

Inflationary Pressure Still in Motion: March Inflation Eases Slightly to 14.2%

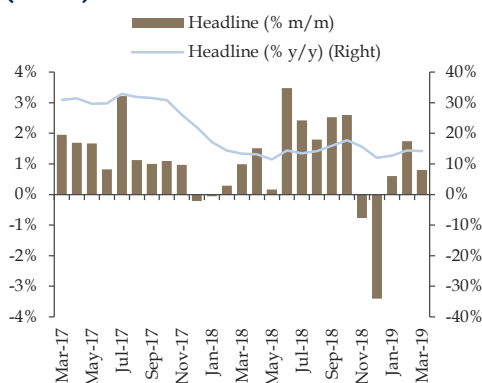
Analyst

Esraa Ahmed

Senior Economist

ealmajeed@shuaasecurities.com

Annual and monthly inflation rates (urban)

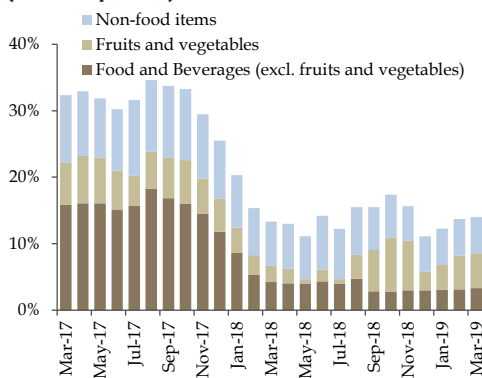


Source: CBE, CAPMAS.

Inflation data released by CAPMAS this morning showed that annual urban inflation eased slightly from 14.4% in February to 14.2% in March. Meanwhile, monthly urban inflation decelerated from 1.7% in February to 0.8% in March. Total republic's inflation showed the same pattern, with annual inflation marginally down from 13.9% y/y in February to 13.8% y/y in March and monthly inflation down from 1.8% in February to 0.9% in March. Overall, inflation figures were driven by the same factors seen in the previous month (i.e. food and beverages accompanied with the unfavorable base effect). We do not expect inflation to alter its current pattern in April and May due to seasonality. Later on, June figures will likely be fueled by subsidy elimination which we expect to take place even before mid-June.

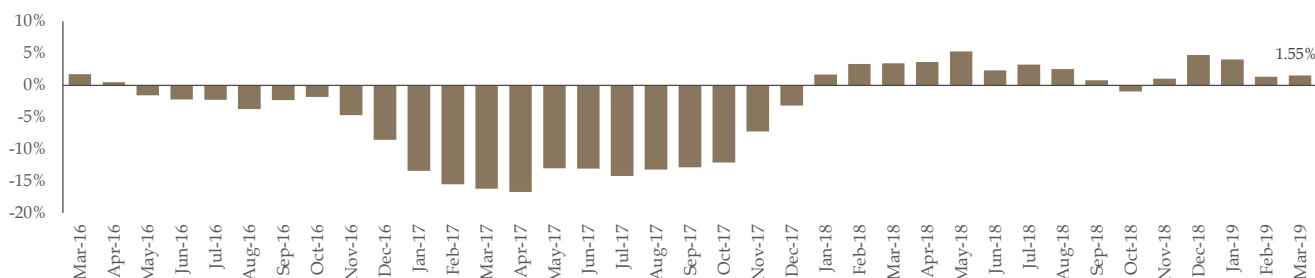
- **Just as usual, food and beverages drive the overall CPI higher:** The item recorded a y/y increase of 15.1%, mainly caused by vegetables. However, the good news here is that the monthly increase in these items decelerated remarkably – by about half – compared to February.
- **We see inflation figures not cooling down anytime soon ...:** Both the timing (Ramadan and Eid seasons) and the base effect do not suggest a reversal in the current inflation pattern.
- **... placing some pressure on the monetary path in the coming months:** We believe the inflation readings in the abovementioned seasons will most probably foreshadow freezing interest rates, assuming the current global scene remains intact. This might be the case until the latest two MPC meetings in November and December. By then, we see another potential interest rate cut, especially as the base effect in the September-November period should make annual inflation readings look relatively tamed in these months.

Contribution to annual headline inflation (total republic)



Source: CAPMAS.

Real O/N deposit slightly higher at 1.55%



Source: CBE, CAPMAS.

Contact Details

☎ +(202) 16331
📍 143, Bank Zone, 5th Settlement,
New Cairo, First Abu Dhabi Bank Building (6th Floor)
Cairo, Egypt

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