Weekly Insights 22 Nov 2024: Kuwait's inflation dips in Oct amid a strong banking sector & hike in US Treasury holdings

Supply chain & trade disruptions. GCC US Treasury holdings. Kuwait banking sector. GCC inflation.
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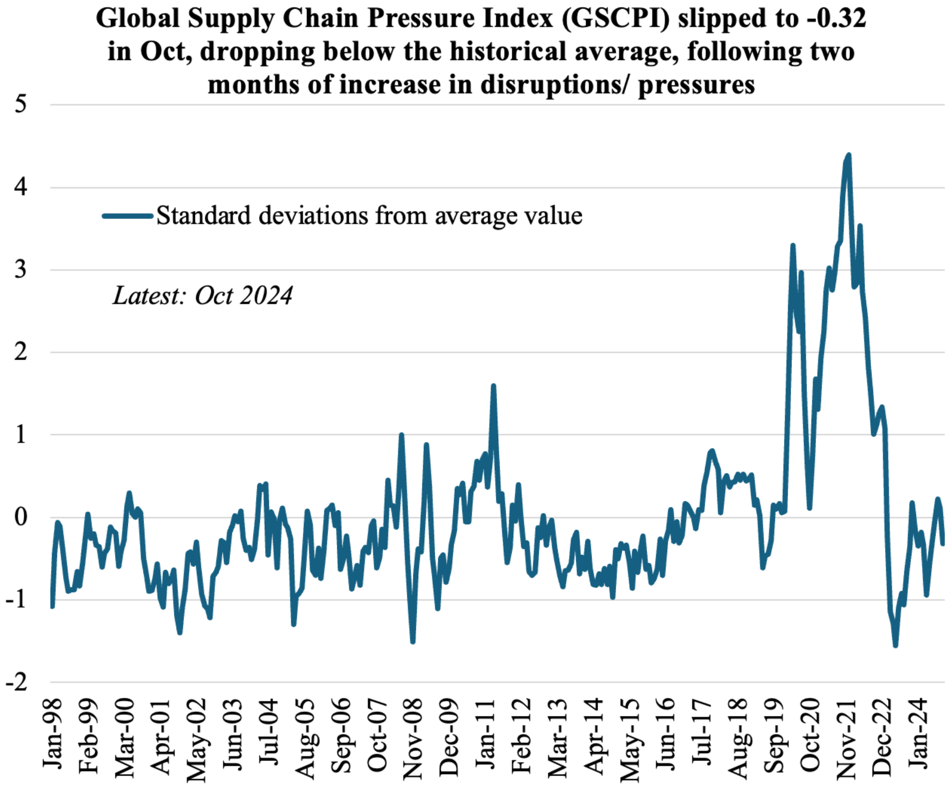
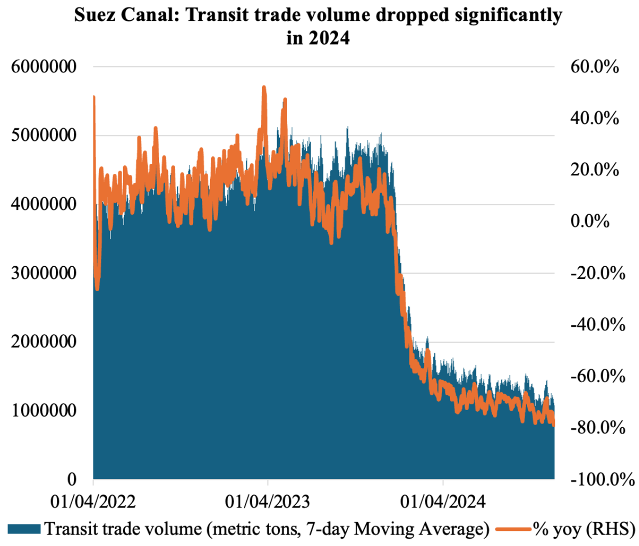
1. Trump's proposed trade tariffs could affect trade movements negatively, even as supply chain issues & trade disruptions continue

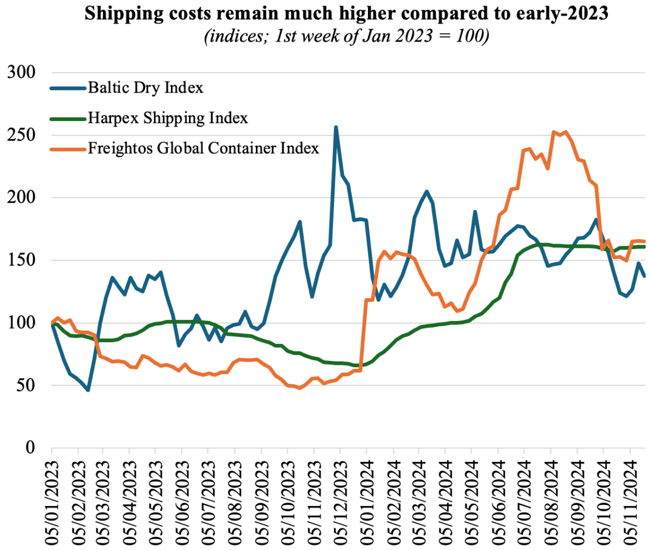
- Prolonged wars have been causing shipping disruptions, rise increase in shipping rates and supply chain pressures.



- With the **Trump Presidency threatening to increase trade tariffs**, higher inflation is a given when businesses pass on the costs to consumers. The **unknowns are** whether these policies will be adopted to the extent mentioned during the campaign trails and on how these will be implemented.
- **Supply chain disruptions increased in Aug-Sep**, as per the Fed's Global Supply Chain Pressure Index (GSCPI) **before slipping below the historical average in Oct** (-0.32 from 0.11 and 0.22 in Sep & Aug respectively); the peak was recorded at 4.33 in Dec 2021
- **Shipping containers are still being re-routed** including trade that would normally go through the Red Sea: The IMF's PortWatch platform shows that, compared to a year ago, **shipping volume** (7-day moving average) **via Suez Canal was down 78% yoy as of 19th Nov**, down by 19% from end-Q3, and down by 68% ytd. Asia-Europe route is the most affected (both time & costs).
- **Shipping costs are rising**. freight rates via major shipping routes are much higher compared to the first week of 2023, though not yet close to crisis levels. **Air**

freight rates are becoming more competitive – with air cargo seen as a back-up option.

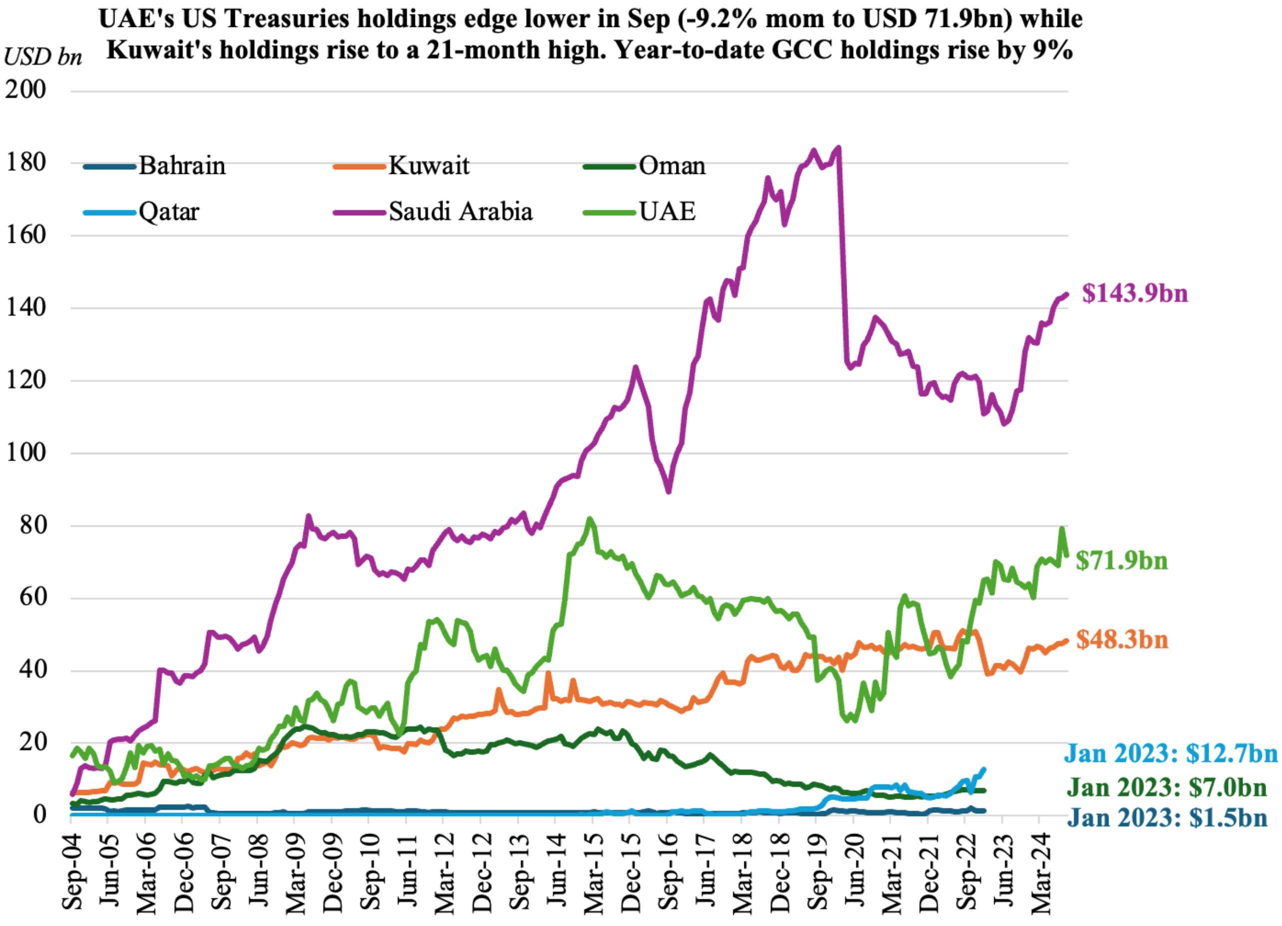




Source: FDNY, IMF PortWatch, LSEG Workspace.

2. Kuwait's holdings of US Treasuries surged to a 21-month high at end-Q3; the UAE reduced its holdings to USD 71.9bn

- **Foreign holdings of Treasuries increased** for the 5th month in a row, rising **to a record level of USD 8.673trn in Aug** (Jul: USD 8.5trn).
- **Japan and China both offloaded US Treasuries in Sep**, taking their overall holdings to USD 1.123trn and USD 772bn respectively. China also posted a 1.1% qoq drop.
- With **return on Treasuries rising to a 2.5 year high in mid-Sep**, Japanese and Chinese investors sold in Jul-Sep (a record high) USD 61.9bn and USD 51.3bn (second largest amount till date) respectively.
- From the region, **Saudi Arabia stands as the 17th largest investor in US Treasuries**, with USD 143.9bn in Aug – highest since Mar 2020. **Kuwait's holdings rose to** USD 48.3bn in Sep, **the most since end-2022. UAE holdings fell** by 9.2% mom to USD 71.9bn in Sep.
- GCC nations have been increasing US Treasuries holdings this year. **Compared to end-2023,** Kuwait increased their holdings (by 4.2%) alongside Saudi Arabia and UAE whose holdings grew by 9.0% and 12.4% respectively.

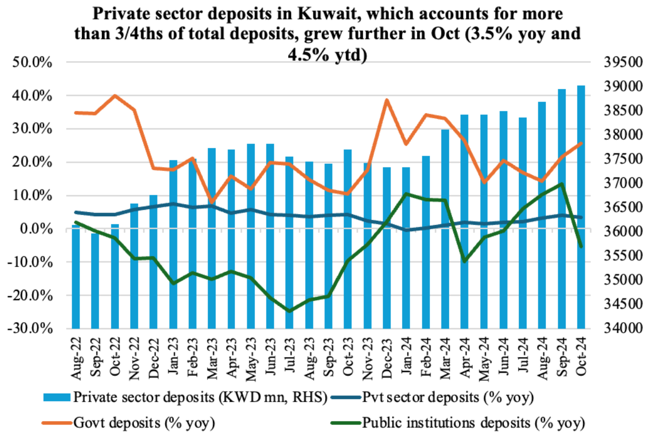


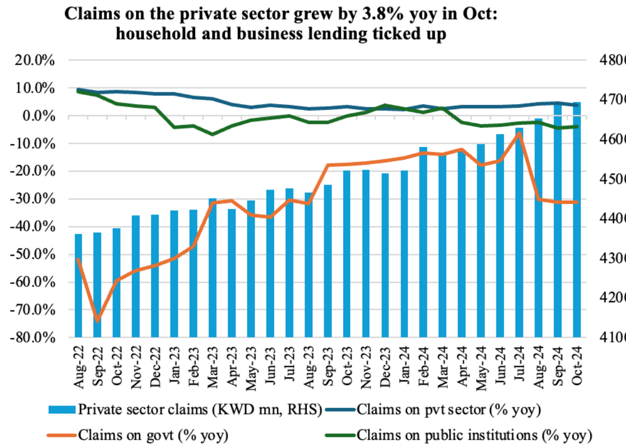
Source: US Treasury, LSEG Workspace. Chart by Nasser Saidi & Associates.

3. Kuwait's banking sector performance remains strong in 2024

- **Money supply (M2) grew by 3.2% yoy** and 0.2% mom to KWD 40.6bn **in Oct**. It has grown by 4.1% year-to-date (ytd).
- **Deposits have grown this year:** year-to-date, **private sector** deposits were up by 4.5% alongside a 10% uptick in **government** deposits; however, the volatile **public institutions** deposits plunged 14.1%. Private sector deposits accounted for more than 78% of total deposits in Oct 2024.
- **Credit growth to the private sector has been strong,** with claims growing 3.8% and by 4.0% ytd in Oct. However, claims on both government and public institutions have been declining – it fell by 32.6% and 6.7% ytd this year.
- Credit to households ticked up, up 2.4% ytd, alongside business credit gaining 3.6% ytd. By sector, real estate

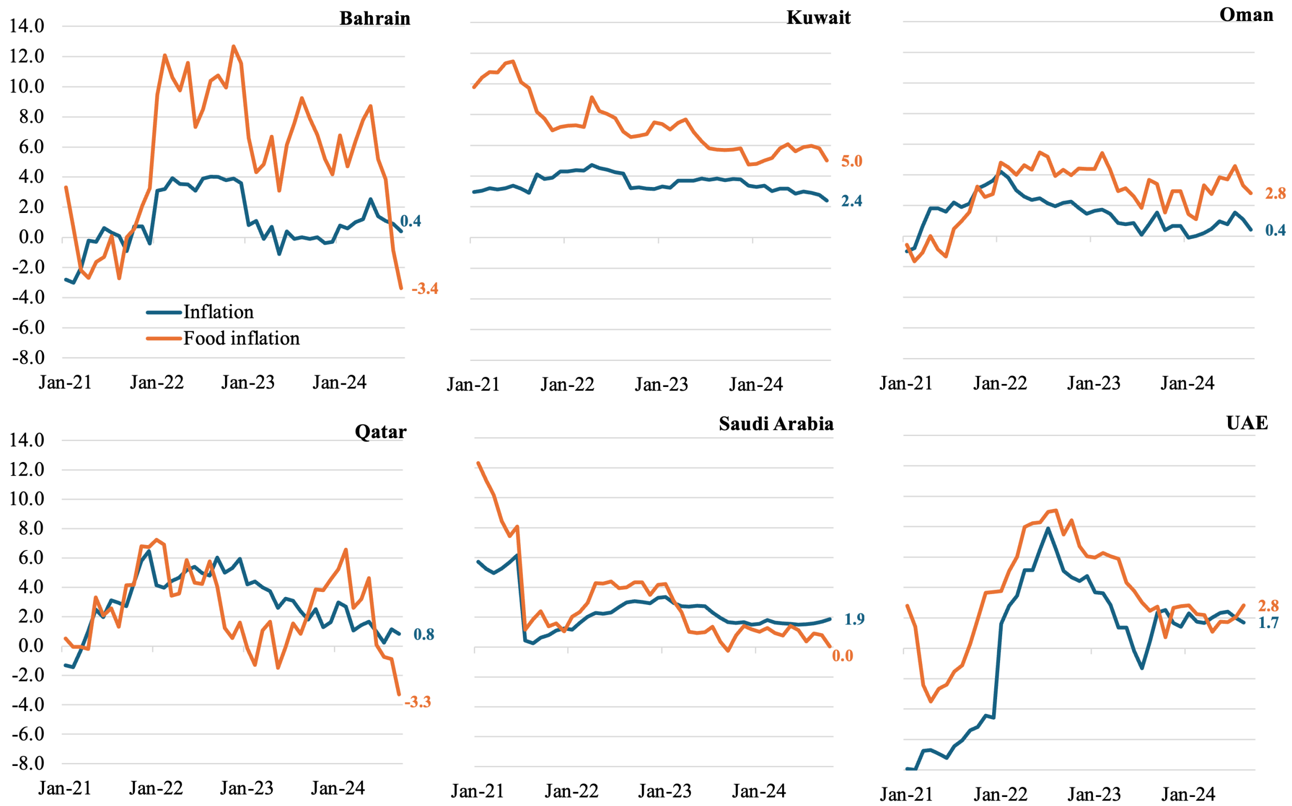
accounted for a lion’s share of credit facilities, the construction sector was one of the fastest growing, in addition to trade.





Source: Central Bank of Kuwait, LSEG Workspace. Charts created by Nasser Saidi & Associates

4. GCC headline inflation is relatively low vs MENA peers: Kuwait’s 2.4% in Oct was the highest across GCC (though the lowest since Sep 2020 in Kuwait) vs 15.7% in Lebanon & 26.5% in Egypt. Food inflation higher than headline in 3 of 6 GCC nations; Bahrain & Qatar posted a drop in Sep food prices; Dubai inflation fell to the lowest in 14 months in Oct (2.38%)



Source: LSEG Workspace. Charts by Nasser Saidi & Associates

Data as of Oct 2024 for Saudi & Kuwait; Bahrain, Oman & Qatar (Sep); UAE (Aug).

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