

GCC Inflation Update

July-2024

GCC inflation remains steady despite persistent geopolitical tensions...

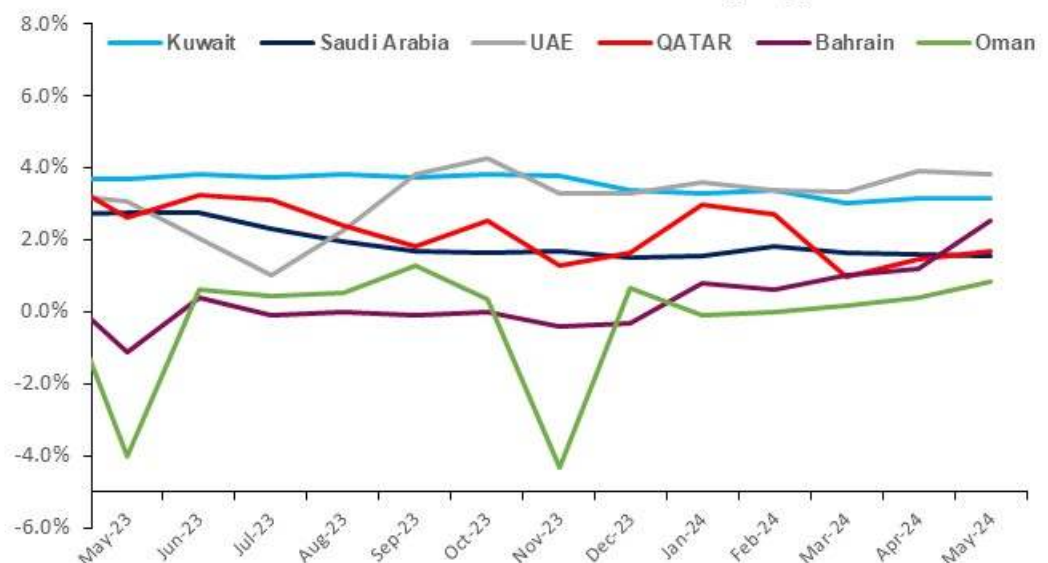
Inflationary pressures in the GCC continued to remain low during the first five months of 2024 for most countries in the region underpinned by strong US dollar, subdued import prices and continued subsidy policies. The growth of CPI in the GCC remained low and hovered around the 3.0% y-o-y level despite persistent geopolitical instability in the greater MENA region and the Caucasus due to the war on Gaza and the Russia-Ukraine conflict.

Among the six GCC countries, Oman reported the lowest average y-o-y growth in inflation during May-2024 at 0.9% as compared to 0.4% growth in April-2024. Comparatively, Dubai witnessed the biggest inflation increase in the GCC during May-2024 reporting a growth of +3.8% y-o-y during the month as compared to +3.9% in April-2024. Kuwait reported 3.2% inflation growth during May-2024 while the remaining three countries of the GCC reported monthly inflation growth of less than 2.5% during the month (Saudi Arabia at 1.6%, Bahrain at 2.5% and Qatar at 0.9%). Inflation data for June-2024 published by Saudi Arabia came in at 1.5% y-o-y.

At the global level, inflation was seen falling faster than expected in most regions. According to the IMF, global inflation rate is expected to decline to 5.8% in 2024 down from 6.8% in 2023. The June-2024 CPI in the US registered a y-o-y increase of 3.0% and a m-o-m increase of 0.1%. The lower m-o-m US inflation rate was mainly driven by lower gasoline prices and other necessary household provisions. In context, the US inflation rate is currently in a downward trajectory and declined from its highest peak since 1981 during the pandemic that reached 9.1% in June-2022.

Similarly, the Eurozone inflation rate is also on a downward trajectory since its peak at 10.6% in October-2022. The Eurozone inflation rate witnessed a 2.5% y-o-y growth during June-2024. The downward trend of the Eurozone inflation rate has prompted the European Central Bank to lower its interest rates for the first time since 2019. The ECB reduced its key deposit rate, which stood at a record high 4.0%, by 25 bps to 3.75%. However, the ECB has indicated that its battle against inflation is far from over with anticipation that the Eurozone inflation would likely remain above its 2% target during 2024. In contrast with the ECB, the US Federal Reserve has kept its interest rates unchanged albeit providing a strong signal for a rate cut during September-2024. On the other hand, the IMF has warned that inflation in major economies has been declining slower than anticipated and this is complicating monetary policy normalization. The IMF projects GCC inflation to average 2.2% in 2024 and 2.1% in 2025.

GCC Countries Inflation Trend (y-o-y)



Sources : Bloomberg, Kamco Invest Research, IMF

Junaid Ansari

Head of Investment Strategy & Research

+(965) 2233 6912

jansari@kamcoinvest.com

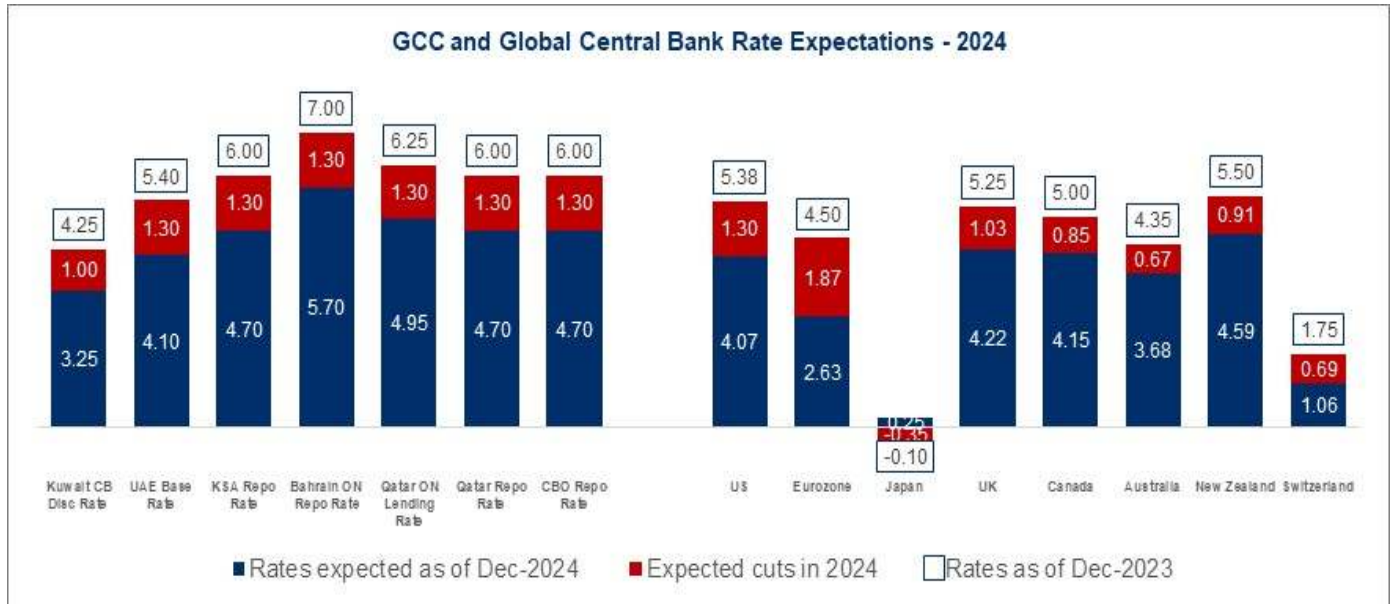
Mohamed Ali Omar

Associate

+(965) 2233 6906

momar@kamcoinvest.com

The overall downward trend in inflation was supported by the recent release of inflation figures in the US that showed better than expected decline during June-2024. CPI in the US registered a growth of 3.0% during June-2024 as compared to 3.3% during May-2024. The consensus was expecting a y-o-y inflation rate of 3.1%. With the fall in inflation, the US Fed is now expected to implement its first rate cut of 25 bps in more than four years during its September-2024 meeting. The US Fed Chair Jerome Powell recently said that inflation is heading toward the central bank's 2.0% goal based on second-quarter economic data.



Sources : Bloomberg, Kamco Invest Research

In Europe, the ECB implemented its first rate cut since 2019 during June-2024 and lowered the deposit rate to 3.75% from 4.0%. The rate cut reflected improvement in inflation that declined to 2.6% during May-2024 led by lower fuel costs and normalized supply chains. However, economists argued an uncertain and a sticky inflation path can be seen in Europe backed by the latest stronger-than-expected wages and price data. The Eurozone inflation declined to 2.5% during June-2024 led by stubborn services inflation and marginal increase in non-energy industrial goods and energy. The 4.1% increase in services inflation in Eurozone during June-2024 and the continued wage growth are factors that are widely expected to prompt ECB to keep interest rates unchanged in its meeting this week. In line with the US Fed, economists are expecting the ECB to implement the second installment of the rate cut in September-2024, although, the ECB president has expressed a cautious approach highlighting the strong labour market. The immediate impact of the rate cut in the Eurozone was apparent after banks in the Euro area reported the first increase in demand for consumer credit and housing loans since 2022. On the other hand, the situation remains uncertain in the UK on when the BoE would start cutting interest rates from the 16-year level of 5.25%.

