Spanish markets hit on Catalonia independence push; Saudi outlines new investments to boost diversification

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi SM	4,468	-0.83	-1.73
Bahrain ASI	1,277	-0.12	4.66
Dubai FM	3,651	-0.59	3.40
Egypt EGX 30	13,955	1.76	13.05
S&P GCC 40	1,052	1.03	-8.92
Kuwait SE	6,623	-0.14	15.23
KSA Tadawul	6,911	-1.43	-4.16
Muscat SM 30	4,959	-2.14	-14.25
Qatar Exchange	8,128	-0.54	-22.12
International			
CSI 300	4,022	2.42	21.51
DAX	13,218	1.74	15.12
DJIA	23,434	0.45	18.58
Eurostoxx 50	3,652	1.31	10.99
FTSE 100	7,505	-0.24	5.07
Nikkei 225	22,008	2.57	15.14
S&P 500	2,581	0.23	15.29

Commodities	$/unit	Change (%)	
		weekly	YTD
Brent crude	60.4	4.66	6.37
KEC	56.0	3.78	7.86
WTI	53.9	4.72	0.34
Gold	1268.5	-0.70	10.30

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.302	0.00	-1.01
KWD per EUR	0.358	0.00	12.35
USD per EUR	1.161	-1.49	10.42
JPY per USD	113.670	0.15	-2.74
USD per GBP	1.313	-0.46	6.41
EGP per USD	17.640	0.03	-2.00

Interbank rates	%	Change (bps)	
		weekly	YTD
Bhibor - 3 month	2.45	0.0	35.0
Kibor - 3 month	1.81	0.0	37.5
Qibor - 3 month	2.50	1.1	71.7
Eibor - 3 month	1.57	0.1	9.6
Saibor - 3 month	1.79	0.1	-24.1
Libor - 3 month	1.38	1.5	38.0

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.41	6.4	-11.8
Dubai 2021	2.99	1.7	-30.4
Qatar 2021	3.03	7.4	10.2
Kuwait 2022	2.55	1.4	n/a
Saudi Arabia 2022	2.89	5.4	n/a
International			
UST 10 Year	2.43	4.7	-0.4
Bunds 10 Year	0.39	-6.7	17.9
Gilts 10 Year	1.35	1.9	11.0
JGB 10 Year	0.07	-0.2	2.2

Source: Thomson Reuters Datastream; as of Friday's close 27/10/2017

> Economic Research Department
+965 2259 5500
econ@nbk.com

Overview

A dramatic end to the week saw the Catalonian parliament declare independence from Spain and the central government impose direct rule, with regional elections called for December. The stage is now set for a prolonged battle of wills between the two sides, with potential implications for Spanish businesses and markets; the Ibex 35 fell 1.5% on Friday, government bond yields rose and some firms have already fled the want-away region. The euro dropped to a 3-month low versus the dollar, losing impetus after the ECB announced, as expected, the halving of its QE bond purchases from January to September 2018 (with no firm end in sight). 3% US GDP growth in Q3 and progress on tax reform further helped the US currency.

In the US, there were rumors that President Trump was leaning towards the appointment of Fed Governor Jerome Powell as the next Chair of the central bank when Janet Yellen's current term expires in February. Powell, not an economist, is thought to favor a continuation of current dovish Fed monetary policy, which could support President Trump's pro-growth agenda. The other lead candidate, John Taylor, is a respected academic known for favoring a more rules-based monetary framework. A decision on the appointment is expected this week.

Brent crude prices rose to above $60 pb late last week for the first time in more than two years, and are now up 34% from their June low of $45. Global demand – helped by cheap oil – remains solid and various comments from OPEC officials have recently pointed to the group extending current output cuts beyond their March expiry, perhaps to the end the year, reducing the chances of a flood of new supply reaching the market in 2018. The cartel's next meeting is due end-November.

News in the Gulf region was dominated by the Future Investment Initiative conference in Riyadh, which saw Saudi officials announce a plethora of new plans, including the doubling of assets under management at the Public Investment Fund to $0.4 trillion by 2020 (helped by borrowing) and the building of a $0.5 trillion hi-tech hub that would straddle both Jordan and Egypt. There was also a suggestion that oil company Aramco could be listed 'exclusively' on the local stock market rather than jointly overseas; the Saudi Tadawul at present has a capitalization of $440 billion, with a target of over $1 trillion by 2022.

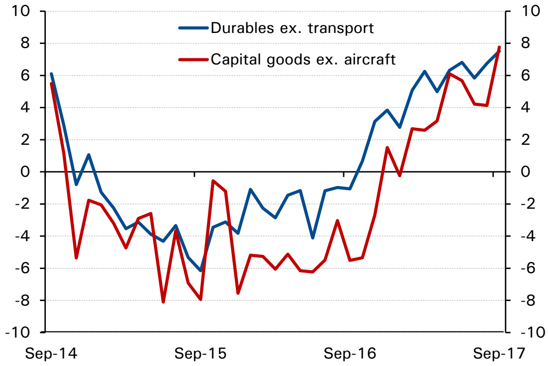
International macroeconomics

USA: The GDP data was robust in 3Q17, with growth coming in at an annualized 3.0% q/q (Chart 2). Growth from a year ago rose to 2.3% y/y. The data pointed to healthy growth in personal consumption, with durables particularly strong at an annualized 8.3% q/q.

Durable goods orders were solid in September, pointing to healthy growth ahead. Robust capital goods orders were particularly significant, with the data pointing to increasing investment. Orders of durable goods excluding volatile transportation equipment grew by 7.5% y/y, while capital goods orders (ex. aircraft) grew by 7.8% y/y. Both grew at their most rapid pace

Chart 1: US durable goods orders

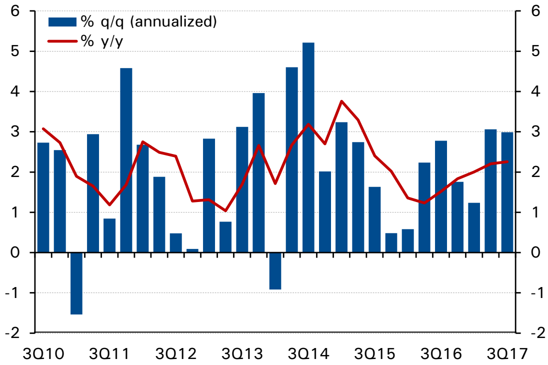
(% y/y)



Source: U.S. Census Bureau

Chart 2: US GDP

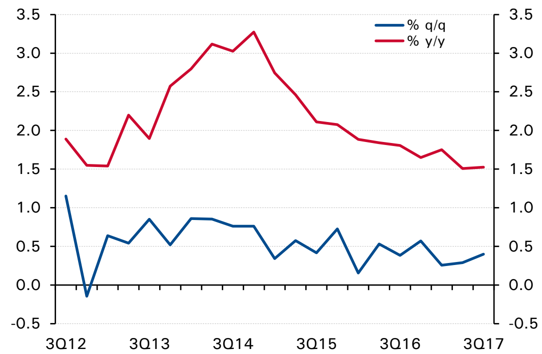
(%)



Source: U.S. Bureau of Economic Analysis

Chart 3: UK real GDP growth

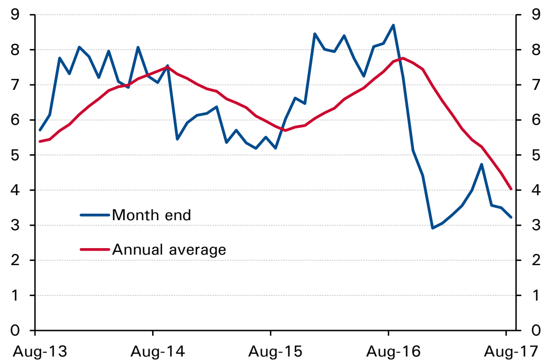
(% y/y)



Source: ONS preliminary estimates

Chart 4: Kuwait credit growth

(% y/y)



Source: Central Bank of Kuwait

in over five years (Chart 1). Meanwhile, new home sales registered continued improvement in September.

The Trump administration's promised tax reform made further progress last week after the House of Representatives passed a budget resolution for the 2018 fiscal year. The step paves the way for Congress to work on a tax bill in the coming weeks, with a breakthrough expected by the end of November.

Eurozone: It was a tumultuous and tense week for Spain, culminating in the ousting of the Catalan government. Spanish PM Rajoy seized control of the region following continued defiance from Puigdemont, Catalonia's now removed president, by invoking Article 155 soon after the Catalan leader explicitly declared independence. The Spanish government has called for new regional elections on 21 December. Markets have yet to fully digest the news.

In Italy, more than 90% of voters in Lombardy and the Veneto region voted 'yes' in non-binding referendums for greater autonomy. Their now-ratified mandates seek to renegotiate with Rome greater independence over finances, education, and security. Any changes, however, need to be approved by the Italian Senate.

As expected, the ECB left its key policy rates unchanged and extended its asset purchase program by 9 months (Jan-Sep 2018), but reduced its monthly purchasing pace to EUR 30 billion (EUR 60 billion previously). Markets took the news in stride (see Equities and Fixed Income). The euro slipped by 1% to $1.16 following the announcement.

Eurozone's flash October PMI came in at 55.9 on a slightly weaker-than-expected performance in the services sector. Manufacturing, however, was robust as new export orders picked up. The still-strong reading points at healthy growth carrying through into the fourth quarter. Germany and France drove the expansion.

Japan: Prime minister Shinzo Abe and his Liberal Democratic Party secured a massive win during last week's elections, after maintaining a two-thirds 'super majority' in the lower house. With Abe set to remain in power, we should continue to see large-scale monetary easing and more fiscal stimulus, at least in the near-to-medium term.

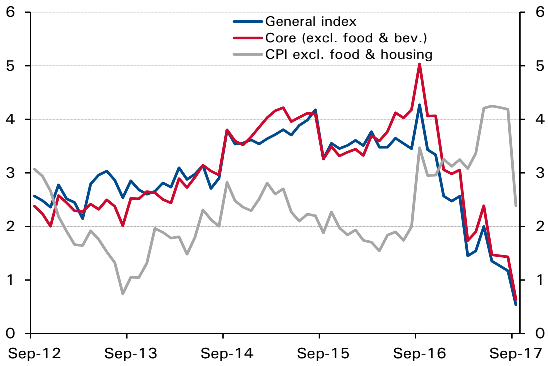
UK: The UK economy expanded by a better-than-expected 0.4% q/q during the third quarter. (Chart 3.) Thanks to gains in the manufacturing and services sectors, the economy did put in a better performance than in the previous two quarters. While the GDP estimate is preliminary, it does lend further ammunition to hawks on the Bank of England's Monetary Policy Committee as they weigh up the UK's first interest rate rise in a decade when they meet next month. Bond prices subsequently fell as yields on two-year gilts, for example, rose by 5 bps to a post-Brexit referendum high of 0.51%. Sterling also gained, rising 1% against the dollar to $1.32.

GCC & regional macroeconomics

Kuwait: Credit saw a moderate KD 193 million rise in August, though growth slowed to 3.2% y/y (Chart 4). Most gains came from households and some business sectors. Despite apparent weakness in business credit, lending to 'productive' sectors remained relatively robust, with growth thus far in 2017 averaging an annualized 11%. Private deposits bounced back following a couple of months of decline.

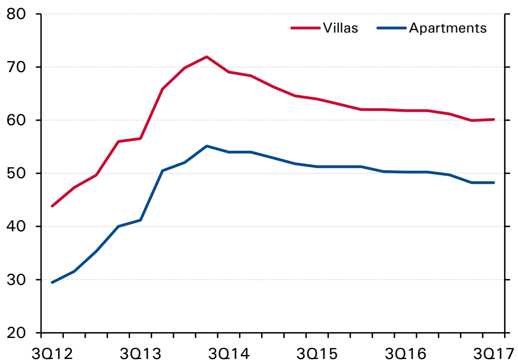
Chart 5: Kuwait consumer price inflation

(% y/y)



Source: Central Statistical Bureau

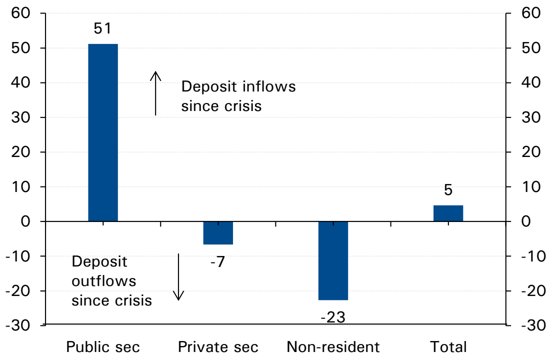
Chart 6: Dubai residential property sales prices



Source: Asteco

Chart 7: Qatar commercial bank deposits

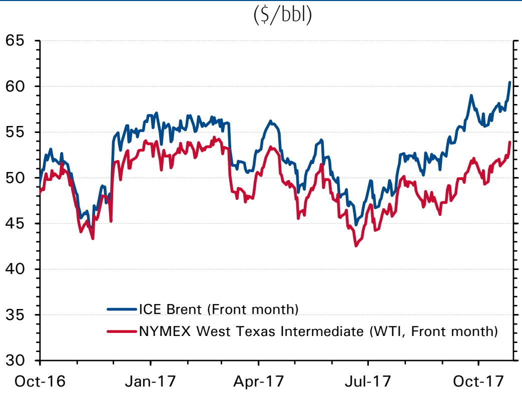
(Change between May and September, QAR billion)



Source: Qatar Central Bank

Chart 8: Benchmark crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

Inflation slipped to 0.5% y/y in September, largely as last year's effect of fuel price hikes faded. The data continued to reflect soft housing and food inflation (Chart 5).

Saudi Arabia: Alongside the planned Aramco IPO, Saudi Crown Prince Mohammed bin Salman recently announced the development of a $500 billion mega-city in the north west of the country. The Neom project, a global industrial hub and destination for innovative sectors, will be spearheaded mainly by international firms, although the government will be active in managing the project. It will also be offered for sale to the financial markets.

Saudi Finance Minister, Mohammed Al-Jadaan, stated that the government plans to increase spending in 2018 to support the flagging economy; the government will, therefore, raise the budget ceiling in the coming year. The aim of balancing the budget by 2020 is still on.

The kingdom's main sovereign wealth fund, the Public Investment Fund, announced its first comprehensive business plan last week. The 96-page document included targets for 2020. Among the targets is an increase in the assets under management from around SR862 billion ($230 billion) currently to SR1.5 trillion riyals ($400 billion) by 2020.

UAE: Following almost two years of falling prices amid tighter regulations, rising housing supply and risk aversion, residential property prices in Dubai appear to have largely stabilized in 2017. (Chart 6.) According to Asteco, the prices of both apartments and villas were unchanged in Q3, though were still down 4% and 3%, respectively, year-on-year. However, downward pressures on prices are projected to persist in the near-to-medium term due to higher housing supply and further shifts in demand toward the more affordable housing sector.

Qatar: Latest monetary data from the Central Bank of Qatar showed continued withdrawals of overseas cash from the banking system in September. Non-resident deposits at commercial banks fell by a further QAR6 billion m/m, or 4%, taking cumulative withdrawals to 23% from pre-GCC dispute levels in May. As in earlier months, however, these withdrawals were more than offset by injections in other areas – notably from the public sector but also encouragingly this month the domestic private sector – leaving overall deposits up QAR4 billion m/m and up 36 billion, or 5%, since May. (Chart 7.) Public sector deposits are now up 68% y/y and account for 38% of all bank deposits.

Bank lending edged lower on the month, but remains up 13% y/y.

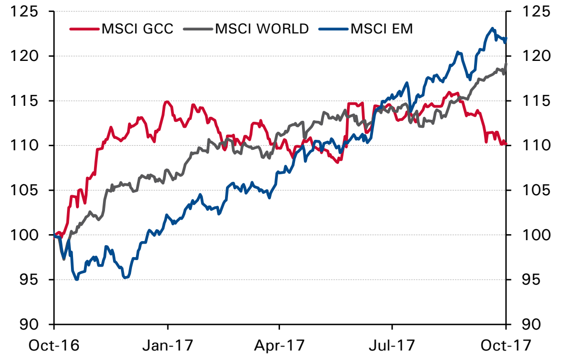
Oman: Oman's budget deficit reached OMR 2.8 billion year-to-date in August. At this pace, it is expected to surpass the budgeted OMR 3 billion financing gap for 2017. In fact, we forecast the deficit reaching OMR 3.9 billion, or 14% of GDP. Meanwhile, inflation picked up to 1.6% y/y for September, on the back of an increase in food and transport costs.

Markets – oil

Brent crude topped the symbolic $60 pb level on Friday for the first time in more than two years. Brent hit $60.4 pb at the end of the last trading session, while WTI closed at $53.9 pb, its highest level since February. (Chart 8.) Brent's gains since mid-June are more than 35%, a remarkable bull run that must leave OPEC feeling somewhat vindicated. OPEC's steadfast commitment to the production cut agreement, coupled with stronger crude demand, has been instrumental in tackling the three-year supply glut. Oil prices also benefitted in recent weeks from the return of

Chart 9: Total return indices

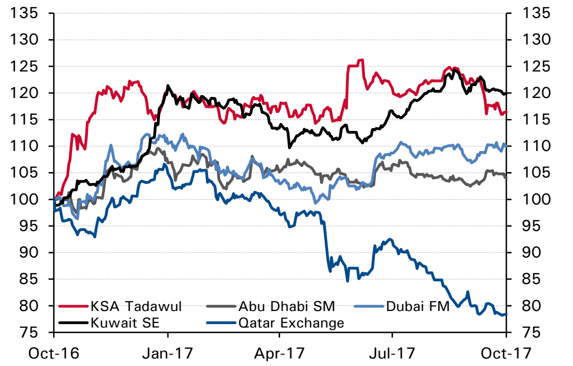
(rebased, 27 October 2016=100)



Source: Thomson Reuters Datastream

Chart 10: GCC markets

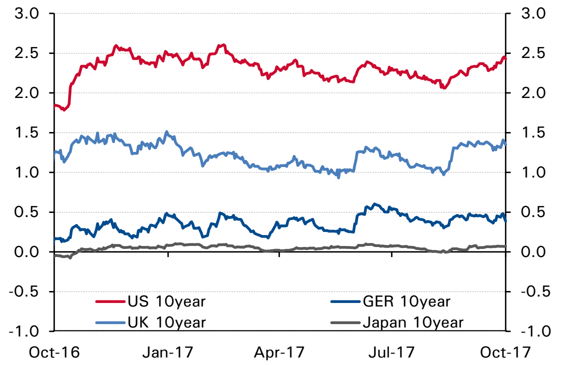
(rebased, 27 October 2016=100)



Source: Thomson Reuters Datastream

Chart 11: Global benchmark yields

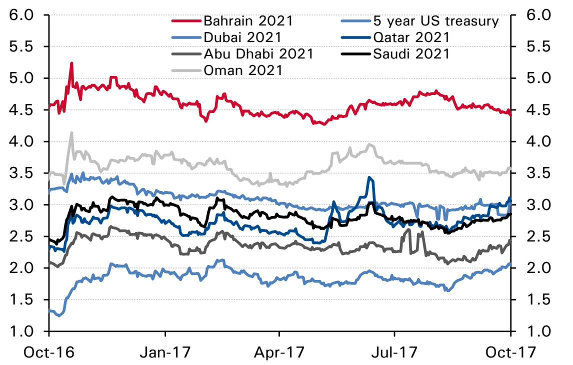
(%)



Source: Thomson Reuters Datastream

Chart 12: GCC yields

(%)



Source: Thomson Reuters Datastream

the geopolitical risk premium, with markets concerned that the flow of oil from northern Iraq might be affected by Baghdad's seizure of Kirkuk's oil fields from the Kurdish Regional Government's control in the wake of the latter's independence referendum.

Markets – equities

It was a positive week for equity markets supported by earnings and dovish comments by the ECB's Mario Draghi. The MSCI World All Country index closed up 0.4%. US equities broke their six-week winning streak on some negative earnings mid-week, but went on to reverse the losses as heavyweight technology shares posted better-than-expected quarterly earnings. Meanwhile, positive data from the US continued to boost sentiment. The S&P 500 and DJIA closed up 0.2% and 0.5%, respectively. Draghi, as expected, announced a plan to begin tapering the ECB's bond purchases, but emphasized the slow approach to ending the monetary easing program. European equities (exc. Spain) bounced, pushing the Euro Stoxx 50 up 1.3% on the week. Emerging market equities trailed behind with the MSCI EM retreating 0.2%. (Chart 9.)

All regional markets were negative last week despite rising oil prices. Earnings season is in full swing, with earnings so far coming weaker than expected. The MSCI GCC index closed the week down 1.2%. Tadawul shed 1.4% and ADX slid 0.8%. (Chart 10.)

Markets – fixed income

US Treasury and German Bund yields diverged over the week, as strong data (see USA) and Fed chair speculation drove US yields higher, while the ECB's dovish 'taper' and Catalonia pulled Bund yields lower. US 10-year treasury yields were up 5bps to sit at 2.43%, while German 10-year bunds drop 7 bps to 0.39%. (Chart 11.)

"For as long as necessary" was the theme of the ECB's monetary policy decision. The asset purchase program was extended (9 months at EUR 30 billion) and may be further extended or increased "if necessary". Redemptions will be reinvested for an "extended period of time after the end of [the ECB's] net asset purchases, and in any case for as long as necessary". And main refinancing operations "will continue [...] for as long as necessary".

Not surprisingly, markets interpreted these decisions as dovish. And more so following the ECB's intention to increase the transparency of its asset purchase program. The bank will now divulge on "a monthly frequency, the expected monthly redemption amounts".

GCC sovereign yields ended the week higher, tracking US treasuries. Yields for most sovereigns maturing in 2021 and 2022 increased by up to 7 bps, with Qatar 2021 yields seeing the largest bump, to above 3%. (Chart 12.)

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