

Weekly Economic Commentary – Jul 29, 2018

Markets

The bonanza of earnings reports dominated the US equity markets after a sluggish start of the week and propelled the Nasdaq to a record close on Wed. But then the disappointing quarterly reports by Facebook and Twitter led to a retrenchment. In Europe and Japan the mood was not affected much by the US tech sector debacle and the main indices ended in positive territory. Even the Chinese bourse (lifted by the announcement of a stimulus package) and most emerging markets are getting out of the bear territory. In currency markets the main crosses, after choppy trading, ended the week with little changes. The dollar index remained close to a 12-month high hit earlier this month. The 10-year Japanese government bond yield, climbed by the most since 2016, following the BoJ report which ventilated changes in its yield target. The move spread to most global bond whose price fell on the news. The oil price after the wild oscillation of Monday, rose steadily throughout the week helped by a 6.1 mn barrels drop in US crude oil inventories, vs predictions of a 2.2 mn barrel draw. The price of gold declined again and is now hovering just above the critical psychological level of USD 1200 per ounce.

Global Developments

US/Americas:

- **US GDP** in Q2 **expanded** by 4.1% qoq ann vs 2.2% in Q1. Growth was strong across all domestic components, apart from inventories, which tumbled, while imports were a slight drag. Real disposable income growth dropped to 2.6% in Q2 after the tax-cut effects propelled it to 4.4% in Q1.

- **The US goods trade deficit** in Jun **swelled** by USD 3.6bn vs May to USD 68.3bn. Goods exports declined -1.5% mom, while imports rose 0.6%. Apart from industrial supplies, all export sectors performed badly, especially consumer goods. Imports of consumer goods offset a decline in capital goods.
- **US wholesale inventories were flat** mom in Jun following a 0.4% mom rise in May. Retailers' inventories were also unchanged vs 0.4% mom increase in May. Auto inventories fell -0.3% mon.
- **Existing home sales in the US fell** 0.6% mom to a seasonally adjusted annual rate of 5.38 mn units in Jun vs 5.41 mn in May. It was the third monthly drop caused by a shortage of properties on the market which is driving prices to record high. Rising building materials prices and shortages of land and labor are depressing building activity.
- **US initial claims for unemployment insurance rose** by 9,000 to 217,000 reversing the prior week's decline. The 4-week moving average dropped from 220,750 to 218,000. Continuing claims were 1.745 mn, 8000 less than the previous week.
- **New orders for durable manufactured goods in the US advanced** 1% mom in Jun, rebounding from two months of decline (-0.6% in May) thanks to the transportation sector, particularly defense aircraft, which gained 20.2% mom. Core capital goods orders rose 0.6%.
- **Argentina's monthly economic activity index fell** 5.8% yoy in May, after falling -0.6% in Apr.
- **Venezuela is experiencing extreme 'hyperinflation'**: IMF projects inflation rate in the country to likely top 1,000,000% in 2018. With consumer prices having risen 46,305% already this year, Venezuela seems on track to record one of the worst hyperinflationary crises in modern times.

Europe:

- **The ECB made no changes to its policy stance.** President Draghi stated that despite the trade war the region was “proceeding along a solid and broad-based growth path” and confirmed the plan to end the QE after Dec.
- **GDP growth in France was steady** in Q2 at a paltry 0.2% qoq (1.7% yoy vs 2.2% in Q1). Private consumption fell -0.1% q/q, in part as a result of strikes in public transport. Investment and government spending however were quite perky.
- **The IHS Markit’s flash composite PMI in Germany rose** to a 5-month high of 55.2 in Jul from 54.8 in Jun. The manufacturing index rose to 57.3 from 55.9 in Jun, while the services index was almost flat (54.4 vs 54.5 in Jun). The economy has not been wounded so far in the trade war.

Asia Pacific:

- **China announced a host of fiscal and financial policy measures to contain the impact from the trade wars:** it announced that a more proactive fiscal policy would be pursued, with deeper tax and non-tax fee cuts, and more companies would be considered eligible for the preferential policies. The process of issuing CNY 1.35 trillion of special bonds for local government will be stepped up for more tangible progress on ongoing infrastructure projects. Furthermore, the government plans to deliver CNY 140bn worth of loans for about 150,000 small and micro firms each year.
- **The Bank of Japan in a report stated that it is considering changes to its monetary policy stance** such as shifting its 10-year Japanese bond yield target of zero. Such change would imply a tightening.
- **The flash Markit/Nikkei Japan manufacturing PMI fell** to 51.6 sa in Jul from 53.0 in Jun. The index has been in expansionary territory for 23 consecutive month but it was the lowest since Nov 2016. New orders fell to 50.1

from 52.7 in Jun (the lowest since Sep 2016), while new export orders are still contracting as the sub-index was 49.7 but higher than 48.9 in Jun.

- **South Korea's GDP** gained 2.9% yoy (0.7% qoq) in Q2, slightly above the 2.8% (-1% qoq) in Q1.
- **The consumer confidence index in South Korea** decreased to 101 in Jul from 106 in Jun.

Bottom line: Markets are still trying to make a sense of the conflicting developments that are taking place in 2018 and the end results of their combined effect: the trade war, the normalization of monetary policy, the late cycle cost increase, the emerging markets' debt hangover. The largest asset managers are still convinced that a major correction is not in sight despite the Federal Reserve determination to mop up liquidity. Systemically important central banks highlight in their verbal intervention their confidence that the global economy can withstand the quantitative tightening. Even the ultra-dovish BoJ is signaling a timid reversal of policy.

Regional Developments

- **Inflation in Bahrain** increased to 2.8% yoy and 0.6% mom in Jun, supported by a 4.2% mom increase in price of food and non-alcoholic beverages.
- **Bahrain-origin exports** touched BHD 561bn (USD 1.47bn) in Q2 this year, with Saudi Arabia, Oman and UAE the top importing nations, and the top ten countries accounting for 82% of the exported national origin value.
- **Egypt aims to raise EGP 8-10bn** (USD 450-560mn) from floating shares in state-owned companies in this fiscal year 2018-19, according to the deputy finance minister.
- **Egypt hiked natural gas prices by up to 75%** for domestic and commercial use: effective Aug 1, the price for consuming up to 30 cubic metres of gas had been set at EGP 1.75 (USD 0.0979) per cubic metre, up from EGP 1.0. For consumption ranging between 30-60 cubic metres, the price was hiked to EGP 2.5 (from EGP 1.75) and beyond 60

to EGP 3.0 (from EGP 2.25).

- **Budget deficit in Egypt narrowed** to 9.8% in the previous fiscal year 2017-18 (which ended in Jun), from 10.9% the previous year, thanks to a 36% pickup in tax revenues. A primary fiscal surplus (EGP 4bn or USD 224mn) was reported for the first time in 15 years.
- **Foreign holdings of Egyptian treasuries dropped** to USD 17.5bn at end-Jun, from USD 23.1bn at end-Mar. Yields on Egypt's short- and long-term debt had climbed in the Apr-Jul period, as part of the global sell-off seen in emerging markets, before cooling off.
- A member of the Egyptian parliament economic committee disclosed that **Egypt has "over 4,000 unused assets"** and that the recently announced sovereign wealth fund would **create an investment tool for those assets.**
- **Egypt's manufacturing index grew** by 2.6% mom in May to 125.97 points. The index of ready-made clothing increased by the most (+30.4%), followed by index of machines and devices production. However, the index of beverage and refreshments dropped by 47.1%.
- **Egypt's interest payments increased** 38.3% yoy to EGP 438bn in the 2017-18 fiscal year.
- **Egypt plans to develop the electricity sector**, by investing EGP 370bn (USD 20.6bn) in 237 projects.
- **The US lifted restrictions on USD 195mn in military aid for Egypt.** This amount was part of the US government's fiscal year 2016 budget.
- **Egypt and US inked USD 45mn in grants** spanning the fields of agriculture, higher education, science, technology, health, and governance. This includes a USD 5mn grant for the health ministry and a USD 27mn grant for the higher education ministry.
- According to the Italian oil company Eni, the **production capacity of Egypt's Mediterranean Zohr gas field** is likely to touch 2 billion cubic feet by Sep from 1.6bn currently.
- **Jordan is the only Arab country that exports more**

pharmaceuticals than it imports: the nation consumes only 25-30% of locally manufactured medicines and exports the rest to over 60 nations.

- **Jordan has approved the United Nations' relocation of around 800 Syrians** on "purely humanitarian grounds" to the UK, Canada and Germany within a precise timeframe.
- **Remittances from expatriates in Kuwait increased** by 3.5% qoq to KWD 1.029bn in Q1 this year. Overall, remittances had declined by 9.2% in 2017.
- **Credit to the private sector in Oman grew** by 5.7% yoy to OMR 21.5bn in May, with total outstanding credit extended by other depository corporations rising 6.8% to OMR 24.1bn. The household sector (at 45.6 % of total credit to the private sector) and the non-financial corporate sector (at 46.0%) together accounted for bulk of the credit. Deposits, meanwhile, grew by 3.6% yoy to OMR 22.3 bn.
- **Real estate deals** worth OMR 79mn were completed in **Oman** during the five days Jul 15-19. This follows the nearly OMR 1.5bn worth real estate deals reported during the first half of 2018.
- The **IMF's** Executive Board concluded discussions on the **2018 Article IV consultation with Saudi Arabia:** a "broadly positive outlook", with growth predicted at 1.9% this year and non-oil sector growing at a stronger 2.3%. The country was commended for the progress in privatization plans, public-private partnerships, job creation for citizens in the private sector, and enhancing the participation of women in the labour market. More details:
<http://www.imf.org/en/News/Articles/2018/07/23/pr18304-imf-executive-board-concludes-2018-article-iv-consultation-with-saudi-arabia>
- **Tadawul approved the Ministry of Finance request to list governmental debt instruments** for total value of SAR 3.465bn. Issuing and trading of the debt instruments will begin on 30 Jul. The debt will be divided into

three issuances, worth SAR 2.1bn, SAR 962mn, and SAR 403mn.

- **Monthly salaries in Saudi Arabia's private sector declined** by 2.5% to SAR 44.34bn per month in Q1 this year, reported *Al-Eqtisadiah* business daily, as a result of a decline of about 604k employees to 9.71mn in the sector.
- **Saudi Arabia temporarily suspended oil shipments through a strategic Bab El-Mandeb Red Sea lane** following attacks on its oil tankers, pushing Brent crude futures up.
- **Riyadh was ranked 30th in the United Nations e-Government Survey** on the assessment of municipal portals in 40 cities. The list was topped by Moscow, Cape Town and Tallinn (Estonia).
- **Personal wealth in the Middle East increased** by 11% to USD 3.8trn in 2017, according to a new report by the Boston Consulting Group. Personal wealth in Bahrain has grown at 7% last year, while in Saudi Arabia it was up only 3%. However, it is expected to accelerate at a CAGR of 5% in Saudi, reaching USD 1.15trn in investable assets by 2022.

UAE Focus

- **The Abu Dhabi Department of Economic Development will implement seven of the 10 strategic initiatives** announced as part of AED 50bn stimulus package. This will include allowing non-Emiratis to establish car rental companies with Emirati partners for the first time, permitting entrepreneurs to work from home, and granting dual licenses for companies to operate in and outside free zones in addition to initiatives that will focus on simplifying the process of receiving commercial licenses.
- **UAE monetary base increased** by 1.1% mom to AED 354bn (USD 96.3bn) in Jun, given the rise in banks' required reserves (to AED 125.1bn at end-Jun from AED 124.4bn in

May).

- **UAE's Federal Tax Authority** classified three main categories of **"eligible goods" for calculating VAT on the basis of the profit margin scheme**: this includes second-hand goods, antiques (i.e. goods over 50 years old) and collectors' items (e.g. stamps, coins, pieces of historical or archaeological interest).
- Access to adequate banking services was identified by 65% of survey respondents as the number one **challenge for start-ups and emerging companies**, in a study by the Dubai Chamber. The banking sector however highlighted a lack of awareness on the basic requirements from the start-ups as a major cause for delays. Finance (61% of respondents) and lack of affordable office space (53%) were some of the other reported challenges; in addition, the difficulty of procedures due to insufficient guidance, lack of clarity, and a complex documentation and verification process were also highlighted.
- **Inflation in Abu Dhabi increased 3.6%** in H1 this year, as Jun inflation touched 3.3%. Together, the transport (which grew by 9.4%) and clothing and footwear (+14.1%) categories accounted for 56% of the overall increase in the CPI during H1.
- The **net balance measure for business lending in the UAE** – calculated as the weighted percentage of respondents reporting an increase in demand for loans minus those reporting a fall – **rose to +11.8** in Apr-Jun from +4.6 in Q1. The demand for personal loans rebounded slightly after dropping in the previous quarter.
- The **Abu Dhabi Global Market** has published a consultation paper setting out its **proposed regulatory framework for operators of Private Financing Platforms (PFPs)**. PFPs are online platforms that enable private enterprises to seek financing from private and institutional investors to launch and grow their businesses. The paper can be accessed at:
<https://www.adgm.com/media/319234/01-consultation-paper->

[no-4-of-2018_proposed-regulatory-framework-for-operators-of-private-financing-platforms.pdf](#)

- **Almost one fifth (18%) of the UAE's wealth is held by just 12 people**, while another 139 individuals account for 8% of the country's wealth, according to the Boston Consulting Group. In 2017, private wealth was driven primarily by the positive development of equities and investment funds. UAE is projected to grow at a CAGR of 8% and reach USD 590bn in investable assets by 2022.
- A **new decree** in the UAE allows **school pupils aged 15 and above to work paid part-time jobs** during holidays.
- **Dubai Airport reported an uptick in passenger traffic in June** (after two months of declines), up 11.7% yoy to 6.8mn passengers, and bringing the year-to-date number to 43.74mn (+1.6%).
- **DP World reported a 6% yoy increase in like-for-like volume growth** and 4.8% yoy rise on a reported basis to 35.6mn TEU (twenty-foot equivalent units) in H1 this year. The UAE handled 7.7mn TEU in the same period, remaining broadly flat (+0.2% yoy).
- An agreement between Saudi Arabia's biggest travel group (Al Tayyar Travel Group) and Dubai Tourism is likely to **attract more Saudi visitors to the Dubai emirate**. It was revealed that online travel platforms Almosafer and tajawal, owned by Al Tayyar, will be used to implement the new strategies.
- The **Ras al-Khaimah** Tourism Development Authority reported a **14% yoy increase in international visitors in H12018**, with international markets accounting for 66% of visitors. Russian visitors surged by 50%, Germany (the second largest source market) by 4% while growth from the GCC nudged up by 4.6% (Saudi visitors top the list).

Media Review

Trump targets Iran

<http://businessweekme.com/trump-warns-irans-rouhani-to-never-ever-threaten-the-us/>

Car makers coordinated response to the trade war

<https://www.bloomberg.com/news/articles/2018-07-28/major-car-exporters-said-to-plan-meeting-amid-u-s-tariff-threat>

Saudi Arabia pressures Aramco to take on Debt after IPO stalls

<https://www.wsj.com/articles/saudi-arabia-pressure-aramco-to-take-on-debt-after-ipo-stalls-1532642130>

China's Economic Outlook in Six Charts

<https://www.imf.org/en/News/Articles/2018/07/25/na072618-china-economic-outlook-in-six-charts>

An Arab Nato?

<https://www.thenational.ae/world/exclusive-us-plans-to-host-gcc-summit-in-october-1.754648>

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