

International

US: Responding to market turmoil and the potential economic impact of the spread of the coronavirus, the Federal Reserve delivered an emergency 50 bps rate cut leaving the target rate range at 1.00-1.25%. It was the first unscheduled cut since the financial crisis. Economic data remained positive though at this stage largely reflecting conditions before virus concerns rose at the end of February. Non-farm jobs growth smashed through expectations at 273,000 in February, taking the unemployment rate down to 3.5% while wage growth ticked down to 3.0% y/y. ISM activity indices for February also still painted a positive picture, with the non-manufacturing index surging to a one-year high of 57.3 while the manufacturing index remained just above 50 at 50.1 – though both are seen weakening in coming months.

China: The death toll in China from the coronavirus reached more than 3,000 with the number of confirmed cases globally topping 100,000. However the number of new cases in China is slowing and workers are gradually returning to work in a government-led push to jump-start the economy. According to Bloomberg, 60-70% of firms in China were back in action last week as quarantine and travel restrictions were eased.

Financial markets: Global equities ended slightly negative (MSCI AC World -0.3% w/w) amid extreme volatility on coronavirus concerns. The S&P500 rose 0.6%, supported by Fed stimulus and strong jobs data. The US 10-year treasury yield slumped by 42 bps w/w to a record low of 0.71%.

Oil: Brent plunged 9% on Friday and 10.4% w/w to \$45.3/bbl after OPEC+ talks ended without agreement on a further output cut and as markets anticipate the break-up of the 3-year Russia-Saudi alliance and a deluge of discounted oil once the existing agreement expires end-March. The prospect of a price war took a step closer on Saturday after Saudi Aramco slashed the price of its key Arab Light crude grade by the most in 20 years.

MENA Region

GCC: Most central banks in the GCC followed the Fed's surprise decision by cutting policy rates by at least 50 bps. This included Saudi (to 1.75%), the UAE (to 1.50%), Bahrain (to 1.75%), while Qatar cut its lending rate by 0.75% (to 3.50%). In Kuwait, the central bank cut the discount (lending) rate by a smaller 25 bps to 2.50%, as a "precautionary measure". But the repo rate, which had been cut in mid-February, was unchanged.

Saudi Arabia: The PMI remains above the 50 'no change' level at 52.5 in February, the lowest level since April 2018, and the output index dropped to a record at 53.5. Meanwhile credit growth was strong at 8.7% y/y in January (7.6% in December).

UAE: The PMI deteriorated below 50 in February for the second consecutive month, falling to 49.1, as output and new orders declined. The output component fell below 50 for the first time since 2010 as demand continues to weaken.

Oman: Moody's downgraded Oman's credit rating to 'Ba2' on the back of continued concerns about its fiscal deficit and public debt levels. The budget deficit increased to an estimated 9.2% of GDP in 2019 from 8.7% of GDP in 2018, as total expenditures decreased by 4% y/y, but revenues were down 5%.

Egypt: The PMI at 47.1 in February remained in contractionary territory, though increased slightly from 46.0 in January. The output and new orders components improved modestly, both to 46.2, but export orders remained very weak at 39.4.

Lebanon: In a televised address, the prime minister announced that Lebanon will not pay the \$1.2 billion in Eurobonds falling due March. A very difficult economic situation and a dangerously low level of foreign reserves prompted the decision. The government will try to negotiate a deal with its creditors with the help of international financial and legal advisors.

Financial markets: GCC equities fell amid volatility, with the MSCI-GCC -2.8% w/w on coronavirus worries. Losses were led by Abu Dhabi (-5.3%) and Dubai (-5%), weighed down by airline and banking shares. Kuwait's All-Share index fell 4.7%.

Key takeaways:

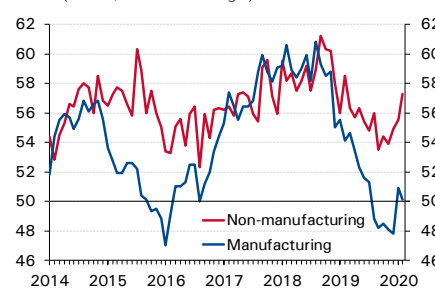
- The Fed's rate cut cannot directly address virus-induced problems such as supply chain disruptions and travel restrictions, but could help loosen financial conditions. Another cut is likely at the March 18 meeting while the ECB should also announce easing measures this week.
- With oil demand impaired and oil producers free to ramp up output in a fight for market share, the possibility of oil prices falling even further in the short term has increased, if OPEC+ are unable to reconcile their differences over coming weeks.
- The impact of coronavirus and the fall in oil prices will take a large toll on growth and fiscal positions in the GCC region.
- Lebanon's default, the first in its history, may have some economic and legal implications, especially if not accompanied by a reform program that could be supported by the international community.

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



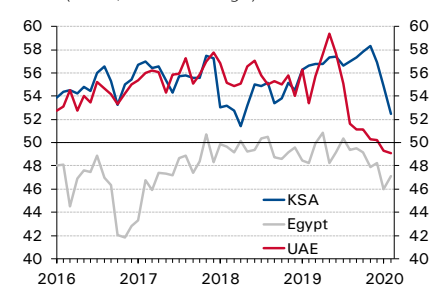
Source: Refinitiv

▶ **Chart 2: US ISM activity indices** (index, 50=no change)



Source: Refinitiv

▶ **Chart 3: MENA region PMIs** (index, 50=no change)



Source: IHS Markit

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,139	5.0	1.0
DAX	11,542	-2.9	-12.9
DJIA	25,865	1.8	-9.4
Eurostoxx 50	3,232	-2.9	-13.7
FTSE 100	6,463	-1.8	-14.3
Nikkei 225	20,750	-1.9	-12.3
S&P 500	2,972	0.6	-8.0
Regional			
Abu Dhabi SM	4,643	-5.3	-8.5
Bahrain ASI	1,618	-2.6	0.5
Dubai FM	2,461	-5.0	-11.0
Egypt EGX 30	12,348	-5.1	-11.6
MSCI GCC	503	-2.8	-11.3
Kuwait SE	5,788	-4.7	-7.9
KSA Tadawul	7,468	-2.1	-11.0
Muscat SM 30	4,108	-0.6	3.2
Qatar Exchange	9,309	-1.9	-10.7

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	0.71	-41.9	-120.3
Bunds 10 Year	-0.73	-11.6	-54.1
Gilts 10 Year	0.23	-21.0	-59.3
JGB 10 Year	-0.14	1.5	-11.6
Regional			
Abu Dhabi 2022	1.49	-29.3	-55.4
Dubai 2022	2.18	-25.9	-28.9
Qatar 2022	1.57	-31.8	-48.9
Kuwait 2022	1.39	-33.3	-67.4
KSA 2023	1.58	-63.3	-71.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	45.3	-10.4	-31.4
KEC	49.8	-1.9	-27.1
WTI	41.3	-7.8	-32.4
Gold	1670.8	6.8	10.0

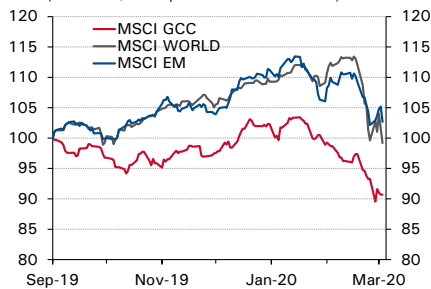
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	2.28	-25.3	-38.7
Kibor - 3 month	2.50	0.0	-25.0
Qibor - 3 month	1.87	-43.3	-38.3
Eibor - 3 month	1.64	-25.3	-57.2
Saibor - 3 month	1.54	-54.6	-69.0
Libor - 3 month	1.00	-58.2	-91.0
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.305	-0.2	0.8
KWD per EUR	0.344	4.2	3.3
USD per EUR	1.129	2.4	0.7
JPY per USD	105.3	-2.6	-3.0
USD per GBP	1.305	1.8	-1.6
EGP per USD	15.59	0.0	-2.6

Updated on 6/3/2020

Source: Refinitiv

International equity markets

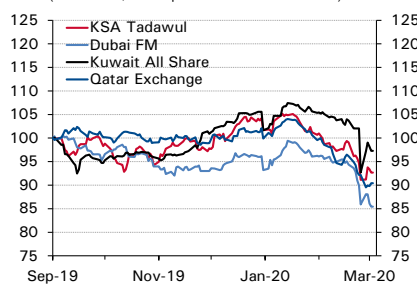
(rebased, 4 September 2019=100)



Source: Refinitiv

GCC equity markets

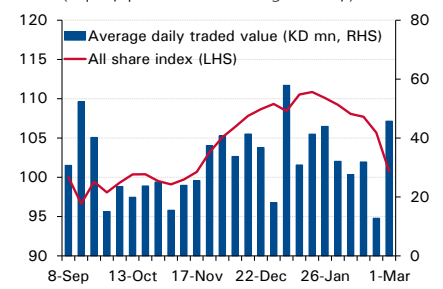
(rebased, 4 September 2019=100)



Source: Refinitiv

Boursa Kuwait

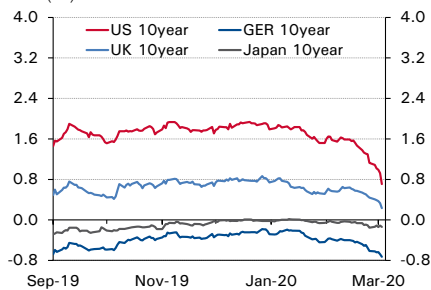
(equity prices and trading activity)



Source: Refinitiv

International bond yields

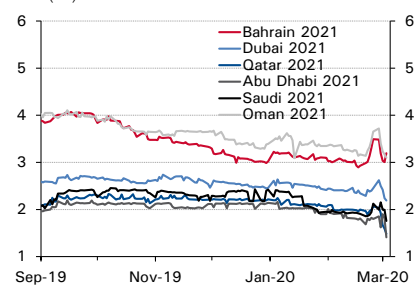
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Source: Refinitiv

GCC bond yields

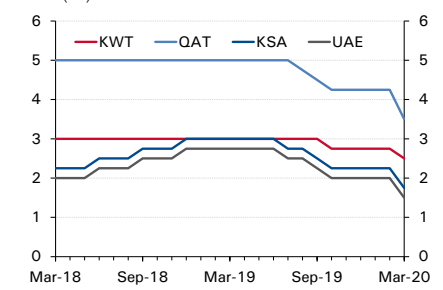
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv