ISSUE 006

APRIL 2017

MENA MARKETS REVIEW

HIGHLIGHTS

- Trump completes first 100 days in office and announces tax cuts
- French presidential election narrowed down to two candidates while British PM calls for snap general election
- Abu Dhabi equity market best performer for the month
- IMF downgrades Saudi growth
- Qatar issues domestic bonds worth QAR 5.575 billion

NBK CAPITAL
INVESTMENT STRATEGY & ADVISORY

APRIL 2017: STEADY WORLD OUTLOOK, MORE REALISM IN US, ELECTION FEARS RECEDE IN EU

Markets appear in steady mode these days. Most markets are taking a breather after run-ups late last year, especially following the Trump election in November. The leading markets seem to be in trading ranges now or just stalled near highs, awaiting some catalyst event or a change in economic conditions. We are still up 4-6% ytd on US equities, and close to 9-10% on European and emerging market stocks (on a USD basis); GCC markets are lagging. Interest rates are still up on the year (US 10-year at 2.3%) but off their recent highs seen after the December 2016 Fed hike. The dollar, too, had a run-up in 2016, but is now actually down on the year against the major currencies (EUR, JPY).

What gives? Not much. Realism set in regarding the ability to pass (quickly) massive legislation in the US and fears of populists coming to power in the EU receded. On the Trump agenda, good and (equity) positive things are still expected: the awaited significant deregulation is occurring (energy, finance), the feared trade wars are not happening; but the wild balloon of massive and immediate tax reform, which pushed the Dow Jones Industrials Index over 21,000 earlier, lost some of its buoyancy of late.

In Europe, the populists are still popular, along with the Euroskeptics. The Dutch and French populists (Wilder and Le Pen and others) did very well in their elections, but not well enough to reach power and thus scare the markets. We therefore saw the euro gaining ground and EU interest rates rise a bit as risk-off trades were unwound. Meanwhile, concerns about Syria and North Korea, which had popped up on the radar screen, were thankfully contained for the time being.

On economic performance, the major economies have spewed soothing data primarily, more or less in line with moderate growth, as per say the IMF's recent update for world growth of 3.5%. Noticeably, the IMF's April report included an upward revision (a slight 0.1%) to that number. Upward revisions are significant after years of consistent downward revisions at every turn. The change in direction basically means that surprises are finally coming in on the upside, usually a bullish indicator. This view is widely shared, though the assessments of the risks vary somewhat, especially regarding politics and central bank policies (potential end of QE in the EU next year, Fed reducing its balance sheet…).

The focus is now again on the US, where Trump and the Republicans are trying to pass radical tax reform in a very contentious political environment. There also difficult issues related to "paying" for those tax cuts, in other words the deficit/debt implications. The broad lines of tax reform are: a reduction in the corporate tax rate from 35% to 15%, a tax simplification and tax cut for individuals whereby most deductions would disappear, the standard deduction would double, and tax brackets would go from seven (with the top one taxed at 40%) to only three brackets taxed: 15, 25, and 35%.

How much of the tax plan is realized, and its actual timing will have significant bearing on the US outlook. The current 2.0% or 2.0%-plus view for 2017-2018 would start moving up if President Trump gets most of his tax plan, moving closer to 3.0% but not much higher in the near term. One concern, which we share, is that the financial markets are a bit overly optimistic as to content and timing of the proposed tax plan.

In Europe, markets are breathing easier, and will sigh in relief after the French election, if there are no surprises. Centrist Emmanuel Macron is expected to win against National Front candidate Marine Le Pen. He is leading 59-41 in the polls. But these are post-Brexit and post-Trump days, so even with a 19-point margin, the markets want to see the actual results, and the euro will likely run up a little more initially.

Macron is of course pro-EU, while Marine Le Pen had argued for an exit from the euro and a return to the French franc (she has since back-tracked on that front). Macron is for free trade but is more nuanced as he is seeking some protections for Europe's trade with outside partners. His positions are not very clear at this point, and his newly formed party has zero MPs in parliament. So, he will have to rely on the upcoming June election to broaden his mandate and/or work with the mainstream parties to be able to govern. Macron's potential election, though not market-disruptive, will still yield policy and implementation questions ahead, though not of the Frexit kind.

In the meantime, Brexit negotiations are starting between the UK and the EU, and PM Theresa May has called a June election, which is likely to increase her working majority in parliament from 17 seats to perhaps 100. A stronger government and PM were viewed positively for the GBP because they would strengthen the PM's hand and potentially move things in surer fashion; but, they could also perhaps result in a middle-of-the-road Brexit as the PM could more easily placate her hard-liners.

The Fed just ended its May meeting with no change to policy, US rates are expected to rise in June and December of this year, as data remains in line with the Fed's moderate outlook view. Recent Q1 GDP data was weaker than expected at 0.7% (q/q ann.) and the March nonfarm payroll report showed only 98k new jobs, lower than recent averages. These numbers do not derail things, however, as both were distorted by one-time factors. GDP growth is still running at 1.9% y/y, the underlying pace in our view. And monthly job gains are still averaging 178K. Furthermore, other data, such as PMIs, home sales, and sentiment indicators are all pointing to a steady moderate outlook.

Upcoming US rate hikes will of course have repercussions for GCC interest rates, where currencies are tied to the USD and where oil prices are also keenly watched. The latter have been steady in a range under $55 pb (Brent) in recent weeks. Talk of extending the OPEC-non-OPEC production cut agreement to the second half of this year is supporting prices, while reports of rising US production and of high inventory levels are pressuring prices lower. So, the GCC countries are plowing along with reforms and consolidation, while their finances are looking somewhat better with the higher oil prices this year. That is easing some of the pressure on fiscality and liquidity. At the same time, most countries are carrying on with their debt issuance programs (domestic and international), the latest being Kuwait's successful issuance of an $8 billion international bond (5 and 10-year maturities).

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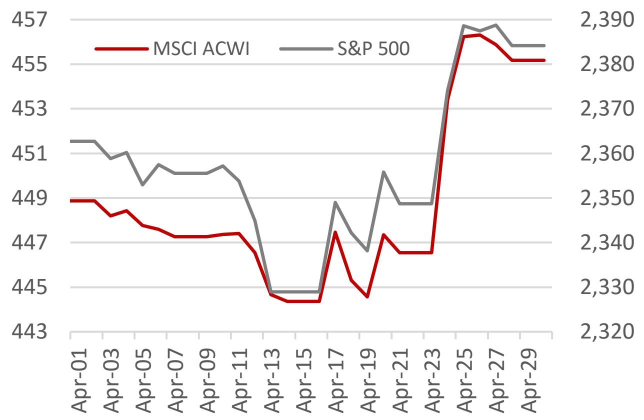
GLOBAL EQUITIES

Global equities continued their winning streak in April, measured by the MSCI All Country World Index, closing the month up 1.4%. Similarly, Emerging Markets also posted a gain for the fourth month this year, up 2.0%. In the United States, the S&P 500 and Dow Jones regained momentum from last month's losses, gaining 0.9% and 1.3%, respectively. The markets were unchanged when President Trump announced his new tax plans to drop the corporate tax rate to 15% from 35%. However, markets did react negatively as Q1 2017 data was released. The U.S. economy expanded at the slowest pace in three years, growing 0.7% quarter-over-quarter (Q/Q).

Chart 1 : MSCI ACWI & S&P 500 Performance

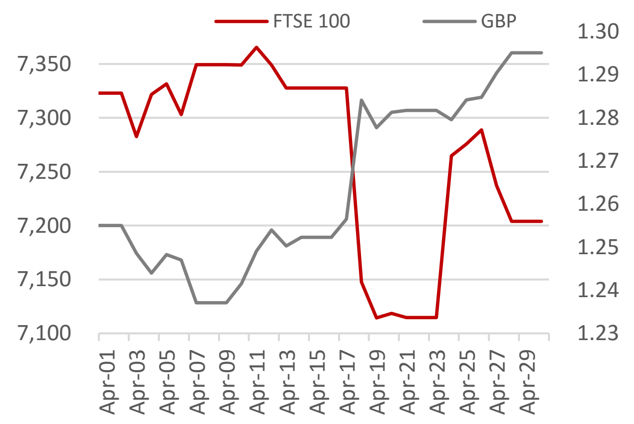


Source: Bloomberg

The Stoxx Europe 600 Index continued to perform well in April, ending the month up 1.6%. The European Central Bank held its benchmark interest rate at 0% for its ninth consecutive meeting and will continue with quantitative easing at the current pace of monthly bond purchases of 60 billion euros. President Mario Draghi suggested that the Eurozone economy has reduced the downside risks at the current pace of economic recovery/expansion. The index rallied as the first round of French presidential elections sent Emmanuel Macron, a centrist, and Marine Le Pen, a right-wing, to the May 7 runoff election.

In the United Kingdom, equities fell by 1.6% in April, as measured by the FTSE 100. The index appears to have taken a downturn after Prime Minister Theresa May announced a snap general election on June 8th. The British economy grew 0.3% Q/Q during Q1 2017, decelerating from a 0.7% growth Q/Q in Q4 2016. The IMF on the other hand has revised its growth estimate by 0.9% in 2017 to 2%, marking the largest upward revision among all the countries it analyzes. However, in anticipation of further Brexit-related slowdowns, growth is forecasted to drop to 1.5% in 2018.

Chart 2: FTSE 100 & GBP



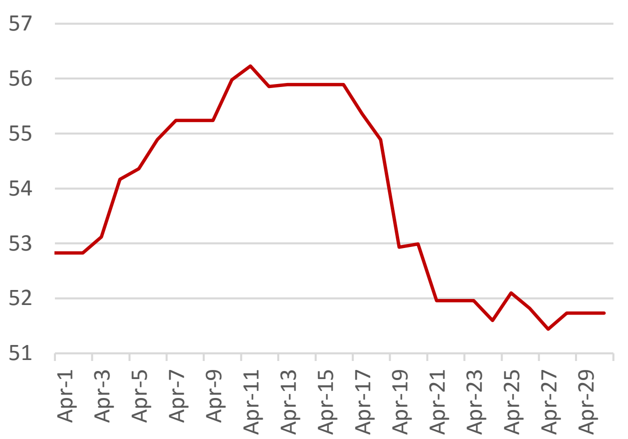
Source: Bloomberg

The MSCI EM Index continued its growth in April posting positive returns of 2.0%. The Index is near a two-year high after an increase of liquidity from central banks drove equities up.

Japan's Nikkei recovered following last month's loss, up 1.5% in April. The Bank of Japan left its key interest rate unchanged since the beginning of 2016 at -0.1% at its April meeting, as markets had expected the BOJ to maintain its low rate policy in the near term future.

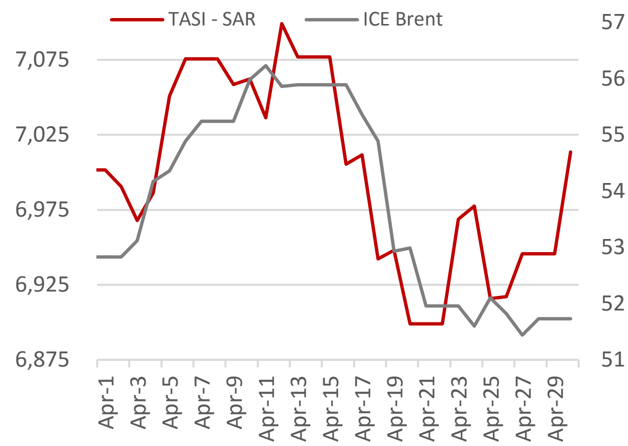
Oil continues to underperform; down 2.1% in April although Saudi Arabia said OPEC-led supply cuts may be extended past June to drain global crude inventories. The first three months of supply cuts have failed to bring inventories below the five-year average, Saudi Arabia's Energy Minister Khalid Al-Falih said. Gold continued to post gains for a fourth month in a row, gaining 1.5% during the month.

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



Source: Bloomberg

Chart 4: TASI & Brent



Source: Bloomberg

Regional Equities

MENA equities continue to underperform, with the S&P Pan Arab Composite generating a loss of 1.1% in April. The index was weighed down by a weak performance in Saudi equities as the IMF downgraded its Saudi GDP growth forecast for 2018 to 1.3% from 2.3%.

The Saudi Tadawul All Share Index continues to recover following poor performance at the start of the year, up 0.2% in April. The index was negatively impacted by the IMF downgrade of Saudi growth as well as lower oil prices and a new lawsuit related to 9/11 in the US against Saudi companies and banks. Although positive bank profits were announced, this alone was not enough to support the market. The index did rally slightly following the King's announcement to reinstate bonuses and allowances to state employees. The reinstatement of these benefits, explained by the Minister of State, was a result of effective spending cuts over the past two years and better than expected budgetary performance in the first quarter of 2017. This resulted in the actual deficit for Q1 2017 being half of what was originally projected. Furthermore, the Saudi Minister of Finance announced that the domestic bond program is expected to resume within a few months, following its suspension last October.

The Qatar Exchange Index continues to suffer losses, shedding 3.1% in April, following last month's 2.9% loss. Nevertheless, the London-listed Qatar Investment Fund (QIF) has noted on its outlook of Qatar in 2017 that, "The long-term growth prospects of the Qatari economy remain positive, as the Qatari government is committed to continuing its infrastructure investment spending program ahead of the 2022 FIFA World Cup and in line with the Qatar National Vision 2030." Qatar's central bank sold QAR 5.575 billion ($1.53 billion) worth of domestic bonds, consisting of four tranches.

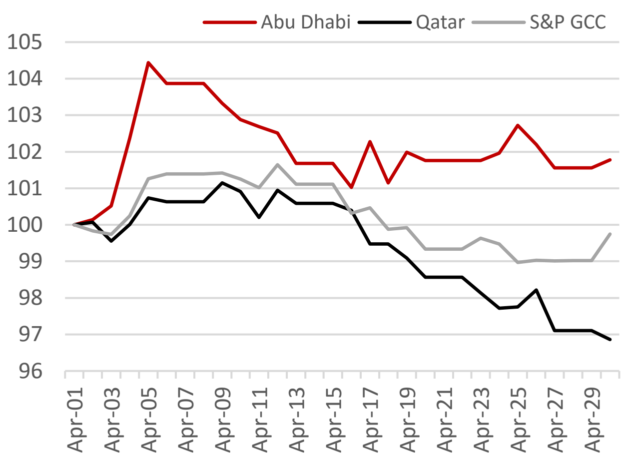
Term	3 Year	5 Year	7 Year	10 Year
Amount (QAR)	150 M	800 M	1.7 B	2.925 B
Yield	2.75%	3.35%	4.0%	4.5%

The Kuwait Weighted Index continues to generate losses, down 1.2% in April. In Q1 2017, Kuwait's project awards were healthy at KD 1.4 billion according to MEED Projects with a majority related to oil projects. Currently projects worth KD 6.2 billion are in the bidding stage and may be awarded in 2017.

Bahrain Bourse All Share Index lost 1.5% in April, ending in the red for the first time this year. The index's positive performance in the first quarter of the year was lifted by better investment sentiment, mainly due to positive corporate earnings.

UAE equities had mixed performance in April. Dubai's DFM General Index ended the month down 1.9% despite recent strong tourism numbers. Abu Dhabi's ADSM General Index however posted a gain of 1.8%, proving to be the best performer among its regional peers for the month.

Chart 5: Relative Performance of Abu Dhabi, Qatar & GCC

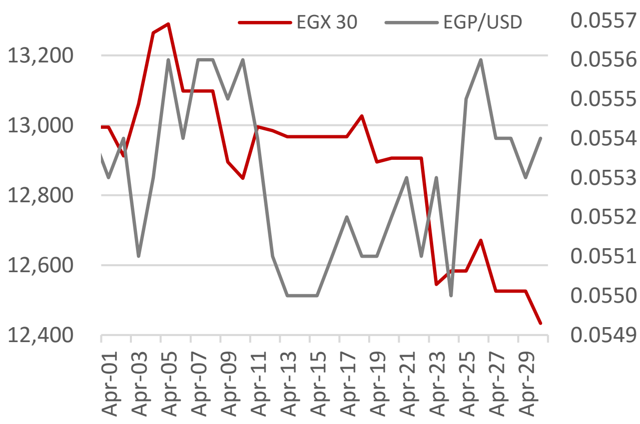


Source: Bloomberg *(figures normalized)*

Oman's MSM 30 Index posted losses of 0.7% for April, an improvement from last month's -4.0% performance. This loss may be attributed to the drop in crude oil prices in international markets as Oman's gross domestic product prices fell by 5.1% to OMR 25,489.8 million in 2016 from OMR 26,850.3 in 2015. In 2017, Oman is forecasted to register a deficit of 14% of GDP. As part of the government's plan to privatize assets, Oman Oil Company is seeking to list on the stock exchange in an effort to boost local market activity and attract FDI flows.

Egypt's EGX 30 retreated this month, down 4.3% following last month's 8.9% gain. Egypt's cabinet intends to increase the amount of dollar bonds permitted to be issued in international markets from $5 billion to $7 billion. This is in an effort to acquire additional financing amidst rising interest rates and to increase dollar reserves held by the central bank.

Chart 6: EGX 30 Index & EGP/USD



Source: Bloomberg

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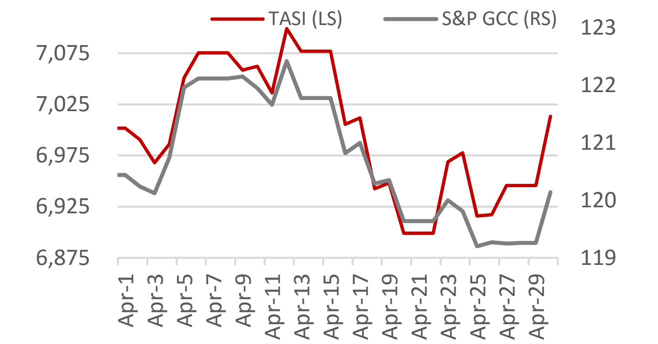
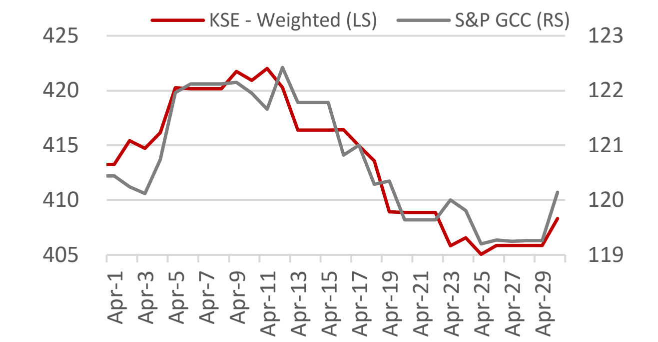
Stock Market Performance – *as of April 30, 2017:*

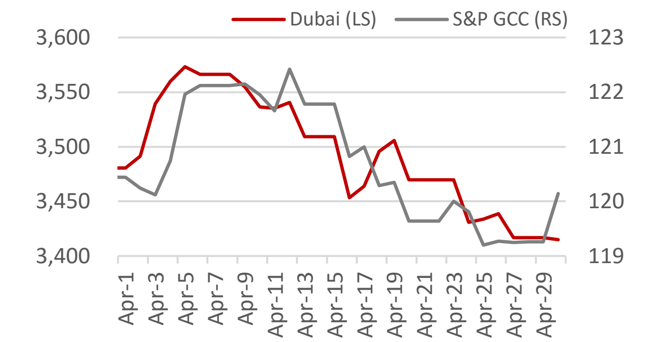
Saudi Arabia



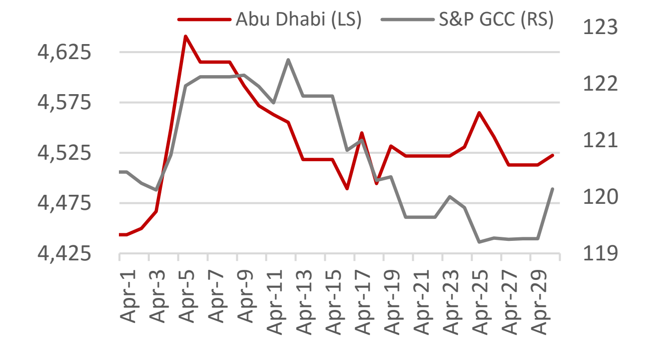
Kuwait



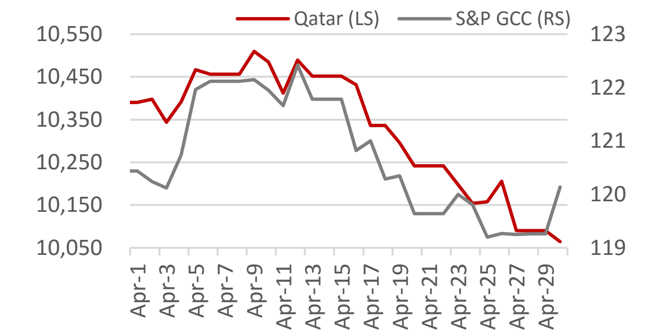
Dubai



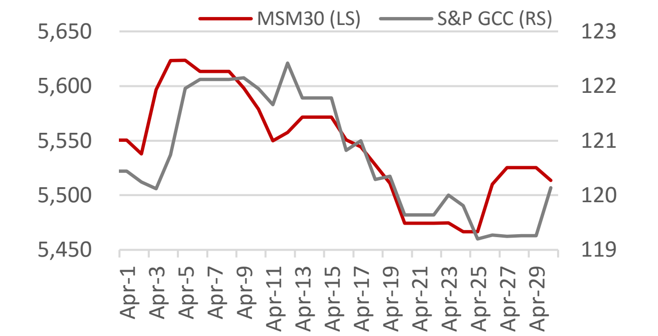
Abu Dhabi



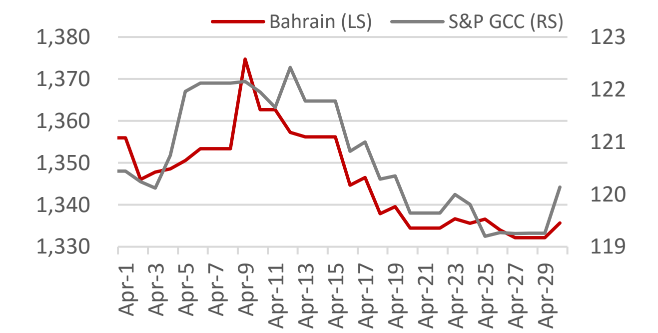
Qatar



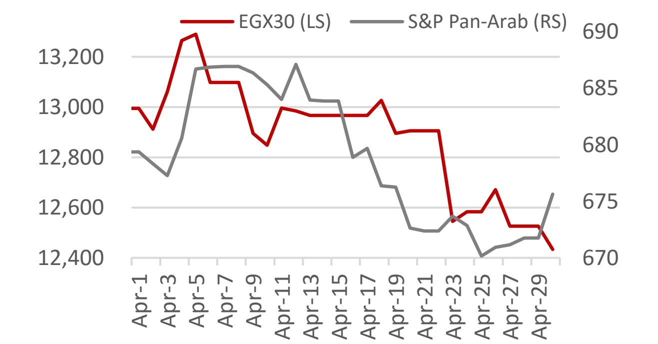
Oman



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 April 30, 2017:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	455.17	1.40%	1.40%	7.90%	12.85%
MSCI EAFE (USD)	1,833.70	2.27%	2.27%	8.89%	8.30%
MSCI EM (USD)	977.96	2.04%	2.04%	13.42%	16.40%
US					
S&P 500 Index	2,384.20	0.91%	0.91%	6.49%	15.44%
Dow Jones Industrial Average	20,940.51	1.34%	1.34%	5.96%	17.82%
NASDAQ Composite Index	6,047.61	2.30%	2.30%	12.34%	26.64%
Russell 2000 Index	1,400.43	1.05%	1.05%	3.19%	23.84%
Developed					
Euro Stoxx 600	387.09	1.56%	1.56%	7.10%	13.36%
FTSE 100 Index	7,203.94	-1.62%	-1.62%	0.86%	15.41%
DAX Index	12,438.01	1.02%	1.02%	8.34%	23.90%
CAC 40 Index	5,267.33	2.83%	2.83%	8.33%	18.93%
Nikkei 225	19,196.74	1.52%	1.52%	0.43%	15.18%
Hang Seng Index	24,615.13	2.09%	2.09%	11.88%	16.84%
Emerging Markets					
Russia Stock Exchange	2,016.71	1.04%	1.04%	-9.67%	3.26%
Turkey - Borsa Istanbul 100 Index	94,655.31	6.42%	6.42%	21.14%	10.93%
MSCI Asia ex Japan	594.22	2.10%	2.10%	15.53%	18.27%
Shanghai Composite	3,154.66	-2.11%	-2.11%	1.64%	7.36%
India - NIFTY 50	9,304.05	1.42%	1.42%	13.66%	18.53%
Taiwan Stock Exchange	9,872.00	0.62%	0.62%	6.68%	17.83%
Brazil Ibovespa Index	65,403.25	0.65%	0.65%	8.59%	21.32%
Mexico Stock Exchange	49,261.33	1.48%	1.48%	7.93%	7.59%
MENA					
S&P Pan Arab (USD)	675.62	-0.55%	-0.55%	-1.07%	2.53%
S&P GCC Composite (USD)	120.14	-0.25%	-0.25%	-1.30%	3.93%
KSA - Tadawul All Share Index	7,013.47	0.17%	0.17%	-2.73%	3.05%
Dubai - DFM General Index	3,414.93	-1.88%	-1.88%	-3.28%	-2.20%
Abu Dhabi - ADX General Index	4,522.56	1.78%	1.78%	-0.52%	-0.46%
Qatar Exchange Index	10,064.35	-3.14%	-3.14%	-3.57%	-1.20%
Kuwait Weighted Index	408.31	-1.20%	-1.20%	7.42%	11.47%
Oman - Muscat Securities Market 30 Index	5,513.52	-0.67%	-0.67%	-4.66%	-7.22%
Bahrain Bourse All Share Index	1,335.67	-1.50%	-1.50%	9.44%	20.27%
Egypt - EGX 30	12,433.60	-4.32%	-4.32%	0.72%	59.95%
Morocco - MADEX	9,489.91	2.44%	2.44%	-0.60%	16.30%
Jordan - ASE Index	2,185.26	-2.89%	-2.89%	0.69%	4.32%

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

Market Data – *as of April 30, 2017:*

Fixed Income	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	546.58	1.17%	1.17%	2.66%	-1.77%
Barclays US Agg Bond	2,007.89	0.77%	0.77%	1.59%	0.83%
Bloomberg US Gov Bond Index	125.24	0.67%	0.67%	1.37%	-0.55%
Bloomberg Barclays US Corp Bond Index	2,789.61	1.07%	1.07%	2.30%	3.00%
Bloomberg Barclays US Corp High Yield Bond Index	1,884.32	1.15%	1.15%	3.89%	13.30%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	104.89	1.53%	1.53%	3.83%	-5.06%
Bloomberg Global Corp Bond Index ex US (USD)	127.42	1.31%	1.31%	2.82%	0.74%
JPM Emerging Market Bond Index (USD)	780.44	1.63%	1.63%	5.60%	8.52%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,268.55	1.99%	1.99%	5.95%	14.06%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	0.79		0.50	0.35	0.21
2 Year Yield	1.26		1.21	0.83	0.78
5 Year Yield	1.81		1.95	1.29	1.29
10 Year Yield	2.28		2.49	1.83	1.83
30 Year Yield	2.95		3.08	2.58	2.68
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.09		1.44	1.28	1.60
German 10 Year Bund	0.32		0.45	0.18	0.27
Japan 10 Year Treasury	0.02		0.09	-0.05	-0.08

Commodities	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,268.28	1.53%	1.53%	10.53%	-1.95%
Silver Spot	17.22	-5.75%	-5.75%	8.08%	-3.54%
Energy					
WTI Crude	49.33	-2.51%	-2.51%	-8.17%	7.43%
Brent Crude	51.73	-2.08%	-2.08%	-8.96%	7.48%
Natural Gas	3.28	2.70%	2.70%	-12.03%	50.41%

Currencies	Last Price	% Change Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.09	2.28%	2.28%	3.59%	-4.86%
GBP-USD X-RATE	1.30	3.20%	3.20%	4.95%	-11.37%
USD-JPY X-RATE	111.49	0.09%	0.09%	-4.68%	4.69%
KWD-USD X-RATE	3.28	0.10%	0.10%	0.32%	-0.97%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	1.00	1.17	1.43	1.77
Saudi Interbank	1.29	1.73	2.01	2.21
Emirates Interbank	1.07	1.46	1.69	2.16
Qatar Interbank	1.71	2.02	2.30	2.74
Kuwait Interbank	1.38	1.63	1.88	2.13

Source: Bloomberg

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