

International

USA: There were encouraging signs that a deal could be struck to end the US-China dispute, with reports (subsequently denied by US officials) that the US could scale back import tariffs and China would increase imports from the US by \$1 trillion over six years. But the ongoing federal government shutdown may have started to have an impact on the economy. Business expectations are down and the University of Michigan's consumer sentiment survey dropped sharply to 90.7, its weakest in over two years.

Europe: The German economy grew 1.5% in 2018, narrowly avoiding a recession in 2H18 thanks to modest growth in Q4. The government narrowly survived a vote of confidence triggered by the opposition Labour Party. This followed the resounding defeat in parliament of PM Theresa May's Brexit agreement struck with the EU. The PM is left with few options but try to obtain cross-party support for an alternative deal and return to the EU negotiating table.

Financial markets: Global indices continued their winning streak last week, supported by US-China trade developments. The MSCI AC world rose 2.4% w/w, while US indices gained for the fourth consecutive week, with the DJI and S&P500 both gaining around 3%. The more positive mood boosted US treasury yields, with the 10-year edging up to 2.78%.

Oil: A third consecutive week of gains saw Brent rise by 3.7% w/w to \$62.7/bbl on Friday, buoyed by news that China intended to increase imports of US crude. Markets were also boosted by signs that OPEC has begun to clear the oil surplus, paring back output in December by 751 kb/d to 31.6 mb/d. US crude production reached another milestone last week, hitting 11.9 mb/d.

MENA Region

Kuwait: A draft of the mortgage law was circulated in the press last week. The new framework will be used to finance housing for private use, with the aim of making it the main and eventually only source for such financing. Various details need ironing out, with parliament looking to the central bank to set the regulation, interest rate, duration, and borrowing cap for these contracts.

The external current account surplus narrowed to a still-huge 20% of GDP (KD2.2 billion) in 3Q18 from 25% of GDP in Q2.

The dip came despite a rise in oil prices through the quarter and was driven by a fall in non-oil exports, which were unusually high in 1H18. In the financial account, there was a notable rise in government deposits overseas (KD1.5 billion), though also a rise in foreign borrowing by domestic corporates (KD1.1 billion).

Saudi Arabia: The government intends to supplement the salaries of Saudi nationals employed in the private sector (earning SR4,000-SR10,000 per month) with a cash allowance. Only about 1.9m Saudis, or 31% of the Saudi labor force, works in the private sector. The construction of residential units in the \$500bn NEOM project is due to commence in 1Q19. Phase 1 will be completed in 2020.

UAE: The Dubai Economy Tracker (DET) index fell from 55.3 in November to 53.7 in December on a slowdown in output and new orders. On an annual average basis, the DET fell to 55.1 in 2018 from 56.0 in 2017, suggesting some slowdown in domestic and external demand, perhaps partly due to softer global conditions.

Egypt: The overall balance of payments registered a surplus of \$284 million during the first quarter of FY18/19 (Jul-Sep). This was supported by a stabilization of the current account deficit at \$1.8 billion (-2.9% of GDP) from \$1.7 billion (-2.7% of GDP) the same quarter a year earlier, while the capital and financial account surplus stood at \$1.6 billion. Remittances from Egyptian workers abroad rose to \$5.9 billion from \$5.8 billion a year earlier.

Financial markets: GCC equities were mostly positive, with the MSCI GCC index gaining 1.9% w/w. Gains were led by KSA and Qatar, which rose 2.9% and 1.2% respectively.

Key takeaways:

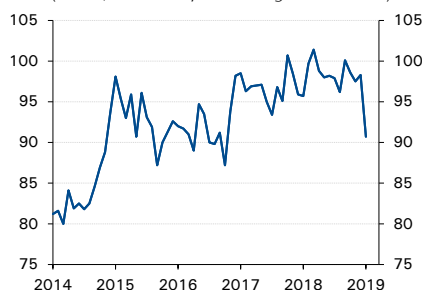
- The latest softening in tone in the US-China trade war suggests that both sides may now be more eager for a deal, amid recent stock market volatility and signs that growth in the two countries is slowing.
- The outlook for oil price would be affected by global economic growth (which could be revised down), record high US production, and whether exemptions on Iran exports by the US will be renewed.
- Kuwait's proposed mortgage law would provide banks with a collateralized lending opportunity, though details remain unclear.

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



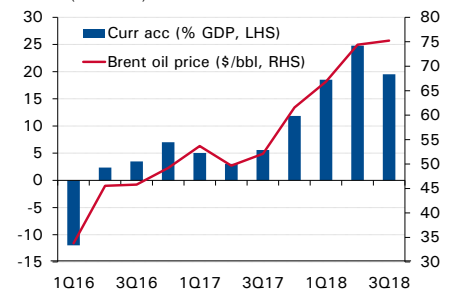
Source: Thomson Reuters Datastream

▶ **Chart 2: US consumer sentiment** (index, University of Michigan measure)



Source: Thomson Reuters Datastream

▶ **Chart 3: Kuwait current account** (balance)



Source: Thomson Reuters Datastream / NBK

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,168	2.4	5.2
DAX	11,206	2.9	6.1
DJIA	24,706	3.0	5.9
Eurostoxx 50	3,135	2.1	4.4
FTSE 100	6,968	0.7	3.6
Nikkei 225	20,666	1.5	3.3
S&P 500	2,671	2.9	6.5
Regional			
Abu Dhabi SM	4,985	0.5	1.4
Bahrain ASI	1,341	0.0	0.3
Dubai FM	2,517	-1.1	-0.5
Egypt EGX 30	13,483	0.9	3.4
S&P GCC 40	1,137	0.5	3.3
Kuwait SE	5,237	0.4	3.1
KSA Tadawul	8,448	2.9	7.9
Muscat SM 30	4,237	-1.7	-2.0
Qatar Exchange	10,788	1.2	4.7

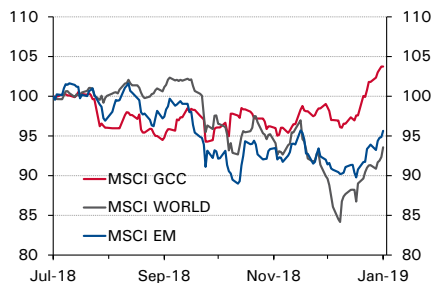
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.78	8.3	9.1
Bunds 10 Year	0.26	8.0	1.6
Gilts 10 Year	1.35	6.4	8.5
JGB 10 Year	0.01	-0.5	0.8
Regional			
Abu Dhabi 2022	3.19	-2.9	-11.3
Dubai 2022	3.87	-4.0	-5.8
Qatar 2022	3.40	-1.0	-5.6
Kuwait 2022	3.26	4.0	-6.6
KSA 2023	3.71	-5.9	-17.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	62.7	3.7	16.5
KEC	60.8	0.4	14.7
WTI	53.8	4.3	18.5
Gold	1281.3	-0.5	0.2

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.95	0.0	0.0
Kibor - 3 month	2.50	6.3	18.8
Qibor - 3 month	2.90	-1.2	-0.1
Eibor - 3 month	2.87	-3.1	3.5
Saibor - 3 month	2.97	0.0	-0.4
Libor - 3 month	2.78	-2.1	-3.2
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	0.1	0.0
KWD per EUR	0.347	-0.7	-0.3
USD per EUR	1.136	-0.9	-0.9
JPY per USD	109.8	1.1	0.2
GBP per USD	1.287	0.2	0.9
EGP per USD	17.84	-0.3	-0.1

Updated on 18/1/2019 Source: Thomson Reuters Eikon

International equity markets

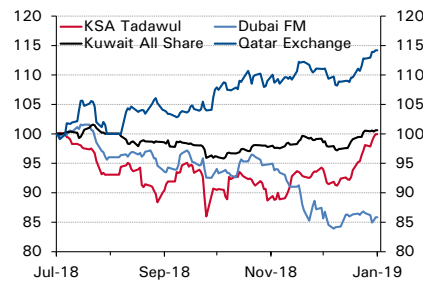
(rebased, 18 July 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

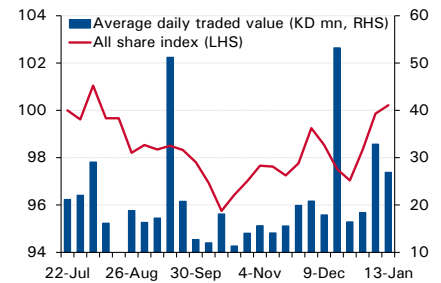
(rebased, 18 July 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

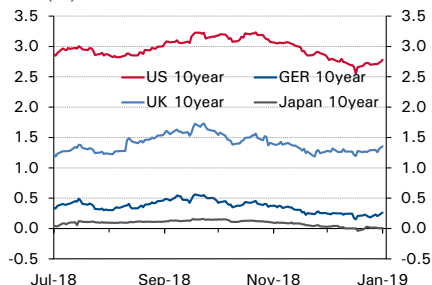
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

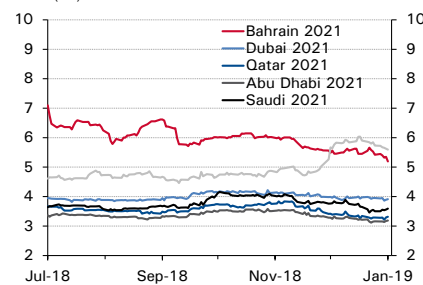
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Source: Thomson Reuters Datastream

GCC bond yields

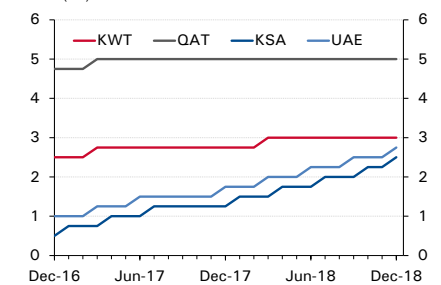
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream