

GCC Inflation Update

August-2023

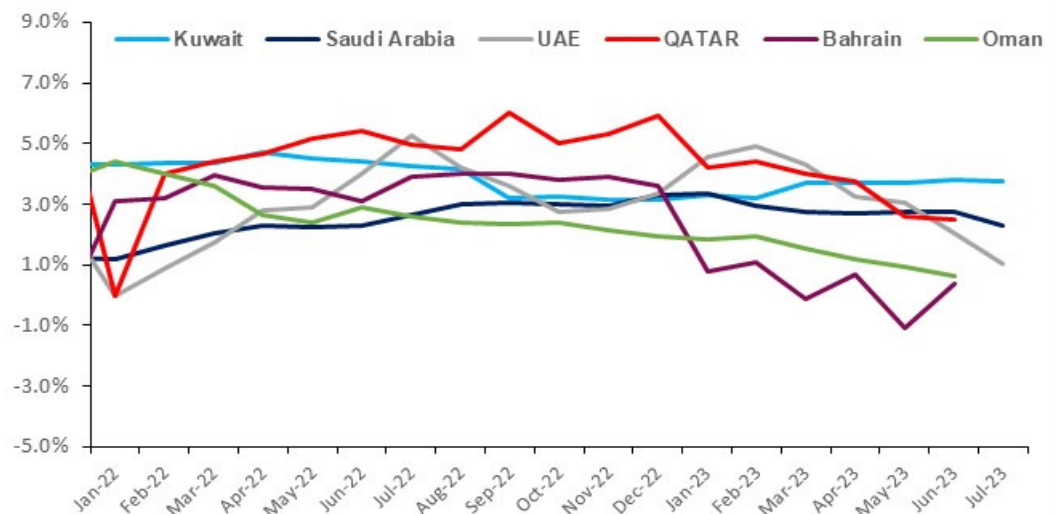
GCC inflation downward trend strengthens...

Inflation in the GCC countries remains significantly lower than its counterparts in the Middle East and around the globe. Overall, global inflation has been gradually slowing down in 2023 as compared to 2022 mainly due to lower food prices, falling energy prices and softening global demand due to monetary tightening policies. Key geopolitical factors such as the recommencement of grain exports from Ukrainian ports under the recently collapsed Black Sea Grain Initiative contributed to the decline in global food prices. However, despite the falling trend of inflation during the first seven months of the year, global headline inflation appears to have peaked while global core inflation remains well above central bank targets. According to the IMF's World Economic Outlook Update, global headline inflation is forecasted to decline from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024. On the other hand, global core inflation is expected to decline from an annual average of 6.5% in 2022 to 6% in 2023 and 4.7% in 2024 underling a slower pace of decrease than headline inflation. The persistence of global core inflation is mainly attributed to advanced countries where core inflation remains high despite witnessing significant fall in headline inflation.

In terms of sub-categorical inflation changes, the Food and Beverages subcategory has been one of the most important categories in terms of weight or gradual decline in GCC inflation performance. The Food and Beverages subcategory has been stable or witnessed a moderate growth in nearly all the GCC countries during June-2023. The Food and Beverages CPI subcategory for Kuwait recorded a y-o-y moderate monthly growth of 6.3% in June-2023 followed by Saudi Arabia with Food and Beverages subcategory growth of 1.0% during the month.

Among the GCC countries, inflation growth in the Housing subcategory was on an upward trend led by 9.1% y-o-y growth in Saudi Arabia followed by 3.2% y-o-y uptick in Kuwait during June-2023. Similarly, Dubai's Housing prices rate expanded 6.1% during the similar period. In terms of the Communication subcategory, the picture was the opposite as the sub-index decreased for most of the countries in the GCC. Both Saudi Arabia and Qatar recorded decline in Communications inflation rate at -0.7% and -4.0% y-o-y during June-2023, respectively. In the Education subcategory, GCC inflation has also been on the declining trajectory. Saudi Arabia's Education costs fell from a growth of 19% in June-2022 to a growth of 0.4% during June-2023 supporting the Kingdom's overall CPI decline during the period. Moreover, Kuwait's Education CPI subcategory has also dropped from 6.2% in June-2022 to just 3% in June-2023.

GCC Countries Inflation Trend



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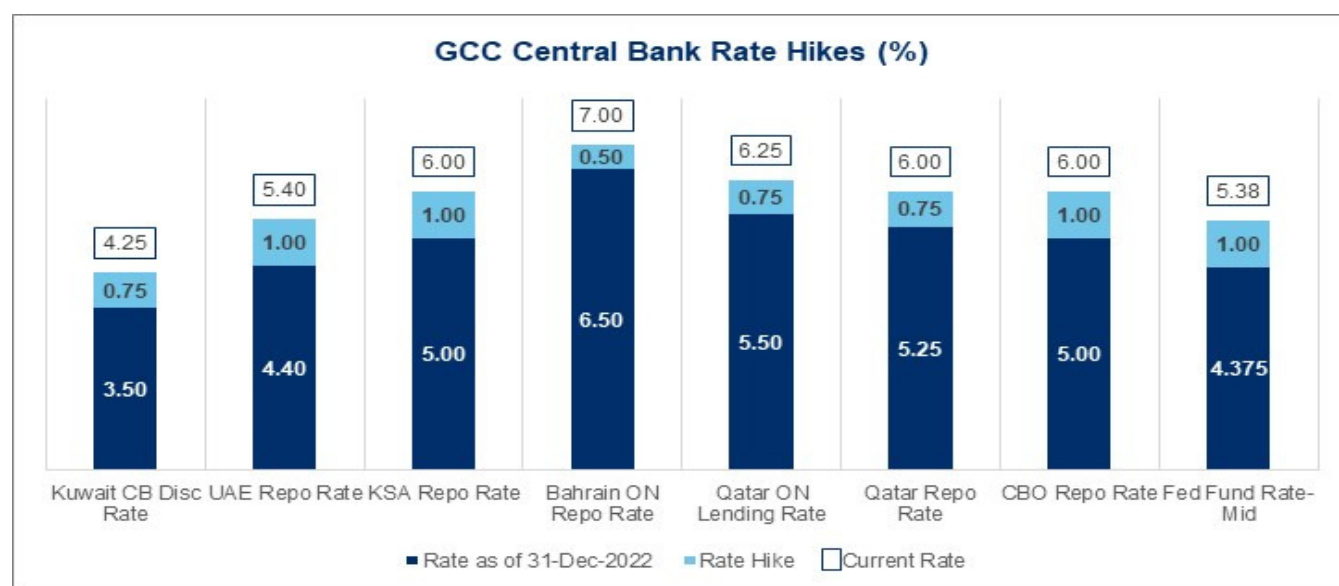
Sources : Bloomberg, Kamco Invest Research, IMF

Global Food Prices

Global food prices have been on a downward trajectory during 2023. The FAO (Food and Agriculture Organization of the United Nations) Food Price Index witnessed an increase for the first time in three months during July-2023 to 123.9 points. The increase was mainly attributed to a 12.1% rise in prices of vegetable oils which was mainly driven by increased world quotations across soy, sunflower and palm oils. In context the FAO Food Price Index reached 122.4 points in June-2023, its lowest point since April-2021. The cost of sugar, dairy, and prices for cereals went down during July-2023. Subsidized market actions in certain regions such as the European Union assisted in bringing down the cost of certain food items such as dairy products which recorded seventh straight month decline during July-2023.

GCC Rate Hikes and Inflation

The US Federal Reserve was back with rate hikes in July-2023 after a momentary pause in June-2023 to reign against inflation. In its most recent rate hike, the US Federal Reserve increased its benchmark overnight interest rate by 0.25% to a



Sources : Bloomberg, Kamco Invest Research

new range of 5.25% and 5.5% , underlining the Fed's highest level of borrowing rate in 22 years. In response to the Fed's rate hike, GCC central banks have also increased their benchmark borrowing rates. The Central Bank of the UAE has increased its base rate on overnight deposits by 0.25% (25 bps) to 5.40%. The Emirates also maintained its short-term liquidity borrowing rate at half a percentage point above the base rate. Similarly, Saudi Arabia's Central Bank (SAMA) has also matched the US Federal Reserve's recent rate increase by increasing its repo and reverse repo rates by 25 bps to 6.0% recording 100 bps rate increase. Bahrain's Central Bank increased its interest rate on overnight deposits by 0.25% to 6% but maintained its four-week deposit rate at 6.75% and lending rate at 7%. Similarly, the central banks of Kuwait, Qatar and Oman all raised their respective key borrowing rates by quarter of percentage point each to match the US Federal Reserves rate rises during July-2023. The Central Bank of Kuwait increased its borrowing rate by 25 bps to 4.25%, the Central Bank of Oman increased its repo rate by quarter of a percentage point to 6% and the Central Bank of Qatar raised its repo rate by 25 bps to 6%.

Consumer Price Index	Average	Actual			Projections	
Y-o-y percent change	2000–19	2020	2021	2022	2023e	2024e
Bahrain	1.8%	-2.3%	-0.6%	3.6%	2.2%	2.2%
Kuwait	2.9%	2.1%	3.5%	3.9%	3.3%	2.6%
Oman	2.1%	-0.9%	1.5%	2.8%	1.9%	2.4%
Qatar	3.5%	-2.5%	2.3%	5.0%	3.0%	2.7%
Saudi Arabia	1.8%	3.4%	3.1%	2.5%	2.8%	2.3%
United Arab Emirates	3.2%	-2.1%	-0.1%	4.8%	3.4%	2.0%
GCC	2.3%	1.3%	2.2%	3.3%	2.9%	2.3%
Arab World	4.8%	6.1%	9.1%	8.9%	9.9%	7.7%

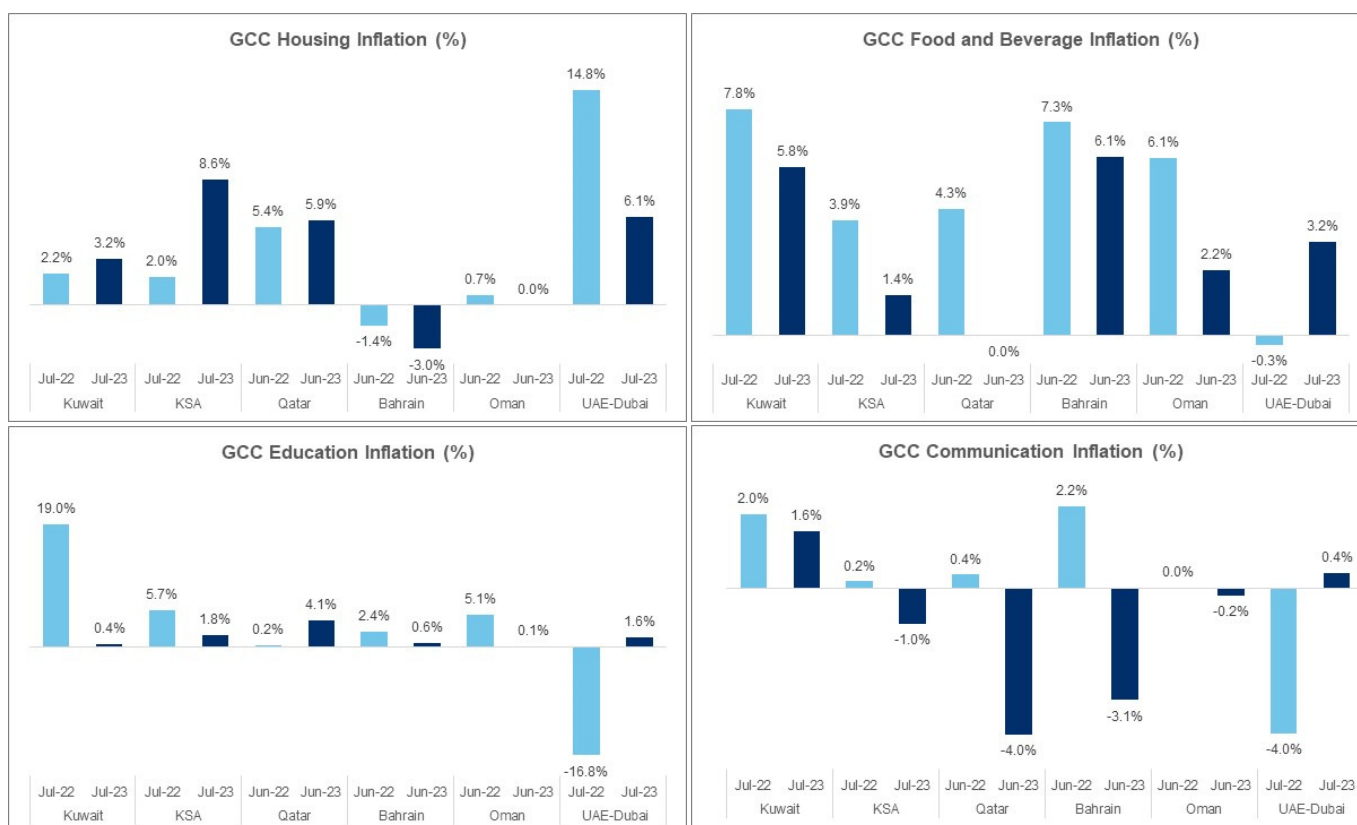
Sources : IMF, Kamco Invest Research

Kuwait

The Kuwaiti Consumer Price Index's latest inflation reading for July-2023 showed a y-o-y increase of 3.7% . The increase was led by a 7.1% growth in the Clothing & Footwear index followed by the Food & Beverages price index which registered 5.8% y-o-y growth.

Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 3.2% during the month. Kuwait's Education Inflation group prices were stable and only recorded a marginal uptick of 0.4% y-o-y during July-2023. Comparatively, inflation in the Transport group witnessed 3.1% y-o-y and 0.7% m-o-m increase during July-2023. The index for Furnishing Equipment Household which has an index of weight of 11.4% recorded 2.52% y-o-y growth during the month while Transport index which has an index weight of 7.5% registered 3.1% y-o-y growth due to the rise in prices of operation of personal transport equipment.

In terms of monthly price movements, prices of the Foods and Beverage group recorded a marginal 0.14% dip due to the decline in prices of fish and seafood, and fresh, frozen dried fruits. Comparatively, prices of meat, poultry and milk increased during m-o-m during July-2023. Prices for most of the groups in Kuwait's CPI were stable during the month including the top weighted groups such as the Housing Services group (0.0%) and the Food & Beverages group (-0.14%).



Sources : Bloomberg, Kamco Invest Research

Saudi Arabia

The annual Consumer Price Index in the Kingdom of Saudi Arabia for July-2023 increased by 2.3% as compared to 2.7% in July-2022. The CPI uptick was mainly driven by higher prices in the housing, water, electricity and other fuels groups as well as increased prices in the food and beverages groups.

According to Saudi Arabia's General Authority for Statistics, actual rents for housing increased by 10.3% during July-2023 demonstrating the 21.1% growth in rents for apartments and underlining the importance of the housing group to the overall CPI index performance. Moreover, the Food and Beverages group, the second highest weight of the CPI index (18.8% of the total index weight), recorded a 1.4% growth rate during July-2023. The Food and Beverages group growth was mainly due to rising meat and poultry prices (+1.9%) as well as the price surge for milk, milk products and eggs which increased by 6.8% during the month.

In terms of m-o-m change, the Kingdom's CPI witnessed a marginal growth of 0.1% during July-2023 as compared to June-2023. The Kingdom's monthly CPI growth was mainly contributed by marginal increases in housing, water, gas, and electricity prices by 0.3% which resulted in price increase in actual rents for housing which witnessed 0.3% m-o-m growth.

UAE

The Dubai Consumer Price index grew by 1.0% during July-2023 as compared to the 5.2% increase it witnessed during July-2022. This was the smallest growth witnessed by the Dubai CPI in the last 17 consecutive months. The drastic decline of Dubai's CPI was mainly due to the drop in Transportation group costs which witnessed 19.7% fall during July-2023. The fall in Transport costs more than compensated for the 6.1% y-o-y growth of the Housing, Water, Electricity and Gas group during the month. Overall, only 3 out of Dubai's 13 CPI subgroups recorded y-o-y decreases during the month. On the other hand, certain key subgroups saw year on year growth during July-2023; namely Food and Beverage group (3.2%), Hotels & Restaurants group (3.5%) and Education group (1.6%) were . In terms of month-on-month inflation growth, Dubai's CPI index remained stable during July-2023 only registering 0.4%. Dubai's Housing, Water, Electricity, Gas and other Fuels subgroup, the largest weighted group Dubai's CPI, recorded 0.49% m-o-m during the month, while the Sport, Culture and Recreation subgroup witnessed 4.55%, i.e., the largest m-o-m gain among the groups in Dubai's CPI.

Qatar

Qatar's inflation rate increased by 2.5% y-o-y during June-2023, recording its lowest increase since July-2021. Qatar's inflation rate growth albeit moderate was driven by overall prices increase across ten out of the eleven categories or sub-indices of its CPI. The country's General Consumer Price Index reached 105.71 points in June-2023 witnessing a 0.1% m-o-m dip over May-2023. Inflation during the month was mainly driven by moderate rise in prices in the Housing group that saw an increase of 5.9% y-o-y in June-2023 followed by Recreation & Culture and Education groups with y-o-y increases of 5.8% and 4.1%, respectively. Comparatively, Qatar's Food and Beverages sub-index which has recorded y-o-y decline during three out of the first five months of the year, has been stable and registered no growth (0%) during June-2023. In terms of outlook, Qatar's CPI rate which averaged 5% during the past year is expected to decline and average 3% during 2023 according to the IMF. Qatar's monthly inflation rate reached its highest peak at 4.4% in February-2023. In context, Qatar's monthly inflation rate has been on a downward trend since December-2022, recording only one m-o-m uptick during February-2023.

Bahrain

Bahrain's inflation rate during June-2023 remained stable recording only a marginal uptick of 0.4% y-o-y during the month. The Kingdom's inflation rate recovered into positive territory after it recorded a 1.1% y-o-y declines during May-2023. The y-o-y softening of Bahraini's inflation rate was mainly due to the contraction of five out of the eleven sub-indices in the general CPI. Bahrain's Clothing and Footwear sub-index witnessed the largest contraction among other sub-indices at negative 6.4% followed by the Communications sub-index and the Housing, Water and Electricity sub-indices which witnessed a y-o-y contraction of 3.1% and 3.0%, respectively during June-2023. Comparatively, the index for Recreation and Culture recorded a 6.1% y-o-y surge during June-2023 while the Education index witnessed only a meagre 0.6% growth during the similar period. In terms of expectations, there is a chance that the Kingdom of Bahrain's inflation rate might be lower than the IMF's 2.2% forecast for 2023. Bahrain has the IMF's second lowest projected inflation rate among the GCC countries after (Oman which has 1.9% inflation for 2023) at 2.2% in 2023 and in 2024. In context, Bahrain witnessed an average inflation rate of 3.6% in 2022.

Oman

The consumer prices index in the Sultanate of Oman witnessed a marginal y-o-y increase of 0.6% in June-2023. The Sultanate's inflation rate has been on a downward trajectory reaching its lowest monthly growth point since April-2021 during June-2023. Oman's marginal inflation rise was mainly driven by a 2.2% y-o-y growth of Food and Non-Alcoholic Beverage index, the second biggest weighted index. Furthermore, the Sultanate's Restaurant index also recorded a 3.7% y-o-y increase during June-2023 while the Furnishing and Household Equipment sub-index another significantly weighted followed with 2.9% y-o-y growth during the period. These gains were mainly offset by the 1.7% y-o-y decline of the Transport group and the 0.2% y-o-y dip of the Communications group. In terms of regional picture, the Sultanate witnessed the lowest inflation rate among the GCC countries during July-2023 at 0.6%. Furthermore, the Sultanate has the lowest inflation rate forecast among the GCC countries at 1.9% in 2023 according to the IMF.

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