Weekly Economic and Markets Review

NBK Economic Research Department I 20 March 2022

International & MENA

International and markets

US: As expected, the Fed hiked rates by 0.25% with the widely-followed dot-plot indicating six additional hikes this year. Moreover, balance sheet reduction is expected to commence soon, and likely at the next Fed meeting on May 4. The Fed now sees PCE inflation at 4.3% y/y in 2022 (latest at 6.1%) and 2.7% in 2023, compared with 2.6% and 2.3%, respectively, in their prior projection. Chair Powell emphasized the strength of the US economy, its ability to handle rate hikes, and believes the odds of a recession in the US are not elevated. The projection for 2022 GDP growth was dropped from 4% to 2.8%, but remains unchanged at 2.2% in 2023. Retail sales increased by 0.3% m/m in February, coming broadly in line with expectations, though January sales were revised up strongly.

Europe: The Bank of England (BofE) as expected raised interest rates by 25bps to 0.75%, the third hike in consecutive meetings. However the underlying tone was slightly more 'dovish' than expected, with one member voting for no change, none backing a 50bps move and the bank's messaging emphasizing the downside risks to demand from the Russia-Ukraine war. This comes as data showed unemployment falling below pre-Covid levels for the first time in the three months to January, to 3.9%, while pay growth rose to 4.8% y/y.

China: Economic indicators surprised to the upside in January-February as retail sales, fixed asset investment, and industrial production increased 6.7%, 12.2%, and 7.5% y/y, respectively. However, the outlook remains unclear as the country battles its worst Covid-19 wave since the start of the pandemic.

Financial markets: Equity markets saw a sharp rebound amid mixed signs from Ukraine-Russia peace talks. The MSCI ACWI rose 5.6% w/w led by the Nikkei (6.6%), followed by the best w/w gains in the S&P500 (6.2%) since November 2020. The 10-year US treasury yield rose 16 bps w/w to 2.15%. The MSCI GCC was little changed as modest gains in KSA (0.7%) offset declines elsewhere, with the Kuwait All-Share down 1.1%.

Oil: Oil markets ended a second consecutive week lower, with Brent closing at $107.9 (-4.2% w/w). Worries about Chinese oil demand dominated, following the Covid-19 outbreak resulting in multiple cities going under lockdown. The IEA reduced its global oil demand growth estimate for 2022 by 1 mb/d to 2.1 mb/d, citing the impact of surging oil and commodity prices and inflation more broadly on global economic growth.

MENA Region

Kuwait: The CBK increased its main policy rate, the discount rate, from 1.5% to 1.75% tracking the Fed's 0.25% rate hike, and also raised its main policy repo rates by the same amount. Driven by solid business lending (+1.8% m/m), domestic credit growth was strong in January, resulting in a 7% y/y increase. Household credit growth softened but remained robust at 0.6% m/m. Real estate sales in February rose 5.9% y/y to KD298mn on notably higher volume and average transaction size in the investment sector, which registered the second-highest sales (KD95mn, 76% y/y) since July 2019. Finally, the government approved a one-off KD3,000 financial reward for each retiree and an annual increase of KD20 with an estimated impact of KD0.5bn on the Public Institution for Social Security.

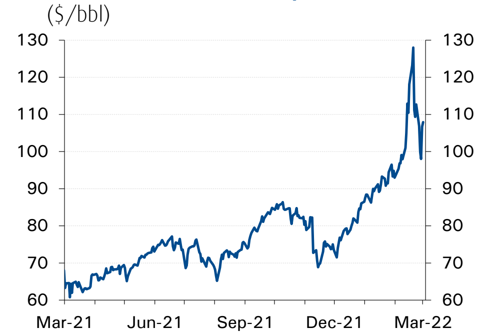
Saudi Arabia: SAMA increased the repo and reverse repo rates by 0.25%, tracking the Fed hike. Inflation picked up to 1.6% y/y in February (1.2% in January), mainly driven by higher price increases in the food/beverages component and the "miscellaneous" category, coupled with softer deflation in housing rentals. Non-oil GDP increased by 4.4% y/y in 4Q2021 resulting in growth of 4.9% for the full year. Overall GDP was up 3.2% in 2021, held back by a 0.2% increase in oil GDP.

Egypt: The Trade Ministry has banned the export of staple food commodities for three months to deal with rising global food prices due to the Russia-Ukraine war.

Key takeaways:

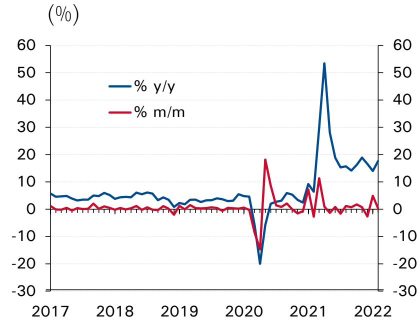
- Reining in inflation has clearly become the Fed's priority, and with that, the Fed faces an enormous challenge of not triggering a recession given its aggressive tightening stance, coupled with a sharply weakening global economic backdrop.
- Unlike the Fed, the BofE seems to be leaning towards a moderation in the pace of tightening to buy itself time to assess the demand impact of the war in Ukraine. But with inflation set to jump above 8% in future, this is unlikely to be the end of the rate hiking cycle.
- Business credit in Kuwait was strong in January (best since March 2020), which coupled with ongoing robust household lending bodes well for total credit growth in 2022. We do not expect a big negative impact from higher policy rates.
- After bottoming out in August 2021 at 0.3% y/y, inflation in KSA has crept gradually higher and is set to accelerate further given spiking commodity prices and an expected ongoing softer deflation in housing rentals.

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



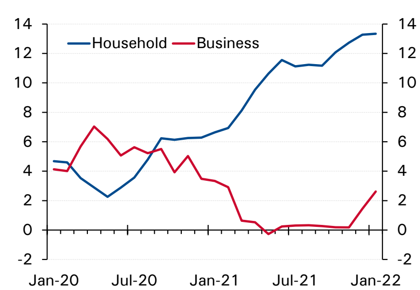
Source: Refinitiv

Chart 2: US retail sales
(%)



Source: Haver

Chart 3: Kuwait credit growth
(% y/y)



Source: CBK

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Key data

Stock markets	Index	Change (%) 1-week	YTD
International			
CSI 300	4,266	-0.9	-13.7
DAX	14,413	5.8	-9.3
DJIA	34,755	5.5	-4.4
Eurostoxx 50	3,902	5.8	-9.2
FTSE 100	7,405	3.5	0.3
Nikkei 225	26,827	6.6	-6.8
S&P 500	4,463	6.2	-6.4
Regional			
Abu Dhabi SM	9,607	-0.3	13.2
Bahrain ASI	1,965	-4.3	9.3
Dubai FM	3,350	-1.5	4.8
Egypt EGX 30	10,726	2.6	-10.2
MSCI GCC	845	0.3	14.6
Kuwait SE	7,870	-1.1	11.7
KSA Tadawul	12,769	0.7	13.2
Muscat SM 30	4,316	-0.3	4.5
Qatar Exchange	13,398	-1.7	15.2

Bond yields	%	Change (bps) 1-week	YTD
International			
UST 10 Year	2.15	15.6	64.1
Bunds 10 Year	0.37	9.7	54.6
Gilts 10 Year	1.50	0.6	52.6
JGB 10 Year	0.21	2.0	13.5
Regional			
Abu Dhabi 2027	2.33	18.8	48.0
Oman 2027	4.83	-5.9	-74.8
Qatar 2026	2.50	15.6	52.3
Kuwait 2027	2.33	4.6	38.3
Saudi Arabia 2028	2.79	20.1	31.6

Commodities	$/unit	Change (%) 1-week	YTD
Brent crude	107.9	-4.2	38.8
KEC	109.2	-3.5	38.1
WTI	104.7	-4.2	39.2
Gold	1928.2	-2.7	5.5

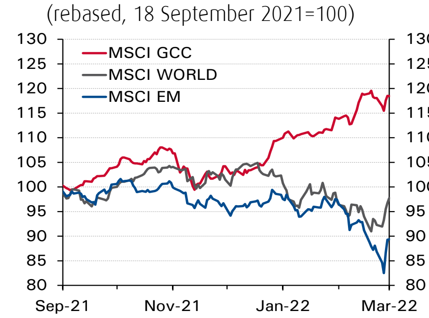
Interbank rates	%	Change (bps) 1-week	YTD
Bhibor - 3 month	1.80	20.0	28.3
Kibor - 3 month	1.63	12.5	12.5
Qibor - 3 month	1.15	0.0	2.5
Eibor - 3 month	1.01	17.6	64.8
Saibor - 3 month	2.02	28.4	111.5
Libor - 3 month	0.93	10.8	72.5

Exchange rates	rate	Change (%) 1-week	YTD
KWD per USD	0.304	0.0	0.5
KWD per EUR	0.340	0.0	0.0
USD per EUR	1.106	1.3	-2.8
JPY per USD	119.2	1.6	3.6
USD per GBP	1.318	1.1	-2.6
EGP per USD	15.68	0.3	0.1

Updated on 18/3/2022 Source: Refinitiv

International equity markets

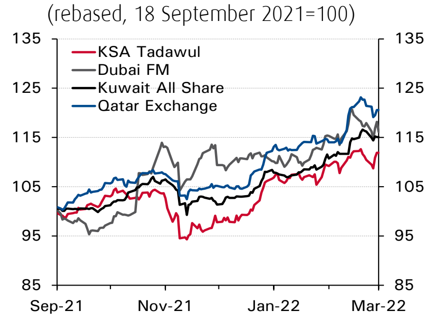
(rebased, 18 September 2021=100)



Source: Refinitiv

GCC equity markets

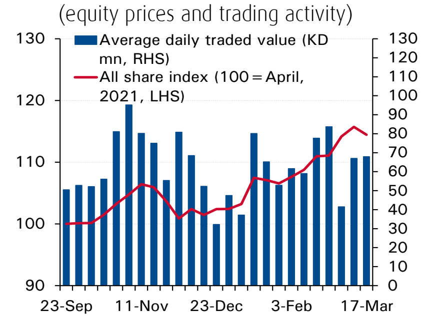
(rebased, 18 September 2021=100)



Source: Refinitiv

Boursa Kuwait

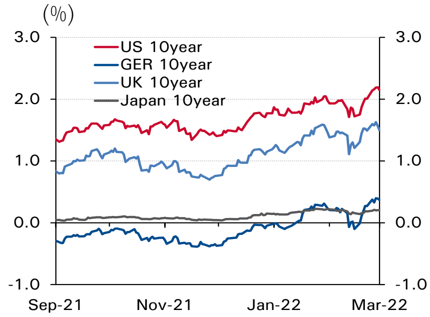
(equity prices and trading activity)



Source: Refinitiv

International bond yields

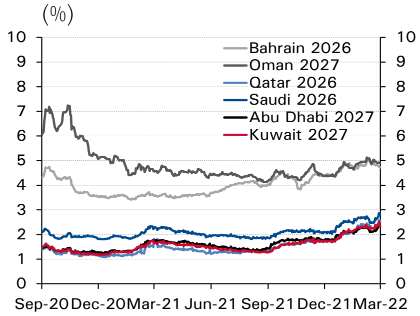
(%)



Source: Refinitiv

GCC bond yields

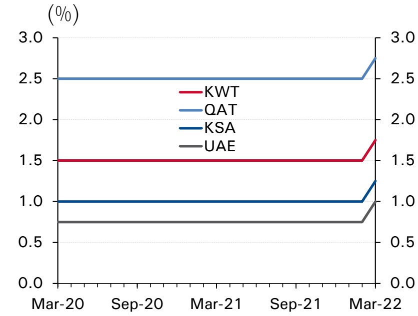
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv