

Fed hikes rates and unveils plans to reduce its balance sheet

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EMIRATES INVESTMENT BANK

LOOKING BACK

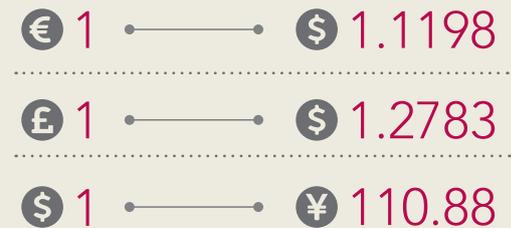
- US Fed raises rates.** The FOMC raised its short-term target rate by 25bps to 1.0-1.25%, while also laying out its plans to reduce the size of its USD 4.5 trillion balance sheet. FOMC members also published an updated version of their "dot plot", revealing expectations for one more rate hike this year and three more in 2018. However, weaker-than-expected inflation and disappointing retail sales brought into question the prospect of an additional rate hike this year, as the US 10-year ended at 2.15%, down 5bps for the week.
- UK inflation spike hits consumer confidence.** Consumer confidence took a hit as UK retail spending fell by 0.8% in May, with headline inflation rising by 2.9% year-over-year, the fastest pace in nearly four years. Meanwhile, Moody's rating agency warned that the minority government resulting from the recent snap election further complicates Brexit negotiations with the EU, forcing the government to put its fiscal consolidation plans on hold.
- Greek debt resolution postponed.** Lenders agreed to release another round of funding to Greece, postponing discussions on any kind of concessions until August 2018. Greece will be granted access to an additional EUR 8.5 billion and its debt will remain excluded from the ECB's QE program.
- Bank of Japan (BoJ) holds steady.** As was widely expected, the BoJ decided to make no changes to its monetary policy, affirming that the Central Bank would maintain the 10-year government bond yield target at around 0.0% and continue purchasing approximately JPY 80 trillion in government bonds annually. The BoJ also cautioned that inflation expectations remained in a weakening phase and the economy would likely continue on its path of "moderate expansion".
- IMF revises China GDP forecast.** The IMF raised its GDP forecast for China to 6.7% in 2017, up from its prior 6.6% projection, as a batch of recent economic indicators signalled that economy was fairly resilient, even as lower money supply and credit growth showed the cooling effects of monetary tightening. The IMF advised China to embrace far-reaching reforms while growth is still strong as it navigates its economy to a more sustainable footing.
- Egypt eases currency control.** Egypt's Central Bank lifted controls on currency transfers as the country's forex shortage eased, with reserves steadily rising in recent months after the country took several bold steps to reform the economy. In May, the annual inflation rate eased to 29.7% from 31.5%, its first drop since October 2016.
- Most GCC nations hike rates.** Following the Fed, central banks in Saudi, UAE, Bahrain and Qatar also raised their key policy rates, while Kuwait kept its discount rate unchanged citing growth concerns. Although the Qatar Central Bank (QCB) hiked its overnight deposit rate by 25bps to 1.5%, it kept its repo rate, which is the rate used to lend money to banks, unchanged at 2.25% in order to ease any liquidity concerns in the banking system.

LOOKING FORWARD

- Brexit negotiations begin on **Monday**, US reports its existing home sales data on **Wednesday** while leading economic indicators for the US will be published on **Thursday**. On **Friday**, global flash PMIs will be released and Canada reports its CPI.



MAIN CROSS RATES



	Yield % (18/06)	Yield % (11/06)
Abu Dhabi 2019	1.48	1.43
KSA 2021	2.59	2.65
Dubai 2023	3.15	3.15
Qatar 2023	2.94	3.11
US 10Y	2.15	2.20
German 10Y	0.28	0.26

Equities	Last Price	Weekly Chg	YTD Chg
MSCI World	1,923	0.0%	9.8%
MSCI BRIC	277	-2.0%	14.7%
MSCI EM	1,003	-1.5%	16.3%
USA - S&P 500	2,433	0.1%	8.7%
UK- FTSE 100	7,464	-0.8%	4.5%
France - CAC40	5,263	-0.7%	8.2%
Germany - DAX	12,753	-0.5%	11.1%
Japan - Nikkei 225	19,943	-0.3%	4.3%
Dubai	3,459	1.7%	-2.0%
Abu Dhabi	4,502	0.6%	-1.0%
Saudi	6,821	-0.7%	-5.4%
Oman	5,248	-2.0%	-9.2%
Kuwait	6,811	0.4%	18.5%
Egypt	13,479	-1.5%	9.2%
Qatar	9,258	0.2%	-11.3%
Commodities			
Gold (\$/oz)	1,254	-1.0%	9.3%
Silver (\$/oz)	17	-2.9%	4.9%
Platinum (\$/oz)	930	-1.1%	3.0%
Oil - Brent (\$/bbl)	47	-1.6%	-16.6%

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