

Weekly Economic Commentary – Mar 31, 2019

Markets

As the US-China trade talks resumed and the US Fed announced a dovish stand, equity markets boomed: the FTSE All World index is up 11.4%- its biggest quarterly increase since late-2010; S&P 500's 13.1% rise is its biggest quarterly rise since Q3 2009; the STOXX 600 index posted the best quarterly performance in 4 years; China's CSI was up 28% – best since end-2014. In regional markets, most markets (except Qatar) gained in Q1, with Kuwait and Saudi Arabia gaining the most given impending inclusion in emerging market indices, ease of capital market rules and dovish central banks in advanced countries gave an additional to portfolio flows into emerging markets. The dollar had a strong quarter, the euro had its weakest Q1 since 2015 on growth concerns while the pound continues to be battered by the Brexit conundrum. Oil prices have risen by 30% this year – the best performance in any quarter since 2009. Gold prices dropped from their high on the stronger dollar.

Global Developments

US/Americas:

- **Q4 GDP was revised down to 2.2% qoq (Q3: 3.4%),** after consumer spending, government expenditure and imports were lowered from initial estimates; non-residential fixed investment, a key sign of business activity, rose 5.4% (Q3: 2.5%). Full year GDP clocked in at 2.9% – a tad short of President Trump's 3% growth mark – up from 2017's 2.2% and the best since 2015.
- **PCE edged up** by 0.1% mom to USD 8.6bn in Jan, while personal income decreased by 0.1% mom to USD 22.9bn in Jan.
- **Housing starts fell the most since Jun,** decreasing by

8.7% to a seasonally adjusted annual rate of 1.162 million units last month. Construction of single-family homes dropped to near a two-year low, falling 17% to 805k units in Feb. **Building permits fell** (for the second consecutive month) 1.6% to 1.296mn units in Feb

- The **S&P Case-Shiller home price index** showed that house prices in the 20-metro area increased 3.6% yoy in Jan – the smallest gain since Sep 2012, following a 4.1% rise in Dec.
- **Pending home sales dropped** by 1% mom in Feb, retreating despite lower mortgage rates
- **New home sales increased to a 11-month high** in Feb, rising by 4.9% to a seasonally adjusted 667k units.
- **Trade balance narrowed in Jan**, as exports rebounded and imports from China declined (by USD 5.5bn to USD 33.2bn), causing the deficit to drop by nearly 15% to USD 51.1bn (Dec: USD 59.9bn).
- **Initial jobless claims unexpectedly fell** by 5k to 211k for the week ended Mar 23– the lowest in over 2 months. The 4-week moving average fell 4250 to 1.75mn.

Europe:

- **Another week and another Brexit vote**, with the MPs rejecting May's withdrawal agreement, leaving the UK in limbo and continued policy uncertainty.
- **German Ifo index climbed** to 99.6 in Mar (Feb: 98.7) after 6 consecutive drop while the current assessment was 103.8 (Feb: 103.6).
- **Inflation in Germany slowed** in Mar to 1.5% yoy from 1.7% the month before, driven by lower prices of food and services.
- **German retail sales increased** by 0.9% mom and 4.7% yoy in Feb, supported by online orders and purchases.
- **Consumer spending and services propped up UK's Q4 GDP** which grew by 0.2% (unrevised). Households spent GBP 4.4bn more during Q4 2018 than they earned, compared to

GBP 7.2bn of net borrowing in Q3.

- **The Economic Sentiment Indicator decreased slightly** in both the euro area (by 0.7 points to 105.5) and the EU (by 0.4 points to 105.0). Consumer Confidence Index in the euro area and the EU edged down to -7.2 and -7.1.

Asia Pacific:

- **Japan's factory rebounded** in Feb – rising by 1.4% from the 3.4% slump in Jan – supported by production of cars and semiconductor production equipment. The Ministry described industrial output as “stalling”, keeping its assessment unchanged from the previous month. In other releases, Japan's **all industry activity index fell 0.2%** in Jan and **retail trade grew** by just 0.4%.
- **Singapore's core inflation eased to a 9-month low**, recording 1.5% in Feb; headline CPI grew to 0.5% yoy due to gradual declines in private road transport and accommodation costs.
- **Industrial production in Singapore expanded** by 0.7% yoy, though declining by 4.1% mom.
- **Korea's industrial production dipped** by 1.9% in Feb, hitting a 6-year low on weak exports (also due to less number of business days).

Bottom line: US and China wrapped up “constructive” trade talks in Beijing, according to US officials, and are scheduled to continue in the US this week; China's People's daily meanwhile published a commentary stating “we must have a ‘bottom line mindset’, and be prepared to not be able to reach a deal”. China will not accept a 19th century humiliation and “unequal treaty”. Are these talks going to progress the Brexit-way? As of now, the UK could leave the EU without a deal on 12 Apr, if Parliament does not find a way forward. Growth estimates for Q1 are likely to be on the lower end and IMF/ World Bank are likely to lower growth estimates at the Annual meetings next month, given all the indicators released

so far this year – it is little wonder then that White House advisor Kudlow is asking the Fed to cut rates “immediately”.

Regional Developments

- **Bahrain origin exports grew** by 5% yoy to BHD 177mn (USD 465mn) in Feb. Saudi Arabia was the top importer of Bahraini goods (BHD 44mn), followed by the UAE and the US. Re-exports meanwhile grew by 78% to BHD 71 during the same month, while the trade deficit narrowed by 56% to BHD 102mn in Feb 2019.
- **MPs in Bahrain are reviewing a law** that would **limit expats in the public sector** to a maximum of two years. Currently, 15% of the public sector workforce is expat.
- **Egypt’s 2019-2020 budget** assumes oil price at USD 68 per barrel and an exchange rate of EGP 18 per dollar, reported *Reuters*. The amount allocated for fuel subsidies has declined to EGP 52.8bn (USD 3.06bn) from EGP 89bn in the previous budget. The budget targets a 7.2% deficit, GDP growth of 6.1% and debt-to-GDP of 89%.
- **The central bank of Egypt left interest rates unchanged:** it held its overnight deposit rate at 15.75% and its overnight lending rate at 16.75%.
- **Egypt is considering a raise of the national minimum wages** to EGP 1400-1600 (USD 81-92) from EGP 1200 (\$69) currently. It is also planning to double annual bonus to 15% from the current 7.5%.
- **Kuwait’s real GDP increased by 1.2% yoy** to KWD 39.67bn (USD 131.2bn) **in 2018**, after posting a 2% rise in Q4 2018 (thanks to higher oil prices). Oil sector contributed 53.9% of GDP at constant prices in Q4.
- **Kuwait’s budget deficit** is likely to decline to KWD 4.3bn in the 2018-19 fiscal year, from KWD 4.84bn in the year before, reported the *Al-Rai* daily. The 2018-19 budget was based on oil price at USD 50 per barrel.
- **Plans are underway to raise Kuwaiti nationals’ jobs to 70% in the private sector by 2020** and further to 85% by early 2021.

- **Bank lending in Oman increased** by 6.1% yoy to OMR 25.1bn in Jan: of this credit to the private sector grew by 4.8% to OMR 22.1bn with the non-financial corporate sector accounting for the lion's share (at 45.9%). Total bank deposits in January grew by 4.1% to OMR 22.6bn.
- **Oman** allotted a total of 4,377 **residential plots** across the nation till end-Feb, **down 31.5% yoy**.
- **Saudi Arabia's international reserves declined** by 0.5% yoy and 1.1% mom to SAR 1.817trn **in Feb**, as a result of a 5.5% drop in foreign cash and deposits abroad.
- **Saudi Arabia** announced the sale of SAR 6.075bn (USD 1.62bn) in **local currency debt with maturities of 10 and 15 years**, the longest-dated public debt issued domestically, thereby extending the domestic yield curve (which can provide a benchmark for issuances from the private sector).
- **Saudi Aramco**, which agreed to buy a 70% stake in **SABIC** from the Public Investment Fund, will be **meeting with investors** ahead of the debut dollar bond **to fund the USD 69.1bn purchase**, reported *Reuters*.
- **Bilateral trade between Saudi Arabia and China** grew by 14.9% yoy to SAR 20.25bn in Jan, with the trade surplus down by 27.7% to USD 1.03bn.
- **Saudi Arabia was China's biggest crude oil supplier in Feb**, as its supplies grew by 29% yoy to 5.95mn tonnes or about 1.552mn barrels per day (bpd), ahead of Russia (5.74mn tonnes or 1.5mn bpd).
- According to the governor of Saudi Arabian General Investment Authority (SAGIA), **Saudi participation in foreign investments** in the country is more than 40%.
- Total value of **economic and financial transactions in the Arab region** is estimated to be around USD 830bn per year, of which USD 245bn is attributed to intra-Arab trade in 2018, according to the Arab Monetary Fund.
- **Inflation in the GCC remained unchanged in yoy terms in Jan**, as a 2.9% increase in tobacco prices was offset by a 2.8% dip in transportation costs. GCC inflation was

down by 0.1% mom.

- **The Middle East and Africa region will likely invest USD 2.3bn in technologies enabling smart cities by 2021,** according to the International Data Corporation.

UAE Focus

- **UAE's government revenues grew to AED 455.5bn by end-2018, creating a surplus of AED 67.5bn as expenses were at AED 388.147bn. During the first 9 months of 2018, revenues had grown by 4.8% yoy to AED 304.5bn.**
- **Dubai's economy grew by 1.94% in 2018, slowing down from 2.8% in 2017.** The growth was largely driven by the performance of trade related activities which grew by 1.3% last year and accounted for 18.1% of total growth.
- **UAE's Federal Tax Authority will launch VAT refunds for business visitors from Apr 2.** Among the conditions are that the foreign business must not have a place of establishment in the UAE or any of the VAT-implementing GCC states and the foreign company must be from a country that implements VAT and provides similar refunds to UAE businesses.
- **The UAE Central Bank's foreign assets grew by 3.2% mom and 6% yoy to AED 359bn in Feb.**
- **Abu Dhabi's exports grew by 36.6% yoy to AED 17.2bn (USD 4.7bn) in Q4 2018,** reported the Emirates news agency WAM. Exports were up by 28.7% qoq and imports were down by 4.8% qoq in Q4.
- **Abu Dhabi's crown prince announced via Twitter the allocation of AED 5.6bn (USD 1.52bn) over the next five years for research and development on water and food security.**
- **Abu Dhabi launched an innovation competition worth AED 300mn (USD 81.7mn) over the next three years, rewarding innovators in energy efficiency, human ageing, food security, water scarcity, artificial intelligence, and environmental conservation.**

Media Review

How Argentina and Japan continue to confound macroeconomists

<https://www.economist.com/finance-and-economics/2019/03/30/how-argentina-and-japan-continue-to-confound-macroeconomists>

Recharged bulls give stocks, commodities flying start to year

<https://uk.reuters.com/article/uk-markets-global-q1-graphic-analysis/recharged-bulls-give-stocks-commodities-flying-start-to-year-idUKKCN1RA24E>

Was the Stock-Market Boom Predictable?

<https://www.project-syndicate.org/commentary/was-ten-year-stock-market-boom-predictable-by-robert-j-shiller>

Brexit & the Parliament

<https://www.economist.com/britain/2019/03/29/theresa-may-loses-again-again>

<https://www.project-syndicate.org/commentary/britain-needs-brexit-leadership-by-chris-patten-2019-03>

<https://www.bbc.com/news/uk-politics-47756122>

Fixing Lebanon's ruinous electricity crisis

<https://www.reuters.com/article/us-lebanon-economy-electricity/fixing-lebanons-ruinous-electricity-crisis-idUSKCN1RA24Z>

Global Trade Takes Sharp Turn Down with Biggest Drop Since 2009

<https://www.bloomberg.com/news/articles/2019-03-25/global-trade-takes-sharp-turn-down-with-biggest-drop-since-2009>

19th-Century 'Humiliation' Haunts China-U.S. Trade Talks

<https://www.nytimes.com/2019/03/27/us/politics/china-opium-wars-trade-talks.html>

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