NBK Money Markets Report

Fed puts monetary tightening on hold despite better global outlook

May's departure sends pound crashing

KUWAIT: In their latest meeting, the Federal Reserve's rate setters said that they aim to keep interest rates unchanged even if they notice an improvement in global conditions. They said that they are sticking to their "patient" approach to policy. The minutes of the latest meeting held on April 30 and May 1 showed that policy makers engaged in an extended debate over the composition of the regulator's balance sheet in the longer term. Many of the participants said they wanted an increased scope to counter a future downturn by shifting from short dated bond holdings to long term debt, hoping that this would provide an extra boost in case of a future downturn. It is worth mentioning that the Fed is struggling to figure out why the US inflation has remained sluggish in spite of unemployment hovering over a half century low and the economy approaching a record long expansion.

US manufacturing growth slumps

Recent data out of the IHS Markit flash survey of US manufacturers fell to nine and a half year low of 50.6 in May from 52.6 in April. Additionally, services PMI dipped to 39-month low of 50.8 down from the previous reading of 52.7. This massive drop in both sectors can be attributed to the escalating trade tensions with China. The growth in new orders from both domestic and foreign buyers declined and the surveyed firms said to be "putting the brakes on hiring."

If we take a step back and look at the big picture, the tariffs imposed by both sides of the trade war have taken its toll on American companies. Their sales have declined and some had to find new suppliers and ambiguity remains the theme of the current situation with China. Thus, the market have priced in 84 percent probability of a cut in January 2020 meeting of the Fed.

In the FX markets, flows into safe-haven assets were the main theme of the week. The Swiss Franc was the biggest gainer last week with 1.07 percent increase over the US dollar, followed by the Japanese Yen which climbed by 0.93 percent. Subsequently, the dollar index had a volatile week and yet ended the week lower by 0.42 percent as 9 year low PMI data surfaced last Thursday.

May's resignation

Theresa May faced a cabinet revolt as ministers plotted behind the scenes last week forcing her to pull the parliamentary vote on her revamped deal. The Eurosceptic cabinet ministers met on Wednesday morning to discuss efforts to stop May from seeking parliamentary approval for her withdrawal agreement bill amid increasing calls by Conservative MPs for her to resign. The political uncertainty knocked down the pound, with the Cable reached the lowest level for the year at around 1.2606.

The prime minister announced on Friday in a strongly felt speech that she will resign on June 7th triggering a Conservative Party leadership contest which she said would start next week. May said that she has done her best to deliver Brexit and she has done everything she could. May says that her successor will need to find parliament consensus on Brexit, something she failed to do repeatedly. The cable drifted higher after May's speech as the market adjusted to the news and weighed in the possible future scenarios for the dramatic Brexit situation.

UK's inflation climbs above target

Consumer prices rose 2.1 percent from a year earlier and ending a three- month spell of inflation below the Bank of England's 2 percent goal, Office for National Statistics figures published Wednesday showed. The figure was slightly below the 2.2 percent forecast by economists.

The pickup, from 1.9 percent in March, was driven by the lifting of the government cap on default energy tariffs. Electricity prices jumped 10.9 percent and gas increased 9.3 percent, which were higher increases than the levels seen a year earlier. There was also upward pressure from higher auto-fuel prices, while Easter boosted transport costs, air fares in particular. The four-day vacation began on April 19, three weeks later than it did last year. The largest offsetting factor came from cheaper computer games.

Eurozone PMI

The Eurozone composite PMI edged 0.1 higher to 51.6 in May, narrowly missing consensus of 51.7. But optimism fell, attributed to fears of a weakening economy and geopolitical risks, with an escalation in trade tensions and difficulties in the auto sector commonly cited as specific concerns, according to the survey provider.

Taking a deeper look into the PMI readings, the manufacturing sector meltdown continues aggressively. New orders contracted for the 8th consecutive month. The reading for manufacturing PMI remains well below 50 at 47.7.

On the FX front, the single currency traded in with high volatility throughout last week as it reacted to major news regarding Brexit and Eurozone economic data. The euro opened the week at 1.1160 and reached a low of 1.1107, a level not seen since June 2017. However, on Thursday evening the pair reversed its losses after disappointing US manufacturing and services data.

Kuwait

Kuwaiti dinar
USD/KWD opened at 0.30380 yesterday morning.

KAMCO GCC Corporate Earnings Report

Total GCC earnings falls 4.7%

KUWAIT: Total earnings for GCC-listed companies decreased 4.7 percent y-o-y in Q1-19 to $17.0 billion from $17.9 billion in Q1-18. All GCC markets barring Kuwait and Dubai witnessed a decline in Q1-19 earnings. Bahrain Bourse saw the biggest y-o-y decline in earnings by 20.8 percent to reach $485.4 million and also the second largest net profits drop in absolute terms after Saudi Arabia. Q1-19 net profits of Saudi Arabian listed corporates, which made up 36.9 percent of aggregate GCC quarterly profits, declined 9.2 percent to $ 6.3 billion.

In terms of sectors at the GCC level, three of the top 5 largest sectors by market cap including Materials, Real Estate and Capital Goods recorded double digit decline in their Q1-19 net profits resulting in decline in aggregate quarterly profits for the GCC during Q1-19. On the other hand, the Banking and the Telecommunications services sectors saw single digit growth in Q1-19 net profits that only partially offset the decline in aggregate earnings. The banking sector represented 58 percent of the total GCC earnings in Q1-19. All six countries of the GCC saw their Banking sector earnings surge in Q1-19 recording a y-o-y growth of 9.1 percent to reach $ 10.0 billion for the region. Dubai's Banking sector witnessed the biggest percentage increase in y-o-y profits for Q1-19, reporting a 17.4 percent jump in net profits followed by Saudi Arabia with a growth of 9.1 percent. The top three banks in the GCC, QNB, FAB and NCB, recorded a combined profit growth of 4.5 percent during the quarter.

The utilities sector was one of the biggest drags on overall profitability during the quarter lead by Saudi Arabian utility names, particularly Saudi Electricity Company which saw its y-o-y losses increase to $397 million in Q1-19 as compared to $323.7 million in Q1-18. The GCC Materials sector also reported declining profitability that reached $1.6 billion in Q1-19 as compared to $ 2.8 billion in Q1-18. Saudi Arabia's Material sector lead GCC pack in terms of Q1-19 net profit fall in absolute terms. SABIC saw its net profits fall from $1.5 billion in Q1-18 to $908.6 million Q1-19, a fall of nearly $560 million in absolute terms.

GCC corporate earnings report

Among the six biggest sectors in the GCC market by market capitalization (Banking, Materials, Real Estate, Telecom, Capital Goods and Utilities) only two sectors, Banking and Telecoms, managed to grow earnings during Q1-19 as compared to corresponding quarter in 2018. The share of profit by the aforementioned sectors remained in line with last years at around 88 percent. The biggest decline was recorded in the Utilities sector with an aggregate loss of $295 million in Q1-19 as compared to a lower aggregate loss of $185 million during Q1-18. Profits for the sector was once again dragged down by Saudi Electricity Company which reported a loss of $397 million in Q1-19 as compared to a slightly lower loss of $323.7 million during Q1-18. Five out of the 13 companies in the GCC utilities sector posted losses during the quarter.

The GCC banking sector accounted for the lion's share of the aggregate earnings at 58 percent followed by a distant second Telecom sectors at 11.5 percent. In the GCC Banking sector, out of the 64 banks that reported earnings, merely 16 posted a y-o-y decline in earnings during the quarter. The share of top 10 banks in quarterly profits of the sector stood at 60 percent, almost in line with the share during Q1-18. The performance of companies in the Telecom sector was mixed during the quarter however, higher y-o-y profits from STC, Etisalat and Zain pushed the overall profits for the sector. The Real Estate sector in the GCC accounted for the fourth largest share of net income. The sector continues to cause volatility in equity markets in the UAE due to continued oversupply in several segments of the market. During the quarter, Qatar was the only significant market where real estate companies recorded growth in profits. Dubai continues to account for the bulk of sector profits, but after recording a growth in profit in 2018, Dubai's real estate sector earnings declined 12.5 percent during Q1-19.

Kuwait

Boursa Kuwait-listed companies reported a net profit increase of 6.6 percent during Q1-19 that reached $1.67 billion compared to $1.56 billion during Q1-18. Among the major sectors Banks, Capital Goods, Diversified Financials, Telecommunication contributed to the rise in profitability of the exchange. The Biggest impact on higher aggregate stock exchange profits came from the Banking sector which recorded a profit growth of 7.4 percent that reached $811.1 million in Q1-19 from $755 million in Q1-18. Five out of the ten listed Kuwaiti banks reported double digit growth in profitability during the quarter while CBK's net profit plunged almost 90 percent despite flat net interest income led by higher provisions and operating expenses during the quarter. After the Banking sector, the Capital Goods sector was the biggest contributor in terms of earnings growth, led by National Industries Group which reported a 45.7 percent y-o-y growth in profit in Q1-19. The group's profits reached $89.05 million supported by a partial divestment of an associate. Gulf Cable and Electrical Industries almost tripled its Q1-19 profits on the back of higher investment income.

The diversified financial sector recorded a profit growth of 17.1 percent that reached $172.1 million in Q1-19 on the back of higher profits recorded by some of the bigger players in the sector. Telecom earnings also recorded positive earnings during Q1-19 with a growth of 6.3 percent to reach $215.2 million. This surge was solely led by Zain that recorded a net profit growth of 15.1 percent on the back of higher revenues. Meanwhile, the insurance sector saw top five of the eight players recording strong growth in earnings during Q1-19 that was offset by decline in profits for the smaller three players in the sector. The sector profits stood at $52.8 million in Q1-19, a 15.8 percent rise from Q1-18. Kuwait Insurance reported an 18.4 percent y-o-y jump in profits that reached $19.4 million driven by better operating performance combined with higher investment earning.

Saudi Arabia

The total net profit for the companies listed in the Saudi Arabia declined by 9.2 percent to $6.3 billion in Q1-19 against $6.9 billion in Q1-18. The growth was primarily led by the Banking sector which recorded a profit growth of 12.7 percent which was partially offset by a profit decline of 43 percent for the Materials sector. Aggregate profits for the exchange was also negatively affected by Consumer Durables, Pharmaceutical and Real Estate sectors. Within the banking sector, Riyad Bank reported an almost 50 percent jump in net profit that reached $438.5 million in Q1-19 on the back of higher fee income. On the other hand, profit decline in the material sector was primarily on the back of a 38.1 percent drop in profits for SABIC that reached $908 million in Q1-19 led by lower average selling prices. Furthermore, Maaden posted losses of $ 33.9 million in Q1-19, against a net profit of $170.1 million in Q1-18. The decline was due to low prices of all products and decreased sales volume. Nevertheless, SAFCO reported a 41.4 percent y-o-y increase in profits during the quarter.

Dubai

Net profits for DFM-listed companies recorded a modest rise of 1.4 percent in Q1-19 to reach $2.7 billion compared to $2.6 billion in Q1-18. In terms of sectors, three out of the five largest sectors; the Real Estate sector, the Telecommunications sector and the Capital Goods sector posted y-o-y decline in net profits. However, the Banking Sector and the Insurance sectors Q1-19 gains in net profits buoyed the overall net profits for the exchange. The banking sector recorded 17.4 percent jump in Q1-19 net profits to $1.5 billion, the biggest percentage rise in profits among GCC banking sectors. Emirates NBD contributed the largest increase in net profits with a sequential and y-o-y growth of 15 percent to reach $746.8 million driven by loan growth and stable margins. Meanwhile, Emirates Islamic Bank delivered the largest y-o-y increase in profits that almost doubled in Q1-19 to $ 111.9 million up from $56.8 million in Q1-18. The increase in profitability was attributed to higher funded income, lower cost and balance sheet growth.

Abu Dhabi

The total net profit for listed companies on the Abu Dhabi Stock Exchange for Q1-19 decreased 2.6 percent to $2.6 billion compared to Q1-18 profits of $2.7 billion. The diversified financial sectors and the real estate sector were the main contributors which dragged down the exchanges' Q1-19 net profits. Moreover, other large market cap sectors such as the banking sector and the telecommunications services sector only managed to deliver modest increases in Q1-19 profits of 2.4 percent and 2.1 percent, respectively. In the diversified financial sector, Waha Capital posted a loss of $15.7 million for Q1-19 compared with a profit of $29.2 million during Q1-18. The company suffered a loss of $45.1 million in its private investments mainly driven by the adjustment and reassessment of the value of its AerCap Holdings recoverable amount. The real estate sector was the second largest contributor of the fall in profits of the exchange with profits declining by 18 percent y-o-y to $156.9 million in Q1-19 as compared to $191.5 million in Q1-18 largely led by Aldar Properties' 17.3 percent drop in earnings.

Qatar

Net profit for Qatari-listed companies declined during Q1-19 by 4.1 percent y-o-y to reach $2.88 billion primarily led by fall in profits for the capital goods sector that almost halved during the quarter. Banks continued to outperform other sectors with a 4.0 percent rise in the net profit to reach $1.69 billion in Q1-19, accounting for 58.8 percent of the overall exchange profits during the quarter. QNB reported a 4 percent y-o-y increase in Q1-19 that reached $ 980 million. Quarterly net profit for Qatar Islamic Bank grew by almost 10 percent y-o-y to reach $188.2 million in Q1-19 compared to $171.7 million in Q1-18.

Bahrain

Total net profits for companies listed on Bahrain Bourse decline 20.8 percent in Q1-19 to $485.4 million compared to $ 612.6 million in Q1-18. The two largest sectors by market cap, the Banking sector and the Telecommunications Services sector both recorded robust increases in Q1-19 net profits. However, this was primarily undone by the loss in the Capital Goods sector. Aluminum Bahrain declared Q1-19 loss of $42 million compared with its $90 million profits in Q1-18. The company's turn from profit to loss was attributed largely by the impact of higher alumina prices on top of a challenging market. On the other hand, Bahrain Bourse's Banking sector and the Telecommunications sector, the two largest sectors of the exchange by market cap, saw their Q1-19 net profits rise 6.3 percent and 14.8 percent, respectively. The Banking sectors Q1-19 earnings increased by 6.3 percent to $407.4 million from $383.2 million in Q1-18. Al-Ahli United Bank was the largest earnings contributor of the sector for the quarter in terms of absolute net profits. The bank reported a net profit of $192.9 million for Q1-19 compared to $ 174.7 in Q1-18 due to growth in operating income which was mainly driven by an increase in net interest income attributed to growth in loans.

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.650
Euro	344.560
Sterling Pound	391.480
Canadian dollar	228.200
Turkish lira	51.370
Swiss Franc	307.260
US Dollar Buying	296.450
ASIAN COUNTRIES	
Japanese Yen	2.781
Indian Rupees	4.384
Pakistani Rupees	2.051
Srilankan Rupees	1.724
Nepali Rupees	2.735
Singapore Dollar	222.370
Hongkong Dollar	38.814
Bangladesh Taka	3.591
Philippine Peso	5.846
Thai Baht	9.590
Malaysian ringgit	77.916
GCC COUNTRIES	
Saudi Riyal	81.294
Qatari Riyal	83.730
Omani Riyal	791.813
Bahraini Dinar	809.490
UAE Dirham	83.000
ARAB COUNTRIES	
Egyptian Pound - Cash	20.759
Egyptian Pound - Transfer	18.021
Yemen Riyal/for 1000	1.224
Tunisian Dinar	105.050
Jordanian Dinar	430.360
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.272
Turkish Lira	50.585
Singapore dollars	220.210

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

BAHRAIN EXCHANGE COMPANY WLL

Europe		
British Pound	0.380003	0.393903
Czech Korune	0.005187	0.014487
Danish Krone	0.041607	0.046607
Euro	0. 333637	0.347337
Georgian Lari	0.108943	0.108943
Hungarian 0.001148	0.001338	
Norwegian Krone	0.030993	0.036193
Romanian Leu	0.054710	0.071560
Russian ruble	0.004734	0.004734
Slovakia	0.009111	0.019111
Swedish Krona	0.027859	0.032859
Swiss Franc	0.298102	0.309102
Australasia		
Australian Dollar	0.202486	0.214485
New Zealand Dollar	0.193163	0.202663
America		
Canadian Dollar	0.221575	0.230575
US Dollars	0.300550	0.305850
US Dollars Mint	0.301050	0.306850
Asia		
Bangladesh Taka	0.003010	0.003811
Chinese Yuan	0.042583	0.046083
Hong Kong Dollar	0.037168	0.039818
Indian Rupee	0.003709	0.004481
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002701	0.002881
Korean Won	0.000246	0.000261
Malaysian Ringgit	0.068802	0.074802
Nepalese Rupee	0.002680	0.003020
Pakistan Rupee	0.001456	0.002226
Philippine Peso	0.005712	0.006012
Singapore Dollar	0.215982	0.225982
Sri Lankan Rupee	0.001378	0.001958
Taiwan	0.010169	0.010349
Thai Baht	0.009220	0.009770
Vietnamese Dong	0.00013	0.00013
Arab		
Bahraini Dinar	0.793520	0.810020
Egyptian Pound	0.017580	0.020189
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.424785	0.433785
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.020505	0.044508
Omani Riyal	0.784981	0.790661
Qatar Riyal	0.079413	0.084353
Saudi Riyal	0.080153	0.081453
Syrian Pound	0.001292	0.001512
Tunisian Dinar	0.097686	0.105686
Turkish Lira	0.043913	0.053758
UAE Dirhams	0.081520	0.083220
Yemeni Riyal	0.000990	0.001070