

Inflation Edged Up, As Expected

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Annual urban headline inflation came slightly higher in June—as expected—but is still within the targets. In line with our expectations, annual urban headline inflation edged up to 4.9% y/y in June 2021 (the highest annual reading in six months), up from 4.8% in May 2021. Annual inflation is still driven by the surge in food prices and the unfavorable base-year effect, which is expected to continue until later this year. Food inflation recorded its highest level since November 2020, reaching +3.45% y/y, up from +1.75% y/y in May, mainly against the backdrop of an increase in inflation of:

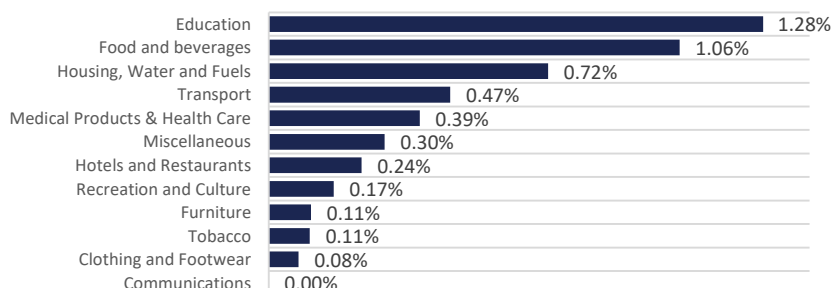
- (1) meat and poultry (+3.2% y/y in June vs. -0.8% y/y in May).
- (2) dairy and eggs (+4.5% y/y in June vs. +1.7% y/y in May).
- (3) oils (+17.5% y/y in June vs. +4.7% y/y in May).
- (4) and vegetables (+3.8% y/y in June vs. +2.8% y/y in May).

Meanwhile, non-food inflation slowed to +5.7% y/y in June vs. +6.2% in May, thanks mainly to the fall in the contribution of utilities, medical care, and clothing baskets.

The monthly reading decelerated further in June in light of weak demand and absence of real underlying inflation drivers. Monthly inflation fell in June to +0.2% m/m, down from +0.7% m/m in May, mainly due to the significant slowdown in food inflation from +1.55% in May to +0.19% in June. Meanwhile, monthly non-food inflation remained stable at +0.3% m/m.

Inflation figures in 2021 have been driven by external factors (commodity prices), seasonality factors (Ramadan and Eid seasons), and base-year effect. Aside from global commodity prices, inflation drivers in 2021 are still temporary, and they do not reflect real inflationary pressures. Broad-based recovery is still missing, and economic growth rate is below pre-COVID-19 levels. The outlook for commodity prices and supply chains disruptions is still mixed. Food prices, for instance, started to ease in July as the improvement in global harvest conditions induce higher supply. Moreover, the stability of FX rate alleviated the pressures on inflation and despite that USD/EGP fundamentals suggest some depreciation pressures, we see room for moderate exchange rate fluctuations that we not expect to agitate the inflation outlook. **We see inflation peaking in July, mainly due to electricity price hikes (likely fuel too) and Eid season, before it eases towards the edge of 4% by end of 2021. The CBE will likely keep its benchmark rate on hold until end of 2021.**

Chart 1: Drivers of annual inflation by basket



Source: CAPMAS, Prime Research.

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