Daily Bulletin

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Above expectations U.S. CPI lifts December hike odds

U.S. consumer inflation was reported at 0.4% MoM for Oct-26 following a 0.6% increase in Sep-26. It exceeded the Reuters consensus estimate of a 0.3% gain and was the third consecutive month of gains of 0.4% or more. Core CPI rose 0.3% MoM (consensus 0.2%). The energy index slowed to 0.7% (vs 5.2% in Sep-26), yet recreation, medical care, motor insurance, and food all firmed.

The higher-than-expected inflation has strengthened market expectations of further monetary tightening, with investors increasingly pricing in the possibility of multiple rate hikes across the Dec-26 and 2027 policy meetings. According to the CME FedWatch Tool, markets have now fully priced in a hike at the 9 Dec-26 meeting, with the probability of rates being held steady falling to 0.0% from 17.3% a week earlier. Markets assign an 88.8% probability to a 25-bps hike (vs 82.7% a week earlier) and an 11.2% probability to a 50-bps increase, which was not priced in a week earlier.

Our base case is a 25-bps hike on the 9 Dec-26 FOMC meeting, taking the range to 4.00%-4.25%. With the Saudi Riyal pegged to USD, the Fed rate path is expected to have direct implications for Saudi Arabia. SAIBOR repricing is expected to raise financing costs for corporates, consumer finance and mortgages, and accelerate the shift towards time and savings deposits across the banking system.

Implication for Banks: Loan growth has already moderated in recent periods, reaching 7.3% YoY as of Sep-26. Further increases in borrowing costs are likely to dampen credit demand, potentially extending the slowdown in lending activity. The impact on banks is expected to depend on their asset composition and funding structures.

On the funding side, higher deposit rates are expected to accelerate the migration of demand deposits towards time and savings deposits, increasing funding costs across the sector. This trend is already evident in the latest SAMA data, with demand deposits declining to 45.7% of total deposits in Sep-26, compared to 50.4% in Sep-25, while the share of time and savings deposits increased to 46.1% from 39.3% over the same period.

Credit mix is already tilting towards corporates with corporate credit up 10.1% YoY in Sep-26 against 3.7% for retail, a skew that higher rates can likely reinforce as household borrowing becomes more expensive. We therefore see retail heavy, liability sensitive lenders as the most exposed to margin compression over 4Q26-1H27, while corporate heavy, asset sensitive banks should be relative beneficiaries.

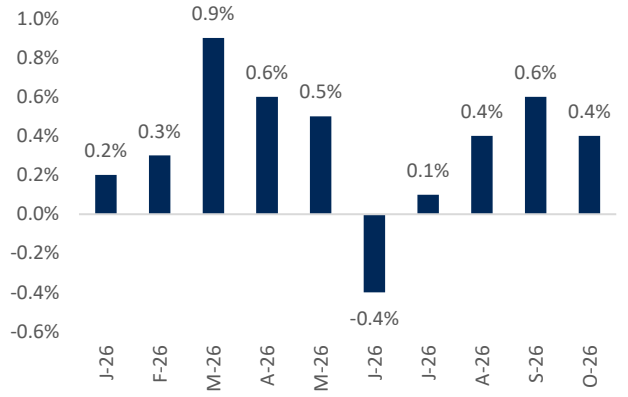
Within Real Estate, new residential mortgage originations have dropped 23.0% YoY in the first nine months of 2026, averaging around SAR 5.7 bn per month. A further leg up in SAIBOR is likely to extend this weakness. In addition, developers may also face higher costs on SAIBOR linked land and project financing.

REITs are expected to face pressure on two fronts: higher SAIBOR-linked financing costs could erode distributable income, while rising risk-free rates would make their dividend yields relatively less attractive, potentially weighing on unit prices. Leveraged utilities companies may also face higher financing costs on project-related debt.

Insurance companies are likely to emerge as relative beneficiaries, as higher interest rates allow them to reinvest their investment portfolios at higher yields, supporting investment income. However, rising interest rates also reduce the fair value of existing fixed-rate Sukuk holdings classified at FVOCI, resulting in unrealized losses that weigh on shareholders' equity, but not on the income statement.

Beyond the direct earnings effect, a higher risk-free rate lifts the cost of equity across the market, weighing more on long duration growth stocks and yield proxies compared to cash generative, low leverage names. Net cash companies also gain from higher returns on deposits and Murabaha placements.

U.S. inflation rate (MoM)



Source: U.S. Bureau of Labor Statistics, anbc research

U.S. December FOMC rate probability

	Current	9-Nov-26	4-Nov-26	9-Oct-26
3.75%-4.00% (Current)	0.0%	16.0%	17.3%	15.9%
4.00%-4.25% (+25 bps)	88.8%	84.0%	82.7%	69.8%
4.25%-4.50% (+50 bps)	11.2%	0.0%	0.0%	14.3%

Source: CME Group FedWatch, anbc research

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