Weekly Economic and Markets Review

NBK Economic Research Department I 26 August 2018

International & MENA

Powell reaffirms Fed's gradual approach to rate hikes; crude prices surge on US inventory draw

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,885	-0.45	11.06
Bahrain (ASI)	1,348	0.04	1.22
Dubai (DFMGI)	2,816	0.44	-16.45
Egypt (EGX 30)	15,273	-0.15	1.69
GCC (S&P GCC 40)	1,074	-0.45	9.10
Kuwait (All Share Index)	5,209	n/a	7.82
KSA (TASI)	7,867	n/a	8.87
Oman (MSM 30)	4,390	n/a	-13.90
Qatar (QE Index)	9,448	n/a	10.85
International			
CSI 300	3,325	2.96	-17.50
DAX	12,395	1.51	-4.05
DJIA	25,790	0.47	4.33
Euro Stoxx 50	3,427	1.62	-2.18
FTSE 100	7,577	0.25	-1.43
Nikkei 225	22,602	1.49	-0.72
S&P 500	2,875	0.86	7.52

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.45	-2.5	50.1
Dubai 2022	3.84	-1.2	69.6
Qatar 2022	3.59	-0.7	51.1
Kuwait 2022	3.43	-2.5	62.1
Saudi Arabia 2023	3.73	-5.5	51.1
International			
UST 10 Year	2.83	-4.7	41.5
Bunds 10 Year	0.34	3.9	-8.0
Gilts 10 Year	1.28	4.3	9.0
JGB 10 Year	0.10	0.5	5.0

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.53	0.0	80.0
Kibor	2.00	0.0	12.5
Qibor	2.65	0.0	-9.3
Eibor	2.47	-10.4	67.4
Saibor	2.61	0.0	71.0
Libor	2.31	-0.7	61.8

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	-0.13	0.51
KWD per EUR	0.351	1.53	-1.07
USD per EUR	1.162	1.61	-3.13
JPY per USD	111.2	0.66	-1.29
USD per GBP	1.284	0.73	-4.95
EGP per USD	17.82	-0.17	0.51

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	75.8	5.55	13.38
KEC	73.5	5.41	15.67
WTI	68.7	4.26	13.74
Gold	1206.3	2.53	-7.66

Source: Thomson Reuters Datastream; as of Friday's close 24/8/2018

Overview

In his Jackson Hole speech, US Fed Governor Jay Powell affirmed that the central bank would maintain a cautious approach to monetary tightening given the absence – despite robust economic growth – of signs that inflation will breach its 2% target. The dovish remarks supported equities, with the S&P 500 up 0.9% w/w and now recording on some definitions the longest bull market in history. US-China talks aimed at easing trade tensions however ended without a breakthrough, as both sides activated previously-announced tariffs on $16 billion of goods with further measures expected in September.

The price of Brent crude oil surged 6% last week to end just below $76/bbl, its highest in more than a month. One catalyst for the rise was a report showing a larger-than-expected draw in US crude inventories due to robust demand from local refineries. Oil also found support from a reported drop in Iranian oil exports by 0.6 million b/d in the first half of August amid the impending restart of US sanctions.

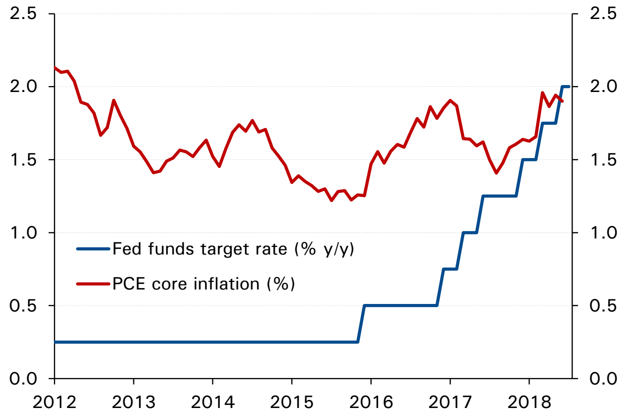
It was a low key week across the Gulf due to the Eid Al Adha holiday. Saudi authorities denied that the partial privatization of state oil giant Aramco scheduled for next year had been called off, but stated that the sale would proceed "at a time of its own choosing when conditions are optimum". Sovereign wealth fund PIF – due to receive the proceeds from the Aramco sale – has for the first time reportedly lined up $11 billion in bank loans to help fund key investment projects.

International macroeconomics

USA: In his Jackson Hole Speech, Fed governor Jay Powell signaled that the central bank would maintain a gradual approach to raising interest rates, as policy returns to more "neutral" levels and with core inflation still slightly below its 2% target despite strong economic growth. (Chart 1.) The speech was interpreted as dovish, and triggered a weakening in the US dollar. It also comes soon after President Trump's comments that he was "not thrilled" by the Fed's monetary tightening which, together with escalating trade disputes with key partners, risks complicating the outlook for interest rate policy. The Fed is however still widely expected to hike rates by 25 bps in September, and possibly again in December.

Chart 1: US interest rates and inflation

(% y/y)



Source: Thomson Reuters Datastream

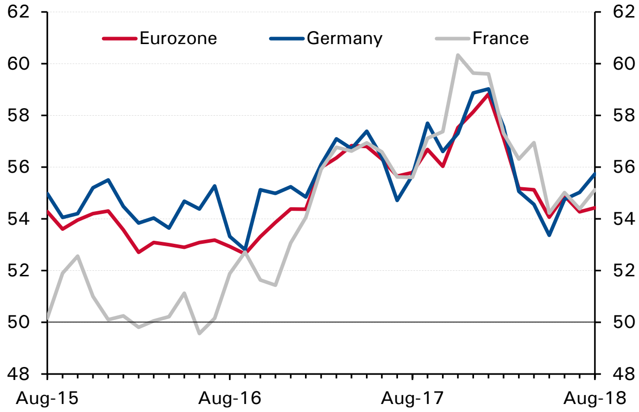
Recent economic data have come in slightly below expectations and perhaps suggest that growth may have moderated from pre-summer. The flash composite PMI eased to 55.0 in August from 55.7 in July, with the manufacturing element falling to a nine-month low of 54.5 – albeit still well above the 50 "no change" mark. Weaker growth in new orders and employment were cited. Meanwhile, durable goods orders fell a surprisingly large 1.7% m/m in July, albeit affected by the volatile transportation segment. Housing sales – both new and existing – showed further m/m declines in July. Rising mortgage rates, higher material costs and tight supply of housing are factors subduing sales activity.

Eurozone: Minutes of the European Central Bank's July policy meeting pointed to growing confidence that the economic recovery is on track despite the threat of a global trade war, and that rising wage growth would help push inflation back towards its "below but close to 2%" target over the medium term. The bank remains on course to end its quantitative easing program by end-year, but – like the US Fed – is stressing the need for caution to avoid tightening policy too quickly: interest rates are expected to be left on hold until at least the last quarter of 2019.

The Eurozone's composite flash PMI edged up to fractionally to 54.4 in August from 54.3 in July, though this was still the third weakest performance since January 2017 and well down from the levels recorded last year. (Chart 2.) The figures were affected by weaker German manufacturing orders – notably export orders – though businesses also reported higher costs. Meanwhile the structural features of the German economy were again in focus with news that the budget surplus reached 2.9% of GDP in 1H18 – the largest since reunification in 1990 – while the IFO, a German think tank, forecast that the external current account surplus would rise to €299 billion, or 7.8% of GDP this year. This could exacerbate tensions inside the euro bloc but also with US president Donald Trump, who has used Germany's trade surplus to justify fresh import tariffs.

Chart 2: Eurozone PMIs

(index, 50=no change)



Source: IHSMarkit

GCC & regional macroeconomics

Saudi Arabia: The Saudi authorities denied a report by Reuters that they were planning to shelve the Aramco IPO entirely. The energy minister, Khaled Al-Falih, insisted that the government was still committed to the sale but that it would proceed when the conditions are "optimum".

