

International

US: The Federal Reserve as expected cut interest rates by 25 bps, leaving the target range at 1.50-1.75%. However, the move was seen as 'hawkish', accompanied by a largely upbeat assessment of the economic outlook (including softer US-China trade tensions) and indications that no further cuts were likely. Meanwhile, GDP growth in 3Q19 slowed fractionally to a still-above-consensus annualized 1.9% from 2.0% in Q2, weighed by a drop in private investment. Non-farm job gains in October easily beat expectations at 128,000 (versus an upwardly-revised 180,000 in September) despite the impact of a strike by General Motors workers, though wage growth remained at 3.0% y/y and unemployment edged up to 3.6%. Finally, the Fed's preferred core PCE inflation gauge edged down to 1.7% in September from 1.8% in August, still below the Fed's 2% target.

UK: Having secured from the EU a last-minute three-month extension to the end-October Brexit deadline, parliament approved PM Boris Johnson's request for a general election on 12th December in a bid to break the deadlock over Brexit. Johnson will be looking to secure a parliamentary majority in order to pass his Brexit deal that will allow the UK to leave the EU at the end of January, but most opposition parties support a second referendum that could see the UK remain in the EU.

Financial markets: Equities gained on trade optimism, positive corporate earnings, the Fed rate cut and US jobs data. The MSCI AC world rose 1.1% w/w led by the S&P500 (1.5%) and the DJI (1.4%). US 10-year treasury yields fell 7 bps w/w to 1.73%.

Oil: A late flurry related to positive US jobs and Chinese manufacturing data was not enough to prevent Brent dip 0.5% w/w to \$61.7/bbl on continued crude oversupply fears.

MENA Region

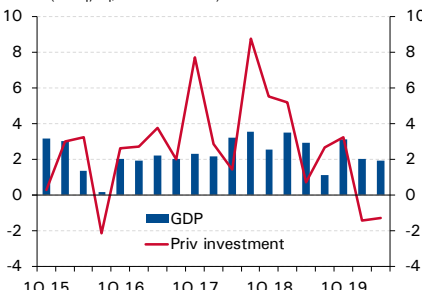
GCC: Most GCC central banks followed the Fed by cutting policy interest rates by 25 bps. This included the Central Bank of Kuwait (CBK), the first cut in the current cycle leaving its discount rate at 2.75%. The CBK statement noted that the cut "maintains the attractiveness of the domestic currency" while enabling investment and demand to support non-oil growth. Meanwhile, the IMF's latest detailed report on the MENA region shows non-oil growth in the GCC picking up to 2.8% in 2020 from 2.4% this year, helped by faster growth in the UAE and Kuwait (both 3.0%). Oil sector growth could also rebound to 1.9%, albeit depending on OPEC policy.

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



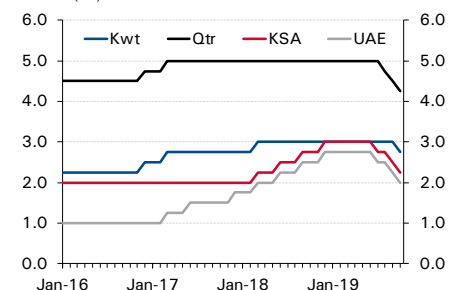
Source: Refinitiv

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



Source: Refinitiv

▶ **Chart 3: Policy interest rates** (%)



Source: Refinitiv / national central banks

Kuwait: Nominal GDP reached KD42.5 billion (\$141 billion) in 2018, up 16% y/y. Oil GDP rose 31% on a 33% rise in the price of Kuwait Export Crude, while non-oil GDP rose just 4%. Figures for real GDP have not yet been released.

Saudi Arabia: Bank credit rose 3.7% y/y in September, up from 3.0% in August. Credit growth continues to be driven by mortgage lending, which we estimate expanded 37% y/y, while corporate lending remains muted. Meanwhile the pre-Budget statement saw both revenue and spending revised down for coming years with a projected deficit of 5% of GDP by 2021 versus 3.7% previously and 4.7% in 2019. Spending is forecast to decline by 3% per year on average for the next three years. Economic growth forecasts were also cut by 0.5% per year for 2020-22 to 2.2-2.3%. Finally, Aramco is today expected to announce details of its upcoming IPO.

UAE: The cabinet approved a federal budget of AED61 billion (+2% y/y) for 2020, a third of which is dedicated to social sector development while the rest is allotted to infrastructure, economic resources and living benefits. Meanwhile bank credit rose 5.0% y/y in September versus 4.3% in June, on a rise in government borrowing (excluding GREs) to 4.6% from 3.8% while private sector credit growth was relatively stable at 2.7%.

Financial markets: GCC markets were negative last week on declines in third quarter corporate earnings. The MSCI GCC lost 1.9% w/w led by Saudi Arabia which shed 2.1%, followed by Qatar, down 1.8%. Kuwait's All-Share sustained modest losses in comparison, down only 0.9%.

