

**MENA Investment
Congress**

Hosted by



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Emirates**

MENA 2018 Macro Outlook

Presented by Lighthouse Research

Outline

- Global Backdrop
- GCC Outlook
- How to Analyze the GCC
- Non-GCC Outlook
- Key Themes for 2018

Global Backdrop

- Synchronized Upswing
- Improvement in Global Trade
- More Open Economies to Benefit

Chart: Global Growth Forecasts

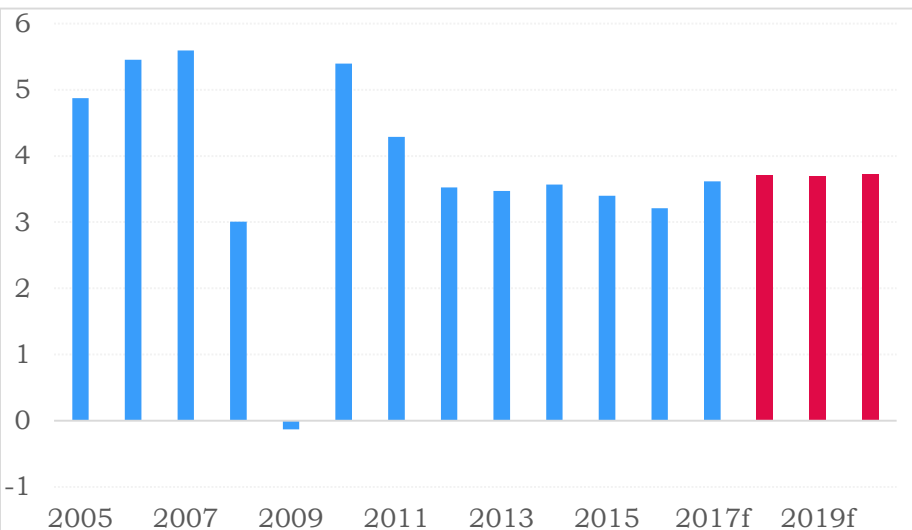
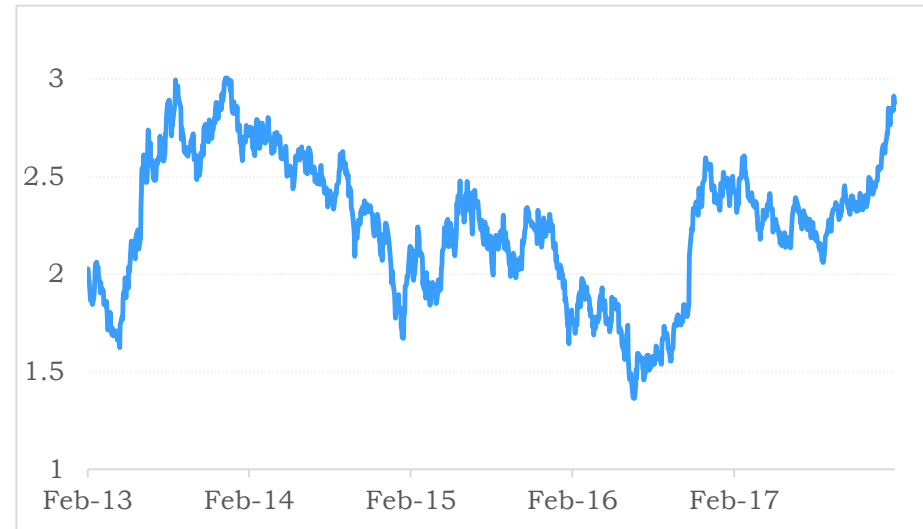


Chart: U.S. 10-year Treasury Yield, %



- Yet USD Weakness Prevails
- U.S. Rate Hikes Appear Gradual*
- Appetite for EM Assets Strong

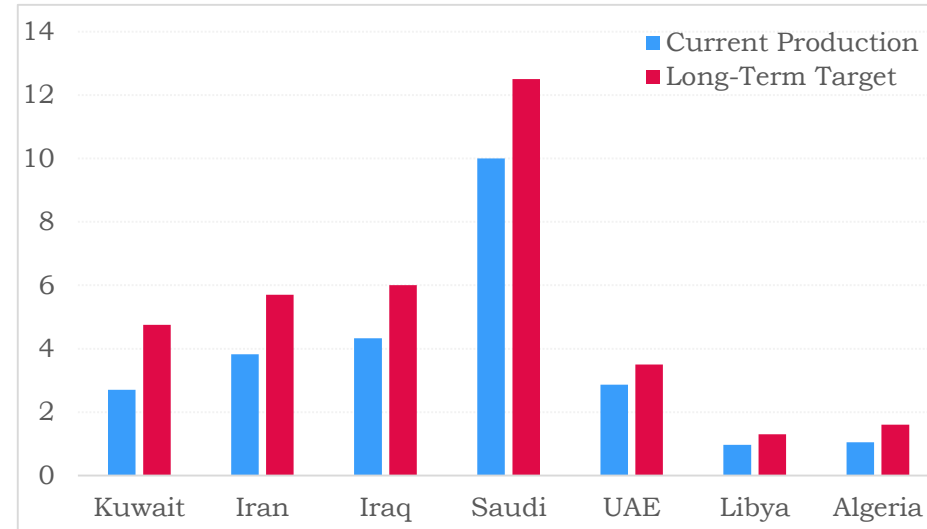
Oil Market Outlook

- USD55-65 a Comfortable Range
- Stronger Business Sentiment
- Helping to Fuel Spending

Chart: Brent Crude, USD/bbl



Chart: Oil Production Targets, mn b/d



- What About OPEC?
- What About Shale?
- Long-Term Targets Suggest Ample Supply Beyond 2018

GCC Outlook

- Straightforward Economic Model
 - Government Spending is Key
- 2017 Wasn't a Great Year
 - Slowest Region in World
- Oil Production Not Yet a Factor

Chart: GCC Real GDP Growth, % y/y, Weighted Avg.

