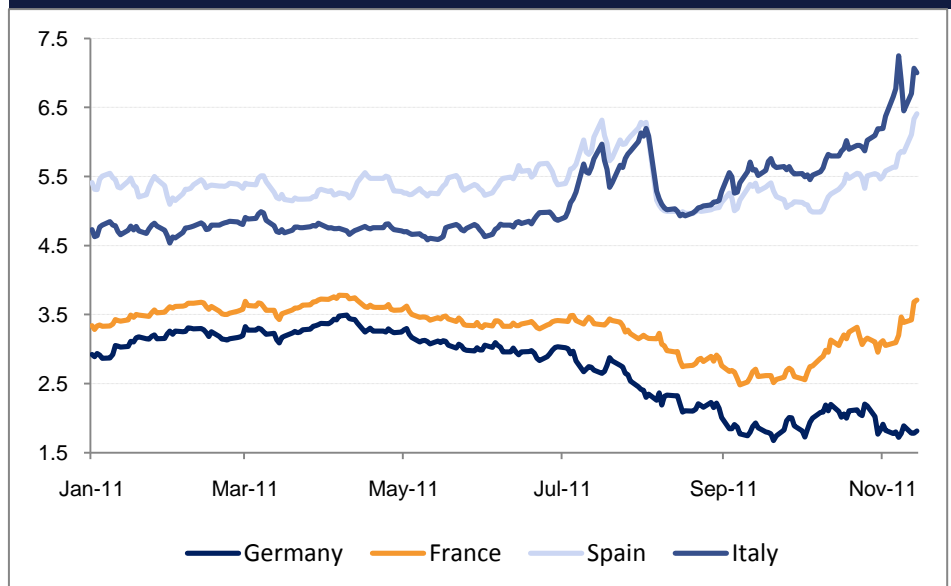


# ECONOMIC INSIGHTS

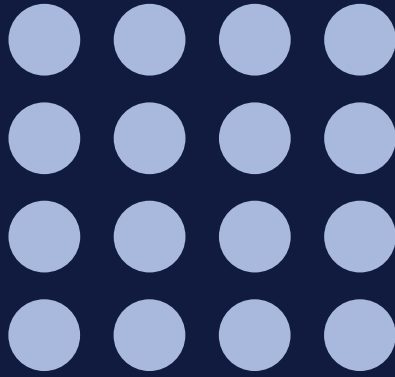
Events in the world economy have moved on considerably from a month ago but with the Eurozone debt crisis still centre stage. While conditions there have deteriorated sharply, the rest of the world is still managing to keep its head above water, but for how long?

- **Global macro:** IMF head Christine Lagarde recently warned about the probability of a 'lost decade' especially in the developed world. The financial market volatility in the Eurozone has certainly strengthened the case for a recession there next year. This is likely to keep the pressure on the ECB to loosen monetary policy further.
- **GCC macro:** GDP growth in the region this year has been underpinned by a substantial increase in oil production relative to 2010. Non-oil sectors are also proving relatively resilient despite an apparently seasonal slump over the summer. Monetary conditions appear to have tightened in Q3, particularly in the UAE, and private credit growth in the UAE also remains weak relative to the rest of the GCC.
- **Fixed income:** The Fed has announced in its last two meetings that it will keep rates near zero for at least two years, and that it will engage in further unconventional monetary policy through 'operation twist'. It appears the Fed will maintain easy-money conditions for a long time. Our models suggest that monetary policy may remain stimulatory for an entire decade.
- **Currencies:** A month ago the EUR was recovering quite sharply from the lows seen in early October, benefiting from an aggressive short squeeze and from optimism that a solution to Europe's debt crisis might be nearing. However, we cautioned then that this was likely to be temporary and so it is proving with the EUR/USD now on the verge of revisiting those earlier lows.
- **Equities:** Correlation between global equity markets appears to have broken down for the time being with the US equity markets being viewed as an equity safe haven, Asian equity markets showing strength on hopes of a soft landing in China, whilst Europe is 'risk off'. EM markets outperformed developed markets.

## European Sovereign 10y Bond Yields



Source: Bloomberg



## Monthly

17 November 2011

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## Content

<b>Global Macro</b> .....	<b>Page 3</b>
<b>GCC Macro</b> .....	<b>Page 5</b>
<b>Fixed Income</b> .....	<b>Page 7</b>
<b>Currencies</b> .....	<b>Page 9</b>
<b>Equities</b> .....	<b>Page 11</b>
<b>Key Data &amp; Forecast Tables</b> .....	<b>Page 13</b>

## Global Macro

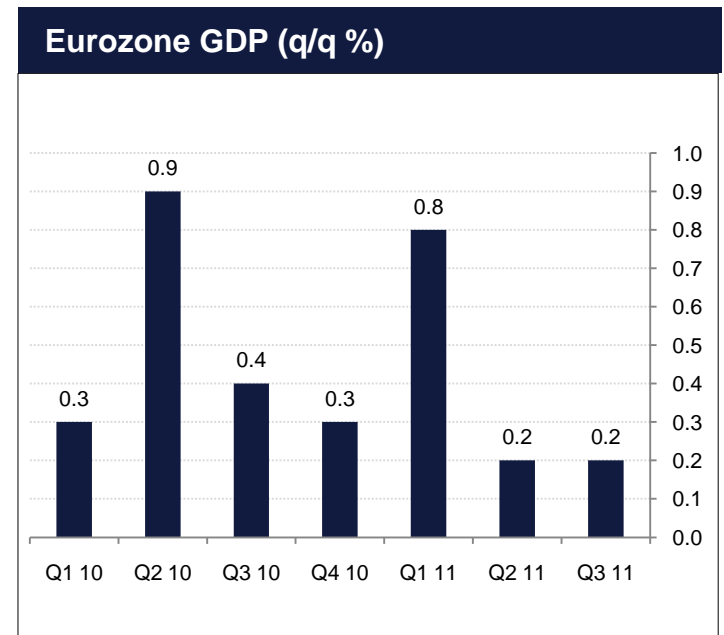
Events in the world economy have moved on considerably from a month ago but with the Eurozone debt crisis still centre stage. While conditions there have deteriorated sharply, the rest of the world is still managing to keep its head above water, but the question is for how long? IMF head Christine Lagarde recently warned about the probability of a 'lost decade' especially in the developed world. Recent economic data and financial market volatility in the Eurozone have certainly strengthened the case for a recession there next year, probably starting in Q4 of this one. This is likely to keep the pressure on the ECB to loosen monetary policy further, and with inflationary pressures dissipating elsewhere too, the likelihood is that global monetary policy will remain loose throughout 2012.

### Still no answers to the Eurozone debt crisis

The Eurozone debt crisis remains the dominant risk facing the world economy. Hopes were high a month ago that the EU summit and the G20 meeting would have provided a concrete solution to it, but this has not been the case. This failure to cauterise the issue caused the contagion to spread beyond Greece reaching Italy, the third largest economy in the Eurozone and with outstanding debt three times that of those countries that have already been bailed out. For good reason Italy has been described as being '*too big to fail, too big to save*'. The political leadership of Greece and Italy have been reshuffled but the structural issues remain the same. In fact without a popular mandate the danger is that these so-called 'technocratic' governments will fail to impose new austerity measures on disillusioned populations. Indeed with Germany continuing to play hard-ball over the provision of back-stop support to peripheral economies, even by way of the ECB taking on a lender of the last resort function, the way out of this crisis remains highly uncertain.

With the EU Commission now acknowledging that the Eurozone will come close to recession in 2012, the greater likelihood is that it will actually contract quite sharply from Q4 onwards, with Q3 only just recording positive growth of 0.2%. Feedback loops are becoming increasingly negative, whereby fiscal tightening begets ever weaker growth, requiring even greater austerity measures in order for fiscal targets to be met. Italy and Greece are not the only countries at risk of missing these, with Spain also again moving into the crosshairs of the bond market, with 10-year yields pushing well above 6.0%. Market access is likely to remain a moot point for many of the peripheral economies for the foreseeable future, with Italy and Spain vying for the position of most at risk, while Greece still remains the most likely to default. Recent conjecture about the possibility of exiting the Eurozone has also opened up a new dimension to the crisis, with such discussion no longer considered taboo. The more worrying aspect economically is that the distinction between the core and the peripheral economies is likely to blur, with no country immune to downside economic risks, including Germany, the engine of the Eurozone, as consumer and business uncertainties weigh increasingly on activity.

Against this backdrop the first indications from the ECB of Mario Draghi are at least partly encouraging, as the policy mistakes of the Trichet ECB have begun to be unwound with interest rates beginning to be cut. Nonetheless, the scope for significant monetary easing remains limited, especially with the ECB continuing to resist pressure to expand its balance sheet.



Source: Bloomberg, Emirates NBD Research

### UK economy is also pressured

The same is true of European countries outside of the Eurozone, with the UK authorities becoming increasingly concerned about the potential downdraft coming from the European continent. The decision in October to expand the Bank of England's balance sheet further, by another GBP 75bn, reflects these worries, and the latest Bank of England *Inflation Report* held out the possibility of more Quantitative Easing (QE) in 2012 as well. We have long held a fairly pessimistic view of the UK economy (and of the Eurozone economy) as regular readers will know, but even our relatively weak 1.5% growth forecast for next year is now in need of being revised down, probably close to this year's likely 1.0% outcome. Standing in its favour is the fact that the Bank has maintained a stimulatory monetary policy even as the ECB was raising interest rates earlier this year. However, with ongoing fiscal tightening set to continue in 2012, further QE may be necessary if only to ensure that the economy stands still.

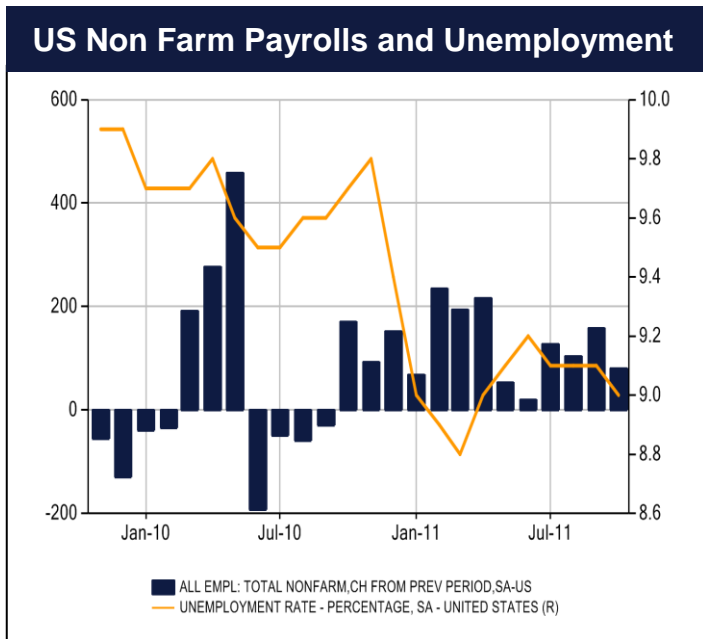
### Some welcome strength in the US

The main upside surprise of the last month has been from the US economy, which given its size and importance to global growth is extremely welcome considering the disappointments elsewhere. Growth in Q3 rose to 2.5% (q/q annualised rate) according to the advance estimate, and the labour market has added steady, if unspectacular, jobs over recent months. Previous estimates of flat jobs growth in August of this year have subsequently been revised higher. Surveys of economic activity have also on the whole held up well. Going forward, however, the US faces significant

headwinds still, and not only from Europe. As things stand, without an agreement to extend the two percent payroll tax cut and emergency unemployment benefits real GDP growth next year could be much lower. Our working assumption is that they will be renewed but fiscal policy is being complicated by the workings of the budget super committee which is due to make its recommendations next week. This committee was a product of the debt deal in the summer that prevented a government shutdown at the time, and is charged with putting the US on course for medium term fiscal sustainability by finding USD 1.5 trillion in deficit reduction over the next ten years. If it does not find a minimum of USD 1.2 trillion of savings, automatic cuts will be enacted from 2013, and only if the full USD 1.5 trillion of cuts are found will another budget showdown next year be avoided. Needless to say the politics of the Presidential election next year will probably play a significant part in the outcome, maintaining the likelihood that an impasse will serve to further compound any weakness stemming from the Eurozone.

Declining trade flows also pose risks to a number of other emerging market economies, such as our own and in north and Southeast Asia, as well as in the commodity-oriented economies of Latin America. India of course has the double weight of tight high interest rates as well as slowing global demand to contend with.

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Source: Global Insight, Emirates NBD Research

### Japan improves but emerging markets remain on watch

Of the other major world economies, the outlook is equally clouded by events in Europe. Japan's economy recovered strongly in Q3 rising by 1.5% q/q after the earthquake driven contraction of Q2, and after three prior quarters of contraction. Personal income rose by 1.0% q/q, suggesting that the March disaster had little permanent impact on confidence. Whether it can withstand the deterioration in sentiment from Eurozone is of course another matter, and for this reason the BoJ will remain ever watchful of the USD/JPY exchange rate.

The signs are that China's soft landing is already underway, with Q3 data showing that the economy is already losing momentum, with Purchasing Manager's data indicating that the slowdown is likely to continue and with export growth beginning to slow.

## GCC Macro

**Notwithstanding an easing in oil output in Q4 11, GDP growth in the region this year has been underpinned by a substantial increase in oil production relative to 2010. Non-oil sectors are also proving relatively resilient despite an apparently seasonal slump over the summer. Monetary conditions appear to have tightened in Q3, particularly in the UAE, and private credit growth in the UAE also remains weak relative to the rest of the GCC.**

### Oil output eases heading into year-end

GCC oil output declined for a second consecutive month in October, as Libya's oil production continued to recover. Saudi Arabia's oil production declined by 100,000 barrels per day (bpd) to 9.7mn bpd, from a peak of 9.9mn bpd in August. UAE and Kuwaiti oil output also declined slightly last month. In contrast, Libya's oil production rose by 245,000 bpd, after a 50,000 bpd rise in September, but it is still well below pre-civil war levels. As a result, we expect GCC oil output to continue to ease in the coming months, and through 2012, as Libyan oil production normalizes.

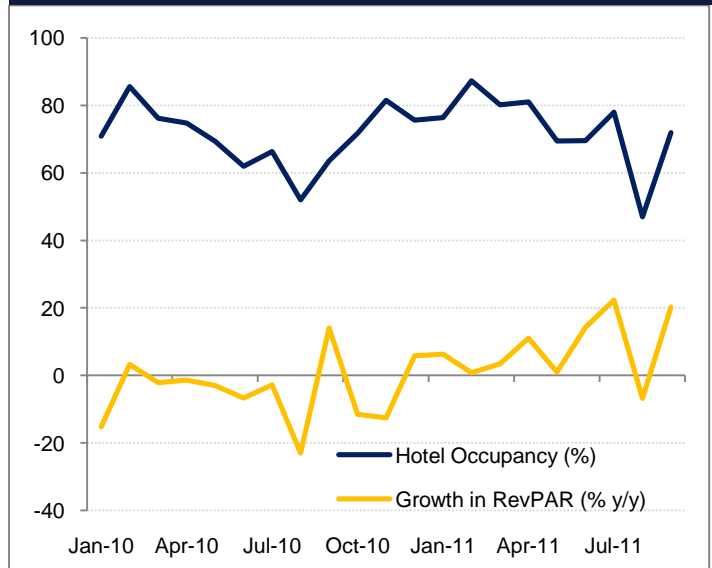
**Even with some moderation in GCC oil output in Q4 11, we expect average annual production levels in 2011 will be almost 10% higher than in 2010**, underpinning economic growth in the region. As the 'swing' producer, Saudi Arabia has seen the sharpest increase in oil production year to date, and is likely to be the first to adjust output downward. We expect UAE and Kuwaiti oil output to remain broadly stable for the rest of this year at least. Qatar's oil output has been relatively flat for most of the year, as its hydrocarbon growth has been mostly in the LNG sector.

### Non oil sectors showing some resilience

The non-oil sectors in the UAE and Saudi Arabia have also shown some improvement in October, suggesting that at least part of the slowdown in Q3 was due to seasonal factors. The UAE's PMI rose 1.3 points to 53.4. However, with 50 as the 'neutral' reading, the UAE PMI suggests the expansion in the private sector is not as strong as in neighbouring Saudi Arabia (which had a reading of 57 in October), nor as strong as we saw in Q1 2011.

**In the services sector, hotel occupancy in Dubai recovered sharply after a weak August**, confirming our view that the August data reflected seasonal factors. Encouragingly, the higher occupancy rates in Dubai do not appear to be due to price discounting, as revenue per available room (RevPAR) rose 89% m/m and 20.3% y/y in September. The chart below shows that RevPAR has shown positive growth for most of this year, in contrast to 2010 when RevPAR was largely contracting. Indeed, RevPAR in Jan-Sep 2011 is 8% higher than in the same period last year.

#### Dubai: Hotel occupancy and RevPAR



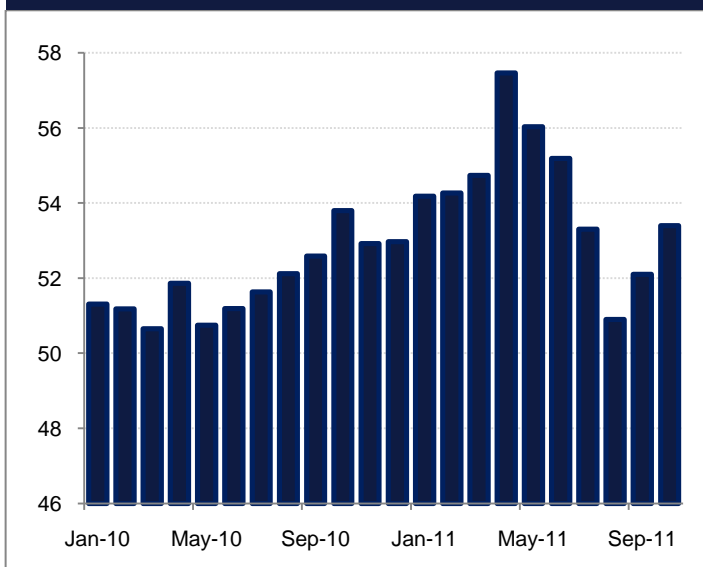
Source: STR Global, Emirates NBD Research

**Third quarter consumer confidence readings for the UAE and Saudi Arabia were also encouraging**, particularly in the context of a challenging macro environment over the survey period. Saudi consumers were the second most optimistic in the world (after India), and although UAE consumer confidence declined q/q, the reading was still one of optimism rather than pessimism.

### Tighter liquidity conditions in Q3

Liquidity conditions in the GCC appear to have tightened in the third quarter, with money supply growth slowing in the UAE, Saudi Arabia and to a lesser extent Qatar. This slowdown has been most evident in the UAE, where M2 (broad money excluding government deposits) growth was just 6.1% y/y in September, down from 12.5% y/y at the end of June. Growth in Quasi money (fx and term dirham deposits) appears to have slowed sharply in Q3, although cash in circulation also declined in September. Several factors are likely to have contributed to the decline in UAE

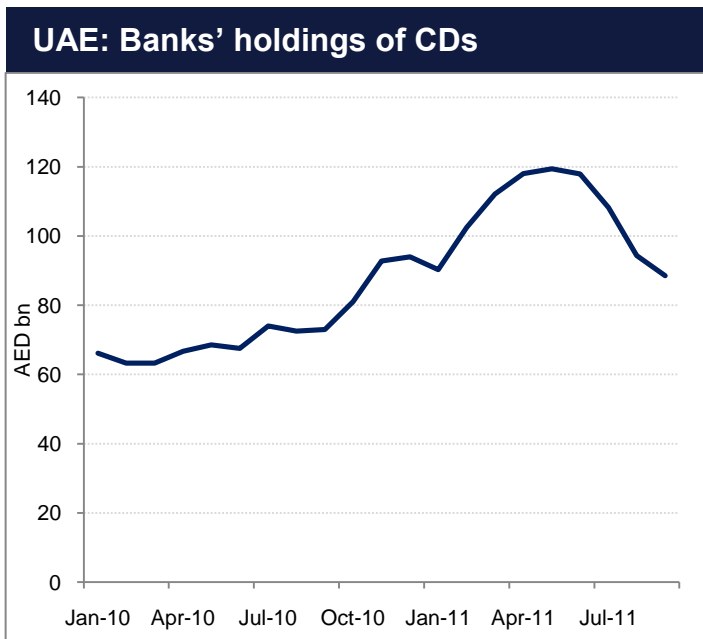
#### UAE: HSBC PMI



Source: Markit, HSBC

deposits, including debt payments by GREs, lower interest rates on deposits in the UAE, as well as a possible increase in remittances abroad over the summer.

**Tighter liquidity conditions in the UAE banking sector are also evident in the decline in commercial banks' holdings of certificates of deposits (CDs).** Holdings of CDs declined -AED5.8bn in October, bringing the total withdrawal of these funds to more than -AED 30bn (or 25% of the stock of CDs) since the end of May. EIBOR rates have also risen very slightly since the summer, with the 1-week rate up almost 9bp and the 3M rate up almost 3bp.



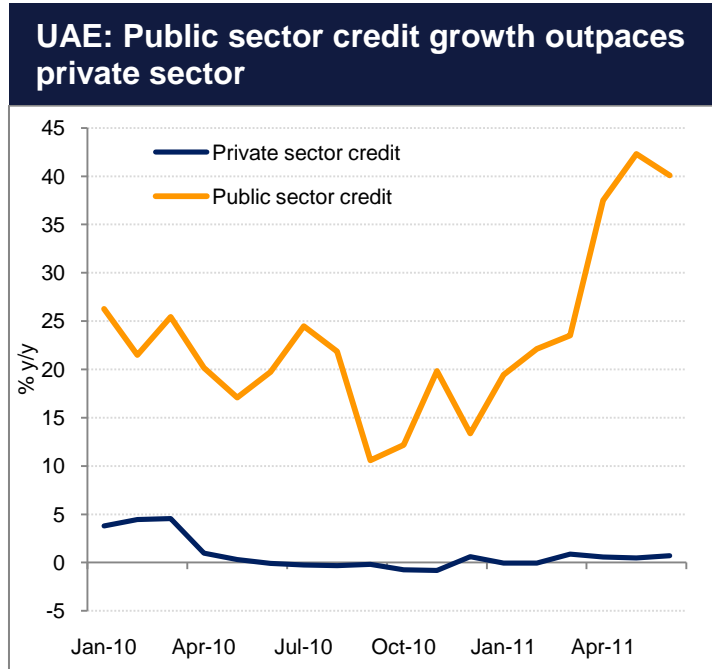
Source: Haver Analytics, Emirates NBD Research

### Private credit growth still lagging in the UAE

Loans and advances by UAE commercial banks did accelerate 1.7% m/m in September, taking the annual growth rate up to 3.5%. However, total private sector credit growth has been weaker than the bank loan figures suggest. Total private sector credit growth in the UAE has averaged less than 0.5% y/y in H1 11, in contrast to 7% y/y growth in Saudi private sector credit over the same period. Qatar's bank loans have grown at a double-digit pace since Q2 11, no doubt boosted by rate cuts in April and August.

**We attribute the weak growth in private sector credit in the UAE to several factors:** risk aversion by commercial banks, which have focused on reducing the loan/deposit ratio; relatively weak demand for credit by the private sector as companies and individuals continue to deleverage; and strong demand for credit from the public sector.

**To the extent that access to global credit markets is negatively affected by the Eurozone crisis, we expect demand for credit in the UAE from GREs to remain strong.** Consequently, we do not anticipate a strong acceleration in private sector credit growth for some time yet.



Source: Haver Analytics, Emirates NBD Research

### Regional inflation is still relatively contained

Inflation data for September was mixed, with annual inflation rates declining in the UAE and Bahrain and broadly flat in Qatar and Kuwait. Saudi Arabia registered a jump in annual inflation, from 4.8% in August to 5.3% in September, with 'other expenses and services' inflation surging 3.9% m/m and 11.8% y/y. This was largely due to higher gold and jewellery prices. Nevertheless, the rise in inflation in this component suggests that the expansionary fiscal policy and the increase in wages, subsidies and transfers to households since Q1 11 may be starting to show up in price pressures in the Kingdom.

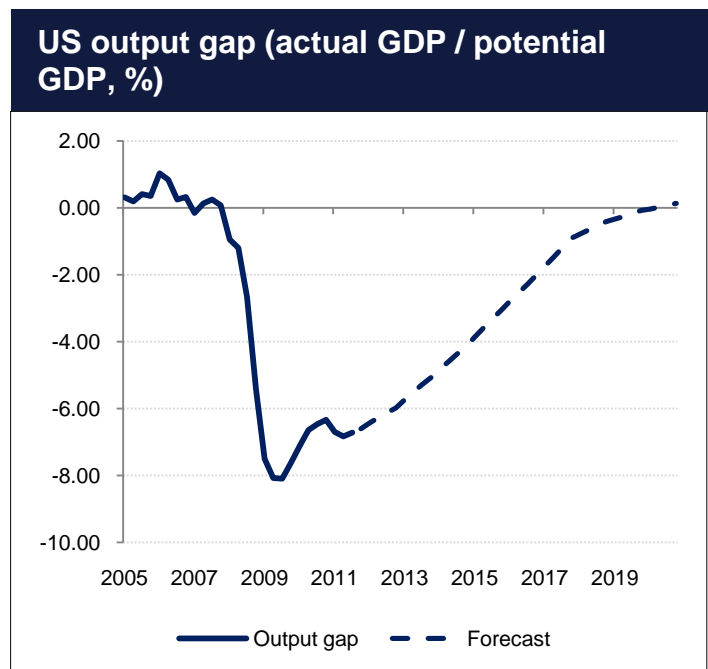
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## Fixed Income

The Fed has announced in its last two meetings that it will keep rates near zero for at least two years and that it will engage in further unconventional policy through 'operation twist'. While economic output remains well below potential, and unemployment high, it appears the Fed will maintain easy-money conditions for a long time. Our models suggest that monetary policy may remain stimulatory for an entire decade, starting from the first rate cuts in 2007.

### When will Fed funds get back to normal?

The Federal funds rate has been near zero since 2008, as the Fed has embarked on extraordinary measures to stimulate the US economy in the face of a still-weak housing market, a substantial output gap and stubbornly high unemployment. The US officially exited recession in mid-2009, but the recovery is still fragile. The headline unemployment rate is 9%, but a measure that includes people who can only find part-time work and those who have given up looking for work is 17%. Based on Congressional Budget Office estimates, economic output is still nearly 7% below its potential.



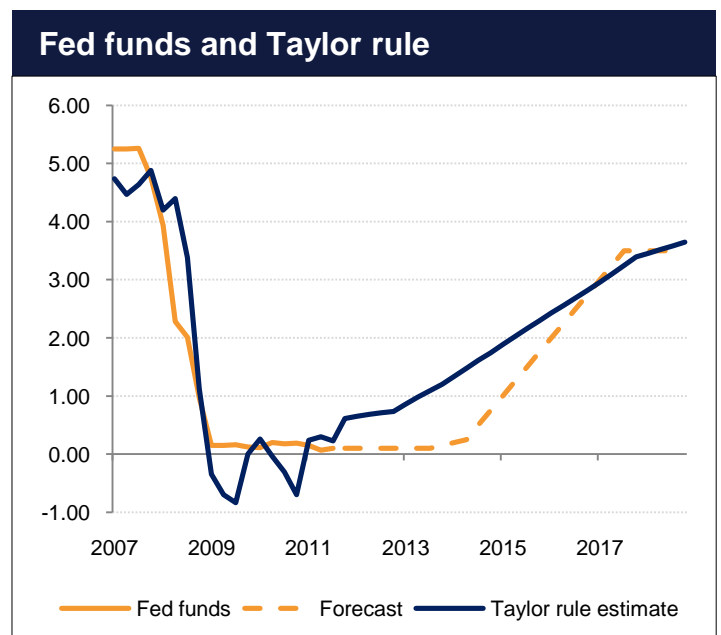
Source: Federal Reserve, Congressional Budget Office, Emirates NBD Research

In the FOMC's statement following its September meeting, policy makers effectively pledged to keep the Fed funds rate at current levels until at least mid-2013. In his press conference after last month's FOMC meeting, Fed Chairman Bernanke stressed the 'at least' part of this statement, indicating near-zero policy rates may be with us for even longer. There has apparently been discussion among Fed leaders about providing guidance on criteria that may prompt a rate hike in the future, including threshold levels for inflation and unemployment, but as yet we have no specifics.

In the absence of a roadmap for the path to monetary policy normalisation, we must resort to modelling the Fed funds rate to construct a plausible path for policy rates. One tool that analysts commonly use to forecast Fed policy is the Taylor rule, which is a formula that provides an estimate of the appropriate Fed funds rate given the level of inflation and size of the output gap. We have estimated a version of the Taylor rule based on the past two decades of Fed policy and economic variables over that time horizon. In other words, our model is descriptive (based on what the Fed has done historically under various economic conditions) rather than prescriptive (a judgement of what the Fed 'should do').

To forecast a trajectory of Fed funds over next several years, we have utilised the Fed's central tendencies forecasts for inflation and GDP growth through 2014, which were released following the last FOMC meeting. Beyond that, we assume growth reverts to trend as the output gap closes, and inflation stays anchored within the Fed's 'comfort zone' of 1.5 – 2.0% (as measured by the core PCE deflator, the Fed's preferred inflation gauge).

Based on our model, the equilibrium Fed funds rate will not reach 3.5% – our estimate of the neutral policy rate – until the end of 2017. That is an entire decade after the Fed started cutting rates in 2007 as the subprime debacle began pulling the economy into recession. With a slow pace of rate hikes of only 1% per year, the Fed would not begin to raise rates until late 2014 (much could be said about this assumption, but we note that this pace would be considerably slower than previous tightening cycles, although we believe it could be appropriate this time). This implies that policy rates will remain near zero for a total of six years. To be sure, the Taylor rule is a 'rule of thumb', not an iron-clad policy prescription. Nevertheless, this exercise demonstrates the likelihood of very low rates for a considerable amount of time, and shows the degree of monetary stimulus seemingly necessary to pull the economy back into equilibrium after its worst slump since the Great Depression.



Source: Emirates NBD Research

The results of our projections may seem excessively dovish, but they are actually in line with current market prices. The average of our projected level of Fed funds over the next five years is 0.75%, while the 5y overnight index swap (OIS), which reflects market expectations of Fed funds over this horizon, is 0.81%. Thus it appears to us that the market's expectation of monetary policy over the next five years is consistent with the Fed's historical behaviour (as reflected by the Taylor rule) and the Fed's own forecasts.

### Outlook for longer-term rates

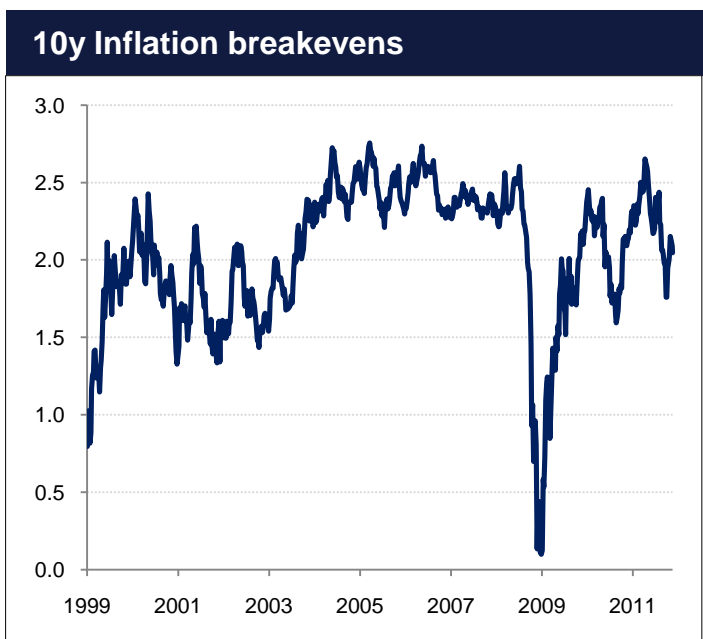
Expectations of short-term rates appear to be fairly well anchored for the next several years, but this need not necessarily affect long-term rates to the same extent. Longer-term rates (past 5y) tend to be more influenced by more structural variables, chiefly expectations of potential growth and long-term inflation. The outlook for these variables appears not to have changed, even in the face of a long streak of below-potential economic performance, in our view.

Inflation expectations can be easily measured through the breakeven rate on inflation-indexed Treasury bonds (TIPS). The 10y inflation breakeven rate is currently very close to 2%. In fact, the 10y breakeven rate has only dipped below 1.5% once in the last 10 years, during the crisis in 2008. The rate came close to 1.5% in August, 2010, just before the Fed embarked on QE2. Fed officials have made it clear that falling inflation expectations were an important reason as to why they chose to engage in further asset purchases. Furthermore, Chairman Bernanke stated earlier this year that inflation is one variable that central banks can control, and that they always have the tools to fight deflation. To us this further underscores the Fed's commitment to preventing deflation and should put a floor on long-term inflation expectations.

period is for real interest rates (nominal Treasury rates minus inflation breakevens) to be negative. Barring a major structural change in the economy in which there is a massive savings glut, we find such a scenario unlikely. However, there is no reason why real rates cannot be near or below zero for a short time, especially in volatile market conditions. This is the case now; the 10y real interest rate has been near zero since mid-August, when risk aversion spiked considerably.

The difference between expected short-term rates in the near future (for example, over the next five years) and expected rates over the longer term (say, between five and ten years) is known as the term premium and reflects investors' willingness to hold duration risk. This is reflected in the market by the fact that 10y rates are almost always higher than 5y rates. In strong risk-off periods, Treasury bonds are seen as a safe-haven asset, which prompts buying of the bonds and puts downward pressure on yields. Thus the term premium can even turn negative if there is enough safe-haven demand for medium-term Treasury bonds. Our models of the yield curve indicate that there is likely a negative term premium priced into the market now, which is unsurprising given the current global environment, and perhaps to some extent due to the effects of the Fed's 'operation twist'. Once the clouds of the Eurozone crisis begin to recede, however, we would expect a normal, positive risk premium to return to the 10y part of the curve, possibly around the middle of next year. The front end of the curve appears as though it could be stuck at low levels for some time, but longer-term rates likely have some upside potential in 2012.

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Source: Bloomberg, Emirates NBD Research

As long as inflation expectations remain near 2%, the only way 10y nominal rates could remain below that level for an extended time

## Currencies

A month ago the EUR was recovering quite sharply from the lows seen in early October, benefiting from an aggressive short squeeze and from optimism that a solution to Europe's debt crisis might be nearing. However, we cautioned then that this was likely to be temporary and so it is proving with the EUR/USD now on the verge of revisiting those earlier lows. While the news flow from the Eurozone has clearly deteriorated over the past month, short EUR/USD positioning has also lightened over recent weeks allowing the market to push it lower.

### Lighter positioning allows the USD to rebound

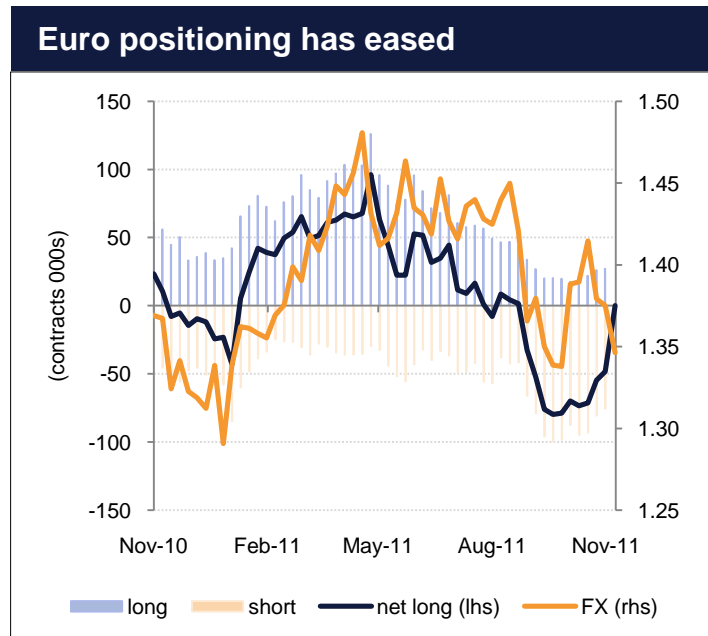
Our sense a month ago was that USD strength would resume eventually, and with the EU Summit of late October and the G20 meeting of early November clearly both disappointing, this has already begun to happen. Positioning, we believe, has played a significant role in this turnaround, as we have highlighted frequently in our Weekly and Daily notes. In the week ended November 8<sup>th</sup> there was a significant reduction in long USD positions on the IMM according to the latest CFTC data. While net short EUR positions did not completely reverse, they appear to have reduced sufficiently to allow the fundamental trend of EUR/USD weakness to reassert.

revised lower, the political environment in the periphery has become more volatile, and there is no end in sight to the debt crisis as local bond yields push ever higher.

While the markets have begun to speculate that the weakest Eurozone members such as Greece might eventually be expelled, there is no structure for this to happen, leading to fears of a more violent ejection. The ECB is likely to continue cutting the refi rate, with a further cut expected in December and more pencilled into our forecast for 2012. Whether these will be enough to offset the negative feedback loops that are taking hold (see Global Macro, page 3) in the Eurozone economy remains unclear, following the policy-mistakes made during the last months of the Trichet Presidency.

At the same time the US economic backdrop has clearly improved, which is providing (for now) reassurance that Fed policy is unlikely to change policy much in coming months. Quantitative Easing may still be repeated if the US economy deteriorates again due to the external drag coming from Europe, but for now the data suggests this need not happen for a while. As a consequence, interest rate differentials between the US and the Eurozone at both the short-end and the long-end (see page 14) are implying that EUR/USD will fall further. Two-year EU-US yield spreads already suggest that EUR/USD should be trading closer to 1.27, near to our 6-month forecast of 1.25. Of course given the overwhelmingly negative Eurozone economic and political backdrop the burning question in recent weeks has been why is the Euro not lower already?

Apart from the positioning factors mentioned above, our sense is that the markets have been reluctant to embrace a view that says the Eurozone is collapsing, instead maintaining some residual confidence that the institutions of Europe will muddle through as they have managed to do before. Central banks and sovereign wealth funds may have contributed periodically as well to the EUR's surprising resilience. However, given the unprecedented gravity of the current situation, the markets are probably starting to come to terms at least with the likelihood that the Eurozone authorities will need to embrace the unorthodox monetary policy measures employed by other central banks around the world. If the situation is to be stabilised then the ECB will have to play a more significant part through more aggressive Quantitative Easing, debasing the EUR in the process. This would reverse the pattern of the last few years where the USD sold off most sharply once the Fed's QE1 and QE2 policies were announced. As to where EUR/USD would go under such circumstances we would only highlight that long term fair value estimates for EUR/USD close to 1.15-1.20 are probably the first reasonable targets to aim for.



Source: Bloomberg, Emirates NBD Research

### ...and fundamentals to reassert

The fundamentals we have highlighted consistently revolve around relative interest rate differentials and ultimately of course the varied paths of monetary policy between the major central banks. The ECB surprised markets by cutting interest rates earlier this month, an acknowledgement of the sharply deteriorating economic circumstances afflicting the Eurozone and an admission that a 'mild' recession was on its way. Growth forecasts have been

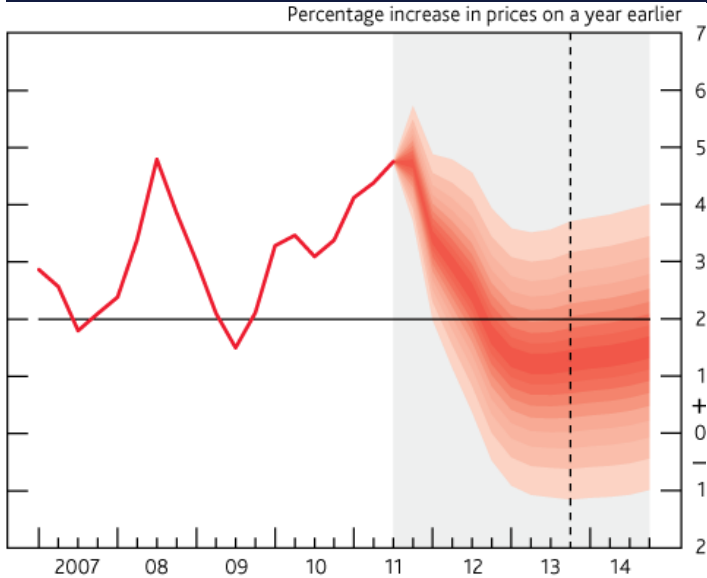
### Is GBP a suitable safe-haven?

Another notable feature of the last month has been the relative strength of GBP. Having fallen to 1.5272 briefly just over a month ago its rebound to 1.6170 was particularly striking, and it has subsequently given back far less than the EUR has on renewed USD demand, keeping EUR/GBP heavy overall. GBP's rally against the USD also owed much to a positioning short squeeze, but although short GBP positions have also partially reversed,

GBP appears to be holding its ground slightly better than the EUR. Furthermore GBP's strength against the EUR also reflects the pound's relative attractiveness as a safe haven amidst recent Eurozone turmoil.

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**Bank of England CPI fan chart**



Source: Bank of England

The UK's connections to the Eurozone through the financial sector and through trade flows are significant, as is well known, suggesting that UK growth and inflation risks are also biased downwards as the Bank of England *Inflation Report* highlighted this week (see chart above). Further QE seems likely after the current round of gilt purchases is completed next February. However, relative to the ECB, the BoE is ahead of the curve in terms of monetary policy easing which should stand the pound in better stead over the single currency in coming months. Also the fiscal austerity program in the UK is also already well established providing greater credibility and confidence in UK Gilts. For this reason we see EUR/GBP risks as continuing to be to the downside in the coming year, targeting a move below 0.80 over the 6-month time horizon.

**USD/JPY retreats after intervention inspired spike**

Finally, we also highlighted upside risks to USD/JPY to 79.0 a month ago, as US-Japanese interest rate spreads widened in the USD's favour. Subsequent large-scale intervention by the Bank of Japan (approximately USD 100bn) saw USD/JPY jump from 76.0 to just over 79.0 briefly, before giving back two-thirds of these gains as risk aversion returned over the past week. We remain bullish on USD/JPY despite this relapse believing that the Japanese authorities will not countenance the currency pair falling below 75.0. Also with further signs that the US economy is improving and that QE3 is becoming a more distant risk our view is that the USD is becoming a more persuasive safe haven, and we look for further widening in US-Japanese yields to signal an eventual move back above 80.0.

## Equities

Globally sentiment initially continued to improve last month (with the exception of Europe) and markets moved to 'risk on', with the MSCI World Index +1.6% at one stage before moving lower to +0.4%. With risk appetite increasing EM markets outperformed developed markets, with the MSCI EM index +3.6% 1m vs +0.9% 1m for the MSCI G7 index. Correlation between global equity markets appears to have broken down for the time being with the US equity markets being viewed as a safe haven, Asian equity markets showing strength on hopes of a soft landing in China, whilst the UK is viewed as safe haven relative to European equity markets. European equity markets see-sawed as they moved from 'risk on' to 'risk off' over the month. The STOXX Europe 600 index was +1% as Europe announced plans to strengthen the EFSF and recapitalize the banking sector but fell -0.6% 1m, as concerns over Italian funding costs and fears of contagion took hold. Lack of an implementation roadmap has led to 'risk off' and renewed weakness in European equity markets, which is expected to continue in the coming months, as increased funding costs for sovereigns push down the value of equities.

### Developed Markets

#### Europe – Contagion spreading

With two EU summits and a G20 meeting, equity markets were hoping for a roadmap to end the Eurozone crisis. With the announcements that European banks would be recapitalized to the tune of EUR 100bn and that the EFSF would be boosted by leveraging its resources to EUR 1 trillion, together with bond holders taking a 50% haircut on their Greek debt, the roadmap appeared to be in place. New political leadership in both Greece and Italy bolstered hope for concrete steps towards resolution. However no additional funding solution came from the G20 meeting.

The earlier rally has proved to be a just a temporary relief rally, as contagion spreads first to Italy and then beyond, forcing up the cost of government funding, something that is being borne out in the markets as the extra yield demanded by investors to hold 10y bonds from France, Belgium, Spain and Austria increased to euro-era records.

Greek default risks and the increased cost of Italian funding costs drove the ASE Composite -6.7% 1m, taking YTD losses to 48% and the FTSE MIB to 15,628, -4.1% 1m and 22.5% YTD. Valuations for Greek and Italian equity markets are now trading on multiples normally associated with emerging markets, with the ASE trading on a BEst PE of 9.6x and P/B of 0.4x and the Italian MIB on a BEst PE of 8.8x and P/B of 0.5x. We nonetheless continue to remain cautious as the economic slowdown could see lower than projected corporate earnings and potential loan writedowns would see a reduction in book values for banks, pushing up both PE and P/B multiples. With the appointment of a new government in Greece, markets switched their focus to Italian funding costs, yet Greek default risk remains at large. The next

EUR 8bn tranche is being withheld by the EU until Greece passes yet more austerity measures. This appears to be perilously close to when Greece is expected to run out of funds.

With European banks reluctant to raise fresh capital under current conditions, nor accept capital injections from governments, banks may be forced to de-lever their balance sheets, with reports that assets could be reduced by a total of EUR 775bn over the next 2 years. A lower supply of credit would push up borrowing costs for both consumers and corporates and delay the purchase of large ticket items by both. This has a negative read-through for corporate earnings at a time when economies need to be able to stimulate demand and growth. Recent data showed industrial production in Germany falling by -2.7% m/m in September, and Eurozone retail sales also fell back by -0.7% m/m, which taken together with comments of a mild recession in the Eurozone by the ECB President does not bode well for European equity markets in the near term.

#### US – Recovery remains on track, better placed than Europe

US markets performed well off the back of positive earnings releases and economic data, with both the S&P 500 and Nasdaq Composite in positive territory on a 1m basis, (+2.7% and +0.7% respectively). Consumer sales rose 0.5% m/m in October driven by electronics and autos, following a 1.1% increase in September. This could bode well for sales in the run up important Christmas holiday and provide support for retail stocks. US durable goods orders rose 1.7% m/m in September and new home sales rose 5.7%, positive for the manufacturing sector and home builders. Economic growth remains positive with prospects for US equity markets more rosy than their European counterparts.

Japan's Topix shrugged off positive data out of Japan on concerns of the Eurozone crisis. Japan continued to recover from the effects of the March earthquake, with Q3 GDP +1.5% q/q and exports rising by +6.2% q/q despite which the Topix index fell -2.4% 1m.

### Emerging Markets

Emerging markets were stronger over the month with the MSCI EM index +3.6%, with strong growth in MSCI EM Latin America +3.8% 1m.

Both Chinese inflation and producer prices fell in October, which markets read to imply that China is heading for a soft landing and this therefore could allow for a loosening of monetary policy. This improved sentiment was reflected in the HSBC /Markit China flash manufacturing PMI, which improved to 51.1 from 49.9 in September, driving the Shanghai SE Composite +4.11% 1m. Strength in China flowed through to the other Asian markets, which were up on a 1m basis. The exception was Vietnam where the Ho Chi Minh index was -6.4% 1m.

### MENA Markets

Emerging markets outperformed Frontier markets with the MSCI EM +3.6% 1m vs just +0.5% for the MSCI Frontier Markets.

However, the star performer in the FM space was MSCI FM Africa, which was +7% 1m.

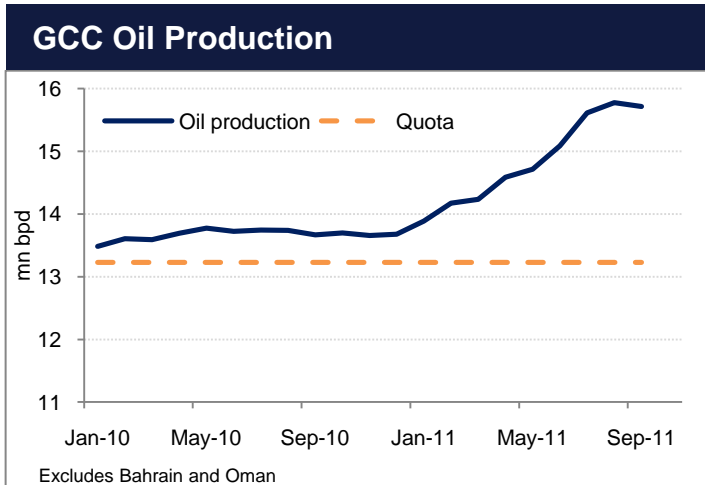
MENA markets were relatively subdued with the exception of Qatar, where the QE Index was +3.7% 1m and was one of the few global markets where investors would not have lost money YTD. Qatar economic planning board expects real GDP growth of 15% this year, slowing to 5% in 2012. The official forecasts are lower than both ENBD and IMF forecasts, as the expansion of LNG production nears an end. Qatar also announced that it would spend USD 150bn on infrastructure over the next 5 years, far higher than the earlier estimate of USD 90bn that would be spent ahead of the 2022 World Cup which should prove positive for the banking and construction sectors.

The UAE Central Bank governor expects growth of 3% in 2012, given weak economic conditions in Europe and possibly up to 4% if the Euro crisis can be addressed in a positive manner. Inflation numbers for both Dubai and Abu Dhabi came in at +0.3% m/m vs +0.4% in September. Food prices were the main driver but the pace of food inflation is slowing and globally food prices declined in the last few months. With rents expected to continue to decline there is very little inflationary pressure in the UAE. With positive economic growth and no inflationary pressures both the DFM (+0.7% 1m) and ADX (flat at 2,471) continue to offer good value with Best PE of 8.4x and 8.6x and P/B of 1.0x and 0.6x respectively (according to Bloomberg) but remain range bound, and with no immediate catalyst on the horizon, this state is expected to continue over the coming month.

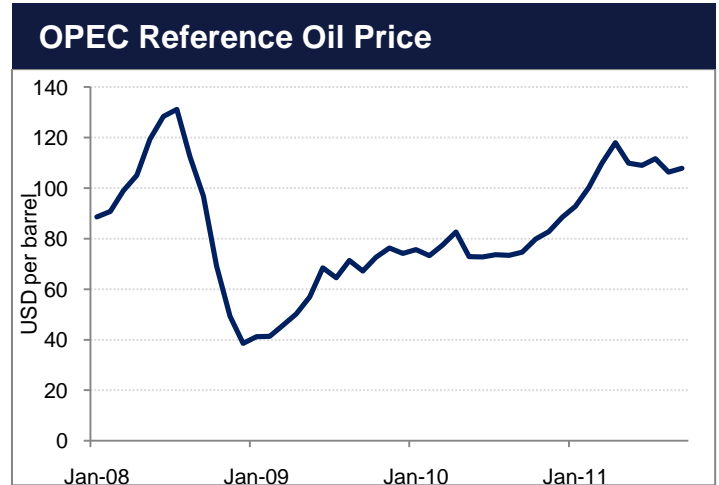
Oil prices holding up due to demand from emerging markets, good results from the petrochemicals sector (Sabic Net Income +54% yoy, Net Income SAFCO +100% yoy) and infrastructure spending flowing into wider economy (Jarir Net Income +49% yoy) helped the TASI +1.3% 1m.

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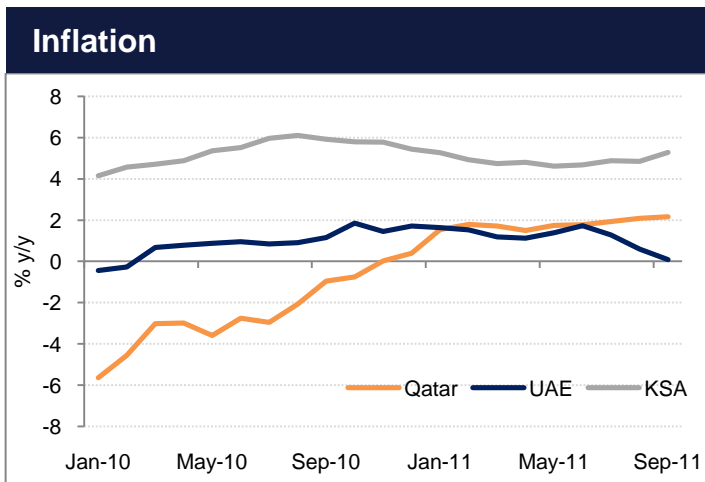
GCC in Pictures



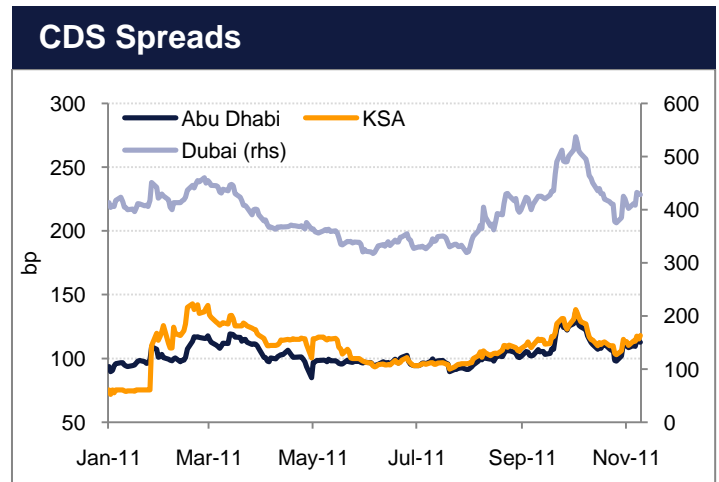
Source: Bloomberg



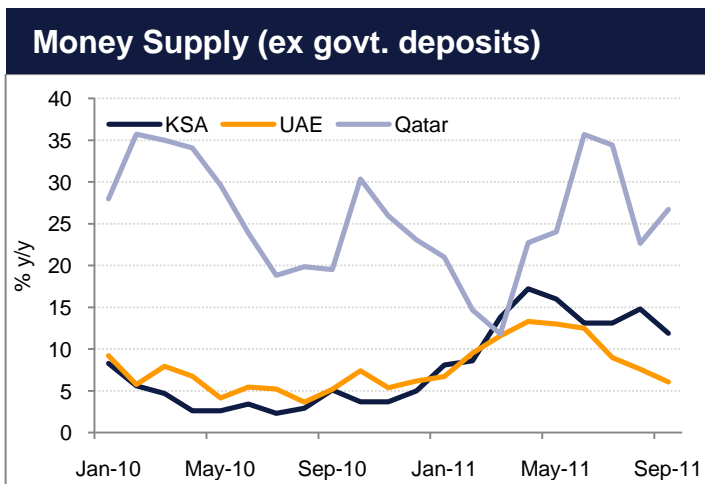
Source: Bloomberg



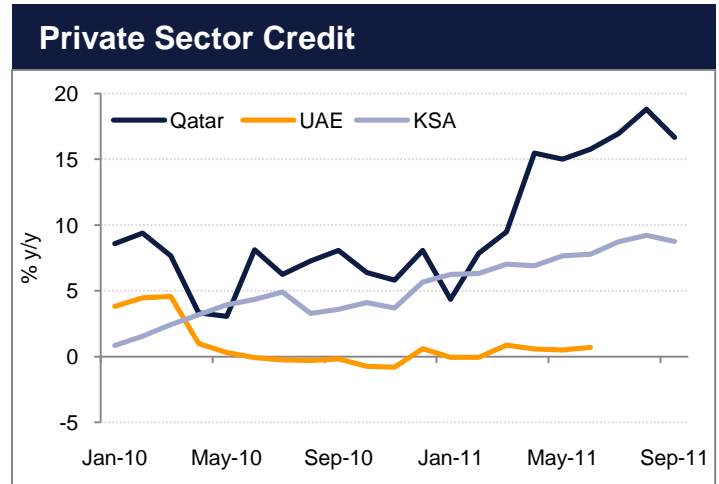
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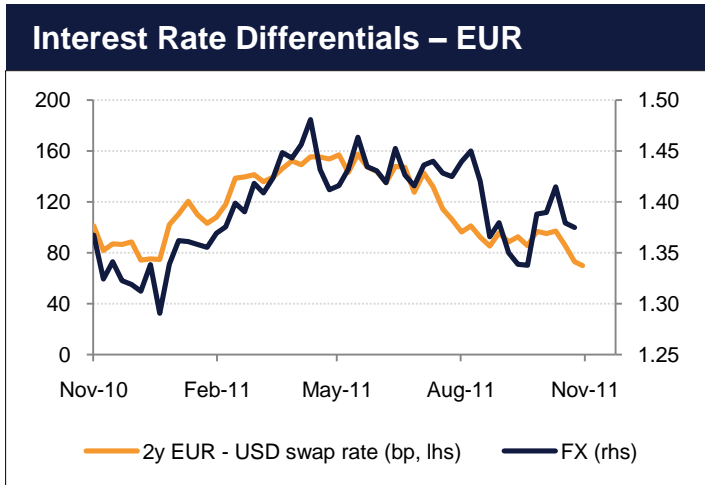


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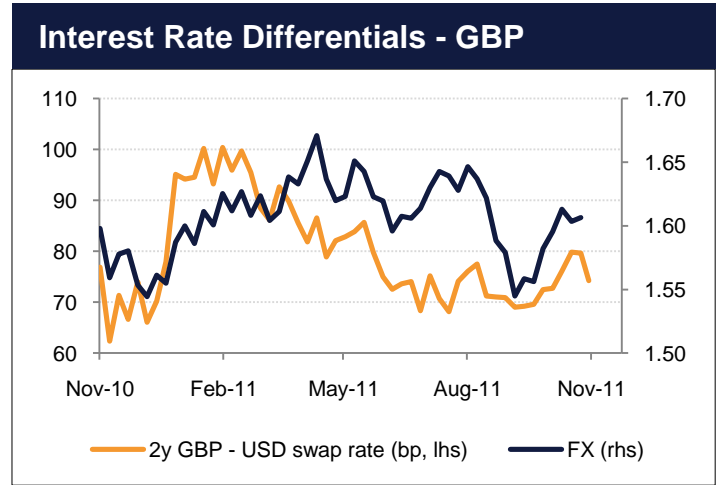


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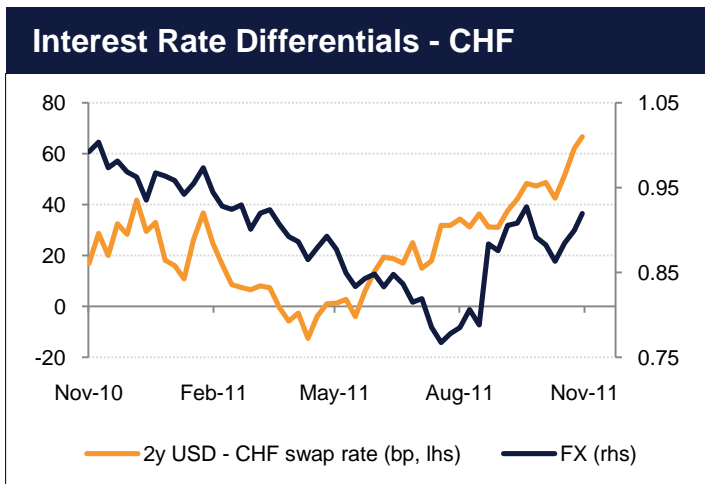
**FX – Major Currency Pairs & Interest Rates**



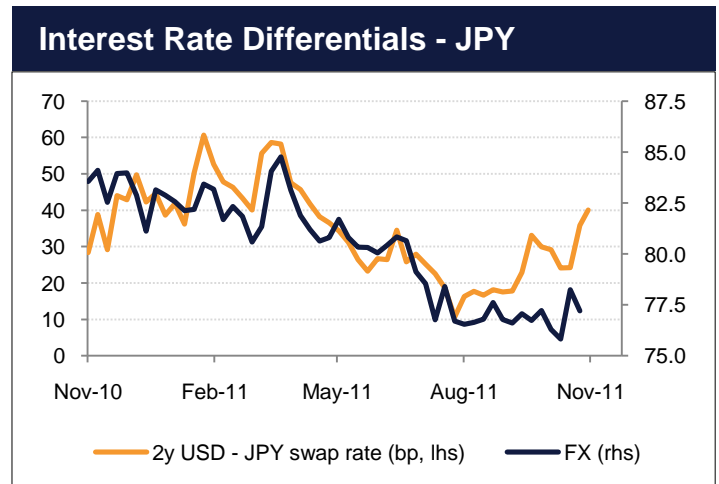
Source: Bloomberg, Emirates NBD Research



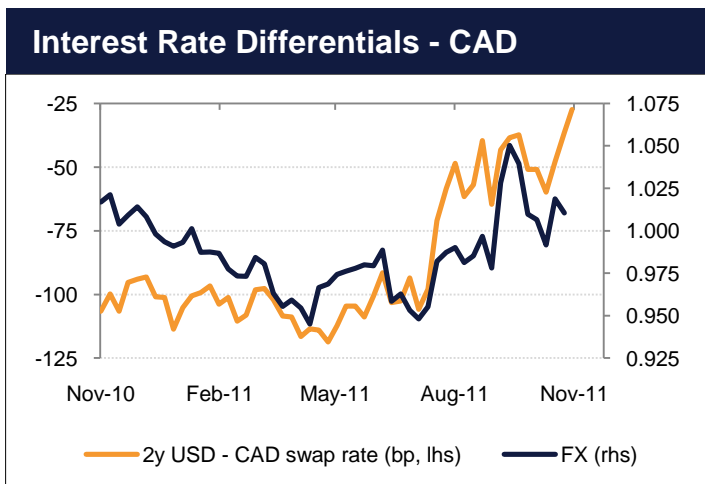
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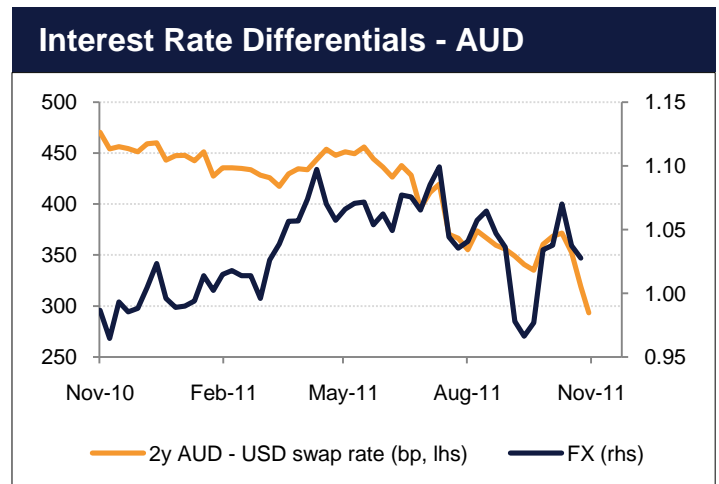
Source: Bloomberg, Emirates NBD Research



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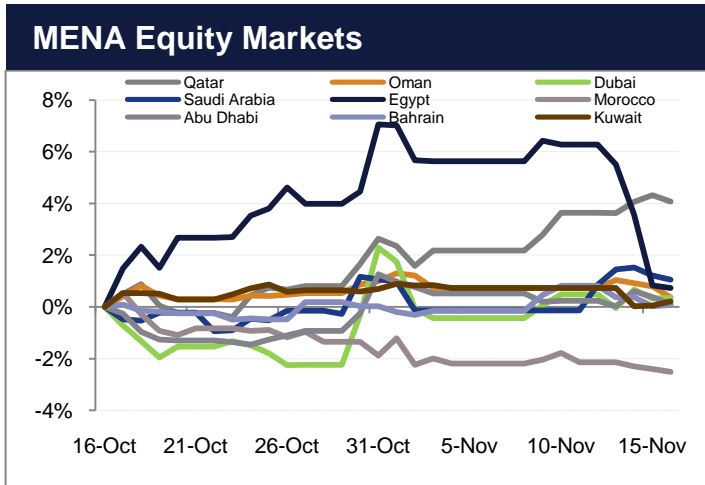


Source: Bloomberg, Emirates NBD Research

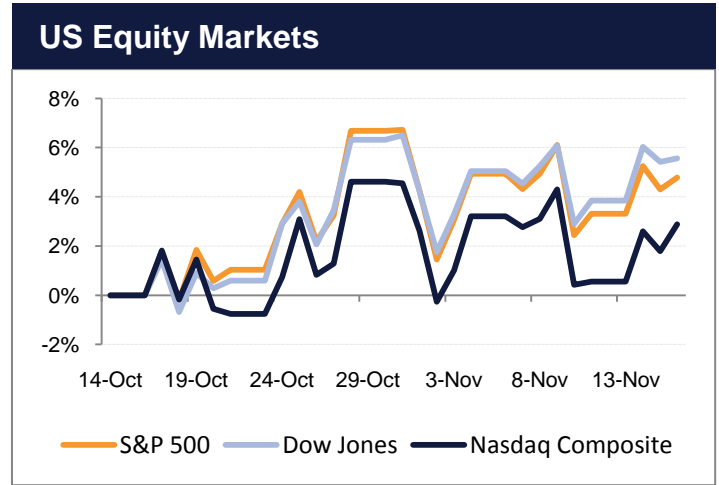


Source: Bloomberg, Emirates NBD Research

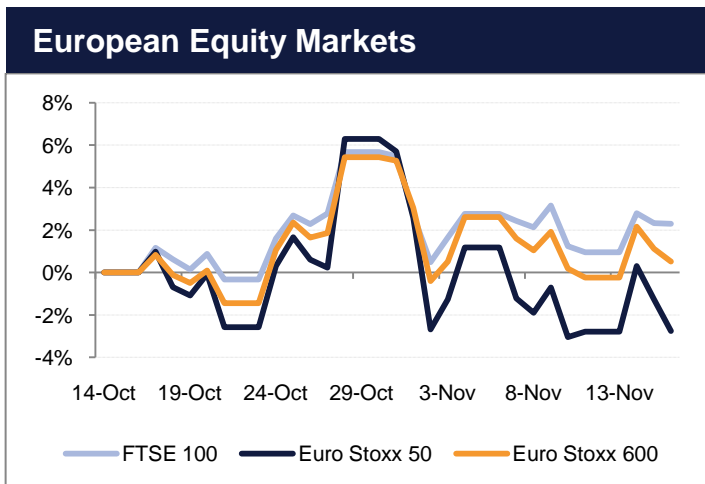
Major Equity Markets



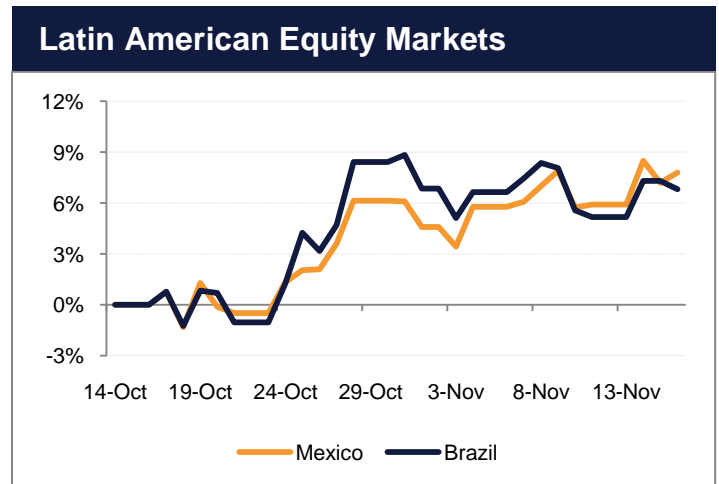
Source: Bloomberg, Emirates NBD Research



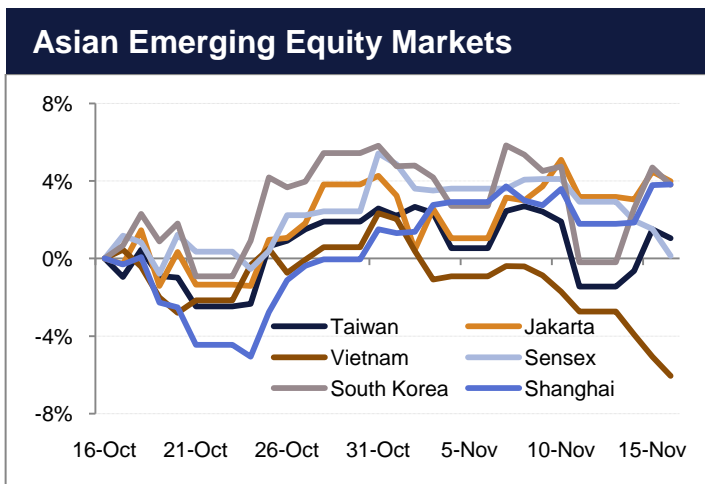
Source: Bloomberg, Emirates NBD Research



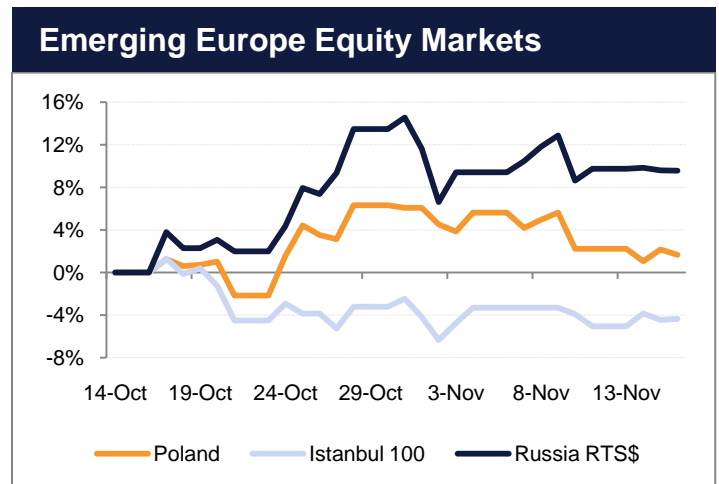
Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

**Key Economic Forecasts - GCC**

<b>United Arab Emirates</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>
Nominal GDP \$bn	315.1	270.5	297.9	344.6	369.6
Real GDP %	3.3	-1.6	1.4	4.6	4.2
Current A/C % GDP	7.4	3.1	8.1	13.1	12.3
Budget Balance % GDP	16.2	-13.1	-2.1	2.0	1.4
CPI %	12.3	1.6	0.9	1.0	2.5
<b>Saudi Arabia</b>					
Nominal GDP \$bn	476.3	372.7	447.7	553.5	592.0
Real GDP %	4.2	0.2	4.1	6.5	5.5
Current A/C % GDP	27.8	5.6	14.9	23.2	17.7
Budget Balance % GDP	32.5	-6.2	6.5	13.5	12.1
CPI %	9.9	5.1	5.4	4.9	5.0
<b>Qatar</b>					
Nominal GDP \$bn	115.3	97.8	127.3	176.8	193.3
Real GDP %	17.7	12.0	16.2	17.9	7.7
Current A/C % GDP	28.7	12.4	15.2	24.8	24.2
Budget Balance % GDP	10.0	10.0	10.0	10.0	10.0
CPI %	15.2	-4.9	3.6	2.1	4.0
<b>Kuwait</b>					
Nominal GDP \$bn	147.4	105.9	124.3	157.9	172.3
Real GDP %	6.0	-6.1	3.3	5.0	4.6
Current A/C % GDP	40.9	24.3	29.6	39.5	35.6
Budget Balance % GDP	6.9	21.1	24.0	29.3	27.4
CPI %	10.6	4.0	4.0	4.6	4.8
<b>Oman</b>					
Nominal GDP \$bn	60.4	46.8	57.8	68.7	74.7
Real GDP %	12.8	1.1	4.0	4.2	3.8
Current A/C % GDP	8.3	-1.3	8.8	12.0	12.0
Budget Balance % GDP	13.1	3.9	8.3	7.9	4.8
CPI %	12.5	3.7	3.1	4.2	4.1
<b>Bahrain</b>					
Nominal GDP \$bn	22.2	19.6	21.6	23.5	25.2
Real GDP %	6.3	3.1	4.5	2.2	4.1
Current A/C % GDP	10.2	2.9	3.6	3.6	5.8
Budget Balance % GDP	7.4	-5.1	-5.7	3.2	2.1
CPI %	3.5	2.8	2.0	0.8	2.0
<b>GCC weighted average</b>					
Nominal GDP \$bn	321.4	257.8	301.5	367.2	392.7
Real GDP %	6.1	0.3	4.7	7.2	5.2
Current A/C % GDP	22.5	7.3	14.2	21.8	18.8
Budget Balance % GDP	20.9	-2.3	6.1	11.1	9.9
CPI %	11.2	2.7	3.6	3.4	4.1

Source: Haver Analytics, Emirates NBD Research

**Key Economic Forecasts – Global**

<b>US</b>	<b>2009</b>	<b>2010</b>	<b>2011f</b>	<b>2012f</b>
Real GDP %	-3.5	3.0	1.5	2.0
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	2.0
<b>Eurozone</b>				
Real GDP %	-4.1	1.7	1.5	1.0
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
<b>UK</b>				
Real GDP %	-4.9	1.4	1.0	1.5
Current A/C % GDP	-1.7	-3.2	-2.2	-2.2
Budget Balance % GDP	-10.9	-10.2	-9.0	-7.0
CPI %	2.2	3.3	4.0	1.8
<b>Japan</b>				
Real GDP %	-6.3	4.0	0.0	2.5
Current A/C % GDP	2.8	3.6	3.0	3.0
Budget Balance % GDP	-10.4	-9.8	-10.0	-8.0
CPI %	-1.3	-0.7	0.2	0.0
<b>China</b>				
Real GDP %	9.2	10.3	9.0	8.5
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	4.0
<b>India</b>				
Real GDP %	9.1	8.8	7.5	7.5
Current A/C % GDP	-2.9	-2.6	-2.8	-2.7
Budget Balance % GDP	-6.2	-4.7	-5.0	-4.5
CPI %	2.1	9.4	10.8	8.5

Source: Emirates NBD Research

**FX & Policy Rate Forecasts**

FX Forecasts - Major					Forwards		
	Spot 15.11	3M	6M	12M	3M	6M	12M
EUR / USD	1.3539	1.30	1.25	1.25	1.3546	1.3556	1.3579
USD / JPY	77.03	80.0	85.0	90.0	76.87	76.68	76.26
USD / CHF	0.915	0.92	0.96	1.00	0.9133	0.9108	0.9045
GBP / USD	1.5822	1.55	1.60	1.65	1.5808	1.5794	1.5759
AUD / USD	1.0178	1.00	0.95	0.90	1.0068	0.9991	0.9850
USD / CAD	1.0211	1.02	1.04	1.07	1.0231	1.0244	1.0259
EUR / GBP	0.8558	0.84	0.78	0.76	0.8570	0.8584	0.8618
EUR / JPY	104.30	104.0	106.0	112.50	104.30	104.30	104.29
EUR / CHF	1.2390	1.20	1.20	1.25	1.2374	1.2349	1.2284

FX Forecasts - Emerging					Forwards		
	Spot 15.11	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7505	3.75	3.75	3.75	3.7488	3.7473	3.7447
USD / AED*	3.6730	3.67	3.67	3.67	3.6729	3.6727	3.6727
USD / KWD	0.2753	0.285	0.282	0.28	0.2760	0.2771	0.2785
USD / OMR*	0.3850	0.38	0.38	0.38	0.3828	0.3805	0.3770
USD / BHD*	0.3770	0.376	0.376	0.376	0.3764	0.3762	0.3783
USD / QAR*	3.6416	3.64	3.64	3.64	3.6418	3.6418	3.6416
USD / EGP	5.9790	6.00	6.10	6.20	6.1514	6.3190	6.6958
USD / INR	50.6737	48.00	50.00	47.00	50.6833	50.6881	50.6978
USD / CNY	6.3470	6.35	6.25	6.15	6.3470	6.3440	6.3439

Policy Rate Forecasts							
	Current %	3M	6M	12M			
FED	0 – 0.25	0.25	0.25	0.25			
ECB	1.25	1.00	0.75	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	4.50	4.25	4.25	4.00			
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 November 2011

Source: Bloomberg, Emirates NBD Research

**Interest Rate Forecasts**

USD Swaps Forecasts					Forwards		
	Current	3M	6M	12M	3M	6M	12M
2y	0.76	0.65	0.68	1.05	0.81	0.84	0.90
5y	1.32	1.42	1.77	2.34	1.43	1.53	1.74
10y	2.20	1.91	2.29	2.96	2.28	2.35	2.48
2s10s (bp)	144	126	161	191	147	151	158
US Treasury Forecasts							
2y	0.24	0.30	0.38	0.80			
5y	0.87	1.12	1.47	2.09			
10y	2.00	1.71	2.14	2.81			
2s10s (bp)	176	141	176	201			
AED-USD Swap Spreads (bp)							
	Current	3M	6M	12M			
2y	108	114	117	85			
3y	111	111	113	88			
5y	117	101	102	84			
AED Swap Rates (%)							
2y	1.83	1.79	1.85	1.90			
3y	1.97	2.03	2.32	2.63			
5y	2.46	2.43	2.79	3.17			

Prices as of 16 November 2011

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
<b>Developed Markets</b>						
Dow Jones Industrial Average Index	12,096	5,261	-0.5	1.2	4.5	67
S&P 500 Index	1,258	27,709	-0.5	0.4	0.0	47
Nasdaq Composite Index	2,686	13,802	0.3	0.1	1.3	30
FTSE 100 Index	5,517	5,275	-1.1	-1.1	-7.0	39
Dax Index	5,933	4,884	-3.0	-4.4	-15.1	20
Cac 40 Index	3,049	4,478	-3.9	-6.6	-20.4	8
Swiss Market Index	5,665	2,197	-0.2	-1.6	-12.4	25
Nikkei Index	8,542	9,462	-0.6	-5.8	-17.3	21
S&P/ ASX 200 Index	4,286	4,455	-1.1	-1.2	-10.5	38
Stoxx Europe 600 Index	237	31,875	-2.2	-3.2	-14.5	23
<b>Emerging Markets</b>						
Dubai Financial Market General Index	1,388	16	0.2	-1.6	-15.0	6
Abu Dhabi Securities Market General Index	2,480	17	-0.2	-1.1	-9.1	12
Tadawul All Share Index	6,228	1,357	0.2	0.1	-5.9	58
Istanbul Stock Exchange National 100 Index	55,923	983	-0.5	-0.2	-15.3	18
Egyptian Exchange Index	4,177	28	-4.7	-6.2	-41.5	7
Kuwait Stock Exchange Index	5,880	80	-0.8	-1.0	-15.7	17
Bahrain Bourse All Share Index	1,151	2	-0.3	0.3	-19.7	10
Muscat Securities Index	5,536	5	-0.7	-1.0	-18.1	13
Qatar Exchange Index	8,743	58	0.6	1.9	0.8	60
MADEX Free Float Index	9,157	13	-0.2	-1.3	-11.4	34
<b>Emerging Markets</b>						
Hong Kong Hang Seng Index	19,348	2,972	-0.9	-4.6	-17.7	26
Shanghai Composite Index	2,530	11,853	-0.6	-0.1	-12.1	20
Korea Stock Exchange Index	1,886	5,556	-0.4	-2.8	-9.5	30
BSE Sensex	16,883	147	-2.4	-5.2	-18.2	37
Nifty	5,069	1,178	-2.6	-5.5	-17.9	34
Karachi Stock Exchange Index	11,994	45	0.2	1.7	0.4	44
Taiwan Stock Exchange Weighted Index	7,491	2,970	0.3	-2.6	-17.7	15
Bovespa Brasil Sao Paulo Stock Exchange	40,861	2,719	-0.5	-0.1	-15.9	35
Micex Index	1,488	2,444	0.1	-0.8	-11.9	20
FTSE/JSE Africa All Share Index	32,674	1,468	0.9	0.7	1.4	59
Vietnam Ho Chi Minh Stock Index	388	16	-1.4	-7.1	-19.3	13
Jakarta Stock Exchange Composite Index	3,814	395	0.0	-0.3	2.0	33
FTSE Bursa Malaysia KLCI Index	1,477	212	0.4	-1.2	-2.9	40
Mexican Stock Exchange	37,293	399	-0.7	3.1	-3.3	60

Prices as of 15 November 2011

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	102.5	1.87	103.25	103.50	104.38
Emirate of Abu Dhabi 2014	AA	USD	109.875	1.275	110.38	110.00	110.31
Emirate of Abu Dhabi 2019	AA	USD	121	3.496	121.17	119.63	122.50
Waha Aerospace 2020	AA	USD	102.75	3.554	-	-	-
CBB International Sukuk 2014	BBB	USD	107.5	3.186	108.05	107.64	109.61
Mumtakat 2015	BBB	USD	98.75	5.384	99.46	98.78	100.56
Dubai Government 2013	N.A.	AED	94	6.38	95.00	94.00	95.50
Dubai Government 2013 fixed	N.A.	AED	98.5	5.357	98.88	98.00	100.00
Dubai Government 2014	N.A.	USD	101	6.019	102.28	102.21	105.71
Dubai Government 2014	N.A.	AED	102.5	4.307	103.05	102.43	104.64
Dubai Government 2015	N.A.	USD	102.5	5.965	103.63	101.75	105.25
Dubai Government 2020	N.A.	USD	104.25	7.094	105.63	99.50	108.00
Dubai Government 2021	N.A.	USD	97	6.006	98.63	96.00	100.13
Islamic Development Bank	AAA	USD	104.5	1.535	104.88	105.05	105.51
Islamic Development Bank	AAA	USD	99.5	1.907	100.03	99.91	100.21
MDC - GMTN B.V 2014	AA	USD	107.5	2.581	108.00	107.95	109.98
MUBAUH 3.75 16	AAe	USD	102.5	3.139	103.13	103.43	104.96
MDC - GMTN B.V 2019	AA	USD	119.75	4.48	121.00	119.86	122.97
MUBAUH 5.5 21	AAe	USD	104.25	4.93	105.70	105.18	107.53
TDIC Finance Ltd 2014	AA	USD	109	2.898	-	-	-
TDIC Finance Ltd 2014	AA	USD	105.5	2.966	107.00	107.25	107.65
State of Qatar 2014	AA	USD	108.5	1.505	109.01	108.27	109.14
State of Qatar 2015	AA	USD	105.5	2.19	106.09	105.41	106.74
State of Qatar 2019	AA	USD	118.75	3.631	119.93	118.86	121.39
State of Qatar 2020	AA	USD	110.5	3.745	111.60	110.08	112.83
State of Qatar 2040	AA	USD	121	5.001	123.44	122.32	119.96
State of Qatar 2015	AA	USD	103.75	2.424	104.28	103.76	104.74
State of Qatar 2020	AA	USD	107.5	3.968	108.43	106.23	108.26
Rakia Capital 2013	A	AED	98	3.992	-	-	-
Rakia Capital 2014	A	USD	113.5	2.72	113.97	114.28	115.28
Rakia Capital 2016	A	USD	108.5	3.059	108.99	108.75	109.34
INTPET 3.125 15	AA	USD	99.625	3.226	100.50	101.26	102.36
INTPET 5 20	AA	USD	98	5.282	99.01	101.88	102.69
Abu Dhabi Commercial Bank	A-	USD	104.75	3.015	105.65	105.27	105.67
ADIB Sukuk 2011	N.A.	USD	99.5	9.342	99.85	99.87	99.67
ADIB 2015	N.A.	USD	101.75	3.269	103.51	103.14	102.43
Commercial Bank of Qatar	A-	USD	105	3.233	106.04	105.88	107.71
Commercial Bank of Qatar	BBB+	USD	117.75	4.799	118.28	117.42	117.01

**Emirates NBD GCC Cash Bonds/ Sukuk\***

Security Name	S&P Rating	CCY	Bid	Bid YTM %	1 week ago	1 mnth ago	3 mnth ago
Dubai Sukuk Center 2012	B+	USD	93.5	12.87	94.18	91.55	93.37
DIB Sukuk 2012	NR	USD	98.125	6.435	98.86	98.72	98.43
Emirates Bank 2012	NR	USD	97.5	13.89	99.12	99.02	98.82
Emirates Bank 2012	NR	USD	100.5	3.847	100.97	100.78	101.82
Emirates Bank 2013	N.A.	AED	93	7.957	-	-	-
National Bank of Abu Dhabi	A+	USD	104.375	2.865	105.69	105.55	105.99
SIB 4.715 16	N.A.	USD	105	3.507	105.53	105.43	103.96
Qatar Islamic Bank 2015	N.A.	USD	102.5	3.165	103.56	103.94	103.72
HSBC 3 15	N.A.	USD	99.375	3.171	99.93	100.07	99.65
HSBC 3.575 16	N.A.	USD	102	3.098	102.85	102.80	102.48
FGBUH 3.797 16		USD	100.75	3.621	101.86	102.12	101.25
QNBK 3.125 15	A+	USD	100.25	3.058	101.01	100.32	101.75
SABBAB 3 15	A	USD	100.75	2.799	101.44	101.00	100.87
Dubai Holdina Comm Op 2012	NR	USD	97.5	13.63	98.11	96.86	95.05
Dubai Holdina Comm Op 2014	NR	EUR	85	13.02	86.89	81.29	88.21
Dubai Holdina Comm Op 2017	NR	GBP	76	12.54	76.71	71.01	81.31
Al dar Sukuk Fundina II 2013	B	AED	95.75	6.053	96.87	96.39	97.66
Atlantic Finance Limited 2014	B	USD	110.75	6.078	111.11	107.43	109.68
Dar Al -Arkan 2012	N.A.	USD	93.5	13.06	-	-	-
EMAAR 7.5 15	N.A.	USD	98	8.079	98.06	95.13	102.51
EMAAR 8.5 16	BB	USD	102	7.976	102.75	100.34	104.98
DEWA Fundina Limited 2013	N.A.	AED	97.5	4.575	97.96	98.06	98.98
DEWAAE 8.5 15	N.A.	USD	108	5.881	109.04	107.02	111.36
DEWAAE 6.375 16	N.A.	USD	103.75	5.493	104.96	103.87	105.33
DEWAAE 7.375 20	N.A.	USD	100.75	7.258	102.72	96.91	104.54
EMIRAT 5.125 16	N.A.	USD	99	5.375	99.62	97.38	99.37
Jafz Sukuk Limited 2012	B	AED	92	11.41	93.27	91.13	93.47
Dana Gas Sukuk Ltd 2012	N.A.	USD	88	21.93	88.50	90.21	92.43
DP World Sukuk Limited 2017	BB	USD	102.5	5.721	103.81	99.88	104.29
DP World Sukuk Limited 2037	BB	USD	93	7.466	95.52	-	96.65
Dolohin Enerav Ltd 2019	N.A.	USD	108.75	4.51	109.50	-	-
Abu Dhabi National Enerav	NR	USD	102.75	2.598	103.04	103.02	104.26
Abu Dhabi National Enerav	NR	USD	105.75	3.087	106.13	106.27	108.31
Abu Dhabi National Enerav	N.A.	USD	104.5	3.069	104.93	104.52	106.37
Abu Dhabi National Enerav	NR	USD	110	3.641	110.90	109.68	113.10
Abu Dhabi National Enerav	NR	USD	110	4.239	111.50	109.50	113.25
Abu Dhabi National Enerav	NR	USD	115.25	4.578	116.73	115.18	119.94
Abu Dhabi National Enerav	N.A.	USD	110	4.705	111.62	109.54	112.01

**Emirates NBD GCC Cash Bonds/ Sukuk\***

Security Name	S&P Rating	CCY	Bid	Bid YTM %	1 week ago	1 mnth ago	3 mnth ago
Winas FZCO 2012	N.A.	USD	98	4.992	98.61	98.33	98.78
Qreic Sukuk Llc 2012	N.A.	USD	97.5	4.804	98.92	99.05	98.87
Qtel International Fin 2014	A	USD	109.5	2.627	109.94	109.31	111.12
Qtel International Fin 2016	A	USD	101.25	3.097	101.36	100.79	101.22
Qtel International Fin 2019	A	USD	122.75	4.313	123.22	121.21	124.26
Qtel International Fin 2021	A	USD	101.5	4.548	101.75	99.61	102.11
Ras Laffan LNG III 2012	A	USD	102	2.133	102.05	-	-
Ras Laffan LNG III 2014	A	USD	107.75	2.665	-	-	-
Ras Laffan LNG III 2019	A	USD	119.5	3.85	-	-	-
SABIC 3 15	A+	USD	100.75	2.798	101.51	101.08	101.23

\*Prices as of 16 November 2011

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	1.04	4.87%	10.57%	-
Abu Dhabi National Energy Co. (TAQA)	AED	1.21	3.37%	10.25%	-
Arabtec Holding Co.	AED	1.39	4.27%	9.07%	-
Emaar Properties PJSC	AED	2.69	4.40%	9.55%	-
Aramex	AED	1.83	3.54%	7.04%	-
Sorouh Real Estate Co.	AED	0.99	5.23%	14.05%	-
Abu Dhabi Commercial Bank	AED	2.92	3.61%	6.52%	-
Saudi Basic Industries Corp.	SAR	95.63	3.80%	7.68%	-

\*Prices as of 16 November 2011. 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  $100\% + 10.57\% = 110.57\%$  of the capital invested
- If Aldar declined by -5% from the initial level in 6 months, then investor receives  $100\% + 10.57\% - 5\% = 105.57\%$  of the capital invested
- If Aldar declined by -30% from the initial level in 6 months, then investor receives  $100\% + 10.57\% - 30\% = 80.57\%$  of the capital invested

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