

Weekly Economic Commentary – Aug 5, 2018

Markets

US equity markets at the beginning of the week felt the contagion of the tech stocks correction, but after a lackluster midweek waiting for the Fed decision, Friday saw a rebound despite a disappointing payroll figure, leading to the fifth straight positive week (the longest streak since last Christmas). In Europe, however, the main indices after the Fed decision took a turn for the worse and ended in negative territory. A similar dynamic took place in the Tokyo bourse, also influenced by the downturn in the Shanghai Composite (back at the minimum for the year): nervousness over a tit-for-tat trade war overwhelmed optimism about Beijing's stimulus plan. Regional markets were mixed with Qatar and Egypt scoring the best performances. US 10-year Treasury note fluctuated around 3%, pushed by strong data and a spike in the Japanese government bonds yields (which retrenched after the BoJ tempered expectations of a hawkish turn). In currency markets the yuan, despite a blip down in midweek, regained some ground on the USD, while on major crosses the dollar advanced in the wake of the Fed meeting. Oil prices steadied at a two-week low after a surprise build up in US crude inventories renewed supply concerns. Gold prices ended the week with another loss as its safe haven properties are deemed ineffective against the repercussions of a trade war.

Global Developments

US/Americas:

- **The US non-farm payroll added** only 157K jobs in Jul (vs expectations of 190K), after 248K in Jun. The average increase over the past 3 months was 224K. Sectors with

the strongest performances included professional and business services, manufacturing, health care and social assistance. Average hourly earnings rose by 7 cents to USD 27.05.

- **The US Fed unanimously ruled to keep the interest target range** at 1.75 to 2%, as expected, providing a bullish assessment of the economic outlook. The central bank expects that headline and core inflation will hover around 2% over the next 12 months. The FOMC statement is consistent with a hike in Sep.
- **The US ISM PMI fell** to 58.1 in Jul from 60.2 in Jun; the slowdown was caused by new orders, export orders and production. Demand conditions remain resilient.
- **The US ISM Non-Manufacturing PMI unexpectedly declined** to 55.7 in Jul vs 59.1 in Jun, the lowest level in a year. Firms remain upbeat about business conditions and the economy, but custom duties and deliveries are viewed negatively.
- **The US Personal consumption expenditures (PCE) price index edged up** 0.1% mom (2.1% yoy) in Jun, vs 0.2% (2.1% yoy) in May. Prices for goods declined -0.1% mom (+0.1% in May), with those of durable goods dropping -0.3% (-0.1%) and nondurables rising at 0.1% (0.2%).
- **Personal income in the US increased** 0.4% mom in Jun, unchanged from the pace in May. Wages and salaries growth accelerated (0.4% vs 0.3% in May) and disposable income rose 0.4% (the same as in May). The saving rate was unchanged at 6.8%.
- **The S&P CoreLogic Case-Shiller US national home price index rose** 6.4% yoy in May, the same pace as in Apr.
- **Pending home sales in the US shrank** by -2.5% yoy in Jun, after -2.2% in May to mark the 6th consecutive month of yoy decline, although in mom terms sales rose by 0.9% vs -0.5% in May.
- **US initial claims for unemployment benefits rose** by 1,000 to 218K. The 4-week moving average dropped by 3,500 to 214,5K.

Europe:

- **The Eurozone's GDP expanded** 0.3% qoq (2.1% yoy) in Q2, following a 0.4% (2.5% yoy) in Q1. In the 5 preceding quarters GDP grew 0.7% qoq, hence the weaker monetary stimulus and the tensions on trade policies have halved the pace of expansion.
- **Core inflation in the Eurozone** was 1.1% yoy in Jul vs 0.9% in May. It is about 2 years that core inflation fluctuates between 0.8 and 1.2% yoy.
- **The economic sentiment indicator for the Eurozone fell** for the 7th month in a row in Jul to 112.1 from 112.3 in Jun a level last seen in Aug 2017: confidence deteriorated among manufacturers (5.8 vs 6.9 in Jun), retailers (-0.1 vs 0.7) and constructors (5.4 vs 5.6). Consumer sentiment was unchanged (at -0.6).
- **The business climate indicator for the Eurozone** in Jul fell by 0.09 points from Jun to 1.29, the lowest reading since Aug, as managers' appraisals of their order books tumbled together with production expectations.
- **German industrial orders soared** by 2.6% mom in May recovering from a -1.6% drop in Apr. It was the first rise in manufacturing orders in 2018 thanks to both domestic (4.3%) and foreign orders (1.6%). New orders from the Eurozone went up 6.7%, those from the rest of the world fell by -1.3%.
- **German retail sales surged** 1.2% mom (3.0% yoy) in Jun recouping the -1.5% fall (1.2% yoy) in May.
- **German inflation crawled back** to 2% in Jul from 2.1% in Jun.
- **The Bank of England hiked its key rate** by 25 bps to 0.75% on the assessment that the Q1 dip in GDP was temporary and that the labour market is tight.
- **The UK consumer confidence index fell unexpectedly** by 1 point to -10 in Jul, as households refrained from major purchases and expectations over the next 12 months worsened.

