

## International and markets

**US:** Amid spiraling inflation and an improving labor market, the Fed decided to accelerate the unwinding of its asset purchase program, doubling the monthly amount to \$30 billion, and signaled a faster pace of interest rate rises in 2022. Asset purchases will likely end in March 2022 now instead of June and the Fed's Dot Plot now indicates three rate hikes in 2022. The expectation of three hikes in 2023 and two in 2024 (bringing the funds rate to 2.1% by end-2024) remains unchanged. The Fed's median projections are for GDP growth of 4% and unemployment at 3.5% for 2022. Core PCE is now seen at 4.4%, 2.7%, and 2.3% in 2021, 2022, and 2023, respectively. Meanwhile, in November retail sales were up 18% y/y.

**Eurozone:** The ECB left policy rates on hold but said that it would buy more bonds under an older scheme after its pandemic-era €1.85 trillion PEPP QE program ends in March. However, these purchases will slow over time and policy will remain 'flexible' given uncertainties over growth and inflation.

**UK:** The Bank of England (BoE) surprised the markets with its first policy rate hike since 2018, by 0.15% to 0.25%, amid spiking inflation (at a 10-year high of 5.1% y/y in November) and a tight labor market. The BoE move came despite fears over weakening economic activity due to surging Omicron cases.

**China:** The central bank introduced additional economic support measures, rolling over medium-term debts to free up liquidity. While November's industrial production growth beat forecasts (+3.8% y/y), retail sales growth slowed (+3.9% y/y) and the housing market continued to weaken, with home sales (value) slumping (-16.3% y/y).

**Financial markets:** Global stocks fell following the Fed's announcement. The MSCI AC World dropped 1.5% w/w, led by the S&P 500 (-1.9% w/w) and DJIA (-1.7% w/w). Despite higher interest rate expectations, the US 10 year yield fell 7 bps w/w to a 3-month low of 1.41% on virus concerns. The MSCI GCC rose 2.5% w/w, lifted by Saudi Arabia (3.4%) on positive oil and economic sentiment. Kuwait's All-Share fell 0.9% w/w.

**Oil:** Brent declined to \$73.5/bbl (-2.2% w/w; +41.9% ytd) on the back of global oil demand fears due to surging Omicron infections and a stronger US dollar. With transportation fuel demand weakening due to restrictions, the International Energy Agency (IEA) lowered its oil demand growth estimates for 2021 and 2022 by 100 kb/d to 5.4 mb/d and 3.3 mb/d, respectively.

## MENA Region

**Kuwait:** Domestic credit inched up slightly in October (+4.4% y/y), driven by surging household credit growth (+12.1% y/y), but business credit remained muted. Bank deposits fell in October (-3.2% y/y) on the back of lower government deposits. It was reported that the General Reserve Fund's (GRF) net assets declined to KD5.6bn by end-March 2021.

**Saudi Arabia:** In its recently released budget for 2022, the government is expecting its first fiscal surplus (2.3% of GDP) since 2013. This is based on a 12% increase in revenues and a 6% decline in expenditures compared to estimated 2021 figures. These point to a fiscal deficit of SAR 85 billion (2.7% of GDP), supported by higher oil revenues. Real GDP growth is expected to come in at 2.9% in 2021, on the back of higher non-oil activity (+4.8% y/y), and at 7.4% in 2022.

**UAE:** The central bank extended parts of its Targeted Economic Support Scheme (TESS), which covers banks' capital buffers, liquidity, and stable funding requirements, until 30 June 2022. Domestic credit continued to decline in October (-1.5% y/y) on the back of relatively stagnant lending to the private sector (-0.1% y/y) and declining government/GRE credit (-4.1% y/y).

**Egypt:** The Central Bank of Egypt (CBE) kept interest rates unchanged for the ninth time in a row (deposit rate at 8.25%; lending rate at 9.25%) after inflation slowed in November (5.6%)—remaining within the target of 7% (±2%)—and while the potential economic impact of Omicron remains uncertain.

### Key takeaways:

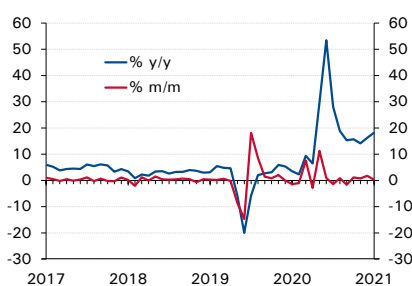
- While Fed Chair Powell had repeatedly emphasized decoupling the end of asset purchases from interest rate hikes, the latest press conference opened up the possibility that a first rate hike could come as soon as bond-buying ends if inflation remains elevated and labor market tightness persists.
- The BoE's interest rate hike, though unexpected in view of its previous hesitation and the potential economic uncertainty caused by rapidly spreading Omicron, can be understood as a pre-emptive move to tame worryingly high inflation amid a tight labor market. Further 'modest' rises in 2022 are expected.
- Kuwait's liquidity constraints have eased somewhat with the increase in oil prices, but the executive and legislature still need to pass the debt law in order to cover the current fiscal year's operating expenses (deficit of at least KD3bn expected) and KD1.4bn of sovereign debt that matures next March.

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



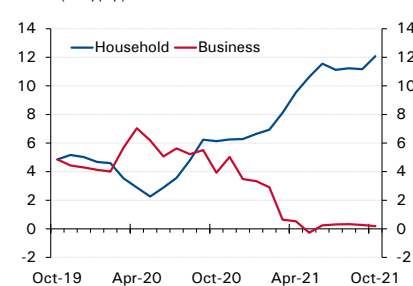
Source: Refinitiv

▶ **Chart 2: US retail sales**



Source: Refinitiv

▶ **Chart 3: Kuwait credit growth**  
(% y/y)



Source: Central Bank of Kuwait (CBK)

## Key data

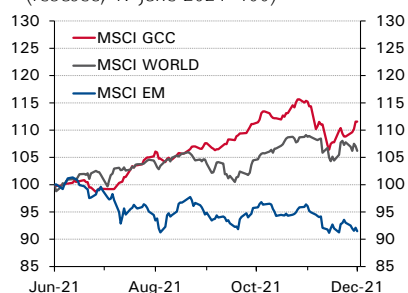
Stock markets	Index	Change (%)		Bond yields	%	Change (bps)		Interbank rates	%	Change (bps)					
		1-week	YTD			1-week	YTD			1-week	YTD				
<b>International</b>															
CSI 300	4,955	-2.0	-4.9	UST 10 Year	1.41	-7.5	49.5	Bhibor - 3 month	1.52	0.0	-73.3				
DAX	15,532	-0.6	13.2	Bunds 10 Year	-0.38	-2.5	20.0	Kibor - 3 month	1.50	0.0	6.3				
DJIA	35,365	-1.7	15.5	Gilts 10 Year	0.76	1.7	56.3	Qibor - 3 month	1.10	-2.5	-2.1				
Eurostoxx 50	4,161	-0.9	17.1	JGB 10 Year	0.04	-0.9	2.3	Eibor - 3 month	0.41	0.8	-10.3				
FTSE 100	7,270	-0.3	12.5	<b>Regional</b>											
Nikkei 225	28,546	0.4	4.0	Abu Dhabi 2027	1.74	-5.0	48.0	Oman 2027	4.32	-10.9	-74.8				
S&P 500	4,621	-1.9	23.0	Qatar 2026	1.70	0.3	52.3	Kuwait 2027	1.73	3.2	38.3				
<b>Regional</b>															
Abu Dhabi SM	8,856	-0.3	75.5	Saudi Arabia 2028	2.10	2.2	31.6	EGP per USD	15.72	0.4	0.2				
Bahrain ASI	1,782	-0.2	19.6	<b>Commodities</b>											
Dubai FM	3,273	1.5	31.3	Brent crude	73.5	-2.2	41.9	USD per EUR	1.124	-0.6	-8.0				
Egypt EGX 30	11,668	1.2	7.6	KEC	75.4	-1.6	49.0	JPY per USD	113.7	0.3	10.1				
MSCI GCC	743	2.5	35.9	WTI	70.9	-1.1	46.0	USD per GBP	1.324	-0.2	-3.2				
Kuwait SE	6,976	-0.9	25.8	Gold	1803.8	1.2	-4.7	EGP per USD	15.72	0.4	0.2				
KSA Tadawul	11,312	3.4	30.2	<b>Exchange rates</b>											
Muscat SM 30	4,031	0.6	10.2	rate	Change (%)										
Qatar Exchange	11,687	0.6	12.0	1-week	YTD										

Updated on 17/12/2021

Source: Refinitiv

### International equity markets

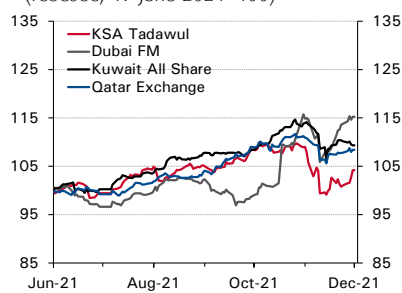
(rebased, 17 June 2021=100)



Source: Refinitiv

### GCC equity markets

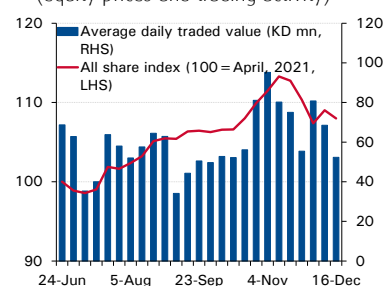
(rebased, 17 June 2021=100)



Source: Refinitiv

### Bursa Kuwait

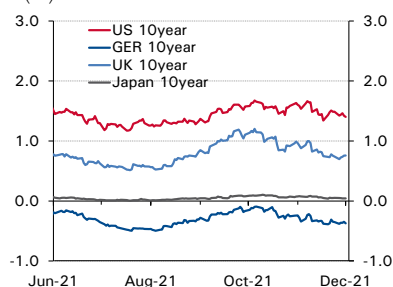
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

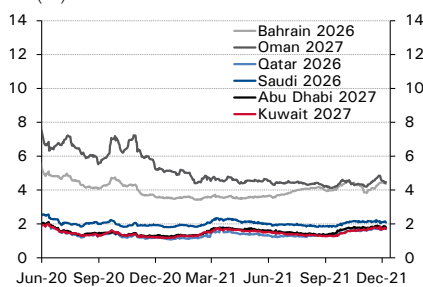
(%)



Source: Refinitiv

### GCC bond yields

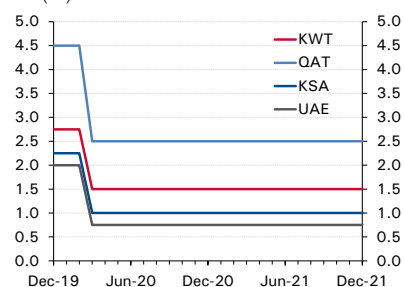
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv