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Economic Update

Economic Research Department
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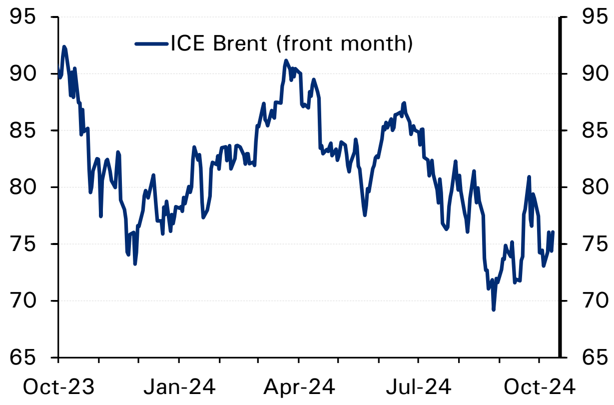
Japan: Ruling coalition loses majority in parliament, ushering in political uncertainty. The Liberal Democratic Party (LDP) has lost its majority in the lower house of parliament, winning, along with its junior coalition partner Komeito, only 215 seats out of 465, down from the comfortable majority of 279 seats held previously and marking the coalition's worst election result since 2009. On the other side, the opposition party, Constitutional Democratic Party of Japan (CDPJ) raised its share from 98 seats to 148 seats, punishing PM Ishiba's LDP over the corruption scandals and high inflation. The results indicate a high possibility for a government change as the CDPJ will be considering potential coalition partners, which might result in a fractious power-sharing deal. The new government may face more difficulty in pushing through economic policies and reforms that include raising taxes and could make the Bank of Japan's path to raising interest rates harder. The immediate market reaction has been a weaker yen, higher Japanese bond yields and stock market indices.

Oil: Measured Israeli retaliation pares back oil's geopolitical risk premium. Brent futures opened the week sharply lower, down around 4% at below $73/bbl this morning as Israel refrained from attacking Iran's oil or nuclear infrastructure and instead focused on military targets. The losses from the early Asian trading session erased last week's 4.1% gain when Brent closed on Friday at $76.1/bbl. It is unclear yet whether Iran will respond to the latest Israeli strike, though the latter's focus only on military infrastructure leaves the door open for a de-escalatory phase to the conflict, reflected by the price action this morning. Going forward, fundamentals could play a bigger role in influencing oil prices, especially with demand growth still anemic from lackluster activity in China and supply awaiting OPEC+'s decision in early November on whether to unwind 2024's voluntary production cuts from December onwards.

Chart 1: Oil prices
($/bbl)



Source: Haver

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Global: US/Eurozone Q3 GDP, UK budget, and BoJ meeting key matters this week. In the **US,** the first estimate of Q3 GDP is due on Wednesday, with consensus projecting another robust 3% annualized growth, matching Q2's rise. In addition, the non-farm payroll report for October is due on Friday with forecasts of 140K job gains in October (down from September's strong 254K) and a stable unemployment rate of 4.1%. Moreover, PCE inflation is due on Thursday with the consensus pointing to a pickup in the core rate to 0.2% m/m in September from 0.1% in August. In the **Eurozone,** flash Q3 GDP growth is due on Wednesday, with expectations slightly downbeat standing at 0.2% q/q, matching the previous quarter's expansion. Furthermore, flash CPI for October is due on Thursday with the core rate seen steady at 2.7% y/y. In the **UK,** a much-awaited Autumn budget will be presented on Wednesday, which is expected to outline some "painful" tax rises and spending cuts as the government grapples with a poor fiscal position. In **China,** the official NBS PMI for October is due on Thursday with the manufacturing gauge seen inching up to 50.1 from 49.8 in September and the non-manufacturing one rising to 50.5 from 50.0. In **Japan,** the Bank of Japan will meet on Wednesday-Thursday, with expectations of no change in policy rates although the market will look forward to a set of updated forecasts for GDP and inflation.

China: PBoC launches new policy tool to manage liquidity. The People's Bank of China (PBoC) will start conducting "outright reverse repurchase agreements" on a monthly basis with primary dealers for a tenor of less than a year, and likely between three to six months. As per the PBoC, the move is "aimed at maintaining a reasonable level of liquidity in the banking system and enriching its toolkit for monetary policy". We note that the PBoC has been adjusting its policy framework by, for example, downplaying the role of the one-year medium-term lending facility and focusing more on utilizing the seven-day reverse repo as the main policy tool. The new tool, given its expected tenor, will likely sit between the two.

Saudi Arabia: Non-oil exports rose while imports eased in August. Non-oil exports rose by 7.5% y/y in August, with national exports (i.e. excluding re-exports) up by 3%. The higher non-oil exports were primarily driven by increased sales of chemical products (9.3% y/y) and plastics, rubbers & their products (1%), which combined comprise almost 50% of non-oil exports. However, total exports fell by 9.8% y/y, weighed down by the continued decline in oil exports (15.5%). Meanwhile, imports fell by 3.9% y/y mainly due to reduced purchases of machinery, electrical equipment and parts (-5.6%) and transportation equipment & parts (-11.7%). The merchandise trade balance narrowed by 28% y/y to SAR 28 billion in August.

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Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,204	n/a	-3.91
Bahrain (ASI)	2,001	-0.05	1.49
Dubai (DFMGI)	4,479	n/a	10.33
Egypt (EGX 30)	30,812	0.85	24.08
GCC (S&P GCC 40)	696	0.06	-2.37
Kuwait (All Share)	7,088	1.52	3.97
KSA (TASI)	12,069	1.54	0.85
Oman (MSM 30)	4,811	-0.30	6.58
Qatar (QE Index)	10,560	1.53	-2.50
International			
CSI 300	3,956	n/a	15.31
DAX	19,464	n/a	16.19
DJIA	42,114	n/a	11.74
Eurostoxx 50	4,943	n/a	9.32
FTSE 100	8,249	n/a	6.67
Nikkei 225	37,914	n/a	13.30
S&P 500	5,808	n/a	21.77

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.02	0.00	-50.04
Kuwait	3.94	0.00	-37.50
Qatar	6.00	0.00	-25.00
UAE	4.64	0.00	-68.80
Saudi	5.60	-2.81	-62.99
SOFR	4.62	n/a	-71.42

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.36	n/a	3.9
Oman 2027	5.20	n/a	4.3
Qatar 2026	4.57	n/a	5.1
Kuwait 2027	4.37	n/a	3.0
Saudi 2028	4.64	n/a	11.9
International 10YR			
US Treasury	4.24	n/a	38.1
German Bund	2.29	n/a	26.1
UK Gilt	4.24	n/a	69.6
Japanese Gvt Bond	0.94	n/a	32.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.13	-0.28
KWD per EUR	0.33	-0.26	0.00
USD per EUR	1.08	0.00	-2.20
JPY per USD	152.30	0.00	7.97
USD per GBP	1.30	0.00	1.81
EGP per USD	48.68	-0.10	57.80

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	76.05	n/a	-1.29
KEC	73.95	n/a	-7.05
WTI	71.78	n/a	0.18
Gold	2740.9	n/a	32.90

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

Source: LSEG / Haver

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