NBK economic report

Oil prices pummeled in May by escalating trade tensions

OPEC+ continues to pare back supply as crude stocks fall

KUWAIT: Oil prices recorded their first monthly decline of 2019 in May, with international crude benchmarks Brent and West Texas Intermediate (WTI) declining by at least 11 percent m/m to $64.5/bbl and $53.5/bbl, respectively, by month's end. Oil's performance in May was its worst for that month in seven years.

Oil, along with international financial markets more broadly, has been buffeted by increasing market anxiety over the negative impact on global economic growth of the deteriorating US-China trade relationship. Oil prices suffered their biggest one-day sell-off of the year on the 23 May, falling by 4.5 percent on a combination of trade worries and rising US inventories, both of which the market took to be bearish for oil demand.

Then, as May drew to a close, prices were pummeled by US President Trump's surprise announcement of a 5 percent tariff on all Mexican imports to the US from 10 June, as he raised the pressure on the Mexican government to halt the flow of illegal immigrants to the US. Worries over the outlook for oil demand growth were also not helped by the International Energy Agency's (IEA) downward revision-albeit a slight one-to global oil demand growth in 2019

Geopolitical risk is high though

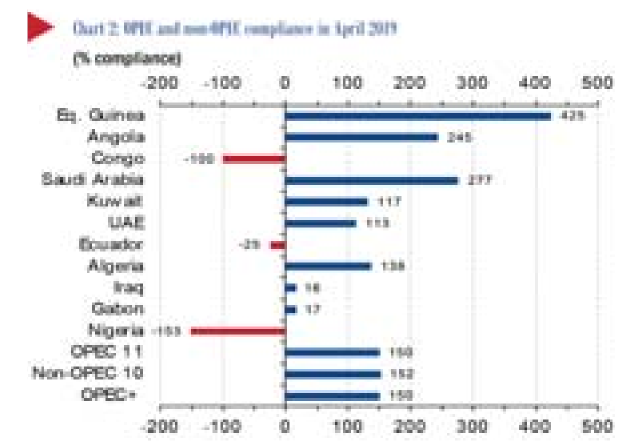
Oil's fall in May came despite rising geopolitical risks and continuing evidence of market tightness. The US's ending of sanctions waivers for some of Iran's largest crude importers on 2 May, as it vowed to bring Iranian exports down to "zero", threatens to intensify global supply constraints amid the OPEC+ production cut agreement and while the probability of continued low or declining supplies among oil producers such as Venezuela (socio-economic strife and sanctions), Libya (civil-military conflict), Canada (production restraint) and Russia (pipeline contamination) remains acute.

The potential for a positive knock-on effect on oil prices also increased after regional tensions spiked in the wake of the alleged sabotage of five oil tankers off the coast of Fujairah in the UAE and the drone attack on Saudi oil facilities by suspected Houthi rebels.

OPEC+ continues to pare back supply

OPEC+, for its part, notched up another month of over-compliance in April, paring back crude production as it looked to drain excess supplies from the market. Aggregate output was 43.7 mb/d, with overall compliance reaching 150 percent. Indeed, April was the first time in sixteen months that both OPEC and its non-OPEC partners complied fully with the supply agreement. Non-OPEC members reached 150 percent, thanks mainly to lower supply from Kazakhstan due to field maintenance. Russia's compliance rate reached 80 percent in April, helped in part by the Druzba pipeline contamination.

Among OPEC members, Saudi Arabia continues to do the heavy lifting, bringing its output down to 9.74 mb/d in April, a full 569 kb/d below its official quota (277 percent compliance). GCC oil producers Kuwait and the UAE recorded compliance rates of 132 percent and 112 percent, respectively. Among the large OPEC oil producers, only Iraq (16 percent) and Nigeria (-153 percent) have yet to fully comply with the supply pact.



Crude supply tightens

According to the IEA, OECD commercial crude and petroleum product stocks-a proxy for global inventories-fell for the second month in a row in March, by 25.8 mb to 2,849 mb. The decline was considerably more than the five-year average of 4 mb typical for that time of the year and left stocks 2.2 mb below the five-year average at end-March. Global stocks, in terms of forward demand cover, currently amount to 59.8 days, which is the lowest since July 2018.

According to the IEA projections for demand and non-OPEC supply growth in 2019 and our own estimates for OPEC crude production, the market is likely to witness stock draws of an average of 0.63 mb/d over the second and third quarters of the year as supply lags demand. In 4Q19, demand will slightly undershoot supply, leading to small stock build of 0.14 mb/d. Of course, a number of assumptions are inherent in this scenario: OPEC and its partners continue with their production cut accord (with output at roughly April's levels) during the second half of the year; non-OPEC supply growth, driven by US shale, does not surprise on the upside; and oil demand growth remains healthy. Deteriorating global trade, sparked by the US-China trade tariff dispute is at the moment the single biggest risk to the global economy, with the potential to significantly upend the current demand growth forecast and send oil prices downwards.

In May, the IEA already revised down its demand growth estimate for 2019, by 90 kb/d to 1.3 mb, due to below-forecast growth in Brazil, China and Japan in 1Q19. The agency did note, however, that 1Q19 softness could be limited to that quarter and, notwithstanding global trade tensions, the pace of demand growth could accelerate during the rest of the year. The onset of the US and northern hemisphere driving season, for example, when demand for gasoline traditionally rises, would be positive for oil demand. OPEC and its partners will be encouraged by the above metrics suggestive of a tightening market ahead of their biannual ministerial meeting this month. In view of the still-delicate oil market dynamics, the expectation will be that, at Saudi Arabia's behest, the OPEC+ group will likely roll over the production cuts until the end of the year.

Pakistan to present austerity-centered budget after IMF deal

ISLAMABAD: Pakistan Prime Minister Imran Khan's government was set to present an austerity-focused budget yesterday, weeks after the country reached an agreement with the International Monetary Fund for a $6 billion bailout.

The presentation of Khan's first budget comes just a day after the government released the latest round of bleak economic figures for the cash-strapped country, showing growth for the current fiscal year falling to 3.3 percent-well below the 6.2 percent target.

The release of the figures comes as discontent simmers in Pakistan following repeated devaluations of the rupee, soaring inflation, and increasing utility costs. The economic pain follows months of failed efforts by Khan's administration to stave off ballooning fiscal and balance of payments deficits, along with low tax yields and mounting debt. "Prime Minister Imran Khan has committed to... trying to correct things permanently even if we go through hard times for six months or one year or one and a half years," said the country's finance advisor, Abdul Hafeez Sheikh, late Monday.

Earlier Monday, Khan took to the country's airways for the second time in recent weeks to plead with Pakistanis to declare their assets in the latest scheme aimed at increasing tax revenues.

Pakistan has struggled for decades to collect taxes with estimates suggesting that only around one percent of the 200-million strong population filed a return in 2018.

The agreement eked out with the IMF still needs final approval by the fund's board, and it is widely believed the body is waiting for the presentation of the budget before giving the final sign-off.

Analysts have warned the IMF deal would likely come with myriad restrictions that could bridle Khan's grand promises to build an Islamic welfare state, as the country is forced to tighten its purse strings.

Pakistan's increasing economic woes also come as the country is facing possible sanctions from the Financial Action Task Force-a money-laundering monitor based in Paris-for failing to rein-in terror financing. The organization will decide soon whether to add Pakistan to a blacklist that would trigger automatic sanctions, further weakening an already-faltering economy.

To add to its troubles, the United States has also warned it will be watching closely to ensure Pakistan does not use IMF money to repay debts to China, which has poured billions into the country for infrastructure projects under its Belt and Road Initiative. — AFP

UK unemployment rate holds at 45-year low

LONDON: British unemployment has held at a 45-year low, official data showed yesterday, despite headwinds from Brexit and the slowing global economy. The unemployment rate remained at 3.8 percent in the three months to April-the lowest level since the final quarter of 1974, the Office for National Statistics (ONS) said in a statement.

The reading was unchanged from the rate in the quarter to March, and matched market expectations.

"All in all, there's very little here to suggest any weakness" in the labour market, said analyst David Cheetham at online trading firm XTB. However he sounded a note of caution about the impact of Brexit and the slowing global economy. "The overall picture for the UK economy remains one that is far from thriving and looks to be simply treading water to be honest," Cheetham said. "But given the dual headwinds of ongoing political uncertainty and a slowing global economy, the current level of activity could arguably be viewed as about as good as could be expected under these circumstances." Official data Monday showed UK gross domestic product contracted 0.4 percent in April on a slump in manufacturing caused largely by Brexit uncertainty. — AFP

Venezuela inflation falls below 1m%

CARACAS: Venezuela's annual inflation dropped below 1 million percent in May for the first time since 2018, the opposition-run congress said on Monday, the result of the central bank restricting the domestic money supply. Consumer prices in the 12 months ending in May rose 815,194 percent, the legislature said, compared with 1.3 million percent in April. Prices rose 906 percent in the first five months of year, it said.

The slowdown is the result of regulations requiring banks to keep a greater percentage of the bolivar currency in reserve, and because the central bank is issuing fewer new bolivars than in the past.

The result is that the banking system has less capacity to lend, said legislator Angel Alvarado in an interview, which will further slow an already ailing economy.

"They are slowing inflation through greater economic contraction," Alvarado said.

The figures are significantly more dire than those published by the central bank last week that showed inflation at around 130,060 percent in the 12 months ending in April, part of the first official economic indicators released in more than five years.

Those figures show that the economy, which went into recession in 2014, contracted 22.5 percent in the third quarter of 2018 with respect to the same period a year earlier.

The government of President Nicolas Maduro says Venezuela's economic problems are caused by US sanctions that have crippled the OPEC member's export earnings and blocked it from borrowing from abroad. Critics say a dysfunctional system of price and currency controls along with a wave of nationalizations of private businesses turned what was once a strong economy into a collapsing basket case. — Reuters

World shares rally again on Trump tariff relief, Fed hopes

LONDON: World shares rallied yesterday to hold near one-month highs, with German carmakers outperforming and Wall Street looking to extend gains after the United States stepped back from imposing tariffs on Mexico. With Frankfurt reopening after a one-day holiday, German investors returned to shares after a US-Mexico deal on Friday apparently averted tariffs threatened by President Donald Trump.

Investors are also heartened by expectations the US Federal Reserve will soon start cutting rates, with markets pricing in a cut by July. Those hopes were re-ignited by Friday's disappointing jobs report, and could be boosted further if retail and inflation data this week also disappoint.

"We are in a situation where bad news is good news," said Silvia Dall'Angelo, senior economist at Hermes Investment Management, noting the recent dovish signal from Fed Chair Jerome Powell and recent lackluster US data. "Equity markets are relying on loose monetary policy, but they are also taking Trump at face value so I expect more volatility ahead." Dall'Angelo said. Frankfurt's DAX index rose 1.2 percent. BMW, Daimler and VW - considered sensitive to trade tariffs - all gained 1.8 percent to 2 percent, mirroring a 1.9 percent gain for the auto sector. — Reuters

EXCHANGE RATES

AL-MUZAINI EXCHANGE CO.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.300
Euro	346.140
Sterling Pound	388.440
Canadian dollar	230.530
Turkish lira	53.290
Swiss Franc	308.930
US Dollar Buying	303.100
ASIAN COUNTRIES	
Japanese Yen	2.801
Indian Rupees	4.385
Pakistani Rupees	2.094
Srilankan Rupees	1.721
Nepali Rupees	2.738
Singapore Dollar	223.750
Hongkong Dollar	38.799
Bangladesh Taka	3.596
Philippine Peso	5.873
Thai Baht	9.748
Malaysian ringgit	77.826
GCC COUNTRIES	
Saudi Riyal	81.201
Qatari Riyal	83.633
Omani Riyal	790.903
Bahraini Dinar	808.560
UAE Dirham	82.904
ARAB COUNTRIES	
Egyptian Pound - Cash	21.250
Egyptian Pound - Transfer	18.172
Yemen Riyal/for 1000	1.222
Tunisian Dinar	105.660
Jordanian Dinar	429.950
Lebanese Lira/for 1000	2.030
Syrian Lira	0.000
Morocco Dirham	32.201

DOLLARCO EXCHANGE CO. LTD

Rate for Transfer	Selling Rate
US Dollar	304.290
Canadian Dollar	227.140
Sterling Pound	388.330
Euro	342.520
Swiss Frank	306.445
Bahrain Dinar	809.220
UAE Dirhams	83.250
Qatari Riyals	84.490
Saudi Riyals	82.040
Jordanian Dinar	430.470
Egyptian Pound	18.055
Sri Lankan Rupees	1.724
Indian Rupees	4.383
Pakistani Rupees	2.016
Bangladesh Taka	3.604
Philippines Pesso	5.807
Cyprus pound	18.105
Japanese Yen	3.780
Syrian Pound	1.590
Nepalese Rupees	2.741
Malaysian Ringgit	73.530
Chinese Yuan Renminbi	44.545
Thai Bhat	10.545
Turkish Lira	50.585
Singapore dollars	220.210

BAHRAIN EXCHANGE COMPANY WLL

CURRENCY	BUY	SELL
	Europe	
British Pound	0.378526	0.392426
Czech Korune	0.005402	0.014702
Danish Krone	0.041995	0.046995
Euro	0. 336614	0.350314
Georgian Lari	0.110722	0.110722
Hungarian 0.000983	0.001173	
Norwegian Krone	0.031090	0.036290
Romanian Leu	0.055983	0.072833
Russian ruble	0.004695	0.004695
Slovakia	0.009095	0.019095
Swedish Krona	0.028246	0.033246
Swiss Franc	0.300605	0.311605
	Australasia	
Australian Dollar	0.203063	0.215063
New Zealand Dollar	0.194194	0.203694
America		
Canadian Dollar	0.223933	0.232933
US Dollars	0.300200	0.305500
US Dollars Mint	0.300700	0.305500
	Asia	
Bangladesh Taka	0.003006	0.003807
Chinese Yuan	0.042436	0.045936
Hong Kong Dollar	0.036735	0.039485
Indian Rupee	0.003764	0.004536
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002715	0.002895
Korean Won	0.000247	0.000262
Malaysian Ringgit	0.069689	0.075689
Nepalese Rupee	0.002677	0.003017
Pakistan Rupee	0.001453	0.002223
Philippine Peso	0.005743	0.006043
Singapore Dollar	0.217344	0.227344
Sri Lankan Rupee	0.001351	0.001931
Taiwan	0.009568	0.009748
Thai Baht	0.009368	0.009918
Vietnamese Dong	0.00013	0.00013
	Arab	
Bahraini Dinar	0.792591	0.809091
Egyptian Pound	0.018083	0.020683
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.424290	0.433290
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.020471	0.044471
Omani Riyal	0.784071	0.789751
Qatar Riyal	0.079317	0.084257
Saudi Riyal	0.080060	0.081360
Syrian Pound	0.001290	0.001510
Tunisian Dinar	0.098795	0.106795
Turkish Lira	0.046216	0.056061
UAE Dirhams	0.081425	0.083125
Yemeni Riyal	0.000989	0.001069