

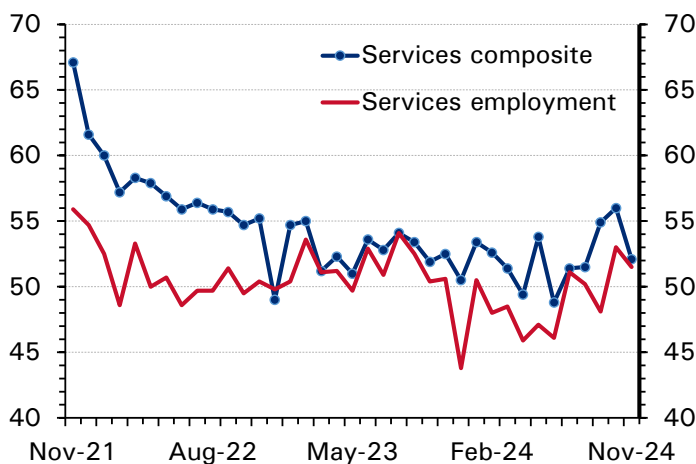
Daily Economic Update

Economic Research Department
5 December 2024

US: Powell sees economy stronger than expected, adopts cautious tone on interest rate cuts. Fed Chair Powell, in a speech, commented that the US economy is “in very good shape” and performing stronger than previously anticipated, with smaller downside risks from the labor market since the FOMC’s outsized 50bps interest rate cut in September. He also highlighted that the Fed could be “a little more cautious” on policy loosening, indicating a moderated pace of interest rate cuts going forward. For now, futures markets are still pricing in another 25bps cut at the FOMC meeting later this month. On the data front, the ISM services PMI disappointed, dropping for the first time in five months to 52.1 in November from October’s over two-year high of 56. Most subindices weakened from the previous month, including employment, business activity and new orders, as firms cited anticipated import tariffs and resulting higher prices under the incoming Trump administration potentially weighing on future business activity and sentiment. However, other previously reported data points such as retail and auto sales, and S&P PMI surveys suggest that the economy is still robust and could post strong 2%+ growth in Q4.

Chart 1: US ISM services PMI

(Above 50 expansion)



Source: Haver

Eurozone: French government toppled; deadlock could continue going forward. As expected, French lawmakers passed a no-confidence vote on Wednesday, officially bringing down Prime Minister Michel Barnier’s government. A total of 331 lawmakers from the left and the far-right alliances supported the no-confidence vote, easily exceeding the 288 needed votes. This marks the first successful no-confidence vote in France since 1962. Barnier’s premiership was the shortest since France’s so called “Fifth Republic” was founded in 1958. Barnier, a seasoned diplomat and the EU’s former chief Brexit negotiator, was appointed in early September.

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President Macron will make a statement tonight and now needs to appoint a new prime minister. Macron took around two months to appoint Barnier but will likely move much faster this time given the urgency of the situation. As we mentioned before, with parliament divided and no party having a majority, the deadlock could continue even under a new prime minister, and new parliamentary elections cannot be held until July 2025.

UK: BoE's Bailey sees four rate cuts next year if the economic and inflation outlooks hold. Bank of England governor Andrew Bailey acknowledged that the inflation path so far in 2024 has been broadly better than expected, but also stated that there was "still a distance to travel," reinforcing his earlier cautious stance. Previously reported data showed that UK CPI inflation in October rose to 2.3% y/y from 1.7% the previous month, slightly above expectations, due to a steep 10% increase in household energy prices amid stickier service costs. He mentioned that the market's view of four interest rate cuts in 2025 at the time of the MPC's November meeting remains the bank's central case. However, given expectations of a pickup in inflation in 2025, markets now forecast only three 25 bps cuts next year, and no change in the bank rate (currently at 4.75%) at this month's MPC meeting.

Japan: Unions formulate 2025 wage goals. Labor unions are announcing their demands prior to upcoming wage negotiations. The trade union confederation, the largest umbrella organization of labor unions in Japan, is expected to demand a wage increase of 5% or more, the same goal as this year with a base pay increase of more than 3% in addition to a 2% periodic pay raise. The union is also expected to demand a 6% increase for smaller companies. Other umbrella bodies, including the Japanese Association of Metal, Machinery, and Manufacturing Workers and the Japan Council of Metalworkers said that they will demand a record-high pay-scale increase of JPY15,000 and JPY12,000 in 2025, respectively, with a focus of reducing pay gaps with large companies. The prime minister Ishiba has also called for wage hikes in 2025 to be as large as this year. However, these announcements came amid overall economic uncertainty. In the manufacturing sector, which employs around 15% of the workforce, the PMI activity gauge has remained in contractionary territory for most of 2024 due to soft demand and rising input costs. Moreover, manufacturing sector profits plunged by 15.1% y/y in Q3 2024 primarily on slower automobile sales due to rising competition and exchange rate fluctuations that strengthened the yen to ¥140.6/\$1 in mid-September. A recent survey conducted by Nikkei Research found that about 42% of companies polled are considering wage hikes of 3-5% for 2025 while 41% said wage increases will be in the range of 1% to 3%. A round of solid wage increases could help in lifting private consumption, though may weigh on companies' profits and investment activities.

UAE: Abu Dhabi unveils four initiatives to boost investment. The government has announced four programs during the first week of Abu Dhabi Business Week that aims at streamlining procedures for registering companies while providing the needed infrastructure and support for the growth of the industrial and SME sectors. The first initiative includes the launch of the Abu Dhabi Registry Authority, which will be a one-stop shop for business registration across the emirate, including free zones. The remaining programs include the Abu Dhabi Chamber of Commerce and Industry's new strategic road map, Khalifa Fund for Enterprise Development's new cornerstone strategy, and the MZN Venture Studios. The focus will be on fostering growth in key sectors through supporting startups and small businesses including by providing adequate access to digital tools and sustainable finance.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,265	0.33	-3.27
Bahrain (ASI)	2,036	0.14	3.26
Dubai (DFMGI)	4,854	0.13	19.55
Egypt (EGX 30)	30,833	0.67	24.16
GCC (S&P GCC 40)	703	0.40	-1.30
Kuwait (All Share)	7,277	0.19	6.75
KSA (TASI)	11,887	0.60	-0.67
Oman (MSM 30)	4,578	0.09	1.41
Qatar (QE Index)	10,338	-0.50	-4.55
International			
CSI 300	3,931	-0.54	14.56
DAX	20,232	1.08	20.78
DJIA	45,014	0.69	19.43
Eurostoxx 50	4,919	0.83	8.79
FTSE 100	8,336	-0.28	7.79
Nikkei 225	39,276	0.07	17.37
S&P 500	6,086	0.61	27.60

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.83	-6.00	-69.29
Kuwait	3.94	-6.25	-37.50
Qatar	6.00	0.00	-25.00
UAE	4.48	-4.00	-84.72
Saudi	5.54	-1.26	-69.39
SOFR	4.47	0.71	-85.96

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.54	-3.00	21.9
Oman 2027	5.37	-6.00	21.3
Qatar 2026	4.57	0.00	5.1
Kuwait 2027	4.70	-1.00	36.0
Saudi 2028	4.79	-3.00	26.9

International 10YR			
US Treasury	4.18	-4.26	32.3
German Bund	2.05	-0.35	2.3
UK Gilt	4.25	0.50	70.8
Japanese Gvt Bond	1.05	-2.00	43.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.11	0.02
KWD per EUR	0.32	0.12	-2.28
USD per EUR	1.05	0.01	-4.77
JPY per USD	150.60	0.68	6.76
USD per GBP	1.27	0.25	-0.21
EGP per USD	49.76	0.12	61.30

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	72.31	-1.78	-6.14
KEC	73.97	2.06	-7.03
WTI	68.54	-2.00	-4.34
Gold	2653.8	0.34	28.68

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: LSEG / Haver