MONTHLY INVESTMENT OVERVIEW

بنك الامارات للاستثمار

EMIRATES INVESTMENT BANK

Asset Class	View
Equities	Cautious
Fixed Income	Cautious
Real Estate	Neutral
Commodities	Neutral
Low Vol / Alternatives	Overweight
Cash	Favour

Overweight, Favour, Neutral, Cautious, Underweight

About Emirates Investment Bank

EIBank is a Dubai-based boutique dedicated to the service of an exclusive group of private and institutional clients. Private banking and investment banking needs are approached holistically.

In private banking, the bank prides itself on offering highly personalised investment solutions and one-on-one servicing by a professional team of wealth management specialists. EIBank's open platform provides clients with access to markets globally.

In investment banking, the bank provides clients with advice on mergers & acquisitions, access to capital markets and other corporate finance matters.

MONTH IN BRIEF

JUN 2017

- Overall, global economic activity held up well during the first half of 2017. Europe's momentum offset mixed economic data and policy headwinds in the US economy while China's resilience compensated for apprehensions elsewhere in emerging markets.
- The performance of risk assets was mixed through June on concerns that the era of ultra-loose monetary policy could soon come to an end. Fed Chair Yellen referred to asset prices as being 'somewhat rich', while Draghi suggested the ECB could soon taper its QE program amid signs of a pick-up in growth and inflation.
- With core inflation above 1.0% year-over-year, the ECB also expressed confidence that inflation will move higher but stay below its 2.0% target, and that deflationary forces have been replaced by reflationary ones.
- In the UK, Bank of England (BoE) governor Carney toned down his earlier accommodative stance, stating that the Central Bank may need to begin raising interest rates and will debate a move in the next few months, predominantly driven by concerns over accelerating inflation.
- The IMF raised China's GDP forecast to 6.7% for 2017, up from its prior 6.6% projection, as a batch of recent economic indicators signaled that the economy has been fairly resilient, even as monetary tightening through lower money supply and credit growth exhibited its cooling effects.
- Saudi Arabia's economy shrank by 0.5% in Q1, highlighting the difficulties the authorities face as they attempt to wean the economy off oil. As the Saudi authorities gradually relax energy subsidies, adversely affecting the private sector in the short-term, they need to step in with expansionary fiscal policy in order to fill the void and help boost growth.

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Overall, global economic activity held up well during the first half of 2017. Europe's momentum offset mixed economic data and policy headwinds in the US economy while China's resilience compensated for apprehensions elsewhere in emerging markets. The performance of risk assets was mixed through June on concerns that the era of ultra-loose monetary policy could soon come to an end. Fed Chair Yellen referred to asset prices as being 'somewhat rich', Draghi suggested the ECB could soon taper its QE program amid signs of a pick-up in growth and inflation, while the BoE also shifted its tone on easy monetary policy as rising inflation could undermine growth. The fixed income markets reacted accordingly, as the long-term Treasury yield curve shifted upwards with the 10-year US treasury yield rising by 10 bps in June. Earlier in the month, the FOMC raised its short-term target rate by 25bps to 1.0-1.25%, while also laying out its plans to reduce the size of its USD4.5 trillion balance sheet, which could begin as early as September. FOMC members also published an updated version of their "dot plot", revealing expectations for one more rate hike this year and three more in 2018. Meanwhile, the Trump administration's plans for a fiscal boost are unlikely to be implemented soon and markets continue to remain vulnerable to policy falling short of expectations. Emerging market equities benefitted from a supportive global macro backdrop in Q2 and general USD weakness, as the MSCI EM Index registered a strong gain and outperformed its developed market counterpart in June, notching up an 18.0% return YTD.

In Europe, economic readings continued to impress while political concerns faded considerably, especially after the electoral victory of centrist Macron in France. The unemployment rate trended down to a decade-low of 9.3%. With core inflation above 1.0% year-over-year, the ECB also expressed confidence that inflation will move higher but stay below its 2.0% target, and that deflationary forces have been replaced by reflationary ones.

> "Lenders agreed to release another round of funding to Greece, postponing discussions on any kind of concessions until August 2018"

The comments were construed as hawkish and lifted the USD/EUR to 1.1441 by June-end, its highest level since May 2016. Overall, economic data continued to be encouraging, with forward-looking indicators suggesting a pick-up in growth. The German Ifo business climate survey reached a record high in June. Meanwhile, lenders agreed to release another round of funding to Greece, postponing discussions on any kind of concessions until August 2018. Greece will be granted access to an additional EUR8.5 billion and its debt will remain excluded from the ECB's QE program.

In the UK, Bank of England (BoE) governor Carney toned down his earlier accommodative stance, stating that the Central Bank may need to begin raising interest rates and will debate a move in the next few months, predominantly driven by concerns over accelerating inflation. The GBP strengthened after the speech and ended June 1.0% higher against the USD. While employment data reflects a robust UK labor market, lackluster wage growth and constrained real incomes continue to erode consumer purchasing power. Consumer spending, which accounts for nearly two-thirds of the British economy, is falling. While the negative impact of GBP induced inflation has more than offset the expected tailwind to the export sector, the uncertain outlook surrounding the long and contentious Brexit negotiation process could be a further drag on long-term growth, with risks tilted to the downside.

The Japanese economy continued to grow at a steady pace of just above 1% in 2017. Growth was supported by buoyant investment, robust export demand helped by JPY weakness, and generous fiscal and monetary conditions. However, tepid household income growth continued to be a drag. Despite record low levels of unemployment, stagnant wages complicate the government's efforts to revive inflation via household spending. As was widely expected, the BoJ decided to make no changes to its monetary policy, affirming

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that the Central Bank would maintain the 10-year government bond yield target at around 0.0% and continue purchasing approximately JPY80 trillion in government bonds annually. The BoJ also cautioned that inflation expectations remained in a weakening phase and the economy would likely continue on its path of "moderate expansion".

The IMF raised China's GDP forecast to 6.7% for 2017, up from its prior 6.6% projection, as a batch of recent economic indicators signaled that the economy has been fairly resilient, even as monetary tightening through lower money supply and credit growth exhibited its cooling effects. The IMF advised China to embrace far-reaching reforms while growth is still strong as it navigates its economy to a more sustainable footing.

> " As the Saudi authorities gradually relax energy subsidies, they need to step in with expansionary fiscal policy in order to fill the void and help boost growth "

In Brazil, President Temer was formally charged with passive corruption and other crimes that would need further investigation. The charges, however, need to be approved by two-thirds of Brazil's chamber of deputies to proceed, which could be a long process. Brazil stocks shrugged off the news and ended the month flat. Meanwhile, rapidly falling inflation gives the Central Bank of Brazil (CBB) extra room for monetary easing. The Reserve Bank of India (RBI) kept rates unchanged at its June review, but provided a less hawkish guidance after slashing its inflation forecasts and reducing growth projections for coming quarters. The Goods and Services Tax (GST), a unified tax regime, rolled out officially on July 1 has the potential to pose near-term risks to growth due to implementation issues on small and medium enterprises.

Regionally, S&P lowered its long-term rating on Qatar one notch to AA-, in line with Moody's rating of Aa3, warning it could cut the rating further if the crisis deepens. Concurrently, Moody's downgraded its outlook for Qatar's foreign currency debt rating to negative from stable, citing the increased likelihood of a prolonged period of uncertainty extending into 2018. Meanwhile, following the Fed in early June, central banks in Saudi, the UAE, Bahrain and Qatar also raised their key policy rates, while Kuwait kept its discount rate unchanged, citing growth concerns. Although the Qatar Central Bank (QCB) hiked its overnight deposit rate by 25bps to 1.5%, it kept its repo rate, which is the rate used to lend money to banks, unchanged at 2.25% in order to ease any liquidity concerns in the banking system. The Saudi Arabian Monetary Agency (SAMA) also maintained its repo rate at 2.0% to help boost liquidity in its own banking system.

Saudi Arabia's economy shrank by 0.5% in Q1, highlighting the difficulties the authorities face as they attempt to wean the economy off oil. The government's efforts to diversify the economy with targeted austerity measures and progressive structural reforms have weighed on short-term growth. Saudi Arabia is caught in a sort-of catch22 at this time. As the Saudi authorities gradually relax energy subsidies, adversely affecting the private sector in the short-term, they need to step in with expansionary fiscal policy in order to fill the void and help boost growth. With oil prices depressed, and with no significant rebound expected, they have actually done the opposite by embarking on austerity and reining in spending. While they need to manage their budget more effectively than they have in the past, we believe that they need to pursue a more measured approach to balancing the budget.

Meanwhile, Egypt's Central Bank lifted controls on currency transfers as the country's forex shortage eased, with reserves steadily rising in recent months after the country took several bold steps to reform the economy. In May, the annual inflation rate eased to 29.7% from 31.5%, its first drop since October 2016. Overall, the S&P Pan Arab Index gained 3.2% for the month. Oil markets continued to be volatile, dropping 4.75% in June as OPEC production cuts were more than offset by excess production from exempt OPEC members - Nigeria, Iraq and Libya - alongside higher US shale production.

Asset Class Views

Asset Class	May	June	View / Rationale
Equities	↘	↘	
US	↘	↘	Cautious as stretched valuations expose equities to policy implementation risk.
Europe	↔	↔	Series of strong economic data and a lenient ECB, for now, bode well for European equities.
UK	↘	↘	Shift in BoE tone to being less accommodative makes UK equities vulnerable.
Japan	↗	↗	Record low unemployment and a determined BoJ should help higher wages and inflation.
China	↔	↔	Stabilizing macro and PMI figures alleviate fears of a hard landing.
India	↔	↔	A less hawkish RBI stance post below-par Q1 GDP data and declining inflation is supportive.
Brazil	↘	↘	Rapidly falling inflation provides extra elbow room for the Central Bank to infuse liquidity.
Russia	↔	↔	Economy struggling as international sanctions and low oil price remain major headwinds .
MENA	↘	↘	The Qatar situation is evolving, and if it continues to go unresolved, will weigh on the region's growth prospects.
Asset Class	**May**	**June**	**View / Rationale**
Fixed Income	↘	↘	
US	↔	↔	Credit spread selectively key as the Fed continues to normalize its rate outlook and its balance sheet.
Europe	↘	↘	The ECB looks to cautiously introduce taper talk on an improving political and economic climate.
UK	↘	↘	Brexit concerns and hawkish BoE put upward pressure on yields.
Japan	↘	↘	Corporate and government bonds already pricing in zero-bound rates.
China	↔	↔	Selectivity remains key for corporate bonds as authorities target financial excesses in the economy.
India	↔	↔	RBI's shift to a less hawkish tone on benign inflation and lower than expected Q1 GDP numbers is supportive.
Brazil	↔	↔	Central Bank has more elbow room with inflation falling rapidly.
Russia	↔	↔	Low inflation and lacklustre growth to allow the Central Bank to remain accommodative.
MENA	↔	↔	Evolving geopolitical tensions to weigh on the region's credit prospects.

↑ Overweight, ↗ Favour, ↔ Neutral, ↘ Cautious, ↓ Underweight

Asset Class Views

Asset Class	May	June	View / Rationale *
Currencies	NM	NM	
USD / EUR	↗	↗	Earlier than anticipated balance sheet reduction and continued rate normalization to be positive for the USD.
USD / CHF	↗	↗	Earlier than anticipated balance sheet reduction and continued rate normalization to be positive for the USD.
USD / GBP	↗	↗	Brexit concerns and reduced verdict for PM May to weigh on the UK economy and GBP relative to the dollar.
USD / JPY	↗	↗	Continue to favour the USD as BoJ remains committed to revive moribund inflation via the exchange rate.
EUR / CHF	↔	↔	Improving economic data and fading political concerns to intensify pressure on the ECB to taper sooner than later.
EUR / GBP	↗	↗	Favour the EUR over the GBP as EU negotiates from a position of strength after reduced mandate for PM May and encouraging growth for the EU ex UK.
EUR / JPY	↗	↗	Favour the EUR over the JPY amid improving outlook in the Eurozone and tepid recovery in Japan.
CHF / GBP	↗	↗	Favour the CHF vs the GBP as Brexit negotiation concerns to weigh on the GBP.
CHF / JPY	↗	↗	Favour the CHF as BoJ expected to remain accommodative as recovery remains fragile.
GBP / JPY	↔	↔	GBP and JPY face economic headwinds that could potentially weaken both currencies.

* Reference currency is the USD

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