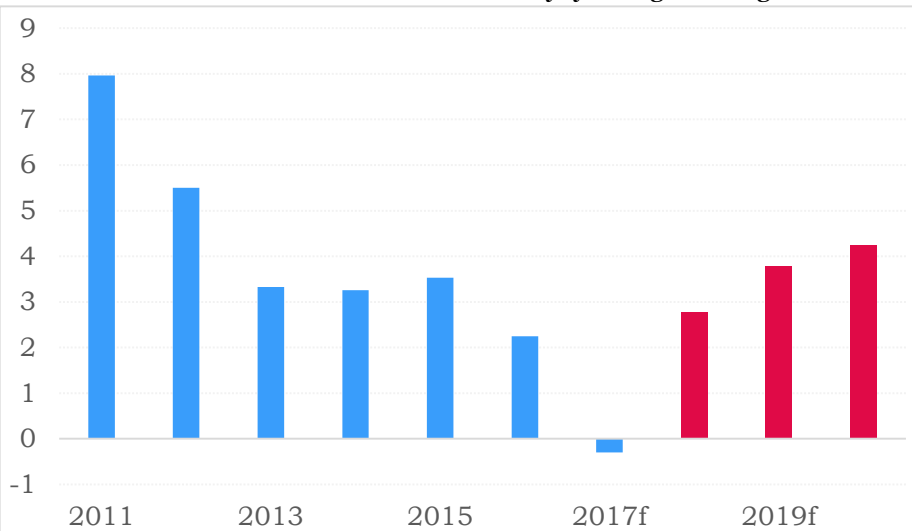
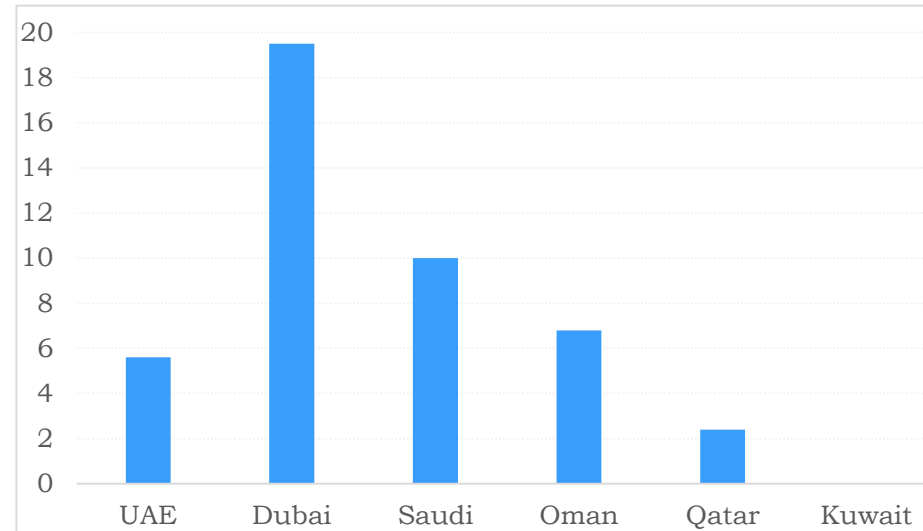


Chart: 2018 Budgets, % y/y on Original 2017 Budgets



- Austerity to Reverse
- Cyclical Upswing
- Reforms Should Continue

GCC Reform Story

- “We are Positive on the Reform Story”
 - Careful What you Wish for
- Policy Isn’t Designed in a Vacuum
- Unemployment is THE story

Chart: Saudi Arabia Unemployment, %

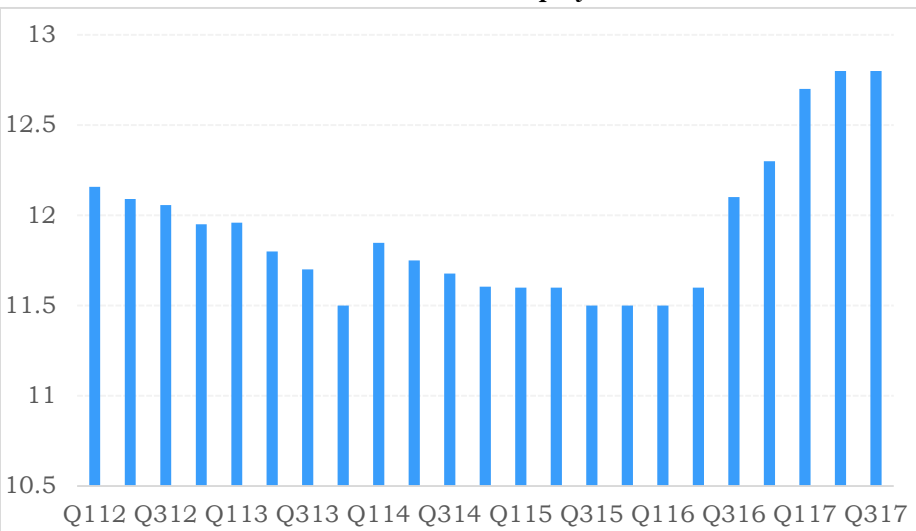
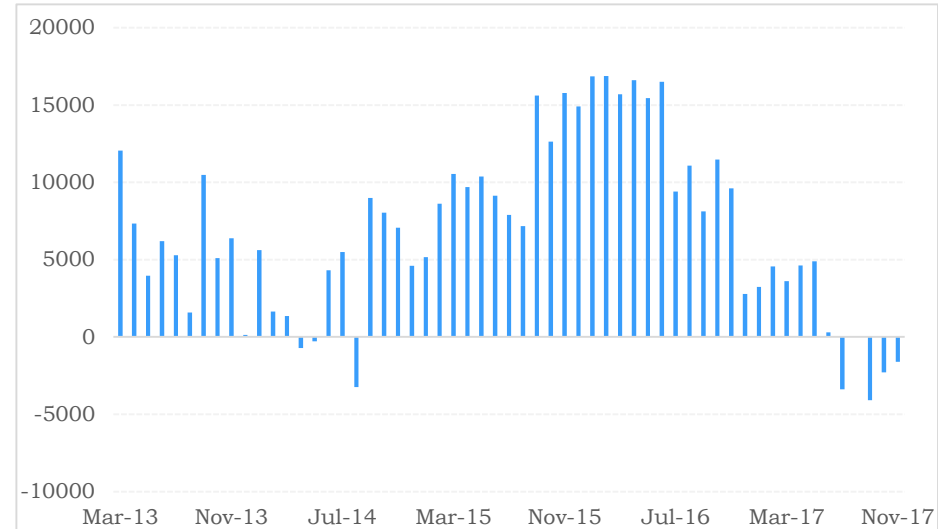


Chart: Expat Employment in Oman, chg, m/m



- Multiple Avenues of Reform
 - Subsidies
 - Investment Policies
 - Monetary/E-Rates
 - Privatization
 - Levies
 - Employment

How to Analyze the GCC

- Two Key Features of Region
 - Limited Data
 - Population Elasticity
- “Better Stats. Better Decisions”
- Anecdotes are Useful, to an Extent

Chart: UAE LinkedIn Job Starts

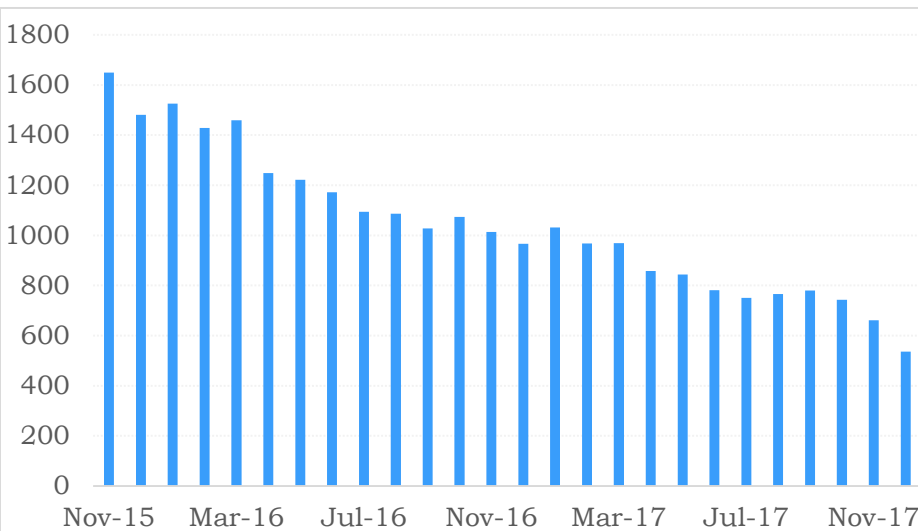
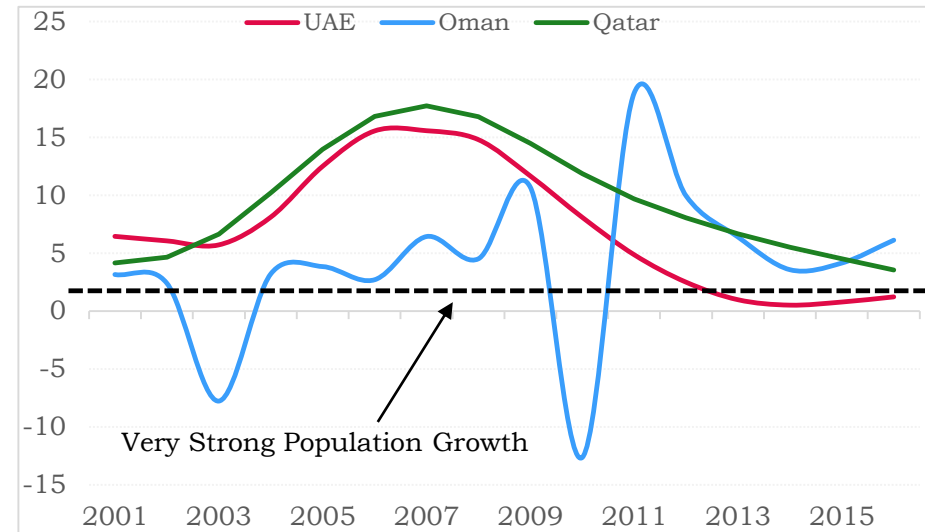


