July US payrolls solid at 209K gain; US equity rally unabated; July PMIs steady in KSA and UAE

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi SM	4,596	0.61	1.09
Bahrain ASI	1,323	-0.97	8.37
Dubai FM	3,675	1.91	4.09
Egypt EGX 30	13,413	-1.44	8.65
S&P GCC 40	1,068	-0.58	-7.52
Kuwait SE	6,826	0.30	18.75
KSA Tadawul	7,086	-1.25	-1.73
Muscat SM 30	5,058	0.20	-12.54
Qatar Exchange	9,398	-1.73	-9.95
International			
CSI 300	3,708	-0.38	12.01
DAX	12,298	1.11	7.11
DJIA	22,093	1.20	11.79
Eurostoxx 50	3,507	1.14	6.59
FTSE 100	7,512	1.95	5.16
Nikkei 225	19,952	-0.04	4.38
S&P 500	2,477	0.19	10.63

Commodities	$/unit	Change (%) weekly	Change (%) YTD
Brent crude	52.4	-0.19	-7.74
KEC	48.8	1.28	-6.71
WTI	49.6	-0.26	-7.71
Gold	1258.3	-0.80	9.42

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.301	-0.11	-1.32
KWD per EUR	0.357	2.44	12.13
USD per EUR	1.177	0.15	11.94
JPY per USD	110.670	0.02	-5.31
GBP per USD	1.304	-0.73	5.67
EGP per USD	17.750	-0.45	-1.39

Interbank rates	%	Change (bps) weekly	Change (bps) YTD
Bhibor - 3 month	2.38	0.0	27.5
Kibor - 3 month	1.75	0.0	31.3
Qibor - 3 month	2.49	0.3	71.1
Eibor - 3 month	1.53	0.4	5.1
Saibor - 3 month	1.80	-0.1	-23.8
Libor - 3 month	1.31	0.1	31.4

Bond yields	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2021	2.27	0.9	-26.6
Dubai 2021	2.99	0.1	-31.1
Qatar 2021	2.68	0.1	-25.4
Kuwait 2022	2.59	-1.9	n/a
Saudi Arabia 2022	2.87	0.1	n/a
International			
UST 10 Year	2.27	-1.8	-16.3
Bunds 10 Year	0.48	-6.4	27.2
Gilts 10 Year	1.18	-4.0	-6.4
JGB 10 Year	0.07	-0.9	1.6

Source: Thomson Reuters Datastream; as of Friday close 04/08/2017

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Summary

Nonfarm payrolls in the US added 209K new jobs in July, while June's gain was revised up to 231K (from 222K). Unemployment remained low at 4.3%, its best level in 17 years. At the same time, wage pressures remain conspicuously absent; wage inflation ran 2.4% y/y in July, which is virtually the same steady rate of the first 7 months of 2017.

With employment growth strong and little wage pressure, the Fed has no reason to deviate from its recent pronouncements. But we are still on track for perhaps one more rate hike this year, and the reduction of the balance sheet ought to be announced in September, to commence soon thereafter (this year).

The positive US employment data helped US equities reach new highs last week, with the Dow Jones Industrial closing above 22,000. The report had little impact on interest rates though. The US 10-year yield closed lower at 2.26%, while the USD recovered a bit of ground against the euro and the GBP.

Ex-Fed Chairman Alan Greenspan gave an interview saying the US stock market was not in a bubble but rather the bond market was. He added that interest rates could move up in a hurry (presumably when inflation rises and the central banks stop buying bonds), but that no one knew when that time would be. In our view, given the low inflation environment and the extreme caution and prudence exhibited by central banks in reversing QE policies, the timing of significantly higher interest rates is not around the corner. It may have to wait for the Fed and the ECB (and others) to start reducing their holdings simultaneously and significantly, which is unlikely before 2019.

GDP growth in the Eurozone was 2.4% (q/q ann.) in the second quarter, or 2.1% y/y. This virtually matched US growth in that quarter (2.6% q/q ann., 2.1% y/y) and reinforced the view that the ECB's policy would be catching up with the Fed's sooner rather than later. However, the ECB's next step would be to reduce its monthly purchases of assets, rather than to reduce its balance sheet outright, like the Fed is expected to do later this year.

July PMIs for Saudi Arabia and the UAE continue to show moderate, sustained growth in their non-oil sectors, while Egypt's index recovered to 48.6, its best level in 12 months (but remains under 50).

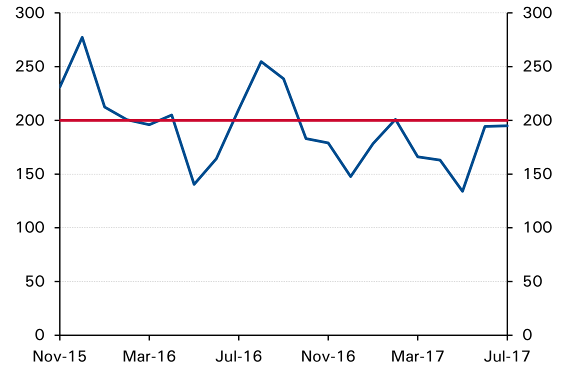
International macroeconomics

US: The highlight was the nonfarm payrolls report. The latter was solid showing at a gain of 209K in July, and a 3-month moving average steady at 194K, See SUMMARY above. (Chart 1.)

The PMI-manufacturing for July fell from 57.8 to 56.4. The non-manufacturing index similarly backtracked from 57.4 in June to 53.9 in July. However, both indices remain in healthy, moderate growth territory.

Chart 1: US Nonfarm payroll gains

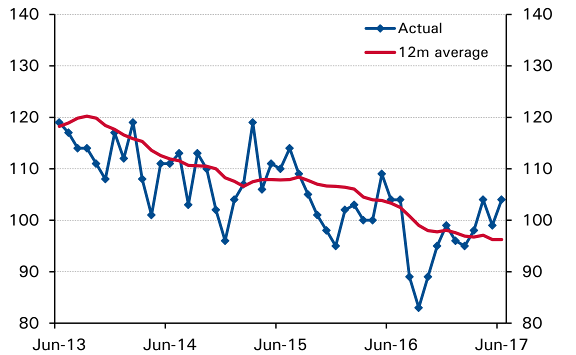
(3-month moving average, 000s)



Source: BLS

Chart 2: Kuwait consumer confidence

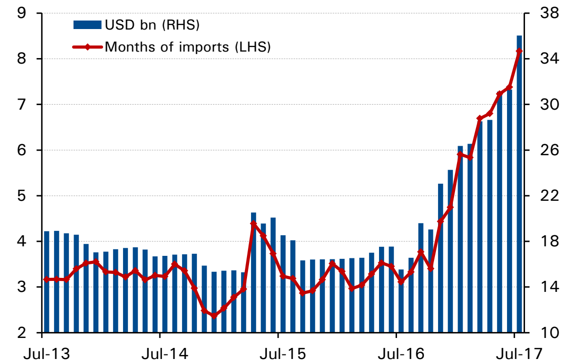
(index)



Source: Ara Research & Consultancy

Chart 3: Egypt official reserves

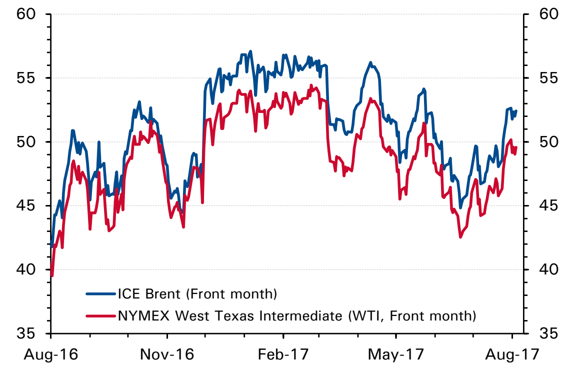
(foreign reserves of the CBE)



Source: CBE, Thomson Reuters Datastream, NBK estimates

Chart 4: Benchmark crude oil prices

(USD per barrel, USD/bbl)



Source: Thomson Reuters Datastream

Consumption and income disappointed in June. Consumption gained 0.1% and income was unchanged. Auto sales also fell in June, and have been soft the past 3 months. Car sales were also soft in the past 3 months to July.

Eurozone: Both EZ 2Q17 GDP growth and July inflation came in as expected, while July's PMIs were confirmed at healthy levels. 2Q17 GDP came in at a healthy 0.6% q/q and 2.1% y/y, picking up pace from the previous quarter (1.9% y/y). July's inflation was unchanged from the previous month at 1.3% y/y. Core inflation, however, was at its highest since 2013, hitting 1.2% y/y. Meanwhile, July's composite PMI of 55.7 hints at a strong third quarter of EZ growth. The data is supporting investors' views on upcoming ECB tapering. They now expect some form of tapering by year-end. As a result, the EUR reached new highs, close to 118 against the dollar.

China: China's services sector grew at a slower pace in July, as shown by the Caixin services PMI. It dropped to 51.5 in July from 51.6 in June. China is in need of robust services to ease reliance on manufacturing.

GCC & regional macroeconomics

Kuwait: Consumer confidence bounced back in June, with the Ara index advancing to 104. This is only the second time this year that the index was above 100. The index, which has been on a downward trend for four years, fell more rapidly in 2016 after fuel prices were hiked. It has since recovered somewhat, though the general index's 3-month average remains down 1.9% y/y in June. The durable goods component remains particularly weak, with the 3-month average down 21% y/y. (Chart 2)

The current account surplus narrowed to KD 0.3 billion in 1Q17, from KD 0.6 billion in 4Q16. The surplus was led down by deterioration in the goods balance, a decline in investment income and a rebound in net service outflows. Nonetheless, the surplus helped prop up portfolio outflows to a multi-quarter high of KD 2.6 billion.

Saudi Arabia: The unemployment rate rose to 12.7% in 1Q17, a percentage point higher y/y. The increase came as the economy slowed amid reduced government spending and new fiscal reforms.

Qatar: Qatar's trade data in June revealed the magnitude of the impact of trade sanctions on the Gulf state. Imports declined 40.0% y/y and 37.9% m/m to QR 5.87 billion ($1.61 billion). Exports of hydrocarbons grew 15.8% to QR 11.88 billion. Helium was the export most affected by the sanctions as it is shipped across land through the Saudi border. Officials expressed optimism, however, and said that they had found alternative ways to deal with the restrictions.

UAE: The headline PMI rose to a solid 56.0 in July as new orders and output held firm, thanks to an ongoing improvement in domestic conditions. Healthy new orders and output data more than offset the continued decline in new export orders.

Egypt: Foreign reserves shot up past their pre-"Arab Spring" level for the first time in July. Reserves rose $4.7 billion to $36 billion (8.2 months of imports), just above their level at the end of 2010. (Chart 3.) July saw the payment of $1.25 billion for the second tranche of the $12 billion IMF loan. The CBE governor said that July saw $3.7 billion in foreign investment inflows. Higher interest rates after two rate hikes have made domestic bonds more attractive. Equities have also drawn investors hoping to profit from the economic recovery.

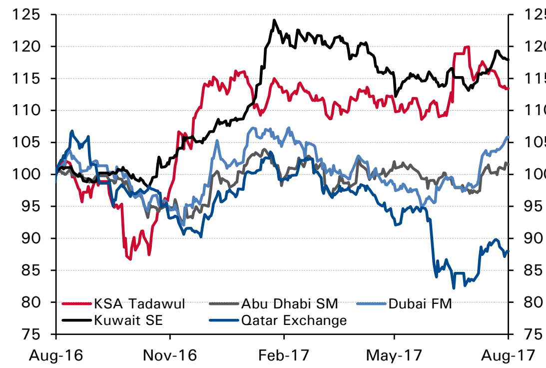
Chart 5: Total return indices

(rebased, 04 August 2016=100)

Source: Thomson Reuters Datastream

Chart 6: GCC markets

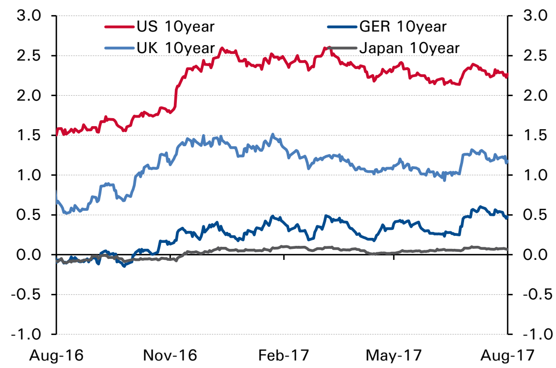
(rebased, 04 August 2016=100)



Source: Thomson Reuters Datastream

Chart 7: Global benchmark yields

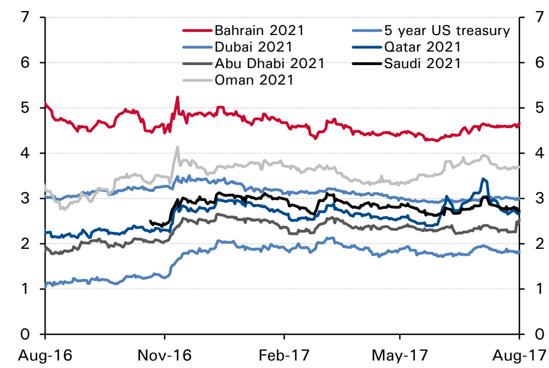
(%)



Source: Thomson Reuters Datastream

Chart 8: GCC yields

(%)



Source: Thomson Reuters Datastream

The July PMI pointed to slow improvement and an economy on the mend, with the index at its best level in a year, at 48.6. The month's PMI reading is consistent with moderate GDP growth. New orders and export orders have been improving for months, and export orders have been expanding the past four months, thanks in part to the cheaper currency. Inflationary pressures rose again in July.

Markets – oil

Oil prices remain supported on news of strong US demand—bolstered by positive employment data in the US. US stockpiles declined less than expected, however, and US and OPEC production figures are still high, which capped further gains in the oil price. In the week ending 4 August, Brent and WTI reached $52.42/bbl and $49.58/bbl, respectively. (Chart 4.)

The Energy Information Administration (EIA) reported a less-than-expected 1.5 million barrel drop in US crude stocks last week. However, market sentiment remained bullish on signs of increasing US demand. The EIA reported that gasoline demand reached a record 9.84 barrels in the same week. To meet the burgeoning demand, US refiners have increased capacity as well. The refinery runs figure rose by 123,000 b/d last week. In the coming days, the market will closely watch for the outcome of the joint OPEC and non-OPEC committee meeting. The committee that monitors production cuts is due to meet in Abu Dhabi 7-8 August. The committee estimated that the compliance rate is at 98% in June (NBK estimates 94%). After the most recent meeting in St. Petersburg, Saudi Arabia urged non-compliant producers to redouble their efforts to cut production to agreed levels.

Markets – equities

Equity markets added decent gains last week, with the MSCI AC index up 0.5%. US equities outperformed, buoyed by strong earnings announcements. The S&P 500 and DJIA were up 0.3% and 1.2% on the week, respectively, with the latter breaching 22,000 (a record high). European equities picked up as well, with the Euro Stoxx 50 closing up 1.1%. Investors reacted to data releases (GDP, inflation, PMI) that further confirmed the upswing in the single-currency area. Meanwhile, emerging market equities gained more ground, with the MSCI EM up 0.6% on the week. (Chart 5.)

GCC markets were mixed last week, with the heavy-weight Saudi market hindering regional indexes. The MSCI GCC closed the week -1.1% lower. Saudi stocks were affected by a rather, so far, disappointing earnings season. Qatari equities also had a bad week after earnings came in weaker than expected; the Qatari index retreated 0.8%. (Chart 6.)

Markets – fixed income

Fixed income investors reacted to data primarily, as oil prices held steady and political developments were minor.

Soft data (auto and consumer) had investors turn bullish on US treasuries early in the week, with long-end yields dropping initially. A surprise jobs report, however, supported views of decent US growth and as expected monetary tightening. As such, US yields were little changed at 2.27 bps by week-end. (Chart 7.)

Modest data and a positively performing stock market saw yields on Bunds drop as investors pushed back the likelihood of ECB tapering to year-end and sought equities. Yields were further pressured down by safe-haven buying, following relatively dovish comments from the BOE. 10-year bunds were down 6 bps to 0.48%. (Chart 7.)

GCC sovereign yields were relatively unchanged, as oil prices held steady above $50. Bonds maturing in 2021 for Abu Dhabi, Dubai, and Qatar and 2022 for Saudi were little changed, while Kuwait's 2022 bond was down 2 bps. (Chart 8.)

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