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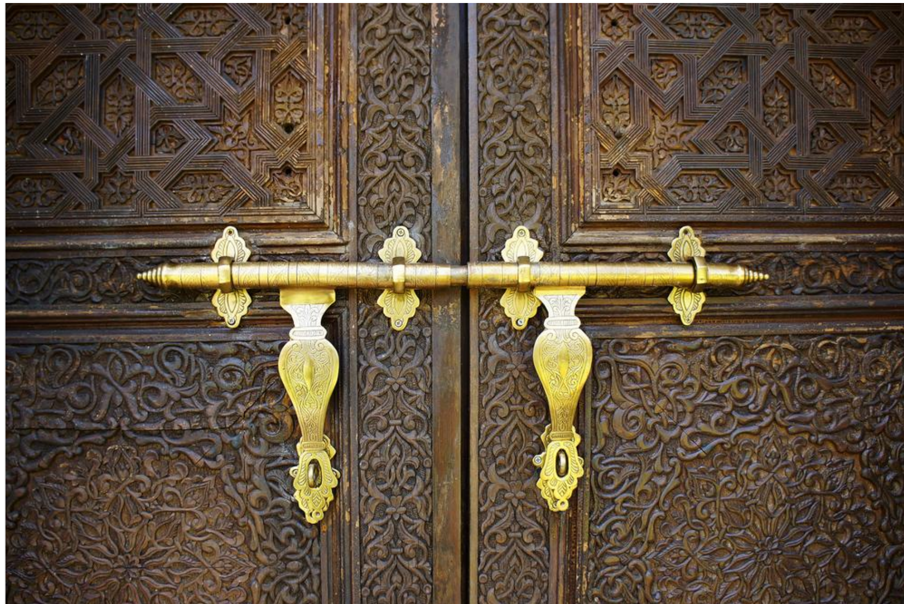
Middle East and North Africa Focus | 09 October 2013

Adjusting to reality



Highlights

- Hydrocarbon-based economies are using their fiscal strength to drive near-term growth and diversify their economies to reduce long-term risks. Oil importers are constrained by high domestic subsidy bills and weak investment; this is hampering economic growth.
- Subsidy reform is essential, and countries such as Jordan are taking the necessary concrete steps, despite strong domestic opposition. Stability is key to attracting direct investment flows to support private-sector investment to create jobs.
- Saudi Arabia – the largest economy in the Middle East – has a robust growth outlook, driven by government investment in non-hydrocarbons. This is supporting near-term growth dynamics, and moving in the right direction to meet the kingdom's long-term infrastructure needs and create employment opportunities.
- In Egypt, while political transition remains difficult, markets are cautiously optimistic that strong financial support from the oil-rich GCC states will ease the balance of payments pressure and restore investor confidence.
- In the UAE the outlook is positive. Dubai continues to perform well, driven by the core pillars of its economy, and in Abu Dhabi the resumption of strong government investment is driving non-hydrocarbon growth. Dubai's measures to ensure healthy pricing dynamics in the property market are a move in the right direction. Meanwhile Abu Dhabi's property market is picking up.

Contents

Global overview: Letting the facts get in the way of the story p. 2-5

Regional overview: Adjusting to reality p. 6-8

Economy insights:

Bahrain: Oil is the focus p. 10-11

Egypt: What's next? p. 12-13

Iraq: Security situation worsens p. 14-15

Jordan: Fast-tracking energy reforms p. 16-17

Kuwait: Paving the way for diversification p. 18-19

Lebanon: Don't bank on tourism p. 20-21

Oman: Positive outlook p. 22-23

Pakistan: IMF pushes for tough reforms p. 24-25

Qatar: Changing priorities p. 26-27

Saudi Arabia: Focus on development p. 28-29

UAE: Fundamentals are in the driving seat p. 30-31

Forecasts and references p. 32-35

Important disclosures can be found in the Disclosures Appendix
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Global overview – Letting the facts get in the way of the story

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Is the emerging-market (EM) party over? We do not think so, not least because the rise of emerging markets is not a party. Parties tend to be fun, but they do not last long. The fact is that the emergence of economies in Asia, Africa and the Middle East is not a new phenomenon. The process has unfolded over decades and is by no means over. Cyclical ups and downs occur and some countries are more vulnerable than others. It is important to differentiate between structural changes and cyclical developments.

We expect global economic activity to pick up for the remainder of 2013. China's growth probably hit bottom in H1, and although a boom is unlikely, growth rates above 7% in China should be positive for the rest of the world. It is worth emphasising that Asian economies are still exposed to the US, although after seven years of sub-trend growth, medium-term prospects for the US economy finally look more positive.

This is not to say that there are no risks. Elections in Indonesia and India could affect the implementation of necessary structural reforms. The partial shutdown of the US government reminds us that a policy mistake in the West remains a key risk to the world economy.

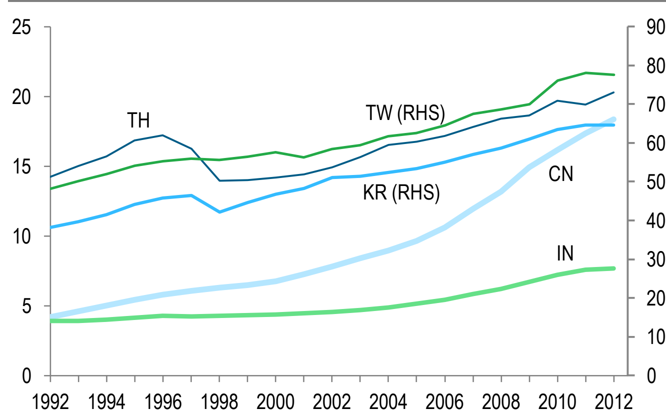
Macro dynamics in Asia, Africa and the Middle East

There are several structural factors behind the rise of emerging markets (see Figure 1). Scale and demographics, international trade, the accumulation of savings and financial resources, and China's industrial revolution have been the key catalysts. Asia and many other parts of the emerging world are finally making use of available technologies, moving factors of production away from agriculture and into industry.

We think that the main drivers of the development of the emerging world are structural in nature. And although there will always be short-term cyclical variations in a longer-term uptrend, we see the pace of growth quickening in H2-2013 and in 2014 for most Asian countries. We think stronger growth rates in the major economies are good, not bad, news for Asia as a whole. Growth is not a zero-sum game. Portfolio outflows do not always signal slower growth to come. With growth having resumed in

Figure 1: EM Asia GDP per capita on a structural uptrend

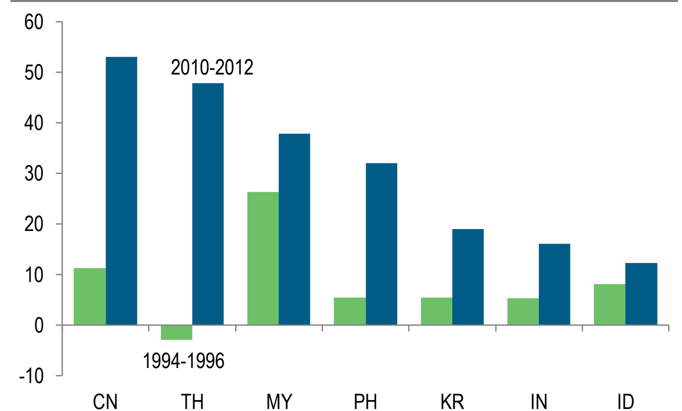
% of US GDP per capita, adjusted by purchasing power parity



Source: IMF, Standard Chartered Research

Figure 2: Asia is now in a stronger financial position

Net foreign assets, % of GDP



Source: BIS, Standard Chartered Research

Europe (at least for now), accelerating in the US and Japan, and stabilising in China, we see grounds for optimism. We also think the market disruption caused by the US Federal Reserve's signals on tapering its bond-buying programme is over.

Asia is much more economically resilient than was the case pre-1997

Asia has learned valuable lessons from its 1997 crisis, and is now much more resilient. Large and widening current account (C/A) deficits, a collapse in net foreign assets, and a sharp appreciation in real exchange rates have all been good predictors of crises and problems in the past. Figures 2-4 compare the positions of several Asian countries today with the run-up to the Asian crisis of 1997. Asia is in a much healthier position now.

In the Middle East, the growth outlook for the oil-rich Gulf Co-operation Council (GCC) is positive, despite ongoing tensions in other parts of the region. Key priorities are the need to rationalise subsidies, where Jordan is taking bold steps in the right direction, and the creation of private-sector employment opportunities for GCC nationals; here, much more needs to be done.

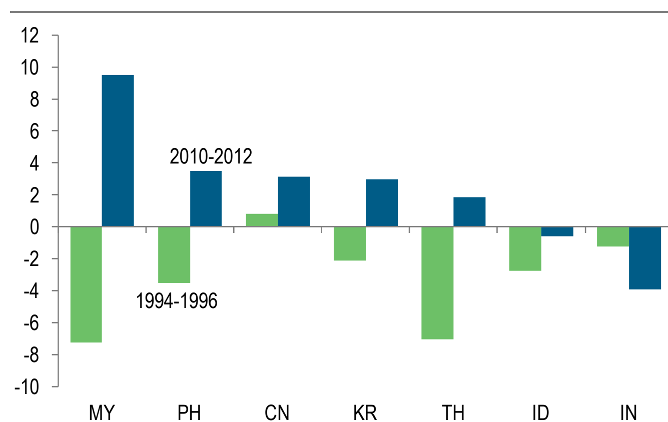
Risks to the global recovery

We still see significant risks to the global recovery. China appears to be maintaining adequate growth rates and rebalancing its economy quite well. But economies that have seen a severe deterioration in their external balances face structural challenges. In this regard, the backdrop is generally healthier in Northeast Asia than in Southeast Asia. In India and Indonesia, recent market stresses may have increased pressure for structural reform. The question is, how much can be done before the 2014 elections in both countries?

The possibility of a policy mistake in the West is the main risk to the global economy. Growth in the US and Europe is slowly picking up, albeit from a very low base, but the recovery in both regions is fragile. In our June *Regional Focus* publications, we took the clear view that the Fed's stated plans to start reducing quantitative easing (QE) this year were premature. Growth was still fragile, and the focus on the unemployment rate was painting an overly optimistic picture of the labour market. Unemployment can fall due to low labour-market participation rather than rapid job creation; the US labour-market participation rate has now fallen to its lowest level since 1978 (see Figure 5).

Figure 3: Broadly healthier balance of payments

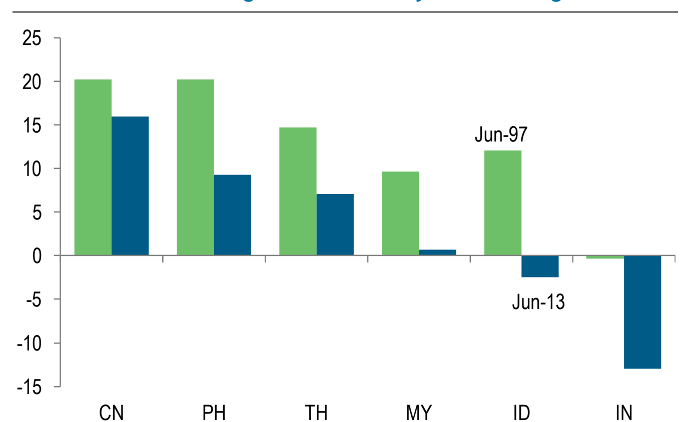
Current account, % of GDP



Source: IMF, Standard Chartered Research

Figure 4: EM has not seen dramatic real FX appreciation for the past 2 years

Real effective exchange rate index, 2-year % change



Source: BIS, Standard Chartered Research

Market risks arising from US political polarisation should be taken seriously

The shutdown of the US government since 1 October is evidence of how polarised the current political environment is. The market reaction to the shutdown has been muted so far, but if tensions between the Democrats and the Republicans continue and the debt ceiling is not raised on 17 October, this could jeopardise the global economic recovery. The expectation is that, as before, things will go to the wire before an agreement is reached. The fact that the budget deadlock between Congress and the president led to a government shutdown suggests that a resolution cannot be taken for granted.

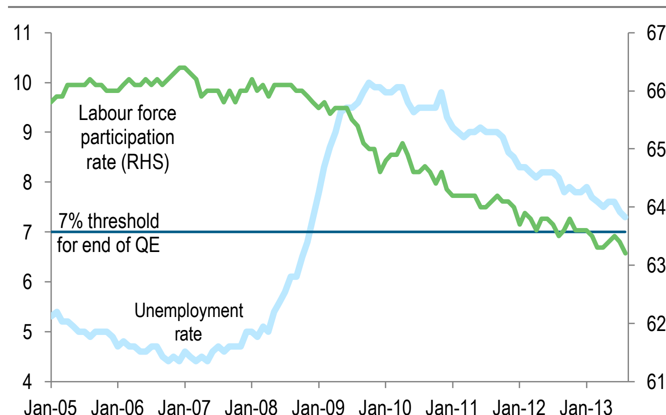
Although the economic environment in Europe is slowly improving, significant issues remain unresolved (see Figure 6). Germany's elections have given Chancellor Merkel a strong mandate, but a coalition government has not yet been formed. Once a government is in place, significant decisions will have to be taken.

Greece is likely to need yet another debt bailout

Greece's debt situation looks unsustainable. After peaking at around 176% of GDP this year, debt is expected to decline to 124% in 2020 (according to the IMF country report, July 2013); this, coincidentally, is close to the levels that triggered the crisis in 2009 (113% in 2008 and 130% in 2009). These projections assume that everything will go according to plan, but projections so far have proven to be too optimistic. The euro area will soon have to decide on another bailout plan for Greece, or ideally a substantial debt write-down. This would imply that the European Central Bank (ECB), and ultimately taxpayers in northern European countries, would incur losses.

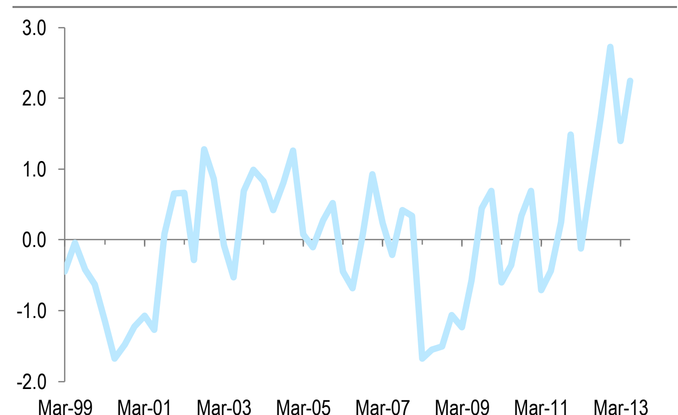
Countries in Europe's periphery have made significant progress in rebalancing their economies. C/A deficits have narrowed. Although this is positive, we have two concerns. First, the collapse in domestic demand following the implementation of severe austerity measures is a key reason for the rapid narrowing of C/A deficits. The lack of growth and demand is keeping unemployment, social pressures and debt levels very high. The second, and perhaps more important, problem is that the reduction of C/A deficits in southern Europe has not been accompanied by a reduction of Germany's C/A surplus. Austerity in the south is not being offset by stimulus in the north, and this increases the burden of adjustment on the depressed countries. Germany's C/A surplus is currently above 7% of GDP (7.12% in Q2), and the euro area as a whole had a surplus of EUR 198bn in the 12 months to July (2.1% of GDP), and EUR 27bn in July alone. Demand is the missing part of the equation: without a pick-up in demand and growth, the European crisis will risk reigniting.

Figure 5: Drop in US unemployment rate has been accompanied by lowest participation rate since 1978 *(%)*



Source: CEIC, Standard Chartered Research

Figure 6: Current account balances have improved in the euro area *(% of GDP, quarterly basis)*



Source: CEIC, Standard Chartered Research

We will closely watch developments in Germany's constitutional court regarding the ECB's Outright Monetary Transactions (OMT) programme. In our view, the OMT pulled the euro back from the brink of collapse in August 2012. The ECB achieved this without spending to support the sovereign bonds of troubled countries. This was because the commitment was seen as credible, and markets never felt the need to test the ECB's resolve. Any developments that undermine the credibility of the ECB could change this, however.

There are positive signs in the global economy. The pick-up in activity in the US and, to a lesser extent, Europe should be positive for emerging markets. Economies in Asia, Africa and the Middle East are undergoing a structural transformation. Despite short-term cyclical fluctuations, the trend is up and these economies will continue to outperform the West. Despite positive signs, however, we need to be aware of risks. Although the signs for growth are positive, the possibility of a policy mistake is the main risk in the short term.

MENA – Adjusting to reality

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Economic outlook

Social and political challenges in the wider Levant and North Africa are in stark contrast with the economic boom much of the GCC is enjoying. The GCC economies are benefiting from years of robust hydrocarbon dynamics, although they also face longer-term challenges.

Energy subsidies in the region are too high and are a fiscal burden on many economies

Saudi Arabia is pouring resources into its longer-term development objectives, supporting healthy economic growth. Yet this brings inflation and concerns about productivity. Dubai's economy, which not long ago faced severe challenges, is performing extremely well against a backdrop of strong investment in the region, benefiting from its role as a trade and services hub. Jordan is now fast-tracking badly needed energy reforms to slow the drain on government finances. Egypt's political transition is ongoing, and funding from the GCC is supporting the Egyptian pound (EGP) and the balance of payments. Reforms, however, have been delayed and look unlikely as long as social pressures and political uncertainty remain high.

We see three core themes for the region:

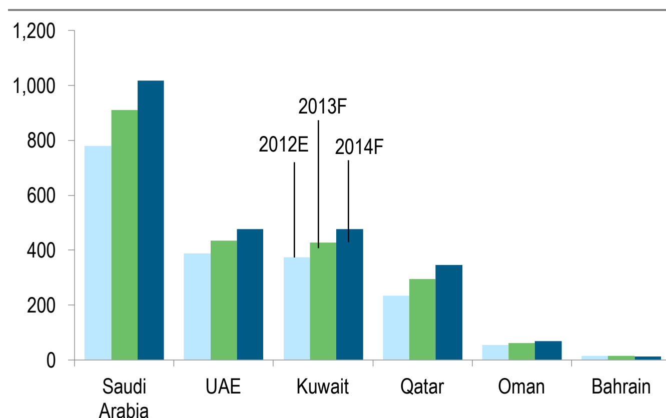
1. The need for subsidy reforms to reduce the load on government finances. While these measures may bring near-term pain, they are essential to reduce heavy subsidy burdens in the region.
2. Employment challenges are widespread, even in wealthy economies like Saudi Arabia. Creating sustainable employment opportunities is a priority.
3. The region needs to develop strong and robust legal systems, which are key to sustaining cross-border investment flows that are necessary to support economic growth and create employment.

Reforms – Rationalising subsidies

Subsidies in the region are too high, especially in the energy sector. This creates a fiscal burden on oil importers, and productivity distortions for oil exporters. The MENA region's energy subsides are equivalent to USD 236.7bn annually, according to the IMF – 50% of the global total. Some countries are implementing reforms, either by cutting subsidies directly or by developing alternative sources of energy to meet high levels of domestic energy consumption. In other countries more needs to be done.

Figure 1: GCC states have a healthy foreign asset position

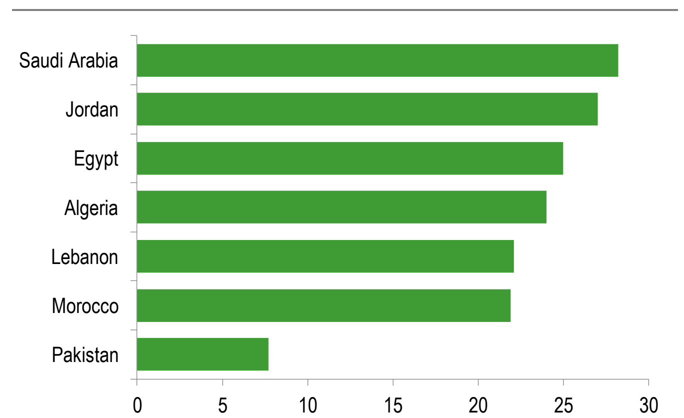
GCC net foreign assets (USD bn)



Source: IIF, Standard Chartered Research

Figure 2: MENA youth unemployment is high

Youth unemployment (%)



Source: IMF, World Bank, Standard Chartered Research

Jordan is taking decisive steps in the right direction. Having identified energy subsidies as the largest drain on government finances, in August the government raised power tariffs by 15%. This should help to reduce the subsidy bill from 5.3% of GDP in 2012 to 4.3% of GDP in 2013. The government is also accelerating the construction of an LNG terminal at Aqaba, which could reduce generation costs by 20% when it is operational by 2016. Shale oil sources are also being explored. Jordan is both undertaking soft policy reforms and investing to develop domestic and alternative energy resources. This should have a significant positive impact on the long-term economic outlook.

In Egypt, the situation is different. The subsidy bill is ballooning, projected by the government to rise to 9.9% of GDP in FY13 (year ended June 2013) from 8.8% in FY12. This is skewing debt dynamics. Debt to GDP had ballooned to 83% as of March 2013 from 77.7% at the end of June 2012. The government projects that the fiscal deficit will rise to 13.8% of GDP in FY13 from 10.8% in FY12. Increased subsidies have had questionable results in terms of restoring stability, but have clearly resulted in deteriorating fiscal and debt dynamics. We believe the way forward for Egypt is to stabilise its debt dynamics by overhauling the subsidy framework and focusing on pro-growth economic policies. Given social pressures and the uncertain political environment, this looks unlikely to happen in the short term.

Employment

Tackling unemployment challenges is needed both for the GCC and wider MENA

Employment remains one of the region's key challenges. The nature of this challenge varies across the region. In the hydrocarbon-rich GCC, participation rates for GCC citizens in the private sector are very low. On average, less than 10% are employed in the private sector (expatriate workers account for almost 90% of private-sector employment). The public sector remains the largest employer of GCC nationals, reaching almost 90% in some countries. This is an unhealthy balance, and governments are taking steps to address it. In other parts of MENA, the challenge is a weak private sector that is struggling to attract enough investment to create job opportunities.

Saudi Arabia is determined to fight unemployment. The country's private-sector job market is dominated by expatriates, who number almost 8mn; until recently, the country also had 2mn undocumented workers, according to market estimates. A key challenge is to shift more Saudi nationals into the private sector, where fewer than 10% of Saudis currently work. The government's 'Saudisation' programme has created 600,000 new jobs for Saudi nationals since its launch less than two years ago. Under the programme, private-sector companies must meet a quota for employing Saudi nationals. The government has also been tackling the issue of undocumented expat workers; under an amnesty running until November 2013 1.5mn of the country's 2mn undocumented workers (market estimates) have received the necessary work permits. The government estimates that 180,000 have left the country. In the longer term, policy makers need to ensure that Saudi nationals have the necessary skills to take on new job opportunities. While a quota-based system has near-term merits in helping create jobs, matching skills to available jobs is a longer-term challenge.

Egypt's unemployment is on the rise. The government estimates that the unemployment rate rose to 13.3% at the end of June 2013, the highest on record. Educated urban youth face the highest unemployment rate of nearly 25%. With instability affecting core sectors of the economy, growth is proving a challenge. Restoring stability is key in order to attract international investment flows to support private-sector investment and job-creation opportunities.

Supporting inflows

Creating a macroeconomic environment conducive to investment inflows is an important priority for the region, especially for economies that face funding deficits. Flows to Egypt have come from GCC countries including Saudi Arabia, the UAE and Kuwait. These funds will be used to finance the government's large subsidy bill for power and food. Nearly USD 2bn of this aid will be in the form of direct oil shipments. While this support is welcome, countries like Egypt must also implement the necessary macroeconomic, legal and subsidy reforms to attract private investment. In challenged pockets of the region, fiscal support from political allies can only go so far. Jordan's measures to tackle large subsidies show that such reforms are possible, even against a backdrop of strong domestic opposition.

Economy insights

Bahrain – Oil is the focus

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GDP growth is increasingly dependent on oil

Bahrain's economy is increasingly dependent on oil. The recent confirmation that the national oil company has agreed with ARAMCO (the Saudi National Oil Company) to substantially expand (by 52%) the pipeline that links the two countries should allow Bahrain to significantly increase its output of refined oil products, which are its main source of export revenue. This year, growth will be driven by an oil-related technical rebound. Longer-term, strengthening oil-sector revenues could alleviate the softening trend in the non-hydrocarbon sector.

The non-hydrocarbon sector continues to show subpar metrics

Tourism and the financial sector struggle to repeat their past performances

The two main contributors to Bahrain's non-oil GDP – tourism and the financial sector – continue to show subpar activity, if not outright contraction.

The latest figures concerning hotel occupancy show contrasting results: year-to-July (latest figures available), the average improved compared with 2012, at 42% hotel occupancy, against 36%. To put this in perspective, during the 2010 benchmark year, this figure was 65% on average over the first seven months of the year. But in July 2013, hotel occupancy dipped again by 5ppts to 28% versus July 2012.

The second main contributor to Bahrain's GDP is financial services. Latest central bank figures show that the total assets of the banking system shrank by a further 3% between January and July and are now 25% lower than during the 2008 highs. A breakdown shows that it is the crucial wholesale banking system – which represents 75% of banking assets – that suffered the most. From 2008 to July 2013, its assets shrunk by 38%. Retail banking has fared better, but its small weight means that it does not have a meaningful impact. The mutual fund industry – which has played a crucial role in Manama's financial centre – has also been contracting: according to central bank figures, total outstanding investment in mutual funds shrank 96% from the 2008 high to Q1-2013 (latest data available).

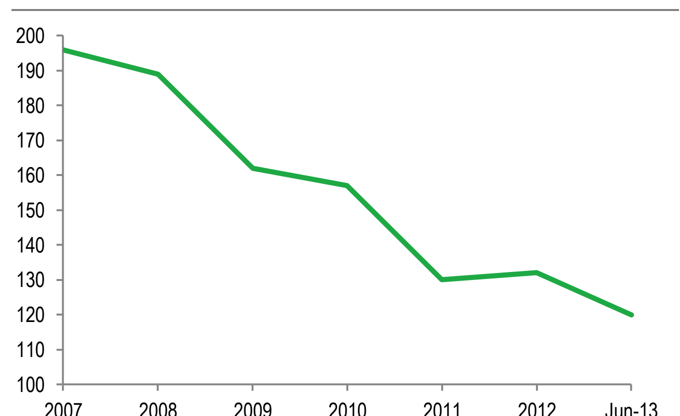
Figure 1: Bahrain macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	3.4	4.0	3.7
CPI (% annual average)	3.0	2.8	3.0
Policy rate (%)*	0.5	0.5	0.5
USD-BHD*	0.38	0.38	0.38
Current account balance (% GDP)	10.5	10.0	10.0
Fiscal balance (% GDP)	-2.6	-3.0	-4.5

*End period; Source: Standard Chartered Research

Figure 2: Wholesale bank assets continue to fall

BHD bn



Source: Bahrain Central Bank, Standard Chartered Research

Bahrain downgraded by rating agencies

Moody's downgrades Bahrain again

On 18 September, Moody's lowered Bahrain's sovereign rating one further notch to Baa2, which is still investment grade. This came two years after the previous downgrade during spring 2011. The two other agencies have previously assigned Bahrain equivalent credit-rating grades. Moody's recent downgrade was accompanied by a negative outlook, which came as little surprise after the tone of the announcement of the review in June. Moody's main worry was a weak – and weakening – fiscal position combined with a lower economic growth trend even compared with recent history (see June's *Middle East and North Africa Focus*). The negative outlook was mainly owing to the "high degree of event risk, particularly the country's susceptibility to domestic and regional geopolitical instability as well as potential negative impact on the budget from an oil-price shock".

The recent downgrade path for Bahrain's credit rating has not affected the country's ability to tap the debt market so far. The sovereign issuance of a 10Y USD 1.5bn bond in July was comfortably oversubscribed, but at a relatively high coupon of 6.2%.

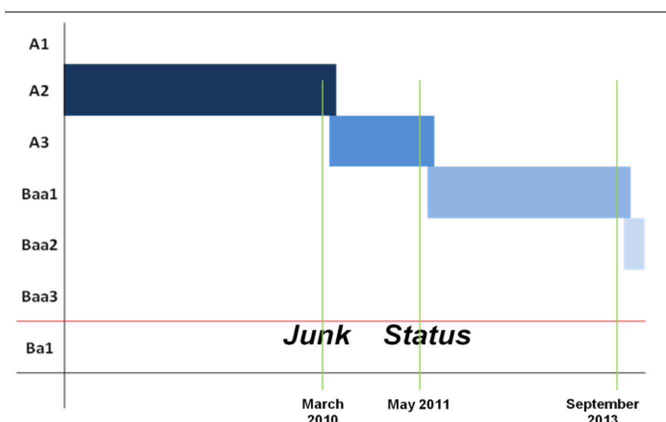
Refinery capacity could receive a 38% boost

New pipeline will likely boost refined-oil-product production and exports

A long-awaited agreement has been signed between Bahrain and Saudi National oil operators. Sitra, Bahrain's only refinery, processes 267 thousand barrels/day (kbd) of oil, 86% of which comes from the 175km pipeline linking it to Saudi Arabia. This pipeline will be upgraded with the aim of boosting capacity to 350kbd. While this is good news, the project is half the size that was originally envisaged in terms of capacity expansion. On top of expanding capacity, the project could help ease the strain on the ageing pipeline (in use since 1945) and allow technical upgrades at Sitra itself; these could enable the plant to produce high-quality refined products such as low-sulphur diesel. If all goes according to plan, construction and procurement contracts will be finalised by year-end, with the pipeline work scheduled to start in Q3-2016.

This is good news given the importance of refined oil products for Bahrain: they represent about three quarters of its export proceeds. Unlike some other oil exporters, the high import component of each oil export from Bahrain deflates the total somewhat.

Figure 3: Bahrain – Moody's sovereign credit rating



Source: Standard Chartered Research

Figure 4: Structure of the oil sector

Oil supply and usage, barrels per day

		2012
Supply		
	Bahrain field	45,000
	Saudi field	128,000
	Total production	**173,000**
	Imported crude from KSA	219,000
	Total supply	**392,000**
Usage		*392,000*
	Crude exports	126,000
	Inputs to refinery	266,000
	Of which: refinery exports	237,000
For reference: Total exports		**363,000**

Source: NOGA, Standard Chartered Research

Egypt – What's next?

The long road to political transition

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Political uncertainty weighs on market confidence

Political uncertainty is the predominant concern surrounding Egypt, even as substantial aid of USD 12bn from the GCC states has helped boost FX reserves and reduce the pressures on the Egyptian pound (EGP). Egypt's interim President Adly Mansour has outlined a roadmap for political transition. The first milestone is the constitutional amendments that the military has tasked the interim government to draft and implement ahead of parliamentary elections.

Significant constitutional reform is underway

President Mansour has appointed a high-powered committee of 50 representatives to amend the constitution. This includes the composition of parliament, replacement of Egypt's proportional representation system with a single vote/first-past-the-post system, and tough laws barring religious parties from participating in the election process. Parliamentary elections (stage two of the roadmap) are likely to take place in early 2014 once the amendments are finalised. The final stage of the transition will be the election of a new president, with media speculating that General Sisi – the Commander in Chief of the Armed Forces – will run.

While the political transition remains difficult markets are cautiously optimistic that strong financial support from the oil-rich GCC states will ease the balance of payments pressure and restore investor confidence. The Central Bank of Egypt (CBE) cut policy rates by 50bps at its 19 September meeting – the first time since January 2011 – on a build-up of FX reserves and a stronger EGP.

FX reserves strengthen on USD 12bn aid

EGP strengthens on the back of improved reserves position

FX reserves strengthened to USD 18.9bn (3.9 months of import cover) at the end of August – from less than USD 13.5bn at end-March 2013. This was driven primarily by USD 12bn of aid flows from the GCC states including Saudi Arabia, the UAE and Kuwait. The grants will be used to finance the government's large subsidy bill for power and food. Nearly USD 2bn of this aid will be in form of direct oil shipments.

The EGP appreciated by 2% against the US dollar (USD) to 6.88 from June to 22 September, after depreciating by almost 17% in the last three years to 7.03 at the end of June. In a sign of growing comfort, the CBE held an exceptional FX auction of

Figure 1: Egypt macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	2.2	2.0	3.5
CPI (% annual average)	8.7	7.7	8.5
Policy rate (%)*	9.75	10.25	9.25
USD-EGP*	6.05	6.92	6.95
Current account balance (% GDP)	-3.1	-2.9	-2.5
Fiscal balance (% GDP)	-10.8	-9.9	-7.9

*Fiscal year ends June; Source: CBE, Standard Chartered Research

Figure 2: 5Y CDS on sovereign dollar bond

Spread, bps

Source: Bloomberg, Standard Chartered Research

USD 1.3bn on 4 September, compared with auctions of USD 120mn held every week since their introduction at the end of 2012. The 5Y CDS on the sovereign dollar bond rallied to 650bps on 18 September, from a peak of 930bps on 2 August, as default risk subsided.

Similarly, the CBE cut policy rates by 50bps at its 19 September meeting, the first time since 2009, on the back of a build-up in FX reserves and a stronger EGP. While inflation remains high (10.9% in August 2013 versus 4.7% at end-2012) the improvement in FX reserves has given the CBE space to kick-start the economy.

Unemployment rose to 13.3% in H1-2013

June unemployment touched a record high of 13.3%

Rising unemployment is another challenge for policy makers. According to the government, the unemployment rate rose to 13.3% at end-June 2013, the highest ever recorded. The largest increase was in unemployed educated urban youth, which rose to almost 25%. The sharp slowdown in foreign investment and tourism is affecting growth. Real GDP growth remained weak at 2.3% in the first three quarters of FY13 (year ended 30 June 2013), the same level as last year. Urgent reforms are needed to boost the economy, revive investor confidence and increase investment spending.

Government debt rises to 83% of GDP

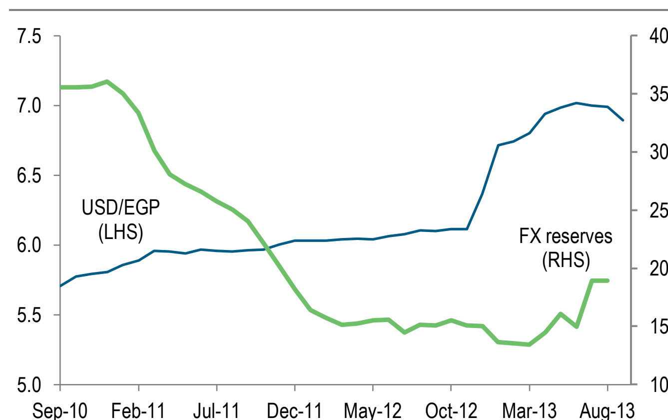
Subsidy bill pushes government debt higher

The sharp increase in government debt, which is financed mostly by local banks, is crowding out private investment spending and is a constraint to growth. Debt to GDP increased to 83% by March 2013, from 77.7% in FY12. This is primarily due to a sharp increase in the subsidy bill. The government expects the subsidy bill to have surged to 9.9% of GDP in FY13, from 8.8% in FY12.

The government forecasts a fiscal deficit of 13.8% of GDP in FY13, from 10.8% in FY12. The FY14 budget outlined by the interim government seeks to raise taxes and reduce subsidies to lower the deficit to 9.1% of GDP. It aims to cut the subsidy bill to 7.9% of GDP, from the 9.9% projected in FY13. Similarly, tax proposals targeted at widening the tax net and increasing the tax rate on luxury goods are a significant step forward in terms of stabilising the economy.

Figure 3: FX reserves strengthen on GCC aid

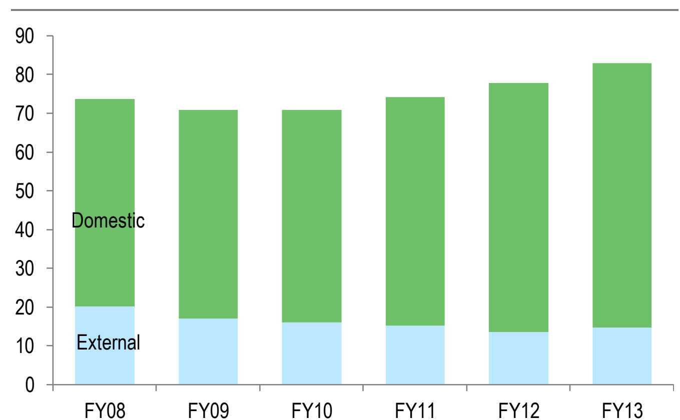
USD bn and USD-EGP



Source: CBE, Standard Chartered Research

Figure 4: Public debt rises to 83% of GDP

% of GDP



Source: CBE, Standard Chartered Research

Iraq – Security situation worsens

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GDP growth revised down

In the last quarter, the security environment in Iraq has deteriorated. This has had an impact on the operating environment, in line with our recent suggestion that the final average oil output could be cut to 3.1 million barrels/day (mmbd) this year (see June's *Middle East and North Africa Focus*). This could translate into slower real GDP growth, which we now estimate at 6.7% rather than 8.0%. For now, we still see a benign scenario of an improving operating environment conducive to higher oil output – and hence higher growth – but the downside risks to this scenario have increased recently.

While the difficult operating environment is constraining oil output, exports and ultimately growth, the outlook is still positive. Furthermore, a very favourable debt dynamic could pave the way for Iraq to return to sovereign debt markets.

Security is key

The security situation has worsened

Sectarian violence in Iraq has returned to levels unknown since the insurgency years of 2006-08. Between April and August, there were 4,000 deaths, and 1,000 in September. But the death toll alone does not account for the worsening operating environment. Also worrying is that the problems are spreading beyond the more sectarian central area of the country, historically the area of most unrest.

There have been increasing signs of tears in the delicate social fabric between the two main communities in regions outside the traditional areas of confrontation, in places that used to be quieter. In particular, there has been a steep rise in neighbourhood sectarian skirmishes in the port city of Basra in the south, from which 90% of Iraq's exports are shipped. At the end of September, terror attacks had reached the Kurdistan region, a first in a region that had been shielded from turmoil.

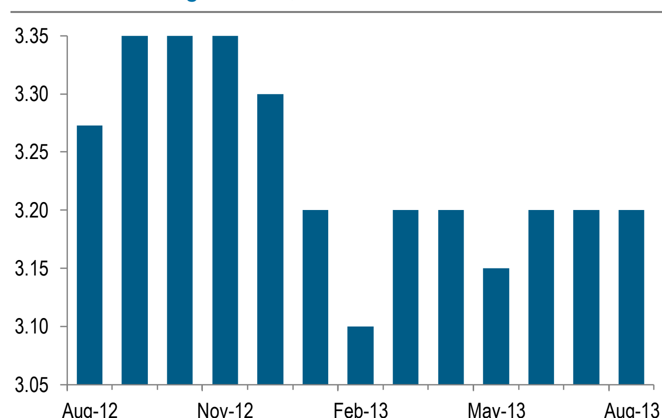
Figure 1: Iraq macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	8.5	6.7	9.0
CPI (% annual average)	6.1	4.5	5.5
Policy rate (%)*	6.0	6.0	6.5
USD-IQD*	1,170	1,170	1,170
Current account balance (% GDP)	12.7	7.0	9.0
Fiscal balance (% GDP)	7.3	5.0	3.5

*End period; Source: Standard Chartered Research

Figure 2: Average oil production decreased y/y

12 months to August 2013, mmbd



Source: Bloomberg, Standard Chartered Research

The current operating environment has constrained oil production and export capacity

Oil potential remains vast, but thwarted for now

Government oil output projections have been changeable and have recently been readjusted. The latest projections put crude output at 6.08 million barrels per day (mmbd) by 2017 or about half of the 12 mmbd forecast previously. Oil output this year could undershoot even our pessimistic scenario and finish the year at an average of c.3.1mmbd. The US Energy Information Administration (EIA) estimated that the export volume, affected by various security incidents, crept up from 100,000bpd in April to 200,000bpd in August. Repeated sabotage of the northern pipeline from Kirkuk to Ceyhan has crippled its export capacity, cutting it by two thirds. As a result, July showed the lowest daily average exports for Iraq in 16 months, at 2.3mmbd on average. According to the EIA, scheduled maintenance in Basra should further reduce exports by "several thousand barrels a day".

Nevertheless, the potential for increased oil production is enormous. In the coming months Iraq will remain by far the biggest contributor to an increase in oil production and exports in the world. The giant Majnoon field has started production and will eventually produce 1mmbd. Two others fields, Gharraf and Halfaya, have started – albeit very slowly. The government estimates that oil output could grow by 400kbd by year-end. We agree with this figure but would put its achievement slightly later, at end-H1-2014.

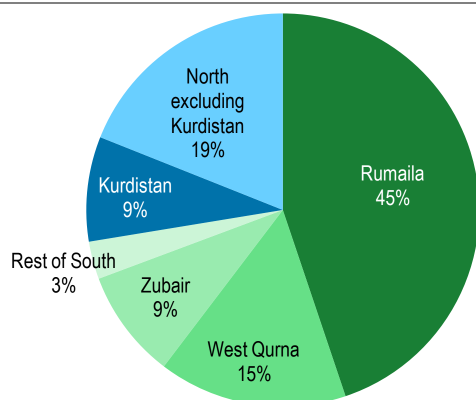
The debt market could open up

Returning to the debt market would help to deepen capital markets

Iraq's debt-market fortunes could not have turned around more. In 2003 Iraq's government debt-to-GDP ratio was about 800%. After several debt relief programmes – most importantly the Paris Club's 80% debt write-off – the country's debt has come down to low levels and external debt should be 25% of GDP at the end of the year. This debt reduction could pave the way for a return to the market, especially for long-term infrastructure projects. Iraq has an outstanding USD 2.7bn bond issued in 2006 and maturing in 2028, with a 5.8% coupon and a yield of 7.4% as of 24 September. There was talk of returning to the markets a few months back; this discussion could move to the forefront. Building a yield curve would help Iraq deepen its capital markets, and help price current and future financial assets.

Figure 3: Oil concentrated in a few, mostly southern fields

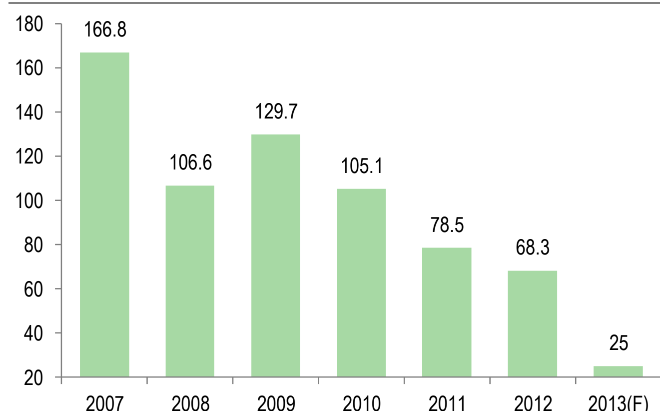
Repartition of oil production; green is south, blue is north



Source: IMF, Standard Chartered Research

Figure 4: Debt has dramatically decreased

External debt to GDP, %



Source: Bloomberg, Standard Chartered Research

Jordan – Fast-tracking energy reforms

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Government pushes ahead with difficult reforms

Tackling the energy crisis

Despite strong opposition, Jordan is moving ahead with key energy-sector reforms. Energy subsidies are the single largest drain on government finances, costing an estimated 5.3% of GDP in 2012. The government raised power tariffs by 15% in August to cut back on the large unsustainable subsidies. This should help reduce the subsidy bill to 4.3% of GDP in 2013. This was the benchmark reform of the USD 2bn IMF loan and shows strong government resolve to tackle the energy crisis that remains the single largest drag on growth.

Government hiked power tariffs by 15% to cut back on rising public debt

Agriculture and households that consume less than 600Kwh are exempt from tariff hikes. Banks, telecoms and large industry face the biggest rises, with average tariffs increasing by 135%. The government's draft energy strategy targets returning the national energy company (NEPCO) to full cost recovery by 2017. Further tariff hikes are expected over the next five years to meet the rising cost of power generation.

The government has also 'fast-tracked' construction of the liquid natural gas (LNG) terminal at the Aqaba port, which is targeted to be operational by 2016. Jordan plans to import nearly 500mcf per day, which will help to increase the share of gas in power generation to over 80%. LNG supply could help to substantially reduce energy imports and lower generation costs by 20%.

Jordan targets investment to develop large shale oil reserves

King Abdullah has concluded a successful visit to China, arranging new investment to develop Jordan's large shale-oil reserves. On 19 September, a USD 2.5bn agreement was signed between China's Shandong Electric Power Construction Corporation (SEPCO III) and Jordan's Al-Lajjun Oil Shale Company to build a 900MW power station in the southern city of Karak. This project alone will meet nearly one-third of total energy demand and is expected to save up to 40% of Jordan's oil imports and help reduce the cost of power generation.

Jordan's energy crisis is its main growth constraint. New energy projects should boost growth and create jobs; this is essential in an economy with 14% unemployment (Q3-2013) and where the rate for urban educated youth is 20.6%.

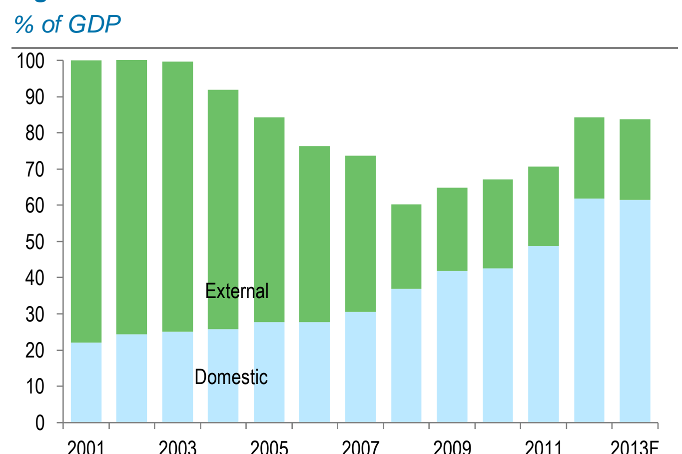
Figure 1: Jordan macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	2.9	3.2	3.5
CPI (% annual average)	4.8	5.0	5.2
Policy rate (%)*	4.25	3.75	3.50
USD-LCY*	0.71	0.71	0.71
Current account balance (% GDP)	-14.1	-9.9	-8.0
Fiscal balance (% GDP)	-8.2	-7.5	-5.0

*End period; Source: CBJ, Standard Chartered Research

Figure 2: Public debt rises to 84% of GDP

% of GDP



Source: CBJ, Standard Chartered Research

JOD peg strengthens on higher FX reserves

CBJ cuts policy rates by 50bps

There is growing confidence in the economy on the back of tough reforms and financial support from the IMF, the US administration and GCC states. Official FX reserves had increased to USD 9.9bn by July 2013 (6.3 months of import cover), after declining to USD 6.4bn (3.5 months) at the end of 2012.

CBJ FX reserves increase to USD 9.9bn in July 2013, from USD 6.4bn end of 2012.

GCC states have pledged USD 5bn to Jordan in grants over the next five years to finance infrastructure projects. To this end, UAE authorities deposited USD 1bn with the Central Bank of Jordan (CBJ) in January 2013. In March, US President Obama pledged to issue a guarantee for Jordan's new US dollar (USD) bond issuance, significantly reducing credit risk. This boosted market confidence: the Jordan 2015 bond price rallied to 99.567 by 18 June, from 97.55 on 31 December 2012.

The CBJ cut policy rates by 50bps in a sign of growing confidence in the economy and in particular the Jordanian dinar (JOD) peg to the USD, an anchor of financial stability. The build-up in FX reserves and decline in the dollarisation of the economy have strengthened the JOD peg. Investor confidence has also picked up: during Q1-2013 commercial banks witnessed strong deposit inflows of USD 1.1bn compared with net outflows of USD 663mn in 2012.

Bond markets rally on the rate cut

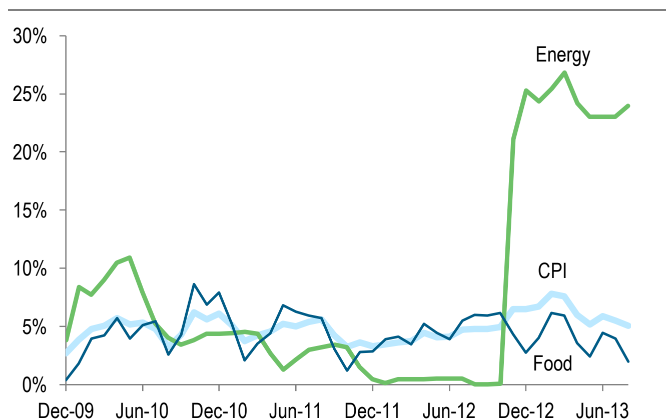
JOD bonds offer attractive yields over USD and GCC markets

The 5Y local currency bond rallied 57bps to 7.13% at the 25 September auction, down from 7.7% at the 6 August auction. This was primarily due to the CBJ's 50bps policy rate cut at the 18 September meeting. There is further room for rate cuts as the JOD peg has strengthened and headline inflation has declined from peak levels. CPI inflation was 5% in August, down from its high of 7.8% in February 2013. While a hike in power tariffs will probably lead to a pickup in inflation, the CBJ expects it to remain near its comfort level of 7%. We anticipate a 50bps rate cut in Q1-2014.

Given our view that the peg will remain unchanged over the medium term, Jordanian government bonds offer attractive yields, both over the USD and regional GCC markets. Currently, the 1Y yield spreads between JOD T-bills and the USD, Saudi Arabian riyal (SAR) and the UAE dirham (AED) are 540bps, 454bps and 463bps, respectively. These opportunities may be of interest to investors who share the view that the JOD peg will not change in the next year.

Figure 3: Inflation declines despite higher energy prices

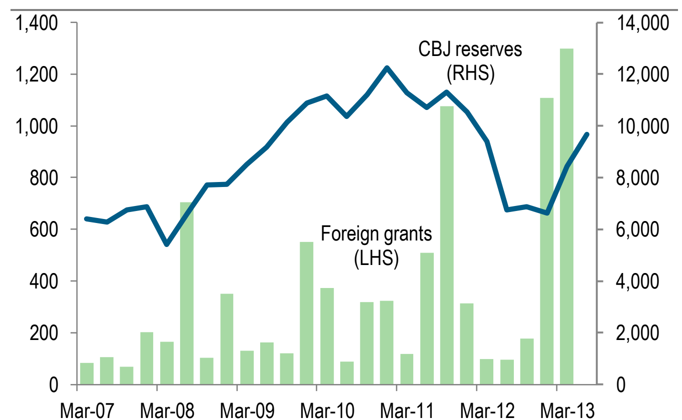
%



Source: CBJ, Standard Chartered Research

Figure 4: FX reserves strengthen on foreign grants

USD mn



Source: CBJ, Standard Chartered Research

Kuwait – Paving the way for diversification

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The challenges of diversification and employment

Kuwait aims to diversify its economy away from hydrocarbons to create a buffer against the risk of lower oil prices and enhance local employment opportunities. However, implementation of its USD 109bn development plan has been slow and poses a key challenge to meeting its diversification goal. Meanwhile, the state is currently seeking to boost foreign investment via a new commercial licences law and provide more employment opportunities via new labour market legislation.

Implementation of the development plan is the key problem

Implementation of the development plan cannot be achieved without political co-operation

Tensions between the elected parliament and the appointed cabinet have hampered progress of Kuwait's development plans. Like other oil-rich countries, Kuwait has ambitions to diversify its economy away from oil and transform it into a financial hub, using hydrocarbon revenue to fund the infrastructure investment. More rapid progress is unlikely in the short to medium term unless parliament and the cabinet can come to some agreement.

Frequent parliamentary elections tend to slow project approvals. Following the dissolution of the six-month old parliament in mid-June 2013, new elections were held on 27 July. The current parliament is a more comprehensive representation of the population than that elected in December, since groups that boycotted the previous polls participated this time. This could help ease past tensions and enable development plans to move forward.

Measures to boost FDI are in the works

The establishment of a new agency for foreign investment should impact FDI inflows in 2014

A new commercial licences law is being drafted as part of Kuwait's aim to attract more FDI. The law aims to overcome inefficient bureaucracy by facilitating trade through a single-window system. This would enable all permits and paperwork related to different state institutions and ministries to be completed through one agency. The success of this proposed new law should become clear in 2014.

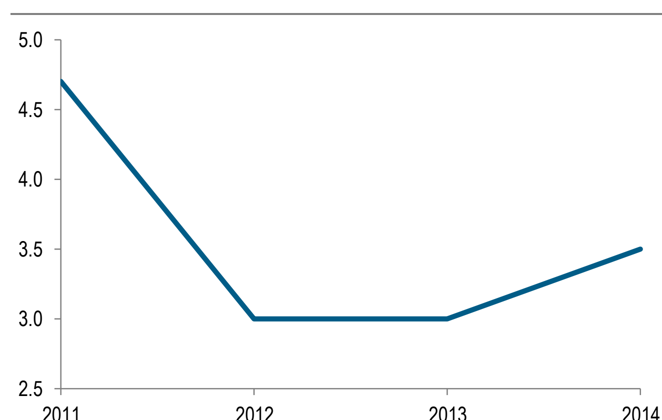
Historically, FDI levels in Kuwait are relatively lower than other GCC countries. However, in 2012, the country attracted close to USD 1.9bn of foreign investment, an increase of 117% y/y, according to UNCTAD. Note that this was mainly due to a one-off investment from Qatar Telecom, via a USD 1.8bn commitment to mobile telecom provider Wataniya. Funds flowing out of Kuwait continue to outweigh those flowing in. Outward FDI was USD 7.5bn in 2012, by far the highest among GCC countries.

Figure 1: Kuwait macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	3.0	3.0	3.5
CPI (% annual average)	4.4	2.6	3.7
Policy rate (%)*	2.5	2.0	2.0
USD-KWD*	0.27	0.27	0.27
Current account balance (% GDP)	40.0	35.0	35.0
Fiscal balance (% GDP)	43.3	33.4	30.5

Fiscal year ends March' *end period; Source: CBK, Bloomberg, Standard Chartered Research

Figure 2: GDP growth



Source: Standard Chartered Research

Regulating the labour market

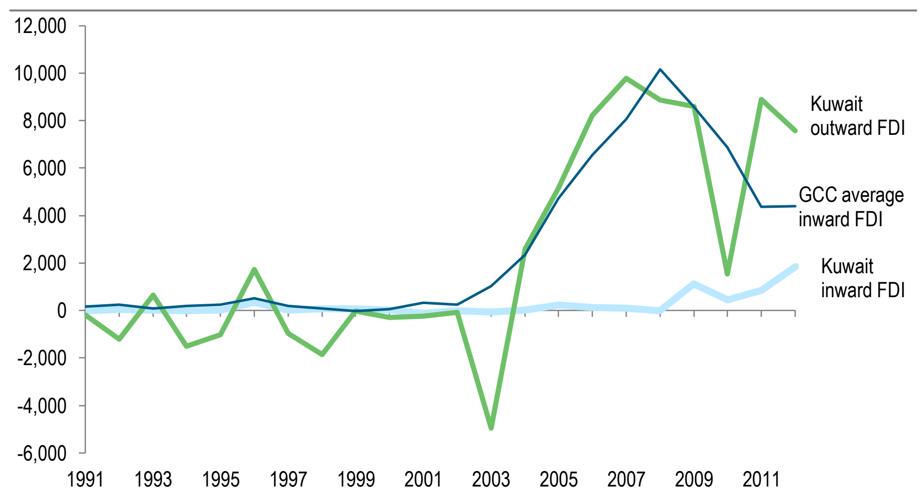
In March, Kuwait's government announced a plan to reduce the number of foreign workers by 1mn by 2023, at a rate of 100,000 a year; the aim is to boost local employment opportunities and encourage Kuwaitis to enter the private sector. Efforts to curb large foreign populations and provide jobs for their own citizens are mirrored in many other Gulf countries, notably Saudi Arabia and Oman.

Reducing reliance on foreign workers could hamper the implementation of Kuwait's USD 109bn development plan. This includes building a new airport terminal, an oil refinery and hospitals. Foreigners make up almost 69% of Kuwait's 3.8mn population; reducing their number will limit access to low-cost labour in sectors such as construction and services. It is unlikely that the policy to reduce foreign workers and new project launches related to the development plan can both succeed.

In an attempt to address longer-term unemployment among Kuwaitis, the government is offering financial incentives to encourage its citizens to enter the private sector, which is mainly comprised of expatriates. Some 58,000 Kuwaitis employed in the private sector received KD 1.7bn in social allowances between 2001 and 2013, according to Civil Service Commission officials.

Figure 3: Kuwait's inward FDI lags the GCC average

USD bn



Source: UNCTAD

Lebanon – Don't bank on tourism

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Tourism deteriorates, banks show resilience

Battered tourism figures

The Lebanese economy is being negatively impacted by an uncertain regional environment and a pickup in violence domestically, with recent bombings in both south Beirut and Tripoli.

The most direct repercussion on the real economy is depressed tourism figures. Tourism is an important contributor to GDP growth directly and indirectly, adding one-third to both GDP and employment.

The other pillar of the economy – the banking sector – continues to show resilience on various metrics, a backstop to an otherwise gloomy economic picture. From a market perspective, the receding possibility of imminent military intervention in Syria has relaxed risk premia, while the bond market continues to be supported.

Summer tourism was even worse than expected

Tourism season proved very difficult

Recent figures show that in the first eight months of the year, tourist arrivals decreased to 891,079, a 9.6% contraction compared with the same period last year, which was already weak. Compared with the 2010 high, this year's figure is a 40% contraction (Figure 2).

Similar trends are reflected in hotel occupancy rates, although we only have data for the first half of the year so far. In H1-2013, average hotel occupancy in Beirut was 58%, after 65% last year. This was the third lowest in the region. Over the same period, the average room rate contracted by 21% y/y, while room yield decreased by 30%. The broad figures fail to fully capture a situation which was sometimes worse in the hotels that were the biggest employers and had the highest margins. The head of the union of tourism institutions and of the Hotel Owners Association said that the sector had to lay off c.70% of seasonal workers – c.14,000 people – while non-seasonal hotels had to let go around 25% of their employees – c.5,000 people.

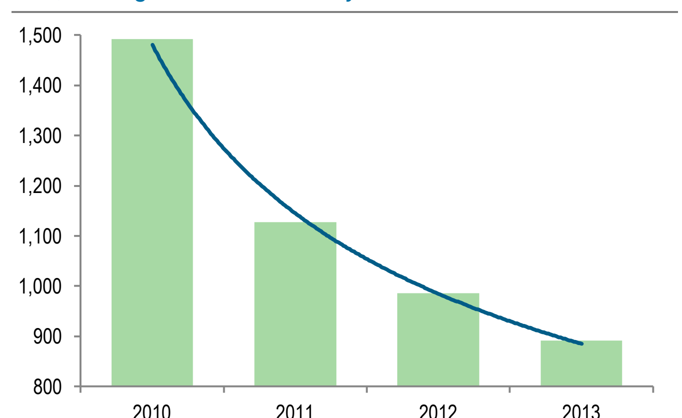
Figure 1: Lebanon macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	1.5	1.3	4.0
CPI (% annual average)	6.4	5.5	5.0
Policy rate (%)*	10.0	10.0	10.0
USD-LBP*	1,500	1,500	1,500
Current account balance (% GDP)	-18.0	-16.0	-10.0
Fiscal balance (% GDP)	-7.5	-10.0	-7.0

*End-period, Source: Standard Chartered Research

Figure 2: Tourism figures worsen

'000, first eight months of each year



Source: Ministere du tourisme, Standard Chartered Research

Banking deposits continue to grow

The banking sector is supported by increasing deposits

As we have underlined in the past, the strength of the banking sector is essential for Lebanon's stability, especially considering the sovereign's dependence on the banks to finance its deficits. The ability and will to absorb government paper has long been described as the main credit-rating driver of public-debt sustainability.

A key measure of the banking sector is deposit strength. In the first seven months of the year, this grew 4.9% (Figure 3), an even faster pace than in 2012 (+3.5%) or 2011 (+4.6%). Half of this increase is from residents and half from non-residents, testimony to Lebanon's diaspora's continued trust in the system. Customer deposits make up 80% of Lebanese bank assets, which helped to push commercial banks' total assets up by 3.9% to USD 158bn, a USD 6bn increase, or 368% of GDP over the same period.

But, there are signs of nervousness: this time around, 85% of the new money deposited in the Lebanese banking system was in US dollars (USD), bringing the dollarisation rate of deposits close to 66%, a slight increase compared with 64.8% in December 2012.

Investors seem fairly confident

Investors' concerns have receded since the 5Y CDS peak in June

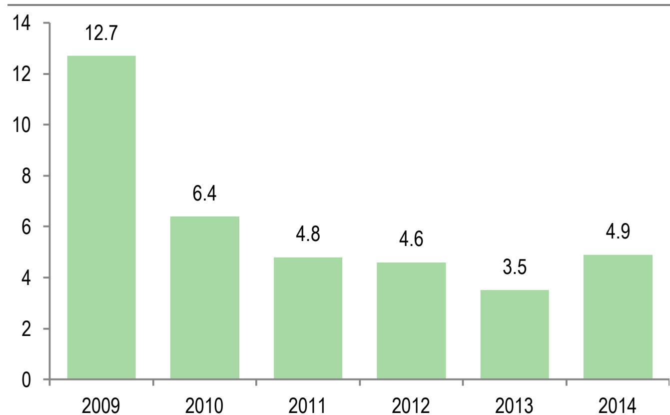
Since investor concerns peaked in June, sentiment seems to have recovered. On 25 June 5Y CDS reached a high of 527bps; it has tightened 29% since then, to reach 375bps as of 23 September.

The same can be observed in the longer sovereign-debt tenors (USD eurobond), such as the 2021 bond, which went from a year-low price of 105.92 on 27 June to 109.85 on 23 September (after hovering around 112 in mid-August).

The bonds have been supported by both offshore and local bids. Foreign investors in particular continue to see an opportunistic play in Lebanese paper. A risky regional environment contrasts with a very stable currency peg, underpinned by a strong central bank that has FX reserves covering around a year of import and has made the peg a cornerstone of its policy.

Figure 3: Bank deposit growth continues

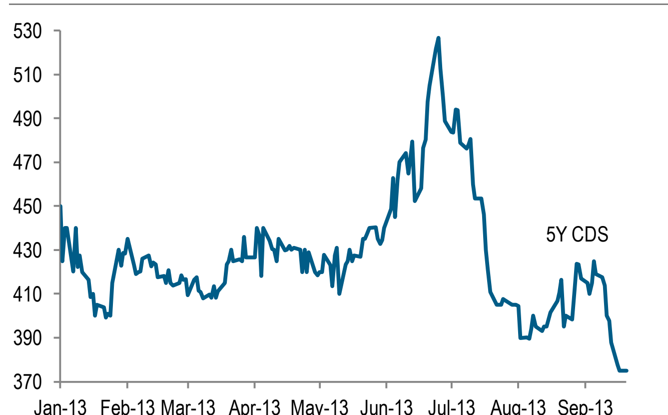
%, first eight months of each year



Source: Banque Centrale du Liban, Standard Chartered Research

Figure 4: Spreads on 5Y CDS have tightened

YTD, bps



Source: Bloomberg, Standard Chartered Research

Oman – Positive outlook

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A strong growth outlook

Oman's short- and medium-term outlook is positive, with higher GDP growth and moderate inflation. The hydrocarbon sector is the main source of government revenue and is supported by high oil prices and resilient demand from Asia. We forecast Brent crude to average USD 108/bbl in 2013. However, it is important to note that the non-oil sector is also expanding. Oman is diversifying its economic base: hydrocarbons contributed close to 30% to the economy in 2011, from 50% in 2000. Additionally, the IMF expects the non-oil sector to grow by 5.8% in 2012 on the back of a stronger services sector supported by public investment.

Oman's Vision 2020 aims at sustainable growth

Growth is driven by both increasing oil production and the non-hydrocarbon sector

GDP growth is accelerating on the back of increasing oil production. We expect real GDP growth of 4.5% in 2013 as actual oil production so far this year has exceeded the 2013 budget target. In July, Oman produced 944.4 thousand barrels per day; from January-July oil production increased by 2.8% y/y, according to the National Center for Statistics and Information. Additionally, crude oil exports increased by 14.2% y/y, evidence of resilient Asian demand; China and Japan are the main oil export destinations.

Non-petroleum activity increased by 8.6% between March 2012 and March 2013, with services activity up by 13.7%. The non-hydrocarbon sector's increasing contribution to GDP suggests Oman is moving closer to the goals of its 2020 Vision. This outlines a diversification plan away from oil in order to reduce dependence on the hydrocarbon sector. Oil resources are set to finance investment, providing for more sustainable long-term growth.

Moderate inflation persists

Food and housing are the main inflation drivers

Inflation has been on a downward trend since 2011, falling from 4.0% then to 3.0% in 2012. We forecast a moderate 2.6% increase in 2013. The two major drivers of CPI inflation are 'food, beverages and tobacco' and 'rent', with index weightings of 30% and 15%, respectively. Softer global food prices have contributed to lower inflation, offsetting the effects of the housing-sector recovery. Both property values and the number of transactions have risen. The traded value of property increased to OMR 178.0mn in May from OMR 148.9mn in April, according to the Ministry of Housing. The housing sector looks set to perform well in the medium term as more developments are launched and housing contracts are awarded to meet future demand.

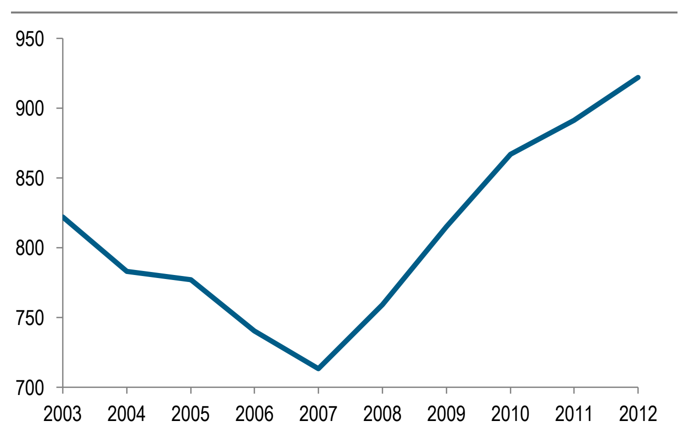
Figure 1: Oman macroeconomic forecasts

	2011	2012	2013F
GDP (real % y/y)	4.5	8.3	4.5
CPI (% annual average)	4.0	3.0	2.6
Policy rate (%)*	2.0	1.0	1.0
USD-OMR*	0.39	0.39	0.39
Current account balance (% GDP)	10.0	12.0	7.5
Fiscal balance (% GDP)	9.1	4.5	5.7

*End period; Source: CBO, Standard Chartered Research

Figure 2: Oil production

kbd



Source: BP

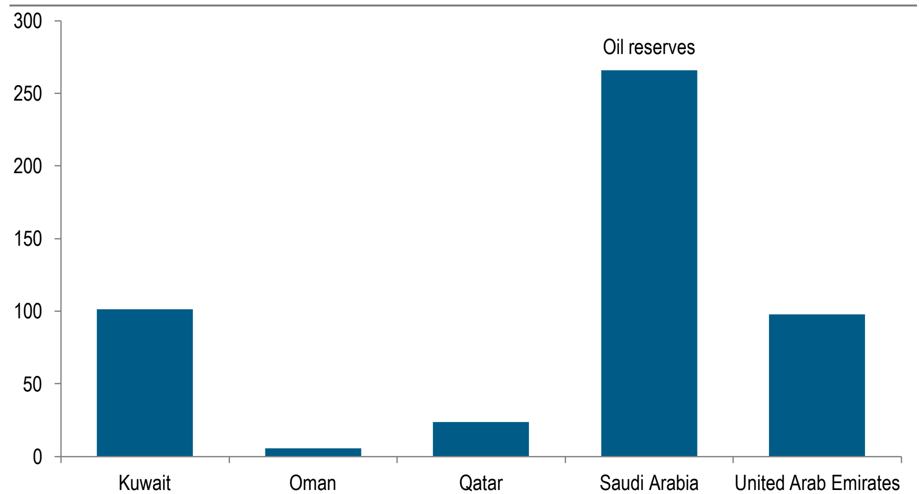
New regulations aim to provide local employment opportunities

With nearly half of Oman's population under the age of 20, the focus is on job creation

Oman's population is one of the youngest in the MENA region: as of mid-2011 close to 45% of its citizens were under the age of 20 (source: NCSI). The focus on job creation in order to cater to increasing numbers of graduates has become a national priority. The government has committed to create 56,000 jobs in 2013, 36,000 of which will be in the public sector. This follows 50,000 public-sector jobs created between May 2011 and June 2012.

The government is also focusing on diversifying employment away from public-sector jobs for nationals, encouraging them to pursue careers in the private sector. Private-sector jobs are mostly filled by expatriates; nationals account for only 14% of the workforce. Thus, regulation increasingly aims at curbing the inflow of expatriates, who, as of July 2013, comprise 43.5% of the population (according to NCSI). In early September the government announced a minimum salary requirement to issue visas for families. Only expatriates earning more than OMR 600 per month will be eligible for a 'family joining visa'. This move follows an increase in the private-sector minimum wage in February. Encouraging greater participation of local workers in the private sector will require a number of measures. Restricting the inflow of low-cost foreign workers could help Oman in the medium term by encouraging greater focus on more productive and higher value-added activities. But in terms of encouraging locals to accept employment in the private sector, it could have mixed results as Omanis compete with the more highly paid qualified expatriates. In our view, a more effective next step would be to address structural imbalances in pay and benefits between public- and private-sector jobs to increase local employment in the private sector and efficiently replace expatriates. In the long term this would benefit both the labour market and Oman's demographic balance.

Figure 3: Oman has among the lowest oil reserves in the GCC *(billion barrels)*



Source: BP

Pakistan – IMF pushes for tough reforms

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IMF approves a new USD 6.6bn loan

Tough tax and energy reforms planned in Q4

Pakistan's PMLN government faces its first real test in Q4-2013 as it targets key structural reforms that are critical to prevent a balance-of-payments crisis and create fiscal space for higher investment spending. These are the benchmark reforms agreed under the new USD 6.6bn IMF loan. They include politically difficult decisions that previous governments have failed to implement, such as reducing power subsidies, implementing new tax measures and privatising public-sector enterprises (PSEs). The government aims to reduce the fiscal deficit to 5.8% of GDP in FY14 (ends June 2014) from 8.8% in FY13. However, lower power subsidies and new tax measures are deeply unpopular measures and will test the government's resolve.

IMF loan disbursement benchmarked to tough energy and tax reforms

The key structural benchmarks to be met during Q4 include raising power tariffs by 30% for households and agriculture by 1 October. The government has already notified consumers but is under pressure to reverse its decision. It is also committed to introducing a new gas levy that will boost tax revenue by 0.4% of GDP before end-December 2013. This will be difficult owing to pressure from opposition-led provincial governments. Another challenge will be obtaining the approval of the Council of Common Interest (CCI) for its plans to privatise 30 PSEs by the end of September. At the time of writing this had not happened.

In addition to the structural benchmarks, the next disbursement of the IMF loan will depend on the government meeting strict performance benchmarks to limit the fiscal deficit, reduce borrowing from the State Bank of Pakistan (SBP) and build up FX reserves. Below-target tax revenue collection and higher-than-targeted borrowing from the SBP will make this difficult. During Q3-2013, government borrowing from the SBP surged to PKR 786bn (3% of GDP). It will have to retire this amount during the fiscal year to meet IMF targets. The good news is that the government is on track to achieve the Q3 fiscal deficit target. Provisional data shows that the Q3 fiscal deficit was PKR 374bn (1.5% of GDP), in line with the IMF performance benchmark.

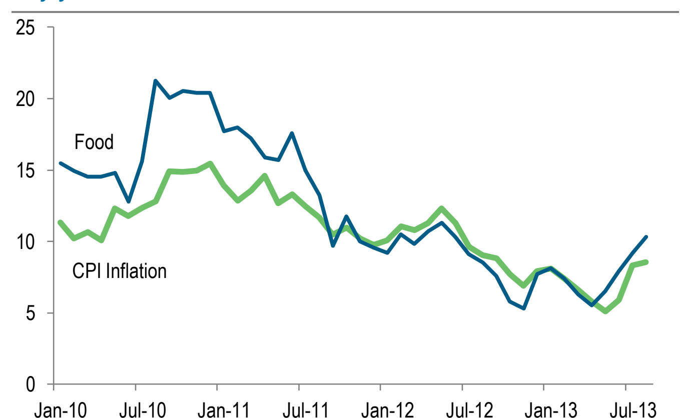
Figure 1: Pakistan macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	4.4	3.6	3.5
CPI (% annual average)	10.8	7.5	10.0
Policy rate (%)*	12.0	9.0	10.0
USD-PKR*	89.0	109.0	112.0
Current account balance (% GDP)	-2.1	-1.0	-2.0
Fiscal balance (% GDP)	-8.2	-8.8	-6.8

Fiscal year ends June; *end period; Source: SBP, Standard Chartered Research

Figure 2: Headline inflation has accelerated sharply

% y/y



Source: SBP, Standard Chartered Research

IMF disbursement benchmarked to reforms

The PMLN government requested this new USD 6.6bn extended fund facility (EFF) at the IMF's 4 September Board meeting. The EFF is a three-year concessional loan facility, with a 3% interest rate and a repayment period of up to 10 years. Disbursement is contingent upon the government successfully meeting performance and structural benchmarks.

Government sought a new IMF loan of USD 6.6bn to forestall a balance of payments crisis

The government sought IMF assistance to "forestall a balance-of-payments crisis". A widening current account deficit and large debt repayments have led to a sharp drawdown of the SBP's FX reserves. Markets are concerned about this sharp decline, as well as growing risks of rising global oil prices and Pakistan's large external debt repayments on the horizon. Even after the release of the first tranche of the IMF loan the SBP's FX reserves remain weak at USD 4.9bn (20 September). This is barely enough to cover one month of import payments and is the lowest level since the 2008 balance-of-payments crisis.

The Pakistani rupee (PKR) is under pressure due to depleting official FX reserves. It has declined 10% year to date, to 106 (end-September). Delays in the release of the next IMF tranche due in December would have serious implications for the balance of payments and the PKR outlook.

SBP raises policy rates

Interest rate hiked on PKR depreciation, higher inflation

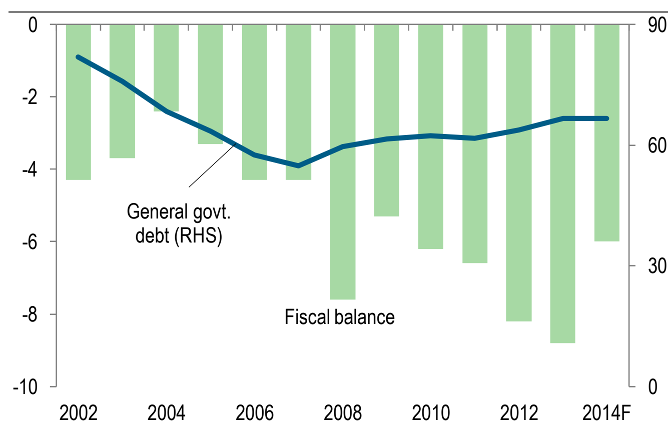
The central bank hiked policy rates by 50bps on sharp PKR depreciation and higher inflation risks

The SBP hiked policy rates by 50bps to 9.5% at its 13 September policy meeting to support the weak PKR and alleviate rising inflation concerns. Headline inflation accelerated sharply to 8.55% in August, from 5.9% in June, due to a weaker PKR and government measures to reduce subsidies and raise taxes. The SBP raised its FY14 inflation forecast to 11-12%, a sharp revision from the 8% projected in June 2013.

The SBP has hinted at further measures to stabilise the PKR and keep inflation in check. In our view, it will hike rates by a further 50bps in November. Other measures that the SBP is considering include restrictions on import forwards, and higher cash margins for importers. The government is also looking at increasing customs duty on non-essential imports. These steps are necessary to stabilise the PKR; otherwise we are likely to see further pressure on the currency in the coming weeks.

Figure 3: Sharp fiscal consolidation targeted in FY14

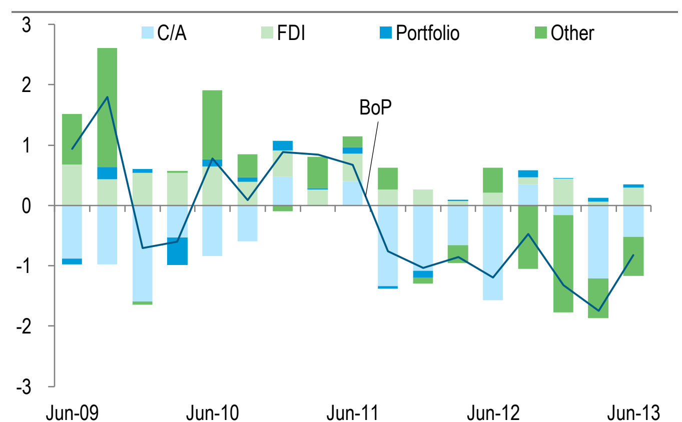
% of GDP



Source: Ministry of Finance, Standard Chartered Research

Figure 4: BoP position remains weak

USD bn



Source: SBP, Standard Chartered Research

Qatar – Changing priorities

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Economic outlook

2013 has been a game-changer so far

We see clear signs that policy makers are committed to backing wide-scale public-sector projects necessary to support Qatar's economy in the long run. We look at three core themes that will be important to monitor for the remainder of this year. First, we consider what changed in 2013 in terms of spending dynamics, and what this signals. Second, we look at why Vision 2030 as well as FIFA 2022 will be key in driving policy. Third, we look at inflation, and assess how demographic dynamics driven by the current investment boom are increasing housing pressures.

Commitment to spending is strong

Qatar awarded USD 13bn of infrastructure projects in the first half on 2013, a 60% increase over a similar period last year

One of the key challenges Qatar has faced over the last two years has been the slower-than-projected level of spending outlays, largely because spending undershot projections. But this is changing and Qatar is now rapidly implementing infrastructure projects. Comparing figures from data tracker MEED Projects shows Qatar awarded USD 13bn of infrastructure projects in the first half on 2013, a 60% increase over a similar period last year. In May, one of the largest projects, the Doha Metro system – worth almost USD 8bn – was awarded. This was one of the most significant infrastructure projects to be funded in years, and signalled that the government is now shifting its focus back to addressing the infrastructure requirements that form part of Doha's long-term commitments to both FIFA 2022 and Vision 2030.

We expect project spending trends in H2-2013 to remain strong. Under Qatar's national development strategy, an estimated USD 183bn of investment is planned between 2011 and 2016. We forecast that at least another USD 11bn will be awarded in H2-2013 for key infrastructure projects. For 2013 as a whole we estimate about USD 24bn of new project awards. We expect private-sector growth dynamics to pick up significantly on the back of this. We estimate that Qatar's non-oil sector will grow by 12% in 2013.

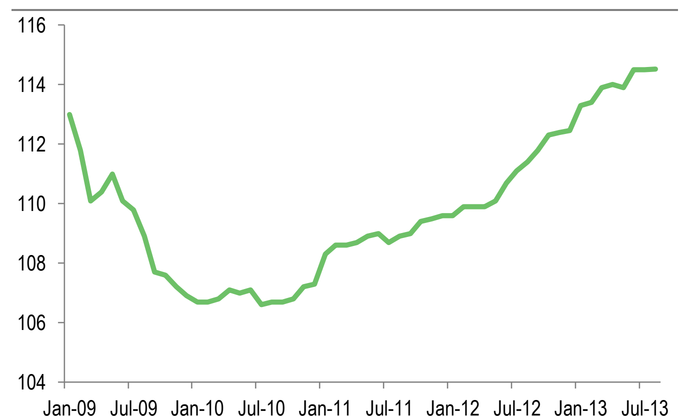
Figure 1: Qatar macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	6.6	5.0	5.0
CPI (% annual average)	1.5	2.9	3.5
Policy rate (%)*	0.75	0.75	0.75
USD-QAR*	3.64	3.64	3.64
Current account balance (% GDP)	30.0	27.0	25.0
Fiscal balance (% GDP)	8.6	8.0	7.0

Fiscal year ends March; *end period; Source: Standard Chartered Research

Figure 2: Inflationary pressures are on the rise

Consumer price index



Source: Qatar Statistics Authority, Standard Chartered Research

Vision 2030 in focus

With Qatar already undertaking substantial infrastructure investment, questions remain about whether hosting an event like FIFA 2022 warrants an infrastructure programme of this scale. We think that policy makers in Qatar are pursuing the infrastructure programme in line with the longer-term Vision 2030, rather than focusing on a single event. Briefly, Vision 2030 defines the long-term goals for the country as a whole, providing guidance for developing national strategies. A key element in the vision is “Qatar must invest too in world class infrastructure to create a dynamic and more diversified economy in which the private sector plays a prominent role”.

We estimate that almost 85% of the projects in Qatar’s pipeline are directed towards implementing and delivering on Vision 2030 long-term targets

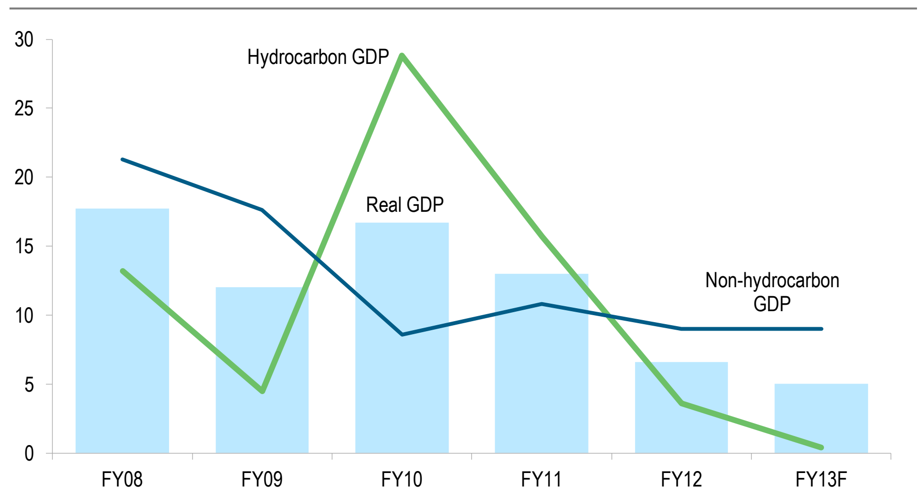
We estimate that almost 85% of the projects in Qatar’s pipeline are directed towards implementing and delivering on Vision 2030 long-term targets, rather than simply focusing on FIFA 2022. Projects in the pipeline are wide-ranging, from schools, hospitals and other key social infrastructure projects to the Doha Metro and Railway projects at an estimated total cost of USD 36bn. Therefore, while hosting the World Cup will be an important event for Qatar and the wider region both economically and strategically – being the first sporting event of this scale to be held in the region – Qatar’s legacy will be in delivering world-class infrastructure in line with Vision 2030.

Inflation

With the strong surge in government spending, there are signs that inflation might pick up again. Rental yields are likely to be a key driver and we expect they will begin rising in 2014. We believe this will be driven by the size of the project pipeline in Qatar, which will require an inflow of expatriate employees, generating a new pool of tenants. Population data from Qatar’s Statistics Authority shows the population rose from 676,000 to 1.71mn between 2002 and 2011. The LNG boom drove this 153% population increase. We expect the new phase of investments to bring about another population rise, and project Qatar’s population will reach 2mn before the end of 2015. In August alone the rents component of the CPI basket (32.2% weighting) rose by 6.7% y/y. Overall inflation in August, including the rental component, rose by 2.8% (up 1.5% excluding rents). We raise our 2014 inflation forecast for Qatar to 3.5% from 2.5%, given the more positive growth dynamics related to the population and workforce.

Figure 3: Non-hydrocarbon sector will drive moderate growth

Qatar GDP growth (%)



Source: IMF, Standard Chartered Research

Saudi Arabia – Focus on development

Moving in the right direction

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Government spending underpins growth

Saudi Arabia's economic performance has been robust so far in 2013, despite the absence of a significant boost from the hydrocarbon sector. Government spending is one of the main growth drivers, underpinned by the need to deliver the necessary infrastructure for economic diversification. Diversification brings challenges as well as opportunities; we identify three key themes that we see developing in the next 12 months: (1) 'Saudisation' or nationalising the workforce, which is in full swing; we assess some of the near-term challenges of the policy in a rapidly growing economy. (2) Saudi Arabia's housing market, which has strong potential, underpinned by a young and growing working population; we consider what has been achieved so far and what still needs to be done. (3) Liquidity dynamics; we analyse credit growth in an economy underpinned by high levels of government spending.

Saudisation – Realities and challenges

Employment is heavily skewed towards the public sector, which employs almost 90% of Saudi nationals

The employment challenge is a key long-term objective for Saudi policy makers. Employment is heavily skewed towards the public sector, which employs almost 90% of Saudi nationals. Despite this, the country faces a significant unemployment challenge: almost 40% of youth below the age of 24 are unemployed. Since 2011 the government has taken firm steps to localise the workforce, beginning with the Nitaqat scheme. This categorises companies according to the number of Saudis in the workforce relative to the total workforce. It offers incentives to companies that comply and imposes tough penalties on those that do not.

Since the beginning of this year the scheme has been supplemented by measures to cap the expatriate workforce. In April the government announced a three-month amnesty for illegal workers (estimated to be around 2mn) to rectify their residency status or risk fines or punishment. Government figures show that close to 1.58mn workers have come forward, of which about 926,000 have renewed their work permits and another 300,000 have shifted their sponsorship. The data indicates that about 180,000 workers have left the country.

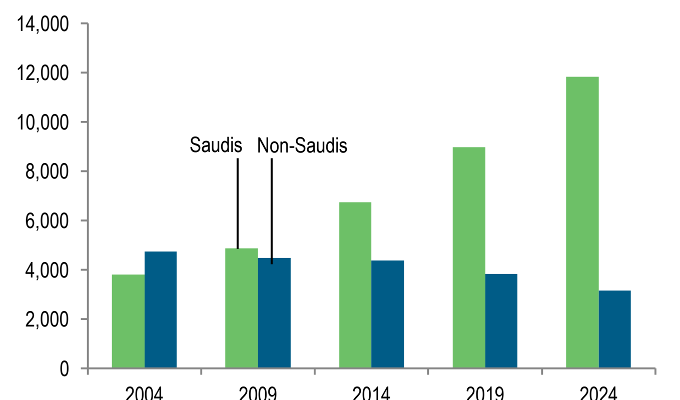
Figure 1: Saudi Arabia macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	6.8	4.8	4.2
CPI (% annual average)	4.9	4.9	5.0
Policy rate (%)*	0.25	0.25	0.25
USD-SAR*	3.75	3.75	3.75
Current account balance (% GDP)	21.0	19.5	18.7
Fiscal balance (% GDP)	12.5	11.0	10.5

*End period; Source: Standard Chartered Research

Figure 2: Saudi employment is a key long-term goal

Saudi wants to reduce its dependence on the expat workforce



Source: Saudi Ministry of Economy and Planning Standard Chartered Research

We estimate that 10-15% of the previously undocumented labour force will have left by the time the amnesty ends in November. Near-term, this increases the pressure on firms, especially in the construction sector. However, in the long run the benefit should be a better regulated and transparent labour force. Raising the level of Saudis in employment via such measures is less certain: many of the jobs taken by illegal workers are low-paid construction-sector jobs, and are not attractive to Saudis. In November 2012 the government imposed a tax of USD 640 on every expatriate employee in a move to reduce dependence on expatriates, who account for 90% of private-sector employment (7.5 million employees).

The government estimates its employment initiative has created 600,000 jobs for Saudi nationals

The Saudi Labour Minister, Adel Fakieh, was quoted in local newspapers saying that the government employment initiative has created 600,000 jobs for Saudi nationals. This shows that near-term the measures are succeeding in drawing Saudis into the workforce. In the long run a key challenge will be providing the necessary skill set to enable Saudi nationals to be absorbed into the private sector. Quota-based systems can produce results in the short term; however, they put pressure on the private sector to absorb higher-paid employees who do not have the skills for such jobs. In the long run this is a disincentive. Diversifying the economy to focus on productive sectors is vital, but this must be accompanied by measures to ensure that Saudis have the necessary skills to take on these jobs.

Housing – Pressures are building

Saudi Arabia’s housing needs are immense. The government has allocated almost USD 67bn to the General Housing Authority to build 500,000 new housing units over the coming five years. Market estimates indicate that about 2mn homes will be needed by 2020 to meet the expected population growth. Housing construction projects have been slow to break ground, largely on the back of the government mortgage law which was only approved last year. With the law in place, private-sector players in the market are likely to begin building and delivering the necessary housing stock, estimated to be around 200,000 units annually.

A pick-up in inflation is a direct consequence of the housing shortage. In July rent- and housing-related components of inflation edged up by 4.2%. Real estate consultant Jones Lang LaSalle estimates that rents for apartments and villas rose by 6% and 8%, respectively, in Q1-2013. Meanwhile, construction costs have spiralled and prices of building materials have surged by 20% over the same period, on a combination of shortages and high demand in the Saudi housing market.

Credit – Dynamics look healthy

Saudi Arabia’s loan-to-deposit ratio is very healthy: it fell to 80.5% in June from 82.3% in April. Private-sector credit growth was 4.4% for the same period. Total bank deposits rose 2.3% in June. As large-scale projects continue to materialise, public-private or private-only projects are the major credit drivers. We expect private-sector credit growth to reach 6.5% by end-2013.

United Arab Emirates – Fundamentals are in the driving seat

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Economic outlook

Looking ahead

The performance of the UAE's economy has been robust for much of 2013. The last quarter is likely to support this growth story. Developments in three different areas warrant attention. The first is Dubai's bid to host Expo 2020. The emirate expects the Paris-based Bureau International des Expositions' (BEI's) decision on 27 November 2013; we assess the near- and long-term implications for Dubai's economy of hosting these events. Second, there are indications that Abu Dhabi's property market is improving. We look at the supporting factors in the capital and the steps Dubai is taking to ensure healthy pricing dynamics. Finally, as banking-sector liquidity improves, we look at how credit dynamics are playing out.

Dubai's Expo 2020 bid is a move in the right direction

A winning Expo bid for Dubai is likely to be a further near-term boost for both the property and equity markets

The Emirate of Dubai is one of the contenders to host Expo 2020, competing against Izmir in Turkey, Sao Paolo in Brazil and Yekaterinburg in Russia. A key question is what Dubai would gain from hosting the events. We see benefits in the near, medium and long term for Dubai.

In the near term there might be a sentiment and confidence boost for the emirate, which has gone 'back to basics' and is experiencing a recovery underpinned by the core sectors of its economy. Both sentiment and confidence have improved considerably in Dubai since the challenges it faced in 2009. Over the last year alone, both the equity and property markets have been among the best performing globally. Dubai's property prices have surged by an average of almost 20% y/y YTD. The Dubai Financial Markets Index reached 2709.36 on 23 September 2013 from 1588.14 on 24 September 2012, a rise of 70.5%. A winning Expo bid is likely to be a further near-term boost for both the property and equity markets.

In the medium term, the economy would benefit from an estimated USD 6.9bn earmarked for infrastructure projects around the event. The centrepiece is the development of a 438-hectare site at the southwestern end of Dubai next to the new Al-Maktoum International Airport and close to Jebel Ali port. Dubai's construction market would benefit from the influx of new activity, but other sectors including travel, tourism and retail would also benefit.

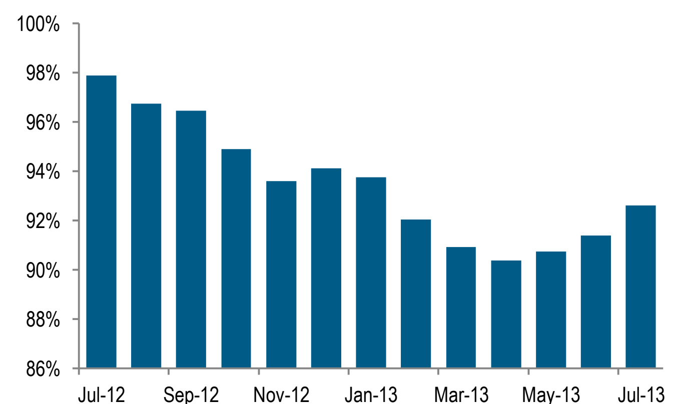
Figure 1: UAE macroeconomic forecasts

	2012	2013F	2014F
GDP (real % y/y)	4.3	3.5	3.6
CPI (% annual average)	1.5	2.9	2.5
Policy rate (%)*	1.0	1.0	1.0
USD-AED*	3.67	3.67	3.67
Current account balance (% GDP)	16.8	14.0	12.0
Fiscal balance (% GDP)	8.8	8.0	7.0

*End period; Source: IMF, Standard Chartered Research

Figure 2: Loan-to-deposit ratio in the UAE banking system

Improving and stabilising



Source: UAE Central Bank, Standard Chartered Research

In the past 12 months In Dubai, residential prices have risen by 38% for apartments and 24% for villas, with rents up by 20% and 17%, respectively

In the long run, infrastructure utilisation will be key. Dubai has an excellent track record in this field, as evidenced by the core pillars of the economy's trade and logistics (benefiting from Dubai's ports infrastructure), tourism (benefiting from its leisure and transport infrastructure) and services (benefiting from the variety of free zones and overall infrastructure). The Dubai government was careful to ensure sustainability in all aspects of its Expo plans, from the use of solar power to the re-use of facilities on the site that will be adapted to provide affordable housing schemes. More importantly, just as Dubai was quick to utilise the infrastructure put in place for the World Bank/IMF meetings in 2003, we are optimistic that the new infrastructure will be used to host a growing number of international and regional events. In addition, there are plans to convert parts of the scheme into a national museum and research facilities.

Housing

September marks the deadline of a one-year directive by the Government of Abu Dhabi for government employees to move back to the emirate (from neighbouring emirates) or risk foregoing their housing allowance. The impact is significant, as an estimated 23,000 employees and their families will return. While in the near term, prices are likely to remain subdued – having fallen almost 10% y/y in H1-2013 – we believe the September deadline will be a turning point, helped by two other factors. One is rising rental yields in Dubai, which have made the Abu Dhabi housing space more attractive. Also, the pick-up in government-driven large-scale projects in Abu Dhabi is creating new jobs, which will bring an influx of new tenants.

In the past 12 months in Dubai, residential prices have risen by 38% for apartments and 24% for villas, with rents up by 20% and 17%, respectively. The current rally appears to be driven by fundamentals rather than excess speculation. However, this is exactly the right time for the authorities to be introducing measures to ensure that speculative behaviour does not get out of hand. The Dubai Land Department has doubled the property tax fee (from 2% to 4%), effective 6 October 2013. The change will affect residential and commercial properties, including off-plan sales and excluding industrial real estate. In 2008, market excesses were exacerbated as investors rapidly sold and resold planned properties. The new regulation should help, as it will penalise such investors the most. One concern is that longer-term investors would have to pay the higher fee as well.

Liquidity and credit growth

Liquidity dynamics in the UAE have stabilised following a period between 2009 and 2011 when loan-to-deposit ratios constantly breached the 100% level. The improvement was brought about by an increase in the deposit base: overall deposits in the system rose by 12% over the 12 months to July 2013. A number of factors drove this, in our view. There were increased government receipts from the hydrocarbon sector, improved corporate balance sheets and external inflows owing to the UAE's safe-haven status. Private-sector credit growth, however, has remained weak. In 2008 it hit 48.4%; post-2009 until 2012 it was neutral at 0%. From January to April 2013, it was also 0%. We think this reflects a still-reluctant private sector, adopting a 'wait and see' approach. However, this might be changing, with a large UAE corporate tapping the market in September for a USD 1.5bn loan. As the economy improves, we see scope for a recovery in private-sector credit underpinned by healthy lending dynamics.

Forecasts – Economies and FX

Country	Real GDP growth (%)					Inflation (yearly average %)					Current account (% of GDP)					FX				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14
Majors	**1.2**	**1.4**	**1.0**	**2.0**	**1.8**	**1.7**	**1.7**	**1.3**	**1.7**	**1.8**	**-0.8**	**-0.9**	**-0.7**	**-0.6**	**-1.0**					
US^	1.8	2.8	1.6	2.5	3.0	1.4	1.8	1.3	1.7	2.0	-2.9	-2.7	-2.5	-2.5	-2.9	N.A.	N.A.	N.A.	N.A.	N.A.
Euro area	1.4	-0.6	-0.5	1.3	1.5	2.7	2.5	1.4	1.1	1.3	0.3	0.9	1.5	1.3	1.0	1.34	1.32	1.30	1.30	1.28
Japan	-0.7	1.9	2.1	1.5	1.3	-0.2	0.0	0.2	1.9	1.4	2.0	1.0	2.0	2.3	2.1	100.0	102.0	102.0	104.0	105.0
UK	1.1	0.1	1.5	2.2	2.5	4.4	2.8	2.8	2.2	1.7	-1.9	-3.8	-4.0	-3.0	-2.5	1.61	1.57	1.53	1.53	1.51
Canada	2.5	1.8	1.7	2.5	3.0	2.5	2.1	2.0	2.2	2.2	-3.0	-3.2	-2.8	-2.6	-2.3	1.01	1.00	0.98	0.97	0.97
Switzerland	1.9	0.9	1.2	2.1	1.9	0.3	-0.7	0.4	0.9	0.9	10.5	12.7	12.3	10.5	10.0	0.94	0.96	0.99	1.00	1.03
Australia	2.5	3.6	2.5	2.7	3.1	3.3	1.8	2.3	2.6	2.7	-2.4	-3.7	-3.8	-3.9	-5.9	0.93	0.90	0.86	0.88	0.90
New Zealand	1.3	3.0	2.4	2.8	2.6	4.1	1.1	1.8	2.5	2.3	-4.0	-5.0	-5.3	-5.7	-6.4	0.86	0.88	0.86	0.84	0.82
Asia	**7.8**	**6.7**	**6.5**	**6.5**	**6.5**	**6.2**	**3.8**	**3.5**	**3.9**	**3.8**	**4.0**	**2.5**	**2.5**	**2.7**	**2.9**					
Bangladesh*	6.7	6.1	6.3	6.5	6.5	8.8	10.6	7.7	7.5	8.0	0.9	1.5	3.0	2.5	2.0	76.50	76.00	77.00	77.50	78.00
China	9.2	7.8	7.5	7.2	7.0	5.4	2.6	2.5	3.0	3.0	2.8	2.6	3.3	3.7	3.9	6.12	6.10	6.08	6.06	6.05
CNH	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6.120	6.100	6.070	6.050	6.040
Hong Kong	4.9	1.5	3.4	4.0	4.5	5.3	4.1	4.5	4.5	4.0	4.8	1.3	2.5	3.5	3.5	7.760	7.770	7.780	7.780	7.790
India*	6.2	5.0	4.7	5.3	5.8	8.7	7.4	6.0	6.0	6.0	-4.2	-4.8	-4.0	-3.5	-3.5	59.50	63.00	62.00	61.50	61.00
Indonesia	6.5	6.2	5.8	6.0	6.3	5.4	4.3	7.0	6.6	4.8	0.2	-2.8	-2.9	-1.9	-1.0	11,000	11,300	11,500	11,200	10,700
Malaysia	5.1	5.6	4.7	5.3	5.0	3.2	1.7	2.3	3.9	2.7	11.0	6.4	3.6	4.8	10.0	3.08	3.10	3.17	3.12	3.08
Pakistan*	2.4	4.4	3.6	3.5	4.5	13.9	10.8	7.5	10.0	9.0	0.3	-2.1	-1.0	-2.0	-2.2	108.00	109.00	110.00	112.00	114.00
Philippines	3.6	6.8	7.2	6.7	7.0	4.8	3.1	2.9	3.9	3.5	3.1	2.8	4.3	3.6	4.3	42.00	41.50	43.00	42.00	41.50
Singapore	5.3	1.3	2.6	4.8	5.0	5.1	4.6	2.5	3.5	3.5	21.9	18.6	17.0	19.0	20.0	1.24	1.25	1.26	1.24	1.23
South Korea	3.6	2.0	2.7	3.8	3.6	4.0	2.2	1.5	2.8	2.8	2.4	3.8	4.2	2.8	2.2	1,055	1,030	1,030	1,020	1,020
Sri Lanka	8.3	6.4	6.5	7.2	8.0	6.7	7.6	7.3	7.2	7.5	-7.6	-6.6	-4.5	-4.0	-3.8	128.0	126.0	124.0	124.5	125.0
Taiwan	4.0	1.3	3.0	4.3	4.8	1.4	1.9	1.4	1.9	1.4	8.8	10.2	8.0	7.0	7.5	29.20	29.20	29.10	29.00	29.00
Thailand	0.1	6.4	4.0	5.5	6.0	3.8	2.9	2.5	3.2	4.0	3.7	0.6	-0.4	-0.9	-1.5	30.50	30.75	31.50	31.00	30.50
Vietnam	5.9	5.0	5.3	5.8	6.5	18.6	9.3	7.2	8.2	5.8	-5.5	6.4	6.0	6.5	6.7	21,100	21,200	21,250	21,250	21,300
Africa	**5.0**	**5.3**	**4.9**	**5.4**	**5.7**	**8.6**	**8.9**	**7.3**	**7.7**	**7.8**	**1.6**	**-2.0**	**-2.3**	**-2.6**	**-2.5**					
Angola	3.7	8.4	7.0	7.0	7.0	15.0	10.3	9.4	8.5	8.0	12.0	9.2	6.0	5.0	5.4	96.50	96.90	97.10	97.30	97.50
Botswana	8.0	3.9	4.9	5.5	5.4	6.9	7.5	6.3	5.9	5.7	2.2	4.9	3.9	3.3	3.1	8.71	8.78	9.06	8.88	8.72
Cameroon	3.5	4.7	4.7	5.0	5.0	2.6	3.0	3.0	2.5	2.5	-3.8	-4.0	-3.8	-3.5	-3.5	490	497	505	505	512
Côte d'Ivoire	-5.8	9.8	8.0	7.5	7.5	3.0	1.3	3.2	2.5	2.5	1.0	-1.8	-2.5	-3.0	-3.0	490	497	505	505	512
The Gambia	-5.0	-1.7	9.7	8.3	6.0	6.0	5.0	6.0	4.0	4.0	-17.0	-14.0	-13.0	-13.0	-13.0	33.40	35.00	36.00	36.50	35.00
Ghana	14.4	7.9	7.2	7.4	7.6	9.0	9.2	11.4	8.5	8.0	-9.2	-12.2	-11.9	-11.0	-9.1	2.22	2.25	2.27	2.28	2.30
Kenya	4.9	4.6	5.5	5.9	6.2	14.0	9.6	6.1	8.4	6.5	-9.7	-12.0	-11.4	-11.8	-9.0	87.50	88.00	88.40	89.00	89.30
Nigeria	7.2	6.6	6.6	6.8	7.2	10.9	12.2	8.4	10.3	12.8	12.2	4.7	4.0	3.6	2.2	161.6	162.0	164.9	167.0	168.0
Sierra Leone	5.2	20.0	8.0	7.0	5.0	16.0	11.0	10.0	10.0	8.0	-50.0	-9.0	-7.0	-6.0	-7.0	4,360	4,380	4,390	4,395	4,360
South Africa	3.5	2.5	2.0	2.9	3.3	5.0	5.7	5.8	5.6	4.8	-3.4	-6.3	-6.2	-6.3	-6.0	10.20	10.30	10.70	10.50	10.40
Tanzania	6.1	6.5	6.8	7.0	7.2	11.3	15.6	9.8	7.4	6.7	-13.6	-15.8	-14.8	-13.3	-12.1	1,620	1,630	1,630	1,640	1,660
Uganda	4.4	5.1	5.3	5.0	5.6	18.7	14.6	5.4	8.5	8.1	-10.2	-12.0	-10.4	-12.2	-14.1	2,620	2,680	2,660	2,700	2,720
Zambia	6.6	7.0	6.0	6.8	7.5	8.8	6.4	7.2	8.2	6.1	1.5	-3.5	-2.3	-0.4	1.0	5.32	5.33	5.35	5.38	5.42
MENA	**7.3**	**4.5**	**3.8**	**4.0**	**4.3**	**5.8**	**5.9**	**5.5**	**5.1**	**5.2**	**8.7**	**11.0**	**8.5**	**7.8**	**6.9**					
Bahrain	1.9	3.4	4.0	3.7	4.5	-1.7	3.0	2.8	3.0	3.0	12.0	10.5	10.0	10.0	10.0	0.38	0.38	0.38	0.38	0.38
Egypt*	1.8	2.2	2.0	3.5	4.5	11.3	8.7	7.7	8.5	8.0	-2.6	-3.1	-2.9	-2.5	-2.1	6.90	6.92	6.93	6.95	6.95
Jordan	2.4	2.9	3.2	3.5	4.0	4.6	4.8	5.0	5.2	5.0	-12.0	-14.1	-9.9	-8.0	-6.5	0.71	0.71	0.71	0.71	0.71
Kuwait*	6.3	3.0	3.0	3.5	4.0	5.0	4.4	2.6	3.7	3.6	30.0	40.0	35.0	35.0	30.0	0.27	0.27	0.27	0.27	0.27
Lebanon	1.5	1.5	1.3	4.0	4.5	3.1	6.4	5.5	5.0	4.5	-17.5	-18.0	-16.0	-10.0	-14.0	1,500	1,500	1,500	1,500	1,500
Oman	4.5	8.3	4.5	4.0	4.3	4.0	3.0	2.6	3.5	3.6	10.0	12.0	7.5	7.0	7.0	0.39	0.39	0.39	0.39	0.39
Qatar	16.9	6.6	5.0	5.0	4.8	2.4	1.5	2.9	3.5	3.4	32.0	30.0	27.0	25.0	24.0	3.64	3.64	3.64	3.64	3.64
Saudi Arabia	6.8	6.8	4.8	4.2	3.9	6.1	4.9	4.9	5.0	4.2	22.0	21.0	19.5	18.7	18.7	3.75	3.75	3.75	3.75	3.75
Turkey	8.5	2.2	3.5	4.5	5.0	6.5	8.9	7.6	6.8	7.0	-9.8	-6.1	-8.0	-7.5	-7.0	2.05	2.10	1.98	1.95	1.93
UAE	4.2	4.3	3.5	3.6	3.2	0.9	1.5	2.9	2.5	3.2	11.2	16.8	14.0	12.0	7.1	3.67	3.67	3.67	3.67	3.67
Latin America	**4.0**	**2.3**	**3.0**	**4.2**	**4.1**	**7.3**	**6.4**	**7.1**	**6.5**	**6.1**	**-1.7**	**-1.9**	**-2.4**	**-2.0**	**-2.0**					
Argentina	6.5	0.5	2.5	3.0	3.5	23.5	25.0	28.0	25.0	23.0	-0.4	0.1	0.4	0.0	0.0	5.65	5.85	6.05	6.30	6.85
Brazil	2.7	0.9	2.2	4.0	3.6	6.5	5.4	5.8	5.5	5.3	-2.1	-2.4	-3.1	-2.4	-2.4	2.35	2.45	2.35	2.30	2.25
Chile	5.9	5.6	4.5	5.0	5.0	3.3	3.0	2.7	3.0	3.0	-1.3	-3.8	-4.2	-3.2	-3.0	490	480	485	485	500
Colombia	5.7	4.0	4.0	5.0	5.0	3.7	2.4	2.7	3.0	3.0	-3.1	-3.1	-3.3	-2.7	-3.0	1,850	1,820	1,850	1,840	1,925
Mexico	3.9	3.9	2.3	4.0	4.5	3.8	3.6	3.8	3.8	3.8	-0.8	-0.8	-1.0	-1.2	-1.4	12.40	11.99	11.90	11.80	12.00
Peru	6.9	6.3	6.0	6.0	5.8	3.4	3.7	2.7	2.5	2.5	-1.9	-2.8	-2.8	-2.5	-2.5	2.65	2.63	2.62	2.65	2.70
Global	**3.1**	**2.5**	**2.7**	**3.4**	**3.1**	**3.9**	**3.4**	**3.0**	**3.2**	**3.2**	**--**	**--**	**--**	**--**	**--**					

* Fiscal year starts in April in India and Kuwait, July in Bangladesh, Pakistan, and Egypt
^ Inflation: Core PCE deflator used for US
Source: Standard Chartered Research

Forecasts – Rates

End-period		Current	Q3-13	Q4-13	Q1-14	Q2-14	Q3-14
			%	%	%	%	%
United States	Policy rate	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
	3M LIBOR	0.25	0.25	0.25	0.25	0.25	0.25
	5Y bond yield	1.42	1.55	1.70	1.90	2.10	2.30
	5Y IRS	1.58	1.75	1.90	2.10	2.35	2.55
	10Y bond yield	2.65	2.75	2.90	3.10	3.30	3.50
Euro area	Policy rate	0.50	0.50	0.50	0.50	0.50	0.50
	3M EURIBOR	0.23	0.20	0.20	0.25	0.30	0.35
	10Y bond yield	1.80	1.70	1.75	1.90	2.00	2.10
United Kingdom	Policy rate	0.50	0.50	0.50	0.50	0.50	0.50
	3M LIBOR	0.52	0.50	0.55	0.60	0.65	0.70
	10Y bond yield	2.71	2.50	2.60	2.75	2.90	3.10
Australia	Policy rate	2.50	2.50	2.25	2.25	2.25	2.50
	3M OIS	2.46	2.37	2.28	2.35	2.44	2.76
China	Policy rate	6.00	6.00	6.00	6.00	6.00	6.00
	7-day repo rate	4.20	3.75	4.00	4.30	5.00	5.00
	10Y bond yield	4.07	3.80	4.05	4.10	4.30	4.30
Hong Kong	3M HIBOR	0.39	0.39	0.40	0.40	0.40	0.40
	10Y bond yield	2.11	2.40	2.80	3.10	3.50	3.60
India	Policy rate	7.50	8.00	8.00	8.00	8.00	8.00
	91-day T-bill rate	9.53	9.50	7.50	7.20	7.25	7.40
	10Y bond yield	8.74	8.75	8.75	8.50	8.75	8.75
Indonesia	Policy rate	7.25	7.25	7.50	7.50	7.50	7.50
	FASBI rate	5.50	5.50	5.75	5.75	5.75	5.75
	10Y bond yield	8.22	7.30	7.50	8.00	8.25	8.00
Malaysia	Policy rate	3.00	3.00	3.00	3.00	3.00	3.25
	3M KLIBOR	3.20	3.20	3.20	3.20	3.20	3.45
	10Y bond yield	3.74	3.70	3.80	3.90	4.00	4.10
Philippines	Policy rate	3.50	3.50	3.50	3.75	4.00	4.00
	3M PDST-F	0.66	0.85	1.00	1.50	2.00	2.00
	10Y bond yield	3.51	3.45	3.70	3.90	4.10	4.30
Singapore	3M SGD SIBOR	0.37	0.40	0.40	0.40	0.40	0.40
	10Y bond yield	2.36	2.00	2.30	2.60	2.80	3.00
South Korea	Policy rate	2.50	2.50	2.50	2.50	2.50	2.50
	91-day CD rate	2.66	2.60	2.60	2.60	2.60	2.60
	10Y bond yield	3.45	3.65	3.70	3.80	4.00	4.10
Taiwan	Policy rate	1.88	1.88	1.88	2.00	2.13	2.25
	3M TAIBOR	0.88	0.88	0.88	0.96	1.02	1.08
	10Y bond yield	1.69	1.75	1.75	1.90	2.10	2.20
Thailand	Policy rate	2.50	2.50	2.50	2.50	2.50	3.00
	3M BIBOR	2.55	2.60	2.65	2.70	2.75	3.25
	10Y bond yield	3.90	3.80	3.80	3.90	4.00	4.10
Vietnam	Policy rate (Refi rate)	7.00	7.00	7.00	7.00	7.00	8.00
	Overnight VNIBOR	3.07	1.50	2.00	2.00	2.00	3.00
	2Y bond yield	7.55	7.75	7.80	8.00	8.10	8.50
Ghana	Policy rate	16.00	16.00	16.00	17.00	16.00	15.00
	91-day T-bill rate	20.62	20.62	19.80	19.00	17.50	15.60
	5Y bond yield	19.85	18.50	17.00	17.50	17.00	17.00
Kenya	Policy rate	8.50	8.50	8.50	9.00	9.00	9.50
	91-day T-bill rate	9.36	9.36	8.40	7.80	8.20	8.60
	10Y bond yield	12.21	12.50	12.00	11.70	11.50	11.50
Nigeria	Policy rate	12.00	12.00	12.00	13.00	13.00	13.50
	91-day T-bill rate	10.77	10.70	11.00	13.00	13.20	13.60
	10Y bond yield	13.28	13.00	13.80	14.20	15.00	16.00
South Africa	Policy rate	5.00	5.00	5.00	5.00	5.00	5.00
	91-day T-bill rate	5.70	5.70	5.60	5.40	5.22	5.14
	10Y bond yield	7.78	7.65	7.55	7.50	7.50	7.60

Source: Standard Chartered Research

Forecasts – Commodities

	Market close	m/m	Change YTD	y/y	Q3 - 13	Q4 - 13	vs Fwd	Q1 - 14	vs Fwd	Q2 - 14	vs Fwd	Q3 - 14	vs Fwd	2012	2013	vs Fwd	2014	vs Fwd
	02-Oct-13	%	%	%	A	F	%	F	%	F	%	F	%	A	F	%	F	%
Energy																		
Crude oil (nearby future, USD/b)																		
NYMEX WTI	104.1	-4.6	+12.8	+17.5	106	103	0%	100	0%	97	0%	102	7%	94.2	99	-4%	100	4%
ICE Brent	109.2	-5.9	-2.0	+0.7	110	108	0%	105	-1%	102	-2%	107	4%	111.7	108	0%	105	2%
Dubai spot[1]	105.3	-6.0	-1.3	-2.5	106	105	-	102	-	99	-	104	-	108.9	105	-	103	-
Coal (USD/t)																		
API4	78	+8.1	-12.3	-8.0	74	75	-5%	77	-5%	74	-10%	74	-11%	93	79	0%	75	-9%
API2	83	+8.0	-8.2	-5.1	77	81	1%	85	7%	80	-2%	76	-10%	94	81	1%	80	-4%
globalCOAL NEWC*[1]	80	+1.2	-15.5	-6.4	78	84	-	87	-	83	-	80	-	97	85	-	84	-
Metals																		
Base metals (LME 3m, USD/t)																		
Aluminium	1,838	+1.2	-11.1	-12.3	1,830	2,000	10%	2,100	13%	2,100	11%	2,100	9%	2,052	1,935	6%	2,100	10%
Copper	7,279	+0.6	-8.1	-12.1	7,085	7,350	1%	8,000	10%	8,000	9%	8,000	9%	7,948	7,396	2%	8,000	9%
Lead	2,075	-3.5	-10.7	-9.8	2,119	2,200	6%	2,300	10%	2,300	9%	2,300	9%	2,074	2,173	5%	2,300	9%
Nickel	13,750	+1.2	-18.7	-25.1	14,038	15,000	9%	17,000	23%	17,000	23%	17,000	22%	17,583	15,364	12%	17,000	22%
Tin	22,825	+6.4	-1.9	+3.8	21,059	22,000	-4%	23,000	1%	23,000	1%	23,000	1%	21,113	22,023	-3%	23,000	1%
Zinc	1,890	-1.0	-9.2	-9.4	1,898	2,100	12%	2,200	15%	2,200	14%	2,200	13%	1,965	1,982	6%	2,200	14%
Iron ore (USD/t)																		
Iron ore[2]	135	+5.5	-	+25.0	133	127	-	127	-	129	-	114	-	129	133	-	120	-
Steel (CRU assessment, USD/t)**																		
HRC, US[1]	645	+3.0	-	-7.5	636	690	-	759	-	789	-	693	-	724	658	-	734	-
HRC, Europe[1]	591	+2.8	-	-7.1	583	559	-	564	-	581	-	589	-	666	606	-	576	-
HRC, Japan[1]	0		-			598	-	620	-	669	-	700	-	820	613	-	669	-
HRC, China[1]	613	+2.0	-	+3.2	607	620	-	650	-	675	-	640	-	654	627	-	651	-
Precious metals (spot, USD/oz)																		
Gold (spot)	1,316	-7.0	-21.6	-26.1	1,330	1,400	6%	1,400	6%	1,400	6%	1,400	6%	1,669	1,445	9%	1,400	6%
Palladium (spot)	719	+0.2	+2.1	+10.1	724	800	11%	850	18%	850	17%	850	17%	645	745	3%	850	17%
Platinum (spot)	1,389	-9.5	-9.7	-17.6	1,457	1,500	8%	1,600	15%	1,600	14%	1,600	14%	1,552	1,514	9%	1,600	14%
Silver (spot)	22	-10.6	-28.5	-37.3	21.4	23	5%	23	5%	23	5%	23	4%	31.2	24	12%	23	5%
Agricultural products																		
Softs (nearby future)																		
NYBOT cocoa, USD/t	2,632	+9.8	+17.7	+8.9	2,394	2,500	-5%	2,450	-7%	2,500	-5%	2,525	-4%	2,346	2,337	-11%	2,469	-6%
LIFFE coffee, USD/t ***	1,669	+9.8	-15.0	-23.4	1,825	1,850	11%	1,900	15%	2,100	26%	2,100	25%	2,016	1,910	15%	2,050	22%
NYBOT coffee, USc/lb	114	+1.5	-20.4	-36.8	119	115	0%	130	10%	150	24%	150	21%	175	127	11%	145	18%
NYBOT sugar, USc/lb	19	+12.0	-5.4	-14.5	16.6	18	-3%	20	8%	21	15%	22	19%	21.6	18	-5%	21	14%
TOCOM RSS3 rubber[#], JPY/kg	257	-9.6	-15.1	-4.7	259.9	255	-	270	-	265	-	270	-	274.3	269	-	271	-
Fibres																		
NYBOT cotton No.2, USc/lb	85	+2.9	+13.4	+20.8	86	80	-8%	90	4%	90	4%	90	9%	80	83	-3%	90	7%
Grains & oilseeds (nearby future)																		
CBOT corn (maize), USc/bushel	439	-11.5	-36.9	-41.8	524	475	8%	500	10%	550	19%	600	27%	694	594	35%	575	23%
CBOT soybeans, USc/bushel	1,274	-10.7	-9.7	-16.4	1,422	1,350	6%	1,350	7%	1,400	13%	1,350	12%	1,464	1,422	12%	1,375	13%
CBOT wheat, USc/bushel	686	+8.2	-11.4	-21.1	648.0	680	-1%	720	4%	750	9%	750	9%	750.3	691	1%	743	7%
CBOT rice, USD/cwt	15	-4.8	+1.1	-1.4	15.6	16	6%	15	-3%	15	-4%	15	4%	14.9	16	4%	15	0%
Thai B rice 100%, USD/tonne*[1]	465	-3.1	-23.0	-21.6	506	535	-	540	-	540	-	550	-	589	554	-	545	-
Edible oils (nearby future)																		
Palm oil (MDV,MYR/t)	2,355	-3.3	+0.9	+7.2	2,320	2,450	6%	2,500	8%	2,450	5%	2,550	9%	2,959	2,396	3%	2,575	10%
Soyoil (CBOT, USc/lb)	39	-10.2	-20.0	-21.8	44	44	12%	45	12%	47	16%	45	11%	53	47	19%	46	13%

**weekly quote **monthly average ***10 tonne contract; [1]no forward price comparison available; [2]cost and freight at China's Tianjin port, 62% iron content, Indian origin; [#]6th contract;*

Source: Bloomberg, Standard Chartered Research

Forecasts – GDP growth and inflation

Quarterly forecasts

	Real GDP growth (y/y)											
	Q1-12A	Q2-12A	Q3-12A	Q4-12A	Q1-13A	Q2-13A	Q3-13F	Q4-13F	Q1-14A	Q2-14F	Q3-14F	Q4-14F
US*	3.7	1.2	2.8	0.1	1.1	2.5	1.8	2.3	2.7	2.5	3.0	3.0
Euro area	-0.1	-0.5	-0.7	-1.0	-1.1	-0.7	-0.5	0.5	1.0	1.1	1.5	1.5
Japan	3.4	3.8	0.3	0.4	0.3	1.2	3.2	3.5	2.0	1.8	1.1	1.0
UK	0.6	0.0	0.0	-0.2	0.2	1.3	1.6	2.6	2.5	2.2	1.9	2.0
Bahrain	3.4	3.4	3.4	3.4	4.0	4.0	4.0	4.0	3.7	3.7	3.7	3.7
Egypt*	2.2	2.2	2	2	2	2	3.5	3.5	3.5	3.5	3.5	3.5
Jordan	2.9	2.8	2.7	2.6	2.9	3.1	3.3	3.5	3.5	3.5	3.5	3.5
Kuwait*	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5	3.5
Lebanon	1.5	1.5	1.5	1.5	1.3	1.3	1.3	1.3	4.0	4.0	4.0	4.0
Oman	8.3	8.3	8.3	8.3	4.5	4.5	4.5	4.5	4.0	4.0	4.0	4.0
Pakistan*	3.7	3.7	3.7	3.7	3.7	3.7	3.5	3.5	3.5	3.5	3.5	3.5
Qatar	6.6	6.6	6.6	6.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Saudi Arabia	6.8	6.8	6.8	6.8	4.8	4.8	4.8	4.8	4.2	4.2	4.2	4.2
UAE	4.3	4.3	4.3	4.3	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6

	Consumer price inflation (y/y)											
	Q1-12A	Q2-12A	Q3-12A	Q4-12A	Q1-13A	Q2-13A	Q3-13F	Q4-13F	Q1-14A	Q2-14F	Q3-14F	Q4-14F
US*	1.9	1.8	1.6	1.5	1.3	1.0	1.3	1.3	1.4	1.5	1.7	1.7
Euro area	2.7	2.5	2.5	2.3	1.9	1.4	1.3	1.1	0.9	1.1	1.0	1.3
Japan	0.3	0.2	-0.4	-0.2	-0.6	-0.3	0.8	1.4	2.2	2.1	1.9	1.6
UK	3.5	2.7	2.4	2.7	2.8	2.7	2.7	2.5	2.3	2.4	2.3	1.9
Bahrain	3.0	3.0	3.0	3.0	2.8	2.8	2.8	2.8	3.0	3.0	3.0	3.0
Egypt*	8.7	8.8	7.7	7.5	7.4	8.4	8.8	9.4	8.2	7.5	7.5	7.5
Jordan	4.4	4.7	4.7	5	5.4	5.5	5.7	5.5	5.2	5.2	5.2	5.2
Kuwait	4.4	4.4	4.4	4.4	2.6	2.6	2.6	2.6	3.7	3.7	3.7	3.7
Lebanon	6.4	6.4	6.4	6.4	5.5	5.5	5.5	5.5	5.0	5.0	5.0	5.0
Oman	3.0	3.0	3.0	3.0	2.6	2.6	2.6	2.6	3.5	3.5	3.5	3.5
Pakistan	10	9	8.5	8.2	7.8	6.6	8.1	9.5	11.5	11.5	10.5	9.5
Qatar	1.5	1.5	1.5	1.5	2.9	2.9	2.9	2.9	2.5	2.5	2.5	2.5
Saudi Arabia	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	5.0	5.0	5.0	5.0
UAE	1.5	1.5	1.5	1.5	2.9	2.9	2.9	2.9	2.5	2.5	2.5	2.5

^q/q SAAR

**Fiscal year starts in April, Kuwait; July Egypt and Pakistan*

Source: Standard Chartered Research

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