

Daily Economic Update

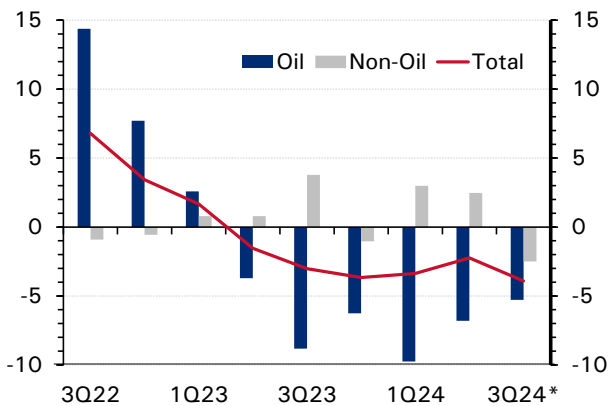
Economic Research Department
05 January 2025

Kuwait: Non-oil GDP falls back in Q3 amid lower government, manufacturing activity. Provisional official figures show that non-oil GDP in Q3 fell by 2.5% y/y, the first negative reading in 2024 after average gains of 2.7% y/y in the first half of the year. At the sub-sector level, the declines were due to lower output in manufacturing (-10.8% y/y), public administration & defense (-2.5%) and financial services (-2.5%). Meanwhile, growth in the oil sector continued to range in negative territory in Q3 (-5.3%), a sixth consecutive quarter of decline (though was up 1.1% q/q for the second quarter in a row) amid reduced crude production due to Kuwait's OPEC+ supply cut obligations. Total GDP growth, therefore, slipped to -3.9% y/y from -2.2% in Q2. The latest release also laid out once again substantial revisions to the historical series across several non-oil components but especially public administration & defense, manufacturing and 'taxes less subsidies'. The revisions mean that Kuwait's non-oil economy escaped recession in 2023 and 2022, growing by 1.0% (versus the previous -2.9%) and 1.6% (versus -0.1%), respectively. For 2021 though, growth was revised down to 4.2% (from 5.4%). The latest preliminary figures are also subject to revision in forthcoming releases.

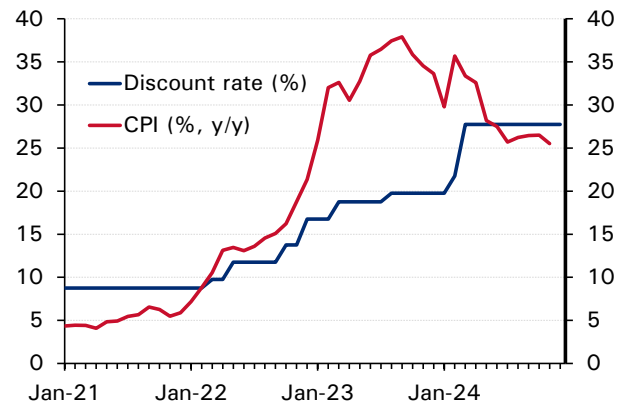
Egypt: Central bank keeps rates on hold as GDP shows signs of recovery. The Central Bank of Egypt bank kept interest rates on hold (mid-rate of 27.75%) at its late December meeting, though hinted in its press statement that they would be cut soon. The CBE said it expects inflationary pressures to be subdued, as real wage growth remains contained, and headline inflation to decline "substantially" in 2025, starting with a steep drop in Q1 2025 and converging to single digits by H2 2026. It also set a new inflation target of 7% (± 2 % pts) and 5% (± 2 % pts) on average for Q4 2026 and Q4 2028, respectively. As per the release, this will give room to weather price shocks without the need for further monetary tightening, thus avoiding a substantial slowdown in economic activity. We expect inflation to come in line broadly with the CBE's Q4 2026 target averaging 13-15% in 2025 and 12% in 2026. This includes a sharp fall towards 15% by February 2025 (February's inflation print should be released by March 9th). In our view, if the bank waits for the February inflation print to observe the strong downward adjustment, then the earliest that interest rates could be cut would be at the April 17th meeting. However, an earlier cut at the February 20th meeting is possible if the bank opts to base its assessment on the month-on-month inflation numbers, who's softer trend should be confirmed in the December 2024 and the January 2025 inflation readings. A front-loaded rate cut of 2-3% would mean a big chance of a large cumulative rate cut in 2025 of up to 10%. A more conservative approach, however, would see a maximum of 6-7% rate cuts. Our note on this can be found [here](#). Separately, in a sign that earlier economic weakness is starting to fade, GDP growth rebounded to a 6-quarter high of 3.5% y/y in Q3 2024, from 2.4% in Q2.

Chart 1: Kuwait real GDP growth

(% y/y; in 2010 prices)



Source: Central Statistics Bureau (CSB); first release, provisional figures

Chart 2: Egypt policy interest rates and inflation


Source: Haver

Saudi Arabia: Non-oil PMI eased but remained strong in December. The non-oil private sector PMI eased to 58.4 in December from a 17-month high of 59.0 in November, still reflecting a strong expansion in business activity. New orders grew for the fifth consecutive month driven mainly by the retail and wholesale sector reportedly owing to improved client demand, successful marketing campaigns, and favorable economic conditions. The higher new orders were partly driven by stronger export sales, which rose the fastest since July 2023 on solid capacity (low work backlogs) and stronger foreign demand. Meanwhile output growth, despite easing from the previous month, remained strong and above the long-run average. On the price front, input prices saw a marked increase amid strong purchasing growth and a sharp rise in material costs, and despite softer wage growth. Yet, output prices rose modestly amid still strong competition and elevated inventories.

UAE: Abu Dhabi's non-oil economy continue to drive growth in Q3 2024. Abu Dhabi's real GDP growth reached 4.5% y/y in Q3 2024, up from Q2's reading of 4.0%. Non-oil GDP was the main driver of growth, rising by 6.6% y/y, slightly higher from the 6.4% growth seen in the previous quarter. Transportation & storage (18.0%), finance & insurance (11.6%), information & communication (10.5%), construction (10%), and accommodation and food services (7.0%) were the main drivers of growth while the manufacturing sector, which accounts for the highest share in non-oil activities at 18%, decelerated to 2.0% from 2.6% in the previous quarter. On the other hand, oil sector growth increased to 2.2% from 1.1% in Q2 2024, despite ongoing production curbs, to reach 2,933 kb/d in Q3 2024. The emirate level data shows that Abu Dhabi growth averaged 5.9% y/y in Q1-Q3 while Dubai's GDP rose by 3.3% in H1 2024, supporting our view that non-oil activities should have remained at a robust 4-5% in 2024.

China: Manufacturing PMI comes in slightly lower than anticipated in December. The PMI showed that factory activity in China came in lower than forecast in December, falling to 50.1 from November's seven-month high of 50.3. Despite the evident slowdown last month, it still marked the third consecutive month of expansion. Non-manufacturing activity, meanwhile, rose to 52.2 in December, compared to 50.0 previously, its highest figure since March and exceeding market expectations of 50.2. The overall composite PMI increased to 52.2 in December from 50.8 in the two months prior, marking the highest reading since March. That said, the most recent figures indicate that the string of support measures from Beijing last September are beginning to come through, though growth faces headwinds from various ongoing economic challenges.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,323	0.01	-1.02
Bahrain (ASI)	1,979	0.00	-0.33
Dubai (DFMGI)	5,127	-0.52	-0.62
Egypt (EGX 30)	30,060	0.00	1.08
GCC (S&P GCC 40)	724	-0.09	0.32
Kuwait (All Share)	7,363	0.00	0.00
KSA (TASI)	12,103	0.00	0.55
Oman (MSM 30)	4,573	0.00	-0.07
Qatar (QE Index)	10,571	0.00	0.00

International			
CSI 300	3,775	-1.18	-4.06
DAX	19,906	-0.59	-0.02
DJIA	42,732	0.80	0.44
Eurostoxx 50	4,871	-0.94	-0.50
FTSE 100	8,224	-0.44	0.62
Nikkei 225	39,895	0.00	0.00
S&P 500	5,942	1.26	1.03

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.69	0.00	0.00
Kuwait	3.94	0.00	0.00
Qatar	4.68	0.00	0.00
UAE	4.48	3.59	3.15
Saudi	5.42	0.00	-12.32
SOFR	4.30	N/A	-0.91

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.80	0.00	6.0
Oman 2027	5.66	0.00	10.0
Qatar 2026	4.87	0.00	8.0
Kuwait 2027	4.95	0.00	-2.0
Saudi 2028	5.07	0.00	-1.0

International 10YR			
US Treasury	4.60	0.00	2.9
German Bund	2.42	0.00	6.3
UK Gilt	4.60	0.50	3.1
Japanese Gvt Bond	1.08	0.00	0.0

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.00	0.14
KWD per EUR	0.32	0.38	-0.17
USD per EUR	1.03	0.00	-0.43
JPY per USD	157.27	0.00	0.06
USD per GBP	1.24	0.00	-0.73
EGP per USD	50.75	0.00	-0.08

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	76.51	0.76	2.51
KEC	76.53	1.78	0.98
WTI	73.96	1.13	3.12
Gold	2645	-0.52	0.60

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

Source: LSEG / Haver