

### International and markets

**US:** The economy is recovering well, but volatility linked to withdrawal of early-year stimulus payments continues to affect some data. Personal incomes dropped a further 2% m/m in May (-13.1% in April), while consumer spending was flat (+0.9% in April) with a rise in services spending as reopening proceeds offsetting a decline in goods outlays. Meanwhile, core PCE inflation (the Fed's preferred price measure) jumped to a 29-year high of 3.4% y/y in May (headline rate 3.9%) on y-y base effects due to softness last year, but also the combination of a strong recovery and supply bottlenecks. On policy, President Biden secured an initial Senate-level agreement on \$1.2trn (5% of GDP) in infrastructure spending spread over 8 years, though the deal was a cutback version of the \$2.3trn proposal in March and may still face opposition in Congress before becoming law.

**UK:** The Bank of England left policy on hold (Bank rate 0.1%, asset purchase target of £895bn) despite the economy's strong recovery and inflation being above target at 2.1% and expected to rise above 3% according to the Bank's forecasts.

**China:** Despite government measures to attenuate strong property demand, average new home prices in China's 70 major cities rose by 4.9% y/y in May, accelerating for the fifth straight month to the biggest annual gain since June 2020. In this context, the PBOC left its interest rates for corporate and household loans unchanged (1-yr: 3.85%; 5-yr: 4.65%) for the 14<sup>th</sup> month in a row, as the economic recovery proceeds.

**Financial markets:** Global equities rallied as investors looked past the Fed's hawkish shift amid continued recovery optimism. The MSCI AC World index rose 2% w/w, led by the DJIA (3.4%) and the S&P500 (2.7%), while volatility eased to pre-pandemic levels (VIX -25%). The US 10-year treasury yield rose 8 bps to 1.52%. In the GCC, markets were mixed but mostly positive (MSCI GCC +0.4%), with Kuwait's All-Share up 1% w/w.

**Oil:** Oil prices increased for the fifth straight week reaching the highest level since October 2018, despite worries of Iranian production eventually coming back to the market and a potential OPEC+ output increase. Brent crude rose by 3.6% w/w to \$76.2/bbl, while WTI crude increased by 3.4% to \$74.1.

### MENA Region

**Kuwait:** The National Assembly has approved the FY21/22 budget as proposed by the government in early January. The

budget, projects a deficit of KD 12.1 billion (31% of GDP) due to an estimated increase in spending by 7% to a record of KD23 billion, though outlines no major reforms. Meanwhile, the CBK extended its relaxed liquidity and capitalization regulations until the end of 2021, with the exception of the increase in real estate loan-to-value limits, which will drop to their pre-Covid levels likely indicating CBK's concern about excessive lending in that area. In fact, real estate sales totaled a solid KD 332 million in May (+33% m/m), mostly driven by the residential sector (KD 268 million), in a continuation of the revived momentum seen since 4Q20, following the historically-low levels brought on by the pandemic.

**Saudi Arabia:** SAMA extended its Deferred Payment Program for an additional three months (until the end of Sept.), with deferred payments reaching SAR 167 billion since March 2020. Meanwhile, for the first time in KSA, licenses were granted for two digital banks, namely STC Bank (with a capital of SAR 2.5 billion), and the Saudi Digital Bank (SAR 1.5 billion capital).

**UAE:** Following a decline of 6.1% in 2020, the central bank expects the economy to grow by 2.4% in 2021, supported by a 3.8% rebound in the non-oil sector, after a contraction of 6.1% in 2020.

**Egypt:** President Al-Sisi announced that public sector pensions will increase by 13% starting in July, at a total cost of about EGP 31 billion (\$2 billion). Meanwhile, the central bank decided to extend the validity of some of the measures previously taken for a further 6 months (to December), including the cancellation of ATM cash withdrawal fees and the exemption from all expenses related to bank transfer services in Egyptian pounds.

#### Key takeaways:

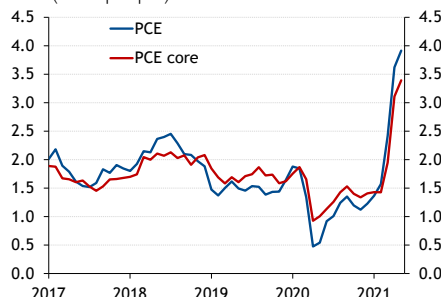
- The rise in US inflation to a multi-decade high corroborates worries over the outlook for prices but is unlikely to spark a further shift in the Fed's policy stance. Inflation may be close to a peak, though officials will need to remain alert to signs that 'transitory' price pressures are not fading as expected.
- The approval by Kuwait's National Assembly of the government's expansionary budget, although delayed, should support the economy for the rest of the year. However, it lacks the main elements of reform, while financing will be a challenge given the absence of a debt law and the depletion of the GRF.
- Egypt's decision to increase pensions, while warranted to improve living standards, would make the target of reducing the budget deficit in FY21/22 to 6.5% of GDP more difficult.

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



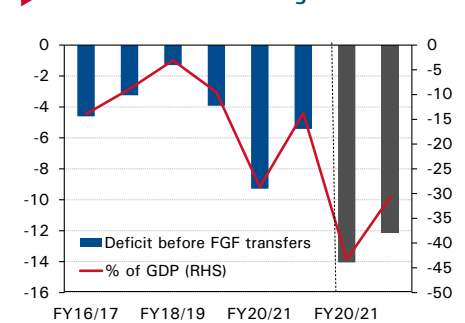
Source: Refinitiv

▶ **Chart 2: US PCE Inflation** (000s people)



Source: Refinitiv

▶ **Chart 3: Kuwait's budget**



Source: GASTAT

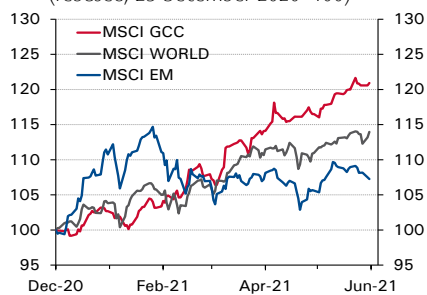
## Key data

Stock markets				Bond yields			Interbank rates						
Index	Change (%)			%	Change (bps)		%	Change (bps)					
	1-week	YTD			1-week	YTD		1-week	YTD				
<b>International</b>													
CSI 300	5,240	2.7	0.6	UST 10 Year	1.52	8.1	61.2	Bhibor - 3 month	1.64	0.0	-60.8		
DAX	15,608	1.0	13.8	Bunds 10 Year	-0.16	4.7	41.9	Kibor - 3 month	1.50	0.0	6.3		
DJIA	34,434	3.4	12.5	Gilts 10 Year	0.78	2.6	58.4	Qibor - 3 month	1.00	-11.7	-11.9		
Eurostoxx 50	4,121	0.9	16.0	JGB 10 Year	0.05	-0.5	2.8	Eibor - 3 month	0.41	5.4	-10.4		
FTSE 100	7,136	1.7	10.5	<b>Regional</b>									
Nikkei 225	29,066	0.4	5.9	Abu Dhabi 2022	0.35	6.2	-15.1	Abu Dhabi 2022	0.301	0.0	-0.9		
S&P 500	4,281	2.7	14.0	Dubai 2022	0.27	0.0	7.4	KWD per EUR	0.363	0.0	-0.1		
<b>Regional</b>													
Abu Dhabi SM	6,576	-1.1	30.3	Qatar 2022	0.26	-9.1	-25.7	USD per EUR	1.193	0.6	-2.3		
Bahrain ASI	1,579	1.1	6.0	Kuwait 2022	0.33	-6.5	-13.3	JPY per USD	110.8	0.5	7.3		
Dubai FM	2,857	-0.2	14.7	KSA 2023	0.65	6.6	-7.0	USD per GBP	1.388	0.5	1.5		
Egypt EGX 30	10,279	4.2	-5.2	<b>Commodities</b>									
MSCI GCC	667	0.4	22.1		\$/unit	Change (%)		EGP per USD	15.62	0.1	-0.4		
Kuwait SE	6,460	1.0	16.5			1-week	YTD						
KSA Tadawul	10,920	0.6	25.7	Brent crude	76.2	3.6	47.1						
Muscat SM 30	4,047	-0.8	10.6	KEC	74.6	3.4	47.3						
Qatar Exchange	10,761	0.2	3.1	WTI	74.1	3.4	52.6						
										Gold	1776.6	0.5	-6.2

Updated on 25/6/2021 Source: Refinitiv

### International equity markets

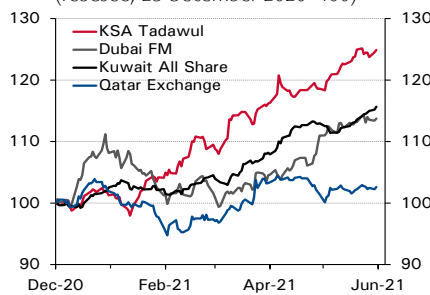
(rebased, 23 December 2020=100)



Source: Refinitiv

### GCC equity markets

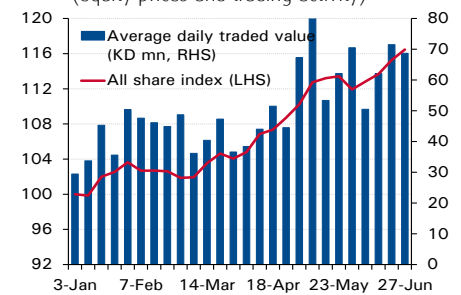
(rebased, 23 December 2020=100)



Source: Refinitiv

### Boursa Kuwait

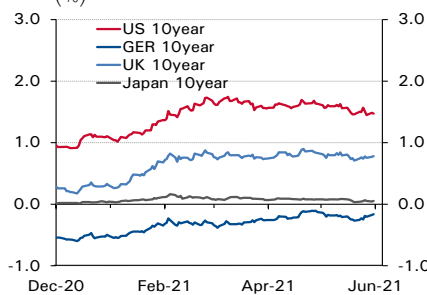
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

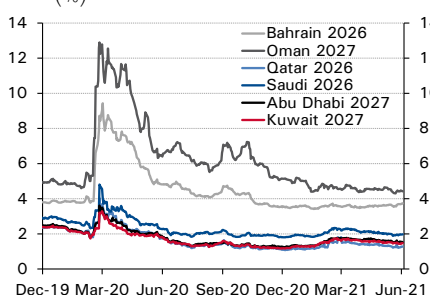
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Source: Refinitiv

### GCC bond yields

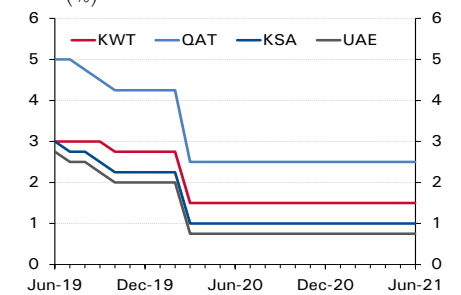
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv