

International and markets

US: In a further sign of the sharp economic recovery, the flash composite PMI gauge of activity surged to a record-high of 68.1 in May from 63.5 in April, including a record 70.1 for the services sector, boosted by rising confidence and reopening measures. Reflecting this buoyancy, both the input and output price readings also reached historic highs. Despite now consistent signs of very strong demand and price pressures, minutes from the Fed's late-April meeting showed that policymakers were not yet ready to discuss tapering of their QE program, though could do so at an upcoming meeting if the recovery remained on track. They also reiterated their view that current inflationary pressures would be mostly transitory, reflecting y/y base effects and supply-demand mismatches during the reopening period.

Europe: The composite PMI for the Eurozone rose to a more than 3-year high of 56.9 in May (53.8 in April) amid reopening measures. Inflation pressures are also increasingly visible with higher input costs pushing up the output price to a record high. Like the Fed, the ECB believes that price pressures are mostly temporary, driven by near-term supply chain issues.

China: Industrial output grew 9.8% y/y in April (+14.1% in March), while retail sales growth decelerated to 17.7% y/y down from a 34.2% jump seen in March and much weaker than expected. This softening trend reflects fading base effects as well as lower activity following the withdrawal of policy support.

Financial markets: Global markets were little changed as volatility rose amid rising concerns of inflation and possibility of tighter monetary policy. The MSCI AC World index rose 0.2% w/w while the S&P 500 (-0.4% w/w) trailed behind. Meanwhile, gold rose for the third week to a near 4-month high, while US treasury yields were broadly stable. GCC markets were also little changed (MSCI GCC +0.3% w/w), with Kuwait's All-Share index up 0.2% though UAE markets saw relatively strong gains.

Oil: Worries over additional supplies from Iran pushed oil prices down with Brent falling 3.3% w/w to \$66.4/bbl (+28% ytd), its worst weekly performance since mid-March. Sanctions on Iran could be lifted sooner rather than later given progress at the nuclear talks. The IEA stated that no new oil/gas projects should be sanctioned if the world aims to reach net-zero emissions by 2050 and limit the global temperature rise to 1.5°C.

Kuwait: Real estate sales totaled KD 250mn in April, roughly in line with the pre-pandemic monthly average mainly due to an active residential sector, with sales of KD 199mn stemming from 748 deals. Looking back at the past two quarters, we estimate that total monthly sales averaged roughly KD 271mn in 4Q20 and KD 280mn in 1Q21. Meanwhile, sales in the investment and commercial sectors have partially recovered from their lows in 2Q20, but remained relatively muted so far in the year at an estimated monthly average of about KD 48mn and KD 14mn, respectively.

Saudi Arabia: After softening for three consecutive months, inflation picked up to 5.3% y/y in April from 4.9% in March. This was almost fully driven by an acceleration of transport prices (13% weight in the basket) to 14.9% y/y compared with 10.5% in March. Meanwhile, the decision to open international borders and to allow vaccinated citizens to travel abroad took effect on 17 May, while an institutional quarantine requirement has been imposed on non-vaccinated expats entering the country.

UAE: In an effort to boost foreign investment, the government announced that foreigners would not require anymore a local partner to set up companies in the country, effective June 2021.

Egypt: Urban inflation softened to 4.1% y/y in April from 4.5% in March mainly reflecting a 0.3% y/y decline in food and beverage prices (+1% y/y in March), while core inflation also decelerated to 3.3% y/y in April from 3.7% in March.

Key takeaways:

- Although the last Fed meeting minutes did not signal any reversal in monetary policy, the recent data suggests that tightening could come sooner than expected. Delaying this step would risk it acting too late if inflation persists, and being also "behind the curve" if other central banks tighten policy sooner.
- Brent has struggled to break through \$70/bbl, but hopes of a near-term demand rebound as consumers take to the roads and international travel resumes this summer has kept oil within range. The IEA's shock 'Net Zero by 2050' announcement is not all bad news for producers: OPEC's market share of a much-reduced global oil supply is expected to rise to 52% from 37% in that timeframe.
- The inflation pickup in KSA could be viewed as an indication of improving economic activity. This followed an increase in the PMI in April, a favorable fiscal outcome for 1Q2021, and good first quarter non-oil growth of 3.3% y/y (ex. government services). So far, all that is auguring well for the 2021 outlook.

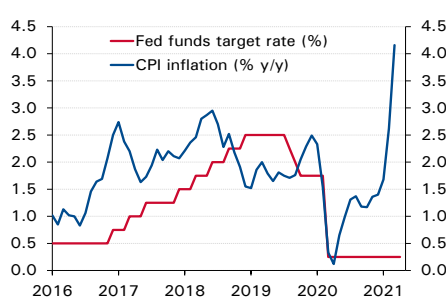
MENA Region

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



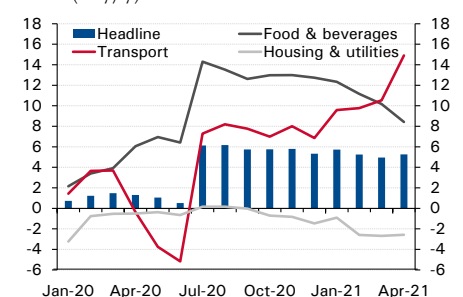
Source: Refinitiv

▶ **Chart 2: US Fed funds and CPI**



Source: Refinitiv

▶ **Chart 3: KSA inflation** (% y/y)



Source: GASTAT

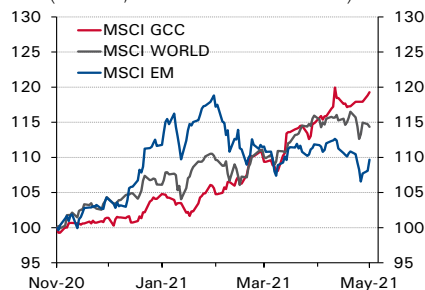
Key data

| Stock markets | Index | Change (%) | | Bond yields | % | Change (bps) | | Interbank rates | % | Change (bps) | | | | | |
|----------------------|--------|------------|------|-----------------------|---------|--------------|-------|------------------|--------|--------------|-------|------|--|--|--|
| | | 1-week | YTD | | | 1-week | YTD | | | 1-week | YTD | | | | |
| International | | | | | | | | | | | | | | | |
| CSI 300 | 5,134 | 0.5 | -1.5 | UST 10 Year | 1.63 | -0.3 | 72.0 | Bhibor - 3 month | 1.43 | 0.0 | -81.7 | | | | |
| DAX | 15,438 | 0.1 | 12.5 | Bunds 10 Year | -0.13 | -0.4 | 44.8 | Kibor - 3 month | 1.50 | 0.0 | 6.3 | | | | |
| DJIA | 34,208 | -0.5 | 11.8 | Gilts 10 Year | 0.83 | -2.6 | 63.6 | Qibor - 3 month | 1.17 | 2.0 | 4.9 | | | | |
| Eurostoxx 50 | 4,026 | -0.2 | 13.3 | JGB 10 Year | 0.08 | 0.0 | 5.9 | Eibor - 3 month | 0.35 | -4.0 | -16.7 | | | | |
| FTSE 100 | 7,018 | -0.4 | 8.6 | Regional | | | | | | | | | | | |
| Nikkei 225 | 28,318 | 0.8 | 3.2 | Abu Dhabi 2022 | 0.32 | -2.7 | -18.4 | Dubai 2022 | 0.16 | -12.9 | -3.9 | | | | |
| S&P 500 | 4,156 | -0.4 | 10.6 | Dubai 2022 | 0.16 | -12.9 | -3.9 | Qatar 2022 | 0.48 | 7.7 | -3.7 | | | | |
| Regional | | | | | | | | | | | | | | | |
| Abu Dhabi SM | 6,518 | 5.0 | 29.2 | Kuwait 2022 | 0.79 | 0.3 | 33.3 | KSA 2023 | 0.68 | 0.0 | -4.2 | | | | |
| Bahrain ASI | 1,537 | 0.5 | 3.2 | Commodities | | | | | | | | | | | |
| Dubai FM | 2,751 | 2.0 | 10.4 | Brent crude | \$/unit | 66.4 | -3.3 | 28.3 | KEC | 64.6 | -3.2 | 27.5 | | | |
| Egypt EGX 30 | 10,732 | -0.3 | -1.0 | WTI | 63.6 | -2.7 | 31.0 | WTI | 63.6 | -2.7 | 31.0 | | | | |
| MSCI GCC | 642 | 0.3 | 17.5 | Gold | 1876.7 | 2.1 | -0.9 | Gold | 1876.7 | 2.1 | -0.9 | | | | |
| Kuwait SE | 6,290 | 0.2 | 13.4 | Exchange rates | | | | | | | | | | | |
| KSA Tadawul | 10,340 | 0.2 | 19.0 | KWD per USD | 0.300 | -0.2 | -1.1 | KWD per EUR | 0.363 | 0.0 | -0.1 | | | | |
| Muscat SM 30 | 3,868 | 0.9 | 5.7 | USD per EUR | 1.218 | 0.3 | -0.3 | JPY per USD | 108.9 | -0.4 | 5.5 | | | | |
| Qatar Exchange | 10,695 | -2.1 | 2.5 | USD per GBP | 1.415 | 0.4 | 3.5 | EGP per USD | 15.61 | 0.0 | -0.5 | | | | |

Updated on 21/5/2021 Source: Refinitiv

International equity markets

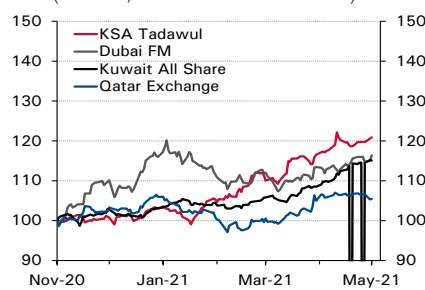
(rebased, 18 November 2020=100)



Source: Refinitiv

GCC equity markets

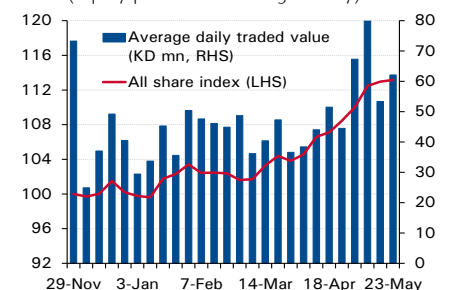
(rebased, 18 November 2020=100)



Source: Refinitiv

Boursa Kuwait

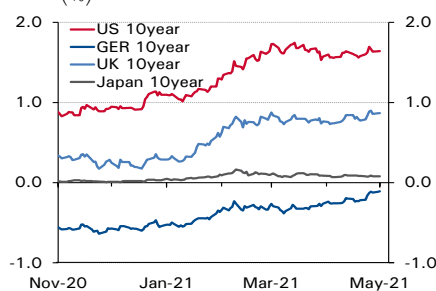
(equity prices and trading activity)



Source: Refinitiv

International bond yields

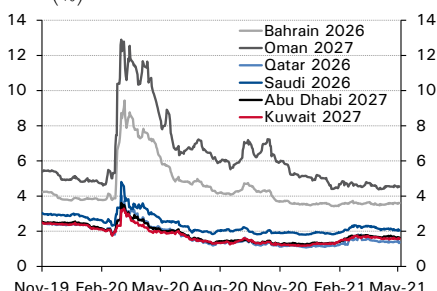
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Source: Refinitiv

GCC bond yields

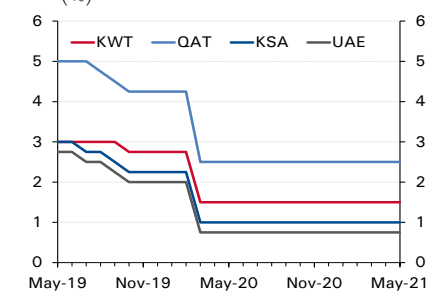
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv