IMF sees 2017 world growth at 3.5%; French election looming; Oil prices caught between OPEC and US shale

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,522	0.08	-0.54
Bahrain (ASI)	1,334	-1.61	9.34
Dubai (DFMGI)	3,470	-1.13	-1.73
Egypt (EGX 30)	12,906	-0.47	4.54
KSA (TASI)	6,899	-2.51	-4.32
Kuwait (Price Index)	6,814	-2.77	18.54
Oman (MSM 30)	5,474	-1.74	-4.70
Qatar (QE Index)	10,242	-2.01	-1.87
MSCI GCC	466	-1.88	-1.82
International			
DAX	12,049	-0.50	4.94
DJIA	20,548	0.46	3.97
FTSE 100	7,115	-2.91	-0.40
Nikkei	18,621	1.56	-2.58
S&P 500	2,349	0.85	4.91

Commodities	$/bbl	Change (%) weekly	YTD
Brent crude ($/bbl)	52.0	-7.03	-8.55
KEC ($/bbl)	49.7	-6.53	-4.18
WTI ($/bbl)	49.6	-6.69	-7.63
Gold ($/t oz.)	1285.1	-0.09	11.13

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.304	0.10	-0.30
KWD per EUR	0.327	1.24	2.67
USD per EUR	1.072	1.07	2.00
JPY per USD	109.07	0.42	-6.67

Interbank rates	%	Change (bps) weekly	YTD
Kibor – 3 month	1.63	0.0	18.8
Qibor – 3 month	1.96	-2.1	17.8
Libor – 3 month	1.16	-0.2	15.8

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2021	2.37	1.3	-17.4
Dubai 2021	3.04	-0.9	-28.9
Qatar 2021	2.55	-2.7	-40.0
Saudi Arabia 2021	2.78	-7.7	-27.1
International			
UST 10 year	2.24	0.8	-19.6
Bunds 10 year	0.25	5.9	4.6
Gilts 10 year	1.04	-0.9	-20.5
JGB 10 year	0.02	-0.8	-3.3

Source: Thomson Reuters Datastream

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Summary

The focus remains on politics and geopolitics, as economic data remain in line with expectations. The IMF, in its World Economic Outlook, revised up its 2017 world growth forecast from 3.4% to 3.5%. There were notable upward revisions to UK and Japanese growth, while growth in the MENA region was revised lower (primarily on reduced oil production, following the OPEC production cuts of January).

While Turkey was still settling from the results of last week's referendum (strengthening president Erdogan), in the UK PM Theresa May surprised everyone by calling a general election for 8 June. She is hoping to increase her current narrow Conservative majority in order to have a stronger governing mandate domestically and in the Brexit negotiations. She may thus be able to placate the extremes (Brexit-lite and hard Brexit) for a middle of the road Brexit that could keep the UK trading in some capacity with the EU's single market.

The French presidential election's first round happens as we write. Of the four leading candidates, two are not EU-friendly: far-right Le Pen and far-left Melenchon. There is an outside yet significant chance that these two end up in the final round, and that could significantly pressure the euro. However, the current consensus is for Le Pen to face either Macron (center-left) or Fillon (center-right) in the final round on 7 May, both of whom are expected to easily defeat her.

Regionally, Kuwait's project awards were healthy in Q1. The IMF downgraded 2018 Saudi growth 1% to 1.3%. Oman Oil Company is looking into selling some assets.

International macroeconomics

USA: The Fed's Beige Book, a review of regional conditions, showed the US economy growing at a modest or moderate rate across the 12 Federal Reserve districts. Sectors were all performing in the same satisfactory vein (manufacturing, retail, construction). The labor market was showing some signs of tightness, while inflation and prices were up modestly.

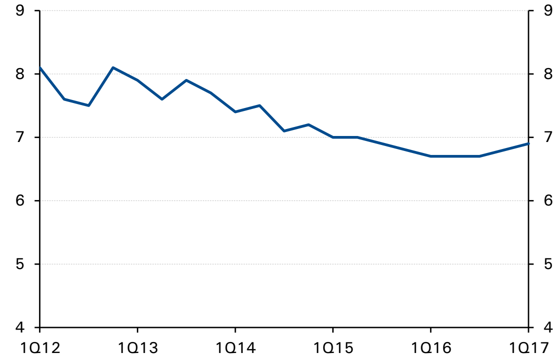
The Philadelphia Fed activity index for April was 22 (base 0), off a little but still very strong (equivalent to 60.2 on a PMI basis of 50). However, the flash national PMI was at 52.7, a 7-month low.

A comprehensive tax plan, or at least its broad lines, could be announced as early as mid-week; this could include a large cut in the corporate rate. Passage of tax reform is not expected, however, until late in the year, and uncertainty ought to linger until then.

Eurozone: The French election is in its final stretch, with the first round of voting on 23 April 2017. Dynamics have changed recently: what seemed like a 2-way race has now turned into a tight 4-way contest that is too close to call. Indeed, support for the top 2 candidates (Macron and Le Pen) has been slipping, with the spread between the top 4 candidates in national polls recently narrowing to as close as 4%. The usual margin of error is between 2.5% and 3%, thus making the outcome too uncertain to call. Nonetheless, Emmanuel Macron (center) still stands as the favorite to

Chart 1: China real GDP

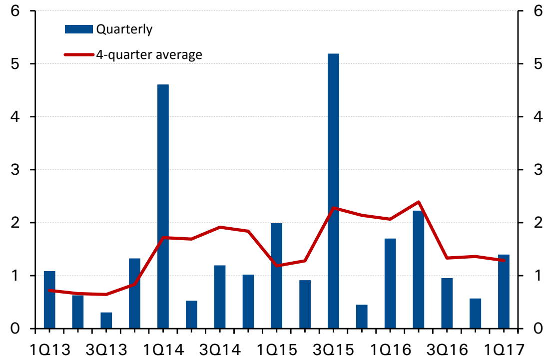
(% y/y)



Source: Thomson Reuters Datastream

Chart 2: Kuwait project awards

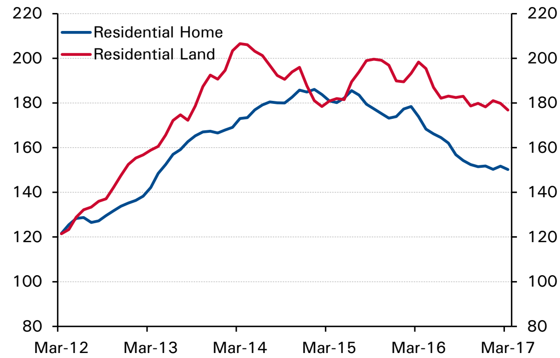
(KD billion)



Source: MEED Projects

Chart 3: NBK RE residential price indices

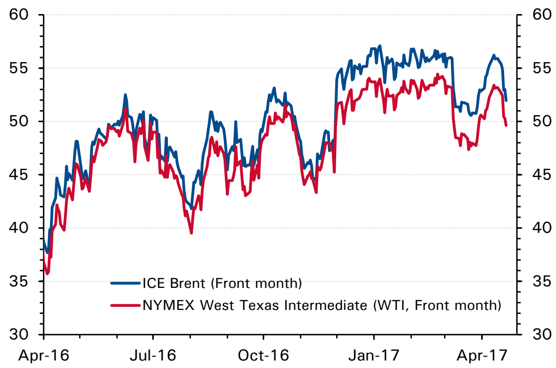
(index)



Source: MOJ, NBK

Chart 4: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

win, with Bloomberg's composite of French polls showing him in the lead with 23.8%. Marine Le Pen (far-right) comes in a close second with 22.8% (before the latest terrorist attack).

Eurozone inflation was confirmed at 1.5% for March, reflecting the unsustainability of inflationary pressures following the 2% registered in February. The ECB expects inflation to average 1.8% in 2017. In its recent update, the IMF sees the Eurozone expanding at a steady pace of 1.7% on average over the next two years. However, global and US political uncertainty, coupled with Brexit, may weigh on growth.

Meanwhile, the Eurozone's April flash PMI registered a new 6-year high of 56.7, on the back of a pick-up in demand and consumer optimism. The expansion was led by France, with also a strong showing by Germany.

China: Growth in China's real GDP appears to have reached a turning point in the first three months of 2017, after witnessing an uptick. The nation's annual economic growth rate rose to an almost two-year high of 6.9% y/y, mainly thanks to stronger retail sales, fixed asset investment and industrial production. (Chart 1.)

UK: Prime Minister Theresa May surprised almost everybody when she called a snap election for 8 June. The motion was approved in parliament by 522 to 13 votes the next day, significantly more than the required 2/3 majority. Opinion polls project the Conservatives increasing their current, narrow majority of 17 MPs to perhaps over 100 MPs after the election. That would give the PM, as she puts it, the "strongest possible hand", in her Brexit negotiations with Brussels. It would also secure her a direct mandate from the people, neutering some of the sniping and pressure coming from within her party's vehemently Eurosceptic right flank.

Sterling was the immediate beneficiary of the decision, rising 1.3% against the USD and 1.0% against the Euro to reach a 6-month high of 1.276 and 1.193, respectively. The currency's gain was predicated on the expectation that a strong Conservative victory would enable the PM to face down the hardliners in her party and negotiate something akin to a 'softer' Brexit. On the other hand, the FTSE-100, which has benefitted from a weak pound, given the reliance of many of its blue-chips on foreign-based revenues, fell by 2.5% to 7,147. As of the 21st April, the FTSE remained down -0.4% ytd. But weaker equities did help the 10-year benchmark gilt yield drop 2 bps to 1.02%.

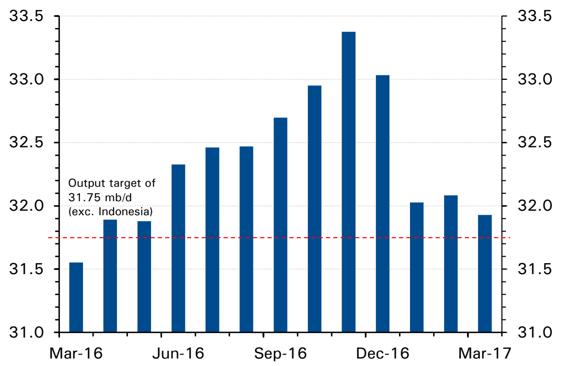
The IMF has revised up its UK growth estimate for this year by 0.9 percentage points to 2%. This is the largest upward revision among all the countries the agency analyzes. In 2018, growth is expected to decelerate to 1.5% ahead of further Brexit-related slowdowns in the next few years.

GCC & regional macroeconomics

Kuwait: Project awards were healthy in 1Q17, coming in at KD 1.4 billion, according to MEED Projects. (Chart 2.) The figure was similar to the quarterly average in 2016. Another KD 6.2 billion in projects are in the bidding stage and could be awarded in 2017. Oil projects dominated 1Q17 awards. The projects pipeline remains solid, given the government's commitment to implement development plan projects.

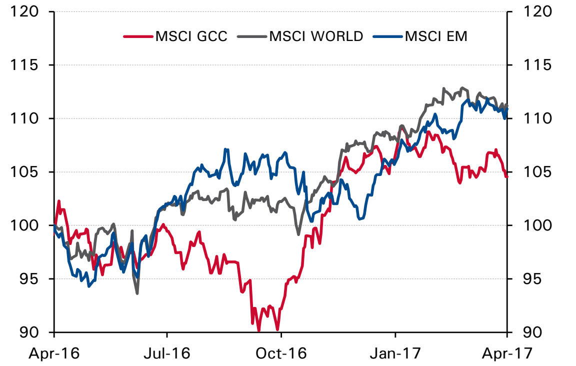
The real estate market was active in March 2017, with total sales improving by 9% y/y to KD 255 million. However, 1Q17 sales remain 17% lower than 1Q16. The residential sector provided most of the support, accounting for 70% of total sales. Meanwhile, prices continued to show signs of stabilizing, as reflected in NBK's indices. (Chart 3.)

Chart 5: OPEC crude oil production
(mb/d)



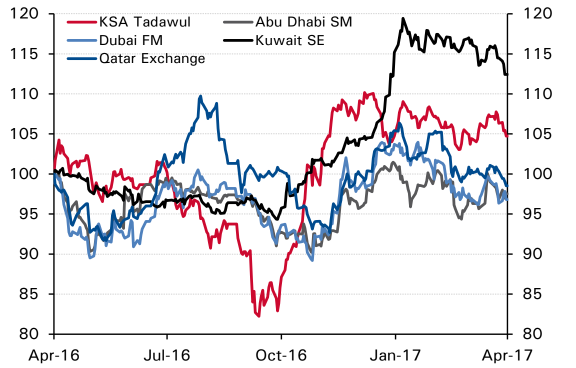
Source: OPEC secondary sources

Chart 6: Global stock markets
(rebased, 22 April 2016=100, total return)



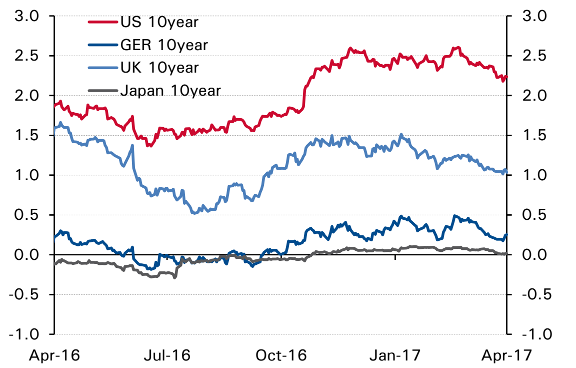
Source: Thomson Reuters Datastream

Chart 7: GCC stock markets
(rebased, 22 April 2016=100)



Source: Thomson Reuters Datastream

Chart 8: Global bond yields
(%)



Source: Thomson Reuters Datastream

Saudi Arabia: The IMF has lowered its forecast for Saudi GDP growth for 2018 to 1.3% from 2.3%. The forecast for this year remains unchanged at 0.4%, potentially Saudi Arabia's slowest rate of growth since 2009. Oil production cuts, as per the kingdom's commitment to the OPEC agreement, and fiscal consolidation will continue to impact the economy, the agency stated.

The Saudi Minister of Finance announced that the authorities would likely resume issuance of domestic debt within a couple of months. The local bond program was suspended last October over worries of tighter liquidity in the banking system, causing market interest rates to spike. The 3-month interbank rate has since fallen by 66 bps to 1.72%.

The Saudi king restored bonuses and allowances for Saudi state employees, more than 6 months after cancelling them amid a concerted fiscal consolidation drive. Explaining their reinstatement, the Minister of State, Mohammed Al-Sheikh, stated that due to the successful implementation of spending cuts over the last 2 years and the kingdom's "better than expected budgetary performance in the first quarter" of this year. This resulted in the actual deficit in 1Q17 coming in at about 50% of the projected deficit in the budget. The deficit in 2017 is expected to be around SR198 billion ($53 billion).

Oman: Oman Oil Company, the state-owned energy producer, is looking into selling some assets and listing on the stock exchange, in a bid to boost local market activity and attract FDI flows. The move comes amid ongoing plans by the government to privatize public assets in the wake of weakening public finances. Oman is expected to register a deficit of 14% of GDP in 2017.

Turkey: Turkey's President Recep Tayyip Erdoğan secured a narrow, 51% victory in a referendum last week on constitutional reform. The reforms include changing the nation from a parliamentary democracy to a presidential-style democratic republic. The Turkish lira surged by around 2% following the results, as political uncertainty ebbed. However, the referendum results have been marred by controversy, with the opposition parties demanding an annulment or recount of the results; the prospects for either look bleak, however, especially after the election board recently rejected demands to annul the results.

Markets – oil

Oil prices retreated by around 7% last week as confidence in OPEC's ability to check US shale's resurgence was undermined by yet another set of bearish US oil data. By Friday's close, Brent and WTI had fallen to $51.96/bbl and $49.62/bbl, respectively.

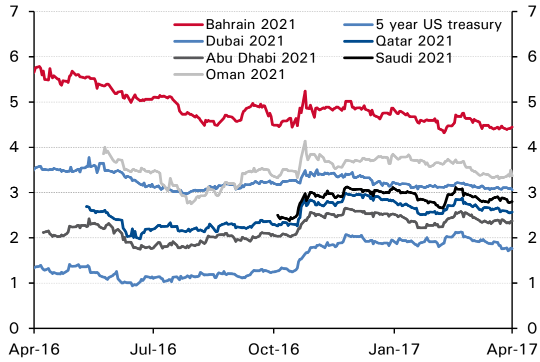
The gloom had descended earlier, on Wednesday, when prices dropped $2/bbl (3.5%) after weekly EIA data revealed that gasoline stocks had unexpectedly spiked, by 1.5 million barrels, and US crude production had broken through 9.2 mb/d—the highest level since August 2015. (Chart 4.)

While crude inventories did indeed fall, gasoline inventories rose, leading to concerns that refinery runs—and hence crude demand—might not be so robust ahead of the summer driving season.

Khalid Al-Falih, Saudi's energy minister, said Thursday that oil producers were making progress toward an agreement for extending the OPEC/non-OPEC production cuts beyond June. (Chart 5.) However, while the GCC countries are on board and Iran and Iraq have expressed support, non-OPEC Russia, without whom an extension is unlikely, has yet to formally commit.

Chart 9: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – equities

Most equity markets continue to lack direction. The MSCI World was up 0.4% on the week. Investors seem to be sitting on the sidelines as they monitor developments on the geopolitical front and the upcoming French presidential election. US equities fared better than their international counterparts, supported by expectations of strong 1Q17 earnings. The S&P 500 and DJIA are up 0.8% and 0.5%, respectively. European equities retreated, with the Euro Stoxx 50 closing the week down 0.2%, as investors seem cautious in the run up to the first round of the French election on 23 April. Meanwhile, Theresa May's surprise call for a snap general election hurt UK equities, with the FTSE 100 losing 2.9% on the week. As for emerging markets, they bounced back late in the week, offsetting their earlier losses; the MSCI EM closed up 0.2%. (Chart 6.)

Regional equities underperformed, with the MSCI GCC index falling 1.9%. A weak showing by Saudi Arabia's Tadawul weighed on regional performance. Saudi equities were hurt by the IMF downgrade of Saudi growth, lower oil prices and a new 9/11-related lawsuit in the US against Saudi companies and banks; Tadawul closed the week down 2.5%. Even a surprising string of positive bank profits was not enough to support the market. Most regional markets had a similar performance, except for Abu Dhabi, which closed flat. (Chart 7.)

Markets – fixed income

Markets remained bearish, with bonds benefitting from risk-off trades. With no major data releases this week, geopolitical concerns, augmented by the soon-to-happen French elections, saw bond prices remain near their recent highs. The move was triggered by the lower likelihood of US fiscal stimulus kicking in this year and relatively weaker recent data releases. US 10-year Treasuries ended the week little changed at 2.24%, while some profit-taking saw bunds increase 6 bps on the week to settle at 0.25%. (Chart 8.)

GCC yields on bonds maturing in 2021 were mixed on the week. Dubai was flat, while Abu Dhabi, Qatar, and Saudi saw their rates shed between 3-8 bps, and Oman and Bahrain added between 2 bps and 4 bps. Meanwhile, Kuwait's 2022 bond traded at 2.56%, up 1 bp from a week ago. (Chart 9.)

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