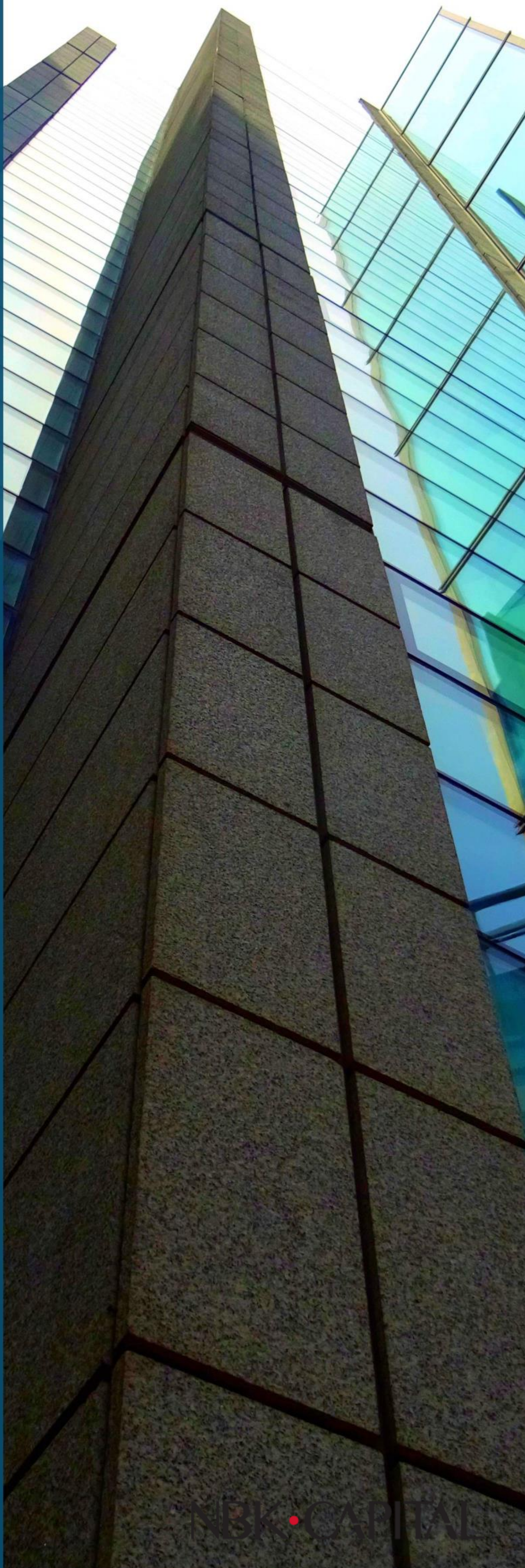
ISSUE 009

JULY 2017

MENA MARKETS REVIEW



HIGHLIGHTS

- Major central banks leave policy rates unchanged
- US equity markets continue to rally reaching new highs
- Emerging markets continue to rise for the seventh month straight, posting a gain of 5.5% in July, bringing the YTD to over 23%
- Brent recovers to close the month up above USD 50 p/b, registering a gain of 9.9%
- The MSCI GCC index is down for the month, yet 5 out of 7 GCC markets are in the green lead by Dubai's DFM Index
- Bahrain and Oman have their long term credit rating cut

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JULY 2017: ALAN GREENSPAN WORRIES, THE MARKETS NOT SO MUCH.

World growth is on track. The Fed is proceeding with tightening or "normalizing", if one prefers. Other central banks are getting ready to follow suit, but in a long while. OPEC is attempting to balance oil markets. The Trump administration appears, or is, in disarray. How are markets reacting to all this? Fairly well, thank you very much. Equities, the only asset market performing in line with consensus expectations from earlier in the year, advanced further in July. The equity markets in the US are in fact making new historic highs (Dow Industrials 22,000). This US performance is predicated on strong US earnings, steady growth, a Fed tightening very gradually, deregulation, and potential tax reform ahead.

All these equity "positives" spilled over into other equity markets (Europe, EMs). The US, of course, remains a crucial factor in the world economy, and a crucial member of the synchronized growth club: the notion that, currently, all major economies are growing at a moderate or good sustained clip, very much at the same time. The Eurozone economy edged the US last year, for the first time since 2011 (GDP 1.7% to 1.5%). And in 1H17 the two economies were running neck-in-neck at 2.0% growth.

In fact, the IMF just released its July update of the World Economic Outlook (WEO), which kept world growth at 3.5% and 3.6% for 2017 and 2018, while tweaking its US numbers lower (2.1%, 2.1%), and its EU (1.9%, 1.7%) and China (6.7%, 6.4%) forecasts higher.

Stocks were expected to do well this year, and have delivered, so far, beyond expectations in many cases. US stocks are up over 10% ytd (S&P 500), and European stocks are up 5% in local currency (Euro Stoxx, much more in USD terms). Emerging markets are up 23% ytd (MSCI EM) while the GCC lagged in 1H17 (MSCI GCC +0.6%).

On the unexpected side, surprises were plentiful this year. Coincidentally, they all seemed to add to the bullish sentiment for stocks. One surprise, lower inflation, means the Fed does not have to be aggressive in raising rates, the ECB can dilly-dally on tapering and other "tighter" money measures, pressure on the BoE eases, and the BoJ needs to keep pumping liquidity beyond forever.

Lower interest rates and available liquidity continue to bolster stocks. In fact, by some measures financial conditions, even in the US with higher Fed policy rates, have eased. The US 10-year note yield is off 20 bps on the year (when the Fed has been raising its policy rates), and the USD is down more than 10% versus the euro, among others. This is somewhat reminiscent of Alan Greenspan's bond conundrum argument of 2005. Then, the Fed was tightening and yields on long-dated securities went the other way and declined, the USD fell, and equities rose. Part of it was, of course, one huge buyer of US Treasuries, China. During 2004-2006, the Fed raised the federal funds rate 425 bps, versus a meek 30 bps rise in the yield of 10-year note.

In fact, ex-Fed Chairman Alan Greenspan was back in the news recently, warning of a bond bubble, as opposed to market talk of an equity bubble. Greenspan worried that rapidly rising rates (or the end of the bond bubble) could occur and would, then, impact equity markets. Greenspan did not put a time frame on his warning. He did mention though that things could unfold quickly once the process got underway, which is not atypical of markets or bubbles.

Nonetheless, the markets have heard these types of warnings several times since 2008, regarding both bonds and equities, and continue on their merry way. While it is certainly true that interest rates are at record lows, barring an unforeseen jump in inflation it is difficult to see Greenspan's warning materializing in the medium term.

The major central banks are today's large buyers of bonds who have supported the bond markets worldwide and kept interest rates very low. Sure, the Fed is getting ready to shed some of its assets, presumably this September, but that will happen at a snail's pace initially. Furthermore, the ECB and the BoJ are still on their buying spree. Before all major central banks start "selling" at the same time (and in serious numbers), Alan Greenspan's warning seems somewhat premature. Also, bear in mind that the central banks have been and are (since 2008) exceedingly cautious. Whenever they mention “higher rates” or “buying fewer assets”, they always quickly add the proviso: we will stop and reverse course if something goes “wrong”.

Other surprises this year came from the USD and from oil prices, and both ended up being further “pluses” for equities. Both the USD and the price of oil fell, against strong and widespread consensus, and by doing so added to the positive overall market sentiment. The weaker USD was seen as a boon to US exports and to US companies, many of which have significant business overseas. The weaker dollar was also seen as removing the threat of outflows from emerging markets (EMs). As to the weaker price of oil in 1H17, it was further supportive of low inflation (low interest rates) and positive, at least for oil importers.

So far, the expected and unexpected are unfolding in favor of equities at large, and are keeping interest rates in check, at least in the longer maturities. The Fed has signaled and should start unwinding its massive balance sheet in September, starting with a measly $10 billion per month. This amount will rise by $10 billion per quarter. Thus, the current $4.3 trillion Fed balance sheet, will take three years to go down to $2.9 trillion, which would still leave it three times larger than its size prior to the 2008 financial crisis. And, for now, the ECB is still buying and hinting it may slow its purchases next year (currently euro 60 billion per month). The Bank of Japan is showing no sign of ending its purchases of government bonds. So yes, Mr. Greenspan’s warning will come due at some point. However, the financial markets are likely to fret more about Alan Greenspan once inflationary pressures shows up in the data or once central banks, in concert, start shedding assets in significant amounts.

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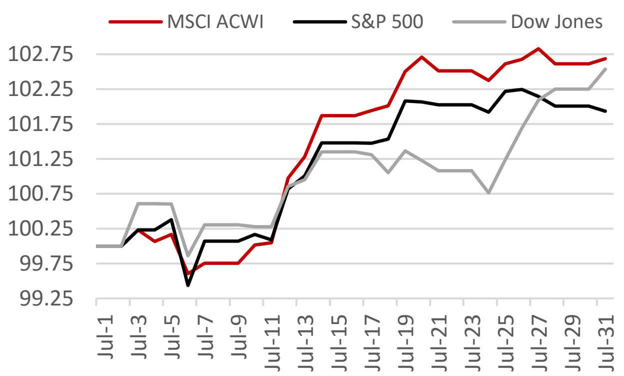
GLOBAL EQUITIES

Global equities continue to rise as measured by the MSCI All Country World Index posting gains of 2.7% in July. US equity markets continued to reach new highs posting gains of 1.9% and 2.5% for the S&P 500 and the Dow Jones, respectively. Despite turmoil at the White House and the Trump administration's inability to pass major legislation such as the healthcare reform, the equity markets continue to rally. The US Fed left policy unchanged after the July FOMC meeting and indicated that they would start tapering the $4.3 trillion balance sheet relatively soon. In addition, the likelihood of another rate hike this year is near 50%.

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

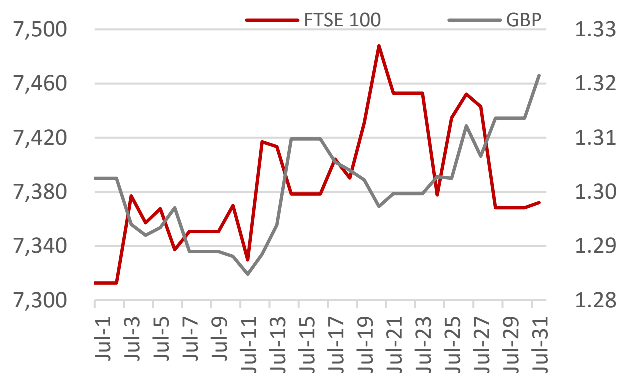


Source: Bloomberg *(figures rebased)*

Across the Atlantic, the Stoxx Europe 600 Index posted a slight loss of 0.4%. After the ECB's July meeting, monetary policy was also left unchanged. However, the expectations are shifting toward a more "hawkish" ECB and this is driving the euro higher, above 1.16. The impact of a higher euro is slowing European equities, specifically German equities, as it appears to be hurting exports. Nonetheless, July's German XEW economic sentiment survey continues to reflect a positive outlook for German economic growth.

The United Kingdom's equity market posted a gain of 0.8% for the month of July, as measured by the FTSE 100. On the other hand, recent inflation and GDP data came in below expectations. The CPI inflation for June came in at 2.6% YoY while Q2 GDP came in at 0.3% QoQ. Given these developments, the BoE will likely refrain from raising rates during its August monetary policy meeting.

Chart 2: FTSE 100 & GBP

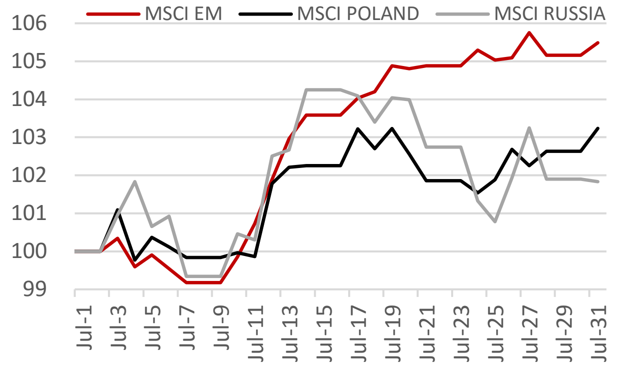


Source: Bloomberg

Japan's Nikkei 225 posted a loss of 0.5%, breaking its 3-month streak of positive returns. Following the trend, the BOJ left monetary policy unchanged at its July meeting, which had minimal effect on the yen. The BOJ however did increase its growth forecast to 1.8% for the current fiscal year and cut its inflation forecast to 1.1% for FY17/18. As a result of subdued consumption and risk averse firms, refraining from raising wages and prices, the central bank has also pushed back its 2% inflation target for the sixth time to FY19/20.

The MSCI EM Index continues to outperform, closing the month of July up 5.5%, making this the seventh straight month of positive returns. Sub markets of the MSCI EM Index, such as Russia and Poland, closed the month in the green despite increasing political risks negatively affecting asset prices.

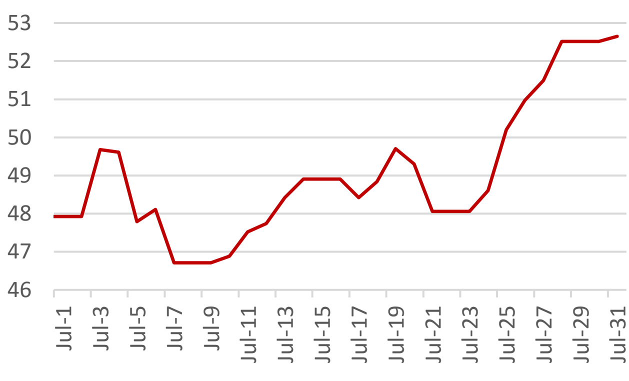
Chart 3: MSCI EM, POLAND & RUSSIA



Source: Bloomberg *(figures rebased)*

July marks the first month of positive returns this year for Brent, registering a significant gain of 9.9%. Brent oil prices were seen above the $50 barrel mark for the first time since May, closing the month at a high of $52.7. Crude prices rallied due to declining US inventories over the past four weeks. Furthermore, Saudi Arabia has announced its plan to further reduce exports to 6.6 mb/d in August. Nigeria has also pledged to limit production to 1.8mb/d, along with the UAE and Kuwait reaffirming their commitment to reducing oil output.

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



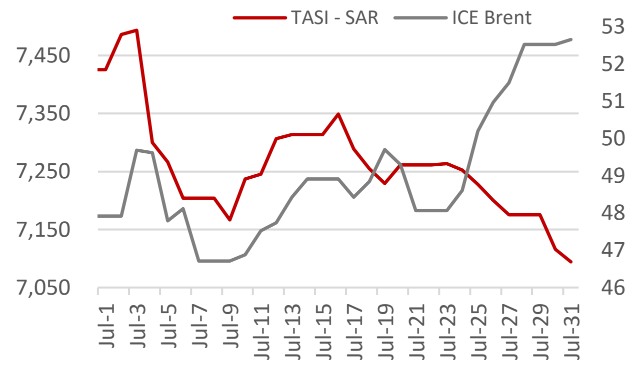
Source: Bloomberg

Regional Equities

GCC equities retreated from last month's rebound, closing the month of July down 1.2% as measured by the MSCI GCC Index, although four out of the six countries' equity markets posted gains. The index was weighed down by weak performance in Saudi equities as it appears that market and government support is losing momentum. MENA equities also posted a small loss of 0.2% as investors waded through ongoing regional politics.

The Tadawul All Share Index (TASI) posted a loss of 4.5% in the month of July. The International Monetary Fund (IMF) lowered its GDP growth forecast for Saudi Arabia to "close to zero" as oil GDP declined due to OPEC production cuts, while non-oil growth is expected to rise to 1.7% during 2017 from 0.2% in 2016. The Kingdom's unemployment rate rose to 12.7% in Q1 2017 and continues to climb as the economy manages the drop in oil prices.

Chart 5: TASI & Brent



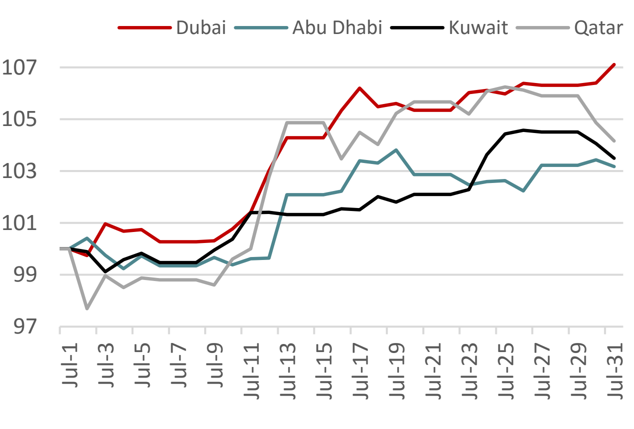
Source: Bloomberg

The Qatar Exchange Index recovered from its months-long losing streak and posted a gain of 4.2%, although the rift with its Gulf neighbors did not show any signs of easing. Qatar's GDP is expected to grow to 2.5% in 2017 from 2.2% in 2016 and pick up to 3.1% in 2018. It continues to make gains in the transportation and construction sectors, as well as the LNG and the natural gas sectors.

The Kuwait Weighted Index recovered this month following poor performance throughout the majority of the year, posting a gain of 3.5%. In Q2 2017, the pace of Kuwait's project implementation slowed due to some delays on project bids. Contracts worth KD 0.6 billion were awarded in 2Q17, according to MEED Projects.

The Dubai and Abu Dhabi equity markets posted their best performance since the start of the year, registering gains of 7.1% and 3.2%, respectively. S&P ratings services affirmed Abu Dhabi ratings at 'AA/A-1+' with a stable outlook. The IMF cut its growth forecast for the UAE for 2017/18. In 2017, April's forecast of 1.5% was reduced to 1.3% due to slower expansion in the non-oil economy. In 2018, the April forecast was revised down a 100 bps to 3.4% citing lower oil growth.

Chart 6: Performance of Dubai, Abu Dhabi, Kuwait & Qatar



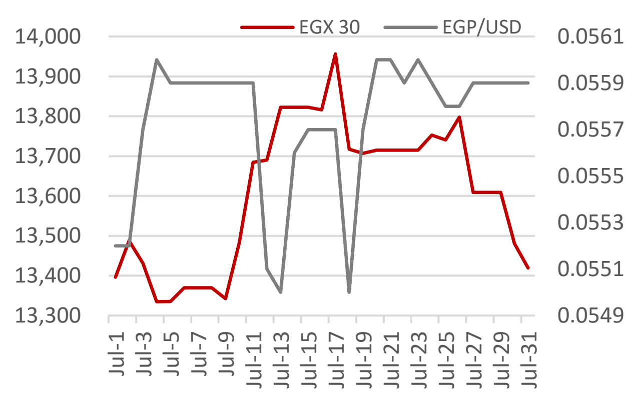
Source: Bloomberg *(figures rebased)*

Bahrain Bourse All Share Index gained 1.4%, recovering from a three-month streak of losses. The government has issued a request for proposals (RFP) to banks to arrange issues of U.S dollar-denominated conventional bonds and sukuk. The issues would be sold at the same time, possibly as soon as September. The size of the issues was not disclosed, although Bahrain needs to raise external financing to plug a widening budget deficit caused by a depressed economy. Moody's Investors Service downgraded Bahrain's long-term issuer rating to B1 from Ba2, making it highly speculative, and maintained its negative outlook.

Oman's MSM 30 Index posted losses of 1.8% for July, an improvement from last month's -5.6% performance. Moody's Investors Service downgraded Oman's long-term bond rating to Baa2 from Baa1, citing the country's minimal progress at addressing "structural vulnerabilities".

Egypt's EGX 30 closed flat at 0.2% for July. The Central Bank's Monetary Policy Committee unexpectedly raised its benchmark interest rates by 200 bps trying to control inflation after the government had raised fuel and electricity prices. This is the second time interest rates were raised this year. CBE last raised rates by 200 bps in May.

Chart 7: EGX 30 Index & EGP/USD



Source: Bloomberg

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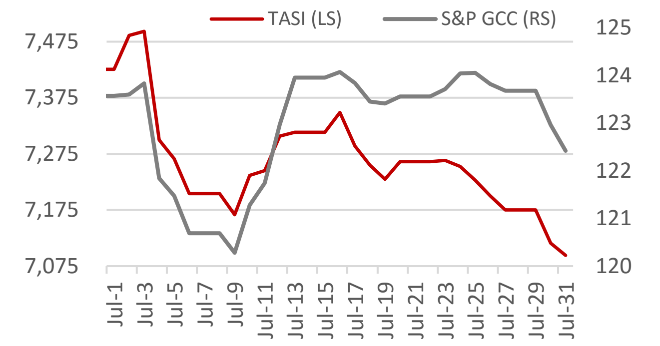
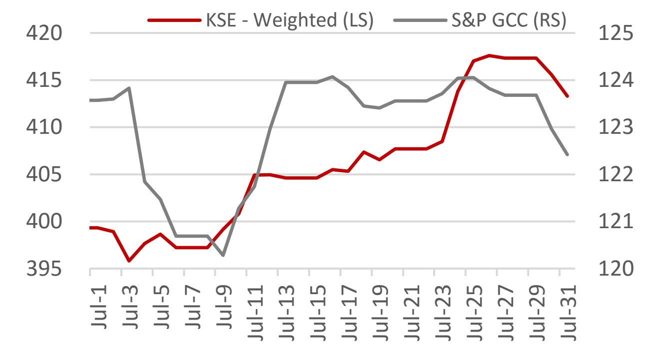
Stock Market Performance – *as of July 31, 2017:*

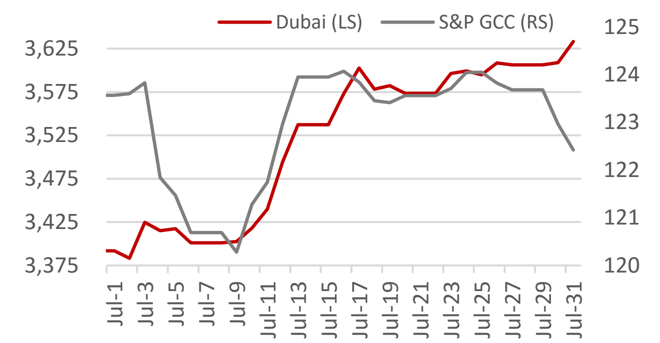
Saudi Arabia



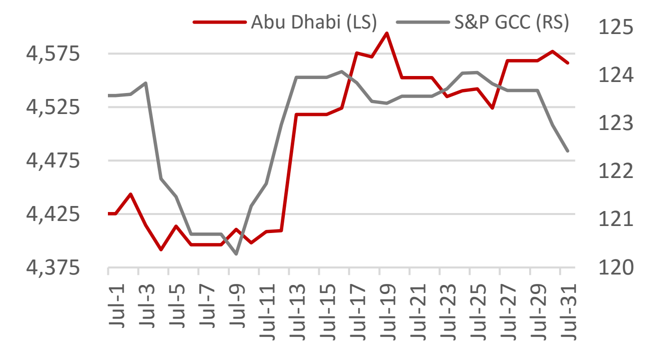
Kuwait



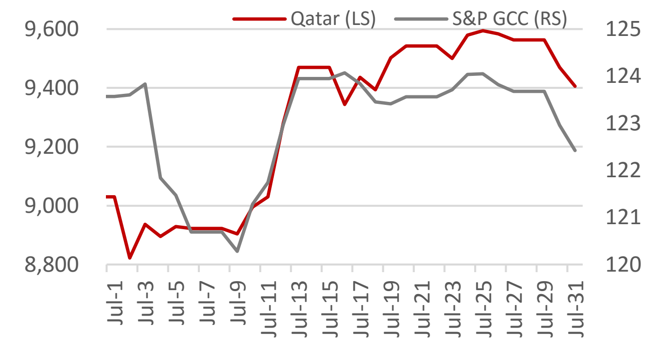
Dubai



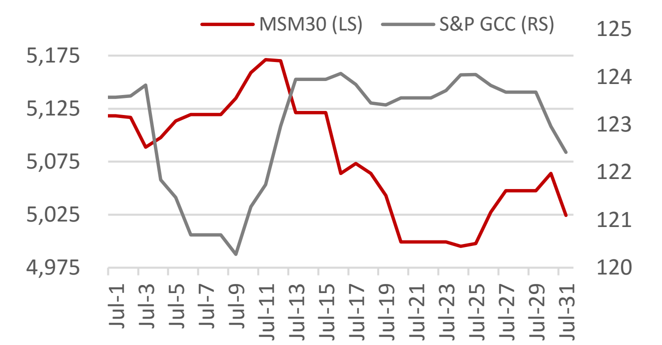
Abu Dhabi



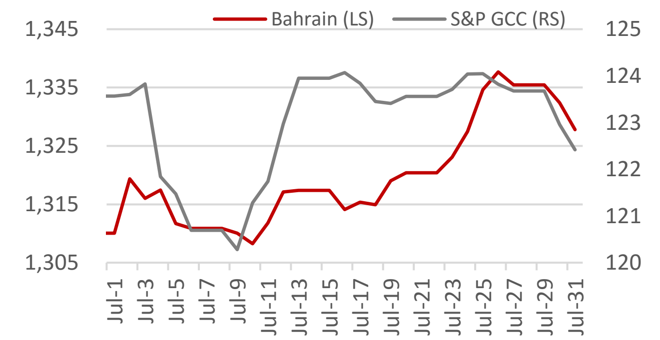
Qatar



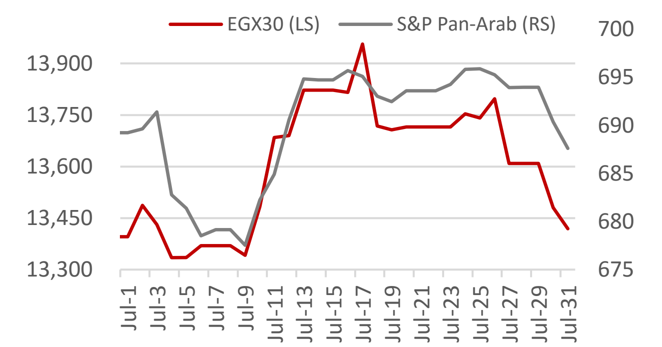
Oman



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 July 31, 2017:*

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Global					
MSCI AC World Index (USD)	477.58	2.69%	2.69%	13.21%	14.78%
MSCI EAFE (USD)	1,936.91	2.85%	2.85%	15.02%	14.67%
MSCI EM (USD)	1,066.23	5.48%	5.48%	23.65%	22.07%
US					
S&P 500 Index	2,470.30	1.93%	1.93%	10.34%	13.65%
Dow Jones Industrial Average	21,891.12	2.54%	2.54%	10.77%	18.77%
NASDAQ Composite Index	6,348.12	3.38%	3.38%	17.93%	22.97%
Russell 2000 Index	1,425.14	0.69%	0.69%	5.01%	16.82%
Developed					
Stoxx Europe 600	377.85	-0.40%	-0.40%	4.55%	10.52%
FTSE 100 Index	7,372.00	0.81%	0.81%	3.21%	9.63%
DAX Index	12,118.25	-1.68%	-1.68%	5.55%	17.23%
CAC 40 Index	5,093.77	-0.53%	-0.53%	4.76%	14.73%
Nikkei 225	19,925.18	-0.54%	-0.54%	4.24%	20.25%
Hang Seng Index	27,323.99	6.05%	6.05%	24.20%	24.82%
Emerging Markets					
Russia Stock Exchange	1,919.53	2.13%	2.13%	-14.03%	-1.29%
Turkey - Borsa Istanbul 100 Index	107,531.40	7.06%	7.06%	37.62%	42.60%
MSCI Asia ex Japan	656.04	4.90%	4.90%	27.55%	24.51%
Shanghai Composite	3,273.03	2.52%	2.52%	5.46%	9.86%
India - NIFTY 50	10,077.10	5.84%	5.84%	23.10%	16.65%
Taiwan Stock Exchange	10,427.33	0.31%	0.31%	12.69%	16.06%
Brazil Ibovespa Index	65,920.36	4.80%	4.80%	9.45%	15.03%
Mexico Stock Exchange	51,011.88	2.32%	2.32%	11.76%	9.33%
MENA					
S&P Pan Arab (USD)	687.61	-0.23%	-0.23%	0.69%	8.30%
S&P GCC Composite (USD)	122.42	-0.93%	-0.93%	0.58%	10.53%
KSA - Tadawul All Share Index	7,094.17	-4.46%	-4.46%	-1.61%	12.57%
Dubai - DFM General Index	3,633.18	7.11%	7.11%	2.90%	4.27%
Abu Dhabi - ADX General Index	4,566.15	3.18%	3.18%	0.44%	-0.20%
Qatar Exchange Index	9,406.06	4.16%	4.16%	-9.88%	-11.30%
Kuwait Weighted Index	413.29	3.50%	3.50%	8.73%	17.84%
Oman - Muscat Securities Market 30 Index	5,024.24	-1.84%	-1.84%	-13.12%	-14.02%
Bahrain Bourse All Share Index	1,327.81	1.36%	1.36%	8.80%	14.90%
Egypt - EGX 30	13,419.38	0.18%	0.18%	8.70%	68.10%
Morocco - MADEX	9,953.75	1.25%	1.25%	4.26%	23.03%
Jordan - ASE Index	2,139.82	-1.27%	-1.27%	-1.40%	1.79%

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

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Market Data – *as of July 31, 2017:*

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Bond Indices					
J.P. Morgan Global Agg Bond (USD)	562.95	1.51%	1.51%	5.73%	-1.24%
Barclays US Agg Bond	2,030.01	0.43%	0.43%	2.71%	-0.51%
Bloomberg US Gov Bond Index	126.06	0.17%	0.17%	2.04%	-2.38%
Bloomberg Barclays US Corp Bond Index	2,851.01	0.73%	0.73%	4.56%	1.55%
Bloomberg Barclays US Corp High Yield Bond Index	1,924.35	1.11%	1.11%	6.09%	10.95%
Bloomberg Global Dev Gov Bond Index ex - US (USD)	109.12	2.56%	2.56%	8.02%	-4.19%
Bloomberg Global Corp Bond Index ex US (USD)	132.73	1.79%	1.79%	7.10%	2.37%
JPM Emerging Market Bond Index (USD)	790.05	0.66%	0.66%	6.90%	4.59%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,277.92	0.74%	0.74%	6.74%	8.77%
US Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
3 Month Yield	1.07		0.84	0.50	0.25
2 Year Yield	1.35		1.26	1.21	0.66
5 Year Yield	1.84		1.80	1.93	1.02
10 Year Yield	2.29		2.28	2.47	1.45
30 Year Yield	2.90		2.97	3.08	2.18
Global Treasury Yields (%)	**Current**		**3 M ago**	**6 M ago**	**12 M ago**
British 10 Year Gilt	1.23		1.09	1.45	0.69
German 10 Year Bund	0.54		0.33	0.47	-0.12
Japan 10 Year Treasury	0.08		0.02	0.10	-0.19

Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
Precious Metals					
Gold Spot	1,269.44	2.24%	2.24%	10.63%	-6.06%
Silver Spot	16.83	1.17%	1.17%	5.65%	-17.26%
Energy					
WTI Crude	50.17	8.97%	8.97%	-6.61%	20.60%
Brent Crude	52.65	9.87%	9.87%	-7.34%	24.00%
Natural Gas	2.79	-7.94%	-7.94%	-24.97%	-2.85%

Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.18	3.64%	3.64%	12.60%	5.98%
GBP-USD X-RATE	1.32	1.46%	1.46%	7.09%	-0.11%
USD-JPY X-RATE	110.26	-1.90%	-1.90%	-5.73%	8.03%
KWD-USD X-RATE	3.31	0.40%	0.40%	1.26%	0.19%

Interbank Rates (%)	1M	3M	6M	12M
London Interbank	1.23	1.31	1.46	1.73
Saudi Interbank	1.46	1.80	2.05	2.24
Emirates Interbank	1.32	1.53	1.75	2.13
Qatar Interbank	2.26	2.51	2.67	2.96
Kuwait Interbank	1.56	1.75	2.00	2.31

Source: Bloomberg

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