Weekly Economic and Markets Review

NBK Economic Research Department I 30 August 2020

International & MENA

International

US: In a significant policy shift, Federal Reserve chairman Jay Powell announced that the Fed would move from targeting an inflation rate of 2% to hitting the same rate on average over time, in principle allowing it to run above target following a period of weakness. The core PCE rate – the Fed's preferred inflation gauge – picked up to 1.3% y/y in July from 1.1% in June. Meanwhile, consumer spending continued to bounce, up 1.9% m/m in July boosted by stimulus measures but still -2.8% y/y. However consumer sentiment in August remained depressed at 74.1 versus pre-virus readings of around 100, likely influenced by the weak labor market with initial jobless claims still extremely high at 1 million in the week ending 22 August. Finally, GDP growth in 2Q20 was revised up slightly but still showed a massive annualized drop of -31.7% (-9.1% q/q) versus -32.9% (9.5% before).

Japan: PM Shinzo Abe – Japan's longest-serving PM – resigned over the weekend due to health concerns. His 'Abenomics' agenda included economic reforms to combat Japan's aging population and stubborn deflation such as tax cuts and huge government debt purchases by the central bank. His successor, also to be drawn from the Liberal Democratic party, is expected to pursue a similar policy agenda.

Financial markets: Global equities continued to rally following the Fed's policy change announcement implying that the bank will remain accommodative. The MSCI AC world gained 2.3% w/w led by the S&P500 (+3.3%) which reached another record high. Europe and EMs followed suit, with the Euro Stoxx 50 and the MSCI EM up 1.7% and 2.1% respectively. Improved sentiment led to sell-off in bond markets, pushing up US 10-year treasury yields by 9 bps w/w to a 10-week high of 0.73%.

Oil: Brent ended the week up 1.6% w/w at $45.1/bbl (-38% ytd), supported initially by concern over the impact of Hurricane Laura on oil facilities in the US Gulf of Mexico. With the damage less than expected, oil prices retreated as focus shifted back to the weakness of the pandemic-affected oil demand recovery.

MENA Region

Kuwait: Kuwait Petroleum Corporation is cutting oil and gas spending by almost 19% to KD3 billion this fiscal year as the government looks to contain the budget deficit. The finance ministry noted that high oil sector costs were "not compatible" with the reality of low and capped oil production due to the OPEC+ agreement. Meanwhile, the finance minister reportedly tendered his resignation to the prime minister. The finance committee is meeting today to discuss again the debt law.

UAE: Abu Dhabi reportedly returned to the debt markets with a $5 billion three-part bond offering, covering 3 ($2 billion), 10 ($1.5 billion) and 50 ($1.5 billion) years. Meanwhile, consumer prices in Dubai declined at a softer pace of 3.1% in July compared to -3.4% in June. The ease was mainly attributed to smaller contractions in housing (around 43% of the CPI basket) and transportation of 5.4% and 10.7%, respectively.

Bahrain: The government raised its debt ceiling for the second time in three years, by BHD2 billion to BHD15 billion ($39.8 billion) in an effort to help plug its public financing gap. Public revenues have been hammered this year by low oil prices and the Covid-19 pandemic. Bahrain's public deficit is projected to widen from 5% of GDP in 2019 to around 15% of GDP in 2020.

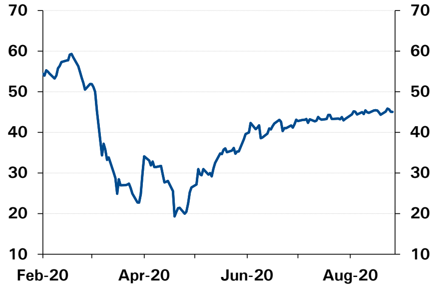
Oman: Following a sovereign credit rating downgrade, Fitch downgraded several Omani banks by one notch, with a negative outlook. Fitch also cut several companies' ratings including state-owned Oman Electricity Transmission Co and majority state-owned Omantel to BB- from BB.

Financial markets: GCC equities tracked global counterparts higher on continued good sentiment and higher oil prices. The MSCI GCC index gained 0.9% w/w. Oman outperformed, up 3.3%, while Saudi Arabia and Kuwait's All-Share gained 1.2% and 1.5% w/w respectively.

Key takeaways:

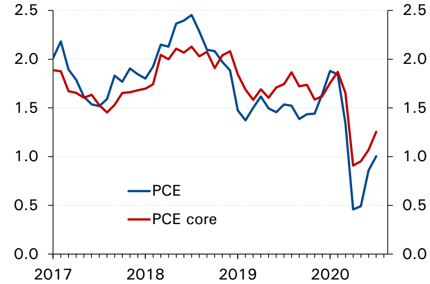
- The Fed's shift to targeting a 2% average inflation rate over time is a dovish move aimed at supporting the growth climate, though is unlikely to affect policy much in the near term. While this provides some flexibility to the Fed, it does introduce ambiguity for investors and market participants as the policy becomes less transparent.
- While oil prices are edging higher, still-rising coronavirus cases, the prospect of persistent oil demand weakness and high global stock levels continue to cloud the outlook.
- It was reported that the finance committee in Kuwait's parliament is looking for a compromise on the debt law, which, if agreed, could be submitted to the National Assembly soon for approval. The fiscal situation has reached a stage where allowing the government to borrow becomes a must.

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



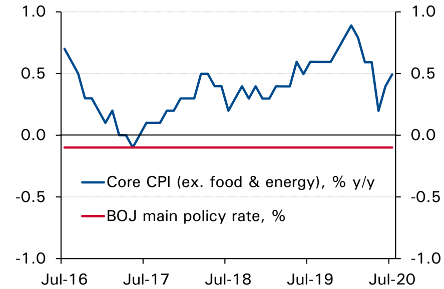
Source: Refinitiv

Chart 2: US PCE inflation
(% y/y)



Source: Refinitiv

Chart 3: Japan infl'n & policy rates



Source: Refinitiv

Key data

Stock markets	Index	Change (%) 1-week	YTD
International			
CSI 300	4,844	2.7	18.3
DAX	13,033	2.1	-1.6
DJIA	28,654	2.6	0.4
Eurostoxx 50	3,316	1.7	-11.5
FTSE 100	5,964	-0.6	-20.9
Nikkei 225	22,883	-0.2	-3.3
S&P 500	3,508	3.3	8.6
Regional			
Abu Dhabi SM	4,535	0.8	-10.7
Bahrain ASI	1,381	1.9	-14.2
Dubai FM	2,269	1.0	-17.9
Egypt EGX 30	11,462	2.7	-17.9
MSCI GCC	512	0.9	-9.7
Kuwait SE	5,289	1.5	-15.8
KSA Tadawul	7,934	1.2	-5.4
Muscat SM 30	3,737	3.0	-6.1
Qatar Exchange	9,883	1.2	-5.2

Bond yields	%	Change (bps) 1-week	YTD
International			
UST 10 Year	0.73	8.9	-118.1
Bunds 10 Year	-0.41	9.7	-22.3
Gilts 10 Year	0.31	10.6	-51.2
JGB 10 Year	0.06	2.5	7.8
Regional			
Abu Dhabi 2022	0.82	10.1	-122.3
Dubai 2022	1.22	6.3	-124.3
Qatar 2022	0.96	4.9	-110.8
Kuwait 2022	0.96	6.0	-110.2
KSA 2023	1.37	3.8	-92.6

Commodities	$/unit	Change (%) 1-week	YTD
Brent crude	45.1	1.6	-31.7
KEC	45.3	0.0	-33.7
WTI	43.0	1.5	-29.6
Gold	1964.6	1.6	29.3

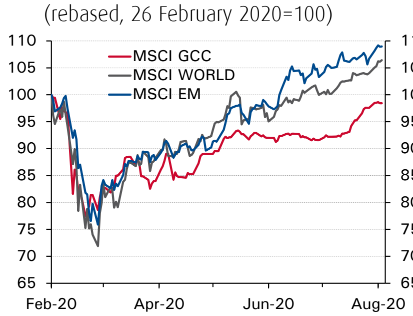
Interbank rates	%	Change (bps) 1-week	YTD
Bhibor - 3 month	2.28	0.0	-38.3
Kibor - 3 month	1.56	0.0	-118.8
Qibor - 3 month	0.97	-17.5	-127.9
Eibor - 3 month	0.47	-9.3	-173.8
Saibor - 3 month	0.89	-0.9	-133.9
Libor - 3 month	0.25	-1.0	-166.2

Exchange rates	rate	Change (%) 1-week	YTD
KWD per USD	0.305	-0.1	0.8
KWD per EUR	0.364	0.5	9.2
USD per EUR	1.190	0.9	6.2
JPY per USD	105.3	-0.4	-3.0
USD per GBP	1.335	2.0	0.7
EGP per USD	15.82	-0.4	-1.1

Updated on 28/8/2020 Source: Refinitiv

International equity markets

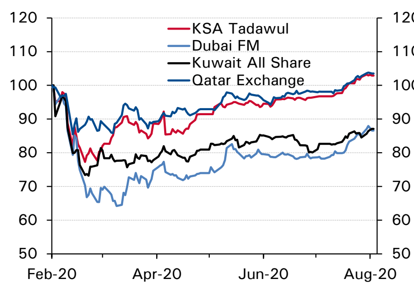
(rebased, 26 February 2020=100)



Source: Refinitiv

GCC equity markets

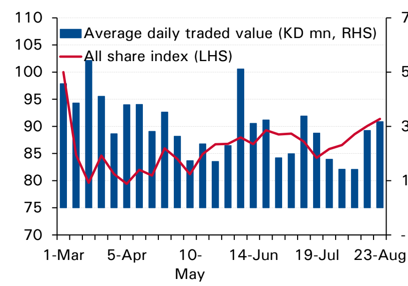
(rebased, 26 February 2020=100)



Source: Refinitiv

Boursa Kuwait

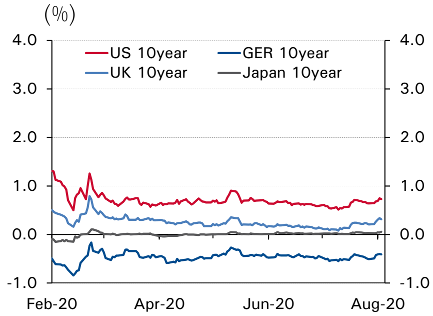
(equity prices and trading activity)



Source: Refinitiv

International bond yields

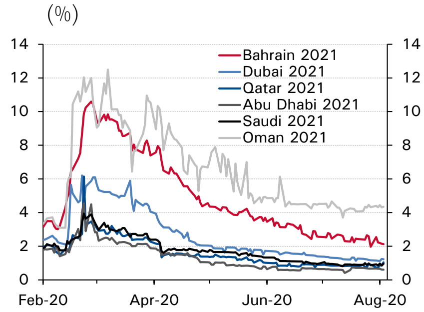
(%)



Source: Refinitiv

GCC bond yields

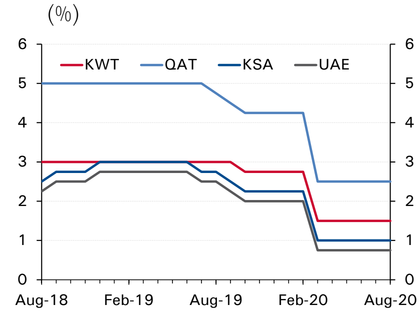
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv