

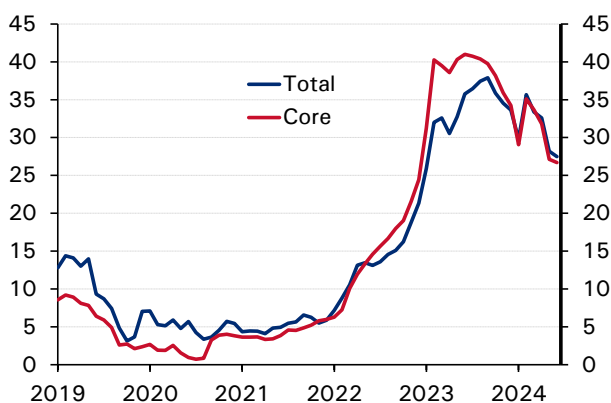
Daily Economic Update

Economic Research Department
11 July 2024

Egypt: Consumer prices edge up on higher food prices. Consumer prices rose 1.6% m/m in June after falling 0.7% in the previous month. The rise was expected following the cut in bread subsidies in early June that resulted in a 300% increase in the price of a loaf from EGP 0.05 (well below the cost price of around EGP1/loaf) to EGP0.20/loaf. We estimate that this added 1.2% to the CPI, meaning that prices would have risen 0.4% m/m without it. Fruits & Vegetables, Healthcare, and Clothing increased by 2% m/m on average while other key components saw limited changes and some deceleration. Year-on-year inflation still decelerated to 27.5% from 28.2% in May, continuing its recent trend lower. The core rate rose at a slower pace than headline inflation at 1.3% m/m (-0.8% in May) and also decelerated to 26.6% y/y from 27.1% in May. Headline inflation has averaged 29.4% y/y in Q2 24 down from 34.0% in Q1-24 as the EGP devaluation impact fades and easier FX availability allows for improved supply of goods. Moving forward, the government is expected to embark on changes in fixed/subsidized electricity and fuel prices. However, we expect the impact to be limited (fuel and electricity represent around 4% of the CPI basket and a 20% increase adds about 0.8% to the CPI). The overall trend in inflation remains a moderating one: we still expect inflation to ease to around 24% in December. Real (policy) interest rates currently stand at 0.3%, turning positive for the first time since January 2022 thus opening up a strong possibility for the central bank to start cutting interest rates either in July (small chance) or September, with cuts of a cumulative 400 bps rate cuts by year-end.

Chart 1: Egypt CPI inflation

(%, y/y)



Source: Haver

Chart 2: Japanese yen

(JPY/\$1)



Source: Haver

Saudi Arabia: Aramco stock offering finalized with higher-than-expected proceeds. Aramco's secondary offering generated \$12.35 billion in proceeds from the sale of a 0.64% stake priced at SAR27.25 a share last month. The figure is at the upper end of the expected range, with \$1 billion in proceeds over the minimum as the thirty-day stabilization period (whereby the company may repurchase shares should they decline below the

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offer price) ended with no such trades occurring. Aramco is also issuing \$6 billion in USD-denominated bonds in three tranches with maturities of 10, 30, and 40 years. It is the first debt issuance by the company since the 2021 sale of \$6 billion in Sukuk. In addition to debt refinancing needs, the stock and debt offerings are part of broader efforts to raise capital to finance the vast investments intended to drive the Kingdom's economic diversification and growth, and to modernize existing oil and gas facilities. Further, the revenue will help curb the expected fiscal deficits arising from the surge in investments. The latest bond sale follows a notable increase in offerings so far in 2024, which is shaping up to be a record year for Saudi debt issuance.

Japan: Bond yields climb with yen still under pressure. Yields on 10-year Japanese government bonds have hovered at 12-year highs and stuck above the 1% mark for the past 2 weeks, amid speculation about impending monetary tightening by the Bank of Japan. The bank guided at its June policy meeting that it would "significantly" scale back its \$38bn per month bond purchase program, but without mentioning a specific timeline. The lack of a clear schedule disappointed markets, putting more pressure on the Japanese yen which has slumped to a 38-year low of ¥161/\$1 in recent days (-13% YTD) and leading to speculation that the BoJ might intervene to support the currency. Although this could provide temporary support, intervention in April-May failed to stem yen weakness, which is underpinned by low Japanese interest rates compared to other international benchmarks. The bank is expected to flesh out its plans for bond purchases at its July 30-31 meeting and potentially raise short-term interest rates from their current level of 0.1% (upper bound). But it seems likely to move cautiously, worried about the negative impact of higher rates on economic growth and not fully convinced that current above-target inflation of 2.5% as of May will persist.

China: PBOC announces plans to push up government bond yields. The People's Bank of China is preparing for its first direct market intervention in decades, announcing that it would start borrowing "several hundred billion renminbi" of Chinese government bonds from several financial institutions, and then sell them into the market to push up yields. This has already had an impact as the yield on 10-year bonds increased after touching record lows in the past few weeks. PBoC officials have mentioned previously that they are not comfortable with very low yields, with some media reports mentioning that officials' ideal range is around 2.5% to 3% (yields currently around 2.3%). However, there is uncertainty around the PBoC's ability to sustainably raise yields, as the strong demand for government debt is partly fueled by an ailing economy that is suffering from a decline in property values. Nevertheless, important specifics on the PBoC's intervention plans, including its time frame, magnitude, cost, and trading frequency, have not been disclosed so far.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,138	0.03	-4.59
Bahrain (ASI)	1,995	-0.26	1.17
Dubai (DFMGI)	4,080	0.05	0.50
Egypt (EGX 30)	28,288	-0.63	13.91
GCC (S&P GCC 40)	681	-0.09	-4.37
Kuwait (All Share)	7,060	-0.30	3.56
KSA (TASI)	11,784	0.04	-1.53
Oman (MSM 30)	4,696	0.11	4.02
Qatar (QE Index)	10,162	-0.04	-6.18
International			
CSI 300	3,429	-0.32	-0.06
DAX	18,407	0.94	9.88
DJIA	39,721	1.09	5.39
Eurostoxx 50	4,959	1.13	9.67
FTSE 100	8,194	0.66	5.95
Nikkei 225	41,832	0.61	25.01
S&P 500	5,634	1.02	18.12
3m interbank rates			
	%	Change (bps)	
		Daily	YTD
Bahrain	6.35	5.50	-22.83
Kuwait	4.31	0.00	0.00
Qatar	6.00	0.00	-25.00
UAE	5.21	-8.59	-3.12
Saudi	6.21	-1.08	-0.80
LIBOR	5.57	0.00	-2.74
SOFR	5.30	-0.06	-2.74

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.86	-2.00	53.9
Oman 2027	5.53	-5.00	37.3
Qatar 2026	5.04	9.00	52.1
Kuwait 2027	5.02	-3.00	68.0
Saudi 2028	5.04	-2.00	51.9
International 10YR			
US Treasury	4.28	-1.56	42.1
German Bund	2.54	-2.35	50.6
UK Gilt	4.12	-3.40	58.5
Japanese Gvt Bond	1.08	1.00	46.4
Exchange rates			
	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.00	-0.39
KWD per EUR	0.33	0.15	0.20
USD per EUR	1.08	0.17	-1.87
JPY per USD	161.67	0.22	14.61
USD per GBP	1.28	0.49	0.91
EGP per USD	47.95	-0.15	55.43
Commodities			
	\$/unit	Change (%)	
		Daily	YTD
Brent crude	85.08	0.50	10.44
KEC	86.51	-1.17	8.74
WTI	82.1	0.85	14.58
Gold	2372.2	0.51	15.02

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

Source: Refinitiv / Haver