

# Weekly Economic Commentary – Mar 10, 2019

## Markets

Global equity markets had a rough week, on growth concerns and latest round of disappointing data (US non-farm payrolls, China's exports, German industrial orders) amidst few updates on the US-China trade negotiations. Regional markets were mostly down, with the exception of Egypt (supported by blue-chips) and Kuwait. The dollar weakened, and the euro was close to a 21-month low versus the dollar, while the Swedish crown fell to a 16-year low on Riksbank's cautious growth outlook. Oil prices fell as US supply surged, while gold price picked up on a weaker dollar towards end of the week.

## Global Developments

### **US/Americas:**

- **US ISM non-manufacturing PMI accelerated to 59.7 in Feb** (Jan: 56.7), with new orders rising to 65.2 (Jan: 57.7) while the prices index fell to 59.4 from 54.4.
- **New home sales in the US increased to a 7-month high, rising by 3.7% mom** to a seasonally adjusted annual rate of 621k in Dec. An estimated 622k new homes were sold in 2018 (+1.5% yoy).
- **Housing starts in the US grew by 18.6% mom** in Jan to a seasonally adjusted annual rate of 1.23mn (Dec: 1.04mn). **Building permits for construction**, an indicator of future activity, **improved 1.4% mom** to a seasonally adjusted rate of 1.35mn.
- **US private sector employment posted a modest slowdown** in Feb, adding only 183k jobs versus an expected 189k and lower than Jan's revised 300k.
- **US trade deficit widened by 12.5% yoy to a decade-high USD 621bn in 2018.** Goods trade deficit with China increased 11.6% to a record-high of USD 419.2bn.

- **Total non-farm payrolls disappointed, adding only 20k jobs** in Feb – the worst month for job creation since Sep 2017 – vis-à-vis 311k in Jan. Unemployment rate fell to 3.8% and the average hourly earnings increased by 3.4% yoy.
- **Initial jobless claims in the US unexpectedly fell 3k to a seasonally adjusted 223k** for the week ended Mar 2. The 4-week moving average fell 3k to 226,250 – the lowest level in a month.
- **Argentina hiked its benchmark interest rate to prop up the peso:** the central bank offered short-term “Leliq” notes at over 59%, the highest rates since early Jan.

## Europe:

- **The ECB kept rates on hold and slashed forecasts for economic growth** (to 1.1% from Dec’s estimated 1.7%) and inflation (to 1.2% from previous 1.6% estimate). Draghi announced the bank’s intent to hold rates at record lows “at least through 2019” (his term finishes in Oct). The ECB also unveiled more liquidity provisions: **targeted longer-term refinancing operations will begin in Sep** and last until Mar 2021.
- **Eurozone GDP grew by 1.8% in 2018**, down from 2017’s 2.4%. Seasonally adjusted GDP rose by 1.1% in the euro area and by 1.4% in the EU28 in Q4 2018, thanks to an uptick in household final consumption expenditure.
- **EU employment rate picked up in Q4**, with the number of persons employed touching 239.8mn. The EU ended 2018 with an unemployment rate of 6.6%.
- **The composite IHS Markit PMI for the Eurozone rose to 51.9 in Feb** (Jan: 51), aided by a strong services sector reading. German composite PMI increased to a 4-month high of 52.8 (Jan: 52.7).
- **EU retail sales increased by 1.3% mom in Jan**, following Dec’s 1.4% decline.
- **German factory orders slumped by 2.6%**, the most since

June.

## **Asia Pacific:**

- **China** announced, at the annual National People's Congress, a **cut to its value-added tax** of as much as CNY 800bn (USD 119bn).
- **China's exports tumbled** by 20.7% yoy – the largest dip since Feb 2016 – **and imports fell** for a third straight month (+5.2% yoy) in Feb, narrowing the trade surplus to USD 4.12bn.
- **Inflation in China fell to the lowest level in a year**, with a reading of 1.5% yoy in Feb (Jan: 1.7%), dragged down by easing food prices. Separately, the **producers price index** edged up by only 0.1% yoy in Feb (Jan: 0.1%).
- **China's Caixin services PMI fell to a 4-month low** of 51.1 in Feb (Jan: 53.6), with both new orders and export sales dropping to multi-month lows and pointing to softer demand.
- **Japan's GDP was revised up to an annualized 1.9% in Q4 last year**, higher than the initial 1.4% estimate, thanks to a rebound in investment. This brings real GDP growth in 2018 to 0.8%.
- **Overall household spending in Japan grew** by 0.1% mom and **2% yoy** to JPY 296,345 (USD 2,660) in Jan. Spending on housing expanded by 18.0% yoy, recording the highest growth among sectors, while outlays on education also ticked up by 17.7%.
- **GDP in South Korea grew by 2.7% last year**, a six-year low, but national per capita income exceeded USD 30k for the first time.
- **Korea's inflation fell to 0.5% in Feb** (Jan: 0.8%) – the slowest since Aug 2016 – on a 5.2% dip in fresh food prices, while core inflation (excluding oil and agricultural goods) gained 1.3% yoy.

**Bottom line: The week started with China's Premier Li**

announcing a cut its growth target for this year (6.0-6.5%) at the annual National People's Congress (*check Media Review section for a good snapshot*), and then witnessing a double dovish move from the ECB (rates on hold plus cheap funding scheme for banks), as well as disappointing data from China (exports dipping by 21%) and Germany (unexpected 2.6% dip in factory orders), and ending with US payrolls rising only 20k in Feb. The OECD slashed its growth forecasts, projecting 3.3% in 2019 and 3.4% in 2020, also identifying trade policies, extent of China's slowdown, and spillover effects as major sources of risk. All eyes will be on Tuesday's vote in the UK Parliament on the Brexit deal.

### Regional Developments

- **The IMF forecasts Bahrain to grow at 1.8% yoy this year**, thanks to the fiscal balance programme announced in tandem with the promise of five years of aid worth USD 10bn last Oct. It states that "additional reform efforts, anchored in a more transparent medium-term agenda, will be needed to ensure fiscal sustainability".
- **MPs in Bahrain approved an urgent proposal to nationalize the public sector: the aim is 100% Bahrainisation of the public sector within 4 years.** Currently, citizens account for 85% of public sector jobs.
- **Fintech investment in the region accounts for a maximum 1% of global investments**, stated the chief executive of Bahrain Fintech Bay.
- **Egypt's foreign reserves increased to USD 44.06bn in Feb** (Jan: USD 42.616bn).
- **Foreign investors held USD 15.8bn of Egyptian Treasuries in Feb** (Jan: USD 13.1bn), revealed the finance minister.
- **Bank deposits in Egypt grew by 14.7% yoy to EGP 3.818trn by Dec 2018**, according to the central bank. While government deposits accounted for just 16% of the total, non-governmental deposits grew by 13.8% to EGP 3.204trn. Meanwhile, the private sector accounted for 60.9% of the

total disbursed loans (EGP 1.815trn) as of Dec 2018.

- **Egypt plans to sell a 24% stake in the state oil company** Engineering for Petroleum and Process Industries **in H1 this year**, disclosed the petroleum minister.
- Central bank data revealed that **Egypt's gold exports declined** by 67.3% yoy to USD 141.3mn in Jul-Sep last year.
- **Revenues from Egypt's Suez Canal increased by 3.7% yoy** to USD 468.7mn in Jan 2019.
- **Egypt's petroleum minister is confident that the country's daily gas production will exceed 7.5bn cubic feet (bcf) by end of 2019**, from 6.8 bcf currently. Natural gas exports are also likely to rise to 2 bcf from 1.1bcf during this period.
- **Saudi Arabia deposited USD 334mn in Jordan's central bank** (as part of the USD 2.5bn package announced last Jun along with UAE and Kuwait), reported *Al Arabiya*, quoting the former's finance minister.
- **The World Bank plans to provide USD 1.9bn in financial support to Jordan over the next two years**— almost as much as it has provided to the country over the last five years — to support the “strong” reform momentum in the country.
- **Real estate trade volume in Jordan declined by 24% yoy** to JOD 695mn in Jan-Feb 2019, announced the Department of Land and Survey.
- **Visitors into Petra increased by 68% yoy** to 74,413 in Feb, as per data from the Petra Development and Tourism Regional Authority.
- **Kuwait's listed companies won contracts worth USD 1bn in Jan-Feb this year**, up 17% yoy. Majority of the tenders were awarded by 7 local authorities including the Kuwait Municipality, Ministry of Health and Ministry of Works.
- According to **Kuwait's deputy PM**, the country **is in talks with Iraq to construct “border towns” and develop a Free Zone** between the two countries.
- **Kuwait is planning to create a USD 10bn Kuwait-China**

**Silk Road Fund** to invest in Kuwaiti projects related to the Silk City and islands development as well as for strategic investments in China under the Belt & Road Initiative, reported *Bloomberg*.

- **Kuwait increased annual leave in the private sector to 35 days** from 30 currently as part of a number of amendments to the labour law, to be applicable to both Kuwaitis and expats.
- **Lebanon's PM** remains confident that **improved tax collection and closing unnecessary government projects would help reduce the budget deficit** this year. Improved tax collection alone is expected to lead to a 1ppt reduction a year of the deficit to GDP ratio.
- **PMI in Lebanon edged upto 46.9 in Feb** (Jan: 46.5), marking the slowest pace of decline in a year; softer contractions were reported in both output and new orders.
- **Moody's downgraded Oman's sovereign rating to junk status:** to Ba1 from Baa3, given "very limited" scope for fiscal consolidation, also disclosing that the outlook on finances remained negative.
- **Oman's Public Authority for Water** announced that **98% of the population would be connected by the country's main water networks by 2040**. Demand for water has been rising 15% on average per year.
- **Oman's gas production levels are set to surpass oil by 2023, estimates Rystad Energy**. Oil production is expected to decline by an additional 200k barrels per day (bpd) from 870k bpd in 2018; gas production will rise to approximately 130mn cu m per day (MMcmd) by 2025 from the near-stagnant 80 MMcmd from 2008 through 2016.
- **Tourism in Oman is expected to rise to 3.5mn**, growing at a compound annual growth rate (CAGR) of 5% between 2018 and 2023, as per Colliers International data (released ahead of the Arabian Travel Market 2019).
- **Qatar raised USD 12bn in a bond sale last week** – the largest placement by an emerging-market sovereign this

year – after having received orders of more than USD 50bn. More than USD 10bn in Qatari debt is due next year, so this could be used to pre-fund those maturities.

- **PMI in Saudi Arabia posted an uptick to 56.6 in Feb** from Jan's 56.2, thanks to a strong pickup in new orders to a 36-month high and despite the second consecutive decline in new export orders. The employment index, at 50.2, was the lowest in nearly five years.
- **Saudi Arabia's** General Authority of Zakat and Tax **denied** the *Bloomberg* news report which stated **that the tax authority was planning to raise the Islamic tax** paid by local banks and investors to 20% from 10%.
- **Saudi Arabia's** energy minister revealed that **large quantities of gas was discovered in the Red Sea**. He also confirmed that the **Aramco IPO** would happen **within two years**.
- **Total value of real estate loans to individuals in Saudi Arabia grew by 16% yoy** to SAR 154.67bn (USD 41.24bn) in 2018. Of this, property loans given by banks touched SAR 141.36bn, up 16.4%.
- **Saudi Arabia's** housing minister expects **investments in the real estate financing sector to touch SAR 60-80bn (USD 21.33bn) this year**. Real estate financing touched SAR 4.7bn in Jan. He also stated that Saudi home ownership is expected to rise to 15k new households per month by 2020 from a little over 10k per month currently – growing between 6-7% annually.
- **Saudi Arabia's** Council of Ministers gave a green light to the issuance of new **electronic visas within 24 hours** for visitors who attend business attractions, concerts, and sport events. By 2030, Saudi Arabia is planning to inject about SAR 240bn in the recreation sector.
- **Saudi Arabia** has **issued more than 4.33mn Umrah visas** this year; this is in line with the Vision 2030 which aims to attract more than 30mn Umrah pilgrims.

- **Moody's affirmed Sharjah's credit rating** at A3, with a 'moderate (-)' economic strength. **Bahrain's issuer rating was affirmed at 'B2'** based on significantly high-income levels and diversified economy.
- **The 2019 Agility Emerging Markets Logistics Index places UAE as third globally**, followed by Saudi Arabia (6), Qatar (8) and Oman (12) within the top 15. (More: <https://www.agility.com/en/2019index/>)

## **UAE Focus**

- **UAE's PMI dipped to a 28-month low of 53.4 in Feb** (Jan: 56.3), with new orders rising at their slowest rate since Oct 2016. The employment index fell to 47.5 in Feb – the steepest decline since the survey began – with 9% of respondents reporting lower mom headcount, and only 1.5% reporting increased hiring.
- **UAE experiencing deflation: prices contracted by 2.4% yoy in Jan**(Dec: +0.4%); prices of the housing and utilities sector fell 5.08% yoy, as did transportation prices (-6.4%) while food and beverages prices also fell 1.09%.
- **UAE announced the allocation of AED 5.8bn (USD 1.57bn) for water and electricity projects in the northern emirates.**
- **Dubai launched a second package of economic growth initiatives to support SMEs and Public-Private Partnerships:** this includes payment of dues to SMEs within 30 days instead of 90, reducing the value of primary insurance for SMEs, reduction in the "performance insurance" rate to 5% from 10% on all supplies, allocating 5% of government capital projects to SMEs and the allocation of projects worth AED 1bn to PPP.
- **The DIFC welcomed 437 new companies in 2018 (+39%),** taking the total number of firms to 2137; of the total, 29.2% are financial firms. Total workforce registered in



the Centre picked up by 6% to 23,604 persons.

- **The contribution of the SME sector to UAE's GDP is estimated at 53%**, up from about 49% in 2018, according to a recent report from the Federal Competitiveness and Statistics Authority. The aim is to increase this rate to around 60% by 2021.
- **The Dubai Airport Free zone Authority disclosed a 62% yoy pickup in non-oil trade to AED 146bn in 2018.**

## **Media Review**

**Middle East: Leaders who guided a region through 50 turbulent years**

<https://www.euromoney.com/article/b1dd3n1mn7mf8r/middle-east-leaders-who-guided-a-region-through-50-turbulent-years>

**Can Saudi Arabia afford a stimulus?**

<https://www.al-monitor.com/pulse/originals/2019/03/saudi-arabia-stimulus-investment-economic-growth.html>

**The geopolitical implications of the global energy transition**

<http://bruegel.org/2019/03/the-geopolitical-implications-of-the-global-energy-transition>

**Six key takeaways from China Premier Li Keqiang's annual policy blueprint**

<https://www.scmp.com/economy/china-economy/article/2188667/six-key-takeaways-china-premier-li-keqiangs-annual-policy>

**UAE launches initiative to develop responsible AI policies in private sector**

<https://www.khaleejtimes.com/technology/uae-launches-initiative-to-develop-responsible-ai-policies-in-private-sector>

**US and China take their time over main course in trade talks**

<https://www.ft.com/content/e089b6de-42b4-11e9-b168-96a37d002cd3>

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