IMF sees strong world growth but warns on high debt, trade friction; Brent crude hits $74 as market tightens

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,707	1.15	7.01
Bahrain (ASI)	1,301	0.77	-2.28
Dubai (DFMGI)	3,082	-0.40	-8.55
Egypt (EGX 30)	17,781	0.94	18.39
GCC (S&P GCC 40)	989	1.15	0.47
Kuwait (All Share Index)	4,797	-0.09	n/a
KSA (TASI)	8,277	5.79	14.54
Oman (MSM 30)	4,760	-0.35	-6.66
Qatar (QE Index)	9,197	3.12	7.90
International			
CSI 300	3,761	-2.85	-6.70
DAX	12,541	0.79	-2.92
DJIA	24,463	0.42	-1.04
Euro Stoxx 50	3,494	1.34	-0.28
FTSE 100	7,368	1.43	-4.16
Nikkei 225	22,162	1.76	-2.65
S&P 500	2,670	0.52	-0.13

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.55	9.4	60.8
Dubai 2022	3.58	14.9	44.3
Qatar 2022	3.76	2.0	68.8
Kuwait 2022	3.56	20.0	75.8
Saudi Arabia 2023	3.86	6.0	64.8
International			
UST 10 Year	2.95	12.3	54.0
Bunds 10 Year	0.59	7.4	16.5
Gilts 10 Year	1.48	4.3	29.2
JGB 10 Year	0.06	2.4	1.0

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.06	-0.5	33.0
Kibor	2.00	0.0	12.5
Qibor	2.65	-0.8	-9.2
Eibor	2.45	6.0	64.9
Saibor	2.34	2.6	44.4
Libor	2.36	1.4	66.7

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.300	0.08	-0.48
KWD per EUR	0.371	0.03	4.51
USD per EUR	1.229	-0.35	2.42
JPY per USD	107.7	0.30	-4.46
GBP per USD	1.400	-1.66	3.63
EGP per USD	17.66	0.57	-0.39

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	74.1	2.04	10.75
KEC	68.9	1.74	8.54
WTI	68.4	1.47	13.17
Gold	1336.7	-0.60	2.33

Source: Thomson Reuters Datastream; as of Friday's close 20/4/2018

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Overview

In a relatively quiet week for economic data, there was heightened interest in the so-called 'flattening' of the US bond yield curve – often seen as a harbinger of future economic weakness – with the 10-year/2-year spread hitting its lowest in a decade. The narrowing has largely been driven by expectations of rising short-term US policy rates amid steadily climbing inflation and elevated growth. Meanwhile, the latest IMF forecasts contained significant upward revisions (versus October) to near-term growth in key countries including the US and Europe, but issued somber warnings over risks from potential trade disruptions and high global debt as interest rates rise.

Another strong week for oil prices saw Brent crude finish up 2% w/w at a 41-month high of $74, on a combination of tighter fundamentals and concern over geopolitically-driven risks to supply. The run-up in prices, alongside bullish comments by the Saudi energy minister and unofficial reports that the kingdom could be seeking prices of $80-100/bbl triggered a rebuke from President Trump, who accused OPEC of lifting oil prices to "artificially" high levels. High prices and tightening supply conditions could complicate the US's potential re-imposition of sanctions on Iran in May, which would take additional oil off the market.

The new IMF report was mixed for the GCC, with growth in most countries downgraded for this year but upgraded further out. Although a breakdown of growth was not published, changes were likely oil-driven: the Fund remarked that the rise in oil prices since 2H17, driven by more restrictive near-term oil production policy, provides space for more gradual (growth-positive) fiscal adjustment. Growth in Saudi is forecast to remain below 2% in 2018-2020, but in Kuwait is seen bouncing back from 1.3% this year to 3.9% on average in following years.

International macroeconomics

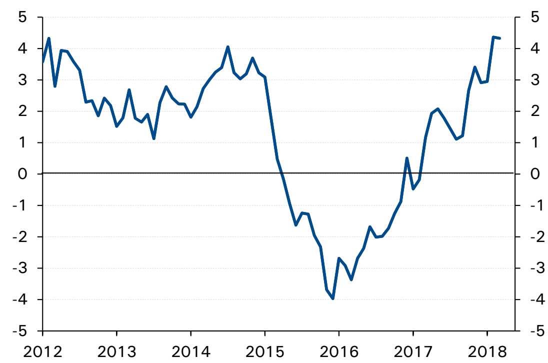
USA: The IMF upgraded its forecast for US GDP growth to 2.9% in 2018 and 2.7% in 2019, revisions of 0.6% and 0.8%, respectively, from October. The revisions were due to a combination of a stronger external climate, the tax reforms announced in December and higher spending following the February budget deal. The Fund also projects policy interest rates at 2.5% at end-2018, implying three further quarter point hikes.

Economic data last week was mixed. The Empire state manufacturing index for April was soft, with a plunge in the six-month outlook figure suggesting an impact from recent and potential tariff hikes on demand and costs. Other data – mostly non-market moving – was solid, with industrial production up a decent 0.5% m/m and 4.3% y/y in March on a strong mining sector (though manufacturing was weak; chart 1). Business inventories saw another strong rise of 0.6% m/m in February, pointing to a strong contribution to 1Q18 GDP.

UK: The House of Lords, the UK parliament's upper house, has tabled two amendments to the government's EU Withdrawal Bill in favor of (1) continuing Britain's access to the EU customs union and (2) restricting the

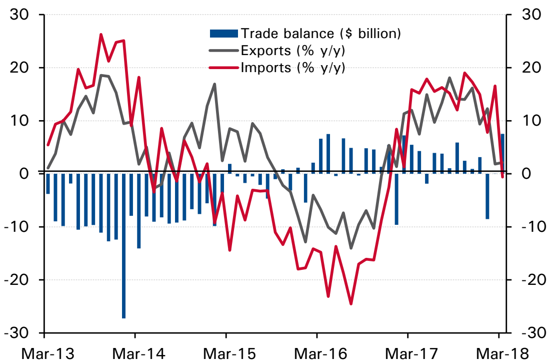
Chart 1: US industrial production

(% y/y)



Source: Thomson Reuters Datastream

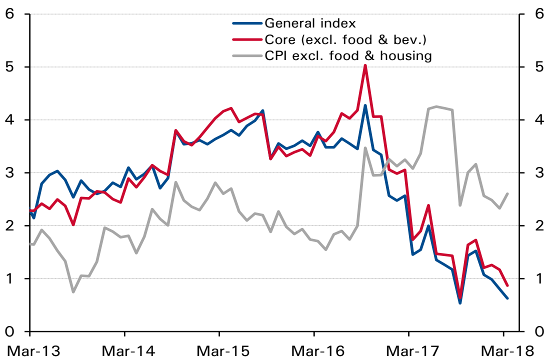
Chart 2: Japan trade



Source: Thomson Reuters Datastream

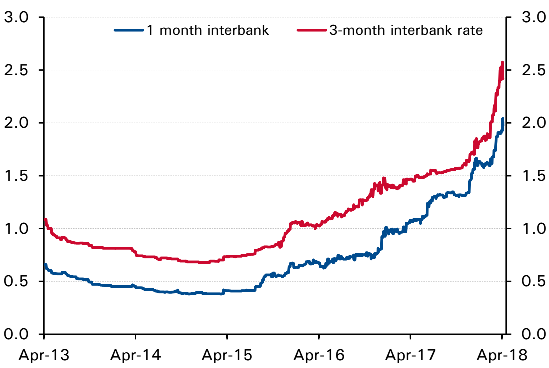
Chart 3: Kuwait inflation

(% y/y)



Source: Central Statistical Bureau

Chart 4: UAE interbank rates



Source: Thomson Reuters Datastream

power of government ministers to alter EU regulations as they are transcribed into UK law. The two amendments, both opposed by the government, were approved overwhelmingly by the Lords, and could be incorporated into the final text of the bill given that the majority of MPs appear to support a softer version of Brexit.

Japan: Export growth remained under pressure in March amid a stronger yen, coming in at 2.1% y/y versus 12.3% y/y just two months ago. Imports declined for the first time in over a year, affected by base effects. (Chart 2.) Japan is currently in trade talks with the US and a successful trade agreement should be a boon to Japanese exports.

GCC & regional macroeconomics

Kuwait: A strong decline in housing rents drove consumer price inflation to a six-month low of 0.6% y/y in March. Housing services, which account for 33% of the index, fell 1.4% y/y while weaker food prices (-1.0% y/y), also weighed on inflation. Excluding those two sectors, consumer prices ticked higher to 2.6% y/y, inching closer to that measure's two-year average of 2.9%. (Chart 3.)

UAE: The UAE's interbank offered rates (EIBOR) climbed last week, after the central bank implemented a new calculation methodology that is more transparent and in line with market conditions. Under the new system banks are encouraged to consider a larger range of trades, before finalizing their quotes, rather than largely basing their quotes on long-term bank clients with low lending rates. As a result, the one-month and six-month interbank rates jumped by about 12 bps and 6 bps, respectively, following the introduction of the new system. (Chart 4.)

Markets – oil

Oil prices closed higher for the second week in a row on Friday, with Brent climbing 2.0% w/w to finish at $74.1/bbl and WTI gaining 1.5% w/w to end on $68.4/bbl. (Chart 5.) Thanks to a combination of OPEC's production cuts (OPEC compliance reached 163% last month), and heightened geopolitical risks, especially in relation to a likely US withdrawal from the Iran nuclear deal in May, oil prices have risen by more than 10% in the last two weeks.

Last Friday saw President Trump attempt to talk down prices in a tweet when he complained that prices were "artificially high"; the president was reacting to news that OPEC and Russia appeared ready to commit to longer-term supply management. WTI did fall by as much as 1.2% after the tweet but recouped its losses before the day's end.

