

Weekly Economic and Markets Review

NBK Economic Research Department | 20 May 2018



International & MENA

Coalition deal rattles Italian financial markets; Brent crude briefly breaks through the \$80 mark

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,432	-0.14	0.76
Bahrain (ASI)	1,273	0.16	-4.43
Dubai (DFMGI)	2,913	1.07	-13.57
Egypt (EGX 30)	16,878	-1.62	12.37
GCC (S&P GCC 40)	991	-0.14	0.61
Kuwait (All Share Index)	4,801	-0.57	n/a
KSA (TASI)	8,017	1.30	10.94
Oman (MSM 30)	4,654	-0.59	-8.74
Qatar (QE Index)	8,891	1.62	4.31
International			
CSI 300	3,903	0.78	-3.17
DAX	13,078	0.59	1.24
DJIA	24,715	-0.47	-0.02
Euro Stoxx 50	3,574	0.23	1.99
FTSE 100	7,779	0.70	1.18
Nikkei 225	22,930	0.76	0.73
S&P 500	2,713	-0.54	1.47
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.64	2.1	69.3
Dubai 2022	3.96	9.1	81.6
Qatar 2022	3.90	6.1	82.3
Kuwait 2022	3.59	-0.9	78.3
Saudi Arabia 2023	4.06	8.1	84.3
International			
UST 10 Year	3.07	9.6	65.6
Bunds 10 Year	0.58	1.4	15.2
Gilts 10 Year	1.50	6.1	31.2
JGB 10 Year	0.06	1.3	0.9
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.18	7.5	45.0
Kibor	2.00	0.0	12.5
Qibor	2.65	2.6	-9.2
Eibor	2.50	3.9	70.3
Saibor	2.42	1.3	52.1
Libor	2.33	-2.4	63.7
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.302	0.21	0.17
KWD per EUR	0.371	0.00	4.51
USD per EUR	1.178	-1.40	-1.84
JPY per USD	110.7	1.24	-1.71
GBP per USD	1.347	-0.52	-0.30
EGP per USD	17.76	0.62	0.17
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	78.5	1.80	17.41
KEC	75.8	2.68	19.42
WTI	71.3	0.82	17.97
Gold	1290.2	-2.18	-1.23

Source: Thomson Reuters Datastream; as of Friday's close 18/5/2018

Overview

European politics moved back into focus last week with a coalition agreement between two populist parties in Italy pointing to looser fiscal policy and raising concerns over financial stability in the region. Yields on Italian 10-year government bonds surged to a seven-month high. Meanwhile, upbeat US economic data on retail sales and industry also pushed US yields higher and saw the dollar resume its climb after last week's pause. The rise in the dollar could add to the squeeze on international funding that has already triggered volatility in emerging markets including Argentina.

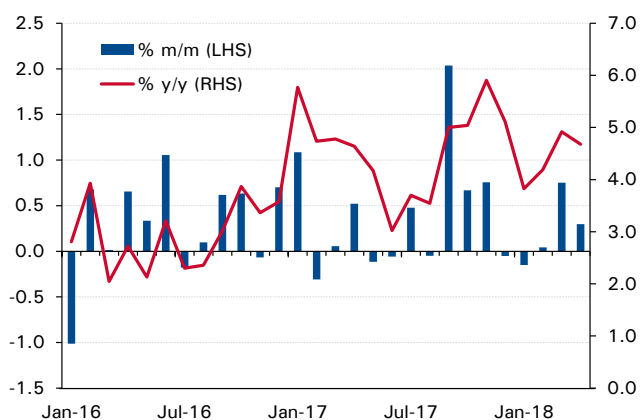
Brent crude oil prices ended the week up 2% at almost \$79/bbl having briefly broken through the \$80/bbl mark for the first time since November 2014 a day earlier. The market continues to absorb the supply implications of the US's withdrawal from the Iranian nuclear deal as well as the collapse in Venezuelan oil output – already down 0.7 mb/d y/y and likely to fall further. Although some investors now see crude as overbought, the Saudi Energy Minister reassured frustrated buyers that supporting global growth was one of the Kingdom's key goals and that it would ensure that the market remains well-supplied.

Higher oil prices helped most GCC equity markets post gains, with the MSCI index up 1.5% w/w albeit after three weeks of declines led by weakness in Dubai. The latter has been driven not just by geopolitics but by the real estate market, where prices and rents are declining on strong supply. Meanwhile in Egypt, having cut interest rates twice already in 2018, the central bank left rates unchanged against a backdrop of strong economic growth, falling unemployment, rising oil prices and further likely subsidy cuts later in the year.

International macroeconomics

USA: Retail sales grew a reasonable 0.3% m/m in April and 4.7% y/y, in line with expectations. (Chart 1.) Consumer spending was weak in 1Q18 and these numbers could point to a modest pick-up at the start the second quarter, though perhaps by less than expected given the impact of tax cuts and the tight labor market.

▶ **Chart 1: US retail sales**



Source: Thomson Reuters Datastream

Conditions in the industrial sector remain very firm. Industrial output grew by a robust 0.7% m/m in April supported by another strong figure from mining, though manufacturing was also solid. Meanwhile, the growth in business inventories came in lower than expected in March, partly on strong retail sales; this means initial strong estimates for the contribution of inventories to 1Q18 GDP could be scaled back on the next reading. Finally, survey data suggests a positive near-term outlook. The New York state-wide survey of manufacturers signaled a rebound in business conditions in May after a (possibly tariff-related) dip in April, while the Philadelphia Fed's Business Outlook index for manufacturers smashed through expectations to a near-record high for the current expansion; this included new orders hitting their highest since 1973, though a rise in selling prices points to potential overheating.

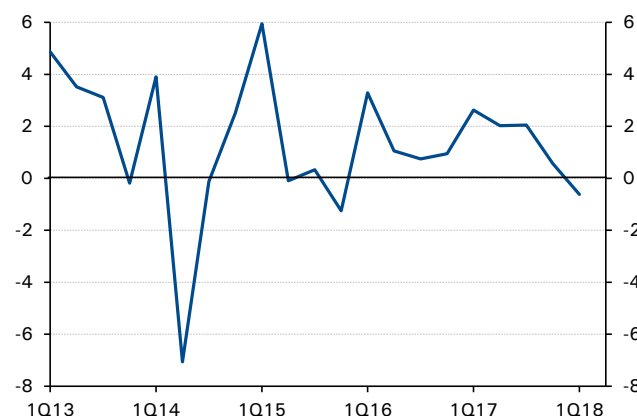
Eurozone: Italy's Five Star (anti-establishment) and Lega (far-right) will enter a coalition government. Their agreed upon framework includes an expansionary fiscal policy, stricter refugee laws, and an overhaul of EU policy, but no exit. A prime minister still needs to be appointed. Markets reacted adversely to the announcement. Italy's 10-year government bond yields jumped 33 bps over the week, while the FTSE MIB dipped 2.9% w/w.

China: Recent economic data has missed expectations, perhaps signaling a turn in the business cycle. Investment in fixed assets grew at the slowest pace in twenty years, at 7.0% y/y in the January to April period. Private sector investment growth moderated to 8.4% y/y in the first four months of the year, while growth in infrastructure spending slowed to 12.4% y/y. An easing trend had been expected due to the central government's crackdown on real estate speculation and curbs on local government spending.

Japan: GDP growth fell into contractionary territory in 1Q18 as consumption, investment and export growth came in weaker.

(Chart 2.) GDP fell 0.6% on an annualized basis after growing 0.6% in the previous quarter. An improvement in the global economy and a weaker yen (in relation to the US dollar) should help offer export growth some support going forward, and at least partly offset some of the ongoing weakness in consumption and investment.

▶ **Chart 2: Japan's annualized real GDP**
(% y/y)

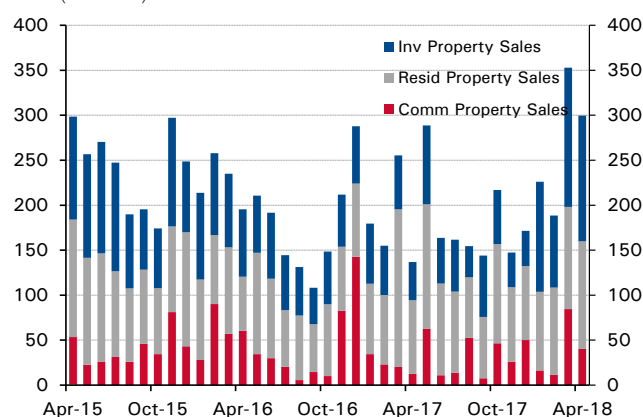


Source: Japan Cabinet Office

GCC & regional macroeconomics

Kuwait: Real estate activity in April continued the strong performance in March, with total sales reaching KD 300 million, more than double the level of a year earlier. Some sales may have been brought forward ahead of the traditionally slow summer and Ramadan periods. (Chart 3.)

▶ **Chart 3: Kuwait monthly Real estate sales**
(KD billion)

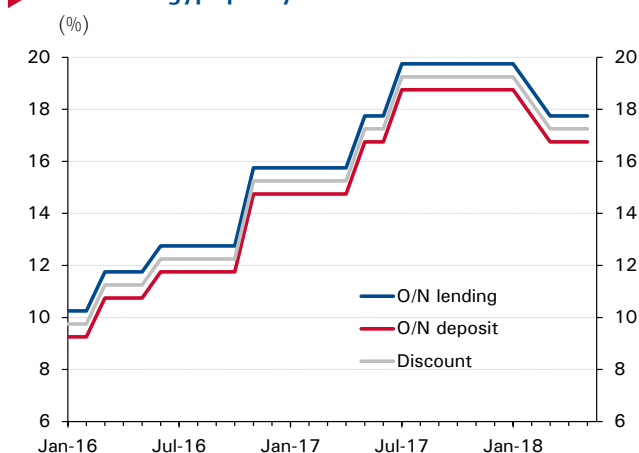


Source: Thomson Reuters Datastream

Bahrain: Bahrain's government launched an energy fund that aims to raise \$1 billion from local, regional and international investors to help develop its downstream, mid-stream and upstream sectors. The fund will also tap into Bahrain's recently discovered tight oil and gas deposits.

Egypt: The Egyptian central bank left its key policy interest rates on hold, having cut twice by a cumulative 200 bps so far this year. (Chart 4.) Although inflation eased slightly to 13.1% in March, the Bank said that the recent rise in oil prices had led to the “materialization of an upside risk to the inflation outlook”. Moreover, demand-side pressures – including strong economic growth (reportedly 5.4% y/y in 1Q18) and falling unemployment (which reached its lowest since 2010 in March of 10.6%) – and possible further subsidy cuts in July present additional risks to inflation going forward. The Bank is targeting inflation of 13% +/- 3% by 4Q18 and single digits thereafter.

▶ **Chart 4: Egypt policy interest rates**



Source: Thomson Reuters Datastream

Markets – oil

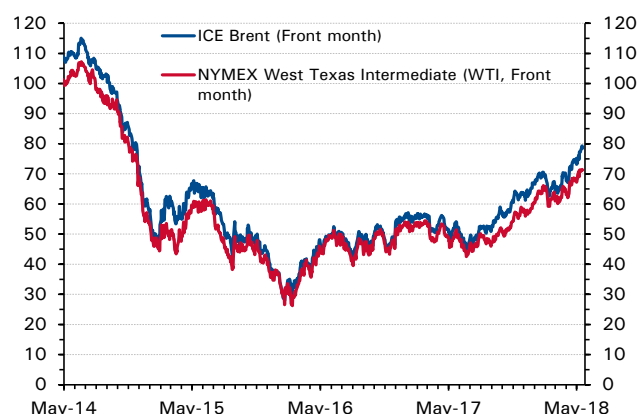
Oil’s three-month bull run saw Brent briefly touch \$80 last Thursday before settling down at \$78.5/bbl on Friday after some profit-taking and reassurances by Saudi Arabia that the kingdom would ease any concerns about a supply crunch. (Chart 5.) WTI closed at \$71.3/bbl. Oil prices have notched up six consecutive weekly gains – the longest such stretch since 2011 – and have risen by 17% (\$8) during this period (and since the start of the year). With concerns about the reliability of crude supplies in the wake of President Trump’s decision to sanction Iran once more and Venezuela’s declining production, consensus oil price forecasts for 2018 have been revised sharply upwards.

Talk of \$100/bbl crude has also increasingly emerged, prompting the IEA to warn that such prices could stifle oil demand this year. The agency revised down its 2018 demand growth estimate by 100 kb/d to 1.4 mb/d on the likelihood that higher prices would force consumers to moderate their consumption; US consumers, for example, are facing gasoline prices that are 25% higher than a year ago (\$2.91 per gallon).

US crude production, meanwhile, continues to rise, hitting 10.72 mb/d in the week-ending 11 May (+20 kb/d w/w and

+941 kb/d year-to-date). While US oil rig counts were unchanged last week (844), US crude stocks did experience a seasonal fall (-1.4 mb to 432.4 mb).

▶ **Chart 5: Crude oil prices**
(\$/bbl)



Source: Thomson Reuters Datastream

Markets – equities

Higher long-term US treasury yields, a stronger dollar, and shifting rhetoric on North-Korea and trade had international investors wary of equities. The MSCI AC index was down 0.3%, with both the S&P and DJI down 0.5%. The Euro Stoxx 50, however, was 0.2% higher, while the MSCI EM index suffered the most, retreating 1.2%. (Chart 6.)

▶ **Chart 6: Total equity return indices**
(rebased, 18 May 2017=100)

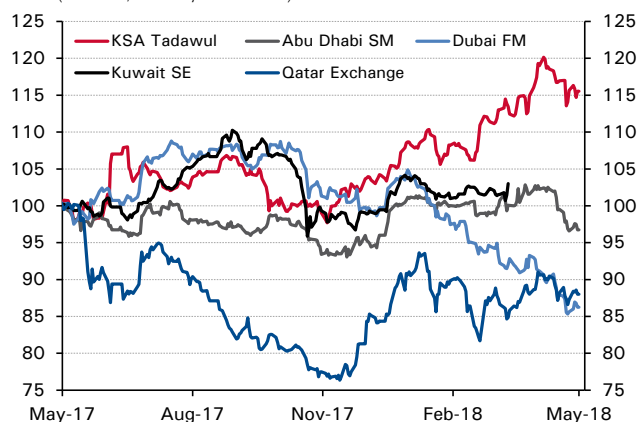


Source: Thomson Reuters Datastream

Most regional markets shook off last week’s drop, but geopolitics still weighed. The MSCI GCC index was up 1.5% w/w, led by Qatar (+1.6%), following the re-weighting of some blue chips by MSCI. Saudi lagged slightly behind, up 1.3%, supported by the run up towards to MSCI announcement in June. Dubai’s index was up 1.1%, its biggest rise in 2 months, on a rebound in property developers. Meanwhile, Kuwait’s all-share index, was down 0.6%. (Chart 7.)

Chart 7: GCC equity markets

(rebased, 18 May 2017=100)



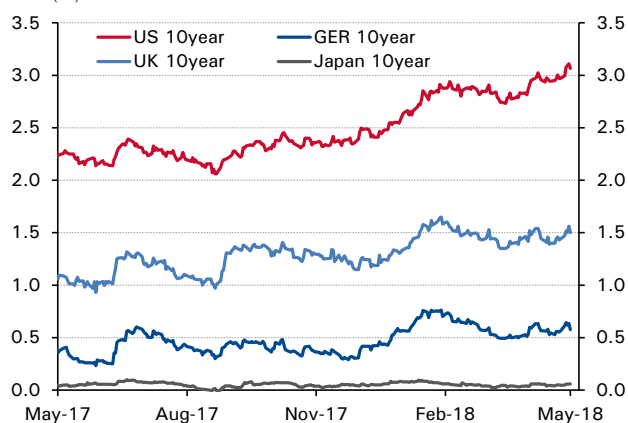
Source: Thomson Reuters Datastream

Markets – fixed income

Despite geopolitical jitters, rising oil prices and relatively encouraging US data stoked inflationary pressures, pushing US 10-year yields higher to 3.07% on Friday, up 10 bps w/w. The rise in 10-year Bund yields, however, was restrained by Italian political uncertainty, adding only 1 bps w/w to finish at 0.58 bps. (Chart 8.)

Chart 8: Global bond yields

(%)

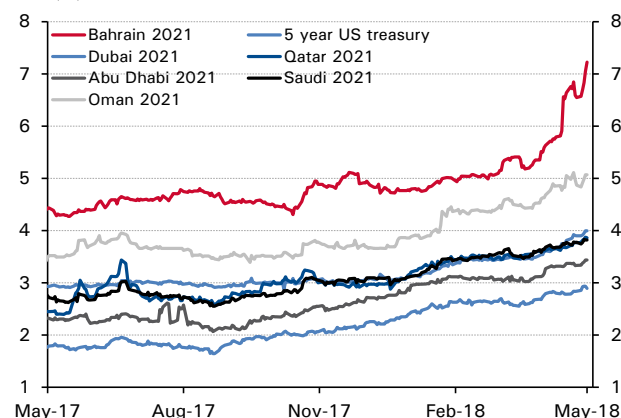


Source: Thomson Reuters Datastream

In the GCC, regional geopolitical tension and higher US yields saw sovereign benchmark yields increase by up to 9 bps. Kuwait was the exception, down 1 bps w/w. (Chart 9.)

Chart 9: GCC bond yields

(%)



Source: Thomson Reuters Datastream

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