

## International

**USA:** GDP growth in 4Q18 reached an annualized 2.6%, above the consensus of 2.2% but slower than the 3.4% recorded in Q3. There was another solid performance from consumer spending, up 2.8% (3.5% in Q3), but private investment was also strong while export growth was soft. Growth overall in 2018 reached 2.9% – just shy of President Trump’s 3% target despite huge fiscal stimulus. ISM and PMI manufacturing activity surveys for February pointed to some slowing but still reasonable levels of growth. Meanwhile, the US and China moved closer towards a trade deal, with the US postponing tariff hikes due March 1<sup>st</sup> amid talk of “progress”, including an agreement on the enforcement process of a prospective deal.

**Financial markets:** Global indices edged up slightly last week, led by an easing in US-China trade tensions. The MSCI AC World was up 0.3% w/w, mainly thanks to Chinese (+6.5%) and European (+1.3%) stocks, and the S&P 500 (+0.4%). Improved investor sentiment helped lift US 10-year treasury yields up by 10 basis points to 2.76%.

**Oil:** Brent crude fell 3% w/w to \$65.1/bbl on Friday, posting its first weekly loss since early February after President Trump cautioned OPEC against cutting output aggressively. Trump warned that the world “cannot take a price hike – fragile” and advised OPEC to “relax and take it easy”. Nevertheless, preliminary Bloomberg estimates show that OPEC crude output in February fell again, by 500 kb/d to 30.5 mb/d, bringing OPEC-11 compliance to 108%. For February overall, Brent rose 7% following a 15% jump in January.

## MENA Region

**Kuwait:** Real estate sales fell back to KD245 million in January from December’s exceptional KD470 million, but were still up 8% y/y. January’s softening was due in particular to fewer transactions in the investment (i.e. apartment) sector but also smaller average transactions sizes, following large one-off deals at the end of last year. Meanwhile, consumer price inflation stood at 0.4% y/y in January, unchanged from December. The core rate – which excludes food and housing – was also unmoved at 1.7%. We still expect headline inflation to pick up through 2019 as negative pressure from the housing component subsides.

**Saudi Arabia:** Saudi Tadawul’s CEO expects \$15-20 billion in

passive inflows in 2019 as the bourse joins the FTSE Russell and MSCI EM indices in March and May, respectively. The Saudi stock market has been the Gulf’s best performer so far this year, rising nearly 9%.

**UAE:** Dubai’s residential real estate prices declined further at the start of 2019. The impact of more stringent loan-to-value regulations continues to be compounded by increased supply, higher interest rates and changing demand patterns, with tenants opting for more affordable units. According to Reidin, prices fell 9.4% y/y in January, faster than December’s 8.6% fall and the 6.4% average drop in 2018.

**Bahrain:** The cabinet approved a draft state budget for the next two years in which it expects the deficit to shrink from \$2.3 billion (6% of GDP) in 2018 to \$1.6 billion (4% of GDP) by 2020. As part of its five-year fiscal reform program to eliminate the deficit by 2022, the government aims to cut subsidies and introduced a 5% VAT at the start of the year.

**Egypt:** The government issued \$4 billion in dollar-denominated bonds with maturities of 5, 10 and 30 years, in order to finance the state budget. The issue, which was five times oversubscribed, included \$750 million in five-year bonds with a return of 6.2%, \$1.75 billion in 10-year bonds with a return of 7.6% and \$1.5 billion in 30-year bonds at 8.7%. Meanwhile, M2 money supply growth slowed to 12% y/y in January from 13.3% in December and 14% in November.

**Financial markets:** GCC equities were mixed, with the MSCI GCC index falling 0.2% w/w on losses in Qatar (-0.8%), Saudi (-0.6%) and Kuwait (-0.4%), mainly on profit-taking.

### Key takeaways:

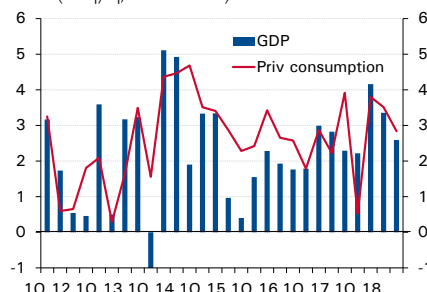
- US economic growth continues to moderate and although most high frequency indicators remain at reasonable levels, Fed ‘nowcasts’ suggest growth could fall to below 1% in 1Q19.
- Bahrain’s government intends to tap global capital markets to help finance its deficit. The kingdom’s access to finance has improved since the GCC financial package was announced last October, with yields on the 2021 bond almost halving to below 4.9% now from a peak of above 9% last June.
- With an estimated \$13 billion of government bonds maturing in 2019, Egypt will likely return to the international bond market with another \$2-3 billion in non-dollar (yen, yuan and euro) issues planned over the coming few months.

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



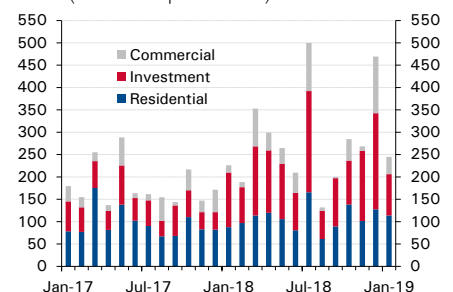
Source: Thomson Reuters Datastream

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



Source: Thomson Reuters Datastream

▶ **Chart 3: Kuwait real estate sales** (KD million per month)



Source: Ministry of Justice

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,750	6.5	24.5
DAX	11,602	1.3	9.9
DJIA	26,026	0.0	11.6
Eurostoxx 50	3,312	1.3	10.4
FTSE 100	7,107	-1.0	5.6
Nikkei 225	21,603	0.8	7.9
S&P 500	2,804	0.4	11.8
<b>Regional</b>			
Abu Dhabi SM	5,138	0.8	4.5
Bahrain ASI	1,413	0.6	5.6
Dubai FM	2,636	0.1	4.2
Egypt EGX 30	14,804	-2.3	13.6
S&P GCC 40	1,127	0.8	2.4
Kuwait SE	5,232	-0.4	3.0
KSA Tadawul	8,493	-0.6	8.5
Muscat SM 30	4,144	2.2	-4.1
Qatar Exchange	10,112	-0.8	-1.8

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.76	10.0	6.4
Bunds 10 Year	0.19	8.9	-5.9
Gilts 10 Year	1.30	13.7	2.7
JGB 10 Year	-0.01	2.7	-1.3
<b>Regional</b>			
Abu Dhabi 2022	3.02	-8.0	-27.7
Dubai 2022	3.70	-8.6	-23.1
Qatar 2022	3.22	-6.0	-22.8
Kuwait 2022	3.06	-5.0	-25.8
KSA 2023	3.35	-11.0	-52.7
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	65.1	-3.1	20.9
KEC	66.3	0.6	27.0
WTI	55.8	-2.5	22.9
Gold	1296.4	-2.5	1.4

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.90	-1.7	-5.0
Kibor - 3 month	2.63	262.5	31.3
Qibor - 3 month	2.91	2.4	0.7
Eibor - 3 month	2.86	-0.5	2.5
Saibor - 3 month	2.91	-1.4	-6.4
Libor - 3 month	2.62	-3.6	-19.3
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.1	0.2
KWD per EUR	0.345	0.4	-1.0
USD per EUR	1.137	0.3	-0.8
JPY per USD	111.9	1.1	2.1
GBP per USD	1.320	1.1	3.5
EGP per USD	17.46	-0.2	-2.2

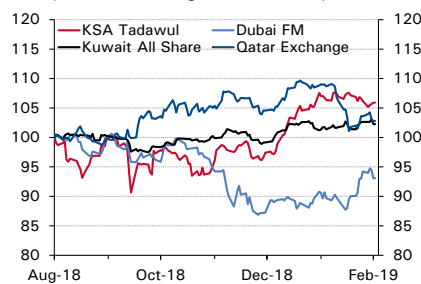
Updated on 1/3/2019 Source: Thomson Reuters Eikon

### International equity markets (rebased, 29 August 2018=100)



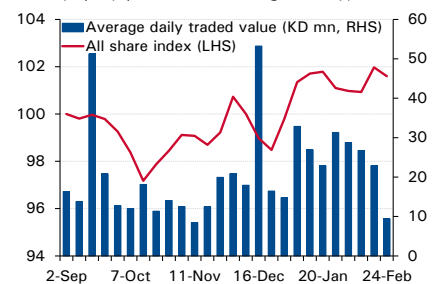
Source: Thomson Reuters Datastream

### GCC equity markets (rebased, 29 August 2018=100)



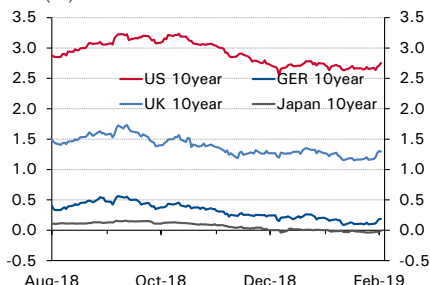
Source: Thomson Reuters Datastream

### Boursa Kuwait (equity prices and trading activity)



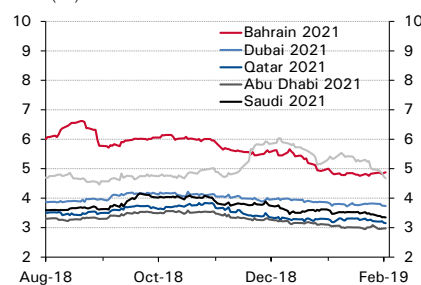
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### International bond yields (%)



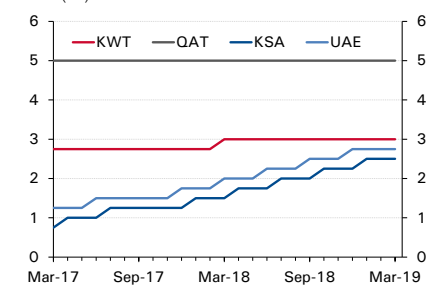
Source: Thomson Reuters Datastream

### GCC bond yields (%)



Source: Thomson Reuters Datastream

### GCC key policy rates (%)



Source: Thomson Reuters Datastream