

### International

**US:** The Federal Reserve as expected left interest rates on hold at 2.25-2.50% but took a step towards looser monetary policy by dropping its calls for 'patience' in future rate changes and signaling that rates would be cut if downside risks continued to weigh on growth. Economic data was on the soft side last week, with the flash PMI for June registering barely any growth at 50.6 (50.9 in May), while separately, both the Philadelphia Fed (0) and Empire State (-9) surveys point to growing weakness in manufacturing, perhaps linked to trade tensions. However the current account deficit edged down to 2.5% of GDP in 1Q19 from 2.8% in 4Q18, helped by a lower trade deficit thanks to falling goods imports.

**Europe:** The Eurozone PMI improved slightly to 52.1 in June from 51.8 in May representing shallow growth, though manufacturing continued to contract with a score of 47.8. Final HICP figures for May confirmed inflation fell to just 1.2% y/y (core 1.0%) from 1.7% in April. Both sets of figures were broadly supportive of a move towards fresh monetary stimulus by the central bank, made more probable by dovish comments by ECB president Draghi. In the UK, former London Mayor Boris Johnson is clear favorite to become the new prime minister having been selected by Conservative MPs as one of two candidates to replace outgoing leader Theresa May. The final decision will be made by party members in mid-July.

**Financial markets:** Equities rallied on dovish signals by global central banks. The MSCI AC World index rose 2% w/w led by MSCI Emerging Markets index (2.8%), the Eurostoxx 50 (2.6%) and the S&P500 (2.2%), which hit an all-time high. 10-year US treasury yields sunk 9 bps to a low of 2.00% last week but rose to 2.07% Friday on US-Iran tensions.

**Oil:** Escalating tensions between Iran and the US helped push Brent crude up to \$65.2/bbl (+5.1% w/w) for its first weekly gain in almost a month. The IEA, however, revised down for the second month in a row its estimate for global demand growth in 2019, by 100 kb/d to 1.2 mb/d. It cited warmer winter weather in Japan, weaker-than-expected US gasoline demand and slower petrochemicals activity in Europe.

### MENA Region

**Saudi Arabia:** Inflation remained negative in May at -1.5% y/y (-1.9% in April), with the pick-up due to food and clothing

costs. This was the fifth successive month of deflation, driven by falling housing rents and base effects after last year's VAT implementation. Meanwhile FDI inflows in 2018 more than doubled to \$3.2 billion (0.4% of GDP). Total FDI inflows to the GCC rose 0.1% to \$17.4 billion, with the UAE (\$10.4 billion) continuing to attract the majority of regional investment.

**Qatar:** Economic growth will accelerate to 2.6% in 2019 from 2.2% in 2018, according to the IMF. Non-oil activity will be underpinned by government infrastructure spending and private sector output gains. Medium-term growth will be boosted by Barzan gas output and a 40% rise in LNG capacity. Fiscal consolidation has proceeded gradually, with the fiscal surplus expected to widen to 3% of GDP in 2019 from 2.3% of GDP in 2018 thanks to higher energy prices.

**Oman:** Moody's expects funding and liquidity conditions in Oman to remain constrained over the next 1-2 years, as private credit growth and government borrowing outweigh deposit growth. Private credit growth is set to hold firm on healthy business and housing demand. Deposit growth will be weighed by weak government deposits on low oil receipts.

**Financial markets:** Markets were mixed but flat overall, affected by oil tanker attack tensions but later regaining momentum. Abu Dhabi and Qatar outperformed, gaining 1.6% w/w. Kuwait's All-Share was down 0.6% w/w and eagerly awaits the MSCI-EM inclusion announcement on Tuesday.

#### Key takeaways:

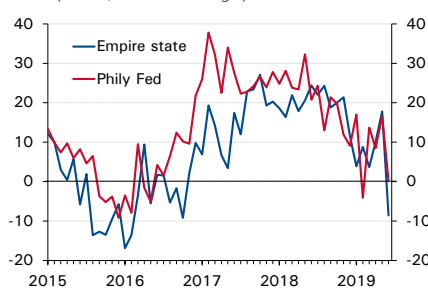
- Although still not a foregone conclusion according to some analysts, the Fed may be heading towards a July rate cut as 'insurance' against a future economic slowdown. However, futures markets are more confident, now pricing in a 72% probability of a 25 bps cut and a 28% chance of a 50 bps cut.
- The expected selection of Boris Johnson as the UK's new prime minister in July would likely see the government take a firmer pro-Brexit stance, with Johnson committing to leaving the EU in October on WTO terms if necessary. Given parliamentary opposition to such a move however, the chances of a general election would be high.
- The strong rise in Saudi FDI in 2018 was encouraging given the modest economic growth backdrop. The Vision 2030 target of 5.7% of GDP by 2030 is a challenge though and the authorities will need to realize sizeable FDI gains from their recently-unveiled industrial and private sector programs.

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



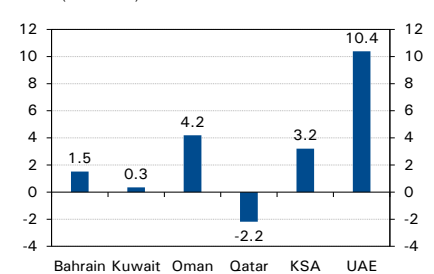
Source: Refinitiv

▶ **Chart 2: US manufacturing surveys** (index; 50=no change)



Source: Refinitiv

▶ **Chart 3: GCC FDI inflows, 2018** (\$ billion)



Source: UNCTAD

## Key data

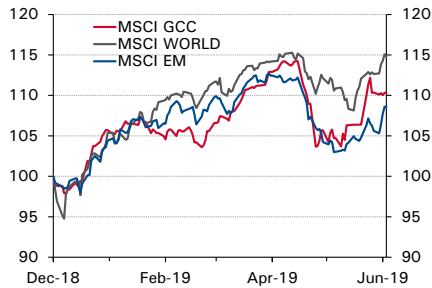
Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,834	4.9	27.3
DAX	12,340	2.0	16.9
DJIA	26,719	2.4	14.5
Eurostoxx 50	3,467	2.6	15.5
FTSE 100	7,408	0.8	10.1
Nikkei 225	21,259	0.7	6.2
S&P 500	2,950	2.2	17.7
<b>Regional</b>			
Abu Dhabi SM	5,045	1.6	2.6
Bahrain ASI	1,455	0.4	8.8
Dubai FM	2,659	1.0	5.1
Egypt EGX 30	14,043	-1.0	7.7
S&P GCC 40	1,193	1.6	8.4
Kuwait SE	5,817	-0.6	14.5
KSA Tadawul	8,870	-0.8	13.3
Muscat SM 30	3,928	0.2	-9.1
Qatar Exchange	10,689	1.6	3.8

Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.07	-2.8	-62.5
Bunds 10 Year	-0.28	-2.5	-52.7
Gilts 10 Year	0.84	-0.3	-42.5
JGB 10 Year	-0.16	-3.7	-16.6
<b>Regional</b>			
Abu Dhabi 2022	2.21	-13.9	-109.1
Dubai 2022	2.96	-11.9	-96.8
Qatar 2022	2.47	-12.6	-98.4
Kuwait 2022	2.17	-11.6	-115.4
KSA 2023	2.71	-14.3	-116.4
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	65.2	5.1	21.2
KEC	65.2	6.3	24.9
WTI	57.4	9.4	26.5
Gold	1396.2	4.2	9.2

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.18	0.0	-76.7
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.76	-7.2	-14.6
Eibor - 3 month	2.66	-1.9	-17.3
Saibor - 3 month	2.74	-3.1	-23.1
Libor - 3 month	2.34	-6.7	-46.5
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	-0.1	0.0
KWD per EUR	0.344	1.4	-1.1
USD per EUR	1.137	1.4	-0.9
JPY per USD	107.3	-1.2	-2.1
GBP per USD	1.274	1.2	-0.1
EGP per USD	16.64	-0.4	-6.8

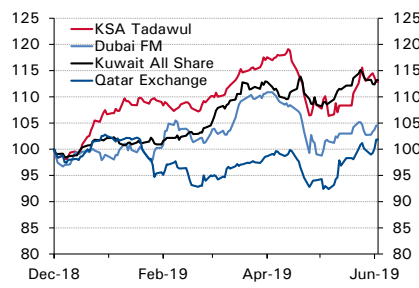
Updated on 21/6/2019 Source: Refinitiv

### International equity markets (rebased, 19 December 2018=100)



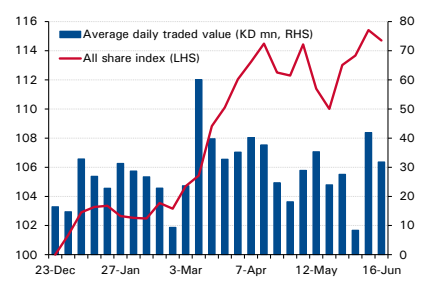
Source: Refinitiv

### GCC equity markets (rebased, 19 December 2018=100)



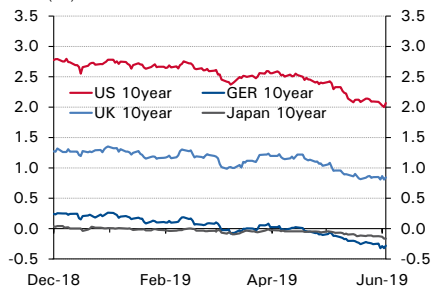
Source: Refinitiv

### Boursa Kuwait (equity prices and trading activity)



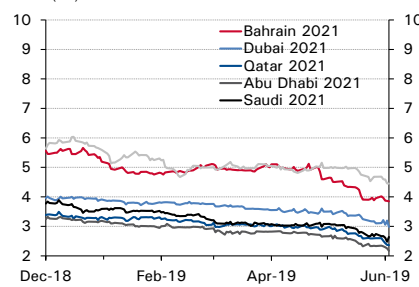
Source: Refinitiv

### International bond yields (%)



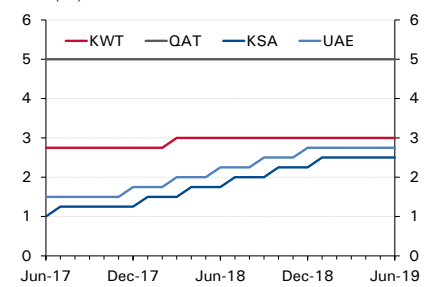
Source: Refinitiv

### GCC bond yields (%)



Source: Refinitiv

### GCC key policy rates (%)



Source: Refinitiv