

International

US: President Trump showed signs of softening his trade stance with allied countries, removing levies on steel and aluminum imports from Canada and Mexico imposed last year and also postponing new tariffs on auto products from the EU and Japan. But US-China trade talks have stalled, with the US last week imposing sanctions on Chinese telecoms firm Huawei amid security concerns. Meanwhile, growth in industrial production slowed to a more than two-year low of 0.9% y/y in April, backing up surveys pointing to continued softness in manufacturing activity at the start of the quarter. Retail sales in April eased to 3.1% y/y, but consumer sentiment hit a 15-year high in May, before the latest rise in tensions with China.

Financial markets: Global markets were mostly negative last week on trade fears. The MSCI AC World lost 0.5%, led by emerging markets (-2.9%). The US S&P fell 0.8% but markets in Europe gained on the US decision to delay auto levies.

Oil: Brent rose 2.3% w/w to \$72.2/bbl on a rising "fear premium" related to the Houthi attack on Saudi oil pumping stations and the oil tanker sabotage off the coast of the UAE. Iran is under suspicion of ordering both attacks. Despite US crude stocks increasing (+5.4mb to 472mb) on a rebound in imports, crude output declined for the second week in a row (-100kb/d to 12.1mb/d). Prices also shrugged off the IEA's downgrade to 2019 oil demand growth to 1.3mb/d.

MENA Region

Kuwait: Real estate prices across most market segments were negative in March. The exception was the residential home market where prices rose 1.1% m/m and are now up 11% y/y. The apartment sector by contrast is showing signs of renewed weakness, with prices for both buildings (-1.4% m/m) and units (-5.4%) declining in March. Softness in the sector could be due to new units continuing to be introduced to the market while growth in demand remains weak.

Saudi Arabia: The IMF noted that Saudi fiscal, labor and capital market reforms have yielded some positive results, but economic diversification remains a work in progress. It forecast non-oil growth at 2.9% in 2019 and overall GDP growth at 1.9% if Saudi crude output in 2H19 rises to match its OPEC+ agreement level. Due to elevated government spending, the fiscal deficit is expected to widen to 7% of GDP

in 2019 – in line with our own forecast and wider than the government's projection of 4.6% of GDP. The authorities announced that their SR200 billion private sector stimulus package could be extended beyond its original 2021 end-date.

Bahrain: The authorities are looking to extend the period over which the kingdom through its Fiscal Balance Program (FBP) will deliver a balanced budget, set initially for 2022. They now expect the deficit to narrow from 6.2% of GDP in 2018 to 4.7% and 3.9% of GDP, respectively in 2019 and 2020, up from the original 4.1% and 2.1% of GDP back in October. The authorities have halted, perhaps temporarily, subsidy reform plans amid concerns over their social impact.

Oman: The government plans to make changes to the Foreign Direct Investment Law in an attempt to prop up investment inflows. The changes include granting foreign firms 100% ownership and lowering minimum capital requirements. They are expected to be passed by the end of this year.

Egypt: IMF staff agreed to disburse the final \$2 billion tranche of its \$12 billion loan, potentially by the end of the fiscal year, but this must be approved by the IMF's executive board. The Fund noted improvement in Egypt's economic fundamentals, including stronger growth, smaller current and fiscal account deficits, higher foreign reserves and lower unemployment.

Financial markets: Regional markets fell, compounded by rising geopolitical tensions. The MSCI-GCC lost 3% w/w, led by Abu Dhabi (-6.6%) and Dubai (-3.7%). Kuwait's All-Share index declined 2.7% w/w.

Key takeaways:

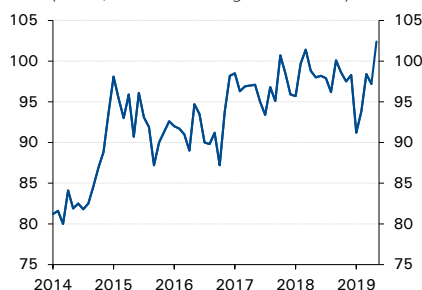
- The softening of the US's stance on trade with some of its allies could be an attempt to refocus its efforts on and isolate China. The Huawei ban follows recent US tariff hikes on China and Trump will look to maximize leverage in future trade talks against a backdrop of still strong US economic growth.
- The attacks on Saudi/UAE oil infrastructure have raised regional geopolitical tensions and could further underpin oil prices which are already up 34% ytd on OPEC+ supply cuts, political strife in Venezuela and US sanctions on Iran.
- Although sales and activity levels in Kuwait's real estate market are well up from their 2016-17 lows, recent softness in apartment prices suggests that sector weakness has not fully passed amid rising supply of new units and, on the demand side, pressure on expatriate numbers.

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



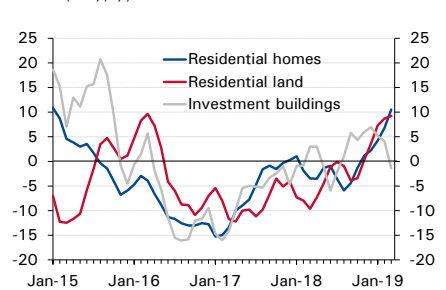
Source: Thomson Reuters Datastream

▶ **Chart 2: US consumer sentiment** (Index, Univ. of Michigan measure)



Source: Thomson Reuters Datastream

▶ **Chart 3: Kuwait real estate prices** (% y/y)



Source: Ministry of Justice / NBK

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,649	-2.2	21.2
DAX	12,239	1.5	15.9
DJIA	25,764	-0.7	10.4
Eurostoxx 50	3,426	1.9	14.1
FTSE 100	7,349	2.0	9.2
Nikkei 225	21,250	-0.4	6.2
S&P 500	2,860	-0.8	14.1
Regional			
Abu Dhabi SM	4,719	-6.6	-4.0
Bahrain ASI	1,400	-2.6	4.7
Dubai FM	2,575	-3.7	1.8
Egypt EGX 30	13,660	-2.8	4.8
S&P GCC 40	1,135	-6.6	3.2
Kuwait SE	5,649	-2.7	11.2
KSA Tadawul	8,622	-2.7	10.2
Muscat SM 30	3,859	-0.1	-10.8
Qatar Exchange	9,872	-1.5	-4.1

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.39	-6.2	-29.8
Bunds 10 Year	-0.11	-5.7	-35.1
Gilts 10 Year	1.04	-10.1	-23.4
JGB 10 Year	-0.06	-0.9	-5.9
Regional			
Abu Dhabi 2022	2.74	-5.2	-56.3
Dubai 2022	3.47	1.8	-46.2
Qatar 2022	2.93	1.8	-52.6
Kuwait 2022	2.75	-7.2	-57.6
KSA 2023	3.24	18.7	-64.2

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.30	-5.0	-65.0
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.88	1.9	-2.9
Eibor - 3 month	2.83	-2.6	-1.2
Saibor - 3 month	2.85	0.2	-12.4
Libor - 3 month	2.52	-1.6	-28.8

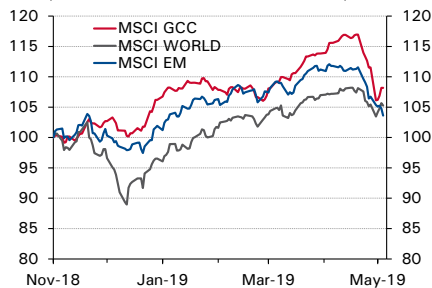
Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.1	0.3
KWD per EUR	0.338	-0.7	-2.8
USD per EUR	1.116	-0.7	-2.7
JPY per USD	110.1	0.1	0.5
GBP per USD	1.272	-2.2	-0.3
EGP per USD	16.99	-0.7	-4.9

Commodities	\$/unit	Change (%)	
		1-week	YTD
Brent crude	72.2	2.3	34.2
KEC	73.0	4.2	39.8
WTI	62.8	1.8	38.2
Gold	1274.5	-0.9	-0.3

Updated on 17/5/2019 Source: Thomson Reuters Eikon

International equity markets

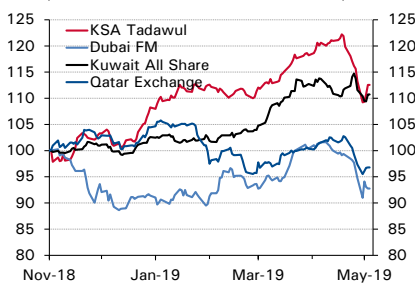
(rebased, 14 November 2018=100)



Source: Thomson Reuters Datastream

GCC equity markets

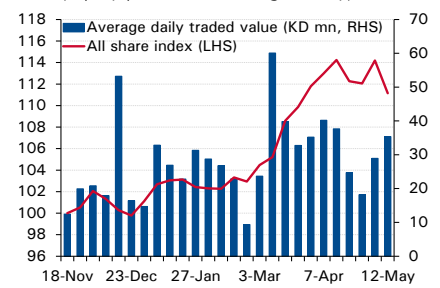
(rebased, 14 November 2018=100)



Source: Thomson Reuters Datastream

Boursa Kuwait

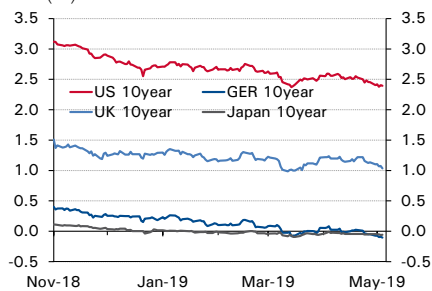
(equity prices and trading activity)



Source: Thomson Reuters Datastream

International bond yields

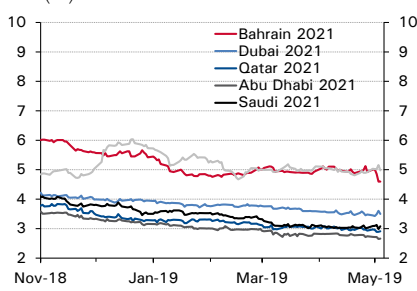
(%)



Source: Thomson Reuters Datastream

GCC bond yields

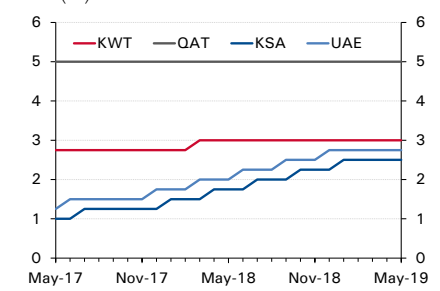
(%)



Source: Thomson Reuters Datastream

GCC key policy rates

(%)



Source: Thomson Reuters Datastream