Global stocks rebound, but dollar weakens further; Saudi hints at no early exit from supply cut agreement

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,577	-0.48	4.07
Bahrain (ASI)	1,340	0.50	2.58
Dubai (DFMGI)	3,330	0.14	-1.18
Egypt (EGX 30)	14,966	0.30	-0.34
GCC (S&P GCC 40)	978	-0.48	-0.67
Kuwait (Price Index)	6,764	1.65	5.56
KSA (TASI)	7,510	1.45	3.87
Oman (MSM 30)	5,017	0.20	-0.60
Qatar (QE Index)	9,028	1.51	5.88
International			
CSI 300	3,967	3.29	-1.59
DAX	12,452	2.85	-3.60
DJIA	25,219	4.25	2.02
Euro Stoxx 50	3,427	3.03	-2.20
FTSE 100	7,295	2.85	-5.11
Nikkei 225	21,720	1.58	-4.59
S&P 500	2,732	4.30	2.19

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	64.8	3.26	-3.04
KEC	58.9	n/a	-7.23
WTI	61.7	4.19	2.09
Gold	1353.2	3.05	3.59

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.299	-0.27	-0.73
KWD per EUR	0.373	0.46	5.16
USD per EUR	1.240	1.40	3.40
JPY per USD	106.3	-2.28	-5.65
GBP per USD	1.404	1.48	3.91
EGP per USD	17.60	-0.28	-0.73

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	2.78	0.0	5.0
Kibor	1.88	0.0	0.0
Qibor	2.70	0.0	-4.2
Eibor	1.89	5.0	9.3
Saibor	1.89	0.4	-0.5
Libor	1.87	6.2	17.8

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.36	6.4	41.2
Dubai 2022	3.32	2.4	17.7
Qatar 2022	3.61	5.4	53.2
Kuwait 2022	3.29	-2.6	48.2
Saudi Arabia 2023	3.65	2.4	43.2
International			
UST 10 Year	2.88	4.6	46.6
Bunds 10 Year	0.70	-4.7	27.8
Gilts 10 Year	1.58	0.9	39.4
JGB 10 Year	0.06	-1.1	1.0

Source: Thomson Reuters Datastream; as of Friday's close 16/2/2018

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Overview

Global stocks rebounded last week, as fears over rising US inflation and bond yields were offset by strong economic fundamentals and good corporate earnings. The S&P 500 rose 4.3% w/w and 10-year treasury yields edged up to 2.87%, just off a four-year high. But there was no respite for the US dollar, which fell 1.5% on a trade-weighted basis and is now down 11% y/y. The currency continues to be undermined by the strong performance of the global economy with the possible scaling back of monetary expansion, thus reducing the dollar yield advantage. But there are also emerging concerns about the size of the US fiscal and trade deficits, as well as the durability of the current US economic expansion.

The market recovery helped push oil prices higher, with Brent rising 3% w/w to finish just below $65. While the weaker US dollar helped, support also came from a smaller-than-expected build in US crude inventories for early February. Comments by the Saudi oil minister suggested that an early exit to the current oil supply cut agreement among major producers – due to expire end-year – was unlikely.

Although it was a thin week for economic news in the Gulf, GCC stock indices rose across the board, partially recovering the losses seen a week earlier and boosted by higher oil prices. The Saudi and Qatari markets were the best performers, up around 1.5% w/w following heavy falls the previous week.

International macroeconomics

USA: Core CPI inflation was strong in January. This came on top of strong wage growth data earlier this month, which had boosted market concerns of accelerating price growth and the possibility of a more rapid increase in interest rates. The 0.35% monthly gain in core prices was by far the largest in years. Still, annual inflation was unchanged at 1.8% y/y. (Chart 1.) Producer price inflation was also healthy in January, with core PPI growth beating expectations with a 0.4% m/m gain.

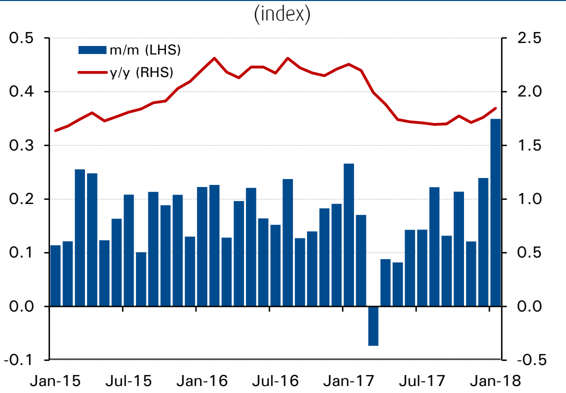
Some economic data was weaker in January, though the broad evidence continued to reflect strength. Retail sales were surprisingly weak, declining by 0.3% m/m. Even sales excluding more volatile autos and gasoline were soft. Industrial production also disappointed expectations. Still, most data remained strong. The Philly Fed index beat expectations in February, coming in at a solid 25.8, while consumer sentiment surprised on the upside with a 99.9 reading.

Eurozone: Fitch upgraded Greece's rating to B from B-, with a positive outlook, sighting a growing economy and more sustainable public finances.

Japan: GDP growth slipped from an annualized 2.2% y/y in 3Q17 to 0.5% y/y in 4Q17, as consumption and investment came in weak and export growth slowed. (Chart 2.) Japan still logged its longest streak of growth since the 1980s. While a rising yen is likely to put downward pressure on export growth going forward, consumption and investment are expected to continue to grow, albeit gradually, on the back of improving sentiment.

Chart 1: US core CPI inflation

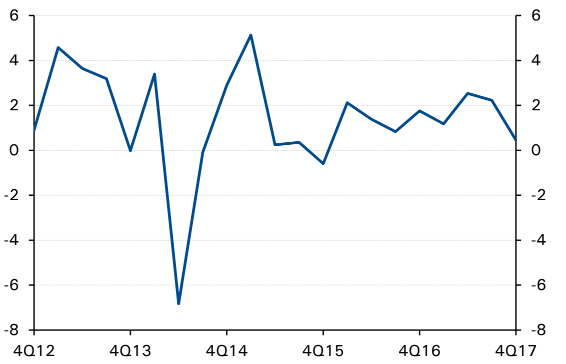
(index)



Source: U.S. Bureau of Labor Statistics

Chart 2: Japan's annualized real GDP

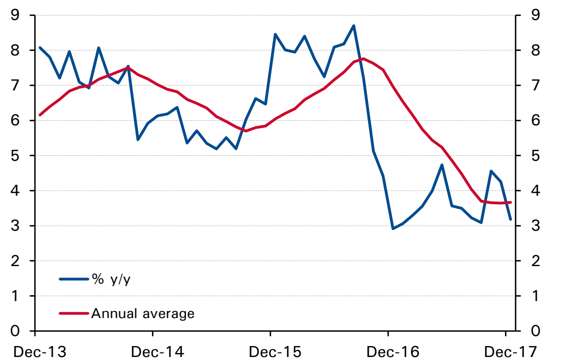
(% y/y)



Source: Japan Cabinet Office

Chart 3: Kuwait credit growth

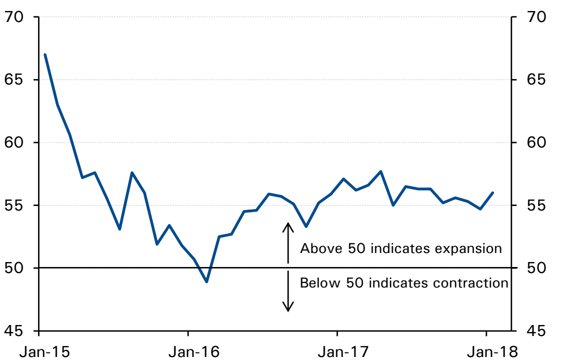
(% y/y)



Source: U.S. Bureau of Labor Statistics

Chart 4: UAE PMI

(index)



Source: Markit

GCC & regional macroeconomics

Kuwait: Bank credit contracted for the third consecutive month in December, with growth slowing to 3.2% y/y. (Chart 3.) Business credit was particularly weak, registering its largest monthly decline in over a year, as growth slowed to 3.4% y/y. By contrast, private deposits rose for the second consecutive month, pushing money supply growth to its most rapid pace in 13 months.

Real estate sales bounced back in January following a weaker December. Sales rose to KD 226 million, up 26% y/y boosted by the residential and investment sectors. Prices were mixed in January. Residential home prices were steady, recording their first annual gain in 2.5 years of 1.1% y/y. However, the more volatile residential land and investment prices were soft, dipping by 1.6% and 1.1% m/m.

Consumer developments have been mostly positive. Although the Ara index slipped for a second consecutive month to 105 in January, it was still up 9% y/y, reflecting improved consumer sentiment. This was corroborated by the value of POS card transaction data, which was up 12% y/y during 4Q17 and 10% for 2017.

UAE: The Dubai economy tracker, a good gauge of economic growth, climbed from 54.7 in December to 56.0 in January, with output and new orders robust in spite of the introduction of the VAT. (Chart 4.) While the new VAT was strongly reflected in the input cost index, which jumped from 51.7 in December to 59.2, the selling price index rose only marginally in comparison, which may indicate that companies absorbed some of the impact of the tax rather than fully passing it on to consumers.

Qatar: Consumer price inflation picked up from 0.6% y/y in December to 0.9% in January, its highest since last March. The main reasons were a slower rate of decline in the housing component and a jump in clothing costs. Inflation is likely to rise further this year, even if the introduction of VAT is postponed to beyond 2018. Key factors will be higher 'core' inflation as the weaker riyal filters through to import costs, and rising inflation in Qatar's trading partners.

Iraq: Regarding the reconstruction of post-ISIS Iraq, estimates of recent pledges vary widely, but are mostly in the form of credit lines and facilities, loans and direct investment.

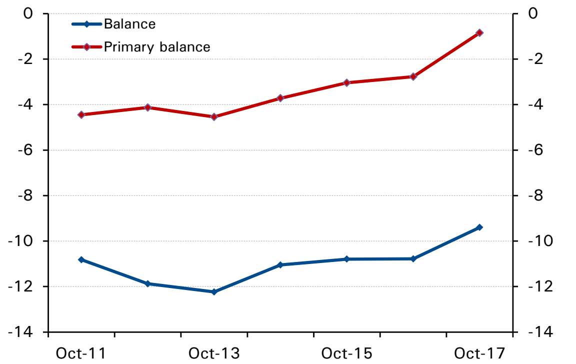
Egypt: The CBE cut its policy rates by 100 basis points last week as it began unwinding a monetary tightening cycle intended to reign in high inflation. The cut comes on evidence that inflation is easing: in January, it slowed to 17% y/y and prices were virtually flat m/m in December and January. Core inflation dropped to 14.4% from 35% last July.

Egypt issued bonds worth $4 billion in the international market at maturities of 5-30 years. The offering was three times over-subscribed and priced at 5.6-7.9%. The issuance should further bolster reserves, which rose to $38.2 billion in January on the back of a positive economic outlook. Authorities are now mulling euro-denominated issuance.

The fiscal position continued to improve, as the deficit during the first four months of FY17/18 narrowed to 9.4% of GDP from 10.8% a year before. (Chart 5.) The primary deficit fell to 0.8% of GDP from 2.8%. The improvement has come from more controlled growth in the wage bill and subsidies. Tax revenues also improved noticeably, though this was offset by declines in other revenues, probably as some government fees failed to reprice quickly given rapid inflation.

Chart 5: Egypt fiscal balance

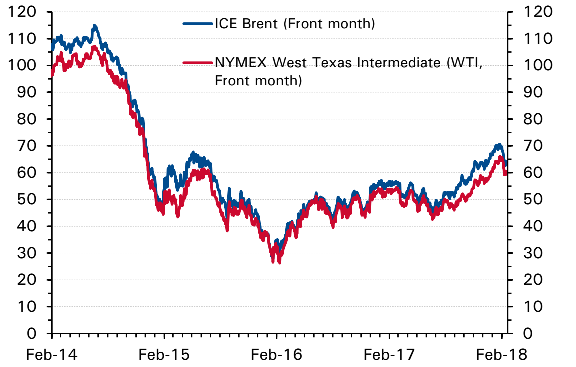
(% of GDP, fytd, excl. grants)



Source: Ministry of Finance, NBK estimates

Chart 6: Benchmark crude oil prices

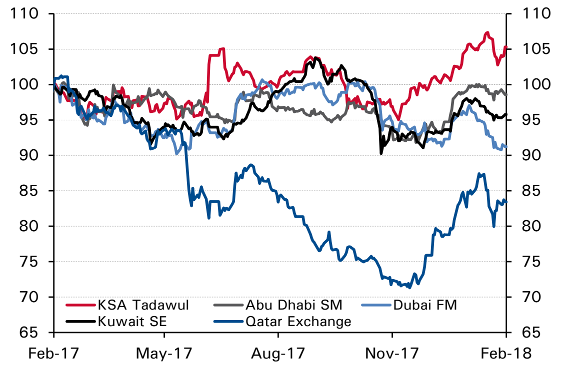
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

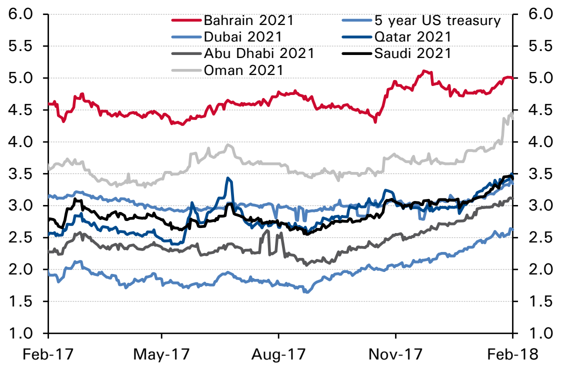
(rebased, 16 February 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – oil

Oil prices closed up on Friday at $64.8 (Brent) and $61.7 (WTI), posting their firstly weekly gain of 3.4% and 4.2%, respectively, since January. (Chart 6.) Oil's rise came as equities rebounded and the US dollar, to which the oil price tends to be inversely correlated, dropped to near a three-year low against a basket of currencies.

In its February report, the IEA confirmed that the oil market was continuing to tighten: demand growth in 2018 was revised upwards by 100,000 b/d to 1.4 mb/d and OECD inventories had declined to just over 50 mb above OPEC's 5-year average target. At the same time, US oil production increased by 1.3 mb/d thus offsetting the impact of higher demand and keeping the oil price in check unless another round of production cut takes place. US crude production set a new all-time record last week of 10.27 mb/d (EIA figures) and could overtake Saudi Arabia's and possibly even Russia's output by year's end.

Markets – equities

Global equities rebounded last week, with fears over rising inflation less prominent despite the strong US consumer prices data release. The MSCI AC index was up 3.5% on the week.

In the US, the DJI and the S&P 500 both advanced by 4.3%. The DJI registered its best performance since the 2016 elections and the S&P 500 saw its strongest rise in more than five years. Market bullishness spilled over to international equities, with the Euro Stoxx 50 up 3% and the MSCI's emerging markets index 4% higher.

Mixed earnings saw GCC equities underperform their global peers, although Saudi and Qatar outperformed, both supported by institutional buying. The MSCI GCC index was up 1% during the week. (Chart 7.) Boursa Kuwait's weighted index rose just 0.1% w/w and was up 2.3% year-to-date. This was despite strong earnings performance. 2017 net income for a sample of Kuwaiti companies that have reported so far was up 16% y/y, and banks an impressive 9%.

Markets – fixed income

Benchmark yields trended higher. Stronger-than-expected US inflation propelled US and German sovereign yields to recent highs, with the former falling shy of 3% following the data release on Wednesday. US 10-year treasury yields finished up 5 bps at 2.87%, while Bunds dropped 7 basis points to 0.70%. GCC benchmark yields tracked US treasuries, with most up between 2-6 bps. (Chart 8.)

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