

# ISSUE 013

## NOVEMBER 2017

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# MENA MARKETS REVIEW

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## HIGHLIGHTS

- President Trump nominated Jerome Powell to chair the Federal Reserve, bypassing Janet Yellen for a second term
- The German DAX fell 1.6% in November after talks to form a grand coalition government in Germany failed
- Brent Oil hit its highest price in November since 2015
- Saudi's TASI was up 1.0%, withstanding the corruption crackdown that detained hundreds of high profile individuals
- The Qatari Index continued its losing streak, shedding 5.5% for the month

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**INTERNATIONAL: TAX CUTS COULD BOOST US GROWTH;  
BREXIT DEAL MARKS PROGRESS**

An already robust global economic picture improved still further in recent weeks. Data in Europe and Japan firmed noticeably, and continued to come in strong in the US. The outlook in the U.S. also benefited from the Senate's passage of a historic tax reform bill, though a final reconciled measure will require some additional work. Meanwhile, the UK made significant progress on a Brexit agreement with the EU, removing some of the dark clouds on the horizon. With that, equities continued to perform well, hitting fresh highs. Despite the robust outlook for growth, inflation continued to lag behind.

The figures on the U.S. economy continued to come in strong. The latest employment report showed labor conditions continuing to tighten. Nonfarm payrolls rose by 228,000 in November, though the unemployment rate stayed put at the 17-year low of 4.1%. A number of leading indicators have been particularly strong, including capital goods orders and the ISM manufacturing index, showing increased optimism and rising investment. GDP growth also remained solid. 3Q17 GDP growth was revised upward to a solid 3.3% q/q annualized, from 3.0% in 2Q17.

Optimism in a more business friendly White House and a GOP controlled Congress paid off this month, as legislators passed landmark tax cuts. The Senate passed a long-awaited tax reform, though it will still need to be reconciled with the House version. While most Republicans believe the cuts, estimated to cost around \$1.4 trillion over ten years, will generate enough growth to pay for themselves, many economists do not see them resulting in a large fiscal stimulus. Nonetheless, they are expected to be a boon for corporate earnings and could boost growth in the medium term.

Meanwhile, markets continue to await a budget deal in the US as the government debt, again, approaches the mandated ceiling. In an effort to avert a government shutdown, Congress passed a 2-week stopgap-spending bill, giving legislators more time to agree to new spending levels for the 2018 fiscal year.

A broad bipartisan effort is currently underway with hopes an agreement can be reached before Christmas. However, with some expecting an agreement on other pending issues, including immigration and healthcare, a deal is unlikely to be straightforward, especially given the need to have something ready before the end of 2017.

Performance in the eurozone has increasingly mirrored the strength seen in the U.S., with recent data indicating growth picking up pace. The PMI rose to a more than 6-year high of 57.5 in November, showing solid activity across the eurozone. Strength continued to be broad-based, with France (60.3), Ireland (57.7), and Germany (57.3) seeing the best performance. The data pointed to further strengthening in 4Q17 GDP growth. Meanwhile, the final revision to 3Q17 confirmed growth at a robust 2.6% y/y. Consumer confidence for the area also beat expectations, increasing to a post-Great Recession high after its fourth consecutive monthly increase.

The solid economic recovery took place even as the EU grappled with a series of existential political crises that threatened to upset the status quo; in November, it was Germany's turn. After several EU members survived a wave of anti-EU challengers earlier in 2017, the German national election weakened Angela Merkel, the longest serving EU leader, as the anti-EU far right made marked inroads. With a government yet to be formed, the initial uncertainty subsided after the Social Democrats agreed to talks to form another coalition with Merkel's Christian Democrats.

Brexit-related uncertainty subsided slightly as the UK reached an agreement with the EU over Brexit divorce terms, which should pave the way for negotiations on the trade relationship. The UK agreed to pay €40-60 billion to settle existing commitments to the block. The deal also included a settlement on the rights of EU citizens in the UK post-Brexit and the question of the Irish border. Now the UK and EU will embark on the more important part of the talks, their trade relationship immediately after Brexit and further in the future.

