Steady numbers from US and Eurozone; Oil prices pressured; French election results awaited

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi (ADI)	4,617	2.31	1.56
Bahrain (ASI)	1,331	-0.07	9.08
Dubai (DFMGI)	3,420	0.09	-3.15
Egypt (EGX 30)	12,710	1.47	2.96
KSA (TASI)	6,924	-0.31	-3.97
Kuwait (Price Index)	6,753	-1.48	17.48
Oman (MSM 30)	5,476	-0.90	-4.68
Qatar (QE Index)	9,938	-1.50	-4.78
MSCI GCC	464	-0.17	-2.37
International			
DAX	12,717	2.24	10.76
DJIA	21,007	0.32	6.30
FTSE 100	7,297	1.30	2.16
Nikkei	19,446	1.30	1.73
S&P 500	2,399	0.63	7.17

Commodities	$/bbl	Change (%)	
		weekly	YTD
Brent crude ($/bbl)	49.1	-5.67	-13.59
KEC ($/bbl)	48.6	-1.04	-6.23
WTI ($/bbl)	46.2	-6.30	-13.96
Gold ($/t oz.)	1228.0	-3.09	6.19

Exchange rates	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.304	-0.08	-0.45
KWD per EUR	0.333	0.51	4.56
USD per EUR	1.099	0.91	4.58
JPY per USD	112.71	1.06	-3.56

Interbank rates	%	Change (bps)	
		weekly	YTD
Kibor – 3 month	1.63	0.0	18.8
Qibor – 3 month	1.93	-8.3	15.3
Libor – 3 month	1.18	0.8	18.3

Bond yields	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.39	7.1	-15.4
Dubai 2021	2.99	-0.9	-33.4
Qatar 2021	2.57	4.1	-38.0
Saudi Arabia 2021	2.85	6.1	-20.1
International			
UST 10 year	2.35	6.9	-8.1
Bunds 10 year	0.42	9.7	21.7
Gilts 10 year	1.12	3.1	-12.3
JGB 10 year	0.02	0.3	-3.0

Source: Thomson Reuters Datastream

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

Summary

In the US, a budget stalemate was avoided as Congress passed a spending bill to take care of things until September 2017. Nonfarm payroll numbers for April showed a solid 211K advance, propping up the case for the next Fed rate hike, which is expected in June. The Fed held its May meeting without much fanfare and without changing policy rates, as was widely anticipated.

Oil prices remained under downward pressure, with Brent falling below $50/bbl for the first time since November 2016. The pressure is coming from rising US crude production and stubbornly high global crude inventories. OPEC and its non-OPEC partners don't have much room for maneuver, so an extension of the current agreement on production cuts appears increasingly likely by the end the month.

The Eurozone did well in Q1 as GDP grew 1.7%, in line with 2016 growth. Regional PMI measures of activity continue to show relatively steady growth in the GCC (KSA, UAE), and while the figure was improved for Egypt, it continues languish below the 50 mark. The latest IMF regional outlook expects the MENAP region to grow by 2.6% this year and by 3.4% in 2018; oil exporters' real GDP growth is forecast to be slower at 1.9% and 2.9% in 2017 and 2018, respectively. Not surprisingly, the IMF continues to exhort oil exporting countries to implement diversification and structural reform.

The results of the French election (today) will be keenly watched in the markets. A potential and anticipated Macron (centrist) victory will likely provide further relief for the euro (small) and French/European equities.

International macroeconomics

USA: April nonfarm payrolls added a solid 211K new jobs in April, leaving the 3-month moving average at 174K, near recent and decent levels. (Chart 1.) The unemployment rate dipped to 4.4%, a 10-year low. Wages advanced 2.3% y/y, a moderate advance that showed little sign of undue upward pressure.

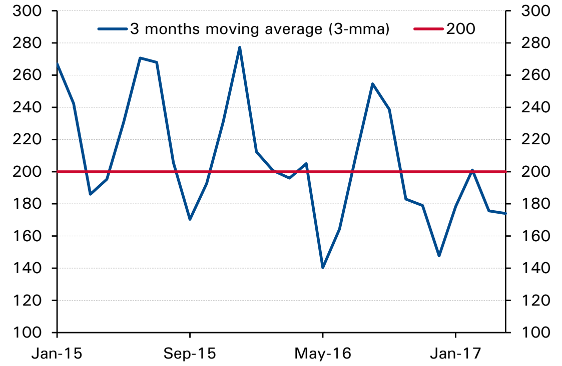
The PMI reports for April were equally solid, 54.8 and 57.5 for manufacturing and non-manufacturing, respectively. The US data remains remarkably steady, and supports the current Fed and market views of another 2 hikes in the federal funds rate this year.

The budget agreement struck last week funds the US government into 30 September, the end of the current fiscal year. It provides for $1.1 trillion in spending for the next 5 months, and it should allow Congress to focus fully on reforming Obamacare and the tax code as well as on the 2018 budget.

Eurozone: A slew of hard and soft data reflected the sustained pickup in Eurozone economic activity. The 1Q17 Eurozone preliminary flash GDP estimate came in as expected, growing at an annualized pace of 1.7%. This is in line with the 1.7% growth witnessed for the whole of 2016. Meanwhile, the April Eurozone composite PMI was confirmed at 56.8 and up on March's performance (56.4). Eurozone retail sales also surprised on the upside and the unemployment rate continue to trend lower.

Chart 1: US Nonfarm payroll gains

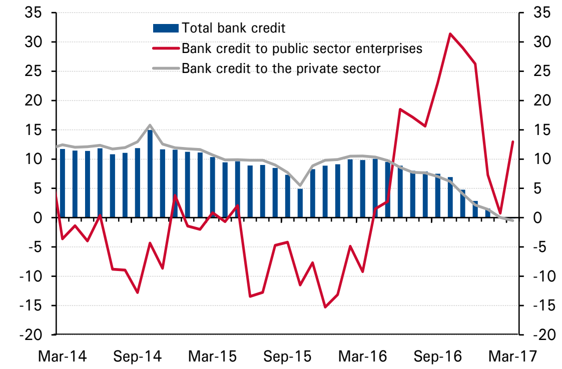
(000s)



Source: ONS, Thomson Reuters Datastream

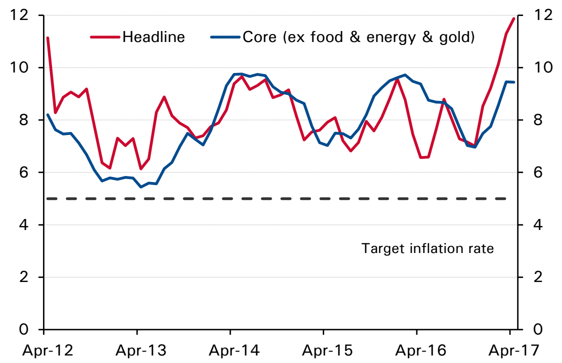
Chart 2: Saudi bank credit growth

(% y/y)



Source: SAMA

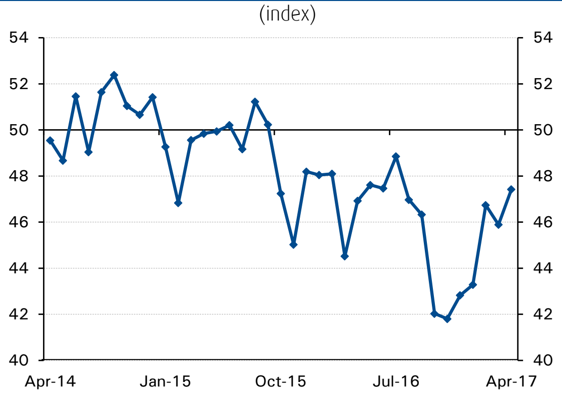
Chart 3: Turkey inflation in consumer prices



Source: Thomson Reuters Datastream

Chart 4: Egypt PMI

(index)



Source: Markit

Greece has agreed to a preliminary deal with its European creditors which, if approved by the Greek parliament and later the Eurozone finance ministers (22 May), will see it receive the next tranche (EUR 7 billion) of its EUR 86 billion bailout, possibly paving the way to debt relief talks. The deal will include further pension cuts, tax increases, and changes to the labor market.

Alitalia, Italy's national carrier, has put itself under special administration, with its bankruptcy approved by Rome. The airline will have to find a turnaround to its current financial situation within 180 days or find a new buyer. Failing that, it may be forced into liquidation. A EUR 600 million bridge loan has been extended to the airline to help it through the process.

At the time of writing, French voters will be casting their ballots. Odds still favor Emmanuel Macron, but a surprise win by Marine Le Pen is still a remote possibility. A hack targeting Macron's campaign office seems to have had little impact, with the French media giving it little attention under the pre-election media blackout.

China: The Caixin/Markit manufacturing PMI (which monitors small private owned firms) slipped to a seven-month low of 50.3 in April on the back of weaker domestic and external demand. The official manufacturing PMI (which monitors large state owned firms) retreated as well and came in at 51.2 in April. Both the Caixin/Markit and official indicators also showed signs of a slowdown in the services sector during the same period.

UK: Theresa May's ruling Conservative party made sweeping gains in last week's local elections, in what many are seeing as a dry run for June's general election. The Tories netted more than 500 local council seats, wresting a sizeable portion from Labor. Labor lost 339 seats, while UKIP lost all but one of its 140 seats. The results point to a potential landslide victory for Ms. May come June. Labor is not expected to garner more than 27% of the national vote, a decline of 3% points. Bookies put the odds of the Conservatives taking the most seats in June now at about 96% chance.

GCC & regional macroeconomics

Saudi Arabia: The headline PMI for April increased slightly to 53.5 from 53.4 in March as private sector business activity continued to improve modestly. The uptick was driven by increases in output and new orders rather than exports, which contracted for the first time in almost a year.

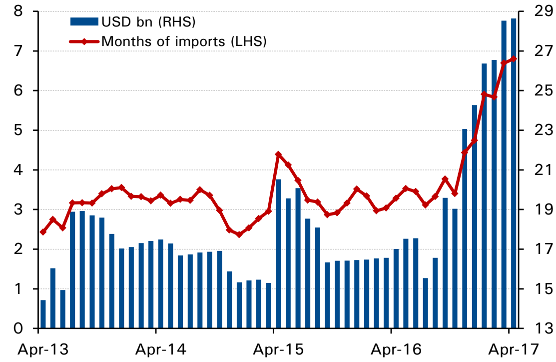
Total bank credit growth continued to moderate, however, moving into negative territory, at -0.1% y/y in March, for the first time since the financial crisis. (Chart 2.) Worryingly, private sector credit growth also decelerated, to -0.5% y/y, which is its slowest rate since December 2009. In contrast, lending to the public sector accelerated sharply in March by 13.0% y/y.

UAE: The headline PMI held steady and firm at 56.1 in April, as output and new orders remained strong, thanks to ongoing improvements in domestic economic conditions.

Turkey: Inflation in consumer prices rose by a greater-than-expected 11.9% y/y in April, as a weak Turkish lira continued to drive up import costs. The CBT expects inflation to rise further in the short term before subsiding somewhat in 2H17 on the back of relatively tighter liquidity conditions. (Chart 3.)

Chart 5: Egypt official reserves

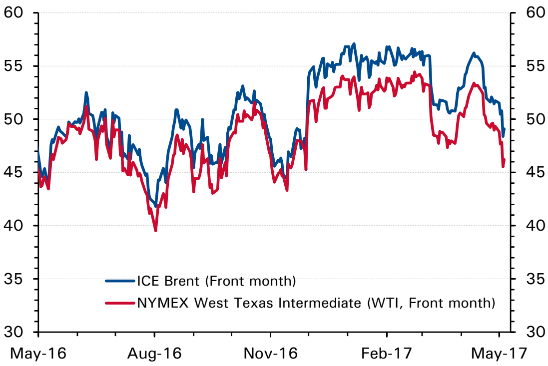
(foreign assets of the CBE)



Source: Central Bank of Egypt, NBK estimates

Chart 6: Crude oil prices

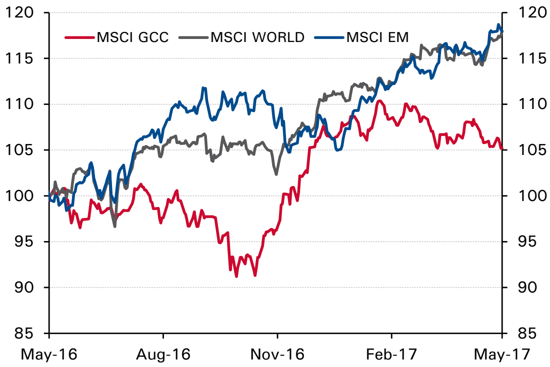
($/bbl)



Source: Thomson Reuters Datastream

Chart 7: Global stock markets

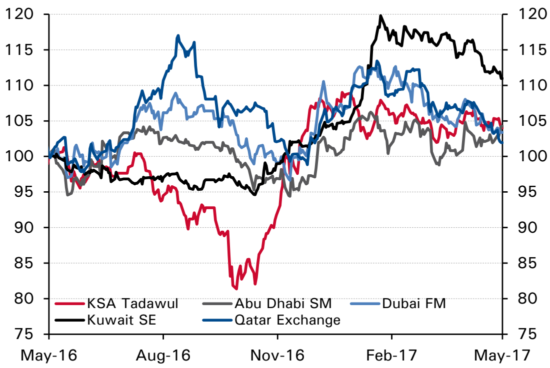
(rebased, 6 May 2016=100, total return)



Source: Thomson Reuters Datastream

Chart 8: GCC stock markets

(rebased, 6 May 2016=100)



Source: Thomson Reuters Datastream

Egypt: The PMI showed economic activity improving slowly and inflation receding further in April. The index rose to 47.4, its highest level in nine months. The recovery has been slower than expected, with the level consistent with growth of around 2-2.5%. Improvements were seen across the board, with new export orders remaining the strongest. Inflationary pressures receded, but remained elevated. (Chart 4.)

The foreign assets of the central bank were steady in April at $28.6 billion, or 6.8 months of imports. Since Egypt floated its currency in November 2016y the CBE no longer supports the exchange rate, which has significantly reduced the pressure on reserves. (Chart 5.)

Markets – oil

Oil prices closed at their lowest level in 6 months last week, with market sentiment turning increasingly bearish over OPEC's chances of reining in resurgent US shale. Having been under pressure for most of the week and hovering close to their pre-OPEC production cut agreement levels, Brent finally fell through the symbolic $50 level to close on Friday at $49.10/bbl, a drop of 5% w/w. WTI settled at $46.22/bbl, falling 6.3% w/w. (Chart 6.)

Both benchmarks had gained a little on Wednesday after the EIA reported a fourth consecutive week of crude stock drawdowns in the US, although the 930,000 barrel decline was less than many had expected. Also, some of the surplus shifted into product stocks, especially gasoline, leading to a rise in total petroleum product inventories. Meanwhile, US crude production rose further, rising by 28,000 b/d over the last week to 9.29 mb/d, its highest level since August 2015.

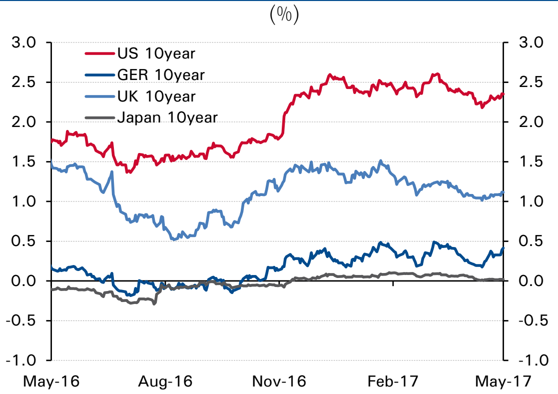
Oil's decline in recent weeks comes despite a string of strong quarterly results from the major international oil companies (IOC). Royal Dutch Shell was the latest to announce forecast-beating earnings, doubling its profits y/y. Exxon Mobil, BP, Total and Chevron reported strong numbers in the previous week.

Markets – equities

Most world equities extended their gains this week, with the MSCI World advancing 0.9%. US equities advanced slightly as the Fed decided to keep rates unchanged at its Wednesday meeting. European equities maintained their strength as Emmanuel Macron's presidential odds increased and after stocks received a boost earlier in the week from strong PMI figures. Meanwhile, emerging markets gave back their gains earlier in the week and closed unchanged on falling commodity prices and weaker-than-expected Chinese PMI figures. (Chart 7.)

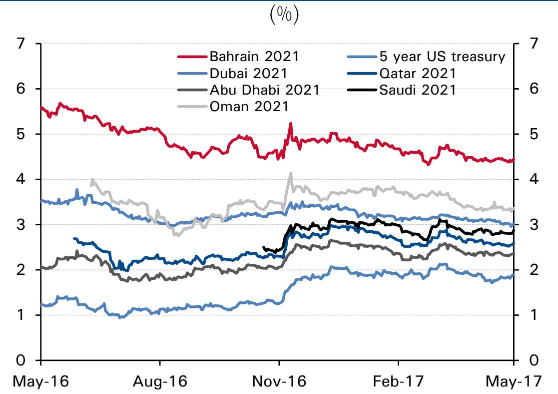
Most GCC markets retreated this week with the MSCI GCC index down 0.2%. Regional markets continue to lack momentum amid falling oil prices. (Chart 8.) UAE markets were the only gainers with Abu Dhabi up 2.3% on the week on positive 1Q17 profit announcements.

Chart 9: Global bond yields



Source: Thomson Reuters Datastream

Chart 10: GCC bond yields



Source: Thomson Reuters Datastream

Markets – fixed income

Global government bond market dynamics were primarily driven by the Fed's announcement this week, in which it held its monetary policy steady but painted a hawkish outlook for the economy. Markets are now expecting the Fed to hike rates by 25 bps at its June meeting with 80% certainty. US treasury rates were further lifted by a strong jobs report. Meanwhile, core European government bonds were pushed higher by steady GDP growth and strong PMI numbers. US 10-year treasuries ended the week at 2.35%, up 7 bps, while 10-year Bunds climbed 10 bps to settle at 0.42%. (Chart 9.)

GCC yields on bonds maturing in 2021 tracked US treasuries higher, led by Saudi Arabia where yields rose by up to 6 bps. Kuwait's 2022 bond was up as well, trading at 2.67%, a rise of 6 bps from a week ago. (Chart 10.)

Saudi Electricity is in talks to issue a US-dollar denominated sukuk, which may exceed $1 billion. Meanwhile, Saudi's finance minister has discussed the possibility of issuing more international debt this year to finance the deficit.

Puerto Rico (technically a US territory) declared bankruptcy, defaulting on $73 billion of its debt. This is the largest ever US municipal delinquency, dwarfing Detroit's $9 billion default in 2013. The move was triggered by the expiration of a court stay that has been protecting the territory from being sued by creditors. Court proceedings are expected to commence soon, to be followed by negotiations with creditors.

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 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