

International

USA: The Fed as expected left interest rates on hold, but took a slightly more dovish tone on future policy than the markets had anticipated. As well as cutting its 2019 growth forecasts by 0.2% points to 2.1%, it reduced its projections for rate hikes this year from two to none, but also said that it would end its quantitative tightening program in September, earlier than originally outlined and leaving the Fed's balance sheet at a swollen \$3.5 trillion. This policy u-turn led to the inversion of the yield curve – a typical bellwether for recession.

Europe: There were alarm bells from the Eurozone manufacturing PMI, which fell deeper into negative territory in March at 47.6 from 49.3 in February and its steepest downturn since 2013. The whole economy PMI dipped to 51.9, signaling very weak growth in 1Q19. Meanwhile UK PM Theresa May secured a brief extension from the EU for Brexit until May 22nd conditional on the passage of the withdrawal agreement through parliament by April 12th. Otherwise the UK would have to apply for a longer extension or face a 'no deal' exit. May could still abort the third attempt to put her EU withdrawal agreement to parliament this week due to a lack of support.

Financial markets: Global markets fell sharply at the end of last week on global slowdown fears. The 10-year US treasury yield fell to 2.46% on Friday and in a bearish symbol also below the 3-month yield. The MSCI AC world was down 0.6% w/w, led by the Eurostoxx 50 (-2.4%) and the DJI (-1.3%).

Oil: Brent fell 0.2% w/w to \$67/bbl on global growth concerns. Other data however was bullish: commercial crude stocks declined by the most since July 2018 (-9.6 mb) while the number of oil rigs fell for a fifth straight week (-9 to 824).

MENA Region

Kuwait: Real estate sales were relatively solid in February at KD 284 million, up 16% from January. The increase came from a rise in commercial sales to KD100 million on a near four-fold increase in average transaction sizes. This offset a drop in residential and apartment sales, which nonetheless remained in decent shape. Although single apartment prices slipped 4% y/y, prices for other property types – land, homes and apartment buildings – are rising 5-10% y/y.

Saudi Arabia: Inflation dropped to a multi-year low of -2.2% y/y in February. Food and housing/utilities have fallen (m/m)

for four and twelve consecutive months, respectively. With demand weak, housing rentals have dropped by 9.5% y/y. Meanwhile Saudi holdings of US treasuries declined by \$9bn (5.2% m/m) to \$163bn in January, the largest monthly fall since May 2016. The drawdown was likely for the purpose of deficit financing amid weaker oil prices in January.

Bahrain: The Central Bank of Bahrain (CBB) cut its one-month deposit rate by 15 bps to 3.10%, after the US Fed held its policy rate. The CBB did, however, keep its overnight rate and its key policy rate (one-week deposit rate) unchanged.

Oman: After months of delay, a royal decree issued last week announced that Oman would impose an excise tax on tobacco (100%) and energy/soft drinks (50%) in June. The tax is a bid to limit the consumption of unhealthy goods and boost non-oil revenues and follows similar moves by other GCC nations.

Egypt: According to the minister of finance, Egypt is targeting GDP growth of 6.1% in FY19/20, with a budget deficit of 7.2%. This will be supported by tax reform, aimed at increasing tax revenues to 17% of GDP by 2021 through combating tax evasion. Meanwhile, the pound appreciated to its highest in over two years at EGP17.28/\$1 mid-last week, boosted according to the central bank by an increase in foreign funds into the country. The pound is up more than 3% from EGP17.86/US\$1 on average in January.

Financial markets: GCC markets were mostly positive, closing before the drop in global stocks. The MSCI GCC rose a solid 1.7% w/w, led by Kuwait's All-Share (3.2%) and Abu Dhabi's ADX (2.6%). The region benefitted from FTSE stock re-weightings, which boosted trading in constituent stocks.

Key takeaways:

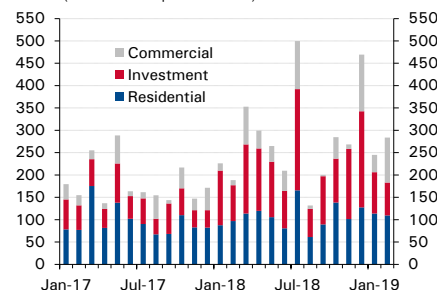
- The sharp fall in equity markets at the end of the week reflected increased pessimism on the outlook for global growth, amid the US Fed's policy u-turn, the inversion of the yield curve, the unresolved US-China trade dispute and weak Eurozone data. The Fed's announcement implies that key GCC policy rates are also unlikely to change this year.
- The Brexit outcome remains uncertain, although last week's extension removes the possibility of a no-deal Brexit this Friday. A rumored move by some cabinet members to replace PM May this week could result in a general election with a new leader seeking a longer extension with the EU.

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



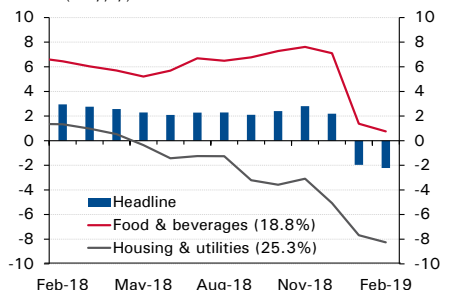
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait real estate sales** (KD million per month)



Source: Ministry of Justice

▶ **Chart 3: Saudi inflation** (% y/y)



Source: Thomson Reuters Datastream

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,834	2.4	27.3
DAX	11,364	-2.8	7.6
DJIA	25,502	-1.3	9.3
Eurostoxx 50	3,306	-2.4	10.1
FTSE 100	7,208	-0.3	7.1
Nikkei 225	21,627	0.8	8.1
S&P 500	2,801	-0.8	11.7
Regional			
Abu Dhabi SM	5,127	2.6	4.3
Bahrain ASI	1,426	1.2	6.7
Dubai FM	2,629	2.1	3.9
Egypt EGX 30	14,783	-1.4	13.4
S&P GCC 40	1,153	2.6	4.8
Kuwait SE	5,519	3.2	8.7
KSA Tadawul	8,709	1.5	11.3
Muscat SM 30	4,153	1.9	-4.0
Qatar Exchange	9,954	-0.2	-3.4

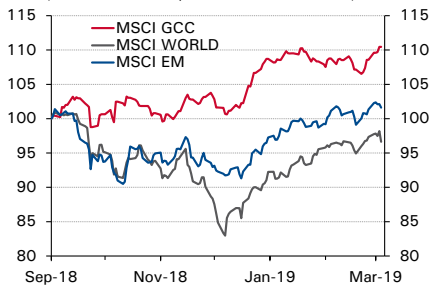
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.46	-13.8	-23.6
Bunds 10 Year	-0.03	-11.4	-27.1
Gilts 10 Year	1.01	-20.0	-25.7
JGB 10 Year	-0.07	-2.9	-6.8
Regional			
Abu Dhabi 2022	2.86	-11.7	-43.8
Dubai 2022	3.64	-7.7	-28.5
Qatar 2022	2.99	-15.8	-46.1
Kuwait 2022	2.83	-8.8	-49.1
KSA 2023	3.24	-13.7	-63.8
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	67.0	-0.2	24.6
KEC	67.3	-0.5	28.8
WTI	59.0	0.9	30.0
Gold	1311.6	0.8	2.6

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.80	-5.0	-15.0
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.92	1.8	1.5
Eibor - 3 month	2.74	-7.2	-9.7
Saibor - 3 month	2.89	-0.9	-8.7
Libor - 3 month	2.60	-1.3	-20.6
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.2	0.0
KWD per EUR	0.345	0.5	-1.0
USD per EUR	1.131	-0.1	-1.4
JPY per USD	109.9	-1.4	0.3
GBP per USD	1.321	-0.6	3.5
EGP per USD	17.22	-0.7	-3.6

Updated on 22/3/2019 Source: Thomson Reuters Eikon

International equity markets

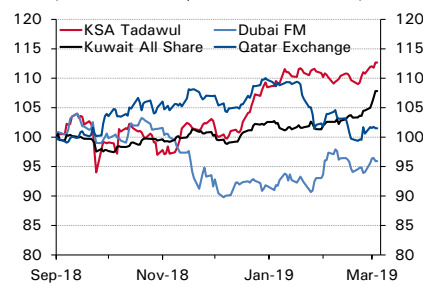
(rebased, 19 September 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

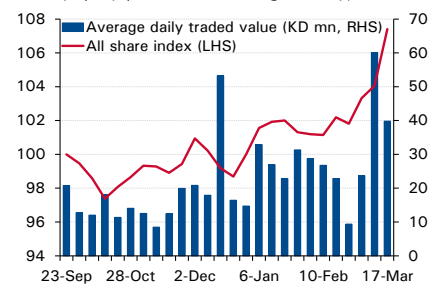
(rebased, 19 September 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

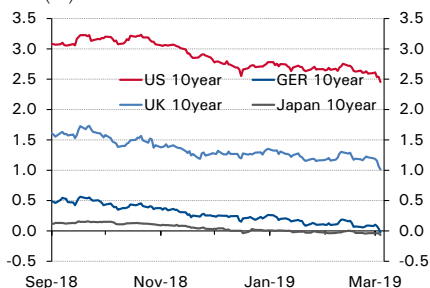
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

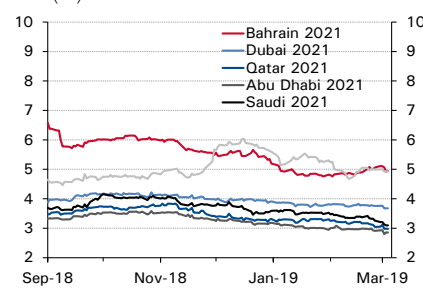
(%)



Source: Thomson Reuters Datastream

GCC bond yields

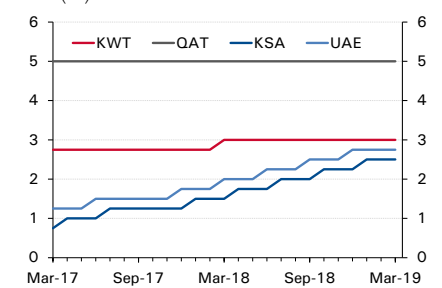
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream