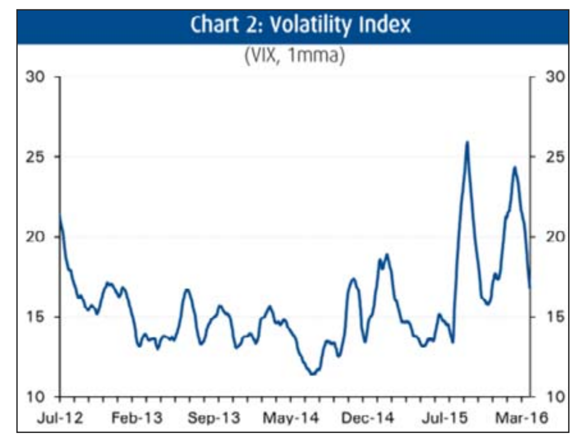
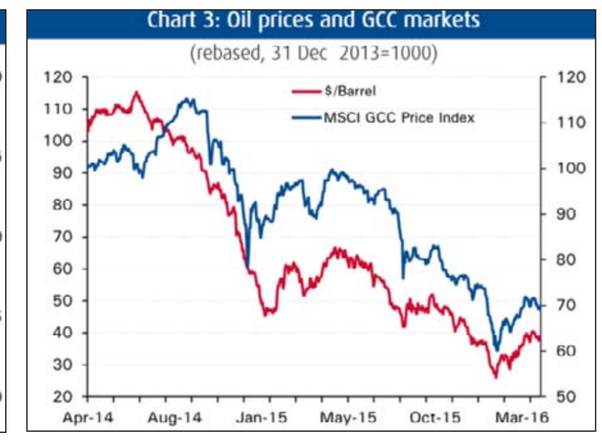
Equities share rebound after a weak start to the year

NBK Economic Update

Regional markets like most world equities had a weak start to the year but managed to recover ground by the end of 1Q16. Following a dire end to 2015, GCC equities continued to underperform most international peers with the MSCI GCC total return index retreating 3% in 1Q16. Regional markets correlation with oil prices remained high as oil, deficits and economic reforms continued to be key topics for the GCC countries. Total GCC market capitalization stood at $904 billion at end of the quarter, having shed $36 billion during 1Q16. Internationally, most equity markets kicked off 2016 on shaky footing before recovering some ground later on in 1Q16.





Encouraging data from major economies (particularly the US) helped in ending the correction that had hit markets in mid-2015 and continued well into January of 2016. Markets were also supported by further soothing/easing from central banks.

The Fed which had been signaling four hikes (25 bps each) in 2016 is now looking for only two hikes. Meanwhile the European Central Bank (ECB) and the Bank of Japan (BOJ) went ahead with more quantitative easing and/or lowering interest rates (in some cases negative). After retreating more than 10% in the first month and a half of 2016 the MSCI World total return index was flat on the quarter. Volatility came off from highs seen in 4Q15 but is still elevated compared to historic levels. Regionally, markets continue to be driven primarily by oil prices. Oil prices dropped further early on in 2016, reaching 12-year lows before bottoming out towards the end of January. Oil prices are now hovering around the 40$/barrel levels, up 50% from their January bottom. GCC equities kept their close tie to oil prices and when the MSCI GCC total return index bottomed on January 21st it had declined 19% year to date. Indeed, oil prices do raise concerns about fiscal sustainability and growth in regional economies.

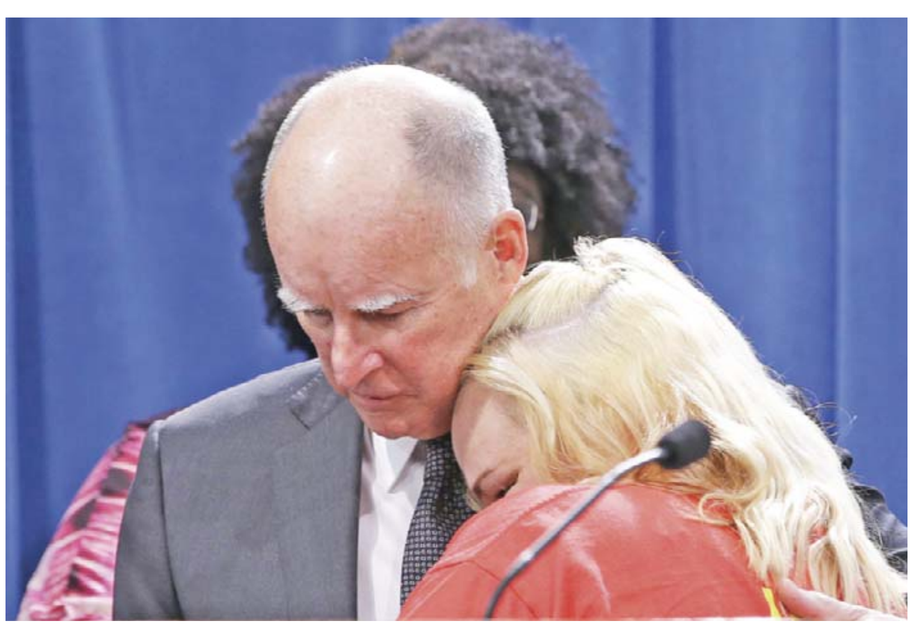
While GCC governments have expressed their commitment to support growth in the non-oil sector by sticking to their current development spending plans and maintaining large deficits in the medium term, a prolonged period of low oil prices could force governments to reduce capital spending and benefits, and could put pressure on liquidity. The issuance by the Saudi government of $28 billion in bonds in 2015 to finance the fiscal deficit served as a reminder of these concerns. Though the first to do so, Saudi is definitely not the exception as all other GCC countries gear up to issue sovereign debt.

GCC equities bounced back together with oil prices towards the end of January. However; performance has since varied among regional peers. Some markets managed to recover all their losses since the start of the year while a few even registered some gains. Dubai was the best performing market and ended the quarter (and ytd) up 6%. Dubai, with a larger foreign investor base, is more susceptible to international factors and markets and thus its rebound was most pronounced, in line with improved international sentiment.

Saudi suffered the most from the decline in oil prices and despite recovering most of its losses since the start of the year it underperformed its peers in 1Q16 ending it down by 10%. Bahrain was the second worst performer and retreated 7%. Kuwait followed, declining by 6% in 1Q16. Even with two acquisitions underway, sentiment remained subdued in a wait-and-see mode.

Market liquidity continues to be low compared to 1Q15. With banks now turning to fixed-income markets to issue Basel III compliant perpetual and other bonds, and sovereigns also turning to capital markets to help finance their deficits, some liquidity is bound to be directed away from equities. Also, with rates now starting to rise in tandem with US rates, fixed-income assets are becoming more attractive.

Regional markets will continue to be impacted primarily by oil prices. Also, economic data from the major economies will affect sentiment as they have important implications for oil prices and the global outlook. Geopolitics and security concerns should also remain key issues for the region, though those may be abating. Meanwhile; GCC markets will continue to follow up on governments' fiscal and reform plans for the coming years in order to gauge the implications for non-oil growth and business in GCC economies.



SACREMENTO: In this Monday, March 28, 2016 photo, Gov. Jerry Brown is hugged by Holly Dias, a Burger King employee who praised Brown's announcement of proposed legislation to increase the state's minimum wage to $15 per hour by 2023, during a news conference. — AP

California governor to sign $15 per hour minimum wage law

LOS ANGELES: California Governor Jerry Brown on Monday was expected to sign into a law a plan to raise the minimum wage from $10 to $15 an hour by the year 2023, making the nation's most-populous state the first to boost pay to that level for the working poor.

The bill marks the culmination of a deal Brown brokered with labor leaders and state Democratic leaders and puts California, home to one of the world's biggest economies, at the forefront of US states and cities that have moved to surpass the federal minimum wage, which has remained at $7.25 an hour since 2009.

Both houses of California's state legislature approved the measure on Thursday, fast-tracking the measure two days after the deal was announced by Brown, a popular Democrat. New York Governor Andrew Cuomo, also a Democrat, that same day announced a proposal to gradually raise the minimum wage to $15 an hour in parts of that state.

Raising the minimum wage has cropped up on many Democratic candidates' agendas ahead of the November elections in the hopes it could help mobilize voters to the polls. Democratic presidential hopeful US Senator Bernie Sanders has called for raising the federal minimum wage to $15 an hour by 2020. The California measure heads off two competing ballot initiatives that lacked a provision to allow the governor to suspend increases in hard economic times, a deal-breaker for Brown. With polls showing strong support for those measures at the ballot box, Brown emphasized that a version passed by the legislature would allow lawmakers to amend it if needed over time instead of going back to voters to request amendments in expensive and uncertain campaigns.

Moderate Democrats and most Republicans complained that it was being rushed through, and would disproportionately harm businesses in poorer parts of the state, where the cost of living is not high enough to warrant such a dramatic wage hike. Fourteen states and several cities began 2016 with minimum wage increases, typically phasing in raises that will ultimately take them to between $10 and $15 an hour. — Reuters

'KAMCO' ranked first in Kuwait for managing issuances of fixed income instruments

KUWAIT CITY: KAMCO Investment Company, a leading investment management company with more than USD 11 billion in assets under management, and winner of World finance "Best Investment Management Company in Kuwait 2015 Award', was ranked among the top 15international lead managers and book runners in GCC and MENA Bonds, and the first in Kuwait according to Bloomberg's EMEA fixed income league tables for the first quarter of 2016. The rankings, based on actual funds raised during the first quarter of 2016, accounted for the total volume and market share of all transactions executed during the period.

Bloomberg's quarterly fixed income league tables ranked KAMCO as the tenth in the GCC and the thirteenth in the MENA region for managing the issuance of bonds and sukuks. KAMCO's total volume for all transactions executed during the first quarter reached a market share of 2.46% in GCC and 2.01% in MENA.

KAMCO's Chief Investment Officer, Mr Khaled Fouad, said, "This is yet another representation of KAMCO's prominent position in the local and regional market.

We have strategically positioned ourselves in the market to become one of the preferred choices for the governmental and private sectors. We continue to build on the trust extended by our clients and investors alike. We keep increasing our level of expertise and investment in our debt capital market franchise reaffirming our position as a strong market leader."

"Our Investment Banking and Wealth Management teams played key roles in successfully executing each transaction during the first quarter of 2016. On behalf of KAMCO, we would like to recognize each team's level of commitment and persistence, as evinced by Bloomberg's EMEA fixed income league tables. We, as KAMCO, will continue to seek various opportunities to attract local and regional investors to support the local bond market and economy as a whole," added Mr. Fouad.

Khaled Fouad, KAMCO's Chief Investment Officer

Omar Zaineddine, KAMCO head of the Investment Banking department

Mr Omar Zaineddine, Senior Vice President and head of the Investment Banking department at KAMCO, emphasized that the department will spare no effort to ensure that all parties involved are satisfied. He also highlighted the advantages of bond issuances towards the local and regional economy, stimulating domestic and foreign investment.

During the fourth quarter of 2015 and the 1st quarter of 2016, he mentioned that KAMCO partook in three pivotal issuances with some of the largest local and regional banks, which included the National Bank of Kuwait, Kuwait Finance House, and Burgan Bank. Mr Zaineddine also stated that in collaboration with the Wealth Management team at KAMCO, the investment firm is expecting in the future to become more involved in both the governmental and private sector issuances.

According to Bloomberg's rankings, it is worth mentioning that the National Bank of Abu Dhabi was placed first in terms of the total transactions market share in the GCC. HSBC Bank followed in second place, JP Morgan in third, BNP Paribas came in fourth with Citi Bank, Bank ABC sixth, Emirates NBD PJSC seventh, Sharjah Islamic Bank and Dubai Islamic Bank eighth.

Bloomberg's ranking based on the MENA region placed the National Bank of Abu Dhabi at the top of the list during the first quarter of 2016. Morgan Stanley came in second, HSBC Bank third, JP Morgan ranked fourth, Citi Bank came in fifth, BNP Paribas sixth, Emirates NBD PJSC seventh, Societe General eighth, Bank ABC ninth, Sharjah and Islamic Bank and Dubai Islamic Bank both placed in tenth, followed by Nomura in twelfth.

During the first quarter of2016, KAMCO acted as one of the Joint Lead Managers for the Burgan Bank KSCP's KWD 100 million, subordinated Tier 2, Basel III - compliant bonds. KAMCO was also one of the lead managers in Kuveyt Turk's Tier 2 capital-boosting sukuk worth USD 350 million issuance.

Bloomberg's corporate bond database consists of more than 1.9 million active securities - including convertible bonds and preferred securities - along with more than 4.1 million matured, called or retired bonds, covering over 24,000 unique issuers across more than 130 countries and 100 different currencies.

IMF chief denies threat to pull out of Greek bailout

ATHENS/WASHINGTON: International Monetary Fund Managing Director Christine Lagarde denied on Sunday that IMF staff would push Greece closer to default as a negotiating tactic on a new Greek bailout deal, which she said was "still a good distance away."

Lagarde said in a letter to Greece's prime minister that the debt talks should continue despite damage from reports of a leaked transcript suggesting that IMF staff may threaten to leave the bailout to force European lenders to offer more debt relief.

"Any speculation that IMF staff would consider using a credit event as a negotiating tactic is simply nonsense," Lagarde wrote to Greek Prime Minister Alexis Tsipras. "My view of the ongoing negotiations is that we are still a good distance away from having a coherent program that I can present to our Executive Board," Lagarde wrote, adding that such a deal must put Greece on a path of robust growth and gradually restore debt sustainability.

Tsipras' office said on Sunday that he had demanded that Lagarde clarify the IMF's stance after Internet whistleblowing site WikiLeaks published what it said was the transcript of a March 19 conference call of three senior IMF officials.

The officials were discussing tactics to apply pressure on Greece, Germany and the EU to reach a deal in April. They were quoted as discussing a threat that the fund might not participate in Greece's third bailout program as a way to force EU creditors, especially Germany, to reach a deal on debt relief before Britain's June referendum on whether to stay in the European Union.

EU/IMF lenders are due to resume talks on Greece's fiscal and reform progress in Athens on Monday, aiming to conclude a bailout review that will unlock further loans and pave the way for negotiations on long-desired debt restructuring.

Review adjourned

The review has been adjourned twice since January due to a rift among the lenders over the estimated size of Greece's fiscal gap by 2018, as well as disagreements with Athens on pension reforms and the management of bad loans. The Greek government interpreted the leak as revealing an IMF effort to blackmail Athens with a possible credit event to force it to give in on pension cuts which it has rejected. In his letter to Lagarde, Tsipras "expressed his concern about the credibility of the negotiations after the leaks," an official at his office told Reuters. Lagarde said in her response that "the IMF conducts its negotiations in good faith, not by way of threats, and we do not communicate through leaks." She reiterated her view that if fiscal surplus targets were lowered for Greece, then more debt relief would be needed. German government and finance ministry representatives declined to comment on the leaked transcript.

Germany has in the past said the IMF is an important player in the Greek rescue but it does not support the debt relief demanded by the IMF. Some German officials also say that they believe there are different views on Greece within the IMF. German Chancellor Angela Merkel is due to meet Lagarde in Berlin on Tuesday. The purported conversation on the conference call involved Poul Thomsen, head of the IMF's Europe department, Delia Velculescu, leader of the IMF team in Greece, and IMF official Iva Petrova. They discussed whether Greece could apply more austerity as a condition for receiving more aid ahead of big debt repayments in July and voiced frustration at the European Commission's reluctance to side with IMF pressure on Athens. — Reuters

PARIS: International Monetary Fund Managing Director Christine Lagarde (L) and China's central bank governor Zhou Xiaochuan attend an all-day high-level seminar on the international financial architecture with G20 finance ministers and central bank governors at the French Economy ministry on March 31, 2016. — AFP

Eurozone jobless rate falls slightly, outlook uncertain

BRUSSELS: The Eurozone unemployment rate improved only marginally in February, official data showed yesterday, stoking concerns the economy could be slowing after only a modest recovery. Analysts said that while the economy is holding up despite recent financial market volatility and concerns over the outlook for China, job gains may not be enough to help it get it through the current soft patch.

The Eurostat statistics agency said unemployment in the 19-nation Eurozone fell to 10.3 percent in February, a four-and-a-half year low, from a revised 10.4 percent in January. The January figure was originally given as 10.3 percent last month and analysts had expected the February jobless rate to come in unchanged at 10.3 percent.

Unemployment hit a record high 12.1 percent during the worst of the debt crisis. Jennifer McKeown at Capital Economics said yesterday figures "suggest the labor market remains in reasonable health although it is still too weak to generate any real inflationary pressure." Inflation-a key reflection of consumer demand-has bounced along the bottom for months, way short of the European Central Bank's target of near 2.0 percent.

"Looking ahead, survey evidence suggests that the Eurozone's labor market recovery is beginning to slow," McKeown added. The ECB launched a massive stimulus program in early 2015 but to little apparent effect and last month added even more unprecedented measures in an effort to get the economy back on track. The ECB at the same time cut its Eurozone growth forecasts for 2016 and 2017 to 1.4 percent and 1.7 percent, from the previous 1.7 percent and 1.9 percent, respectively. More damaging still, it slashed its inflation estimates to just 0.1 percent from 1.0 percent for this year and to 1.3 percent from 1.6 percent for 2017.

Eurostat said there were 16.63 million jobless in the Eurozone in February, down 39,000 from January. The EU unemployment rate was unchanged at 8.9 percent in February, it said. The lowest jobless rates were in Germany, 4.3 percent, and the Czech Republic on 4.5 percent while the highest were in debt-laden Greece at 24 percent and Spain with 20.4 percent. Howard Archer at IHS Global Insight said that while Eurozone unemployment fell for a 15th consecutive month, "it is notable that the decline of 39,000 was the smallest drop since May 2015. "This stokes concern that recent slower Eurozone growth and softer business confidence could now be increasingly weighing down on the labor market," Archer said in a note.

On the positive side, the improvement might encourage the consumer to spend more, which will be crucial if Eurozone growth is to be able "regain momentum over the coming months after stuttering recently." The Eurozone economy grew 0.3 percent in the last three months of 2015, unchanged from the previous quarter but down on the 0.4 percent gain of the second quarter and 0.6 percent in the first. — AFP