

Daily Economic Update

Economic Research Department
21 May 2026

Oil: Prices ease amid signs of diplomatic progress. Brent futures fell yesterday by 5.6% d/d ending at \$105/bbl, after President Trump announced that the US and Iran were in the final stages of negotiations, prompting markets to price in potential de-escalation and normalization of flows through the Strait of Hormuz. The reaction reflects a familiar pattern, with prices quickly reacting to news reports of diplomatic progress. That said, the market has repeatedly encountered similar episodes in recent weeks, where positive rhetoric has failed to translate into a durable resolution, instead delivering only a reprieve in prices before tensions re-emerge. As such, while the latest headlines have boosted sentiment, conviction around a sustained de-escalation remains limited, with Brent futures up near 1% in early Asian trading today. Fundamentals, meanwhile, continue to point to tightening oil market balances, particularly in the US. Indeed, EIA weekly data showed a record draw of 17.8 mb in crude inventories, with the SPR declining by 9.9 mb (~1.4 mb/d) and commercial stocks falling by 7.9 mb. The persistent drawdown underscores the strain on available market supply, even as US petroleum exports remain elevated above 13 mb/d, well above the ~10 mb/d level recorded a year ago and roughly 1.5 mb/d higher than January levels.

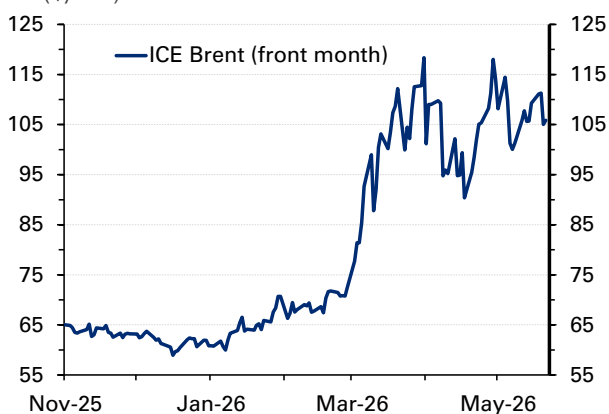
US: FOMC April meeting minutes more hawkish than expected. Minutes from the FOMC meeting in April highlighted that “many” participants preferred to drop “an easing bias regarding the likely direction of the committee’s future interest rate decisions” from the post-meeting statement. As a reminder, the FOMC maintained the policy interest rate at the 3.5-3.75% range, but three members voted in favor of removing the reference to an easing bias from the statement. The minutes also highlighted that “the vast majority of participants noted an increased risk that inflation would take longer to return to the committee’s 2% objective than they had previously expected,” and a majority of participants highlighted that “some policy firming would likely become appropriate if inflation were to continue to run persistently above 2%.” The Middle East war and the resulting surge in energy prices have dramatically altered the inflation picture as the latest CPI and PPI data underscored sharply accelerating inflation in March and April. Moreover, as the labor market has shown steady signs of gradual improvement versus the weakness seen in 2025, the Fed’s bias seems to increasingly tilt towards combating the inflation mandate. Since the FOMC meeting in April, several Fed officials have expressed concerns about higher inflation risks, while keeping options open about the next move. The futures market currently signals an over 50% probability of a 25bps interest rate hike by the end of 2026. Kevin Warsh, who will be sworn in as next Fed Chair in a ceremony at the White House on Friday, will likely confront a growing chorus of hawkish voices within the FOMC, indicating challenges he will face in building consensus to deliver interest rate cuts envisaged by the Trump administration. Meanwhile, the S&P 500 rose 1.1% yesterday on ongoing AI-related optimism and the drop in oil prices amid indications of a US-Iran peace deal, while UST 10Y yields retreated sharply from highs seen earlier this week.

UK: CPI inflation cools in April on government price measures, but the easing looks temporary given current higher energy prices. CPI inflation in April fell more than forecast to an over one year low of 2.8% y/y from 3.3% in March, helped by lower utility costs and other government price freezes announced in last year's Autumn budget, and which took effect in April. Household energy bills also softened due to the pricing mechanism related to wholesale gas prices, which are used to calculate bills for the current quarter, and which were set prior to the Middle East war-related surge in energy prices. As a result, electricity charges fell by 8.4% y/y, fully offsetting the 23% jump in motor fuel costs. In addition, food and non-alcoholic beverage prices rose at a softer clip (3% y/y in April versus 3.7% in March). The core rate also eased to 2.5% y/y from 3.1% in March, driven by a 13% y/y drop in airfares and a substantial slowdown in the cost of holiday packages. The Office for National Statistics attributed the easing in both to a shift in timing in the survey week, which fell after the Easter holidays this year, but before the holidays in 2025, indicating that the moderation is due to a statistical anomaly and not due to a disinflationary trend. In a nutshell, the slowdown observed in April is most likely temporary. Once the effect of lower utility charges fades along with the dissipation of other data distortions, and given current high energy prices, the inflation trajectory over the coming period will likely reverse, especially if the ongoing blockade of the Strait of Hormuz remains in place. The futures market continues to signal two 25bps interest rate hikes by the BoE this year, including an over 50% probability for a move at the July meeting.

Japan: Trade data beats estimates on soaring exports. Exports surged 14.8% y/y in April, significantly beating consensus estimates (9.3%) and accelerating from 11.5% in March. Growth was mainly driven by exports to Asia (16%) and the EU (27%), while exports to the Middle East fell 55% amid the ongoing geopolitical tensions. This marks the eighth consecutive month of positive export growth, buoyed by ongoing AI-related shipments as semiconductor exports soared 42% y/y. Similarly, imports beat consensus estimates of 8.3% to reach 9.7%, but fell from the previous month's 14-month high of 10.9%. Meanwhile, May PMI figures softened, with the composite PMI declining for the third consecutive month to reach 51.1, reflecting heightened geopolitical uncertainty and rising input costs. Despite that, manufacturing PMI matched consensus estimates of 54.5 as companies continued to frontload inventories in anticipation of further supply chain disruptions. We note that the Japanese stock market has been one of the best performing so far this year with the Nikkei 225 index soaring by 19% YTD through yesterday's close and is up by more than 3% at the time of writing in today's trading.

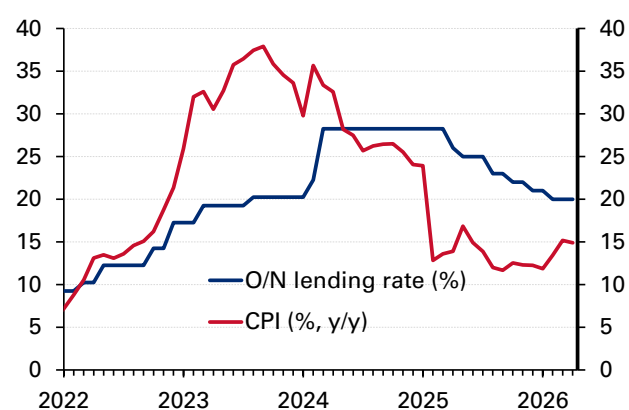
Chart 1: Oil prices

(\$/bbl)



Source: LSEG *reflecting latest available data

Chart 2: Egypt interest rates & inflation



Source: Haver

Egypt: MPC expected to keep rates on hold as inflation cools but risks remain elevated. We expect the central bank to keep policy rates unchanged (overnight lending rate 20%) at today's Monetary Policy Committee (MPC) meeting, extending its cautious pause amid a still-uncertain inflation outlook. This comes after the urban

inflation rate eased slightly to 14.9% y/y in April, down from 15.2% in March, supported mainly by lower food prices, particularly meat and poultry. However, the broader inflation picture remains mixed, with continued upward pressures from housing, utilities, and the recent fuel and electricity price adjustments. In our view, the latest inflation print supports maintaining rates at current levels rather than resuming the easing cycle or hiking the rates too quickly. While inflation has started to stabilize gradually, upside risks remain elevated due to higher energy costs, global supply chain uncertainty, and lingering geopolitical pressures. Moreover, Egypt still maintains a relatively attractive real interest rate buffer of around 5%, giving policymakers room to remain patient and assess how recent price increases filter through the economy before making further moves. Looking ahead, the MPC is likely to continue prioritizing price stability and inflation anchoring, especially as the path toward single-digit inflation has now been pushed further out to 2027. A return to easing may only become more likely once inflation shows a more convincing and sustained downward trend.

Note: The Daily Economic Update will resume in the week starting Sunday 31st May.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,598	-0.52	-3.95
Bahrain (ASI)	1,926	0.00	-6.82
Dubai (DFMGI)	5,627	-0.62	-6.95
Egypt (EGX 30)	51,937	-1.59	24.16
GCC (S&P GCC 40)	735	-0.25	0.35
Kuwait (All Share)	8,647	-0.14	-2.93
KSA (TASI)	10,986	0.03	4.72
Oman (MSM 30)	7,243	-3.26	23.46
Qatar (QE Index)	10,353	-0.63	-3.81

International			
CSI 300	4,851	-0.04	4.77
DAX	24,737	1.38	1.01
DJIA	50,009	1.31	4.05
Eurostoxx 50	5,976	2.13	3.19
FTSE 100	10,432	0.99	5.04
Nikkei 225	59,804	-1.23	18.80
S&P 500	7,433	1.08	8.58

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.10	-0.65	11.96
Kuwait	3.56	0.00	0.00
Qatar	4.01	-2.24	3.54
UAE	3.73	3.61	26.00
Saudi	4.69	-10.70	-16.80
SOFR	3.64	-0.08	-1.06

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2030	4.65	-3.52	68.8
Oman 2029	4.90	-2.17	37.8
Qatar 2030	4.62	-5.15	63.2
Kuwait 2030	4.55	-1.56	40.8
Saudi 2030	4.89	-5.08	62.2

International 10YR			
US Treasury	4.58	-8.18	42.2
German Bund	3.09	-9.40	23.9
UK Gilt	4.99	-14.00	51.6
Japanese Gvt Bond	2.79	0.00	72.8

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.00	-0.30
KWD per EUR	0.36	0.17	1.29
USD per EUR	1.16	0.20	-1.00
JPY per USD	158.91	-0.08	1.44
USD per GBP	1.34	0.28	-0.31
EGP per USD	53.37	0.60	12.00

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	105.02	-5.63	72.59
KEC	123.28	-0.28	104.92
WTI	98.26	-8.82	71.13
Gold	4531.3	0.55	4.76

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

Source: LSEG / Haver