

International

US: In a further escalation of the US-China trade war, President Trump announced a range of new tariff measures on imports from China including a rise in duties to 15% on \$300 billion of goods originally due to be introduced at a 10% rate from September or December, and also encouraged US firms to leave China. The move was a swift response to China's announcement of duty hikes on \$75 billion on goods from the US – itself a retaliation for previous US tariff moves. Fed chairman Jay Powell was attacked by Trump as an "enemy" for not cutting rates more aggressively, but gave no real hint of further policy loosening at his Jackson Hole speech. Data continues to present a mixed picture on the economy. Existing home sales rose y/y for the first time in 17 months amid hopes that falling mortgage rates and a strong labor market will help revive the property market this year. However, the flash composite PMI for August came in at a below-consensus 50.9 signaling barely any growth, with manufacturing in recession at 49.9 and a 10-year low.

Other: China's currency fell to a fresh 11-year low of RMB7.06/US\$1 on trade war worries and despite reports of support from state-owned banks. In Europe, the prospect of a 'no deal' Brexit at end-October moved closer with the EU so far turning down the request by UK PM Boris Johnson to drop the controversial Irish backstop component of the withdrawal agreement. Johnson is likely to face a knife-edge vote of no confidence when parliament returns in early September.

Financial markets: Equities fell on trade tensions. The MSCI AC world slipped -0.6% w/w led by the S&P500 (-1.4%). Heightened uncertainty dragged 10-year treasury yields down 8 bps overnight to a three-year low of 1.53% on Friday.

Oil: Oil prices ended the week on the back foot after China announced retaliatory tariffs on US goods including oil, but Brent still closed up 1.2% w/w at \$59.3/bbl. Oil had earlier benefitted from a drop in US crude inventories (-2.7 mb to 447 mb) and talk of another US interest rate cut in September.

MENA Region

Kuwait: The NBK consumer spending index rose at a nine-month high of 3.2% y/y in July versus 2.0% in June. The pick-up came on the back of stronger durable goods (+2.3%) and services outlays (+6.7%), contrasting further weakness in non-durables (-5.3%). The continued improvement in spending has been supported by a strong rise in consumer lending so far this

year. Meanwhile, consumer price inflation hit a 20-month high of 1.2% y/y in July from 1.1% in June, lifted by slightly higher food (notably fish), clothing and jewelry inflation. Core inflation rose to 2.6%. Real estate sales saw another positive month in July, reaching a year-so-far best of KD380 million, with strength across all market segments notably the commercial sector.

UAE: Dubai's residential real estate prices continue to decline amid more stringent loan-to-value regulations, increased supply and changing demand patterns, with tenants opting for more affordable units. According to Reidin, prices fell 8.5% y/y in July, slightly below June's 9.4% decline. Meanwhile, the UAE cabinet announced that from January, electronic smoking products and sweetened drinks will be subject to an excise tax of 100% and 50%, respectively. The decision comes two years after the tax was imposed on tobacco, energy drinks and carbonated drinks.

Egypt: The central bank as anticipated cut interest rates for the first time since February, but by an unexpectedly large 150 bps (consensus 100 bps) to a range of 14.25-15.25%. The bank cited the fall in inflation, which is now in line with the 4Q2020 target of 9% +/-3%, as a reason for the move. Meanwhile, according to the Ministry of Finance, the government is targeting a reduction in public debt to 77.5% of GDP by June 2022 from 90.5% in mid-2019, in order to ease the debt service burden and allocate more spending to other areas.

Financial markets: GCC equities also suffered losses, with the MSCI-GCC falling 0.3% w/w led by Saudi and Kuwait, both down 1.2%. Benchmark sovereign bond yields with medium-term maturities also continued to slide.

Key takeaways:

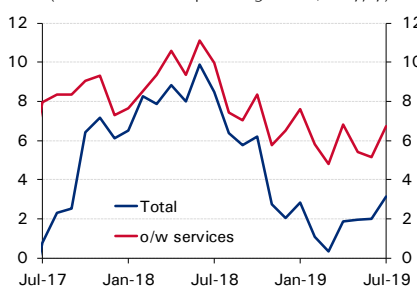
- The rapidly escalating trade war presents further downside risk to US and global growth. Fed chairman Powell's Jackson Hole speech was somewhat neutral, but markets are pricing in a 25 bps Fed rate cut in September with near certainty.
- Consumer spending growth in Kuwait, although still at modest levels, is now trending higher and could accelerate further over coming months in view of buoyant consumer lending, decent jobs growth and an expansionary budget.
- Given the recent sharp fall in inflation, the cut in interest rates in Egypt is unlikely to be the last this year. This should support growth and lower debt servicing costs, without affecting the pound very much.

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



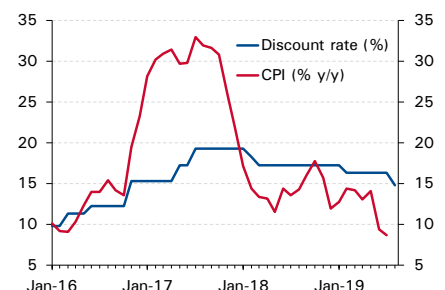
Source: Refinitiv

▶ **Chart 2: Kuwait consumer spending** (NBK consumer spending index, % y/y)



Source: NBK

▶ **Chart 3: Egypt interest rates**



Source: Refinitiv

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,821	3.0	26.9
DAX	11,612	0.4	10.0
DJIA	25,629	-1.0	9.9
Eurostoxx 50	3,334	0.2	11.1
FTSE 100	7,095	-0.3	5.5
Nikkei 225	20,711	1.4	3.5
S&P 500	2,847	-1.4	13.6
Regional			
Abu Dhabi SM	5,039	-0.6	2.5
Bahrain ASI	1,534	-0.1	14.7
Dubai FM	2,769	-0.7	9.5
Egypt EGX 30	14,333	-0.7	10.0
S&P GCC 40	1,200	-0.6	9.1
Kuwait SE	6,000	-0.5	18.1
KSA Tadawul	8,446	-1.7	7.9
Muscat SM 30	3,988	2.5	-7.8
Qatar Exchange	9,919	0.2	-3.7

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.53	-1.3	-116.4
Bunds 10 Year	-0.67	0.8	-91.8
Gilts 10 Year	0.48	1.5	-78.9
JGB 10 Year	-0.23	-0.1	-23.6
Regional			
Abu Dhabi 2022	1.99	-4.9	-130.4
Dubai 2022	2.50	-13.4	-142.5
Qatar 2022	2.08	-0.9	-136.7
Kuwait 2022	1.99	-4.9	-132.7
KSA 2023	2.28	-8.5	-159.5
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	59.3	1.2	10.3
KEC	69.2	3.1	32.6
WTI	54.2	-1.3	19.3
Gold	1526.6	0.9	19.4

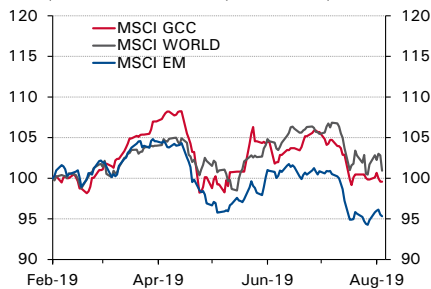
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.07	0.0	-88.3
Kibor - 3 month	2.81	0.0	50.0
Qibor - 3 month	2.81	1.5	-9.6
Eibor - 3 month	2.44	-0.5	-40.0
Saibor - 3 month	2.44	-0.6	-53.1
Libor - 3 month	2.13	-1.7	-67.5
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	-0.1	0.2
KWD per EUR	0.338	0.0	-2.9
USD per EUR	1.114	0.5	-2.8
JPY per USD	105.4	-0.9	-3.8
GBP per USD	1.228	1.1	-3.8
EGP per USD	16.52	-0.1	-7.5

Updated on 23/8/2019

Source: Refinitiv

International equity markets

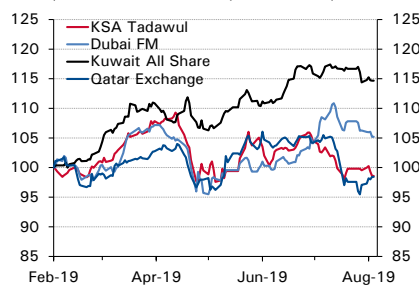
(rebased, 20 February 2019=100)



Source: Refinitiv

GCC equity markets

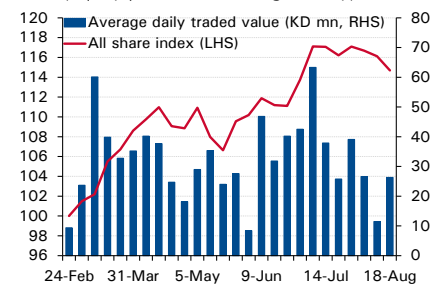
(rebased, 20 February 2019=100)



Source: Refinitiv

Boursa Kuwait

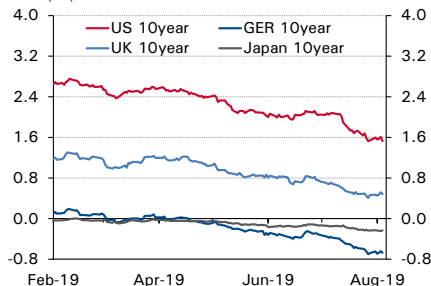
(equity prices and trading activity)



Source: Refinitiv

International bond yields

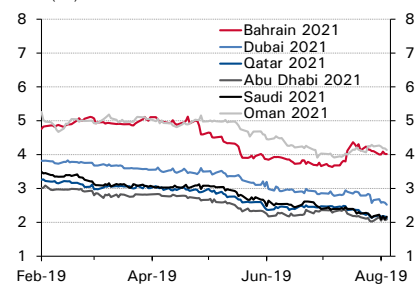
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Source: Refinitiv

GCC bond yields

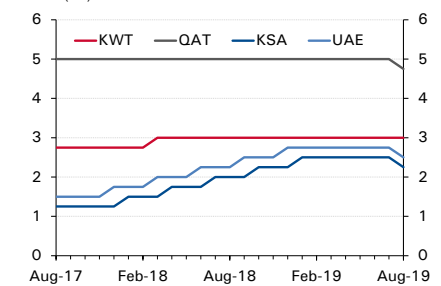
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv