Weekly Economic and Markets Review

NBK Economic Research Department I 15 January 2023

International & MENA

International and markets

US: CPI inflation in December softened to a 14-month low of 6.5% y/y (7.1% in November) and recorded a first m/m decline of 0.1% since May 2020, mainly due to a fall in gasoline and vehicle prices. The core rate also eased to 5.7%, the lowest reading in 2022; however, it accelerated to +0.3% m/m from +0.2% in November on higher shelter and apparel costs. Meanwhile, the University of Michigan consumer sentiment index in January unexpectedly jumped to a nine-month high of 64.6 from 59.7 in December, and consumers' next-year inflation expectations fell to 4%, the lowest since April 2021.

Europe: The Eurozone's unemployment rate in November remained at its record low of 6.5%, implying a continued tight labor market. In the UK, GDP in November grew 0.1% m/m from +0.6% in October, versus forecasts of a 0.2% contraction, as FIFA World Cup-related spending boosted services activity. Meanwhile, the growth in retail sales value in December accelerated to 6.5% y/y from 4.1% in November.

China: Exports slumped 9.9% y/y in December amid cooling global demand while imports fell 7.5% as domestic consumption weakened. Inflation accelerated to 1.8% y/y, largely due to a 4.8% rise in food costs.

Financial markets: Global equity markets rallied on easing inflation and recession concerns. The MSCI ACWI rose 2.6% w/w led by European stocks (Euro Stoxx 50 +3.3%), with S&P and DJIA up 2.7% and 2%, respectively. The MSCI GCC rose 1% w/w supported by higher oil prices, led by Saudi Arabia (2%), while Kuwait was little changed (+0.1%).

Oil: Brent rallied more than 8.5% last week—its best w/w gain since October—to close at $85.3/bbl, on hopes of growing Chinese oil demand and slower global monetary tightening. This came after Beijing issued sizeable oil import licenses for refiners and the US CPI report for December showed a first monthly decline in inflation since 2020.

MENA Region

Kuwait: Ministers walked out of one session and later boycotted another to debate the proposal by MPs to write-off citizens' loans. The government maintained that it was unable to complete its "constitutional and financial opinions" on such an important matter as purchasing billions of citizens' loans. Real estate sales fell by 1.5% in 2022 to KD3.6 billion amid the fading of post-pandemic boom and higher interest rates, driven by the residential sector (-30%), while investment (+46%) and commercial (273%) sector sales grew significantly. Meanwhile, labor market data from the Kuwait Central Statistical Bureau for 3Q22 showed that total employment among Kuwaiti nationals grew 0.1% q/q to 439K, driven by a 0.2% q/q rise in public sector employees. The number of expatriate employees (ex domestics) rose 4.1% q/q to 1.5 million, while domestic workers increased by 8.6% q/q to 711K.

UAE: Domestic credit increased by 4.2% y/y in October 2022 (private sector +5.2%, public sector +2.2%). Abu Dhabi (43% of total credit) saw the sharpest expansion at 10.7% y/y, while Dubai witnessed a fall of 0.5% y/y.

Qatar: 3Q GDP grew by 4.3% y/y, easing from 6.3% in 2Q, but on track to hit our forecast of 4.1% for 2022 overall. The non-oil sector (+5.3%) remained the main driver, mostly from the wholesale & retail and transportation & storage sectors.

Egypt: The IMF released its staff report linked to the $3 billion programme, highlighting 1) the adoption of a flexible exchange rate without intervention; 2) an increase in forex reserves to $41 billion by end of the programme; 3) monetary policy to cut inflation to 7% (+/-2%) by 4Q 23/24; 4) the implementation of the fuel price mechanism to eliminate subsidies; and 5) a large government divestment plan across several sectors. Egypt received the first tranche of $347 million in December and should receive the second similar tranche in March post the IMF's review. Egypt also received $650-750 million worth of foreign investments into the local debt market last week.

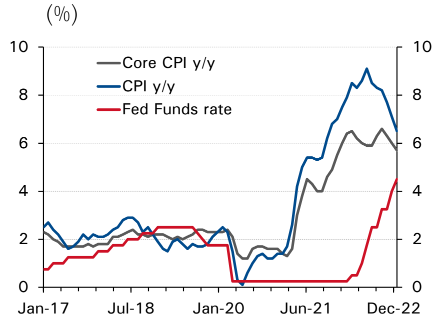
Key takeaways:

- US consumer inflation, especially goods-related, continues to soften, boosting the chance of a smaller 25 bps rate hike in February. However, services cost pressures, partly linked to a tighter job market, persist for now; this could keep Fed rates higher for longer, dampening hopes of a cut in 2H23.
- The unexpected gain in UK GDP in November has boosted the chance of overall growth during Q4 as consumer spending tentatively recovered. However, going into 2023, the outlook remains challenging given the impact of tighter fiscal policies and cost-of-living pressures.
- The escalation in government-parliament tensions in Kuwait related to the consumer debt write-off plan is an unfortunate start for a year in which hopes were high that a busy legislative and reform agenda would gain much-needed traction.
- The IMF's report on Egypt confirmed the importance of a flexible exchange rate and the pound has already started to witness volatility; it lost another 8.7% last week, now standing at EGP29.5 per dollar.

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

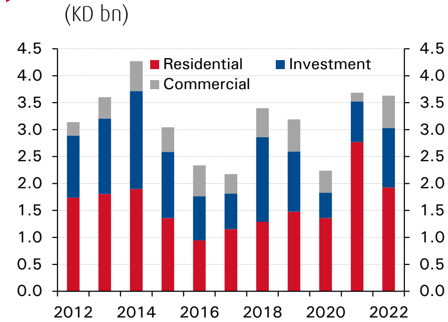
Source: Refinitiv

Chart 2: US inflation and Fed rate
(%)



Source: Haver

Chart 3: Kuwait real estate sales
(KD bn)



Source: Ministry of Justice, Kuwait

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,074	2.3	5.2
DAX	15,087	3.3	8.4
DJIA	34,303	2.0	3.5
Eurostoxx 50	4,151	3.3	9.4
FTSE 100	7,844	1.9	5.3
Nikkei 225	26,120	0.6	0.1
S&P 500	3,999	2.7	4.2
Regional			
Abu Dhabi SM	10,210	0.1	0.0
Bahrain ASI	1,890	-0.1	-0.3
Dubai FM	3,324	0.7	-0.4
Egypt EGX 30	15,551	-2.8	6.5
MSCI GCC	701	1.0	1.5
Kuwait SE	7,131	0.1	-2.2
KSA Tadawul	10,744	2.0	1.9
Muscat SM 30	4,879	0.2	0.1
Qatar Exchange	10,990	-1.4	2.9

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.51	-6.0	-32.0
Bunds 10 Year	2.14	-6.6	-41.9
Gilts 10 Year	3.37	-10.7	-30.1
JGB 10 Year	0.51	0.6	8.8
Regional			
Abu Dhabi 2027	4.06	-18.0	-4.1
Oman 2027	5.68	-37.9	-5.1
Qatar 2026	4.34	0.0	-3.2
Kuwait 2027	4.17	1.0	-2.4
Saudi Arabia 2028	4.58	-3.8	-1.8

Commodities	$/unit	Change (%)	
		1-week	YTD
Brent crude	85.3	8.5	-0.7
KEC	83.2	7.6	1.4
WTI	79.9	8.3	-0.5
Gold	1918.4	2.9	5.4

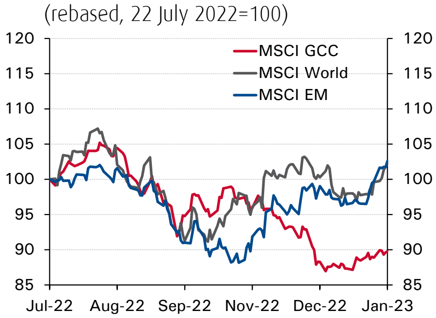
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	6.14	0.0	0.0
Kibor - 3 month	4.06	0.0	6.3
Qibor - 3 month	5.25	-6.7	-3.3
Eibor - 3 month	4.52	0.8	21.1
Saibor - 3 month	5.35	7.5	13.8
Libor - 3 month	4.79	-1.7	2.5
Sofr - 3 month	4.63	2.8	4.4

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.305	-0.3	-0.2
KWD per EUR	0.330	1.7	0.9
USD per EUR	1.083	1.7	1.2
JPY per USD	127.9	-3.2	-2.5
USD per GBP	1.223	1.1	1.1
EGP per USD	29.50	8.7	19.2

Updated on 13/1/2023 Source: Refinitiv

International equity markets

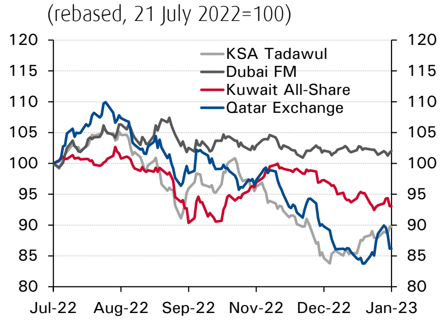
(rebased, 22 July 2022=100)



Source: Refinitiv

GCC equity markets

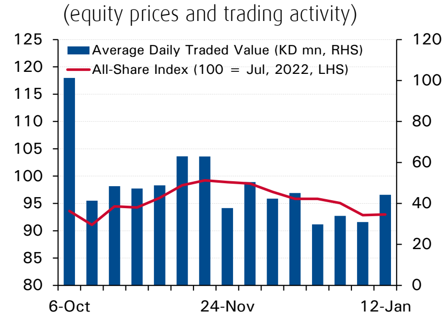
(rebased, 21 July 2022=100)



Source: Refinitiv

Boursa Kuwait

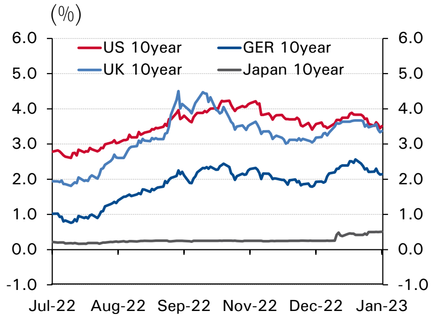
(equity prices and trading activity)



Source: Refinitiv

International bond yields

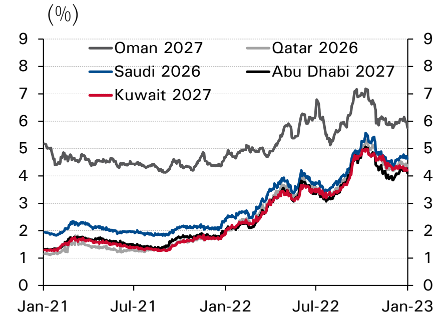
(%)



Source: Refinitiv

GCC bond yields

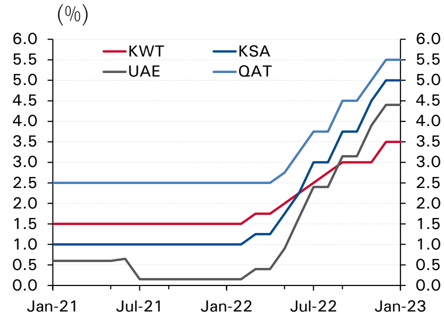
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv