Weekly Economic and Markets Review

NBK Economic Research Department I 15 September 2019

International & MENA

International

US: There was a chink of light on the US-China trade war, with the US delaying by two weeks the imposition of some tariffs in October, President Trump floating the possibility of an interim trade deal and China exempting some US goods from tariffs ahead of trade talks next month. On the data front, core CPI inflation came in slightly higher than expected at 2.4% y/y in August, while retail sales beat the consensus at a solid 4.1% y/y, helped by a strong rise in auto sales.

Other: In a bid to support growth and lift inflation, the European Central Bank cut its deposit rate by 10bps to -0.5%, decided to restart its asset purchase program at a rate of €20 billion per month from November and modified its forward guidance to hint at still-looser policy in future. In the UK, PM Boris Johnson's move to suspend parliament was deemed unlawful by a Scottish court, a move that if upheld by the UK Supreme Court this week could see parliament recalled and force Johnson to resign.

Financial markets: Equities rose on easing trade tensions and central bank stimulus. The MSCI AC World was up 1.2% w/w. Also, the 10-year treasury yield rose 35 bps w/w to 1.90%, reversing most of the large drop seen through August.

Oil: Brent fell 2.1% w/w to $60.2/bbl amid oversupply concerns. However prices could open higher on Monday after a drone/missile attack on a key Saudi oil processing facility allegedly by Iranian-backed Houthi rebels knocked out almost half (5.7 mb/d) of the kingdom's oil production on Saturday.

MENA Region

Kuwait: The budget recorded a surplus of KD0.7 billion in the first four months of FY2019/20 (to July), and were broadly in balance after transfers to the Fund for Future Generations. Spending was up a very strong 26% y/y to KD5.6 billion on a big rise in current spending, while revenues fell 5% y/y due to softer oil revenues (linked to lower oil prices). Meanwhile credit growth slowed to 4.2% y/y in July from 4.8% in June, on softer business lending. Consumer lending accelerated to 25% in July y/y but housing loan growth rose to 5.6%. Finally, real estate sales in August stood at KD140 million, the weakest this year but still a 6% rise y/y. The decline is partly seasonal, and may also be linked to the Eid al Adha holiday.

Saudi Arabia: The IMF expects Saudi non-oil growth to rise to 2.9% in 2019 from 2.1% in 2018, as government spending increases and confidence improves. But with oil prices soft and spending elevated, the fiscal deficit will widen to 6.5% of GDP in 2019, necessitating tighter control of public finances. The IMF advised reining in the wage bill, slowing capex spending growth and extending subsidy cuts. The IMF also suggested raising the fees on expatriates and the VAT rate to 10%. However, the authorities did not agree with all IMF's recommendations.

Bahrain: The fiscal deficit fell 38% y/y in 1H19 (to 3.4% of GDP), amid cost-cutting and revenue-boosting reforms under the Fiscal Balance Program. The pick-up in non-oil revenues by 19% was helped by the introduction of VAT this year.

Egypt: Inflation fell in August to the lowest in years, at 7.5% from 8.7% in July, despite the recent increase in electricity and fuel prices. Core inflation also decelerated from 5.9% y/y to 4.9% y/y in July. Meanwhile, Egypt plans to issue international bonds worth $3-7 billion in different currencies in FY19/20, to improve the debt structure and reduce borrowing costs.

Turkey: The central bank cut interest rates by 325bps to 16.5% to prop up a slowing economy and amid a moderation in inflation. This was the second cut in two months and further, albeit smaller cuts are likely before year-end.

Financial markets: GCC equities were negative on declining oil prices and overvaluation concerns. The MSCI-GCC lost 2.2% w/w led by declines in Saudi (-2.8%) and Kuwait (-3.5%).

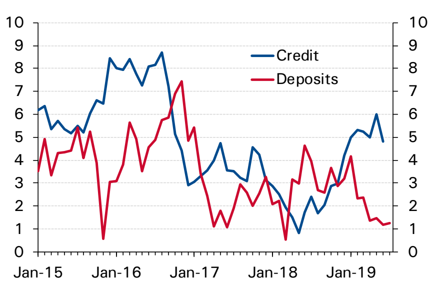
Key takeaways:

- While consumer data remains positive and there are hopes of a de-escalation of the trade war, a 25bps rate cut by the Fed still looks most likely this week. Updated Fed forecasts could indicate that the growth outlook remains broadly favorable.
- The ECB's policy easing was contentious and attracted unusually open criticism even from some ECB board members concerned about the impact on financial stability. This could raise doubts about commitment to the policy after bank president Mario Draghi leaves next month.
- While Kuwait recorded a budget surplus in the early part of this year, we still expect a full-year deficit as spending typically picks up in later months. The large y/y rise in spending so far is skewed by an unusually soft start to spending last year.
- The continued deceleration of inflation in Egypt will likely push the CBE to cut its policy rate again at its next meeting on September 26. A cut of at least 100bps cut is expected.

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

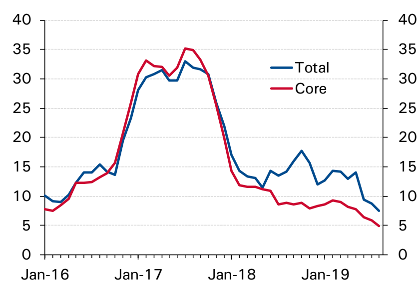
Source: Refinitiv

Chart 2: Kuwait bank credit/deposits
(% y/y)



Source: Refinitiv / CBK

Chart 3: Egypt inflation
(% y/y)



Source: Refinitiv

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,972	0.6	31.9
DAX	12,469	2.3	18.1
DJIA	27,220	1.6	16.7
Eurostoxx 50	3,550	1.6	18.3
FTSE 100	7,367	1.2	9.5
Nikkei 225	21,988	3.7	9.9
S&P 500	3,007	1.0	20.0
Regional			
Abu Dhabi SM	5,096	-0.4	3.7
Bahrain ASI	1,547	-0.3	15.7
Dubai FM	2,888	-0.1	14.2
Egypt EGX 30	15,110	1.2	15.9
S&P GCC 40	1,205	-0.4	9.5
Kuwait SE	5,746	-3.5	13.1
KSA Tadawul	7,832	-2.8	0.1
Muscat SM 30	4,020	0.6	-7.0
Qatar Exchange	10,462	2.0	1.6

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.90	34.9	-79.2
Bunds 10 Year	-0.45	18.0	-69.9
Gilts 10 Year	0.76	25.5	-50.9
JGB 10 Year	-0.16	8.9	-15.7
Regional			
Abu Dhabi 2022	2.07	13.4	-123.1
Dubai 2022	2.65	7.6	-127.5
Qatar 2022	2.20	14.1	-124.7
Kuwait 2022	2.10	14.4	-122.4
KSA 2023	2.42	26.5	-145.4

Commodities	$/unit	Change (%)	
		1-week	YTD
Brent crude	60.2	-2.1	11.9
KEC	59.6	3.4	14.2
WTI	54.9	-3.0	20.8
Gold	1490.9	-1.0	16.6

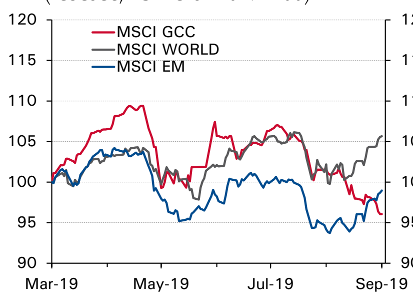
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	2.99	-4.2	-95.8
Kibor - 3 month	2.81	0.0	50.0
Qibor - 3 month	2.73	-4.9	-17.5
Eibor - 3 month	2.31	-6.0	-52.3
Saibor - 3 month	2.39	-0.9	-58.9
Libor - 3 month	2.12	1.6	-68.9

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.2
KWD per EUR	0.336	0.3	-3.5
USD per EUR	1.107	0.4	-3.5
JPY per USD	108.1	1.1	-1.4
USD per GBP	1.250	1.8	-2.0
EGP per USD	16.37	-0.5	-8.3

Updated on 13/9/2019 Source: Refinitiv

International equity markets

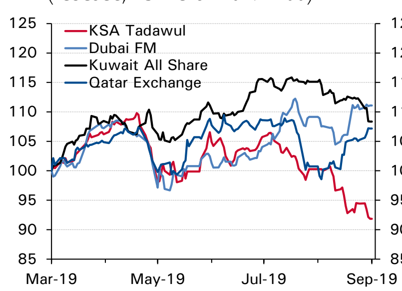
(rebased, 13 March 2019=100)



Source: Refinitiv

GCC equity markets

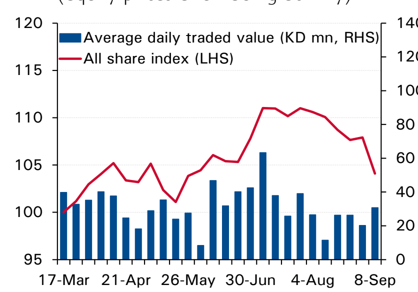
(rebased, 13 March 2019=100)



Source: Refinitiv

Boursa Kuwait

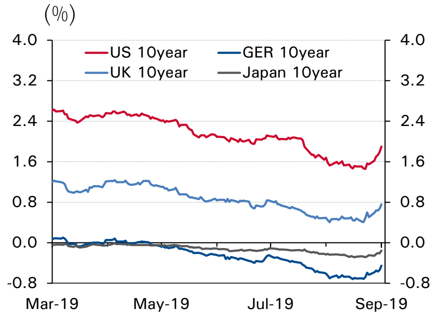
(equity prices and trading activity)



Source: Refinitiv

International bond yields

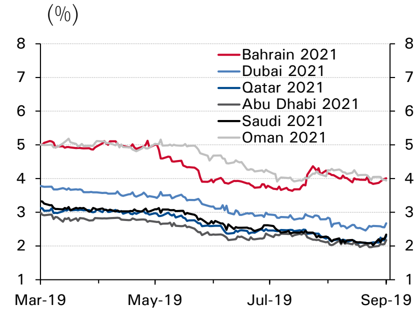
(%)



Source: Refinitiv

GCC bond yields

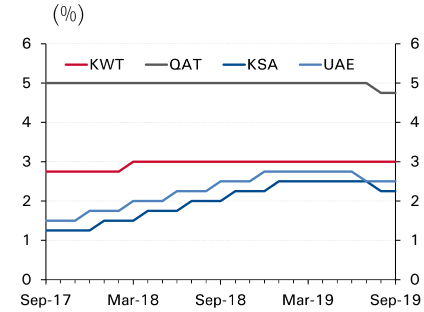
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv