

Weekly Economic Commentary – Jan 20, 2019

Markets

Hopes for resolving the US-China trade wars and China's latest stimulus measures resulted in global stocks reporting a 4th consecutive weekly gain; European shares jumped to their highest level in six weeks. Stock markets in the region mostly ended higher. Easing trade tensions supported the dollar, while the pound which had a strong week closed lower on Fri on a weak retail sales report. Oil prices picked up on OPEC details about production cuts, while gold prices retreated.

Global Developments

US/Americas:

- **US PPI**, with a reading of -0.2% mom (and 2.5% yoy) for Dec, **recorded the biggest drop in over two years** thanks to declines in the costs of energy products (-13.1%) and trade services (-0.1%). Core rate rose 2.8% in the 12 months ended in Dec, unchanged from Nov.
- **Fed's Beige book showed rising concerns among businesses**: modest-to-moderate price increases were reported (with higher tariffs leading to rise in costs), labour markets tightened and wages grew moderately.
- **US industrial production rose** by 0.3% mom in Dec (Nov: 0.4%), on manufacturing strength which posted the biggest gain in 10 months. Capacity utilization for the manufacturing sector rose to 76.5% in Dec (Nov: 75.8%).
- **Initial jobless claims fell** 3k to a seasonally adjusted 213k last week (**a 5-week low**), with the 4-week moving average slipping 1k to 220,750. As the government shutdown continues, the number of federal employees filing for jobless benefits increased by 5,694 to 10,454 in the week ending Jan. 5. Continuing claims meanwhile increased to 1.737mn.

Europe:

- In Europe, **industrial output dropped** by 1.7% mom in Nov (Oct: +0.1%), the sharpest decline since Feb 2016. Production fell across the board: for capital goods, durable and non-durable consumer goods, intermediate goods and energy.
- **EU posted a trade deficit** of EUR 3.2bn in Nov, compared to EUR 4.9bn surplus a year ago. Imports grew 7.6% yoy to EUR 175.9bn while exports grew by a softer 2.6% to EUR 172.7bn.
- After losing the **UK Parliamentary** vote on Brexit (by more than 200 votes), and surviving the no-confidence vote, PM May is set to **publish her new Brexit plan on 21st Jan** to be followed by a full debate and vote on 29th Jan.
- **The German economy grew by 1.5% in 2018**, versus 2.2% in 2017, **reporting the weakest rate in five years**. Annual growth was driven by a 4.5% surge in equipment spending, while private consumption grew by 1% and public expenditure was up 1.1%. Germany managed to just avoid a recession, posting a slight increase in GDP in Q4 2018.
- **UK retail sales dropped** in Dec, with volumes contracting by 0.9% mom. Internet sales were 20% of the total, down slightly from the 21.5% record share in Nov. Overall, sales grew by 2.7% in 2018, versus the 2% in 2017, but below the peak growth rate of 4.7% (before the Brexit vote) in 2016.
- **UK CPI** was 2.1% in Dec – a **22-month low**– thanks to a fall in petrol prices.

Asia Pacific:

- Aimed at ensuring there are ample funds, **the People's Bank of China injected a record USD 83bn** into the financial system.
- **China's exports fell** 4.4% in Dec – the steepest fall in 2 years – while imports fell 7.6%. However, trade surplus

with the US reached a record high in 2018. Separately, Bloomberg reported that **China offered to increase imports from the US by a combined value of more than USD 1trn** and reduce its trade surplus to zero by 2024.

- **China's new yuan-denominated loans grew** by CNY 499.5bn yoy to CNY 1.08trn (USD 160bn) in Dec 2018 (Nov: CNY 1.25trn). For the whole 2018, new yuan loans reached CNY 16.17trn, up CNY 2.64trn yoy. **Money supply (M2) increased** by 8.1% yoy to CNY 182.67trn.
- **India's trade deficit narrowed** to a 10-month low of USD 13.08bn in Dec (Nov: USD 16.67bn) as imports dipped by 2.44% to USD 41bn. The oil import bill during Apr-Dec 2018 was USD 108.1bn billion, up 42.85% yoy.
- **Wholesale prices in India rose** by 3.8% yoy in Dec 2018, slowing from a 4.64% the month before.
- **Japan machinery orders were flat mom** in Nov (Oct: 7.6%); of total orders of JPY 863.1bn, orders from the manufacturing sector were JPY 395.7bn (-6.4%).
- **Japan's inflation dropped to a 7-month low** in Dec (0.7% yoy), bringing the full year inflation to below 1%. Core CPI rose just 0.3% in Dec, flat from the previous month's pace.

Bottom line: Politics dominated news last week – the UK's Brexit vote (which PM May lost), no confidence motion (which PM May scraped through) and new Brexit plan (to be revealed tomorrow) while towards end of the week came news about China's multi-year plan to reduce its trade surplus with the US. Overall, economic data were disappointing from Europe (especially Germany) while in China, more stimulus measures are expected to prop up weak growth numbers.

Regional Developments

- **Saudi Arabia and UAE announce a 7-point cooperation plan:** this includes a cross-border digital currency pilot project, fast track customs for select companies (41 from Saudi and 40 from the UAE), procurement

opportunities for SMEs, joint supply chain (for times of crisis), better access for disabled persons in airports, money management for children, and a common market for civil aviation in “vital areas” .

- **Bahrain’s National Oil and Gas Authority and Italy’s Eni signed a MoU for petroleum exploration;** Eni is expected to initiate drilling for the first oil exploratory well in Block No. 1 during the current year.
- **Bahrain plans to increase the contribution of renewables** to 5% of total energy mix by 2025, disclosed the electricity and water affairs minister. Bahrain has already invited and received tender bids for a 100MW solar power plant.
- **Egypt’s GDP growth is forecast to rise** by 6.5% in the 2019-2020 fiscal year versus the estimated 5.3% expected in 2018-19 fiscal year, according to the finance minister.
- **Egypt’s finance ministry reported that it had received cabinet approval for USD 3-7bn worth of foreign bond offers.** It was later reported that Egypt is expected to offer USD 2bn worth of yen-denominated bonds within weeks to repay the debts of the state oil company. However, the finance ministry later clarified that neither has a date been set for this issuance nor the amount or currency finalized.
- **Kuwait’s investments in Egypt have amounted to USD 2.8bn,** in more than firms, as per the Egyptian-Kuwaiti Cooperation Council.
- **Egypt’s Suez canal revenues fell** by 8.8% mom to USD 461.5mn in Nov.
- **Egypt secured USD 1.2bn loan from the Exim Bank of China** for building the light rail to the new capital: of this, USD 461mn would go towards infrastructure and USD 739mn for trains.
- **Egypt and Jordan have signed an MoU,** for the former to provide the latter with half of its needs of **natural gas** to generate electricity for 2019.

- **Lebanon** issued a statement last Sun saying it had **“absolutely” no plans to restructure the debt**; bonds rose broadly across the curve with the 2025 issue reaping some of the biggest gains, adding nearly 1.5 cents.
- **Oman’s central bank** has signed an agreement with Iceland’s Creditinfo Group towards **developing a credit bureau**.
- **Oman’s Capital Market Authority** issued its initial approval for the establishment of the country’s **first real estate investment fund** named “Aman REITs”. Its IPO is expected in Q1 this year.
- **Two electricity companies in Oman**– Muscat Electricity Distribution Company and Oman Electricity Transmission Company – **are set to be privatized this year**.
- The **number of Indians seeking work in Oman** through the online e-migrate service **decreased** by more than 65% to 36,037 in 2018 from 105,513 in 2010.
- **Qatar’s central bank issued five-year sukuk** worth QAR 4bn (USD 1.1bn) and offering a 4.25% profit rate. The apex bank also sold QAR 5bn worth of 5-year treasury bonds at 4.25%.
- The **Qatar Investment Authority plans to raise investments in the US** to USD 45bn in the next two years from around USD 30bn currently.
- **Saudi Arabia plans to start developing the first phase of NEOM in Q1 2019**.
- **Saudi Aramco’s bonds**, which will be issued in Q2 this year, will probably be in the USD 10bn range, according to Saudi Arabia’s energy minister.
- The government in **Saudi Arabia will provide cash incentives to the private sector for employing Saudi citizens**, in a bid to boost the hiring of nationals in the sector.
- **Saudi Arabia’s Capital Market Authority** approved an IPO for units in BMK Saudi Freestyle Equity Fund Sharia Compliant. This marks **the first fund IPO and listing in**

2019.

- **Saudi Arabia is studying an expansion of a regional gas network with UAE and Oman**, stated the country's energy minister. The new estimates suggest Saudi has 325.1 trn standard cubic feet of gas, up from the previous estimate of 307.9 trn.
- The feasibility study to develop a USD 2bn **solar and carbon black integrated complex in Saudi Arabia** will be completed by mid-2019.
- **Small and medium healthcare establishments in Saudi Arabia** with less than 249 employees and up to 10 medical practitioners will be **exempt from the fees for issuing or renewing licenses**.
- **Saudi Arabia will provide Tunisia with a loan**, worth USD 500mn, to finance the country's budget deficit.
- The **GCC nations are forecast to issue sukuk** within the range between USD 47-48bn this year, estimates **S&P** (versus 2018's USD 46bn). The UAE is expected to issue sukuk worth USD 8bn in 2019, slowing from USD 9.1bn last year.

UAE Focus

- **The Dubai Economy Tracker fell** to 53.7 in Dec (Nov: 55.3) – the second lowest in 2 years, also bringing the Q4 reading to 53.8 – the lowest since Q1 2016. Travel & tourism continued to post the weakest overall growth (52.0), followed by construction (53.7) and wholesale & retail (54.2).
- The **UAE government granted the first set of long-term visas** to the winners and finalists of the first and second editions of the Mohammed bin Rashid Medal for Scientific Excellence.
- **Abu Dhabi's Hyperloop system**, which is past the feasibility study phase and set to open in 2020, **will cost between USD 20-40mn per kilometer**, according to the Chairman of Hyperloop Transportation Technologies. He is

also confident of recouping the investment in 8 to 15 years.

- **Dubai's Department of Economic Development issued 20,467 new licenses in 2018**; overall, business registration and licensing transactions increased by 4.6% yoy to 248,769.
- **Remittances from UAE to Pakistan increased by 6% yoy in Jul-Dec 2018 to USD 2.29bn**, according to the State Bank of Pakistan data. From the UAE, most of the remittances flow from Dubai, which contributed UD 1.58bn, followed by USD 692mn from Abu Dhabi.
- **UAE ranked 4th globally in the HSBC's Expat Explorer survey**, with the respondents highlighting the country as one of the top international career destinations for the benefits packages offered by employers (ranked 1st) and its earnings prospects (ranked 3rd).
- **Abu Dhabi's clean energy investments have touched AED 8bn (USD 2.2bn)**, according to the Chairman of Abu Dhabi's Department of Energy. Separately, the chairman also stated that the electricity consumption rates of the industrial sector are currently under review, to establish preferential tariffs based on specific economic criteria.
- **Hotel supply in Dubai grew by 8.6% in Dec**, while demand surged by 5.6%. Occupancy rates declined 2.7% to 79.2% and revenue per available room (RevPAR) declined 6.9 per cent to AED 600.98, according to STR data.

Media Review

Globalization is thriving despite Trump's efforts to kill it

<https://www.bloomberg.com/news/articles/2019-01-18/globalization-is-surviving-trump>

Pound's rally faces reality check as traders await Brexit Plan B

<https://www.bloomberg.com/news/articles/2019-01-19/pound-s-rally-faces-reality-check-as-traders-await-brexit-plan-b>

Trump's Trade Game

<https://www.project-syndicate.org/onpoint/trump-s-trade-game-b>

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Why AI isn't boosting the economy – yet

<http://review.chicagobooth.edu/economics/2019/article/why-artificial-intelligence-isn-t-boosting-economy-yet>

Nobel Prize Winners and eminent economists call for imposing a CarbonTax Economists' Statement on Carbon Dividends: WSJ

<https://www.wsj.com/articles/economists-statement-on-carbon-dividends-11547682910>

IRENA's Renewable Energy Market Analysis GCC 2019

https://irena.org/-/media/Files/IRENA/Agency/Publication/2019/Jan/IRENA_Market_Analysis_GCC_2019.pdf

PwC's "From Virtual to Reality: Six imperatives for becoming an AI-ready healthcare business" report

<https://www.pwc.com/m1/en/publications/documents/from-virtual-to-reality.pdf>

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