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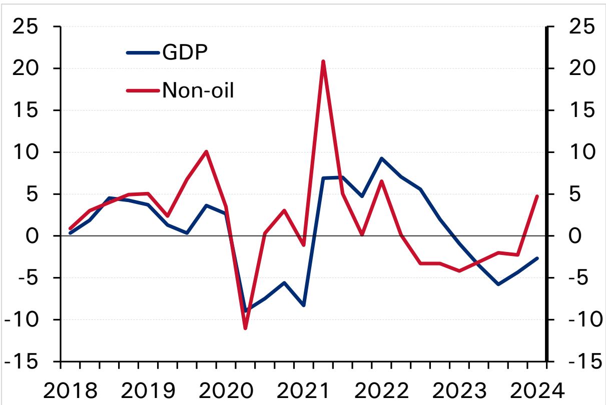
# Daily
## Economic Update

Economic Research Department
21 July 2024

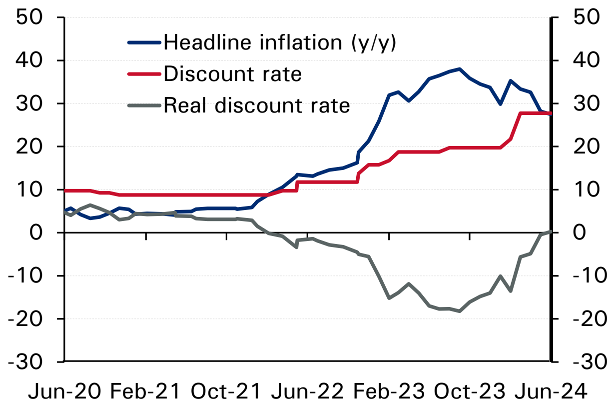
**Kuwait: Non-oil growth registers big improvement in Q1 24.** Provisional CSB data show non-oil GDP bouncing back in Q1 24, rising a strong 4.7% y/y having fallen 2.3% in the previous quarter. The improvement was driven by strong growth in the manufacturing sector (including oil refining), which rose 20% versus -9% in Q4 23, boosted by a base effect due to weakness a year earlier. Marked growth improvements in retail and 'other services' (mostly real estate and business services) also helped. Major volatility in the GDP data in recent quarters makes an assessment of the underlying trend difficult. We see scope for the provisional full-year 2023 non-oil growth figure of -2.9% to be revised higher, but at the same time, performance at the start of 2024 is well above our full-year forecast of around 2.5% and if it persists, would put Kuwait at or near the top of the GCC growth league this year. We do note however that the S&P Global PMI gauge for Kuwait has drifted slightly higher so far this year, providing some corroboration of better economic conditions. Other indicators such as credit growth, project awards and real estate activity have also picked up slightly. Oil sector GDP meanwhile registered a steep decline of -9.8% y/y in Q1 (Q4 23 -6.4%) reflecting OPEC-led supply cuts that pushed Kuwait's crude production down to 2.41 mb/d through the quarter. Overall GDP growth stood at -2.7% y/y, better than -4.4% in the previous quarter.

**Chart 1: Kuwait GDP**
(%, y/y)




Source: Haver

**Chart 2: Egypt inflation & discount rate**
(%)




Source: Central Bank of Egypt

**Egypt: CBE keeps interest rates steady but sees falling inflation.** The Central Bank of Egypt (CBE) kept its policy rates unchanged (discount rate 27.75%), as it has done in two previous meetings following the 6% rate hike that accompanied the EGP devaluation on March 6th this year. The CBE said it expected inflation to remain on a sustained downward trajectory with the usual monthly pattern being reestablished after price earlier shocks. Overall, the bank forecasts inflation to stabilize in the later part of 2024 around its current levels of 27.5% (versus our forecasts of around 24-25% by the year-end), although possible fiscal

T: (+965) 2229 5500, econ@nbk.com Visit our publications | Unsubscribe from this list | Comments & feedback consolidation measures (subsidy cuts and fee increases) present some upside risks. Finally, it expects a significant decline in inflation in H1 2025, mainly on the back of favorable base effects. We forecast inflation to fall towards 10-15% by February 2025 as, in February 2024, it had surged to 35.6% (11% m/m). In our opinion, observing previous CBE actions, the bank could cut interest rates in anticipation of falling inflation. We see this becoming clearer once the fiscal consolidation measures are announced and implemented (possibly in August). We therefore believe that interest rates could cut in September/October, with a cumulative 4% reduction by year-end.

**Eurozone: ECB holds rates but signals uncertainty on the September move.** As expected, the European Central Bank maintained its deposit rate at 3.75% but expressed uncertainty about its next move at the September meeting given elevated services inflation (4.1% in June) and high wage growth. Still, the bank expects inflation to gradually fall from 2.5% in June to its 2% target by end-2025. For now, the markets continue to price in two more cuts before the end of the year.

**UK: Job market conditions ease but still tight.** The unemployment rate steadied at 4.4% in the three months through May, in line with expectations. Growth in total pay also moderated to 5.7% y/y from 5.9% earlier, with basic pay growth (excluding bonuses) easing to 5.7% from 6%, the lowest since September 2022. Real wages (excluding bonuses) in the three months through May rose the fastest since August 2021 at 3.2% y/y. Job vacancies in Q2 also fell by around 30K q/q to their lowest since Q2 21, signaling more cooling in still-tight labor market conditions. However, stubborn services inflation (5.7% y/y in June) and expanding real wages may complicate BoE thinking, with markets seeing less than a 50% chance for an interest rate cut at the upcoming MPC meeting on August 1. Meanwhile, retail sales (volumes) in June fell more than forecast by 1.2% m/m as cold weather conditions and the election event impacted consumer spending after a solid 2.9% rise in May. Finally, public borrowing in the three months through June came in £3.2 billion above the official forecast, leaving less fiscal headroom for the new government.

**Japan: Core inflation continues to accelerate in June.** Core consumer price inflation (excluding fresh food), a closely monitored measure by the Bank of Japan (BoJ), accelerated for the second straight month to reach 2.7% in June, up from May's 2.6% y/y and remaining above the BoJ's 2% target since January 2024. The move was helped by the rolling back of some energy subsidies. The results highlight ongoing supply-side inflationary pressures given the continued increase in input prices (PPI: +2.9% y/y in June), import prices (+9.5% y/y in June), and labor costs (+4.3% y/y in May). This could edge the BoJ further towards accelerating its monetary tightening measures at its upcoming meeting on July 30-31.

**China: Ruling party restates ambitious policy objectives but provides no clear details.** At the end of the Communist Party's Central Committee's third plenum meeting, officials restated their comprehensive economic policy objectives, which included upgrading industry, increasing domestic demand, and mitigating risks in the debt and property sectors. Per the preliminary statement, the government remains focused on promoting "high-quality development," a vague reference to its ongoing agenda of advancing high-end manufacturing activities, including green energy and moving up the technological value chain. The communique lacked any specific mention of additional measures to support the faltering local economy in the short term amid the current property slump. That said, a document with more detailed policy plans is expected to be published in the coming days.

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## Daily market indicators

| Stock markets | Index | Change (%) Daily | YTD |
|---|---|---|---|
| **Regional** | | | |
| Abu Dhabi (ADI) | 9,234 | 0.08 | -3.59 |
| Bahrain (ASI) | 1,979 | -0.32 | 0.41 |
| Dubai (DFMGI) | 4,181 | 0.28 | 2.98 |
| Egypt (EGX 30) | 28,654 | 1.11 | 15.39 |
| GCC (S&P GCC 40) | 701 | 0.02 | -1.61 |
| Kuwait (All Share) | 7,102 | -0.21 | 4.18 |
| KSA (TASI) | 12,188 | 0.25 | 1.85 |
| Oman (MSM 30) | 4,697 | 0.10 | 4.06 |
| Qatar (QE Index) | 10,034 | -1.16 | -7.35 |
| **International** | | | |
| CSI 300 | 3,539 | 0.51 | 3.15 |
| DAX | 18,172 | -1.00 | 8.48 |
| DJIA | 40,288 | -0.93 | 6.89 |
| Eurostoxx 50 | 4,827 | -0.88 | 6.76 |
| FTSE 100 | 8,156 | -0.60 | 5.46 |
| Nikkei 225 | 40,064 | -0.16 | 19.72 |
| S&P 500 | 5,505 | -0.71 | 15.41 |

| 3m interbank rates | % | Change (bps) Daily | YTD |
|---|---|---|---|
| Bahrain | 6.33 | 0.00 | -17.33 |
| Kuwait | 4.25 | 0.00 | -6.25 |
| Qatar | 6.00 | 0.00 | -25.00 |
| UAE | 5.22 | 6.73 | -11.41 |
| Saudi | 6.22 | 0.00 | 1.67 |
| LIBOR | 5.54 | 0.10 | -5.19 |
| SOFR | 5.28 | 0.25 | -4.94 |

| Bond yields | % | Change (bps) Daily | YTD |
|---|---|---|---|
| **Regional** | | | |
| Abu Dhabi 2027 | 4.74 | 3.00 | 41.9 |
| Oman 2027 | 5.32 | 5.00 | 16.3 |
| Qatar 2026 | 4.87 | -7.00 | 35.1 |
| Kuwait 2027 | 4.89 | -1.00 | 55.0 |
| Saudi 2028 | 4.88 | -1.00 | 35.9 |
| **International 10YR** | | | |
| US Treasury | 4.24 | 4.08 | 38.2 |
| German Bund | 2.46 | 5.25 | 43.3 |
| UK Gilt | 4.12 | 5.95 | 58.3 |
| Japanese Gvt Bond | 1.03 | 0.25 | 41.7 |

| Exchange rates | Rate | Change (%) Daily | YTD |
|---|---|---|---|
| KWD per USD | 0.31 | 0.05 | -0.55 |
| KWD per EUR | 0.33 | -0.08 | 0.60 |
| USD per EUR | 1.09 | -0.17 | -1.44 |
| JPY per USD | 157.49 | 0.08 | 11.65 |
| USD per GBP | 1.29 | -0.17 | 1.49 |
| EGP per USD | 48.20 | 0.00 | 56.24 |

| Commodities | $/unit | Change (%) Daily | YTD |
|---|---|---|---|
| Brent crude | 82.63 | -2.91 | 7.26 |
| KEC | 86.40 | -0.43 | 8.60 |
| WTI | 80.13 | -3.25 | 11.84 |
| Gold | 2395.5 | -2.30 | 16.15 |

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

Source: Refinitiv / Haver