

# Financial Markets Outlook

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# 2018 was a tough year

## Highlights

- Total return in 2018 was negative for 90% of all assets in USD terms and for 61% of assets in local currencies. This was against the backdrop of synchronized global growth. PMI surveys across key economies actual were in expansion territory i.e. above 50. The main reason for underperformance has been the withdrawal of the central bank stimulus and weakening future outlook.
- Strengthening dollar and higher U.S. rates caused capital to flow out of EM causing sell off in EM assets.
- Recent downgrade of 2019 global growth forecasts amid generally higher level of debt across EM/DM economies pose significant risks.

## Equity markets decline...



Source: Bloomberg, Emirates NBD Research

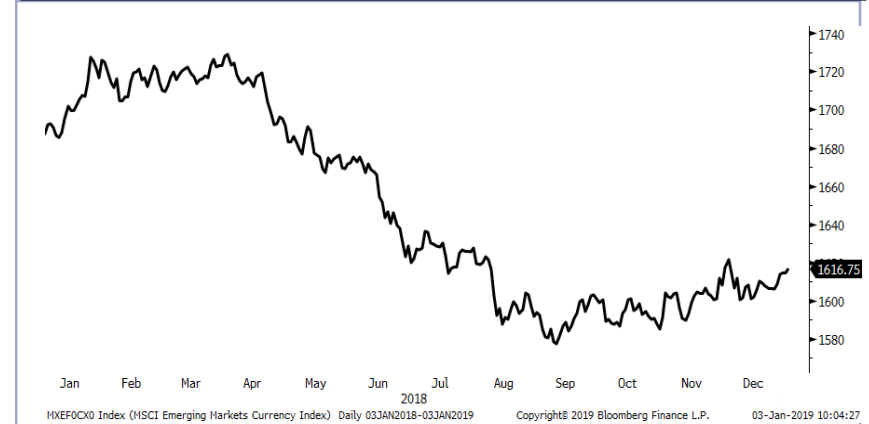
## ..while bonds tumble...



US Corp bond index and EM USD agg bond index

Source: Bloomberg, Emirates NBD Research

## ..and currencies weaken (MSCI EM Currencies index)

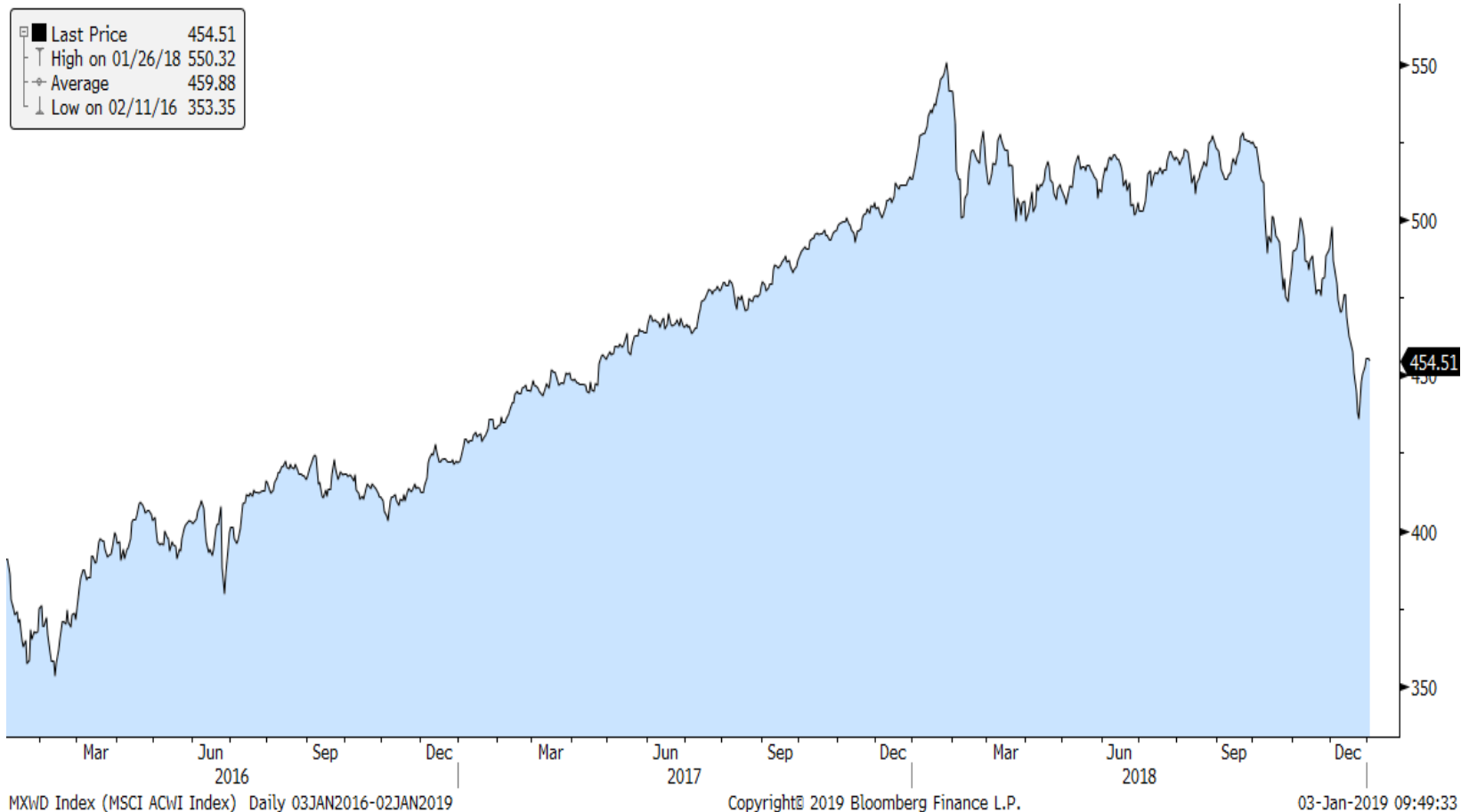


Source: Bloomberg, Emirates NBD Research

## 2018 was a tough year

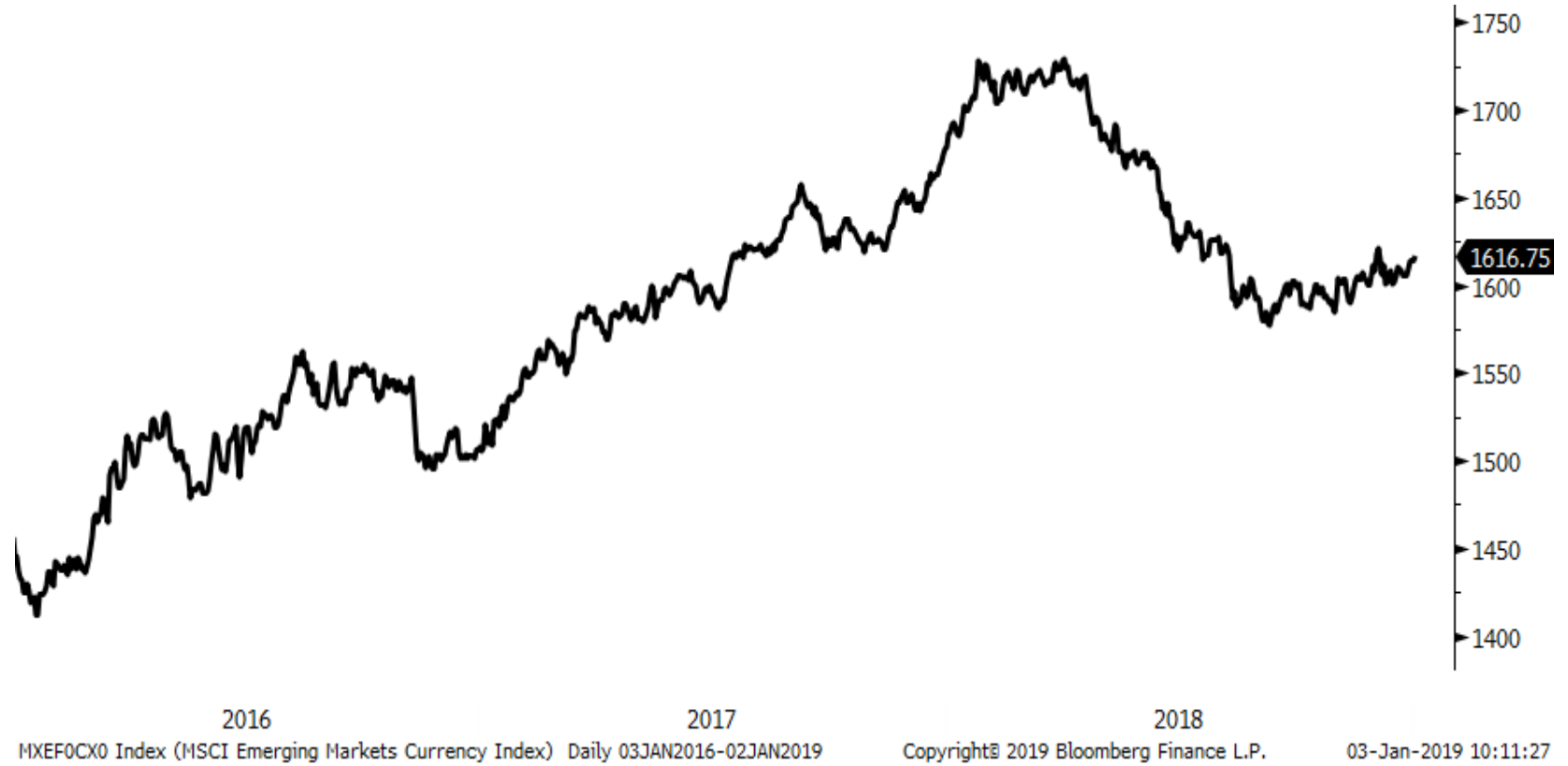
	2015	2016	2017	2018
Global Equities	-1.80%	8.53%	24.65%	-9.54%
DM Equities	-0.28%	1.59%	25.70%	-13.71%
EM Equities	-14.60%	11.74%	37.79%	-14.69%
FM Equities	-14.78%	2.66%	31.83%	-16.80%
MENA Equities	-17.38%	4.39%	0.77%	5.46%
Dev Sov Bonds*	1.28%	2.63%	1.07%	1.08%
Treasuries*	0.85%	1.03%	2.31%	0.65%
Global High Yield	-2.72%	14.27%	10.43%	-4.17%
GCC Credit	0.80%	4.56%	5.22%	0.20%
Commodities	-24.66%	11.77%	1.70%	-10.25%
Gold*	-10.20%	8.56%	13.09%	-1.65%
Oil (Brent)*	-34.97%	52.41%	17.69%	-21.94%
Global REITs	0.70%	6.51%	7.98%	-5.14%
Hedge Funds	0.61%	3.59%	9.73%	2.79%

# But...Putting it in perspective...



MSCI all countries Index

# But....Putting it in perspective



MSCI EM currencies index

# But....putting it in perspective



EM USD Aggregate bond index and US Corp bond index

### Key risks

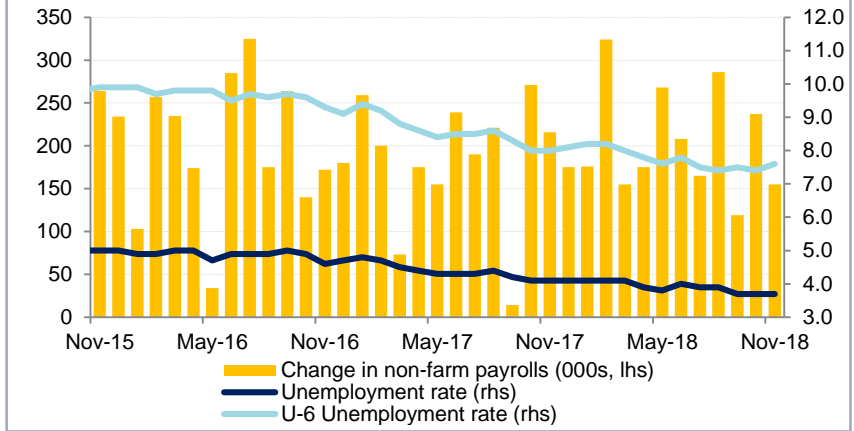
- The US rate hikes to continue
- Uncertain outcome of the trade talks
- China growth slowing
- Italy Budget standoff
- Brexit
- Oil prices
- Geopolitics

# US rate hikes to continue, but doubts about extent grow

## 2019 to end with two rate hikes

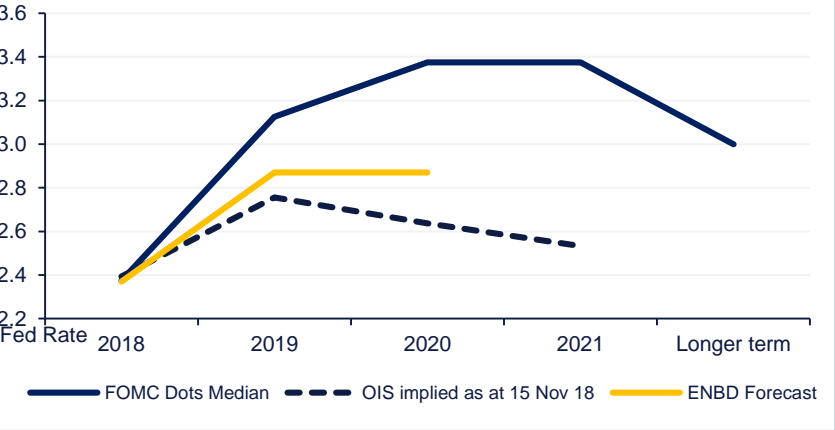
- Impact of gradual monetary tightening and ongoing trade tensions are expected to be counterbalanced by the lagged effect of the US fiscal stimulus.
- The US economy is expected to grow at a slower pace in 2019 than in 2018. If all currently discussed tariffs were to be imposed, it will probably knock 0.7% off the US growth.
- Core inflation remained steady at around 2.2% YoY in October.
- Fed appears committed to tightening in 2019, but markets remain unconvinced. The market is barely pricing one rate hike between now and end of next year with a possible cut in 2020. This is now less than our baseline forecast for 2 hikes in 2019.

## U.S. job growth slows in November



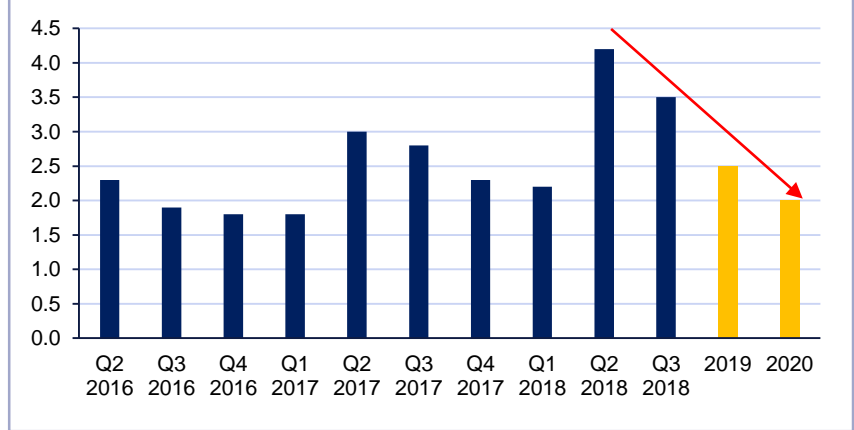
Source: The Fed, Emirates NBD Research

## Market diverging away from the Fed



Source: Bloomberg, Emirates NBD Research

## U.S. growth to slow to trend in 2019-2020



Source: Bloomberg, Emirates NBD Research



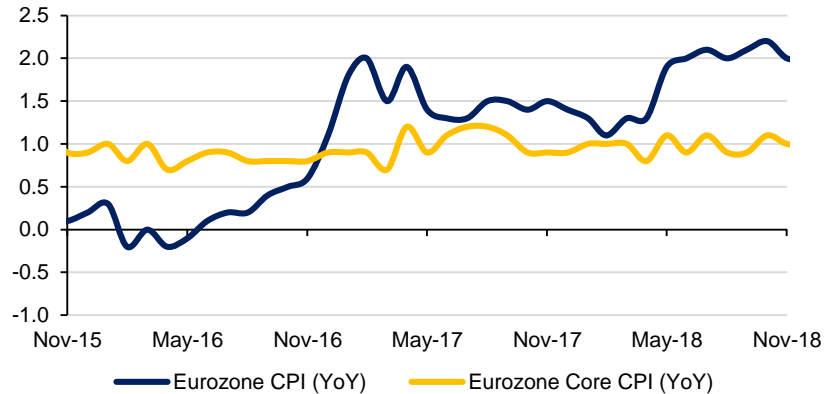
**TABLE 1:****2-10s Yield Curve Inversions and Subsequent Bear Markets:  
(Dec. 1965 – Nov. 2018)**

<b>Date of Initial Inversion</b>	<b>Date of Subsequent Bear Market</b>	<b># of Months from Inversion to Bear Market</b>
Dec-65	Feb-66	1
Feb-67	Nov-68	20
Sep-78	Nov-80	25
Jan-89	Jul-90	17
Jun-98	Mar-00	20
Feb-06	Oct-07	19
		<hr/>
		<b>17 (Average)</b>

## Highlights

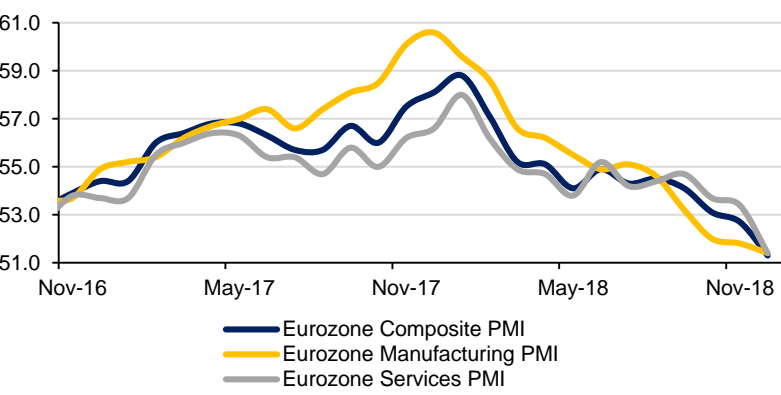
- The ECB formally ended its \$3 trillion asset purchase program last week. However, markets are questioning whether the program was effective and if more is needed. These views have been supported by economic data released showing that growth, PMI's and investor confidence are in fact lower than when the program began in 2015.
- Brexit woes will remain at the center stage over the next quarter after PM May delayed the vote on her exit deal. Brexit is due to take place on 29<sup>th</sup> March.
- Parliament unlikely to pass the Brexit deal in its current form, May will need further concessions from the EU, in order to win the necessary support Parliament but these look doubtful.
- In extremis a second Brexit referendum cannot be ruled out.

## Eurozone core inflation still low



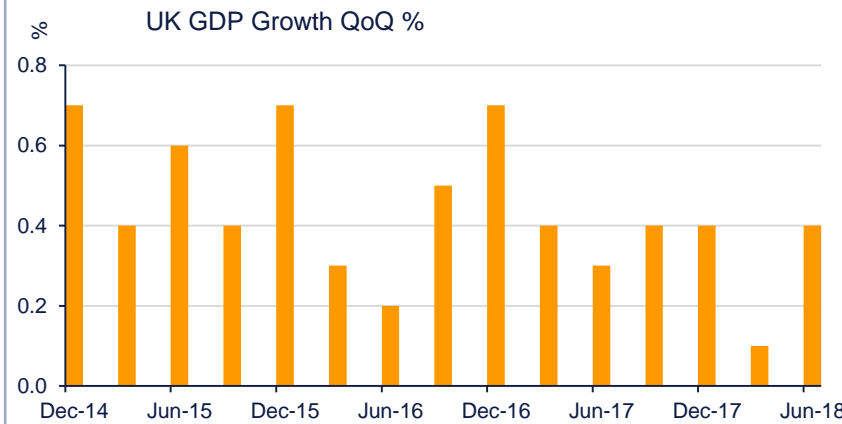
Source: Bloomberg, Emirates NBD Research

## Trade concerns weigh on sentiment



Source: Bloomberg, Emirates NBD Research

## U.K. growth unlikely to be sustained



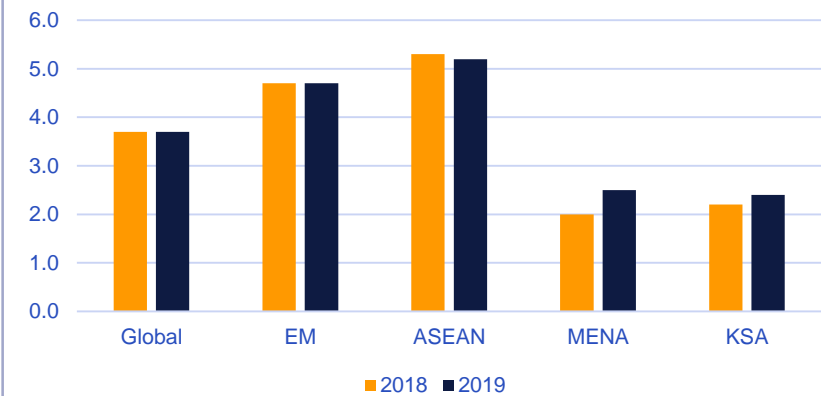
Source: Bloomberg, Emirates NBD Research

# Global picture mixed

## Highlights

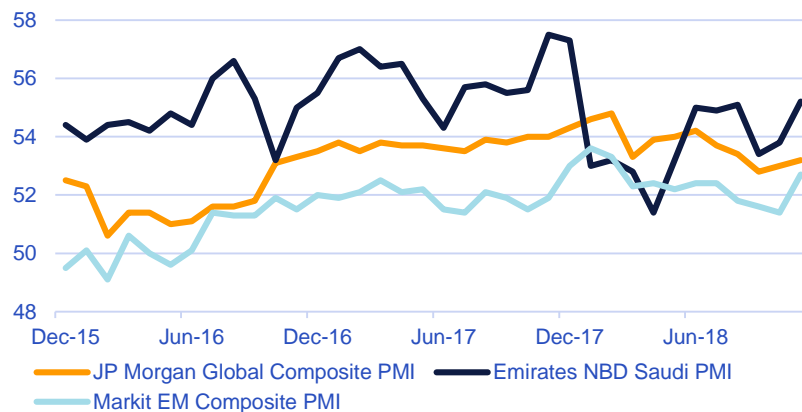
- Notwithstanding the current concern over global economic growth, the IMF in its latest outlook expects global economy to grow at 3.7% in 2019.
- It is also worth noting that the PMI surveys across key economies continues to remain in expansion territory i.e. above 50.
- Having said that, the IMF did highlight that if the trade war persists then it could take a significant bite out of global growth with **output possibly falling by as much as 0.8% in 2020 and remain 0.4% below its trend line growth** over the long-term.
- The recent rise in cross-asset volatility is partly on account of those concerns over trade. However, they are still off the highs seen earlier in 2018.

## Growth expected to remain steady in 2019



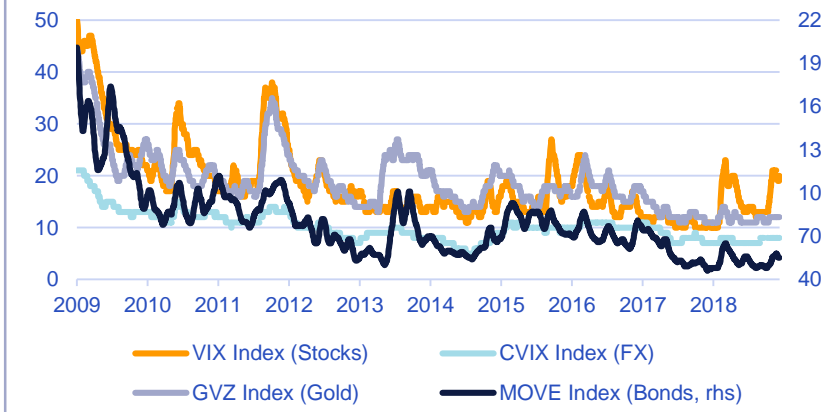
Source: IMF, Emirates NBD Research

## PMIs still in expansionary territory



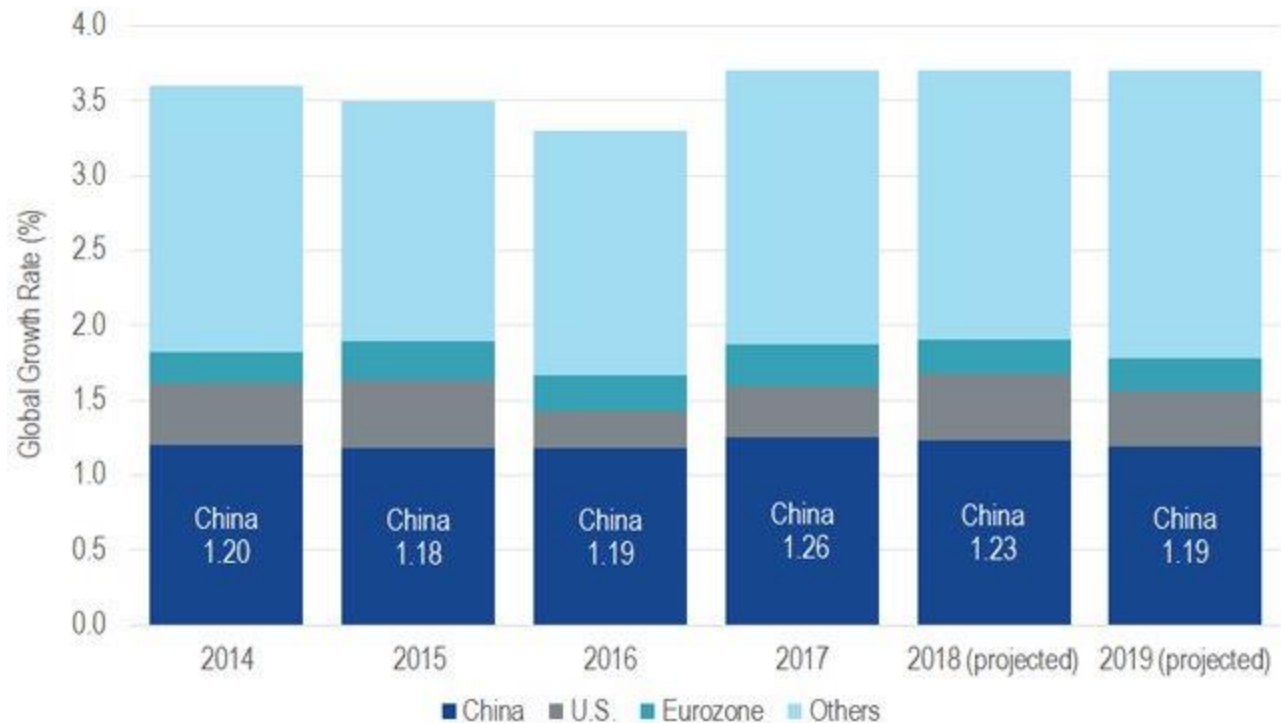
Source: Bloomberg, Emirates NBD Research

## Cross asset volatility still has room to run



Source: Bloomberg, Emirates NBD Research

# China is the biggest single contributor to the global growth.

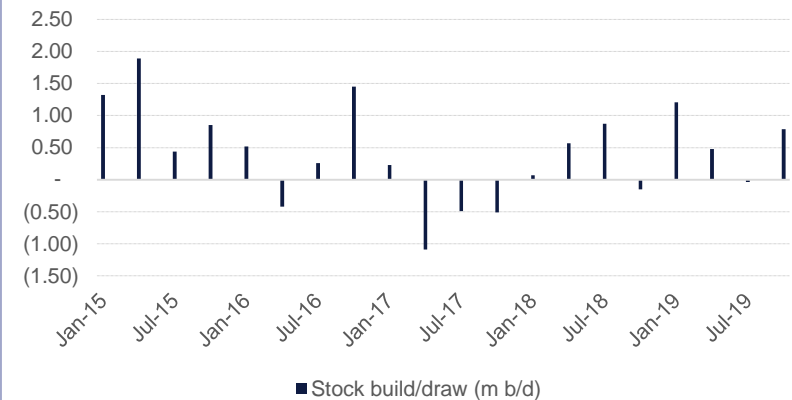


# OPEC decision not enough to push oil prices back to 2018 highs

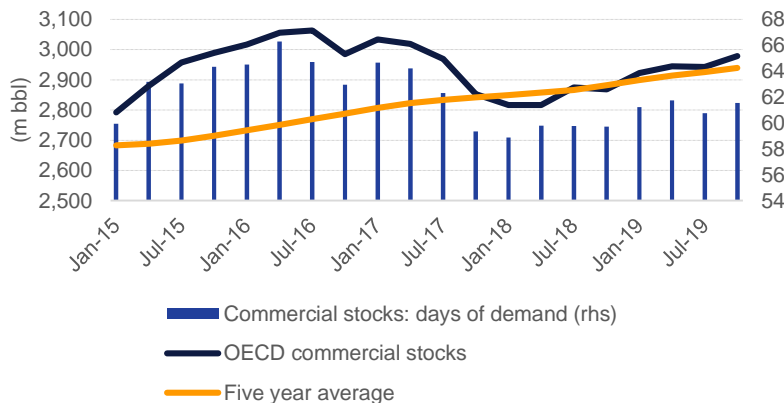
## Highlights

- OPEC production cuts will help to stabilize market but aren't enough to prevent a market surplus or send prices back up to 2018 highs
- Waivers on Iran's crude exports are temporary but have removed some of the supply risks market had grown anxious about earlier this year
- US crude production continues to hit new record levels
- Demand conditions are weakening on the back of trade disputes and availability of oil (refiners losing money and will cut back on purchases)
- Inventory builds will become a worry by end of 2019

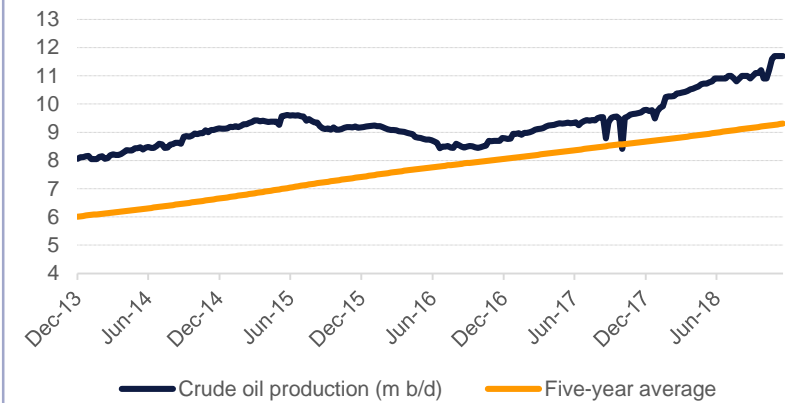
## Market to push back see big surplus in Q1



## Oil inventories are creeping higher again



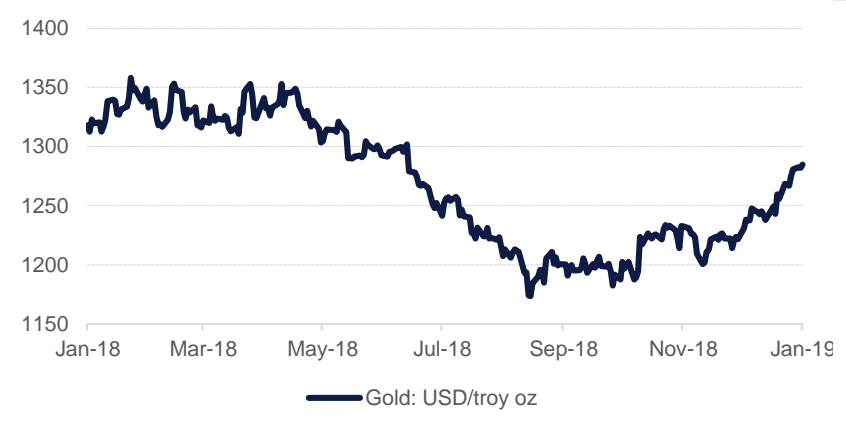
## US production is a one way bet



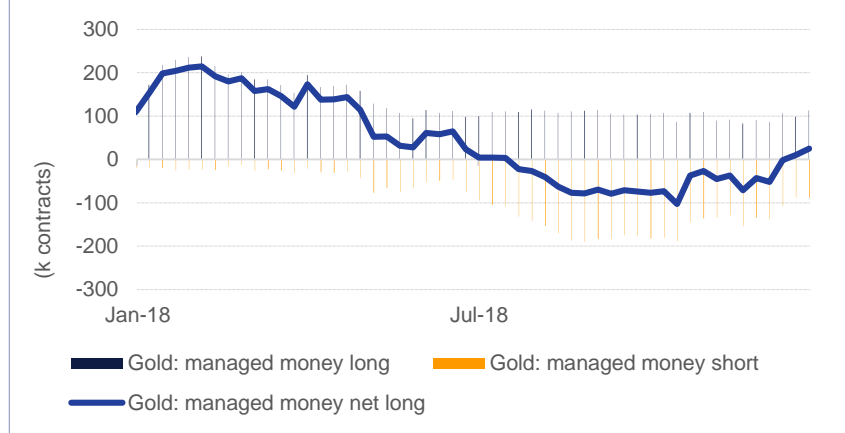
## Gold prices are benefitting from an uncertain economic outlook in 2019 with growth set to slow in major economies.

- Gold prices are benefitting from an uncertain economic outlook in 2019 with growth set to slow in major economies.
- Geopolitical risks appear high to start the year, also helping to support gold after years of underperformance.
- Investors had largely moved away from precious metals, risking a short-covering rally if positive momentum carries forward.
- Even with rising rates gold can perform well. Rising inflation expectations exert more of an influence on gold (in the long run, gold and rates tend to move in the same direction as supposed inflation hedges).

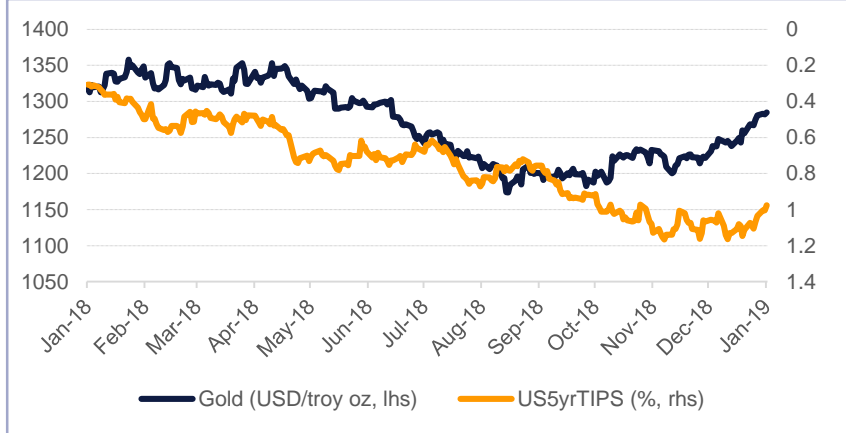
## Gold prices recovering on haven bids...



## ...while positioning can prompt short-covering rallies



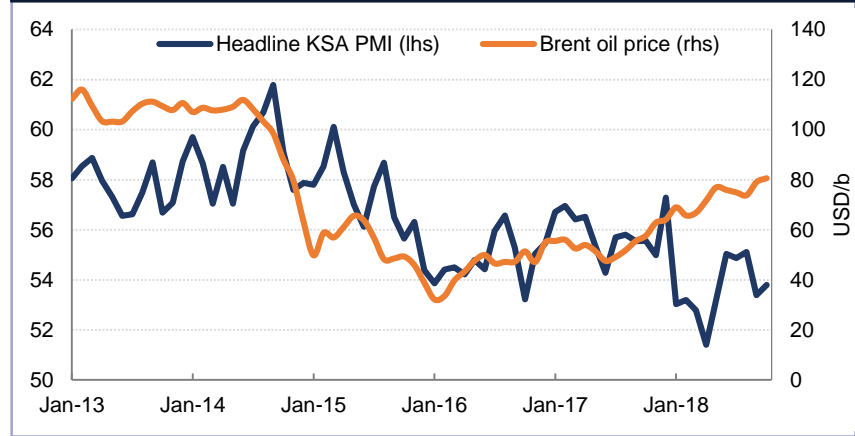
## Inflation expectations, more than rates, can keep a bid under gold



## Highlights

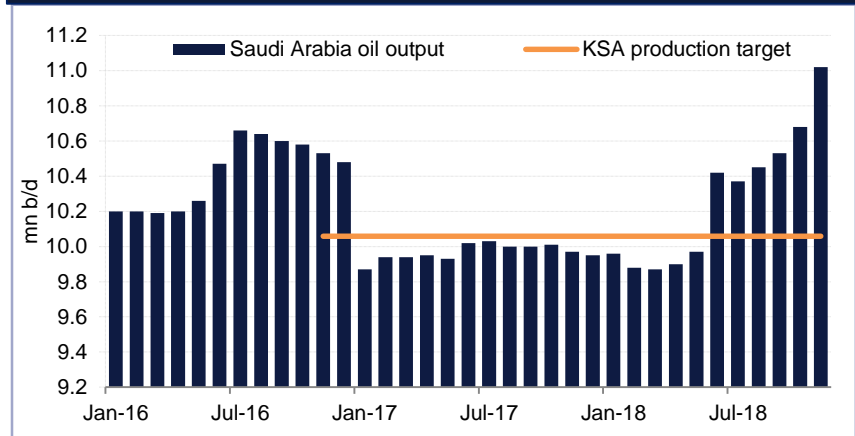
- Oil production surged to over 11mn b/d in November. It should remain well above 10mn bpd in December and January but production will be wound down somewhat after that following the agreement reached at the OPEC/Non-OPEC meeting in December to limit volumes once more. OPEC will cut by 800,000 bpd, with Saudi Arabia likely to play a leading role in this.
- Oil production has increased around 2.5% in 2018 relative to average 2017 production, and this is in line with our estimate for oil sector growth. Non oil sector growth averaged 1.8% in H1 2018, in line with our estimate for annual non-oil sector growth.
- We retain our 2% headline GDP growth forecast for the Kingdom this year, rising to 2.4% in 2019.

## Saudi PMI: higher oil prices not feeding through to non-oil sector activity

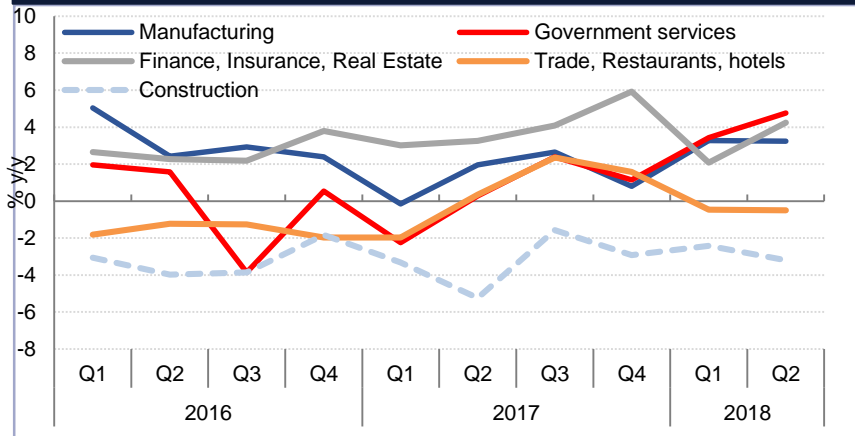


\* Investment flows = sum of net FDI, net FPI, net other investments

## Oil production to stay above 10mn b/d in Dec



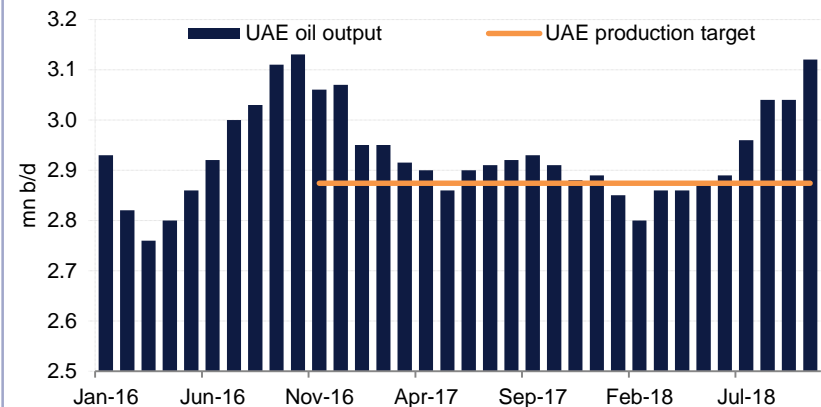
## Govt. spending boosts non-oil sector growth in Q2



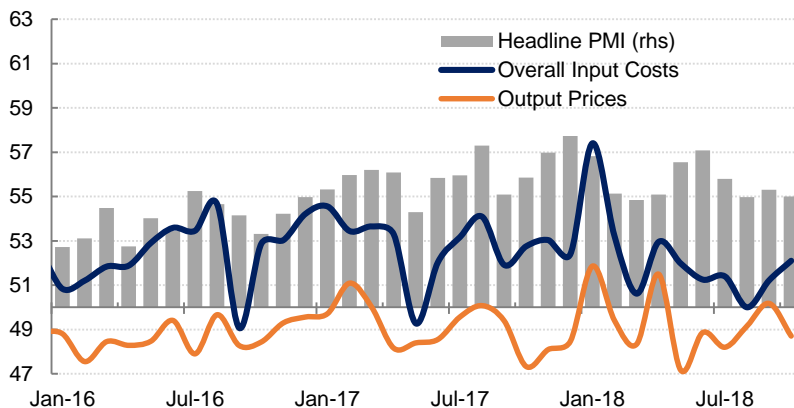
## Highlights

- Oil production has increased sharply since June, and should help to offset softer than anticipated non-oil sector growth this year
- The UAE government has announced higher spending in 2018, as higher oil prices have provided more room for fiscal stimulus. However, pass-through to the private sector appears may be less than in previous years.
- Inflation has increased, employment growth has slowed and private consumption remains weak.
- Private sector firms find margins increasingly under pressure in a competitive environment.

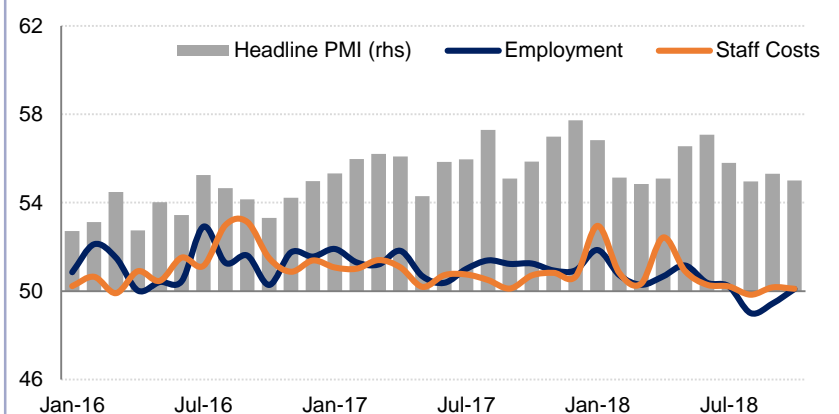
## UAE oil production and OPEC target



## PMI survey data show margins under pressure



## PMI components: Employment and wages

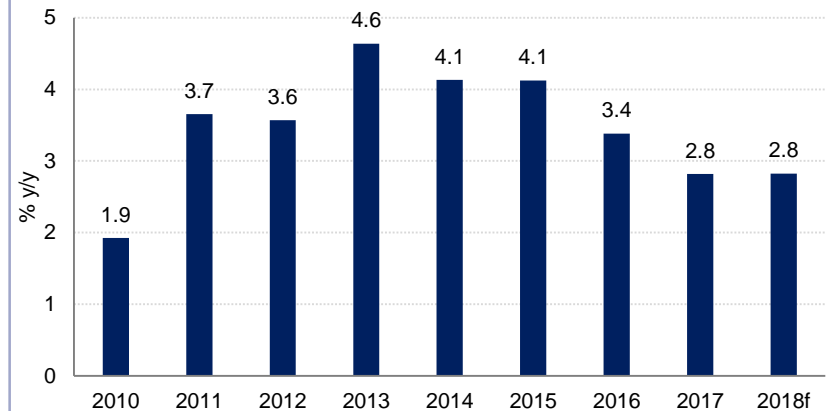




## Highlights

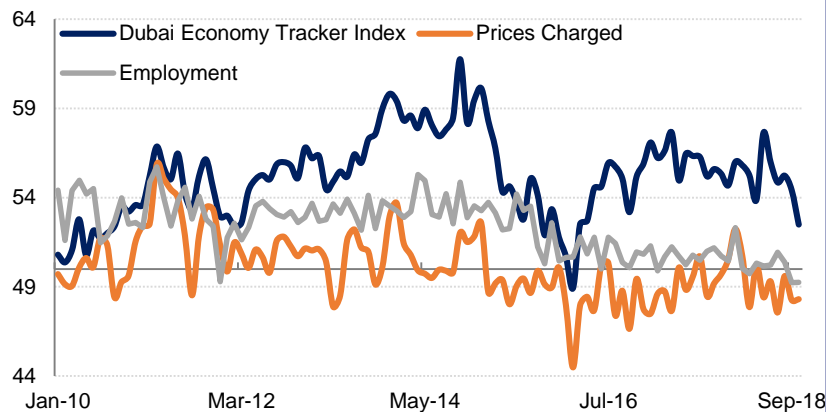
- The biggest sector of Dubai's economy is wholesale & retail trade, which accounts for more than a quarter of total GDP, but grew less than 1% in 2016 and 2017, sharply slower than in the prior 5 years.
- Biggest contributors to GDP growth in 2017 were real estate services (0.5pp), transport & storage (0.5pp of 2.8%), followed by hotels & restaurants (0.4pp). Construction added another 0.2pp as did manufacturing.
- Expo 2020 has underpinned Dubai's GDP growth over the last few years, as infrastructure projects have continued regardless of oil price.

## GDP growth has slowed



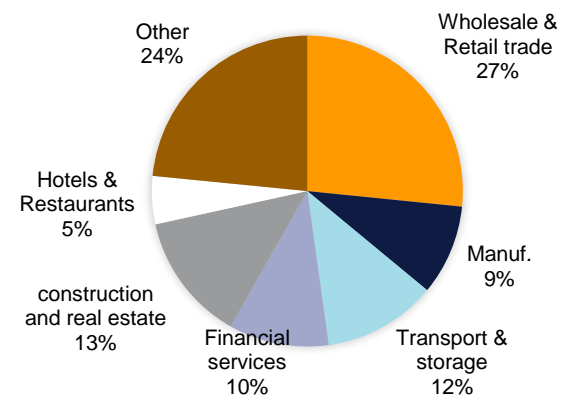
Source: Emirates NBD Research

## Dubai Economy Tracker softer in October



Source: Bloomberg, Emirates NBD Research

## Dubai: Key sectors

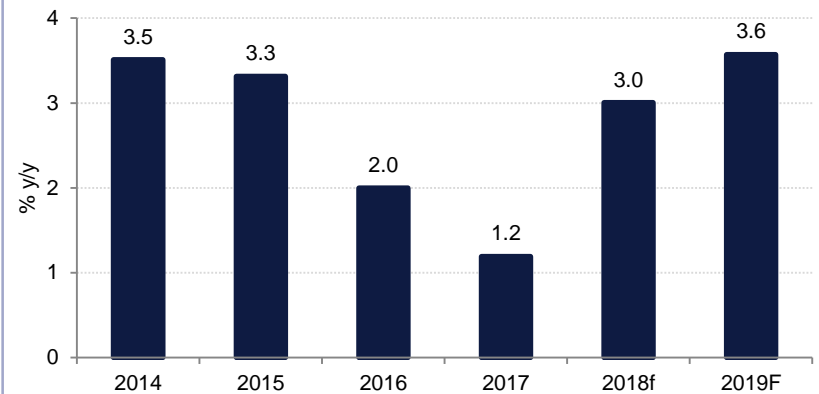


Source: Bloomberg, Emirates NBD Research

## Highlights

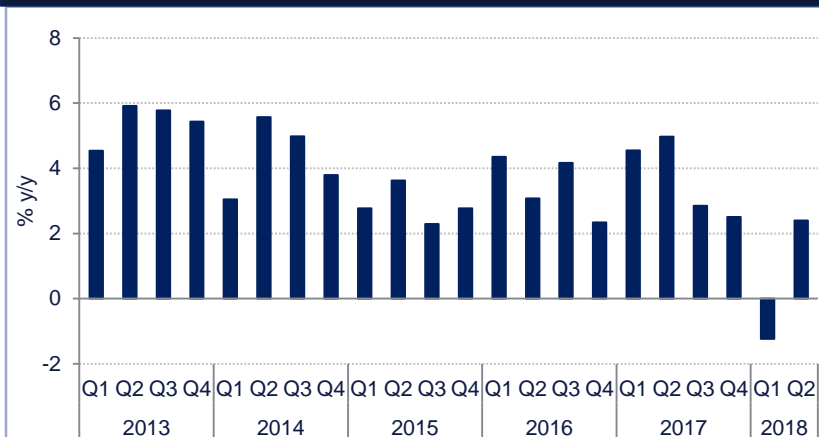
- Qatar is investing heavily in LNG capacity. Infrastructure investment to underpin GDP growth over the next few years. Manufacturing sector has benefitted from sanctions. Private sector credit growth remains robust at around 10% y/y
- GCC financial support package for Bahrain in place, to support fiscal reforms. VAT to be introduced in 2019, likely to have more exemptions than UAE/ KSA.
- 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



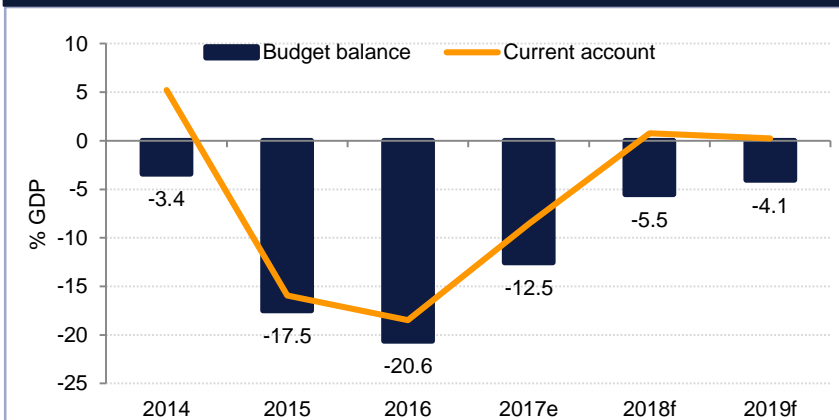
Source: Haver Analytics, Emirates NBD Research

## Bahrain's growth to slow this year



Source: Haver Analytics, Emirates NBD Research

## Oman: Fiscal strains set to ease

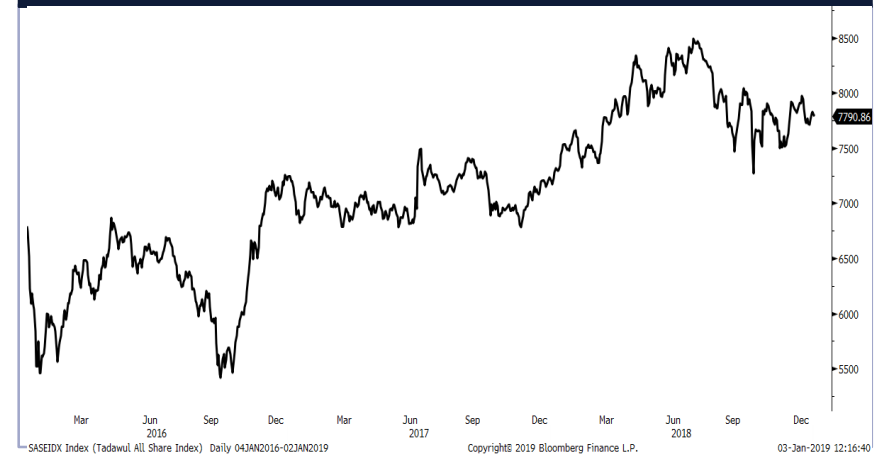


Source: Haver Analytics, Emirates NBD Research

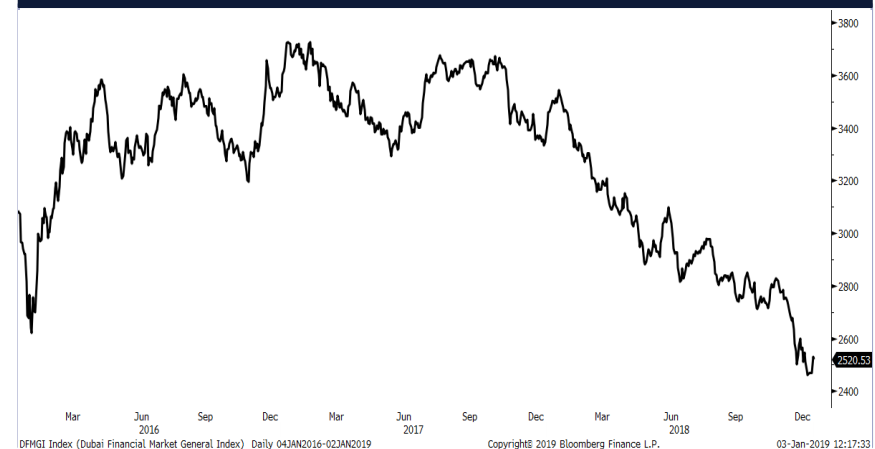
## Highlights

- **GCC equities are expected to stage range-bound performance.**
- **KSA equities will continue to benefit from inclusion in the MSCI EM index.**
- **Also high percentage of banking sector shares in Tadawul will assist in better performance as banks benefit from rising interest rates.**
- **Kuwait also expected to benefit from inclusion in the MSCI Frontier Markets**
- **Dubai index has suffered due to higher exposure to real estate names – a sector that has lately been under pressure.**

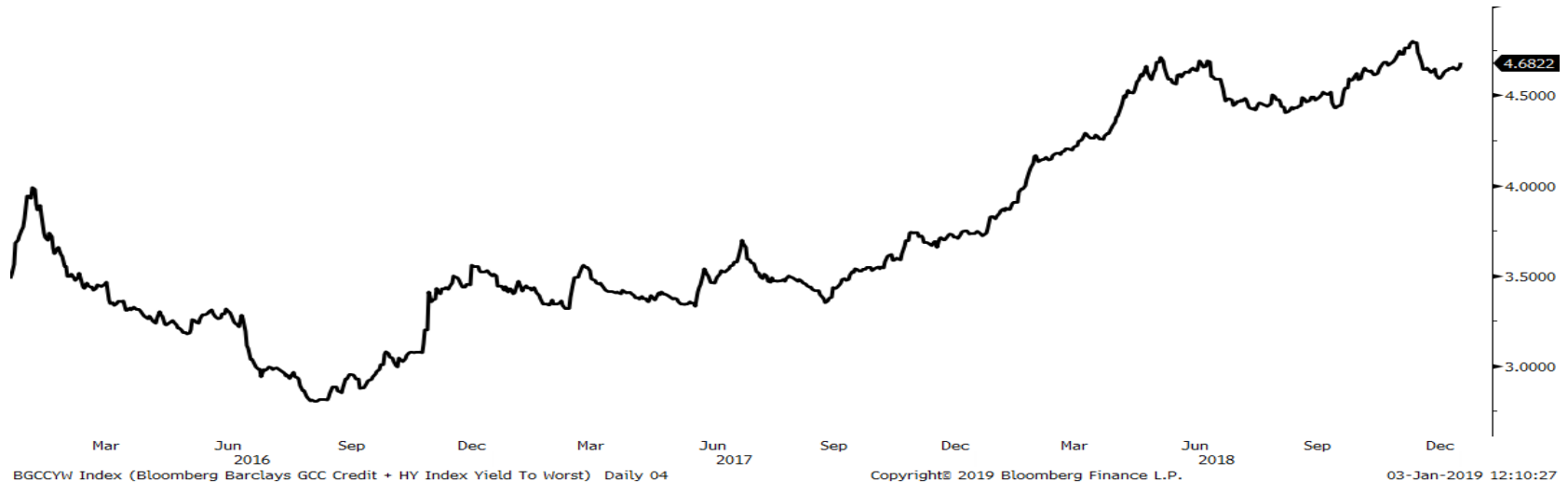
## Tadawul : likely to outperform



## DFMGI: Range-bound



# GCC Bonds – positive returns expected



Barclays Bloomberg GCC bond index – Yield %

## **GCC Bonds to remain in positive territory, supported by:**

- **Inclusion in the JP Morgan EMBI index**
- **Range-bound oil prices**
- **Improving geopolitical situation**
- **Reducing new supply**
- **Healthy credit ratings**

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## 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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