

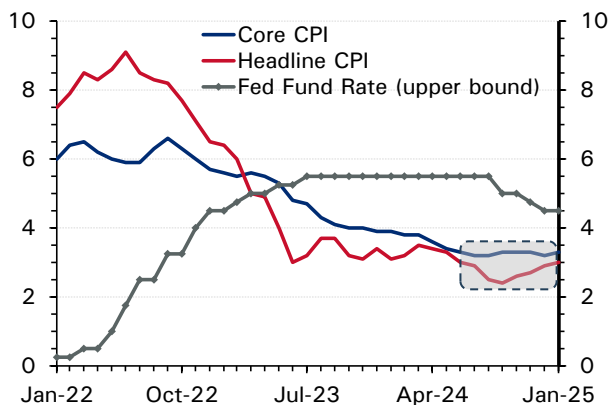
Daily Economic Update

Economic Research Department
13 February 2025

US: CPI inflation comes in hotter, casting doubts on Fed rate cuts this year. CPI inflation in January unexpectedly accelerated to a seven-month high of 3% y/y from 2.9% in December, with the core rate also increasing to 3.3% from 3.2% earlier. On a monthly basis, price rose by their fastest since August 2023 at 0.5%, led by soaring egg prices. Core prices saw a 0.4% m/m increase, a 10-month high, driven by a 0.4% increase in shelter costs and faster rises in auto insurance, hospital services, and used vehicle prices. The outsized monthly gain may have been influenced by anomalies in seasonal adjustments as many firms typically increase prices at the beginning of the year, and some market participants see more moderate monthly rises in the February print. Nonetheless, the acceleration in core inflation further confirmed an apparent stalling in disinflation progress (core has been stuck in the 3.2-3.3% range for the last eight months – see chart below), affecting market expectations for further interest rate cuts by Fed. Although futures markets continue to price in one to two cuts in 2025, the probability of such cuts fell substantially following the inflation release. US equity benchmarks initially dropped by over 1% but later pared losses, with the S&P 500 closing 0.3% d/d down, and 10-yr UST yields rising 9 bps to close at 4.62%.

Chart 1: US Fed rate and annual inflation

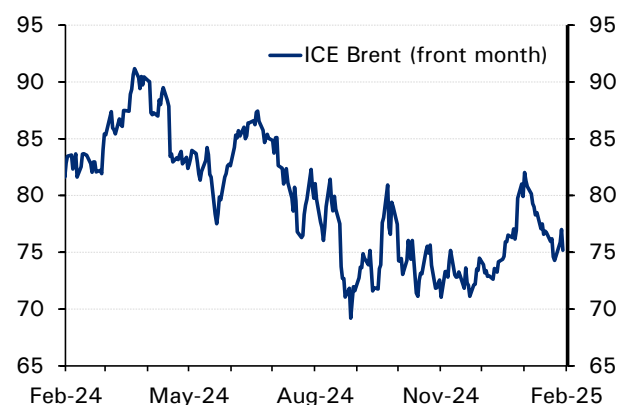
(%)



Source: Haver

Chart 2: Oil prices

(\$/bbl)



Source: Haver

Oil: Prices fall on increasing Ukraine peace deal prospects. Brent futures fell 2% d/d to close Wednesday at \$75.2/bbl following an announcement by US president Trump that he and Russian leader Putin have agreed to begin negotiations to end the war in Ukraine. The selloff continued in Asian trading this morning with Brent down 1% at the time of writing as the peace deal prospects remove a portion of the geopolitical risk premium embedded in prices. Further fueling the selloff was a higher-than-expected buildup in US commercial crude stocks, which rose 4.1 mb w/w to 427.9 mb in the week ending February 7, according to Energy Information Administration data. Meanwhile, OPEC, in its monthly report, kept oil demand forecasts unchanged for this year

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and next at 1.45 mb/d and 1.43 mb/d, respectively. OPEC's relatively upbeat projection, which is supported by higher consumption of transportation fuels on strong air and road travel demand, is higher than comparative forecasts from other agencies, most notably that of the IEA which pegs growth at a more moderate 1.05 mb/d for this year. The IEA's monthly oil market report is also set to be released later today. Meanwhile, on the supply front, OPEC revised its non-DoC (non OPEC+) liquids production outlook for 2025 & 2026 by 0.1 mb/d to 1 mb/d in both years, with the main downward revisions in the US and Latin America.

Japan: Producer inflationary pressures came higher than expected in January. Producer price inflation accelerated in January to 4.2% y/y, above the market consensus (4.0%), to reach its highest reading since May 2023. This increase came on higher food (2.9% versus 2.2% in December), petroleum products (2.6% versus -0.6%), metal products (4.5% versus 4.1%), and non-ferrous metals (14.3% versus 12.7%) prices. Cost-push inflationary pressures are expected to feed into consumer prices – which rose to 3.6% in December – in the coming months. However, in a speech on Wednesday, Bank of Japan governor Ueda maintained his stance that cost-push inflation is likely to dissipate toward mid-year while affirming that the pace of future interest rate hikes will depend mainly on evolving economic conditions, including wage growth and broader inflation trends.

Egypt: FY25/26 budget, growth, austerity and debt strategy. According to media reports, the government's budget for FY2025-26 is expected to rise to EGP8 trn from EGP6.6 trn the previous year (+20%), as more state economic bodies are incorporated into the accounts. This consolidation aims to provide a clearer picture of government finances and boost revenues. The budget targets 5-5.5% GDP growth, a primary surplus of 4% of GDP, and reduced public debt. Fuel subsidies are set to decline further, with long-term contracts and phased price hikes leading to full removal by March 2026. However, the transition to cash subsidies may be delayed due to inflation concerns. Public investments will continue to decrease, focusing on urgent projects while encouraging private sector participation, particularly in education, healthcare, and the Takaful and Karama program. A new public debt policy document is expected by March, outlining strategies to extend maturities, diversify instruments, and keep public external debt stable at \$79.1 bn. Meanwhile, the government is also preparing a three-year budget with financial ceilings for ministries, aiming for more fiscal discipline and flexibility. The finance ministry is working to simplify budget preparation and better manage FX resources in collaboration with private and public stakeholders.

Qatar: IMF sees growth accelerating on LNG expansion plans. In its latest article IV report, the IMF has noted that having normalized post the 2022 FIFA World Cup, GDP growth is set to accelerate in the near-term, led by the hydrocarbon sector as LNG output increases. The Fund sees hydrocarbon GDP growing 3% in 2025, improving from 1.4% in 2024. Meanwhile, the non-hydrocarbon sector is seen expanding 2.1% (1.9% in 2024) on strong tourism and public investment, pushing overall GDP growth to 2.4%. On the fiscal front, the Fund recommended the acceleration of revenue diversification efforts such as the introduction of a value-added tax, though the fiscal balance is set to remain in a surplus on a rise in hydrocarbon receipts. Over the medium term, GDP growth is set to strengthen to 4.75% on average, boosted by significant LNG production capacity increases as well as gains from implementing the reforms outlined in the Third National Development Strategy (NDS3). Risks to the outlook were broadly balanced, with downside risks from global headwinds including a sharper-than-expected global growth slowdown, increased volatility in financial conditions, and a further worsening of geopolitical tensions, balanced by strong tourism and policy measures, higher hydrocarbon prices, and an accelerated NDS3 reform drive.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,659	0.21	2.55
Bahrain (ASI)	1,892	-0.36	-4.75
Dubai (DFMGI)	5,304	-0.59	2.82
Egypt (EGX 30)	29,662	0.33	-0.26
GCC (S&P GCC 40)	748	-0.15	3.64
Kuwait (All Share)	7,974	0.19	8.31
KSA (TASI)	12,386	-0.31	2.90
Oman (MSM 30)	4,486	-0.80	-1.97
Qatar (QE Index)	10,595	-0.32	0.23

International			
CSI 300	3,920	0.95	-0.38
DAX	22,148	0.50	11.25
DJIA	44,369	-0.50	4.29
Eurostoxx 50	5,406	0.27	10.41
FTSE 100	8,807	0.34	7.76
Nikkei 225	38,964	0.42	-2.33
S&P 500	6,052	-0.27	2.90

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.67	-0.32	-1.95
Kuwait	3.94	0.00	0.00
Qatar	4.65	0.00	-2.50
UAE	4.33	5.42	-11.08
Saudi	5.61	24.69	6.94
SOFR	4.32	0.04	0.99

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.67	10.00	-7.0
Oman 2027	5.42	-2.00	-14.0
Qatar 2026	4.62	8.00	-17.0
Kuwait 2027	4.84	5.00	-13.0
Saudi 2028	5.08	12.00	0.0

International 10YR			
US Treasury	4.62	8.86	5.3
German Bund	2.48	5.10	11.6
UK Gilt	4.54	3.65	-2.3
Japanese Gvt Bond	1.34	3.00	26.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.05	0.21
KWD per EUR	0.32	0.27	0.69
USD per EUR	1.04	0.21	0.28
JPY per USD	154.41	1.27	-1.76
USD per GBP	1.24	-0.01	-0.55
EGP per USD	50.57	0.34	-0.43

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	75.18	-2.36	0.72
KEC	79.44	-0.31	4.82
WTI	71.37	-2.66	-0.49
Gold	2909	-0.12	10.64

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

Source: LSEG / Haver