Macroeconomic data continues to improve, but resurgent trade and coronavirus risks may weigh

- Unemployment eased further to 11.1% in June from 13.3% in May as more businesses reopened.
- Non-farm payrolls rose for the second consecutive month by a record 5 million in June, beating expectations.
- Core inflation was unchanged in June at 1.2% y/y, while headline inflation rose to 0.6% y/y.
- Retail sales ex autos improved sharply to -0.5% y/y in June from -6.9% in May as stores reopened.
- ISM activity indices for June surged into expansion territory (53-57) for the first time since Feb/March.
- The S&P500 rallied in July on recovery optimism, reaching a 4-month high, but escalating US-China tensions and ongoing virus uncertainty pose downside risks.

Chart 1: Real GDP growth

Annualized GDP growth fell to -5% in 1Q20, and will fall further in 2Q20 due to the virus lockdown.

Source: Refinitiv

Chart 2: Unemployment rate

Unemployment eased further to 11.1% in June from 13.3% in May as hiring picked-up amid the reopening of businesses.

Source: Refinitiv

Chart 3: Non-farm payrolls (new jobs)

Non-farm payrolls rose for the second consecutive month by a record 4.8 million in June, beating expectations of 3.3 million.

Source: Refinitiv

Chart 4: Wage growth

Wage growth eased further to 5% y/y in June from 6.6% in May helped by the re-hiring of some low-paid workers.

Source: Refinitiv
Core inflation was unchanged in June at 1.2% y/y, while headline inflation rose to 0.7% y/y on higher food and medical care prices.

The drop in retail sales ex autos narrowed sharply to -0.5% y/y in June from -6.9% in May as stores reopened.

The ISM activity indices for June surged to expansion territory (53-57) for the first time since Feb/March in a sign that business activity is recovering.

The fiscal deficit is expected to widen to $3.8 trillion or 18% of GDP in 2020 on the negative impact of the pandemic.
The Fed maintained its policy rate at a range of 0-0.25% while continuing to support markets via treasury and MBS purchases.

Source: Refinitiv

The US 10-year treasury yield fell to a 3-month low of 0.59% as of July 23 on renewed virus and US-China related uncertainty.

Source: Refinitiv

Futures markets probabilities point to no further fed policy rate action in 2020 with absolute certainty (100%).

Source: Refinitiv

Federal reserve assets have increased sharply in recent months, reaching $7 trillion in June on massive stimulus measures.

Source: Refinitiv

The S&P500 rallied in July on reopening and economic recovery optimism, reaching a 4-month high, but trade risks may weigh.

Source: Refinitiv

The USD dropped sharply in July as safe-haven flows were curbed by improved investor sentiment abroad.

Source: Refinitiv
Head Office
Kuwait
National Bank of Kuwait SAK
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

Bahrain
National Bank of Kuwait SAK
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 SAK
Bahrain Head Office
GB Corp Tower
Block 346, Road 4262
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 SAK
Dubai Branch
Lutfi Tower, Sheikh Zayed Road
Near to Crowne Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait SAK
Abu Dhabi Branch
Sheikh Rashid Bin Saeed
Al Maktoum, (Old Airport Road)
P.O.Box 113567, Abu Dhabi, UAE
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudia Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al Khaldia District, Al Mualim 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 SAK
Amman Branch
Shereef 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, Rad El-Soh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadon Street, District 102
P.O.Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 3 7168040/7167173
Fax: +964 1 7170154

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 SAK
New York Branch
299 Park Avenue
New York, NY 10017 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 7242 2777
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 SAK
Singapore Branch
9 Raffles Place # 44-01
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5348

China
National Bank of Kuwait SAK
Shanghai Office
Suite 1003, 10th Floor, Asia Center
1233 Lujiazui Ring Road
Shanghai 200120, China
Tel: +86 21 6888 3092
Fax: +86 21 5047 1011

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