Daily
Economic Update

Economic Research Department
2 October 2024

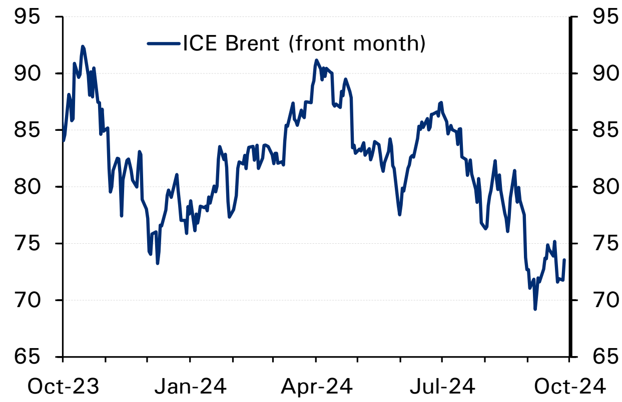
Oil: Prices rise on heightened geopolitical risk. Brent futures rose 2.5% d/d to settle at $73.6/bbl (-4.5% ytd) on Tuesday following Iran's retaliatory attack on Israel via a salvo of ballistic missiles strikes in response to Israel's assassination of Hezbollah's leader Hasan Nasrallah last week. The apparent escalation in the conflict could translate into oil supply disruptions should Israel choose to attack Iran's oil facilities, or Iran responds to any attack by restricting oil flows through the Strait of Hormuz or by upping its Red Sea shipping harassment activities via its Houthi proxies. Iran is currently exempt from OPEC+ quotas, but its production has, nevertheless, been increasing (it produced 3.3 mb/d in August, according to OPEC+ secondary sources estimates) and is almost back at pre-Trump sanctions levels, the more stringent enforcement of which could be a result of this conflict and another positive oil price driver. Nevertheless, the Biden administration could press Israel not to attack critical Iranian oil infrastructure ahead of the November 5 election.

Egypt: Current account deficit widens to $21bn in FY23/24. Egypt's current account deficit widened to $20.8 billion (6% of GDP) in fiscal year 2023-2024 (July to June) from $4.7billion in the previous year. The sharp deterioration was mainly due to a 58% decline in LNG exports (due to a steep drop in Egypt's natural gas production) and a significant fall in Suez Canal receipts, which dropped by 24% to $2.1 billion amid Houthi attacks on Red Sea shipping. On a positive note, however, and despite prevailing regional geopolitical tensions, tourism revenues remained strong, growing by 5% y/y. The capital and financial account recorded net inflows of $29.8 billion (vs. $8.9bn in FY22/23), mainly driven by the Ras El Hekma mega investment, which helped the overall balance of payments record a surplus of $9.6 billion (from $882mn in the previous year). Interestingly, the impact of the EGP devaluation on the external account (Q4 FY23/24) was muted, with remittances the only item that increased (+50% q/q) as more Egyptians living abroad transferred their money through official channels. On the back of such and as expected, the current account deficit shrank in the final quarter to $3.7billion (from $7.4bn in Q3 FY23/24). In further news, the IMF is set to conduct its fourth review of Egypt's economic reform program next month, which could unlock a further $1.3 billion – the fourth and largest disbursement under the current loan agreement – for the authorities.

Saudi Arabia: Pre-budget statement expects wider fiscal deficit in 2025. The Saudi Ministry of Finance released its pre-budget statement, outlining its fiscal projections for 2025. The fiscal deficit is expected to widen to 2.3% of GDP in 2025 from 1.9% in the 2024 budget and further to 3.0% of GDP by 2027. Expenditures are projected to rise by 2.7% budget on budget to SR 1.3 trillion ($343 billion), and to SR 1.4 trillion by 2027 as the government remains committed to spending on economic diversification projects (prioritizing high economic impact projects). On the other hand, revenues are projected to rise by 1% to SR 1.2 trillion ($320 billion) in 2025. The government will continue to advance structural reforms and initiatives aimed at diversifying the non-oil revenue base, which has grown to cover 35% of total expenditure in 2023 from 17% in 2015. The MoF statement notes that debt issuance will be the main vehicle for deficit financing, implying that 2025 will be another strong year for debt issuance. The statement also provides estimates for the 2024 budget, with upwards revisions for revenues and expenditures resulting in a wider deficit estimate of 2.9% (vs 1.9% in the budget), which is typical given the trend of spending overshoots linked to the surge in investment. Finally, after cutting its near-term economic growth outlook to 0.8% y/y this year from the previous 4.4%, a more positive picture is presented for the medium-to-long term, driven by continued strength in the non-oil sector and lower expected interest rates. This the authorities note could help propel real GDP growth to 4.6% y/y in 2025 and up to 4.7% in 2027.

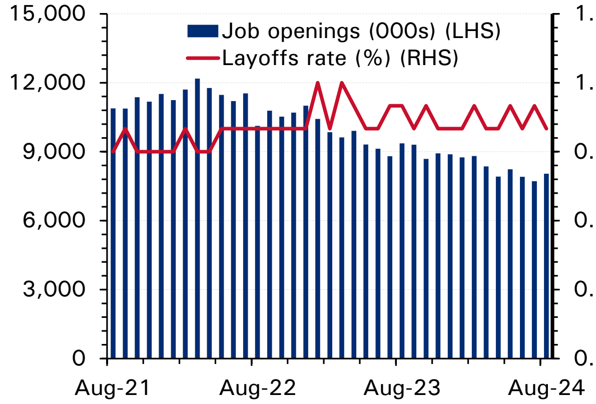
Chart 1: Oil prices

($/bbl)



Source: Haver

Chart 2: US job openings and layoffs rate



Source: Haver

US: Job openings unexpectedly rise, but manufacturing activity continues to shrink. Job openings (JOLTS report) in August increased to 8 million from 7.7 million in July, marking the first rise in three months. Still, the rates of quits, layoffs and hirings all declined from the previous month, remaining at low levels, and suggesting a softer outlook on the job market. This also implies that though hiring growth has slowed significantly compared to 2021-23 and the early months of 2024 (also evident in broadly easing non-farm payroll gains), modest levels of layoffs mean the labor market is not deteriorating sharply. Meanwhile, the ISM manufacturing PMI in September remained in contraction for twenty two of the past twenty three months at 47.2, unchanged from the previous month, as the gauges for new orders (at 46.1) and employment (at 43.9) showed sustained weakness. Against the backdrop of Hurricane Helene in the southeast US, dockworker strikes on the east and Gulf coasts and an ongoing strike at Boeing, the outlook for the US manufacturing sector over the coming months could remain subdued.

Eurozone: Preliminary September inflation reading falls below 2%, for the first time since mid-2021. Early consumer price inflation estimates came in at 1.8% y/y in September, down from August's 2.2% reading and a touch lower than median market forecasts of 1.9%. This marks the first time that inflation has fallen below the ECB's 2% target since June 2021. Prices recorded a sharp drop in the energy (-6.0% y/y from -3.0% in August) component, while services inflation slowed slightly (to 4.0% y/y from 4.1% in August). Inflation ticked up, however, in the food, alcohol and tobacco category (to 2.4% y/y vs 2.3%). Core inflation (excl. energy, food, alcohol and tobacco), though, decreased to 2.7% y/y in September from 2.8% in August. The data release follows central bank governor Lagarde's speech on Monday, reiterating that the ECB is confident that inflation "will return to target in a timely manner". The weaker-than-expected inflation print in September has raised expectations for another 25 bps rate cut in October.

T: (+965) 2229 5500, econ@nbk.com

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Daily market indicators

Stock markets	Index	Change (%) Daily	YTD
Regional			
Abu Dhabi (ADI)	9,406	-0.21	-1.80
Bahrain (ASI)	2,009	-0.21	1.88
Dubai (DFMGI)	4,477	-0.58	10.28
Egypt (EGX 30)	31,866	0.88	28.32
GCC (S&P GCC 40)	715	0.23	0.41
Kuwait (All Share)	7,157	0.29	4.98
KSA (TASI)	12,254	0.22	2.39
Oman (MSM 30)	4,696	-0.29	4.04
Qatar (QE Index)	10,630	0.15	-1.85
International			
CSI 300	4,018	0.00	17.10
DAX	19,213	-0.58	14.69
DJIA	42,157	-0.41	11.85
Eurostoxx 50	4,954	-0.93	9.56
FTSE 100	8,277	0.48	7.03
Nikkei 225	38,652	1.93	15.50
S&P 500	5,709	-0.93	19.68

3m interbank rates	%	Change (bps) Daily	YTD
Bahrain	6.05	2.77	-47.30
Kuwait	3.94	0.00	-37.50
Qatar	6.00	0.00	-25.00
UAE	4.39	-26.83	-94.05
Saudi	5.58	0.49	-65.54
LIBOR	4.85	N/A	-73.93
SOFR	4.59	-0.12	-73.93

Bond yields	%	Change (bps) Daily	YTD
Regional			
Abu Dhabi 2027	3.93	-2.00	-39.1
Oman 2027	4.77	0.00	-38.7
Qatar 2026	4.17	-5.00	-34.9
Kuwait 2027	4.04	-1.00	-30.0
Saudi 2028	4.17	-2.00	-35.1
International 10YR			
US Treasury	3.73	-5.51	-12.9
German Bund	2.04	-8.95	1.3
UK Gilt	3.94	-6.85	40.0
Japanese Gvt Bond	0.85	0.00	23.4

Exchange rates	Rate	Change (%) Daily	YTD
KWD per USD	0.31	-0.11	-0.71
KWD per EUR	0.34	-0.56	2.22
USD per EUR	1.11	-0.60	0.28
JPY per USD	143.56	-0.04	1.77
USD per GBP	1.33	-0.64	4.37
EGP per USD	48.18	-0.10	56.18

Commodities	$/unit	Change (%) Daily	YTD
Brent crude	73.56	2.49	-4.52
KEC	70.90	-4.60	-10.88
WTI	69.83	2.44	-2.54
Gold	2667.3	1.18	29.33

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

Source: LSEG / Haver *note that the publication of the synthetic LIBOR was discontinued after 30 September.

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