

Marine International Insurance Conference 2018

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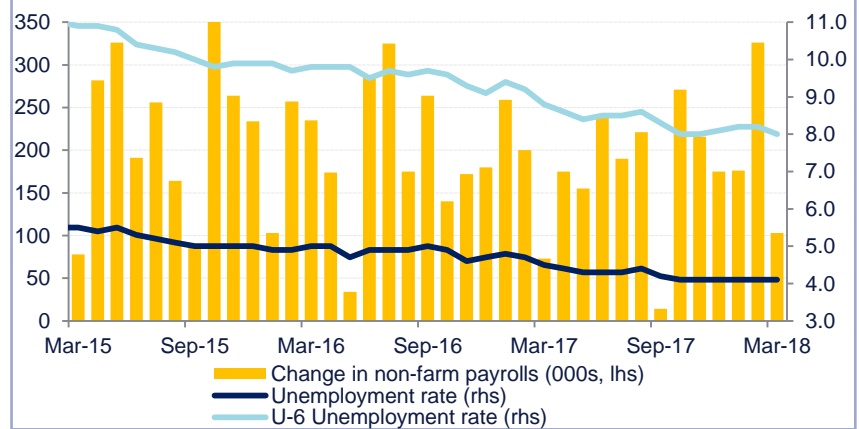


Global Outlook

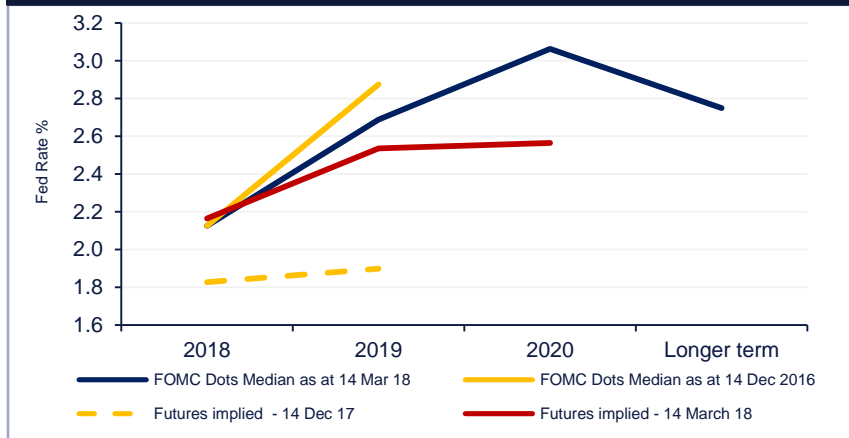
Three rate hikes still projected in 2018

- Economic data continues to attest to the strength of the US economy. Despite job growth in March being softer than expected (103k new jobs compared with expectations for 193k), unemployment remained unchanged at 4.1 %.
- Wages also rose, with average hourly earnings growth accelerating to 0.3% m/m (2.7% y/y) from 0.1% m/m (2.6% y/y) in February.
- CPI also rose in March on a headline and core basis.
- Futures implied probability of number of rate hikes this year has increased from under three to more than three, thereby exceeding Fed's dot plot projection.

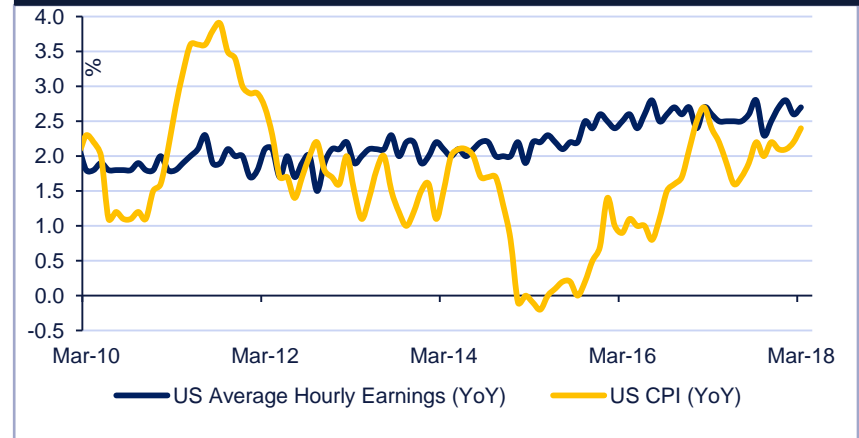
US employment remains firm



Mkt converging with Fed's dot plot



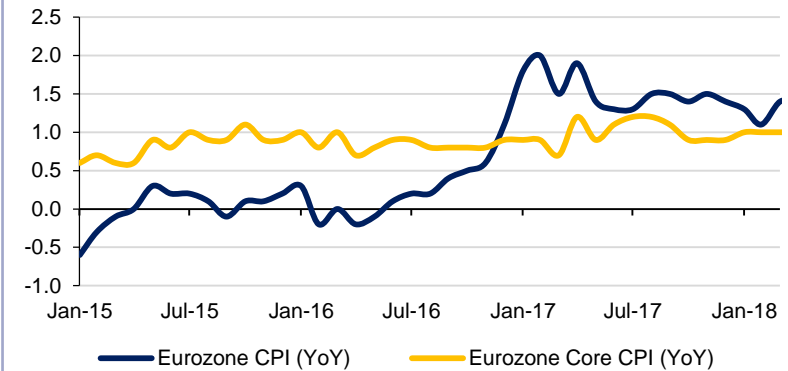
While wage growth remains supportive



Highlights

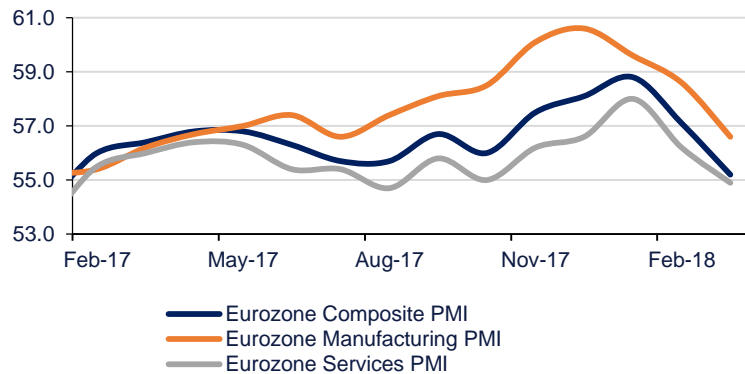
- The ECB removed the 'easing' bias from its monetary policy statement last month while maintaining asset purchase at EUR30bn per month until September, and possibly beyond that, depending on inflation data.
- Eurozone inflation surprised positively in March, rising to 1.4% on a headline basis, although the core rate was steady at 1.0%.
- Activity data in Eurozone has also lost some momentum, possibly related to the strong EUR.
- Market implied probability now implies 80.% chance of a UK rate hike in May, with expectations for two hikes in 2018 becoming more widespread.

Eurozone inflation accelerates in March



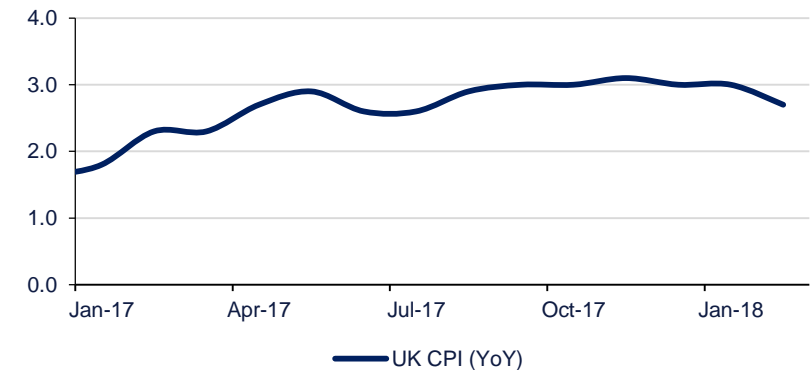
Source: Bloomberg, Emirates NBD Research

Eurozone PMIs weighed by stronger EUR



Source: Bloomberg, Emirates NBD Research

UK inflation remains above 2% target



Source: Bloomberg, Emirates NBD Research

Highlights

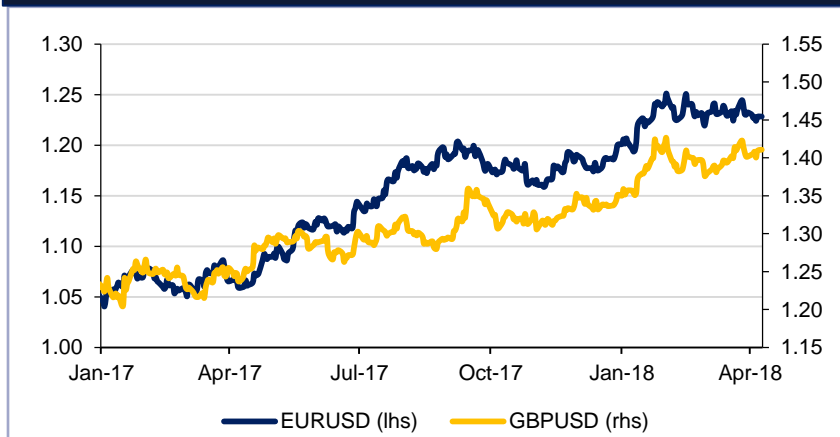
- Usual correlation between currencies and rate differentials appears to be breaking down.
- Global recovery makes dollar less attractive as other currencies start to benefit from early stages of tightening cycles.
- Twin fiscal and current account deficits a source of pressure, especially after large US fiscal stimulus announced.
- Trade protectionism adds to investor anxiety, especially the perception of a preference for a weak USD.
- White House turmoil does not help either, a risk that is only likely to mount over 2018.

Dollar remains under pressure



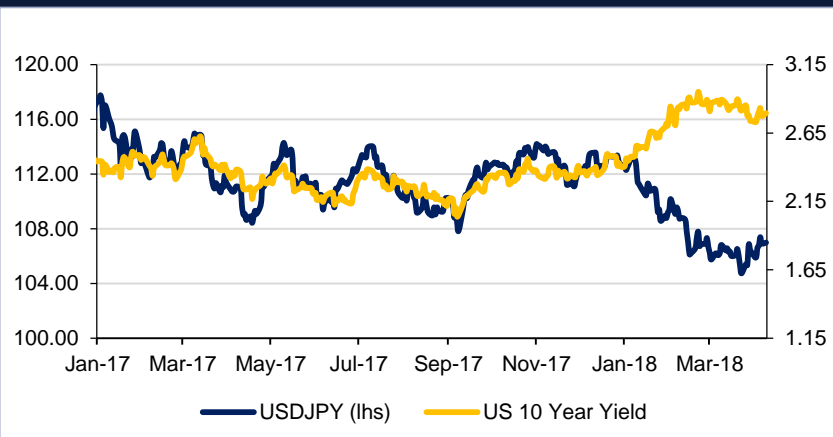
Source: Bloomberg, Emirates NBD Research

EURUSD and GBPUSD continue to rise



Source: Bloomberg, Emirates NBD Research

USDJPY decoupled from 10 year yield



Source: Bloomberg, Emirates NBD Research

- **Trump Presidency**
 - Tax reform passed, but legislative agenda in 2018 is light
 - Protectionism may be the main theme going into mid-terms
 - Will the new White House staff bring in new policy changes, Bolton, Kudlow?
 - Powell replaced Yellen but more vacancies yet to be filled on the FOMC
 - Russia investigation, Mid-term elections....impeachment?
- **Europe risks have not gone away**
 - Brexit countdown with deadline a year away
 - Italy elections inconclusive
 - EU skepticism remains
 - France facing labor market unrest over key reforms
- **Geopolitical risks mounting**
 - Saudi Arabia needs to see implementation of reforms
 - Iran – US deadline over sanctions waiver approaches
 - Yemen war shows no sign of abating
 - Qatar stand-off continues
 - Syria the proxy for regional power struggle

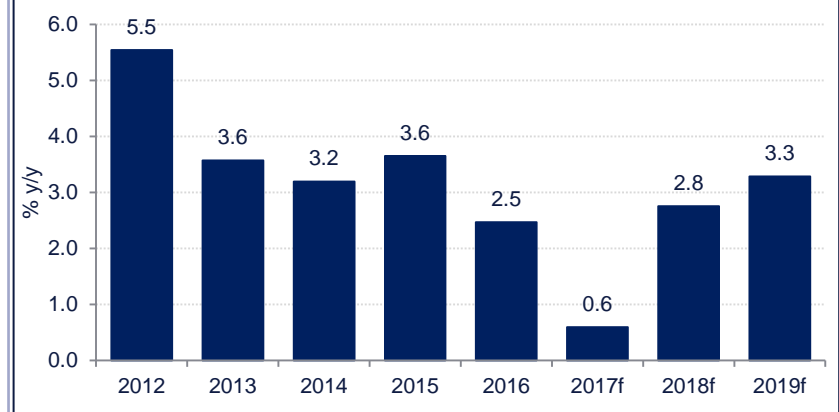
Regional Economic Perspective

GCC: Is the worst behind us?

