



# Global perspective

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## Global economy maintains momentum

*The global economy is maintaining momentum on the back of steady growth in advanced economies despite prevailing uncertainty. The global manufacturing and confidence indicators have moved higher across the globe, while inflation has picked up partly owing to higher prices of oil and some other commodities. The US Fed raised interest rates by 25bps, in line with market expectations and has maintained its projection for three rate hikes this year, citing improving employment, inflation and consumer & business confidence. Capital markets globally reacted positively to the rate hike and Fed's outlook. Meanwhile, the IMF is looking to raise the UK's growth forecast in its April world economic outlook report. The agency also stated that the emerging economies will continue to constitute a majority of global growth, led by India and China, backed by improving conditions in countries such as Russia and Brazil, who have wriggled out of deep recession. However, there are concerns over whether this momentum can be sustained. Inflation may ease over the coming months as oil prices have begun to fall back on increased shale supply, while the wage growth slows. The IMF chief has mentioned that there is a need for continued monetary support and a focus on the fiscal policy to maintain this momentum.*

**US Fed hiked its interest rates** for the third time since the crisis, by 25 bps to a range of 0.75% and 1%, on the back of better labour market conditions and higher consumer and business confidence. The central bank also stated that inflation is on track of achieving the Fed's target and business investment has witnessed improvement.

**The OECD** has stated that the global economy will expand by 3.3% y-o-y in 2017 and by 3.6% y-o-y in 2018, unchanged from the previous forecasts in November 2016. However, the OECD added that the modest global growth recovery may be at risk from the rise in protectionist policies coupled with divergent monetary policy decisions.

**The BoE is set conduct tough banking stress test** as the British government prepares to trigger Article 50 of the Lisbon Treaty, which would officially commence the UK's process to exit the EU. The stress test would evaluate resilience of the banking sector in case of uncertain economic scenarios.

**China lowered its 2017 growth target** to 6.5% y-o-y, from 2016's growth rate of 6.7% y-o-y (target of 6.5%-7%), and said it will take steps to ensure economic stability and mitigate risks arising from high borrowing. The country also set a budget deficit target of 3% of GDP for 2017.

**Global manufacturing activity picked up in February 2017**, as indicated by the JP Morgan Global Manufacturing PMI, which rose to a 69-month high of 52.9, backed by the rise in output, new orders and employment.

**The US Q4 2016 GDP** grew by 1.9% y-o-y, unchanged from the previous estimate. Meanwhile, the ISM manufacturing PMI expanded to a 30-month high reading in February, owing to the rise in production and new orders. Non-farm payrolls added higher-than-expected jobs in February 2017.

**The Eurozone economy in Q4 2016** rose by 1.7% y-o-y in line with flash estimates. Meanwhile, the UK's Q4 2016 GDP expanded by 2.0% y-o-y, 0.2% lower than what was estimated previously.

**The Japanese Q4 2016 GDP** expanded by 1.2% y-o-y compared to a 1.0% y-o-y rise in the first preliminary, owing to an upward revision in business spending. Meanwhile, India's economy in Q3 2016-17 (Oct-Dec) rose by a slower pace compared to the previous quarter, owing to the demonetization effect.



**The EIA revised its US oil output estimates** for 2017 to 9.2 mbpd from 9.0 mbpd and for 2018 by 0.2 mbpd to 9.7 mbpd, owing to expectations of higher drilling activity, especially in the Permian area. **Meanwhile, as per the OPEC report**, Saudi Arabia's crude oil production was higher in February (10.011 mbpd) compared to January (9.748 mbpd), although lower than its set target of 10.058 mbpd.

Figure 1: OECD Interim Economic Outlook

	Projections		Diff. from November Report	
	2017	2018	2017	2018
World GDP	3.3	3.6	0.0	0.0
Advanced Economies				
United States	2.4	2.8	0.1	-0.2
Euro Area	1.6	1.6	0.0	-0.1
Germany	1.8	1.7	0.1	0.0
France	1.4	1.4	0.1	-0.2
United Kingdom	1.6	1.0	0.4	0.0
Japan	1.2	0.8	0.2	0.0
Emerging Economies				
China	6.5	6.3	0.1	0.2
India	7.3	7.7	-0.3	0.0

Source: OECD, Al Rajhi Capital

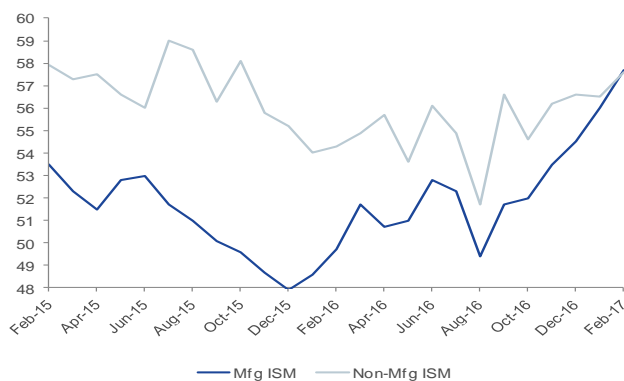
Figure 2: Global Economic Data

Country	Particulars	Period	Actual	Consensus	Previous
US	GDP (Second estimate y-o-y)	Q4	1.9%	2.1%	1.9%
	ISM Manufacturing PMI	February	57.7	56.0	56
	CPI (y-o-y)	February	2.7%	2.7%	2.5%
Eurozone	GDP (y-o-y)	Q4	1.7%	1.7%	1.7%
	Manufacturing PMI (Flash)	March	56.2	55.3	55.4
	CPI (y-o-y)	February	2.0%	2.0%	2.0%
UK	GDP (Second estimate y-o-y)	Q4	2.0%	2.2%	2.2%
	Manufacturing PMI	February	54.6	55.6	55.7
	CPI	February	2.3%	2.1%	1.8%
Japan	GDP (Second Preliminary y-o-y)	Q4	1.2%	1.6%	1.0%
	Manufacturing PMI (Flash)	March	52.6	-	53.3
	CPI (y-o-y)	January	0.4%	-	0.3%
China	GDP (y-o-y)	-	-	-	-
	Manufacturing PMI	February	51.7	50.8	51
	CPI (y-o-y)	February	0.8%	1.7%	2.5%
India	GDP (y-o-y)	Q3 (Oct-Dec)	7.0%	-	7.4%
	Manufacturing PMI	February	50.7	-	50.4
	CPI (y-o-y)	February	3.7%	-	3.2%

Source: FXstreet, Al Rajhi Capital

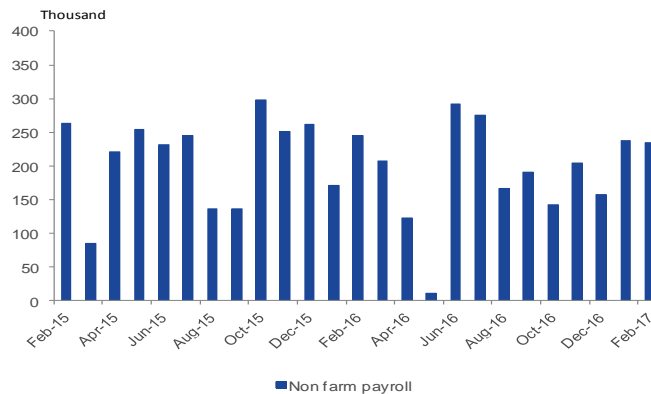


**Figure 3: US ISM PMI Trend** – Manufacturing PMI expanded to a two and a half year high reading of 57.7 in February 2017, led by the rise in production and new orders.



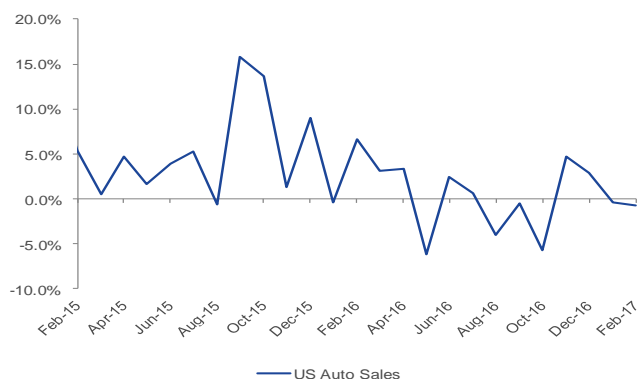
Source: Bloomberg, Al Rajhi Capital

**Figure 4: Non-farm payrolls** – Higher-than-expected at 235,000 in February 2017 (consensus: 190,000), while January's data was revised higher to 238,000 (227,000 earlier).



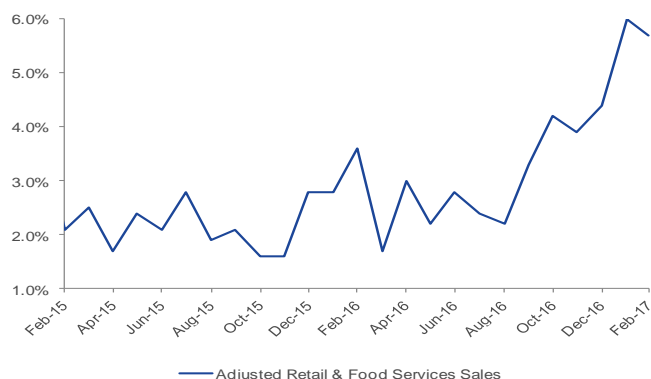
Source: Bloomberg, Al Rajhi Capital

**Figure 5: US auto sales growth (y-o-y)** – dropped by 0.7% y-o-y in February 2017, versus a yearly fall of 0.4% y-o-y in the previous month.



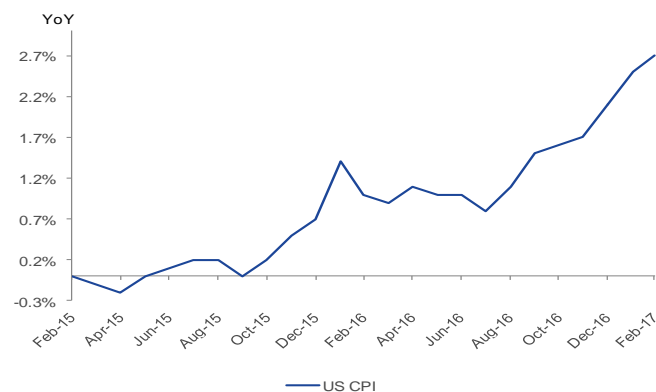
Source: Bloomberg, Al Rajhi Capital

**Figure 6: US retail sales growth (y-o-y)** – grew by 5.7% y-o-y in February 2017, against +6.0% y-o-y (revised higher) in January, as delayed individual tax refunds affected consumer spending.



Source: Bloomberg, Al Rajhi Capital

**Figure 7: Inflation trend** – US Consumer inflation rose by the fastest rate in almost 5 years, by 2.7% y-o-y in February 2017 compared to a 2.5% y-o-y rise in the previous month.



Source: Bloomberg, Al Rajhi Capital

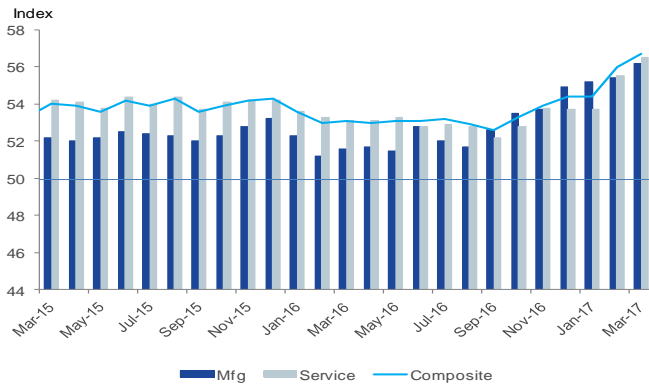
**Figure 8: 10-year US treasury yield** – The US 10-year treasury yield dropped ~1.2 bps MTD in March 2017.



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

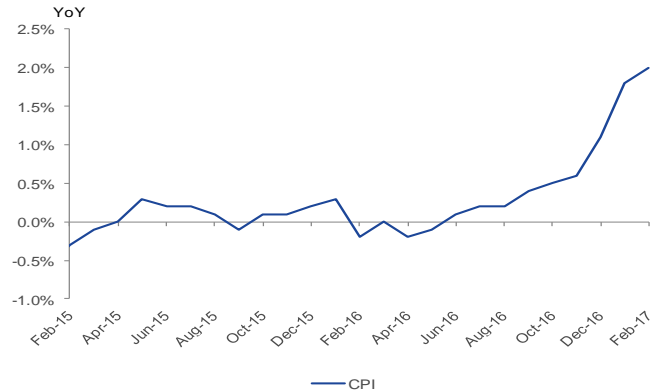


**Figure 9: Eurozone PMI trend – March composite PMI (flash) expanded to 56.7 as compared to 56.0 in February 2017.**



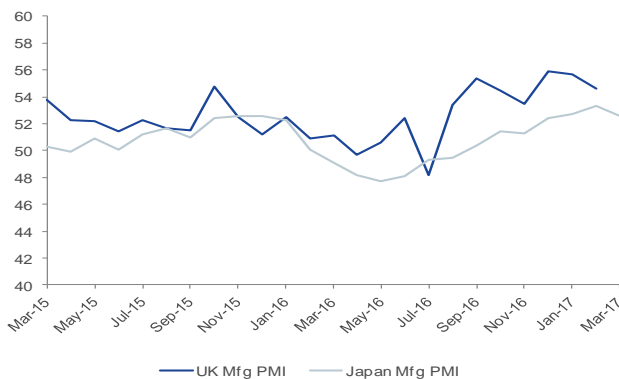
Source: Bloomberg, Al Rajhi Capital. PMIs for March mentioned in the chart are Flash PMIs.

**Figure 10: Eurozone Inflation – Eurozone CPI rose at the fastest pace in almost four years, by 2.0% y-o-y in February 2017, in line with flash estimates.**



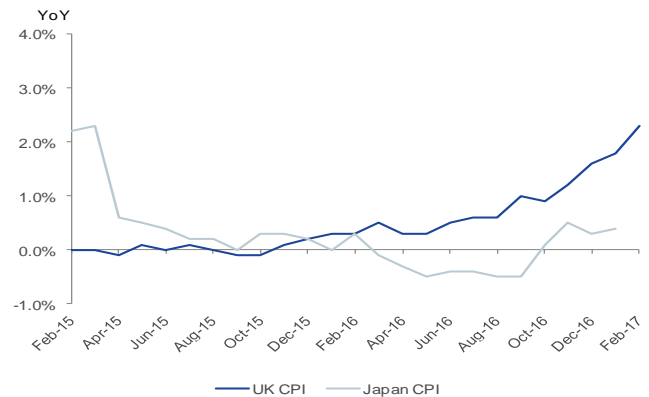
Source: Bloomberg, Al Rajhi Capital

**Figure 11: Japan and UK manufacturing PMI trend – Japan's PMI (Flash) in March 2017, expanded at a slower pace than the previous month. Further, the UK's PMI slowed down in February 2017, although remaining in the expansion territory.**



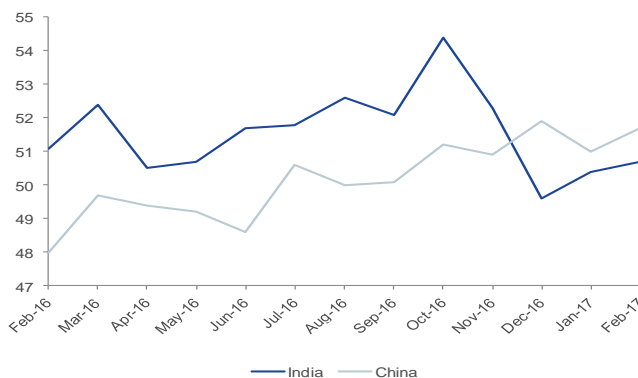
Source: Bloomberg, Al Rajhi Capital. March data for Japan is Flash PMI.

**Figure 2: Japan and UK CPI trend – Japanese CPI rose for the fourth consecutive month (+0.4% y-o-y in January 2017), while UK CPI rose at the fastest pace in 41 months (+2.3% y-o-y in February 2017), backed by the rise in energy and food prices.**



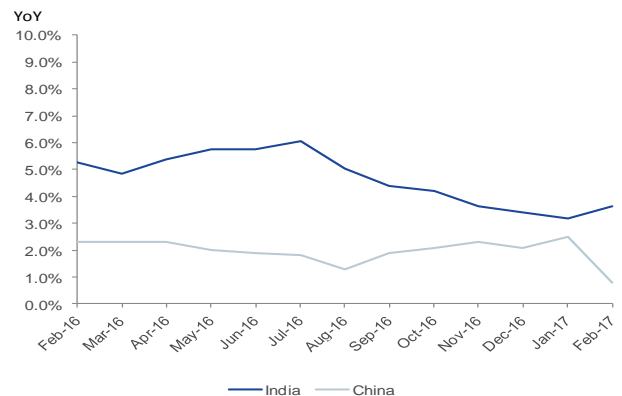
Source: Bloomberg, Al Rajhi Capital. February CPI data for Japan not released yet.

**Figure 3: India and China manufacturing PMI trend – China and India's PMI in February 2017 expanded to 51.7 and 50.7, respectively, both led by the rise in output and new orders.**



Source: Bloomberg, Al Rajhi Capital

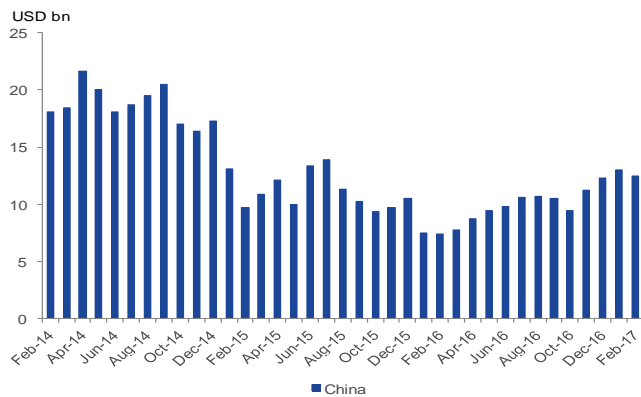
**Figure 4: India and China CPI trend – China's inflation grew by 0.8% y-o-y in February 2017, while India's inflation rose by 3.7% y-o-y in the same month, owing to a rise in food prices.**



Source: Bloomberg, Al Rajhi Capital

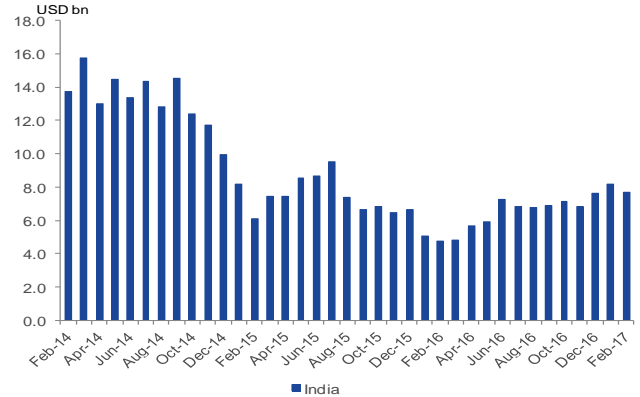


**Figure 5: China's oil import trend**



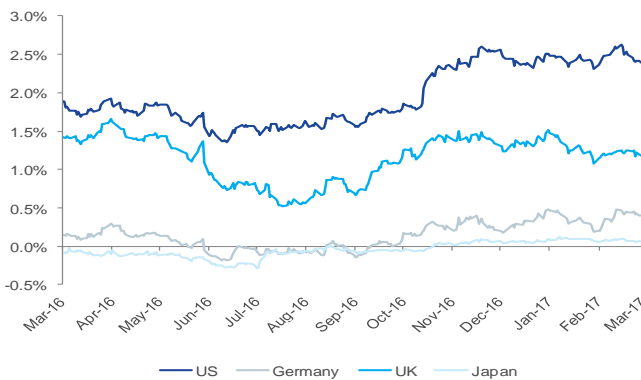
Source: Bloomberg, Al Rajhi Capital

**Figure 6: India's oil import trend**



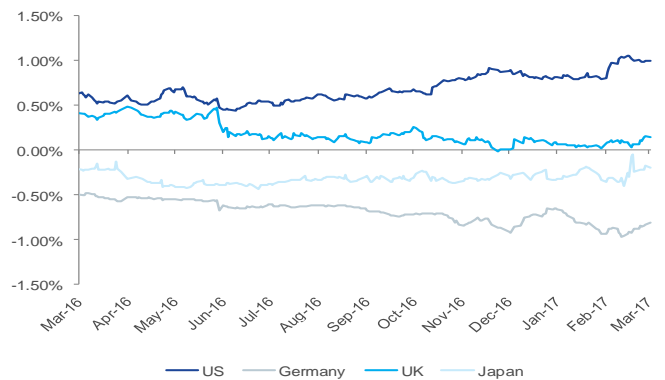
Source: Bloomberg, Al Rajhi Capital

**Figure 7: 10-year government yields – Yields in Germany and the UK rose on MTD basis.**



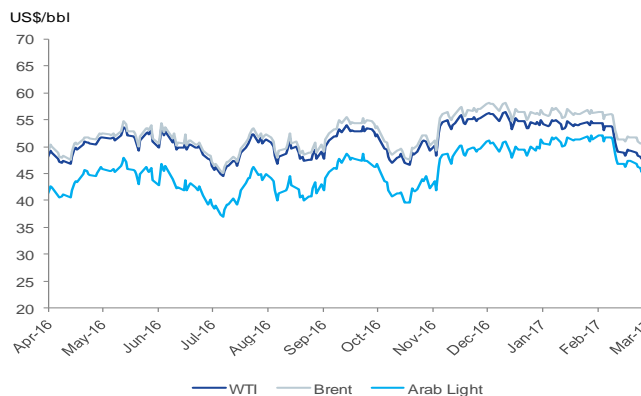
Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 8: One year government yields – One-year yields for the US, Germany, Japan and the UK witnessed a rise in March (MTD).**



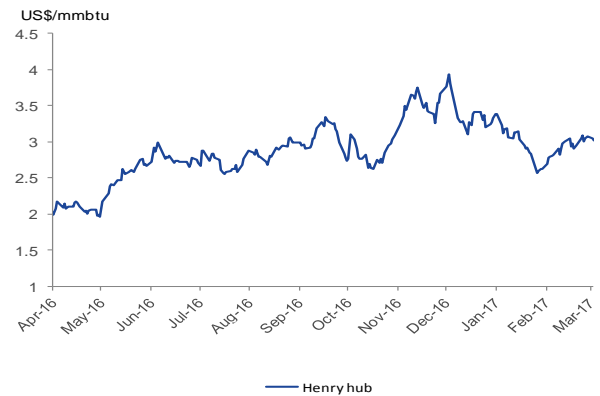
Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 19: Crude oil prices – Crude oil prices (Brent May futures contract) declined 10.2% MTD in March 2017, as investors were concerned over the rise in US shale oil production.**



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

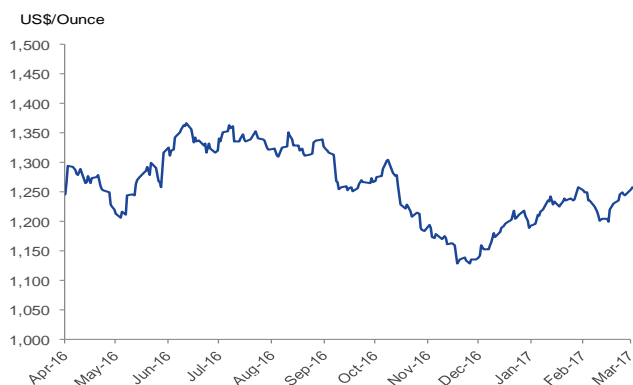
**Figure 20: Gas (Henry hub) prices trend – Natural gas (Henry hub) prices rose 10.0% MTD in March 2017 to ~US\$3.052/mmbtu, as against a monthly drop of 11.0% in February 2017.**



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

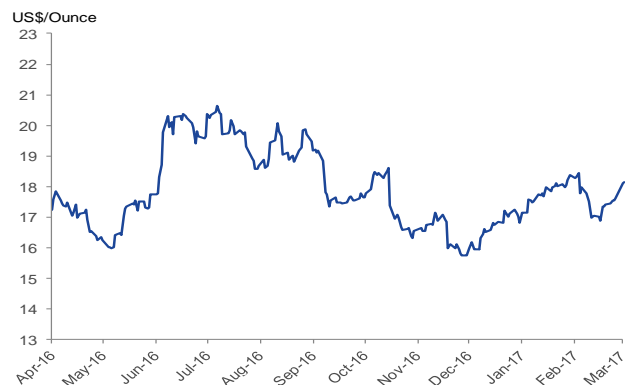


**Figure 21: Gold price trend** – Gold prices grew by 0.5% MTD in March 2017, as compared to the monthly rise of 3.1% in February 2017.



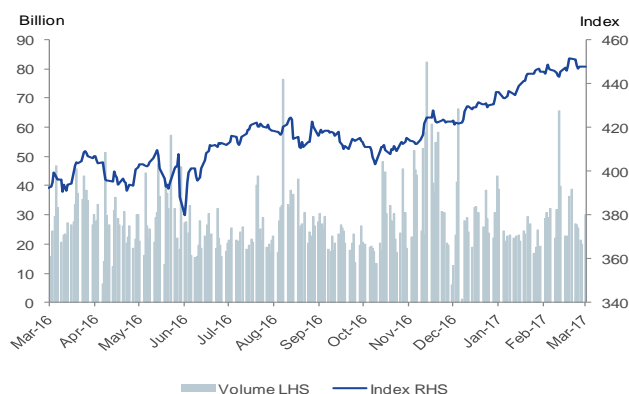
Source Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 22: Silver price trend** – Silver prices dropped by 1.1% MTD in March 2017, versus a rise of 4.3% m-o-m in the previous month.



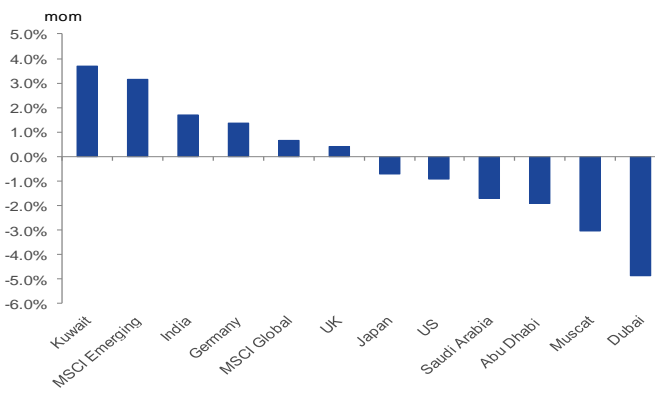
Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 23: MSCI Global Index**



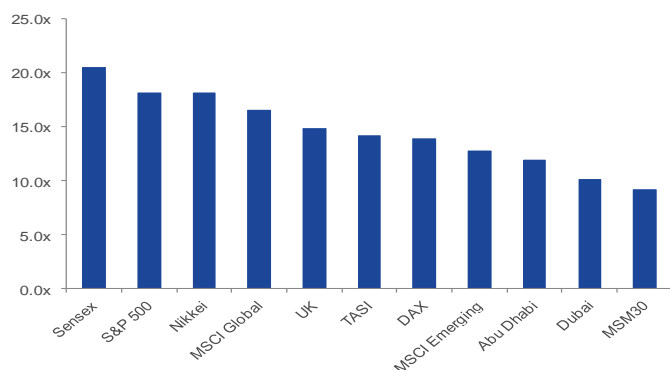
Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 24: Benchmark Index Return**



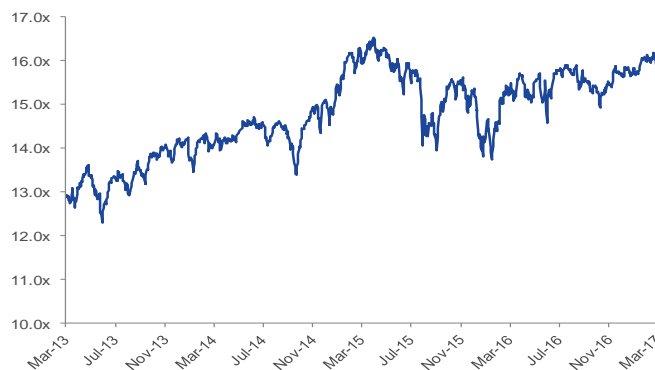
Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

**Figure 25: Forward P/E chart**



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

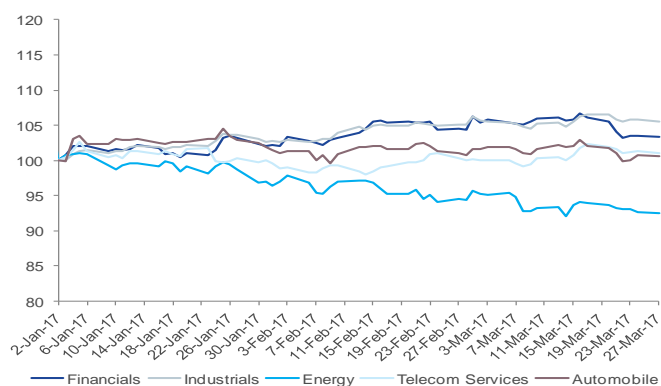
**Figure 26: MSCI global P/E movement chart**



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

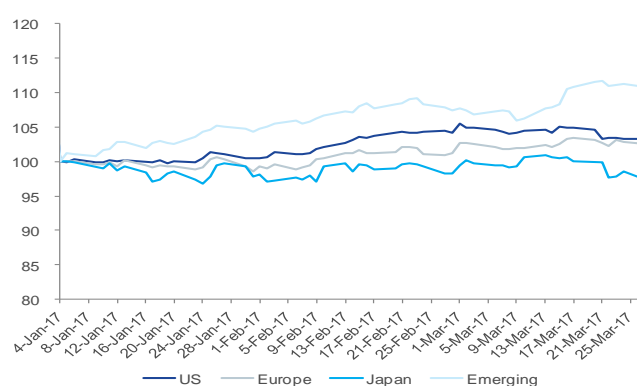


Figure 27: MSCI global sector YTD performance



Source: Bloomberg, Al Rajhi Capital, Rebased 2017=100. Data calculated for MTD.

Figure 28: MSCI regional YTD performance



Source: Bloomberg, Al Rajhi Capital, Rebased 2017=100. Data calculated for MTD.

Figure 29: Euro/USD



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

Figure 30: USD/CHF



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

Figure 31: USD/JPY



Source: Bloomberg, Al Rajhi Capital. Data calculated for MTD.

Figure 32: GBP/USD



Source Bloomberg, Al Rajhi Capital. Data calculated for MTD.



Figure 33: Real GDP Growth

Economies	Q4 2016	Q1 2017E	Q2 2017E	Q3 2017E	Q4 2017E	Q1 2018E	Q2 2018E
US	1.9%	1.9%	2.5%	2.4%	2.4%	2.3%	2.4%
Europe	1.7%	1.6%	1.6%	1.6%	1.5%	1.5%	1.5%
Japan	1.2%	1.0%	1.2%	1.3%	1.0%	0.9%	0.8%
UK	2.0%	2.3%	2.0%	1.7%	1.2%	1.1%	1.2%
India	7.0%	6.4%	7.0%	7.5%	7.7%	7.6%	7.6%
China	6.8%	6.7%	6.6%	6.5%	6.4%	6.3%	6.3%

Source: Bloomberg, Al Rajhi Capital, and forecasts are Bloomberg consensus

Figure 34: Inflation (CPI)

Economies	Q4 2016	Q1 2017E	Q2 2017E	Q3 2017E	Q4 2017E	Q1 2018E	Q2 2018E
US	1.8%	2.6%	2.4%	2.6%	2.4%	2.3%	2.4%
Europe	0.7%	1.8%	1.6%	1.6%	1.5%	1.4%	1.4%
Japan	0.3%	0.4%	0.5%	0.9%	0.7%	0.8%	0.9%
UK	1.2%	2.1%	2.6%	2.7%	2.7%	2.8%	2.6%
India	2.7%	4.2%	4.2%	4.8%	5.1%	5.3%	5.2%
China	2.2%	1.8%	2.1%	2.2%	2.2%	2.2%	2.2%

Source: Bloomberg, Al Rajhi Capital, and forecasts are Bloomberg consensus

- The US Q4 2016 GDP (second estimate) rose by 1.9% y-o-y, same as that in the previous estimate. The rise in consumer spending was overshadowed by the downward revision in business investment and government spending.
- The Eurozone Q4 2016 GDP grew by 1.7% y-o-y, in line with flash estimate. On a quarterly basis, the Q4 2016 GDP expanded by 0.4%, unchanged from flash estimate.
- The Japanese Q4 2016 GDP (second preliminary) expanded by 1.2% y-o-y, as compared to 1.0% y-o-y rise in the first preliminary, owing to an upward revision in business spending.
- The UK Q4 2016 GDP (second estimate) grew by 0.7% q-o-q, 0.1% higher than the previous estimate, owing to an upward revision in the manufacturing industry output.
- India's economy in Q3 2016-17 (Oct-Dec) expanded by a slower pace of 7.0% y-o-y, versus 7.4% y-o-y in the previous quarter, owing to demonetisation effect.



Figure 9: Economic Calendar

Country	Event Name	Period	Start Date
US	Q4 Gross Domestic Product		30-Mar-2017
Japan	Consumer Price Index (YoY)	February	30-Mar-2017
Japan	Unemployment Rate	February	30-Mar-2017
UK	Q4 Gross Domestic Product		31-Mar-2017
China	NBS Manufacturing and non-manufacturing PMI	March	31-Mar-2017
Eurozone	Consumer Price Index (YoY) (Preliminary)	March	31-Mar-2017
China	Caixin Manufacturing PMI	March	3-Apr-2017
Eurozone	Unemployment Rate	February	3-Apr-2017
US	ISM manufacturing PMI and Prices Paid	March	3-Apr-2017
US	Trade Balance	February	4-Apr-2017
US	Factory Orders	February	4-Apr-2017
Eurozone	ECB Non-Monetary policy meeting		5-Apr-2017
Japan	BoJ Governor Speech		5-Apr-2017
US	ADP Employment Change	March	5-Apr-2017
US	ISM non-manufacturing PMI	March	5-Apr-2017
China	Caixin Services PMI	March	6-Apr-2017
Eurozone	ECB Monetary Policy Meeting Accounts		6-Apr-2017
UK	Manufacturing Production	February	7-Apr-2017
UK	Trade Balance	February	7-Apr-2017
US	Non-farm Payrolls	March	7-Apr-2017
US	Unemployment Rate	March	7-Apr-2017
UK	NIESR GDP Estimate (3M)	March	7-Apr-2017
China	Consumer Price Index (YoY)	March	9-Apr-2017
US	Labor Market Conditions Index	March	10-Apr-2017
UK	Consumer Price Index (YoY)	March	11-Apr-2017
Eurozone	Industrial Production	February	11-Apr-2017
UK	Unemployment Rate	February	12-Apr-2017
China	Trade Balance	March	13-Apr-2017
China	Q1 Gross Domestic Product		13-Apr-2017
US	Retail Sales	March	14-Apr-2017
US	Consumer Price Index (YoY)	March	14-Apr-2017

Source: FXStreet, Al Rajhi Capital



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