

Global & Regional Outlook

Tim Fox, Chief Economist

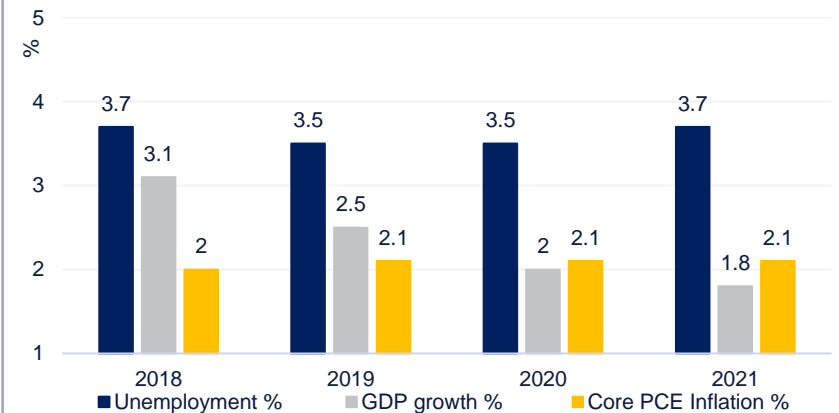
October 2018



2018 may end with four rate hikes

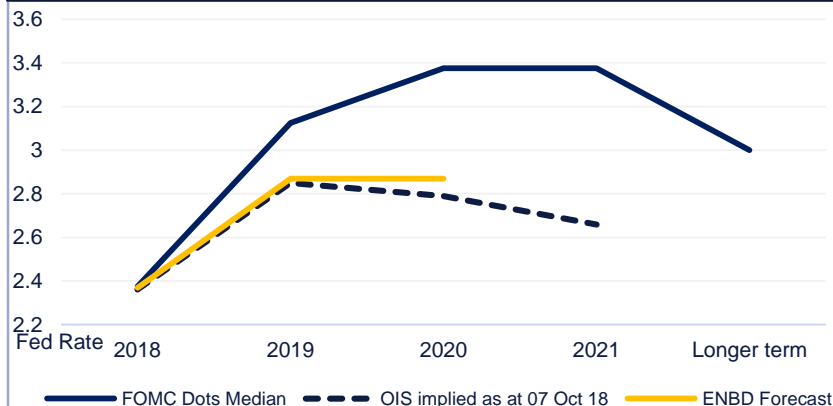
- In a much anticipated move, the Federal Reserve raised target rate range by 25bps to be between 2.0% - 2.25% last month and revised their forecast for GDP growth in 2018 to 3.1% from 2.8% previously.
- Impact of the disruptive trade talks and geopolitical risks has been minimal on the US economy so far and is unlikely to derail the strong momentum in growth this year. However we expect US GDP growth to lose momentum in 2019.
- The market is currently pricing three rate hikes between now and end of next year with a possible cut in 2020 while the Fed's projection reflects one more rate hike in 2018, three in 2019, one in 2020 and unchanged in 2021 with long term neutral rate at 3%.

The Fed revised economic forecasts upward



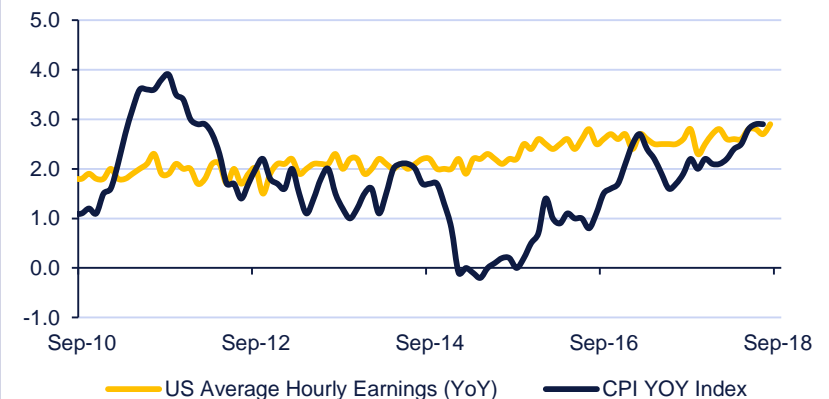
Source: The Fed, Emirates NBD Research

Market diverging away from the Fed



Source: Bloomberg, Emirates NBD Research

Inflation beginning to become sustainable

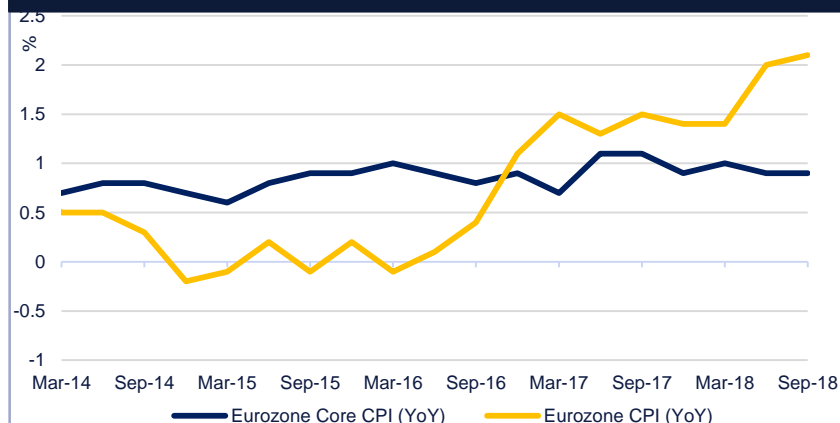


Source: Bloomberg, Emirates NBD Research

Highlights

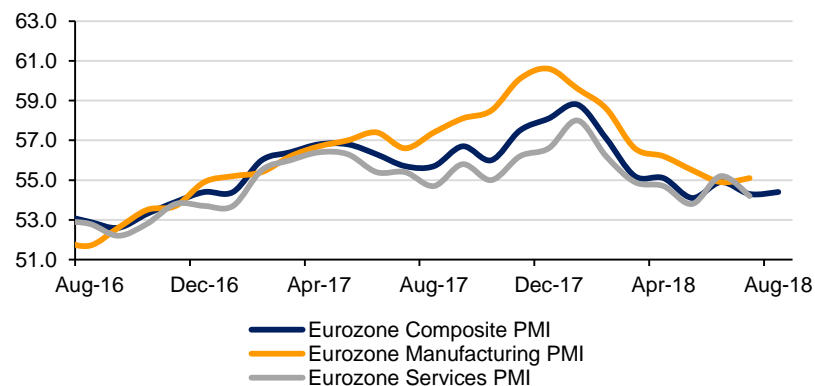
- Core inflation in the Eurozone remained below 1% despite ECB president, Mario Dragi's comment about inflation to remain 'vigorous'.
- Risk relating to Italy's budget bears monitoring but appears manageable. ECB bond buying program will end this quarter but rate hike is not expected until 3Q next year.
- Despite the current hurdles, a Brexit deal is expected to be done because the consequences of not doing a deal are very negative for everybody. No further action is expected from the BoE until after the UK leaves the EU.

Eurozone core inflation still low



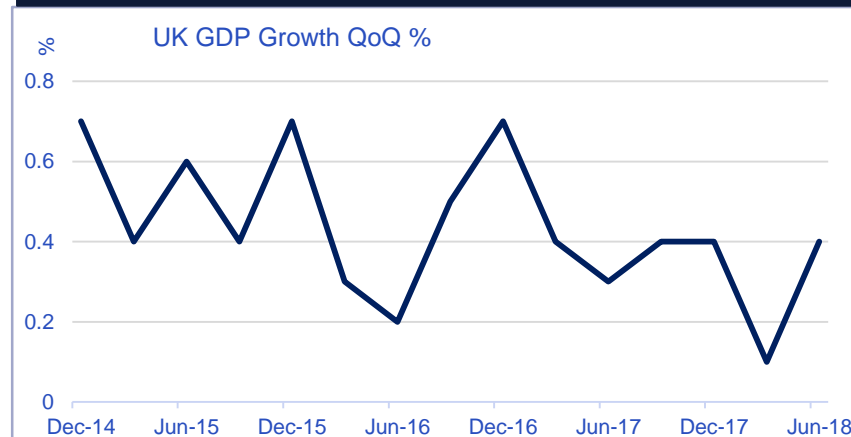
Source: Bloomberg, Emirates NBD Research

Trade concerns weigh on sentiment



Source: Bloomberg, Emirates NBD Research

Brexit weighs on U.K. growth



Source: Bloomberg, Emirates NBD Research

Highlights

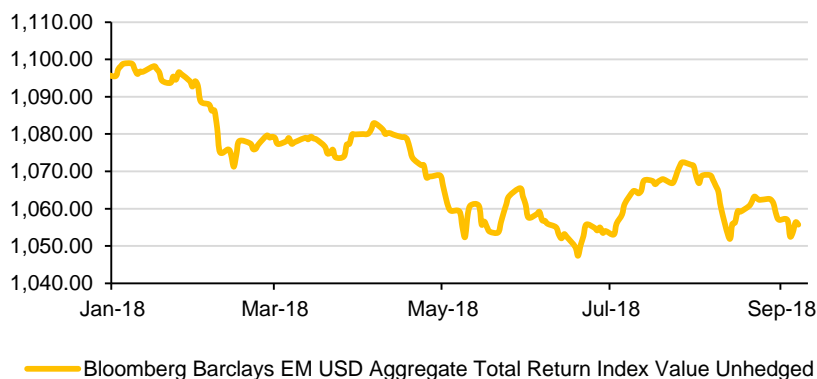
- The strength of the US dollar is attracting inflows because of Fed tightening but is crushing EM through a 'dollar liquidity shortage'.
- INR at a record low, with other EM currencies feeling the squeeze, especially those with their own idiosyncratic issues/problems.
- Market risk is increasing and a number of market commentators (Roubini - "perfect storm", Lagarde "we are now facing new, post-crisis, fault lines", Robert Shiller says the US stock market today looks a lot like it did before all 13 previous price collapses) are worried that the US equity market cannot be disconnected from the EM equity markets much longer .

Equity markets decline...



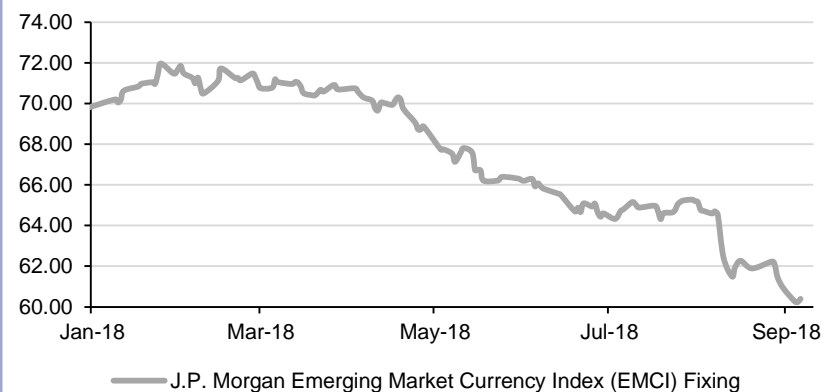
Source: Bloomberg, Emirates NBD Research

..while bonds tumble...



Source: Bloomberg, Emirates NBD Research

..and currencies weaken



Source: Bloomberg, Emirates NBD Research

- **Trump Presidency**

- Mid-term elections may frustrate Trump Presidency
- Blow-back from tariffs and their effect on the U.S. economy and President Trump's support base.
- Could Mueller investigation lead to impeachment?
- Further escalation of protectionism may threaten otherwise healthy global growth.

- **Europe risks have not gone away**

- Brexit countdown with deadline next April
- EU skepticism spreading (Sweden, Germany, Italy)
- Italy budget proposals
- Trade protectionism weighing on sentiment

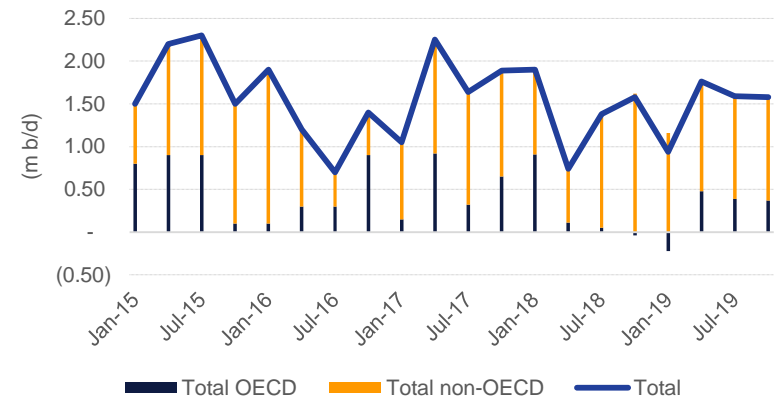
- **Geopolitical risks mounting**

- Saudi Arabia needs to see implementation of reforms
- Escalating trade war threatens global trade volumes – negative impact on UAE trade & logistics sectors
- US re-imposes sanctions on Iran
- Yemen war shows no sign of abating distracting from bigger issues
- Qatar stand-off continues
- North Korea more talks, but real progress?

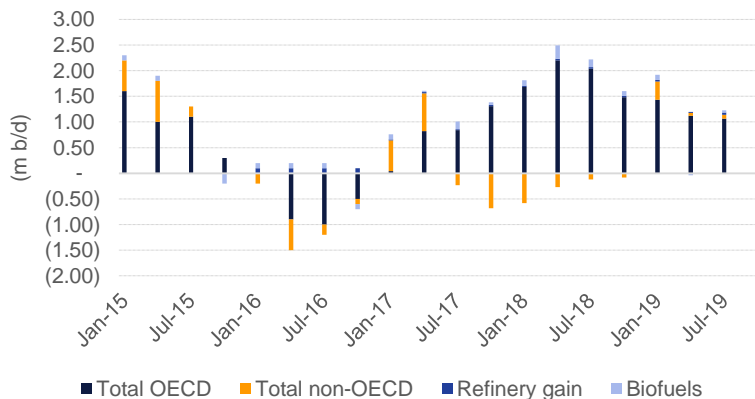
Highlights

- Oil demand growth will hover around 1.4m b/d-1.5m b/d in 2019 and will come almost entirely from developing markets.
- The demand outlook is at risk from escalating trade war between the US and China and deteriorating economic conditions in several large EMs.
- Meanwhile non-OPEC supply growth will remain positive albeit at a slower pace than 2018
- Overall oil market balance will be close to balanced in 2019, setting the stage for volatility in the coming months

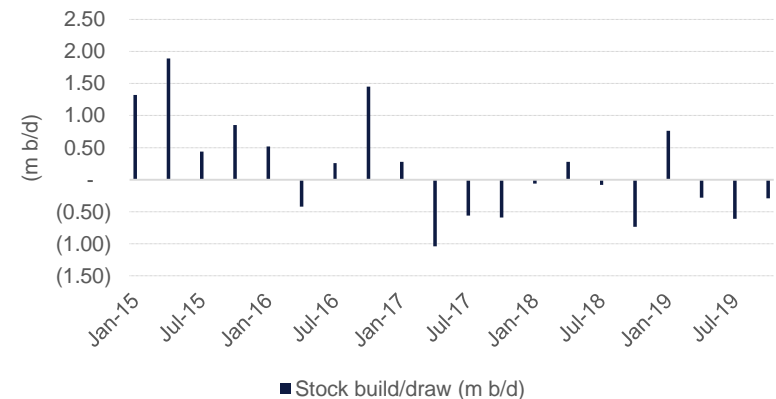
Oil demand growth



Non-OPEC supply growth



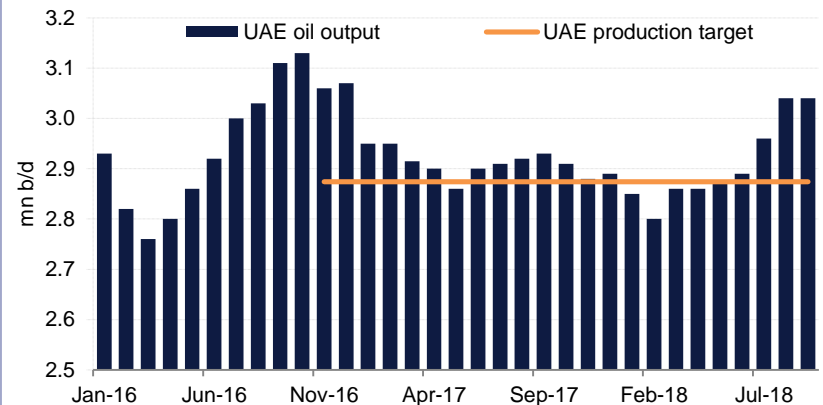
Oil market to stay close to balance



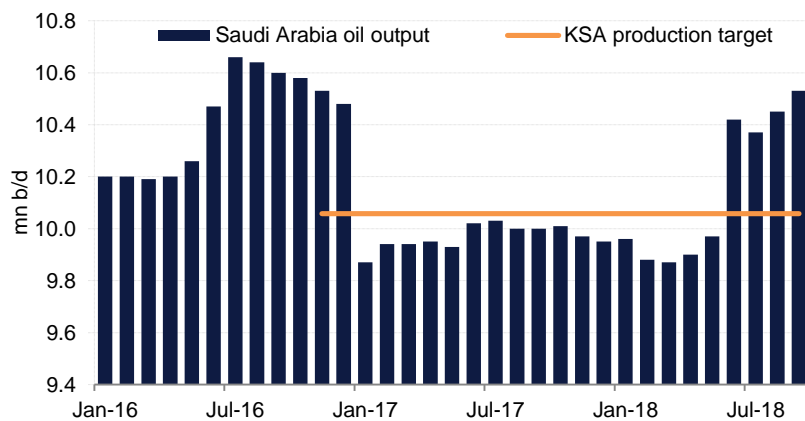
Highlights

- Some weakness in January PMIs was expected due to the introduction of VAT, but the data through April remained soft, particularly in Saudi Arabia. However, a recovery has been evident since May.
- Oil production in Saudi Arabia remained well below its OPEC targets through May, and the UAE also showed a higher level of compliance with its OPEC target than we had expected.
- OPEC's decision to boost output in June is likely to result in slightly faster oil sector growth in 2018, particularly in swing producer Saudi Arabia. We now assume a 2.5% increase in oil production for 2018, and headline GDP growth of 2.0% this year.
- While we have also upgraded our UAE oil sector growth estimate, non-oil sector growth is likely to be softer than we had anticipated this year. We retain our 2.2% GDP growth forecast for 2018

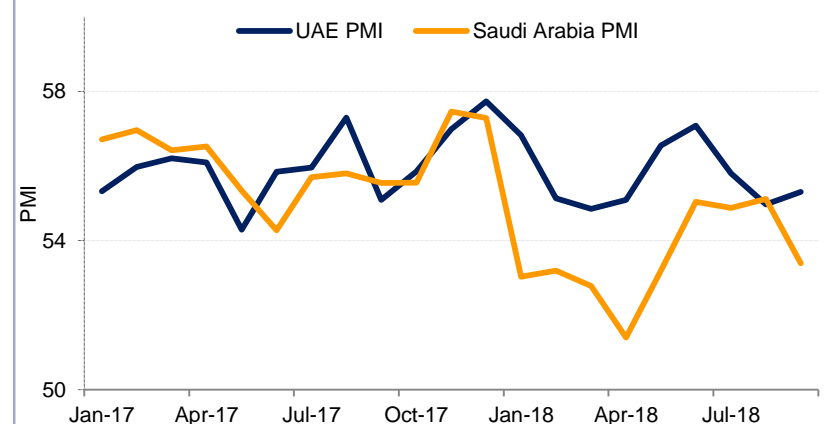
UAE oil production and OPEC target



Saudi Arabia oil production and OPEC target



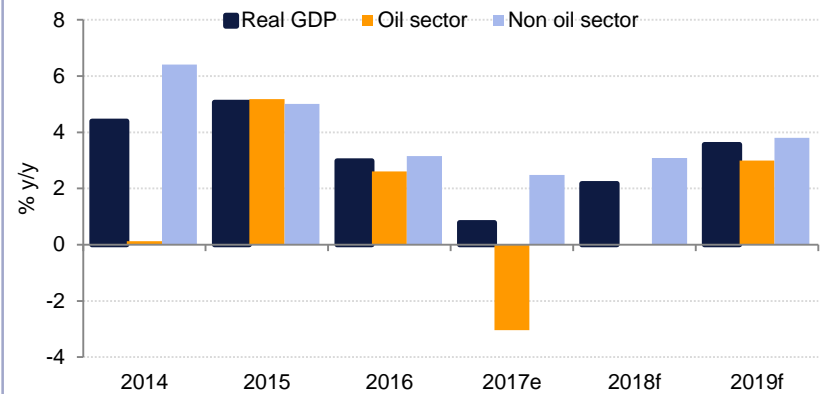
PMIs rebound in Q2



Highlights

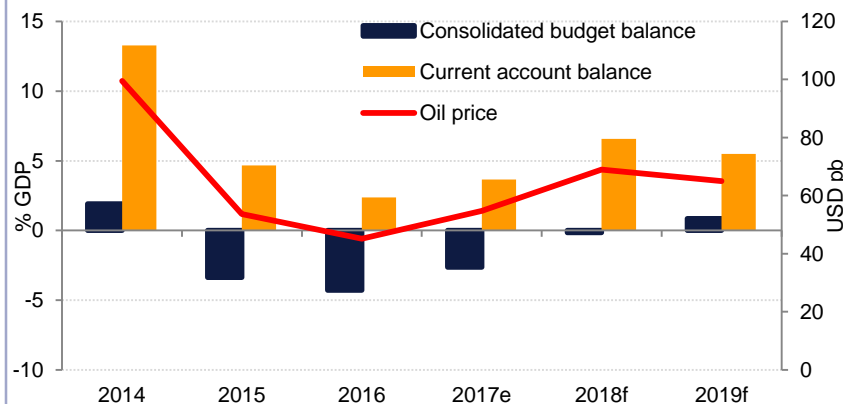
- Growth slowed to 0.8% in 2017 from 3.0% in 2016 on lower oil output, although the UAE produced more than its quota in 2017. Non oil sector growth was positive, but firms faced margin pressures and there was little employment or wage growth.
- Government infrastructure and other spending to underpin non-oil sector growth through 2020. Household consumption to remain under pressure.
- Budget to move back to surplus this year on higher oil price. Break-even oil price estimated at USD 65/b in 2018 (USD 91/b in 2014).

UAE GDP growth



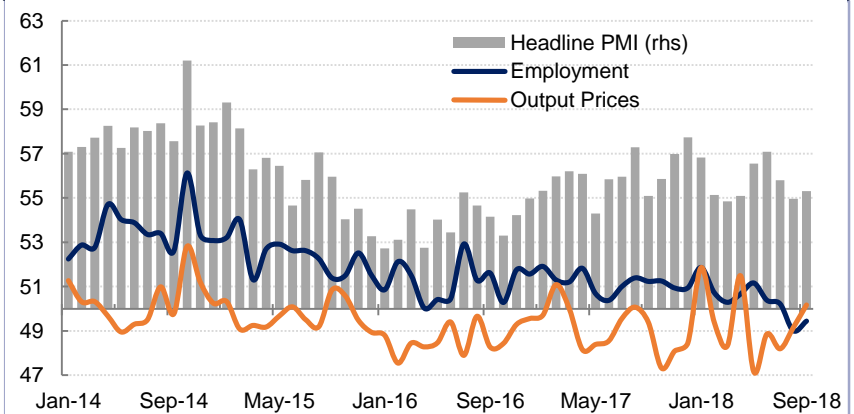
Source: Haver Analytics, Emirates NBD Research

Fiscal and current accounts in good shape



Source: Haver Analytics, Emirates NBD Research

UAE PMI components



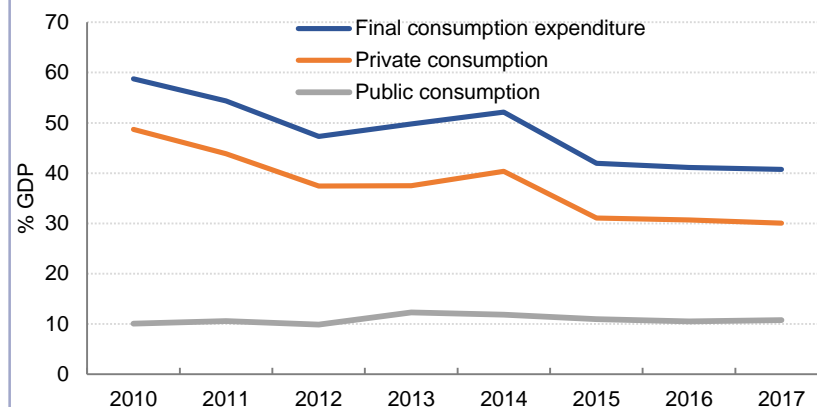
Source: Bloomberg, Emirates NBD Research

UAE: Expenditure GDP stats confirm challenging domestic environment

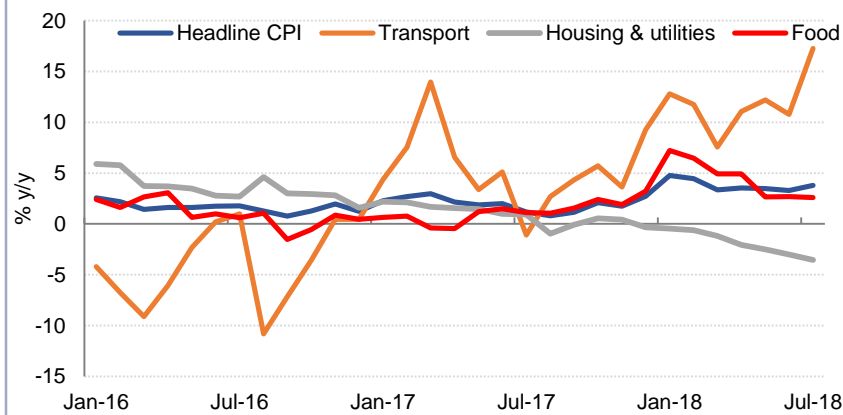
Highlights

- Households under strain from rising fuel costs and VAT, although rents have fallen. Lack of employment and wage growth have contributed to softer consumer demand.
- Consumption as a share of GDP has declined in recent years (mostly on lower private consumption). Investment has contributed positively to GDP growth since 2014.
- Net exports have been the key driver of growth (includes oil exports). In 2017, growth was driven ENTIRELY by net exports, domestic demand contracted.

Private consumption expenditure has declined as a % of total GDP



UAE inflation: lower housing costs help mitigate VAT and fuel prices impact



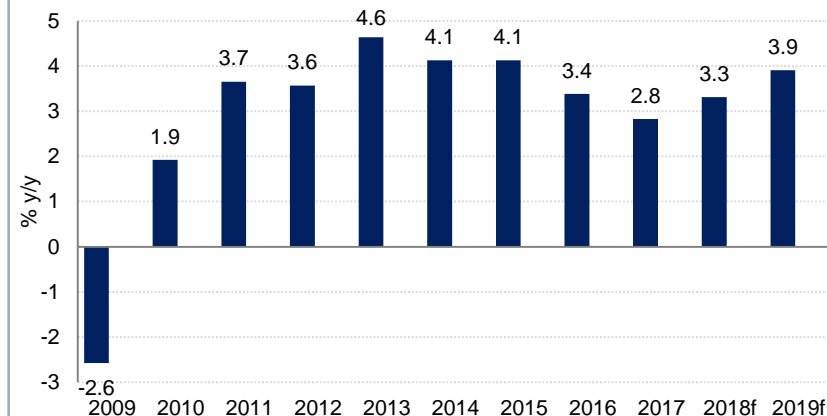
Contribution to GDP growth

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Final consumption expenditure | 5.0 | 4.7 | -8.0 | 0.4 | 0.0 |
| Private consumption | 1.9 | 4.6 | -7.7 | 0.5 | -0.4 |
| Public consumption | 3.0 | 0.1 | -0.4 | -0.1 | 0.4 |
| GFCF | -1.3 | 2.2 | 0.9 | 1.9 | 0.1 |
| Public sector | 0.3 | 1.0 | 0.4 | 0.9 | 0.1 |
| Private sector | -1.5 | 1.2 | 0.5 | 1.0 | 0.1 |
| Change in inventories | 0.9 | 2.9 | 2.6 | -0.8 | -0.4 |
| Net exports | 0.4 | -5.4 | 9.5 | 1.5 | 1.1 |
| Export | 6.1 | 1.8 | 5.1 | 3.4 | 0.5 |
| Imports | 5.7 | 7.2 | -4.4 | 1.8 | -0.7 |
| Real GDP growth | 5.1 | 4.4 | 5.1 | 3.0 | 0.8 |

Highlights

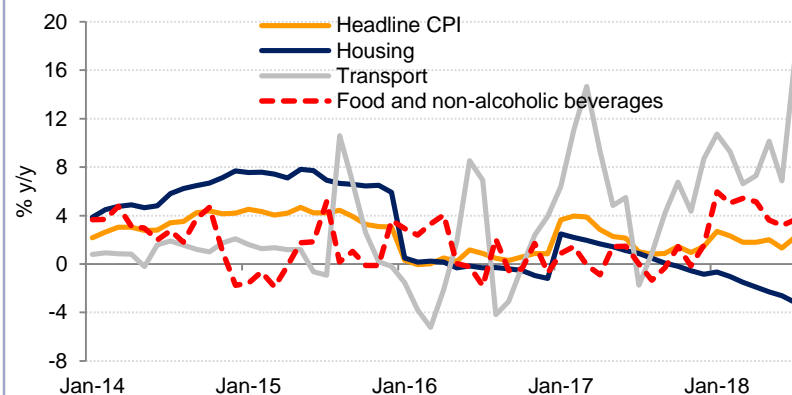
- Biggest contributors to GDP growth in 2017 were real estate services (0.5pp), transport & storage (0.5pp of 2.8%), followed by hotels & restaurants (0.4pp). Construction added another 0.2pp as did manufacturing.
- The biggest sector of Dubai's economy is wholesale & retail trade, which accounts for more than a quarter of total GDP, but grew less than 1% in 2016 and 2017, sharply slower than in the prior 5 years.
- Dubai Economy Tracker survey shows activity growth at a similar pace to 2017, but on the back of sustained price discounting and very little job growth.

Dubai GDP growth



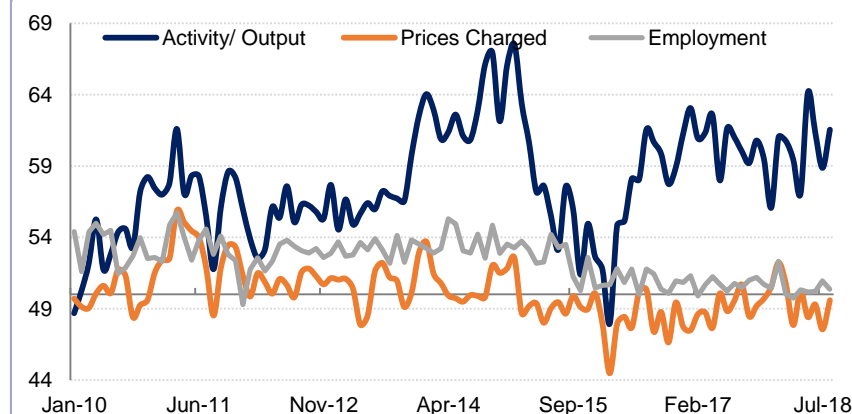
Source: Haver Analytics, Emirates NBD Research

Higher transport costs offset by lower rents



Source: Haver Analytics, Emirates NBD Research

Dubai Economy Tracker components

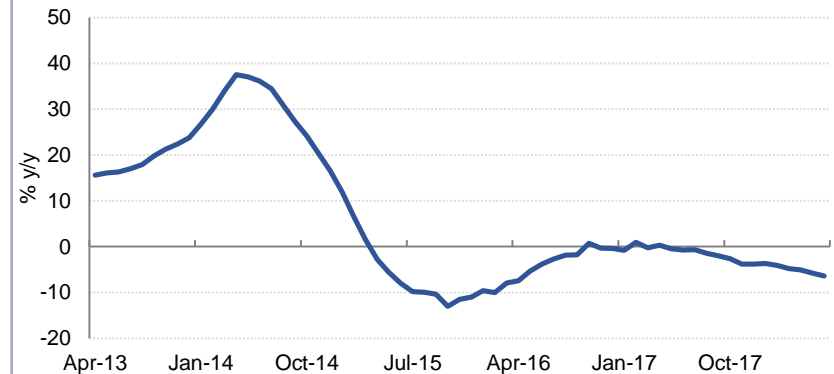


Source: Bloomberg, Emirates NBD Research

Highlights

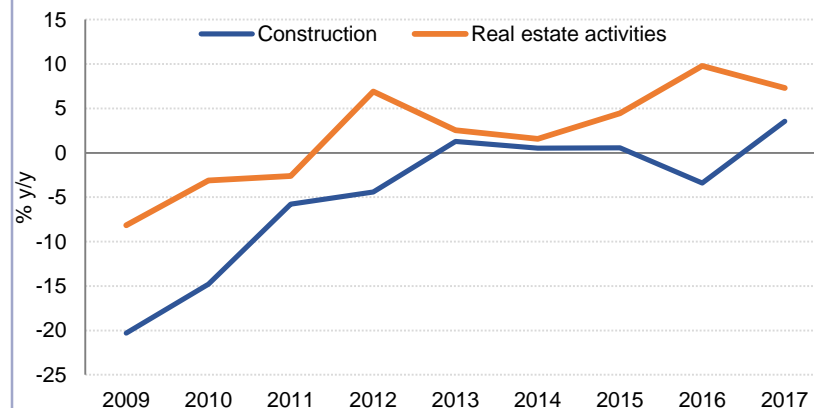
- While residential real estate prices in Dubai continued to decline (-6.4% y/y in June). Rents have also declined sharply in Q2 2018. Average rents were down -12.4% y/y and -4.3% q/q in Q2 2018 (source: Property Monitor).
- Construction sector index reflects increasing output and pipeline of work. Employment has increased in this sector as well, and business optimism remains high.
- Real estate services and construction *together* account for around 13% of Dubai's GDP. Wholesale & retail trade account for 27%; transport, storage & logistics accounts for 12% and financial services 10%.

Residential RE prices still declining



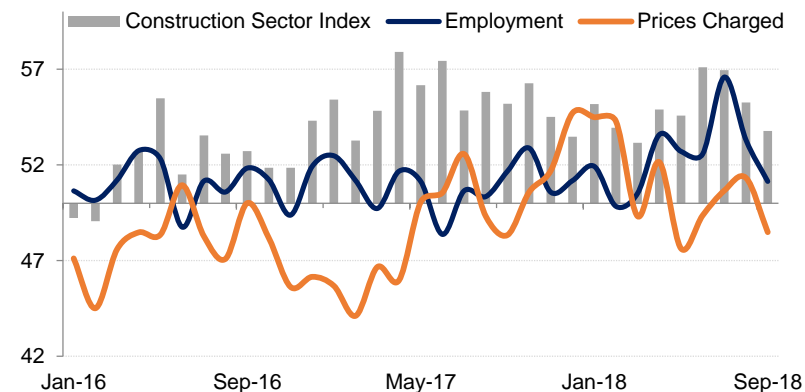
Source: BIS, Bloomberg, Emirates NBD Research

Sector growth rates (Dubai GDP)



Source: Haver Analytics, Emirates NBD Research

Construction sector index components

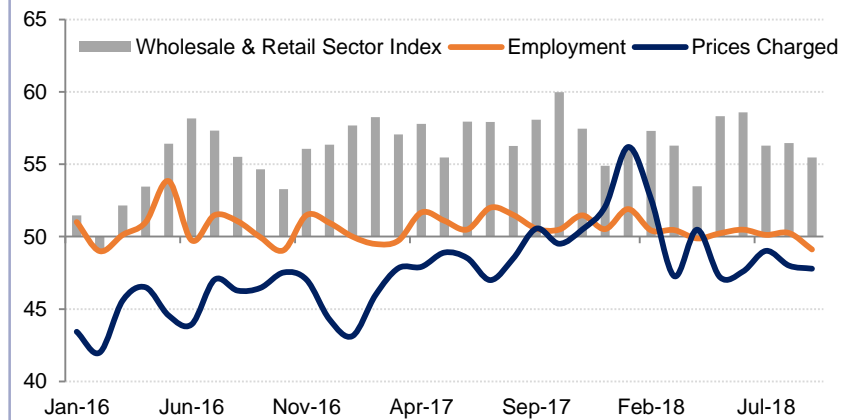


Source: Bloomberg, Emirates NBD Research

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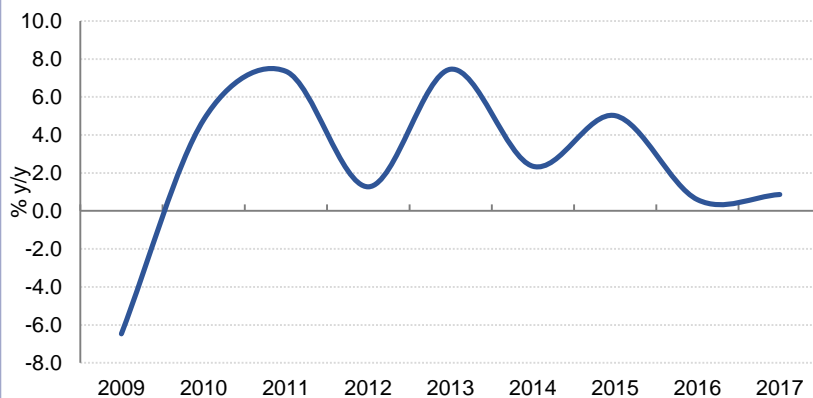
- Survey data shows that while wholesale & retail sector activity is strong, it has been driven by significant price discounting. There has been almost no job growth in the sector this year.
- Official GDP statistics for Dubai show that the sector has grown less than 1% pa over the last two years, compared with nearly 5% pa growth between 2010-2015. This sector accounts for nearly 30% of Dubai's real GDP.

DET: Volume measures are holding up



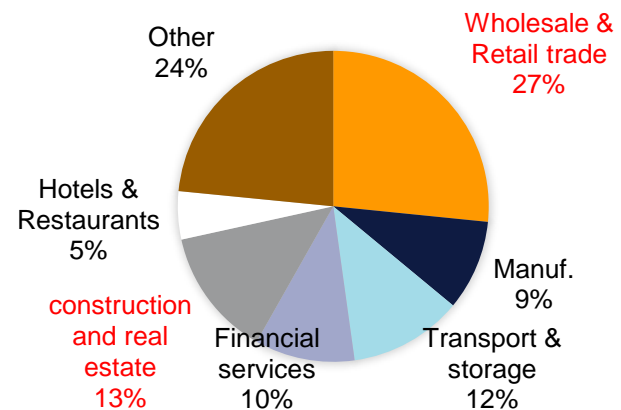
Source: IHS Markit, Emirates NBD Research

W/sale & retail trade sector growth has slowed sharply in the last 2 years



Source: Haver Analytics, Emirates NBD Research

Trade is much bigger than RE+Construction



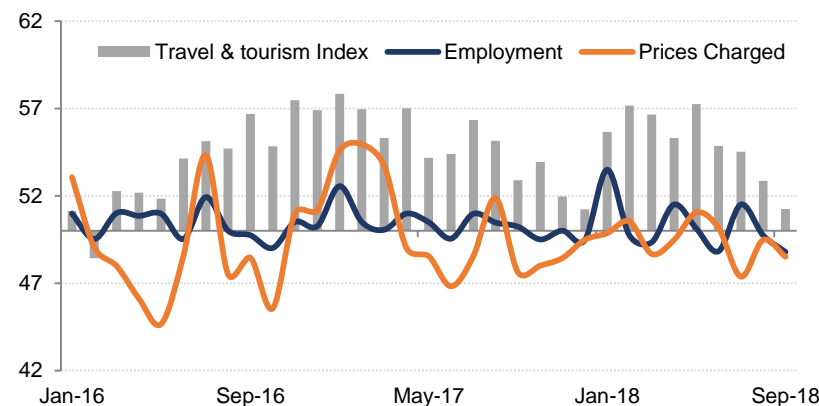
Source: Network International, Emirates NBD Research

Travel & tourism: increased supply and margin squeeze

Highlights

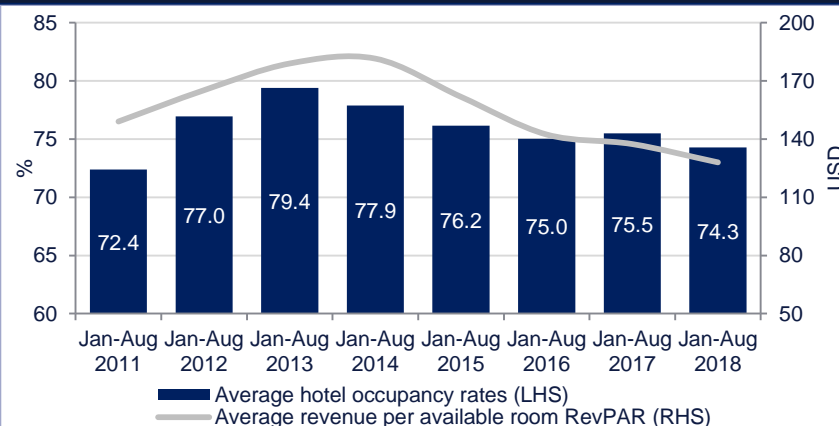
- Passenger traffic at the Dubai International Airport (DXB) rose to 51.9mn in Jan-Jul 2018, up 1.6% y/y. Cargo volume was down -1.6% y/y over the same period. The growth in passenger traffic and cargo volumes have slowed since 2015.
- Dubai's hotel occupancy averaged 74.3% in Jan-Aug 2018 slightly lower than 75.5% a year ago. Revenue per available room (RevPAR) has fallen -6.9% y/y over the same period.
- The supply of hotel rooms in Dubai increased by nearly 10% y/y in Jan-August 2018.

DET: Travel & tourism sector



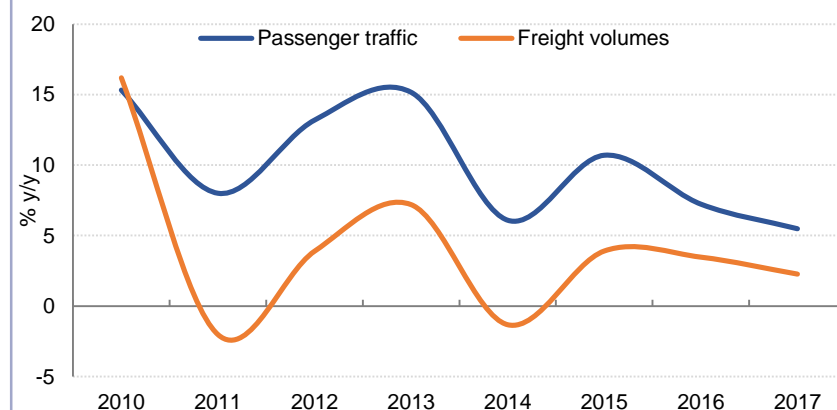
Source: IHS Markit, Emirates NBD Research

Dubai occupancy rates remain high



Source: Haver Analytics, Emirates NBD Research

DXB passenger traffic growth slows

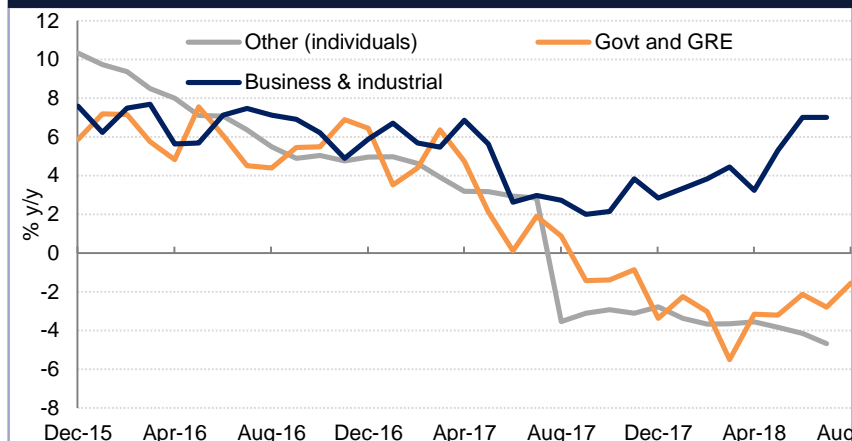


Source: Network International, Emirates NBD Research

Highlights

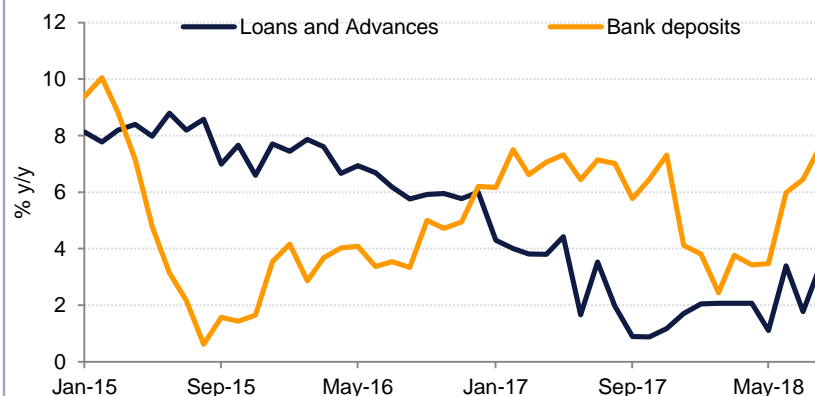
- UAE's central bank data showed deposit growth 7.6% y/y in August, averaging 4.6% year to date. Loan growth is softer at 3.4% y/y, averaging 2.2% ytd.
- Government & GRE deposit growth has recovered since Jan 2017, reflecting the rising oil price. It has grown faster than business & individuals' deposits. However, money supply growth remains weak, with M1 (cash in circulation and demand deposits) contracting on an annual basis for the last three months.
- Personal loans have declined y/y, as has borrowing from the public sector. Loans to Business & Industry have accelerated since April.

Bank loan growth by borrower



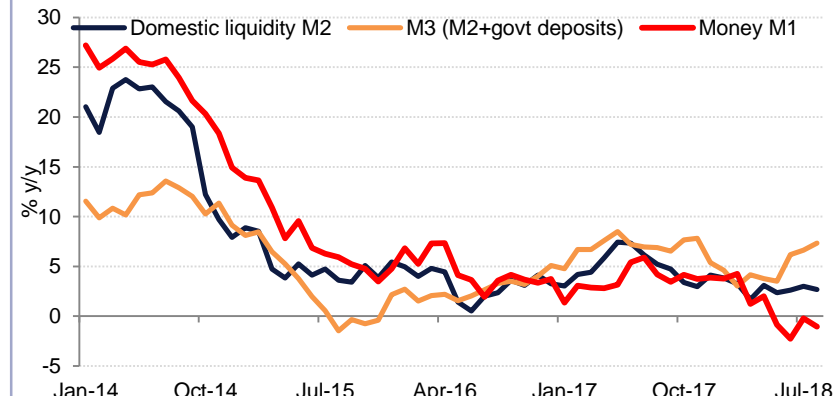
Source: Haver Analytics, Emirates NBD Research

Bank loan and deposit growth



Source: Haver Analytics, Emirates NBD Research

Money supply

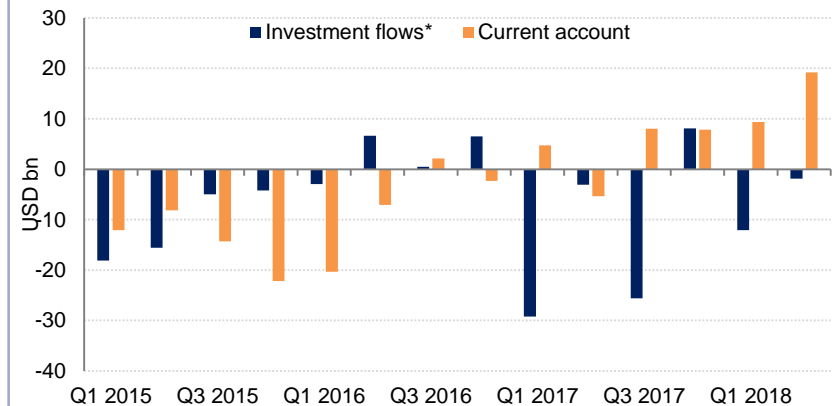


Source: Haver Analytics, Emirates NBD Research

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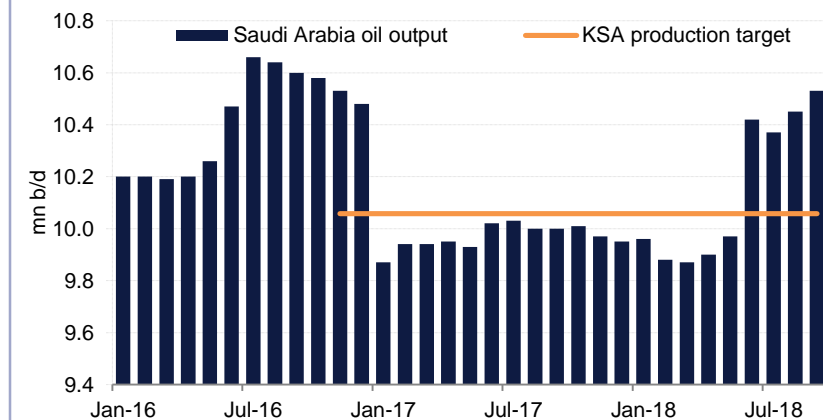
- The reported shelving of the Aramco IPO is a negative signal on the government's commitment to reform, increased transparency and opening the economy to foreign investment, but won't have any impact on growth. Aside from (significant) fiscal reform, there appears to be little progress in other areas.
- Increasing FDI was a key goal of the reform program, but BoP data show **net** outflows of FDI from Q2 2017 through Q2 2018 (latest available data).
- Oil production remains above 10mn bpd and should support non-oil sector activity through H2 2018. PMIs have recovered in May-August but remain soft relative to previous years. We expect growth of 2% in 2018 and 2.4% in 2019.

Balance of payments improves



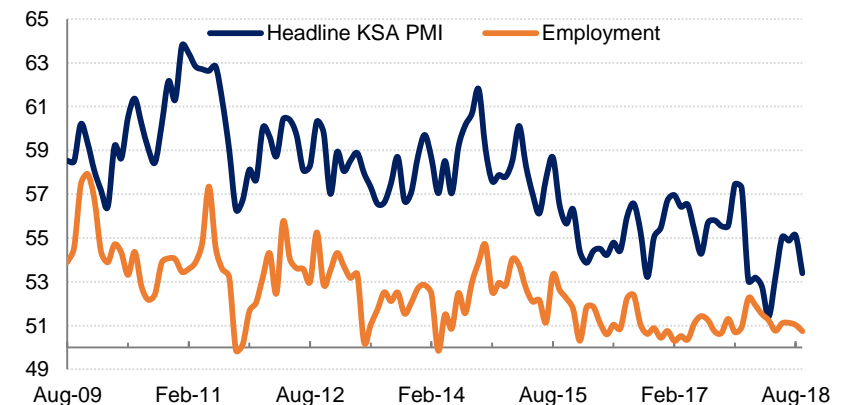
Source: Haver Analytics, Emirates NBD Research

Oil production higher since June



Source: Haver Analytics, Emirates NBD Research

PMI has improved since May

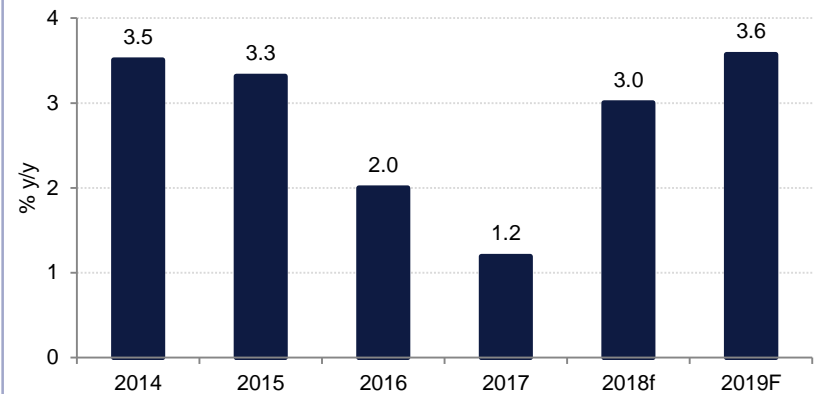


Source: IHS Markit, Emirates NBD Research

Highlights

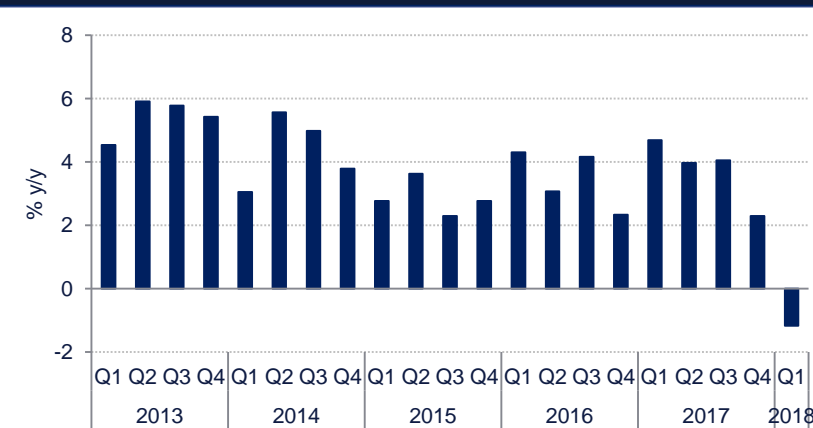
- Qatar is investing heavily in LNG capacity. Infrastructure investment to underpin GDP growth over the next few years. Money supply growth has slowed in recent months, but private sector credit growth remains robust at around 10% y/y
- GCC working on an IMF style package for Bahrain, likely to require fiscal reforms in return for financial aid. VAT and pension reform law to be passed before 24 November election (press reports).
- Kuwait's economy to grow 1.8% this year; budget to be balanced after 3 years of deficit.
- Oman's budget deficit set to narrow to 5.5% of GDP in 2018 from -12.5% in 2017, on higher oil revenues. Non oil growth driven by investment in infrastructure.

Qatar: Real GDP growth to recover



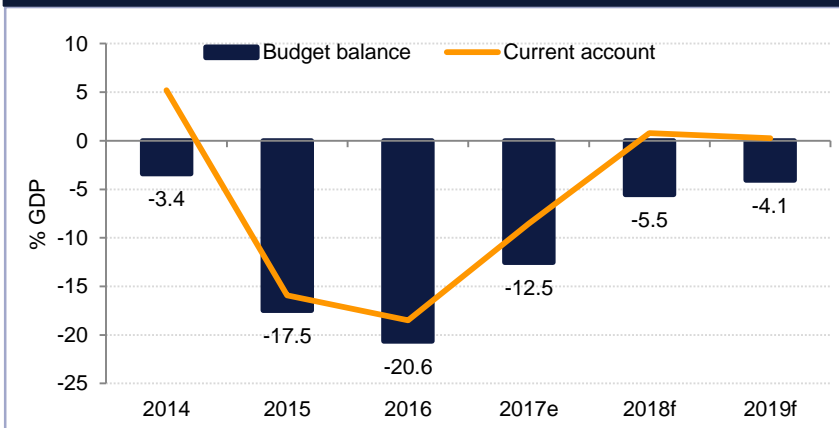
Source: Haver Analytics, Emirates NBD Research

Bahrain's economy contracted in Q1 2018



Source: Haver Analytics, Emirates NBD Research

Oman: Fiscal strains set to ease

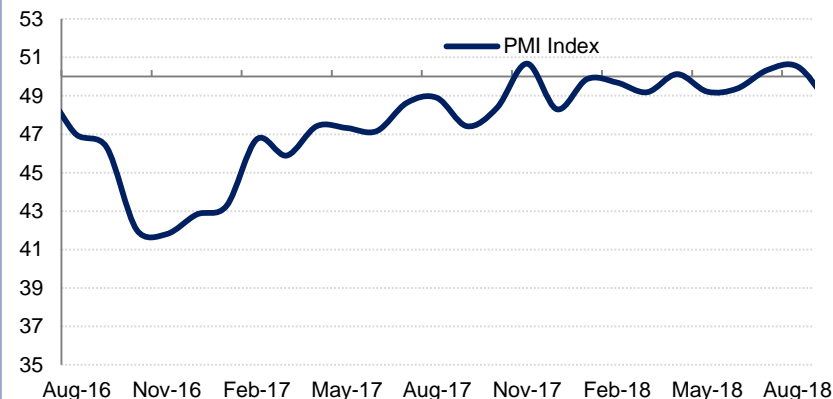


Source: Haver Analytics, Emirates NBD Research

Highlights

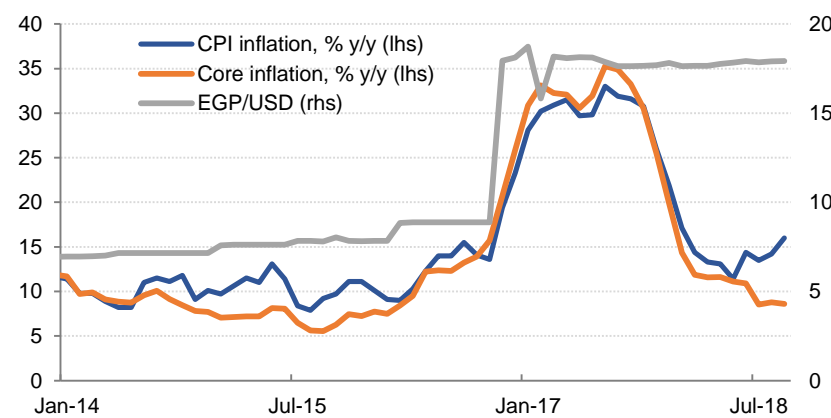
- The Egypt PMI fell to 48.7 in September, compared to 50.5 in August. The return to contractionary territory for the non-oil private sector in Egypt, after two months of 50-plus readings in July and August, shows some weakness in the recovery.
- The full-year balance of payments data for 2017/18 (July-June) shows an ongoing improvement in Egypt's external position as a surplus of USD 12.8bn over the year led foreign reserves to rise to record levels of USD 44.26bn in June. Notably, the current account deficit declined by 58.6% y/y, and stood at -2.5% of GDP according to our estimates, compared to -6.5% the previous year.
- The CBE held rates at its latest meeting in September, citing tightening global conditions, trade tensions and oil prices subject to geopolitical risks. We expect that the bank will hold rates for the rest of this year as EM pressures come to bear.

PMI components



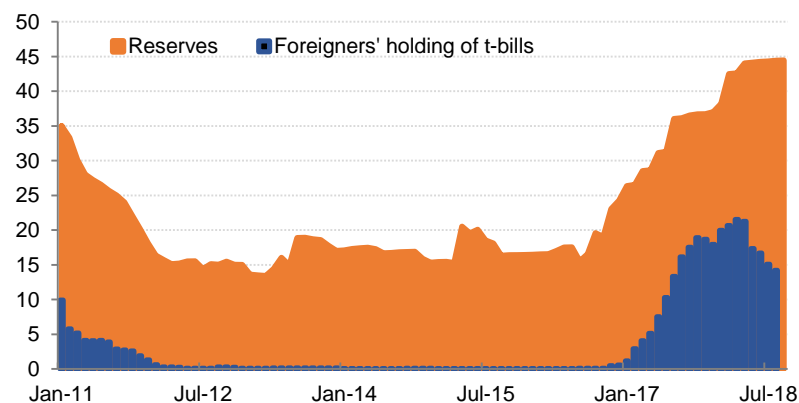
Source: IHS Markit, Emirates NBD Research

Inflation fall will slow



Source: Bloomberg, Emirates NBD Research

FX reserves position is much stronger

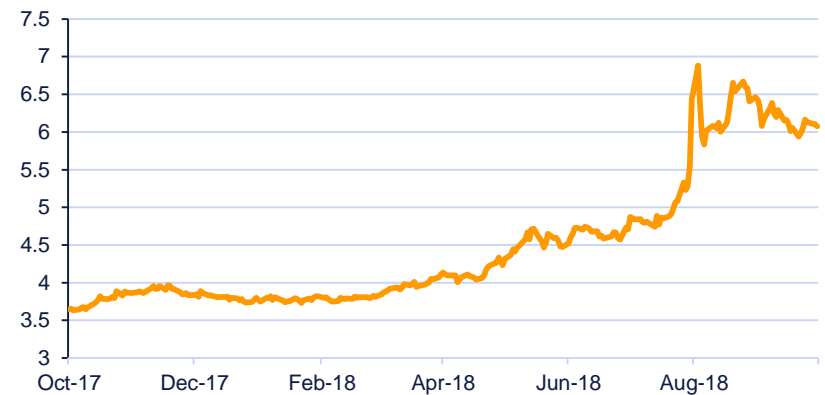


Source: Bloomberg, Emirates NBD Research

Highlights

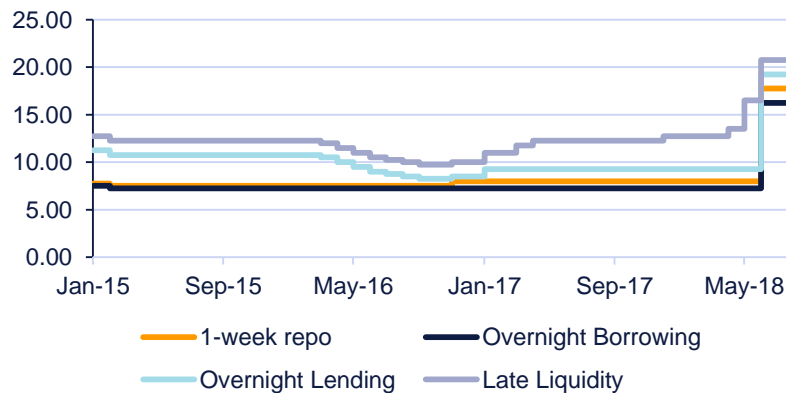
- A deterioration in relations between Turkey and the US has worsened Turkey's already precarious economic position. The tit-for-tat imposition of sanctions in the week starting August 5, as well a doubling of steel and aluminum tariffs by the US on Turkey, helped instigate a renewed sell-off of the Turkish lira.
- After surprising observers by holding rates at its July meeting, the Turkish central bank made a more decisive move in September, implementing a sizeable hike of 625 basis points. This was reassuring to investors, and saw the lira strengthen.
- The medium-term spending plan announced in September pledged to pause expenditure on major projects for which tenders have not yet been awarded.

USDTRY



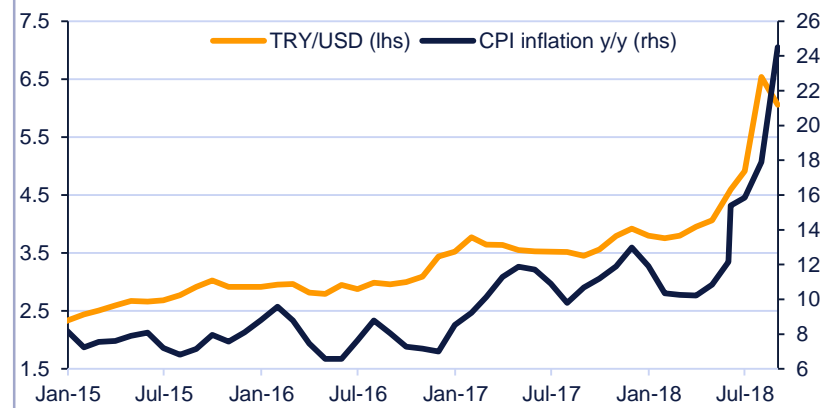
Source: Bloomberg, Emirates NBD Research

Emergency hikes to benchmark rates



Source: Bloomberg, Emirates NBD Research

Inflation ticking up



Source: Bloomberg, Emirates NBD Research

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- Dubai Economy Tracker



Dubai Q3 2017 GDP: Construction sector rebounds

Economic growth in Dubai accelerated to 3.2 percent in Q3 2017. The highlight in our view was a sharp recovery in the construction sector.

ECONOMICS, DUBAI - 13.03.2018

TRENDING ARTICLES

Dubai Q3 2017 GDP: Construction sector rebounds
13.03.2018

Dubai Economy Tracker: A strong February for the tourism sector
11.03.2018

US factory orders fell in January
07.03.2018



Dubai Economy Tracker: A strong February for the tourism sector

The headline Dubai Economy Tracker Index eased slightly to 55.8 in February, but still indicated a strong expansion in the non-oil private sector last month.

PMIS - 11.03.2018



Fears of a trade war loom

US President Donald Trump announced on Friday that he is planning to impose import tariffs on steel and aluminium this week, raising fears of a global trade war

ECONOMICS - 05.03.2018



US factory orders fell in January

Australian GDP grew in Q4 2017

ECONOMICS - 07.03.2018



Relative Value in Sukuk

Relative value in USD denominated sukuk included in the Markit iBoxx Emirates NBD USD Sukuk Index

MARKETS - 05.03.2018



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There are several factors which could cause actual results to differ materially from those expressed or implied in forward looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

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