

Inflation Picks Up in May: Annual Urban Inflation Hits 14.1%

Inflation data released by CAPMAS showed that annual urban inflation picked up from 13.0% in April to 14.1% in May. Meanwhile, monthly urban inflation accelerated from 0.5% in April to 1.1% in May. Total republic's inflation showed the same pattern, with annual inflation up from 12.5% in April to 13.2% in May and monthly inflation up from 0.4% to 1% in May. We reiterate our view of unchanged interest rates during the summer, until further notice.

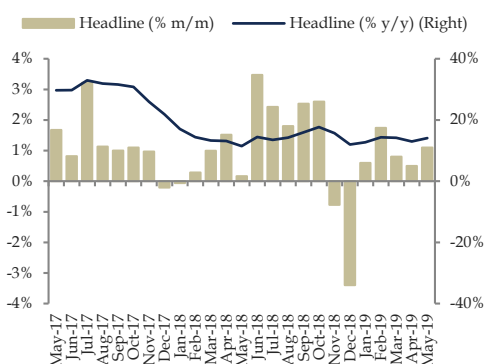
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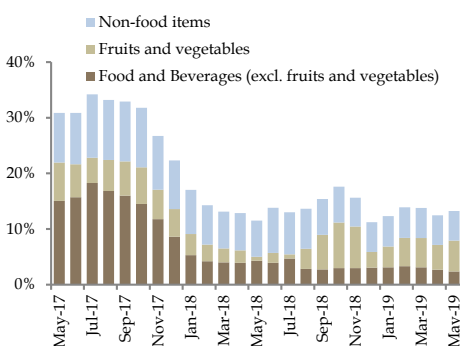
Annual and monthly inflation rates (urban)



Source: CBE, CAPMAS.

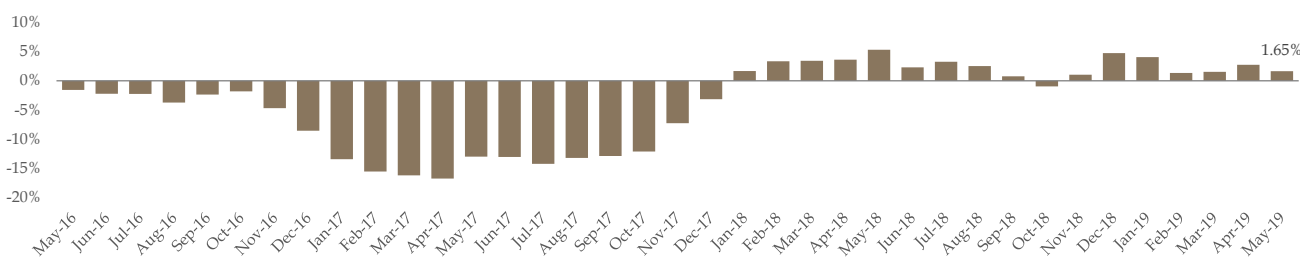
- Vegetables and fruits contributed the most to the annual and monthly inflation rates, respectively:** The vegetables recorded a 35.8% y/y increase, contributing about 4.6% to total annual inflation (total republic). On a monthly basis, fruits – led by lemon – recorded an 18% m/m increase, resulting in an overall increase in food and beverage item of 1.3% versus April.
- We reiterate our view of stable interest rates during the summer; expect no action before November:** According to our expected pattern of inflation, and due to the imminent fiscal reform measures, we expect inflation rates to approach 15.8-16% as a peak by early Q1 FY2019/20 before cooling down in Q2 FY2019/20 due to the favorable base effect. Until then, we believe the CBE might prefer to keep high interest rates on hold to ensure second-round effects are contained and to avoid losing the EGP's relative strength rapidly.

Contribution to annual headline inflation (total republic)



Source: CAPMAS.

Real O/N deposit dipped to 1.65% in May



Source: CBE, CAPMAS.

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