Daily
Economic Update

Economic Research Department
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US: Wholesale inflation comes in softer than expected, markets await CPI data later this evening. Producer price inflation (PPI) in December eased to 0.2% m/m (+0.3% forecast) from 0.4% in November, with core prices remaining flat (+0.2% forecast) compared to an increase of 0.2% the previous month. A nearly steady rise in mainly energy-linked goods prices (+0.6% m/m), was somewhat offset by flat services prices. On an annual basis, PPI inflation, however, rose to 3.3% from 3.0% in November, driven by an unfavorable base effect, with core price rises unchanged at 3.5%. Despite tamer wholesale price data, markets' reaction was relatively muted, as concerns about anticipated higher import tariffs, immigration curbs and tax-cut boosts under the incoming Trump administration, along with ongoing economic strength, continue to weigh on the inflation outlook in 2025 and beyond. Meanwhile, markets will be keenly awaiting the release of CPI inflation data this evening to gauge progress on disinflation and the interest rate outlook.

UK: Gilt rout deepens amid global bonds selloff but also reflects growth, inflation and fiscal concerns. UK gilts have sold off sharply recently, with 10Y yields hitting their highest since 2008 (around 4.9%) and 30Y yields (around 5.4%) reaching levels not seen since 1998. Yields have risen by around 30 bps on both 10Y and 30Y UK bonds so far in 2025. The Pound has also been under pressure, echoing the market's reaction to former PM Liz Truss's 'mini' budget in October 2022, though this time, US and other developed-market yields have also risen. In fact, the US/UK 10Y bond spread hasn't changed much this month, hovering around the range seen in Q4 2024. Similarly, the dollar index (DXY) currently trades at its highest since late-2022, underscoring the influence a rise in the dollar and US benchmark yields (reflecting stronger US growth and higher inflation outlook) have on global counterparts. That said, the heavy selling in the UK is also equally driven by fears over the UK's uncertain economic prospects, and particularly the negative implications of weaker growth and higher inflation on the country's public finances. GDP contracted by 0.1% m/m in both September and October and inflation rose to an eight-month high of 2.6% y/y in November. Meanwhile, the increase in bond yields is leading to ever higher debt interest payments, already in excess of £100 billion a year and eroding the £9.9 billion of fiscal headroom that Chancellor Reeves has before her self-imposed fiscal rules (which include a call for day-to-day spending to be matched by revenues) are broken. To avoid compromising her fiscal rules, to restore credibility and to reassure the market, the Chancellor may be forced to consider spending cuts and/or higher taxes, both of which, as well as being electorally sensitive, could undermine the UK's already weak growth prospects in an environment of higher inflation and higher-than-expected borrowing costs (markets have since trimmed their expectations for the Bank of England's policy rate cuts this year to just one or two versus the four that they had been anticipating in late 2024).

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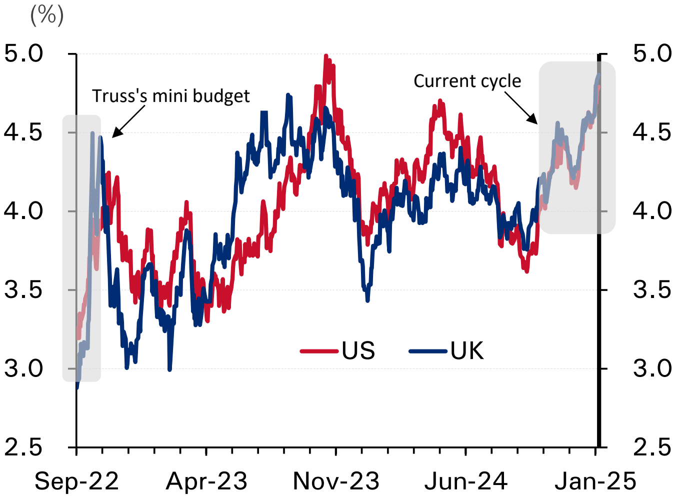
Chart 1: US and UK 10 years bond yields



Source: LSEG

Japan: Bank of Japan deputy chief signals a potential policy shift next week. Deputy Governor Himino said yesterday that a rate hike next week is still on the table while, at the same time, reiterating the governor's view that the BoJ may tighten monetary policy further if the economy moves in line with expectations in the updated outlook report due on the 24th of January. Moreover, the deputy governor was upbeat about the outlook for wage growth this year, with recent surveys suggesting that pay is generally at or above last year's levels, though he did caution that global economic uncertainties remained until more clarity was forthcoming from the incoming US Trump administration. While the recent strong growth in nominal base pay (November 2024), the persistent inflationary pressures, and the depreciation in the yen (currently at JPY157.7/$) should increase the likelihood of another rate hike next week, US policy uncertainty and the ministry of finance's discomfort over excessive foreign exchange moves could postpone a rate rise, especially if the Japanese authorities have to intervene in the FX market.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,498	0.41	0.83
Bahrain (ASI)	1,894	-1.32	-4.62
Dubai (DFMGI)	5,246	0.25	1.68
Egypt (EGX 30)	28,967	1.44	-2.60
GCC (S&P GCC 40)	727	0.61	0.73
Kuwait (All Share)	7,531	0.63	2.28
KSA (TASI)	12,173	0.52	1.13
Oman (MSM 30)	4,611	0.30	0.75
Qatar (QE Index)	10,385	1.62	-1.76
International			
CSI 300	3,821	2.63	-2.91
DAX	20,271	0.69	1.82
DJIA	42,518	0.52	-0.06
Eurostoxx 50	4,980	0.53	1.73
FTSE 100	8,202	-0.28	0.35
Nikkei 225	38,474	-1.83	-3.56
S&P 500	5,843	0.11	-0.66

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.69	-1.74	0.31
Kuwait	3.94	0.00	0.00
Qatar	4.65	0.00	-2.50
UAE	4.35	-4.08	-9.43
Saudi	5.39	-2.25	-14.74
SOFR	4.30	1.50	-0.31

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.95	-6.00	21.0
Oman 2027	5.75	-8.00	19.0
Qatar 2026	4.87	-3.00	8.0
Kuwait 2027	5.00	-5.00	3.0
Saudi 2028	5.22	-8.00	14.0
International 10YR			
US Treasury	4.79	0.32	22.0
German Bund	2.62	3.20	26.1
UK Gilt	4.88	-0.10	31.8
Japanese Gvt Bond	1.24	5.00	16.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.01	0.16
KWD per EUR	0.32	0.55	-0.16
USD per EUR	1.03	0.61	-0.44
JPY per USD	157.96	0.31	0.50
USD per GBP	1.22	0.12	-2.37
EGP per USD	50.40	-0.12	-0.77

Commodities	$/unit	Change (%)	
		Daily	YTD
Brent crude	79.92	-1.35	7.07
KEC	82.25	-0.07	8.52
WTI	77.5	-1.67	8.06
Gold	2677.5	0.15	1.84

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

Source: LSEG / Haver

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