

Weekly Economic and Markets Review

NBK Economic Research Department | 26 December 2021



International & MENA

International and markets

US: The economy posted an annualized gain of 2.3% q/q in 3Q21, up from the previous estimate of 2.1%, thanks to stronger Personal Consumption Expenditure (PCE) and private inventory investment. Growth was slower than the 6.7% recorded in 2Q21 due to the impact of the Delta variant, concerns over inflation and supply chain disruptions. Meanwhile, PCE inflation, the US Fed's preferred inflation gauge, climbed to 5.7% y/y in November, the fastest growth rate since 1982, while core PCE inflation also came in high and above consensus at 4.7% y/y. Initial jobless claims in the week ending 18 December were unchanged at 205k. In the Senate, President Biden's \$1.9 trillion 'Build Back Better' spending bill was rejected by West Virginia Senator Joe Manchin, who was concerned about the package's large scope, some of its tax provisions and fees, and its potential inflationary effects.

Europe: The economic recovery could be adversely affected by the ongoing energy crunch that has begun to curtail industrial output in several countries (e.g. aluminum and fertilizer production in France and Romania, respectively) and led to rationed electricity usage and blackouts. Prices spiked again last week after unscheduled nuclear shutdowns in France, low wind power in Germany and lower natural gas supplies from Russia.

UK: GDP growth in 3Q21 was revised down to 1.1% q/q (from 1.3%) on the back of lower-than-expected output from the manufacturing and construction sectors, hindered by higher energy prices. Business investment was especially weak. The UK economic recovery has lagged most other major economies and remains 1.5% below pre-pandemic levels.

China: The central bank reduced the one-year Loan Prime Rate (LPR) by 5 bps to 3.8%, the first cut since April 2020. The PBOC pledged more 'proactive' use of monetary policy tools to bolster an economy slowing from weaker private consumption and fixed investment as well as an ailing property market.

Turkey: President Erdogan announced that interest rates would not be used again as a tool to control inflation, which is established economic orthodoxy, after emergency measures introduced by his government to protect Lira deposit holders against currency depreciation sparked a Lira rally of more than 50% against the US dollar (to 10.7 from an all-time low of 18.4).

Financial markets: Global stock indices were mostly positive, as recovery optimism outweighed inflation and virus fears. The

MSCI AC world rose 1.8% w/w, with the S&P 500 and Euro Stoxx 50 both up 2.3% w/w. The MSCI GCC fell 1% w/w, with Abu Dhabi and Dubai down 4.8% and 3.9%, respectively. Kuwait's All-Share rose a modest 0.9%.

Oil: Brent regained some momentum last week, closing up 3.6% w/w at \$76.1/bbl (+47.0% ytd), after data showed that the hospitalization risks of Omicron were less severe than previous strains. A larger-than-expected drawdown in US crude stocks and supply disruptions in Libya and Nigeria also supported oil amid thin end of week trading.

MENA Region

Kuwait: The fiscal deficit narrowed to KD0.8bn in the first eight months of FY21/22 (2.8% of pro-rated GDP), much improved on the KD4.8bn recorded in the same period in FY20/21. This was largely due to a 92% increase in oil revenues (to KD11.3bn) on higher oil prices. Expenditures reached KD12.1bn, with capex 39% below budget at KD1bn (+27.2% y/y).

Saudi Arabia: The government is looking to privatize airports as part of its Vision 2030. Twenty two airport operators will be transformed into holding companies and transferred to the PIF.

Egypt: The National Wages Council announced that from 1 January 2022 it will apply a minimum monthly wage of LE 2,400 (US\$152.4) for all private sector workers. In addition, the central bank reported that expats' remittances jumped by 8.8% to US\$24bn during the first nine months of 2021.

Key takeaways:

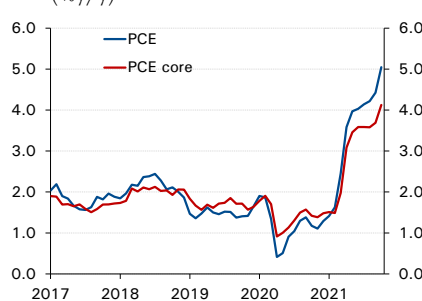
- As 2021 draws to a close, the spread of the Omicron variant represents the predominant risk to global economic growth next year. It is too soon to tell whether Omicron will prove deflationary, in affecting consumption and economic activity, or inflationary and exacerbate existing supply chain blockages.
- In the US, while the spike in PCE inflation should keep the pressure on the bank to end the asset purchase program on schedule and raise interest rates at a faster pace, any negative impact on demand due to Omicron and/or the expiry of government relief programs will also be carefully gauged.
- Kuwait's 8-month fiscal deficit came in much lower than expected thanks to higher oil prices. While expenditures are almost certainly going to catch up to close to budgeted levels by year-end, the fiscal deficit should, nevertheless, narrow and improve on initial forecasts of around 10.5% of GDP.

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



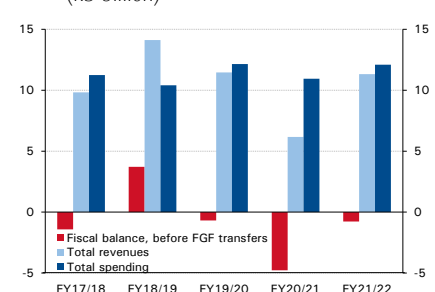
Source: Refinitiv

▶ **Chart 2: US PCE inflation**
(%y/y)



Source: Refinitiv

▶ **Chart 3: Kuwait budget deficit**
(KD billion)



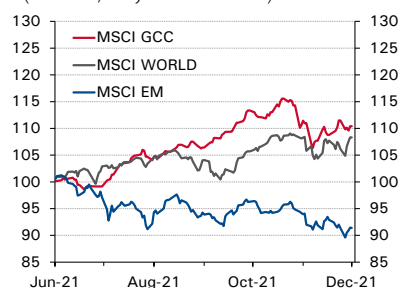
Source: Ministry of finance

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	4,921	-0.7	-5.6	UST 10 Year	1.49	8.5	58.1	Bhivor - 3 month	1.52	0.0	-73.3				
DAX	15,756	1.4	14.9	Bunds 10 Year	-0.25	12.4	32.4	Kibor - 3 month	1.50	0.0	6.3				
DJIA	35,951	1.7	17.5	Gilts 10 Year	0.92	16.3	72.6	Qibor - 3 month	1.13	2.5	0.4				
Eurostoxx 50	4,255	2.3	19.8	JGB 10 Year	0.06	1.6	3.9	Eibor - 3 month	0.41	0.4	-9.9				
FTSE 100	7,372	1.4	14.1	Regional											
Nikkei 225	28,783	0.8	4.9	Abu Dhabi 2027	1.80	6.6	48.0	Oman 2027	4.32	-0.3	-74.8				
S&P 500	4,726	2.3	25.8	Qatar 2026	1.72	2.3	52.3	Kuwait 2027	1.71	-1.6	38.3				
Regional															
Abu Dhabi SM	8,431	-4.8	67.1	Saudi Arabia 2028	2.08	-1.4	31.6	Exchange rates							
Bahrain ASI	1,780	-0.2	19.4	Commodities											
Dubai FM	3,145	-3.9	26.2		\$/unit	Change (%)		rate	Change (%)						
Egypt EGX 30	11,755	0.8	8.4			1-week	YTD		1-week	YTD					
MSCI GCC	736	-1.0	34.6	Brent crude	76.1	3.6	47.0	KWD per USD	0.302	-0.2	-0.5				
Kuwait SE	7,041	0.9	27.0	KEC	75.7	2.1	49.5	KWD per EUR	0.340	0.0	-6.4				
KSA Tadawul	11,271	-0.4	29.7	WTI	73.8	4.1	52.1	USD per EUR	1.132	0.7	-7.3				
Muscat SM 30	4,125	2.3	12.7	Gold	1811.2	0.4	-4.3	JPY per USD	114.4	0.7	10.8				
Qatar Exchange	11,696	0.1	12.1	Updated on 24/12/2021											
Source: Refinitiv															

International equity markets

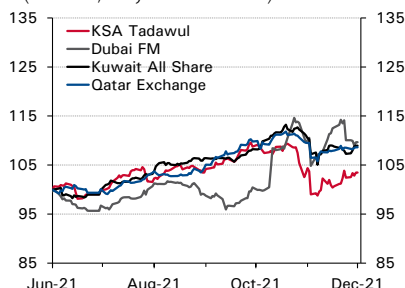
(rebased, 24 June 2021=100)



Source: Refinitiv

GCC equity markets

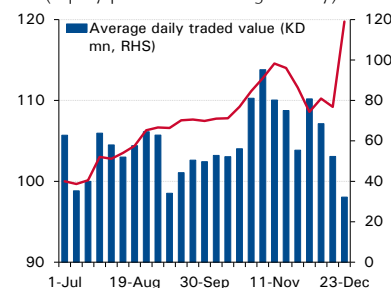
(rebased, 24 June 2021=100)



Source: Refinitiv

Boursa Kuwait

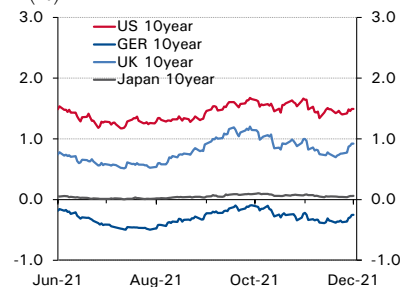
(equity prices and trading activity)



Source: Refinitiv

International bond yields

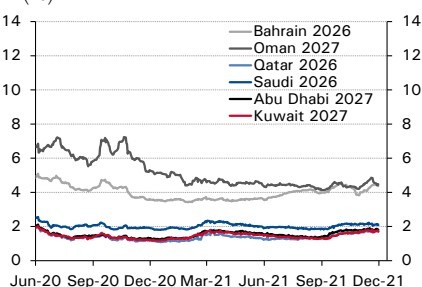
(%)



Source: Refinitiv

GCC bond yields

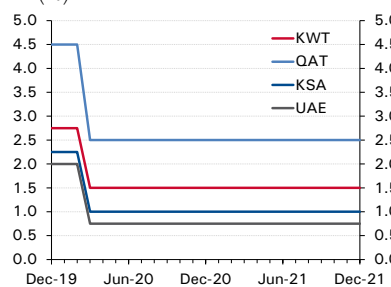
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv