

Weekly Economic Commentary – Mar 17, 2019

Markets

Looking for positive news, global equity markets got a boost from hopes from a Brexit delay vote and potential US-China deal, last week: S&P 500 posted a 3-month high weekly gain and across the globe, China's CSI 300 Index, Frankfurt's Xetra Dax30, and UK's FTSE 100 were all up compared to a week ago. Regional markets were mixed, with Oman and Dubai down compared to a week ago. The dollar posted a weekly loss – the biggest since early Dec – while the pound posted a big weekly gain on vote to seek a Brexit delay. Gold prices rebounded thanks to the weaker dollar, while oil prices retreated after touching a 2019 high of USD 68.14.

Global Developments

US/Americas:

- **US durable goods orders expanded by 0.4%** mom in Jan, following an upwardly revised 1.3% rise in Dec, thanks to a rebound in non-defense capital goods orders (+0.8%, the biggest gain since Jul).
- **US industrial production was up by just 0.1%** mom in Feb, with manufacturing down 0.4% as a result of declines in the output of motor vehicles, machinery and furniture.
- **Inflation in the US increased by 0.2%** mom in Feb, after remaining unchanged for three consecutive months, as costs of food, gasoline and rents picked up; in yoy terms, CPI was up 1.5% – registering the smallest gain since Sep 2016. Meanwhile, **Producers Price Index edged up** by 0.1% mom and 1.9% yoy in Feb – the smallest annual increase in more than 1.5 years – largely due to price of gasoline. Core PPI rose 0.1% mom and 2.3% yoy.
- **Retail sales in the US increased by 0.2%** mom in Jan, following a 1.6% decline in Dec. This small increase

masks the biggest decline in motor vehicle sales in five years.

- **Initial jobless claims grew** by 6k to 229k for the week ended Mar 9; the 4-week moving average slipped 2500 to 223,750.
- **New home sales in the US declined by 6.9%** in Jan to a seasonally adjusted 607k. Purchases of homes yet to be constructed plunged 26.8% in Jan, accounting for all of the month's decline.
- **University of Michigan consumer sentiment increased** for the second consecutive month in Mar, to 97.8 from 98.3 in the month.

Europe:

- **Industrial production in the Eurozone rebounded by 1.4% mom** (Dec: -0.9%) in Jan; in yoy terms industrial production was down 1.1%, lower than 4.2% dip the month before. Separately, **German industrial production declined** by 3.4% yoy in Jan, faster than the 3.2% drop reported in Dec.
- **Inflation in the Eurozone edged up by 1.5% yoy** in Feb, from 1.4% the month before.
- **UK GDP rebounded by 0.5% in Jan – the biggest rise since Dec 2016** – from the 0.4% decline recorded in Dec. Consumer spending grew by 0.3% in Jan (Dec: -0.2%) and manufacturing output rose by 0.8% (Dec: -0.7%). Over the 3-month period, GDP growth remained steady at 0.2%, the same as the three months to Dec.

Asia Pacific:

- **China released data for Jan-Feb period**, in a bid to smooth distortions from the Chinese New Year holidays: **retail sales remained steady**, rising by 8.2% yoy while **industrial output fell to its slowest in 17 years**, rising by only 5.3%. **Fixed asset investment increased** by 6.1% yoy to CNY 4,445bn and **FDI grew** by 3%

yoy to USD 21.69bn.

- **Money supply in China grew by 8% yoy** in Feb, following a pickup of 8.4% in Jan. **Chinese banks** made CNY 885.8bn (USD 131.8bn) in **net new yuan loans** in Feb, down from the record CNY 3.23trn in new lending in Jan.
- **China approved a new foreign investment law:** the law, which will come into effect on Jan 1, 2020, clarifies that officials will be obliged to protect commercially confidential information they obtain from overseas businesses as it attempts to address concerns like unfair treatment in terms of market access and government procurement, forced technology transfer to Chinese partners and theft of commercial secrets from foreign businesses in China.
- **The BoJ kept its ultra-loose monetary policy unchanged**, while also stating that “exports have shown some weaknesses recently”. After a review, the Bank maintained a pledge to guide short-term interest rates at -0.1% and 10-year government bond yields around 0%.
- **Japan core machinery orders dipped** by 5.4% mom in Feb – the fastest pace of decline since Sep – following the revised -0.3% the previous month in Jan.
- **Retail sales in Singapore bounced back** by 7.6% yoy in Jan, reversing the 5.8% drop in Dec, thanks to higher car sales (+20%). Excluding motor vehicles, retail sales rose 5.3%.

Bottom line:In the US there have been soft reports ranging from retail sales to housing alongside low levels of unemployment and rising wages; the Fed will likely hold interest rates steady at the meeting this week, also in line with Powell’s comments last week that the central bank does “not feel any hurry” to raise rates. Meanwhile, Brexit continues to drag along unsolved, with the next vote due to take place by 20 March (“third time lucky”?). Even if the vote goes the PM’s way, it remains to be seen if a 3-month delay will lead to any meaningful results. Separately, will China’s

hurried approval of a new foreign investment law smooth the way for the trade deal with the US? Trump's statement that he was in "no rush" seems to suggest a potential delay – maybe ahead of or at the Trump-Xi meeting in June (at the G20 summit).

Regional Developments

- As per the draft national budget, **Bahrain plans to spend more than BHD 1.3bn on 66 new projects in 2 years**. Funds from GCC will account for around 73% of the financing and social housing accounts for the biggest chunk of project spending (28%).
- **Bahrain is likely to start shale oil production by Q4 this year**, given that the well drilling began a few months ago, reported *Al Khaleej*.
- **Inflation in Egypt increased to 14.4%** in Feb (Jan: 12.7%), with prices up across multiple sectors: transport (+32%), food and beverages (15.3%), housing and utilities (15.2%) and education (15.1%). Core inflation also picked up pace, rising to 9.2% in Feb (Jan: 8.6%).
- **Egypt's investments into oil exploration and development** touched USD 2.6bn in H1 of fiscal year 2018-19. Around 15.6mn tonnes of petroleum products were supplied to the domestic market during this period.
- **Iraq reduced its oil exports average to 3.5mn barrels per day (bpd)**, in line with the OPEC deal, according to the oil minister. Already producing just more than 4.5mn bpd – less than full capacity of 5mn bpd – Iraq exported on average around 3.6mn bpd in Jan-Feb down from Dec's 3.7mn bpd.
- **Studies are underway to implement the joint free Jordanian-Iraqi industrial zone** at the border between the two countries, aimed at boosting trade and investment, according to a Jordanian spokesperson.
- **S&P affirmed Jordan's ratings at "B+/B" with stable outlook**, given expectations that net debt will broadly

stabilise, supported by financial aid from its bilateral and multilateral partners and economic reforms.

- **Kuwait's money supply (M2) declined marginally** by 0.1% mom in Jan to KWS 38.5bn (USD 127bn). Private sector's deposits in local banks also dropped by 0.3% to KWD 34.2bn.
- **Kuwait's foreign aid exceeded KWD 1.77bn (USD5.82bn) over the past decade**, with fiscal years 2012-2013 and 2014-2015 accounting for 42% of the total aid over the 10 years, reported the *Al-Qabas*
- **Lebanon requested for more than USD 2.5bn at the Brussels conference, for supporting Syrian refugees.** The conference pledged almost USD 7bn for Syria, but falling short of UN's request for USD 9bn.
- **Lebanon's finance minister has stated that the 2019 draft budget would be completed soon;** he assured that **no new taxes** would be included in the budget.
- A Royal Decree was published issuing **the Selective Tax Law in Oman:** prices of tobacco, alcohol, energy drinks and pork products will go up by 100% from June, while carbonated drinks will go up by 50%.
- As per the **new Commercial Companies Law in Oman**, which will come into effect from April, all matters related to listed companies [other than registrations] will come under the CMA's jurisdiction.
- **Oman approved tenders worth OMR 96.4mn (USD 250mn) for construction and infrastructure-related projects for 2019.**
- **Oman's Nama Group**, a government holding company, plans to sell a **70% stake in Muscat Electricity Distribution and 49% of Oman Electricity Transmission.** With a combined asset size of USD 3.2bn, the two have received 14 and 11 bids respectively from "strategic and financial investors"; deals are to be finalized by end of this year.
- **Qatar's minister of commerce and industry was quoted stating that the country's trade surplus touched USD**

52bn in 2018.

- **Qatar's** Cabinet stated that, further to the 2018 law which permits **greater foreign ownership of its real estate sector**, it would identify 10 locations eligible for full foreign ownership and 16 that could be held for a period of 99 years.
- **The Saudi General Authority of Zakat and Tax disclosed that the government would assume the zakat liability on government-issued debt instruments** to encourage the local debt market.
- **Saudi Arabia closed six privatisation deals in the last two months**, with a total value of USD 3.5bn (SAR 13.13bn), according to the CEO of the National Centre for Privatisation and Public-Private Partnership. There are at least 23 other privatization transactions in the pipeline, to be completed by 2022.
- Despite strong demand, **Saudi Arabia plans to cut its crude oil exports to below 7mn barrels per day (bpd) in Apr**, while keeping output well below 10mn bpd, reported *Reuters*. Separately, the Saudi oil minister stated that **an end to OPEC-led supply cuts was unlikely before June**.
- The **Saudi Human Resources Development Fund** has pumped SAR 4.18mn (USD 1.11mn) into two **unemployment programs**.
- The **Global Financial Centres Index** includes Kuwait for the first time (ranked 57th). **Dubai, ranked 12th**, tops the list from the region; Abu Dhabi (26) and Casablanca (22) continued to rise in the rankings, while Doha (42) fell slightly. (More: <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/>)
- **Arrivals from Europe to the GCC will increase by 29% between 2018 and 2023**, supported by new and direct flight routes, a growing number of millennial and middle-class travelers and competitive airfares, as per data released by Colliers International.

UAE Focus

- **The UAE is expected to grow at 3.5% in 2019** from an estimated 2.8% last year, according to the central bank, thanks to an uptick in the non-oil sector driven by the recently announced stimulus measures.
- **UAE's foreign currency assets grew by 6.7% yoy to AED 348bn (USD 94.82bn)** as of end-Jan, according to the central bank.
- **The UAE's Finance Ministry will set up a federal debt management office this year** and will seek a sovereign rating, disclosed an undersecretary of the ministry. But he also stated that there are **no immediate plans for the issuance of federal bonds**.
- **The Dubai Economy Tracker remained unchanged at 55.8** in Feb, with the index for the wholesale and retail sector at an 8-month high of 58.1. Travel and tourism sector stood at a 9-month high of 56.8 while the construction sector's reading was at 54. **The employment index fell to the lowest level since the series began in 2010**.
- **Non-oil foreign trade through Abu Dhabi increased by 6.8% yoy to AED 166.9bn in 2018**, as the result of a 23.8% rise in non-oil exports to AED 27.7bn and a 20.7% increase in re-exports.
- **Dubai's non-oil foreign trade** touched AED 1.3trn (USD 353bn) in 2018: trade through the free zones were up by 23% To AED 532bn while direct trade touched AED 757bn.
- The Governor of the Dubai International Financial Centre (DIFC) disclosed at the Global Financial Forum **that the size of the wealth and asset management sector at the DIFC stands at USD 424bn**. The Forum also announced the appointment of Middle East Venture Partners and Wamda Capital to manage part of USD 100mn of the **DIFC FinTech Fund**.
- **Dubai** attracted USD 21.6bn worth **FDI in high-end technology transfers** during 2015-2018, with the most from the EU and the US – USD 5.7 and 3.9bn respectively.

- **Remittances from the UAE declined by 7.7% yoy to AED 39.9bn (USD 10.8bn)** during Q4 2018. India remained the top recipient nation, accounting for 34.2% of the total remittances, followed by Pakistan (9.4%), Philippines (7.2%), the US (5.9%) and Egypt (5.5%).
- **The Abu Dhabi Airports Free Zone has reduced business set-up costs** by more than 65%. In addition to waiving all license fees for new companies, the free zone has also received an exclusion of VAT in designated zones across its properties for its customers.
- **Abu Dhabi announced a reduction in tourism-related fees:** it has reduced tourism fees to 3.5% from 6%, municipal fees to 2% from 4% and municipality hotel room fees per night to AED 10 (USD 2.72) from AED 15. Separately, **Abu Dhabi allocated a budget of AED 500mn (USD 136mn) for tourism marketing campaigns** to be spent over next three years.
- **The Dubai South free zones** announced that it will issue **freelancer work permits**.
- **UAE's Mashreq bank** announced that it **would close 50% of its branches this year**, as part of its digital transformation. Planning to invest AED 500mn for the next 5 years towards digital transformation, the bank also aims to retrain its employees to adjust to this change.
- **Dubai SME**, part of the Department of Economic Development, **supported 4,227 Emirati entrepreneurs** with incentives and facilities worth AED 101mn (USD 27.52mn) in 2018. Entrepreneurs grew by 32% yoy while the support package grew by 63% compared to 2017.
- **Dubai retained its top position in terms of international passenger traffic (88.88mn)** and third largest for total passenger traffic in 2018, according to the Airports Council International.
- The Dubai Electricity and Water Authority (**DEWA**) disclosed that its **conservation initiatives led to a cumulative savings** of 2 terrawatthours (TWh) of

electricity and 7.4bn gallons of water, **equivalent to AED 1.2bn during the period 2009-2018.**

Media Review

Global debt –when is the day of reckoning?

[b](https://www.ft.com/content/949d08da-462d-11e9-a965-23d669740bf)

Brexit has left the British political class trapped by its own history

[ft-british-political-class-trapped-its-own-history](https://www.newstatesman.com/politics/uk/2019/03/brexit-has-left-british-political-class-trapped-its-own-history)

China approves new foreign investment law designed to level domestic playing field for overseas investors

[na-approves-new-foreign-investment-law-designed-level](https://www.scmp.com/economy/china-economy/article/3001780/china-approves-new-foreign-investment-law-designed-level)

The growing appetite for armed drones in the Middle East

[e-growing-appetite-for-armed-drones-in-the-middle-east](https://www.economist.com/middle-east-and-africa/2019/03/09/the-growing-appetite-for-armed-drones-in-the-middle-east)

How economists can avoid irrelevance

[ics-must-learn-from-others-by-mohamed-a-el-erian-2019-03](https://www.project-syndicate.org/commentary/mainstream-economics-must-learn-from-others-by-mohamed-a-el-erian-2019-03)

Powered by:

