

ISSUE 008
JUNE 2017

MENA MARKETS REVIEW

HIGHLIGHTS

- The Fed hikes rates by 25bps and US equities continue to post gains despite political uncertainty
- French President Macron secures a parliamentary majority while UK's PM May loses her party's parliament majority
- Emerging markets continue to perform well, with MSCI EM Index returning 17.4% in H1 2017
- Brent hits lowest level since start of year
- The Qatar Exchange Index suffered major losses amid its dispute with its GCC peers
- Saudi, Qatar & UAE raise rates by 25 bps following the Fed's decision



JUNE 2017: MAJOR CENTRAL BANKS FINALLY NUDGE THEIR POSITIONS, IMPACTING INTEREST RATES AND FX RATES.

Midyear, things are proceeding more or less as expected back in January. Economic growth is holding up well in most economies. Politics are not much of an impediment, though risk factors remain in the background and may be rising. Brexit negotiations are still a question mark, primarily for the UK. Qatar's dispute with its neighbors is a factor certainly for some GCC equities. More importantly, the Trump agenda on tax cuts and economic stimulus remains an expected plus for US equities, even if not for this year. However, as we approach the US Congressional mid-term elections of November 2018, the markets will want to see concrete action, for reasons economic but also to avoid a Republican setback in the election. The latter would likely be seen as delaying, or even derailing, the current pro-business agenda. US politics are bound also to loom larger, because the above will be taking place against a backdrop of a US Federal Reserve raising interest rates further and embarking on the next leg of undoing years of quantitative easing. The Fed has recently signaled strongly that it intends to start reducing the size of the massive portfolio, which amassed over several bouts of quantitative easing since 2008. The portfolio today stands at \$ 4.3 trillion (Treasures, Agencies and mortgage-backed securities) versus under \$ 1 trillion prior to 2008. The wind-down will be very slow and gradual, starting probably in September 2017 and in amount of \$ 10 billion per month initially. Still the Fed and the markets will want to see and reassure themselves that the unwinding of the unprecedented QE(s) will not cause undue market or other disruptions.

Furthermore, if one takes Fed rhetoric at face value (and the latest dot-plots), the Fed should be hiking the federal funds rate once more this year (25 bps), and about 3 times in 2018. The markets, and we, do not share that view at this point, in large part because US inflation, as well as EU inflation, continue to disappoint on the lower of their 2.0% targets.

The world economy is still expected to grow at 3%-plus this year, with US GDP growth above 2.0%, EU close to 1.5%, while China should maintain 6.5% growth. The last data from the US is consistent with this outlook, June payroll employment added 222K new jobs, unemployment was little changed at a low 4.4%, and wage growth remains tame, with steady y/y rises of 2.4%.

The uncertainty around the Trump agenda and the strength of the economic recovery are the other factors generating market doubts for the US interest rate forecast ahead. The markets seem to be looking for just one 25 bps in the next 12 months, to June 2018, and that with about 50% probability. While at the same time, the signs from other major central banks, in particular the ECB, have pointed to the end of aggressive accommodation soon, if not the end of bond purchases perhaps as early as the end of this year.

The result of the above, i.e. Fed hikes, has been a gradual rise in short term interest rates, with the US 2-year reaching a yield of 140 bps for the first time since 2008. The longer maturities, which remain very well behaved, have seen their rate rises contained thanks to low inflation and repressed European yields. However, long rates are finally seeing some upward pressure from: signs of the Fed unwinding its balance sheet, as well as from finally higher European rates. The latter were freed up by signs that the ECB was about to "taper" or stop its purchases in 2018. 10-year US rates rose to 2.38% recently, while German 10-year Bunds jumped to 58 bps after starting the year at 18 bps. Nonetheless rises in long rates are still expected to be gradual thanks to a gradualist Fed and ECB, when its time comes, as well as low inflation.

Inflation is contained and below target and the recent downward pressure on oil prices means another bout of soft inflation data. Oil prices in fact were the main surprise or deviation from expectations earlier this year. Oil prices remain under pressure, notwithstanding an extension by OPEC and its partners of the earlier production cuts into 2018. WTI prices are off 14% from the start of the year, and Brent is well

below \$50 pb. With the OPEC production cuts acting slowly on supply, and with still rising US production (primarily from shale oil), the market has had a very difficult time getting to balance. Balance was expected by mid-year but now seems pushed to 2H2017, if not next year. This prospect has pressured GCC equity markets, or at least prevented them from doing better. At the same time the diplomatic row between Qatar and 3 GCC members (Saudi, the UAE, Bahrain plus Egypt) has also unsettled some investors. These are some of the factors responsible for the year-to-date underperformance of the regional markets, versus international markets. Saudi was helped to a large extent by its consideration and potential future inclusion in the MSCI emerging markets, announced in June.

The change in relative central bank position has also pressured the USD recently, in particular versus a rising Euro. The USD is off 8.4% against the Euro, 2.6% against the JPY. As mentioned above, equities are performing well generally. The US headline markets are up close to 8% ytd, while in Europe the DAX (Germany) is up 7.9% on the year. Moderate growth, low inflation and slowly rising interest rates (toward “normalization”) seem to be working nicely for equities, though valuations are getting rich in some markets and raising eyebrows in some investor and policy circles.

NBK: ECONOMIC RESEARCH

Tel: +965 2259 5500

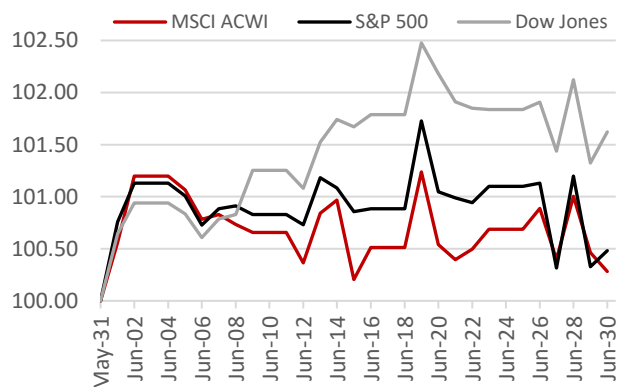
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GLOBAL EQUITIES

Global equities posted a gain of 1.0% as measured by the MSCI All Country World Index in June. For Q2 2017 the index is up 3.6% bringing its H1 2017 return to 10.3%. US equity markets continue their positive performance for the third month straight posting gains of 0.5% and 1.6% for the S&P 500 and the Dow Jones, respectively. Both indices are in the green for the Q2 2017 and H1 2017. The S&P 500 for the first 6 months of 2017 is up 8.2% while the Dow Jones for the same period is up 8.0%. The equity markets reached new highs throughout the month despite the political uncertainty surrounding President Trump and Washington and geopolitical tensions across the globe. Economic data out of the US continues to depict stability, further supported by the Fed hiking rates by an additional 25 bps. This is the second hike in 2017 and the fourth hike overall since the Fed began tightening its monetary policy.

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



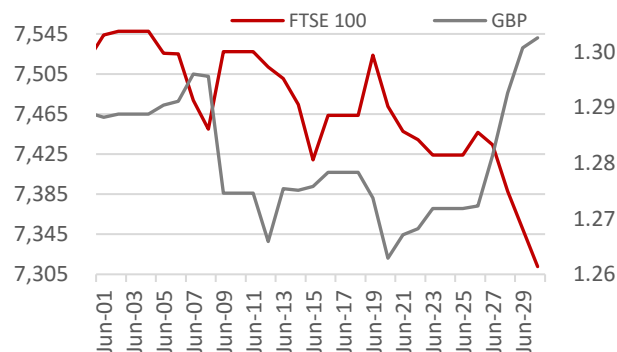
Source: Bloomberg (figures rebased)

In Europe, the Stoxx Europe 600 Index posted a loss of 2.7% breaking its winning streak during the previous two months. For the quarter, the index is down 0.46% and for the year is up 5.0%. France's President Macron's political party secured a parliamentary majority providing a clear mandate in pursuing pro-EU business friendly reforms. Markets responded positively to Greece securing the necessary monies to avoid default come July and to Italy pushing its elections to next year indicating stronger chances of a pro-EU business friendly parliament. The European

Central Bank has indicated the Eurozone's economy is solid; furthermore economic data from Germany confirmed a Eurozone recovery is moving forward.

Across the English Channel, the United Kingdom's equity market also posted a loss for the month of June of 2.8%, as measured by the FTSE 100. The index posted a loss of 0.14% for the quarter and gain of 2.4% year to date. Prime Minister May lost her party's parliamentary majority after the snap elections she called for. On the Brexit front, UK and EU representatives formally met to initiate discussions. Given the election results, it seems the UK is less likely to undergo a hard Brexit countering May's statement that no deal is better than a bad deal.

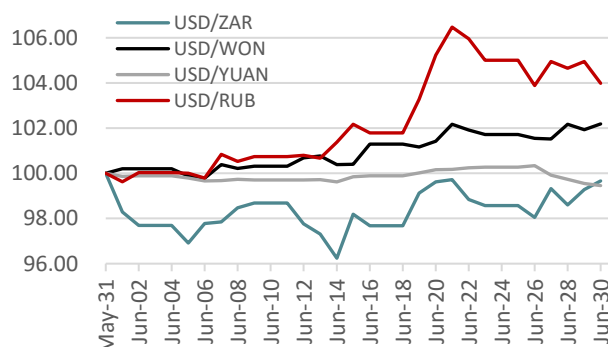
Chart 2: FTSE 100 & GBP



Source: Bloomberg

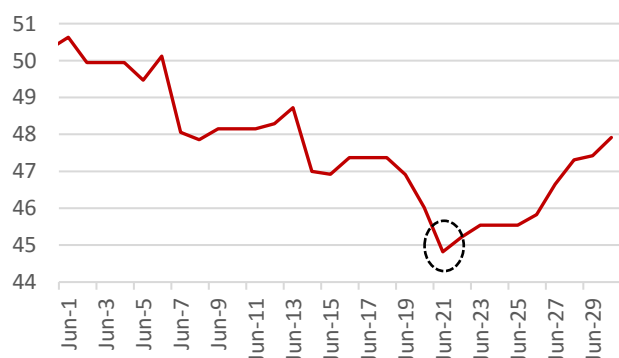
Japan's Nikkei 225 posted a gain of 2.0%, making this the third consecutive month of positive returns. In terms of Q2 and H1 2017, the index is in the green up 6.0% and 4.8%, respectively. Japan's Cabinet Office issued a report claiming that the economy is on track to a moderate recovery. Furthermore, Japan and the EU have come closer to agreeing on a trade deal.

The MSCI EM Index closed the month of June in the green, up 0.5%, making this the sixth straight month of positive returns. The index has returned 5.5% for Q2 2017 and 17.2% for H1 2017. The rally was supported by major EM currencies continuing to gain ground against the USD, the rally of financial stocks on Wall Street, and strong performance of the technology sector. The Chinese yuan hit a seven-month high.

Chart 3: Performance of Emerging Currencies


Source: Bloomberg (figures rebased)

Brent has posted a loss for the sixth straight month. In June, Brent registered a loss of 4.8% reaching its lowest level this year of USD 44.82 pb. For Q2 2017 the commodity posted an overall loss of 9.3% and a loss of 15.7% for H1 2017. The drop in oil price is directly related to crude inventories not falling as a result of US shale production increasing, thereby offsetting cuts by OPEC and non-OPEC countries alike. This drop in price has essentially nullified the efforts of both OPEC and non-OPEC members over the past 6 months.

Chart 4: Oil Prices – USD per Barrel (BRENT)


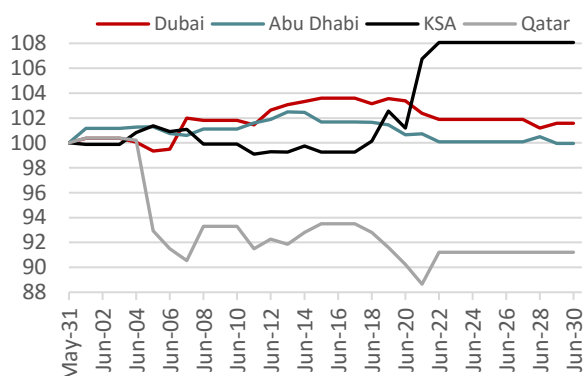
Source: Bloomberg

REGIONAL EQUITIES

MENA equities have broken their run of negative performance, closing out the month of June up 3.0% as measured by the S&P Pan Arab Composite. June's positive performance has catapulted the index into positive territory for both Q2 and H1 2017 at 1.4% and 1.1% respectively. Most markets experienced lower volume and shorter day trading windows given the Holy Month of Ramadan.

The month of June was the best performing month since the start of the year for the Saudi Tadawul All Share Index. The index closed the month up 8.1% and up 6.1% and 3.0% for Q2 and H1 2017, respectively. The index's rally can be attributed to a multitude of factors including, the MSCI opening the doors for the index to be included in its emerging market index and the restoration of some benefits for state employees following the government re-shuffle. The central bank followed suit hiking its rate by 25 bps in line with the Fed, although having minimal impact on the market given the expectation of such a move.

The Qatar Exchange Index experienced its worst month of the year closing in the red 8.8%. This brings the Q2 and H1 2017 returns to -13.1% and -13.5%, respectively. Qatar is currently in a rift with three of its GCC neighbors, Saudi Arabia, UAE, and Bahrain as well as with Egypt, Jordan, and several other countries. The dispute began on June 5th and over the next few days a sell-off of Qatari equities resulted in a drop in the index of 7%. Like its fellow GCC countries, Qatar's central bank raised its deposit rate by 25 bps following the Fed. The market was closed the last week of the month given the Eid Al Fitr holiday.

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


Source: Bloomberg (figures rebased) Note: Market was flat at end of month for KSA and Qatar due to Eid Al Fitr Holiday.

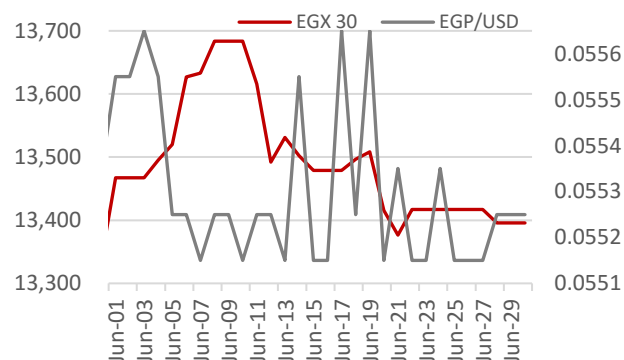
Kuwait Weighted Index posted a loss of 1.3% for the month of June. In terms of Q2 2017, the index is down 3.4%. For H1 2017 the index is actually still positive at 5.1% given the stellar performance recorded in January 2017 of 12.4%. Kuwait's parliament approved the budget for fiscal year 2017/2018 with revenues and expenditures growing at 30% and 5%, respectively. The growth in revenue is expected on the back of higher oil prices. Overall, the country is expected to report a deficit of KWD 7.9 billion. The country's central bank opted not to hike its main rate by 25 bps implying that the state of liquidity in the country is solid.

Bahrain Bourse All Share Index posted a loss of 0.7%, for the third straight month. The index's performance in Q2 is -3.4%, yet on a year to date basis the index is positive at 7.3%. This positive performance is mainly attributed to the index's performance during Q1 2017 where it posted a gain of 11.1%.

The UAE markets had mixed performances in June. The Dubai DFM General Index was up 1.6% while the Abu Dhabi ADGM General Index was mainly flat posting a minor loss of 0.04%. In terms of quarterly and year-to-date performance, both indices were negative across the board. During Q2 2017, the DFM General Index and the ADGM General Index registered losses of 2.5% and 0.4% respectively. Like Saudi Arabia and Qatar, the UAE central bank increased its key policy rate by 25 bps.

Oman's MSM 30 Index closed for the month of June down 5.6% making this month the largest loser since the start of the year. Q2 performance is at -7.8% while H1 2017 performance is at -11.5%, making Oman's equity market the second worst performer among its GCC peers.

