Stronger Q1 data boosts optimism on global growth outlook

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

Highlights

- **Confidence in the global economic outlook improved through April amid a spate of encouraging first quarter GDP estimates and as the US and China appeared close to a trade deal – a hope that since appears to have dimmed.**
- **US growth in 1Q19 comfortably beat expectations at 3.2% and although inflation fell further below target in March, futures markets now expect a less than 50% chance of a Fed rate cut this year.**
- **Eurozone growth also surprised on the upside at 0.4% q/q in Q1 with Italy exiting recession. The ECB left policy on hold in April, but hinted that it could be loosened further if conditions remained weak.**

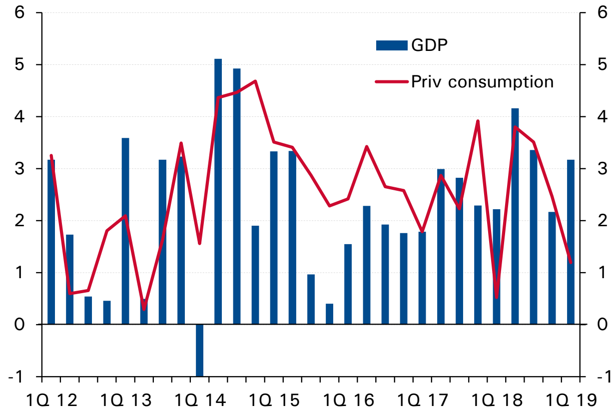
Confidence in the global economic outlook improved through April amid a spate of encouraging first quarter GDP estimates and as the US and China appeared close to a trade deal – a hope subsequently dimmed when US president Trump threatened to impose further tariffs on imports from China in early May. Having plunged in March, benchmark bond yields rose on the improving global growth climate and reduced expectations of central bank policy support, while oil prices broke through the $70/bbl mark for the first time in five months helped not just by the stronger growth outlook but also by the decision by the US to end Iran sanctions waivers on Iran.

US growth comfortably beats expectations in 1Q19

The first estimate of US GDP growth in 1Q19 came in at an annualized 3.2%, well above the consensus of 2.3% and accelerating from 2.2% in 4Q18. (Chart 1.) The strong figure came despite the impact of the federal government shutdown – estimated to have lowered growth by 0.3% – and fears of a broader slowdown linked to tighter monetary policy, fading fiscal stimulus impact, the US-China trade war and a weakening global economy. Although hailed as "an incredible number" by President Trump, robust quarterly performance was driven by rising inventories – which can sometimes foreshadow weaker growth going forward – and a smaller trade deficit mostly reflecting falling imports, while consumer spending growth roughly halved to 1.2%. The underlying picture is therefore somewhat softer than the headline figure suggests, and expectations are for a slower expansion in Q2.

Chart 1: US GDP

(% q/q, annualized)

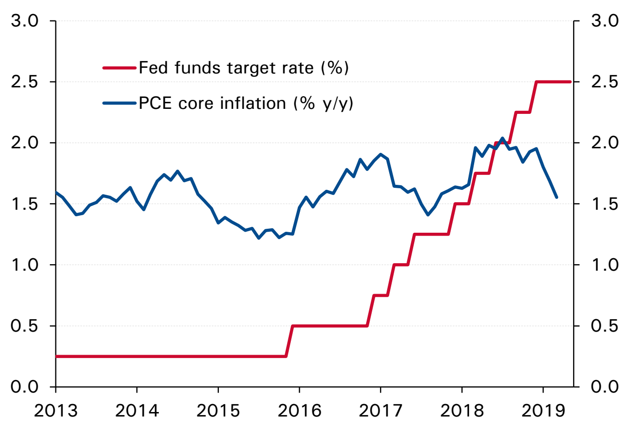


Source: Thomson Reuters Datastream

Despite consumers' softer contribution to growth in Q1, there are grounds for optimism given continued strength of the labor market. Jobs growth in April surpassed expectations at 263,000, unemployment declined to a 49-year low of 3.6% and wage growth, at 3.2% y/y, was above 3% for the ninth consecutive month. Reports from the business sector are less upbeat. ISM indices on manufacturing (52.8) and non-manufacturing (55.5) both eased in April and while at solid levels are well below peaks of above 60 recorded last August/September amid softer orders and reports of labor scarcity. There are also mixed signals on growth from the international trade data, where the deficit narrowed to $49 billion in February (growth-positive) but helped by the first year-on-year fall in imports since 2016.

The Federal Reserve as expected kept interest rates on hold at the 2.25-2.50% target range at the start of May. (Chart 2.) But in post-meeting comments Chairman Jay Powell adopted a slightly more hawkish tone than expected, stating that there was no “strong case for moving rates in either direction” and that recent softness in inflation – the Fed’s preferred core PCE inflation measure slipped to just 1.6% y/y in March, well below the 2% target – was driven by ‘transitory’, sector specific factors. The comments may have been motivated by a desire to push back against any perceived politicization of the bank in light of President Trump’s rate cut calls. Futures markets have now pushed the probability of a rate cut by end year to below 50%, while the US dollar remained close to a near two-year high on a trade-weighted basis in early May.

Chart 2: US interest rates and inflation



Source: Thomson Reuters Datastream

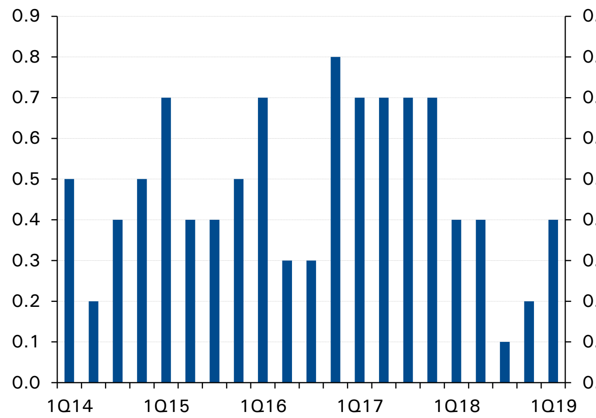
European growth also surprises in the first quarter

Similar to the US, Eurozone growth also provided an upside surprise in the first quarter, raising hopes that the single currency bloc may be starting to emerge from last year’s slowdown. GDP rose 0.4% q/q, above the 0.3% consensus and double the rate of 4Q18. (Chart 3.) Encouragingly, Italy pulled out of recession with growth of 0.2%, while French growth was steady at 0.3%. Figures for the all-important German economy were not released, though after growth hit a standstill in 4Q18, survey evidence points to the crucial export sector still under pressure from weakness in global manufacturing – which could intensify following the latest US tariff threats on China.

The European Central Bank left policy unchanged at its April meeting, committing to leave borrowing costs on hold until at least the end of the year (versus earlier discussion of rate hikes) but also hinting that policy could still be loosened if conditions remain weak. Pressure on the bank to enact further stimulus may have been eased by relatively decent Q1 growth performance and also the rise in inflation to 1.7% y/y in April, near to the bank’s ‘below but close to’ 2% target. The policy outlook may also be shaped by talk of a more fundamental strategy rethink being mooted by some of the candidates to replace ECB chief Draghi when he departs his post in October.

Chart 3: Eurozone GDP

(% q/q)



Source: Thomson Reuters Datastream

Meanwhile Brexit continues to weigh on activity in the UK. The composite PMI stood at 50.9 in April, consistent with just-positive growth at the start of 2Q18 from an estimated 0.5% q/q in Q1 boosted by uncertainty-related stockpiling. While the deadline for Brexit has been pushed to end-October giving the UK parliament more time to approve the government’s withdrawal deal with the EU, results from UK local elections in early May point to large-scale voter dissatisfaction with the two major parties and continued pressure on prime minister Theresa May to step down, possibly triggering a general election that could shift the political and economic landscape.

Japanese external and domestic sectors still sluggish

Japan’s exports continued to struggle in March, falling 2.4% y/y versus a 1.2% drop in February, amid US-China trade tensions and a softer global economic climate. Imports recovered however, up 1.2% versus a sharp 6.5% drop in February. Recent weakness in exports led to Japan posting its first trade deficit in three years in FY18/19. Japan’s domestic economy also remains sluggish with retail sales growth for example averaging just 0.7% y/y in 1Q19. The Bank of Japan has vowed to maintain its current monetary policy to support growth, especially with inflation still far below its 2% target: inflation was at 0.5% in March.

Chinese growth supported by government stimulus

Economic growth in China reached a faster-than-expected 6.4% y/y in 1Q19 – unchanged from the previous quarter – thanks in part to the government’s pro-growth efforts and after the US (up to then) held off on any further tariff increases. (Chart 4.) However, downside risks persist, not least because of the recent escalation in trade tensions with the US. The official services PMI slid from 54.8 in March to 54.3 in April and given that the Chinese economy remains fragile, the government is likely to implement further stimulus measures to prop up growth. Indeed, the central bank cut its reserve requirement ratios for some small and medium-sized banks in a bid to support struggling small and private firms.

Chart 4: China GDP

(% y/y)

Source: Thomson Reuters Datastream

Oil rises as US removes Iran sanctions waivers

Oil prices posted a fourth consecutive month of gains in April, rising to six-month highs amid continued oil market tightness and the Trump administration's decision to end the Iran sanctions waivers. (Chart 5.) Brent crude, the international benchmark, reached as high as $74.6/bbl in late April – a level last recorded in October 2018 – though has since retreated as the US attempts to press the Saudis and OPEC to pump more crude to offset further supply losses from Iran and as US shale production continues to set record highs. Brent is still up around 32% so far in 2019, which is one of the best starts in years. While Saudi over-compliance with the OPEC+ production cut agreement (260% in March) has been the primary driver, elevated geopolitical risk related to plummeting Venezuelan crude supply – a 75-year low of 732 kb/d in March – and falling Iranian production have been important contributors.

Chart 5: Brent crude oil price

($ per barrel, end of month)

Source: Thomson Reuters Datastream

GCC private sector activity gains traction

In the GCC, non-oil sector activity continues to improve. The UAE PMI in April reached a more-than-one-year high of 57.6 on robust new orders and new export orders growth, while the Saudi Arabian index was steady at 56.8, with output remaining strong and exports continuing to recover. Saudi private sector credit (+3.1% y/y) and retail POS growth (+20% y/y) were also showing good momentum in March. Indeed the IMF has indicated that it could revise up its 1.8% forecast for Saudi economic growth in 2019 based partly on better-than-expected non-oil activity. Meanwhile the fiscal picture is also improving, with the kingdom recording in 1Q19 its first fiscal surplus since 2014 (SR27.8bn) on the back of a sizeable increase in revenues (+48% y/y) and a more moderate increase in expenditures (+8% y/y). However, the budget surplus could be temporary as capex spending is expected to pick up in the remainder of the year.

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 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