Chart: Population Growth, % y/y



- Demographics is Destiny
- Elasticity Magnifies Cycles
- 5% Population Growth?
- In Search of Alternative Measures

How to Analyze the GCC

- When Possible, Watch What Locals are Doing with their Money
- Locals Tend to Have Better Information than Foreign Investors

Chart: Set Selling on Tadawul, Saudi Retail Investors, SARbn

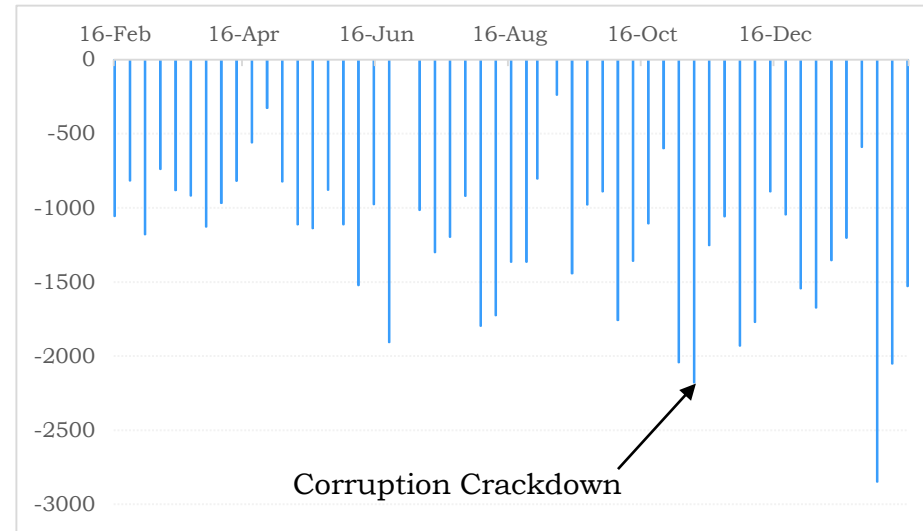
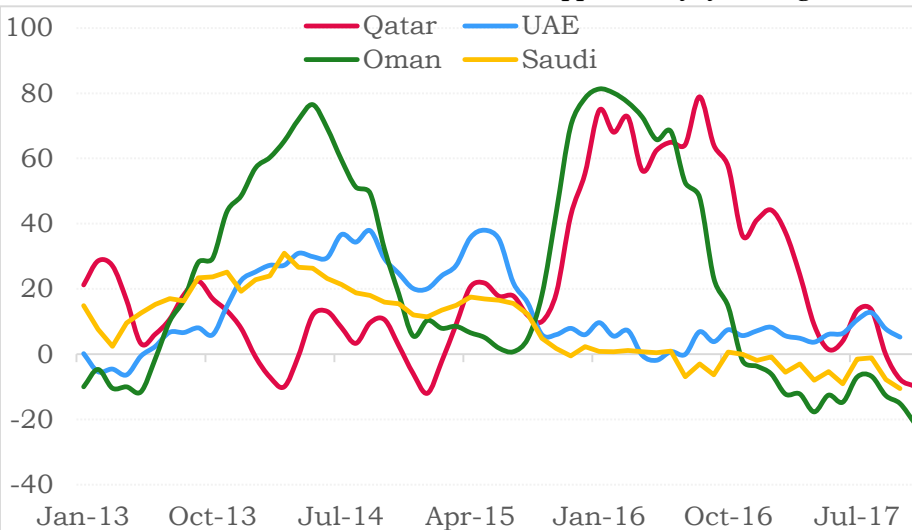
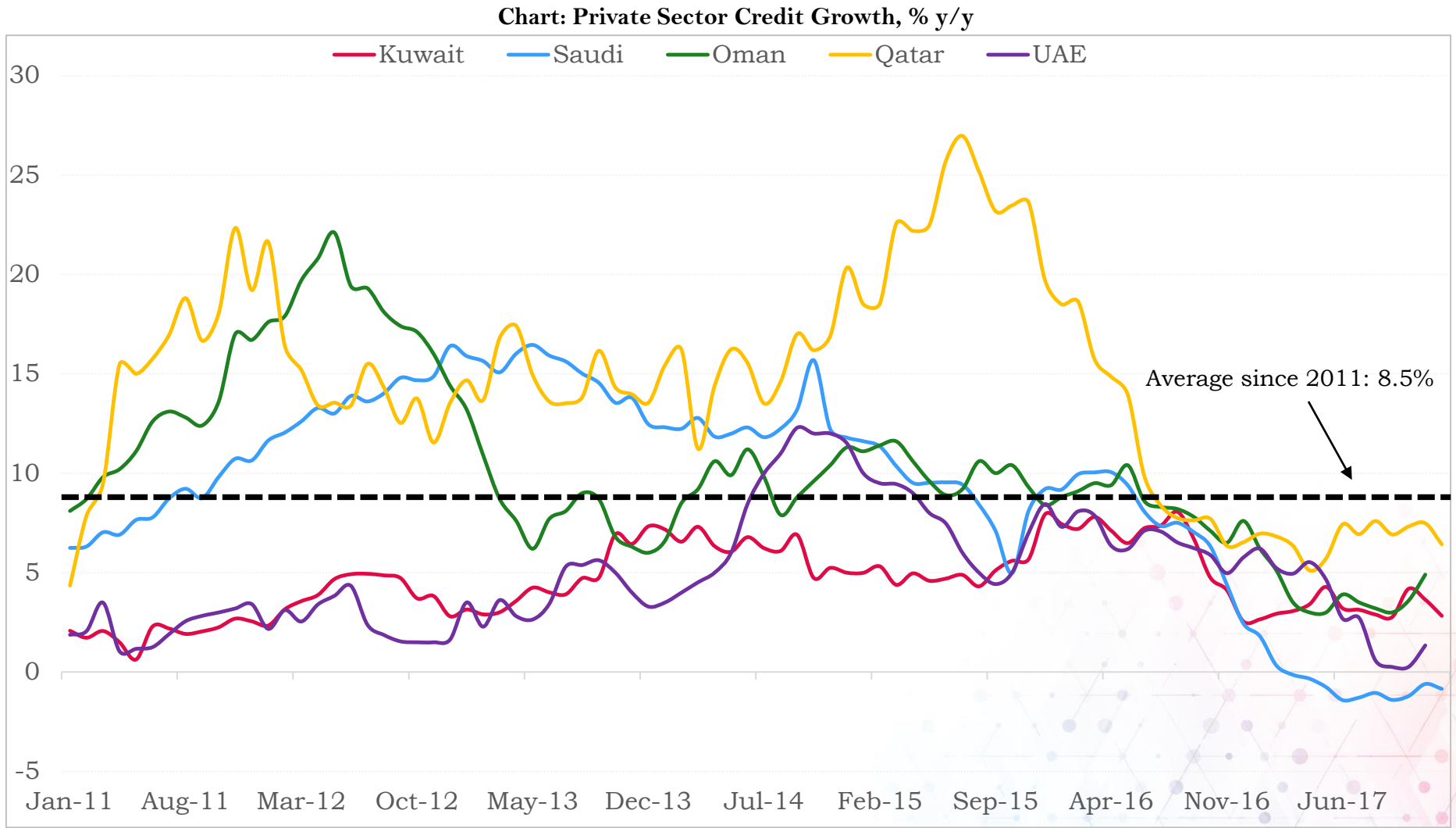


