

### International

**USA:** The Fed raised the Fed funds target rate by 25 bps to 2.25-2.50%, but also presented a slightly less dovish outlook for 2019 than some had expected—penciling in two further rate hikes and signaling no change in plans to reduce the pace of its ‘quantitative tightening’. Inflation eased to 1.9% in November (from 2.0% in Oct), with core inflation edging up to 1.9%. Inflation is still below the Fed’s 2% target.

**Europe:** Rome and Brussels reached a temporary agreement to trim Italy’s fiscal deficit, to 2% of GDP in 2019 from 2.4% of GDP in 2018. The German business climate weakened further in November, with the Ifo survey falling for a fourth consecutive month to its lowest level in two years.

**Financial markets:** Fears of a global slowdown and a US government shutdown (partial) conspired to trigger a sell-off in US and global financial markets last week. The MSCI AC world index dropped 5.4% w/w—its biggest weekly loss since February—as the S&P and DJI each declined by 7%. The risk-off sentiment sent yields on US treasuries lower, with the 10-year declining by 10 bps to 2.79%.

**Oil:** Brent crude posted last week its biggest weekly fall since 2016 to close at a 15-month low of \$53.8/bbl (-10.7% w/w). This was triggered by ongoing concerns about crude oversupply (e.g. US shale, OPEC+) in the context of weak oil demand combined with financial market worries about US Fed rate hikes against a weakening global economic backdrop.

### MENA Region

**Kuwait:** The CBK kept its main lending rate on hold at 3.0% in order to support growth but raised its repo rates (deposit benchmarks) by 25 bps. Inflation in November fell to 0.1% y/y, the lowest in 15 years, though our measure of core inflation (ex. food and housing) ticked up to 1.3% from 1.2% in October. Both food and housing inflation are in negative territory, at -0.4% y/y and -1.4% y/y, respectively. Real estate sales in November came in at a weak KD 224mn (-26% m/m) on a drop in residential and commercial transactions. Consumer confidence in Kuwait edged up slightly from October’s 6-month low of 111 to 112 in November.

**Saudi Arabia:** SAMA raised its repo and reverse repo rates by 25 bps to 3.0% and 2.5%, respectively. The MoF unveiled its largest ever budget at SR1.1 trillion (\$293bn) for 2019, in

support of the non-oil economy through private sector stimulus, austerity-mitigating social allowances and productive infrastructure investments. Expenditures are set to rise by 7.4% over actual 2018’s outlays and revenues by 9% over 2018’s receipts. The fiscal deficit is expected to narrow to 4.2% of GDP from 4.6% of GDP in 2018.

**UAE:** The central bank raised its Certificates of Deposits and repo rates by 25 bps. Sharjah’s government bonds came under some selling pressure on concerns about Sharjah’s Invest bank, which has struggled due to its exposure to the UAE’s sluggish real estate sector. The central bank will provide ‘all the available liquidity facilities’ to Invest Bank and a plan to strengthen the bank’s capital base.

**Qatar:** The Qatar Central Bank (QCB) raised its key deposit rate (QCBDR) by 25 bps to 2.5%, its fourth rate rise this year.

**Bahrain:** The CBB raised its one-week deposit facility by 25 bps to 2.75% and its overnight rate and lending rate by 25 bps each to 2.25% and 4.25%, respectively. Moody’s revised up its Bahrain sovereign credit outlook from negative to stable on a more positive economic outlook, helped in part by the \$10bn GCC support package. The sovereign issuer rating of B2 (non-investment grade) was left unchanged.

**Oman:** Fitch downgraded Oman’s sovereign credit rating from BBB- to BB+ (non-investment grade) over its weakening public finances and rising debt level.

**Financial markets:** Regional markets were weighed down by the global sell-off and the sharp drop in oil prices last week. The MSCI GCC index declined 1.5% w/w, with losses led by Dubai and Saudi. Kuwait fell 1% w/w despite successfully completing its entry into the FTSE EM index amid the largest volume of trading all year at KD 53mn (\$175 mn).

#### Key takeaways:

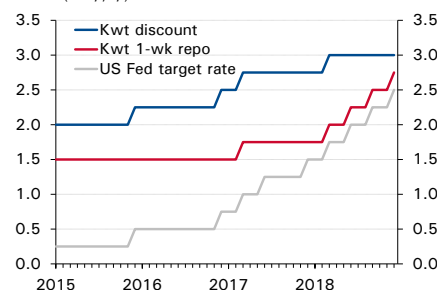
- Despite the Fed’s latest rate hike – the fourth this year – and signal of further tightening, futures markets now project a greater than 50% chance of no rate increase next year.
- Three out of six GCC countries increased lending rates following the Fed’s move. Kuwait’s FX peg to a currency basket provides a greater degree of flexibility in policy setting.
- The expansive Saudi budget is positive for the non-oil economy, but may have to be pared back as revenue projections appear to be based on an optimistic oil price of more than \$70/bbl for 2019.

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



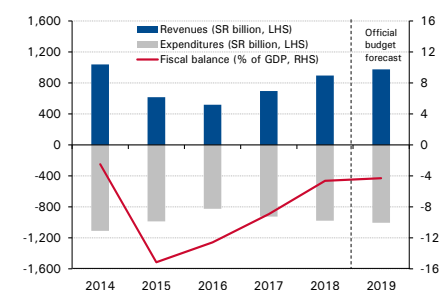
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait interest rates** (% y/y)



Source: Thomson Reuters Datastream / CBK

▶ **Chart 3: Saudi budget 2019**



Source: Saudi Ministry of Finance

## Key data

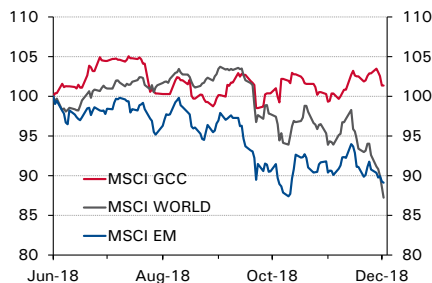
Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,029	-4.3	-24.8
DAX	10,634	-2.1	-17.7
DJIA	22,445	-6.9	-9.2
Eurostoxx 50	3,001	-3.0	-14.4
FTSE 100	6,721	-1.8	-12.6
Nikkei 225	20,166	-5.7	-11.4
S&P 500	2,417	-7.1	-9.6
<b>Regional</b>			
Abu Dhabi SM	4,856	-0.1	10.4
Bahrain ASI	1,314	-0.4	-1.3
Dubai FM	2,510	-3.4	-25.5
Egypt EGX 30	13,138	1.1	-12.5
S&P GCC 40	1,106	-0.1	12.3
Kuwait SE	5,097	-1.0	5.5
KSA Tadawul	7,753	-2.0	7.3
Muscat SM 30	4,337	-2.5	-15.0
Qatar Exchange	10,413	-0.4	22.2

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.79	-9.7	38.1
Bunds 10 Year	0.25	-0.1	-17.0
Gilts 10 Year	1.32	7.8	13.2
JGB 10 Year	0.04	0.7	-0.8
<b>Regional</b>			
Abu Dhabi 2022	3.30	-5.6	35.0
Dubai 2022	3.92	-3.4	78.0
Qatar 2022	3.45	-10.6	37.0
Kuwait 2022	3.36	-5.6	55.0
KSA 2023	3.88	2.4	66.0
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	53.8	-10.7	-19.5
KEC	53.0	-8.8	-16.6
WTI	45.6	-11.0	-24.5
Gold	1253.8	1.4	-4.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.95	15.0	122.5
Kibor - 3 month	2.19	6.3	31.3
Qibor - 3 month	2.88	3.8	13.3
Eibor - 3 month	2.89	4.3	108.7
Saibor - 3 month	2.95	6.1	105.4
Libor - 3 month	2.82	3.6	112.9
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	-0.2	0.8
KWD per EUR	0.348	0.7	-1.9
USD per EUR	1.137	0.5	-5.2
JPY per USD	111.2	-1.9	-1.3
GBP per USD	1.263	0.4	-6.5
EGP per USD	17.86	-0.5	0.7

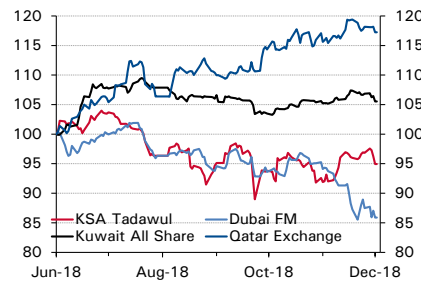
Updated on 21/12/2018 Source: Thomson Reuters Eikon

### International equity markets (rebased, 20 June 2018=100)



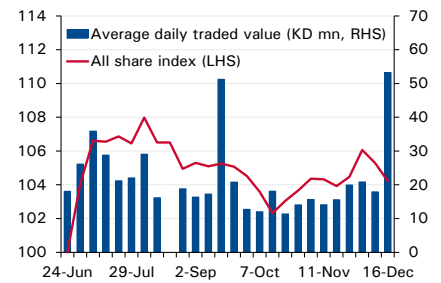
Source: Thomson Reuters Datastream

### GCC equity markets (rebased, 20 June 2018=100)



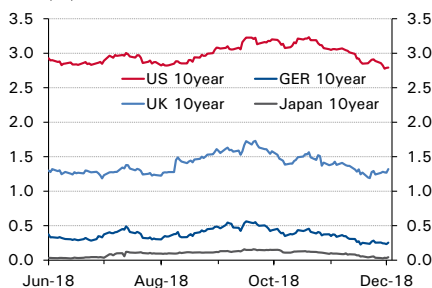
Source: Thomson Reuters Datastream

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



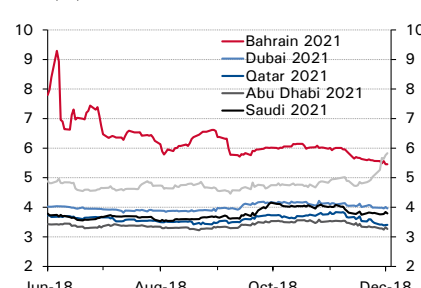
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### International bond yields (%)



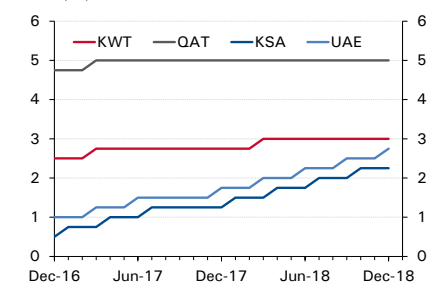
Source: Thomson Reuters Datastream

### GCC bond yields (%)



Source: Thomson Reuters Datastream

### GCC key policy rates (%)



Source: Thomson Reuters Datastream