

International and markets

US: Several Fed officials delivered hawkish comments about the future path of interest rates, with the futures market-implied probability for a 75 bps rate hike increasing to 91% in the upcoming Fed meeting on 21 September. Meanwhile, the ISM services index edged up to 56.9 in August (56.7 in July), beating expectations. This was the second straight month of increase after falling in the prior three months, remaining above the 50 neutral level for the 27th straight month. Finally, a weakening housing market continues to manifest itself in decreasing mortgage applications, whose index fell for the fourth straight week, dropping 0.8% w/w and a whopping 63% y/y.

Europe: The ECB hiked the deposit rate by 75 bps to 0.75% and guided for further future hikes. It upgraded the 2022 GDP growth forecast to 3.1% (from 2.8%) but lowered 2023 growth to 0.9% from 2.1%. Meanwhile, 2Q GDP was revised upwards to +4.1% y/y from +3.9% earlier. August's composite PMI was revised downwards to 48.9 from 49.2, while the services PMI also fell into the contraction territory post revision (49.8 versus 50.2). The UK's composite PMI was also negatively revised, slipping into the recessionary zone (49.6 versus 50.9). Liz Truss, appointed as the UK's new PM, is looking to support the economy by cutting taxes and capping household energy bills.

Japan: Driven by stronger business spending, GDP grew at a faster than initially reported annualized 3.5% q/q in 2Q2022, regaining the ground it lost during the pandemic.

Financial markets: Global equities were mostly positive on optimism that the economy would be resilient to rate hikes and inflation pressures. Gains were led by the S&P500 which rallied 3.6% w/w. US 10-year treasury yields continued to rise, up 13 bps to 3.32%, possibly driven by hawkish commentary from Fed officials. The MSCI GCC fell 2.6% w/w led by KSA (-2.5%) while Kuwait lost 1.2% as lower oil prices dented sentiment.

Oil: Brent managed to recoup most of its losses from earlier in the week to close on Friday at \$92.8/bbl (-0.2% w/w) amid a broader market rally linked to better-than-expected US and Chinese economic data and continuing US efforts to force a price cap on Russia's oil exports. Earlier, OPEC+ surprised markets by announcing crude production cuts of 100 kb/d in October, reversing September's output increase.

MENA Region

Saudi Arabia: Real GDP surged by 12.2% y/y in 2Q2022, the highest growth in more than 10 years, as oil activities soared by

around 23%. Growth in non-oil private activities was revised to a strong 8.2% y/y, sharply higher than the prior 5.4% official flash estimate while government activities expanded by 2.4%. The PMI increased to 57.7 in August (56.3 in July), the highest level since October 2021, with the rise in output prices (index at 50.7) decelerating sharply from July's level (53.4).

UAE: The PMI expanded to 56.7 in August (55.4 in July), the highest level since June 2019. Overall input prices witnessed the first contraction since January 2021, coming in at 48.8, a sharp decline from 56.5 in July on falling fuel and transportation costs.

Oman: The budget surplus reached RO1bn in the first seven months of 2022 (around 4.4% of estimated GDP) compared to a deficit of RO1.2bn in the same period last year, due to a sharp increase in oil/gas revenues amid higher global energy prices.

Egypt: Inflation accelerated in August to a four-year high of 14.6% y/y from 13.6% in July, with the core rate rising to 16.7% from 15.6%. Increases were seen across the board with recreation (+26%) and food (23%) leading the way. The former was driven by surging package holiday costs (45%), possibly linked to the falling pound. However, the output price segment of the PMI fell to a four-month low of 53.5, signaling a possible easing of price pressures ahead. The overall PMI activity gauge edged up to 47.6, but still in contraction territory.

Key takeaways:

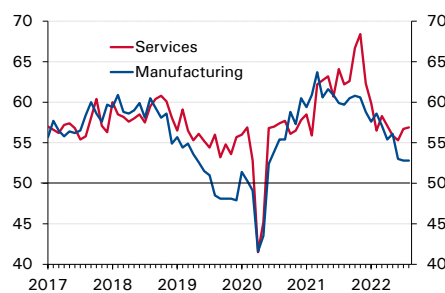
- The ongoing hawkish commentary by Fed officials have cemented the market's expectation of a 75 bps hike in the September Fed meeting. However, a lower-than-expected CPI for August (to be released on Tuesday), could still revive to a certain extent the odds for a softer 50 bps hike.
- The ECB's upgrade for 2022 GDP was likely due to the positive surprise in Q2. The rate hikes could support the euro amid widening gaps with the Fed's policy, although managing any sharp rise in Italian bond yields will also be vital.
- UK PM Liz Truss's measures to cap the energy bill will cut inflation sharply in the short term. However, they will cost around GBP 150+ billion over two years, which will be funded through additional borrowings, upsetting the fiscal balance and potentially leading to sustained higher interest rates.
- Although inflation in Egypt climbed in August, the recent fall in global commodity prices and signs of softer price pressures from the PMI suggest that it may be close to a near-term peak. A further potential drop in the Egyptian pound could be the main upside risk to the inflation outlook.

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



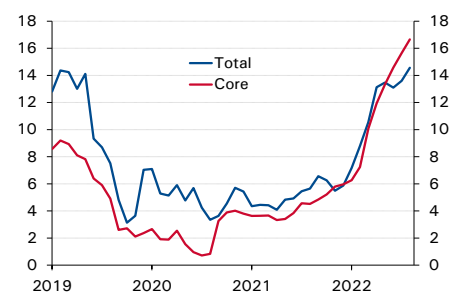
Source: Refinitiv

▶ **Chart 2: US ISM indices**
(50=no change)



Source: Haver

▶ **Chart 3: Egypt inflation**
(% y/y)



Source: Haver

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,094	1.7	-17.1
DAX	13,088	0.3	-17.6
DJIA	32,152	2.7	-11.5
Eurostoxx 50	3,570	0.7	-16.9
FTSE 100	7,351	1.0	-0.5
Nikkei 225	28,215	2.0	-2.0
S&P 500	4,067	3.6	-14.7
Regional			
Abu Dhabi SM	9,796	0.4	15.4
Bahrain ASI	1,928	0.3	7.3
Dubai FM	3,361	-1.0	5.2
Egypt EGX 30	10,265	3.3	-14.1
MSCI GCC	765	-2.6	3.8
Kuwait SE	7,555	-1.2	7.3
KSA Tadawul	11,834	-2.5	4.9
Muscat SM 30	4,513	-2.0	9.3
Qatar Exchange	12,949	-1.8	11.4

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	3.32	13.0	180.9
Bunds 10 Year	1.70	18.0	187.9
Gilts 10 Year	3.10	17.6	212.3
JGB 10 Year	0.25	1.0	18.0
Regional			
Abu Dhabi 2027	3.72	8.8	108.2
Oman 2027	5.79	-6.4	31.9
Qatar 2026	3.85	11.1	120.6
Kuwait 2027	3.65	10.1	112.8
Saudi Arabia 2028	3.95	2.0	86.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	92.8	-0.2	19.4
KEC	98.2	-4.2	24.2
WTI	86.8	-0.1	15.4
Gold	1716.2	0.4	-6.1

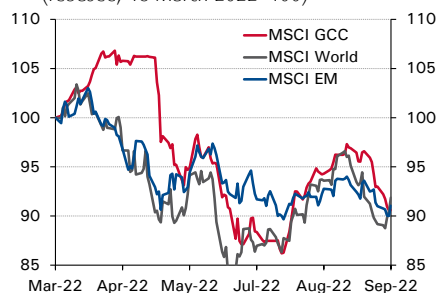
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	4.17	3.6	265.4
Kibor - 3 month	2.63	0.0	112.5
Qibor - 3 month	2.45	0.0	132.5
Eibor - 3 month	2.85	-2.9	249.0
Saibor - 3 month	3.26	11.5	235.4
Libor - 3 month	3.25	8.7	303.6
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.308	0.1	2.1
KWD per EUR	0.310	0.9	-10.0
USD per EUR	1.004	0.9	-11.7
JPY per USD	142.5	1.7	23.8
USD per GBP	1.159	0.7	-14.4
EGP per USD	19.31	0.6	23.3

Updated on 9/9/2022

Source: Refinitiv

International equity markets

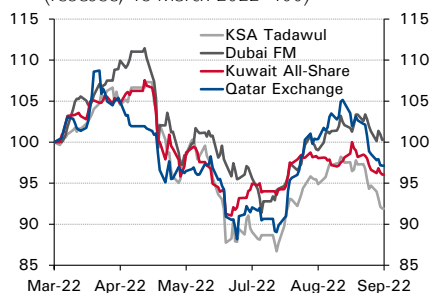
(rebased, 18 March 2022=100)



Source: Refinitiv

GCC equity markets

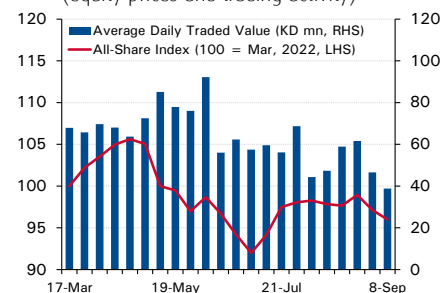
(rebased, 18 March 2022=100)



Source: Refinitiv

Boursa Kuwait

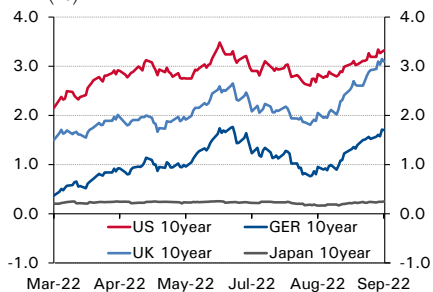
(equity prices and trading activity)



Source: Refinitiv

International bond yields

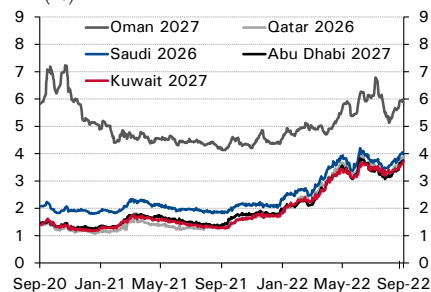
(%)



Source: Refinitiv

GCC bond yields

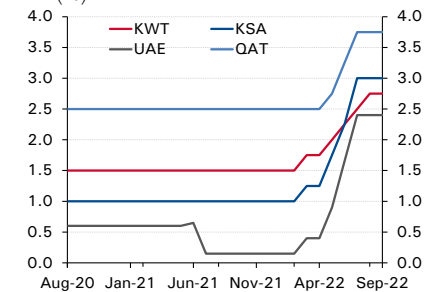
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv