PUBLIC

Daily
Economic Update

Economic Research Department
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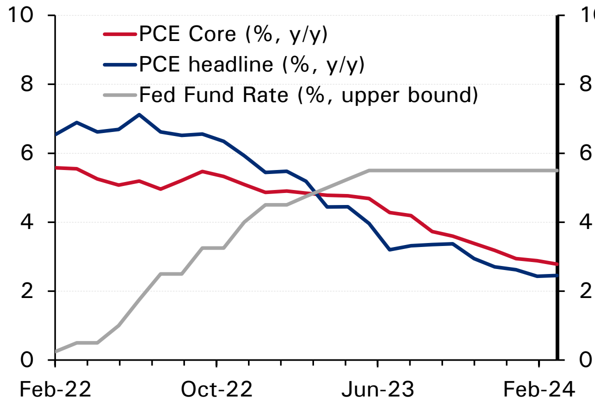
US: PCE inflation eases, and Q4 GDP growth revised upwards. PCE inflation cooled in February, coming in at 0.3% m/m (2.5% y/y) from 0.4% (2.4% y/y) in January. The core rate also moderated to 0.3% m/m (2.8% y/y) from 0.5% (2.9% y/y) as price rises in core services excluding housing slowed to 0.2% m/m (+3.3% y/y) from 0.7% the previous month. Meanwhile, real personal spending rebounded to +0.4% m/m from -0.2% in January after weather conditions normalized, suggesting rebuilding consumer spending momentum during Q1. Fed chair Powell, in a speech, mentioned that February's PCE readings were in line with the expectations, but he continues to see the disinflation path bumpy, and the bank may not need to be in a hurry to cut rates. Meanwhile, the Q4 GDP growth estimate was revised upward to 3.4% (annualized) from 3.2% previously on a solid upgrade to household spending growth (3.3% versus 3% earlier) and higher business investments (to 3.7% from 2.4%).

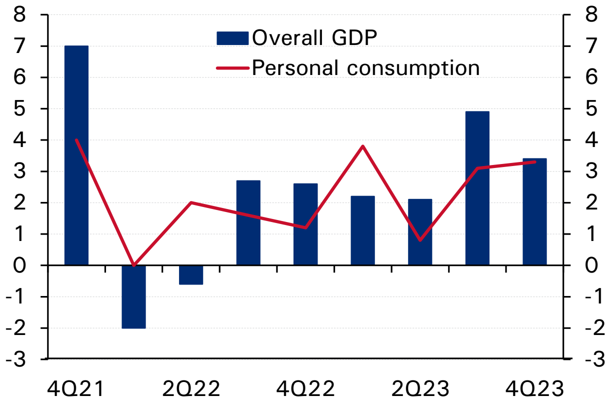
Chart 1: US PCE inflation and policy interest rates



Source: Haver

Chart 2: US GDP growth

(% annualized)



Source: Haver

China: Manufacturing PMI returns to expansion after six months. China's economy has had a solid start to the year so far, as highlighted in the PMI figures for March, which revealed the first expansion in the manufacturing activity gauge in six months at 50.8. The non-manufacturing PMI also rose to 53 from 51.4 in the prior month, remaining in expansion territory for the 15th consecutive month. The rebound in manufacturing activity, helped by improving output and new orders subindices, and solid non-manufacturing activity readings pushed the composite measure to 52.7, the highest level since May. The latest PMI report highlights the continuing improvement in economic activities in Q1, coming after strong retail sales and industrial production data for January and February (see our latest China Chartbook report here for more detail).

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Japan: Retail sales build momentum while the unemployment rate ticks up. Retail sales increased by 4.6% y/y in February, well above the market consensus of 3%, continuing a now 24-month expansion. Sales of retail products (12% y/y), pharmaceuticals & cosmetics (12%), and food & beverages (5.7%) were the main drivers of growth, while sales of automobiles declined by 8.6% y/y over the same month. Meanwhile, the unemployment rate edged up to 2.6% in February from 2.4% the previous month, marking the first increase in seven months as more people entered the job market amid higher living costs, and the number of unemployed people rose 120K to 1.8 million.

Egypt: The second tranche of Ras El Hekma Deal expected to be received in May. The prime minister expects Egypt to receive the second and supposedly last tranche of the Ras El Hekma deal in May 2024. This tranche should entail the remaining $11-13 billion out of the $35 billion deal after netting out the first tranche of $11 billion (received in early March 2024) and another $11 billion of UAE deposits at the CBE converted into FDIs (i.e. transferred from the CBE books). Additionally, the European Union is trying to expedite the delivery of EUR1 billion under the newly agreed EUR7.4 billion package, targeting to disburse the funds before the end of 2024.

Egypt: IMF board approves raising of Egypt's loan package by $5 billion, keeping the same tenor. The IMF Executive Board has completed its first and second reviews of the Extended Fund Facility arrangement for Egypt and approved raising the loan size by $5 billion, allowing the authorities to withdraw $820 million immediately. The Fund stated Egypt met all key performance criteria for June 2023 except for the net international reserves for which the Egyptian authorities had requested a waiver. The IMF expects the authorities to use a large part of the new funds from the Ras El Hekma deal to improve reserves and bring down the FCY import backlog and international oil companies' arrears. Finally, it believes that the CBE would need to focus on reducing inflation and tighten monetary policy further when needed. **Comment:** The IMF statement confirms that the program is for 46 months, the same tenor that was approved in December 2022, even on an upsized facility. This will offer higher FCY liquidity in the same original time frame –positive for Egypt – though will also require a tighter schedule for macroeconomic reforms. The IMF seems more inclined to see further policy tightening, especially as inflation continues to surprise upwards, possibly at 38% y/y by April. Finally, we note that the Fund's economic projections are more optimistic than our views and the consensus on several fronts. It expects economic growth to reach 4.4% in FY24/25 (higher than our forecasts of 3.3%). It also expects total reserves expressed in months of imports to rise from 6.5x currently to 7.3x by the end of FY23/24 and then drop to 6.9x by the end of FY24/25. This implies an increase in reserves by $4.3 billion to $39.5 billion by June 2024 and by another $5 billion in FY24/25 to around $45 billion by June 2025, applying an assumed 20% growth in imports. We don't see central bank reserves climbing this far in the coming two years unless further import compression takes place, which is not part of the IMF assumptions.

Saudi Arabia: Credit growth remains strong, especially corporate lending. Bank credit increased by 1% m/m in February, driving up YTD growth to 2.5% (+10.9% y/y). Private sector corporate lending continued to be the fastest growing at 1.5% m/m (+3.4% YTD), accounting for 63% of the increase in credit YTD. For the second consecutive month, deposit growth was solid at 1.2% m/m, driving up the YTD increase to 2.6% (+10.3% y/y), which is broadly in-line with credit growth. After a slight increase in January, SAMA's reserve assets dropped $7.2 billion (-1.6%) in February to $432 billion (40% of GDP). Reserve assets are now down by 1.2% YTD, after falling by 5% in 2023.

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Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,228	-0.39	-3.65
Bahrain (ASI)	2,056	-0.60	4.28
Dubai (DFMGI)	4,246	0.31	4.59
Egypt (EGX 30)	27,559	-2.36	10.98
GCC (S&P GCC 40)	724	0.00	1.60
Kuwait (All Share)	7,374	0.09	8.17
KSA (TASI)	12,566	-0.33	5.00
Oman (MSM 30)	4,673	-0.80	3.52
Qatar (QE Index)	9,944	-0.14	-8.19
International			
CSI 300	3,537	0.47	3.10
DAX	18,492	0.00	10.39
DJIA	39,807	0.00	5.62
Eurostoxx 50	5,083	0.00	12.42
FTSE 100	7,953	0.00	2.84
Nikkei 225	40,369	0.50	20.63
S&P 500	5,254	0.00	10.16

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	6.36	0.00	-16.71
Kuwait	4.31	0.00	0.00
Qatar	6.00	0.00	-25.00
UAE	5.21	-6.89	-4.50
Saudi	6.28	0.00	5.17
LIBOR	5.56	0.00	-3.32
SOFR	5.31	0.19	-2.20

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.74	0.30	41.9
Oman 2027	5.56	0.00	40.4
Qatar 2026	4.87	0.40	35.4
Kuwait 2027	4.62	0.30	27.6
Saudi 2028	4.85	0.20	32.9
International 10YR			
US Treasury	4.19	0.00	33.4
German Bund	2.29	0.00	26.3
UK Gilt	3.94	0.00	39.7
Japanese Gvt Bond	0.73	2.00	11.0

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	-0.08	0.06
KWD per EUR	0.33	0.03	0.38
USD per EUR	1.08	0.06	-2.20
JPY per USD	151.31	-0.04	7.27
USD per GBP	1.26	0.01	-0.83
EGP per USD	47.35	0.00	53.48

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	87.48	0.00	13.55
KEC	86.32	n/a	8.50
WTI	83.17	0.00	16.08
Gold	2217.4	0.00	7.52

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

Source: Refinitiv / Haver

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