

International and markets

US: The Federal Reserve, as expected, left policy on hold (Fed Funds rate 0-0.25%, asset purchases \$120bn/month), despite revising up its expectations for both growth (7.0%) and PCE inflation (3.4%) in Q4 this year. Most Fed officials did however bring forward their projection for the first rate hike to 2023 – at least a year earlier than before – with a minority 7 of 18 members now seeing a hike next year. Fed chair Jay Powell also hinted that talks on slowing asset purchases had already begun. On the data front, retail sales missed expectations by dropping -1.3% m/m in May but April was revised up implying an overall neutral impact on forecasts for GDP in 2Q21. Jobless claims also disappointed, increasing 37,000 to 412,000 in w/e June 12 and the first rise in 7 weeks, though remain on a declining trend.

Europe: Eurozone HICP inflation was confirmed at 2.0% y/y in May from 1.6% in April, its first time above the ECB's 'close to but below' 2% target since 2018. The rise was partly driven by energy-related base effects, but the core rate also moved up albeit to a still-modest 1.0%. Meanwhile, inflation in the UK jumped to 2.1% from 1.5% in April and above the Bank of England's 2% target. Like in the US, central banks in both regions see latest price pressures as at least partly temporary. ECB President recently stated that there was a need to anchor the recovery, thus excluding any monetary policy easing soon.

China: Retail sales grew by 12.4% y/y from 17.7% in April, indicating an easing of the consumption recovery. In addition, industrial production increased by 8.8% y/y, the lowest rate in 5 months with soft export orders and rising commodity prices.

Japan: Japan's exports soared 49.6% y/y in May, as record spikes in international bound shipments helped shore up an economy still grappling with the coronavirus at home.

Financial markets: Global equities were mostly negative as the Fed signaled the possibility of lower stimulus and higher interest rates ahead amid continued signs of an economic recovery. The MSCI AC World index fell 1.2% w/w led by the DJIA (-3.4%), while the 10-year treasury yield rose sharply to 1.58% mid-week following the Fed announcement, before easing back to 1.44% on Friday. In contrast, GCC markets outperformed (MSCI GCC +0.5%), buoyed by higher oil prices and recovery optimism, led by Kuwait's All-share index (1.4%).

Oil: The price of Brent crude reached \$73.5/bbl. (+1.1% w/w; +41.9% ytd). OPEC+ producers' could increase supply as

demand is expected to pick up on stronger signs of the global recovery, while extra supply coming from Iran are fading or delayed as talks with the US are dragging on.

MENA Region

Kuwait: The Central Bank of Kuwait in its annual report urged a hastening in the pace of reforms to reduce the imbalances in the economy while returning public finances into a sustainable path. Meanwhile, the current account surplus increased in 4Q20 to reach KD3.5 billion (41.5% of GDP) from a revised surplus of KD2.4 billion (29.4% of GDP) in the previous quarter.

Saudi Arabia: Real GDP declined by 3% y/y in 1Q21 on the back of 11.7% drop in oil GDP, while non-oil GDP grew by 2.9%. Meanwhile, inflation picked up to 5.7% y/y in May from 5.3% in April due to the rise in transportation prices by 19.3%.

UAE: Inflation in Dubai fell by 2.8% y/y in May as housing declined by 8.4% (43.6% of the consumption basket), while transportation gained 9.3% as oil prices continued to rise.

Egypt: With inflation remaining below the target of 7% ($\pm 2\%$), the central bank kept the overnight lending rate at 9.25% and the overnight deposit rate at 8.25% for a fifth consecutive time. Meanwhile, France will provide Egypt with \$2.2 billion to finance some important projects i.e. Cairo metro, power generation and water management, part of this was on concessional terms.

Key takeaways:

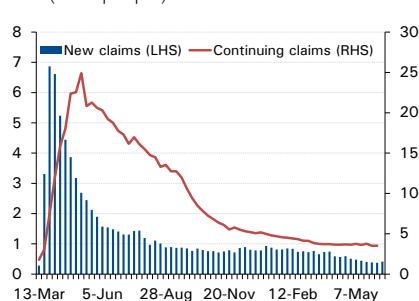
- The Fed's indication that it may soon start to tighten policy was necessary given recent upside inflation surprises and the risk of it falling 'behind the curve'. However, the drop in long-term treasury yields suggests that investors believe the economy and inflation will eventually cool.
- In Kuwait, the continued adjournment of parliamentary sessions could delay the approval of the FY21/22 budget, affecting the government's ability to implement its action plan including reaching a consensus with the national assembly on the reform path.
- The CBE's 'no change' policy decision could help in attracting foreign investors. This decision was also meant to guard against a possible increase in inflation that could come from rising commodity prices and inflation elsewhere. This suggests that the central bank may not cut this year. Meanwhile, France's financing of essential infrastructure is a testament to increased confidence in Egypt's good economic performance and its outlook under its reform program.

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



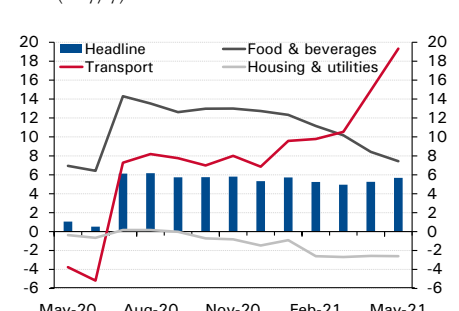
Source: Refinitiv

▶ **Chart 2: US jobless claims** (000s people)



Source: Refinitiv

▶ **Chart 3: KSA inflation** (% y/y)



Source: GASTAT

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	5,102	-2.3	-2.1
DAX	15,448	-1.6	12.6
DJIA	33,290	-3.4	8.8
Eurostoxx 50	4,083	-1.0	14.9
FTSE 100	7,017	-1.6	8.6
Nikkei 225	28,964	0.1	5.5
S&P 500	4,166	-1.9	10.9
Regional			
Abu Dhabi SM	6,647	-1.0	31.7
Bahrain ASI	1,562	1.1	4.9
Dubai FM	2,863	0.7	14.9
Egypt EGX 30	9,866	-1.1	-9.0
MSCI GCC	665	0.5	21.6
Kuwait SE	6,394	1.4	15.3
KSA Tadawul	10,853	0.5	24.9
Muscat SM 30	4,078	1.2	11.5
Qatar Exchange	10,743	0.2	2.9

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	1.44	-1.0	53.1
Bunds 10 Year	-0.20	6.6	37.2
Gilts 10 Year	0.75	4.5	55.8
JGB 10 Year	0.05	2.0	3.3
Regional			
Abu Dhabi 2022	0.29	6.8	-21.3
Dubai 2022	0.27	3.7	7.4
Qatar 2022	0.36	-17.7	-16.6
Kuwait 2022	0.39	10.4	-6.8
KSA 2023	0.58	4.6	-13.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	73.5	1.1	41.9
KEC	72.1	-0.4	42.4
WTI	71.6	1.0	47.7
Gold	1767.9	-5.8	-6.6

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	1.64	0.0	-60.8
Kibor - 3 month	1.50	0.0	6.3
Qibor - 3 month	1.12	8.7	-0.2
Eibor - 3 month	0.36	-2.0	-15.8
Saibor - 3 month	0.79	0.0	-2.6
Libor - 3 month	0.13	1.6	-10.4

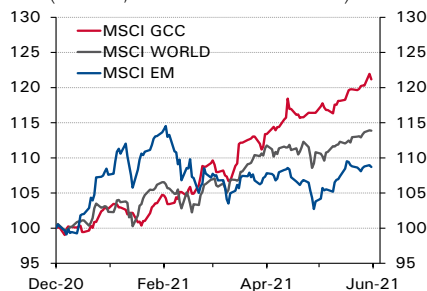
Exchange rates	rate	Change (%)	
		1-week	YTD
KWD per USD	0.301	0.2	-0.9
KWD per EUR	0.363	0.0	-0.1
USD per EUR	1.186	-2.0	-2.9
JPY per USD	110.2	0.5	6.7
USD per GBP	1.381	-2.1	1.0
EGP per USD	15.60	0.1	-0.6

Updated on 18/6/2021

Source: Refinitiv

International equity markets

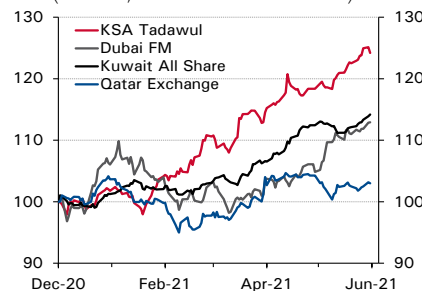
(rebased, 16 December 2020=100)



Source: Refinitiv

GCC equity markets

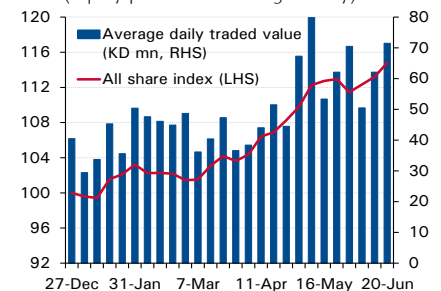
(rebased, 16 December 2020=100)



Source: Refinitiv

Bursa Kuwait

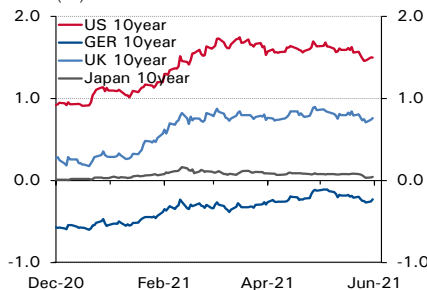
(equity prices and trading activity)



Source: Refinitiv

International bond yields

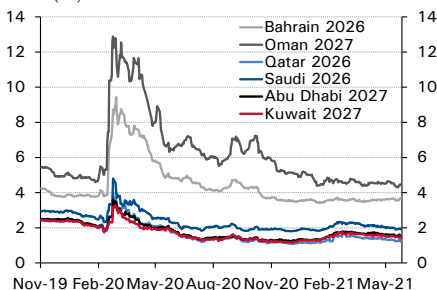
(%)



Source: Refinitiv

GCC bond yields

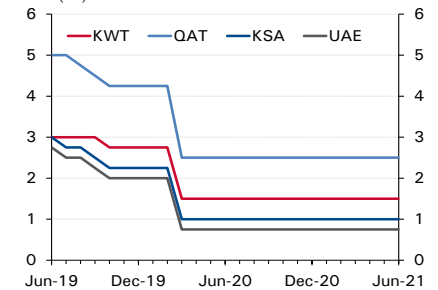
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv