

### International

**USA:** The federal government shutdown became the longest in history at more than three weeks with no resolution in sight. Progress appeared to be made in diffusing the US-China trade war ahead of a March 2 deadline to end the dispute. Consumer price inflation for December came in tame with the headline rate easing to 1.9% y/y from 2.2% in November due to falling energy costs, and the core rate unchanged at 2.2%. Minutes of the December FOMC meeting were more dovish than expected, with some board members wanting to leave rates on hold given the absence of inflation pressures.

**Financial markets:** US markets continued their positive streak supported by a more dovish Fed and easing trade tensions, with the S&P 500 gaining 2.5% w/w while bond yields edged higher. World markets followed suit with the MSCI AC world up 2.7%.

**Oil:** Brent slipped for the first time in two weeks on Friday, dropping 1.9% d/d to \$60.5/bbl as markets paused to take stock amid the US government shutdown. Oil's nine-day rally (+12.4% ytd) has been catalyzed by Saudi Arabia's production cuts and commitment to go further if needed than the 1.2 mb/d that OPEC+ pledged to balance the market.

### MENA Region

**Kuwait:** Credit increased 3.0% y/y in November from 2.9% y/y in October, helped by a base effect after a fall a year earlier due to a large corporate repayment. Private deposit growth slowed to 4.6% from 5.8% in October. Real estate prices were broadly positive in November, with apartment prices up 7% y/y helped perhaps by more stable rents and improved affordability after earlier price falls. Residential prices rose 3% m/m, but were flat y/y. Finally, Kuwait's external current account surplus dipped to KD 2.2 billion in 3Q18 (20% of GDP) from KD2.7 billion (25% of GDP) in Q2 on the back of lower non-oil exports and investment income.

**Saudi Arabia:** The PMI fell to 54.5 in December from 55.2 in November and averaged 53.8 for 2018 overall, the lowest in last five years and indicating continued softness in the non-oil sector. Meanwhile the government issued bonds worth a combined \$7.5 billion maturing in 2029 and 2050, at spreads of 175-230 bps over US treasuries. Saudi also plans to lower exports in February to 7.1 million b/d from 7.2 million b/d in

January to support prices. The government announced a rise in its oil reserves by 0.8% to 269 billion barrels.

**UAE:** The PMI eased from 55.8 in November to an over two-year low of 54.0 in December, as output and new orders slowed. The employment component was virtually stagnant at 50.1 and Dubai's ruler said that Emaritization efforts would be stepped up in 2019. Meanwhile according to Asteco, apartment and villa prices in Dubai fell 15% y/y in 4Q18, compared to a 14% fall in 3Q18, amid oversupply and cost-conscious tenants opting for more affordable housing.

**Egypt:** While still below the 50-mark, the PMI increased from 49.2 in November to 49.6 in December, the highest reading in four months. Also encouragingly, inflation decreased to 12.0% in December from 15.7% in November, within the central bank's target range. The fall was driven by a 7% m/m drop in food and beverages prices. Finally, for first time post-devaluation, foreign currency reserves fell, to \$42.6 billion in December from \$44.5 billion in November.

**Lebanon:** A statement attributed to the minister of finance about a financial reform package that includes debt restructuring (later corrected to debt rescheduling) sent bond prices to a record low on Thursday and Friday and saw the yield curve invert. To reassure markets, an unnamed source at the central bank indicated that Lebanon has all the means to meet its debt obligations and that Lebanon has never failed to service its debt even in the direst circumstances.

**Financial markets:** GCC markets rose helped by higher oil prices and earnings expectations. The Saudi TASI surged 4.8%, with the Kuwait All Share index up 1.6%.

#### Key takeaways:

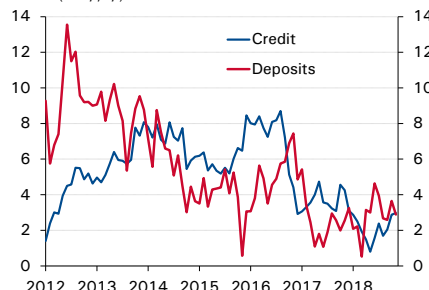
- The latest Fed policy minutes presented a more dovish outlook for monetary policy than hinted at the time of the December meeting. The Fed is likely to slow its normalization process this year.
- Dubai's residential property prices are expected to trend lower in 2019.
- A further easing in inflation in the coming months could lead the CBE to lower interest rates later in the year and will encourage Egypt to set its inflation target at about 10%.

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



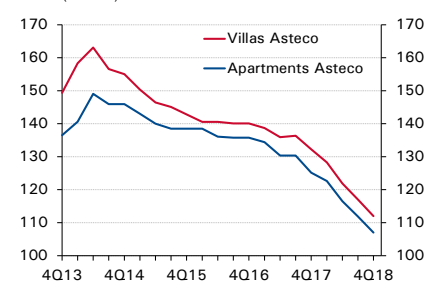
Source: Thomson Reuters Datastream

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



Source: Thomson Reuters Datastream

▶ **Chart 3: Dubai property prices** (index)



Source: Asteco

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,095	1.9	2.8
DAX	10,887	1.1	3.1
DJIA	23,996	2.4	2.9
Eurostoxx 50	3,070	0.9	2.3
FTSE 100	6,918	1.2	2.8
Nikkei 225	20,360	4.1	1.7
S&P 500	2,596	2.5	3.6
<b>Regional</b>			
Abu Dhabi SM	4,971	1.4	1.1
Bahrain ASI	1,344	1.0	0.5
Dubai FM	2,533	0.1	0.1
Egypt EGX 30	13,576	1.7	4.1
S&P GCC 40	1,121	1.4	1.9
Kuwait SE	5,233	1.5	3.0
KSA Tadawul	8,276	4.3	5.7
Muscat SM 30	4,304	0.0	-0.5
Qatar Exchange	10,659	3.0	3.5

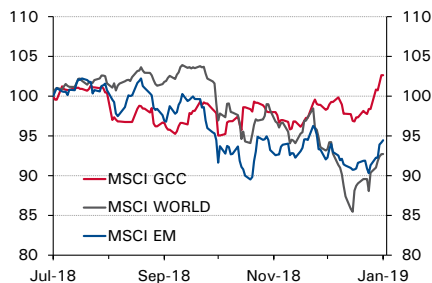
Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.70	4.0	0.8
Bunds 10 Year	0.18	-2.6	-6.4
Gilts 10 Year	1.29	1.3	2.1
JGB 10 Year	0.02	5.2	1.3
<b>Regional</b>			
Abu Dhabi 2022	3.21	2.5	-8.4
Dubai 2022	3.91	-2.4	-1.8
Qatar 2022	3.41	-6.1	-4.6
Kuwait 2022	3.22	3.9	-10.6
KSA 2023	3.76	-4.5	-11.4
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	60.5	6.0	12.4
KEC	60.5	10.2	14.2
WTI	51.6	7.6	13.6
Gold	1287.1	0.3	0.7

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.95	0.0	0.0
Kibor - 3 month	2.50	12.5	18.8
Qibor - 3 month	2.92	3.0	1.1
Eibor - 3 month	2.90	6.8	6.6
Saibor - 3 month	2.97	0.2	-0.4
Libor - 3 month	2.79	-1.7	-2.0
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.2	-0.2
KWD per EUR	0.349	0.3	0.3
USD per EUR	1.147	0.6	0.0
JPY per USD	108.5	0.0	-0.9
GBP per USD	1.284	0.9	0.7
EGP per USD	17.89	0.2	0.2

Updated on 11/1/2019 Source: Thomson Reuters Eikon

### International equity markets

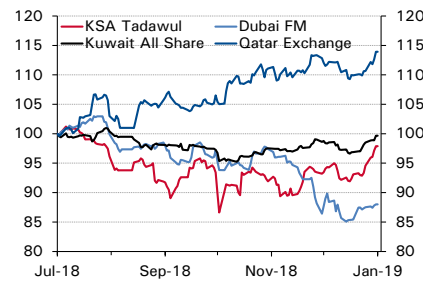
(rebased, 11 July 2018=100)



Source: Thomson Reuters Datastream

### GCC equity markets

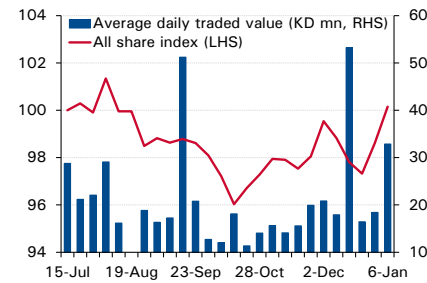
(rebased, 11 July 2018=100)



Source: Thomson Reuters Datastream

### Boursa Kuwait

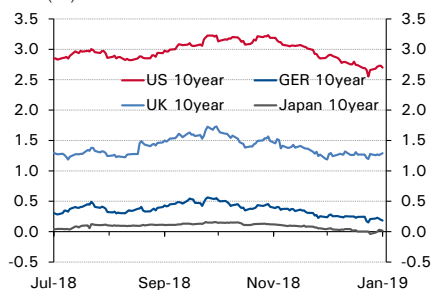
(equity prices and trading activity)



Source: Thomson Reuters Datastream

### International bond yields

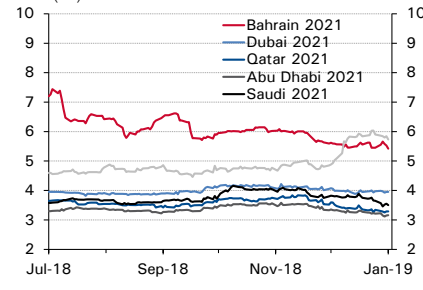
(%)



Source: Thomson Reuters Datastream

### GCC bond yields

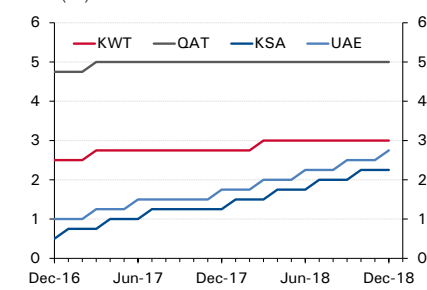
(%)



Source: Thomson Reuters Datastream

### GCC key policy rates

(%)



Source: Thomson Reuters Datastream