

GCC countries hike interest rates after Fed move; oil prices at three-year highs

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,578	0.77	4.08
Bahrain (ASI)	1,334	-1.59	0.17
Dubai (DFMGI)	3,150	-1.49	-6.54
Egypt (EGX 30)	17,065	0.39	13.62
GCC (S&P GCC 40)	972	0.77	-1.32
Kuwait (Price Index)	6,662	-1.45	3.97
KSA (TASI)	7,841	1.24	8.51
Oman (MSM 30)	4,801	-1.96	-5.85
Qatar (QE Index)	8,826	-0.25	3.55
International			
CSI 300	3,905	-3.73	-3.12
DAX	11,886	-4.06	-7.98
DJIA	23,533	-5.67	-4.80
Euro Stoxx 50	3,298	-4.05	-5.88
FTSE 100	6,922	-3.38	-9.96
Nikkei 225	20,618	-4.88	-9.43
S&P 500	2,588	-5.95	-3.19
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.38	1.8	43.8
Dubai 2022	3.43	3.5	29.4
Qatar 2022	3.63	4.8	55.8
Kuwait 2022	3.30	-2.2	49.8
Saudi Arabia 2023	3.80	8.8	58.8
International			
UST 10 Year	2.83	-2.2	41.5
Bunds 10 Year	0.53	-4.0	10.6
Gilts 10 Year	1.45	1.5	25.8
JGB 10 Year	0.02	-1.5	-2.7
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.05	5.0	32.5
Kibor	1.94	6.3	6.3
Qibor	2.63	1.0	-11.4
Eibor	2.26	15.0	46.4
Saibor	2.22	20.1	32.0
Libor	2.29	10.8	59.1
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.299	-0.11	-0.64
KWD per EUR	0.369	-0.35	3.89
USD per EUR	1.235	0.52	2.96
JPY per USD	104.7	-1.21	-7.06
GBP per USD	1.413	1.38	4.59
EGP per USD	17.59	0.31	-0.79
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	70.5	6.40	5.35
KEC	64.72	5.91	1.92
WTI	65.9	5.68	9.04
Gold	1349.3	2.90	3.29

Source: Thomson Reuters Datastream; as of Friday's close 23/3/2018

Overview

The US Fed raised interest rates as expected by 25 bps against a backdrop of strong economic growth prospects and a tight labor market, while signaling a faster pace of tightening for next year and 2020 than before. Markets fell sharply towards the end of the week, unsettled mainly by further talk of a trade war following the imposition of new tariffs on Chinese imports by the US, tighter monetary policy and by President Trump's threat – subsequently unrealized – to veto Congress's spending bill, which would have resulted in a government shutdown. The S&P 500 was down 6% w/w, its largest drop in more than two years.

An unexpected fall in US crude inventories saw Brent crude oil prices jump, finishing the week up 6% at \$70 pb – on a par with January's three-year high. Prices also found support from the dip in the US dollar, comments on supply cuts from the Saudi oil minister and the threat of the collapse of the nuclear deal with Iran, which could hit the latter's oil exports and ratchet up geopolitical tensions in the region.

Following the Fed's move, Bahrain, Kuwait, Qatar and the UAE all increased key policy rates by 25 bps, with Saudi having done so a week earlier. In Kuwait's case it was the first rise in a year, with the central bank having kept rates unchanged after the two previous Fed hikes, given the greater flexibility afforded by the peg to the currency basket. Regional stock markets generally saw a muted reaction to the rate hikes, with the GCC MSCI ending up 0.2% w/w.

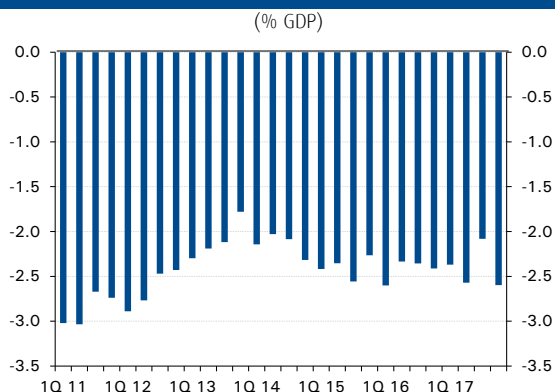
International macroeconomics

USA: As expected, the Federal Reserve pushed up interest rates by 25 bps in its sixth hike of the current tightening cycle, putting the target rate at 1.50-1.75%. The central bank also revised up its forecast for economic growth for 2018 and 2019 to 2.7% and 2.4% respectively (from 2.5% and 2.1%) helped by the strong labor market and looser fiscal policy, and expects inflation to pick up from current low levels. Its median projections point to two further rate hikes in 2018, but three for next year – one more than before. The meeting was Jerome Powell's first as chairman.

Elsewhere, the current account deficit rose to 2.6% of GDP in 4Q17, up from 2.1% in Q3 but more or less in line with expectations. (Chart 1.) The figures could fuel 'trade war' concerns. Other data was reasonably positive, with durable goods orders rising by 3.1% m/m, their most in eight months, though the composite PMI for March eased to 54.3 from 55.9, below the consensus. President Trump also reluctantly signed Congress's \$1.3 trillion spending bill, avoiding for now a government shutdown and providing for higher spending for defense, security and infrastructure.

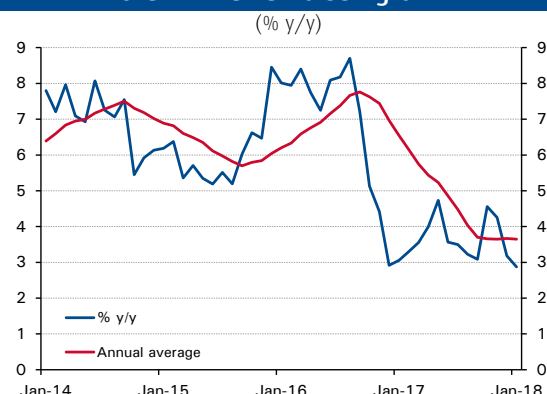
Eurozone: The Eurozone's flash PMI eased more than expected in March to 55.3, pulled down by cold weather, a stronger euro, and geopolitical uncertainty. Although the reading remains relatively strong, associated with 2-3% growth, expansion does seem to have peaked and may be settling at a more modest pace.

Chart 1: US current account balance



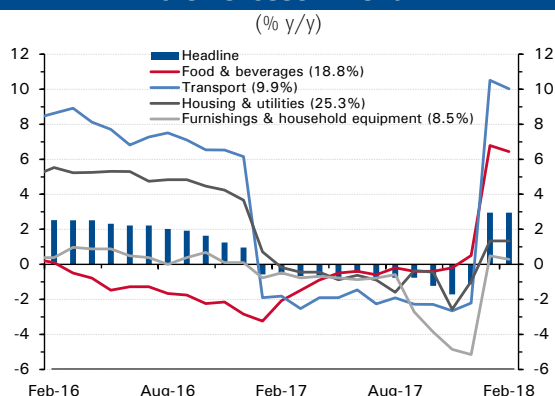
Source: Thomson Reuters Datastream

Chart 2: Kuwait credit growth



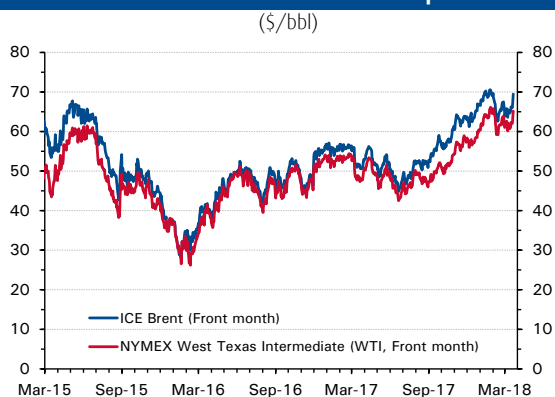
Source: Central Bank of Kuwait

Chart 3: Saudi inflation



Source: GASTAT

Chart 4: Benchmark crude oil prices



Source: Thomson Reuters Datastream

UK: The Bank of England kept interest rates on hold at 0.5%. But two BoE officials signaled that policy tightening would likely follow soon, perhaps in May, given relatively buoyant global growth supporting UK demand and with inflationary pressures elevated.

The EU and the UK agreed on a 21-month transition period commencing from March 2019. However, while businesses took comfort from the fact that they could make plans now without falling off the so-called 'cliff-edge', many in the Brexit camp were disappointed that under the agreement the UK would have to abide by all EU rules and regulations without any influence or say in formulating them.

GCC & regional macroeconomics

Kuwait: The Central Bank of Kuwait increased its discount rate by 25 basis points to 3% after the US Fed hiked its policy rate. The CBK had opted to keep rates unchanged the previous two times the Fed raised rates in an effort to ensure it does not crimp economic growth. However, the spread between KD and USD rates had narrowed significantly, which required a hike to maintain the value of the dinar.

Bank credit retreated for the fourth consecutive month in January, with growth slowing to 2.9% y/y, its slowest pace in six years, driven by the usual start-of-quarter drop in lending for the purchase of securities. Business credit registered little change on the month. Meanwhile, private deposits declined, following two months of strong gains. (Chart 2.)

It has been reported that preparations for a value-added tax are being delayed as the necessary legislation and other preparations would not likely be ready in time for implementation before 2020.

The government used this year's Kuwait Investment Forum to re-iterate its ambitious plan to develop the northern region of the country. The aim is to help diversify the economy away from oil and, generate 200,000 jobs.

Saudi Arabia: Inflation held steady in February (+3.0% y/y, +0.1% m/m) for the second month in a row following the imposition of a VAT and energy price hikes in January. (Chart 3.) Food and transportation are among the components most affected by the price hikes.

Other GCC: Other central banks across the GCC region increased interest rates following the Fed's move. The UAE raised its key interest rates by 25 bps, leaving the repo rate at 2.0%. The Central Bank of Bahrain raised its key policy rate on the one-week deposit facility by 25 bps to 2.0%. The Qatar central bank raised its key deposit rate, the QCBD, by 25 bps to 1.75%. The lending (QCBLR) and repurchase rates, however, were left unchanged at 5.0% and 2.5%, respectively.

Egypt: The government announced it will IPO 4-6 state-owned enterprises in FY18/19. The sale, which could net the state up to \$0.85 billion, will include oil companies and banks. The IPOs are part of a larger plan to sell stakes in as many as 23 state firms worth \$5-6 billion in the medium term.

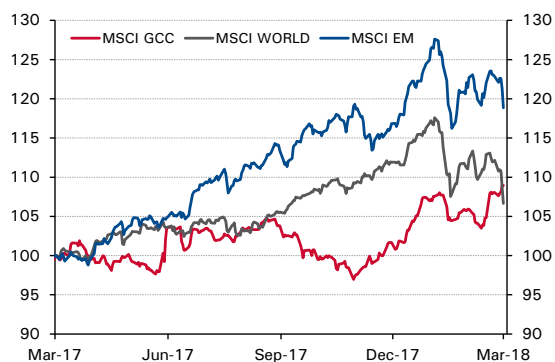
The cabinet approved the FY18/19 budget with a target deficit of 8.4% of GDP and a primary balance, though it still requires parliamentary approval. Meanwhile, the latest data suggests a deficit of 9-9.5% of GDP in FY17/18.

Markets – oil

Brent crude breached the \$70 level again last week for the first time since late January, closing up 6.4% w/w at \$70.5/bbl, with WTI also up 6% w/w at \$65.9/bbl. (Chart 4.) Middle East geopolitics – specifically, the

Chart 5: Total equity return indices

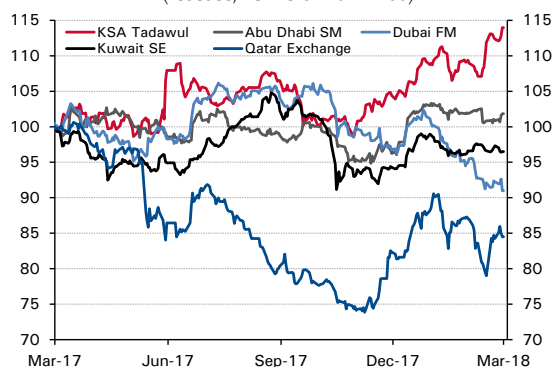
(rebased, 23 March 2017=100)



Source: Thomson Reuters Datastream

Chart 6: GCC equity markets

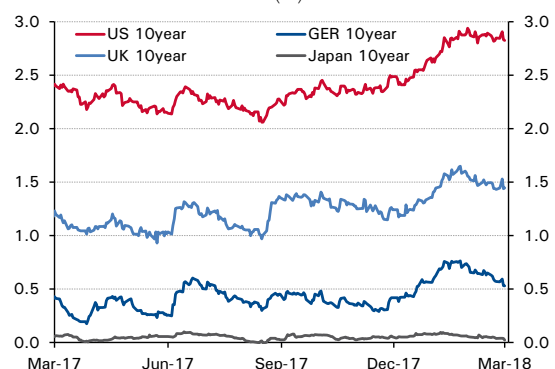
(rebased, 23 March 2017=100)



Source: Thomson Reuters Datastream

Chart 7: Global bond yields

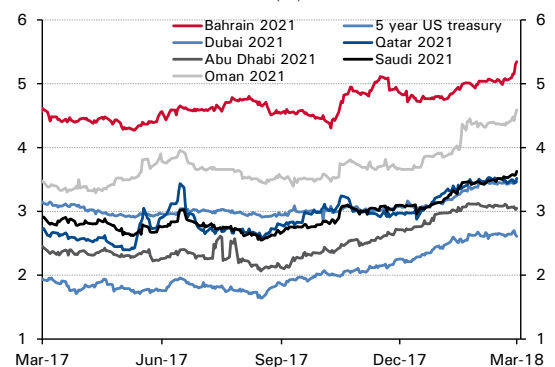
(%)



Source: Thomson Reuters Datastream

Chart 8: GCC bond yields

(%)



Source: Thomson Reuters Datastream

likelihood that President Trump will pull out of the Iran nuclear deal and ‘snap back’ energy sanctions on the Islamic Republic – has fueled oil market anxieties, alongside Trump’s appointment of two well-known foreign policy hawks and critics of the Iran deal as secretary of state and national security advisor. At least 250,000-500,000 b/d of Iranian exports could be at risk, although the other members of the P5+1 group of signatories are unlikely to follow America’s lead.

Prices also got a boost last week from Saudi oil minister Khalid Al-Falih, who indicated that OPEC might have to coordinate supply cuts into 2019, and from a surprising crude inventory draw (-2.6 mb) in the US. Fears that Venezuela’s crude supply was in rapid structural (-700,000 b/d or 30.5% y/y) were also in evidence.

Markets – equities

Global equities retreated significantly last week on global trade policy concerns, fed rate hike expectations and softening economic momentum in the Eurozone. The MSCI AC index was down 4.7% w/w.

In the US, stocks experienced large losses with both the DJI and the S&P 500 down around 6% w/w. Mr. Trump’s announcement of tariffs on Chinese imports, and China’s retaliation, ramped up concerns of a trade war. Investors also digested fallout from negative news on a major tech firm and the prospect of three Fed rate hikes in 2019, up from two. Elsewhere, a softer Eurozone PMI drove European equities lower, with the Euro Stoxx 50 down 4%, while emerging markets declined 3.2%, with Asian equities spooked by the tariffs. (Chart 5.)

GCC markets were mixed, with some diverging from the global downturn, still lifted by expectations of foreign inflows and changes to ownership limits. Capital flowed into Saudi as investors positioned themselves ahead of a FTSE upgrade expected at the end of this month. Dubai ended at two year low, down 1.5% w/w, while Saudi climbed 1.2%. Other GCC markets were down, dragged lower by the global sell-off, despite higher oil prices, with Kuwait (weighted index) contracting by 0.6%. (Chart 6.)

Markets – fixed income

The sell-off in equities saw yields on benchmark bond yields tighten, amid concerns over the ongoing trade stand-off and White House uncertainty. The Fed’s decision and higher rate hike projections did little to rattle fixed income markets. US Treasury yields fell 2 basis points on the week, to settle at 2.83%. (Chart 7.) Bund yields tracked US Treasuries lower, shaving 4 bps. Meanwhile, GCC benchmark yields were mostly higher over the week, despite higher oil prices, with Saudi 2023 and Qatar 2022 up 9 bps and 5 bps, respectively. (Chart 8.)

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 Representative 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