

### International

**US:** The Federal Reserve as expected left interest rates on hold at a range of 1.50-1.75% and gave no fresh hint of any imminent change in policy with "cautious optimism" over the challenges facing the global economy according to chair Jay Powell. GDP growth in 4Q19 came in at an annualized 2.1%, unchanged from Q3 and in line with expectations. Slower private consumption (1.8%) and investment (-6.1%) was offset by weaker imports (-8.7%) and stronger government spending (2.7%). Growth for 2019 overall was 2.3%, the softest since 2016. Meanwhile core PCE inflation ticked up to 1.6% y/y in December from 1.5% in November, still below the Fed's 2% target. On the political front, the US unveiled a 'deal of the century' Middle East peace plan, though the plan was roundly rejected by the Arab League.

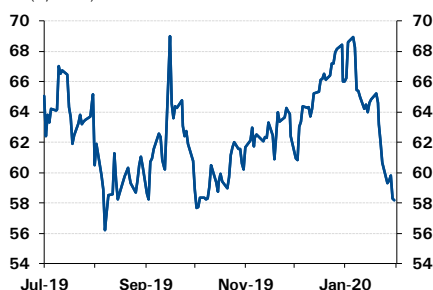
**Europe:** The UK officially left the EU and entered an 11-month transition period to try and reach a long-term trade arrangement with the bloc. The Bank of England left interest rates unchanged at 0.75% amid signs of a post-election recovery in activity, though downgraded its forecast for growth in 2020 to 0.8% from 1.2% before. Meanwhile Eurozone GDP growth slowed to a six-year low of just 0.1% q/q in 4Q19 from 0.3% in Q3, on unexpected falls in activity in both France (-0.1%) and Italy (-0.3%). Growth was 1.2% for 2019 overall.

**China:** The death toll in China from the coronavirus outbreak has reached more than 300 with 14,380 confirmed cases, higher than during the 2002-03 SARS outbreak. In a bid to temper the expected sell-off when markets re-open on Monday and support the economy, China's financial regulators announced a series of monetary stimulus measures including \$174 billion in liquidity injections and an ease in lending restrictions to help business.

**Financial markets:** Global equities were broadly negative amid fears of the coronavirus epidemic. The MSCI-AC World lost 2.6% w/w, led by the Eurostoxx 50 (-3.7%) and the Nikkei 225 (-2.6%), while EMs were the hardest hit, down a steep 4.2%. The risk-off climate spurred safe haven demand, with US 10-year yields down 16 bps to 1.52%, while the gold price surged.

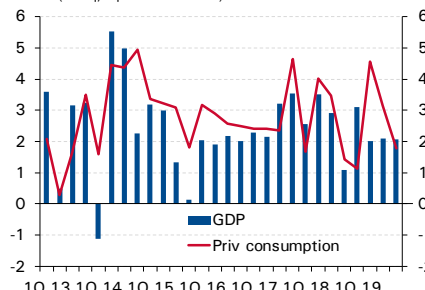
**Oil:** The coronavirus continued to take a heavy toll on the oil markets, pushing Brent crude down 4.2% w/w to \$58.2/bbl, its lowest level since October. OPEC is reportedly considering an emergency meeting to discuss the recent falls with speculation of further production cuts to defend prices.

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



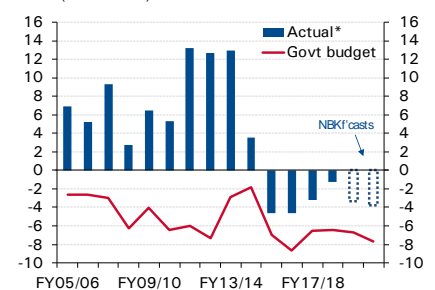
Source: Refinitiv

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



Source: Refinitiv

▶ **Chart 3: Kuwait fiscal balance** (KD billion)



Source: Ministry of Finance \* Includes NBK f'casts

### MENA Region

**Kuwait:** The concluding statement from the IMF's latest Article IV mission projects non-oil growth of 3.0% in 2020, unchanged from 2019, and a fiscal deficit of 15% of GDP in FY20/21 excluding investment income. The Fund highlights risks to the outlook from delays to economic reforms and lower oil prices, and in particular the need to change course on fiscal policy to address the financing requirement, which it estimated at KD55 billion over the next six years. The IMF recommends cuts over time in public spending on the wage bill and subsidies, the introduction of a 5% VAT and broadening the profit tax.

**Saudi Arabia:** Credit growth was strong for the second month in a row in December – helped by borrowing for the Aramco IPO – at 7.6% versus below 3% a year earlier. Mortgage lending growth remained robust, at 40% according to our estimates.

**UAE:** Credit increased 6.2% y/y in 2019 compared to 4.8% rise in 2018. This pickup was due to an increase in borrowing by the government and GREs of 35% and 10%, respectively, while private sector credit growth eased to 0.4%. Deposits rose 6.9%.

**Egypt:** The current account deficit shrank \$0.6 billion to \$1.4 billion (1.8% of NBK's estimate of quarterly GDP) during 1Q FY19/20, compared to \$2 billion (2.7% of GDP) a year earlier.

**Financial markets:** GCC equities tracked global markets downwards, with the MSCI-GCC down 1.8% w/w. Losses were led by Saudi Arabia, Qatar, Dubai and Abu Dhabi, all down 1.7% w/w. Kuwait's All-Share fell a more modest 0.7% w/w.

#### Key takeaways:

- The spread of coronavirus is a new risk to the global economy. While it is early to assess its impact, Chinese growth will be most affected but it will have also a global impact via tourism, travel, investment and business supply chains. The impact on the GCC is likely to be felt mostly via lower oil prices.
- Following the UK's departure from the EU, the economy should be resilient over the short term, but trade uncertainty could start to weigh on growth as the end of the transition period approaches.
- The IMF's report on Kuwait calls for a 'course correction' to prevent fiscal/financing pressures from intensifying. Financing needs of KD 55 bn over the next six years assume no corrective actions during this period. However, faced with this scenario, authorities will likely adopt reforms to address fiscal sustainability and boost confidence and long-term economic performance.

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	4,004	0.0	-2.3
DAX	12,982	-4.4	-2.0
DJIA	28,256	-2.5	-1.0
Eurostoxx 50	3,641	-3.7	-2.8
FTSE 100	7,286	-4.0	-3.4
Nikkei 225	23,205	-2.6	-1.9
S&P 500	3,226	-2.1	-0.2
<b>Regional</b>			
Abu Dhabi SM	5,156	-1.7	1.6
Bahrain ASI	1,658	0.3	2.9
Dubai FM	2,790	-1.7	0.9
Egypt EGX 30	13,919	1.4	-0.3
MSCI GCC	558	-1.8	-1.6
Kuwait SE	6,325	-0.7	0.7
KSA Tadawul	8,247	-1.7	-1.7
Muscat SM 30	4,079	0.2	2.5
Qatar Exchange	10,442	-1.7	0.2

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	1.52	-16.1	-39.1
Bunds 10 Year	-0.44	-11.2	-25.5
Gilts 10 Year	0.53	-3.7	-29.8
JGB 10 Year	-0.06	-4.1	-4.1
<b>Regional</b>			
Abu Dhabi 2022	1.91	-12.2	-13.5
Dubai 2022	2.43	-6.6	-3.9
Qatar 2022	1.87	-12.2	-19.5
Kuwait 2022	1.89	-14.9	-17.2
KSA 2023	1.91	-36.3	-38.9
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	58.2	-4.2	-11.9
KEC	59.7	-6.1	-12.7
WTI	51.6	-4.9	-15.6
Gold	1582.9	0.8	4.2

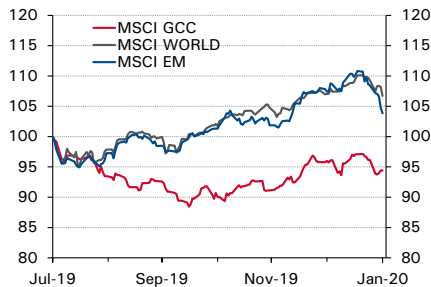
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.67	0.0	0.0
Kibor - 3 month	2.75	0.0	0.0
Qibor - 3 month	2.30	-0.3	5.1
Eibor - 3 month	2.07	5.5	-13.6
Saibor - 3 month	2.18	-2.3	-5.3
Libor - 3 month	1.76	-3.1	-14.5
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.2
KWD per EUR	0.334	0.0	0.2
USD per EUR	1.109	0.6	-1.0
JPY per USD	108.4	-0.8	-0.2
USD per GBP	1.320	0.9	-0.5
EGP per USD	15.75	0.0	-1.6

Updated on 31/1/2020

Source: Refinitiv

### International equity markets

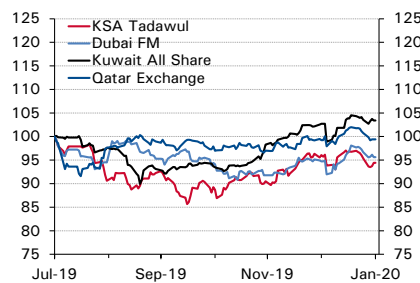
(rebased, 31 July 2019=100)



Source: Refinitiv

### GCC equity markets

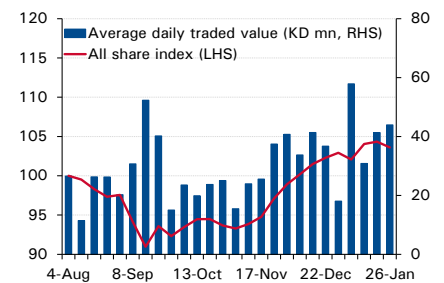
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Source: Refinitiv

### Bursa Kuwait

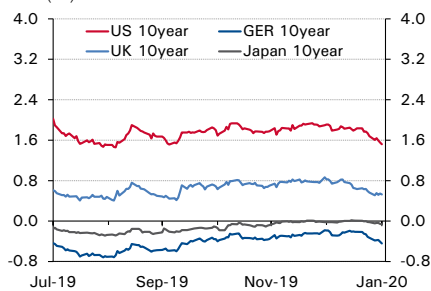
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

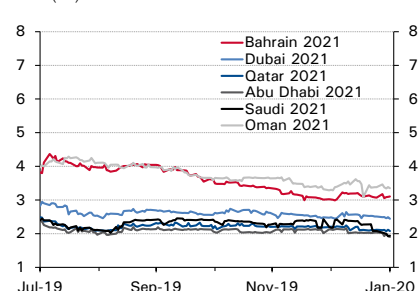
(%)



Source: Refinitiv

### GCC bond yields

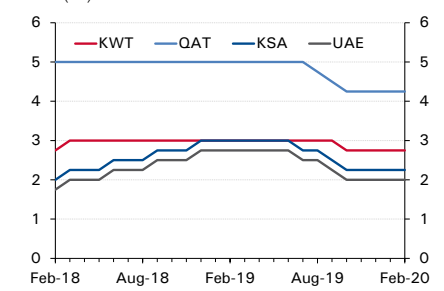
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv