

International

US: The closely-watched non-farm payrolls rose by a much stronger-than-expected 224,000 in June, albeit after a soft 72,000 in May. The unemployment rate ticked up to 3.7% and earnings growth missed expectations but remained solid at 3.1% y/y. Other data was disappointing however. Weakness in manufacturing was confirmed with a fall of 1.2% y/y in factory orders in May, while the ISM manufacturing index fell further in June to a near three-year low of 51.7. The non-manufacturing PMI also eased but to a still-decent 55.1, with the employment component firm at 55.

Europe: IMF chief Christine Lagarde was nominated to replace Mario Draghi as President of the European Central Bank when his term ends on October 31st.

Financial markets: Global equities rose on signs of progress in US-China trade talks and hopes of looser policy. The MSCI AC world was up 1.5% w/w on gains in the S&P 500 (+1.7%) and European stocks (+1.6%). The strong US jobs report lifted 10-year US Treasury yields four basis points to 2.04%.

Oil: Brent fell 3.5% w/w to 64.2/bbl as global economic growth concerns weighed early in the week, overshadowing even the OPEC+ decision to extend the production cut accords for 9 months to March 2020. Brent's 4% decline on the day after the OPEC+ announcement was the worst market reaction to an OPEC meeting in more than four years.

MENA Region

Kuwait: GDP growth was a preliminary 2.6% y/y in 1Q19 versus 1.7% in 4Q18, with oil growth at 1.3% but non-oil growth a surprisingly strong 4.1%. Parliament approved the budget for FY2019/20 (starting April). Spending was unrevised from the draft budget at KD22.5 billion, but revenues were revised down to KD15.8 billion on a conservative \$55/bbl oil price assumption, leaving a deficit of KD6.7 billion before sovereign wealth fund transfers. Finally, consumer spending growth appears to have recovered in 2Q19, albeit mildly, according to the NBK consumer spending index. For the month of June, spending rose 2.0% y/y, up from 1.9% in May, likely helped by the recent strong pick-up in consumer loan growth.

Saudi Arabia: The June PMI reached a 19-month high of 57.4 from 57.3 in May, signaling stronger non-oil growth on the back of rising new orders and output. Preliminary figures for

1Q19 show GDP grew 1.7% y/y versus 3.6% the previous quarter. Non-oil growth stood at 2.1% and was largely private sector-led, while oil GDP growth was slower at 1.0% due to OPEC policy. Finally, the government issued their inaugural euro-denominated bond, raising €3 billion at maturities of 8 and 20 years, with yields of 0.8% and 2.0% respectively.

UAE: The PMI slipped slightly in June but remained strong at 57.7. Meanwhile the cabinet approved granting up to 100% foreign ownership of some 122 economic activities across 13 sectors, including manufacturing, agriculture and renewable energy, in a bid to boost foreign investment inflows.

Oman: The IMF cut its forecast for Omani growth in 2019 from 1.1% to 0.3% on extended OPEC+ oil output cuts. Non-oil growth will average 2.5% over the next two years, mainly on the back of fiscal stimulus. The fiscal deficit is projected to remain close to 7% of GDP this year and the next.

Egypt: The PMI was below 50 again in June at 49.2 (48.2 in May), indicating that the economy remains under pressure as the government continues its economic reforms. Last week saw the latest round of subsidy cuts as part of the IMF reform program with most domestic fuel prices rising by 16-30%. Meanwhile, the current account deficit increased to \$7.6 billion in the first nine months of the FY18/19 (July 2018 to March 2019) from \$5.5 billion a year earlier.

Financial markets: The MSCI GCC index rose 0.8% w/w led by strong gains in Kuwait (+2.4%), Dubai (+1.3%) and Qatar (+1.2%). Sentiment towards Kuwait was lifted by the market's upgrade by MSCI the previous week.

Key takeaways:

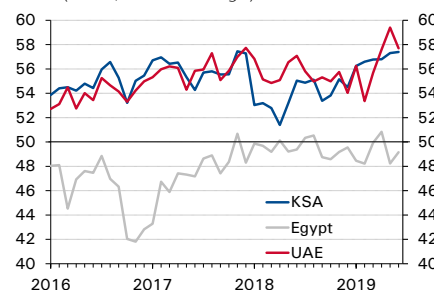
- The strong US jobs numbers significantly eased concerns about a near-term economic slowdown and markets have all but ruled out a 50bps rate cut by the Fed in July (which in our view was never likely). A 25bps cut is still expected however.
- Christine Lagarde – a lawyer with little background in monetary policy – was a slightly surprise choice to replace Draghi at the ECB. But markets reacted positively, as she is perceived as likely to back moves towards looser ECB policy.
- Based upon our oil price forecast of \$65/bbl, Kuwait's fiscal deficit this year will come in much smaller than the official projection at KD1.2 billion, or 3% of GDP. Spending is budgeted to increase 5% y/y but could rise by more given likely (though not yet confirmed) underperformance last year.

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



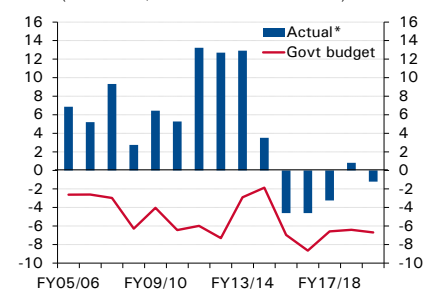
Source: Refinitiv

▶ **Chart 2: Market PMIs** (Index, 50=no change)



Source: IHS Markit

▶ **Chart 3: Kuwait fiscal balance** (KD billion, before RFFG transfers)



Source: Ministry of Justice * Includes NBK est/f'cast

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,893	1.8	29.3
DAX	12,569	1.4	19.0
DJIA	26,922	1.2	15.4
Eurostoxx 50	3,528	1.6	17.5
FTSE 100	7,553	1.7	12.3
Nikkei 225	21,746	2.2	8.7
S&P 500	2,990	1.7	19.3
Regional			
Abu Dhabi SM	4,999	0.2	1.7
Bahrain ASI	1,511	2.9	13.0
Dubai FM	2,661	1.3	5.2
Egypt EGX 30	13,997	-0.7	7.4
S&P GCC 40	1,207	0.2	9.7
Kuwait SE	5,950	2.4	17.1
KSA Tadawul	8,847	0.6	13.0
Muscat SM 30	3,823	-1.8	-11.6
Qatar Exchange	10,567	1.2	2.6

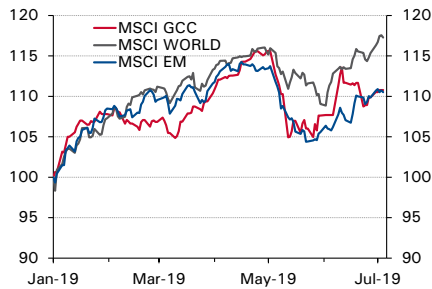
Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.04	4.4	-64.7
Bunds 10 Year	-0.36	-3.3	-60.5
Gilts 10 Year	0.74	-9.4	-53.1
JGB 10 Year	-0.16	-0.4	-16.5
Regional			
Abu Dhabi 2022	2.26	-1.4	-104.2
Dubai 2022	2.87	-3.1	-106.1
Qatar 2022	2.45	-2.4	-100.5
Kuwait 2022	2.27	3.6	-105.5
KSA 2023	2.48	-20.9	-140.0
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	64.2	-3.5	19.4
KEC	63.3	-3.7	21.3
WTI	57.5	-1.6	26.6
Gold	1396.7	-0.9	9.3

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhbor - 3 month	3.10	-6.7	-85.0
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.77	0.9	-13.4
Eibor - 3 month	2.65	3.5	-18.9
Saibor - 3 month	2.71	-0.4	-26.8
Libor - 3 month	2.30	-1.6	-50.5
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.1	0.2
KWD per EUR	0.340	-1.2	-2.4
USD per EUR	1.122	-1.3	-2.1
JPY per USD	108.5	0.5	-1.0
GBP per USD	1.252	-1.3	-1.8
EGP per USD	16.58	-0.4	-7.2

Updated on 5/7/2019 Source: Refinitiv

International equity markets

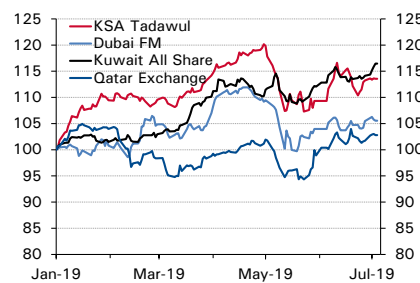
(rebased, 2 January 2019=100)



Source: Refinitiv

GCC equity markets

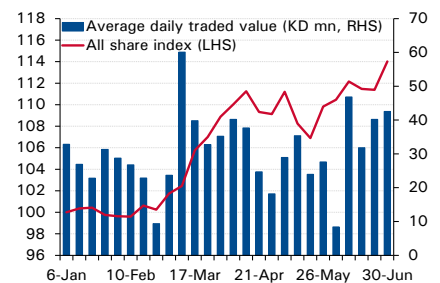
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Source: Refinitiv

Boursa Kuwait

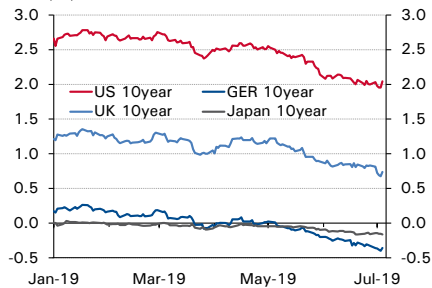
(equity prices and trading activity)



Source: Refinitiv

International bond yields

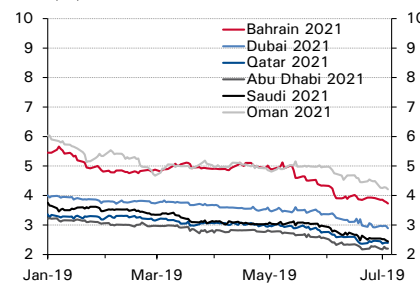
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Source: Refinitiv

GCC bond yields

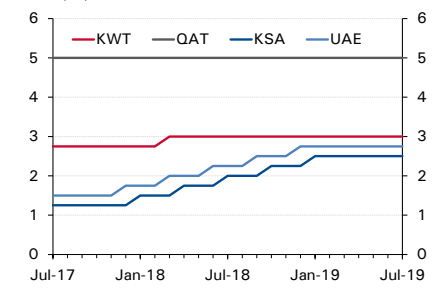
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv