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Weekly Economic and Markets Review

NBK Economic Research Department I 19 March 2023

International & MENA

International and markets

US: Following SVB's failure, another large US lender, Signature Bank, collapsed after a similar deposit run, with authorities guaranteeing deposits for these banks and announcing emergency liquidity boosting measures. Moreover, top US banks deposited $30bn into troubled First Republic Bank to contain the confidence crisis. On data, CPI inflation continued to soften in February to 6% y/y (0.4% m/m) from 6.4% (0.5% m/m). The increase in the core rate eased to 5.5% y/y from 5.6% but reaccelerated on a monthly basis to a five-month high of 0.5% from 0.4%. Core services ex-housing also edged up to 0.5% m/m, but PPI inflation unexpectedly fell 0.1% m/m (+4.6% y/y). Meanwhile, retail sales in February declined 0.4% m/m after a very solid 3.2% rise in January, and consumer sentiment fell to a four-month low of 63.4 in March from 67.

Europe: Despite banking sector tensions, the ECB raised policy rates by 50 bps, bringing the deposit rate to 3%, keeping its inflation target as its main priority, but omitted any forward guidance on the rate path. The ECB also upgraded the euro area 2023 GDP forecast to 1% from 0.5% earlier and lowered the annual inflation projection to 5.3% from 6.3%. As per the UK's new budget, the government looks to boost growth by giving tax breaks on business capital expenditures and through improving labor participation by providing free childcare. Meanwhile, the UK's unemployment rate stood near its record-low of 3.7% in the three months to January.

China: The central bank cut the reserve requirement ratio for banks by 25 bps after data showed an uneven economic recovery during January/February. Industrial production grew by a meagre 2.4% y/y while retail sales and fixed asset investment growth accelerated to 3.5% and 5.5%, respectively.

Japan: Exports grew 6.5% y/y in February while imports rose 8.3%, bringing the trade deficit to ¥897.7 billion ($6.75 billion). Expectations of a strong recovery in demand are quickly fading amid global monetary tightening and other global headwinds.

Financial markets: Global equities were mostly lower amid the financial sector turmoil. The Euro Stoxx 50 fell sharply (-3.9%) pressured by the ECB rate hike while the S&P 500 rose 1.4% despite late-week losses. The MSCI GCC tracked global markets lower, down 5.3% led by Qatar (7.7%) while Kuwait lost 3.3%.

Oil: Fallout from the banking crisis spread to the oil markets with Brent plunging 11.9% w/w to a 15-month low of $73/bbl (-15.1% ytd). Meanwhile, the IEA noted that oil supply was outpacing demand as Russia continued to re-route its crude flows to Asia and that global oil stocks have risen to their highest level in 18 months.

MENA Region

Saudi Arabia: S&P raised the country's sovereign rating to A from A- while Moody's upgraded the outlook to positive from stable and affirmed its rating at A-1, with both agencies attributing that to the government's solid and ongoing reform momentum. Meanwhile, inflation softened to 3% y/y through February (3.4% in January) as most sectors witnessed either declining or stable prices in February with the exception of housing rentals (+0.8% m/m).

UAE: Dubai real estate prices increased by 11.5% y/y in February, with residential transaction volumes up nearly 44% y/y according to CBRE.

Oman: The public finances achieved a surplus of RO 145 million in January 2023 compared to a surplus of RO 18 million in the same month last year. Revenues surged by 22% y/y reaching RO 982 while spending increased 7% reaching RO 837 million.

Egypt: GDP grew by 3.9% y/y in Q2FY22/23, slower than the 4.4% increase recorded in Q1, bringing growth in H1FY22/23 (July through December) to 4.2% y/y. The slowdown comes in-line with our expectation of 3.7% growth for FY22/23, and we expect growth in Q3 and Q4 to range between 3% and 3.5%. Meanwhile, the Minister of Planning has revised her GDP growth estimates for the year downwards to 4.2% from 5.0%.

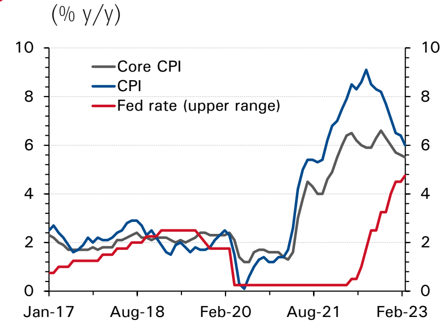
Key takeaways:

- Spreading banking turmoil has tempered expectations of an aggressive Fed tightening despite inflation still running hot. In this week's meeting, the Fed may opt for a 25bps hike instead of the 50bps anticipated before the recent sector pressures.
- Despite the current preponderance of bearish forces pulling oil prices down, a markedly tighter oil market in 2H23 remains our central scenario. Accelerating Chinese oil demand growth and constrained supplies should push the market into a deficit leading to much firmer prices.
- KSA's double upgrade by the top two global rating agencies is a testimony to the government's unwavering reform program, which has enabled the private sector to expand by an average of 6.3% in the past two years, with all indications pointing to a continuation of the solid growth this year with the PMI hitting an eight-year high in February.
- Inflation in Egypt has spiraled to above 30% and we expect the CBE to raise rates by up to 3% in its end-March meeting, putting additional pressure on already-slowing economic growth.

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

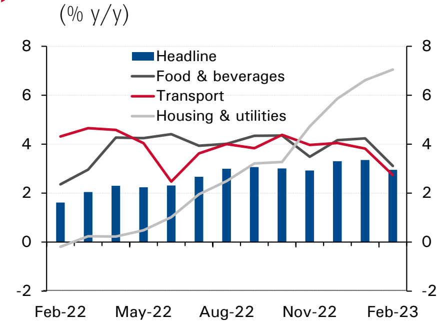
Source: Refinitiv

Chart 2: US inflation
(% y/y)



Source: Haver

Chart 3: KSA inflation
(% y/y)



Source: GASTAT

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,959	-0.2	2.3
DAX	14,768	-4.3	6.1
DJIA	31,862	-0.1	-3.9
Eurostoxx 50	4,065	-3.9	7.2
FTSE 100	7,335	-5.3	-1.6
Nikkei 225	27,334	-2.9	4.7
S&P 500	3,917	1.4	2.0
Regional			
Abu Dhabi SM	9,650	-1.8	-5.5
Bahrain ASI	1,897	-0.8	0.1
Dubai FM	3,349	-1.1	0.4
Egypt EGX 30	14,704	-10.6	0.7
MSCI GCC	645	-5.3	-6.7
Kuwait SE	7,046	-3.3	-3.4
KSA Tadawul	9,977	-4.6	-5.4
Muscat SM 30	4,888	0.8	0.3
Qatar Exchange	9,910	-7.7	-7.2

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.40	-29.8	-43.4
Bunds 10 Year	2.12	-37.3	-43.9
Gilts 10 Year	3.28	-36.0	-38.7
JGB 10 Year	0.28	-11.2	-13.8
Regional			
Abu Dhabi 2027	4.20	-37.8	-0.8
Oman 2027	5.84	-10.7	-2.5
Qatar 2026	4.38	-31.0	-2.2
Kuwait 2027	4.31	-12.8	0.9
Saudi Arabia 2028	4.60	-23.3	-1.5

Commodities	$/unit	Change (%)	
		1-week	YTD
Brent crude	73.0	-11.9	-15.1
KEC	76.3	-6.6	-7.0
WTI	66.7	-13.0	-16.8
Gold	1969.8	5.8	8.2

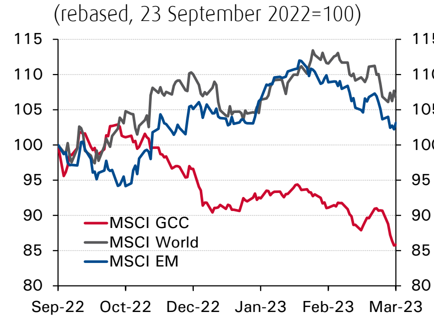
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	6.23	-8.0	8.7
Kibor - 3 month	4.25	0.0	25.0
Qibor - 3 month	5.43	7.5	14.2
Eibor - 3 month	4.87	-12.7	55.8
Saibor - 3 month	5.52	-9.8	31.4
Libor - 3 month	5.00	-14.0	23.1
Sofr - 3 month	4.85	-18.6	26.6

Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.307	0.0	0.3
KWD per EUR	0.327	1.0	0.0
USD per EUR	1.067	0.2	-0.3
JPY per USD	131.8	-2.4	0.5
USD per GBP	1.218	1.2	0.6
EGP per USD	30.75	-0.3	24.3

Updated on 17/3/2023 Source: Refinitiv

International equity markets

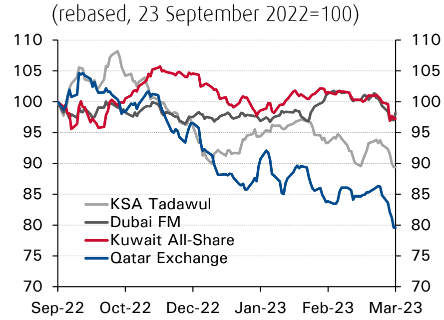
(rebased, 23 September 2022=100)



Source: Refinitiv

GCC equity markets

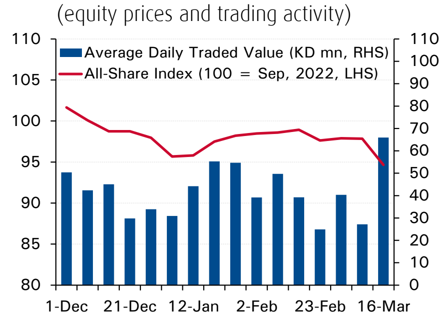
(rebased, 23 September 2022=100)



Source: Refinitiv

Boursa Kuwait

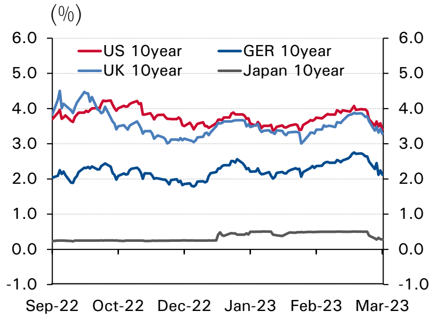
(equity prices and trading activity)



Source: Refinitiv

International bond yields

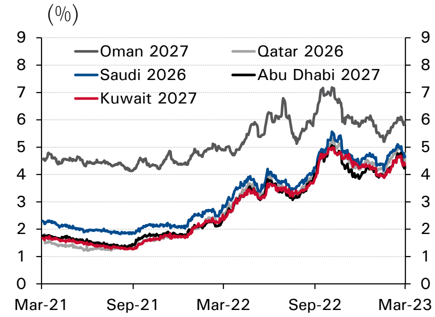
(%)



Source: Refinitiv

GCC bond yields

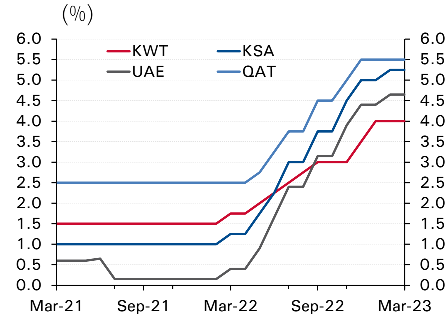
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv