

International and markets

US: Core PCE inflation, the Fed's preferred inflation gauge, edged down in May to 4.7% y/y (+0.3% m/m) from 4.9% in April, coming slightly below expectations. The headline rate clocked in at a steady but below consensus 6.3% y/y. Meanwhile, the final estimate of 1Q22 GDP growth showed the economy contracting by 1.6% q/q (annualized), slightly worse than the prior estimate of -1.5% and driven by a rather steep revision to personal consumption growth (lowered to +1.8% from +3.1%). Finally, the ISM manufacturing index dropped to the lowest level in two years in June to stand at 53 (56.1 in May), confirming the trend of decelerating activity.

Europe: Eurozone inflation exceeded expectations in June, surging to a record high of 8.6% y/y from 8.1% in May on the back of sharp increases in food and energy costs. Inflation was up in 17 of the 19 Eurozone countries and at record highs in France, Italy and Spain. Germany, a notable exception, reported slower inflation due to the introduction of temporary tax cuts and public transport discounts. Meanwhile, in the UK, ONS trade data for 1Q22 revealed a marked widening of the country's current account deficit to 8.3% from the quarterly average of 2.6% of GDP in 2021—the worst on record in published data.

China: The official composite PMI jumped to a 13-month high of 54.1 in June, signaling a return to expansion for the post-lockdown Chinese economy. Both factory (50.2) and service (54.7) activities grew for the first time in four months.

Financial markets: Global equities declined again last week as weak economic data stoked recession fears. The MSCI ACWI lost 1.9% w/w, with the S&P 500 down 2.2% w/w, ending the worst half-year performance since 1970. Safe-haven demand pushed the 10-year UST down 22 bps w/w to 2.9% from a decade high of 3.5% in mid-June. In contrast, the MSCI GCC rose 1.4% w/w, led by Qatar (3.7%) and Kuwait (2.3%).

Oil: Brent closed down 1.3% last week at \$111.6/bbl (+43.5% ytd), with global recession fears outweighing further supply-side tightness concerns, this time due to outages in Libya. June was oil's first monthly loss since November. Meanwhile, OPEC+ ratified its earlier decision to fully unwind supply cuts by August at the higher monthly rate of 648 kb/d (in July and Aug). Beyond that, the alliance's next move remains uncertain.

MENA Region

Kuwait: The parliamentary budget and closing accounts committee approved the FY22/23 budget based on spending of

KD23.1bn (5% higher than the initial draft) and revenues of KD23.4bn, the latter also upwardly revised, on a higher oil price assumption of \$80/bbl. A small surplus of KD0.3bn is expected. Meanwhile, Moody's rating agency expects the government to run fiscal surpluses over the next two years. This should lead to a stronger government balance sheet and fiscal buffers.

Saudi Arabia: The Saudi unemployment rate continued to trend lower, falling to 10.1% in 1Q22 from 11% in 4Q21, but the labor participation rate worsened to 50.1% from 51.5% in the same period. Meanwhile, it was reported that SAMA placed around SAR50bn with local banks to ease a liquidity squeeze caused by credit outpacing deposit growth over the past two and a half years. Through May, credit growth stood at 14.1% y/y while deposits rose by 8.9%.

UAE: Dubai recorded 6.2 million visitors during January-May, almost three times as many compared to the same period in 2021 and only 14% below 2019 levels. Meanwhile, petrol prices in the UAE were raised again in July, for the fifth time this year.

Qatar: The headline PMI hit a new high in June of 67.5 (63.6 in May). Output, new orders and purchasing activity were all at record highs, signaling rapid expansion in the non-oil economy.

Egypt: Fiscal data for the 11 months of FY21/22 revealed that total expenditures rose by 11.2% to reach LE1.5trn over July-May. This was largely driven by a rise in wages (+11.5% y/y) and subsidies (+31%). Meanwhile, the World Bank approved a \$500mn loan to improve Egypt's resilience to food crises and to support reforms in food security policies.

Key takeaways:

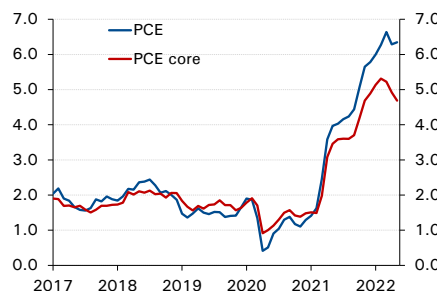
- Despite a third consecutive month of easing core PCE inflation, signs of the US economy weakening are mounting and the odds of a recession are increasing.
- June's record high Eurozone inflation reading is strengthening the case for more aggressive rate hikes by the ECB than the 0.25% planned in July. The ECB risks falling further behind the curve. Doves calling for more gradual increases, on the other hand, argue that, unlike in the US, Eurozone inflation does not reflect excess demand.
- The slated 5% increase to Kuwait's budgeted spending in FY22/23 over the initial budget draft is thought to reflect higher outlays on subsidies and transfers. However, this would still leave spending at FY21/22 budget levels, while the realized fiscal surplus could indeed be much higher, at 8.8% of GDP, as oil prices are ranging far higher than assumed in the budget.

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



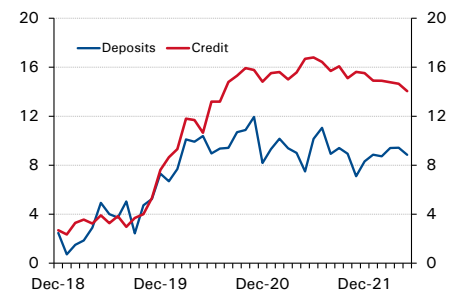
Source: Refinitiv

▶ **Chart 2: US PCE inflation**
(%, y/y)



Source: Refinitiv

▶ **Chart 3: Saudi credit & deposit growth**
(% y/y)



Source: Refinitiv

Key data

Stock markets				Bond yields			Interbank rates					
Index	Change (%)			%	Change (bps)		%	Change (bps)				
	1-week	YTD			1-week	YTD		1-week	YTD			
International				International			Interbank rates					
CSI 300	4,467	1.6	-9.6	UST 10 Year	2.90	-22.0	139.2	Bhibor - 3 month	3.57	7.0	205.3	
DAX	12,813	-2.3	-19.3	Bunds 10 Year	1.23	-21.4	140.5	Kibor - 3 month	2.19	6.3	68.8	
DJIA	31,097	-1.3	-14.4	Gilts 10 Year	2.08	-22.0	111.1	Qibor - 3 month	2.45	130.0	132.5	
Eurostoxx 50	3,448	-2.4	-19.8	JGB 10 Year	0.22	-0.4	15.1	Eibor - 3 month	1.79	-9.0	142.4	
FTSE 100	7,169	-0.6	-2.9	Regional			Saibor - 3 month	2.94	-35.6	203.3		
Nikkei 225	25,936	-2.1	-9.9	Abu Dhabi 2027	3.40	-16.9	48.0	Libor - 3 month	2.29	5.8	208.4	
S&P 500	3,825	-2.2	-19.7	Oman 2027	6.06	22.2	-74.8	Exchange rates				
Regional				Qatar 2026	3.54	-7.5	52.3	rate			Change (%)	
Abu Dhabi SM	9,345	1.2	10.1	Kuwait 2027	3.41	-14.9	38.3	1-week			YTD	
Bahrain ASI	1,840	1.3	2.4	Saudi Arabia 2028	3.78	-11.4	31.6	KWD per USD	0.307	0.2	1.5	
Dubai FM	3,202	0.0	0.2	Commodities			\$/unit		Change (%)			
Egypt EGX 30	9,226	-2.3	-22.8	1-week		YTD	Brent crude	111.6	-1.3	43.5		
MSCI GCC	746	1.4	1.2	1-week		YTD	KEC	112.5	1.5	42.3		
Kuwait SE	7,409	2.3	5.2	1-week		YTD	WTI	108.4	0.8	44.2		
KSA Tadawul	11,523	1.9	2.1	1-week		YTD	Gold	1798.9	-1.5	-1.6		
Muscat SM 30	4,123	0.2	-0.2	1-week		YTD						
Qatar Exchange	12,191	3.7	4.9	1-week		YTD						

Updated on 1/7/2022

Source: Refinitiv

International equity markets

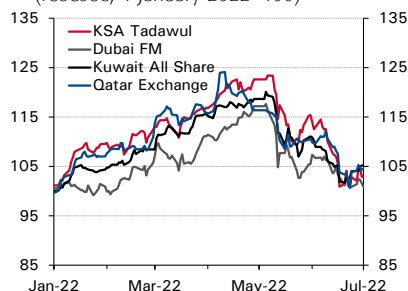
(rebased, 1 January 2022=100)



Source: Refinitiv

GCC equity markets

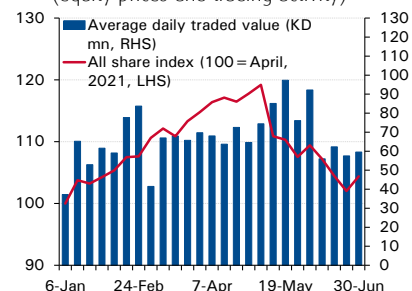
(rebased, 1 January 2022=100)



Source: Refinitiv

Boursa Kuwait

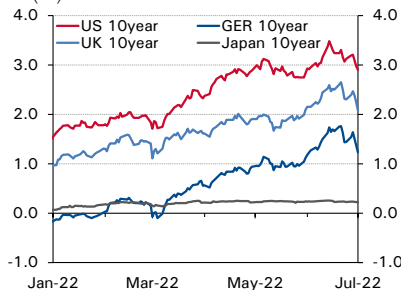
(equity prices and trading activity)



Source: Refinitiv

International bond yields

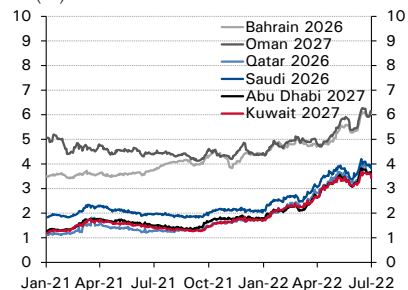
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Source: Refinitiv

GCC bond yields

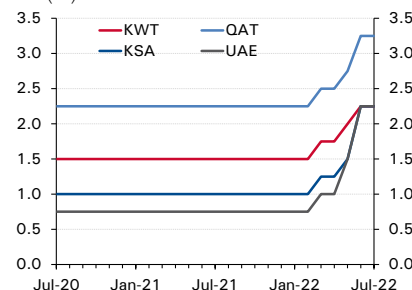
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv