Market Insights & Strategy

Global Markets

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GCC & Egypt Macro Weekly

The Recondite Road to Redemption

In the context of the various foreign financial support packages agreed and put in place for Egypt's challenged economy in recent quarters, together with EGP currency devaluations and Central Bank of Egypt (CBE) interest rate hikes, as discussed at length recently with clients, we maintain our medium-term cautiously optimistic outlook for the economy. That being said we are cognisant that the path to redemption is often anything but smooth.

Back in December 2022, we declared that the IMF's 46-month Extended Fund Facility (EFF) arrangement for Egypt would be a game-changer for Egypt's economic outlook. While this still holds true today and the EFF has catalysed additional financing from Egypt's international and regional partners, as hoped, myriad socio-economic challenges clearly remain for President Sisi, his government and the wider Egyptian population.

Egypt's efforts to restore macroeconomic stability have been encouraging and have started to yield positive results. Inflation remains elevated and sticky, with Urban CPI at 26.4% YoY in September, but it is coming down slowly, having flirted with 40% this time last year. Meanwhile, sentiment has also been buoyed by a shift to a more flexible exchange rate regime and meaningful devaluation of the pound, which has helped to close the gap between the EGP spot market and previous black-market pricing. But the pound and its NDFs have eased wider again year-to-date. There is still much reform work to be done and herein lies our concern.

While we note the successful reform initiatives put in place to secure the EFF, we are also sympathetic to the human cost associated with them. While not our base case scenario, if the fundamental outlook for the economy were to reverse and turn weaker, this could dramatically change Egypt's near-term sovereign credit outlook.

Among the reform criteria demanded by the IMF, the government is having to reduce its public spending in order to improve/stabilise the balance sheet, as well as having to reduce subsidies – and raise consumer prices – on a range of goods and services and consumer staples, including fuel, electricity and bread. The latter is obviously hugely unpopular and painful among the population.

As such, President Sisi and Prime Minister Madbouly have recently opined that, in the context of challenging global macroeconomic conditions, the terms of the EFF's reform obligations may need to be 'reviewed' if socio-economic pressures on the population become too onerous and intolerable, leading to 'unbearable' economic pressure. Both the President and PM recognise – as to do we – the need to work with the IMF on 'how to target the review of (Egypt's) timings and goals'. We maintain our medium-term optimistic outlook for Egypt but are realistically braced for further air pockets of turbulence on the journey. Watch this space closely.

IMF WEO burnishes GCC macro outlook

Closer to home we are encouraged by the IMF's updated economic forecasts, as per the latest edition of the World Economic Outlook. The IMF has lowered its global growth forecast for next year to 3.2% from 3.3%, to reflect what it sees as increasing risk from geopolitical conflicts as well as those of economic protectionism. But what was encouraging for us was that, within the noise, the fund's economic growth outlook for the U.S. was upgraded to 2.8% this year (+0.2% vs July) and 2.2% (+0.3%) next year, adding some weight and credibility to our soft-landing forecast.

Likewise, the IMF maintained its positive tilt toward the GCC region with the UAE economy now seen expanding 4.0% this year and 5.1% in 2025. Our own forecasts are still a little more optimistic at 4.5% and 5.6% respectively. Meanwhile, the IMF expects KSA to expand by a more modest 1.5% this year, before recovering to +4.6% in 2025. These latest KSA forecasts are down -0.2% and -0.1% respectively compared to the July forecasts.

Macro outlook for the week ahead

With less than 2 weeks to go now until the U.S. presidential election, we hope that by this time in 10 days' time we will know the definitive result of the U.S. plebiscite. A Trump victory would appear to be the more hawkish of the two options on offer and so with the his odds having seemingly shorted this week, we have seen U.S. treasuries selling off accordingly.

Indeed, Trump's advocated tax cutting and trade tariff policies would surely only be inflationary, if and when implemented, and far more hawkish than Kamala Harris' expected 'continuation' administration, at least initially. As a result, therefore, it should be no surprise that global markets have again been paring back Fed rate cut expectations in recent days.

With the U.S. 10yr yield now sat at 4.22% - up more than 60bps since September 16 - the market clearly now anticipates a more gradual pace of Federal Reserve monetary easing going forward. This is an argument we have been making since the latter part of last year of course.

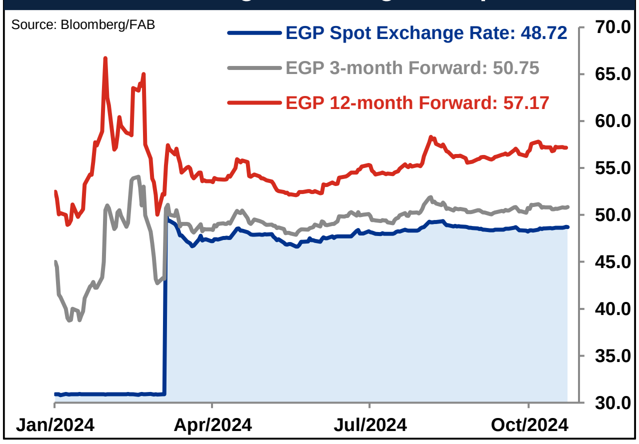
The fed fund futures market now has -23bps priced in for the November FOMC meeting and a total of -41bps priced in by the December meeting. The OIS market has -22bps and -37bps currently priced in respectively. Both markets imply an increasing probability of the FOMC 'pausing' at, at least, one of its next two (Nov 7, Dec 18) policy meetings.

Data releases over the coming week will culminate in the U.S. October labor market (nonfarm payrolls) report on Friday November 1 (16.30 GST). Alongside the market implications of the eventual presidential election result, the employment figures and the unemployment rate will be a critical barometer reading on the relative strength of the U.S. economy. Consensus is currently looking for a consolidation in the headline jobs number to around +135k nonfarm payroll jobs (down from 254k last month) and a steady unemployment rate at 4.1%.

Elsewhere we will be analysing Euro area 3Q advance GDP numbers to see how the region has held up over the period with Germany, its former engine of economic growth, effectively in technical recession. Meanwhile, a similar macro health check will be delivered through the latest (October) China PMI figures. With the China manufacturing PMI having flirted with economic expansion (49.8) last month, the non-manufacturing PMI bang on breakeven (50.0) and the Caixin manufacturing PMI at 49.3, it remains to be seen if the economy has benefited from the recent stimulus and been able to hold its head above the waterline. Time will tell.

Hope you're having – and will have – a great week ahead. Good luck!

Reform challenges creating some pressure



Key data releases next week

Region/Data	Release Date	Period	Survey	Prior Reading
US				
U. of Michigan Sentiment	25 / Oct	Oct F	69.1	68.9
Conf Board Cons Confidence	29 / Oct	Oct	99.0	98.7
ADP Employment Change	30 / Oct	Oct	108k	143k
GDP Annualised QoQ	30 / Oct	3Q A	3.0%	3.0%
Change in nonfarm payrolls	01 / Nov	Oct	135k	254k
Unemployment Rate	01 / Nov	Oct	4.1%	4.1%
Europe				
EZ M3 Money Supply	25 / Oct	Sept	2.9%	2.9%
EZ GDP SA QoQ	30 / Oct	3Q A	-	0.2%
EZ CPI MoM	31 / Oct	Oct P	-	-0.1%
UK GfK Consumer Confidence	25 / Oct	Oct	-20	-20
S&P Global UK Mftg PMI	01 / Nov	Oct F	-	51.5
China				
Manufacturing PMI	31 / Oct	Oct	-	49.8
Non-manufacturing PMI	31 / Oct	Oct	-	50.0
Caixin China Manufacturing PMI	01 / Nov	Oct		49.3
MENA				
Bahrain CPI YoY	28 / Oct	Sept	0.7%	0.9%
Qatar GDP constant prices YoY	28 / Oct	1Q	-	0.0%
Qatar CPI YoY	25 / Oct	Sept	-	0.22%
KSA M3 Money Supply YoY CPI	30 / Oct	Sept	-	8.7%

GCC credit markets have been on the back foot this week amid a softer macro backdrop and sharp selloff in U.S. treasuries as a less dovish outlook for Fed policy has been priced in and as investors pare back FOMC rate cut expectations. Spreads are closing around 5bps wider on average across most names with more pressure on the 10y+ part of the curve as duration remains well offered.

Although flows have been skewed to better selling, there is no sign of any panic and we have even seen buyers stepping in over the past two sessions, looking to take advantage of the higher yield environment. Spreads remain tight overall, but many have shifted their focus to all in yields, which of course now look more attractive.

Across IG, tightly held curves such as UAE Sovereigns and SECO are outperforming more liquid names such as KSA and ADGB. High yield names remain well bid in pockets, namely in Jordan where cash prices are only half a point lower from local highs. Meanwhile Egypt Sovereign bonds are around 25bps wider on the week, mimicking the move in CDS. Finally, financials remain the favour of choice with high quality UAE financials such as DIB, FAB and EBIUH in demand.

UAE

- Dubai-based prop-tech firm Prypco has raised USD 10mn in a seed funding round led by Shorooq Partners, with participation from Apparel Group. The funding will support the two-year old proptech firm's plans to scale its operations and expand its offerings. Prypco targets USD 250mn ARR by end of 2027.
- Lulu Retail Holdings Plc will sell 2.58 bn shares, representing 25% of its stake through a three-tranche IPO that will start on October 28 and close on November 25, seeking a valuation of at least USD 5bn. The company is targeting to raise USD 1.8bn becoming the fourth IPO in Abu Dhabi this year.

Saudi Arabia

- KSA's minister of health Fahad Al Jalajel announces investment deals in the healthcare sector totalling over USD 13.3bn, on the opening day of the Global Health Exhibition in Riyadh on Monday.
- GCC IPOs raised USD 1.7bn in Q3 2024, with Abu Dhabi Securities Exchange (ADX) seeing the largest in a single offering – NMDC Energy raising USD 1.1bn for a 23% stake. The remaining offerings were all on Saudi Arabian stock markets, with the largest being Arabian Mills for Food Products, which raised USD 271mn for its 30% stake.
- Saudi Aramco is bullish on China's oil consumption in the wake of recent China government stimulus measures, according to CEO Amin H. Nasser said. Demand for jet fuel is a bright spot for the nation, said Nasser, who was speaking at the Singapore International Energy Week conference on Monday. He also reiterated Aramco's aim to increase its liquids-to-chemical capacity to 4m bpd, with a focus on China.
- KSA-based United Electronics Co., known as Extra, will proceed with the listing of a 30% stake in its financial services unit on the Saudi main market. The subsidiary, United International Holding Co., parent of Tasheel Finance, announced on Sunday its plan to float 7.5m shares. The entire amount raised will be distributed to Extra, the selling shareholder, according to a statement.

Bahrain

- Bahrain has officially unveiled the "Sustainable Water" campaign, as part of the country's ongoing efforts to promote water conservation and recycling, underscoring the nation's commitment to sustainability in line with its National Water Strategy (2021-2030) and its 2023-2026 government programme.

Oman

- Mahmood Al Aweini, Oman's Secretary General of the Ministry of Finance, said Tuesday that Muscat can become a leading player in sustainable and green financing in the Gulf, as the country continues to make reforms as part of its Vision 2040 agenda.

Qatar

- Shorter-term and more flexible LNG contracts offered by sellers from the U.S., the UAE and Oman are challenging Qatar's dominance in LNG supply to north Asia, trade sources told Reuters this week.

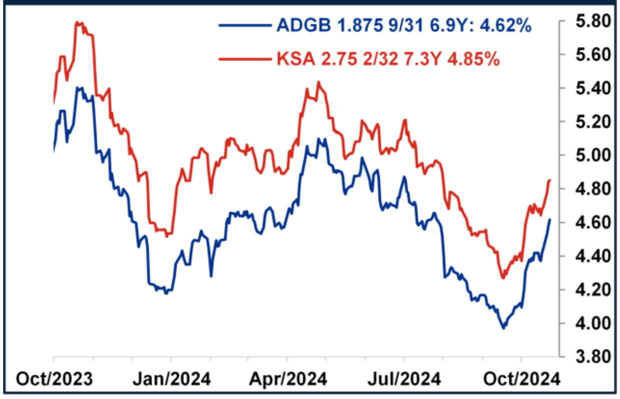
Egypt

- Egypt revealed it is working with the IMF on reviewing the targets and timetable for its USD 8bn EFF loan program against a backdrop of regional upheaval. "Unprecedented" events across the Middle East are posing challenges for Egypt, PM Madbouly said Wednesday, singling out a decline in Suez Canal revenue caused by militant attacks on Red Sea shipping.
- Trade exchange between Egypt and BRICS countries went up by 15% YoY in the first 8 months of this year, raising USD 30.2bn, according to CAPMAS. The value of Egyptian exports to the BRICS countries grew by 7.3% YoY, while the value of its imports recorded an increase of 17% YoY.

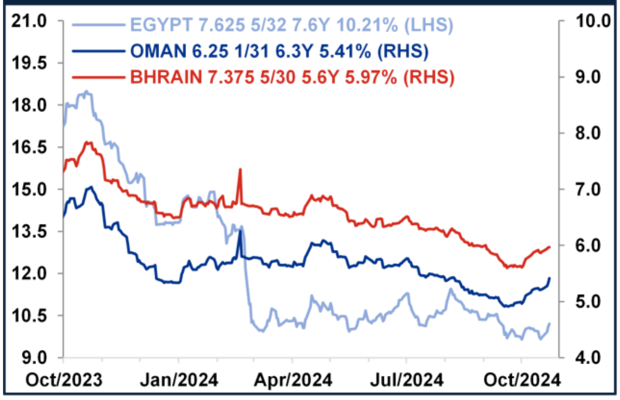
MENA chart pack

FAB
بنك أبوظبي الأول
First Abu Dhabi Bank

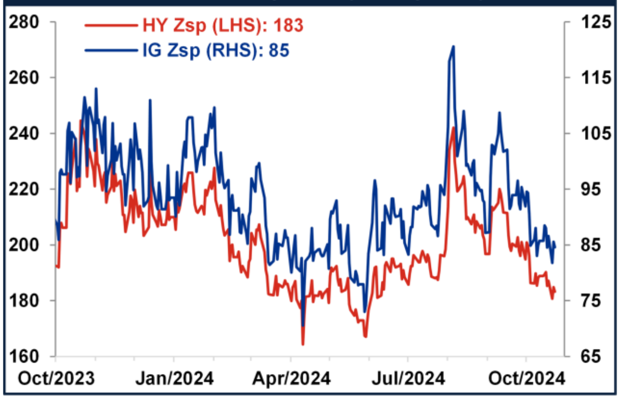
MENA Investment Grade Bond Yields (%)



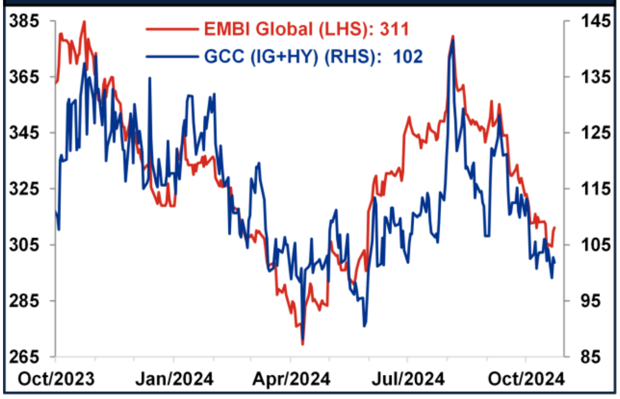
MENA Sub-investment Grade Bond Yields (%)



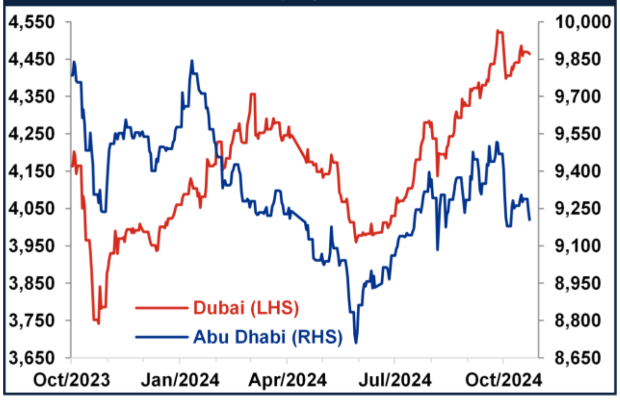
GCC Credit Spreads (basis points)



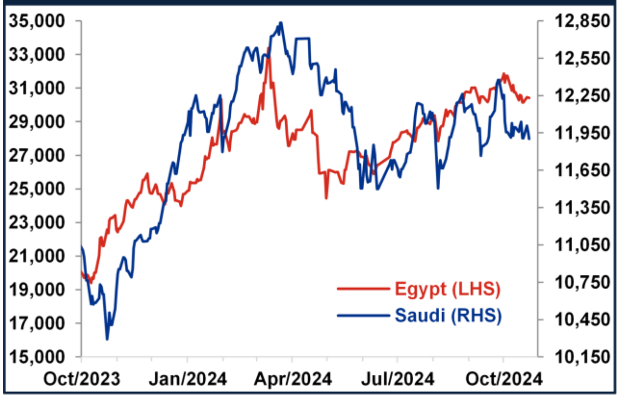
GCC Credit Spreads vs EMBI Global



UAE equity markets



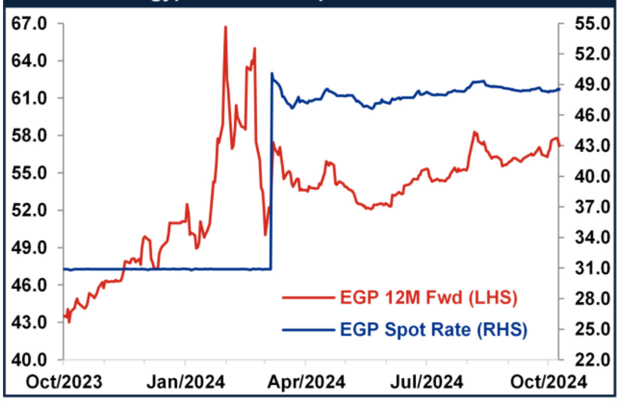
Saudi & Egypt equity markets



UAE & Saudi Currency Forward

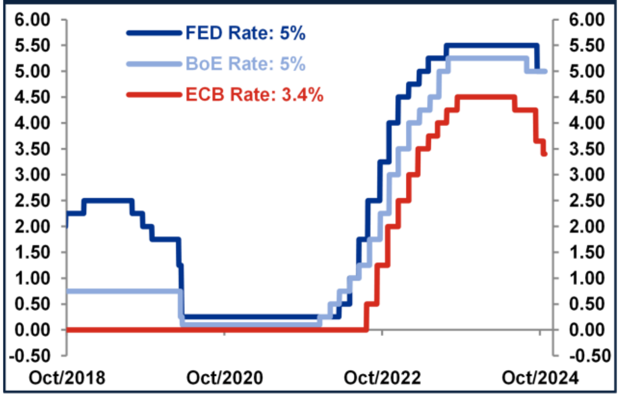
Sources used for the charts: Bloomberg/FAB

Egyptian Pound Spot and Forward

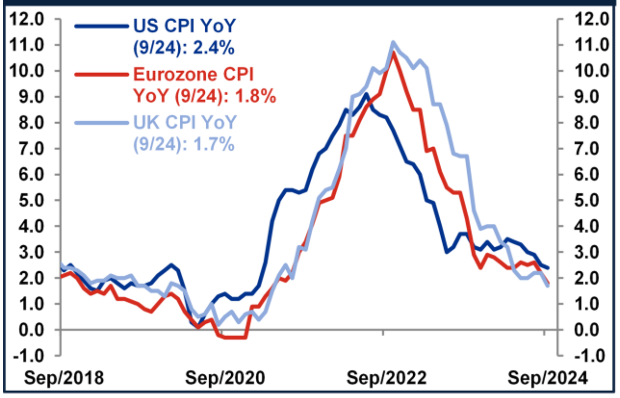


Sources used for the charts: Bloomberg/FAB

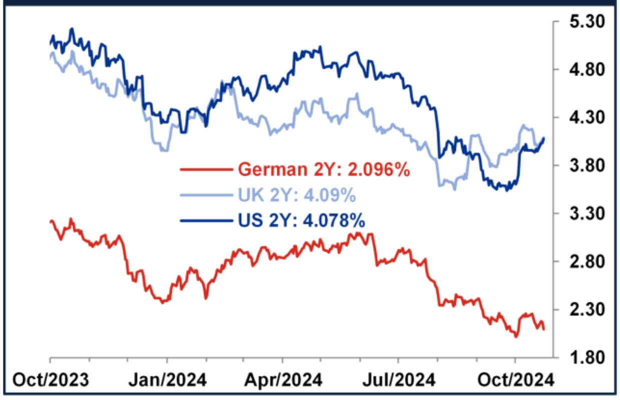
Central Bank Benchmark Rates



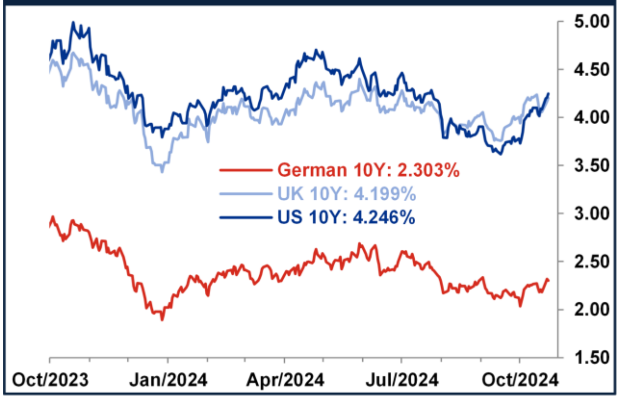
Global Inflation (annualised monthly change)



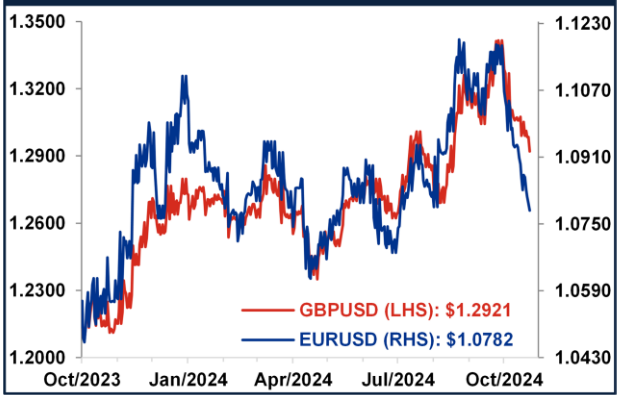
2-year Govt Bond Yields



10-year Govt Bond Yields

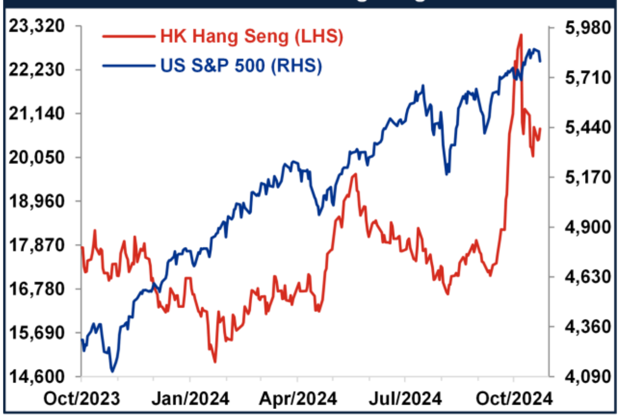


EUR & GBP vs US Dollar



Developed vs Emerging Markets Currency Performance

S&P 500 vs Hang Seng



Sources used for the charts: Bloomberg/FAB

Developed vs Emerging Markets Equity Index

Sources used for the charts: Bloomberg/FAB

Global markets data

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	4.058%	+5.0	+21.3	+58.9	-76.5	+21.0
10Y	4.247%	+3.8	+23.3	+51.7	-57.8	+36.7
30Y	4.520%	+2.2	+22.4	+43.5	-42.0	+49.1

Source: Bloomberg

$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	373.6	4.9	21.5	56.4	-82.0	20.7
10Y	377.4	3.7	22.5	50.2	-71.5	30.0
30Y	369.9	2.1	20.9	42.5	-54.3	38.2

Source: Bloomberg

Major Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.0782	-0.16%	-0.74%	-3.56%	1.81%	-2.33%
GBP USD	1.2921	-0.49%	-0.53%	-3.67%	6.26%	1.49%
USD JPY	152.76	1.11%	2.09%	6.65%	1.90%	8.31%

Source: Bloomberg

EM Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	34.2814	+0.07%	+0.31%	+0.47%	+21.98%	+16.10%
USD INR	84.0825	+0.01%	+0.10%	+0.49%	+1.07%	+1.05%
USD IDR	15,620.00	+0.39%	+0.69%	+2.86%	-1.45%	+1.45%

Source: Bloomberg

EM Credit Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	390.0	+0.8	+9.3	-6.1	-25.6	+44.7
JPMEMBI Global	311.1	+1.4	-1.2	-20.8	-73.7	-7.8
GCC (IG+HY)	101.8	-0.9	-86.1	-85.0	-22.9	-19.3

Source: Bloomberg

MENA CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	45.7	+0.7	+3.1	+4.8	-6.9	+4.3
Kuwait 5Y	67.5	+0.0	-0.0	-0.0	+8.0	+22.0
KSA 5Y	66.2	+0.3	+2.6	+5.3	-2.3	+13.5
Dubai 5Y	63.6	-0.6	+1.1	-0.8	-20.9	+0.4
Oman 5Y	104.3	+1.3	+2.2	+5.1	-54.5	-11.5
Bahrain 5Y	190.2	+0.4	+2.6	+8.1	-64.3	-13.5

Source: Bloomberg

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	70.77	-1.83%	+0.54%	-1.10%	-15.49%	-1.23%
Brent Oil $/bbl	74.96	-1.42%	+1.00%	-0.28%	-14.89%	-2.70%
Gold spot $/oz	2,715.6	-1.22%	+1.56%	+2.20%	+37.78%	+31.63%
Silver spot $/Troy oz	33.699	-3.33%	+6.34%	+4.99%	+47.05%	+41.62%
Aluminium 3MO $	2,669.5	+1.37%	+3.31%	+7.02%	+22.68%	+11.98%
Nickel 3MO $	16,308	-0.05%	-5.62%	-1.43%	-10.28%	-1.78%
Copper 3MO $	9,522	-0.64%	-0.39%	-0.28%	+19.44%	+11.25%

Source: Bloomberg

Global markets data

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	42,515	-0.96%	-1.31%	+0.73%	+28.28%	+12.80%
S&P 500	5,797	-0.92%	-0.77%	+1.12%	+36.48%	+21.54%
Nasdaq Composite	18,277	-1.60%	-0.49%	+1.12%	+39.09%	+21.75%
Nikkei	38,105	-0.80%	-2.74%	+0.43%	+22.67%	+13.87%
Hang Seng	20,760	+1.27%	+2.33%	+9.26%	+22.18%	+21.78%
Shanghai	3,303	+0.52%	+3.12%	+15.36%	+11.50%	+11.02%
Mumbai Sensex	80,082	-0.17%	-1.74%	-5.69%	+24.02%	+10.86%
DAX	19,378	-0.23%	-0.28%	+2.01%	+30.23%	+15.68%
CAC 40	7,497	-0.50%	+0.07%	-1.40%	+8.76%	-0.61%
FTSE 100	8,259	-0.58%	-0.85%	-0.29%	+11.76%	+6.79%
DJ Stoxx 50	4,923	-0.34%	+0.28%	-0.37%	+21.08%	+8.87%
FTSE MIB Index	34,697	-0.10%	+0.11%	+2.41%	+25.84%	+14.32%
SMI Index	12,147	-0.13%	-0.38%	+0.82%	+17.06%	+9.06%
MENA						
Abu Dhabi – ADX	9,205	-0.45%	-1.08%	-2.71%	-0.73%	-3.89%
Dubai – DFM	4,464	-0.07%	-0.47%	+0.06%	+19.32%	+9.96%
Saudi Arabia	11,902	-0.46%	-1.14%	-2.99%	+14.66%	-0.55%
Bahrain	1,990	+0.01%	-0.53%	-1.73%	+2.59%	+0.95%
Kuwait (Premier Market)	7,479	-0.46%	-1.87%	-3.50%	+3.67%	+0.02%
Oman	4,806	+0.22%	-0.14%	+1.92%	+3.94%	+6.48%
Egypt	30,414	-0.04%	-0.43%	-1.48%	+35.91%	+22.17%
Turkey	8,715	-1.40%	-2.69%	-13.11%	+9.06%	+16.66%

Source: Bloomberg

FAB Global Markets

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