

Weekly Economic and Markets Review

NBK Economic Research Department | 8 July 2018



International & MENA

US imposes tariffs on Chinese goods; GCC non-oil activity recovering; Brent settles lower at \$77

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,603	0.95	4.66
Bahrain (ASI)	1,331	1.51	-0.07
Dubai (DFMGI)	2,880	2.11	-14.53
Egypt (EGX 30)	16,125	-1.37	7.37
GCC (S&P GCC 40)	1,035	0.95	5.08
Kuwait (All Share Index)	5,088	4.03	5.32
KSA (TASI)	8,178	-1.64	13.16
Oman (MSM 30)	4,524	-1.05	-11.29
Qatar (QE Index)	9,260	2.61	8.64
International			
CSI 300	3,365	-4.15	-16.52
DAX	12,496	1.55	-3.26
DJIA	24,456	0.76	-1.06
Euro Stoxx 50	3,448	1.56	-1.58
FTSE 100	7,618	-0.25	-0.91
Nikkei 225	21,788	-2.32	-4.29
S&P 500	2,760	1.52	3.22
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.45	-14.5	50.0
Dubai 2022	3.92	-6.3	78.5
Qatar 2022	3.73	-6.3	65.2
Kuwait 2022	3.28	-19.8	47.7
Saudi Arabia 2023	3.66	-10.9	44.6
International			
UST 10 Year	2.83	-2.0	42.0
Bunds 10 Year	0.29	-1.9	-13.5
Gilts 10 Year	1.27	-1.2	7.9
JGB 10 Year	0.03	0.0	-1.9
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.50	0.0	77.5
Kibor	2.00	0.0	12.5
Qibor	2.64	0.2	-9.9
Eibor	2.57	14.1	77.3
Saibor	2.61	1.5	71.1
Libor	2.34	0.1	64.4
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.302	0.01	0.40
KWD per EUR	0.352	0.11	-0.76
USD per EUR	1.175	0.53	-2.09
JPY per USD	110.5	-0.19	-1.97
USD per GBP	1.328	0.58	-1.69
EGP per USD	17.84	0.00	0.62
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	77.1	-2.93	15.31
KEC	74.2	-2.85	16.87
WTI	73.8	-0.47	22.14
Gold	1254.3	0.24	-3.98

Source: Thomson Reuters Datastream; as of Friday's close 6/7/2018

Overview

Relations between the world's two largest economies, the US and China, reached another low last week after the US imposed 25% tariffs on \$34 billion worth of Chinese imports on Friday. The move was swiftly condemned by China as "trade bullying" before retaliating in kind with levies on a similar volume of US goods. Further tariffs on Chinese products are expected in the coming weeks, to be extended to all \$500 billion worth of annual Chinese exports to the US if China escalates its response further, President Trump threatened. Europe, meanwhile, drew up its own plans to slap tariffs on \$300 billion of US products if the US executes its plan to target European cars with punitive tariffs.

These tensions have raised risks and rattled global financial markets, although emerging markets appear to have borne the brunt of the blow-back, with Chinese and Japanese equities down and the Chinese Renminbi under pressure. Better-than-expected payroll numbers in the US and manufacturing data only seemed to confirm the continuing improvement in the US economy, a fact that buoyed the markets, with the Dow Jones and S&P 500 closing between 0.7%-1.5% higher on the week.

In the GCC, Bahrain aside, a succession of data releases pointed to an improving regional macroeconomic picture. Saudi and Qatari non-oil activity increased in the first quarter of the year, by 1.6% y/y and 4.9% y/y, respectively, while June's PMI for Saudi Arabia and the UAE all but confirmed the rebound in private sector activity. On the other hand, Bahrain, which awaits the details of the GCC financial support package, witnessed another fall in its foreign reserves, bringing its net foreign assets down to \$1.8 billion, equal to about 1.5 months of import cover.

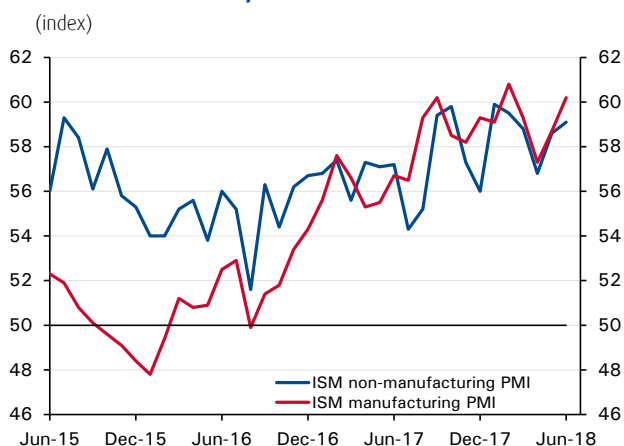
Oil prices ended the week slightly lower after US crude inventories spiked and Saudi Arabia was reported to have ramped up output by 500 kb/d in June. Brent closed the week at \$77/bbl.

International macroeconomics

USA: US economic momentum quickened in June, on rising confidence and a tightening labor market. Both the ISM manufacturing (60.2) and non-manufacturing (59.1) surveys surprised, with the former reflecting growing capacity constraints amid strong orders, employment and production.

(Chart 1.) Labor market data, meanwhile, showed that the economy added a more-than-expected 213,000 new jobs in June while May's figures were revised higher. The unemployment rate, however, trended higher for the first time in almost a year, rising from May's 18-year low of 3.8% to 4.0% in June. This was due largely to an expansion in the labor force, with increasing numbers of workers rejoining the market, encouraged by the improvement in employment prospects. (Chart 2.)

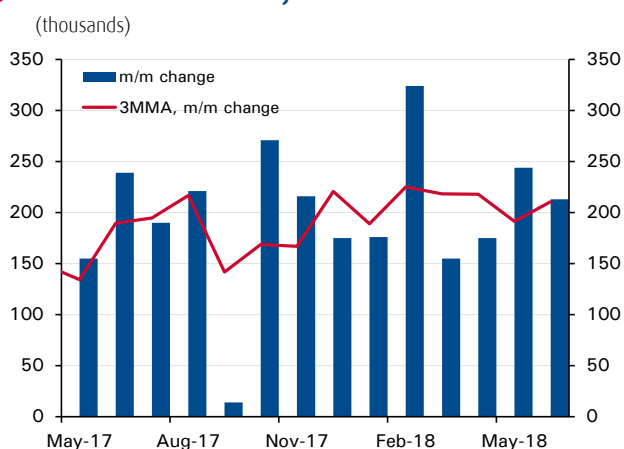
Chart 1: ISM surveys



Source: Thomson Reuters Eikon

Worries about an overheating US economy against a backdrop of escalating trade tensions and emerging market weakness featured prominently in the recently released minutes of the Fed's June FOMC meeting. Policymakers discussed the flattening yield curve and the need to gradually raise the target fed rate in the short-term to a level above its long run estimate (the neutral level that neither increases nor slows growth).

Chart 2: US non-farm jobs



Source: US Bureau of Labor Statistics

Eurozone: Unsatisfied with the outcome of the EU summit on immigration, Germany's interior minister pressured Chancellor

Merkel and her fragile coalition into a deal that tightened Germany's borders. Despite the resolution, the stand-off has left many questioning the durability of the Chancellor's coalition government. Meanwhile, retail data from the eurozone affirmed the easing in momentum in 2Q18, with May's sales coming in slightly below expectations, pulling the y/y rate down to 1.4%, from 1.7% in April.

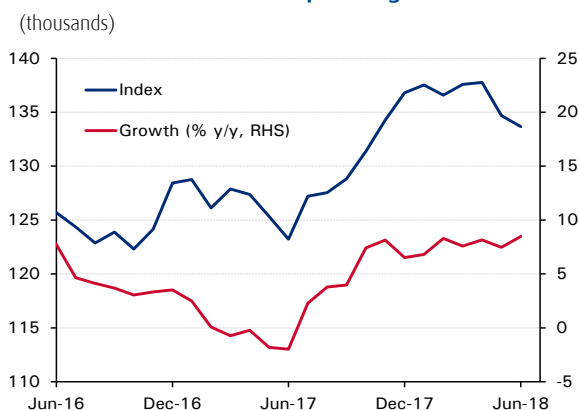
China: China's renminbi took a tumble in June and into early July, prompting the central bank to intervene to stabilize the market. The Chinese currency witnessed its worst month ever in June, falling by 3.3% against the US dollar. Downward pressures on the currency have largely stemmed from a strong US dollar, some looser monetary policy in China and lingering concerns over a brewing trade war with the US.

Meanwhile, the Caixin China services purchasing managers' index (PMI) rose to a four-month high of 53.9 in June from 52.9 in May. China's official non-manufacturing PMI, which includes activity in the construction sector, also rose, albeit marginally, from 54.9 to 55.0 during the same period. In contrast, according to both Caixin/Markit and official PMI data, China's manufacturing witnessed a slight slowdown on the back of higher input costs (which may partly be attributed to the drop in the renminbi) and after export orders took a hit amid growing trade tensions with the US. The Caixin/Markit and official PMIs came in at 51.0 and 51.5, respectively, in June.

GCC & regional macroeconomics

Kuwait: Consumer spending eased for a second consecutive month in June, but remained at healthy levels indicative of good growth relative to last year. The NBK Consumer Spending Index was down 0.8% m/m, mainly on account of a slowdown in the consumption of services, which had more than offset a pick-up in spending on durables and non-durables. Overall, the index was up 8.5% y/y in June compared to 7.5% y/y in May. (Chart 3.)

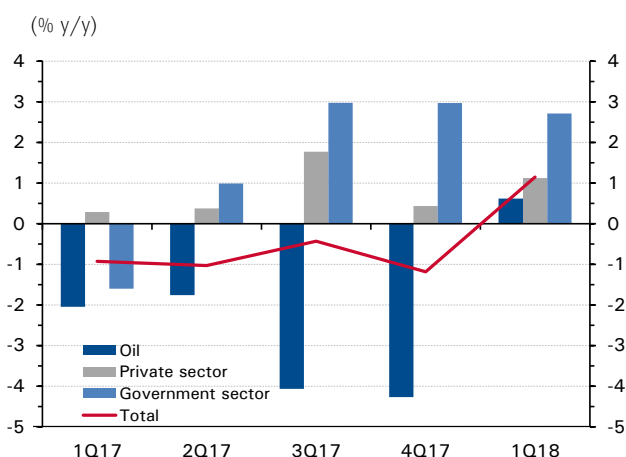
Chart 3: NBK Consumer Spending Index



Source: National Bank of Kuwait

Saudi Arabia: The economy expanded by 1.2% y/y in the first quarter of 2018, the official statistics agency reported. (Chart 4.) This ended a run of four consecutive quarters of negative real growth. The headline rate accelerated on the back of a pick-up in oil GDP, thanks to higher oil production (but still within the OPEC agreement quota), and improved non-oil activity. The non-oil sector's increase of 1.6% y/y was helped by expansion in both the private and the government sectors—1.1% y/y and 2.7% y/y, respectively.

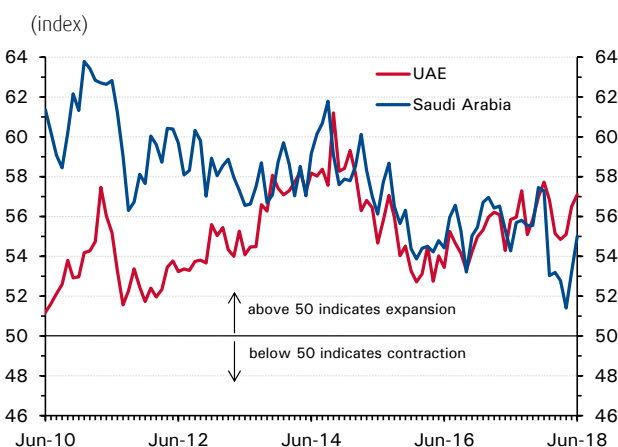
► **Chart 4: Saudi GDP**



Source: General Authority for Statistics (GASTAT)

According to the recent PMI release, non-oil activity continued to improve in June, with the Saudi headline PMI rebounding to 55.0 from 53.2 in May. (Chart 5.) The latest reading is the year's highest and, according to survey respondents, was a reflection of higher output, new orders and new export orders. Moreover, backlogs of work built up at the fastest pace in eleven months, creating capacity pressures that were absent over the last few months.

► **Chart 5: Saudi and UAE PMIs**

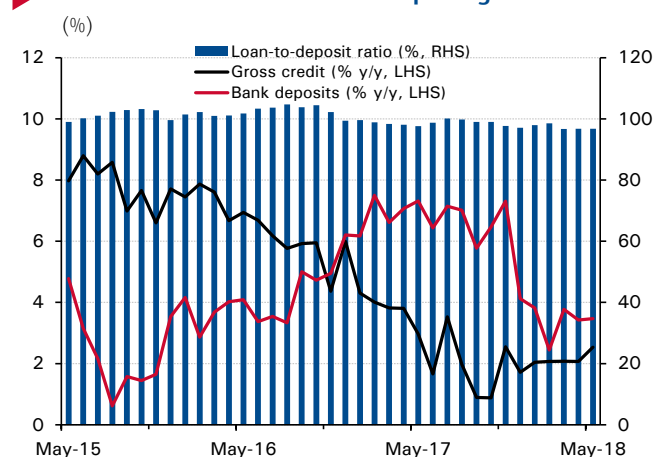


Source: Markit/Emirates NBD

UAE: According to the latest PMI data, UAE non-oil private sector activity accelerated from 56.5 in May to 57.1 in June, (see Chart 5), the highest reading so far in 2018, as both new orders and output continued to see solid gains and export orders held relatively firm. Inflationary pressures appeared to be subdued, with input and staff costs moderating and output prices continuing to decline. Business confidence climbed to a record high, with over two-thirds of firms surveyed expecting business conditions to improve over the next year.

The improvement in private sector activity is also reflected in the latest credit data. Gross credit growth continued to recover in May, rising to 2.5% y/y from 2.1% y/y in April, mainly thanks to an improvement in lending activity to the corporate sector. (Chart 6.) Indeed, lending to the business and industrial sector jumped from 3.3% y/y to 5.3% y/y during the same period. Deposit growth also witnessed a pick-up, rising slightly from 3.4% y/y in April to 3.5% y/y in May, as higher oil prices pushed growth in government deposits up from 6.2% y/y to 8.5% y/y, during the same period. Given the recent trends in credit and deposit growth, the loan-to-deposit ratio fell to 96.7% in May, compared to 97.9% at the start of the year.

► **Chart 6: UAE bank loan and deposit growth**



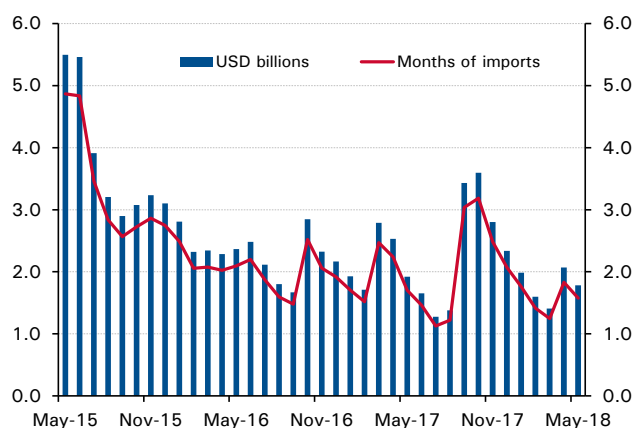
Source: Central Bank of the UAE

Bahrain: Bahrain's net foreign assets fell by USD300 million in April, to USD1.8 billion, or about one and a half months' worth of imports. (Chart 7.) The continued weakness in foreign reserves was one of the main drivers behind the recent market sell-off in the kingdom. Meanwhile, Bahrain has reportedly hired investment bank Lazard for advice on how to effectively ease the strain on its public finances, the details of which have yet to be released.

Qatar: Qatar's economic recovery appears to be continuing apace, with 1Q18 real GDP output expanding by 1.4% y/y. The non-hydrocarbon sector reported growth of 4.9% y/y, driven by gains in the construction, financial services, manufacturing

and transport and storage sectors among others. Oil and gas output, however, declined by 2.3% y/y, which partly reflects the country's compliance with its OPEC production cut target.

▶ Chart 7: Bahrain foreign exchange reserves

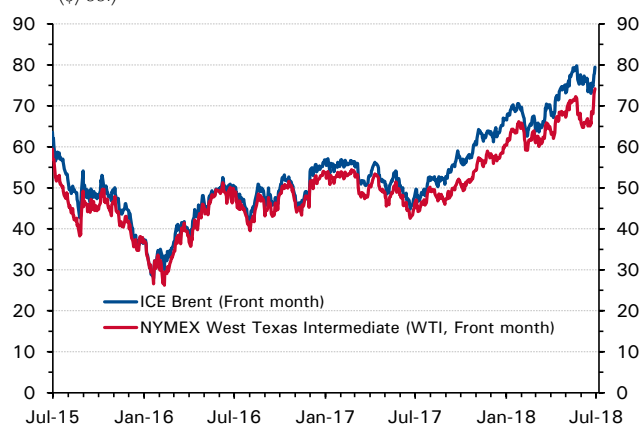


Source: Central Bank of Bahrain

Markets – oil

A surprising rise in US crude inventories (+1.2 mb to 417 mb) and reports of higher production from Saudi Arabia (+500 kb/d to 10.5 mb/d) in June pulled oil prices lower last week; Brent closed down on Friday at \$77.1/bbl (-2.9% w/w) and WTI finished lower at \$73.8/bbl (-0.5% w/w). (Chart 8.)

▶ Chart 8: Crude oil prices (\$/bbl)



Source: Thomson Reuters Datastream

However, markets remain uncertain about the outlook, with President Trump's tweets, the most recent of which saw him call for OPEC to "REDUCE PRICING NOW", injecting further volatility into the market. Markets also took their cue from Saudi Arabia's move to lower the August price on a range of its crude grades for delivery to Asia, Europe and the US.

Markets – equities

Despite caution ahead of the imposition of US tariffs, the MSCI

AC World Index increased by 0.7% w/w last week. Most of its gains came on Friday after the release of the strong US jobs data. The DJI and S&P 500 were up 0.8% w/w and 1.5% w/w, respectively. In Europe, the easing of political uncertainty helped the Euro Stoxx 50 finish the week 1.6% higher. Meanwhile, emerging markets continued to suffer from trade tensions, with the MSCI Emerging Markets Index falling 0.9% w/w, led by weakness in Chinese stocks. (Chart 9.)

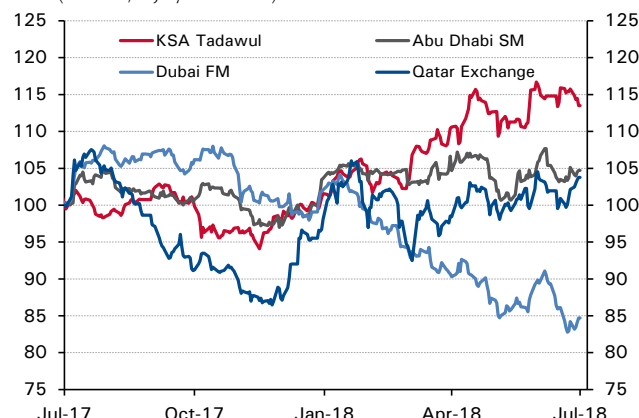
▶ Chart 9: Total equity return indices (rebased, 6 July 2017=100)



Source: Thomson Reuters Datastream

The MSCI GCC index was down slightly by 0.2% w/w, on a sell-off in Saudi stocks (-0.8%) prompted by softer oil prices. Kuwait, however, was the best performer, up 4.0% w/w, thanks to renewed activity following its addition to MSCI's watch list and ahead of its inclusion in the FTSE Emerging Market Index in September. As a result trading volumes jumped from a YTD daily average of KD 11 million to KD 30 million last week. Qatar, Dubai and Abu Dhabi also saw decent gains, increasing w/w by 2.6%, 2.1%, and 0.9%. (Chart 10.)

▶ Chart 10: GCC equity markets (rebased, 6 July 2017=100)

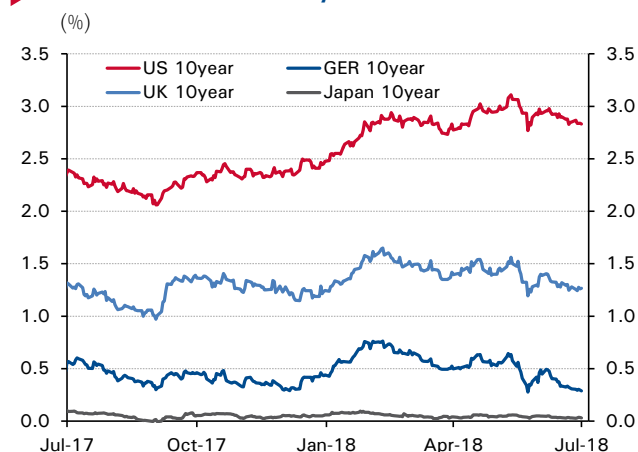


Source: Thomson Reuters Datastream

Markets – fixed income

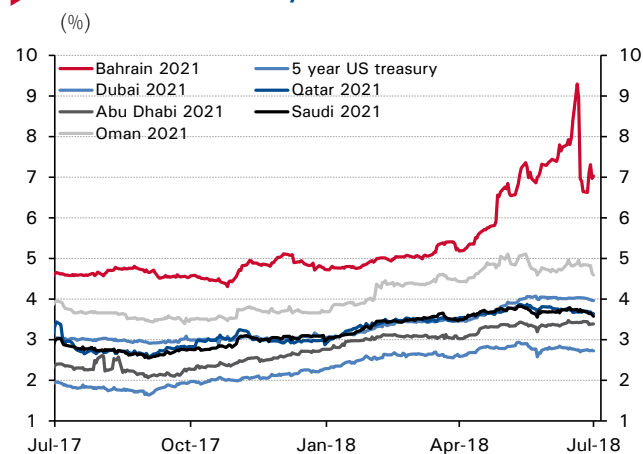
Trade worries were slightly offset by strong US data, hawkish Fed minutes, and easing political tensions in Europe. Yields were relatively steady, with both the 10-year US yields and 10-year bund yields down 2 bps last week, ending at 2.83% and 0.29%, respectively. (Chart 11.) Meanwhile, GCC yields on bonds maturing in 2022/23 shaved up to 20 bps last week. (Chart 12.)

Chart 11: Global bond yields



Source: Thomson Reuters Datastream

Chart 12: GCC bond yields



Source: Thomson Reuters Datastream

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