

Weekly Economic and Markets Review

NBK Economic Research Department | 11 November 2018



International & MENA

Equity markets rally after US mid-terms; Brent crude falls to \$70 weighed by oversupply concerns

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	5,029	2.20	14.33
Bahrain (ASI)	1,313	0.00	-1.39
Dubai (DFMGI)	2,826	0.74	-16.15
Egypt (EGX 30)	13,733	4.02	-8.57
GCC (S&P GCC 40)	1,137	2.20	15.51
Kuwait (All Share Index)	5,104	0.68	5.66
KSA (TASI)	7,743	-1.73	7.16
Oman (MSM 30)	4,490	1.47	-11.95
Qatar (QE Index)	10,368	0.85	21.64
International			
CSI 300	3,167	-3.73	-21.42
DAX	11,529	0.09	-10.75
DJIA	25,989	2.84	5.14
Euro Stoxx 50	3,229	0.47	-7.83
FTSE 100	7,105	0.16	-7.58
Nikkei 225	22,250	0.03	-2.26
S&P 500	2,781	2.13	4.02
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2022	3.67	-1.2	72.5
Dubai 2022	4.06	-7.3	91.9
Qatar 2022	3.78	2.8	70.5
Kuwait 2022	3.67	-0.2	86.5
Saudi Arabia 2023	4.15	-4.2	93.5
International			
UST 10 Year	3.19	-2.5	77.8
Bunds 10 Year	0.41	-2.6	-1.4
Gilts 10 Year	1.49	-0.1	30.4
JGB 10 Year	0.12	-0.7	7.1
3m interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.75	5.0	102.5
Kibor	2.06	0.0	18.8
Qibor	2.84	2.0	10.2
Eibor	2.73	1.1	92.9
Saibor	2.79	1.6	89.1
Libor	2.61	3.3	92.0
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.304	0.13	0.81
KWD per EUR	0.345	-0.52	-2.87
USD per EUR	1.133	-0.45	-5.52
JPY per USD	113.8	0.57	1.02
USD per GBP	1.297	0.03	-3.98
EGP per USD	17.79	-0.39	0.34
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	70.2	-3.64	4.95
KEC	68.6	-7.93	8.03
WTI	60.2	-4.67	-0.38
Gold	1206.4	-1.99	-7.65

Source: Thomson Reuters Datastream; as of Friday's close 9/11/2018

Overview

Although the economic implications of the US mid-term election results are unclear, US markets reacted broadly positively with equities seeing a 'relief' rally of more than 2% last week and benchmark 10-year bond yields little changed. The latter was helped by the assumption that President Trump will now face greater congressional opposition to further tax cuts, thereby limiting any increase in the fiscal deficit. As expected, the Federal Reserve kept interest rates on hold in November, while expectations for another hike in December and further gradual tightening next year are unchanged.

The price of Brent crude oil fell for the fifth week in a row, dropping nearly 4% to \$70/bbl, having dipped below \$70 in intra-day trade. It is now 19% below its early-October high – close to the 'bear market' threshold of 20%. The fall has been exacerbated by strong supply side news, with the US granting temporary sanctions waivers to some large purchasers of Iranian crude and US production hitting a record 11.6 million b/d in early November and set to exceed 12 mb/d by Q2 next year. The plunge in prices has triggered speculation that OPEC could return to production cuts next year to support the market.

In the GCC, the latest batch of PMI releases were little changed in October, at 54 for Saudi Arabia and 55 for the UAE, indicating moderate growth in the non-oil private sector. Perhaps the stand-out feature however was the rise in the business confidence component to a 58-month high in Saudi and a series high in the UAE, the latter partly reflecting Expo 2020-related investment spending. It was a different story in Egypt, where the PMI remained below the 50 'no change' mark, despite official growth remaining at a robust 5.3% y/y in 3Q18.

International macroeconomics

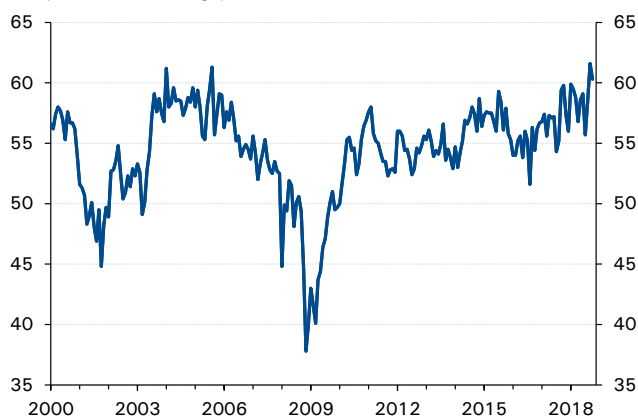
USA: The economic implications of the congressional elections – which saw the Democrats take control of the House of Representatives but the Republicans strengthen their hold on the Senate – are as yet unclear. One view is that a divided Congress will limit the Trump administration's scope to pursue economy-boosting measures including tax cuts. But Trump could strike a deal with Democrats to boost infrastructure spending, especially if the economy shows signs of slowing

next year. Moreover, signs of policy deadlock or reduced fiscal stimulus could see the Federal Reserve moderate the pace of monetary tightening through 2019. As expected, the Fed left rates on hold at its policy meeting last week, but is due to hike in December and at least three times next year.

US equities rallied more than 2% d/d following the election results while bond yields were little changed, amid relief that the elections were out of the way and relative optimism on the economic fallout.

In a quieter week for economic data, the ISM non-manufacturing index of activity eased back to a still-strong 60.3 in October, only partially reversing September's surge to a record high. (Chart 1.) The equivalent – but typically less bullish – PMI services index rose to a very solid 54.8. New orders components were strong in both surveys, implying a positive outlook, despite concerns over higher costs due to tariffs. Meanwhile the University of Michigan's consumer sentiment measure edged down fractionally to 98.3 in the preliminary reading for November.

Chart 1: US ISM non-manufacturing activity
(index, 50=no change)



Source: Thomson Reuters Datastream

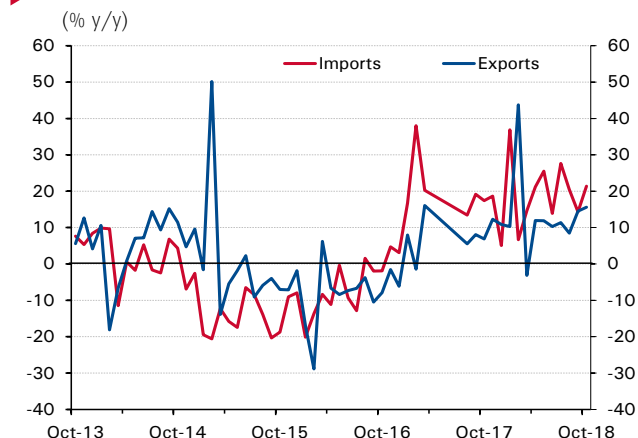
Eurozone: Eurozone September retail sales eased to 0.8% y/y from 1.3% the previous month, lending further credence to the view that growth in the region is softening overall.

Meanwhile, Italy and the EU are still at loggerheads, with the European Commission disputing in its latest forecasts the growth assumptions underlying Italy's expansionary budget. According to the commission's numbers, which project more modest growth, Italy will breach the EU's deficit limit of 3% by 2020. Brussels has given Rome until November 13 to resubmit its tax and spending proposals.

China: October Chinese trade figures were higher than expected, with export growth rising to 15.6% y/y from 14.5% y/y in September, defying expectations of a slowdown caused by the US tariffs dispute. (Chart 2.) The surprise uptick in export

growth may have been supported by the ongoing weakness in the local currency as well as by a frontloading of export orders ahead of the imposition of a further round US tariffs at the start of 2019. Meanwhile, import growth jumped from 14.3% y/y in September to 21.4% y/y in October.

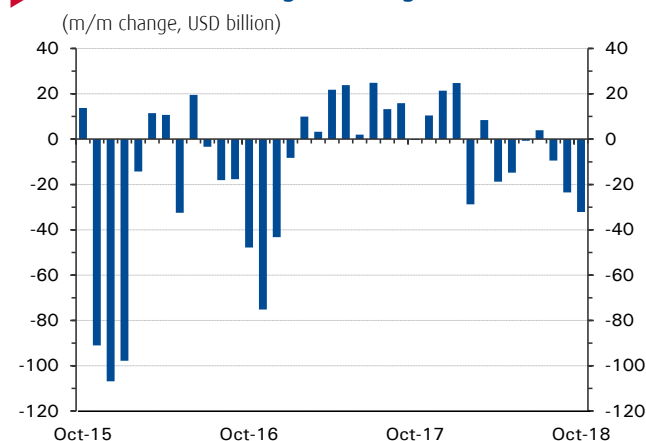
Chart 2: China international trade



Source: Thomson Reuters Datastream

Foreign exchange reserves at China's central bank fell by \$34 billion m/m in October to \$3.1 trillion (compared to a decline of \$23 billion m/m in September), the biggest monthly drop since December 2016. This was due to capital outflows and currency market interventions. (Chart 3.)

Chart 3: China foreign exchange reserves



Source: Thomson Reuters Datastream

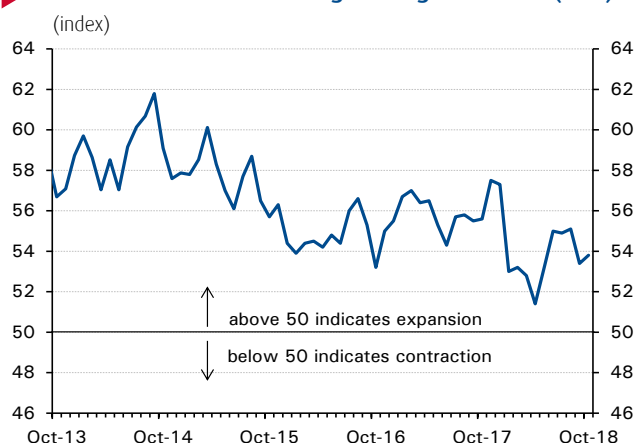
GCC & regional macroeconomics

Kuwait: The Central Bank of Kuwait adjusted its lending regulations, bringing them in line with recent economic developments. Borrowers can now borrow up to 25 times their income or a maximum of KD 25,000, up from 15 times or maximum of 15,000 KD. The central bank will also now only require proof of purchase documents for housing-related loans, relaxing restrictions on borrowing for non-housing purposes.

Growth in consumer spending edged up in October to 2.6% y/y from 2.4% the previous month, helped by the return of travelers and the beginning of a new academic year. The pick-up was led by strong auto sales (+13% m/m). Consumption of services (+1.7% m/m) was modest, while non-durable spending (-0.5%) declined for a third consecutive month. The latter has struggled to maintain the strong momentum it experienced earlier in the year. Nonetheless, despite the overall softer dynamic, a moderate rebound in spending is still projected and it is seen finishing the year up 4-5% helped by strong confidence, good jobs growth and low inflation.

Saudi Arabia: Business activity in the non-oil private sector improved slightly in October, according to the latest PMI. The headline rate increased to 53.8 from 53.4 in September, helped by gains in domestic and foreign business. (Chart 4.) Employment growth also improved as firms took on more staff to meet stronger demand. Firms were also more positive about the business outlook over the coming year.

► **Chart 4: Saudi Purchasing Managers' Index (PMI)**



Source: Emirates NBD/Markit

UAE: In a bid to bolster foreign direct investments, a new law granting selected companies (mainly in the manufacturing and service sectors) 100% foreign ownership came into force last week. Previously, all foreign companies interested in opening up a subsidiary in the UAE would have to establish a joint-partnership with a UAE national who would be entitled to a 51% share of the company. The UAE has upped its efforts to boost inward investment over the past couple of months in an attempt to diversify its financing options away from public funding, including issuing a new law to establish a Foreign Direct Investment Unit that will be responsible for administering investment in the country. The authorities also approved a 10-year visa for highly skilled expatriates to make the country a more attractive destination for talented workers.

The PMI eased slightly from 55.3 in September to 55.0 in October, on the back of a slowdown in export orders. But the

continued strength in output data supported the overall index, thanks to an ongoing improvement in domestic demand.

Egypt: Egypt's economy expanded about 5.3% y/y in 3Q18, which is the first quarter of FY2018/19. This growth was supported by an improvement in the gas, communications and construction sectors as well as Suez Canal activity. However, the latest PMI showed that business activity slowed slightly in October. In fact, after a brief period in expansionary territory in July and August, the PMI fell to 48.6 from 48.7 in September the lowest reading of 2018. This indicates that there remains some weakness in Egypt's economic recovery, as the reform program continues.

Inflation continued to rise, reaching 17.7% y/y in October from 16% in September on higher prices for vegetables, fruit, fuel and medicine. The rise was greater than expected and increases the chance for a policy rate hike by the Monetary Policy Committee at its next meeting (15 November). In addition, the bank said that it will begin targeting inflation next year, and not go back to a fixed exchange rate regime. Meanwhile, foreign currency reserves increased slightly to \$44.5 billion in October, covering nine months of imports.

Turkey: Turkey's headline inflation rate continued to climb in October, rising above 25% y/y amid continued weakness in the lira. The central bank now expects inflation to come in at 23.5% by year-end, which is a sizeable upward revision over its earlier forecast of 13.4% and significantly higher than its 5% inflation target. (Chart 5.)

► **Chart 5: Turkey headline inflation**



Source: Thomson Reuters Datastream

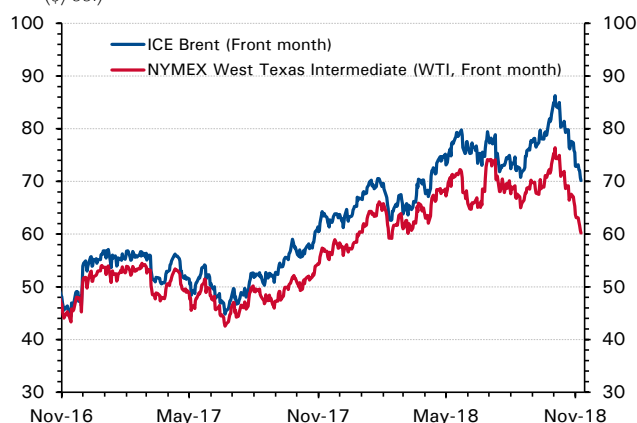
Markets – oil

Oil prices fell further last week, with Brent and WTI closing down on Friday for the fifth consecutive week, at \$70.2/bbl (-3.6% w/w) and \$60.2/bbl (-4.7% w/w), respectively. (Chart 6.) The market continues to be roiled by oversupply concerns against a backdrop of weaker global oil demand projections,

and by the recent US decision to grant temporary sanction waivers to Iran's major crude customers. Adding to the downward pressure on the oil price is rising OPEC output (estimated at 33.3 mb/d in October) and record US crude production of 11.6 mb/d amid a seventh consecutive week of crude stock builds (w/e 2 November). Oil prices have now dropped by more than 21% for WTI since early October. OPEC is reportedly considering reversing its production increases of the last few months to bring the market closer to a new balance.

▶ Chart 6: Crude oil prices

(\$/bbl)



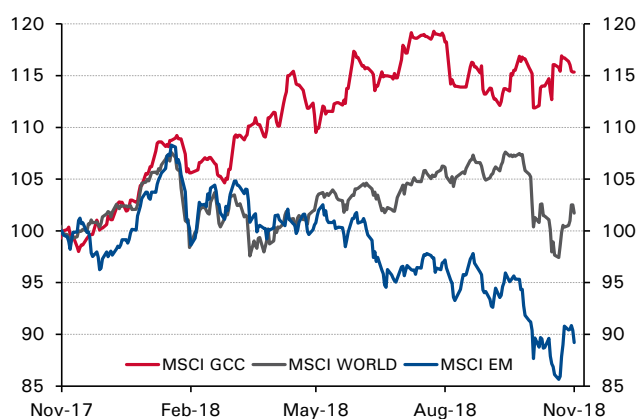
Source: Thomson Reuters Datastream

Markets – equities

The MSCI AC world index ended the week up 1.0% w/w, but growth worries still weigh. US stocks locked in solid gains as the mid-term elections played out as expected, helping the S&P and the DJI increase by 2.1% and 2.8 w/w, respectively. Meanwhile, EU political concerns saw the Eurostoxx 50 rise slightly by 0.5% w/w, and fears of a Chinese slowdown dragged the MSCI EM index down 1.7% w/w. (Chart 7.)

▶ Chart 7: International equity indices

(rebased, 9 November 2017=100)

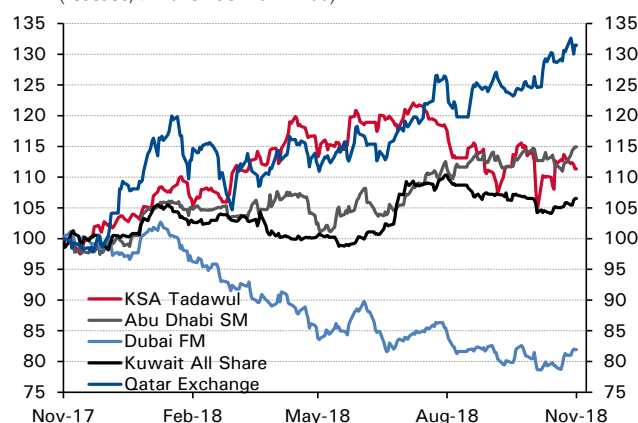


Source: Thomson Reuters Datastream

Regional equity markets underperformed, with the MSCI GCC index down 1.2% w/w, due to a sell-off of Saudi equities (-1.7%). However, most other regional markets performed well, supported by strong corporate earnings. (Chart 8.)

▶ Chart 8: GCC equity markets

(rebased, 9 November 2017=100)



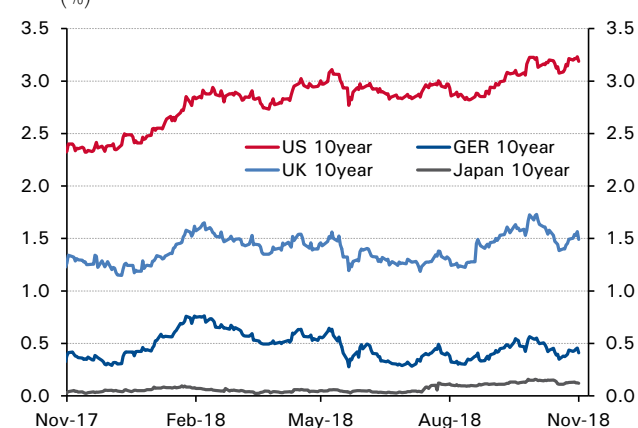
Source: Thomson Reuters Datastream

Markets – fixed income

International yields were little changed following the US mid-term elections and the political deadlock in Europe. US 10-year yields edged down 3 bps to 3.19%, as investors mulled the implications of a divided US congress on trade and fiscal policy. In Europe, the Italian budget face-off with the EU shaved 3 bps off 10-year Bunds, to settle at 0.41%. (Chart 9.) Regional GCC bonds were mostly lower by up to 7 bps.

▶ Chart 9: Global 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