In Japan, a strong showing by Shinzo Abe in the October election now appears to have coincided with

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an improving economy. Indeed, Japan's economy appears to be seeing its best performance in years, with GDP recording the longest growth streak in decades. GDP growth in 3Q17 was revised upwards to an annualized 2.5%. The question remains whether this pace can be sustained in 2018, something markets will be looking out for.

While advanced economies enjoyed solid economic growth, they continued to see inflation below target and failing to pick up. In the US, core CPI inflation stood at 1.8% but did not appear to be gaining momentum after a bout of soft figures in the summer. This was confirmed once again in November's wage growth, which despite a tight labor market was not gaining pace. The story was similar in the eurozone, where the flash core inflation rate came in at 0.9% for November.

While the Fed has reassured markets that soft inflation is not a great concern for now, continued softness could begin to weigh on central bank tightening schedules in 2018. Virtually everyone now expects the Fed to hike their policy rate later this month, especially given the solid economic data and the lengths authorities have gone to reassure markets that soft inflation will not hold them back from normalizing. Next year, markets see the Fed moving 2-3 times. In the eurozone, things could be more complicated; given the structural limitations of QE there, the ECB has little credibility continuing with that program past 2018.

Boosted by a solid global economy and the recent OPEC agreement, oil prices climbed for a fifth consecutive month in November, and are holding above \$60. Brent rose to \$63 per barrel in November, up 32% from where it was six months ago. The recent agreement reached between OPEC and some non-OPEC countries to extend production cuts through the end of 2018 provided additional support to prices, though US production growth from shale oil will continue to weigh on prices in the medium term.

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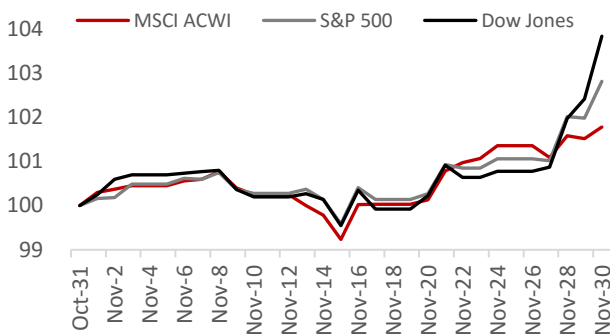
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**GLOBAL EQUITIES**

Global equities continue to perform well, posting a gain of 1.8% in November, as measured by the MSCI All Country World Index, while in the U.S., the S&P 500 and the Dow Jones closed up 2.8% and 3.8%, respectively. President Trump nominated Jerome Powell to chair the Federal Reserve, bypassing Janet Yellen for a second term. Powell is expected to maintain similar monetary policy if the economy continues its steady growth. "From today, four rate hikes through the end of next year is still kind of my base view," San Francisco Federal Reserve President John Williams said during a recent economics forecast lunch. He continued to say "We need to get from here to roughly 2.5 percent fed funds rate over the next couple of years." The Fed's current short-term interest rate is between 1% and 1.25%, and a hike of 0.25% is expected in December.

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



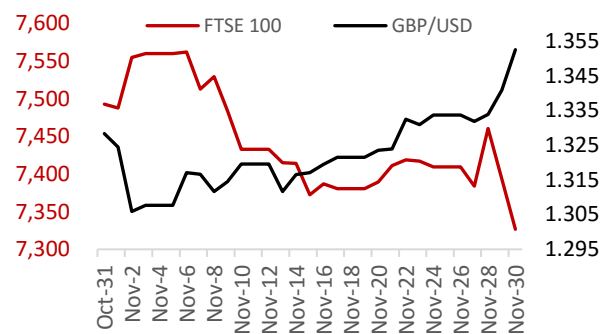
Source: Bloomberg (figures rebased)

In Europe, the Stoxx 600 closed the month in the red down 2.2%. On a year to date basis, however, the index is up 7.0%. Germany's DAX index fell 1.6% in November to 13,023.98 after talks between Angela Merkel's Christian Democratic Union and Social Democrats to form a grand coalition government in Germany failed. Further applying downward pressure on European equities is the plan to overhaul the US tax system and its effects on the USD/EUR. In France, the CAC 40 gave up 2.4% to 5,372.79 in November. However, the CAC 40 on a year to date basis was up by 10.5%, while the DAX index up 13.4%.

The United Kingdom's stock market, as measured by the FTSE 100, also posted a loss for the month of November, closing down 2.2%, while the year to date

figure continues to be positive at 2.6%. The Autumn Budget was released on November 22 showing the government will maintain a deficit with increased spending on housing, education, and health services among others. In addition, the budget indicated growth will not exceed 1.5% p.a. up until 2022.

**Chart 2: FTSE 100 & GBP**

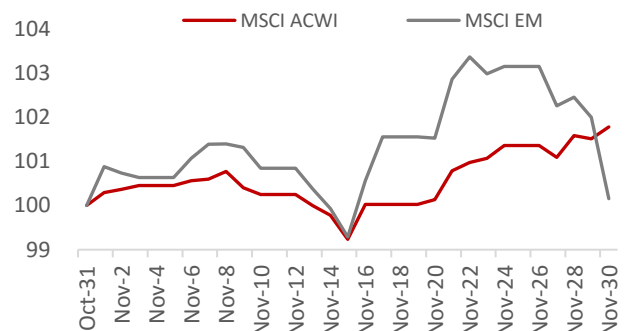


Source: Bloomberg

Japan's Nikkei 225 closed the month in the green up 3.2%, bringing the year to date return to 18.9%. Japan's economy grew for a seventh uninterrupted quarter, its longest expansion in more than a decade. Gross domestic product grew at an annualized rate of 1.4% in Q3, compared to a 2.6% growth in the previous quarter. GDP grew faster than expected due to strong exports offsetting a decline in consumer spending.

The MSCI Emerging Market Index remained in positive territory, closing the month up 0.2% and has maintained the strongest year to date performance of 30% compared to other markets. The index faced downward pressure caused by weak economic data from China, the world's second-largest economy, and poor performance of tech stocks in emerging markets.

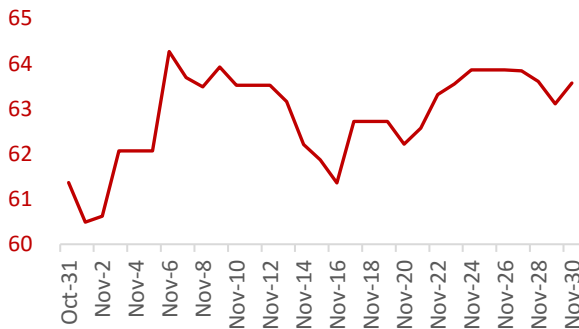
**Chart 3: MSCI ACWI vs EM vs World**



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

Brent Oil hit its highest price in November since 2015, up 3.6%. Oil climbed on the expectation that OPEC and Russia would extend the oil production cut agreement to the end of 2018, which materialized during the meeting on November 30<sup>th</sup>. Saudi Energy Minister Khalid Al-Falih reiterated, "when we get to an exit, we are going to do it very gradually ... to make sure we don't shock the market."

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



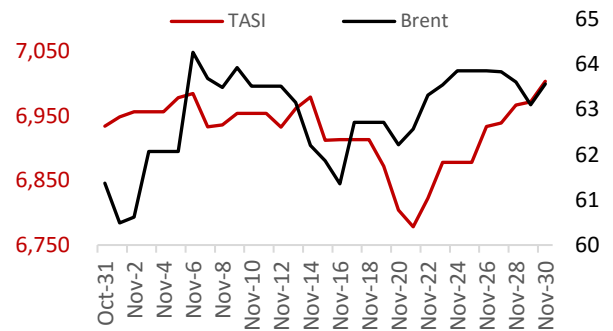
Source: Bloomberg

**REGIONAL EQUITIES**

In November, GCC equities posted a loss of 1.2%, as measured by the S&P GCC Composite Index. On a year to date basis, the index remained in red territory, closing down 2.9%. Oman's equity market was the best performer for the month, while Qatar continued its losing streak. The S&P Pan Arab Composite Index representing MENA equities registered a similar loss as the GCC, closing down 1.1%.

