

Weekly Economic Commentary – Apr 21, 2019

Markets

A short working week given Easter holidays: equities trading was quiet. US markets saw better-than-expected retail sales data, and a strong pickup in the recently listed Pinterest and Zoom, but posted the first decline in 4 weeks. Weak PMI readings across the globe led to a dip in the MSCI All-country world index, while Chinese stocks closed last week at a near 13-month high. In the region, Abu Dhabi's index hit a 13-year high (most GCC markets rose) aided by liberalisation of ownership of the real estate sector. The dollar steadied last week while the euro was down to its lowest level in 2.5 weeks on weak manufacturing activity data. Oil prices increased after a dip in exports from Saudi Arabia while the gold price edged down by 1.4% from a week ago.

Global Developments

US/Americas:

- **US industrial production unexpectedly fell by 0.1% mom in Mar**, dragged down by mining (-0.8%) and manufacturing (flat). Manufacturing has remained a weak spot, slipping by 0.3% and 0.5% in the months before. Capacity utilization for the industrial sector fell to 78.8% (Feb: 79.0%).
- **US trade deficit fell to an 8-month low** of USD 49.4bn in Feb, thanks to civilian aircraft shipments. Exports grew by 1.1%, recording the fastest pace in about 6 months.
- **US retail sales grew** by 1.6% in Mar, posting the biggest gain since 2017, after a 0.2% dip in Feb, supported by purchases across the board – furniture sales (1.7%), clothing (+2%), and non-store retail (+1.2%) to name a few.
- **Manufacturing PMI in the US remained unchanged** at a near

2-year low of 52.4 in early Apr; the survey's gauge of factory employment dropped to its lowest level since Jun 2017.

- **Weak reports from the US housing sector as housing starts fell** 0.3% to a seasonally adjusted annual rate of 1.139mn units in Mar – the lowest level since May 2017 – and from Feb's downwardly revised 1.142mn units. **Building permits also declined** for the third consecutive month, dipping by 1.7% to a rate of 1.269mn units.
- **Initial jobless claims hit a fresh 50-year low**, declining (for the 5th consecutive week) by 5k to 192k for the week ending Apr 13. The four-week moving average fell 6k to 201,250 last week, the lowest reading since Nov 1969.

Europe:

- The **flash composite euro zone PMI fell** to 51.3 this month from a final March reading of 51.6, with the new businesses sub-index nudging up to 50.6 from 50.5 the month before. **Flash manufacturing PMI in Germany** was at 44.5 in Mar while in **France**, an unexpected rebound in services offset continued weakness in manufacturing.
- **German ZEW picked up** by 6.7 points to 3.1 in Apr 2019, but remains much below the long-term average of 22.2 points. The assessment of the economic situation in Germany has deteriorated by 5.6 points to 5.5. Similarly, the **assessment of the current economic situation in the eurozone saw a further decline**, falling by 6.6 points to a current level of minus 13.2 points.
- **EU CPI remained stable** at 1.6% yoy in Mar; the highest contribution to the annual euro area inflation rate came from energy (0.52 percentage points), followed by services (0.51), food, alcohol & tobacco (0.34) and non-energy industrial goods (+0.04).
- **UK unemployment fell** by 27k to 1.34mn in the three months to Feb, with the **unemployment rate**, at

3.9%, lower than at any time since the end of 1975; the average weekly earnings excluding bonuses, rose 3.4% in the three months to Feb.

- **UK inflation was stable** at 1.9% in Mar, after the rise in fuel prices was offset by lower food prices.
- **UK retail sales unexpectedly jumped** by 6.7% yoy (the highest since Oct 2016) and 1.1% mom in Mar; food stores clocked in a 3.3% yoy rise, textile, clothing and footwear stores posted a 7.1% yoy uptick.

Asia Pacific:

- **China registered a strong start to 2019, with Q1 GDP growing** by 1.4% qoq and 6.4% yoy (Q4: 1.5% qoq and 6.4% yoy), in spite of the ongoing trade wars and probably a result of the government's stimulus measures earlier this year.
- **Industrial production in China surged** by 8.5% yoy in Mar, the fastest in over 4.5 years, and higher than the 5.3% reading in Jan-Feb.
- **China's retail sales expanded by 8.7%** in Mar (Feb: 8.2%), led by strong demand for appliances, furniture and building materials (reflecting an upswing in the property sector). Property investment increased by 11.8% over Jan-Mar versus 2018's 9.5%.
- **Fixed asset investment in China increased** by 6.3% yoy in Jan-Mar, as infrastructure projects picked up. **FDI into China grew** by 8% yoy to CNY 95.17bn (USD 14.2bn) in Mar, bringing the total Q1 inflow to CNY 242.28bn (+6.5% yoy).
- **The pace of contraction of Markit/Nikkei Japan's manufacturing PMI slowed** to a seasonally adjusted 49.5 in Apr from a final 49.2 in Mar; new export orders (47.1 in Apr from Mar's 48.1) fell at the fastest pace in almost three years.
- **Japan's trade balance fell into red for the first time in 3 years:** deficit was at JPY 1.59trn (USD 14.18bn) in

the fiscal year 2018 with exports up by 1.9% yoy to JPY 80.71trn. Japan's trade surplus with Asia plummeted for the first time in five years, falling 14.4% yoy to JPY 5trn.

- **Singapore's non-oil domestic exports plunged** by -11.7% yoy in Mar (Feb: +4.8%), largely due to the biggest year-on-year drop in electronics exports since 2013 (-26.7% yoy).

Bottom line: China's GDP was one of the major data releases last week: the PBoC said that "economic growth is resilient", and repeated earlier assurances that it would not resort to "flood-like" monetary stimulus measures. Though still in contractionary territory, German and Japanese PMIs ticked modestly higher from Mar, offering hope that there are some green shoots.

Regional Developments

- **Bahrain reported Q4 economic growth rates** with the nation growing by a reported 4.6% yoy in real terms and by 6.5% in current prices. In real terms, the non-oil sector grew by 3.2% while the oil sector surged by 11.3%.
- **Egyptians began voting on the referendum which could potentially extend President Sisi's stay in office till 2030.** If approved, the amendments would extend Sisi's current term to six years from four and allow him to run again for a third six-year term in 2024.
- **Moody's upgraded Egypt's rating to B2** and changed the outlook to stable from positive.
- **The Central Bank of Egypt plans to re-introduce a mortgage financing initiative** aimed at helping to finance mid-income housing units; funding will be offered at a 10.5% interest rate.
- **Egypt signed an agreement with Euroclear:** this will allow holders of sovereign debt to clear transactions outside the country beginning in six months' time.

- **The Suez Canal Authority aims to raise the Suez Canal's revenues by USD 1bn**, according to its Chairperson. Suez Canal's revenues touched EGP 76.14bn during Jul 2018 - Mar 2019.
- **Iraq exported 3.25mn barrels per day (bpd) from its southern ports** so far this month, according to industry sources. Oil exports averaged 3.377mn bpd in Mar, down from the previous month's 3.62mn bpd.
- **Kuwait's trade surplus plunged 48.3% yoy to JPY 22.1bn (USD 197mn) in Mar due to weaker exports.**
- **About 14,828 unemployed citizens** are registered at **Kuwait's** Civil Service Commission; of this, 8-9k hold intermediate and elementary school certificates.
- **Kuwait introduced a healthcare fee of KWD 10 (USD 33) for expats** when getting medical treatments from polyclinics, in a bid to ease congestion at public hospitals.
- **Lebanon will discuss the draft 2019 budget** – which has penciled in lower government spending and is based on an economic growth forecast of 1.5% – at a Cabinet session on Tues. The **new draft budget projects a deficit of less than 9% of GDP** compared to 11.2% in 2018 **and also a primary surplus** compared to a deficit in 2018. Last year's budget deficit was estimated at USD 6.7bn, or 11% of GDP, though the final figures have not yet been released.
- **Lebanon plans to issue Eurobonds** in the range of USD 2.5-3bn on May 20 to finance state needs, disclosed the finance minister.
- **Lebanon's parliament passed amendments necessary to implement a plan to restructure the electricity sector.** The plan would improve power supplies (aims to add 1,450 megawatts of temporary power to the grid by next year), raise electricity tariffs and reduce the fiscal deficit resulting from government transfers to state-run EDL.
- **Lebanon's Consumer Confidence index** averaged 75.5% in Q1 this year (picking up in Feb, before dipping again in

Mar) and was unchanged from Q4 2018.

