Steady numbers from US and Eurozone; Oil prices pressured; French election results awaited

### Summary

In the US, a budget stalemate was avoided as Congress passed a spending bill to take care of things until September 2017. Nonfarm payroll numbers for April showed a solid 211K advance, propelling up the case for the next Fed rate hike, which is expected in June. The Fed held its May meeting without much fanfare and without changing policy rates, as was widely anticipated.

Oil prices remained under downward pressure, with Brent falling below $50/bbl for the first time since November 2016. The pressure is coming from rising US crude production and stubbornly high global crude inventories. OPEC and its non-OPEC partners don’t have much room for maneuver, so an extension of the current agreement on production cuts appears increasingly likely by the end of the month.

The Eurozone did well in Q1 as GDP grew 1.7%, in line with 2016 growth. Regional PMI measures of activity continue to show relatively steady growth in the GCC (KSA, UAE), and while the figure was improved for Egypt, it continues languish below the 50 mark. The latest IMF regional outlook expects the MENAP region to grow by 2.6% this year and by 3.4% in 2018; oil exporters’ real GDP growth is forecast to be slower at 1.9% and 2.9% in 2017 and 2018, respectively. Not surprisingly, the IMF continues to exhort oil exporting countries to implement diversification and structural reform.

The results of the French election (today) will be keenly watched in the markets. A potential and anticipated Macron (centrist) victory will likely provide further relief for the euro (small) and French/European equities.

### International macroeconomics

**USA:** April nonfarm payrolls added a solid 211K new jobs in April, leaving the 3-month moving average at 174K, near recent and decent levels. (Chart 1.) The unemployment rate dipped to 4.4%, a 10-year low. Wages advanced 2.3% y/y, a moderate advance that showed little sign of undue upward pressure.

The PMI reports for April were equally solid, 54.8 and 57.5 for manufacturing and non-manufacturing, respectively. The US data remains remarkably steady, and supports the current Fed and market views of another 2 hikes in the federal funds rate this year.

The budget agreement struck last week funds the US government into March’s performance (56.4). Eurozone retail sales also surprised on the upside and the unemployment rate continue to trend lower.

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**Key market indicators**

<table>
<thead>
<tr>
<th>Stock markets</th>
<th>Index</th>
<th>Change (%)</th>
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</thead>
<tbody>
<tr>
<td><strong>Regional</strong></td>
<td></td>
<td>weekly</td>
</tr>
<tr>
<td>Abu Dhabi (ADI)</td>
<td>4,617</td>
<td>2.31</td>
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<tr>
<td>Bahrain (BSI)</td>
<td>1,331</td>
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<tr>
<td>Dubai (DFMGI)</td>
<td>3,420</td>
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<td>Egypt (EGX 30)</td>
<td>12,710</td>
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<tr>
<td>KSA (TASI)</td>
<td>6,924</td>
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<tr>
<td>Kuwait (Price Index)</td>
<td>6,753</td>
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<tr>
<td>Oman (MSM 30)</td>
<td>5,476</td>
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<tr>
<td>Qatar (QE Index)</td>
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<td>MSCI GCC</td>
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<tr>
<td>DAX</td>
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<td>DJIA</td>
<td>21,007</td>
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<td>FTSE 100</td>
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<tr>
<td>Nikkei</td>
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<td>SAP 500</td>
<td>2,399</td>
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<tr>
<th>Commodities</th>
<th>$/bbl</th>
<th>Change (%)</th>
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<tbody>
<tr>
<td>Brent crude ($/bbl)</td>
<td>49.1</td>
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<td>KEC ($/bbl)</td>
<td>48.6</td>
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<td>WTI ($/bbl)</td>
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<td>Gold (US $/oz.)</td>
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<td>3.09</td>
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<tr>
<th>Exchange rates</th>
<th>Rate</th>
<th>Change (%)</th>
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<tr>
<td>KWD per USD</td>
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<td>KWD per EUR</td>
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<tr>
<td>USD per EUR</td>
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<td>JPY per USD</td>
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<tr>
<th>Interbank rates</th>
<th>%</th>
<th>Change (bps)</th>
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<tr>
<td>Kibor – 3 month</td>
<td>1.63</td>
<td>0.0</td>
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<tr>
<td>Qibor – 3 month</td>
<td>1.93</td>
<td>8.3</td>
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<td>Libor – 3 month</td>
<td>1.18</td>
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<tr>
<th>Bond yields</th>
<th>%</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional</td>
<td></td>
<td>weekly</td>
</tr>
<tr>
<td>Abu Dhabi 2021</td>
<td>2.39</td>
<td>7.1</td>
</tr>
<tr>
<td>Dubai 2021</td>
<td>2.99</td>
<td>-0.9</td>
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<tr>
<td>Qatar 2021</td>
<td>2.57</td>
<td>4.1</td>
</tr>
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<td>Saudi Arabia 2021</td>
<td>2.85</td>
<td>6.1</td>
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<th>International</th>
<th></th>
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<tbody>
<tr>
<td>UST 10 year</td>
<td>2.35</td>
<td>6.9</td>
<td>-8.1</td>
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<tr>
<td>Bunds 10 year</td>
<td>0.42</td>
<td>9.7</td>
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<tr>
<td>Bills 10 year</td>
<td>1.12</td>
<td>3.1</td>
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<td>JGB 10 year</td>
<td>0.02</td>
<td>0.3</td>
<td>-3.0</td>
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Source: Thomson Reuters Datastream

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Greece has agreed to a preliminary deal with its European creditors which, if approved by the Greek parliament and later the Eurozone finance ministers (22 May), will see it receive the next tranche (EUR 7 billion) of its EUR 86 billion bailout, possibly paving the way to debt relief talks. The deal will include further pension cuts, tax increases, and changes to the labor market.

Alitalia, Italy’s national carrier, has put itself under special administration, with its bankruptcy approved by Rome. The airline will have to find a turnaround to its current financial situation within 180 days or find a new buyer. Failing that, it may be forced into liquidation. A EUR 600 million bridge loan has been extended to the airline to help it through the process.

At the time of writing, French voters will be casting their ballots. Odds still favor Emmanuel Macron, but a surprise win by Marine Le Pen is still a remote possibility. A hack targeting Macron’s campaign office seems to have had little impact, with the French media giving it little attention under the pre-election media blackout.

China: The Caixin/Markit manufacturing PMI (which monitors small private owned firms) slipped to a seven-month low of 50.3 in April on the back of weaker domestic and external demand. The official manufacturing PMI (which monitors large state owned firms) retreated as well and came in at 51.2 in April. Both the Caixin/Markit and official indicators also showed signs of a slowdown in the services sector during the same period.

UK: Theresa May’s ruling Conservative party made sweeping gains in last week’s local elections, in what many are seeing as a dry run for June’s general election. The Tories netted more than 500 local council seats, wresting a sizeable portion from Labor. Labor lost 339 seats, while UKIP lost all but one of its 140 seats. The results point to a potential landslide victory for Ms. May come June. Labor is not expected to garner more than 27% of the national vote, a decline of 3% points. Bookies put the odds of the Conservatives taking the most seats in June now at about 96% chance.

**GCC & regional macroeconomics**

**Saudi Arabia:** The headline PMI for April increased slightly to 53.5 from 53.4 in March as private sector business activity continued to improve modestly. The uptick was driven by increases in output and new orders rather than exports, which contracted for the first time in almost a year. Total bank credit growth continued to moderate, however, moving into negative territory, at -0.1% y/y in March, for the first time since the financial crisis. (Chart 2.) Worryingly, private sector credit growth also decelerated, to -0.5% y/y, which is its slowest rate since December 2009. In contrast, lending to the public sector accelerated sharply in March by 13.0% y/y.

**UAE:** The headline PMI held steady and firm at 56.1 in April, as output and new orders remained strong, thanks to ongoing improvements in domestic economic conditions.

**Turkey:** Inflation in consumer prices rose by a greater-than-expected 11.9% y/y in April, as a weak Turkish lira continued to drive up import costs. The CBT expects inflation to rise further in the short term before subsiding somewhat in 2H17 on the back of relatively tighter liquidity conditions. (Chart 3.)
**Markets – oil**

Oil prices closed at their lowest level in 6 months last week, with market sentiment turning increasingly bearish over OPEC’s chances of reining in resurgent US shale. Having been under pressure for most of the week and hovering close to their pre-OPEC production cut agreement levels, Brent finally fell through the symbolic $50 level to close on Friday at $49.10/bbl, a drop of 5% w/w. WTI settled at $46.22/bbl, falling 6.3% w/w. (Chart 6.)

Both benchmarks had gained a little on Wednesday after the EIA reported a fourth consecutive week of crude stock drawdowns in the US, although the 930,000 barrel decline was less than many had expected. Also, some of the surplus shifted into product stocks, especially gasoline, leading to a rise in total petroleum product inventories. Meanwhile, US crude production rose further, rising by 28,000 b/d over the last week to 9.29 mb/d, its highest level since August 2015.

Oil’s decline in recent weeks comes despite a string of strong quarterly results from the major international oil companies (IOC). Royal Dutch Shell was the latest to announce forecast-beating earnings, doubling its profits y/y. Exxon Mobil, BP, Total and Chevron reported strong numbers in the previous week.

**Markets – equities**

Most world equities extended their gains this week, with the MSCI World advancing 0.9%. US equities advanced slightly as the Fed decided to keep rates unchanged at its Wednesday meeting. European equities maintained their strength as Emmanuel Macron’s presidential odds increased and after stock received a boost earlier in the week from strong PMI figures. Meanwhile, emerging markets gave back their gains this week with the MSCI World after the US Federal Reserve decided to keep interest rates unchanged. Global markets continued to lack momentum amid falling oil prices.

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Markets – fixed income

Global government bond market dynamics were primarily driven by the Fed’s announcement this week, in which it held its monetary policy steady but painted a hawkish outlook for the economy. Markets are now expecting the Fed to hike rates by 25 bps at its June meeting with 80% certainty. US treasury rates were further lifted by a strong jobs report. Meanwhile, core European government bonds were pushed higher by steady GDP growth and strong PMI numbers. US 10-year treasuries ended the week at 2.35%, up 7 bps, while 10-year Bunds climbed 10 bps to settle at 0.42%. (Chart 9.)

GCC yields on bonds maturing in 2021 tracked US treasuries higher, led by Saudi Arabia where yields rose by up to 6 bps. Kuwait’s 2022 bond was up as well, trading at 2.67%, a rise of 6 bps from a week ago. (Chart 10.)

Saudi Electricity is in talks to issue a US-dollar denominated sukuk, which may exceed $1 billion. Meanwhile, Saudi’s finance minister has discussed the possibility of issuing more international debt this year to finance the deficit.

Puerto Rico (technically a US territory) declared bankruptcy, defaulting on $73 billion of its debt. This is the largest ever US municipal delinquency, dwarfing Detroit’s $9 billion default in 2013. The move was triggered by the expiration of a court stay that has been protecting the territory from being sued by creditors. Court proceedings are expected to commence soon, to be followed by negotiations with creditors.
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