Oil prices stay above $60 for second week, but GCC markets hit by political concerns

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi SM	4,376	-1.99	-3.74
Bahrain ASI	1,268	-1.19	3.86
Dubai FM	3,450	-4.76	-2.30
Egypt EGX 30	14,350	0.22	16.24
S&P GCC 40	995	-4.23	-13.86
Kuwait SE	6,258	-4.43	8.88
KSA Tadawul	6,954	-0.03	-3.55
Muscat SM 30	5,055	0.30	-12.58
Qatar Exchange	7,886	-3.20	-24.44
International			
CSI 300	4,112	2.99	24.23
DAX	13,127	-2.61	14.34
DJIA	23,422	-0.50	18.52
Eurostoxx 50	3,594	-2.61	9.22
FTSE 100	7,433	-1.68	4.06
Nikkei 225	22,681	0.63	18.66
S&P 500	2,582	-0.21	15.34

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	63.5	2.34	11.79
KEC	60.57	4.97	16.71
WTI	56.7	1.98	5.62
Gold	1272.4	0.47	10.64

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.302	-0.13	-1.03
KWD per EUR	0.351	0.00	10.28
USD per EUR	1.166	0.48	10.94
JPY per USD	113.530	-0.46	-2.86
GBP per USD	1.319	0.87	6.91
EGP per USD	17.640	0.23	-2.00

Interbank rates	%	Change (bps) weekly	YTD
Bhibor - 3 month	2.55	5.0	45.0
Kibor - 3 month	1.81	0.0	37.5
Qibor - 3 month	2.45	-1.3	66.8
Eibor - 3 month	1.60	2.7	12.5
Saibor - 3 month	1.80	1.0	-23.4
Libor - 3 month	1.41	2.2	41.5

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	2.67	6.3	13.5
Dubai 2022	3.04	7.2	-25.9
Qatar 2022	3.28	23.3	34.5
Kuwait 2022	2.73	20.3	n/a
Saudi Arabia 2023	3.24	27.1	n/a
International			
UST 10 Year	2.40	5.7	-3.2
Bunds 10 Year	0.41	4.6	20.5
Gilts 10 Year	1.34	7.4	10.1
JGB 10 Year	0.04	-1.6	-0.9

Source: Thomson Reuters Datastream; as of Friday's close 10/11/2017

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Overview

Jitters over the legislative passage of US tax reforms were in focus in what was otherwise a relatively uneventful week for global markets. The US Senate unveiled its own draft tax reform bill, which would postpone the proposed cut in corporation tax by one year to 2019 and possibly lead to a clash on the issue with President Trump. Large tax cuts are factored into many analysts' outlook for US growth, but have also underpinned the buoyant US equity market, expectations for Fed policy and the rally in the US dollar over the past two months.

Brent crude oil prices enjoyed a second consecutive week above the $60/bbl mark, reaching as high as $64 to stand up 16% on a month earlier. Prices were driven by political events in Saudi (see below and page 2), but there is also a hardening view that an extension to current production cuts – due to expire in March – by key oil producers will be announced when OPEC meets at the end of this month. End-of-week data, however, showing a rise in the US oil rig count (738 versus 452 a year ago) and US crude production hitting a modern-day high, suggests that OPEC still has a battle on its hands as it attempts to seize back control of the market.

News in the Gulf region was dominated by fallout from the ongoing corruption crackdown in Saudi Arabia, with the authorities moving to reassure investors that operations of companies linked to individuals detained would not be affected. The Saudi stock market fluctuated, but ended the week flat, with claims of support by some government funds. Yields on the government's 2023 bond moved 27 bps higher, with other markets in the GCC also affected on a perceived rise in geopolitical risk.

International macroeconomics

China: The consumer price index (CPI) rose 1.9% y/y in October, up from September's 1.6%. Non-food prices rose 3.2% y/y, with changes coming mostly from goods and services in the healthcare, rents, education, and recreation sectors.

Export activity picked up, but imports surged as well. Exports went up 11.7% y/y in the first ten months of 2017 to 22.5 trillion yuan ($3.4 trillion). Imports grew 21.5% y/y to 10.1 trillion yuan.

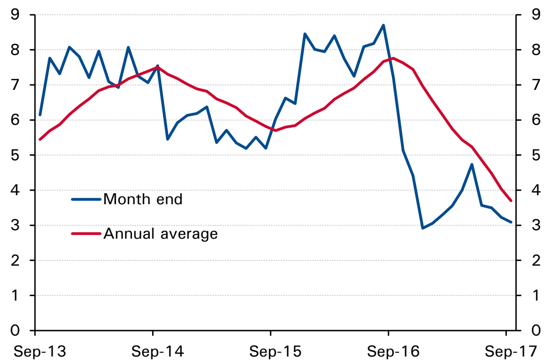
GCC & regional macroeconomics

Kuwait: A solid gain in credit was recorded in September, though 3Q17 growth was visibly weaker. Credit saw a net gain of KD 231 million in September, with the number boosted by usual end-of-quarter gains. Growth slipped to 3.1% y/y. (Chart 1.) Growth in 3Q17 was weaker at 3.2% q/q (annualized) compared to a pace of 7.3% during 1H17. Private deposits saw a second month of strong gains.

Consumer spending improved in 3Q17. Growth in card spending (POS) accelerated to 12.5% y/y in 3Q17. (Chart 2.) Growth had moderated in 2016. Since then, however, card spending has risen as the sector stabilized. Total spending, including ATM draws, edged up to 8.5% y/y.

Chart 1: Kuwait credit growth

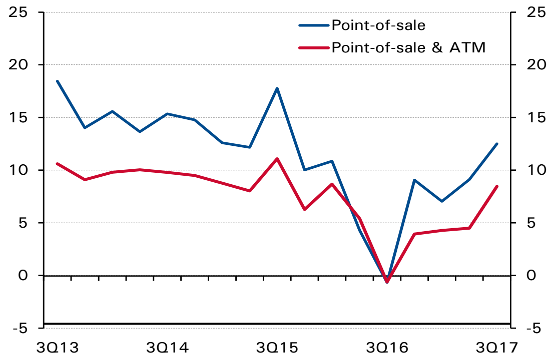
(% y/y)



Source: Central Bank of Kuwait

Chart 2: Kuwait card transactions

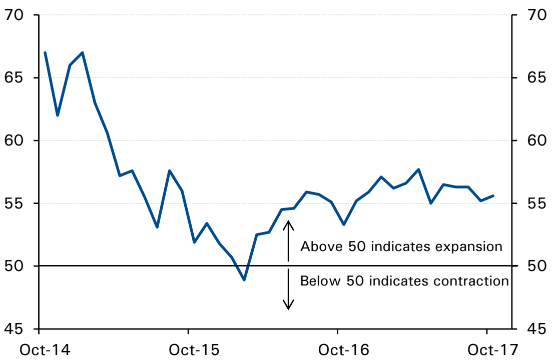
(% y/y)



Source: Central Bank of Kuwait

Chart 3: Dubai Economy Tracker

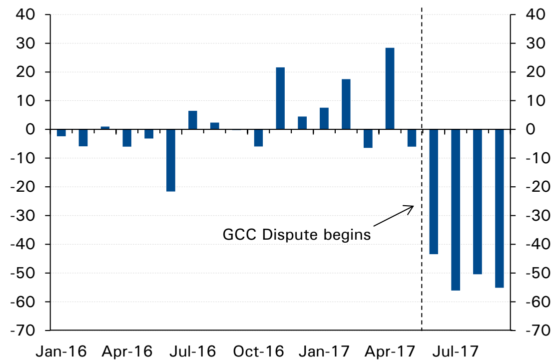
(index)



Source: Emirates NBD

Chart 4: Qatar visitor arrivals

(% y/y)



Source: MDPS

Saudi Arabia: Saudi authorities continue to freeze bank accounts and detain high-profile officials and businessmen. According to reports, the kingdom's ex-crown prince, Mohammed bin Nayef, is the latest royal to be targeted in the crackdown. At least $100 billion worth of funds spread across more than 1,700 domestic bank accounts have so far been frozen by the anti-corruption commission.

The anti-corruption campaign and the reverberations from the resignation of Lebanese PM Saad Hariri while in Saudi Arabia have raised the geopolitical risk premium. Fears of an all-out proxy war between Saudi Arabia and Iran in Lebanon rose a notch after Saudi Arabia advised its citizens to leave Lebanon.

The events of last week prompted a sell-off in Saudi dollar-denominated bonds. The yield on the 2023 government bond rose by 27 bps to 3.24%. Meanwhile, spreads on Saudi five-year CDS reached 100 bps, the highest since July.

UAE: The UAE Cabinet approved an expansionary five-year federal budget of AED 201.1 billion ($54.7 billion) for the years 2018 to 2021, of which AED 51.4 billion ($13.9 billion) will be allocated for 2018, a 5.6% y/y rise from the previous year's budget and with no projected fiscal deficit. The largest portion of the budget (43.5% of the total budget) will be allocated to current expenditures, particularly those related to social development and social benefits, i.e. education, health, pensions, community development and housing. Federal expenditures make up about 15% of consolidated government spending.

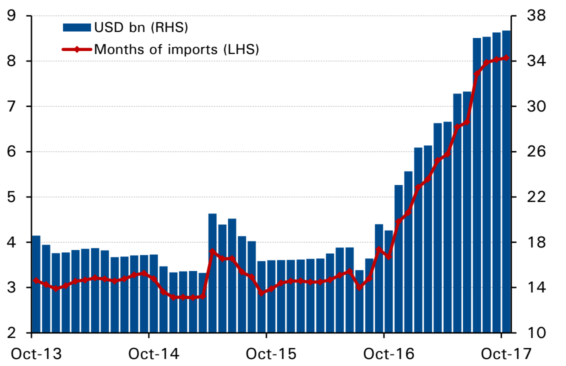
The Dubai economy tracker, a good gauge of growth, rose from 55.2 in September to 55.6 in October, as a continued gradual improvement in domestic conditions pushed output and new orders higher, particularly in the wholesale & retail trade sector. (Chart 3.) Meanwhile, amid high levels of competition, profit margins continue to be squeezed as firms find it more challenging to pass on rising input costs to consumers.

Qatar: Four months into the GCC dispute, visitor arrivals to Qatar remained well down in September. Total arrivals were down 55% y/y, worse than the 50% y/y drop recorded in August. (Chart 4.) Arrivals from the GCC were down 84% y/y, and from elsewhere a more modest (but still significant) 14%. This will be having a large impact on the tourism sector, amongst others. Exact figures have been obscured by a change in the official reporting method since July, but our calculations suggest that occupancy rates at 4 and 5 star hotels may have plunged in July to less than half their pre-crisis levels, though they improved somewhat since then.

Bahrain: The government-run Bahrain Petroleum Company (Bapco) was forced to close a key oil pipeline after it caught fire on Saturday, following an explosion that the government claims was carried out by terrorists. The pipeline is used to transport up to 230,000 of barrels of oil per day from Saudi Arabia and following the fire, Saudi Arabia suspended pumping oil to Bahrain. Whilst the fire has been brought under control, it is unclear yet as to when the pipeline will be reopened.

Oman: S&P downgraded Oman's long-term foreign and local currency sovereign credit rating to BB from BB+ – further into sub-investment grade territory – amid ongoing fiscal pressures and rising external debt.

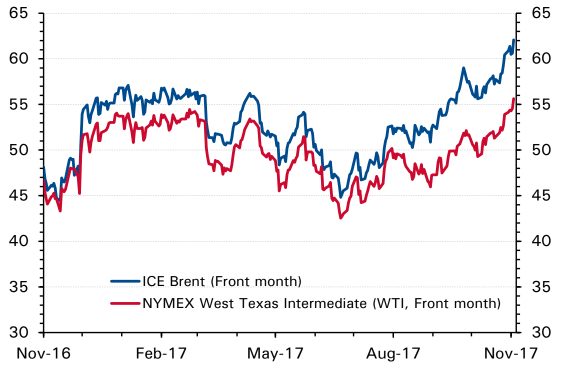
Chart 5 Egypt official reserves



Source: Central Bank of Egypt

Chart 6: Benchmark crude oil prices

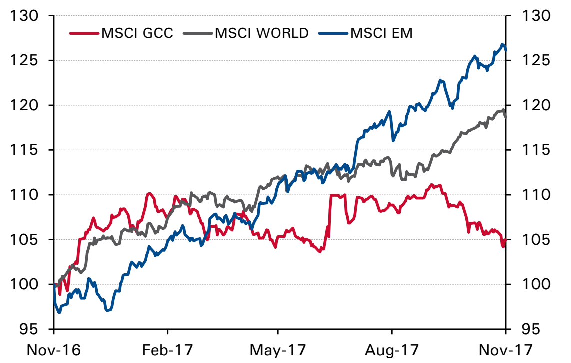
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Total return indices

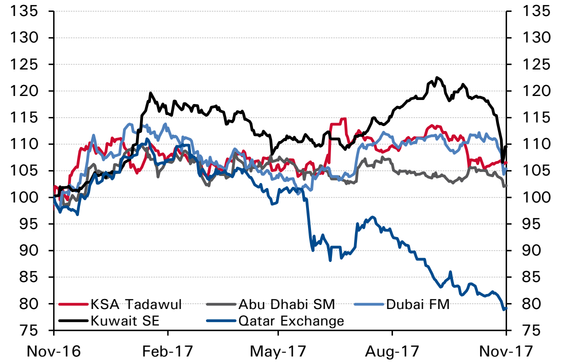
(rebased, 10 November 2016=100)



Source: Thomson Reuters Datastream

Chart 8: GCC markets

(rebased, 10 November 2016=100)



Source: Thomson Reuters Datastream

Egypt: Official reserves were mostly stable in October, ending the month at $36.7 billion or 8.1 months of imports. (Chart 5.) Reserves added nearly $17 billion in the nine months after the floating of the pound, before stabilizing since July. The pound has also been very stable at around 17.7 to the US dollar.

Inflation remained elevated at 31% y/y in October, though monthly price growth has eased significantly in recent months. Prices rose by an annualized 14% in October. Annual inflation should begin falling below the 30% mark in November on base effects, a year after the currency float and the large jump in consumer prices. We see inflation easing to around 14% y/y by the middle of 2018. This week, the CBE will decide on whether to begin reducing policy rates or to keep them on hold.

The IMF completed its staff visit to the country as part of the annual Article IV assessment and the second review of reforms agreed to under the $12 billion loan agreement. The second review will trigger the disbursement of the third tranche of the loan ($2 billion), subject to the final approval of the executive board of the IMF.

Markets – oil

Oil prices recorded their fifth consecutive week of gains on Friday after Brent closed at $63.52/bbl and WTI finished at $56.74/bbl. (Chart 6.) Earlier in the week, Brent broke through $64, its highest level in more than two and a half years, as regional geopolitical risks spiked in the wake of Crown Prince Mohammed Bin Salman's anti-corruption drive and the ratcheting up of tensions with Iran following the resignation of Lebanese PM Hariri.

OPEC also raised its forecast for global oil demand through to 2040. The group acknowledged, however, that the use of cleaner and more energy efficient fuels and transportation (e.g. electric cars) is expected to accelerate over the coming decades. OPEC sees oil consumption rising by 7% to 2022 (from 95.4 mb/d in 2016 to 102.3 mb/d in 2022) and by 16.5% to 2040 (to 111.1 mb/d). On the supply side, over the long term, OPEC projects a 30% increase in the 'call on OPEC production' to 41.4 mb/d. This implies that the group's market share could rise from 34% in 2016 to potentially 37% by 2040.

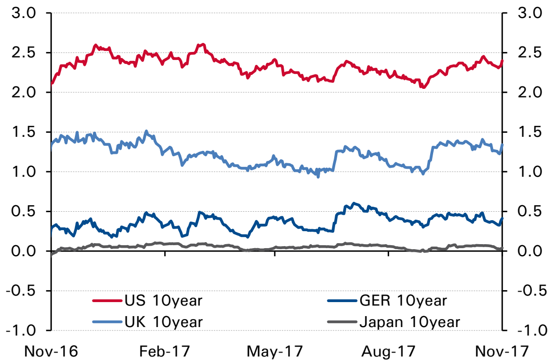
US crude production hit its highest ever shale-era level of 9.62 mb/d last week. Total crude and petroleum product stocks, however, declined for the eighth consecutive week.

Markets – equities

A relatively calm week for international markets with no major catalysts. Markets continue to focus on better-than-expected earnings. The MSCI World All Country index closed down 0.4%. US equities had a relatively good start of week, logging record highs, supported by better valuations, the expanding US economy and possible trade deals with China valued at $250 billion. However, the possible delay in the implementation of corporate tax law until 2019 spurred anxiety and tension amongst investors and reversed most of the gains. The S&P 500 and DJIA ended the week slightly down at 0.2% and 0.5%, respectively. European equities retreated, pushing the Euro Stoxx 50 down 2.6% on the week, weighed down by the potential tax-cut legislation in the US and stronger euro and GBP. Emerging market (EM) equities were flat with the MSCI EM improving 0.2%. (Chart 7.)

Chart 9: Global benchmark yields

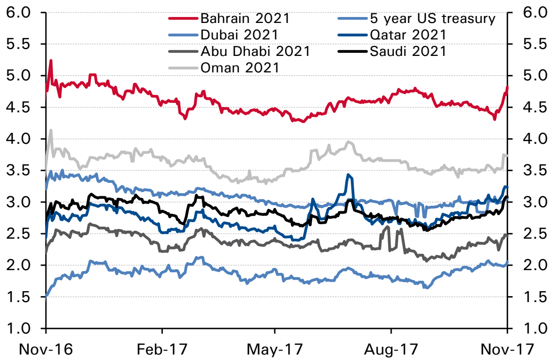
(%)



Source: Thomson Reuters Datastream

Chart 10: GCC yields

(%)



Source: Thomson Reuters Datastream

GCC markets were in red territory following the major rise in geopolitical tension in the region. The MSCI GCC index closed the week down 0.9%. Despite being at the heart of the turmoil, Tadawul was the least affected, flat on the week. The DFM index faltered by 4.8% on GCC and foreign outflows. Qatar's market fell below the 8,000 mark for the first time since 2010, ending the week down 3.2%. The Kuwait bourse was down 5.1% on the week. (Chart 8.)

Markets – fixed income

International benchmark yields moved sideways, while GCC yields spiked on regional developments. A lack of drivers saw US Treasury and German Bund yields little changed on the week. Rates on US 10-year Treasuries and German 10-year Bunds added 5-6 bps, settling at 2.40% and 0.41%, respectively. (Chart 9.)

GCC sovereign yields, however, ended the week much higher; mostly on regional developments. Investor concern spiked following hints of a currency crisis in Bahrain, the sudden resignation of the Lebanese PM, and the Saudi crackdown. Yields on paper maturing in 2022 and 2023 added between 6-38 bps across the board. Saudi, Qatari and Kuwaiti yields saw moves of more than 20bps, while Bahrain increased the most. Abu Dhabi stood out as a safe haven moving by 6 basis points. (Chart 10.)

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