Key takeaways:

- The Fed's signal that its 'mid-cycle adjustment' in rates is now over leaves policy in neutral for the time being. Last week's generally strong data – which showed steady economic growth and a solid labor market – largely reinforced that view.
- UK PM Johnson's call for an election is not certain to pay off given the potential for a narrowing of his current poll lead during the campaign. Opposition to his Brexit policy from other parties will also make forming a coalition government difficult if he fails to win a majority.
- Cuts in interest rates across the GCC will provide some support for business activity and lower debt servicing costs including for firms against a backdrop of sluggish global growth and soft oil prices. But the uncertain outlook could limit the boost to credit growth, running at around 4% across the GCC.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,952	1.4	31.3
DAX	12,961	0.5	22.7
DJIA	27,347	1.4	17.2
Eurostoxx 50	3,624	0.0	20.7
FTSE 100	7,302	-0.3	8.5
Nikkei 225	22,851	0.2	14.2
S&P 500	3,067	1.5	22.3
Regional			
Abu Dhabi SM	5,108	-1.1	3.9
Bahrain ASI	1,523	-0.2	13.9
Dubai FM	2,747	-1.3	8.6
Egypt EGX 30	14,558	2.5	11.7
MSCI GCC	532	-1.9	-51.6
Kuwait SE	5,717	-0.9	12.6
KSA Tadawul	7,744	-2.1	-1.1
Muscat SM 30	4,000	0.3	-7.5
Qatar Exchange	10,189	-1.8	-1.1

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.73	-7.3	-96.3
Bunds 10 Year	-0.38	-0.2	-62.3
Gilts 10 Year	0.66	-1.7	-60.5
JGB 10 Year	-0.18	-3.5	-18.2
Regional			
Abu Dhabi 2022	2.13	-1.2	-116.4
Dubai 2022	2.59	4.2	-134.3
Qatar 2022	2.15	-3.3	-129.7
Kuwait 2022	2.13	-2.3	-118.7
KSA 2023	2.34	-10.1	-153.7
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	61.7	-0.5	14.7
KEC	60.7	-2.9	16.3
WTI	56.2	-0.8	23.8
Gold	1508.0	0.6	18.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	2.82	-10.0	-113.3
Kibor - 3 month	2.81	-6.3	50.0
Qibor - 3 month	2.59	-0.9	-31.5
Eibor - 3 month	2.08	-18.9	-76.0
Saibor - 3 month	2.24	-5.3	-73.9
Libor - 3 month	1.90	-3.3	-90.5
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.0
KWD per EUR	0.333	-0.1	-4.3
USD per EUR	1.117	0.8	-2.7
JPY per USD	108.2	-0.4	-1.3
USD per GBP	1.293	0.9	1.4
EGP per USD	16.09	-0.2	-9.9

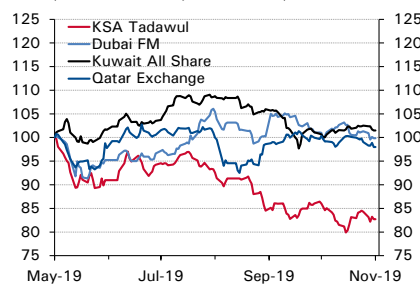
Updated on 1/11/2019 Source: Refinitiv

International equity markets (rebased, 1 May 2019=100)



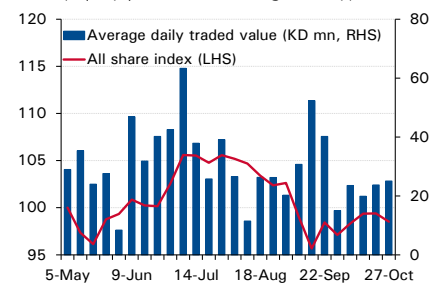
Source: Refinitiv

GCC equity markets (rebased, 1 May 2019=100)



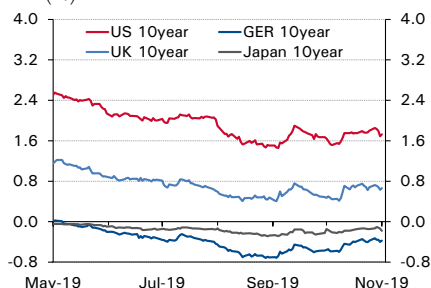
Source: Refinitiv

Boursa Kuwait (equity prices and trading activity)



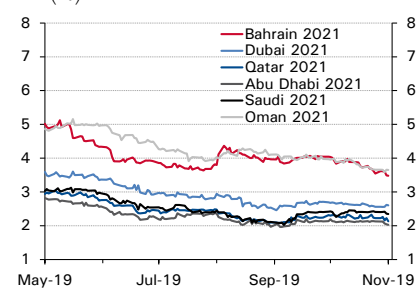
Source: Refinitiv

International bond yields (%)



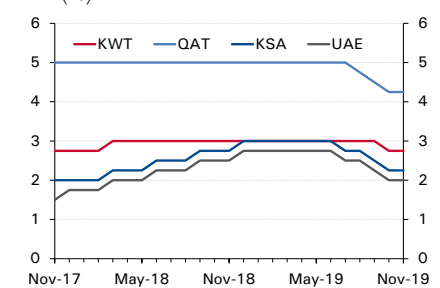
Source: Refinitiv

GCC bond yields (%)



Source: Refinitiv

GCC key policy rates (%)



Source: Refinitiv