

Weekly Economic Commentary – Feb 10, 2019

Markets

Weakening growth worries amidst unresolved trade tensions played havoc with global equity markets last week, with most markets closing lower, including the MSCI global stock gauge which posted the first weekly drop this year. Earnings have also disappointed: Europe seems to be on track for its weakest quarter for earnings growth in three years, while Q1 earnings from S&P 500 companies is expected to post the first such quarterly profit decline since 2016. In the region, Qatar was the worst performer last week while most other major markets (except Oman) closed higher. The dollar edged higher reporting the strongest week in six months, while both the pound and the euro fell. An anticipated decline in global demand for oil led to a weekly loss in oil price (WTI posted the steepest decline this year; Brent was down by more than 1%), while gold prices were supported by safe haven demand.

Global Developments

US/Americas:

- **Factory orders in the US unexpectedly fell** by 0.6% in Nov, following a 2.1% drop in Oct; orders for machinery tumbled 1.7% after gaining 0.2% the month before. Core capital goods i.e. orders for non-defense capital goods excluding aircraft dropped 0.6% (Oct: + 0.5%).
- **New orders for US manufactured durable goods increased** by 0.8% mom in Nov 2018, following a downwardly revised 4.3% dip in Oct.
- **ISM non-manufacturing in the US dropped** to a 6-month low of 56.7 in Jan (Dec: 57.2), with a reported drop in new export orders to 50.5 from 59.5 – the worst in two years.
- **US composite PMI** stood at 54.4 in Jan 2019, slightly

below a preliminary estimate of 54.5 and unchanged from Dec's final reading.

- **Trade deficit in the US narrowed** by 11.5% mom to USD 49.3bn in Nov, largely due to falling imports (-2.9%), alongside a dip in in exports (-0.6%) as well.
- **Initial jobless claims fell** by 19k to 234k in the week ended Feb 2, returning near post-recession lows. The 4-week moving average rose 4,500 to 224,750 last week.

Europe:

- **EU retail sales fell** by 1.4% mom in Dec as non-food sales and online purchases declined; the steepest fall was in Germany where retail sales dropped by 4.3% mom.
- **EU Markit composite PMI edged down** to 51 in Jan (Dec: 51.1), posting the lowest reading since Jul 2013, just above the flash reading of 50.7. France's composite reading sank to 48.2, its lowest in over four years.
- **German factory orders plunged** 7% yoy – the biggest yoy drop since 2012 – and by 1.6% mom in Dec as German manufacturers suffered from falling demand from overseas.
- **German industrial production fell** for the fourth consecutive month by 0.4% mom and 3.9% yoy in Dec, thanks to a 4.1% mom plunge in construction.
- **UK Markit construction PMI fell** to a 10-month low of 50.6 in Jan (Dec: 52.8), with construction firms hiring staff at the slowest pace since Jul 2016 (just after the Brexit referendum).
- **The Bank of England left rates unchanged** at 0.75%, but **lowered its growth forecast** to just 1.2% this year – the lowest since the financial crisis a decade ago – noting the “fog of Brexit”.

Asia Pacific:

- **India eased interest rates** by 25bps in 6.25%, ahead of general elections in Apr-May. The RBI, citing drop in

inflation, lower oil prices and a global economic slowdown as factors behind the rate cut, also shifted its broader monetary policy stance from “calibrated tightening” to “neutral”.

- **Japan's overall household spending inched up** by 0.1% yoy to JPY 329,271 (USD 3000), rising for the first time in four months. For the whole of 2018, average monthly spending by households with two or more members declined 0.4% yoy to JPY 287,315, the fifth straight year of decline.
- Growth momentum is slowing in **Singapore**, with **PMI down 0.4 points** to 50.7 in Jan, the lowest reading since Dec 2016. Singapore's key electronics sector contracted for a third straight month with its PMI sub-index slipping 0.2 points to 49.6.
- **Indonesia's GDP grew** by 5.18% yoy in Q4, taking the full year growth to 5.17%, lower than the government's 5.4% target. The GDP data is the last before Indonesians go to the polls on April 17.

Bottom line: The new set of US-China trade negotiations resume in Beijing this week, ahead of the Mar 1 deadline when US tariffs on USD 200bn worth of Chinese imports are scheduled to increase to 25% from 10%. The associated economic policy uncertainty has led to many dismal data releases across nations and has also seen central banks take a step back from tightening monetary policy. Data from Germany continued to disappoint, and the European Commission lowered its growth forecast for this year to 1.3% from 1.9%, also predicting the weakest expansion in Italy for five years. The Brexit saga continues with S&P warning about downgrades for some British companies in a no-deal Brexit – and possibly even lowering the UK's credit rating.

Regional Developments

- **Bahrain's real GDP growth** of 1.6% in Q3 2018 was supported by the non-oil sector, especially an expansion

in the construction and manufacturing sectors, as well as increased infrastructure spending, as per the Bahrain Economic Quarterly

- **Budget deficit in Bahrain narrowed** by 35% yoy last year, reported the finance minister.
- **Bahrain's monthly issue of short-term Islamic leasing bonds, *sukuk Al Ijara*, was oversubscribed** by 119%, the central bank disclosed; subscription value was BHD 31mn.
- As **Egypt** plans to undertake privatization of its state-owned enterprises (SoEs), the cabinet **announced the set-up of a fund to finance the development of SoEs**. The fund is expected to "contribute to settling the public business sector's debts to the banking system, provide the necessary financing for the administrative and technical reform of these companies and contribute to the removal of financial bottlenecks", as per the official statement.
- **PMI in Egypt weakened** to 48.5 in Jan (Dec: 49.6), as both output (47.5 in Jan vs. Dec's 48.8) and new orders (47.9 from 49.7) fell.
- **Egypt aims to reduce budget deficit to 5% of GDP within the next 3-4 years**, compared to a target of 8.4% for the 2018-19 budget. Efficiency in tax collection – reaching 18-20% of GDP vs. 14.6% now – is seen as imperative to boosting tax revenues.
- **Unemployment in Egypt declined** to 8.9% in Q4 last year, from 10% in Q3 2018. For the full year 2018, unemployment clocked in at 9.9%.
- **Egypt's central bank received the fifth tranche of the USD 12bn 3-year IMF loan (USD 2bn)**. The IMF statement highlighted the commitment of the authorities to continue with economic reforms, including removal of fuel subsidies by mid-2019.
- **Egypt's net foreign reserves** stood at USD 42.616bn at end-Jan from Dec's USD 42.551bn.
- Egypt's finance minister revealed that **foreign investors bought Egyptian treasury bills and bonds** worth USD 900mn

in Jan. Separately, payments of USD 10.5bn in foreign debt is due this fiscal year.

- **Egypt's short-term dollar debt dropped** by USD 3.25bn to about USD 14bn by end-2018, according to the deputy finance minister. In addition to periodically issuing dollar-denominated treasury bills, the government plans to issue foreign currency bonds early this year to raise USD 3-7bn.
- **Egypt's giant Zohr offshore gas field raised output** to 2.1bn cubic feet per day and investments of USD 1.2bn is expected from project partners in the fiscal year 2019/2020.
- **Iraq paid USD 300mn compensation to Kuwait** for losses caused by the Iraqi invasion of Kuwait.
- **Iran's oil minister stated that Iraq owed USD 2bn for gas and electricity exports.** Following the re-imposed sanctions, Iraq halted a deal with Tehran to swap crude produced from the northern Iraqi Kirkuk oilfield for Iranian oil.
- **Jordan's real estate trade volume declined** by 24% yoy to JOD345mn in Jan; revenues dropped by 21% to JOD 18.1mn.
- **Kuwait's government has issued a decree to reduce expats in all government departments** by next fiscal 2019-2020; localization will be raised to more than 90% by end of next fiscal.
- **Lebanon issued a draft government policy statement,** which includes a commitment to reduce the debt-to-GDP ratio by boosting the size of the economy and reducing the budget deficit. While tax increases were not being considered, state hiring has been put on hold this year. Earlier in the week, Lebanon's Finance Minister had identified electricity reform, budget deficit reduction and revenue increases as key priorities for the government.
- **Oman's oil production grew** by 0.8% yoy in 2018, averaging 978,400 barrels per day.
- **Oman's Ministry of Manpower has extended the visa ban on**

some occupations for a period of 6 months: the ban applies to professions including computer engineer, public relations specialists, Administrations managers, human resources specialist, business specialists, and sales specialist.

- *Bloomberg* reported that **Deutsche Bank** was in advanced talks to receive additional investment from Qatar (most probably the Qatar Investment Authority). The Qatari royal family already holds a 6.1% stake in Deutsche Bank.
- **Saudi Arabia's government reserves dropped** by 14.7% qoq to SAR 489.5bn in Q4 2018, falling by more than half compared to 4 years ago.
- **Saudi Arabia's PMI increased to a 13-month high** of 56.2 in Jan (Dec: 54.5), thanks to an acceleration in new orders growth (62.8 in Jan vs. Dec's 58.4). Employment growth edged up to 51 from Dec's 20-month low, as 2.5% of surveyed firms increased hiring.
- **Saudi Arabia allocated SAR 11.5bn to reimburse the 2017-18 expat fee hikes for some companies.** Only companies that had a higher or equal number of Saudi employees versus expats will be eligible for the reimbursement or waiver of fees, according to the decree.
- **Saudi Arabia has allocated around SAR 27bn** to implement the initiatives and projects of the National Industrial Development and Logistics Programme (**NIDLP**), according to its head. This is in addition to financing investments worth SAR 11bn by end-2018, reported *Al Eqtisadiah*
- **Saudi Arabia attracted USD 43bn worth of foreign investment between 2013 and 2017**, from 493 investments made by 361 foreign firms, according to the Chamber of Commerce and Industry in Riyadh.
- **Saudi Arabia's total savings surged** by 24.3% yoy to SAR 758.92bn (USD 202.38bn) in Jan-Sep 2018, according to the Saudi General Authority for Statistics' data.

- **Revenues from crude oil exports from Saudi Arabia increased** by 40.9% yoy to SAR 812.18bn (USD 216.56bn) in Jan-Nov 2018. The average of Saudi crude oil exports increased by 5.5%, or 383,000 barrels per day (bpd), to 7.34 million bpd during this period.
- OPEC sources disclosed that **Saudi Arabia cut its crude output** by about 400k barrels per day (bpd) to 10.24mn bpd in Jan.
- **MENA's M&A deal value surged** by 68.7% yoy to USD 26.76bn in 2018, disclosed Mergermarket. The uptick was driven by increased deal-making in the UAE, where it more than doubled to USD 10.4bn in 2018. Cross-border MENA deals, which totalled 77 deals worth USD 14.21bn, recorded the highest volume of inbound M&A on record and the highest value since the global financial crisis.
- The **HSBC's Expat Explorer survey ranked Bahrain second and UAE fourth** among the best destinations for expat careers this year. The list was topped by Germany, while UK was placed third and Switzerland 5th.

UAE Focus

- **UAE's PMI edged up** to a 7-month high of 56.3 in Jan, following Dec's reading of 54, supported by faster output growth (a 5-month high of 63) and higher new orders growth (60.9 vs. Dec's 58.3).
- **Six Saudi and Emirati banks will participate in the launch of the common digital currency project "Aber"**, revealed the UAE central bank. The joint venture is scheduled to be completed within 12 months.
- **Bank lending in the UAE increased** by 4.8% yoy to AED 16.56trn as of Dec 2018, according to the central bank. While bank lending to the government sector rose 9.2% yoy to AED 1.91trn at end- 2018, loans to the private sector grew by 4% to AED 11.3trn.
- **UAE's overall debt-to-GDP ratio dropped by 7.1 percentage points**, revealed the IIF. Debt held by UAE

households as percentage of GDP fell to 21.9% in Q4 2018 from 24.3% in Q3 2017, while the government's debt fell from 19.9% to 18.3%.

- **Japan imported** 778 million barrels of **crude oil from the UAE** in Dec 2018, accounting for 24.5% of Japan's total crude oil imports. This compares to 39.437mn barrels from Saudi Arabia (or 42.5% of the total).
- **Dubai** announced plans to spend AED 2bn over 4 years to **develop an e-commerce free trade zone**, spanning 920k square metres, with construction set to begin this year.
- The total number of **operational restaurants and cafes in Dubai** touched 11,813 in 2018, with new restaurants and cafes rising by 9.7% to 1109. The total number of workers in active restaurants and cafes reached 151,127, with an average of 13 workers per restaurant or cafe.
- **DP World reported a fall in shipping container volumes in Dubai**: a decline of 4.6% to 3.6mn 20-foot equivalent units (TEUs); overall, for 2018, Dubai shipping container volumes fell 2.7% to 15mn TEUs.

Media Review

Laying the Foundations of Good Fiscal Management in the Arab World: IMF's Lagarde's speech at the 4th Arab Fiscal Forum

<https://www.imf.org/en/News/Articles/2019/02/08/sp0209-md-laying-the-foundations-of-good-fiscal-management-in-the-arab-world>

Global economy: Why central bankers blinked

<https://www.ft.com/content/24508f0e-2b91-11e9-88a4-c32129756dd8>

A Mixed Economic Bag in 2019: Roubini

<https://www.project-syndicate.org/commentary/economic-outlook-for-2019-main-factors-by-nouriel-roubini-2019-02>

The truth about big oil and climate change

<https://www.economist.com/leaders/2019/02/09/the-truth-about-big-oil-and-climate-change>

Trade Wars: The Pain and the Gain

<https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1989>

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