EHSAN KHOMAN
Head of MENA Research and Strategy

DIFC Branch – Dubai

T: +971 (0)4 387 5033
E: ehsan.khoman@ae.mufg.jp

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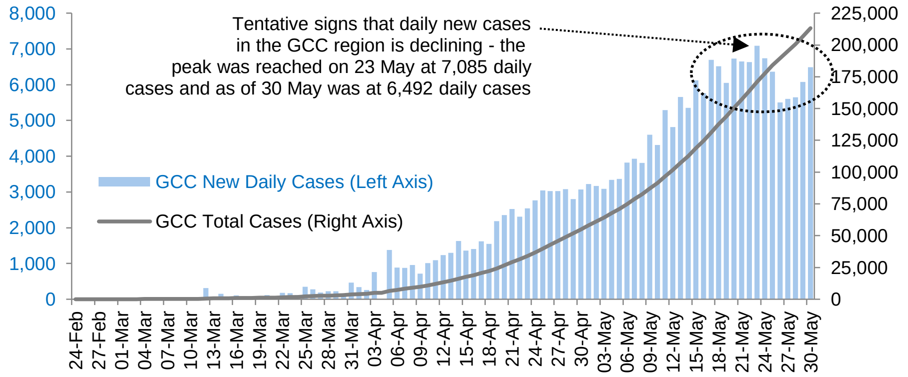
Contextualising the GCC regional reopenings – the path to the next normal

- Easing lockdown restrictions. Lockdowns and social distancing measures are beginning to ease across the GCC countries given tentative signs that these economies are passed the peak with a flattening in the curve of new COVID-19 cases on the horizon. At the current juncture, it is too early to decipher whether the easing of lockdown is feeding through to a meaningful pick-up in economic activity. What is clear is that despite the phased easing in restrictions, the GCC region is by no means out of the woods. The past couple of months have been strenuous and destabilising. The region is steadily looking to life post-COVID-19 towards a path of a new normal but there currently remains more questions than answers. However, there's room for hope, tempered with caution.
- Lessons from early openers across the world. Our examination of countries that have reopened more versus less speedily across the world thus far, offers three encouraging lessons. First, early reopeners have not witnessed higher confirmed COVID-19 incidences thus far. Second, corporates and broader financial markets have tentatively begun to reward the early reopeners with modestly higher asset returns and easier financial conditions – in contrast to the "peak lockdown" period of early April, when reopening was associated with lower asset returns and tighter financial conditions. Third, not all reopenings are homogeneous with heterogeneity abound across countries, and if medical outcomes can avoid left tails, corporates and markets may reward reopenings.
- Outlook. Certain events split eras into times before and after. It is clear that our era will be defined by a fundamental division: what we knew as normal before COVID-19 and the new normal that will emerge in the post-viral era – the next normal. For the GCC economies, the conversation is beginning about what the next normal could entail and how sharply its contours will diverge from those that previously shaped the region. What is evident in the immediate term is that all these countries continue to grapple with both the demand-side evisceration shock caused by COVID-19 induced restrictions and the supply-side shock caused by the oil price collapse. Facing either one of these shocks would be unprecedented. The combination of the two, signals a sudden deep and acute recession this year, with risks skewed to the downside.

GCC DAILY NEW CASES AND TOTAL CASES OF COVID-19 INCIDENCES



Source: Bloomberg, ourworldindata.org, MUFG MENA Research

Contextualising the GCC regional reopenings – the path to the next normal

Easing lockdown restrictions but not out of the woods yet

There are tentative signs that we are over the worst in the GCC region. In the last couple of months, the region has grappled with two ultra-bearish shocks – demand-side evisceration caused by COVID-19 induced lockdowns and supply-side challenges caused by the oil price collapse. Facing either one of these shocks would be unprecedented. The combination of the two, signals a sudden deep and acute recession this year, with risks skewed to the downside.

Easing lockdown restrictions but not out of the woods yet

In recent weeks, containment measures across the GCC countries have eased as authorities outline their paths out of stringent COVID-19 lockdowns. Restrictions have taken a heavy toll on economic output and their loosening would offer a much needed boost to economic activity. Despite the phased easing in restrictions, the GCC region is by no means out of the woods. The past couple of months have been strenuous and destabilising. The region is steadily looking to life post-COVID-19 towards a path of a new normal, but there currently remains more questions than answers. However, there's room for hope, tempered with caution.

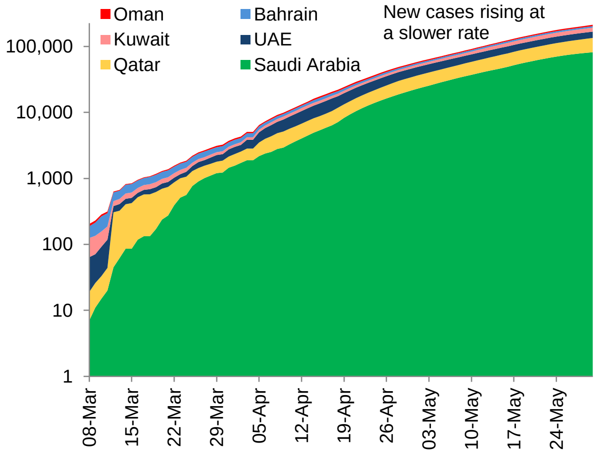
EASING ANNOUNCEMENTS AND ECONOMIC IMPLICATIONS

Not all reopenings have been homogeneous with large variations dependent on idiosyncratic country factors

Nearly all GCC countries have announced an easing of lockdowns:

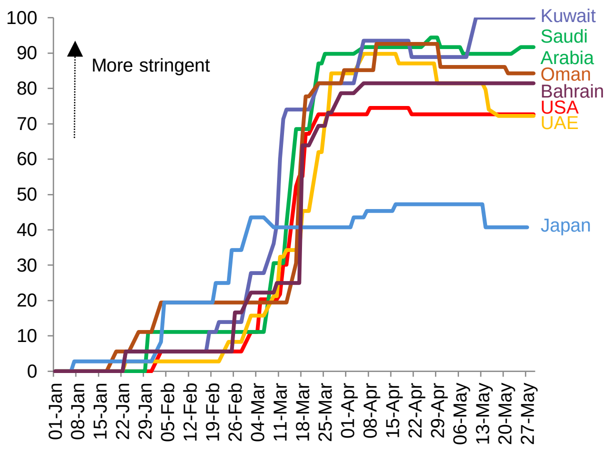
1. Saudi Arabia. The Kingdom has started implementing a three phased approach to easing restrictions, with all curfews to be lifted by 21 June. Since 28 May, curfews have been reduced, between 3pm to 6am and from 30 May between 8pm to 6am, when mosques can also resume prayers. Mecca will remain under stricter curfews while the rest of the country starts to open and Hajj and Umrah pilgrimages continue to be suspended. Domestic flights will resume from 1 June, but international flights remain suspended, possibly up to September.
2. UAE. Dubai has relaxed free movement, allowing business activity to resume during reduced curfews from 11pm to 6am. Since 27 May, Dubai airport began welcoming returning residents, subject to 14 day on arrival

DAILY NEW CASE GROWTH IN COVID-19 INCIDENCES IN THE GCC REGION



Source: ourworldindata.org, MUFG MENA Research

STRINGENCY INDEX (0-100; 0 = LEAST STRINGENT; 100 = MOST STRINGENT), GCC REGION, US AND JAPAN



Source: Oxford University, MUFG MENA Research quarantine, and passengers on transit. The UAE aims to welcome tourists from July and is gradually allowing a resumption of retail and hospitality activity. On 21 May, Emirates airlines which has formally requested financial support from the government, resumed flights to nine destinations. Separately, Federal government employees in UAE have resumed work since 31 May, first phased at 30% capacity. In Dubai, half of government employees have returned to offices since 31 May, ahead of a full return by 14 June.

3. Oman. Oman will allow business activity to resume and has ended the lockdown within the capital, Muscat since 29 May, allowing travel to resume in and out the city. However, Muttrah district, where the majority of COVID-19 cases have been recorded and where many low wage foreign workers live and work, remains sealed off. Since 31 May, half of government employees have returned to work.
4. Bahrain. Since 22 May, certain commercial and industrial business activities have reopened.
5. Kuwait. The Kuwaiti government did not extend its full curfew beyond 30 May and instead switched to a 12 hour partial curfew from 6pm to 6am commencing 31 May, as part of a five phase plan.
6. Qatar. There are few signs of an imminent easing of restrictions in Qatar as cases continue to edge up. Qatar's Minister of Health stated on 21 May that the country is entering the "peak stage" of its COVID-19 outbreak. New cases have averaged 1,757 a day since then, up from 1,483 a day in the previous seven day period.

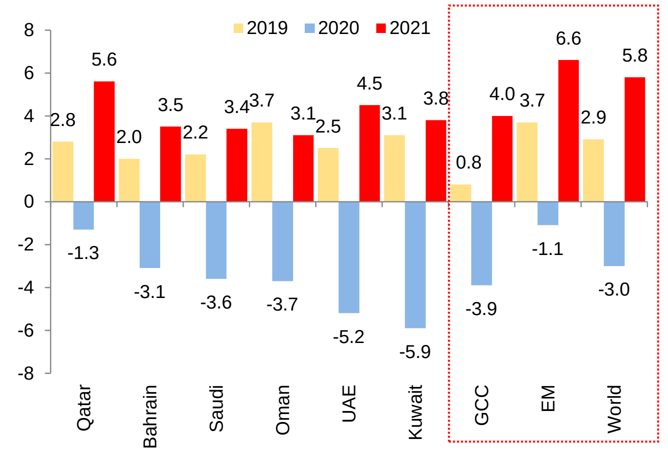
PMIs have registered a sharp downturn

High frequency data has demonstrated the scale of the challenge. Early activity data for April measured by the all-important Purchasing Managers Index (PMI) – the leading indicator and barometer of the health of an economy which is highly correlated with non-oil GDP growth – signalled that acute containment measures have taken an unprecedented toll on corporate output across the region.

Non-oil economic impact has varied country-to-country

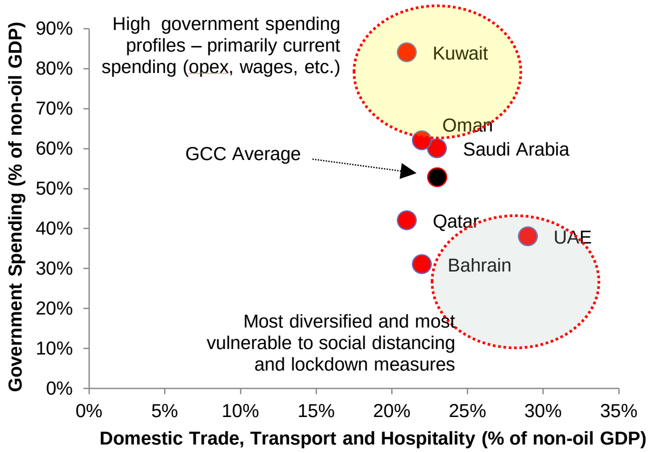
The impact of COVID-19 on the non-oil economy across the GCC region varies from country to country, in line with the share of economic activity in each that is most adversely impacted by government measures to control the spread of the disease. The lockdown measures are weighing heavily on activity in non-oil GDP sectors through three core transmission channels; (i) weaker global trade; (ii) travel restrictions (including consumers' reluctance to travel outright); and (ii) social distancing pressures on non-oil GDP sectors, primarily, wholesale and retail trade,

GCC REGION, EM AND GLOBAL REAL GDP GROWTH (%)



Source: Bloomberg, CEIC, IMF, MUFG Research

COVID-19 EFFECTS ON GOVERNMENT SPENDING AND SOCIAL DISTANCING/LOCKDOWN IMPACTED SECTORS



Source: GCC National Statistics, IMF, MUFG Research transportation, recreation and hospitality (hotels and restaurants). All else equal, we calculate that this could mean a contraction of GCC non-oil GDP in the range of 5.4% in 2020:

1. Global trade. Containment measures put in place have caused corporates to close – disrupting global supply chains – and high frequency data have demonstrated a severe slowdown in trade volumes. The April PMI's were at record lows across the board in the region. A crude indicator of vulnerability to COVID-19 to softer global trade is to examine the size of non-hydrocarbon exports. On this basis, the UAE is the most vulnerable, reflecting Dubai's importance as a global logistics and re-processing hub.
2. Travel restrictions. International commercial flights across the region have been cancelled since mid-March. Statistics from the World Travel and Tourism Council (WTTC) show that, on average, tourism sectors contribute ~18% to GDP across the region through both direct and indirect effects, with the UAE being the most impacted.
3. Lockdown and social distancing measures. Regional authorities have implemented severe and prudent lockdown policies, albeit the first phase of reopening the economies are underway. Dubai remains the most impacted, with heavily squeezed sectors such as, wholesale and retail trade, transportation, recreation and hospitality (hotels and restaurants), accounting for nearly a third of overall GDP (32%).

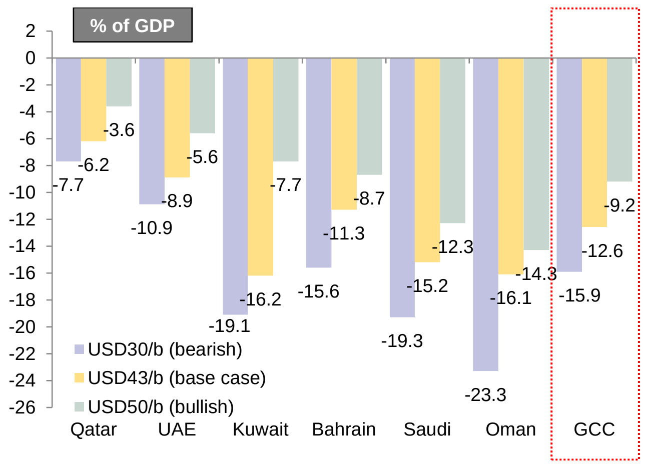
Austerity measures to navigate lower oil revenues

After recent warnings of painful, but necessary measures, the Saudi Ministry of Finance announced sharp austerity measures: (i) VAT to be tripled from 5% to 15% from 1 July; (ii) government will end a monthly cost-of-living allowance paid to public sector workers from 1 June; (iii) some operational and capital spending will be cancelled or delayed; (iv) some Vision 2030 targets (unannounced) will be re-prioritised; and (v) a committee will study the salaries and benefits given by state entities outside the civil service umbrella. With the oil price required for the budget to balance at just under USD80/b in 2020, these bold, decisive and necessary austerity measures are paramount to prevent a deterioration of buffers, though our forecasts continue to point towards a -15.2% of GDP fiscal deficit in 2020, as we had already factored the spending cuts into our estimates, while the revenue impact of the 10ppt increase in VAT to 15% will be dampened by contracting domestic demand.

Deep recession in the GCC region

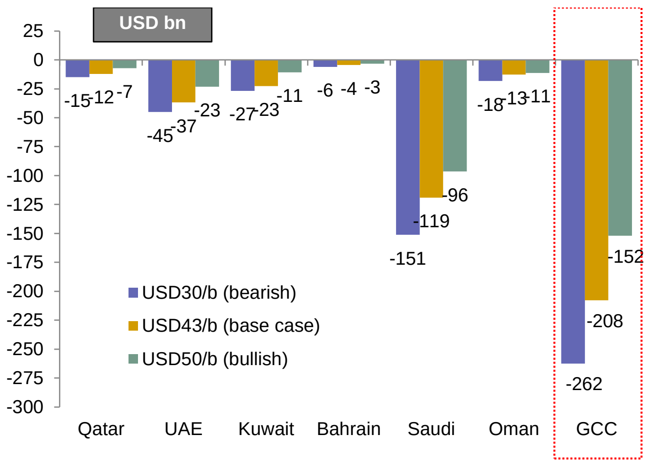
On the whole, record (and necessary) voluntary oil production cuts, as part of the OPEC+ and G20 energy ministers agreement on 12 April (see here), will weigh heavily on oil GDP growth rates in 2020, that have otherwise been flattered by a

GCC FISCAL BALANCE (% OF GDP) IN 2020, UNDER BASE CASE, BEARISH AND BULLISH OIL PRICE FORECASTS



Source: Bloomberg, CEIC, MUFG Research

GCC FISCAL BALANCE (USD BN) IN 2020, UNDER BASE CASE, BEARISH AND BULLISH OIL PRICE FORECASTS



Source: Bloomberg, CEIC, MUFG Research promised surge in output levels back in early March. Incorporating the (i) mechanical volumetric impact of the oil output cuts on oil GDP; (ii) the severe impact of COVID-19 lockdowns on non-oil GDP through domestic demand contraction; and (iii) the most recent government stimulus as well as consolidation measures, into our econometric models, we forecast deep recessions across all GCC economies, with overall real GDP growth to contract in 2020 by -3.9% from +2.4% in 2019.

USD208bn (12.6% of GDP) fiscal deficit in the GCC region in 2020

On the fiscal side, we expect public finances to deteriorate sharply this year, mainly due to a decline in government revenues as a result of COVID-19 pandemic (reducing non-oil revenues) and the collapse in oil prices and lower oil production (reducing oil revenues). Of the two, it is the decline in oil prices and lower oil production which will have a more significant delta impact on public finances in 2020. Factoring in the latest fiscal stimulus and consolidation announcements, our estimates point to GCC financing requirements of USD208bn (12.6% of GDP) under our base case of Brent averaging USD43/b in 2020, with funding needs rising to USD263bn in our bearish (USD30/b) scenario, whilst narrowing to USD152bn in our bullish (USD50/b) scenario.

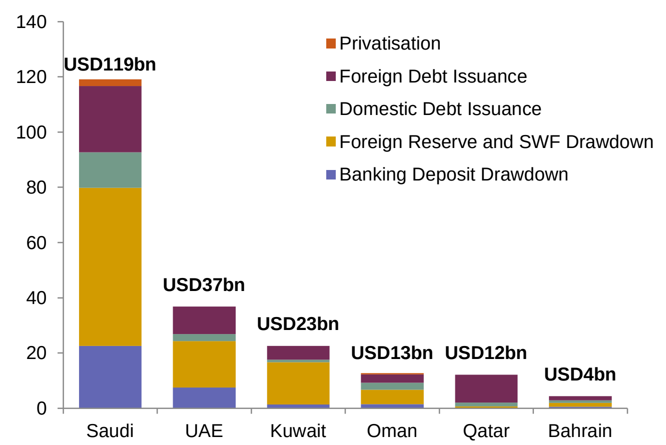
LESSONS FROM EARLY OPENERS ACROSS THE WORLD

Lessons from early openers across the world

Our examination of countries that have reopened more versus less speedily across the world thus far, offers three encouraging lessons:

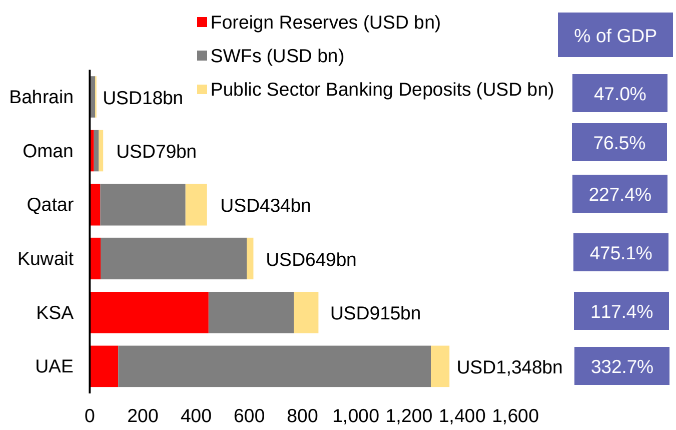
1. Early reopeners have not witnessed higher confirmed COVID-19 incidences thus far. Our examination finds little evidence that early openers have not – at least for now – witnessed higher virus incidences once opening up. Since the beginning of April, a near-universal global reopening has coincided with a near-universal fall in the daily rate of new confirmed cases. Moreover, the fall in a country's daily rate of new confirmed cases does not appear related to the pace of reopening so far across the world. Two caveats to our analysis. First, countries that have opened up assertively are likely to be those that have been "allowed to" by a declining trend of virus incidences. Second, early openers may be different in numerous behaviours than late openers, for instance, the Euro Area, has opened up relatively quickly and in a coordinated fashion, and may not be directly comparable to other parts of the world in terms of variables such as pre-existing trends of COVID-19

GCC COMPOSITION OF FISCAL FINANCING REQUIREMENTS IN 2020 (USD BN)



Source: GCC Ministries of Finance, IMF, MUFG Research

WEALTH BUFFERS: FX RESERVES, SWF ASSETS, BANKING DEPOSITS (USD BN; % OF GDP)



Source: IMF, SWFI, MUFG Research

incidences, availability of testing, contact tracing and healthcare capacity, etc. On net, these results are encouraging, but they do remain suggestive at this early stage.

2. Corporates and broader financial markets have tentatively begun to reward the early reopeners with modestly higher asset returns and easier financial conditions. With COVID-19 concerns slowly begin to moderate given limited evidence so far that opening up has triggered fresh medical apprehensions, financial markets have tentatively started to take a more positive view of reopening, which contrasts to the "height of the lockdown" period of early April, when opening up was associated with lower asset returns and tighter financial conditions. So our examination of all the countries that have taken reopening measures so far, signals that financial markets have now begun to reward reopening with modestly higher asset returns and easier financial conditions.
3. Not all reopenings are homogeneous with heterogeneity abound across countries. Our cross-country examination suggests that some reopenings may carry higher risks than others. Each country authority is weighing up the timing of reopening based on the number of infections alongside the economic impact and pressure on healthcare systems, and prudent judgement has been in order in determining the most optimal outcome – and indeed its not a one size fits all exercise, and heterogeneity across countries is in play here. Should medical outcomes can avoid left tails, markets may indeed begin to reward greater reopenings in the GCC region, such as Saudi Arabia, the UAE and Kuwait, relative to the more-limited reopenings of economies like India and parts of Latin America, which are yet to witness any deceleration of new cases and if medical outcomes can avoid left tails, corporates and markets are likely to reward reopenings.

THE PATH TO THE NEXT NORMAL

More questions than answers at the current juncture

Lockdowns and social distancing measures are beginning to ease across the GCC countries given tentative signs that these economies are passed the peak with a flattening in the curve of new COVID-19 cases on the horizon. At the current juncture, it is too early to decipher whether the easing of lockdown is feeding through to a meaningful pick-up in economic activity. What is clear is that despite the phased easing in restrictions, the GCC region is by no means out of the woods. The past couple of months have been strenuous and destabilising. The region is steadily looking to life post-COVID-19 towards a path of a new normal but there currently remains more questions than answers. However, there's room for hope, tempered with caution.

The path to the next normal

Certain events split eras into times before and after. It is clear that our era will be defined by a fundamental division: what we knew as normal before COVID-19 and the new normal that will emerge in the post-viral era – the next normal. For the GCC economies, the conversation is beginning about what the next normal could entail and how sharply its contours will diverge from those that previously shaped the region. What is evident in the immediate term is that all these countries continue to grapple with both the demand-side evisceration shock caused by COVID-19 induced restrictions and the supply-side shock caused by the oil price collapse. Facing either one of these shocks would be unprecedented. The combination of the two, signals a sudden deep and acute recession this year, with risks skewed to the downside.

Economic Weekly Round-up

- **Key data and events in the past week**:
- **Egypt** sold USD5bn in bonds in three tranches with maturities of 4, 12 and 30 years. Investor appetite was robust with more than USD6bn in demand for each of the 4 and 12-year tranches and USD7.6bn for the 30 year bonds.
- **Jordan's** request for emergency financial assistance from the IMF (Rapid Financial Instrument) amounting to about USD 396mn was approved. This is expected to cover about a quarter of Jordan's external financing needs.
- Public sector employees in **Jordan** began a phased return to work last week, after a state of emergency was declared mid-March.
- **Kuwait** eased its full-time curfew to 12 hours (from 6pm to 6am) and will last 3 weeks before the next phase of easing is introduced.
- **Lebanon's** discussions with the IMF continue – according to reports, the IMF wants the capital control law to be passed before discussing financial assistance. Meanwhile, Lebanese MPs want to include recommendations from the IMF in a draft law which blocks capital transfers from the country for all but limited reasons (including medical bills, loans, foreign taxes and purchase of essential goods).
- Funding raised by **Oman's** capital market for various projects and economic initiatives grew by 75% y/y to USD 8.2bn in 2019, according to Oman's Capital Market Authority.
- **Saudi's Central Bank (SAMA)** transferred USD40bn in FX reserves to the PIF between March and April, according to the Saudi Finance Minister, HE Mohammad Al Jaddan, HE Al Jadaan also stated that "returns on PIF investments would be available to support public finances when needed.
- Inflation in **Saudi Arabia** inched up by 1.3% y/y in April, on higher food prices.
- Foreign currency assets held by the Central Bank of the UAE edged up by 1.6% y/y to USD 101.2bn in April 2020, as both current account balances and deposits with foreign banks strengthened.

- **Key focus in the week ahead**:
  1. **Regional** PMI data for May 2020.
  2. In **oil markets**, OPEC's May crude production.

Economic Calendar and Forecasts

Upcoming Events and Data Releases

Date		Country	Event	Period	Consensus	MUFG* Forecasts	Actual	Previous
01/06/2020		Turkey	PMI Manufacturing	May 2020	---	---		33.4
03/06/2020		Saudi Arabia	PMI Composite	May 2020	---	---		44.4
03/06/2020		Qatar	PMI Composite	May 2020	---	---		39.0
03/06/2020		UAE	PMI Composite	May 2020	---	---		44.1
06/06/2020		UAE	CPI, % y/y	Mar 2020	---	---		-1.6%
03/05/2020		Egypt	Gross Official Reserves (USD bn)	May 2020	---	---		USD37.0bn
10/05/2020		Egypt	PMI Composite	May 2020	---	---		29.7

** MUFG MENA Research*
Source: Bloomberg, Refinitiv, MUFG MENA Research

MENA Market Indicators – Tables

Benchmark Bond Yields (%, Local Currencies)

	Maturity	22-May	29-May	Change in Yield (bps) Week	MTD*	YTD*
Advanced Countries						
US	10 yrs	0.66	0.65	-0.7	1.3	-126.5
Germany	10 yrs	- 0.49	- 0.45	4.0	13.9	-26.2
Italy	10 yrs	1.60	1.48	-12.1	-28.7	6.4
Japan	10 yrs	-	0.01	0.5	3.5	1.6
MENA Countries						
Bahrain***	3 yrs	5.05	5.00	-4.7	-81.0	200.9
Egypt	5 yrs	13.48	13.48	0.0	32.8	0.2
Qatar***	10 yrs	2.60	2.56	-3.8	-40.3	-9.3
Saudi Arabia**	10 yrs	2.42	2.40	-2.1	-2.7	-63.9
Abu Dhabi***	7 yrs	1.89	1.96	6.7	-18.6	-45.0
Dubai***	9 yrs	3.41	3.35	-6.1	-55.6	18.3

Heat Map Legend: Rising Yields – Falling Yields

Note: * Month to Date and Year to Date; ** 10-year swap rate; *** USD denominated

Exchange Rates vs USD

	22-May	29-May	Change (%) Week	MTD	YTD
Advanced Countries					
US Dollar Index	99.863	98.344	-1.5	-0.7	2.0
Euro Area*	1.090	1.110	1.8	1.3	-1.0
Japan	107.640	107.830	-0.2	-0.6	0.7
MENA Countries					
Egypt	15.850	15.850	0.0	-0.7	1.4
Kuwait	0.309	0.309	0.0	0.0	-1.8
UAE 12M Forward	3.682	3.682	0.0	0.0	-0.1
Bahrain 12M Forward	0.378	0.378	0.0	0.2	-0.1
Oman 12M Forward	0.398	0.397	0.2	0.0	-2.4
Qatar 12M Forward	3.661	3.657	0.1	0.0	-0.4
Saudi Arabia 12M Forward	3.767	3.769	0.0	0.0	-0.4
UAE Spot	3.673	3.673	PEGGED		
Bahrain Spot	0.377	0.377			
Oman Spot	0.385	0.385			
Qatar Spot	3.641	3.641			
Saudi Arabia Spot	3.758	3.756			

Heat Map Legend: Stronger Currency vs USD – Weaker Currency vs USD

Note: * Exchange rate quoted as amount of USD per currency in line with market convention, other exchange rates are amount per USD

Equity Indices

	22-May	29-May	Change (%) Week	MTD	YTD
Advanced Countries					
US (S&P 500)	2,955	3,044	3.0	4.5	-5.8
Europe (STOXX 50)	2,905	3,050	5.0	4.2	-18.6
Japan (Nikkei 225)	20,388	21,878	7.3	8.3	-7.5
MENA Countries					
Bahrain (BB)	1,257	1,276	1.5	-2.7	-20.8
Egypt (EGX 30)	10,357	10,110	-2.4	-4.2	-27.6
KSA (Tadawul)	7,050	7,051	0.0	-0.9	-16.0
Kuwait (KSE)	4,895	5,010	2.3	0.7	-20.3
Oman (Muscat 30)	3,387	3,534	4.3	-0.2	-11.2
Qatar (Doha 20)	8,856	8,824	-0.4	0.7	-15.4
UAE (Abu Dhabi)	4,131	4,134	0.1	-2.3	-18.5
UAE (Dubai)	1,933	1,970	1.9	-2.8	-28.8

Heat Map Legend: Higher Equity Index – Lower Equity Index

5 Year USD CDS Spreads

	22-May	29-May	Change in Yield (bps) Week	MTD*	YTD*
MENA Countries					
Bahrain	428.44	425.93	-2.5	-61.9	249.9
Kuwait	89.90	87.88	-2.0	-17.2	51.2
Qatar	97.65	95.25	-2.4	-29.5	58.5
Saudi Arabia	143.47	139.47	-4.0	-29.8	82.6
UAE (Abu Dhabi)	97.79	95.23	-2.6	-29.6	59.1
UAE (Dubai)	232.27	220.99	-11.3	-73.6	130.0

Heat Map Legend: Rising Yields – Falling Yields

Commodity Prices*

	22-May	29-May	Change (%) Week	MTD	YTD
Energy					
Brent	35.1	37.8	7.7	49.7	-42.7
WTI	33.3	35.5	6.7	88.4	-41.9
LNG	1,427.3	1,462.6	2.5	3.9	41.6
Precious Metals					
Gold	1,735	1,730	-0.3	2.6	14.0
Silver	17.2	17.9	3.8	19.3	0.1
Industrial					
Copper	5,289	5,377	1.7	3.6	-12.9
Steel	472	513	8.7	9.6	-12.8
Aluminum	1,507	1,548	2.8	3.6	-14.5
Wheat	509	521	2.4	-1.7	-6.8

Heat Map Legend: Higher Commodity Prices – Lower Commodity Prices

Note: * Spot prices or nearest expiring future

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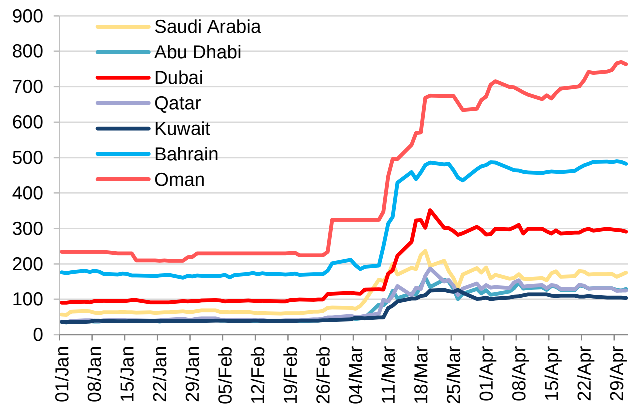
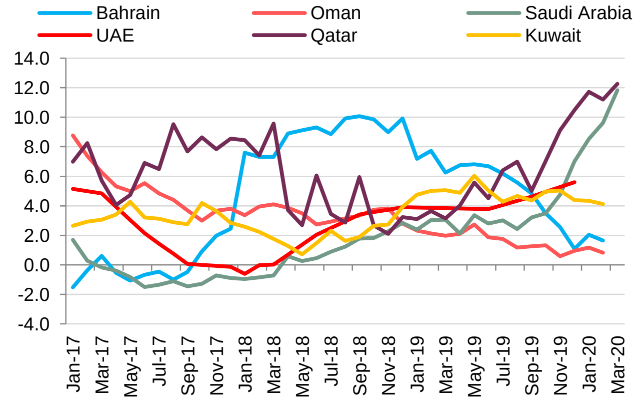
MENA Market Indicators – Charts

CHART 1. GCC 5 YEAR CDS SPREADS (BASIS POINTS)



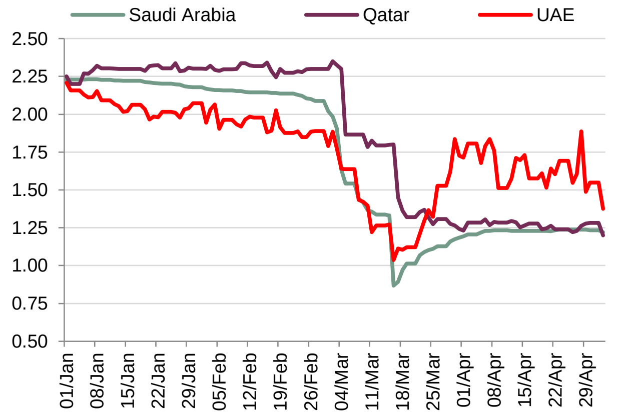
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 2. GCC PRIVATE SECTOR CREDIT GROWTH (% Y/Y)



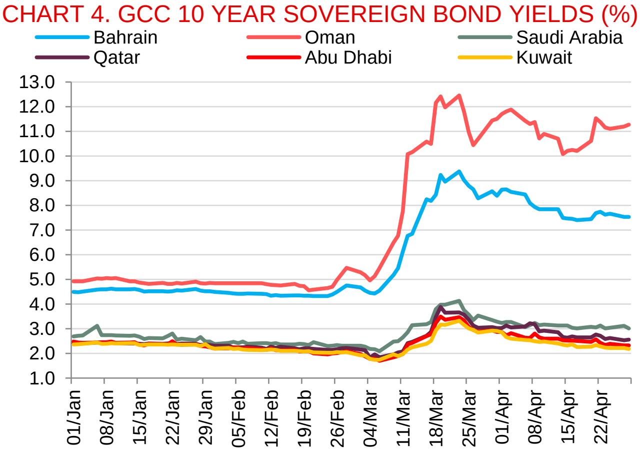
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 3. CORE GCC 3 MONTH INTERBANK RATES (%)



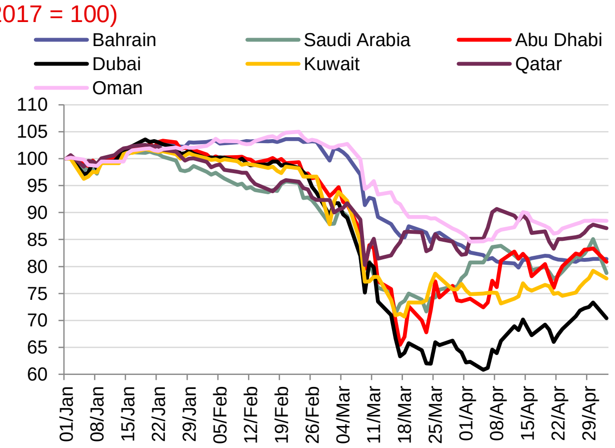
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 4. GCC 10 YEAR SOVEREIGN BOND YIELDS (%)



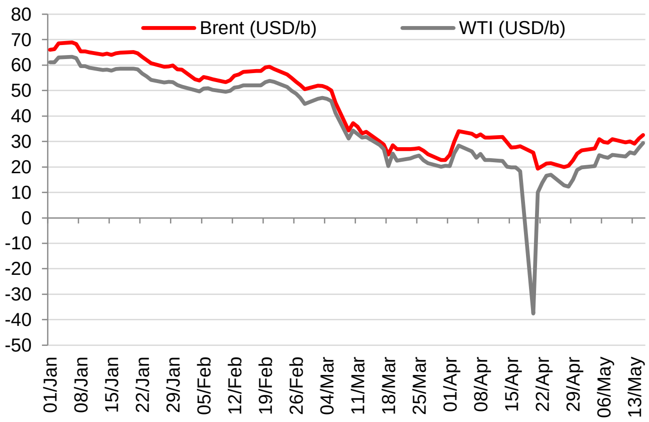
Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 5. GCC EQUITY MARKETS (REBASED JANUARY 2017 = 100)



Source: Bloomberg, CEIC Database, MUFG MENA Research

CHART 6. BRENT AND WTI CRUDE PRICES (USD/B)



Source: Bloomberg, CEIC Database, MUFG MENA Research

Global Markets Research

London:

MR DEREK HALPENNY
Head of Research, Global Markets EMEA & International Securities
T: +44 (0)20 7577 1887

MR LEE HARDMAN
Currency Analyst
T: l+44 (0)20 7577 1968

MS MOMOKO MIYACHI
Research Assistant
T: +44 (0)20 7577 1886

Hong Kong:

MR CLIFF TAN
East Asian Head of Global Markets Research
T: +852 2862 7005

New York:

MR JOHN HERRMANN
Rates Strategist
T: +1-212- 405-7447

MR MASAFUMI INOUE
Analyst
T: +1-212-782-6726

Dubai:

MR EHSAN KHOMAN
Head of MENA Research and Strategy
T: +971 (0)4 387 5033

Tokyo

MR MINORI UCHIDA
Tokyo Head of Global Markets Research
T: +81 (0) 3 6214 4147

MR TOSHIYUKI SUZUKI
Senior Market Economist
T: +81 (0) 3 6214 4148

MR TAKAHIRO SEKIDO
Japan Strategist
T: +81 (0) 3 6214 4150

MR MASASHI HASHIMOTO
Senior Analyst
T: +81 (0) 3 6214 4185

MS SUMINO KAMEI
Senior Analyst
T: +81 (0) 3 6214 4179

MR SHINJI ISHIMARU
Senior Analyst
T: +81 (0) 3 6214 4151

Singapore:

MS SOOK MEI LEONG
Asean Head of Global Markets Research
T: +65 6918 5536

MR TEPPEI INO
Senior Analyst
T: +65 6918 5538

MS SOPHIA NG
Analyst
T: +65 6918 5537

Sao Paulo:

MR CARLOS PEDROSO
Senior Economist
T: +55-11-3268-0245

MR MAURICIO NAKAHODO
Economist
T: +55-11-3268-0420

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