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JANUARY 2018

MENA MARKETS REVIEW

HIGHLIGHTS

- Global equities had a strong start to the year, up 5.6% in January, as the global economy continues to improve
- Political tensions in the Eurozone have eased as Fitch upgrades Spain's rating and Germany comes closer to forming a government
- Brent Oil hovers around the $70/bbl mark, supported by a weak USD and additional inventory drawdowns
- GCC sovereign bond issuances continue to rise with Oman taking the lead in 2018
- GCC equity markets registered positive performance lead by Qatar and Saudi Arabia

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INTERNATIONAL: GLOBAL GROWTH IS UPGRADED TO 3.9%; US INFLATION IS ON THE RISE

The broad-based global economic recovery gained further steam, including in the US, where the inflation narrative appeared to shift toward a more hawkish scenario. After months of solid data, the IMF raised its 2017 growth estimate for the world economy to 3.7% and upgraded its forecast for 2018 and 2019 to 3.9%. This upgrade mostly reflected stronger growth momentum in advanced economies (especially the US, eurozone and Japan) and the expectations of a fiscal stimulus in the US from tax cuts. The upward revisions were mostly unsurprising and the strong economic fundamentals – combined with the softer inflation – helped equity markets make strong gains in 2017 and thus far in 2018. However, more recently, views on US inflation have been shifting, with markets increasingly expecting a more hawkish Fed in 2018.

The outlook for the US economy improved further in recent weeks, with expectations of a healthy boost coming from tax cuts. The IMF expects the US economy to grow by 2.7% in 2018, up from 2.3% in 2017; this is 0.4 percentage points higher than its forecast in October 2017. The upgrade of the forecast is largely the result of a $1.5 trillion stimulus expected over ten years from tax cuts passed before the end of 2017 in a key win for the Trump administration. It also comes at a time when the economy has been topping expectations. Leading indicators, including capital goods orders and the ISM manufacturing index, suggest an accelerating pace of growth. Indeed, GDP growth averaged 2.9% in the last three quarters of 2017. The labor market has also been tightening.

After months of softness, prospects for US inflation appear to be turning, boosted by the strength in the economy. Inflationary momentum was lackluster during the best part of 2017. After peaking at 2.3% y/y in January 2017, core inflation slipped to end the year at 1.8% y/y. However, more recent data suggests that inflation may be gaining momentum. Core prices rose by an annualized 2.5% during 4Q17, with December seeing the strongest gain. Inflation in the core PCE index has also been rising, though at 1.5% y/y it remains well below the 2% target. These improvements are reflected in January's FOMC statement with the Fed suggesting that inflation could reach its 2% target sooner than had been previously thought. Average wages have since also indicated further strength, as they gained 0.3% m/m in January and pushed the annual pace to 2.9% y/y, well above expectations.

The shift in the outlook for US inflation has boosted expectations of more rapid monetary tightening, lifting yields. With inflation seen gaining momentum, markets are now expecting the Fed to respond by increasing rates more rapidly in 2018. The chances of three or more hikes in 2018 were just 40% at the start of the year, according to the CME Group; they have since risen to over 60%, with a March increase almost certain. At the same time, yields have been climbing. The 10-year US Treasury yield rose to 2.85%, up around 44 basis points since the start of 2018. Yields in Germany and the UK followed suite, seeing similar gains.

In the eurozone, the economy has continued to improve. The economy grew at its fastest pace in eleven years, and with average growth of 2.5% in 2017, it outperformed other advanced economies including the US and the UK. There has also been an increasing perception that the improvement in growth will be sustained in the medium-term. Indeed, the IMF recently upgraded eurozone growth by 0.3 percentage points in this and next year, though it is still seen slowing from 2.4% in 2017 to 2.3% in 2018 and 2% in 2019.

Despite stronger growth, inflation in the eurozone remained well below target, though there are some early signs of upward momentum. Inflation in the eurozone slipped to 1.3% y/y in January according to the preliminary flash estimate, falling further below the 2% European Central Bank target. While inflation is higher in some of the stronger economies like Germany, even there it continues to fall below the target. Still, January's data saw an uptick in core inflation, which rose to 1.0% y/y, though it is too early to say whether this will be a sustained trend.

Inflation in Japan also remains subdued despite a more promising economy. Growth in Japan surprised analysts to the upside in 2017. This has broadly been driven by exports, which were boosted by a stronger global economy and a weaker yen. As a result, growth is expected to have accelerated to 1.8% in 2017, more than double the pace that was forecast a year ago. The outlook for 2018 has also improved, with the IMF hiking its growth forecast for the year by 0.5 percentage points to 1.2%. Despite this, inflation remains weak. The preferred core inflation measure, excluding food and energy, stood at 0.3% in December.

Emerging markets have been seeing robust growth, with the pace there seen accelerating slightly in 2018. Emerging economies are expected to continue to recover in 2018, with growth picking up to 4.9%. Most of the gains are expected to come from India, Brazil and Mexico; indeed, the latter two have had their growth upgraded by the IMF on improving commodity prices. Emerging Europe is also expected to continue to do well, supported by better demand from the eurozone. Meanwhile, growth in China continues to decelerate though not quite as rapidly as previously expected.

The robust global economy and OPEC-constrained supply have provided significant support to oil prices since mid-2017, but downside pressures remain. Brent rallied as much as 60% since June 2017, even surpassing $70 per barrel briefly in January. Prices benefited from the OPEC-led agreement to reduce production, which was extended through the end of 2018. Despite the strength, the outlook for prices remains constrained by the prospects for US shale oil production. Indeed, total US production recently exceeded 10 million barrels per day for the first time since 1970, boosted by gains in shale oil.

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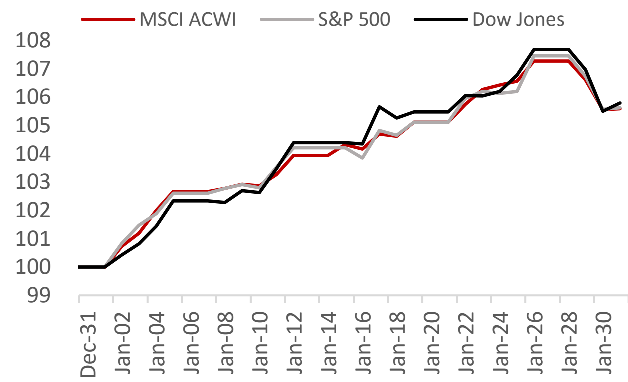
Global Equities

Global equities started 2018 on a positive note, gaining 5.6% in January, as measured by the MSCI All Country World Index. US equities also ended January in the green 5.6% and 5.8%, as measured by the S&P 500 and Dow Jones, respectively, brushing off the federal government shut down that halted all but the most essential operations. The federal government shut down after a debate over the inclusion of immigration, specifically the funding of DACA, in the budget failed to pass. A few days later, the House passed a short-term spending bill to reopen the government.

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

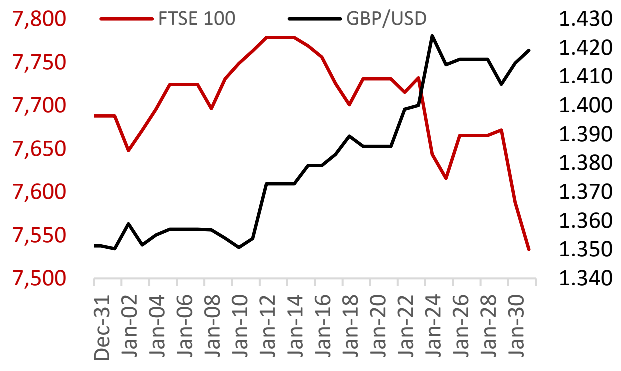


Source: Bloomberg *(figures rebased)*

In Europe, the Stoxx Europe 600 closed the month positive, registering gains of 1.6%. On a positive note, Fitch upgraded Spain's rating to A- from BBB+, with a stable outlook. Earlier this month, the minister of economy Luis de Gundos revised Spain's growth prediction for 2018 up to 2.5%. He previously stated that the Catalan crisis had cost the country's economy €1 billion. Germany's Chancellor Merkel has come closer to forming a government with the Social Democratic Party, easing political tensions in the largest Eurozone constituent. The DAX 30 registered gains of 2.1% for the month.

In the UK, the FTSE 100 started the year in the red 2.0%. The UK economy expanded by 0.5% in the last quarter of 2017, better than the expected 0.4%. The Office for National Statistics (ONS) said that growth in 2017 was 1.8% compared with 1.9% in 2016. National growth would decrease significantly if Britain left the EU without a deal, according to a cabinet report leaked this month.

Chart 2: FTSE 100 & GBP

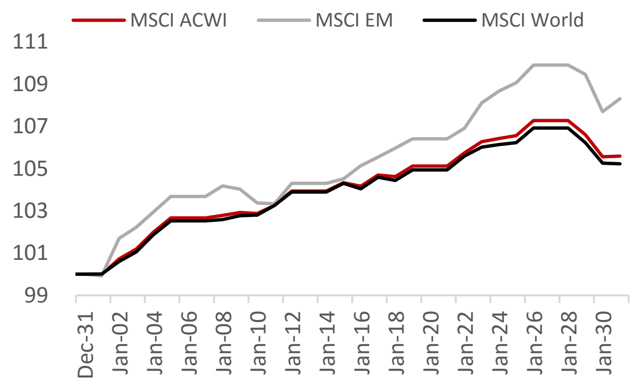


Source: Bloomberg

Japan's Nikkei 225 ended the month up 1.5%. The Bank of Japan announced it was keeping its monetary policy unchanged, a move that was in line with market expectations. In its quarterly outlook, the BOJ stated it would continue with "quantitative and qualitative monetary easing with yield curve control" for "as long as it is necessary" to achieve its 2% inflation target.

The MSCI Emerging Market Index was the best performing global index for the month, registering gains of 8.3%. The major submarkets, representing approximately 72% of the Index, registered positive performance with the lowest return being 3.3% and the highest 16.7% in USD terms. Economic growth in Emerging Markets appears to be robust.

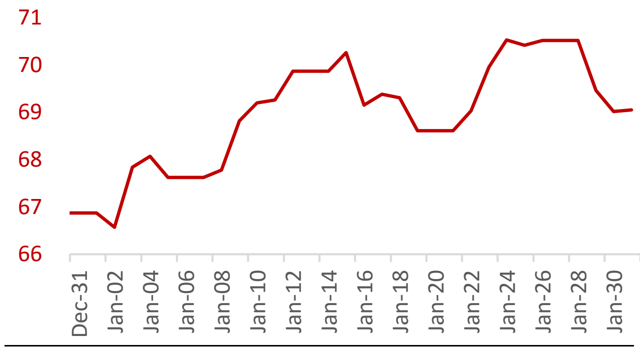
Chart 3: MSCI ACWI vs EM vs World



Source: Bloomberg *(figures rebased & MSCI World represents developed markets only)*

Brent Oil ended the month on a positive note, posting gains of 3.3%. In January, Brent crude prices closed the month at $69/bbl. One of the key drivers for a rise in prices is the drop in the dollar, which lost 3.2% against a basket of major currencies this year, a decline that was intensified when U.S. Treasury Secretary Steven Mnuchin suggested President Donald Trump's administration favored a weaker currency. Further supporting rising prices is the decline in inventory levels.

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

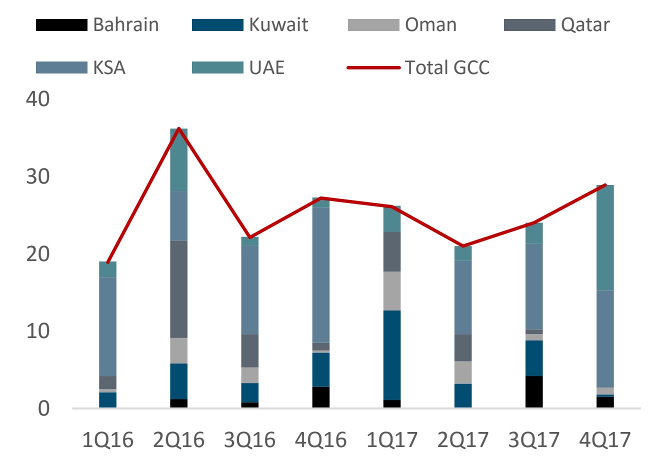


Source: Bloomberg

Regional Equities

GCC equities started out 2018 strong with the S&P GCC Index closing in the green 5.8% for the month of January. Almost all of the GCC equity markets closed the month in positive territory, except for Oman, supported by rising oil prices. The best performing equity market was Qatar followed by Saudi Arabia and Abu Dhabi. Another major headline coming out of the GCC region are sovereign bond issuances, which have reached a record $50 billion in 2017, driving total GCC issuance, both public and private, over $100 billion for the second consecutive year. Oman kicked off 2018 as the first GCC country to tap international markets with its fellow peers including Kuwait, Saudi Arabia and Abu Dhabi expected to follow thereafter.

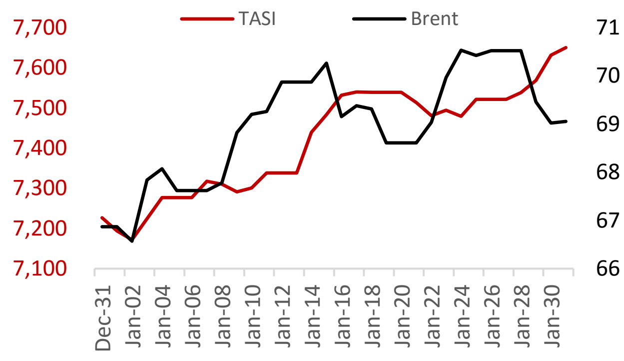
Chart 5: Gross GCC Bond Issuance (USD billion)



Source: Zawya, Thomson Reuters Eikon, CBK, press, NBK Econ

The Tadawul All Share Index (TASI) closed up 5.9% in the first month of the year. The Kingdom's market benefitted from settlement talks amid the Saudi anti-corruption campaign. The IMF recently revised its Saudi economic growth by 0.5% to 1.6% in 2018 and by 0.6% to 2.2% in 2019, citing the positive impact of higher oil prices on Saudi domestic demand. The Saudi government's estimate remains much more optimistic at 2.7% compared to the IMF, which cites a slower pace of fiscal adjustment as a factor of their lower growth estimate. Saudi Arabia has also sent out an RFP to refinance its $10 billion international syndicated loan, which include a repricing, a 2-year extension from 2021 to 2023 and an Islamic finance tranche using a murabaha structure.

Chart 6: TASI & Brent

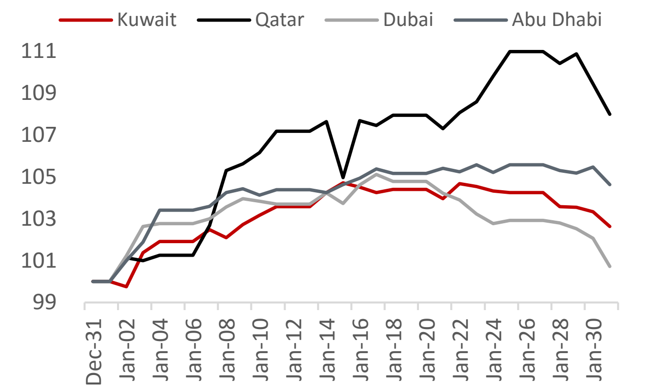


Source: Bloomberg

The Kuwait Weighted Index had a positive start to the year posting gains of 2.6% for the month of January. The Index may have benefitted from positive investor sentiment surrounding the new exchange structure and rulebook. The IMF expects non-oil GDP growth to continue to accelerate in 2018 to approximately 3.0%, highlighting the steps taken to narrow the fiscal deficit and improve the business environment. Kuwait also announced the state budget for the year ending March 31, 2019 with projected expenditure of around KWD 20 billion and revenues of around KWD 15 billion. The Kuwaiti Finance Minister Nayef Al-Hajraf has said the budget is based on an average oil price of $50 per barrel and the deficit would be financed by borrowing and utilizing reserves.

The Qatar Exchange Index was the best performing index in January, positing returns of 8.0%. The Qatari stocks benefitted from the positive earnings despite the recent political tensions between Qatar and the UAE. The index advanced further this month prior to earnings announcement as both local and foreign investors bought Qatari stocks to secure dividends. The economic embargo imposed on Qatar by its neighbors has led to a drop in stock prices, which could possibly boost yields.

Chart 7: Performance of Kuwait, Qatar, Dubai & Abu Dhabi



Source: Bloomberg *(figures rebased)*

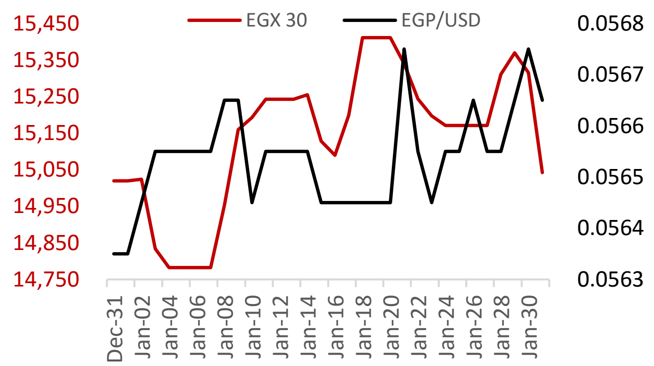
The Dubai and Abu Dhabi equity markets both had positive performance, registering gains of 0.7% and 4.6% respectively. Positive earnings supported both markets while weakness in real estate weighed on Dubai's market. Despite non-oil growth expected to rise in the UAE, given a stronger world economy and rising infrastructure spending, property prices are not expected to rise materially. The S&P has affirmed Abu Dhabi's AA long-term and A-1+ short-term foreign and local currency sovereign credit rating with a stable outlook.

Bahrain Bourse All Share Index ended the month of January in the green 1.4%. Bahrain's Shura Council unanimously voted against the proposed cap on government borrowing, that would be fixed at 60% of GDP, which the Finance Minister Shaikh Ahmed bin Mohammed Al Khalifa previously advised against stating that the imposed cap would result in significant spending cuts. Currently the government borrowing has already exceeded more than 80% percent of GDP. According to a recent report from the Information and eGovernment Authority, during the third quarter of 2017 Bahrain recorded a real GDP growth rate of 3.6% annualized and a nominal GDP growth rate of 6.9% annualized.

Oman's MSM 30 Index was the worst performer in January, ending the month down 2.0% as several of the key components of the Index underperformed. Despite Oman's junk debt rating, the government has sold a $6.5 billion bond, its largest yet, indicating increased investor confidence amidst rising oil prices. The triple-tranche bond consists of maturities of 5, 10 and 30 years, with the latter attracting the greatest interest as international investors seeking long-term, high-yielding assets pursue emerging market debt.

Egypt's EGX 30 closed up 0.2% for the month. Fitch upgraded Egypt's rating outlook to positive while the sovereign rating was unchanged at B-. The reforms continue to have a positive effect with growth improving and the fiscal deficit narrowing. For Q3 2017 the budget deficit dropped to 4.4% from 5% compared to the previous year. The IMF projects GDP growth of 4.8% in FY17/18 and a small primary fiscal surplus while continuing to emphasize the significance of pursuing further reforms.

Chart 8: EGX 30 Index & EGP/USD



Source: Bloomberg

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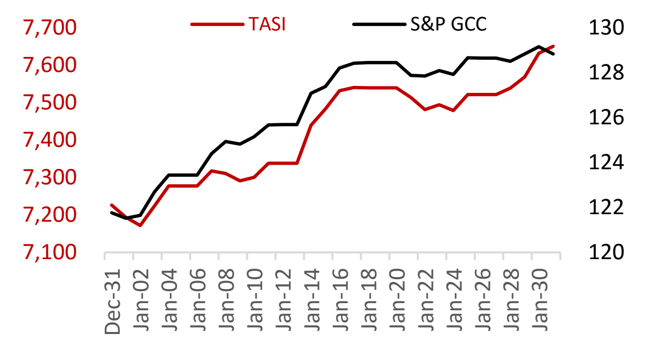
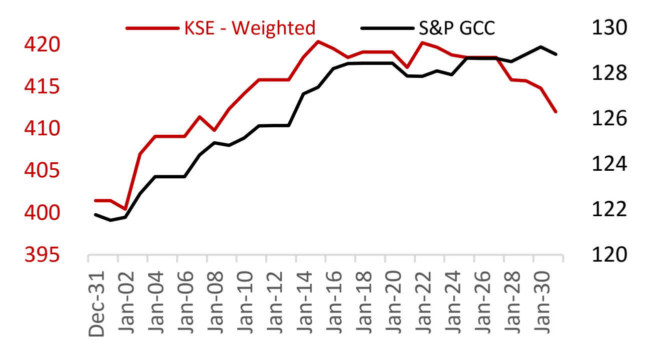
Stock Market Performance – *as of January 31, 2018:*

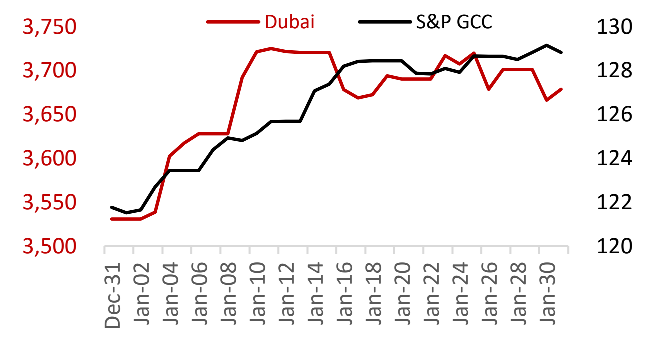
Saudi Arabia



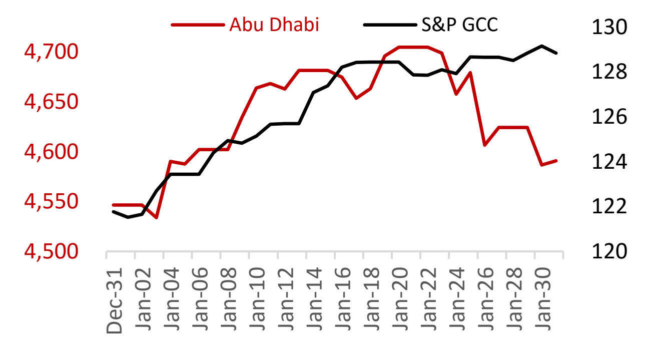
Kuwait



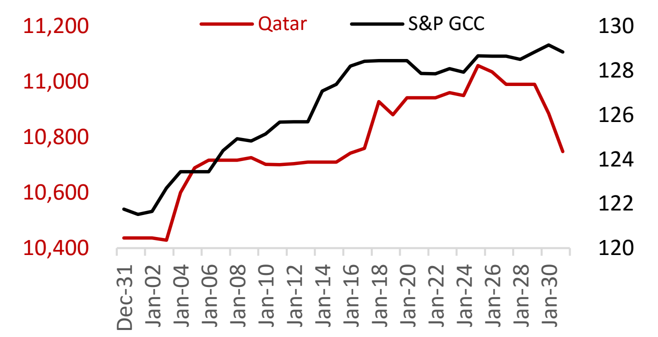
Dubai



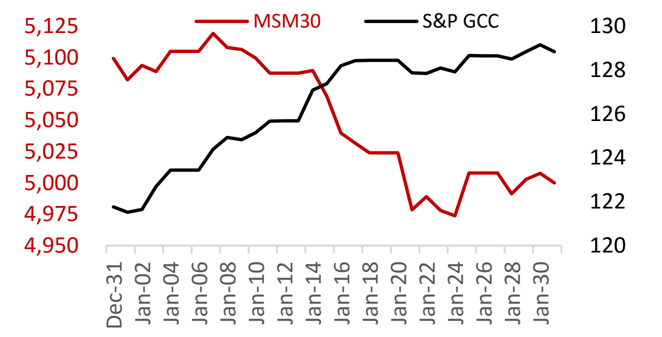
Abu Dhabi



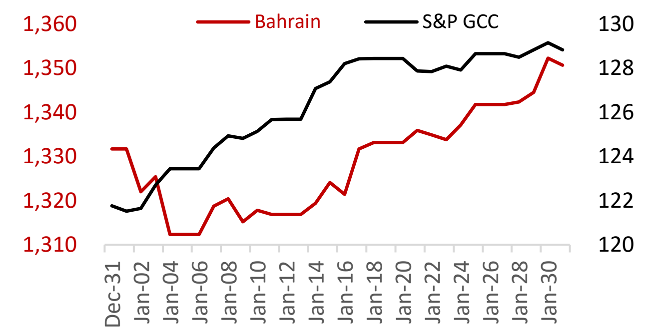
Qatar



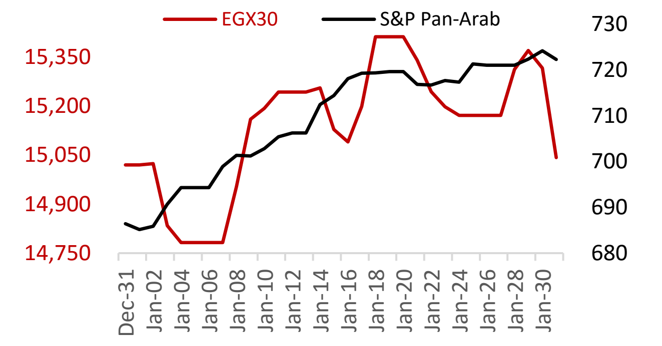
Oman



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.

Market Data – *as of January 31, 2018:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	541.67	5.58%	5.58%	5.58%	25.06%
MSCI EAFE (USD)	2,153.05	4.99%	4.99%	4.99%	24.28%
MSCI EM (USD)	1,254.59	8.30%	8.30%	8.30%	37.98%
US					
S&P 500 Index	2,823.81	5.62%	5.62%	5.62%	23.91%
Dow Jones Industrial Average	26,149.39	5.79%	5.79%	5.79%	31.64%
NASDAQ Composite Index	7,411.48	7.36%	7.36%	7.36%	32.00%
Russell 2000 Index	1,574.98	2.57%	2.57%	2.57%	15.65%
Developed					
Stoxx Europe 600	395.46	1.61%	1.61%	1.61%	9.81%
FTSE 100 Index	7,533.55	-2.01%	-2.01%	-2.01%	6.12%
DAX Index	13,189.48	2.10%	2.10%	2.10%	14.34%
CAC 40 Index	5,481.93	3.19%	3.19%	3.19%	15.44%
Nikkei 225	23,098.29	1.46%	1.46%	1.46%	21.31%
Hang Seng Index	32,887.27	9.92%	9.92%	9.92%	40.78%
Emerging Markets					
Russia Stock Exchange	2,289.99	8.54%	8.54%	8.54%	3.27%
Turkey - Borsa Istanbul 100 Index	119,528.80	3.64%	3.64%	3.64%	38.51%
MSCI Asia ex Japan	767.21	7.54%	7.54%	7.54%	40.47%
Shanghai Composite	3,480.83	5.25%	5.25%	5.25%	10.18%
India - NIFTY 50	11,027.70	4.72%	4.72%	4.72%	28.81%
Taiwan Stock Exchange	11,103.79	4.33%	4.33%	4.33%	17.53%
Brazil Ibovespa Index	84,912.70	11.14%	11.14%	11.14%	31.30%
Mexico Stock Exchange	50,456.17	2.23%	2.23%	2.23%	7.35%
MENA					
S&P Pan Arab (USD)	722.29	5.22%	5.22%	5.22%	4.10%
S&P GCC Composite (USD)	128.83	5.81%	5.81%	5.81%	4.69%
KSA - Tadawul All Share Index	7,650.12	5.86%	5.86%	5.86%	7.72%
Dubai - DFM General Index	3,394.36	0.72%	0.72%	0.72%	-6.82%
Abu Dhabi - ADX General Index	4,602.23	4.63%	4.63%	4.63%	1.17%
Qatar Exchange Index	9,204.62	7.99%	7.99%	7.99%	-13.14%
Kuwait Weighted Index	411.98	2.63%	2.63%	2.63%	-3.60%
Oman - Muscat Securities Market 30 Index	4,999.96	-1.95%	-1.95%	-1.95%	-13.44%
Bahrain Bourse All Share Index	1,350.67	1.42%	1.42%	1.42%	3.60%
Egypt - EGX 30	15,042.37	0.17%	0.17%	0.17%	18.70%
Morocco - MADEX	10,653.78	5.48%	5.48%	5.48%	6.32%
Jordan - ASE Index	2,193.30	2.87%	2.87%	2.87%	1.47%