Aramco, meanwhile, was moving ahead with purchasing the Public Investment Fund's (PIF) 70% stake in Sabic, the kingdom's largest petrochemicals producer. The sale could raise around $70bn for the PIF (essentially a transfer from one government entity to another). It is thought that Aramco would finance the deal through bank loans and via international bond sales. The PIF has also reportedly just lined up a $11 billion loan, its first commercial bank loan. The fund will pay 75 bps over LIBOR, a similar rate to that paid by the Saudi government for its syndicated loan earlier in the year.

The IMF, in its latest Article IV consultation with the Saudi authorities, expects Saudi headline growth to increase to 1.9% in 2018, with non-oil growth accelerating to 2.3%. (This compares with our own forecast of 2.2% and 1.9% in 2018, respectively.) Activity will increase further over the medium term as reforms bear fruit and oil production increases. The fiscal deficit is expected to continue to narrow, from 4.6% of GDP this year to 1.7% of GDP in 2019, in line with higher oil prices, non-oil revenues and fiscal savings. Saudi credit growth remains low and unemployment, currently at 12.9%, are a source of concern.

Egypt: Since the interest rate cut in March to support economic activity, the Central Bank of Egypt decided to keep the overnight deposit, overnight lending, and discount rates unchanged at 16.75%, 17.75%, and 17.25%, respectively, in August. This was in line with market expectations and the inflation target path announced in May 2017, namely 13%

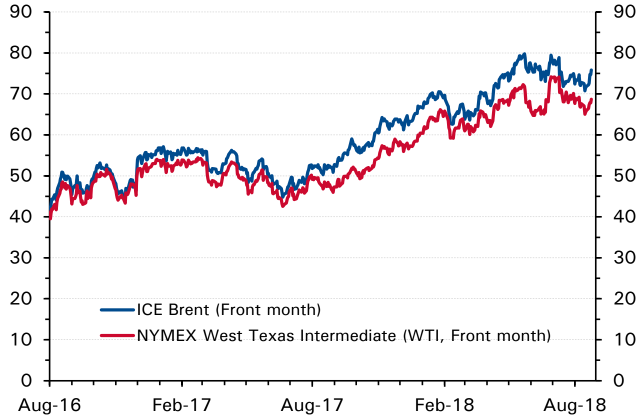
(±3%) in 2018 Q4. However, given tightening global financial conditions, escalating trade tensions and volatile oil prices, the central bank noted that it would "not hesitate to adjust its stance to achieve its mandate of price stability over the medium term".

Markets – oil

Oil prices finished the week higher last week for the first time since July amid signs of tightening supply. Brent closed up 5.6% w/w at $75.8/bbl and WTI rose 4.3% w/w to $68.7/bbl. (Chart 3.) Prices climbed after the EIA reported a much larger than expected fall in US crude stockpiles: crude stocks declined by 5.8 mb – almost four times as much as had been anticipated – amid higher refinery runs and lower crude imports. Also helping crude, a fire broke out in a chemicals plant situated at the 200,000 b/d Stanlow refinery in the UK, a key refinery that supplies more than 16% of all road fuels in the UK.

Chart 3: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

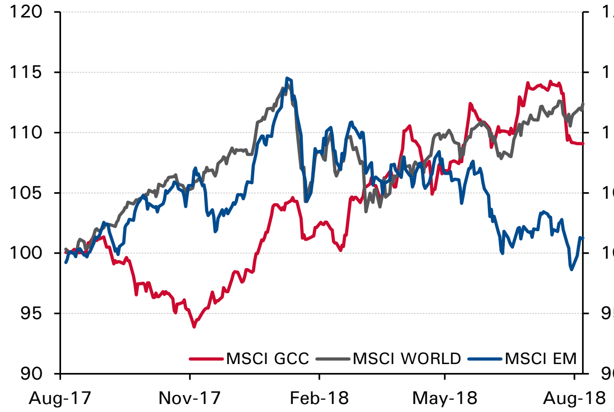
Markets – equities

International markets rose slightly last week, with the MSCI AC world index up 0.8% w/w as ongoing US-China trade tensions were partly offset by the Fed Governor Powell's key speech on Friday, which revealed no major surprises but confirmed a gradual tightening of monetary policy. Markets were also given a break from the economic turmoil in Turkey due to the country's week-long public holiday. This offered the Euro Stoxx 50 and the MSCI EM indices some further support, rising by 1.6% w/w and 2.4% w/w, respectively. (Chart 4.)

Regionally, the MSCI GCC index was flat with most markets closed for a week-long public holiday. (Chart 5.)

Chart 4: International equity indices

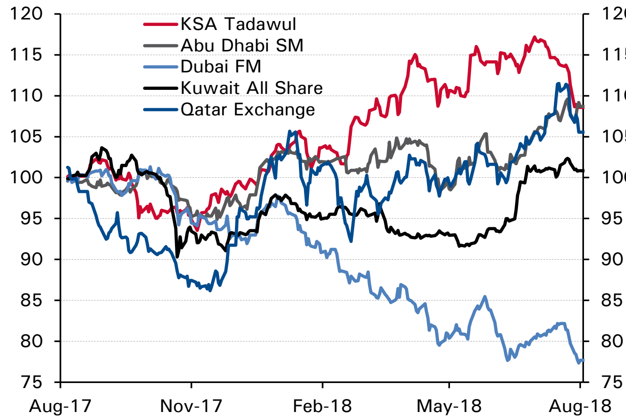
(rebased, 24 August 2017=100)



Source: Thomson Reuters Datastream

Chart 5: GCC equity markets

(rebased, 24 August 2017=100)

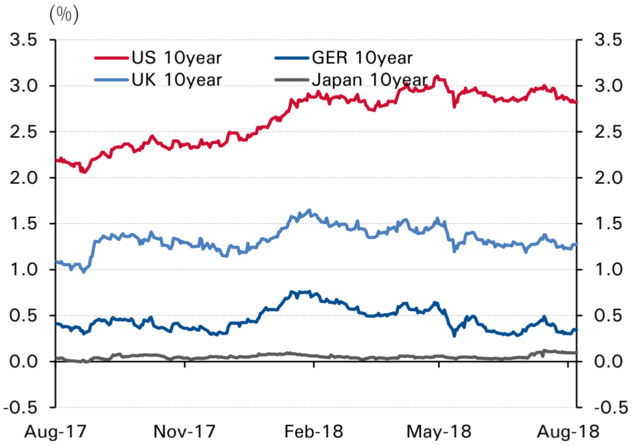


Source: Thomson Reuters Datastream

Markets – fixed income

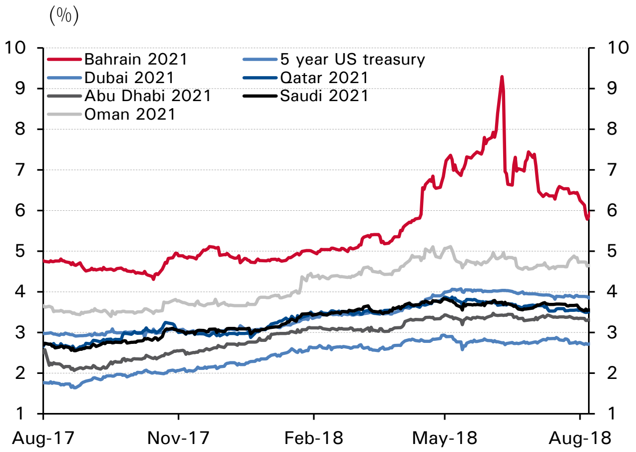
International benchmark yields with the exception of the US, trended higher last week. US 10-year Treasury yields fell by 5 basis points to settle at 2.83% as markets reacted to the Fed Governor Powell's dovish speech and muted inflation expectations. In fact the spread between 10 and 2-year government bond yields fell below 20 basis points for the first time in over a decade. Meanwhile, 10-year Bund yields rose 4 basis points to 0.34% on trade and US political worries. (Chart 6.) GCC yields were down 1-6 basis points. (Chart 7.)

Chart 6: Global bond yields



Source: Thomson Reuters Datastream

Chart 7: GCC bond yields



Source: Thomson Reuters Datastream

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 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