Stocks grind higher again; EU and UK growth and sentiment both steady; more GCC bond issuance on tap

**Summary**

US equity indexes continue to make advances, albeit modest ones, as well as new all-time highs, buoyed by the expectation of a very friendly business environment, and of lower/simpler taxes ahead. The specifics remain very much up in the air, but the new administration should start filling in the blanks soon and is hoping for legislative action on taxes by August. The actual implementation dates are also unknown. However, the markets seem convinced that significant positive changes are looming, with likely stronger growth to come. Current forcefulness, boldness, and activity from the White House are interpreted as signs that, in time, promises will be delivered upon, especially on taxes and deregulation. Some analysts are wary that the markets may be a bit ahead of themselves, but sentiment and flows remain supportive.

The minutes of the January FOMC shed little light for the March 14-15 meeting. Yes, the economic data is stronger and warrants higher interest rates (at some point), but (fiscal) uncertainty is high and there is still little need to rush the next rate hike before June or May. So the probability of a March rate hike is up (to about 25%), but we stick with a later date of May or June. President Trump will also give a major policy address before Congress on February 28, which may lift some of the policy uncertainties for both the markets and the Fed.

Fixed-income yields were off in major markets, as chances of a March Fed hike receded (US 10-year yield at 2.3%), and as concerns around the upcoming French election helped Bunds and other sovereigns’ rates lower on the week.

**International macroeconomics**

Eurozone: Flash PMIs for February came in stronger than expected, with the Eurozone registering its strongest month in six years. The PMI rose to 56 (54.3 expected), from 54.4 in January, driven by strong growth in services and manufacturing. A sub-index that tracks new orders also saw its largest increase during the month. This reinforces the optimism seen in recent months. France led with a strong showing, followed by similarly strong German performance that echoed a healthy IFO business confidence index this week. (Chart 1.) Inflationary pressures continued to rise, pushed by input costs (oil).

Greece seems to be caving in to German and IMF demands in bailout talks, with the Greek government showing a new willingness to abide by the EU/IMF proposals. Eurozone finance ministers could meet next week to begin negotiations. In France, centrist Francois Bayrou dropped out of the presidential race and pledged support for independent (ex—socialist) Emmanuel Macron. This helped calm investor nerves, as Macron now appears more likely to defeat Le Pen and the National Front in a runoff election.

UK: Revised estimates of UK real GDP showed that the economy grew by 0.7% q/q in 4Q2016. (Chart 2.) On an annual basis, UK GDP growth remained at 2.0% y/y, confirming the UK’s economy as the fastest growing in the G7 in 2016 and lending more ammunition to the Brexiteers’

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**Key market indicators**

<table>
<thead>
<tr>
<th>Stock markets</th>
<th>Index</th>
<th>Change (%)</th>
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</thead>
<tbody>
<tr>
<td><strong>Regional</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abu Dhabi SM</td>
<td>4.657</td>
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<tr>
<td>Bahrain ASI</td>
<td>1.350</td>
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<tr>
<td>Dubai FM</td>
<td>3.643</td>
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<tr>
<td>Egypt EGYX 30</td>
<td>12.270</td>
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<td>KSA Tadawul</td>
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<td>Kuwait SE</td>
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<td>Muscat SM 30</td>
<td>5.834</td>
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<td>Qatar Exchange</td>
<td>10.937</td>
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<td>MSGI GCC</td>
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<tr>
<td><strong>International</strong></td>
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<tr>
<td>DAX</td>
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<td>DJSI</td>
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<td>FTSE 100</td>
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<td>Nikkei</td>
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<tr>
<td>S&amp;P 500</td>
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<tr>
<td><strong>Commodities</strong></td>
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<tr>
<td>Brent crude ($/bbl)</td>
<td>56.3</td>
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<tr>
<td>KEC ($/bbl)</td>
<td>54.0</td>
<td>1.05</td>
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<tr>
<td>WTI ($/bbl)</td>
<td>54.2</td>
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<tr>
<td>Gold ($/oz.)</td>
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<tr>
<td><strong>Exchange rates</strong></td>
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<tr>
<td>KWD per USD</td>
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<tr>
<td>KWD per EUR</td>
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<tr>
<td>USD per EUR</td>
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<tr>
<td>JPY per USD</td>
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<td><strong>Interbank rates</strong></td>
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<td>Kibor – 3 month</td>
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<tr>
<td>Qibor – 3 month</td>
<td>1.88</td>
<td>0.44</td>
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<tr>
<td>Libor – 3 month</td>
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<td>0.00</td>
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<tr>
<td><strong>Bond yields</strong></td>
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<td></td>
</tr>
<tr>
<td>Abu Dhabi 2021</td>
<td>2.25</td>
<td>3.9</td>
</tr>
<tr>
<td>Dubai 2021</td>
<td>3.12</td>
<td>-4.0</td>
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<td>Qatar 2021</td>
<td>2.53</td>
<td>-3.6</td>
</tr>
<tr>
<td>Saudi Arabia 2021</td>
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<td>-11.7</td>
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<tr>
<td><strong>International</strong></td>
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<td></td>
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<tr>
<td>US 10 year</td>
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<tr>
<td>Bunds 10 year</td>
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</tr>
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<td>Gilts 10 year</td>
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<td>-13.3</td>
</tr>
<tr>
<td>JGB 10 year</td>
<td>0.06</td>
<td>-3.1</td>
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</table>

**Source:** Thomson Reuters Datastream
claim that the establishment’s forecasters had grossly underestimated the resilience of the UK economy and especially the UK consumer. Household consumption, facilitated by expanding credit lines, was indeed the driving force behind these better-than-expected figures; household spending in cash terms grew by 5% y/y in 4Q2106. Nevertheless, looking ahead, with retail sales growth slowing for the second consecutive month (-0.2% m/m in January) and with inflation rising, most analysts believe that the consumption boom is likely to moderate in 2017-18.

China: House price inflation in China is easing steadily. This is largely a result of sizeable government regulation over the past year. The average annual growth rate of newly built residential buildings in China’s top 15 cities has eased from a peak of 40% y/y in October 2016 to 36% y/y in January 2017. The Chinese government is expecting stable house prices in the first quarter of 2017. In addition, according to news reports, the government is said to be preparing a nationwide property tax. (Chart 3.)

GCC & regional macroeconomics

Kuwait: Bank profits were up 5.5% in 2016 to KD 733 million. Gains were driven primarily by lower loan-loss provisioning. Earnings growth in 4Q16 was particularly strong, with provisions in the quarter falling to their lowest level in years. Operating income, which captures earnings before expenses and provisions, was actually down in 2016, though the decline was driven by a small number of banks.

Real estate activity softened in January, following a stellar December, as sales fell to KD 179.5 million. Most of the monthly decline came from weaker activity in the commercial sector. Meanwhile, prices continued to show signs of stabilizing following months of downward pressure. The NBK residential home price index was “flat” on the month, while the residential land price index inched up. The more volatile investment building price index shed six points to 182.6, and was down 15.5% y/y. (Chart 4.)

Consumer confidence weakened in January with the Ara index sliding to 96 points following gradual improvement throughout 4Q16. Despite the recovery in oil prices and the strong performance of Kuwaiti equities, consumer confidence remains under pressure. The employment and durable goods components weighed on the index in January. (Chart 5.)

The Central Bank of Kuwait (CBK) issued KD 100 million in 5-year domestic bonds on behalf of the Ministry of Finance last week. Appetite was slightly weaker than recent 5-year issues, but the issue was still 4-times oversubscribed. The coupon, at 2.75%, was 25 basis points higher than the last fixed-rate 5-year note issued in November 2016. Almost KD 2.2 billion has been raised through domestic debt issuance thus far in FY16/17, raising government debt to KD 3.8 billion or an estimated 11% of GDP.

Saudi Arabia: The Saudi consumer price index (CPI) recorded its first instance of deflation in 12 years last month. The headline CPI declined in January by -0.4% y/y (-0.2% m/m), led lower by food and beverages, housing, and transportation. However, the annual decline is mostly a base effect resulting from the utility and transportation price hikes that came into effect in January 2016. Food prices, on the other hand, have witnessed six consecutive months of y/y decline, which is partly a result of the strengthening US dollar (to which the Saudi riyal is pegged) which has lowered import prices, and partly a reflection of the broader downward trend in global food prices.
UAE: Apartment and villa sales prices in Dubai continued to show signs of stabilization in the final quarter of 2016, thanks to a gradual recovery in demand. The pace of growth in apartment and villa sales prices remained broadly unchanged from 3Q2016, after both came in at -2.0% y/y in 4Q2016. (Chart 6.)

Egypt: Tourism bounced back from a low base in January following more than a year of weak numbers, following the downing of a Russian passenger plane in October 2015. The number of tourists arriving in Egypt stood at 544,000 in January, up 49% y/y. The sector is far from a recovery, with the figure still nearly 20% below where it was two years ago, and one half its pre-Arab Spring level. (Chart 7.)

Markets – oil

Oil prices (Brent) rose slightly last Tuesday to touch a 3-week high of $56.7/bbl on comments by the OPEC Secretary, General Mohammed Barkindo, that the group was intent on full compliance with the 30 November production cut agreement. He hailed the attainment of more than 90% of the group’s aggregate output reduction target in January as “unprecedented”. However, whether the group will extend the agreement beyond the mandatory 6 months will largely depend on the status of global crude inventories. As far as US crude stocks are concerned, recent data would seem to indicate that OPEC has its work cut out given that, as of 10 February, US inventories were increasing rather than decreasing. An additional 9.5 million barrels were added to US crude stocks in the week ending 10 February, bringing the total to 518 million barrels. Moreover, US crude production has risen by 207,000 b/d so far in 2017 (2.5%) to 8.9 mb/d. (Chart 8.)
MSCI EM. As a result, yields on paper that were pressured lower despite strong trailing US treasuries lower. Yields for most of the week, seemingly unfazed by the political turmoil in bond markets. Sentiment boosted by strong Eurozone PMIs, however, was later offset by uncertainty over Mr. Trump’s soon to be announced tax details. This saw the Euro Stoxx 50 close down 0.1%. The performance of emerging market equities was lackluster up 0.1%. (Chart 9.)

Regional markets witnessed some profit-taking, with performances mixed. The MSCI GCC index was down 0.2%, in line with most regional markets. The Saudi market was the weakest, down 1.2%. The rest of the GCC was either flat or little changed, with Bahrain and Qatar outperforming and rising 1.9% and 1.0%, respectively. Dubai was particularly affected by developments surrounding builder Arabtec. (Chart 10.)

**Markets – fixed income**

French election dynamics dominated bond markets throughout the week, with European government bonds (EGB) particularly impacted. French government bonds, usually considered a safe haven, were being sold off by investors disheartened at the upcoming (April) presidential election’s rising unpredictability. As a result, yields on Bunds, gilts, and Treasuries were pressured lower despite strong Eurozone PMIs and the reinvigorated possibility of a Fed rate hike in March (not our call). US 10-year treasury yields shaved several more points following weaker than expected soft data, ending the week at 2.3% yield; 10 year Bund yields were down 11 basis points. (Chart 11.)

The regional primary market was active as sovereigns sought to finance 2017 deficits. Dubai is expecting to issue a USD bond before the end of 1Q17; its last international issuance was a $750 million sukuk offered in 2014. Saudi Arabia issued a proposal for a dollar-denominated sukuk and Oman is in talks with banks for a USD bond. Meanwhile, Bahrain tapped international markets for another $600 million.

GCC yields on paper that are maturing in 2021 were seemingly unaffected by the incoming supply, with most trailing US treasuries lower. Yields for all except Oman were down 3-18 basis points. Meanwhile, Oman was up 8 basis points. (Chart 12.)

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**Markets – equities**

World equities continued to ride the wave of Trump-US optimism, with the MSCI World gaining 0.3%. Strong global PMI data coupled with growth-positive Fed talk saw equities boosted during the week. US equities reached new highs yet again, with the S&P 500 and the DJIA up 0.7% and 1.0%, respectively. European equities also advanced for most of the week, seeming outperformance,
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