

Weekly Economic Commentary – Dec 2, 2018

Markets

The return to Wall Street's trading floors after the Thanksgiving long weekend was quite auspicious. On Mon investors shrugged off another round of aggressive Trump's rhetoric against China. Then, on Wed, Fed Chairman Powell allayed fears of aggressive future interest-rate hike, fuelling a rally which eclipsed most losses in Nov, thanks to the biggest one-day percentage gain in the Dow Jones since last Mar. Investors' optimism intensified on the eve of the G20 meeting on expectations of a truce over the trade disputes between the US and China. At Fri's close US stocks displayed their best weekly performance in almost 7 years. Wall Street pulled up most bourses, particularly in Japan and emerging markets, while in Europe the Brexit saga and weak macro data prevented a strong rally. Regional equity markets were mostly on the front foot with the exception of the UAE as oil prices stabilized. In currency markets the dollar suffered a mid-week slide, but then by Friday pared most of the losses and ended the week with a gain on major crosses. Despite US crude inventories increasing by 3.6mn barrels (adding to 4.8mn the previous week) against market expectations of a 0.769mn rise, oil prices were slightly higher. Nevertheless, after the 10th consecutive week of larger than expected reserves rise, Nov saw the largest monthly oil price plunge since 2015. Gold prices, as it has been the case for several weeks now, were little changed.

Global Developments

US/Americas:

- **Trump agreed to hold off duties on China's imports** planned to start in Jan to give more time for negotiations.

- **The minutes of the Nov meeting of the US Fed FOMC** did not reserve any surprises: a rate hike is coming this month and further hikes will be data dependent.
- **US Fed's President Powell**, in a speech in New York, **stated that interest rates "are still low by historical standards**, and they remain just below the broad range of estimates of the level that would be neutral for the economy", which was interpreted as a dovish signal.
- **US, Canada and Mexico signed the agreement to replace NAFTA** during the G20 summit in Argentina, ending months of tense confrontation.
- **US real GDP expanded** by 3.5% qoq ann in Q3 according to the second estimate (unchanged from the first) versus 4.2% in Q2. Upward revisions to nonresidential fixed investment and inventories were offset by downward changes to consumption expenditures and public outlays.
- **US personal consumption expenditure (PCE) inflation increased** 0.1% mom (2.0% yoy) in Sep 2018, the same pace as in the previous three months (2.0% yoy in Aug). Core PCE, which is closely scrutinized by the Fed, crawled up 0.2% (1.8% yoy), after being flat in Aug (1.9%).
- **US personal income increased** by 0.2% mom in Sep vs 0.4% in Aug, the weakest pace since Jun 2017, as upticks in wages and salaries, government social benefits to individuals, and rental incomes were partially offset by a decline in proprietors' income.
- The **US S&P CoreLogic Case-Shiller 20-city home price index increased** by 5.1% yoy in Sep vs 5.5% in Aug. The national index, rose 5.5% in Sep, down from 5.7% in Aug.
- **Sales of new single-family houses in the US tumbled** -8.9% mom to a seasonally adjusted annual rate of 544,000 in Oct after growing 1% in Sep.
- **Wholesale inventories in the US advanced** 0.7% mom (6.6% yoy) in Oct, almost on par with 0.6% rise in Sep. Stocks of durable goods surged 1.7% vs 1.2% in Sep, while those of non-durables declined -0.9%, after a -0.4% drop in Sep.

- **The US Conference Board Consumer confidence index fell** 2.2 pts in Nov to 135.7 due to worsening overall consumer expectations.
- **The US goods trade deficit widened** slightly to USD 77.2bn in Oct from USD 76.3bn in Sep to mark the 6th monthly increase in the deficit. Exports slid -0.6% mom, while imports advanced 0.1%.
- **The US initial claims for unemployment insurance rose** by 10,000 to 234,000, probably distorted by the Thanksgiving holiday. The 4-week moving average increased by 4,750 to 223,250 and continuing claims also increased from 1.66 mn to 1.71 mn.

Europe:

- **The Eurozone's inflation retreated** to 2.0% yoy in Nov from a 6-year high of 2.2% in Oct. Core inflation remained constant at 1.1% yoy.
- **The Eurozone's business climate indicator rebounded** to 1.09 in Nov from a 17-month low of 1.01 in Oct. Managers' assessment of past production improved markedly, as did, to a lesser extent, their production expectations and their appraisal of their overall orders. By contrast, stocks of finished products and export orders books came up on the weak side.
- **The Eurozone's economic sentiment indicator dropped** for the 11th consecutive month to 109.5 in Nov from 109.7 in Oct. Consumer expectations sunk (-3.9 vs -2.7 in Oct). Manufacturers' and retailers' confidence improved (3.4 vs 3.0 and -0.6 vs -0.8, respectively).
- **Germany's inflation rate increased** to 2.5% yoy in Oct from 2.3% in Sep, the highest rate since Sep 2008.
- **The German Ifo Business Climate Index fell** to a 4-month low of 102.0 in Nov from 102.9 in Oct. The current conditions index declined to 105.4 from 106.1 in Oct and business expectations to 98.7 from 99.7.
- **German retail sales dropped** unexpectedly by -0.3% mom in

Oct, the same as in Sep. It was the fourth straight month of decline, however in yoy terms, retail sales surged 5%, offsetting a -2.8% slump in Oct.

Asia Pacific:

- **China's official NBS manufacturing PMI unexpectedly fell** touching 50.0 in Nov from 50.2 in Oct. It was the **lowest reading since July**, as output rose the least in 9 months (51.9 vs 52.0 in Oct), new order growth decelerated further (50.4 vs 50.8), and new export orders shrank for the 6th month (47.0 vs 46.9).
- The **Nikkei Japan manufacturing PMI dropped** to a 2-year low of 51.8 in Nov from a 6-month top of 52.9 in Oct. Output, new export orders and buying activity rose modestly, while new orders contracted for the 1st time since Sep 2016. Employment growth accelerated despite a shrinking backlogs of work.
- **Industrial production in Japan rebounded** by 2.9% mom sa (4.2% yoy) in Oct offsetting the -0.4% mom drop in Sep (2.5% yoy) caused by the floods and the earthquake.
- **Retail sales in Japan** rose 3.5% yoy in Oct, well above the 2.2% in Sep, the fastest expansion in 10 months.
- **The Japanese Consumer Confidence Index inched down** to 42.9 in Nov from 43.0 in Oct, the lowest reading since Dec 2016 due to negative households' assessment on overall livelihood (down 0.6 points to 40.8) and employment (down 0.2 points to 46.6).
- **Indian GDP expanded** 7.1% yoy in Q3, below 8.2% in Q2. It is the lowest growth rate this year resulting from a slowdown in consumer spending. Also, inventories, financial services, manufacturing and the agriculture sector had a lackluster performance.
- **The Bank of Korea hiked its base rate** by 25bps to 1.75%, as widely expected, the 1st tightening since Nov 2017.
- **South Korea's trade surplus declined** sharply to USD 5.14bn in Nov from USD 7.69bn a year earlier, as imports

rose more than exports.

- **Consumer confidence in South Korea** fell slightly to 96 pts in Nov from 99.5 in Oct. **Business Confidence** increased to 73 pts in Nov from 71 in Oct.

Bottom line: The macroeconomic picture remains mixed, with data mostly pointing towards a deceleration of global growth. In addition, several black swans could materialize over the next few months. For example, the Bank of England warned of shock in case of a disorderly Brexit with GDP dropping up to 10.5% over 5 years in the worst case scenario. Furthermore, the EU has decided to act decisively against the Italian government budget proposal paving the way to a series of sanctions, from a fine to a freeze in structural funds. Also the new tensions between Russia and Ukraine could disrupt an uneasy truce on the Donbass front and warrant new sanctions against Russia.

Regional Developments

- **Bahrain's central bank** is planning to develop implementation **guidelines for some compliance functions for Islamic banks**. Governance rules are already tight for the Islamic banks: need to undergo independent external audits, and there is a more stringent framework for the banks' Sharia boards.
- **Bahrain and Saudi Arabia** further developed their **energy cooperation** with the opening of the new **350k barrels per day (bpd) pipeline** which replaces the existing 230k bpd link.
- **Money supply (M2) in Egypt** grew by 15.4% yoy to EGP 3.56trn (USD 198.33bn) in Oct, up from 16.3% the month before.
- Starting Dec 4, **Egypt's central bank** is ending the use of a mechanism guaranteeing that foreign investors wanting to sell out of Egyptian securities could pull out their money in dollars. Put in place in Mar 2013, this mechanism "was heavily utilised by foreign investors at the initiation of the liberalisation in

order to guarantee liquidity”, according to the central bank.

- Though **Egypt’s** central bank is not able to support the currency directly anymore, **state banks are stepping in to keep the pound steady**, reported *Reuters*. Two of the biggest state-owned commercial banks are stepping into the interbank market towards the end of the day to fill outstanding requests for dollars to maintain the pound steady in a narrow band of 17.78-17.98 to the dollar.
- **Bilateral non-oil trade between Egypt and Saudi Arabia grew** to SAR 9.32bn (USD 2.48bn) in Jan-Sep this year. In Sep alone, Egypt was ranked the fifth largest destination for the Saudi non-oil merchandise exports (USD 176.3mn).
- **Egypt and Saudi Arabia** are in the process of completing the **electricity interconnection project** procedures by Mar 2019 to exchange about 3k MW.
- **Revenues from Egypt’s Suez Canal increased** by 7.8% mom to USD 506.1mn in Oct – the highest level this year.
- **Iraq’s crude oil exports from its southern ports** stood at around 3.3mn barrels per day (bpd) towards end-Nov versus 3.47mn bpd in Oct, reported *Reuters*, citing oil executives. Separately, the oil ministry disclosed that oil exports averaged 3.48mn bpd in Oct, lower than the Sep average of 3.56mn bpd.
- The **Iraqi parliament will vote this week to approve eight candidates for the PM’s cabinet**, including the defence and interior ministers; only 14 of the 22 ministers are confirmed so far.
- **Jordan’s cabinet approved a JOD 9.25bn (USD 13bn) budget for 2019**. The budget expects revenues to touch JOD 8.6bn, foreign aid to be around JOD 600mn and estimates deficit at 2% of GDP. This will be sent to the parliament for approval.
- **Jordan’s Senate passed the revised income tax bill**: the bill exempts households earning less than JOD 20k (USD 28,189) per year in 2019 though the threshold will be

lowered to JOD 18k in 2020.

- **Jordan's energy minister revealed that gas from Egypt is expected to reach the country by Jan**, after experimental pumping started in Sep; talks are still ongoing about the pricing of the Egyptian gas.
- **Kuwait's exports grew** by 36.9% yoy to KWD 157.3mn in Jan-Oct this year. Arab markets accounted for 75.6% of Kuwait's total exports (KWD 119.57mn).
- **Kuwait's central bank has launched a "sandbox"** to support companies that want to test new Fintech products and services. Representatives from local banks will join a central bank taskforce to assess the products and services being proposed.
- **Expat remittances from Kuwait increased** by 7.2% yoy to USD 7.31bn in H1 this year.
- **Lebanon's finance minister revealed that the country has exceeded its budget for 2018**, and that the government and central bank are taking steps to ensure the state can continue to fund itself.
- **Oman's budget deficit narrowed** by 36.1% to OMR 1.9bn in the period Jan-Sep compared to OMR 3bn over the same period in 2017 thanks to higher oil revenues.
- In preparation for the World cup 2022, **Qatar imported** QAR 37.82bn (USD 10.48bn) **transportation equipment** during Jan- Sep 2018 (+20.25% yoy). Imports of transportation and machineries represented 43.7% of the country's total imports during this period.
- **Saudi Arabia's general reserves fell** 7% yoy to SAR 572.55bn in Oct while current account posted a 38.85% increase to SAR 59.4bn.
- **Inflation in Saudi Arabia picked up** by 2.4% in Oct, from Sep's 2.1%, thanks to a 7.3% hike in food and beverage prices. Housing and utility costs meanwhile dropped 3.6% yoy.
- **Saudi Arabia's oil exports grew** by 40.9% yoy to SAR 642.22bn in Jan-Sep 2018; crude oil exports accounted for nearly 79% of total exports during this period.

- **Saudi Aramco needs USD 150bn worth of gas investments over the next decade**, for its aim of boosting gas production to 23bn standard cubic feet (scf) a day from 14bn scf currently, according to its CEO.
- **The cost of construction in Saudi Arabia is forecast to increase at a marginally lower rate** in the next 12 months, according to Colliers International. The firm expects average construction cost inflation to be 1.8% for the 12 months from Nov 2018, versus 1.9% registered during Q3 2017-Q3 2018.
- **Saudi Arabia will lend USD 500mn to Tunisia** at a favourable interest rate and the Saudi Development Fund will finance two projects worth USD 140mn, reported *Reuters*. Tunisian sources revealed this following the Saudi crown prince's visit to the country last week.
- **Three IPOs raised USD 484mn in Q3 this year, with issuances from Kuwait, Oman and Saudi Arabia**, according to the PwC GCC Capital Markets Watch Q3 2018. This compares to IPO activity confined to only Saudi Arabia in the previous 2 quarters.

UAE Focus

- **UAE has launched six initiatives to promote trade and shape the future of the economy**, according to the minister of economy. This focuses on regulating e-commerce, promoting the economy, supporting and regulating public-private partnerships, as well as achieving growth in non-oil commodity exports.
- **Inflation in UAE declined** to 1.6% in Oct from 3.1% in Sep, given a sharp dip of 5.2% in housing costs. Food and beverage prices increased by 2.1% while transport costs were up 9.3%.
- **Money supply (M2) growth in the UAE** was 1.7% in end-Oct (end-Sep: 2.7%); bank deposits shrank by 0.4% mom to AED 1.721trn in Oct while lending accelerated by 3.9% yoy (3.7%).

- **UAE banks have increased investments in government bonds** by 0.58% yoy to AED 206.22bn (USD 56.22bn) during Jan-Oct 2018, according to the UAE central bank.
- The **UAE's Securities and Commodities Authority (SCA)**, and the **Dubai Financial Services Authority (DFSA)** and **ADGM Financial Services Regulatory Authority (FSRA)** **will allow funds passporting** to foster the development of the domestic investment funds market. Currently, a fund licensed in one area faces restrictions on how it can be marketed and sold in the other two areas, slowing sales and raising costs.
- The **Abu Dhabi Executive Council** approved a resolution to **exempt all new economic licenses issued in the Emirate from all local fees for two years**. This covers all commercial activities in Abu Dhabi and the Emirate's free zones.
- **Abu Dhabi set up a new water and electricity company:** the Emirates Water and Electricity Company as a public shareholding company will replace the Abu Dhabi Water and Electricity Company.
- **UAE fuel prices have been reduced for Dec:** petrol prices are down by 12.5-13.9% mom while diesel price declined by 9% mom to AED 2.61.
- **Indians remitted AED 34.83bn from the UAE during H1 this year**, accounting for around 39.6% of total remittances from the country. They were followed by Pakistanis (AED 7.48bn, 8.5%) and Filipinos (AED 6.25bn, 7.1%) and Egyptians (AED 4.75bn, 5.4%).
- The **UAE** will initiate a new system next year to **digitally track all cigarette products** to guarantee compliance with excise tax requirements.

Media Review

A Bloomberg podcast with an interview by EIA's Birol on oil prices

<http://feeds.bloomberg.fm/BLM9950097925>

The oil price drop is caused by the global slowdown

<https://seekingalpha.com/article/4224266-think-passed-peak-oil-prices?ifp=0>

The probability of a recession are on the rise

<https://www.marketwatch.com/story/how-the-stock-markets-red-october-raises-recession-odds-2018-11-27>

Brexit, Borders, and the Bank of England (Wonkish)

<https://www.nytimes.com/2018/11/30/opinion/brexit-borders-and-the-bank-of-england-wonkish.html>

Oman's energy mix

<https://oxfordbusinessgroup.com/news/new-renewables-projects-diversify-oman%E2%80%99s-energy-mix>

New oil find studies encouraging: Bahrain minister

http://www.tradearabia.com/news/OGN_348177.html

Saudi contractor said to default on almost USD 2bn

<https://www.arabianbusiness.com/construction/409004-saudi-contractor-said-to-default-on-almost-2bn>

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