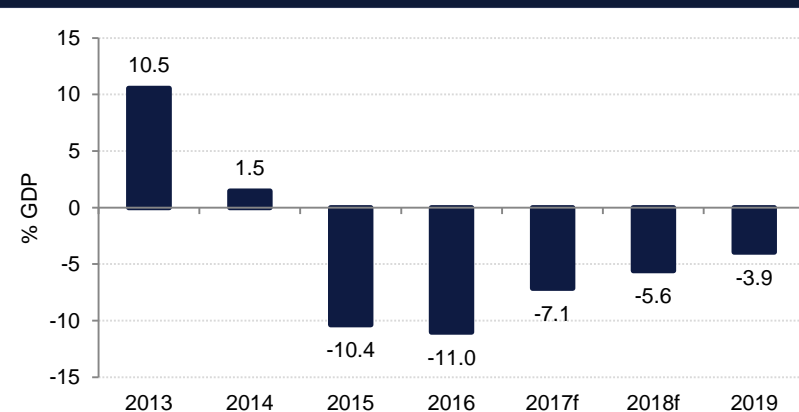
Highlights

- 2016 and 2017 have been challenging on a number of fronts for the GCC. Lower oil prices forced fiscal reform across the region to varying degrees
- Oil production cuts pushed some countries into recession last year
- Non-oil sector growth slowed, businesses forced to become more efficient and productive. Strong growth in output and new work largely due to selling price cuts, no employment or wage growth
- Households under strain from higher living costs as well

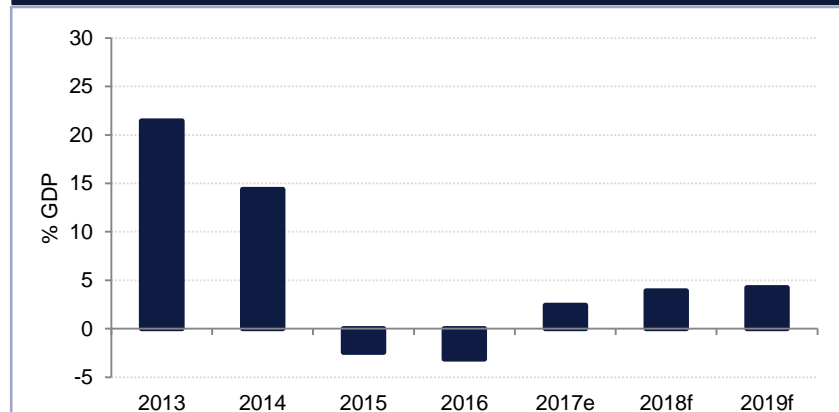
Average GCC GDP growth



Average GCC budget balance



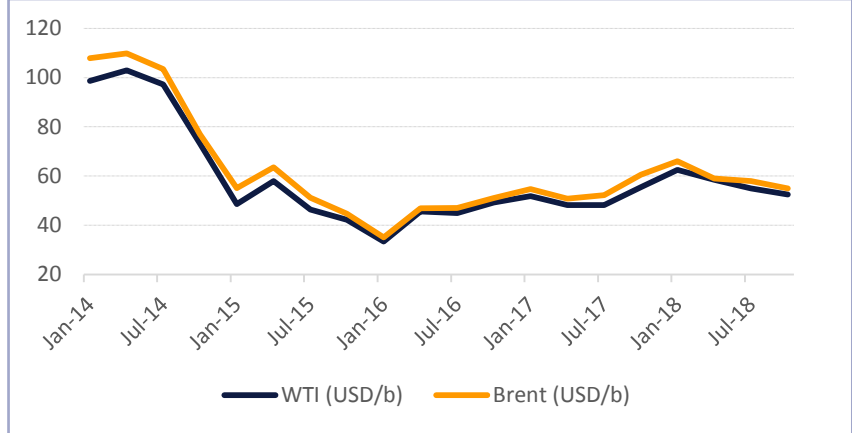
Average GCC current account balance



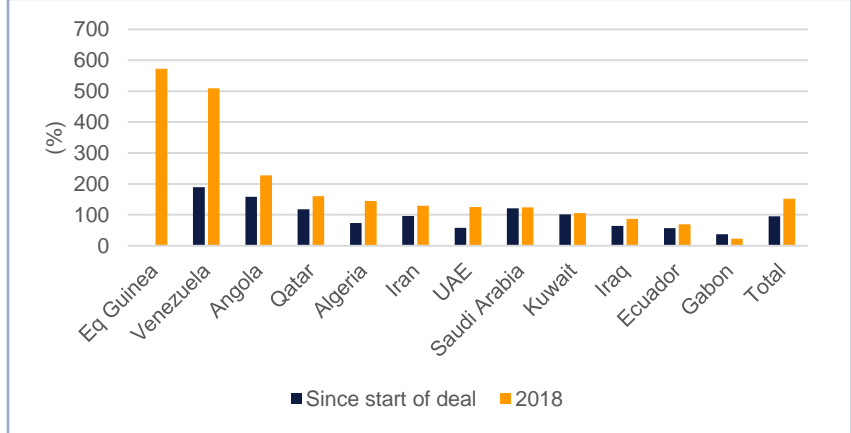
Highlights

- Brent futures will average around USD 60/b in 2018 although in the near term upside risks are emerging.
- OPEC flows have been lower than expected so far in 2018 thanks to strong levels of compliance. But most of the decrease is thanks to 'involuntary compliance' from Venezuela where production is in freefall. Further declines and risk of US sanctions could see a large drop in volumes from the producer.
- Risk of US sanctions being re-imposed on Iran have increased following more hawkish appointments to US cabinet (Pompeo, Bolton).
- Logistical constraints in the US (lack of export channels, drilling rig crews, equipment) could put brakes on rapid expected growth in US output.
- Escalation of trade war rhetoric is a major downside risk in near term

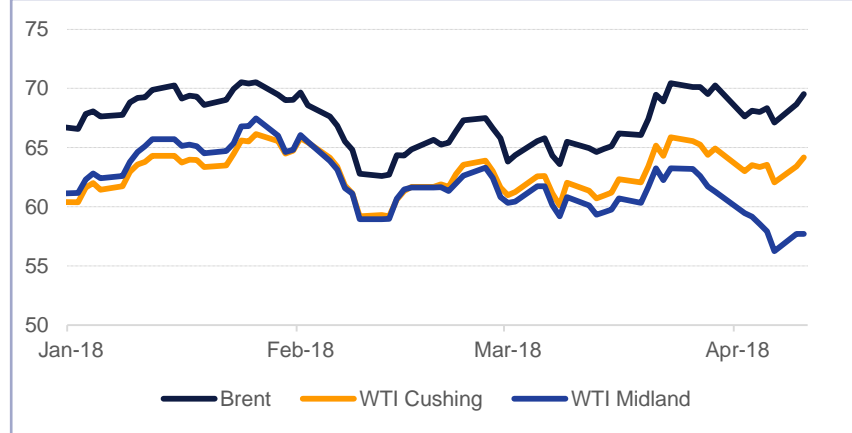
Oil price assumptions



OPEC compliance is improving



Physical prices in US suffering as output increasing while export routes are at capacity

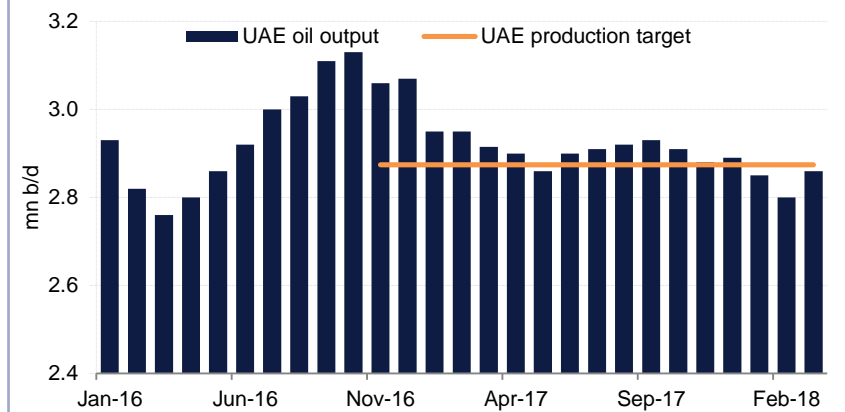


Source: EIKON, IEA, Emirates NBD Research. Note: WTI Midland prices reflect physical crude prices at point of production in Permian basin.

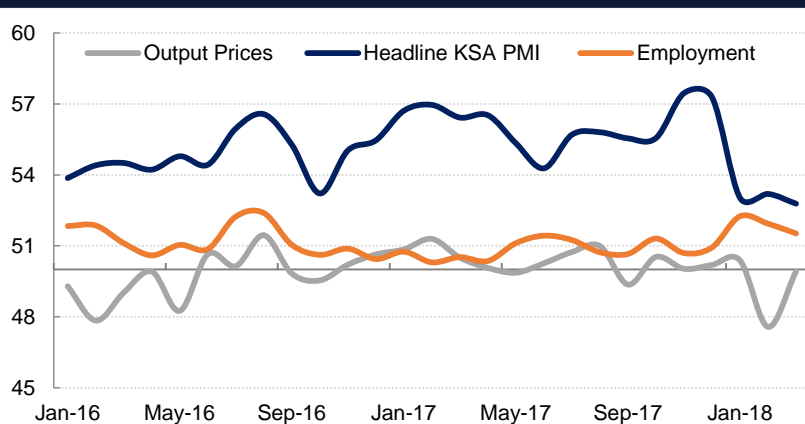
Highlights

- While some weakness in January PMIs was expected due to the introduction of VAT, the data through March has remained soft, particularly in Saudi Arabia. This suggests that non-oil sector growth, while positive, has been slow to respond to fiscal stimulus and higher oil prices than we had forecast.
- Oil production in Saudi Arabia remains well below their OPEC targets at the end of Q1 2018. Reports suggest that Saudi Arabia is targeting an oil price of USD 80/b, which means compliance with OPEC limits could remain higher for longer. We had assumed increased oil production in 2018 as a key factor in our growth projections. Strong compliance with production limits is thus a downside risk to our growth forecasts for the UAE and KSA.

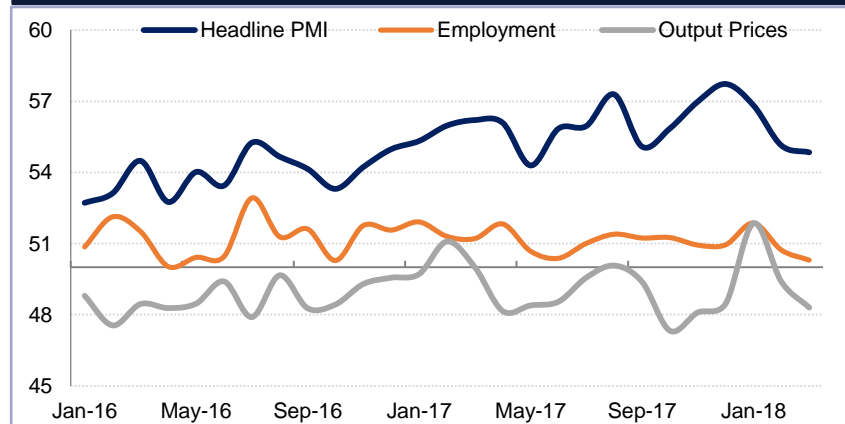
UAE oil production and OPEC target



Saudi PMI components



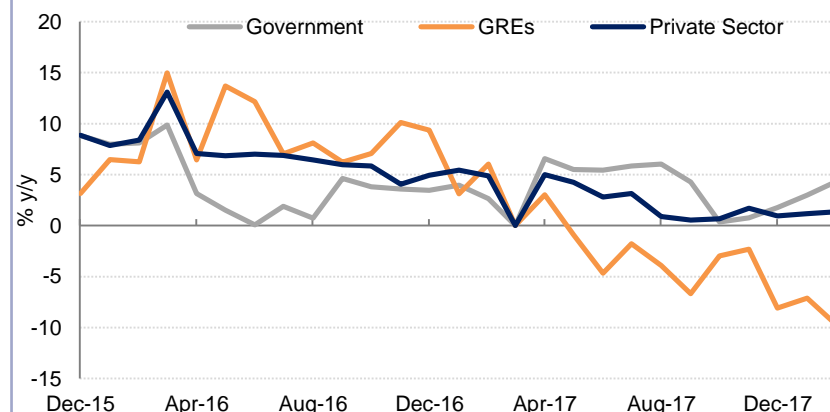
UAE PMI components



Highlights

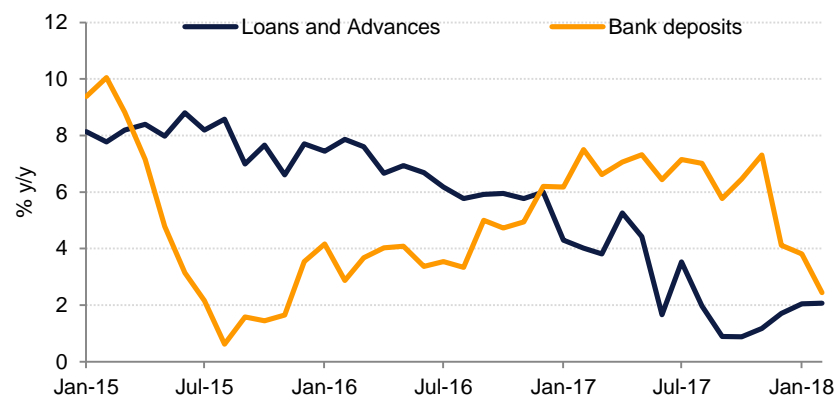
- Bank deposits declined –AED 7.1bn since December 2017 (to end February). Both residents' and non-residents' fell. Among residents, lower corporate and government deposits were partially offset by higher GRE and individuals' deposits.
- Private sector credit growth has accelerated in Jan-Feb 2018 but remains relatively low. Loans to government have grown faster than loans to private sector so far in 2018.
- Government deposits have declined while borrowing has increased. GRE borrowing has declined and deposits increased.

UAE bank loan growth by creditor



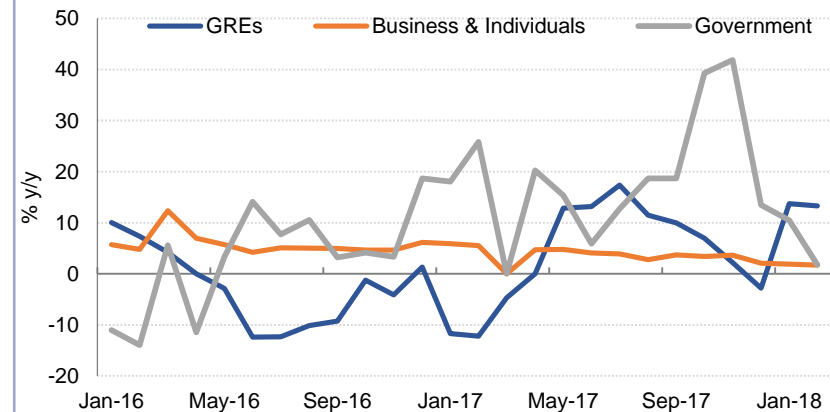
Source: Haver Analytics, Emirates NBD Research

Bank deposit and loan growth



Source: Haver Analytics, Emirates NBD Research

UAE residents' bank deposits

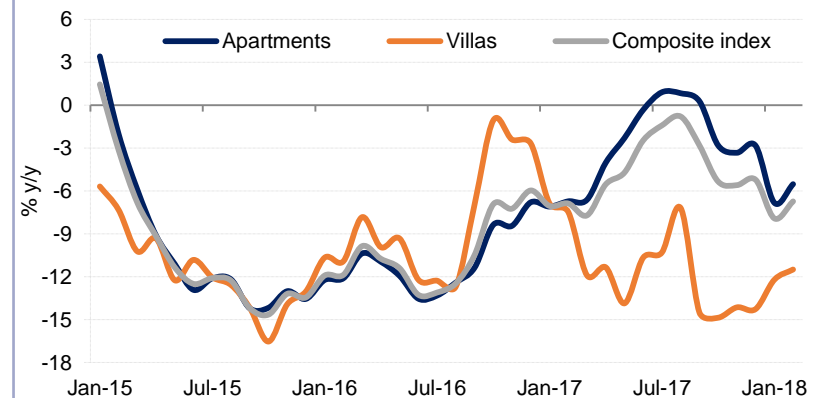


Source: Bloomberg, Emirates NBD Research

Highlights

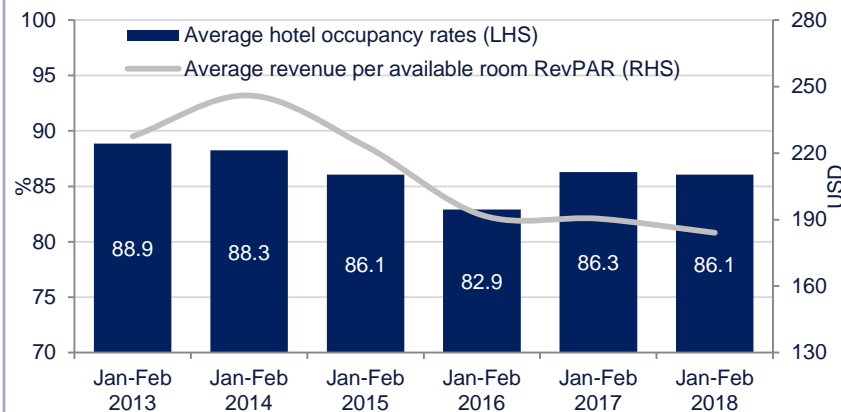
- Dubai residential real estate prices continued to fall in Q1 2018. Lower priced units have been more resilient. Transaction volumes were low; there is no indication of distress/panic selling.
- Hotel occupancy in Jan-Feb similar to last year at just over 86%, but RevPAR is down -3.3% y/y.
- Despite a strong start to the year in January, activity in Dubai's construction sector lost momentum through Q1 2018. The sector index in March was the lowest since November 2016, reflecting weaker new orders and output growth.

Dubai residential real estate prices



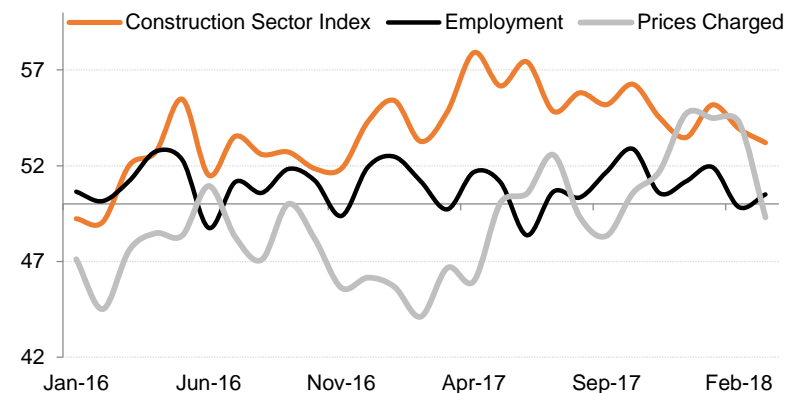
Source: Phidar Advisory, Emirates NBD Research

Hotel occupancy and RevPAR



Source: Haver Analytics, Emirates NBD Research

Construction sector loses momentum in Q1

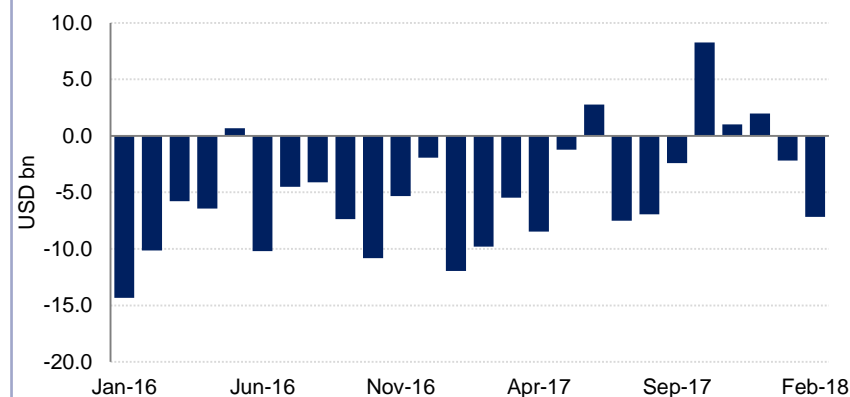


Source: Bloomberg, Emirates NBD Research

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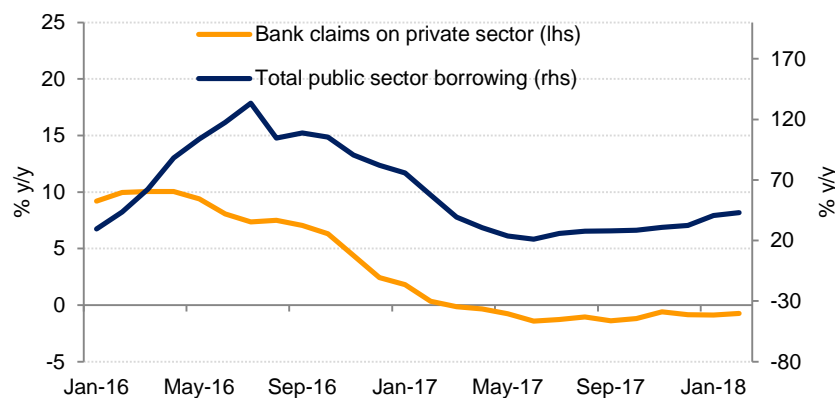
- After stabilizing in Q4 2017, SAMA's NFAs decline again in Q1 2018 despite higher oil prices. Points to deficit on the capital and financial account of the balance of payments.
- Commercial bank deposits declined –SAR 8.1bn in year-to-Feb (mainly government deposits). Private sector credit growth continues to contract y/y (-0.7% y/y at end-Feb 18)
- Point-of-sale transaction values show momentum in consumer activity peaked in December 2017, with m/m declines in January and February 2018.

Monthly change in SAMAs NFAs



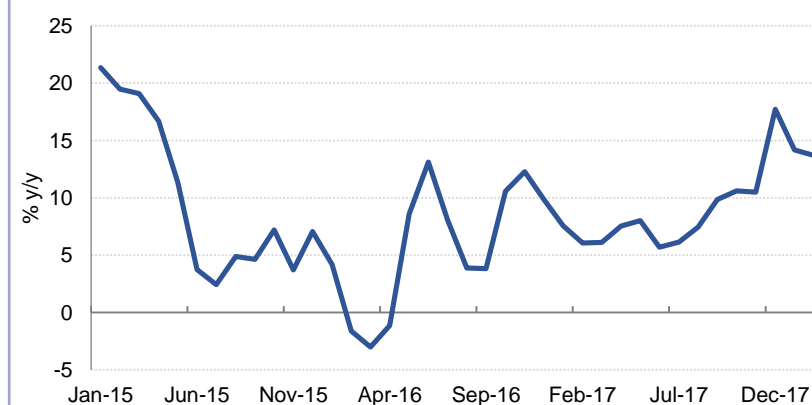
Source: Haver Analytics, Emirates NBD Research

Bank deposit and loan growth



Source: Haver Analytics, Emirates NBD Research

Point of sale transactions (3m Mov. Avg)

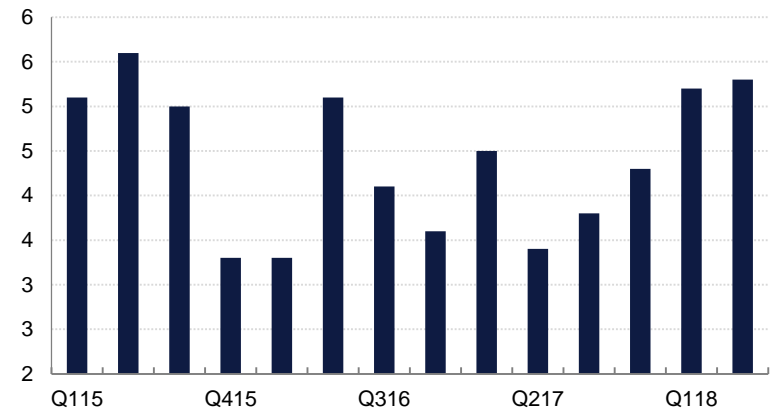


Source: Bloomberg, Emirates NBD Research

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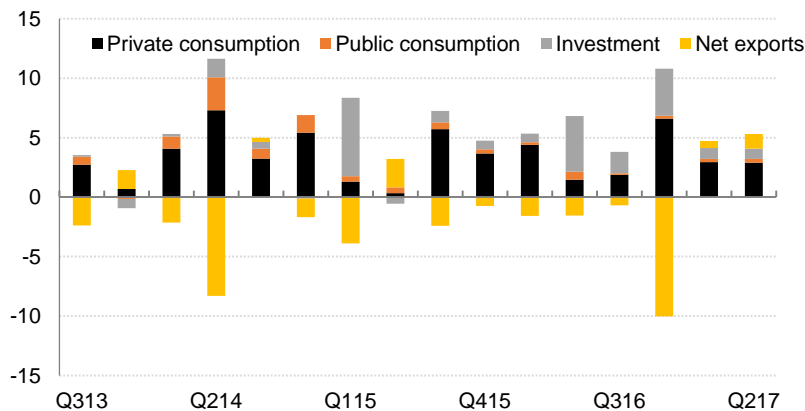
- Growth has strengthened over recent quarters, as the shock of the 2016 reforms feeds through and their benefits start to be felt.
- Progress in the economic restructuring on evidence in the growth by expenditure data. Net exports are now a positive contributor to growth, following six consecutive quarters of negative influence.
- CBE reports state that growth in recent quarters has been driven by greater net external demand and public spending. The aim now will be to bolster private consumption growth, and investment.
- With inflation falling and rates set to be cut further over the year, we expect an improvement in private consumption. Ongoing reforms and economic rebalancing will encourage increased private investment, while ongoing borrowing by the state will support public infrastructure works.

Real GDP growth, % y/y



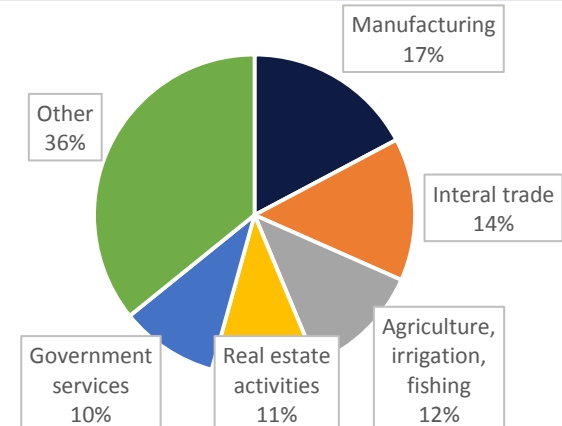
Source: Haver Analytics, Emirates NBD Research

Real GDP growth by expenditure component



Source: Haver Analytics, Emirates NBD Research

GDP by sector

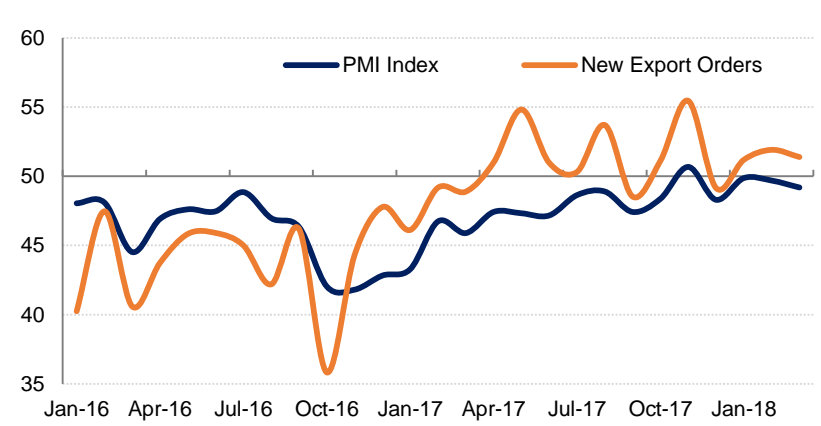


Source: Haver Analytics, Emirates NBD Research

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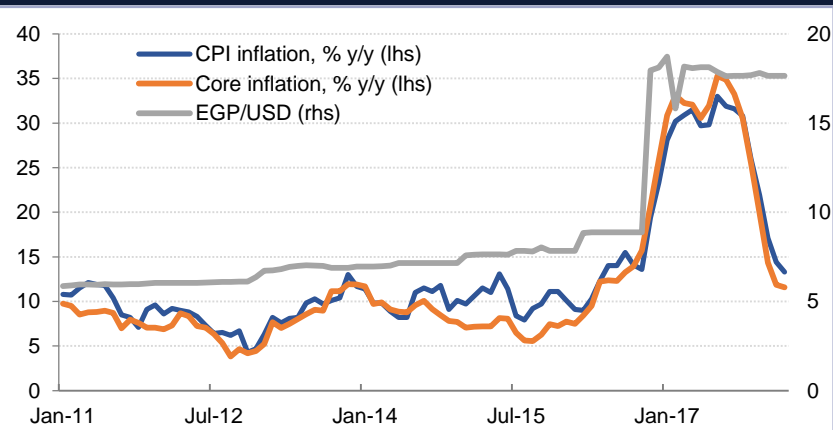
- Egypt's PMI has improved. The headline figure has remained predominately below the neutral 50.0 level, but is high above recent annual averages and new export orders are strong.
- Inflation will fall steadily over the next several months, in the sweet spot between the pass-through of November 2016's currency depreciation, and the implementation of further subsidy cuts in July.
- Diminishing inflationary pressures will enable the CBE to enact two further 100bps cuts over the remainder of 2018 following those already seen in February and March. This will support growth in private domestic consumption, which has lagged to date.
- The CBE would be comfortable if reserves fall from current levels, and the USD11bn assets not reflected in the official reserves levels provide a further cushion from swings in hot money inflows.

PMI components



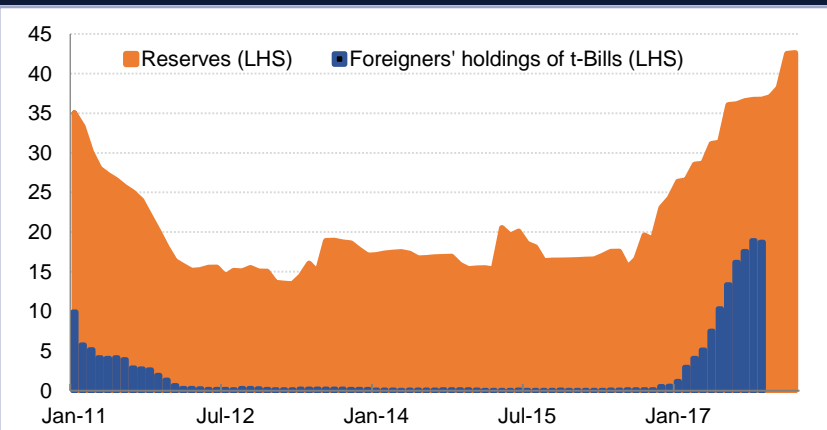
Source: IHS Markit, Emirates NBD Research

Inflation is easing



Source: Bloomberg, Emirates NBD Research

FX reserves position is much stronger

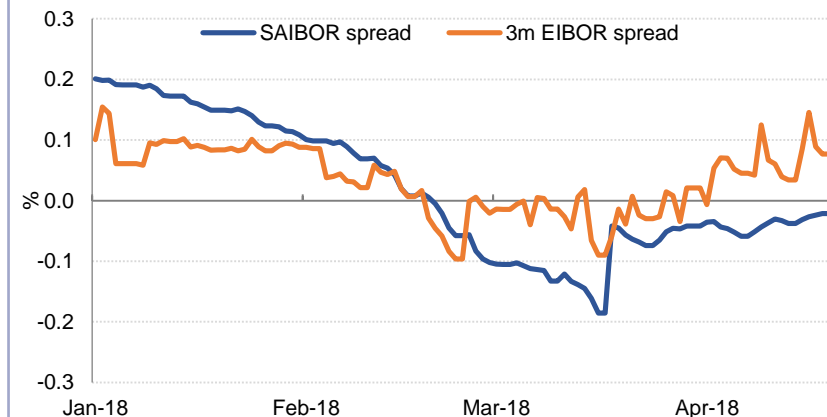


Source: Bloomberg, Emirates NBD Research

Highlights

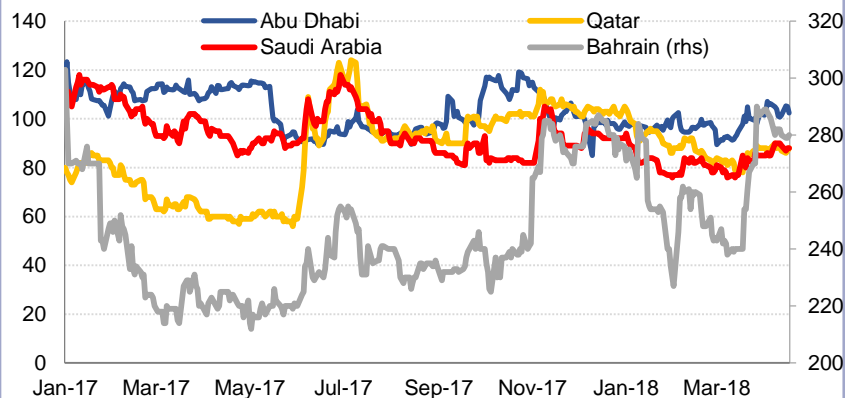
- Geopolitics – not just in MENA
- Risks to GDP growth from tighter compliance with OPEC production targets and soft start to non-oil sector growth in Q1.
- Higher US rates will translate to higher borrowing costs in the region
- GCC budgets to remain in deficit, increased reliance on debt financing poses risks for the medium term.
- Higher US rates mean higher borrowing costs for GCC sovereigns and companies – sharp rise in stock of public debt could be a cause for concern by 2020

3m EIBOR/ SAIBOR spread over USD LIBOR



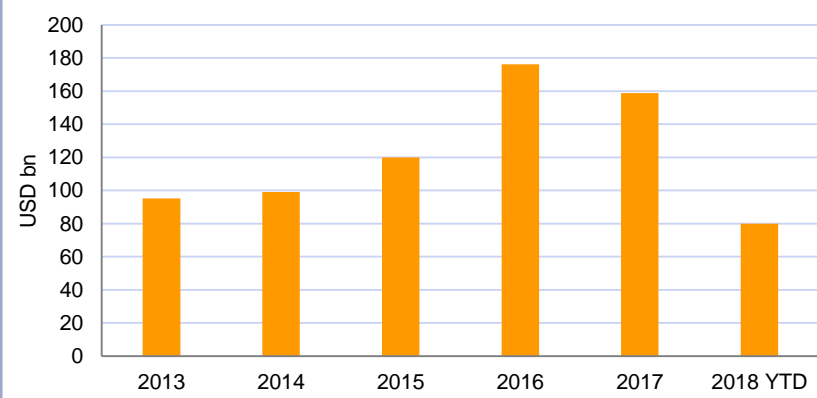
Source: Bloomberg, Emirates NBD Research

GCC CDS spreads



Source: Bloomberg, Emirates NBD Research

Total new debt issued by the GCC



Source : Haver Analytics, SAMA, 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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