

### International and markets

**US:** Consumer price inflation rose a robust if consensus-matching 0.5% m/m in July (+5.4% y/y). An acceleration in food price inflation was offset by slightly slower price rises elsewhere, with core inflation edging down to 4.3% y/y from 4.5% in June. Meanwhile, producer price inflation jumped to a series high of 7.7% y/y in July, signaling sizeable price pressures in the pipeline. Consumer sentiment dropped to a 10-year low of 70.2 in August from 81.2 in July. This was attributed to high prices and, more importantly, the spread of the Delta virus variant, which if sustained could see consumers moderate their purchasing behavior in the weeks ahead. The Senate approved the huge budget (\$3.5trn) and infrastructure (\$1trn) spending bills. Both will now be debated in the House.

**UK:** GDP in 2Q21 jumped 4.8% q/q, boosted by an easing in virus restrictions, leaving output 4.4% below pre-crisis levels. This was in line with expectations. The Bank of England left policy on hold in August, but with the economy recovering and inflation projected at 4% by year-end, a 'modest tightening' of policy is likely over the next two years.

**Financial markets:** Global equities gained last week, with US and European indices closing at all-time highs. The S&P 500 gained 0.7% w/w (+19% ytd), supported by the Senate's approval of the infrastructure bill and by a fall in jobless claims. The MSCI GCC index rose 1.4% w/w, driven by Abu Dhabi (+50.5% ytd) and KSA (+30.3% ytd). Kuwaiti equities rose 0.7% w/w (+19.2% ytd).

**Oil:** Brent closed on Friday down w/w for the second consecutive week, at \$70.6/bbl (-0.2% w/w), again on Covid Delta worries. The IEA, in its August oil report, noted that oil demand fell in July by 120 kb/d m/m, following a 3.6 mb/d surge in June, driven by increased mobility in the US and Europe. It reduced sharply its oil demand growth estimate for the rest of the year, though still sees it rising 5.3 mb/d (avg.) in 2021 versus 2020.

### MENA Region

**Kuwait:** The fiscal deficit in FY20/21 reached a record KD10.8bn (33.2% of GDP), from KD3.9bn the previous year, the MOF's closing accounts revealed. Oil revenues plunged by 42.8% to KD8.8bn, while total expenditures increased by 0.7% to KD21.3bn in a pandemic-affected year. Wages and subsidies, comprising 73% of spending, declined by 2.3% to KD15.6bn. Capex was cut by 27.5% to KD1.9bn. Credit growth accelerated

by 1% m/m (+3.6% y/y) in June, the fastest rate since March 2020, on the back of household credit gains (+11.6% y/y). Business credit growth was muted (+0.2% y/y).

**Saudi Arabia:** Official flash estimates show real GDP increased by 1.5% y/y in 2Q21. Gains were led by the non-oil sector (+10.1%), while oil activity declined (-7.0%). Fiscal results for 2Q21 show that the budget deficit narrowed to SAR4.6bn, or 1% of 1H21 GDP, helped by higher oil revenues (+38% y/y) and a tripling in non-oil revenues (+203% y/y) on the back of increases to VAT. Expenditure growth was restrained at 3.9% y/y. July's PMI reading edged down to a still-strong 55.8 from 56.4 in June.

**UAE:** Retailers registered a 4% increase in consumer spending during 2Q21 amid signs of growth in the country's retail sector. Business activity improved further in July, with the PMI rising to 54.0—its highest reading in two years.

**Egypt:** Urban inflation rose to an 8-month high of 5.4% y/y in July (versus 4.9% in June), on higher food costs (+4.9%). Core inflation reached a near 2-year high of 4.6%. Both rates remain well below the mid-point of the central bank's target range of 7% +/-2%. Still, the CBE recently left interest rates on hold at 8.25-9.25%, citing an improving domestic and global economic climate as well as high or rising international food and oil prices.

#### Key takeaways:

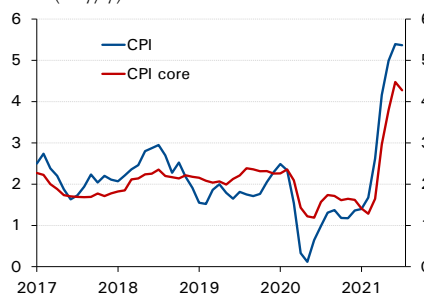
- US July inflation remains well above the Fed's 2% target. Surging producer prices, together with the huge budget and infrastructure spending bills, point to persistent inflationary risks ahead. The Fed may tighten policy sooner than expected with a possible tapering of assets purchase before the end of the year.
- Kuwait's record fiscal deficit in FY20/21 highlights once again the need to initiate in earnest economic and fiscal reforms. In the meantime, there is an urgent need to secure sources for budget financing after the almost complete depletion of the General Reserve Fund (GRF).
- The rebound in Saudi non-oil revenues has been helped by taxes (e.g. VAT); the fiscal deficit in 2021 likely to come in below the 4.9% of GDP budgeted by the government.
- Inflation in Egypt is likely to rise further over coming months following a hike in local fuel costs in late July and possible moves to increase the price of subsidized bread. This will likely discourage the central bank from making fresh interest rate cuts.

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



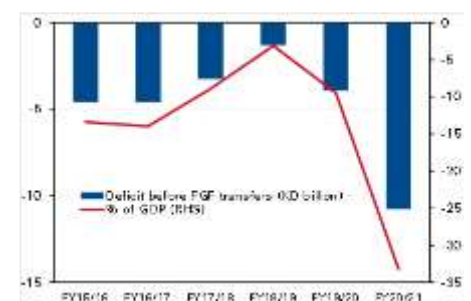
Source: Refinitiv

▶ **Chart 2: US inflation** (% y/y)



Source: Refinitiv

▶ **Chart 3: Kuwait fiscal accounts**



Source: Kuwait Ministry of Finance

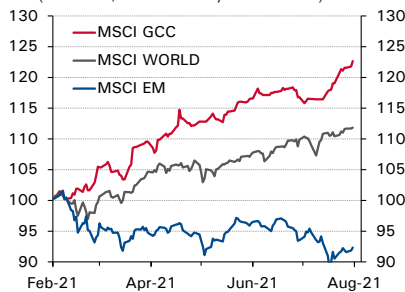
## Key data

Stock markets	Index	Change (%)		Bond yields	%	Change (bps)		Interbank rates	%	Change (bps)					
		1-week	YTD			1-week	YTD			1-week	YTD				
<b>International</b>															
CSI 300	4,946	0.5	-5.1	UST 10 Year	1.28	-2.2	37.1	Bhibor - 3 month	1.58	0.0	-67.5				
DAX	15,977	1.4	16.5	Bunds 10 Year	-0.46	-0.8	11.2	Kibor - 3 month	1.50	0.0	6.3				
DJIA	35,515	0.9	16.0	Gilts 10 Year	0.58	-3.7	38.0	Qibor - 3 month	0.93	-5.4	-19.2				
Eurostoxx 50	4,230	1.3	19.1	JGB 10 Year	0.02	1.0	0.3	Eibor - 3 month	0.37	-5.0	-14.0				
FTSE 100	7,219	1.3	11.7	<b>Regional</b>											
Nikkei 225	27,977	0.6	1.9	Abu Dhabi 2022	0.43	6.6	-7.4	Dubai 2022	0.27	0.0	7.4				
S&P 500	4,468	0.7	19.0	Qatar 2022	0.38	9.7	-14.4	Kuwait 2022	0.42	-7.3	-4.1				
<b>Regional</b>															
Abu Dhabi SM	7,594	2.4	50.5	KSA 2023	0.68	5.2	-3.9	<b>Exchange rates</b>							
Bahrain ASI	1,631	1.0	9.5					rate	Change (%)						
Dubai FM	2,815	-0.2	12.9					1-week YTD							
Egypt EGX 30	10,885	1.5	0.4					KWD per USD	0.300	-0.1	-1.1				
MSCI GCC	699	1.4	27.9					KWD per EUR	0.363	0.0	-0.1				
Kuwait SE	6,613	0.7	19.2					USD per EUR	1.179	0.3	-3.5				
KSA Tadawul	11,324	1.0	30.3					JPY per USD	109.6	-0.6	6.1				
Muscat SM 30	4,002	0.0	9.4					USD per GBP	1.386	-0.1	1.4				
Qatar Exchange	10,920	0.1	4.6					EGP per USD	15.65	-0.1	-0.3				
<b>Commodities</b>															
		\$/unit		Change (%)											
				1-week		YTD									
Brent crude	70.6	-0.2	36.3												
KEC	72.1	1.6	42.4												
WTI	68.4	0.2	41.1												
Gold	1775.2	0.9	-6.2												

Updated on 13/8/2021 Source: Refinitiv

### International equity markets

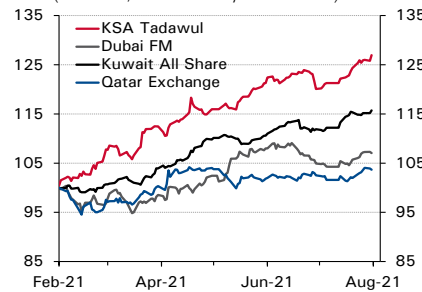
(rebased, 11 February 2021=100)



Source: Refinitiv

### GCC equity markets

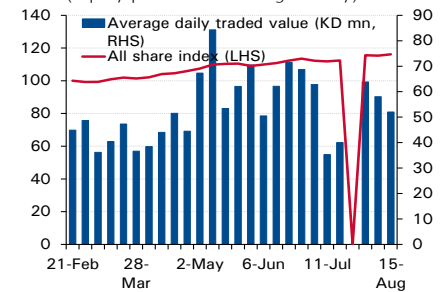
(rebased, 11 February 2021=100)



Source: Refinitiv

### Bursa Kuwait

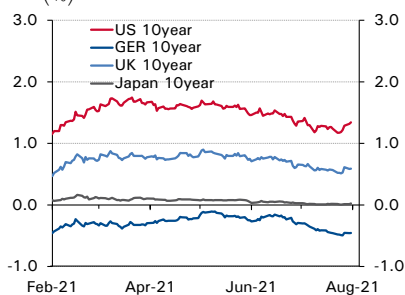
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

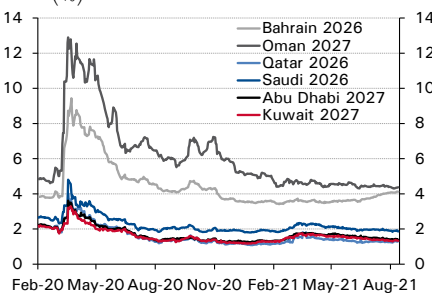
(%)



Source: Refinitiv

### GCC bond yields

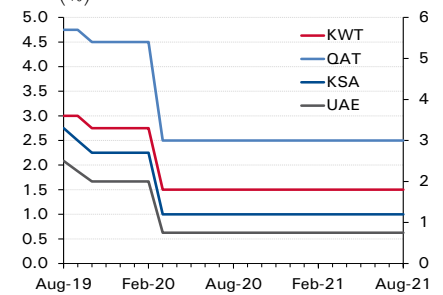
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv