Oil reverses March losses; Softer US data nudge USD/rates lower; Saudi's $9 billion sukuk sale

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,518	-2.10	-0.62
Bahrain (ASI)	1,356	0.21	11.12
Dubai (DFMGI)	3,509	-1.60	-0.61
Egypt (EGX 30)	12,967	-1.00	5.04
KSA (TASI)	7,077	0.02	-1.85
Kuwait (Price Index)	7,008	-0.31	21.92
Oman (MSM 30)	5,572	-0.74	-3.01
Qatar (QE Index)	10,451	-0.04	0.14
MSCI GCC	475	-0.23	0.06
International			
DAX	12,109	-0.95	5.47
DJIA	20,453	-0.98	3.49
FTSE 100	7,328	-0.30	2.59
Nikkei	18,336	-1.76	-4.07
S&P 500	2,329	-1.13	4.03

Commodities	$/bbl	Change (%) weekly	YTD
Brent crude ($/bbl)	55.9	1.18	-1.64
KEC ($/bbl)	53.2	2.23	2.51
WTI ($/bbl)	53.2	1.80	-1.01
Gold ($/t oz.)	1286.3	2.58	11.23

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.304	-0.34	-0.40
KWD per EUR	0.323	0.12	1.41
USD per EUR	1.061	0.16	0.91
JPY per USD	108.61	-2.20	-7.07

Interbank rates	%	Change (bps) weekly	YTD
Kibor – 3 month	1.63	0.0	18.8
Qibor – 3 month	1.98	1.0	20.2
Libor – 3 month	1.16	0.1	16.1

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2021	2.36	-1.1	-18.7
Dubai 2021	3.08	2.5	-24.3
Qatar 2021	2.58	-3.1	-37.3
Saudi Arabia 2021	2.86	-0.1	-19.4
International			
UST 10 year	2.23	-14.1	-20.0
Bunds 10 year	0.19	-4.5	-1.9
Gilts 10 year	1.05	-3.0	-19.4
JGB 10 year	0.01	-3.9	-3.8

Source: Thomson Reuters Datastream

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Summary

President Trump mentioned that the dollar was getting "too strong" for his taste and that he "liked" low interest rates. His statements and nagging doubts about upcoming tax reform pushed the dollar lower mid-week. Trump also said that China would not be labeled a currency "manipulator", easing fears of trade frictions. Asked about the potential re-nomination of Fed Chair Janet Yellen at the helm (due Jan. 2018), Trump left the issue wide open. As for Yellen, she mentioned that the Fed was now trying to maintain/support current growth, rather than stimulate the economy any more.

UK inflation remained steady at 2.3% y/y in March; the more important core figure came in at 1.8% y/y, much to the relief of the BoE's rate-setting committee.

Globally, bond yields are off on some safe haven and defensive flows stemming from geopolitics (Syria, North Korea...), as well as tamer US data (see below).

Regionally, Egypt continues to grapple with high inflation resulting from its currency floatation in November. Saudi successfully issued $9 billion in sukuk, after Aramco's $3 billion sale the previous week.

International macroeconomics

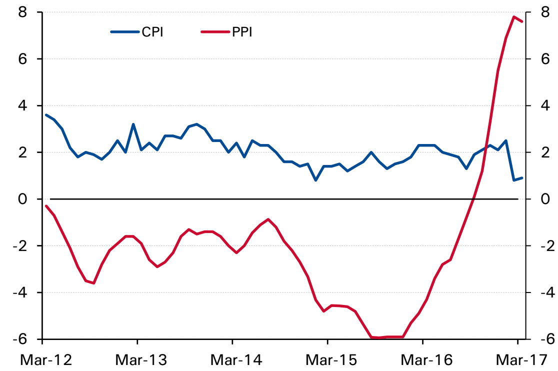
USA: Recent data nudged US interest rates and the USD lower. Retail sales and CPI data for March disappointed last week: retail sales fell -0.2% m/m, following February's fall of -0.3% m/m, and the CPI fell -0.3% m/m, with the core CPI declining -0.1% m/m. The CPI y/y rates dipped lower to 2.4% and 2.0%, respectively. The inflation data (along with the earlier wages data) show inflation to be contained. The weak sales data, meanwhile, prompted forecasters to revise down their 1Q17 GDP estimates, including the Atlanta Fed, which now estimates 1Q GDP growth at 0.5%. While this (so-called GDPNow) is not an official Fed view, the estimate is keenly watched and reflects the fact that recent data disappointed. Most analysts, including the Fed, still expect better growth after 1Q, and the full year to post to 2.0% growth. Any "weaker" upcoming data will now further raise eyebrows, in light of the "soft" 98K nonfarm payroll gain of last week (for March).

Eurozone: French election dynamics are shifting two weeks prior to voting. While the race remains tight between Macron (center) and Le Pen (far-right), the recent emergence of Jean-Luc Melenchon (far-left) after his strong performance in the recent debates is worrying both observers and investors. Chief amongst their concerns is his desire to call for a referendum on relations with the EU, reconsidering NATO participation, higher taxes etc.

China: Inflation in China's producer price index (PPI) remained well in positive territory in March, mainly due to higher commodity prices. (Chart 1.) PPI inflation came in at 7.6% y/y, just marginally lower than February's multiyear high reading of 7.8% y/y. Inflation in the CPI remained soft at 0.9% y/y, mainly due to the ongoing weakness in food prices.

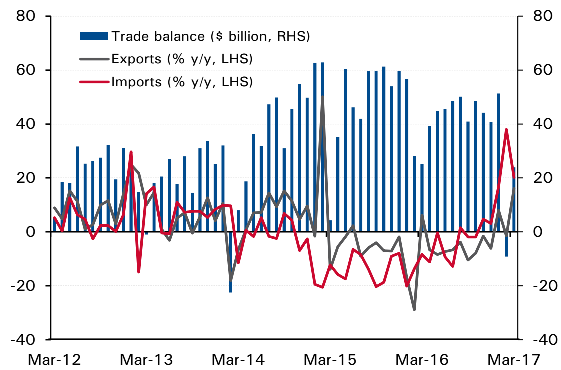
Chart 1: China inflation

(% y/y)



Source: Thomson Reuters Datastream

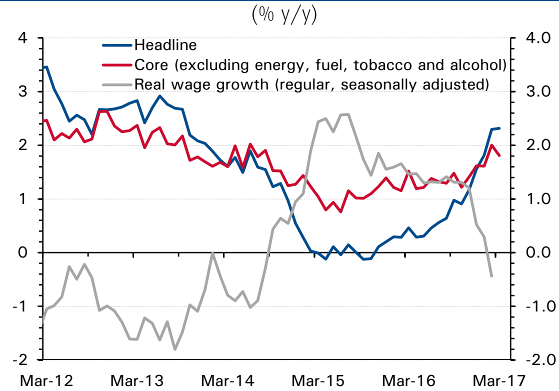
Chart 2: China trade



Source: Thomson Reuters Datastream

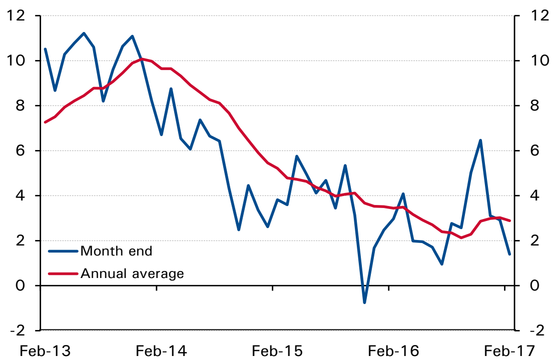
Chart 3: UK inflation

(% y/y)



Source: ONS, Thomson Reuters Datastream

Chart 4: Kuwait credit growth



Source: Central Bank of Kuwait

After logging in its first trade deficit in three years in February, China's trade balance edged back into positive territory in March. Export growth rebounded and surged to 16.1% y/y in March, whilst import growth remained firm at 20.3% y/y amid higher demand for commodities. (Chart 2.)

UK: Inflation remained steady in March at 2.3% y/y. (Chart 3.) The headline figure was in line with expectations, while the more important core figure, at 1.8% y/y, actually underwhelmed, much to the relief of the Bank of England's (BoE) rate-setting committee. A monthly drop in transportation costs helped offset some of the price rises recorded in the food and clothing categories. But, in February, real average weekly earnings grew by the slowest rate since 2014. (See Chart 3.) The data showed that wage growth was not keeping pace with inflation.

The BoE, in its latest credit survey, noted that consumer credit tightened for the first time in 6 years in 1Q17. According to banks and building societies that participated in the survey, unsecured credit growth was likely to slow further in 2017 as banks were applying "tighter credit scoring criteria

GCC & regional macroeconomics

Kuwait: Credit growth picked up pace in February, with a gain of KD 165 million; growth rose to 3.3% y/y (Chart 4). Credit to "production" business sectors (i.e. excluding real estate and securities lending) rose by 8.6% y/y. The headline figure continues to be weighed down by large loan repayments in 4Q16, following the Americana acquisition. Growth, after adjustment, was around 5-6%, and should average around 7-8% in 2017. Private deposits rose in February, though by a still weak 1% y/y.

The Ara consumer confidence index improved slightly in March, coming in at 98, but remained relatively subdued. (Chart 5.) Most of the gain was due to a rise in the durable goods component, which jumped 18 points to 120. The employment component saw a noticeable deterioration during the month.

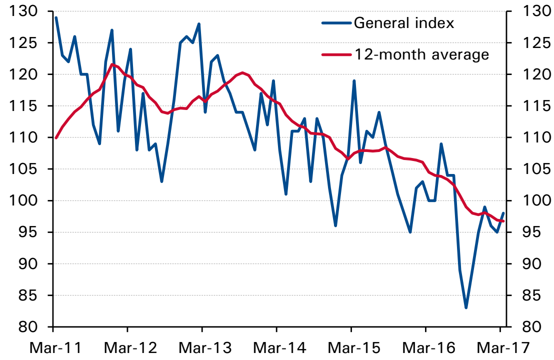
Saudi Arabia: Saudi Arabia raised $9 billion in its inaugural dollar-denominated sovereign sukuk. The Islamic bond sale was heavily oversubscribed, raising $1 billion more than anticipated, from more than $33 billion in bids. The bond sale should provide financing for around 17% of Saudi Arabia's expected $53 billion fiscal deficit this year.

UAE: Non-oil sector activity in Dubai remained solid in 1Q17. The Emirates NBD Dubai Economy Tracker, an index of non-oil sector activity, averaged 56.6 in 1Q17, up from 54.8 in 4Q16 and significantly higher than the 50.7 averaged in 1Q16. The stronger reading was mainly due to higher output and new orders. (Chart 6.)

Qatar: Recently released data for 4Q16 showed that Qatari economic growth moderated to 1.7% y/y from 3.9% y/y in 3Q16 (-2.1% q/q). (Chart 7.) The slowdown was largely due to a contraction in oil and gas output (-6.5% q/q and -2.5% y/y) as a result of maintenance carried out on Qatar's LNG trains and more conservative oil field management. In contrast, the non-hydrocarbon sector grew by 5.9% y/y (2.2% q/q), with manufacturing and construction posting double-digit growth. For 2016 as a whole, the economy expanded by 2.2%, compared to 3.5% in 2015. Construction and financial services were the largest contributors to growth.

Chart 5: Kuwait consumer confidence

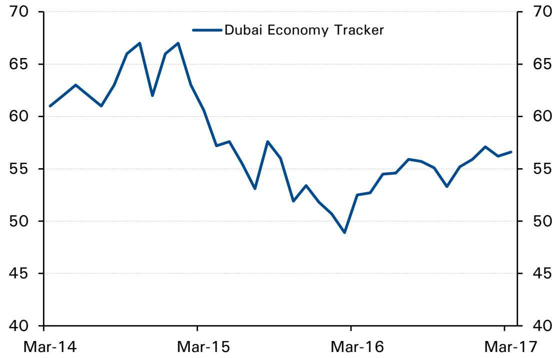
(index)



Source: ARA Research & Consultancy

Chart 6: Dubai Economy Tracker

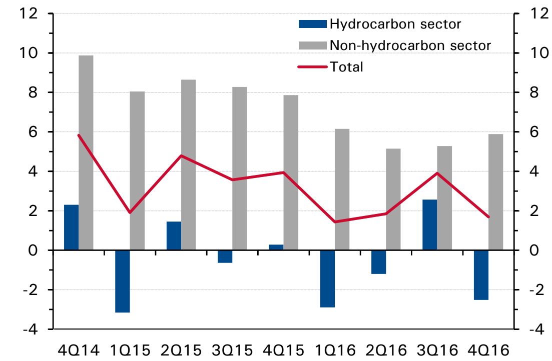
(index)



Source: Emirates NBD

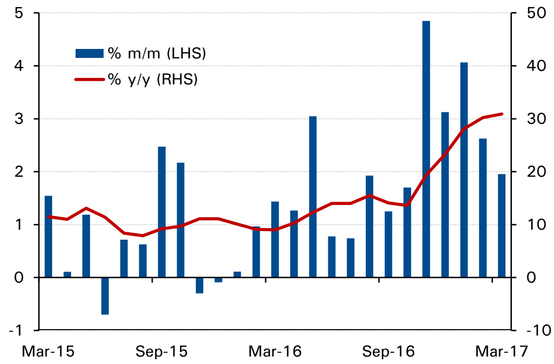
Chart 7: Qatar real GDP growth

(% y/y)



Source: Ministry of Development Planning & Statistics (MDP&S)

Chart 8: Egypt inflation



Source: Central Bank of Egypt

Egypt: Inflation was steady at 31% y/y in March, though momentum cooled further. (Chart 8.) The monthly price gain eased to 2%, which, compared to the 3.7% average in the previous four months, indicates that inflationary pressures from November's currency floatation are abating. More notably, momentum in core inflation subsided still further. Inflation is likely to remain elevated in 2017, especially with hikes in electricity tariffs expected in FY17/18; still, it should decline to 15-20% by the end of 2017.

Markets – oil

Brent and WTI recovered slightly last Thursday to close at $58.89/bbl and $53.18/bbl, respectively. (Chart 9.) Oil prices have effectively reversed all their losses in March, clawing back 11-13% since their year-low of $50.56 (Brent) and $47.34 (WTI) in mid-to-late March with the help of eight consecutive trading sessions of gains—the longest stretch of daily increases since 2012.

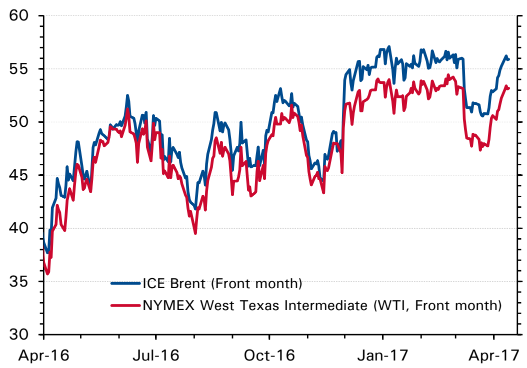
The bull run came to an end last Wednesday despite a Trump-triggered fall in the US dollar (oil prices and the USD tend to be negatively correlated) and despite the release of data that was relatively bullish for oil prices: the largest drop in US crude inventories (2.1 million barrels) since December 2016 and further progress by OPEC in cutting crude output towards the group's 31.7 mb/d target. On the latter, according to OPEC secondary sources, the group's production fell by 152,000 b/d to 31.9 mb/d in March—just 200,000 b/d shy of their target. (Chart 10.) Individual member compliance improved in March, with Kuwait, Qatar and Venezuela joining Saudi Arabia and Angola at the 100% or more compliance level.

However, it should be noted that March's overall OPEC production drop was largely due to output declines in Iran, Nigeria and Libya—members that were not subject to production quotas.

Meanwhile, the International Energy Agency (IEA) believes that the oil market is "very close" to balancing. In its monthly report, the agency cautioned, however, that weaker expected crude demand growth in 2017 (-100,000 b/d to 1.3 mb/d) and burgeoning non-OPEC supply (+485,000 b/d), especially from the US (+680,000 b/d) would keep prices under pressure for the rest of the year. Though global oil inventories did decline in Jan and Feb, the IEA intimated that normalizing stock levels would likely require an extension of the OPEC/non-OPEC production cut accord beyond the summer.

Chart 9: Crude oil prices

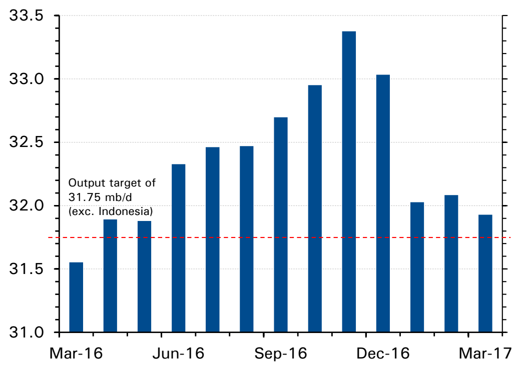
($/bbl)



Source: Thomson Reuters Datastream

Chart 10: OPEC crude oil production

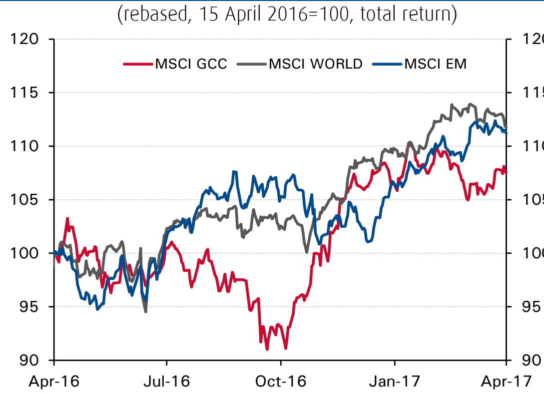
(mb/d)



Source: OPEC secondary sources

Chart 11: Global stock markets

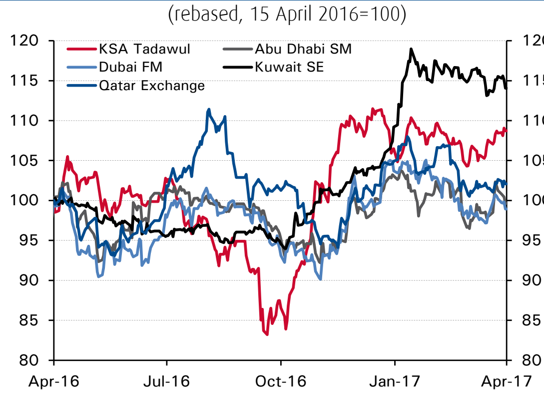
(rebased, 15 April 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 12: GCC stock markets

(rebased, 15 April 2016=100)



Source: Thomson Reuters Datastream

Markets – equities

Equity markets lost ground this week, with the MSCI World retreating 1%. Rising geopolitical concerns took center stage and markets shifted to a "risk-off" mode. US equities declined, with the S&P 500 and DJIA down 1.1% and 1%, respectively. European equities also retreated, with the Euro Stoxx 50 closing the week down 1.4%, as investors reassessed potential outcomes for the upcoming French election. Meanwhile, emerging markets saw some profit-taking, with the MSCI EM off 0.6%. (Chart 11.)

Regional equities were off slightly on the week as the MSCI GCC index retreated 0.2%. GCC markets received some support from rebounding oil prices, which seem to have overshadowed geopolitics, at least for now. Saudi Arabia and Qatar were "flat" on the week. Meanwhile, following a strong showing the previous week, UAE markets saw some profit-taking, with the Abu Dhabi and Dubai markets 2.1% and 1.6% lower, respectively. (Chart 12.)

Markets – fixed income

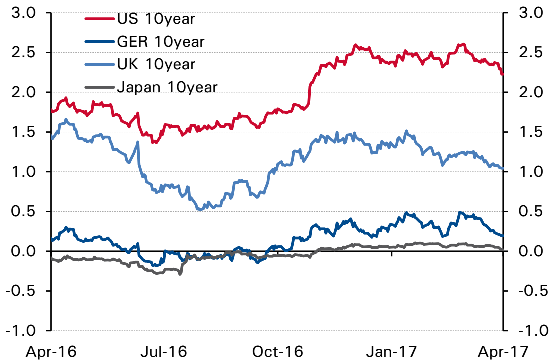
International bond prices continued to rally over the week (prices up and yields lower) driven by ever-growing geopolitical jitters. President Trump's apparent U-turn toward mainstream positions over trade, China, and monetary policy also added to the downward pressure on yields. This occurred in spite of Fed Chair Janet Yellen's comments which hinted at a more friendly (than expected) future monetary position. The emergence of a leftist contender, late in the French election race, added to investor wariness, and contributed to the risk-off bias during the week. As a result, US 10-year yields are near five-month lows, closing the week at 2.23%, down 14 bps, while 10-year bunds settled at 0.19%, down 4.5 bps. (Chart 13.)

All GCC yields on paper maturing in 2021 were steady on the week, shedding up to 3 bps; Dubai added 3 bps. Meanwhile, Kuwait's 2022 bond traded at 2.53%, down 16 bps from a week ago and down 27 bps since its issuance on Tuesday 14 March 2017. (Chart 14.)

Saudi Arabia raised $9 billion in its first international sukuk, exceeding its initial expectations of $8 billion. The sukuk was split between a 5-year tranche, sold at 2.93%, and a 10-year tranche, sold at 3.65%. This is Saudi's second international offering following its massive $17.5 billion conventional bond issued in October of 2016.

Chart 13: Global bond yields

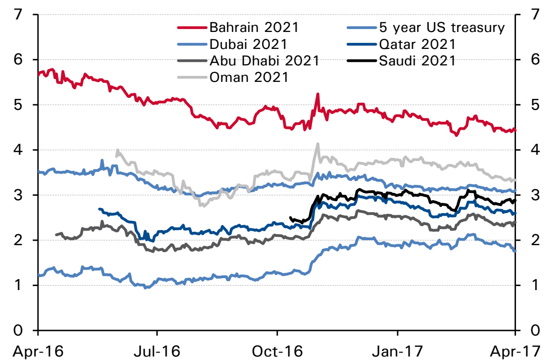
(%)



Source: Thomson Reuters Datastream

Chart 14: GCC bond yields

(%)



Source: Thomson Reuters Datastream

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