

Weekly Economic and Markets Review

NBK Economic Research Department | 5 July 2020



International & MENA

International

US: Non-farm jobs surged a much better-than-expected 4.8 million in June, its second large rise in a row, as previously furloughed or temporarily laid-off workers returned to work. The labor market picture remains weak overall however, with the unemployment rate at 11.1% (13.3% in May) and weekly figures showing new jobless claims still at a very high 1.4 million in w/e 27 June. There was also good news from the ISM survey index which showed manufacturing activity returning to growth in June for the first time in four months at 52.6 (43.1 in May), though employment continued to contract.

China: Latest survey data continue to point to a tepid economic recovery on the back of weak external demand. While both the official and Caixin manufacturing PMI both edged up in June to 50.9 (50.6 in May) and 51.2 (50.7 in May), respectively, they remained weighed down by a continued slump in export orders. Separately, the official services PMI edged up to 54.4 in June (53.6 in May), due to strength in construction.

Financial markets: Global equities were mostly positive on vaccine hopes and good US data. The S&P500 was up 4% w/w, while gains in the Euro Stoxx 50 (+2.8% w/w) were curbed late on by a stimulus policy disagreement at the ECB.

Oil: Brent rose 4.3% w/w to \$42.8/bbl, buoyed by the positive US jobs report, a bigger-than-expected drop in US crude inventories and preliminary data that showed OPEC production in June dropping to its lowest since 1991. Concerns about the coronavirus resurgence in the US especially are weighing on the outlook, however, and risks are currently tilted to the downside. KEC enjoyed one of its best 1-day gains in several years on Wednesday, rising almost \$7 to \$43.2/bbl. Crude output at the Neutral Zone was brought back on-line in July after closing in June. Both Khafji and Wafra are now operational, with the former producing around 100 kb/d before the June shut-in.

MENA Region

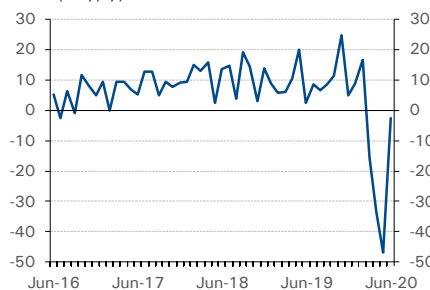
Kuwait: According to Knet data, consumer spending (POS, online payments and ATM withdrawals) declined by 2.6% y/y in June, a strong improvement from May's 47% plunge reflecting the ease in pandemic-induced lockdown measures. Growth in online spending surged from +84% y/y in May to +170%, while POS transactions remained weak at -35% y/y. Meanwhile, inflation was steady in May at 1.9% y/y, but the food segment increased 1.9% y/y possibly due to supply-side disruptions.

▶ **Chart 1: Brent crude oil price** (\$/bbl)



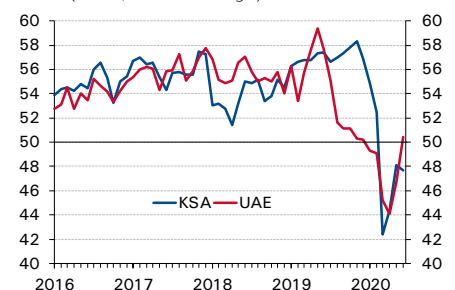
Source: Refinitiv

▶ **Chart 2: Kuwait consumer spending** (% y/y)



Source: Knet

▶ **Chart 3: Saudi/UAE PMIs** (index, 50=no change)



Source: IHS Markit

Data availability was problematic, though. Finally, consumer confidence slipped to a multi-year low of 96 in May from 102 in April, according to the Ara consumer confidence index. The employment and economic situation were particularly soft.

Saudi Arabia: GDP fell 1% y/y in 1Q20 on a 4.6% drop in the oil sector, while non-oil GDP rose by 1.6%. Within the non-oil sector, the private sector grew 1.4% y/y and the government sector 1.9% y/y. Meanwhile, credit growth weakened to 0.3% m/m in May and 10.7% y/y. The combined net profit of the banks remained under pressure, estimated at -39% y/y in May, leading to a 17% y/y drop in the first five months of 2020. Finally, the PMI remained below 50 at 47.7 in June (48.1 May), with output (45.9) and new orders (44.6) still weak.

UAE: Consumer price inflation stood at -2.8% y/y in May versus -1.8% in April, weighed down by steep falls in housing (-4%) and transportation (-12%). Meanwhile, the non-oil PMI in June, at 50.4 (May 46.7), rose above the 50 mark for the first time in 6 months including rises for output (53.1) and new orders (52.8) as anti-virus measures were eased. Finally, Dubai's GDP shrank 3.5% y/y in 1Q20 according to a government statement.

Egypt: Egypt is expected to receive the first tranche worth \$2 billion of \$5.2 billion IMF's loan over the next few days, with the remainder in two tranches of \$1.6 billion within a year.

Financial markets: GCC equity markets were mixed. Saudi Arabia rose 1.1% w/w on financial and petrochemical stocks, while Dubai underperformed, down 1.2% on property shares. Meanwhile, Kuwait's All-Share index lost 0.9% w/w.

Key takeaways:

- US labor market and survey data both signal a strong rebound in economic activity to date. However, there remains concern over what might happen once current large-scale government support programs expire and that the recent rise in Covid-19 cases could jeopardize the recovery.
- The robust recovery in Kuwait's consumer spending in June came as malls were reopened at the end of the month and will have been helped by both pent-up demand and the six-month loan payment deferral, which has boosted disposable incomes.
- PMIs for Saudi Arabia and the UAE were mixed but still point to a general steadying of economic activity in the past couple of months, likely helped by rising oil prices. But employers continue to shed jobs, signaling tough underlying business conditions and ongoing restructuring to reduce overheads.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,420	6.8	7.9
DAX	12,528	3.6	-5.4
DJIA	25,827	3.2	-9.5
Eurostoxx 50	3,294	2.8	-12.0
FTSE 100	6,157	0.0	-18.4
Nikkei 225	22,306	-0.9	-5.7
S&P 500	3,130	4.0	-3.1
Regional			
Abu Dhabi SM	4,312	0.6	-15.1
Bahrain ASI	1,274	-0.4	-20.9
Dubai FM	2,061	-1.2	-25.4
Egypt EGX 30	10,765	-1.2	-22.9
MSCI GCC	481	0.3	-15.3
Kuwait SE	5,124	-0.9	-18.4
KSA Tadawul	7,312	1.1	-12.8
Muscat SM 30	3,512	-0.4	-11.8
Qatar Exchange	9,212	0.3	-11.6

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	0.67	3.3	-123.9
Bunds 10 Year	-0.43	4.6	-24.5
Gilts 10 Year	0.19	1.6	-63.7
JGB 10 Year	0.03	1.5	4.8
Regional			
Abu Dhabi 2022	0.87	-17.4	-117.5
Dubai 2022	1.50	-20.5	-96.5
Qatar 2022	0.96	-12.6	-110.5
Kuwait 2022	0.82	-16.6	-124.5
KSA 2023	1.33	-7.8	-97.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	42.8	4.3	-35.2
KEC	43.1	18.2	-36.9
WTI	40.7	5.6	-33.4
Gold	1784.0	0.6	17.4

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	2.25	0.0	-41.7
Kibor - 3 month	1.63	-6.3	-112.5
Qibor - 3 month	1.06	-0.5	-119.3
Eibor - 3 month	0.76	-0.4	-145.2
Saibor - 3 month	0.98	-0.9	-124.7
Libor - 3 month	0.30	-0.2	-160.5
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.308	-0.1	1.6
KWD per EUR	0.350	0.0	5.0
USD per EUR	1.125	0.3	0.3
JPY per USD	107.5	0.3	-1.0
USD per GBP	1.248	1.2	-5.9
EGP per USD	16.07	-0.2	0.4

Updated on 3/7/2020

Source: Refinitiv

International equity markets

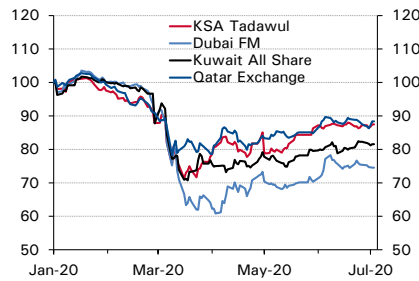
(rebased, 01 January 2020=100)



Source: Refinitiv

GCC equity markets

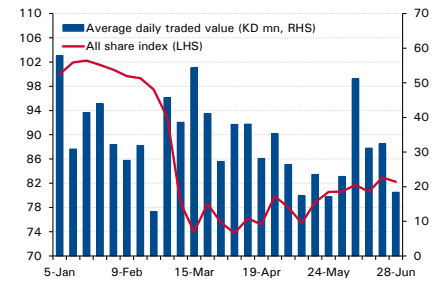
(rebased, 01 January 2020=100)



Source: Refinitiv

Boursa Kuwait

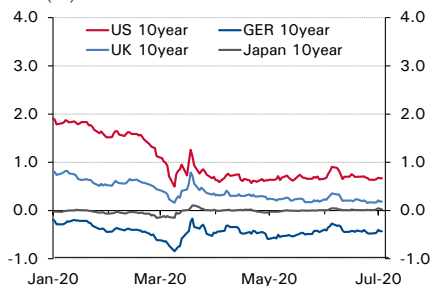
(equity prices and trading activity)



Source: Refinitiv

International bond yields

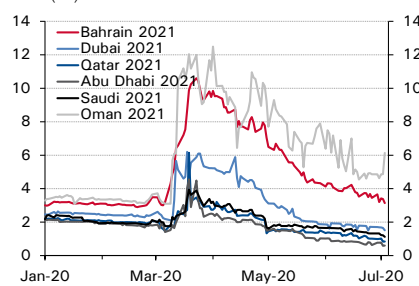
(%)



Source: Refinitiv

GCC bond yields

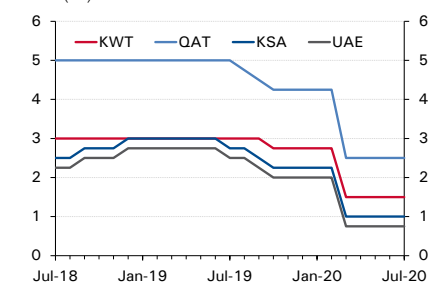
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv