

Oil prices lifted by US withdrawal from Iran nuclear deal; Egypt could see interest rate cut this week

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,438	-2.61	0.90
Bahrain (ASI)	1,271	0.57	-4.58
Dubai (DFMGI)	2,882	-2.25	-14.49
Egypt (EGX 30)	17,155	-3.80	14.22
GCC (S&P GCC 40)	971	-2.61	-1.37
Kuwait (All Share Index)	4,829	0.58	n/a
KSA (TASI)	7,914	-2.38	9.52
Oman (MSM 30)	4,682	-0.93	-8.19
Qatar (QE Index)	8,750	-0.64	2.65
International			
CSI 300	3,873	2.60	-3.92
DAX	13,001	1.42	0.65
DJIA	24,831	2.34	0.45
Euro Stoxx 50	3,566	0.42	1.76
FTSE 100	7,725	2.08	0.48
Nikkei 225	22,758	1.27	-0.03
S&P 500	2,728	2.41	2.02
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.62	1.0	67.2
Dubai 2022	3.86	9.0	72.5
Qatar 2022	3.84	3.0	76.2
Kuwait 2022	3.60	1.0	79.2
Saudi Arabia 2023	3.98	1.0	76.2
International			
UST 10 Year	2.97	2.7	56.0
Bunds 10 Year	0.56	1.7	13.8
Gilts 10 Year	1.44	4.0	25.1
JGB 10 Year	0.05	0.2	-0.4
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.10	2.5	37.5
Kibor	2.00	0.0	12.5
Qibor	2.62	-1.5	-11.8
Eibor	2.46	11.3	66.4
Saibor	2.41	0.9	50.9
Libor	2.36	-0.8	66.1
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.301	0.00	-0.03
KWD per EUR	0.371	0.00	4.51
USD per EUR	1.194	-0.13	-0.45
JPY per USD	109.4	0.25	-2.92
GBP per USD	1.354	0.08	0.21
EGP per USD	17.65	0.40	-0.45
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	77.1	3.01	15.33
KEC	72.70	5.35	14.49
WTI	70.7	1.41	17.01
Gold	1319.0	0.48	0.97

Source: Thomson Reuters Datastream; as of Friday's close 11/5/2018

> Economic Research Department
+965 2259 5500
econ@nbk.com

Overview

US President Trump's decision last week to withdraw from the nuclear deal with Iran gave a further boost to oil prices which had already made strong gains in recent months. Brent crude ended the week up 3% at \$77/bbl. US sanctions on Iran will be phased back in over the next six months, with the potential loss of up to 0.5 million b/d of Iranian oil exports, or around 0.5% of world supply. This could see global oil balances tighten further in 2H18, unless other oil producers – most importantly Saudi Arabia – are prepared to increase production.

While the move represents a ratcheting up of global geopolitical tensions, most financial markets took the news in stride, with equity markets moving higher and benchmark bond yields up only slightly. Amid a quiet week for economic data, a softer than expected US inflation outturn and a decision by the Bank of England to leave interest rates on hold may have dented expectations for more aggressive rate hikes this year. The former also stalled the recent rally in the US dollar, which has gained 3% over the past month and put pressure on emerging market currencies.

In the Gulf region, 1Q18 budget data in Saudi Arabia showed a larger-than-expected \$9 billion fiscal deficit (around 5% of quarterly GDP), driven by a strong rise in government spending and surprisingly soft oil revenues – likely due to a change in the system of dividend payments. Meanwhile, latest data showed inflation in Egypt edging down to 13.1% in April – less than half its rate six months earlier – as the effect of the 2016 currency devaluation continues to fade. The central bank is expected to cut interest rates by 100 bps when it meets later this week, its third cut of the year.

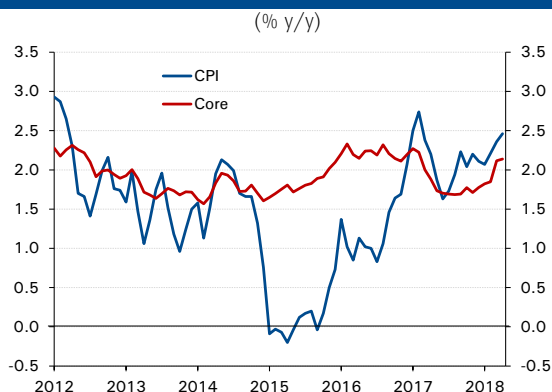
International macroeconomics

USA: Despite recent concern over a build-up in inflationary pressures as well as rising gasoline prices, CPI numbers for April came in below expectations at 0.2% m/m (versus 0.3% expected), though the annual rate still edged up to 2.5% from 2.4% in March. (Chart 1.) Core inflation also missed, unchanged at 2.1% y/y. While some analysts saw the soft April number as a “blip”, it lends mild support to a more gradual pace of monetary tightening by the Federal Reserve. Meanwhile, the University of Michigan's consumer confidence survey held steady just off recent highs, signaling moderate gains in consumer spending going forward.

United Kingdom: The Bank of England voted (7-2) to keep monetary policy unchanged and adopted a more dovish tone in light of soft 1Q18 GDP data. UK rate hike expectations have shifted from close-to-certain in June to sometime later this year, with September a 50% probability.

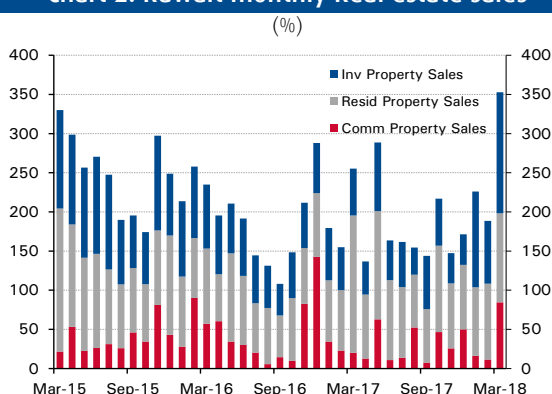
Eurozone: Italy edged closer to forming a government. MS5 and La Lega have been engaged in intensive coalition negotiations since Thursday. This follows pressure from Italian president Mattarella given the two-month political gridlock. Some agreed-upon policies may include income support for the poor, a flat tax, and the rollback of increases in the retirement age which, if enacted, could further strain Italy's already vulnerable public finances. This had a negative impact on Italian equities and debt.

Chart 1: US CPI inflation



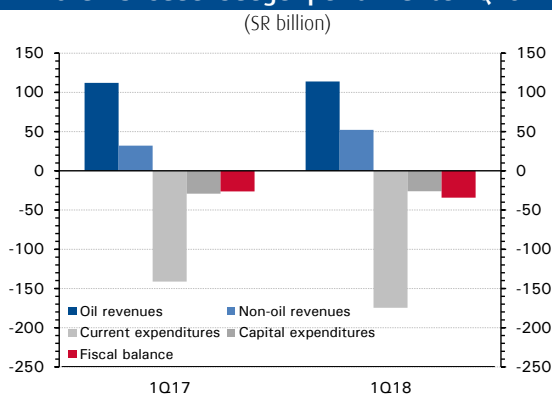
Source: Thomson Reuters Datastream

Chart 2: Kuwait monthly Real estate sales



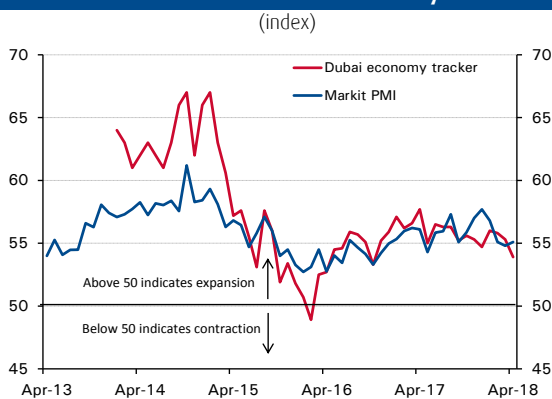
Source: Central Bank of Kuwait

Chart 3: Saudi budget performance 1Q18



Source: Saudi Ministry of Finance

Chart 4: UAE PMI & Dubai Economy Tracker



Source: IHS Markit, Emirates NBD

April's industrial production numbers were mixed for the Eurozone's three largest economies. Germany beat expectations, up 1% m/m, France contracted by 0.4% m/m, and Italy was flat.

China: China's small-to-medium-sized manufacturing firms witnessed better growth than expected in April, with the Caixin/Markit manufacturing PMI coming in at 51.1 – above the 50 'no change' mark. However, the export orders sub-index showed contraction for the first time since November 2016. The official PMI, which includes larger firms, showed a reading of 51.4, down slightly from March's 51.5.

GCC & regional macroeconomics

Kuwait: Total credit was up KD 301 million in March supported by a pick-up in lending to oil-related businesses. Overall growth, however, eased to 1.9% y/y. Private deposits increased at a healthy rate (+ KD 155 million), yet growth in the M2 money supply slowed to just 1% due to a base effect following a strong rise a year earlier.

Real estate figures for March 2018 show an impressive turnaround in sales, with the strongest monthly performance since December 2014. (Chart 2.) Total sales reached KD 353 million, up 38% y/y. The surge may have been affected by seasonal factors, with sales pushed forward ahead of the typical lulls in activity during both Ramadan and the summer, as well as some one-off large transactions. The increase in sales resulted from an increased number of transactions rather than higher prices. Prices are still showing month-on-month declines across all sectors – residential, investment, and commercial.

Project award activity in April 2018 was almost stagnant as the month witnessed only a single award made by the Kuwait Oil Company worth KD 12 million for an office building. The performance was in line with the level of award activity witnessed in the same month last year.

Saudi Arabia: The kingdom recorded a budget deficit of SR 34.3 billion (\$9.2 billion) in 1Q18, an increase of 31% on last year's deficit. (Chart 3.) The wider fiscal deficit comes as the government loosened its purse strings this year, upping total spending by 18% y/y. Revenues increased by 15%, helped in large part by higher non-oil revenues (thanks to VAT, excise taxes and PIF investment returns), which increased by 63% y/y to SR 52 billion. Oil revenues, however, did not increase by anywhere near as much as the increase in oil prices over the past year (1.7% versus 25%), which could be due to a change in the royalty fee and dividends structure payable to the Saudi treasury by Aramco and/or higher capex outlays by Aramco. Having said that, public spending and the recorded fiscal balance are well within the 2018 budget forecast (30% under budget) calculated on a pro-rata basis.

UAE: The Emirates NBD Dubai Economy Tracker Index eased for the third straight month from 55.3 in March to a one-and-a-half year low of 53.9 in April. (Chart 4.) Gains in the construction sector were more than offset by a moderation in tourism and trade. Looking ahead, the construction sector is projected to continue to offer solid support to the overall index. Firms have secured a strong series of project recently and optimism about future construction activity hit a three-month high in April.

The UAE President announced that, in celebration of the 100th birth anniversary of the UAE's founding father, the late Shaikh Zayed, all government employees and retirees as well as those on social security benefits will be granted a bonus of one-month's basic salary to be paid

Chart 5: Crude oil prices

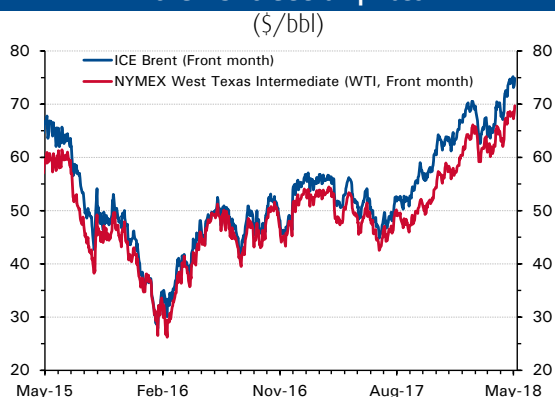


Chart 6: Total equity return indices



Chart 7: GCC equity markets

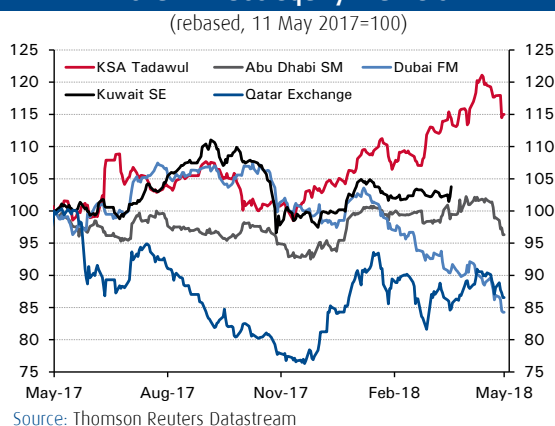
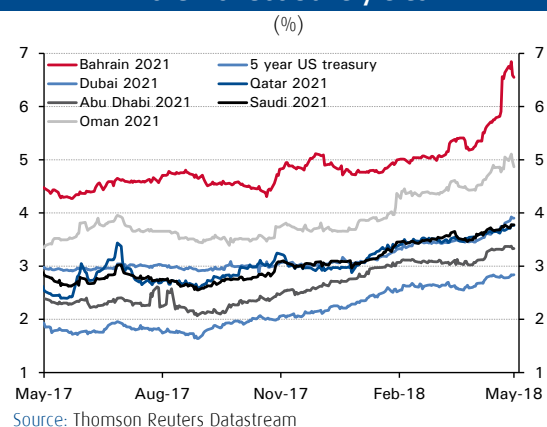


Chart 8: GCC bond yields



just before the Eid holidays in June. The cost is expected to be Dhs 1.6 billion (\$440 million) and is not expected to have a significant impact on the budget balance, especially against a backdrop of higher oil prices.

Egypt: Consumer price inflation eased slightly further in April, to 13.1% y/y from 13.3% in March as the impact of the currency devaluation in 2016 continues to wane. Inflation has fallen sharply from 31% last October, but April's modest decline suggests that the fall is slowing. Fresh subsidy cuts expected for July will likely constrain further declines in inflation. The central bank is targeting inflation of 13% +/- 3% by 4Q18. It is expected to cut interest rates by 100 bps this week, having already cut them twice by a cumulative 200 bps this year.

Markets – oil

Oil prices broke through three-and-a-half-year highs before closing on Friday up 3% higher w/w, at \$77.1/bbl (Brent) and \$70.7/bbl (WTI). (Chart 5.) The market continues to digest the news of the US pulling out of the Iran nuclear agreement. Oil futures were also buoyed by a surprising drop in US crude inventories (-2.1 mb to 433.7 mb) as reported in the latest EIA report (w/e 4 May) and were on track to finish the week higher until Saudi Arabia indicated that it would help mitigate any supply shortages in concert with its OPEC partners. To date, oil is up between 15-17% and is trading at November 2014-levels.

US crude production, meanwhile, continues to surge, rising by 84 kb/d to another record high, of 10.7 mb/d. The EIA estimates that US crude production will average 10.7 mb/d this year, an increase of 1.3 mb/d over last year's average. For 2019, production is projected to top 12 mb/d, a rise of more than 1.2 mb/d from this year. The agency also raised its Brent forecast for 2018 by \$7 to \$71/bbl and for 2019 by \$3 to \$66/bbl.

Markets – equities

International equity markets were buoyed by strong earnings, share buybacks and higher oil prices. The MSCI AC world index was up 2.0% w/w. (Chart 6.) The DJI and the S&P 500 were up 2.3% and 2.4%, respectively, with the energy sector at the forefront. The Euro stoxx 50 was up a modest 0.4% w/w, but has outperformed so far in 2Q18, up 6.1% QTD. Emerging markets were up 2.4% w/w.

Regional markets were down on the week as geopolitical jitters outweighed the rise in oil prices. The spill-over following the US's withdrawal from the Iran deal impacted regional investor confidence. The MSCI GCC was down 1.7% w/w, driven by a sell-off in Abu Dhabi (-2.6%), Saudi (-2.3%), and Dubai (-2.2%). (Chart 7.) However, Kuwait's all-share index was up 0.6%.

Markets – fixed income

International yields edged up slightly. US treasury supply pressured US 10-year yields higher, despite safe haven moves to fixed income assets following the US's exit from the Iran deal and relatively soft US inflation numbers. US 10-year treasuries ended the week at 2.97%, up 3bps w/w, having been slightly over 3% on Wednesday. Mixed data in the Eurozone and political uncertainty over Italy saw bunds 2 bps higher at 0.56%. In the GCC, heightened regional geopolitical tension led sovereign benchmark yields to increase by 1-9 bps, with Dubai seeing the largest increase. (Chart 8.)

Head Office

Kuwait

National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain

National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait SAKP
Bahrain Head Office
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates

National Bank of Kuwait SAKP
Dubai Branch
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia

National Bank of Kuwait SAKP
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan

National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon

National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq

Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt

National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America

National Bank of Kuwait SAKP
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom

National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France

National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore

National Bank of Kuwait SAKP
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China

National Bank of Kuwait SAKP
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait

NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates

NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey

Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353