

International and markets

Global: The World Bank revised down its global growth forecast for 2022 to 2.9% from 4.1% in January, citing the economic fallout from the Russia-Ukraine conflict, weaker pandemic-linked Chinese growth and associated supply chain disruptions.

US: Inflation in May surprised on the upside, accelerating to 8.6% y/y (versus an expected 8.2%) from 8.3% in April. This is the highest reading since 1981 and was largely a reflection of surging energy and food costs, though price rises were generally broad-based, with the core rate rising 6% y/y on the back of costlier goods (+8.5%) and services (+5.2%). Meanwhile, the housing market continued to show signs of cooling, with mortgage demand (applications) declining 6.5% w/w (-55% y/y) to the lowest level in around 22 years amid rising rates.

Europe: The ECB, as expected, confirmed that it would end its QE program in early July, but, in a surprisingly hawkish move, pre-announced its intention to hike rates by 25 bps at its July meeting and by a larger amount in September if inflationary pressures persist. These moves would push the current deposit rate of -0.5% into positive territory. It also revised up its forecast for inflation this year (to 6.8% from 5.1% before) but cut growth (to 2.8% from 3.7%). In the UK, PM Boris Johnson survived a no confidence vote by his own MPs, though by a smaller-than-expected margin. He may now look to galvanize support with tax cuts and moves to boost home ownership.

China: Consumer price inflation was unchanged in May at 2.1%, though factory-gate inflation fell to a 14-month low (+6.4% y/y) on weaker industrial commodities demand amid Covid curbs. Meanwhile, parts of Shanghai were back under lockdown after more Covid-19 cases were detected.

Financial markets: Global equities mostly saw sharp declines amid higher than expected US inflation data, denting sentiment and strengthening rate-hike expectations. The MSCI ACWI lost 3.8% w/w, led by the S&P 500 (-5.1% w/w). US10Y treasury yields surged 22 bps w/w to 3.16%, the highest since Nov 2018. GCC equities mostly followed suit: the MSCI GCC fell 0.6% w/w, led by declines in Abu Dhabi (-2.1%) and Kuwait (-2.0%).

Oil: Brent managed a fourth weekly gain, rising 1.9% w/w to \$122/bbl (+57% ytd) on a tight fuel supply picture and the prospect of stronger Chinese oil demand post-lockdown. Brent did fall in the last two trading sessions, however, after release of the US inflation data and the strengthening US dollar.

MENA Region

GCC: Foreign direct investment (FDI) flows into the GCC surged to \$44.4 billion in 2021 (+67% y/y), according to UNCTAD's World Investment Report 2022. This is the largest volume since 2010, with both Saudi and the UAE attracting around \$20 billion. Kuwait saw inflows of \$198 million.

Kuwait: Parliament's financial and economic committee approved several MP suggestions, including to increase the marriage loan to KD8000, create a KD0.5 billion fund to buy agricultural land abroad and to double the cost of living allowance.

Saudi Arabia: Moody's affirmed the kingdom's "A1" credit rating (with a stable outlook), citing the government's good track record of effective fiscal policy. Meanwhile, GDP increased in 1Q22 by 9.9% y/y, the fastest rate in more than 10 years, on the back of expanding oil (+20.3%), non-oil (+3.7% y/y) and government sector output (+2.4%).

UAE: In 2021, real GDP grew by 3.8% y/y (non-oil at +5.3%; oil at -0.1%), the central bank reported—while also upwardly revising growth in 2020 to -4.8% from the previous -6.1% on a smaller contraction in non-oil GDP. Meanwhile, Dubai's PMI in May rose to its highest level in nearly three years (55.7) on stronger output and new orders.

Egypt: Urban inflation accelerated to a three-year high of 13.5% y/y in May, up from 13.1% in April. Meanwhile, the World Bank revised up Egypt's GDP growth in FY21/22 to 6.1% from 5.5% on stronger-than-expected activity during the first half of the fiscal year (pre-Russia-Ukraine conflict).

Key takeaways:

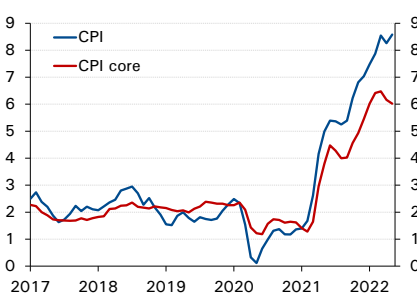
- The broad-based surge in US inflation in May casts doubt on how close peak inflation is and keeps the pressure on the Fed to raise interest rates. Traders are now pricing in at least a 50 bps rate hike in each of the next three Fed meetings.
- The ECB's hawkish message is effectively an admission that it has been too slow to tighten policy in response to high inflation. However, the bank must be careful to avoid triggering a further widening of periphery country bond yield spreads, amid concerns about debt sustainability as interest rates rise.
- MPs in Kuwait's National Assembly are looking to the government to pursue a more expansionary fiscal policy against a backdrop of surging oil prices. Parliamentary suggestions, if passed, are expected to raise the current year's budget by KD0.7 billion, or 3.2% from the earlier draft.

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



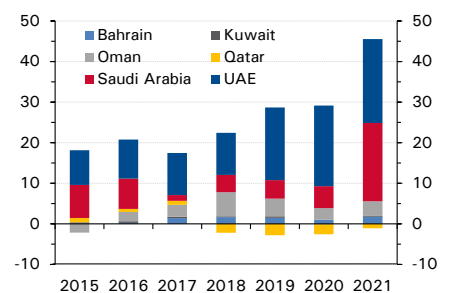
Source: Refinitiv

▶ **Chart 2: US inflation**
(% y/y)



Source: Refinitiv

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



Source: UNCTAD World Investment Report 2022

Key data

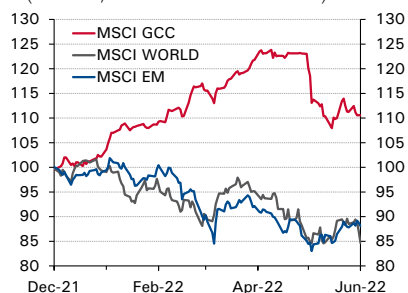
Stock markets				Bond yields				Interbank rates				
Index	Change (%)			%	Change (bps)			%	Change (bps)			
	1-week	YTD			1-week	YTD			1-week	YTD		
International				International				Regional				
CSI 300	4,239	3.7	-14.2	UST 10 Year	3.16	22.4	165.3	Abu Dhabi 2027	3.41	21.6	48.0	
DAX	13,762	-4.8	-13.4	Bunds 10 Year	1.50	23.2	168.1	Oman 2027	5.74	36.6	-74.8	
DJIA	31,393	-4.6	-13.6	Gilts 10 Year	2.44	28.9	147.1	Qatar 2026	3.57	34.7	52.3	
Eurostoxx 50	3,599	-4.9	-16.3	JGB 10 Year	0.25	1.5	18.0	Kuwait 2027	3.22	5.6	38.3	
FTSE 100	7,318	-2.9	-0.9	Regional				Saudi Arabia 2028	3.78	31.7	31.6	
Nikkei 225	27,824	0.2	-3.4	Commodities								
S&P 500	3,901	-5.1	-18.2		\$/unit	Change (%)			Exchange rates			
Regional												
Abu Dhabi SM	9,628	-2.1	13.4	Brent crude	122.0	1.9	56.9	KWD per USD	0.307	0.1	1.4	
Bahrain ASI	1,883	-1.2	4.8	KEC	123.4	6.0	56.1	KWD per EUR	0.328	0.0	-3.4	
Dubai FM	3,377	-0.3	5.7	WTI	120.7	1.5	60.4	USD per EUR	1.052	-1.9	-7.5	
Egypt EGX 30	10,235	2.3	-14.3	Gold	1871.5	1.4	2.4	JPY per USD	134.4	2.7	16.8	
MSCI GCC	805	-0.6	9.2					USD per GBP	1.231	-1.4	-9.0	
Kuwait SE	7,609	-2.0	8.0					EGP per USD	18.69	0.5	19.3	
KSA Tadawul	12,604	0.0	11.7									
Muscat SM 30	4,135	0.1	0.1									
Qatar Exchange	13,099	2.3	12.7									

Updated on 10/6/2022

Source: Refinitiv

International equity markets

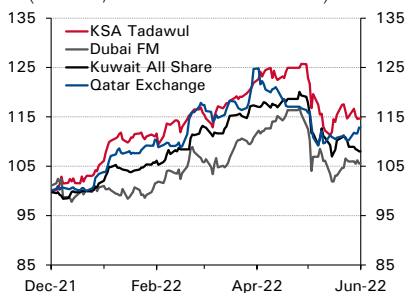
(rebased, 10 December 2021=100)



Source: Refinitiv

GCC equity markets

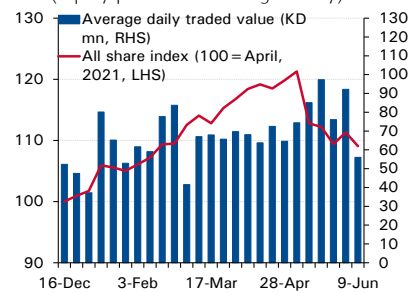
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Source: Refinitiv

Boursa Kuwait

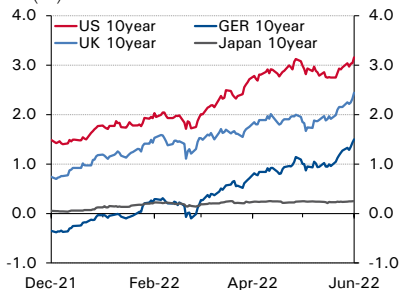
(equity prices and trading activity)



Source: Refinitiv

International bond yields

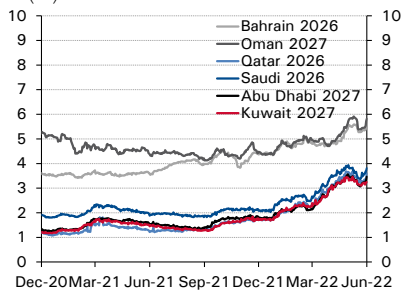
(%)



Source: Refinitiv

GCC bond yields

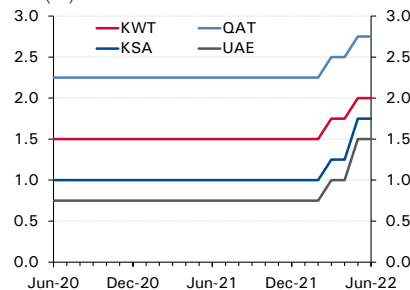
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv