Fed hikes rates for eighth time in three years; Brent crude surges past $80 mark

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,948	1.32	12.49
Bahrain (ASI)	1,349	0.64	1.27
Dubai (DFMGI)	2,826	2.22	-16.15
Egypt (EGX 30)	14,632	3.90	-2.57
GCC (S&P GCC 40)	1,091	1.32	10.77
Kuwait (All Share Index)	5,139	-0.18	6.37
KSA (TASI)	7,899	1.68	9.30
Oman (MSM 30)	4,524	0.63	-11.29
Qatar (QE Index)	9,784	0.18	14.79
International			
CSI 300	3,439	0.83	-14.69
DAX	12,247	-1.48	-5.19
DJIA	26,458	-1.07	7.04
Euro Stoxx 50	3,399	-0.92	-2.99
FTSE 100	7,510	0.27	-2.31
Nikkei 225	24,120	1.05	5.95
S&P 500	2,914	-0.54	8.99

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.49	-1.5	54.0
Dubai 2022	3.93	0.5	79.4
Qatar 2022	3.49	-7.7	41.8
Kuwait 2022	3.50	2.5	69.0
Saudi Arabia 2023	3.75	-4.5	53.0
International			
UST 10 Year	3.06	-1.2	64.5
Bunds 10 Year	0.47	1.3	5.0
Gilts 10 Year	1.57	2.0	38.6
JGB 10 Year	0.13	-0.5	7.6

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.73	15.0	100.0
Kibor	2.00	6.3	12.5
Qibor	2.68	0.8	-5.9
Eibor	2.70	12.7	90.2
Saibor	2.71	5.6	81.3
Libor	2.40	3.0	70.2

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	0.13	0.58
KWD per EUR	0.355	-0.20	0.06
USD per EUR	1.161	-1.20	-3.23
JPY per USD	113.7	1.00	0.90
USD per GBP	1.303	-0.37	-3.58
EGP per USD	17.79	-0.45	0.34

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	82.7	4.97	23.70
KEC	79.67	4.23	25.46
WTI	73.3	3.49	21.23
Gold	1191.5	-0.39	-8.79

Source: Thomson Reuters Datastream; as of Friday's close 27/9/2018

Overview

The Federal Reserve hiked interest rates by 25 bps to 2.00-2.25%, increased its forecasts for US growth and signaled that rates are likely to rise once more this year and three times in 2019. Despite this bullish outlook, financial markets took the well-trailed move mostly in stride, with yields on 10-year government bonds actually declining on relief that the central bank did not outline a more hawkish path for rates. The US S&P 500 edged lower on the week, but ended September up 0.4% m/m for its sixth consecutive monthly gain.

In Europe however, Italian bond yields surged as the new populist government agreed plans for higher spending and a budget deficit of 2.4% of GDP next year – higher than investors expected, in defiance of the EU and adding to Italy's already-high debt burden. It also puts further pressure on Italian banks that have large holdings of public debt, and risks a downgrade in Italy's sovereign credit rating.

The price of Brent crude oil blasted through the $80/bbl mark, finishing up 5% w/w just shy of $83/bbl and its highest in nearly four years. Despite another call by US President Trump for lower prices, OPEC and Russia appear in no rush to increase output while concern over a large reduction in Iranian supply due to US sanctions – which Trump last week threatened to escalate further – is mounting. Oil market analysts continue to upgrade their oil price forecasts, but the outlook will depend on the supply response from countries with some spare capacity, notably Saudi Arabia.

In the GCC, most central banks opted to follow the Fed's move by increasing key policy interest rates. Official lending rates were raised in Saudi Arabia, Bahrain and the UAE, while deposit rates increased in Qatar and Kuwait. The Kuwaiti central bank cited keenness to support non-oil growth whilst maintaining the attractiveness of the dinar as a reason for leaving its lending rate unchanged at 3.0%.

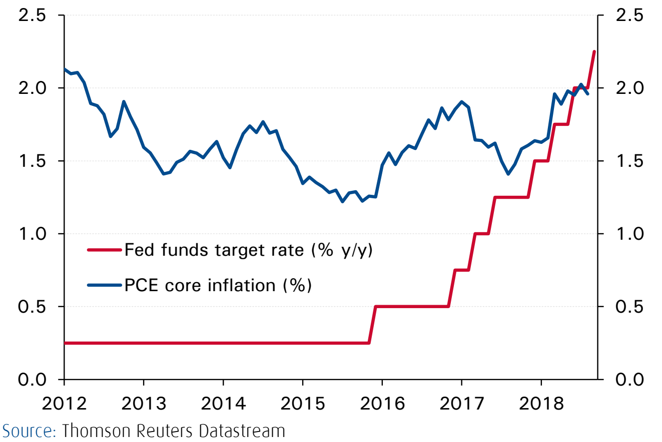
International macroeconomics

USA: In a unanimous vote, the Federal Open Market Committee of the Federal Reserve increased interest rates by 25 bps to 2.00-2.25% and its eighth hike since the beginning of the normalization cycle that started in December 2015. In its updated 'dot plot' projections, it signaled one further increase for this year in December and three for 2019, and also removed the reference to policy remaining 'accommodative' in its accompanying statement. According to Fed Chair Powell, the latter reflected uncertainty over the so-called 'neutral' level of interest rates that will match the economy's long-term performance. The Fed also upgraded its forecasts for GDP growth this year and next (to 3.1% and 2.5%, respectively), projected that the unemployment rate will drop to 3.5% in 2019, while core inflation forecasts were unchanged at 2.0-2.1%. Powell said that there was little discernible impact of the US-China trade war on the economy's aggregate performance.

Meanwhile, the economic data flow continues to be largely positive. Consumer spending growth moderated slightly to a still decent 0.3% m/m in August from 0.4% in July, while core Personal Consumer Expenditure inflation – the Fed's preferred inflation gauge – stood unchanged at 2.0% confirming little notable impact so far from this year's import tariff increases. (Chart 1.) The Conference Board's consumer confidence measure shot up to an 18-year high of 138.4 in September and now close to the index's all-time high of nearly 145 registered at the peak of the dotcom boom. The housing market however remains an area of sluggishness for the US economy, with new home sales edging up only slightly in August after a weak June-July and the Case-Schiller index showing house price rises easing to their lowest rate in 11 months at 5.9% in July, affected by rising mortgage rates

Chart 1: US inflation and interest rates

(% of GDP)



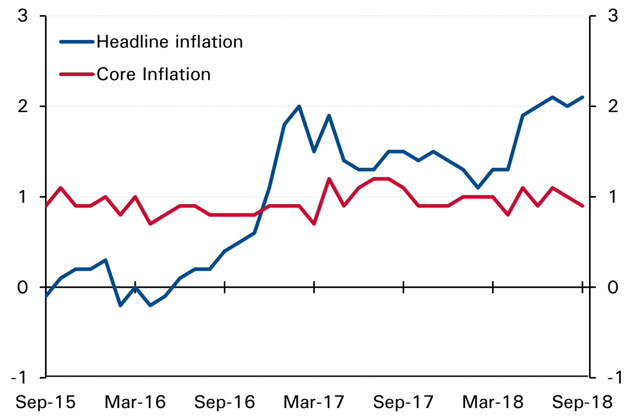
Source: Thomson Reuters Datastream

Eurozone: Headline inflation in the Eurozone unexpectedly rose to 2.1% in September, slightly higher than its outturn the previous month and the strongest since mid-2012. Core inflation, however, ticked lower to 0.9%. (Chart 2.) While the overall increase in prices is hovering close to the ECB's target, supporting its case to unwind its QE program, the stubbornness of core prices still signals caution.

In a move that surprised markets and sparked fiscal concern, the Italian populist coalition government passed a more aggressive expansionary budget than investors expected. The deficit is now penciled to widen to 2.4% of GDP, significantly higher than previous targets and reflecting the party's commitment to its populist election promises. The move is set to put Rome on a collision course with Brussels, which will review Italy's draft budget in mid-October. Markets reacted negatively to the news, with investors selling both Italian bonds and equities.

Chart 2: Eurozone inflation

(% y/y)



Source: Thomson Reuters Datastream

GCC & regional macroeconomics

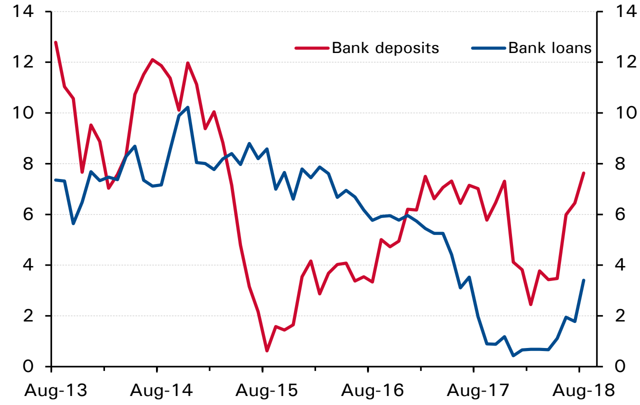
Saudi Arabia: SAMA raised both its repo and reverse repo rates by 25 bps to 2.75% and 2.25%, respectively. The 25 bps rise in the repo is the kingdom's third this year; the first repo rate rise in March pre-empted the Fed's rate rise in that month amid concerns about capital flight since the 3-month SAIBOR fell below the 3-month USD equivalent LIBOR, by as much as 18 bps, for the first time in years. While it has narrowed from about 50 bps in 2017, the differential is positive and stable at the moment, at around 28 bps. There are concerns about the impact of rate rises on private sector credit growth which remains anemic (0.7% y/y in July).

UAE: In line with the US Fed, the UAE central bank (CBUAE) raised interest rates on certificates of deposit, the main monetary policy instrument through which interest rate changes are transmitted to the UAE banking system. The CBUAE also raised its repo rate by 25 bps to 2.25%.

Latest gross credit data showed signs of recovery, with 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 3.) Deposit growth also gained some traction, rising from 6.5% y/y to 7.6% y/y during the same period on the back of higher oil prices, which have led to a rise in government deposits.

Chart 3: UAE bank loan and deposit growth

(% y/y)



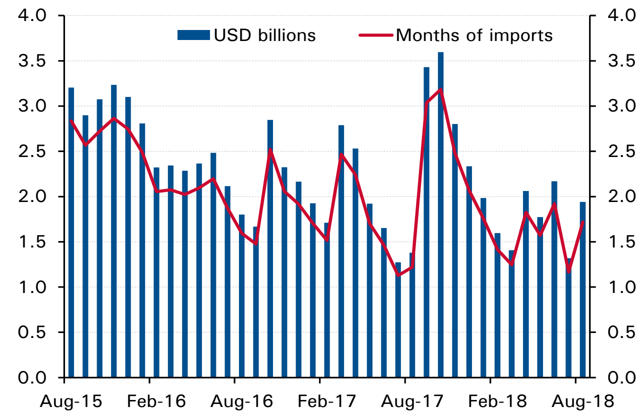
Source: Central Bank of the UAE

Meanwhile, UAE banks are contemplating asking the CBUAE to ease mortgage lending restrictions in a bid to support real estate activity and ultimately prices, amid growing supply. Banks have proposed increasing the maximum limit that first-time buyers of a home worth up to Dhs 5 million can borrow from 80% to 85% of the property value for UAE citizens and from 75% to 80% for foreigners.

Bahrain: Also in line with the US Fed, Bahrain's central bank raised its one-week deposit facility by 25 bps to 2.25%. It also raised its overnight deposit rate to 2.25% from 2.00%, its one-month deposit rate to 3.25% from 3.00% and its lending rate to 4.25% from 4.00%.

Meanwhile, given its large fiscal and external deficits, Bahrain's international reserves remain under pressure. In August, however, the kingdom's reserves jumped to $1.9 billion (1.7 months of imports) from $1.3 billion in July, perhaps on the back of off-the-record funding from Saudi Arabia, the UAE and Kuwait. (Chart 4.)

Chart 4: Bahrain central bank reserves



Source: Central Bank of Bahrain

Oman: Oman's central bank has yet to issue a statement but tends to set interest rate policy on a different basis: above a 1% minimum, Oman's main interest rate, its repo rate, is on average set 50 bps higher than the LIBOR rate.

Qatar: The Qatar Central Bank (QCB) followed up the Fed's rate rise with a 25 bps increase in its benchmark deposit rate, the QCBDR, to 2.25%.

Egypt: Egypt's Finance Ministry cancelled an auction of 5 and 10-year treasury bonds worth EGP3 billion ($167 million) last Monday for a fourth successive week. Three previous T-bond auctions had been cancelled after bankers and investors demanded high yields on the debt at a time of weak appetite globally for emerging market assets. Against this backdrop, Egypt's central bank, as expected, left its main interest rates unchanged on Thursday, as emerging market turbulence weighs on the economy even as inflation shows signs of slowing. Thus, the overnight deposit rate was kept at 16.75% and the overnight lending rate at 17.75%. Meanwhile, Egypt has received the third and last $500 million tranche of a $1.5 billion African Development Bank loan which will support the government's development reform program.

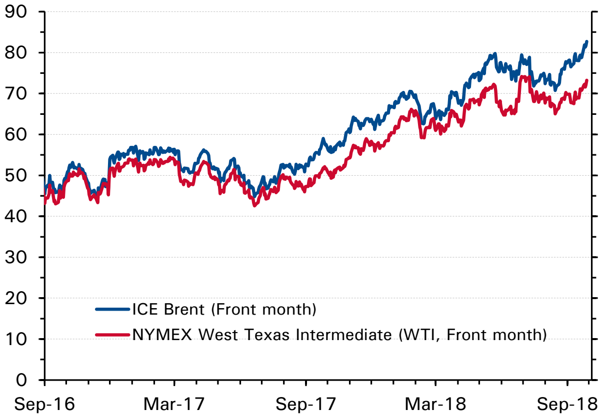
Turkey: Early last week, the Turkish lira witnessed its biggest gain since the policy rate hike earlier this month, when US Secretary of State Mike Pompeo reportedly said that he expected further discussions with Turkish officials over the fate of the detained US pastor. However, President Erdogan later said that it would be the Turkish court, not the politicians that will have the final say on the pastor's fate. Nonetheless, the lira was still supported by comments from the Finance Minister, Berak Albayrak, who said that the authorities would be ready to support Turkish banks if need be. The lira was up by almost 4% on the week.

Markets – oil

A third consecutive week of gains for oil prices saw Brent and WTI rise by 3.5-5.0% w/w to close the week at $82.7/bbl and $73.3/bbl, respectively. (Chart 5.) On Friday, Brent set a new four-year high of $83.3/bbl (intraday trading) after it was reported that Chinese oil refiner Sinopec was looking to halve its imports of Iranian crude; markets had expected China, which is Tehran's largest customer, accounting for 35% of Iran's exports, to keep up its purchases of Iranian crude, having previously indicated that it would not tow the US sanctions line. Earlier, and setting the stage for a bullish end to the week, was the announcement by OPEC+ producers not to open the taps (to offset Iranian and Venezuelan supply losses) beyond what was agreed in June, a decision that drew a stinging rebuke from President Trump that OPEC was "as usual ripping off the rest of the world". The US also indicated that it would not access its strategic petroleum reserve to help lower prices.

Chart 5: Crude oil prices

($/bbl)



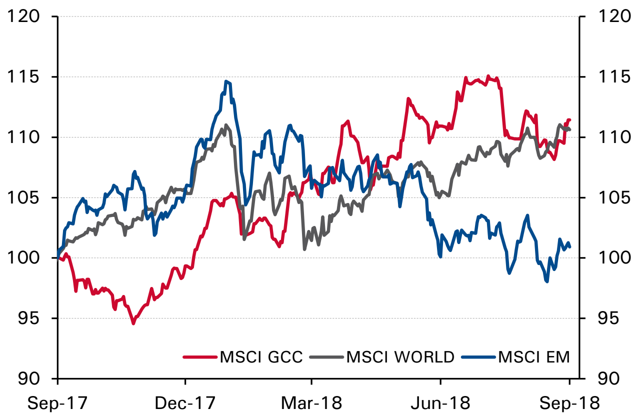
Source: Thomson Reuters Datastream

Markets – equities

International markets finished the week down as global trade concerns resurfaced. The MSCI AC world index shaved 0.4% w/w. The S&P 500 and the DJI were down 0.5% and 1.1% w/w, respectively, while European stocks were weighed down by the uncertainty that surrounded Italy's budget, with the Euro Stoxx 50 retreating 0.9% w/w. Meanwhile, trade tensions pulled the MSCI EM index down 0.6 w/w. (Chart 6.) Regionally, the MSCI GCC index was up 0.4% w/w, with Dubai and Saudi leading the way (+2.2% and 1.7% w/w, respectively). Meanwhile, Kuwait's All Share index decreased by a small 0.2% w/w.

Chart 6: International equity indices

(rebased, 27 September 2017=100)

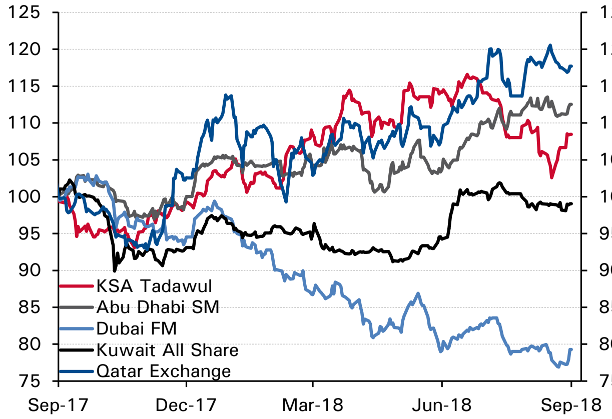


Source: Thomson Reuters Datastream

On the quarter, however, strong US economic momentum helped US equities register almost record growth, with the S&P 500 finishing 3Q18 7.9% higher and the DJI up 9.3%, greatly outperforming their global peers. In Europe, slower growth and trade concerns saw the Eurostoxx 50 finish 3Q18 almost flat at 0.1%. Emerging equities, on the other hand, were volatile, affected by short-term debt concerns in Turkey and Argentina, the strength of the US dollar and tighter monetary conditions. The MSCI EM index was down 0.6% q/q. Regional equities were up 0.5% q/q, as Kuwait's FTSE inclusion and firmer oil prices helped offset the emerging market sell-off. (Chart 7.)

Chart 7: GCC equity markets

(rebased, 27 September 2017=100)



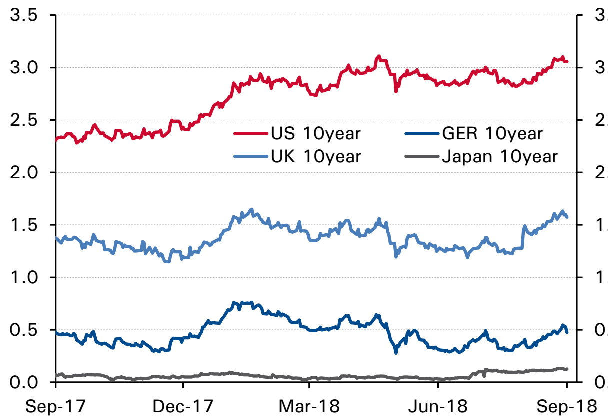
Source: Thomson Reuters Datastream

Markets – fixed income

International bond yields were mixed, with 10-year US government treasury yields registering their 10th consecutive day above 3%, but edged slightly lower on the week to 3.06%, down 1 basis point. In Europe, yields on 10-year Bunds dropped 6 basis points on Friday on growing concerns over Italy's fiscal sustainability. However, they finished the week up 1 basis point, at 0.47%. (Chart 8.) Regionally, yields on 4-5 year sovereign paper were mixed, with Qatar, Abu Dhabi, and Saudi witnessing drops between 2-8 bps, while Kuwait and Dubai edged slightly higher.

Chart 8: Global 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