

Qatar isolated once again

SUMMARY

- **GCC countries cutting ties with Qatar is a regional issue for now, but we are monitoring impact on energy markets of a widening of the dispute.**
- **Remain positive on risk assets.** Qatar has a 0.7% weight in the MSCI Emerging Market equity index; negligible impact from drop
- **Focus shifts to how quickly the issue can be resolved.**

BACKGROUND

- **On June 5, Saudi Arabia, Bahrain, UAE and Egypt cut diplomatic ties with Qatar** including suspending air, land and sea travel following ongoing differences regarding Qatar's alleged ties with Iran and alleged support of the Muslim Brotherhood in Egypt. President Trump has expressed support for the GCC's coalition's actions, though there is little indication of change in broader US-Qatar relations.
- **Diplomatic tension between Qatar and other GCC members is not a new development.** The last episode of diplomatic tensions occurred in March 2014, which was resolved in 8 months through mediation by Kuwait. However, this is the first time air, land and sea links have been severed, an indication of the more severe nature of the recent spat. Kuwait has once again offered to mediate.
- **Market reaction - Qatari asset prices negatively impacted, but not much reaction elsewhere.** Qatar's yield premium on its USD bonds over US Treasuries has widened by about 25bps, Qatar equities have fallen sharply, while the currency forwards weakened much more than they did in 2014 (see charts). Emerging Market assets in general, however, have not reacted significantly.

WHAT DOES THIS MEAN FOR INVESTORS?

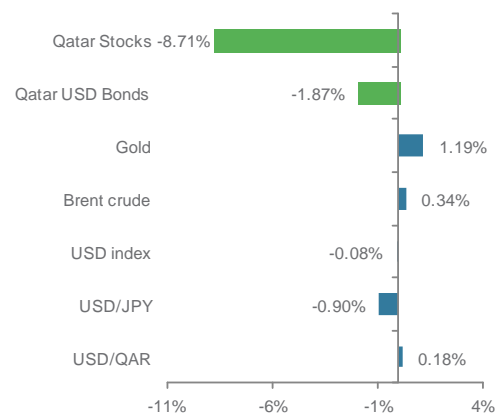
- **We retain our positive view on risk assets.** The recent events in Qatar have not impacted risk assets, including those in Emerging Markets. Volatility across developed and emerging market assets remains exceptionally low. We prefer equity over bonds and prefer USD Emerging Market bonds within the fixed income space.
- **Oil prices to remain range-bound for now.** We do not believe oil prices are likely to be impacted significantly as the opposing forces of OPEC production cuts and US shale production remain the key dynamic. Qatar is a very small crude oil producer.
- **Impact on GCC assets to be limited.** Recent actions are unlikely to affect Qatar's overall creditworthiness or that of other GCC countries. While there are near-term concerns regarding imports, Qatar's exports (including its chief export, LNG) are unlikely to be impacted. Hence, while GCC assets could correct further short term, longer term buying opportunities could eventually emerge.

WHAT TO WATCH OUT FOR

- **Any indications of improving or worsening of Qatar-GCC relations.** Mediation of the dispute remains the main focus now, especially with respect to the role played by other countries.

Negative impact focused largely on Qatar-based assets

Asset class performance (2-June - 6 June 2017)*



Source: Bloomberg, Standard Chartered

*As of Tuesday, 6 June close

QAR 12-month forward has reacted in-line with the 2016 oil price collapse

Qatari Riyal 12-month Forward points



Source: Bloomberg, Standard Chartered

Cost of insuring against Qatar sovereign default rose, but is still significantly below 2016 highs

Qatar 5-year CDS



Source: Bloomberg, Standard Chartered

Disclosure Appendix

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