

International and markets

World economy: The IMF, in its just-released World Economic Outlook Update, sees global economic growth moderating in 2022 to 4.4% (from 5.9% in 2021) and to 3.8% in 2023. Downgrades to both US and Chinese growth this year—the removal from baseline US forecasts of ‘Build Back Better’ and accommodative monetary policy, plus weaknesses in China’s real estate sector—were the main factors causing the slowdown. Downside risks predominate, with Omicron and tighter monetary policy amid high inflation the major headwinds.

US: The Fed left policy rates unchanged but hinted strongly that rate lift-off will commence in March. Importantly, with respect to balance sheet reduction, holdings will be allowed to run-off gradually (by adjusting the reinvestment amount) as opposed to outright sales. Meanwhile, driven by inventory builds, GDP in Q4 2021 beat expectations, rising 6.9% q/q (annualized), sharply up on 2.3% in Q3 and bringing 2021 growth to 5.7%. Core PCE, the Fed’s preferred inflation measure, though in line with expectations, accelerated to 4.9% in January, the highest since 1983, while the headline rate edged up to 5.8% y/y from 5.7% the month before. Finally, the employment cost index, which is closely followed by the Fed, increased by a lower-than-expected 1% in Q4 following a 1.3% rise in Q3.

Europe: The flash Eurozone composite PMI slipped further in January, to an 11-month low of 52.4 (from 53.3 in December), signifying modest expansion but well off its peak of 60 in summer 2021. Recent declines have been driven by Omicron, which has triggered restrictions across Europe and hit service industries such as tourism and recreation particularly hard. However, manufacturing fared well (55.8) on easing supply chain pressures. The UK PMI hit a similar 11-month low of 53.4.

Financial markets: Global equities were mixed, with the MSCI ACWI down 0.6% w/w but the S&P500 up 0.8% w/w on good earnings and investor dip-buying despite rate hike concerns and geopolitical tensions. The MSCI EM index fell 3.7% on China regulatory concerns, while the MSCI GCC was little changed (-0.5%) as higher oil prices offset adverse global developments. Kuwait’s All-Share lost 0.5% w/w.

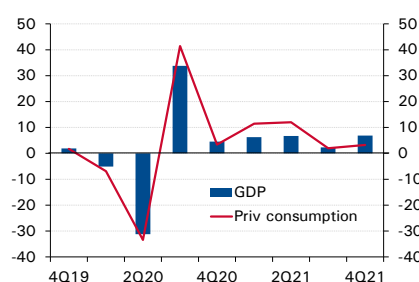
Oil: Brent closed on Friday at \$90/bbl (+2.4% w/w; +15.7% ytd) for the first time since October 2014 on continued market tightness and heightened Russia-Ukraine geopolitical risk. Markets are increasingly setting their sights on \$100.

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



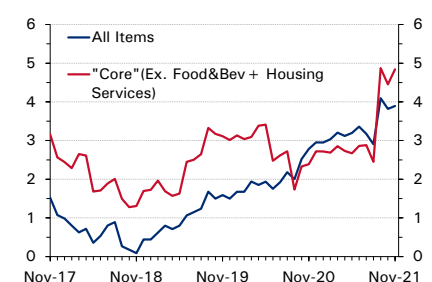
Source: Refinitiv

Chart 2: US GDP growth
(% q/q, annualized)



Source: Haver

Chart 3: Kuwait inflation
(% y/y)



Source: CSB

MENA Region

Kuwait: The MOF’s draft budget for FY22/23 sees an almost fourfold, budget-on-budget reduction in the deficit to KD3.1 billion (6.5% of GDP) on higher revenues of KD18.2 billion (+72% y/y, assuming an oil price of \$65/bbl and crude output of 2.7 mb/d) and lower expenditures of just under KD22 billion (-4.8% y/y). Citing the absence of a ‘meaningful’ fiscal adjustment to low oil prices and weak prospects for reform, however, rating agency Fitch lowered Kuwait’s credit rating by one notch to AA- (outlook stable). Meanwhile, inflation rose to 3.9% y/y (+0.3% m/m) in November. Price rises were generally across the board, led by food and beverages (+7% y/y). Also last week, parliament approved a KD300 million capital increase for the Kuwait Credit Bank to ease liquidity constraints and help accelerate the distribution of housing loans.

Saudi Arabia: Non-oil exports climbed to a record-high in November 2021 (+32% in 11M2021). At 13% of non-oil GDP, non-oil exports are still some way off the government’s target of 50% of non-oil GDP by 2030.

Egypt: The IMF raised Egypt’s GDP growth estimate to 5.6% in 2022 from 5.2% last October due to the country’s sound macroeconomic management during the pandemic.

Key takeaways:

- Fed Chair Powell’s comments on the strength of the economy/labor market and their ability to tolerate multiple rate hikes were seen as relatively hawkish, suggesting an accelerated timetable of fed funds rate rises.
- Both the ECB and the BoE will hold meetings this week. Despite signs of economic activity being disrupted by Omicron, the latter is seen hiking rates for the second consecutive meeting, by 25 bps to 0.5%. The ECB will leave policy on hold, but could provide more hawkish messaging on inflation.
- With oil markets already tight, Brent’s rise to \$90 was primarily driven by Russia-Ukraine tensions and the likelihood of US-led sanctions on Russia’s energy exports in the event of an incursion. A successful renegotiation of the Iran nuclear deal that leads to a lifting of oil sanctions—possible within 2 months Russia says—could bring back enough oil supply to cool prices.
- Kuwait’s draft budget plan for spending cuts (of about 5%) shows the government’s intention to reduce future deficits and work towards fiscal sustainability even while oil prices are high. The budget still needs parliamentary approval, though.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,564	-4.5	-7.6
DAX	15,319	-1.8	-3.6
DJIA	34,725	1.3	-4.4
Eurostoxx 50	4,137	-2.2	-3.8
FTSE 100	7,466	-0.4	1.1
Nikkei 225	26,717	-2.9	-7.2
S&P 500	4,432	0.8	-7.0
Regional			
Abu Dhabi SM	8,766	0.7	3.3
Bahrain ASI	1,808	-0.3	0.6
Dubai FM	3,220	0.3	0.8
Egypt EGX 30	11,500	-2.0	-3.8
MSCI GCC	789	-0.5	7.1
Kuwait SE	7,327	-0.5	4.0
KSA Tadawul	12,179	-0.9	8.0
Muscat SM 30	4,171	-1.5	1.0
Qatar Exchange	12,509	0.0	7.6

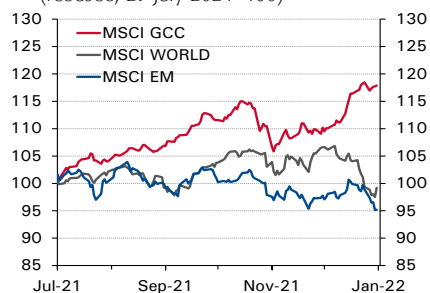
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.78	0.8	26.7
Bunds 10 Year	-0.05	1.3	13.2
Gilts 10 Year	1.24	7.4	27.2
JGB 10 Year	0.16	3.0	9.4
Regional			
Abu Dhabi 2027	2.10	1.6	48.0
Oman 2027	4.65	-11.1	-74.8
Qatar 2026	2.08	7.7	52.3
Kuwait 2027	2.11	0.7	38.3
Saudi Arabia 2028	2.51	0.6	31.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	90.0	2.4	15.7
KEC	90.3	1.3	14.2
WTI	86.8	2.0	15.4
Gold	1784.9	-2.6	-2.3

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	1.57	0.0	5.0
Kibor - 3 month	1.50	0.0	0.0
Qibor - 3 month	1.15	0.0	2.5
Eibor - 3 month	0.45	4.1	9.0
Saibor - 3 month	0.98	2.7	7.2
Libor - 3 month	0.32	5.9	10.7
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	0.2	0.2
KWD per EUR	0.340	0.0	0.0
USD per EUR	1.114	-1.7	-2.0
JPY per USD	115.2	1.4	0.1
USD per GBP	1.340	-1.1	-0.9
EGP per USD	15.72	0.3	0.4

Updated on 28/1/2022 Source: Refinitiv

International equity markets

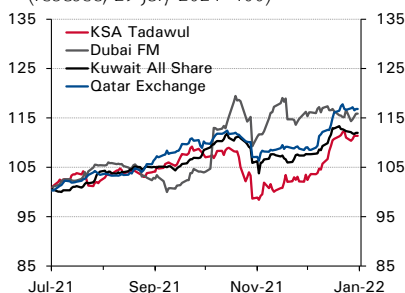
(rebased, 29 July 2021=100)



Source: Refinitiv

GCC equity markets

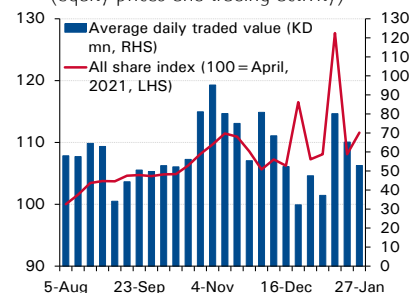
(rebased, 29 July 2021=100)



Source: Refinitiv

Bursa Kuwait

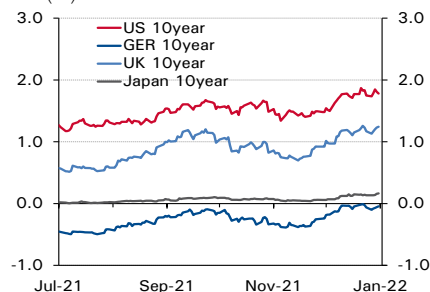
(equity prices and trading activity)



Source: Refinitiv

International bond yields

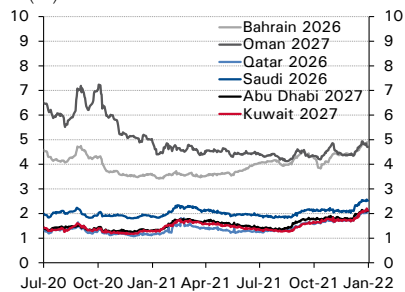
(%)



Source: Refinitiv

GCC bond yields

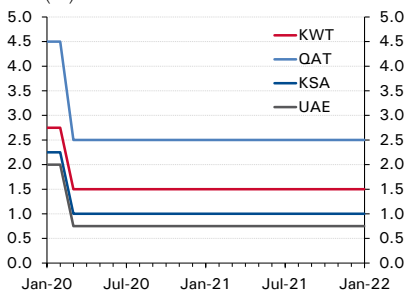
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv