

REFLATION TRADES OF 2016 DEFLATE WITH REMARKABLE SPEED

YIELD CURVES FLATTEN, DOLLAR AND BANKS FALL

LONDON: Stocks, bond yields and the dollar are all falling, yield curves are flattening and sterling is marching higher. The “reflation” trades of 2016 that were supposed to mark a turning point in global markets are fading fast. The question for investors is whether this is the play book for the rest of the year, or whether the trends of 2016 will resume in the second half of the year. What is clear is that much of the conviction with which investors went into 2017 has been lost.

This week, Goldman Sachs ditched its longstanding bullish call on the US dollar, and Deutsche Bank did likewise with their gloomy sterling outlook. Following the developed world’s two most seismic events last year—the US

presidential election and Britain’s vote to leave the European Union—investors around the world had positioned for a broad-based reflation trade. Trump’s surprise election victory was supposed to unleash a wave of tax cuts, banking deregulation and fiscal largesse that would lift US—and global—growth.

Meanwhile, sterling’s 20 percent plunge after the Brexit vote was supposed to pave the way for a surge in UK equities and inflation. This, indeed, is how it played out as 2017 got underway. The Federal Reserve raised interest rates twice, the dollar reached a 14-year peak, Wall Street hit record highs, and government bond yield curves around the world steepened to the

benefit of banks and financial stocks. But it is now unraveling, in large part due to a clear slowdown in US growth and signs that global inflation is leveling off.

Flatter yield curves where short- and long-term bond yields are close to each other suggest economic uncertainty. “(They) are definitely not corroborating a Trump reflation scenario. Some of the survey data is strong and has hit new multi-year highs, but the real data has been tepid,” said Jonathan Tepper, co-founder of Variant Perception Research. Citi’s economic surprises indexes for most of the world’s major economies have been heading south for the past month. The US index has suddenly tumbled to lows not seen

since November, and is below all its peers apart from Japan’s. And inflation expectations are showing signs of peaking too.

It’s the yield curve

Estimates of first quarter US growth have been slashed in recent weeks, with the Atlanta Fed’s closely-watched GDPNow model pointing to just 0.5 percent compared with around 2.5 percent less than two months ago. US Treasury Secretary Steven Mnuchin said the Trump administration’s timetable for tax reform is set to falter following setbacks in negotiations with Congress over healthcare. More than 40 percent of the fund managers surveyed by Bank of America Merrill Lynch do not expect US tax reforms to be passed before 2018. The same survey also showed that major adjustments are taking place in key markets, and that some measures of positioning are reaching extreme levels. Investors’ exposure to US equities is its lowest since January 2008, but their allocation to global banks is the highest on record.

“Investors are scrambling out of US equities as the majority find US stocks overvalued and perceive a risk of delayed US tax reform,” said Michael Hartnett, chief investment strategist at BAML. Among the biggest

fallers on Wall Street have been banks. They rose more than 30 percent in the three months after the US election but have since drifted lower and are now down on the year. The extreme overweight bank positioning highlighted in the BAML survey suggests there’s more room to fall. A flatter yield curve is bad news for banks, who make much of their money by borrowing cheaply at the short end and lending longer term at higher rates of interest.

The difference between 10-year and two-year US yields touched 100 basis points on Tuesday, the lowest since November and a far cry from 135 bps in December. And that’s despite the 50 bps rise in US interest rates since December. “Banks don’t tend to do well in a flattening yield curve environment,” said Tepper of Variant Perception Research, whose website states: “The yield curve is by far the best predictor of economic growth in most economies of the world.” The dollar doesn’t do well in this environment either. On Tuesday Goldman Sachs abandoned its bullish call. Also on Tuesday, Deutsche Bank did the same with its bearish sterling forecast after British Prime Minister Theresa May’s surprise announcement to call a UK general election—a “game-changer” for the pound, they said.—Reuters

Index	Change	Closing	Last Closing	High	Low
Price index	▼ -96.70	6,788.03	6,884.73	6,902.97	6,763.30
Weighted Index	▼ -4.66	408.92	413.58	413.62	406.97
KSX 15	▼ -11.08	926.83	937.91	937.91	919.95

Volume	Value (KWD)	Number of Trades
271,893,944	27,375,994	5,616

Security	High	Low	Volume	Value (KD)	Trades	Last	Change
MARIN	62	60	259950	15,597	10	62	▲ 2.0
IPG	430	425	12,875	5,472	3	425	▼ -5.0
NAPESCO	0.0	0.0	0	0	0	1,220	— 0.0
ENERGYH	45.5	43.0	820,278	35,447	49	43.0	▼ -2.5
GPI	48.0	45.5	4,485,947	209,946	98	47.0	▼ -0.5
ABAR	90	84	156,833	13,354	10	90	▲ 1.0
Oil & Gas			5,735,883	279,817	170	977.12	▲ -5.40
KFOUC	295	275	76,000	21,285	10	280	▼ -20.0
BPCC	570	570	41,933	23,902	2	570	▼ -10.0
ALKOUT	0.0	0.0	0	0	0	700	— 0.0
ALQURAIN	335	330	855,946	286,654	22	335	▼ -5.0
Basic Materials			973,879	331,841	34	1286.75	▲ -28.10
KCEM	0.0	0.0	0	0	0	520	— 0.0
CABLE	465	455	157,228	72,526	19	460	▼ -5.0
SHIP	226	220	43,343	9,685	8	224	▼ -2.0
PCEM	980	960	35,160	33,756	5	980	— 0.0
PAPER	415	400	10,010	4,004	2	415	▼ -30.0
MRC	78	78	30	2	1	78	— 0.0
ACICO	290	290	100	29	1	290	— 0.0
HCC	0.0	0.0	0	0	0	208	— 0.0
KBMMC	156	156	45	7	1	156	▲ 10.0
NICBM	0.0	0.0	0	0	0	214	— 0.0
EQUIPMENT	58	53	2,264,344	123,355	75	53	▼ -3.0
NCCI	0.0	0.0	0	0	0	91	— 0.0
GYPESUM	0.0	0.0	0	0	0	95	— 0.0
SALBOOKH	68	65	414,070	27,548	21	67	▼ -2.0
AGLTY	630	620	842,316	524,572	23	630	— 0.0
EDU	275	275	10,000	2,750	1	275	▼ -10.0
CLEANING	51	49.0	462,946	23,201	20	49.5	▼ -2.5
KSL	64	60	484,792	30,030	33	60	▼ -3.0
KPC	0.0	0.0	0	0	0	170	— 0.0
HUMANSOFT	3,480	3,440	577,115	2,005,560	45	3,480	▲ 100.0
NAFAIS	180	160	1,600	268	2	160	▼ -10.0
GFC	0.0	0.0	0	0	0	63	— 0.0
MAYADEEN	29.5	28.0	3,022,602	86,122	67	28.0	▼ -1.5
CGC	560	540	881,764	487,369	50	560	▲ 20.0
MTCC	0.0	0.0	0	0	0	56	— 0.0
UPAC	0.0	0.0	0	0	0	760	— 0.0
ALAFCO	250	246	300,002	73,801	3	246	▼ -9.0
MUBARRAD	81	80	961,800	77,212	17	81	— 0.0
LOGISTICS	69	66	2,078,786	140,117	77	66	▼ -5.0
SCEM	90	90	1,053,052	94,775	8	90	— 0.0
GCEM	88	87	518,600	45,339	9	88	▲ 1.0
QIC	0.0	0.0	0	0	0	80	— 0.0
FCEM	91	91	3,235,000	294,385	34	91	— 0.0
RKWAC	0.0	0.0	0	0	0	99	— 0.0
SPEC	91	88	602,940	53,990	18	91	▲ 2.0
Industrials			17,957,645	4,210,404	540	1747.87	▲ -1.62
KSH	0.0	0.0	0	0	0	188	— 0.0
NSH	0.0	0.0	0	0	0	42.5	— 0.0
PAPCO	0.0	0.0	0	0	0	104	— 0.0
CATTL	212	206	25,455	5,250	10	206	▼ -8.0
DANAH	90	88	406,751	36,029	18	90	— 0.0
FOOD	0.0	0.0	0	0	0	2,460	— 0.0
Consumer Goods			432,206	41,279	28	1123.19	▲ -7.00
MHC	310	310	20	6	1	310	▼ -25
ATC	0.0	0.0	0	0	0	1,100	— 0.0
YIACO	202	202	5,000	1,010	7	202	▲ 10
Health Care			5,020	1,016	8	1342.75	▲ -44.07
KCIN	1,420	1,400	50,995	71,413	2	1,400	▼ -100
KHOT	0.0	0.0	0	0	0	250	— 0.0
SULTAN	0.0	0.0	0	0	0	67	— 0.0
CABLETV	0.0	0.0	0	0	0	22.5	— 0.0
EYAS	0.0	0.0	0	0	0	400	— 0.0
IFAHR	0.0	0.0	0	0	0	192	— 0.0
OUNAFUEL	128	124	116,807	14,728	12	126	▼ -2
MUNTAZHAT	87	84	156,999	13,415	7	87	▲ 1
JAZEERA	580	560	82,235	47,333	15	580	▲ 10
SOOR	126	124	52,722	6,625	10	124	▼ -6
FUTUREKID	118	116	80,500	9,439	6	116	▼ -4
ALRAI	176	174	97,500	16,968	8	176	— 0.0
ZIMAH	58	55	1,899,176	106,640	38	55	▼ -3
Mezzan	1,000	1,000	60,000	60,000	4	1,000	— 0.0
Consumer Services			2,696,934	346,561	102	933.08	▲ -11.80
ZAIN	455	450	2,794,449	1,262,569	77	450	▼ -5
OOREDOO	1,220	1,160	21,330	25,939	7	1,220	— 0.0
HITSTELEC	48.0	46.5	4,501,771	210,932	71	47.0	▼ -2
VIVA	860	850	55,357	47,494	48	860	— 0.0
Telecommunications			7,372,907	1,546,833	203	639.46	▲ -5.01
NBK	690	680	1,173,830	805,084	42	690	— 0.0
GBK	250	248	417,777	104,029	14	248	▼ -2
CBK	425	425	855	363	3	425	— 0.0
ABK	315	300	48,931	14,889	7	305	▼ -5
ALMUTAHED	420	405	50,618	21,027	10	420	— 0.0
KIB	255	250	2,542,220	644,216	50	250	▼ -10
BURG	340	335	1,175,927	394,311	25	335	▼ -5
KFIN	530	500	7,996,996	4,118,573	235	510	▼ -20
BOUBYAN	415	410	1,167,433	484,248	36	410	▼ -5
AUB	220	216	1,398,763	302,317	39	216	▼ -4
ITHMR	49.0	46.5	12,898,428	610,783	198	47.0	▼ -2
WARBANK	255	248	3,006,698	751,124	150	250	▼ -5
Banks			31,878,466	8,250,963	809	937.68	▲ -17.85
KINS	0.0	0.0	0	0	0	248	— 0.0
GINS	550	550	13,997	7,698	2	550	— 0.0
AINS	0.0	0.0	0	0	0	510	— 0.0
WINS	95	93	49,703	4,682	7	93	▼ -4.0
KUWAITRE	0.0	0.0	0	0	0	194	— 0.0
FTI	59	56	30,145	1,690	7	59	— 0.0
WETHAQ	59	58	1,700	99	2	58	▼ -2.0
BKIKWT	0.0	0.0	0	0	0	355	— 0.0
Insurance			95,645	14,170	18	1084.64	▲ -12.18

Security	High	Low	Volume	Value (KD)	Trades	Last	Change
SOKOUK	54	49.5	7480058	380,666	137	51	▼ -2.0
KRE	65	63	3,365,100	213,274	47	64	▼ -2.0
URC	100	100	20	2	1	100	— 0.0
NRE	102	100	722,436	72,384	20	100	▼ -2.0
SRE	380	375	23,000	8,640	2	375	▼ -5.0
TAM	430	405	26,000	11,055	5	430	— 0.0
AREEC	0.0	0.0	0	0	0	170	— 0.0
MASSALEH	60	53	1,577,841	86,786	56	58	— 0.0
ARABREC	37.5	36.0	4,514,277	164,976	134	37.0	▼ -0.5
ERESCO	45.0	43.5	2,280,350	100,811	45	43.5	▼ -1.5
MABANEE	820	810	20,500	16,705	2	820	▲ 10.0
INJAZZAT	93	93	6,000	558	2	93	▲ 3.0
INVESTORS	28.0	26.5	4,831,972	130,726	70	26.5	▼ -1.0
IRC	38.0	35.5	312,510	11,191	13	36.0	▼ -1.5
ALTIJARIA	78	77	3,128	244	3	77	▼ -1.0
SANAM	50	50	230,001	11,500	6	50	▼ -5.0
AAYANRE	86	85	165,360	14,219	14	86	▼ -1.0
AQAR	0.0	0.0	0	0	0	82	— 0.0
ALAQARIA	49.0	46.0	7,468,572	354,259	136	46.0	▼ -2.5
MAZAYA	120	116	1,860,366	216,246	59	116	▼ -4.0
ADNC	0.0	0.0	0	0	0	11.0	— 0.0
THEMAR	0.0	0.0	0	0	0	90	— 0.0
TJARA	61	57	1,738,900	99,1			