Weekly Economic and Markets Review
6 May 2018

Fed leaves rates on hold while Eurozone growth disappoints; oil prices stay close to $75

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,557	-2.99	3.60
Bahrain (ASI)	1,263	0.03	-5.12
Dubai (DFMGI)	2,948	-3.12	-12.52
Egypt (EGX 30)	17,833	-2.89	18.73
GCC (S&P GCC 40)	989	-2.99	0.41
Kuwait (All Share Index)	4,801	-0.05	n/a
KSA (TASI)	8,107	-1.71	12.19
Oman (MSM 30)	4,726	0.07	-7.33
Qatar (QE Index)	8,806	-3.11	3.31
International			
CSI 300	3,775	0.47	-6.36
DAX	12,820	1.90	-0.76
DJIA	24,263	-0.20	-1.85
Euro Stoxx 50	3,551	0.90	1.33
FTSE 100	7,567	0.87	-1.57
Nikkei 225	22,473	0.02	-1.28
S&P 500	2,663	-0.24	-0.38

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.61	3.5	66.2
Dubai 2022	3.77	14.0	63.5
Qatar 2022	3.81	3.5	73.2
Kuwait 2022	3.59	-3.5	78.2
Saudi Arabia 2023	3.97	6.5	75.2
International			
UST 10 Year	2.94	-1.3	53.3
Bunds 10 Year	0.55	-2.2	12.1
Gilts 10 Year	1.40	-4.7	21.1
JGB 10 Year	0.04	-1.2	-0.6

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.08	1.5	35.0
Kibor	2.00	0.0	12.5
Qibor	2.64	-1.2	-10.4
Eibor	2.35	-18.9	55.2
Saibor	2.40	2.7	50.0
Libor	2.36	0.4	66.9

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.301	0.17	-0.03
KWD per EUR	0.371	0.00	4.51
USD per EUR	1.196	-1.40	-0.32
JPY per USD	109.1	0.07	-3.16
GBP per USD	1.353	-1.80	0.13
EGP per USD	17.58	-0.45	-0.85

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	74.9	0.31	11.96
KEC	69.1	-0.52	8.68
WTI	69.7	2.38	15.39
Gold	1312.7	-0.58	0.49

Source: Thomson Reuters Datastream; as of Friday's close 4/5/2018

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Overview

Last week's data underscored some of the challenges facing the still broadly positive global economic outlook. GDP growth in the Eurozone disappointed at just 0.4% q/q in 1Q18 and combined with recent trade tensions, the withdrawal of monetary stimulus and a strong currency added to concerns about the region's longer-term growth prospects. Meanwhile, data in the US showed inflation rising back towards target, strong if cooling economic growth and business concerns about the impact of tariffs on costs and activity. The Fed, as expected, left interest rates unchanged, but another hike is expected in June.

Finally, turmoil in Argentina, which saw interest rates hiked to 40% in order to stem capital flight raised questions about broader vulnerabilities in emerging markets amid tightening global monetary policy and a strengthening US dollar.

An end-week rally left Brent crude oil prices just shy of $75/bbl, up 0.3% w/w, boosted by continued nervousness on the US's upcoming decision on the sanctions waiver regarding Iran, due May 12th, and a temporary shutdown at a UK oil loading terminal. Geopolitical factors – including presidential elections in troubled Venezuela mid-month – are set to play a key role in market sentiment over coming weeks, against a generally supportive backdrop of tighter market fundamentals and dwindling stocks.

The IMF, in its latest outlook on the MENA region, has revised up its forecast for non-oil GDP growth in the GCC region this year to 2.7% versus 2.4% in its October report. It cites the easing pace of fiscal consolidation in the region as the main reason for the upgrade, as government fiscal positions are supported by rising oil prices. Higher government spending has pushed up budget breakeven oil prices, however, with its Saudi estimate, for example, jumping to $88/bbl this year from $70 last time.

International macroeconomics

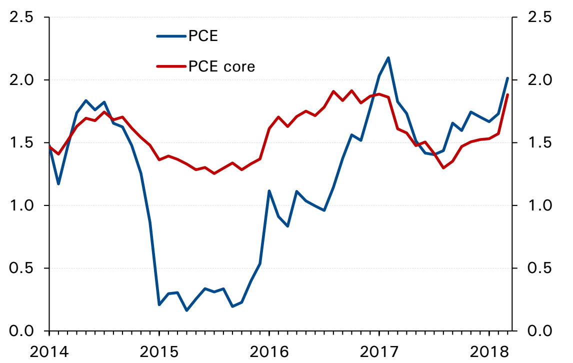
USA: Core personal consumption expenditures ("PCE") price inflation – the most closely-watched inflation measure – jumped to 1.9% y/y in March, albeit boosted by a base effect, and now stands close to the Federal Reserve's 2% target. (Chart 1.) Consumer spending, meanwhile, although still growing at a solid 4.4% y/y rate in March, saw fairly soft readings m/m in 1Q18 overall, confirming the slowdown revealed in recent GDP statistics. But with unemployment falling further to 3.9% in April – its lowest since 2000 – and job creation proceeding at a reasonable pace of 164,000 m/m, prospects for the consumer sector still look decent.

Meanwhile, survey evidence pointed to still generally elevated activity levels in both the manufacturing and non-manufacturing sectors, though businesses' concerns over the impact of tariffs on costs and prices, as well as the tight labor market were also highlighted.

Against this backdrop, the Fed kept interest rates on hold at 1.5-1.75%, and stated that it expected growth to remain reasonable, the labor market strong and inflation close to the 2% target. Most analysts expect rates to rise by 25 bps at the Fed's next meeting in June.

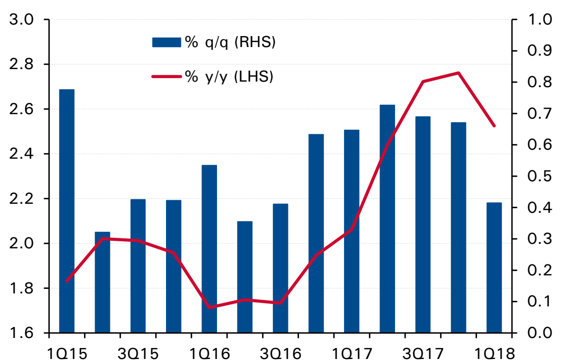
Chart 1: US PCE inflation

(% y/y)



Source: Thomson Reuters Datastream

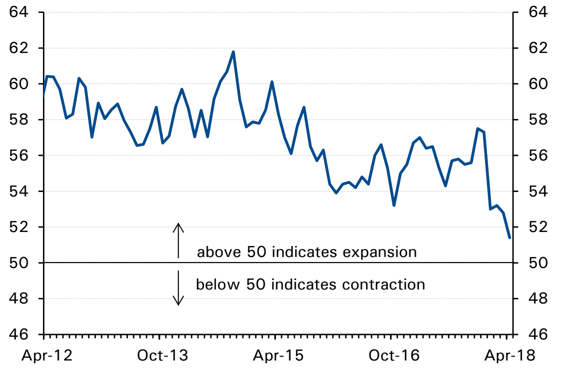
Chart 2: Eurozone GDP



Source: Thomson Reuters Datastream

Chart 3: Saudi Purchasing Managers' Index

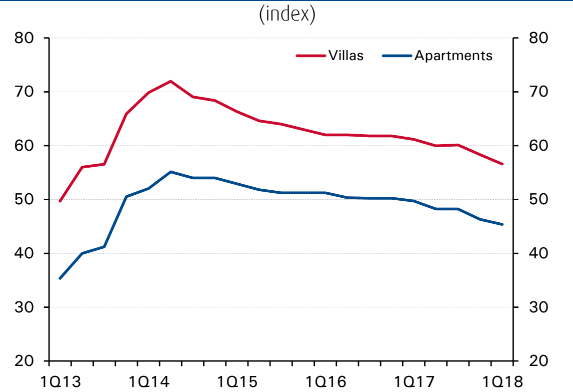
(index)



Source: Markit/Emirates NBD

Chart 4: Dubai residential property prices

(index)



Source: Asteco

Eurozone: GDP in the Eurozone rose by a disappointing 0.4% q/q in 1Q18 compared to 0.7% in 4Q17, with the annual rate declining to 2.5% y/y from 2.8%. Growth in France slipped to a particularly soft 0.3% q/q. (Chart 2.) While part of the slowdown in regional growth could be attributable to temporary factors including unusually cold weather, strikes and a flu outbreak, the figures also fed concerns that underlying economic conditions are deteriorating after outperforming last year. These fears were supported by the latest manufacturing PMI index, which slipped to a 13-month low of 56.2 in April. The slowdown in export orders growth points to a possible impact from the stronger euro.

Meanwhile, inflation in the Eurozone also came in soft at 1.2% y/y in April from 1.3% in March, with the core rate dipping to just 0.7% y/y.

GCC & regional macroeconomics

Saudi Arabia: Business conditions in the kingdom improved at the slowest pace in nine years, the latest, April PMI revealed. The headline index fell to 51.4 from 52.8 in March, the lowest in the survey's history and, according to survey respondents, primarily a reflection of decelerating output growth and contracting new export orders. (Chart 3.) Firms cited a combination of competitive pressures, unpredictable economic conditions and subdued domestic and foreign demand for the fall.

UAE: Residential property prices in Dubai continued to ease in 1Q18. The impact of more stringent loan-to-value regulations (introduced back in 2013) continues to be compounded by the effects of increased supply and higher interest rates. According to Asteco, the prices of both apartments and villas fell at a faster rate (+9% y/y) in 1Q18 and are expected to continue to experience downward pressures this year due to still higher supply. (Chart 4.)

After easing for three straight months, the UAE's headline PMI rose from 54.8 in March to 55.1 in April, following a rebound in export orders and as new orders and output stood firm. Looking ahead, business conditions appear promising, with the future output index surging from 63.8 in March to an almost three-year high of 74.3 in April.

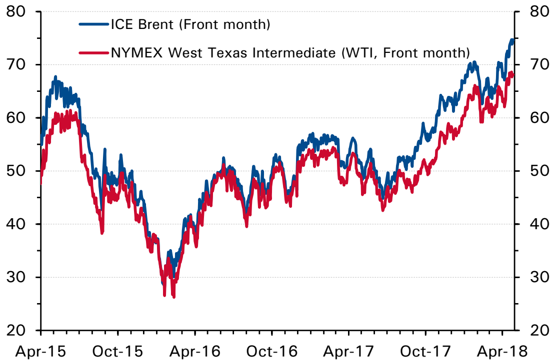
Egypt: The headline PMI edged above the 50 'no change' mark for only the second time since 2015, reaching 50.1 in April from 49.2 in March. The index has seen a reasonable strengthening over the past year, but continues to point to softer GDP growth than the 5%+ rates reported in the official statistics. Meanwhile, cost and price indices eased further, as the pass-through effects from the currency devaluation in late 2016 continues to fade.

Markets – oil

While Brent and WTI were range-bound for most of last week, they did close on Friday up 0.3% w/w at $74.9/bbl and 2.4% w/w at $69.7/bbl, respectively. (Chart 5.) WTI neared $70 for the first time since November 2014, as a flurry of last-minute activity by traders focused on the looming Iran nuclear deal deadline helped the US benchmark (and Brent) gain nearly 2% on Friday. The oil market puts the probability that President Trump will pull the US out of the Iran nuclear agreement on 12 May and reinstate sanctions on the Islamic Republic at more than 50%. Prices had been under pressure earlier in the week, however, on a greater-than-forecast US crude inventory build (+6.2 mb to 435 mb) and a further increase in US crude production (+33 kb/d to 10.6 mb/d).

Chart 5: Oil prices

($/bbl)



Source: Thomson Reuters Datastream

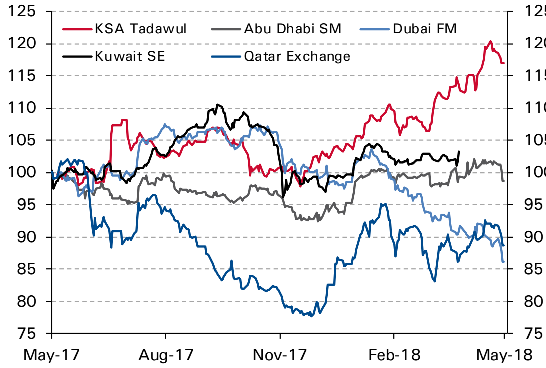
Chart 6: Total equity return indices

(rebased, 4 May 2017=100)

Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

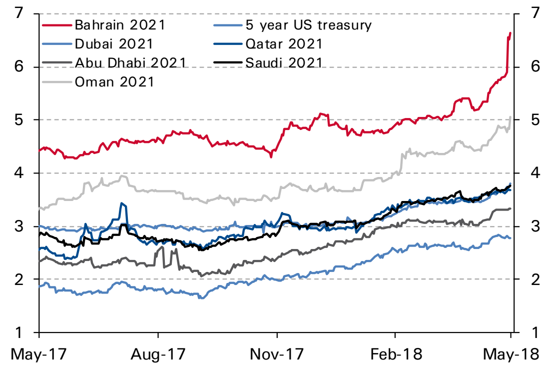
(rebased, 4 May 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – equities

Global equities were mixed last week, with European stocks outperforming their major US and emerging market counterparts. This helped push the MSCI AC world index up 0.2% w/w. While the Euro Stoxx 50 was up 0.9% w/w, mainly on the back of positive earnings, both the S&P 500 and the DJI slid by 0.2% w/w following lower-than-expected US job numbers. Most major emerging markets also struggled to eke out gains, with the MSCI EM index down by 1.2% on the week, as investors grew cautious about the outcome of the US-China trade talks. (Chart 6.)

Regional markets witnessed another sell-off, with the GCC MSCI index falling by 2.0% w/w. With less than two weeks to go before the start of Ramadan, market activity has been slowing down, while there has also been weakness in blue chip companies. Abu Dhabi, Dubai and Qatar led the weekly decline, falling by 3.0% w/w. (Chart 7.) Saudi was also down by almost 2% on the week.

Markets – fixed income

The yield on the US 10-year benchmark rate shed 1 bps last week, finishing at 2.94% after weaker-than-expected US jobs data tempered expectations for aggressive Fed rate hikes. The yield on the 10-year Bund also fell, sliding by 2 bps to 0.55%, after Eurozone growth and inflation data came in below expectations. UK gilts also trended lower, falling by 5 bps to finish the week at 1.40%. The UK last week announced that it would be issuing a 53-year bond this month, which will mature in 2071 and replace a 2068 note. This would be its longest-dated gilt on the market as it seeks to exploit low borrowing costs. Meanwhile, in the GCC, yields on all tracked sovereigns, with the exception of Kuwait, trended higher. (Chart 8.)

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