The euro above 1.16 to the USD; oil pressured still by supply data; Kuwait and UAE earnings lead GCC

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi SM	4,552	0.76	0.13
Bahrain ASI	1,320	0.23	8.19
Dubai FM	3,574	1.02	1.21
Egypt EGX 30	13,715	-0.78	11.10
S&P GCC 40	1,063	-1.00	-8.02
Kuwait SE	6,781	-0.11	17.97
KSA Tadawul	7,261	-0.71	0.70
Muscat SM 30	4,999	-2.38	-13.55
Qatar Exchange	9,542	0.76	-8.57
International			
CSI 300	3,729	0.69	12.65
DAX	12,240	-3.10	6.61
DJIA	21,580	-0.27	9.20
Eurostoxx 50	3,452	-2.11	4.90
FTSE 100	7,453	1.01	4.34
Nikkei 225	20,100	-0.09	5.16
S&P 500	2,473	0.54	10.44

Commodities	$/unit	Change (%)	
		weekly	YTD
Brent crude	48.1	-1.74	-15.42
KEC	45.6	0.44	-12.78
WTI	45.8	-1.65	-14.80
Gold	1254.3	2.26	9.07

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.302	-0.19	-1.07
KWD per EUR	0.348	0.87	9.46
USD per EUR	1.166	1.69	10.92
JPY per USD	111.100	-1.24	-4.94
GBP per USD	1.299	-0.79	5.32
EGP per USD	17.820	-0.61	-1.00

Interbank rates	%	Change (bps)	
		weekly	YTD
Bhibor - 3 month	2.38	0.0	27.5
Kibor - 3 month	1.75	0.0	31.3
Qibor - 3 month	2.49	1.0	70.6
Eibor - 3 month	1.55	0.1	7.3
Saibor - 3 month	1.80	0.5	-23.3
Libor - 3 month	1.31	0.9	31.5

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.30	-5.5	-22.8
Dubai 2021	2.96	0.8	-33.4
Qatar 2021	2.72	-22.5	-20.8
Kuwait 2022	2.57	-6.5	n/a
Saudi Arabia 2022	2.92	-3.5	n/a
International			
UST 10 Year	2.23	-8.7	-20.0
Bunds 10 Year	0.50	-9.2	29.6
Gilts 10 Year	1.18	-13.4	-6.5
JGB 10 Year	0.07	-0.9	2.1

Source: Thomson Reuters Datastream; as of Friday close 21/7/2017

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Summary

The ECB met last week and left policy (and rhetoric) unchanged. The bottom-line is that inflation numbers continue to disappoint worldwide (on the down-side), leading all central banks to adjust their tone. Nonetheless, it is all relative. The Fed is still tightening, and the ECB is still very accommodative. Nevertheless, the expectations are shifting toward a less aggressive Fed and, at some point, a more “hawkish” ECB. It is the expectations change that is driving the euro much higher, above 1.16. The euro jumped to a 2-year high, and is up 11% ytd against the USD.

The USD was likely pressured as well by continued political turmoil in Washington. The latest developments there were the failure (again) by the Republicans to advance the much-promised health care reform, as well as the resignation of a senior White House official, presidential spokesman Sean Spicer. These developments, not earth-shattering by themselves, do in the current context raise doubts about the US administration’s ability to deliver major legislation and economic stimulus on schedule.

The higher euro was a factor slowing European, in particular German, equities, as it is seen hurting exports.

Regional markets have been digesting corporate earnings results, while the Qatar crisis appeared to be toned down a couple of notches.

International Macroeconomics

US: Housing starts for June rose 8.3% m/m after three monthly declines. The sector is doing well, with starts at 1.2 million units, holding on to levels slightly better than their 2016 average.

The Philadelphia Fed business activity index fell in July from 27.6 to 17.8, but remains in good “growth” territory. This is equivalent to 58.3 on a PMI-like basis (i.e. 50 is “no-growth”). This is in line with other moderate growth reports, all leading to expectations of near-2% GDP growth for Q2 and the rest of the year.

The FOMC meets this week on 25-26 July. No policy change is expected after interest rates were raised in June. Also, little should come out of the policy statement and there is no scheduled press conference after this meeting and no update on the dot-plots.

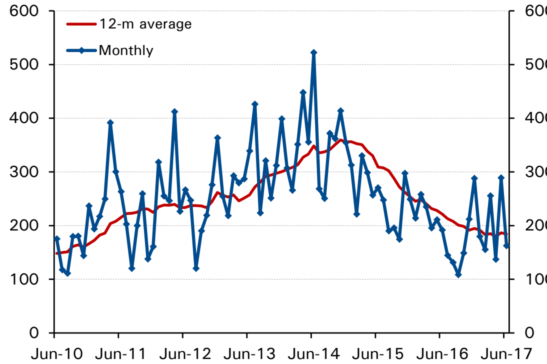
Eurozone: Germany’s July ZEW economic sentiment survey reflected a still positive outlook for German economic growth, but came below expectations at 17.5. A stronger euro over the last two months has seen the index ease from the 20-month high of 20.5 it registered in May.

UK: CPI inflation for June was 2.6% y/y, a tick or two below market and BoE expectations. Some analysts revised their inflation views lower. In light of this, the BoE is likely to hold off on raising rates during its next meeting in August.

China: The economy grew 6.9% y/y in 2Q17, in line with the first quarter. Growth was bolstered by an upbeat property market. The government is targeting growth of 6.5% for 2017. There are still concerns over a potential bubble in the property market, the growing debt in the manufacturing

Chart 1: Kuwait real estate sales

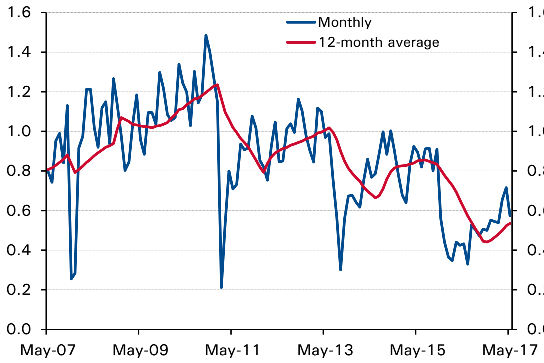
(KD million)



Source: Ministry of Justice

Chart 2: Egypt tourist arrivals

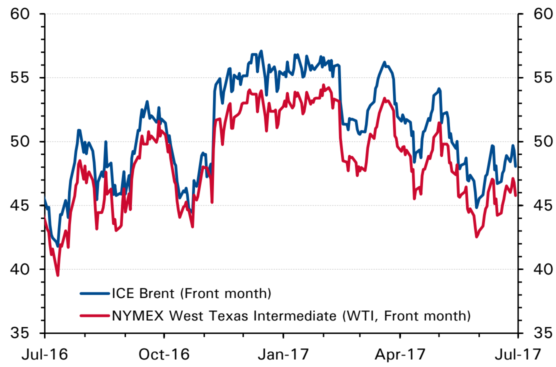
(million)



Source: CAPMAS, Thomson Reuters Datastream

Chart 3: Benchmark crude oil prices

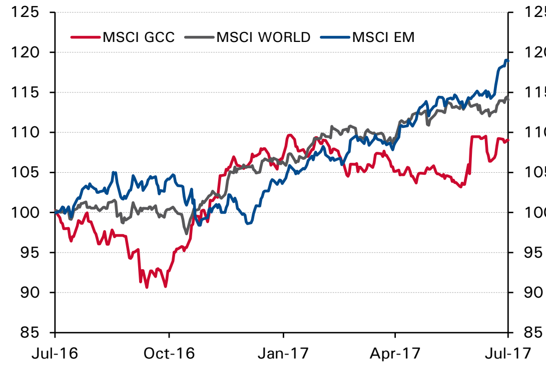
($ per barrel, $/bbl)



Source: Thomson Reuters Datastream

Chart 4: Total return indices

(rebased, 21 July 2016=100)



Source: Thomson Reuters Datastream

sector, and the resulting overcapacity in the relevant sectors.

Japan: The BOJ left its monetary policy unchanged on Thursday. The widely expected outcome saw the yen little changed. The BOJ increased its growth forecast for the current fiscal year to 1.8%, but cut its inflation forecast for FY17/18 to 1.1%. It also pushed back expectations for achieving its 2% inflation target for the sixth time to FY19/20. Inflation remains stubbornly weak against a backdrop of subdued consumption and as firms remain risk averse, holding off on raising wages and prices.

GCC & Regional Macroeconomics

Kuwait: The government downgraded its diplomatic ties with Iran and sent warnings to Lebanon after a recent court decision implicated Iran and Lebanon's Hezbollah in a domestic cell that sought to destabilize the country. The decision comes at a time of increased tensions in the GCC concerning Iran's policy in the region. The Lebanese government was asked to take concrete actions to deter Hezbollah's activities in the region.

Real estate activity cooled in June from the previous month as the summer season kicked off in earnest. The month saw sales of KD 162.3 million on 386 transactions (Chart 1). The commercial sector was particularly slow. Prices also appeared to soften slightly.

Qatar: The Emir Sheikh Tamim bin Hamad Al Thani has ordered that laws pertaining to "combating terrorism" be amended. The UAE's foreign affairs minister hailed the decree as a "positive step". The four Arab nations are advising Qatar to join them in committing to "six principles" to combat terrorism and extremism. The US State Department commended Qatar on the "strong partnership" in the fight against "terrorism" in its latest report.

Saudi Arabia: Deflation eased in June as prices declined at a slower pace due to the government's new taxes on some producers. Saudi consumer prices declined 0.4% y/y, easing from May's contraction of 0.7% y/y. Food and beverage prices fell 2.2% y/y, but tobacco prices went up by a massive 74% and sugary drinks rose 7.3%, with the imposition of an excise tax in June.

Egypt: The economy showed strong signs of improvement thus far in 2017, driven in large part by tourism and exports. The latest trade data show exports rose by 15% y/y in USD terms during the first five months of the year. Tourism also bounced back, with the number of visitors to Egypt jumping by 51% y/y during the first five months (Chart 2).

Markets – oil

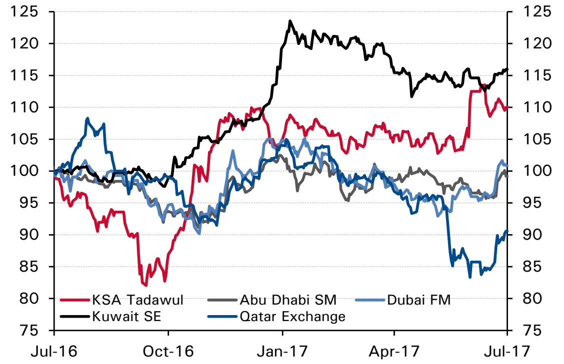
Oil prices plunged on Friday—Brent and WTI posted drops of 2.5% and 2.2% d/d, respectively—erasing all gains made over the week ending 21 July. Brent and WTI prices were down 1.7 % w/w to $48.1/bbl and 1.4% w/w to $45.8/bbl, respectively. Brent and WTI had been up 1.8% and 1.7% w/w, respectively, Thursday. Friday reversed those gains after a report showed forecasts of increasing supply from OPEC. Petro-Logistics, a firm that tracks crude trade flows, expects OPEC output to exceed 33 mb/d in July as Saudi Arabia, Nigeria, and other members increase shipments. (Chart 3.)

Markets – equities

Equity markets were mixed last week, as they lost some of their previous momentum. Earnings season is in full swing for most markets by now. US equities were mixed as the lack of progress on reforms (healthcare, taxes)

Chart 5: GCC markets

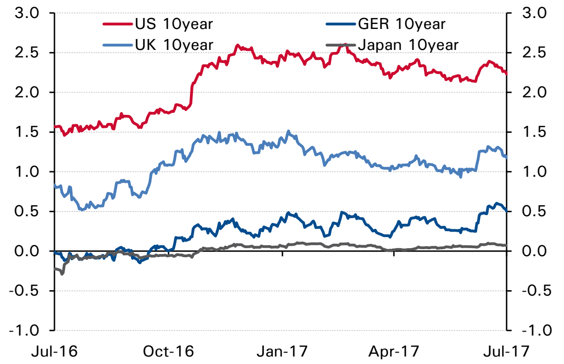
(rebased, 14 July 2016=100))



Source: Thomson Reuters Datastream

Chart 6: Global benchmark yields

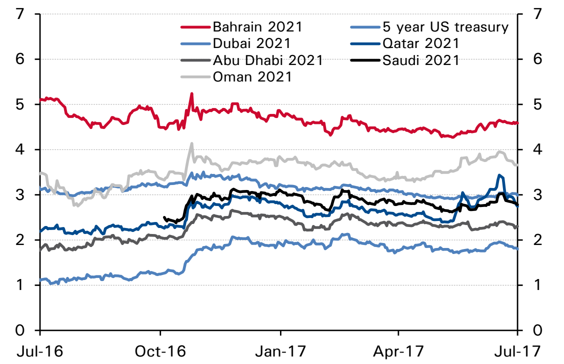
(%)



Source: Thomson Reuters Datastream

Chart 7: GCC yields

(%)



Source: Thomson Reuters Datastream

weighed on stocks. The S&P 500 was up 0.5% but the DJIA retreated 0.3%. European stocks retreated, giving up some of their recent gains; the Euro Stoxx 50 was down 2.1% on the week on the back of a strengthening euro. Emerging markets continued to outperform with the MSCI EM up 0.8%. (Chart 4.)

GCC markets were mixed with the MSCI GCC retreating 0.2%. Markets are now primarily driven by profit announcements, as the regional rift with Qatar took a back-seat. The Emirati markets outperformed with the Dubai and Abu Dhabi indexes up 1% and 0.8 %, respectively, buoyed by positive profit announcements. Omani shares, on the contrary, were hurt by weaker than expected profits, with the market retreating 2.4%. (Chart 5.)

Markets – fixed income

Yields on global benchmark bonds dropped over the week as relatively weaker global inflation data and lingering political challenges in the US saw global central banks reconsider their recent shift to more hawkish stances.

The ECB left its policy and its dovish forward guidance language unchanged, contrary to market expectations. President Mario Draghi and ECB board members are actively tempering markets' views. Bunds were down 9 bps on the week, yet remain at cyclical highs (0.50%), as markets still expect a "less easy" tone out of the ECB, in a matter of time. (Chart 6.)

Weaker than expected inflation in the UK also re-introduced caution against sooner than expected action by the BOE. Meanwhile, the BOJ pushed its 2% inflation target to 2019, further adding to the relative prudence central banks are adopting. Gilts dropped 13 bps, while JGBs remained steady. (Chart 6.)

These developments followed the softer data released in the US a week ago, which were exacerbated by last week's collapse of the administration's healthcare reform efforts. This reduced expectations of a December rate hike to below 50%, with markets now pushing that hike forward to March 2018. US 10-year yields reflected investors' growing skepticism, shaving 9 bps to settle at 2.23%. (Chart 6.)

GCC sovereign yields tracked US yields lower, while developments that hinted at compromise over the Qatari rift benefited Qatari sovereign debt. Bonds maturing in 2021 for Abu Dhabi and 2022 for Kuwait and Saudi Arabia were down between 4-8 bps, while Dubai's 2021 was little changed. On the other hand, Qatar's 2021 was down 23 bps. (Chart 7.)

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