

# Syria strike injects a market premium, oil gains; Aramco issues \$3 billion in sukuk

## Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
<b>Regional</b>			
Abu Dhabi (ADI)	4,615	3.86	1.51
Bahrain (ASI)	1,353	-0.19	10.89
Dubai (DFMGI)	3,566	2.47	1.00
Egypt (EGX 30)	13,099	0.80	6.10
KSA (TASI)	7,076	1.06	-1.87
Kuwait (Price Index)	7,030	0.01	22.30
Oman (MSM 30)	5,613	1.13	-2.28
Qatar (QE Index)	10,456	0.63	0.18
MSCI GCC	476	1.33	0.29
<b>International</b>			
DAX	12,225	-0.71	6.48
DJIA	20,656	-0.03	4.52
FTSE 100	7,349	0.36	2.89
Nikkei	18,597	-1.65	-2.71
S&P 500	2,356	-0.30	5.21
<b>Commodities</b>			
	\$/bbl	Change (%)	
		weekly	YTD
Brent crude (\$/bbl)	55.2	3.19	-2.78
KEC (\$/bbl)	50.9	0.20	-1.97
WTI (\$/bbl)	52.2	3.24	-2.76
Gold (\$/t oz.)	1254.0	0.53	8.44
<b>Exchange rates</b>			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.305	-0.03	-0.17
KWD per EUR	0.322	-0.62	1.29
USD per EUR	1.059	-0.54	0.75
JPY per USD	111.05	-0.30	-4.98
<b>Interbank rates</b>			
	%	Change (bps)	
		weekly	YTD
Kibor – 3 month	1.56	0.0	12.5
Qibor – 3 month	1.94	-0.6	15.9
Libor – 3 month	1.16	1.1	16.0
<b>Bond yields</b>			
	%	Change (bps)	
		weekly	YTD
<b>Regional</b>			
Abu Dhabi 2021	2.37	-0.3	-17.6
Dubai 2021	3.06	-1.1	-26.8
Qatar 2021	2.61	-4.3	-34.2
Saudi Arabia 2021	2.86	7.7	-19.3
<b>International</b>			
UST 10 year	2.38	-2.2	-5.0
Bunds 10 year	0.23	-9.7	2.7
Gilts 10 year	1.08	-6.4	-16.3
JGB 10 year	0.05	-2.1	0.5

Source: Thomson Reuters Datastream

## Summary

Globally, politics took center stage last week, with markets especially keen to understand how the new US administration will address global risks and readjust trade relations. Syria's chemical attack and North Korea's latest missile launch appeared to force the new administration to rethink its current approach—heightening global uncertainty.

The Chinese president's US visit was also keenly watched to see how Donald Trump's campaign promise to rethink trade agreements with China would reshape relations between the two countries. The talks last week appeared to reflect the strong shared interest the two countries have in finding a cooperative solution, avoiding confrontation and trade wars.

Though data in the US and Eurozone remained robust on balance in March, the nonfarm payroll figure was weaker than expected at 98K. Meanwhile, FOMC minutes from its March meeting indicated that the Fed is starting to look at unwinding its asset holdings, though any moves would only be gradual and transparent (and likely in 2018).

Regionally, the March PMIs continued to indicate healthy non-oil growth in the GCC, despite some slippage in Saudi Arabia; in Egypt, the PMI suggested that the economic recovery may be stalling.

Oil prices gained on the week to their highest levels in a month after the US missile strike on Syria raised the geopolitical risk premium. US crude production, stocks and rig count data continue to be bearish for oil, however. The USD gained on the week.

## International macroeconomics

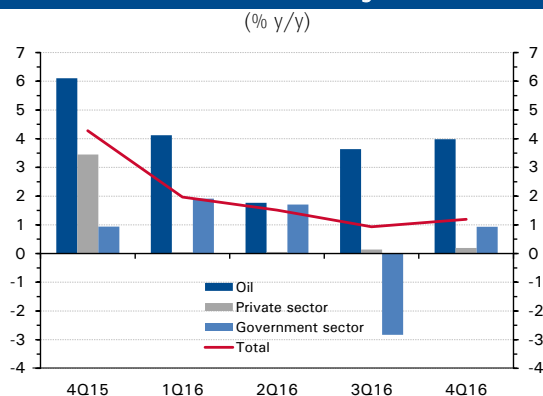
**USA:** While the March nonfarm payrolls figure was weaker than expected at 98K, the unemployment rate dropped to its lowest level in over a decade at 4.5%. The weather likely pushed the February gains up (219K) and the March gains down. The 3-month moving average is a better indicator of reality and, at 178K, it was robust. Wage inflation remained subdued and steady under 2.5%. Most other data remained relatively positive: the ISM manufacturing and non-manufacturing indices for March were both robust, though the latter came in below expectations at 55.2.

The Fed's FOMC minutes were also in focus this week, revealing for the first time how authorities plan to reduce the Fed's balance sheet (\$4.5 trillion). The indications are that reductions could begin late this year but proceed in a "gradual and predictable" fashion, beginning with a reduction in the pace of reinvestment. The minutes also indicated that some FOMC members felt that stock valuations were beginning to look excessive.

**Eurozone:** The European economy continues to produce steady economic data, in line with moderate growth there, and worldwide, this year. The March flash PMIs (Markit) for the eurozone rose about ½ point each to maintain decent levels. The composite index rose to 56.4, with the services measure rising to 56. Germany and France led the moves. Retail sales were up 0.7% in February (EU basis) or 1.8% y/y. Unemployment registered 8% in February, the lowest such rate since 2009 (also EU basis), with significant drops in the rates of Italy and Spain.

> Economic Research Department  
+965 2259 5500  
econ@nbk.com

**Chart 1: Saudi real GDP growth**



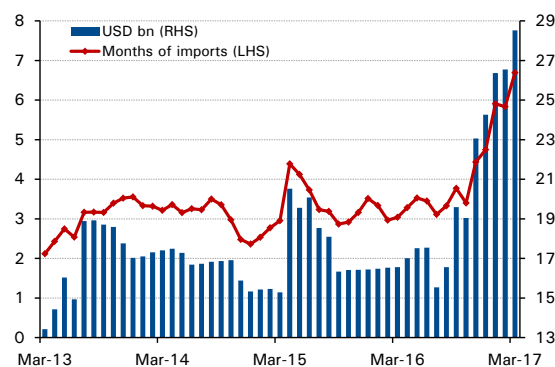
Source: General Authority for Statistics

**Chart 2: UAE PMI**



Source: Markit/Emirates NBD

**Chart 3: Egypt official reserves**



Source: Central Bank of Egypt, Thomson Reuters Datastream; NBK est.

**Chart 4: Egypt PMI**



Source: Markit

**UK:** The battle lines have been drawn. As expected, the EU has adopted a firm stance with its negotiating guidelines vis-à-vis the UK. No trade agreement with the UK will be concluded until “sufficient progress” has been made on the terms of the exit and until the UK has become a “third country”, meaning until it has officially exited. And any transition deal that the block agrees with the UK will only be possible if the latter sticks to existing rules. These include such thorny issues as the UK fulfilling its budget contributions, allowing the free movement of labor and accepting the jurisdiction of the European Court of Justice.

Meanwhile, UK manufacturing in March continued to hold up well, albeit expanding at the slowest rate in four months, according to the latest PMI. The headline figure fell from 54.5 in February to 54.2 in March, a drop that was largely due to weaker consumer goods orders.

## GCC & regional macroeconomics

**Kuwait:** Growth in corporate earnings of Kuwaiti exchange-listed companies was soft in 2016. Net profits rose by a mere 0.6% y/y to KD 1.5 billion, as stronger earnings by industrial companies and banks offset losses in other sectors. Most of the weakness was in the real estate, consumer and nonbank financial services sectors.

The Public Authority for Housing Welfare and the Korea Land & Housing Corporation signed a KD 12.5 million contract to plan and design South Saad Al-Abdallah, an eco-friendly and “smart” city. The project, the first of its kind in the Middle East, will include 30,000 housing units. The project, due 2020, could cost a total of \$10-15 billion (MEED).

**Saudi Arabia:** Saudi economic output expanded by 1.2% y/y in 4Q16. (Chart 1.) Growth was driven primarily by the oil sector, which posted a rise of 4.0% y/y. In contrast, non-oil growth was lackluster, at 0.4% y/y. For the year as a whole, real GDP growth slowed to 1.4% from 4.1% in 2015. While the ramp-up in crude oil production in 2016 helped oil GDP post respectable growth of 3.4%, flat private sector activity—a first in decades—resulted in the non-oil sector contracting by -0.1% in 2016. Government sector output growth was also the slowest in more than 20 years.

The Saudi headline MPI fell slightly in March to 56.4 from 57.0 in February on weaker output and new orders. March’s lower figure broke a run of 3 consecutive monthly increases in the headline PMI. Also, firms cited tighter operating conditions, with higher employment costs and lower output squeezing margins; firms had to compete vigorously for new business.

**UAE:** The headline PMI edged up to a multi-month high of 56.2 in March, as output and new orders witnessed more robust readings and as new export orders held firm. The index was supported by continued improvements in both domestic and external economic conditions. (Chart 2.)

**Egypt:** Central bank reserves rose to a 6-year high in March 2017, jumping by \$2 billion to \$28.5 billion, or an estimated 6.6 months of imports. (Chart 3.) The increase likely reflected January’s \$4 billion bond sale. Reserves have improved noticeably since November 2016, when the CBE abandoned its USD peg and the IMF approved a \$12 billion lending program.

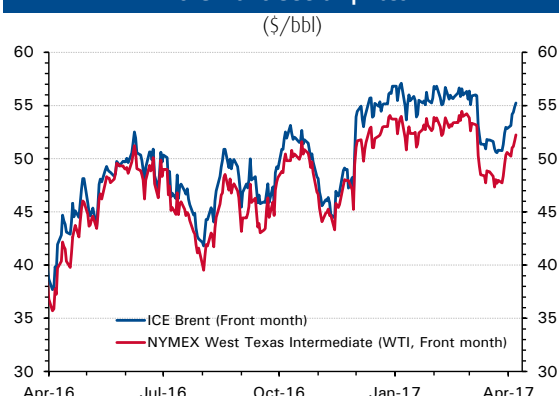
The PMI slipped to 45.9 in March, as the economic recovery appeared to stall following several months of mild improvement. (Chart 4.) The index

**Chart 5: Turkey consumer price inflation (CPI)**



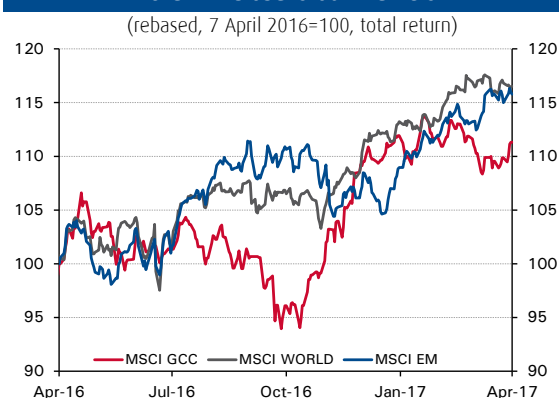
Source: Thomson Reuters Datastream

**Chart 6: Crude oil prices**



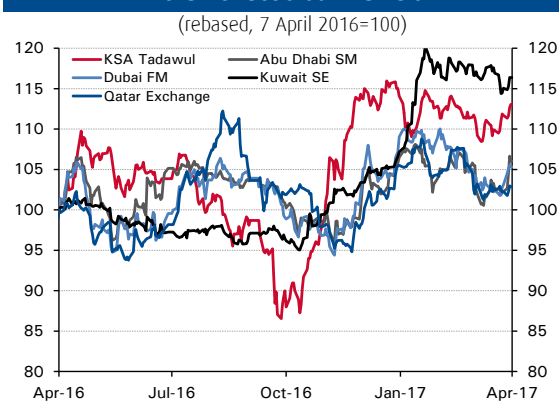
Source: Thomson Reuters Datastream

**Chart 7: Global stock markets**



Source: Thomson Reuters Datastream

**Chart 8: GCC stock markets**



Source: Thomson Reuters Datastream

remained at a subdued level consistent with GDP growth of around 2%. Meanwhile, price pressures appeared to ease further following the spike related to the November currency float.

**Turkey:** Central bank CPI inflation soared to a multi-year high of 11.3% y/y in March, as inflation in the transport component remained high and above 17% y/y during the same period. With Turkey a net importer of oil, the recovery in oil prices over the last year, together with a weak lira, have pushed inflation in the transport segment higher. (Chart 5.)

## Markets – oil

Brent and WTI closed the week 3-5% higher at \$55.2/bbl and \$52.2/bbl, respectively, after the US strike on Syria raised the geopolitical risk premium. (Chart 6.) Investors fled into so-called ‘safe haven’ assets, including gold, government bonds and the Japanese Yen. The US strike pushed oil prices to 1-month highs, where they managed to hold despite a preponderance of bearish data.

Last Wednesday, the EIA published figures that showed crude stocks had increased once again, by 1.6 million barrels (mb). Markets were somewhat taken aback, as they had been led to believe by an earlier report from the American Petroleum Institute (API) that crude stocks had fallen by 1.8 mb. Further bearish price pressures were coming from the release of US crude production and oil rig count data that showed output increasing to 9.19 mb/d and the number of active rigs rising for the 12<sup>th</sup> consecutive week to 672—a 90% increase from a year ago.

## Markets – equities

Equities were mixed last week, with the MSCI World and the Euro Stoxx 50 retreating by 0.1% while emerging markets (EM) advanced, with the MSCI EM up 0.7%. Geopolitics, the release of the FOMC’s March meeting minutes and weaker than expected jobs data weighed on US equities, pushing the S&P 500 down 0.3%; the DJIA, meanwhile, was unchanged on the week. (Chart 7.)

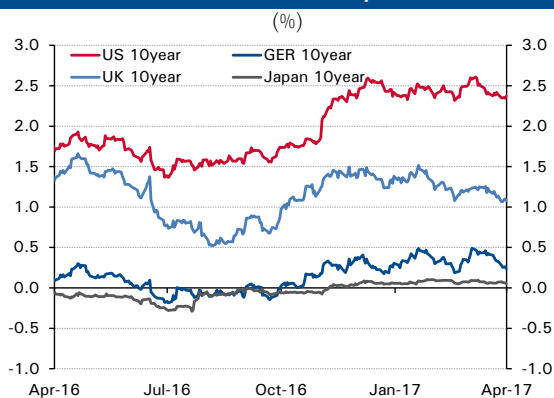
It was a good week for regional equities, however, with most markets closing in the black. The MSCI GCC index was up 1.3% supported by strong gains in the UAE markets. (Chart 8.) UAE and Qatari equities have seen a pick-up in foreign flows over the past few weeks, in line with other emerging markets. Abu Dhabi was the outperformer, with the index advancing 3.9%, lifted primarily by strong gains by First Abu Dhabi Bank. The new entity, created from the merger of First Gulf Bank and National Bank of Abu Dhabi, saw passive flows from FTSE EM index trackers.

## Markets – fixed income

International bond prices were mostly higher on the week. Rates on US 10-years and 10-year Bunds dropped 2.2 bps and 9.7 bps, respectively, as safe-haven assets benefited from rising geopolitical risk. Some softer data releases from US and the eurozone helped push yields further down. Meanwhile, markets seemed to interpret the Fed minutes as more dovish despite US rates initially shooting upon the minutes’ release. The minutes revealed that policymakers had started discussing shrinking the central bank’s huge \$4.5 trillion balance sheet, by late in the year or early next year.

Yields on Saudi paper maturing in 2021 were up 7.7 bps on the week despite rising oil prices. This could be in anticipation of upcoming issuance, as well as new Aramco sukuk issued last week (below). Other regional

**Chart 9: Global bond yields**

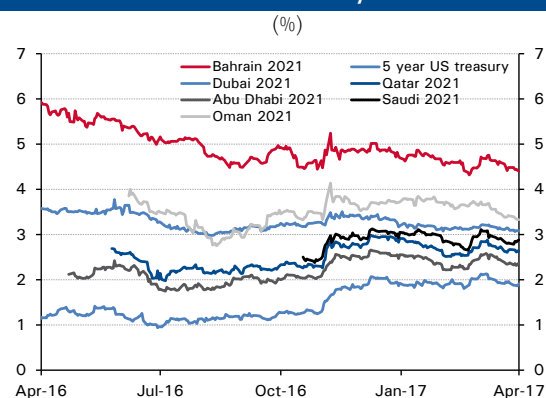


Source: Thomson Reuters Datastream

yields of the same maturity fell, in line with international markets. Yields dropped across sovereign debt by 1-5 bps. Meanwhile, Kuwait's 2022 bond traded at 2.69%, down 0.2 bps w/w and down 11 bps since its issuance on Tuesday 14 March 2017.

Saudi Aramco raised \$3 billion in its debut sukuk, which is part of its \$10 billion fundraising plan. The floating local currency sukuk has a 7-year maturity and was issued at 25 bps over 6-month SAIBOR.

**Chart 10: 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](http://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 Representative 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