NBK ECONOMIC REPORT

Oil prices rally to above $70; Kuwait non-oil growth hits 2%

Consumer spending returns to growth; inflation picks up

KUWAIT: Concerns over global economic growth have persisted over the past month with global bond yields falling amid expectations of a shift towards looser monetary policy and the IMF again downgrading its forecasts for global economic growth. However, news on the Kuwaiti economy has been slightly more encouraging and largely supports our view that domestic growth - while unspectacular at the end of 2018 according to latest data - should hold up fairly well over the year ahead. Among other factors, OPEC supply cuts have pushed oil prices above $70 once again, reinforcing the improvement in the budget position and providing space for fiscal expansion this year. Meanwhile, credit growth has climbed to a more than two-year high, consumer spending growth has moved further into positive territory and the stock market made large gains in March on strong foreign inflows.

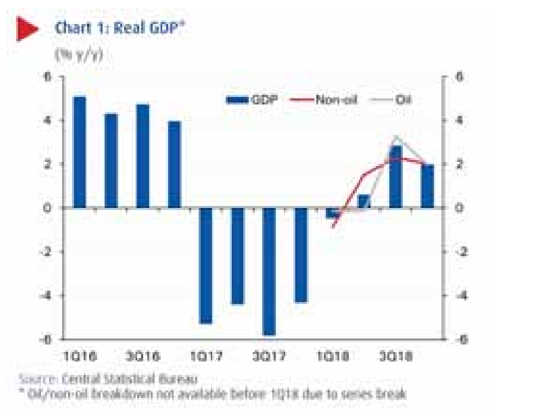

Table 3: Quarterly economic data

(KD billion, unless otherwise indicated)	4Q14	4Q15	4Q16	4Q17	1Q18	2Q18	3Q18	4Q18
GDP growth (% y/y)	-2.7	1.7	4.0	-4.3	-0.5	0.6	2.9	2.0
Oil*	-4.0	0.9	2.2	-5.8	-0.1	-0.1	3.3	2.0
Non-oil*	-0.3	0.3	2.7	1.6	-0.9	1.5	2.3	2.0
Point-of-sale card spending	1.9	2.1	2.3	2.6	2.7	3.0	3.0	2.9
Growth (% y/y)	14.8	10.0	9.1	11.4	15.8	16.6	14.1	10.9
Current account balance	2.4	-0.1	0.6	1.2	1.9	2.7	2.2	...
Exports	6.0	3.6	4.1	4.7	5.7	6.2	6.0	...
Imports	2.0	2.1	2.1	2.4	2.3	2.4	2.5	...

Source: Central Statistical Bureau, Ministry of Finance, Central Bank of Kuwait, NBK estimates * Series break: due to classification changes, growth rates in the oil and non-oil sectors before 1Q18 are not comparable with those thereafter.

Oil prices break through the $70 mark

The price of Kuwait Export Crude traded in a narrow range of $65-68/bbl through March, ending the month up 3% at $67 but then breaking through the $70/bbl mark in early April for the first time in five months. Oil prices continue to be supported by decent if easing demand growth, but supply weakness, including in sanctions-hit Venezuela and Iran and the decision by Saudi Arabia to reduce output by more than double the cut agreed by OPEC+ in December are the main drivers behind the pick-up in oil prices. Kuwait's crude oil output was unchanged at 2.71 million b/d in March, down 100,000 b/d from its September baseline and representing a compliance rate of 118 percent on targeted cuts of 85,000 b/d.

GDP growth moderated to 2%

Preliminary official data for 4Q18 show that economic growth moderated at the end of last year against a backdrop of plateauing oil output, slow project implementation and falls in both oil prices and global stock markets that may have hit confidence and business spending. Overall growth slowed to 2.0 percent y/y in 4Q18, down from 2.9 percent in Q3 (upwardly revised from 1.8 percent). The slowdown was driven largely by a deceleration in the oil sector, where growth was 2.0 percent versus 3.3 percent in Q3 which had been boosted by a relaxation of earlier OPEC production cuts. Non-oil growth, which now includes the oil refining sector, eased to 2.0 percent from 2.3 percent in Q3.

Oil/non-oil breakdown not available before 1Q18 due to series break

Although this quarterly data set points to overall and non-oil growth of 1.2 percent for 2018 as a whole, these figures may be revised when more comprehensive annual data are released in coming months. For now therefore, we have left our (slightly stronger) estimates of growth last year unchanged, and still expect non-oil growth of 2-3 percent per year in 2019 and 2020.

Budget surplus now looks plausible

Public finance data for the first 11 months (until February) of FY2018/19 reveal a budget surplus (before transfers to the Reserve Fund for Future Generations) of KD3.6 billion, up slightly from KD3.3 billion year-to-date in January. Revenues rose KD1.4 billion to KD18.4 billion, helped by higher oil prices with KEC averaging $64 versus $58 in January. More notable was spending, which rose by a surprisingly small KD1.1 billion - much less than in recent months - to KD14.8 billion. There was weakness in both current and capital spending.

These figures mean that spending on a year-to-date basis is now down 5 percent y/y compared to a planned 8 percent increase in the full-year budget. Although outlays typically surge in March, the final month of the fiscal year, it now looks plausible that full-year spending could come in at around the same level as FY17/18. Given reasonable revenue assumptions, this would imply a full-year surplus of around KD1.3 billion, or 3 percent of GDP. This would be the first budget surplus in four years.

Real estate sales rise

Real estate sales were relatively solid in February at KD284 million, up 16 percent from January. The rise came entirely from a surge in commercial sector sales to KD100 million due to a near four-fold increase in average transaction size; the number of commercial transactions actually dropped 30 percent m/m. Residential sales were broadly steady at a decent KD110 million, while investment sector sales eased to KD 74 million having spiked higher in some earlier months. Prices were mostly stable on a monthly basis, with the exception of the apartment sector which saw a 4.6 percent m/m decline. Rising supply of new apartments may be applying downward pressure on prices. Despite this, market activity is healthy and according to the CPI (see below) housing rents have been stable for 11 months suggesting that market conditions are relatively good.

Consumer spending returns to growth in February

According to the NBK consumer spending index, growth in consumer spending rose from 0.2 percent y/y in February to a five-month high of 1.2 percent in March. The pickup was supported by a rebound in spending on durable goods, which helped offset a sharper decline in non-durables and softer growth in service purchases. Growth in consumer spending has shown signs of improvement in 1Q19 in tandem with low inflation and healthier employment growth, as well as stronger consumer lending.

Inflation picks up

Consumer price inflation increased to 0.6 percent y/y in February from 0.4 percent in January, while our measure of core inflation (which excludes food and housing) also rose, to 2.0 percent from 1.7 percent in January. The pick-up in inflation came primarily from a rise in food inflation to 0.4 percent y/y from 0.0 percent in January, but also from the clothing, communication and recreation components. The increases in food and clothing inflation, however, were generated by base effects following large price rises a year earlier: prices in these segments actually fell month-on-month. Meanwhile, housing inflation (mostly rents) was steady at -1.2 percent y/y reflecting an only gradual recovery in the property market - though this component tends to move only at the end of each quarter.

Overall, although we still expect inflation to pick up this year as some of last year's downward pressures on food and (eventually) housing moderate, the soft start to 2019 leaves our previous forecast looking slightly on the high side.

We now forecast inflation to average 1.5 percent for 2019 as a whole, down from 2.0 percent before and up from a sixteen-year low of 0.6 percent in 2018. Core inflation is forecast to remain more or less unchanged from last year at 2 percent, contained by moderate economic growth, a strong dinar and the absence of implementation of VAT or fresh subsidy cuts.

Credit growth accelerates in February

Credit growth rose to a more than two-year high of 5.3 percent y/y in February from 5.0 percent in January, supported by an increase in lending to both businesses and households. Business loans grew 6.2 percent y/y up from 6.0 percent in January, driven mainly by an improvement in lending to the real estate, trade and construction sectors. Household credit was boosted by a rise in housing lending (5.9 percent y/y), as well as an increase in consumer loans of 3.9 percent, its highest growth in over four years, likely benefiting from the central bank's recent loosening of lending restrictions. Meanwhile, total deposit growth decelerated to 2.3 percent from 4.2 percent in January, due to a large decline in government deposits. The M2 money supply measure increased 4.7 percent.

Equity market surges

Boursa Kuwait was the best performing GCC market in March, driven by a combination of FTSE stock re-weighting which boosted foreign inflows, but also weakness in other markets including Qatar (overvaluation selloff) and Dubai (property market woes). The All-Share index surged 7.4 percent m/m versus a 3.5 percent gain in the MSCI-GCC. The rally pushed market capitalization to a high of KD32 billion, the highest since January 2011. Market liquidity was strong, at an average daily turnover of 174 million shares, up 39 percent m/m and more than double the average daily turnover of 2018. Foreign net inflows totaled a record KD141 million in March, possibly the highest in the history of the market. Strong price gains in March were driven mostly by the banking, healthcare and consumer goods sectors, which rose 10 percent, 9 percent, and 8 percent m/m respectively. Year-to date, Boursa Kuwait is up by 10.6 percent, trailing behind the Saudi Tadawul which is up 12.7 percent.

North American trade deal to boost US economy

WASHINGTON: The new North American free trade pact would modestly boost the US economy, especially auto parts production, but may curb vehicle assembly and limit consumer choice in cars, a hotly anticipated analysis from the US International Trade Commission showed.

The ITC report is a crucial step in the push for Congress to consider ratification of the US-Mexico-Canada Agreement, which was signed by President Donald Trump and the leaders of the other two countries last year to replace the 25-year-old North American Free Trade Agreement.

The report estimates that annual US real gross domestic product would increase by 0.35 percent, or $68.5 billion, on an annual basis compared to a NAFTA baseline, and would add 176,000 US jobs, while raising US exports.

The ITC's estimates are for year six of the trade deal, once it is fully implemented.

The trade deal's success or failure in Congress could be determined by how it is expected to affect the US auto industry, a sector that steadily drained jobs to Mexico under NAFTA. The USMCA deal contains much tighter regional content rules, requiring that 75 percent of a vehicle's value be sourced in North American versus 62.5 percent currently, and 40-45 percent produced in high-wage areas, namely the United States and Canada. Auto industry employment would rise by 30,000 jobs for parts and engine production, but US vehicle assembly would decline. US vehicle prices would rise up to 1.6 percent, causing consumption to fall by 140,000 units per year, or about 1.25 percent of 2017 sales, the report said.

The report overall was more positive than initially anticipated by economists, who said the traditional economic models used by the ITC to measure previous trade deals would result in minimal gains for the United States. White House economic adviser Kevin Hassett told Reuters that he was pleasantly surprised by the results, which used different modeling methods that he called "accurate and well done." "Their estimate is a lot closer to what we think USMCA will do than I expected," Hassett in a telephone interview. "This is very strong argument for passing the USMCA."

Concerns not alleviated

But some key Democrats were not swayed from their demands for improvements to the enforcement of new labor standards before they consider USMCA. Democrats control the US House of Representatives. Representative Earl Blumenauer, chairman of the House Ways and Means trade subcommittee, said that he had already believed the trade deal needed changes before it could be considered

by the House. "Nothing in this report alleviates those concerns," he said. Senator Ron Wyden, the top Democrat on the Senate Finance Committee said, "The administration shouldn't squander the opportunity to lock in real, enforceable labor standards in Mexico."

The ITC report said Mexican union wages would rise by 17.2 percent if the labor provisions agreed in the USMCA are enforced. Even so, Mexican factory wages would remain far below those in the United States.

Republican Senator Chuck Grassley, chairman of the Senate Finance Committee, praised the report for highlighting benefits beyond tariff reductions. "Many of the significant improvements in USMCA are reducing non-tariff barriers and implementing rules and fair practices that will help US workers, jobs and businesses tremendously over the coming years," Grassley said in an emailed statement.

Dueling analyses

The US Trade Representative's office had prepared a separate analysis of the USMCA's automotive benefits that industry officials had described as a rosier alternative view of USMCA aimed at limiting any potential damage from the ITC report.

USTR estimated that the trade deal would create 76,000 automotive sector jobs within five years as automakers invest some $34 billion in new plants to comply with the regional content rules. The total includes about $15 billion in projects already announced. USTR officials said their analysis was based on plans disclosed by automakers to the trade agency for compliance with the new agreement's tighter rules of origin.

"They have verbally committed to us that they intend to comply with the rules," a senior USTR official said. "And they have told us that this is not going to have significant upward pressure on vehicle prices." But the ITC report said some automakers may decide not to offer vehicles that would be too expensive to bring into compliance with the deal, reducing consumer choice in the US auto market.

The trade group representing Detroit automakers Ford, GM and Fiat Chrysler said it viewed the USTR analysis as more accurate than the ITC's. — Reuters

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	305.200
Euro	344.110
Sterling Pound	402.710
Canadian dollar	229.730
Turkish lira	54.990
Swiss Franc	307.200
US Dollar Buying	297.800
ASIAN COUNTRIES	
Japanese Yen	2.740
Indian Rupees	4.400
Pakistani Rupees	2.199
Srilankan Rupees	1.742
Nepali Rupees	2.742
Singapore Dollar	225.990
Hongkong Dollar	38.881
Bangladesh Taka	3.606
Philippine Peso	5.862
Thai Baht	9.592
Malaysian ringgit	78.056
GCC COUNTRIES	
Saudi Riyal	81.441
Qatari Riyal	83.881
Omani Riyal	793.242
Bahraini Dinar	810.950
UAE Dirham	83.149
ARAB COUNTRIES	
Egyptian Pound - Cash	20.700
Egyptian Pound - Transfer	17.594
Yemen Riyal/for 1000	1.226
Tunisian Dinar	105.240
Jordanian Dinar	431.200
Lebanese Lira/for 1000	0.204
Syrian Lira	0.000
Morocco Dirham	32.434

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.840
Canadian Dollar	228.350
Sterling Pound	95.450
Euro	344.725
Swiss Frank	307.490
Bahrain Dinar	810.685
UAE Dirhams	83.400
Qatari Riyals	84.640
Saudi Riyals	82.185
Jordanian Dinar	431.245
Egyptian Pound	17.628
Sri Lankan Rupees	1.744
Indian Rupees	4.412
Pakistani Rupees	2.160
Bangladesh Taka	3.618
Philippines Pesso	5.851
Cyprus pound	18.135
Japanese Yen	3.725
Syrian Pound	1.595
Nepalese Rupees	2.758
Malaysian Ringgit	75.435
Chinese Yuan Renminbi	45.805
Thai Bhat	10.550
Turkish Lira	54.575
Singapore dollars	225.511

Bahrain Exchange Company

CURRENCY	BUY	SELL
Europe		
British Pound	0.389960	0.403860
Czech Korune	0.005328	0.014628
Danish Krone	0.041829	0.046829
Euro	0. 336081	0.349751
Georgian Lari	0.132239	0.132239
Hungarian	0.001149	0.001339
Norwegian Krone	0.031795	0.036995
Romanian Leu	0.065353	0.082203
Russian ruble	0.004790	0.004790
Slovakia	0.009120	0.019120
Swedish Krona	0.028740	0.033740
Swiss Franc	0.294395	0.305395
Australasia		
Australian Dollar	0.210228	0.222228
New Zealand Dollar	0.198085	0.207585
America		
Canadian Dollar	0.222572	0.231572
US Dollars	0.300750	0.306050
US Dollars Mint	0.301250	0.306050
Asia		
Bangladesh Taka	0.003028	0.003829
Chinese Yuan	0.043963	0.047463
Hong Kong Dollar	0.037094	0.039844
Indian Rupee	0.003833	0.004605
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002648	0.002828
Korean Won	0.000258	0.000273
Malaysian Ringgit	0.070547	0.076547
Nepalese Rupee	0.002682	0.003022
Pakistan Rupee	0.001510	0.002280
Philippine Peso	0.005853	0.006153
Singapore Dollar	0.219847	0.229847
Sri Lankan Rupee	0.001401	0.001981
Taiwan	0.010175	0.010355
Thai Baht	0.009226	0.009776
Vietnamese Dong	0.00013	0.00013
Arab		
Bahraini Dinar	0.794050	0.810550
Egyptian Pound	0.017754	0.020354
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.425068	0.434068
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000157	0.000257
Moroccan Dirhams	0.021240	0.045240
Omani Riyal	0.785500	0.791180
Qatar Riyal	0.079445	0.084385
Saudi Riyal	0.080207	0.081507
Syrian Pound	0.001293	0.001513
Tunisian Dinar	0.096893	0.104893
Turkish Lira	0.046173	0.057673
UAE Dirhams	0.081575	0.083275
Yemeni Riyal	0.000991	0.001071