Chart: Remittances to Pakistan & Philippines, % y/y, 3mavg



- Look to Other Stats Agencies
- Remittances Provide Clues on Non-Oil Economy

GCC in One Chart



Non-GCC Outlook

- 2018 Marks a Turning Point
- Stabilization in Security Environment
- Rebound in Tourism Sector

Chart: Pre & Post-Crisis Rates of Growth, % y/y

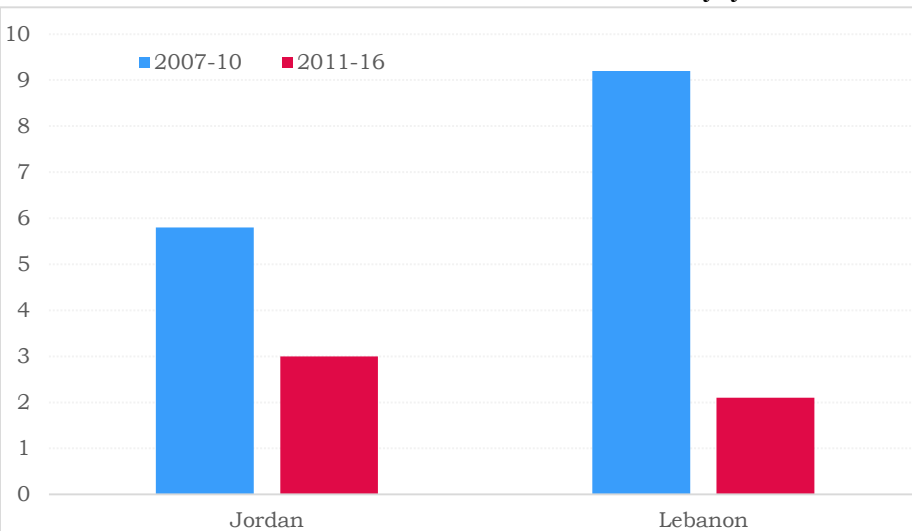
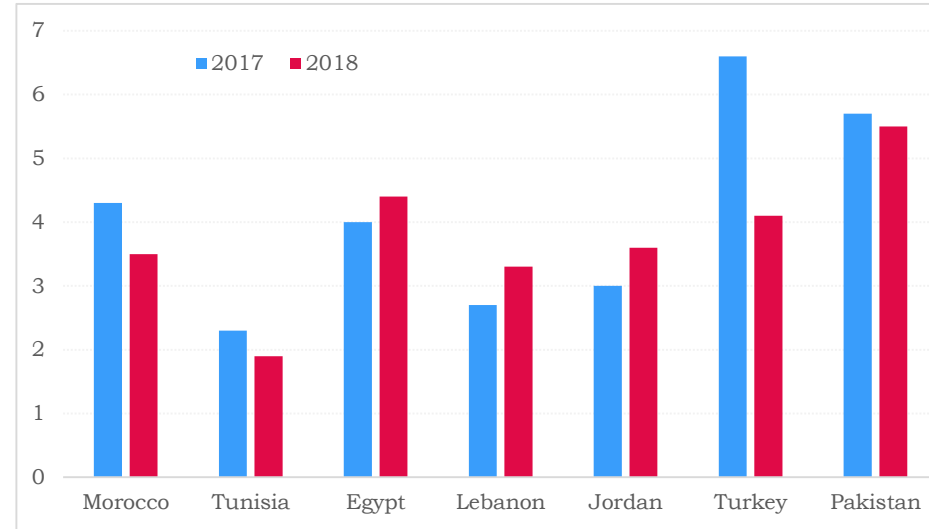


Chart: Real GDP Growth Forecasts, % y/y



- Strong Demand for EM Debt
- Reconstruction Opportunities
- Agricultural Production

Political Risk Here to Stay

- Increasingly Important for Businesses
- Weighing on Investor Sentiment
- Was 2017 an Anomaly?
 - Yemen, Hariri, Qatar, Ritz

Chart: Qatar Exchange General Index

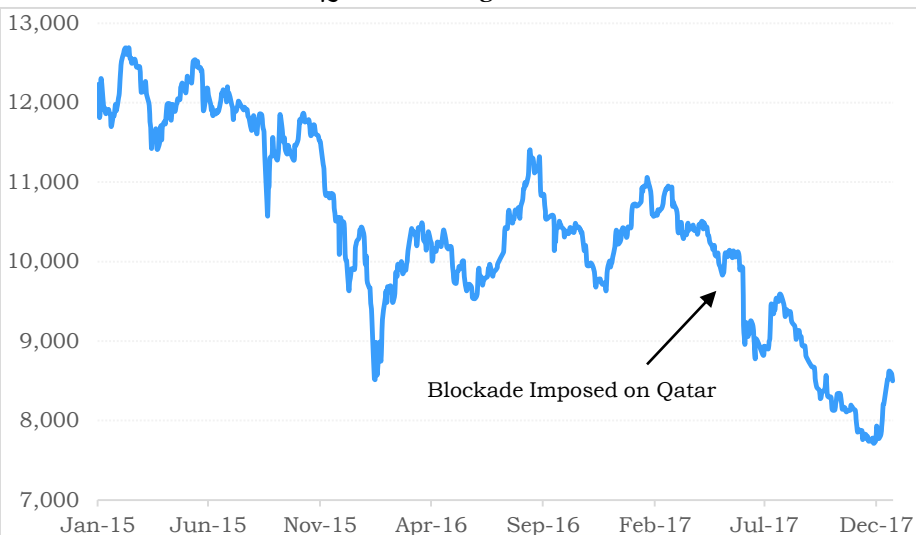
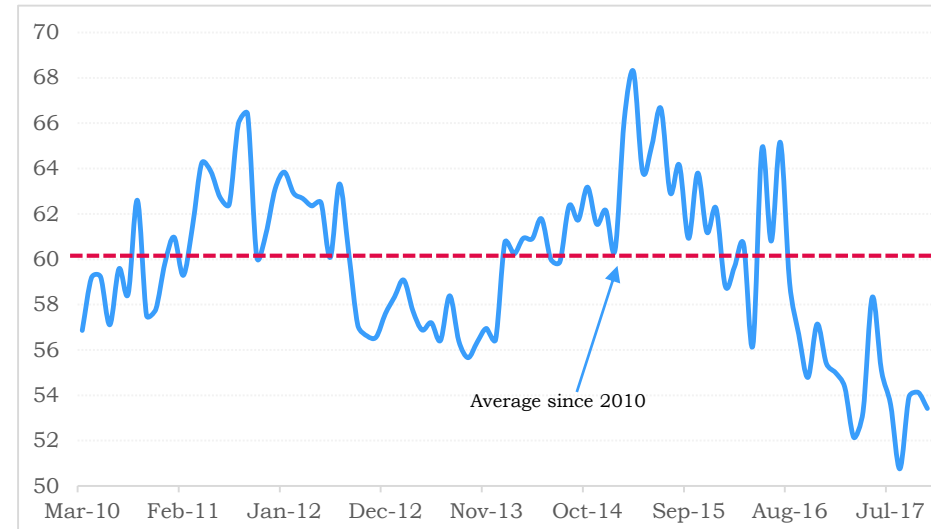


Chart: Saudi Arabia Consumer Confidence



- Election Cycle Could Slow Reforms
- Reputational Risk a Concern
- Turkey Benefitting from GCC Rift

Exchange Rates in Focus

- EGP a Milestone for Region
- Devaluations No Panacea
- TND in Focus
- Fears Over MAD Overblown

Chart: USD/TND



Chart: OMR 1-Year FX Forward Swap, bps



- GCC Pegs are Stable, for Now
- It's Not Just About 'Ability'
- 'Willingness' Equally as Important

Monetary Policy Divergence

- GCC Rates to Trend Upwards
- Not What's Needed with Weak Credit Growth
- Higher Rates in North Africa & Levant

Chart: Egypt Overnight Deposit Rate, %

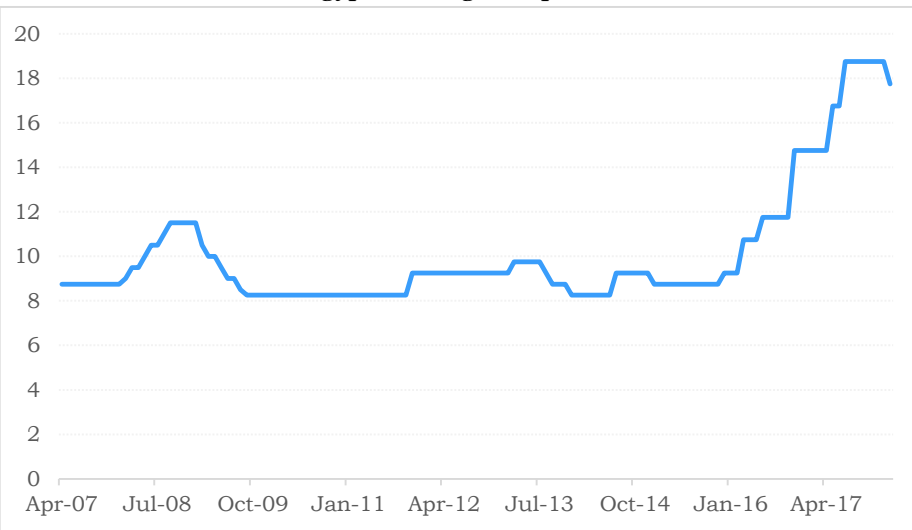
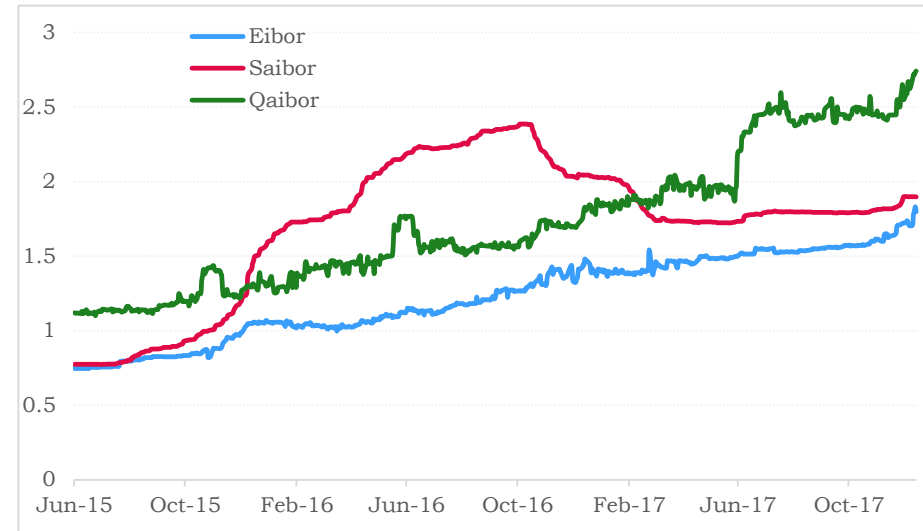


Chart: GCC 3M Interbank Rates, %



- Egypt a Unique Story
 - Stronger Economic Growth
 - Aggressive Monetary Easing

Dubai Real Estate to Soften

- Still Largely a Supply Story
 - New Units Outpacing Population Growth
- No Forced Deleveraging
- Positive for Majority of Workforce

Chart: Investors in Dubai Real Estate, AEDbn, Jan-July 2017

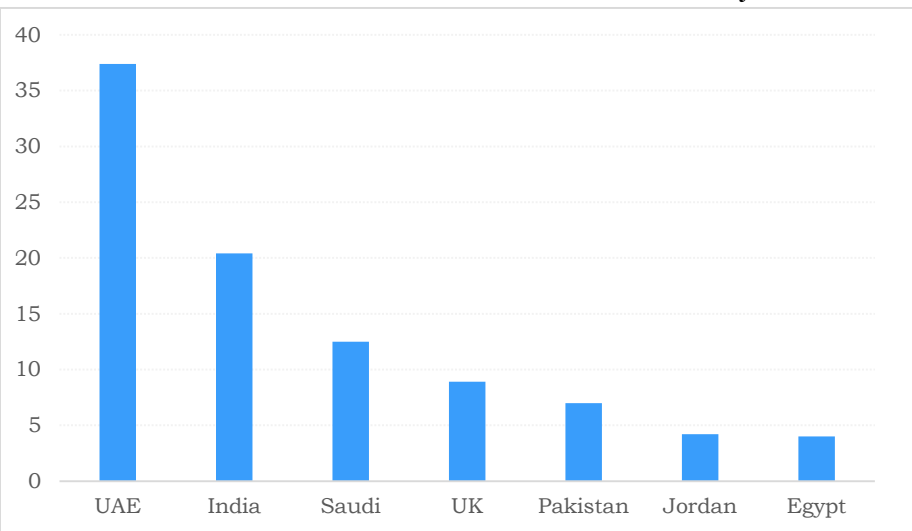
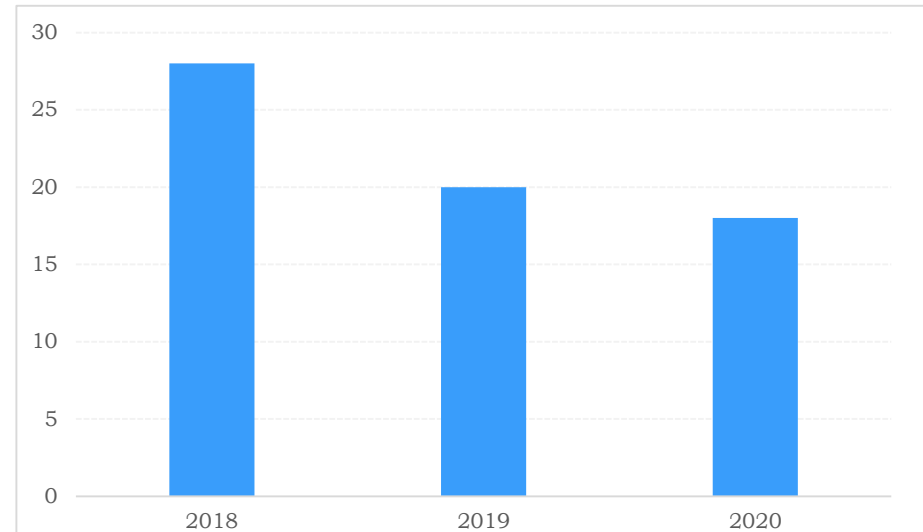


Chart: Dubai Residential Property Supply, Units



- But Some Supportive Factors
 - PKR Devaluation
 - USD Weakness
 - Inter-Emirate Migration
- Traditional Relationship b/w Real Estate & Economy Needs Revisiting

Iran Can't Be Ignored

- Still the Largest Potential
 - Demographics
 - Manufacturing Base
 - Strategic Location
- Massive Hydrocarbon Reserves
- But Still Many Concerns

Chart: Iran Oil Production, mn b/d

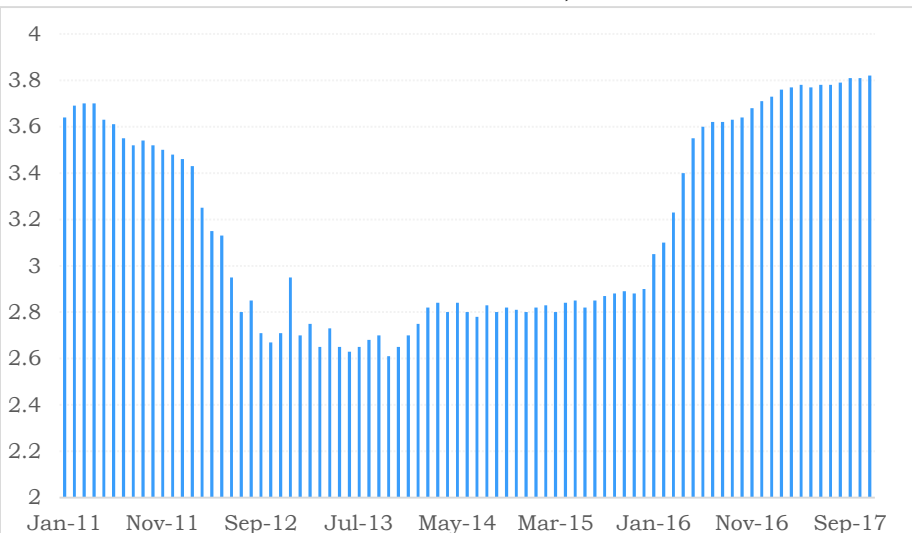
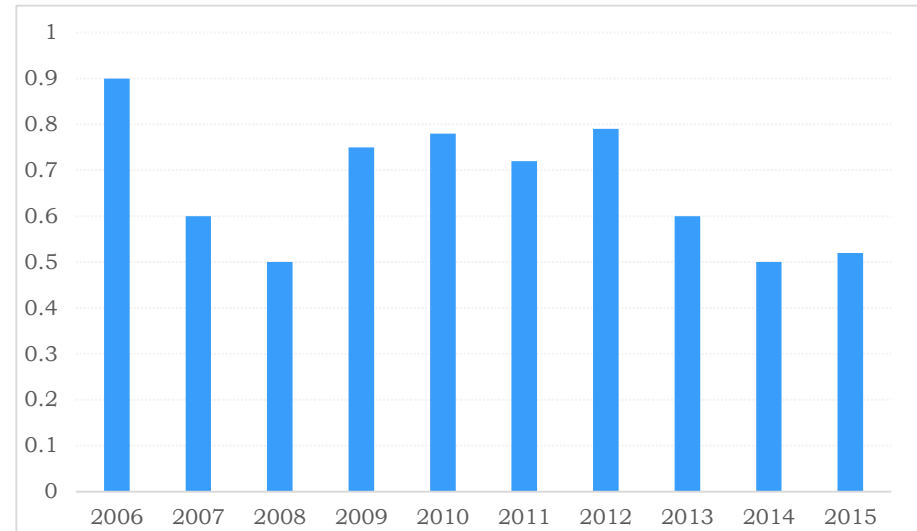


Chart: Iran Net FDI Inflows, % of GDP



- Does Trump's Decision Matter?
 - JCPOA Looks Set to Hold
- Iran Needs a Gateway to World
 - Will Qatar Take the Lead?

Thank You!

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