

## GCC Inflation Update

November-2023

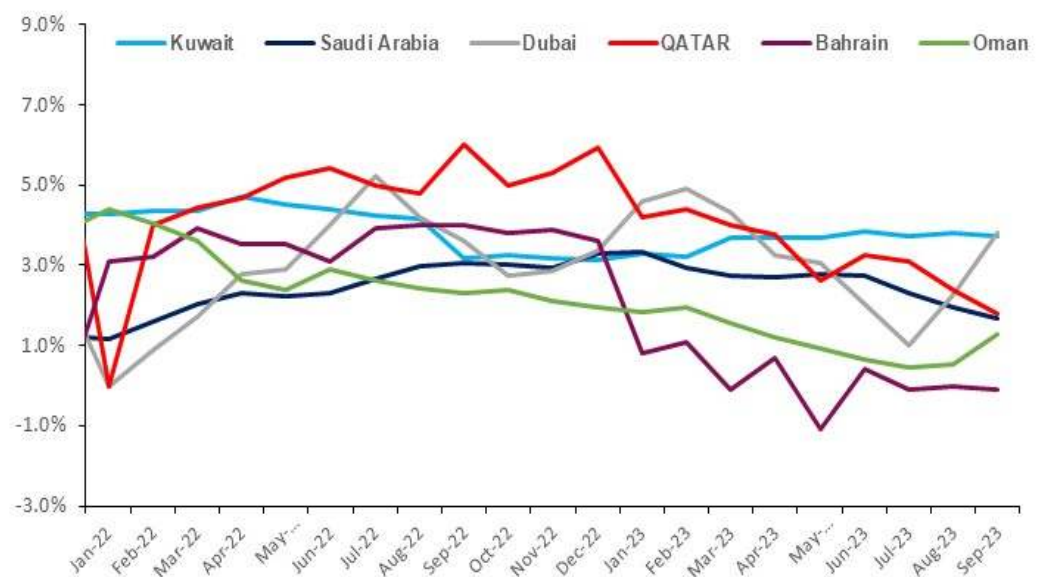
### GCC inflation downward trend continues in Q3-2023...

Global central banks paused rate hikes in the recent months as inflation, despite remaining persistently high above the target rate for a while, is expected to trend downwards. Both the US Fed and the ECB paused rate hikes in the latest meetings sending a strong signal that central banks are done hiking rates. This was reflected in the recent recovery in global stock markets while bond yields eased at the higher end. Yields on 10-year US treasury bonds dropped by more than 50 bps to 4.5% after reaching a 16-year high last month. However, the question on when the monetary easing will start kept investors guessing and delaying their investment decisions as past experience shows that it's too soon to talk about a rate cut before inflation is in a comfortable target range.

Inflation is proving to be persistent in some regions and defied a global downward trend mainly in economies that have high food prices. Inflation in the MENA region is expected to remain in double-digits at 17.5% in 2023 and 15% in 2024, as per the IMF. This comes as higher rates in advanced economies led to a capital flight from emerging economies, resulting in currency depreciation and making imports costlier, including crude oil and other commodities. Higher borrowing costs also increase general price of products, especially seen in non-GCC MENA countries. On the other hand, inflation in the GCC region has remained much lower than its counterparts in the broader MENA region as well as global peers. The IMF has kept its forecast for inflation in the GCC region unchanged in 2023 at 2.6% in 2023 and penciled a forecast of 2.3% for 2024. Furthermore, core inflation for the GCC is expected to average 1.9% during 2023 and 2.2% in 2024 reflecting effective government and central bank policies to reign in the impact of higher international prices. There are fears that the recent war on Gaza conflict may drive up energy prices especially in the European region, but this is expected to have limited impact on the GCC countries.

In terms of sub-categories, the F&B segment has been one of the most important categories in terms of weight and the gradual decline in GCC inflation performance. F&B inflation has been on the declining trend for the GCC countries, barring Dubai. The Food and Beverages CPI subcategory for Kuwait recorded a y-o-y moderate monthly growth of 5.7% in September-2023 against 6.5% growth during September-2022. Comparatively, Saudi Arabia's Food and Beverages category recorded 0.2% contraction during September-2023 as compared to 4.3% growth in September-2022.

GCC Countries Inflation Trend



Sources : Bloomberg, Kamco Invest Research, IMF

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## Global Food Prices

Global food prices have continued their downward trajectory, albeit at a slower stride during October-2023. The FAO Food Price Index recorded a 0.5% m-o-m decline during October-2023 averaging at 120.6 points. The marginal month-on-month drop was mainly attributed to the fall in the price indices of sugar, cereals, vegetable oils and meat. Comparatively the dairy index witnessed a m-o-m rebound during October-2023. The FAO Cereal Price Index averaged 125.0 points during October-2023 recording a 1% decline from September-2023, also 17.9% lower than its value in September-2022. The combination of higher-than-expected global wheat supplies and strong competition among wheat exporting countries was attributed to the decline in the FAO Cereal Price Index during October-2023. Furthermore, the FAO price indices for meat, sugar and vegetable oil also recorded a m-o-m decline during October-2023, underlining the continued downward trend of global food prices and contributing to global central bank efforts to control inflation. International meat prices recorded their third consecutive monthly drop during October-2023 mainly because of slow import demand primarily in East Asian countries while the fall of FAO Sugar Index was mainly attributed to higher sugar production from Brazil as well as the weakening of the Brazilian currency, the Real, against the US Dollar.

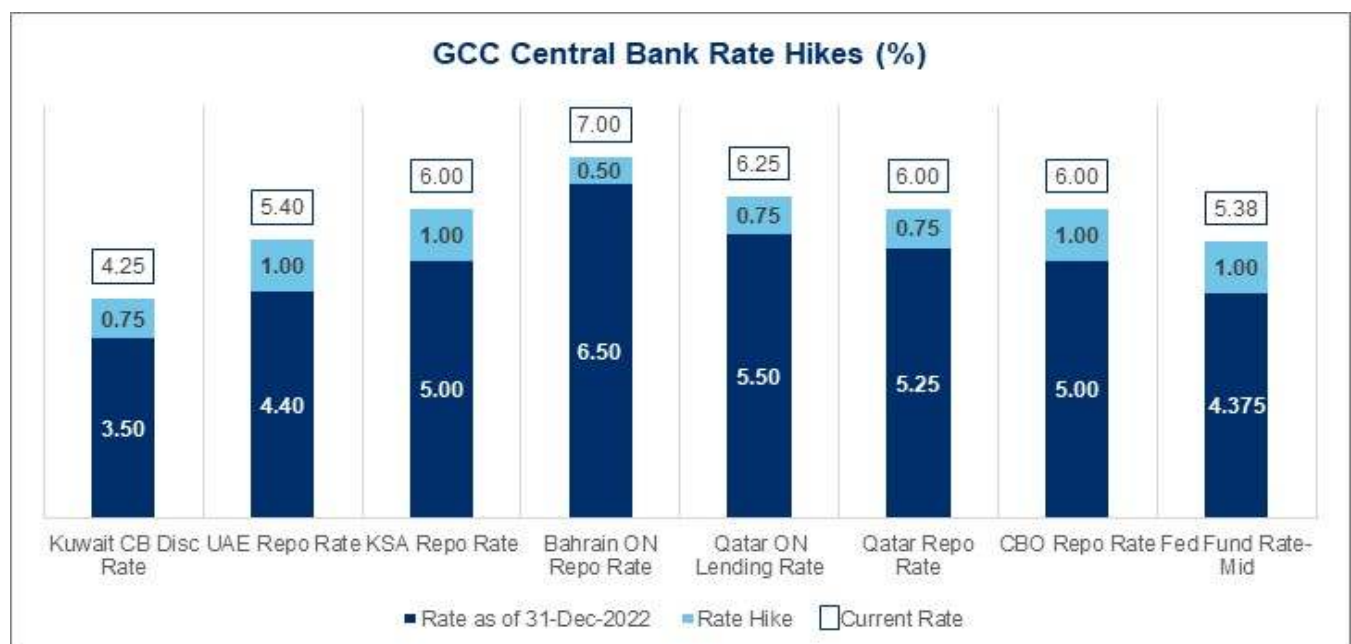
## Rate Hikes and Inflation

The world's three biggest central banks, i.e. the US Fed, ECB and BoE, kept policy rates unchanged in their latest meetings. The US Federal Reserve held benchmark rates steady in its last two FOMC meetings. However, US Fed officials indicated that they are still not satisfied with the progress on inflation and, as a result, believe that the monetary policy are still not restrictive enough and future moves would depend on how fast inflation cools. One of the key reasons that the Fed has justified its halt on rate hikes is the gradual cooling down of the US jobs market. The pause by the ECB came after 10 consecutive rate hikes but the ECB president said that talks of a rate cuts are totally premature even as inflation fell to a two-year low during October-2023 mainly led by falling energy prices that more than offset higher food, alcohol and tobacco prices.

GCC central banks have also left their benchmark borrowing rates unchanged in line with the decision by the US Fed in light of the currency pegs as well as minimal pressure on the pegs. Saudi Arabia's central bank, SAMA, kept its repo rate at 6%. Similarly, the Central Bank of the UAE declared that its repo rate on overnight deposit facilities will remain at 5.4% while the Sultanate of Oman's Central Bank kept its rate for local banks unchanged at 6%. Furthermore, the central banks of Kuwait, Bahrain and Qatar also kept their benchmark rates unchanged towing the US Fed line.

## Kuwait

The Kuwait Consumer Price Index's latest reading for September-2023 showed a y-o-y increase of 3.7%. The increase was mainly led by growth in the two of the biggest weighted subgroups i.e., a 7.1% growth in the Clothing & Footwear index followed by the Food & Beverages price index which registered 5.7% y-o-y growth. The growth was mainly led by the rise in prices of cereals, bread, meat, and poultry during the month.



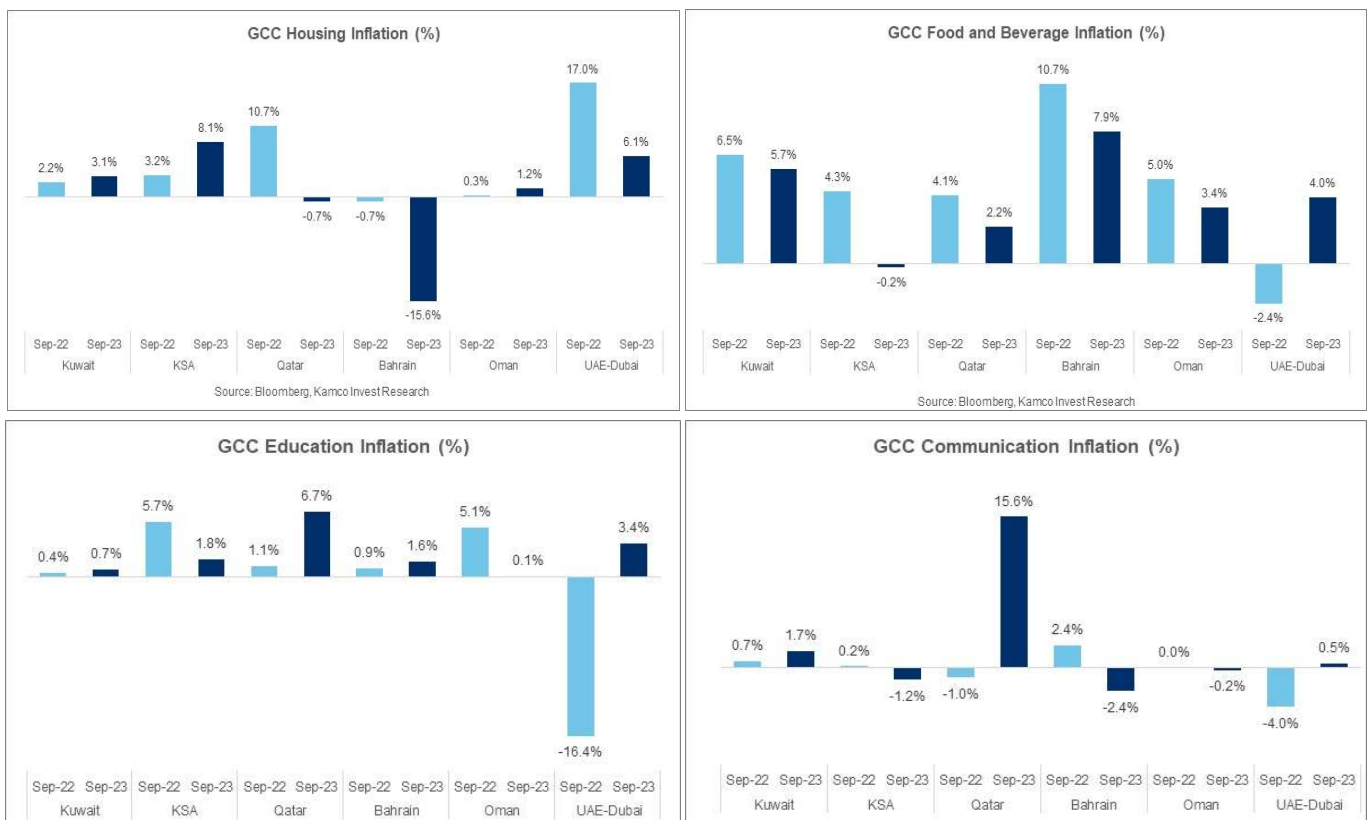
Sources : Bloomberg, Kamco Invest Research

Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 3.1% during the month. Kuwait's Education Inflation group prices were stable and only recorded a marginal uptick of 0.7% y-o-y during September-2023. Comparatively, inflation in the Transport group which has an index weight of 7.5% witnessed a 2.7% y-o-y and 0.4% m-o-m increase during September-2023 due to the rise in prices of operation of personal transport equipment. . The index for Furnishing Equipment Household, which has an index of weight of 11.4%, recorded 2.9% y-o-y growth during the month.

In terms of monthly price movements, prices of the Foods and Beverage group recorded a 0.4% increase due to the rise in prices of fish and seafood, milk, and frozen dried fruits. Similarly, prices for the Healthcare segment witnessed a m-o-m growth of 0.6% due to an increase in both outpatient and hospital services during the month. Prices of Cigarettes & Tobacco and Transport groups were stable during September-2023.

## Saudi Arabia

The annual Consumer Price Index for Saudi Arabia for September-2023 increased by 1.7% y-o-y as compared to 2.0% y-o-y increase in August-2023. The Kingdom's moderate CPI uptick was mainly driven by higher prices of Housing, Water, Electricity, Gas & Other Fuels group which recorded 8.1% y-o-y growth during September-2023 and Restaurant and Hotel group which recorded 2.5% y-o-y increase during the month. This increase was mainly offset by the decline in the heavily weighted groups such as the Food & Beverages group (-0.2%), the Clothing & Footwear group (-3.6%) and the Furnishings group (-2.8%).



Sources : Bloomberg, Kamco Invest Research

According to Saudi Arabia's General Authority for Statistics, housing rents increased by 9.8% during September-2023 driven by a 19.8% y-o-y growth in rent for apartments. Similarly, an increase in tertiary education prices (education for people above school age) was the main driver of inflation in the Education segment which increased by 1.8% y-o-y in September-2023. Meanwhile, the 6.7% growth in package holiday prices supported the Recreation and Culture group's 1.2% y-o-y uptick during the month. On the other hand, prices in the Furnishing, Household Equipment & Maintenance group recorded a 2.8% y-o-y decline because of a drop in furniture, carpets, and other floor coverings (-3.6%) while Clothing and Footwear group witnessed 3.6% drop due to decline in garment prices (-5.3%). A 6.3% decline in vegetable prices drove the Food and Beverages group's 0.2% dip during September-2023.

In terms of m-o-m change, the Kingdom's CPI remained unchanged during September-2023 mainly due to a general balance between the subgroups that recorded a marginal uptick offset by those subgroups that witnessed a marginal decline. The Housing, Water, Gas, and Electricity group recorded a 1% m-o-m increase during September-2023 while the Clothing and Footwear group witnessed -0.8% m-o-m decline during the similar period.

## Dubai

The Dubai Consumer Price index grew by 3.8% during September-2023 as compared to the 3.6% increase it witnessed during September-2022. This was the highest growth witnessed by the Dubai CPI in the last six consecutive months. The robust rise of Dubai's CPI was mainly due to the surge in Food and Beverages group costs which witnessed a 4.0% uptick during September-2023. Moreover, the Housing, Electricity, and Gas group costs witnessed 6.1% y-o-y growth during the month. Overall, only 3 out of Dubai's 12 CPI subgroups recorded y-o-y decreases during the month. On the other hand, certain key subgroups saw year on year growth during September-2023; namely the Education group (3.4%), Hotels & Restaurants group (3.0%) and the Furniture & Household Goods group (7.4%).

In terms of month-on-month inflation growth, Dubai's CPI index declined by 0.6% during September-2023. Dubai's Transportation and Recreation & Culture subgroups recorded 7.9% and 2.6% declines, respectively, dragging the Emirate's general CPI into negative territory for the second consecutive month. Marginal m-o-m growth from large, weighted groups such as Food and Beverages group (+0.3%) and Housing, Water, Electricity and Gas (+0.5%) were not enough to offset the overall m-o-m dip of Dubai's general CPI index during September-2023.

## Qatar

Qatar's inflation rate increased by 1.8% y-o-y during September-2023, recording its lowest increase since January-2022 and underscoring that the country's inflation rate is on a downward trend. Qatar's inflation downward trend during 2023 was mainly due to increased food supplies around the globe especially in the GCC after the Black Sea grain deal which resulted reducing food prices as well as global lower energy prices. On the other hand, Qatar's inflation rate growth for September-2023, albeit moderate, was driven by price increases across seven out of the eleven categories or sub-indices of its CPI. Inflation during the month was mainly driven by moderate rise in prices in the Communication group that saw an increase of 15.6% y-o-y in September-2023 followed by Education and Recreation & Culture groups with y-o-y increases of 3.2% and 2.4%, respectively. Moreover, Qatar's Food and Beverages sub-index recorded y-o-y increase for the third consecutive month at 2.2%. The country's General Consumer Price Index reached 106.94 points in September-2023, resulting in a m-o-m uptick of 1.2% over August-2023 mainly driven by the Recreation and Culture group which recorded 6.0% m-o-m increase during September-2023 and the Housing, Water, Electricity & Gas group which registered 1.7% m-o-m increase during the month.

## Bahrain

Bahrain's inflation rate during September-2023 witnessed a marginal y-o-y drop of 0.1%. The Kingdom's inflation rate dipped into negative territory after remaining flat during August-2023. The decline in Bahrain's CPI index was mainly due to the contraction of seven out of the twelve sub-indices in the general CPI. Bahrain's Housing, Water and Electricity sub-index witnessed the largest contraction among other sub-indices at negative 15.6% followed by the Furnishings, Household Equipment & Routine Maintenance of the House and the Restaurants sub-indices which witnessed a y-o-y contraction of 9.8% and 3.4%, respectively during September-2023. Comparatively, the index for Clothing and Footwear recorded a 51.6% y-o-y increase during September-2023, while the Food and Beverages index witnessed only a robust 7.9% 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 lowest projected inflation rate among the GCC countries after at 1.0% in 2023 and 1.4% 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 y-o-y increase of 1.3% in September-2023. The Sultanate's inflation rate has been on a downward trajectory during 2023 reaching its lowest monthly growth point for the year during July-2023 when it registered a growth of only 0.45%.

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%	1.0%	1.4%
Kuwait	2.9%	2.1%	3.4%	4.0%	3.4%	3.1%
Oman	2.1%	-0.9%	1.5%	2.8%	1.1%	1.7%
Qatar	3.5%	-2.5%	2.3%	5.0%	2.8%	2.3%
Saudi Arabia	1.8%	3.4%	3.1%	2.5%	2.5%	2.2%
United Arab Emirates	3.2%	-2.1%	-0.1%	4.8%	3.1%	2.3%
<b>GCC</b>	<b>2.2%</b>	<b>1.3%</b>	<b>2.2%</b>	<b>3.3%</b>	<b>2.6%</b>	<b>2.3%</b>
<b>Arab World</b>	<b>4.8%</b>	<b>6.1%</b>	<b>9.1%</b>	<b>8.9%</b>	<b>12.1%</b>	<b>11.7%</b>

Sources : IMF, Kamco Invest Research

The Sultanate's inflation rise was mainly driven by a 3.4% 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 2.3% y-o-y increase during September-2023 while the Furnishing and Household Equipment sub-index, another significantly weighted group, followed with 2.0% y-o-y growth during the period.

These gains were partially offset by the 1.4% y-o-y decline in inflation for the Transport group and the 0.2% y-o-y dip in the Communications group. In terms of regional picture, the Sultanate has the second lowest inflation growth forecast among the GCC countries at 1.1% in 2023 and 1.7% in 2024, according to the IMF. Oman recorded the lowest inflation rate in the GCC in 2022 at 2.8% according to data published by the International Monetary Fund.



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