

### International

**US:** The US and China signed the 'phase one' trade deal last week, providing for a halt to further tariff hikes, increased Chinese purchases of US goods by \$200 billion over two years but leaving most of the duties imposed over the past two years in place. Meanwhile non-farm payrolls rose by a decent but less than expected 145,000 in December, down from a bumper 256,000 in November, potentially pointing to a softening labor market. The unemployment rate was unchanged at 3.5% but wage growth slipped to 2.9% y/y from 3.1%. CPI inflation rose to 2.3% y/y in December from 2.1% in November (core unchanged at 2.3%). Retail sales rose a solid 0.3% m/m in December, while the y/y figure jumped to 5.8%.

**China:** Growth slowed to a near-three decade low of 6.1% in 2019 from 6.6% in 2018 on fallout from the US trade war, weak investment and consumer spending, and rising unemployment.

**Financial markets:** Equity markets rallied on trade optimism and solid earnings in major US banks. The MSCI AC world rose 1.6% w/w led by the S&P500 which gained 2.0% reaching a record high, while the Dow also gained a solid 1.8% w/w.

**Oil:** After reaching \$70/bbl following the US-Iran escalation of tension, Brent started to revert back to its previous level, closing -0.2% w/w at \$64.9/bbl, helped by enthusiasm about the US-China trade deal but tempered by refined product stockbuilds in the US. The IEA maintained its 2020 global oil demand growth forecast at 1.2 mb/d (1.0 mb/d in 2019).

### MENA Region

**Kuwait:** GDP growth in 3Q19 slowed to 0.4% y/y from 1.8% in Q2, amid a faster drop in oil sector GDP of -5.3% versus -0.4% in Q2. Non-oil GDP growth spiked to 7.8% from 4.3%, but this pick-up will most likely be revised down (as in the past) after the compilation of annual data to adjust for the erratic 'taxes and subsidies' which are not included in quarterly figure; non-oil growth would have been a more modest 1.1% versus 0.5% in Q2. The government's draft budget for FY2020/21 shows spending unchanged from last year's budget at KD22.5 billion, with revenues declining 6% to KD14.8 billion on an oil price assumption of \$55/bbl and oil production of 2.7 million b/d. This leaves a projected deficit of KD7.7 billion (around 19% of NBK's forecast GDP) before transfers to the sovereign wealth fund, and 9.2% after transfers (22% of GDP). Meanwhile, credit growth was steady at 4.7% y/y in November. Business lending slowed

to 4.4% from 4.9% in October but household lending rose to 5.2% from 4.9%. Finally, real estate sales rounded off a decent year with sales of KD331 million in December.

**Bahrain:** GDP growth climbed from 0.3% y/y in 2Q19 to 1.6% in Q3, as stronger non-oil growth more than offset the continued decline in oil sector activity. Non-oil growth jumped from 0.5% to 2%, led by a rebound in manufacturing activity.

**Oman:** After nearly 50 years as ruler, Sultan Qaboos bin Said, who oversaw the historic development of modern Oman, passed away at the age of 79. He was succeeded by his cousin and former Minister of Heritage and Culture Haitham bin Tariq. Separately, the budget for 2020 outlines a 2% y/y rise in expenditures and a 6% rise in revenues based upon an oil price of \$58/bbl, with the budget deficit projected at around 8% of GDP, broadly unchanged from 2019.

**Egypt:** Inflation rose to 7.1% y/y in December from 3.6% in November reflecting largely base effects. Core inflation edged up to 2.4% from 2.1%. Against this backdrop, the central bank left policy interest rates on hold at 12.25-13.25%, having cut rates by a cumulative 350 bps at its last three meetings.

**Financial markets:** GCC equities enjoyed some relief as earlier geopolitical tensions eased. The MSCI-GCC surged 1.6% w/w led by Dubai (2.9%) and Bahrain (2.7%). Kuwait's All-Share was up a solid 1.9% w/w while all other markets gained.

#### Key takeaways:

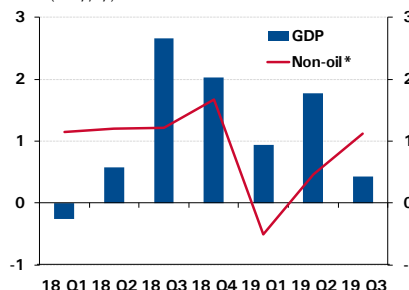
- The US-China trade deal helps de-escalate recent tensions. But with most tariffs left in place and both sides able to quit the deal unilaterally, uncertainty persists, while a more substantive 'phase two' deal remains some way off.
- Unchanged spending in Kuwait's draft budget and a conservative oil price assumption suggest caution from the government given the need to reduce the deficit. The budget implies limited fresh support for the economy. The deficit could be narrower than budgeted if oil prices average \$60-65: we project a deficit of KD4bn and below KD6bn after FGF transfers.
- Following a smooth succession, Oman's new leader could maintain his predecessor's neutral stance on foreign policy but accelerate economic reforms to address urgent challenges including large twin deficits and rising public debt.
- The Egyptian central bank's rate cut 'pause' likely reflects the latest pick-up in inflation. But real rates remain high and the currency continues to rise; with another CBE policy meeting in February rates could still be cut in Q1.

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



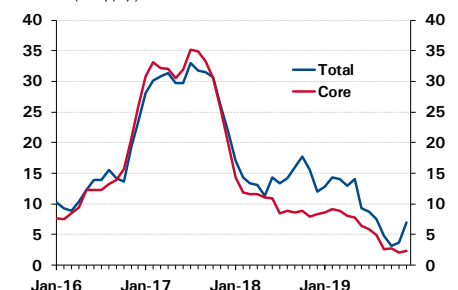
Source: Refinitiv

▶ **Chart 2: Kuwait real GDP** (% y/y)



Source: Refinitiv \*ex FISM/tax & subsidy adjustment

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



Source: Refinitiv

## Key data

Stock markets	Index	Change (%)	
		2-week	YTD
<b>International</b>			
CSI 300	4,155	0.6	1.4
DAX	13,526	3.0	2.1
DJIA	29,348	2.2	2.8
Eurostoxx 50	3,808	1.5	1.7
FTSE 100	7,675	1.3	1.8
Nikkei 225	24,041	3.6	1.6
S&P 500	3,330	2.6	3.1
<b>Regional</b>			
Abu Dhabi SM	5,186	3.1	2.2
Bahrain ASI	1,640	4.1	1.8
Dubai FM	2,837	5.7	2.6
Egypt EGX 30	13,824	4.1	-1.0
S&P GCC 40	574	3.1	1.2
Kuwait SE	6,373	5.4	1.4
KSA Tadawul	8,460	3.2	0.8
Muscat SM 30	4,078	2.1	2.4
Qatar Exchange	10,698	4.0	2.6

Bond yields	%	Change (bps)	
		2-week	YTD
<b>International</b>			
UST 10 Year	1.84	2.4	-7.5
Bunds 10 Year	-0.21	7.3	-2.7
Gilts 10 Year	0.63	-13.7	-19.2
JGB 10 Year	0.00	2.9	2.2
<b>Regional</b>			
Abu Dhabi 2022	2.02	-5.2	-1.9
Dubai 2022	2.52	-7.2	5.5
Qatar 2022	2.05	-11.2	-0.9
Kuwait 2022	2.03	-7.2	-2.9
KSA 2023	2.32	-22.3	1.7
<b>Commodities</b>			
	\$/unit	Change (%)	
		2-week	YTD
Brent crude	64.9	-5.9	-1.7
KEC	N/A	N/A	N/A
WTI	58.5	-7.5	-4.1
Gold	1558.8	-0.5	2.6

Interbank rates	%	Change (bps)	
		2-week	YTD
Bhibor - 3 month	2.67	0.0	0.0
Kibor - 3 month	2.75	6.3	0.0
Qibor - 3 month	2.30	3.0	5.0
Eibor - 3 month	2.06	-6.8	-14.6
Saibor - 3 month	2.22	-0.9	-1.0
Libor - 3 month	1.82	-5.5	-8.9
<b>Exchange rates</b>			
	rate	Change (%)	
		2-week	YTD
KWD per USD	0.303	0.1	0.1
KWD per EUR	0.333	0.1	0.1
USD per EUR	1.109	-0.9	-1.1
JPY per USD	110.1	1.6	1.4
GBP per USD	1.301	-1.2	-1.9
EGP per USD	15.78	-1.7	-1.4

Updated as of 17/1/2020 Source: Refinitiv

### International equity markets

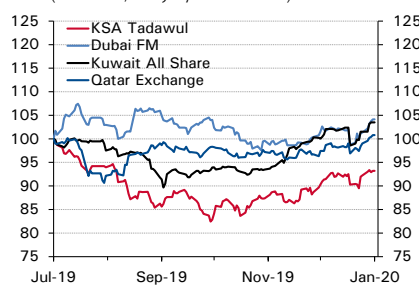
(rebased, 17 July 2019=100)



Source: Refinitiv

### GCC equity markets

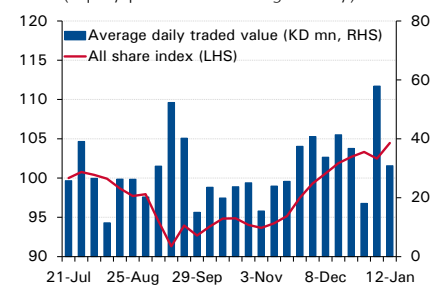
(rebased, 17 July 2019=100)



Source: Refinitiv

### Bursa Kuwait

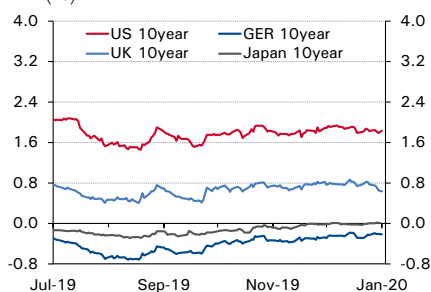
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

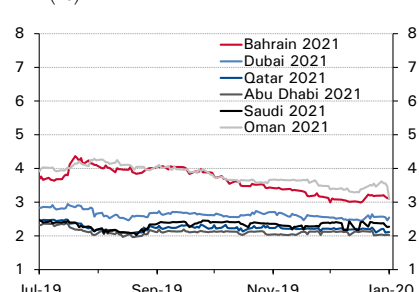
(%)



Source: Refinitiv

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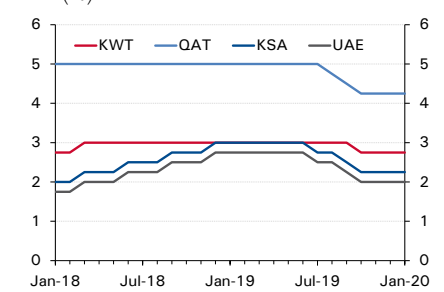
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv