PUBLIC

Daily
Economic Update

Economic Research Department
01 August 2024

US: Fed keeps interest rates steady, sending a strong signal of a cut in September. As widely expected, the FOMC unanimously kept the Fed fund target rate unchanged at the 5.25-5.5% range. However, officials shifted their tone to be "attentive to the risks to both sides of its dual mandate," which are price stability and maximum employment. Chair Powell, in the post-meeting conference, said a cut at the September meeting "could be on the table" if the economic data continues to come as anticipated although he dismissed the possibility of a 50bps rate cut. He strongly pushed back against the view that presidential elections might have any bearing on the committee's decision. Markets rallied following his remarks, with the S&P 500 notching a 1.6% gain and yields on the 10Y UST dropping to 4.11%. The market is now expecting a 25bps rate cut in September, followed by another two cuts before the end of the year.

Eurozone: Preliminary July inflation data higher than expected. Headline inflation in the eurozone rose to 2.6% y/y in July, from 2.5% y/y in June and against an expected softening to 2.4%. This was despite some easing in the closely followed services inflation from 4.1% y/y in June to 4.0% in July. Meanwhile, core inflation was steady at 2.9% y/y (-0.2% m/m) in July, also higher than estimates (2.8%). The higher-than-expected inflation will be a concern for the European Central Bank (ECB), especially that this comes after the bank's rate cut in June.

Oil: Escalating Middle East tensions reignite geopolitical risk. Brent futures rallied 2.7% on Wednesday, the largest daily increase since early February, closing at $80.7/bbl (+4.8% YTD) as tensions rose following Israel's assassination of Hamas' top political leader Ismail Haniyeh in Iran and a senior Hezbollah military commander in the suburb of Beirut. The latest round of escalation lifted the geopolitical premium heavily in the oil market. Moreover, both US commercial crude oil and gasoline inventories declined by 3.4 and 3.7 mb w/w, respectively, in the w/e July 26. OPEC+'s Joint Ministerial Meeting Committee (JMMC), a technical committee that monitors members' compliance and oil market balances, is set to meet today, though expectations are for a recommendation for no change to the current policy stance.

Kuwait: Decent credit growth in June driven by business credit. Domestic credit rose by a decent 0.4% m/m in June, driving up YTD growth to 2% (+2.9% y/y). Business credit increased by a solid 0.5% m/m, resulting in YTD growth of 2.2% (+1.4% y/y). The construction sector remained the fastest growing, up 3.6% m/m and 12% YTD. Trade had a good month, up 1.8% m/m, which pushed YTD growth to 4.8%. In contrast, the oil/gas sector fell for the fourth straight month, widening the YTD decrease to 6% and following a steep 8% drop in 2023. After a strong month in May, household credit was flat in June with YTD growth muted at 0.9% (+2.4% y/y). We note that credit for securities purchase and to banks/financial institutions have been relatively strong over the past year, standing at 12% and 10% y/y, respectively, pushing overall y/y credit growth ahead of both business and household components. Meanwhile, driven by a plunge in public-institution deposits, resident deposits decreased by 0.2% m/m, resulting in a 1.2% YTD increase (+3% y/y). Private-sector deposits inched

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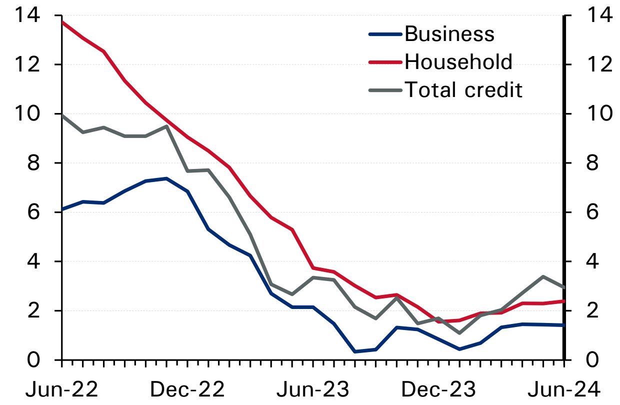
up in June, driving the YTD increase to 3.1% (+1.8% y/y), versus +6.9% for government deposits and a sharp 13% (KD 910 million) drop for public-institution deposits. Within private-sector KD deposits, CASA decreased for the second consecutive month while time deposits continued to increase. After dropping in 2022 and 2023, CASA is broadly flat YTD (+0.5%) while time deposits increased by 5.1%.

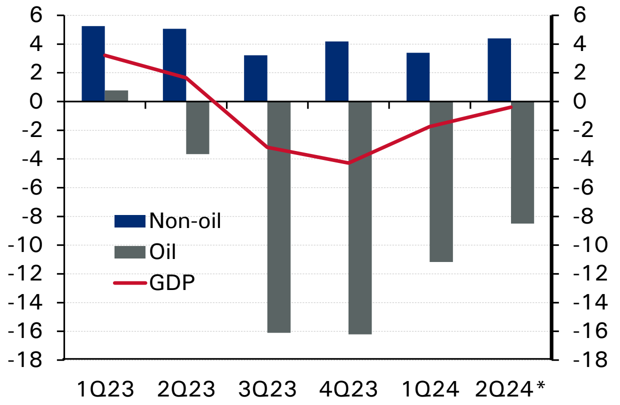
Saudi Arabia: Preliminary data shows softer GDP contraction in Q2 2024. The economy contracted by 0.4% y/y in Q2 after -1.7% in Q1 according to flash GDP estimates, the softest decline in the four-quarter sequence of negative growth. The decline was mostly driven by weaker oil activity, which fell by 8.5% y/y, versus -11.2% in the previous quarter. In contrast, non-oil activities accelerated to 4.4% y/y from 3.4% the previous quarter, the highest since Q2 2023, while growth in government activities also picked up to 3.6% from 2.0% in Q1. On a quarterly basis (seasonally adjusted), GDP grew by 1.4%, the same pace as the previous quarter. Meanwhile, credit continued to grow at a solid pace, up 1% m/m in June (+6.5% YTD) after growing at the fastest monthly rate in 22 months in May (1.5%). Growth continued to be driven primarily by credit to the private sector, which grew by 1.3% m/m. In contrast, credit to the public sector fell by 3.5% m/m, more than reversing a 3.1% increase in May. Total deposits saw a strong increase of 2.9% m/m, pushing YTD growth to 7.9% thanks mostly to solid growth in demand deposits.

Chart 1: Kuwait credit growth
(%, y/y)



Source: Haver

Chart 2: Saudi Arabia GDP growth
(%, y/y)



Source: Haver

UAE: Budget in surplus in Q1 2024 and capital spending rises sharply. The budget recorded a surplus of AED 23.5 billion in Q1 2024 (around 4.8% of estimated GDP), rising by a slight 1.6% y/y. The wider surplus was driven by a 4.3% y/y increase in revenues (AED 120.6 billion) on higher oil prices. Capital spending witnessed a significant increase, quadrupling to AED 5.6 billion, but from a low base last year, noting also that the first quarter usually sees lower capital spending compared with the following quarters. For the full year 2024, our forecast is that capital spending will grow by around 25%. Meanwhile, current spending remained relatively stable as grants were halved and subsidies fell by 13% y/y while wages and consumption of goods/services increased by 6.3% and 15%, respectively. We expect the budget surplus to narrow to 3.6% of GDP this year, down from 4.6% in 2023 on lower oil prices and rising spending, given higher 2024 budgeted spending in Dubai (+17% versus 2023 budget) and on the federal level (+1.6%).

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Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,339	-0.61	-2.49
Bahrain (ASI)	1,970	-0.44	-0.08
Dubai (DFMGI)	4,268	-0.37	5.13
Egypt (EGX 30)	29,379	1.17	18.31
GCC (S&P GCC 40)	706	0.31	-0.89
Kuwait (All Share)	7,239	0.73	6.19
KSA (TASI)	12,110	0.37	1.19
Oman (MSM 30)	4,662	-0.05	3.27
Qatar (QE Index)	10,154	0.04	-6.25
International			
CSI 300	3,442	2.16	0.32
DAX	18,509	0.53	10.49
DJIA	40,843	0.24	8.37
Eurostoxx 50	4,873	0.66	7.77
FTSE 100	8,368	1.13	8.21
Nikkei 225	39,102	1.49	16.85
S&P 500	5,522	1.58	15.78

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.45	0.00	-7.50
Kuwait	4.25	0.00	-6.25
Qatar	6.00	0.00	-25.00
UAE	5.23	-5.92	-3.73
Saudi	6.20	-5.30	1.74
LIBOR	5.50	-0.66	-8.37
SOFR	5.25	-0.44	-8.37

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.50	-15.00	17.9
Oman 2027	5.27	-5.00	11.3
Qatar 2026	4.79	-12.00	27.1
Kuwait 2027	4.74	-10.00	40.0
Saudi 2028	4.78	-8.00	25.9
International 10YR			
US Treasury	4.03	-10.80	17.2
German Bund	2.30	-4.00	27.2
UK Gilt	3.97	-7.80	42.8
Japanese Gvt Bond	1.06	6.00	44.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.04	-0.58
KWD per EUR	0.33	0.06	-0.03
USD per EUR	1.08	0.09	-1.91
JPY per USD	149.98	-1.82	6.32
USD per GBP	1.29	0.17	1.00
EGP per USD	48.51	0.25	57.24

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	80.72	2.66	4.78
KEC	81.67	0.57	2.65
WTI	77.91	4.26	8.74
Gold	2426.5	0.89	17.65

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: Refinitiv / Haver

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