Weekly Economic and Markets Review

NBK Economic Research Department I 29 July 2018

International & MENA

US and EU strike a deal to reduce trade tensions, while US growth accelerates to a vigorous 4.1% in Q2

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,844	1.55	10.13
Bahrain (ASI)	1,368	0.98	2.72
Dubai (DFMGI)	2,949	0.78	-12.50
Egypt (EGX 30)	15,199	-1.41	1.20
GCC (S&P GCC 40)	1,082	1.55	9.94
Kuwait (All Share Index)	5,226	0.29	8.19
KSA (TASI)	8,368	-0.97	15.79
Oman (MSM 30)	4,336	-2.53	-14.97
Qatar (QE Index)	9,608	1.99	12.72
International			
CSI 300	3,521	0.81	-12.64
DAX	12,860	2.38	-0.44
DJIA	25,451	1.57	2.96
Euro Stoxx 50	3,527	1.94	0.66
FTSE 100	7,701	0.29	0.18
Nikkei 225	22,713	0.07	-0.23
S&P 500	2,819	0.61	5.43
Bond yields	**%**	**Change (bps) weekly**	**YTD**
Regional			
Abu Dhabi 2022	3.54	4.0	59.1
Dubai 2022	3.89	-0.9	74.6
Qatar 2022	3.65	-3.8	57.1
Kuwait 2022	3.45	8.0	64.1
Saudi Arabia 2023	3.81	1.0	59.1
International			
UST 10 Year	2.96	6.9	55.1
Bunds 10 Year	0.41	3.6	-1.5
Gilts 10 Year	1.28	4.8	9.2
JGB 10 Year	0.10	6.3	4.9
3m interbank rates	**%**	**Change (bps) weekly**	**YTD**
Bhibor	3.50	0.0	77.5
Kibor	2.06	0.0	18.8
Qibor	2.62	-2.2	-12.2
Eibor	2.52	0.4	72.6
Saibor	2.61	0.0	71.1
Libor	2.34	-0.8	64.5
Exchange rates	**Rate**	**Change (%) weekly**	**YTD**
KWD per USD	0.302	-0.06	0.39
KWD per EUR	0.352	0.00	-0.76
USD per EUR	1.166	-0.53	-2.83
JPY per USD	111.0	-0.32	-1.46
USD per GBP	1.310	-0.22	-3.03
EGP per USD	17.78	-0.39	0.28
Commodities	**$/unit**	**Change (%) weekly**	**YTD**
Brent crude	74.3	1.67	11.10
KEC	72.76	2.90	14.58
WTI	68.7	-2.51	13.69
Gold	1222.6	-0.56	-6.41

Source: Thomson Reuters Datastream; as of Friday's close 27/7/2018

Overview

Concerns over the recent escalation in global trade tensions were eased somewhat by the news that the US and EU had agreed to suspend further tariff hikes and discuss ways to reduce trade barriers in future. Markets were cautiously positive, with the deal still seen as fragile but also paving the way for both sides to exert greater pressure on perceived trade abuses by China.

Meanwhile the US economy continues to fire on all cylinders, with GDP growth reaching a near four-year high of 4.1% in 2Q18, helped by recent tax cuts and strong exports. Although growth was also helped by one-off factors, the report appears to cement the case for a September rate hike by the Federal Reserve. In Europe, the European Central Bank left policy unchanged, with President Draghi reaffirming that the bank's asset purchase program would end in December and hinting that an early rise in interest rates was unlikely.

The price of Brent crude oil broke a three-week losing streak, rising 1.7% w/w to $74.3/bbl, helped by news that Saudi Arabia was suspending oil shipments through a strait in the Red Sea following an attack on two oil tankers. Increasingly however, analysts see limited upside to prices after a rally that has pushed Brent up by around two-thirds over the past year.

In the Gulf, the IMF commended the Saudi authorities for progress on economic reforms and called for the government to stay the course in the face of higher oil prices and an improving fiscal position. The Fund forecasts growth rising to 1.9% this year and the fiscal deficit narrowing to 4.6% of GDP, around half last year's level. Meanwhile, state-owned oil firm Aramco is said to be considering purchasing a stake in local petrochemical producer Sabic, which would provide majority shareholder and local sovereign wealth fund PIF with a cash injection of up to $70 billion (9% of GDP), in turn helping it finance government development projects and supporting the growth outlook.

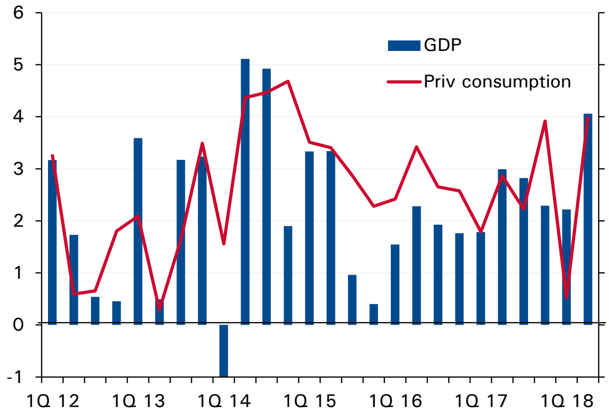
International macroeconomics

USA: Annualized GDP growth in 2Q18 reached 4.1%, its fastest since 3Q14 though broadly in line with expectations. (Chart 1.) The acceleration in growth from (an upwardly revised) 2.2% in

1Q18 was driven by a rebound in consumer spending to 4.0%, helped by a "sugar rush" from recent tax cuts. But business investment was also strong as were exports, with exporters reportedly trying push sales to beat future tariff increases. Note also that the figure was lowered by a decline in inventories; excluding this, growth in "final sales" would have been a remarkable 5.1%. The strong growth number, alongside a 3.0% rise in the GDP price index, will fuel concerns over overheating.

Chart 1: US GDP

(% q/q, annualized)



Source: Thomson Reuters Datastream

Elsewhere, the flash PMI indicator came in at 55.9 in July from 56.0 in June and signaling a strong start to 3Q18 for the US economy. This included an acceleration in manufacturing to 55.5 from 54.6, though cost pressures reached their highest in five years on rising energy, labor and raw materials prices. The University of Michigan's consumer confidence survey also showed sentiment remaining close to the robust levels of recent months in July. However, there was further evidence that the housing market is softening, with both new and existing homes sales falling in June, reportedly affected by rising mortgage rates but also supply constraints driven by skills and materials shortages.

Eurozone: European momentum may be stabilizing, but remains at risk of trade tensions, which are currently on hold following the meeting between Mr. Trump and Mr. Junker. Meanwhile, the ECB meeting produced little fresh news.

European consumer confidence eased less than expected in July, supporting the view that the slowdown in growth could be bottoming out and may rebound in 2H18. However, PMI numbers for the union were in softer in July (54.3) after a brief rebound in June, affected by weaker new orders, including from slowing exports due to trade tensions. Nonetheless, following an unexpected turnaround in rhetoric by Mr. Trump, the US and EU agreed to work on improving improve trade relations, cooling, for now, trade war concerns. If pursued, this could see a reduction in tariffs and other trade barriers.

Japan: The Bank of Japan is reportedly debating ways to keep its monetary policy sustainable, ahead of its policy meeting this week. With inflation still stubbornly low at a mere 0.7% in June and far below its official target of 2%, there are concerns about the longer-term impact of the bank's massive stimulus program. Reports of potential changes in policy lifted Japanese government bond yields last week, before the bank intervened, as part of its yield curve control program, to maintain the 10-year bond yield at or close to zero.

GCC & regional macroeconomics

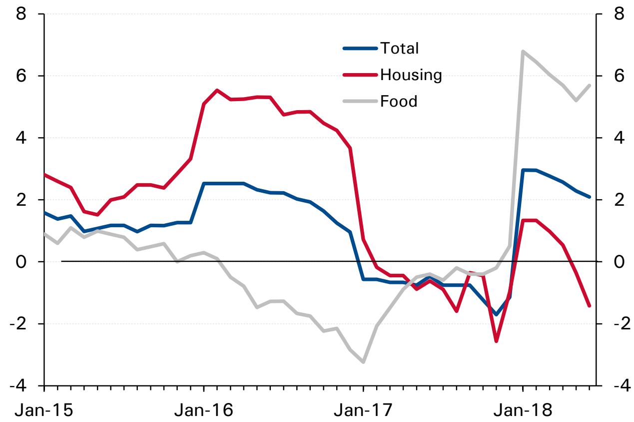
Kuwait: Kuwait's fiscal deficit (before transfers to the Reserve Fund for Future Generations and excluding investment income) shrunk to KD 3.2 billion (9% of GDP) in FY 17/18, from KD 4.6 billion the previous fiscal year. The improvement was supported by a strong rise in oil revenue, which more than offset surprisingly strong growth in expenditures, itself driven by an increase in both wages and capital expenditures.

Kuwait's external current account registered its highest surplus in three years, at KD 1.7 billion in 1Q18. The increase was thanks to the 23% y/y pick-up in oil prices (which averaged $63/bbl during the quarter), a large jump in petrochemical exports to Asia, and steady imports.

Saudi Arabia: Inflation eased to 2.1% y/y in June, from 2.3% in May. (Chart 2.) Upward pressures on prices included a rise in transportation prices by 10% y/y, as well as in food and beverages by 5.7%. Lower prices were recorded in clothing & footwear (-8%) and Housing and utilities costs (-1.4%). Inflation surged to 3.0% in January following the implementation of VAT and energy price hikes, but has moderated since. It may pick up later this year on base effects after large falls in late 2017.

Chart 2: Saudi consumer price inflation

(% y/y)



Source: Thomson Reuters Datastream

Turkey: The central bank unexpectedly kept its policy rate unchanged at 17.75% during its policy meeting last week, despite rising inflation that stood at more than triple its official target rate of 5% in June. The decision reignited fears about the central bank's independence following the re-election of President Erdogan last month, who has vowed to gain greater control over monetary policy decisions. The lira tumbled by as much as 4.2% following the announcement.

Markets – oil

The price of Brent crude oil saw a partial recovery last week, rising 1.7% to $74.3/bbl and ending three consecutive weeks of losses. (Chart 3.) Crude had been boosted mid-week after an attack on two oil tankers by Houthi militants resulted in Saudi Arabia suspending shipments through a strait in the Red Sea. US benchmark WTI, however, followed US equities lower on Friday and fell 2.5% w/w to end at $68.7/bbl.

Chart 3: Brent crude oil price

($/bbl)

Source: Thomson Reuters Datastream

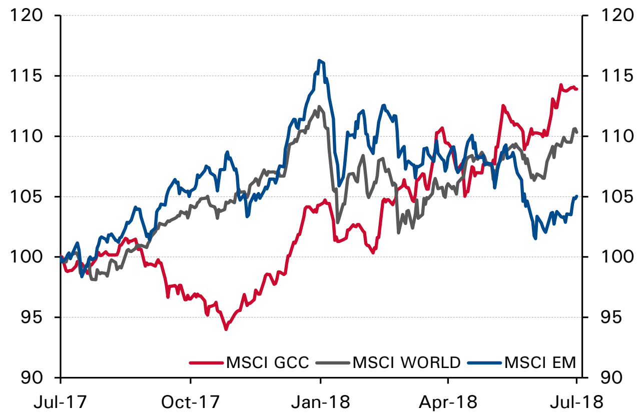
Although some consider that the rally that has driven Brent up around two-thirds over the past year may be wearing thin, many analysts also see enough supportive factors to keep prices above the $70/bbl mark in the near term. These include geopolitical tensions between the US and Iran as well as the sanctions impact, continued OPEC supply management despite agreed production increases, the latest reduction in trade tensions and largely decent growth in the global economy.

Markets – equities

International markets were mostly positive, supported by strong US growth and cooling trade tensions, with the MSCI AC world index up 0.8% w/w. The positive backdrop helped US equities eke out gains despite the wobble in tech stock earnings, with the S&P 500 and DJI increasing by 0.6% and 1.6%, respectively. The cooldown in trade tensions between the US and EU pushed the Euro Stoxx 50 and the MSCI EM 1.9% and 1.4% higher, respectively. (Chart 4.)

Chart 4: International equity indices

(rebased, 27 July 2017=100)

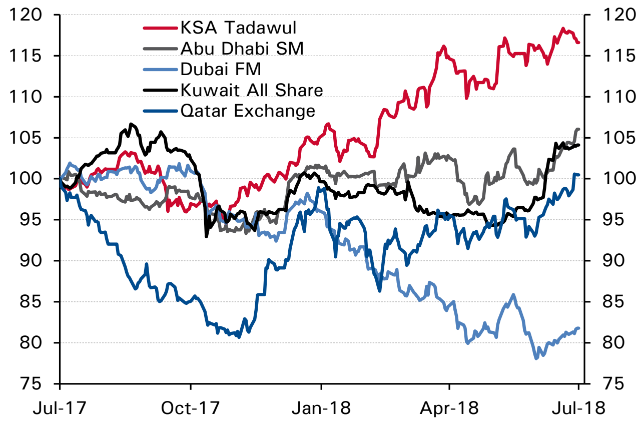


Source: Thomson Reuters Datastream

Strong bank earnings continued to support regional bourses, but performance was weighed down by geopolitics, as the MSCI GCC index was almost flat, increasing by 0.1% w/w, led by a 1.0% decline in Saudi. (Chart 5.)

Chart 5: GCC equity markets

(rebased, 27 July 2017=100)



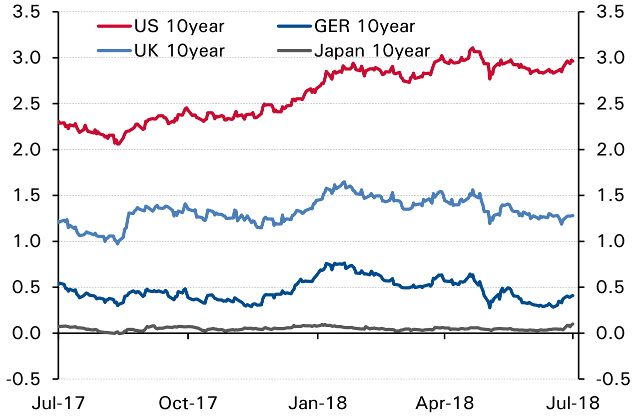
Source: Thomson Reuters Datastream

Markets – fixed income

Strong US growth and concerns over tighter Japanese monetary policy pushed global benchmark yields higher last week. US 10-year yields increased by 7 bps to 2.96%, tracked by 10-year bunds which rose 4bps to 0.41%. (Chart 6.) Meanwhile, GCC yields moved higher in tandem, with most debt maturing in 2022/23 up 1-8 basis points. (Chart 7.)

Chart 6: Global bond yields

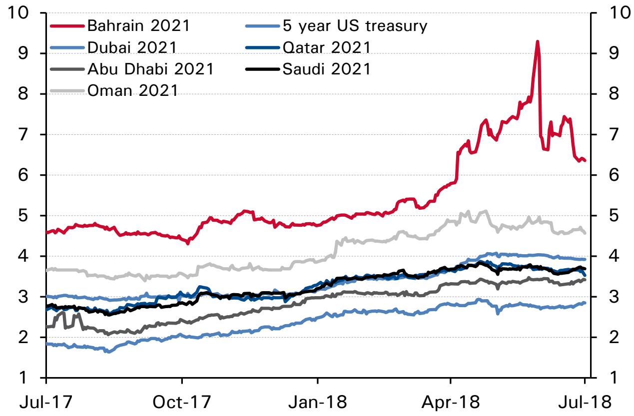
(%)



Source: Thomson Reuters Datastream

Chart 7: GCC bond yields

(%)



Source: Thomson Reuters Datastream

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