

International and markets

US: As expected, the Fed raised the Fed Funds target rate by 0.75% to a target range of 1.5-1.75%. This is the steepest rate hike since 1994 as the Fed looks to tame the highest inflation in 40 years. The FOMC's June dot-plot projection sees additional rate rises of 1.75% in total by end-2022 and the Fed funds rate reaching 3.4%. The Fed now sees PCE inflation at 5.2% in 4Q22 (April's rate was 6.3%) and 2.6% in 4Q23, compared to the previous estimate of 4.3% and 2.7%, respectively. Chair Powell continued to emphasize the strength of the US economy and its ability to handle tighter policy. However, GDP growth projections for 4Q22 and 4Q23 were slashed to 1.7%, from 2.8% and 2.2%, respectively. Meanwhile, in May, retail sales fell for the first time in 5 months, by 0.3% m/m, missing expectations (April's level was also revised downward).

Europe: The ECB held an emergency meeting to discuss the alarming rise in bond spreads for some periphery countries including Italy and Greece. The bank said it would reinvest proceeds from an earlier QE program more flexibly (i.e. across countries) and accelerate work on introducing a new tool to combat 'fragmentation risk', which if it persists could jeopardize financial stability across the Eurozone. Meanwhile, the Bank of England raised policy rates by 25 bps to 1.25% as expected. The bank yet again raised its inflation forecast, which it now sees peaking at above 11% later this year. UK GDP for April was unexpectedly weak, falling 0.3% m/m.

Financial markets: Global equities continued their sharp decline amid ongoing inflation worries, tighter monetary policy, and a weakening global macroeconomic backdrop, with the Nikkei 225, the S&P 500 and the Eurostoxx declining by 6.7% w/w, 5.8% and 4.5%, respectively. GCC equities were also down, with the MSCI GCC falling 4.8% w/w led by KSA (-6.2%). Kuwait's All-Share fell 2.6% w/w.

Oil: Brent fell sharply on Friday to \$113/bbl (-5.6% d/d; -7.3% w/w), ending a run of four consecutive weekly gains, as markets digested the Fed's rate hike, the US dollar strengthened and as worries over slowing global economic and oil demand growth intensified. Still, the IEA warned that in 2023 global oil supply could struggle to keep pace with stronger, China-supported oil demand due to sanctioned Russian oil supply and eroding global spare production capacity.

MENA Region

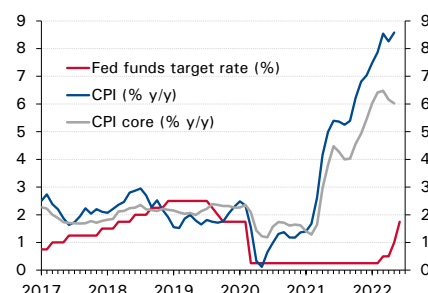
GCC central bank actions: Qatar, UAE and Bahrain central banks moved in lockstep with the US Fed in hiking benchmark

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



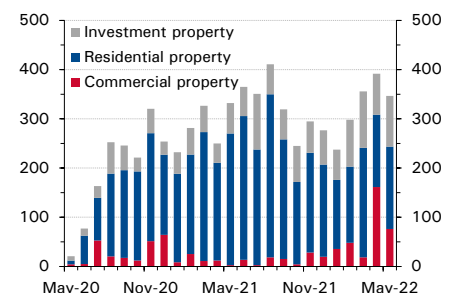
Source: Refinitiv

► **Chart 2: US Fed funds and CPI rates**



Source: Refinitiv

► **Chart 3: Kuwait real estate sales**
(KD million)



Source: Ministry of Justice (MoJ)

rates by 75 bps, though SAMA followed with a smaller 50 bps increase in its repo and reverse repo rates. The Central Bank of Kuwait (CBK), meanwhile, raised its discount rate by 25 bps to 2.25%, a third consecutive increase since March (+75 bps in total but half of the Fed's 150 bps increase in that time).

Kuwait: Supported by increased business lending, domestic credit grew at its fastest rate in 13 years in April at 9.3% y/y (+1.2% m/m). Household credit growth rose 13.4% y/y (+0.6% m/m). Meanwhile, real estate sales increased to KD346 million (+4.3% y/y) in May on stronger investment and commercial sector activity and despite a drop in residential sector transactions (-63% y/y). In other news, the National Assembly passed the bill to award retirees a one-time cash grant of KD3,000 and raise their monthly pensions by KD30 from August and then by KD20 every year thereafter. The government will transfer KD500 million to PIFSS to help plug the actuarial deficit in the latter's accounts.

Saudi Arabia: Inflation eased in May to 2.2% y/y (+0.1% m/m) from 2.3% in April. This was driven mainly by softer annual gains in the transport and miscellaneous categories.

Egypt: The finance ministry warned that high wheat and oil prices could add an extra \$10.2bn to the country's budget in the next fiscal year. The government announced that electricity prices would be frozen, to help ease cost of living pressures, at a cost of around \$0.5bn to the budget.

Key takeaways:

- May's alarming US inflation reading (+8.6%) and the marked increase in inflation expectations as per the University of Michigan's consumer sentiment survey compelled the US Fed to hike rates by a more aggressive 75 bps. However, with the odds of a recession increasing, calibrating monetary policy amid slowing growth will prove challenging.
- The ECB's emergency meeting to address widening bond spreads comes just one week after it laid out plans to tighten policy from July due to high inflation. Action to narrow spreads could require bond purchases, potentially complicating its anti-inflation message and may even be subject to legal challenge.
- GCC central banks raised policy by varying amounts, following the 75 bps increase by the US Fed. The CBK's more modest 25 bps hike likely reflected the different macroeconomic conditions prevailing locally, fewer rate cuts than the Fed at the onset of the pandemic, and the policy flexibility provided by the dinar's peg to a currency basket.

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,309	1.7	-12.8
DAX	13,126	-4.6	-17.4
DJIA	29,889	-4.8	-17.7
Eurostoxx 50	3,438	-4.5	-20.0
FTSE 100	7,016	-4.1	-5.0
Nikkei 225	25,963	-6.7	-9.8
S&P 500	3,675	-5.8	-22.9
Regional			
Abu Dhabi SM	9,457	-1.8	11.4
Bahrain ASI	1,852	-1.7	3.0
Dubai FM	3,262	-3.4	2.1
Egypt EGX 30	9,867	-3.6	-17.4
MSCI GCC	766	-4.8	4.0
Kuwait SE	7,414	-2.6	5.3
KSA Tadawul	11,824	-6.2	4.8
Muscat SM 30	4,123	-0.3	-0.2
Qatar Exchange	12,562	-4.1	8.1

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.23	6.6	172.0
Bunds 10 Year	1.66	16.0	184.1
Gilts 10 Year	2.50	5.7	152.8
JGB 10 Year	0.23	-2.5	15.5
Regional			
Abu Dhabi 2027	3.75	33.8	48.0
Oman 2027	6.15	40.8	-74.8
Qatar 2026	3.94	37.0	52.3
Kuwait 2027	3.62	40.1	38.3
Saudi Arabia 2028	4.03	25.4	31.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	113.1	-7.3	45.4
KEC	120.7	-2.2	52.7
WTI	109.6	-9.2	45.7
Gold	1835.6	-1.9	0.4

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.34	53.5	181.9
Kibor - 3 month	2.13	18.8	62.5
Qibor - 3 month	1.15	0.0	2.5
Eibor - 3 month	1.75	38.1	138.8
Saibor - 3 month	3.18	3.6	227.7
Libor - 3 month	2.10	35.1	188.7
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.307	0.2	1.6
KWD per EUR	0.322	-0.1	-6.3
USD per EUR	1.050	-0.2	-7.7
JPY per USD	135.0	0.4	17.3
USD per GBP	1.222	-0.7	-9.6
EGP per USD	18.69	0.0	19.3

Updated on 17/6/2022

Source: Refinitiv

International equity markets

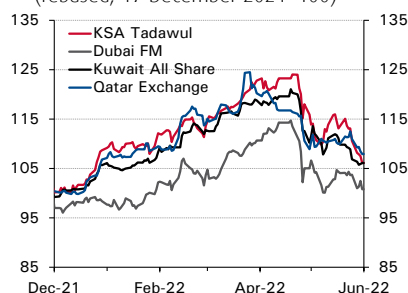
(rebased, 17 December 2021=100)



Source: Refinitiv

GCC equity markets

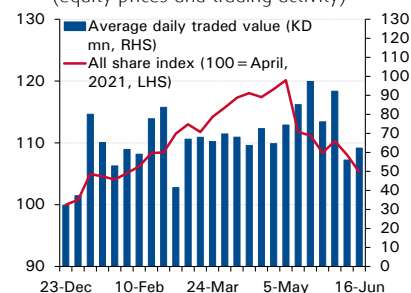
(rebased, 17 December 2021=100)



Source: Refinitiv

Bursa Kuwait

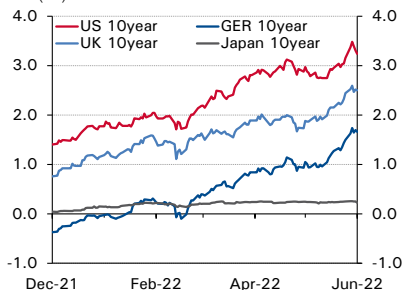
(equity prices and trading activity)



Source: Refinitiv

International bond yields

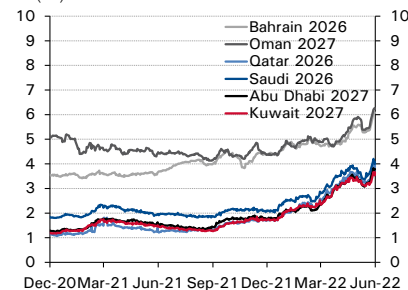
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Source: Refinitiv

GCC bond yields

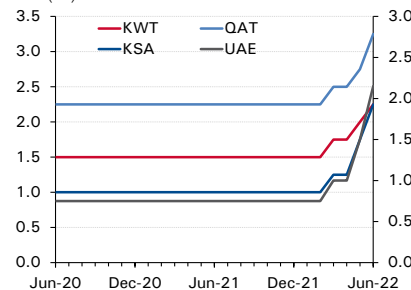
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv