US growth remained buoyant in Q3; ECB to wind down QE program by end-year

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,882	-2.13	11.00
Bahrain (ASI)	1,316	-0.60	-1.22
Dubai (DFMGI)	2,736	-0.77	-18.80
Egypt (EGX 30)	13,024	-4.55	-13.29
GCC (S&P GCC 40)	1,111	-2.13	12.85
Kuwait (All Share Index)	5,040	0.71	4.33
KSA (TASI)	7,836	2.45	8.43
Oman (MSM 30)	4,453	0.19	-12.68
Qatar (QE Index)	10,153	-0.39	19.12
International			
CSI 300	3,174	1.23	-21.27
DAX	11,201	-3.06	-13.29
DJIA	24,688	-2.97	-0.13
Euro Stoxx 50	3,135	-2.36	-10.53
FTSE 100	6,940	-1.56	-9.73
Nikkei 225	21,185	-5.98	-6.94
S&P 500	2,659	-3.94	-0.56

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.63	-6.1	68.4
Dubai 2022	4.14	0.3	99.9
Qatar 2022	3.71	-4.1	63.4
Kuwait 2022	3.66	-3.1	85.4
Saudi Arabia 2023	4.11	-13.1	89.4
International			
UST 10 Year	3.08	-12.6	66.5
Bunds 10 Year	0.35	-8.4	-7.4
Gilts 10 Year	1.39	-19.4	19.7
JGB 10 Year	0.11	-3.9	6.0

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.70	0.0	97.5
Kibor	2.13	6.3	25.0
Qibor	2.81	0.1	6.6
Eibor	2.68	2.6	88.1
Saibor	2.75	1.2	85.1
Libor	2.51	4.0	81.5

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	0.15	0.75
KWD per EUR	0.348	0.00	-1.86
USD per EUR	1.140	-0.97	-4.96
JPY per USD	111.9	-0.58	-0.69
USD per GBP	1.283	-1.83	-5.04
EGP per USD	17.86	-0.06	0.73

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	77.6	-2.71	16.08
KEC	74.6	-5.62	17.4
WTI	67.6	-2.21	11.87
Gold	1232.5	0.59	-5.65

Source: Thomson Reuters Datastream; as of Friday's close 26/10/2018

Overview

US economic growth remained buoyant at 3.5% in 3Q18, beating expectations due to another strong quarter for consumer spending. This contrasts with continued concerns over waning growth in Europe, fueled last week by a sharp drop in the PMI index and the EU's rejection of the Italian government's draft budget, setting the stage for continued political confrontation. Despite this, ECB president Draghi – while more cautious about the economic outlook – said that the bank will press on with plans to wind down its asset purchase program by December.

The price of Brent crude oil suffered its third successive weekly fall, ending down 3% at $78 and 10% below its early October high. Market focus has switched from the impact of US sanctions on Iranian supply to a weaker demand outlook – due to a combination of lower global growth, trade tensions and emerging market currency weakness – and rising oil output in both Russia and Saudi Arabia. The latter said that its production will reach 11 million b/d in November, could produce to full capacity of 12 million b/d soon and is willing to invest to raise capacity even further in the future.

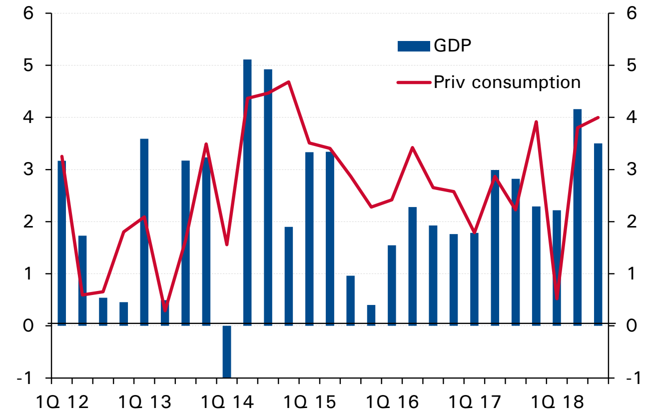
In Egypt, the government's financial position remains in focus following news that it would postpone the privatization of a state-owned tobacco firm until next year amid unfavorable market conditions. The news implies further pressure on the fiscal deficit which, despite subsidy cuts in July, is projected at 9.5% of GDP this fiscal year. Following the cancelation of four successive bond auctions in September before securing funds in early October at rates of 18%+, the government announced last week that it would offer yen and yuan-denominated bonds next year in order to improve its debt structure and lower funding costs.

International macroeconomics

USA: The first estimate of GDP growth for 3Q18 came in at a very strong annualized 3.5% q/q though below the 4.2% recorded in Q2. (Chart 1.) The above-consensus figure was driven by very robust 4.0% growth in consumer spending and a rise in inventories, though business investment growth slowed to just 0.8% from 9% in Q2 suggesting a rapid fading of the impact of corporate tax cuts early in the year. Also on the weak side were residential investment (-4.0%) and exports (-3.5%), but import growth was strong (9.1%) despite the imposition of tariffs.

Chart 1: US GDP

(% q/q, annualized)



Source: Thomson Reuters Datastream

High frequency data last week was mixed, though overall positive. Flash PMI estimates for October were slightly firmer than the final September numbers, with manufacturers (55.9) reporting strong order books, hiring, and longer deliver times though also higher costs due to tariff effects and higher oil prices, while the services measure (54.7) revealed input costs at a five-year high. The University of Michigan's consumer sentiment measure for October was very strong signaling continued consumer sector strength into Q4. But there was further disappointing news in the housing market, with new home sales slumping 5.5% m/m and now mirroring the larger existing home sales segment in displaying weakness.

Eurozone: Despite recent financial market volatility and signs of softer European growth, the European Central Bank kept monetary policy on hold and said that it would, as planned, end asset purchases (currently €15 billion per month) by the end of the year and leave interest rates unchanged until at least summer 2019. ECB President Draghi acknowledged, though played down, concerns over the growth outlook by arguing that there was weaker momentum, but not a downturn.

The ECB is at the sharp end of the current Italy-EU budget confrontation as the winding down of QE will reduce support for Italian government bonds and make deficit financing more difficult. Last week the European Commission rejected Italy's proposed budget deficit target of 2.4% of GDP for 2019, giving the Italian government three weeks to revise their proposals or potentially face punitive measures. Draghi ruled out proactive support for Italian bonds by stating that the bank's mandate was to target price stability, not finance government deficits.

On the data front, flash PMI indices for October revealed slowdowns in both manufacturing and services sectors, with the overall composite index falling to a two-and-a-half year low of 52.7 with export orders hit by trade tensions. (Chart 2.) This would be consistent with GDP growth of around 0.3% q/q, slower than the 0.4% recorded for Q2. Consumer confidence, however, improved fractionally in October but remains lower than at the start of the year.

Chart 2: Eurozone PMI

(KD million per month)

Source: IHS Markit

Japan: Prime Minister Shinzo Abe travelled to China last week in a bid to strengthen economic ties, particularly in the financial and trade sectors. In addition to their respective central banks reaching a three-year credit swap agreement that will allow them to exchange $30 billion worth of their respective currencies to boost trade flows, Japanese and Chinese companies have reportedly signed $18 billion worth of deals. The two countries have also pledged to cooperate on developments in the Southeast Asia region and on establishing a Regional Comprehensive Economic Partnership – a trade deal. This was the prime minister's first formal meeting with China in seven years and it appears to have been successful, providing support for both countries which have been hit by trade woes with the US. Japan saw its exports fall in September for the first time since 2016, on weaker demand from the US and China.

China: China has vowed to adopt more proactive fiscal policy measures in an effort to support the economy, after third quarter GDP growth came in at 6.5% y/y, its lowest rate since 2009 at the height of the financial crisis. The measures include cutting income tax, more deregulation and, possibly, reducing corporate taxes. According to an advisor at China's central bank, the tax cuts could amount to 1% of GDP in 2019.

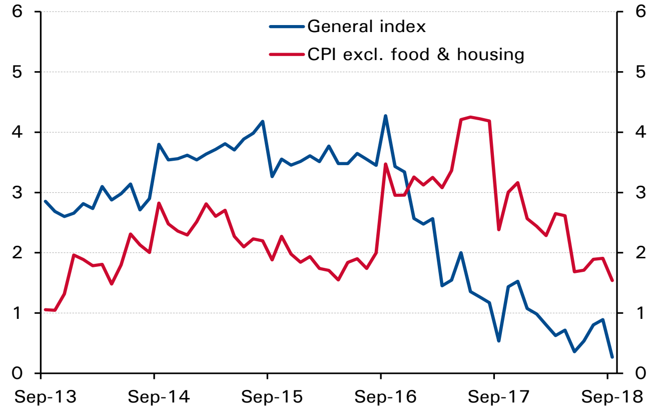
GCC & regional macroeconomics

Kuwait: Inflation dipped to a 14-year low of 0.3% y/y in September from 0.9% in August. The drop was caused partly by weaker housing inflation which reached -1.5% from -0.9% in

August, but also weaker food price inflation, which fell to 0.4% from 1.4% in August. Food price inflation eased due to lower fish and seafood prices, which had spiked in July. 'Core' inflation, which excludes food and housing, also eased to 1.5% y/y from 1.9% the previous month, helped by softer inflation in clothing and transportation. (Chart 3.)

Chart 3: Kuwait Consumer Price Inflation

(KD million per month)

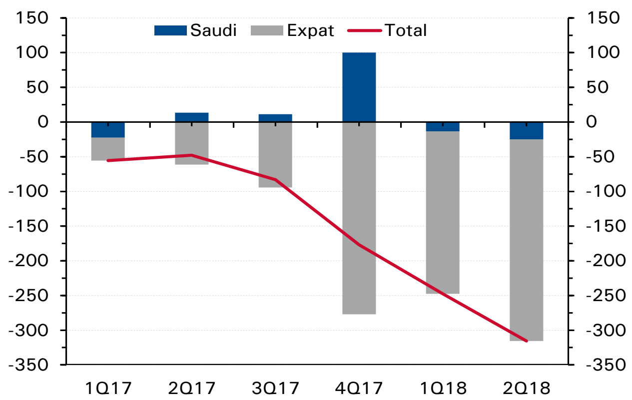


Source: Central Statistical Bureau

Saudi Arabia: Labor force data reveal that the employment market continued to contract in 2Q18. The number of expatriates employed across the government, private and household sectors fell by 290,000, the sixth consecutive quarterly decline. (Chart 4.) This brought the cumulative expatriate loss since the beginning of 2017 to 990,000, or 7% of total employment. The number of employed Saudis fell by 25,000 (-0.8% q/q; +2.4% y/y), the second consecutive quarterly decline. Since the start of 2017, while 63,900 new jobs have been created for Saudis, the unemployment rate increased to 12.9%, suggesting a bigger increase in the Saudi labor force than could be absorbed by employers.

Chart 4: Employment growth in Saudi Arabia

(thousand)



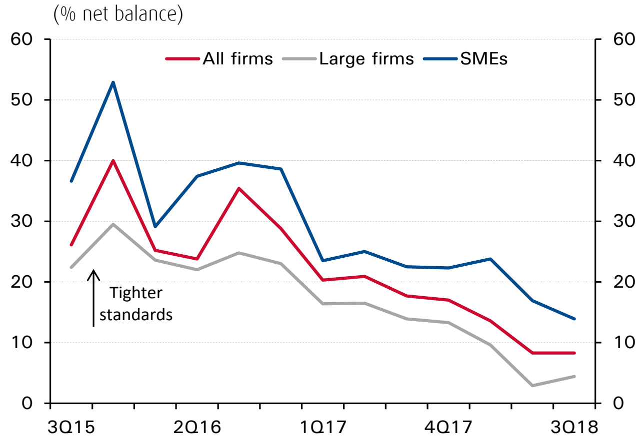
Source: Saudi General Authority for Statistics (GASTAT)

The Saudi Future Investment Initiative (FII) conference in Saudi Arabia wound down on Thursday with the kingdom signing at least 25 agreements worth more than $55 billion in the energy, petrochemicals, infrastructure and transportation sectors. Aramco alone accounted for $34 billion of this figure, inking deals with the likes of Total, Schlumberger and Halliburton. The volume and value of deals negotiated was, as expected, significantly down from last years' FII conference, which was notable for the announcement of the $500 billion NEOM project.

UAE: Credit growth is likely to continue to recover in the near-to medium term, according to the central bank's 3Q18 credit sentiment survey. While the survey showed a moderation in the tightening in credit standards, especially for SMEs, it pointed to improving credit growth, particularly among businesses. Indeed, latest data showed loan growth increasing from 1.8% y/y in July to 3.4% y/y in August, mainly thanks to an improvement in lending to the corporate sector. (Chart 5.)

Chart 5: Change in credit standards

(% net balance)



Source: Central Bank of the UAE, Credit Sentiment Survey

Egypt: The Central Bank of Egypt's latest report shows Egypt's foreign debt increased by 17% to $93 billion in FY2017/18 from $79 billion the previous year. The burden of foreign debt service amounted to $13 billion in June 2018, compared to $7 billion a year earlier, while the external debt-to-GDP ratio rose to 37% in FY2017/18 from 34% the previous fiscal year. Meanwhile, Egypt is planning to issue its first Chinese yuan and Japanese yen-denominated bonds in 2019 as part of efforts to improve its debt structure and reduce its borrowing costs. However, the target of total borrowing in foreign currency for next year was set at $16 billion, while payments due are estimated at $10 billion, implying a net foreign borrowing of about $6 billion.

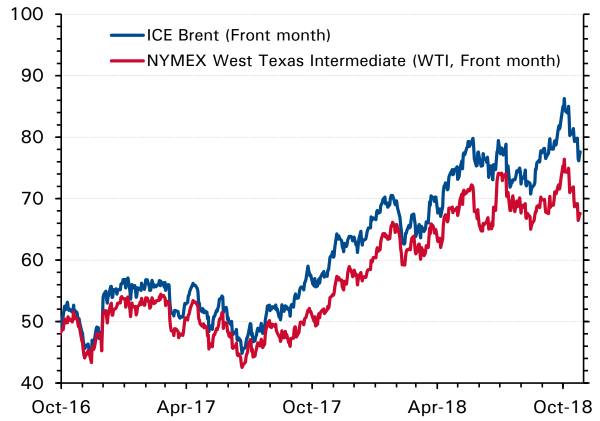
Markets – oil

Oil prices closed down for the third consecutive week as risk aversion associated with the broader sell-off in global equities seeped into the oil markets. Brent crude dropped 2.7% last week to close at $77.6/bbl while WTI, the US marker, fell by

2.2% w/w to $67.6/bbl. (Chart 6.) Prices did tick up on Friday, however, supported by impending Iranian sanctions, with news that Iraq was going to halt trucking crude to Iran and China had instructed two state-owned oil companies to avoid loading Iranian crude in November.

Chart 6: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

Nevertheless, the tone of the markets was decidedly bearish, following the Saudi OPEC governor's remark on Thursday that the oil markets could shift into oversupply in the fourth quarter and, earlier in the week, after the Saudi energy minister, Khaled Al-Falih's commented that OPEC was now in "produce as much as you can mode" and ready to fill any supply shortfalls related to Iranian sanctions. Al-Falih also indicated that the kingdom will be lifting output in the coming months from the current 10.7 mb/d to 11 mb/d and could reach 12 mb/d soon with the intention to invest more in the oil sector to boost capacity. Another week of greater-than-expected crude inventory gains in the US also dampened market sentiment. The EIA reported that crude stockpiles had risen by 6.3 mb to 422 mb in the week ending 19 October.

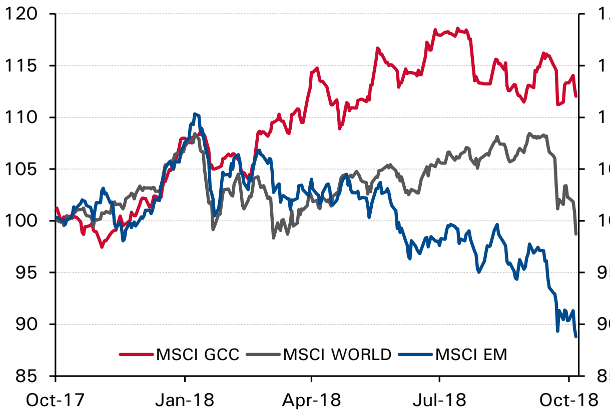
Markets – equities

Global markets witnessed another sell-off last week, with the MSCI AC index falling 3.6% w/w as rising global economic and geopolitical concerns crimped investor sentiment. In the US, stronger-than-expected GDP data failed to lift markets as growing trade worries with China were compounded by disappointing third-quarter corporate earnings. Indeed, the S&P 500 slipped 3.9% w/w while the DJI fell 3.0%, erasing their gains for the year. In Europe, the Euro Stoxx 50 was down 2.4% on the week, led by a lingering dispute between Italy's government and the European Commission and the lack of progress on the Brexit negotiations. The MSCI EM was also down 2.9% on the week. (Chart 7.)

Regional stock markets were mostly lower, but the MSCI GCC index still rose 1.8% w/w thanks to strong gains in the Saudi market. The TASI rose by an impressive 2.5% w/w on the back of strong corporate earnings and after Saudi's major investment conference, the Future Investment Initiative, was met with optimism. Meanwhile, despite a lack of catalysts, Kuwait was also up 0.7% on the week. (Chart 8.)

Chart 7: International equity indices

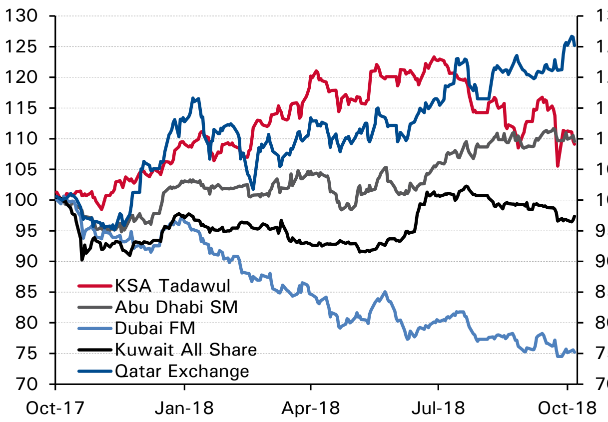
(rebased, 26 October 2017=100)



Source: Thomson Reuters Datastream

Chart 8: GCC equity markets

(rebased, 26 October 2017=100)



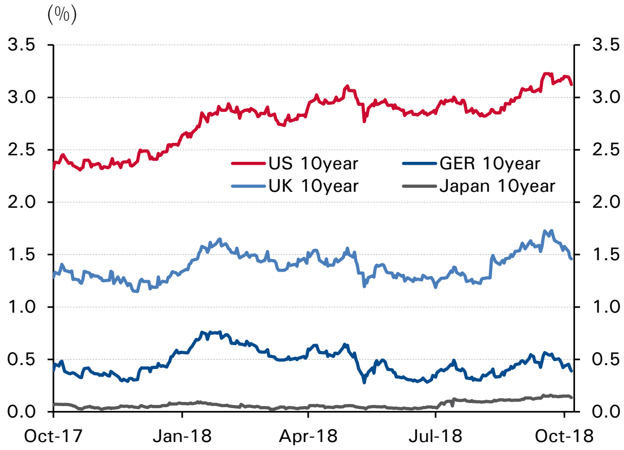
Source: Thomson Reuters Datastream

Markets – fixed income

International bonds rallied last week, with yields falling sharply, following the slump in global equities. Yields on 10-year US treasuries fell by 13bps to 3.08%, while German bund yields fell 8bps to 0.35%, as the budget dispute between the EU and Italy trudged on. (Chart 9.)

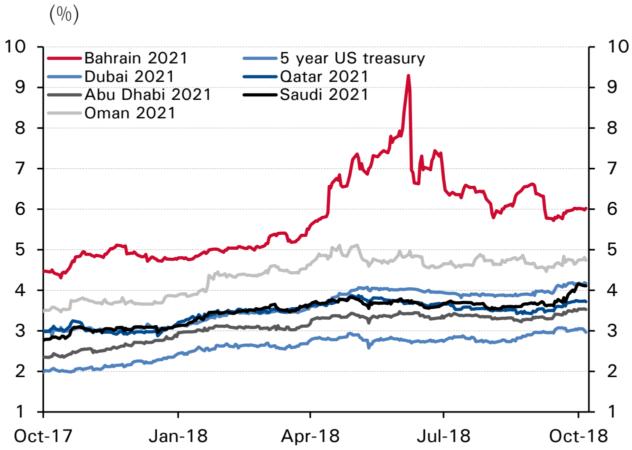
Regionally, despite weaker oil prices, yields on most 4-5 year sovereign bonds were also lower, with Saudi seeing the yield on its 2023 bond falling by 13bps over the week as geopolitical fears subsided somewhat and after its investment conference ended on a relatively positive note. (Chart 10.)

Chart 9: Global bond yields



Source: Thomson Reuters Datastream

Chart 10: 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