

International

US: At his testimony before Congress, Fed Chair Jay Powell appeared to cement the case for a precautionary July rate cut by stressing the downside risks facing the US economy, particularly from abroad, the still some unresolved issues on the domestic front such as trade tensions and budget ceiling, as well as persistently low inflation despite a tight labor market. Indeed, CPI figures for June showed inflation falling to 1.6% y/y (as expected) from 1.8% in May, though the core measure rose to 2.1%. The Fed's preferred core PCE inflation measure stood also at just 1.6% in May, well below the 2% target.

EU. The EU commission revised downward the euro-area growth and inflation forecast for next year on trade tensions and policy uncertainty, strengthening the ECB case for further stimulus later in the year.

Financial markets: Global indices ended the week slightly higher as investors weighed the prospects of a Fed rate cut as soon as this month. The MSCI AC world was up 0.1% w/w, supported by gains in the S&P 500 (+0.8%) and DJI (+1.5%).

Oil: Brent price rose by 3.9% w/w to \$66.7/bbl as U.S. crude inventories shrank and major producers in the Gulf of Mexico shut offshore production ahead of an expected storm. Looking forward, OPEC cut its forecast for crude demand to 29.27 million barrels per day next year, down by 1.34 million barrels per day.

MENA Region

Kuwait: Credit growth accelerated to an almost three-year high of 6% y/y in May from 5% in April. This was supported by an increase in lending to both businesses (6.5% y/y) and households (5.5% y/y). As per consumer loans, it continued its upward trend to 14.2%, benefiting from CBK's recent loosening of lending restrictions. Meanwhile, total deposits grew by 1.5% y/y in May, due mainly to an increase in government deposits by 8.7 y/y, while private deposits decelerated from 2.2% y/y in April to 0.1% y/y in May.

UAE: The Dubai Economy Tracker (DET) eased slightly to 58.4 in June but remained close to its four-year high in May (58.5). However, the employment index came in at a multi-month low of 49.9 in June, pointing to a fall in hiring activity.

Oman: The latest Fitch report on the banking system stated that while the profit margins of Omani banks have stabilized, their asset quality remains under pressure, mainly due to

pockets of weakness in the real estate and contracting sectors as well as private sector consumption.

Egypt: Urban inflation fell sharply from 14.1% in May to a surprising 9.4% in June, its lowest rate in more than three years, mainly on due to a slowdown in the cost of food and beverages, and base effect. Core inflation had also slowed to 6.4% in June from 7.8% in May. As expected, Central Bank of Egypt (CBE) kept its interest rates unchanged at 15.75% for its overnight deposit and 16.75% for its overnight lending.

Turkey: President Erdogan ousted Turkey's central bank governor last week, reportedly for refraining from adhering to the government's repeated calls for a rate cut. The Turkish lira depreciated by some 2% against the US dollar following the announcement, and the ratings agency Fitch downgraded Turkey's sovereign rating from "BB" to "BB-" on Friday as the governor's removal highlights a deterioration in central bank's independence and in economic policy coherence and credibility.

Financial markets: GCC equities were broadly higher last week, with the MSCI GCC index rising by a healthy 1.4% on the week. Gains in the real estate sector helped boost both Abu Dhabi (+1.1%) and Dubai (+0.9%) stocks last week, while bank stocks led Saudi markets higher (+1.4%). Kuwait's All-Share continued to rally throughout the week, rising by a strong 3.0% on the week.

Key takeaways:

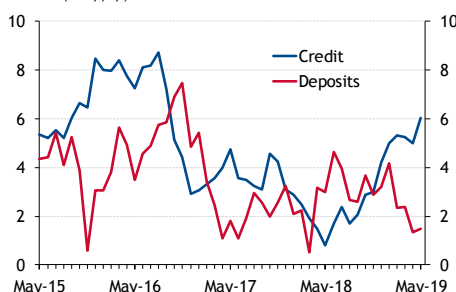
- The Fed will most likely cut its interest rate by 25bp, when the FOMC meets at the end of July, as an insurance against growing uncertainty and a possible slowdown. Failure to cut the rate, as widely expected, will upset markets. The ECB will likely revert to stimulus measures before Mr. Draghi's departure by October.
- Given the recent electricity and fuel price hikes, the CBE opted to wait and assess their impact on prices before contemplating its next move. It is unlikely to cut the rate before the impact of the subsidy cuts wear off.
- Kuwait credit growth is on an upward trend and could stay in the 5-6% range for the rest of the year, although the impact of the personal loan loosening is expected to fade gradually.
- Turkey could likely witness an aggressive rate cut of around 200 bps, during the central bank's policy meeting later this month (25th July).

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



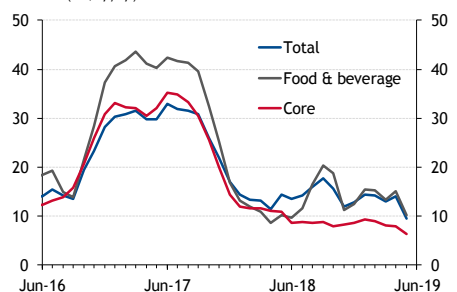
Source: Refinitiv

▶ **Chart 2: Kuwait credit & deposit** (% y/y)



Source: Central Bank of Kuwait

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



Source: Capmas, Central Bank of Egypt

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,809	-2.2	26.5
DAX	12,323	-2.0	16.7
DJIA	27,332	1.5	17.2
Eurostoxx 50	3,498	-0.9	16.5
FTSE 100	7,506	-0.6	11.6
Nikkei 225	21,686	-0.3	8.3
S&P 500	3,014	0.8	20.2
Regional			
Abu Dhabi SM	5,052	1.1	2.8
Bahrain ASI	1,537	1.7	14.9
Dubai FM	2,686	0.9	6.2
Egypt EGX 30	13,814	-1.3	6.0
S&P GCC 40	1,226	1.1	11.5
Kuwait SE	6,127	3.0	20.6
KSA Tadawul	8,968	1.4	14.6
Muscat SM 30	3,808	-0.4	-11.9
Qatar Exchange	10,613	0.4	3.1

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.11	6.2	-58.5
Bunds 10 Year	-0.25	11.4	-49.1
Gilts 10 Year	0.84	9.8	-43.3
JGB 10 Year	-0.12	4.8	-11.7
Regional			
Abu Dhabi 2022	2.34	8.7	-95.5
Dubai 2022	2.92	4.7	-101.4
Qatar 2022	2.49	4.7	-95.8
Kuwait 2022	2.37	10.7	-94.8
KSA 2023	2.73	24.8	-115.2
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	66.7	3.9	24.0
KEC	67.5	6.6	29.3
WTI	60.2	4.7	32.6
Gold	1409.9	0.9	10.3

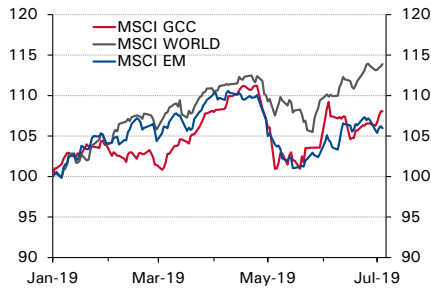
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	3.10	0.0	-85.0
Kibor - 3 month	2.75	6.3	43.8
Qibor - 3 month	2.77	-0.2	-13.6
Eibor - 3 month	2.62	-2.6	-21.5
Saibor - 3 month	2.70	-0.4	-27.2
Libor - 3 month	2.30	0.1	-50.4
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.1	0.3
KWD per EUR	0.341	0.4	-2.0
USD per EUR	1.127	0.4	-1.7
JPY per USD	107.9	-0.5	-1.5
GBP per USD	1.257	0.4	-1.4
EGP per USD	16.57	-0.1	-7.2

Updated on 12/7/2019

Source: Refinitiv

International equity markets

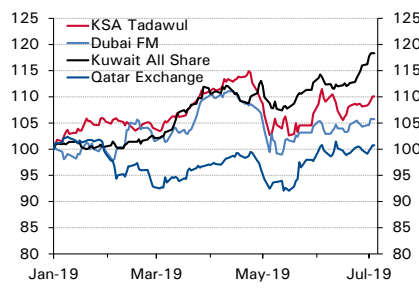
(rebased, 9 January 2019=100)



Source: Refinitiv

GCC equity markets

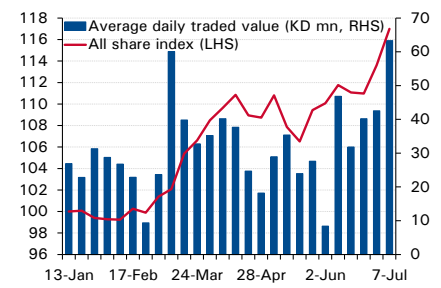
(rebased, 9 January 2019=100)



Source: Refinitiv

Bursa Kuwait

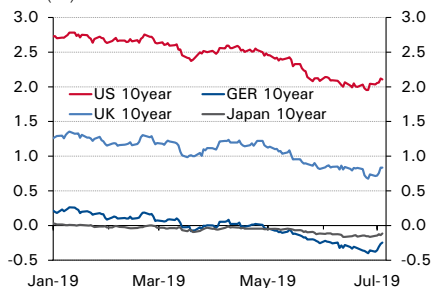
(equity prices and trading activity)



Source: Refinitiv

International bond yields

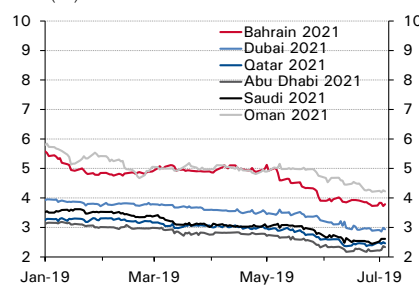
(%)



Source: Refinitiv

GCC bond yields

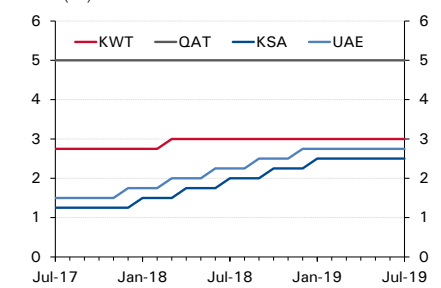
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv