The books close on 2016; US payrolls this week; OPEC and others implement their cuts in January

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi SM	4,546	2.47	5.55
Bahrain ASI	1,220	1.80	0.37
Dubai FM	3,531	0.39	12.06
Egypt EGX 30	12,345	-0.61	76.20
KSA Tadawul	7,238	2.12	4.72
Kuwait SE	5,748	1.27	2.37
Muscat SM 30	5,745	0.14	6.26
Qatar Exchange	10,437	0.08	0.07
MSCI GCC	719	1.23	9.48
International			
DAX	11,481	0.27	6.87
DJIA	19,763	-0.86	13.42
FTSE 100	7,143	1.06	14.43
Nikkei	19,114	-1.61	0.42
S&P 500	2,239	-1.10	9.54

Commodities	$/bbl	Change (%) weekly	Change (%) YTD
Brent crude ($/bbl)	56.8	3.16	52.41
KEC ($/bbl)	51.9	3.10	82.83
WTI ($/bbl)	53.7	1.32	45.03
Gold ($/t oz.)	1151.4	1.64	8.59

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.306	-0.07	0.77
KWD per EUR	0.318	0.09	-3.46
USD per EUR	1.052	0.51	-3.20
JPY per USD	116.86	-0.38	-2.86

Interbank rates	%	Change (bps) weekly	Change (bps) YTD
Kibor – 3 month	1.44	0.0	-25
Qibor – 3 month	1.78	-5.7	47
Libor – 3 month	1.00	0.1	39

Fixed income	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2021	2.53	-5.9	N/A
Dubai 2021	3.30	-0.8	-34
Qatar 2021	2.91	-1.9	N/A
Saudi Arabia 2021	3.01	-3.9	N/A
International			
UST 10 year	2.45	-9.7	17
Bunds 10 year	0.21	-1.5	-43
Gilts 10 year	1.24	-10.5	-72
JGB 10 year	0.05	-1.2	-23

Source: Thomson Reuters Datastream

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Happy New Year 2017 to our readers!

Summary

Things were relatively quiet in a holiday-shortened week that was also light on new data. Most equity markets closed up on the year, as did oil prices, the USD and US interest rates.

US equities led the way in 2016 and closed up 15% on the year for the Dow Industrials; the S&P rose 11%. Other markets were up as well. The GCC markets, which saw significant volatility over the year, all managed to close in the black (see adjacent table). GCC equities were helped by rising international markets, as well as by recovering oil prices. The price of Brent crude was up 52% on the year, closing near $57 per barrel. Markets will be focused on oil production, starting with the January data. The production cuts promised by the recent OPEC/non-OPEC deal are expected to begin then, and will be watched for the degree of compliance with the agreement.

US stock markets, the USD, and interest rates rose in the wake of the Trump election, and the latest rate hike by the Fed, in mid-December. 10-year US rates were up 20 bps on the year, closing at 2.44%, though they did spend most of the year well under 2.0%. Fed funds rose from 37 bps to 62 bps, pushing LIBOR up. The USD was up against most currencies, +3% against the EUR, though it was down 2% against the JPY.

As the new year gets into gear, the December nonfarm payroll report is due in the US, expected at a non-eventful 180K for December, and focus will zero-in further on the incoming new US administration taking charge on 20 January.

International macroeconomics

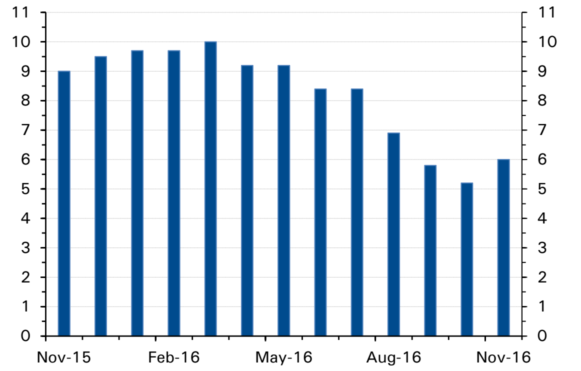
Eurozone: Eurozone developments were scarce last week. In Italy, details of Monte dei Paschi's (MPS) bailout emerged: the bank will convert institutional investors' junior bonds into equity (with a loss) , while retail investors will see their subordinated bonds converted in full, with an option to have their shares repurchased and converted into senior bonds later. The ECB now estimates that the bank will need EUR 8.8 billion to recapitalize, much higher than the previous estimate of EUR 5.5 billion.

UK: Annual UK house price growth is expected to slow in 2017 from a current 6% to between 1-4%, according to the UK mortgage provider, Halifax. (Chart 1.) The high street lender expects housing demand to cool in 2017 as the weakening economy and higher inflation begin to affect consumers' spending power. The total level of house sales is forecast to contract next year. Nevertheless, a continued shortage of housing will help to support prices.

China: Industrial profits showed significant growth in November; the sum of industrial firms' profits grew 14.5% y/y to a total of 774.6 billion Yuan (USD 111.4 billion), compared to October's 9.8% y/y growth. Strong real estate prices, rising commodity prices, and government stimulus have

Chart 1: UK HALIFAX House Price Index

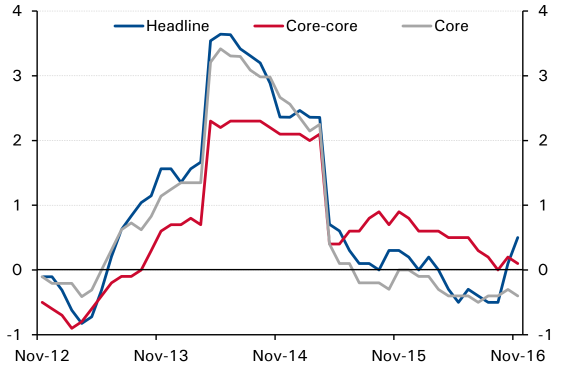
(% y/y)



Source: Thomson Reuters Datastream

Chart 2: Japan consumer price inflation

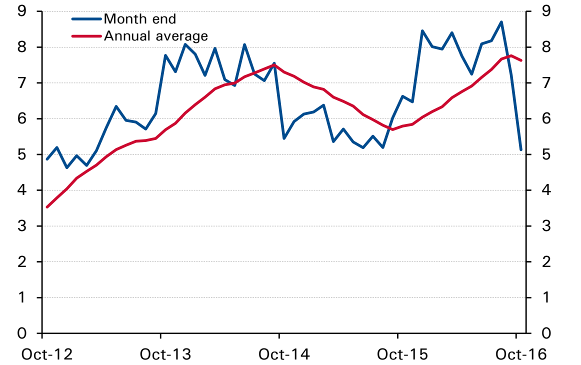
(% y/y)



Source: Thomson Reuters Datastream

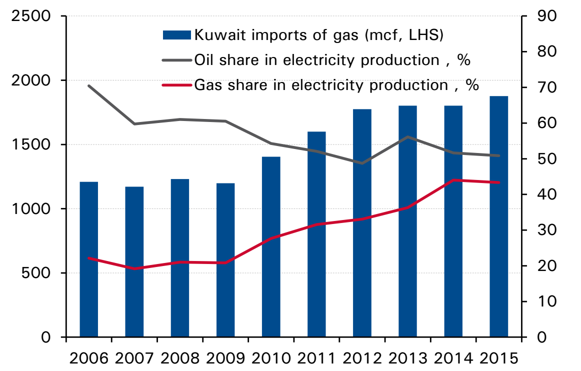
Chart 3: Kuwait private credit

(% y/y)



Source: Central Bank of Kuwait

Chart 4: Kuwait gas consumption



Source: BP, Ministry of Electricity & Water

been key drivers of these enterprises' profitability. The concern, though, is that debt issues with state-owned enterprises have not eased, and this trend in profitability may not continue as the real estate market is showing signs of cooling.

Japan: Japan's consumer price inflation jumped from 0.1% y/y in October to 0.5% y/y in November, as a weaker yen increased import costs. (Chart 2.) However, it still remains way below the Bank of Japan's (BOJ) 2% target as it continues to be weighed down by weak domestic demand. The core rate, which excludes food costs, was down 0.4% y/y.

GCC & regional macroeconomics

Kuwait: Bank credit contracted in October, coinciding with a large repayment by a Kuwaiti corporate; credit growth slipped to 5.1% y/y. (Chart 3.) Credit fell by KD 700 million, most of it from a drop in lending for securities purchases. Household loans gained strength, while business credit was mostly weaker. Private and government deposits fell in October.

Jamal Jaafar, the CEO of Kuwait Oil Company, announced that Kuwait had reduced its crude oil output by 130K barrels per day effective 1 January, as it sought to implement an OPEC decision to reduce production. The country's output averaged 2.9 million barrels per day (mb/d) in November; Jaafar confirmed that Kuwait was now producing 2.75 mbd.

The CBK issued another 5-year floating rate note (FRN) on behalf of the Ministry of Finance (MOF). The CBK offered KD 50 million at 2% (62.5 bps over the 6-month CBK bill rate). MOF borrowing is up by KD 1.68 billion since March 2016.

The Supreme Planning and Development Council urged authorities to accelerate the pace of execution of the development projects set for FY16/17. The fiscal year plan encompasses 283 projects with a budget of KD 2.97 billion. Up to September 2016, KD 673 million had been spent on these projects, 23% of the budget; this was an improvement on the 20% recorded for the same period last year.

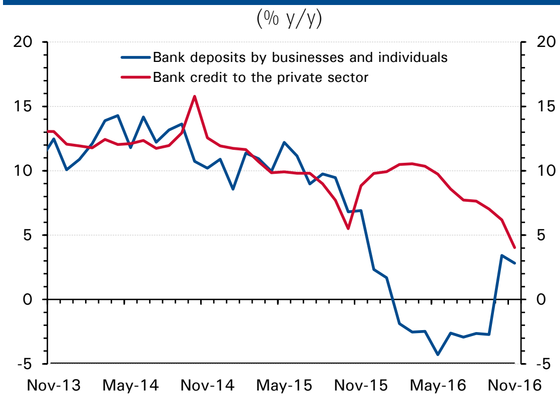
Kuwait agreed to import gas from Iraq. Imports will start at 50 million cubic feet per day (mcfd), gradually rising to 200 mcfd. Kuwait has sought to increase its reliance on gas for power generation, increasing its share from 18% in the early 2000's to 43% in 2015. (Chart 4.) This has been done largely through reliance on imports of liquefied natural gas (LNG).

Saudi Arabia: Private sector deposit growth moderated to 0.6% m/m and to 2.8% y/y, according to SAMA's latest banking sector figures. (Chart 5.) The contribution from the private sector helped the overall deposit base increase to a 2016-year high of SR 1,624 billion (USD 433.1 billion).

On the credit side, bank lending growth to the private sector in November continued the 2016 trend of slower growth; credit growth slowed for the eighth month in a row, to 4.0% y/y. This is the slowest rate of growth since 2010, and points to a significant slowdown in the non-oil economy in 2016.

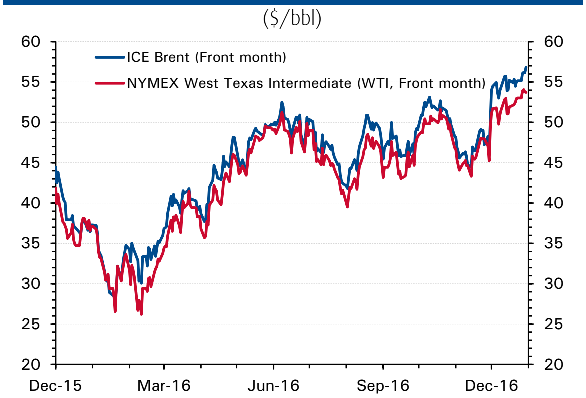
UAE: In a bid to boost trading volumes and attract more foreign investors, the Abu Dhabi Securities Exchange (ADX) announced that, in early 2017, it will allow investors to engage in technical short selling. This would make the ADX the first stock market in the GCC region to permit this practice.

Chart 5: Saudi private credit and deposit growth



Source: SAMA

Chart 6: Crude oil prices



Source: Thomson Reuters Datastream

Qatar: Qatar's trade data in November showed a decrease in exports, due to lower oil and gas exports; these declined by 12.2% y/y. Exports as a whole declined by 10.1% y/y in November. The trade balance came in at a surplus of QR 9.6 billion.

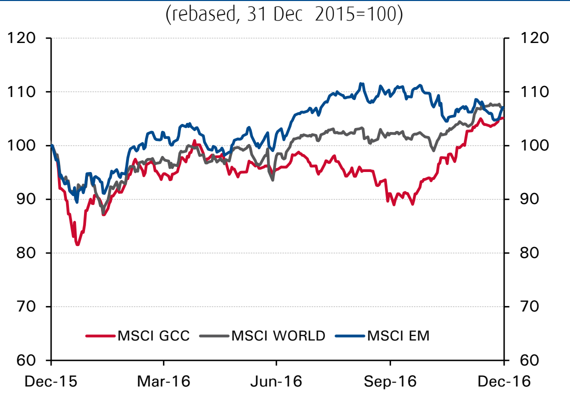
Egypt: The CBE held its policy rates unchanged on 29 December, though few had expected rates to move up. Rates were last raised by 300 bps in early November following the decision to float the Egyptian pound. Inflation rose to 19.4% y/y in November, though the CBE appears to think current rates will be sufficient to address rising inflation.

Markets – oil

A very quiet week for the markets saw oil prices continue to gain slightly on thin trading, with Brent crude closing at near to $57/bbl on Friday, its highest level since July 2015. (Chart 6.) Prices have risen by more than 22% since OPEC's production cut announcement on 30 November and by more than 52% since the start of 2016, averaging $45/bbl for the year. Rising oil prices have, however, stimulated further increases in US oil rig counts, which portends likely gains in US shale crude output in 2017. US oil drillers added another 2 rigs last week; in fact, oil rig counts have increased in 28 of the last 31 weeks, dating back to early June.

Chart 7: Total return indices

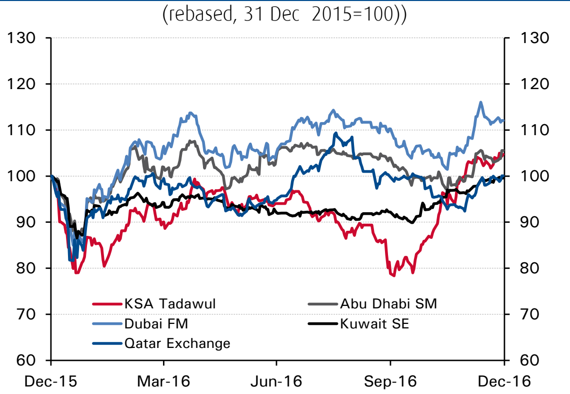
(rebased, 31 Dec 2015=100)



Source: Thomson Reuters Datastream

Chart 8: GCC markets

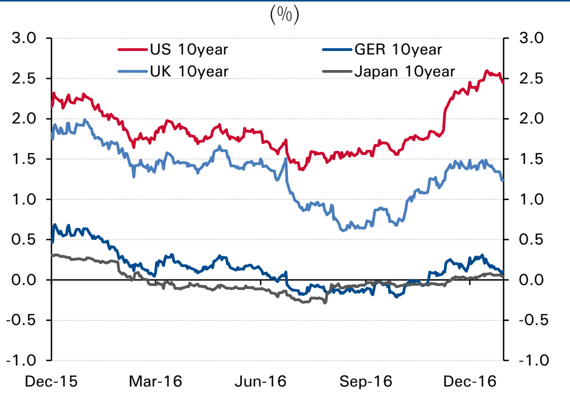
(rebased, 31 Dec 2015=100))



Source: Thomson Reuters Datastream

Chart 9: Global benchmark yields

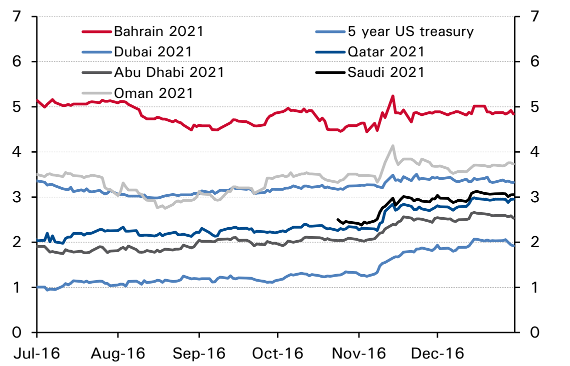
(%)



Source: Thomson Reuters Datastream

Chart 10: GCC yields

(%)



Source: Thomson Reuters Datastream

Markets – equities

Equity markets ended the year on a quiet note. The MSCI World index retreated by 0.7% last week but was up 9.7% on the year. (Chart 7.) US equities saw some profit-taking with the S&P 500 and DJIA declining by 1.1% w/w and 0.9% w/w, respectively. European equities continued to hold up, with the Euro Stoxx 50 up 0.5% on the week despite the selloff in bank stocks.

Emerging markets gained momentum following weeks of under-performance as the dollar lost ground. The MSCI index was up 2.5% w/w and up 10.1% in 2016.

GCC markets gained last week, with the MSCI index advancing 1.2% w/w and closing the year up 9.5%. (Chart 8.) The heavily-weighted Saudi market led gains in the region with its general index up 2.1% on the week. Saudi equities rallied on last week's announcement of the 2017 budget, which revealed a notable deficit cut and an increase in capital spending. Other GCC markets had an uneventful week with most making small gains, and managing to close the year in positive territory.

Markets – fixed income

Benchmark yields tightened over the week as the year ended. 10-year Bunds yields maintained low levels, pressured down by safe haven buying, following the ongoing saga of Italian banks, as they dipped to a monthly low. They closed the year down 43 bps at 0.21%. Meanwhile, some safe haven buying and end-of-year rebalancing trades pushed US 10-year Treasury yields down 10 bps on the week, yet they ended the year higher by 17 bps, at 2.45%. (Chart 9.)

GCC yields continued to benefit from steady oil prices as well as some investor interest as they set up their positions for 2017. Yields on most 5-year benchmarks were down by up to 6 bps, with Saudi Arabia and Abu Dhabi seeing larger declines. (Chart 10.)

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