Weekly Economic and Markets Review

NBK Economic Research Department I 29 August 2021

International & MENA

International and markets

US: The Fed chairman, in the annual Jackson Hole symposium, reiterated that asset purchases tapering will likely start this year and stressed that tapering does not mean that a hike in rates will be imminent. Moreover, he asserted again the "transitory inflation" argument. Meanwhile, core PCE, (Fed's preferred inflation measure) stood at 3.6% y/y through July, coming in line with consensus expectations, while the headline rate edged up to 4.2% y/y from 4% one month before. The House narrowly passed the $3.5trn budget "blueprint", and locked in a late September deadline to vote on the $1trn infrastructure bill, effectively moving one-step closer to passing both bills later in the year. Meanwhile, GDP growth for 2Q2021 (second estimate) was revised slightly up to an annualized 6.6% q/q from 6.5% previously, while personal income increased 1% m/m in July, beating expectations. Finally, existing home sales as well as new home sales for July came slightly better than expected, increasing 2% and 1% m/m.

China: Economic activity decelerated more than expected in July, with the Delta variant affecting retail sales and production, but the central bank left interest rates unchanged in its August meeting. The authorities are aiming to stabilize the supply of credit and boost loans for smaller businesses, after credit expanded in July at the slowest pace since February 2020, despite the recent 0.5% cut in the reserve requirement ratio.

Financial markets: Global equities were up last week led by the Nikkei 225 (+2.3% w/w) and the S&P 500 (+1.5%), which strengthened further following Powell's speech on Friday. Most GCC markets increased last week, but the MSCI GCC index inched down by 0.2%, driven by likely profit-taking in KSA.

Oil: Brent posted its biggest weekly gain (+11.5% w/w) in over a year, to close at $72.7/bbl (+40.3% ytd) ahead of Hurricane Ida's arrival in the Gulf of Mexico. Prices benefitted from China's swift reemergence from lockdown and from a weaker dollar, following the Fed chairman's comments on monetary tightening.

MENA Region

Kuwait: The finance minister suggested that the option of fund withdrawals from the FGF to finance the budget should be considered only on condition that: 1) they are temporary 2) they are limited and structured 3) they do not erode the underlying growth of the fund 4) they are contingent on a resolution to the liquidity problem. Meanwhile, the value of active projects in Kuwait's oil/gas sector shrunk by 73% since mid-2019 to $23.8bn, according to MEED. Contractors cited budget cuts as being the biggest factor in the delay/cancellation of projects. Finally, according to the latest PACI data, Kuwait's population decreased by 0.9% y/y in 1H21 to 4.62 million, as more than 56K expats left the country amid the pandemic. The private sector was the most affected as the number of expat workers decreased by 42K and Kuwaiti workers by 970 in 1H21.

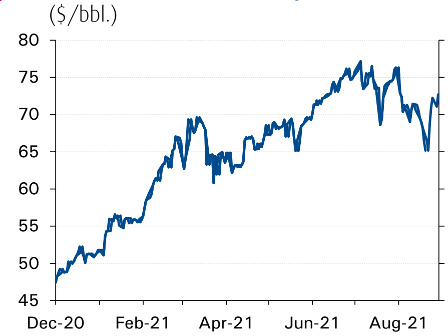
Saudi Arabia: Non-oil exports hit a monthly record-high of SAR23.6bn in June, bringing the H1 y/y increase to 38%, following the 20% y/y plunge last year given the pandemic. Imports have increased by a much softer 12% in H1, and with oil exports soaring 47%, the merchandise trade balance expanded more than three-fold, reaching SAR171bn. Meanwhile, authorities launched 3 major technical initiatives (value of SAR4bn), in line with Vision 2030 targets of leveraging opportunities in digital economy and artificial intelligence.

Egypt: The government will receive the equivalent of $2.8 billion from the IMF's new SDR allocation, which stands at a total of $650bn, the largest in history. Meanwhile, the government is preparing to issue, during H2, the first-ever sovereign Sukuk, which will be used mainly to fund investment projects.

Key takeaways:

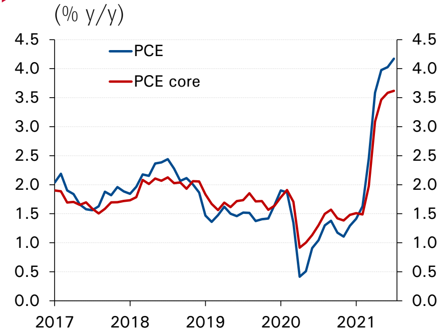
- Given Powell's speech, tapering this year is now seen as highly likely. Still, incoming data, especially the August jobs report that will be out in few days will be a key factor to consider before the Fed's next meeting in September, in which tapering details may be announced.
- Cuts to capital spending in the oil and gas sector (KPC slashed spending by 19% in 2020 and has pared back outlays on its 5-year development plan by 25%) will make it harder for Kuwait to maintain let alone raise its oil and gas production capacity in the years ahead.
- Boosting non-oil exports, one of the key targets of KSA's Vision 2030, has started to bear fruit as they hit a record-high in June. Non-oil exports in H1 have now exceeded pre-pandemic levels (10% higher than 1H2019). Continued success on that front will pay dividends in terms of supporting employment, the balance of payments, and economic diversification.

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



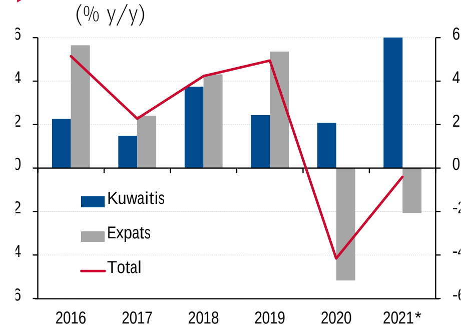
Source: Refinitiv

Chart 2: US inflation
(% y/y)



Source: Refinitiv

Chart 3: Kuwait's employment
(% y/y)



Source: PACI. *As of June 2021

Key data

Stock markets	Index	Change (%) 1-week	YTD
International			
CSI 300	4,827	1.2	-7.4
DAX	15,852	0.3	15.5
DJIA	35,456	1.0	15.8
Eurostoxx 50	4,191	1.0	18.0
FTSE 100	7,148	0.8	10.6
Nikkei 225	27,641	2.3	0.7
S&P 500	4,509	1.5	20.1
Regional			
Abu Dhabi SM	7,625	0.1	51.1
Bahrain ASI	1,667	1.7	11.9
Dubai FM	2,900	2.2	16.4
Egypt EGX 30	11,126	2.9	2.6
MSCI GCC	697	-0.2	27.4
Kuwait SE	6,791	1.8	22.5
KSA Tadawul	11,129	-0.7	28.1
Muscat SM 30	3,963	-0.5	8.3
Qatar Exchange	11,103	0.6	6.4

Bond yields	%	Change (bps) 1-week	YTD
International			
UST 10 Year	1.31	5.5	39.8
Bunds 10 Year	-0.42	7.6	15.6
Gilts 10 Year	0.58	5.6	38.4
JGB 10 Year	0.03	1.5	0.4
Regional			
Abu Dhabi 2022	0.35	-4.8	-15.2
Dubai 2022	0.27	0.0	7.4
Qatar 2022	0.30	7.3	-22.2
Kuwait 2022	0.48	-8.9	1.7
KSA 2023	0.67	0.9	-4.3

Commodities	$/unit	Change (%) 1-week	YTD
Brent crude	72.7	11.5	40.3
KEC	72.6	7.6	43.4
WTI	68.7	10.3	41.7
Gold	1816.6	2.0	-4.0

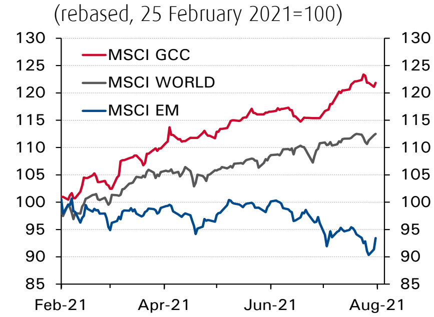
Interbank rates	%	Change (bps) 1-week	YTD
Bhibor - 3 month	1.55	-4.2	-70.0
Kibor - 3 month	1.50	0.0	6.3
Qibor - 3 month	1.15	16.0	2.9
Eibor - 3 month	0.39	5.0	-11.8
Saibor - 3 month	0.80	0.0	-2.2
Libor - 3 month	0.12	-1.0	-11.8

Exchange rates	rate	Change (%) 1-week	YTD
KWD per USD	0.301	-0.1	-1.0
KWD per EUR	0.363	0.0	-0.1
USD per EUR	1.179	0.8	-3.4
JPY per USD	109.8	0.0	6.4
USD per GBP	1.376	1.0	0.6
EGP per USD	15.65	0.0	-0.3

Updated on 27/8/2021 Source: Refinitiv

International equity markets

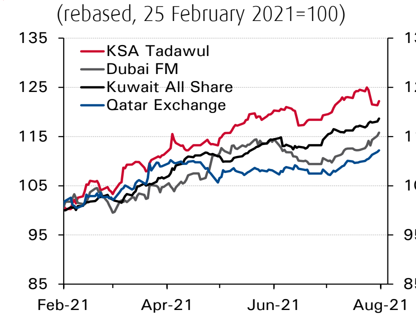
(rebased, 25 February 2021=100)



Source: Refinitiv

GCC equity markets

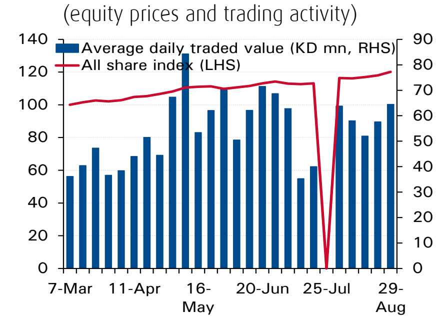
(rebased, 25 February 2021=100)



Source: Refinitiv

Boursa Kuwait

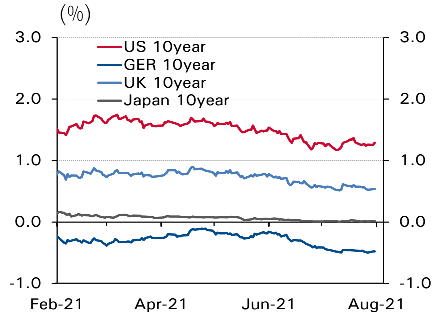
(equity prices and trading activity)



Source: Refinitiv

International bond yields

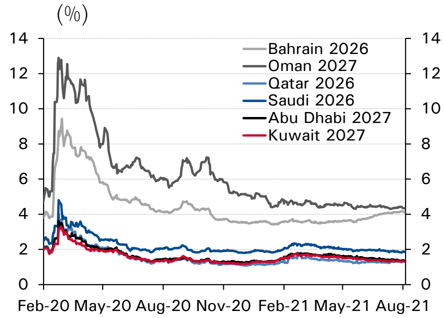
(%)



Source: Refinitiv

GCC bond yields

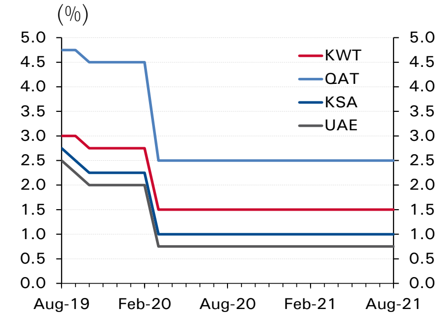
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv