

N-Korean tensions dominate markets; Egypt GDP up 4.1% in 1H17; Outlook negative for Qatari banks

Key market indicators

Stock markets	Index	Change (%)	
		weekly	YTD
Regional			
Abu Dhabi SM	4,551	-0.98	0.10
Bahrain ASI	1,324	0.13	8.51
Dubai FM	3,647	-0.76	3.30
Egypt EGX 30	13,462	0.37	9.05
S&P GCC 40	1,063	-0.52	-7.99
Kuwait SE	6,845	0.28	19.08
KSA Tadawul	7,165	1.12	-0.64
Muscat SM 30	4,992	-1.31	-13.68
Qatar Exchange	9,243	-1.65	-11.44
International			
CSI 300	3,647	-1.62	10.19
DAX	12,014	-2.31	4.64
DJIA	21,858	-1.06	10.60
Eurostoxx 50	3,406	-2.88	3.52
FTSE 100	7,310	-2.69	2.34
Nikkei 225	19,730	-1.12	3.22
S&P 500	2,441	-1.43	9.04
Commodities			
	\$/unit	Change (%)	
		weekly	YTD
Brent crude	52.1	-0.61	-8.31
KEC	48.2	-1.11	-7.75
WTI	48.8	-1.53	-9.12
Gold	1287.7	2.34	11.97
Exchange rates			
	Rate	Change (%)	
		weekly	YTD
KWD per USD	0.301	0.03	-1.28
KWD per EUR	0.356	-0.22	11.88
USD per EUR	1.182	0.44	12.43
JPY per USD	109.150	-1.37	-6.61
GBP per USD	1.301	-0.18	5.47
EGP per USD	17.750	0.00	-1.39
Interbank rates			
	%	Change (bps)	
		weekly	YTD
Bhbor - 3 month	2.38	0.0	27.5
Kibor - 3 month	1.75	0.0	31.3
Qibor - 3 month	2.41	-8.5	62.6
Eibor - 3 month	1.53	0.0	5.1
Saibor - 3 month	1.80	-0.1	-23.9
Libor - 3 month	1.31	-0.3	31.1
Bond yields			
	%	Change (bps)	
		weekly	YTD
Regional			
Abu Dhabi 2021	2.25	-2.0	-28.6
Dubai 2021	2.99	0.2	-30.9
Qatar 2021	2.71	2.8	-22.6
Kuwait 2022	2.52	-7.2	n/a
Saudi Arabia 2022	2.83	-4.2	n/a
International			
UST 10 Year	2.19	-8.2	-24.5
Bunds 10 Year	0.38	-9.5	17.7
Gilts 10 Year	1.06	-11.3	-17.7
JGB 10 Year	0.06	-0.6	1.0

Source: Thomson Reuters Datastream; as of Friday close 11/08/2017

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Summary

It was a relatively quiet summer week in the markets. The tensions between North Korea and the US injected (finally) a pause in the equity markets, after weeks of steady advances without a correction and historic highs (see Equities). Some flight-to-quality trades and tame inflation data (see US) helped yields decline. The US 10-year note closed at 2.19%. The USD was lower on the week, partly on lower interest rates and on revised Fed expectations (see US).

Egypt grew more than 4% in the first half of the year, according to data and official statements, somewhat stronger than the pace suggested by the PMI reports (see Egypt).

GCC equities were mixed last week; the Kuwaiti market was helped by Omantel's announcement that it was buying 10% of Zain.

Moody's downgraded the outlook for Qatari banks, citing a weaker operating environment.

International macroeconomics

US: Job openings for June were 6.2 million, a jump from May's level, while hires were 5.4 million, which indicates a continuing gap and thus tightening labor market conditions. As noted last week, however, the tighter US labor market has yet to translate into significant wage pressure.

July PPI and CPI continue to point to tame inflationary pressures. CPI rose 0.1%, both overall and "core," leaving the y/y rates at 1.7% for both, which is short of the Fed's 2.0% target. (Chart 1.) The inflation data contributed, alongside worries about North Korea, to lower interest rates across the board. The probability of a December 2017 Fed hike is now 37%, down from over 50% two weeks ago.

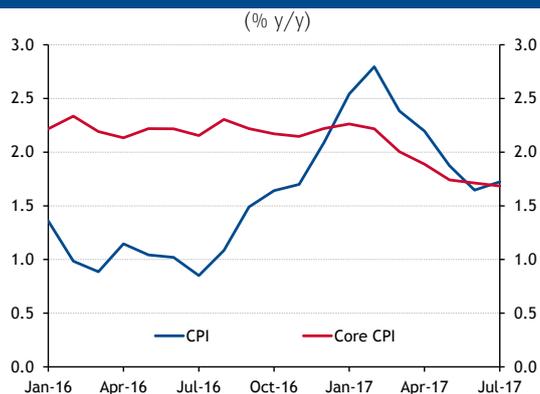
GCC & regional macroeconomics

Kuwait: The economy shrank by 2.8% in nominal terms in 2016, according to the latest national account figures published by the CSB. The decline was largely the result of a 14% drop in the value of oil sector output due to lower oil prices. Non-oil activity grew by 2.5%, down from 3.3% in 2015. Real GDP figures are not usually published for another few weeks.

The government approved legislation introducing an excise and value-added tax (VAT). The draft law, which is part of a GCC-wide initiative, now goes to the National Assembly for a vote. The 5% proposed VAT and the excise tax are expected to generate KD 650 million, and could boost non-oil revenues by a third. However, some legislators have already voiced their opposition to the taxes.

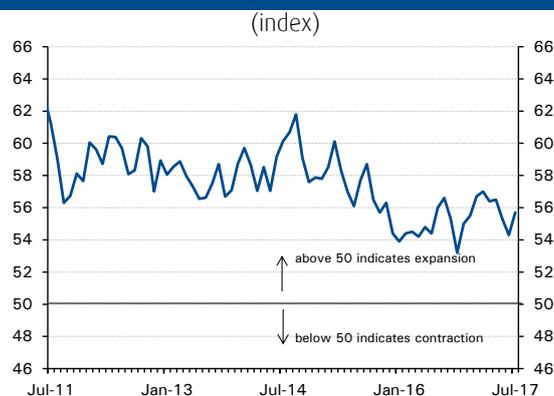
Employment growth among Kuwaitis improved through June 2017 to 2.0% y/y from 1.6% y/y a year ago. The slowdown over the last two years was the result of a clampdown on "phantom employment" in the private sector, which now appears to be largely complete. Growth of nationals employed in the public sector remained steady at 2.4% y/y, while expat employment growth slowed to 3.8% y/y.

Chart 1: US CPI inflation



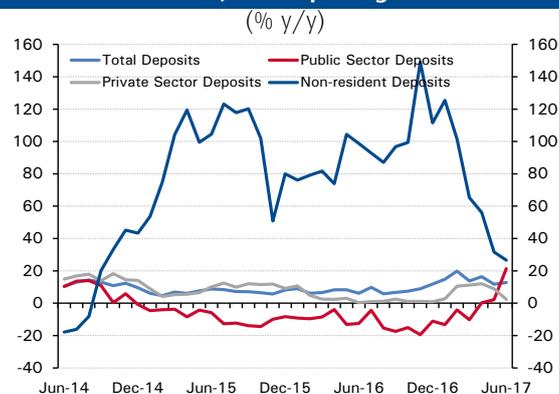
Source: BLS

Chart 2: Saudi PMIs



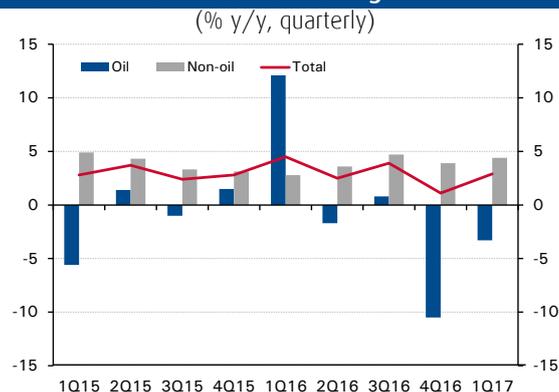
Source: Emirates NBD/Markit

Chart 3: Qatar deposit growth



Source: QCB

Chart 4: Bahrain GDP growth



Source: Bahrain Economic Development Board

Saudi Arabia: Business conditions appeared to improve in July, according to the latest PMI data. The headline figure improved to 55.7 from 54.3 in June, with output and new orders expanding in the non-oil private sector at the strongest rate since April. (Chart 2.)

UAE: Emirates NBD's Dubai Economy Tracker (a gauge of non-oil activity) held steady at 56.3 in July, as output and new orders remained strong. The resilience in the non-oil sector continues to be supported by gains in all sectors, including construction, travel and tourism, and wholesale and retail trade.

Qatar: Moody's has changed the outlook on the Qatari banking system from "stable" to "negative", citing weak operating and funding conditions. Non-resident deposits' pace of growth has been slowing since the start of the year—down to 27% y/y in June 2017 from 99% y/y in June 2016. Non-resident deposits account for 19.6% of total bank deposits as of June 2017.

The slowdown in non-resident as well as private sector deposit growth has prompted the authorities to step in to compensate. Public sector deposit growth has, therefore, accelerated, rising to 21% y/y in June from a mere 2.2% in May. (Chart 3.)

Moody's expects real GDP growth to be 2.4% this year, a pick-up from 2.2% in 2016. The rating agency stated that the pace of growth could have been higher were it not for the combination of fiscal consolidation and the economic repercussions of the recent dispute with Saudi Arabia and its neighbors. In an effort to promote tourism, which has been adversely affected by the closure of Saudi/Emirati airspace and land borders especially, Qatar recently waived visa requirements for 80 nationalities

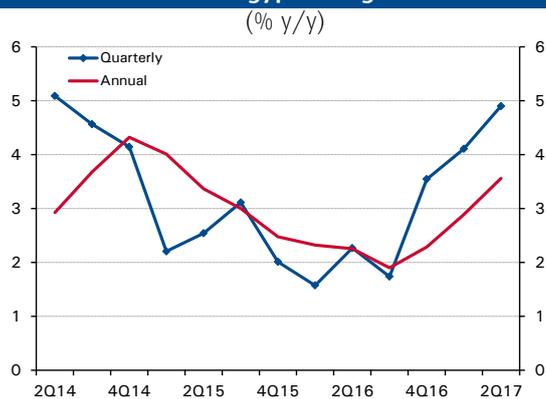
Oman: Omantel is set to purchase a 9.84% stake in Zain Group. The transaction is valued at \$846 million for 425.7 million shares at a price of \$1.99 (KD 0.6) per share. The purchase comes ahead of a bid by regional telecoms companies for the acquisition of Oman's third mobile license.

Bahrain: The latest official figures showed real GDP growth in Bahrain expanding from 1.1% y/y in 4Q16 to 2.9% y/y in 1Q17. (Chart 4.) The pick-up came on the back of a resilient non-oil sector as well as an improvement in oil sector activity. Growth in the non-oil sector was supported by a jump in activity in the transportation & communication and hotel & restaurant segments as well as by gains in the finance industry. Activity in the oil sector continued to decline, falling by 3.3% y/y.

Egypt: GDP growth saw a healthy pick-up during the first half of 2017 and the fiscal deficit narrowed noticeably in FY16/17. Data just published show GDP growing by 4.1% y/y in 1Q17, while a recent presidential statement revealed that growth had picked up further to 4.9% in 2Q17. (Chart 5.) Growth rose to 3.6% in FY16/17, up from 2.3% in FY15/16. The strong 1H17 figures contradict more sluggish PMI data during the same period. The president's office also revealed that the fiscal deficit narrowed to 10.9% during FY16/17, though this improvement was already visible in the interim figures.

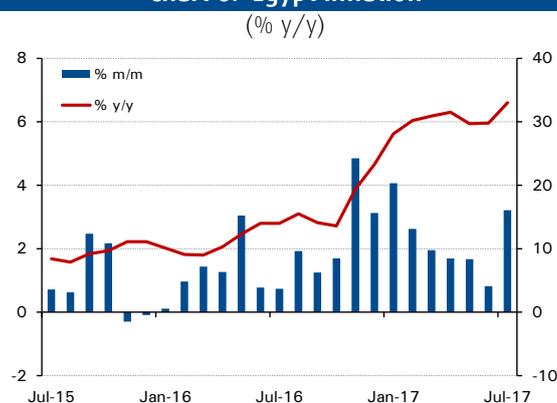
Inflation jumped to 33% y/y in July, with prices rising by 3.2% during July alone. (Chart 6.) The jump in prices was a result of the hike in fuel and electricity rates, which were increased by up to 55% during the month.

Chart 5: Egypt GDP growth



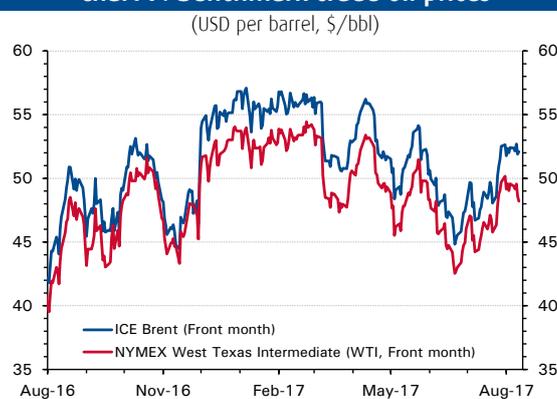
Source: CBE, Thomson Reuters Datastream, press, NBK estimates

Chart 6: Egypt inflation



Source: Central Bank of Egypt

Chart 7: Benchmark crude oil prices



Source: Thomson Reuters Datastream

Chart 8: Total return indices



Source: Thomson Reuters Datastream

Markets – oil

Oil prices closed on Friday lower at \$52.1/bbl (Brent) and \$48.20/bbl (WTI). (Chart 7.) The week-on-week decline was more pronounced for WTI (-2.8%) than it was for Brent (-0.6%), and came despite both oil markers recording a mid-week boost thanks to EIA data which showed weekly US crude output falling slightly (-7,000 b/d to 9.42 mb/d) and crude inventories continuing to decline (-6.4 mb to 474 mb) in the week ending 4 August. US crude stock levels are back down to where they were last October, with the net drawdown in 2017 so far at 3.58 mb, or -0.7% ytd.

While refinery throughputs hit a record 17.5 mb/d last week, gasoline inventories increased counter-seasonally by 3.4 mb. This was surprising, as the peak summer driving season is typically associated with a drawdown in gasoline stocks.

Last week also saw OPEC members Iraq and the UAE reaffirm their commitment to meeting their output cut pledges as part of the OPEC production cut agreement. Both countries have yet to achieve their reduced production targets 7 months into the agreement period, as the latest OPEC monthly oil market report (MOMR) shows.

Indeed, for the second month in a row, the group's aggregate production trended higher, reaching 32.9 mb/d.

However, OPEC has raised its crude demand forecasts for this year and next and lowered its projection for crude production from outside the group.

Markets – equities

Equity markets advanced further this week, before losing some steam on geopolitical (North Korea) concerns, which had investors exiting equities to safer assets. The MSCI All-Country World Index (ACWI) was down 1.7% on the week as most equity markets saw their worst week in months. The S&P 500 and DJIA were also down 1.5% and 0.7%, respectively. European equities underperformed, with the Euro Stoxx 50 closing down 2.9%. Emerging market equities advanced early on in the week before retreating, with the MSCI EM down 1.8%. (Chart 8.)

GCC markets were mixed last week with the heavy-weight Saudi market supporting regional indexes; the MSCI GCC closed up 0.6%. Saudi's Tadawul index advanced 1.1% as the earnings season ended and investors looked toward a decision on a potential FTSE upgrade sometime in September. Kuwait outperformed, with its value-weighted index up 1.8%. News of a 10% acquisition of Zain shares by Omantel gave the market a further boost on Thursday. Meanwhile, the UAE and Qatari markets, which have more international exposure, were down on the week in line with their international peers. (Chart 9.)

Markets – fixed income

Escalating tensions between the US and North Korea drove fixed-income yields lower, as investors scurried into safe-haven assets. Both US Treasury and German Bund prices traded within tight ranges this week, but ultimately logged in positive gains, as demand for safer returns increased following concern over the North Korean situation.

In US markets, rates were also pushed lower by moderate inflation data releases (see US above). Meanwhile, German bunds tracked their US counterparts: US 10-year treasuries were down 8 bps to 2.19%, their

Chart 9: GCC markets

(rebased, 11 August 2016=100)



Source: Thomson Reuters Datastream

lowest since June 2017, while 10-year bunds shaved off 10 bps to settle at 0.38%. (Chart 10.)

GCC sovereign yields were mixed on the week. Bonds maturing in 2021 for Abu Dhabi, Dubai, and Qatar were relatively steady, with Qatar seeing a small 2 bps bump, seemingly unaffected by Moody's change to its banking system outlook. 2022 bonds for Saudi and Kuwait were both down 4 bps and 7 bps, respectively. (Chart 11.)

Chart 10: Global benchmark yields

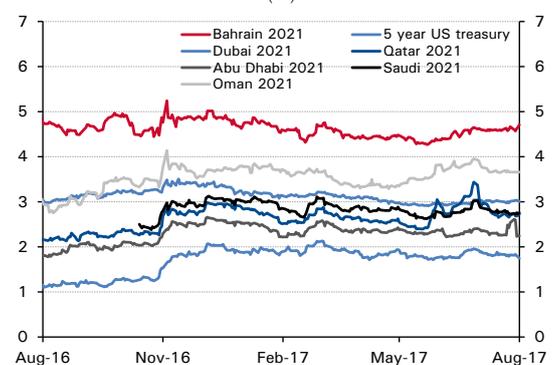
(%)



Source: Thomson Reuters Datastream

Chart 11: GCC yields

(%)



Source: Thomson Reuters Datastream

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