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

Market Data – *as of January 31, 2018:*

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	574.12	0.73%	0.73%	0.73%	6.97%
Barclays US Agg Bond	2,022.80	-1.15%	-1.15%	-1.15%	2.15%
US Government Totsl Return Value Unhedged (USD)	2,136.62	-1.33%	-1.33%	-1.33%	0.70%
Bloomberg Barclays US Corp Bond Index	2,874.04	-0.96%	-0.96%	-0.96%	5.08%
Bloomberg Barclays US Corp High Yield Bond Index	1,961.66	0.60%	0.60%	0.60%	6.60%
Global Treasury ex US Total Return Index Value Unhedged	658.54	3.03%	3.03%	3.03%	10.68%
Global Agg Corporate Total Return Index Value Unhedged	260.52	0.58%	0.58%	0.58%	8.77%
JPM Emerging Market Bond Index (USD)	806.37	-0.20%	-0.20%	-0.20%	7.56%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,316.23	0.36%	0.36%	0.36%	7.98%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	1.455		1.159	1.070	0.513
2 Year Yield	2.141		1.608	1.351	1.204
5 Year Yield	2.514		2.000	1.816	1.913
10 Year Yield	2.705		2.345	2.262	2.453
30 Year Yield	2.935		2.826	2.842	3.061
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.510		1.260	1.176	1.417
German 10 Year Bund	0.697		0.372	0.468	0.436
Japan 10 Year Treasury	0.085		0.055	0.065	0.087

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,345.14	3.25%	3.25%	3.25%	11.10%
Silver Spot	17.35	2.41%	2.41%	2.41%	-1.20%
Energy					
WTI Crude	64.73	7.13%	7.13%	7.13%	22.57%
Brent Crude	69.05	3.26%	3.26%	3.26%	23.97%
Natural Gas	3.00	1.42%	1.42%	1.42%	-3.91%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD	1.241	3.41%	3.41%	3.41%	14.97%
GBP-USD	1.419	5.02%	5.02%	5.02%	12.82%
USD-JPY	109.190	-3.11%	-3.11%	-3.11%	-3.20%
KWD-USD	3.337	0.71%	0.71%	0.71%	1.68%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	1.580	1.778	1.966	2.267
Saudi Interbank	1.670	1.886	2.084	2.283
Emirates Interbank	1.577	1.866	2.102	2.623
Qatar Interbank	2.355	2.608	2.765	3.018
Kuwait Interbank	1.688	1.875	2.125	2.375

Source: Bloomberg

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