

Market Insights & Strategy

Global Markets

27th October 2023

GCC & Egypt Macro Weekly

Words to now speak louder than actions

- Geopolitical, macro uncertainties burnish GCC credit risk
- ECB was a big deal. Other central banks must take note.
- Counting the true economic costs of tighter financial conditions

The decision by the European Central Bank (ECB) this week to leave interest rates unchanged at its latest Governing Council policy meeting on Thursday should have come as no surprise. As expected, the rate announcement goes a long way toward corroborating and solidifying our long-held view that global rates have now peaked and should plateau until 2H2024. After 15 months of consistent (ECB) monetary tightening this is a big deal.

Yes, we recognise that there are still significant upside pressures at play in global inflation dynamics – food, energy and wage pressures in particular – and these were recognised by the ECB this week. Leaving rates steady this week ‘doesn’t mean to say that we will never hike again’ opined Ms. Lagarde. That being said, a weakening macro backdrop over the coming months, as tighter financial conditions continue to bite, should be enough to keep the ECB hawks grounded.

In our opinion, the Eurozone September PMI data that was released on Tuesday this week adequately justified the halt in the tightening process this month. Recall that the preliminary Eurozone composite PMI fell to 46.5 in October from 47.2 in September and the manufacturing PMI index declined to 43.0 from 43.4. Both readings were in the opposite direction to consensus (47.4 and 43.7 respectively).

As well as the dismal PMI prints though, we also note the latest (October) euro area Bank Lending Survey that highlighted the ongoing tightening of financial conditions. Critically, we would conjecture that the (weakening) Lending Survey was a clear warning shot across the ECB’s bow as to the danger of overtightening policy and thereby further jeopardising the region’s economic outlook. Indeed, at its last meeting, the ECB opined that rates are now at a level that should lead to a decline in inflation back toward the 2% over time, but not before 2025.

But the ECB and other central banks must remain vigilant to the risk of a resurgence in inflationary pressures. For this reason, even as global rates likely plateau, we would expect policymakers to retain a cautious and hawkish bias to their narrative, meaning the need ‘to be on guard for an extended period’.

Meanwhile, closer to home, we believe that current geopolitical uncertainties with regard to Israel/Hamas, as well as the ongoing hostilities in Ukraine continue to support a positive asset allocation in favour of GCC credit risk. Indeed, we believe that the latter – underpinned by robust sovereign fundamentals and recent strength in the oil price – should remain an appealing asset class and continue to attract FDI capital flows over the coming quarters. We maintain that the allure of the UAE’s solid ‘Aa2’/‘AA-’ ratings as well as KSA’s ‘A1’/‘A+’ rankings based in part on resilient government balance sheets and economic diversification narratives from across the region, will only be accentuated by the aforementioned geopolitical uncertainties as well as the macro challenges and weakening economic conditions currently being felt across much of Europe and the U.S.

All in all, we do now seem to be settling into a period of more challenging conditions for risk assets, under which we would advocate a more defensive asset allocation bias over the coming months. But quality GCC credit should be a key beneficiary of such market conditions. Coupled with resilient U.S. macro data that is bolstering the ‘high (yields) for longer’ narrative, at the very least this should support a much more selective, up-in-quality investment strategy as we head toward 2024.

Simon Ballard
Chief Economist

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Macro outlook for the week ahead

In the context of this week's rate pause by the ECB, after 15 months of consistent tightening, and increasing evidence of deteriorating macro conditions across the Eurozone, we would suggest that Euro area 3Q Advance GDP data due to be released next week may receive more attention than usual. Indeed, we will get 3Q Advance GDP readings for Germany on Monday (13.00 GST), followed by France (Tuesday 10.30 GST) and the Euro area in aggregate (Tuesday 14.00 GST).

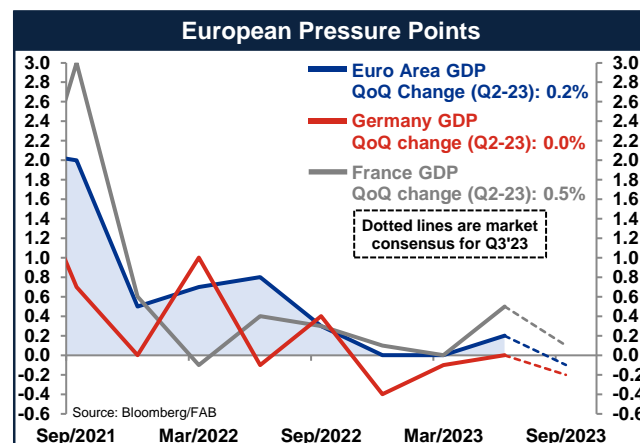
The ECB expects holding rates at current levels to make a 'substantial contribution' to bringing inflation toward its 2% target, although there is a broad-based understanding that price pressures remain sticky to the upside. As such, Lagarde noted that the ECB needs 'to be steady' and offered a hawkish twist when she suggested that 'having a discussion on cuts is totally, totally premature' and that the pause 'doesn't mean to say that we will never hike again'.

What the ECB failed to acknowledge (again) yesterday is that tighter monetary policy is causing recessionary conditions across the Euro area. Importantly, the ECB is continuing with its process of quantitative tightening – unwinding its 3yr EUR2.5tn TLTRO programme – without any sterilisation. This has a direct, negative impact on banks' reserves and capital adequacy, thereby raising fears of an evolving credit crunch. As such, we advocate keeping a very close eye on the Germany, France and aggregate Euro area 3Q GDP data, all of which is likely to underscore the evolving recessionary conditions across the region.

Aside from the increasingly parlous macro outlook for the Eurozone though, the macro spotlight next week will also fall squarely on the FOMC (01/11 22.00 GST), BoE (02/11 16.00 GST) and BoJ (31/11) rates decisions and then on the U.S. October nonfarm payrolls report on Friday. While the European narrative remains one of weakness, we expect the U.S. economy to show its ongoing resilience and relative strength. The FOMC should leave rates unchanged again this month, but will likely reiterate its hawkish credentials and again allude to no imminent rate cuts being considered.

Closer to home our focus will then be on KSA 3Q P GDP due Tuesday at 10.00 GST, which we expect to reiterate the recent trend of economic consolidation around the 1.2% growth rate posted in Q2 and 3.8% in Q1. The week will then also conclude, in addition to the aforementioned U.S. NFP, with the UAE October PMI. Having sat firmly above '50' since December 2020, we expect the index to again reflect the robust nature of UAE sovereign credit fundamentals.

**** Please note that there will be no publication of the Daily Market Chatter or GCC & E Macro Weekly next week. Publication should resume Monday November 6 ****



Key data releases next week

Region/Data	Release Date	Period	Survey	Prior Reading
US				
Conf Board Cons. Conf	31/Oct	Oct	100.0	103.0
ADP Emp. Change	01/Nov	Oct	135k	89k
S&P Global Mftg PMI	01/Nov	Oct F	-	50.0
ISM Manufacturing	01/Nov	Oct	49.0	49.0
FOMC Rate Decision	01/Nov	Nov 1	5.50%	5.50%
Chg Nonfarm Payrolls	03/Nov	Oct	168k	336k
Europe				
EZ GDP QoQ	31/Oct	3Q A	-0.1%	0.1%
EZ GDP YoY	31/Oct	3Q A	0.2%	0.5%
EZ CPI MoM	31/Oct	Oct P	0.3%	0.3%
EZ Mftg PMI	02/Nov	Oct F	43.0	43.0
UK S&P Global Mftg PMI	01/Nov	Oct F	-	45.2
UK BoE Rates Decision	02/Nov	Nov 2	5.25%	5.25%
China				
Manufacturing PMI	31/Oct	Oct	50.2	50.2
Non-Mftg PMI	31/Oct	Oct	51.8	51.7
Caixin PMI Mftg	01/Nov	Oct	50.8	50.6
MENA				
Bahrain CPI YoY	31/Oct	Sept	-	0.00%
KSA GDP Const. Px	31/Oct	3Q P		1.2%
S&P Global UAE PMI	03/Nov	Oct	-	56.7
Egypt CBE Deposit Rate	02/Nov	Nov 2	19.25%	19.25%

In the context of recent macro and rates market volatility, while GCC credit has been firm for much of this week, there has been a subliminal thread of hesitancy throughout. While enquiries were skewed to buying interest, ticket sizes weren't enough to take prices much higher. Participants continue to add selectively where they believe value to be, such as new issues or specific issues which have underperformed, but there has been no broad-based deployment of cash. Perps saw limited selling, but there certainly was not a turn in direction and the space has potential to keep underperforming. Recent issues such as EBIUH 28s and ADCB 29s performed well as they screen cheap on the curve and there is demand on a RV basis outside of the general market direction.

Elsewhere, we continue to see better buying of IG in the front-end such as KSA, ADGB, SABIC and FAB. However, longer end flows are predominantly selling cares. Meanwhile, HY remains active across the curve with two-way flow as we balance positive fundamental headlines (Egypt IMF loan, Oman upgrade by Fitch) with spreads at or close to the tights.

On the new issue front, Mubadala issued a 10yr Green bond – IPT around T+150bps – yesterday, which saw significant domestic and international interest. The deal finally priced at T+110bps, after order books exceeded \$8bn and then traded reasonably well in the secondary, closing around unchanged as a mix of Asian sellers, versus domestic buyers kept flows balanced.

UAE

- Alpha Dhabi Holding has acquired a 51% stake in NTS Amega Global to bolster its oil field services portfolio. (Bloomberg)
- In a significant development for sustainable energy in the UAE, the Environment Agency-Abu Dhabi (EAD) has unveiled plans to power its newly constructed Plant Genetic Resources Center in Al Ain with renewable energy. This initiative will involve the installation of photovoltaic solar panels, and it's set to make a substantial impact on reducing carbon emissions.
- ADCB reported 3Q net income in line with consensus. Net income was AED1.94bn, +22% y/y, (est. AED1.93bn). Operating income was AED4.23bn, +21% y/y, (est. AED4.08bn)
- Emirates NBD reported net income for 3Q of AED5.2bn vs. AED3.78bn y/y.

Saudi Arabia

- US President Biden and Crown Prince Mohammed bin Salman spoke Tuesday as part of efforts to prevent an escalation and widening of the conflict between Hamas and Israel. They discussed "diplomatic and military efforts to deter

state and non-state actors from widening the conflict," according to the White House.

- The developer behind plans to transform a historic Saudi town into a sprawling tourism destination is set to splash out \$10bn on the project next year. The \$63bn project at Diriyah, a UNESCO World Heritage site, is set to feature dozens of hotels and thousands of homes, according to Bloomberg.
- Saudi National Bank shares performed strongly this week after reporting 3Q profit that beat consensus, with analysts highlighting better-than-expected net interest income.
- KSA's Neom is setting up a \$10bn venture with Danish freight forwarder DSV A/S to help develop the megaproject. The partnership will focus on providing logistics services for Neom in the coming years, the companies said. Neom will hold 51% of the JV, with DSV holding the rest.

Bahrain

- Investcorp Holdings plans to list an investment vehicle in Abu Dhabi that will include private market investments. The investor will sell 321.5m of its existing shares in Investcorp Capital Plc, which will offer another 321.5m new shares, according to a statement on Tuesday.

Kuwait

- HOT Engineering And Construction Company announced that it has received an award letter from Kuwait National Petroleum Company, a subsidiary of Kuwait Petroleum Corporation, to provide maintenance services for its electrical, firefighting, and sirens systems at Mina Abdullah refinery. The contract is for 5 years.

Qatar

- Industries Qatar reported net income for the nine month period of QR3.3bn vs. QR7bn y/y..

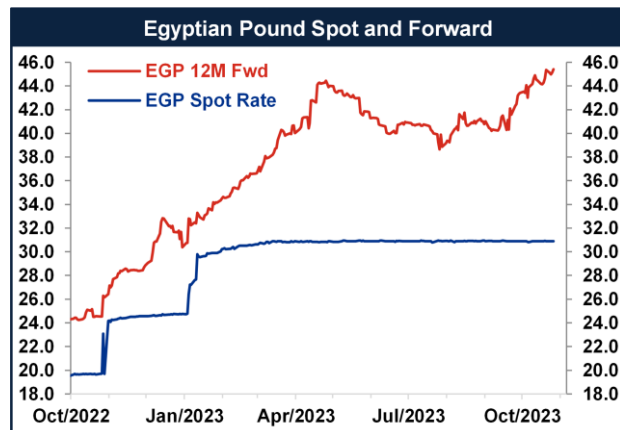
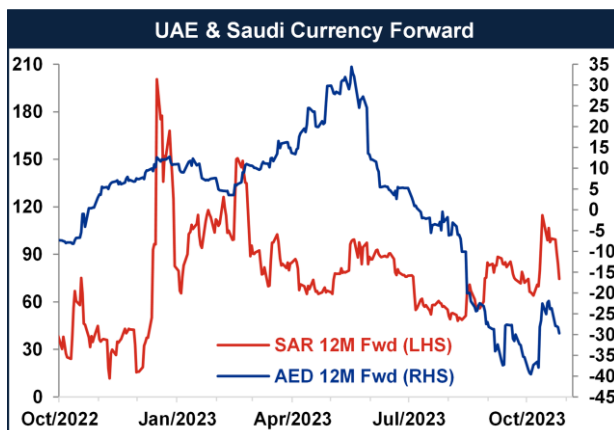
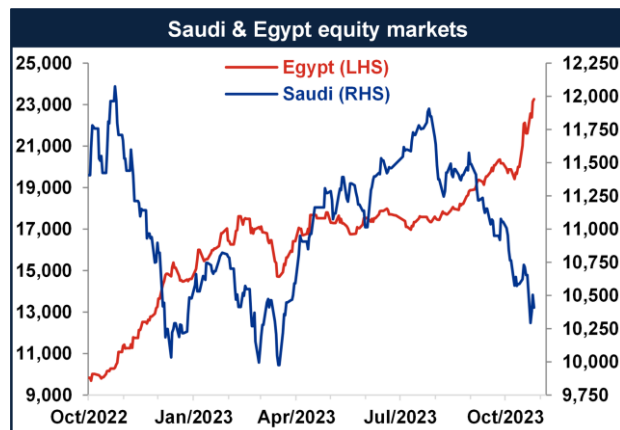
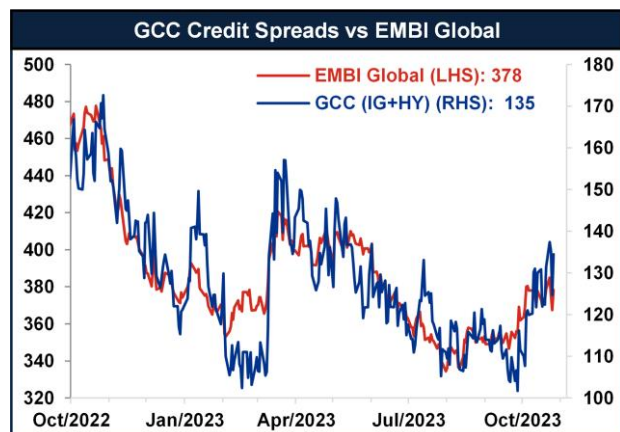
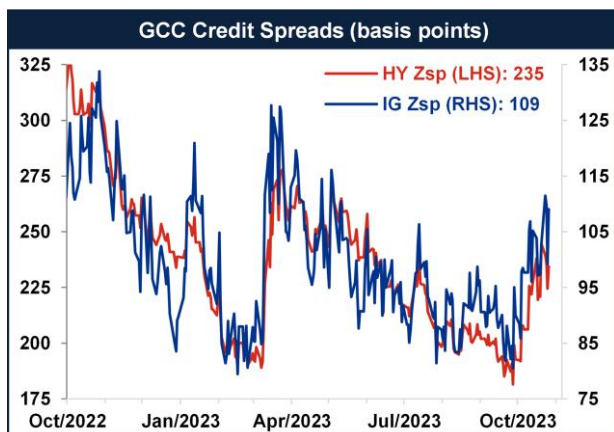
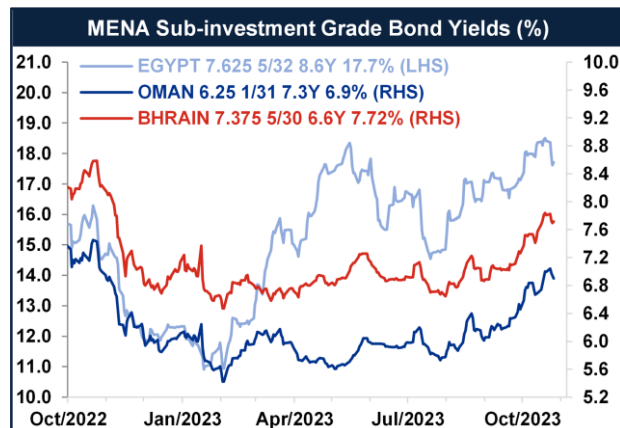
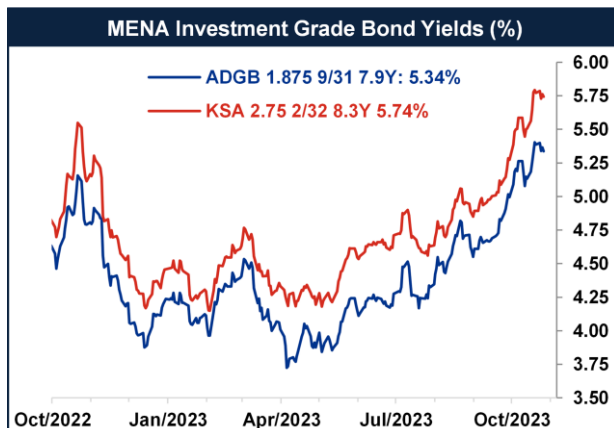
Oman

- OQ Gas Networks has announced the signing of a MoU with Belgian energy infrastructure group Fluxys to explore cooperation in establishing hydrogen and carbon dioxide infrastructure projects in Oman. The agreement underlines OQGN's focus on fostering renewable energy and decarbonisation infrastructure in Oman.

Egypt

- The IMF has warned that a prolonged war between Hamas and Israel risks impacting economic activity and the inflation outlook in neighboring countries such as Egypt, Lebanon and Jordan. "What is happening in the Middle East is happening at a time when growth is slow, interest rates are high, the cost of servicing debt that has gone up because of Covid and the war," fund MD Georgieva is reported to have said.

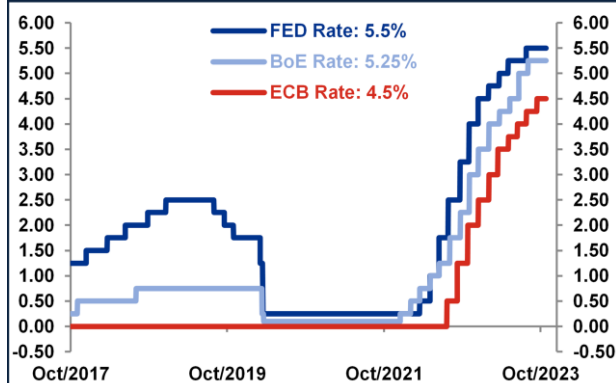
MENA chart pack



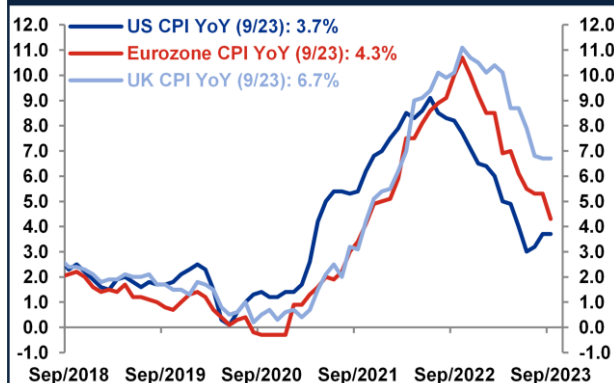
Sources used for the charts: Bloomberg/FAB

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Central Bank Benchmark Rates



Global Inflation (annualised monthly change)



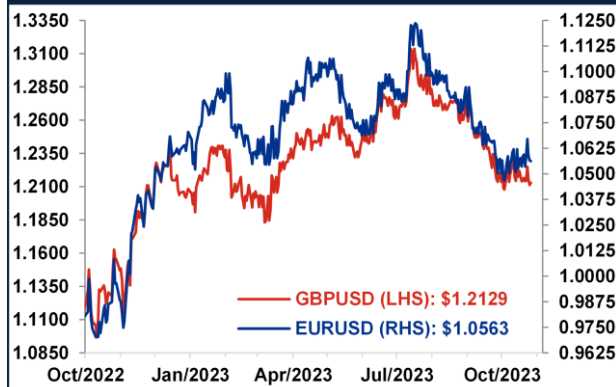
2-year Govt Bond Yields



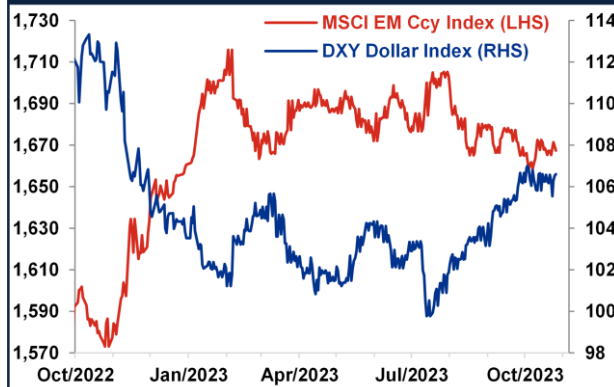
10-year Govt Bond Yields



EUR & GBP vs US Dollar



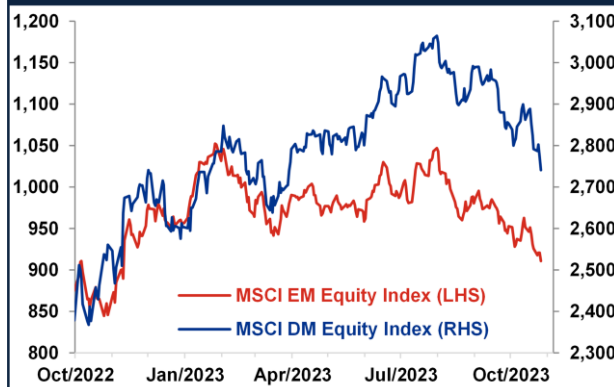
Developed vs Emerging Markets Currency Performance



S&P 500 vs Hang Seng



Developed vs Emerging Markets Equity Index



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	4.798%	-11.5	-15.9	+11.2	+73.5	+79.3
10Y	4.846%	-11.1	-14.5	+23.7	+92.5	+96.9
30Y	4.988%	-9.9	-12.4	+26.8	+90.1	+102.2

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	453.1	-11.6	-16.4	+7.4	+70.6	+78.5
10Y	450.6	-10.7	-14.6	+19.6	+85.6	+94.8
30Y	428.3	-9.5	-11.2	+25.9	+96.4	+107.5

Source: Bloomberg

Major Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0563	-0.03%	-0.18%	+0.57%	+6.01%	-1.33%
GBP USD	1.2129	+0.14%	-0.12%	-0.05%	+4.88%	+0.38%
USD JPY	150.40	+0.11%	+0.40%	+0.51%	+2.81%	+14.70%

Source: Bloomberg

EM Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	28.1655	+0.12%	+0.70%	+3.54%	+51.46%	+50.54%
USD INR	83.2325	+0.05%	-0.01%	+0.00%	+0.88%	+0.60%
USD IDR	15,920.00	+0.32%	+0.66%	+2.58%	+2.26%	+2.26%

Source: Bloomberg

EM Credit Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	409.4	+10.8	+5.5	+22.2	-39.9	+34.0
JPMEMBI Global	378.4	+10.9	+5.4	+22.5	-78.9	+4.2
GCC (IG+HY)	134.5	+9.8	+12.1	+32.8	-38.1	+13.3

Source: Bloomberg

MENA CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	54.8	+2.2	-0.4	+15.6	-5.2	+10.6
Kuwait 5Y	57.9	-1.6	-0.1	+16.7	-12.1	+7.9
KSA 5Y	72.7	+4.3	+3.2	+19.5	+4.3	+11.7
Dubai 5Y	87.4	+2.9	+0.1	+22.2	-37.0	+3.4
Oman 5Y	160.4	+1.8	-3.4	+32.0	-79.7	-27.2
Bahrain 5Y	262.5	+8.0	+2.1	+36.6	-23.6	+31.7

Source: Bloomberg

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	83.21	-2.55%	-6.89%	-11.18%	-6.59%	+3.68%
Brent Oil \$/bbl	87.93	-2.44%	-4.82%	-8.93%	-9.31%	+2.35%
Gold spot \$/oz	1,984.7	+0.25%	+0.52%	+5.84%	+19.32%	+8.81%
Silver spot \$/Troy oz	22.795	-0.31%	-1.09%	+1.11%	+16.29%	-4.84%
Aluminium 3MO \$	2,197.5	-0.97%	+0.57%	-2.05%	-5.89%	-7.59%
Nickel 3MO \$	18,079	-1.30%	-2.38%	-4.23%	-20.25%	-39.83%
Copper 3MO \$	7,986	-0.58%	-0.09%	-1.30%	+2.48%	-4.62%

Source: Bloomberg

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	32,784	-0.76%	-1.89%	-2.28%	+2.34%	-1.09%
S&P 500	4,137	-1.18%	-3.29%	-3.21%	+8.67%	+7.75%
Nasdaq Composite	12,596	-1.76%	-4.48%	-3.80%	+16.71%	+20.34%
Nikkei	30,602	-2.14%	-2.64%	-5.47%	+11.91%	+17.27%
Hang Seng	17,045	-0.24%	-1.45%	-3.22%	+10.48%	-13.84%
Shanghai	2,988	+0.48%	-0.57%	-3.83%	+0.18%	-3.27%
Mumbai Sensex	63,148	-1.41%	-3.78%	-4.49%	+5.68%	+3.79%
DAX	14,731	-1.08%	-2.09%	-3.20%	+11.50%	+5.80%
CAC 40	6,889	-0.38%	-0.47%	-2.59%	+10.33%	+6.41%
FTSE 100	7,355	-0.81%	-1.93%	-3.14%	+3.97%	-1.30%
DJ Stoxx 50	4,049	-0.59%	-1.00%	-1.99%	+12.34%	+6.74%
FTSE MIB Index	27,508	+0.29%	-0.86%	-1.80%	+21.77%	+16.03%
SMI Index	10,368	-0.32%	-0.77%	-4.73%	-3.17%	-3.37%
MENA						
Abu Dhabi – ADX	9,242	-0.89%	-1.97%	-5.81%	-10.24%	-9.49%
Dubai – DFM	3,782	-1.54%	-0.69%	-8.69%	+12.33%	+13.37%
Saudi Arabia	10,409	-0.91%	-2.31%	-6.03%	-11.11%	-0.66%
Bahrain	1,941	-0.10%	-0.19%	+0.18%	+4.15%	+2.42%
Kuwait (Premier Market)	7,081	-1.51%	-4.00%	-5.85%	-12.49%	-12.75%
Oman	4,554	-0.85%	-2.73%	-2.66%	+3.47%	-6.25%
Egypt	23,262	+0.56%	+7.61%	+15.31%	+110.10%	+59.35%
Turkey	7,662	+3.19%	-1.38%	-6.72%	+94.74%	+39.08%

Source: Bloomberg

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