

International and markets

US: Consumer price inflation accelerated to a higher-than-expected 7.5% y/y through January from 7% in December, the highest since 1982. The core rate was up by 0.6% m/m in January, resulting in a 6% y/y increase with the goods category up 11.7% y/y and the services one advancing 1.1%. Meanwhile, mainly driven by higher inflation, the University of Michigan consumer sentiment index dropped to 61.7 in February (67.2 in January), the lowest level since October 2011. Finally, the trade deficit widened to \$859 billion in 2021 (3.7% of GDP) from \$677 billion in 2020 (3.2% of GDP) as imports (+20.5% y/y) increased faster than exports (+18.5%).

Europe: UK GDP rose 1% q/q in 4Q21, close to expectations and unchanged from Q3. The figures included a smaller-than-expected 0.2% m/m drop in December, despite a hit to retail and hospitality from the Omicron wave. The economy is now almost back to pre-Covid size but although the recovery is likely to continue in 1Q22, headwinds from high inflation, tax rises and higher interest rates could weigh later on. Meanwhile, the European Commission cut its EU growth forecast for 2022 to 4% from 4.3%, citing high inflation especially energy costs, risks to which are building due to Russia-Ukraine tensions.

China: FX reserves fell by \$3 billion in January to \$3.22 trillion as a hawkish Fed shift strengthened the dollar. Meanwhile, the January Caixin PMI survey showed service activity expanding at the slowest pace (51.4) since August as Covid outbreaks and related measures weighed on consumer sentiment.

Financial markets: Global equities were mixed but negative overall as surging inflation increased the odds of more aggressive Fed policy action. The MSCI AC World index fell 0.5% w/w, led by the S&P500 (-1.8%). The 10-year treasury yield surged to over 2%, the highest since 2019 before easing to 1.9% on Friday. In contrast, the MSCI GCC rose 1.3% supported by higher oil prices, led by Abu Dhabi (3%) and Dubai (2.7%), while Kuwait's All-Share rose 1%.

Oil: Brent closed the week up 1.3% w/w at \$94.4/bbl (+21.4% ytd), notching up an eighth straight week of gains amid tight supplies and geopolitical uncertainty. Prices had softened on Iran nuclear deal progress, but US and OPEC data showing another week of crude stock draws (-4.8 mb) and further supply shortfalls in January, respectively, boosted bullish sentiment, as did escalating Russia-Ukraine tensions. The International

Energy Agency revised up its oil demand estimates for 2022 but kept annual growth at around 3.2 mb/d.

MENA Region

Kuwait: Fitch Ratings lowered the Long-Term Issuer Default Ratings of 11 Kuwaiti banks following the recent downgrade of Kuwait's sovereign rating to AA- from AA. Meanwhile, domestic credit ended the year on a relatively strong note (1.6% q/q in 4Q21, 6.3% ytd) with household credit increasing by 13.3% y/y the fastest annual expansion since 2013, while business credit growth was muted at 1.4% y/y. Finally, inflation rose to a multi-year high of 4.3% y/y in December (+0.7% m/m), up from 3.9% in November, on a strong pick up in housing inflation and continued rises in food and most other core components.

Saudi Arabia: Official flash GDP estimates showed that non-oil activities increased by 5% y/y in 4Q2021, resulting in a growth of 6.6% for 2021. With oil activities inching up by 0.2% in 2021 and government activities increasing by 1.5%, total GDP expanded by 3.3% in 2021, following a 4.1% decrease in 2020.

Egypt: Urban consumer price inflation rose to 7.3% y/y in January, up from 5.9% in December on higher food, electricity and gas prices. Core components witnessed a milder rise as core inflation reached 6.3%, compared to 6% in December.

Key takeaways:

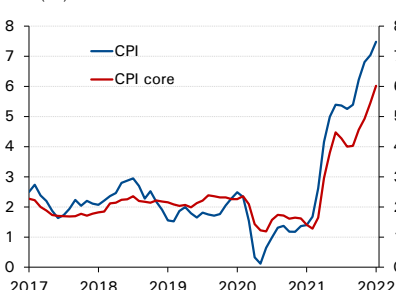
- The higher-than-expected inflation in the US has raised the number of expected Fed rate hikes in 2022 to six or seven, with even the possibility of a 0.5% hike at the March 16 meeting, for which the February CPI level (released on March 10) will be a key determining factor.
- While the prospect of additional Iranian crude supplies took a step closer, OPEC-10 output in January fell well short of target, exacerbating worries of supply shortfalls. Markets no longer see \$100+ oil as unrealistic, especially given Russia-Ukraine tensions with talk of an 'imminent' Russian invasion.
- Kuwait's household credit growth is expected to ease in 2022 following the expiry of the six-month loan deferral for borrowers by the end of 2021, which supported household credit volumes.
- Inflation in Egypt is back above the mid-point of the central bank's 7±2% target range. While not our base case, the jump increases the possibility of an interest rate hike at the bank's March 24 monetary policy meeting, especially if the Fed opts for a more aggressive 50 bps rise earlier the same month.

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



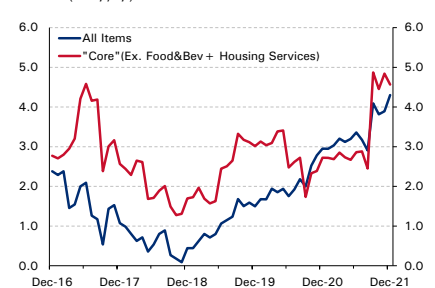
Source: Refinitiv

▶ **Chart 2: US consumer inflation** (%)



Source: Haver

▶ **Chart 3: Kuwait inflation** (% y/y)



Source: CSB

Key data

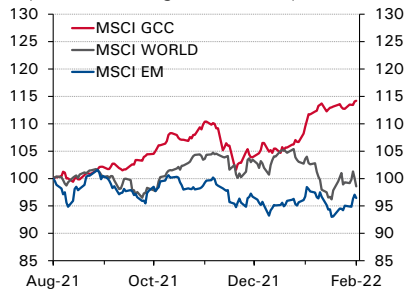
Stock markets	Index	Change (%)		Bond yields	%	Change (bps)		Interbank rates	%	Change (bps)					
		1-week	YTD			1-week	YTD			1-week	YTD				
International															
CSI 300	4,601	0.8	-6.9	UST 10 Year	1.92	0.2	40.6	Bhibor - 3 month	1.57	0.0	5.0				
DAX	15,425	2.2	-2.9	Bunds 10 Year	0.29	8.4	47.1	Kibor - 3 month	1.50	0.0	0.0				
DJIA	34,738	-1.0	-4.4	Gilts 10 Year	1.55	13.3	57.4	Qibor - 3 month	1.15	0.0	2.5				
Eurostoxx 50	4,155	1.7	-3.3	JGB 10 Year	0.22	2.5	15.4	Eibor - 3 month	0.56	9.8	19.5				
FTSE 100	7,661	1.9	3.7	Regional											
Nikkei 225	27,696	0.9	-3.8	Abu Dhabi 2027	2.20	11.3	48.0	Oman 2027	4.84	16.4	-74.8				
S&P 500	4,419	-1.8	-7.3	Qatar 2026	2.22	10.1	52.3	Kuwait 2027	2.27	9.4	38.3				
Regional															
Abu Dhabi SM	8,998	3.0	6.0	Saudi Arabia 2028	2.67	5.1	31.6	USD per EUR	1.135	-0.8	-0.2				
Bahrain ASI	1,867	2.4	3.9	Commodities											
Dubai FM	3,257	2.7	1.9		\$/unit	Change (%)		JPY per USD	115.4	0.2	0.3				
Egypt EGX 30	11,579	-0.5	-3.1			1-week	YTD	USD per GBP	1.356	0.2	0.2				
MSCI GCC	797	1.3	8.1	Brent crude	94.4	1.3	21.4	EGP per USD	15.66	-0.3	0.0				
Kuwait SE	7,478	1.0	6.2	KEC	92.1	-0.1	16.6								
KSA Tadawul	12,269	1.0	8.7	WTI	93.1	0.9	23.8								
Muscat SM 30	4,093	-0.8	-0.9	Gold	1840.8	1.9	0.7								
Qatar Exchange	12,809	1.2	10.2												

Updated on 11/2/2022

Source: Refinitiv

International equity markets

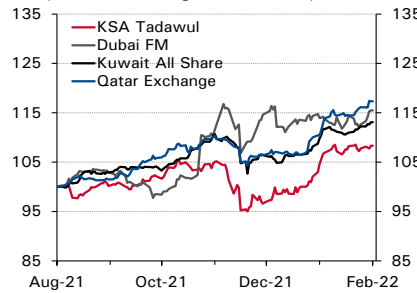
(rebased, 11 August 2021=100)



Source: Refinitiv

GCC equity markets

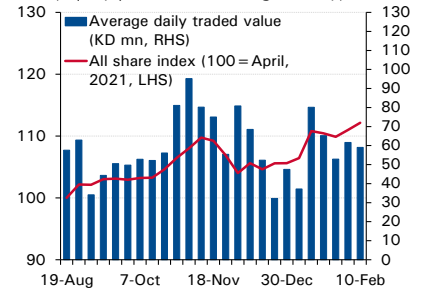
(rebased, 11 August 2021=100)



Source: Refinitiv

Bursa Kuwait

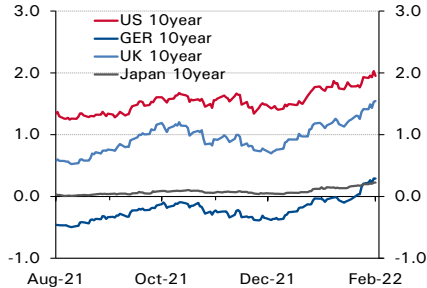
(equity prices and trading activity)



Source: Refinitiv

International bond yields

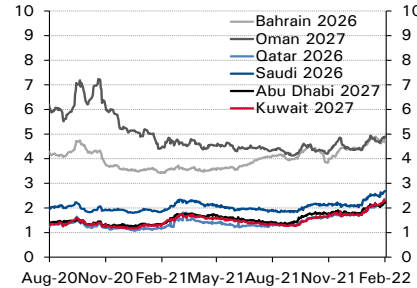
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Source: Refinitiv

GCC bond yields

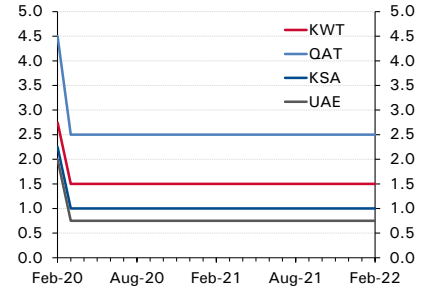
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv