Weekly Economic and Markets Review

NBK Economic Research Department I 14 October 2018

International & MENA

Equities fall as investors digest prospect of higher interest rates; Brent crude dips to $80

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,968	-0.79	12.94
Bahrain (ASI)	1,316	-0.67	-1.18
Dubai (DFMGI)	2,755	-1.30	-18.24
Egypt (EGX 30)	13,283	-5.82	-11.56
GCC (S&P GCC 40)	1,088	-0.79	10.46
Kuwait (All Share Index)	5,066	-0.89	4.87
KSA (TASI)	7,531	-5.84	4.21
Oman (MSM 30)	4,490	-0.80	-11.95
Qatar (QE Index)	9,862	-0.41	15.70
International			
CSI 300	3,171	-7.80	-21.34
DAX	11,524	-4.86	-10.79
DJIA	25,340	-4.19	2.51
Euro Stoxx 50	3,194	-4.52	-8.83
FTSE 100	6,996	-4.41	-9.00
Nikkei 225	22,695	-4.58	-0.31
S&P 500	2,767	-4.10	3.50

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.69	8.1	74.7
Dubai 2022	4.13	4.8	98.7
Qatar 2022	3.75	11.8	67.7
Kuwait 2022	3.68	8.1	87.7
Saudi Arabia 2023	3.97	14.1	75.7
International			
UST 10 Year	3.14	-8.6	73.0
Bunds 10 Year	0.50	-6.6	7.4
Gilts 10 Year	1.63	-9.2	44.6
JGB 10 Year	0.15	0.0	9.9

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.75	2.5	102.5
Kibor	2.06	0.0	18.8
Qibor	2.77	-1.1	3.0
Eibor	2.70	0.5	90.3
Saibor	2.73	0.1	83.4
Libor	2.44	2.7	74.2

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	-0.14	0.58
KWD per EUR	0.355	0.00	0.06
USD per EUR	1.156	0.34	-3.62
JPY per USD	112.2	-1.33	-0.43
USD per GBP	1.315	0.24	-2.65
EGP per USD	17.90	0.34	0.96

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	80.4	-4.43	20.28
KEC	78.53	-4.94	23.67
WTI	71.3	-4.04	18.07
Gold	1218.1	1.41	-6.75

Source: Thomson Reuters Datastream; as of Friday's close 12/10/2018

Overview

Global stock markets suffered heavy falls last week, with the US S&P 500 for example down 4% w/w for its biggest weekly fall since March. The declines were a reaction to the sell-off in global bond markets at the end of the previous week, with investors digesting the implications of tighter Fed policy against a backdrop of robust US economic data. Ironically, this drew funds back into 'safe haven' US treasuries, with 10-year yields easing slightly to below 3.2%. A soft US inflation figure of 2.3% for September, however, led some to question the until-now high-conviction call for another Fed rate hike this December and President Trump added to the pressure on the central bank with a rebuke of its "far too stringent" policy tightening.

Market weakness spilled over into oil, with the price of Brent crude falling 4% w/w to end just above $80/bbl and for its first weekly loss in five weeks. The dip was also fueled by reports from both OPEC and the IEA, which saw demand growth forecasts for this year and next revised down due to slower growth in the world economy but also higher oil prices. Meanwhile on the supply side, OPEC production rose in September, with a further decline in Iranian output more than offset by higher production in other members especially Saudi Arabia, whose output rose to 10.5 million b/d. OPEC claims that the market remains "well supplied".

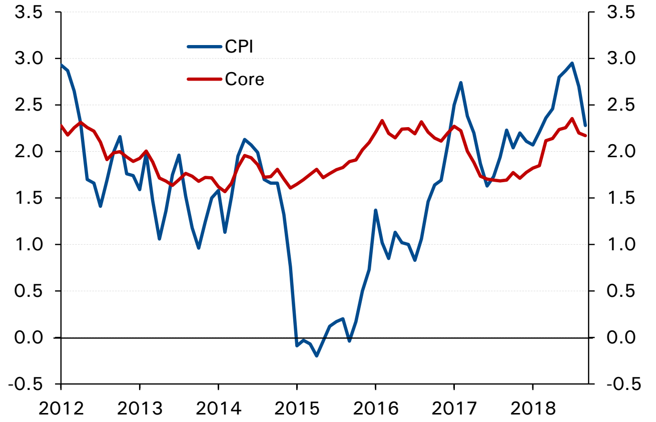
In its latest WEO report, the IMF revised its global economic growth forecasts for next year down mainly on trade tensions, but has become more positive on the Gulf region helped by higher oil prices. Growth in Saudi Arabia, for example, is seen rising to 2.4% next year from 2.2% in 2018 (both up 0.5% from April forecasts) on higher oil production and non-oil activity, while growth in Kuwait is seen at 4.1% next year. It also remained positive on Egypt, with growth projected to pick up 5.5% in 2019 from 5.3% in 2018 on recovering tourism, rising natural gas output and progress on economic reforms backed by IMF support.

International macroeconomics

USA: Consumer price inflation as measured by the CPI rose at a slower-than-expected 2.3% y/y rate in September, down from 2.7% in August mostly on a base effect after a strong rise a year earlier. (Chart 1.) The core rate, which excludes energy and food costs, was unchanged at 2.2%. Although the CPI is not the Federal Reserve's favored measure of inflation, the soft number was seen by some as reopening the debate over a December rate hike, previously seen as solid. But the Fed could counter that lower inflation means that price-adjusted wages are rising more strongly, adding fuel to an already strong consumer sector. Consumer sentiment as measured by the University of Michigan's survey, for example, remained robust in October, albeit slightly down from September.

Chart 1: US CPI inflation

(% y/y)



Source: Thomson Reuters Datastream

Eurozone: Minutes from the latest ECB meeting revealed concern over the impact of Mr. Trump's trade war on Eurozone exports. While official projections from last quarter saw growth forecasts revised down, they continued to assume that exports would grow at an unchanged rate over the next three years. Indeed, the German government last week lowered its growth expectations to 1.8% in 2018 and 2019, down from 2.3% and 2.1% respectively, before and 2.2% in 2017.

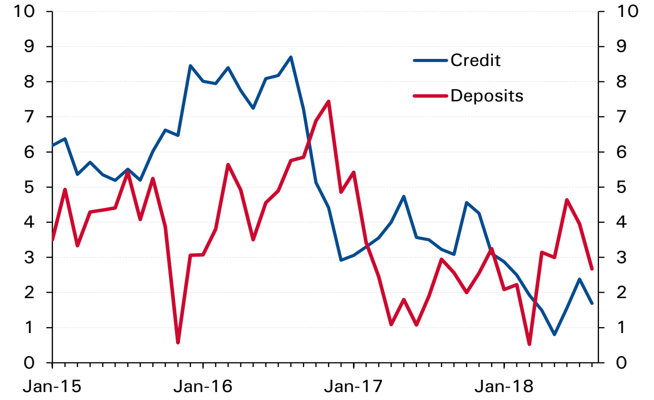
China: The Chinese central bank cut the reserve requirement ratio (RRR) for banks by 100 basis points in a bid to prop up the economy, amid the trade war with the US and more moderate credit growth. The cut is expected to inject 750 billion yuan ($109 billion) worth of liquidity into the banking system.

GCC & regional macroeconomics

Kuwait: Credit growth in Kuwait eased to 1.7% y/y in August from 2.4% the previous month. (Chart 2.) This was due to an across-the-board easing in lending to businesses (1.6%) and households (6.0%), and also a further decline in credit for the purchase of securities (-8.1%). Most business sectors saw little-to-no growth, but borrowing by the trade sector declined by a notable KD 36 million. Meanwhile, private deposits were down as well, shedding KD 140 million on the month due to a dip in savings deposits and taking growth to 4.7% y/y. The weaker credit and deposit figures may have been affected by the small number of working days in August due to public holidays.

