

Weekly Economic Commentary – Mar 24, 2019

Markets

Fears of an extended growth slowdown – given Fed's announcement amidst weak data from the US and Europe, especially Germany – led equity markets down globally. US Treasury yields have been falling and a key measure inverted: the 3-month Treasury yields surpassed those on 10-year debt (last time this happened was prior to the 2007 global financial crisis). In the region, Tadawul touched a near 4-year high with its inclusion in the FTSE Russell's emerging markets index, while Egypt mirrored the global declining trend. In currency markets, the pound was dragged down by growing uncertainty about Brexit outcomes, while the JP Morgan Emerging Market Currency Index dropped 1.7% for its biggest one-day decline since last Aug: Turkish lira was the most hit, followed by the Brazilian real. As equities lost favour, gold prices spiked posting the best 5-day performance since end-Jan. On Thurs, both WTI and Brent crude oil hit new highs for the year though bearish news brought it lower.

Global Developments

US/Americas:

- The **US Fed** announced that it no longer plans to raise interest rates in 2019. In addition, the **Fed's portfolio "run off" approach** – its current practice of allowing up to USD 50bn of Treasuries and mortgage-backed securities to roll off its balance sheet each month – **will end in Sep** if the economy evolves "about as expected". The Fed **also downgraded its growth forecast** to 2.1% this year from previous estimate of 2.3%.
- **US factory orders grew** by a marginal 0.1% mom and 3.8% yoy in Jan (Dec: 0.1% mom), held back by decreases in orders for computers and electronic products.

- The flash **manufacturing PMI in the US** fell to 52.5 in Mar (Feb: 53) – **the lowest since Jun 2017** – while the services PMI weakened to a 2-month low of 54.8 (Feb: 53).
- **Existing home sales rebounded** by 11.8% to a seasonally adjusted annual rate of 5.51mn units in Feb, posting the best gain since 2015. The median existing house price increased 3.6% yoy to USD 249,500 in Feb.
- **US federal monthly budget deficit** touched USD 234bn in Feb – the **widest monthly deficit on record**.
- **Initial jobless claims fell** 9k to 221k for the week ended Mar 16; the 4-week moving average edged up by 1k to 225k. Continuing claims decreased by 27k to 1.75mn for the week ended Mar 9.

Europe:

- **German ZEW improved** in Mar, with the headline number dropping to -3.6 versus -13.4 last month and still well below the long-term average of 22.2 points, while the assessment of the current situation fell back to 11.1 from 15 the month before.
- **Eurozone's flash manufacturing PMI plunged to a 71-month low** of 47.7 in Mar (Feb: 4) while overall PMI fell to 51.3 (Feb: 51.9). German manufacturing shrank at the quickest rate in more than 6.5 years – to 44.7 in Mar vs. Feb's 47.6 – while in France the composite index sank into contraction (48.7 in Mar vs. 50.4 in the month before).
- **EU's trade balance surplus narrowed** to EUR 1.5bn in Jan: EU's surplus in goods trade with the US expanded to EUR 11.5bn (USD 13bn) in Janu, from EUR 10.1bn a year ago. EU's deficit with China also increased to EUR 21.4bn, from EUR 20.8bn a year earlier.
- **UK jobless rate dropped to a 44-year low** of 3.9% in the 3 months of Jan, down from 4% a month earlier.
- **Inflation in the UK edged up** to 1.9% in Feb (Jan: 1.8%)

while producer price index was 0.6% and the retail price index was 2.5%, both in line with expectations.

- **UK retail sales unexpectedly increased** by 0.4% mom in Feb, though food spending fell by 1.2%.
- **The Bank of England held rates steady at 0.75% amidst the chaos of Brexit**; the committee members disclosed that corporate investment is now 6-14% lower than it would have been without Brexit uncertainties.

Asia Pacific:

- **Japan's flash manufacturing PMI remained unchanged** at a seasonally adjusted 48.9 in Mar, while output shrank the most in almost three years (46.9 in Mar from 47.4 in Feb).
- **Japan posted the first trade surplus in 5 months**, as the nation's goods trade balance posted a JPY 339bn (USD 3bn) surplus in Feb, in spite of exports falling for the 3rd straight month (1.2% to JPR 6.38trn). Imports from China shrank 15.8% and the bilateral trade deficit was JPY 131.2bn.
- **Core inflation in Japan slowed** to 0.7% yoy in Feb from 0.8% in Jan; headline inflation was 0.2%, largely due to a 5.3% rise in energy and water charges.
- **Japan's leading economic index eased** to a level of 96.5 in Jan – the weakest since Sep 2016 – compared to a level of 97.5 in the previous month.

Bottom line: The US economy is already slowing, partly due to the fading of a major fiscal stimulus in 2018; the US-China economic war and recent economic indicators have led the Fed to revise down growth forecasts for the country. The latest PMI data have disappointed: trade tensions have left their mark on the US, Japan and Europe; France joined Germany below the 50-mark (as the latter continues to deal with the “yellow vests” movement). Brexit uncertainty meanwhile drags on as EU leaders agreed on a plan to delay the Article 50 process. US-

China trade talks resume this week, and while Europe frets on potential risk of US tariffs on its car imports, it is prudent to look for more guidance from the Chinese PMI data this week. Tasseography (reading the tea leaves) indicates that the global economy is rapidly slowing, led by a lower trade and investment, amid growing economic policy uncertainty.

Regional Developments

- **Bahrain's central bank lowered its 1-month deposit rate** to 3.1% from 3.25% previously, while keeping unchanged the overnight and 1-week deposit facilities rates.
- **Bahrain announced a new BHD 5k grant** for the development of domestic firms – including for grants for machinery and equipment, ICT, quality management, consulting, cloud computing, accounting and auditing services and marketing and branding.
- **The Commercial Companies Law in Bahrain was amended** to allow representatives of shareholders in joint companies or ventures to appear on their behalf with a written authorization – enabling better monitoring of commercial affairs.
- **Egypt is aiming for debt-to-GDP to touch 89% in the 2019-2020 financial year**, according to the Presidency. The budget deficit is projected to come down to 7.2% (from 8.3%) and plans are to create 800k-900k jobs “through supporting the industrial and export sectors”.
- **Fitch upgraded Egypt's long-term foreign-currency issuer default rating to 'B+' from 'B'**, with a “stable” outlook, thanks to its implementation of economic and fiscal reforms.
- According to the New and Renewable Energy Authority in Egypt, **the land usufruct fees for new and renewable power plants will be kept at 2% of the annual energy produced** versus the current practice of each governorate charging different fees between 5-7%.
- **Inward remittances into Jordan increased** by 4% yoy to

JOD 425.5mn in Feb (Jan: 3.5%), according to the central bank.

- **The Kuwait Banking Association** has asked for an **extension of the date for raising national employment rate to an estimated 70% in banks** to Jan 2020 instead of Jul 2019, reported *Al Rai* daily. One of the reasons for this request is the current job dropout rate of 35%, of which 90% were Kuwaitis.
- **Lebanon's** energy minister plans to ask the Cabinet "soon" to **approve the launch of a second licensing round for maritime oil and gas exploration**.
- **Moody's** maintained its **stable outlook for Lebanese banks** due to expected flows of customer deposits and economic growth, while highlighting the need for reforms from the new government to restore consumer and business confidence.
- **Oman's electricity generation and water desalination sector** received around USD 10bn in **total FDI** to date, according to a report in the *Oman Daily Observer*. The sector has 16 privately-owned power and water companies.
- **Oman's** Ministry of Tourism has **earmarked five tourism sites** in four governorates **for investment by (private) local companies**.
- **Tourists from Oman to Dubai** declined by 4% yoy to 829k in 2018, according to the latest data released by the Department of Tourism and Commerce Marketing.
- **Inflation in Saudi Arabia** fell for the **second consecutive month**, with prices down 2.2% yoy and 0.2% mom as housing and utilities costs dipped by 8.2% yoy.
- **Saudi Arabia's inclusion in FTSE Russell's emerging market index** is expected to attract **USD 6-7bn of passive inflows** within a year, according to the index provider. Saudi Arabia will also likely become the ninth-largest emerging market out of the 25 markets in the FTSE Emerging Index within a year.
- Ahead of the inclusion in the FTSE Russell/ MSCI / S&P Dow Jones indices, **foreign inflows into Saudi Tadawul**

was SAR 9.51bn (USD 2.54bn) in the first 11 weeks of 2019. Foreign ownership in Tadawul-listed firms increased by 18.7% to SAR 103.1bn by mid-Mar, from SAR 86.84bn in Dec 2018.

- **Saudi Arabia's crude oil exports fell** to 7.245mn barrels per day (bpd) in Jan (Dec: 7.687mn bpd). Oil production was down by 0.4mn bpd to 10.243mn bpd in Jan. Separately, **the energy minister stated that oil exports in Mar and Apr will be below 7mn bpd.**
- **Saudi Arabia announced its plan to build Neom's first city** – set to span over 45k kilometers – **by 2020.**
- **Saudi Arabia's King launched 4 entertainment projects** – including a park, sports track and an art centre – worth SAR 86bn (USD 23bn).
- **The Middle East, with 160 free zones** or roughly 7.3% of global free zones, is the fourth largest host region globally. Dubai alone comprises 30% of the Middle East's free zones.

UAE Focus

- **UAE's current account surplus increased** to AED 139bn (USD 38bn) or 9.6% of GDP in 2018, according to the central bank. The rise was largely supported by the uptick in oil prices: an average of USD 71 in 2018 from 2017's USD 54.25 a barrel.
- **UAE announced a plan to create 30k jobs for its citizens in the private sector this year.** This compares to the planned creation of 20,225 jobs for Emiratis last year. An estimated 610k nationals are expected to join the workforce by 2031.
- **UAE's energy minister expects the OPEC to finalise a long-term cooperation charter with its non-OPEC partners in June this year.** He also stated that UAE is committed to delivering 100% of oil supply cuts in the coming months.
- **The Sharjah Chamber of Commerce and Industry reported a**

16% yoy growth in the number of new memberships in Feb (Jan: 28%), bringing the overall membership to 5332 firms (+9%).

- **UAE start-ups have secured USD 31.36mn in investments** – accounting for 88% of the whole deal value of the region; of this, about 44% went into local services, e-commerce and financial services industries: this was disclosed ahead of the Annual Investment Meeting to be held in Apr.
- **Dubai welcomed 15.92mn international overnight visitors in 2018** versus 15.79mn in 2017. India remained the top source market, in spite of a 2% yoy decline to 2.032mn visitors, while Saudi Arabia and UK were close behind at 1.568mn (+3%) and 1.212mn (-4%) respectively. China, which rose to the 4th spot, reported a 12% growth (to 857k) while Russian tourists surged by 28% (to 678k).
- The **UAE jumped 7 ranks to become 21st in the latest edition of the global happiness index.**

Media Review

Emerging market investors can take only small comfort from Fed
<https://www.ft.com/content/83f1f72a-4c86-11e9-bbc9-6917dce3dc62>

Xi and Trump Miss Their Chance

<https://www.project-syndicate.org/commentary/us-china-trade-talks-missed-opportunity-by-jeffrey-frankel-2019-03>

Protests are making a comeback in the Arab world

<https://www.economist.com/middle-east-and-africa/2019/03/23/protests-are-making-a-comeback-in-the-arab-world>

Lebanon looks to slash 2019 budget

<http://www.dailystar.com.lb/News/Lebanon-News/2019/Mar-18/479042-lebanon-looks-to-slash-2019-budget.ashx>

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