Monthly Market Insights

August 2021

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Macro update – Feeble chances of rapid economic recovery

Asset Classes	Closing	MTD	YTD
S&P 500	4395	1.74%	18.77%
MSCI EM	1278	-7.04%	-2.04%
MSCI World	3069	1.72%	14.95%
MSCI GCC	679	0.79%	23.46%
Oil	75.38	0.35%	50.70%
Gold	1814	2.49%	-6.62%
US Treasury Yield	1.222	-25bps	31bps

Key Interest Rates	Closing	MTD (bps)	YTD (bps)
LIBOR	0.118	-2.7	-12.0
EURIBOR	-0.544	-0.4	0.2
TIBOR	0.057	-0.2	-2.2
SIBOR	0.794	0.1	-2.2
EIBOR	0.370	-1.9	-8.0
HIBOR	0.149	-2.2	-18.2

Sovereign CDS	Closing	MTD (bps)	YTD (bps)
Abu Dhabi	41.3	2.4	2.9
Saudi Arabia	55.9	2.7	-9.7
Kuwait	50.0	0.6	3.1
Bahrain	246.7	38.5	0.3
Oman	255.0	8.3	-112.3
Turkey	384.1	2.2	80.3

Upcoming Key Events	
09.08.2021	Saudi Arabia GDP 2Q21
12.08.2021	Turkey Central Bank Meeting
13.08.2021	Turkey Current Account Balance
14.08.2021	Qatar CPI
31.08.2021	Bahrain CPI

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OVERVIEW

- In July, the worrying spread of the highly transmissible Delta variant across the world sparked concerns over the possibility of delayed economic recovery. Against this backdrop, Federal Reserve chief Jerome Powell struck a dovish tone at the congressional testimony, citing that the central bank remains 'a ways off' from tapering its fixed income securities purchases and tightening policy. Powell maintained that inflation would likely moderate and the jobs market remained well below pre-pandemic levels. The commentary and rising infection cases attracted strong demand for safe-haven assets, which saw the 10-year US Treasury yield slid to a five-month low. Moreover, the release of higher inflation prints further fueled investor caution. However, the equity markets seemed to consider coronavirus-related jitters as overdone and treaded higher. That said FOMC in its July meeting left its benchmark rate unchanged, while acknowledging that progress had been made toward its threshold to start tapering monthly fixed income securities purchases. Meanwhile, in Europe too, the 10-week long decline in infections came to a halt amidst the warning of a third-wave by the World Health Organization, casting a cloud over recovery prospects. Taking stock of the crisis, the European Central Bank expressed the need to keep interest rates lower for longer. Following ECB hiked its inflation target from "below but close to 2%" to a symmetric 2% target over the medium term. Overall, investors are expected to remain watchful of whether the pace of vaccinations could help control the rise in infections, supporting business sentiments.

MACRO BACKDROP

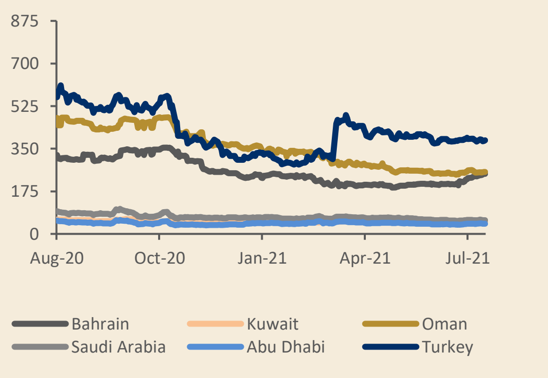
- US macro data revealed a mixed picture. CPI rose 5% y/y in May, posting the largest gain since 2008, from 4.2% in the month prior, beating estimates of a 4.7% rise. Manufacturing activity too picked pace, with flash PMI rising to 62.6 in June from 62.1 in May. Unemployment rate declined to 5.8% in May from 6.1%. Meanwhile, non-farm payrolls revealed an addition of 559K jobs in May, far below expectations of 650K, however above the 278K reported in April. On the contrary, retail sales fell 1.3% m/m, while housing starts rose 3.6% m/m to 1.57mn.
- In Eurozone, manufacturing PMI rose to record high of 63.1 in June while service sector jumped to 58. CPI rose 0.3% m/m and 2% y/y in May. The Eurozone ZEW sentiment index fell marginally to 81.3 in June from 84 in May. Retail sales declined 3.1% m/m, however rose 23.9% y/y in April.

KEY REGIONAL NEWS

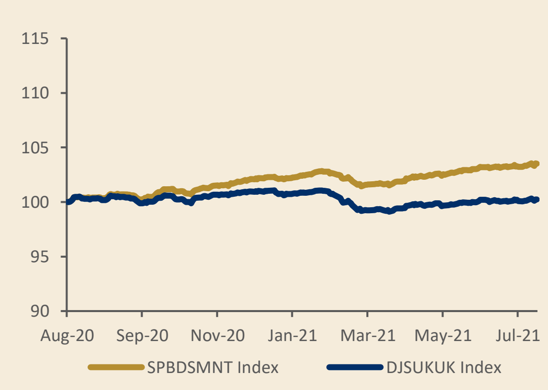
- Fitch revised Saudi Arabia's outlook to stable from negative, citing significantly higher oil prices and continued government commitment to adjusting its finances, while maintaining rating at 'A'. *Source: Bloomberg*
- The OPEC and its non-OPEC allies reached a deal to phase out 5.8mb/d of oil production cuts by September 2022 as prices of the commodity hit their highest levels in more than two years. *Source: CNBC*

Sukuk – Issuances show moderation

Sovereign 5-year CDS spread movement

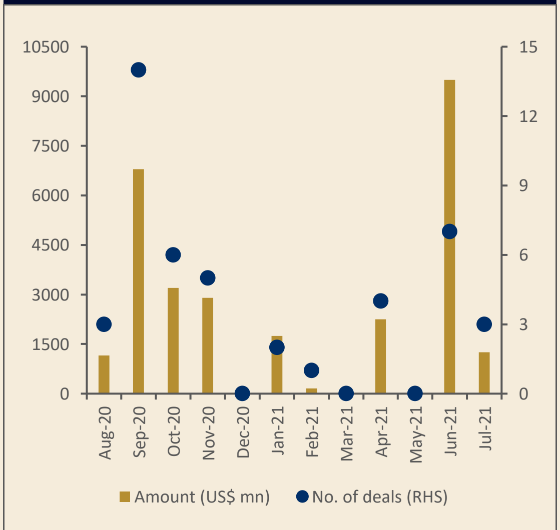


Sukuk index total return*



*Rebased to 100 on 1 August 2020

Monthly Sukuk new issuance volume



Development in regional CDS market

GCC economies witnessed marginal widening of 5-year CDS spreads on an MTD basis in July 2021 as the volatility in the oil prices prevailed following UAE and Saudi Arabia's disagreements over output increases. Moreover, the uncertainties looming over the recovery from the pandemic hit period added to the woes. CDS spreads of Bahrain widened the most in the region by 38.5bps on MTD basis, followed by Oman (8.3bps). Notably, Oman's CDS spreads have tightened by 112.3bps on YTD basis, reflecting the improvement in oil prices. Turkish CDS spreads compressed by 2.2bps MTD. For the fourth time in a row, Turkey's central bank stuck to its tight stance amid rising consumer prices and kept its key interest rate at 19%, pledging to keep the key rate above inflation (17.5% in June 2021) until indicators point to a permanent fall in medium-term readings.

Sukuk issuance moderates in July

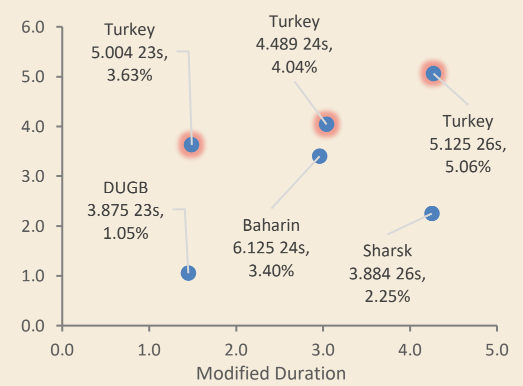
On MTD, both S&P Sukuk Mena and Dow Jones Sukuk indices witnessed a marginal rise in July 2021. Senaat 25s' and Mumtalakat Bahrain 21s' were the best performers with the yield to worst (YTW) tightening by 196bps and 169bps, respectively. On the contrary, Oman Government 24s' and DUGB 29s' were the worst performers, with YTW widening 262bps and 160bps, respectively. Among utilities, Saudi Electric 43s' continued to underperform as yield widened by 160bps. However, the primary Sukuk market slightly moderated compared to last month but July witnessed Sukuk issuances from prominent issuers.

Key developments

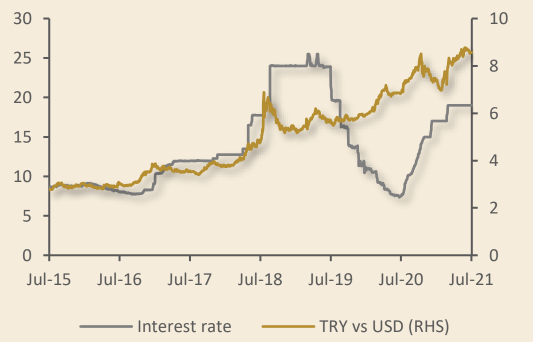
- **The Emirate of Sharjah sold $750mn in 10-year Sukuk** on 6th July 2021in its second international Sukuk sale of the year, as it seeks to plug finances hit by the impact of the COVID-19 pandemic. Sharjah sold the Islamic Sukuk at 3.2%, tightened 30 basis points from initial price guidance.
- **Emaar Properties** expects to buy out minority shareholders of Emaar Malls and delist the malls unit by year-end.
- **Qatar Petroleum raised $12.5bn** in a multi-tranche finance securities. The proceeds from the offering will be used to support its ambitious growth plans, particularly the North Field expansion projects.
- Dubai's **Mashreqbank has applied for a banking license in Saudi Arabia** and is seeking to enter the Omani market as the Dubai-based lender no longer sees its main competitors as other bricks-and mortar lenders and sees the future of retail banking as digital only.
- Abu Dhabi's **Mubadala and French national investment bank Bpifrance signed a memorandum** of understanding to invest up to €350mn in private companies, focusing on Africa through fund investments and direct investments in private equity and start-ups.

Turkey Sukuks- Compensating for plummeted foreign investment

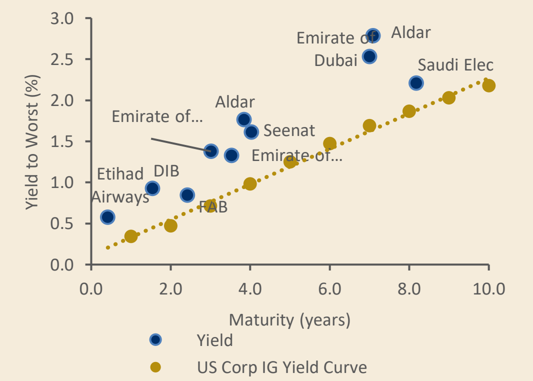
Turkey Sukuk's yield curve



Monetary tightening to salvage Lira freefall



Sukuk vs. US Corp IG yield curve

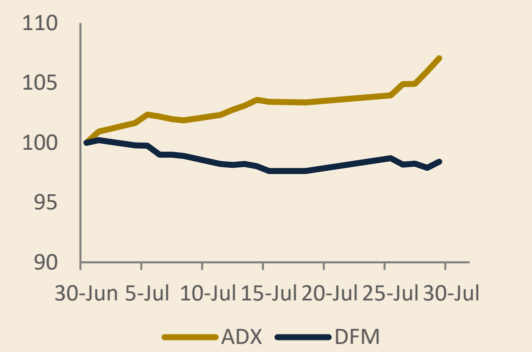


Republic of Turkey

- In June 2021, the Republic of Turkey tapped the international markets with $2.5bn five-year Sukuk, which drew more than $9.3bn in orders. The Sukuk was priced at a profit-sharing of 5.125%, tightened from initial guidance of around 5.5%, owing to the stellar demand.
- Turkey has issued Sukuks on multiple occasions in the recent past, including at the end of 2020 and January 2021, demonstrating access to the international capital market. However, the focus has recently shifted toward issuing at longer maturities and in local currency. That said, the net government financing is expected to be 36% of GDP by the end of 2021, reflecting a modest level among the emerging markets and provide decent headroom to manoeuvre in an adverse scenario.
- Turkey's economy has recovered strongly from the Covid-19 crisis, with real GDP expanded by 1.8% y/y in real terms in 2020; only a handful of EM countries saw their economies grew last year. The economy expanded by 7% y/y in yearly terms in 1Q21 and 1.7% quarterly. Also, Turkey's output exceeded the pre-pandemic level as early as 3Q20 and witnessed a record high exports in June and 1H21. The government now expects to exceed the $200bn exports threshold this year, ahead of its medium-term target.
- That said, Turkey posted a fiscal deficit of 5% to GDP, i.e., $24.7bn (TRY173bn) in 2020, ahead of the country's budget of $34bn (TRY239bn). At the same time, the trade deficit soared by 69% y/y to $50bn in 2020 as exports plunged 6.3% amidst heavy reliance on imports. The country targets a budget deficit of 3.5% of GDP for 2021, given the economic recovery and withdrawal of some of the previous pandemic-related support measures.
- A sharp draw-down squeezes Turkey's current account in the central bank's FX reserves and increased dollarization that acted as a hedge against double-digit inflation. The country ran a current account deficit of $36.7bn in 2020 (around 5.3% of GDP) from a surplus of nearly $6.8bn in 2019. To revamp the imbalances, the government has taken several steps to slow credit expansion at public banks, discontinue the asset ratio regulation that previously incentivized banks to lend more, and raise interest rates. These measures should gradually contribute to declining inflation and narrowing external imbalances.
- The recent policy reversal of tightening monetary policy has been a welcome move to stem lira depreciation. For the fourth time in a row, Turkey's central bank has kept its key interest rate at 19% in a bid to keep the key rate above inflation (17.5% in June 2021) until indicators point to a permanent fall in medium-term readings.
- While the foreign investors continue to be worried by inflation spikes in Turkey, coupled with economic and monetary policies, Turkey seems to be eyeing the issuance of Sukuk to compensate for a plummeted foreign investment. On a comparable basis, Turkish Sukuks provide attractive returns compared to its GCC counterparts in the wake of a bullish backdrop that expects EU economies to reopen soon.

Equities: Higher volatility amid renewed virus worries

Regional index movement*



*Rebased to 100 on June 30

DFM top five gainers and losers

Gainers	MTD	Losers	MTD
AMCREIT	64.0%	MAZAYA	-33.5%
ERC	62.5%	ITHMR	-19.0%
SHUAA	27.1%	MASQ	-10.1%
UFC	14.3%	EIB	-10.0%
ALRAMZ	12.7%	ARMX	-9.0%

ADX top five gainers and losers

Gainers	MTD	Losers	MTD
ALQUDRA	221.5%	NBQ	-11.1%
RAKCC	73.3%	WATANIA	-10.8%
ALPHADHA	71.6%	UNION	-10.0%
ADSB	56.3%	TKFL	-9.9%
DRIVE	21.3%	NCTH	-9.4%

Abu Dhabi market continues outperformance

Global markets witnessed increased volatility MTD (Jun 24 to Jul 25) due to the growing concerns over the highly transmittable Delta variant which may slow the global economic recovery. Despite nervousness in the global markets, Abu Dhabi index maintained uptrend and outpaced both global and regional markets by a wide margin on MTD basis. The solid performance in ADX was largely led by the strong gains in the index heavyweight International Holdings (IHC) which was up 33% MTD driven by successful listing of its subsidiary Alpha Dhabi on Jun 27. On the other side, DFM continued its decline owing to weakness in the real estate (-4.7%) and banking (-2.4%) sectors. In terms of value, foreign investors bought stocks worth of AED187mn on ADX while AED179mn worth of stocks were sold on DFM, on a net basis. The average daily volume declined by 27% MoM and 32% MoM on ADX and DFM, respectively.

On YTD basis, ADX (+41%) is among the best performing equity markets globally driven by i) a strong rally in market heavyweights especially IHC (+205%) and FAB (+26%), ii) solid rebound in oil prices, iii) relatively favourable valuations, and iv) also helped by optimism over economy recovery amid vaccinations and supportive policies. However, DFM (+11%) lagged its key regional peers, despite relatively lower valuations, owing to uncertainty related to recovery in the real estate sector.

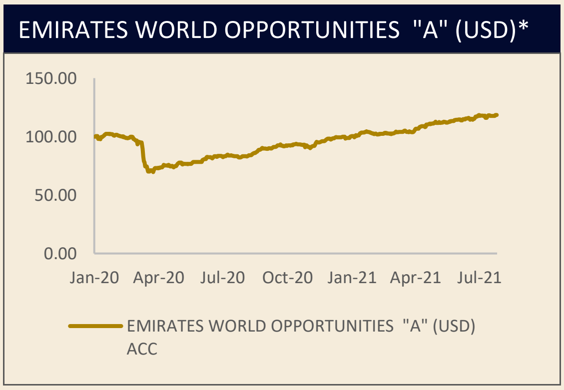
On technical side, the ADX index is trading in upward trajectory with strong momentum since March 2021, hitting new 52-week high record. The index may face resistance at this level and move towards its recent support of 7,086. For the DFM index, all major simple moving averages are negatively stacked with supportive volume, showing bearishness in the market. The index may take support at 2,740 level and may halt its downtrend.

Most read regional company headlines	
ADCB	ADCB posts 14.1% YoY rise in net profit in 2Q2021
NBS	NBS posts 28.5% YoY rise in net profit in 2Q2021
NBF	NBF reports net profit of AED34.2mn in 6M2021
EMAAR	Emaar Properties secures $500mn via Sukuk issuance

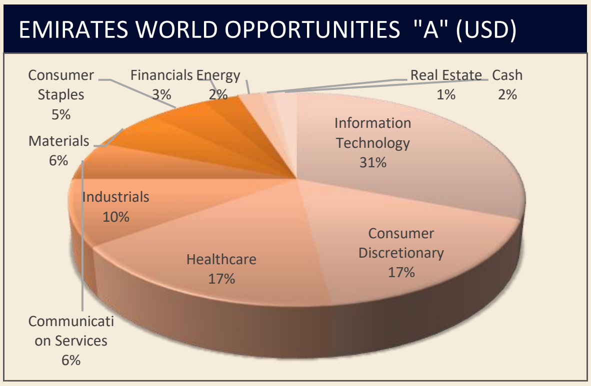
Performance of regional markets

Country	Last close	Index changes %		MCap	Volume	Turnover	P/E (x)	P/B (x)	Div Yld
		1M	YTD	US$bn	mn shrs	US$ mn	12M	12M	12M %
Abu Dhabi	7,318.18	7.1	45.0	353.9	247.3	361.9	23.4	2.1	2.9
Dubai	2,765.71	-1.6	11.0	81.7	105.7	41.6	20.8	1.0	2.8
Saudi Arabia	11,012.71	0.3	26.7	2,582.2	182.1	1,867.9	33.1	2.4	2.1
Kuwait (All shares)	6,581.01	3.0	18.7	125.0	423.6	241.5	38.0	1.7	1.8
Oman	4,030.40	-0.8	10.2	12.9	13.8	5.8	12.7	0.8	3.8
Bahrain	1,597.00	0.6	7.2	120.2	2.2	1.7	13.3	0.8	3.5
Qatar	10,753.28	0.2	3.0	147.1	48.1	58.8	17.9	1.6	2.7

Mutual funds – Recovery maintains uptrend despite virus threat



**Rebased to 100 on Jan 01, 2020



Equity funds growth accelerates

- From our coverage of 31 funds, 19 funds closed in the green on MTD basis (Jun 24 to Jul 25), led by both equity and finance funds, due to the global economic recovery primarily driven by reopening of the economies amid improvement in vaccine availability and continued monetary & fiscal policy support. The global economic recovery is expected to continue in the foreseeable future despite rising inflation and the threat possessed by the outbreak of Delta variant of the virus.
- Comgest Growth Europe S (+4.3% MTD) was the standout performer among the basket of our covered mutual funds. The outperformance was mainly attributed to the high investment allocation in Information Technology, Health Care and Consumer Discretionary sectors, which contributed to the returns.
- Templeton Shariah Global Equity Fund declined (-3.6% MTD). The underperformance can be attributed to the high exposure to Japan and Hong Kong markets, which witnessed sell-off during the period.

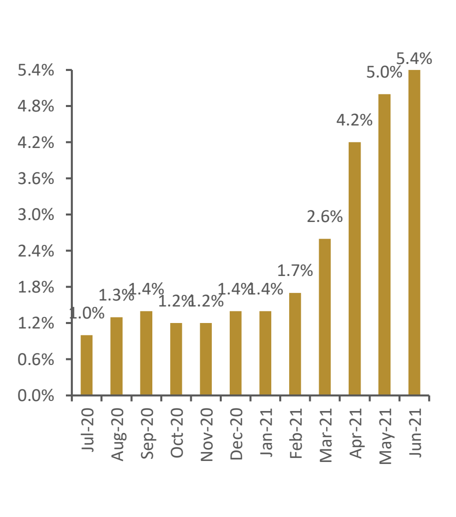
EMIRATES WORLD OPPORTUNITIES “A" (USD)

- Emirates World Opportunities “A" (USD) Fund is an open-ended Shariah-compliant equity fund which was converted from Emirates MENA Opportunities Fund with changed investment strategy effective from May 3, 2021. The fund invests in high growth fundamentally strong companies across the globe to generate medium to long-term capital returns (3-year return of 27% as on June 2021). The fund holds highest exposure to the US (55%) followed by China (18%), France (6%) and Netherlands (6%), while 2% is held in cash. The fund is well-diversified with investments across sectors such as Information Technology (31%), Consumer Discretionary (17%), Healthcare (17%) and Industrials (10%). The fund offers an opportunity to the local investors to invest in leading companies across the globe especially in the Technology and Consumer sectors.

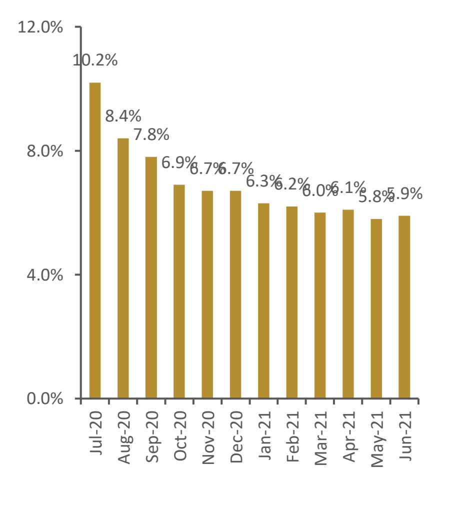
List of mutual funds

Fund names	ISIN	NAV	Currency	MTD	YTD
Comgest Growth Europe S	IE00B3ZL9H82	31.32	USD	5.21%	17.08%
Emirates India Equity Fund	LU1484867434	17.49	USD	5.06%	18.15%
Comgest Growth Europe S	IE00B4ZJ4634	35.15	EUR	4.96%	20.50%
Emirates India Equity Fund	LU1654400644	13.32	USD	4.23%	15.52%
AlAhli Saudi Trading Equity Fund	AFB007482007	13.90	SAR	2.69%	27.60%
AlAhli North America Index Fund	AFB007013901	7.74	USD	2.57%	16.68%
Old Mutual Global Islamic Equity	IE00BYMM2054	16.80	USD	2.13%	20.78%
AlAhli GCC Trading Equity Fund	AFB007482106	1.33	SAR	1.20%	22.56%
Emirates World Opportunities Fund	LU1060357412	13.87	USD	0.57%	18.69%
Franklin Global Sukuk Fund	LU0792756115	13.19	USD	0.38%	0.15%

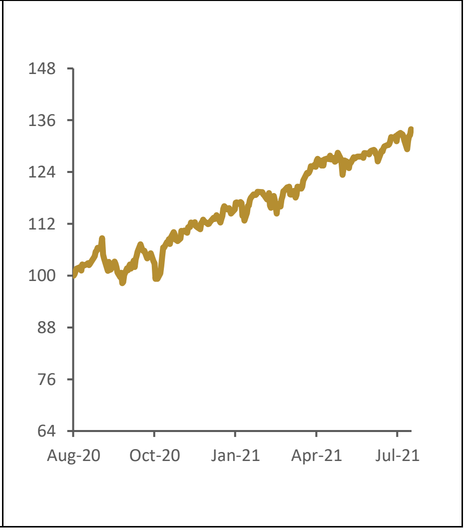
US Inflation Rate



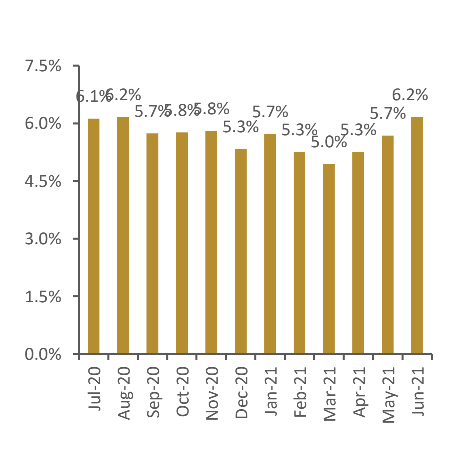
US Unemployment Rate



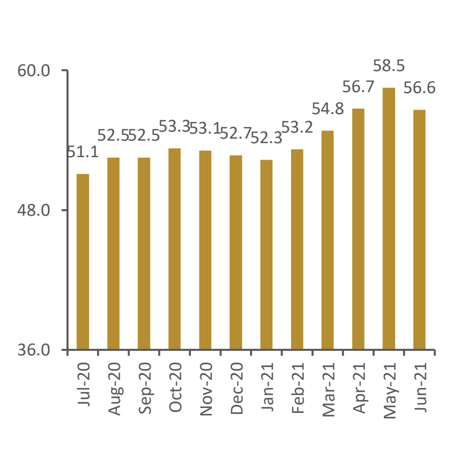
S&P 500*



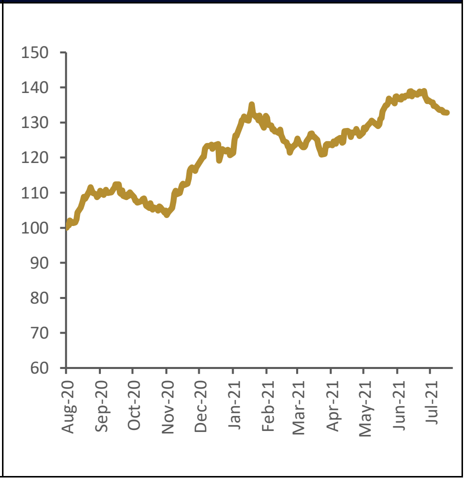
Saudi Arabia Inflation



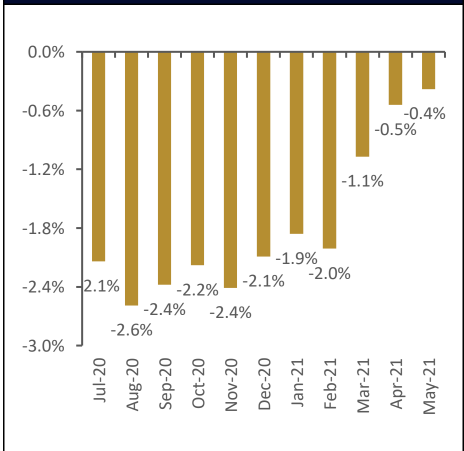
JPM Global PMI



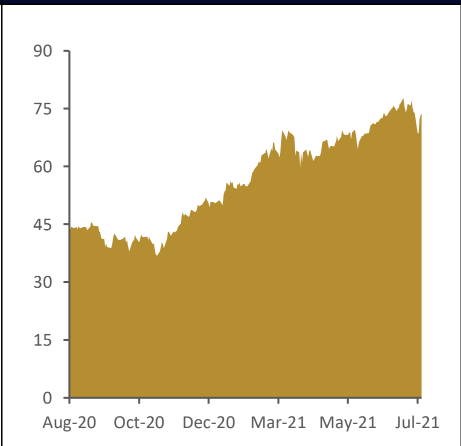
DFM Index*



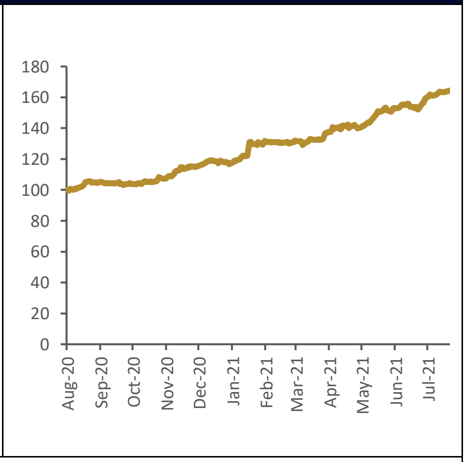
UAE Inflation Rate



Brent Oil Price Chart



ADX*



All figures and charts across the report are sourced from Bloomberg and ADIB research. Data is as on 31 July 2021

*Rebased to 100 on 1 August 2020

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