Oil prices approach 3½-year high; MENA sees fresh wave of bond issuance

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,653	-0.76	5.79
Bahrain (ASI)	1,291	0.67	-3.02
Dubai (DFMGI)	3,094	0.36	-8.18
Egypt (EGX 30)	17,616	1.18	17.29
GCC (S&P GCC 40)	973	-0.76	-1.22
Kuwait (All Share Index)	4,802	-0.39	n/a
KSA (TASI)	7,824	-1.62	8.27
Oman (MSM 30)	4,777	-0.47	-6.33
Qatar (QE Index)	8,918	1.43	4.64
International			
CSI 300	3,871	0.42	-3.96
DAX	12,442	1.64	-3.68
DJIA	24,360	1.79	-1.45
Euro Stoxx 50	3,448	1.17	-1.60
FTSE 100	7,265	1.13	-5.50
Nikkei 225	21,779	0.98	-4.33
S&P 500	2,656	1.99	-0.65

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.46	12.3	51.4
Dubai 2022	3.43	0.6	29.4
Qatar 2022	3.74	10.7	66.8
Kuwait 2022	3.36	7.7	55.8
Saudi Arabia 2023	3.80	11.7	58.8
International			
UST 10 Year	2.83	5.3	41.7
Bunds 10 Year	0.52	1.8	9.1
Gilts 10 Year	1.44	4.2	24.9
JGB 10 Year	0.04	-0.5	-1.4

3m interbank rates	%	Change (bps)	
		weekly	YTD
Bhibor	3.06	0.5	33.5
Kibor	2.00	0.0	12.5
Qibor	2.66	0.0	-8.4
Eibor	2.39	0.4	58.9
Saibor	2.32	3.6	41.8
Libor	2.35	1.7	65.3

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.300	-0.08	-0.56
KWD per EUR	0.371	0.95	4.48
USD per EUR	1.233	0.39	2.78
JPY per USD	107.3	0.39	-4.74
GBP per USD	1.424	1.06	5.38
EGP per USD	17.56	-0.45	-0.96

Commodities	$/unit	Change (%)	
		weekly	YTD
Brent crude	72.6	8.15	8.54
KEC	67.74	6.43	6.68
WTI	67.4	8.59	11.54
Gold	1344.8	0.97	2.95

Source: Thomson Reuters Datastream; as of Friday's close 13/4/2018

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Overview

Geopolitics moved further into center-stage last week with US-led military strikes on Syria and continued US-China trade tension pushing up oil prices, keeping stocks on edge and causing a sharp decline in the Russian rouble amid a new sanctions threat. Meanwhile, key economic data in the US and Europe maintained a recent trend of signaling elevated if softening activity levels and modestly-building price pressures. An uptick in US inflation to 2.4% y/y was followed by minutes from the latest Fed meeting hinting that interest rates could rise faster than previously expected.

Oil prices saw their largest weekly gains in eight months, with Brent finishing up 8% w/w at $73/bbl, its highest since late 2014. Prices were boosted by escalating geopolitical tensions across the Middle East, including the military strikes on Syria, missiles fired from Yemen into Saudi Arabia and the pending threat of the reintroduction of US sanctions on Iran. Also, the latest IEA report argued that OPEC could soon claim "mission accomplished" in its push with Russia to restore OECD oil inventories to five-year average levels following a period of oversupply.

The MENA region saw another round of huge international bond issuance, with governments in Saudi Arabia ($11 billion) and Qatar ($12 billion) issuing long-term debt to take advantage of still-low interest rates. Egypt also issued fresh sovereign debt (€2 billion). The Qatari bond, coming just two days after the Saudi offering, was the largest emerging market issue this year and suggests that the region remains attractive despite headwinds that include modest economic growth, rising regional geopolitical tensions and global market volatility.

International macroeconomics

USA: There were further signs of a gradual build in price pressures, with CPI inflation nudging up as expected in March, to 2.4% y/y from 2.2% in February, driven partly by a base effect. (Chart 1.) Core inflation rose more strongly, to 2.1% from 1.8%. Minutes of the March FOMC meeting showed that some members now expect a steeper path for interest rates than before with recent softer economic data considered transitory, while acknowledging downside risks from an escalating trade war.

Consumer-related data disappointed slightly, with jobless claims trending slightly higher despite decreasing in the week ending April 7th to 233,000. Meanwhile, the University of Michigan consumer sentiment survey dropped to a still solid 97.8 in April from 101.4 in March, perhaps reflecting concerns of a possible trade war on the US economy.

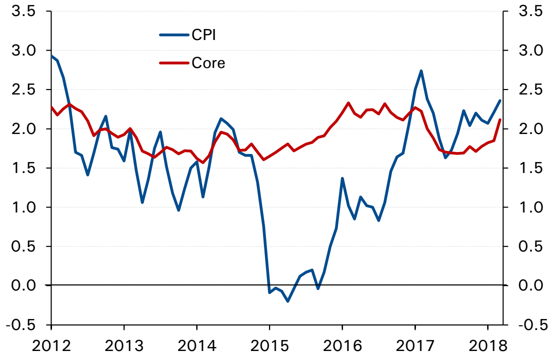
Eurozone: Eurozone data continued to paint a picture of easing growth with February's industrial production coming lower than expected and logging in its third consecutive monthly decline, as did March's investor sentiment, further hinting at a softer 1Q18.

GCC & regional macroeconomics

Kuwait: Bank credit growth eased for the fifth consecutive month in February, slowing to 2.5% y/y. (Chart 2.) Despite this, credit to households

Chart 1: US CPI inflation

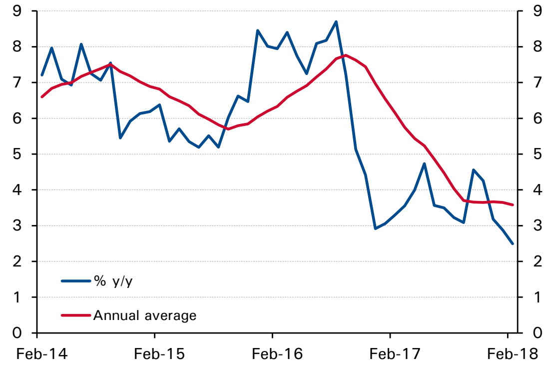
(% y/y)



Source: Thomson Reuters Datastream

Chart 2: Kuwait credit growth

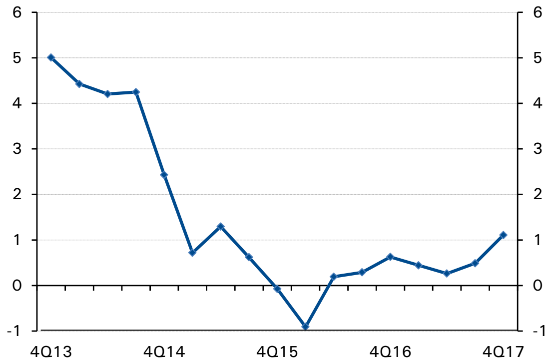
(%)



Source: Central Bank of Kuwait

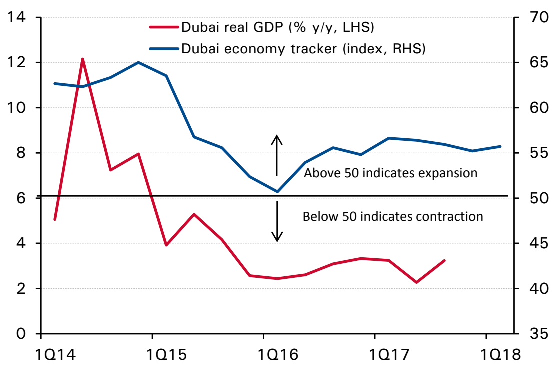
Chart 3: Kuwait current account balance

(% y/y)



Source: Central Bank of Kuwait

Chart 4: Dubai real GDP & economy tracker



Source: Dubai Statistics Center, Emirates NBD

and businesses showed some improvement, though these gains were partially offset by declines in credit to non-bank financials and credit for the purchase of securities. Business credit activity was encouraging, with its first gain in six months stemming mostly from core sectors. Meanwhile, private deposits increased at a healthy rate, helping keep money supply growth around its 13-month high.

The external current account surplus more than doubled to KD 1.1 billion in 4Q17 from the prior period, increasing the 2017 balance to a surplus of 6.3% of GDP compared to a 4.5% deficit in 2016. (Chart 3.) The improvement is owed largely to a 19% increase in oil receipts during the year, though 8% growth in investment income and a 9% decline in worker remittances also supported the current account. At the same time, double-digit growth in imports and the services bill weighed on the balance.

Project awards eased to KD 0.6 billion in 1Q18, a figure lower than the 2017 quarterly average of KD 1 billion. Two sectors dominated, including five awards in the transport sector worth KD 283 million and seven in the construction sector with an estimated cost of KD 161 million.

Saudi Arabia: The sovereign credit rating was affirmed by Moody's at A1. The rating was based on the expectation that fiscal consolidation and reforms as per the Vision 2030 strategy will continue in the medium term, stabilizing public debt levels and reducing the exposure of the economy to oil prices. The government also issued further sovereign debt (see below).

UAE: The Emirates NBD Dubai Economy Tracker Index continued its fairly resilient run, edging down only slightly to 55.3 in March. The index level has remained quite firm, reflecting gains in the travel & tourism, wholesale & retail trade and construction segments. (Chart 4, quarterly data shown.)

In an effort to follow through on plans to privatize parts of its businesses and expand partnerships with strategic investors, Abu Dhabi National Oil Company (ADNOC) is offering six competitive oil and gas concessions, both onshore and offshore, for the first time. Bids are due by October and the successful bidders will be granted exploration and development rights.

Bahrain: With large fiscal and external deficits, international reserves remain under pressure. Reserves fell to a six-month low of $1.6 billion in February (or 1.4 months of imports) from $2.0 billion in January.

Egypt: Inflation continued to fall, hitting a near two-year low of 13.3% y/y from 14.4% in February and a peak of 33% last July. Core inflation also edged down to 11.6% y/y. Inflation should continue to trend lower, despite some upward pressure from further subsidy cuts expected mid-year. The central bank is targeting inflation of 13% +/- 3% in 4Q18.

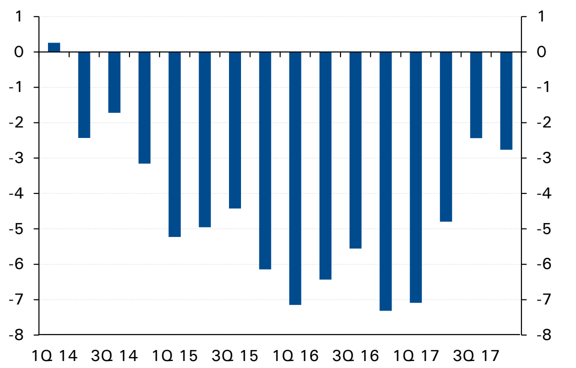
The current account deficit widened slightly in 4Q17 to $1.8 billion (2.8% of GDP) from $1.4 billion (2.4%) in Q3 – the first quarter of deterioration since the currency float in 2016. (Chart 5.) The main reason was a jump in imports, while exports softened (though remained strong). The deficit remains on an improving trend, however, helped by improving tourism.

Markets – oil

Oil prices notched up their biggest weekly gain in eight months, with both Brent and WTI closing up 8% at $72.6/bbl and $67.4/bbl, respectively. (Chart 6.) Geopolitics remerged as a major driver, from anxiety over the potential reinstatement of sanctions on Iran next month and Venezuela's falling crude production to alarm over Houthi missiles attacks on Saudi Arabia and US-led airstrikes on Syria.

Chart 5: Egypt current account balance

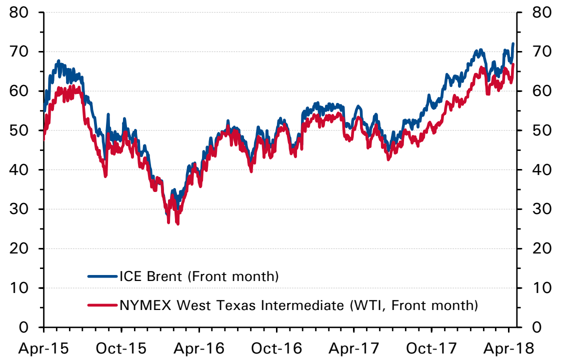
($ billion)



Source: Thomson Reuters Datastream

Chart 6: Oil prices

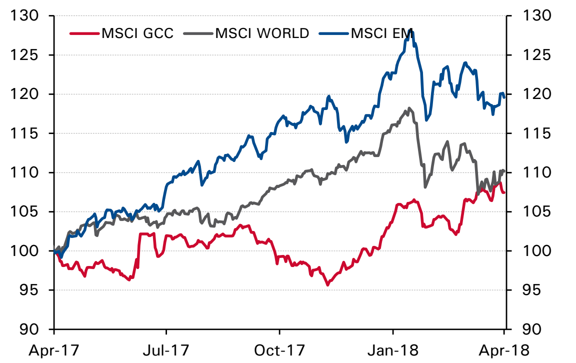
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Total equity return indices

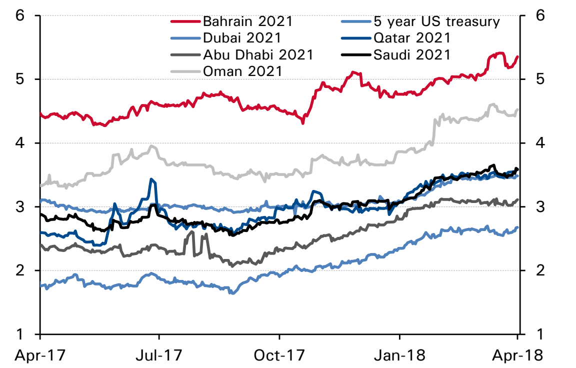
(rebased, 13 April 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

The IEA indicated that OPEC was not far off from declaring "mission accomplished" in its bid to reduce the global oil supply glut. OECD commercial inventories stood at just over 2.8 mb at the end of February, just 30 mb shy of OPEC's five-year average target, a figure that could be reached in May.

Crude output from OPEC's 14 members fell by 201,400 b/d in March to 31.9 mb/d, the lowest in a year, OPEC reported. Saudi Arabia, Libya and Venezuela all reported declines. In the US, however, EIA figures showed that crude output surged to another all-time high of 10.52 mb/d in the week-ending 6 May, while crude stocks gained. The normally bearish-for-oil figures largely went unnoticed in week dominated by geopolitics.

Markets – equities

Despite geopolitical tensions weighing on international equities, the MSCI AC world index rose 1.5% w/w. (Chart 7.) US equities seemed to benefit from softening trade rhetoric and strong corporate earnings. The S&P 500 was up 2% w/w, while the DJI rose 1.8%. In Europe, the Euro Stoxx 50 was up 1.2%, while emerging markets climbed 1.0%, supported by China's business friendly reforms.

Geopolitical tensions saw the MSCI GCC index retreat 0.7% w/w. Saudi was the worst hit, down 1.6% w/w. However, Qatar outperformed (+1.4%), buoyed by more changes to foreign ownership caps at key listed companies and strong bank earnings. Meanwhile, Kuwait wrapped up its second week under the new market structure, with the "All Share" index down 0.4% w/w and 4.0% MTD. So far, earnings announcements for several regional blue chip banks have been encouraging, with more positive results expected to drive sentiment in coming weeks.

Markets – fixed income

Softer trade tensions and solid data saw US benchmark yields edge higher. Meanwhile, bunds were relatively steady, anchored by dovish ECB minutes. US 10-year treasury yields climbed 5 bps w/w to 2.83%, while Bund yields increased 2 bp to 0.52%. In the GCC, yields rose on geopolitical tension, with Qatar 2022, Saudi 2023, and Abu Dhabi 2022 each up between 11-12 bps. (Chart 8.)

Both Saudi Arabia and Qatar issued sizeable bonds – $11 billion and $12 billion, respectively – with the latter engaging in its first international debt market foray since 2016. Saudi's order book topped at $50 billion, while Qatar's reached $52 billion, reflecting deep appetite for GCC sovereign debt. Pricing was also competitive for both. Saudi priced its 7-year, 12-year, and 31-year at 140 bps, 175 bps, and 210 bps over treasuries, respectively (giving a 12-year issue rate, for example, of 4.56%). Qatar priced its 5-year, 10-year, and 30-year at 135 bps, 170 bps, and 205 bps over treasuries, respectively.

Egypt issued a dual-tranche €2 billion bond, due in 2026 and 2030, with a final pricing of 4.75% and 5.625%, respectively. This was Egypt's first euro-denominated bond and follows its $4 billion bond issued in February.

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