

Macroeconomic Outlook for Kuwait and the GCC

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Brief Overview

1. Review and update on Global economy
2. Oil market trends and outlook
3. Kuwait and GCC economic outlook

Recent News Headlines



South Korea exports plunge 14.7%

September 1, 2015



China imports collapse in September, exports remain weak

October 12, 2015



India's exports fall 24.3%, imports 25.2% YTD, 10th straight monthly decline

October 15, 2015



Japanese Economy shrank 1.2% in second quarter as weak consumption, exports hit GDP

September 8, 2015



Brazil hurtles towards its worst recession in 25 years

August 17, 2015



Singapore is about to enter technical recession

October 12, 2015



Dubai Property Prices Fall Most in the World

September 1, 2015



Saudi Arabia to cut spending after oil price decline

September 6, 2015

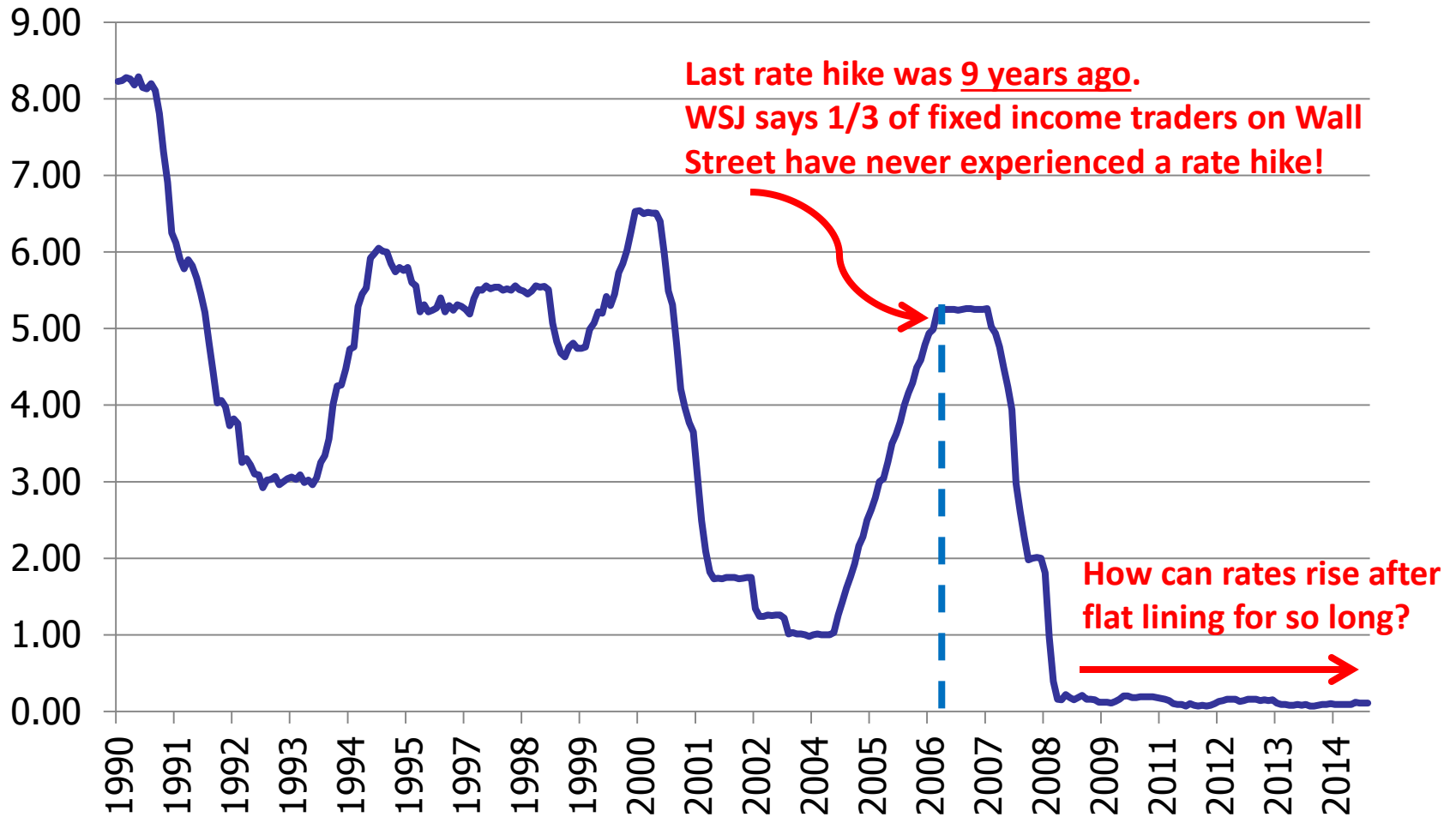
Countries that have cut interest rates this year

Albania, **Australia**, Botswana, **Canada**, **China**,
Denmark, Egypt, **EU**, **India**, Indonesia, Israel,
Pakistan, Peru, Poland, Romania, **Russia**,
Singapore, **South Korea**, **Switzerland**,
Thailand, **Turkey**, Uzbekistan.

Countries in **bold** are major global trading economies.

U.S. Federal Reserve Rate Cycle

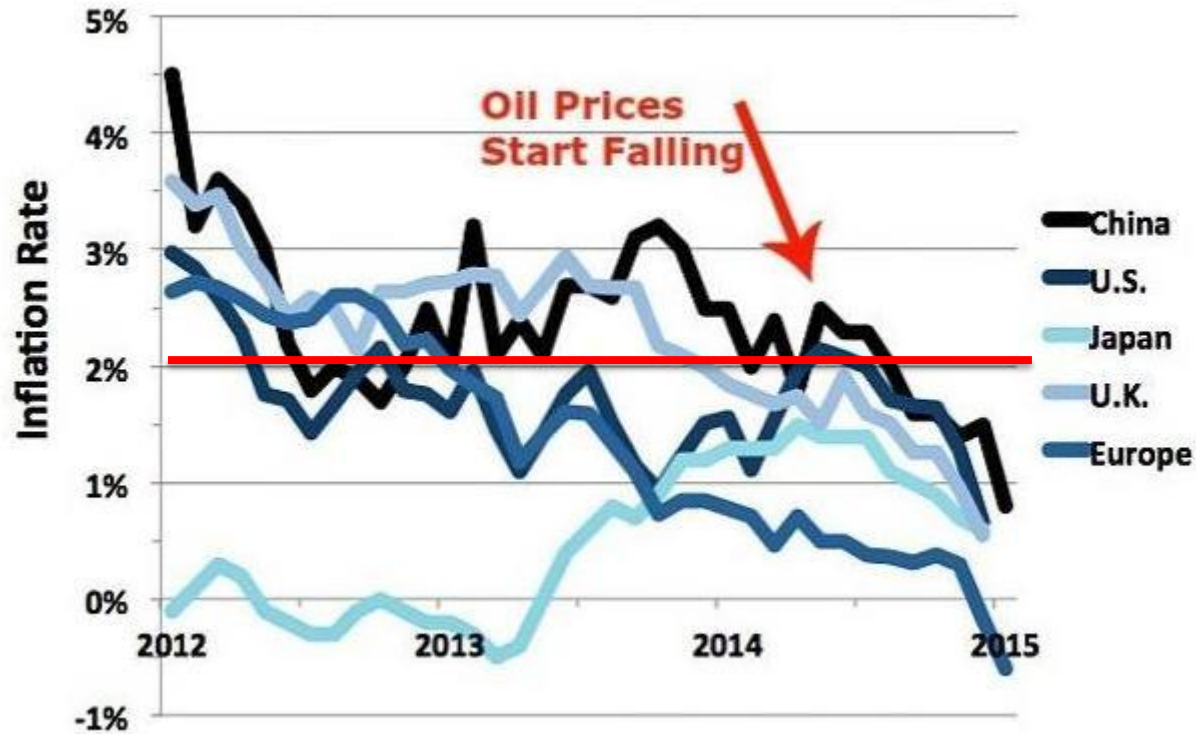
U.S. Federal Funds Rate



Source: Federal Reserve Bank of St. Louis

Improving economics?

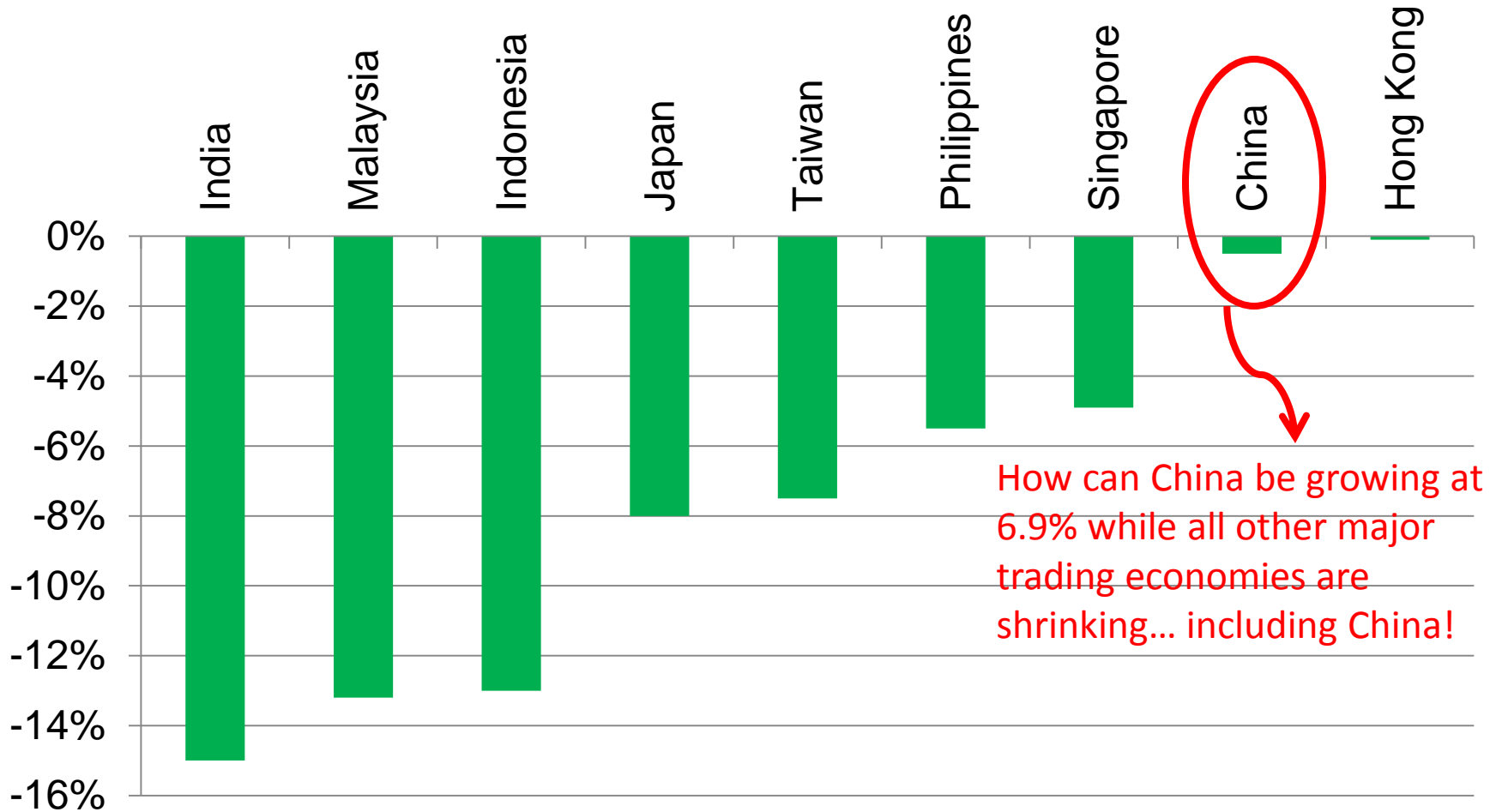
Inflation Is Dead: It's Below 1% Everywhere



Source: Federal Reserve, National Bureau of Statistics of China, Statistics Bureau of Japan

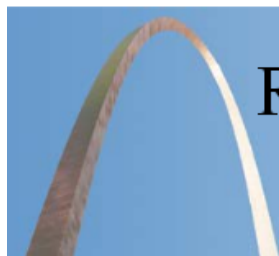
Deflation is spreading globally and no amount of QE can stop it.

YTD Export Growth



Source: Deutsche Bank

Quantitative Easing



Research Division
Federal Reserve Bank of St. Louis
Working Paper Series



Current Federal Reserve Policy Under the Lens of Economic History: A Review Essay

Stephen D. Williamson

Working Paper 2015-015A
<http://research.stlouisfed.org/wp/2015/2015-015.pdf>

July 2015

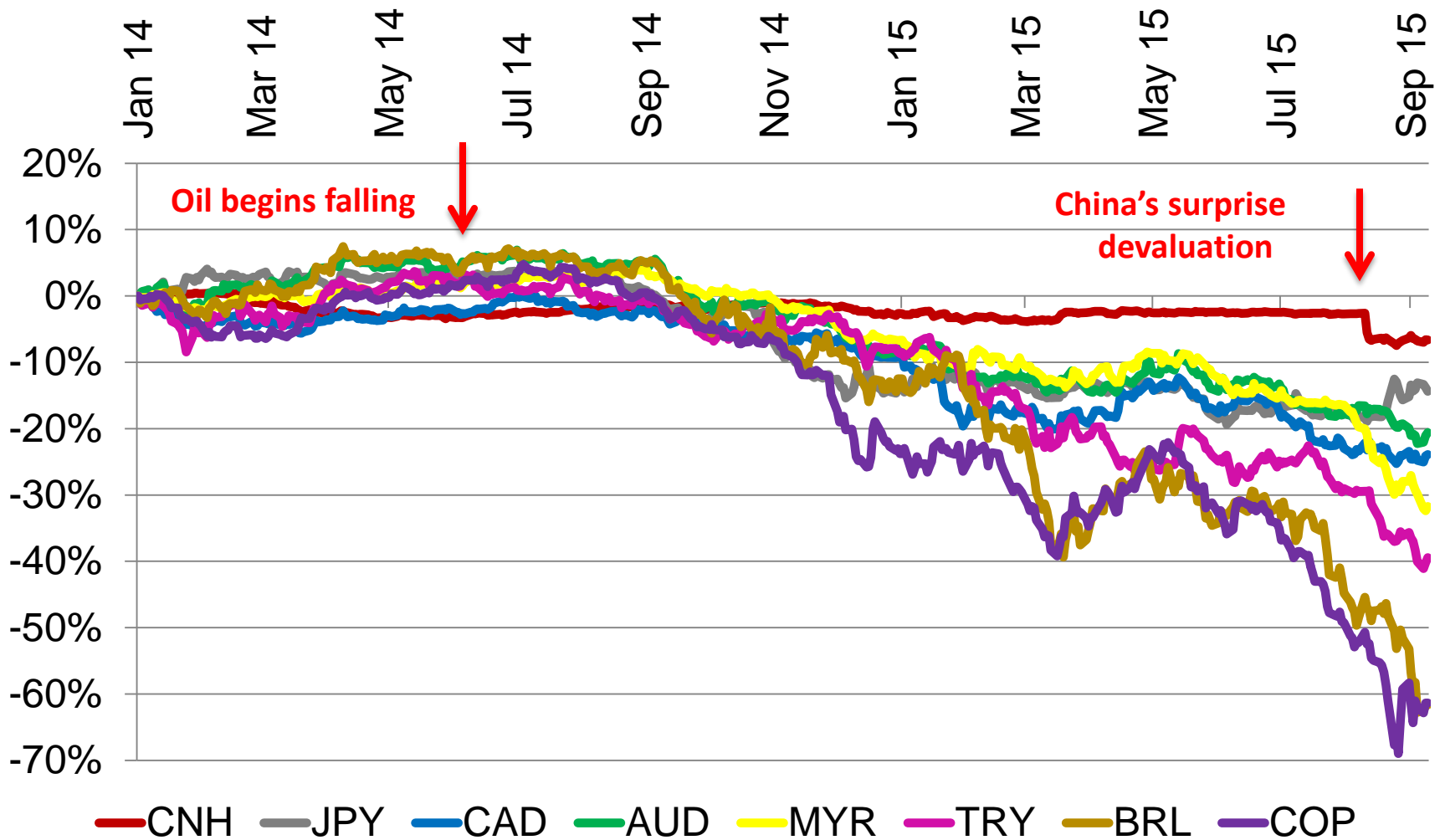
Federal Reserve Report

with monetary accommodation working through reductions in long-term bond yields rather than short-term yields.

Evidence in support of Bernanke's view of the channels through which QE works is at best mixed. For a review of the empirical work on QE, see Williams (2014) and Neely (2015). Much of the work on the quantitative effects of QE consists of event studies, whereby researchers look for effects on asset prices close to the date of an announced QE intervention. There is also some structural regression evidence. All of this research is problematic, as it is atheoretical.

There is no way, for example, to determine whether asset prices move in response to a QE announcement simply because of a signalling effect, whereby QE matters not because of the direct effects of the asset swaps, but because it provides information about future central bank actions with respect to the policy interest rate. Further there is no work, to my knowledge, that establishes a link from QE to the ultimate goals of the Fed – inflation and real economic activity. Indeed, casual evidence suggests that QE has been ineffective in increasing inflation. For example, in spite of massive central bank asset purchases in the U.S., the Fed is currently falling short of its 2% inflation target. Further, Switzerland and Japan, which have balance sheets that are much larger than that of the U.S., relative to GDP, have been experiencing very low inflation or deflation.

Blame China?



Data source: Thomson Reuters

Commodities

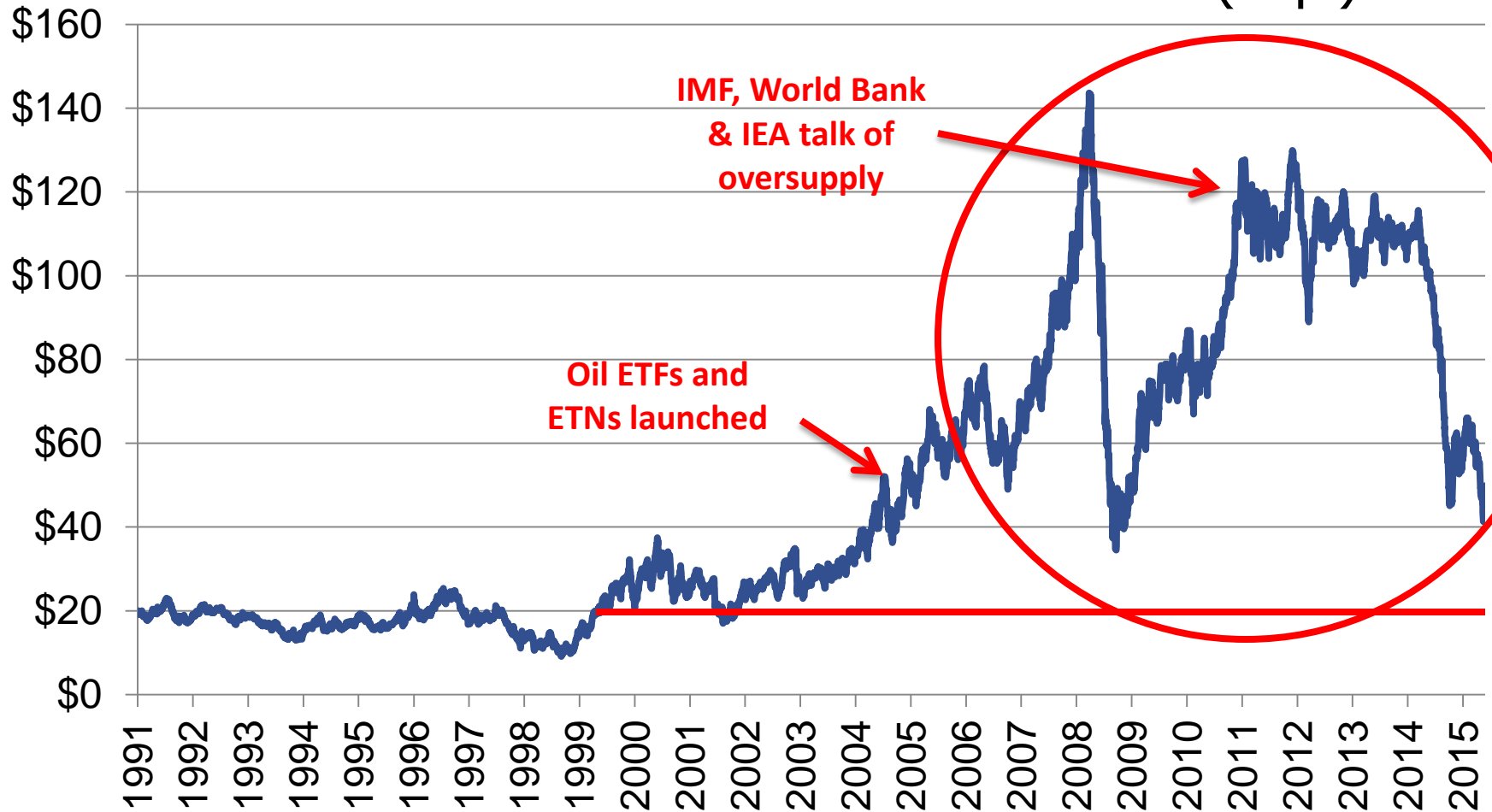
TR/CRB Index



Data source: Thomson Reuters

Oil Market

Price of Brent Crude from 1991 to 2015 (Sep.)

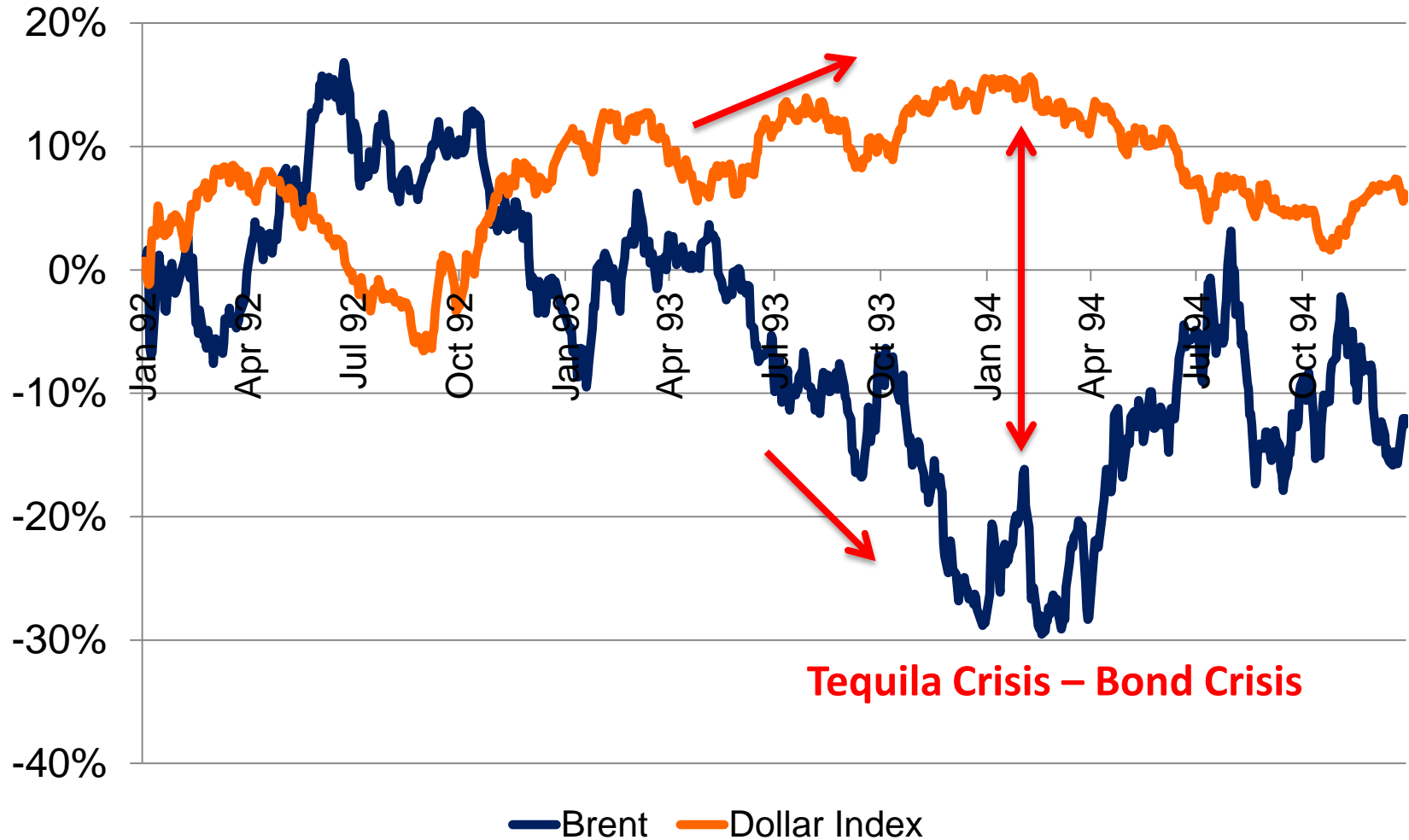


Data source: Thomson Reuters

Why did it take 4 years for the market to respond to oversupply fears?

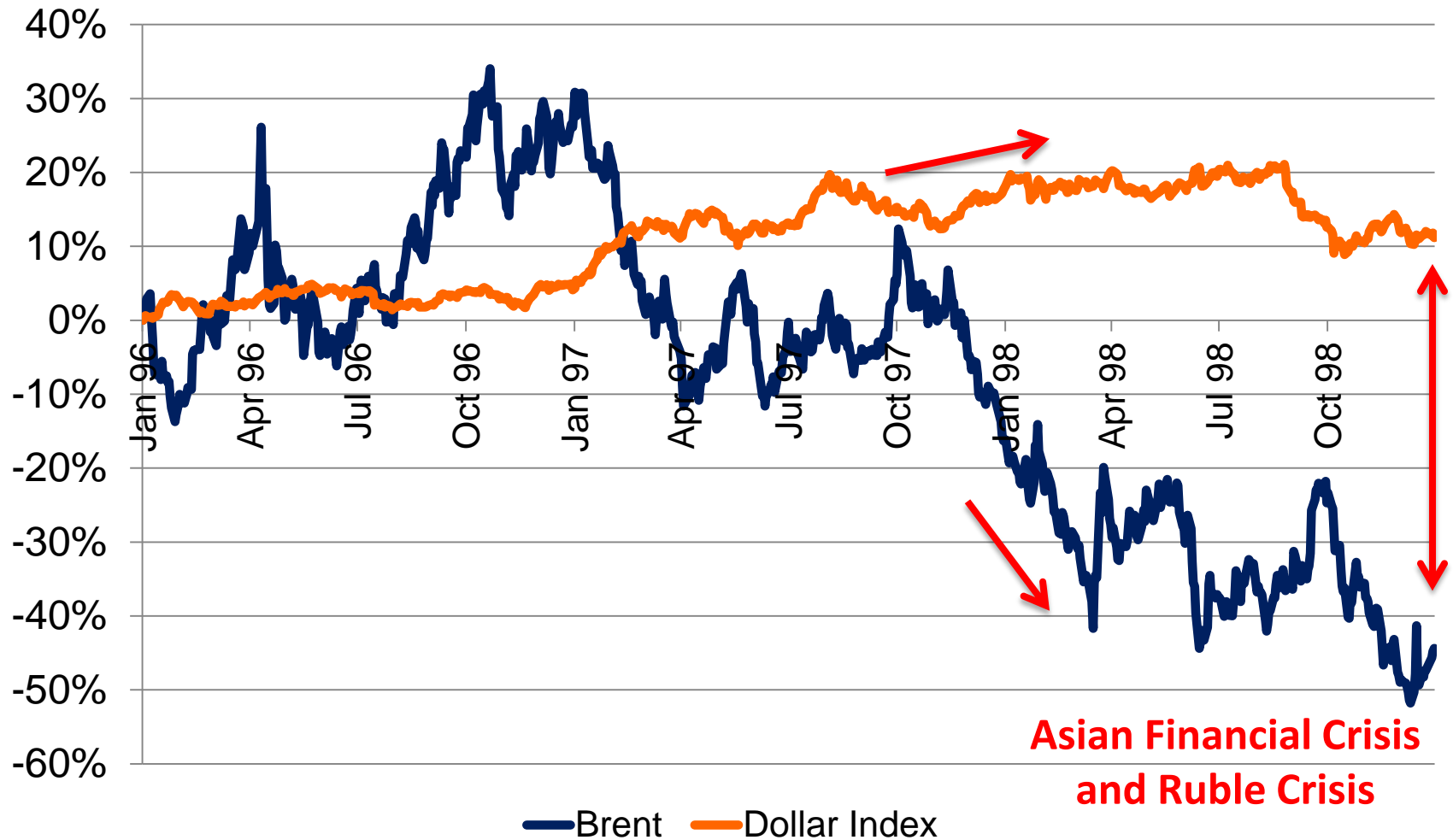
Oil vs. US Dollar (1992-1995)

A strengthening dollar and weakening oil have historically signaled a debt crisis



Data source: Thomson Reuters

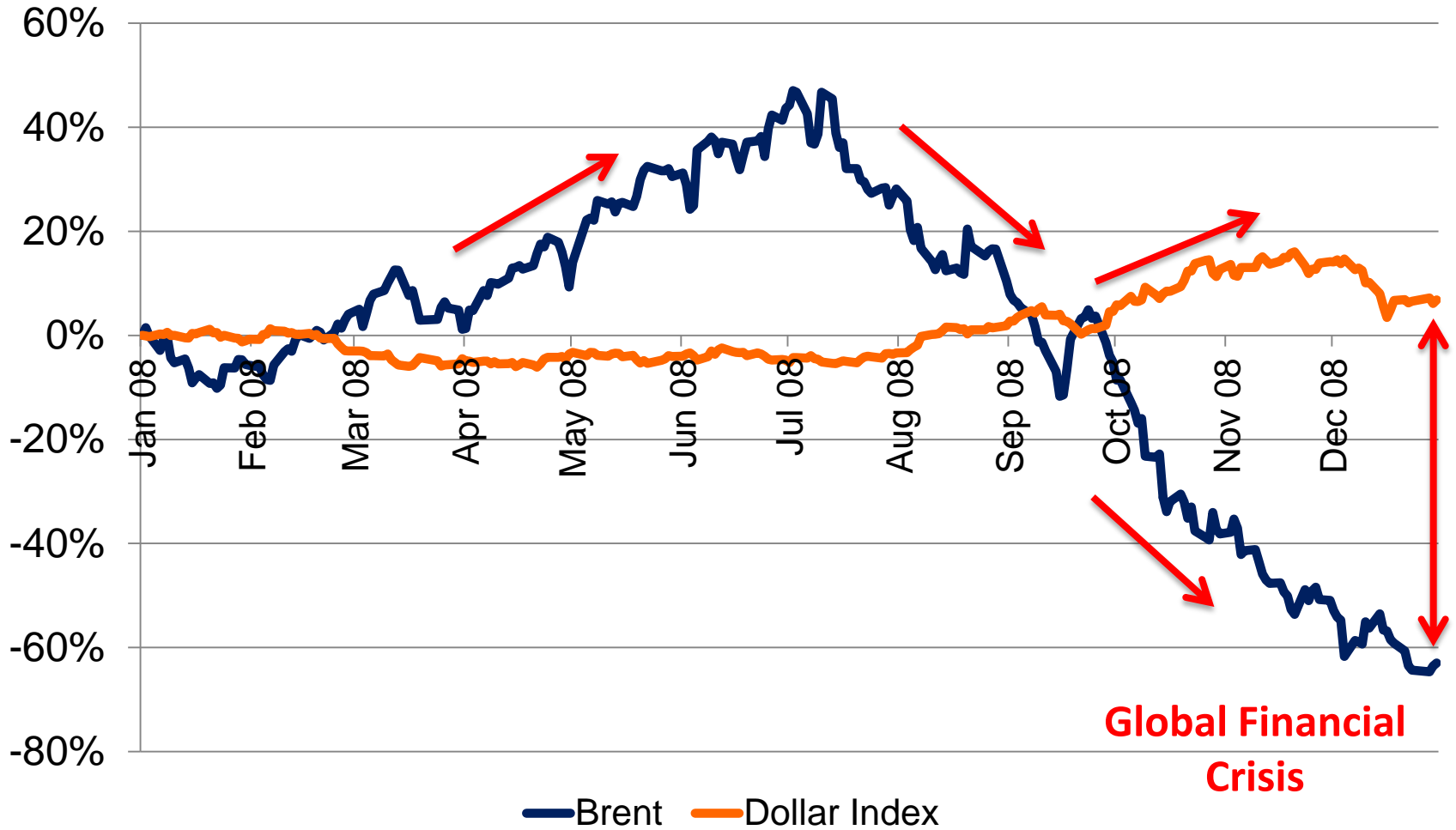
Oil vs. US Dollar (1996-1999)



**Asian Financial Crisis
and Ruble Crisis**

Data source: Thomson Reuters

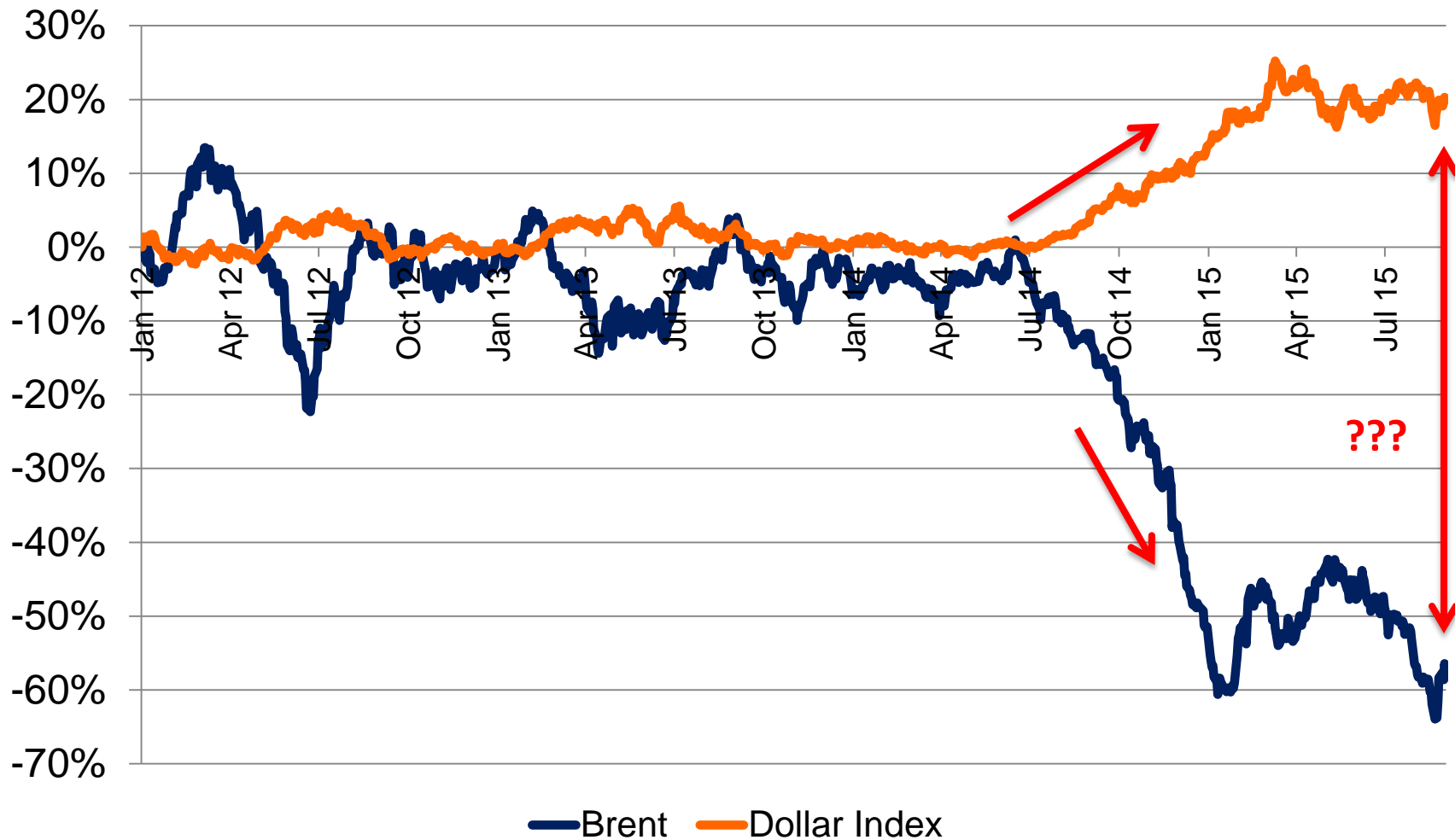
Oil vs. US Dollar (2008-2009)



Data source: Thomson Reuters

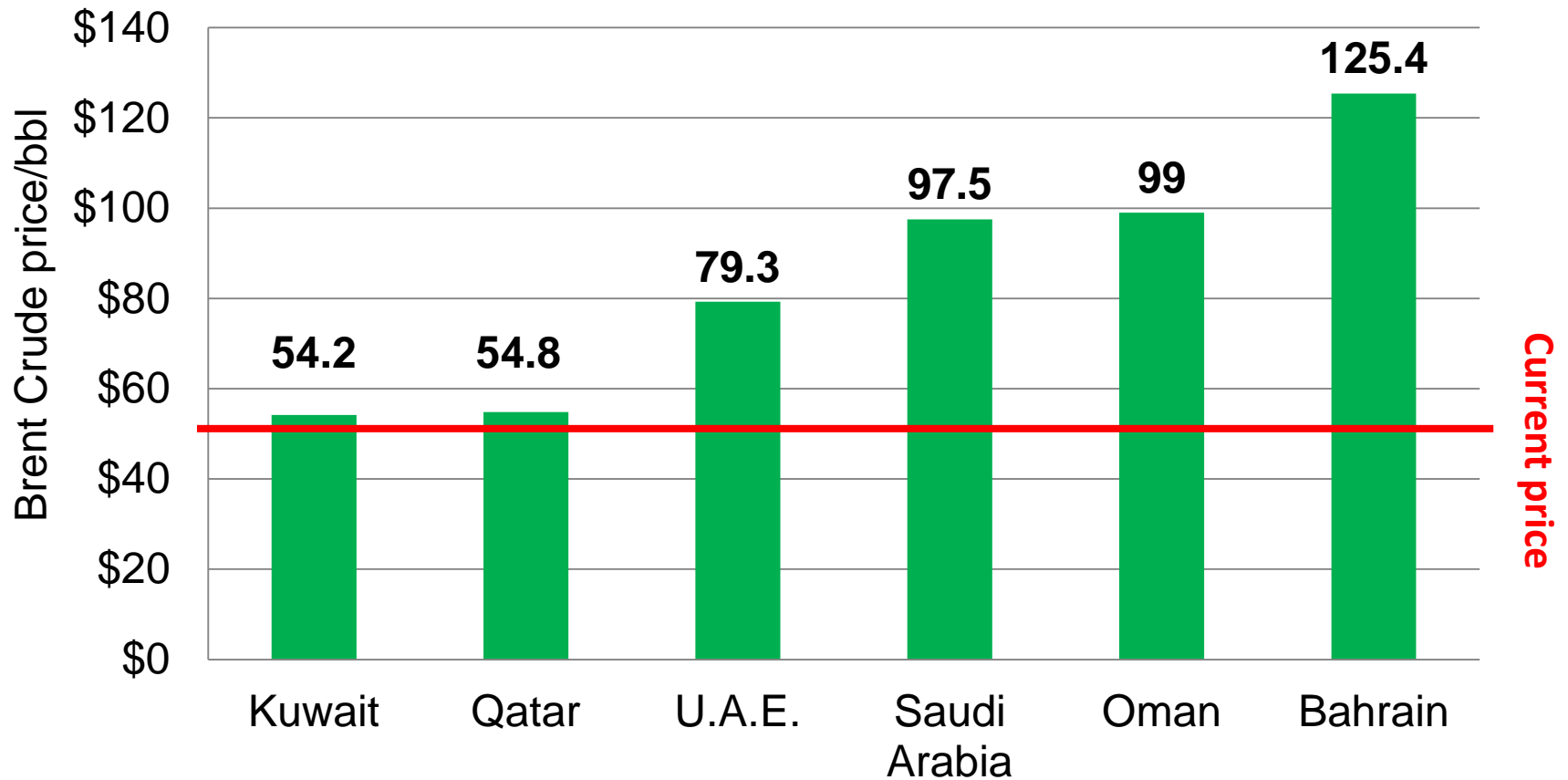
Oil vs. US Dollar (2012-2015)

This time is different... it's worse!



Data source: Thomson Reuters

GCC countries' breakeven oil price to meet budget needs



Data source: International Monetary Fund

Outlook for GCC economies and the banking sector

- Budgetary cuts across the board will lead to **slower economic growth** for the rest of 2015 and 2016
- Look at the low oil price environment of the 80s and 90s to see what is next (**spending cuts**, infrastructure cuts, introduction of taxes?, reduction in subsidies?)
- **Liquidity is being removed** from the global financial system as a result of a drop in the petrodollar
- GCC governments are **drawing down** on their foreign investments, currency reserves and GCC bank deposits
- The GCC banking sector **outlook is weak**, interest margins have been under pressure in 2015 and will drop further going into 2016
- Bank deposit **growth to slow**
- Asset quality is expected to **deteriorate**
- Bank **earnings to slow** through 2016