Daily
Economic Update

Economic Research Department
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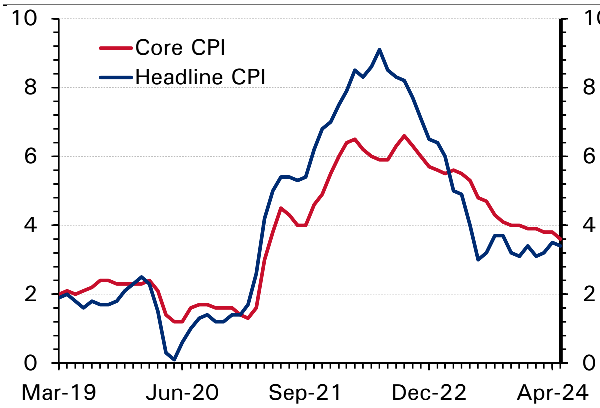
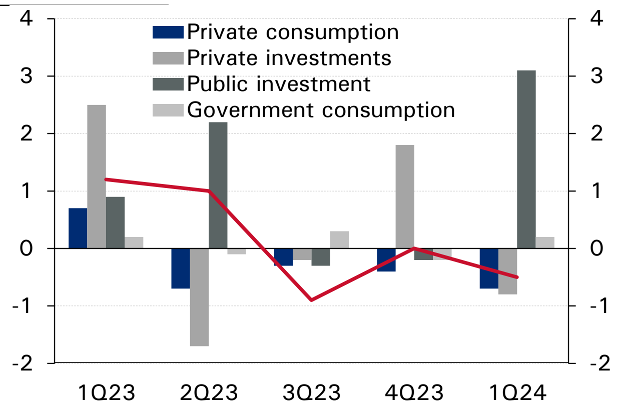
US: Inflation eases, but retail sales disappoint. CPI inflation in April edged down to 3.4% y/y (0.3% m/m) from 3.5% (0.4% m/m) in March, helped by deflation in the prices of goods excluding energy and food. The core rate also eased to a three-year low at 3.6% y/y (0.3% m/m) from 3.8% (0.4% m/m) previously. However, the heavyweight shelter component continued to rise at an elevated rate of 0.4% m/m, and this may slow only gradually going forward. Overall, the latest print soothes some worries fueled by a series of hotter inflationary readings earlier this year. Still, the path towards the Fed's 2% goal appears uncertain as underlying services prices continue to rise at a lofty pace (5.3% y/y). This is likely to leave the Fed adopting a still-cautious approach to policy at next month's policy meeting. Meanwhile, in more signs of slowing economic momentum, retail sales stagnated in April (0% m/m) from a downwardly revised +0.6% in March, versus the forecast of a 0.4% gain, on falling auto sales and muted spending on several consumer discretionary items. Robust consumer spending has been the key driver of US economic resilience thus far, helped by a tight labor market. But early signs of consumer fatigue have emerged at the start of the second quarter, with plummeting consumer confidence and more muted spending as job prospects show signs of moderating.

Chart 1: US CPI Inflation
(% y/y)



Source: Haver

Chart 2: Japan real GDP growth



Source: Haver

Japan: GDP growth shrinks more than expected in Q1 2024. Preliminary estimates show GDP contracted in Q1 2024 by more than market estimates, by -0.5% q/q, down from meager growth of 0.1% in the previous quarter. Private consumption, which constitutes more than half of GDP, saw its steepest fall in three quarters, declining by -0.7% (-0.4% in Q4 23). Private investment also fell by -0.8% q/q (+1.8% in Q4 23) compared with expectations of a 0.7% fall, due to the hit to auto production linked to a recent vehicle safety test scandal. Net trade also contributed to the weakness, with exports (-5.0% versus 2.8%) declining more than imports (-3.4% versus 1.8%). However, positive growth in government consumption (0.2% versus -0.2%) and public investment

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(3.1% versus -0.2%) offset part of this decline. The contraction in GDP and squeeze in household incomes could weigh on the Bank of Japan's plans to tighten monetary policy ahead, although a possible need to support the weak yen is a complicating factor.

Oil: IEA lowers oil demand forecast for 2024, raises 2025 projection. In its May oil market report, the International Energy Agency (IEA) lowered its demand growth forecast for 2024 by 140 kb/d to 1.1 mb/d, citing weak industrial activity and a mild winter in Europe that has overall led to soft diesel/gasoil consumption. This has widened the gap between the IEA's and OPEC's forecasts, with the latter maintaining its projection of a 2.2 mb/d increase in oil demand this year. For 2025, the IEA has revised its demand growth outlook up to 1.2 mb/d from 1.1 mb/d in April while OPEC left its forecast unchanged at 1.8 mb/d. The agencies' reports, however, had little impact on prices, with price volatility largely receding over the past two weeks after Brent's 9% drop from its year-to-date high of $91.2/bbl (day close) recorded in April. Brent futures gained a marginal 0.4% d/d (to $82.7/bbl) yesterday after US Energy Information Administration data showed a 2.5 mb w/w drop in commercial crude inventories (week-ending May 10), usually a bullish sign. Markets will likely now look ahead to the OPEC ministerial meeting of 1 June, which, according to some sources, could be a virtual rather than a physical meeting. This is being taken in some quarters to indicate a lower possibility of production policy changes.

Kuwait: The Emir swears in cabinet, reveals priorities. HH the Emir directed the cabinet to pursue as a matter of priority the improvement of healthcare and education and the delivery of development projects vital for Kuwait's infrastructure and economy. In addition, work should be carried out within a set timeframe, and progress will be monitored. Ministers are responsible for the formation and execution of appropriate work plans and will be held accountable for any shortcomings. The stern tone and direct oversight of HH the Emir over the work of the government adds pressure on ministers to exercise improved oversight and delivery of targets.

Egypt: Central bank net foreign liabilities shrink to their lowest since March 2022. The CBE's deficit in net foreign assets shrank in April to $770 million versus $1.44 billion in March and $9.16 billion in April 2023. This was the smallest deficit since March 2022. Total NFAs (data for April is not yet released) including commercial banks stood at -$4.3 billion in March versus -$22 billion in Feb and we think they could breakeven by April or May and turn positive beyond that. The strong influx of FCY inflows (mainly from the Ras El Hekma deal) will help further boost the commercial banks foreign currency position. The government has communicated that Egyptian expat remittance inflows have returned strongly through official channels. The EGP has appreciated against the USD this week on receipt of funds from the second tranche of the Ras El Hekma deal and news of a possible Saudi mega deal.

Saudi Arabia: Inflation steady in April with housing rents still the main driver. Inflation came in at 1.6% y/y in April, unchanged from the previous month. The inflation came almost entirely from housing rents (21% of CPI basket) which remained elevated at 10.4% y/y, and to a much lesser extent from restaurant and hotel prices which rose by 2% y/y. The isolated price pressures more than offset generally softer or negative inflation in other categories including food and beverage (0.8%), transport (-1.6%), furnishing and household equipment (-3.9%), and other goods and services (-0.3%), comprising a combined 51% of the CPI basket. Monthly inflation rose slightly but remained soft at 0.3%, supporting our view that inflation is on track to moderate to an average of around 1.8% in 2024 from 2.3% in 2023.

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Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,021	-0.41	-5.81
Bahrain (ASI)	2,010	-0.64	1.96
Dubai (DFMGI)	4,093	-1.05	0.82
Egypt (EGX 30)	25,316	-0.09	1.95
GCC (S&P GCC 40)	687	-0.42	-3.60
Kuwait (All Share)	7,176	-0.28	5.25
KSA (TASI)	12,103	-0.15	1.13
Oman (MSM 30)	4,775	0.37	5.79
Qatar (QE Index)	9,628	-0.19	-11.10
International			
CSI 300	3,626	-0.85	5.68
DAX	18,869	0.82	12.64
DJIA	39,908	0.88	5.89
Eurostoxx 50	5,101	0.41	12.81
FTSE 100	8,446	0.21	9.21
Nikkei 225	38,386	0.08	14.71
S&P 500	5,308	1.17	11.29

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.33	1.00	-20.65
Kuwait	4.25	0.00	-6.25
Qatar	6.00	0.00	-25.00
UAE	5.31	-1.35	0.07
Saudi	6.22	-7.99	6.88
LIBOR	5.59	0.26	-0.47
SOFR	5.33	0.43	-0.47

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.99	-5.90	66.4
Oman 2027	5.76	-9.80	60.5
Qatar 2026	5.09	-3.50	57.1
Kuwait 2027	5.02	-6.00	67.9
Saudi 2028	5.01	-13.10	49.1
International 10YR			
US Treasury	4.36	-8.90	49.6
German Bund	2.42	-11.70	39.4
UK Gilt	4.07	-10.40	53.2
Japanese Gvt Bond	0.95	-0.90	33.6

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.08	-0.05
KWD per EUR	0.33	0.53	1.12
USD per EUR	1.09	0.59	-1.40
JPY per USD	154.87	-0.99	9.79
USD per GBP	1.27	0.77	-0.35
EGP per USD	46.78	-0.04	51.64

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	82.75	0.45	7.41
KEC	84.55	-0.62	6.27
WTI	78.63	0.78	9.74
Gold	2388.7	1.50	15.82

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: Refinitiv / Haver

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