Weekly Economic and Markets Review
29 April 2018

NBK

Positive US data helps push bond yields higher; oil prices hit $75 on market tightening and Iran concerns

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,697	-0.20	6.79
Bahrain (ASI)	1,263	-2.94	-5.15
Dubai (DFMGI)	3,043	-1.27	-9.71
Egypt (EGX 30)	18,363	3.27	22.27
GCC (S&P GCC 40)	995	-0.20	1.03
Kuwait (All Share Index)	4,803	0.12	n/a
KSA (TASI)	8,248	-0.35	14.14
Oman (MSM 30)	4,722	-0.78	-7.39
Qatar (QE Index)	9,088	-1.18	6.62
International			
CSI 300	3,757	-0.11	-6.80
DAX	12,581	0.32	-2.61
DJIA	24,311	-0.62	-1.65
Euro Stoxx 50	3,519	0.70	0.42
FTSE 100	7,502	1.82	-2.41
Nikkei 225	22,468	1.38	-1.30
S&P 500	2,670	-0.01	-0.14

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.57	1.9	62.7
Dubai 2022	3.63	5.2	49.5
Qatar 2022	3.77	0.9	69.7
Kuwait 2022	3.62	5.9	81.7
Saudi Arabia 2023	3.90	3.9	68.7
International			
UST 10 Year	2.96	0.6	54.6
Bunds 10 Year	0.57	-2.2	14.3
Gilts 10 Year	1.45	-3.4	25.8
JGB 10 Year	0.06	-0.4	0.6

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.06	0.5	33.5
Kibor	2.00	0.0	12.5
Qibor	2.65	0.0	-9.2
Eibor	2.54	9.2	74.1
Saibor	2.37	2.9	47.3
Libor	2.36	-0.3	66.5

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.301	0.28	-0.20
KWD per EUR	0.371	0.00	4.51
USD per EUR	1.213	-1.29	1.10
JPY per USD	109.0	1.28	-3.23
GBP per USD	1.378	-1.61	1.97
EGP per USD	17.66	0.00	-0.39

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	74.6	0.78	11.62
KEC	69.37	0.65	9.24
WTI	68.1	-0.41	12.71
Gold	1320.3	-1.23	1.07

Source: Thomson Reuters Datastream; as of Friday's close 27/4/2018

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

Overview

A continued flow of solid US economic data – including above-expectations GDP growth of 2.3% in 1Q18 and signs of rising wage and price pressures – as well as higher commodity prices helped push the trade-weighted US dollar up 1.3% w/w and saw the US 10-year treasury yield breach the 3% mark for the first time in four years. The data was seen as supporting the case for three interest rate hikes this year, though no change is expected at the FOMC meet later this week.

In Europe, ECB president Draghi acknowledged the apparent slowdown in Eurozone growth signaled by recent economic data, but would not be drawn on the prospect of extending the bank's asset purchase program due to be scaled back further from September.

The price of Brent crude oil finished just shy of $75/bbl, up 0.8% w/w and close to the 40-month high recorded mid-week. Against a backdrop of strong demand and tightening market fundamentals, attention is focused on the threat to oil supply from possible US sanctions on Iran next month. The latter was fueled last week by comments from French President Macron that he expected Trump to withdraw from the Iranian nuclear deal – a move that could threaten an estimated 0.3-0.5 mb/d of Iran's current 2.5 mb/d of crude and condensate exports.

In the Gulf region, sovereign yields have also been pushing higher following the rise in US yields and amid further recent issuance. Yields on bonds with 8-10 year maturities have increased more than 30 bps on average over the past three weeks, while yields on bonds maturing in 2027 in Abu Dhabi and Kuwait – the region's lowest yielding sovereigns – have risen to above 4% for the first time. The move comes despite the climb in oil prices, which has improved the region's fiscal outlook and might normally contribute to lower yields.

International macroeconomics

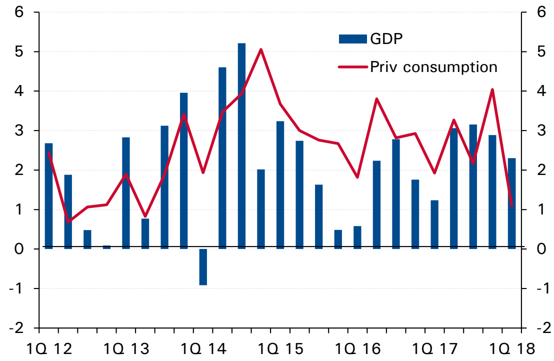
USA: GDP growth in the first quarter slowed to 2.3% from 2.9% in 4Q17, but nevertheless came in above expectations of a 2% expansion. The deceleration was largely due to consumer spending, which slowed to 1.1% from 4Q17's blistering pace of 4.0%. (Chart 1.) Some analysts expect consumer spending to reaccelerate in 2Q18 as the impact of recent tax cuts gathers steam, and given a continued flow of robust data.

This included wages and salaries climbing at a ten-year high pace of 2.7% y/y in Q1 amid a tightening labor market, and reports from both the Conference Board and the University of Michigan showing consumer confidence remaining close to recent multi-year highs in April. The housing market also looks strong, with home sales (new and existing) rising in March, and the Case-Schiller house price index increasing at a four-year high of 6.8% y/y in February despite higher mortgage rates.

Other economic data was also upbeat, with the flash composite PMI for April beating expectations and edging up to a decent 54.8, helped in particular by a strong manufacturing number. Still, the Federal Reserve is expected to leave interest rates on hold when it meets later this week,

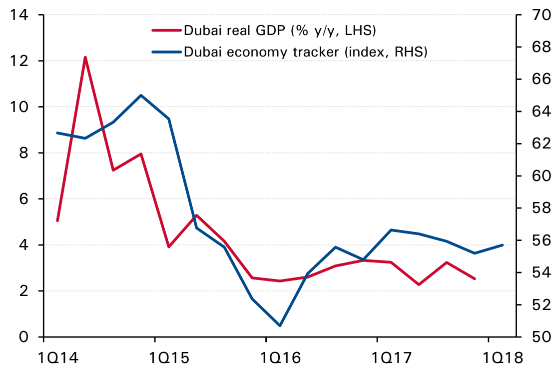
Chart 1: US GDP

(% y/y)



Source: Thomson Reuters Datastream

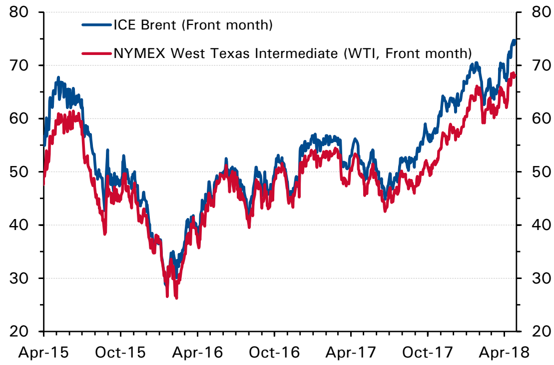
Chart 2: Dubai real GDP & Economy Tracker



Source: Dubai Statistics Center, Emirates NBD

Chart 3: Oil prices

($/bbl)



Source: Thomson Reuters Datastream

Chart 4: Total equity return indices

(rebased, 27 April 2017=100)

Source: Thomson Reuters Datastream

pending two or three hikes later in the year.

Eurozone: Eurozone activity and sentiment indicators steadied in April, although other data continued to point to a slowdown. Both the Eurozone's flash PMI and economic sentiment index were unchanged from March, at 55.2 and 112.7, respectively – though beat expectations and may suggest a less severe slowdown than feared. However, underlying factors still hint at some weakness. For instance, PMI new orders growth eased on weaker expected demand and supply constraints, while sentiment faltered in the retail trade, services, and construction sectors.

Germany's April Ifo survey was disappointing, with the business climate index dropping to 102.1, its fifth consecutive decline. Meanwhile, France's preliminary 1Q18 GDP came in at 0.3% q/q, slightly less than the 0.4% forecast. Eurozone 1Q18 GDP, out this week, is forecast to grow by 0.4%, but the recent weakness in data may see it undershoot.

GCC & regional macroeconomics

Saudi Arabia: The authorities officially launched the kingdom's much heralded privatization program, which aims to raise the private sector's contribution to GDP from 40% (2015) to 65% by 2030 and raise SR61 billion ($16.3bn) in non-oil revenues for the Saudi treasury. As one of the key planks of the Saudi Vision 2030, the government intends to generate net savings of SR25bn-30bn by 2020 through the sale of state assets and public-private partnerships.

According to the labor ministry, Saudi Arabia needs to create 1.2 million jobs by 2022 to reduce the unemployment rate from 12.8% to 9%.

UAE: Dubai's real GDP eased from a revised 3.4% y/y in 2016 to a still firm 2.8% y/y in 2017, as the continued strength in the transportation & storage, the financial & insurance and real estate sectors partly offset the ongoing weakness in the wholesale & retail trade sector. The wholesale & retail sector, (33% of Dubai's economy), grew by a mere 0.9% y/y, while the transportation & storage and the real estate sectors grew by 4.5% y/y and 7.3% y/y, respectively. (Chart 2.)

Markets – oil

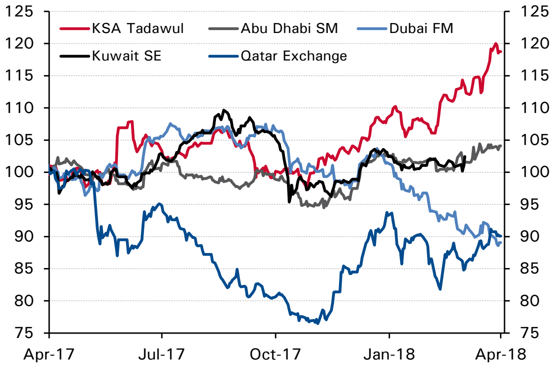
Brent and WTI closed on Friday at $74.6/bbl and $68.1/bbl, respectively, having spent most of the week trading sideways within a narrow $1 range. (Chart 3.) Uncertainties surrounding President Trump's intentions towards the Iran nuclear deal saw market participants adopt a wait-and-see approach. Money managers did decrease bullish Brent bets by 7,396 net long positions to 612,486 the previous week, but Brent still closed the week 0.8% higher w/w. WTI's slight fall of 0.4% w/w was probably a reflection of yet another week of US shale production gains (+46,000 b/d to 10.59 mb/d) and a rise in crude inventories (+2.1 mb to 429,736 mb) as well as a stronger US dollar. Barely five months into 2018 and crude production has already increased by a staggering 804,000 b/d (8.2%).

Markets – equities

A mixed week for global equities as investors digested a 3% US 10-year yield and mixed, but mostly positive, earnings. The MSCI AC World index was up 0.3% w/w, led by non-US developed markets. The S&P 500 was flat on the week, while the DJI dropped 0.6% w/w. In Europe, the Euro Stoxx 50 was up a good 0.7% w/w. Meanwhile, emerging markets trended lower by 0.3%. (Chart 4.)

Chart 5: GCC equity markets

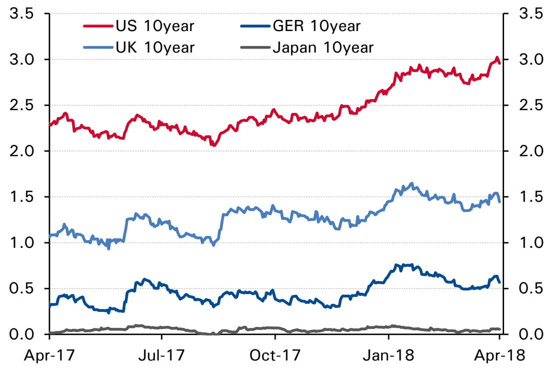
(rebased, 27 April 2017=100)



Source: Thomson Reuters Datastream

Chart 6: Global bond yields

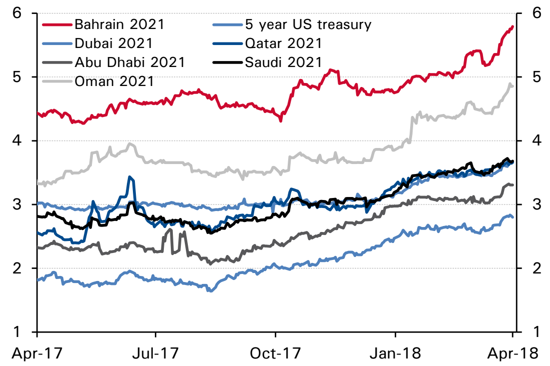
(%)



Source: Thomson Reuters Datastream

Chart 7: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Regional markets sold off during the week, with MSCI GCC index down 0.8% w/w. Saudi, up an impressive 14% YTD, saw investors exit the market last week over concerns that it may be fully valued or expensive. Meanwhile, Kuwait outperformed the region, with the All Share index up 0.1% w/w, supported by positive earnings. (Chart 5.)

Markets – fixed income

Higher oil prices, further solid economic data and large Treasury debt sales led the US 10-year benchmark rate above 3% for the first time since 2014. An inflow of investors attracted by the higher rate, however, helped yields finish the week at 2.96%. (Chart 6.) Dovish remarks by the ECB and some data weakness, on the other hand, saw Bund yields drop by 2 bps to 0.57%. In the GCC, yields rose following international trends, with all tracked sovereigns up between 1-6 bps. (Chart 7.)

The ECB left its monetary policy unchanged, but acknowledged the slowdown in the Eurozone economy. Although Mr. Draghi alluded to the weakness as temporary, it is expected that the central bank will hold off making any decisions on its QE program until July, preferring to adopt a "wait and see" approach.

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 Representative 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

© Copyright Notice. The Economic Brief is a publication of the National Bank of Kuwait. No part of this publication may be reproduced or duplicated without the prior consent of NBK.
While every care has been taken in preparing this publication, National Bank of Kuwait accepts no liability whatsoever for any direct or consequential losses arising from its use. GCC Research Note is distributed on a complimentary and discretionary basis to NBK clients and associates. This report and other NBK research can be found in the "Reports" section of the National Bank of Kuwait's web site. Please visit our web site, www.nbk.com, for other bank publications. For further information please contact: NBK Economic Research, Tel: (965) 2259 5500, Fax: (965) 2224 6973, Email: econ@nbk.com