

Weekly Economic Commentary – Jan 6, 2019

Markets

Global stocks ended last week on a positive note: S&P 500, DJIA, Europe-wide Stoxx, FTSE, Chinese stocks, Hang Seng and the Topix all gaining during the week. The VIX volatility index fell to its lowest point since mid-Dec. Positive data releases in the US (jobless claims, payrolls) and comments from Fed chair (“we will be patient as we watch to see how the economy evolves”) supported this optimism. In the region, it was a mixed picture with Egypt, UAE, Kuwait and Saudi markets gaining as did Qatar (which was the Gulf region’s best performing market in 2018) while Bahrain and Oman markets dipped. 2019 started with a currency market “flash crash” that briefly pushed dollar/yen below 105; the pound sank to its lowest since Apr 2017 on Thurs, but recovered by end of the week while most emerging market currencies rebounded. Oil prices gained ground, while gold prices (which hit a 6-month peak on Thurs) slipped after the upbeat US jobs report.

Global Developments

US/Americas:

- **US jobless claims touched a 4-week high** of 231k in the week ending Dec 29 as the federal government shutdown continued, but remained shy of the 300k threshold which signals a tight labour market. The four-week average of initial claims decreased by 500 to 218,750.
- **US manufacturing activity slowed to a 15-month low** of 53.8 in Dec (Nov: 55.3), due to a weaker growth in new business and output; pace of job creation eased to an 18-month low. **US composite PMI** stood at 54.4 in Dec 2018, above the preliminary estimate of 53.6 and compared to Nov’s 54.7.
- **US non-farm payrolls increased** by 312k in Dec;

unemployment rate increased to 3.9% as 419k new workers entered the workforce and the labor force participation rate increased to 63.1% (from 62.9%). Payrolls growth totaled 2.6mn in 2018, the highest since 2015 and well above the 2.2mn recorded in 2017.

Europe:

- **Inflation across the Eurozone fell to an 8-month low** of 1.6% in Dec (Nov: 1.9%); core inflation remained steady at 1%.
- **EU's composite PMI declined** to 51.1 points in Dec from 52.7 the previous month, with the slowdown partly reflecting weaker activity in France (with its yellow vest protesters disrupting production) and weakness in Italy. Jobs growth hit a two-year low.
- **German manufacturing sector slows again:** manufacturing PMI fell to a 33-month low of 51.5 from 51.8 in Nov, as new orders fell at the fastest rate in four years.

Asia Pacific:

- **China's PBOC plans to cut the reserve requirement ratio (RRR) twice this month**, once on Jan. 15 and once on Jan. 25, for a total reduction of 100bps. This is expected to free up liquidity to the amount of a net CNY 800bn (USD 116.5bn). The RRRs are currently 14.5% for large banks and 12.5% for smaller banks.
- **China's manufacturing sector contracted** for the first time in 19 months, with the Caixin/Markit manufacturing PMI reading falling to 49.7 in Dec from 50.2 the month before. New orders fell for the first time in two and a half years while new export orders shrank for the ninth month in a row. This was in line with the **official NBS PMI reading** dropping to 49.4 in Dec – first contraction since Jul 2016 and the weakest reading since Feb 2016. Meanwhile, there was **an unexpected increase in the service PMI** to 53.9 in Dec from 53.8 in Nov and 50.8

in Oct.

- **Singapore GDP grew slightly slower** by 2.2% yoy in Q4 2018 (Q3: 2.3%), bringing the full year growth to 3.3% (2017: 3.6%); growth in the manufacturing sector picked up by 5.5% yoy from 3.7% the previous quarter while services grew by 1.9% vs. 2.6% in Q3.
- **Inflation in South Korea slowed** to 1.3% in Dec – the weakest in 5 months – bringing the full year annualized inflation rate to 1.5%.
- **The growth of India's infrastructure industries slowed** to a 16-month low of 3.5% in Nov; its cumulative growth in Apr-Nov was 5.1% compared with 3.9% in the same period a year ago.
- **South Korea's trade reported a record-high** of USD 1.14trn in 2018, as exports surpassed USD 600bn for the first time (+5.5% yoy) and imports advanced by 11.8% to USD 535bn. Semiconductor was the country's sole export item that topped USD 100bn in outbound shipment last year.
- **Inflation in Indonesia** clocked in at 3.13% in Dec (Nov: 3.23%), with core inflation ticking up to 3.07% (Nov: 3.03%). The central bank targeted inflation in the range of 2.5-4.5% last year.
- **Retail sales in Hong Kong posted the slowest growth in 17 months in Nov**, with sales up 1.4% yoy to HKD 39.2bn (USD 5bn) in value terms. In volume terms, retail sales grew 1.2% in Nov (Oct: 5.3%).

Bottom line:All eyes are on the US-China trade negotiations scheduled to begin tomorrow. If the PMI data across much of Europe and Asia are any indication, the global economy is slowing given the uncertainty related to the US-China economic wars and a slowdown in demand. China's weakness has also spilled over to other Asian nations linked in the supply chains – with slowing growth and low inflation, the key question is whether the central banks in the emerging markets will continue their tightening cycle this year?

Regional Developments

- **Bahrain real GDP growth touched 1.62% yoy in Q3** while nominal GDP picked up by 7.49% yoy. The non-oil economy grew at 2.38% (real prices) and by 2.69% (current prices).
- **Bahrain began the implementation of a 5% Value Added Tax (VAT)** with the start of 2019. Customs Affairs announced that personal imports and gifts for individuals worth less than BHD 300 (USD 796) would be exempted from VAT.
- **Egypt is expected to receive the fifth tranche of the USD 12bn IMF loan** this month. This would bring the total amount received so far to USD 10bn.
- **Money supply (M2) in Egypt grew 14.04% yoy** to EGP 3.58trn (USD 200bn) at end-Nov.
- **Iraq's oil exports averaged 3.726mn barrels per day (bpd) in Dec**, compared to 3.372mn bpd exported in Nov, according to the oil ministry. The average sale price in Dec was USD 52.8 per barrel, generating around USD 6.1bn in revenue.
- **Kuwait's real GDP grew by 1.8% yoy in Q3** to KWD 9.8bn (USD 32.3bn), with the oil sector's contribution remaining stable at 59.4%. The healthcare and education sectors, as well as real estate, were major contributors to GDP growth.
- As the political quagmire drags on, **Lebanon's finance minister warned of the political crisis starting to turn into a financial one.**
- **Oman's 2019 budget projects spending at OMR 12.9bn (USD 33.5bn)**, up 3% yoy, while revenue is estimated at OMR 10.1bn (assuming an oil price of USD 58 per barrel). Deficit is expected to touch OMR 2.8bn or 9% of GDP. The government plans to finance 86% of this year's deficit through local and foreign borrowing. Separately, OMR 3.7bn has been set aside for investment spending (including OMR 1.2bn allocated for infrastructure

projects) in the 2019 state budget.

- **The total value of property transactions in Oman declined** by 3% yoy to OMR 2.4bn during Jan-Nov 2019. Real estate transaction fees collected during this period grew by 5.6% yoy to OMR 77.3mn.
- **Oman will officially launch its fourth regional airport on Jan 14:** the Duqm airport has a capacity of half a million travelers annually, with the ability to expand to two million travelers annually.
- **Qatar GDP accelerated** to 2.2% yoy and 4.0% qoq in Q3 this year, up from Q2's revised 1.7% yoy and 1.2% qoq.
- **Qatar's central bank disclosed the sale of QAR 500mn (USD 136.8mn) of treasury bills** with maturities of 3-, 6-, and 9 months.
- **Saudi Arabia reported a 2.5% yoy growth in GDP in Q3** – the fastest rate since early 2016 and compares to Q2's 1.6% yoy growth – supported by the oil sector (+3.7% yoy in Q3 vs. Q2's 1.3%) while the non-oil growth slowed to 2.1% from Q2's 2.4%.
- **Bank deposits in Saudi Arabia grew** by 1.5% yoy to SAR 1.624trn in Nov, according to SAMA. Increase in bank lending (by 2.2% yoy to SAR 31.29bn) was driven by a 14.3% rise in long-term credit.
- **Saudi Tadawul listed eight real estate investment traded funds (REITs) and two firms in 2018.** REITs now have a total market cap of over USD 3bn.
- **Saudi Arabia's Riyadh Bank and National Commercial Bank** are planning to hire advisers for their **potential merger**, reported *Reuters*.
- **Remittances from Saudi Arabia fell** by 17.6% yoy to SAR 9.9bn in Nov, according to SAMA. Separately, **point of sale (POS) transactions** in Saudi Arabia increased to SAR 209.98bn in Jan-Nov last year – the highest level of POS operations in its history in less than a year.
- According to Saudi Arabia's General Organisation for Social Insurance (GOSI), about **554,357 Saudi and expat employees quit the labour market in Q4 2018.** Saudis who

are actually on the job and are GOSI subscribers are 1.9mn while the expatriates are 7.4mn.

- **OPEC oil supply fell in Dec by the largest amount in almost two years**, reported *Reuters*. OPEC pumped 32.68mn barrels per day (bpd) last month, down 460k bpd from Nov and the largest mom drop since Jan 2017. The biggest drop in supply came from Saudi Arabia, and amounted to 400k bpd.

UAE Focus

- **UAE banks net international reserves increased 23.1% yoy** to an all-time high of AED 404.3bn (USD 110bn) by end-Nov.
- **Dubai 2019 budget** projects a spending of AED 56.8bn, a tad higher than last year's budget plan of AED 56.6bn. Revenues are estimated to grow by 1.2% yoy to AED 51bn, with non-tax revenues accounting for 64% of the total. General and administrative expenses, grants and subsidies represent 47% of total expenditure. The budget is projected to create 2,498 new jobs in 2019.
- **The investment of UAE banks in Saudi Arabia and Egypt** touched AED 87.2bn (USD 23.7bn) at end-Q3 2018, accounting for 12.5% of the total assets invested abroad. UAE banks, including their subsidiaries and affiliates, invested around AED 53bn (USD 14.4bn) in the UK in the Jan-Sep period of 2018. Among the top 10 countries that invest in UAE banks, three countries saw the highest quarterly increase (as of end-Sep): Egypt (AED 12.6bn), the Cayman Islands (AED 5.4bn) and Saudi Arabia (AED 4.9bn).
- **The total value of customs duties transferred by the UAE to the GCC** amounted to about AED 1bn related to some 168k transactions in 2018.
- **The Dubai Gold & Commodities Exchange announced a record-high volume in 2018:** trading 22.26 million contracts (+28% yoy) worth USD 474.94bn. Average daily

volumes also touched an all-time high, reaching 86,615 lots.

- **The UAE issued more than 540k business licenses in 2018**, according to the Ministry of Economy. Abu Dhabi and Dubai accounted for 70.2% of total licenses issued by end-Dec: Abu Dhabi and Dubai issued 126,095 and 253,580 licenses respectively.
- **Dubai DED** revealed that 1,882 **instant licenses**, which are issued within five minutes, were issued after the service was launched in July 2017 until the end of 2018.
- **Dubai's real estate market saw a surge in volume during the last ten days of 2018**– with a value of over AED 19bn through 2,081 transactions. These transactions were being recorded daily for over AED 1bn, peaking on 24 Dec with transactions worth about AED 3.6bn.
- **Dubai welcomed 1.8mn visitors in the last week of 2018** (Dec 23 2018 – Jan 1 2019), with 92.4% using the airports and 1.8% entering via the seaports. A record of 111,218 passengers arrived on Dec 28th, while Dec 29th saw a record of 93,652 leaving the emirate.

Media Review

The trade war with America is a strategic gift for China

<https://www.ft.com/content/f79587da-0e7b-11e9-b2f2-f4c566a4fc5f>

The best and worst performing markets of 2018

<https://www.zerohedge.com/news/2019-01-01/best-and-worst-performing-markets-2018>

Saudi oil will grease China's currency ambitions

https://www.zawya.com/uae/en/markets/story/Saudi_oil_will_grease_Chinas_currency_ambitions-TR20190104nL4N1YA3BDX1/

UAE's Sheikh Mohammed issues eight principles of governance to strengthen growth and tolerance

<https://www.thenational.ae/uae/sheikh-mohammed-issues-eight-principles-of-governance-to-strengthen-growth-and-tolerance-1.809562>

DP World establishes trade corridor between Jebel Ali and

Syria

<https://www.logisticsmiddleeast.com/transport/roads/31912-dp-world-establishes-trade-corridor-between-jebel-ali-and-syria>

Arab states need more structural reform, short-term plans to grow faster

https://www.zawya.com/mena/en/economy/story/Arab_states_need_more_structural_reform_shortterm_plans_to_grow_faster_economists-ZAWYA20181230064237/

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