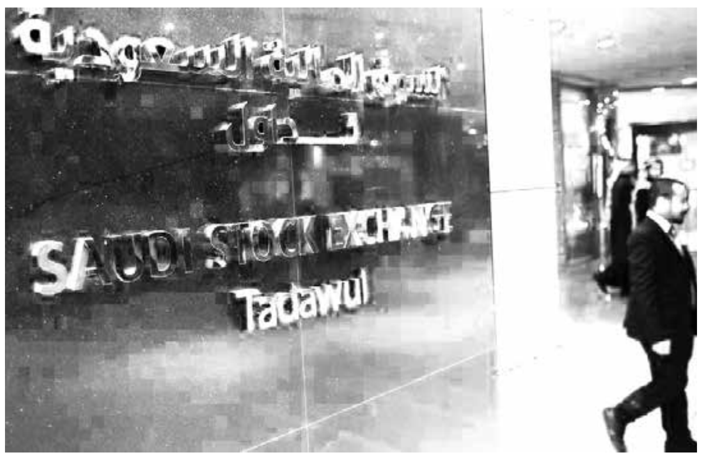
Saudi all set to win MSCI emerging market status

Kuwait is also likely to be included in the index subject to stock market reforms

MSCI is expected to announce a decision on whether to upgrade Saudi stocks to emerging market status next month

The National | Abu Dhabi



Index provider MSCI will make a decision in June 2018 on whether to upgrade Saudi Arabia and Kuwait to emerging market status. Saudi has a 100 per cent probability of winning an inclusion, according to EFG Hermes. - Pic. Bloomberg

Saudi Arabia has a 100 per cent probability of being included in the MSCI's emerging market index next month, after the Kingdom was put on a watchlist for inclusion last year, according to investment bank EFG Hermes.

"We see no reason why MSCI would not upgrade Saudi Arabia to emerging markets status this June," the analysis on Sunday said.

Index compiler MSCI is expected to announce a decision on whether to upgrade Saudi stocks to EM (emerging market) status next month, a move that would help the country attract billions of dollars into the Middle East and North Africa (Mena)'s biggest stock exchange, which has a market capitalisation of $500 billion.

The promotion would follow a similar move by index compiler FTSE Russell in March, and be a second achievement for the kingdom, which has been implementing a series of reforms to develop its capital markets in line with its Vision 2030 economic diversification strategy.

EFG Hermes said on Sunday the earlier FTSE decision means MSCI will be able to observe two tranches of FTSE implementation, "giving them comfort that any hiccups observed" during those trades would be addressed by the Saudi authorities.

"The MSCI May 2018 trade is around $36bn (two-way flows), meaning that a Saudi upgrade is manageable in two tranches," the bank said. Kuwait, which is also vying to diversify its economy and reduce its reliance on oil, should also be upgraded to emerging market status this June on the back of reforms undertaken by the Kuwait stock exchange, EFG added.

$36bn is the MSCI two-way trade. This will help upgradation of Saudi Arabia into MSCI Emerging Market Index

The country has a 75 per cent chance of inclusion. The reforms implemented by Boursa Kuwait in the first half of 2017 and full year to date, "warrant a watch list addition this June for a possible upgrade to EM status," EFG Hermes said. "Kuwait would easily meet EM requirements for size and liquidity for three stocks (bare minimum) if tested as new constituents, and if the current index is maintained using EM requirements, we would end up with eight constituents, 0.4 per cent of MSCI EM and around $1.7bn of inflows."

Though Boursa Kuwait was the first stock exchange in the region, the country has struggled to modernise its economy following conflict with Iraq in the 1990s.

It fell into deficit in 2015 for the first time since 1999, prompting the government to launch a series of reforms including its far-reaching Kuwait 2035 economic diversification strategy last January.

The strategy aims to increase private sector involvement in the national economy and attract higher levels of foreign investment across a range of sectors and in the capital markets.

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> EFG HERMES

Perception and real need drives the currency exchange market in both ways

Pak rupee remains under pressure against dollar

Arab News | Karachi

The Pakistani rupee remains under pressure against the US dollar in the open market as insufficient dollar inflows couple with further devaluation rumors, currency dealers and analysts say.

"People think that in the coming days the Pak rupee will be further under pressure due to the increasing demand for the dollar, so they start buying, anticipating a dollar shortage," said Zeeshan Afzal, executive director-research at Insight Securities, referring to the recent hike in the value of greenback against the Pak rupee. which touched PKR119.05 ($1.03) on Friday and closed down at PKR118.70 on Saturday in the open market.

"Perception and real need (demand) drives the currency exchange market in both ways," Afzal told *Arab News.*

"In Ramadan the inflow of remittances has declined, demand for the dollar from those going for Umrah has increased," Muzamil Aslam, senior economist and CEO of EFG-Hermes Pakistan said.

Dr. Miftah Ismail, finance minister of Pakistan, has repeatedly denied further devaluation of the national currency, which has been devalued twice up to 10 percent recently. Aslam believes the rupee will be further devalued, and he sees no way out of the current situation.

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Oil output could return to Oct'16 level: Novak

Reuters | Moscow

A return to the oil production levels that were in place in October 2016, baseline for the current deal to cut output, is one of the options for easing curbs, Russia's energy minister has said. Sources said this week that Saudi Arabia and Russia were discussing raising OPEC and non-OPEC oil production to ease 17 months of strict supply curbs amid concerns that a price rally has gone too far.

"When we extended the agreement until the end of 2018, we spoke about such possibilities (of returning to the October 2016 level)," Novak told reporters.

"But a decision will be made in June," he added, referring to meetings of OPEC and non-OPEC countries in Vienna on June 22-23. The existing deal came into force on January 1, 2017, and envisaged global oil producers reducing their combined output by 1.8 million barrels per day (bpd) to cut bloated stockpiles and prop up oil prices. Russia's oil output reached a 30-year high of 11.247 million bpd in October 2016 and it pledged to cut it by 300,000 bpd to 10.947 mln.

High oil prices to trump rising rates in GCC

Higher crude oil prices to fuel government spending which will support domestic demand, say analysts

Any additional fiscal support from governments is likely to come at the end of 2018 or 2019 as they define the areas of spending during Ramadan and the quiet summer months

The National | Abu Dhabi

One of the main risks to economic growth in the region this year is rising rates.

The spectre of economy-cooling rising interest rates in the Arabian Gulf will be tempered by the ability of governments around the region to spend more this year and the next amid rising oil prices, according to economists.

"If the oil price remains at the current level, there could be some additional increase in government spending - above our current forecasts," said Monica Malik, chief economist at Abu Dhabi Commercial Bank.

"This will be positive for supporting domestic demand, especially at a time of rising interest rates."

Ms Malik said that any additional fiscal support from governments is likely to come at the end of 2018 or 2019 as they define the areas of spending during Ramadan and the quiet summer months. She also noted that there were already signs of strengthening investment activity in the UAE.

The renewed optimism comes as the price of oil hits highs not seen since 2014 amid decline in both supplies and production as well as a rise in geopolitical tensions after the US pulled out of the Iran nuclear deal in May. Brent crude touched $80 a barrel on May 17 and is up 15 per cent year-to-date.

One of the main risks however to economic growth in the region this year is rising interest rates.

The fact that most Gulf states peg their currencies to the US dollar and as a result follow its monetary policy means the majority of the region will continue raising interest rates along with the US Federal Reserve.

Standard Chartered is forecasting that the Central Bank of the UAE will raise rates four times this year and twice next year, taking the benchmark interest rate to 3.25 per cent by the end of next year. Higher interest rates may deter businesses and individuals from tapping the debt markets and subdue economic growth at a time when credit growth is already lacklustre.

The rising strength of the dollar may also pose some problems for the economy.

The Bloomberg dollar spot index, a measure of the US dollar against 10 other currencies, is up 1 per cent this year. While a stronger dollar is good for expats in the country, because they get more for their greenback, overall it is not great for the economy. The strengthening dollar does not help countries in the region that are most diversified, like the UAE which rely on investments into assets including real estate, stocks and bonds as well as other goods and services like tourism. A stronger dollar makes tourism from countries like Russia and India pricier for visitors.

"Although we forecast further rate hikes by GCC central banks, we also expect oil prices to average $71 a barrel in 2018, a significant increase over last year," said Bilal Khan, senior economist for the Middle East North Africa and Pakistan at Standard Chartered.

"This will allow GCC policymakers to increase spending without compromising budget deficit targets."

The non-oil economies of the GCCs have been in growth mode over the past year.

Bahrain's real gross domestic product advanced 3.9 per cent in 2017 compared to 3.2 per cent in 2016, with the non-oil economy expanding 5 per cent, according to Bahrain Economic Development Board. The gains were led by growth in tourism, figures from the latest Bahrain Economic Quarterly released earlier this month showed.

The oil exporting economies of the Arabian Gulf expect to see a pick-up in GDP growth in 2018 and 2019, after bottoming out last year, as the price of oil rebounds and non-oil business activity recovers, according to the International Monetary Fund.

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> MONICA MALIK, CHIEF ECONOMIST ABU DHABI COMMERCIAL BANK