

### International

**US:** In what was termed a 'pre-emptive strike' to foil 'imminent' attacks on US personnel, a US drone missile killed a top Iranian general at an Iraqi airport, ramping-up tensions between the US and Iran and increasing the risk of a military confrontation. On economic data, the US manufacturing PMI fell to its weakest level in a decade at just 47.2 in December (48.1 in November), and despite the announcement of a 'phase one' US-China trade agreement last month. But there was further sign of stabilization in the housing market helped by lower mortgage rates, with home prices rising 3.3% y/y in October from 3.2% in September. Finally, minutes from the December FOMC meeting where rates were left at 1.50-1.75% pointed to a stable policy outlook for 2020, despite some lingering concerns among officials about the global economy.

**Financial markets:** Sentiment was dented on escalating US-Iran tensions, with equities ending the week on a slightly negative note. The MSCI AC World lost 0.1% w/w led by the NIKKEI 225 (-0.8%) and the DAX (-0.9%), Investor caution prompted demand for safe-havens, with the US 10-year treasury yield down 9 bps w/w to 1.79% and gold up 2% to \$1552/oz. This follows a very strong 2019 in which the MSCI-AC world gained 24% led by the S&P500 (29%).

**Oil:** Brent spiked 3.5% on Friday after the US strike to close up 0.6% w/w at \$68.6/bbl. A sizeable US crude stock draw (-11.4 mb) also helped lift oil prices, which had closed out 2019 up their most (23%) since 2016. Saudi Arabia and Kuwait signed a deal to restart crude production from the 500 kb/d Partitioned Neutral Zone, which has been offline for more than four years. Production could reach 325 kb/d by end-2020.

### MENA Region

**Kuwait:** Inflation edged up to 1.6% y/y in November from 1.5% in October. The rise was driven mostly by higher food prices, which rose 2.0% versus 1.2% the previous month. This more than offset lower inflation in clothing, furnishings, transportation and communication. Housing inflation was steady at -0.9%, while core inflation (which excludes food and housing) eased slightly to 3.1% from 3.2% in October.

**Saudi Arabia:** Growth in non-oil GDP accelerated to 4.3% y/y in 3Q19, the strongest in five years and up from 2.9% in Q2. Private sector growth stood at 4.2% and government sector at 4.6%. By contrast, oil GDP fell 6.4% on lower crude production,

which resulted in a 0.5% drop in overall GDP. Meanwhile, the PMI dropped to the lowest level since July 2019, but at 56.9 in December (58.3 in November) remained firmly above 50 indicating m/m improvement in non-oil private activity. Finally, credit growth in November expanded at the fastest rate in 2019 (+1.5% m/m), increasing y/y growth to 5.3% from 4% one month before and undoubtedly boosted by the Aramco IPO share subscription period in November. We estimate that mortgage lending increased 35% YTD in November.

**UAE:** Credit growth slipped to 3.3% y/y in November from 3.5% in October, on an easing in lending growth to government-related entities to 7.9% from 9.9%; lending to the private sector (0.8%) and government (17.3%) was broadly steady.

**Oman:** The budget deficit narrowed 6% to OR1.9 billion in the first 10 months of 2019 to 7.7% of estimated pro-rated GDP. This was on a slight decrease in public expenditure and an increase in corporate tax revenues – but hydrocarbon revenues were down 7.9% y/y due to lower oil prices. Oman's new FDI law (effective January 2020) intends to provide a more attractive investment environment to spur FDI inflows.

**Financial markets:** GCC markets were slightly positive, closing before the onset of fresh geopolitical turmoil. The MSCI-GCC rose 0.3% w/w led by Oman (3.6%) and Abu Dhabi (1.0%). Kuwait's All Share gained 0.6%, and rose 24% in 2019 overall. In early trading on Sunday, Gulf equity markets were down between 0.2% intraday (Oman) and 3.7% (Kuwait) and an average of 1.8% across the region.

#### Key takeaways:

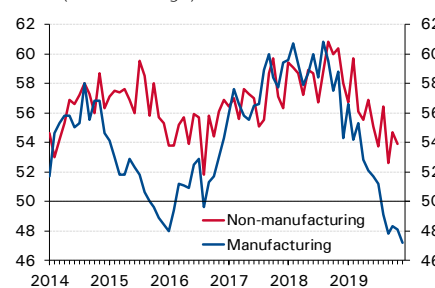
- The risk of a US-Iran military conflict will depend on the nature of any Iranian retaliation to the US strike. A full-blown military conflict is unlikely, as President Trump has declared he does not want a war, and Iran could try to avoid such a conflict and focus on a diplomatic response given domestic economic weakness due to sanctions.
- However the region and its oil facilities will be on higher alert, with the US interests in Iraq and the GCC region the most likely targets. Oil prices could inch a bit higher in the next few days but will be capped by higher US shale oil production.
- The rise in Saudi non-oil growth in 3Q19 represented a solid improvement on prior quarters and the December PMI showed that growth remained firm at the end of the year. This could lead to consensus estimates for non-oil growth in 2019 and 2020 being upgraded from the current range of 2.5-2.8%.

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



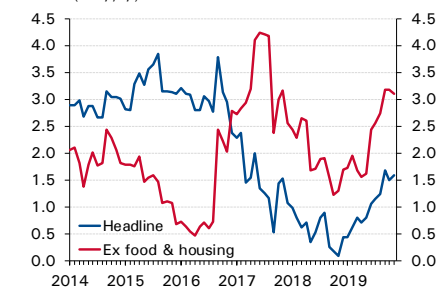
Source: Refinitiv

▶ **Chart 2: US ISM activity survey** (50=no change)



Source: Refinitiv

▶ **Chart 3: Kuwait CPI inflation** (% y/y)



Source: Central Statistical Bureau

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	4,145	3.1	1.2
DAX	13,219	-0.9	-0.2
DJIA	28,635	0.0	0.3
Eurostoxx 50	3,773	-0.2	0.8
FTSE 100	7,622	-0.3	1.1
Nikkei 225	23,657	-0.8	0.0
S&P 500	3,235	-0.2	0.1
<b>Regional</b>			
Abu Dhabi SM	5,100	1.0	0.5
Bahrain ASI	1,612	0.5	0.1
Dubai FM	2,769	0.2	0.2
Egypt EGX 30	13,900	0.1	-0.4
MSCI GCC	568	0.3	0.1
Kuwait SE	6,282	0.6	0.0
KSA Tadawul	8,397	0.5	0.1
Muscat SM 30	4,005	3.6	0.6
Qatar Exchange	10,512	0.8	0.8

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	1.79	-8.5	-12.2
Bunds 10 Year	-0.28	-2.7	-9.6
Gilts 10 Year	0.74	-1.6	-8.5
JGB 10 Year	-0.02	-1.2	0.0
<b>Regional</b>			
Abu Dhabi 2022	2.03	1.0	-1.2
Dubai 2022	2.44	-2.7	-2.3
Qatar 2022	2.10	-1.0	3.8
Kuwait 2022	2.10	6.0	3.8
KSA 2023	2.49	3.7	19.4
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	68.6	0.6	3.9
KEC	69.4	2.1	1.6
WTI	63.1	2.2	3.3
Gold	1549.2	2.3	2.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.67	0.0	0.0
Kibor - 3 month	2.75	0.0	0.0
Qibor - 3 month	2.20	-5.0	-5.0
Eibor - 3 month	2.16	-4.1	-5.1
Saibor - 3 month	2.23	-0.6	-0.1
Libor - 3 month	1.90	-6.0	-0.8
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.0
KWD per EUR	0.333	-0.1	0.0
USD per EUR	1.116	-0.2	-0.5
JPY per USD	108.1	-1.2	-0.5
USD per GBP	1.309	0.1	-1.3
EGP per USD	15.99	-0.1	-0.1

Updated on 3/1/2020

Source: Refinitiv

### International equity markets

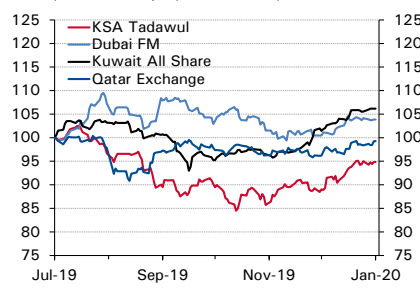
(rebased, 3 July 2019=100)



Source: Refinitiv

### GCC equity markets

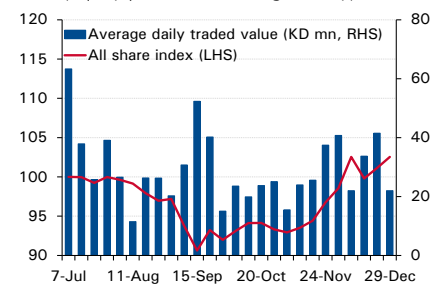
(rebased, 3 July 2019=100)



Source: Refinitiv

### Boursa Kuwait

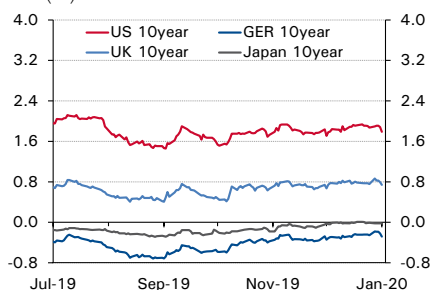
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

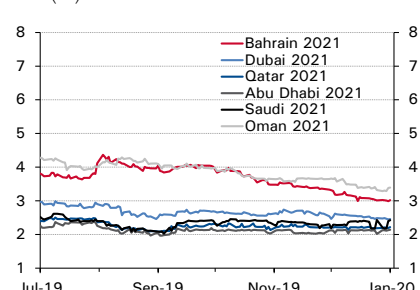
(%)



Source: Refinitiv

### GCC bond yields

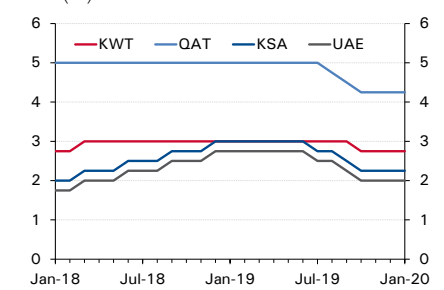
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv