Daily
Economic Update

Economic Research Department
20 February 2025

US: Fed members look set to follow a cautious approach, citing upside risks to inflation. FOMC participants "would want to see further progress on inflation before making further additional adjustments" to interest rates, minutes from the Fed's January meeting showed. The Fed had left interest rates unchanged at the 4.25-4.5% range at its last meeting. Members also highlighted upside risks to inflation amid stronger-than-expected household spending, changes in trade and immigration policy, and geopolitical developments likely disrupting business supply chains. Officials also considered slowing or pausing the Fed balance sheet runoff amid Federal debt ceiling dynamics that could cause large swings in reserves in the financial system. In his previous comments, Fed chair Powell had mentioned that the bank was not in a hurry to cut rates, underscoring a strong economy and uncertainty related to the new administration's trade and other policies. Futures markets are currently projecting one to two interest rate cuts of 25 bps each by the end of 2025.

UK: CPI inflation increases more than forecast, but details somewhat mixed. CPI inflation in January rose more than forecast to a 10-month high of 3% y/y from 2.5% in December and versus a 2.8% forecast by the street and the Bank of England (BoE), driven by faster rises in food and beverages, and some underlying components. The core rate also increased to 3.7% y/y from December's 3.2% (but in line with the consensus forecast), mainly due to a substantial increase in education costs (the administration introduced 20% VAT on private schools) and a smaller decline in air fares. Goods prices rose for the third straight month (1% y/y) and growth in services accelerated to 5% from December's 33-month low of 4.4% but below the 5.2% BoE forecast. However, on a monthly basis, prices declined 0.1% and 0.4% for the headline and core rates, respectively, but still fell short of bigger drops envisaged by the market. The BoE projects overall inflation to continue rising over the coming months, driven by higher increases in energy and other regulated components, expecting to hit a peak of 3.7% in Q3 this year. Amid mixed inflation data, futures markets slightly lowered expectations for interest rate cuts by the BoE, seeing only two more cuts for this year.

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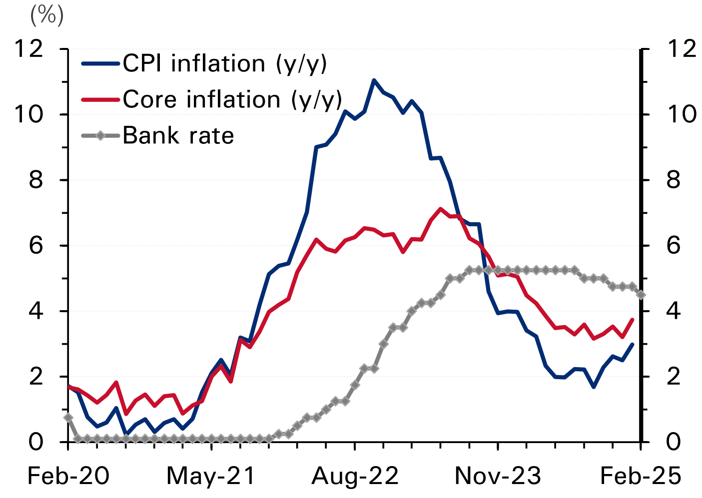
Chart 1: UK bank rate and inflation



Source: Haver

China: PBOC leaves key interest rates unchanged. As expected, the People's Bank of China (PBoC) left interest rates unchanged for the fourth month in a row in February. 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 decision comes amid escalating trade tensions with the US and yuan weakness, limiting the authority's appetite to loosen monetary policy. In the near term, the PBoC might hold back on rate cuts due to potential downward pressure on the yuan, but Beijing did pledge to adopt an "appropriately loose" monetary policy in 2025 together with a more proactive fiscal policy to boost economic growth.

Egypt: Moody's reaffirmed Egypt's Caa1 credit rating with a positive outlook. The rating agency cited prospects for improved debt servicing and external stability. This follows last March's outlook upgrade after the EGP float, the $35bn Ras El Hekma investment, and policy reforms. The agency expects monetary tightening to lower inflation, strengthening the central bank's credibility, while fiscal reforms – such as subsidy cuts and tax changes – should help achieve a 3.5% primary surplus this fiscal year. However, risks remain, including FX pressures, regional instability, and potential fiscal policy challenges from increased social spending. Moody's forecasts debt-to-GDP to fall below 80% by FY2026-27 (from 84% this year), interest-to-revenue to decline below 50% (from 63%), and external debt service to peak at $33bn this year. Despite progress, Moody's warns that improvements in debt affordability and external stability remain dependent on consistent monetary and fiscal policy execution.

Note: The Daily Economic Update will resume on 2nd March 2025.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,593	-0.27	1.85
Bahrain (ASI)	1,932	1.61	-2.70
Dubai (DFMGI)	5,389	0.26	4.46
Egypt (EGX 30)	30,875	0.94	3.82
GCC (S&P GCC 40)	748	0.13	3.67
Kuwait (All Share)	8,103	0.50	10.06
KSA (TASI)	12,318	-0.13	2.34
Oman (MSM 30)	4,453	-0.36	-2.71
Qatar (QE Index)	10,646	0.08	0.71
International			
CSI 300	3,940	0.70	0.13
DAX	22,434	-1.80	12.68
DJIA	44,628	0.16	4.90
Eurostoxx 50	5,461	-1.31	11.54
FTSE 100	8,713	-0.62	6.60
Nikkei 225	39,165	-0.27	-1.83
S&P 500	6,144	0.24	4.46

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.66	-0.66	-2.61
Kuwait	3.94	0.00	0.00
Qatar	4.65	0.00	-2.50
UAE	4.23	7.21	-21.52
Saudi	5.52	9.52	-2.03
SOFR	4.32	N/A	1.68

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.56	-2.00	-18.0
Oman 2027	5.32	4.00	-24.0
Qatar 2026	4.51	-9.00	-28.0
Kuwait 2027	4.70	-3.00	-27.0
Saudi 2028	4.99	2.00	-9.0
International 10YR			
US Treasury	4.53	-1.77	-3.8
German Bund	2.55	5.85	18.7
UK Gilt	4.61	5.30	4.4
Japanese Gvt Bond	1.43	0.00	35.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.01	0.17
KWD per EUR	0.32	-0.22	1.02
USD per EUR	1.04	-0.23	0.66
JPY per USD	151.47	-0.38	-3.63
USD per GBP	1.26	-0.21	0.59
EGP per USD	50.58	-0.02	-0.41

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	76.04	0.26	1.88
KEC	79.78	1.83	5.26
WTI	72.25	0.56	0.74
Gold	2919.4	-0.42	11.04

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

Source: LSEG / Haver

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