ISSUE 010
AUGUST 2017

# MENA MARKETS REVIEW

## HIGHLIGHTS

- US equity markets continue to reach new highs
- No clear path on changes in monetary policy from central banks
- Emerging markets close in the green bringing the MSCI EM Index’s YTD return to over 26%
- Brent marginally drops holding firm despite head winds
- Kuwait’s equity market is the best performing among its GCC peers on a monthly and YTD basis

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## AUGUST 2017: MARKETS NOW TENTATIVE ON PROMISED US TAX REFORM AGENDA

The global economy continues to hum along, though political headwinds and weather conditions have complicated matters in recent weeks. While the major economies have either maintained robust growth or seen some improvement, the North Korea crisis and severe weather conditions in the US have weighed on markets. Analysts also began to question whether promised US reforms will materialize following months of legislative failures. Thus, despite the improving economic figures, yields have declined generally and stock markets have lost some of their gains. The US dollar also continued its retreat from its 2016 highs, in part as the eurozone outlook has improved.

In the US, politics has dominated. Markets, which had been anticipating a significant stimulus from promised tax reform, have begun to question whether this can still be agreed upon this year. Also, a debt ceiling and budget fight was expected in September, though this has now been pushed to later in 2017, after president Trump struck a deal with congressional Democrats. Markets were initially worried that failure to reach an agreement on a new budget and the debt ceiling could force a government shutdown, ultimately delaying the Fed's next rate hike. The risk of this has now receded following the deal to postpone the debt-ceiling question.

Meanwhile, US growth has remained robust, with most indicators either steady or improving. The latest ISM indexes were no exception, with the manufacturing index hitting its highest level since 2011. The employment report, while slightly below expectations, continues to confirm a healthy labor market. Much of the improved momentum has been driven by optimism that Mr. Trump's reform agenda will be implemented in a reasonable timeframe. That is now beginning to look less likely after several legislative initiatives failed to make it through Congress. This could weigh on sentiment in the months ahead, especially given relatively high equity valuations.

Nonetheless, markets are less convinced today than they were just weeks ago that the Fed will see another hike in its policy rate target this year. Indeed, the likelihood of a Fed rate hike in December has now declined to 32%; we do not expect one. As for next year, the market consensus is for 2-3 hikes; we are more sanguine, expecting just one to two 25 basis point hikes. Meanwhile, the Fed is also expected to announce the starting date of an expected balance sheet reduction in the coming weeks. The announcement itself is unlikely to rattle markets.

In Europe, conditions have continued to shift toward a more positive stance. The economic figures have broadly been surprising to the upside, with GDP growth in the eurozone revised upward in recent months. More recently, that trend was bolstered by further strength in the PMI and inflation. Inflation has also been stronger than prior expectations; headline inflation in August rose to 1.5% y/y. Though still well below the 2% target, inflation forecasts are now more upbeat.

Retreating political risks have been part of the improving story in Europe. The risk of populists coming to power or gaining traction is much diminished after elections in the Netherlands and France saw those forces defeated. In France, the election of reform-minded Emmanuel Macron even bolstered hopes of a more market-friendly era. Elections in Germany later this month, which never represented a significant risk to begin with, are now expected to be easily won by Mrs. Merkel, maintaining the status quo. Nonetheless, some political risks remain on the horizon including an Italian election sometime in the next 12 months and the progress of Brexit talks, which risk using up valuable political capital and souring EU-UK relations.

Robust EU economies and shaky US politics combined to push the euro higher this year. The currency rose to 1.20 versus the dollar in August and is now up 14% against the US currency this year. Some of this move has also reflected the changing interest rate outlook in the US, especially on the likelihood of a December Fed hike. However, the euro has been strengthening consistently since late 2016, at a time when optimism of US reforms was still strong and long before markets began to entertain serious doubts on these.

The stronger euro has certainly complicated life for the European Central Bank. The ECB's Mario Draghi, who has been focused on ensuring a smooth transition to a "less-loose" monetary policy, is now having to talk down the euro, lest it derail the economic recovery. However, when it comes to the ECB's quantitative easing (QE), markets know that it is unlikely to continue much longer past the middle of next year due to the structural limitations of the program (i.e. there are few German bonds left to buy). Nonetheless, observers are keen to hear more details about how the ECB plans to end QE.

Japan has also surprised on the upside in recent months, though this trend will be harder to sustain. Generally, quantitative easing there has been far less effective and authorities still do not have their sight on the end of QE. Moreover, though the IMF did nudge their growth outlook for 2017 to 1.3%, growth is expected to return to 0.6% in 2018. Meanwhile, Japanese inflation remains mired below 1%, unlike inflation in the US and the eurozone where it has perhaps started to approach 2%.

Emerging markets (EM) growth has also been improving despite a moderating pace in China. EM growth is seen rising to 4.6-4.8% in 2017 and 2018 by the IMF. The trend there has been relatively steady with China continuing to manage a smooth slowdown while avoiding major bumps along the way. Beyond China, growth has been recovering as recessions in commodity exporting (Brazil, Russia) countries recede.

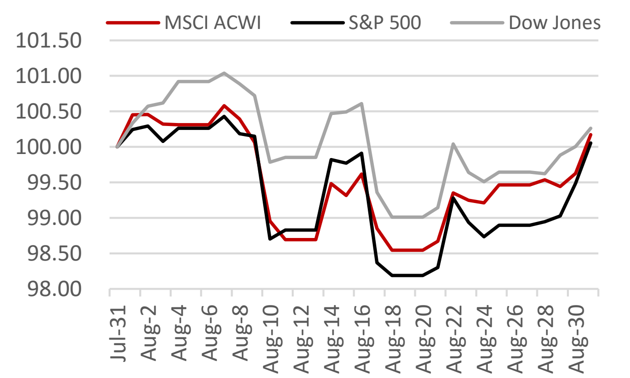
An improving economic outlook combined with the risks from the North Korea crisis and bad weather have helped push oil prices upward in recent months. Brent rose past $54 per barrel in early September; this is $10 higher than recent lows in late June 2017. The price has also been supported by the OPEC decision to extend production cuts for an additional nine months after these were due to expire in mid-2017. The price recovery has remained relatively limited, largely due to resilient shale oil production in the US and high crude oil stocks.

**NBK: Economic Research**
Tel: +965 2259 5500
Email: econ@nbk.com
www.nbk.com

## GLOBAL EQUITIES

Global equities continue to perform well with the MSCI All Country World Index posting a gain, for the eighth month straight, of 0.2%. US equities also continue to remain in the green for the fifth month straight. In August, the Dow Jones and S&P 500 reached new highs but retreated to close up 0.1% and 0.3%, respectively. US equity markets were held back by the increased tensions with North Korea, the political turmoil still engulfing the White House, terror attacks and the upcoming debacle surrounding the federal budget/debt ceiling. Towards the end of August, central bank chiefs met in Jackson Hole in Wyoming to discuss monetary policy but ended the meeting without providing a clear path for policy outlook.

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

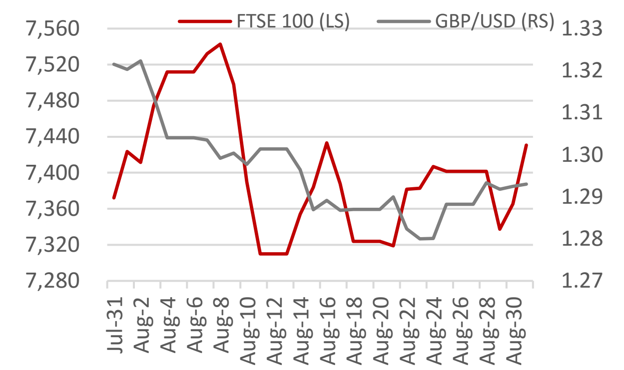



Source: Bloomberg *(figures rebased)*

In Europe, the Stoxx Europe 600 posted a loss of 1.1%, making it the third month running with negative performance. During the month, the Eurozone released positive economic data and saw inflation rise year on year by 1.5%. This was insufficient in terms of a catalyst to lift equity markets in the face of the Barcelona terror attack and the lack of clarity from the ECB concerning ending quantitative easing. Also negatively affecting performance was the political issues in the US and rising tensions between the US and North Korea.

