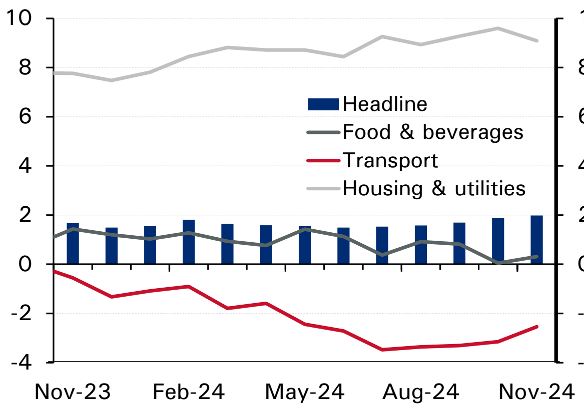
PUBLIC

Daily
Economic Update

Economic Research Department
16 December 2024

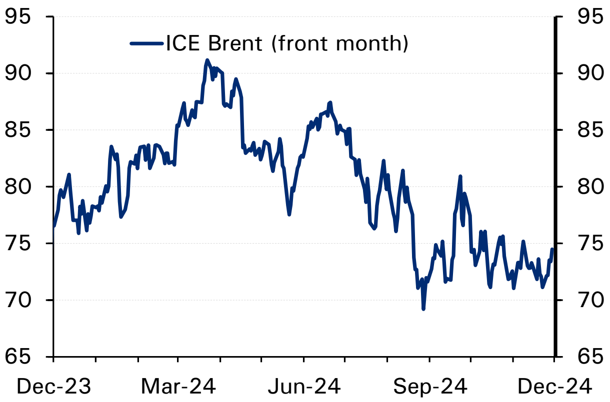
Saudi Arabia: Inflation edges up to 14-month high in November. Consumer price inflation rose for the fourth consecutive month to a 14-month high of 2.0% y/y in November. The increase was primarily driven by higher prices in the miscellaneous goods & services category (2.7% from 2.3%), accompanied by softer deflation in the transportation (-2.5% from -3.1%) and recreation and culture (-1.1% from -2.1%) categories. Meanwhile inflation in housing & utilities eased but remained elevated at 9.1% (from 9.6%) with housing rents, forming 21% of the CPI basket, continuing to be the main inflationary impulse (10.8%). The inflation uptick is consistent with strong non-oil business activity, robust domestic demand and rising input prices, as reflected in the November PMI which climbed to the highest level since June 2023. The rising inflation over recent months has pushed up the average 11-month inflation rate to 1.7%, which is on track to hit our full-year inflation forecast of 1.8% in 2024.

Chart 1: Saudi Arabia CPI inflation
(% y/y)



Source: GASTAT

Chart 2: Oil prices
($/bbl)



Source: Haver

Qatar: High expenditure growth tips 2025 budget into deficit. The government's budget allocation for 2025 reveals an expected deficit of QR13.2 billion (approximately 2% of GDP) on notable budget-over-budget increases in the salaries and current spending components and lower hydrocarbon revenues. The Minister of Finance, in a press conference, linked the 4.6% rise in expenditures to QR210 billion for next year to the Third National Development Strategy (NDS-3) goals, with the uptick in wages aimed to attract competencies and boost the national workforce as well as support private sector growth. Meanwhile, the government remained conservative on revenues next year, projecting a 2.5% budget-over-budget decline amid lower hydrocarbon revenues, while projected non-hydrocarbon revenue growth is flat. Completion for the offshore North Field East gas expansion project, potentially in 2026, could boost revenues the following year. Nevertheless, we still

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forecast a budget surplus of around 4% of GDP for this year and next as oil prices exceed the government's conservative estimate of $60/bbl.

Oil: Brent rises to 3-week high on Russia/Iran sanctions and despite IEA oversupply messaging. Fears of a market surplus dominated headlines once again last week, following OPEC's sizeable downward revision to its oil demand estimates and the International Energy Agency's (IEA) statement of a developing "supply overhang". Despite the bearish messaging, Brent futures closed up 4.7% w/w on Friday at a three-week high of $74.5/bbl, buoyed by the threat of a stronger reinforcement of sanctions on both Iran and Russia by the EU/US and supportive economic policy in China – where the central bank shifted its monetary policy stance to "moderately loose" – as well as ongoing political turbulence in the Middle East. The IEA, in its December report, reiterated its view that the oil market will still see a significant supply overhang next year regardless of OPEC+'s production policy delay and extended taper schedule through 2025-26. The IEA sees a surplus of 950 kb/d if OPEC+ voluntary cuts are left in place all through 2025, rising to 1.4 mb/d should OPEC+ decide in April to begin bringing back withheld volumes. Non-OPEC+ supply, meanwhile, is expected to increase at a more rapid pace in 2025 (+1.5 mb/d), led by the US, Brazil, Guyana, Canada, and Argentina. That said, oil demand growth estimates for next year were revised slightly higher to 1.1 mb/d (+100 kb/d) due to China's newly announced measures. The slower oil demand growth in both 2024 and 2025 reflects softer demand for transport fuels and a generally sub-par macroeconomic environment, dampening the increase in usage of petrochemical feedstocks, the IEA said.

Global: Important central bank meetings in the US, UK, and Japan key events this week. In the US, the FOMC will meet on Tuesday/Wednesday, likely delivering another 25 bps interest rate cut. Of note will also be how many cuts in 2025 the new dot-plots indicate compared with the four cuts as per the prior forecast (September). Another important matter is whether there will be yet another increase in the long-term (neutral) rate after that increased in the past three consecutive times. On the data front, the most important releases will be November retail sales (on Tuesday, with the consensus forecast of a 0.5% m/m gain) and November PCE inflation (Friday, core rate forecast at 0.2% m/m, slowing from October's 0.3%). In the Eurozone, the December flash PMIs will be released today, with expectations for the Manufacturing PMI at 45.8 (from 45.2 previously) and the Services PMI at an unchanged 49.5. This PMI data is taking on extra importance given the increased political uncertainty in some key economies and following especially weak November PMI readings. In the UK, the Bank of England, at its Thursday meeting, will likely leave the bank rate unchanged at 4.75% despite last week's weak GDP print. Contributing to the bank's caution would be a likely hot November CPI inflation (on Wednesday), with the market forecasting annual headline and core rates of 2.5% and 3.6%, rising from 2.3% and 3.3% in October, respectively. In Japan, the Bank of Japan's policy meeting outcome is due on Thursday with current market expectations pointing to no-change in rates. This precedes the November inflation data on Friday, with the core rate (excluding fresh food) seen accelerating to 2.6% y/y from 2.2% in October.

Eurozone: Moody's cuts France's rating in surprise move. In an unscheduled announcement, Moody's rating agency downgraded France's credit rating from Aa2 to Aa3 citing political uncertainty. Moody's stated that the decision to downgrade was due to France's public finances which are "substantially weakened" by the country's current "political fragmentation". The move followed President Emannuel Macaron's selection of a new prime minister, François Bayrou, following the historic ousting of former prime minister Michel Barnier's minority government.

China: November data mixed as year-end approaches. Economic data showed mixed signals for November with key activity figures coming in softer than expected. Retail sales slumped to 3.0% y/y, missing expectations of 4.6% and down sharply from the 4.8% recorded in October, marking its weakest growth since August. Fixed asset investment also increased at a slower 3.3% y/y in January-November, down from 3.4% in the January-

October period. Industrial production, meanwhile, was up 5.4% y/y, just slightly above market forecasts, which matched October's 5.3% figure, and was mainly driven by rises in manufacturing. In annual terms, new home prices continued to fall in November, though at a softer pace, at -5.7% y/y from -5.9% previously. The decline in existing home prices also eased, coming in at -8.3% y/y in November from -8.9% in October. November's mixed data shows underlying weakness in the Chinese economy and despite earlier stimulus measures, the authorities face increasing pressure to provide economic support as trade risks loom and domestic consumption remains weak.

Japan: Manufacturing PMI shrank in December while improving for services. The flash estimate for the au Jibun Bank composite PMI rose in December to 50.8, up from a final reading of 50.1 in the previous month, logging its second consecutive month of expansion. The improvement in the PMI reading came mainly due to the expansion seen within the PMI for the services sector, which rose to 51.4 in December to its highest since September mainly due to the inflows of new business and rising employment. However, input price pressures increased at a steeper rate, pushing output prices to increase at the fastest rate in eight months. On the other side, the manufacturing sector remained in the contractionary territory for the sixth consecutive month, though the index increased to 49.5 in December from November's eight-month low of 49.0. Manufacturing output remained subdued mainly due to sluggish overseas demand for goods, including from China. In addition, the costs of input materials rose to a four-month high, weakening business sentiment to its lowest since May 2022.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,265	n/a	-3.27
Bahrain (ASI)	2,008	0.12	1.86
Dubai (DFMGI)	4,830	n/a	18.96
Egypt (EGX 30)	30,776	-0.06	23.93
GCC (S&P GCC 40)	714	-0.28	0.21
Kuwait (All Share)	7,311	-0.27	7.25
KSA (TASI)	12,060	-0.33	0.77
Oman (MSM 30)	4,515	-0.69	0.01
Qatar (QE Index)	10,538	0.09	-2.70
International			
CSI 300	3,933	n/a	14.63
DAX	20,406	n/a	21.81
DJIA	43,828	n/a	16.29
Eurostoxx 50	4,968	n/a	9.87
FTSE 100	8,300	n/a	7.33
Nikkei 225	39,470	n/a	17.95
S&P 500	6,051	n/a	26.86

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.81	0.00	-70.88
Kuwait	3.94	0.00	-37.50
Qatar	4.90	0.00	-135.00
UAE	4.37	0.00	-95.85
Saudi	5.57	2.32	-66.68
SOFR	4.36	-3.69	-97.28

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.62	n/a	29.9
Oman 2027	5.43	n/a	27.3
Qatar 2026	4.67	n/a	15.1
Kuwait 2027	4.81	n/a	47.0
Saudi 2028	4.88	n/a	35.9
International 10YR			
US Treasury	4.39	n/a	53.4
German Bund	2.25	n/a	21.8
UK Gilt	4.41	n/a	87.2
Japanese Gvt Bond	1.04	n/a	42.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.01	0.19
KWD per EUR	0.32	-0.15	-1.80
USD per EUR	1.05	0.00	-4.84
JPY per USD	153.64	0.00	8.92
USD per GBP	1.26	0.00	-0.87
EGP per USD	50.74	-0.06	64.47

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	74.49	n/a	-3.31
KEC	74.06	n/a	-6.91
WTI	71.29	n/a	-0.50
Gold	2656	n/a	28.78

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

Source: LSEG / Haver

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