

International

US: The minutes of the Fed's (FOMC) policy meeting of early May – where it left rates unchanged – showed broad support for a 'patient' approach to future rate changes, given uncertainties over both inflation and the global economy. Some FOMC members however were concerned that currently below-target inflation may become embedded. The US-China trade dispute has since worsened. Indeed, the flash PMI for May fell to a three-year low of 50.9, only just above the 50 'no change' mark, with manufacturing at its lowest since September 2009 amid trade war concerns. Futures markets now price in a 77% chance of at least one rate cut this year.

Europe: Under pressure due to Brexit, UK prime minister Theresa May resigned her position as Conservative Party leader effective June 7 but will remain as PM until a new leader is found, which could take until July. The new leader is likely to be more firmly pro-Brexit, with former foreign secretary and London Mayor Boris Johnson the front-runner. Results of Europe-wide elections to the European Parliament are due Sunday evening and likely to show increasing support for populist and anti-EU parties.

Financial markets: International markets were weighed down by trade and growth concerns. The MSCI-AC World lost 1.1% w/w led by the Eurostoxx 50 (-2.2%) and the US S&P (-1.2%). 10-year US treasury yields declined 6 bps to 2.33%.

Oil: Brent saw its biggest one-day fall this year on Thursday (-4.5%) amid US-China trade worries and rising US inventories, closing the week at \$68.7/bbl (-4.9%). OPEC-11 compliance in April dropped to 150% from 157% in March despite Saudi Arabia cutting to 9.74 mb/d (277%). Kuwait's compliance reached 132% after production fell to just under 2.70 mb/d – its first month below 2.7 mb/d in almost eight years.

MENA Region

Kuwait: Inflation in April came in softer than expected at 0.7% y/y, down from 0.8% in March, while the more stubborn core measure (which excludes food and housing) eased to 1.6% from 1.7% in March. Inflation in most sub-components was either steady or slowing, notably the food (to 0.8%) and communications (to 4.0%) categories. This release increases the chance of a sub-1% inflation figure for 2019 as a whole.

Saudi Arabia: Inflation remained in negative territory for the

fourth consecutive month in April, though at -1.9% y/y, the fall moderated from March's -2.1%. Falling prices are partly due to base effects after last year's implementation of VAT and subsidy cuts. With growth in the important housing component negative for almost a year, the headline rate is unlikely to accelerate substantially this year.

UAE: The UAE announced that it would be issuing permanent residency visas coined the 'Golden Card' to high-net-worth individuals and highly skilled workers, in a bid to support foreign investment and retain exceptional talent. Around 6,800 individuals with a combined worth of about Dhs 100 billion (\$27 billion) are currently eligible for the visa.

Oman: The government is reportedly in talks with foreign banks for a sovereign bond issue of up to \$2 billion. This would be its first international debt issue of 2019 and comes after recent downgrades that have left its credit rating at non-investment grade according to all three major rating agencies.

Egypt: The central bank kept interest rates unchanged at 15.75% and 16.75% for its overnight deposit and lending rates, respectively. Meanwhile, as part of its economic reforms, the government announced that electricity prices will rise by an average of 14.9% in July, with subsidies to be fully phased out by June 2022.

Financial markets: Gulf markets were mostly negative. The MSCI GCC was down 0.7% w/w, weighed by Saudi (-1.1%) and Qatar (-1.4%) on banking and petrochemical stocks. Kuwait's All-Share index fell 1.2%.

Key takeaways:

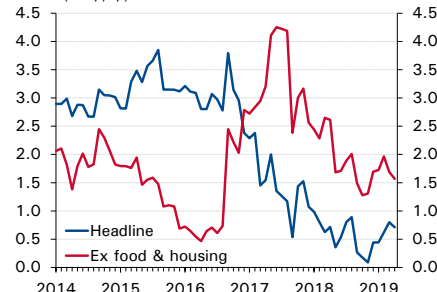
- Following the resignation of Theresa May, a new UK prime minister will likely look to reopen Brexit negotiations with the EU ahead of the October deadline. But given the government's wafer-thin majority in parliament, the chances of a general election look high and the pound could come under pressure.
- We don't believe that Brent's fall last week reflects oil market fundamentals. Supply risks from Iran and Venezuela are considerable, while Saudi Arabia seems committed to a price floor around \$70/bbl and may maintain output cuts into 2H19. Oil demand will be lifted by the summer driving season.
- Given Egypt's plans to cut remaining fuel subsidies and increase electricity prices, inflation could edge higher in 2H19. This may encourage the central bank to be cautious about easing monetary policy.

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



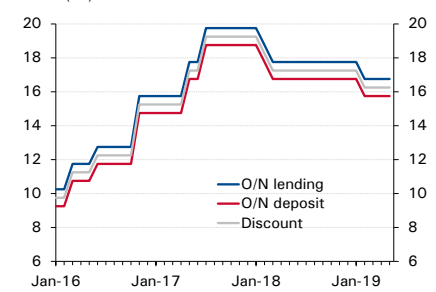
Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait inflation** (% y/y)



Source: Thomson Reuters Datastream

▶ **Chart 3: Egypt interest rates** (%)



Source: Thomson Reuters Datastream

Key data

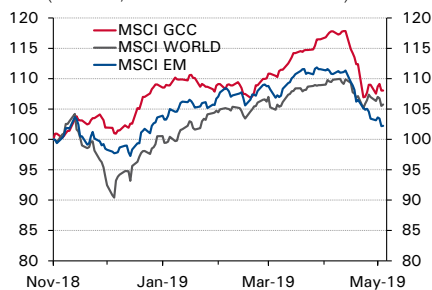
Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,594	-1.5	19.4
DAX	12,011	-1.9	13.8
DJIA	25,586	-0.7	9.7
Eurostoxx 50	3,351	-2.2	11.6
FTSE 100	7,278	-1.0	8.2
Nikkei 225	21,117	-0.6	5.5
S&P 500	2,826	-1.2	12.7
Regional			
Abu Dhabi SM	4,777	1.2	-2.8
Bahrain ASI	1,408	0.6	5.3
Dubai FM	2,590	0.6	2.4
Egypt EGX 30	13,777	0.9	5.7
S&P GCC 40	1,126	1.2	2.4
Kuwait SE	5,579	-1.2	9.8
KSA Tadawul	8,531	-1.1	9.0
Muscat SM 30	3,876	0.4	-10.4
Qatar Exchange	9,731	-1.4	-5.5

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.33	-6.4	-36.2
Bunds 10 Year	-0.12	-1.2	-36.3
Gilts 10 Year	0.96	-7.9	-31.3
JGB 10 Year	-0.07	-1.1	-7.0
Regional			
Abu Dhabi 2022	2.69	-5.0	-61.3
Dubai 2022	3.44	-3.1	-49.3
Qatar 2022	2.86	-7.0	-59.6
Kuwait 2022	2.69	-5.9	-63.5
KSA 2023	3.20	-3.5	-67.7
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	68.7	-4.9	27.7
KEC	67.5	-7.1	29.4
WTI	58.6	-6.6	29.1
Gold	1283.0	0.7	0.4

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.27	-3.3	-68.3
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.85	-2.6	-5.4
Eibor - 3 month	2.79	-3.3	-4.5
Saibor - 3 month	2.85	0.0	-12.4
Libor - 3 month	2.52	0.1	-28.7
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.3
KWD per EUR	0.339	0.4	-2.5
USD per EUR	1.120	0.4	-2.3
JPY per USD	109.3	-0.7	-0.2
GBP per USD	1.271	0.0	-0.4
EGP per USD	16.84	-0.9	-5.7

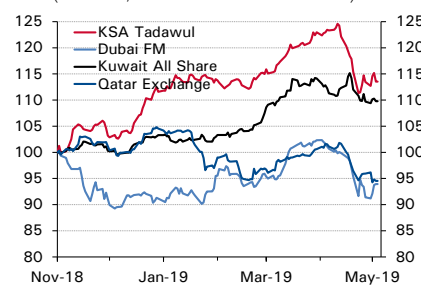
Updated on 24/5/2019 Source: Thomson Reuters Eikon

International equity markets (rebased, 21 November 2018=100)



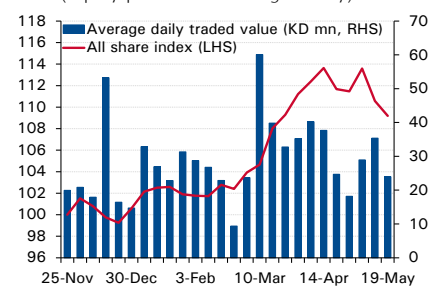
Source: Thomson Reuters Datastream

GCC equity markets (rebased, 21 November 2018=100)



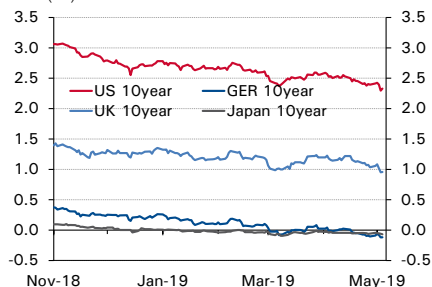
Source: Thomson Reuters Datastream

Boursa Kuwait (equity prices and trading activity)



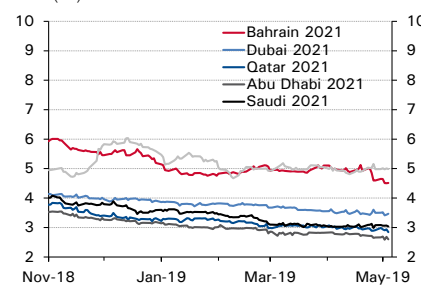
Source: Thomson Reuters Datastream

International bond yields (%)



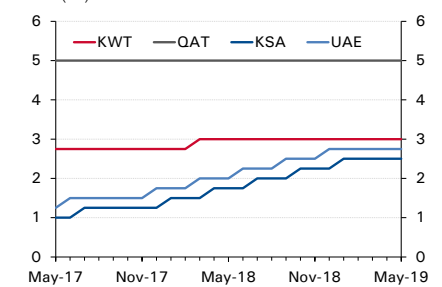
Source: Thomson Reuters Datastream

GCC bond yields (%)



Source: Thomson Reuters Datastream

GCC key policy rates (%)



Source: Thomson Reuters Datastream