Interest rates up on the week; June US payrolls gain 222K; oil prices off; Qatar situation persists

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi SM	4,396	-0.66	-3.30
Bahrain ASI	1,311	0.06	7.41
Dubai FM	3,401	0.27	-3.67
Egypt EGX 30	13,370	-0.19	8.30
S&P GCC 40	1,034	0.28	-10.45
Kuwait SE	6,680	-1.22	16.21
KSA Tadawul	7,204	-2.99	-0.09
Muscat SM 30	5,120	0.02	-11.47
Qatar Exchange	8,923	-1.19	-14.51
International			
CSI 300	3,656	-0.30	10.45
DAX	12,389	0.52	7.91
DJIA	21,414	0.30	8.36
Eurostoxx 50	3,464	0.64	5.27
FTSE 100	7,351	0.52	2.91
Nikkei 225	19,929	-0.52	4.26
S&P 500	2,425	0.07	8.32

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	46.7	-2.53	-17.79
KEC	46.9	3.49	-10.29
WTI	44.2	-3.93	-17.67
Gold	1208.6	-2.59	5.10

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	0.03	-0.88
KWD per EUR	0.340	0.27	6.85
USD per EUR	1.140	-0.20	8.44
JPY per USD	113.880	1.36	-2.56
GBP per USD	1.289	-1.04	4.48
EGP per USD	17.850	-1.22	-0.83

Interbank rates	%	Change (bps) weekly	YTD
Bhibor - 3 month	2.40	0.0	30.0
Kibor - 3 month	1.75	0.0	31.3
Qibor - 3 month	2.45	0.9	66.8
Eibor - 3 month	1.55	3.2	7.1
Saibor - 3 month	1.78	0.2	-25.1
Libor - 3 month	1.30	0.6	30.6

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2021	2.40	6.0	-13.4
Dubai 2021	3.02	7.9	-27.9
Qatar 2021	3.41	31.0	47.6
Kuwait 2022	2.72	6.0	n/a
Saudi Arabia 2022	3.03	19.0	n/a
International			
UST 10 Year	2.39	9.1	-3.9
Bunds 10 Year	0.57	9.9	36.2
Gilts 10 Year	1.31	5.0	6.9
JGB 10 Year	0.09	0.8	4.3

Source: Thomson Reuters Datastream; as of Friday close

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

Summary

Positive data and “hawkish” central bank communication weighed on markets last week. Following weeks of slightly lower Interest rates and a flatter yield curve, rates and the curve went in the opposite direction in the past two weeks. The moves were driven by more hawkish rhetoric by major central banks (ECB, BOE) and by further signs that the Fed was getting ready to “taper” or start reducing its huge portfolio as early as September of this year. The strong June payroll report in the US supported a less accommodative Fed.

The ECB, in turn, may also reduce the size of its bond purchases next year. The news weighed more heavily on the longer maturities in advanced markets. The US 10-year closed the week at 2.39%, Bunds were at 57 bps, and US rates rose across the board.

Higher rates in Europe and expectations thereof contributed to the higher euro in the past few days. The euro reached its highest levels in over a year. Meanwhile, equities continued to advance in advanced economies, while the Qatar situation and lower oil prices weighed on the GCC markets, in the first week of full trading following Ramadan.

International macroeconomics

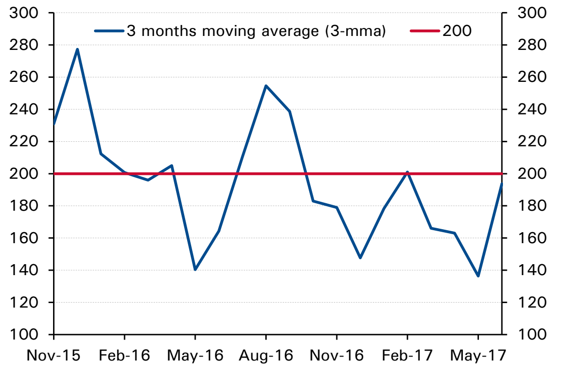
US: US payrolls added 222k new jobs in June. The unemployment rate was little changed at a low 4.4%. Wage inflation remained contained and steady near 2.4% y/y. The firm employment report should not change anything for the Fed or the markets. The Fed should still be on track for further rate hikes, at the pace it set itself. Similarly, the report will not change the Fed’s view to start “tapering” its massive fixed-income holdings later this year. The markets will hold on to their view, expecting less “tightenings” than implied by Fed talk and by the Fed’s “dot-plots”. The markets, and we, are very doubtful as to another 25 bps hike this year. The discrepancy is in part due to the mild inflation (price and wage) outlook.

Eurozone: Eurozone economic performance started 2H17 on a positive footing with France and Germany’s June services PMIs revised higher, to 56.9 and 54, respectively, while Spain’s came in at an impressive 58.3, greatly beating expectations. The Spanish government has also revised its growth forecasts higher to 3% and 2.6% for 2017 and 2018, respectively, deeming the previous expectations as conservative.

China: The services industry in China is growing, but at a slower pace, according to China Caixin services PMI. The June figure came in at 51.6, lower than the 4-month high of 52.8 reported in May. Caixin’s manufacturing PMI was at 50.4 in June, up from May’s 49.6. The domestic economy is growing but at a slower pace, in line with the cooling of the real estate sector.

Chart 1: US nonfarm payroll gains (000s)

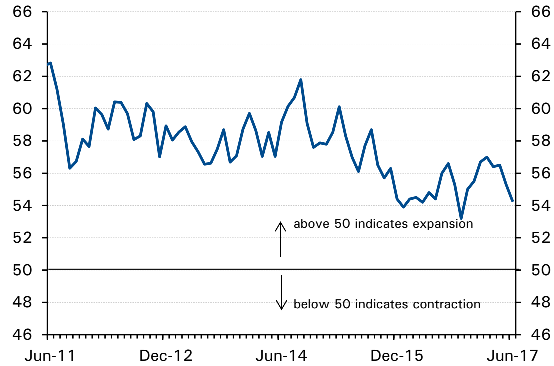
(index)



Source: BLS

Chart 2: Saudi PMIs

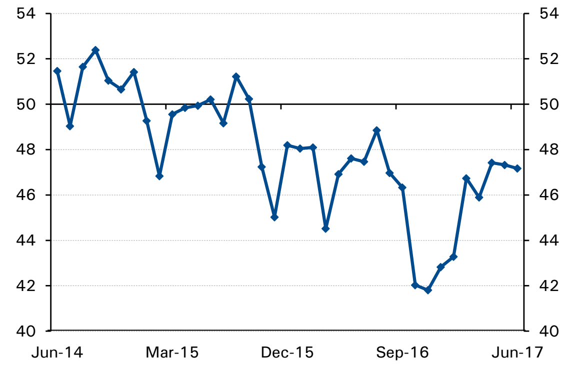
(index)



Source: Emirates NBD/Markit

Chart 3: Egypt PMI

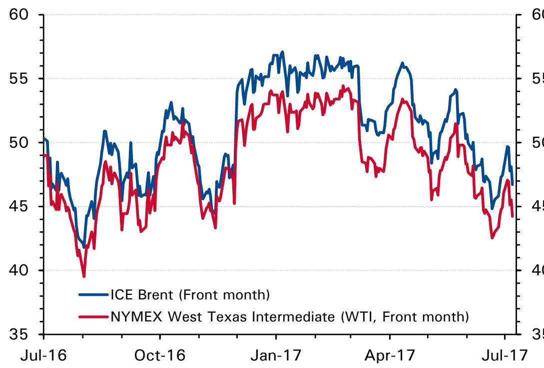
(index)



Source: Markit

Chart 4: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

GCC & regional macroeconomics

Kuwait: In the second quarter of 2017, a total of $1.9 bn were awarded in contracts. The largest sector that witnessed project awards was the transport sector, at $943 mn, followed by the power sector at $746 mn and finally construction at $210 mn. The second quarter awards bring up the total project awards year-to-date in 2017 to $6.9 bn. This figure underperforms compared to 2016's awards of $12.8 bn in the first half of the year. However, it is still a strong figure, as 2015 and 2016 were exceptional years. The commercial bidding for Al Zour North phase 2 has not yet been announced; it was expected by the end of June, but there are no updates so far.

Saudi Arabia: The headline PMI fell for a second consecutive month in June, to 54.3 from 55.3 in May. (Chart 2.) June's reading, while still comfortably indicative of continued expansion in the Saudi non-oil sector was, nevertheless, the lowest in 8 months. Overall business conditions remain healthy, but output and new orders improved at the slowest pace in 8 months. Employment growth picked up pace, but only slightly.

UAE: The headline PMI rose from 54.3 in May to 55.8 in June on the back of higher new orders and output data. New orders climbed to an almost two-year high of 60.7 in June and output jumped to 60.2, thanks to relatively resilient domestic economic conditions.

Qatar: Bahrain, Egypt, Saudi Arabia, and the UAE are disappointed in Qatar's response to their 13-point ultimatum. The foreign ministers of the four nations met on Wednesday, 5 July, and stated that the economic sanctions and political boycott will continue for now, but they have stopped short of expanding them or expelling Qatar from the GCC. The latter would require the approval of both Kuwait and Oman, which is uncertain. The next meeting of the four nations will be in Manama, Bahrain, but the exact date has not been set yet.

Qatar Petroleum (QP) announced that it will raise LNG production by 30% to 100 million tons a year. While this follows the lifting of the 12-year moratorium on gas development in the offshore North field earlier in the year, the timing of this announcement was obviously designed to send a signal to the anti-Qatar coalition and the world that Qatar remains unbowed by the diplomatic dispute and sanctions and is determined to show itself a reliable energy partner.

The magnitude of the country's LNG expansion plans took many by surprise, however.

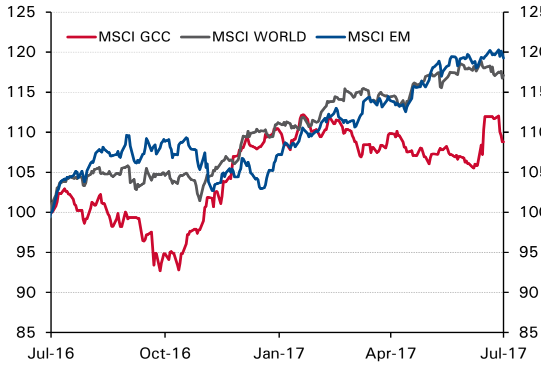
Egypt: The June PMI pointed to more stagnation with the index at 47.2 (Chart 3), a reading consistent with 2% growth, though other indicators suggest GDP growth improved to 3-4% in 2Q17. Export orders slipped, but remained the sole source of strength. Inflationary pressures rose following months of cooling. Inflation has remained high, at an annualized monthly pace above 20% in May and 30% y/y.

In a bid to fend off accelerating inflation and protect its floating currency, the central bank decided to raise its policy rates by 200 bps for the second policy meeting in a row. The overnight deposit rate now stands at 18.75% and the overnight lending rate at 19.75%. This came at odds with most analysts' expectations.

Central bank foreign reserves reached their highest level since February 2011, registering at USD 31.1 billion, or 8 months of imports.

Chart 5: Total return indices

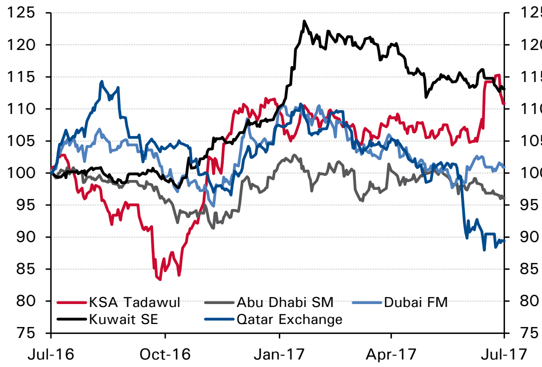
(rebased, 8 July, 2016=100)



Source: Thomson Reuters Datastream

Chart 6: GCC Markets

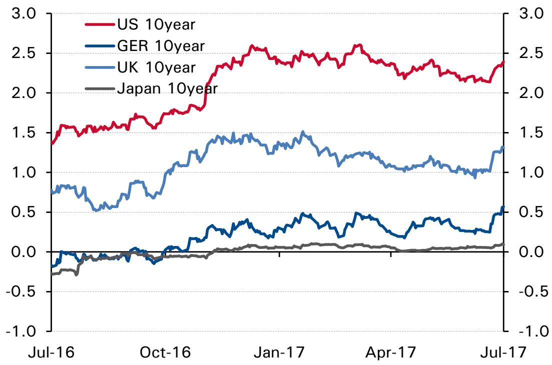
(rebased, 8 July, 2016=100)



Source: Thomson Reuters Datastream

Chart 7: Global bond yields

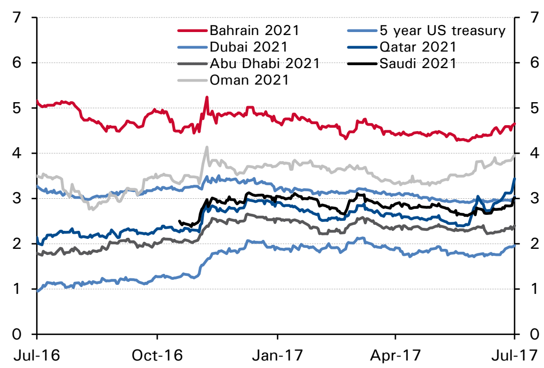
(%)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – oil

Wednesday saw Brent and WTI fall by 4%, to $47.8/bbl and $45.1/bbl, respectively, after a reported increase in OPEC exports. According to Thomson Reuters, OPEC exported 25.92 mb/d in June, a rise of 450,000 b/d m/m and 1.9 mb/d y/y. The dramatic fall brought an abrupt end to 8 consecutive days of price rises since late June. (Chart 4.)

The increase in exports came despite the group's pledge to maintain production cuts until March 2018, so either production increased in June (we are still awaiting official data) or stocks were monetized. The impact on global markets would be the same either way—an increase in supplies at a time when the market was assumed to be tightening.

Oil prices declined by the end of the week, with Brent and WTI down by 2.5% and 3.9% to $46.7/bbl and $44.23/bbl, respectively, also due to the expansion in US drilling activity and increase in rig counts. The total US rig count is up to 763, an increase of seven in the week ending July 7. This offset the rise brought on by the EIA (API) report on declining US crude and gasoline stocks. US stockpiles contracted by 6.3 million barrels, three times the expected figure.

Markets – equities

Strong data (followed by central bank "hawkishness") led support to equities this week. Advanced markets, however, continued to move sideways, with the MSCI world index "flat". In the US, strong PMI and jobs data also helped offset some Fed related pressure. The DJIA and the S&P 500, were up 0.3% and 0.1%, respectively. In Europe, shares were supported by positive economic news, with the Eurostoxx 50 up 0.6%. Emerging markets, on the other hand, edged lower, down 0.3%. (Chart 5.)

Profit taking in Saudi, following its impressive rise on MSCI inclusion news last week, and the looming deadlines of the Qatari rift, followed by a refusal to adhere, dictated regional market movements this week. Both the TASI and the QSI saw major volatility, and finished the week in the red. Other GCC markets were also down or little changed as investors sat on the sidelines ahead of 2Q17 earnings announcements. As a result, the MSCI GCC index was down 3%. (Chart 6.)

Saudi stocks started the week on the heels of a strong performance following upbeat news of its placement on MSCI's watch list. The positive performance, however, was cut short as investors, who viewed the market to be fully valued, sought profit taking. The Tadawul all-share index dropped by 2.6% on the 4th of July, its biggest fall since October 2016. The cancellation of all export duties on steel for two years extended some support to the market late in the week, but failed to offset the effects of weakening oil prices. TASI was down 3.0% on the week.

Qatari stocks' performance hinged on developments over its rift with GCC neighbors, as investors worked with opaque optics. The Qatar exchange index swung around the political deadlines. Investors were torn between exiting the currently ostracized market and taking advantage of the dip. Meanwhile, news later in the week of Qatar's refusal to comply with demands pressured the market. The QSI dropped 1.2% on the week.

Markets – fixed income

The perceived new hawkishness of global central banks lingered on this week, and was exacerbated by strong US data (ISM and jobs) and the ECB. Some downplaying of hawkish sentiment by EU central banking officials and geopolitical risk over North Korea initially provided a cap on yields. However, stronger than expected manufacturing and jobs gains in the US and evidence of tapering considerations following the ECB minutes, saw yields on US treasuries and Bunds shoot up. US 10-year treasuries were up 9 bps over the week, to settle at 2.39%; while 10-year bunds added 10 bps, registering at 0.57%. (Chart 7.)

The sell-off of Qatari bonds picked up following the political deadlock, with some spillover into Saudi debt. Qatari yields moved up significantly, with debt maturing in 2021 ending at 3.41%, up 31 bps on the week, and 100 bps since the start of the crisis. Saudi paper maturing in 2022 saw its yield jump 19bps.

The rest of the GCC sovereign yields tracked international yields higher, with bonds maturing in 2021 for Abu Dhabi and Dubai up 6-8 bps, while Kuwait's 2022 bond was up 6 bps. (Chart 8.)

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