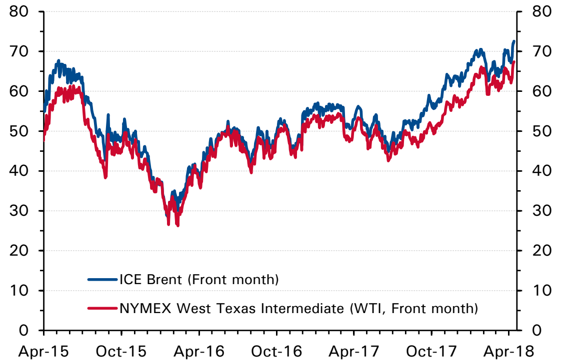
US shale continued to add both barrels (+15,000 b/d to 10.5 mb/d) and rigs (+5 to 1,013) last week. But despite crude output reaching another high, the pace of growth does appear to be slowing down amid pipeline capacity constraints and labor shortages.

Markets – equities

It was a positive weak for global equities as geopolitical tensions eased somewhat, earnings surprised to the upside, and higher commodity prices encouraged investors to leave bonds in favor of equities on the expectation of higher inflation. The MSCI AC world index was up 0.7% w/w, with the charge led by developed markets. The S&P 500 rose 0.5% w/w, while the DJI increased by 0.4% w/w. In Europe, the Euro Stoxx 50 was up a strong 1.3% w/w. Meanwhile, emerging markets edged 0.1% higher. (Chart 6.)

Chart 5: Oil prices

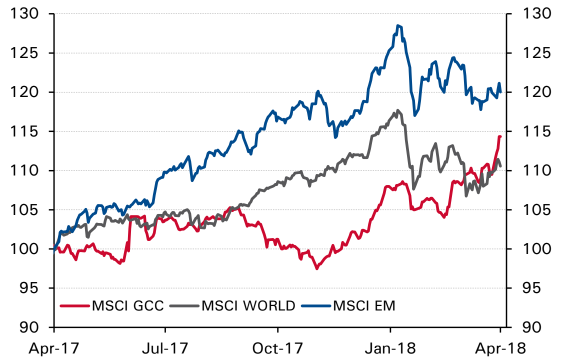
($/bbl)



Source: Thomson Reuters Datastream

Chart 6: Total equity return indices

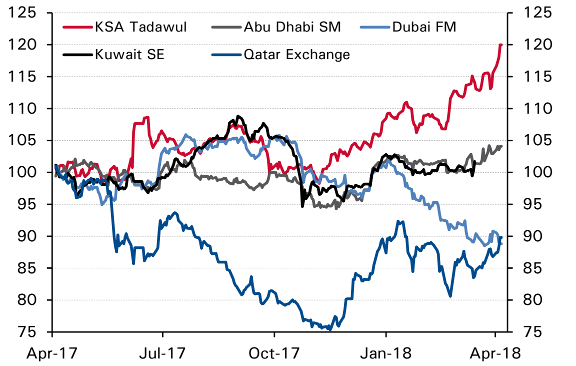
(rebased, 20 April 2017=100)



Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

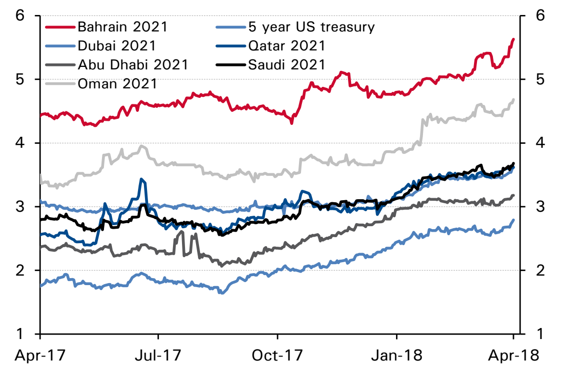
(rebased, 20 April 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Higher oil prices supported regional markets, helping the MSCI GCC index add 4.4% w/w. Saudi, up an impressive 5.8% w/w, was the main driver, lifted by positive sentiment over foreign fund flows and higher oil revenue. (Chart 7.) Qatar and Abu Dhabi also performed well (+3.1% and 1.2% w/w, respectively). Meanwhile, Kuwait was relatively flat, with the All Share index down 0.1% w/w. So far, earning announcements for several regional blue chip banks are encouraging, with more positive disclosures expected to drive sentiment in the coming weeks.

Markets – fixed income

Although muted for most of last week amid rising discussion of a "flattening" yield curve, long-term government bond yields rose at the end of the week, helped in particular by rising commodity prices including oil. US 10-year treasury yields almost breached 3%, finishing the week up 12 bps to 2.95%. Bunds increased by 7 bps to 0.59%. In the GCC, yields moved higher alongside rising international yields, with all tracked sovereigns up between 2-20 bps. (Chart 8.)

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