Weekly Economic and Markets Review

NBK Economic Research Department I 7 November 2021

International & MENA

International and markets

US: The Fed held rates steady and decided to start, this month, tapering its bond purchases at a rate of $10bn per month for Treasuries and $5bn for agency mortgage-backed securities, which would effectively complete the process in June 2022. Importantly, Chairman Powell continued to strike a patient stance regarding rate lift-off, and mentioned that the baseline expectation is for supply chain bottlenecks and elevated inflation to persist well into next year. Meanwhile, after months of bickering, the US Congress has passed the $1tn infrastructure bill, which will channel funds to a wide range of areas including roads/bridges, railways, ports/airports and water/energy. Finally, non-farm payrolls increased by 531k in October (beating expectations of 450k), while August/September numbers were revised up by a solid 235k, with the unemployment rate dropping to 4.6% from 4.8% in September.

Europe: The Bank of England confounded expectations of a policy tightening by leaving interest rates on hold (0.1%) by a 7-2 majority and also left its QE policy (due to end in December anyway) unchanged. It said that uncertainties surrounding the labor market recovery remain, though expects inflation to peak at 5% next April, higher than before, before falling back in 2H22 as supply chain disruptions dissipate. Meanwhile, ECB president Lagarde pushed back on the prospect of higher interest rates in 2022, citing the negative impact of higher prices on demand.

China: Hampered by the ongoing energy crunch, the official manufacturing PMI contracted (49.2) for the 2nd straight month in October while services (52.4) growth slowed. Meanwhile, authorities warned of "downward pressures", proposing taxes and fees cuts to SMEs as a new vehicle for long-term growth.

Oil: Brent closed on Friday at $82.7/bbl (-1.9% w/w, +59.7% ytd), reversing some of its mid-week losses after OPEC+ agreed on Thursday to stick to their plan of 400 kb/d monthly increases. OPEC+ resisted pressure from the US to raise output further, reiterating the view that oil demand remained uncertain and it was the "energy complex" rather than oil that was the problem.

Financial markets: Global equities were mostly positive, boosted by dovish Fed signals and a better-than-expected US jobs report. The MSCI AC World index gained 1.7% w/w led by European (+2.6%) and US (S&P500; 2.0%) markets. The MSCI GCC rose 0.8% w/w, lifted by Dubai (8.6%) in the strongest weekly gain in six years, supported by plans for various IPOs and a market maker fund. The Kuwait All-Share gained 1.4%.

MENA Region

Kuwait: The fiscal deficit narrowed to just KD49.9 million in the first four months (April-July) of the current fiscal year, down from KD3.1bn in the same period in FY20/21. The figures are preliminary but show revenues rising on the back of a 110% increase in oil revenues (versus the same period last year) to KD5.16bn and expenditures coming in at KD5.21bn. Capex was significantly reduced, to a mere KD127 million, less than 16% of what was budgeted for the 4 months.

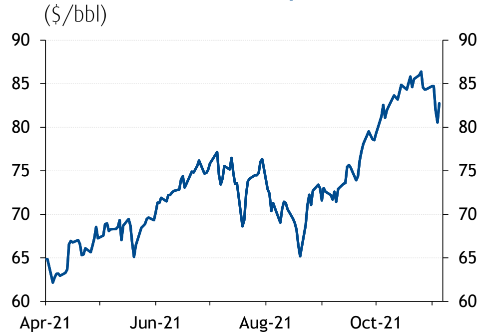
Saudi Arabia: Driven by a 60% y/y increase in oil revenues and an 8% decrease in spending, a budget surplus (SAR 6.7bn) was recorded in 3Q21, the first quarterly surplus since 1Q19. This reduced the deficit to just SAR5.4bn (less than 0.5% of GDP) in the first nine months of 2021. Meanwhile, the PMI inched down from a six-year high of 58.6 in September to a still-strong 57.7 in October though the output index increased to 62.1, the highest level since December 2017. Moody's revised its outlook on the country from "negative" to "stable" and affirmed its "A1" rating.

Egypt: The PMI contracted slightly from 48.9 in September to 48.7 in October, as international supply chain disruptions slowed production. Meanwhile, domestic credit grew by 11.1% y/y in August, though the pace has slowed from recent highs as the boost from earlier government measures to encourage lending during the pandemic has started to fade.

Key takeaways:

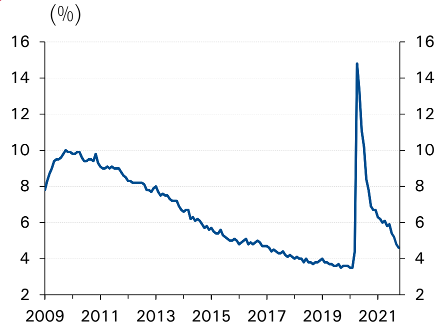
- Despite Chairman Powell urging 'patience' on rate hikes, the Fed left open the possibility of speeding up the tapering timeline in 2022, should inflation not start trending downwards from elevated levels, and especially if wage inflation continues to accelerate as is the case currently.
- Meanwhile, announcements from both the ECB and Bank of England offered some pushback against market expectations of rapid policy tightening despite high inflation. Still, UK rates are likely to rise in December assuming that jobs data show no big damage from the ending of the furlough scheme in September.
- Kuwait's 4-month fiscal deficit came in much lower than expected. Based on usual seasonal patterns, higher outlays on infrastructure and government consumption generally will materialize as the year progresses, pushing the deficit up. Still, with oil prices remaining higher for longer, the full-year deficit will likely be less than our forecast of 10.5% of GDP.

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



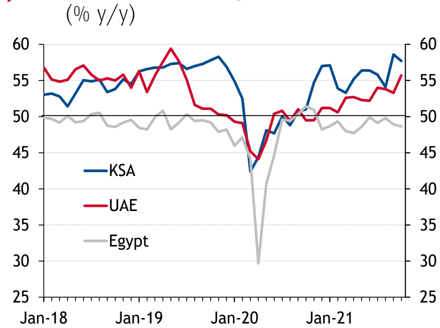
Source: Refinitiv

Chart 2: US Unemployment rate
(%)



Source: Refinitiv

Chart 3: MENA region PMIs
(% y/y)



Source: IHS Markit

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,842	-1.4	-7.1
DAX	16,054	2.3	17.0
DJIA	36,328	1.4	18.7
Eurostoxx 50	4,363	2.6	22.8
FTSE 100	7,304	0.9	13.1
Nikkei 225	29,612	2.5	7.9
S&P 500	4,698	2.0	25.1
Regional			
Abu Dhabi SM	8,015	1.8	58.9
Bahrain ASI	1,779	2.1	19.4
Dubai FM	3,108	8.6	24.7
Egypt EGX 30	11,613	0.9	7.1
MSCI GCC	753	0.8	37.8
Kuwait SE	7,202	1.4	29.9
KSA Tadawul	11,752	-0.1	35.2
Muscat SM 30	4,050	-0.3	10.7
Qatar Exchange	11,941	1.1	14.4

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.45	-10.6	54.3
Bunds 10 Year	-0.28	-18.6	29.5
Gilts 10 Year	0.85	-19.0	64.9
JGB 10 Year	0.06	-3.4	3.9
Regional			
Abu Dhabi 2027	1.78	1.4	48.0
Oman 2027	4.19	-10.6	-74.8
Qatar 2026	1.62	5.1	52.3
Kuwait 2027	1.64	0.1	38.3
Saudi Arabia 2028	2.10	-3.4	31.6

Commodities	$/unit	Change (%)	
		1-week	YTD
Brent crude	82.7	-1.9	59.7
KEC	80.5	-3.1	59.0
WTI	81.3	-2.8	67.5
Gold	1816.4	1.9	-4.1

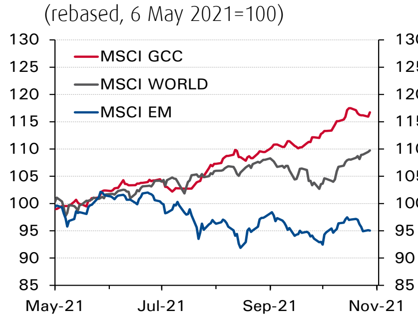
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	1.50	0.0	-75.0
Kibor - 3 month	1.50	0.0	6.3
Qibor - 3 month	1.14	-2.7	2.1
Eibor - 3 month	0.29	-5.4	-22.1
Saibor - 3 month	0.83	0.9	1.7
Libor - 3 month	0.14	1.3	-9.4

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.302	0.1	-0.7
KWD per EUR	0.363	0.0	-0.1
USD per EUR	1.157	0.0	-5.3
JPY per USD	113.4	-0.5	9.8
USD per GBP	1.349	-1.4	-1.3
EGP per USD	15.65	-0.1	-0.3

Updated on 5/11/2021 Source: Refinitiv

International equity markets

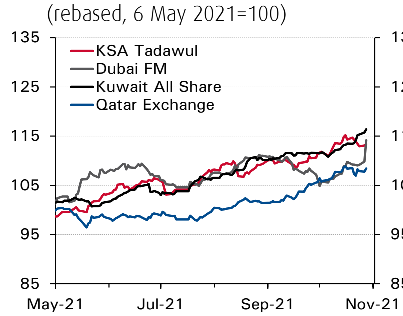
(rebased, 6 May 2021=100)



Source: Refinitiv

GCC equity markets

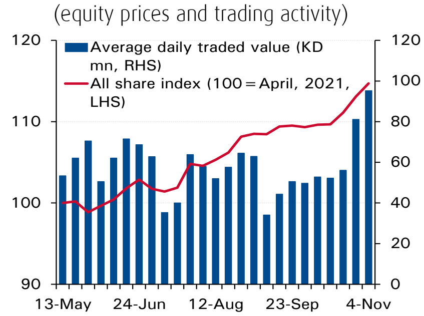
(rebased, 6 May 2021=100)



Source: Refinitiv

Boursa Kuwait

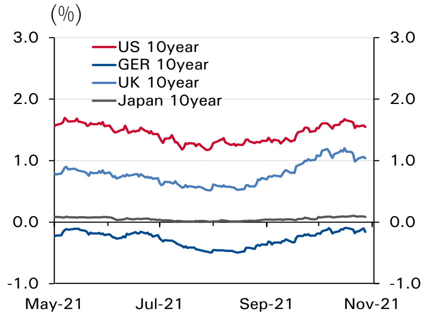
(equity prices and trading activity)



Source: Refinitiv

International bond yields

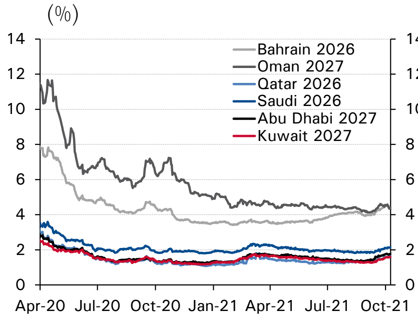
(%)



Source: Refinitiv

GCC bond yields

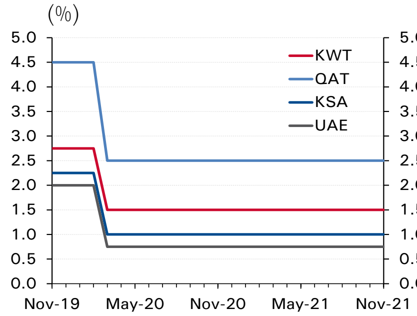
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv