

International

US: President Donald Trump added to global trade concerns by announcing a 5% tax on goods imported from Mexico effective June 10, potentially rising incrementally to 25% by October unless Mexico takes action to contain illegal migration. GDP growth for 1Q19 was revised down to a still strong annualized 3.1% from the previous estimate of 3.2%, on slightly softer investment. Growth in Q1 was lifted by a large but likely temporary rise in inventories and is expected to be softer in Q2 at 1-2%. Meanwhile, the Fed's preferred core personal consumption expenditure inflation gauge edged up to 1.6% y/y in April from 1.5% in March, while the headline rate rose to 1.5% from 1.4%. Finally, consumer spending grew a more modest but still encouraging 0.3% m/m in April, having surged in March, while income growth was also healthy at 0.5%.

Europe: Elections to the European parliament saw mainstream centrist parties lose ground to less traditional rivals with both pro and anti-EU views. A more polarized legislature could make agreement on issues such as budgets, immigration and the environment more difficult. Meanwhile, unemployment in Germany rose for the first time in over five years in May, to 5% from 4.9% in April, adding to fears that manufacturing weakness could be spreading to the domestic economy.

Financial markets: International markets were mostly negative, weighed down by trade tensions. The MSCI AC world fell 1.9% w/w, led by the US DJI (-3.0%). The US 10-year government bond yield fell 19 bps to 2.14% reflecting rising investor fears and uncertainty, with the 3-month/10-year yield curve inversion now more apparent.

Oil: Worries over escalating global trade tensions pushed Brent down 6.1% w/w to \$64.5/bbl on Friday, leaving prices with their worst May performance (-11%) in seven years. The decline last week was catalyzed by fears over global trade, but a surprise increase in US gasoline stocks did not help, stoking anxieties about the prospect of weakening global demand even though total US crude stocks actually fell last week (-0.2 mb to 476.5 mb w/w in the w/e 24 May).

MENA Region

UAE: The UAE central bank now expects GDP to grow 2% in 2019, down from an initial estimate of 3.5% in March and lower than the IMF's latest forecast of 2.8%. Oil sector growth

is expected to ease slightly from 2.8% in 2018 to 2.7% in 2019, while non-oil growth is forecast to pick up from 1.3% to 1.8% as construction activity gains traction in the run-up to the Expo event in Dubai next year. These gains will be partly offset by continued weakness in real estate and as household consumption remains sluggish amid softness in employment.

Bahrain: Rating agency Moody's changed its outlook for Bahrain's banking system to stable from negative. It cited faster economic growth (from 1.8% in 2018 to 2.1% in 2019) and improved liquidity thanks to the injection of funds from the \$10 billion GCC financial package. Profitability and asset quality will remain healthy and stable, despite a slight increase in NPLs amid higher interest rates and fiscal reforms.

Egypt: In order to help equities recover after recent declines (EGX 30 -8% m/m in May), Egypt could cut taxes for stock exchange investors by combining stamp duty and capital gains taxes on equity investments to limit the amount paid in stamp duties, according to the stock exchange chairman. Meanwhile, M2 money supply growth stood at 11.3% y/y in April, close to March's 11.4%, with credit growth unchanged at 14.8%.

Financial markets: GCC markets were positive last week, closing before the end-week fall in major international markets. The MSCI GCC was up 1.5% led by Qatar (5.6%), boosted by news that the PM would attend a summit in Saudi Arabia. Kuwait's All-Share index rose 2.7%, and is currently the year-to-date leader with a gain of 12.8%.

Key takeaways:

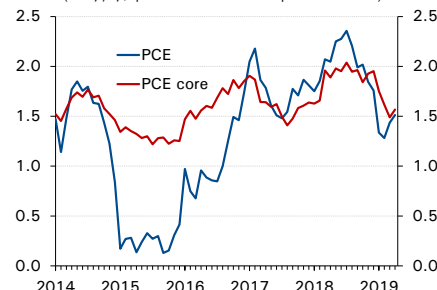
- President Trump's decision to hike tariffs on imports from Mexico was a shock to already jittery markets; it reopens trade frictions in North America and could increase problems in implementing the tripartite 'new NAFTA' deal agreed last year, which is yet to be ratified by country legislatures.
- Despite edging up in April, US core inflation remains well below the Fed's 2% target. On top of activity concerns, the inflation outlook is pivotal for policy: the Fed has argued that inflation is low due to 'transitory' factors, so continued softness will put more pressure on the bank to cut rates.
- While anxieties over global economic growth are understandable, oil prices may have overreacted: OECD inventories continue to fall and supplies pared back due to OPEC+ cuts and supply issues in Venezuela and Iran. Prices may be supported by the US driving season, starting July.

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



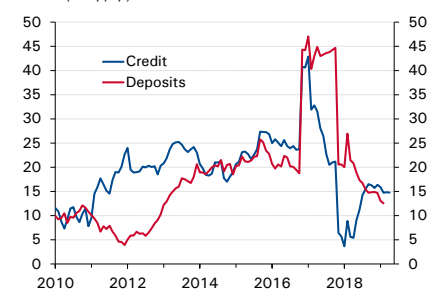
Source: Thomson Reuters Datastream

▶ **Chart 2: US inflation** (% y/y, pers. consum. exp. measure)



Source: Thomson Reuters Datastream

▶ **Chart 3: Egypt bank credit & deposits** (% y/y)



Source: Thomson Reuters Datastream

Key data

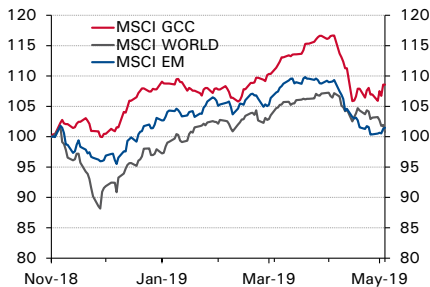
Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	3,630	1.0	20.6
DAX	11,727	-2.4	11.1
DJIA	24,815	-3.0	6.4
Eurostoxx 50	3,280	-2.1	9.3
FTSE 100	7,162	-1.6	6.4
Nikkei 225	20,601	-2.4	2.9
S&P 500	2,752	-2.6	9.8
Regional			
Abu Dhabi SM	5,004	4.7	1.8
Bahrain ASI	1,434	1.8	7.2
Dubai FM	2,620	1.2	3.6
Egypt EGX 30	13,771	0.0	5.6
S&P GCC 40	1,185	4.7	7.8
Kuwait SE	5,732	2.7	12.8
KSA Tadawul	8,516	-0.2	8.8
Muscat SM 30	3,934	1.5	-9.0
Qatar Exchange	10,273	5.6	-0.3

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.14	-18.7	-54.9
Bunds 10 Year	-0.20	-8.4	-44.7
Gilts 10 Year	0.89	-6.9	-38.2
JGB 10 Year	-0.10	-3.0	-10.0
Regional			
Abu Dhabi 2022	2.48	-20.9	-82.2
Dubai 2022	3.34	-9.7	-59.0
Qatar 2022	2.79	-6.9	-66.5
Kuwait 2022	2.54	-15.0	-78.5
KSA 2023	2.95	-25.6	-93.3
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	64.5	-6.1	19.9
KEC	69.2	3.1	32.6
WTI	53.5	-8.7	17.8
Gold	1305.8	1.8	2.2

Interbank rates	%	Change (bps)	
		1-week	YTD
Bhivor - 3 month	3.23	-3.3	-71.7
Kibor - 3 month	2.69	0.0	37.5
Qibor - 3 month	2.83	-1.7	-7.2
Eibor - 3 month	2.74	-5.0	-9.5
Saibor - 3 month	2.85	-0.1	-12.5
Libor - 3 month	2.52	0.0	-28.7
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.304	0.0	0.3
KWD per EUR	0.339	0.0	-2.5
USD per EUR	1.117	-0.3	-2.6
JPY per USD	108.3	-0.9	-1.2
GBP per USD	1.263	-0.6	-1.0
EGP per USD	16.72	-0.7	-6.4

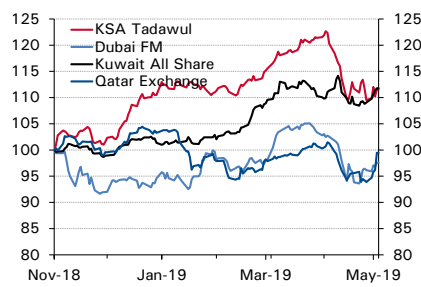
Updated on 31/5/2019 Source: Thomson Reuters Eikon

International equity markets (rebased, 28 November 2018=100)



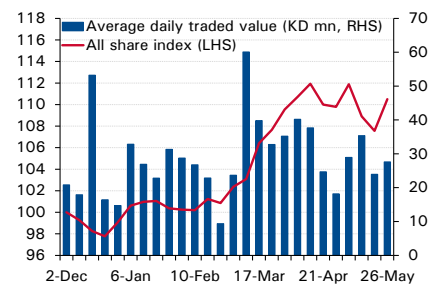
Source: Thomson Reuters Datastream

GCC equity markets (rebased, 28 November 2018=100)



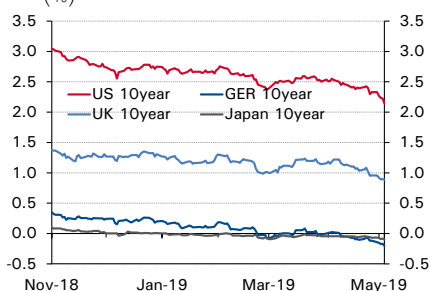
Source: Thomson Reuters Datastream

Boursa Kuwait (equity prices and trading activity)



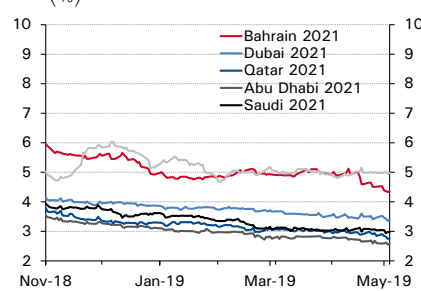
Source: Thomson Reuters Datastream

International bond yields (%)



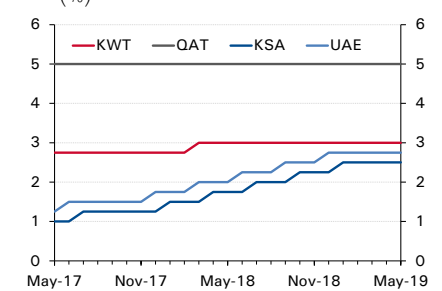
Source: Thomson Reuters Datastream

GCC bond yields (%)



Source: Thomson Reuters Datastream

GCC key policy rates (%)



Source: Thomson Reuters Datastream