

### International

**US:** On the sidelines of the G20 meeting, the US and China agreed to restart trade talks and President Trump said he would not go ahead with his earlier threat to impose more tariffs on Chinese imports and would allow American companies to resume selling technology Huawei. Meanwhile the Personal Consumption Expenditure measure of inflation was unchanged at 1.6% y/y in May versus expectations of a tick down, but other data mostly disappointed last week. Consumer confidence in June dropped abruptly perhaps on trade tensions, while housing market data was also soft, with new home sales falling sharply to -3.7% y/y and home price increases slowed to a seven-year low of 2.5% y/y.

**Financial markets:** Equities were soft amid US rate cut caution and as investors awaited progress on a US-China trade deal. The MSCI AC world fell 0.2% w/w, with the S&P 500 down 0.3%. US 10-year Treasury yields fell 7 bps to 2.00%.

**Oil:** Brent rose 2% w/w to \$66.6/bbl on a sizeable US crude stock draw and as President Trump imposed further sanctions on Iran, including on supreme leader Ali Khamenei. An extension to the OPEC+ production cut agreement was all but guaranteed when Russian president Putin announced that he and Saudi's Mohammed Bin Salman had agreed to extend the deal for at least six months and perhaps up to nine months.

### MENA Region

**Kuwait:** MSCI upgraded Kuwaiti stocks from Frontier to Emerging Market status effective May 2020, contingent on two technical reforms being implemented by November. The move could trigger capital (passive and active) inflows of \$10 billion. Inflation ticked up to 0.8% y/y in May from 0.7% in April, driven by slight rises in food and housing inflation – the latter due to higher maintenance costs – and more significantly communications. Core inflation remained at 1.6%. Real estate sales eased 36% m/m in May to KD225 million amid usual slower activity during the month of Ramadan and a strong April. Prices were mostly positive on the month and the decline in apartment prices slowed to just 1.3% y/y.

**Saudi Arabia:** Moves to attract foreign expertise and investment accelerated with the opening of a permanent residency program and a relaxation of the 49% limit on foreign ownership of listed firms. Foreigners can pay \$213,000 to

secure permanent residency, with which they will also be able to buy property, do business in the kingdom without a Saudi sponsor, and switch jobs and obtain family visas more easily.

**UAE:** Central bank data show GDP grew 2.2% y/y in 1Q19, above the bank's 1.7% estimate for last year. Meanwhile, as part of its three-year AED50 billion stimulus plan, Abu Dhabi announced new initiatives to catalyze private sector activity, including the granting of instant business licenses and an SME credit guarantee scheme. Separately, a Moody's report showed VAT revenues at AED27 billion in 2018, more than double what was forecast due to better-than-expected compliance.

**Egypt:** Parliament has approved the country's largest ever budget of EGP1.6 trillion (\$95 billion) for FY2019/20, which includes 11.4% hike in the wage bill. Still, the government is targeting a 7.2% of GDP deficit for the year down from an expected 8.6% of GDP in FY2018/19, thanks to a planned reduction in fuel subsidies from \$5.4 billion in FY18/19 to \$3.2 billion next year. The three-year IMF loan deal expires at the end of June, and the authorities intend to ask for an IMF non-disbursement program the details of which are not yet known. The government plans to issue up to \$7 billion in sovereign debt in the coming fiscal year.

**Financial markets:** The MSCI GCC index fell 1.6% w/w led by ongoing geopolitical tensions. Kuwait's All-Share index edged down 0.1% despite the MSCI upgrade.

#### Key takeaways:

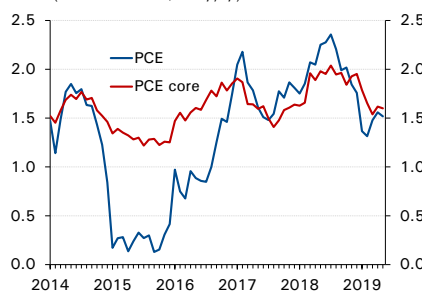
- The US-China truce on tariff hikes provides a reprieve (for now) which could boost the financial markets and reduce the pressure on the Fed to resort to aggressive rate cuts. Trump may also want to avoid disruptive tariff rises in the run-up to the US election amid signs of a slowing US economy.
- The upgrade by MSCI of Kuwaiti equities to EM status follows several years of market development and a similar move last year by FTSE. Greater exposure to foreign funds should improve liquidity, transparency and governance and boost the market's performance over time.
- Egypt's fiscal targets for FY 2019/20 could be achievable if oil prices remained close to the price set in the budget of \$65-67/bbl (in line with our forecast) and if the government continues its planned reforms. There is a risk though in case growth rate turned out to less than the assumed 6%.

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



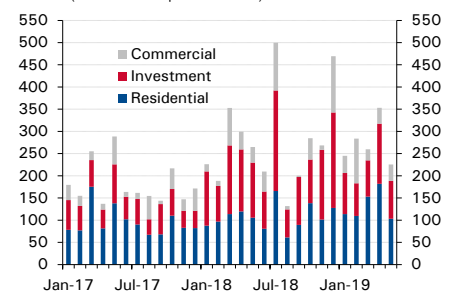
Source: Refinitiv

▶ **Chart 2: US inflation** (PCE measure, % y/y)



Source: Refinitiv

▶ **Chart 3: Kuwait real estate sales** (KD million per month)



Source: Ministry of Justice

## Key data

Stock markets	Index	Change (%)	
		1-week	YTD
<b>International</b>			
CSI 300	3,826	-0.2	27.1
DAX	12,399	0.5	17.4
DJIA	26,600	-0.4	14.0
Eurostoxx 50	3,474	0.2	15.7
FTSE 100	7,426	0.2	10.4
Nikkei 225	21,276	0.1	6.3
S&P 500	2,942	-0.3	17.3
<b>Regional</b>			
Abu Dhabi SM	4,992	-1.1	1.6
Bahrain ASI	1,468	0.9	9.8
Dubai FM	2,626	-1.2	3.8
Egypt EGX 30	14,101	0.4	8.2
S&P GCC 40	1,171	-1.1	6.4
Kuwait SE	5,813	-0.1	14.4
KSA Tadawul	8,797	-0.8	12.4
Muscat SM 30	3,891	-0.9	-10.0
Qatar Exchange	10,444	-2.3	1.4

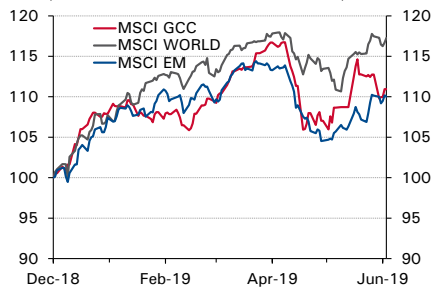
Bond yields	%	Change (bps)	
		1-week	YTD
<b>International</b>			
UST 10 Year	2.00	-6.6	-69.1
Bunds 10 Year	-0.33	-4.5	-57.2
Gilts 10 Year	0.83	-1.2	-43.7
JGB 10 Year	-0.16	0.5	-16.1
<b>Regional</b>			
Abu Dhabi 2022	2.27	6.3	-102.8
Dubai 2022	2.90	-6.2	-103.0
Qatar 2022	2.47	0.3	-98.1
Kuwait 2022	2.23	6.3	-109.1
KSA 2023	2.69	-2.7	-119.1
<b>Commodities</b>			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	66.6	2.1	23.7
KEC	65.8	3.3	26.0
WTI	58.5	1.8	28.8
Gold	1409.7	1.0	10.3

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.17	-1.7	-78.3
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.76	0.3	-14.3
Eibor - 3 month	2.61	-5.1	-22.4
Saibor - 3 month	2.71	-3.3	-26.4
Libor - 3 month	2.32	-2.4	-48.9
<b>Exchange rates</b>			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.303	0.0	0.1
KWD per EUR	0.344	-0.1	-1.1
USD per EUR	1.137	0.0	-0.9
JPY per USD	107.9	0.5	-1.5
GBP per USD	1.269	-0.4	-0.5
EGP per USD	16.65	0.1	-6.8

Updated on 28/6/2019 Source: Refinitiv

### International equity markets

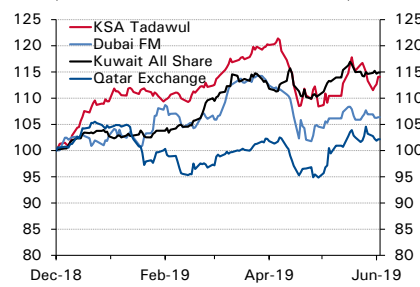
(rebased, 26 December 2018=100)



Source: Refinitiv

### GCC equity markets

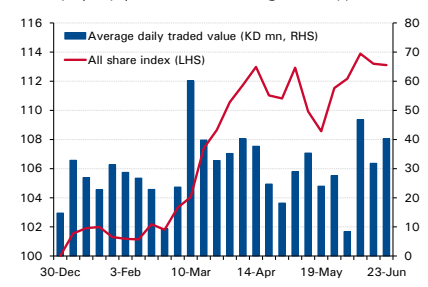
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Source: Refinitiv

### Boursa Kuwait

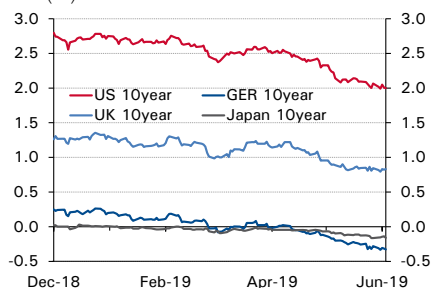
(equity prices and trading activity)



Source: Refinitiv

### International bond yields

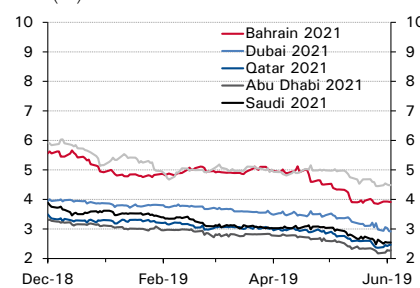
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Source: Refinitiv

### GCC bond yields

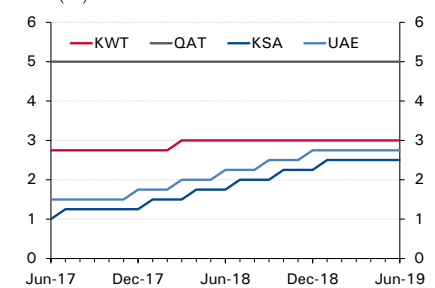
(%)



Source: Refinitiv

### GCC key policy rates

(%)



Source: Refinitiv