

International

USA: Growth in 3Q18 was confirmed at a robust 3.5%, but core PCE inflation in October fell to 1.8%, below the Fed's 2.0% target. Minutes of the Fed's November meeting and a speech by Chair Jay Powell were both dovish, with the latter claiming that rates were "just below" neutral levels, implying a slower pace of future hikes. Meanwhile, President Trump decided to hold off on tariffs increases due January and in return China agreed to buy more US goods with the hope of reaching a comprehensive agreement within three months.

Financial markets: Global equity markets bounced following Powell's remarks. The MSCI AC world index was up 3.3% w/w, driven by a rebound in US equities. Meanwhile, international yields eased, with 10-year US treasuries dipping to 3.01%.

Oil: Brent fell 0.2% w/w to \$58.7/bbl, with November's 22% decline the steepest one-month drop since the financial crisis. Saudi Arabia and Russia agreed at the G20 to extend the OPEC+ production agreement into 2019, but no specific production cuts were mentioned. While the OPEC advisory board has recommended cuts of 1.3 mb/d from October levels to rebalance the market, it is not clear if this would be agreed in this week's OPEC meeting. US crude output set another record in September, reaching 11.4 mb/d on average.

MENA Region

Kuwait: Real estate sales were solid in October at KD285 mn, up 31% y/y and above the monthly averages for 2017 and 2018. All three sectors – residential, investment and commercial – performed well. Meanwhile provisional public finance data for the first seven months of FY2018/19 show that the government's budget swung sharply into a surplus of KD1.9bn, versus a deficit of KD2.3bn at the same stage last year. The improvement was due to both a surge in oil revenues thanks to higher oil prices, but also a surprising drop in expenditures of 9% y/y. We think weak spending may be due to reporting lags and might therefore be revised higher.

Saudi Arabia: Inflation in October rose to 2.4% y/y from 2.1% in September on the back of an increase in food costs. However, housing and utility costs, which contribute 25% to the CPI basket, continued to decline (-3.7% y/y), with m/m rental deflation extending to 10 consecutive months. Private sector credit growth picked up a little in October, rising to

1.7% y/y, its fastest pace since December 2016.

UAE: Inflation nearly halved to 1.6% y/y in October from 3.1% in September with housing costs declining a steep 5.2% y/y. But buoyed by corporate demand, lending activity continued to gain traction, increasing to a 17-month high of 3.9% y/y in October. UAE banks have reportedly been tapping foreign sources in an effort to boost loan growth. Meanwhile, higher oil prices have helped replenish government deposits; total deposits grew by 7.5% y/y in October.

Bahrain: Bahrain and Saudi Arabia inaugurated a new 350,000 b/d capacity offshore oil pipeline connecting the two kingdoms. The pipeline replaces the existing and ageing 230,000 b/d pipeline as part of Bahrain's plans to expand its refinery capacity. The second round of parliamentary elections, for 31 of 40 seats, is scheduled for 1 December.

Egypt: The cabinet proposed a draft law on 21 November which if approved, would likely increase tax charges for banks. Meanwhile the central bank has decided to terminate its Repatriation Mechanism, which commits the central bank to allow foreign investors to repatriate their investment in local government securities. Finally, the finance minister announced that the government will not seek further IMF funding when the current \$12bn program expires next year.

Financial markets: The MSCI GCC index rose 0.5% w/w, led by Saudi (1.3%). Kuwait was up 0.5% as investors positioned themselves ahead of the second phase of the FTSE upgrade.

Key takeaways:

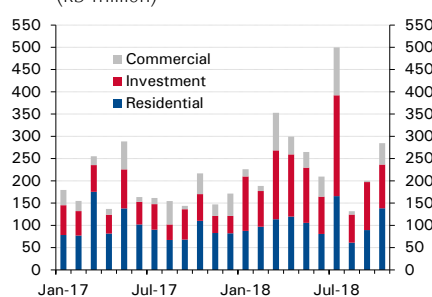
- Fed chair Powell's dovish comments did little to shift expectations of a December rate hike, but the market has become less hawkish about policy for next year.
- Kuwait's reported budget surplus in Apr-Oct probably flatters the underlying health of the public finances. A small deficit is still expected for FY2018/19 overall.
- Egypt's proposed tax on banks could spur an increase in private sector lending and higher interest rates on government debt.
- By encouraging banks to go to the interbank market for foreign exchange, the end of Egypt's FX Repatriation Mechanism could lead to more exchange rate flexibility.

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



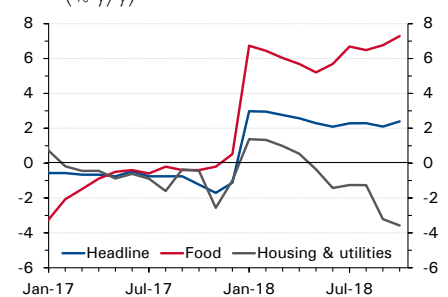
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait real estate sales** (KD million)



Source: Thomson Reuters Datastream

▶ **Chart 3: Saudi inflation** (% y/y)



Source: Thomson Reuters Datastream

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,173	0.9	-21.3
DAX	11,257	0.6	-12.9
DJIA	25,538	5.2	3.3
Eurostoxx 50	3,173	1.1	-9.4
FTSE 100	6,980	0.4	-9.2
Nikkei 225	22,351	3.3	-1.8
S&P 500	2,760	4.8	3.2
Regional			
Abu Dhabi SM	4,770	-4.3	8.4
Bahrain ASI	1,329	0.4	-0.2
Dubai FM	2,669	-3.1	-20.8
Egypt EGX 30	13,320	-2.6	-11.3
S&P GCC 40	1,114	-4.3	13.1
Kuwait SE	5,109	0.5	5.8
KSA Tadawul	7,703	1.3	6.6
Muscat SM 30	4,412	-0.9	-13.5
Qatar Exchange	10,365	0.3	21.6

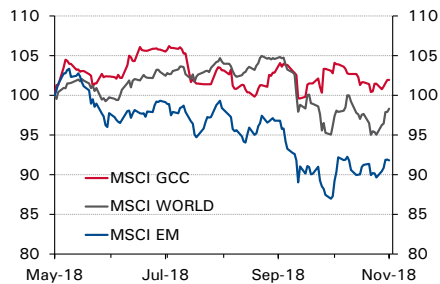
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.01	-4.1	60.2
Bunds 10 Year	0.31	-3.0	-11.5
Gilts 10 Year	1.37	-1.5	17.9
JGB 10 Year	0.09	-1.0	3.6
Regional			
Abu Dhabi 2022	3.65	-4.5	70.5
Dubai 2022	4.02	-2.9	88.4
Qatar 2022	3.75	-7.5	67.6
Kuwait 2022	3.58	-18.5	77.6
KSA 2023	4.01	-22.4	79.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	58.7	-0.2	-12.2
KEC	58.4	-2.4	-8.1
WTI	50.9	1.0	-15.7
Gold	1220.2	-0.1	-6.6

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.75	0.0	102.5
Kibor - 3 month	2.13	6.3	25.0
Qibor - 3 month	2.82	2.5	8.0
Eibor - 3 month	2.67	-14.8	86.9
Saibor - 3 month	2.84	1.6	93.9
Libor - 3 month	2.74	4.9	104.4
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.9
KWD per EUR	0.347	0.4	-2.3
USD per EUR	1.132	-0.2	-5.7
JPY per USD	113.5	0.5	0.7
GBP per USD	1.275	-0.5	-5.6
EGP per USD	17.86	0.1	0.7

Updated as of 30/11/2018 Source: Thomson Reuters Eikon

International equity markets

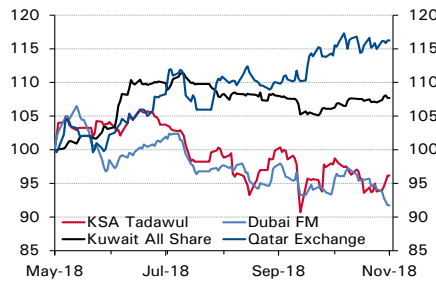
(rebased, 30 May 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

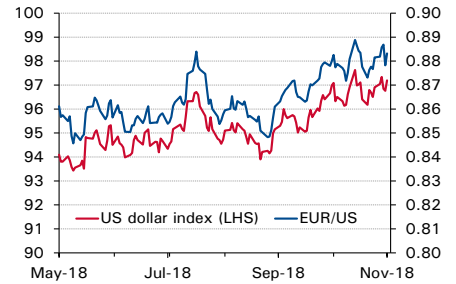
(rebased, 30 May 2018=100)



Source: Thomson Reuters Datastream

US dollar exchange rate

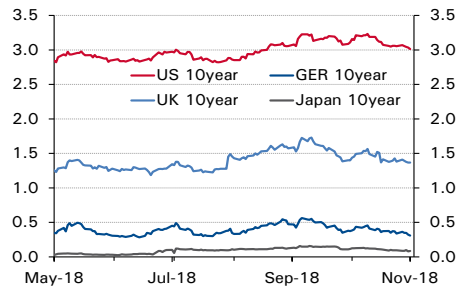
(€//\$ and \$TWI)



Source: Thomson Reuters Datastream

International bond yields

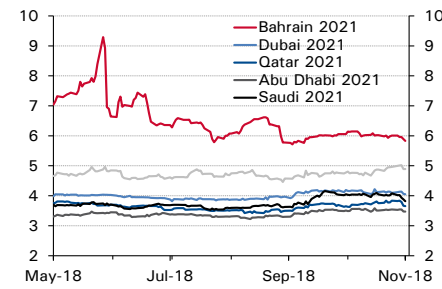
(%)



Source: Thomson Reuters Datastream

GCC bond yields

(%)



Source: Thomson Reuters Datastream

US dollar versus Kuwaiti dinar

(KD/\$)



Source: Thomson Reuters Datastream