Oil reverses March losses; Softer US data nudge USD/rates lower; Saudi’s $9 billion sukuk sale

### Summary

President Trump mentioned that the dollar was getting “too strong” for his taste and that he “liked” low interest rates. His statements and nagging doubts about upcoming tax reform pushed the dollar lower mid-week. Trump also said that China would not be labeled a currency “manipulator”, easing fears of trade frictions. Asked about the potential re-nomination of Fed Chair Janet Yellen at the helm (due Jan. 2018), Trump left the issue wide open. As for Yellen, she mentioned that the Fed was now trying to maintain/support current growth, rather than stimulate the economy any more.

UK inflation remained steady at 2.3% y/y in March; the more important core figure came in at 1.8% y/y, much to the relief of the BoE’s rate-setting committee.

Globally, bond yields are off on some safe haven and defensive flows stemming from geopolitics (Syria, North Korea…), as well as tamer US data (see below).

Regionally, Egypt continues to grapple with high inflation resulting from its currency floatation in November. Saudi successfully issued $9 billion in sukuk, after Aramco’s $3 billion sale the previous week.

### International macroeconomics

**USA:** Recent data nudged US interest rates and the USD lower. Retail sales and CPI data for March disappointed last week: retail sales fell -0.2% m/m, following February’s fall of -0.3% m/m, and the CPI fell -0.3% m/m, with the core CPI declining -0.1% m/m. The CPI y/y rates dipped lower to 2.4% and 2.0%, respectively. The inflation data (along with the earlier wages data) show inflation to be contained. The weak sales data, meanwhile, prompted forecasters to revise down their 1Q17 GDP estimates, including the Atlanta Fed, which now estimates 1Q GDP growth at 0.5%. While this (so-called GDPNow) is not an official Fed view, the estimate is keenly watched and reflects the fact that recent data disappointed. Most analysts, including the Fed, still expect better growth after 1Q, and the full year to post 2.0% growth. Any “weaker” upcoming data will now further raise eyebrows, in light of the “soft” 98K nonfarm payroll gain of last week (for March).

**Eurozone:** French election dynamics are shifting two weeks prior to voting. While the race remains tight between Macron (center) and Le Pen (far-right), the recent emergence of Jean-Luc Melenchon (far-left) after his strong performance in the recent debates is worrying both observers and investors. Chief amongst their concerns is his desire to call for a referendum on relations with the EU, reconsidering NATO participation, higher taxes etc.

**China:** Inflation in China’s producer price index (PPI) remained well in positive territory in March, mainly due to higher commodity prices. (Chart 1) PPI inflation came in at 7.6% y/y, just marginally lower than February’s multiyear high reading of 7.8% y/y. Inflation in the CPI remained soft at 0.9% y/y, mainly due to the ongoing weakness in food prices.
In its first trade deficit in three years in February, China’s PPI rebounded and surged to 16.1% y/y in March, whilst import growth remained firm at 20.3% y/y amid higher demand for commodities. (Chart 2.)

**UK:** Inflation remained steady in March at 2.3% y/y. (Chart 3.) The headline figure was in line with expectations, while the more important core figure, at 1.8% y/y, actually underestimated, much to the relief of the Bank of England’s (BoE) rate-setting committee. A monthly drop in transportation costs helped offset some of the price rises recorded in the food and clothing categories. But, in February, real average weekly earnings grew by the slowest rate since 2014. (See Chart 3.) The data showed that wage growth was not keeping pace with inflation.

The BoE, in its latest credit survey, noted that consumer credit tightened for the first time in 6 years in 1Q17. According to banks and building societies that participated in the survey, unsecured credit growth was likely to slow further in 2017 as banks were applying “tighter credit scoring criteria.”

**GCC & regional macroeconomics**

**Kuwait:** Credit growth picked up pace in February, with a gain of KD 165 million; growth rose to 3.3% y/y (Chart 4). Credit to “production” business sectors (i.e. excluding real estate and securities lending) rose by 8.6% y/y. The headline figure continues to be weighed down by large loan repayments in 4Q16, following the Americana acquisition. Growth, after adjustment, was around 5-6%, and should average around 7-8% in 2017. Private deposits rose in February, though by a still weak 1% y/y.

The Ara consumer confidence index improved slightly in March, coming in at 98, but remained relatively subdued. (Chart 5.) Most of the gain was due to a rise in the durable goods component, which jumped 18 points to 120. The employment component saw a noticeable deterioration during the month.

**Saudi Arabia:** Saudi Arabia raised $9 billion in its inaugural dollar-denominated sovereign sukuk. The Islamic bond sale was heavily oversubscribed, raising $1 billion more than anticipated, from more than $33 billion in bids. The bond sale should provide financing for around 17% of Saudi Arabia’s expected $53 billion fiscal deficit this year.

**UAE:** Non-oil sector activity in Dubai remained solid in 1Q17. The Emirates NBD Dubai Economy Tracker, an index of non-oil sector activity, averaged 56.6 in 1Q17, up from 54.8 in 4Q16 and significantly higher than the 50.7 averaged in 1Q16. The stronger reading was mainly due to higher output and new orders. (Chart 6.)

**Qatar:** Recently released data for 4Q16 showed that Qatari economic growth moderated to 1.7% y/y from 3.9% y/y in 3Q16 (-2.1% q/q). (Chart 7.) The slowdown was largely due to a contraction in oil and gas output (-6.5% q/q and -2.5% y/y) as a result of maintenance carried out on Qatar’s LNG trains and more conservative oil field management. In contrast, the non-hydrocarbon sector grew by 5.9% y/y (2.2% q/q), with manufacturing and construction posting double-digit growth. For 2016 as a whole, the economy expanded by 2.2%, compared to 3.5% in 2015. Construction and financial services were the largest contributors to growth.
Egypt: Inflation was steady at 31% y/y in March, though momentum cooled further. (Chart 8.) The monthly price gain eased to 2%, which, compared to the 3.7% average in the previous four months, indicates that inflationary pressures from November’s currency floatation are abating. More notably, momentum in core inflation subsided still further. Inflation is likely to remain elevated in 2017, especially with hikes in electricity tariffs expected in FY17/18; still, it should decline to 15-20% by the end of 2017.

Markets – oil

Brent and WTI recovered slightly last Thursday to close at $58.89/bbl and $53.18/bbl, respectively. (Chart 9.) Oil prices have effectively reversed all their losses in March, clawing back 11-13% since their year-low of $50.56 (Brent) and $47.34 (WTI) in mid-to-late March with the help of eight consecutive trading sessions of gains—the longest stretch of daily increases since 2012.

The bull run came to an end last Wednesday despite a Trump-triggered fall in the US dollar (oil prices and the USD tend to be negatively correlated) and despite the release of data that was relatively bullish for oil prices: the largest drop in US crude inventories (2.1 million barrels) since December 2016 and further progress by OPEC in cutting crude output towards the group’s 31.7 mb/d target. On the latter, according to OPEC secondary sources, the group’s production fell by 152,000 b/d to 31.9 mb/d in March—just 200,000 b/d shy of their target. (Chart 10.) Individual member compliance improved in March, with Kuwait, Qatar and Venezuela joining Saudi Arabia and Angola at the 100% or more compliance level.

However, it should be noted that March’s overall OPEC production drop was largely due to output declines in Iran, Nigeria and Libya—members that were not subject to production quotas.

Meanwhile, the International Energy Agency (IEA) believes that the oil market is “very close” to balancing. In its monthly report, the agency cautioned, however, that weaker expected crude demand growth in 2017 (-100,000 b/d to 1.3 mb/d) and burgeoning non-OPEC supply (+485,000 b/d), especially from the US (+680,000 b/d) would keep prices under pressure for the rest of the year. Though global oil inventories did decline in Jan and Feb, the IEA intimated that normalizing stock levels would likely require an extension of the OPEC/non-OPEC production cut accord beyond the summer.
Markets – equities

Equity markets lost ground this week, with the MSCI World retreating 1%. Rising geopolitical concerns took center stage and markets shifted to a “risk-off” mode. US equities declined, with the S&P 500 and DJIA down 1.1% and 1%, respectively. European equities also retreated, with the Euro Stoxx 50 closing the week down 1.4%, as investors reassessed potential outcomes for the upcoming French election. Meanwhile, emerging markets saw some profit-taking, with the MSCI EM off 0.6%. (Chart 11.)

Regional equities were off slightly on the week as the MSCI GCC index retreated 0.2%. GCC markets received some support from rebounding oil prices, which seem to have overshadowed geopolitics, at least for now. Saudi Arabia and Qatar were “flat” on the week. Meanwhile, following a strong showing the previous week, UAE markets saw some profit-taking, with the Abu Dhabi and Dubai markets 2.1% and 1.6% lower, respectively. (Chart 12.)

Markets – fixed income

International bond prices continued to rally over the week (prices up and yields lower) driven by ever-growing geopolitical jitters. President Trump’s apparent U-turn toward mainstream positions over trade, China, and monetary policy also added to the downward pressure on yields. This occurred in spite of Fed Chair Janet Yellen’s comments which hinted at a more friendly (than expected) future monetary position. The emergence of a leftist contender, late in the French election race, added to investor wariness, and contributed to the risk-off bias during the week. As a result, US 10-year yields are near five-month lows, closing the week at 2.23%, down 14 bps, while 10-year bunds settled at 0.19%, down 4.5 bps. (Chart 13.)

All GCC yields on paper maturing in 2021 were steady on the week, shedding up to 3 bps. Meanwhile, Kuwait’s 2022 bond traded at 2.53%, down 16 bps from a week ago and down 27 bps since its issuance on Tuesday 14 March 2017. (Chart 14.)

Saudi Arabia raised $9 billion in its first international sukuk, exceeding its initial expectations of $8 billion. The sukuk was split between a Saudi Arabia raised $9 billion in its first international sukuk, exceeding its initial expectations of $8 billion. The sukuk was split between a

Conventional bond issued in October of 2016. Saudi’s second international offering following its massive $17.5 billion tranche, sold at 2.93%, and a 10-year tranche, sold at 3.65%. This is Saudi’s second international offering following its massive $17.5 billion conventional bond issued in October of 2016.
Chart 13: Global bond yields (%)
Source: Thomson Reuters Datastream

Chart 14: GCC bond yields (%)
Source: Thomson Reuters Datastream
Head Office
Kuwait
National Bank of Kuwait SAKP
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 2242 2022
Fax: +965 2259 5804
Telex: 220432 NBKHB
www.nbk.com

International Network
Bahrain
National Bank of Kuwait SAKP
Zain Branch
Zain Tower, Building 401, Road 2086
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
Lattfa Tower, Sheikh Zayed Road
Next to Courna Plaza
P.O. Box 9293, Dubai, U.A.E.
Tel: +971 4 316 1600
Fax: +971 4 388 8568

National Bank of Kuwait SAKP
Abu Dhabi Branch
Sheikh Rashid Bin Soreid Al Maktoum, (Old Airport Road)
P.O. Box 11360, 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 Khuddah District,
Al Mokmal Tower, Jeddah
P.O. Box 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 653 6300
Fax: +966 2 653 6318

Jordan
National Bank of Kuwait SAKP
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941929, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0000
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait (Lebanon) S.A.L.
BAC Building, Jisr El Deyar Street, Sunnayeh
P.O. Box 115727, Rod El Fiter
Beirut 1107 2200, Lebanon
Tel: +961 1 759 708
Fax: +961 1 747 866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoun Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 718 2198/7191944
+964 1 718 8406/7171673
Fax: +964 1 717 0156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 626 49300
Fax: +20 2 626 33978

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
Postman Square Branch
7 Postman Square
London W1H 6HA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7466 3077

France
National Bank of Kuwait (International) Plc
Paris Branch
90 Avenue des Champs Elysees
75008 Paris
France
Tel: +33 1 5639 0600
Fax: +33 1 5639 0623

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 8003, 10th Floor, Asia Center
1233 Lujiazui Ring Road
Shanghai 200020, China
Tel: +86 21 6880 1072
Fax: +86 21 5047 1011

NBK Capital
Kuwait
NBK Capital
39th Floor, Airway Building, Block 6
Shuhaibad’a street, Shang
P.O. Box 4950, Safat, 13650
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 484
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506586, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates
Funkey
Turkish Bank
Tokloapal C.A. 7
Vasistasi, P.O. Box 34371
Istanbul, Turkey
Tel: +90 212 337 6373
Fax: +90 212 225 0353

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NBK Economic Research, T: (965) 2259 5500, F: (965) 2224 6973, econ@nbk.com, © 2017 NBK