

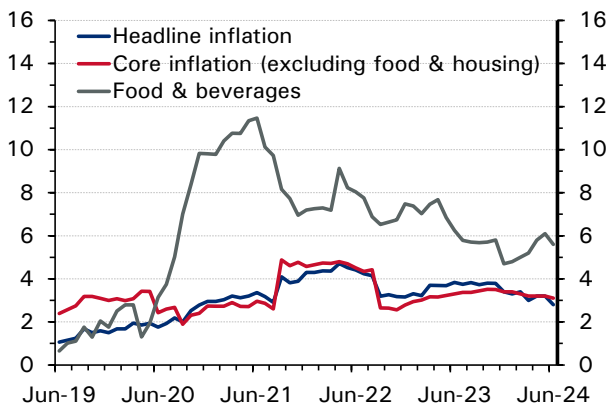
Daily Economic Update

Economic Research Department
22 July 2024

Kuwait: Inflation falls below 3% for the first time in nearly three years. CPI inflation dropped to 2.8% y/y (+0.2% m/m) in June, the slowest pace since November 2020 and from 3.2% in the previous month. Price rises in the food & beverages sub-component eased to a still-elevated 5.6% down from 6.1% in May, halting a five-month rising trend. Meanwhile, the housing services item, the largest by weight in the CPI basket and composed mainly of rents, saw a notable slowdown to 0.9% y/y compared to 1.4% in May. Core inflation, which excludes food and housing, edged down to 3.1% from 3.2% in May. The household furnishings, healthcare, education, and restaurants & hotels subcomponents saw higher year-over-year increases but were offset by slower rises in transportation, communication, and recreation subindices, while clothing & footwear and services & miscellaneous goods were unchanged on an annual basis. So far this year, headline inflation has averaged 3.1% y/y, lower than the average 3.6% rate seen in 2023 and we expect it to maintain the softening trend, averaging 3% in 2024, amid subdued consumer demand.

Chart 1: Kuwait CPI inflation

(%, y/y)



Source: Haver, CSB

Chart 2: Oil prices

(\$/bbl)



Source: Haver

US: Biden pulls out of presidential race and endorses VP Harris. Ending speculation amid mounting pressure from fellow Democrats, President Biden ended his campaign for a second term of office last night. His popular ratings had been weakening following his poor debate performance against opponent Donald Trump and after the assassination attempt on the latter. Biden endorsed his current Vice President, Kamala Harris, as the new Democratic presidential candidate, but she still needs to secure broader support from other party leaders. The Democratic National Convention will take place between August 19 and 22, during which new presentational and vice-presidential candidates will be officially nominated. Financial markets have shown little initial reaction this morning, though the development does inject extra political uncertainty to the election now just 105 days away.

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Oil: China demand concerns weigh on prices, but geopolitical tensions support near-term price outlook. Brent futures edged lower for the second week in a row, closing Friday 2.8% w/w at \$82.6/bbl after data revealed a weaker-than-expected economic expansion in China in Q2, negatively affecting the oil demand outlook. Demand concerns also overshadowed bullish supply developments during the week as wildfires in Alberta, Canada, disrupted oil sands output and threatened the region's 500 kb/d oil supply, while the US Energy Information Administration weekly data showed a 4.9 mb w/w commercial crude oil inventory drawdown in the w/e July 12. OPEC+'s output cuts have so far remained supportive of prices, though as supply gradually returns to the market from Q4, per the current agreement, global market balances are set to loosen. However, the recent Yemeni attack on Israel and subsequent retaliation that set ablaze Hodeidah port could herald an escalation in the Middle East conflict, highlighting the risk of a higher geopolitical risk premium lifting oil prices in the near term. Brent futures rose 0.6% to \$83.1/bbl in Asian trading this morning as markets absorbed the impact of and potential disruption to oil shipments through the Red Sea.

China: PBOC unexpectedly cuts key interest rates. After lower-than-expected second-quarter GDP data last week, the People's Bank of China cut its short-term policy interest rate by 10 basis points, with the new seven-day reverse repo rate at 1.7%. Following this, the one-year loan prime rate (LPR) was lowered to 3.35% from 3.45% previously, while the five-year LPR was reduced to 3.85% from 3.95% in moves aimed at shoring up the faltering economic landscape. As a result, bond yields fell, with 10-year and 30-year at 2.24% and 2.45%, respectively, while the yuan dropped to a near two-week low of RMB7.275/\$1 before paring some losses.

Global: US Q2 GDP/June PCE inflation and Europe/Japan flash July PMIs key data points this week. In the **US**, Q2 GDP growth (due Thursday), is seen accelerating to 2% (annualized) from 1.4% in Q1, based on consensus expectations. Additionally, PCE inflation prints for June (Friday), are expected to inch up to 0.1% and 0.2% m/m (from 0% and 0.1% in May), for headline and core, respectively – among the last major economic data releases before the Fed's July 31 meeting. In the **Eurozone**, consensus expectations point to a slight improvement in PMIs (Wednesday) with the HCOB Flash Manufacturing PMI seen rising to 46.3 in July (45.8 in June) and the services one to 53 from 52.8. In the **UK**, the forecast for the S&P Flash Global PMI for July (Wednesday) is for a slight improvement in the composite index to 52.5 from 52.3 in June, a ninth straight reading above the neutral 50-level. In **Japan**, consensus expectations indicate a slight improvement in PMIs (Wednesday) with the au Jibun Bank Flash Manufacturing PMI seen increasing to 50.5 in July (50 in June) helped by rising auto-industry shipments.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,234	n/a	-3.59
Bahrain (ASI)	1,960	-0.97	-0.57
Dubai (DFMGI)	4,181	n/a	2.98
Egypt (EGX 30)	28,783	0.45	15.91
GCC (S&P GCC 40)	701	0.02	-1.61
Kuwait (All Share)	7,072	-0.42	3.74
KSA (TASI)	12,203	0.12	1.97
Oman (MSM 30)	4,683	-0.31	3.74
Qatar (QE Index)	10,060	0.26	-7.11
International			
CSI 300	3,539	n/a	3.15
DAX	18,172	n/a	8.48
DJIA	40,288	n/a	6.89
Eurostoxx 50	4,827	n/a	6.76
FTSE 100	8,156	n/a	5.46
Nikkei 225	40,064	n/a	19.72
S&P 500	5,505	n/a	15.41
3m interbank rates			
	%	Change (bps)	
		Daily	YTD
Bahrain	6.33	0.00	-19.00
Kuwait	4.25	0.00	-6.25
Qatar	6.00	0.00	-25.00
UAE	5.22	0.00	-10.42
Saudi	6.21	-1.13	-1.31
LIBOR	5.54	n/a	-4.84
SOFR	5.28	n/a	-4.94

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.74	n/a	41.9
Oman 2027	5.32	n/a	16.3
Qatar 2026	4.87	n/a	35.1
Kuwait 2027	4.89	n/a	55.0
Saudi 2028	4.88	n/a	35.9
International 10YR			
US Treasury	4.24	n/a	38.2
German Bund	2.46	n/a	43.3
UK Gilt	4.12	n/a	58.3
Japanese Gvt Bond	1.03	n/a	41.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.03	-0.55
KWD per EUR	0.33	-0.08	0.60
USD per EUR	1.09	0.00	-1.44
JPY per USD	157.49	0.00	11.65
USD per GBP	1.29	0.00	1.49
EGP per USD	48.31	0.23	56.24

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	82.63	n/a	7.26
KEC	86.40	n/a	8.60
WTI	80.13	n/a	11.84
Gold	2395.5	n/a	16.15

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

Source: Refinitiv / Haver