Weekly Economic and Markets Review
11 February 2018

Equities suffer heavy losses amid huge volatility; Brent crude falls below $63 as US oil production hits record

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,599	-0.28	4.57
Bahrain (ASI)	1,333	-1.82	2.07
Dubai (DFMGI)	3,326	-2.54	-1.32
Egypt (EGX 30)	14,921	-1.11	-0.64
GCC (S&P GCC 40)	996	-0.28	1.15
Kuwait (Price Index)	6,655	-0.46	3.85
KSA (TASI)	7,403	-3.30	2.39
Oman (MSM 30)	5,007	-0.57	-0.80
Qatar (QE Index)	8,893	-3.41	4.31
International			
CSI 300	3,841	-10.08	-4.72
DAX	12,107	-5.30	-6.27
DJIA	24,191	-5.21	-2.14
Euro Stoxx 50	3,326	-5.60	-5.08
FTSE 100	7,092	-4.72	-7.74
Nikkei 225	21,383	-8.13	-6.07
S&P 500	2,620	-5.16	-2.02

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	62.8	-8.44	-6.10
KEC	63.2	-2.99	-0.49
WTI	59.2	-9.55	-2.02
Gold	1313.1	-1.54	0.52

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.300	0.13	-0.47
KWD per EUR	0.372	2.26	4.68
USD per EUR	1.223	-1.82	1.98
JPY per USD	108.8	-1.19	-3.45
GBP per USD	1.384	-2.02	2.39
EGP per USD	17.65	0.11	-0.45

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	2.78	2.5	5.0
Kibor	1.88	-6.3	0.0
Qibor	2.70	3.1	-4.2
Eibor	1.84	-3.3	4.3
Saibor	1.89	0.1	-0.9
Libor	1.81	2.4	11.6

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.29	10.5	34.8
Dubai 2022	3.29	10.9	15.3
Qatar 2022	3.55	8.5	47.8
Kuwait 2022	3.31	14.8	50.8
Saudi Arabia 2023	3.62	18.5	40.8
International			
UST 10 Year	2.83	-2.1	42.0
Bunds 10 Year	0.75	-1.0	32.5
Gilts 10 Year	1.57	-0.6	38.5
JGB 10 Year	0.07	-1.4	2.1

Source: Thomson Reuters Datastream; as of Friday's close 9/2/2018

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Overview

A week of wild movements on global equity markets ended with the US S&P 500 down 5% w/w, its worst performance since the financial crisis, with Japanese and European stocks down even more. Amid strong US growth and concerns of overheating, markets fear rising inflation and faster-than-expected monetary tightening. The move also represents a pullback from the recent bull-run in equities that still leaves the S&P up a hefty 14% on a year ago. US treasuries benefitted from 'safe haven' flows, with yields on the benchmark 10-year edging down 2bps on the week, while the trade-weighted US dollar index climbed 1.4%, reversing half of its losses so far this year.

The turmoil also hit oil prices, with Brent crude tumbling 8% to below $63/bbl by end-week, its lowest level this year. Prices were affected by further news of rising US crude production – itself arguably the product of recent price strength – as well as the broader market sell-off. The price drop comes just ahead of a traditionally weak season for global oil demand, linked to refinery maintenance.

Gulf equities saw a partial recovery after following global stocks lower early in the week, but the MSCI GCC index still ended down 3%, with Saudi and Qatar falling by slightly more. On the macroeconomics side, conditions look reasonably upbeat. Last week's round of PMI indicators were admittedly mixed, with the UAE index holding up (and optimism on future output surging) but Saudi's moving sharply lower – though some of this could reflect a rebalancing after strong pre-VAT activity levels in December.

International macroeconomics

USA: Congress passed a two-year expansionary spending bill at the end of last week, which promises to boost spending by about $400 billion (including hurricane relief) in the next two years. The bipartisan deal, which came too late to avoid a brief "technical" government shutdown on Friday, set overall spending levels for the next two years and lifted the debt ceiling until March 2019. However, it will still require a broader agreement on detailed spending to be reached within six weeks. The agreement adds to the fiscal stimulus from the GOP tax cuts passed in December, providing a further boost to an already strong economy and adding to concerns of more rapid inflation.

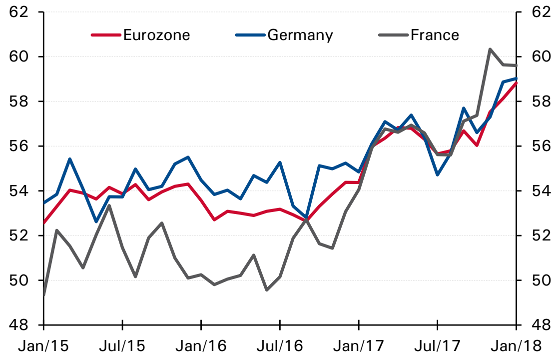
Eurozone: A coalition agreement was struck between Angela Merkel's CDU and Martin Schulz's SPD. The agreement gave the SPD control of key ministries including finance, foreign, and labor. The deal still needs to be approved by a majority of the SPD's members.

At 58.8, the Eurozone PMI was confirmed near a 12-year high and marked 55 consecutive months above 50, with momentum picking-up across the board. France led the expansion, while Germany, Italy, and Spain registered record performances. (Chart 1.)

China: January 2018 exports beat expectations, growing 11.1% y/y in dollar terms. Imports grew 37%, resulting in a $20 billion trade surplus. The boost to imports came from a jump in crude oil shipment volumes,

Chart 1: Eurozone PMI

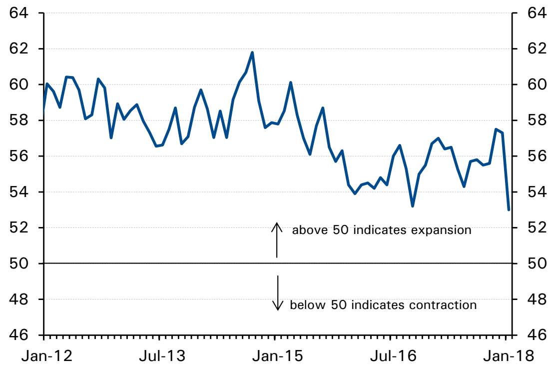
(index)



Source: IHS Markit

Chart 2: Saudi PMIs

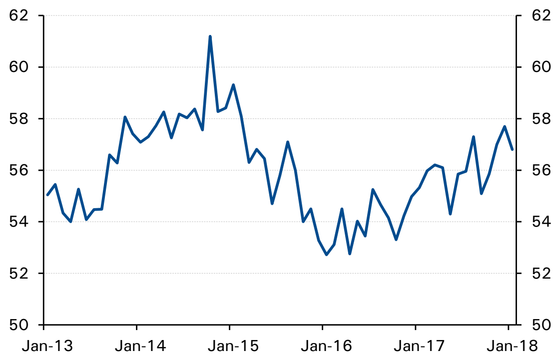
(index)



Source: Markit/Emirates NBD

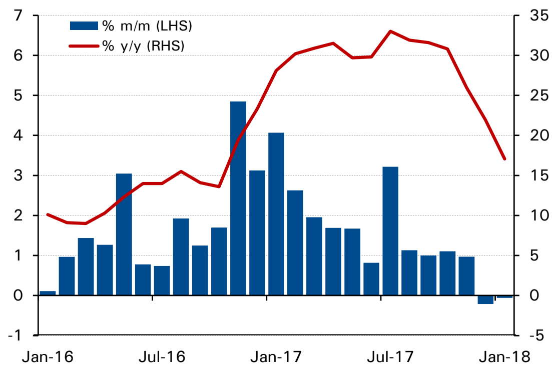
Chart 3: UAE PMI

(index)



Source: Markit

Chart 4: Egypt inflation



Source: Central Bank of Egypt

combined with higher oil prices. The timing of the Lunar New Year contributed to the strong rise in imports as well.

UK: The Bank of England's (BoE) Monetary Policy Committee (MPC) left interest rates on hold at 0.5% and the level of quantitative easing kept unchanged at £435 billion. The MPC did signal, however, that it may need to raise interest rates earlier than expected and by a greater extent in order to keep rising inflation in check. Amid a buoyant global economy, the BoE revised up its estimate of UK economic growth in 2018 from 1.7% to 1.8%. Meanwhile, EU Negotiator Michel Barnier warned that Britain could not assume that a Brexit transition arrangement would be concluded in time for the UK's scheduled departure in March 2019.

GCC & regional macroeconomics

Saudi Arabia: The Saudi PMI fell markedly in January to 53.0 from 57.3 in December, depicting the slowest monthly improvement in non-oil private sector activity since August 2009. (Chart 2.) Firms reported weaker output, new orders and export orders, and linked the slowdown in domestic sales to the impact of the new VAT on demand. Businesses continued to expand their payrolls, however, and optimism was at its highest in nine months.

UAE: The number of passengers passing through Dubai International Airport (DXB) fell slightly in 4Q17 compared to Q3, but at 21.7 million it remained close to a record high. With annual traffic at a record high 88.2 million in 2017, DXB retained its rank as the world's busiest airport for international passengers for the fourth straight year.

The headline PMI eased slightly in January, but was still solid at 56.8 thanks to strong output and new orders data and a recovery in new export orders, helped by ongoing weakness in the dirham. (Chart 3.) Inflationary pressures picked up following the introduction of VAT. Businesses expect activity to gather momentum over the next year, once adjustments to the new VAT environment have been made.

Egypt: The PMI rose to 49.9 in January, remaining relatively subdued despite a robust economic recovery. GDP growth reached 5.2% y/y in 3Q17 though the current level of the PMI is consistent with growth of around 3%. Gains were visible across most components while price pressures appeared to increase following months of decline. Staff costs saw a surprising increase, with the index hitting a 1-year high.

CBE reserves saw their largest increase in six months in January, rising $1.2 billion to $38.2 billion or 8.3 months of imports. The large increase in reserves over the past year reflects the confidence that followed the floating of the pound and the implementation of reforms. Authorities were close to announcing the issuance of up to $5 billion in international bonds, in an effort to continue to capitalize on the positive environment and finance a deficit estimated at 9% of GDP in FY17/18, but may wait until market volatility subsides.

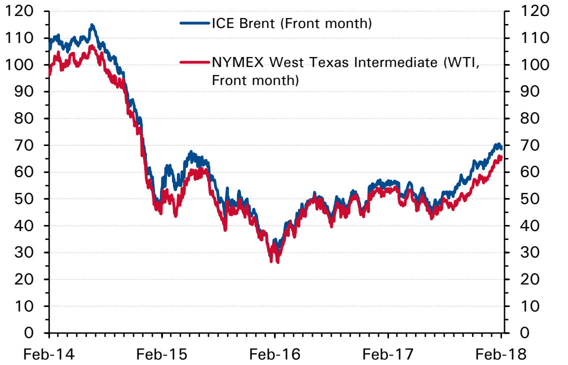
Inflation retreated further in January, to 17.1% y/y and paving the way for a possible rate cut later this week. (Chart 4.) Inflationary pressures have been particularly weak for two consecutive months. Core inflation slowed more sharply to 14.4% in January after peaking at 35% in July 2017.

Markets – oil

Oil prices experienced their largest weekly fall in two years, with Brent and WTI closing the week down between 8-10% at $62.8/bbl and $59.2/bbl, respectively. (Chart 5.) Both markers have slipped into negative territory

Chart 5: Benchmark crude oil prices

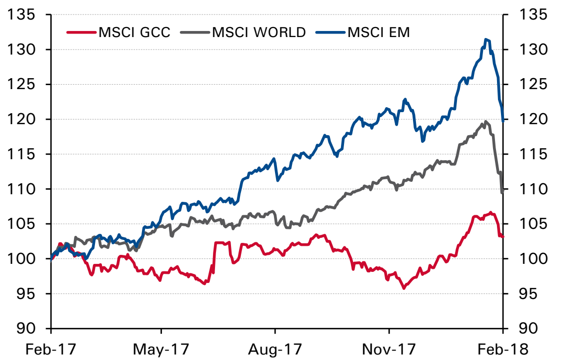
($/bbl)



Source: Thomson Reuters Datastream

Chart 6: Total equity return indices

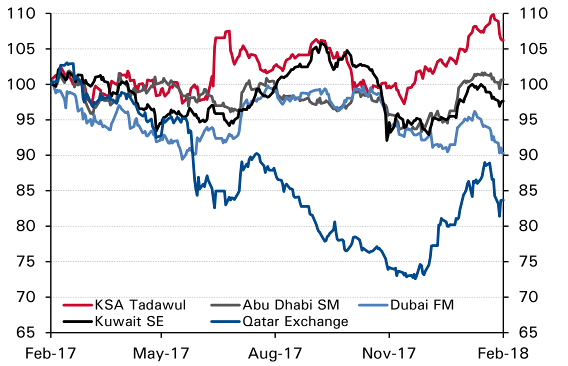
(rebased, 9 February 2017=100)



Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

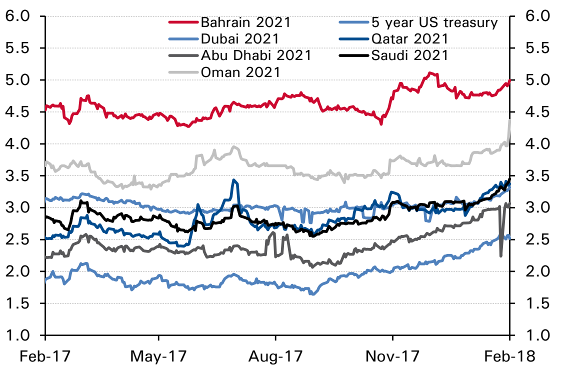
(rebased, 9 February 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

on a year-to-date basis at -6.1% (Brent) and -2.0% (WTI). Oil prices appear to have been a casualty of both the broader market sell-off (S&P 500 energy stocks were down 9% between 1-5 February after Exxon and Chevron reported less-than-stellar earnings) and the publication of yet another set of weekly US petroleum data showing a rise in US crude production – to a forty-eight year high of 10.3 mb/d at the start of February. The EIA also reported an increase in crude inventories for the second week in a row, while the US oil rig count was up last week by a sizeable 29 to 791.

Markets – equities

Equity markets saw intense volatility, triggered in part by concerns over overheating and rising inflation. The MSCI AC (i.e. global) index was down 5.4% on the week.

US equities posted large declines, with the DJI chalking up its worst daily point performance ever and the S&P dropping the most in a day since the US's credit downgrade in 2011. Both indices recorded a weekly contraction of a little more than 5%. Other markets took their cues from US equities: the Euro Stoxx 50 was down 5.6% and MSCI's emerging markets index retreated by 6.5%, driven by a large sell-off in China. (Chart 6.)

The MSCI GCC index was down 3% during the week, tracking global markets, with few regional catalysts to offset the sell-off and oil prices lower. (Chart 7.)

Markets – fixed income

Although volatility did push investors into safer assets, benchmark yields were little changed last week with investors still bullish on global growth, encouraged by the US budget deal and a hawkish BOE. US 10-year treasury yields dropped 2 bps to 2.83%. Meanwhile, Bunds dropped 1 bp to 0.75%. GCC benchmark yields diverged on weaker oil prices, up between 9-19 bps. (Chart 8.)

The Bank of England voted unanimously not to increase rates or adjust its QE, but raised its growth forecast, with expectations of a sooner-rather-than-later tightening in monetary policy.

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