Weekly Economic and Markets Review

NBK Economic Research Department I 21 February 2021

International & MENA

International and markets

G7 Meeting: In the G7 virtual meeting hosted by Boris Johnson, President Biden said the US would donate $2 billion immediately to Covax, to be followed by another $2 billion in the next couple of years. The UK will donate its surplus of vaccines (about 200 million shots), while other rich countries will follow suit. They also pledged continued fiscal support for their economies.

US: Retail sales jumped a huge 5.3% m/m in January, fueled by December's $0.9 trillion stimulus package (which included $600 checks for households), while manufacturing output also beat the consensus, up 1.0% m/m and now just 0.8% below pre-pandemic levels. Adding to the recovery story, there were also early signs of returning inflationary pressures with producer prices jumping 1.3% m/m in February lifted by higher energy and food prices. Though in minutes of its latest meeting the Fed argued that inflation risks were "more balanced" than before but still "weighted to the downside". Meanwhile, news on the labor market continues to be less encouraging. Initial jobless claims failed to fall for the third successive week in w/e 13 February, rising 13,000 to 861,000 (with the previous week also revised up) even as virus cases decline and the outlook improves.

Japan: Japan's economy picked up with 4Q20 GDP growing by an annualized 12.7%, supported by a rebound in foreign demand that increased exports and capital spending. For 2020, Japan's economy contracted by 4.8%, the first fall since 2009.

Financial markets: Global equity markets were mostly negative as US 10-year treasury yields rose to a near one-year high of 1.35%, sparking concerns that higher borrowing costs may stifle the rally in equities. The MSCI AC World index fell 0.4% w/w, led by the S&P500 (-0.7%). Meanwhile, GCC market performance was mixed, but little changed overall (MSCI-GCC -0.1 %) as renewed travel and business restrictions in several countries dampened sentiment.

Oil: Brent pared its weekly gain to 0.8% on Friday, settling at $62.9/bbl (+21.4% ytd), as production crawled back in deep freeze-affected Texas. Tentative outreach to Iran over the nuclear deal by the Biden administration was also seen as bearish for oil. This was still a fifth consecutive weekly increase for Brent, coming amid signs of tighter market fundamentals. In the US, crude stocks fell to their lowest level since March 2020 (-7.2 mb to 461.8 mb in the w/e 12 Feb), while crude output declined by 200 kb/d to 10.8 mb/d. Oil rig counts fell for the first time in 12 weeks (-1 to 305).

MENA Region

Kuwait: The Emir has issued an Amiri decree to suspend the National Assembly for one month. Separately, the central bank extended the relaxation of some capital adequacy and liquidity requirements by six months (until June 2021) to reduce any possible liquidity pressures.

Saudi Arabia: The government and state-backed institutions will stop awarding contracts with foreign firms that do not base their regional headquarters in Saudi Arabia starting 2024, although these firms will be able to do business with the Saudi private sector. Meanwhile, the government will launch a bank in 2021 to boost financing for SMEs.

UAE: The UAE is considering capping prices for foods such as chicken and milk, as global prices continue to climb. Domestic credit increased by 0.3% y/y in December on higher credit to GREs while credit to the private sector declined by 2.2% on lower credit to corporate (-2.7%) and retail (-0.9%).

Egypt: Unemployment fell to 7.2% in 3Q20 compared to 9.6% in the previous quarter.

Key takeaways:

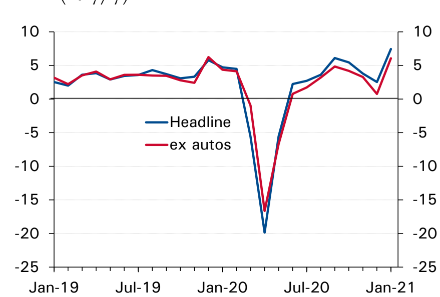
- Falling US virus cases and prospect of another huge fiscal stimulus are boosting growth but also inflation expectations, lifting bond yields. Still, the Fed is unlikely to tighten policy anytime soon, especially with the labor market recovery – now arguably its primary metric – appearing to have stalled.
- The Central Bank of Kuwait's extension of the easing of some regulatory ratios aim to support the economy and to avoid any liquidity pressures that may creep up in the first half of this year.
- The recovery in oil prices is good news for oil exporting countries. Higher prices will reduce the Kuwait budget financing needs. However, it is unlikely that the oil price will go up to its breakeven point, with the need for borrowing remains essential.
- Improvement in the main macroeconomic indicators in Egypt is a testament to its quick pace of economic reforms. The unemployment rate has been on a declining trend, reaching a level close or lower (7.2%) than unemployment rates in some rich countries.

Key data

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

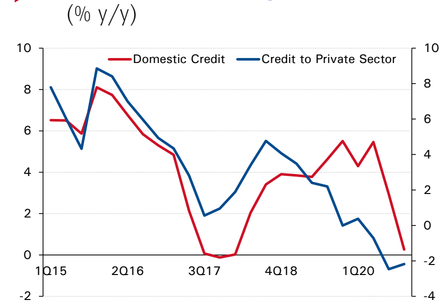
Source: Refinitiv

Chart 2: US retail sales
(% y/y)



Source: CSB

Chart 3: UAE credit growth
(% y/y)



Source: CBK

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	5,779	-0.5	10.9
DAX	13,993	-0.4	2.0
DJIA	31,494	0.1	2.9
Eurostoxx 50	3,713	0.5	4.5
FTSE 100	6,624	0.5	2.5
Nikkei 225	30,018	1.7	9.4
S&P 500	3,907	-0.7	4.0
Regional			
Abu Dhabi SM	5,643	-0.4	11.8
Bahrain ASI	1,481	1.3	-0.6
Dubai FM	2,576	-2.2	3.4
Egypt EGX 30	11,381	-1.4	4.9
MSCI GCC	569	-0.1	4.0
Kuwait SE	5,691	-0.1	2.6
KSA Tadawul	9,024	0.9	3.9
Muscat SM 30	3,566	0.2	-2.5
Qatar Exchange	10,273	-2.4	-1.6

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.35	14.5	43.3
Bunds 10 Year	-0.31	11.7	26.2
Gilts 10 Year	0.70	17.8	50.1
JGB 10 Year	0.10	3.5	7.9
Regional			
Abu Dhabi 2022	0.43	-10.2	-7.1
Dubai 2022	0.67	12.7	46.8
Qatar 2022	0.56	12.2	3.5
Kuwait 2022	0.68	-1.5	21.8
KSA 2023	0.76	3.6	3.8

Commodities	$/unit	Change (%)	
		1-week	YTD
Brent crude	62.9	0.8	21.4
KEC	61.4	NA	21.2
WTI	59.2	-0.4	22.1
Gold	1775.8	-2.5	-6.2

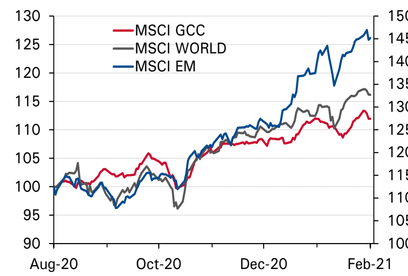
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	2.07	-10.0	-18.3
Kibor - 3 month	1.50	0.0	6.3
Qibor - 3 month	1.01	4.8	-11.1
Eibor - 3 month	0.32	3.7	-18.8
Saibor - 3 month	0.81	-0.4	-1.1
Libor - 3 month	0.18	-1.5	-5.6

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.302	0.0	-0.5
KWD per EUR	0.363	0.0	-0.1
USD per EUR	1.212	0.0	-0.8
JPY per USD	105.4	0.5	2.1
USD per GBP	1.401	1.2	2.5
EGP per USD	15.59	0.1	-0.6

Updated on 19/2/2021 Source: Refinitiv

International equity markets

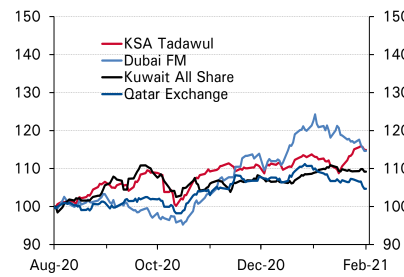
(rebased, 19 August 2020=100)



Source: Refinitiv

GCC equity markets

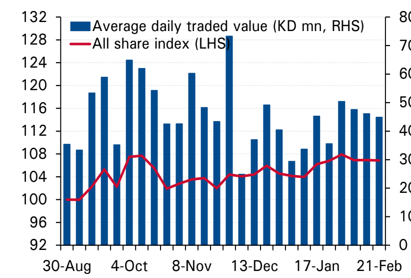
(rebased, 19 August 2020=100)



Source: Refinitiv

Boursa Kuwait

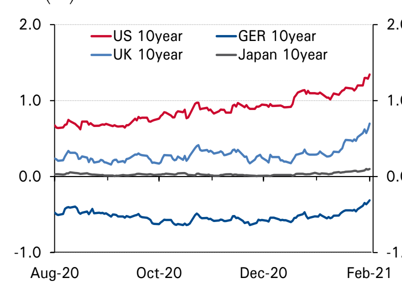
(equity prices and trading activity)



Source: Refinitiv

International bond yields

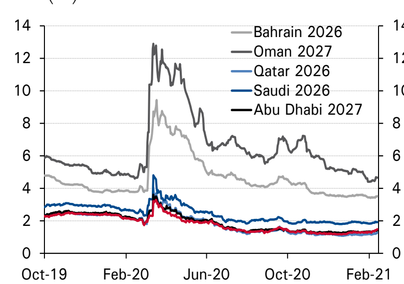
(%)



Source: Refinitiv

GCC bond yields

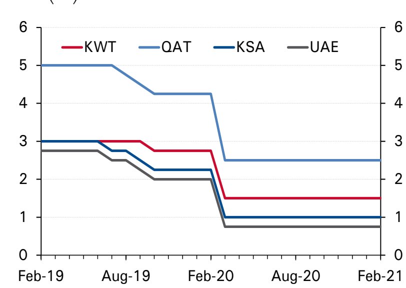
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv