

## International

**US:** President Trump surprised markets by imposing a 10% (potentially rising) tariff on imports of \$300 billion in goods from China effective from September, and coming shortly after describing the latest round of talks as “constructive”. China has promised “necessary countermeasures”. Earlier, the Federal Reserve cut interest rates for the first time since the financial crisis, by 25 bps to a range of 2.00-2.25%. However, the move was interpreted as hawkish as Fed Chairman Powell hinted that it was not the start of a broader easing cycle. Labor market data for July was mixed, with jobs growth easing to 164,000, the unemployment rate steady at 3.7% and wage growth edging up to 3.2% y/y. Inflation on the Fed’s preferred core PCE measure ticked up only slightly to 1.6% in June.

**Europe:** Eurozone GDP growth came in at just 0.2% q/q in 2Q19, half its rate in Q1, with fears that Germany may be tipping back towards recession amid manufacturing weakness. In the UK, the pound is under pressure due to fears of a ‘no deal’ Brexit in October, falling 4% versus the US dollar in July.

**Financial markets:** Equities fell sharply on the Fed’s rate signals and fresh trade fears. The MSCI AC World fell 3.0% w/w led by the Eurostoxx 50 (-4.2%) and the S&P500 (-3.1%). The US 10-year treasury yield sunk 23 bps w/w to a near three-year low of 1.86%.

**Oil:** Brent closed the week down 2.5% w/w at \$61.9/bbl, recovering some of a 7.2% drop on Thursday following the US’s tariff hike announcement. Oil’s weakness comes despite another week of commercial crude stock drawdowns in the US (-8.5 mb to 436.5 mb) and the Fed’s rate cut – two normally bullish signals for oil prices.

## MENA Region

**GCC:** Following the Fed’s move, central banks in Saudi Arabia, the UAE, Bahrain and Qatar all cut their main policy interest rates by 25 bps to 2.75%, 2.50%, 2.50% and 4.75% respectively. Rates in most of these countries have moved closely in line with the Fed’s in the past. The Central Bank of Kuwait chose to leave its main policy rate unchanged at 3.0%, citing the maintenance of a healthy margin in favor of the Kuwaiti dinar whilst remaining conducive for economic growth.

**Kuwait:** The official budget deficit for FY2018/19 (ending March) was KD1.3 billion or 3.1% of estimated GDP. This was

narrower than the 9% of GDP deficit of FY17/18 thanks to higher oil prices, but higher than we had expected, apparently to payment of arrears that the government is trying to settle and also reflecting larger subsidies due to the higher cost of fuel. Total spending surged 14% y/y, while capital spending fell 6%. After transfers to the Reserve Fund for Future Generations the deficit was KD3.3 billion. Meanwhile the external current account surplus widened in 1Q19 to KD2 billion (20% of GDP) from KD1.8 billion in 4Q18. The rise was driven by an increase in investment income to KD1.9 billion.

**Saudi Arabia:** The public finances swung back into deficit in 2Q19 at SAR34 billion (4.7% of GDP) from a SAR28 billion surplus in Q1. Expenditure growth (35% q/q) outpaced revenue growth (6.2%), with capital outlays more than doubling to 8.6% of GDP, aimed at boosting non-oil economic growth. We maintain our forecast of a deficit of 6.8% of GDP in 2019. In the meantime, Saudi Arabia will end the use of expatriate workers in its hospitality sector by year-end.

**Oman:** It was reported that the introduction of VAT will be delayed to 2021, a move that is unlikely to be viewed positively by the rating agencies given Oman’s weak public finances. However, the government later denied that such a delay is planned.

**Financial markets:** GCC markets were mixed but negative overall, with the MSCI-GCC down 1.8% w/w led by Abu Dhabi, Qatar and Saudi Arabia. Kuwait’s All-Share gained 0.8%.

### Key takeaways:

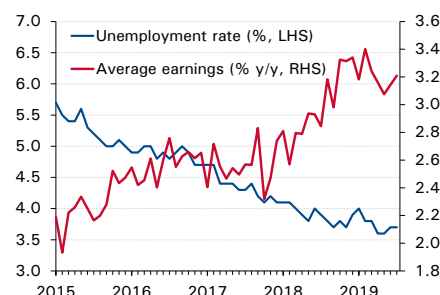
- The US decision to hike tariffs on China ends a fragile trade war truce and will heighten concerns over world growth, especially in manufacturing. This will put more pressure on the Fed to ease policy again in September.
- The decline in interest rates in most GCC countries following the Fed’s decision should provide further support to the region’s economic growth.
- The narrowing in Kuwait’s fiscal deficit on account of rising oil prices was welcome. But the large rise in expenditures (partly driven by fuel transfers) and fall in capex highlights calls for continuing reforms to lift the quality of spending and support fiscal sustainability.
- Meanwhile, the just-signed agreement between Kuwait and Iraq to hire a consultant to exploit joint oil fields bodes well for future oil production.

▶ **Chart 1: Brent crude oil price** (\$/bbl)



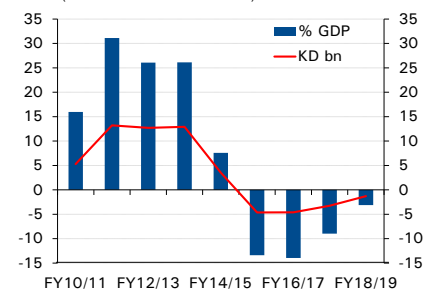
Source: Refinitiv

▶ **Chart 2: US labor market**



Source: Refinitiv

▶ **Chart 3: Kuwait fiscal balance** (Before RFFG transfers)



Source: Ministry of Finance / NBK

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,747	-2.9	24.5
DAX	11,872	-4.4	12.4
DJIA	26,485	-2.6	13.5
Eurostoxx 50	3,376	-4.2	12.5
FTSE 100	7,407	-1.9	10.1
Nikkei 225	21,087	-2.6	5.4
S&P 500	2,932	-3.1	17.0
<b>Regional</b>			
Abu Dhabi SM	5,230	-2.9	6.4
Bahrain ASI	1,550	1.8	15.9
Dubai FM	2,900	1.7	14.7
Egypt EGX 30	13,526	0.1	3.8
S&P GCC 40	1,251	-2.9	13.7
Kuwait SE	6,126	0.8	20.6
KSA Tadawul	8,666	-1.7	10.7
Muscat SM 30	3,777	0.6	-12.6
Qatar Exchange	10,398	-2.2	1.0

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	1.86	-22.6	-83.6
Bunds 10 Year	-0.49	-11.3	-73.6
Gilts 10 Year	0.55	-13.8	-71.9
JGB 10 Year	-0.17	-1.6	-16.7
<b>Regional</b>			
Abu Dhabi 2022	2.19	-9.4	-110.8
Dubai 2022	2.88	12.0	-104.6
Qatar 2022	2.32	-6.4	-113.1
Kuwait 2022	2.18	-16.4	-114.1
KSA 2023	2.41	-19.1	-146.4
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	61.9	-2.5	15.0
KEC	69.2	3.1	32.6
WTI	55.7	-1.0	22.6
Gold	1445.6	1.9	13.1

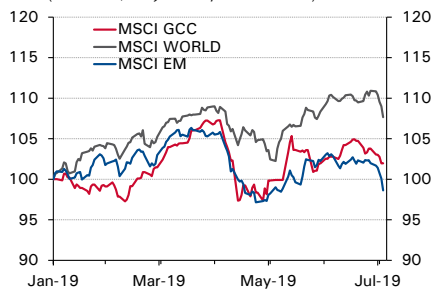
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.07	-8.3	-88.3
Kibor - 3 month	2.75	0.0	43.8
Qibor - 3 month	2.76	-1.2	-14.3
Eibor - 3 month	2.59	-0.3	-24.5
Saibor - 3 month	2.59	-5.4	-38.1
Libor - 3 month	2.29	3.1	-52.1
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.4
KWD per EUR	0.337	-1.1	-3.1
USD per EUR	1.111	-0.2	-3.2
JPY per USD	106.6	-1.9	-2.7
GBP per USD	1.215	-1.8	-4.7
EGP per USD	16.53	-0.1	-7.4

Updated on 2/8/2019

Source: Refinitiv

### International equity markets

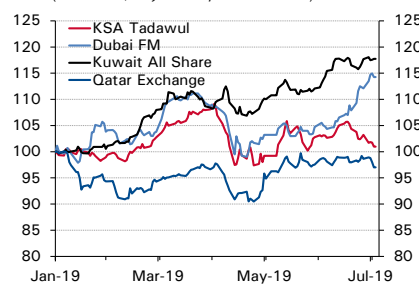
(rebased, 9 January 2019=100)



Source: Refinitiv

### GCC equity markets

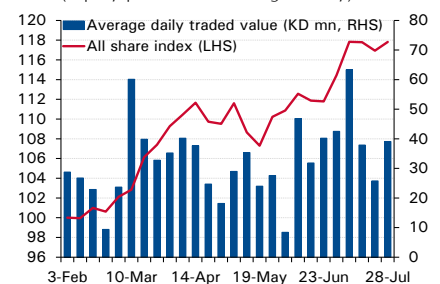
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Source: Refinitiv

### Boursa Kuwait

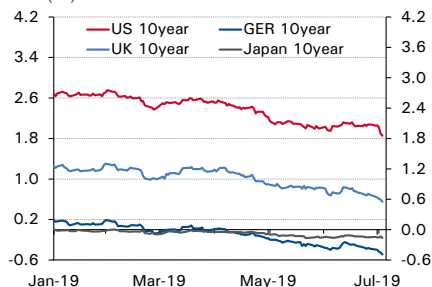
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

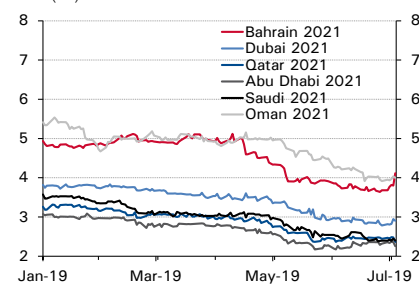
(%)



Source: Refinitiv

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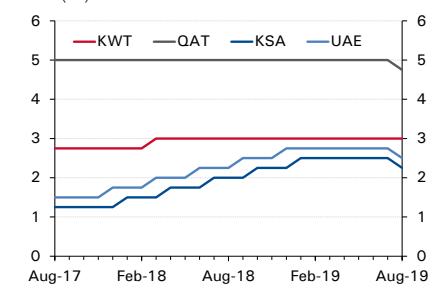
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv