

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

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

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.

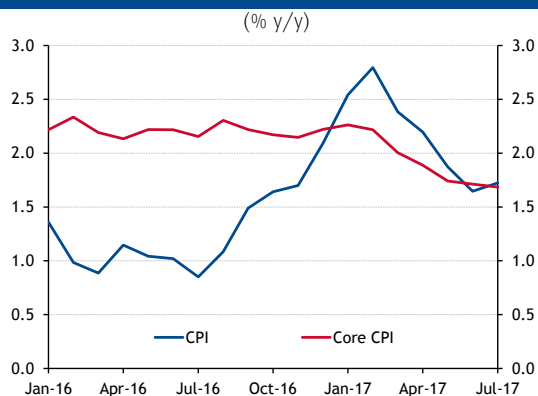
GCC & regional macroeconomics

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.

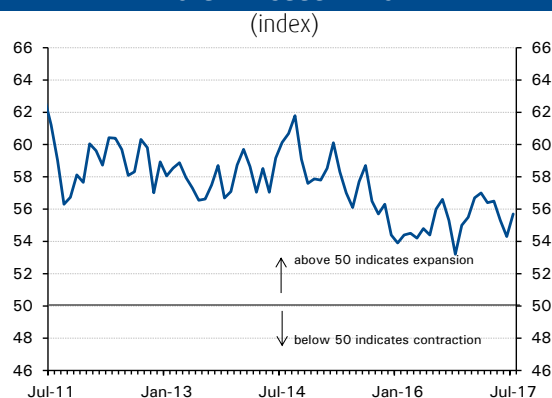
Employment growth among Kuwaitis improved through June 2017 to 2.0% y/y from 1.6% y/y a year ago. The slowdown over the last two years was the result of a clampdown on "phantom employment" in the private sector, which now appears to be largely complete. Growth of nationals employed in the public sector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

Chart 1: US CPI inflation



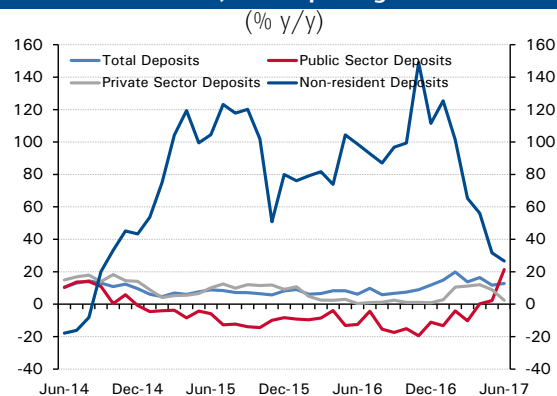
Source: BLS

Chart 2: Saudi PMIs



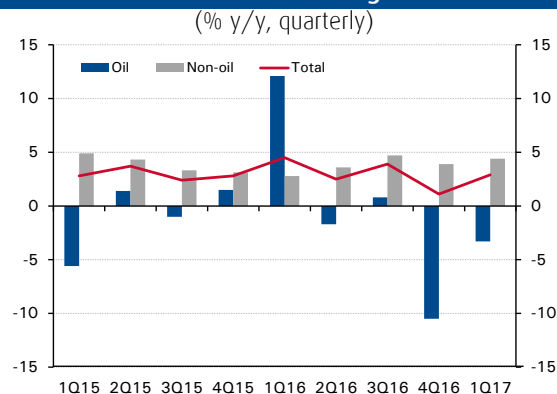
Source: Emirates NBD/Markit

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

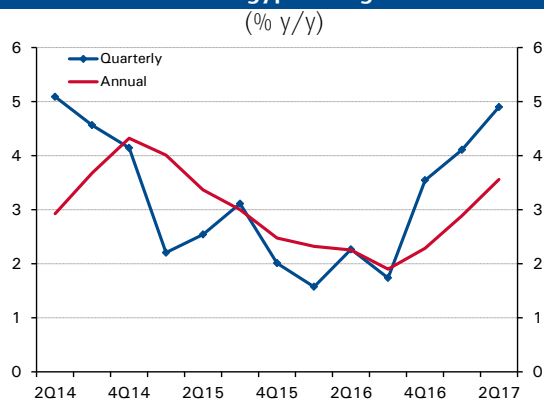
Oman: Omantel is set to purchase a 9.84% stake in Zain Group. The transaction is valued at \$846 million for 425.7 million shares at a price of \$1.99 (KD 0.6) per share. The purchase comes ahead of a bid by regional telecoms companies for the acquisition of Oman's third mobile license.

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.

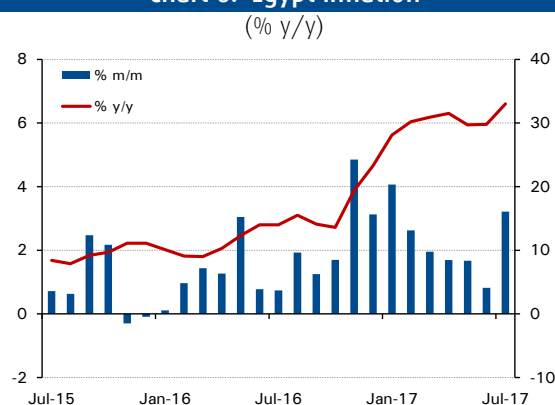
Inflation jumped to 33% y/y in July, with prices rising by 3.2% during July alone. (Chart 6.) The jump in prices was a result of the hike in fuel and electricity rates, which were increased by up to 55% during the month.

Chart 5: Egypt GDP growth



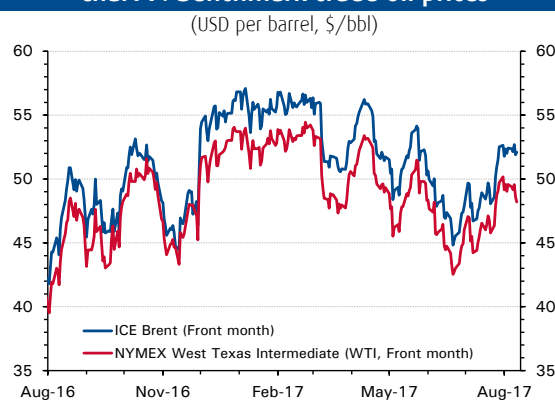
Source: CBE, Thomson Reuters Datastream, press, NBK estimates

Chart 6: Egypt inflation



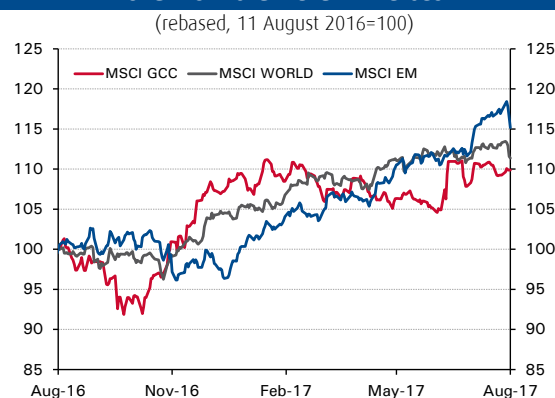
Source: Central Bank of Egypt

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.)

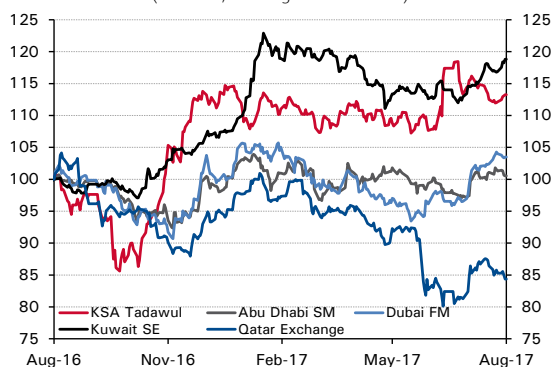
Markets – fixed income

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)



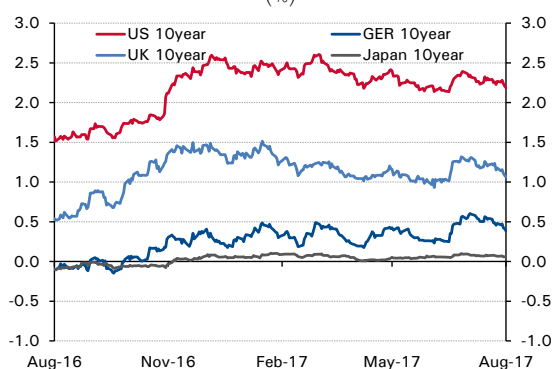
Source: Thomson Reuters Datastream

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

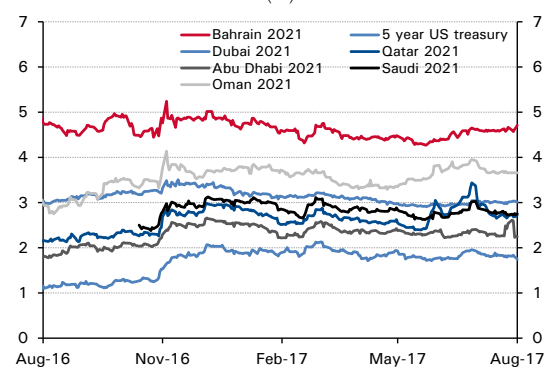
(%)



Source: Thomson Reuters Datastream

Chart 11: GCC yields

(%)



Source: Thomson Reuters Datastream

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