Weekly Economic and Markets Review

NBK Economic Research Department I 2 September 2018

International & MENA

Trade frictions continue to dominate the agenda; EM currencies see further turbulence

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,987	2.09	13.38
Bahrain (ASI)	1,338	-0.73	0.48
Dubai (DFMGI)	2,840	0.87	-15.72
Egypt (EGX 30)	16,009	4.82	6.59
GCC (S&P GCC 40)	1,088	2.09	10.51
Kuwait (All Share Index)	5,132	-1.46	6.25
KSA (TASI)	7,948	1.03	9.99
Oman (MSM 30)	4,419	0.66	-13.34
Qatar (QE Index)	9,886	4.64	15.99
International			
CSI 300	3,335	0.28	-17.28
DAX	12,364	-0.25	-4.29
DJIA	25,965	0.68	5.04
Euro Stoxx 50	3,393	-1.01	-3.17
FTSE 100	7,432	-1.91	-3.32
Nikkei 225	22,865	1.17	0.44
S&P 500	2,902	0.93	8.52

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.47	2.4	52.5
Dubai 2022	3.83	-0.1	69.5
Qatar 2022	3.56	-2.6	48.5
Kuwait 2022	3.40	-2.6	59.5
Saudi Arabia 2023	3.77	4.4	55.5
International			
UST 10 Year	2.85	2.7	44.2
Bunds 10 Year	0.33	-1.2	-9.2
Gilts 10 Year	1.43	15.2	24.2
JGB 10 Year	0.10	0.3	5.3

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.53	0.0	80.0
Kibor	2.06	6.3	18.8
Qibor	2.65	0.0	-9.3
Eibor	2.53	6.2	73.6
Saibor	2.61	0.2	71.3
Libor	2.32	0.9	62.7

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.302	-0.09	0.42
KWD per EUR	0.354	0.85	-0.23
USD per EUR	1.160	-0.19	-3.31
JPY per USD	111.0	-0.18	-1.46
USD per GBP	1.296	0.92	-4.08
EGP per USD	17.78	-0.22	0.28

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	77.4	2.11	15.78
KEC	75.2	2.41	18.46
WTI	69.8	1.57	15.52
Gold	1200.3	-0.50	-8.11

Source: Thomson Reuters Datastream; as of Friday's close 31/8/2018

Overview

The focus on the international trade climate continued last week with discussions to revamp the tripartite NAFTA agreement stalling on a breakdown in US-Canada talks on Friday, despite the US and Mexico striking a bilateral reform deal early in the week. President Trump indicated that If Canada doesn't "make a fair deal for the U.S... Canada will be out". A key sticking point is access for US dairy products in Canada but there is optimism that a pact will eventually be struck, with officials still claiming progress is being made ahead of the end-September deadline.

Having hit record highs earlier in the week, US equities ended softer on concerns over US trade with its neighbors and with China, and despite generally strong economic data including an upward revision to Q2 GDP growth to 4.2%. Meanwhile emerging market currencies including in Turkey, Indonesia, India and Argentina saw further turbulence, with Argentina pushing up interest rates to 60% highlighting investor concern over EM stability as global liquidity conditions tighten.

Brent crude oil prices saw another strong week, finishing up 2% w/w at $77/bbl and registering a 4% gain in August overall. The latest price climb was helped by a fall in US crude inventories and continued anxiety over the ability to replace further lost Venezuelan and Iranian output – the latter due to US sanctions which will take full effect from November.

In the MENA region, there was some positive news for Egypt with Moody's revising its rating outlook to positive from stable citing "substantial progress" on reforms backed up by IMF support, while latest data show both tourism and remittances rising strongly. Meanwhile GCC equities rose on the week but finished August down 2.5% m/m, following some softening in international markets on trade war concerns and in Saudi on reduced optimism over prospects for the Aramco sale.

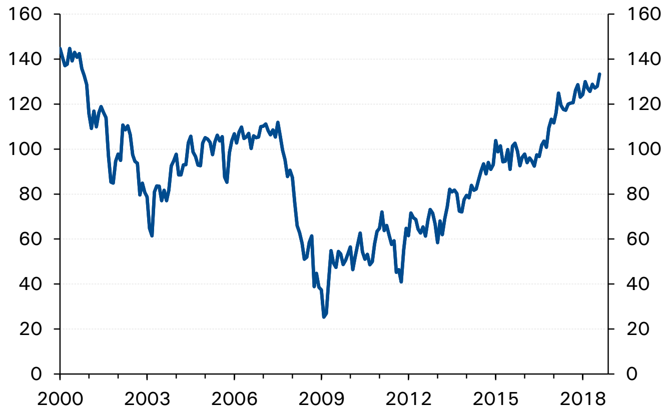
International macroeconomics

USA: News on the US economy remains broadly bullish, with a combination of strong growth, solid consumer confidence and gradually rising inflationary pressures. GDP growth in 2Q18 was revised up a touch to an annualized 4.2% from an already very strong 4.1% and versus 2.2% in 1Q18. The revision was driven by higher business investment and inventories, which more than offset slightly softer (though still very sturdy) growth in consumer spending than previously recorded, at 3.8%.

The consensus view is for economic growth to decelerate to around 3% in 3Q18. July's strong growth in consumer spending, at 0.4% m/m, suggests decent support for growth at the start of the quarter, while consumer confidence measures for August remained robust. Indeed the Conference Board sentiment measure hit its highest since the dotcom fever of 2000. (Chart 1.) One softer spot on the consumer side remains the housing market, with growth in the Case-Shiller house price index softening to 6.3% y/y in June.

Chart 1: US consumer confidence

(Conference Board measure, index)



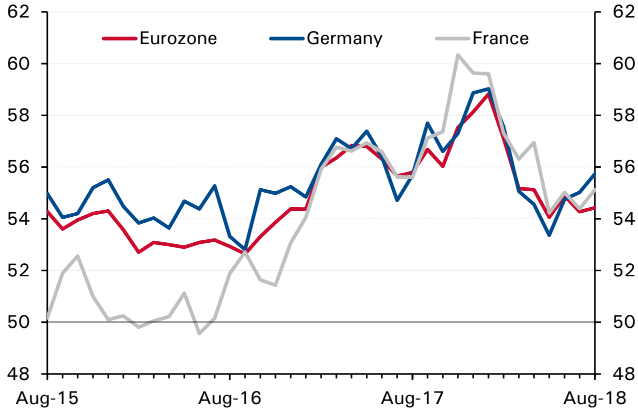
Source: Thomson Reuters Datastream

Meanwhile, the core personal consumption expenditure deflator – the Federal Reserve's preferred measure of inflation – rose as expected to 2.0% y/y in July up from 1.9% in June, and back in line with the central bank's target for the first time since March. The headline measure rose to 2.3% from 2.2%. Steadily rising price pressures are one reason why the Fed is expected to lift interest rates by a further 25bps at the end of September.

Eurozone: The flash inflation measure in the Eurozone edged down to 2.0% y/y in August from 2.1% in July – its first drop since February and closer to the European Central Bank's target of "just below" 2%. (Chart 2.) Core inflation – striping out food and energy costs – also dipped to 1.0% from 1.1% in July. Easing price pressures support the ECB's view that the recent spike in inflation will prove temporary, and that it should maintain a cautious approach to the withdrawal of monetary stimulus – due to be wound up by end-year – and future rate hikes. Meanwhile, Eurozone unemployment was stable at 8.2% in July, which although still high, is the lowest since November 2008. However this did not stop economic sentiment across the single currency area from softening in August, reflecting lower consumer confidence on unemployment fears particularly in weaker European economies.

Chart 2: Eurozone inflation

(Harmonized measure, % y/y)



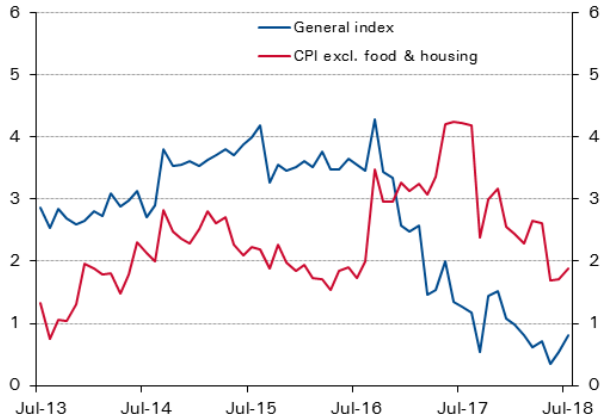
Source: Thomson Reuters Datastream

GCC & regional macroeconomics

Kuwait: Headline inflation rose to 0.8% in July from 0.5% in June on the back of higher food prices. (Chart 3.) Food prices rose 0.8% m/m in July and to 1.2% y/y from 0.1% y/y in June. With food accounting for 17% of the CPI basket, July's price rise contributed more than two-thirds of the increase in inflation overall. We expect inflation to trend flat-to-higher for the remainder of the year as the pace of declines in housing rents eases while food prices show a modest uptrend. Our forecast is for inflation to average 1.0% in 2018 overall, with risks of a slightly lower outcome.

Chart 3: Consumer Price Inflation

(% y/y)

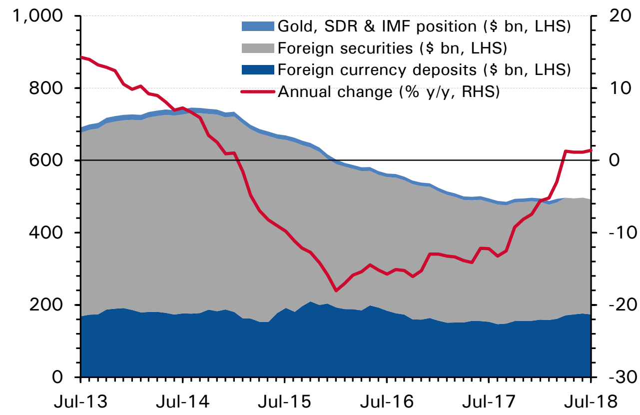


Source: Central Statistical Bureau

Real estate sales in July were the highest in four years, at KD 500 million, more than double the previous month and triple the value from a year earlier. The record sales were driven by a rise in activity in all three real estate sectors, but most notably the investment (i.e. apartment) sector, which saw a sharp rise in building sales during the period, followed by the residential sector where sales were more than double June levels.

Saudi Arabia: Official foreign reserve assets declined by $5.1 billion (-1.0% m/m) in July to $501 billion as the authorities drew down some of their overseas deposits and investments in foreign securities. Reserves were still up 1.4% y/y, however. (Chart 4.)

Chart 4: Saudi official foreign reserve assets



Source: SAMA

Egypt: Egypt's tourism revenues rose by 77% in the first half of 2018 to $4.8 billion compared with the same period last year, due to an increase in the number of tourists by 41% to about 5 million. This highlights the gradual recovery of the tourism sector thanks mainly to the currency float in late 2016 that has made the country a relatively cheap destination for foreign visitors. In addition, remittances from Egyptian expats increased by 21% during FY2017/2018 to a new record of about $26.5 billion. Meanwhile, Moody's changed the outlook on the Government of Egypt's long-term issuer ratings to positive from stable and affirmed its B3 rating. The decision reflects structural improvements in the fiscal and current account balances, backed by implementation of the IMF reform program.

Turkey: Following a one-week long holiday, the Turkish lira came under renewed pressure last week, even after the central bank stepped in to help restore investor confidence. The central bank changed overnight borrowing limits, ending the unrestricted funding it started offering two weeks ago, and effectively tightened liquidity. On Friday, the lira rose after four days of losses as the government increased taxes on dollar deposits of up to a year and got rid of a 10% tax on lira deposits lasting more than a year. But these measures and the defiant speeches by both the President and Finance Minister have yet to lead to a sustained rise in investor confidence or the lira, which was down 8.8% w/w by Friday's close.

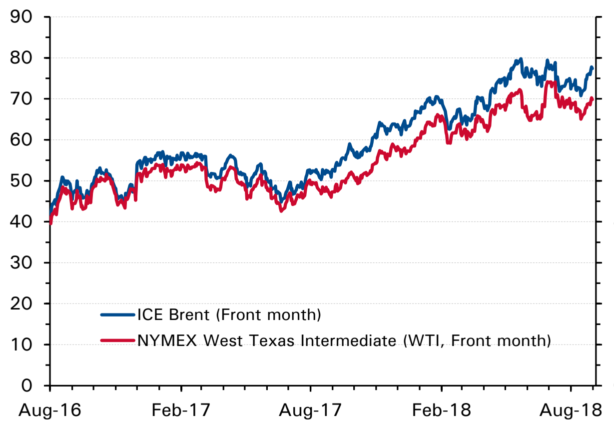
Citing signs of higher downside risks, Moody's followed up its recent downgrade of Turkey's sovereign credit rating (from Ba2 to Ba3, with a negative outlook) by cutting the ratings of 20 Turkish financial institutions. The central bank is due to hold its next policy meeting on 13 September and investors are looking for a substantial increase in the interest rate. But this measure alone may not deliver stability unless it is accompanied by a comprehensive and credible economic reform program and an improvement in Turkey's international relations.

Markets – oil

Concerns over the US-China trade war and President Trump's threat to walk out of the WTO pushed Brent and WTI lower d/d on Friday to $77.4/bbl and $69.8/bbl, respectively. (Chart 5.) Nevertheless, both prices were still up more than 1.5% w/w and closed the month higher (Brent: +4.3% m/m; WTI: +1.5% m/m) for the first time since June. Oil's gain so far in 2018 stands at almost 16%, with recent momentum coming on signs that the physical market is tightening again. These include further crude stock drawdowns in the US (-2.5 mb in w/w 24 August) and importers cutting their imports of Iranian crude as US sanctions are re-imposed.

Chart 5: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

Markets – equities

Trade talks remained the dominant theme among global markets last week. International markets were marginally higher, with the MSCI AC world index rising by 0.5%, supported by a successful trade deal between the US and Mexico. (Chart 6.) Indeed, the S&P 500 and Nasdaq closed at record highs last Monday following the deal. However, continued US trade tensions with China and now with Canada continued to weigh on investor sentiment. The US and Canada failed to strike a new trade deal by Friday's initial deadline. Nonetheless, the two sides are set to resume talks later this week. The Trump administration is also reportedly adamant about imposing tariffs on an additional $200 billion worth of Chinese goods as early as this week.

Escalating trade tensions did not bode too well for European markets either, especially after President Trump reportedly condemned the European Union's planned and current trade policies. The Euro Stoxx 50 index was down 1.0%. The MSCI EM index also remained under pressure as growing global trade concerns were compounded by currency contagion effects from Argentina, Turkey and other emerging markets. Indonesia's rupiah fell to a 20-year low against the US dollar, prompting the central bank to intervene. The Indian rupee also fell to a record low last week. Regionally, the MSCI GCC index was up 1.7% w/w, mainly supported by higher oil prices. (Chart 7.)

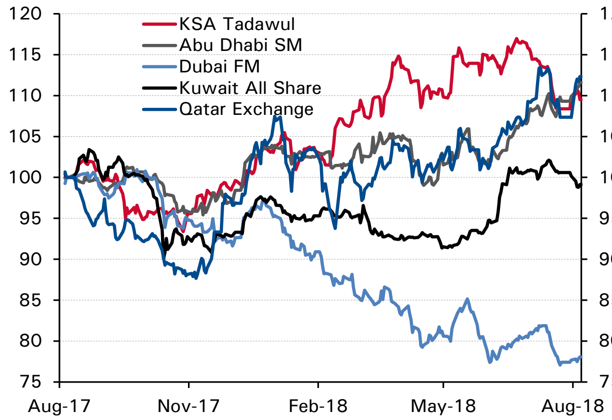
Chart 6: International equity indices

(rebased, 31 August 2017=100)

Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

(rebased, 31 August 2017=100)



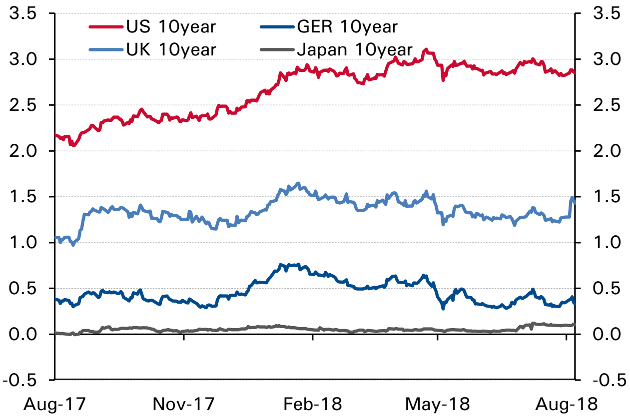
Source: Thomson Reuters Datastream

Markets – fixed income

International benchmark yields were mostly higher last week. US 10-year Treasury yields rose by 3 basis points, supported by the trade deal with Mexico and better-than-expected consumer confidence data. 10-year Bund yields, however, fell by 1 basis point amid renewed trade fears. (Chart 8.) GCC yields were mixed, with the higher oil price environment somewhat overshadowed by fresh global trade concerns. (Chart 9.)

Chart 8: Global bond yields

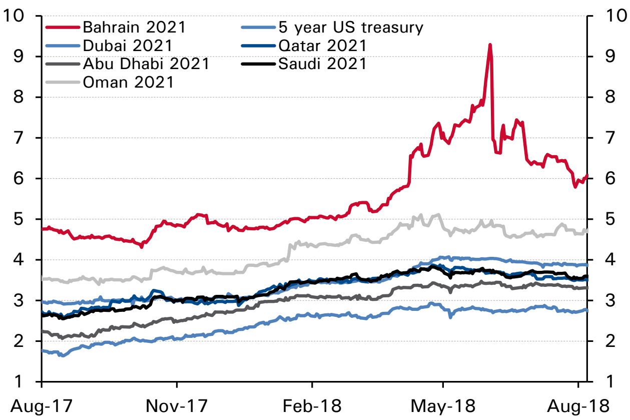
(%)



Source: Thomson Reuters Datastream

Chart 9: GCC 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