

Weekly Economic Commentary – Feb 3, 2019

Markets

Equity markets rose in the US, supported by the Fed's indications of a "pause" in hiking rates as well as the strong ISM and US non-farm payrolls reports. In Europe, the FTSE and Stoxx also gained in spite of weak bank earnings and weaker than expected macro data. In the region, Egypt's shares jumped on expectations of a rate cut, while UAE markets gained on bank earnings and announcement of the bank merger. The dollar index held steady, while oil prices surged on tightening supply and strong US data weighed on gold prices which closed lower in spite of touching a 9-month peak during the week.

Global Developments

US/Americas:

- **S&P Case-Shiller home price index increased** by 4.7% yoy and 0.3% mom in Nov (Oct: 5.0% yoy). Las Vegas (+12% yoy), Phoenix (+8.1%) and Seattle (+6.3%) continue to see the highest gains in the index's 20-city composite.
- **Pending home sales fell** by 9.8% yoy in Dec to the lowest since 2014, and from a 7.8% drop the previous month. **New home sales** meanwhile **hit an 8-month high in Nov**, rising by 16.9% yoy to an annual rate of 657,000 units.
- **US consumer confidence fell for the 3rd consecutive month**, with the index down to 120.2 in Jan (vs. Dec's 126.6), at the lowest level since Jul 2017. Consumers' expectations for the future dropped to the weakest since Oct 2016.
- **ADP employment report** estimated 213k new private employment jobs in Jan vs. Dec's revised 263k. This survey does not include government employee data.
- **The Fed left rates unchanged**, and the Chairman made it clear that rates are in "pause" mode with **extremely**

dovish messaging during the post-meeting statement. Among growing threats to the economy were the trade war with China and the risk of another government shutdown, according to Powell.

- **Initial jobless claims rebounded** to the highest level since Sep 2017, rising by 53k to a seasonally adjusted 253k for the week ended Jan 26. The 4-week moving average rose 5k to 220,250 last week.
- **Non-farm payrolls surged** by 304k in Jan, and compares to an average monthly gain of 223k in 2018. The unemployment rate edged up to 4% (a level last seen in Jun)
- **ISM manufacturing PMI in the US increased** to 56.6 in Jan (Dec: 54.3), with faster increases in new orders, production and inventories while employment slowed slightly.

Europe:

- The **euro zone grew** by 0.2% qoq and 1.2% yoy in Q4, following a 1.6% rise in Q3. On average by 1.8% in 2018, significantly lower than 2017's 2.3%, and much below the ECB's prediction of 2.5%.
- **Italy fell back into recession for the third time in a decade**: Q4 GDP shrank by 0.1%, following a decline of 0.1% the quarter before.
- The **European Commission's Economic Sentiment Indicator decreased** in both the euro area (by 1.2 points to 106.2) and the US (by 1.4 points to 106.1). The **Business Climate indicator also declined** in the euro area (by 0.17 points to +0.69), with managers' assessments of production expectations deteriorating strongly.
- The **Markit manufacturing PMI for the eurozone** was at the **lowest since Nov 2014**, clocking in at 50.5 in Jan 2019, and down from Dec's 51.4. New orders declined at the sharpest rate since Apr 2013 while job creation softened to the lowest since Sep 2016.

- **Inflation in the eurozone slowed** to 1.4% in Jan – an 11-month low – thanks to easing energy prices. Core inflation meanwhile picked up to 1.2% from 1.1% the month before. Separately, German inflation held steady at 1.7% in Jan.
- **German retail sales fell** 2.1% yoy in Dec, following a 1.9% rise in Nov.
- **UK PM Theresa May won** 6 out of 7 Commons votes on her MPs amendments to her **Brexit plan B**. A more detailed Brexit plan needs to be presented by mid-Feb.

Asia Pacific:

- **China's factory activity is shrinking: China's official manufacturing PMI** (which tracks large businesses & SoEs) edged up to 49.5 in Jan, from 49.4 in the previous month. The **Caixin manufacturing PMI** (which tracks SMEs) **fell** to 48.3 in Jan– its worst reading since Feb 2016 – and down from Dec's 49.7. New orders also contracted for the second consecutive month – to 47.3, the lowest reading since Sep 2015.
- **China's non-manufacturing PMI expanded** to 54.7 in Jan (Dec: 53.8); the service sector, posted stronger expansion with its business index climbing to 53.6 from 52.3 in Dec.
- **Japan industrial production dipped** 0.1% mom in Dec, following a revised 1.0% fall in Nov.

Bottom line: US-China trade negotiations dragged on, with no clear-cut outcomes though officials said progress had been made. Contrast this with the EU-Japan bilateral free trade agreement, which came into force Feb 1st, and is likely to start reaping the benefits immediately as the pact removes almost all tariffs (and smooths away regulatory barriers to trade gradually). Brexit is fast approaching (in less than two months' time) and while Plan B is to be detailed by mid-Feb, the market is betting that a hard Brexit is still likely to be avoided. Europe and Asia had little to cheer with recessionary

data from Italy, weak eurozone macro numbers and business/economic sentiment as well as weak manufacturing data from China.

Regional Developments

- **Bahrain** awarded BHD 278mn (USD 732mn) worth **infrastructure project tenders last year** covering three sectors (roads, sewage and buildings).
- **Real GDP in Egypt** grew by 5.4% yoy in H1 of the current fiscal year, from 5.2% reported a year ago, according to the planning minister. Egypt is targeting GDP growth of 5.8% during its current fiscal year.
- **Foreign investors bought all of the five-year Egyptian treasury bonds auctioned last week:** the central bank sold EGP 1.16bn (USD 66mn) in five-year bonds at an average yield of 17.59%.
- **Bilateral trade between Egypt and France** touched USD 2.2bn in Jan-Nov 2018, with exports to France up 7.3% yoy to EUR 560mn during the period.
- **Remittances from Egypt** grew by 5.7% yoy to USD 23.3bn in Jan-Nov 2018, disclosed the central bank.
- **Iraq is close to finalizing a trade deal with Jordan**– to cut the price of oil it sells Jordan in return for receiving preferential tariffs on goods Jordan ships to Iraq via the Aqaba port.
- **Loans for SMEs in Jordan** grew by 10.4% yoy to JOD 2.34bn by end-Sep, up from 6.4% a year ago. The share of SMEs' loans during Jan-Sep 2018 rose to 10.2% from 9.6% during the same period a year earlier.
- **Jordan and Saudi Arabia** have approved the feasibility of **connecting the electric power grids** of the two countries. The project is expected to be operational in 2022.
- **Trade surplus in Kuwait** surged by 77.1% yoy to KWD 10.23bn (USD 33.83bn) in Jan-Nov 2018, supported by a 34.2% pickup in exports while imports grew by 7.4%.
- **Kuwait plans to raise industrial investment** to KWD 1.7bn

(USD 5.6mn) by 2020, with an aim to raise the real growth of the sector to above 8.3%.

- **Kuwait's new expat fees**, to be imposed from Jun 2019, stands at KWD 300 (USD 991.7) for each working license provided to expatriate workers in non-governmental bodies (not subject to the Kuwaitisation policy).
- **Lebanon formed a new national unity government after a 9-month delay**: the announcement sent some bond prices rallying, up to the highest level since Aug. Four women are part of the cabinet, while the government also appointed the first ever woman interior minister in the Arab world.
- **Lebanon's energy minister hopes to resume natural gas imports from Egypt** under a gas supply contract (agreed to in 2009), though no time frame was provided.
- **The Byblos Bank/AUB Consumer Confidence Index for Lebanon** averaged 75.5 in Q4 2018, from 75.3 in Q3. The average monthly score of the Index in Q4 2018 was 28.6% lower than the quarterly peak score of 105.8 registered in Q4 2008.
- **Real estate transactions in Oman increased** by 1.2% yoy to OMR 2.64trn till end-Dec 2018; the government reported 8.1% uptick in real estate transaction fees to OMR 85mn in 2018.
- **Oman moved 15 places ahead**, with a score of 53 in 2018, on Transparency International's "**Corruption Perception Index**" and is now placed third in the Arab world (UAE scored 70 and Qatar 62).
- **China's President** called for a return to "**unity and harmony**" while welcoming **Qatar's** emir to Beijing.
- **Saudi Arabia launched the National Industrial Development and Logistics Program** under the Vision 2030 reform plan across 4 key sectors: mining industry, logistics and energy. By 2030, the program aims to stimulate investments worth more than USD 453bn, increase the value of non-oil exports to USD 260bn, and add 1.6mn jobs. Already, deals worth SAR 204bn

(USD54.4bn) were signed.

- **Deposits grew** by 2.6% to SAR 1.661trn (USD 440bn) **in Saudi Arabia last year** while bank credit was up by 2.8% to SAR 1.426trn.
- **Saudi Arabia has set up NEOM as a joint stock company owned by the PIF**, with the aim of creating a USD 500bn economic zone with 16 economic areas including energy, manufacturing and tourism. Developments in NEOM are expected to begin in Q1 this year.
- **Saudi Arabia** expects to receive SAR 56.4bn (USD 15.1bn) in **revenue from expat fees** this year, a 101% yoy increase from 2018's SAR 28bn.
- **Expat remittances from Saudi Arabia declined** by 3.7% yoy to SAR 136.43bn (USD 36.38bn) during 2018 – the lowest level since 2012 – according to SAMA.
- **About 99% of the Saudi private sector consists of SMEs**, and these SMEs absorb about 70% of the workforce, disclosed the secretary-general of the National Entrepreneurship Initiative.
- **Unemployment in Saudi Arabia eased** to 12.8% in Q3 2018 from Q1's peak of 12.9%.
- The **anti-corruption crackdown in Saudi Arabia** (launched Nov 2017) has been wound down. It helped **recover assets** worth more than USD 106bn, according to the royal court. Settlements were reached with 87 people who confessed to the charges against them.
- **Saudi Arabia launched the second phase of its Renewable Energy Program**: comprising seven solar projects worth USD 1.5bn, its combined generation capacity will be 1.51 gigawatts, enough to power 226,500 households.
- **Demand for gold grew** by 4% yoy to 4,345.1 tonnes in 2018, supported by a 50-year high in central bank buying while global jewellery demand remained stable at 2200 tonnes.
- The **PwC CEO survey** revealed a **decline in the confidence of CEOs in the Middle East** – with only 28% expecting an

improvement in global growth in the coming year, versus 52% last year. The biggest threats identified to the organizations were changing consumer behaviour (79%) and the speed of technological change (75%).

UAE Focus

- **The launch of the common digital currency project** (labelled “Aber”) between UAE and Saudi Arabia is in the “Proof of Concept” stage and will see the currency being used in financial settlements, using Blockchain and Distributed Ledger technologies.
- **The IMF issued the latest Article IV report for the UAE**, highlighting growth of around 2.9% last year and forecasting real GDP growth at around 3.7% for 2019-20.
- **UAE’s non-oil foreign trade increased** by 2.5% yoy to AED 1.2trn in Jan-Sep2018, driven by free zone trade. Non-oil foreign trade from free zones accounted for 37% of total trade, valued at AED 439.2bn.
- **Industrial production in Sharjah** touched AED 41bn (USD 11.16bn) last year, with the number of industrial licenses issued growing by 14% yoy to 174 (plus 1890 renewals).
- Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank have agreed to a **merger**, which will **create the third-largest bank in the UAE** with assets worth AED 420bn (USD 114.35bn).
- **The First Abu Dhabi Bank has proposed raising its foreign ownership limit** to 40% from 25% previously. This move could boost investor appetite going forward.
- Both **DFSA and ADGM**, part of the **Global Financial Innovation Network**, have announced the launch of the next phase i.e. inviting applications from firms looking to take part in a **cross-border testing pilot across multiple international markets** for innovative financial products, services or business models.
- **UAE’s petrol prices were reduced by five fils** to between

AED 1.84-1.95 per litre, depending on the grade of the petrol. Diesel price was lowered by 0.86% mom to AED 2.28.

- **Passenger traffic in Dubai touched 89.1mn in 2018**, missing its target of 90.3mn, but remaining the world's busiest airport for international travelers. Dubai airport passenger traffic in Dec alone fell by 1.7% to 7.7mn.
- In a bid to reduce costs, **Dubai's** Department of Tourism and Commerce Marketing announced that **hotel establishments, tourism companies and event organisers will no longer require a public relations officer card** to conduct business in the emirate.

Media Review

Reimagining Davos

<https://www.project-syndicate.org/commentary/revamp-davos-to-realize-its-potential-by-mohamed-a-el-erian-2019-01>

Eyeing reconstruction, Syria and Iran strike deal to allow bank transfers

<https://www.reuters.com/article/us-mideast-crisis-syria-iran/eyeing-reconstruction-syria-and-iran-strike-deal-to-allow-bank-transfers-idUSKCN1PN1WX>

IMF publishes UAE's Article IV report

<https://www.imf.org/en/Publications/CR/Issues/2019/02/01/United-Arab-Emirates-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-46571>

Modernising global trading rules

<https://www.economist.com/finance-and-economics/2019/01/31/a-new-initiative-aims-to-modernise-global-trading-rules>

Aramco's rating ambitions face Saudi economic curb

<https://www.reuters.com/article/us-aramco-bond-ratings-analysis/aramcos-rating-ambitions-face-saudi-economic-curb-idUSKCN1PM1MD>

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