

Daily Economic Update

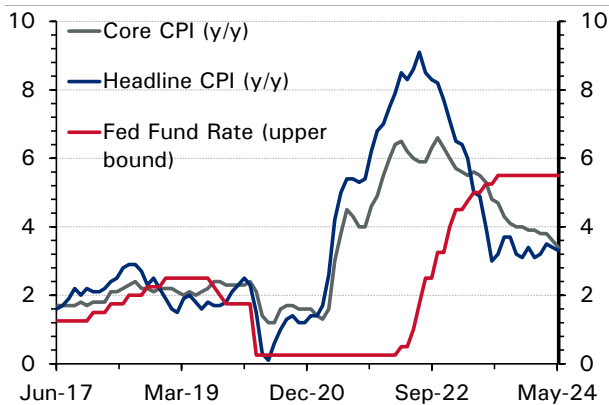
Economic Research Department
13 June 2024

US: Fed policymakers pencil in just one rate cut this year on “modest” inflation progress. The FOMC predictably left the Fed Funds Target rate unchanged in the 5.25-5.5% range for the seventh straight meeting. However, the median member projection (dot-plot) now sees just one interest rate cut (25 bps) this year from the three-quarter points cut projected in March, as members cited inflation being “elevated” but also acknowledged recent “modest further progress”. Policymakers now envisage four cuts (equivalent to a cumulative 100 bps) in 2025. However, the dots split was narrowly in favor of one cut over two cuts this year (7 versus 8 dots, with four projecting none), underscoring a lack of clarity on the inflation path. The latest median forecast is for the economy to grow by 2.1% in Q4 2024 (same as in March), but PCE inflation prints to come in higher by 0.2% pts from March’s forecast at 2.6% and 2.8% in Q4 for the headline and core rates, respectively. Members also bumped up their long-term policy rate to 2.8% for the second time this year, up from 2.5% in December 2023 on a solid economy, with Chair Powell acknowledging members’ view that interest rates would be unlikely to return to their pre-pandemic levels. In his post-meeting conference, Powell did not allude to any time frame for anticipated rate cuts and noted the high degree of uncertainty associated with the dot-plot projections. He also said that labor market conditions were broadly similar to conditions in the period just before the pandemic, observing falling job openings, moderating quits rates and increasing labor participation.

US: Inflation cools more than expected, with prices unchanged on a monthly basis. CPI inflation in May was softer than the market forecast, coming in at 3.3% y/y from 3.4% in April. Monthly inflation was flat for the first time since August 2022, on a significant 3.6% m/m fall in gasoline prices. The underlying price rise (excluding food and energy) also moderated to a three-year low, of 3.4% y/y from 3.6% in April (+0.2% m/m from +0.3% in April). Despite the heavy-weight shelter component remaining stuck at 0.4% m/m for the fourth consecutive month, the first monthly fall in transportation services (-0.5%) in 32 months helped ease core services inflation, suggesting abating inflationary pressures across more stubborn core service segments. The latest softer inflation prints likely affected Chair Powell’s overall message post the FOMC meeting as he struck a slightly more neutral tone despite hawkish quarterly dot-plot projections, hinting at members’ unwillingness to update projections following May’s “encouraging” data.

Chart 1: US Fed rate and CPI

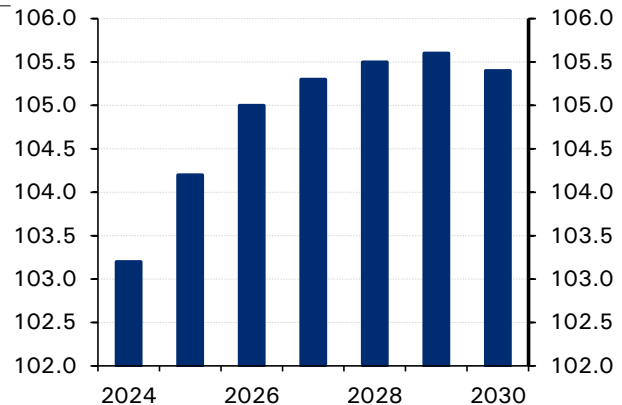
(%)



Source: Haver

Chart 2: China World oil demand projections

(mb/d)



Source: International Energy Agency (IEA)

Oil: Brent posts three-day run of gains, but short and long-term oil demand growth weakness forecast by IEA.

Brent futures notched up a third consecutive day of gains on Wednesday, rising 0.8% d/d to \$82.6/bbl (+5.3% w/w; +7.2% ytd), helped by the 'risk on' mood that initially greeted the softer US CPI print. Brent appears on track to post its first weekly increase in four weeks. Market sentiment is more circumspect in Asian trading this morning, however, after digesting the US Fed's 'higher for longer' signaling, after another week of US crude stock builds and following the latest downward revision to world oil demand growth by the International Energy Agency (IEA). Citing muted economic activity and accelerating clean energy technology deployment, the agency in its June Oil Market report lowered its oil demand growth forecasts for both 2024 and 2025, by 100 kb/d to 960 kb/d and by 200 kb/d to 1.0 mb/d, respectively. OPEC, in contrast, held steady its oil demand growth outlook for 2024 and 2025 at 2.25 mb/d and 1.85 mb/d, respectively. The IEA also released its annual 'Oil 2024' publication in which it expects oil demand to significantly undershoot oil supply this decade, leaving the market facing a "major" surplus. Oil demand is expected to level off at 105.6 mb/d in 2029 while supply capacity is projected to outpace demand by 8 mb/d to 113.8 mb/d, most of which the IEA sees as originating from non-OPEC countries. On the demand front, non-OECD economies, particularly China and India, are expected to drive growth, while oil demand in OECD economies is expected to decline, falling to 42.7 mb/d in 2030 from 45.7 mb/d in 2023 amid a rapid deployment of energy efficient technologies.

UK: Waning GDP growth raises odds of rate cut in coming period. GDP growth came in flat at 0% m/m in April 2024, lower than 0.4% m/m in March but in line with the consensus forecast of 0%. Industrial production contracted by 0.9% m/m after it grew by 0.2% in March and manufacturing production followed suit as it contracted by 1.4% in April down from a growth of 0.3% m/m in March. Only the services sector saw marginal growth of 0.2% m/m in April, its 4th consecutive monthly growth. On a 3-month average basis, GDP grew by 0.7% in April compared with the previous three months growth of 0.6% ending in March, in line with the consensus forecast. Annually, GDP grew by 0.6% y/y in April down from 0.7% y/y in March. This is the weakest growth witnessed in 2024 so far after GDP grew between 0.2-0.4% m/m in the previous months. Bad weather conditions had a share in this weak growth likely causing a drop in retail sales and construction output. The new weak growth figures should be another factor in support of a possible policy rate cut in the coming period.

China: EU to raise tariffs on electric vehicle imports from China. The European Commission has announced tariffs of up to 38% on electric vehicles manufactured in China starting July 4. This would take total levies on EV manufacturers in China to 48% (the current car duty is set at 10%). This decision, according to the EU, is

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being made in response to the heavy competition that European manufacturers are facing from Chinese competitors who are introducing more affordable electric vehicles on the back of, the EU contends, heavy subsidies by the Chinese state. This latest development comes less than a month after the US announced higher tariffs on Chinese goods that extended even beyond EVs to include semiconductors, batteries, and steel.

Note: The Daily Economic Update will resume on June 23rd 2024.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	8,930	-0.78	-6.76
Bahrain (ASI)	2,038	-0.07	3.37
Dubai (DFMGI)	3,979	-0.74	-1.99
Egypt (EGX 30)	26,133	0.20	5.24
GCC (S&P GCC 40)	669	-0.75	-6.10
Kuwait (All Share)	7,037	-0.08	3.23
KSA (TASI)	11,652	-1.05	-2.64
Oman (MSM 30)	4,701	0.09	4.13
Qatar (QE Index)	9,646	0.15	-10.94
International			
CSI 300	3,544	0.03	3.29
DAX	18,631	1.42	11.22
DJIA	38,712	-0.09	2.71
Eurostoxx 50	5,034	1.40	11.34
FTSE 100	8,215	0.83	6.24
Nikkei 225	38,877	-0.66	16.17
S&P 500	5,421	0.85	13.65

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.34	0.00	-18.06
Kuwait	4.31	0.00	0.00
Qatar	6.00	0.00	-25.00
UAE	5.26	3.40	-9.87
Saudi	6.30	2.93	3.51
LIBOR	5.61	-0.02	1.54
SOFR	5.35	0.36	1.54

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.95	-11.00	62.9
Oman 2027	5.47	-15.00	31.3
Qatar 2026	5.11	-9.00	59.1
Kuwait 2027	5.00	-8.00	66.0
Saudi 2028	5.02	-13.00	49.9
International 10YR			
US Treasury	4.32	-8.41	45.7
German Bund	2.53	-8.70	50.5
UK Gilt	4.12	-14.30	58.5
Japanese Gvt Bond	0.99	-3.00	37.4

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.07	-0.18
KWD per EUR	0.33	0.53	0.12
USD per EUR	1.07	-0.03	-2.72
JPY per USD	157.17	0.06	11.42
USD per GBP	1.27	-0.02	0.06
EGP per USD	47.51	0.00	54.00

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	82.60	0.83	7.22
KEC	85.01	0.93	6.85
WTI	78.5	0.77	9.56
Gold	2336	1.24	13.27

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

Source: Refinitiv / Haver

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