Saudi's Tadawul All Share Index (TASI) was up 1.0% in November. On a year to date basis, the index continues to post a loss of 2.9%. Early in the month, Saudi Arabia detained 201 individuals as part of a crackdown on corruption. The attorney general stated that at least \$100 billion was misused through embezzlement and corruption over the past decades. On another note, Saudi Arabia's General Authority of Zakat and Tax reported that a 5% VAT will be introduced on gasoline on January 1, 2018. On the economic front, Saudi's deficit shrank by nearly 10% in Q3 of 2017 compared to last year, while non-oil revenue grew by 80% year on year to 47.8 billion riyals in the third quarter, according to the Ministry of Finance.

**Chart 5: TASI & Brent**

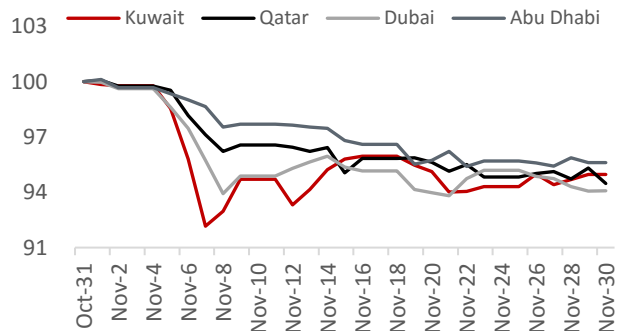


Source: Bloomberg

The Kuwait Weighted Index dropped 5.0% in November. This is the largest single month loss for the index in 2017 and has reduced the year to date return by roughly 50% to 4.9%. Kuwait announced it would inject \$160 billion to develop its islands over the next 20 years, creating 200,000 jobs and generating \$40 billion dollars a year in revenues.

The Qatar Exchange Index continued its losing streak, closing in the red 5.5%, for the fourth month straight. This brought down its year to date performance to -26.1%. On a positive note, the government halted injections of deposits into the banking sector for the first time since the diplomatic rift started in June.

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



Source: Bloomberg (figures rebased)

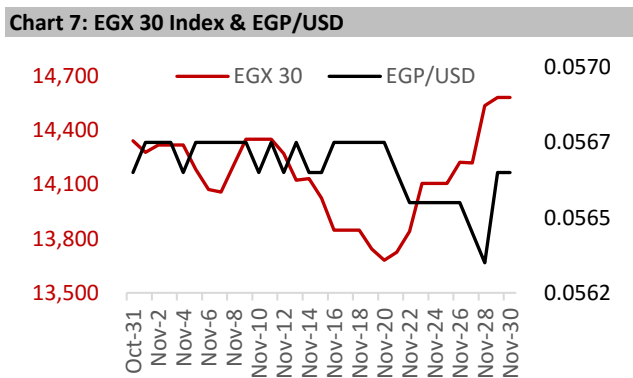
The Dubai and Abu Dhabi equity markets also performed poorly, shedding 5.9% and 4.4%, respectively. In terms of year to date performance, the DFMGI Index is down 3.1%, while the ADSMI Index is down 5.8%. During the month, the UAE federal budget was approved by the Cabinet. Expenditures are budgeted to increase by 5.6% while maintaining a balanced budget. The increase in expenditures will

focus on non-oil growth, targeting education, health services, and other social programs. In addition, the Ministry of Energy announced fuel prices will increase in December 2017, to the highest level in 2 years, in line with the rise in global crude prices.

The Bahrain Bourse All Share Index closed slightly up 0.6% in November. In terms of year to date performance, it is the only other market to have a positive return. Early in the month, a major oil pipeline exploded, further raising regional tensions as the government said it was an act of terrorism.

Oman’s MSM 30 Index also ended the month on a positive note, closing the month up 2.0%. However, on a year to date basis, the index remained in the red, closing at -11.6%. The rating agency, S&P, cut the country’s rating on foreign and local credit citing increased debt although its outlook for the country is stable given the support from its GCC neighbors.

In Egypt, the EGX 30 Index closed up 1.7% in November and 18.1% on a year to date basis. The Central Bank removed restrictions on deposits and withdrawals for importers that have been in place since 2012. Furthermore, it signed an expanded \$3.1 billion financing deal with international lenders to boost foreign reserves.



Source: Bloomberg

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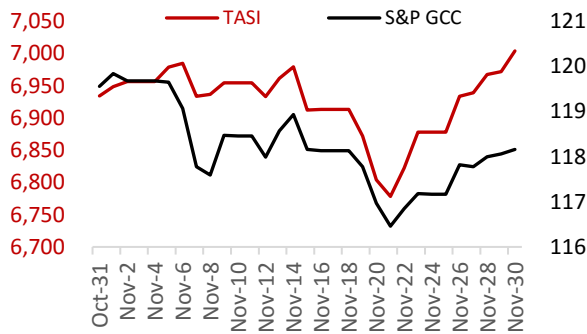
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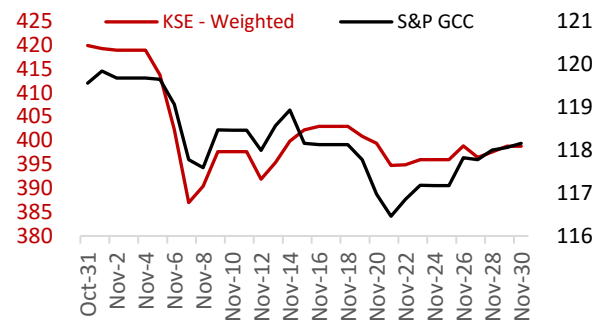
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Stock Market Performance – as of November 30, 2017:

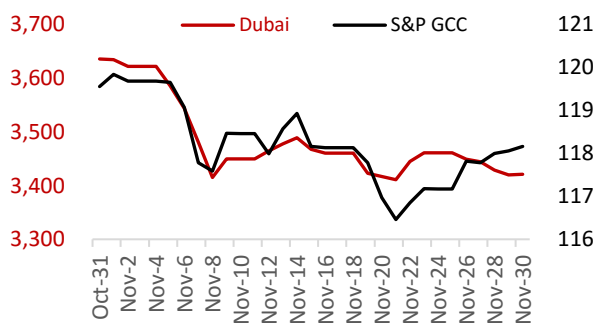
Saudi Arabia



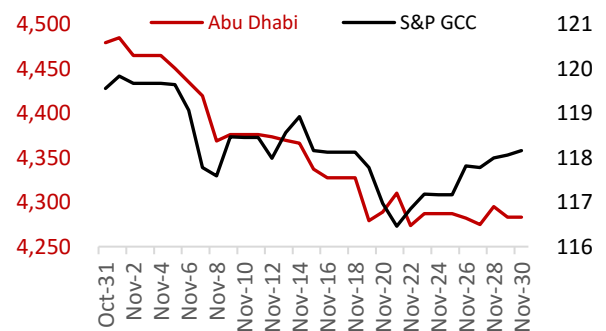
Kuwait



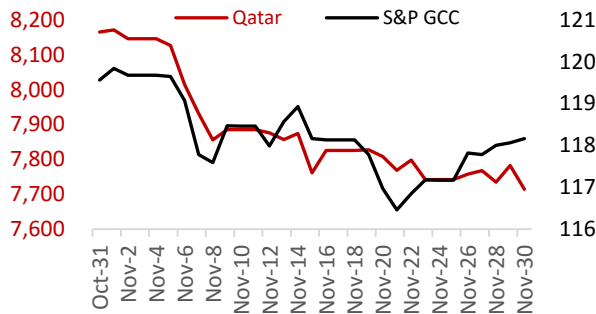
Dubai



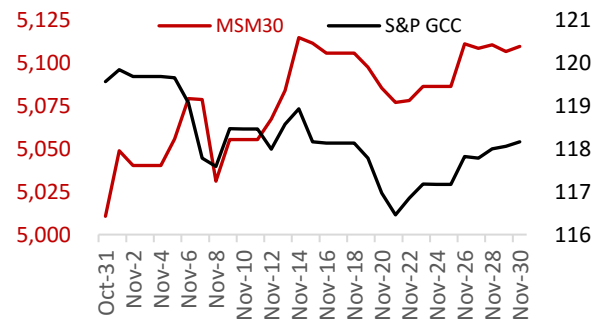
Abu Dhabi



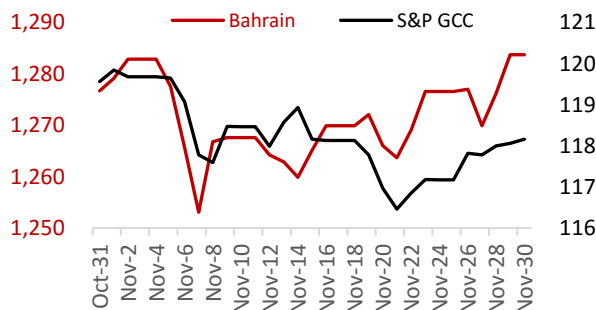
Qatar



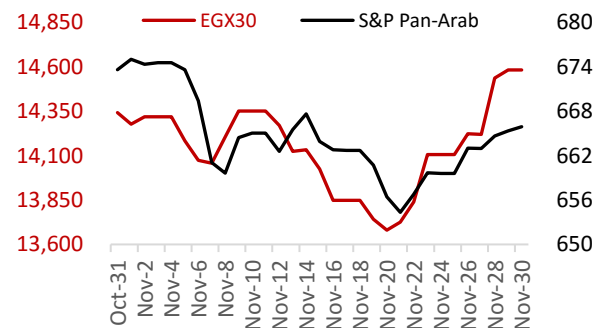
Oman



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 November 30, 2017:**

Equity*	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
<b>Global</b>					
MSCI AC World Index (USD)	505.44	1.78%	3.81%	19.82%	22.26%
MSCI EAFE (USD)	2,020.13	0.88%	2.35%	19.96%	23.96%
MSCI EM (USD)	1,120.79	0.15%	3.61%	29.98%	29.90%
<b>US</b>					
S&P 500 Index	2,647.58	2.81%	5.09%	18.26%	20.41%
Dow Jones Industrial Average	24,272.35	3.83%	8.33%	22.82%	26.92%
NASDAQ Composite Index	6,873.97	2.17%	5.82%	27.70%	29.12%
Russell 2000 Index	1,544.14	2.75%	3.57%	13.78%	16.77%
<b>Developed</b>					
Stoxx Europe 600	386.69	-2.16%	-0.38%	6.99%	13.07%
FTSE 100 Index	7,326.67	-2.22%	-0.63%	2.57%	8.00%
DAX Index	13,023.98	-1.55%	1.52%	13.44%	22.40%
CAC 40 Index	5,372.79	-2.37%	0.81%	10.50%	17.35%
Nikkei 225	22,724.96	3.24%	11.64%	18.89%	24.12%
Hang Seng Index	29,177.35	3.30%	5.89%	32.62%	28.03%
<b>Emerging Markets</b>					
Russia Stock Exchange	2,100.62	1.76%	1.13%	-5.92%	-0.20%
Turkey - Borsa Istanbul 100 Index	103,984.40	-5.59%	1.05%	33.08%	40.53%
MSCI Asia ex Japan	695.97	0.58%	5.29%	35.31%	32.20%
Shanghai Composite	3,317.19	-2.24%	-0.95%	6.88%	2.07%
India - NIFTY 50	10,226.55	-1.05%	4.47%	24.93%	24.34%
Taiwan Stock Exchange	10,560.44	-2.16%	2.23%	14.12%	14.28%
Brazil Ibovespa Index	71,970.99	-3.15%	-3.13%	19.50%	16.26%
Mexico Stock Exchange	47,092.45	-3.15%	-6.46%	3.18%	3.92%
<b>MENA</b>					
S&P Pan Arab (USD)	665.89	-1.14%	-3.43%	-2.49%	1.63%
S&P GCC Composite (USD)	118.16	-1.17%	-3.90%	-2.92%	0.84%
KSA - Tadawul All Share Index	7,003.97	1.00%	-3.83%	-2.86%	0.05%
Dubai - DFM General Index	3,420.97	-5.91%	-4.01%	-3.11%	1.79%
Abu Dhabi - ADX General Index	4,283.07	-4.39%	-2.60%	-5.79%	-0.60%
Qatar Exchange Index	7,714.26	-5.52%	-7.20%	-26.09%	-21.23%
Kuwait Weighted Index	398.78	-5.03%	-7.41%	4.92%	8.62%
Oman - Muscat Securities Market 30 Index	5,109.62	1.97%	-0.54%	-11.64%	-6.89%
Bahrain Bourse All Share Index	1,283.71	0.55%	0.02%	5.18%	9.33%
Egypt - EGX 30	14,582.22	1.67%	4.99%	18.12%	27.32%
Morocco - MADEX	10,260.87	1.71%	3.88%	7.47%	17.41%
Jordan - ASE Index	2,122.47	1.40%	0.04%	-2.20%	-2.23%

\*All Indices are in local currency, unless otherwise noted.

Source: Bloomberg



**Market Data – as of November 30, 2017:**

Fixed Income	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
<b>Bond Indices</b>					
J.P. Morgan Global Agg Bond (USD)	568.13	1.00%	0.70%	6.71%	6.37%
Barclays US Agg Bond	2,037.02	-0.13%	-0.07%	3.07%	3.21%
US Government Totsl Return Value Unhedged (USD)	2,158.94	-0.14%	-0.25%	1.99%	1.88%
Bloomberg Barclays US Corp Bond Index	2,875.55	-0.15%	0.26%	5.46%	6.16%
Bloomberg Barclays US Corp High Yield Bond Index	1,944.09	-0.26%	0.17%	7.18%	9.16%
Global Treasury ex US Total Return Index Value Unhedged	639.00	2.20%	1.46%	9.28%	7.94%
Global Agg Corporate Total Return Index Value Unhedged	256.95	0.56%	0.63%	8.22%	8.72%
JPM Emerging Market Bond Index (USD)	802.89	-0.27%	-0.09%	8.63%	10.20%
Bloomberg Barclays EM High Yield Bond Index (USD)	1,303.92	-0.60%	0.03%	8.91%	10.98%
<b>US Treasury Yields (%)</b>					
3 Month Yield	1.256		1.000	0.971	0.477
2 Year Yield	1.782		1.342	1.288	1.113
5 Year Yield	2.138		1.738	1.719	1.842
10 Year Yield	2.410		2.166	2.159	2.381
30 Year Yield	2.827		2.777	2.810	3.034
<b>Global Treasury Yields (%)</b>					
	<b>Current</b>		<b>3 M ago</b>	<b>6 M ago</b>	<b>12 M ago</b>
British 10 Year Gilt	1.330		1.057	1.038	1.418
German 10 Year Bund	0.367		0.379	0.274	0.275
Japan 10 Year Treasury	0.039		-0.001	0.055	0.025
<b>Commodities</b>					
Commodities	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
<b>Precious Metals</b>					
Gold Spot	1,275.01	0.28%	-0.37%	11.11%	8.68%
Silver Spot	16.44	-1.67%	-1.30%	3.21%	-0.44%
<b>Energy</b>					
WTI Crude					
Brent Crude	57.40	5.55%	11.09%	6.85%	16.10%
Natural Gas	63.57	3.58%	10.48%	11.88%	25.96%
<b>Currencies</b>					
Currencies	Last Price	% Change			
		Monthly	Quarterly	YTD	1Yr Trailing
EUR-USD X-RATE	1.190	2.22%	0.76%	13.19%	12.42%
GBP-USD X-RATE	1.353	1.82%	0.95%	9.60%	8.15%
USD-JPY X-RATE	112.540	-0.97%	0.03%	-3.78%	-1.68%
KWD-USD X-RATE	3.315	0.34%	0.13%	1.32%	1.21%
<b>Interbank Rates (%)</b>					
		<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
London Interbank		1.372	1.487	1.668	1.952
Saudi Interbank		1.485	1.818	2.063	2.258
Emirates Interbank		1.341	1.633	1.880	2.384
Qatar Interbank		2.200	2.447	2.642	2.950
Kuwait Interbank		1.563	1.750	2.000	2.313

Source: Bloomberg

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