Stocks rise on strong US economic data, possible North Korea breakthrough; Brent crude up to $65

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi (ADI)	4,527	-1.48	2.93
Bahrain (ASI)	1,370	-0.23	2.89
Dubai (DFMGI)	3,157	-1.61	-6.31
Egypt (EGX 30)	16,472	6.66	9.68
GCC (S&P GCC 40)	950	-1.48	-3.52
Kuwait (Price Index)	6,778	-0.44	5.78
KSA (TASI)	7,562	2.04	4.65
Oman (MSM 30)	4,930	-1.64	-3.32
Qatar (QE Index)	8,308	-4.83	-2.52
International			
CSI 300	4,109	2.30	1.94
DAX	12,347	3.63	-4.42
DJIA	25,336	3.25	2.49
Euro Stoxx 50	3,421	2.88	-2.38
FTSE 100	7,225	2.19	-6.03
Nikkei 225	21,469	1.36	-5.69
S&P 500	2,787	3.54	4.22

Commodities	$/unit	Change (%) weekly	Change (%) YTD
Brent crude	65.5	1.74	-2.06
KEC	59.81	0.25	-5.81
WTI	62.0	1.29	2.68
Gold	1322.4	0.10	1.23

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.300	0.17	-0.37
KWD per EUR	0.370	-0.27	4.20
USD per EUR	1.231	-0.10	2.58
JPY per USD	106.8	0.98	-5.24
GBP per USD	1.385	0.33	2.48
EGP per USD	17.58	-0.04	-0.83

3m interbank rates	%	Change (bps) weekly	Change (bps) YTD
Bhibor	3.00	17.5	27.5
Kibor	1.88	0.0	0.0
Qibor	2.70	0.0	-4.2
Eibor	2.08	6.4	27.7
Saibor	1.96	3.6	5.9
Libor	2.07	4.7	37.7

Bond yields	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2022	3.39	1.5	44.0
Dubai 2022	3.43	1.9	28.6
Qatar 2022	3.65	-2.5	57.0
Kuwait 2022	3.32	2.5	51.0
Saudi Arabia 2023	3.71	1.5	49.0
International			
UST 10 Year	2.89	3.7	48.3
Bunds 10 Year	0.65	0.5	22.7
Gilts 10 Year	1.49	1.9	30.6
JGB 10 Year	0.05	-2.0	0.1

Source: Thomson Reuters Datastream; as of Friday's close 9/3/2018

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Overview

A cluster of upbeat news, including the fastest rise in US employment in 18-months, a softening from President Trump on his metals tariffs, and a potential breakthrough in relations with North Korea boosted stock markets and oil prices last week. The US S&P 500 rose 3.5% w/w, and other global benchmarks were up 1-4%. In Europe meanwhile, the ECB left interest rates on hold and dropped its so-called "easing bias" against a backdrop of growing confidence in the region's economic performance.

The same positive factors helped crude oil prices, with Brent climbing nearly 2% w/w to $65 – although much of this rise came at the end of the week following the strong US employment figures. Mid-week, prices had been hit by data from the US Energy Information Administration showing a second consecutive weekly rise in US crude stocks, while the EIA also upped its forecast for US crude output by Q4 18 to 11.2 million b/d from 10.4 million b/d presently.

In the MENA region, there was mixed news from the regional purchasing managers' activity surveys. The Saudi measure failed to bounce much after a steep (possibly VAT-related) decline in January, but confidence in future output surged to a 46-month high. We think these figures still fit in with our expectation of stronger non-oil growth in Saudi this year. In Egypt meanwhile, the index failed to break above the 50 'no change' mark, putting it at odds with more upbeat readings from official data.

International macroeconomics

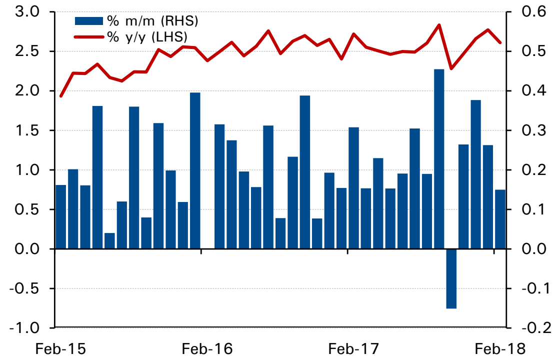
USA: Employment data was exceptionally strong with non-farm payrolls rising 313,000 in February, well above a consensus of around 200,000. Yet despite this strength, wage inflation came in lower than expected. (Chart 1.) Average hourly earnings rose by just 0.1% m/m in February, with annual growth slipping to 2.6% y/y, making the case for four increases in the federal fund rate less likely for now.

President Donald imposed higher tariffs on steel and aluminum imports last week, but exempted Canada and Mexico from the increases. Other trade partners are demanding similar exemptions. The move still cost the White House its top economic advisor when Gary Cohn resigned in protest. The direct impact of the tariffs on the global economy is not likely to be significant. Nonetheless, some fear that the measure presages a new era of protectionism that could be a drag on global growth.

Eurozone: Eurozone political uncertainty abated somewhat last week following the conclusion of the Italian elections and a vote by Germany's SDP members on joining another grand coalition. While the latter ended as expected, with Merkel assuming her fourth term, the Italian outcome remains a concern. Indeed, the far-right 5-star movement was the largest single party in parliament after winning 32% of the vote, while the center-right coalition La Lega won 38% of the vote, leading the leaders of both groups to lay claim to the job of PM.

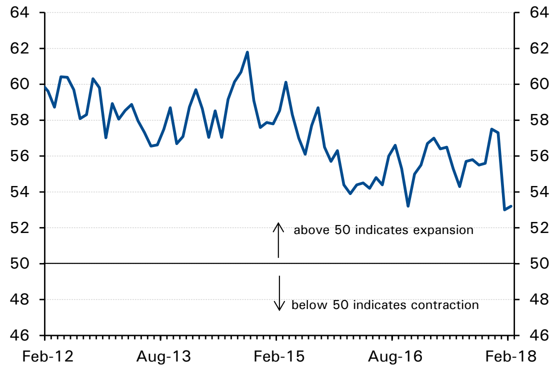
Japan: Japan's 4Q17 GDP was revised upwards from an annualized 0.9% to a more promising 1.6%, following better than previously estimated

Chart 1: US wage growth
(%)



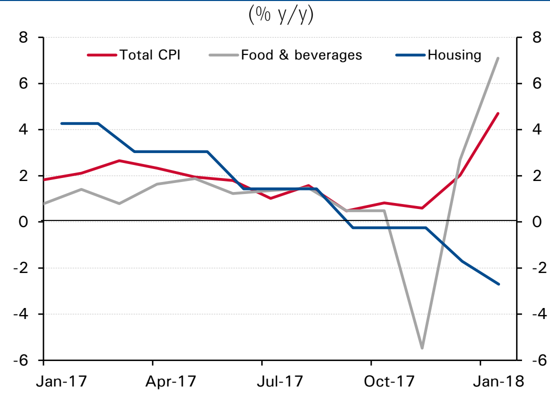
Source: U.S. Bureau of Labor Statistics

Chart 2: Saudi PMI
(index)



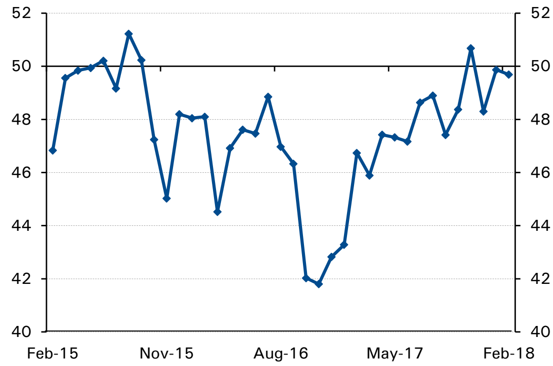
Source: Markit/Emirates NBD

Chart 3: Abu Dhabi consumer price inflation
(% y/y)



Source: Statistics Center - Abu Dhabi

Chart 4: Egypt PMI
(index)



Source: IHS Markit

capital expenditure and inventory data. Gains in capital expenditure were supported by investments in information and communications. Private inventories were propped up by increases in stocks of crude oil and natural gas, steel products and electronics.

Meanwhile, as widely expected, the Bank of Japan kept its monetary policy unchanged in an effort to remain on track to meet its 2% inflation target during the fiscal year ending in March 2020. It also maintained its upbeat outlook on the economy, but nonetheless did express concerns about a potential global trade war and a strong yen.

GCC & regional macroeconomics

Kuwait: The stock exchange is planning a share sale between 4Q18 and 1Q19, with up to 50% to be offered to the public and 44% to a foreign operator. The state will retain up to 24% of the shares. Meanwhile, reforms that will phase in a new market structure will be implemented early next month.

Saudi Arabia: The headline PMI increased marginally to 53.2 in February from 53.0 in January, with firms reporting an uptick in output, while future output surged. (Chart 2.) Growth in new business, however, fell to a survey-low. Firms reported that they were forced to lower their selling prices in order to attract business. Job creation continued apace, though, with the current unbroken sequence extending to 47 consecutive months.

UAE: Inflation in Abu Dhabi jumped from 2.0% y/y in December to 4.7% y/y in January, mainly due to the introduction of a 5% VAT, higher fuel prices, and food price inflation of 7.1% y/y. (Chart 3.). However, the continued fall in housing costs helped temper the rise in the overall index. Meanwhile, Dubai announced that it will not increase state fees for the next three years in a bid to support competitiveness following the introduction of VAT. A similar commitment has already been made at the federal level.

The UAE's headline PMI eased for the second straight month in February, but at 55.1 was still solid as new orders and output remained fairly strong. Inflationary pressures subsided as output prices, input costs, purchase prices and staff costs all fell, after rising in the previous month on the introduction of VAT.

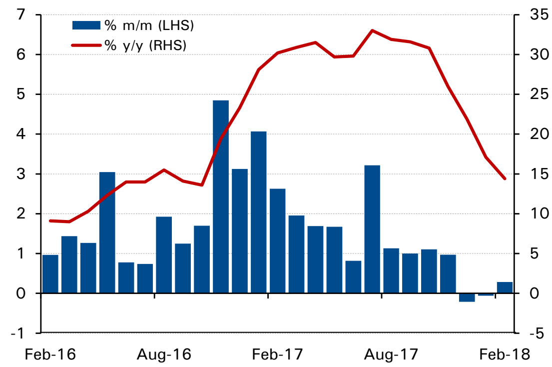
Egypt: Reserves saw their largest increase in seven months, jumping to a record $42.5 billion at the end of February, owing largely to a $4 billion USD bond issuance. Egypt has also been benefiting from an improving current account, which has helped reduce the drain on the external position. FDI inflows have also improved.

Inflation slipped in February to 14.4% y/y. The monthly gain in prices was a mere 0.3% and followed two months of slight declines. (Chart 5.) The data further adds to confidence that inflation is coming under control, which should see the central bank continue to reduce interest rates in the coming months after it began doing so in February.

The PMI was mostly steady in February at 49.7. (Chart 4.) The index has been unable to sustain levels above 50 in recent months after making significant progress since late 2016, even as GDP growth rose to 5.3% y/y in 4Q17. New orders and new export orders improved in February, though the output index weighed on the general index. Price pressures remained, despite signs of easing inflation in the CPI data.

Markets – oil

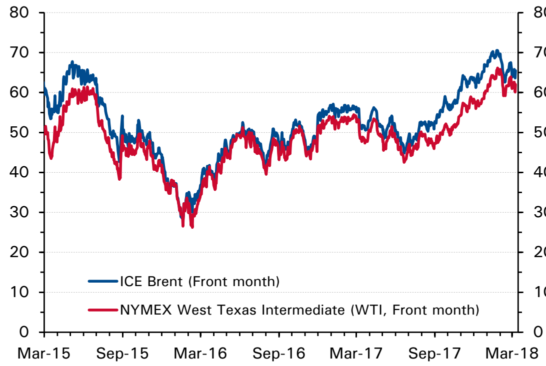
Chart 5: Egypt inflation



Source: Central Bank of Egypt

Chart 6: Benchmark crude oil prices

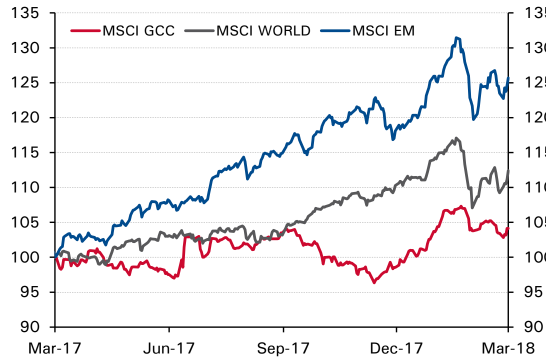
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Total equity return indices

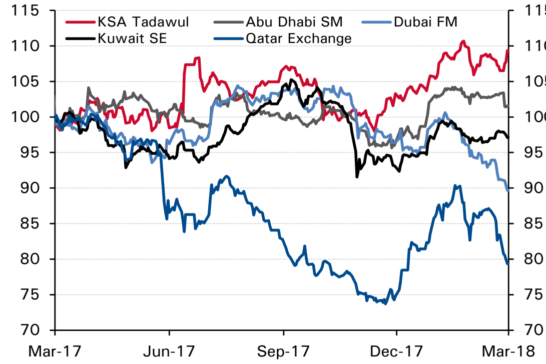
(rebased, 9 March 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC equity markets

(rebased, 9 March 2017=100)



Source: Thomson Reuters Datastream

Better-than-expected US jobs data and a potential summit between President Trump and North Korean leader Kim Jong Un reversed the decline in oil prices over two consecutive days. Brent and WTI climbed by around 3% on Friday to $65.5/bbl and WTI $62.0/bbl, respectively. (Chart 6.) Both markers had been under pressure on Wednesday after the release of yet another set of figures showing US crude production and inventories rising, to 10.4 mb/d and 425.9 million barrels, respectively, in the week ending 2 March.

Despite Saudi Arabia's reaffirmation earlier last week that it would continue to do all it could to rebalance the oil market, thanks to US shale's seemingly relentless gains, market participants appear to be turning more bearish. In the week ending 6 March, hedge funds increased their short positions in WTI by the most since December (15%).

Markets – equities

Global equities gained last week as investors downplayed trade war fears, welcomed rapprochement with North Korea, and reacted to encouraging data. The MSCI AC index was up 2.8% w/w. (Chart 7.)

The DJI and the S&P 500 climbed 3.2% and 3.5%, respectively, bolstered by strong US payroll numbers. The exemption of Canada and Mexico, in addition to possibly other US allies, from the recently-imposed tariffs on steel and aluminum imports supported stocks. The positive turn in sentiment also helped other global markets, with the Euro Stoxx 50 up 2.9%, while the MSCI's emerging markets index was up 1.8%.

Most GCC equities underperformed global peers, as Qatar and Abu Dhabi suffered from companies going ex-dividend, while Saudi outperformed, buoyed by improved sentiment driven by higher oil prices. The MSCI GCC index was up 0.7% w/w. Kuwait edged down on the week but is with Saudi, Abu Dhabi and Bahrain as the only GCC bourses with year-to-date gains. (Chart 8.)

Markets – fixed income

Easing geopolitical tensions and trade war fears, in addition to stronger US data, sent benchmark yields slightly higher, with US 10-year treasury yields up 4 bps w/w to 2.86%. Bunds tracked their US counterparts, but a dovish statement by ECB president Mario Draghi capped the rise in yields. 10-year Bunds ended the week at 0.65%, up 1bps.

The ECB kept its monetary policy unchanged, but dropped its commitment to increase the volume of bond buying if economic conditions require. Markets interpreted this as confidence in the Eurozone's current recovery, though bullishness was tempered by Mr. Draghi's affirmation of the ECB's still very accommodative stance. Yields in the GCC were little changed.

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