

## Still Below the Target, but Global Headwinds Cloud the Horizon

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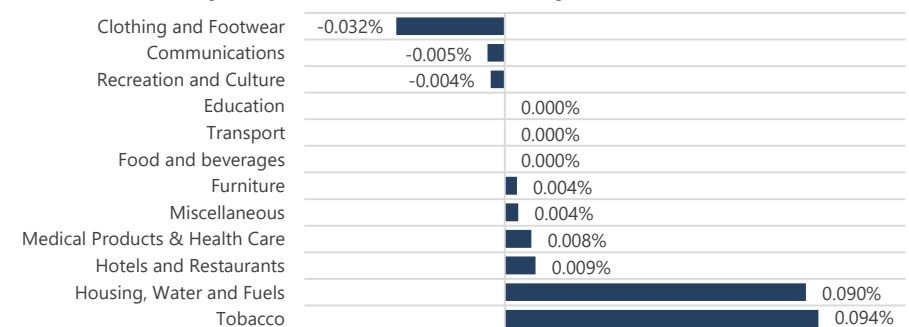
**The disinflation trend is interrupted with the annual headline figure increased slightly:** Annual urban headline inflation edged up to 4.5% in February 2021, up from 4.3% in January 2021, yet it is still below the lower band of the Central Bank of Egypt's (CBE) target range of 7% ± 2%. The increase in February was driven by non-food prices and unfavorable base-year effect. Monthly inflation also accelerated to 0.2% compared to -0.4% in January, mainly due to the significant increase in the contribution of tobacco and home utility baskets. Inflation readings are still in line with our expectations, and material demand-driven forces are still marginal despite the ongoing rebound in economic activity. However, cost-driven factors started to appear on the horizon from the recently changing dynamics in the global commodity market, especially food prices (food basket weight is 33% of the CPI index), which reminds us of the food-driven inflation wave that occurred between January 2008 and June 2009.

**Annual food prices are still falling but still flat on a monthly basis:** Food prices dropped by 0.5% y/y in February 2021, the same level of decline registered in January. Thus, the F&B basket's contribution to the headline figure remained -0.15%. However, non-food annual inflation increased to 7% in February, up from 6.7% in January, driven mainly by the rise in tobacco prices announced in February on some imported brands and the contribution of housing utility basket. On a monthly basis, food prices remained flat, posting no change compared to January, while the tobacco and the utility baskets were the driving forces.

**Aside from global headwinds, two mixed forces will affect the inflation readings in the coming couple of months:** On one hand, we have downward pressures arising from end-of-winter season, which should affect the prices of some baskets, like clothing. On other hand, we have upward pressures triggered by (1) Ramadan and Eid seasons which will affect food prices beside other baskets and (2) the beginning of the second term of the school year which will pose some pressures on the education basket. However, we still see inflation within the CBE target.

**Global commodity prices and seasonality factors will keep the CBE vigilant over the coming months:** The recent acceleration in global commodity prices, mainly oil and food prices, in addition to seasonality factors, compels us to believe that the easing cycle is getting closer to its end with further rate cut not expected before H2 2021.

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



Source: CAPMAS, Prime Research.

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