Egypt's EGX 30 posted a gain in June for the second month running of 0.4%. In terms of quarterly and year-to-date performance, the index is up 3.1% and 8.5%, respectively. President Sisi signed into law the stamp duty on stock market transactions, affecting both buyers and sellers, which will take effect immediately and extended the capital gains tax freeze for an additional 3 years. The rating agency Fitch has affirmed the country's rating at "B" with a stable outlook.

Chart 6: EGX 30 Index & EGP/USD


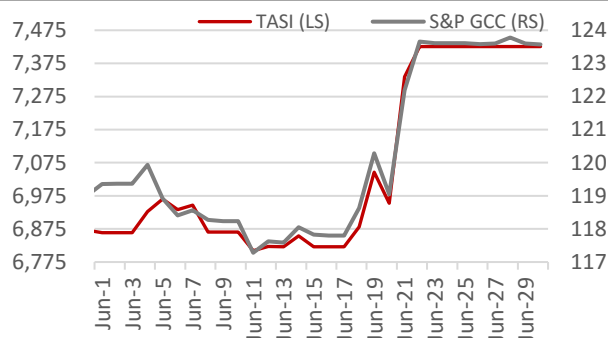
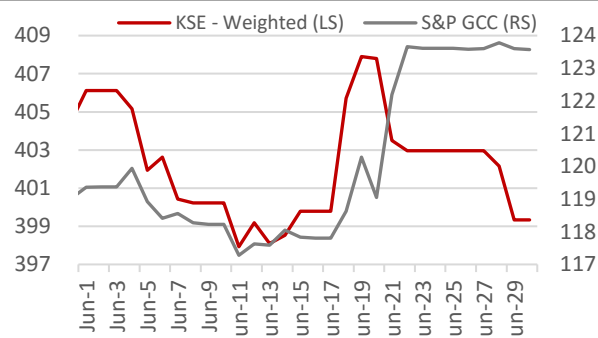
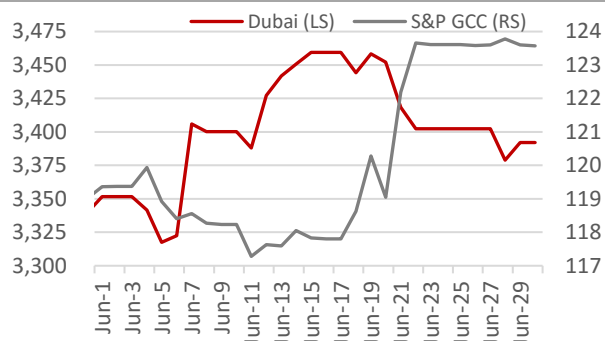
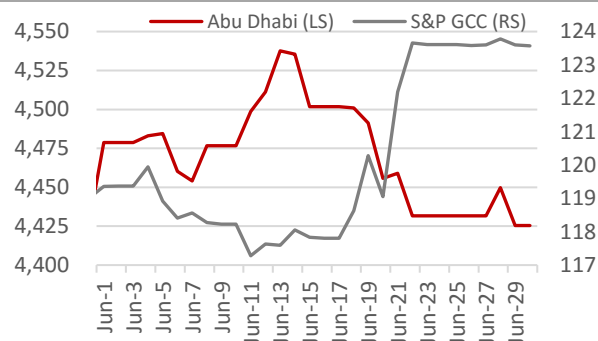
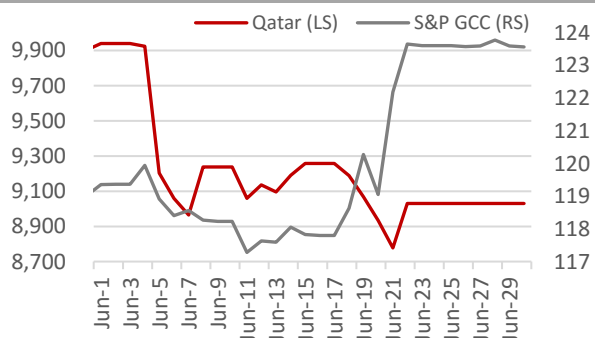
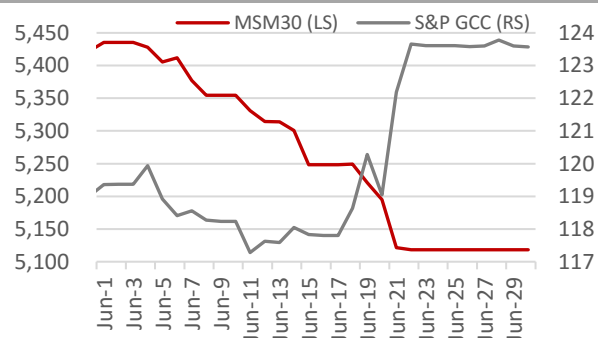
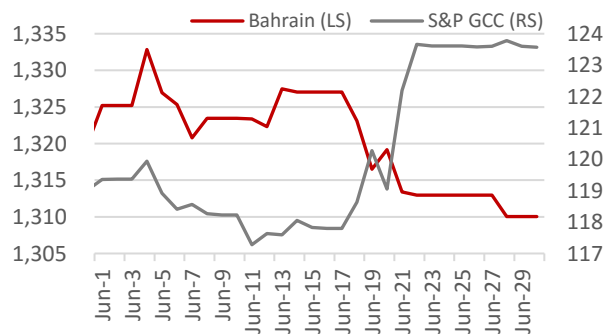
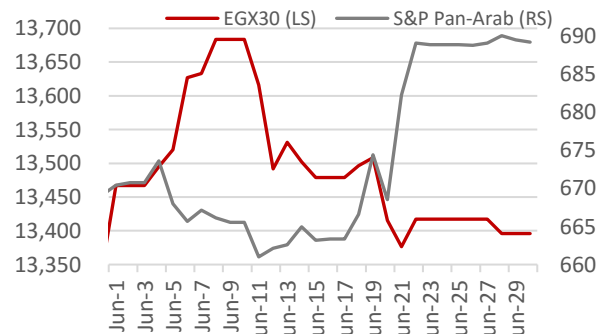
Source: Bloomberg

NBK CAPITAL: INVESTMENT STRATEGY & ADVISORY

Tel: +965 2224 5111

Email: nbkcapital.ia@nbkcapital.com

www.nbkcapital.com

Stock Market Performance – as of June 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 June 30, 2017:

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	465.09	0.28%	3.61%	10.25%	16.48%
MSCI EAFE (USD)	1,883.19	-0.36%	5.03%	11.83%	17.08%
MSCI EM (USD)	1,010.80	0.54%	5.47%	17.23%	21.18%
US					
S&P 500 Index	2,423.41	0.48%	2.57%	8.24%	15.46%
Dow Jones Industrial Average	21,349.63	1.62%	3.32%	8.03%	19.07%
NASDAQ Composite Index	6,140.42	-0.94%	3.87%	14.07%	26.80%
Russell 2000 Index	1,415.36	3.30%	2.12%	4.29%	22.87%
Developed					
Euro Stoxx 600	379.37	-2.72%	-0.46%	4.97%	15.00%
FTSE 100 Index	7,312.72	-2.76%	-0.14%	2.38%	12.43%
DAX Index	12,325.12	-2.30%	0.10%	7.35%	27.32%
CAC 40 Index	5,120.68	-3.08%	-0.04%	5.31%	20.84%
Nikkei 225	20,033.43	1.95%	5.95%	4.81%	28.62%
Hang Seng Index	25,764.58	0.41%	6.86%	17.11%	23.90%
Emerging Markets					
Russia Stock Exchange	1,879.50	-1.10%	-5.83%	-15.82%	-0.61%
Turkey - Borsa Istanbul 100 Index	100,440.40	2.97%	12.92%	28.54%	30.75%
MSCI Asia ex Japan	625.37	1.12%	7.45%	21.59%	24.16%
Shanghai Composite	3,192.43	2.41%	-0.93%	2.86%	8.97%
India - NIFTY 50	9,520.90	-1.04%	3.78%	16.31%	14.88%
Taiwan Stock Exchange	10,395.07	3.53%	5.95%	12.34%	19.94%
Brazil Ibovespa Index	62,899.97	0.30%	-3.21%	4.44%	22.07%
Mexico Stock Exchange	49,857.49	2.19%	2.71%	9.23%	8.46%
MENA					
S&P Pan Arab (USD)	689.21	3.01%	1.45%	0.92%	9.28%
S&P GCC Composite (USD)	123.57	3.83%	2.60%	1.52%	11.39%
KSA - Tadawul All Share Index	7,425.72	8.07%	6.06%	2.99%	14.24%
Dubai - DFM General Index	3,392.00	1.58%	-2.54%	-3.93%	2.44%
Abu Dhabi - ADX General Index	4,425.40	-0.04%	-0.41%	-2.66%	-1.61%
Qatar Exchange Index	9,030.44	-8.80%	-13.09%	-13.47%	-8.65%
Kuwait Weighted Index	399.33	-1.27%	-3.37%	5.06%	13.63%
Oman - Muscat Securities Market 30 Index	5,118.31	-5.60%	-7.79%	-11.49%	-11.41%
Bahrain Bourse All Share Index	1,310.04	-0.74%	-3.39%	7.34%	17.14%
Egypt - EGX 30	13,395.81	0.42%	3.09%	8.51%	92.95%
Morocco - MADEX	9,831.02	4.12%	6.12%	2.97%	26.59%
Jordan - ASE Index	2,167.40	-0.36%	-3.68%	-0.13%	3.64%

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

Source: Bloomberg

Market Data – as of June 30, 2017:

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	554.58	-0.06%	2.65%	4.16%	-2.01%
Barclays US Agg Bond	2,021.31	-0.10%	1.45%	2.27%	-0.31%
Bloomberg US Gov Bond Index	125.85	-0.16%	1.16%	1.86%	-2.17%
Bloomberg Barclays US Corp Bond Index	2,830.31	0.31%	2.54%	3.80%	2.28%
Bloomberg Barclays US Corp High Yield Bond Index	1,903.27	0.14%	2.17%	4.93%	12.70%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	106.40	-0.42%	2.99%	5.32%	-6.20%
Bloomberg Global Corp Bond Index ex US (USD)	130.40	0.48%	3.68%	5.22%	2.23%
JPM Emerging Market Bond Index (USD)	784.89	-0.26%	2.21%	6.20%	5.52%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,268.48	-0.54%	1.98%	5.95%	10.18%
US Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
3 Month Yield	1.01	0.75		0.50	0.26
2 Year Yield	1.38	1.25		1.19	0.58
5 Year Yield	1.89	1.92		1.93	1.00
10 Year Yield	2.30	2.39		2.44	1.47
30 Year Yield	2.83	3.01		3.07	2.28
Global Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
British 10 Year Gilt	1.26	1.14		1.24	0.87
German 10 Year Bund	0.47	0.33		0.21	-0.13
Japan 10 Year Treasury	0.09	0.07		0.05	-0.22
Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,241.61	-2.15%	-0.61%	8.20%	-6.07%
Silver Spot	16.63	-4.01%	-8.94%	4.42%	-11.13%
Energy					
WTI Crude	46.04	-4.72%	-9.01%	-14.30%	-4.74%
Brent Crude	47.92	-4.75%	-9.29%	-15.66%	-3.54%
Natural Gas	3.04	-1.17%	-4.86%	-18.50%	3.80%
Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.14	1.62%	7.27%	8.64%	2.88%
GBP-USD X-RATE	1.30	1.05%	3.78%	5.55%	-2.15%
USD-JPY X-RATE	112.39	1.45%	0.90%	-3.91%	8.91%
KWD-USD X-RATE	3.30	0.15%	0.64%	0.86%	-0.35%
Interbank Rates (%)		1M	3M	6M	12M
London Interbank		1.22	1.30	1.45	1.74
Saudi Interbank		1.45	1.78	2.03	2.22
Emirates Interbank		1.24	1.52	1.75	2.13
Qatar Interbank		2.22	2.44	2.63	2.95
Kuwait Interbank		1.50	1.75	1.94	2.25

Source: Bloomberg

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