

## Monthly Reading Pressured By Seasonality

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#### Despite the seasonality factor, annual urban headline inflation

**remained almost flat on an annual basis:** Annual urban headline inflation recorded a minor increase to 4.48% in March 2021, from 4.46% in February 2021, and remained below the lower band of the Central Bank of Egypt's (CBE) target range of 7%  $\pm$  2%. This came despite seasonality-driven factors that pushed food inflation to surge in March to +1.1%, up from -0.5% in February. The contribution of non-food inflation, however, contained the increase in food prices as it fell to +6% y/y in March, down from +6.9% in February. Annual core inflation showed the same trend and inched up slightly to +3.67% y/y in March from +3.65% y/y in February, signaling that demand-driven pressures are still muted.

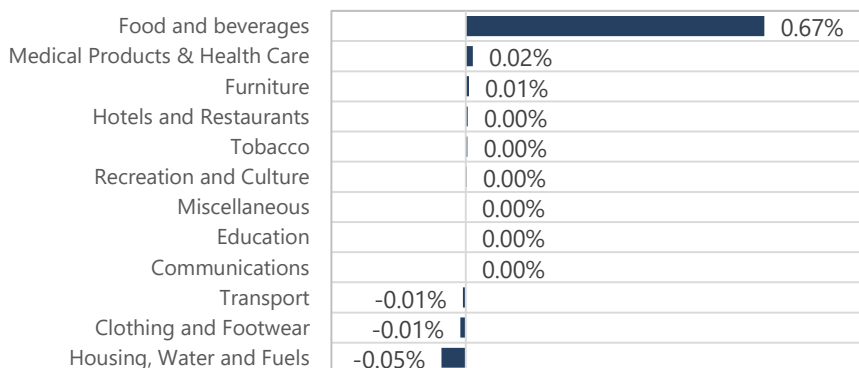
#### The effect of seasonality factors is more significant on monthly

**readings:** The effect of Ramadan drove monthly inflation to increase to +0.6% m/m compared to +0.2% in February, mainly due to the significant increase in the contribution of the food basket. Monthly food inflation surged for the first time in three months to +2.23% m/m in March, up from 0% in February; yet, it is still below the +2.7% m/m inflation level recorded in November 2020. Monthly core inflation followed the same trend and increased to +0.5% m/m from +0.3% m/m in February. Inflation readings are still in line with our expectation, indicating that the material demand-driven forces are still marginal despite the ongoing rebound in economic activity and seasonality factors. Despite the global headwinds, we expect inflation to remain contained and well-anchored around the CBE's targets.

#### Global commodity prices and seasonality factors will keep the CBE on a

**cautious stance:** The recent acceleration in global commodity prices, mainly oil and food prices, compels us to believe that the easing cycle is not going to be resumed any time soon. In addition, the fuel price committee is expected to keep prices unchanged in its next meeting in order to contain cost-driven pressures. Global tightening monetary conditions also play a role in keeping the easing cycle on hold until H2 2021, as the recent surge in U.S. yields, if sustained, would likely affect global capital inflows to the local debt market. Thus, the CBE will likely keep its benchmark rate on hold if disruption to capital inflows persists.

**Chart 1: Monthly contribution in inflation by basket**



Source: CAPMAS, Prime Research.

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