Daily
Economic Update

Economic Research Department
5 June 2024

Egypt: Foreign reserves reach an all-time high. Egypt's official foreign reserves reached an all-time high of $46.1bn in May, up by $5.1bn from April. May's increase of $5.1bn is directly attributed to the authorities' receiving the final tranche of the Ras El Hekma investment deal worth $14bn (and $11bn in the form of UAE deposits to be converted into EGP). Data for banking system net foreign assets in May will be published later this month and we expect it to show the closure of the negative NFA position which previously stood at $3.9bn. Through the period February to May, the Ras El Hekma inflows ($24bn of cash excluding the $11bn in UAE deposits) helped to increase reserves by $10.7bn and commercial banks' NFA deficit narrowed by $10.3bn (up to April, with further upside of $3bn in May). The $11bn of UAE deposits were used to trim $3bn from the central bank's foreign liabilities with further upside in May as well.

Egypt: Government to embark on major subsidy cuts, limited inflation impact expected. The government has increased the price of bread – the first increase in decades – by 300%, from the current EGP 0.05 per loaf (well below the cost price of around EGP1/loaf) to EGP0.20/loaf. Subsidized bread is used by more than 60mn Egyptians, each of whom is allocated a maximum of five loaves per day. The bread price adjustment should shave around EGP14bn ($305mn) from the subsidy cost, but at EGP77bn (see table 1), the subsidy outlay remains high. Additionally, the government has also communicated its intention to reduce and ultimately remove subsidies on fuel in FY24/25. Currently, only 60-65% of the cost of the various grades of gasoline and diesel (cost recovery ratio, CRR) are borne by citizens, costing the state close to EGP140bn. The government intends to raise this ratio to close to 100% (i.e. full liberalization) by the end of the upcoming fiscal year (FY24/25), implying that prices will need to rise by an average of 60% over the coming 12 months (15% per quarter as the adjustments will be applied on a quarterly basis). (See table 2.) These moves are overall in line with the IMF program, which has repeatedly stressed the need to move from a subsidy system to a cash-based system re-targeted to households most in need. As to the impact on inflation of the above measures, it is expected to be somewhat modest at a potential 2% point increase in the average inflation rate in 2024 to 30% (fuel and bread represent only 1.24% and 0.35% of the CPI basket, respectively). The overall trend in inflation is still a moderating one, with no fundamental change in our outlook: we expect inflation to stand close to 25% (versus 23% initially) in December versus the current 32.6%. We also maintain our view that interest rate cuts will commence from July or September and could amount to a cumulative 400 bps by year-end.

Table 1: Bread Scenarios

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	Budget	July 2024-June 2025 (FY24/25)				
Increase in Loaf price		0x	3x	5x	7.5x	10x
Total subsidized loaves **(mn)**	96,000	96,000	96,000	96,000	96,000	96,000
Cost per loaf **(EGP)**	1.00	1.00	1.00	1.00	1.00	0.95
Estimated Total Cost **(EGPmn)**	96,000	96,000	96,000	96,000	96,000	91,200
Estimated Revenue per Loaf **(EGP)**	0.05	0.05	0.2	0.3	0.425	0.5
Estimated Total Revenue **(EGPmn)**	4,800	4,800	19,200	28,800	40,800	48,000
Estimated Net **(EGPmn)**	91,200	91,200	76,800	67,200	55,200	43,200
Estimated CRR	5.0%	5.0%	20.0%	30.0%	42.5%	52.63%

Table 2: Diesel Scenarios

	Diesel (Solar)	Octane 80	Octane 92	Octane 95
Yearly Consumption **(million ltrs)**	14,600	2,920	3,650	730
Current Selling Prices **(EGP/ltr)**	10	11	12.5	13.5
Current Oil Price **(USD/ltr)**	0.52	0.52	0.52	0.52
Current Cost **(EGP/ltr)**	17	17	19	23
Current CRR	59%	65%	66%	59%
Scenarios:				
CRR with max. 10% price increase at Quarterly Indexation for the coming year	54%	85%	83%	80%
Price increase needed for 100% CRR	70%	55%	52%	70%

UAE: Output growth slows to a 16-month low but remains solid. The PMI was unchanged at 55.3 in May, remaining at April's 8-month low. Output growth continued to moderate, though was still substantial at above 60. Demand also remained robust with new orders and export orders rising from their 14-month low during April. Employment continued to expand and the pace of job growth accelerated to a three-month high on the back of rising backlogs of work. Input prices saw a significant increase in May mainly on higher fuel prices and the rising costs needed to replenish firms' damaged stocks after the floods. On the other hand, output prices saw their first increase in seven months, suggesting efforts to pass-through higher costs to customers. Finally, businesses remained upbeat about their future expectations on stabilizing economic conditions, higher sales, and greater profits.

Qatar: Business activity expands the most in eight months. The non-energy private sector PMI registered 53.6 in May from 52 in April, signaling the strongest improvement in business conditions since September 2023. The increase in the PMI was one of the steepest in the last two years, with the reading now above the long-run trend of 52.3. The pickup was driven by a sharp expansion in new orders which reached an eight-month high thanks to rising demand for products and services across all sectors, led by wholesale/retail and services. Purchasing (of inputs) remained elevated, increasing at the second fastest rate in ten months, while employment continued to grow as business confidence strengthened. Finally, output prices increased despite stable cost pressures, likely on favorable market conditions.

Chart 1: Qatar PMI

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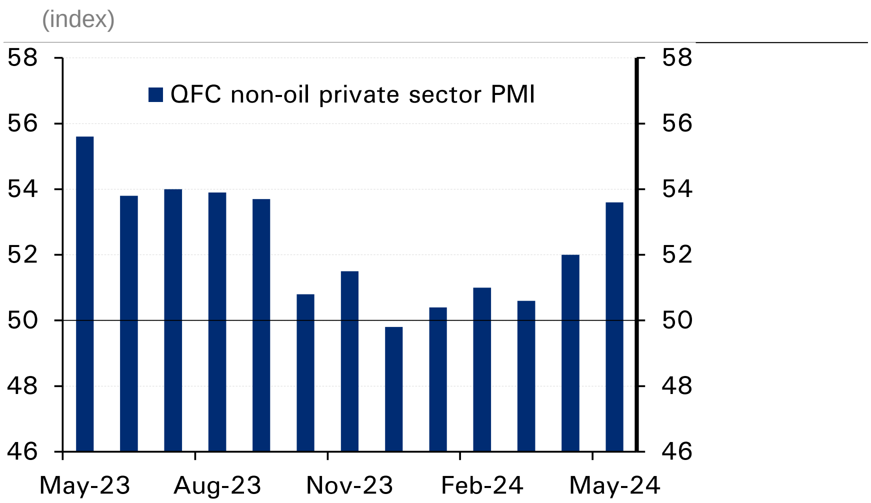

Source: Qatar Financial Center (QFC)

US: Job openings fall to an over three-year low. The number of job openings (JOLTS report) in April fell more than the market had expected to 8.1 million from a downwardly revised 8.4 million in March. The number of vacancies available per unemployed person also declined to 1.24 from 1.3 in March, the lowest since June 2021, suggesting the labor market continues to come into a better demand and supply balance. The quit rate (resignations) remained steady for a sixth consecutive month at 2.2%, slightly below its 2018-19 levels, as job-switchers find it challenging to land better opportunities. However, hiring increased slightly (+0.4% m/m), and lay-offs dropped 5.4% m/m to their lowest since December 2022, indicating no significant weakening in robust job market conditions so far.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	8,919	0.01	-6.88
Bahrain (ASI)	2,042	0.21	3.55
Dubai (DFMGI)	3,986	-0.18	-1.82
Egypt (EGX 30)	26,973	0.52	8.62
GCC (S&P GCC 40)	664	-0.86	-6.78
Kuwait (All Share)	7,039	0.19	3.26
KSA (TASI)	11,612	-1.66	-2.97
Oman (MSM 30)	4,783	-0.79	5.96
Qatar (QE Index)	9,464	0.59	-12.62
International			
CSI 300	3,616	0.75	5.38
DAX	18,406	-1.09	9.87
DJIA	38,711	0.36	2.71
Eurostoxx 50	4,953	-1.00	9.55
FTSE 100	8,232	-0.37	6.45
Nikkei 225	38,837	-0.22	16.06
S&P 500	5,291	0.15	10.93

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.34	0.03	-18.70
Kuwait	4.31	0.00	0.00
Qatar	6.00	0.00	-25.00
UAE	5.30	3.87	-6.66
Saudi	6.26	-0.35	2.87
LIBOR	5.60	-0.15	0.86
SOFR	5.34	-0.29	0.85

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	5.05	0.40	73.3
Oman 2027	5.72	-4.90	56.2
Qatar 2026	5.23	-2.00	71.3
Kuwait 2027	5.13	-1.20	79.0
Saudi 2028	5.16	0.30	64.3
International 10YR			
US Treasury	4.34	-6.60	47.6
German Bund	2.54	-4.70	50.9
UK Gilt	4.18	-4.50	64.1
Japanese Gvt Bond	1.03	-3.20	41.8

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.14	-0.39
KWD per EUR	0.33	-0.36	0.73
USD per EUR	1.09	-0.22	-1.43
JPY per USD	154.87	-0.79	9.79
USD per GBP	1.28	-0.32	0.27
EGP per USD	47.40	0.74	53.65

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	77.52	-1.07	0.62
KEC	80.18	-4.80	0.78
WTI	73.25	-1.31	2.23
Gold	2325.5	-0.90	12.76

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

Source: Refinitiv / Haver

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