- **S&P cut its outlook on Oman to negative from stable**, citing the absence of “substantial fiscal measures”; it affirmed its “BB/B” long- and short-term foreign and local currency sovereign credit ratings on the country.
- **Saudi Arabia and Iraq signed 13 cooperation agreements** across areas like trade, energy and political cooperation though no further details were given; cooperation will also cover security and intelligence matters.
- **Saudi Arabia’s Public Investment Fund (PIF) is in discussions** with banks to raise a short-term bridge loan to the tune of USD 8bn for new investments, reported *Reuters*.
- **Saudi Arabia’s crude oil exports fell** by 277k barrels per day (bpd) to 6.977mn bpd in Feb, according to data from the Joint Organizations Data Initiative.
- **Unemployment among Saudis edged down to 12.7% by end-2018** from 12.8% in 2017; female labour force participation increased to 20.2% last year from 19.4% the year before. Youth unemployment remained high at 36.6% last year, though down from 2017’s 42.7%.
- **Saudi Arabia’s Ahmad Hamad Algosaibi and Brothers’ application for a financial restructuring procedure (under the bankruptcy framework) was rejected by the court**; it had earlier applied for a “protective settlement procedure” which was also rejected.
- The **Saudi Commission for Tourism and National Heritage** – which offers loans to hotel and tourism projects – confirmed that it had **secured SAR 1.1bn(USD 293mn) in financing** for 33 hotel and tourism projects in 12 areas.
- **Saudi Arabia raised the local price for Octane 95 gasoline** to SAR 2.10 from SAR 2.02 last quarter and Octane 91 to SAR 1.44 from SAR 1.37; this went to effect from Apr 14.
- As per a Strategy& study, **scale-ups** (i.e. SMEs with a proven business model that are poised for exponential

growth and economic stimulation) **generate on average 3.4 times more revenues and 8 times more jobs than SMEs**. UAE and Lebanon top the MENA scale-ups readiness index. (Access the report at <https://www.ideationcenter.com/media/file/Scaling-up-MENA-SMEs.pdf>)

UAE Focus

- **Abu Dhabi nominal GDP** grew by 14.4% yoy to AED 931bn (USD 253.47bn) in 2018, thanks to a 35.7% surge in mining and quarrying activity while non-oil activities rose 3.5%.
- **Abu Dhabi changed its real estate ownership law to allow foreigners full ownership** of property in designated investment zones. Previously, property ownership was allowed only for UAE and GCC nationals.
- The contribution of the **construction and building sector to Abu Dhabi's FDI** picked up by 5% yoy to AED 6bn in 2018.
- **UAE's current account surplus increased** by 37.6% yoy to AED 139mn or 9.1% of GDP last year, according to central bank data. Oil and gas exports rose by 13.9% while non-oil exports increased by 2.1% last year.
- **The Expo 2020 is expected to boost UAE GDP** by nearly AED 62.2bn (USD 16.9bn) during 2021-2031, according to EY's "The Economic Impact of Expo 2020 Dubai" study. The 'legacy' phase of the Expo (i.e. post Expo) is expected to have the largest impact at 50.7% of the total (Access the report at: [https://www.ey.com/Publication/vwLUAssets/ey-the-economic-impact-of-expo-2020/\\$File/ey-the-economic-impact-of-expo-2020.pdf](https://www.ey.com/Publication/vwLUAssets/ey-the-economic-impact-of-expo-2020/$File/ey-the-economic-impact-of-expo-2020.pdf))
- **New business licenses issued in Dubai** touched 7418 as of Apr 15th, with total licenses rising 3.3% to 260,998.
- The total value of **conventional bonds and Sukuk listed on Nasdaq Dubai** increased to USD 77.47bn, according to a

statement issued last week.

- The “Global Wealth Migration Report” for 2019 revealed that **UAE attracted approximately 2000 High Net Worth Individuals last year** (each with at least USD 1mn worth of assets) while the number of affluent migrants increased by 2% yoy.

Media Review

Chinese money is behind some of the Arab world’s biggest projects

<https://www.economist.com/middle-east-and-africa/2019/04/20/chinese-money-is-behind-some-of-the-arab-worlds-biggest-projects>

The Dangerous Absurdity of America’s Trade Wars

<https://www.project-syndicate.org/commentary/trump-dangerous-absurd-trade-wars-by-jeffrey-d-sachs-2019-03>

Nouriel Roubini upbeat on global outlook

<https://www.thenational.ae/business/economy/business-extra-doom-nouriel-roubini-upbeat-on-global-outlook-1.850181>

UAE e-commerce set for record 2019

<https://www.khaleejtimes.com/uae-e-commerce-set-for-record-2019>

What Kind of Online Fraud is Growing the Fastest?

<https://priceonomics.com/what-kind-of-online-fraud-is-growing-the-fastest/>

The Digital Revolution’s Silent Majority

<https://www.project-syndicate.org/commentary/digital-revolution-silent-majority-by-edoardo-campanella-2019-04>

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