Market Insights & Strategy

Global Markets

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GCC & Egypt Macro Weekly

The First Cut (really) is the Deepest

So, the Fed executed its inaugural rate cut this week, choosing to ease policy by an outsize 50bps. While there had been much market uncertainty over the likely magnitude of the reduction, it clearly decided to take the more assertive route, albeit maintaining a commitment to a data-dependent approach to future policy direction.

Some had argued – ourselves included – that the relative strength of recent macro data and the absence of imminent U.S. recession risk supported the case for just a 25bp inaugural rate cut, but in fact it was exactly this relative macroeconomic resilience and the fact that U.S. rates are so far above the perceived 'neutral' rate that the Fed was confident that it could ease by the larger amount without posing any meaningful threat to its soft landing aspirations.

Moreover, the Fed arguably had a limited window this month to pull off a larger rate reduction. As such, with rates elevated – well above the 'neutral' rate – Fed chair Powell embraced the opportunity. If the Fed had failed to act this month, the concern would have been that the U.S. presidential election on November 5 may complicate and politicize the next FOMC rate decision on November 7, especially if a Trump victory were to spark renewed trade tariff-based inflation fears. The December 18 FOMC meeting may then also not be seen as ideal timing for policy adjustment coming close to year-end liquidity considerations.

That said, the FOMC meeting and the rate decision were not without controversy. Highlighting the mixed nature of market expectations ahead of the Fed announcement – and perhaps reflecting how the vote could have gone either way – Fed governor Michelle Bowman dissented, voting for a smaller 25bps cut. Bowman's dissent was not insignificant, being the first such move since 2005.

Looking ahead, the Fed's updated economic projections, its so-called 'dot plot', then left the door ajar for further easing before year-end, although on this note the market is fairly evenly split between expecting a further 25bps or 50bps by the conclusion of the December FOMC meeting. Despite market pricing -33bps for the November 7 FOMC meeting and a total of around 68bps of cuts priced in by December, we believe that just an additional -25bps by year-end may suffice. The data will be key.

Market reaction to the Fed move was somewhat mixed, even though conventional wisdom would suggest that monetary easing should be manna from heaven for risk assets. However, while risk asset sentiment is being buoyed by the easier rates policy stance, and a more optimistic outlook for corporate earnings and credit quality, the fixed income bond market will be expecting a degree of economic softening, if not absolute weakness, to support the case for future Fed easing. Obviously, you can't sustain both over time, something will have to give.

Meanwhile, closer to home and in recognition of the dollar-pegged currency regimes of the GCC region, we saw the majority of GCC central banks matching the FOMC move with their own (50bp) rate cuts. The Central Bank of the UAE (CBUAE) was quick to respond with a 50bp reduction to its Overnight Deposit Facility (ODF) base rate, thereby taking the rate to 4.90%.

Meanwhile the Central Bank of Bahrain cut its overnight deposit rate by a similar magnitude, taking it down to 5.50%. The Central Bank of Kuwait chose to ease by a more modest 25bps, to take the discount rate from 4.25% to 4.00%, and the Qatar Central Bank reduced rates by 55bps across the three main benchmark (deposit, lending and repo) rates.

Likewise, in a move designed to maintain monetary stability, in KSA SAMA reduced its repo rate by 50bps to 5.50%. Similarly, it cut the reverse repo rate by a similar amount to 5.00%. Bon weekend folks!

Macro outlook for the week ahead

Preliminary September PMI data for the U.S. and much of Europe next week will provide us with the latest macro barometer readings and help us to ascertain the chances of a 'soft landing' scenario evolving over the coming months. With manufacturing PMIs having languished consistently over recent months in sub-50, economic contraction territiory, it will again likely fall on services sector activity to underpin the broader 'composite' reading.

Down under, the focus will be on the RBA. The Bank is widely expected to leave rates on hold on this occasion and to keep its hawkish stance. This said, just as the Fed pivoted to an easing cycle earlier this week, we would argue that the case for another RBA hike is steadily receding. In fact, we believe that labour market and consumer-price (inflation) data over the coming weeks should open the window for a cut by the RBA in November. Keep an eye on the Australia August CPI report due Wednesday which is expected to show inflation sliding back into the RBA's target band.

Wednesday morning appears set to be a busy session for global markets. In addition to the Aussie CPI data, we will also be watching the People's Bank of China (PBoC) that has said it will conduct its one-year medium-term lending facility operation that day.

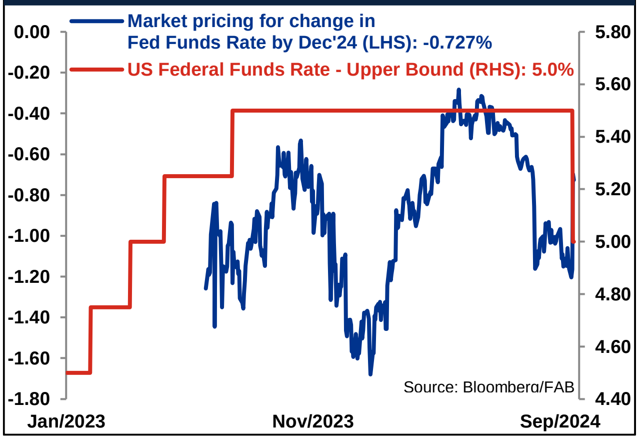
We acknowledge that further stimulus will be required from the PBoC in the coming months in order to underpin China's economic recovery, but consensus is for the 1-year rate to be held at 2.30% this month.

Meanwhile, in the wake of this week's Japanese nationwide CPI report that will have clearly bolstered the government's hawkish bias, all eyes in the Land of the Rising Sun next week will be trained on Tokyo CPI, scheduled for release on Friday morning (03.30 GST). While the report should show core price pressures easing, the underlying theme should again be one of inflationary pressures remaining sticky to the upside. Meanwhile we will also be monitoring any further details on what was recently reported to be early stage negotiations between Japan and the UAE on signing an economic partnership agreement (EPA). Such an accord would be designed to eliminate or reduce tariffs and foster greater cross-border investment between the two countries.

Closer to home, the story of modest inflation pressures should also be reinforced by several GCC consumer price data releases over the coming days. These will include August CPI readings for Dubai, Bahrain, Kuwait and Qatar. All of these should reaffirm that local price pressures remain in low single-digit growth territory.

Please see the table to the right for a selection of some of the key macro data releases that we will be monitoring over the course of the next week. Good luck!

Fed cuts but will now need full optionality



Key data releases next week

Region/Data	Release Date	Period	Survey	Prior Reading
US				
S&P Global Manufacturing PMI	23 / Sept	Sept P	48.5	47.9
S&P Global Services PMI	23 / Sept	Aug	55.2	55.7
Conference Board Cons. Confidence	24 / Sept	Sept	102.8	103.3
New Home Sales	25 / Sept	Aug	693k	739k
GDP annualised QoQ	26 / Sept	2Q T	2.9%	3.0%
Personal Spending	27 / Sept	Aug	0.3%	0.5%
Europe				
HCOB EZ Mftg PMI	23 / Sept	Sept P	-	45.8
HCOB EZ Services PMI	23 / Sept	Sept P	-	52.9
HCOB EZ Composite PMI	23 / Sept	Sept P	-	51.0
UK S&P Global Mftg PMI	23 / Sept	Sept P	-	52.5
UK S&P Global Services PMI	23 / Sept	Sept P	-	53.7
UK S&P Global Composite PMI	23 / Sept	Sept P	-	53.8
China				
1-yr Medium-Term Lending Facility	25 / Sept	Sept 18	2.30%	2.30%
Industrial Profits YoY	27 / Sept	Aug	-	4.1%
MENA				
Dubai CPI YoY	23 / Sept	Aug	-	3.32%
Bahrain CPI YoY	28 / Sept	Aug	-	1.1%
Bahrain GDP Constant Px YoY	30 / Sept	2Q	-	3.3%
Qatar GDP Constant Px YoY	30 / Sept	2Q	-	-

GCC credit flows remain constructive despite the ever-changing macro landscape, with both cash and index spreads closing considerably tighter across the board, this week. Spread compression remains a key theme with HY around 20bps tighter on average and IG closer to -10bps on the week. Egypt was the standout performer at 50bps tighter this week. In the wake of the 50bp FOMC rate cut, we expect investors to continue deploying cash, notably across higher yielding names and indeed in sectors that have lagged the move in rates. On the primary front, we saw a brief paused this week after a busy start to the month, but the pipeline should pick up again next week, as issuers continue to take advantage of the strong demand for GCC credit.

UAE

- PJT Partners has agreed to acquire Dubai-based advisory firm deNovo Partners, giving the former a greater foothold in the Middle East. The deal brings together two Morgan Stanley alumni: Paul Taubman set up PJT about a decade ago after 30 years at the bank. Meantime, deNovo was founded in 2010 by May Nasrallah, who previously worked at Morgan Stanley for 15yrs.
- Stonepeak is opening an office in Abu Dhabi, joining a flurry of new entrants to the UAE capital. The $71.2bn alternative investment firm has received approvals to arrange and advise on investments in the UAE, and plans to set up in the emirate's financial hub, ADGM, it said in a statement on Wednesday.
- Microsoft Corp. and G42 are establishing two artificial intelligence (AI) centres in Abu Dhabi, months after they inked a $1.5 billion deal and the UAE firm agreed to divest from China. One centre will help develop best practices and industry standards for the responsible use of AI, according to a statement Tuesday. The US firm will also open its first 'AI for Good Research Lab' in the region to support social goals, including advancing food security and climate resilience.
- Australia has reached a trade agreement with the UAE that is expected to boost shipments of agricultural products and resources, as well as provide Abu Dhabi with greater access to investment in green energy and critical minerals. Trade Minister Don Farrell announced the accord at a press conference in Canberra on Tuesday, marking the Australian government's first trade pact since coming to office in May 2022.

Saudi Arabia

- KSA's state shipping company Bahri plans to build its own liquefied natural gas tankers as the kingdom expands into the fuel just as supplies are increasing around the world, according to Bloomberg. Bahri, a major oil shipper, aims to start with about 20 to 30 new carriers that will include LNG, liquefied petroleum gas, hydrogen and ammonia, CEO Ahmed Ali Alsubaey said.
- Talks between the PGA Tour and the Saudi-backed LIV Golf have dragged on for over a year since their shock deal announcement, with one detail still problematic: getting players to agree on who gets to keep their millions. KSA's Public Investment Fund (PIF) started LIV as a rival to the PGA, luring a number of big-name players and sparking a mammoth feud before the sides agreed to a deal in June 2023.
- KSA aims to gain control of Bahrain's aluminium smelter, furthering its plan for mining and metals to become a "third pillar" of KSA's economy. State-controlled Saudi Arabian Mining Co., known as Maaden, announced a series of deals this week involving Aluminium Bahrain B.S.C., or Alba. When those deals close, Maaden "hopes to be a majority shareholder in Alba," CEO Bob Wilt said in an interview in Riyadh.
- Lazard Inc. is the latest Wall Street firm to comply with Saudi's rules for foreign firms to set up their Middle Eastern base in the kingdom. Lazard has received a so-called regional headquarters license from the Saudi Ministry of Investment, according to Bloomberg reports.

Bahrain

- Formula 1 and governing body the FIA have announced that the Bahrain International Circuit will host three days of pre-season testing in 2025 on February 26, 27 and 28.

Oman

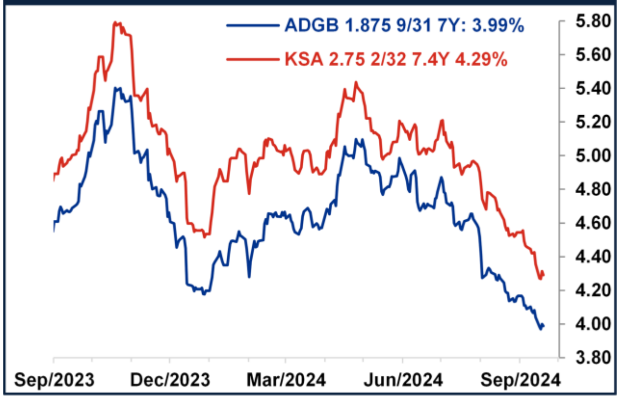
- H.E. Qais bin Mohammed Al Yousef, Oman's Minister of Commerce, Industry, and Investment Promotion has visited the U.S. to boost investment and trade relations. The visit included bilateral meetings with several U.S. officials and representatives from leading U.S. companies in sectors such as manufacturing, energy, healthcare, IT, tourism, and financial services.

Egypt

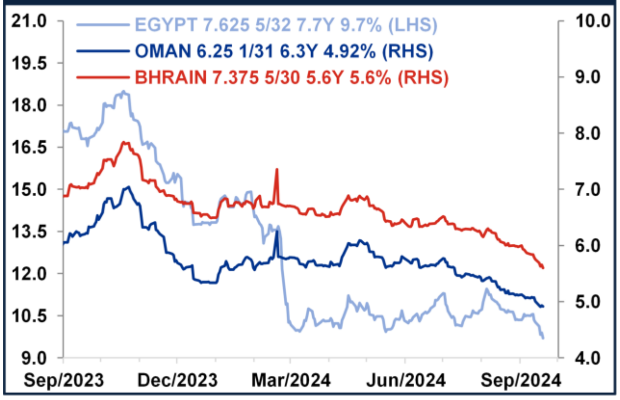
- Egypt said Saudi Arabia's sovereign wealth fund (PIF) is poised to invest $5bn, in what would be the latest Gulf funding for the country. KSA's crown prince ordered the PIF to take the step as a "first phase" of new Saudi investment, Egypt's cabinet said late Monday.
- Egypt's natural gas production will return to normal levels by June 2025, prime minister Madbouly said Thursday, just as a recent output slump and rising demand turned the country into an importer of the fuel for the first time in years. The drop in local supply is a result of foreign oil companies not being able to maintain fields due to arrears owed to them by the government, according to the PM.

MENA chart pack

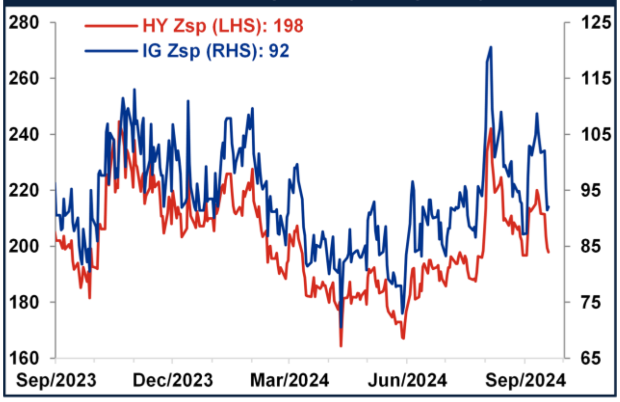
MENA Investment Grade Bond Yields (%)



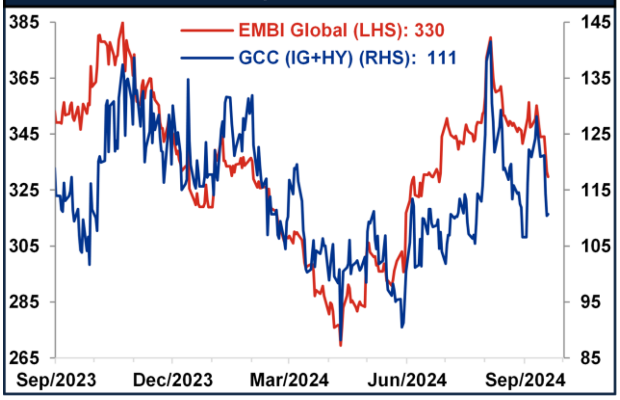
MENA Sub-investment Grade Bond Yields (%)



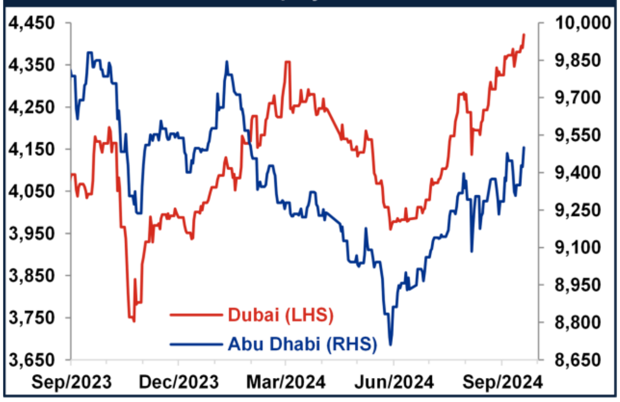
GCC Credit Spreads (basis points)



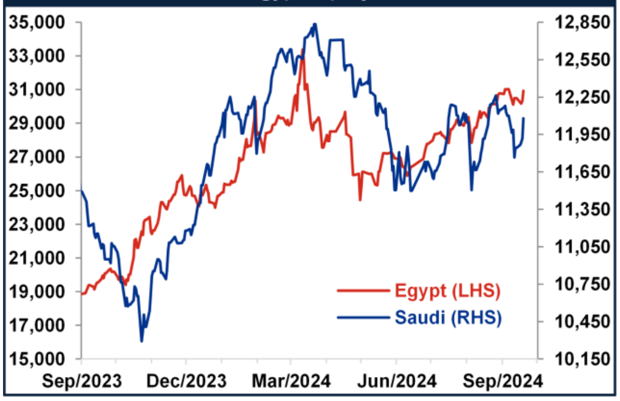
GCC Credit Spreads vs EMBI Global



UAE equity markets

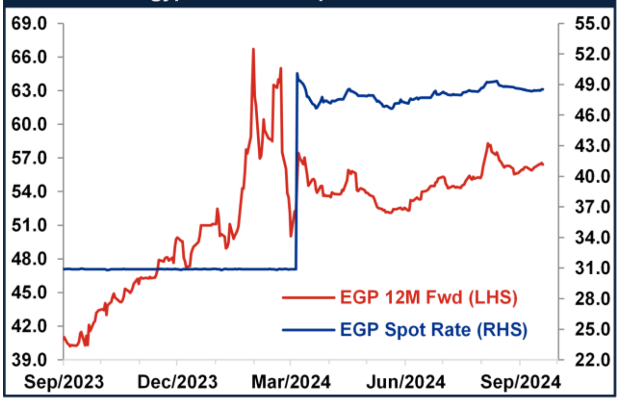


Saudi & Egypt equity markets



UAE & Saudi Currency Forward

Egyptian Pound Spot and Forward



Sources used for the charts: Bloomberg/FAB

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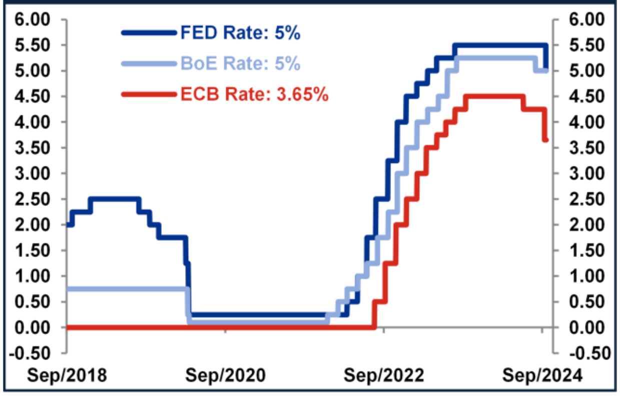
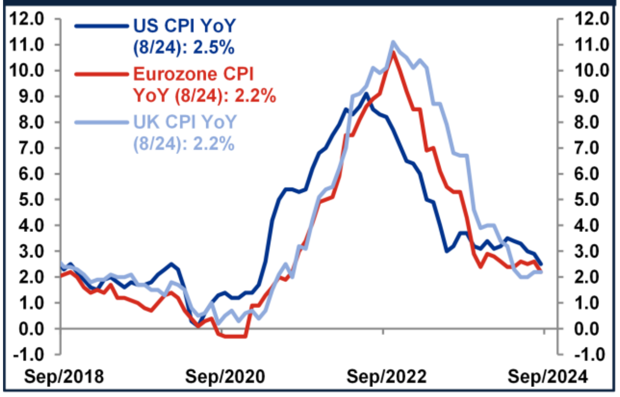
Global chart pack

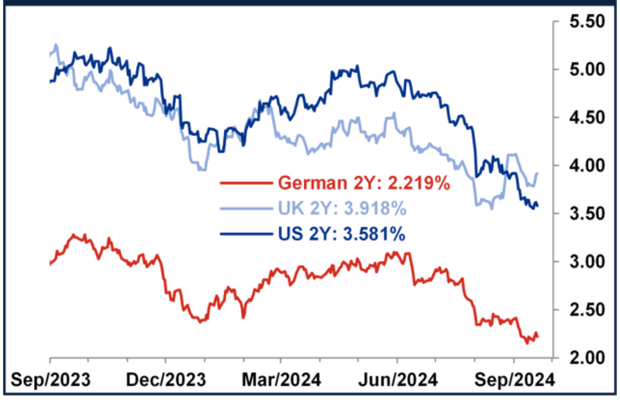
Central Bank Benchmark Rates



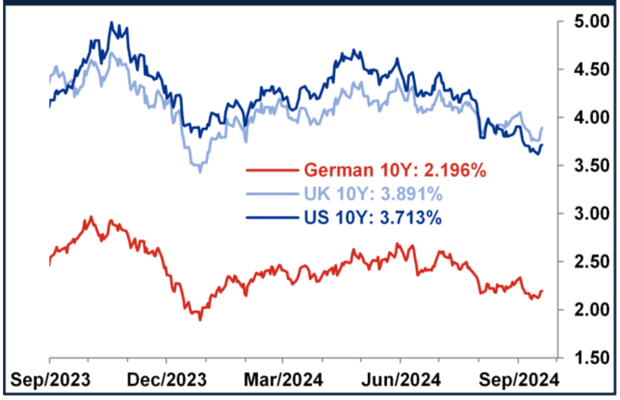
Global Inflation (annualised monthly change)



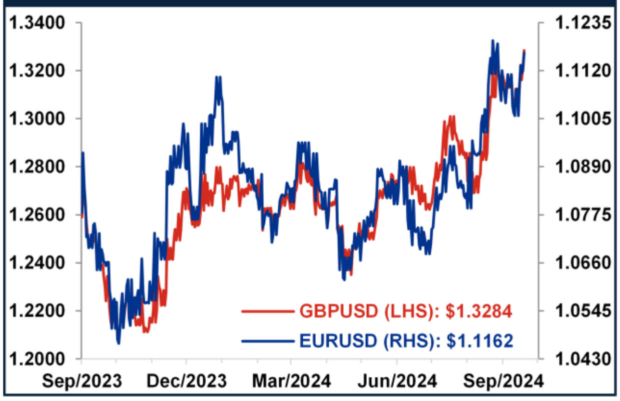
2-year Govt Bond Yields



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	3.483%	-0.1	+1.8	-20.5	-110.2	-36.5
10Y	3.715%	+1.0	+4.0	-9.3	-69.4	-16.5
30Y	4.051%	+3.0	+6.2	-1.0	-39.4	+2.2

Source: Bloomberg

$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	318.6	-0.2	3.1	-20.8	-117.8	-34.3
10Y	325.7	1.0	5.2	-10.7	-86.0	-21.7
30Y	324.1	2.7	7.2	-1.1	-52.8	-7.5

Source: Bloomberg

Major Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1162	0.39%	0.79%	0.29%	4.70%	1.11%
GBP USD	1.3284	0.53%	1.22%	1.92%	7.62%	4.34%
USD JPY	142.63	0.24%	0.57%	-1.81%	-3.85%	1.13%

Source: Bloomberg

EM Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	34.0336	-0.07%	+0.39%	+0.44%	+25.92%	+15.26%
USD INR	83.6888	-0.09%	-0.34%	-0.12%	+0.73%	+0.58%
USD IDR	15,238.00	-0.66%	-1.24%	-1.28%	-0.95%	-1.03%

Source: Bloomberg

EM Credit Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Plus Sov	392.2	-2.0	-19.2	-15.3	+14.1	+46.9
JPMEMBI Global	329.7	-1.9	-17.6	-18.3	-21.2	+10.8
GCC (IG+HY)	110.7	+0.3	-78.5	-80.2	+6.8	-10.5

Source: Bloomberg

MENA CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	36.3	+0.8	-1.4	-3.2	+0.3	-5.0
Kuwait 5Y	68.0	-0.0	-0.0	-0.1	+23.9	+22.5
KSA 5Y	56.0	+0.6	-0.8	-2.3	+6.8	+3.4
Dubai 5Y	59.5	-0.5	-1.5	-3.1	-3.7	-3.8
Oman 5Y	93.9	-0.6	-2.1	-8.7	-29.7	-21.9
Bahrain 5Y	175.5	-1.5	+1.9	+5.1	-41.2	-28.2

Source: Bloomberg

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil $/bbl	71.95	+1.47%	+4.32%	-2.82%	-20.30%	+0.42%
Brent Oil $/bbl	74.88	+1.67%	+4.04%	-3.01%	-19.94%	-2.80%
Gold spot $/oz	2,586.7	+1.09%	+1.13%	+2.89%	+34.01%	+25.39%
Silver spot $/Troy oz	30.788	+2.35%	+3.04%	+4.58%	+32.48%	+29.38%
Aluminium 3MO $	2,539.5	+0.12%	+5.13%	+3.84%	+14.62%	+6.52%
Nickel 3MO $	16,333	+0.62%	+1.22%	-2.00%	-18.00%	-1.63%
Copper 3MO $	9,515	+1.22%	+3.25%	+2.84%	+14.74%	+11.17%

Source: Bloomberg

Global markets data

Major Stock Markets	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	42,025	+1.26%	+2.26%	+2.91%	+22.02%	+11.50%
S&P 500	5,714	+1.70%	+2.11%	+2.08%	+29.79%	+19.79%
Nasdaq Composite	18,014	+2.51%	+2.53%	+1.11%	+33.74%	+20.00%
Nikkei	37,155	+2.13%	+0.87%	-2.38%	+12.51%	+11.03%
Hang Seng	18,013	+2.00%	+4.48%	+2.87%	+0.71%	+5.67%
Shanghai	2,736	+0.69%	+0.70%	-4.56%	-11.98%	-8.03%
Mumbai Sensex	83,185	+0.29%	+0.27%	+2.95%	+24.53%	+15.15%
DAX	19,002	+1.55%	+2.61%	+3.51%	+20.41%	+13.44%
CAC 40	7,615	+2.29%	+2.43%	+1.73%	+3.88%	+0.96%
FTSE 100	8,329	+0.91%	+1.06%	+0.67%	+7.72%	+7.70%
DJ Stoxx 50	4,943	+2.24%	+2.69%	+1.77%	+15.61%	+9.33%
FTSE MIB Index	34,045	+1.16%	+1.77%	+2.93%	+16.48%	+12.17%
SMI Index	12,058	+0.63%	+0.63%	-1.70%	+8.11%	+8.26%
MENA						
Abu Dhabi – ADX	9,500	+0.82%	+2.07%	+1.97%	-3.28%	-0.81%
Dubai – DFM	4,422	+0.71%	+1.30%	+3.92%	+6.84%	+8.91%
Saudi Arabia	12,080	+1.34%	+2.01%	-0.19%	+9.21%	+0.94%
Bahrain	2,028	-0.13%	+3.85%	+4.74%	+5.45%	+2.85%
Kuwait (Premier Market)	7,790	+0.56%	+0.54%	+0.54%	+2.30%	+4.19%
Oman	4,725	+0.11%	-0.43%	+0.68%	+0.66%	+4.68%
Egypt	30,938	+1.96%	+1.44%	+3.42%	+56.27%	+24.28%
Turkey	9,976	+2.06%	+4.77%	-0.07%	+29.22%	+33.54%

Source: Bloomberg

FAB Global Markets

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