NBK ECONOMIC REPORT

GCC equity markets stage strong recovery in 2nd quarter of 2020

Global markets broadly positive on recovery optimism

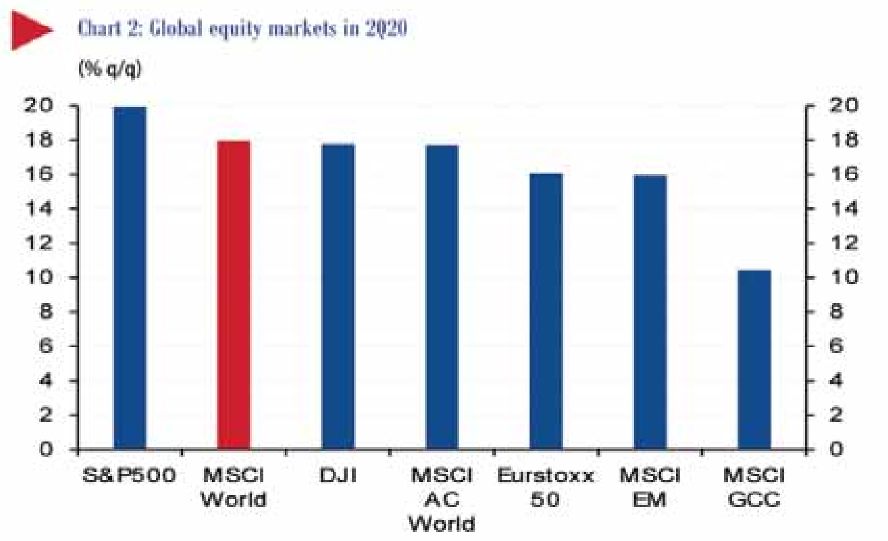
KUWAIT: Global equity markets rallied in the second quarter of the year, partly offsetting the steep prior losses brought on by the coronavirus and its detrimental effect on the global economy. The rally was despite growing concern about a second wave of coronavirus infections, and was fueled by government/central bank stimulus, progress on COVID-19 vaccines/treatments, easing coronavirus restrictions to movement and business activity, and signs of improvement in macroeconomic data, giving rise to a more optimistic outlook and improved investor sentiment.

With major central banks' ongoing commitment to significantly support economies, and hopes for a coronavirus vaccine on the rise, global markets could continue to be on an uptrend in the second half of the year. However, this is subject to considerable downside risk, given ongoing high infection rates in some countries (such as the US), possibility of a second-wave that could trigger renewed business closures and lockdowns, and as the long-term economic implications of the coronavirus become apparent.

Global markets positive

Global equity markets were broadly positive in 2Q20 on optimism about a relatively swift economic recovery following the easing of lockdowns and business restrictions. The recovery was helped by continued central bank stimulus, and more recently signs of improvement in various macroeconomic indicators, including better US jobs and business activity data, lower unemployment (although still high), and a rebound in retail sales reflecting a recovering consumer sector.

Quarterly gains were strong across the board, with the MSCI World index up a substantial 18 percent, led by the S&P 500 which surged 20 percent. European stocks and emerging markets followed closely, with the Euro Stoxx 50 and MSCI EM both up a solid 16 percent q/q. Despite the rebound, most global markets were unable to fully recoup the steep losses from the latter part of 1Q and early 2Q, with indices still in the red on a year-to-date basis by the end of June 2020.



Looking forward, continued positive momentum in global equities may be curbed by a weak global economic outlook as a result of the longer-term implications of the coronavirus, such as a prolonged weakness in global demand, weak jobs markets, and the risk of higher-than-expected credit defaults from distressed corporates. Furthermore, coronavirus-related uncertainty, especially in terms of the new infections, is expected to continue to have a main impact on markets, with no support from further interest rate cuts, although other monetary and fiscal policy tools remain at the disposal of central banks and governments.

Kuwait lags behind its GCC peers

Tracking global markets, GCC equity markets staged a strong recovery in the latter part of 2Q20, reversing a large part of prior losses induced by the coronavirus and its associated lockdowns and restrictions. The recovery was underpinned by rising oil prices and a gradual reopening of regional economies which helped boost optimism for a swift economic recovery. The MSCI GCC index gained 11 percent q/q, lifted by strong gains in Dubai (17 percent), Abu Dhabi (15 percent), and Saudi Arabia (11 percent).

Meanwhile, Kuwait lagged behind, though still up a solid 6.4 percent q/q, supported in part by the confirmation by MSCI of the markets upgrade to EM status in November, thereby curbing some uncertainty about upgrade-related portfolio (passive) inflows which could be worth $2-3 billion. This has re-ignited active foreign inflows, which were relatively dormant for most part of the year, reverting to positive net flows of KD 3.6 million in June and reflecting renewed foreign investor interest in Kuwaiti stocks. Oman (2 percent) and Bahrain (-5 percent), underperformed, likely affected by high uncertainty about the economic outlook amid the coronavirus shock given their smaller reserves and fiscal buffers.

Despite various signs of improvement, downside risk remains elevated given the uncertainty surrounding both the coronavirus and oil prices, and their impact on economic growth, investor sentiment, and governments' finances. Regional equities will continue to be influenced by global factors, such as a resurgence of trade tensions and a slower-than-expected global economic recovery.

Global markets have partly recovered and appear to have stabilized after the severe slump following the onset of the coronavirus in February/March and the national lockdowns and restrictions that followed, which brought economies almost to a complete halt. However, the recovery in equities is subject to a high degree of uncertainty, given its dependence on a broader economic recovery, which in turn is dependent on how quickly the coronavirus will be contained or how soon a vaccine will be available. Global growth projections continue to be revised downward on a greater-than-expected impact of the virus. The IMF projects that global growth will contract by 4.9 percent in 2020 with a sluggish recovery expected in 2021, suggesting that a recovery might take longer than previously thought. Improved economic data, which lent support to markets in June, may revert to weakness, thereby denting market confidence. US elections, ongoing US-China tensions, and oil price uncertainty are further risk factors for markets in 2H20.

stc participates in 2020 SAMENA Leader Summit

KUWAIT: Kuwait Telecommunications Company - stc, a world-class digital leader providing innovative services and platforms to customers, enabling the digital transformation in Kuwait, participated in the SAMENA (South Asia, Middle East and North Africa) Leader's Summit 2020.

stc participated in the summit under a dedicated segment called "5G Ecosystem Forum" hosted by Huawei. The session, titled "5G Network and Business Development" was led by Ahmed Al Sharif, General Manager of Network at stc, who represented the Company during the forum. During the session, stc elaborated on the developments the Company achieved within the 5G realm, as well as its thought leadership and pioneering role in introducing new innovative technologies. The Company has built a leading ICT infrastructure and enhanced its digital platforms to enable digital transformation in Kuwait.

The session also focused on stc's dedication towards enriching the customer experience by launching one of the 1st E2E 5G standalone networks in the region, with commercial offerings. The initiative, executed in collaboration with Huawei, comes as one of many growth opportunities the Company capitalized on to evolve its network and unique offerings to satisfy its diverse enterprise customer base. Over the years, stc has formed a strong relationship with Huawei, working on multiple projects to deliver a variety of innovative solutions to serve B2C, B2H and B2B customers.

stc issued a statement mentioning the benefits of participating in the SAMENA Leader Summit, a prominent and internationally recognized virtual conference that provides operators with a platform to share experiences, developments and industry knowledge. The summit served as a representation of the world's most advanced and developing economies in their pursuit to unleash the true power behind 5G technology. stc also thanked the organizers and participants for the successful turnout and level of knowledge that was shared by industry leaders during this informative event.

It is worth noting that the SAMENA Council is a tri-regional not-for-profit industry association established in 2006, which has made major strides in representing the interests of telecom operators. The Council is considered to be the leading platform to provide a unified voice and collaborative approach for leading operators and service providers in the SAMENA region. The association includes members from regulatory authorities, operators, and ecosystem partners spanning over 25 countries.

Businesses plan operational changes: HSBC Navigator

KUWAIT: Companies around the world are making significant operational changes to become more resilient after many found their contingency plans weren't robust enough to cope with the COVID-19 pandemic.

HSBC Commercial Banking's new Navigator report, Building Back Better, draws from a survey of over 2,600 companies in 14 countries and territories. It shows that many firms neglected contingency planning in key operational areas such as technology, finance and sustainability prior to the crisis, with nearly half (47 percent) saying they could have done more to prepare for the challenges of recent months.

For some, the shift to remote working exposed weaknesses in their continuity preparations, with fewer than three in five (57 percent) saying they prioritized investment in technology to improve operational efficiency over the last two years. The availability of cash flow was also a challenge, with only 43 percent having prioritized steps to strengthen their financial position.

The crisis has forced many businesses to adapt, with almost two thirds (63 percent) having made changes to their operations already. Almost half (44 percent) will change their products and services further, either by diversifying (33 percent) or by reducing their offering to become more specialized (17 percent).

Over the longer term, business plans now call for more agile staffing and office arrangements together with a greater focus on technology and sustainability. Key findings include:

• Diminishing real estate occupation: 38 percent are rethinking their physical footprint of office and production locations, with 29 percent expecting to reduce their office space.

• A more flexible working arrangement: Over two thirds (69 percent) believe flexible working will become standard practice, as a third (34 percent) expect to cut their air travel.

• Technology will be critical: Six in 10 (61 percent) think virtual collaboration will become standard practice over the next two years, with 57 percent saying that virtual meetings -internal and external - are here to stay even after lockdown measures are cancelled.

• Sustainability to power the recovery: More than nine in 10 (91 percent) aim to 'build back better' by re-engineering their businesses to be more sustainable, while nearly a third (27 percent) intend to make their supply chains more environmentally sustainable over the next two years.

Barry O'Byrne, CEO of HSBC Global Commercial Banking, said: "Businesses aren't waiting to be told how to 'build back better,' they're starting now. The human tragedy and huge economic damage caused by COVID-19 have accelerated transformation plans and have brought relationship inter-dependencies to the forefront of leaders' thinking. Since history shows that businesses are more likely to fail coming out of a downturn than when they're in one, it's vital that leaders push ahead with efforts to make their enterprises more agile and more resilient."

The HSBC report points to the importance of collaboration between businesses during the crisis, which has been key to survival for many:

• Over the last six months, almost all (93 percent) firms have supported the businesses they work with, with larger businesses in particular supporting smaller partners.

• Almost six in ten (58 percent) have shared information (25 percent), expertise (24 percent) or premises (13 percent) and around a quarter (26 percent) have offered advice.

• 40 percent have collaborated with other businesses to get their products and services to customers.

However, while collaboration has helped sustain operations during the crisis, businesses see a number of challenges ahead as they seek to build resilience over the next six months. Weaknesses in financial and workforce structures were the top barriers to change identified by two thirds of businesses (both by 62 percent), with just under a third (31 percent) struggling to maintain sufficient cash flow. Additionally, a third of businesses (33 percent) see employee morale as a barrier to building resilience over the near term.

The report also identifies a series of changes businesses expect to make to their supply chains in the coming two years in a bid to increase transparency and security.

• Three in ten (29 percent) want to diversify their supply chain and to work with more partners, with a quarter wanting to work with businesses in markets that are more stable (26 percent):

• Conversely, a third plan to restrict or shorten their supply chains to reduce risk.

• Over two-thirds (67 percent) plan to increase their supply chain security by identifying and securing critical suppliers (31 percent), and three in ten plan to review their suppliers' ability to withstand future shocks.

French automaker PSA profitable despite COVID

PARIS: French automaker PSA, which is in the process of merging with Fiat Chrysler, said yesterday it had remained profitable during the first half of the year despite sales plunging due to coronavirus lockdowns. The firm-whose brands include Peugeot, Citroen and Opel-managed a net profit of 595 million euros ($698 million), a drop of two-thirds from the same period last year.

Sales fell 34.5 percent to 25.1 billion euros during the period as stay at home orders by authorities kept clients out of car showrooms. By volume car sales fell 45.7 percent. "These past years we have stressed that for us that lowering the breakeven point is a clear strategy for us and the first half of 2020 showed that it is the right strategy in a chaotic world," chief executive Carlos Tavares said in a conference call.

The company has been focused on boosting profit margins in recent years rather than chasing sales volumes, and it moved to quickly cut costs during the coronavirus crisis. Operating profits came in at 517 million euros, a drop of 84.5 percent, or 2.1 percent of sales. For strictly automotive sales, the profit margin was 3.7 percent.

For the 2019-2021 period the carmaker intends to keep profitability above 4.5 percent on average thanks to a rebound in sales expected in the second half of this year. "We still consider this figure as the minimum, with a strong possibility of doing better given the results of the first half," said financial director Philippe de Rovira. Tavares expressed confidence in completing the merger with Fiat Chrysler (FCA) and a rebound in the car market. "We are determined to achieve solid rebound in the second half of the year, while finalizing the birth of Stellantis before the end of" the first quarter of 2021, he said in the earnings statement. —AFP

CBK bonds and related Tawarruq

KUWAIT: The Central Bank of Kuwait (CBK) announced the most recent issues of CBK bonds and related Tawarruq at a total value of KD 200 million for three months with a rate of return at 1.250 percent.

Burgan Bank will be closed during Eid Al-Adha holiday

KUWAIT: Burgan Bank announced yesterday that it will be officially closed for five days during Eid Al-Adha holiday, starting from Thursday, 30th of July 2020 until Monday, 3rd of August 2020 and will resume business on Tuesday, 4th of August 2020. On this occasion, Burgan Bank extends its best wishes and greetings on the coming of Eid Al-Adha. To ensure customers continue to enjoy their banking services during the holidays, Burgan Bank's online services will remain operational through its website www.burgan.com and Mobile application. The dedicated contact center and WhatsApp service will also be available around-the-clock.