

International

US: The Federal Reserve as expected left interest rates on hold at 0.0-0.25% and will maintain its purchases of assets at \$120 billion per month until "substantial further progress" was made on the economic recovery – a more dovish signal than the "over coming months" in previous guidance. The Fed also upgraded its GDP forecasts for 2020 and 2021 to -2.4% and +4.2%, respectively. Core PCE inflation projections were little changed at 1.4% for 2020 and 1.8% for 2021. Median Fed forecasts show no interest rate hikes through 2023. Meanwhile, the Senate just reached an agreement on a stimulus package of \$900 billion, which could be voted in today. A resurgence of coronavirus cases threatens the economy's recovery as the number of Americans applying for unemployment benefits rose again last week to 885,000.

Europe: The Eurozone composite PMI rebounded to a much better than expected 49.8 in December from 45.3 in November, despite stringent virus restrictions remaining in place. The UK just imposed a two-weeks lockdown on London and its surroundings after the surge of a variant of COVID-19, which appears to be more infectious. Germany, Italy and the Netherlands had also imposed severe restrictions recently. These new restrictions signal a worsening outlook.

Financial markets: Global equity markets were mostly positive over US stimulus optimism. The MSCI AC world rose 1.3% w/w led by European markets (Euro Stoxx 50 1.7%) following the approval of a \$2.2 trillion EU stimulus package. The improved sentiment pushed the US 10 year treasury yield 6 bps w/w to 0.95%.

Oil: Oil prices rose for a seventh consecutive week thanks to a combination of vaccine, US fiscal stimulus and still accommodative monetary policy, with Brent closing on Friday at \$52.3/bbl. The sentiment was also boosted by a larger than expected crude stock draw in the US and improved refinery demand in India and China.

MENA Region

Kuwait: Following the parliamentary elections, and the formation of a new government, the Emir has urged the two bodies to coordinate and formulate a new comprehensive plan to attenuate the impact of Covid-19 on the economy and to prevent further deterioration in Kuwait fiscal position.

Saudi Arabia: The budget for 2021 targets a significant improvement in public finances where the deficit is targeted to drop to 4.9% of GDP from 12% of GDP in 2020. At the same time, the government expects real GDP to rebound to 3.2% in 2021 from a 3.7% decline in 2020.

UAE: Domestic credit continues to go mainly to government and GREs, while credit to the private sector remains on a downward trend through October (2.1% y/y). Meanwhile, deflation in Dubai stood at 3.7% y/y in November, with the large housing component (43.6 % of the basket) fell by 7.4%.

Iraq: The government devalued the currency by about 20% in the face of low oil prices, large budget deficits, and pressure on foreign reserves. The government maintained that this would be a one-off devaluation. The weaker currency will likely lead to higher prices in the immediate term.

Egypt: The IMF approved the second tranche of about \$1.6 billion to Egypt, bringing total disbursements under the Stand-By Arrangement (worth \$5.6 billion) to about \$3.6 billion. Egypt plans also to raise around \$7 billion from international debt markets in 1H21, to cover its budget needs.

Financial markets: GCC markets tracked their global counterparts higher, helped by rising oil prices. The MSCI GCC rose 0.7% w/w led by Kuwait's All-share (1.5%) after the sharp dip week earlier, while Saudi Arabia trailed declined (0.8%).

Key takeaways:

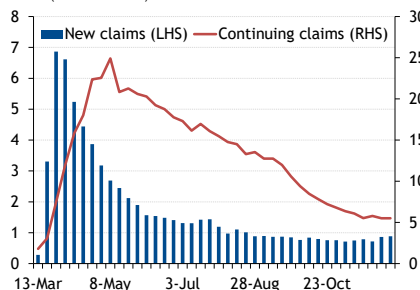
- The Fed decision to maintain monetary policy stand was likely motivated by a combination of vaccine rollout, a 2021 growth upgrade and progress on a new fiscal stimulus package, which will have more of an impact on an economic activity hammered by COVID-19. The fiscal stimulus package just agreed by the Senate may be followed by further stimulus once president-elect Biden takes office.
- The reduction in the 2021 Saudi budget is ambitious and signals the authorities' commitment to address public finance issues as part of a comprehensive reform package in the context of vision 2030.
- With the recent pickup in Egypt's inflation, although it remains below the target of 6-12%, it is not clear how the Central Bank of Egypt will decide in its December 24 meeting. It could still cut the rate to boost economic activity while being careful to avoid capital outflows, or it could keep the rate unchanged given the recent IMF disbursement of \$1.6 billion, which reduces the need for borrowing.

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



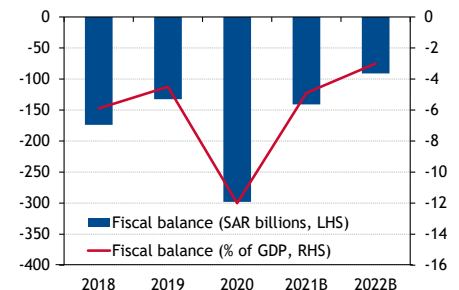
Source: Refinitiv

▶ **Chart 2: US weekly jobless claims** (Thousands)



Source: Refinitiv

▶ **Chart 3: KSA Fiscal balance**



Source: Ministry of Finance. As per the Budget draft

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	5,000	2.3	22.1
DAX	13,631	3.9	2.9
DJIA	30,179	0.4	5.7
Eurostoxx 50	3,546	1.7	-5.3
FTSE 100	6,529	-0.3	-13.4
Nikkei 225	26,763	0.4	13.1
S&P 500	3,709	1.3	14.8
Regional			
Abu Dhabi SM	5,135	0.5	1.2
Bahrain ASI	1,493	0.2	-7.3
Dubai FM	2,550	0.1	-7.8
Egypt EGX 30	10,845	-1.3	-22.3
MSCI GCC	550	0.7	-2.9
Kuwait SE	5,642	1.5	-10.2
KSA Tadawul	8,712	0.8	3.8
Muscat SM 30	3,613	0.2	-9.3
Qatar Exchange	10,479	0.3	0.5

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	0.95	5.7	-96.2
Bunds 10 Year	-0.57	6.7	-38.4
Gilts 10 Year	0.25	7.6	-57.5
JGB 10 Year	0.01	-0.4	3.2
Regional			
Abu Dhabi 2022	0.56	0.1	-148.0
Dubai 2022	0.58	-20.9	-189.0
Qatar 2022	0.49	-0.6	-157.8
Kuwait 2022	0.44	-12.2	-162.0
KSA 2023	0.70	-7.4	-160.4
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	52.3	4.6	-20.8
KEC	50.8	1.4	-25.7
WTI	49.1	5.4	-19.6
Gold	1885.7	2.5	24.1

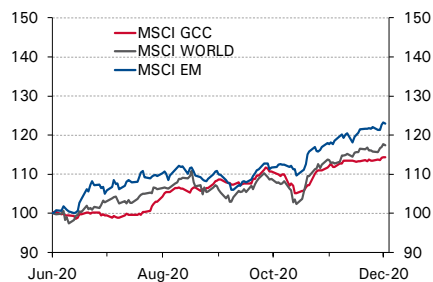
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.25	0.0	-41.7
Kibor - 3 month	1.44	0.0	-131.3
Qibor - 3 month	1.27	12.9	-98.3
Eibor - 3 month	0.43	-2.8	-177.6
Saibor - 3 month	0.82	-0.8	-141.1
Libor - 3 month	0.24	1.9	-167.0
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	-0.4	0.3
KWD per EUR	0.363	0.0	9.1
USD per EUR	1.226	1.2	9.3
JPY per USD	103.3	-0.7	-4.9
USD per GBP	1.352	2.2	2.0
EGP per USD	15.66	0.0	-2.1

Updated on 18/12/2020

Source: Refinitiv

International equity markets

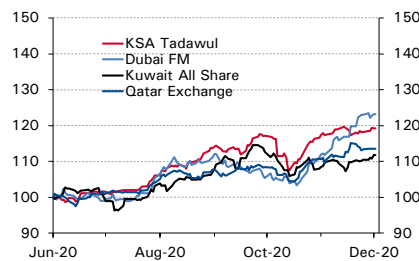
(rebased, 17 June 2020=100)



Source: Refinitiv

GCC equity markets

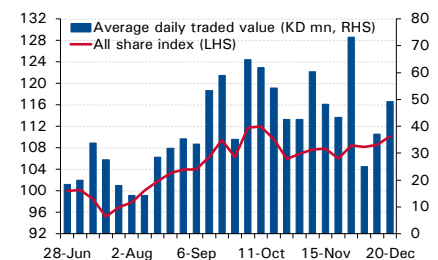
(rebased, 17 June 2020=100)



Source: Refinitiv

Boursa Kuwait

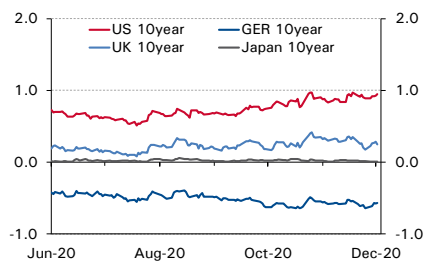
(equity prices and trading activity)



Source: Refinitiv

International bond yields

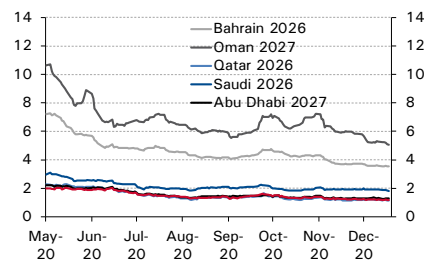
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Source: Refinitiv

GCC bond yields

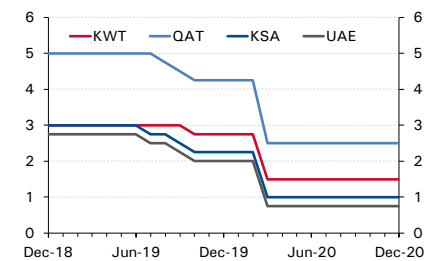
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv