

International

US: Initial jobless claims rose another huge 1.3 million in the week ending July 11, while continuing claims (released with a one-week lag) also fell but remained high at 17.3 million, leaving an insured unemployment rate of 11.9%. Meanwhile, retail sales jumped 7.5% m/m in June returning them close to pre-crisis levels. Finally, CPI inflation rose to 0.7% y/y in June, with the core rate unchanged at 1.2%.

Europe: The ECB left monetary policy on hold with its deposit rate at -0.5% and asset purchases under its PEPP at €1.35 trillion. Having loosened policy in June, the ECB is adopting a 'wait and see' approach, amid tentative signs of economic recovery as mobility restrictions are eased across the continent.

China: GDP rose 3.2% y/y in Q220 (-6.8% in Q1) on easing mobility restrictions and economic stimulus. The recovery in consumer demand and investment lags that of industry.

Financial markets: Global equities were mostly positive amid mixed economic data, a first wave of 2Q corporate earnings and a resurgent coronavirus. The MSCI AC World rose 1.1% w/w led by the DJIA (2.3%) and Euro Stoxx 50 (2.1%), but EMs fell 1.3% on a late week slump in Chinese stocks.

Oil: Brent dipped 0.2% w/w to \$43.1/bbl as the coronavirus resurgence in the US fueled worries about prolonged oil demand weakness. OPEC+ decided to begin tapering the 9.7 mb/d of output cuts from 1 August; supplies were to increase 2 mb/d in Aug-Dec, but due to compensatory cuts by Iraq, Angola and Nigeria, only 1.15 mb/d will be added in Q3.

MENA Region

GCC: In its latest update on the MENA region, the IMF slashed the growth outlook for the GCC to -7.1% y/y. Some of this is due to weaker oil production due to OPEC+ policy, but non-oil growth was downgraded too to an even steeper -7.6% from -0.3% before. The region's fiscal deficit was little changed at -10.5% of GDP this year. Country-level data were not released.

Kuwait: Standard & Poor's left Kuwait's sovereign credit rating unchanged at AA-, though lowered the outlook to negative citing the depletion of the General Reserve Fund used to finance the deficit, which could reach 40% of GDP this year, and the absence of alternative financing arrangements. The agency had previously lowered the rating to AA- from AA in March. The draft debt law bill will be discussed today by the parliament finance

committee and if approved, it would be submitted to parliament for discussion.

Saudi Arabia: Inflation softened in June to 0.5% y/y compared with 1.1% in May. This was mainly driven by a lower increase in food and beverage prices, in addition to steeper falls in transport prices and housing rentals. The increase in VAT from 5% to 15% took effect starting first of July, which is expected to push inflation higher in the second half of 2020.

UAE: The central bank introduced a new policy instrument – the Overnight Deposit Facility – to help banks manage their excess liquidity. The facility will be the signaling rate for monetary policy and be linked with the US Fed's interest rate on excess reserves. Meanwhile, Dubai's inflation rate for June was -3.4% y/y versus -3.5% in May. Housing (-5.5%), recreation (-12%) and culture (-13%) were major contributors to this decline.

Bahrain: The government announced that it would add BHD177 million (\$470 million) in emergency expenditures to its 2020 budget in an effort to mitigate the economic impact of the virus outbreak. That would push the budget deficit to around 5.9% of estimated 2020 GDP versus the 4.6% deficit initially penciled in.

Financial markets: GCC stocks were mostly negative on the downbeat regional forecast by the IMF. The MSCI GCC lost 0.7% w/w with losses led by Kuwait (-1.7%).

Key takeaways:

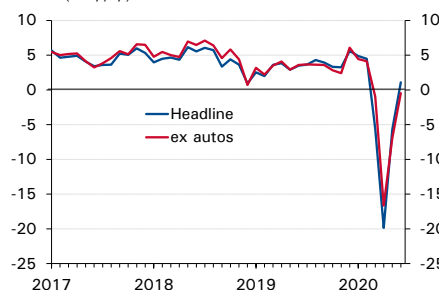
- Given the importance of consumer spending, the robust recovery in June US retail sales could have positive implications for Q2 GDP. However, an annualized contraction of 30%+ is still expected and uncertainty remains on the outlook for Q3 as stimulus programs are withdrawn and new virus cases rising.
- The IMF predicted a slow pace of global recovery next year and warned about uncertainties and risks from the possible re-imposition of virus containment measures. It asserted that withdrawing policy support prematurely will have more adverse impact than incurring debt. For the GCC region, this uncertainty is compounded by low oil prices over the medium term.
- S&P's downgrade to Kuwait's credit outlook underscores the increasingly urgent need for parliament to approve the debt law and diversify the source of revenues. Failure to do so could lead to drastic spending cuts at a time when counter-cyclical fiscal support would be beneficial. Serious reform measures and approving the debt law could change the outlook to neutral or even positive given Kuwait's abundant financial and oil resources.

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



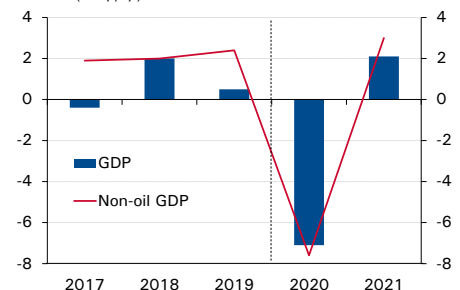
Source: Refinitiv

▶ **Chart 2: US retail sales** (% y/y)



Source: Refinitiv

▶ **Chart 3: GCC GDP** (% y/y)



Source: Refinitiv

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,545	-4.4	10.9
DAX	12,920	2.3	-2.5
DJIA	26,672	2.3	-6.5
Eurostoxx 50	3,366	2.1	-10.1
FTSE 100	6,290	3.2	-16.6
Nikkei 225	22,696	1.8	-4.1
S&P 500	3,225	1.2	-0.2
Regional			
Abu Dhabi SM	4,274	-0.5	-15.8
Bahrain ASI	1,302	1.3	-19.1
Dubai FM	2,053	-1.4	-25.8
Egypt EGX 30	10,441	-4.7	-25.2
MSCI GCC	479	-0.7	-15.5
Kuwait SE	5,046	-1.7	-19.7
KSA Tadawul	7,427	0.1	-11.5
Muscat SM 30	3,450	-1.3	-13.3
Qatar Exchange	9,311	-0.1	-10.7

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	0.63	-0.5	-128.2
Bunds 10 Year	-0.45	1.8	-26.5
Gilts 10 Year	0.16	0.8	-66.1
JGB 10 Year	0.01	-0.1	3.6
Regional			
Abu Dhabi 2022	0.86	-9.9	-118.8
Dubai 2022	1.47	-8.3	-99.9
Qatar 2022	0.88	-15.2	-118.1
Kuwait 2022	0.79	-12.9	-127.8
KSA 2023	1.30	-6.9	-99.7
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	43.1	-0.2	-34.6
KEC	43.2	-1.7	-36.9
WTI	40.6	0.1	-33.5
Gold	1808.3	0.6	19.0

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	2.30	0.0	-36.7
Kibor - 3 month	1.56	-6.3	-118.8
Qibor - 3 month	1.05	0.5	-120.0
Eibor - 3 month	0.58	-6.8	-163.4
Saibor - 3 month	0.95	-1.1	-127.7
Libor - 3 month	0.27	0.6	-163.7
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.307	0.0	1.5
KWD per EUR	0.346	0.0	3.9
USD per EUR	1.143	1.1	1.9
JPY per USD	107.0	0.1	-1.5
USD per GBP	1.257	-0.4	-5.2
EGP per USD	15.91	-0.2	-0.6

Updated on 17/7/2020

Source: Refinitiv

International equity markets

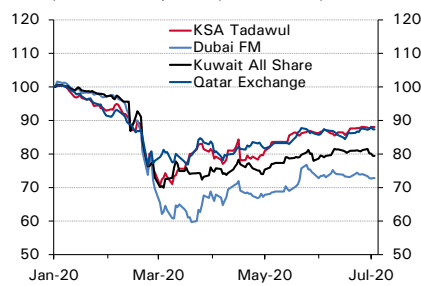
(rebased, 15 January 2020=100)



Source: Refinitiv

GCC equity markets

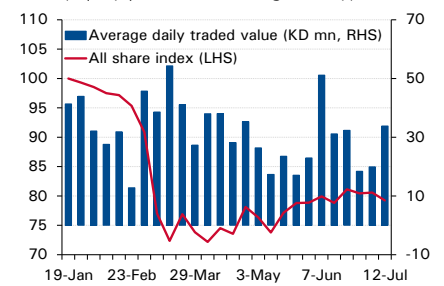
(rebased, 15 January 2020=100)



Source: Refinitiv

Boursa Kuwait

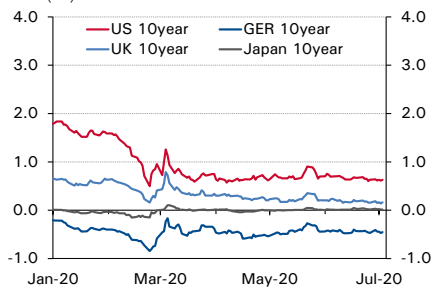
(equity prices and trading activity)



Source: Refinitiv

International bond yields

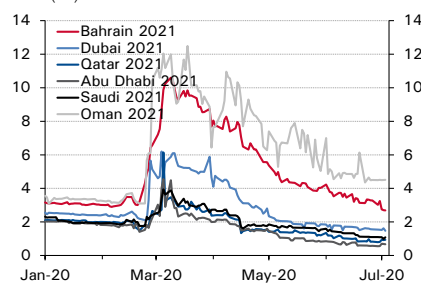
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Source: Refinitiv

GCC bond yields

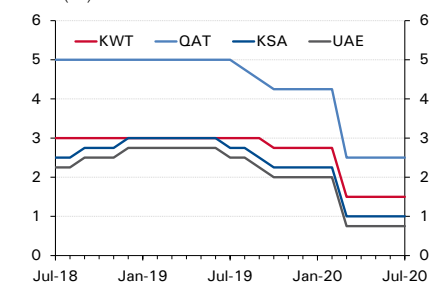
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv