Overview

A continued flow of solid US economic data – including above-expectations GDP growth of 2.3% in 1Q18 and signs of rising wage and price pressures – as well as higher commodity prices helped push the trade-weighted US dollar up 1.3% w/w and saw the US 10-year treasury yield breach the 3% mark for the first time in four years. The data was seen as supporting the case for three interest rate hikes this year, though no change is expected at the FOMC meet later this week.

In Europe, ECB president Draghi acknowledged the apparent slowdown in Eurozone growth signaled by recent economic data, but would not be drawn on the prospect of extending the bank’s asset purchase program due to be scaled back further from September.

The price of Brent crude oil finished just shy of $75/bbl, up 0.8% w/w and close to the 40-month high recorded mid-week. Against a backdrop of strong demand and tightening market fundamentals, attention is focused on the threat to oil supply from possible US sanctions on Iran next month. The latter was fueled last week by comments from French President Macron that he expected Trump to withdraw from the Iranian nuclear deal – a move that could threaten an estimated 0.3-0.5 mb/d of Iran’s current 2.5 mb/d of crude and condensate exports.

In the Gulf region, sovereign yields have also been pushing higher following the rise in US yields and amid further recent issuance. Yields on bonds with 8-10 year maturities have increased more than 30 bps on average over the past three weeks, while yields on bonds maturing in 2027 in Abu Dhabi and Kuwait – the region’s lowest yielding sovereigns – have risen to above 4% for the first time. The move comes despite the climb in oil prices, which has improved the region’s fiscal outlook and might normally contribute to lower yields.

International macroeconomics

USA: GDP growth in the first quarter slowed to 2.3% from 2.9% in 4Q17, but nevertheless came in above expectations of a 2% expansion. The deceleration was largely due to consumer spending, which slowed to 1.1% from 4Q17’s blistering pace of 4.0%. (Chart 1.) Some analysts expect consumer spending to reaccelerate in 2Q18 as the impact of recent tax cuts gathers steam, and given a continued flow of robust data.

This included wages and salaries climbing at a ten-year high pace of 2.7% y/y in Q1 amid a tightening labor market, and reports from both the Conference Board and the University of Michigan showing consumer confidence remaining close to recent multi-year highs in April. The housing market also looks strong, with home sales (new and existing) rising in March, and the Case-Schiller house price index increasing at a four-year high of 6.8% y/y in February despite higher mortgage rates.

Other economic data was also upbeat, with the flash composite PMI for April beating expectations and edging up to a decent 54.8, helped in particular by a strong manufacturing number. Still, the Federal Reserve is expected to leave interest rates on hold when it meets later this week,
pending two or three hikes later in the year.

**Eurozone:** Eurozone activity and sentiment indicators steadied in April, although other data continued to point to a slowdown. Both the Eurozone’s flash PMI and economic sentiment index were unchanged from March, at 55.2 and 112.7, respectively – though beat expectations and may suggest a less severe slowdown than feared. However, underlying factors still hint at some weakness. For instance, PMI new orders growth eased on weaker expected demand and supply constraints, while sentiment faltered in the retail trade, services, and construction sectors.

Germany’s April Ifo survey was disappointing, with the business climate index dropping to 102.1, its fifth consecutive decline. Meanwhile, France’s preliminary 1Q18 GDP came in at 0.3% q/q, slightly less than the 0.4% forecast. Eurozone 1Q18 GDP, out this week, is forecast to grow by 0.4%, but the recent weakness in data may see it undershoot.

**GCC & regional macroeconomics**

**Saudi Arabia:** The authorities officially launched the kingdom’s much heralded privatization program, which aims to raise the private sector’s contribution to GDP from 40% (2015) to 65% by 2030 and raise SR61 billion ($16.3bn) in non-oil revenues for the Saudi treasury. As one of the key planks of the Saudi Vision 2030, the government intends to generate net savings of SR25bn-30bn by 2020 through the sale of state assets and public-private partnerships.

According to the labor ministry, Saudi Arabia needs to create 1.2 million jobs by 2022 to reduce the unemployment rate from 12.8% to 9%.

**UAE:** Dubai’s real GDP eased from a revised 3.4% y/y in 2016 to a still firm 2.8% y/y in 2017, as the continued strength in the transportation & storage, the financial & insurance and real estate sectors partly offset the ongoing weakness in the wholesale & retail trade sector. The wholesale & retail sector, (33% of Dubai’s economy), grew by a mere 0.9% y/y, while the transportation & storage and the real estate sectors grew by 4.5% y/y and 7.3% y/y, respectively. (Chart 2.)

**Markets – oil**

Brent and WTI closed on Friday at $74.6/bbl and $68.1/bbl, respectively, having spent most of the week trading sideways within a narrow $1 range. (Chart 3.) Uncertainties surrounding President Trump’s intentions towards the Iran nuclear deal saw market participants adopt a wait-and-see approach. Money managers did decrease bullish Brent bets by 7,396 net long positions to 612,486 the previous week, but Brent still closed the week 0.8% higher w/w. WTI’s slight fall of 0.4% w/w was probably a reflection of yet another week of US shale production gains (+46,000 b/d to 10.59 mb/d) and a rise in crude inventories (+2.1 mb to 429,736 mb) as well as a stronger US dollar. Barely five months into 2018 and crude production has already increased by a staggering 804,000 b/d (8.2%).

**Markets – equities**

A mixed week for global equities as investors digested a 3% US 10-year yield and mixed, but mostly positive, earnings. The MSCI AC World index was up 0.3% w/w, led by non-US developed markets. The S&P 500 was flat on the week, while the DAX dropped 0.6% w/w. In Europe, the Euro Stoxx 50 was up a good 0.7% w/w. Meanwhile, emerging markets trended lower by 0.3%. (Chart 4.)
Regional markets sold off during the week, with MSCI GCC index down 0.8% w/w. Saudi, up an impressive 14% YTD, saw investors exit the market last week over concerns that it may be fully valued or expensive. Meanwhile, Kuwait outperformed the region, with the All Share index up 0.1% w/w, supported by positive earnings. (Chart 5.)

**Markets – fixed income**

Higher oil prices, further solid economic data and large Treasury debt sales led the US 10-year benchmark rate above 3% for the first time since 2014. An inflow of investors attracted by the higher rate, however, helped yields finish the week at 2.96%. (Chart 6.) Dovish remarks by the ECB and some data weakness, on the other hand, saw Bund yields drop by 2 bps to 0.57%. In the GCC, yields rose following international trends, with all tracked sovereigns up between 1-6 bps. (Chart 7.)

The ECB left its monetary policy unchanged, but acknowledged the slowdown in the Eurozone economy. Although Mr. Draghi alluded to the weakness as temporary, it is expected that the central bank will hold off making any decisions on its QE program until July, preferring to adopt a “wait and see” approach.