

Euro up on French election; Trump tax plan in waiting; Rent inflation softens in Kuwait...

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,513	-0.19	-0.74
Bahrain (ASI)	1,332	-0.17	9.15
Dubai (DFMGI)	3,417	-1.53	-3.23
Egypt (EGX 30)	12,526	-2.95	1.46
KSA (TASI)	6,946	0.68	-3.67
Kuwait (Price Index)	6,854	0.60	19.24
Oman (MSM 30)	5,525	0.93	-3.82
Qatar (QE Index)	10,090	-1.48	-3.32
MSCI GCC	464	-0.40	-2.21
International			
DAX	12,438	3.23	8.34
DJIA	20,941	1.91	5.96
FTSE 100	7,204	1.26	0.86
Nikkei	19,197	3.09	0.43
S&P 500	2,384	1.51	6.49
Commodities			
	\$/bbl	Change (%)	
		weekly	YTD
Brent crude (\$/bbl)	52.1	0.17	-8.39
KEC (\$/bbl)	49.2	-1.11	-5.24
WTI (\$/bbl)	49.3	-0.58	-8.17
Gold (\$/t oz.)	1267.2	-1.39	9.58
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.304	-0.08	-0.40
KWD per EUR	0.331	1.50	3.99
USD per EUR	1.090	1.60	3.63
JPY per USD	111.53	2.26	-4.57
Interbank rates			
	%	Change (bps)	
		weekly	YTD
Kibor – 3 month	1.63	0.0	18.8
Qibor – 3 month	1.97	0.1	18.8
Libor – 3 month	1.17	1.6	17.4
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.32	-5.1	-22.5
Dubai 2021	3.00	-3.6	-32.5
Qatar 2021	2.53	-2.1	-42.1
Saudi Arabia 2021	2.79	0.9	-26.2
International			
UST 10 year	2.29	5.3	-14.3
Bunds 10 year	0.32	6.8	11.4
Gilts 10 year	1.09	5.3	-15.2
JGB 10 year	0.01	-0.3	-3.6

Source: Thomson Reuters Datastream

Summary

Financial markets relaxed somewhat last week following round-one of the French presidential election, and some relatively positive news on tax reform in the US.

The French election saw Marine Le Pen (“far-right”) and Emmanuel Macron (“centrist”) go to the second round on 7 May. The presence of a pro-EU candidate in that round and, more importantly, the fact that he is heavily favored to win (by double digits in the polls), provided significant relief to European markets, pushing the euro above 109 (EUR/USD) initially, its highest level of the year.

In the US, positive expectations for tax reform and talk of concessions to prevent a potential budget stalemate relieved the markets as well. We saw equities rallying towards the recent highs. The Trump administration announced the broad lines of a potential tax plan which focuses on cutting the top corporate tax rate from 35% to 15% and simplifying the tax structure, which should provide some relief to the middle class. There are still issues surrounding timing, financing, and the shape of the final package, which is not expected before late in the year.

US 1Q17 GDP growth disappointed at 0.7% q/q (see below), while Mario Draghi of the ECB sounded a bit dovish on EU inflation.

The Turkish lira was up following a rate hike by the Central Bank of Turkey. Kuwait CPI inflation moderated to 2.6% from 3.2% on recent and expected softening of the rent component.

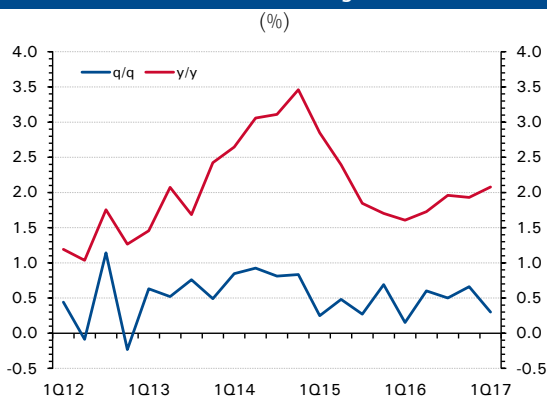
International macroeconomics

USA: Overall data from regional Fed surveys, consumer confidence, and the housing sector suggest steady, modest to moderate, growth in the economy, in line with Fed thinking and the recent Beige Book.

1Q17 GDP rose only 0.7% (q/q annualized), with some weakness in consumption and inventories. Final sales were still up 1.6% (q/q ann.), and the underlying pace remains, in our view, close to 2.0%. Housing and investment related data were firm and bode well. Some of the weakness may be temporary, and the wide expectation is for GDP to return to higher headline numbers during the rest of the year. Nonetheless, the number emphasizes the need for the Fed and the markets to be cautious in pricing rate hikes ahead. Markets are still looking for 2 hikes around June and December, though the probabilities of those have come down a bit.

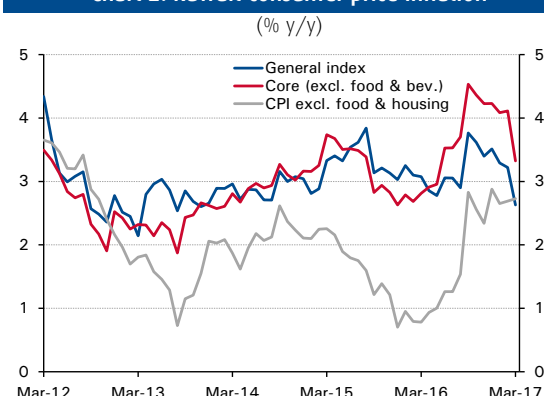
On the still sketchy tax reform, the highlights are: a large reduction in the top corporate rate from 35% to 15%; a larger deductible for individuals alongside tax simplification; and a one-time low tax on the repatriation of almost \$2 trillion in corporate and business funds. While clearly a business positive on the surface, there are still pending issues regarding the budgetary implications and the full extent of the package. Markets remain optimistic for a package before year-end (that could be retroactive).

Chart 1: UK real GDP growth



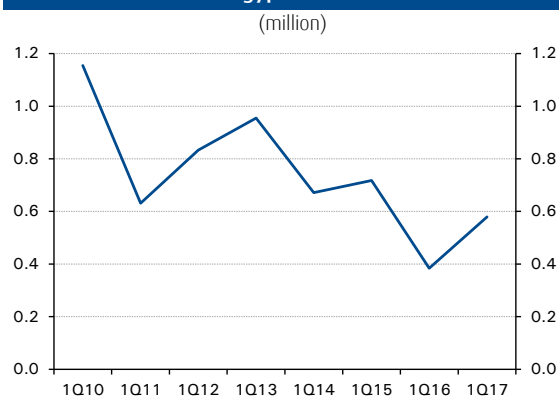
Source: ONS, Thomson Reuters Datastream

Chart 2: Kuwait consumer price inflation



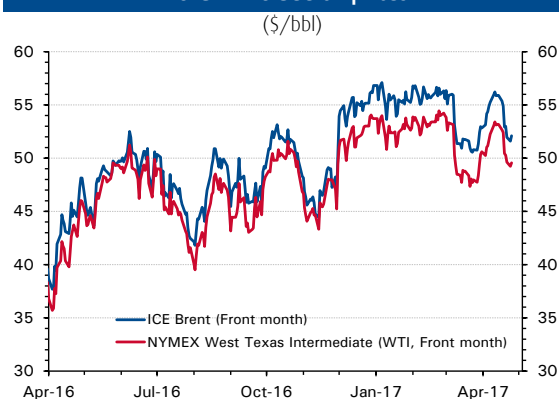
Source: Central Statistical Bureau

Chart 3: Egypt tourist arrivals



Source: Central Agency for Public Mobilization and Statistics

Chart 4: Crude oil prices



Source: Thomson Reuters Datastream

Eurozone: French presidential candidates Emmanuel Macron (Center) and Marine Le Pen (far-right) have emerged as the first round winners, with each acquiring 24% and 21%, respectively, of the share of the vote. While recent polls see a 60-40 win in favor of Macron in the second round (May 7), fears remain over an unexpected surge in support for Le Pen. In a last bid effort to widen her voter base, Le Pen stepped down as president of the National Front party last week in the hope of divesting her image from the party's far-right rhetoric and appealing to a broader crowd. She will run as an independent. Markets reacted positively to the results, with French government bonds rallying and euro stocks and the Euro moving higher.

Alitalia, Italy's failing national carrier, saw its government-mediated restructuring deal, which included job cuts and wage reductions, rejected by its employees, following a decisive vote. The carrier will now seek a government-led bailout. The latter is in talks with the EU for a EUR 300-400 million bridge loan.

Eurozone flash April inflation came in above expectations at 1.9% (1.8% expected), following a noticeable easing last month. Core inflation was up as well, rising from 0.7% last month to 1.2% in April, which is the highest reading in 4 years.

Japan: As expected, the Bank of Japan (BoJ) kept rates unchanged during its policy meeting last week on the back of a more upbeat assessment of the economy. The BoJ also sees the ongoing weakness in inflation as temporary. Consumer price inflation remained lackluster at 0.2% y/y in March, but while growth in industrial production eased during the same period, retail sales growth rose from a mere 0.1% y/y in February to a healthier 2.1% y/y in March.

UK: Preliminary estimates of UK GDP growth in 1Q17 showed that economic output expanded by the slowest pace in a year. Growth more than halved from 0.7% q/q in 4Q16 to 0.3% q/q in 1Q17. (Chart 1.) On an annual basis, however, growth accelerated slightly from 1.9% y/y to 2.1% y/y. The figures came as something of a surprise to the markets, since the consensus expectation was for a slowdown to 0.4%. The pullback was due to weakness in the consumer-facing services sector, with indications that consumers were limiting their spending in the face of higher inflation and weakening earnings growth.

GCC & regional macroeconomics

Kuwait: Inflation eased noticeably in March to 2.6% y/y from 3.2% y/y in February. (Chart 2.) This was largely a result of declining housing inflation and persistently weak food price inflation. Housing inflation eased as growth in rental rates began to feel the impact of a generally weak, albeit stabilizing, real estate market. Rent/housing inflation went from a recent high of 7.3% y/y in mid-2016 to 4.3% this past March.

Turkey: Turkey's central bank took the decision to raise its late liquidity rate by 50 bps to 12.25%, during its latest monetary policy meeting. The bank kept its three other main rates unchanged, however. The bank has been pushing lenders to use the higher late liquidity rate since the start of this year, in an attempt to prop up the Turkish lira. The lira rose by around 0.5% following the policy announcement.

Egypt: Tourism showed a strong improvement in 1Q17, with the number of arrivals up 51% y/y during the quarter. The improvement is reflected in a healthy bounce in Egypt's production index, which was up 24% y/y in February. Tourism, which has suffered since the Arab Spring kicked off in

Chart 5: Global stock markets

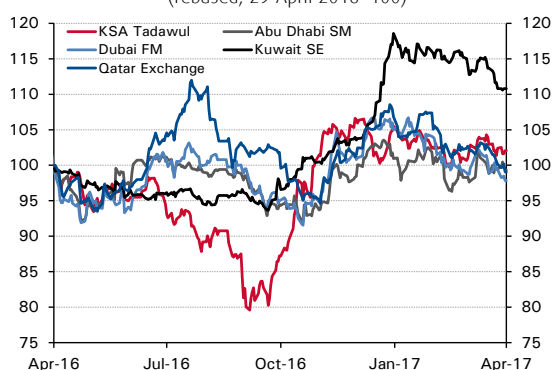
(rebased, 29 April 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 6: GCC stock markets

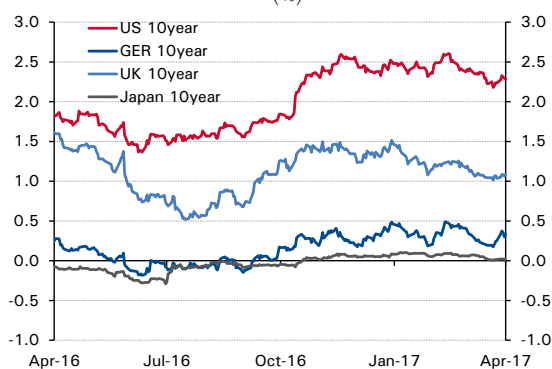
(rebased, 29 April 2016=100)



Source: Thomson Reuters Datastream

Chart 7: Global bond yields

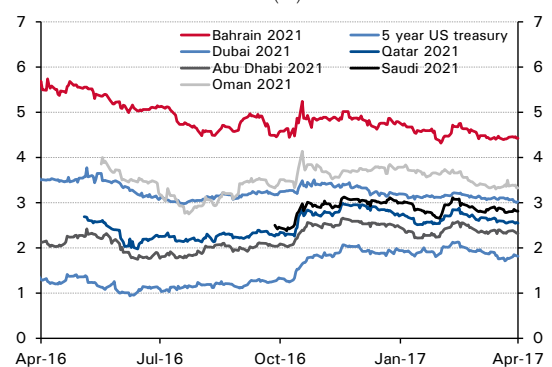
(%)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

early 2011, remains well below its full potential. Arrivals in 1Q17 were half their 1Q10 level. (Chart 3.)

Markets – oil

Oil prices rebounded from Thursday's month-low to close at \$51.73/bbl and \$49.33/bbl, for Brent and WTI, respectively, after EIA data showed that US crude inventories dropped for a third consecutive week and by a larger-than-expected 3.6 million barrels. (Chart 4.) This was the longest stretch of consecutive weekly drawdowns since December. Crude prices still remain down by more than 8% in 2017, however, and analysts are cautioning that while crude stocks are declining, gasoline and diesel stocks are increasing, with refineries pushing the surplus into product rather than crude stocks ahead of the peak summer driving season. Moreover, oil prices are still hovering either at or just above their OPEC agreement support level, as market confidence in the group's ability to draw down historically high global crude stocks and rein in rising US shale production remains shaky.

Markets – equities

Most equity markets gained this week, with the MSCI World advancing 1.9%. US equities were buoyed by upbeat 1Q17 earnings and by President Trump's plan to cut corporate taxes down to 15%. Markets gave up some of their gains later in the week on weaker-than-expected GDP numbers and over concerns that the tax plan was short on detail. Nevertheless, the S&P 500 and DJIA closed the week up 1.5% and 1.9%, respectively. European equities made big gains, with the Euro Stoxx 50 jumping 3.5% as investors welcomed the results of the first round of the French election. Emerging market equities took their cues from advanced markets, with the MSCI EM rising 1.9%. (Chart 5.)

Regional equities continued to underperform, with the MSCI GCC index retreating 0.4%. This was a short week for regional markets due to the Moslem holiday. Dubai underperformed, with its general index off 1.5% despite recent strong tourism numbers. Saudi rallied early in the week on the King's announcement that bonuses and allowances to state employees would be reinstated before giving up some of these gains in later sessions. (Chart 6.)

Markets – fixed income

Bond markets started the week trading risk-on following the French election results. They were further emboldened by expectations of market-friendly moves by President Trump and by a less dovish ECB. While the Trump tax plan was initially well received, markets later turned, trading risk-off, on what they felt was an underwhelming reform plan. They were also worried by other Trump moves, including the possibility (now faded) of a pull-out from NAFTA as well as a possible government shutdown. ECB president Draghi's focus on downplaying inflationary pressures, while leaving EZ monetary policy unchanged, painted a still dovish outlook, further dampening investor's risk appetite. A less than certain win for French presidential candidate Macron is also contributing to market jitters, as are geopolitical tensions over North Korea and Syria. Stronger than expected inflation in Europe late in the week, saw some upwards pressure on yields, 10-year bunds settled at 0.33%. Rates on US 10-year treasuries were range-bound, finishing the week at 2.28%. (Chart 7.)

GCC yields on bonds maturing in 2021 were down w/w between 1-5 bps, with the exception of Saudi. Meanwhile, Kuwait's 2022 bond traded at 2.59%, up 5 bps from a week ago. (Chart 8.)

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