Asia Pacific:

- **The official NBS Manufacturing PMI in China fell** to 51.2 in Jul from 51.5 in Jun on trade war uncertainty and weaker domestic demand. Both output (53 from 53.6 in Jun) and new orders (52.3 from 53.2) rose the least in 5 months. New export orders remained in the negative area at 49.8. Buying activity grew at the slowest pace since Feb (51.5 from 52.8). Hiring activity remains gloomy (49.2 from 49.0).
- **The Caixin China Manufacturing PMI reached an 8-month low** of 50.8 in Jul from 51.0 May. Both output and new business grew more slowly and new export orders fell at the sharpest pace for 25 months. Input inflation remained elevated, while output prices rose modestly.
- **The Bank of Japan left its key short-term interest rate unchanged** at -0.1% and reinforced its commitment to ultra loose monetary stance, defying speculations of a tighter regime. The central bank kept its 10-year government bond yield target at around 0% but said the yield could fluctuate depending on economic and price developments. The 10-y yield will now rise up to around 0.2%, from around 0.1%.
- **Consumer confidence in Japan in Jul was almost stable** at 43.5 vs 43.7 in Jun, but in essence confidence has gone back to the levels that prevailed in mid 2017.
- **Industrial production in Japan decreased** -1.2% yoy reverting from a 4.2% expansion in May.
- **South Korea's trade surplus decreased** to USD 7.0bn in Jul from USD 10.2bn in the same month of the preceding year, as exports rose less than imports, preliminary data showed.
- **Business confidence in South Korea plunged** to 74 in Jul from 80 in Jun matching the minima recorded in Dec 2016 and Mar 2018.
- **South Korea's inflation** stood at 1.5% yoy in Jul, the same rate as in Jun. Core inflation declined to 1.0%

from 1.2% in Jun, with fresh food only rising 0.1% after shooting up 2.0% in Jun.

- **South Korea's current account surplus rose** to USD 7.4bn in Jun from USD 6.94bn a year earlier. The goods account surplus increased to USD 10.04bn (from USD 9.42bn a year earlier).
- **The Reserve Bank of India increased its rate** by 25 bps to 6.5%, as expected, after a similar move in the previous meeting. Policymakers stressed that the decision is in line with a neutral policy stance and an inflation target of 4% with a symmetric 2% tolerance range.
- **The Nikkei India Manufacturing PMI fell** to 52.3 in Jul from a 6-month high of 53.1 in Jun. Output, new orders and employment rose at slower pace while the 12-month outlook for output crawled up.

Bottom line: In a week full of major news and events the uncertainty continues to dominate the horizon. The trade tensions are unsettling, but opinions diverge on whether they merely constitute negotiating tactics by Trump or will throw sand in the delicate mechanism of globalization. Two US top banks Citigroup and Morgan Stanley have warned that the current stock market valuations are overstretched because the risks that fuelled investors' concerns earlier in the year are still looming and a tighter monetary policy will have a dampening impact on asset prices. Moreover, Goldman Sachs highlighted in a report growing concerns from clients that the S&P 500 is pushed by a small set of stocks, warning that "Narrow bull markets eventually led to large drawdowns". On the positive side, hopes of a policy response to the slowdown in China are comforting investors, especially those exposed to Asian emerging markets where signs of a slowdown are evident.

Regional Developments

- **Bahrain's government rejected the Parliament's proposal** to provide cost of living allowances to citizens

affected by austerity measures in the past few years. The proposal – to provide BHD 150 to Bahrainis earning less than BHD 300 a month (up from BHD 100 in the old system), 100 to those earning up to BHD 700, and 75 for those earning up to BHD 1000 – has been sent back to the committee for review, as the government does not plan to raise direct cash allocations for subsidies in the next two years above BHD 382mn (USD 1.01bn) budgeted for 2018.

- **Bahrain's** sovereign wealth fund **Mumtalakat** disclosed **total consolidated assets of USD 15.4bn**, also generating USD 1.6bn in capital expenditure last year (2016: USD 657mn) while expenditure on employee salaries and benefits increased by 11%. The fund committed USD 277mn to new investments last year, and the fund has invested around USD 2.1bn in Bahrain since 2006.
- The **value of e-payments in Bahrain** increased by 74% yoy to more than BHD 50mn (USD 131.8mn) in H1 this year, thanks to a concerted effort to boost e-services.
- **Egypt plans to repay USD 6.3bn in foreign debt in H2 2018**, reported the *Al Mal* Foreign debt was at USD 82.9bn at end-Dec, as per central bank data.
- **Bilateral trade between Egypt and UK** touched USD 1.3bn in H1 this year, according to the former's Minister of Trade and Industry. He also stated that British investment in Egypt was around USD 5.6bn from almost 1,450 projects spanning industry to agriculture to IT.
- **Egypt-India bilateral trade** amounts to around USD 3bn per year, according to the Indian Ambassador to Cairo.
- The European Bank for Reconstruction and Development (**EBRD**) has injected EUR 600mn **financing into Egypt** in H1 2018, and plans to finance projects worth nearly USD 1.4bn before end of the year.
- **Fitch affirms B- rating with a Stable Outlook to Iraq**, thanks to the nation's GDP per capita, robust FX reserves, a low level of debt service obligations and international financial support.

- **Jordan reported a 35% mom increase in investors' interest in obtaining nationality or permanent residency**, with a total of 105 investors having applied to the Jordan Investment Commission. Already, six investors have obtained nationality certificates with another 15 waiting for the process to be finalised after qualifying for citizenship.
- **Tourists into Jordan's Petra increased** by 29% yoy to 42k in Jul this year, of which 62.9% were foreign tourists.
- **Kuwait has granted women their full political and constitutional rights**, making way for them to vote and also run for elections.
- **Government subsidies in Kuwait increased** by 15% mom to KWD 22mn (USD 73mn) **in May**.
- For the fiscal year ending Mar 31, 2018, **Kuwait reported a fiscal deficit of KWD 4.8bn (\$15.8)**, after transfer of 10% of total revenues to the Future Generations Fund. Revenues stood at KWD 16bn (of which oil revenue was KWD 14.3bn), and capital expenditure comprised 16.7% of the total KWD 19.2bn in expenditure.
- **Qatar foreign reserves increased** by 12.5% yoy to QAR 164.6bn (USD 45.2bn) in June, supported by a 43.8% yoy increase in bond and treasury bills, according to the central bank.
- **Qatar is set to award an estimated USD 85bn worth of planned projects in the coming years**, of which about USD 12.1bn worth projects are in the oil and gas market, reported *The Peninsula*, citing Meed.
- The **Qatar Investment Authority** will allocate USD 500mn to implement 10 projects and **support the tourism sector in Indonesia**, as outlined in a recently inked memorandum of understanding.
- The **Qatar Financial Centre** reported a 69% increase in new firms registered at the centre in H1, bringing the **total number of firms to 532**.
- **Saudi Arabia's Public Investment Fund is seeking to raise between USD 6-8bn from banks – its first**

commercial loan – to finance the nation's economic transformation plans.

- **Saudi Arabia pumped around 10.29mn barrels per day (bpd) of crude in July**, down 200k bpd from a month ago. But, it supplied a slightly higher 10.38mn bpd to the market.
- **SAMA reported a 1.2% drop in deposits** to SAR 1.614trn at the end of H1 2018, largely due to a 12.2% decline in time and saving deposits. Bank credit meanwhile edged up by 0.18% to SAR 1.414trn during this period. SAMA's total assets grew 0.72% yoy and 0.48% mom to SAR 1.94trn in Jun.
- **Saudi Arabia's imports declined** by 6.4% yoy to SAR 44.25bn in May, while in mom terms, it was up 3.7%. China was the top source of imports into the country (SAR 8.22bn), followed by US (SAR 5.56bn). The total value of oil exports grew by 27.1% yoy to SAR 331.4bn (USD 88.4bn) in Jan-May, and these exports accounted for 78% of total exports during this period.
- **Saudi Arabia-GCC bilateral trade** crossed SAR 37.8bn (USD 10.1bn) in the Jan-May period, with exports to the GCC amounting to SAR 13.8bn, and UAE the largest trade partner.
- **Saudi Arabia's Ministry of Finance has signed financing agreements for 17 health, education and hospitality projects** with loans amounting to SAR 755.8mn (USD 201.4mn). Part of the local lending program offered by the government, these projects – with a total investment of SAR1.54bn (USD 410.6mn) – aim to encourage participation from the private sector.
- **Saudi Arabia's technology start-ups** incubated by the Badir programme successfully raised around SAR 11.66mn (USD 3.11mn) in Q2 2018, up 7.66% qoq. The number of Badir incubated technical start-ups grew by 18% yoy to 228 as of end-Jun.
- **Remittances from expats in Saudi Arabia dropped** by 16.9% mom in Jun to SAR 10.6bn, bringing total remittances in H1 2018 to SAR 71.06bn (+0.1% yoy).

- **Saudi Arabia's real estate price index was down by 1.6% yoy in Q2**, thanks to a 1.2% decline in the residential sector and a 2.5% dip in the commercial sector.
- In a bid to speed up the legal process and reduce clients' time, **Saudi Arabia will open seven fully digitized labor courts in seven cities early next year.**
- **UAE accounts for 32% of startup deals and 59% of investments in the region**, according to Magnitt's H1 2018 Venture Investment report. Egypt and Saudi Arabia saw an increase of 12% and 9% in startup funding during this period. E-commerce still remains the most active industry with regards to investment in H1, accounting for 12% of all transactions and 16% of disclosed funding.

UAE Focus

- **Inflation in the UAE declined** to 3.29% in Jun, from 3.48% posted in the month before. Prices of housing and utilities declined by 3% yoy, food and transport prices were up 2.7% and 10.8% respectively, while tobacco prices soared 84.7%.
- **Aggregate capital and reserves of banks operating in the UAE increased** by 4.4% yoy to AED 330.2bn (USD 90bn) at end-Q2, and compares to the 1.5% pickup registered during the same period last year. Capital adequacy ratio was up to 3.4% in Q2 compared to a decline of 0.5% a year ago.
- **Assets of Islamic banks in the UAE grew** by 6.7% yoy to AED 565bn in H12018, according to the central bank. This accounts for 20.55% of total bank assets in the UAE.
- The Dubai Airport Freezone Authority (**Dafza**) **reduced business setup costs by up to 65%**, to increase its competitiveness and attract FDI. It reduced registration, license, and staff visa fees for new investors by 65%, 33%, and 20% while also reducing establishment card issuance fees by 17%.

- **Japan imported 16.456mn barrels of crude oil from UAE in Jun**, and accounted for 22.9% of the former's total crude imports.
- **Abu Dhabi City Municipality has agreed to deliver e-mortgage services** through the smart digital services platform with four banks (Mashreq Bank, First Bank of Abu Dhabi, Abu Dhabi Islamic Bank and Abu Dhabi Commercial Bank) and one finance company (Abu Dhabi Finance Company).
- The Dubai Knowledge Fund announced **a freeze in rental increase on assets leased to investors in the education sector** for the academic year 2018-19.
- **Cargo volume at Dubai World Central picked up** by 5.4% yoy in Q2 this year, after reporting nearly 9% growth in Q1. Passenger traffic was down 6.7% yoy to 517, 813 persons in H1, with CIS (271k) and Eastern European (98.6k) passengers topping the list.
- **Dubai attracted 8.1mn international overnight tourists in H1 this year**, edging up by 0.5% yoy, and compares to the 10.6% pickup recorded in the same period a year ago. India remained Dubai's top overseas market, with visitors up 3% to over 1mn in H1, while Chinese and Russian visitors were up 9% (to 453k) and 74% (to 405k) respectively.
- **Hotel guests in Abu Dhabi increased** by 6% yoy to 339,592 visitors in Jun, bringing the total number in H1 to 2.4mn guests (+5% yoy).

Media Review

The housing boom is over all over the world

<https://www.bloomberg.com/news/articles/2018-07-31/are-house-prices-falling-from-sydney-to-new-york>

China hits back at US negotiating tactics on trade

<https://www.bloomberg.com/news/articles/2018-07-31/u-s-said-to-plan-higher-tariff-on-200-billion-of-china-imports>

Train heists are rampant in Mexico

<https://www.bloomberg.com/news/articles/2018-07-24/train-robbe>

[rs-launch-brazen-wave-of-attacks-south-of-the-border](#)

Morgan Stanley warning on a correction

<https://www.bloomberg.com/news/articles/2018-07-30/correction-worse-than-february-is-building-morgan-stanley-says>

The US is at risk of losing a Trade War with China

<https://www.project-syndicate.org/commentary/trump-loses-trade-war-with-china-by-joseph-e-stiglitz-2018-07>

Fintechs Are Coming For Checking Accounts & Debit Cards

<https://www.cbinsights.com/research/fintech-checking-accounts-debit-card-disruption>

Saudi's Aramco plan B is too clever by half

<https://www.reuters.com/article/us-saudi-sabic-breakingviews/breakingviews-saudis-aramco-plan-b-is-too-clever-by-half-idUSKBN1KH2CD>

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