

International

US: The US and China have reached a 'phase one' trade deal that avoids further tariff hikes, lowers some of the duties imposed by the US in September to 7.5% from 15% but leaves earlier tariffs in place. In turn, China has agreed to purchase more US agricultural goods and take steps on other issues such as forced technology transfer. The deal is due to be signed in January and implemented from February. The Federal Reserve as expected left interest rates on hold at a range of 1.50-1.75%. It also signaled no change in rates throughout 2020, with the number of members preferring alternative, higher 'dot plot' forecasts for rates next December falling to just four from nine three months ago. Meanwhile CPI inflation rose to an above-consensus 2.1% y/y from 1.8% in October on higher gasoline and electricity prices, while the core rate was unchanged albeit at a higher 2.3%. Retail sales, however, missed expectations, edging up only slightly to 3.3% y/y.

Europe: UK PM Boris Johnson's Conservative party won a resounding electoral victory that will see it govern for five years with a commanding 80-seat majority and should allow him to push his revised Brexit deal through parliament and see the UK leave the EU at the end of January into an 11-month 'transition' period. Meanwhile, the ECB left policy on hold at Christine Lagarde's first meeting as President. The bank will conduct a strategic review of its monetary policy in 2020 that could include a rethink on its consistently-missed inflation target.

Financial markets: Equities rose on the US-China trade deal and the UK election results. Markets were led by the Nikkei 225 (2.9%), FTSE 100 (1.6%), and Euro Stoxx 50 (1%), while US indices followed with the S&P500 up 0.7% w/w.

Oil: Brent rose 1.3% w/w to \$65.2/bbl, its highest since September. The US-China trade truce was the driving force for the uptick, but oil was also still benefiting from the previous week's OPEC production cut agreement.

MENA Region

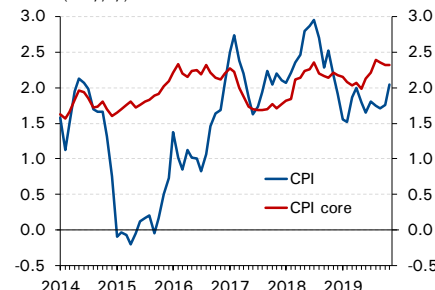
Saudi Arabia: The 2020 budget was announced with spending expected to fall by 2.7% (current spending -3.3%, CAPEX +0.6%) and revenues dropping 9.2% on lower oil revenues (-15%). The deficit is projected to widen to 6.4% of GDP from an estimated 4.7% in 2019. For 2019, revenues are estimated up 1.2% at SAR917 billion, and spending -2.9% at SAR1,048 billion, leaving a deficit of SAR131 billion, in line with the budget

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



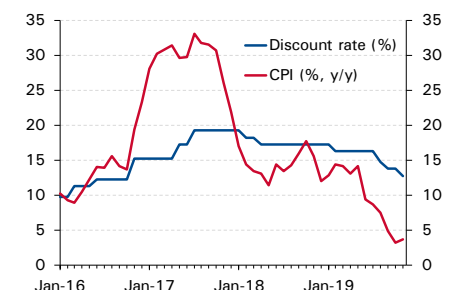
Source: Refinitiv

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



Source: Refinitiv

▶ **Chart 3: Egypt CPI and policy rate**



Source: Refinitiv

and below the SAR174 billion deficit of 2018. Following Aramco's 11 December listing, the stock price rallied 15% in a span of two days, driving up the firm's market cap to \$1.96 trillion.

UAE: The Department of Economic Development projected that growth in Dubai next year will be about 3.2% as EXPO 2020 boosts retail and tourism. Meanwhile, UAE deflation eased to -1.9% in October from -2.2% in September as housing rents and transportation (which together constitute around half of the CPI basket) declined by 4.3% and 5.3%, respectively, on the back of a supply glut in the real estate market and weak oil prices.

Bahrain: The cabinet approved a \$265 million Liquidity Support Fund which will, with the collaboration of the Chamber of Commerce and Industry and a number of banks, provide help to private firms facing short-term liquidity pressures.

Egypt: Inflation edged up to 3.6% y/y in November from 3.1% in October, but is being kept low by a 4.6% y/y decline in food and beverage prices. Core inflation continued its downward trend, reaching 2.1% from 2.7% in October.

Financial markets: GCC markets were mixed but positive overall. The MSCI-GCC gained 0.6% w/w, led by Saudi Arabia and Kuwait (1.3%), the former lifted by Saudi Aramco shares which rallied upon listing, while Kuwait continued to be helped by a possible MSCI inclusion announcement by December 31.

Key takeaways:

- The 'phase one' agreement helps to reduce US-China trade tensions, albeit leaving most of the existing tariffs in place and some difficult issues unresolved. It also improves the backdrop for corporate profits and investment in 2020 and helps justify the Fed's latest 'no change' outlook for interest rates.
- The UK Conservative party's big election win has reduced some of the uncertainty facing the economy, with Brexit now almost certain at end-January. However, the terms of the future UK-EU trading relationship are still unclear and may not be resolved by the current end-2020 deadline.
- The Saudi budget outlines a trend decline in spending ahead amid soft oil revenues and a deficit due to persist until at least 2022. We believe this will put pressure on further expansion in non-oil growth, which we estimate at around 2.7% for 2019.
- Although inflation in Egypt is expected to rise from recent low levels, it should not exceed the central bank's targeted range (9%+/-3% in 4Q20) and the bank could still cut interest rates by 100 bps at its December 26 meeting.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,968	1.7	31.8
DAX	13,283	0.9	25.8
DJIA	28,135	0.4	20.6
Eurostoxx 50	3,731	1.0	24.3
FTSE 100	7,353	1.6	9.3
Nikkei 225	24,023	2.9	20.0
S&P 500	3,169	0.7	26.4
Regional			
Abu Dhabi SM	5,036	-0.2	2.5
Bahrain ASI	1,567	1.3	17.2
Dubai FM	2,722	1.0	7.6
Egypt EGX 30	13,358	-1.9	2.5
MSCI GCC	546	0.6	-50.3
Kuwait SE	6,115	1.3	20.4
KSA Tadawul	8,006	1.3	2.3
Muscat SM 30	4,020	-0.2	-7.0
Qatar Exchange	10,257	-1.0	-0.4

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.82	-2.2	-87.0
Bunds 10 Year	-0.29	-0.3	-54.0
Gilts 10 Year	0.79	1.8	-47.7
JGB 10 Year	-0.02	-0.8	-2.1
Regional			
Abu Dhabi 2022	2.09	-0.1	-121.3
Dubai 2022	2.54	-3.9	-138.6
Qatar 2022	2.11	-8.3	-134.6
Kuwait 2022	2.07	-1.3	-125.6
KSA 2023	2.49	1.7	-138.5
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	65.2	1.3	21.2
KEC	66.5	5.8	27.4
WTI	60.1	1.5	32.3
Gold	1475.6	1.1	15.4

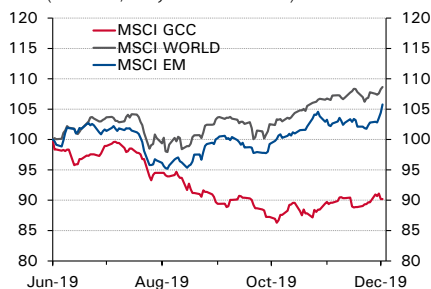
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	2.72	0.0	-123.3
Kibor - 3 month	2.75	0.0	43.8
Qibor - 3 month	2.26	-5.3	-64.3
Eibor - 3 month	2.11	-10.0	-73.1
Saibor - 3 month	2.24	0.6	-73.4
Libor - 3 month	1.89	0.9	-91.4
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.0
KWD per EUR	0.333	0.0	-4.3
USD per EUR	1.112	0.6	-3.1
JPY per USD	109.4	0.7	-0.2
USD per GBP	1.333	1.4	4.5
EGP per USD	16.07	-0.2	-10.0

Updated on 13/12/2019

Source: Refinitiv

International equity markets

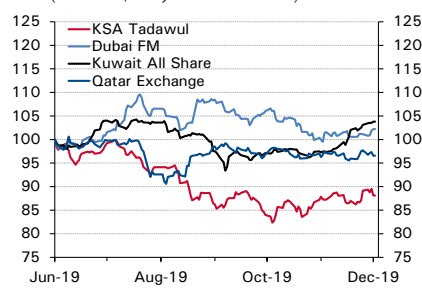
(rebased, 12 June 2019=100)



Source: Refinitiv

GCC equity markets

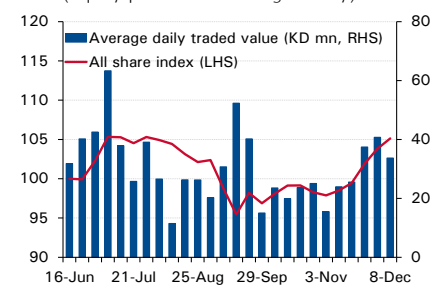
(rebased, 12 June 2019=100)



Source: Refinitiv

Boursa Kuwait

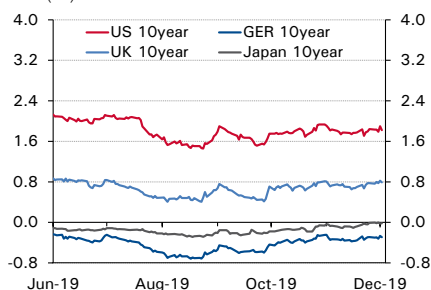
(equity prices and trading activity)



Source: Refinitiv

International bond yields

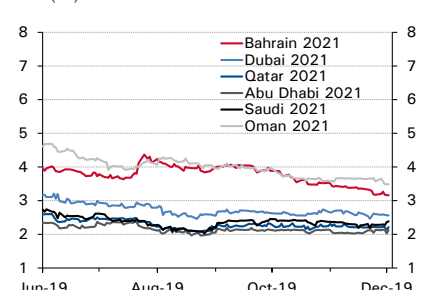
(%)



Source: Refinitiv

GCC bond yields

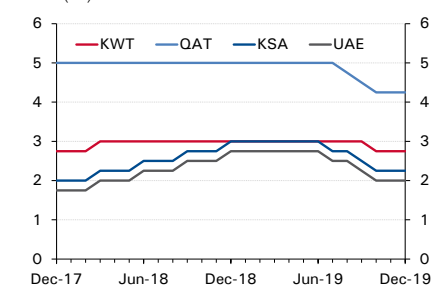
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv