Weekly Economic and Markets Review

NBK Economic Research Department I 9 September 2018

International & MENA

US threatens further China tariffs; pressures on emerging market currencies are slightly lower

Key market indicators

Stock markets	Index	Change (%) weekly	YTD
Regional			
Abu Dhabi (ADI)	4,918	-1.37	11.82
Bahrain (ASI)	1,340	0.13	0.61
Dubai (DFMGI)	2,827	-0.48	-16.13
Egypt (EGX 30)	15,803	-1.29	5.22
GCC (S&P GCC 40)	1,091	-1.37	10.84
Kuwait (All Share Index)	5,149	0.33	6.60
KSA (TASI)	7,688	-3.28	6.39
Oman (MSM 30)	4,433	0.30	-13.07
Qatar (QE Index)	9,827	-0.60	15.29
International			
CSI 300	3,278	-1.71	-18.69
DAX	11,960	-3.27	-7.42
DJIA	25,917	-0.19	4.84
Euro Stoxx 50	3,293	-2.93	-6.01
FTSE 100	7,278	-2.08	-5.33
Nikkei 225	22,307	-2.44	-2.01
S&P 500	2,872	-1.03	7.41

Bond yields	%	Change (bps) weekly	YTD
Regional			
Abu Dhabi 2022	3.42	-4.9	47.6
Dubai 2022	3.83	-0.9	68.6
Qatar 2022	3.70	13.8	62.3
Kuwait 2022	3.31	-8.9	50.6
Saudi Arabia 2023	3.73	-3.9	51.6
International			
UST 10 Year	2.94	8.9	53.1
Bunds 10 Year	0.39	5.9	-3.3
Gilts 10 Year	1.46	3.0	27.2
JGB 10 Year	0.11	0.8	6.1

3m interbank rates	%	Change (bps) weekly	YTD
Bhibor	3.53	0.0	80.0
Kibor	2.06	0.0	18.8
Qibor	2.65	0.1	-9.2
Eibor	2.63	9.1	82.7
Saibor	2.62	1.4	72.6
Libor	2.33	0.6	63.3

Exchange rates	Rate	Change (%) weekly	YTD
KWD per USD	0.303	0.06	0.48
KWD per EUR	0.350	-1.21	-1.44
USD per EUR	1.155	-0.41	-3.71
JPY per USD	111.1	0.03	-1.44
USD per GBP	1.292	-0.31	-4.37
EGP per USD	17.84	0.34	0.62

Commodities	$/unit	Change (%) weekly	YTD
Brent crude	76.8	-0.76	14.89
KEC	73.9	-1.75	16.38
WTI	67.8	-2.94	12.13
Gold	1193.6	-0.56	-8.63

Source: Thomson Reuters Datastream; as of Friday's close 7/9/2018

Overview

While pressures on emerging market currencies moderated last week, US President Trump yet again ratcheted-up the trade war rhetoric by threatening tariffs on a further $267bn in Chinese imports on top of the $200bn now lined up following the ending of a public consultation period last week. If delivered, it would see China's entire shipments to the US subject to levies.

The US continues to show strong domestic economic data. August's above-consensus climb in employment and nine-year high for wage growth cemented already-near certain expectations of a Fed rate hike later this month, and pushed up both the dollar and government bond yields. The week ahead also sees interest rate decisions by both the ECB and Bank of England, though both are expected to leave policy unchanged.

The price of Brent crude oil eased slightly last week, finishing down 0.8% w/w at just under $77/bbl albeit after two weeks of strong gains. Prices were affected by weaker sentiment towards the demand outlook due to trade tensions, but also by easing concerns over the impact on US oil platforms and refineries of Tropical Storm Gordon. The week ahead will see OPEC release figures on August production levels, providing an important signal on policy direction.

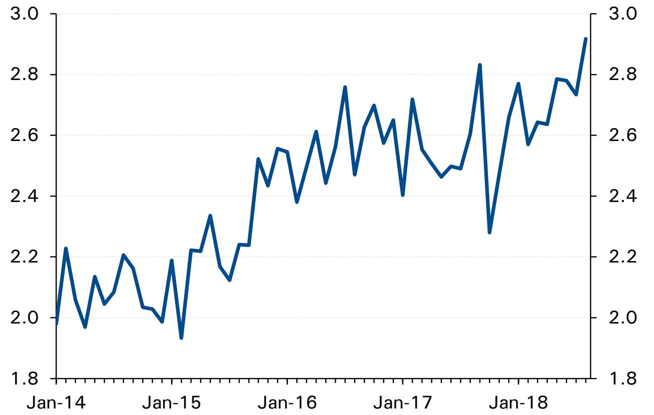
In the Gulf, the GCC MSCI index fell more than 2% w/w, led by Saudi Arabia, whose market fell more than 3% affected by continued fallout from the postponement of the Aramco IPO. Gulf economies however look fairly resilient to broader turbulence facing EMs, and forward markets are signaling no pick-up in speculative pressure on long-standing currency pegs.

International macroeconomics

USA: Labor market data at the end of the week cemented the case – already very strong – for another rate hike by the Federal Reserve later this month. Employment growth slightly beat the consensus at 201,000 in August, though came with downward revisions to previous months, and unemployment was unchanged at 3.9% on a decline in the labor force. What caught the market's attention however was the uptick in wages growth, which rose to 2.9% y/y from 2.7% in July and a nine-year high. (Chart 1.) Given the tight labor market and a pick-up in wages could boost consumer spending further and eventually filter through to higher prices.

Chart 1: US average hourly earnings

(% y/y)



Source: Thomson Reuters Datastream

Survey evidence continued to point to strong growth, but was mixed on the month. The ISM manufacturing and non-manufacturing indices both easily beat expectations, at very robust scores of 61.7 in August (58.1 in July) and 58.5 (55.7) respectively, helped by higher output and a surge in new orders. The equivalent PMI surveys, however, were cooler and pointed to a slight easing in capacity pressures.

Also of interest was the widening of the trade deficit in goods and services to $50.1 billion in July from $45.7 billion in June and its highest since February, suggesting that President Trump's protectionist policies are having little impact so far. Exports fell on the month while imports rose, though both still recorded strong annual growth of 8-9% y/y. The bilateral goods deficit with China also increased, to $36.8 billion.US

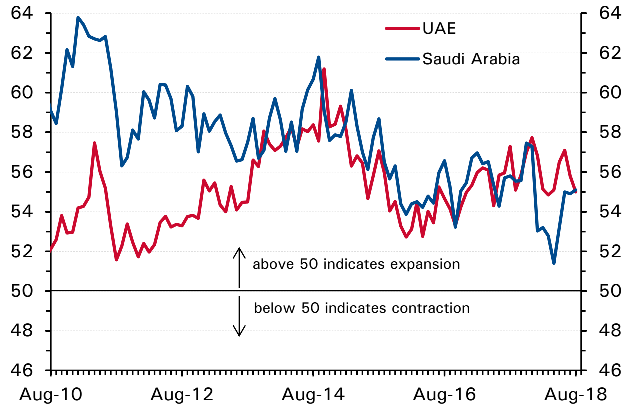
Eurozone: The Eurozone PMI, confirmed at 54.5 in August, seems to have stabilized at a new, lower, albeit still-expansionary level in recent months, after falling for most of the year. Risks to the outlook, however, are to the downside. Trade war concerns still weigh on sentiment, while other drivers of growth are showing signs of weakness. Growth in retail sales contracted in July, with the yearly pace slowing to 1.2%, the slowest since October 2017.

GCC & regional macroeconomics

Saudi Arabia: Private sector activity improved in August, with the PMI edging up slightly to 55.1 from 54.9 in July. (Chart 2.) The uptick was driven by an increase in new orders and output. Employment growth was relatively modest, however, with only 2% of firms reporting higher payroll numbers.

Chart 2: Saudi and UAE PMIs

(index)

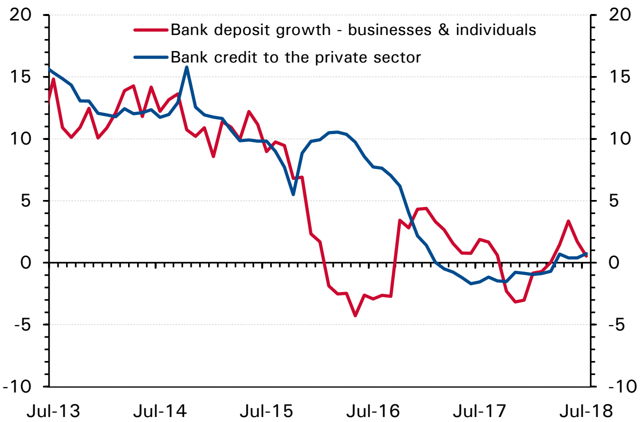


Source: Markit/Emirates NBD

Saudi monetary data for July continues to show a slow recovery in the non-oil economy. Private sector credit and deposit growth, at 0.7% y/y and 0.5% y/y in July, respectively, are still far below levels required to facilitate more robust economic growth. (Chart 3.)

Chart 3: Saudi bank pvt. credit & deposit growth

(% y/y)



Source: SAMA

UAE: The PMI eased from 55.8 in July to a five-month low of 55.0 in August. This was largely driven by a fall in new orders, including new export orders. Output, however, rose as domestic demand remained relatively strong. Employment activity witnessed its first drop on record as firms looked to contain costs. But business optimism remained quite high.

S&P lowered its credit ratings for two Dubai government-related entities due to concerns about an economic slowdown in the emirate. Dubai Electricity and Water Authority (DEWA) was downgraded by one notch to BBB with a negative outlook, and DIFC Investments was cut to BBB- with a stable outlook. Both now stand 1-2 grades above non-investment grade territory.

In Abu Dhabi, Abu Dhabi Commercial Bank (ADCB) and the Union National Bank (UNB) confirmed reports that they are in merger talks. ADCB also announced that it is in separate merger talks with Al-Hilal Bank. With combined assets totaling $110 billion, the merger of the three banks would create the fifth largest bank in the GCC region. The merger talks come on the heels of the UAE Bank Federation's latest annual report, which argued that there was still plenty of room for consolidation within the UAE banking sector.

Bahrain: Bahrain reportedly raised $500 million in a private bond sale involving five regional banks: Bank ABC in Bahrain, Emirates NBD, Sharjah Islamic Bank and Noor Bank from the UAE, and Kuwait Finance House. The sale offers the kingdom temporary financial relief as it awaits the GCC's financial support package. Funds from Bahrain's GCC neighbors are likely to be dispensed over several years and be contingent on the kingdom enacting measures to cut spending and raise non-oil revenue.

Meanwhile, Bahrain has approved a law to allow foreign companies to set up independent subsidiaries in the kingdom. The move is intended to support foreign investment inflows, create more jobs and ultimately boost economic growth.

Egypt: Egypt's non-oil sector improved slightly for the second month in a row. The PMI rose to 50.5 in August from 50.3 in July, its first time above 50 for two consecutive months since September 2015. The output index was 50 in August compared to 49.3 the previous month, while new orders and new export orders indices were both above 50 (50.8 and 51.1 respectively), suggesting further improvement in output in coming months. Price pressures started to ease after new subsidy cuts in July. The output price index stood at 55 in August compared to 57 in July, while input prices reached 67.7 from 81 before.

The finance ministry canceled three and seven-year Treasury bond sales with a total value of EGP3.5 billion ($196 million) due to interest rates required being "not within the logical limits", although it was covered 1.6 times. However the ministry downplayed the impact of emerging market turmoil on Egypt's currency which has slid just 0.5% since January, showing that economic reforms and fundamentals have largely shielded it from the crisis. Meanwhile, the Islamic Development Bank will provide Egypt with $1 billion to support the provision of basic goods, part of a $3 billion agreement.

Turkey: The Turkish lira came under further pressure last week, following the release of inflation data. Headline inflation leapt from 15.8% y/y in July to a new high of 17.9% y/y in August, propelled by a weaker lira, higher oil prices and, to some extent, higher tariffs on selected US imports. (Chart 4.) In response, the central bank signaled that its "monetary stance will be adjusted" at its policy meeting on September 13. If the bank does not deliver a large increase in the interest rate, it runs the risk of disappointing investors. However, it would be much more credible if the hike in interest rate is accompanied by a comprehensive and credible reform package.

Chart 4: Turkey headline inflation

(% y/y)

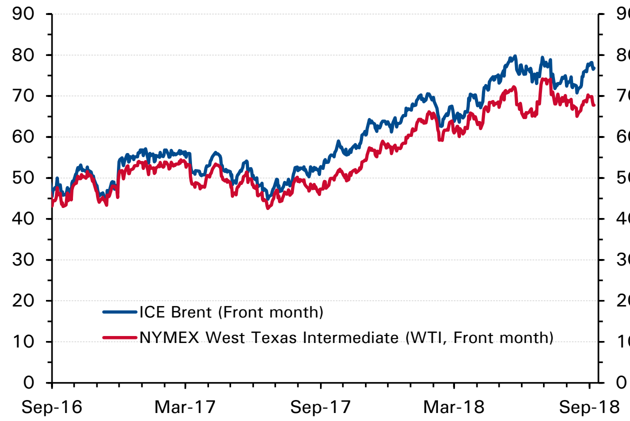
Source: Thomson Reuters Datastream

Markets – oil

Oil prices closed lower last week perhaps amid concerns that the turbulence in emerging markets would begin to negatively affect energy demand. Brent fell by 0.8% w/w to close on Friday at $76.8/bbl and WTI declined by 2.9% w/w to settle at $67.8/bbl – the US marker's biggest weekly fall since July. (Chart 5.) Markets were also affected by the increase in gasoline stocks in the US, even though overall crude stocks fell for the third week in a row (-4.3 mb to 402 mb in the w/e 31-August), which is a sign of relatively robust consumption. Moreover, the International Energy Agency said that while that weakening emerging market fundamentals might impact crude demand, they would not be a major factor; rather, the agency expects oil markets to tighten during the remainder of the year, which should help firm up oil prices.

Chart 5: Crude oil prices

($/bbl)



Source: Thomson Reuters Datastream

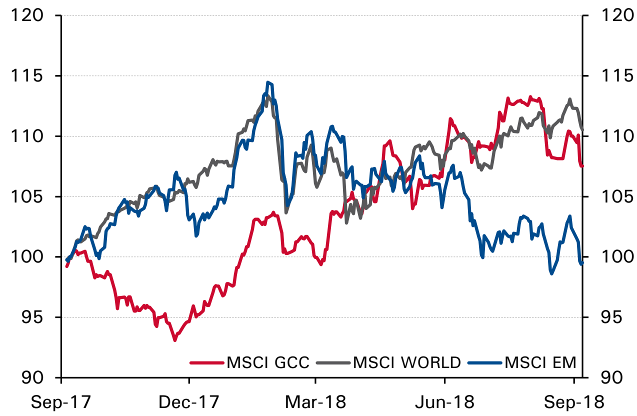
Markets – equities

International equities fell 1.7% w/w, with investors wary of trade tensions and growing emerging market turmoil. Discord over US-China trade talks offset strong US data, with the S&P and DJI both down 1% and 0.2% w/w, respectively. Emerging market concerns spread to Europe, with the Euro Stoxx 50 retreating by 2.9%, meanwhile, the MSCI EM index was down 2.6%. (Chart 6.)

Regionally, the MSCI GCC index was down 2.2% w/w, as most bourses were impacted by the international sell-off, led by Saudi (-3.3% w/w). Kuwait, on the other hand, was up 0.3% w/w, supported by buying ahead of its FTSE inclusion, slated for 24 September. (Chart 7.)

Chart 6: International equity indices

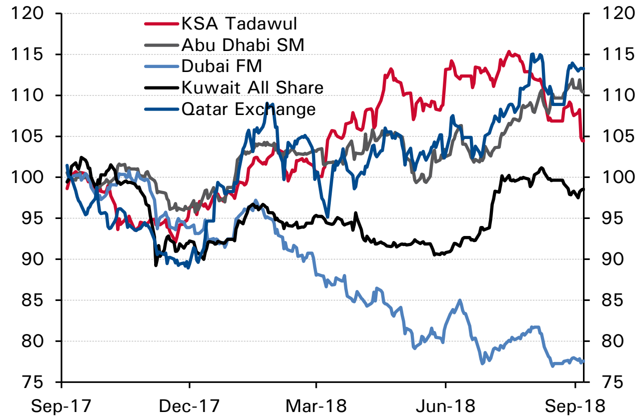
(rebased, 7 September 2017=100)



Source: Thomson Reuters Datastream

Chart 7: GCC equity markets

(rebased, 7 September 2017=100)



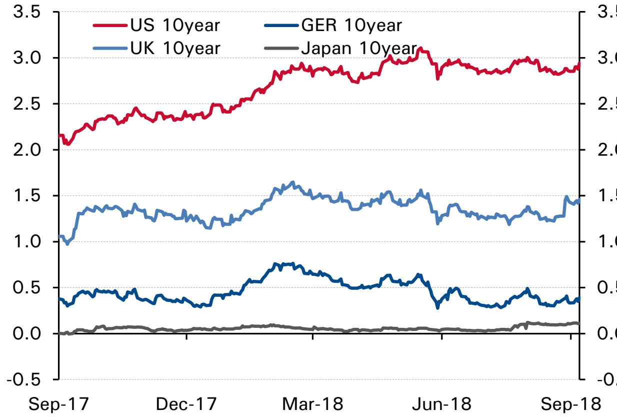
Source: Thomson Reuters Datastream

Markets – fixed income

International benchmark yields edged up last week, with US 10-year Treasury yields rising by 9 basis points, supported by a strong jobs report. In fact, the two-year Treasury yield climbed to its highest level in a decade following the report. 10-year Bund yields also came in higher last week, rising by 6 basis points, even after lower-than-expected trade and industrial production data. (Chart 8.) GCC yields were mostly down. (Chart 9.)

Chart 8: Global bond yields

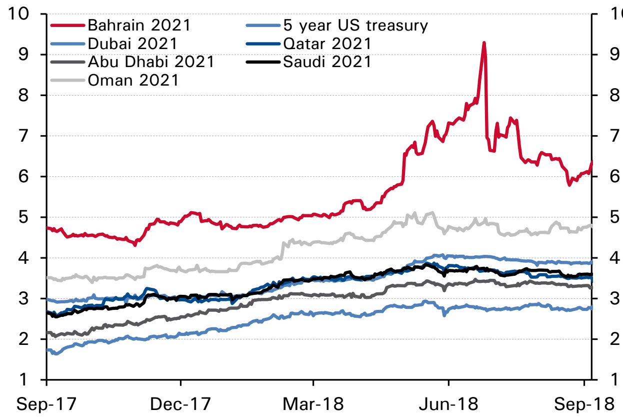
(%)



Source: Thomson Reuters Datastream

Chart 9: 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