

# Weekly Economic and Markets Review

NBK Economic Research Department 18 December 2022



## International & MENA

### International and markets

**US:** The Fed hiked the Fed Funds rate by 50 bps to 4.5% (upper range), taking cumulative hikes to 425 bps this year. Dot-plot projections indicate another 75 bps in hikes in 2023. Fed chair Powell indicated that rates would remain high in 2023 (with no inclination for any cut) until witnessing signs of inflation falling sustainably to 2%. The Fed now projects a weaker 0.5% y/y GDP growth in 4Q23, similar to the anticipated growth in 4Q22, with unemployment rising to 4.6% by 4Q23. It expects the PCE inflation to decelerate to 3.1%, with the core rate of 3.5% in 4Q23. Meanwhile, CPI inflation in November slowed more than forecast to 7.1% y/y from 7.7% in October, the lowest reading this year, with core inflation softening to 6% from 6.3%. Finally, both retail sales and manufacturing output dropped a more-than-expected 0.6% m/m in November.

**Europe:** The ECB raised its benchmark policy rate by 50 bps (down from 75 bps after its last two meetings) to 2.0% amid signs of inflation peaking. The ECB's Lagarde promised to raise rates, potentially by 50 bps, at least three more times, with the ECB's latest forecast showing inflation remaining above the 2% target through 2025. But any recession could be "relatively short-lived and shallow", she said. The ECB will also begin reducing monthly reinvestments from its Asset Purchase Program by €15bn/month from March as it looks to move from QE to QT. In the UK, the BoE also raised its base rate by 50 bps, to 3.5%. Governor Bailey wrote that inflation had probably peaked, after November's easing to 10.7% (from 11.1% in Oct) but that further increases may be required. UK GDP growth came in slightly above expectations in October, at 0.5% m/m, rebounding from -0.6% in September.

**China:** Key indicators showed worsening economic activity in November with retail sales shrinking 5.9% y/y, industrial production growth easing to 2.2% y/y, and unemployment picking up to 5.7%. With the easing of Covid-related restrictions, the government will likely set a 5% target growth rate for 2023 helped by targeted fiscal and monetary support in its annual Central Economic Work Conference.

**Financial markets:** Global equity markets were broadly negative amid continued central bank hawkishness and recession concerns. Losses were led by European markets, with the Euro Stoxx 50 down 3.5%, while the S&P 500 lost 2.1%. The risk-off sentiment pushed the US 10-year treasury yield down 9 bps w/w to 3.48%. GCC markets were mixed but little

changed overall amid oil market volatility, with Kuwait's All-share down 1.3% w/w.

**Oil:** Despite gaining 3.9% w/w to \$79.0/bbl, Brent ended the week on the back foot due to global recession fears as central banks continued to raise interest rates. The reopening of the Keystone pipeline further eased supply worries. Neither the Biden administration's announcement of a 3 mb crude purchase for February nor the IEA's slight upgrade to global oil demand growth estimates for 2022 (+140 kb/d to 2.3 mb/d) and 2023 (+100 kb/d to 1.7 mb/d) could arrest the decline.

### MENA Region

**GCC:** Regional central banks (SAMA, CBUAE, QCB, CBB, and CBO) with the exception of Kuwait followed the US Fed in raising their benchmark policy rates by 50 bps.

**Egypt:** The IMF approved Egypt's \$3bn Extended Fund Facility 3.8-year loan. The Fund will release \$347mn as the first tranche of the loan and mentioned that the deal would unlock financing worth of \$14bn from Egypt's international and regional partners. It also mentioned that a permanent shift to a flexible exchange rate regime is crucial.

### Key takeaways:

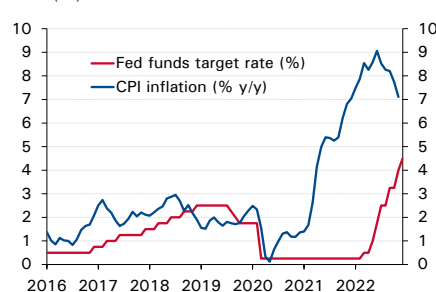
- As the Fed continues its aggressive rate hike path, the drops in retail sales and manufacturing output suggest that tighter policy is starting to take its toll. GDP growth of 1-2% is still expected for 4Q22, but a weakening is seen in 1Q23 and even the Fed's new, modest 2023 growth forecast may not be met.
- Both the ECB and BoE downshifted their rate hikes to 50 bps, amid views that inflation has peaked and that the economic outlook is deteriorating. But while the tone of the ECB remained hawkish, divisions among BoE members – with two members voting for no change – signal growing caution by the bank given the prospect of a prolonged downturn next year.
- While other GCC central banks followed the Fed in moving rates higher, the CBK left rates on hold. The bank had already lifted rates by 50 bps earlier in December (taking the discount rate to 3.5%), likely viewing this as sufficient for the month amid generally easing inflation and consumer metrics.
- The IMF's approval of \$3bn in funding for Egypt is a critical first step in restoring economic stability – although the first tranche came in lower than both our expectations and the finance minister's. With the deal now secure, we expect the central bank to allow the pound to fall soon and to raise policy rates by 200bps this Thursday to address rising inflation.

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



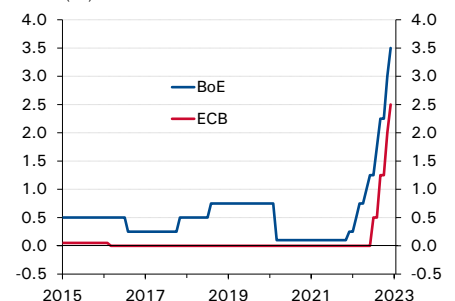
Source: Refinitiv

▶ **Chart 2: Fed funds rate** (%)



Source: Haver Note: Shows upper bound of Fed range

▶ **Chart 3: Eurozone, UK policy rates** (%)



Source: Haver

## Key data

Stock markets	Index	Change (%)		Bond yields	%	Change (bps)		Interbank rates	%	Change (bps)					
		1-week	YTD			1-week	YTD			1-week	YTD				
<b>International</b>															
CSI 300	3,954	-1.1	-20.0	UST 10 Year	3.48	-8.5	197.0	Bhibor - 3 month	6.06	25.6	454.4				
DAX	13,893	-3.3	-12.5	Bunds 10 Year	2.17	24.0	234.4	Kibor - 3 month	4.00	0.0	250.0				
DJIA	32,920	-1.7	-9.4	Gilts 10 Year	3.33	14.6	235.5	Qibor - 3 month	4.88	0.0	375.8				
Eurostoxx 50	3,804	-3.5	-11.5	JGB 10 Year	0.25	0.1	18.1	Eibor - 3 month	4.59	11.4	422.5				
FTSE 100	7,332	-1.9	-0.7	<b>Regional</b>											
Nikkei 225	27,527	-1.3	-4.4	Abu Dhabi 2027	3.84	-6.1	115.5	Oman 2027	5.71	-6.7	30.0				
S&P 500	3,852	-2.1	-19.2	Qatar 2026	4.15	-7.5	137.8	Kuwait 2027	4.20	-13.5	144.8				
<b>Regional</b>															
Abu Dhabi SM	10,328	0.7	21.7	Saudi Arabia 2028	4.33	-15.9	104.6	Egypt EGX 30	15,142	2.0	26.7				
Bahrain ASI	1,854	-0.1	3.2	<b>Commodities</b>											
Dubai FM	3,329	0.1	4.2		\$/unit	Change (%)		MSCI GCC	687	-0.3	-6.8				
Muscat SM 30	4,856	1.5	17.6			1-week	YTD	Kuwait SE	7,351	-1.3	4.4				
Qatar Exchange	10,977	-4.5	-5.6	Brent crude	79.0	3.9	1.6	KSA Tadawul	10,290	0.4	-8.8				
				KEC	79.8	6.1	0.9	Muscat SM 30	4,856	1.5	17.6				
				WTI	74.3	4.6	-1.2	Qatar Exchange	10,977	-4.5	-5.6				
				Gold	1790.0	-0.5	-2.1								

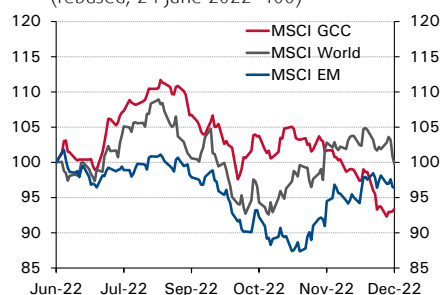
  

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.307	0.0	1.5
KWD per EUR	0.325	0.7	-5.6
USD per EUR	1.058	0.5	-6.9
JPY per USD	136.7	0.1	18.8
USD per GBP	1.214	-0.9	-10.3
EGP per USD	24.65	0.4	57.4

Updated on 16/12/2022 Source: Refinitiv

### International equity markets

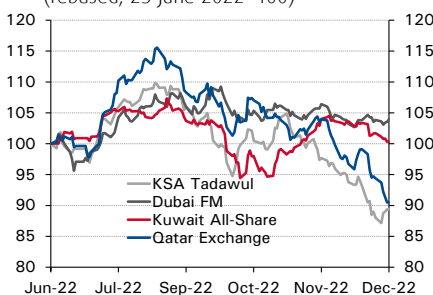
(rebased, 24 June 2022=100)



Source: Refinitiv

### GCC equity markets

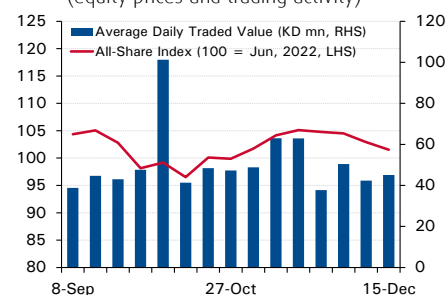
(rebased, 23 June 2022=100)



Source: Refinitiv

### Bursa Kuwait

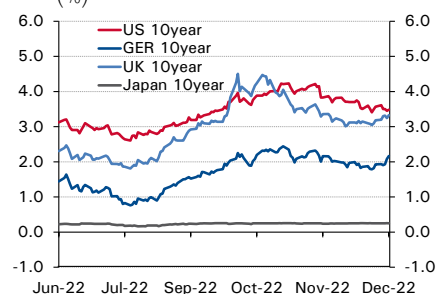
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

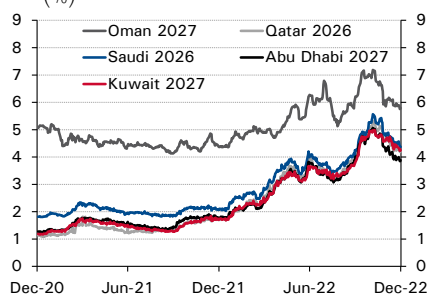
(%)



Source: Refinitiv

### GCC bond yields

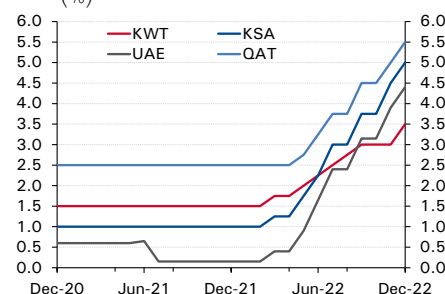
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv