

Weekly Economic Commentary – Jun 24, 2018

Markets

The US S&P 500 posted its first weekly loss in more than a month, after trade tensions between the US and China intensified, at a time when the Fed is contemplating a faster monetary tightening. Wall Street pulled down all major bourses in developed and emerging countries including our regional markets. In currency markets the dollar lost on almost all crosses, as confidence in the Greenback was hit by the Trump administration's confrontational stance. The oil price rallied after OPEC decided to increase output by 1 mn barrel (less than some investors had anticipated) in accord with non-OPEC members. Another positive element was the 5.9 mn barrel drop in the US oil inventories well above analyst predictions of 2.4 mn barrel. Gold continued its decline towards the lower bottom of the multi-month trading range.

Global Developments

US/Americas:

- **The IHS Markit US Composite PMI fell** to 56 in Jun from 56.6 in May as services slowed (56.5 vs 56.8 in May) and manufacturing dropped substantially (54.6 vs 56.4). New business retreated to a 6-month low and employment growth eased. Expectations for the next 12 months were the lowest since Jan and price pressures intensified.
- **The US current account deficit increased** by USD 8bn to USD 124.1bn in Q1, recording the largest shortfall since 2008, due to a record goods deficit. In contrast, the services surplus rose USD 341mn. As a share of GDP, the current account deficit rose to 2.5% from 2.4% in Q4.
- **US housing starts increased** 5% mom (20.3% yoy) in May.

Housing permits fell -4.6% mom (8% yoy).

- **The US Conference Board's Leading Indicators Index rose** 0.2% in May following a 0.4% in Mar and in April. The only declining sub-indices were the average workweek for production workers, unemployment claims, and building permits.
- **Existing US home sales fell** -0.4% mom (-3% yoy) in May, as a fall in single-family sales more than offset an increase in condo/co-op turnover.
- **Argentina's GDP expanded** 3.6% yoy in Q1 vs 3.9% in Q2. Private consumption and investment spending were the main drivers with exports also contributing substantially.

Europe:

- **The IHS Markit Eurozone Composite PMI climbed** to 54.8 in Jun from 54.1 in May.
- **The IHS Markit Eurozone Manufacturing PMI fell** to 55 in Jun from 55.5 in May, the lowest reading in 18 months. New factory orders rose at the weakest pace in 22 months and export growth remained close to a 18 month low. Input cost inflation was the second-highest in 7 years due to wages, oil and fuel.
- **Consumer confidence in the Eurozone declined** to -0.5 in Jun from 0.2 in May, the worst result since last Oct.
- **The IHS Markit Germany Manufacturing PMI fell** for the 6th consecutive month to 55.9 in Jun from 56.9 in May an 18-month low, due to smaller increases in new orders (a minimum since Mar 2016), and inventories. Employment was the only bright spot, while cost inflation perked up.
- **The Bank of England left the bank rate unchanged** at 0.5%, but the hawks gained a vote and in the minutes the MPC reiterated that a tightening is warranted.
- **Greece's creditors reached a deal to ease the repayment terms**, paving the way for the end of the Troika's involvement in the beleaguered country.

Asia Pacific:

- **Japan's core CPI rose 0.7% yoy** for a second month in a row in May, and down from 0.9% in Mar. Price pressures in the housing sector were modest, while utilities and medical care prices were perkier. Headline inflation was also 0.7% yoy up from 0.6% in Apr, pushed by food and transport prices.
- **The Nikkei Japan Manufacturing PMI rose** to 53.1 in Jun from 52.8 in May thanks to the output and employment sub-components. New orders suffered from a drop in export orders, while inflationary pressures intensified.
- **Japan's trade deficit jumped** to JPY 578.3bn in May from JPY 204.4bn a year earlier, due to an unexpected imports spree (14% yoy) to JPY 6,901 bn. Exports rose by 8.1% to JPY 6,323bn.
- **China's industrial production growth slowed** in May to 6.8% yoy from 7% in Apr with the best performance once again recorded in automotive and electronics, while commodities output, including crude oil and coke production, declined.

Bottom line: In the last week of spring few macro data were released and delivered no major surprises. The global economy continues to maintain a satisfactory growth trajectory, with some perturbation from emerging markets that, for the time being, appear under control. The deal on oil production strengthens the alliance between Russia and Saudi Arabia which is de facto calling the shots on the global oil market. But the shadow of a looming US-EU-China trade war could dim and derail both trade and growth prospects.

Regional Developments

- **FDI inflows to Bahrain grew** by 114% yoy in 2017, recording the fastest growth among GCC nations, while global FDI dipped 23%, according to United Nations Conference on Trade and Development (**UNCTAD**) data.

- **Bahrain's credit default swaps climbed** to 413 bps **last week**, above the previous peak of 412 recorded in Feb 2016 when oil was around USD 30. CDS spreads had picked up 82 points since mid-May.
- **Egypt increased gasoline prices** by up to 50% and cab fares by 10-20%: according to the minister of petroleum, total subsidies for fuel amounted to EGP 517bn (USD 28.97bn) over the past five years, and this move is likely to save the government around EGP 50bn. Separately, the finance minister stated that over 90% of the tough reforms required have been completed, and that subsidies will reach EGP 334bn in the 2018/2019 budget.
- **Egypt will receive the fourth USD 2bn instalment of the IMF loan in the second half of July**, reported the *Al-Masry Al-Youm* newspaper quoting the finance minister.
- **Egypt's revenue from the Suez Canal grew** by 11.5% yoy to a record high USD 5.585bn for the 2017-2018 financial year – the canal authority's announcement came prior to the end of the fiscal year in Jun.
- **Saudi Arabia agreed to supply Egyptian refineries with crude oil** – 500k to one million barrels per month – for another six months from July, according to Egypt's petroleum minister.
- **The cost of Egypt's campaign for the 2018 FIFA World Cup** amounts to USD 7mn, and is expected to promote Egypt as a global investment destination and attract tourists.
- **Saudi Arabia, UAE and Kuwait will provide an economic aid package** worth USD 2.5bn **to Jordan** over the next five years to help moderate the social impact of economic reforms.
- **Jordan's new government aims to cut public spending by JOD 150mn this year** and will also improve the quality of services, according to the new PM. He also announced a national dialogue to discuss the income tax bill, launch of an online platform for submitting suggestions and complaints, and a soon-to-be-introduced code of conduct for Cabinet members, among other initiatives.

- **MSCI** announced that **Kuwait** would be included in its 2019 Annual Market Classification Review for a **potential reclassification** from Frontier Markets to Emerging Markets status. The decision will be announced in June 2019, after consultation with market participants.
- **Inflation in Kuwait increased** by 0.36% yoy and 0.09% mom in May.
- **The Kuwait central bank maintained its discount rate unchanged** at 3%, following the Fed's 25bps hike.
- The **IMF**, in its latest **Article IV report on Lebanon**, estimated growth at 1.5% this year, before edging up to 1.8% next year. Recommendations for the nation included an increase in value-added tax rates, gradual removal of electricity subsidies and reining in of public wages. The 2018 fiscal deficit is likely to increase to 10.6% of GDP this year and will add to the already high public debt burden (150% of GDP as of end-2017). *More: <http://www.imf.org/en/News/Articles/2018/06/21/pr18250-imf-executive-board-concludes-article-iv-consultation-with-lebanon>*
- **Oman's narrow money stock (M1) increased** 3% yoy to OMR 5.3bn at end Mar. Quasi-money grew 2.6%, and broad money supply M2 (M1 plus Quasi-money) by 2.8% standing at OMR 16.4 bn. **Private deposits at commercial banks** at the end of Q1 declined by 0.77% to OMR 12.47bn.
- **Oman's trade deficit** in Jan-Feb fell to OMR 268.3mn (USD 697mn) from OMR 997.8mn a year earlier.
- **FDI in Oman rose** by 15% yoy to OMR 9.34bn in 2017.
- **Merger talks between Qatar's three banks** – Masraf Al Rayan, Barwa Bank and International Bank of Qatar – **have ended** after no agreement was reached. Talks started in Dec 2016, and were stalling on issues about valuations, and client concerns about IBQ converting to an Islamic bank.
- **MSCI reclassified Saudi Arabia to emerging market**: this could attract USD 40bn from foreign funds, according to the Saudi CMA chairman, and also boost prospects for the

upcoming Aramco IPO. Passive investors tracking the MSCI index will only get access to the Saudi market next year, although active investors can participate in IPOs now. The MSCI Saudi Arabia Index will have a weighting of approximately 2.6% in the emerging markets index, with 32 securities, following a two-step inclusion process in May and August next year.

- **Saudi Arabia's** energy minister confirmed that Tadawul would be **Aramco's** primary listing, but the secondary international listing is yet to be determined. Though he stated it would be "nice" to see Aramco floated next year, he also said that the timing was not critical to the government.
- **Saudi Arabia's trade surplus with Japan** widened by 38.3% yoy to SAR 9.23bn in May, with Saudi's exports to the country rising by 6% to SAR 911mn.
- **Millionaires in the Middle East increased** by nearly 100k to approximately 0.7mn last year, according to the World Wealth Report published by Capgemini, while wealth increased by over 4% to USD 2.5trn. The UAE attracted more than 5,000 millionaires in 2017 – mainly from India, Turkey, Saudi Arabia and Nigeria who made the emirate their second home and Dubai was among the world's top 14 cities (only one in the GCC) where more than 1,000 millionaires migrated to last year. (More: <https://www.worldwealthreport.com>)

UAE Focus

- **The multiple reforms announced in the UAE** over the past weeks will likely support growth recovery: it has relaxed visa rules for jobseekers and tourists, reduced municipality fees, and removed the mandatory AED 3,000 deposits for foreign workers paid by private firms. Last week, the Cabinet also announced that widows, divorced women and their children living in the UAE will have the option to apply for a one-year residency visa without

the need for a sponsor.

- The **UAE central bank** announced that it had set a **maximum limit on fees and commissions charged by banks** on retail consumer-related banking services such as home loans and late fees for credit cards, in a bid to be more transparent.
- **UAE's Securities & Commodities Authority (SCA)** has launched the discussions with a **domestic institution to issue and offer Sukuk** at a value of AED 10 and AED 20, reported *Al Ittihad* newspaper citing SCA's CEO. These will be listed on Nasdaq Dubai.
- **Total value of Abu Dhabi's exports** touched AED 116bn in Q1 this year: China, Saudi Arabia, Kuwait, Bahrain, and India accounted for 52.9% of the total.
- **Anecdotal evidence** from auto companies' officials point to a **20-40% increase in car sales in the UAE** during the month of Ramadan, given special promotions offered then.
- **Private schools in Dubai** earned AED 7.5bn in tuition fees in the current 2017-18 academic year, up 10.3% from the previous academic year; about 53% of students pay less than AED 20,000 in annual tuition fees, 4.5% fewer than last school year.

Media Review

The oil deal

<https://www.bloomberg.com/news/articles/2018-06-23/saudis-pledge-decisive-oil-supply-increase-to-reassure-consumers>

Why host the World Cup?

<https://www.project-syndicate.org/commentary/why-host-the-world-cup-by-andrew-zimbalist-2018-06>

The Saudi Revolution (subscription)

<https://www.economist.com/special-report/2018/06/23/radical-reforms-in-saudi-arabia-are-changing-the-gulf-and-the-arab-world>
<https://www.economist.com/leaders/2018/06/23/how-to-ensure-muhammad-bin-salmans-reforms-succeed>

