Equities boosted by Trump tax remark; politics center stage in Europe; oil up as OPEC reaches 90% compliance

Key market indicators

Stock markets	Index	Change (%) weekly	Change (%) YTD
Regional			
Abu Dhabi SM	4,569	2.77	0.51
Bahrain ASI	1,307	-0.07	7.08
Dubai FM	3,683	1.63	4.30
Egypt EGX 30	13,115	2.41	6.24
KSA Tadawul	6,969	-1.82	-3.34
Kuwait SE	6,583	-3.81	14.52
Muscat SM 30	5,820	0.29	1.30
Qatar Exchange	10,629	0.56	1.84
MSCI GCC	475	-0.61	-0.06
International			
DAX	11,667	0.13	1.62
DJIA	20,269	0.99	2.56
FTSE 100	7,259	0.98	1.62
Nikkei	19,379	2.44	1.38
S&P 500	2,316	0.81	3.45

Commodities	$/bbl	Change (%) weekly	Change (%) YTD
Brent crude ($/bbl)	56.7	-0.19	-0.21
KEC ($/bbl)	53.8	2.64	3.62
WTI ($/bbl)	53.9	0.06	0.26
Gold ($/t oz.)	1233.3	1.21	6.65

Exchange rates	Rate	Change (%) weekly	Change (%) YTD
KWD per USD	0.305	0.06	-0.18
KWD per EUR	0.325	-0.88	2.17
USD per EUR	1.064	-1.33	1.19
JPY per USD	113.19	0.43	-3.15

Interbank rates	%	Change (bps) weekly	Change (bps) YTD
Kibor – 3 month	1.44	0.0	0.0
Qibor – 3 month	1.88	0.0	10.0
Libor – 3 month	1.04	0.0	3.8

Bond yields	%	Change (bps) weekly	Change (bps) YTD
Regional			
Abu Dhabi 2021	2.23	-15.6	-31.7
Dubai 2021	3.14	3.7	-18.6
Qatar 2021	2.51	-16.0	-43.9
Saudi Arabia 2021	2.86	-14.0	-19.6
International			
UST 10 year	2.41	-8.2	-2.3
Bunds 10 year	0.32	-9.4	11.3
Gilts 10 year	1.26	-9.8	1.8
JGB 10 year	0.09	-1.1	3.8

Source: Thomson Reuters Datastream

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

Summary

French elections, Greek debt relief, UK parliament's approval of Brexit and, of course, Donald Trump's announcements dominated international news last week. The latter's promise to announce a "phenomenal" tax reform proposal in the next few weeks sent US equities to new highs. Bond yield were not so lucky, however, with the above political uncertainty pressuring 10-year US treasuries and bunds down to a multi-week low last Wednesday.

In Europe, the perennial Greek debt crisis took center stage once again, with the IMF, the EU and the Greek government apparently in disagreement between and amongst themselves over how to handle the country's bailout. In France, the right's favored candidate, François Fillon, was mired in a fresh scandal over misappropriating public funds through his wife's non-employment, while in the UK, MPs voted overwhelmingly on a bill to trigger Article 50 negotiations without any amendments.

In the GCC, the latest Kuwait credit data revealed that growth slowed to 2.9% y/y in December—the slowest pace in nearly five years. While this was largely a base effect, growth has slowed considerably in recent months following a large corporate debt repayment in October.

In the UAE, Dubai's real GDP growth accelerated from 2.2% y/y in 2Q16 to 3.0% y/y in 3Q16. Output in the hospitality, manufacturing and real estate sectors recorded healthy gains.

Meanwhile, the Egyptian central bank saw its reserves increase for the third consecutive month in January, by $2.1 billion to $26.4 billion, following November's currency float. The narrowing of the country's budget deficit to -11.5% of GDP (annualized) during the first five months of FY16/17 from -12.2% a year before was another positive for the country last week.

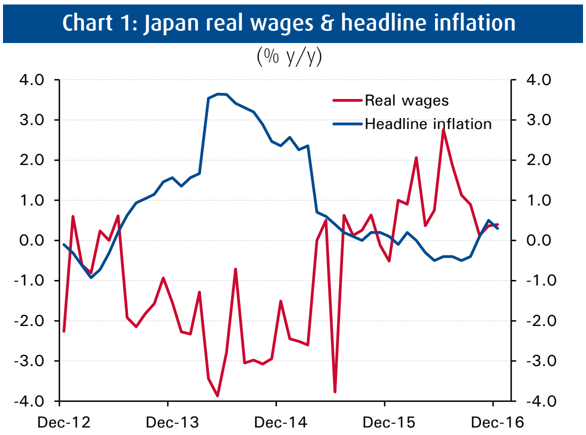
In the oil markets, Brent crude closed up by about a dollar on Friday to $56.7/bbl after the IEA reported that OPEC was 90% of the way to complying with its aggregate output target as per the terms of the 30 November production cut agreement. Total output had declined by 1 mb/d to 32.1 mb/d in January

International macroeconomics

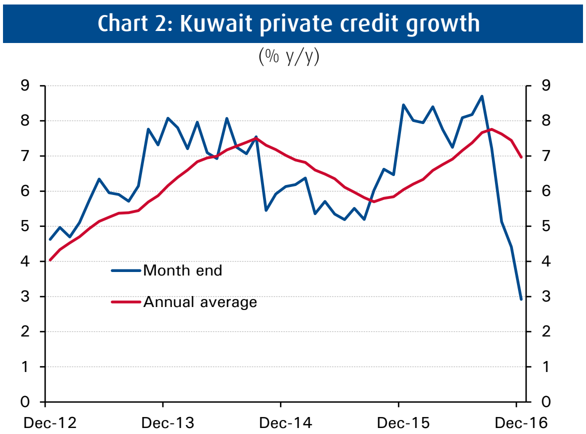
Eurozone: France's elections and Greece's debt relief stood out this week, while in Italy Unicredit initiated its cash call amid the shaky political environment.

Les Républicains' candidate, François Fillon, is facing fresh accusations of misappropriating public funds. This follows previous allegations of nepotism. The turmoil surrounding the French election has tainted European investor confidence, with markets reacting negatively.

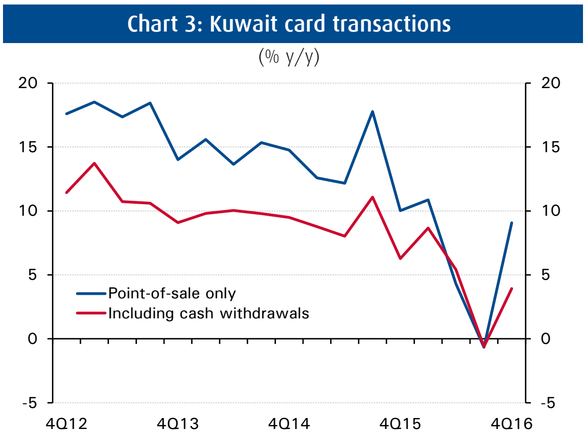
Disagreements over how to handle Greece's bailout have extended to the IMF and the Greek government, weighing on investor sentiment. Greece and its creditors hope to complete the second review of its €86 billion bailout prior to the onset of election season in the EU. Greece needs funds



Source: Thomson Reuters Datastream



Source: Central Bank of Kuwait



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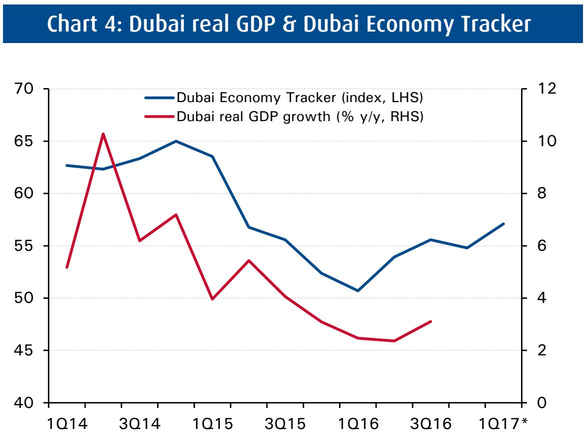


Source: Emirates NBD, Dubai Statistics Center; *January 2017 reading

released before July 2017, when it has large debt repayments (€6 billion). Creditors have disbursed €31.7 billion so far but are not willing to release further funds unless the IMF partakes in the deal. The IMF, however, has conditioned its participation on Greece's ability to achieve the set targets and on German-led European creditors initiating large-scale debt relief. The latter expect Greece to record a "primary" budget surplus of 3.5% of GDP by 2018. The IMF board seems split between that target and a target of 1.5% of GDP. Meanwhile, Greece's government is split over the conditions of the second review, which is bound to get more complicated as we approach the French and German elections.

Despite the brewing political unease in the Euro area, Unicredit, Italy's largest bank, initiated a cash call to raise €13 billion. Unicredit is offering 13 new shares for every 5 ordinary or saving shares. The share offer is expected to end on 10 March 2017. Monte dei Paschi di Siena had attempted but failed to raise €5 billion in December. It now awaits EU approval to finalize its state-led bailout.

UK: MPs voted overwhelmingly, by 494 votes to 122, in favor of triggering Article 50 and the commencement of Britain's official departure from the EU. Significantly, the bill, which was tabled by the PM, passed without any major amendments; it will now make its way through the House of Lords, where it should similarly pass without much resistance.

China: Capital outflows have been a major concern for policymakers in China, spurring the authorities to increase their efforts to curb capital flight. The IIF released its net capital outflows data which show an increase in resident outflows driven by banking activities and foreign investment. In 2016, FX reserves declined by $320 billion, although China's reserves of approximately $3 trillion are still the world's largest. Net capital outflows in 2016 totaled $654 billion, with Chinese companies investing $211 billion abroad and domestic corporates and others lending another $300 billion.

Japan: Real wage growth in Japan rebounded in 2016, reaching a multi-year annual average high of 1.1%. This compares positively with the -0.8% recorded in 2015. Nonetheless, it still remains lackluster. In December, real wage growth came in at a mere 0.4% y/y, as mildly higher inflation more than offset the pick-up in nominal wages. (Chart 1.)

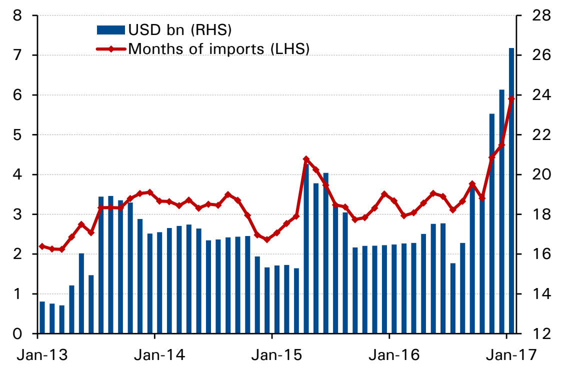
GCC & regional macroeconomics

Kuwait: Credit growth slowed in December on account of base effects and despite a healthy gain during the month. Growth came in at 2.9% y/y—its slowest pace in nearly five years. (Chart 2.) The pace of growth, which averaged 7% in 2016, slowed considerably in recent months as a result of a large corporate debt repayment in October. We estimate that credit growth, adjusted for that repayment, was 5% y/y.

Consumer spending bounced back during the fourth quarter of 2016, following two quarters of consecutive slowdowns. Credit and debit card point-of-sale spending growth jumped by 9% y/y after sliding into negative territory for the first time on record in 3Q16, when spending shrank by 0.7% y/y. Even total spending including ATM withdrawals showed a comparable increase in growth of 3.9% y/y. Growth in consumer spending has been slowing since 4Q15, in tandem with the significant drop in oil prices, though the slowdown was relatively gradual. As oil prices improved with a more stable and positive outlook for 2017, consumer spending seems to have recovered slightly. (Chart 3.)

UAE: After trending lower for two years, Dubai's real GDP growth appears to have bottomed out in 2Q2016. According to recent data, Dubai's real

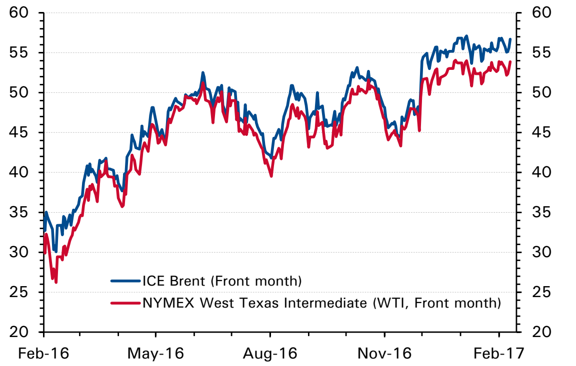
Chart 5: Egypt official reserves



Source: Central Bank of Egypt

Chart 6: Crude oil prices

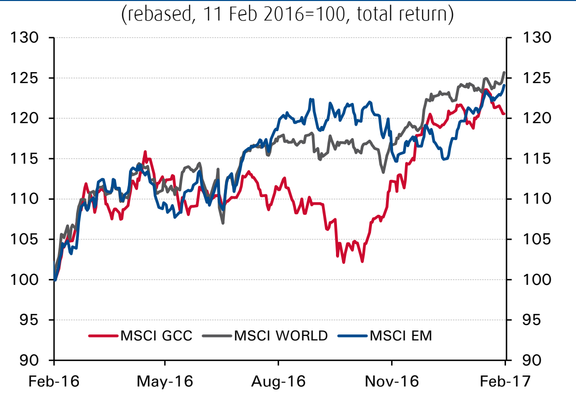
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Global stock markets

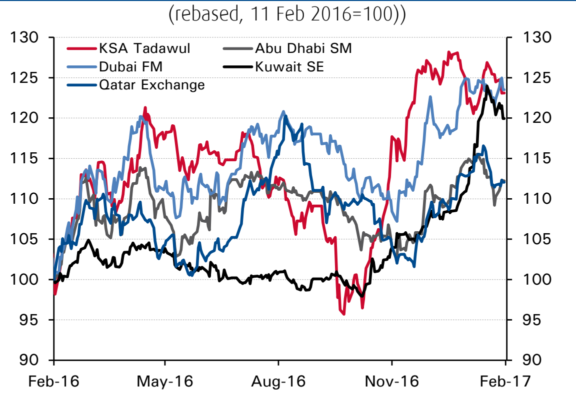
(rebased, 11 Feb 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 8: GCC stock markets

(rebased, 11 Feb 2016=100))



Source: Thomson Reuters Datastream

GDP accelerated from 2.2% y/y in 2Q16 to 3.0% y/y in 3Q16, thanks to a healthy pickup in most sectors, including the hospitality, manufacturing and real estate sectors. (Chart 4.) Indeed, the trend in Dubai's real GDP growth is in line with the current trend in the Emirates NBD Dubai Economy Tracker (DET) index, a measure of non-oil sector activity in Dubai. The index has also been recovering of late. Thanks to strong gains in output and new orders, the index averaged at a higher 55.6 in 3Q16 versus the 53.9 average in 2Q16; in January it came in at an almost two-year high of 57.1.

Qatar: Finance minister Ali Sherif Al-Emadi, in a recent briefing, assured the markets that the government will be able to manage its public finances in light of the improvement in hydrocarbon prices; oil prices in 2017 are expected to be 22% higher than in 2016, at an average of $55/bbl (Brent).

In December 2016, Qatar announced its 2017 budget, which is based on an oil price of $45. Al-Emadi also mentioned the possibility of another international bond issuance this year depending on whether macro conditions continue to improve or not. Al-Emadi projects that Qatar's economy will grow in the range of 3.4-3.5% y/y in 2017; growth could be slower, however, after the introduction of the VAT in 2018 or 2019. As for project activity, approximately $500 billion is being spent every week on infrastructure projects and preparations related to the 2022 World Cup.

Egypt: Central bank foreign reserves rose by $2.1 billion in January to $26.4 billion (equivalent to an estimated 5.9 months of imports). (Chart 5.) The increase was the third consecutive monthly rise following the November 2016 float of the currency; over $7.3 billion has been added since. Reserves are expected to see further increases, with $4 billion coming from the recent international bond issuance and another $1.25 billion from the second tranche of the IMF loan.

The budget deficit narrowed to -11.5% of GDP (annualized) during the first five months of FY16/17 through November 2016, down from -12.2% a year before. The primary deficit, which excludes interest payments, improved to -2.2% of GDP from -3.1% a year before. The deficit is likely to narrow further, to -10.5% by the end of FY16/17.

Markets – oil

Oil prices closed last Friday on a relative high, with Brent advancing by about $1 to $56.7/bbl after the International Energy Agency (IEA) said that OPEC members had demonstrated 90% compliance with their production targets as per the terms of the 30 November production cut agreement. The IEA estimates that OPEC output in January fell by 1 mb/d to 32.1 mb/d, with Saudi Arabia taking the lead and paring back its own production by more than the required 4.5%. (Chart 6.)

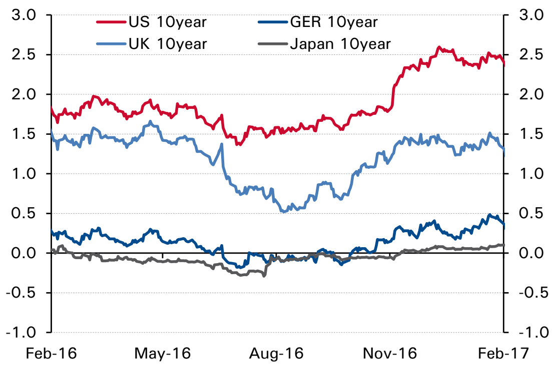
Also, in its latest report, the IEA has revised up its forecast for global oil demand growth in 2017 by 100,000 b/d to 1.4 mb/d. At this rate, and assuming OPEC and non-OPEC fully comply with their output quotas, then global crude stocks could see a drawdown of 600,000 b/d during 1H2017. Demand growth in 2016 was also adjusted upwards, to 1.6 mb/d.

The IEA's latest data comes amid the accumulation of record net-long positions by hedge funds (equivalent to 0.8 billion barrels) as investors and speculators bet on oil prices rising this year.

But markets are tense, however, as they try to reconcile the two opposing supply dynamics: OPEC and its commitment to cut output in 1H17, which is

Chart 9: Global bond yields

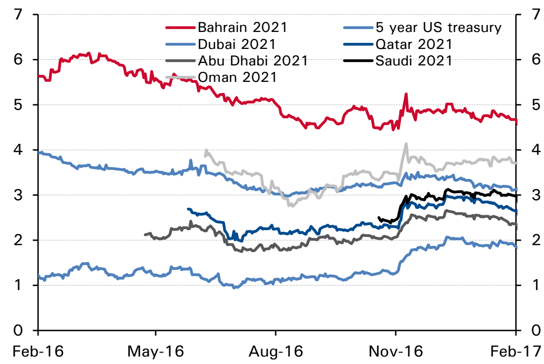
(%)



Source: Thomson Reuters Datastream

Chart 10: GCC bond yields

(%)



Source: Thomson Reuters Datastream

positive for oil prices, and US shale and its reemergence, which is negative for oil prices. The latest EIA data showed that US crude production increased by another 63,000 b/d last week to 8.98 mb/d—its highest level since last April. Also, US drillers added another 17 oil rigs last week, bringing the total up to 729, which is the highest level in 14 months.

Markets – equities

World markets were led by US equities that were buoyed by prospective tax cuts and positive earnings; the MSCI World added 0.6%, while US equities reached new highs following remarks by President Trump on a soon-to-be-announced tax plan. This provided a boost to what would otherwise have been a directionless week for US stocks. The S&P 500 and the DJIA were up 0.9% and 1.1%, respectively, on the week. European equities were mixed, with the Euro Stoxx 50 closing the week virtually unchanged. Renewed concerns over Greece's finances and its debt levels seem to have weighed somewhat on sentiment. Meanwhile, politics and elections take center stage in Europe. Emerging market equities outperformed last week, with the MSCI EM advancing 1.3%. (Chart 7.)

Regional markets retreated as the heavyweight Saudi Tadawul declined. The MSCI GCC index was down 0.5%, but performance was mixed in the region. Saudi Arabia and Kuwait saw profit-taking, with their general indices down 1.8% and 3.8%, respectively. Despite losses in the Kuwaiti market, volumes held up at healthy levels, close to a daily average of KD 50 million. Meanwhile, Abu Dhabi and Dubai saw good advances, with their indices adding 2.8% and 1.6%, respectively. Banks' dividend announcements were a main driver for the Emirati markets. (Chart 8.)

Also, in regional market news, a 20% stake in Jordan's Arab Bank was bought by a consortium of Arab and Jordanian investors for $1.12 billion.

Markets – fixed income

Political risk continued to drive bond markets, with rates down on the week despite a pickup over the last few days. Uncertainties over President Trump's economic policies, Brexit, France's elections and related scandals, and Greece's debt relief saw benchmark yields pressured down for the first half of the week. 10-year US treasuries and bunds hit multi-week lows on Wednesday. Talk of a tax-plan by the Trump administration, coupled with some positive soft data, saw yields increase over the last two days of the week. Nevertheless, the predominantly risk-off tone of the week shaved 8 bps off of 10-year US treasuries yields and 9 bps off of 10-year bunds. (Chart 9.)

Most 2021 GCC paper yields were down on the week, trailing US treasuries, but also benefitting from a steady oil price. Yields dropped between 8 and 16 bps, with Abu Dhabi and Qatar seeing the largest drops. Oman was flat, while Dubai was up 3.7 bps on the week. (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 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