Macro Economic Review
Regional and Global Trends

November 27, 2018

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Middle East and Africa

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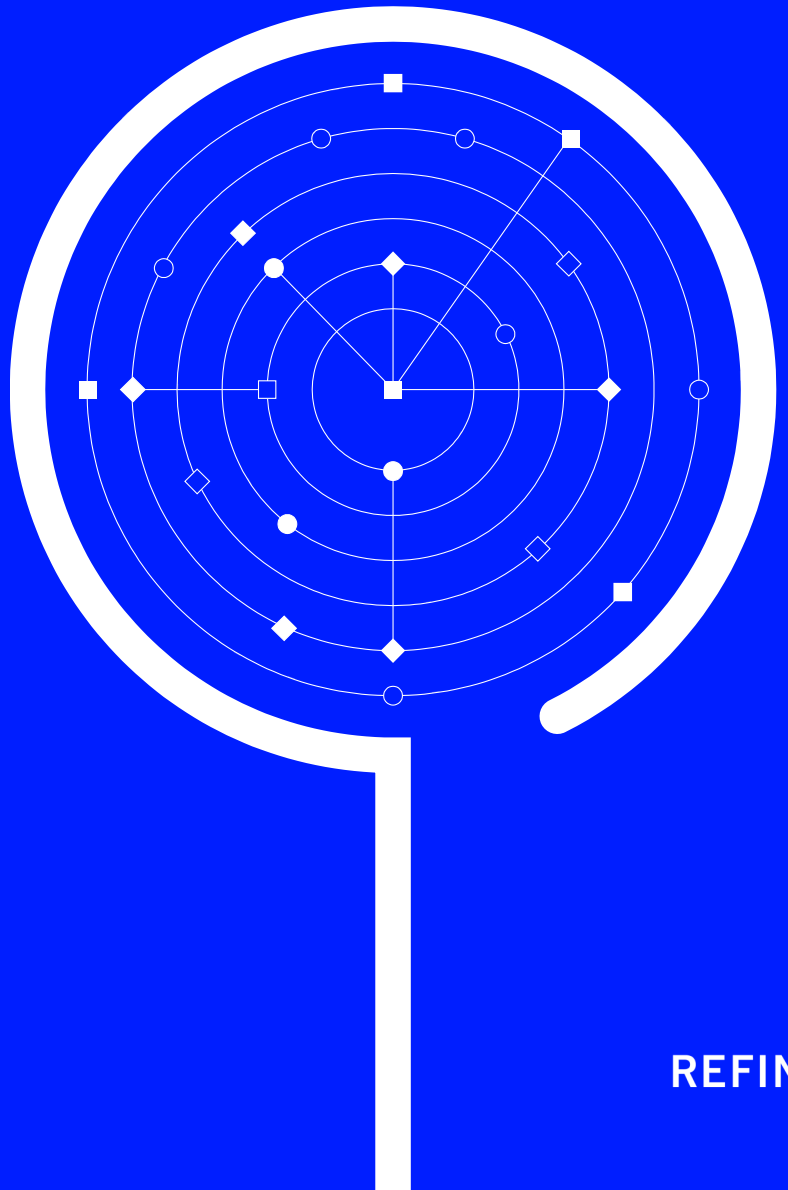
REGIONAL OUTLOOK

- **Growth**
- **Fiscal position**
- **Oil price outlook**
- **Credit and Equities**
- **Headwinds**
- **Government Initiatives**



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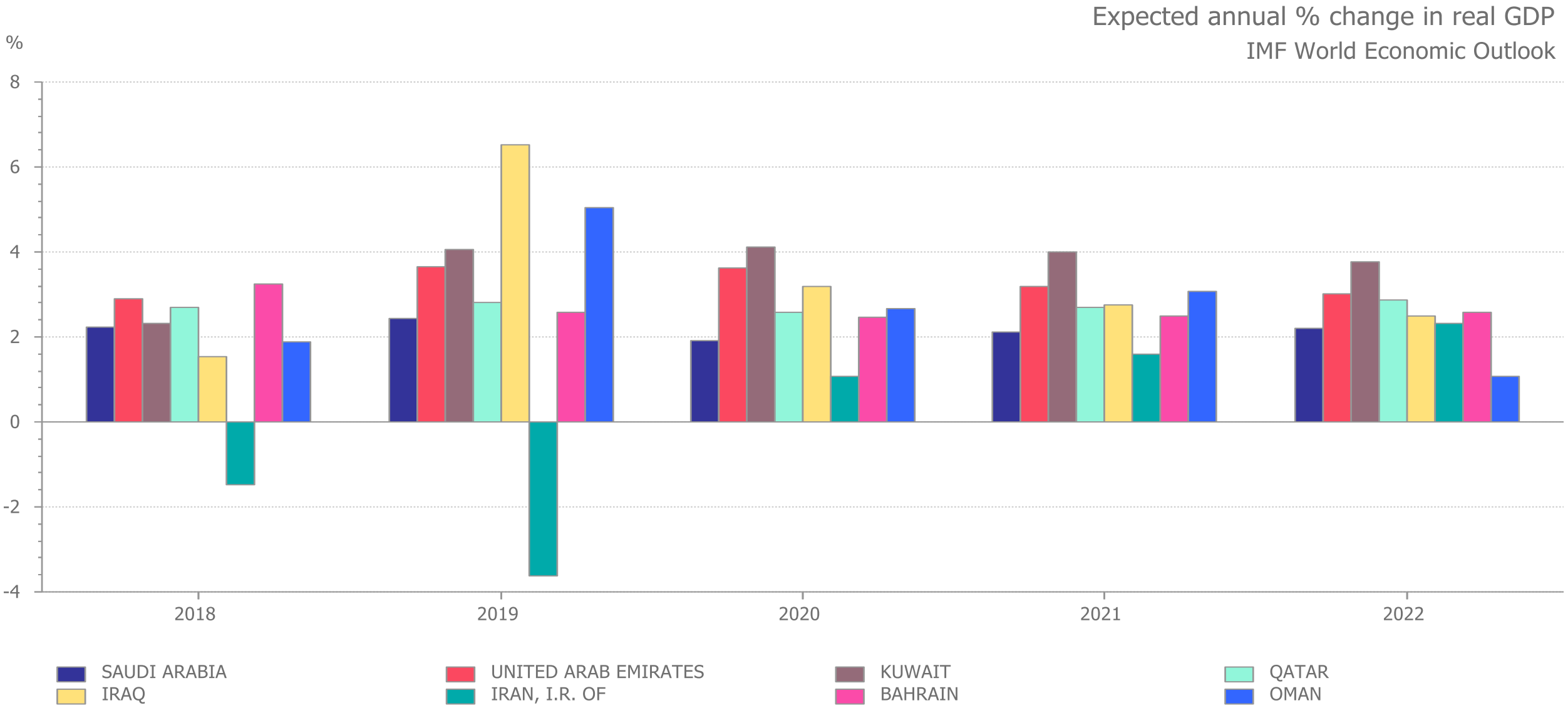
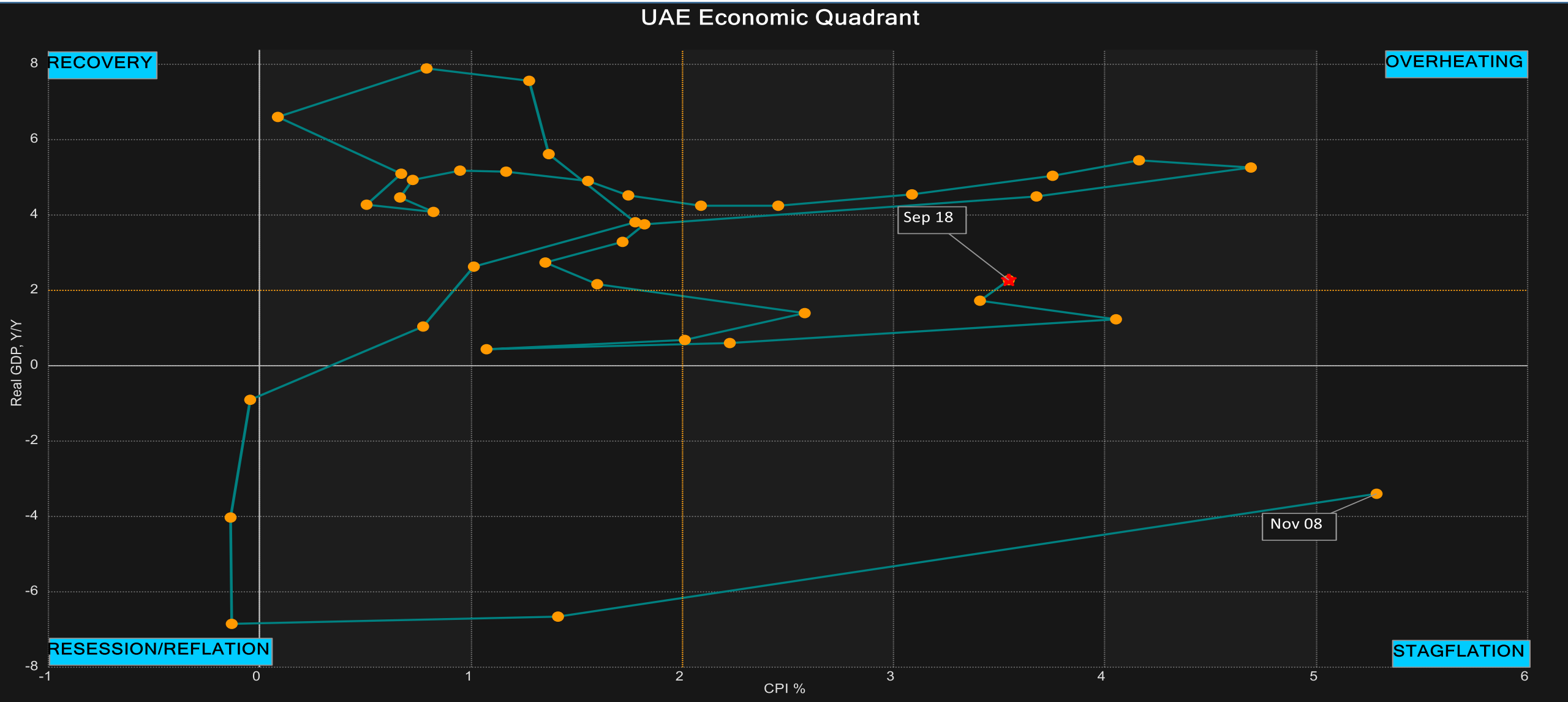
IMF FORECASTS FOR REGIONAL GDP GROWTH TO 2022



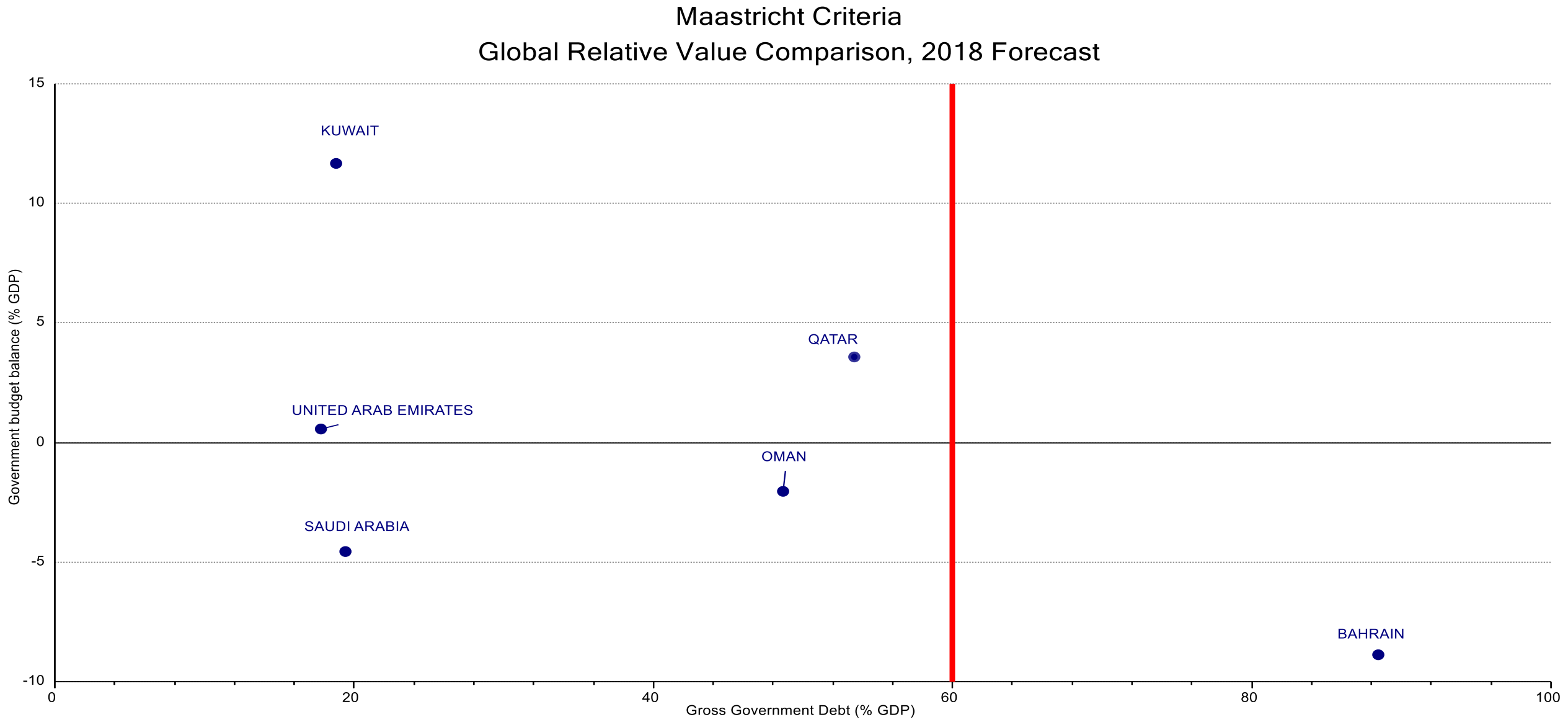
Source: Thomson Reuters Datastream

UAE GDP GROWTH Vs CPI



Source: Thomson Reuters Datastream

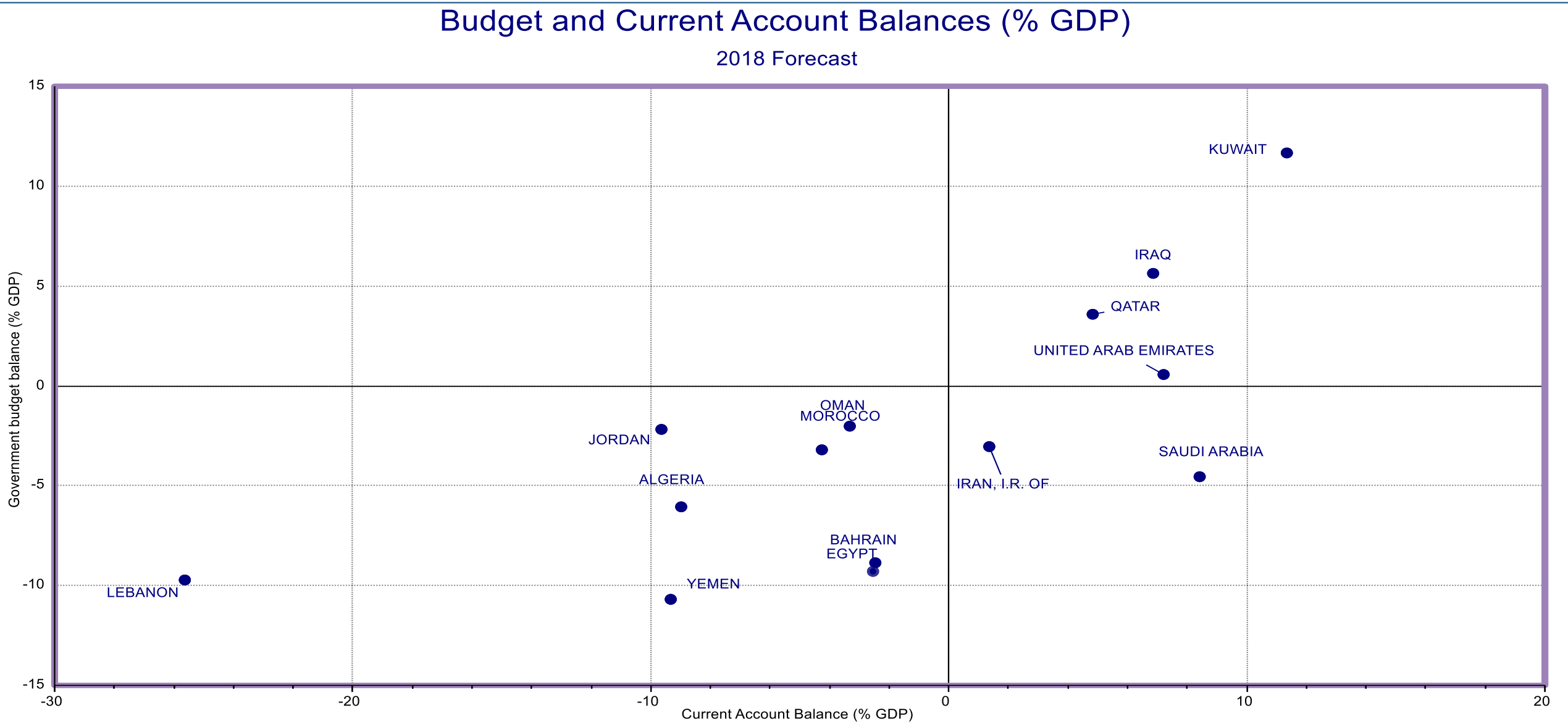
REGIONAL BUDGET BALANCE Vs DEBT AS PCT OF GDP



IMF World Economic Outlook

Source: Thomson Reuters Datastream

REGIONAL BUDGET BALANCE Vs CURRENT ACCOUNT BALANCE



IMF World Economic Outlook

Source: Thomson Reuters Datastream

REGIONAL OIL PRICE BREAK EAVEN PRICE FOR FISCAL BALANCE

Analysts Oil Price Forecast out to 2022

OILPOLL Quote OILPOLL

OILPOLL Monthly oil poll

REUTERS MONTHLY POLL ON OIL PRICES

Update: Oct. 31

Following are detailed forecasts from the latest Reuters crude oil price poll of 46 industry analysts. This poll is updated monthly. For story click [O/POLL].
For individual forecasts, click <OILPOLL2>
For newly launched Oil Poll RICs please click here : <O#OILPOLL>

YEARLY FORECASTS (IN DOLLARS PER BARREL)

	BRENT					WTI				
Period	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Mean	74.48	76.88	74.25	70.74	71.38	67.91	70.15	68.63	65.61	66.38
Median	74.30	76.00	73.03	70.00	70.00	68.00	70.00	68.00	65.00	65.00
Highest Forecasts	78.00	90.00	100.00	90.12	91.41	70.10	80.00	92.50	84.12	86.41
Lowest Forecasts	71.80	65.00	50.00	55.00	57.50	64.00	57.00	47.00	52.00	53.50
No. of Forecasts	45	44	33	28	22	42	40	30	25	21

QUARTERLY FORECASTS (IN DOLLARS PER BARREL)

	BRENT				WTI			
Period	Q4-18	Q1-19	Q2-19	Q3-19	Q4-18	Q1-19	Q2-19	Q3-19
Mean	79.92	78.90	77.25	76.30	71.75	71.45	70.23	69.87
Median	80.00	78.00	76.44	76.00	71.90	70.30	70.25	70.00
Highest Forecasts	85.00	88.00	93.00	93.00	77.13	79.00	83.00	83.00
Lowest Forecasts	72.50	68.50	65.00	62.50	65.00	60.50	58.00	56.00
No. of Forecasts	42	41	40	39	38	37	36	35

- The average of polled analysts forecast a mean price peak of $76.88 during 2019 for Brent Crude

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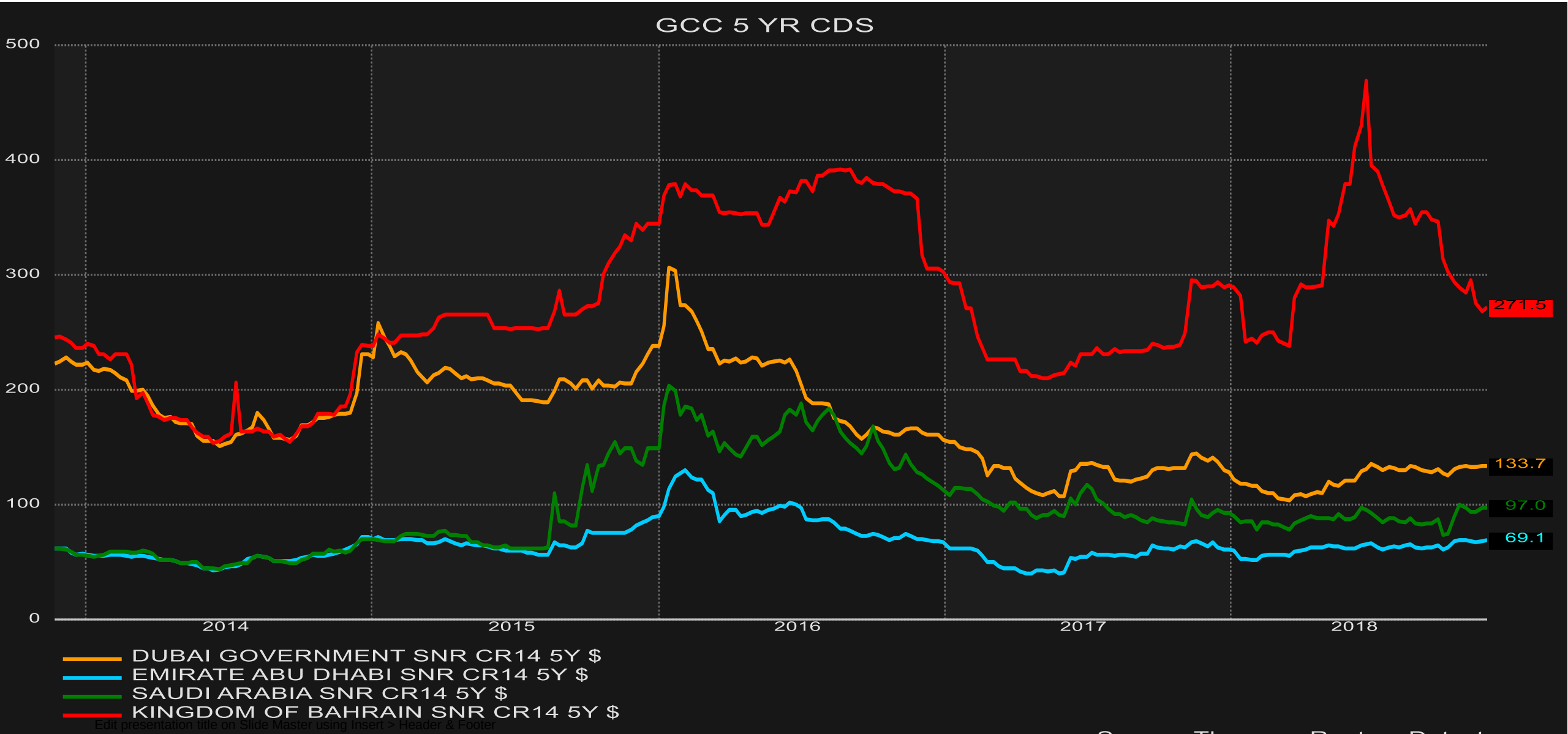
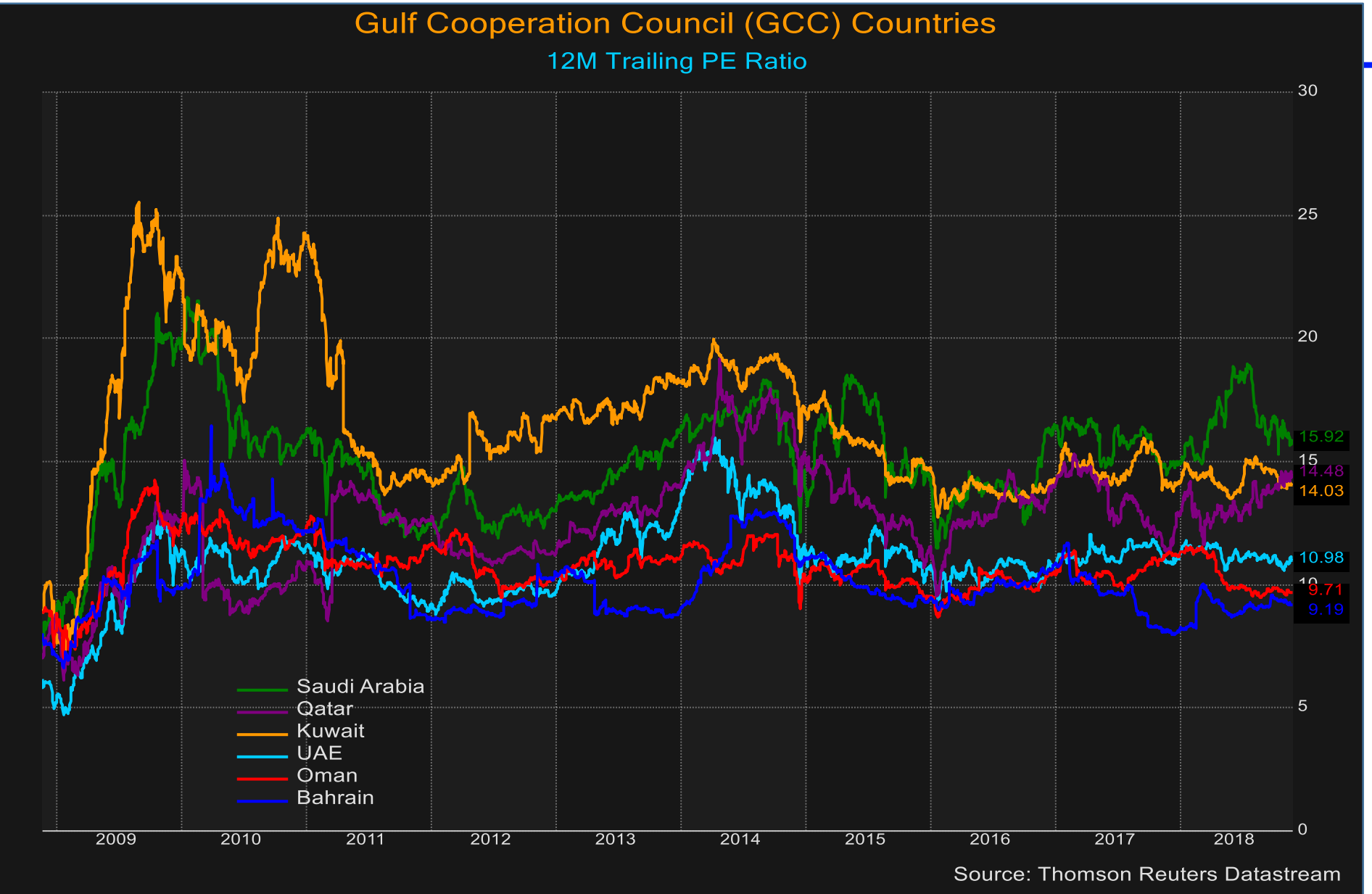
GCC 5YR CDS PRICES – MEASURE OF CREDIT STRESS



GCC EQUITIES – VALUATIONS ARE ATTRACTIVE



- GCC equity markets are undervalued
- Inclusion of KSA in the MSCI Emerging markets index will see inflows of US$40bn+ during 2019
- Kuwait expected to be included in June 2019

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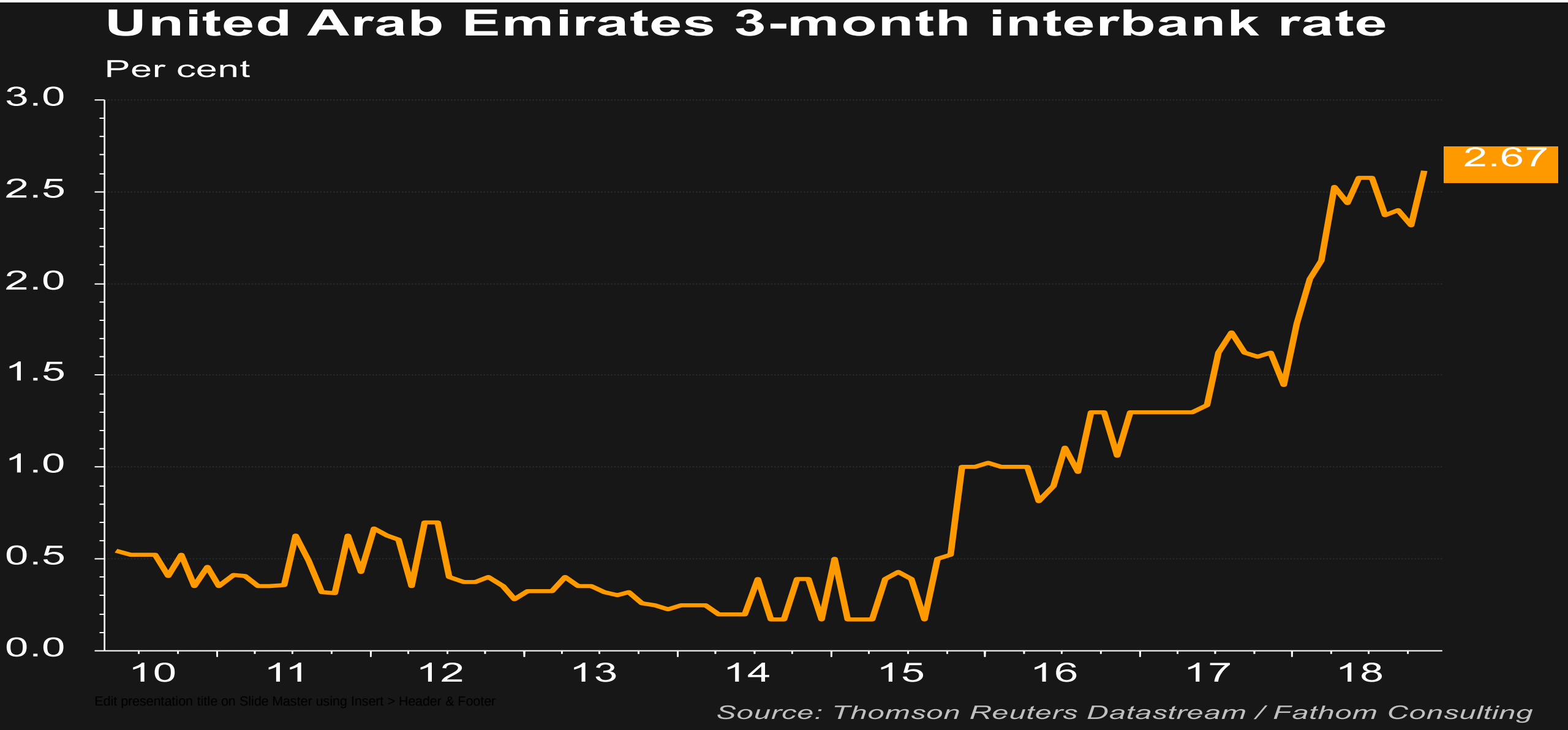
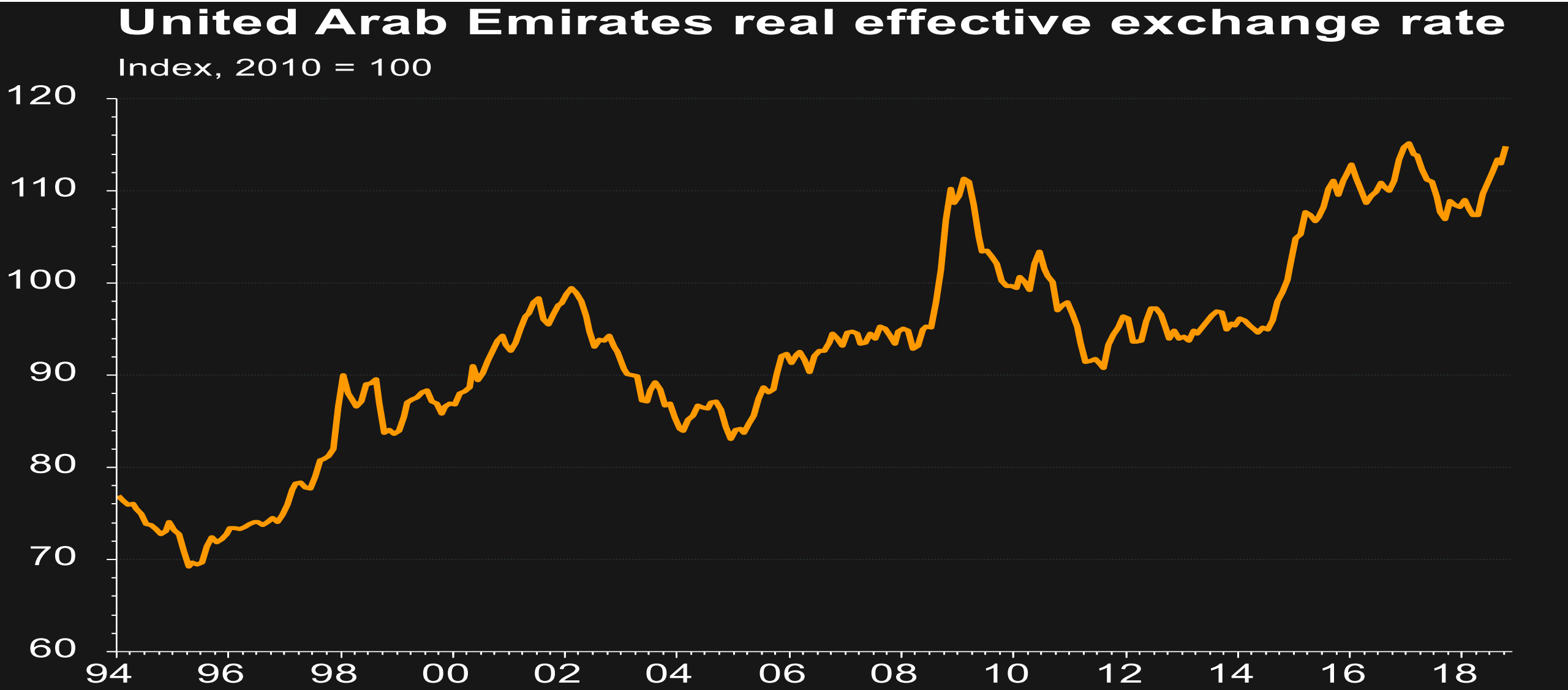
HEADWINDS FOR ECONOMIC GROWTH – RISING INTEREST RATES

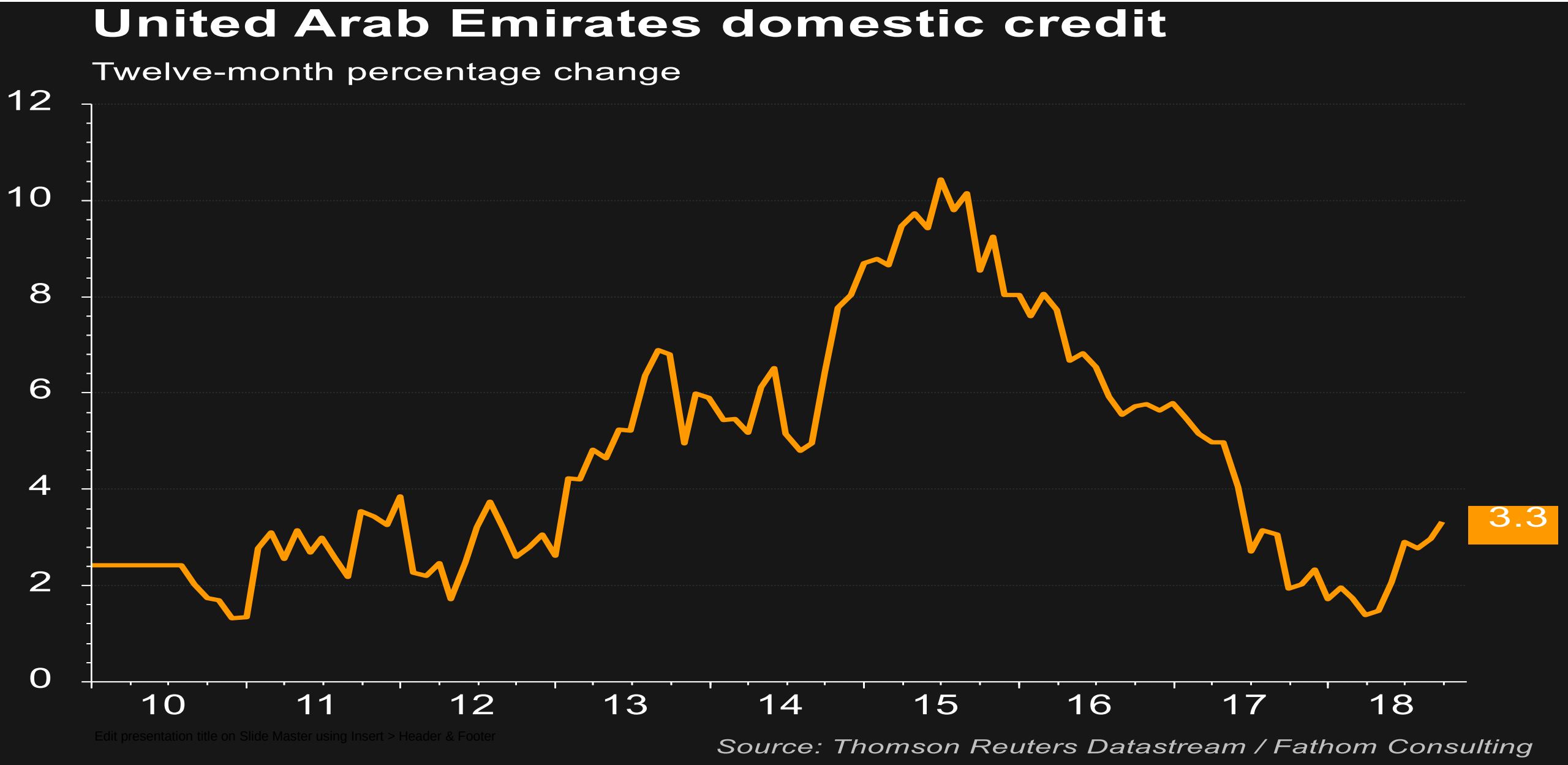


HEADWINDS FOR ECONOMIC GROWTH – RISING AED

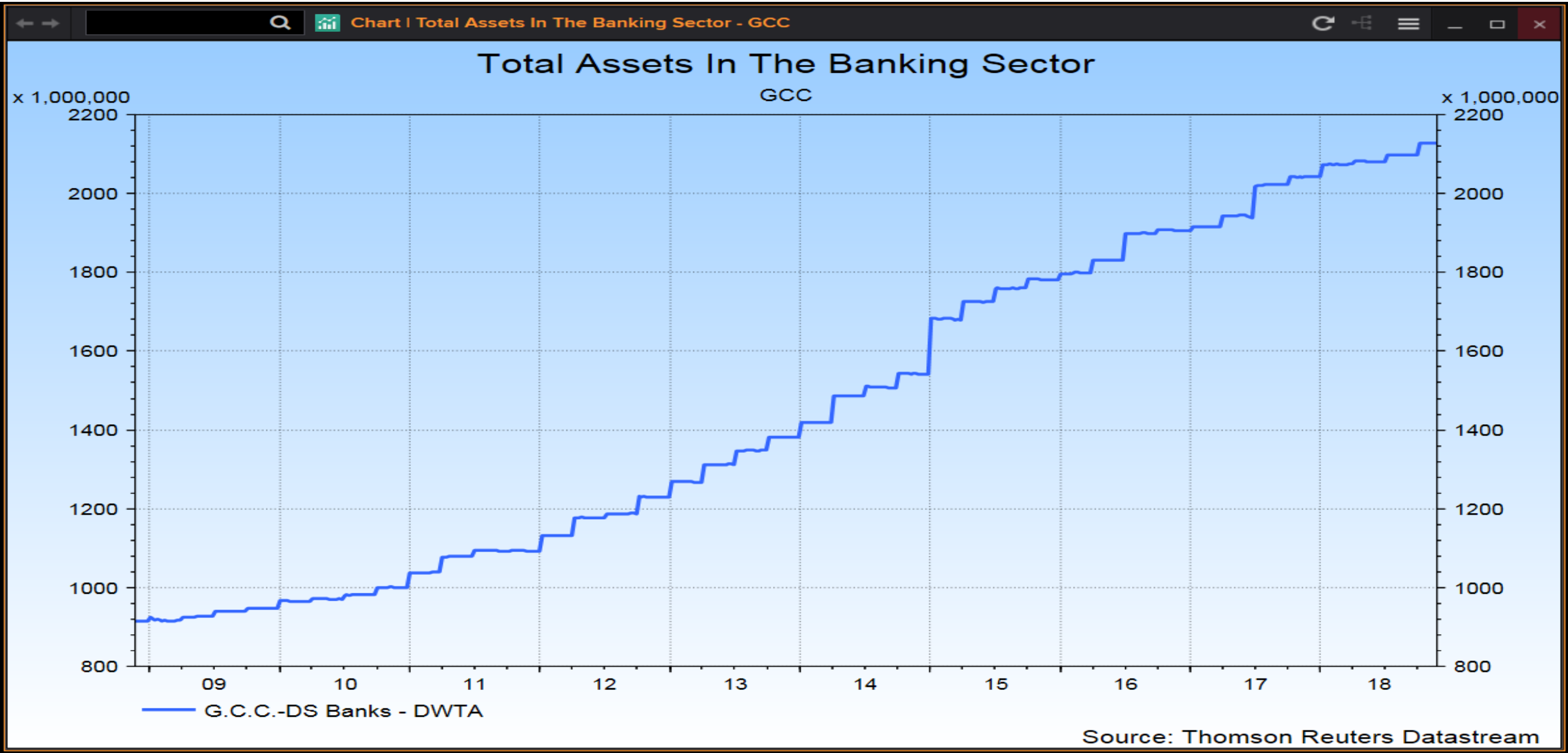


Source: Thomson Reuters Datastream / Fathom Consulting

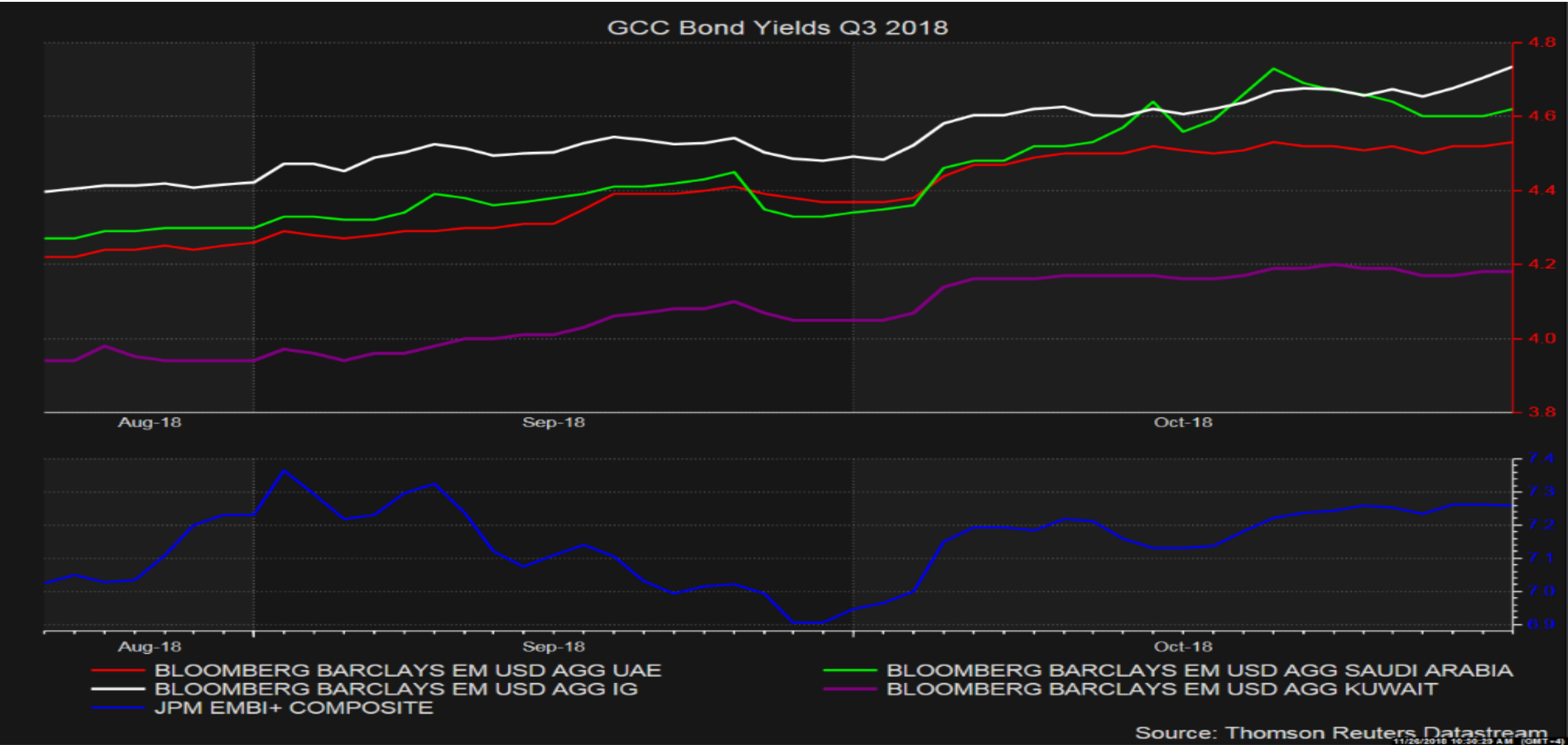
UAE DOMESTIC CREDIT GROWTH



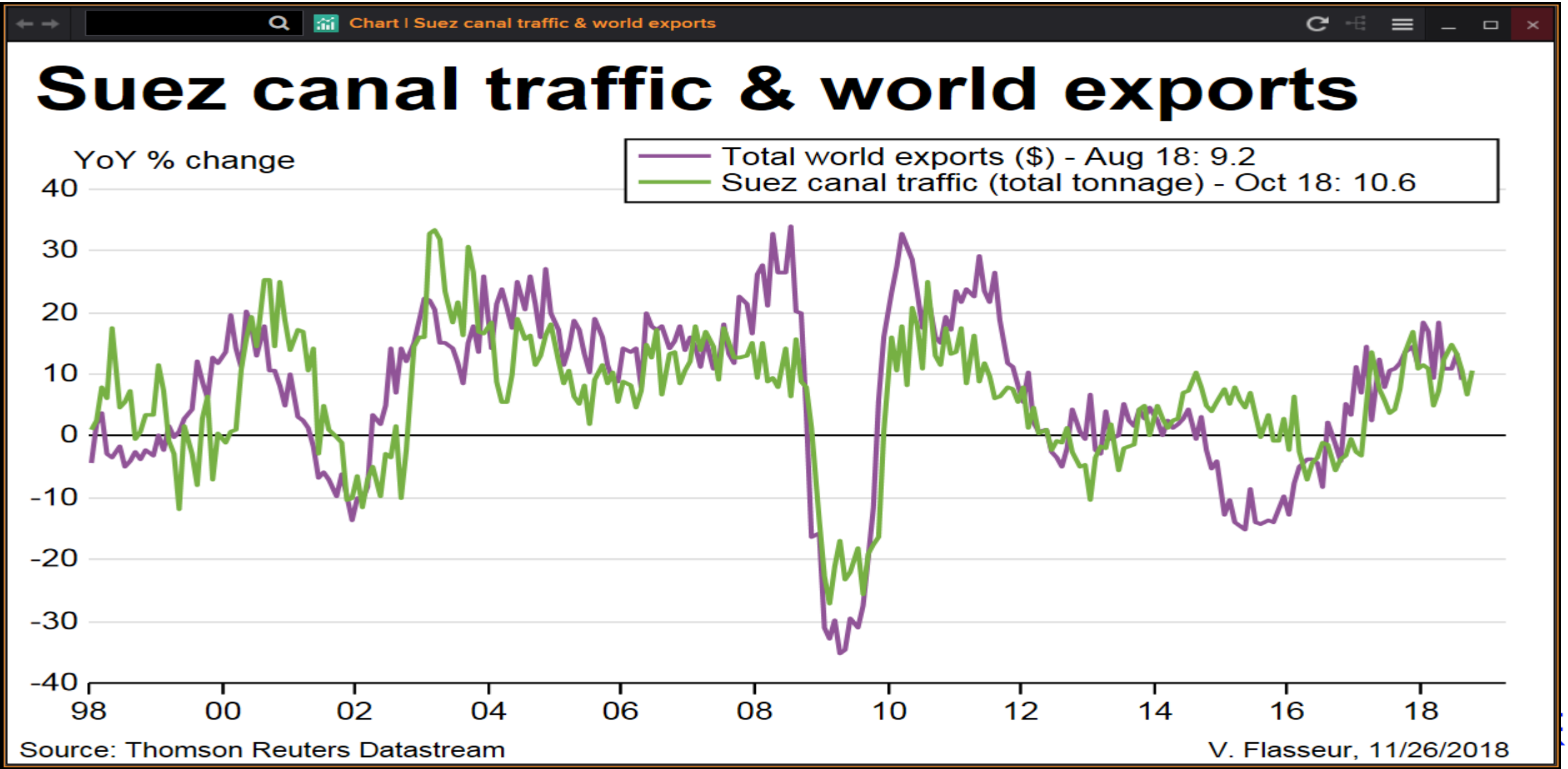
GCC Banks are well capitalized



GCC Bond Yields rise less than Emerging Market Average



Suez Canal Traffic suggests world trade is robust



Abu Dhabi ‘Ghadan 21’ Economic Stimulus

- US$13.6bn stimulus package approved over three years
- US$5.45bn to be allocated in 2019
- Aim to improve business environment focusing on:
  - Business and Investment
  - Society
  - Knowledge and Innovation
  - Lifestyle

- Plan to create atleast 10,000 jobs for Emiratis in the Private and Public sectors over five years
- Boost competitiveness of SMEs on local and regional levels

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GLOBAL OUTLOOK

- **US Growth**
- **Expectations for future US rates**
- **FX forecasts**
- **Brexit**
- **US v China – trade and tariffs**

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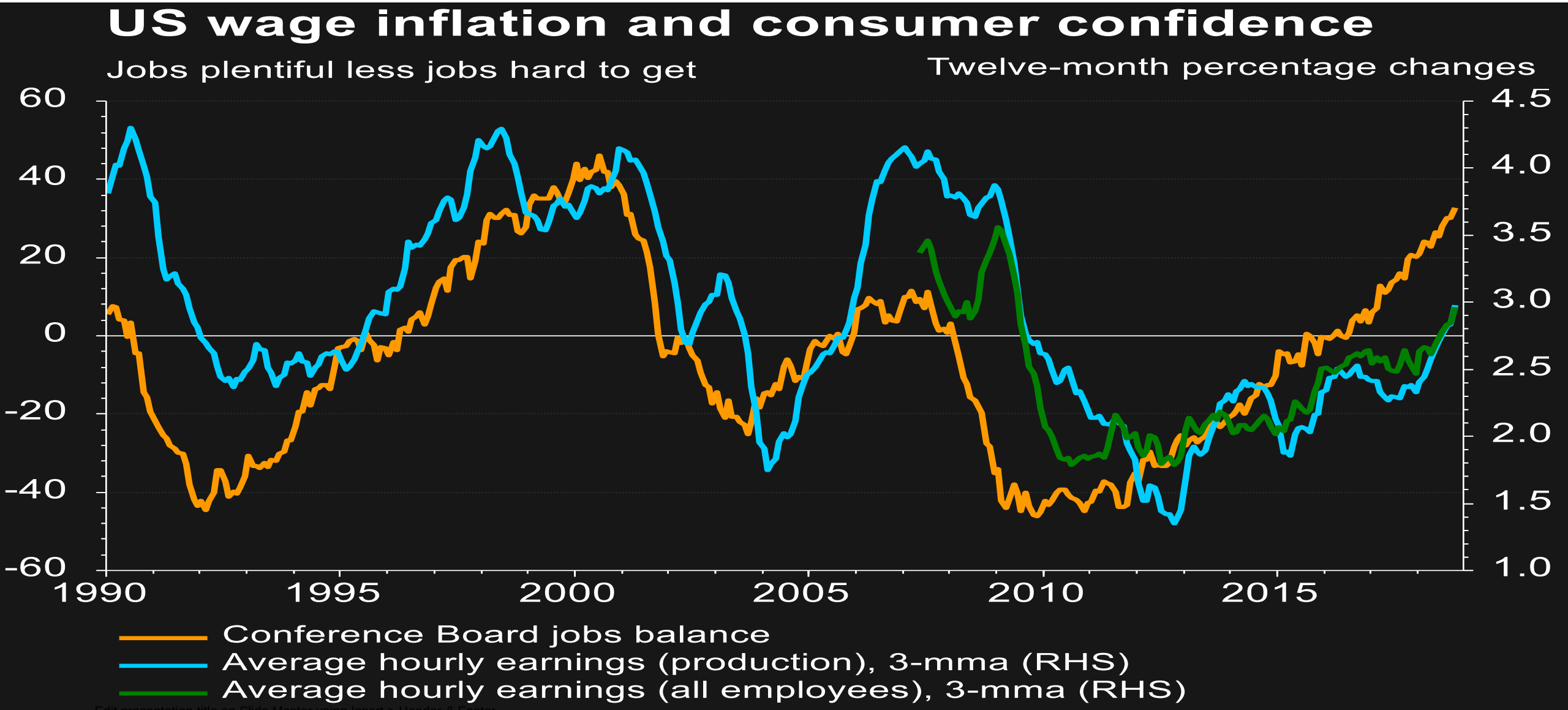
US ECONOMY FIRING ON ALL CYLINDERS



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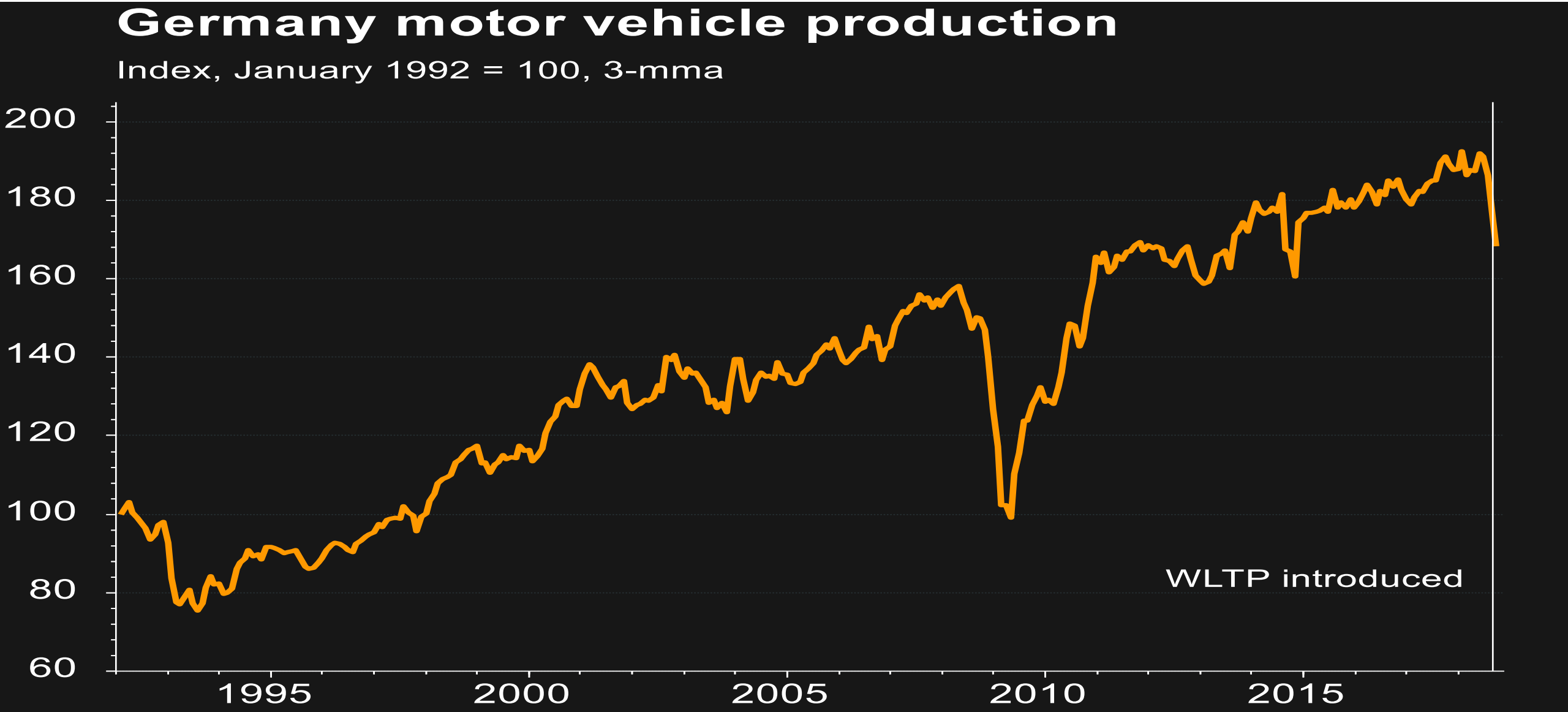
Flattening US Yield Curve – suggests growth is set to slow?

GERMAN MOTOR VEHICLE PRODUCTION DECLINES SHARPLY



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HOW IS THE MARKET PRICING US INTEREST RATES IN THE NEXT YEAR?

IMPLIED RATES & BASIS POINTS

Meeting Date	Implied Rate	Basis Points
19-Dec-2018	2.3870	19.0
30-Jan-2019	2.4000	20.3
20-Mar-2019	2.5170	32.1
01-May-2019	2.5490	35.2
19-Jun-2019	2.6150	41.8
31-Jul-2019	2.6400	44.3
18-Sep-2019	2.6900	49.3
30-Oct-2019	2.7000	50.3

- Futures market pricing in two 25bp hikes in the next 12 months
- This is down from three in September

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MOST EQUITY MARKETS DOWN FOR THE YEAR – S+P OFF 10% FROM HIGHS

FX FORECASTS

FX POLLS

REUTERS

FXPOLLS

More Reuters Polls

CCY Pairs: Majors

View Forecasts Expressed

		Name			Bid/Ask	3M	6M	1Y
	EURUSD	Euro	▼	1.13	38/44	1.1600	1.1800	1.2200
	GBPUSD	British Pound	▲	1.28	19/24	1.3100	1.3400	1.3800
	AUDUSD	Australian Dollar	▲	0.72	34/39	0.7200	0.7300	0.7500
	USDCAD	Canadian Dollar	▼	1.32	30/34	1.2850	1.2700	1.2600
	USDCHF	Swiss Franc	▲	0.99	67/77	0.9900	0.9800	0.9800
	USDJPY	Japanese Yen	▼	112.	94/96	112.00	110.50	109.00
	USDCNY	Chinese Yuan	▼	6.94	77/93	6.9500	6.9500	6.8500

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BREXIT

- EU leaders have agreed withdrawal agreement with PM May
- This agreement needs majority support in the UK Parlaiment – this is far from certain

- Potential Scenarios:
- Withdrawal agreement gains required support – market and GBP supportive
- Withdrawal agreement fails to gain majority support – further GBP falls

In this instance potential for challenge on PM May's leadership; General election; Plan B (although this is ruled out by the EU i.e. Canada or Norway option

OR

Hard Brexit……least likely outcome but still possible……..

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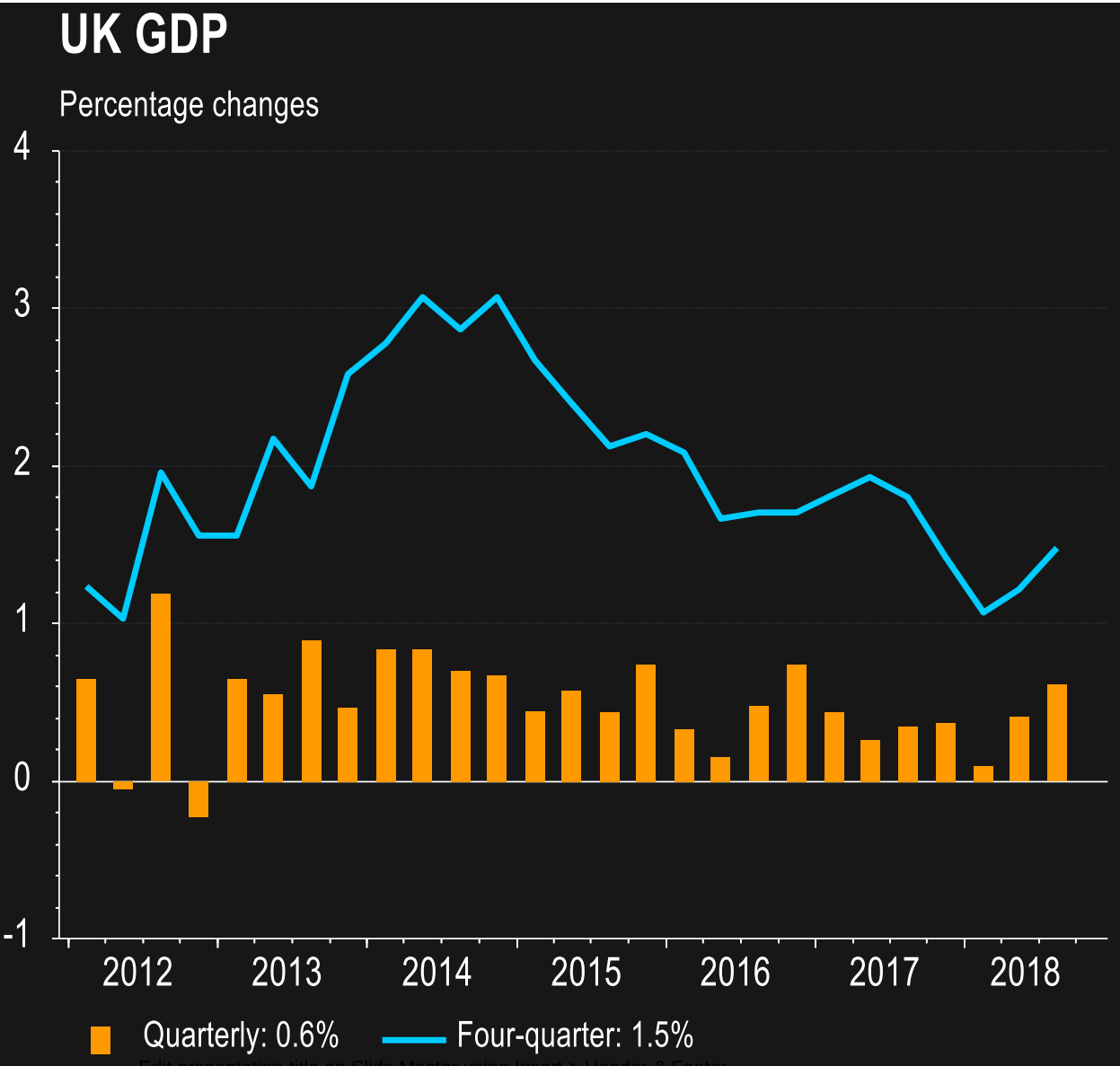
UK AND EUROZONE GDP – NO ROOM FOR COMPLACENCY



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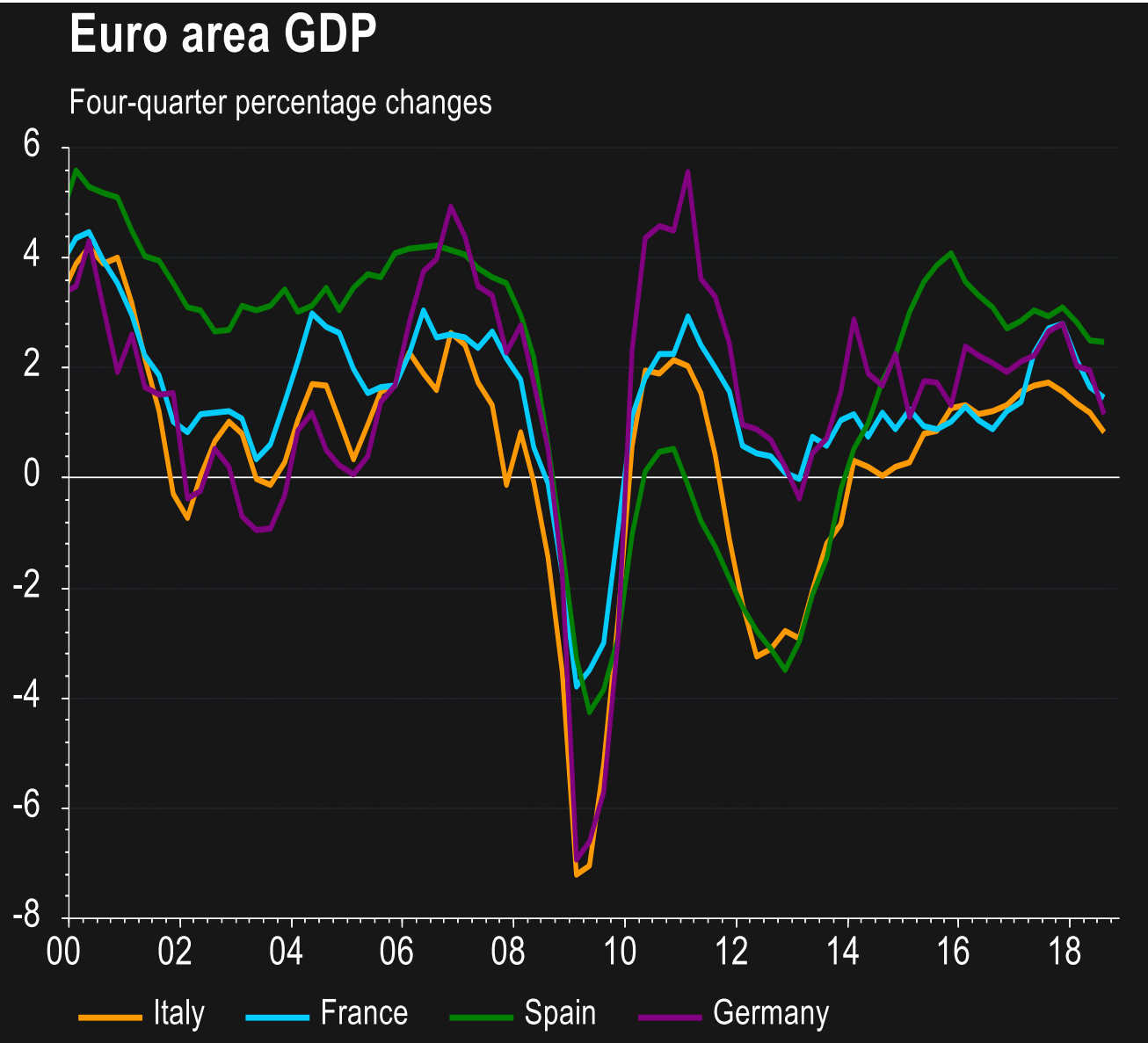

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US v CHINA TRADE WAR

- Chinese Remnimbi has fallen by 11% this year v US$
- 7.00 is key CNY support
- Break above could see another 10% move
- US and China have chance to reach compromise agreement at G20 summit next month
- Failure to compromise will see US tariffs on US$200bn worth of Chinese imports rise from 10 to 25% Jan 1 2019
- OECD warn global growth could be hit by 0.8% if there is a full blown trade war

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OUTLOOK FOR 2019 - CONCLUSIONS

- Improving growth prospects for the UAE in 2019 based on
  - Higher government spending
  - Stabilizing interest rates
  - Weaker USD
  - Undervalued equity markets attracting investment flows

- RISKS
  - Hard Brexit
  - Fed overtightens monetary policy
  - Trump administration extends trade tariff war

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Thank you

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