Oil moves above $50; US GDP/FOMC as expected; Kuwait deficit unchanged in FY16/17 at KD 5.9 billion

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi SM	4,568	0.35	0.48
Bahrain ASI	1,335	1.14	9.43
Dubai FM	3,606	0.91	2.13
Egypt EGX 30	13,609	-0.77	10.24
S&P GCC 40	1,075	1.14	-6.97
Kuwait SE	6,805	0.36	18.39
KSA Tadawul	7,175	-1.18	-0.49
Muscat SM 30	5,048	0.96	-12.71
Qatar Exchange	9,563	0.22	-8.37
International			
CSI 300	3,722	-0.18	12.44
DAX	12,163	-0.63	5.94
DJIA	21,830	1.16	10.46
Eurostoxx 50	3,468	0.46	5.39
FTSE 100	7,368	-1.13	3.16
Nikkei 225	19,960	-0.70	4.42
S&P 500	2,472	-0.02	10.42

Commodities	$/unit	Change (%) weekly	Change (%) YTD
Brent crude	52.5	9.28	-7.57
KEC	48.7	4.26	-6.94
WTI	49.7	8.61	-7.46
Gold	1268.4	1.12	10.30

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.302	-0.13	-1.21
KWD per EUR	0.348	0.00	9.46
USD per EUR	1.175	0.76	11.77
JPY per USD	110.650	-0.41	-5.32
GBP per USD	1.313	1.07	6.44
EGP per USD	17.830	0.06	-0.94

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	0.2	70.8
Eibor - 3 month	1.52	-2.7	4.7
Saibor - 3 month	1.80	-0.4	-23.6
Libor - 3 month	1.31	-0.1	31.3

Bond yields	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2021	2.26	-4.7	-27.5
Dubai 2021	2.99	2.2	-31.2
Qatar 2021	2.68	-4.7	-25.5
Kuwait 2022	2.61	3.3	n/a
Saudi Arabia 2022	2.87	-5.7	n/a
International			
UST 10 Year	2.29	5.5	-14.5
Bunds 10 Year	0.54	4.0	33.6
Gilts 10 Year	1.22	4.1	-2.4
JGB 10 Year	0.07	0.4	2.5

Source: Thomson Reuters Datastream; as of Friday close 28/7/2017

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Summary

The IMF released its updated World Economic Outlook. It still expects the same 3.5% for world growth in 2017, and 3.6% next year (from 3.2% in 2016). The country estimates, however, were slightly different. US growth for 2017 was taken down a notch to 2.1%, while the Eurozone and China were revised somewhat higher, to 1.9% and 6.7%, respectively.

The US Fed's FOMC met and left policy unchanged. The language of the policy statement was slightly more "dovish" on inflation and stated that the tapering of the $4.3 trillion balance sheet would start "relatively soon". This confirmed previous statement by Chair Yellen and were interpreted to mean the balance sheet taper would be announced in September, to begin before year end. On US interest rates, the probability of another rate hike this year remains near 50%.

This further fueled the euro higher (now above 117 to the USD), as well as other major currencies. Lower inventories, among other positive news, pushed Brent oil prices above $50 per barrel for the first time since May. Brent closed at $52.5. While many analysts have revised down their views on oil for 2H17, we still look for some improvement in prices ahead.

In Kuwait, the FY16/17 deficit was unchanged from the previous year at KD 5.9 billion. CPI inflation was revised radically lower for the past few months following a rebasing and revamping of the CPI index. June inflation ran only 1.4% y/y, housing rent inflation was negative for the month.

International macroeconomics

US: Politically, things remained unsettled as Congress was still unable to pass anything resembling the promised health care reform. That has contributed to a lower USD and to lower US yields. The week also saw more than the usual White House shenanigans, this time with the appointment of Gen. John Kelly as the new White House Chief of Staff. Nonetheless, equity markets remain unfazed and apparently positive on the prospect of future legislation (including tax reform).

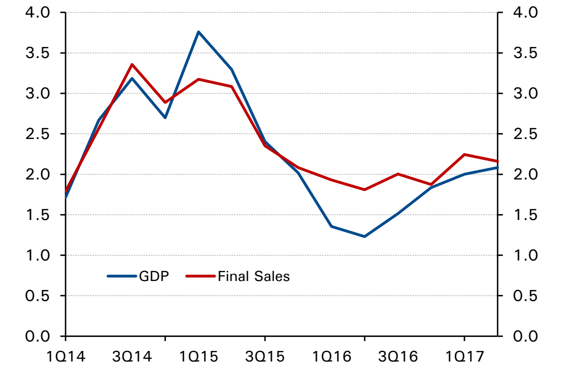
Recent housing data and PMI data were in line with the ongoing moderate growth scenario. Durable orders were a whopping +6.5% in June, on the strength of aircraft orders. Without those, orders were virtually flat. Consumer confidence remains strong.

US Q2 GDP grew in line with expectations, 2.6%. (Chart 1.) The y/y pace remains close to 2.0%. This and the above reports should leave current Fed views unchanged: one more rate hike possible this year, taper coming in September.

Eurozone: The EZ's flash PMIs, though still strong, eased for a second consecutive month to settle at 55.8, down 1 point from April and from May's 6-year high of 56.8. (Chart 2.) The reading is still impressive when compared with the 53-54 average seen throughout 2015 and 2016. While the pace of activity in services remained unchanged from the prior month at a healthy 55.4, it was the relative "slowdown" of manufacturing to 56.8 that weighed on the composite. The latter is attributed to a drop in Germany's still positive manufacturing momentum. Nonetheless, sub-

Chart 1: US real GDP

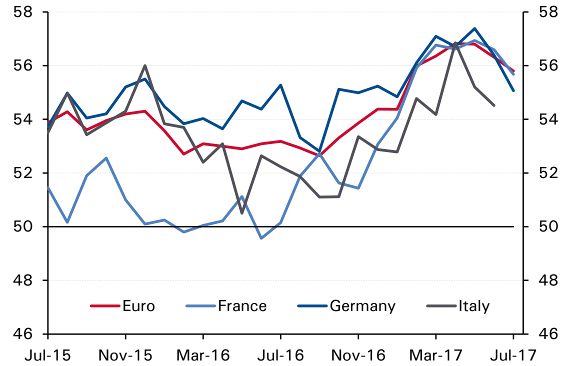
(% y/y)



Source: BEA

Chart 2: Eurozone PMI

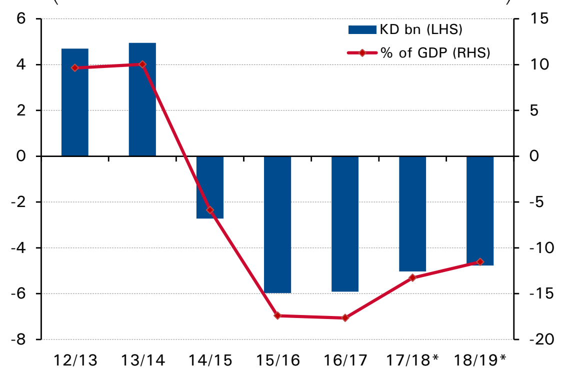
(index)



Source: IHS Markit

Chart 3: Kuwait budget

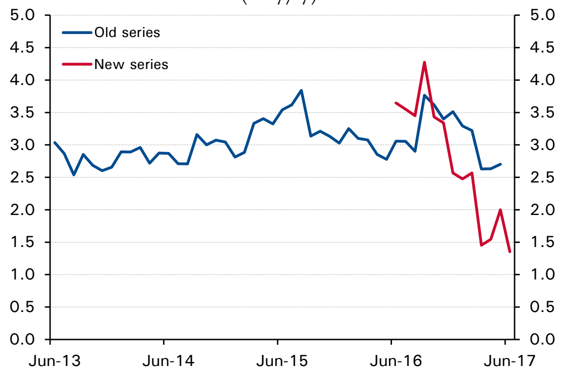
(after transfers to the Future Generations Fund)



Source: Ministry of Finance, NBK estimates, *estimate/forecast

Chart 4: Kuwait inflation

(% y/y)



Source: Central Statistical Bureau

indices pointed to healthy economic activity, with backlogs, new orders, and input prices still at encouraging levels.

The German Ifo survey, on the other hand, painted a brighter picture with its numbers beating expectations across the board, reflecting high business morale despite the stronger euro. The Ifo index came in at 116.

France's consumer confidence slipped in July to 104, missing expectations, while Italy's consumer confidence came in as expected at 107, signaling momentum has carried through into 3Q17.

UK: Q2 GDP fell short of expectations, rising 0.3% q/q, or 1.2% annualized. This followed a disappointing 0.2% performance in Q1. The y/y GDP growth rate was 1.7%, the weakest in four quarters; and, coming on the heels of softer inflation data last week, this very likely rules out any rate hike for the BoE's August monetary policy meeting.

GCC & regional macroeconomics

Kuwait: New revised statistics reveal significantly lower inflation in recent months. Inflation in June eased to 1.4% y/y according to the latest data down from 2.0% in May (Chart 4). The May figure was revised down from 2.7%. The largest revision involved housing rent which is now in deflationary territory with prices down 2.3% y/y. Revisions to inflation figures for the past three years show average inflation was slightly higher at 3.4% compared to 3.2% before the revisions.

The cabinet signed off on the final fiscal figures for FY16/17. The numbers confirm a deficit of KD 5.9 billion for the year, or an estimated 17.7% of GDP, almost identical to the prior year's shortfall. (Chart 3.) The figures were slightly better than our estimates, with spending coming in lower than we had anticipated.

Banks had a good 1H17, with profit growth picking up to 8.5% y/y. Although investment gains were the biggest contributor to growth, net interest income was also up. Loan-loss provisions, after retreating last year, bounced back in 1H17, keeping net profit growth in check. Return-on-equity (ROE) improved slightly to 9.3% from 8.9% a year ago.

Saudi Arabia: Projects in the gas sector are on the rise in an effort to diversify the country's energy mix. Saudi Aramco will complete the first phase of the expansion of the main gas pipeline to the western region by the end of this year. Saudi Aramco expects to double gas production to 23 billion standard cubic feet per day in the next ten years, in an effort to meet growing domestic demand.

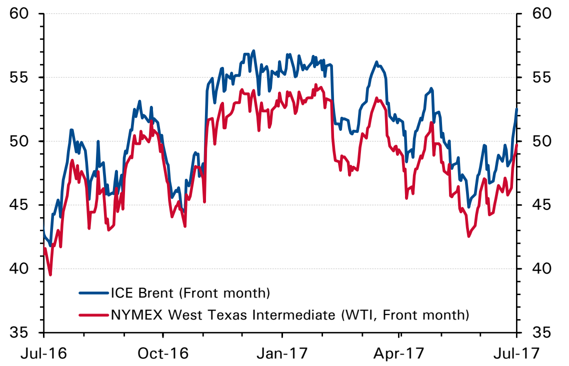
Qatar: The diplomatic crisis is at a standstill as Qatar called for the lifting of the "siege" before proceeding with dialogue and asked the UN to help. The Arab states involved blacklisted 18 individuals and groups with links to Qatar. The UAE instructed its banks to stop dealing with those on the list. Foreign deposits in Qatari banks fell in June to $46.9 billion from $49.2 billion in May. The central bank said that under $6 billion left Qatar in June.

Oman: Moody's downgraded Oman's long-term rating to Baa2 from Baa1 and adjusted its outlook to negative. The agency cited slower than expected structural reform and a weakening fiscal position. According to official figures, Oman recorded a fiscal deficit of OMR 2 billion in the first five months of 2017, two-thirds of its expected deficit for that year.

Bahrain: Moody's downgraded Bahrain's long term rating to B1 from Ba2 and maintained a negative outlook, driven by the lack of a comprehensive fiscal consolidation strategy and a deteriorating debt burden.

Chart 5: Benchmark crude oil prices

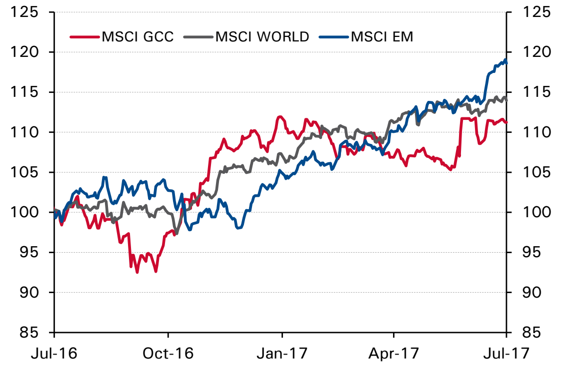
(USD per barrel, USD/bbl)



Source: Thomson Reuters Datastream

Chart 6: Total return indices

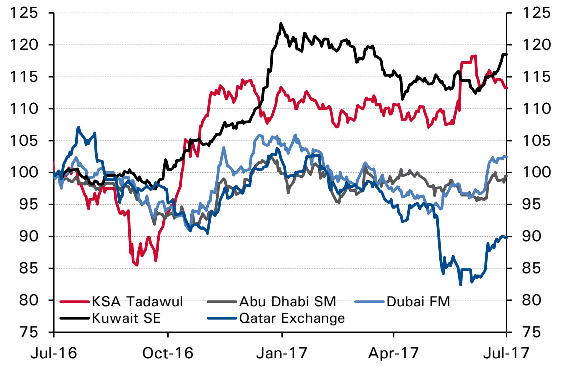
(rebased, 28 July 2016=100)



Source: Thomson Reuters Datastream

Chart 7: GCC markets

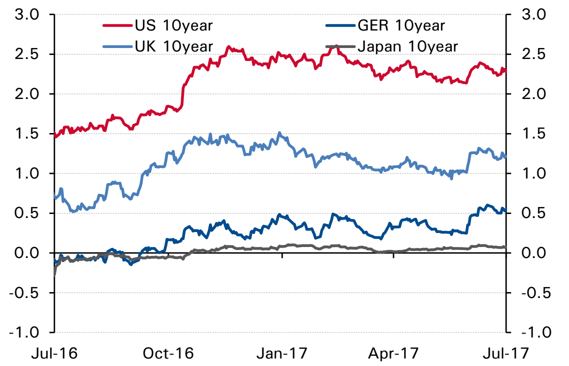
(rebased, 28 July 2016=100)



Source: Thomson Reuters Datastream

Chart 8: Global benchmark yields

(%)



Source: Thomson Reuters Datastream

Markets – oil

Oil prices rapidly recovered from the previous week's decline, returning to levels last seen two months ago. Crude prices posted the highest weekly gains this year of 9.3% w/w for Brent and 8.6% w/w for WTI, bringing Brent up to $52.5/bbl and WTI to $49.7/bbl. The highest Brent and WTI prices so far this year have been $57.1/bbl and $54.5/bbl, respectively. (Chart 5.)

Both crude prices experienced a significant jump on Tuesday 25 July, both increasing 3.3% d/d, on news of declining US inventories. Crude prices rallied after US inventories in the week of 21 July declined by 7.2 million barrels, beating the expected decline of 2.6 million barrels. This marks four consecutive weeks of declining inventories. Prices were also helped by news of Saudi Arabia's plan to further reduce exports in August to 6.6 mb/d. Nigeria also pledged to limit production to 1.8 mb/d. The UAE and Kuwait declared that they are committed to reducing oil output as well.

Markets – equities

Equity markets were mixed last week but generally stocks did not see any big moves, with the MSCI AC index off 0.1%. Earning announcements remained the main focus for investors while the impact of a weakening dollar and foreign exchange moves was also felt in equity markets. US equities were mixed with the S&P 500 flat and DJIA up 1% on the week. Another week of US chaotic politics appeared to have little impact. European equities bounced back following a poor showing the previous week. The Euro Stoxx 50 was up 0.5% despite softening-but-decent July PMI figures. Emerging equity markets also gained ground with the MSCI EM rising 0.3%. (Chart 6.)

GCC markets were mixed, with the MSCI GCC closing flat on the week. The Saudi index retreated as earnings announcements continued to disappoint. Kuwait outperformed with its value-weighted index up 2.4%, buoyed by upbeat bank results. Meanwhile, in Qatar, market volatility has come off amid absence of any major development on the political front. (Chart 7.)

Markets – fixed income

Activity in global benchmark bond markets was dominated by anticipation of the Fed meeting, strong US quarterly results, debt supply, and business survey data.

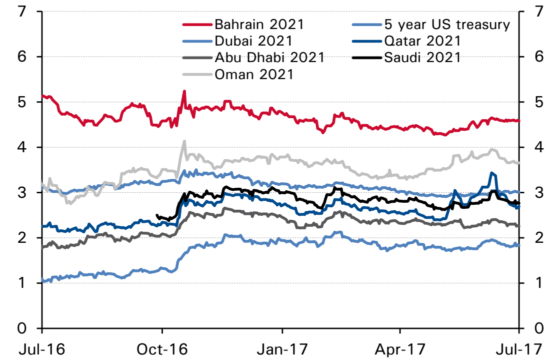
US yields edged upward ahead of the July FOMC meeting as investors expected clarity over US monetary policy. The rise was further supported by predominantly positive US 2Q earnings, which saw investors leave bonds for equities. New supply of debt also weighed on yields. The Fed's "dovish" tone on inflation, however, capped the increase in US 10-year yields late in the week. Inflation expectations were held back following weaker than expected growth in US labor costs. US 10-year yields finished the week at 2.29%. (Chart 8.)

Meanwhile, Bunds tracked US treasuries, supported by stronger than expected German Ifo and inflation data. 10-year Bund yields ended the week at 0.54%. (Chart 8.)

GCC sovereign yields were mixed, as uncertainty over OPEC developments throughout the week may have weighed on sentiment. Bonds maturing in 2021 for Abu Dhabi and Qatar, and 2022 for KSA were down between 5-6 bps, while Dubai's 2021 and Kuwait's 2022 were up 2-3 bps. (Chart 9.)

Chart 9: GCC yields

(%)



Source: Thomson Reuters Datastream

In its first local sovereign sukuk issuance this year, Saudi Arabia raised SAR 17.5 billion ($4.5 billion) from Saudi banks amidst a looser domestic monetary environment (3M Saibor at 1.8%). It offered 5, 7, and 10-year debt at 2.95%, 3.25%, and 3.95%, respectively, with the bulk maturing in 2022. This is the country's first domestic issuance since September 2016. Issuance was stopped as excessive domestic borrowing affected domestic liquidity. Meanwhile, Bahrain has mandated banks to help arrange simultaneous conventional bond and sukuk offerings.

Greece sold its first international bond in three years. It issued EUR 3 billion worth of 5-year paper at 4.65%, capitalizing on recent fiscal progress. Greece's third bailout program is expected to end in August 2018. The success of its bond issuance reflects growing confidence in the Greek economy and hints at a potentially smooth exit from the bailout.

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