Weekly Economic Commentary – Feb 17, 2019

Markets
The S&P 500 in the US had good week, also recording the highest daily increase in Feb. In spite of any specific progress in the US-China trade negotiations, investors seem to be betting on the fact that a deal would be a win-win for both sides. European stock markets were up as well, though in Asia most markets closed lower. Regional markets were mixed: Dubai gained, as did Egypt and Saudi Arabia, while Qatar slipped to a 4-month low and Kuwait, Oman and Bahrain edged lower. The euro bounced back after dipping on comments from an ECB board member that targeted longer-term refinancing operations were “being discussed”; the pound slumped after the Feb 14 Brexit vote as no-deal Brexit fears grow. Oil prices last week surpassed USD 65 for the first time this year, on tightened supply while gold prices rose on a weak dollar.
Global Developments
US/Americas:

- **US inflation declined** to 1.6% yoy in Jan – the lowest since Jun 2017 – thanks to energy prices which fell by 5.5%; core inflation rose a moderate 0.2% in Jan and is holding at 2.2% for 12 months.
- **US wholesale prices fell**for a second straight month in Jan, dipping 0.1% mom as the cost of energy products and food declined. In yoy terms, PPI rose 2%, posting the smallest gain since Jul 2017.
- **US industrial production fell** 0.6% mom in Jan -declining for the first time since May 2018 – and following a downward revision in Dec’s reading to 0.1%.
- **Retail sales in the US posted the steepest decline in more than 9 years**, tumbling by 1.2% mom and 2.3% yoy in Dec. Excluding automobiles, gasoline, building materials

and food services, retail sales dropped 1.7%, the biggest fall since Sep 2001.

- **Initial jobless claims unexpectedly increased** by 4k to a seasonally adjusted 239k for the week ended Feb 9. The 4-week moving average, at 231,750 last week, is the highest level since Jan 2018.

Europe:

- **Eurozone's GDP grew by 0.2% qoq in Q4,** unrevised from the prelim estimate and unchanged from Q3's 0.2%. Germany narrowly escaped a recession, recording flat growth in the last quarter, while Italy fell into recession (for the first time since 2013) as output contracted by 0.2%.
- **Industrial production in the EU fell** 0.9% mom in Dec; the annual decline was the steepest since 2009.
- **UK GDP growth dropped to** 1.4% last year – **the weakest level since 2012**. Growth had slowed to 0.2% qoq in Q4, down from 0.6% in Q3.
- **Inflation in the UK fell to a 2-year low** of 1.8% in Jan (Dec: 2.1%), on falling energy prices.
- **UK retail sales bounced back in Jan**, posting 1% mom and 4.2% yoy growth, helped by price discounts.

Asia Pacific:

- **China's total exports increased** unexpectedly by 9.1% yoy in Jan (Dec: -4.4%) while imports continued to fall (down 1.5% in Jan, following a 7.6% dip in Dec), bringing overall trade surplus to USD 39.16bn (Dec: USD 57.06bn). **Trade surplus with the US narrowed** to USD 27.3bn in Jan (Dec: USD 29.87bn); exports to the US was down 2.4% yoy while imports from the US plummeted by 41.2%.
- **Inflation in China slowed** to 1.7% yoy in Jan, easing largely due to a decline in food prices. Producers price inflation meanwhile slowed for the 7th consecutive month

in Jan rising only by 0.1% yoy (Dec: 0.9%).

- **FDI inflow into China** totaled USD 15.36bn in 2018; with FDI outflows at USD 11.287bn, the net inflow of FDI last year stood at USD 4.073bn.
- **New loans touched a record-high in China**, posting a total of CNY 3.23trn (USD 477bn) in Jan, eclipsing the last high of CNY 2.9trn in Jan 2018. Corporate loans accounted for 80% of new loans in Jan, up from Dec's 44% share. The PBoC's shift to policy easing was also evident in other monetary indicators: **money supply**(M2) grew by 8.4% yoy, while **outstanding CNY loans** grew by 13.4% (Dec: 13.5%) and growth of **outstanding total social financing** picked up to 10.4% from Dec's record-low 9.8%.
- **Japan's GDP recovered in Q4 2018**, rising at 0.3% qoq and at an annualized rate of 1.4% yoy after posting a sharp decline in the previous quarter (-2.6% yoy), supported by private consumption (+0.6% qoq), capital expenditure (+2.4%) and exports (+0.9%). In 2018, the economy grew 0.7% in real terms, up for the seventh straight year; nominal GDP climbed to a record JPY 548.5trn (USD 4.9trn).
- **Industrial production in Japan dipped** by 0.1% mom and by 1.9% yoy in Dec, confirming the preliminary estimates released towards end-Jan.
- **Singapore reported the lowest GDP growth in two years**, slowing to 3.2% in 2018 (2017: 3.9%). Growth was 1.9% yoy in Q4 2018 – the slowest pace since Q3 2016 – following Q3's 2.4% growth.
- **Retail sales in Singapore declined** by 6% yoy and 3.4% mom in Dec; excluding motor vehicles, retail sales decreased 3% yoy and 4.1% mom. Total retail sales value in Dec 2018 was about SGD 4.3bn, of which an estimated5.5% were online sales.
- **India industrial output grew** by 2.4% yoy in Dec, and compares to a downwardly revised 0.3% yoy rise in Nov.
- **Unemployment rate in South Korea rose to a 9-year**

high of 4.4% in Jan (Dec: 3.8%); Jan's figure was the highest since the 4.7% rate recorded in Jan 2010.

Bottom line: The US-China trade negotiations drag on with no concrete results (in its 6th round of negotiations), while in the UK PM May suffered another setback losing the Feb 14 vote on Brexit. In Europe, though Germany managed to just avoid a technical recession, forward looking data points toward a slow first half. Politics will dominate in the coming months with Spain's call for snap election on Apr 28thadding to the series of local and European elections in May. China released a slew of data post the Chinese New Year holidays, mostly pointing towards slowing growth as well.

Regional Developments

- **Bahrain's** minister of finance disclosed that **fiscal deficit had narrowed by 35% last year**, facilitating the plan to balance budget by 2022. He also stated that Bahrain plans to tap the bond market "opportunistically".
- Bahrain-based **Investcorp and** UK-based **Aberdeen Standard Investments set up a joint venture to invest in infrastructure projects in the Gulf**, and expects to deploy USD 800mn-1bn worth of capital in the next 5-10 years.
- T**he Central Bank of Egypt surprised with a 100 basis point rate cut** – the first rate cut since Mar 2018- citing "moderation of underlying inflationary pressures"; deposit rates were lowered to 15.75% and lending rate to 16.75%.
- **Inflation in Egypt edged up** to 0.8% mom and 12.2% yoy in Jan 2019 (Dec: 11.1% yoy), thanks to a 1.2% mom increase in prices of food and beverages. Core inflation increased to 8.6% yoy in Jan from Dec's 8.3%.
- **Egypt approved in principle constitutional amendments** that would allow President Sisi to stay in power until 2034 and also boost his control of the

judiciary.

- **Egypt's** PM stated that the country's **four major gas fields**, which saw investments exceeding USD 27bn, will have a **maximum production capacity** of 6.5bn cubic feet of gas per day upon completion.
- **Jordan and Saudi Arabia** signed a JOD 500mn joint investment **rail project** connecting the ports of Aqaba on the Red Sea with Ma'an.
- **Bank deposits in Kuwait increased** by 3.2% yoy to KWD 43.5bn (USD 143.16bn) in Dec. Credit to the private sector rose to KWD 36.9bn by end-Dec.
- **Kuwait**'s central bank has granted initial **approval for the merger** between Bahrain's **Ahli United Bank** with the **Kuwait Finance House**.
- **Lebanon has not asked the IMF to provide funding**, clarified the IMF's head for the MENAP region. The IMF called on the country to "strengthen credibility by moving fast" on structural reforms and to reduce deficits, while also addressing social protection issues.
- **Saudi Arabia lifted** its longstanding **warning against** its citizens **travelling to Lebanon,** "based on reassurances from the Lebanese government", revealed the ambassador to Beirut.
- **Budget deficit in Oman touched OMR 2.7bn (USD 7bn) last year**, less than projections thanks to higher oil revenues.
- The **IMF urged Oman to** "keep on the adjustment agenda" and "**accelerate some of the highlighted reforms**" including removal of subsidies and introduction of VAT. When asked if the nation is heading towards a credit crunch, the IMF was not too concerned stating "if they do the right steps, they are not heading to a credit crunch".
- **Oil production in Oman stood at 970k barrels per day in Jan**; in comparison, production had averaged 978,400 bpd in 2018, up 0.8% yoy.

- **Local equity investments,** which**make up 75% of Saudi Arabia's PIF's assets,** outweighs holdings in major projects, including real estate and infrastructure assets, disclosed the fund's chief. He also stated that the PIF plans to increase its stake in ACWA Power to 40% from 25% and is looking to invest in electric vehicles and solar power.
- The Saudi Arabian Monetary Authority (**SAMA**) **launched the "Tanfeeth" program** that aims to link the technological systems of government and banks operating in the Kingdom.
- According to the IMF, **Saudi Arabia would need oil prices at USD 80-85 a barrel to balance its budget**. The regional head of the IMF also stated that while the government "can afford" additional spending (As proposed in the budget), its top priority should continue to be balancing the budget by 2023.
- The Saudi Arabian Monetary Authority (**SAMA**) **permitted 7 companies** looking to provide digital payment services **to be part of its regulatory sandbox for fintech firms**. It has also permitted 11 banks to let customers open and edit accounts remotely (without visiting branches).
- **Saudi Arabia plans to produce around 9.8mn barrels per day (bpd) of oil in Mar**, more than 0.5mn bpd below the pledged production level, with exports estimated to touch 6.9mn bpd, the energy minister was quoted in the FT.
- **Pakistan expects to receive a USD 10-20bn economic package from Saudi Arabia**, during the visit of Saudi Arabia's crown prince. The country, which has only USD 8bn left in foreign reserves, is hoping to get USD 30bn in loans and investments from Saudi Arabia and the UAE.
- **Saudi Arabia** disclosed that it has **developed a system of social protection** to protect low-income families focusing on three main areas: social assistance, social insurance and labor market programs.
- **Saudi women will be able to get property loans from**

the Real Estate Development Fund; this was announced after the fund's board meeting in 2019.

- A total USD 91.87bn was raised in the **GCC sovereign and corporate bonds and sukuk market in 2018**, down by 11.89% yoy, according to the GCC Bonds and Sukuk Market survey released by Markaz.Central banks in the GCC raised USD 61.87bn in local bond issuances in 2018, down 11.5% yoy; Kuwait's central bank raised 49% of the total amount.

UAE Focus

- **The UAE central bank withdrew** AED 12.3bn (USD 3.35bn) liquidity surplus in Dec.
- **The Dubai Economy Tracker improved** to 55.8 in Jan (Dec: 53.7), supported by stronger output and new orders readings. The wholesale & retail sector (56.3) rose to the highest level since Aug 2018 while the construction industry index hovered around a 9-month low.
- The **UAE Federal Tax Authority** clarified that there is **no VAT on the interest income earned from bank deposits and dividends**.
- **New business licenses issued** by the **Dubai** Department of Economic Development increased by 20% yoy to 2046 in Jan 2019.
- According to the **Dubai** Department of Economic Development, the emirate **is home to 1985 branches of foreign companies and 833 branches of GCC companies**. British companies accounted for 28.6% of the total branches of foreign companies, followed by Indian (13.9%) and US (12.2%). The GCC list was topped by Kuwait, at 63.3% of companies, Saudi Arabia (23.3%) and Bahrain (19.1%).
- A **business confidence survey** conducted by the **Dubai** Department of Economic Development in Q4 2018 revealed that about 59% of respondents were optimistic about Q1 growth (vs. 41% a year ago) while 34% expected stability. The Composite Business Confidence Index was

126.2 in Q4 2018, up 7.7 points qoq and 10.2 points yoy.

- **Brent crude's premium to Dubai crude fell to the lowest in more than eight years** last week. According to Reuters, the narrow spread is expected to boost Asia's demand for crudes produced in the Atlantic Basin.
- Home to the multiple sovereign wealth funds including the Abu Dhabi Investment Authority, Investment Corporation of Dubai, and Mubadala, the **UAE manages about 14.6% of global sovereign wealth funds' assets**, according to the SWF Institute.
- **Emaar Malls**, with a total gross leasable area of 6.7mn sq ft, maintained strong **occupancy** levels of 93% last year, with **footfall** up 5% yoy to 136mn visitors. The Dubai Mall alone welcomed 83mn visitors in 2018, up 4% yoy.
- **Dubai's Mall of the Emirates has introduced WeChat Pay**, in a bid to enable Chinese tourists to undertake cashless transactions. Mall of the Emirates has also become the first mall in the country to own an official verified WeChat account.
- The **World Bank will be establishing an office in** the Abu Dhabi Global Market (**ADGM**).
- **UAE ranked 5th in the latest DHL Global Connectedness Index**, rising 5 places from the previous edition, and behind Netherlands, Singapore, Switzerland and Belgium.
- **UAE-based money transfer firms** UAE Exchange and Unimoni **are now on RippleNet**, enabling real-time, seamless cross-border transactions (using blockchain technology) to Thailand; plans are to extend to other nations.

Media Review

Will China Replace the US as the Middle East Hegemon?

https://www.forbes.com/sites/arielcohen/2019/02/14/will-china-replace-the-u-s-as-the-middle-east-hegemon

https://www.scmp.com/news/asia/southeast-asia/article/2185754/middle-eastern-states-have-lessons-learn-asean-building

Recovery in stocks need weaker dollar and China stimulus

https://www.ft.com/content/22be58ca-3054-11e9-8744-e7016697f225

Britain’s exporters face an early Brexit

https://www.economist.com/britain/2019/02/14/britains-exporters-face-an-early-brexit

A Survival Kit for the City of London

https://www.project-syndicate.org/commentary/london-financial-center-post-brexit-prospects-by-barry-eichengreen-2019-02