

# Weekly Economic and Markets Review

NBK Economic Research Department | 12 August 2018



## International & MENA

# Plunge in Turkish lira triggers flows into US dollar; oil prices edge down on trade war concerns

## Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
<b>Regional</b>			
Abu Dhabi (ADI)	4,872	1.26	10.77
Bahrain (ASI)	1,350	0.03	1.34
Dubai (DFMGI)	2,920	-1.81	-13.35
Egypt (EGX 30)	15,924	0.74	6.03
GCC (S&P GCC 40)	1,119	1.26	13.67
Kuwait (All Share Index)	5,281	1.44	9.32
KSA (TASI)	8,176	-0.94	13.14
Oman (MSM 30)	4,431	2.42	-13.10
Qatar (QE Index)	9,887	-0.95	16.00
<b>International</b>			
CSI 300	3,405	2.71	-15.53
DAX	12,424	-1.52	-3.82
DJIA	25,313	-0.59	2.40
Euro Stoxx 50	3,426	-1.61	-2.22
FTSE 100	7,667	0.10	-0.27
Nikkei 225	22,298	-1.01	-2.05
S&P 500	2,833	-0.25	5.97
<b>Bond yields</b>			
	%	Change (bps)	
		weekly	YTD
<b>Regional</b>			
Abu Dhabi 2022	3.49	-1.6	54.3
Dubai 2022	3.87	2.5	73.3
Qatar 2022	3.62	-2.6	54.3
Kuwait 2022	3.47	-1.6	66.3
Saudi Arabia 2023	3.82	-1.6	60.3
<b>International</b>			
UST 10 Year	2.86	-9.3	44.8
Bunds 10 Year	0.32	-8.5	-10.1
Gilts 10 Year	1.24	-8.6	5.5
JGB 10 Year	0.10	-0.7	5.4
<b>3m interbank rates</b>			
	%	Change (bps)	
		weekly	YTD
Bhibor	3.53	2.5	80.0
Kibor	2.00	-6.3	12.5
Qibor	2.63	-1.4	-10.8
Eibor	2.58	1.3	77.7
Saibor	2.61	0.0	71.0
Libor	2.34	-0.2	64.4
<b>Exchange rates</b>			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.303	0.13	0.57
KWD per EUR	0.347	-1.45	-2.20
USD per EUR	1.141	-1.36	-4.88
JPY per USD	110.9	-0.30	-1.55
USD per GBP	1.277	-1.83	-5.51
EGP per USD	17.85	0.03	0.65
<b>Commodities</b>			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	72.8	-0.55	8.88
KEC	71.1	0.01	11.94
WTI	67.6	-1.26	11.93
Gold	1211.1	-0.26	-7.29

Source: Thomson Reuters Datastream; as of Friday's close 10/8/2018

## Overview

In a quiet week for data in developed economies attention swung to the Turkish lira, which plunged 20% against the US dollar as the crisis in the country – caused by a large external deficit and high inflation, which, contrary to expectations, did not result in an interest rate hike – intensified. On top of that the announcement of a doubling of tariffs on steel and aluminum by the US added fuel to the fire. The turmoil triggered flows into safe haven assets, while also fueling concern over the exposure of key European banks to Turkey. The trade-weighted US dollar jumped nearly 1% on Friday to its strongest in more than a year, while the US government 10-year bond yield fell sharply to 2.86%.

Meanwhile, amid its escalating trade war with the US, China announced that it would levy tariffs on additional \$16 billion worth of US imports of autos and energy products from late August, in retaliation against a similar move by the US. The hard line stance of both sides suggests little prospect of a near-term resolution to the dispute.

Brent crude oil prices fell again last week – ending down 0.5% at \$73/bbl – on a combination of concerns over the US-China trade war and a smaller than expected draw in US crude inventories. The IEA however claimed that despite an easing in near-term price pressures, the impact of falling oil production in both Venezuela and Iran – the latter as US sanctions take effect from November – could make keeping the global oil market well-supplied “very challenging” later this year.

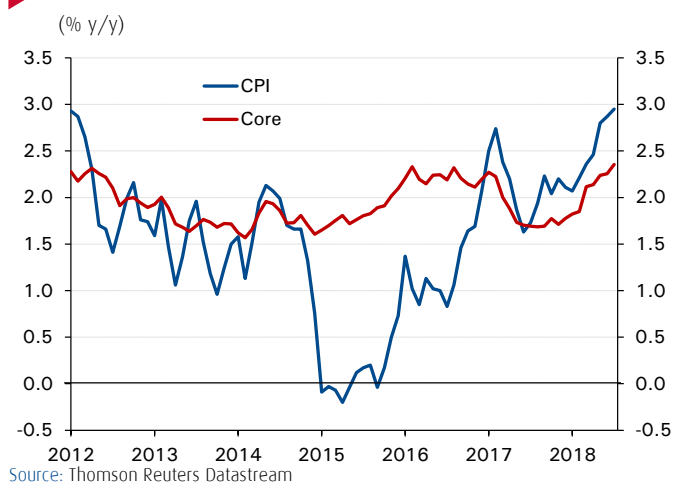
In the Gulf, PMI indicators for Saudi Arabia and the UAE pointed to easing, but still very solid growth at the start of the third quarter. Meanwhile there was confirmation of the beneficial impact of rising oil prices on Saudi's fiscal position, with the deficit shrinking to SAR7.4 billion in 2Q18 from SAR 34 billion in 1Q18, leaving a 1H18 deficit of around 3% of GDP.

## International macroeconomics

**USA:** Inflation as measured by the consumer price index – less closely watched than the alternative personal consumption expenditure deflator measure – rose as expected by 2.9% y/y in July, unchanged from June. (Chart 1.) The core (ex-energy and food) measure, however, edged up to 2.4% y/y on rising

housing costs, and its fastest pace since 2008. The rise in core pressures will likely encourage the Federal Reserve – which had previously expressed surprise over low inflation readings – to push ahead with two further interest rate hikes this year. Meanwhile producer price inflation excluding food and energy edged down to in July to 2.7%, but will remain closely watched given strong economic growth and tariff-related pressures.

▶ **Chart 1: US inflation**

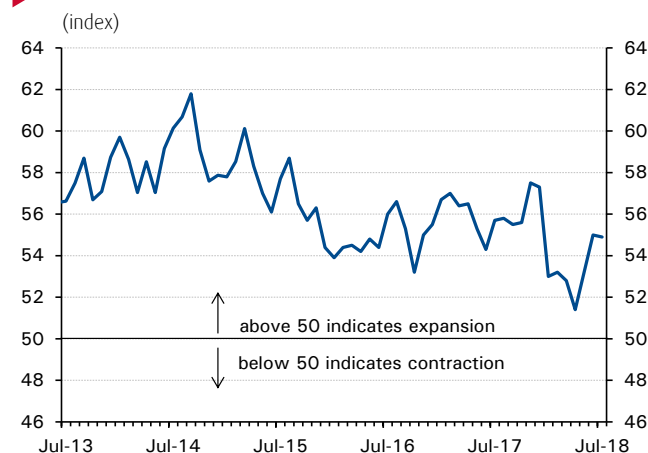


## GCC & regional macroeconomics

**Kuwait:** Revised figures show that Kuwait’s economy retreated by a smaller-than-expected 2.9% in 2017 thanks to stronger refining activity. Overall non-oil growth rose 2.2%, revised down from an initial estimate of 3.3%. Meanwhile, final estimates for 2016 also reported softer non-oil growth – 1.6% versus a previous 2.0% – due to weakness in the construction, transport, financial, and real estate sectors. We expect further gradual improvement in non-oil growth this year, to 3.0%, supported by capital spending, higher oil prices and firmer confidence.

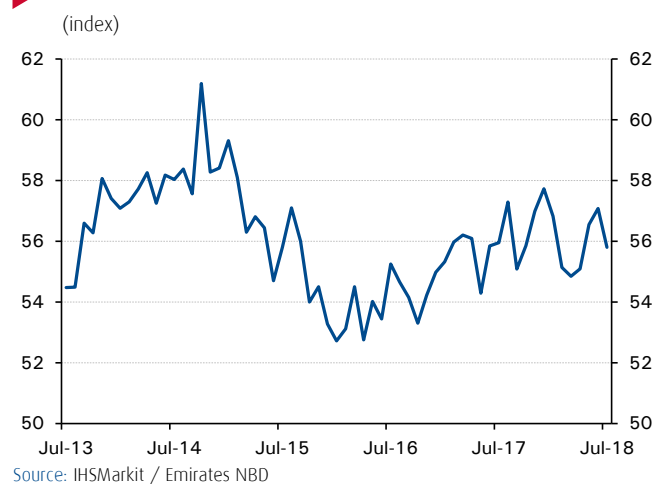
**Saudi Arabia:** Despite a slight decrease from 55.0 in June to 54.9 in July, the PMI of non-oil private sector activity remained broadly in line with the two-year trend, and above the average seen since the VAT introduction at the beginning of the year. (Chart 2.) On the fiscal front, 2Q 2018 showed an improvement helped by an oil price recovery and more efficient spending control. Total revenues reached SAR 274 billion, up 67% y/y on higher oil (+82% y/y) as well as non-oil revenues (+42% y/y). Meanwhile, total expenditures reached SAR 281 billion, up 34% y/y, which led to a reduction in the budget deficit to SAR 7.4 billion from SAR 34.3 billion in the first quarter. The combined 1H18 deficit came in at around one-fifth of the government’s full-year SAR195 billion forecast and in annualized terms equivalent to around 3% of our forecast for GDP.

▶ **Chart 2: Saudi PMI**



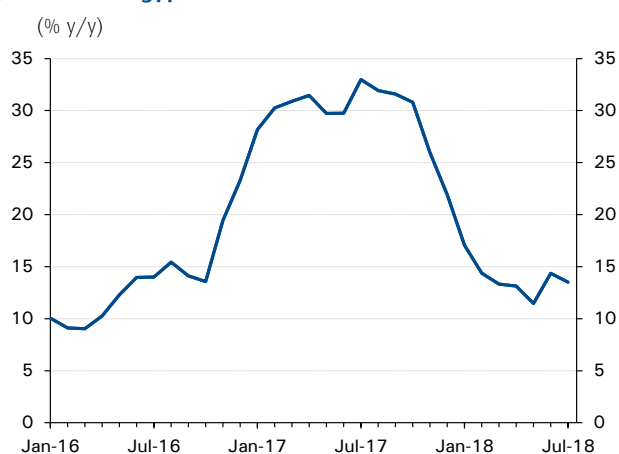
**UAE:** The PMI fell to 55.8 in July from 57.1 in June, signaling a moderation in the rate of growth in the non-oil private sector at the start of the third quarter. (Chart 3.) However the figure was in line with average performance in the first half of the year, and still well above the 50 ‘no change’ mark. The easing in the headline figure was due principally to declines in the output and new orders components, which nevertheless remained very robust at 61.9 and 60.6, respectively, in July.

▶ **Chart 3: UAE PMI**



**Egypt:** Despite continued measures to reduce government spending, Egypt’s foreign debt has climbed more than 10% in less than a year, to \$88 billion in March 2018. The external debt-to-GDP ratio reached 37%, which is still considered within safe limits and in line with the international standards, according to Central Bank of Egypt. Meanwhile, inflation fell to an annual 13.5% in July from 14.4% in June, while core inflation rate fell to 8.5% y/y in July from 10.9% in June. (Chart 4.) Egypt has hiked fuel, electricity and transportation prices over the past two months in line with its commitment under the \$12 billion IMF loan program.

▶ **Chart 4: Egypt inflation**



Source: Thomson Reuters Datastream

**Turkey:** Turkey's lira plunged on concerns over the economy and as tensions between it and the US escalated. The lira lost 20% of its value over the span of a week (chart 5), highlighting the growing financial turmoil affected by its dispute with the US culminating in the imposition of sanctions and trade tariffs. The lira is down 41% year-to-date, also hit by rising US interest rates and a stronger dollar. The growing pressure on the lira is adding to concerns over the public and private sectors' ability to service their considerable foreign debt obligations, and has pushed Turkey's CDS rate to 341 bps. The fall in the Lira raised concerns about some European banks large exposure to Turkey where the shares of three banks (BBVA, Paribas, and Creditbank) dropped between 3-5%. These developments rippled through other emerging countries that saw their currencies hit.

▶ **Chart 5: Turkish lira per USD**



Source: Thomson Reuters Datastream

## Markets – oil

The price of Brent crude fell again last week, down 0.5% w/w to \$72.8/bbl despite a Friday rally on concerns over the crisis in Turkey, a key transit point for international oil trade. (Chart 6.) Earlier in the week, Brent had dropped 3% in one day on the escalating trade war between the US and China – which threatens oil demand – along with weak Chinese crude imports and a smaller-than-anticipated drop in US crude inventories.

In its latest oil market bulletin, the International Energy Agency argued that while the global oil market remains well supplied in the short term, that could change as US sanctions on Iran are reapplied in November. The US administration said it would seek to cut Iranian oil exports to zero, although China – will continue to buy around one-third of Iran's 2.1 million b/d of crude exports. European governments have also committed to maintaining trade and investment relations with Iran, though European oil firms are unlikely to want to risk falling foul of US regulations.

▶ **Chart 6: Brent crude oil price**



Source: Thomson Reuters Datastream

## Markets – equities

International markets eased last week, as trade tensions and punitive US sanctions dragged sentiment down, shaving 0.4% from the MSCI AC world index for its second consecutive weekly retreat. Concerns over US and European banks' exposure to the turmoil in Turkey caused the S&P 500 and the Euro Stoxx 50 to decline 0.2% and 1.6% w/w, respectively. Growing trade tensions, on the other hand, dragged the DJI - 0.6% w/w. Meanwhile, the MSCI EM was flat, as a rise in emerging markets earlier in the week, led by Chinese equities, helped offset the sell-off that ensued. (Chart 7.)

Regionally, the MSCI GCC index was down 0.7% w/w, as Saudi, Dubai, and Qatar were impacted by the global sell-off, while Kuwait and Abu Dhabi moved higher. (Chart 8.)

**Chart 7: International equity indices**

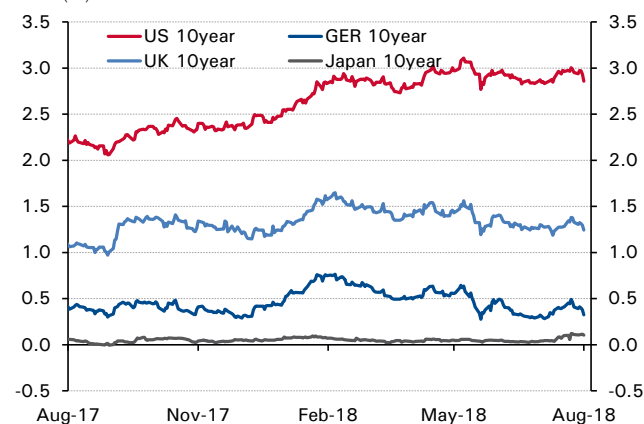
(rebased, 10 August 2017=100)



Source: Thomson Reuters Datastream

**Chart 9: Global bond yields**

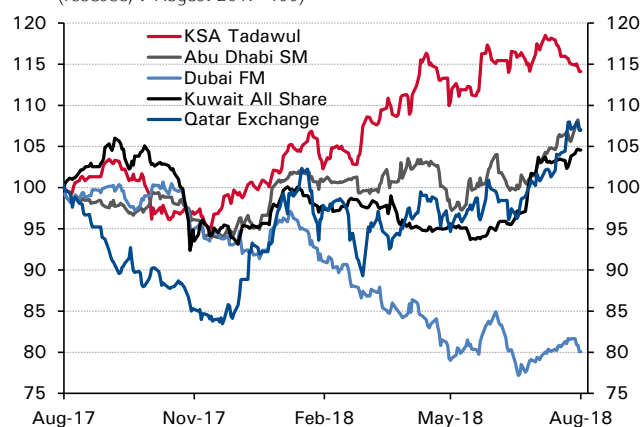
(%)



Source: Thomson Reuters Datastream

**Chart 8: GCC equity markets**

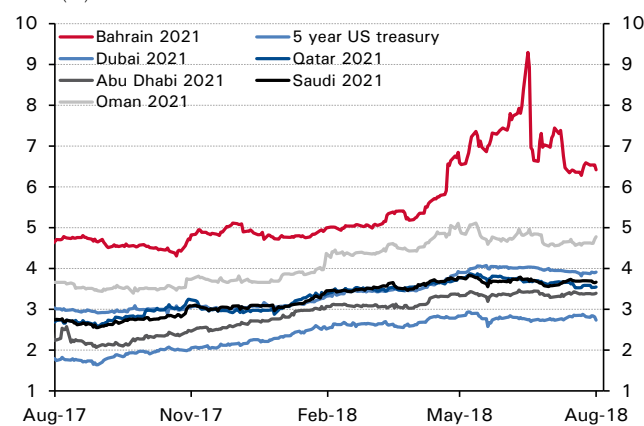
(rebased, 9 August 2017=100)



Source: Thomson Reuters Datastream

**Chart 10: GCC bond yields**

(%)



Source: Thomson Reuters Datastream

## Markets – fixed income

International benchmark yields trended lower as markets traded growing global risk for safer bets. US 10-year Treasury rates and 10-year Bund yields both fell 9 basis points to 2.86% and 0.32%, respectively. (Chart 9.) Meanwhile, GCC yields trended lower as well by 2-3 bps. (Chart 10.)

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