Dow moves above 20,000; GCC earnings mixed, still markets up; Brexit to require parliamentary approval

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi SM	4,624	-1.71	1.71
Bahrain ASI	1,300	4.87	6.52
Dubai FM	3,701	0.30	4.83
Egypt EGX 30	13,091	2.22	6.04
KSA Tadawul	7,135	3.77	-1.05
Kuwait SE	6,852	6.47	19.21
Muscat SM 30	5,751	0.29	0.11
Qatar Exchange	10,990	0.44	5.30
MSCI GCC	486	2.79	2.42
International			
DAX	11,814	1.58	2.90
DJIA	20,094	1.34	1.68
FTSE 100	7,184	-0.19	0.58
Nikkei	19,467	1.72	1.85
S&P 500	2,295	1.03	2.50

Commodities	$/bbl	Change (%) weekly	Change (%) YTD
Brent crude ($/bbl)	55.5	0.05	-2.29
KEC ($/bbl)	52.4	0.19	0.98
WTI ($/bbl)	53.2	-0.09	-1.02
Gold ($/t oz.)	1191.0	-1.57	2.99

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.305	-0.10	-0.12
KWD per EUR	0.328	-10.19	3.05
USD per EUR	1.069	-0.05	1.72
JPY per USD	115.06	0.40	-1.55

Interbank rates	%	Change (bps) weekly	Change (bps) YTD
Kibor – 3 month	1.44	0.0	0.0
Qibor – 3 month	1.82	1.7	3.5
Libor – 3 month	1.04	-0.4	4.1

Bond yields	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2021	2.47	-6.1	-7.9
Dubai 2021	3.17	-3.2	-15.5
Qatar 2021	2.69	-12.1	-26.5
Saudi Arabia 2021	2.98	-11.1	-7.6
International			
UST 10 year	2.49	1.9	5.4
Bunds 10 year	0.46	4.1	25.6
Gilts 10 year	1.47	3.9	22.8
JGB 10 year	0.08	2.2	3.3

Source: Thomson Reuters Datastream

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

Summary

After several attempts the benchmark Dow Industrials Index finally closed above 20,000 in mid-week and held that level. Other US indexes were making historic highs as well, buoyed by a good but not stellar economy, and by lofty expectations for the period ahead. The Dow is up about 1.0% ytd and the S&P 500 by 1.7%. Much of this appears related to "animal spirits": President Trump has actively been issuing new orders and instructions, thus reinforcing the view that he would deliver on his many promises (taxes, deregulation etc.). In particular, he revived two large oil pipeline projects that had been previously cancelled or on hold. Announced corporate earnings were positive as well.

Other markets were also in a relatively positive mood, with the GCC markets outperforming last week, led by a solid performance by the heavily-weighted Saudi market and the continued rally in Boursa Kuwait.

Egypt's new $4.0 bn bond issuance went very well, garnering considerable interest. Turkey raised some of its official rates but this failed to buoy the Turkish Lira much. The IMF, in its annual Lebanon report, expects better growth in 2017-18, though this is well shy of 4.0% potential growth (see below).

In the UK, the Supreme Court ruled that parliament's approval was required both in relation to triggering Article 50 and in the final deal to be negotiated with the EU. This could delay the PM's 31 March deadline.

Flash Eurozone PMIs estimates were robust in January 2017, with the index's value of 54.3 indicating healthy expansion.

International macroeconomics

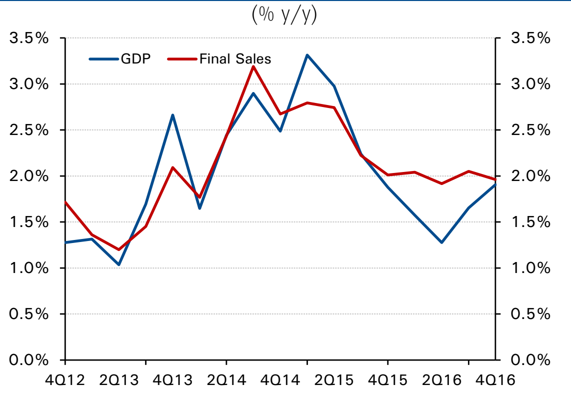
USA: In Q4 2016, real GDP grew at an annual rate of 1.9% and by 1.6% for the full year, slower than the 2.6% posted in 2015. (Chart 1.) Exports weighed on the numbers. Still, the underlying pace for now seems to be 2.0% while we await policy changes. Those will take time. Growth is likely to be about 2.3% in 2017, before it accelerates further if all goes well and according to plan with tax cuts, deregulation, Obamacare reform and, particularly, trade policy. For now, our Fed view remains the same: two fed funds rate hikes for 2017.

Eurozone: Italy's constitutional court approved ex-PM Matteo Renzi's electoral law, but with some amendments. The court approved a lower house system that is based on proportional representation and handed a clear parliamentary majority to any party winning 40% or more. The court, however, rejected a suggested run-off between the two largest parties, instructing that the election should be held in one round. The law is effective immediately, with Italy's largest parties calling for elections in summer 2017, one year ahead of expectations. If so, Europe will see three of its founding economies (Germany, France, and Italy) undergo major political elections in 2017. This comes at a time when anti-establishment sentiment is growing within their borders and could undermine investor confidence.

Flash Eurozone (EZ) PMIs estimates were robust in January 2017, with the

Chart 1: US Real GDP growth

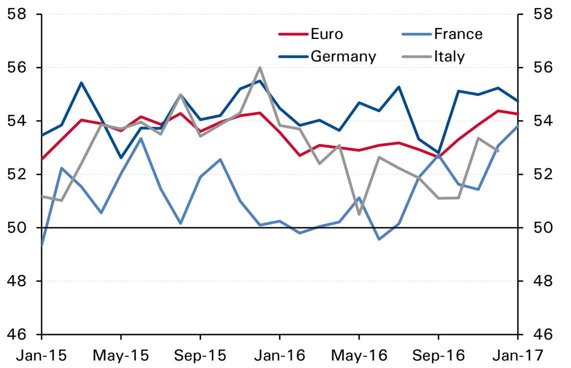
(% y/y)



Source: BEA

Chart 2: Eurozone PMIs

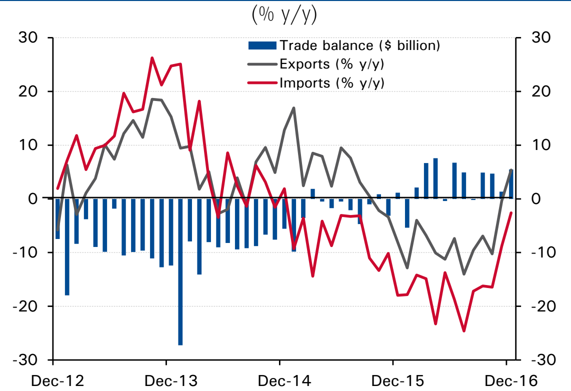
(index)



Source: IHS Markit

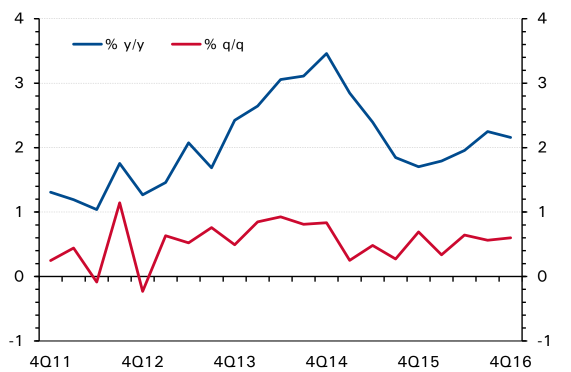
Chart 3: Japan trade

(% y/y)



Source: Thomson Reuters Datastream

Chart 4: UK Real GDP growth



Source: ONS

EZ landing at a healthy 54.3 (54.4 Dec-16), indicating continued healthy growth. (Chart 2.) Strength came from the manufacturing sector, which registered at 55.1 (54.9 Dec-16) on the back of rising exports, while momentum in services eased slightly to 53.6 (53.7 Dec-16).

A new sub-index, which measures business expectations over the next 12 months, was included this month. Recent readings of that index imply an optimistic outlook. Inflationary pressures are rising as well. This is in line with the recent improvements in both EZ growth and inflation.

On a country level. Germany led the pack, coming in at 54.2 (55.2 Dec-16). France's reading was stronger on the month (53.8 Jan-17; 53.1 Dec-16) but still below the EZ average.

China: China's policymakers set a deficit target that is unchanged from 2016, at 3% of GDP for 2017. The government will look to more public-private partnership schemes for infrastructure projects to promote private sector involvement in investment, and reduce the public sector's role as a driver of growth. Policymakers lowered the target GDP growth rate to 6.5% y/y for this year from 6.5%-7.0% y/y in 2016, as the government focuses on reducing risks from higher debt levels and from overheating markets, rather than growth.

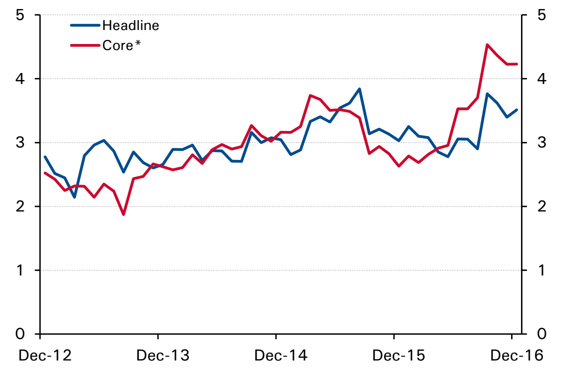
Japan: Japan's trade balance recorded a surplus for the fourth straight month in December, after exports witnessed a healthy rebound and imports continued to decline. (Chart 3.) Export growth came in at 5.4% y/y in December, following the -0.4% y/y decline in the previous month. Imports continued to decline during the same period, albeit at a slower pace of -2.6% y/y. As a result, Japan's trade balance logged in its first annual trade surplus in six years in 2016. However, the gains in the trade balance appear to have been primarily driven by sluggish import growth, which is a reflection of still subdued demand. The weaker JPY has also supported the balance by propping up exports. In December, the JPY was down almost 4% m/m.

UK: The UK economy put in another decent performance in the last quarter of 2016, growing by 0.6% q/q and by 2.2% y/y, according to preliminary ONS estimates. (Chart 4.) The figures were above the consensus forecast of 0.5% growth, showing yet again that there is little sign so far of any Brexit-related stress to the UK economy. In fact, the UK was the fastest growing economy in the G7 last year. Consumer spending remained strong, and the services sector, which accounts for 79% of the economy, grew by a decent 0.9% in 2016. However, 2017 is looking far less certain, with retail sales activity subsiding markedly in January according to the CBI's survey of 52 retailers. While some of this can be put down to the seasonal, post-Christmas effect, retailers are increasingly worried about rising consumer prices resulting from the depreciation of Sterling. Inflation hit a 29-month high of 1.6% in December.

The Supreme Court ruled that the government would need an Act of Parliament before it could trigger Article 50 and begin the formal process of exiting the EU. The verdict, 8:3 against the government, was not unexpected. However it now means that PM Theresa May will need to put forward legislation before both houses. This should be achieved without too much trouble as MPs are not expected to vote against the wishes of their electorates. Parliament would also have to ratify the final deal negotiated with the EU to ensure that it is in the UK's interests, and here things could be problematic for the government, as the majority of MPs favor single market access. But at least the government can take comfort in the Supreme Court's view that it need not seek the approval of the

Chart 5: Kuwait inflation

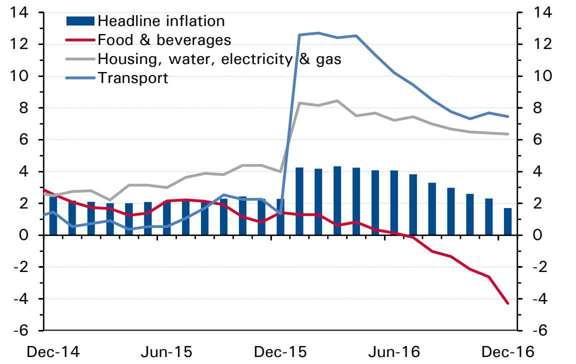
(% y/y)



Source: Central Statistical Bureau, NBK estimates; *NBK estimate

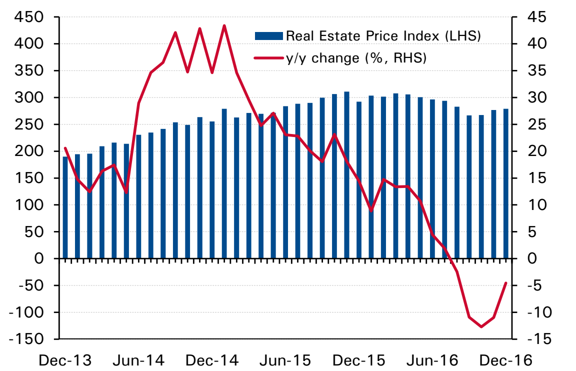
Chart 6: Saudi inflation

(% y/y)



Source: General Authority for Statistics

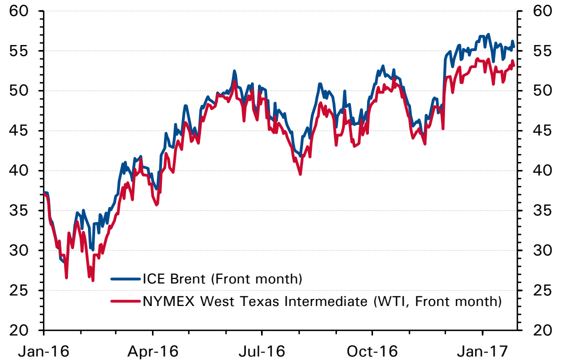
Chart 7: Qatar real estate price index



Source: Qatar Central Bank, Qatar Ministry of Justice

Chart 8: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

parliaments of Scotland, Wales and Northern Ireland. Scotland, which voted overwhelmingly to remain in the EU, would almost certainly have rejected Article 50 and any final deal with the EU. A short bill is now being drafted by the government ahead of the 31 March Article 50 deadline.

GCC & regional macroeconomics

Kuwait: Inflation was steady at 3.5% y/y in December, with the annual average rate for 2016 also steady at 3.2% compared to the year before. (Chart 5.) There was some softening in housing inflation to 6.4% y/y in December, though pressures in the sector remained surprisingly strong.

The Central Bank of Kuwait (CBK) issued KD 100 million in 5-year floating rate notes (FRN) on behalf of the Ministry of Finance last week. The issuance was priced at 2.0% (6-month CBK bills + 62.5 bps); the most recent 5-year fixed rate bond was issued in November 2016 and was priced at 2.50%. The government has raised KD 1.93 billion through domestic bond issuance thus far in FY16/17, with indebtedness rising to KD 3.5 billion or an estimated 10.4% of GDP.

Saudi Arabia: Inflation slowed to 1.7% y/y in December, the slowest rate in more than 10 years. (Chart 6.) Much of the moderation has been due to lower food prices (21.7% of the CPI basket), which fell by 4.3% y/y in December. A stronger US dollar, to which the Saudi riyal is pegged, also helped to contain the price of imports. Transportation costs (10.4% of the CPI) also trended lower for much of 2016 after the initial boost last January when authorities hiked domestic fuel prices.

The Ministry of Finance (MOF) confirmed that there were no plans to introduce a 6.0% tax on expatriate workers' remittances. The MOF stated that it was committed to the principle of free movement of capital into and out of the kingdom. The Shura Council also rejected the proposal.

Qatar: Qatar's real estate price index recovered from 2016's low of 266.9 last September to reach 279.1 in December. (Chart 7.) Annual growth was still -4.5% y/y, however, though it was much improved over October's three-year low of -12.7% y/y.

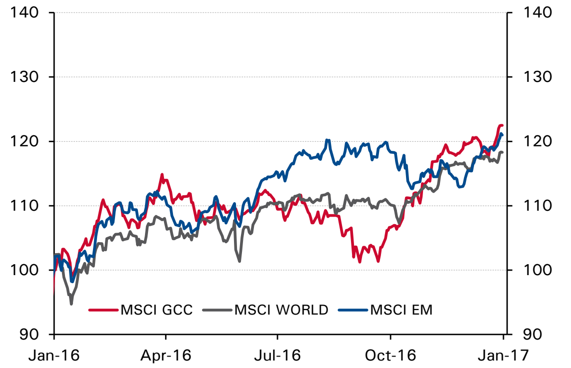
Lebanon: In its recently published Article IV report on Lebanon, the IMF expects growth to remain subdued at an average of 2.3% in 2017 and 2018—below its potential of 4.0%. The situation in neighbouring Syria continues to be central to Lebanon's outlook, with an escalating refugee crisis adding to poverty and unemployment. Public debt remains high and the debt burden is likely to deteriorate further in the absence of corrective action. On the upside, the recent presidential election and new government could pave the way for reform, boost the economy and fix imbalances.

Egypt: Egypt raised $4.0 billion in an international bond offering that was more than three and a half times oversubscribed and also Africa's largest, according to Egyptian sources. Pricing also came in more favorably than anticipated. The 3-tranche issuance included $1.75 billion in 5-year bonds (6.125%), $1.0 billion in 10-years (7.50%) and $1.25 billion in 30-years (8.50%).

Turkey: At its monetary policy meeting, Turkey's central bank hiked its overnight lending rate by 75 bps to 9.25% and the rate for the late liquidity window for banks by 100 bps to 11.0%. It was a bid to prop up the lira while keeping its key policy rate unchanged. However, the rate increase failed to offer the lira enough support as it continued to depreciate against the USD, falling by 1.3% the following day.

Chart 9: Global stock markets

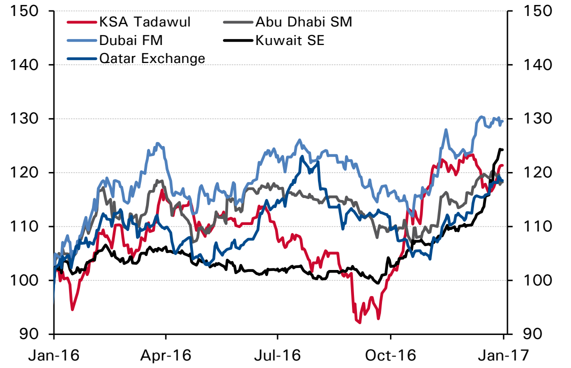
(rebased, 27 Jan 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 10: GCC stock markets

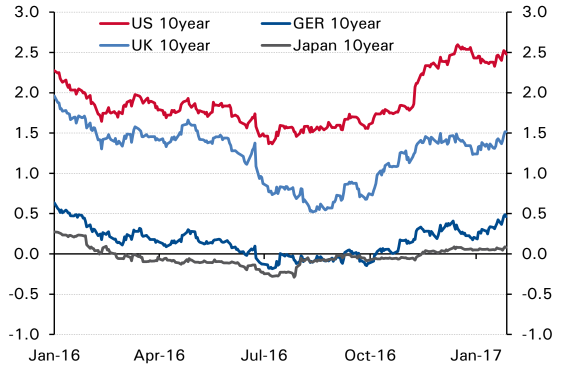
(rebased, 27 Jan 2016=100))



Source: Thomson Reuters Datastream

Chart 11: Global bond yields

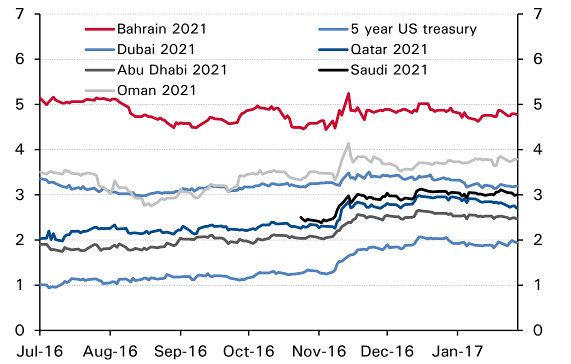
(%)



Source: Thomson Reuters Datastream

Chart 12: GCC bond yields

(%)



Source: Thomson Reuters Datastream

Markets – oil

Oil prices have settled into a holding pattern around $55/bbl for Brent and $52/bbl for WTI as markets await data confirmation of OPEC/non-OPEC supply cuts. (Chart 8.) OPEC members, led by Saudi Arabia, have been vocal in recent weeks about abiding by their quotas, even suggesting that they had cut over and above their output target by 300,000 b/d to 1.5 mb/d. OPEC and non-OPEC agreed last December to effect production cuts of around 1.8 b/d for the first six months of 2017.

Markets – equities

Most global equities advanced last week, with the MSCI World up 1.3%. President Trump's eagerness to deliver on his campaign promises reflected positively on sentiment in equity markets in the US and elsewhere. The S&P 500 and DJIA closed the week up 1.0% and 1.3%, respectively, with the latter breaking through the 20,000 milestone for the first time ever. European equities were also making gains before retreating on some weak bank earnings announcements; the Euro Stoxx 50 closed the week up 0.1%. Emerging market equities registered good gains on the week, with the MSCI EM up 1.6%. (Chart 9.)

GCC markets outperformed last week led by the heavily-weighted Saudi market and the continued rally in Boursa Kuwait. Saudi's Tadawul advanced 3.8% on the week despite generally weak earnings that missed estimates in most cases. With the Saudi earnings season now concluded, investor focus seemed to have shifted back to stabilizing oil prices, recovering liquidity, and a generally better outlook. Meanwhile, Kuwait continued with its stellar performance since the start of the year, adding 5.0% on the week with a further pick-up in volumes. The performance in other regional markets was mixed, with Abu Dhabi retreating 1.7% and equities in Qatar, Dubai and Oman making small advances. Bahraini equities saw strong gains with the general index up 4.9%. (Chart 10.)

Markets – fixed income

Yields were relatively volatile this week, but up nonetheless, as markets carried over last week's sell-off, fueled by increasing expectations of higher global growth. The optimism reflected through IHS Markit's flash PMIs as well as through equity markets. Talk of monetary tightening by both Fed and ECB officials also helped anchor these expectations. As a result, investors exited bond positions, pushing yields higher over the week. This happened despite some jitters over the Brexit ruling, President Trump's inward focused policies, a weaker-than-expected US GDP release, and large bond buying by the BOJ. The pick-up in yields was also supported by large debt supply from US and EU governments throughout the week. (Chart 11.)

GCC 5-year paper yields were down as a weaker dollar helped lift oil prices over the week. Yields dropped by 3 to 12 basis points, with Qatar seeing the largest drop. (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