

Market Insights & Strategy

Global Markets

15th September 2023

GCC & Egypt Macro Weekly

A Plateau Perspective

- ECB tightens as stars now align for prolonged pause
- Rates narrative skewed toward 'high for longer' not 'higher'...
- ...As 'soft landing' scenario gathers more listeners on U.S. retail sales
- China sentiment buoyed by PBoC liquidity injection, macro data
- A big week ahead for rates; FOMC, BoE, BoJ and more

Whichever way you looked at it before the event, yesterday's rate decision by the ECB's governing Council was a close call. Ahead of the announcement we had argued that both the hawks and the doves could put forward (almost) compelling respective arguments for either an incremental 25bps hike or a 'hawkish skip' that would have left rates unchanged on this occasion; we suggested that the hawkish route was the more appropriate. The ECB then delivered, as we expected, and raised all three of its key policy rates by 25bps, taking the Deposit Rate to 4.00%.

Our sympathy with the more hawkish approach was buoyed by a recent Reuters report in which the ECB stated that it now expects Euro area inflation to remain above 3% throughout 2024. We suggested earlier this week that this may have been the Bank giving financial markets a veiled advance warning of its hawkish intentions for this week. And so it was.

At same time though, we do believe that this was the final act in the ECB's long-running tightening saga. The Bank's Governing Council stated that "based on its current assessment (it) considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target". Moreover, with a number of GC members having stated a preference for a pause on this occasion, cognizant of the lagged effect on the economy of aggregate tightening to date, such dissention suggests that the ECB has now arrived at peak rates territory.

But, critically, this does not mean that rates are going to come down any time soon; reiteration of the GC's ongoing data-dependency should keep the doves grounded. As we have argued previously, with inflation sticky, central banks will need to maintain a hawkish bias to the narrative and monetary policy in restrictive territory for some time to come while leaving rates in a state of prolonged pause.

Such a hawkish bias also seemed to receive added credibility from the latest (August) U.S. CPI data released on Wednesday as well as yesterday's stronger-than-expected U.S. retail sales and producer prices data for August. On a more positive note though, the robust retail sales figures have helped create some optimism for the 'soft landing' scenario, which in turn is contributing to a more constructive tone to risk as we head toward the weekend.

While the headline U.S. core CPI print came in at 4.3% YoY down from 4.7% YoY – making it the smallest YoY gain in almost 2 years - the small pickup in the monthly rate of change of U.S. core CPI, from 0.2% in July to 0.3% last month, was another timely reminder of the persistently elevated nature of global price pressures. We doubt this went unnoticed by the ECB as it elected to follow its hawkish path.

The week now appears set to close in a generally positive mood in the wake of stronger-than-expected China retail sales and industrial production data for August and bolstered by the PBoC's latest efforts to strengthen China's economic recovery. The Bank injected a net 191bn yuan into the financial system via the 1-year Medium Term lending facility after yesterday announcing another cut to its reserve requirements. In addition it also added 34bn yuan via a 14-day money-market loan, all of which should prove stimulatory for the economic outlook.

**** Please note that due to exceptional circumstances and the UAE bank holiday at the end of this month, we will not publish the GCC & Egypt Macro Weekly for the next 2 Fridays. Publication will resume October 6.**

Simon Ballard
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It's a big week ahead in terms of central bank rates announcements, with the spotlight firmly on the U.S. Federal Reserve in the first instance. In line with consensus, we expect the FOMC to stand pat this month, to hint at an end to the tightening process and to then advocate a plateauing of the fed funds rate outlook.

That said, at the same time, the Fed will also need to reiterate its anti-inflation credentials, its data-dependent approach to future policy decisions in order to maximize its optionality going forward, and in turn quash any hint of speculation from the market that it might capitulate anytime soon toward rate cuts. Again we would expect the subliminal message to be one of rates remaining 'high for longer', but not necessarily 'higher'.

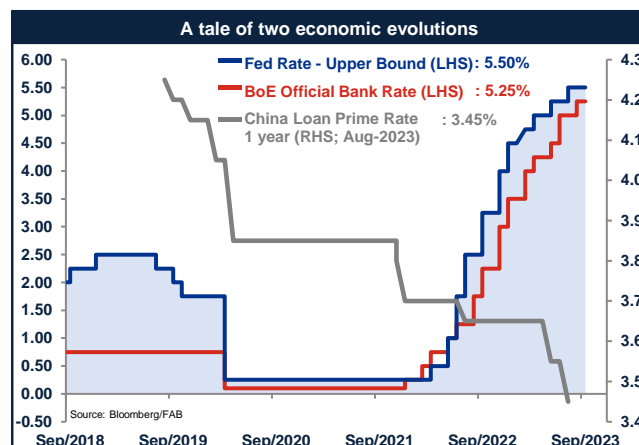
Other additions next week to the policy narrative mix will come from the Bank of England on Wednesday (we expect a final(?) 25bps rate increase to 5.50%) as well as the PBoC on the same day. As far as the BoE is concerned, the rate decision will be preceded by the UK August CPI report the day before (and which the MPC will likely have advance sight of). With consensus looking for a pickup in the headline rate to 7.0% YoY last month from 6.8% in July – we believe the August could be higher still at 7.2% – the data should help the BoE to push through the aforementioned hike, with minimal opposition among the MPC cohort.

Beyond this month though, the outlook for UK rates at future meetings now looks increasingly well balanced. With just a 78% probability of a 25bps rate increase priced in for next week, the futures market currently has just an additional 10bps of tightening priced in for November.

Moreover, with labour market dynamics showing clear signs of weakness, which in turn is set to further undermine consumption and generic economic growth, the UK economy is unarguably flirting with recession. All of this highlights the risk of overtightening and should dampen hawkish expectations beyonds next week's anticipated hike. Policymakers – and ourselves included – are now increasingly confident that UK rates are within touching distance of their peak.

Conversely, we expect the PBoC to trigger a modest (5bps?) reduction in commercial banks' one-year prime rate, in a further effort to bolster China's fragile economic recovery. This would reduce the rate to 3.40%.

Finally our attention will turn to the Bank of Japan on Friday. While we see no change in rates on this occasion, the question now must be how long the BoJ can resist a tightening bias with inflation above target and against the backdrop of a weaker Yen?



Key data releases next week

Region/Data	Release Date	Period	Survey	Prior Reading
US				
Housing Starts	19/Sep	Aug	1440k	1452k
MBA Mortgage Applications	20/Sep	Sep 15	-	-0.8%
FOMC Rate Decision	20/Sep	Sep 20	5.50%	5.50%
Existing Home Sales	21/Sep	Aug	4.10m	4.07m
Leading Index	21/Sep	Aug	-0.4%	-0.4%
S&P Global Mftg PMI	22/Sep	Sep P	47.9	47.9
Europe				
CPI YoY	19/Sep	Aug F	5.3%	5.3%
CPI MoM	19/Sep	Aug F	0.6%	0.6%
HCOB EZ Mftg PMI	22/Sep	Sep P	43.7	43.5
UK CPI YoY	20/Sep	Aug	7.0%	6.8%
UK BoE Bank Rate	21/Sep	Sep 21	5.50%	5.25%
UK Retail Sale Inc Auto Fuel	22/Sep	Aug		-1.2%
S&P Global UK Mftg PMI	22/Sep	Sep P	44.0	43.0
China				
5-year Loan Prime Rate	20/Sep	Sep 20	4.20%	4.20%
1-year Loan Prime Rate	20/Sep	Sep 20	3.40%	3.45%
MENA				
Egypt Deposit Rate	21/Sep	Sep 21	19.25%	19.25%
Oman CPI YoY	22/Sep	Aug	-	0.4%
Qatar CPI YoY	25/Sep	Aug	-	3.11%
Kuwait CPI YoY	28/Sep	Aug	-	3.75%

Despite some rates-fueled volatility mid-week, GCC credit has edged tighter for choice over this week as a whole, supported by the aforementioned move in rates and with limited secondary flows. Once again the main market focus has been on primary market issuance, as well as a tender announcement from Oman across its 24s sukuk, 25s, 26s and 27s..

Of note, at the time of writing we see most IG names around 3-5bps tighter in spread on average and around a quarter point higher in cash terms. Cycle highs in intermediate yields have held and retraced despite bond-negative data, catalyzing fast money and ETF demand.

Recent laggards, such as the new deals of DPW, ADCB and SHARJAH have all screamed higher over the week and we have also witnessed strong interest from Saudi real money for sukuk risk, which contributed to the tightening of IG paper. That said, at current valuations, some street players were happy to sell into the strength and hedge with the NIP (new issue premium) being offered in the new issue space by primary deals.

UAE

- The UAE's M3 money supply rose 16.8% y/y in July versus +17.7% in June, according to the CBUAE.
- Masdar is reported by Bloomberg to be in talks to buy a stake in Turkey's Fiba Yenilenebilir Enerji, in what would be the first acquisition in a \$51bn investment push between the two countries.
- More broadly, Madar is said to be planning to double its capacity this year, helping bolster the UAE's green credentials ahead of COP28. The company is targeting stakes in 40 gigawatts of global projects by the end of the year, CEO Al Ramahi said according to Bloomberg.
- Dubai apartment values surged by 20% ytd in August, the most in nearly a decade, broadening a property rally that's transformed the city into one of the world's hottest housing markets, according to data from CBRE.
- The federal government plans to sell at least \$1bn of Reg S/144A bonds as soon as this month and has mandated Citi, Mashreqbank, Goldmans, Mizuho, Emirates NBD, HSBC, ADCB, BNP Paribas and FAB for the sale

Saudi Arabia

- Oil supply cuts by KSA and Russia will create a 'significant supply shortfall' and threaten a renewed surge in price volatility, the IEA has warned. Global oil markets face a deficit of 1.2m bpd during 2H2023 following last week's OPEC+ announcements that they'll extend cutbacks to the end of the year, the agency said.

- Saudi Arabian Airlines Corp., also known as Saudia, and Tarabot Air Cargo Services Ltd. will list a 30% stake in cargo firm SAL Saudi Logistics Services Co. in a Riyadh initial public offering.
- Bank of America Corp. hired Abdulaziz Behery to lead its investment bank in KSA and bolstered its Middle East equities business amid a continuing surge in regional deal activity. Behery is joining from HSBC.

Bahrain

- The US and Bahrain have upgraded their defense relationship under a new security and economic deal. The agreement, known as the Comprehensive Security Integration and Prosperity Agreement, or C-SIPA, aims to promote cooperation between the US and Bahrain across areas including defense, security, technology and trade. Secretary of State Blinken and Bahrain's Crown Prince signed the pact in Washington Wednesday after nearly a year of talks.

Kuwait

- The Ministry of Interior has launched an extensive security operation across all regions of Kuwait to crack down on various crimes committed by expatriates, including traffic violations, according to the Khaleej Times.

Qatar

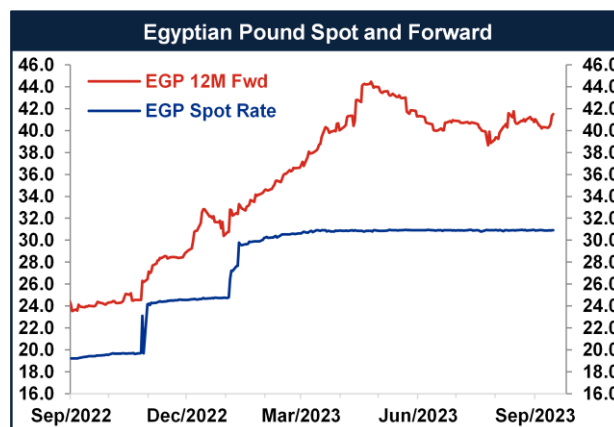
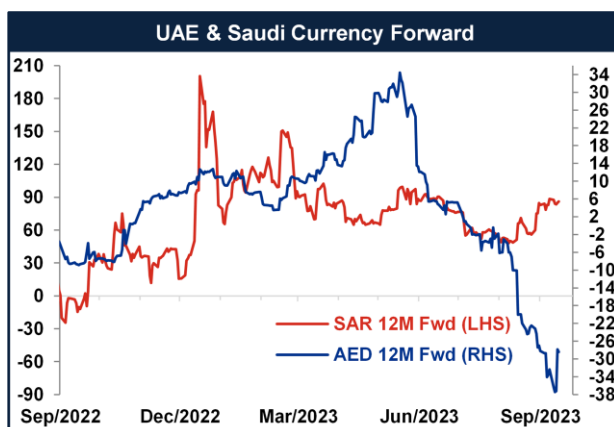
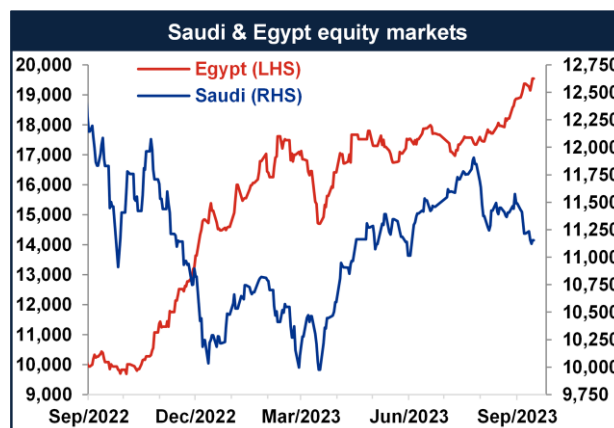
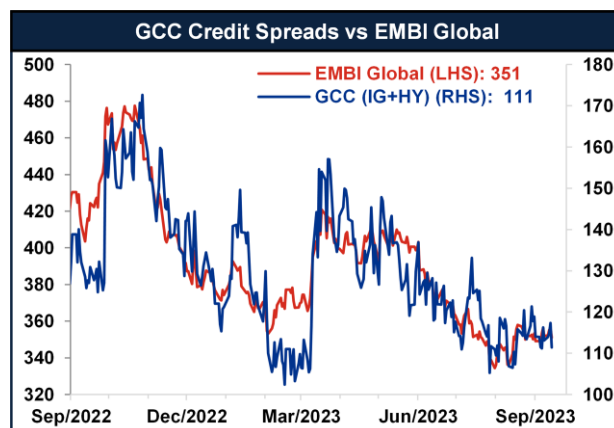
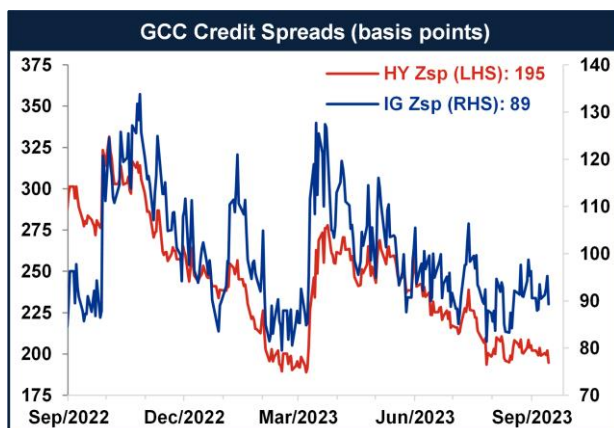
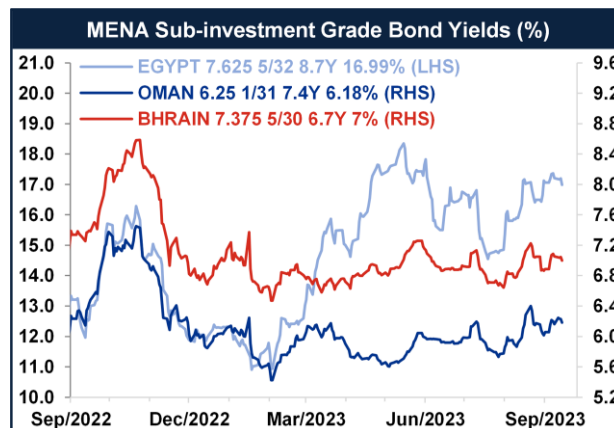
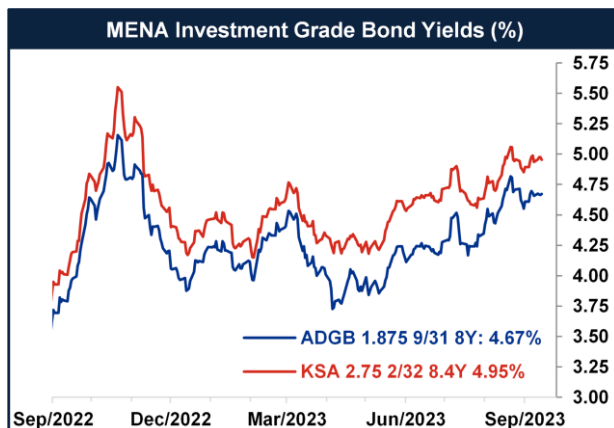
- Emphasizing a future vision for Qatar's LNG industry, QatarEnergy announced that Qatargas has changed its name to QatarEnergy LNG.
- US oil giant ExxonMobil has invested about \$30bn into Qatar's gas projects in long-term partnership agreements, Zawya reported

Oman

- Dr. Al-Saqri, minister of economy, emphasized that economic cooperation between KSA and Oman has seen significant progress in the past 2 years since the establishment of the coordination council between the two nations and the opening of the land border connecting them.

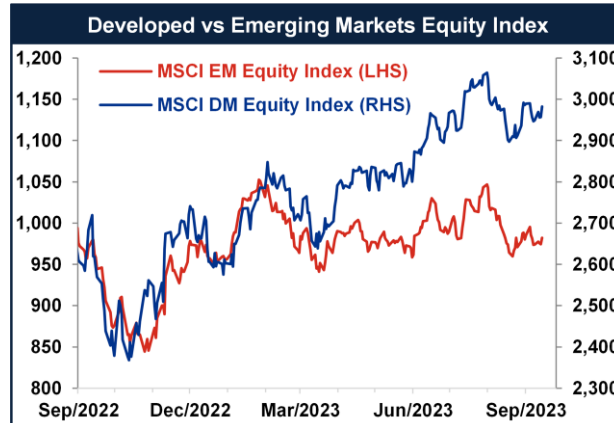
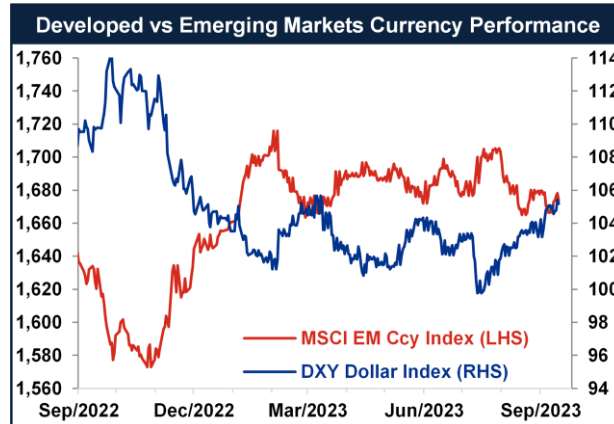
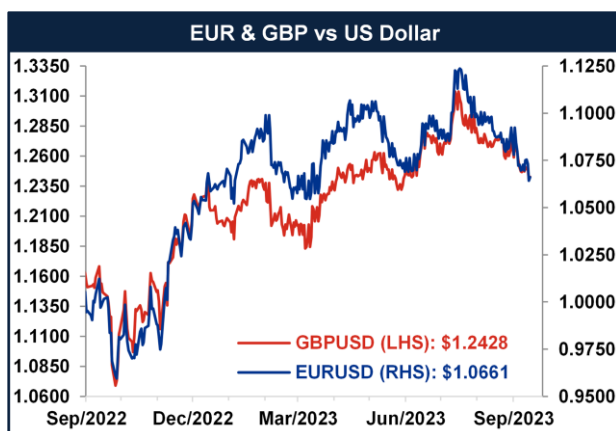
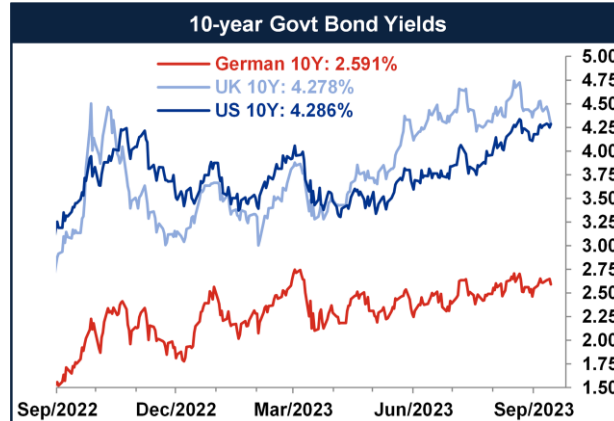
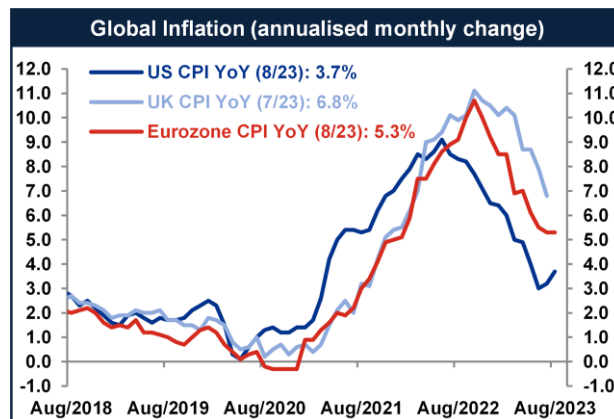
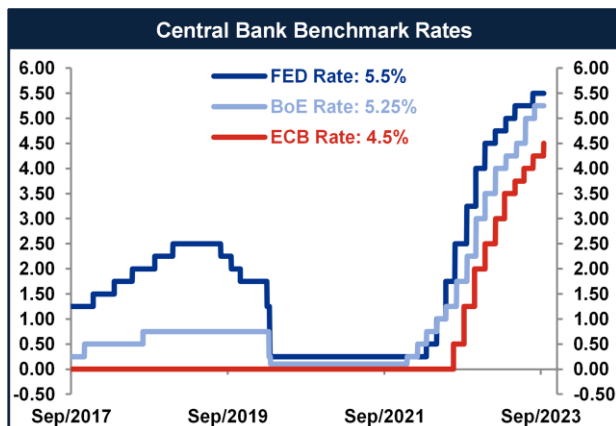
Egypt

- Speculation about imminent price hikes has led tobacco traders to stockpile cigarette products in recent months, in turn causing shortages and resulting in an unprecedented rise of over 50% in the cost of tobacco since March.
- An unnamed international investor has been given two months to give his final approval for the sale of the Gabal el-Zeit wind farm, Planning Minister Hala Elsaid told Bloomberg. The government had received five offers for the wind farm and Cairo believes the sale can be finalized by October or November.



Sources used for the charts: Bloomberg/FAB

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Global markets data

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.420%	+3.5	+4.5	+4.6	+75.3	+41.5
10Y	4.289%	+3.8	+4.2	+7.4	+83.8	+41.3
30Y	4.382%	+3.7	+4.0	+6.4	+91.4	+41.6

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	420.2	+3.2	+4.6	+4.9	+73.4	+45.6
10Y	399.4	+3.2	+3.5	+5.4	+74.9	+43.7
30Y	370.5	+3.0	+3.5	+6.8	+81.4	+49.7

Source: Bloomberg

Major Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0643	-0.81%	-0.50%	-2.40%	+6.42%	-0.58%
GBP USD	1.2409	-0.65%	-0.51%	-2.33%	+8.21%	+2.70%
USD JPY	147.47	+0.01%	+0.12%	+1.31%	+2.75%	+12.47%

Source: Bloomberg

EM Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	26.9473	+0.02%	+0.42%	-0.43%	+47.55%	+44.03%
USD INR	83.0400	+0.07%	-0.21%	+0.11%	+4.19%	+0.37%
USD IDR	15,355.00	-0.10%	+0.18%	+0.08%	+3.07%	-1.40%

Source: Bloomberg

EM Credit Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	378.4	-5.0	-3.9	+9.6	-45.1	+3.0
JPMEMBI Global	351.0	-5.2	-5.3	+8.8	-65.0	-23.2
GCC (IG+HY)	111.4	-5.9	-4.9	+4.1	-15.7	-9.8

Source: Bloomberg

MENA CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	34.2	+0.4	-0.8	-2.4	-12.1	-10.0
Kuwait 5Y	39.8	-0.0	-0.2	+0.8	-14.1	-10.2
KSA 5Y	46.8	+1.1	+0.7	-2.2	-0.9	-14.2
Dubai 5Y	61.1	-2.7	-3.3	-13.4	-56.4	-23.0
Oman 5Y	114.0	-4.6	-5.7	-6.3	-138.2	-73.6
Bahrain 5Y	209.2	+0.8	-5.1	-21.3	-91.7	-21.6

Source: Bloomberg

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	90.16	+1.85%	+3.79%	+11.32%	+5.95%	+12.33%
Brent Oil \$/bbl	93.70	+1.98%	+4.20%	+10.38%	+3.15%	+9.07%
Gold spot \$/oz	1,910.8	+0.14%	-0.46%	+0.46%	+14.75%	+4.76%
Silver spot \$/Troy oz	22.649	-0.83%	-1.39%	+0.53%	+18.13%	-5.45%
Aluminium 3MO \$	2,224.5	+0.32%	+1.30%	+3.66%	-2.03%	-6.46%
Nickel 3MO \$	20,343	+1.37%	-0.68%	+1.24%	-16.00%	-32.30%
Copper 3MO \$	8,418	+0.01%	+1.16%	+1.52%	+7.88%	+0.54%

Source: Bloomberg

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	34,907	+0.96%	+1.18%	-0.11%	+12.74%	+5.31%
S&P 500	4,505	+0.84%	+1.21%	+1.52%	+15.48%	+17.34%
Nasdaq Composite	13,926	+0.81%	+1.29%	+2.16%	+20.55%	+33.05%
Nikkei	33,168	+1.41%	+0.54%	+2.88%	+18.98%	+27.11%
Hang Seng	18,048	+0.21%	-0.85%	-2.87%	-4.66%	-8.76%
Shanghai	3,127	+0.11%	+0.13%	-1.56%	-2.29%	+1.21%
Mumbai Sensex	67,519	+0.08%	+1.89%	+3.24%	+12.66%	+10.98%
DAX	15,805	+0.97%	+0.55%	+0.24%	+21.99%	+13.51%
CAC 40	7,309	+1.19%	+1.56%	+0.56%	+18.69%	+12.90%
FTSE 100	7,673	+1.95%	+3.11%	+3.84%	+5.37%	+2.97%
DJ Stoxx 50	4,280	+1.33%	+1.39%	-0.21%	+20.84%	+12.81%
FTSE MIB Index	28,873	+1.37%	+2.55%	+1.54%	+29.09%	+21.79%
SMI Index	11,098	+1.11%	+0.95%	+1.03%	+3.27%	+3.44%
MENA						
Abu Dhabi – ADX	9,796	+0.42%	+1.41%	-0.11%	-2.22%	-4.06%
Dubai – DFM	4,034	-0.41%	-0.61%	-0.42%	+16.50%	+20.92%
Saudi Arabia	11,155	+0.29%	-0.54%	-2.26%	-5.71%	+6.45%
Bahrain	1,931	+0.09%	-0.54%	-1.43%	-0.38%	+1.91%
Kuwait (Premier Market)	7,705	-0.08%	+0.18%	-1.56%	-9.17%	-5.06%
Oman	4,726	+0.32%	+0.77%	-0.78%	+5.52%	-2.71%
Egypt	19,540	+0.92%	+0.85%	+8.77%	+93.87%	+33.85%
Turkey	8,119	+1.31%	-2.63%	+5.57%	+141.41%	+47.37%

Source: Bloomberg

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