بنك الإمارات دبي الوطني
Emirates NBD

Research from Emirates NBD

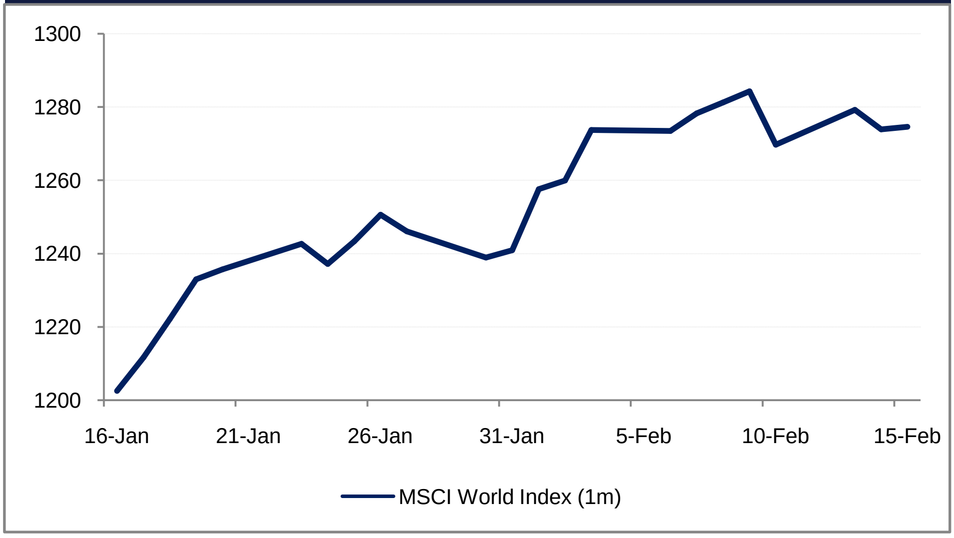
Monthly Insights

Monthly
16 February 2012

Rising risk appetite has been the main feature of the last month, on signs of improved economic performance and against a backdrop of ample liquidity. Currencies and fixed income markets, however, are beginning to reflect some renewed anxiety, and governments and monetary authorities will likely have to remain proactive to offset any slippage in growth and to overcome the structural impediments that remain.

- **Global macro:** Since our January edition the global macro environment has continued to improve, with strength in the United States the main standout performance over the past month. This encouraging start to the year does not alter our overall outlook, however, as we remain concerned about the spillover effects from the Eurozone debt crisis and are observing more patchy improvements in other parts of the world.
- **GCC macro**: The GCC economies have had a strong start to 2012, and the latest data and news have underscored our view that government spending will be the driving force for growth this year. Countries that have committed to, and delivered on, aggressive spending plans are likely to enjoy stronger GDP and higher consumer and investor confidence than countries where fiscal stimulus is weaker.
- **Fixed income:** Market conditions in Europe have improved considerably since the ECB conducted its first 3y long-term refinancing operation at the end of December. The ECB will tender another 3y LTRO at the end of this month, and although it is difficult to quantify how much demand for the funds will be, we note that there are considerable funding needs for banks and sovereigns in 2012.
- **Currencies:** The main theme of the last month has been heightened risk appetite, dampening the USD and boosting demand for risk loving currencies. However, despite progress towards reaching a political agreement in Greece over another bailout, the EUR/USD failed to sustain its rally above 1.33 and is once again showing signs of fatigue.
- **Equities:** Global equity markets continued to rise over the last month, with the on-going risk-on rally started at the end of last year, with the MSCI World Index +6.1% 1m. Volatility continued to fall in Europe and the US, with VIX SPX -6.6% 1m, VDAX -4.6% 1m but increased in Asia with the VHSI +2.0% 1m. Emerging markets continued to outperform developed markets with the MSCI EM index +9.9% 1m vs +5.7% 1m for the MSCI G7 index.

Risk appetite fuels rallies at the start of the year



Source: Bloomberg

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Content

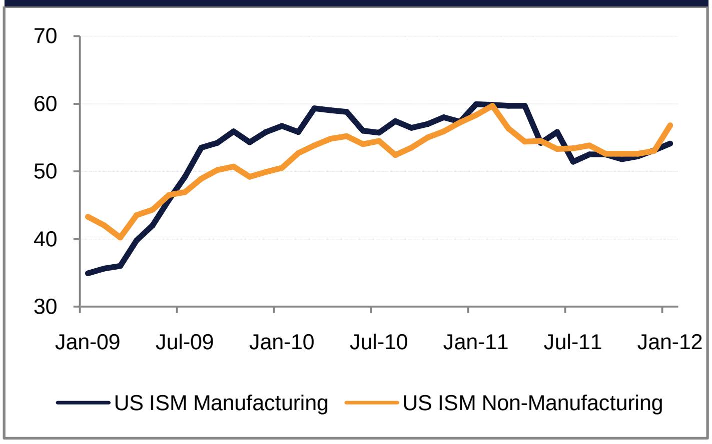
Global Macro

Since our January edition the global macro environment has continued to improve, with strength in the United States the main standout performance over the past month. This encouraging start to the year does not alter our overall outlook, however, as we remain concerned about the spillover effects from the Eurozone debt crisis and are observing more patchy improvements in other parts of the world.

A strong start to the year in the US

Economic data released since the start of the year has on balance been better than expected, with the United States in particular showing some welcome strength. Non-farm payrolls rose 243k in January with upward revisions to past data, and the unemployment rate has fallen to 8.3%. As has been widely noted some of this improvement in the jobless rate is explained by a declining participation rate. Over time there is the possibility that more people will return to the labour pool looking for jobs, which could temporarily push the unemployment rate higher again. However, apart from this issue other indicators suggest that the underlying condition of the labour market is improving. The ISM indices saw continued strength in the employment sub-components, with the services measure revealing a 7.6 point gain - the largest single month increase in the history of the series, and taking the employment measure to the highest level in nearly six years. Furthermore, corroborating this improvement the weekly jobless claims data showed new claims of 358k in the latest week, at their lowest level in almost four years.

US ISM Indices



Source: Bloomberg

Other ISM components were higher as well, including the headline readings and new orders, while retail sales also rose strongly over the month as well. Q4 GDP was originally estimated at 2.8%, but subsequent data for December suggests that this could be revised higher. Meanwhile the preliminary data for Q1 suggests that the US economy is tracking a growth rate close to 2.5%, well above our 1.5% forecast for the whole year. For the time being we will retain this forecast as it largely reflects doubts about the sustainability of the recovery against a deteriorating Eurozone backdrop. However, the recent improvement at least makes us more confident in our call that QE3 is unlikely. We have always maintained that the bar for QE3 is a high one, and with the strong start to the year seen to date the window for QE3 is getting narrower, considering that Presidential elections in November will presumably preclude a resort to further extreme policy easing as this date approaches. The latest FOMC minutes appear to bear this view out with only ‘a few members’ seeing the need for additional asset purchases based on current assumptions and estimates.

But less favourable conditions in the Eurozone

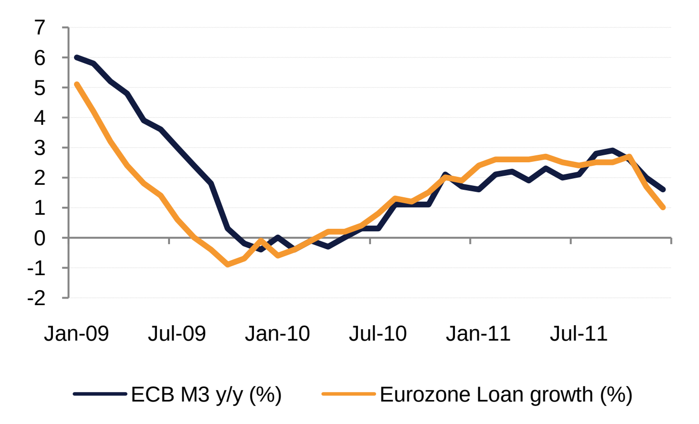
The deterioration in the Eurozone is not a great surprise and became officially recognized this week with the news that Q4 GDP contracted by -0.3% q/q. The preliminary data for January has been more mixed, however, with some activity indicators perking up (albeit from a low base) and contributing to a sense of optimism that the ECB’s Long Term Refinancing Operations (LTRO) will translate into firmer activity over time. This was essentially the message delivered by ECB President Draghi at his February press conference, acknowledging that Q4 GDP would be very weak while identifying ‘tentative signs of stabilization’ in Q1. With Greece having agreed on additional austerity measures, sufficient probably for it to receive a second bailout worth EUR130bn, the markets appear willing to give the ECB the benefit of the doubt for now.

Political risks continue in Greece and loom in France

However, our sense remains that the markets are far too sanguine about the risks, not only about Greece’s ability to implement the promised spending cuts, but also about the severity of the credit crunch that appears to be looming across the region as a whole. Even if Greece receives the bailout money on time for its March 20th bond redemption, elections in April may create uncertainty about Greece’s willingness to actually deliver the cuts they have promised. Data from Greece is now reaching a point that suggests the economy has passed from a recession into an outright depression, a negative spiral which further spending cuts will only reinforce. Furthermore, elections in France also in April threaten to derail the effectiveness of the ‘fiscal compact’ agreed by Eurozone governments, as the Socialist opposition there is ahead in the opinion polls and is opposed to it. Fiscal tightening will probably still be pursued from country to country, but a lack of coordination around it may introduce fresh uncertainty about whether a genuine fiscal union can be achieved.

More broadly, bank lending across the Eurozone is also at risk of deteriorating as financial institutions increasingly seek to meet new more stringent capital requirements. Eurozone M3 money supply declined surprisingly in December to 1.6% y/y, against expectations looking for acceleration from an already weak 2.0% in November. The breakdown shows loan growth falling to just 1.0% y/y. The data probably does not yet reflect the positive impact of the ECB’s LTRO, but it will add to concerns of a credit crunch, as banks consolidate their liquidity position in accordance with new capital requirements that will come into effect later this year. Along with an expected tightening in fiscal policy we remain concerned about the impact of both these potential headwinds on the Eurozone economy, and we maintain our view that the ECB will eventually cut interest rates further.

Eurozone M3 and bank lending slows



Source: Bloomberg

Further monetary easing in the UK and Japan

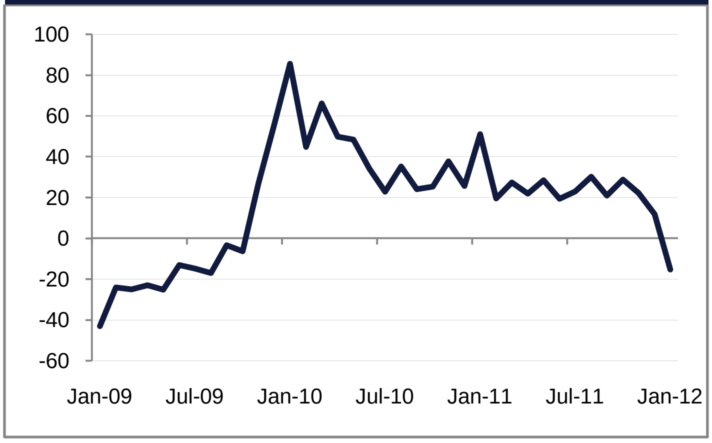
Further monetary policy easing has already been seen in the UK and Japan, with the Bank of England (BoE) expanding its program of QE this month, and with the Bank of Japan also increasing its asset purchase program. The BoE's move to purchase a further GBP50bn of Gilts will take the amount of Gilts owned by it to GBP325bn, or almost 30% of total Gilts issuance. This came despite some improving signs from the UK economy (improved manufacturing and service sector PMIs), showing that the UK authorities are taking no chances in their efforts to counter the effects of the ongoing tightening in fiscal policy. The UK's credit outlook was lowered to negative by Moody's this week, highlighting that the tightrope being walked is a very fine one, and our growth forecasts also reflect this seeing the UK only just avoiding a recession in 2012. BoE Governor King's observations that the UK will zigzag in and out of recession in 2012 strikes us as likely to be a fairly apt description.

The BoJ also eased its policy by boosting asset purchases and has defined a 1% inflation target as a near-term goal in response to the slowdown in the economy. The first preliminary Q4 GDP estimate showed that the economy contracted -2.3% in annualised terms, after a 7.0% expansion in Q3 as the Eurozone crisis, the strong JPY and Thailand's floods hindered exports. The BoJ added JPY10 trillion to its asset buying and lending scheme taking it to JPY65 trillion from JPY 55 trillion previously, and up from JPY 35 trillion last October. Political pressure for more direct intervention has clearly played a part, but it is questionable how much difference this will make unless it begins to generate a more substantial negative impact on the JPY, which may not happen until US rates begin to move up. The momentum that was observable in the post-earthquake environment has clearly been lost, and the economy now faces significant global headwinds, not only in Europe, but in other parts of the world.

With rate cuts also anticipated elsewhere

The Chinese economy is one example as it has also hit a roadblock, with growth easing back to 8.9% in Q4 from 9.1% in Q3. So far this is not a disaster, but further weakness looks likely with some of this being caused by disruptions due to the Thai floods, and others by distortions because of Lunar New Year. Perhaps even less quantifiable is the genuine slowdown in domestic demand, with imports slowing sharply in January to -15.3% y/y and with M2 money supply growth also weakening over the month to 12.4% down from 13.6%. Bank loan growth also fell back during the month to 15.0% from 15.8% y/y in December, placing pressure on the authorities to accelerate the pace of Reserve Requirement Ratios (RRR) cuts. However, with inflation also making an unwelcome reappearance during January at 4.5% y/y, the trajectory for further cuts remains unclear potentially adding some further downside risks to activity. In India too industrial activity is slackening, but with inflation also now moving sharply lower (to 6.55% in January) the way should be open for the RBI to cut interest rates.

Chinese imports drop sharply



Source: Bloomberg

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GCC Macro

The GCC economies have had a strong start to 2012, and the latest data and news have underscored our view that government spending will be the driving force for growth this year. Countries that have committed to, and deliver on, aggressive spending plans are likely to enjoy stronger GDP and higher consumer and investor confidence than countries where fiscal stimulus is weaker.

Saudi 2011 growth mostly due to fiscal policy

Saudi Arabia clearly falls into the 'big spender' category, and the economic data is already showing the impact of the fiscal stimulus. The breakdown of the 2011 GDP data (table below) shows that the sectors with the strongest growth were those that would have benefitted the most from last year's 23% increase in government spending, which included substantial bonuses to public sector workers and other cash transfers to households.

Table: Saudi GDP growth by sector

Manufacturing	12.4%
Construction	11.6%
Transport, storage & communication	10.1%
Community, social & personal services	9.9%
Wholesale, retail trade, restaurants & hotels	6.4%
Producers of government services	6.2%
Mining & quarrying	4.3%
Electricity, gas & water	4.2%
Agriculture, fishing & forrestry	2.8%
Financial services	2.7%
Real GDP growth	**6.8%**

Source: Haver Analytics, Emirates NBD Research

Where we had expected growth in the hydrocarbon sector to reach 7.5% (on the back of a 12% rise in oil output), the official data put mining & quarrying growth at just 4.3% in 2011. So while oil production did contribute to Saudi Arabia's phenomenal 6.8% growth rate in 2011, the main driver of last year's growth appears to have been the non-oil sectors underpinned by public spending.

January's PMI data provides additional evidence that public spending is supporting private sector activity. Saudi Arabia's PMI rose to 60 last month, the highest reading since July, 2011. New export orders were largely unchanged, suggesting that external demand remains weak, and that it is domestic demand that is driving new business.

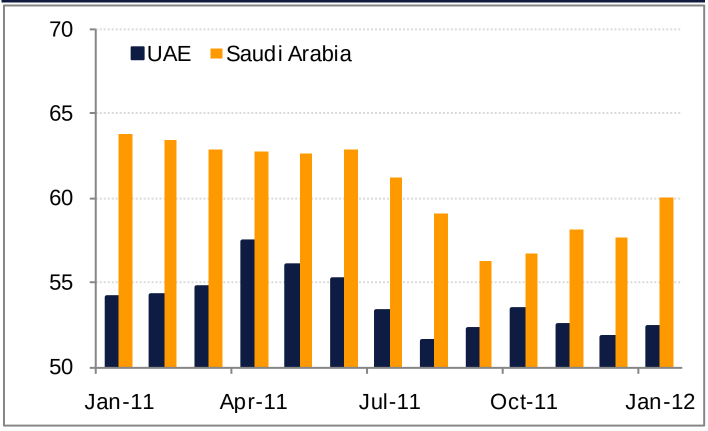
While we do not expect government spending to grow this year off 2011's high base, it remains high at SAR 800bn. Furthermore, private sector credit growth has gradually accelerated through 2010 and 2011 and will likely continue to support activity in the non-oil sectors.

Qatar and Oman are also expected to substantially boost public spending in 2012, by 8% and 10% respectively. This follows spending increases of over 20% each in 2011. We forecast Qatar and Oman will be the two fastest growing economies in the GCC this year, growing at 7.1% and 4.5% respectively. While fiscal policy will be the key driver, we recognize that oil and gas production will contribute to growth in these countries in 2012. Private sector credit growth in both countries will also likely support the non-oil sectors.

UAE fiscal policy has been more conservative…

In the UAE's case, data suggests that external demand is still a key driver of private sector activity. On the manufacturing side, PMI data shows that external demand has weakened in H211. January's overall PMI reading rose slightly to 52.4 but remains well below the April 2011 peak of 57.5. However, the services sector appears to be benefitting from growth in tourism, which would have a positive knock-on impact on transport, retail trade and other services. Passenger traffic through Dubai's airports rose 10.1% y/y in December, and encouragingly, air cargo volumes rose 0.8% y/y as well – the first positive annual growth since January 2011.

Saudi and UAE PMI



Source: Markit, Emirates NBD Research

One of the constraints on the UAE's growth has been the lack of availability of credit. Private sector credit growth has remained low (3.4% y/y in September 2011) relative to double digit credit growth in Qatar and Saudi Arabia. Although public sector credit growth has been stronger, it is likely that a substantial portion of this was used to pay down external debt falling due, rather than boosting domestic demand.

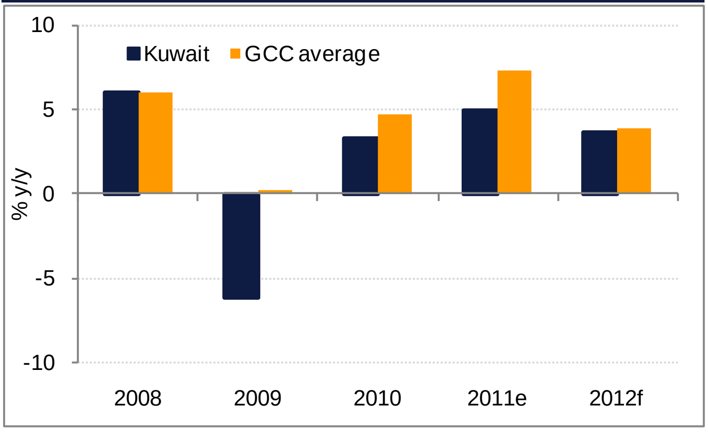
…but is set to expand in 2012

Fiscal policy in the UAE was more restrained in 2011 than in other GCC states. We estimate consolidated budget spending rose just 5.6% in the UAE last year, compared with double digit growth in the other GCC states. However, indications are that the authorities will pursue a more expansionary fiscal policy in 2012. The recent announcement by the Abu Dhabi Executive Council to push ahead with a raft of infrastructure and cultural projects that had been delayed in 2011, as well the announcement of new projects and substantial public sector wage increases, reinforces our view that government spending will be more supportive of growth this year. However, it remains to be seen how quickly these new initiatives will be rolled out, and we thus retain our 2.5% UAE growth forecast for the time being.

Kuwait has under-delivered on spending

In Kuwait, the ability of the new government to work with parliament to implement economic plans will be a key determinant of growth this year. The elections on 2 February resulted in an increase in the number of seats held by opposition MPs, to around 34 out of a possible 50, up from 20 in the previous parliament. To the extent that the new parliament and government are able to work together, and progress is made on a number of key infrastructure projects that have been long planned, we could see growth higher than the 3.6% we have penciled in for 2012.

Kuwait's growth has lagged GCC average*



**Average weighted by nominal GDP*
Source: Haver Analytics, Emirates NBD Research

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Fixed Income

Market conditions in Europe have improved considerably since the ECB conducted its first 3y long-term refinancing operation (LTRO) at the end of December, allotting EUR 489bn of funds to Eurozone banks at a rate of just 1%. The ECB will tender another 3y LTRO at the end of this month, and although it is difficult to quantify how much demand for the funds will be, we note that there are considerable funding needs for banks and sovereigns in 2012.

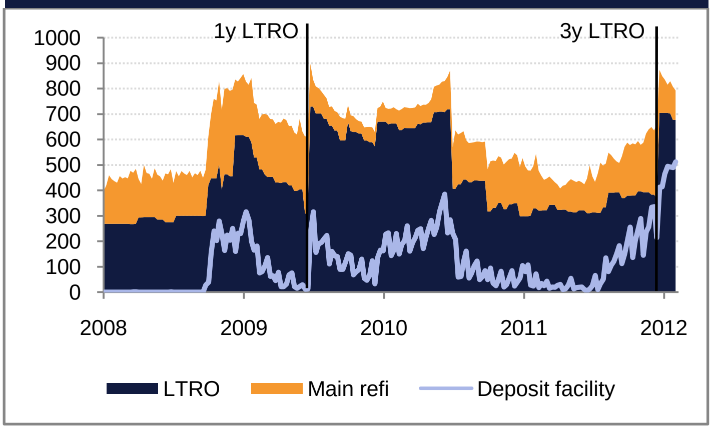
The birth of 3y term funding

The ECB announced it would expand its term lending facilities and conduct two 3y tenders following its December meeting. Previously the longest tenor of the ECB's LTROs was 1y. However, market conditions had worsened leading up to this announcement. Perhaps most pressing, the 10y yield on Italian bonds had begun to trade north of 7%, a level that had forced Greece, Ireland and Portugal to seek bailouts as they lost market access. Spanish 10y bonds had reached a yield of 6.7% in late November.

Another cause of concern was that the so-called transmission mechanism had begun to break down. The ECB's rate cuts were not flowing through to term interbank lending rates. Although expectations of overnight rates fell by nearly 90bp from July to December, 3m EURIBOR only fell by 15bp to 1.47%. This signalled that banks were reluctant to lend to each other for three months.

Separately, concerns were growing that banks would be unable to roll over their longer-term funding. Issuance of senior, unsecured bonds from Eurozone banks had essentially dried up over the summer, meaning that banks could not raise medium-term wholesale funds in the market. With traditional monetary policy tools not working properly, the ECB decided to step in and provide longer-term funding to allay market concerns of a liquidity crunch. To get markets working again, the ECB has lent nearly EUR 700bn to banks through its various funding operations.

ECB lending and deposits (EUR bn)

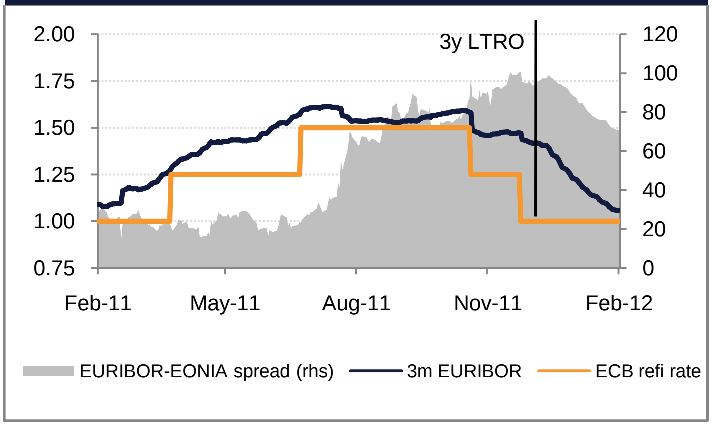


Source: Bloomberg, Emirates NBD Research

Effects of the 3y LTRO

Conditions in the credit and money markets have begun to relax since the end of last year. 3m EURIBOR has fallen 37bp since the 3y LTRO and now stands at 1.05%.

LTRO's impact on EURIBOR

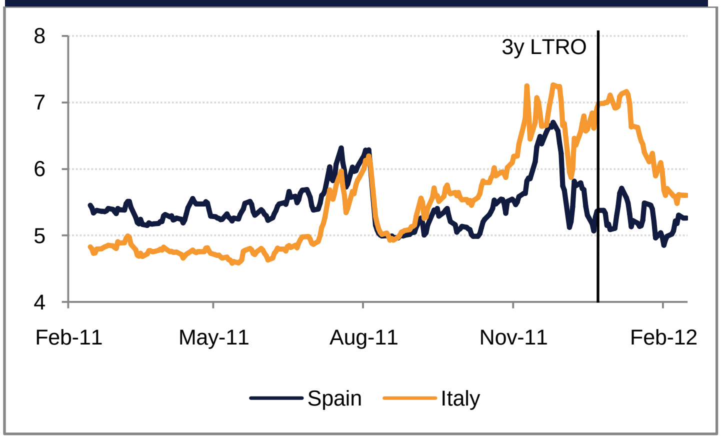


Source: Bloomberg, Emirates NBD Research

Also, yields on peripheral sovereign bonds have fallen. Banks in the Eurozone are awash with 3y funds, and they must find profitable ways to deploy this money. Banks typically buy substantial amounts of their respective country's debt, and it is logical that banks in Italy and Spain would want to take advantage of high returns in their local government bond markets.

Although we do not have data on the amount of funds allotted to individual banks, nor on purchases by banks of sovereign bonds, the effect of the 3y LTRO is apparent from the price data. The 10y Italian bond yield has fallen by 1.5% from its high in late November, while the 10y Spanish bond yield is down over 1%.

10y sovereign yields



Source: Bloomberg, Emirates NBD Research

However, it is important to note that cheap funding courtesy of the ECB is not a permanent solution to peripheral countries' debt problems. Monetary policy is capable of solving a liquidity problem, but it cannot fix a solvency problem. Spain and Italy will need to get their fiscal houses in order and implement structural reforms to regain market credibility and keep their interest costs low in the long run. Excess liquidity is only a temporary reprieve for these nations while they return to the path of fiscal sustainability, and while Europe deals with the fallout of a worsening situation in Greece.

LTRO, Act II

The ECB's second 3y LTRO will take place at the end of this month. ECB officials are still examining the effects of the first allotment and will likely want to see the results of the second operation before deciding on further policy steps.

A substantial amount of money needs to be raised in the Eurozone this year, and we expect banks to utilise LTRO funds to provide much of this funding. To be sure, there is plenty of liquidity in the system now. Banks have over EUR 500bn on deposit with the ECB. The problem is that without the ECB's special funding operations, this cash was not reaching borrowers that needed it. The extra liquidity provided by the last 3y LTRO has brought down interbank borrowing costs and lowered peripheral bond yields. If that cash was redeployed into additional funding requirements of banks and peripheral countries, it could reverse the gains made in those markets. The money cannot be used for two purposes at once.

To gauge the possible magnitude of demand for the next 3y LTRO, we estimated the amount of money that Italy and Spain need to raise this year, as well as the amount of senior, unsecured bank debt maturing. Our calculations show the total funding requirement for these three purposes is at least EUR 310bn through the end of 2012.

Spain and Italy have a combined total of EUR 150bn of bonds maturing in 2012. In addition, the IMF forecasts a general government budget deficit of 2.4% of GDP for Italy and 5.2% for Spain this year, meaning they will have to borrow almost EUR 80bn more to finance the shortfall. So far, Spain has raised about one-third of our estimate of its 2012 funding need, and Italy 44% of its requirement. This leaves EUR 140bn to be raised by the two countries. We have excluded short-term bills maturing from our tally, assuming they will be rolled over.

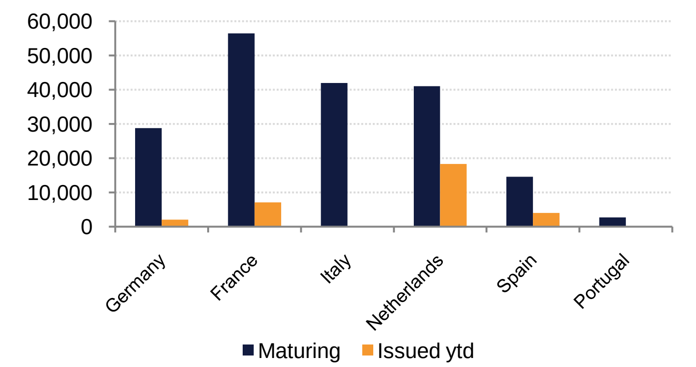
Spain & Italy's 2012 requirements (EURbn)

	Spain	Italy
Maturing bonds	51.9	101.6
2012 deficit (f'cast)	47.4	31.8
Total requirement	99.3	133.4
Issuance ytd	34.0	58.2
as % of requirement	*34%*	*44%*
Remaining requirement	65.3	75.1
Addendum:		
Bills maturing	77.8	137.9

Source: Emirates NBD Research

In addition, we estimate that Eurozone banks have about EUR 200bn of benchmark-size senior, unsecured debt maturing through the rest of this year. Banks have issued EUR 31.5bn of new paper this year – 16% of their requirement for the year. If they were to continue issuing at the same pace for the next ten months, banks would be able to refinance all of their maturing debt this year. However, the progress has not been uniform. Banks in several countries are lagging in issuing new unsecured bonds. Italian banks have raised no money in this format this year, nor have Portuguese banks (perhaps unsurprisingly). German banks have only issued EUR 2bn of unsecured bonds this year, just 7% of the value of their bonds maturing in 2012.

Maturing senior unsecured bank debt (EUR bn)*



** Only includes bonds with USD 500mn or more outstanding*
Source: Emirates NBD Research

Adding Italy and Spain's borrowing needs to maturing unsecured bank debt gives EUR 310bn of additional borrowing that needs to take place this year. In order for the level of liquidity in the market to remain at its current level, additional money will need to be injected into the system to cover this funding need. We note that our estimate of 2012 financing requirements is conservative in that it excludes corporate debt maturities, among others. For this reason, we find it likely that the uptake on the next LTRO will be similar to the last one. If banks are reluctant to borrow from this facility later this month, we suspect the ECB will need to announce a third tender later in the year.

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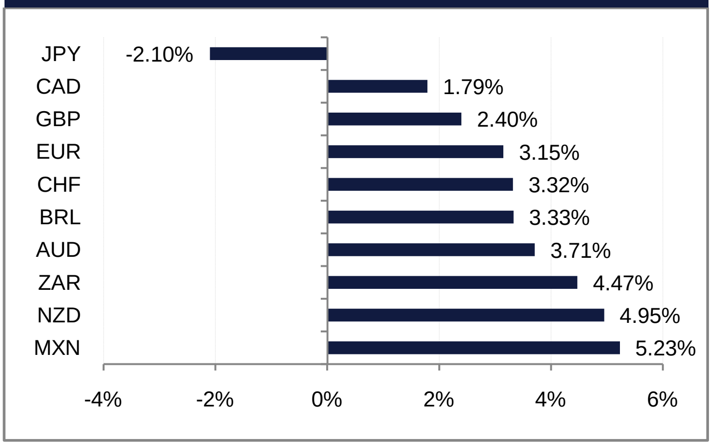
Currencies

The main theme of the last month has been heightened risk appetite, dampening the USD and boosting demand for risk loving currencies. This has seen major USD currency pairs unwind their losses of early January. However, despite progress towards reaching a political agreement in Greece over another bailout, the EUR/USD failed to sustain its rally above 1.33 and is once again showing signs of fatigue. We remain sceptical about the ability of the current plans to provide a lasting solution to Greece's problems, and believe that risk aversion will resume, damaging the EUR and other risk loving currencies in the process.

Rising risk appetite but EUR shows fatigue

The last month has witnessed a greater appetite for risk amongst investors, with financial markets buoyed by the provision of central bank liquidity, as well as by better than expected economic data, especially in the US. This has provided the basis for rallies in high-beta currencies such as the BRL, the ZAR and the AUD. The EUR has also benefited from this improved appetite for risk but to a noticeably lesser extent. Indeed demand for the EUR is now beginning to wane as the hopes for Greece have begun to fade. Even assuming that Athens receives its bailout money on time to make bond payments in March, the collateral damage to the economy from the accompanying austerity measures being promised will keep questions about fiscal sustainability at the fore. Furthermore, the likelihood is high that other countries will still be drawn into the fray, almost regardless of whether Greece manages to meet its commitments over the coming month. A default by Greece would quite clearly threaten a risk of contagion to other parts of the Eurozone, while a second bailout may well tempt others to follow Greece in seeking further debt forgiveness, with both situations likely to be destabilising to markets.

Major Currencies versus USD (1m)



Source: Bloomberg

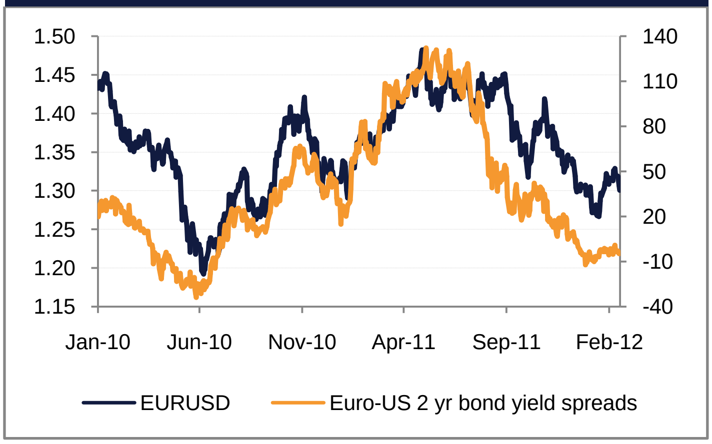
Positioning and liquidity barriers to EUR losses

Another feature that has helped to prop up the EUR and other risk currencies over the last month has been positioning and liquidity, issues that could still have further to run in the coming month. The success of the ECB's Long Term Refinancing Operation (LTRO) in December is widely seen as contributing to the strength of global equity markets since the start of the year, with parallel gains in risk loving currencies. With another LTRO due at the end of this month, the chances are that the proceeds of that cheap funding will continue to buoy markets and sentiment for a while longer. We also warned last month about the potential for positioning to provide an obstacle to further USD gains at that time. This warning still applies as a month on and the market still remains short of the single currency. However, the market has pared these short positions from the extremes seen then, suggesting less scope for the kind of rapid short squeeze seen in late January. By the same token it may also provide a little more encouragement to those looking to express bearish EUR sentiment should bad news return.

But relative yields look USD supportive

Helping to anchor our view that the EUR/USD's rally to 1.33 looked overdone was the behaviour of US-Eurozone bond yield spreads. While EUR/USD moved sharply higher at the turn of the month, the yield spread remained resolutely stable with the USD enjoying a very slight advantage over the EUR in two-year yield terms. The correlation between the exchange rate and the yield differential over time has been quite reliable, and continues to suggest to us that the EUR's rally will be unsustainable, even indicating currently that fair value for EUR/USD is closer to 1.25.

Yield spreads supportive of lower EUR



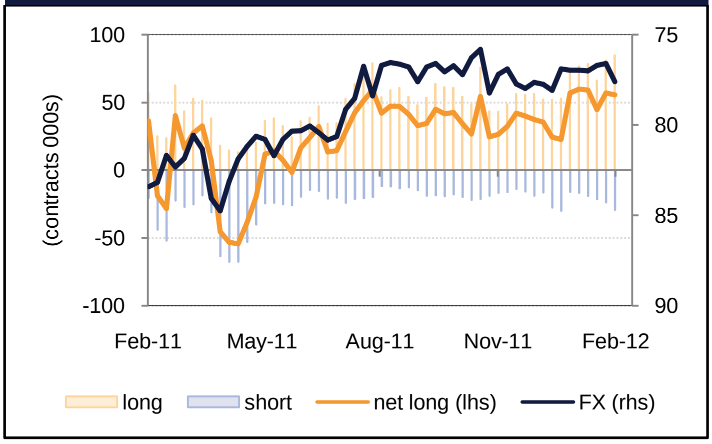
Source: Bloomberg

Behind this factor of course is the relative improvement in US economic fundamentals relative to those in the Eurozone. As we highlight in the Global Macro section, the extent to which the prospects for QE3 have diminished, as a result of improving US economic data, keeps us overall bullish towards the USD, especially against currencies where the authorities continue to ease monetary policy. We expect the ECB to cut interest rates further despite President Draghi seeing tentative signs of stabilisation recently, which should ultimately lead to a further narrowing of the yield gap in the USD's favour. In UK and in Japan's case the central banks in both countries have already acted by announcing more asset purchases during the last week, which should serve to dampen demand for both the GBP and the JPY over time.

BoJ catches the market long JPY

While the Bank of England's decision was not much of a surprise in the wake of frequent warnings from Bank officials about the possibility of more QE, the Bank of Japan's (BOJ) announcement did catch the market long of JPY (see chart below), which explains why USD/JPY had the bigger reaction. The actual amount of additional asset purchases announced by the BOJ was quite small (a further JPY10 trillion taking the program to JPY65 trillion), and in the context of sharply weaker Q4 growth and renewed deflation, more may still have to be done if USD/JPY is to maintain its upside momentum.

JPY positions



Source: Bloomberg

The coming month will also see countervailing forces coming from year-end repatriation trends which tend to buoy the JPY in the final weeks of March each year. However, speculative market positioning has been heavily skewed towards long JPY positions for some time, and these positions may be susceptible to a bigger shake out should relative interest rates move more decisively in the USD's favour. And with the BOJ having indicated that it intervened by stealth towards the end of 2011, the market may be slightly more nervous about holding long JPY positions going forward. So far the two-year bond yield differential is still relatively modest, implying little extra upside risk to the USD than that already seen in the last few weeks. Nonetheless USD/JPY has now broken above its 200-day moving average which if sustained could see a retest of 80.0 (our 3-month forecast) come into view. The most likely catalyst for such a move would probably have to come from US yields pushing higher from here, however, as the scope for Japanese yields to fall further is beginning to look more constrained with 2-year yields currently standing at just 0.114%.

Good runs in risky currencies may now pause for breath

As we began this piece by highlighting the strength of high beta currencies, the other notable feature of the last few days has actually been the inability of some these currencies to push on. Even after the Reserve Bank of Australia left its interest rates unchanged at 4.25% last week, the AUD for instance was unable to make further serious headway beyond 1.08. Long positions in the AUD also look quite stretched, back at the levels seen last summer, although the AUD itself has failed to recapture last summer's highs. The AUD's relative interest rate support is also less favourable than it was back then, and is more at risk of declining further if as we believe the RBA do eventually cut interest rates again. More than just the AUD, risk-hugging currencies like the BRL and the MXN have had strong runs of late but are now approaching important resistances around their 200-day moving averages, levels from which a sudden reversal in risk appetite could see quite a sharp snap-back.

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Equities

Global equity markets continued to rise over the last month, with the on-going risk-on rally started at the end of last year, with the MSCI World Index +6.1% 1m. Volatility continued to fall in Europe and the US, with VIX SPX -6.6% 1m, VDAX -4.6% 1m but increased in Asia with the VHSI +2.0% 1m. Emerging markets continued to outperform developed markets with the MSCI EM index +9.9% 1m vs +5.7% 1m for the MSCI G7 index. With slow but positive progress (relative to earlier months) being made on the Greek crisis, the STOXX Europe 600 index was stronger at +5.4% 1m. MSCI Frontier markets performed positively, rising +2.3% 1m. Markets have been focused on the Eurozone crisis, specifically Greece and earnings seasons announcements and as risk of an disorderly Greek default receded all major global markets gained over the last one month, with the only exception being Qatar with the QE index flat and the TunisSE index marginally down -1.6% 1m.

Developed Markets

Developed markets had a positive month with the MSCI G7 index gaining +5.8% 1m, with positive data out of the US (improving employment, industrial and consumer confidence) and risks of a disorderly Greek default receding, together with news that China is supportive of the EFSF/ESM.

US companies reported results with earning that grew +15.2% y/y, in line with consensus estimates. Out of 10 sectors, 9 reported positive results, mostly in line with consensus. Only the Utilities sector reported a-2.3% y/y contraction in earnings, -6.6% below consensus. So far 33% of companies have reported. The Oil and Gas sector saw the strongest growth with earnings +45.7% y/y, in line with expectations.

- The Basic Materials sector saw earnings growth of +32.3% and was also in line with consensus.
- Financials saw more modest earnings growth of +2.35% and this was +3.8% above consensus.
- US consumers remain positive with the sentiment being reflected in the results of the Consumer Goods and Consumer Services sectors posting growth of +10.2% y/y and +15% y/y respectively, with consumer goods -4.2% below expectations and consumer services +1.5% above expectations.
- Technology companies reported earnings growth of 12.5% y/y, in line with expectations.

In the technology sector, the NASDAQ gained +8.2% as Apple reported record Q4 2011 CY net profits of USD 13.06bn (+37.7% above consensus) on revenues of USD 46.33bn (+19.5% above consensus). The company sold more units across all product lines than estimated. Apple is benefiting from its position at the crossroads of several investments themes across different sectors and geographies namely;

i) growth in the technology sector,

ii) smartphones becoming more the norm than rather than high end products. Gartner reported 472mn smartphone units were sold in 2011, an increase of 58% y/y and expects growth of 39% in 2012 compared to 7% for all mobile phones

iii) the growth of emerging market middle classes especially in China and India. Whilst Apple aimed high for IPhone 4S sales in China it was still unable to meet Chinese demand for its products, running out of supply within days

The company also sits on a USD 98bn cash pile, which is expected to comfortably cross the USD 100bn mark over the next quarter and trades on a BEst 2012PE of 12.2x, with a majority of analysts upgrading their forecasts over the last month according to Bloomberg. The Apple halo effect spread to it suppliers with ARM, Hynix Semiconductor, Murata Manufacturing and Samsung all posting gains.

News that Facebook intends to raise USD 5bn (through an IPO valuing the company at between USD 75bn to USD 100bn, dwarfing Google's 2004 IPO), also helped to boost the technology sector as well as Morgan Stanley, the investment bank chosen to lead the IPO. IBM increased 5.2% after forecasting earnings that beat analysts' expectations.

As Greece inched towards receiving the next installment of bailout funds, the Athens Composite index gained +26.9% 1m, making it the second best performing major equity market globally over the last month and Euro Stoxx 600 index gained +5.34% 1m. However the risk of a default remains (even after the next tranche is paid to Greece and even if it makes its bond repayment) as debt/GDP will remain north of 100% unless economic growth picks up.

Emerging Markets

The MSCI EM index gained +9.9% 1m as reallocation of funds from developed markets to EM boosted liquidity, with EPFR stating that these flows are at multi year highs. Emerging market equity funds took in USD 1.93mn in the week to 18 January according to EPFR Global.

Equity funds focused on Asia had the biggest inflows (USD703mn) after recent economic data suggested that China is heading for a soft landing. The Shanghai Composite gained 5.2% 1m, underperforming MSCI EM as the market waits PBOC to loosen its monetary policy.

Indian equity markets have started the year on a positive note having had the best January in 18 years with the Sensex gaining +12.3% 1m, outperforming the MSCI EM Index which has rallied +9.9% 1m. The positive momentum has been sustained on the back of increasing liquidity with c.USD 4bn ytd FII money flowing into the Indian equity markets.

The Supreme Court of India cancelled the sale of 122 telecom licenses which were awarded in 2008. The MSCI India Telecom Services Index has dropped -7.2% since the decision. The decision impacted Etisalat, Telenor, Batelco and Sistema (companies that invested in Indian license winners at prices much higher than the cost to the licensees and spent money rolling out networks), as well as highlighting the risk of FDI in India.

Latin America had another strong month, +10.2% 1m, as central bank policy remains positive but performance of the MSCI EM Eastern Europe index was even stronger at +14.1% as fear of cross border banking risks subside as the borrowings costs for European sovereigns declined.

MENA Markets

Saudi kicked off the reporting season in the MENA region with earnings growth of +20.5% y/y across all sectors, slightly below overall consensus by -2.1%. Out of 10 sectors, 7 reported y/y earnings growth (Basic Materials, Industrials, Consumer Goods, Healthcare, Consumer Services and Financials) with c.98% of companies having reported.

- The Basic Materials sector showed the strongest earnings growth, reporting +37.7% y/y net income growth, but -4.2% below consensus as market heavyweight SABIC reported earnings growth of +35.3%, which was -4.1% below consensus.
- The weakest sector was Oil and Gas as PetroRabigh reported results -89.7% below consensus.
- The Utilities sector earnings growth was -3.7% as Saudi Electricity Company reported net income of SAR 2,221mn, -20.4% below consensus.
- The Consumer Good sector earnings increased +14% y/y, and had the biggest upside surprise, +8.3% above consensus as Savola reported earnings +16% above consensus.
- Telecommunications earnings fell -4.1% y/y but were +1.8% above consensus driven by Mobily which reported +20.8% earnings growth, +4.8% above consensus.
- Financials reported earnings growth of +17.5% y/y, slightly above consensus by +1.6%.

The Saudi market has had a good run this year, gaining +6.1% ytd but is now trading at a premium to FM, both in terms of PE (+28%) and P/B (+35%), giving limited upside potential unless FM rerate.
Results for UAE companies have been very strong, with net income +35.7% y/y, but have been slightly below consensus (-3.9%), Out of 8 sectors, 4 reported earnings growth (Consumer goods, Healthcare, Utilities and Financials) with c.55% of UAE companies having reported so far.

- Financials reported a 20.1% increase in net income, +3% above consensus, with ADCB reporting results 36.4% above consensus and Tamweel reporting results +22.9% above consensus. Commercial Bank of Dubai reported results -12.4% below consensus.
- The Telecommunications sector performed poorly with earnings falling -23.5% as Etisalat reported results -17.1% below expectations as the Indian government cancelled 122 licenses issued for 2G services in 2008 causing Etisalat to make an impairment charge of AED 3.04bn. Market expectations are for a stronger set of results from du.
- The Energy sector reported a +14.9% y/y increase in net income, -39% below expectations. Taqa reported earning -51.1% below expectations as a result of write-downs on its Canadian operations and higher tax charges.

The Real Estate sector in the UAE has begun to show signs of life with Abu Dhabi reinitiating suspended projects (including the museums on Saadiyat Island, the expansion of Khalifa Port and a new terminal at Abu Dhabi Airport) and announcing further new projects including social projects. In Dubai Al Habtoor announced the redevelopment of one of its properties in a c.USD1.3bn project and Nakheel announced that it would be building a new shopping mall on the Palm Jumeirah. Sobha Developers, an Indian based developer, showed it confidence in the UAE real estate market, announcing it has acquired 8mn sq ft of Meydan Group and intends to build a mixed use development Sobha City, with the first project to be announced in Q4 2012 and the entire project to be completed by 2020. Both Aldar's full year and Emaar's Q4 2011 results beat analysts' expectations.

The DFM is +17% 1m and the ADX is +7% 1m, with the DFM trading at a +5.6% premium to FM on a PE basis and ADX trading at a -5.9% discount to FM on the same measure.

Egypt was the best performing major market globally, with the EGX30 rising +31.9% 1m, as the first anniversary of the Egyptian Spring passed relatively peacefully, and the elected Egyptian parliament held its inaugural session. Whilst the market still trades at a discount to EM (with a PE of 7.2x and PB of 1.3x versus a PE of 10.5x and PB of 1.7 for EM) Egypt's foreign currency reserves continued to fall to USD 16.4bn in January 2012 highlighting potential devaluation risk, which could be alleviated if tourists start returning in significant numbers.

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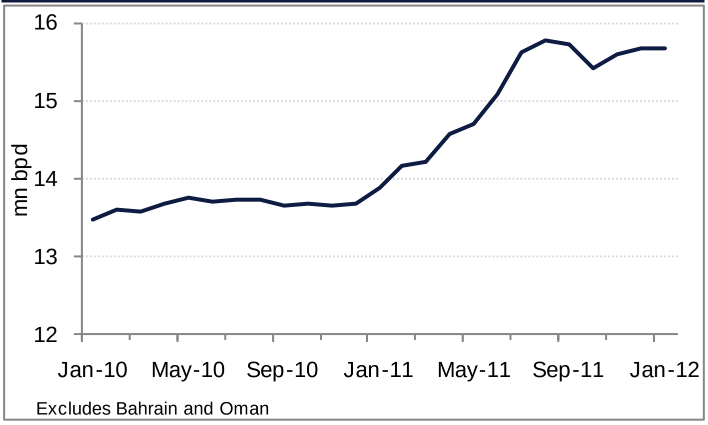
GCC in Pictures

GCC Oil Production

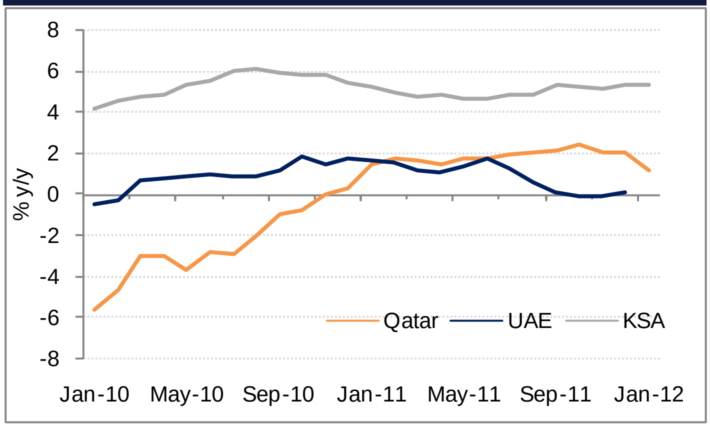


Source: Bloomberg

OPEC Reference Oil Price

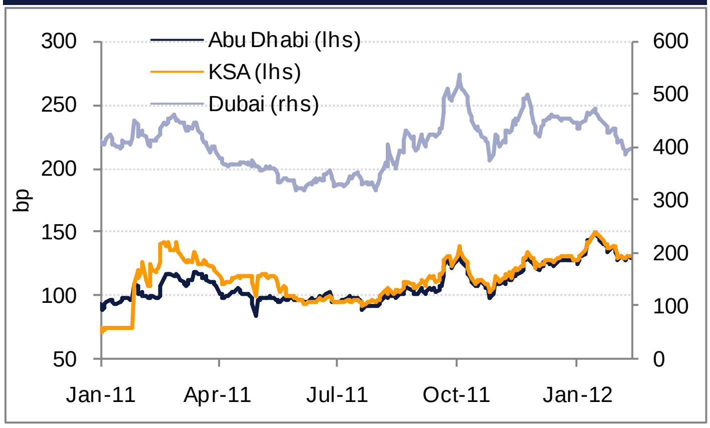
Source: Bloomberg

Inflation



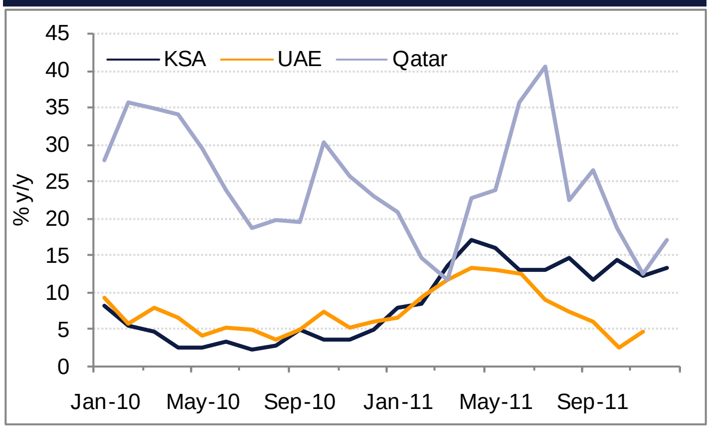
Source: Haver Analytics, Emirates NBD Research

CDS Spreads



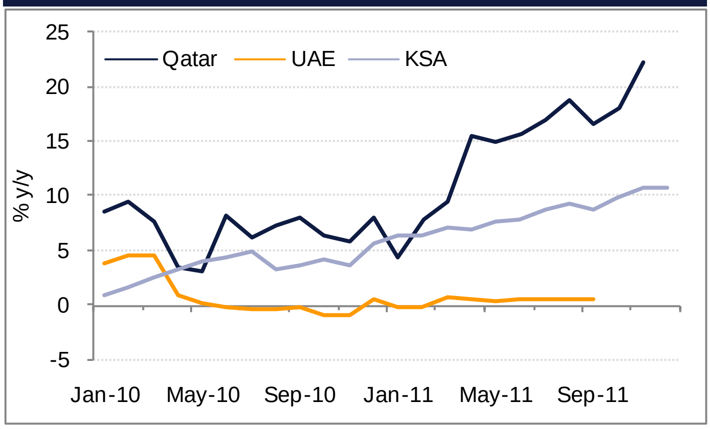
Source: Bloomberg

Money Supply (ex govt. deposits)



Source: Haver Analytics, Emirates NBD Research

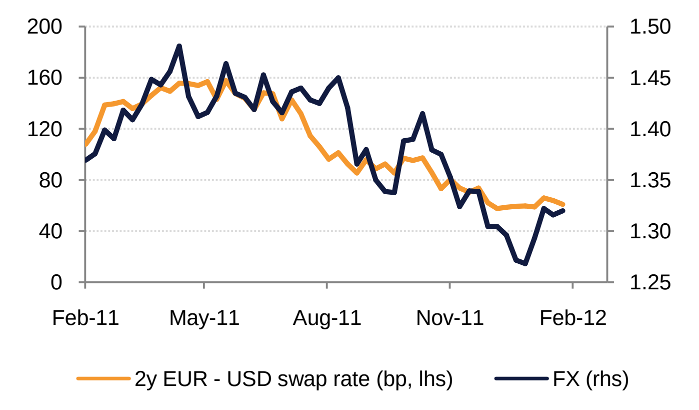
Private Sector Credit



Source: Haver Analytics, Emirates NBD Research

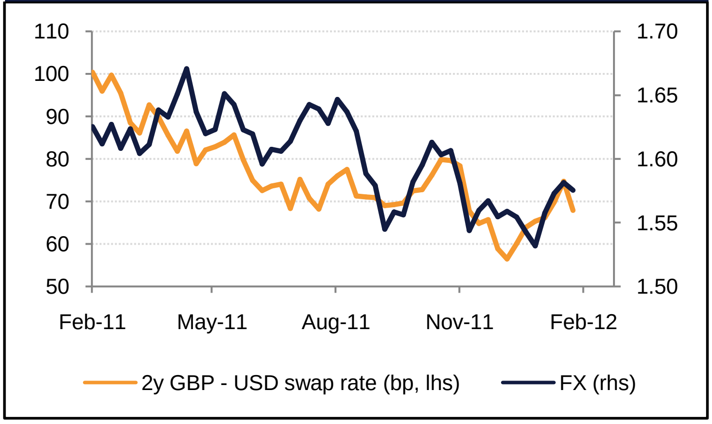
FX – Major Currency Pairs & Interest Rates

Interest Rate Differentials – EUR



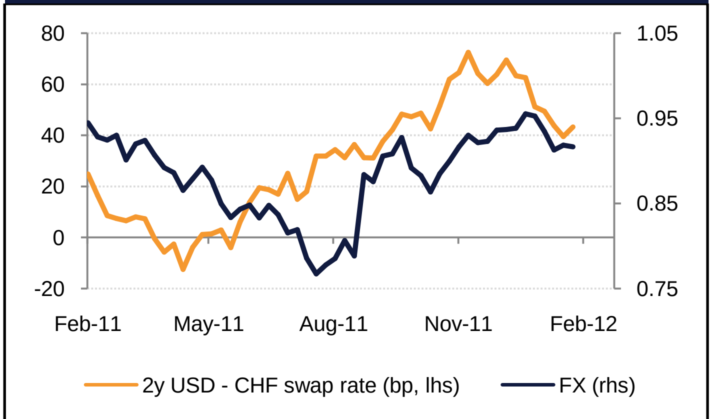
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials - GBP



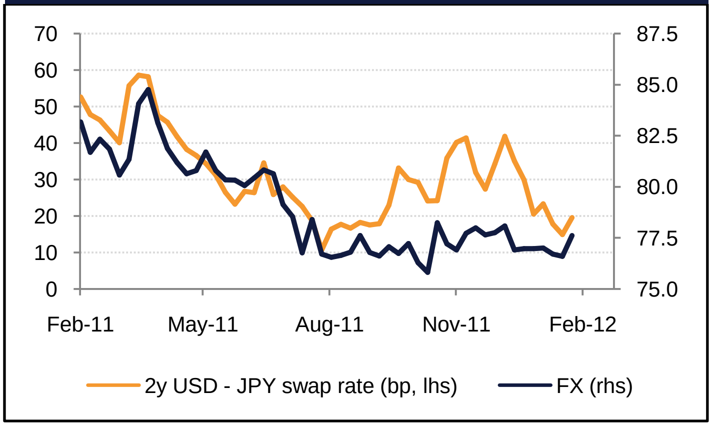
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials - CHF



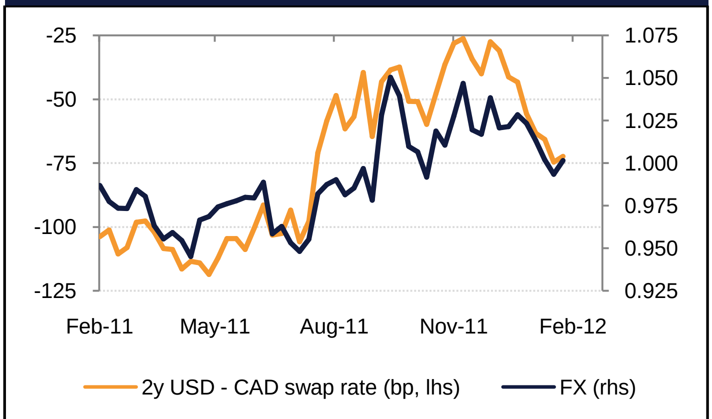
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials - JPY



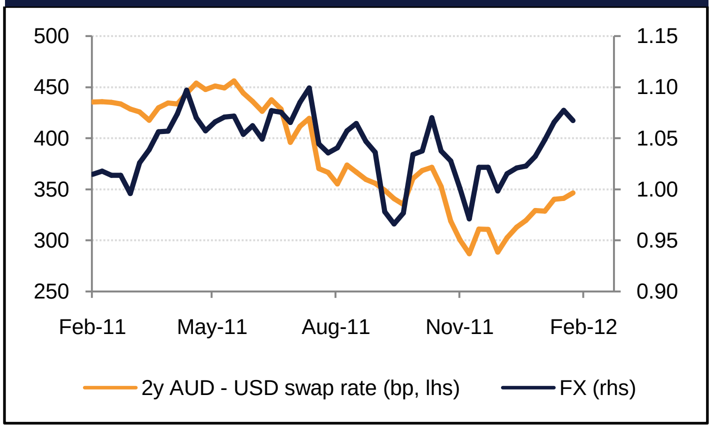
Source: Bloomberg, Emirates NBD Research

Interest Rate Differentials - CAD



Source: Bloomberg, Emirates NBD Research

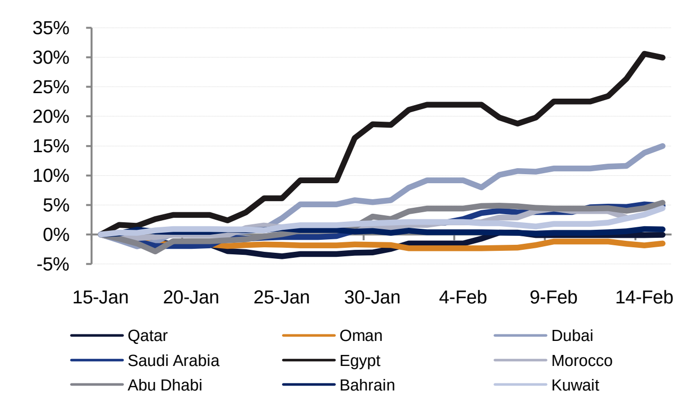
Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

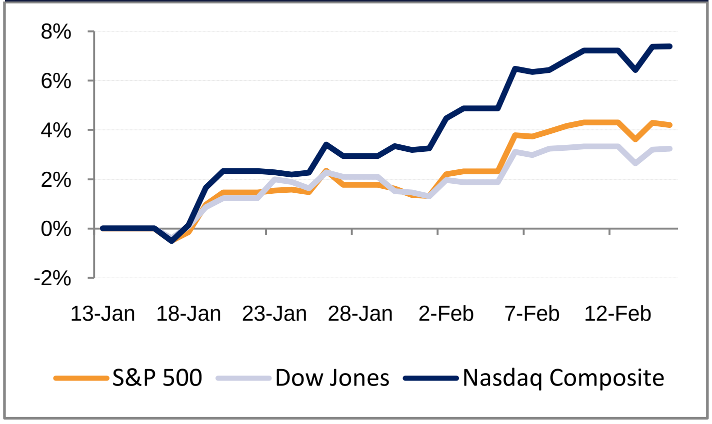
Major Equity Markets

MENA Equity Markets



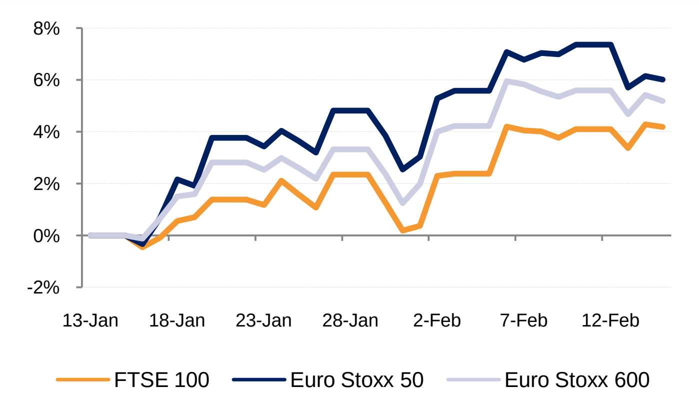
Source: Bloomberg, Emirates NBD Research

US Equity Markets



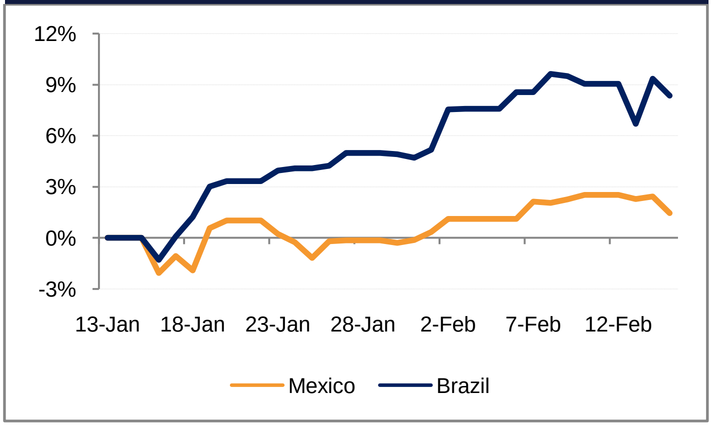
Source: Bloomberg, Emirates NBD Research

European Equity Markets



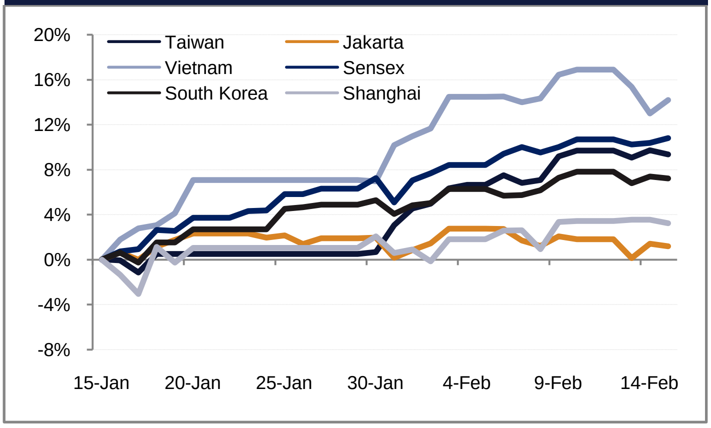
Source: Bloomberg, Emirates NBD Research

Latin American Equity Markets



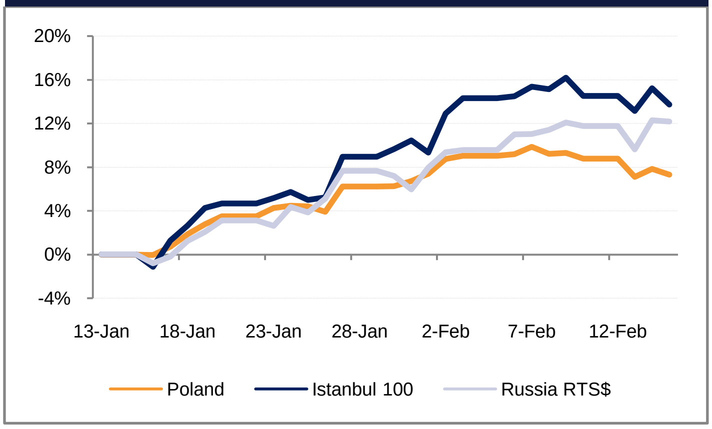
Source: Bloomberg, Emirates NBD Research

Asian Emerging Equity Markets



Source: Bloomberg, Emirates NBD Research

Emerging Europe Equity Markets



Source: Bloomberg, Emirates NBD Research

Key Economic Forecasts - GCC

United Arab Emirates	2008	2009	2010	2011e	2012f
Nominal GDP $bn	315.1	270.5	297.9	344.2	351.6
Real GDP %	3.3	-1.6	1.4	4.6	2.5
Current A/C % GDP	7.4	3.1	8.1	14.1	11.8
Budget Balance % GDP	16.2	-13.1	-2.1	2.1	-0.6
CPI %	12.3	1.6	0.9	1.0	1.3
Saudi Arabia					
Nominal GDP $bn	476.3	376.7	447.8	569.9	587.7
Real GDP %	4.2	0.1	4.1	6.8	3.8
Current A/C % GDP	27.8	5.6	14.9	28.0	21.6
Budget Balance % GDP	32.5	-6.1	5.2	14.3	11.0
CPI %	9.9	5.1	5.4	5.0	4.8
Qatar					
Nominal GDP $bn	115.3	97.8	127.3	181.9	193.2
Real GDP %	17.7	12.0	16.2	17.9	7.1
Current A/C % GDP	28.7	10.2	26.3	30.7	28.4
Budget Balance % GDP	10.0	15.2	2.9	6.8	6.7
CPI %	15.2	-4.9	3.5	2.0	3.5
Kuwait					
Nominal GDP $bn	147.4	105.9	124.3	164.7	171.0
Real GDP %	6.0	-6.1	3.3	5.0	3.6
Current A/C % GDP	40.9	24.3	29.6	39.3	34.0
Budget Balance % GDP	6.9	21.1	24.0	28.8	26.5
CPI %	10.6	4.0	4.0	4.8	4.0
Oman					
Nominal GDP $bn	60.4	46.8	57.8	71.7	74.8
Real GDP %	12.8	1.1	4.0	5.0	4.5
Current A/C % GDP	8.3	-1.3	8.8	12.6	11.4
Budget Balance % GDP	13.1	3.9	8.3	8.7	5.3
CPI %	12.5	3.7	3.2	4.1	3.8
Bahrain					
Nominal GDP $bn	22.2	19.6	22.9	25.3	26.1
Real GDP %	6.3	3.1	4.5	2.2	3.3
Current A/C % GDP	10.2	2.9	3.4	3.9	5.0
Budget Balance % GDP	7.4	-5.1	-5.3	5.4	3.2
CPI %	3.5	2.8	2.0	0.0	2.5
GCC (GDP weighted average)					
Nominal GDP $bn	321.4	259.9	301.2	375.1	385.8
Real GDP %	6.1	0.3	4.7	7.3	3.9
Current A/C % GDP	22.5	7.1	15.5	24.9	20.8
Budget Balance % GDP	20.9	-2.2	5.0	11.5	9.0
CPI %	11.2	2.7	3.5	3.4	3.5

Source: Haver Analytics, Emirates NBD Research

Key Economic Forecasts – Global

US	2009	2010	2011	2012f
Real GDP %	-3.5	3.0	1.5	1.5
Current A/C % GDP	-2.7	-3.2	-3.0	-2.5
Budget Balance % GDP	-10.6	-8.8	-8.5	-7.0
CPI %	-0.3	1.6	3.0	1.5
Eurozone				
Real GDP %	-4.1	1.7	1.5	-0.5
Current A/C % GDP	0.1	1.7	0.0	0.1
Budget Balance % GDP	-6.3	-6.0	-5.0	-3.6
CPI %	0.2	1.5	2.5	1.5
UK				
Real GDP %	-4.9	1.4	1.0	0.5
Current A/C % GDP	-1.7	-3.2	-2.2	-2.0
Budget Balance % GDP	-10.9	-10.2	-9.0	-7.0
CPI %	2.2	3.3	4.0	1.8
Japan				
Real GDP %	-6.3	4.0	0.0	2.0
Current A/C % GDP	2.8	3.6	2.5	2.5
Budget Balance % GDP	-10.4	-9.8	-10.0	-8.0
CPI %	-1.3	-0.7	0.0	0.0
China				
Real GDP %	9.2	10.3	9.0	8.0
Current A/C % GDP	5.8	5.7	5.0	5.0
Budget Balance % GDP	-2.2	-1.6	-2.0	-1.0
CPI %	-0.7	3.3	5.5	3.7
India				
Real GDP %	9.1	8.8	7.0	6.5
Current A/C % GDP	-2.9	-2.6	-3.0	-2.7
Budget Balance % GDP	-6.2	-4.7	-6.0	-5.5
CPI %	2.1	9.4	9.0	7.5

Source: Emirates NBD Research

FX & Policy Rate Forecasts

FX Forecasts - Major					Forwards		
	Spot 14.02	3M	6M	12M	3M	6M	12M
EUR / USD	1.3134	1.25	1.20	1.15	1.3139	1.3147	1.3170
USD /JPY	78.4400	80.0	85.0	90.0	78.3681	78.2623	77.9590
USD / CHF	0.9194	1.00	1.06	1.13	0.9183	0.9168	0.9127
GBP / USD	1.5692	1.52	1.54	1.58	1.5681	1.5666	1.5636
AUD / USD	1.0691	0.95	0.90	0.90	1.0585	1.0483	1.0291
USD / CAD	0.9991	1.05	1.07	1.10	1.0011	1.0032	1.0074
EUR / GBP	0.8370	0.82	0.78	0.73	0.8379	0.8392	0.8422
EUR / JPY	103.0200	100.0	102.0	103.50	103.0194	103.0187	103.0165
EUR / CHF	1.2076	1.25	1.27	1.30	1.2066	1.2054	1.2020
FX Forecasts – Emerging					**Forwards**		
	Spot 14.02	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7502	3.75	3.75	3.75	3.7498	3.7495	3.7494
USD / AED*	3.6730	3.67	3.67	3.67	3.6731	3.6731	3.6732
USD / KWD	0.2780	0.285	0.282	0.28	0.2795	0.2802	0.2827
USD / OMR*	0.3850	0.38	0.38	0.38	0.3841	0.3834	0.3822
USD / BHD*	0.3770	0.376	0.376	0.376	0.3775	0.3785	0.3808
USD / QAR*	3.6413	3.64	3.64	3.64	3.6417	3.6420	3.6431
USD / EGP	6.0360	6.00	6.10	6.20	6.4268	6.6768	7.2518
USD / INR	49.3681	52.00	53.00	50.00	49.3770	49.3852	49.3960
USD / CNY	6.3000	6.35	6.30	6.25	6.2957	6.2875	6.2830
Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED	0 – 0.25	0.25	0.25	0.25			
ECB	1.00	0.75	0.50	0.50			
BoE	0.50	0.50	0.50	0.50			
BoJ	0.10	0.10	0.10	0.10			
SNB	0.25	0.25	0.25	0.25			
RBA	4.25	4.00	3.75	3.75			
SAMA (r repo)	0.25	0.25	0.25	0.25			
UAE (1W repo)	1.00	1.00	1.00	1.00			
CBK (dis. rate)	2.50	2.50	2.50	2.50			
QCB (o/n depo)	0.75	0.50	0.50	0.50			
CBB (1W depo)	0.50	0.50	0.50	0.50			
CBO (o/n repo)	2.00	2.00	2.00	2.00			

Data as of 15 February 2012
Source: Bloomberg, Emirates NBD Research

Interest Rate Forecasts

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	0.57	0.64	0.51	0.43	0.60	0.64	0.73
5y	1.09	1.27	1.36	1.49	1.18	1.29	1.51
10y	2.02	2.05	2.33	2.91	2.09	2.16	2.31
2s10s (bp)	145	141	182	248	149	152	158
US Treasury Forecasts							
2y	0.28	0.29	0.21	0.18			
5y	0.82	0.97	1.06	1.24			
10y	1.94	1.85	2.18	2.76			
2s10s (bp)	165	156	197	258			
AED-USD Swap Spreads (bp)							
	Current	3M	6M	12M			
2y	116	144	154	150			
3y	120	138	147	143			
5y	123	131	139	135			
AED Swap Rates (%)							
2y	1.72	2.08	2.06	1.93			
3y	1.87	2.10	2.19	2.14			
5y	2.31	2.58	2.76	2.83			

Prices as of 14 February 2012
Source: Bloomberg, Emirates NBD Research

Global Equities Market Watch

Index	Last Close	Avg Daily Value Traded 30d USD mn	Wtd % chg	Mtd% chg	Ytd% chg	% member above 200d MA
Developed Markets						
Dow Jones Industrial Average Index	12,878	4,718	0.6	1.9	5.4	90
S&P 500 Index	1,351	24,396	0.6	2.9	7.4	77
Nasdaq Composite Index	2,932	12,952	1.0	4.2	12.5	57
FTSE 100 Index	5,900	5,446	0.8	3.8	5.9	75
Dax Index	6,728	4,362	0.5	4.2	14.1	77
Cac 40 Index	3,376	3,690	0.1	2.3	6.8	50
Swiss Market Index	6,164	2,008	0.5	3.2	3.8	85
Nikkei Index	9,052	9,330	3.5	5.2	9.5	55
S&P/ ASX 200 Index	4,243	4,029	0.2	-0.2	4.9	54
Stoxx Europe 600 Index	263	28,036	0.5	3.2	7.4	66
MENA Markets						
Dubai Financial Market General Index	1,539	43	3.5	7.2	13.7	32
Abu Dhabi Securities Market General Index	2,490	22	1.0	1.5	3.7	22
Tadawul All Share Index	6,816	2,012	0.3	2.9	6.2	87
Istanbul Stock Exchange National 100 Index	59,662	1,133	0.6	4.4	16.4	43
Egyptian Exchange Index	5,066	47	6.6	9.0	39.9	57
Kuwait Stock Exchange Index	6,010	112	3.0	2.9	3.9	22
Bahrain Bourse All Share Index	1,142	1	0.5	0.2	-0.1	7
Muscat Securities Index	5,607	7	-0.1	1.0	-1.4	40
Qatar Exchange Index	8,695	57	0.1	1.5	-1.0	60
MADEX Free Float Index	9,251	10	-0.4	0.9	2.7	43
Emerging Markets						
Hong Kong Hang Seng Index	20,918	2,731	2.7	4.7	15.8	71
Shanghai Composite Index	2,345	9,608	0.4	3.0	7.3	8
Korea Stock Exchange Index	2,003	5,374	1.6	3.6	10.9	61
BSE Sensex	17,849	167	2.2	5.5	17.4	73
Nifty	5,416	1,376	2.3	5.9	19.0	76
Karachi Stock Exchange Index	12,262	38	0.4	3.4	8.2	58
Taiwan Stock Exchange Weighted Index	7,884	3,514	1.8	6.5	13.2	52
Bovespa Brasil Sao Paulo Stock Exchange	65,039	3,033	1.6	3.1	14.6	74
Micex Index	1,562	1,521	3.5	4.3	12.6	50
FTSE/JSE Africa All Share Index	34,112	1,748	0.6	0.9	6.6	78
Vietnam Ho Chi Minh Stock Index	400	17	-1.9	2.4	13.0	29
Jakarta Stock Exchange Composite Index	3,953	418	1.0	0.3	3.4	45
FTSE Bursa Malaysia KLCI Index	1,566	271	-0.1	2.5	1.9	80
Mexican Stock Exchange	37,832	396	-0.8	1.1	2.0	74

Prices as of 14 February 2012
Source: Bloomberg, Emirates NBD Research

Emirates NBD GCC Cash Bonds/ Sukuk*

Security Name	S&P Rating	CCY	Bid	Bid YTM %	1 week ago	1 mnth ago	3 mnth ago
Emirate of Abu Dhabi 2012	AA	USD	101.88	1.28	102.25	102.75	103.00
Emirate of Abu Dhabi 2014	AA	USD	109.00	1.21	109.88	109.00	110.00
Emirate of Abu Dhabi 2019	AA	USD	121.75	3.30	120.88	122.13	120.42
Waha Aerospace 2020	AA	USD	102.50	3.58	102.79	103.46	103.21
CBB International Sukuk 2014	BBB	USD	106.50	3.31	106.93	107.49	108.01
BHRAIN 6.273 18		USD	104.50	5.47	104.08	104.04	-
Mumtalkat 2015	BBB	USD	100.25	4.92	98.89	98.37	99.30
Dubai Government 2013	N.A.	AED	95.25	6.21	95.13	94.63	94.50
Dubai Government 2013 fixed rate bond	N.A.	AED	98.50	5.58	98.63	98.50	98.25
Dubai Government 2014	N.A.	USD	103.50	4.99	103.11	102.27	102.44
Dubai Government 2014	N.A.	AED	103.00	4.08	102.75	102.53	103.31
Dubai Government 2015	N.A.	USD	104.00	5.47	104.13	103.50	103.13
Dubai Government 2020	N.A.	USD	107.13	6.65	106.13	106.00	105.00
Dubai Government 2021	N.A.	USD	100.00	5.59	99.38	98.13	98.50
Islamic Development Bank 2014	AAA	USD	103.00	1.97	103.56	103.80	105.02
Islamic Development Bank 2015	AAA	USD	98.50	2.20	99.47	99.48	100.30
Islamic Development Bank 2016	AAA	USD	99.50	2.47	100.53	100.92	101.62
MDC - GMTN B.V. 2014 (Mubadala)	AA	USD	107.75	2.14	107.86	107.86	108.05
MDC - GMTN B.V. 2016 (Mubadala)	AAe	USD	102.75	3.04	103.01	103.41	103.26
MDC - GMTN B.V 2019 (Mubadala)	AA	USD	119.75	4.40	120.21	120.28	120.89
MDC - GMTN B.V. 2021 (Mubadala)	AAe	USD	105.50	4.75	104.47	105.24	106.01
TDIC Finance Ltd 2014	AA	USD	107.75	3.07	108.43	108.04	110.00
TDIC Finance Ltd 2014	AA	USD	105.25	2.89	105.60	105.69	107.09
State of Qatar 2014	AA	USD	107.25	1.68	107.16	107.32	109.00
State of Qatar 2015	AA	USD	105.25	2.13	105.10	105.16	106.03
State of Qatar 2019	AA	USD	118.75	3.55	118.31	118.96	119.89
State of Qatar 2020	AA	USD	110.00	3.78	109.13	109.98	111.50
QATAR 4.5 22	AA	USD	103.38	4.08	102.71	103.57	-
State of Qatar 2040	AA	USD	116.00	5.30	115.84	119.14	123.44
State of Qatar 2015	AA	USD	103.75	2.35	103.95	103.70	104.25
State of Qatar 2020	AA	USD	106.75	4.05	106.48	107.11	108.09
Rakia Capital 2013	A	AED	98.00	4.29	-	-	-
Rakia Capital 2014	A	USD	111.75	2.93	112.04	112.59	114.13
Rakia Capital 2016	A	USD	107.75	3.13	108.08	108.46	109.28
IPIC GMTN 2015	AA	USD	100.00	3.12	100.43	100.41	100.81
IPIC GMTN 2017	AA	USD	100.00	3.75	100.53	100.00	99.97
IPIC GMTN 2020	AA	USD	100.00	5.00	101.82	101.33	99.55
IPIC GMTN 2022	AA	USD	101.00	5.37	101.67	100.92	99.86

Emirates NBD GCC Cash Bonds/ Sukuk*

Security Name	S&P Rating	CCY	Bid	Bid YTM %	1 week ago	1 mnth ago	3 mnth ago
Abu Dhabi Commercial Bank 2014	A-	USD	104.50	2.96	104.71	104.66	105.72
Abu Dhabi Commercial Bank 2016	A1 Moody's	USD	101.50	3.72	101.72	102.20	-
ADIB Sukuk 2015	N.A.	USD	100.75	3.53	101.36	101.89	103.70
ADIB Sukuk 2016	N.A.	USD	100.50	3.66	101.27	101.45	-
Commercial Bank of Qatar 2014	A-	USD	105.25	2.99	105.40	105.37	106.22
Commercial Bank of Qatar 2019	BBB+	USD	115.75	5.02	116.05	117.26	118.84
Dubai Sukuk Center 2012	B+	USD	96.75	11.66	96.83	94.53	94.22
DIB Sukuk 2012	NR	USD	99.00	13.01	99.41	99.16	98.89
Emirates Bank 2012	NR	USD	100.50	2.43	100.46	100.39	101.02
Emirates Bank 2013	N.A.	AED	97.00	5.28	-	-	-
Emirates Bank 2017	N.A.	USD	100.75	4.55	100.33	-	-
National Bank of Abu Dhabi 2014	A+	USD	104.00	2.87	104.58	104.41	105.82
National Bank of Abu Dhabi 2015	A+	USD	104.00	2.89	104.42	104.29	105.58
SIB Sukuk 2016	N.A.	USD	103.50	3.82	103.85	103.87	105.79
Qatar Islamic Bank 2015	N.A.	USD	102.88	3.01	102.88	103.04	103.90
HSBC Bank Middle East 2015	N.A.	USD	99.88	3.04	100.17	100.08	100.10
HBME Sukuk Co LTD (HSBC) 2016	N.A.	USD	101.38	3.23	101.51	101.49	103.17
FGB Sukuk Company 2016	N.A.	USD	100.00	3.80	100.53	101.43	102.13
FGB Sukuk Company 2017	N.A.	USD	100.75	3.88	100.56	-	-
QNB Finance LTD 2015	A+	USD	100.25	3.05	100.29	100.17	101.32
Saudi British Bank 2015	A	USD	100.50	2.86	100.82	100.68	101.47
UNBUH 3.875 16	N.A.	USD	101.38	3.56	100.97	101.87	99.01
Dubai Holding Comm Op 2014	NR	EUR	88.00	12.03	89.60	84.45	86.81
Dubai Holding Comm Op 2017	NR	GBP	77.50	12.33	78.89	73.52	76.42
Al dar Sukuk Funding II 2013	B	AED	97.25	5.42	97.70	97.45	96.67
Atlantic Finance Limited 2014	B	USD	109.50	6.18	110.44	111.27	111.12
Dar Al-Arkan 2012	N.A.	USD	93.50	19.79	-	-	-
EMAAR (PYRUS) LTD 2015	N.A.	USD	99.00	7.80	99.05	96.43	98.07
EMAAR Sukuk LTD 2016	BB	USD	103.75	7.49	103.46	101.70	103.06
Anka Sukuk (Nakheel 2016)	N.A.	AED	78.00	17.19	79.03	76.50	72.32
MAFUAE 5.85 17	N.A.	USD	100.63	5.70	-	-	-
DEWA Funding Limited 2013	N.A.	AED	97.50	4.90	99.06	98.37	97.97
DEWA Funding Limited 2015	N.A.	USD	109.13	5.33	108.75	108.32	109.38
DEWA Funding Limited 2016	N.A.	USD	104.50	5.27	104.25	103.09	105.34
DEWA Funding Limited 2020	N.A.	USD	104.25	6.72	104.05	103.03	102.58
Emirates Airlines 2016	N.A.	USD	100.38	5.03	100.53	99.94	99.53
Jafz Sukuk Limited 2012	B	AED	94.50	10.48	94.70	93.32	93.14
Dana Gas Sukuk Ltd 2012	N.A.	USD	70.00	64.59	69.96	76.11	88.44

Emirates NBD GCC Cash Bonds/ Sukuk*

Security Name	S&P Rating	CCY	Bid	Bid YTM %	1 week ago	1 mnth ago	3 mnth ago
DP World Sukuk Limited 2017	BB	USD	103.75	5.43	103.37	101.68	103.96
DP World Sukuk Limited 2037	BB	USD	94.75	7.31	-	92.75	94.66
Dolphin Energy Ltd 2019	N.A.	USD	107.38	4.69	-	-	110.00
Dolphin Energy Ltd 2021	N.A.	USD	102.75	5.14	106.04	106.16	106.20
Abu Dhabi National Energy 2013	NR	USD	106.00	2.35	104.91	104.69	104.86
Abu Dhabi National Energy 2014	N.A.	USD	104.75	2.82	109.77	110.79	110.73
Abu Dhabi National Energy 2016	NR	USD	109.50	3.65	101.34	101.13	-
Abu Dhabi National Energy 2017	NR	USD	101.25	3.85	110.00	110.88	110.50
Abu Dhabi National Energy 2017	NR	USD	110.25	4.12	115.35	115.36	116.47
Abu Dhabi National Energy 2018	NR	USD	115.00	4.54	109.72	110.42	111.20
Abu Dhabi National Energy 2019	N.A.	USD	109.25	4.78	103.69	104.63	-
Abu Dhabi National Energy 2021	N.A.	USD	104.50	5.28	99.25	98.92	98.66
Wings FZCO 2012	N.A.	USD	99.00	4.69	99.45	99.67	98.73
Qreic Sukuk Llc 2012	N.A.	USD	97.00	8.12	109.04	109.15	109.99
Qtel International Fin 2014	A	USD	109.00	2.45	100.82	101.30	101.58
Qtel International Fin 2016	A	USD	101.25	3.08	122.49	123.56	123.71
Qtel International Fin 2019	A	USD	122.25	4.29	101.85	102.06	102.58
Qtel International Fin 2021	A	USD	101.50	4.55	-	-	-
Ras Laffan LNG III 2012	A	USD	101.50	2.00	-	-	-
Ras Laffan LNG III 2014	A	USD	106.75	2.80	-	-	120.50
Ras Laffan LNG III 2019	A	USD	118.75	3.88	101.08	100.71	101.51
SABIC Capital 2015	A+	USD	100.75	2.78	-	-	-

**Prices as of 15 February 2012*
Source: Emirates NBD Sales & Structuring

Emirates NBD Equity Reverse Convertibles*

Underlying Stock	CCY	Current Price / Strike	Coupon to Investor (p.a) Investment Tenor		
			3M	6M	12M
Aldar Properties	AED	0.97	9.88%	11.50%	-
Abu Dhabi National Energy Co. (TAQA)	AED	1.27	7.23%	9.09%	-
Arabtec Holding Co.	AED	2.74	6.81%	8.58%	-
Emaar Properties PJSC	AED	2.86	7.71%	9.19%	-
Aramex	AED	1.85	3.13%	5.32%	-
Sorouh Real Estate Co.	AED	0.92	6.79%	8.88%	-
Abu Dhabi Commercial Bank	AED	2.90	3.84%	6.01%	-
Saudi Basic Industries Corp.	SAR	93.88	4.67%	7.78%	-

**Prices as of 12 February 2012. Please note all prices above are indicative and subject to internal approvals.*
Source: Emirates NBD Sales & Structuring

What is a Reverse Convertible?
A Reverse Convertible is a structured product which allows the investor to benefit from a high return based on the view that the underlying will not decline below its initial level.

Mechanism
At maturity, there are 2 scenarios:
- If the underlying closes at or above its initial level, then investor receives 100% of the capital invested and the coupon
- If the underlying closes at or below its initial level, then investor receives 100% of the capital invested and the coupon minus the negative performance of the underlying from initial level. In this scenario, investor may incur capital loss.

Scenario analysis (ex: Aldar Reverse Convertible on 6 months):
- If Aldar is above its initial level in 6 months, then investor receives 100% + 9.88% = 109.88% of the capital invested
- If Aldar declined by -5% from the initial level in 6 months, then investor receives 100% + 9.88% – 5% = 104.88% of the capital invested
- If Aldar declined by -30% from the initial level in 6 months, then investor receives 100% + 9.88% – 30% = 79.88% of the capital invested

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