Weekly Economic and Markets Review

NBK Economic Research Department I 20 October 2019

International & MENA

International

World economy: In its latest bi-annual economic report, the IMF lowered its forecast for global growth in 2019 and 2020 to 3.0% (the weakest since 2009) and 3.4%, respectively, from 3.3% and 3.6% in April. The revisions were mostly the result of downgrades in emerging markets, where growth will nevertheless accelerate next year while developed economies remain weak. The IMF also warned of "elevated" downside risks including from trade barriers, geopolitics, Brexit and entrenched low inflation hampering monetary policy effectiveness.

US: Retail sales unexpectedly fell 0.3% m/m in September cutting the annual growth rate to 4.1% from 4.4% in August, and hinting that the until-now robust support to economic growth from the consumer sector may be softening. Meanwhile, in further bad news for manufacturing, industrial production fell more than expected in September at -0.4% m/m, with car output affected by a strike by GM workers.

UK: A last-minute UK-EU Brexit deal was agreed involving customs checks in the Irish sea. But a UK vote on the deal was delayed after parliament voted for the government to request a three-month extension beyond the end-October deadline – to give it more time and avoid a 'no deal' Brexit by accident. The likely knife-edge vote could still take place this week, and if approved, the UK could yet exit the EU in October if enabling legislation can be passed quickly enough. It is also unclear how the EU will respond to the UK request for a further extension.

China: Economic growth slowed from 6.2% y/y in 2Q19 to an almost 30-year low of 6.0% in 3Q19, slightly lower than expected. The trade war with the US has hampered exports, in turn weighing on manufacturing investment.

Financial markets: Equities gained on mostly positive US earnings and improved sentiment related to Brexit and trade. The MSCI World rose 0.5% w/w led by emerging markets (1%) the S&P500 (0.5%) and the Eurostoxx 50 (0.3%), despite losses towards end-week on weaker-than-expected US retail data.

Oil: The price of Brent crude finished down 1.8% w/w at $59.4/bbl, weighed by concerns over Chinese growth and a large US crude inventory build.

MENA Region

GCC: The growth outlook across most of the GCC has been revised down (versus April) in the IMF's latest forecasts – sharply so in most cases. This year growth will be depressed by larger-than-previously-expected cuts in oil output, with growth now seen close to zero in Saudi Arabia and Oman, just 0.6% in Kuwait and 2% or less in others. Next year however, growth is projected to rebound to 2-4% for all GCC countries with the oil sector weighing less (precise details are not yet available). Meanwhile growth rates for Egypt were left unchanged at a very solid 5.5% and 5.9% for 2019 and 2020, respectively.

Kuwait: Real estate sales rebounded in September to a solid KD307 million, up 53% y/y and more than double the subdued sales of August, which suffered from some seasonal weakness. The stronger sales were driven by higher activity in the residential and investment sectors, where transactions rose by 85% and 75% m/m respectively. For 3Q19 overall, sales totaled a solid KD825 million, but down slightly from a year ago.

Saudi Arabia: The IPO of state oil firm Aramco – planned for this week – was reportedly delayed by a few weeks. Meanwhile during a visit by Russian President Putin to Saudi Arabia, the two countries signed a long-term oil producers' cooperation charter, in addition to 20 other agreements and deals.

UAE: Inflation in Abu Dhabi was -1.8% y/y in September versus -1.2% in August. Rents continue to fall, down 4.1% y/y.

Financial markets: GCC equities were mixed but slightly positive overall. The MSCI-GCC rose 0.4% w/w, led by Qatar (2.0%) and Kuwait (1.1%). Regional performance was also helped by a rebound in Saudi banking stocks, which suffered heavy losses earlier in the week likely on profitability concerns, while Dubai fell 1.1% amid declines at one bank, Emirates NBD.

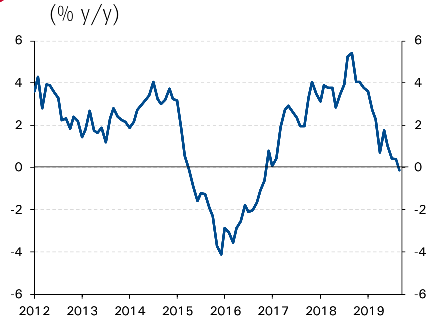
Key takeaways:

- The IMF's more downbeat world growth forecasts were expected, and warned that a growth rate below 2.5% could indicate a global recession. Key large economies such as the US and China will slow in 2020, but if a trade deal is struck soon, the outlook will improve.
- The Fund's downgrade to GCC growth in 2019 mostly reflects revisions to oil output in light of OPEC supply discipline, rather than broader weakness. Non-oil growth is likely to be reasonable at around 3%, and similar in 2020.
- The reported delay in Aramco's IPO likely reflects challenges in valuing the giant state-owned firm, with the $2 trillion valuation sought by the authorities considered at the high end of the spectrum by investors.

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

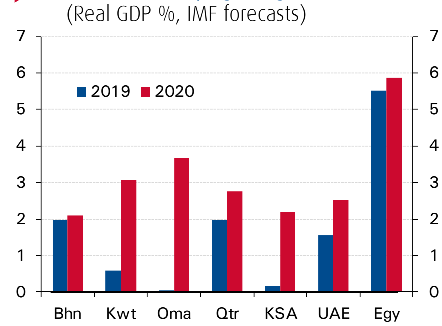
Source: Refinitiv

Chart 2: US industrial output
(% y/y)



Source: Refinitiv

Chart 3: GCC/Egypt growth outlook
(Real GDP %, IMF forecasts)



Source: IMF World Economic Outlook, October 2019

Key data

Stock markets	Index	Change (%) 1-week	YTD
International			
CSI 300	3,869	-1.1	28.5
DAX	12,634	1.0	19.6
DJIA	26,770	-0.2	14.8
Eurostoxx 50	3,579	0.3	19.3
FTSE 100	7,151	-1.3	6.3
Nikkei 225	22,493	3.2	12.4
S&P 500	2,986	0.5	19.1
Regional			
Abu Dhabi SM	5,093	0.4	3.6
Bahrain ASI	1,527	0.3	14.2
Dubai FM	2,780	-1.1	9.9
Egypt EGX 30	14,206	-0.7	9.0
MSCI GCC	530	0.4	-51.8
Kuwait SE	5,767	1.1	13.5
KSA Tadawul	7,636	-0.8	-2.4
Muscat SM 30	4,005	-0.2	-7.4
Qatar Exchange	10,428	2.0	1.3

Bond yields	%	Change (bps) 1-week	YTD
International			
UST 10 Year	1.75	-0.3	-94.1
Bunds 10 Year	-0.39	5.2	-63.2
Gilts 10 Year	0.71	0.2	-55.9
JGB 10 Year	-0.15	3.2	-14.9
Regional			
Abu Dhabi 2022	2.11	-4.9	-119.0
Dubai 2022	2.65	3.5	-128.4
Qatar 2022	2.14	-7.3	-130.7
Kuwait 2022	2.15	-1.3	-116.7
KSA 2023	2.51	-5.7	-136.5

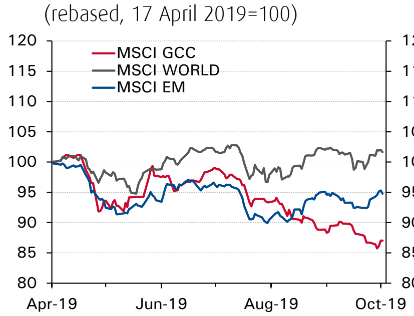
Commodities	$/unit	Change (%) 1-week	YTD
Brent crude	59.4	-1.8	10.4
KEC	61.0	-1.1	16.9
WTI	53.8	-1.7	18.4
Gold	1488.2	0.4	16.4

Interbank rates	%	Change (bps) 1-week	YTD
Bhibor - 3 month	2.95	0.0	-100.0
Kibor - 3 month	2.88	0.0	56.3
Qibor - 3 month	2.64	3.6	-27.0
Eibor - 3 month	2.27	-4.3	-57.0
Saibor - 3 month	2.31	0.0	-66.8
Libor - 3 month	1.97	-2.0	-84.2

Exchange rates	rate	Change (%) 1-week	YTD
KWD per USD	0.303	-0.1	-0.1
KWD per EUR	0.334	0.1	-4.2
USD per EUR	1.117	1.2	-2.6
JPY per USD	108.4	0.0	-1.0
USD per GBP	1.297	2.6	1.7
EGP per USD	16.23	0.0	-9.2

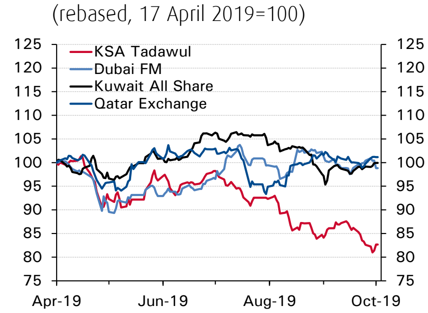
Updated on 18/10/2019 Source: Refinitiv

International equity markets
(rebased, 17 April 2019=100)



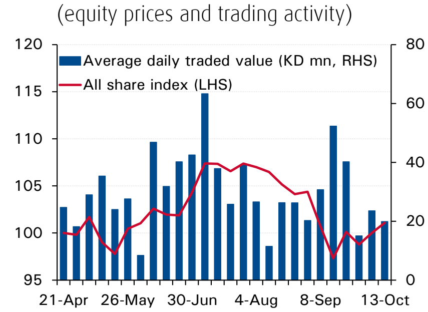
Source: Refinitiv

GCC equity markets
(rebased, 17 April 2019=100)



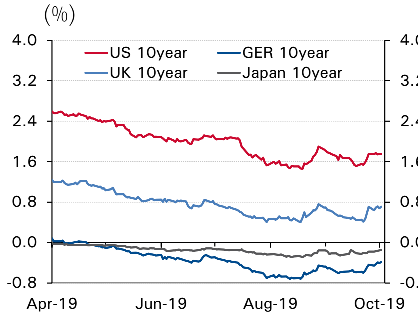
Source: Refinitiv

Boursa Kuwait
(equity prices and trading activity)



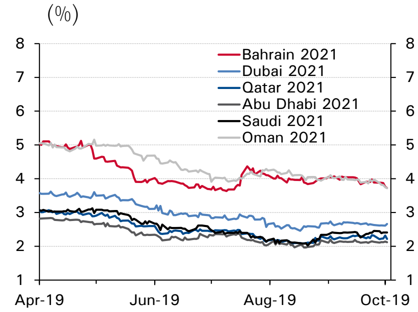
Source: Refinitiv

International bond yields
(%)



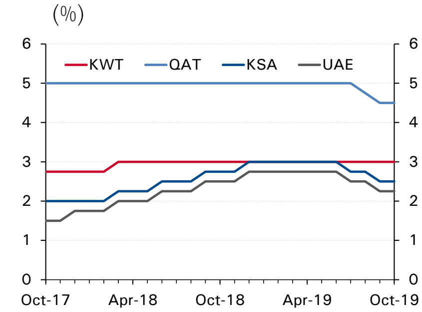
Source: Refinitiv

GCC bond yields
(%)



Source: Refinitiv

GCC key policy rates
(%)



Source: Refinitiv