

Daily Economic Update

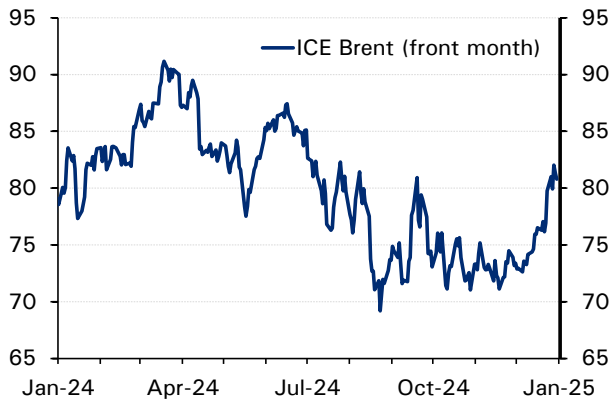
Economic Research Department
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Global: Trump's inauguration and early policy actions to dominate the limelight this week. In the **US**, Donald Trump will be inaugurated as president today, and markets will be squarely focused on both his speech as well as the numerous expected day-one executive orders. As per the election pledges, potential day-one orders include imposing new tariffs, launching a mass illegal-immigrant deportation program, easing restrictions on energy exploration, and dialing back green energy goals. In the **Eurozone**, the January Flash PMIs (Friday) are expected to remain broadly unchanged and subdued at 45.3 for manufacturing and 51.6 for services. In the **UK**, November labor data is due on Tuesday, with consensus expectations indicating a slight pickup in the unemployment rate to 4.4% from 4.3% but higher total pay growth of 5.6% y/y for September-November versus 5.2% in the preceding three months. Meanwhile, the January Flash PMI (Friday) is seen weakening for services (to 50.6 from 51.1 in December), but remaining broadly stable (47.1), though in contraction territory, for manufacturing. Finally, in **Japan**, the Bank of Japan will meet on Thursday-Friday and current market expectations indicate the bank will raise interest rates by 25 bps (see below). The decision will come just after the release of the inflation data for December, where the consensus points to an increase in the core rate to 3% y/y from 2.7% in November.

Oil: Brent extends rally to a 4th consecutive week on near-term supply tightness. Brent futures closed Friday at \$80.8/bbl, up 1.3% w/w for a fourth consecutive week of gains amid more extensive US-led sanctions on Russia that have caused a scramble for alternative supplies among buyers of Russia's crude. Paring back some of the gains, however, was the announcement of a ceasefire deal between Hamas and Israel, which would extend to the Houthis and see them suspend attacks on ships passing through the Red Sea. The latest round of US sanctions targets two of Russia's largest oil exporting companies, which accounted for 30% of the country's total seaborne crude exports in the first ten months of 2024, and an additional 161 tankers, potentially disrupting 1.4 mb/d of Russian crude exports. This could more than offset the International Energy Agency's expected supply surplus of 725 kb/d for this year. Trump's "maximum pressure" strategy, should it be re-applied on Iran when the president-elect takes office, also threatens to reduce the current volume of Iranian crude flows. Nevertheless, the supply dislocations are not guaranteed to last long-term. While China and India, buyers of 81% of Russian seaborne crude exports, could adhere to the US sanctions temporarily, lower prices offered for Russian grades could entice traders to once again build supply chains – ones that work around the imposed sanctions by bringing the unsanctioned tankers into the shadow fleet or by conducting more ship-to-ship transfers. OPEC+, with nearly 6.1 mb/d in available spare production capacity, could also step in to fill the supply shortfall, though with Russia being part of the members participating in the voluntary production cuts set to be unwound in April 2025, it is likely to oppose any output hikes.

Chart 1: Oil prices

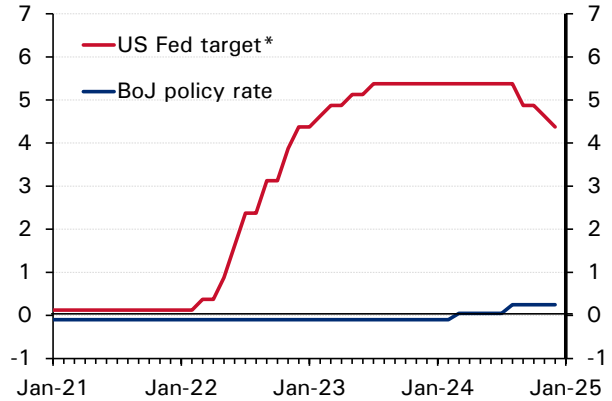
(\$/bbl)



Source: Haver

Chart 2: US and Japanese policy interest rates

(%)



Source: Haver * Mid-point of target range

Japan: BoJ likely to raise rates amid firmer inflationary pressure and robust wage growth. Markets are widely expecting the Bank of Japan (BoJ) could raise policy rates by 0.25% (to 0.5%) at its upcoming meeting this Friday, with a probability exceeding 80%, having maintained interest rates at the last three consecutive meetings. The chances of a rate hike increased significantly following a three-decade high increase of 2.7% in base pay in November and three-month high core inflation (excl. fresh food) of 2.7% in November. Recent surveys also point to a wage hike in Shunto (annual negotiations) 2025 nearly matching 2024's increases. Moreover, currency concerns following the yen's depreciation in recent months and the ministry of finance's large FX interventions (¥15.3 trillion in 2024) remain a factor. However, there is still some possibility that the BoJ could also adopt a 'wait and see approach' to have more clarity on the new US administration's economic policies and the results of the wage negotiations. The decision will also factor in the BoJ's updated price and growth forecasts. A rate hike could help lift the yen on a narrower interest rate gap with US policy rates.

China: PBOC leaves key interest rates unchanged. As anticipated, the People's Bank of China (PBoC) left interest rates unchanged for the third month in a row in January. The 1-year loan prime rate which affects corporate and most household loans was left at 3.1%, while the 5-year LPR – a benchmark for mortgage rates – was held at 3.6%. The no-change move comes amid downward pressure on the yuan as the Trump team gets closer to entering office, limiting the authority's appetite to loosen policy. However, the loan prime rates were cut three times last year, with the one-year rate down by 35 basis points and the five-year rate down by 60 basis points in total. In the near term, the PBoC might hold back on rate cuts due to yuan weakness, but Beijing did pledge to adopt an "appropriately loose" monetary policy in 2025 together with a more proactive fiscal policy to boost economic growth.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,499	n/a	0.85
Bahrain (ASI)	1,908	0.40	-3.93
Dubai (DFMGI)	5,212	n/a	1.03
Egypt (EGX 30)	29,729	0.42	-0.04
GCC (S&P GCC 40)	734	-0.02	1.65
Kuwait (All Share)	7,541	0.18	2.42
KSA (TASI)	12,332	0.62	2.45
Oman (MSM 30)	4,615	-0.14	0.85
Qatar (QE Index)	10,468	-0.04	-0.98

International			
CSI 300	3,812	n/a	-3.11
DAX	20,903	n/a	4.99
DJIA	43,488	n/a	2.22
Eurostoxx 50	5,148	n/a	5.15
FTSE 100	8,505	n/a	4.06
Nikkei 225	38,451	n/a	-3.62
S&P 500	5,997	n/a	1.96

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.69	0.00	0.65
Kuwait	4.00	6.25	6.25
Qatar	4.65	0.00	-2.50
UAE	4.33	0.00	-11.29
Saudi	5.34	2.42	-19.88
SOFR	4.29	-0.97	-1.19

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.83	n/a	9.0
Oman 2027	5.58	n/a	2.0
Qatar 2026	4.67	n/a	-12.0
Kuwait 2027	4.99	n/a	2.0
Saudi 2028	5.07	n/a	-1.0

International 10YR			
US Treasury	4.62	n/a	5.0
German Bund	2.50	n/a	14.1
UK Gilt	4.66	n/a	9.0
Japanese Gvt Bond	1.20	n/a	12.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.06	0.20
KWD per EUR	0.32	-0.17	-0.47
USD per EUR	1.03	0.00	-0.79
JPY per USD	156.30	0.00	-0.56
USD per GBP	1.22	0.00	-2.78
EGP per USD	50.33	-0.04	-0.91

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	80.79	n/a	8.24
KEC	84.60	n/a	11.62
WTI	77.88	n/a	8.59
Gold	2744.3	n/a	4.38

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

Source: LSEG / Haver