Chart 2: Kuwait credit and deposits

(% y/y)



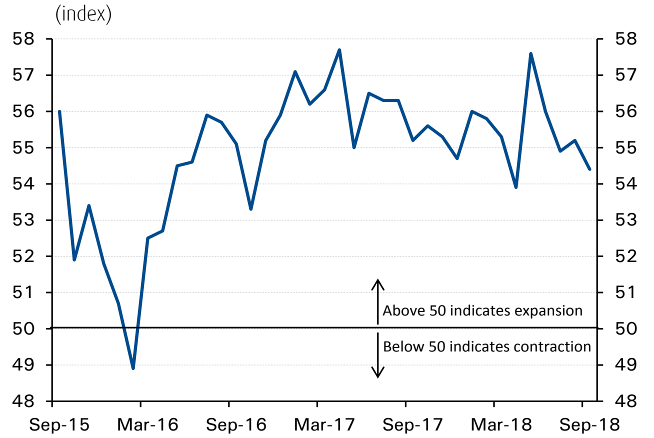
Source: Thomson Reuters Datastream

UAE: In a bid to expand its debt market, the UAE issued a much-awaited law that will allow the federal government to issue sovereign debt. Prior to the law, bond issuances were only being carried out on an emirate level, including Abu Dhabi and Dubai. Banks in the UAE will also now be able to buy central government bonds in dirhams or in foreign currencies, allowing them to manage liquidity and meet the global Basel III regulatory requirements.

Dubai's economic growth moderated in 3Q18, according to the Dubai Economy Tracker (DET). The DET headline rate averaged 54.8 in 3Q18, lower than the 55.8 recorded in the previous quarter. This was largely a reflection of slower growth in output and new orders. (Chart 3.)

Chart 3: Dubai Economy Tracker

(index)



Source: IHS Markit, Emirates NBD

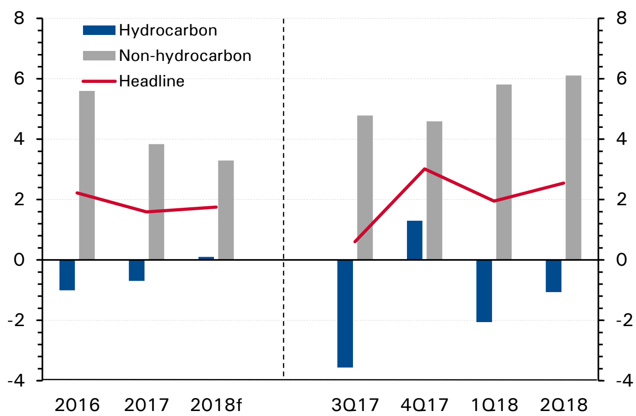
Meanwhile, activity in Dubai's real estate market continues to slow down, as reflected in the latest transactions data. During the first nine months of 2018 there were 39,802 transactions, (-24% y/y) worth Dh162 billion (-21% y/y).

Bahrain: The parliament approved a draft 5% value-added tax law during an 'extraordinary' session last week, paving the way for the tax to be levied for the first time in 2019. The approval of the draft tax law came on the heels of a $10 billion GCC financial aid package provided by Saudi Arabia, the UAE and Kuwait, which will be disbursed in stages as an interest-free loan, conditional upon Bahrain following through with economic reforms. The kingdom released a 33-page 'Fiscal Balance Program' report soon after, in which it lays out its reform plans which include balancing the state budget by 2022. Bahrain is scheduled to receive its first installment, reportedly worth up to $2 billion, before the end of this year.

Qatar: Economic growth improved to 2.5% y/y in 2Q18, from 2.0% y/y in the first quarter, led by a sizeable increase in non-hydrocarbon sector activity (+6.1% y/y). (Chart 4.) In contrast, oil and gas output was down 1.1% compared to a year ago, although the sector did grow 3.9% on q/q basis. The manufacturing, construction, finance, real estate and government sectors all posted annual gains, but trade activities fell for the sixth consecutive quarter in year-on-year terms.

Chart 4: Qatar real GDP

(% y/y)



Source: Ministry of Development Planning & Statistics (MDPS)

Egypt: Egypt's annual inflation rate accelerated for the third month to an eight-month high, reaching 16% in September from 14.2% in August, while core inflation slowed slightly to 8.6% from 8.8% a month earlier. In this light, it is unlikely that the central bank will reduce its main policy interest rate soon, as had been expected. On a monthly basis, consumer prices rose 2.5% after two months of deceleration, largely driven by a 4.8% jump in the price of food and beverages as well as the increase in oil prices. Meanwhile, the Central Bank of Egypt agreed to enter into a ''new repurchase transaction'' with a consortium of international banks for a total amount of $3.8 billion. In this context, Egypt started a roadshow in South Korea on Sunday as part of an effort to sell around $5 billion in bonds, possibly in the first quarter of 2019. The aim of the roadshow is to secure financing at a lower rate than the rates required by foreign investors and domestic banks, and thus reduce the public debt burden.

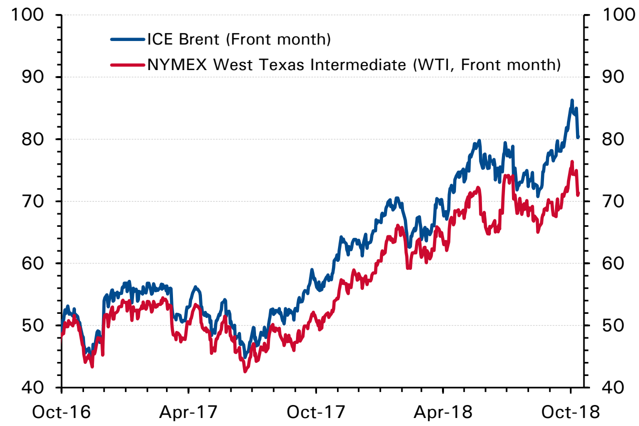
Turkey: The government has launched a program in partnership with the private sector to combat inflation, which climbed to almost 25% last month. As part of the program, the private sector has agreed to cut prices on its products by at least 10% until the end of the year. It will also freeze energy prices (currently one of the biggest contributors to inflation) and expedite value-added tax rebates.

Markets – oil

Oil prices fell last week on anxieties about the prospects of global economic growth and amid the broader sell-off in global equities. Brent and WTI closed the week down more than 4% at $80.4/bbl and $71.3/bbl, respectively. (Chart 5.) This was the biggest weekly loss since May, and came just over a week after Brent reached a near four-year-high of $86/bbl on concerns that oil producers lacked the spare capacity to fully offset Iranian supplies lost due to US sanctions.

Chart 5: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

While those concerns have not dissipated, last week the narrative shifted towards one of weakening global oil demand, especially after the International Energy Agency downgraded oil demand growth estimates for this year and next by 110,000 b/d to 1.3 mb/d and 1.4 mb/d, respectively. Dismissing supply crunch fears, the agency noted that the oil market was "adequately supplied for now", but reacted to weakening global economic growth, and US-China trade concerns.

Also weighing on oil prices last week was the EIA's report that both US production (+100 kb/d to 11.2 mb/d) and crude stocks had increased (+5.9 mb to 410 mb) in the w/e 5 October. The EIA expects US crude production to top 11.8 mb/d in 2019, an increase of 1.1 mb/d this year.

In another report, the IEA projected petrochemicals demand to expand substantially over the next decade and overtake transport to become the biggest driver of global oil consumption. By 2030 petrochemical products such as plastics, fertilizers and detergents will account for more than 30% of global oil consumption, up from the current 14% (13 mb/d). State-run oil and gas firms in the GCC such as Saudi Aramco, Qatar Petroleum and Kuwait Integrated Petroleum Industries Company (KIPIC) are among those investing heavily in petrochemicals and downstream integration. Aramco is spending more than $100 billion on refining and petrochemicals projects and is looking at purchasing the PIF's $70 billion stake in Saudi Arabia's largest petrochemicals firm, SABIC. KIPIC is due to award in April 2019 $10 billion worth of contracts to construct and integrate petrochemicals production (Olefins-3 project) with the country's new Al-Zour refinery.

Markets – equities

Expectations of higher future interest rates and concerns over the global outlook sparked a third consecutive week of selling, with the MSCI AC index shedding 4.1% w/w. The previous week's bond market sell-off, buoyed by US data and upbeat Fed comments, further solidified investors' concerns over tighter monetary policy, and helped trigger on Wednesday the worst single day sell-off of US equities in eight months. While they did partially recover subsequently, the S&P 500 and the DJI were still down 4.1% and 4.2% w/w, respectively. The downturn unsettled other global markets, with the Euro Stoxx 50 and the MSCI EM down 4.5% and 2.4% w/w. (Chart 6.)

Chart 6: International equity indices

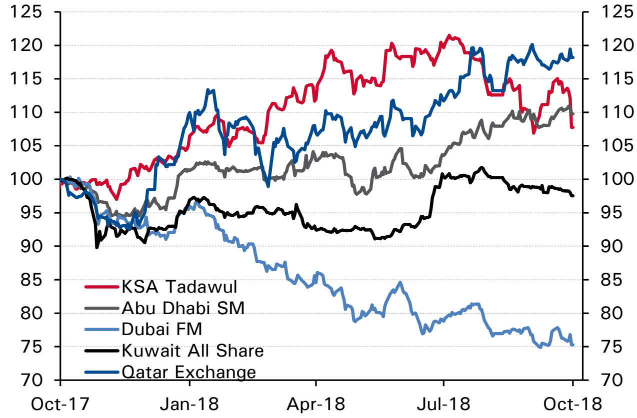
(rebased, 12 October 2017=100)

Source: Thomson Reuters Datastream

Regionally, markets were mixed but down overall, with the MSCI GCC index falling 4.1% w/w led by Saudi Arabia (-5.8%), on weakness in global equity markets and oil prices. Meanwhile, Kuwait was down 0.9% w/w but held up well, with few upward catalysts at the moment. (Chart 7.)

Chart 7: GCC equity markets

(rebased, 12 October 2017=100)



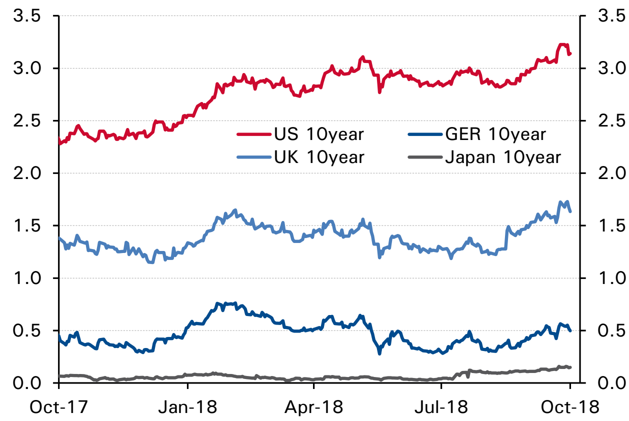
Source: Thomson Reuters Datastream

Markets – fixed income

International benchmark yields dipped from their multi-year highs last week after investors sought safety amid a global stock market sell-off and after US inflation came in slightly short of expectations. The yield on the 10-year US treasuries shed 9 bps to settle at 3.14%. (Chart 8.) A similar trend was seen across other major benchmarks with 10-year bunds and gilts falling by 6-9 bps. Meanwhile, regionally, 4-5 year sovereign yields moved the other way, rising 5-14 bps as worries about a global trade war and a weaker oil demand outlook were compounded by fresh political concerns.

Chart 8: Global 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