

RISE TOGETHER

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Global and Regional Outlook in the Era of Digital Transformation

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Delta Variant Clouds World Economic Outlook

- 1. The global spread of the Delta variant is clouding the economic outlook of key sectors.**

- 2. Supply chain bottlenecks and other pandemic related factors have combined to fuel a sudden burst of inflation.**

- 3. Quantitative easing managed to keep long yields below 1.5%, while monetary policy maintained short term borrowing costs near or even below zero.**

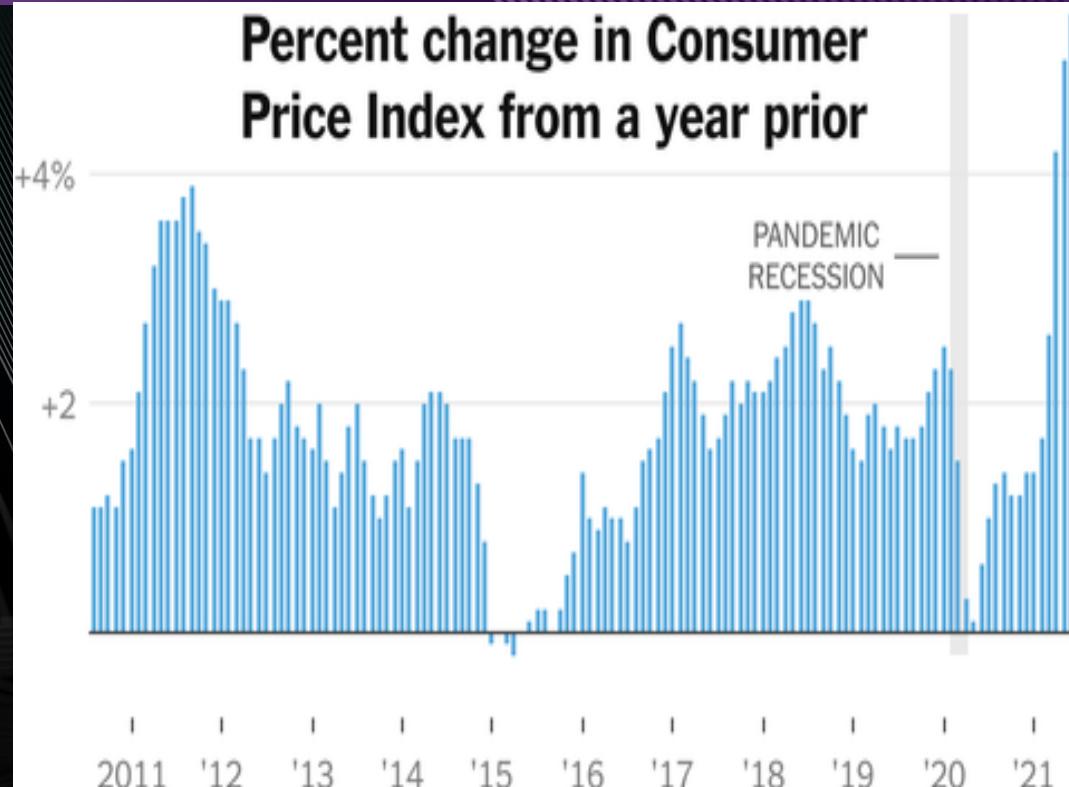
Inflation is on the Rise but it is not Expected to Last

Consumer price index in the US stayed above the 5% annually in June-August.

CPI is still more than double the Fed's target of 2%.

Inflation has recently accelerated in the EU to its highest level in a decade.

However, the sudden burst of inflation is not expected to last.



Source: Bureau of Labor Statistics • By The New York Times

US Treasury 10 Year Yield, %

At 1.3%, the US 10-year yield is not pricing imminent tapering of quantitative easing (QE).

There is a lot of fiscal and monetary stimulus in the system which is pushing up demand and driving GDP growth higher, expected at 6.7% in 2021 and 3.7% in 2022.



Source: Bloomberg, Capital Investments

Micro Takes , Macro Gives

The tight conditions facing key services sectors due to the Delta variant are counter balanced with an easing of macroeconomic policies. Short term interest rates in the US and Europe are unlikely to rise until late next year.

China's economic outlook is impacted with worries about highly indebted developers (Evergrande). GDP is forecast to rebound from 2.3% growth in 2020 to 5.3% in 2021

S&P 500 this year



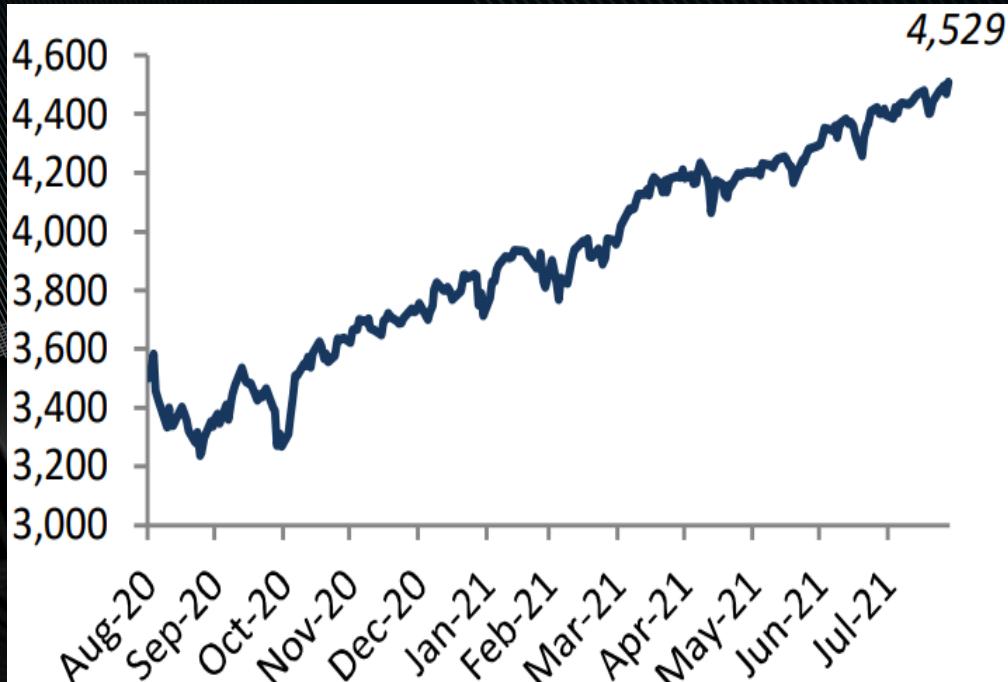
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4% drop from
the peak

S&P 500 Index

The US stock market is going through a correction after the long rally. This would lay the ground for a strong upturn .

We remain positive on the US stock market. The prevailing low interest rates and bond yields and a potential revival in demand should the Delta variant abate, are supportive factors.



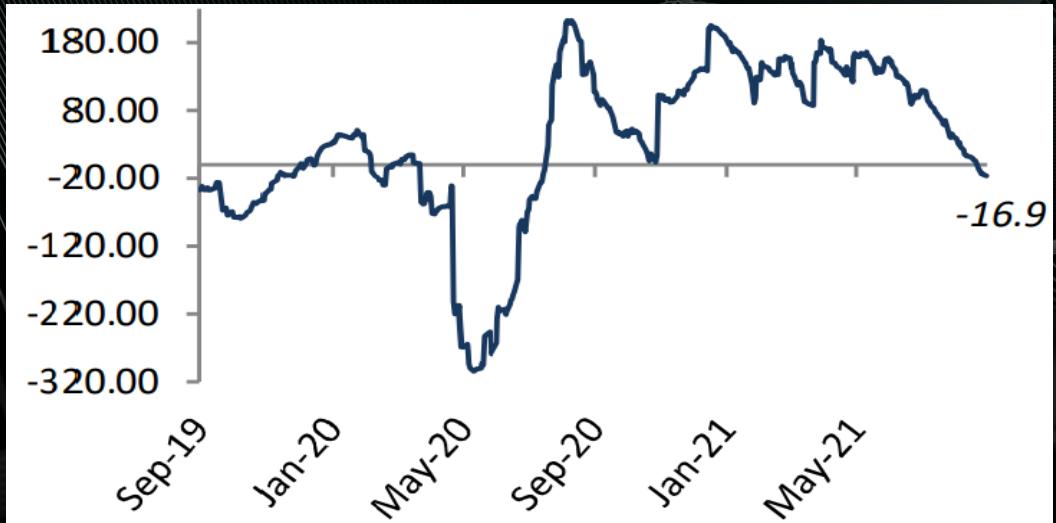
Source: Bloomberg, Capital Investments

Citi Economic Surprise Index - Eurozone

In Europe, the Citi Economic Surprise Index is back into negative territory.

However, demand is expected to come back in a robust manner next year.

GDP of the Eurozone is forecast to grow by 4.4% this year and 4.5% in 2022



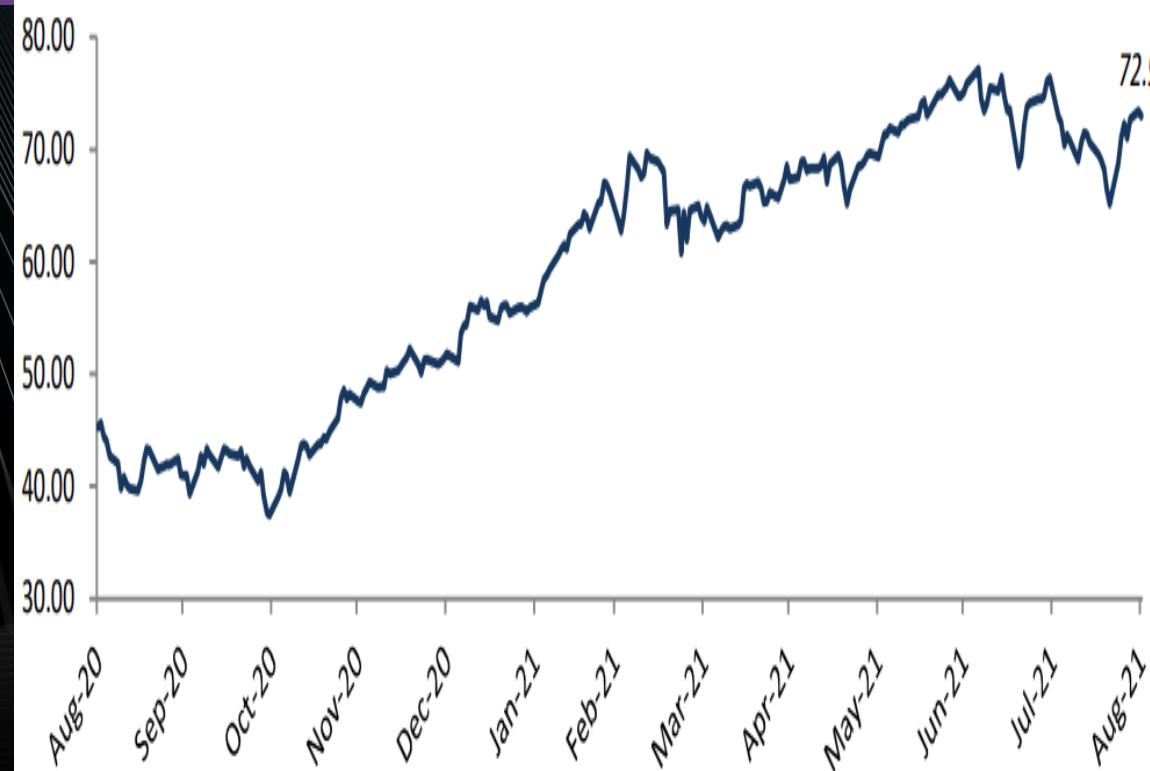
Source: Bloomberg, Capital Investments

Brent Crude Oil Prices (\$ per barrel)

Brent crude oil prices have been on an upward trend rising by 40% year to date.

Output has risen every month since June 2020.

The IEA expects oil prices to average \$67 a barrel for Brent crude in 2022, slightly below this year's average of \$69 and 2020's average of \$40.



Source: Bloomberg, Capital Investments

The Outlook for the MENA Region Remains Positive

With total GDP of \$3 trillion (25% of that in Saudi Arabia), overall real GDP growth for the MENA region is expected to pick up to 2.5% in 2021 and 3.4 % in 2022, following a contraction of 2.8% in 2020 .

However, these averages mask wide differences across countries.

GCC economic recovery to accelerate in 2022 on oil income and private sector growth. Growth will average 2.0% in 2021 and 2.7% next year.

MENA countries' greater reliance on energy exports, travel and tourism meant last year's negative GDP growth closely tracked the world composite.

Regional growth started to rebound in 2021. Economies of the region will regain their prepandemic levels by 2023.

Real GDP Growth	2019	2020	2021f	2022f	2023f
Egypt	5.6	3.6	2.5	2.8	3.4
Morocco	0.8	(6.7)	2.5	3.3	3.6
Qatar	0.3	(3.6)	1.8	2.2	1.7
Saudi Arabia	0.3	(4.1)	2.0	2.7	2.2
Tunisia	1.0	(8.6)	3.8	2.4	2.0
UAE	1.7	(6.1)	2.2	2.7	2.0
MENA-6	2.2	(2.8)	2.5	3.4	3.1
Selected Other					
U.S.	2.2	(3.5)	6.7	3.7	2.6
Eurozone	1.3	(6.7)	4.4	4.5	2.2
China	6.0	2.3	5.3	5.1	5.0
India	4.1	(7.3)	9.5	7.8	5.7
World Composite	2.8	(3.4)	5.9	4.3	3.7

Source: S&P Global Ratings Forecasts

Arab Equity Markets Indicators On the Rise

Arabian stock markets surged by 27% so far this year, with the Saudi market rising by 35%.

The Saudi stock market, which accounts for 73% of the region's total stock markets' capitalization, has turned slightly overvalued with P/E of 25%.

The rest of the markets maintained proper valuations

Market	% Year-to-date
Lebanon	33.2%
Jordan	23.1%
Egypt	4.2%
Saudi Arabia	35.3%
Qatar	6.8%
UAE	33.7%
Oman	9.5%
Bahrain	17.7%
Kuwait	24.0%
Morocco	12.6%
Tunisia	-2.2%
Arabian Market	27.0%

The Conflict-affected MENA Countries Continue to Suffer

The fragile and conflict-affected states (Syria, Lebanon, Iraq, Yemen and Libya) continue to face formidable challenges.

MENA countries that rely heavily on contact-intensive sectors, (particularly tourism which accounts for 15% of GDP in Egypt, Tunisia , Morocco and Jordan), will recover more slowly than others.

The pandemic has led to a surge in public financing needs, this was partially offset by the IMF's largest SDR allocation in its history , implemented in 2021 to all its member countries, including those of MENA.

Digitization on the rise in the MENA Region

Customers in the GCC have become digital converts, increasingly buying everything online. MENA's e-commerce market reached US\$12.1 billion in 2020, annual growth of 54%. Market could exceed \$30 billion in 2023

Mastercard highlighted the high digitization among women-owned businesses. 81% of women entrepreneurs across MENA have digital business presence, with social media (71%) leading the way.

Digital payments are being accepted across the board.

Neo Banks are Surfacing in the Region

FinTech investment leads growth in MENA digital economy. One in four deals has been in FinTech, attracting 30% of all funding raised.

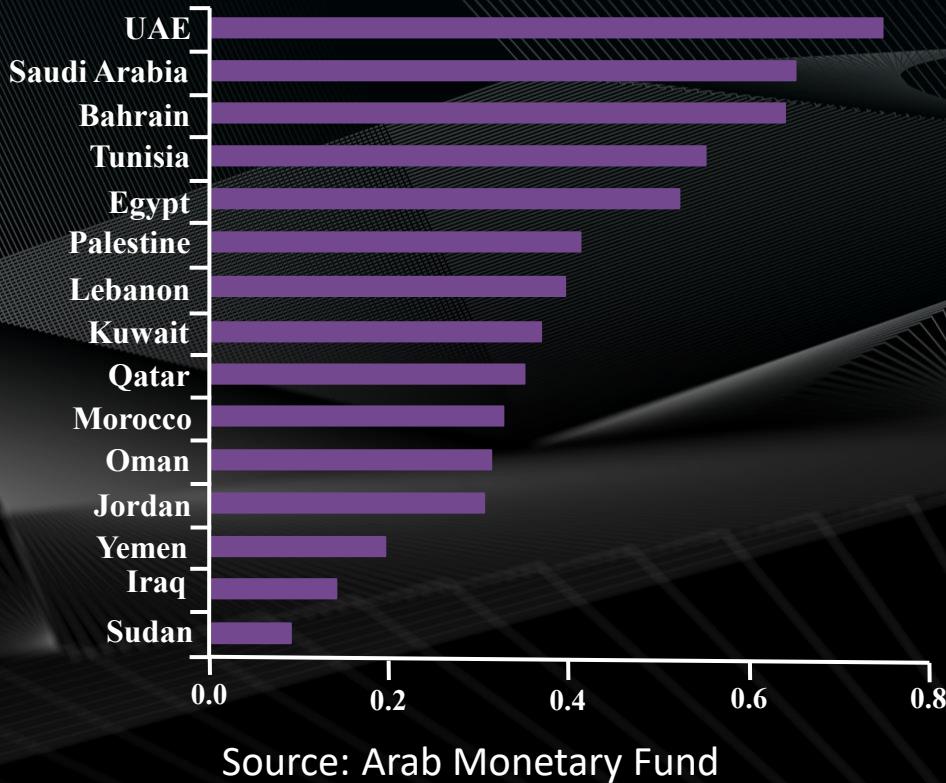
Stand alone digital banks (Neo Banks) have been surfacing in the region, facilitating the move to cashless and contactless banking experiences.

Examples of regional Neo Banks include: “Reflect” by Arab Bank of Jordan, “Mashreq Neo” and “CBD Now” of UAE, Saudi Digital Bank and “ila Bank” of ABC Bank Bahrain.

Index of Modern Financial Technologies for 2021: UAE in the Lead

The Arab Monetary Fund released the first edition of the Index of Modern Financial Technologies in Arab Countries.

The UAE ranked first with a score of 0.747 points, followed by Saudi Arabia 0.70, while Sudan came in last place with a score of 0.091 points.



Elements Essential for Success in the Digitization Era

Digital disruption is happening fast, and every company has to find its own path. But all successful digital transformations share one thing in common: A willingness to be bold.

Elements essential for success include:

1. Make faster decisions and execute quickly to create a differentiated offering.
2. Leveraging technology to a) improve operational efficiency and b) enhance customer experience
3. Companies need to have transformational leadership.

The Winning Approach to Digital Transformation: Disrupt or be Disrupted

- 1. Lay down the right digital foundations. Tear up the existing infrastructure and start fresh. No short cuts.**
- 2. Provide customers with a personalized omnichannel experience that seamlessly combine physical outlets/branches with digital channels.**
- 3. Launch an entirely new business to attack and capture opportunities that the core business cannot.**

Six Digital Growth Themes in Post COVID-19 Era

6 Growth Themes

Digital Infrastructure , Conferencing,
Live Streaming, Gaming

Cloud Computing, Data
Analytics, Cyber Security

Fintech , Artificial
Intelligence,
Blockchain, Machine
Learning

Neo Banks, Central Bank
Digital Currency,
Cryptocurrencies

Ed-tech, Telemedicine,
Robotics, 5G
Communications

E-Commerce,
Online Marketing

Digitization Strategic Priorities

Capabilities

Enhance product innovation and transaction/execution capabilities through training of staff on digital channels and system upgrade.

Expenses

Reduce cost, put more emphasis on digital marketing, less travel and accommodation expenses, more board and committee meetings online.

Acquisitions

Acquire IT and Fintech companies who can help develop new products to meet the changing requirements of the digitized Low Touch Economy.

De-risking

Take risk off your balance sheet, reduce leverage, increase liquidity and have more of your cost as variable rather than fixed. Stress test your P&L.

Stabilization

Stabilize operations to the “new normal”, exploring new opportunities, diversifying your supply chain and maintaining open channels of communications with clients during crisis.