Brent crude climbs above $71; IMF upgrades Saudi growth outlook

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,644	0.39	5.57
Bahrain (ASI)	1,342	0.65	2.74
Dubai (DFMGI)	3,469	-1.77	2.93
Egypt (EGX 30)	15,171	-1.56	1.02
GCC (S&P GCC 40)	1,023	0.39	3.92
Kuwait (Price Index)	6,652	0.19	3.81
KSA (TASI)	7,522	-0.23	4.02
Oman (MSM 30)	5,008	-0.32	-0.78
Qatar (QE Index)	9,460	2.82	10.95
International			
CSI 300	4,381	2.24	8.69
DAX	13,340	-0.70	3.27
DJIA	26,617	2.09	7.68
Euro Stoxx 50	3,647	-0.05	4.09
FTSE 100	7,666	-0.84	-0.29
Nikkei 225	23,632	-0.74	3.81
S&P 500	2,873	2.23	7.45

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	70.5	2.78	5.46
KEC	67.1	2.33	5.67
WTI	66.1	4.37	9.47
Gold	1351.6	1.48	3.47

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.299	-0.25	-0.62
KWD per EUR	0.363	0.00	2.37
USD per EUR	1.242	1.63	3.53
JPY per USD	108.7	-1.86	-3.52
GBP per USD	1.417	2.30	4.85
EGP per USD	17.64	-0.17	-0.51

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	2.75	-2.5	2.5
Kibor	1.94	6.3	6.3
Qibor	2.59	-11.8	-15.6
Eibor	1.85	2.1	5.1
Saibor	1.89	-0.4	-0.8
Libor	1.76	1.6	6.6

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.08	-2.2	13.4
Dubai 2022	3.13	1.7	-0.5
Qatar 2022	3.45	9.8	37.4
Kuwait 2022	3.05	0.8	24.4
Saudi Arabia 2023	3.31	0.8	9.4
International			
UST 10 Year	2.66	2.3	25.1
Bunds 10 Year	0.62	5.8	20.0
Gilts 10 Year	1.45	10.6	25.7
JGB 10 Year	0.08	-0.3	2.6

Source: Thomson Reuters Datastream; as of Friday's close 26/1/2018

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Overview

While optimism on the US economy and earnings continues to boost stock markets, the US dollar extended its poor run last week, with the trade-weighted index slipping a further 1.7% and now 11% weaker than a year ago. Increasing global tensions over trade linked to President Trump's 'America First' policy were highlighted by the announcement of some new US import tariffs, while Treasury Secretary Mnuchin seemed to signal support for the weak dollar at Davos. US 10-year treasury yields ended the week slightly higher at 2.66%.

Brent crude oil prices breached $71 for the first time in more than three years. A multitude of factors are pushing oil higher, including supply restraint, increased demand, geopolitical factors including the risk of fresh US sanctions on Iran, the weaker US dollar and more recently a growing number of speculators betting that prices will go on rising. Net 'long' positions of large speculators on US crude futures – a measure of confidence that oil prices will rise rather than fall – reached record highs recently, although this could be a sign that crude is overbought.

Reflecting a mood of rising optimism surrounding the GCC region, the IMF revised up 2018 economic growth in Saudi Arabia by 0.5% to 1.6%. Given the extension of oil production cuts to end-year and higher oil prices, the upgrade likely reflects stronger non-oil growth, helped by the expansionary budget announced for 2018. The consumer sector, however, is likely to remain under pressure given the array of taxes and fees recently implemented, including VAT, excise duties and the expat dependent tax.

International macroeconomics

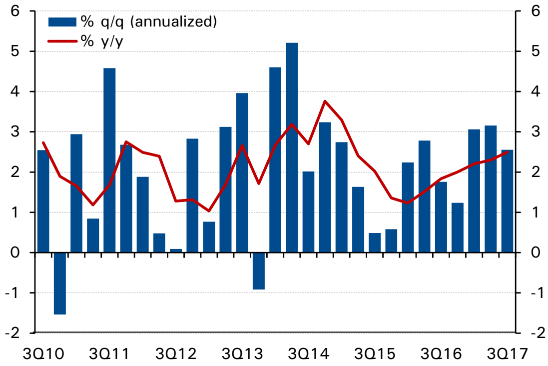
USA: GDP growth was solid in 4Q17 despite the softer-than-expected headline figure. The annualized 2.6% q/q figure masked strong growth in consumer spending and investment. (Chart 1.) Capital goods orders also ended the year strong, gaining 2.9% m/m in December. Solid US data in recent months and the expected boost from recent tax cuts has seen many revise their outlook for the economy upward. Last week, the IMF increased its forecast for 2018 US growth by 0.3 percentage points to 2.7%, up from 2.3% in 2017; 2019 growth was upgraded to 2.5%.

Lawmakers postponed an agreement on government spending into February, cutting short a government shutdown which could have hurt the economy if it had dragged on. Meanwhile, comments by the Treasury Secretary Steven Mnuchin in which he indicated he was happy with the weaker dollar, was followed by the currency's largest decline in ten months. The dollar index declined by 1.7% during the week and is now 11% lower than a year ago. Later comments by Mnuchin and President Trump calling for a stronger dollar did little to reverse the decline.

Eurozone: Eurozone finance ministers agreed to disburse the next tranche of Greece's bailout, with EUR6.7 billion expected to be released early February. Current progress is hinting at a clean exit from the program, which may allow for favorable post-bailout discussions. Meanwhile, in Germany, political uncertainty subsided following the SPD's vote in favor of

Chart 1: US GDP growth

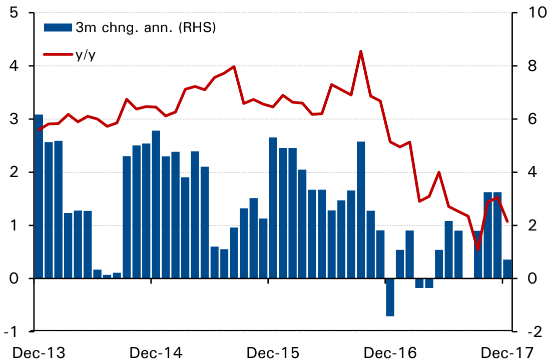
(index)



Source: U.S. Bureau of Economic Analysis

Chart 2: Kuwait inflation

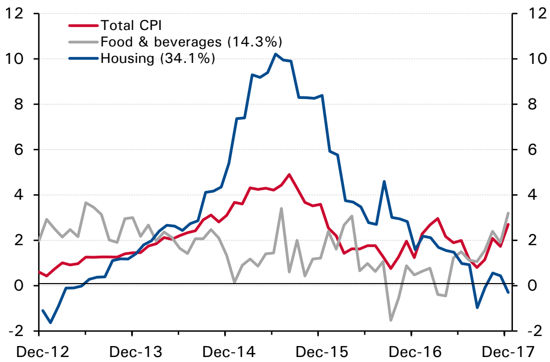
(%)



Source: Central Statistical Bureau

Chart 3: UAE CPI by sector

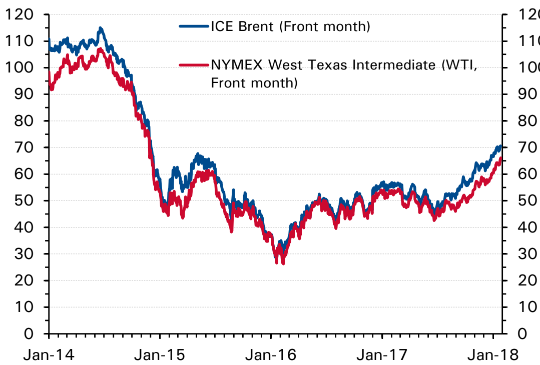
(% y/y, weights in brackets)



Source: Thomson Reuters Datastream

Chart 4: Benchmark crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

entering into formal coalition talks with Angela Merkel's CDU. Although this was the biggest hurdle, it was not the last. SPD's constituents will still need to have a final vote on entering a ruling alliance.

The Eurozone's economic momentum was robust in January, with consumer confidence up for a sixth consecutive month and the PMI registering an 11 year high. The latter came in above expectations at 58.6, supported by strong output and an optimistic outlook, driven by momentum in Germany and France.

Japan: The Bank of Japan left monetary policy unchanged during its meeting last week. It maintained its short-term interest rate at -0.1% and left its target for the 10-year bond yield at around 0%. It also gave a more optimistic outlook on inflation thanks to growing signs that it is slowly, but steadily, moving toward the 2% target.

GCC & regional macroeconomics

Kuwait: The IMF sees non-oil GDP growth continuing to accelerate albeit gradually in 2018 to around 3.0% according to the 2017 Article IV consultations report. The IMF commended the authorities for taking steps to narrow the fiscal deficit and to improve the business climate, though more was needed.

Inflation ended 2017 on a softer note, slipping to 1.1% y/y in December. (Chart 2.) It had already eased noticeably in 2017 to an average of 1.5% (from 3.5% in 2016). Weaker housing rent and the fading impact of 2016's fuel price hikes have been key contributors to softer inflation. Indeed, housing services prices decreased once again in December, with deflation of 0.6% y/y. We are likely to see inflation pick up from current levels to around 2% in 2018, mostly as a result of the weaker US dollar.

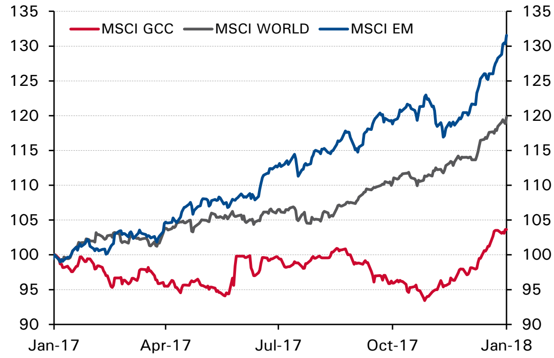
Saudi Arabia: The IMF, in its recently updated World Economic Outlook, revised upwards its estimate for Saudi economic growth in 2018 by 0.5% to 1.6% and in 2019 by 0.6% to 2.2%. These are significant adjustments, which the IMF explained, reflected the positive impact of higher oil prices on Saudi domestic demand. The forecast for 2018 is still below the Saudi government's own estimate of 2.7%, however, with the agency citing the pace of fiscal adjustment as one of the key reasons why it sees growth coming in below the official projection.

UAE: Consumer price Inflation leapt from 1.7% y/y in November to 2.7% y/y in December. The rise came on the back of a jump in food & beverage inflation, from 1.9% y/y to 3.2%, and a surge in the transport segment, from 3.6% y/y to 9.3%. Food and beverage prices rose on the back of a new excise tax on energy and carbonated drinks and a weaker dirham. The surge in transport costs was driven by stronger oil prices. On an annual basis, inflation came in at 2.0% in 2017, versus 1.6% in 2016. (Chart 3.)

Egypt: The IMF had a "favorable" outlook for the economy in its latest Article IV report. Reforms have already had positive results, with growth improving and the fiscal deficit narrowing. Authorities are also successfully tackling high inflation that followed subsidy cuts and the floating of the pound. The IMF sees growth accelerating to 4.8% in FY17/18 and inflation easing to around 12% by mid-2018. A small primary fiscal surplus is also expected. Nonetheless, the IMF emphasized the importance of staying the course and implementing further transformative reforms.

Chart 5: Total equity return indices

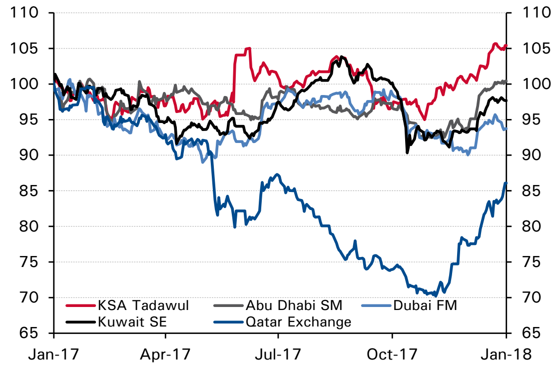
(rebased, 26 January 2017=100)



Source: Thomson Reuters Datastream

Chart 6: GCC equity markets

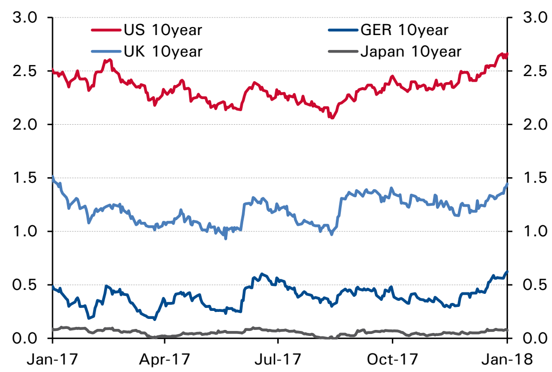
(rebased, 26 January 2017=100)



Source: Thomson Reuters Datastream

Chart 7: Global bond yields

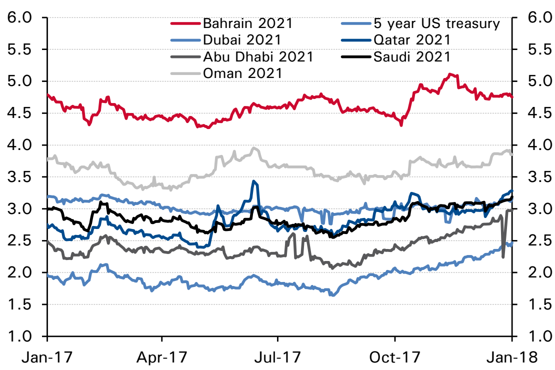
(%)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – oil

With Brent crude trading at $70.5/bbl and WTI hovering above $66/bbl by Friday's close, oil prices look on course to wrap up their seventh consecutive month of gains. (Chart 4.) While prices continue to be supported by further inventory drawdowns – stocks fell another one million barrels last week to bring them back down to where they were almost three years ago at 411.5 million barrels – they were given a further boost last week by the weakening US dollar, which continued to fall last week (see above). Oil's gains come despite further increases in US crude production, which hit 9.88 mb/d in the week ending 19 January, and despite the biggest weekly advance in the US oil rig counts since March 2017 (+12 to 759).

Markets – equities

International markets finished the week higher yet again, buoyed by a tightening oil market and positive earnings. The MSCI world index was up 1.2% on the week. (Chart 5.)

In the US, the DJI and S&P once again registered new highs. The S&P ended the week with a 14th record close in January, up a strong 2.23% on the week, while the DJI closed up 2.1%. A stronger euro held back European equities, leaving them broadly flat. Emerging markets, however, benefited from the cheaper dollar, rallying by 2.5%.

In the GCC, performance was mixed despite the strength in oil prices, with Qatar outperforming. The MSCI GCC index was up 0.1% on the week. Positive earnings boosted Qatari stocks, while real estate weakness weighed on Dubai's market. (Chart 6.)

Markets – fixed income

Benchmark yields moved upwards as investors digested a weaker dollar, strong US GDP and Eurozone PMI data, and hawkish rhetoric following the ECB meeting. (Chart 7.) US 10-year treasury yields were up 2 basis points at 2.66%, while Bunds increased by 6 bps to 0.62%. GCC benchmark yields were mostly flat, supported by the strength in oil, though Qatar was up 10 bps. (Chart 8.)

The ECB left its policy rate unchanged and reaffirmed its commitment to do whatever it takes to support growth in the Eurozone. It also expressed concern over the strength of the euro and a currency war, but was rather bullish over the region's economic outlook.

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