NBK Capital: Regional tensions impact GCC markets in September

Global markets recover in hope of a trade agreement

KUWAIT: GCC markets ended the month of September in the red as the S&P GCC Composite declined by 1.20 percent despite the fact that Saudi Arabia managed to recover the losses incurred post the September 14 Aramco attacks. The Saudi market, which was down as much 3.4 percent after the attacks, managed to recover steadily during the second half of the month and closed September up by 0.90 percent. The GCC index, however, was weighed down by Abu Dhabi and Kuwait, in addition to generally marginal gains elsewhere in the Gulf. Abu Dhabi's ADX General Index declined by 2.10 percent and Kuwait's All Share Index was 4.42 percent down for September, while Bahrain Bourse All Share Index dropped by 1.08 percent.

The top GCC performer for the month was Qatar which added 1.31 percent, followed by Saudi Arabia with a gain of 0.90 percent and Dubai which was up by 0.81 percent. In the wider MENA region, the S&P Pan Arab declined by 0.87 percent as Egypt declined by 3.89 percent for month as political tension escalated towards the end of the month.

Global Markets recovered in tandem during September on hopes that at least an interim trade deal between the US and China would be reached amid de-escalation between the two countries. Markets were also supported by accommodative moves from both the ECB and the Fed as both central banks cut rates in mid-September. The MSCI AC World Index advanced by 1.91 percent during the month but was still down 0.53 percent for the third quarter. Similarly, the MSCI EM index recorded a monthly advance of 1.69 percent while remaining negative for the quarter at 5.11 percent.

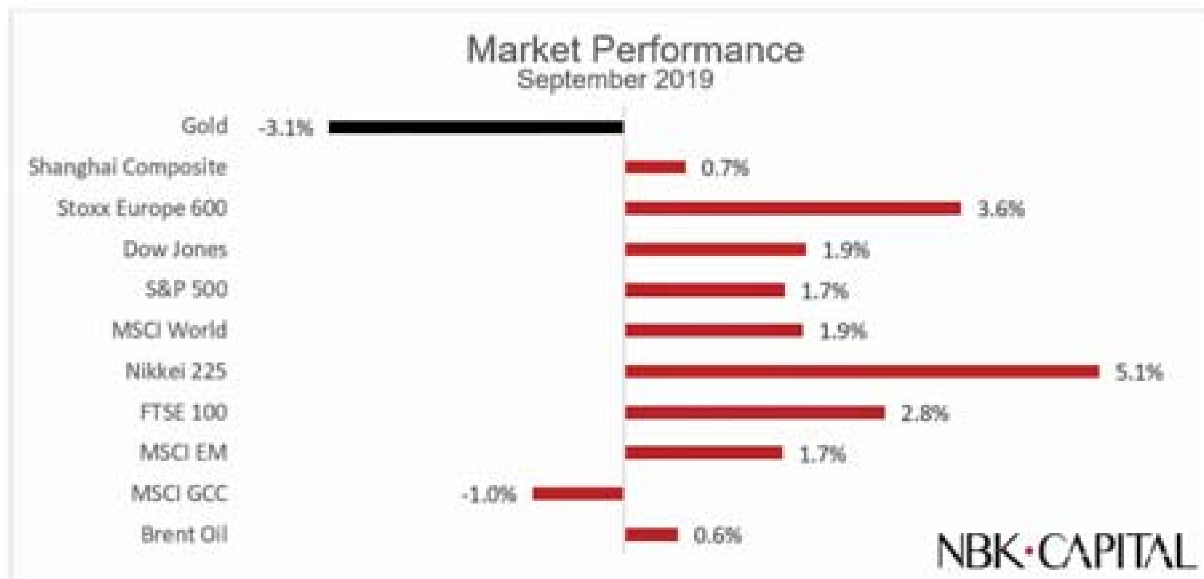
Trade tensions remain the most potent market mover especially that their effect on both the global and US economies is starting to become increasingly visible. The third estimate of the US GDP for the second quarter was stable at 2.0 percent, the markets, however, were surprised by a sudden drop in manufacturing activity for September.

The ISM Manufacturing PMI slid to 47.8 in September from 49.1 for the previous month, compared to a consensus estimate of it increasing to 50.1. This makes it the lowest reading for the manufacturing activity gauge since June 2009, when the recession following the global financial crisis ended. During the month, the Fed cut its target rate by 25 basis points to a range of 1.75 percent to 2.0 percent citing implications of global development for the economic outlook and muted inflation pressures. Indeed, inflation is still below the 2.0 percent symmetrical target of the Fed, despite a slight rebound in Core Personal Consumption Expenditures (PCE) in August which brought it up to 1.80 percent from a revised reading of 1.70 percent in July (revised up from 1.60 percent).

Major US Indices closed in the green for September but below their mid-month high. The S&P 500 and the Dow Industrial Average (DJI) were up 1.72 percent and 1.95 percent respectively to close the third quarter with narrow gains of 1.2 percent for each.

The Nasdaq, however, was barely positive for September at 0.46 percent after declining by close to 2.4 percent from its intra-month closing high of 8,194.47. For the quarter, the index performance was negative at -0.09 percent. In the Treasury market, the 10-year yield recovered strongly during the first two weeks of the month in the run-up to the FOMC decision and reached a high of 1.90 percent on September 13, only to retreat back to 1.68 percent by month-end. Similarly, the 2-year yield climbed from 1.50 percent at the end of August to intra-month high of 1.79 percent before retreating back to 1.56 percent as at the end of September.

In Europe, the ECB returned to stimulus with a 10 basis points cut that took its interest rates deeper into negative territory at -0.5 percent. The ECB further announced that it would restart its bond and other financial instruments purchasing program to the tune of Ä20 billion per month starting November. The central bank attributed the slowdown in Europe to the prevailing weakness of international trade and an environment of prolonged global uncertainty.



The ECB cut its European GDP forecast for 2019 to 1.1 percent from 1.2 percent and for 2020 from 1.4 percent to 1.2 percent. European manufacturing activity deteriorated further during September with the Markit Manufacturing PMI slipping to 45.7 in September down from 47.0 in August. Weakness in the German economy weight down significantly. The German Markit manufacturing PMI surprised on the downside, declining to 41.7 in September against expectations of 44.0. German GDP had contracted by 0.1 percent for the second quarter down from 0.4 percent for the first quarter of 2019. In the meantime, European capital markets fared well during the month. The Stoxx Europe 600 was up 3.6 percent to close the quarter at a positive 2.15 percent. The German DAX and French CAC40 added 4.09 percent and 3.60 percent respectively to close the quarter at a slightly positive 0.24 percent for the DAX and 2.51 percent for the CAC40.

Markets in the UK followed the general global trend with the FTSE 100 Index gaining 2.79 percent, which was not enough to offset last month's steep losses causing the index to close the third quarter in the red at -0.23 percent. The Gfk Consumer Confidence Index improved marginally but was still deep in negative territory in September at -12. Inflation surprised on the downside as the CPI dropped to 1.70 percent year-on-year in August down from 2.1 percent in July. Manufacturing activity, on the other hand, showed a slight improvement as the Markit Manufacturing PMI for September recorded 48.3 up from 47.4 in August while it was expected to drop further to 47.0.

Emerging markets performance was mixed while slightly underperforming global peers. The MSCI EM index added 1.69 percent, while the MSCI Asia-ex-Japan index added 1.44 percent. They are both still negative for the quarter though at 5.11 percent and 5.34 percent respectively. Notable gainers in the EM space included Turkey's Borsa Istanbul 100 index with an 8.60 percent advance and India's Nifty50 index with 4.09 percent. They were followed by Brazil's Ibovespa Index which added 3.57 percent and Taiwan Stock Exchange with a gain of 1.99 percent.

HSBC planning to cut 10,000 more posts: FT

HONG KONG: HSBC is planning to lay off up to 10,000 staff, a report said yesterday, just weeks after announcing the resignation of its chief executive and the cutting of 4,000 posts citing a weak global outlook. The latest losses, mostly in high-paid roles, are part of a fresh cost-cutting drive by interim boss Noel Quinn as the banking titan struggles to adjust to falling interest rates, Brexit and the long-running trade war, the Financial Times reported.

"We've known for years that we need to do something about our cost base, the largest component of which is people-now we are finally grasping the nettle," the paper quoted an unnamed source as saying. "There's some very hard modelling going on. We are asking why we have so many people in Europe when we've got double-digit returns in parts of Asia."

The London-headquartered bank last month announced the shock exit of CEO John Flint after just 18 months in the hot seat but gave no reason for the decision.

At the same time it revealed it would axe two percent of its global workforce, or roughly 4,000 mostly management jobs, in a new restructuring aimed at weathering the global turmoil. Still, its reported first-half net profit rose 18.6 percent on-year to $8.5 billion. It is due to report third-quarter earnings at the end of October. Flint had replaced Stuart Gulliver, who himself pushed a massive restructuring program to axe 50,000 jobs and exit core markets.

HONG KONG: HSBC is planning to lay off up to 10,000 staff, a report said yesterday. — Reuters

The latest cost-cutting drive is in line with other lenders who are battling global headwinds.

US banks including JPMorgan Chase and Wells Fargo have lowered their 2019 profit forecasts tied to interest rates as central banks around the world loosen monetary policy in response to a weakening global growth outlook. Lower interest rates mean less profit on loans made by the banks, especially if they have offered higher returns on deposits to attract customers.

And last month, Germany's second-largest lender Commerzbank said it plans to cut the equivalent of 4,300 full-time posts-a tenth of its workforce-and shut 200 branches as it restructures. Deutsche Bank has announced 18,000 job cuts and France's Societe Generale 1,600. — AFP

Where US-Japan trade deal falls short of TPP

WASHINGTON: US President Donald Trump has called his new trade deal with Japan a "phenomenal" victory for US farmers. But don't expect America's Land O'Lakes butter to knock New Zealand's Anchor or France's President brands off store shelves in Japan, the world's third largest economy.

Butter is one of several US dairy products that will not get improved access to Japan's 127 million consumers under the limited bilateral trade deal signed by Trump and Japanese Prime Minister Shinzo Abe on Sept. 25.

The deal's full text has not been released and remains classified, but congressional aides, trade experts and industry groups briefed on it say that it offers worse access to Japan for some US agricultural goods than the Trans-Pacific Partnership (TPP), a now 11-country trade deal that Trump quit on his third day in office in 2017. US butter, milk powder and evaporated milk, along with some grains, would have competed with other TPP signatories for Japan's new import quotas under the Pacific Rim deal.

When the United States pulled out, that left more space for brands like Anchor or Australia's Western Star, and Japan refused to grant new quotas for US-made products in the just-completed US negotiations. But there are gains that bring US beef, pork and wine exports in line with TPP competitors from Australia, New Zealand and Canada, putting them on the same tariff schedule.

"There are some specific parts of the ag sector that really do benefit from this," said Matthew Goodman, a Asian economics expert at the Center for Strategic and International Studies in Washington. "More broadly, this is not a highly significant deal from a commercial perspective, as it doesn't touch the biggest item in bilateral trade, autos and auto parts."

What's left out

The US-Japan agriculture-centered deal is notable for what it leaves out. It does not include the bulk of products that make up the bilateral trading relationship, notably autos from Japan and aircraft, liquefied propane gas and semiconductor manufacturing equipment from the United States. Motor vehicles and parts, by far the largest Japanese export to the United States at $56 billion in 2018, were left out for a later phase of negotiations. Abe said Trump agreed not to impose threatened "Section 232" tariffs on Japanese cars and parts on national security grounds. Japan has no tariffs on cars and trucks from the United States, but US automakers argue that most American cars are kept out by environmental and safety regulations, and Japan's currency policies that keep the yen low against the dollar.

TPP would have eased Japan's regulatory barriers, but neither agreement contained any rules to combat currency manipulation - a stated goal of the US Trade Representative's office.

America's rice growers won't benefit from the new bilateral trade deal, as tariffs and quotas on US rice imported to Japan set in the early 1990s remain in place. Under the TPP, Japan would have accepted 70,000 metric tons of American rice per year tariff-free under a U.S.-specific quota, but this was not included in the bilateral deal. Tim Johnson, president and CEO of the California Rice Commission, said he hoped for a better deal in later phases of US-Japan talks.

Barley also will not get improved access in the trade deal, congressional aides said, as Japan did not expand its TPP-wide quota for the grain used widely in beer production. Apart from the lack of improved access for butter and milk powder, exact details of cheese provisions in the US-Japan deal are not yet known. TPP would have eliminated Japan's tariffs of up to 40 percent on US cheese over 16 years, but dairy industry officials say they eventually expect to be on a par with TPP countries.

"We think it's probably 80 percent of what we would have gotten in TPP," said Michael Dykes, president and CEO of the International Dairy Foods Association. Documents provided by the Japan's foreign ministry show that Japan did not grant any concessions for US exports of sugar, chocolate or other confections. Tokyo's TPP-wide quotas for these products have gone to other countries.

Better than TPP

The main improvement over TPP comes from the US-Japan digital trade agreement, say congressional aides and tech industry officials briefed on it. They described it as "TPP-Plus" and in line with USTR goals on setting global rules for digital commerce and cross-border data flows. It includes stronger rules to prohibit cross-border taxation of digital downloads and data localization requirements than TPP. Cloud computing and new financial technologies were still new and being developed during the many years TPP was negotiated, so that deal included carve outs that would have allowed some countries to require local housing of financial sector data. — Reuters

EXCHANGE RATES

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EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.650
Euro	336.030
Sterling Pound	377.160
Canadian dollar	229.580
Turkish lira	54.890
Swiss Franc	307.730
US Dollar Buying	297.250
ASIAN COUNTRIES	
Japanese Yen	2.849
Indian Rupees	4.295
Pakistani Rupees	1.961
Srilankan Rupees	1.674
Nepali Rupees	2.681
Singapore Dollar	222.480
Hongkong Dollar	38.849
Bangladesh Taka	3.593
Philippine Peso	5.892
Thai Baht	10.066
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	21.100
Egyptian Pound - Transfer	18.731
Yemen Riyal/for 1000	1.224
Tunisian Dinar	110.780
Jordanian Dinar	430.140
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.341

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Rate for Transfr	Selling Rate
US Dollar	304.740
Canadian Dollar	230.725
Sterling Pound	375.885
Euro	333.495
Swiss Frank	307.075
Bahrain Dinar	810.415
UAE Dirhams	83.370
Qatari Riyals	84.610
Saudi Riyals	82.160
Jordanian Dinar	431.105
Egyptian Pound	18.729
Sri Lankan Rupees	1.672
Indian Rupees	4.308
Pakistani Rupees	1.949
Bangladesh Taka	3.609
Philippines Pesso	5.872
Cyprus pound	18.130
Japanese Yen	3.815
Syrian Pound	1.595
Nepalese Rupees	2.697
Malaysian Ringgit	73.635
Chinese Yuan Renminbi	43.065
Thai Bhat	10.935
Turkish Lira	54.365
Singapore dollars	220.536

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CURRENCY	BUY	SELL
	EUROPE	
British Pound	0.368118	0.382018
Czech Korune	0.004964	0.014264
Danish Krone	0.040686	0.045686
Euro	0.326707	0.340407
Georgian Lari	0.102134	0.102134
Hungarian	0.000914	0.001104
Norwegian Krone	0.029418	0.034018
Romanian Leu	0.053441	0.070291
Russian ruble	0.004694	0.004694
Slovakia	0.009111	0.019111
Swedish Krona	0.026872	0.031872
Swiss Franc	0.299155	0.310155
	Australasia	
Australian Dollar	0.197166	0.209166
New Zealand Dollar	0.185044	0.195444
	America	
Canadian Dollar	0.223131	0.232131
US Dollars	0.300550	0.305850
US Dollars Mint	0.301050	0.305850
	Asia	
Bangladesh Taka	0.002934	0.003735
Chinese Yuan	0.041250	0.044750
Hong Kong Dollar	0.036749	0.039499
Indian Rupee	0.003663	0.004436
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002765	0.002945
Korean Won	0.000244	0.000259
Malaysian Ringgit	0.069065	0.075065
Nepalese Rupee	0.002627	0.002967
Pakistan Rupee	0.001342	0.002112
Philippine Peso	0.005689	0.005989
Singapore Dollar	0.216118	0.225116
Sri Lankan Rupee	0.001320	0.001900
Taiwan	0.009732	0.009912
Thai Baht	0.009661	0.010211
Vietnamese Dong	0.000013	0.000013
	Arab	
Bahraini Dinar	0.801936	0.809996
Egyptian Pound	0.018653	0.022013
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000214	0.000274
Jordanian Dinar	0.424785	0.433785
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.021219	0.045219
Omani Riyal	0.786166	0.704074
Qatar Riyal	0.083024	0.083860
Saudi Riyal	0.080153	0.081453
Syrian Pound	0.001292	0.001512
Tunisian Dinar	0.102593	0.110593
Turkish Lira	0.046512	0.056357
UAE Dirhams	0.082311	0.083139
Yemeni Riyal	0.000990	0.001070