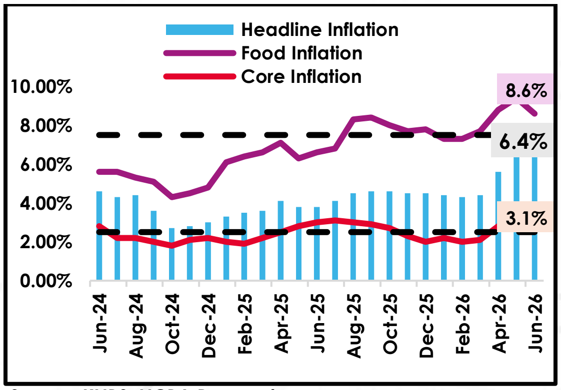
ECONOMICS AND RESEARCH INFLATION REACTION

June 2026

Headline Inflation Prints Within Our Forecast

- General prices increased much slower in June relative to May following a tamer rise in food prices, while energy and transport costs escalated marginally.
- Resultantly, annual headline inflation printed at 6.4% in June relative to 6.7% in May, while month-on-month, the consumer price index increased by 0.2%.
- Food inflation rose by 8.6% annually and 0.3% month-on-month. Specifically, the annual price increases were cabbages (+25.3%), tomatoes (+40.5%), kale (+26.6%), spinach (+19.4%), and potatoes (+23.2%). This is within our expectation that short-term crops replanted in April will get to the market around August.
- On transport, inflation expectedly rose by 16.5% and 0.3% on an annual and monthly basis, respectively. However, electricity prices declined by about 3.8% following higher hydroelectricity generation from decent rainfall in the second half of the year.
- Core inflation, which excludes the volatile components of price changes fell marginally from 3.2% to 3.1%. However, we see this as a countermovement to the sharp increase in the previous month rather than a change in underlying price pressures.
- Overall, we project a lower inflation path in the near-term. Our base case (60% probability) is that the current negotiations between Iran and the US evolve into a broader deal, while the ceasefire between Israel and Lebanon somewhat holds. Moreover, Gulf oil producers are likely to successfully switch to export a significant portion by pipelines, which would result in a Brent oil price of $70 per barrel on average.
- On the domestic front, we expect vegetable and fruit prices to decline in the near-term, upon which headline inflation would average 6.0%-6.5% in the third quarter of 2026.



Source: KNBS, NCBA Research