

Inflation Eased but Stage Still Set for a Pick-Up

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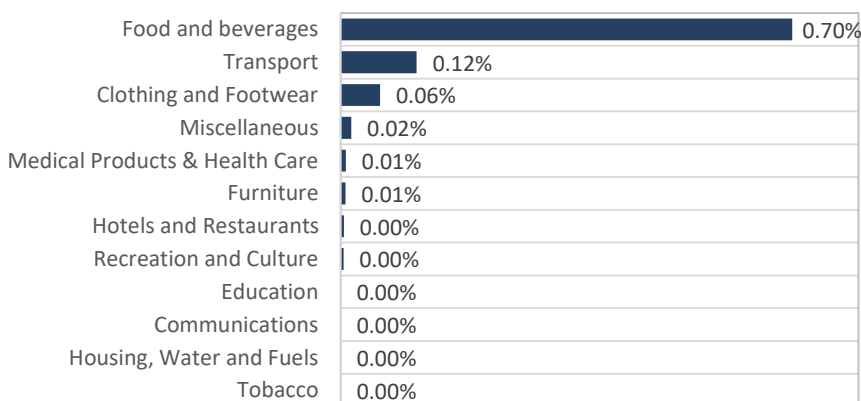
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Annual urban headline inflation remained almost flat on an annual basis, thanks to the favorable base effect: Annual urban headline inflation fell to 4.1% in April 2021 from 4.5% in March 2021 and remained below the lower band of the Central Bank of Egypt's (CBE) target range of $7\% \pm 2\%$. The fall was mainly driven by the favorable base-year factors that pushed food inflation to fall in April by 0.2% vs. a +1.1% increase in March. The contribution of non-food inflation remained stable at around +6% y/y in April. Annual inflation in April was mainly driven by the contribution of education, housing utility, and transportation baskets, as their total contribution accounted to 2.5% of the headline figure.

The seasonality effect and the surge in global commodity prices are more significant on monthly readings: The effect of Ramadan and Eid season is still significant on a monthly basis. Monthly inflation increased to +0.9% m/m in April, up from +0.6% m/m in March and compared to +0.2% in February, mainly due to the significant increase in the contribution of the food basket. Monthly food inflation increased to +2.28% m/m in April, up from 2.23% in March; yet, it is still below the +2.7% m/m inflation level recorded in November 2020. Inflation readings are still in line with our expectation, indicating that the material demand-driven forces are still muted and will likely remain so. Yet, inflationary pressures are accumulated due to the ongoing surge in global commodity prices. According to the April PMI reading, most firms faced weak new orders at a time where price pressures began to accelerate as input costs were elevated at the quickest rate, driven by supply shortages and rising global prices.

The easing cycle is not going to be resumed any time soon; the CBE to leave its benchmark rate unchanged in the June meeting: Commodity prices have picked up strongly since mid-2020 and early 2021. Agricultural commodity prices are already 33% higher since mid-2020 and close to the peak levels of 2011 and 2014. This price spike started to fuel cost-driven inflation, especially in core food items. Moreover, the faster rebound in the U.S. will also set the stage for inflation to pick up and the Fed to tightening its policy. Thus, we believe the CBE will likely keep its benchmark rate on hold, at least in the upcoming two meetings in June and August.

Chart 1: Monthly contribution in inflation by basket



Source: CAPMAS, Prime Research.

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