

Weekly Economic and Markets Review

NBK Economic Research Department | 31 January 2021



International & MENA

International

International: The IMF, in its January WEO Update, revised up its 2021 global economic growth estimate by 0.3% pts to 5.5%. This is based on the expectation of a 'vaccine-powered strengthening' of activity in 2H21 and additional policy support. Global GDP in 2020 is estimated to have contracted by 3.5%.

US: GDP growth slowed sharply to an annualized 4.0% in 4Q20, from a restriction-easing rebound of 33.4% in Q3 as output was weighed down by surging virus cases toward the end of last year. Overall, GDP fell 3.5% in 2020—the biggest drop since World War II, though it was much better than some earlier forecasts due to the massive stimulus. New jobless claims remained elevated at 847,000. The Fed left monetary policy on hold, though Chairman Powell suggested there was scope for further loosening given the softening jobs market and the risk of new virus strains affecting activity. Powell was not concerned about inflation at 1.5% in January, and claimed that a likely rise in coming months due to base effects would be 'transient'.

EU: The UK will apply to join the Trans-Pacific Partnership (CPTPP), a free trade bloc covering 11 Pacific Rim countries including Japan, Australia, Malaysia, Singapore and Mexico. The area aims to remove tariffs on most goods and services, ease rule of origin restrictions and make business travel easier.

Financial markets: Global equity markets were mostly negative, amid disruptions by retail traders as they piled into heavily shorted stocks. Declines were led by emerging markets, with the MSCI EM down 4% w/w, while the S&P500 and Euro Stoxx 50 lost 3.3% and 3.4%, respectively.

Oil: Brent ended up 0.8% w/w at \$55.9/bbl (+7.9% ytd). Bullish news—a sizeable US crude stock draw (-9.9 mb to 476 mb in the w/e 22 Jan) and Russia's oil companies restraining exports—were balanced by concerns over the more virulent Covid strain and rising future supply after US oil rig counts gained for the tenth consecutive week (+6 to 295).

MENA Region

Kuwait: Outgoing PM Sheikh Sabah Al-Khaled Al-Sabah was re-appointed by the Amir last week and will form his new cabinet shortly. The government announced an expansionary draft budget for FY2021/22 in which it projected a deficit of KD12.1bn (34% of GDP). Total spending is slated to rise by 7% budget-on-budget (b-o-b) to KD23bn on a 20% increase in capex and

a 5% gain in current spending (wages etc.). Total revenues are projected at KD10.9bn, a rise of 46% b-o-b on the back of higher oil revenues (oil price of \$45/bbl; production of 2.4 mb/d), which comprise 83% of total revenues.

Saudi Arabia: The government issued a two-tranche \$5.5bn bond with maturities of 12 and 40 years (drawing \$22 bn in orders) and pricing of 130 bps above 10-year US treasuries and 3.45%, respectively. Meanwhile, the Crown Prince approved the PIF's 2021-2025 strategy, which targets an increase in AUMs to \$1.07trn in 2025 from \$400bn in 2020 and local investments of at least SAR150bn (\$40bn) annually until 2025.

UAE: A new public debt strategy for the federal government was approved. This comes in the wake of the UAE approving sovereign debt issuance at the federal level. First bond issuances could come this quarter.

Egypt: The reform agenda is proceeding steadily with economic performance remaining solid compared to other emerging markets. Growth in the current FY20/21 is estimated at 2.8%, and projected to rise to 5.5% next fiscal year.

Financial markets: Regional markets were mostly negative following the trend in global markets, with the MSCI-GCC index down 0.7% w/w, led by Oman (-2.6%) and Qatar (-1.8%). Kuwait's All-Share Index, though, gained 1.1% w/w.

Key takeaways:

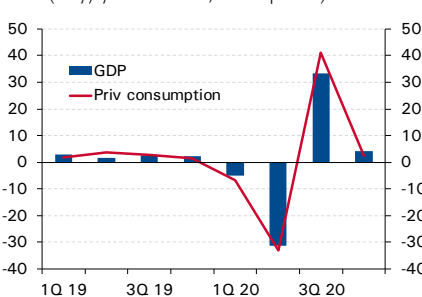
- The IMF 2021 growth forecast speaks of a multi-track recovery, with China and India at the forefront and European and MENA economies lagging. The variation in outcomes is a reflection of medical interventions, policy support, cross-country spillovers and pre-Covid economic structures.
- US growth in Q4 signals a moderation of growth as the economy remains pressured by the virus. Vaccine rollout and fiscal stimulus should support the recovery in H2, but the Fed's emphasis on the downside risks, along with its tolerance for higher inflation means an early withdrawal of policy support is unlikely.
- Kuwait's relatively expansionary draft budget could support near-term growth, although it remains unclear how the deficit will be financed. With the depletion of the GRF, approving the debt law should be the first item on the new government's agenda. The budget, which normally provides policy direction for the coming year and the medium term, did not signal any fiscal reform measures.

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



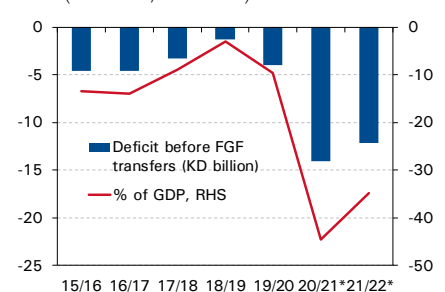
Source: Refinitiv

▶ **Chart 2: US GDP growth** (% y/y annualized, 2009 prices)



Source: Refinitiv

▶ **Chart 3: Kuwait budget balance** (KD billion; % of GDP)



Source: Ministry of Finance

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	5,352	-3.9	2.7
DAX	13,433	-3.2	-2.1
DJIA	29,983	-3.3	-2.0
Eurostoxx 50	3,481	-3.4	-2.0
FTSE 100	6,407	-4.3	-0.8
Nikkei 225	27,663	-3.4	0.8
S&P 500	3,714	-3.3	-1.1
Regional			
Abu Dhabi SM	5,642	0.5	11.8
Bahrain ASI	1,457	0.3	-2.2
Dubai FM	2,697	-1.4	8.2
Egypt EGX 30	11,579	-0.6	6.8
MSCI GCC	562	-0.7	2.8
Kuwait SE	5,748	1.1	3.6
KSA Tadawul	8,807	-0.8	1.4
Muscat SM 30	3,649	-2.6	-0.3
Qatar Exchange	10,545	-1.8	1.0

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.09	0.3	18.2
Bunds 10 Year	-0.52	-0.7	5.5
Gilts 10 Year	0.33	1.8	13.1
JGB 10 Year	0.05	1.0	3.0
Regional			
Abu Dhabi 2022	0.47	-11.0	-2.7
Dubai 2022	0.44	-20.4	24.0
Qatar 2022	0.58	5.3	6.3
Kuwait 2022	0.63	-3.9	16.4
KSA 2023	0.76	0.3	4.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	55.9	0.8	7.9
KEC	54.9	-0.9	8.4
WTI	52.2	-0.1	7.6
Gold	1847.3	-0.5	-2.4

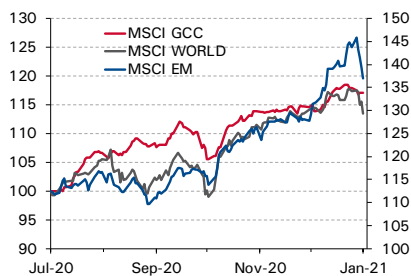
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.20	-3.3	-5.0
Kibor - 3 month	1.44	0.0	0.0
Qibor - 3 month	0.95	-17.9	-16.9
Eibor - 3 month	0.40	4.4	-11.1
Saibor - 3 month	0.82	-0.1	-0.1
Libor - 3 month	0.21	-1.3	-3.3
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.302	0.1	-0.4
KWD per EUR	0.363	0.0	0.0
USD per EUR	1.214	-0.3	-0.6
JPY per USD	104.7	0.9	1.4
USD per GBP	1.370	0.1	0.2
EGP per USD	15.66	-0.1	-0.2

Updated on 29/1/2021

Source: Refinitiv

International equity markets

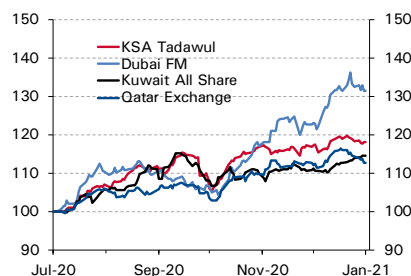
(rebased, 29 July 2020=100)



Source: Refinitiv

GCC equity markets

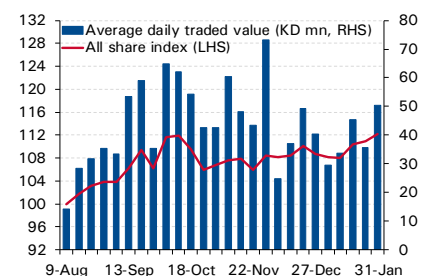
(rebased, 29 July 2020=100)



Source: Refinitiv

Boursa Kuwait

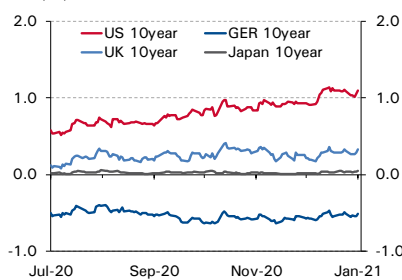
(equity prices and trading activity)



Source: Refinitiv

International bond yields

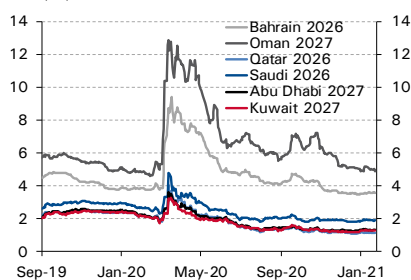
(%)



Source: Refinitiv

GCC bond yields

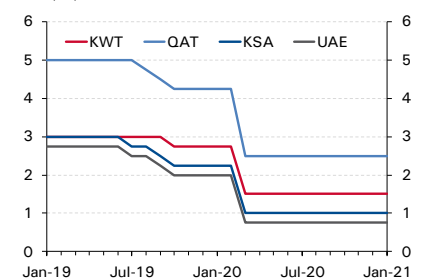
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv