

International

USA: Core CPI inflation edged up to 2.2% in November from 2.1% in October, though the headline rate fell to 2.2% from 2.5% on lower gasoline costs. Last week's activity data were largely positive, with both retail sales (4.2% y/y) and industrial production (3.9%) beating expectations in November. However the composite PMI for December slipped slightly to 53.6, signaling a potential softening in conditions towards year-end.

Europe: The ECB confirmed that it would halt its QE program this month, but downgraded its 2018 and 2019 growth forecasts. It also confirmed it would keep its key interest rates unchanged at least through the summer of 2019. Flash PMI data for December showed Eurozone activity slowing, with France's PMI plunging into negative territory for the first time in 2.5 years due in part to recent protests. In the UK PM Theresa May survived a vote of no-confidence in her leadership launched in the wake of her decision to delay the vote on the government's Brexit withdrawal agreement until January.

Financial markets: Equities fell for a second straight week, with the MSCI World Index down 0.8% w/w amid wariness over the global economic outlook. But yields on 10-year USTs rose 4 bps w/w to 2.89% on thawing US-China trade relations.

Oil: Brent closed down 2.3% w/w at \$60.3/bbl despite a second consecutive week of US crude stock draws (-1.2 mb to 441 mb) and another drop in US oil rig counts. The IEA noted that \$60 is probably the new 'floor' for oil prices after the recent OPEC+ production cut agreement and said that lower prices should help support demand growth next year at 1.4 mb/d. Meanwhile however, OPEC figures showed that crude output in both Saudi and the UAE hit record highs in November, at 11.09 mb/d and 3.34 mb/d respectively.

MENA Region

Kuwait: Credit growth rebounded to 2.9% y/y in October from 2.1% in September, pushing year-to-date growth to 3.6%. This was supported by a rise in lending to business, up 2.9% from 1.9% in September, while household credit increased by 6.4% from 6.2%, driven mainly by housing-related loans (+KD 104 million). Meanwhile the Ministry of Commerce has approved a lifting of the 49% cap on foreign ownership of Kuwaiti banks, though the timeline is unclear.

Saudi Arabia: The authorities are reportedly reviewing their policy of imposing fees on expats after more than half a million foreigners left the workforce in 1H18 and firms warn of escalating costs. Saudi Arabia and Kuwait appear to be close to restarting oil production in the Neutral Zone. 500,000 b/d of potential oil production from the jointly-owned Khafji and Wafra fields has been shut-in since 2014-15 due to environmental and operational issues. However with both Kuwait and Saudi Arabia likely to cap output in 1H19 as per the OPEC agreement, it is not clear if any oil will be forthcoming from these two fields soon.

UAE: The Dubai Economy Tracker leapt from 52.5 in October to a five-month high of 55.3 in November, as growth in the construction sector accelerated, perhaps as the pace of preparations for the Expo 2020 event picked up. This helped prop up new work and employment. Indeed, employment rose, albeit slightly, for the first time in two months.

Egypt: Headline inflation decelerated from 17.7% in October to 15.7% in November, dropping back to within the central bank's 13% +/- 3% target, while core inflation slowed from 8.9% to 7.9%, its slowest rate since March 2016. Meanwhile after selling \$1.7 billion worth of one-year dollar-denominated treasury bills in November, with an average yield of 3.697%, Egypt sold a further \$1.1 billion with an average yield of 3.747%. Nevertheless, CDS rates – a measure of sovereign risk – reportedly rose to 16-month high of 379 bps last week.

Financial markets: Gulf markets came under pressure as oil prices slipped. The MSCI GCC index still managed to eke out a small 0.4% w/w gain, as the Saudi market outperformed and as Dubai's market rose for the first week in five.

Key takeaways:

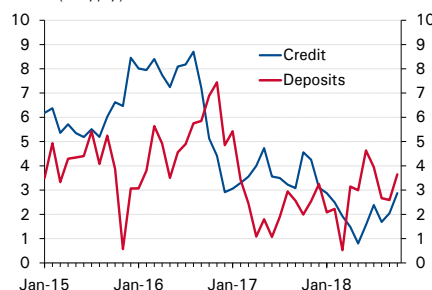
- Latest US data are unlikely to have a major effect on Fed decision making ahead of its policy announcement this Wednesday; markets are pricing in a 77% chance of a rate hike but no more than one hike in 2019.
- The pick-up in Kuwait's credit growth – although helped by a base effect after weak data a year ago – was encouraging and will be supported further by the recent relaxation of borrowing conditions for consumers by the central bank.
- Inflation in Egypt has fallen back to within the central bank's target range, but given coming fuel subsidy cuts the bank may remain cautious about easing monetary policy.

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



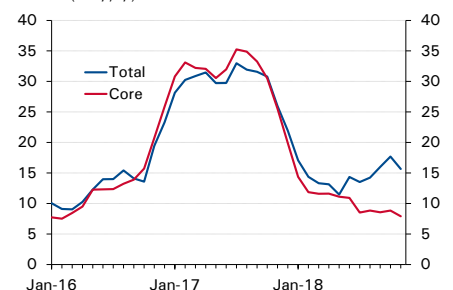
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait credit and deposits** (% y/y)



Source: Thomson Reuters Datastream

▶ **Chart 3: Egypt CPI inflation** (% y/y)



Source: Thomson Reuters Datastream

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,166	-0.5	-21.5
DAX	10,866	0.7	-15.9
DJIA	24,101	-1.2	-2.5
Eurostoxx 50	3,093	1.1	-11.7
FTSE 100	6,845	1.0	-11.0
Nikkei 225	21,375	-1.4	-6.1
S&P 500	2,600	-1.3	-2.8
Regional			
Abu Dhabi SM	4,834	-0.1	9.9
Bahrain ASI	1,319	0.1	-0.9
Dubai FM	2,573	0.9	-23.7
Egypt EGX 30	12,997	7.1	-13.5
S&P GCC 40	1,128	-0.1	14.6
Kuwait SE	5,149	-0.7	6.6
KSA Tadawul	7,914	1.0	9.5
Muscat SM 30	4,448	-2.2	-12.8
Qatar Exchange	10,456	-1.4	22.7

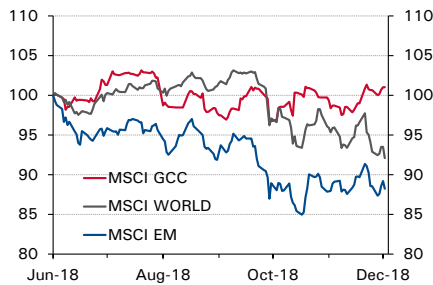
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.89	3.9	47.8
Bunds 10 Year	0.26	0.2	-16.9
Gilts 10 Year	1.24	-2.7	5.4
JGB 10 Year	0.04	-2.1	-1.5
Regional			
Abu Dhabi 2022	3.35	-11.8	40.6
Dubai 2022	3.95	-1.8	81.4
Qatar 2022	3.55	-4.0	47.6
Kuwait 2022	3.41	6.0	60.6
KSA 2023	3.85	-0.8	63.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	60.3	-2.3	-9.9
KEC	59.1	-3.0	-6.9
WTI	51.2	-2.7	-15.3
Gold	1237.0	-0.8	-5.3

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.80	0.0	107.5
Kibor - 3 month	2.13	0.0	25.0
Qibor - 3 month	2.84	4.7	9.5
Eibor - 3 month	2.84	0.4	104.4
Saibor - 3 month	2.89	2.4	99.3
Libor - 3 month	2.80	3.0	110.6
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.1	1.0
KWD per EUR	0.346	0.0	-2.6
USD per EUR	1.131	-0.6	-5.7
JPY per USD	113.4	0.6	0.6
GBP per USD	1.258	-1.1	-6.9
EGP per USD	17.95	0.5	1.2

Updated on 14/12/2018 Source: Thomson Reuters Eikon

International equity markets

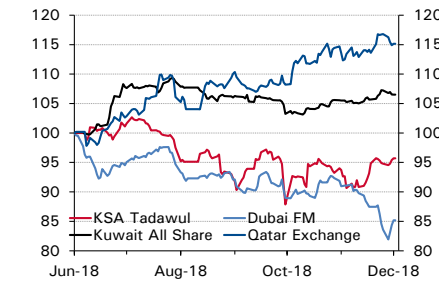
(rebased, 6 June 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

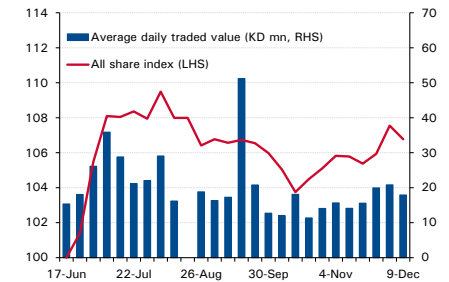
(rebased, 6 June 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

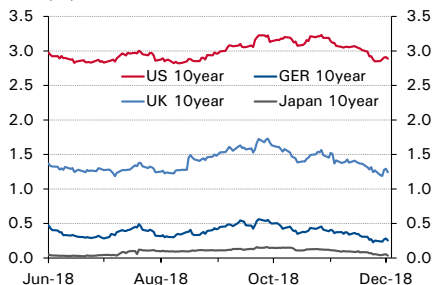
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

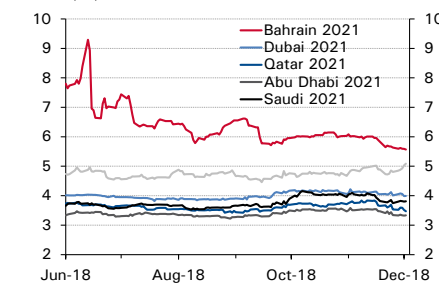
(%)



Source: Thomson Reuters Datastream

GCC bond yields

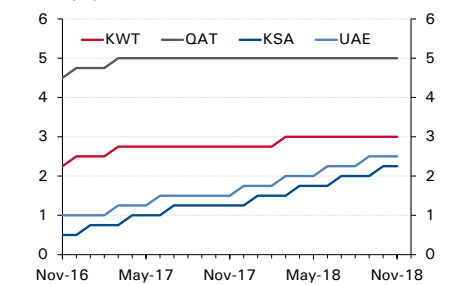
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream