

International

USA: GDP growth for 4Q18 was revised down to an annualized 2.2% from the previous 2.6%, though growth for 2018 overall was unchanged at 2.9%. Meanwhile consumer spending growth eased to a more than two-year low of 3.7% y/y in January, potentially contributing less to GDP in Q1. Core inflation under the Fed's preferred PCE was also weak at a below-consensus 1.8% y/y from 2.0% in December, reinforcing the case for the bank's recent dovish policy u-turn. Finally the current account deficit widened to a more than six-year high of 2.6% of GDP in 4Q18 from 2.5% on Q3.

Europe: UK PM Theresa May failed to get her Brexit withdrawal agreement through parliament for the third time – albeit by a narrower margin than earlier votes. She may try one final time this coming week, but if failed, she could ask the EU for a further extension of around a year to the UK's exit date or even step down or call a general election.

Financial markets: Global markets were mostly up last week. The MSCI AC world rose 0.7% w/w led by the DJI (1.7%) and the Eurostoxx 50 (1.4%). The S&P 500 also gained 1.2% w/w and 13% YTD for its best quarter since 2008. But US 10-year treasury yields edged down on growth concerns.

Oil: Brent closed up 2% w/w at \$68.4/bbl on tightening fundamentals. Brent's increase of 27% in Q1 was its best quarterly performance since 2009, helped by supply-side tightness due to OPEC+ production cuts, sanctions on Iran and Venezuela, and potentially slowing US shale growth. The US oil rig count fell again last week (-8 to 816), while average monthly US crude production declined in January (-90 kb/d to 11.8 mb/d) for the first time since May 2018.

MENA Region

Kuwait: Inflation edged up to 0.6% y/y in February from 0.4% in January, due to base effects related to food and clothing but also higher inflation in the communications segment. Core inflation, which excludes food and housing, rose to a six-month high of 2.0%. Meanwhile the trade surplus hit a four-year high of KD10.9 billion or 26% of GDP in 2018, driven by a 32% rise in oil exports to KD19.8 billion caused by higher oil prices. Imports rose 7%, close to the average for the previous five years. Finally, the provisional budget surplus reached KD3.6 billion in the 11-months to

February, but a smaller surplus is expected before year-end.

UAE: According to much-awaited GDP data, economic growth in Dubai slowed from 3.1% in 2017 to 1.9% in 2018, the softest in almost 10 years. Growth was weighed down by limited gains in the wholesale & retail sector (which makes up almost a third of Dubai's GDP), transportation & storage sector, and finance and hospitality, as well as a contraction in manufacturing. Growth was helped by an improvement in construction activity (ahead of the Expo 2020 event).

Egypt: The central bank kept its key interest rates unchanged, setting its overnight deposit rate at 15.75% and its overnight lending rate at 16.75%. Meanwhile, President Sisi announced an increase in the minimum wage for state employees by 67% to EGP2,000 per month starting July, and a 15% increase in pensions which would take the minimum pension to EGP900. The cost of these measures is initially estimated at around EGP30.5 billion (\$1.7 billion) but could turn out to be higher.

Financial markets: Regional stocks were mixed but mostly positive, with the MSCI GCC up 0.6% w/w led by Qatar (+1.9%) and Kuwait (+1.2%) respectively. Other markets were mostly negative, weighed by stocks going ex-dividend.

Key takeaways:

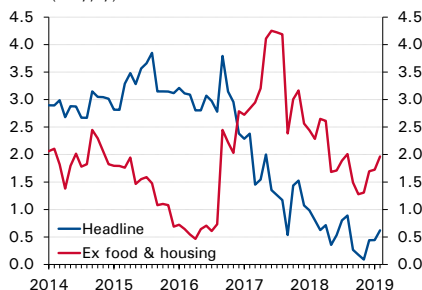
- Last week's data showing slower US growth and below-target inflation have heightened expectations of looser Fed policy this year, with futures markets now pricing in a two-thirds chance of at least one rate cut by December. The White House's chief economic advisor and President Trump's Fed board nominee both called for a 50bp cut in the rate.
- Inflation in Kuwait remains very low helped by weakness in the important food and housing categories. Although we expect it to drift higher, we now see inflation averaging no more than 1.5% in 2019 from 0.6% last year.
- The slowdown in Dubai's growth is likely to be sustained as construction activities ahead of Expo 2020 come to a halt.
- Given expected fuel price increases in April and the approach of Ramadan, Egyptian inflation is likely to remain high in coming months which may push the central bank to "wait and see" before implementing another interest rate cut. The increase in the wage bill by at least \$1.7 billion will weigh on next year's budget and is likely to push the deficit way above the recently-announced target of 7.2% of GDP.

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



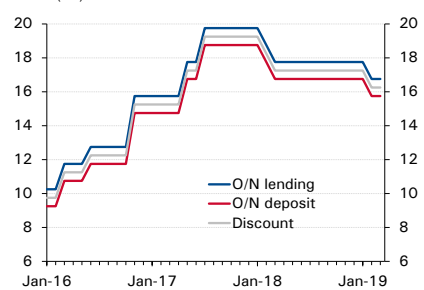
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait CPI inflation** (% y/y)



Source: Thomson Reuters Datastream

▶ **Chart 3: Egypt policy interest rates** (%)



Source: Thomson Reuters Datastream

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,872	1.0	28.6
DAX	11,526	1.4	9.2
DJIA	25,929	1.7	11.2
Eurostoxx 50	3,352	1.4	11.7
FTSE 100	7,279	1.0	8.2
Nikkei 225	21,206	-1.9	6.0
S&P 500	2,834	1.2	13.1
Regional			
Abu Dhabi SM	5,101	-0.5	3.8
Bahrain ASI	1,414	-0.9	5.7
Dubai FM	2,631	0.1	4.0
Egypt EGX 30	14,666	-0.8	12.5
S&P GCC 40	1,163	-0.5	5.7
Kuwait SE	5,584	1.2	9.9
KSA Tadawul	8,789	0.9	12.3
Muscat SM 30	4,006	-3.5	-7.4
Qatar Exchange	10,146	1.9	-1.5

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.41	-4.1	-27.7
Bunds 10 Year	-0.07	-4.6	-31.7
Gilts 10 Year	1.00	-1.2	-26.9
JGB 10 Year	-0.09	-2.6	-9.4
Regional			
Abu Dhabi 2022	2.80	-6.5	-50.3
Dubai 2022	3.63	-1.1	-29.6
Qatar 2022	3.05	5.8	-40.3
Kuwait 2022	2.75	-8.2	-57.3
KSA 2023	3.15	-9.5	-73.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	68.4	2.0	27.1
KEC	67.2	-1.4	28.6
WTI	60.1	1.9	32.4
Gold	1293.0	-1.4	1.1

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.77	-3.3	-18.3
Kibor - 3 month	2.63	-6.3	31.3
Qibor - 3 month	2.89	-3.4	-1.9
Eibor - 3 month	2.85	10.7	1.0
Saibor - 3 month	2.87	-2.0	-10.8
Libor - 3 month	2.59	-1.0	-21.6
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.2	0.2
KWD per EUR	0.340	-1.3	-2.3
USD per EUR	1.122	-0.8	-2.2
JPY per USD	110.8	0.8	1.2
GBP per USD	1.303	-1.3	2.1
EGP per USD	17.28	0.3	-3.2

Updated on 29/3/2019 Source: Thomson Reuters Eikon

International equity markets

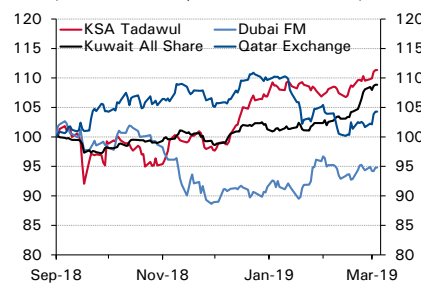
(rebased, 26 September 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

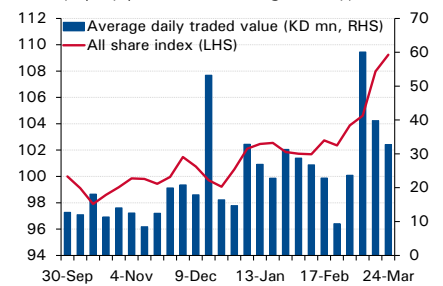
(rebased, 26 September 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

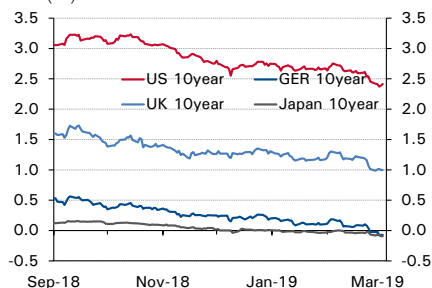
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

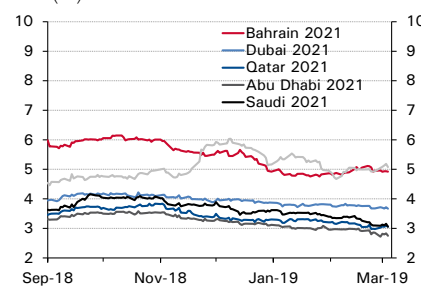
(%)



Source: Thomson Reuters Datastream

GCC bond yields

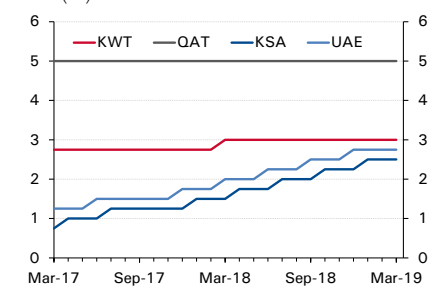
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream