recover most of the losses recorded as of the end of May and close the second quarter down marginally at -0.31%. For the first six months of 2019, the index is up 9.22%. Notable winners include the Borsa Istanbul 100 Index which added 6.51% and the Brazil Ibovespa Index with an advance of 4.06%. Emerging Asian markets also had a strong month as the MSCI Asia ex-Japan added 6.06%. In India, however, the NIFTY 50 succumbed to selling pressure after it hit a record a high at the beginning of June and closed the month down 1.12%.

Regional Equities

The oil market witnessed a mini rally during the second half of June as driven by military tension in the Gulf region especially after the attacks on oil tankers near the Strait of Hormuz. Previously oil had been declining since end of April and reached a low of \$60/b for BRENT in mid-June just before the tensions started to rise. In the meantime, US oil production reached a record high of 12.16mb/d at the end of April which added the pressure on OPEC+ to extend the oil production cut agreement. Something which OPEC agreed to early July extending the agreement until March 2020.

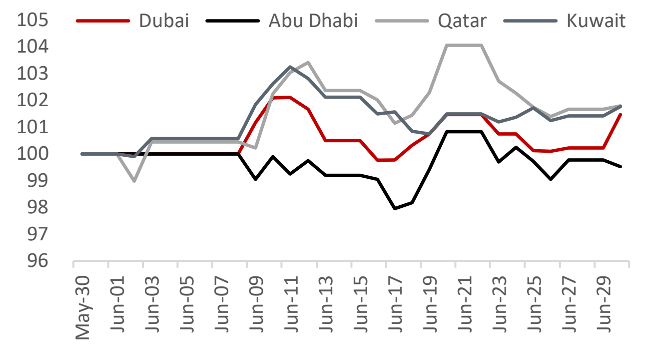
GCC markets had a short trading month this June due to Eid Al-Fitr holiday as most markets started trading on June 9 and joined the global rally in equities surging significantly during the first week of trading. This momentum, however, was short lived as it lost steam in the wake of geopolitical tensions in the Gulf between the US and Iran. Nonetheless, most markets managed to end the month in the green albeit slightly underperforming global and emerging markets. The S&P GCC Composite Index added 2.38% in June returning to positive territory for the second quarter with a gain of 1.09%. The index closed the first half of the year up around 10.8% driven by a strong performance in both Saudi Arabia and Kuwait.

In an effort to diversify its investors base, Saudi Arabia hired international banks for a potential deal to issue Euro-denominated bonds in the European markets. The Kingdom is testing the market for a bond issue in tranches of eight to twenty years. Economically, data showed that the Saudi economy grew by 1.66% during the first quarter of 2019 as the oil sector recorded a growth of 1.0% affected by the oil production cuts, while the non-oil sector managed to grow by 2.13%.

The Tadawul All share Index was the performance leader among GCC markets during June despite the 2.9% decline during the second half of June. The initial momentum during the first week of trading in June which took the index up 6.7% helped it end the month with a positive return of 3.58%.

Although Kuwait's performance gave it fourth place in the GCC performance ranking as the Boursa Kuwait All Share index advanced by 1.75%, the Premier Market Index, which covers the market's blue-chip companies advanced by 2.16%. The Premier Market Index is up 21.07% for the first half of the year compared to 14.82% for the broader All Share Index. The Kuwaiti market was buoyed by positive investor sentiment driven by the announcement of the MSCI upgrade. According to MSCI the market upgrade to emerging market status will happen as part of its May 2020 semi-annual review. The upgrade is expected to bring billions of dollars in passive fund flows.

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



Source: Bloomberg *(figures rebased)*

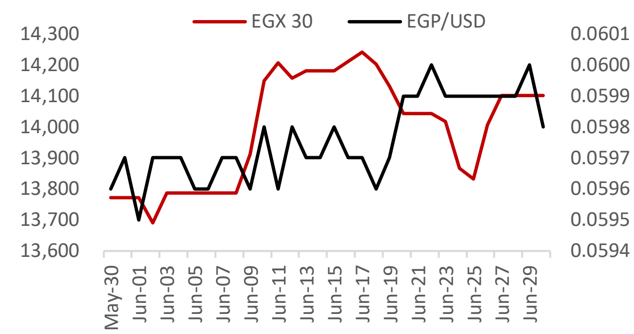
Bahraini ranked second in terms of performance for the month of June. The Bahrain Bourse All Share Index gained 2.62% for the month and finishing the second quarter of 2019 at 4.08%, claiming the top spot for quarterly gains, while on a year-to-date basis the market was up 10.%.

In Doha, the Qatar Exchange Index ended the month up 1.78% ending a relatively strong second quarter which brought its quarterly returns to 3.81% and lifted its mid-year back to positive territory at 1.52%.

In the UAE, the Dubai market outperformed with a return of 1.46% against a loss of -0.47% for Abu Dhabi. On a year-to-date basis, Dubai is now up 5.09%, while Abu Dhabi is up 1.32%. Oman, on the other hand, was the only GCC market that is still in the negative for the year after declining by 1.25% in June bringing its total loss for the year to 10.15%.

The broader S&P Pan Arab Index finished the month of June up 2.62%, outperforming the GCC Index by 24 bps and almost at par for the second quarter with a positive performance of 1.08%. The index found support from the positive performance of non-GCC Arab markets including Egypt, Jordan, and Morocco.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

Egypt's EGX30 bounced back by around 2.39% in June after the steep losses of 7.70% recorded in May. This was not enough though to bring its quarterly performance to positive territory and closed the second quarter down 4.32%. Elsewhere, Jordan's ASE Index was up 3.87% for the month while Morocco's MADEX advanced 2.71%. Both Indices, however, are still in the red for the year with -1.69% and -0.54% respectively.

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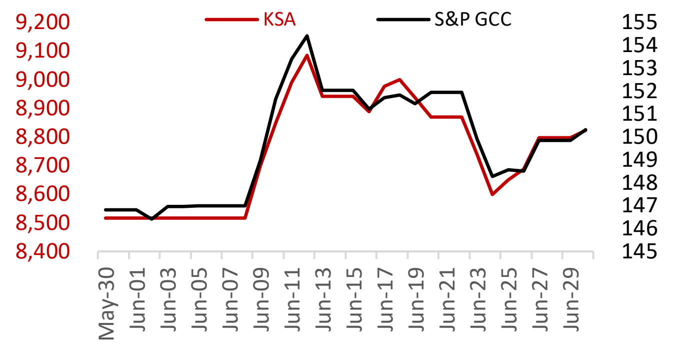
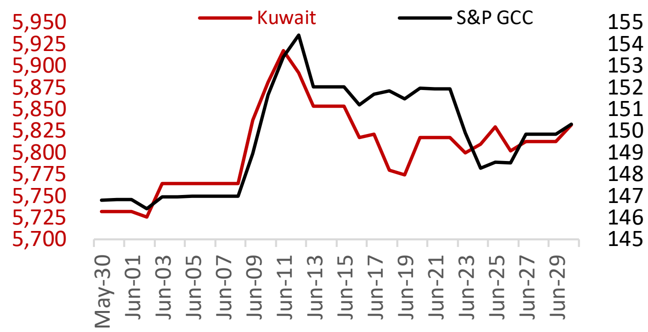
Stock Market Performance *– as of June 30, 2019:*

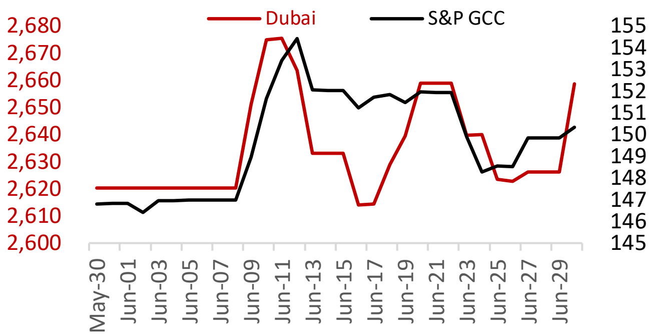
Saudi Arabia



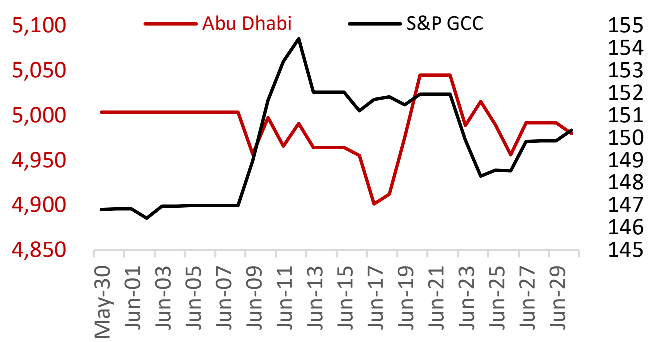
Kuwait



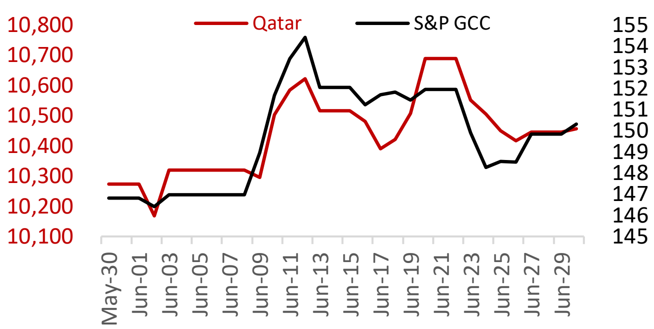
Dubai



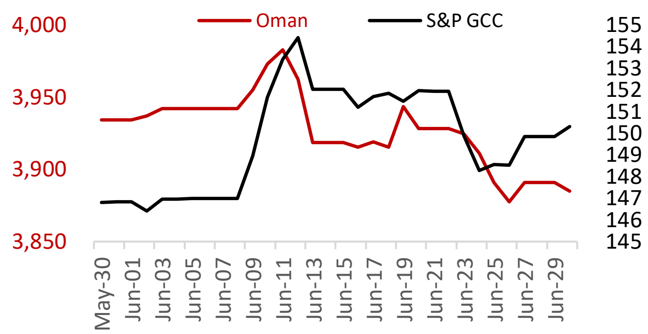
Abu Dhabi



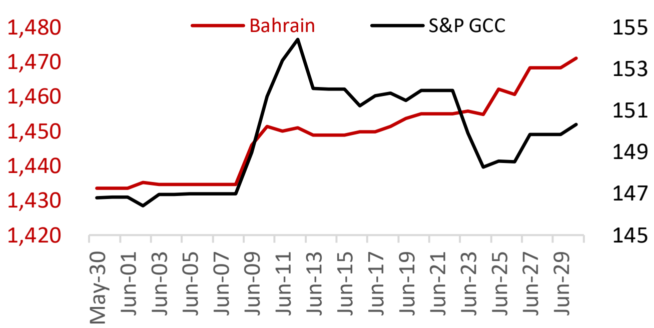
Qatar



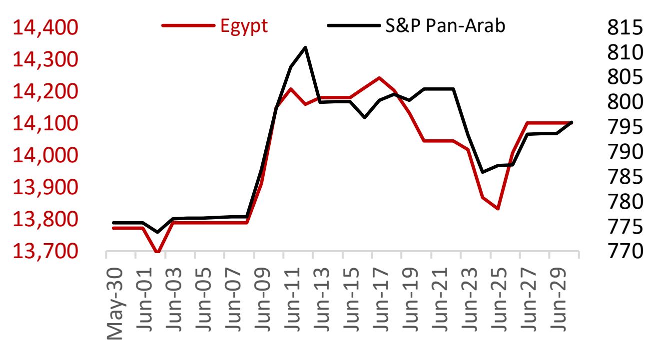
Oman



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

Market Data – *as of June 30, 2019:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	523.44	6.36%	2.93%	14.88%	4.30%
MSCI EAFE (USD)	1,922.30	5.77%	2.50%	11.77%	-0.86%
MSCI EM (USD)	1,054.86	5.70%	-0.31%	9.22%	0.78%
US					
S&P 500 Index	2,941.76	6.89%	3.79%	17.35%	8.30%
Dow Jones Industrial Average	26,599.96	7.19%	2.59%	14.03%	9.84%
NASDAQ Composite Index	8,006.24	7.42%	3.58%	20.66%	6.70%
Russell 2000 Index	1,566.57	6.90%	1.74%	16.17%	-4.77%
Developed					
Stoxx Europe 600	384.87	4.28%	1.52%	13.98%	2.12%
FTSE 100 Index	7,425.63	3.69%	2.01%	10.37%	-2.49%
DAX Index	12,398.80	5.73%	7.57%	17.42%	1.82%
CAC 40 Index	5,538.97	6.36%	3.52%	17.09%	4.99%
Nikkei 225	21,275.92	3.28%	0.33%	6.30%	-4.47%
Hang Seng Index	28,542.62	6.10%	-1.75%	10.43%	0.16%
Emerging Markets					
Russia Stock Exchange	2,765.85	3.77%	10.76%	16.74%	22.91%
Turkey - Borsa Istanbul 100 Index	96,485.32	6.51%	2.88%	5.71%	0.27%
MSCI Asia ex Japan	652.62	6.06%	-1.64%	9.39%	-1.21%
Shanghai Composite	2,978.88	2.77%	-3.62%	19.45%	6.89%
India - NIFTY 50	11,788.85	-1.12%	1.42%	8.53%	11.33%
Taiwan Stock Exchange	10,730.83	2.21%	0.84%	10.32%	0.72%
Brazil Ibovespa Index	100,967.20	4.06%	5.82%	14.88%	40.69%
Mexico Stock Exchange	43,161.17	0.96%	-0.28%	3.65%	-8.23%
MENA					
S&P Pan Arab (USD)	795.94	2.62%	1.08%	9.22%	6.51%
S&P GCC Composite (USD)	150.32	2.38%	1.09%	10.76%	10.32%
KSA - Tadawul All Share Index	8,821.76	3.58%	0.03%	12.71%	6.10%
Dubai - DFM General Index	2,658.63	1.46%	0.90%	5.09%	-5.76%
Abu Dhabi - ADX General Index	4,979.95	-0.47%	-1.87%	1.32%	9.21%
Qatar Exchange Index	10,455.67	1.78%	3.45%	1.52%	15.86%
Boursa Kuwait All Share Index	5,832.13	1.75%	3.81%	14.82%	19.26%
Oman - Muscat Securities Market 30 Index	3,884.91	-1.25%	-2.48%	-10.15%	-15.02%
Bahrain Bourse All Share Index	1,471.04	2.62%	4.08%	10.00%	12.21%
Egypt - EGX 30	14,100.74	2.39%	-4.32%	8.17%	-13.75%
Morocco - MADEX	9,183.42	2.71%	3.77%	-0.54%	-5.60%
Jordan - ASE Index	1,876.48	3.87%	-2.75%	-1.69%	-9.37%

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

Market Data – *as of June 30, 2019:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Aggregate Bond (USD)	596.25	2.04%	3.29%	5.70%	6.59%
Barclays US Aggregate Bond	2,171.71	1.26%	3.08%	6.11%	7.91%
US Government Total Return Value Unhedged (USD)	2,297.08	0.92%	2.99%	5.15%	7.20%
Bloomberg Barclays US Corp Bond Index	3,107.73	2.45%	4.48%	9.85%	10.79%
Bloomberg Barclays US Corp High Yield Bond Index	2,099.15	2.28%	2.50%	9.94%	7.53%
Global Treasury ex US Total Return Index Value Unhedged	665.12	2.84%	3.55%	4.99%	5.19%
Global Agg Corporate Total Return Index Value Unhedged	270.37	2.75%	3.93%	8.25%	8.13%
JPM Emerging Market Bond Index (USD)	852.40	3.04%	3.76%	10.60%	11.38%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,374.75	3.81%	3.54%	10.03%	11.22%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	2.087	2.381	2.371	1.913	2.087
2 Year Yield	1.755	2.260	2.516	2.510	1.755
5 Year Yield	1.766	2.233	2.555	2.714	1.766
10 Year Yield	2.005	2.405	2.718	2.837	2.005
30 Year Yield	2.529	2.814	3.022	2.966	2.529
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	0.833		1.000	1.269	1.263
German 10 Year Bund	-0.327		-0.070	0.242	0.319
Japan 10 Year Treasury	-0.158		-0.081	0.003	0.036

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,409.55	7.96%	9.07%	9.91%	12.92%
Silver Spot	15.32	4.94%	1.30%	-1.16%	-4.30%
Energy					
WTI Crude	58.47	9.29%	-2.78%	28.76%	-20.39%
Brent Crude	66.55	3.19%	-2.69%	23.70%	-14.52%
Natural Gas	2.31	-5.95%	-13.30%	-21.50%	-21.50%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.137	1.83%	1.38%	-0.82%	-1.69%
GBP-USD	1.270	0.53%	-2.60%	-0.45%	-2.92%
USD-JPY	107.850	-0.41%	-2.72%	-1.68%	-2.39%
KWD-USD	3.295	0.29%	0.19%	-0.04%	-0.20%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	2.398	2.320	2.201	2.178
Saudi Interbank	2.696	2.711	2.716	2.773
Emirates Interbank	2.542	2.614	2.865	3.027
Qatar Interbank	2.625	2.763	2.938	3.150
Kuwait Interbank	2.500	2.688	2.875	3.125

Source: Bloomberg

Disclaimer: