

International and markets

US: A decision on balance sheet reduction is likely in the next Fed meeting on 4 May, according to released minutes from the Fed's March meeting. The Fed could aim for a monthly reduction of \$95bn (\$60bn in treasuries and \$35bn in mortgage-backed securities), with the possibility of relaxing this \$95bn cap in future months if market conditions warrant. Meanwhile, the ISM Services Index increased to 58.3 in March (56.5 in February), its first rise in four months (the index has been above the 50 neutral level for nearly two years now).

Europe: Minutes from the ECB's March meeting, at which it decided to speed up the end of its QE program, revealed a split between those Governing Council members more worried about the downside risks to Eurozone activity from the Ukraine war and those more worried about inflation. This comes as producer price inflation hit 31% y/y in February, likely signaling further upward pressure on consumer prices in the months ahead.

Financial markets: Global equities were mostly negative amid increasingly hawkish Fed signals. The MSCI AC World lost 1.2% w/w, with the S&P 500 down 1.3%, while the Euro Stoxx 50 fell 1.5%. The US 10-year treasury surged 31 bps w/w to 2.7%. The MSCI GCC (+2.3% w/w) outperformed on elevated oil prices, led by Qatar (4.1%). Kuwait's All-Share rose 1.4%.

Oil: Brent closed lower on Friday at \$102.8/bbl (-1.5% w/w; +32.1% ytd), for the second week in a row, on news that the IEA will coordinate the release of 120 mb (includes 60 mb from the US) from OECD emergency oil reserves to tame surging fuel prices. Extended Covid-19 lockdowns in key economic centers in China are also weakening the oil demand outlook.

MENA Region

Kuwait: The government submitted its resignation last week, three months after it was sworn in, ahead of a parliamentary vote on a letter of no-cooperation signed by 10 MPs against the premier. Such 'institutional roadblocks' were cited by S&P in their just-released rating action on Kuwait in which they affirmed the sovereign's A+ rating but kept the outlook as negative due to the lack of a medium-term funding strategy.

Saudi Arabia: Non-oil private sector activity improved for the second month in a row in March, with the PMI rising to 56.8 from 56.2 in February. Output strengthened to 62.4, the highest level in more than four years. Output prices increased substantially (to 53.8 from 50.1 in Feb) as firms passed on sharp increases in energy and raw materials costs to consumers.

UAE: Real GDP grew by 3.8% in 2021, exceeding expectations of 2.1% growth. This was likely the highest growth in the region. Earlier, Abu Dhabi reported real GDP growth of 1.9%, with non-oil sector output rising by 4.1%, helped by increased manufacturing, trade and tourism activity.

Oman: The Sultanate hopes to record its first budget surplus since 2008 this year after official data showed a cumulative surplus to February of RO210 million (\$545mn, est. 3% of GDP) on the back of higher oil/gas revenues, VAT receipts and fees.

Lebanon: The government and the IMF agreed on a \$3bn, four year fund facility to help Lebanon start the process of restoring macroeconomic and financial stability. The agreement is contingent on cabinet and parliamentary approval of key initiatives, including restructuring the banking sector, the public finances and external debt, a reformed bank secrecy law, a single exchange rate and approval of the 2022 budget. Other reforms have to follow once funding is unlocked.

Egypt: PMI data for March showed private sector activity recording its sharpest decline in 21 months as the effects of the Russia-Ukraine war and the devaluation of the EGP hit output and new orders. Net foreign assets (NFAs) of banks in Egypt declined in February for the fifth month in a row, by EGP60 billion (-\$3.3bn) to negative EGP50.3bn. This decline preceded the EGP devaluation. The EU will also provide Egypt with EUR100mn to help tackle rising food prices.

Key takeaways:

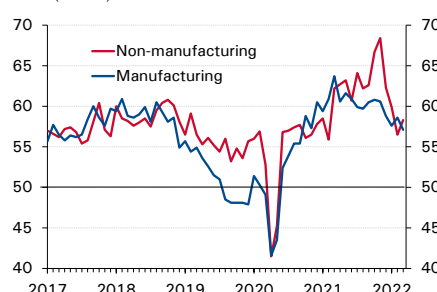
- It remains to be seen whether the US economy and the fixed income market will be able to handle the Fed's expected sharp tightening of monetary policy; the last Fed attempt at balance sheet reduction in 2017-2019 was only partially successful, and was eventually aborted due to economic weakness.
- In affirming Kuwait's A+ sovereign rating, S&P acknowledged the boost to the fiscal and external accounts provided by high oil prices. However, with the government resigning, the prospects of near-term structural economic and fiscal reforms are looking less likely.
- The IMF's funding arrangement with Lebanon is a first step in a long reform and restructuring process for the Lebanese banking sector and the economy. It is still uncertain whether this package of measures will clear parliament, whether a new government will abide by them after elections, or what the socio-economic impact will be on the population. Success will also be dependent on Lebanon securing funding from its international partners, which is also not guaranteed.

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



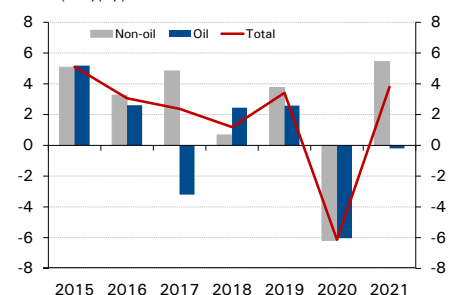
Source: Refinitiv

▶ **Chart 2: US ISM Services Index** (index)



Source: Refinitiv

▶ **Chart 3: UAE GDP** (% y/y)



Source: FCSC; 2021 oil/non-oil GDP growth are estimates

Key data

Stock markets	Index	Change (%)	
		1-week	YTD
International			
CSI 300	4,231	-1.1	-14.4
DAX	14,284	-1.1	-10.1
DJIA	34,721	-0.3	-4.5
Eurostoxx 50	3,858	-1.5	-10.2
FTSE 100	7,670	1.7	3.9
Nikkei 225	26,986	-2.5	-6.3
S&P 500	4,488	-1.3	-5.8
Regional			
Abu Dhabi SM	10,094	1.7	18.9
Bahrain ASI	2,121	2.3	18.0
Dubai FM	3,542	0.1	10.8
Egypt EGX 30	11,102	-1.2	-7.1
MSCI GCC	887	2.3	20.4
Kuwait SE	8,261	1.4	17.3
KSA Tadawul	13,314	1.7	18.0
Muscat SM 30	4,210	0.1	1.9
Qatar Exchange	14,089	4.1	21.2

Bond yields	%	Change (bps)	
		1-week	YTD
International			
UST 10 Year	2.70	31.4	119.2
Bunds 10 Year	0.71	14.4	88.9
Gilts 10 Year	1.75	14.1	78.0
JGB 10 Year	0.23	1.0	15.5
Regional			
Abu Dhabi 2027	2.91	30.6	48.0
Oman 2027	4.65	-11.6	-74.8
Qatar 2026	2.99	19.1	52.3
Kuwait 2027	2.95	32.1	38.3
Saudi Arabia 2028	3.35	32.4	31.6
Commodities			
	\$/unit	Change (%)	
		1-week	YTD
Brent crude	102.8	-1.5	32.1
KEC	102.8	-3.2	30.0
WTI	98.3	-1.0	30.6
Gold	1941.6	1.2	6.2

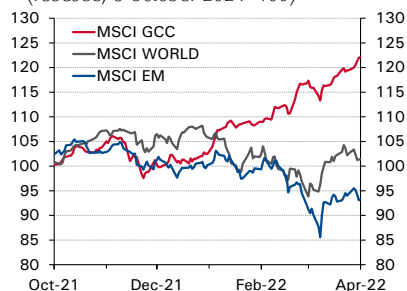
Interbank rates	%	Change (bps)	
		1-week	YTD
Bhibor - 3 month	1.91	0.0	39.7
Kibor - 3 month	1.69	0.0	18.8
Qibor - 3 month	1.15	0.0	2.5
Eibor - 3 month	1.06	1.0	69.6
Saibor - 3 month	2.38	-7.5	147.0
Libor - 3 month	1.01	4.9	80.2
Exchange rates			
	rate	Change (%)	
		1-week	YTD
KWD per USD	0.305	0.2	0.8
KWD per EUR	0.340	0.0	0.0
USD per EUR	1.088	-1.6	-4.3
JPY per USD	124.3	1.5	8.0
USD per GBP	1.303	-0.6	-3.7
EGP per USD	18.29	0.3	16.8

Updated on 8/4/2022

Source: Refinitiv

International equity markets

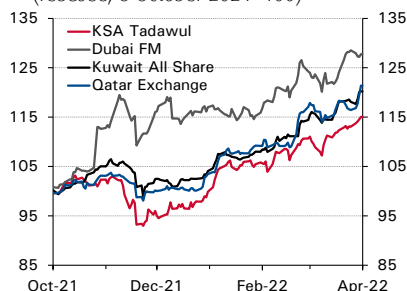
(rebased, 8 October 2021=100)



Source: Refinitiv

GCC equity markets

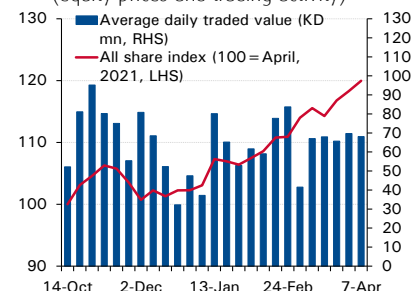
(rebased, 8 October 2021=100)



Source: Refinitiv

Boursa Kuwait

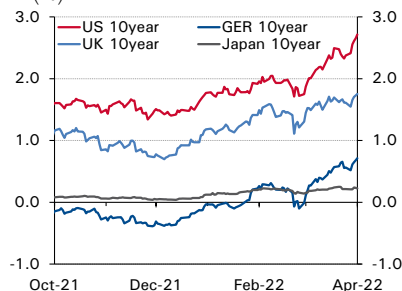
(equity prices and trading activity)



Source: Refinitiv

International bond yields

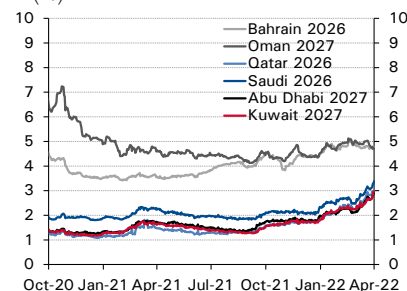
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Source: Refinitiv

GCC bond yields

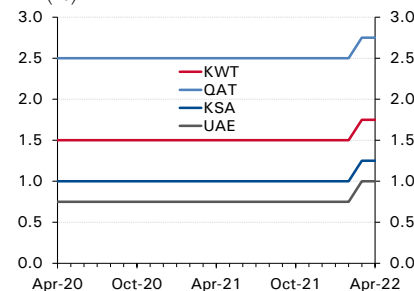
(%)



Source: Refinitiv

GCC key policy rates

(%)



Source: Refinitiv