

International and markets

US: The Fed hiked its interest rate by a smaller 25bps, taking the benchmark rate to the 4.5-4.75% range, emphasizing the need for ongoing increases to bring inflation down to the “2% target” while acknowledging the start of a “disinflationary process.” Non-farm payrolls in December blew through forecasts, increasing by 517K from an upwardly revised 260K in November, with easing wage growth of 4.4% y/y from 4.8%, while the unemployment rate fell to a 53-year low of 3.4%. Job openings in December rose to 11mn, implying 1.9 job openings for every unemployed person. Meanwhile, the ISM manufacturing PMI in January fell deeper into contraction at 47.4 from 48.4, the lowest since May 2020, but the services survey rebounded sharply to 55.2 from 49.2 in December.

Europe: The ECB raised interest rates by 50bps, taking its deposit rate to 2.5% while stressing further hikes and aiming for another 50bp increase in the March meeting. GDP in 4Q22 unexpectedly grew 0.1% q/q but slowed from 0.3% earlier. HICP inflation in January eased to 8.5% from 9.2%, but the core rate was sticky at 5.2%. The unemployment rate remained near the historic low of 6.6% in December. Meanwhile, the BoE also raised the policy rate by 50bps, to 4%. It upgraded the outlook for the economy and expected minor contractions of 0.5% in 2023 and 0.25% in 2024, versus an earlier projection of a 1.5% drop in 2023, with inflation falling to around 4% by end-2023.

Financial markets: Global equity markets were mostly positive on easing inflation expectations though gains were curbed later in the week by the strong US jobs report. Gains were led by the tech-heavy Nasdaq composite (3.3% w/w), while the S&P500 rose 1.6%. GCC markets were mixed (-0.6%) as losses in Saudi Arabia and Qatar contrasted with gains in Abu Dhabi and Dubai. Kuwait's All-Share was little changed (0.3%).

Oil: Brent fell for the sixth session in a row on Friday to \$79.9/bbl (-7.8% w/w; -6.9% ytd), amid uncertain Chinese economic prospects and rising US stockpiles. Friday's acute drop came after the strong US jobs data release, which opened up the possibility of further Fed rate hikes. The EU embargo and price cap on Russian refined products comes into force today (diesel at \$100/bbl, \$10-25 below market prices).

MENA Region

GCC: Most GCC central banks tracked the Fed, raising key interest rates by 25 bps, with the exception of Kuwait and Qatar.

Kuwait: The Ministry of Finance released the FY2023/2024 draft budget which projects a drop in revenue to KD 19.5 bn (-17%) on an assumed oil price of \$70 vs a surge in expenditure to KD 26.3 bn (+12%), resulting in a deficit of KD 6.8bn. Despite ending the year on a weak note, domestic credit increased by 7.7% in 2022, the fastest yearly increase since 2015, with business and household credit up 6.8% and 9% respectively.

Saudi Arabia: The PMI increased to 58.2 in January as output rose to a strong 63.6 (61.0 in December) and similarly for the new orders (to 65.3 from 62.9). Non-oil GDP ended the year on a strong note expanding by 6.2% y/y in Q4 with oil activities growing by 6.1%, and overall GDP expanding by 5.4%. For 2022 overall, GDP grew by 8.7% as the oil and non-oil sectors expanded by 15.4% and 5.4% respectively.

UAE: The PMI slipped to a 12-month low in January at 54.1, easing slightly from 54.2 in December, as weaker global conditions weighed on sentiment. Output remained unchanged from December at 58.8, indicating continued strong expansion.

Egypt: The Central Bank of Egypt kept rates on hold during its first meeting of 2023, justifying that it has delivered a front-loaded 800 bps in 2022 of which 500bps were in Q4 alone. Meanwhile, commercial banks' NFAs rose by \$1.9bn m/m to \$-11.7bn in Dec 22 vs. \$-13.6bn in Nov. The enhancement in NFAs was mainly driven by a strong rise on the asset front which grew by 15.6% vs. 1.4% only for the liability side. Finally, the PMI activity index fell further to contraction territory at 45.5 in January (47.2 December). The drop in the pound pushed up business purchase costs and output prices to multi-year highs.

Key takeaways:

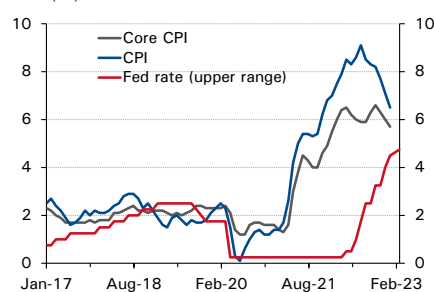
- Although only a single month and potentially subject to seasonality issues, the strong US job data suggest an economy resilient to Fed tightening so far. This increases the odds of the Fed keeping interest rates higher for longer, in contrast to the 50bps cut this year implied by the futures market.
- In Kuwait, the jump in spending in the government's draft FY23/24 budget is partly driven by one-off intra-government settlement payments. Accounting for this, the budget still looks expansionary, though the current political impasse suggests that it may not be approved until later in the year.
- The no-change policy decision by the Central Bank of Egypt came against expectations of a 100bps hike as a preemptive move to temper upcoming inflationary pressures. Still, interest rates are likely to rise over the coming months as inflation remains above 20%, and despite the latest weak PMI reading.

► **Chart 1: Brent crude oil price** (\$/bbl)



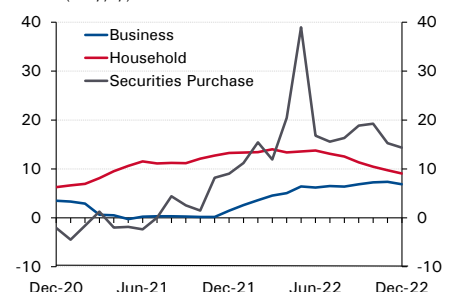
Source: Refinitiv

► **Chart 2: US Fed rate & CPI inflation** (%)



Source: Haver

► **Chart 3: Kuwait credit growth** (% y/y)



Source: Haver

Key data

| Stock markets | Index | Change (%) | | Bond yields | % | Change (bps) | | Interbank rates | % | Change (bps) | | |
|----------------------|--------|------------|------|----------------------|---------|--------------|-------|------------------------|-------------|--------------|------|------|
| | | 1-week | YTD | | | 1-week | YTD | | | 1-week | YTD | |
| International | | | | International | | | | Interbank rates | | | | |
| CSI 300 | 4,142 | -1.0 | 7.0 | UST 10 Year | 3.53 | 1.4 | -29.9 | Bhibor - 3 month | 6.19 | 4.3 | 4.3 | |
| DAX | 15,476 | 2.2 | 11.2 | Bunds 10 Year | 2.20 | -5.0 | -36.7 | Kibor - 3 month | 4.19 | 6.3 | 18.8 | |
| DJIA | 33,926 | -0.2 | 2.3 | Gilts 10 Year | 3.06 | -26.9 | -61.3 | Qibor - 3 month | 5.20 | -15.0 | -8.3 | |
| Eurostoxx 50 | 4,258 | 1.9 | 12.2 | JGB 10 Year | 0.49 | 0.6 | 6.8 | Eibor - 3 month | 4.74 | -2.5 | 43.4 | |
| FTSE 100 | 7,902 | 1.8 | 6.0 | Regional | | | | Saibor - 3 month | 5.50 | 4.6 | 28.7 | |
| Nikkei 225 | 27,509 | 0.5 | 5.4 | Abu Dhabi 2027 | 3.87 | -10.7 | -8.4 | Libor - 3 month | 4.83 | 0.9 | 6.7 | |
| S&P 500 | 4,136 | 1.6 | 7.7 | Oman 2027 | 5.13 | -16.7 | -14.3 | Sofr - 3 month | 4.68 | 1.5 | 9.7 | |
| Regional | | | | Commodities | | | | Exchange rates | | | | |
| Abu Dhabi SM | 9,931 | 2.0 | -2.7 | Brent crude | \$/unit | 79.9 | -7.8 | -6.9 | KWD per USD | 0.305 | -0.2 | -0.3 |
| Bahrain ASI | 1,921 | -0.3 | 1.4 | KEC | 80.7 | -6.6 | -1.6 | KWD per EUR | 0.329 | -1.1 | 0.6 | |
| Dubai FM | 3,383 | 1.6 | 1.4 | WTI | 73.4 | -7.9 | -8.6 | USD per EUR | 1.079 | -0.7 | 0.9 | |
| Egypt EGX 30 | 16,256 | -3.2 | 11.4 | Gold | 1862.9 | -3.4 | 2.4 | JPY per USD | 131.2 | 1.0 | 0.0 | |
| MSCI GCC | 699 | -0.6 | 1.1 | | | | | USD per GBP | 1.205 | -2.8 | -0.4 | |
| Kuwait SE | 7,330 | 0.3 | 0.5 | | | | | EGP per USD | 30.23 | 1.3 | 22.2 | |
| KSA Tadawul | 10,702 | -1.1 | 1.5 | | | | | | | | | |
| Muscat SM 30 | 4,720 | -0.7 | -3.1 | | | | | | | | | |
| Qatar Exchange | 10,698 | -3.7 | 0.2 | | | | | | | | | |

Updated on 3/2/2023

Source: Refinitiv

International equity markets

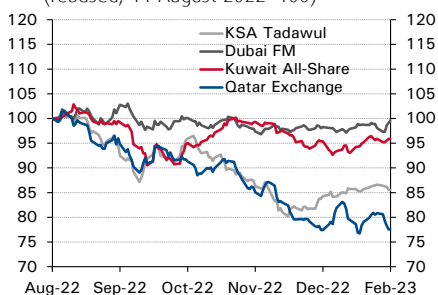
(rebased, 12 August 2022=100)



Source: Refinitiv

GCC equity markets

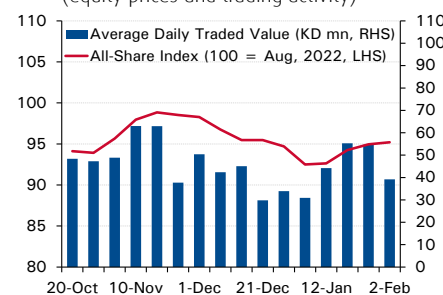
(rebased, 11 August 2022=100)



Source: Refinitiv

Bursa Kuwait

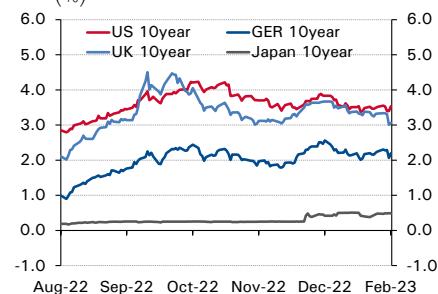
(equity prices and trading activity)



Source: Refinitiv

International bond yields

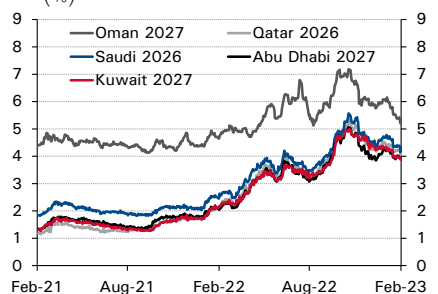
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Source: Refinitiv

GCC bond yields

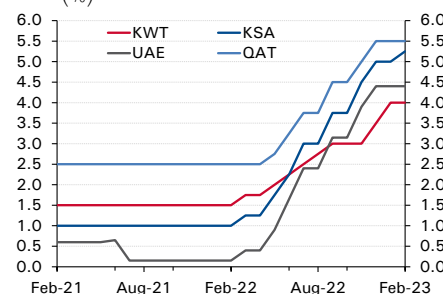
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv