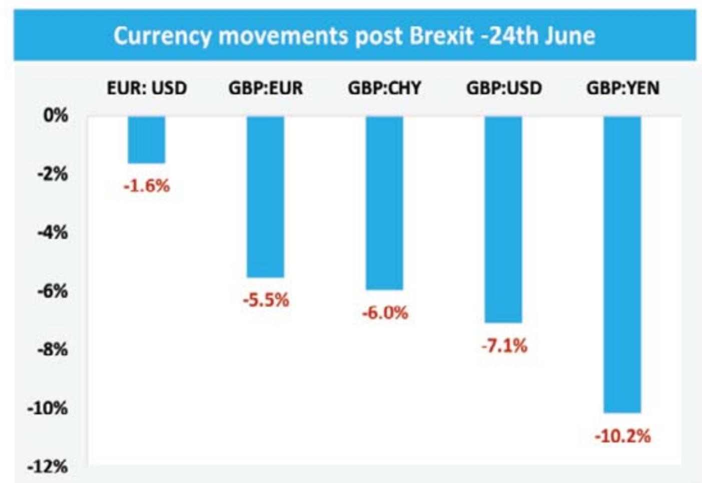
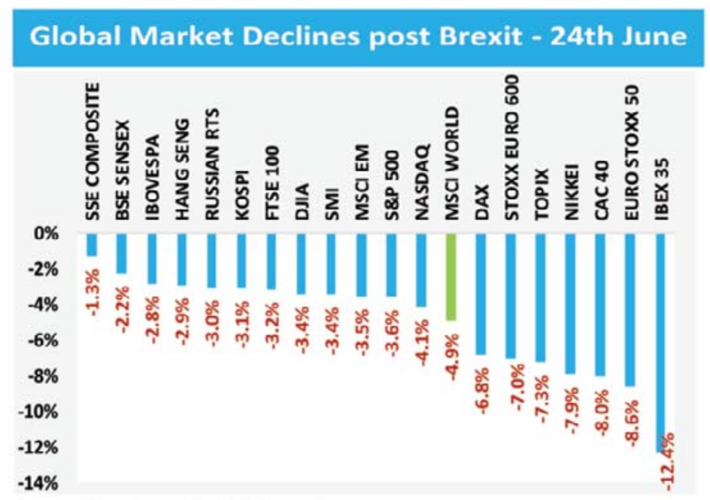


Source: Bloomberg, KAMCO Research



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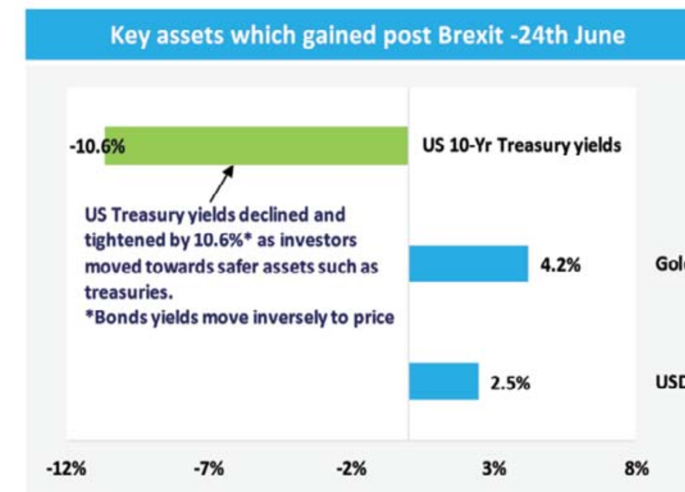


Source: Bloomberg, KAMCO Research

Brexit and impact on the GCC: Asymmetric risks?

KAMCO RESEARCH

UK voted to leave EU; surprises markets & sends GBP crashing by over 8 percent:

The UK's referendum resulted in a vote to leave the EU, as votes to leave were 52 percent, compared to 48 percent for votes to remain in the EU, despite vote intention polls in the final days prior to the vote suggesting an edge for the 'remain' camp. The vote came in against the run of play, shocking markets across the globe, while the GBP lost more than 8 percent on 24th June, as investors looked to exit GBP denominated assets.

Global markets lost over USD 2 Tn as they reprice risk; USD & Gold shine in early trades:

Markets across the globe witnessed substantial declines on 24th June following the vote, as the MSCI World Index declined by 4.9 percent for the day. The FTSE 100 declined by over 3 percent, while the broader EU markets such as the STOXX EURO 600 declined by over 8.6 percent over the day. US markets also saw widespread selling pressure as the DJIA & S&P 500 were down each by over 3 percent. KAMCO Research believes that the markets were largely repricing risk, rather than anticipating another 2008 Lehman kind of collapse, as most markets recovered sizably from the lows of the day. Gold (+4.2 percent) and the USD (+2.5 percent) were key beneficiaries of the market upheaval, along with treasuries, as investors turned risk averse and chose flight to safety trades.

GCC equities could witness near-term selling pressure in 'risk-off' trade:

After remaining closed on 24th June due to the weekend, we expert GCC markets to witness similar selling pressure in early trades, as global peers witnessed on Friday. We also expect Brexit related news and its impact on oil to be key focus areas for GCC markets in the near term.

Fed rate hikes unlikely soon; monetary policy to provide countervailing force post Brexit:

Post deferring on a rate hike in June, the Fed was looking at raising rates in the near future. However with the current turn of events in Europe, the USD appreciating, and weak jobs data in the US, we expect the Fed to follow a more accommodative monetary policy in the near term to counter a stronger USD. We also expect most other central banks to use monetary policy tools to provide liquidity, as and when required.

European demand fundamentals and USD pivotal for oil prices & GCC-EU trade balances:

Trade flows between the GCC and the EU remain significant, as the GCC is the EU's fifth largest export market with over Ä111 billion of exports in 2015, while oil remains the largest import from the GCC accounting for more than 69 percent of the global imports. A lower euro and GBP against the USD sustaining post Brexit would mean improving trade & current account balances for the GCC, which swung into the negative, following the decline of oil prices since 2014. Nevertheless, the occurrence of a significant slowdown in Europe (including UK), similar to recession would affect oil price demand and in turn GCC oil revenue receipts and current account balances further.

European Markets plunge on Brexit day; China and India most resilient

All European key equity indices witnessed significant single day declines post UK's referendum vote to leave the EU, with Spanish index IBEX 35 declining the most by 12.4 percent, followed by the CAC 40 (France) which went down by 8 percent. German DAX also lost significant ground, receding by 6.8 percent as compared to the previous day, as Banks, Real Estate came under significant selling pressure during trading hours of the day. China's SSE Composite was the most resilient declining by only 1.3 percent, followed by the BSE Sensex (India) which went down by 2.2 percent. The NIKKEI 225 index of Japan was amongst the main laggards globally, declining by over 7.9 percent, as investors sold positions in equities and moved towards safer assets such as the Japanese Yen.

GBP falls to 30 year lows (USD 1.3224); EM currencies under pressure

The GBP plunged against all major currencies, as investors looks to exit GBP denominated assets and unwind GBP long positions. Yen and USD currencies rose the most against the GBP, gaining by over 10.2 percent, and 7 percent respectively, while Swiss CHY also gained 6 percent against the GBP, as all major safe haven currencies gained, as investors took the flight-to-safety route. The euro declined by 1.6 percent, significantly lower than the GBP, while overall USD strength also led to emerging market (EM) currencies witnessing significant declines.

Gold & USD thrive in flight-to-safety trades

Investors rushed to safer assets post the event, fearing larger declines going forward. Key beneficiaries were gold, as it surged by over 4.2 percent in a single day, while gold futures closed at its highest level in nearly two years, as August expiry Gold reportedly jumped by over 4.7 percent to over USD 1320/ounce. The USD index rose by 2.5 percent over its previous close to 95.54 points. Treasury securities witnessed significant buying demand, as yields compressed to multi-year lows. The 10-year US note yield declined by 10.6 percent to 1.5599 percent, in a single day's trade as a result of the significant interest. The yield on the 10- year UK note also plummeted 26.7 basis points to 1.096 percent, its lowest yield ever, signifying trades in favor of safer assets from investors. These trades in favor of safer asset classes are expected to continue over the near term until confidence is restored to the market and outlook is more certain, which would lead to firmer prices for riskier assets.

Oil posts second highest single day declines in 2016 post Brexit

Price for Brent crude oil declined by almost 4.9 percent or over USD 2.5/bbl to around USD 48/bbl. The decline was the second largest decline for 2016, post 11 January 2016, when oil prices tanked by over 5 percent due to concerns over China. Concerns over Europe's economy and future oil demand and a strengthening USD were key drivers behind the decline of oil, following the referendum vote.

Supply side economics have largely dominated crude oil price moves in 2016, while the price action post the Brexit, largely is attributed to concerns over Europe's demand-side fundamentals, apart from a strengthening USD, which could both prevent higher oil prices going forward, if trends were to continue.

GBP fall to have a positive impact on GCC current account balances in 2016

The EU is the GCC's biggest trading partner, with trade flows totalling €155.5 billion, or 14.7 percent of the GCC's global trade. Nevertheless, GCC exports to the EU has declined over the years primarily due to the drop in oil prices, while exports have increased over the same period. UK's reliance on the GCC region are significantly lower, and following Brexit, the UK could potentially ink beneficial bilateral trade deals with GCC governments, similar to the Double Taxation Agreement signed with UAE in 2015. The EU has been unable to reach a Free Trade Agreement with the GCC, despite negotiations going back to 1988 which are currently stalled. Falling EUR and GBP exchange rates against the USD would also translate into a positive impact on trade balances and current account balances for the GCC, as GCC currencies are either directly or loosely pegged to the USD.

UK property to look attractive to GCC investors; hospitality to benefit

Due to the depreciation of the GBP against the USD, the UK property market is likely to look attractive for GCC investors. Moreover, short term uncertainties around the economic future of the UK is likely to put additional pressure on residential property prices , which should aid investors from the GCC region. Nevertheless, while residential markets are likely to look attractive to GCC investors, commercial markets-office and retail are likely to attract lesser degree of interest, as corporate occupiers come to terms with the business implications of UK's exit from the EU over the next few years. Hospitality into the UK would also become more affordable owing to the depreciation of the GBP against other currencies.

Risk aversion ignited as UK votes for EU exit

NBK MONEY MARKET REPORT

United States

US Dollar rises amid risk aversion following the UK EU referendum

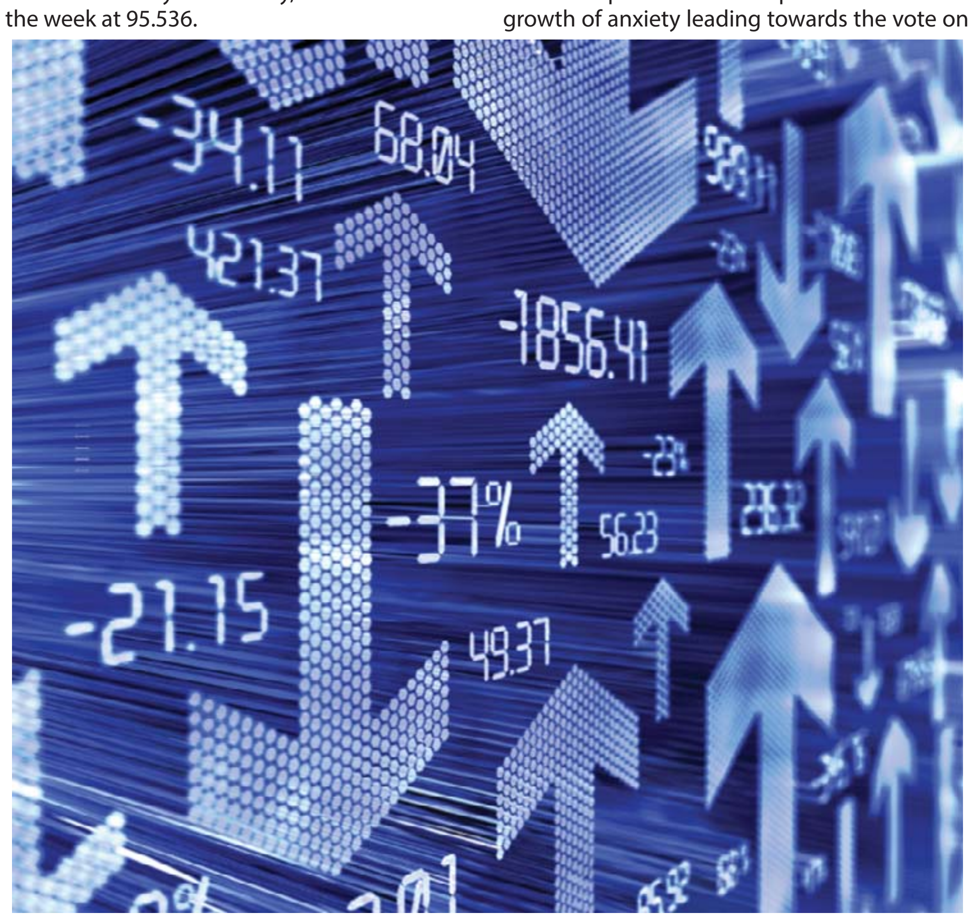
For the most part of last week, the US Dollar was subdued against most of its major counterparts as a series of polls indicated a lead for the remain camp lifted sentiments ahead of the UK EU referendum. However on Friday, the highly awaited results of the referendum showed that Britain voted to leave the EU as the leave camp secured 52 percent of the vote. The result initiated the risk-off trade and pushed the greenback dramatically higher.

Additionally, the financial market fallout has been extensive, with global risk assets under substantial pressure on the uncertainty ahead for Europe. There is uncertainty about the messy multi-year legal process that will begin now in order to unwind the UK from the EU, as well as greater uncertainty now about the potential breakup of the United Kingdom itself and the possibility for other countries to vote to leave the EU. This is as Scotland and Northern Ireland both voted to remain in the EU and have already said that they want a referendum now on whether to remain part of the UK.

The hit to investor confidence and the uncertainty the vote has ignited, could keep the Federal Reserve from raising interest rates as planned this year, and even spark a new round of emergency policy easing from major central banks. Meanwhile, investors were pricing in less chance of another hike in US interest rates given the Federal Reserve had cited a British exit from the EU as one reason to be cautious on tightening. As markets went into turmoil, efforts to calm the markets were evident in major central bank's reactions. Bank of England Governor Mark Carney said the Bank has set aside 250 billion pounds of additional liquidity and will act if necessary to help support the British economy.

After a conference call of the Governing Council, the ECB stated that it will "continue to fulfill its responsibilities to ensure price stability and financial stability in the euro area". In Japan, the Finance minister Taro Aso stated that they are ready to respond as needed to "extremely nervous" exchange rate moves. At the open of US markets, the Federal Reserve said it was "prepared to provide dollar liquidity through its existing swap lines with central banks, as necessary, to address pressures in global funding markets, which could have adverse implications for the US economy."

On the currencies side, the US dollar was one of the beneficiaries of the risk-off trade alongside the Japanese yen and the Swiss franc. The dollar started the week on a weak note subdued by the positive sentiment in the market and a series of mixed economic data. On Friday The US Dollar Index, which measures the strength of the greenback versus a basket of six other major currencies, rose more than 2.5 percent to a three-month high at 96.703, before falling back to 95.000. The index posted its strongest one-day move in more than five years. Finally, the index closed the week at 95.536.



The euro also gained on the back of the positive sentiments at the beginning of the week that the UK is more likely to stay in the EU. The single currency opened the week at 1.1277 and reached a high of 1.1428. However, the Euro was under pressure as investors worried that the Brexit could fuel anti-establishment movements in other European countries. The currency fell to 1.0912, a level last seen in March before recovering to close at 1.1117.

The pound traded in a volatile manner across the board. It started the week on a strong footing ahead of the referendum, as the most recent polls indicated that the "remain" camp was in the lead. Cable reached a high of 1.5018 ahead of the vote. However, the one year high was short lived as the pound lost more than 10 percent to 1.3228, its lowest level since September 1985. The currency managed to recover from those lows following comments from the Bank of England chief Mark Carney, who stated that the central bank stood ready to support the economy. The currency closed at 1.3679.

The Japanese yen has been gaining steadily over the past month in parallel with the growth of anxiety leading towards the vote on Friday. The greenback dropped to as low as 99.00 against the yen, a fall of 6.7 percent, the lowest since November 2013, before paring losses and settling at 103.00. The rise in the yen kept alive the risk of intervention by the BoJ and perhaps even a coordinated intervention by the Group of Seven countries.

In parallel, the Swiss franc surged against the greenback after the news and reached 0.9560. However, the currency lost most of its gains as the Swiss National Bank confirmed that it intervened in the market on Friday to stabilize the franc, and will remain active if needed. The pair closed the week at 0.9720.

On the commodities side, the risk-off trade also pushed investors towards the safe haven status of gold. The precious metal surged as much as 8 percent to 1,358.54. Gold then lost some its gains but managed to stay well supported as the uncertainty continued. Oil prices slumped by more than 4 percent amid fears of a broader economic slowdown that could reduce demand. US crude shed $2.36 to $47.77 a barrel while Brent fell 4.7 percent to $48.50.

Mixed data from the housing market

New US single-family home sales fell in May from a more than eight-year high amid weakness in three regions. Nonetheless, the overall housing market remains intact. The Commerce Department said that new home sales dropped 6.0 percent to a seasonally adjusted annual rate of 551,000 units. April's sales pace was revised down to 586,000 units, still the highest since February 2008, from the previously reported 619,000 units. Economists had forecast new home sales, which account for about 9.1 percent of the housing market, sliding to a 560,000 unit-rate last month. Meanwhile, existing-home sales sprang ahead in May to their highest pace in almost a decade, while the uptick in demand this spring amidst lagging supply levels pushed the median sales price to an all-time high. All major regions except for the Midwest saw strong sales increases last month. Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, grew 1.8 percent to a seasonally adjusted annual rate of 5.53 million in May from a downwardly revised 5.43 million in April

Claims continue to support healthier labor market

In the week ending June 18, the advance figure for seasonally adjusted initial claims was 259,000, a decrease of 18,000 from the previous week's unrevised level of 277,000. The 4-week moving average was 267,000, a decrease of 2,250 from the previous week's unrevised average of 269,250. There were no special factors impacting this week's initial claims. This marks 68 consecutive weeks of initial claims below 300,000, the longest streak since 1973.

Durable goods unexpectedly fall

Orders for business equipment unexpectedly fell in May by the most in three months, pointing to weakness in investment even before the likely damage to confidence stemming from UK voters' decision to leave the European Union. Excluding transportation equipment which is often volatile orders declined 0.3 percent after a 0.5 percent advance.

Yellen testifies

Yellen noted a few risks to lawmakers including the highly awaited UK "Brexit" referendum. She said that "a UK vote to exit the European Union could have significant economic repercussions". Also, "mixed readings on labor market and economic growth" warranted caution together with "vulnerabilities" in the global economy. Nonetheless, she showed optimism that the headwinds will "slowly fade over time" and chances of recessions "are quite low". And overall, the "cautious approach" regarding rate hikes "remains appropriate.

Europe

Improved sentiments in Germany

Sentiments in Germany improved unexpectedly in June, reflecting investors and analyst's confidence in the resilience of Europe's largest economy despite an uncertain global backdrop. The German ZEW economic sentiments index rose to 19.2 points in June from 6.4 the previous month. Meanwhile, expectations were for the index to fall to 4.7. Additionally, German business sentiment unexpectedly improved in June as companies shrugged off the risk of Britons voting to leave the European Union. The Munich-based Ifo institute's business climate index rose to 108.7 from a revised 107.8 in May. That's the highest level since December. The market expectations were for a decline to 107.4. The UK voted to quit the 28-nation bloc, with final results published Friday showing 52 percent of the electorate was in favor of an exit.

Asia

RBA minutes indicate no hikes in the near future

The Reserve Bank of Australia refrained from hinting on potential rate hikes as per the minutes. In the minutes of its June policy meeting, the RBA remained positive about growth and employment in Australia while still underlining the risks of low inflation. Furthermore, the central bank gave no indication of potential rate cuts in the near future, easing investors' concerns that the RBA could lower rates in the next 12 months. Moreover, easing commodities' prices coupled with wavering Asian equities also cap the upside in the higher-yielding currency AUD. Further, a negative surprise from the Australian house price index data also weighs down on the AUD/USD pair. RBA House price Index for Q1 showed that prices grew y/y, but a dip to -0.2 percent q/q.

Kuwait

Kuwaiti Dinar at 0.30155

The USDKWD opened at 0.30155 yesterday