

International

USA: President Trump ended temporarily the partial, five-week old federal government shutdown without securing congressional funding for his border wall, pending further negotiations over the next three weeks. The ending of the shutdown could see the release of a slew of economic data that had been delayed. Last week the flash PMI for January beat expectations, edging up to 54.5 and suggesting little economic impact from the shutdown. Existing home sales however continued to slump, falling 10% y/y to a more than three-year low of 4.99 million in December.

Europe: The ECB left monetary policy unchanged, but warned that the balance of risks for Eurozone growth had shifted to the downside. Supporting this view, the flash Eurozone PMI for January came in at just 50.7, while the German manufacturing component fell into contraction territory.

Financial markets: The MSCI AC world rose 0.1% w/w led by emerging market (MSCI-EM) and European stocks (Eurostoxx 50) which gained 1.3% and 0.9% w/w respectively. The US S&P was the exception, slipping after a four week rally.

Oil: Brent closed down 1.7% w/w at \$61.6/bbl, recovering slightly on Friday on news that the US government would reopen and on the turmoil in oil-producing Venezuela.

MENA Region

Kuwait: The Minister of Finance announced that spending under the draft budget for FY2019/20 is set at KD22.5 billion, a 4.7% rise on the current year and more expansionary than we had expected. With an assumed oil price of \$55, a deficit of KD6.1 billion is projected before transfers to the reserve fund (KD7.8 billion after transfers), though the outcome will depend on the rate of implementation of capital spending.. The budget may be revised when discussed by parliament. Real estate sales were very strong at KD470 million in December, far exceeding the monthly average of 2018. There was strength across all sub-sectors but most notably the commercial sector.

Saudi Arabia: The IMF lowered its estimate of Saudi GDP growth in 2019 to 1.8% from 2.4%. The revision was based on lower oil output, in view of the kingdom's participation in the OPEC+ production cut agreement. But the forecast for 2020 was raised from 1.9% to 2.1%. In a bid to encourage

more Saudi nationals to work in the private sector, the Human Resources Development Fund (HRDF) will provide workers in the private sector an allowance equivalent to 30% of their salaries for their first year, to be reduced to 20% and 10% of workers' salaries in the second and third years, respectively.

UAE: Abu Dhabi's GDP continued its modest recovery in 3Q18, growing 1.8% y/y (1.4% y/y in 2Q18) on the back of a jump in oil output. But the non-oil economy contracted in Q3 on a drop in activity in the financial and insurance sectors.

Bahrain: According to the central bank governor, Bahrain received the first installment of the \$10bn GCC aid package at the end of last year. Bahrain was due to receive up to \$2bn in 4Q18, to help pay off its \$750 million sukuk repayment, which was due in November, and to help replenish its reserves.

Oman: The budget deficit declined by 43% y/y to OMR1.9 billion in the 11 months to November, mainly due to higher oil revenues. The government forecasts a deficit of OMR2.8 billion in 2019. The expatriate labor force declined by 62,029, or 3.3%, in the year to November. The authorities introduced a six-month ban last year, later extended to 12 months, on hiring foreigners in 87 roles across various sectors including IT, media, engineering and financial services.

Egypt: According to an official statement, the budget deficit reached 3.6% of GDP in 1HFY18/19 from 4.2% a year earlier, with a primary surplus of 0.4% of GDP up from a deficit of 0.3% of GDP in H1 the previous year. This improvement is due to the government's policy of boosting private business activities and encouraging local and foreign investors to invest in infrastructure and other vital sectors. Meanwhile, Egypt's non-petroleum exports rose by 10% in 2018 to \$24.8 billion.

Financial markets: The MSCI GCC index fell 0.1% w/w, weighed down by lower oil prices and weak property earnings in Dubai. Kuwaiti stocks edged up 0.1% w/w.

Key takeaways:

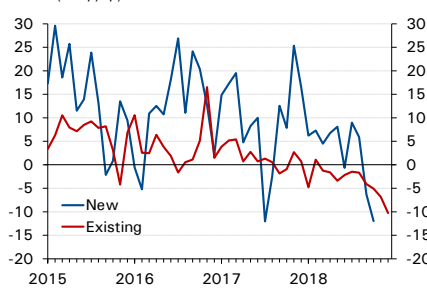
- The end of the US government shutdown was welcomed by financial markets and while officially just temporary, President Trump may be reluctant to force another shutdown so soon.
- Although government spending typically comes in below the official target, Kuwait's expansionary draft budget for FY19/20 will support non-oil economic growth this year. Based upon a higher oil price assumption of say \$65, we would forecast a deficit before transfers of KD2 billion, 5% of GDP.

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



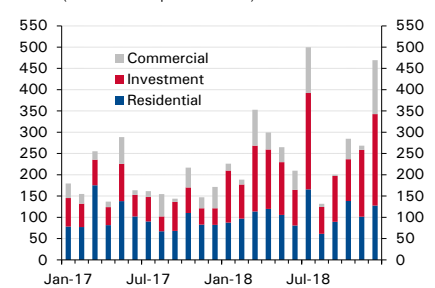
Source: Thomson Reuters Datastream

▶ **Chart 2: US home sales** (% y/y)



Source: Thomson Reuters Datastream

▶ **Chart 3: Kuwait real estate sales** (KD million per month)



Source: Ministry of Justice

Key data

| Stock markets | Index | Change (%) | |
|----------------------|--------|------------|------|
| | | 1-week | YTD |
| International | | | |
| CSI 300 | 3,184 | 0.5 | 5.8 |
| DAX | 11,282 | 0.7 | 6.8 |
| DJIA | 24,737 | 0.1 | 6.0 |
| Eurostoxx 50 | 3,163 | 0.9 | 5.4 |
| FTSE 100 | 6,809 | -2.3 | 1.2 |
| Nikkei 225 | 20,774 | 0.5 | 3.8 |
| S&P 500 | 2,665 | -0.2 | 6.3 |
| Regional | | | |
| Abu Dhabi SM | 5,041 | 1.3 | 2.6 |
| Bahrain ASI | 1,387 | 2.9 | 3.7 |
| Dubai FM | 2,517 | 0.2 | -0.5 |
| Egypt EGX 30 | 13,507 | 0.5 | 3.6 |
| S&P GCC 40 | 1,136 | 1.3 | 3.3 |
| Kuwait SE | 5,239 | -0.2 | 3.1 |
| KSA Tadawul | 8,435 | 0.6 | 7.8 |
| Muscat SM 30 | 4,178 | -0.6 | -3.4 |
| Qatar Exchange | 10,694 | -0.6 | 3.8 |

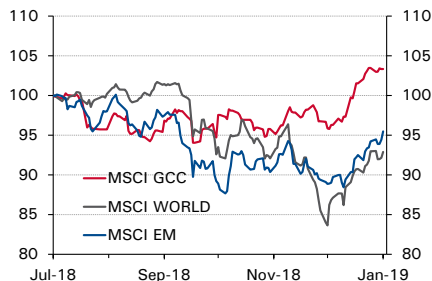
| Bond yields | % | Change (bps) | |
|----------------------|---------|--------------|-------|
| | | 1-week | YTD |
| International | | | |
| UST 10 Year | 2.75 | -3.1 | 6.0 |
| Bunds 10 Year | 0.20 | -6.4 | -4.8 |
| Gilts 10 Year | 1.31 | -4.6 | 3.9 |
| JGB 10 Year | 0.00 | -1.0 | -0.2 |
| Regional | | | |
| Abu Dhabi 2022 | 3.12 | -6.9 | -18.2 |
| Dubai 2022 | 3.84 | -3.6 | -9.4 |
| Qatar 2022 | 3.35 | -4.9 | -10.5 |
| Kuwait 2022 | 3.22 | -3.9 | -10.5 |
| KSA 2023 | 3.68 | -2.9 | -20.2 |
| Commodities | | | |
| | \$/unit | Change (%) | |
| | | 1-week | YTD |
| Brent crude | 61.6 | -1.7 | 14.6 |
| KEC | 60.7 | -0.5 | 14.5 |
| WTI | 53.7 | -0.2 | 18.2 |
| Gold | 1297.4 | 1.3 | 1.5 |

| Interbank rates | % | Change (bps) | |
|-----------------------|-------|--------------|------|
| | | 1-week | YTD |
| Bhivor - 3 month | 3.95 | 0.0 | 0.0 |
| Kibor - 3 month | 2.56 | 6.3 | 25.0 |
| Qibor - 3 month | 2.93 | 2.5 | 2.0 |
| Eibor - 3 month | 2.93 | -0.2 | 9.0 |
| Saibor - 3 month | 2.97 | 0.0 | -0.4 |
| Libor - 3 month | 2.75 | -0.9 | -5.6 |
| Exchange rates | | | |
| | rate | Change (%) | |
| | | 1-week | YTD |
| KWD per USD | 0.303 | 0.0 | 0.0 |
| KWD per EUR | 0.345 | -0.5 | -0.9 |
| USD per EUR | 1.141 | 0.4 | -0.5 |
| JPY per USD | 109.5 | -0.2 | 0.0 |
| GBP per USD | 1.320 | 2.5 | 3.5 |
| EGP per USD | 17.84 | 0.0 | -0.1 |

Updated on 25/1/2019 Source: Thomson Reuters Eikon

International equity markets

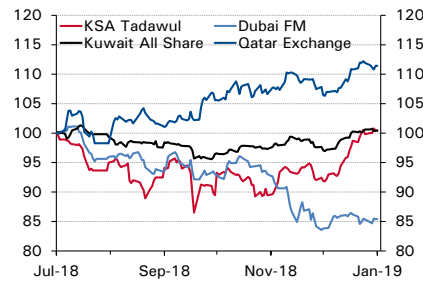
(rebased, 25 July 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

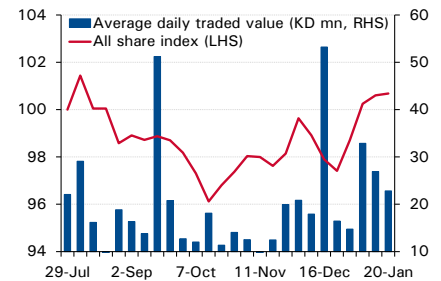
(rebased, 25 July 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

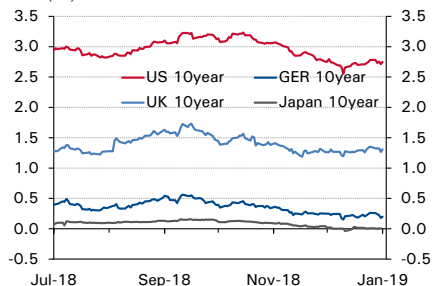
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

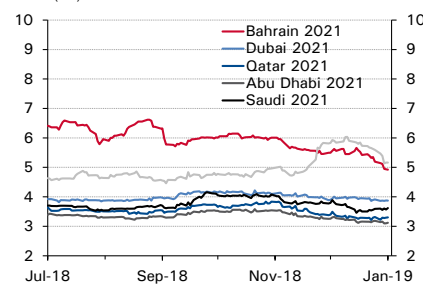
(%)



Source: Thomson Reuters Datastream

GCC bond yields

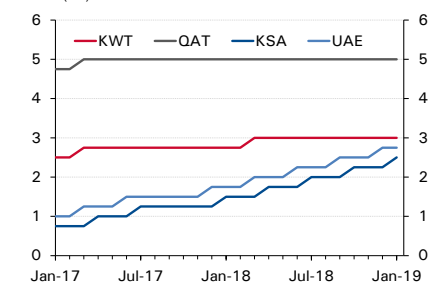
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream