

Weekly Economic and Markets Review

NBK Economic Research Department | 16 September 2018



International & MENA

US to proceed with China tariffs; Turkey raises rates to 24%; oil prices firm up on Iran supply concerns

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,934	0.33	12.19
Bahrain (ASI)	1,345	0.39	1.00
Dubai (DFMGI)	2,810	-0.59	-16.62
Egypt (EGX 30)	15,309	-3.13	1.93
GCC (S&P GCC 40)	1,094	0.33	11.09
Kuwait (All Share Index)	5,140	-0.19	6.40
KSA (TASI)	7,591	-1.26	5.04
Oman (MSM 30)	4,559	2.84	-10.60
Qatar (QE Index)	10,022	1.99	17.58
International			
CSI 300	3,242	-1.08	-19.57
DAX	12,124	1.38	-6.14
DJIA	26,155	0.92	5.81
Euro Stoxx 50	3,345	1.56	-4.55
FTSE 100	7,304	0.36	-4.99
Nikkei 225	23,095	3.53	1.45
S&P 500	2,905	1.16	8.65
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.45	2.4	50.0
Dubai 2022	3.87	4.2	72.8
Qatar 2022	3.56	-14.1	48.2
Kuwait 2022	3.42	10.6	61.2
Saudi Arabia 2023	3.75	1.4	53.0
International			
UST 10 Year	2.99	5.2	58.3
Bunds 10 Year	0.45	5.9	2.6
Gilts 10 Year	1.53	7.1	34.3
JGB 10 Year	0.11	0.0	6.1
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.58	5.0	85.0
Kibor	2.00	-6.3	12.5
Qibor	2.65	0.0	-9.2
Eibor	2.61	-1.1	81.6
Saibor	2.63	0.8	73.4
Libor	2.33	0.7	64.0
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.303	-0.05	0.43
KWD per EUR	0.351	0.40	-1.04
USD per EUR	1.163	0.67	-3.07
JPY per USD	112.0	0.89	-0.56
USD per GBP	1.307	1.12	-3.30
EGP per USD	17.86	0.11	0.73
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	78.1	1.64	16.78
KEC	75.6	2.33	19.02
WTI	69.0	1.83	14.18
Gold	1195.0	0.12	-8.52

Source: Thomson Reuters Datastream; as of Friday's close 14/9/2018

Overview

US trade tariffs on \$200 billion worth of Chinese imports could be back on the cards after President Trump instructed his aides on Friday to proceed, in effect undercutting the efforts of his treasury secretary to restart trade talks with China. While an official White House announcement has yet to materialize, the move was enough to sour some of the market optimism and relief that had built up earlier in the week when it looked like the US and China would be back at the negotiating table again.

US and international stocks, nevertheless, managed to eke out gains to finish the week in the black. Indeed, US stocks posted their best performance in two months amid bullish consumer confidence and despite some underwhelming August retail sales data. Government bond yields continued to trend higher, with the benchmark 10-year note briefly breaching 3% on Friday for the first time since July.

Over in Europe, the ECB reaffirmed its commitment to winding down its monthly asset purchases by about half, to EUR 15 billion starting in October. The euro-area growth outlook for 2018 and 2019 was revised down, to 2.0% and 1.8%, respectively, due to the threat of trade protectionism and its impact on external demand.

Meanwhile, there was respite for Turkey and its beleaguered currency after the central bank raised the benchmark one-week repo rate by 625 bps to 24% on Thursday. The hike was more than markets were expecting and helped the lira recover about 3% against the dollar.

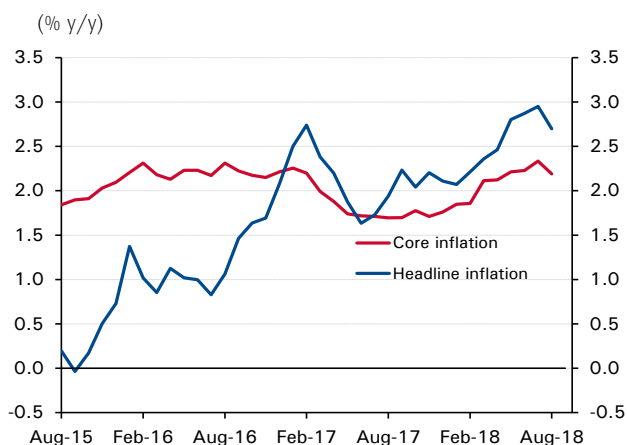
Oil prices advanced last week, closing up by more than 1.5% w/w at \$78/bbl (Brent) and \$69/bbl (WTI). Prices firmed on concerns that US sanctions on Iran would lead to a sizeable drop off in crude supplies, in the context of a thinning global spare production capacity buffer.

International macroeconomics

USA: US data was mixed last week, but remained solid overall and unlikely to deter the Fed from hiking rates in September, which markets are all but certain will happen. Retail sales undershot expectations in August, but were revised upwards for July, with the weakness possibly attributed to price declines

– possibly in apparel prices, which also weighed on US inflation in August. The latter eased to 2.7% from 2.9% in July, along with core inflation, which slowed to 2.2% from 2.4% in the previous month, its fastest pace since 2008. (Chart 1.) Meanwhile, the Michigan Consumer Sentiment index (MCSI) increased to near a fourteen-year high in September (prelim reading of 100.8), indicating that Americans were strongly bullish about the US economy. The Atlanta Fed increased its estimate of US real GDP growth for 3Q18 from 3.8% to 4.4%.

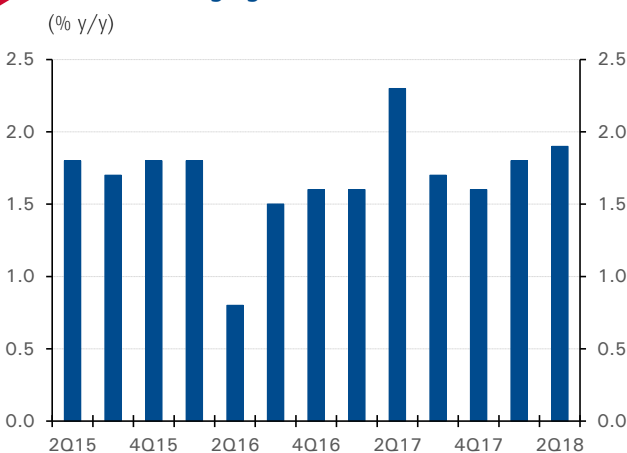
► **Chart 1: US inflation**



Source: Thomson Reuters Datastream

Eurozone: ECB President Mario Draghi’s optimistic speech at last week’s ECB meeting was perceived as slightly hawkish, helping to prop up the Euro against the dollar; it was light on new developments, however. Mr. Draghi highlighted the convergence in eurozone inflation towards its 2% target and the improvement in labor market conditions – wages grew by 1.9% y/y in 2Q18. (Chart 2.)

► **Chart 2: EZ wage growth**



Source: Thomson Reuters Datastream

He also affirmed the bank’s commitment to ease the amount of purchased assets to EUR 15 billion from EUR 30 billion starting in October. The bank, however, downgraded its projections for

growth for this year to 2.0% from 2.1% and next year to 1.8% from 1.9%.

Japan: Annualized real GDP growth for 2Q18 was revised upwards from 1.9% to 3.0%, its fastest growth rate in just over two years, thanks to better-than-expected capital expenditures data. (Chart 3.)

► **Chart 3: Japan’s annualized real GDP growth**



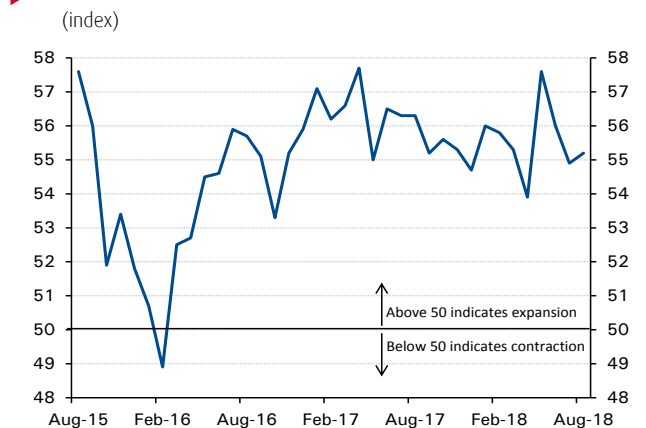
Source: Japan Cabinet Office

GCC & regional macroeconomics

Saudi Arabia: The Saudi government sold \$2 billion worth of sovereign sukuk last week, the kingdom’s second USD-denominated international Islamic bond sale following last year’s \$9 billion issue. The sukuk matures in 2029 and is priced at 127 bps over mid-swaps (4.3% yield), tightening from the initial price guidance of 145 bps over mid-swaps. Investor interest was reported to be sizeable, with more than \$10 billion in orders.

UAE: The Dubai Economy Tracker (DET) edged slightly higher in August, from 54.9 in July to 55.2, on the back of higher output in the construction, wholesale & retail trade and travel & tourism sectors. (Chart 4.)

► **Chart 4: Dubai Economy Tracker**



Source: IHS Markit, Emirates NBD

Despite stronger output levels, however, employment activity remained subdued, as firms adopted cost-cutting measures.

Egypt: After cancelling sales of three and seven-year Treasury bonds last week, Egypt's Finance Ministry cancelled its second consecutive auction, of five and ten-year treasury bonds worth 3.5 billion Egyptian pounds (\$196.74 million) in total amid demands by banks and investors for higher yields than were on offer. Egypt's inflation rate increased slightly to 14.2% y/y in August from 13.5% y/y in July, with core inflation edging up to 8.8% y/y from 8.5% y/y in July. Consumer prices fell by 1.8% m/m in August compared to a rise of 2.4% m/m in July following the subsidy cuts of that month. This likely reinforced expectations that the Central Bank of Egypt (CBE) would keep interest rates steady.

Turkey: Real GDP growth slowed from 7.3% y/y in 1Q18 to 5.2% y/y in 2Q18, as a pick-up in exports (mainly thanks to a cheaper lira) and higher government spending, partly offset the slowdown in consumption and investment during the same period. (Chart 5.) While a weakened lira is likely to continue to support export growth in at least the medium term, potentially higher borrowing costs will likely dampen consumer and government spending. In a bid to stem the lira's decline and rein in inflation, Turkey's central bank raised its main policy rate by 625 bps last Thursday, more than the 500 bps that the markets had been expecting. The lira gained some 3% against the US dollar following the rate hike.

Chart 5: Turkey real GDP
(% y/y)



Source: Thomson Reuters Datastream

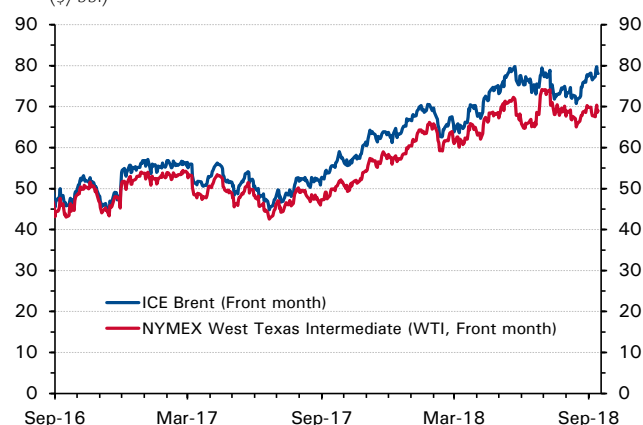
Markets – oil

Oil prices, despite trending lower since Wednesday, ended the week up by more than 1.5%, at \$78.1/bbl (Brent) and \$68.9/bbl (WTI) on Friday. (Chart 6.) Prices have advanced in three of the last four weeks, driven by better-than-expected crude stock drawdowns in the US (stock are at their lowest level since 2015), lower estimates of future US shale growth

amid pipeline constraints and mounting concerns that global oil supplies could be heading for significant tightness once US sanctions on Iran's crude supplies are fully imposed on 4 November (France, India and South Korea have already begun winding down Iranian crude imports).

The IEA also warned that supply losses from Venezuela and Iran risk pushing oil prices higher; Brent touched \$80/bbl for the first time since May last week while money managers have increased net bullish positions in Brent futures to their highest position in two months, at 440,074 contracts in the w/e 11 September (+5.6% w/w).

Chart 6: Crude oil prices
(\$/bbl)



Source: Thomson Reuters Datastream

Markets – equities

International markets rebounded last week on easing trade concerns and emerging market central bank action, with the MSCI AC world index climbing 1.1% w/w. Rate hikes by both the central banks of Turkey and Russia helped stem emerging market outflows, with positive sentiment pushing MSCI's EM index to a small 0.3% w/w gain, compared to a 2% drop the previous week. Markets were also supported by the return of US/China trade talks, which calmed expectations of further tariffs. US data and ECB optimism, on the other hand, helped lift US and European equities, with the S&P, DJI, and Euro Stoxx 50 up 1.2%, 0.9%, and 1.6% on a weekly basis, respectively. (Chart 7.)

Regionally, the MSCI GCC index was down 0.4% w/w, despite the pick-up in global sentiment, as individual investors sold-off Saudi equities (-1.3% w/w). Tadawul's all share index has dropped close to 11% from its year-high in July as investors, fearful of a souring emerging market outlook, booked profits. In the UAE, merger talks continued to support Abu Dhabi's index (+0.3% w/w), while solvency concerns over a property developer in Dubai dragged the DFM index down 0.6%. Meanwhile, Kuwait's all share index dipped by a small 0.3%

w/w, but its premier index climbed 0.4% w/w ahead of the inclusion of most of the index's constituents in the FTSE Russell Emerging Market Index. (Chart 8.)

▶ Chart 7: International equity indices

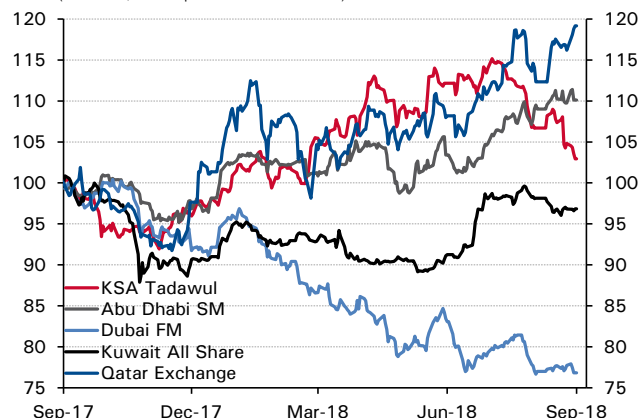
(rebased, 14 September 2017=100)



Source: Thomson Reuters Datastream

▶ Chart 8: GCC equity markets

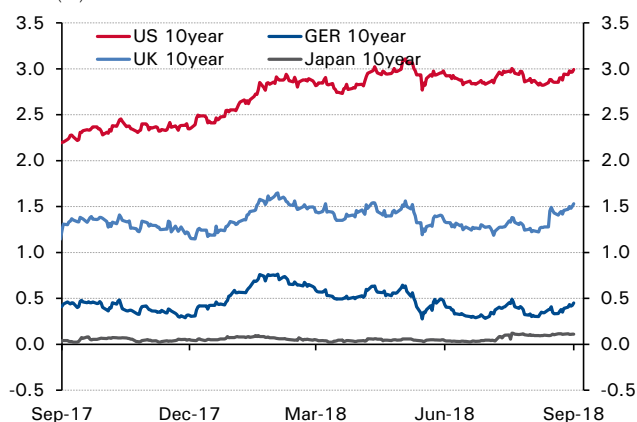
(rebased, 14 September 2017=100)



Source: Thomson Reuters Datastream

▶ Chart 9: Global bond yields

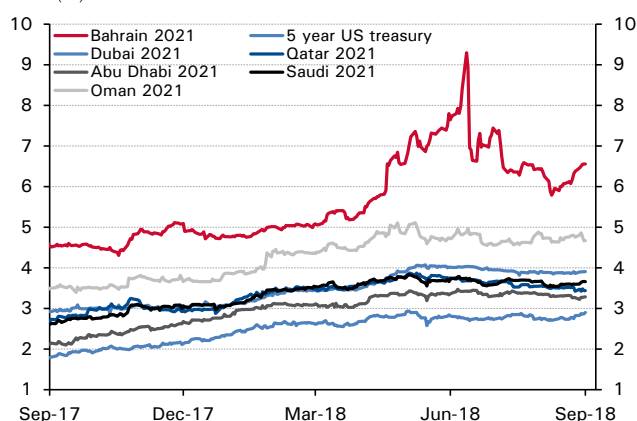
(%)



Source: Thomson Reuters Datastream

▶ Chart 10: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – fixed income

International benchmark yields climbed higher last week as global malaise eased thanks to a combination of factors. These include: resurging emerging markets; softer trade tariffs rhetoric; an optimistic but still dovish ECB; improving Brexit negotiations; and overall good US economic data. US and German 10-year yields increased by 5.2 bps and 5.9 bps, to reach 2.99% and 0.45%, respectively. (Chart 9.) Most regional yields maturing in 4-5 years followed suit, increasing by 1-11 bps. (Chart 10.)

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