

Weekly Economic Commentary – Dec 16, 2018

Markets

The week for global equity markets started with a relief rally spurred by hopes of a truce in the trade war, but then by the end of the week the broadly negative data from China poured iced water on optimism and the main indices both in developed and emerging markets closed the week almost unchanged. The VIX remains well above 20 underlying the heightened volatility. In currency markets Draghi's dovish remarks in the post ECB Governing Council press conference hit the euro, which fell below 1.13 to the dollar before recovering a little. The price of Brent oil was little changed: after rising in midweek, it retreated due to US crude inventories falling by only -1.2 mn barrels vs predictions of -3.2 mn and worries over China's weakness. Despite the nervousness among investors gold prices dropped.

Global Developments

US/Americas:

- **The US CPI was unchanged** (2.2% yoy) in Nov thanks to falling energy prices (2.2% mom). Food prices increased 0.2% in Nov after being almost flat in the prior 2 months. Core inflation, ex food and energy, was 0.2% mom and 2.2% yoy.
- **US Industrial production grew** by 0.6% in Nov, a 5th gain in 6 months. All sectors performed well with utilities recording a stellar 3.3% mom.
- **Retail sales in the US advanced** 0.2% mom in Nov, thanks to nonauto retail sales (0.2% mom), while fuel prices were a drag as nominal spending plunged -2.3% mom.
- After weeks of increases, **initial claims for unemployment insurance benefits in the US** plunged by 27,000 to 206,000. Continuing claims increased by 25,000

to 1.661mn, but the 4-week moving average fell by 2,500 to 1.665mn, confirming that the labor market remains quite perky.

- **Inflation in the Buenos Aires metro area increased 2.9%** mom in Nov, after 5.1% in Oct. Annual inflation reached 48.5%, a record since mid-2016.

Europe:

- **The ECB confirmed the end of its QE program this month** and Draghi in the press conference warned that downside risks are growing. Hence the reduction of the ECB balance sheet will not start anytime soon.
- **Eurozone's industrial production expanded** by 0.2% mom (1.2% yoy) in Oct after declining -0.6% (0.8% yoy) in Sep. Growth was recorded in most sectors (except energy due to a mild Autumn), especially in capital goods (1% mom) which is a strong leading indicator.
- **Germany's inflation retreated** in Nov to 2.3% yoy from 2.5% in Oct as a result of lower food and services inflation, while energy prices are still on the rise.
- **The unemployment rate in the UK remained steady** at 4.1% in the 3 months to Oct.
- **The Central Bank of Russia raised its key policy rate** by 0.25% to 7.75% to counter inflation pressures.

Asia Pacific:

- **China's M2 money supply growth was steady** at 8% yoy in Nov. It is not sure that credit growth might be stabilizing, although new loans jumped to CNY 1.25tn in Nov, from CNY 697bn in Oct.
- **China's fixed investment** in the 11 months to Nov **rose** by 5.9% yoy, vs 5.7% rise in Oct and a 5.4% in Sep. Public investment growth was weak, while private sector investment grew at a 8.7%.
- **China's industrial production expanded** only 5.4% yoy in Nov, exacerbating the bad performance in Oct (5.9% yoy).

- **China's retail sales** in Nov **increased** only by 8.1% yoy (a mere 5.8% in real terms) vs 8.6% in Oct. Urban nominal sales rose by 7.9% yoy and rural sales grew 9.3%. Auto sales fell for the 7th month in a row.
- **Japan's machinery orders rebounded** in Oct, increasing 7.6% mom after tumbling -18.3% in Sep. Orders from the manufacturing sector grew 12.3% mom, vs -17.3% in Sep. Nonmanufacturing orders rose 4.5%, vs -17.1% in Sep. Even foreign orders shot up 15.5%, vs -12.5%.
- The **Bank of Japan's quarterly Tankan survey** for large manufacturing firms in Q3 **was virtually unchanged** from Q2 at 19 pts, but was down 6 pts from a year earlier. Given the backdrop of the U.S.-China trade disputes and a string of natural disasters the figure is remarkably positive.
- **India's inflation retreated** in Nov to a 17-month low of 2.3% yoy, after 3.4% in Oct. Food prices were the main reason for the drop (-1.7% yoy vs -0.1% in Oct). Inflation has been below the Reserve Bank of India's 4% target for 4 consecutive months.
- **India's trade deficit** expanded to USD 17.1bn in Oct from USD 14bn in Sep.

Bottom line: This week China – where the growth slowdown after a spate of macro data appears more marked – came into focus. After the US, Europe and Japan also the second largest economy shows evident signs of growth fatigue. Not surprisingly, the composite leading indicator for the OECD countries declined to 99.4 in Oct from 99.5 in Sep, with all major economies posting declines. Even the US headline suggests that GDP growth is ebbing.

Regional Developments

- At the **GCC Summit held last week**– which Qatar's Emir did not attend – Arab unity was called for against terrorism, the importance of GCC coordination was stressed, and Iran was another key talking point. (*The*

7-point

Riyadh

declaration:

<http://saudigazette.com.sa/article/549856/SAUDI-ARABIA/7-point-Riyadh-Declaration-stresses-GCC-role-in-meeting-challenges>)

- Saudi Arabia met foreign ministry officials from Egypt, Djibouti, Somalia, Sudan, Yemen and Jordan “to look into **establishing an entity for Arab and African states on the Red Sea coast**”, in a bid to promote commerce and investment, as well as protect shipping.
- **Bahrain’s central bank introduced a repurchase instrument** – which covers the government’s conventional securities denominated in BHD -in an effort to “promote liquidity management for conventional retail banks”.
- **Bahrain’s central bank published draft rules to regulate platform operators of crypto-assets**, providing regulations for the licensing and supervision of crypto-asset services.
- **Egypt’s CDS spreads climbed to 379bps** last Fri – the highest level in 16 months – on concerns about the EGP.
- **Core inflation in Egypt fell** to 7.94% yoy in Nov (Oct: 8.86%) while the headline number dropped to 15.7% (Oct: 17.7%).
- According to the G20’s Global Infrastructure Outlook, **Egypt will require USD 675bn of investments over the next 20 years to meet its infrastructure needs**. A World Bank report highlighted the **direct job creation potential from such infrastructure projects**: every USD 1bn spent on road and bridge construction can generate 350,000 jobs, and water and sewage projects can generate 136,000 jobs, along with lesser job creation for projects of greater complexity (like communications, power stations etc.). Access the publication at: <https://www.worldbank.org/en/country/egypt/publication/egypt-enabling-private-investment-and-commercial-financing-in-infrastructure>
- **Agreements worth USD 3.5bn were signed in the sidelines of the Africa 2018 Forum held last week in Egypt.**

Egypt's existing investments in Africa is in excess of USD 10bn, while African investments into Egypt reached USD 2.8bn.

- **Egypt invested EGP 515bn into the electricity sector since 2014**, disclosed the electricity minister, also stating that the investments helped meet the rising demand for electricity.
- **Egypt signed nearly 63 oil and gas agreements worth USD 14bn in investments during 2014 to 2018**, according to the petroleum minister. He also revealed that foreign oil firms' arrears were trimmed to USD 1.2bn at end-Jun.
- **Egypt's mobile phone subscribers fell** by 1.11% mom (losing 1.07 million subscribers in a month) to 95.29mn in Aug.
- **EU and Egypt signed two grant agreements** worth EUR 55.8mn (USD 63.6mn) to finance sanitation and renewable energy projects.
- **Renewable energy will contribute more than 20% of Jordan's total energy mix in 2020**, according to the energy minister. Solar and wind power generation, which already increased to 10% of the country's generated power from 2% is expected to touch 16% by end-2019.
- **Jordan announced a USD 161mn healthcare development plan**, including the construction of new hospitals, in line with the government priorities for 2019-2020.
- **Credit growth in Kuwait improved in Q3 this year**, rising by 2.1% in Sep; however, credit to non-financial companies continued to decline. Borrowing by households softened to 6.3% in Sep (Jun: 6.7%) as weaker consumer borrowing weighed on healthy housing loan demand. Deposit growth meanwhile eased to 4.9% in Q3.
- **Kuwait's central bank has asked foreign exchange companies to raise their capital requirements** to KWD 1.7mn (USD 5.6mn) from KWD 1.5mn.
- **Kuwait's new passenger terminal**, with a capacity to accommodate 25mn passengers annually, is **expected to open in 2023**. The project will provide 12k jobs for

engineers and other trained/ qualified workers, and is also expected to generate additional annual revenues for the state up to USD 300mn annually.

- **Lebanon's new government will be formed by end of this year** (7 months after the general elections), disclosed the PM-designate at a London event last week, stating that the negotiations were in "the last 100 metres".
- **Moody's revised Lebanon's outlook to negative from stable**, while maintaining credit ratings at B3, citing the government's weak liquidity position and financial stability. The B3 rating reflected an assumption that a new government would be formed "near term".
- **The total assets of Omani conventional banks rose 4.3% yoy** in the first 9 months of 2018 to OMR 29.1bn (5.5% yoy). The total credit disbursement amounted to OMR 21.4bn at the end of Q3 equivalent to 73.3% of the total banks' assets. Private sector credit over Jan-Sep increased by 3.4% yoy to OMR 18.7bn, accounting for 87.8% of total credit.
- **Qatar's 2019 state budget forecasts a 1.7% yoy rise in government spending** to QAR 206.7bn (USD 56.8bn) **and the first surplus in three years** given a 20.5% surge in revenues to QAR 211bn. The government expects to post a QAR 28.1bn budget deficit this year.
- **Qatar's private sector grew by almost 6% in 2018** despite volatile oil prices, stated the country's finance minister at the Doha Forum.
- **Qatar might issue dollar debt next year to provide a pricing benchmark** to government-related entities that plan to sell bonds, according to a finance ministry official.
- **Qatar's oil output increased 3000 barrels per day(bpd)** to 615k bpd in Nov, according to OPEC. Other nations that increased output in Nov were Saudi Arabia (337k bpd), UAE (71k bpd) and Kuwait (45k bpd).
- **The value of assets of private investment funds in Saudi Arabia increased** by 8.66% qoq and 11.6% yoy to SAR

165.6bn in Q3 this year, according to the Capital Market Authority.

- **Saudi Arabia's energy minister stated that the nation's oil exports would be less than 8mn barrels per day (bpd) in Dec**, down from around 8.3mn bpd in Nov. Production is expected to decline to 10.2mn bpd in Jan, down from Dec's 10.7mn bpd.
- **Retail sales across four Gulf nations— Kuwait, Oman, Saudi Arabia and the UAE – is expected to increase** to more than USD 24bn in the next five years, according to Euromonitor International.
- **Real estate investment trusts (Reits) remains underpenetrated in the Middle East:** according to a PwC study, market capitalisation of Reits compared to listed real estate companies in the UAE is around 3%. The combined market capitalisation of Reits in the UAE was only USD 800mn as of early-2018 (Singapore is over USD 60bn).
- **UAE leads the region in the adoption of AI solutions**, at an annual growth rate of 33.5%. according to a report by the Dubai Technology Entrepreneurship Campus, prepared in collaboration with ArabNet and startAD. UAE is followed by Saudi Arabia with an expected 31.3% annual growth rate in the adoption of AI, the rest of the GCC region at 28.8%, and Egypt at 25.5%.
- **A general cooperation agreement between OPEC and non-OPEC countries will be signed** in Saudi Arabia by end-Mar, according to the UAE's energy minister.

UAE Focus

- **The UAE and Saudi Arabia have started developing fintech for cross-border settlements**, including a digital currency project, according to the former's central bank governor.
- **The Dubai Economy Tracker grew in Nov**, rising to 55.3 from Oct's 31-month low of 52.5 and the highest since

Jun. Construction was the strongest-performing sector (with a reading of 57.5), followed by wholesale & retail (55.4) and travel & tourism (52.8).

- According to the UAE's central bank governor, **interbank rates have edged down in the last three months** because of good liquidity in the money market; overnight Emirates interbank offered rate has slipped about 5bps since mid-Oct.
- **Sharjah's 2019 budget** marks a 10% increase in expenditure to AED 25.7bn. Salaries to account for 43% of the budget, while 23% is set aside for the development and improvement of Sharjah infrastructure.
- **Currency swaps through the Renminbi Clearing Centre in the UAE** reached USD 7.01bn (AED 25.7bn; RMB 44.57bn) during Jan-Nov 2018.
- **Dubai reported a total 11.58mn visitors into the emirate during the nine months to Sep** (holding steady compared to last year), with India, Saudi Arabia and the UK the top source markets.
- **The number of passengers travelling through the Dubai International Airport increased** by 2.1% yoy to 7.01mn passengers in Oct. This brings the total to 74.5mn passengers that used the airport during Jan-Oct this year. India remained Dubai's top destination country by customer volume, with total traffic reaching 999,771 during Sep, followed by the UK (502,890) and Saudi Arabia (444,803).
- UAE-based **UAE Exchange** and US startup **Ripple plan to launch cross-border remittances to Asia** via blockchain by Q1 2019.
- **Phase 2 of the VAT refund scheme for tourists will be rolled out from today** (Dec 16): this would cover 12 air, land and sea ports across the UAE. The scheme is already estimated to be processing 3,800 transactions every day in its first phase.
- **The UAE parliament will increase women's representation to 50% in the coming parliamentary term**; currently, the

40-member Federal National Council is currently chaired by a woman.

Media Review

Saudi banks close to deal with authorities on Islamic tax: sources

<https://www.reuters.com/article/us-saudi-banks-tax/saudi-banks-close-to-deal-with-authorities-on-islamic-tax-sources-idUSKBN10A1B8>

18 striking findings from 2018

<http://www.pewresearch.org/fact-tank/2018/12/13/18-striking-findings-from-2018/>

How Blockchain could disrupt banking

<https://www.cbinsights.com/research/blockchain-disrupting-banking/>

The Political Roots of Falling Wage Growth

<https://www.project-syndicate.org/commentary/neoliberalism-falling-wage-growth-by-jayati-ghosh-2018-12>

Oman is the Arab country leader in environmental policies

<https://lobelog.com/oman-blazes-a-trail-for-environmentalism-in-the-arab-world/#more-47017>

New India Central Banker Buys Time as Worries on Autonomy Linger

<https://www.bloomberg.com/news/articles/2018-12-13/india-s-central-bank-board-meets-with-new-worries-about-autonomy>

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