

### International

**USA:** The Fed as expected kept interest rates on hold, but signaled a pause in hikes and said that the pace of its balance sheet normalization could slow, a significant u-turn from December's more hawkish tone. It cited modest inflation, tightening financial conditions and slowing global growth as reasons for the move. Meanwhile employment data for January were very strong with non-farm payrolls up 304,000, around double the consensus, though the unemployment rate ticked up to 4.0% on higher labor participation while hourly earnings growth edged down to 3.2% y/y.

**Financial markets:** Global markets rallied following the end of the US government shutdown and the dovish Fed comments. The MSCI AC world rose 1.2% w/w, led by the S&P500 which gained 1.6% for its sixth consecutive week of gains. The US 10-year treasury yield slipped 6 bps to 2.69%.

**Oil:** Brent closed up 1.8% w/w at \$62.8/bbl, its highest in more than two and a half months, helped by reports that OPEC+ had reached full compliance with targeted cuts in only its first month and that US oil drillers had idled rigs. Saudi Arabia cut exports of crude to the US by half (w/w to 442kb/d in the w/e 25 Jan) to help reduce US crude stock levels.

### MENA Region

**Kuwait:** Provisional public finance data for the first nine-months of FY2018/19 reveal a budget surplus of KD3.6 billion (before RFFG transfers), as rising oil prices boosted revenues but spending came in soft. Year-to-date spending fell 3.3% y/y, with capital spending down 0.4%. The implementation rate for capex fell to 45% of the full-year total, down from 52% at the same stage last year. Spending rates normally accelerate in the final three months of the year however, and we still expect a small deficit for the year as a whole.

**Saudi Arabia:** The economy grew by 2.2% in 2018 driven by strong oil sector output. Non-oil private and government sector activity increased by 1.7% and 2.7%, respectively. Private sector credit growth continues to increase, reaching 2.9% y/y in December 2018. Meanwhile the unemployment rate for Saudi nationals improved slightly to 12.8% in 3Q18 from 12.9% in 2Q18, but Saudis likely left the labor force as Saudi employment actually fell by 15,356 to 3.1 million. Furthermore, the number of employed expats declined by

314,000 (-10.4% y/y) to 9.6 million, bringing the total number that has left since the start of 2017 to 1.3 million.

**UAE:** The economy will grow between 2.5% and 3% in 2018 and more than 3% in 2019, according to the UAE economy minister. Dubai's developers will supply a record number of new residences to the market this year, maintaining downward pressures on real estate prices.

**Egypt:** GDP grew by 5.4% in the first half of the current fiscal year up from 5.2% a year earlier, according to the minister of planning. The governor of the Central Bank of Egypt expects more flexibility in the foreign exchange market following the elimination of the repatriation mechanism. Shortly after, the pound rose against the US dollar to its highest level in nine months. IMF managing director Christine Lagarde issued a statement in which she praised progress made by Egypt and indicated that she would recommend the approval of program's review and the release of a \$2 billion tranche in coming weeks. Egypt plans to issue a number of dollar and euro-denominated bonds, as well as green bonds, by the end of this fiscal year to raise \$3-7 billion.

**Financial markets:** The MSCI GCC index rose 0.9% w/w, led by Dubai and Saudi. GCC markets were supported by good earnings announcements, mostly in the financial sector, and Dubai was helped by a rise in major real estate stocks DAMAC and Emaar. The Bursa Kuwait All Share index fell 0.7% with news on a bank merger ill-received.

#### Key takeaways:

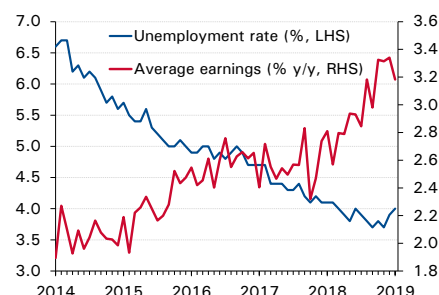
- Some analysts see the Fed's policy pause announcement as the first step in a pivot towards a loosening cycle. But most likely the pause will extend throughout 2019.
- Kuwait's soft government spending numbers suggest that fiscal policy has provided little support for economic growth over the past year, though this could change given the expansionary draft budget for FY2019/20.
- The continued projected climb in Dubai's housing supply is likely to exacerbate and prolong property price weakness.
- The Egyptian pound will likely witness more flexibility in the period ahead, following the CBE governor's announcement to this effect.

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



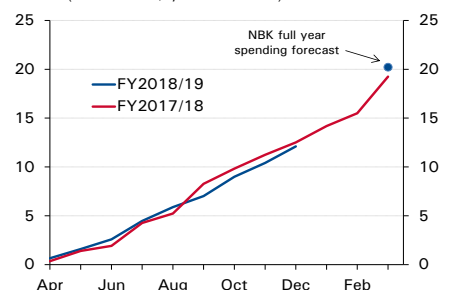
Source: Thomson Reuters Datastream

▶ **Chart 2: US labor market**



Source: Thomson Reuters Datastream

▶ **Chart 3: Kuwait gov't spending** (KD million, year-to-date)



Source: Ministry of Finance / NBK

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,247	2.0	7.9
DAX	11,181	-0.9	5.9
DJIA	25,064	1.3	7.4
Eurostoxx 50	3,171	0.2	5.7
FTSE 100	7,020	3.1	4.3
Nikkei 225	20,788	0.1	3.9
S&P 500	2,707	1.6	8.0
<b>Regional</b>			
Abu Dhabi SM	5,045	0.5	2.6
Bahrain ASI	1,391	1.3	4.0
Dubai FM	2,568	2.1	1.5
Egypt EGX 30	14,127	4.6	8.4
S&P GCC 40	1,133	0.5	3.0
Kuwait SE	5,206	-0.7	2.5
KSA Tadawul	8,560	1.5	9.4
Muscat SM 30	4,166	-0.3	-3.6
Qatar Exchange	10,720	0.1	4.1

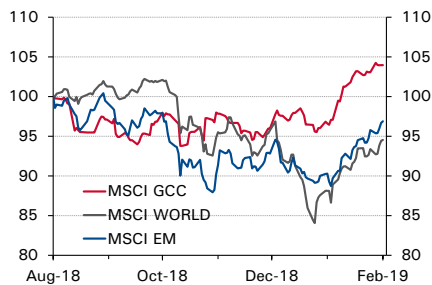
Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.69	-6.0	0.0
Bunds 10 Year	0.17	-3.2	-8.0
Gilts 10 Year	1.25	-5.9	-2.0
JGB 10 Year	-0.02	-2.1	-2.3
<b>Regional</b>			
Abu Dhabi 2022	3.08	-3.3	-21.5
Dubai 2022	3.76	-7.4	-16.8
Qatar 2022	3.29	-5.3	-15.8
Kuwait 2022	3.17	-4.3	-14.8
KSA 2023	3.57	-10.3	-30.5
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	62.8	1.8	16.6
KEC	60.6	-0.2	16.2
WTI	55.3	2.9	21.7
Gold	1316.9	1.5	3.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.95	0.0	0.0
Kibor - 3 month	2.56	0.0	25.0
Qibor - 3 month	2.93	0.3	2.4
Eibor - 3 month	2.90	-3.1	5.9
Saibor - 3 month	2.97	-0.4	-0.8
Libor - 3 month	2.74	-2.7	-7.0
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	-0.1
KWD per EUR	0.346	0.3	-0.5
USD per EUR	1.145	0.4	-0.1
JPY per USD	109.5	0.0	-0.1
GBP per USD	1.308	-0.9	2.6
EGP per USD	17.60	-1.3	-1.5

Updated on 1/2/2019 Source: Thomson Reuters Eikon

### International equity markets

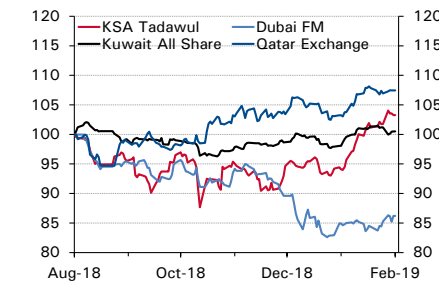
(rebased, 1 August 2018=100)



Source: Thomson Reuters Datastream

### GCC equity markets

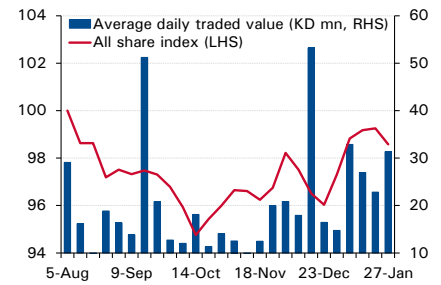
(rebased, 1 August 2018=100)



Source: Thomson Reuters Datastream

### Boursa Kuwait

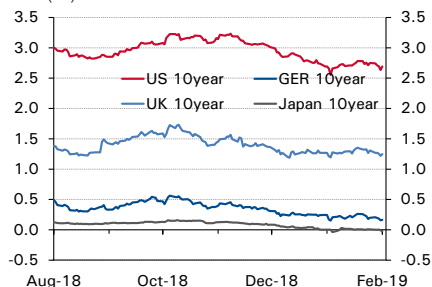
(equity prices and trading activity)



Source: Thomson Reuters Datastream

### International bond yields

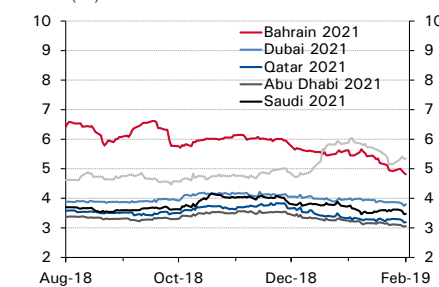
(%)



Source: Thomson Reuters Datastream

### GCC bond yields

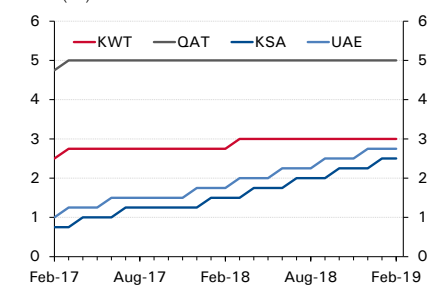
(%)



Source: Thomson Reuters Datastream

### GCC key policy rates

(%)



Source: Thomson Reuters Datastream