

Weekly Economic Commentary – Sep 23, 2018

Markets

Last week equity markets shrugged off the concerns about the trade wars, which has come to be perceived as a sort of soap opera. Wall Street saw a rebound of tech stocks and the main indices hit fresh all time intraday records pulling up most major bourses especially Tokyo which recorded a stellar performance. Even emerging markets indices gained for 4 days in a row with China's shares finally regaining ground. Regional markets however did not follow the upbeat mood, with the exception of KSA which benefited from the oil price uptrend. The Egyptian bourse has managed so far to stay under the radar throughout the emerging-market rout, but now the difficulties in financing the government debt have focused the attention on a dire situation. Interestingly, the strength in global equities induced a global selloff in bonds. In currency markets the USD retrenched to a 2-month low against the EUR and the GBP experienced its biggest one-day drop vis à vis the USD in over a year following the defiant statement by PM May on a hard Brexit. The Brent oil price touched again USD 80/b after Saudi Arabia signaled that it would be comfortable with oil prices above USD 80/b and therefore is not contemplating a supply boost. Today the UAE energy minister stated that OPEC reached a "level of comfort" on inventory levels. Gold prices had a little jolt, but it appears that USD 1200/ounce is a solid cap for now.

Global Developments

US/Americas:

- The **US current account deficit** shrunk in Q2 to USD 20.3bn from USD 101.5bn in Q1, thanks to a USD 17.6bn

plunge in the goods deficit. The services surplus rose by USD 2.5bn.

- **Trump introduced a 10% tariff** on USD 200bn worth of **Chinese imports** and threatened to raise the rate to 25% in 2019 if no satisfactory (for the US) deal is reached. China has vowed to retaliate.
- **The IHS Markit US Composite PMI dropped** to 53.4 in Sep from 54.7 in Aug, the lowest level since Apr 2017, as services activity expanded the least since Mar 2017 (52.9 vs 54.8 in Aug). Manufacturing growth picked up to a 4-month high of 55.6 vs 54.7 in Aug.
- **US residential housing starts rebounded** sharply in Aug by 9.2% mom and 9.4% yoy.
- **US existing-home sales were flat** mom (-1.5% yoy) in Aug vs -0.7% in Jul. The median price for single-family was up 4.9% yoy and the months' worth of supply remained unchanged at 4.3.
- **The US Conference Board's Leading indicators index rose** by 0.4% mom in Aug adding to the 0.7% rise in Jul and 0.5% in Jun, with all subcomponents in positive territory.
- **US initial jobless claims fell** by 3,000 to 201,000 the lowest point since Nov 15, 1969; the 4-week moving average hit a cyclical low declining by 2,250 to 205,750 and continuing claims fell by 55,000 to 1.645mn.
- **Argentina's GDP contracted** by -4.2% yoy in Q2 after expanding 3.9% in Q1, as the currency crisis was exacerbated by a severe drought. A rebound is not in sight for the next few quarters.

Europe:

- **The Eurozone IHS Markit manufacturing PMI fell** to 53.3 in Sep from 54.6 in Aug, underscoring the slowest expansion since Sep 2016. Export orders were sluggish for the first time since Jun 2013, while new orders growth decelerated and production was at its nadir since

May 2016. The work backlog dropped for the first time since Apr 2015 and job creation was the lowest in 18 months; business confidence was at a 4-year record low.

- **The Eurozone IHS Markit services PMI rose** to a 3-month high of 54.7 in Sep from 54.4 in Aug. Crucially job creation remains at a top since Oct 2007, while business optimism rebounded from Aug's 21-month bottom.
- **The IHS Markit German manufacturing PMI fell** to 53.7 in Sep from 55.9 in Aug well below expectations, marking the smallest expansion in factory activity since Aug 2016, on the back of declining work backlog and new orders.
- **Inflation in the UK unexpectedly rose** to 2.7% in Aug (a 6 month top) from 2.5% in Jul in the wake of higher recreation and culture prices. Transport services inflation also exceeded expectations, as a result of fuel price hikes. Core inflation rose to a 4-month high of 2.1% from 1.9% in Jul.
- **UK retail sales grew** by 3.3% yoy in Aug, down from a 3.8% in Jul, but still a quite sustained pace.
- **The Turkish government has announced an austerity plan** hinging on a USD 10bn public expenditure cut in a bid to address the financial and exchange rate crisis.

Asia Pacific:

- **The Bank of Japan kept its monetary policy unchanged** after tweaking some of its tools in Jul.
- **Japan's trade deficit widened**, for the second month in a row, to -JPY 190.36bn in Aug, from JPY 102bn in Jul. Exports rose only 0.4% mom and imports 1.6%, due to higher commodity prices.
- **Japan's core inflation crawled up** in Aug to 0.9% yoy from 0.8% in Jul. Fuel remains the main driver of CPI growth.
- **Japan's Nikkei Manufacturing PMI rose** to 52.9 in Sep from 52.5 in Aug. New orders and work backlogs increased

at a faster pace, while new export orders rose for the first time since May. Input prices increased further while output price inflation eased.

Bottom line: Last week there were few major data releases, so the global outlook has hardly changed. Political factors – notably tensions on trade policy and the midterm elections in the US – will continue to cast short-term uncertainty, especially in Europe where manufacturing is decelerating markedly. The fundamentals remain moderately positive, but downside risks have intensified. Emerging markets are closely watched as a possible catalyst of global financial strains.

Regional Developments

- **Bahrain exports increased** by 58% yoy to BHD 229mn (USD 605mn) in Jul, with Saudi Arabia, Oman and Egypt the nation's top partners. Imports meanwhile grew by 12% to BHD 486mn, with China, UAE and Australia topping the list of partners.
- **Foreign investments into Bahrain** touched USD 810mn this year, **rising** from USD 733mn for the full year 2017. UNCTAD data show Bahrain reporting the fastest FDI growth rate in the GCC in 2017.
- Tenders for the **construction of the USD 1bn King Hamad Causeway** – connecting Bahrain to Saudi Arabia – are likely to be issued in the coming months, as work is expected to begin in 2021 with completion expected in 3 years.
- **Revenues from Egypt's Suez Canal increased** by 6.7% yoy to USD 502.2mn in Aug, according to the cabinet.
- **Bilateral trade between Egypt and the EU** climbed to 26.2bn in 2017, while investments by the EU were nearly USD 15.1bn, according to Egypt's minister of Agriculture and land reclamation.
- **Egypt's** finance minister disclosed that plans are underway to sell around **USD 5bn in foreign currency bonds** in the coming months. Separately, a recent Moody's

report estimates that Egypt is **likely to issue Sukuk** worth USD 1bn within the next 18 months.

- **Egypt called off the auction of 3- and 7-year treasury bonds** worth EGP 3.5bn (USD 195.97mn), following two previous cancelled auctions worth EGP 3.5bn each, after bankers and investors demanded higher yields on the debt.
- **Egypt will offer additional shares in five state companies over the next three months**, including an additional 4.5% of cigarette maker Eastern Company's shares, as well as a 20% stake in Alexandria Mineral Oils Company, revealed the public enterprise minister.
- **Iraq's oil exports from the Southern region touched a record-high** average of 3.6mn barrels per day (bpd) in the first 19 days of Sep, up 20k bpd from Aug's reading of 3.58mn bpd.
- The European Bank for Reconstruction and Development (EBRD) **aims to boost investments in Arab countries** to EUR 2.5bn (USD 2.92bn) this year from EUR 2.2bn in 2017, with their areas of operation expanding to Lebanon and Palestine also this year.
- **Inflation in Kuwait was almost flat** in Aug, with the reading at 0.1% mom and 0.9% yoy. Food prices and transport costs increased by 1.4% yoy and 1.8% respectively while housing costs fell 0.9%.
- The **value of real estate trades in Kuwait** reached around KWD 857mn (USD 2.8bn) in Q2, with private housing sector up 2.4% and compared to a pickup of 3.1% in the overall real estate sector.
- **Consumer spending in Kuwait slowed** to 3.5% yoy in Aug (Jul: 6.5%), according to the NBK consumer spending index, affected by travel and holidays.
- **Passenger traffic at Lebanon's Beirut airport grew** by 9% yoy to over 1mn passengers in Aug, bringing the total number this year to more than 6mn.
- **Oman's budget deficit** for H1 shrank 42% yoy to OMR 1.41bn, while the central bank's foreign assets fell to

a 5-year low in Jul as a consequence of a wide goods and services trade deficit.

- **M1 money supply** grew 3.3% yoy to OMR 5.3bn at the end of Jun, while **quasi-money** increased 6.1%. **Broad money supply M2** (M1 plus quasi-money) grew 3% yoy to OMR 16.6bn over the same period.
- **Ten major projects** with investments worth SAR 685bn (USD 183bn) were **announced on** the occasion of the **Saudi National Day**. It was also revealed that the private sector's contribution to real GDP doubled to around USD 336mn in 2017.
- **Saudi Arabia's PIF confirmed** the closing of **an USD 11bn international syndicated loan**, stating that "this is the first step in incorporating loans and debt instruments into PIF's long-term funding strategy".
- **Saudi Arabia's** central bank governor expects the country **to post a current account surplus** of SAR 71bn (USD 19bn) in Q2 this year.
- **Saudi Arabia's trade surplus with Japan widened** by 51.8% yoy to SAR 10.65bn (USD 2.84bn) in Aug, thanks to a 43.8% pick up in Saudi exports to Japan.
- **Saudi Arabia's crude oil exports fell** to 7.12mn barrels per day (bpd) in Jul from 7.24mn bpd in the previous month.
- **About 60k expats work in Saudi Arabia's public sector**, accounting for under 5% of total government employees (1.23mn), according to a report from SAMA. Saudi women holding government jobs increased by about 0.4% yoy to reach 476k last year.
- **Saudi Arabia welcomed over 11mn tourists over the summer months**, generating revenues of SAR 13.5bn (USD 3.6bn), up 12% over the previous year; foreign tourists undertook more than 2.3mn tourist trips inside the country, up 21.2% yoy.
- **Foreign capital inflows into** the Middle East and North Africa (MENA) region are **expected to grow** by 29.5% yoy **to USD 182bn this year**, according to the **IIF**, thanks to

sovereign issuances and banking inflows.

UAE Focus

- **More reforms announced in the UAE:** a new law grants a **5-year residency for retired expats** (those with either property investment of AED 2mn+, or financial savings of AED 1mn, or with an active income of AED 20k+) with “the possibility of renewal, according to specific conditions”. Separately, announcing the **Ghadan 21** or “**Tomorrow 21**” plan, the Abu Dhabi Crown Prince revealed a **AED 50bn stimulus plan for the Abu Dhabi economy** including allowing licensed companies to trade without a physical office, the launch of a Credit Guarantee Scheme to ease access to finance for SMEs, a PPP law to be issued soon, and accelerating the process to issue building permits within 10 days among others. (More: <https://www.thenational.ae/uae/government/crown-prince-reveals-tomorrow-2021-plan-for-abu-dhabi-s-economy-including-dh20bn-for-spending-next-year-1.770790>)
- **The UAE central bank has revised down its inflation-adjusted GDP** for the country to 2.3% this year, from the previously forecast 2.7% (reported 3 months ago), with the non-oil economy rising by an estimated 3.6% while oil sector shrinks by 0.5%.
- **Non-oil foreign trade in Abu Dhabi grew** by 30% yoy to AED 80.1bn (USD 21.8bn) in H1 this year, with non-oil exports up 10.5% yoy to AED 11.08bn. Manufacturing supplies (AED 9.9bn) accounted for 89.3% of the emirate’s exports during H1, while food exports were at AED 515mn.
- **Dubai’s non-oil foreign trade** touched AED 645bn(USD 175.5bn) in H1 2018, with re-exports posting a 14% rise to AED 24bn. China accounted for 10.7% of total trade at AED 69bn, followed by India (AED 56bn) and US (AED 39bn).
- **Inflation in Dubai increased** by 0.2% mom and 2.2% yoy in

Aug, thanks to an 18.46% surge in transport prices and an increase in hotel/ restaurant costs and food prices by 11.93% and 3.3% respectively.

- **Total foreign currency assets held by the UAE central bank grew** to AED 329.5bn (USD 89.7bn) in Aug (Apr: AED 326.4bn). Deposits with foreign banks strengthened to AED 260.8bn versus AED 255bn in Apr.
- Abu Dhabi Global Market (**ADGM**) announced the **launch of a digital sandbox**, which facilitates open collaboration between financial institutions, Fintech firms, and regulators to test and adopt innovative digital financial products and services.
- The Dubai Financial Market (**DFM**) officially **published the rules on listing and trading of investment funds and real estate investment trusts (REITs)**. The COO of DFM disclosed that a potential REIT issuer is already in advanced stages of talks for SCA's approval.
- **Expat remittances from the UAE grew** by 13.1% yoy to AED 88bn (USD 24bn) in H1 2018, with remittances growing 8.8% to AED 44.4bn in Q2, according to central bank data. Remittances to India accounted for the bulk share (AED 17.32bn, or 39% of total remittances in Q2), followed by Pakistan (AED 3.55bn, 8.5%) and Philippines (AED 3.15bn or 7.1%).
- An agreement between the Dubai Department of Economic Development (DED) and the Dubai Free Zones Council is expected to benefit nearly 35k free zone companies in Dubai: **nearly 163 free zone companies have been issued DED permits to operate in mainland Dubai**. Free zone companies in the services sector (the service must not be subject to any other regulator) can apply for a DED permit by producing a no-objection certificate from their respective free zone authority.
- **Chinese buyers purchased properties** worth at least AED 2.64bn (USD 720mn) last year **in the UAE**, according to the 2018 Chinese Global Property Investment Report. This is part of global investment in overseas property by the

Chinese worth USD 119.7bn (+18.1% yoy).

- Dubai port operator **DP World** is set to issue more than USD 3.3bn in bonds across different currencies and formats, including a USD 1bn 10-year sukuk, reported *Reuters*.
- **Emirates and Etihad** denied a *Bloomberg* report of a potential merger.

Media Review

Roubini on the financial crisis of 2020

<https://www.project-syndicate.org/commentary/financial-crisis-in-2020-worse-than-2008-by-nouriel-roubini-and-brunello-rosa-2018-09>

The BIS reflects on the Lehman collapse

<https://www.bis.org/speeches/sp180917.htm>

Tyler Cowen on why the trade war is worse than it appears

<https://www.bloomberg.com/view/articles/2018-09-18/trump-s-trade-war-enters-a-dangerous-new-phase>

Robots will not steal our work after all

<https://www.washingtonpost.com/technology/2018/09/18/machines-will-create-million-more-jobs-than-they-displace-by-world-economic-forum-says/>

FDI wave in Saudi Arabia forecast

http://www.tradearabia.com/news/BANK_345355.html

Saudi Arabia's sovereign wealth fund set for busiest year yet

<https://www.independent.co.uk/news/business/analysis-and-features/saudi-arabia-sovereign-wealth-fund-investment-spending-spree-lucid-a8544436.html>

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