

Weekly Economic Commentary – Aug 26, 2018

Markets

Trade policy and uncertainty over the fragility of large emerging markets continued to keep uncertainty elevated on global equity markets at the beginning of the week. However, Wall Street rose after digesting the Fed's FOMC minutes and Powell's speech at Jackson Hole, which were interpreted as both bullish on the economy and dovish on monetary policy (inflation risks were downplayed). So US indices touched new record highs and marked the longest bull run in history. Other bourses both in developed and emerging economies performed well, with the MSCI rebounding strongly from a yearly low. Regional markets were mostly closed for the Eid celebrations. The US yield curve flattened again last week with the 2-10y Treasury spread below 20 bp for the first time in more than a decade. In currency markets the Fed's minutes proved to be dollar-negative, while the yen was on the back foot despite supportive macro data. The oil price rallied as the demand for oil products is perking up and crude oil inventories fell by 5.8 mn barrels against forecast of a 1.9 mn barrels draw. The gold price recovered above the USD 1200/ounce after several weeks of relentless decline.

Global Developments

US/Americas:

- The minutes from **the US Fed's FOMC meeting** essentially reiterated the plan to hike rates twice before year's end, probably in Sep and Dec. The minutes noted that many participants believe it will likely be appropriate to revise their characterization of the stance of monetary policy as accommodative.

- **The IHS Markit US Composite PMI dropped** to 55 in Aug from 55.7 in Jul, confirming a loss of momentum in both manufacturing (PMI at 9-month low of 54.5 vs 55.3 in Jul) and services (PMI at 4-month low of 55.2 vs 56 in Jul). New order growth was at a 8 months low and employment increased the least in over a year.
- **New orders for US durable manufactured goods in Jul fell** by -1.7% mom the third decline in 4 months, led by both nondefense and defense aircraft. Core capital goods orders rose 1.4% mom.
- **New-home sales in the US fell** again in Jul -1.7% mom (12.8% yoy). **Existing-home sales retreated** by -0.7% mom (1.5% yoy) due to rising mortgage rates and a shortage of condos and co-ops listings.
- **Initial claims for unemployment benefits in the US fell** by 2,000 to 210,000 and the 4-week moving average fell to 213,750. Continuing claims declined form 1.729 mn to 1.727 mn. The 4-week moving average for continuing claims slipped by 5,000 to 1.735 mn.
- **Brazil's current account surplus plunged** to USD 0.44bn in Jun from USD 1.33bn a year earlier.

Europe:

- **The IHS Markit Eurozone manufacturing PMI fell** to 54.6 in Aug from 55.1 in Jul. The reading pointed to the slowest pace since Nov 2016. Export orders rose the least in 2 years; backlogs of orders' growth was at a minimum in 3 years; job creation fell to a 17-month low; input inflation accelerated due to salaries, fuel, transport and commodity prices.
- **The IHS Markit Eurozone services PMI rose** to 54.4 in Aug from 54.2 in Jul. New order growth picked up only slightly and future expectations of business activity dropped to a 21-month low. However, **job creation** was at the highest since Oct 2007.
- **Germany's GDP growth** was confirmed at 0.5% qoq (2% yoy)

in Q2 up from 0.4% in Q1 (2.1% yoy) driven by domestic consumption (including from the public sector) which rose 0.9% qoq.

- **The Ifo Business Climate Index for Germany fell** marginally to 101.7 in Jul from 101.8 in Jun, the weakest figure since Mar 2017.
- **Greece graduated out of the rescue program** and regained access to international markets, but the public debt remains elevated at 180% of GDP and the completion of the adjustment process will likely continue for several years.

Asia Pacific:

- **Core inflation in Japan** (ex food prices), rose 0.8% yoy in Jul pushed by energy prices. Headline inflation rose to 0.9% yoy in Jul from 0.7% in June, the highest since last Mar.
- **The Nikkei Japan Manufacturing PMI** rose to 52.5 in Aug from 52.3 in Jul, confirming that the current growth cycle in manufacturing is about to celebrate its second birthday, the longest uninterrupted expansion since 2008.

Bottom line: In a week with limited macro data the focus was on the US Fed, especially now that the policy rate is nearing the estimated neutral level range. A staff presentation at the last FOMC meeting kicked off the debate on when to pause the normalization process. Inflation expectations will play a decisive role in setting the course of monetary policy in 2019. In this context Powell in Jackson Hole wowed to stick to 'gradual' hikes as the US economy is not overheating nor is inflation overshooting its target. In essence the Fed will try to avoid derailing the expansion by moving too quickly but at the same time will try to avoid complacency which would end in a "destabilising overheating". However, the elephant in the room, i.e. the reduction of the Fed's balance sheet which is proceeding at snail pace, is absurdly absent from the debate.

Regional Developments

- **GCC finance ministers reaffirmed their support for Bahrain's financing needs**, also highlighting the need for "a fiscal balance programme with targeted indicators".
- **Bahrain's interior ministry disclosed its intention to stop issuing new visas to Qatari nationals**, though students and nationals with existing visas were to be exempt.
- **Egypt hopes to attract USD 11bn in foreign direct investment in the 2018-19 fiscal year**, up from USD 7.9bn a year ago, according to the planning minister. The government also plans to create 750k jobs in the current fiscal year.
- **Egypt's PMI crossed the 50-point mark in July**, with the reading at 50.3 compared to 49.4 in Jun. This is only the third time the PMI reading has crossed the 50-mark in almost three years. The move was supported by an increase in new orders (both domestic and export) and in spite of output contracting for the third consecutive month.
- **Exports from Egypt increased by only 21.6% yoy to USD 6.75bn in Q3 of 2017-18**.
- **Foreign deposits in Egypt's banks increased by 3.2% yoy to EGP 716.9bn (USD 40bn) in Jun**, according to the central bank. Egypt's net international reserves touched USD 44.315bn by end-Jul.
- **Egypt's central bank kept its overnight interest rates steady**, citing strong GDP growth in Q2 and a decline in inflation: the overnight deposit rate and lending rates were left unchanged at 16.75% and 17.75% respectively.
- **Egypt's unemployment rate declined to 9.9% in Q2 this year**, down from 11.98% during the same period a year ago.
- **Egypt plans to export gas from the beginning of next year**, according to the petroleum minister who also

revealed that gas imports would also be halted beginning this Oct.

- **Iran has resumed exporting 200 to 250 megawatt of electricity to Iraq, Afghanistan and Pakistan**, according to the country's deputy energy minister.
- **Iraq plans to request waivers from the US for some Iran sanctions**, especially on essential items: Iranian goods imports to Iraq was about USD 6bn during Mar 2017- Mar 2018, about 15% of Iraq's total imports for 2017. Including the various energy contracts, the volume of trade is around USD 12bn.
- **Southern Iraqi oil exports seem to be on track for a record high month**, with the first 19 days of Aug averaging 3.7mn barrels per day (bpd), reported *Reuters*, up 160k bpd from Jul's 3.54mn bpd.
- **Current account surplus in Kuwait increased to its highest in three years**, posting a surplus of USD 5.88bn in Q1 2018, or 17% of quarterly GDP. An increasing trade surplus and higher oil prices offset lower investment income and higher outward remittances. Kuwait's financial account deficit eased to KWD 1.4bn (USD 4.61bn) in Q1, compared to KWD 4bn in the quarter before.
- **Around 11,851 Kuwaitis are on the waiting list for employment**, with women accounting for 77.3% of the total. Only 1985 applicants are highly qualified, according to the Civil Services Commission, and those holding an elementary level certificate constituted the lion's share (25.96%). Separately, around 3000 expats working in the government sector will be laid off this year.
- **Foreign Direct Investment (FDI) into Oman jumped 28.8% yoy to OMR 1.12bn in 2017.**
- **Private deposits at commercial banks in Oman rose 1.5% yoy to OMR 12.57bn as at the end of May.**
- **Total assets of Islamic banks in Oman amounted to OMR 3.81bn at the end of 2017, representing a 23.8% jump**

over the previous year's tally of OMR 3.08bn.

- The central banks of **Qatar and Turkey have signed a currency swap agreement** to provide liquidity and support financial stability. This follows the package of economic projects, investments and deposits for Turkey approved by Qatar earlier this month.
- **Qatar was the top-ranked Arab nation for the Global Entrepreneurship Index**, compiled for the Arab Competitiveness Report 2018, thanks to high growth and opportunity for start-ups. *More details:* <https://www.weforum.org/reports/arab-world-competitiveness-report-2018>
- *Reuters* reported that **Saudi Arabia's Public Investment Fund had raised an USD 11bn loan from banks** – its first commercial loan – to be used for “general corporate purposes”. FT had previously reported that the sovereign wealth fund was set to borrow up to USD 12bn after Aramco IPO plans were put on hold.
- Though *Reuters* reported that Saudi Arabia's **Aramco IPO** had been called off (given the evidence of the advisory team being disbanded), **Saudi Arabia's energy minister issued a statement** that the government “remains committed to the IPO of Saudi Aramco at a time of its own choosing when conditions are optimum”, also revealing that internal preparations for the listing was complete and that more reforms were being prepared – reforms to the country's tax laws, drafting of a new, long-term concession to the company – to pave the way for a listing.
- **PMI in Saudi Arabia eased** slightly to 54.9 in Jul (Jun: 55), as output and new orders expanded at a slower pace compared to the month before.
- **Saudi Arabia's trade surplus widened** by 160.7% yoy and 23.4% mom to SAR 61.34bn (USD 16.4bn) in Jun.
- **Saudi inflation is expected to rise in Q3**, according to the Saudi Arabian Monetary Authority. Inflation was up 2.3% yoy in Q2, though down 0.5% qoq.

- **Saudi Arabia** is expected to generate SAR 22.2bn (USD 6bn) **revenue from tourism** this year, revealed the Tourism Information and Research Centre (MAS), with incoming tourism generating SAR 8.7bn (+15.9%).

UAE Focus

- **UAE emirate Ras Al Khaimah's** long-term issuer default **ratings was affirmed as "A"**, with a stable outlook, by **Fitch**. The emirate's government debt excluding state-owned enterprises (SoEs) is forecast to fall to 11% of GDP by the end of 2018; including SoEs, debt is expected to touch 20% of GDP this year (from 33% in 2015).
- **UAE PMI declined** to a 3-month low of 55.8 in Jul from Jun's 57.1, with softer readings of both output and new work, though new export orders increased at the sharpest rate in three years.
- **Dubai Chamber** announced that it would **waive late membership fees** to support economic growth while reducing the cost of doing business in the emirate. The Chamber also plans to coordinate with other government entities to review its services and related fees.
- **Bilateral trade between UAE and UK fell** by 15.2% yoy to AED 24.25bn (USD 6.6bn) in H1 this year. Imports from the UK declined by 12.3% yoy to AED 16.73bn.
- **UAE is Hong Kong's 18th largest trading partner:** bilateral trade between the two nations fell to AED 17.3bn (USD 4.7bn) in H1 this year, largely due to the dip in jewelry and precious metals trade.
- **Inflation in Dubai increased** to 2.2% yoy in Jul, up from 1.32% the month before. Price of tobacco products increased by 78.5% while transport and restaurants/hotel prices were up by 17% and 11.9% respectively.
- **Bank lending growth in the UAE slowed** to 3.2% yoy in Jul, down from 3.4% growth reported a month before.
- **Ras Al Khaimah is set to be home to six new power stations by 2020**, to be built at the cost of AED 490mn.

Media Review

The oil price bright prospects

<https://seekingalpha.com/article/4201944-oil-products-continue-support-crude?ifp=0>

Gulf States want a role in Afghanistan

<https://www.economist.com/middle-east-and-africa/2018/08/18/eager-to-please-america-the-gulf-states-want-a-role-in-afghanistan>

Lebanon banks suck in dollars to maintain peg, but economy stagnates

<https://www.reuters.com/article/us-lebanon-economy/lebanon-banks-suck-in-dollars-to-maintain-peg-but-economy-stagnates-idUSKBN1L11IR>

Global risks

<https://www.bloomberg.com/news/videos/2018-08-24/ex-rbi-governor-rajan-sees-emerging-markets-as-a-global-risk-video>

Kuwait, Iraq to study developing shared oil fields

<https://www.reuters.com/article/us-kuwait-iraq-oil/kuwait-iraq-to-study-developing-shared-oilfields-rashidi-idUSKCN1L70R7>

Why there are signs of a Saudi return to tradition

<https://www.ft.com/content/5c5724d6-a16b-11e8-85da-eeb7a9ce36e4#>

Powered by:

