

### International

**US:** The Federal Reserve as expected cut interest rates by 25 bps to a target range of 1.75-2.00%, its second cut of the year, amid slowing global growth and trade risks. Two of the 10 voting members voted against any cut while one supported a larger 50 bps reduction. Projections for growth (2.0%) and inflation (1.9%) in 2020 were unchanged. Separately, the Fed injected \$278 billion into money markets over four days as banks found themselves short of cash, pushing short-term interest rates sharply higher. Economic data was largely positive, with existing homes sales continuing to recover from last year's drop, hitting a 17-month high amid lower mortgage rates. The current account deficit narrowed to 2.4% of GDP in 2Q19 from 2.6% in Q1 on a rising primary income surplus.

**China:** A slew of data for August pointed to a continued slowdown in the Chinese economy and heightened expectations for further policy easing. This included softer-than-expected industrial production (4.4% y/y) and retail sales (7.5%) data.

**Financial markets:** Equities were slightly negative amid a mildly hawkish Fed. The MSCI World lost 0.2% w/w, led by the DJI (-1%). US 10-year treasury yields fell 15 bps to 1.74%.

**Oil:** Brent rose 6.7% w/w to \$64.3/bbl on fallout from the strike on Saudi oil facilities. But prices fell back from their highs as the Abqaiq crude processing rate recovered to 41% of its pre-strike level. Saudi authorities also reassured that export commitments would be honored from storage and 92% of production capacity (11 mb/d) would be back online by end-month.

### MENA Region

**Kuwait:** Following the Fed's move, the Central Bank of Kuwait left its policy rate on hold at 3.0%. Meanwhile, the government's budget surplus stood at KD0.2 billion in the first five months of FY19/20 (to August) on revenues of KD7.4 billion and spending of KD7.1 billion. This is narrower than the KD0.7 billion surplus seen to July. The pro-rated surplus is equivalent to around 1% of estimated 2019 GDP. After transfers to the sovereign wealth fund, a deficit of KD0.5 billion was recorded. Spending rose a robust 21% y/y – flattered by unusually soft spending early last year – on a 25% rise in current spending and an 8% fall in capex. Revenues fell 13% on a drop in oil receipts reflecting lower oil prices (\$60/bbl) and crude production (2.61 million b/d) in August.

**Saudi Arabia:** The central bank followed the Fed by cutting its main repo and reverse repo policy rates by 25 bps to 2.50% and 2.00%, respectively. In the wake of the Abqaiq strikes, SAMA said that it was ready to use its stock of foreign assets (\$500 billion) to inject emergency liquidity into the banking system if needed. Central bank governor Al-Kholifey expects Saudi economic growth in 2019 to be in line with the IMF's recent projection of 1.9%, which is down from 2.2% in 2018.

**UAE:** The central bank cut benchmark interest rates by 25 bps. Real GDP rose 3.7% y/y in 1Q19 boosted by the oil sector, which grew by 12.4%, while non-oil growth lagged at 0.3%, mainly due to a 0.9% contraction in Abu Dhabi's non-oil activity. Inflation in Abu Dhabi was at -1.2% y/y in August versus -1.4% the previous month, on falling food and housing costs. Similarly, prices in Dubai fell 3.0% y/y, with rents declining 6.1%.

**Qatar:** The central bank cut its main policy interest rates by 25 bps, leaving the lending rate at 4.5%. The bank had left interest rates on hold after the Fed's previous rate cut in July.

**Bahrain:** In a surprise move, Bahrain left its policy rate unchanged at 2.5% after the Fed's cut, having moved in tandem with the Fed over the past three years. Separately, Bahrain is reportedly close to returning to the international debt market for the first time since last year, possibly with 7-year Islamic and 12-year conventional dollar-denominated bonds.

**Financial markets:** GCC equities were mixed but positive overall. The MSCI GCC gained 0.7% w/w, lifted by a rebound in Saudi (1.2%) ahead of upcoming index inclusions, an interest rate cut and oil supply assurances following the oil attack which had weighed earlier in the week. Kuwait, however, fell 3.4%.

#### Key takeaways:

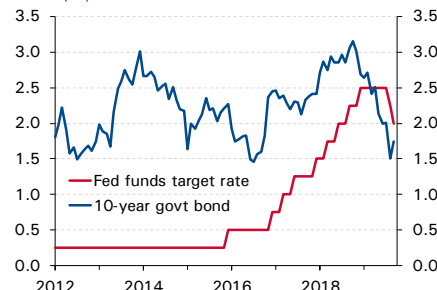
- The Fed's rate cut was perceived as 'hawkish' given the split decision, the lack of strong forward guidance and its median projections pointing to no further cuts in 2019-20. However, it left the door open to cut again if economic data weakens and markets still expect another rate cut this year.
- Lower interest rates in some GCC countries should support economic growth amid headwinds from slower global trade, oil market uncertainty and regional geopolitical risks.
- After surging initially following the Abqaiq attacks, oil prices fell back on Saudi supply assurances and as markets refocused on the bearish global demand outlook. However, intensified geopolitical tensions risks further price volatility.

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



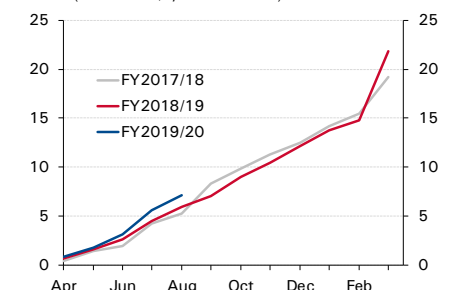
Source: Refinitiv

▶ **Chart 2: US interest rates** (%)



Source: Ministry of Finance

▶ **Chart 3: Kuwait govt spending** (KD billion, year-to-date)



Source: Refinitiv

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,936	-0.9	30.7
DAX	12,468	0.0	18.1
DJIA	26,935	-1.0	15.5
Eurostoxx 50	3,571	0.6	19.0
FTSE 100	7,345	-0.3	9.2
Nikkei 225	22,079	0.4	10.3
S&P 500	2,992	-0.5	19.4
<b>Regional</b>			
Abu Dhabi SM	5,125	0.6	4.3
Bahrain ASI	1,490	-3.6	11.5
Dubai FM	2,820	-2.4	11.5
Egypt EGX 30	14,742	-2.4	13.1
S&P GCC 40	1,192	0.6	8.4
Kuwait SE	5,553	-3.4	9.3
KSA Tadawul	7,927	1.2	1.3
Muscat SM 30	3,992	-0.7	-7.7
Qatar Exchange	10,512	0.5	2.1

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	1.75	-14.6	-93.8
Bunds 10 Year	-0.52	-6.7	-76.6
Gilts 10 Year	0.63	-13.2	-64.1
JGB 10 Year	-0.21	-5.9	-21.6
<b>Regional</b>			
Abu Dhabi 2022	2.08	1.3	-121.8
Dubai 2022	2.60	-5.0	-132.5
Qatar 2022	2.08	-12.2	-136.9
Kuwait 2022	2.09	-0.7	-123.1
KSA 2023	2.51	8.2	-137.2
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	64.3	6.7	19.5
KEC	65.1	7.6	24.8
WTI	58.1	5.9	27.9
Gold	1507.3	1.1	17.9

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.97	-2.5	-98.3
Kibor - 3 month	2.81	0.0	50.0
Qibor - 3 month	2.71	-2.6	-20.0
Eibor - 3 month	2.40	8.5	-43.8
Saibor - 3 month	2.36	-2.4	-61.4
Libor - 3 month	2.16	4.0	-64.9
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.1
KWD per EUR	0.334	-0.5	-4.0
USD per EUR	1.102	-0.5	-3.9
JPY per USD	107.6	-0.5	-1.8
USD per GBP	1.248	-0.2	-2.2
EGP per USD	16.26	-0.7	-9.0

Updated on 20/9/2019

Source: Refinitiv

### International equity markets

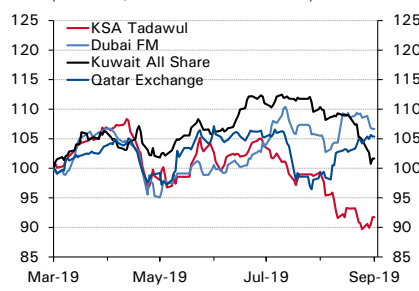
(rebased, 20 March 2019=100)



Source: Refinitiv

### GCC equity markets

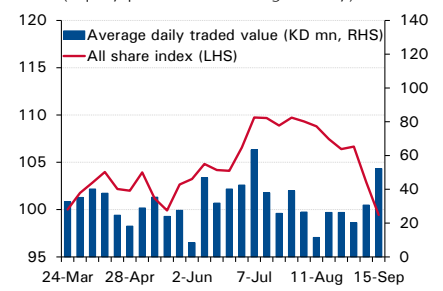
(rebased, 20 March 2019=100)



Source: Refinitiv

### Bursa Kuwait

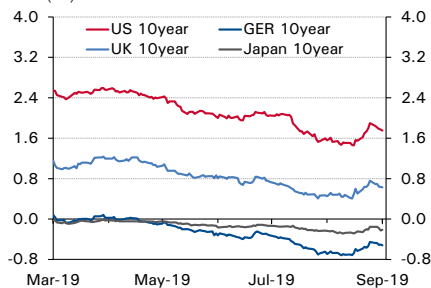
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

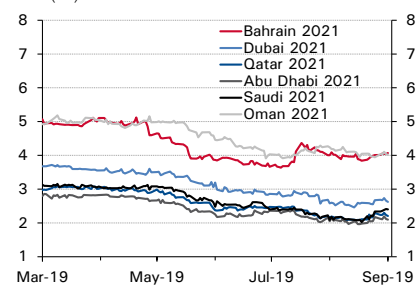
(%)



Source: Refinitiv

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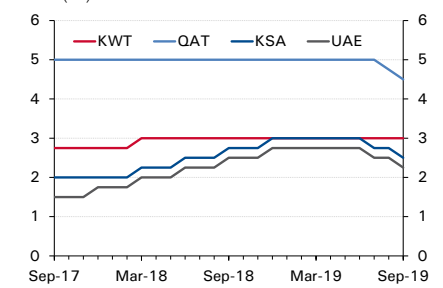
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv