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Economic Update

Economic Research Department
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Kuwait: Emir suspends parliament, calls for review of democratic process. The Emir Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah gave a speech on Friday in which he expressed grave concerns over current destructive political practices and ordered the suspension of the National Assembly for a period of no more than four years, during which the government is to rule by Emiri decree, and a full review will be conducted of the current system of democracy. The abuse of authority by parliament members and the deterioration of democratic and constitutional morals and principles were among main concerns cited for the decision, adding that intervention has become necessary to safeguard stability and that the constitution allows for its amendment five years after its establishment. This was the third time in Kuwait's history that parliament has been suspended – the previous periods were 1976-81 and 1986-92 (including the period of the Iraqi invasion). The absence of a parliament serves to simplify the decision-making process and could lead to swifter law making, reforms, and advancement of the development plan, areas which have seen little progress over the years. This will also depend on the government's goals and priorities and its ability to overcome structural and administrative impediments.

Kuwait: IMF sees subdued growth, warns against reform delays. In its preliminary report after concluding a recent staff visit, the IMF painted a picture of subdued economic activity in Kuwait, with output weighed down by oil production cuts and soft domestic demand. It pegs GDP growth at -1.4% (NBK forecast -2.3%) in 2024 led by ongoing falls in oil output, with non-oil growth at 2.0% (NBK 2.5%). It also warned that political gridlock was delaying much-needed fiscal and structural reforms. "Continued delays would undermine fiscal prudence and investor confidence, while holding back economic diversification and competitiveness." The Fund cited volatility in oil prices and production, as well spillovers from regional conflicts as the main external risks to the outlook.

Egypt: Inflation trends lower for the second consecutive month, leaving window for early rate cuts. April's inflation came in at 32.6% y/y, slightly down from 33.4% in March. On a monthly basis, prices rose by 1.1% in April close to the 1.0% recorded in March. Food and non-alcoholic beverages (36% of the CPI basket) prices rose by 37.6% y/y in April slowing from 42.0% in March and contracted on a monthly basis. This is the second consecutive month where inflation trends lower after peaking at 35.7% y/y in February, where prices jumped by an unprecedented 11.4% m/m. Similarly, core inflation slowed to 31.8% y/y in April from 33.7% y/y in March and recorded only a 0.3% m/m increase from 1.4% m/m in March. We believe that inflation will keep trending lower on the back of the exchange rate stability and FCY availability. The EGP averaged EGP45.5/$1 in March and EGP47.8/$1 in April, significantly stronger than the black-market rate of close to EGP70/$1 before the March devaluation. The stronger pound surprised businesses positively, allowing them to set prices and budgets at probably lower rates than initially expected, explaining the continuous drop in inflation. Moving forward, we now expect inflation to recede below 30% y/y starting H2 2024 and end the year slightly below 25%. This means that the current negative real yields/interest rates of almost 5% could flip into positive territory as soon as July.

This should allow the central bank to start cutting rates sooner than later: the May 23rd MPC meeting is probably too early, but the following July 18th meeting looks possible, especially if the next inflation release (for May) also comes in well-behaved.

US: Initial weekly jobless claims jump to the highest since August, in another sign of the loosening job market. Initial weekly jobless claims jumped from 209k to 231k, the highest level since the end of August 2023. This comes after the most recent jobs report (for April) showed non-farm payrolls slowing to a lower-than-expected six-month low and the unemployment rate ticking higher. Although only two data points, these may be indicating the start of the long-awaited weakening in the labor market. Meanwhile, the University of Michigan consumer sentiment index fell from 77.2 in April to a much lower-than-expected 67.4 in May, the weakest reading in six months. Importantly, the year-ahead inflation expectations rose from 3.2% in April to 3.5% in May, remaining above the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run (next five years) inflation expectations also increased, inching up from 3.0% in April to 3.1% in May.

UK: BoE expected to cut rates by August; economy rebounds Q1 2024. The Bank of England kept rates unchanged at 5.25% last week as expected by markets but with officials voting 7-2 in favor of maintaining rates, versus only one member voting for a cut in the previous meeting. The BoE governor said that recent data points were encouraging, but that services inflation remained high and geopolitical risks were adding to upside risks for the price outlook. Financial markets are now pricing in 50bps of rate cuts this year with 25bps in August, but some analysts expect a cut as early as June. Meanwhile, UK GDP grew a better-than-expected 0.6% q/q in Q1 2024, more than reversing a contraction of 0.3% in Q4 23, while it grew 0.2% y/y from -0.2% in the previous quarter. On a monthly basis, GDP grew 0.4% m/m from 0.2% m/m in February. This represents the strongest growth since end-2021, driven by the services sector backed by a significant rise in household spending during the quarter.

Japan: Household spending declines in March, creating more challenges for the Bank of Japan. Preliminary data showed that household spending growth, in real terms, eased on a month-on-month basis to +1.2% from +1.4% in February. On a yearly basis, spending declined for the thirteenth straight month by 1.2% y/y, though better than market forecasts of a 2.4% fall. Lower spending on housing (-5.8% versus 9.5% in February), fuel, light, & water charges (-18.6% versus -12.3%), furniture & household utensils (-0.5% versus -2.0%), medical care (-0.7% versus 9.4%), and culture & recreation (-5.7% versus -1.5%) were the main drivers of this decline. Weak household consumption came after data showing real wages continued to contract despite three-decade high nominal wage hikes in April, creating challenges for Bank of Japan policymakers who are seeking to drive stronger real wage growth while delaying further future interest rate hikes.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,090	-0.32	-5.09
Bahrain (ASI)	2,030	0.16	2.98
Dubai (DFMGI)	4,173	-0.16	2.79
Egypt (EGX 30)	26,003	0.05	4.71
GCC (S&P GCC 40)	694	-0.06	-2.60
Kuwait (All Share)	7,081	0.31	3.87
KSA (TASI)	12,284	-1.41	2.65
Oman (MSM 30)	4,770	0.26	5.67
Qatar (QE Index)	9,633	0.10	-11.06
International			
CSI 300	3,666	0.05	6.85
DAX	18,773	0.46	12.07
DJIA	39,513	0.32	4.84
Eurostoxx 50	5,085	0.61	12.46
FTSE 100	8,434	0.63	9.06
Nikkei 225	38,229	0.41	14.24
S&P 500	5,223	0.16	9.49

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.32	0.00	-20.65
Kuwait	4.25	0.00	0.00
Qatar	6.00	0.00	-25.00
UAE	5.35	0.44	-0.36
Saudi	6.23	0.00	0.58
LIBOR	5.58	-0.15	-0.58
SOFR	5.32	-0.20	-0.79

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	5.05	-2.00	72.9
Oman 2027	5.96	9.90	80.1
Qatar 2026	5.14	-4.90	61.7
Kuwait 2027	5.08	-1.10	74.1
Saudi 2028	5.17	-1.00	64.8
International 10YR			
US Treasury	4.50	5.50	64.4
German Bund	2.52	2.30	49.1
UK Gilt	4.17	2.40	62.9
Japanese Gvt Bond	0.91	0.20	29.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.03	0.05
KWD per EUR	0.33	-0.08	0.15
USD per EUR	1.08	-0.11	-2.42
JPY per USD	155.72	0.17	10.39
USD per GBP	1.25	-0.01	-1.63
EGP per USD	47.35	0.00	53.48

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	82.79	-1.30	7.46
KEC	85.96	0.16	8.04
WTI	78.26	-1.26	9.23
Gold	2367.3	1.51	14.78

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: Refinitiv / Haver

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