

International and markets

US: The Federal Reserve as expected left policy on hold and reiterated that it would not start raising interest rates before 2024. This was despite sharp upward revisions to its forecasts for economic growth to 6.5% this year, boosted by the recent fiscal stimulus package and a recent successful vaccine rollout. The bank dismissed any potential rise in inflation as temporary, and said that a continued rise in bond yields would only be a concern if it were disorderly. The Fed also withdrew some of the looser capital requirements for banks introduced at the start of the pandemic. On economic data, retail sales fell back 3.0% m/m in February after January's huge stimulus-fueled 7.6% surge, but could jump again with the distribution of the latest stimulus checks. New jobless claims however disappointed rising 770,000 in the w/e March 13, pointing to a long recovery path for the labor market.

UK: The Bank of England as expected left policy on hold and said it would not start to tighten policy until inflation (now 0.7%) is closer to 2% and progress had been made in reducing spare capacity caused by the recession. In February, the Bank projected GDP growth of 5% this year but this could be revised up in May given recent positive vaccine and fiscal stimulus news.

China: Reflecting the ongoing solid recovery and important base effects, industrial output and retail sales soared 35% and 34% y/y, respectively, in the first two months of 2021.

Financial markets: Global equity markets were mostly negative amid concerns of higher expected inflation and as US 10-year bond yields surged to 1.73% following the Fed's dovish comments on Wednesday. The MSCI AC World fell 0.4% as the CSI 300 and the S&P 500 shed 2.7% and 0.8%, respectively. GCC markets were mixed, with the MSCI GCC index (-0.7% w/w) weighed down by a 1.1% decline in Saudi Arabia amid lower oil prices.

Oil: Brent closed down 6.8% w/w to \$64.5/bbl (+24.6% ytd). This was oil's biggest weekly decline since October driven by demand concerns linked to the slow pace of vaccination in places like Europe amid resurgent infections and a broader market risk-off sentiment related to higher inflation fears. The bearish turn was partly triggered by an IEA report that oil consumption would not reach pre-pandemic levels until 2023.

MENA Region

Kuwait: The fiscal deficit reached KD 5.9 billion in the first eleven months of FY2020/21 (April through February) as spending decreased 7.4% y/y on both cuts in budgeted outlays and delays in capital spending, while revenues dropped by 44% driven by a 46% decrease in oil revenues and a 16% drop in non-oil revenues.

Saudi Arabia: The government approved the "private sector participation law", aiming to expedite privatizations (one of the Vision 2030 programs) and strengthen the governance of that process. Meanwhile, official data showed that real GDP dropped by 4.1% in 2020 as the oil and non-oil sectors contracted 6.7% and 2.3%, respectively. Aramco's net profit dropped by 44% in 2020, but still declared a dividend of SAR 70.3 billion for Q4.

Oman: A 5% value added tax will come into effect in mid-April, raising around \$1.03 billion annually, roughly 1.5% of GDP, as per the country's tax authorities.

Egypt: As expected, the central bank left its rates unchanged in its meeting on March 18, with inflation at 4.5% y/y in February. Meanwhile, the bank launched an EGP 100 billion mortgage finance initiative, targeting low and middle-income homebuyers, with repayments over a period of up to 30 years. Finally, the government increased the salaries of public sector workers across all ranks, including a hike in the minimum wage by 20% to EGP 2,400 (\$153) a month.

Key takeaways:

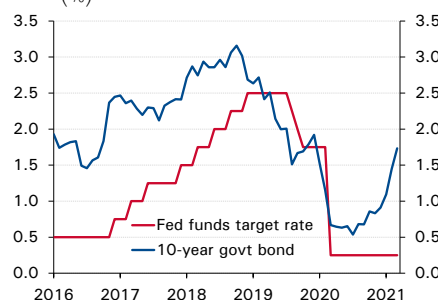
- The Fed's dovish policy decision did little to address the market's concern about a rise in inflation later this year. Treasury yields could rise further in coming weeks, but remain low not to halt the economic recovery. Playing down the risks of inflation and acting only on actual data rather than expected outcome represent a fundamental shift in the way monetary policy is conducted—intervening then could come in too late.
- Given customary reporting issues at the end of the fiscal year the fiscal deficit in Kuwait is expected to rise in March, possibly resulting in KD 9 billion deficit (28% of GDP) for the full year.
- The contraction in Saudi's real non-oil GDP in 2020 was softer than originally expected partly driven by a quick and well-targeted fiscal/monetary stimulus and relatively robust performance from the non-oil government sector.
- Egypt's decision to increase public sector salaries, while warranted, would make the target to reduce the total deficit in FY21/22 to 6.6% of GDP (primary surplus of 1.5% of GDP) more difficult to achieve.

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



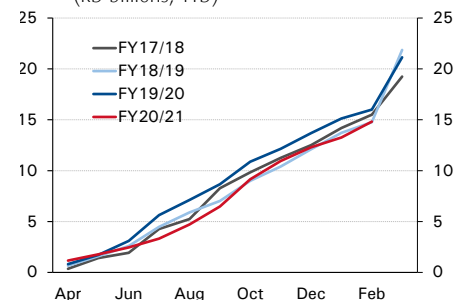
Source: Refinitiv

▶ **Chart 2: US interest rates** (%)



Source: Refinitiv

▶ **Chart 3: Kuwait gov't spending** (KD billions, YTD)



Source: Ministry of Finance

Key data

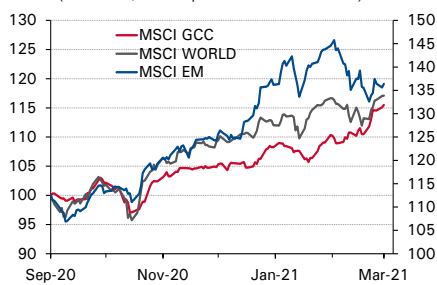
Stock markets	Index	Change (%)		Bond yields	%	Change (bps)		Interbank rates	%	Change (bps)					
		1-week	YTD			1-week	YTD			1-week	YTD				
International															
CSI 300	5,007	-2.7	-3.9	UST 10 Year	1.73	9.7	82.0	Bhior - 3 month	1.66	-23.3	-59.2				
DAX	14,621	0.8	6.6	Bunds 10 Year	-0.29	0.1	28.1	Kibor - 3 month	1.50	0.0	6.3				
DJIA	32,628	-0.5	6.6	Gilts 10 Year	0.84	1.5	64.3	Qibor - 3 month	0.98	2.5	-14.6				
Eurostoxx 50	3,837	0.1	8.0	JGB 10 Year	0.12	0.2	9.5	Eibor - 3 month	0.37	-7.9	-14.7				
FTSE 100	6,709	-0.8	3.8	Regional											
Nikkei 225	29,792	0.2	8.6	Abu Dhabi 2022	0.48	-0.5	-2.1	Dubai 2022	1.02	-3.8	82.0				
S&P 500	3,913	-0.8	4.2	Dubai 2022	1.02	-3.8	82.0	Qatar 2022	0.59	0.2	6.6				
Regional															
Abu Dhabi SM	5,736	1.8	13.7	Kuwait 2022	1.12	-5.9	65.4	KSA 2023	1.50	53.3	78.7				
Bahrain ASI	1,461	-0.6	-2.0	Commodities											
Dubai FM	2,604	1.2	4.5		\$/unit	Change (%)									
Egypt EGX 30	10,918	-3.0	0.7			1-week	YTD								
MSCI GCC	594	-0.7	8.6	Brent crude	64.5	-6.8	24.6								
Kuwait SE	5,803	1.1	4.6	KEC	63.0	-8.1	24.4								
KSA Tadawul	9,486	-1.1	9.2	WTI	61.4	-6.4	26.6								
Muscat SM 30	3,753	1.4	2.6	Gold	1741.4	1.3	-8.0								
Qatar Exchange	10,305	0.8	-1.3												
Exchange rates															
		rate		Change (%)											
				1-week		YTD									
KWD per USD	0.302	-0.1	-0.7												
KWD per EUR	0.363	0.0	-0.1												
USD per EUR	1.190	-0.4	-2.5												
JPY per USD	108.9	-0.1	5.5												
USD per GBP	1.387	-0.4	1.4												
EGP per USD	15.63	-0.1	-0.4												

Updated on 19/3/2021

Source: Refinitiv

International equity markets

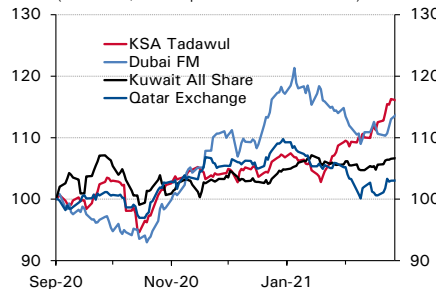
(rebased, 16 September 2020=100)



Source: Refinitiv

GCC equity markets

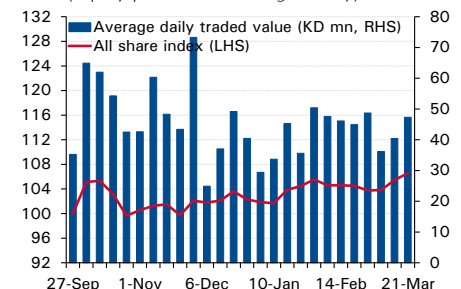
(rebased, 16 September 2020=100)



Source: Refinitiv

Boursa Kuwait

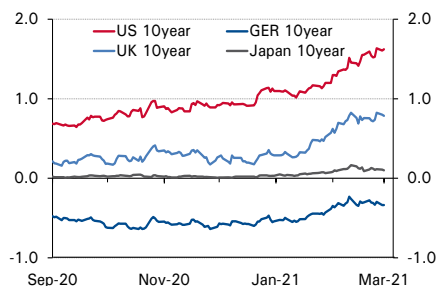
(equity prices and trading activity)



Source: Refinitiv

International bond yields

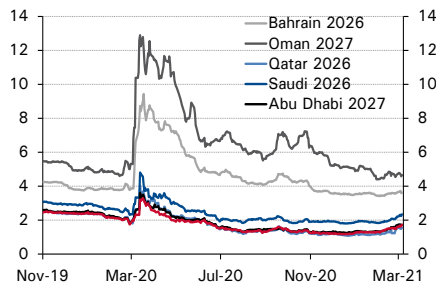
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Source: Refinitiv

GCC bond yields

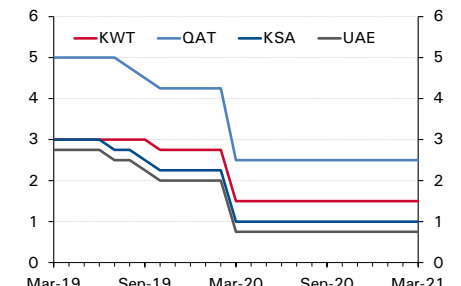
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv