Weekly Economic and Markets Review
10 December 2017

UK and EU agree "divorce terms"; hopes of a diplomatic breakthrough on Qatar rift are disappointed

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi SM	4,277	-0.14	-5.93
Bahrain ASI	1,267	-1.27	3.85
Dubai FM	3,393	-0.78	-3.89
Egypt EGX 30	14,295	-1.97	15.79
S&P GCC 40	975	-0.14	-15.58
Kuwait SE	6,187	-0.15	7.63
KSA Tadawul	7,086	1.16	-1.73
Muscat SM 30	5,066	-0.85	-12.39
Qatar Exchange	7,774	0.77	-25.52
International			
CSI 300	4,003	0.13	20.95
DAX	13,154	2.27	14.57
DJIA	24,329	0.40	23.11
Eurostoxx 50	3,591	1.81	9.15
FTSE 100	7,394	1.28	3.52
Nikkei 225	22,811	-0.03	19.34
S&P 500	2,652	0.35	18.43

Commodities	$/unit	Change (%)	
		weekly	YTD
Brent crude	63.4	-0.52	11.58
KEC	61.0	0.00	16.68
WTI	57.4	-1.71	6.78
Gold	1245.2	-2.63	8.28

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.302	0.17	-1.17
KWD per EUR	0.355	0.00	11.53
USD per EUR	1.176	-1.05	11.90
JPY per USD	113.480	1.23	-2.90
GBP per USD	1.339	-0.60	8.54
EGP per USD	17.750	0.57	-1.39

Interbank rates	%	Change (bps)	
		weekly	YTD
Bhibor - 3 month	2.58	2.5	47.5
Kibor - 3 month	1.75	-6.3	31.3
Qibor - 3 month	2.50	5.1	71.8
Eibor - 3 month	1.70	6.4	22.7
Saibor - 3 month	1.83	1.3	-20.3
Libor - 3 month	1.55	5.4	55.1

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	2.80	1.3	27.1
Dubai 2022	2.99	1.6	-30.9
Qatar 2022	3.08	-1.6	15.2
Kuwait 2022	2.80	5.4	n/a
Saudi Arabia 2023	3.20	3.3	n/a
International			
UST 10 Year	2.38	2.0	-4.9
Bunds 10 Year	0.31	0.3	10.3
Gilts 10 Year	1.28	5.5	3.9
JGB 10 Year	0.05	1.7	0.2

Source: Thomson Reuters Datastream; as of Friday's close 8/12/2017

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

Overview

The UK and the EU reached an 11th hour agreement over the so-called Brexit "divorce terms", which will allow them to move on to talks about a future trade arrangement. Initial attention is likely to focus on a possible 2-year transition deal to take effect after the UK's departure in March 2019, with a full-blown trade agreement set to take longer. The British pound held close to a 5-month high versus the euro, though it is still 10% below its pre-2016 referendum levels.

It was an up-and-down week for oil, with Brent crude prices falling 3% midweek on a large reported rise in US gasoline inventories, before bouncing back on strong Chinese import demand data to stand at $63/bbl, slightly lower on the week. Although the outlook for supply remains solid – US crude production hit another modern-day high the previous week and drilling rigs continued to rise – the feeling is, for now, that the OPEC/non-OPEC output cut extension through 2018 has backstopped prices at around the $60 mark.

Hope of a diplomatic breakthrough on the Qatar rift at the GCC summit in Kuwait last week turned to disappointment as the summit broke up a day early. The Qatari stock market, which had risen more than 2% a day before the meeting, reversed most of these gains a day after. The announcement that Saudi Arabia and the UAE – whose economies account for nearly 75% of the region's GDP – would forge new bilateral ties on economic, political and military issues risks slowing further GCC-level integration, with progress on beefing-up the six-country common market established in 2008 having been modest so far.

International macroeconomics

US: November's employment report continued to show solid labor conditions, with nonfarm payrolls up 228,000. The survey also showed a rise in the average workweek, reflecting increasing tightness in the market. The unemployment rate was unchanged at 4.1%. Despite the strong employment numbers, wage growth remained subdued at 2.5% y/y, disappointing those looking for a pick-up in inflation. (Chart 1.)

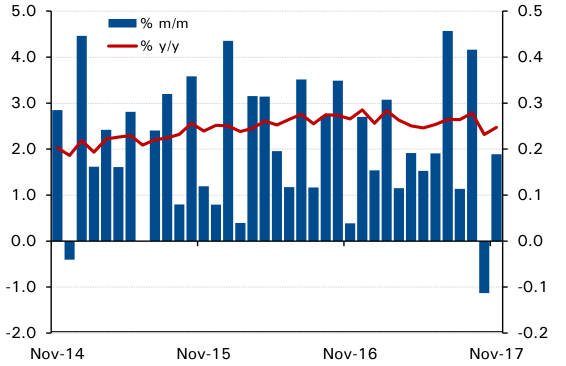
Congress passed a 2-week stopgap spending bill last week, averting a government shutdown and giving legislators more time to agree to new spending levels for the 2018 fiscal year. A broad bipartisan effort is currently underway to reach an agreement which could include deals on immigration and healthcare.

Eurozone: The eurozone PMI data confirmed strong flash figures from the week before, with the index hitting a more than 6-year high of 57.5 in November. Strength continued to be broad-based, with France (60.3), Ireland (57.7), and Germany (57.3) seeing the best performance. The data point to further strengthening in 4Q17 GDP growth. The final revision for 3Q17 confirmed growth at a robust 2.6% y/y.

Meanwhile, producer price inflation was stronger than expectations in October, rising by 0.4% during the month, though y/y price growth slipped to 2.5%. Inflationary pressures have been building up in recent months,

Chart 1: US wage growth

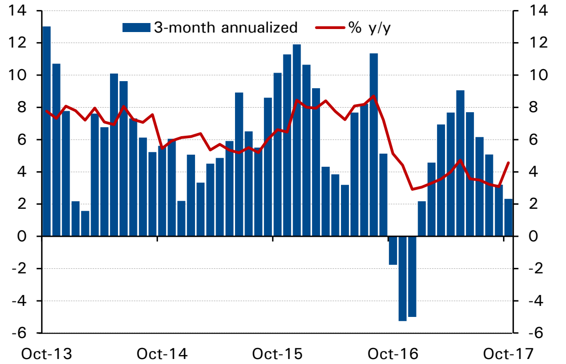
(% y/y)



Source: U.S. Bureau of Economic Analysis

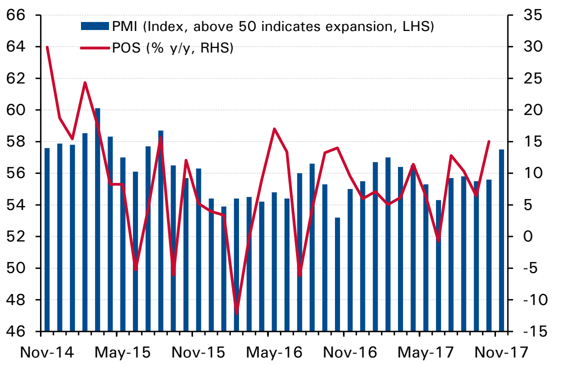
Chart 2: Kuwait credit growth

(%)



Source: Central Bank of Kuwait

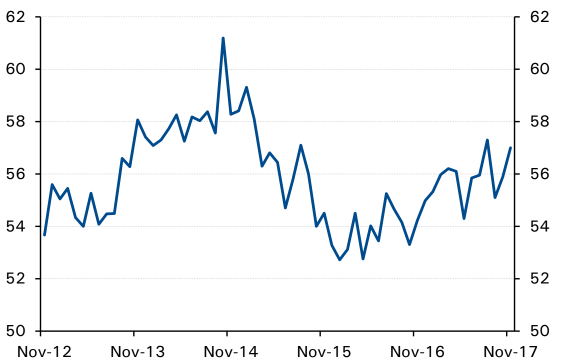
Chart 3: Saudi PMI & point of sales growth



Source: Markit/Emirates NBD, SAMA

Chart 4: UAE Purchasing Managers' Index

(index)



Source: Markit

following a few months of softness during the summer.

