

### International

**USA:** The US government remained on partial shutdown affecting around 800,000 federal employees, over a row with Congress on funding for President Trump's desired border wall with Mexico. The shutdown should last into the new year (the Democrats take control of the House of Representatives on January 3<sup>rd</sup>), though the broad economic implications are expected to be small. The release of some economic data is being affected by the shutdown, but consumer confidence fell to a (still solid) five-month low of 128.1 in December due to reduced optimism about jobs and business conditions.

**Financial markets:** Global equity markets saw extreme volatility last week, eventually rebounding from eight consecutive trading sessions of declines due to concerns over global growth and the US government shutdown. US markets witnessed their best daily increase for nearly ten years (up 5% d/d) last Wednesday, helping the S&P and DJI finish the week up 2.9 and 2.7%, respectively, and lifting the MSCI AC world index 1.7% w/w. Yet sentiment remains fragile, with month-to-date performance the weakest since the financial crisis: the MSCI AC World index is down nearly 8% and the S&P and DJI almost 10%. The volatility pressured global bond yields lower, with US 10-year treasuries dropping 5 bps to 2.74%.

**Oil:** In a shortened but very volatile trading week, Brent closed lower at \$52.2/bbl (-3.0% w/w; -11.1% mtd), a third consecutive week of losses for the oil benchmark. There was some relief, though, when the EIA reported a US crude stockpile draw (-46,000 barrels) rather than the stock build that the markets had been fearing. Amid concerns of weakening crude demand, rising supply and broader financial market turmoil, oil is on track to finish the year down almost 22%, the worst performance since 2015.

### MENA Region

**Kuwait:** Amid persistent parliamentary scrutiny, a cabinet reshuffle saw the appointment of new oil, social affairs, economic affairs and Islamic affairs ministers. Meanwhile, the CBK is close to establishing a credit information distribution company to replace the current Credit Information Network, (CINET). It will aim to securely disseminate individual and corporate credit data between licensed participants in Kuwait's financial and banking sectors.

**Saudi Arabia:** King Salman appointed long-time government aide Musaad Al-Aiban as national security advisor and Ibrahim Al-Assaf, a former finance minister (and Ritz-Carlton detainee), as foreign minister, and others in a cabinet reshuffle. Crown Prince Mohammed bin-Salman retains ultimate oversight, however. The move is being interpreted as an attempt by the king to bring in more experience and re-establish formal process to government policy-making.

**Bahrain:** GDP growth slowed by more than anticipated to 1.6% y/y in 3Q18 from 2.4% y/y in 2Q18. This was due to a contraction in oil sector output (-1.5% y/y) and moderating non-oil sector growth (+2.4% y/y).

**Egypt:** The Central Bank of Egypt decided at its monetary policy meeting on 27 December to keep the overnight deposit and lending rates as well as the rate of the main operation unchanged at 16.75%, 17.75%, and 17.25%, respectively. This decision is in line with market expectations, after headline inflation decelerated from 17.7% in October to 15.7% in November, back to within the 10-16% corridor the bank has been targeting.

**Financial markets:** Most major regional stock markets tracked the global sell-off, with the declines led by Dubai (-1.6%) and Qatar (-1.2%), to leave the MSCI GCC index down 0.5% w/w. The Kuwait market was down 0.5% w/w, with declines stemming from profit-taking in the premiere market following the inclusion of most of the market's firms in FTSE's emerging market index.

#### Key takeaways:

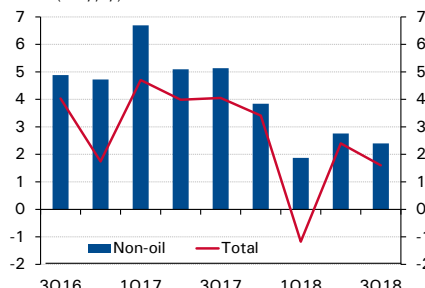
- Against a backdrop of wild end-year market volatility and signs of a slowing US economy, futures markets now expect the Fed to keep rates on hold in 2019 with a 79% probability.
- Despite the oil rout, Brent 'net-long' positions increased for the third week in a row, a sign that investors see the OPEC+ production cuts tightening the market in 2019 and are positioning themselves for a rebound; a Bloomberg poll of oil analysts forecasts Brent to average \$70 in 2019.
- Given that Egypt intends to lift remaining fuel subsidies in 2019, the central bank may remain cautious about easing monetary policy in order to keep inflation under control.

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



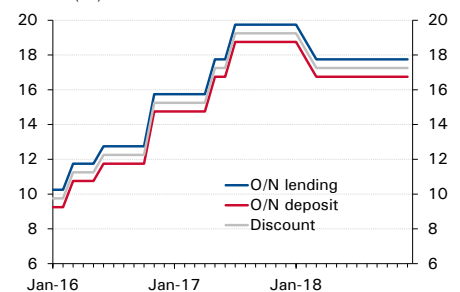
Source: Thomson Reuters Datastream

► **Chart 2: Bahrain GDP** (% y/y)



Source: Information & eGovernment Authority

► **Chart 3: Egypt interest rates** (%)



Source: Thomson Reuters Datastream

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,011	-0.6	-25.3
DAX	10,559	-0.7	-18.3
DJIA	23,062	2.7	-6.7
Eurostoxx 50	2,987	-0.5	-14.8
FTSE 100	6,734	0.2	-12.4
Nikkei 225	20,015	-0.8	-12.1
S&P 500	2,486	2.9	-7.0
<b>Regional</b>			
Abu Dhabi SM	4,831	-0.5	9.8
Bahrain ASI	1,322	0.6	-0.7
Dubai FM	2,469	-1.6	-26.7
Egypt EGX 30	12,984	-1.2	-13.5
S&P GCC 40	1,094	-0.5	11.1
Kuwait SE	5,071	-0.5	5.0
KSA Tadawul	7,749	-0.1	7.2
Muscat SM 30	4,344	0.2	-14.8
Qatar Exchange	10,288	-1.2	20.7

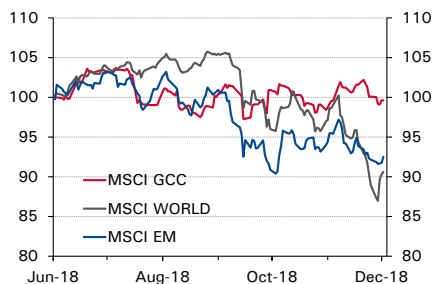
Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.74	-5.4	32.7
Bunds 10 Year	0.24	-1.2	-18.2
Gilts 10 Year	1.27	-5.2	8.0
JGB 10 Year	0.00	-4.0	-4.8
<b>Regional</b>			
Abu Dhabi 2022	3.33	3.0	38.0
Dubai 2022	3.91	-1.1	76.9
Qatar 2022	3.44	-1.0	36.0
Kuwait 2022	3.31	-5.0	50.0
KSA 2023	3.91	3.0	69.0
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	52.2	-3.0	-21.9
KEC	52.2	-7.5	-17.8
WTI	45.3	-0.6	-25.0
Gold	1279.9	2.1	-2.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.95	0.0	122.5
Kibor - 3 month	2.31	12.5	43.8
Qibor - 3 month	2.93	5.8	19.1
Eibor - 3 month	2.96	7.0	115.7
Saibor - 3 month	2.98	2.6	108.0
Libor - 3 month	2.80	-2.1	110.9
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.7
KWD per EUR	0.348	0.0	-1.9
USD per EUR	1.144	0.6	-4.7
JPY per USD	110.3	-0.9	-2.1
GBP per USD	1.271	0.6	-6.0
EGP per USD	17.84	-0.1	0.6

Updated on 28/12/2018 Source: Thomson Reuters Eikon

### International equity markets

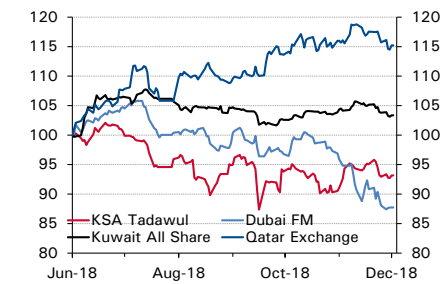
(rebased, 27 June 2018=100)



Source: Thomson Reuters Datastream

### GCC equity markets

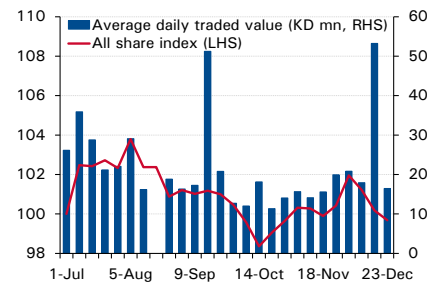
(rebased, 27 June 2018=100)



Source: Thomson Reuters Datastream

### Boursa Kuwait

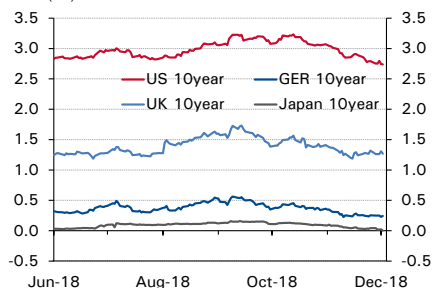
(equity prices and trading activity)



Source: Thomson Reuters Datastream

### International bond yields

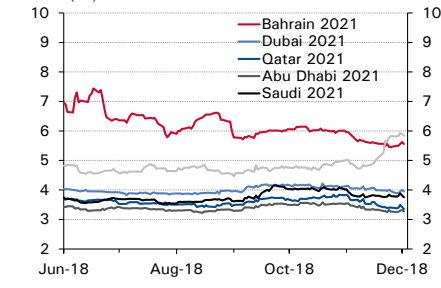
(%)



Source: Thomson Reuters Datastream

### GCC bond yields

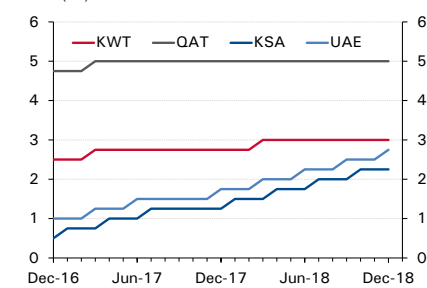
(%)



Source: Thomson Reuters Datastream

### GCC key policy rates

(%)



Source: Thomson Reuters Datastream