NBK Economic Report

Bond yields trend lower in Q2, GCC issuance hits new record

Saudi Arabia's sovereigns and quasi-sovereigns lead market

KUWAIT: Benchmark global bond yields continued to trend down in 2Q19 amid ongoing trade tensions, central bank dovishness and signs of slowing economic growth. GCC bond yields tracked their global counterparts lower and indeed saw steeper declines partly on increased demand due to EMBI index inclusions. Investors appeared to be relatively unaffected by recent geopolitical tensions in the Gulf, though a further escalation or alternatively falls in oil prices and revenues that jeopardize the fiscal situation pose a downside risk to GCC fixed income markets. Meanwhile, regional debt issuance hit a record $40 billion in 2Q19, dominated by sovereigns and quasi-sovereigns and led by Saudi Arabia.

International yields fall on trade, Fed rate cut

Ongoing trade tensions, weaker economic data, low inflation, and interest rate cut prospects saw benchmark global yields fall in 2Q19. The declines were led by US 10-year treasuries, which fell 41 bps q/q to 2.00 percent as of the end of 2Q. This resulted in a more pronounced yield curve inversion, with a spread of 12 bps between the 3-month and 10-year yields, which has since widened to 32 bps as 10-year yields sunk to a three-year low of 1.68 percent as of mid-August.

A combination of low inflation and concern over the economic growth outlook due to trade factors could exert downward pressure on longer-term yields going forward, but Fed policy will also be key. While the central bank delivered a rate cut of 25 bps in July as expected, it also hinted that it might not be the start of a broader easing cycle. A more neutral Fed stance might cap further declines in US treasuries in the near-to-medium term, though futures markets are still pricing in at least one more interest rate cut this year given the escalating trade dispute.

Meanwhile, weaker Eurozone growth, particularly declining manufacturing and exports in Germany due to the softer external climate, caused the 10-year German bund yield to cross into negative territory, declining 25 bps q/q to -0.33 percent as of the end of Q2 - lower even than Japan - and further to -0.61 percent by mid-August. Contributing to the decline, the European Central Bank has adopted an increasingly dovish policy stance, boosting the possibility of a rate cut and mulling the reintroduction of quantitative easing. UK gilts also suffered fairly steep declines (-25 bps to a record low of 0.5 percent), amid uncertainty surrounding Brexit and the resignation of prime minister Theresa May, replaced by Brexit hardliner Boris Johnson. Finally, Japanese JGB yields were the least affected by adverse global events, down only 7 bps q/q.

GCC yields drop

GCC yields on the whole saw steeper declines than their global counterparts, influenced by similar factors but also higher starting points for yields, Brent oil prices reaching above $75/bbl mid-quarter (though they have since fallen) and bond index inclusion (see below). Declines in medium-term (i.e. 7-8 year) GCC sovereign yields were led by Saudi Arabia, Kuwait and Abu Dhabi, down 65, 61, and 60 bps respectively in Q2. Demand for Saudi debt may have been boosted by Saudi Tadawul's launch of bond and sukuk trading in April, while the UAE debt market was helped by the enactment of a debt law in late 2018 and the establishment of a debt management office which has improved regulation, access and transparency for bond investors. Kuwait's decline in yields was helped by its strong credit rating and low existing debt levels, partly due to a lack of new issuance. Omani yields were the least changed, affected by delayed reforms and a challenging fiscal outlook relative to some GCC peers.

Regional demand has also been supported by the imminent inclusion of multiple GCC sovereigns in the JP Morgan Emerging markets Bond Index (EMBI). With $300 billion in assets under management and an assigned GCC weight of 11.3 percent in the EMBI index, the region is estimated to receive approximately $30 billion in fund inflows, with more than half going to the larger debt markets of Saudi Arabia and Qatar.

Looking forward, GCC yields will continue to be influenced by global yields, which as described above have moved lower on growth concerns. However, declines in GCC yields could be limited if weaker world growth causes oil prices to fall, implying larger fiscal deficits and funding requirements. A further or sustained flare up in regional geopolitical tensions involving Iran could also underpin GCC yields.

Amid lower yields, GCC bond issuance surged to a record $40 billion in 2Q19, breaking the previous high of $32 billion recorded in 1Q19 and paving the way for a strong year overall. This lifted total outstanding debt (foreign and domestic) to $501 billion at the end of Q2 from $478 billion in Q1. Issuance was dominated by sovereigns and quasi-sovereigns, with funding for strategic investments by sovereign wealth funds and state-owned enterprises a strong driver. In addition, a large volume of maturing debt has likely helped ramp-up new issuance. Some $43 billion in maturing debt is scheduled for 2019, of which $28 billion had matured as of early-August.

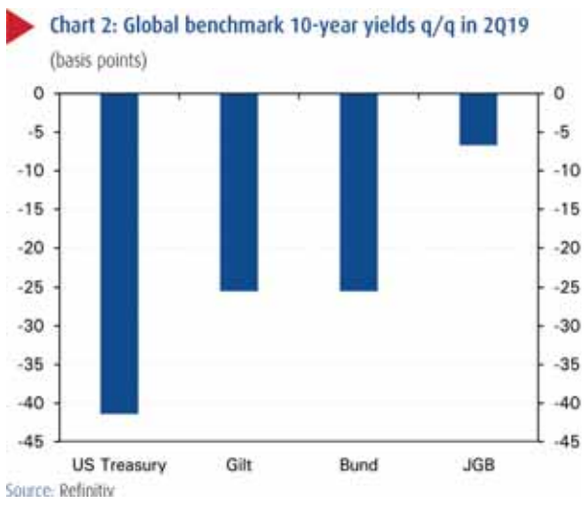
The bulk of issuance in Q2 came from Saudi Arabia with $26.8 billion. This included a jumbo $12 billion from Saudi Aramco as it looks to foster relationships with international investors ahead of its IPO scheduled for 2021 and in light of its plans to purchase a stake in SABIC. Also of note, Oman tapped international debt markets for the first time this year in July, with a successful $3 billion issue despite concerns over its fiscal position. Meanwhile, a rise in issuance from the region's financial firms was supported by a reported surge in mergers and acquisitions, especially in the UAE and Saudi Arabia.

With global and regional borrowing costs already low and perhaps set to decline further, issuance could remain strong for the remainder of the year. Moreover, foreign investor appetite for regional paper remains solid, and GCC borrowing needs are supported by expansionary budgets and the recent drop in oil prices if sustained.

Chart 1: Global benchmark yields

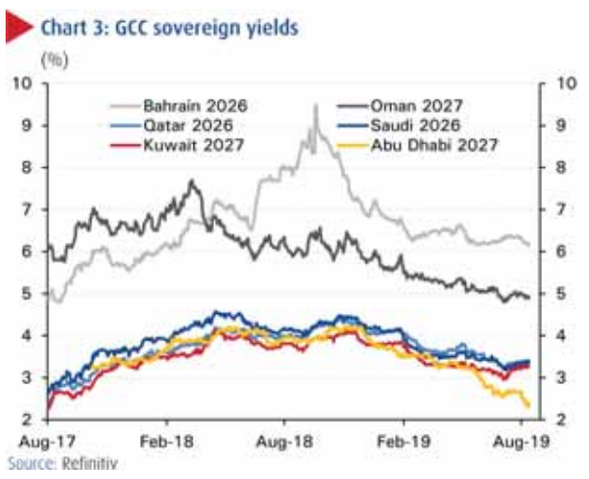
Source: Refinitiv

Chart 2: Global benchmark 10-year yields q/q in 2Q19



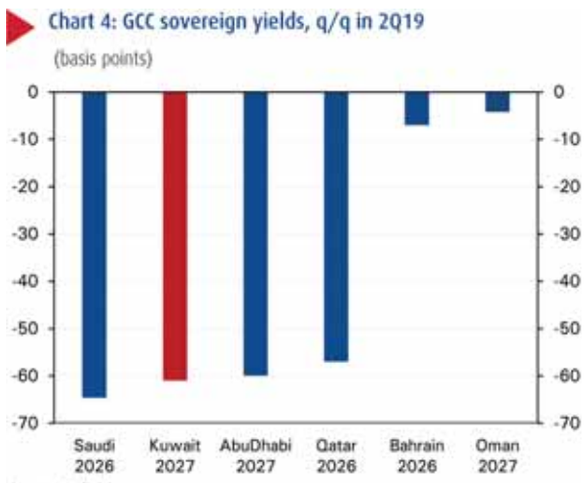
Source: Refinitiv

Chart 3: GCC sovereign yields



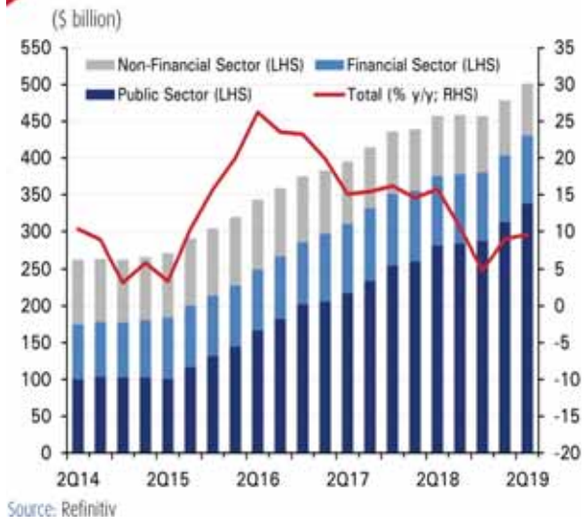
Source: Refinitiv

Chart 4: GCC sovereign yields, q/q in 2Q19



Source: Refinitiv

Chart 5: Outstanding GCC debt securities



Source: Refinitiv

NBK named 'Best Consumer Digital Bank' and 'Best in Mobile Banking'

KUWAIT: National Bank of Kuwait (NBK) was awarded "Best Consumer Digital Bank" and the "Best in Mobile Banking" in Kuwait by Global Finance Magazine for 2019.

Global Finance, headquartered in New York, was founded in 1987 and is one of the leading publications specialized in economic research and analysis. The magazine has a circulation of over 50,000 and readers in 188 countries. Winning banks were chosen among entries evaluated by a world-class panel of judges consisting of financial and technology sector leaders and under the supervision of Infosys, the global leader in consulting, technology and digital transformation, in collaboration with the magazine's staff.

Global Finance Magazine uses a variety of subjective and objective criteria for choosing the winners, including: the strength of strategy for attracting and servicing digital customers, success in getting clients to use digital offerings, growth in numbers of digital customers, breadth of product offerings, evidence of tangible benefits gained from digital initiatives, and web/mobile site design and functionality.

NBK always strives to maintain its leading position as a digital banking pioneer through continuously offering new and innovative digital services and introducing digital transformation standards in traditional bank branches.

NBK Mobile Banking and NBK Online Banking are among the key services offered by the Bank as it caters to the young population in Kuwait, with over 63 percent under the age of 30. Moreover, Kuwait has one of the highest internet and mobile penetration levels in the world.

In 2018, NBK achieved strong growth in mobile transactions, which increased by 40 percent Y-o-Y, thus confirming the success of its efforts aimed at encouraging customers to use digital banking channels.

Digital transformation is a main pillar of Consumer Banking Group's strategy that supports NBK Group's main objective by fulfilling customers' needs and requirements.

NBK Mobile Banking is a safe and easy channel to manage accounts from anywhere and at any time. Customers can conveniently open a new account, view transactions made on accounts and credit cards, check their NBK Miles Points and NBK Rewards Program Points, pay outstanding credit cards balance, pay bills online, find the nearest branch, ATM or CDM in Kuwait, as well as submit an account statement request and order checkbooks, in addition to a wide array of services.

NBK Mobile Banking is constantly evolving by adding new and innovative services and improving existing services. Some of the newest features include managing banking cards while traveling, increasing the monthly transfer limits and updating customers' contact information, making NBK Mobile Banking the greatest companion while travelling.

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.800
Euro	341.830
Sterling Pound	373.840
Canadian dollar	230.730
Turkish lira	55.850
Swiss Franc	315.850
US Dollar Buying	297.600
ASIAN COUNTRIES	
Japanese Yen	2.866
Indian Rupees	4.290
Pakistani Rupees	1.944
Srilankan Rupees	1.717
Nepali Rupees	2.676
Singapore Dollar	221.430
Hongkong Dollar	38.847
Bangladesh Taka	3.595
Philippine Peso	5.838
Thai Baht	9.907
Malaysian ringgit	77.954
GCC COUNTRIES	
Saudi Riyal	81.334
Qatari Riyal	83.771
Omani Riyal	792.203
Bahraini Dinar	809.980
UAE Dirham	83.040
ARAB COUNTRIES	
Egyptian Pound - Cash	21.650
Egyptian Pound - Transfer	18.422
Yemen Riyal/for 1000	1.224
Tunisian Dinar	109.640
Jordanian Dinar	430.720
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.391
Turkish Lira	55.125
Singapore dollars	220.065

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.090
Canadian Dollar	230.300
Sterling Pound	368.445
Euro	341.840
Swiss Frank	297.245
Bahrain Dinar	808.690
UAE Dirhams	83.195
Qatari Riyals	84.435
Saudi Riyals	81.985
Jordanian Dinar	430.185
Egyptian Pound	18.403
Sri Lankan Rupees	1.719
Indian Rupees	4.297
Pakistani Rupees	1.919
Bangladesh Taka	3.601
Philippines Pesso	5.859
Cyprus pound	18.090
Japanese Yen	3.881
Syrian Pound	1.590
Nepalese Rupees	2.679
Malaysian Ringgit	73.480
Chinese Yuan Renminbi	43.520
Thai Bhat	10.870

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
Europe		
British Pound	0.363134	0.377064
Czech Korune	0.005107	0.014407
Danish Krone	0.041225	0.046225
Euro	0. 330308	0.344008
Georgian Lari	0.103788	0.103788
Hungarian 0.000949	0.001139	
Norwegian Krone	0.029785	0.034985
Romanian Leu	0.054468	0.071318
Russian ruble	0.004579	0.004579
Slovakia	0.009118	0.019118
Swedish Krona	0.027465	0.032465
Swiss Franc	0.304480	0.315480
Australasia		
Australian Dollar	0.198362	0.210362
New Zealand Dollar	0.189232	0.198732
America		
Canadian Dollar	0.224103	0.233103
US Dollars	0.300700	0.306000
US Dollars Mint	0.301200	0.306000
Asia		
Bangladesh Taka	0.002982	0.003783
Chinese Yuan	0.042005	0.045505
Hong Kong Dollar	0.036763	0.039513
Indian Rupee	0.003772	0.004544
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002780	0.002960
Korean Won	0.000241	000256
Malaysian Ringgit	0.069277	0.075277
Nepalese Rupee	0.002682	0.003022
Pakistan Rupee	0.001343	0.002113
Philippine Peso	0.005821	0.006121
Singapore Dollar	0.214622	0.224622
Sri Lankan Rupee	0.001343	0.001923
Taiwan	0.009599	0.009779
Thai Baht	0.009567	0.010117
Vietnamese Dong	0.00013	0.00013
Arab		
Bahraini Dinar	0.802335	0.810395
Egyptian Pound	0.018683	0.022023
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.424997	0.433997
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.021054	0.045054
Omani Riyal	0.786557	0.794458
Qatar Riyal	0.083065	0.083899
Saudi Riyal	0.080193	0.081493
Syrian Pound	0.001292	0.001512
Tunisian Dinar	0.102077	0.110077
Turkish Lira	0.047498	0.057343
UAE Dirhams	0.082352	0.083180
Yemeni Riyal	0.000991	0.001071