

Daily Economic Update

Economic Research Department
22 August 2024

US: Fed officials on the verge of a rate cut, FOMC meeting minutes show. According to minutes of the Fed's July meeting, FOMC participants acknowledged that cutting interest rates at the next meeting would likely be appropriate if the data continued to be as expected. The broader message was similar to what the chair Powell delivered at the post-meeting conference last month. The Fed is widely expected to cut rates at its September meeting by at least 25 bps. On the data front, non-farm payrolls for the 12 months through March 2024 saw an initial downward revision by 818K jobs, equivalent to 68K fewer jobs per month, from earlier estimated monthly job gains of 242K, underscoring a less robust job market than previously believed. Some downward adjustments were expected, and final figures will be released early next year. The job market has continued to slow down as the post-pandemic boom has faded, paving the way for more normal conditions. However, risks have risen for wider cracks in employment amid restrictive monetary policies, as shown in July's soft job report.

UK: Public borrowing increases, potentially giving less headroom to the chancellor. Public sector net borrowing in July more than doubled to £3.1 billion (an estimated fiscal deficit of 4.4% of GDP on a trailing 12-month basis) from £1.3 billion in July 2023 but lower than the £13.5 billion borrowed in June. The July data was significantly higher than the forecast for the Office for Budget Responsibility of just £0.5 billion and market expectations of £1.5 billion. Higher central government expenditures and the rising cost of public service and social benefits more than offset an increase in tax receipts, which was helped by stronger economic growth. The Office for National Statistics estimated that public sector net debt as a share of GDP jumped to 99.4%, well above the 95.6% of July 2023 and the highest in over six decades. The additional borrowings during April-July were £0.5 billion lower than the corresponding period last year, but a cumulative £4.8 billion more than the OBR's forecast, leaving a tighter fiscal position for the new administration. Moreover, with an anticipation of slower GDP growth over the coming quarters, revenues could come under pressure, underscoring the imperative need for additional taxes and some spending cuts in the Autumn budget.

Japan: Manufacturing PMI contraction slows on output disruptions while services demand remains strong. The au Jibun composite PMI flash estimate rose to 53.0 in August from July's final reading of 52.5, logging its highest point since May 2023 on strong services activity. The services PMI was supported by the acceleration in new orders and the expansion in employment while output prices increased to match rising input costs. The manufacturing sector contraction slowed to 49.5 from a four-month low of 49.1 in July as output grew at a modest pace. Business confidence eased on slower demand from China. The estimates give hope that Japan's economic recovery could continue in Q3, having logged solid growth of 0.8% q/q in Q2.

Kuwait: Inflation edges back up in July. Consumer price inflation rose to 3% y/y (+0.1% m/m) in July from 2.8% in June, which was the lowest print since November 2020. Prices for food & beverages rose 5.9% y/y, driven higher by meat & poultry and fresh & frozen fruits. Meanwhile, housing services inflation (the largest

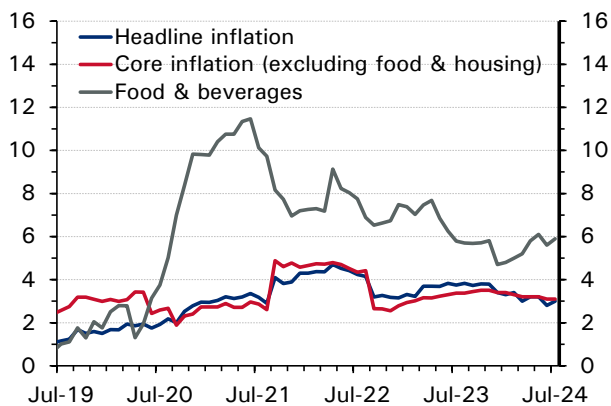
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component by weight and reflects mostly rents), was unchanged at a modest 0.9% y/y. Core inflation, which excludes both food and housing, was steady at 3.1% (+0.1% m/m), with annual gains in services & miscellaneous goods, healthcare, communication, and recreation offset by no change in the remainder of subcomponents except transportation where growth softened to 0.5% y/y from 0.7%. Inflation has been mostly trending lower since October 2023 amid subdued consumer demand, higher interest rates, and the absence of stimulative government policy.

Chart 1: Kuwait CPI inflation

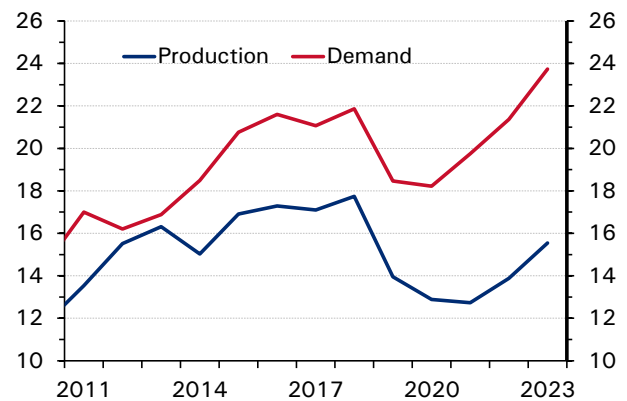
(% , y/y)



Source: Haver, ECB

Chart 2: Kuwait natural gas trends

billion cubic meters (bcm)



Source: OPEC, Haver

Kuwait: Negotiations underway with Qatar to import more LNG to ease electricity grid woes. Amid growing concerns about energy use and capacity following a second round of power outages in Kuwait last week, Kuwait Petroleum Corporation (KPC) is holding talks with QatarEnergy to import 3 million tons per annum (mtpa) of LNG over the next 15 years. The new agreement, should it go through, would likely come into effect next year and build on the existing 3 mtpa deal signed in 2020. Total contracted volumes could therefore reach 6 mtpa, highlighting Kuwait's growing reliance on natural gas imports to satisfy increasing demand for power generation and especially during the scorching summer period. According to OPEC data, Kuwait's marketed natural gas production (excludes quantities used for reinjection and flaring) stood at 15.5 billion cubic meters (bcm) in 2023, covering just 65% of domestic natural gas consumption (23.7 bcm). Total LNG volumes in 2023 (including flows from Qatar), according to the International Gas Union (IGU), topped 6 mtpa (8.2 bcm), only just covering the gas shortfall but leaving little spare for periods of peak consumption. KPC intends to plug this deficit as part of its 2040 strategic goals, by when it hopes to increase domestic non-associated gas production capacity to 21 bcm per year (2.0 bcf/d). Significant progress was noted in Kuwait Oil Company's latest annual report, which showed a new record high for non-associated gas output in January 2024 of 0.62 bcf/d. The new LNG deal underscores Kuwait's urgent need to diversify its energy sources and ramp up domestic gas production to ensure long-term energy security amidst growing demand.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,348	0.33	-2.40
Bahrain (ASI)	1,937	0.04	-1.76
Dubai (DFMGI)	4,295	0.94	5.79
Egypt (EGX 30)	29,914	0.00	20.46
GCC (S&P GCC 40)	708	0.93	-0.66
Kuwait (All Share)	7,143	0.36	4.78
KSA (TASI)	12,187	0.69	1.84
Oman (MSM 30)	4,680	-0.28	3.67
Qatar (QE Index)	10,119	-0.39	-6.57
International			
CSI 300	3,322	-0.33	-3.19
DAX	18,449	0.50	10.13
DJIA	40,890	0.14	8.49
Eurostoxx 50	4,885	0.57	8.04
FTSE 100	8,283	0.12	7.11
Nikkei 225	37,952	-0.29	13.41
S&P 500	5,621	0.42	17.84
3m interbank rates			
	%	Change (bps)	
		Daily	YTD
Bahrain	6.37	0.76	-16.54
Kuwait	4.25	0.00	-6.25
Qatar	6.00	0.00	-25.00
UAE	5.07	14.38	-40.19
Saudi	6.11	6.86	-19.08
LIBOR	5.36	-1.93	-22.96
SOFR	5.12	-0.50	-21.03

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.19	-1.00	-13.1
Oman 2027	5.00	0.00	-15.7
Qatar 2026	4.46	-2.00	-6.9
Kuwait 2027	4.50	-2.00	16.0
Saudi 2028	4.47	-1.00	-6.1
International 10YR			
US Treasury	3.80	-1.14	-6.2
German Bund	2.20	-1.35	17.1
UK Gilt	3.89	-2.70	34.9
Japanese Gvt Bond	0.88	-2.00	25.4
Exchange rates			
	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.02	-0.60
KWD per EUR	0.34	0.16	2.93
USD per EUR	1.11	-0.07	1.03
JPY per USD	145.26	0.00	2.98
USD per GBP	1.31	-0.10	2.85
EGP per USD	48.74	0.00	57.99
Commodities			
	\$/unit	Change (%)	
		Daily	YTD
Brent crude	76.05	0.00	-1.29
KEC	77.41	0.60	-2.70
WTI	71.83	-0.14	0.39
Gold	2508.4	0.00	21.63

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: LSEG / Haver