The United Kingdom's equity market posted a gain of 0.8% in August, as measured by the FTSE 100. The weak, albeit positive performance, is a result of global political tensions and less than solid macro-economic data released throughout the month. At the start of the month, the BOE kept their policy rate unchanged causing the GBP to fall lending support to equities, mainly those with export operations. Brexit continues to bring uneasiness to the equity market with many questions remaining unanswered.

**Chart 2: FTSE 100 & GBP**

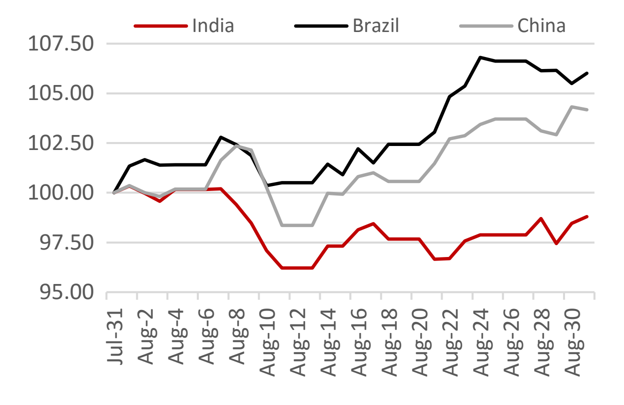



Source: Bloomberg

Japan's Nikkei 225 closed down 1.4% in August. Similar to other markets, Japan's equity market was negatively affected by the tensions between its neighbor North Korea and the US. On a positive note, Japan's GDP in Q2 2017 was reported at an annualized rate of 4.0% compared to the 1.5% reported in the previous quarter. This is the sixth consecutive quarter of increased growth supported mainly by domestic demand. Future growth remains under pressure given the lack of wage growth and labor shortages.

The MSCI EM Index continues to perform positively, ending the month of August up 2.0% and bringing its year to date performance to above 26%. The index has closed every single month in the green at 2.0% or above since January, except for June when it closed 0.5% up. The largest constituents are China, India, and Brazil comprising 44% of the index.

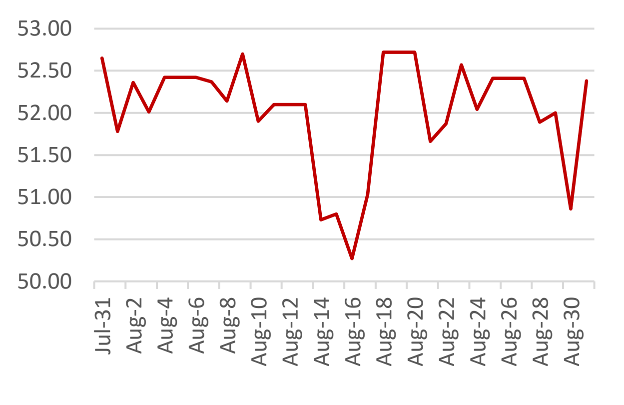
**Chart 3: MSCI China, MSCI India, & MSCI Brazil**




Source: Bloomberg *(figures rebased)*

During the month, Brent was unable to sustain its positive momentum from July dropping 0.5%. Crude stocks in the US continue to fall dropping 7.6% when compared to levels one year back. Brent's price dropped and recovered two times in August. The first was mid-month as US output hit a two-year high and second was as Hurricane Harvey hit US mainland. KSA and Russia continue to discuss extending the OPEC cuts through June 2018 for an additional three months.

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



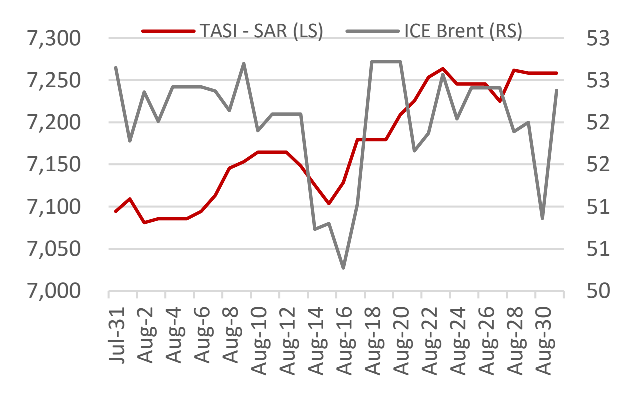

Source: Bloomberg

## Regional Equities

GCC equities in August were able to reverse the losses sustained in the previous month closing in the green 1.3% as measured by the MSCI GCC Index. Three of the seven GCC equity markets were negative for the month lead by Qatar's equity market and followed by Abu Dhabi. Kuwait was the best performing followed by Saudi Arabia. MENA equities as a whole also reversed the losses sustained in July by increasing 0.9%.

The Tadawul All Share Index (TASI) closed up 2.3% in August regaining some of the ground lost in the previous month and bringing the year to date performance to positive territory. Supporting performance was the announcement by FTSE that Saudi Arabia has been potentially listed for inclusion in its secondary emerging index come September. In addition, the Ministry of Finance has stated the fiscal deficit in Q2 2017 has come down compared to Q2 2016 because of higher oil prices and conservative spending. Further lending support to the market was the government's efforts in moving forward with the privatization of the country's airports as per its 2030 vision.

**Chart 5: TASI & Brent**

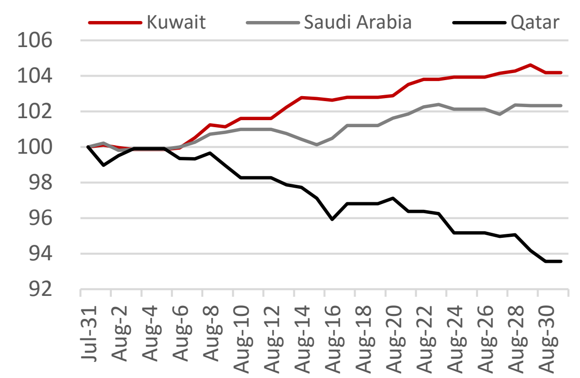



Source: Bloomberg

The Kuwait Weighted Index continued to perform positively through the month of August closing in the green 4.2%. Kuwait's equity market has the largest year to date return at 13.3%. The market garnered support from the announcement by FTSE that Kuwait may potentially be included in the second emerging index come September. In addition, the government through the entity Kuwait Authority for Partnership Projects indicated USD 10b worth of public-private partnerships would be announced after the Eid Al Adha.

The Qatar Exchange Index was unable to continue with a positive run in August closing down 6.4%. The crisis between Qatar and its neighbors continues to be unresolved taking a toll on macro-economic figures and the banking industry. Moody's Investors Service changed their outlook on the banking system from stable to negative while Fitch Ratings cut the country's sovereign rating one notch to AA-.

**Chart 6: Performance of Kuwait, Saudi Arabia, & Qatar**




Source: Bloomberg *(figures rebased)*

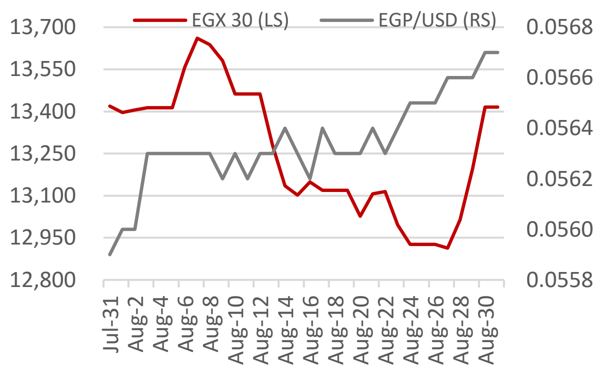
The Dubai and Abu Dhabi equity markets had mixed performances during August. Dubai's market closed the month slightly positive at 0.1% while Abu Dhabi's market closed in the red 2.1%. On a year to date basis, Dubai remains positive while Abu Dhabi has entered negative territory. The UAE continues to focus on promoting its non-oil economy while implementing fiscal reforms in the form of VAT and excise tax.

Bahrain Bourse All Share Index shed 1.9% in August erasing its gain of 1.4% in July. The IMF recently re-issued a warning to the Bahraini government regarding increasing market interest rates to protect the currency peg. In addition, fiscal improvements are necessary in the form of cutting energy subsidies and focusing on non-oil revenue.

Oman's MSM 30 Index posted a slight gain of 0.6% ending a 5-month straight losing streak. Nominal Gross Domestic Product (GDP) has grown 12.9% in Q1 2017 compared to the same period last year. Public finances have also improved. The nominal GDP growth is attributed to a recovery in the average price of crude.

Egypt's EGX 30 Index closed flat once again posting a marginal loss of 0.03%. Moody's Investors Service confirmed the country's rating at B3 and maintained their outlook at stable. The floating of the currency and subsidy cuts have caused inflation to rise significantly. IMF projects inflation to average 22.1% in the fiscal year ending June 30, 2018. The central bank kept market interest rates unchanged at their mid-month meeting although have increased the same rate by 700 bps since floating the currency in November 2016.

**Chart 7: EGX 30 Index & EGP/USD**

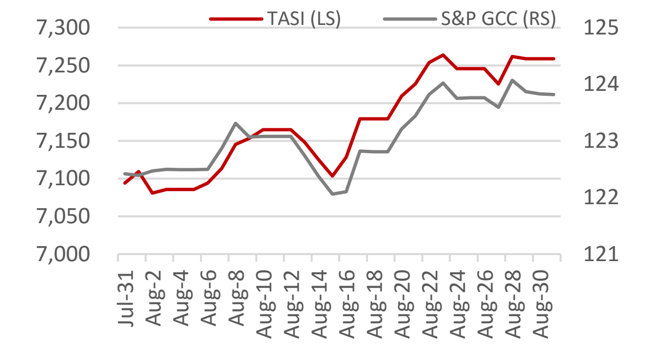



Source: Bloomberg

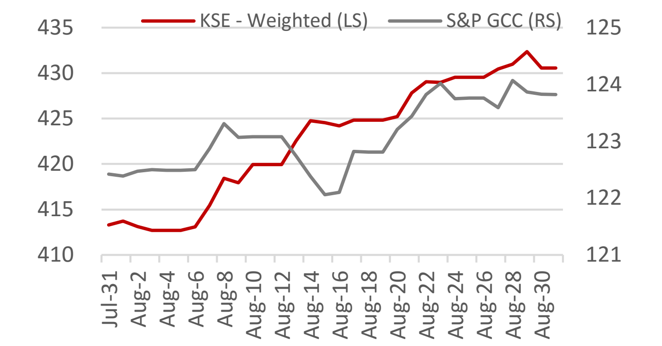
**NBK CAPITAL: INVESTMENT STRATEGY & ADVISORY**
Tel: +965 2224 5111
Email: nbkcapital.ia@nbkcapital.com
www.nbkcapital.com

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

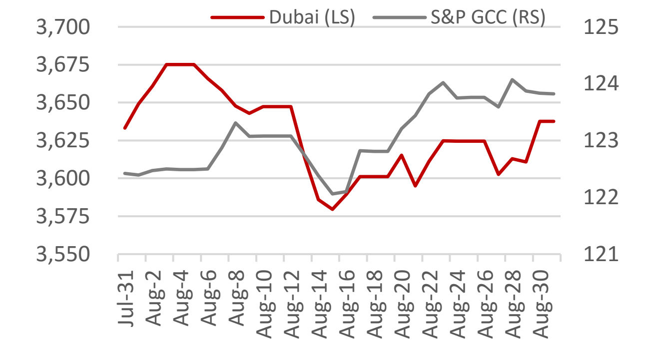
## Saudi Arabia



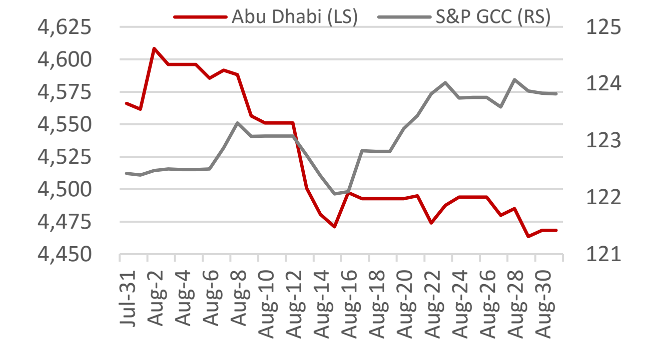

## Kuwait



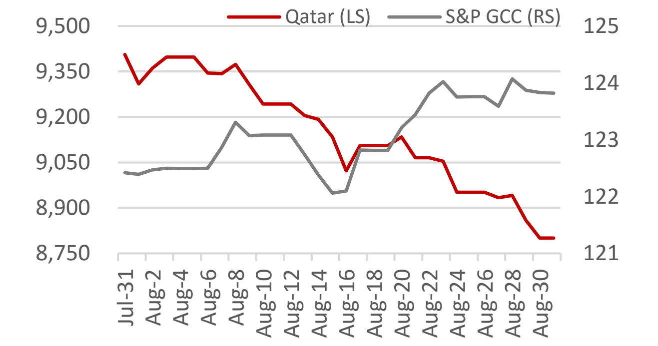

## Dubai



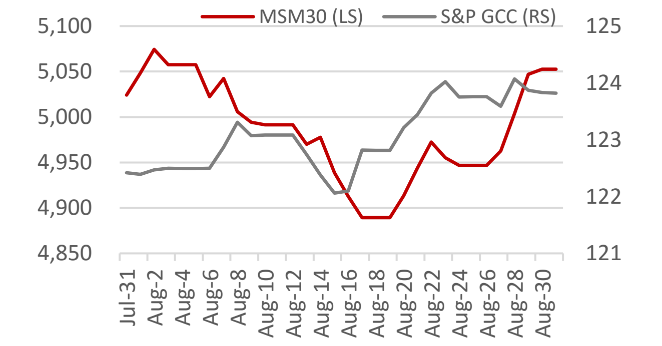

## Abu Dhabi



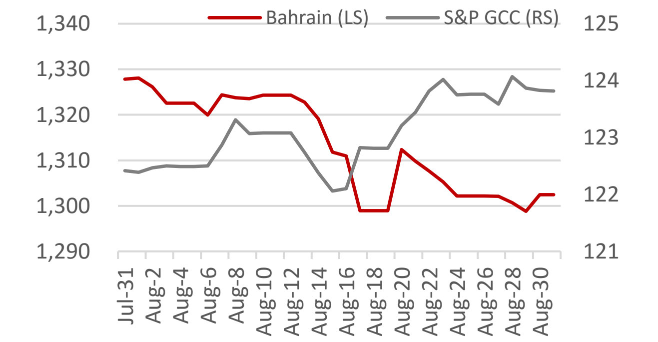

## Qatar



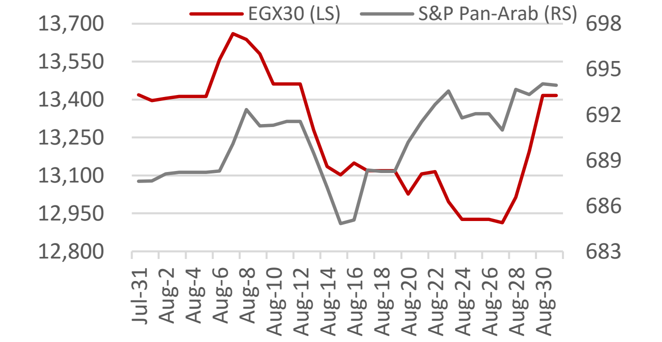

## Oman




## 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 August 31, 2017:*

| Equity* | Last Price | % Change | | | |
|---|---|---|---|---|---|
| | | Monthly | Quarterly | YTD | 1Yr Trailing |
| **Global** | | | | | |
| MSCI AC World Index (USD) | 478.41 | 0.17% | 2.86% | 13.41% | 14.83% |
| MSCI EAFE (USD) | 1,930.82 | -0.31% | 2.53% | 14.66% | 14.55% |
| MSCI EM (USD) | 1,087.70 | 2.01% | 7.61% | 26.14% | 21.71% |
| **US** | | | | | |
| S&P 500 Index | 2,471.65 | 0.05% | 1.99% | 10.40% | 13.85% |
| Dow Jones Industrial Average | 21,948.10 | 0.26% | 2.80% | 11.06% | 19.28% |
| NASDAQ Composite Index | 6,428.66 | 1.27% | 4.69% | 19.42% | 23.31% |
| Russell 2000 Index | 1,405.28 | -1.39% | -0.71% | 3.55% | 13.34% |
| **Developed** | | | | | |
| Stoxx Europe 600 | 373.88 | -1.05% | -1.45% | 3.45% | 8.83% |
| FTSE 100 Index | 7,430.62 | 0.80% | 1.61% | 4.03% | 9.57% |
| DAX Index | 12,055.84 | -0.52% | -2.18% | 5.01% | 13.81% |
| CAC 40 Index | 5,085.59 | -0.16% | -0.69% | 4.59% | 14.59% |
| Nikkei 225 | 19,646.24 | -1.40% | -1.93% | 2.78% | 16.34% |
| Hang Seng Index | 27,970.30 | 2.37% | 8.56% | 27.13% | 21.73% |
| **Emerging Markets** | | | | | |
| Russia Stock Exchange | 2,022.22 | 5.35% | 7.59% | -9.43% | 2.57% |
| Turkey - Borsa Istanbul 100 Index | 110,010.50 | 2.31% | 9.53% | 40.79% | 44.81% |
| MSCI Asia ex Japan | 662.77 | 1.03% | 5.98% | 28.86% | 22.00% |
| Shanghai Composite | 3,360.81 | 2.68% | 5.27% | 8.29% | 8.92% |
| India - NIFTY 50 | 9,917.90 | -1.58% | 4.17% | 21.16% | 12.88% |
| Taiwan Stock Exchange | 10,585.78 | 1.52% | 1.83% | 14.40% | 16.73% |
| Brazil Ibovespa Index | 70,835.05 | 7.46% | 12.62% | 17.61% | 22.34% |
| Mexico Stock Exchange | 51,210.48 | 0.39% | 2.71% | 12.20% | 7.72% |
| **MENA** | | | | | |
| S&P Pan Arab (USD) | 693.95 | 0.92% | 0.69% | 1.62% | 10.49% |
| S&P GCC Composite (USD) | 123.82 | 1.14% | 0.20% | 1.73% | 12.76% |
| KSA - Tadawul All Share Index | 7,258.64 | 2.32% | -2.25% | 0.67% | 19.40% |
| Dubai - DFM General Index | 3,637.55 | 0.12% | 7.24% | 3.02% | 3.80% |
| Abu Dhabi - ADX General Index | 4,468.41 | -2.14% | 0.97% | -1.71% | -0.06% |
| Qatar Exchange Index | 8,800.56 | -6.44% | -2.55% | -15.68% | -19.92% |
| Kuwait Weighted Index | 430.57 | 4.18% | 7.82% | 13.28% | 23.96% |
| Oman - Muscat Securities Market 30 Index | 5,052.55 | 0.56% | -1.28% | -12.63% | -11.90% |
| Bahrain Bourse All Share Index | 1,302.46 | -1.91% | -0.58% | 6.72% | 14.03% |
| Egypt - EGX 30 | 13,415.77 | -0.03% | 0.15% | 8.67% | 64.45% |
| Morocco - MADEX | 10,133.97 | 1.81% | 3.08% | 6.15% | 25.46% |
| Jordan - ASE Index | 2,157.26 | 0.82% | -0.47% | -0.60% | 3.87% |

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

*Source: Bloomberg*

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

| Fixed Income | Last Price | % Change Monthly | % Change Quarterly | % Change YTD | % Change 1Yr Trailing |
|---|---|---|---|---|---|
| **Bond Indices** | | | | | |
| J.P. Morgan Global Agg Bond (USD) | 568.83 | 1.04% | 2.57% | 6.84% | 0.25% |
| Barclays US Agg Bond | 2,048.21 | 0.90% | 1.33% | 3.63% | 0.49% |
| Bloomberg US Gov Bond Index | 127.40 | 1.06% | 1.23% | 3.12% | -0.83% |
| Bloomberg Barclays US Corp Bond Index | 2,873.15 | 0.78% | 1.51% | 5.37% | 2.13% |
| Bloomberg Barclays US Corp High Yield Bond Index | 1,923.60 | -0.04% | 1.07% | 6.05% | 8.63% |
| Bloomberg Global Dev Gov Bond Index ex - US (USD) | 110.32 | 1.09% | 3.68% | 9.20% | -2.08% |
| Bloomberg Global Corp Bond Index ex US (USD) | 134.02 | 0.97% | 2.78% | 8.14% | 3.30% |
| JPM Emerging Market Bond Index (USD) | 803.70 | 1.73% | 2.40% | 8.74% | 4.52% |
| Bloomberg Barclays EM High Yield Bond Index (USD) | 1,298.63 | 1.62% | 2.38% | 8.47% | 8.45% |
| **US Treasury Yields (%)** | **Current** | | **3 M ago** | **6 M ago** | **12 M ago** |
| 3 Month Yield | 0.99 | | 0.97 | 0.70 | 0.33 |
| 2 Year Yield | 1.33 | | 1.29 | 1.31 | 0.81 |
| 5 Year Yield | 1.70 | | 1.72 | 2.01 | 1.20 |
| 10 Year Yield | 2.12 | | 2.16 | 2.48 | 1.58 |
| 30 Year Yield | 2.73 | | 2.81 | 3.07 | 2.23 |
| **Global Treasury Yields (%)** | **Current** | | **3 M ago** | **6 M ago** | **12 M ago** |
| British 10 Year Gilt | 1.03 | | 1.04 | 1.19 | 0.64 |
| German 10 Year Bund | 0.36 | | 0.27 | 0.36 | -0.07 |
| Japan 10 Year Treasury | 0.01 | | 0.06 | 0.08 | -0.06 |

| Commodities | Last Price | % Change Monthly | % Change Quarterly | % Change YTD | % Change 1Yr Trailing |
|---|---|---|---|---|---|
| **Precious Metals** | | | | | |
| Gold Spot | 1,321.43 | 4.10% | 6.43% | 15.16% | 0.95% |
| Silver Spot | 17.58 | 4.47% | 5.69% | 10.37% | -5.77% |
| **Energy** | | | | | |
| WTI Crude | 47.23 | -5.86% | 2.58% | -12.08% | 5.66% |
| Brent Crude | 52.38 | -0.51% | 9.31% | -7.81% | 11.35% |
| Natural Gas | 3.04 | 8.80% | 0.16% | -18.37% | 5.30% |

| Currencies | Last Price | % Change Monthly | % Change Quarterly | % Change YTD | % Change 1Yr Trailing |
|---|---|---|---|---|---|
| EUR-USD X-RATE | 1.1910 | 0.57% | 4.24% | 13.25% | 6.74% |
| GBP-USD X-RATE | 1.2930 | -2.16% | -0.73% | 4.78% | -1.58% |
| USD-JPY X-RATE | 109.9800 | -0.25% | -2.14% | -5.97% | 6.33% |
| KWD-USD X-RATE | 3.3155 | 0.07% | 0.47% | 1.33% | 0.12% |

| Interbank Rates (%) | 1M | 3M | 6M | 12M |
|---|---|---|---|---|
| London Interbank | 1.23 | 1.32 | 1.45 | 1.71 |
| Saudi Interbank | 1.46 | 1.80 | 2.05 | 2.24 |
| Emirates Interbank | 1.30 | 1.54 | 1.76 | 2.12 |
| Qatar Interbank | 2.24 | 2.45 | 2.62 | 2.94 |
| Kuwait Interbank | 1.56 | 1.75 | 2.00 | 2.31 |

*Source: Bloomberg*

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