

Monday, 10 September 2018

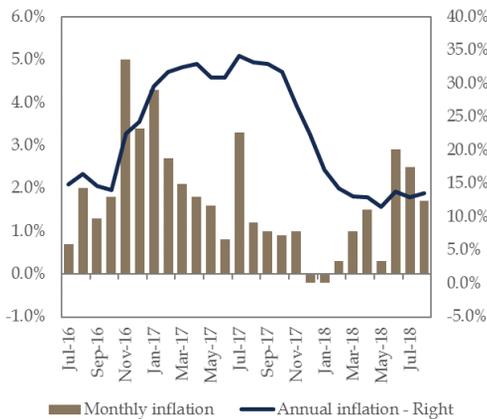
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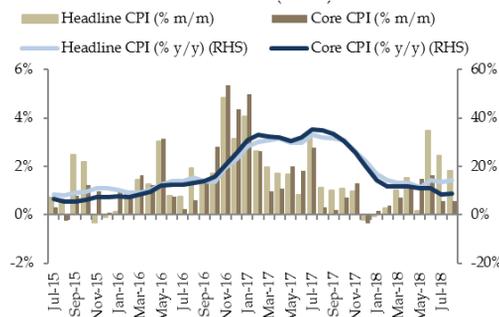
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Annual and monthly inflation rates (total republic)



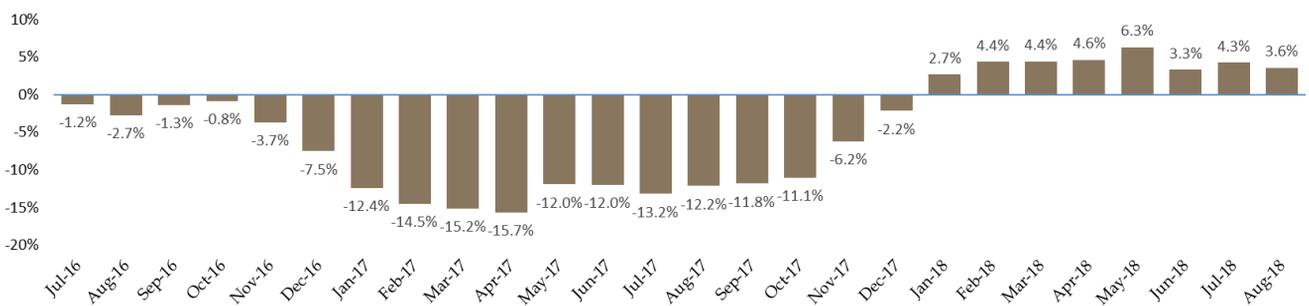
Source: CAPMAS

Annual and monthly headline inflation (urban)



Source: CBE, CAPMAS

Real interest rate has stabilized at “reasonably” positive levels



Source: CBE, CAPMAS

August inflation: Another reason to keep interest rates unchanged

August inflation data released by CAPMAS earlier today showed annual urban inflation picked up in August to 14.2% compared to 13.5% in July. Meanwhile, monthly inflation has relatively eased from 2.4% to 1.8% over the same two months. For total republic, inflation took the same pattern; annual inflation rose from 13% in July to 13.6% in August, while monthly inflation retreated from 2.5% to 1.7%, respectively. Despite easing inflation on a monthly basis, we still see the 1.8% reading high enough to add to the bunch of reasons that will make the CBE most likely hold rates unchanged in its upcoming meeting late September. This emphasizes our view of that the easing cycle will likely be suspended through end of 2018 at least.

- **Core inflation remains almost flat:** CBE data reveal that core inflation (which excludes highly volatile and administratively-set prices) picked up marginally from 8.54% in July to 8.83% in August, remaining flat m/m at the same level of 0.58% over the two months.
- **Inflation still within the CBE’s overall target range:** A 14.2% y/y inflation reading falls well within the “13% ±3%” range initially targeted by the CBE for end of 2018.
- **We believe disinflation will resume:** Given a relatively stable exchange rate and no subsidy cuts in the remaining four months of the year, we foresee the disinflation path resuming from September reading which we expect at c.13.0-13.5% y/y.
- **Another reason to hold rates unchanged on 27 September:** We note that real interest rate (interest rate less inflation rate), otherwise the real cost of borrowing, has stabilized at “reasonably” positive levels. Thus, we believe the August inflation rate will add another reason for the CBE’s Monetary Policy Committee (MPC) to hold key rates unchanged in their upcoming meeting. The other reason is the ongoing outflow of foreign investors from emerging markets along with the tightening monetary conditions globally.

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