US data remains firm; Eurozone GDP below expectations; UK spending slows; Kuwait ups bond issuance

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi SM	4,643	1.61	2.13
Bahrain ASI	1,324	1.29	8.46
Dubai FM	3,651	-0.87	3.40
Egypt EGX 30	12,652	-3.53	2.49
KSA Tadawul	7,131	2.32	-1.10
Kuwait SE	6,824	3.67	18.73
Muscat SM 30	5,843	0.41	1.72
Qatar Exchange	10,819	1.79	3.67
MSCI GCC	485	2.18	2.12
International			
DAX	11,757	0.77	2.40
DJIA	20,624	1.75	4.36
FTSE 100	7,300	0.57	2.20
Nikkei	19,235	-0.74	0.63
S&P 500	2,351	1.51	5.02

Commodities	$/bbl	Change (%)	
		weekly	YTD
Brent crude ($/bbl)	55.8	-1.57	-1.78
KEC ($/bbl)	53.2	-0.97	2.62
WTI ($/bbl)	53.4	-0.85	-0.60
Gold ($/t oz.)	1234.8	0.12	6.78

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.305	0.15	-0.03
KWD per EUR	0.324	-0.34	1.82
USD per EUR	1.061	-0.25	0.93
JPY per USD	112.85	-0.30	-3.44

Interbank rates	%	Change (bps)	
		weekly	YTD
Kibor – 3 month	1.44	0.0	0.0
Qibor – 3 month	1.88	0.0	10.0
Libor – 3 month	1.05	0.0	5.4

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.29	5.9	-25.9
Dubai 2021	3.16	2.0	-16.6
Qatar 2021	2.57	5.9	-38.1
Saudi Arabia 2021	2.79	-6.3	-25.9
International			
UST 10 year	2.43	1.6	-0.7
Bunds 10 year	0.30	-2.3	9.0
Gilts 10 year	1.21	-4.5	-2.8
JGB 10 year	0.09	0.5	4.3

Source: Thomson Reuters Datastream

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Summary

US equities keep making new highs, rising by over 12% (Dow Industrials, 105 for the S&P)) since the November election of Donald Trump, and notwithstanding some personnel (National Security Adviser) and policy execution glitches in the past few days. The markets appear focused on the economic sphere where not much has occurred yet. The markets are still enamored of the deregulation drive (freeze thereof) and the re-introduction of the two oil pipelines. Markets are also hopeful of upcoming tax cuts.

US data remained relatively firm, but not enough to trigger another rate hike at the 15 March FOMC meeting, in our opinion. Pronouncements by Fed Chair Yellen this week did not sway us, though the markets upped the probability of a March hike a tad. Yes, PPI and CPI registered large gains in January (0.6% m/m for each), bringing us closer to the Fed's target rate, but as stated by Yellen, we are not there yet, especially on the core PCE deflator, the Fed's primary measure. Also, from our perspective there is no momentum on wage growth (stuck near 2.5% y/y).

The Fed may want to remain cautious, as it awaits more information from the new administration and the economy (data), having just raised rates in December. For now, little is happening away from stocks. The US 10-year note is at 2.4% while the 5-year is near 1.9%. The USD is near 1.06 to the EUR, while oil prices remain range-bound at $55/bbl (Brent).

GCC markets, meanwhile, followed the US's lead and registered good gains. They were also supported by slightly firmer oil prices.

International macroeconomics

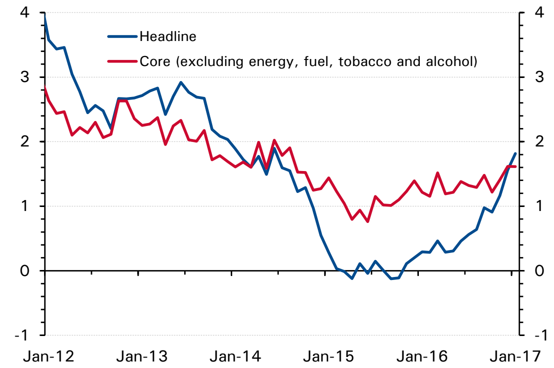
USA: Besides the firmer CPI and PPI numbers for January, retail sales were firm as well in the month. Sales rose 0.4% m/m, or 5.6% y/y, while the less volatile sales excluding-autos rose 0.8% m/m. The CPI rose 0.6% m/m and 2.5% y/y, led by a 4% jump in energy prices that is unlikely to be repeated. These numbers are moving in the direction of a tighter Fed, though again there is little urgency at this point, and we think the Fed will pass on a hike in March. The Philadelphia Fed index of manufacturing activity was also very strong for February, at 43.4, which is a 33-year high.

Eurozone: Revised GDP growth data for the eurozone (EZ) was slightly below expectations, but optimism remains strong. EZ GDP growth was confirmed at 0.4% q/q in 4Q16, while analysts expected a quarterly expansion of 0.5%. A pickup in domestic demand is believed to have been offset by some weakness in net trade. EZ GDP finished 2016 up 1.7% y/y. The slowdown coincided with Germany and Italy also marginally missing estimates. Markets took the slightly weaker figures in their stride, with equities and European government bonds little affected following the release.

Italy's parliament approved the bailout framework for its ailing banks. The lower house has approved the legislation to release as much as €20 billion to Italy's troubled banks. The law allows for precautionary recapitalization, which may see some bondholders take a hit. Banca Monte dei Paschi di

Chart 1: UK inflation

(% y/y)



Source: ONS, Thomson Reuters Datastream

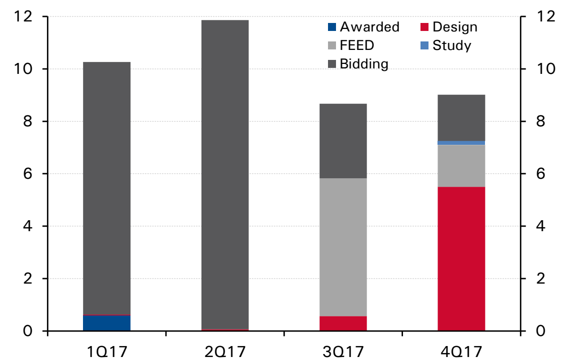
Chart 2: Japan real GDP annualized

(% y/y)

Source: Thomson Reuters Datastream

Chart 3: Kuwait awarded and planned projects

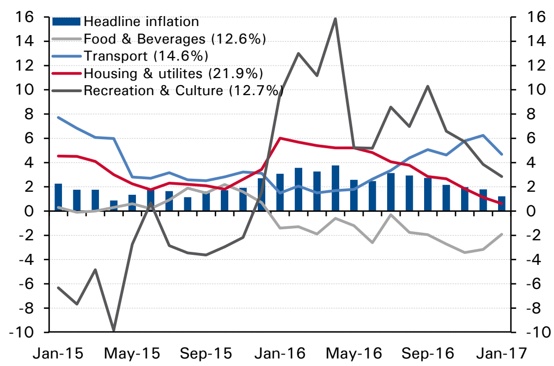
($ billion)



Source: MEED Projects, NBK

Chart 4: Qatar inflation

(% y/y)



Source: Qatar Ministry of Development Planning and Statistics

Siena is expected to be the first bank to receive aid.

Politics faded into the background this week. Ex-Italian PM Matteo Renzi resigned as the leader of the Democratic party, which may trigger a battle over the leadership of the party and potentially delay a general election. In France, Marine Le Pen's bid for the presidency looked stronger as she gained in the polls. Meanwhile, Greece's bailout review remained deadlocked as disagreement over austerity measures went unresolved.

UK: In January, consumer prices increased at the fastest rate since mid-2014 of 1.8% y/y. (Chart 1.) The rise from 1.6% y/y the previous month was driven mainly by increases in the cost of fuels (up by a substantial 88% y/y), especially petrol and diesel, and by a significant moderation in food price deflation—food and non-alcoholic drinks prices have been under pressure over the last 3 years thanks to intense supermarket competition.

While January's rise in consumer prices came in below analysts' forecasts of 1.9%, inflation is nearing the Bank of England's (BOE) annual target rate of 2.0%, a level the BOE expects to be breached sometime this year before inflation peaks at 2.8% in early 2018. A weaker pound (along with higher oil prices) is a major contributing factor, pushing up the cost of raw materials and producer input prices in general by 20.5% y/y in January.

Friday's release of retail sales figures for January, which showed a seasonally adjusted fall of 0.2% m/m, would suggest that the impact of higher inflation has already begun to feed through into consumer spending. January's lower sales volumes were the second in a row, surprising many analysts who had been expecting a rise of 0.7%. The consensus for 2017 is that consumer spending will suffer with the erosion in real incomes brought about by higher inflation and moderating wage growth; average weekly earnings growth slowed towards the end of 2016, from 2.8% in the three months to November, to 2.6% in the three months to December.

On the positive side, data continued to show the UK labor market in a relatively healthy position. The employment rate reached a new high of 74.6% in 4Q16, and unemployment remained steady at an 11-year low of 4.8%.

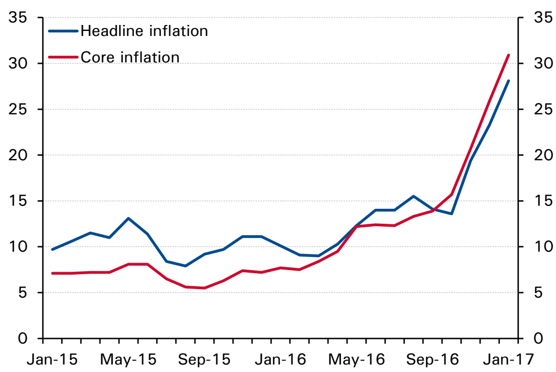
Japan: Growth in Japan's real GDP (annualized) slowed for the fourth straight quarter in the final three months of 2016 due to weak consumption. (Chart 2.) However, at an annualized 1.0% in 4Q16, real GDP growth continued to hold up thanks to healthy gains in both investment and exports.

GCC & regional macroeconomics

Kuwait: The Central Bank of Kuwait (CBK) issued KD 100 million in 3-year floating rate notes (FRN) on behalf of the Ministry of Finance. The issuance was priced at 1.75% (the 6-month CBK bill rate + 37.5 bps); the most recent 3-year fixed rate bond, issued in January, was priced at 2.25%. The government has raised KD 2.08 billion domestically thus far in FY16/17, with public debt rising to KD 3.7 billion, or an estimated 10.4% of GDP.

Project awards were lackluster in January, with MEED Projects reporting $590 million in awards during the month. This followed a relatively weak second half of 2016. Project activity is expected to improve later in 2017, however. There are currently over $21 billion worth of projects in the bidding phase, most of which could be awarded during the year. (Chart 3.)

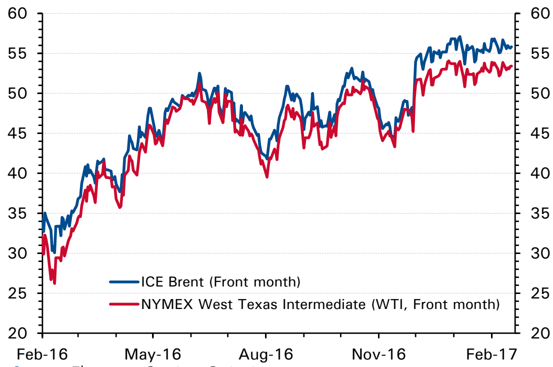
Chart 5: Egypt inflation



Source: Central Bank of Egypt

Chart 6: Crude oil prices

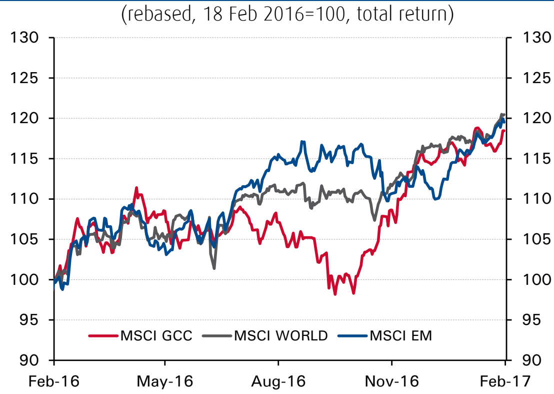
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Global stock markets

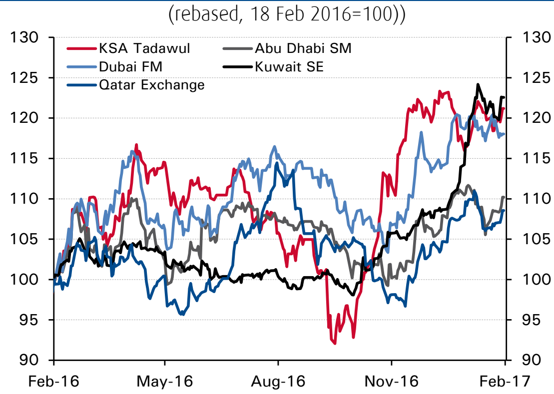
(rebased, 18 Feb 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 8: GCC stock markets

(rebased, 18 Feb 2016=100))



Source: Thomson Reuters Datastream

Qatar: Qatar's January 2017 consumer price index (CPI) showed no change compared to December 2016's 108.3. The CPI increased by 1.2% year-on-year (y/y), easing from December 2016's 1.8% y/y. (Chart 4.) Food prices remained in deflationary territory in January, but eased to -1.9% y/y. Rental price rises, along with recreation cost increases, continued moderating on a y/y basis. Transport prices have been a significant driver of headline inflation, contributing 0.91 percentage points to January's rate, but the rate of price rises is steadily slowing from 2016's high of 6.2% y/y in November to 4.7% y/y in January 2017.

Egypt: Inflation reached new highs as the effects of the currency float continue to be felt. Headline inflation rose to 28.1% y/y in January, up from 23.3% in December, with the monthly price gain remaining strong. Recent strength in the pound could help dampen inflationary pressures. The EGP/USD traded at 16.1 on 16 February, with the pound up 23% against the USD from mid-December. (Chart 5.)

The Central Bank of Egypt (CBE) kept policy rates unchanged at its latest meeting on 16 February. Authorities felt that current rates should be sufficient to reduce inflationary pressures. The CBE had already "pre-emptively" increased policy rates by 300 basis points at the time of the currency float in November 2016 in an attempt to dampen an anticipated increase in inflation.

Parliament approved a cabinet reshuffle on 14 February. The move, which mostly affected portfolios related to public services and the economy, left key posts in Sherif Ismail's government unchanged. The last reshuffle occurred in March 2016.

Markets – oil

Oil prices remained range-bound at $55/bbl for Brent and $53/bbl for WTI last week, despite the publication of production data, first from the IEA and then OPEC, verifying that OPEC had drastically cut output as planned. (Chart 6.) Secondary source data from OPEC, which the group is using as its official reference data, showed aggregate production declining in January, the first month of the six-month OPEC deal, by 890,000 b/d to 32.1 mb/d, which is just over 90% of the group's target. Saudi Arabia has taken the lead, cutting its production by 600,000 b/d from October's reference levels. According to OPEC, if the group's production continues at this level, then the crude supply overhang could be entirely unwound by the second half of this year.

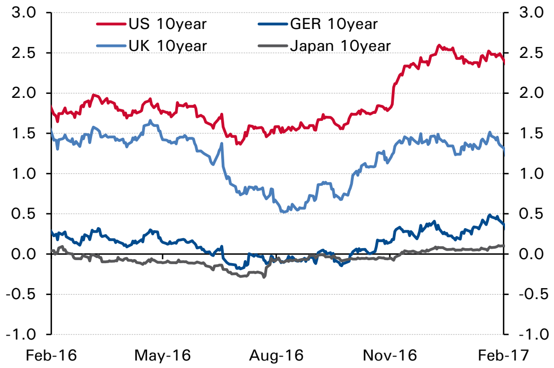
Markets – equities

World equities continued to bask in President's Trump tax reform plan, with the MSCI World gaining 1.2%. Markets got a further boost from Fed Chair Janet Yellen's hawkish comments later in the week and higher-than-expected US inflation data. US equities outperformed, with the S&P 500 and the DJIA up 1.6% and 1.9%, respectively. European equities also advanced, with the Euro Stoxx 50, for example, closing the week up 1.2% despite slightly disappointing numbers coming out of the eurozone. The performance of emerging market equities was less impressive, with the MSCI EM adding a mere 0.6%. (Chart 7.)

Regional markets registered good gains over the week, in line with world markets and supported by three consecutive days of strengthening oil prices. The MSCI GCC index was up 2.2%. Kuwait was back in the lead, with its general index advancing 3.7% on the week on increasing volumes. The mandatory offer period for Americana's minority shares ended, with

Chart 9: Global bond yields

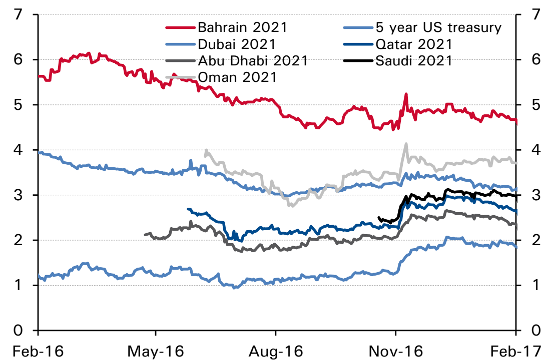
(%)



Source: Thomson Reuters Datastream

Chart 10: GCC bond yields

(%)



Source: Thomson Reuters Datastream

around KD 280 million worth of shares sold to the Dubai-based investor. Dubai was the only market to close in the red last week as a few 2016 company results disappointed. (Chart 8.)

Markets – fixed income

Markets seem to have largely priced in the political risk that has dominated sentiment recently. Yields this week were initially lifted by President Trump's tax reform comments, then by Fed Chair Janet Yellen's remarks to Congress, feeding off future global optimism. This saw benchmark yields pick up for the better half of the week, with US 10-year Treasuries breaching 2.50% at one point. Yields were later pressured down as investors reassessed their risk-on view on equities and what seemed like some dovish Fed talk. Some jitters over the French election and weak UK data added to the risk aversion. (Chart 9.)

GCC yields were mixed on the week, with some trailing US treasuries upwards, while others declined. Yields on paper that matures in 2021 for Qatar, Abu Dhabi and Dubai were up 2-6 bps on the week. Meanwhile, Oman and Saudi were down 6-15 bps, while Bahrain was flat. (Chart 10.)

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