

Weekly Economic Commentary – Apr 7, 2019

Markets

Equities across the globe put in a strong performance last week, with the S&P 500, STOXX 600, FTSE 100 and DAX all ending on a positive note thanks to hopes that the US and China are nearing a trade deal, as well as a few encouraging data (Chinese PMI, German IP, US employment). In the region, Saudi Arabia and UAE performed well, thanks to positive views of the banking sector (with the latter supported by Emirates NBD's deal to buy Turkey's Denizbank). The dollar strengthened while the pound further weakened vis-à-vis the dollar after May requested the EU for a second Brexit delay (near 3-month extension). Brent crude touched the \$70 mark for the first time since Nov 2018, thanks to tightening of supply, though closing the week lower while gold price stayed around a 10-week low.

Global Developments

US/Americas:

- **Non-farm payrolls increased** by 196k in Mar, significantly higher compared to last month's revised 33k. **Wage growth, however, slowed** to 3.2% yoy from 3.4% while unemployment rate remained steady at 3.8%.
- **Initial jobless claims in the US dropped to the lowest level since 1969:** declining by 10k to 202k in the week ended Mar 30, from 212k the week before. The 4-week moving average fell 4k to 213,500 (the lowest since early Oct 2018).
- The **ADP employment change underwhelmed**, rising only 129k in Mar – the slowest employment increase in 18 months – versus a 197k increase in the month before.
- **US ISM manufacturing edged up** to 55.3 in Mar, from Feb's two-year low of 54.2, supported by new orders (grew to

57.4 from 55.5) and production (55.8 from 54.8); employment also improved to 57.5 from 52.3 in Feb. **ISM non-manufacturing PMI declined** to 56.1 in Mar, down from Feb's 59.7.

- **Construction spending in the US increased** by 1.0% mom and 1.1% yoy in Feb versus Jan's 2.5% mom, thanks to gains in both private and public construction projects.
- **Retail sales in the US declined** by -0.2% mom in Feb (Jan's reading was revised up to 0.7%); ex-autos, retail sales were down by 0.4% (Jan: 1.4%).
- **US durable goods orders unexpectedly dipped** by -1.6% in Feb (Jan: 0.1%); non-defense capital goods orders excluding aircraft, a proxy for business spending, dipped by -0.1% from 0.9% the month before.

Europe:

- **The preliminary reading of core inflation in the eurozone dipped to the lowest level in 2 years** 0.8% yoy in Mar versus 1.0% the month before. Overall, inflation was 1.4% last month, following Feb's 1.5%.
- **German manufacturing PMI slipped even further**, with the Mar reading falling to 44.1 versus 47.6 the month before, with faster decreases across output, new orders and export sales. The **pick-up in services PMI to a six-month high** of 55.4 (55.3) did little to support the **composite PMI which declined** to 51.4 from 52.8 the month before.
- **German factor orders disappointed again**, dropping by -4.2% mom and -8.4% yoy in Feb, following declines of -2.1% mom and -3.9% yoy in Jan. This marks the sharpest fall since Jan 2017.
- **Industrial production in Germany provided the silver lining**: rising by 0.7% in Feb, thanks to a 6.8% surge in construction activity and though manufacturing output declined by 0.2% in Feb.
- **The Markit composite PMI in the eurozone edged down** to

51.6 in Mar (Feb: 51.9), **as manufacturing PMI fell to the lowest level in 6 years** (to 47.5 from 49.3) and in spite of a slight improvement in services PMI to 53.3 (52.8).

- In spite of Brexit's ongoing uncertainty, **manufacturing PMI in UK improved**, climbing to a 13-month high of 55.1 in Mar vs. Feb's upwardly revised 52.1, though the services sector PMI was dragged down to 48.9 (51.3).
- **Retail sales in the eurozone increased** by 2.8% yoy and 0.4% mom in Feb (Jan: 2.2% yoy), rising across sectors. Germany was one of the top performers, posting a 4.8% yoy increase.
- **Unemployment rate in the eurozone remained unchanged** at 7.8% in Feb. Jobseekers fell in Spain, Germany, and France though unemployment rose in Italy.
- **Eurozone finance ministers have released the long-delayed debt relief to Greece** (worth around EUR 1bn), after accepting that "Greece has taken the necessary actions to achieve all specific reform commitments". **Greece has received an estimated EUR 280bn in rescue funds since 2010.**

Asia Pacific:

- **China NBS manufacturing PMI improved to 50.5** in Mar (Feb: 49.2), supported by production (6-month high of 52.7) and new orders (up 1ppt to 51.6). **Non-manufacturing PMI also posted a strong reading of 54.8** (Feb: 54.3).
- **Caixin manufacturing PMI in China echoed the official PMI reading as it tipped over the 50-mark**, following three consecutive months of contraction, with the Mar reading at 50.8 versus 49.9 the month before. Improvements in output and new work supported the increase as did new export orders, while **employment grew for the first time in more than 5 years**. The **services PMI ticked up to 55.4** in Mar (Feb: 51.1).

- **The Bank of Japan's Tankan survey outlook for Q1 disappointed:** the headline index dropped to 12 in Mar from 19 three months ago, while the outlook score dipped to 8 from 15 the quarter before. Big firms reportedly plan to raise their capital spending by 1.2% in the financial year to March 2020.
- **Japan manufacturing PMI edged up** to 49.2 in Mar from the previous month's reading of 48.9, pointing towards the worst quarterly performance since Q2 2016. According to Markit, **firms cut production at the fastest rate in almost three years** and showed reluctance to replace outgoing staff, with employment growth at the lowest since late-2016.
- **Korea's trade balance widened** to post a surplus (for the 86th consecutive month) of USD 5.22bn in Mar (Feb: USD 2.96bn), as exports were down 8.2% yoy to USD 47.11bn and imports retreated 6.7% yoy to USD 41.89bn.
- **Indonesia's inflation slowed** to 2.48% yoy in Mar (Feb: 2.75%) while core inflation also slowed to 3.03% from 3.06%.
- **India's central bank left key interest rates unchanged:** reverse repo rates remained at 5.75% while repo rate was at 6%.

Bottom line: Some glimmer of hope amidst glum data – China's latest PMI readings point towards the impact from stimulus measures introduced earlier this year; though it looks like difficult times ahead for Europe given the latest woeful set of German data (which pushed German bund yields back to negative territory), while IP data surprised to the upside. Trump –looking ahead to his 2020 re-election bid- has called for rate cuts and quantitative easing to allow for 'rocket ship' growth, while it looks increasingly likely that a decision to cut bank reserve requirements may be announced by the PBoC by mid-April. Meanwhile, as US-China trade negotiations continue, the World Trade Organisation reported that world trade shrank by 0.3% in Q4 2018 and is likely to

grow by 2.6% this year, slower than the 3% growth in 2018, mainly due to new tariffs and retaliatory measures, weaker economic growth and volatility in financial markets.

Regional Developments

- **The volume of FDI into Bahrain** grew by 5.5% yoy to over BHD 11bn at end-2018, as per the initial foreign investment survey for 2018 conducted by the Information & eGovernment Authority. The **banking and manufacturing sectors attracted more than half the inflows** (nearly BHD 570mn) while Kuwait, Saudi Arabia and Libya were the top source nations (at BHD 3.1bn, BHD 2.8bn and BHD 1.3bn respectively).
- **In a bid to reduce expenditure, Bahrain plans to review and prioritize 66 new projects** estimated to cost BHD 1.3bn under the 2019-2020 budget. Financial support from the GCC is estimated to fund around 73% of the schemes over the next two years.
- **Bahrain's flexible work permit scheme** – which was envisioned to reduce the illegal sale of visas on the black market and introduced in Jul 2017 -has been used by 59k persons in the past 9 months, **down** from 82k before. Almost 75% of those given such work permits are unskilled workers.
- **Kuwait signed a formal financial aid agreement to support Bahrain's economy**, as part of the previously agreed package with Saudi Arabia and the UAE.
- **Egypt aims to raise EUR 2bn in 6-year and 12-year euro-denominated bonds on the London Stock Exchange**, reported *Reuters*, citing related bank documents. The sale attracted orders worth nearly EUR 9bn (USD 10.1bn); this offer, according to the finance ministry, will conclude the debt auctions for the current financial year which ends in Jun.
- **Net foreign reserves at Egypt's central bank** stood USD 44.11bn at end-Mar, and compares to USD 44.06bn in the month before.

