

International and markets

G7: In their currently-convened summit, G7 leaders have adopted a plan to support lower-income countries in building better infrastructure (rivaling China's Belt and Road Initiative). They will pledge to offer 1bn doses to poorer countries as part of their push to vaccinate the world by end-2022.

US: CPI jumped to a near 13-year high of 5.0% y/y in May from 4.2% in April, well above consensus. While the y/y rebound in energy costs is partly responsible, the core inflation rate (excluding food & energy) also leapt to a 29-year high of 3.8% (3.0% in April) amid continued supply chain and business reopening pressures, as well as strong demand linked to fiscal stimulus measures. Meanwhile the labor market continues to show signs of normalizing albeit at a gradual pace. Initial jobless claims fell to a post-pandemic low of 376K in w/e June 5th, as did the insured unemployment rate (reported with a 1-week lag) which fell to 2.5% but still higher than the pre-pandemic 1.2%.

Europe: The ECB as expected left policy on hold and avoided any meaningful change in its stance, signaling that asset purchases would be maintained at an elevated pace over the coming quarter despite signs that the Eurozone economy is recovering. However, it upgraded its 2021 GDP growth forecast to 4.6% from 4.0% and also inflation to 1.9% from 1.5% before.

China: CPI increased to 1.3% y/y in May (+0.9% in April), while producer prices accelerated to 9% from 6.8% amid a faster recovery in domestic production and rising commodity prices.

Financial markets: Global equities mostly increased last week led by European stocks. The S&P 500 increased 0.4% w/w to close at a record high, shrugging off higher-than-expected inflation data, and so did the US bond market with the 10-year yield decreasing for the fourth straight week. GCC markets increased (MSCI GCC +0.5% w/w), buoyed by higher oil prices.

Oil: Brent gained for the third week, up 1.1% w/w to \$72.7/bbl (+40.3% ytd) on continued supply tightness. The IEA declared that demand is outpacing supply and that OPEC+ needed to "open the taps" to prevent prices from rising even further. OPEC production rose in May by the most in 6 months (+390 kb/d), as KSA led the group's first of three monthly supply increases. The IEA expects oil demand to grow by 5.4 mb/d in 2020 (+3.1 mb/d in 2022), surpassing pre-Covid levels by end-2022.

MENA Region

Kuwait: GDP contracted by 8.9% in 2020 (-11.2% y/y in 4Q20). This was the second decline in a row (-0.6% in 2019) and the steepest since the global financial crisis, with the pandemic causing a severe curtailment in oil (-8.9%) and non-oil (-8.8%) activity. Meanwhile, credit grew in April by the fastest monthly pace so far this year, resulting in 2.9% y/y growth. Housing loans were up by 9.7% y/y through April, while business credit increased by the fastest monthly pace in a year.

Saudi Arabia: Moody's affirmed its A1 sovereign rating with a negative outlook, citing external shocks due to the pandemic. The rating agency forecasts GDP growth of 1.6% and 5% in 2021/2022. Meanwhile, authorities will restrict Hajj this year to citizens and residents due to the ongoing pandemic.

Oman: In its second international bond issuance this year, the government issued \$1.75 billion in nine-year Sukuk at a rate of 4.875%. Total orders exceeded \$11.5 billion, and that was Oman's first dollar-denominated Sukuk since 2018.

Egypt: Urban inflation accelerated from 4.1% y/y in April to 4.8% in May, mainly reflecting an increase in food and beverage prices by 1.7% y/y amid Ramadan and Eid al-Fitr celebrations. Meanwhile, net foreign reserves increased by \$125 million in May to reach \$40.5 billion, up by more than \$4 billion y/y.

Key takeaways:

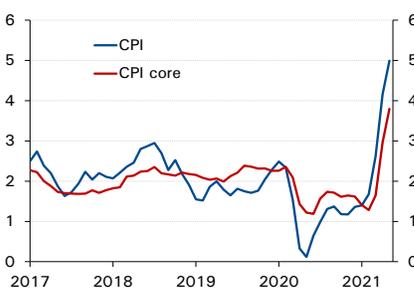
- The rise in US inflation will surely intensify the debate as to whether this increase is transitory. The bond market seems to believe that it is, as the 10-year bond yield fell to a three month low of 1.45%. Still, the rise puts pressure on the Fed to announce a possible tapering of assets purchase sooner than expected. The sharp rise in China's producer prices could also add to US inflationary pressures through imports.
- Following last year's sharp drop in GDP growth, Kuwait's economic growth this year could reach 1.2% with non-oil sector growing at 4% if vaccination efforts accelerate and movement restrictions are completely eliminated. Non-oil growth should come from considerable pent-up consumer demand and higher government spending on the uptick in oil prices.
- With Egypt's May inflation remaining below the target of 7% ($\pm 2\%$), the CBE is expected to keep the policy rates unchanged in the next MPC meeting on June 17 given Egypt's considerable need for foreign financing and amid a potential tightening in the global monetary policy environment.

► Kuwait's **Chart 1: Brent crude oil price** (\$/bbl)



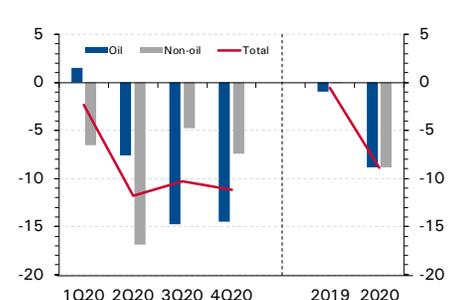
Source: Refinitiv

► **Chart 2: US inflation** (% y/y)



Source: Refinitiv

► **Chart 3: Kuwait's GDP growth** (% y/y)



Source: CSB

Key data

Stock markets				Bond yields			Interbank rates						
Index	Change (%)			%	Change (bps)		%	Change (bps)					
	1-week	YTD			1-week	YTD		1-week	YTD				
International													
CSI 300	5,225	-1.1	0.3	UST 10 Year	1.45	-9.8	55.0	Bhibor - 3 month	1.64	3.7	-60.8		
DAX	15,693	0.0	14.4	Bunds 10 Year	-0.27	-6.0	30.6	Kibor - 3 month	1.50	0.0	6.3		
DJIA	34,480	-0.8	12.7	Gilts 10 Year	0.71	-8.3	51.3	Qibor - 3 month	1.03	-14.3	-8.9		
Eurostoxx 50	4,127	0.9	16.2	JGB 10 Year	0.03	-5.1	1.3	Eibor - 3 month	0.38	-9.3	-13.8		
FTSE 100	7,134	0.9	10.4	Regional									
Nikkei 225	28,949	0.0	5.5	Abu Dhabi 2022	0.22	-3.7	-28.1	Dubai 2022	0.24	5.0	3.7		
S&P 500	4,247	0.4	13.1	Dubai 2022	0.24	5.0	3.7	Qatar 2022	0.53	4.3	1.1		
Regional													
Abu Dhabi SM	6,716	1.7	33.1	Kuwait 2022	0.29	-50.1	-17.2	KSA 2023	0.54	-2.6	-18.2		
Bahrain ASI	1,546	0.5	3.8	Commodities									
Dubai FM	2,842	0.7	14.1		\$/unit	Change (%)							
Egypt EGX 30	9,978	-0.8	-8.0			1-week	YTD						
MSCI GCC	661	0.5	21.0	Brent crude	72.7	1.1	40.3						
Kuwait SE	6,305	0.8	13.7	KEC	72.4	1.4	43.0						
KSA Tadawul	10,796	0.9	24.2	WTI	70.9	1.9	46.1						
Muscat SM 30	4,030	2.5	10.1	Gold	1877.4	-0.7	-0.8						
Qatar Exchange	10,723	-0.3	2.8	Exchange rates									
										rate	Change (%)		
											1-week	YTD	
										KWD per USD	0.301	0.0	-1.1
										KWD per EUR	0.363	0.0	-0.1
										USD per EUR	1.211	-0.5	-0.9
										JPY per USD	109.7	0.1	6.2
										USD per GBP	1.411	-0.3	3.2
										EGP per USD	15.59	-0.3	-0.6

Updated on 11/6/2021

Source: Refinitiv

International equity markets

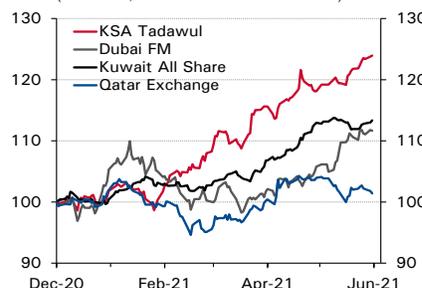
(rebased, 9 December 2020=100)



Source: Refinitiv

GCC equity markets

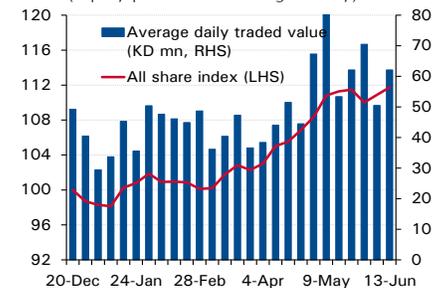
(rebased, 9 December 2020=100)



Source: Refinitiv

Boursa Kuwait

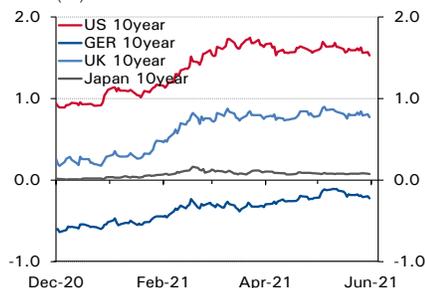
(equity prices and trading activity)



Source: Refinitiv

International bond yields

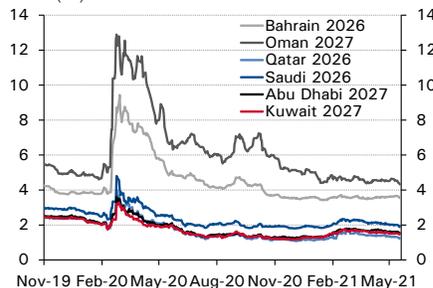
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Source: Refinitiv

GCC bond yields

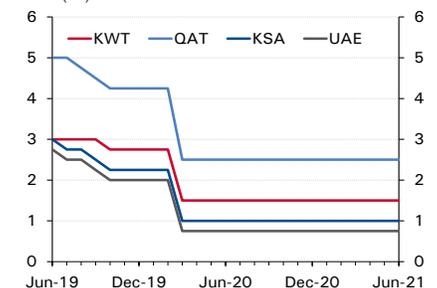
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv