

### International

**US:** President Trump ordered a rise in tariffs on \$200 billion of imports from China to 25% from the previous 10% on China's alleged backtracking on previous trade talk commitments. The move takes the total value of Chinese exports to the US now subject to trade war-related levies to \$250 billion, or 46% of the total, with Trump also threatening to tax the remainder. Meanwhile, CPI inflation ticked up but still came in below expectations at 2.0% y/y in April, while the core rate rose to 2.1%. Although not the Fed's preferred inflation measure, the absence of a larger rise could challenge its view that recent soft inflation prints are driven by temporary factors.

**Financial markets:** Global equities dropped amid negative US-China trade news. The MSCI AC world fell 2.7% w/w, led by the MSCI-EM (-4.3%) and Eurostoxx 50 (-4%). US stocks also suffered, with the S&P down 2.2%. US 10 year treasury yields fell 7 bps to 2.47%.

**Oil:** Brent fell 0.3% w/w to \$70.6/bbl, also soured by US-China trade news. Fundamentals continue to point to a tight market however, as US commercial crude stocks dropped unexpectedly (-4 mb to 466.6 mb), US crude production declined (-100kb/d to 12.2 mb/d) and as the OPEC+ production cut agreement has continued to take effect.

### MENA Region

**Kuwait:** Credit increased 5.2% y/y in March compared to 5.3% in February, amid a slight easing in lending to both businesses and households. However growth in consumer loans (excluding housing loans) surged to 7.8%, the fastest pace in more than four years, benefitting from the central bank's loosening of lending restrictions. Meanwhile the current account surplus increased in 2018 to KD6.2 billion, or 14.8% of estimated GDP, a more than two-fold improvement on 2017's figure of KD2.9 billion. This primarily reflected a 31% rise in oil exports thanks to higher oil prices, though imports also increased 6%.

**UAE:** The Dubai Economy Tracker (DET) pointed to a continued improvement in economic activity in April. The DET index rose to an over four-year high of 57.9, thanks to strong improvements in new orders and output.

**Bahrain:** The government has halted its subsidy reform plans amid concerns over the social impact in a set back to the Fiscal

Balance Program. A new system was meant to consolidate various subsidies and a cost of living allowance in one package and redirect help to the poorest citizens. Meanwhile, Bahrain is expected to receive another \$2.3 billion in aid from its Gulf peers this year, after receiving a similar amount towards the end of 2018. With Bahrain preparing its first international debt issue of the year, further aid would support investor confidence and help keep interest rates low.

**Egypt:** The budget deficit narrowed to only 5.3% of GDP in the first nine months of the FY18/19 against 6.2% in the same period of FY17/18. The primary balance – which excludes interest payments – recorded a surplus of 0.7% of GDP (0.2% of GDP deficit a year earlier). The improvement was helped by a 28% y/y cut in fuel subsidy outlays to \$3.5 billion. Against this backdrop, the Ministry of Economy expected economic growth to improve to 5.8% in 4Q FY18/19 from 5.6% in Q3. Finally, inflation eased to 13.0% y/y in April from 14.2% in March, helped by softer food inflation thanks to government efforts to boost food supplies prior to Ramadan. Core inflation slowed to 8.1% from 8.9% in March.

**Financial markets:** Regional equities tracked international markets but fell more sharply, perhaps weighed down by lower oil prices and traditionally slow Ramadan trading. The MSCI-GCC fell 4.7% w/w, led by Saudi (-5.1%) and Qatar (-4.3%), but Kuwait gained 1.9% w/w lifted by positive sentiment ahead of the MSCI inclusion announcement in June.

#### Key takeaways:

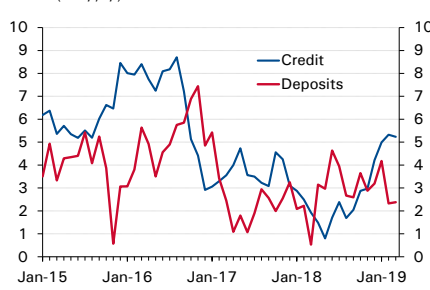
- The latest US tariff hikes represent a sudden escalation in the US-China trade war. However, both sides still hope to reach a deal in the next few weeks as President Trump qualified the discussions as constructive and China has not yet retaliated as it said it would. If not, global growth will be adversely affected.
- The further acceleration in consumer lending in Kuwait bodes well for the consumer sector – a view reinforced by our own consumer spending index which suggests that spending growth may be picking up from its previous slowdown.
- Given the latest easing in inflation, Egypt's central bank could cut interest rates (following its February cut) at its next policy meeting on May 23 by a further 100bps, although a planned energy subsidy cut in June will push inflation higher.

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



Source: Thomson Reuters Datastream

▶ **Chart 2: Kuwait credit and deposits** (% y/y)



Source: Thomson Reuters Datastream

▶ **Chart 3: Egypt inflation** (% y/y)



Source: Thomson Reuters Datastream

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,730	-4.7	23.9
DAX	12,060	-2.8	14.2
DJIA	25,942	-2.1	11.2
Eurostoxx 50	3,361	-4.0	12.0
FTSE 100	7,203	-2.4	7.1
Nikkei 225	21,345	-4.1	6.6
S&P 500	2,881	-2.2	14.9
<b>Regional</b>			
Abu Dhabi SM	5,053	-3.6	2.8
Bahrain ASI	1,436	0.1	7.4
Dubai FM	2,673	-3.1	5.6
Egypt EGX 30	14,060	-5.5	7.9
S&P GCC 40	1,171	-3.6	6.5
Kuwait SE	5,803	1.9	14.2
KSA Tadawul	8,857	-5.1	13.2
Muscat SM 30	3,863	-2.6	-10.6
Qatar Exchange	10,027	-4.3	-2.6

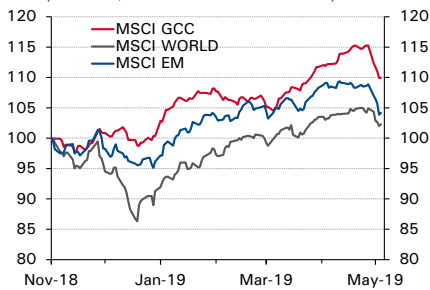
Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.46	-7.5	-23.6
Bunds 10 Year	-0.05	-6.8	-29.4
Gilts 10 Year	1.14	-8.4	-13.3
JGB 10 Year	-0.05	-0.4	-5.0
<b>Regional</b>			
Abu Dhabi 2022	2.79	-2.1	-51.1
Dubai 2022	3.45	1.7	-48.0
Qatar 2022	2.91	-4.1	-54.4
Kuwait 2022	2.82	-2.1	-50.4
KSA 2023	3.05	-17.5	-82.9
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	70.6	-0.3	31.3
KEC	70.9	-1.6	35.9
WTI	61.7	-0.5	35.8
Gold	1285.7	0.5	0.6

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.35	-3.3	-60.0
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.86	-0.7	-4.8
Eibor - 3 month	2.85	-2.8	1.4
Saibor - 3 month	2.85	-0.2	-12.6
Libor - 3 month	2.54	-3.0	-27.2
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.2
KWD per EUR	0.341	0.2	-2.1
USD per EUR	1.123	0.3	-2.1
JPY per USD	109.9	-1.0	0.3
GBP per USD	1.300	-1.3	1.9
EGP per USD	17.11	-0.1	-4.2

Updated on 10/5/2019 Source: Thomson Reuters Eikon

### International equity markets

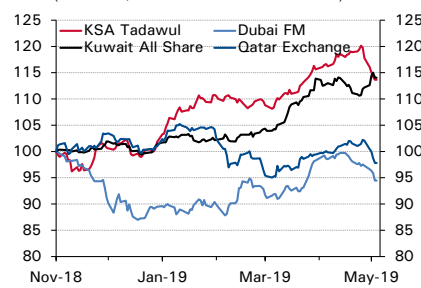
(rebased, 7 November 2018=100)



Source: Thomson Reuters Datastream

### GCC equity markets

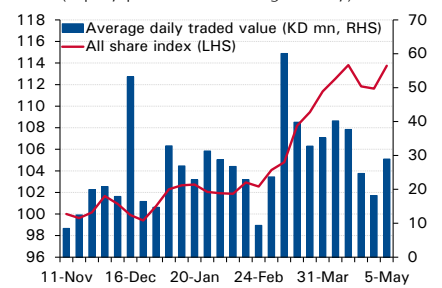
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Source: Thomson Reuters Datastream

### Boursa Kuwait

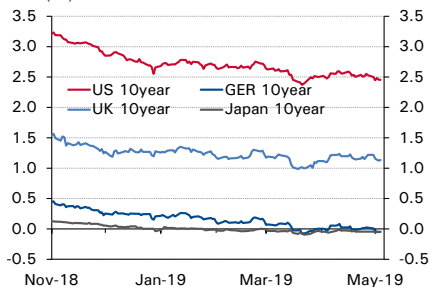
(equity prices and trading activity)



Source: Thomson Reuters Datastream

### International bond yields

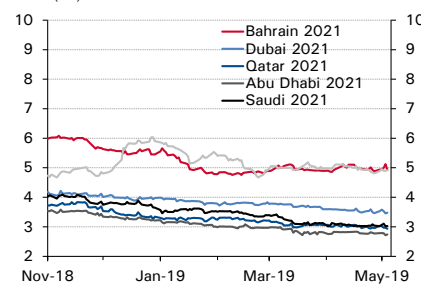
(%)



Source: Thomson Reuters Datastream

### GCC bond yields

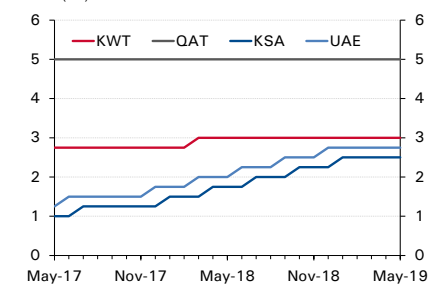
(%)



Source: Thomson Reuters Datastream

### GCC key policy rates

(%)



Source: Thomson Reuters Datastream