

Weekly Economic Commentary – Jan 27, 2019

Markets

Most global equity markets closed slightly higher on strong earnings reports (especially from US tech firms), Trump's short-term shutdown deal to reopen the government, and reports that the Fed was considering an early end to balance sheet shrinking helped the markets. In the region, most markets closed higher, with the Abu Dhabi index gaining on comments that the Abu Dhabi Commercial Bank (ADCB) board would discuss its potential merger this week. The dollar retreated last week, while the euro bounced back from a 6-week low after Draghi's dovish statements, and the BoJ's inflation forecast cut sent the yen (briefly) to a three-week low versus the dollar. Oil prices gained after concerns of oil supply following the threat of US sanctions against Venezuela, while gold price hit a 7-month peak on the weaker dollar.

Global Developments

US/Americas:

- **The US shutdown temporarily ended after 35 days.** The shutdown cost at least USD 6bn to the economy, according to S&P estimates.
- **Existing home sales in the US tumbled to a 3-year low,** declining 6.4% to a seasonally adjusted annual rate of 4.99mn in Dec. For all of 2018, sales of existing homes fell 3.1% yoy to 5.34 million units.
- **Initial jobless claims fell to the lowest since 1969** despite the shutdown: claims dropped 13k to a seasonally adjusted 199k for the week ended Jan 19. The 4-week moving average of initial claims fell 5,500 to 215k.

Europe:

- **The ECB left interest rates unchanged** at the latest

meeting. Draghi in his speech warned that risks had “moved to the downside”, following weak data releases from the region. “We have a long list of instruments and we stand ready to use them”, Draghi emphasized, stating that “we have all of our toolbox still available”.

- The **ZEW assessment of the current economic situation in Germany dropped** 17.7 points to 27.6 points in Jan, the lowest reading since Jan 2015. The economic sentiment among investors rose to -15.0 from -17.5 in Dec.
- The **German IFO business climate index weakened** further to 99.1 in Jan (Dec: 101) while the current economic assessment edged down to 104.3 from 104.7 the month before.
- **German manufacturing fell to 49.9 in Jan** (Dec: 51.8), according to the PMI preliminary estimate, recording the lowest in more than 4 years. The composite PMI index rose to 52.1 (Dec: 51.6), as the services sector rebounded.
- **UK unemployment was flat**, recording an increase of just 8k to 1.37mn between Sep-Nov while **employment posted a record high of 32.54mn**.

Asia Pacific:

- **China's GDP grew 6.6% yoy in 2018**, the slowest pace since 1990. Q4 GDP growth had eased to 6.4% yoy from Q3's 6.5%.
- In additional data **China released, industrial output picked up unexpectedly** to 5.7% (prev: 5.4%) while **fixed-asset investment** increased by 5.9% in 2018, the slowest in at least 22 years. **Retail sales in China picked up** by 8.2% yoy in Dec 2018 (Nov: 8.1%); however, auto sales shrank for the first time since the 1990s.
- **South Korea's GDP posted** the fastest expansion in 5 quarters, rising 3.1% yoy in Q4 2018 (Q3: 2.0%), and boosting overall growth for the year to 2.7% but still the slowest expansion in six years.

- **Japan trade fell into a deficit of JPY 1.2trn (USD1.1bn) in 2018 – after 2 years of surplus – as annual growth in exports slowed to 4.1% from 11.8% in 2017.**
- **The Bank of Japan left interest rates unchanged, but maintained its massive stimulus program. The BoJ also cut its inflation forecasts – its 4th downward revision – for core consumer inflation to 0.9% in the coming fiscal year from 1.4%, reflecting slumping oil prices.**
- **Inflation in Singapore edged up by 0.5% yoy in Dec, up from Nov's 0.3% on higher prices for services and retail items; core inflation rose to 1.9% yoy (Nov: 1.7%).**
- **Singapore's industrial production grew by 2.7% yoy in Dec, in spite of a 29.9% pickup from pharmaceuticals. Overall industrial output for 2018 rose 7.2% yoy.**

Bottom line:The IMF released its latest World Economic Outlook projections last week, with global growth estimates for 2018 remaining unchanged at 3.7%, though several economies saw downward revisions (including Saudi Arabia from the region). Weakness is expected to carry on into 2019, with trade tensions, high levels of public and private debt, a “no-deal” Brexit withdrawal, tighter financial conditions all triggers of further weaker economic performance and policy uncertainty. While the first policy meetings this year from both the ECB and BoJ – where main policy rates are in negative territory – touched upon downside risks to growth (to contrast with ECB's “broadly balanced” view), this week sees the Washington visit of Chinese officials as well as the Fed meeting. Will this week ease tensions and reassure markets and investors? Unlikely.

Regional Developments

- **Bahrain's finance minister disclosed that the first instalment of a USD 10bn aid package (from Saudi Arabia, Kuwait and the UAE) was received last year.**
- **The Central Bank of Bahrain has issued draft rules on “Digital Financial Advice” (or Robo-advice), seeking**

comments by Feb 20th; this draft allows FinTech firms focused on purely Robo-advice to get a license from the bank.

- **Egypt's budget deficit narrowed** to 3.6% of GDP in H1 of the current financial year from 4.2% a year ago.
- **The fuel subsidy bill in Egypt declined** by 14.7% yoy to EGP 43.5bn (USD 2.43bn) in Jul-Dec 2018, according to the oil minister. Fuel subsidy is budgeted at EGP 90bn for the current financial year.
- **Egypt plans to invest over USD 4bn to enhance the efficiency of its electricity grids:** the plan includes improving electrical-grid capacity to receive power from renewable energy plants and support grids with neighbouring nations.
- **Egypt has become self-sufficient in natural gas,** and plans to export before the beginning of the next fiscal year (2019-2020), according to the finance minister.
- **Egypt plans to invest USD 9bn to upgrade six oil refineries** to increase local production, according to the petroleum minister. Currently there are 8 refineries with a capacity of 38mn tonnes (of which only 25mn tonnes are utilized).
- **UAE investments in Egypt** touched USD 5.9bn in investments over the past 4 years, with last year alone investments reaching USD 1.75bn (+25% yoy).
- **Egypt's Suez Canal revenues increased** by 7.5% yoy to USD 5.7bn in 2018, reported *Reuters*.
- **Consumption of petroleum products and natural gas in Egypt** declined by 1.2% yoy to 79.2mn tonnes in the fiscal year 2017-18.
- **Kuwait's state budget** for 2019-2020 (ending Mar 31, 2020) **projected a 4.7% increase in expenditure** to KWD 22.5bn (USD 74.15bn); salaries and subsidies account for 71% of the budget. According to the finance minister, oil price will range between USD 55-65 per barrel. Budget deficit is estimated at KWD 7.7bn after accounting for a deposit of 10% of total revenue into

the sovereign wealth fund.

- **Kuwait's trade surplus with Japan widened** by 20% yoy to USD 5.5bn in 2018. Exports to Japan grew by 20.7% to USD 7.3bn while imports grew 22.9% to USD 1.7bn.
- **Kuwait** launched an initiative **to create a USD 200mn fund for investments in technology**, at the Arab economic summit held last week.
- The Byblos Bank/AUB **Consumer Confidence Index for Lebanon** averaged 75.5 in Q4 2018, **nearly unchanged** from Q3's 75.3.
- **Qatar plans to invest USD 500mn in Lebanese government bonds** to support the economy.
- **Moody's downgraded Lebanon's rating** to Caa1 from B3 last week, citing heightened risk of default on its debt obligations.
- **Saudi Arabia's** finance minister stated during an interview that the country **would "support Lebanon all, all the way" to protect its stability.**
- **Oman's budget deficit narrowed** by 43% yoy to OMR 1.87bn (USD 4.86bn) during Jan-Nov.
- **Hotel revenues in Oman increased** by 8.5% to OMR 188.7mn (USD 488.9mn) in the first 11 months of the year; hotel occupancy rates also increased by 0.9% to 57% during this period. However, the total number of guests declined by 2.8% to 1.35mn in Jan-Nov 2018.
- **Almost 65k Omanis were hired in the private sector last year** after an expat visa ban was implemented on 87 professions.
- **The IMF lowered its growth forecast for Saudi Arabia this year** to 1.8% from the Oct's estimate of 2.4%. It however raised estimates for 2020 to 2.1%, 0.2 ppts from the previous projection.
- **Inflation in Saudi Arabia** clocked in at 2.2% yoy and fell 0.3% in Dec.
- **Saudi Arabia** issued SAR 5.37bn (USD 1.43bn) in **domestic Sukuk** under the monthly issuance program.
- **Saudi Arabia's Tadawul** is expected **to complete listing**

procedures and **be IPO-ready by end of 2020**, disclosed Tadawul's chairperson, on the sidelines of the WEF in Davos.

- **Tadawul approved the listing of two- tranche government debt instruments** worth a combined SAR 5.37bn. Listing and trading will commence from today (Jan 27).
- **Saudi Arabia's crude oil exports increased** to 8.235mn barrels per day (bpd) in Nov from 7.7mn bpd in Oct, according to the Joint Organisations Data Initiative.
- **Saudi Arabia**, in an effort to stimulate localization, disclosed that it **will provide 30% of the salaries of male and female Saudis working in private sector establishments in the first year.**
- **Saudi Arabia unveiled 7 principles to support investment:** ensure equality between Saudi and foreign investors; ensure protection of investments; enable sustainability of investment; provide access to equal investment incentives; implement social and environmental standards and ensure investor compliance with Saudi health, safety and environmental regulations; facilitate access procedures for foreign workers and their families; and ensure a solid transfer of knowledge, technology and enhancement of local human capital.
- **M&A transactions in the MENA region** touched USD 54.9bn in 2018, up more than 50% yoy and a 3-year high, according to Refinitiv. Investment banking fees increased 4% yoy and totaled an estimated USD 1.1bn during 2018.

UAE Focus

- **UAE's money supply M1 increased** by 1.3% mom to AED 485.6bn at end-Dec 2018; M2 increased 1.6% mom to AED 1.3trn.
- **Inflation in Abu Dhabi increased to 3.3% yoy in 2018;** Dec inflation was reported at 1.2% yoy and 0.03% mom in

Dec. Transportation prices were up 8.4% yoy in 2018, contributing towards 35.8% of the inflation growth rate.

- **UAE**, via the Abu Dhabi Fund for Development, **deposited USD 1bn**— the first installment of a USD 3bn financial support package — **in Pakistan's central bank**; this funding was announced in Dec.
- **Abu Dhabi Financial Services Regulatory Authority** plans to **introduce standards of financial disclosures** for Environmental, Social and Governance (ESG) criteria for relevant entities at Abu Dhabi Global Market.
- The **Federal Electricity and Water Authority** announced a **reduction in retail electricity tariffs** for residents in the norther emirates from 45 to 28 Fils per kilowatt, to be enforced as of Feb 1st this year. Tariffs will remain unchanged for commercial units, hotels, and labour camps.
- **Dubai plans to source 8%** or at least 1000 megawatts of its over-all power requirements **from renewable energy sources by next year**, according to the CEO and managing director of Dubai Electricity and Water Authority.

Media Review

IMF's World Economic Outlook, Jan 2019 update

<https://www.imf.org/en/Publications/WE0/Issues/2019/01/11/weo-update-january-2019>

The steam has gone out of globalisation

<https://www.economist.com/leaders/2019/01/24/the-steam-has-gone-out-of-globalisation>

Three Steps to Avert a Debt Crisis

<https://blogs.imf.org/2019/01/18/three-steps-to-avert-a-debt-crisis/>

The biggest risks to the global economy in 2019

<https://www.weforum.org/agenda/2019/01/these-are-the-biggest-risks-to-the-global-economy-in-2019>

The Euro turns 20

<https://www.project-syndicate.org/commentary/eurozone-20-year-anniversary-failures-successes-by-jeffrey-frankel-2019-01>

Regulating AI: The Economist's podcast

<https://www.economist.com/podcasts/2019/01/25/what-does-the-future-hold-for-the-regulation-of-ai>

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