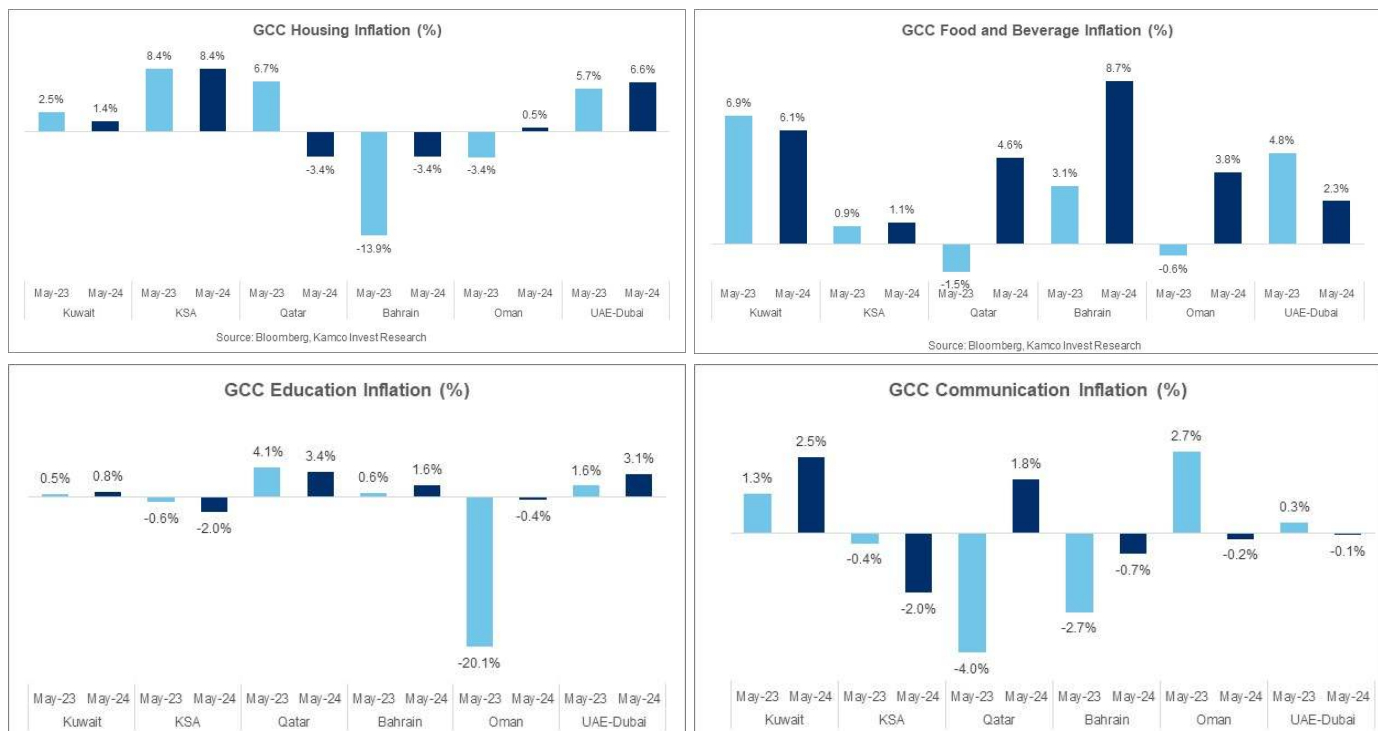
Global Food Prices

The Food Price Index (FAO) remained unchanged at 120.6 points during June-2024 matching the revised figure for May-2024 due to lower cereal quotations which have compensated for the price increases in higher vegetable oil, sugar and dairy prices. Global export prices for mainly all major cereal witnessed a decline in June-2024. The fall in cereal exports was driven by a combination of different issues including seasonal pressure from continuing harvests in the northern hemisphere as well as better than expected production in some key wheat exporting countries such as Ukraine and Kazakhstan. Moreover, the export prices for Maize also declined during June-2024 reflecting the greater possibility of better than anticipated maize production in two of the biggest producers of the cereal, Argentina and Brazil. Similarly, the FAO All Rice Price Index recorded a modest fall of 0.2% m-o-m in June-2024 mainly due to a reduced amount of trading activities.

On the other hand, the FAO Vegetable Oil Price Index recorded 3.1% m-o-m growth during June-2024 to reach the highest level in thirteen months at 131.8 points. The growth reflected higher quotations for soy, sunflower oils, and palm during the month coupled with stronger demand from the Americas biofuel sector. Similarly, global dairy prices increased during June-2024 mainly due to growth in international price quotations for butter which reached 24 months high and increased global demand for near-term deliveries. The FAO Dairy Price Index recorded 1.2% m-o-m growth during June-2024. Similarly, the FAO Sugar Price Index witnessed 1.9% m-o-m increase to reach 119.4 points during June-2024 mainly because of lower than expected harvest in Brazil. The FAO Meat Price Index remained unchanged during June-2024 balanced by a drop in international poultry meat prices against price increases of ovine, pig and bovine meats.

Kuwait

The Consumer Price Index for Kuwait for May-2024 showed a y-o-y increase of 3.2%, according to official government data. The increase was mainly led by a 6.1% growth in the Food and Beverage index followed by the Clothing and Footwear price index which registered 5.6% y-o-y growth. In terms of m-o-m performance, Kuwait's CPI recorded a 0.15% m-o-m growth during May-2024 due to mixed movement of price increases in some major groups moderately balanced by price declines in other groups. Inflation in the Housing Services group, the largest weighted group, witnessed a y-o-y increase of 1.4% in May-2024. Kuwait's Education group prices were stable and only recorded a marginal uptick of 0.8% y-o-y during May-2024. Similarly, prices in the Transport Index, which has an index weight of 7.5%, registered another marginal 1.1% y-o-y growth due to the rise in prices of transport services.



Sources : Bloomberg, Kamco Invest Research

The index for Furnishing Equipment Household, which has an index of weight of 11.4%, recorded 3.7% y-o-y growth in May-2024 driven by an increase in prices of furniture, household utensils, home textiles and glassware and table ware. In terms of monthly price movements, prices of the Foods and Beverage group recorded an uptick of 0.5% due to an increase in the prices of meat and poultry, as well as sugar and sugary products. However, the prices of fish and seafood retreated during the month while the prices for bread, milk and cereals remained steady. Moreover, according to the Kuwait's Consumer Protection Society, increased operating costs have negatively impacted on food prices at restaurants and households, and supermarkets in Kuwait. The board noted that there has been an overall upward pressure on prices of basic food stuffs in Kuwait due to several elements including global turmoil, the Russia-Ukraine conflict, the war on Gaza and military operations in the Red Sea. Moreover, newly developed local challenges including severe shortage of storage spaces coupled with increasing warehouse rental prices are another element that is putting upward pressure in Kuwait prices.

Saudi Arabia

The average annual Consumer Price Index in Saudi Arabia recorded 1.5% growth in June-2024 as compared to June-2023. The CPI uptick was mainly driven by an 8.4% growth in prices in the Housing, Water, Electricity, and Other Fuels groups, and 0.9% increase in prices of Food and Beverages group. On the other hand, prices of the Transportation Index declined by 2.7% during June-2024 while prices of the Furnishings and Household Equipment fell by 3.7% during the similar period. Saudi Arabia's rental prices growth was again the main driver of inflation in June-2024 as compared to June-2023.

In context, actual housing rents in the Kingdom increased by 10.1% in June-2024 mainly driven by the growth in villa rents by 7.9%. The uptick in housing and villa rent had a significant impact on the annual inflation rate for June-2024 mainly due to the significant (21%) weight of the group. In addition, prices of the Food and Beverages sector recorded 1.1% growth during June-2024 because of a 6.5% rise in vegetable prices. Furthermore, the Education Index increased by 1.1% during June-2024 due to a 4.1% growth in the Kingdom's secondary education fees.

In terms of y-o-y sector decliners during June-2024, prices in the Furnishing and Home Equipment sector declined by 3.7%, while prices in the Clothing and Footwear index fell 3.6% during the similar period. In terms of m-o-m inflation performance, the Kingdom's Consumer Price Index registered a marginal growth of 0.1% compared to May-2024. The monthly marginal inflation growth was driven by a 0.5% uptick in the Housing, Water, Electricity and Gas Group due to a 0.7% increase in actual housing rents and prices

Consumer Price Index	Average	Actual			Projections	
Y-o-y percent change	2000–20	2021	2022	2023	2024e	2025e
Bahrain	1.6%	-0.6%	3.6%	0.1%	1.4%	1.8%
Kuwait	NA	3.4%	4.0%	3.6%	3.2%	2.7%
Oman	2.0%	1.7%	2.5%	0.9%	1.3%	1.5%
Qatar	3.2%	2.3%	5.0%	3.1%	2.6%	2.4%
Saudi Arabia	1.9%	3.1%	2.5%	2.3%	2.3%	2.0%
United Arab Emirates	2.9%	-0.1%	4.8%	1.6%	2.1%	2.0%
GCC	2.2%	2.2%	3.3%	2.2%	2.2%	2.1%
Arab World	4.9%	9.0%	8.8%	11.2%	11.2%	8.6%

Sources : Bloomberg, IMF, Kamco Invest Research

UAE

The Dubai Consumer Price index recorded a 3.8% y-o-y growth in May-2024 to reach 111.34 points as compared to 107.25 points in May-2023. Dubai's CPI uptick was attributed to higher prices in specific subgroups including the Insurance and Financial Services Group (+9.2%) and the largest weighted group in the CPI, the Housing, Water, Electricity and Gas group (+5.6%). However, in context, Dubai CPI index reached its lowest level in three months during June-2024. In terms of m-o-m performance, Dubai CPI Index recorded a marginal decline of 0.2% in May-2024 mainly due to a fall in the m-o-m prices of significantly weighted groups such as the 0.2% m-o-m drop in the Food and Beverages Group as well as the Recreation, Sport and Culture Group which registered 7.4% m-o-m contraction. On the other hand, in terms of forecast, the UAE Central Bank has revised down its 2024 inflation forecast for the UAE to 2.3% down from a previous projection of 2.5%. Moreover, the central bank penciled a 2.5% annual inflation growth for 2025 citing expected price increases key components of the CPI such as the Transportation Group mainly due to expected increases in energy prices.

Qatar

Qatar's inflation rate increased by 0.9% y-o-y during May-2024, after recording its lowest monthly average increase for over three years in April-2024. Qatar's moderate inflation rate growth came after growth in five out of the eleven sub-indices of the CPI was partially offset by decline or no change in the remaining six sub-indices, including the large-weighted Housing, Water, Electricity and Gas subgroup (-3.4%) and the Furnishing and Household Equipment subgroup (-1.8%) during the month. The country's General Consumer Price Index reached 107.6 points in May-2024 witnessing a marginal gain of +0.4% m-o-m over April-2024. The marginal m-o-m growth in Inflation growth during the month was driven by significant price stability for several sectors such as Education (+0.0%) and Transport (+0.1%), coupled with slower pace contraction for Housing, Water, Electricity and Gas subgroup (-0.9%).

Bahrain

Bahrain's inflation rate recorded a y-o-y uptick of 2.5% during May-2024 as the general Consumer Price Index closed the month at 101.5 points. In terms of m-o-m change, Bahrain's inflation rate remained unchanged during the month. The y-o-y increase in inflation rate was mainly due to the growth in eight out of twelve sub-indices in the general CPI. Bahrain's Food and non-Alcoholic Beverage's subgroup (+8.7%) in tandem with the Restaurants subgroup (+9.0%) have been the key drivers of the y-o-y inflation growth during the month. On the other hand, y-o-y declines in key subgroups including the Housing, Water and Electricity (-3.4%) and Health (-2.2)% have exerted significant downward pressure on the overall inflation rate growth in the Kingdom during the month. In terms of m-o-m performance, the Food and non-Alcoholic Beverage's subgroup witnessed a marginal 0.2% m-o-m growth during May-2024 while the Restaurants subgroup recorded a slightly greater m-o-m growth of 0.5%.

Oman

Oman's inflation rate witnessed a 0.9% y-o-y growth during May-2024 as the general CPI index closed the month at 105.7 points after three out of the twelve subgroups in the CPI have recorded y-o-y declines. The inflation data revealed a 3.3% uptick in prices of Miscellaneous Goods and Services group, and a 2.4% increase in the Health group prices. In addition, the Recreation and Culture group saw a 0.6% increase, while the Tobacco group prices rose 0.6% and Housing, Water, Electricity, Gas, and other types of fuels recorded 0.5% growth during May-2024. Moreover, the Food and Non-alcoholic Beverages group witnessed 3.8% y-o-y mainly driven by a 12.3% increase in the prices of vegetables coupled with a 7.9% uptick in fish and seafood as well as 4.6% growth in the price of milk, cheese and eggs. Furthermore, Restaurants and hotel prices witnessed a 0.3% increase while the Clothing and Footwear group rose a marginal 0.1% during the month. The Sultanate underlined that it has maintained its inflation rate within its target limits outlined in the Tenth Five-Year Plan, aligned with its economic and financial objectives. The Sultanate has successfully implemented measures to control inflation including initiatives to stabilize fuel prices and support for basic foodstuffs. According to the World Bank, inflation in the Sultanate' is projected to converge to 2% over the medium term.

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Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com

Kamco Invest