UK: After more than six, often fraught, months PM Theresa May finally got the approval from the EU she needed to advance Brexit negotiations to the second stage, which will focus on trade and Britain's post-Brexit relationship with the EU. Britain's agreement to pay €40-60 billion as part of the divorce settlement, its acceptance of the residence and social security rights of 3 million EU citizens living in the UK (and 1 million UK citizens living in Europe) and its recognition of Northern Ireland's wishes for regulatory alignment with the UK appeared to be enough to satisfy the EU's requirement for evidence of "sufficient progress" before opening trade negotiations. These are slated to commence no earlier than February, however, leaving the UK with just 13 months before the expiry of Article 50. Sterling initially climbed against both the US dollar (to $1.35) and the euro, reaching a 6-month high (£0.87) against the latter, before retreating against both currencies.

GCC & regional macroeconomics

Kuwait: Credit was weaker than expected in October, though growth rose to 4.6% y/y on base effects. (Chart 2.) The month saw total credit contract by KD 220 million. While some of that was from the usual start-of-quarter drop in securities lending, there was additional weakness in some business sectors. Nonetheless, growth improved as the impact of last year's Americana-related repayments faded. Private deposits saw a decline on the heels of two strong months.

Saudi Arabia: Private sector activity in the kingdom accelerated to a 27-month high in November. (Chart 3.) A sharp rise in the headline PMI from 55.6 to 57.5 signaled a strong improvement in overall business activity, driven by increases in output, new orders and new export orders. Employment growth continued in positive territory as well, with businesses recording the 44th consecutive month of job creation last month.

The Saudi non-oil economy appears to be slowly recovering from more than two years of anemic growth. Retail point-of-sale (POS) activity surged by 15% y/y (by value) in October, helped in large part by the retrospective payment of allowances by the government to public sector employees. In 3Q17, state employees received seven months of back pay for the allowances suspended between October 2016 and April 2017.

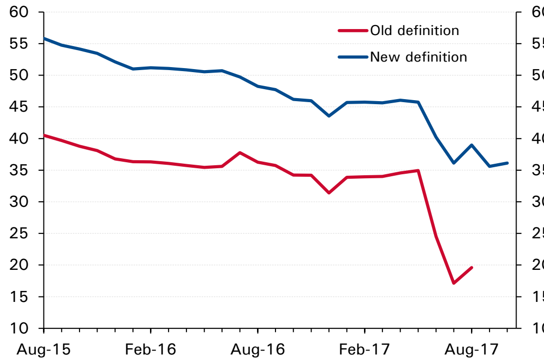
The kingdom has signed an economic and military partnership with the UAE. The alliance was announced just hours before the start of the recent and prematurely terminated GCC summit held in Kuwait. Sheikh Khalifa bin Zayed Al-Nahyan, the UAE's president, stated that a "joint cooperation committee" would be set up to coordinate in "all military, political, economic, trade and cultural fields".

UAE: The non-oil sector continues to steadily strengthen. The headline PMI climbed from 55.9 in October to 57.0 in November, as the ongoing strength in new orders and output data offset weakness in export orders. (Chart 4.) New orders held at a robust 60.2 and output rose to an over two-year high of 64.3, thanks to continued gains in domestic demand. New export orders, however, slipped back into contractionary territory at 47.5, as a stronger dirham continued to weigh on demand.

Qatar: The central bank's international reserves edged up by $0.5 billion in October to $36.1 billion, only the second rise since April. (Chart 5.) This still leaves them nearly $10 billion lower than before the GCC diplomatic dispute began in June, but at least points to some easing of outflow

Chart 5: Qatari central bank foreign reserves

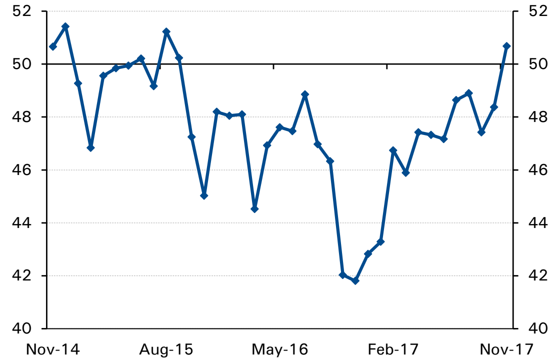
($ billion)



Source: QCB

Chart 6: Egypt PMI

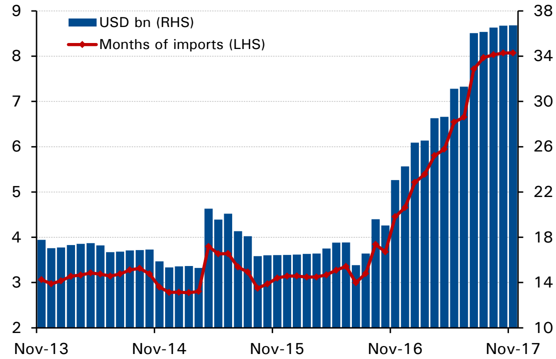
(index)



Source: IHS Markit

Chart 7: Egypt official reserves

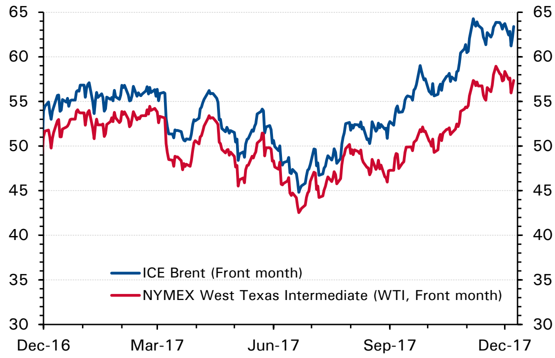
(foreign reserves of the CBE)



Source: Central Bank of Egypt, NBK estimates

Chart 8: Benchmark crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

pressures. Note that the QCB recently updated its calculation methodology, which saw reserves nearly double from previous levels. Overall reserves now stand at 7 months of imports, but this does not include an estimated $300 billion plus in assets held by the Qatar Investment Authority – the sovereign wealth fund.

Egypt: The headline PMI rose to 50.7 in November, its highest level in over 2-years, as the recovery appeared to gain momentum. (Chart 6.) Despite the rise, the index continues to come in below levels suggested by GDP growth, which accelerated to 5.2% in 3Q17. Gains in the index were across all components, though exports were particularly strong. Price pressures continued to recede during the month.

CBE foreign reserves remained mostly steady in November at $36.7 billion or an estimated 8.1 months of imports. (Chart 7.) The strong recovery in foreign reserves over the last year has seen the CBE remove restrictions imposed after 2011 on foreign currency activity. Last week, the CBE scrapped caps on deposits and withdrawals by importers. It also imposed a 1% entry charge for use of the CBE repatriation mechanism by foreign investors, presumably in an effort to discourage its use and possibly with an eye toward eventually phasing it out entirely.

Markets – oil

Brent and WTI posted two days of gains to close on Friday at $63.4/bbl and $57.36/bbl, respectively. (Chart 8.) The spur was a rebound in crude demand from China, the world's second largest consumer. Only last month Chinese crude imports had dropped to a one-year low. Oil's end-of-week rise followed Wednesday's sharp fall in response to the EIA's latest petroleum report, which showed US crude production rising to 9.71 mb/d, the highest level in weekly data since 1983. US petroleum product inventory data was also quite bearish for the markets, with gasoline stocks surging by the most in one week (6.78 mb) since January. Stock builds at this time of year are not atypical, however.

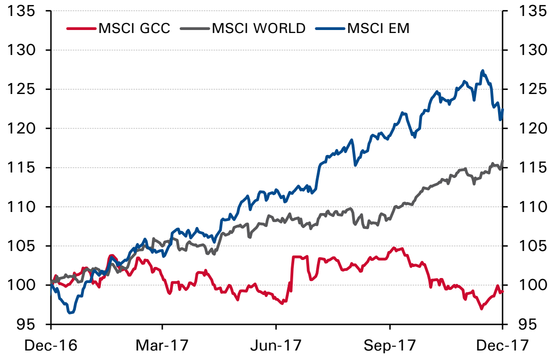
Markets – equities

International markets advanced during the first week of December, with the MSCI World All Country index closing up 0.5%. US equities logged losses for the first three consecutive days, then reversed those falls towards the end of the week on stronger-than-expected job data and a slight pickup in wages. The S&P 500 and DJIA ended the week up 0.4% each. The prospect of a U.S. government shutdown on Saturday was postponed for two weeks as Congress approved a two-week funding bill, supporting markets further. European markets rallied on a breakthrough in Brexit talks, posting a 1.8% gain for the week. Emerging markets were down 0.2% for the week. (Chart 9.)

GCC markets were mostly down last week, with geopolitics weighing on sentiment. The MSCI GCC index closed up 0.6% on the week, supported by the rally in the Saudi market that ended the week up 1.2%. Other GCC markets witnessed a short-lived spike earlier in the week, hopeful for a breakthrough in the diplomatic dispute ahead of the GCC summit. However, the agreement didn't materialize, and markets reverted back to pre-summit levels. The Kuwait (weighted) and Dubai indices were down 1.2% and 0.8%, respectively. Qatar's market was up 0.8% for the week. (Chart 10.)

Chart 9: Total equity return indices

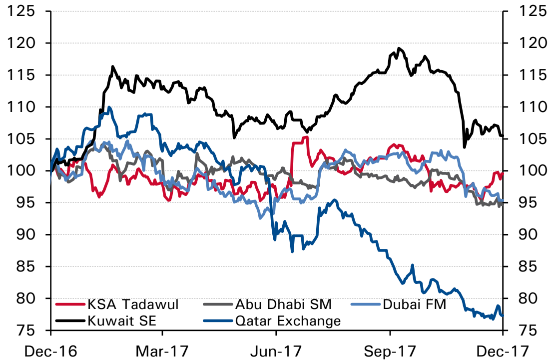
(rebased, 8 December 2016=100)



Source: Thomson Reuters Datastream

Chart 10: GCC equity markets

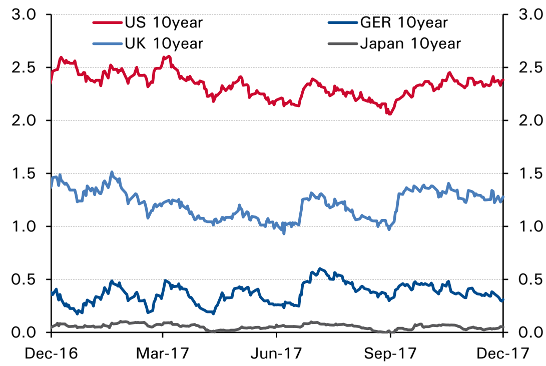
(rebased, 8 December 2016=100)



Source: Thomson Reuters Datastream

Chart 11: Global benchmark yields

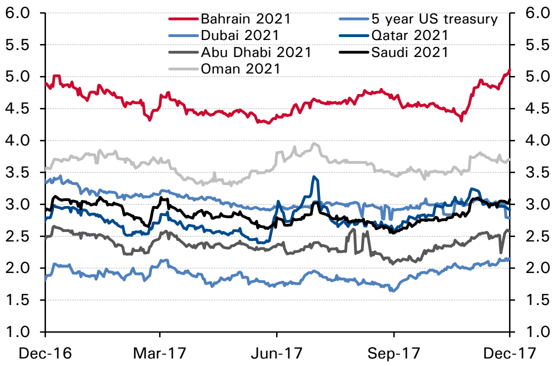
(%)



Source: Thomson Reuters Datastream

Chart 12: GCC yields

(%)



Source: Thomson Reuters Datastream

Markets – fixed income

Yields moved higher internationally as economic data came in mostly positive and the inflation picture was largely unchanged last week. (Chart 11.) In the US, solid economic data and bipartisan efforts to avoid a government shutdown saw Treasury yields continue to move higher. Nonetheless, Congress's stopgap spending bill still means an agreement needs to be reached before year-end on the budget and the debt ceiling. Yields on German bunds were also up, with eurozone PMIs showing robust growth there. In Japan, yields rose in one of their best weeks in a while, as revised growth data showed the economy enjoying its longest growth streak in decades. Regionally, most benchmark yields moved higher in tandem with global markets, even as a solid rebound in oil prices eased some fiscal concerns. (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