



# ISSUE 011

## SEPTEMBER 2017

# MENA MARKETS REVIEW

## HIGHLIGHTS

- Trump announces tax reform plan and the Fed confirms it will start tapering its balance sheet in October
- US equity markets continue to rally hitting new highs during each month of this past quarter
- Emerging markets suffered first monthly loss in 2017 but close the quarter up 7.0%
- Brent has second best performing month of the year with a 20% gain for Q3 2017
- FTSE upgrades Kuwait to emerging status
- Saudi Arabia and Bahrain sell 12.5 and 3 billion dollar denominated bonds

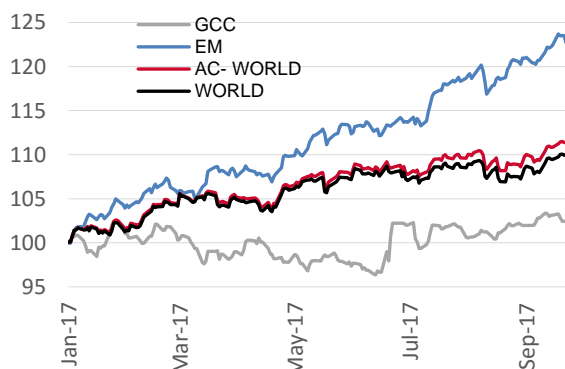


## SEPTEMBER 2017: STEADY ENOUGH GROWTH FOR CENTRAL BANKS TO ADJUST COURSE, BUT VERY SLOWLY

Going into the fourth quarter, the world economy and international markets appear to be on a steady, little changed, track. Stocks are moving up, making or nearing new highs in some cases (US, Germany, UK). Interest rates may be trending gradually and slowly higher, though they are lower than at the beginning of the year in some advanced economies. The USD remains under pressure, especially against the euro, and oil prices have stabilized somewhat in recent weeks, though they are lower on the year, and analysts are divided on their direction ahead.

Volatility in stocks, which had drifted lower all year, remains near record lows. It did move up significantly in August and September following political uncertainties in the US, North Korean threats, hurricanes and the like, but it has since returned to its lows.

Chart 1: Equity Markets



Source: MSCI, Thomson Reuters Datastream (figures rebased)

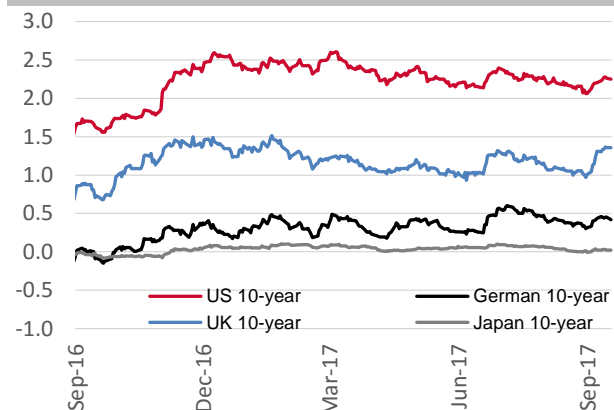
The Fed, after raising rates twice this year, is ready to raise them once more this December or perhaps early next year. It is also signaling, via its “dot plot” chart, that it expects three further moves up next year. This position is supported by steady growth in the US, tightening labor markets, and inflation that appears to be headed toward 2%, according to the Fed.

Beyond supporting the Fed’s sanguine interest rate outlook, the environment was finally deemed ripe for a long-overdue reduction in the Fed’s balance sheet. Recall that the Fed’s balance sheet went from under

\$1 trillion prior to 2008, to the current \$4.3 trillion. At its September FOMC meeting, the Fed confirmed its well-telegraphed plans to start reducing its holdings of Treasuries and mortgage-backed securities. At the pace announced by the Fed, it will take three years (October 2020) to bring the balance sheet down to \$2.8 trillion, still three times the size of the balance sheet of 2008. The Fed, of course, wants to be extremely cautious, and may alter that schedule in either direction, depending on circumstances.

Nonetheless, the very slow reduction in the Fed’s balance sheet should initially have little impact on interest rates; and it is likely the Fed may try to fine tune things should rates rise unduly. Markets should get more concerned when, and if, other central banks start following suit (ECB, BOE). The latter still seems a way off for the time being. With the Fed about to start this “tapering”, the 10-year Treasury note stands at 2.3%, 10 bps lower than in January 2017, and still well above 10-year Bunds yielding 45 bps.

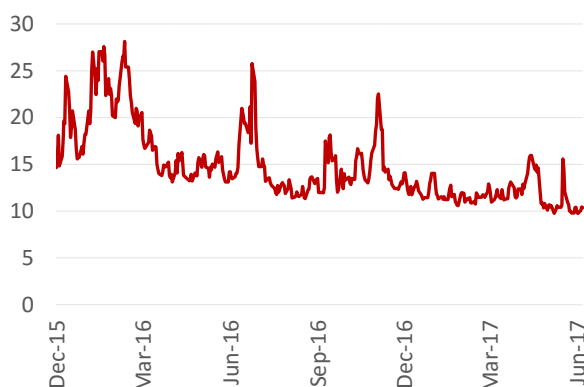
Chart 2: Benchmark Yields



Source: Thomson Reuters Datastream

The USD, which was famously supposed to rise further this year, went down and did not seem to benefit much from the favorable yield spreads above. Some of the factors weighing against the USD were: better world and European economics, thus shifting ECB expectations to “more hawkish” (very relative), and US politics. The latter, after a bout of strong Trump-related optimism for aggressive growth stimulus and tax cuts, is still seen as a “plus”, but these expectations have been revised to the downside. The Trump administration has so far been unable to pass any major legislation, raising doubts about future

successes. The USD is trading near 1.118 to the euro, and many analysts have revised their end-of-year forecasts, suggesting the euro's rise has run its course for now. The turmoil in Spain, following the Catalan referendum weighed on the euro as well. Revived reform prospects in the US (taxes, budget, and health care) will likely need to be advanced in order to relieve some of the pressure on the USD. Higher rates would also help, though the financial markets do not quite believe the Fed that four rate hikes are forthcoming between now and December 2018.

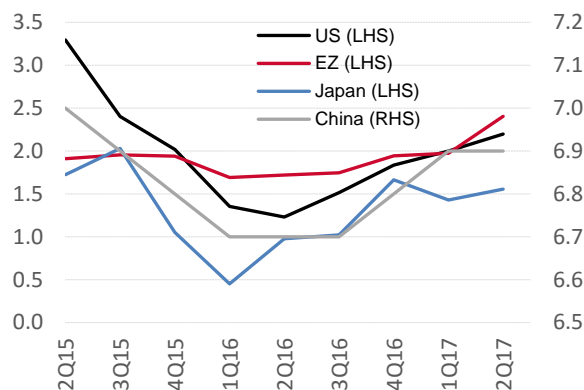
**Chart 3: US Dollar Index**


Source: Thomson Reuters Datastream

On US taxes, after months of anticipation, the Trump administration outlined its plans for a major tax overhaul, which would significantly reduce taxes on businesses and some individuals. The proposal would cut the corporate tax rate to 20% from 35% and reduce the top rate for individuals. More details should be forthcoming and the markets will be focusing on the ability of the Congressional majority to pass anything significant (this year).

Consensus and IMF projections for world growth this year are about 3-3.5%. The US is expected to grow 2-2.5%, the eurozone a little under 2.0%, China 6.5%-plus, and Japan 1-1.5%. They all posted over 2% growth y/y in the second quarter of the year, with China posting 6.9%. Countries seem to be in line with expectations if not somewhat above. The Chinese are trying to control debt while leaving growth intact; so far, so good. The EU has surprised on the better side this year, leading many to believe that the "extra-easy" ECB stance is about to end. The ECB, of course,

is still conducting QE; it is buying 60 billion euros worth of bonds each month through December 2017. After that, the ECB is expected to "taper" the monthly amount purchased gradually over 2018.

**Chart 4: US Dollar Index**


Source: Thomson Reuters Datastream

Oil prices, after dividing forecasters in mid-year between bulls and bears, seem to be stabilizing nicely above \$50 per barrel (Brent basis) and are actually showing signs of further strength for the year-end. We still expect prices will average \$55 pb this year. After weighing somewhat on GCC equities, oil prices could be a bit of a plus ahead. We see stronger oil demand, and stronger OPEC/non-OPEC resolve shoring up prices. In that light, GCC equity markets have perked up somewhat recently, also aided by less austerity as well as by the recent upgrade of Kuwait to "emerging market" status by FTSE (and perhaps down the road by MSCI). KSA equities are on track for the same upgrade, though their turn seems to have been delayed by six months to March 2018. Qatar remains, of course, under pressure, given the diplomatic row within the GCC that shows no signs of relief ahead.

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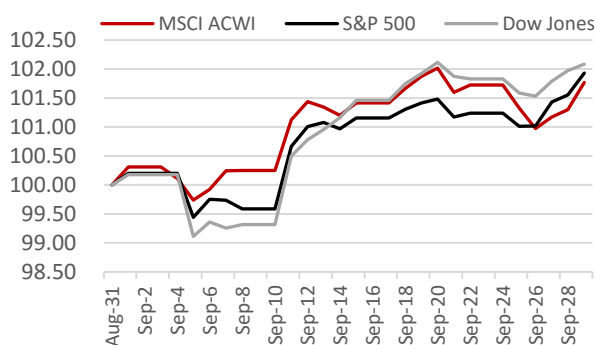
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## GLOBAL EQUITIES

Global equities continue to perform well posting a gain of 1.8% in September, as measured by the MSCI All Country World Index. US equities continue their positive run, closing up 1.9% and 2.1% for the S&P 500 and Dow Jones, respectively. Both indices, on a year to date basis, have returns in excess of 10%. US equity markets again reached new highs despite the natural disasters hitting the US mainland and North Korean tensions. Supporting the markets was President Trump's announced tax reform, cutting the corporate tax rate from 35% to 20% and temporary resolution of the debt ceiling issue. In terms of monetary policy, the Federal Reserve did not hike rates and confirmed that it would begin unwinding its balance sheet as was previously signaled.

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



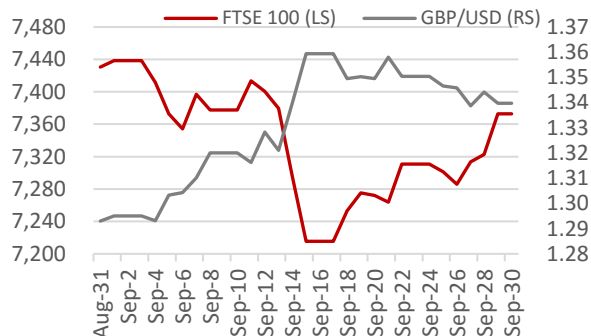
Source: Bloomberg (figures rebased)

In Europe, the Stoxx Europe 600 broke its two-month losing streak closing in September up 3.8%. On a quarterly basis and year to date basis the index is up 2.3% and 7.4%, respectively. In Germany, Chancellor Merkel won her fourth term although the far right AfD party, an anti-immigration and anti-Europe movement, became the first blatantly nationalistic party to win seats in the Bundestag in 60 years. The EUR, early in the month, reached its highest mark versus the USD since 2015 and France revised down its deficit outlook for the next two years.

The United Kingdom's equity market posted a loss of 0.8% in September, the first for this quarter, as measured by the FTSE 100. The index for the quarter is marginally up at 0.8%, while the year to date figure is at 3.2%. Negatively affecting the market was the tube-terror attack mid-way through the month and the

continued uncertainty surrounding Brexit. Furthermore, Moody's rating agency downgraded the UK's credit rating one notch to Aa2 on the back of concerns over Brexit and the government's public finances.

**Chart 2: FTSE 100 & GBP**

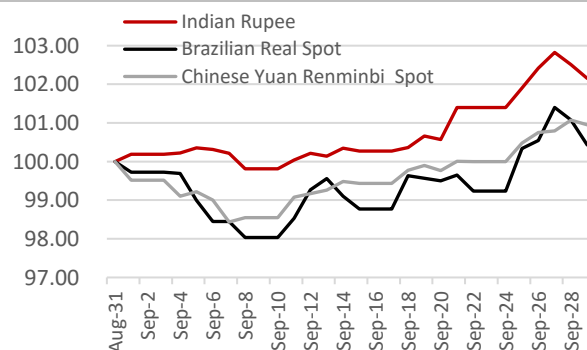


Source: Bloomberg

Japan's Nikkei 225 closed in the green, up 3.6% in September, bringing the quarter to date return up to 1.6%. The year to date return for the index remains positive at 6.5%. The Q2 2017 annualized growth of 4.0% was revised down to 2.5%, still the largest reported growth in over 2 years. Prime Minister Shinzo Abe has called a snap election set for October 22<sup>nd</sup>, attempting to solidify his mandate in terms of dealing with North Korea and fiscal reform.

The MSCI EM Index in September posted a loss of 0.6%, making this the first monthly loss for the year 2017. The Q3 2017 and year to date returns remain positive at 7.0% and 25.5%, respectively. Emerging market currencies have weakened against the USD, hurting asset performance overall.

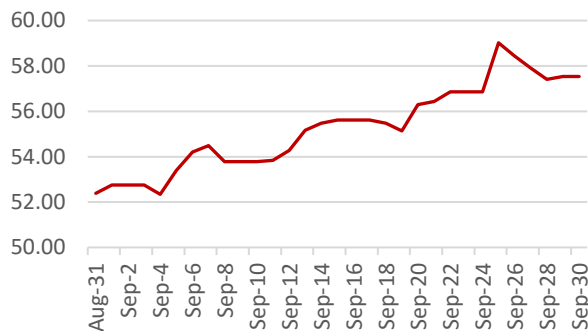
**Chart 3: Emerging Currencies vs USD**



Source: Bloomberg (figures rebased)

Brent closed in September up 9.9%, making it the second best month in the year after July, where it closed higher by 0.02%. On a quarterly basis, Brent posted a return of 20.1%, reversing all the losses sustained in the first half of the year, bringing the year to date return up to 1.3%. During the month, Brent reached USD 59 pb, hitting a 2 year high, supported by OPEC members' firmer commitment to promised cuts, geo-political concerns mainly Turkey and Iraq's Kurdistan, and improved demand. In the second half of the month, a meeting between OPEC and non-OPEC members in Vienna did not result in an extension of cuts beyond March 2018; instead, participants agreed to hold out until January 2018 before making a decision.

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



Source: Bloomberg

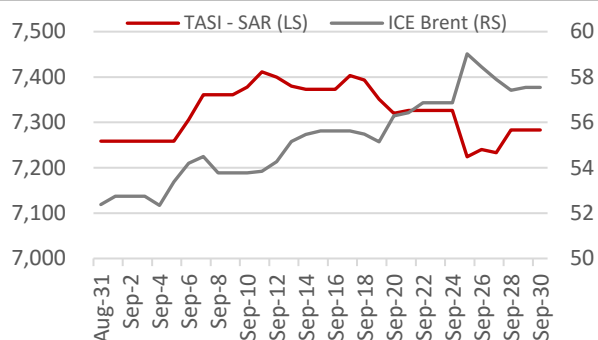
## REGIONAL EQUITIES

GCC equities in September dropped 0.8% and ended Q3 in the red, as measured by the MSCI GCC Index. On a year to date basis the index is still positive with a return of 2.1%. Four out of seven markets within the GCC performed poorly. Oman's equity market was the leader for the month, while Saudi Arabia and Kuwait were slightly up. The S&P Pan Arab Composite Index representing MENA equities, registered a loss of 0.6% for September while holding flat for the quarter.

The Tadawul All Share Index (TASI) was barely up 0.3% in September and closed the quarter down 1.9%, while the year to date return is up a mere 1.0%. During the month, news from the Kingdom was mixed. On the positive side, women have been granted the right to drive starting in June 2018, creating a positive domino effect across multiple industries. In addition, the

government has decided to redraft the National Transformation Plan, focusing on government reforms. On the international front, the government sold USD 12.5b in bonds and sukuks. The negative news revolves around the country officially entering a recession with Q1 and Q2 GDP shrinking by 0.5% and 1.03%, respectively. In addition, the FTSE did not upgrade the country to emerging status, although it stated that inclusion will most likely be given in March of next year.

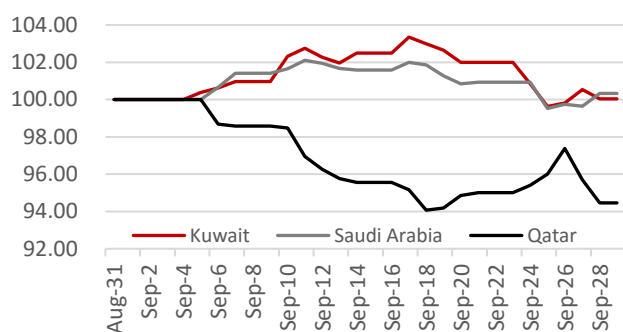
**Chart 5: TASI & Brent**



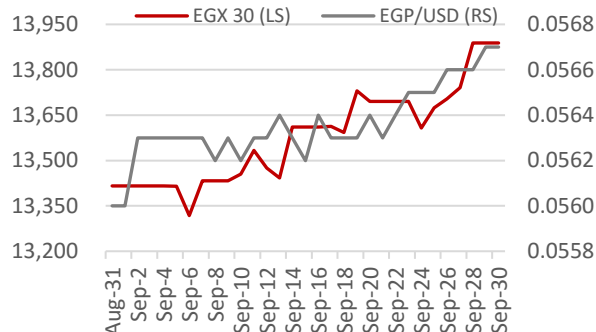
Source: Bloomberg

The Kuwait Weighted Index was flat in September closing up 0.03%. In terms of quarterly and year to date performance, Kuwait's equity market remains the leader among its GCC peers. During the month, the Kuwait Authority for Partnership Projects announced the IPO of Al-Zour North. Furthermore, FTSE announced the upgrade of Kuwait to secondary emerging market status indicating stock market reforms over the past several years have been successful.

The Qatar Exchange Index was the worst performing market for the second month running. In September, the index closed down 5.6% bringing its quarterly and year to date performance figures to -8.0% and -20.4%, respectively. The rift between Qatar and several of its neighbors has surpassed 100 days and remains unresolved. Early in the month, hope arose as the leaders of Qatar and KSA entered into dialogue directly but was quick to end with no resolution. The impact of the crisis is affecting the country's macros across the board. Tourism is expected to fall compared to 2016 and remain low until 2020.

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


Source: Bloomberg (figures rebased)

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


Source: Bloomberg

The Dubai and Abu Dhabi equity markets were in harmony during the month of September. The DFMGI Index was down 2.0% while the ADSMI Index was down 1.6% for the same time-period. In terms of quarterly performance, Dubai's equity market is up 5.0%, while Abu Dhabi is flat at -0.6%. In early September, trade data showed that the country's non-oil trade increased 3.2% in Q1 2017 compared to Q1 2016. A report released by the World Economic Forum has found that the UAE is the best Arab country in terms of global competitiveness and ranked 17 globally.

Bahrain Bourse All Share Index continued to drop for the second month straight shedding in September 1.5%. For Q3 2017 the index is down 2.0% although on year to date basis performance stands at positive 5.2%. Mid-month the government issued USD 3b in international bonds and sukuks across three tranches with differing maturities and coupons.

Oman's MSM 30 Index was the best performer among its GCC peers, posting a gain of 1.7% in September. Q3 2017 is the first quarter in 2017 where performance is positive. The banking sector outlook in Oman has been cut to negative by Moody's Investor Services for lack of government support, weaker economic growth, and tightening liquidity.

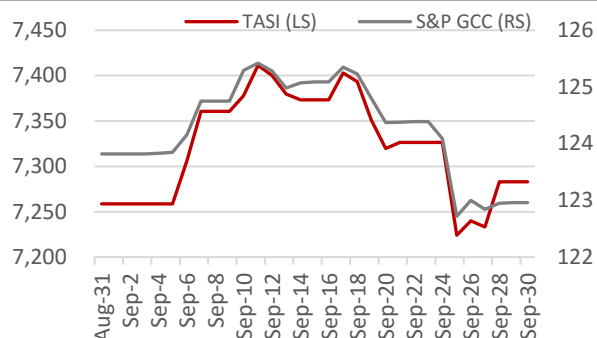
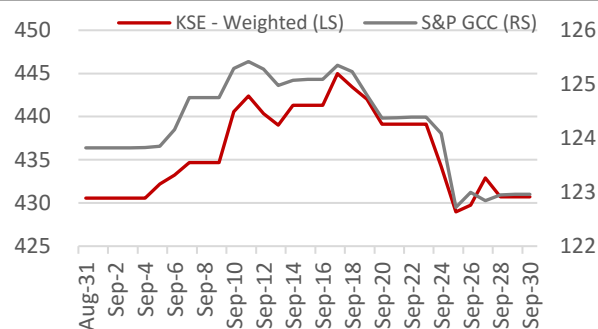
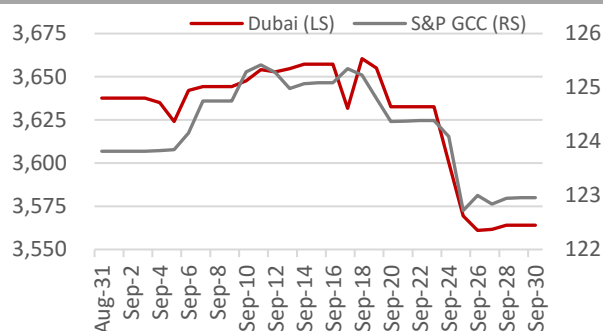
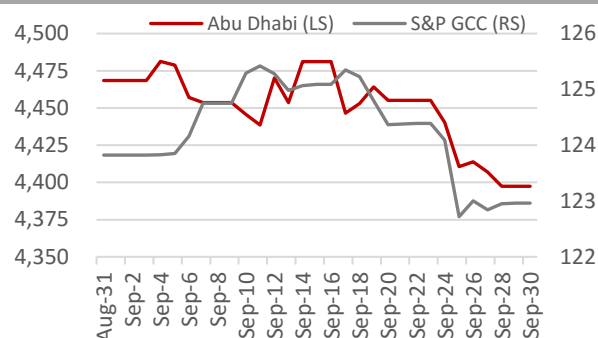
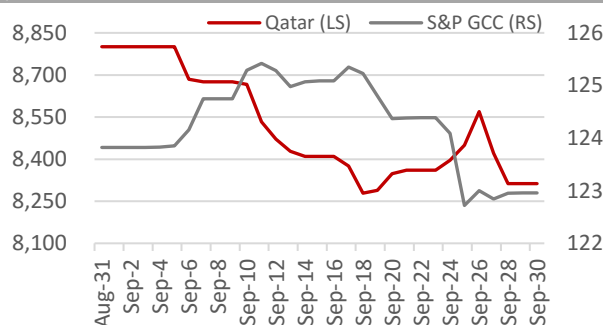
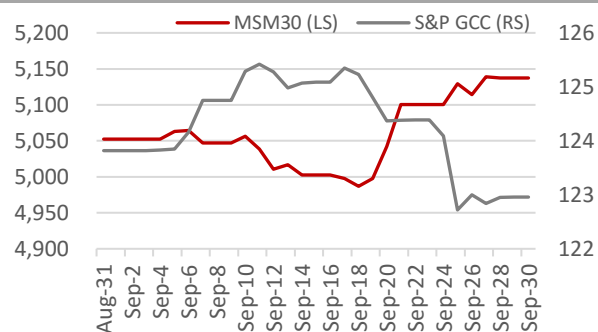
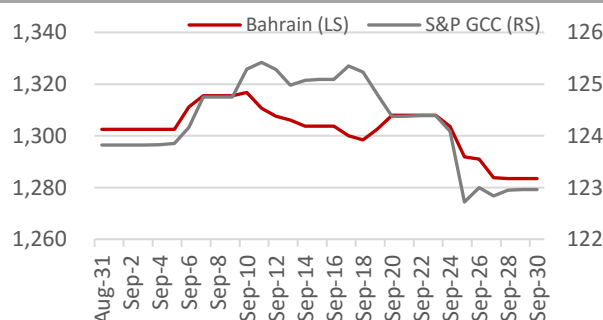
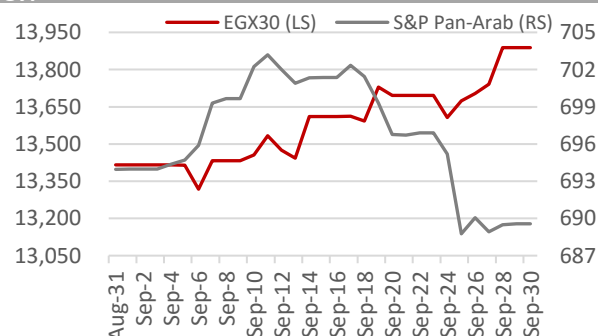
Egypt's EGX 30 Index was up 3.5% in September and 3.7% for Q3 2017. The central bank held market interest rates at the current level, citing the need to see inflation fall before adjusting rates downward. In terms of government budget, Egypt is forecasting a shortfall for the fiscal year 2017/2018, which it intends to fund through the sale of USD 8b bonds.

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**Stock Market Performance – as of September 29, 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 September 29, 2017:

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	486.88	1.77%	4.69%	15.42%	16.57%
MSCI EAFE (USD)	1,973.81	2.23%	4.81%	17.21%	15.65%
MSCI EM (USD)	1,081.72	-0.55%	7.02%	25.45%	18.43%
US					
S&P 500 Index	2,519.36	1.93%	3.96%	12.53%	17.12%
Dow Jones Industrial Average	22,405.09	2.08%	4.94%	13.37%	23.49%
NASDAQ Composite Index	6,495.96	1.05%	5.79%	20.67%	23.28%
Russell 2000 Index	1,490.86	6.09%	5.33%	9.85%	20.45%
Developed					
Stoxx Europe 600	388.16	3.82%	2.32%	7.40%	13.26%
FTSE 100 Index	7,372.76	-0.78%	0.82%	3.22%	6.55%
DAX Index	12,828.86	6.41%	4.09%	11.74%	23.29%
CAC 40 Index	5,329.81	4.80%	4.08%	9.61%	19.94%
Nikkei 225	20,356.28	3.61%	1.61%	6.50%	21.94%
Hang Seng Index	27,554.30	-1.49%	6.95%	25.24%	16.07%
Emerging Markets					
Russia Stock Exchange	2,077.19	2.72%	10.52%	-6.97%	4.06%
Turkey - Borsa Istanbul 100 Index	102,907.70	-6.46%	2.46%	31.70%	33.51%
MSCI Asia ex Japan	660.98	-0.27%	5.69%	28.51%	18.57%
Shanghai Composite	3,348.94	-0.35%	4.90%	7.90%	11.69%
India - NIFTY 50	9,788.60	-1.30%	2.81%	19.58%	13.94%
Taiwan Stock Exchange	10,329.94	-2.42%	-0.63%	11.63%	11.42%
Brazil Ibovespa Index	74,293.51	4.88%	18.11%	23.36%	27.32%
Mexico Stock Exchange	50,346.06	-1.69%	0.98%	10.30%	5.61%
MENA					
S&P Pan Arab (USD)	689.57	-0.63%	0.05%	0.98%	13.79%
S&P GCC Composite (USD)	122.96	-0.69%	-0.49%	1.02%	15.98%
KSA - Tadawul All Share Index	7,283.01	0.34%	-1.92%	1.01%	29.51%
Dubai - DFM General Index	3,563.99	-2.02%	5.07%	0.94%	2.58%
Abu Dhabi - ADX General Index	4,397.40	-1.59%	-0.63%	-3.28%	-1.76%
Qatar Exchange Index	8,312.43	-5.55%	-7.95%	-20.35%	-20.34%
Kuwait Weighted Index	430.70	0.03%	7.86%	13.32%	22.40%
Oman - Muscat Securities Market 30 Index	5,137.35	1.68%	0.37%	-11.16%	-10.28%
Bahrain Bourse All Share Index	1,283.46	-1.46%	-2.03%	5.16%	11.61%
Egypt - EGX 30	13,888.51	3.52%	3.68%	12.50%	76.23%
Morocco - MADEX	9,877.20	-2.53%	0.47%	3.46%	20.30%
Jordan - ASE Index	2,121.52	-1.66%	-2.12%	-2.25%	0.05%

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

Source: Bloomberg



## Market Data – as of September 29, 2017:

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	563.28	-0.97%	1.57%	5.80%	-1.25%
Barclays US Agg Bond	2,038.46	-0.48%	0.85%	3.14%	-0.16%
Bloomberg US Gov Bond Index	126.33	-0.84%	0.38%	2.25%	-1.85%
Bloomberg Barclays US Corp Bond Index	2,868.16	-0.17%	1.34%	5.18%	1.86%
Bloomberg Barclays US Corp High Yield Bond Index	1,940.87	0.90%	1.98%	7.00%	9.02%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	108.71	-1.45%	2.17%	7.61%	-4.51%
Bloomberg Global Corp Bond Index ex US (USD)	133.43	-0.44%	2.33%	7.66%	2.48%
JPM Emerging Market Bond Index (USD)	803.60	-0.01%	2.38%	8.73%	4.13%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,303.51	0.38%	2.76%	8.87%	7.44%
US Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
3 Month Yield	1.04	1.01	0.75	0.25	1.04
2 Year Yield	1.48	1.38	1.25	0.73	1.48
5 Year Yield	1.94	1.89	1.92	1.12	1.94
10 Year Yield	2.33	2.30	2.39	1.56	2.33
30 Year Yield	2.86	2.83	3.01	2.28	2.86
Global Treasury Yields (%)	Current	3 M ago		6 M ago	12 M ago
British 10 Year Gilt	1.37	1.26	1.14	0.72	1.37
German 10 Year Bund	0.46	0.47	0.33	-0.12	0.46
Japan 10 Year Treasury	0.07	0.09	0.07	-0.08	0.07
Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,279.75	-3.15%	3.07%	11.53%	-3.08%
Silver Spot	16.66	-5.26%	0.14%	4.57%	-12.82%
Energy					
WTI Crude	51.67	9.40%	12.23%	-3.82%	8.03%
Brent Crude	57.54	9.85%	20.08%	1.27%	16.86%
Natural Gas	3.01	-1.09%	-0.92%	-19.25%	1.62%
Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.18	-0.81%	3.40%	12.33%	5.28%
GBP-USD X-RATE	1.34	3.62%	2.86%	8.57%	3.32%
USD-JPY X-RATE	112.51	2.30%	0.11%	-3.80%	11.36%
KWD-USD X-RATE	3.31	-0.14%	0.33%	1.20%	-0.22%
Interbank Rates (%)		1M	3M	6M	12M
London Interbank		1.23	1.33	1.51	1.78
Saudi Interbank		1.46	1.79	2.05	2.24
Emirates Interbank		1.35	1.56	1.79	2.17
Qatar Interbank		2.20	2.40	2.60	2.95
Kuwait Interbank		1.56	1.75	2.00	2.31

Source: Bloomberg

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