- **Egypt's current account deficit widened** to USD 2.1bn in Oct-Dec 2018 from a USD 1.78bn deficit in the same period a year ago. **Egypt's net FDI declined** by around 38% yoy to USD 1.74bn in the same period.
- **Egypt disclosed to the IMF**, as part of the review of the 3-year USD 12bn loan programme, **that it would remove subsidies on most energy products by June 15th**. General debt will be reduced to 72% of GDP by 2023 from 86% by end-Jun.
- **Egypt**, which launched a new health insurance law last year, **will begin to roll out its new comprehensive health insurance system in July this year**. The system will be rolled out gradually over a 15-year period in six phases.
- **Tourists into Egypt from the Middle East are expected to rise by 50% to 2.23mn in 2022**; Saudi Arabia will drive this growth.
- **Saudi Arabia will provide USD 1bn to Iraq to build a sports city**, it was announced during the start of a 2-day visit by high-level Saudi officials.
- **World Bank estimates Jordan to grow by 2.2% this year** and slightly higher at 2.4% next year: this is a slight drop from the Bank's previous projections.
- **Passenger traffic at Jordan's airport increased** by 9.2% yoy to 593,427 passengers in Feb: this is the highest ever number recorded in Feb.
- **The IMF concluded its 2019 Article IV consultation with Kuwait**: non-oil growth of 2.5% last year was supported by an increase in government spending and rebound in confidence. The IMF also warned that fiscal financing needs remain large, also highlighting that the new debt law needs to be passed for the government to be able to issue debt. [Add link]
- **Kuwait's exports grew almost 10 times** to KWD 125.1mn (USD 413mn) in Mar, with value of exports to Arab states (excluding GCC) stood at KWD 115.5mn.

- **Kuwait** National Assembly's financial and economic affairs committee reaffirmed that **imposing a 5% tax on expat money transfers does not violate the constitution.**
- **Lebanon's** energy minister stated that **a second offshore energy licensing round has been approved**, with bids due on Jan 31, 2020.
- **PMI in Lebanon declined further** to 46.3 in Mar, after rising to 46.9 the month before, given faster declines in output and exports amidst lower output prices.
- **Lebanon's trade deficit narrowed** by 17.7% yoy to USD 1.2bn in Jan, due to dips in both exports (-16.6%) and imports (-17.5% to USD 1.4bn).
- **The electricity sector in Lebanon incurred over USD 40bn in losses** largely due to "political spitefulness", according to the President. A new electricity plan is in the works, with aims to improve power supply and reduce subsidies to the state-run Electricite du Liban.
- **Oman's** Capital Market Authority has issued the **Unified Health Insurance Policy** to be implemented for private sector employees (including expatriates, and their spouse and children below-21 years) and visitors to the country.
- **Qatar's central bank sold QAR 600mn of treasury bills at an auction** last week.
- **Saudi Arabia grew by 3.59% yoy in Q4 last year**, up from Q3's 2.5%, thanks to a stronger production boost in the oil sector (+6% yoy). Growth in the non-oil sector remained muted rising by only 1.8% in Q4, down from Q3's 2.1%.
- **Banks in Saudi Arabia increased its government bond holdings** by 22.9% yoy or 3.4% mom to SAR 331.16bn (USD 88.31bn) in Feb.
- **Saudi Arabia plans to issue SAR 118bn (USD 31.5bn) in debt this year**, according to the Debt Management Office. It has already issued USD 7.5bn in international bonds this year and plans to have around USD 181bn in outstanding debt (21.7% of GDP) by end of 2019.

- **Saudi Aramco's** bond prospectus revealed that its **Ghawar field** (the largest oilfield in the world) **had 58bn barrels of oil equivalent in combined reserves at end-2018**, and 48.3bn in liquid reserves.
- **Saudi Aramco** – whose **revenues** touched USD 315.24bn in 2018 also reported core earnings of USD 224bn and a net income of USD 111bn – disclosed its **plans to complete the SABIC acquisition in 2020**. The company plans to pay 50% of the acquisition price at the closing of the SABIC deal, while the remainder will be paid over a two-year period from internal cash generation and, potentially, other sources.
- **Saudi Aramco will offer 140 contracts** worth SAR 60bn (USD 16bn) **to small and medium-sized enterprises** in the country, stated a senior official on Al Arabiya TV.
- **Unemployment rate in Saudi Arabia dropped to 12.7% in Q4 last year**, down slightly from Q3's 12.8%. Unemployment rate among Saudi males was 6.6% while **female unemployment was substantially high at 32.5%** in Q4.
- **Saudi Arabia's** government unveiled **plans to invest around SAR 130bn (USD 35bn) into the culture and leisure industry by 2020**.
- **Fintech startups in the Middle East region are expected to expand** from 96 this year to 465 by 2020, according to an Accenture analysis, based on CBI Insights data. Investments are forecast to rise to USD 2.28bn by 2022 from USD 287mn this year. According to Bloomberg Intelligence, UAE has the highest number of fintech startups at 67, followed by Turkey (44), and Jordan and Lebanon at 30 each.

UAE Focus

- **UAE GDP growth touched 1.7% in 2018**, much slower than the previously predicted 2.5-3% growth, according to official preliminary data; non-oil sector grew by 1.3% to AED 1bn.

- **Abu Dhabi's GDP grew** by 3.7% yoy to AED 203.2bn in Q4 2018, with value added of non-oil activities plunging by 1.1% yoy.
- **UAE banking sector's total assets declined** by 0.13% mom to AED 2.909trn in Feb 2019; bank lending increased by 6% mom to AED 1.671trn. Money supply (M2) increased 1.23% mom to AED 1.321trn.
- The **UAE government's FDI law** will likely lead to a **20% increase in FDI flows this year**, from the 8% average growth rate, according to Ministry of Economy estimates.
- **The value of total sukuk listed on Nasdaq Dubai touched USD 3.45bn**, with the latest listing of Sharjah's USD 1bn sukuk. Total value of sukuk listed in Dubai reached USD 61.34bn.
- **Abu Dhabi's industrial production index declined** by 24.4% yoy and 20.5% qoq to 99.8 in Q4 2018.
- **The Construction cost index in Abu Dhabi decreased** by 0.1% yoy and 0.2% qoq to 97.9 in Q4 2018. Separately, **construction costs index in Dubai rose** by 6.06% yoy and 0.16% qoq in Q4 2018.
- **UAE maintained its position as the largest exporter and importer of goods and services last year in the region**, according to WTO data. UAE's total merchandise imports and exports amounted to USD 599bn last year, down from USD 628bn the year before. UAE was the 16th largest exporter in the world, and the 20th largest merchandise importer.
- **Tourists from Japan into Dubai crossed the 100k mark for the first time in 2018**, with a total 104,843 overnight visitors.
- The **UAE Cabinet amended provisions to include "income" as a requirement for sponsoring family members**, as opposed to current practice of specific "professions".

Media Review

What is Brexit and what happens next – the big questions

answered

<https://www.ft.com/content/6a14011e-5527-11e9-91f9-b6515a54c5b1>

<https://www.economist.com/leaders/2019/04/04/theresa-may-takes-a-step-in-the-right-direction-on-brexit>

How to revive Algeria

<https://www.economist.com/leaders/2019/03/09/how-to-revive-algeria>

We underestimate the power of data at our peril.

<https://www.weforum.org/agenda/2019/04/we-underestimate-the-immense-power-of-data-at-our-peril-this-is-why%20/>

Are we ready for Globalization 4.0.?

<https://www.project-syndicate.org/commentary/globalization-new-operating-system-by-richard-samans-2019-04>

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