IMF ups world growth to 3.6% for 2017; inflation still lags IMF and Fed forecasts; GCC markets mixed

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi SM	4,526	2.53	-0.45
Bahrain ASI	1,275	0.05	4.45
Dubai FM	3,660	1.93	3.66
Egypt EGX 30	13,892	0.07	12.53
S&P GCC 40	1,044	-0.40	-9.59
Kuwait SE	6,629	-0.50	15.32
KSA Tadawul	6,988	-3.74	-3.09
Muscat SM 30	5,128	-1.63	-11.31
Qatar Exchange	8,342	2.58	-20.07
International			
CSI 300	3,921	2.20	18.46
DAX	12,992	0.28	13.16
DJIA	22,872	0.43	15.73
Eurostoxx 50	3,605	0.03	9.54
FTSE 100	7,535	0.17	5.50
Nikkei 225	21,155	2.24	10.68
S&P 500	2,553	0.15	14.04

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	57.2	2.79	0.62
KEC	54.1	1.01	4.28
WTI	51.5	4.38	-4.23
Gold	1301.5	2.35	13.17

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.302	-0.08	-1.24
KWD per EUR	0.358	0.65	12.35
USD per EUR	1.182	0.76	12.45
JPY per USD	111.840	-0.70	-4.30
USD per GBP	1.328	1.69	7.68
EGP per USD	17.610	-0.17	-2.17

Interbank rates	%	Change (bps) weekly	YTD
Bhibor - 3 month	2.48	5.0	37.5
Kibor - 3 month	1.75	0.0	31.3
Qibor - 3 month	2.44	-1.0	66.0
Eibor - 3 month	1.57	1.2	9.4
Saibor - 3 month	1.79	-0.1	-24.4
Libor - 3 month	1.36	1.1	36.1

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2021	2.33	6.2	-20.0
Dubai 2021	2.98	0.9	-32.3
Qatar 2021	2.95	14.2	2.0
Kuwait 2022	2.49	-3.8	n/a
Saudi Arabia 2022	2.76	-3.8	n/a
International			
UST 10 Year	2.28	-8.8	-15.2
Bunds 10 Year	0.40	-5.9	19.5
Gilts 10 Year	1.37	0.7	13.1
JGB 10 Year	0.07	1.1	1.6

Source: Thomson Reuters Datastream; as of Friday's close 13/10/2017

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Overview

The IMF released its updated World Economic Outlook (WEO) forecasts. It is still expecting improved global growth this year and next, and the numbers were nudged up 0.1% for both years. World growth is now seen at 3.6% for 2017 and 3.7% for 2018, up from 3.2% in 2016. The revisions came from better EU, Japan, and China performances. The risks, which are seen as balanced, include potentially tighter liquidity (something going wrong with the unwinding of QEs, inflation failing to pick up) and/or Chinese growth weakening. Inflation was revised slightly lower for both advanced and emerging economies.

The positive IMF view is shared by many, including market participants, who remain positive in general; and equity markets keep rising. The US in particular remains hopeful that deregulation (past and future) as well as an awaited tax cut will further support US growth and equities.

Brent oil prices rose toward $57 pb, on decent world economic growth and potential further restraint by OPEC and its partners. The USD is trading in a tight range, moved in part by interest rate differentials and political developments. The latter include the Catalonia and Brexit issues in Europe, and the decertification of the Iran deal in the US, all issues contained for now. The Iran nuclear deal now goes to Congress for further action, while Brexit saw a setback last week on continued disagreement between the sides.

Interest rates were off a bit, as US inflation data was weaker than anticipated – core inflation was steady at 1.7% y/y in September – and ECB president Mario Draghi still sounded cautious on the policy direction. The probability of a December Fed hike fell from 90% to 80%, still a very high likelihood.

In the GCC, unconfirmed reports said KSA could do its Aramco IPO in two parts, one domestic in 2018 and one foreign, the latter perhaps in 2019.

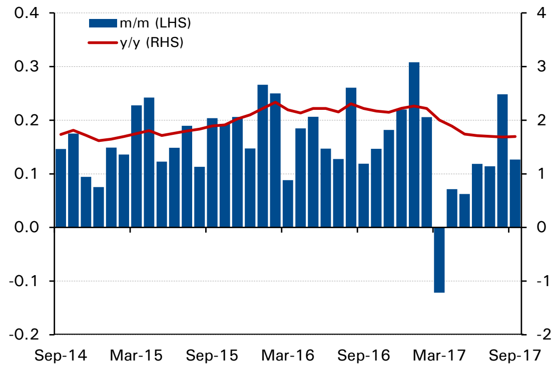
International macroeconomics

USA: Core inflation was disappointing in September. Core prices rose by just 0.1% m/m, reviving concerns that inflation remains weak, though annual core inflation was steady at 1.7% y/y (Chart 1). Earlier in the week, the minutes of the September FOMC meeting hinted at a slightly more dovish approach by the Fed given the concerns some at the meeting had that weak inflation may be more than transitory. This, combined with the weaker inflation figure, saw the likelihood of a Fed hike in December slip from 90% to 80%.

Retail sales saw their largest monthly increase since 2015 in September, boosted by increased demand following the severe hurricane weather in late August and early September. Sales excluding autos and gasoline, which tend to be less volatile, also saw a robust month, with growth improving slightly to 3.8% y/y (Chart 2). The data points to continued firmness in consumer demand and overall economic activity.

Chart 1: US core inflation

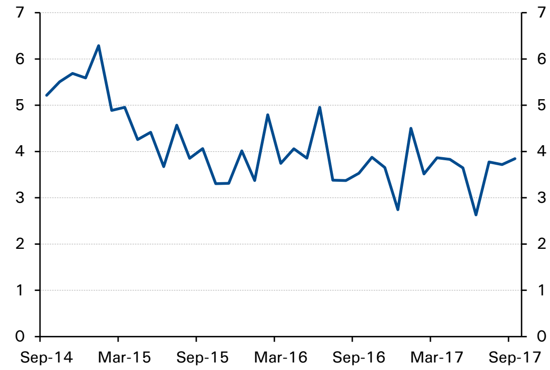
(%)



Source: Insitute for Supply Management

Chart 2: US retail sales

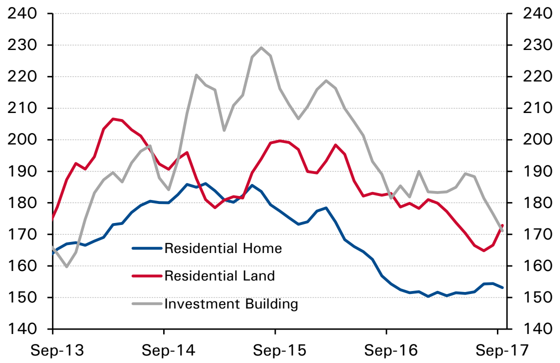
(retail sales excluding autos and gasoline)



Source: U.S. Census Bureau

Chart 3: Kuwait real estate prices

(index)



Source: Ministry of Justice, NBK

Chart 4: Kuwait balance of trade in goods

(KD billion)

Source: Central Statistical Bureau, NBK estimates

Eurozone: Catalonia appeared to step back from declaring independence from Spain last week, though some were left with the impression that independence had been declared. Spain's prime minister Mariano Rajoy demanded a less ambiguous statement by this week; otherwise Madrid would suspend Catalonia's autonomy. Markets welcomed Rajoy's firm approach. The IBEX 35 rose 0.7% on the week, while 10-year Spanish bonds tightened by 7 bps and the euro strengthened to 1.18 against the USD.

A new electoral law passed Italy's lower house that could weaken the appeal of the populist Five Star Movement. The legislation would allow coalitions to be formed prior to the election, in May 2018. The Five Star Movement is currently leading in the polls but has refused to align itself with other parties.

China: The Caixin services PMI fell to a 21-month low in September, coming in at 50.6 compared to 52.7 in August. New orders rose slowly and payrolls numbers growth numbers were lackluster. The composite services and manufacturing index was also softer at 51.4.

UK: Industrial production grew for the third consecutive month in August, on the back of improvement in manufacturing. Growth accelerated to 1.6% y/y. This should help allay concerns of a slowing economy following the Brexit vote last year. The pound moved up slightly against the US dollar following the data release. Nonetheless, the IMF reduced the UK's growth projection for this year from 2.0% to 1.7%, on lingering uncertainty following the Brexit vote. It also cut its long-term growth forecast from an estimated 1.9% to 1.7%.

GCC & regional macroeconomics

Kuwait: The trade surplus narrowed slightly to KD 1.5 billion in 2Q17, as softer oil prices pressured oil exports (Chart 3). Meanwhile, imports continued to see improvement after some weakness in 2016, supported by solid capital goods and some recovery in consumer goods. Still, at 3.4% y/y in 2Q17, imports growth remains well below the 7.5% pace averaged in the four years prior to 2016.

The real estate market showed further evidence of stabilization in September, with sales up 33% y/y in September and 20% y/y in 3Q17. Real estate prices were steady, with y/y declines from a year ago moderating across the board to down 1-6% for the various sectors, compared to y/y price declines of 6-13% at the end of 2016.

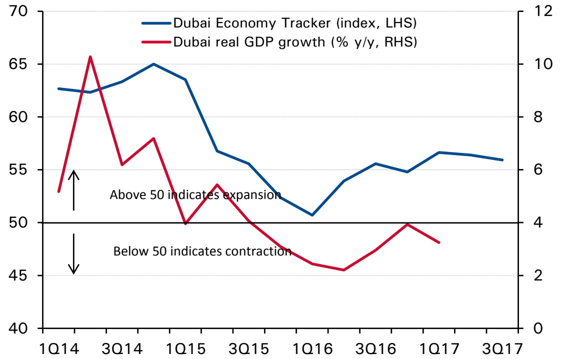
The budget deficit for the first half of FY17/18 reached KD 1.94 billion after the payment of 10% of revenues to the Future Generations Fund (FGF). Expenditures reached KD 8.3 billion, while revenues were KD 7.0 billion; non-oil revenues came in at KD 660 million. We expect the budget to see a deficit of around KD 4.8 billion, or 13% of GDP. The broad fiscal balance – before the FGF transfer and including investment income – is expected to see a small 1% surplus in FY17/18 following two years of deficit. (Chart 4.)

Saudi Arabia: The IMF's World Economic Outlook (WEO) cut its economic growth projections for Saudi Arabia, to a mere 0.1% y/y in 2017 and 1.1% y/y in 2018. The Minister of Energy, Khalid Al-Falih, stated that the kingdom plans to use nuclear energy to generate electricity for the first time in order boost the energy sector and the national economy. The two new sites should generate between 2,500 and 3,000 MW.

There was talk that the much-anticipated Aramco IPO could be pushed beyond the expected 2018 target. While the domestic listing is possibly on

Chart 5: UAE economy tracker & real GDP

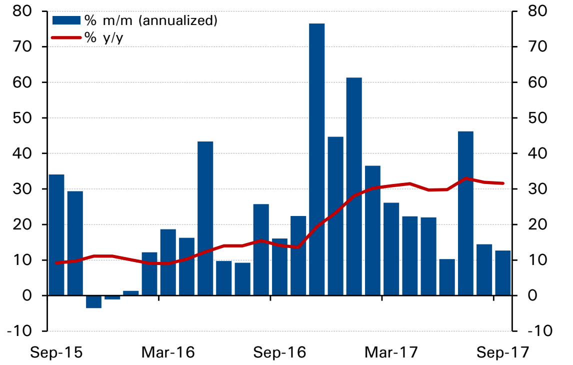
(index)



Source: Emirates NBD, Dubai Statistics Center

Chart 6: Egypt inflation

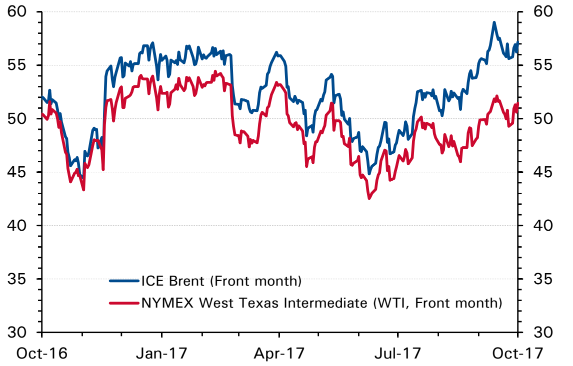
(% y/y)



Source: Central Bank of Egypt

Chart 7: Benchmark crude oil prices

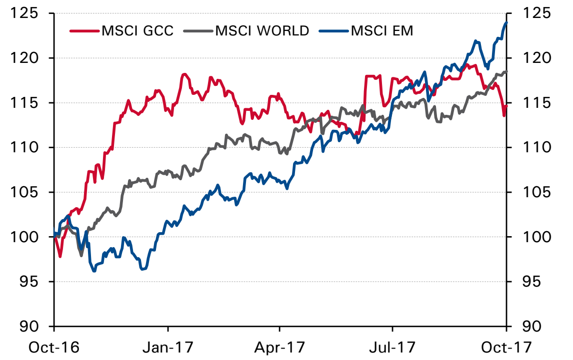
($/bbl)



Source: Thomson Reuters Datastream

Chart 8: Total return indices

(rebased, 13 October 2016=100)



Source: Thomson Reuters Datastream

track for next year, the international IPO could be delayed. Aramco stated that the international listing venue is still under review and that a possible stake sale to Chinese investors was "speculation".

UAE: The Dubai economy tracker, a good gauge of growth, eased slightly from 56.3 in August to a still solid 55.2 in September, as output and new orders particularly in the retail, wholesale, trade and construction sectors witnessed encouraging gains. At the same time, price pressures were limited on weaker input costs and purchase prices. (Chart 5.)

Latest data showed real GDP growth in Dubai slowing slightly from 3.9% y/y in 4Q16 to 3.2% y/y in 1Q17 as subdued external demand weighed on the trade sector. However, this number is set to improve over the course of the year as tourism and construction pick up. The latter sector has benefited from a pick-up in preparations for the Expo 2020. (Chart 5.)

Qatar: Qatar consumer prices remained in deflationary territory for the second month in a row. September prices dipped 0.5% y/y, following a 0.4% y/y drop in August. Continuing the downward trend that began in February 2017, housing and utility prices declined 4.7% y/y, the biggest dip since 2012. In contrast, food and beverage prices are on the rise.

Qatar complained to the World Trade Organization, asking for a panel to oversee its trade dispute with the UAE. The UAE has refused to engage in consultations with Qatar following an initial complaint in July that included Bahrain and Saudi Arabia.

Egypt: Inflation was steady at 32% y/y in September, though inflationary pressures appeared to ease further during the month (Chart 6). Noticeably, core prices saw a second consecutive month of modest growth in September, with core prices up by an annualized 2.3% during the month.

Markets – oil

Oil concluded the week at new October highs. Brent settled at $57.17/bbl and WTI at $51.45/bbl, each gaining 2.8% and 4.4%, respectively, during the week. Oil prices initially declined in the start of the week on rising US crude inventories and estimates of rising OPEC production. September saw the second highest monthly OPEC production level thus far in 2017. Production rose to 32.75 mb/d, up 0.3% m/m compared to August, dampening the group's effort to limit production. However, news of strong demand in China and tensions between the US administration and Iran regarding the nuclear deal pushed prices higher later in the week. Chinese imports reached 9 million barrels per day (bpd) in September, higher than the year-to-date monthly average of 8.5 million bpd. The figure marks China's position as the world's biggest importer of crude. (Chart 7.)

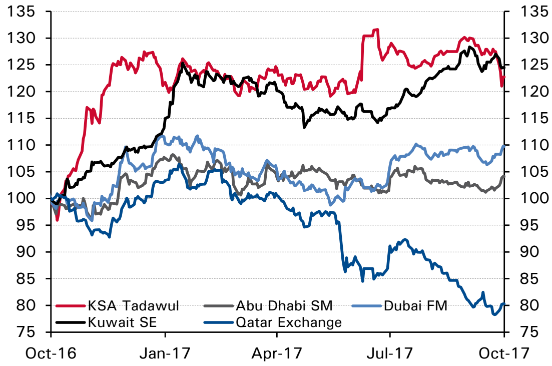
Markets – equities

Equity markets edged higher last week supported mostly by strong economic data from Asia. The MSCI World All Country index closed up 0.4%. US equities ended the week a tad higher as investors stood on the sidelines ahead of the 3Q17 earnings season. The S&P 500 and DJIA closed up 0.2% and 0.4%, respectively. Spanish equities bounced back after Catalonia pulled back in its secession bid, though its impact elsewhere in Europe was muted and the Euro Stoxx 50 was flat on the week. Emerging market (EM) equities outperformed; the MSCI EM rose 1.4%. (Chart 8.)

Regional markets were mixed last week, but the MSCI GCC was pulled down by the Saudi market. The index closed the week off 1.9%. Tadawul's general index dropped 3.7% on the week dragged down by insurance

Chart 9: GCC markets

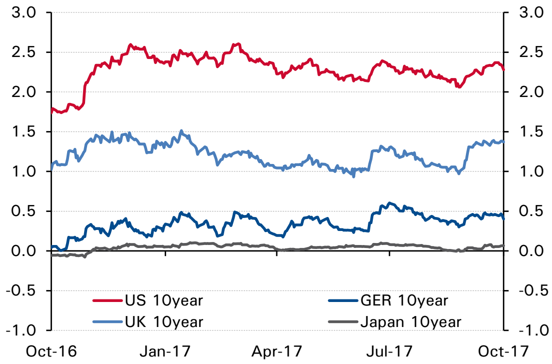
(rebased, 13 October 2016=100)



Source: Thomson Reuters Datastream

Chart 10: Global benchmark yields

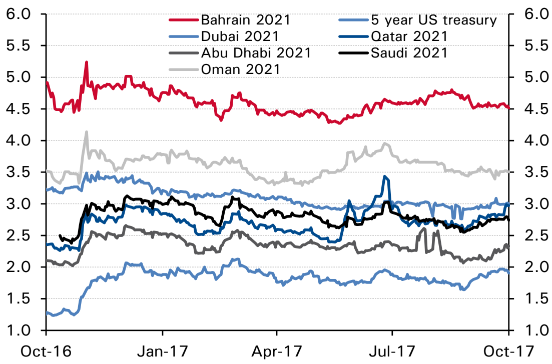
(%)



Source: Thomson Reuters Datastream

Chart 11: GCC yields

(%)



Source: Thomson Reuters Datastream

stocks. Fears of an industry shakeout emerged following the suspension of business for several insurance brokers due to regulatory violations. Kuwait also slipped on profit-taking, with the index off 1.5%. This followed strong gains the previous week thanks to the FTSE upgrade and news that Omantel could increase its holdings in Zain by another 12%. UAE and Qatari markets tracked EMs and closed the week in positive territory. (Chart 9.)

Markets – fixed income

Yields remained contained in tight ranges as global geopolitics and dovish central banks kept things at bay. Some strong US data (see USA section) pushed yields higher, but were capped by uncertainty over North Korea, Catalonian secession (see EU section), and US politics. Weaker US inflation, unsurprising Fed minutes and dovish ECB rhetoric also added to the downward pressure on yields late in the week. US 10-year yields were down 9 bps to 2.27% and German 10-year yields were down 6 bps to 0.4%. (Chart 10.)

The FOMC minutes came in as expected, leaving most with relatively unchanged expectations over the central bank's rate hike path. Meanwhile, a Reuters article revealed ECB sources considering a 9-month extension to the current QE program, with the purchasing pace reduced by half (EUR 30 billion). Officials were also debating whether to keep the program open-ended.

GCC sovereign yields ended the week mixed. Yields for Qatar and Abu Dhabi 2021 were up 14 bps and 6 bps, respectively, possibly on regional tensions. Meanwhile, Saudi Arabia and Kuwait 2022 yields were both down 4 bps, tracking US Treasuries. (Chart 11.)

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