

International and markets

Global: Mainly driven by a downgrade to growth in advanced economies, the IMF has again cut its global growth forecast to 3.2% and 2.9% in 2022-23, respectively, from 3.6% previously.

US: In line with expectations, the Fed increased rates by 0.75% to a target range of 2.25% to 2.5%. Importantly, and unlike the prior recent meetings, Chair Powell did not give any forward guidance regarding the size of the upcoming rate hikes, emphasizing that future decisions will be data-dependent. With a 0.6% increase in June, the Fed's preferred inflation gauge, the core PCE, edged up to 4.8% y/y (from 4.7% one month before), coming slightly above expectations. The headline rate accelerated to 6.8% y/y from 6.3%, also higher than expectations. Meanwhile, the first estimate of 2Q2022 GDP reported an annualized 0.9% q/q contraction, missing expectations, although private consumption increased (+1%). This is the second straight quarter of negative growth (-1.6% in Q1), which is a widely accepted rule of thumb for a recession.

Europe: Eurozone economic growth surprisingly picked up to 0.7% q/q in 2Q22 from 0.5% in Q1 and versus expectations of zero growth or a small decline. The improvement was led by Spain (1.1%) and Italy (1.0%) likely helped by rising post-pandemic tourism, while Germany stagnated. Ongoing weakness in Germany was highlighted by a plunge in the IFO business climate index to a post-pandemic low of 88.6 in July. Meanwhile, Eurozone inflation rose to a fresh historic high of 8.9% y/y in July versus 8.6% in June amid rising energy prices, but the core rate also rose to a record 4.0% from 3.7% in June.

Japan: The government slashed its economic growth forecast for this fiscal year to 2.0% (from 3.2% in January), as Russia's war on Ukraine, China's COVID-19 lockdowns, and a worsening global economy have slowed international demand. Inflation was forecast at 2.6% y/y, up from 0.9% in January.

Financial markets: Global equities were mostly positive last week with the S&P500 up a strong 4.3% w/w, mainly driven by perceptions of a more dovish Fed policy, with the Euro Stoxx 50 also up a solid 3.1%. The US 10-year treasury yield fell by a further 14 bps w/w given the weaker economic outlook. GCC equities were positive (MSCI GCC +1.1% w/w), led by Oman (+5.6%) and Qatar (+3.2%) while Kuwait gained 0.6%.

Oil: Brent recorded its second straight monthly loss (-1.5%) in July as the market wrestled with the global economic slowdown and recession fears. Nevertheless, Brent posted a weekly gain of 6.6%, closing at \$110/bbl (+41.4% ytd), moving in tandem

with global equities amid a weakening dollar. Meanwhile, US drillers added 11 new oil rigs, indicating more supply in the periods ahead.

MENA Region

GCC central bank actions: KSA, UAE, Qatar, and Bahrain's central banks moved in lockstep with the US Fed in hiking benchmark rates by 75 bps. The Central Bank of Kuwait (CBK), meanwhile, raised its discount rate by 25 bps to 2.5%, a fourth consecutive and equal increase since March (+100 bps in total but less than half of the Fed's 225 bps increase in that time).

Kuwait: Sheikh Ahmad Al-Nawaf Al-Ahmad Al-Sabah was appointed as the new Prime Minister. Meanwhile, the ministry of finance has directed all government agencies to prepare budget estimates for FY2023/2024 with a September deadline.

Saudi Arabia: Official flash estimates showed that GDP increased by 11.8% y/y in 2Q2022 (+9.9% in Q1) as oil activities surged by 23% (+20.3% in Q1), non-oil activities by 5.4% (+3.7% in Q1), and government activities by 2.2% (+2.4% in Q1).

Oman: The CPI rose 2.9% y/y in June, higher than the 2.4% recorded in May, with price increases across the board, but particularly the food component (+6.1% y/y).

Egypt: The IMF called on the Egyptian government to take "decisive" steps on fiscal and structural reforms, while both parties are in talks regarding a new assistance package to help through the current difficult economic environment.

Key takeaways:

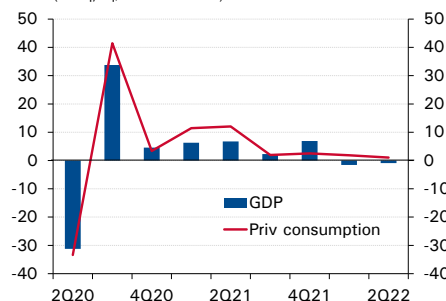
- Given that the Fed Funds rate is now broadly in line with what the Fed deems as neutral (2.5%), the odds of further 0.75% rate hikes have decreased although not off the table yet. If inflation trends do not improve, the Fed may still hike by 75 bps in September, even if the economy continues to slow down.
- Despite the unexpected resilience of Eurozone growth in Q2, leading indicators of economic activity point to deterioration in Q3 and the probability of a recession remains high. Still, surging inflation means the ECB will stay under pressure to tighten policy further, unless the downturn looks set to become severe.
- Most GCC central banks matched the Fed's rate hike, while the CBK opted for a smaller 0.25% increase given the policy flexibility resulting from the KD's peg to a basket of currencies. We expect the Kuwaiti economy to prove quite resilient to tighter policy given the current mix of high oil prices, strong credit growth and that rates are still low in historical terms.

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



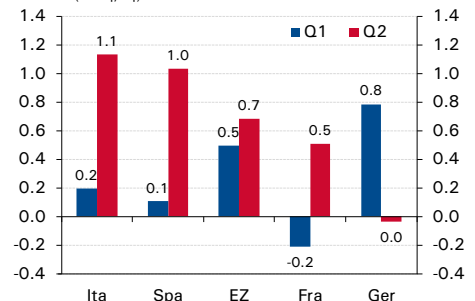
Source: Refinitiv

▶ **Chart 2: US GDP**
(% q/q, annualized)



Source: Haver

▶ **Chart 3: Eurozone GDP**
(% q/q)



Source: Haver

Key data

Stock markets				Bond yields				Interbank rates			
Index	Change (%)			%	Change (bps)			%	Change (bps)		
	1-week	YTD			1-week	YTD			1-week	YTD	
International				International				Regional			
CSI 300	4,170	-1.6	-15.6	UST 10 Year	2.64	-13.9	113.0	Abu Dhabi 2027	3.13	-8.6	48.0
DAX	13,484	1.7	-15.1	Bunds 10 Year	0.83	-19.8	100.4	Oman 2027	5.88	-12.5	-74.8
DJIA	32,845	3.0	-9.6	Gilts 10 Year	1.86	-7.9	89.0	Qatar 2026	3.24	-13.5	52.3
Eurostoxx 50	3,708	3.1	-13.7	JGB 10 Year	0.18	-4.4	10.5	Kuwait 2027	3.19	-17.5	38.3
FTSE 100	7,423	2.0	0.5	Regional				Saudi Arabia 2028	3.38	-20.4	31.6
Nikkei 225	27,802	-0.4	-3.4	Commodities							
S&P 500	4,130	4.3	-13.3								
Regional											
Abu Dhabi SM	9,663	0.0	13.8								
Bahrain ASI	1,906	1.7	6.0								
Dubai FM	3,338	2.5	4.4								
Egypt EGX 30	9,369	0.9	-21.6								
MSCI GCC	790	1.1	7.1								
Kuwait SE	7,717	0.6	9.6								
KSA Tadawul	12,155	1.4	7.7								
Muscat SM 30	4,532	5.6	9.7								
Qatar Exchange	13,122	3.2	12.9								

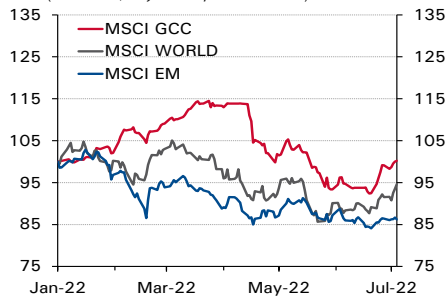
Exchange rates			
rate	Change (%)		
	1-week	YTD	
KWD per USD	0.307	-0.1	1.5
KWD per EUR	0.314	-0.1	-8.8
USD per EUR	1.022	0.1	-10.1
JPY per USD	133.2	-2.1	15.7
USD per GBP	1.217	1.4	-10.1
EGP per USD	18.87	0.0	20.5

Updated on 29/7/2022

Source: Refinitiv

International equity markets

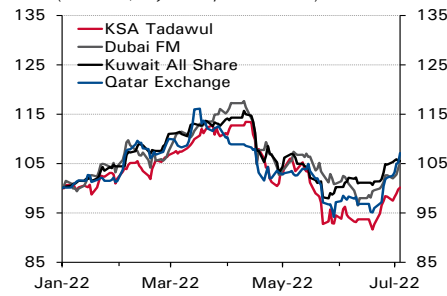
(rebased, 1 January 2022=100)



Source: Refinitiv

GCC equity markets

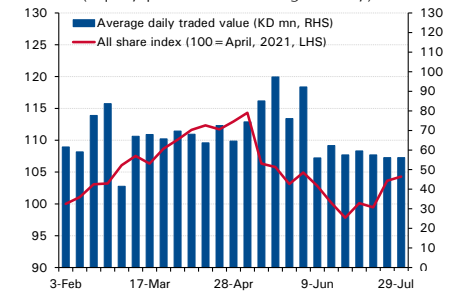
(rebased, 1 January 2022=100)



Source: Refinitiv

Boursa Kuwait

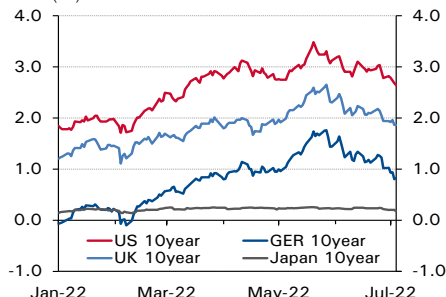
(equity prices and trading activity)



Source: Refinitiv

International bond yields

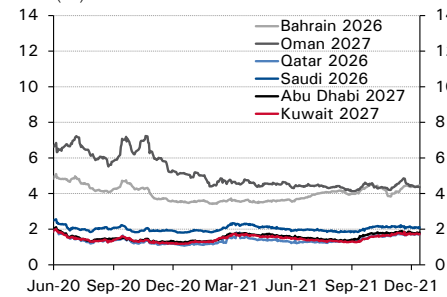
(%)



Source: Refinitiv

GCC bond yields

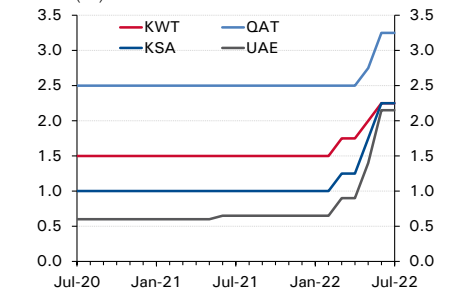
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv