NBK Economic Report

Crude prices roiled by global trade and economic worries

IEA revises down its projection for global oil demand growth again

KUWAIT: Worries over the global economy continue to weigh on oil prices. Brent crude, the international benchmark, fell 7.3 percent in August to close at $60.4/bbl, the steepest monthly fall since May's decline of 11.4 percent. It has since dropped further, to around $58.3/bbl as of 3 September. The US crude marker, West Texas Intermediate (WTI), declined 6 percent in August to $55.1/bbl. Brent though returning a decent 8 percent year-to-date, has, nevertheless, lost almost 22 percent of its value since its 2019-peak in April.

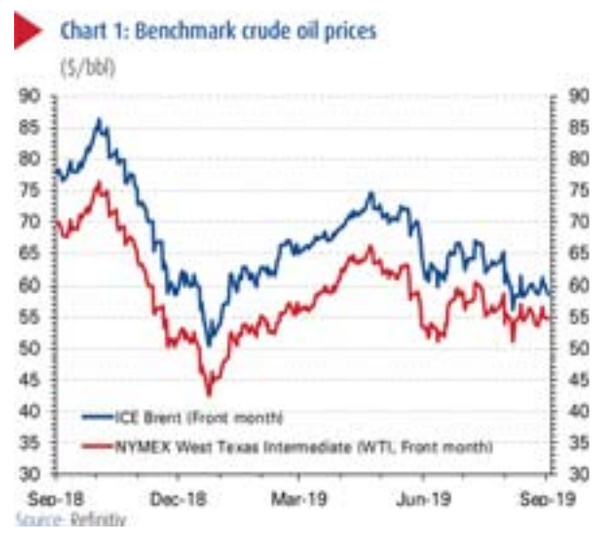
The current US administration's recourse to trade protectionism, engaging in escalating rounds of tit-for-tat tariffs with China has been significantly bearish for global economic growth, oil demand and, by extension, oil prices. The latest retaliation has seen China impose tariffs of up to 10 percent on $75 billion worth of US goods including soy beans and oil (5 percent). China was the largest importer of US crude during the first half of 2018, taking in about 376 kb/d on average, but has since scaled back its purchases by more than 60 percent in 2019 as the trade war has deepened.

The weakening economic backdrop has led the International Energy Agency (IEA) to revise down in August its projection for global oil demand growth in 2019 for a third time this year, by 100 kb/d to 1.1 mb/d. Demand growth is, however, expected to accelerate during the second half of 2019, spurred on by increases in gasoline and jet fuels consumption as well as petrochemicals production.

While rising demand would be expected to be positive for oil prices, the outlook is complicated by the continued global stock overhang and by surging US shale production. OECD commercial crude stocks increased counter-seasonally in June to 2,961 mb, 66.9 mb/d above the five-year average for that month. Reducing global crude stocks is one of the targets that OPEC+ has been working towards, but which, after three consecutive months of increases, appears to be slipping further away. US crude production, meanwhile, continues to break records. In late August, output reached 12.5 mb/d on gains of 800 kb/d in 2019 alone.

This has made OPEC+ efforts to clear away the supply surplus more difficult since this figure offsets almost half of the aggregate production (1.7 mb/d) that OPEC+ has pared back as part of the group's Vienna production cut accord that went into effect in January. And this has occurred in spite of OPEC+ regularly notching up commendable compliance rates in excess of 100 percent (141 percent in July). OPEC's own output is down at around a five-year low of 29.6 mb/d thanks to steeper than mandated production cuts by Saudi Arabia, Angola and Kuwait as well as by continued, involuntary production declines in Iran and Venezuela as a result of sanctions. With the supply picture uncertain, it seems likely that for oil to regain some of its luster, progress in Sino-US trade talks needs to occur as a minimum.

Chart 1: Benchmark crude oil prices



Source: Refinitiv

The challenges Brexit poses to UK economy

LONDON: British unemployment has hit a 45-year low, official data showed yesterday, but the economy still risks falling into a deep recession due to the turmoil created by Brexit. Here is an assessment of the economy and where it is heading, as Britain prepares to leave the European Union on October 31, with or without a deal according to Prime Minister Boris Johnson.

How positive is the unemployment data?

Britain's unemployment rate eased in July to 3.8 percent, down on 3.9 percent in June and the lowest level since currency 1974. Annual wages growth meanwhile climbed to 4.0 percent, the highest level since 2008, but skewed by bonus payments.

On the surface, the data looks positive, but Britain's low unemployment rate is not boosting productivity. Many workers are in part-time work or on "zero-hour contracts" offering no minimum guarantee of hours, say analysts. "Employment has been rising appreciably but growth has been lackluster-so output per-hour worked has actually been falling," Howard Archer, chief economic advisor to forecasters EY ITEM Club, said yesterday.

"There may be an element of some companies taking on workers recently out of concern that with the labor market pretty tight and Brexit occurring, they may be unable to get the quality of workers they need in the future." Archer added that "while earnings growth has been rising over the past year, it still remains much cheaper and less risky in a highly uncertain environment to take on labor rather than invest. "It is also much easier to reverse the taking-on of extra workers than pulling the plug on an investment project if the situation deteriorates," he added.

Where is the UK economy overall?

Analysis of the health of Britain's economy can change quickly. Last week, experts reckoned on the country heading for recession this year even before Brexit, amid a global slowdown.

However the outlook has changed for some after official data Monday showed that UK economic growth grew by a better-than-expected 0.3 percent in July. Market experts still expect a severe downturn in the event of a chaotic EU departure. "The UK economy remains in a strong position, defying calls for a recession," Chris Beauchamp, chief market analyst at IG, said following the gross domestic product (GDP) update and after the latest "solid, if unspectacular" jobs data.

What about the weak pound's impact?

The pound, seen as a better indicator of the UK's economic health than the London stock market, which is loaded with multinationals, continues to suffer Brexit-fuelled volatility.

Sterling last week slid below $1.20 for the first time in nearly three years-reaching the lowest level since 1985 except for a 2016 "flash crash". One of the biggest consequences of a weak pound has been to push up import costs, which in turn contributed to higher UK inflation.

But while the Bank of England would ordinarily look to hike interest rates to put a lid on rising inflation, Brexit uncertainty has caused it to sit tight. Supermarkets have meanwhile sought to avoid passing on their higher costs to consumers owing to strong price-competition across the sector.

But small businesses are finding it harder to shield themselves, while Britons heading abroad are facing costlier holidays.

Deal or no-deal

While Britain may avoid falling into recession should it reach an exit deal with the European Union, experts predict a dramatic slowdown in the event of a no-deal. The Bank of England's latest assessment is for a slide in British GDP of 5.5 percent following a no-deal Brexit. Unemployment would meanwhile surge to 7.0 percent and the annual inflation rate soar to 5.25 percent from a current 2.1 percent. —AFP

Trump seeks to privatize mortgage giants a decade after market meltdown

WASHINGTON: A decade after the mortgage bubble burst sparking the Great Recession, President Donald Trump wants to privatize two financial linchpins of the multi-trillion-dollar American housing sector. In Senate testimony yesterday, US Treasury Secretary Steven Mnuchin was due to lay out a plan for the reform of American housing finance, including the government-sponsored enterprises known as Fannie Mae and Freddie Mac.

The two organizations-which together back more than half of all US residential mortgages-were placed under conservatorship, or effectively nationalized, during the mortgage meltdown of 2008.

A $190 billion government bailout that year saved the two entities as defaults by risky so-called sub-prime borrowers soared nationwide. Little understood by the general public, the two institutions do not in fact originate mortgages.

Rather, they pump liquidity into the housing sector by buying mortgages from banks and then packaging them as securities which they can either keep or sell onward to investors with an implicit guarantee. This system eases the financing of long-term lending such as 30-year mortgages, which are rare outside the United States but have been key to achieving the "American dream" of home-ownership.

At the moment of the housing market's collapse, the home ownership rate had hit 70 percent before tumbling as foreclosures swept the nation. In a report last week, the US Treasury laid the groundwork for reforms to the two institutions, long a policy goal of the Trump administration.

Even though Fannie Mae and Freddie Mac are hybrid bodies traded on Wall Street, because of the conservatorship, their dividends are paid into the Treasury-something private investors would love to change.

Treasury Secretary Steven Mnuchin says housing finance reforms will boost economic growth. —AFP

A capital cushion

As the real estate market has recovered and grown stronger in recent years, Fannie Mae and Freddie Mac-whose familiar names arise out the abbreviations for Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) — have sent their robust profits straight into to government's coffers. In all, since the federal takeover, they have sent $300 billion to taxpayers, more than repaying the cost of their bailout.

The Mnuchin reform plan involves dozens of proposed legislative and regulatory measures and aims first of all to recapitalize both organizations by allowing them to keep some of their profits.

This should create a capital cushion to protect them in event of another mortgage catastrophe. In effect, the Treasury wants to end the tacit government guarantee-which more or less required the original bailout-and instead plans to create a guarantee that is both explicit and already paid for, which will apply to some mortgage bonds.

Mnuchin said Monday he hoped to win the support of Congress in the "next three to six months." Failing this, he may move "on the administrative front," he said. According to Mnuchin, a reformed federal housing finance system will also boost economic growth. Once a Goldman Sachs executive, Mnuchin is also a former mortgage banker, having taken over the California bank IndyWest, renamed OneWest, during the crisis. The release of the housing finance reform plan comes as shareholders' begin to make progress a legal battle to stop the governments' collection of Fannie Mae and Freddie Mac profits.

A federal appeals court last week reversed a lower court finding which had supported the government policy. —AFP

Boeing doesn't expect testing issue to delay 777X aircraft

NEW YORK: Boeing said yesterday it does not expect a problem that came up during testing of its new long-haul 777X aircraft to significantly affect aircraft design or timetable.

Boeing did not disclose details about the problem. A source close to the matter who spoke on condition of anonymity said a door of the plane blew out during the test.

Boeing last week said it suspended "final load testing," which is overseen by inspectors from the Federal Aviation Administration (FAA) and during which planes are subjected to loads and stresses beyond normal flying conditions. "While our root cause assessment continues, at this time we do not expect that this will have a significant impact on aircraft design or on our overall test program schedule," Boeing said.

"We remain fully focused on safety as our highest priority, as we subject the 777X to a rigorous test program prior to first flight." The 777X was originally scheduled to take off on its first test flight this summer. That date has been postponed until early 2020 by Boeing, due to problems with its General Electric engine.

The suspension of the test on the 777X comes as Boeing is in the process of completing changes required by regulators on the 737 MAX, which has been grounded worldwide after two crashes that resulted in 346 deaths.

Civil aviation authorities have stepped up their inspections since the disasters, most notably the FAA, which has been accused of cozy ties with Boeing. —AFP

EXCHANGE RATES

Al-Muzaini Exchange Co.

EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	304.550
Euro	338.050
Sterling Pound	377.640
Canadian dollar	232.480
Turkish lira	55.370
Swiss Franc	308.720
US Dollar Buying	297.250

ASIAN COUNTRIES	
Japanese Yen	2.836
Indian Rupees	4.255
Pakistani Rupees	1.967
Srilankan Rupees	1.658
Nepali Rupees	2.658
Singapore Dollar	221.490
Hongkong Dollar	38.846
Bangladesh Taka	3.594
Philippine Peso	5.878
Thai Baht	9.997
Malaysian ringgit	77.890

GCC COUNTRIES	
Saudi Riyal	81.268
Qatari Riyal	83.702
Omani Riyal	791.553
Bahraini Dinar	809.220
UAE Dirham	82.972

ARAB COUNTRIES	
Egyptian Pound - Cash	21.500
Egyptian Pound - Transfer	18.497
Yemen Riyal/for 1000	1.223
Tunisian Dinar	110.750
Jordanian Dinar	430.340
Lebanese Lira/for 1000	0.203
Syrian Lira	0.000
Morocco Dirham	32.330

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	304.190
Canadian Dollar	230.813
Sterling Pound	373.865
Euro	337.075
Swiss Frank	301.815
Bahrain Dinar	808.955
UAE Dirhams	83.220
Qatari Riyals	84.460
Saudi Riyals	82.015
Jordanian Dinar	430.328
Egyptian Pound	18.398
Sri Lankan Rupees	1.683
Indian Rupees	4.233
Pakistani Rupees	1.944
Bangladesh Taka	3.602
Philippines Pesso	5.861
Cyprus pound	18.097
Japanese Yen	3.850
Syrian Pound	1.590
Nepalese Rupees	2.648
Malaysian Ringgit	73.505
Chinese Yuan Renminbi	43.110
Thai Bhat	10.935
Turkish Lira	54.175
Singapore dollars	218.554

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CURRENCY	BUY	SELL
Europe		
British Pound	0.361522	0.375422
Czech Korune	0.004911	0.014211
Danish Krone	0.040748	0.045748
Euro	0. 326670	0.340370
Georgian Lari	0.102185	0.102185
Hungarian 0.000921	0.000111	
Norwegian Krone	0.029446	0.034646
Romanian Leu	0.053707	0.070557
Russian ruble	0.004553	0.004553
Slovakia	0.009113	0.019113
Swedish Krona	0.027000	0.032000
Swiss Franc	0.302004	0.313004
Australasia		
Australian Dollar	0.197930	0.209930
New Zealand Dollar	0.186462	0.195962
America		
Canadian Dollar	0.223108	0.232108
US Dollars	0.300600	0.306900
US Dollars Mint	0.301100	0.306900
Asia		
Bangladesh Taka	0.002935	0.003736
Chinese Yuan	0.041197	0.044697
Hong Kong Dollar	0.036756	0.039506
Indian Rupee	0.003694	0.004466
Indonesian Rupiah	0.000017	0.000023
Japanese Yen	0.002787	0.002967
Korean Won	0.000241	0.000258
Malaysian Ringgit	0.068858	0.074858
Nepalese Rupee	0.002681	0.003021
Pakistan Rupee	0.001342	0.002112
Philippine Peso	0.005758	0.006058
Singapore Dollar	0.213713	0.223713
Sri Lankan Rupee	0.001320	0.001900
Taiwan	0.009589	0.009769
Thai Baht	0.009617	0.010167
Vietnamese Dong	0.000013	0.000013
Arab		
Bahraini Dinar	0.802070	0.810130
Egyptian Pound	0.018656	0.022016
Iranian Riyal	0.000084	0.000086
Iraqi Dinar	0.000210	0.000270
Jordanian Dinar	0.424856	0.433856
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000151	0.000251
Moroccan Dirhams	0.021407	0.045407
Omani Riyal	0.786297	0.794198
Qatar Riyal	0.083037	0.083871
Saudi Riyal	0.080167	0.081467
Syrian Pound	0.001292	0.001512
Tunisian Dinar	0.102042	0.110042
Turkish Lira	0.046147	0.055992
UAE Dirhams	0.082325	0.083153
Yemeni Riyal	0.000991	0.001071