

Weekly Economic Commentary – Apr 28, 2019

Markets

Wall Street closed at a record high last week in part reacting to better than expected Q1 growth, whereas in Europe quarterly earnings have been better-than-expected for about 2/3-rds of the companies' results so far, but Asian markets were largely subdued. In the region, it was a mixed picture with Saudi Arabia, Qatar and Abu Dhabi closing higher compared to a week ago. The dollar touched a 23-month high on Thurs (but closed lower), resulting in a significant weekly drop for emerging market currencies since Aug (Argentine peso, Korean won), while the euro tumbled to 22-month lows against the dollar (*currencies year-to-date chart: tmsnrt.rs/2egbfVh*). Oil prices touched USD 75 last week (after Trump's decision not to extend Iran waivers) though moved south later on expectations of supply from the US and OPEC+ nations. Gold prices were volatile, touching the lowest point this year mid-week, but closing higher compared to a week ago.

Global Developments

US/Americas:

- **US GDP grew at a 3.2% annualized rate in Q1 2019** – the fastest pace of Q1 growth since 2015 – **largely due to an unexpected surge in inventories; consumer spending slowed** to only 1.2% last quarter (Q4: 2.5%). Core personal consumption expenditures – closely monitored by the Fed – came in at 1.3% for the same period.
- **Durable goods orders in the US increased** by 2.7% to USD 258.5bn in Mar (Feb: -1.1%) – the biggest rise since Aug 2018 – thanks to transportation equipment. Excluding transportation, orders rose by 0.4% (Feb: -0.2%). Orders for non-defense capital goods (excluding aircraft) posted an 8-month high of 1.3% (Feb: 0.1%).

- **Existing home sales fell** by 4.9% mom in Mar – the biggest drop since Nov 2015 – to a seasonally adjusted 5.21mn homes (Feb: +11.2%). The median home price accelerated 3.8% yoy to USD 259,400.
- **New home sales meanwhile increased** – for the third consecutive month – by 4.5% yoy to a seasonally adjusted 692k units in Mar. The median new house price dropped 9.7% yoy to USD 302,700 – the lowest level since Feb 2017.
- **Initial jobless claims climbed** by 37k to 230k in the week ended Apr 20, posting the biggest rise in 19 months; the 4-week moving average of initial claims was up 4500 to 206k.

Europe:

- **Germany's Ifo business climate indicator fell** in Apr to 99.2 from Mar's more optimistic 99.7. Current conditions and expectations also declined, with readings of 103.3 and 95.2 in Apr, down from Mar.
- **The Turkish central bank left its main policy rate unchanged** at 24%. It however removed a reference that "further monetary tightening will be delivered" if necessary.

Asia Pacific:

- **The Bank of Japan promised to maintain "current very low rates" till Spring 2020.** The central bank kept the cap on 10-year bond yields unchanged and held overnight interest rates at -0.1%. BoJ also lowered economic growth forecasts (0.9% in the next fiscal year starting Apr 2020) and inflation (1.6% in the year to Mar 2022).
- **Industrial production in Japan dropped** 0.9% mom in Mar, bringing the Q1 number to 2.6% – the biggest decline in nearly five years. Output fell 4.6% yoy in Mar – the sharpest drop since May 2015.
- **Core inflation in Tokyo accelerated** to 1.3% in Apr, the

highest reading in four years.

- **Japan's** seasonally adjusted **unemployment rate climbed** 0.2 percentage points to 2.5% in Mar, with the number of jobless people increasing by 140k to 1.74mn. Separately, **retail sales grew** 0.2% mom and 1.0% yoy in Mar (Feb: 0.4% yoy).
- **South Korea's GDP posted its worst quarterly contraction since the financial crisis**, posting a 0.3% qoq fall in Q1 (Q4: +1%). Capital expenditure was down 10.8% – the worst since the 1998 Asian crisis. Separately, the **government announced** a USD 5.87bn **supplementary budget** to boost economic growth.
- **Singapore's headline inflation** touched 0.6% yoy in Mar (Feb: 0.5%) while core inflation eased to 1.4% (Feb: 1.5%).

Bottom line: Though US GDP surprised on the upside, it is likely temporary given the surge in inventories and smaller trade deficit; however, it will have an impact on Fed's interest rate decision this week. Across the world, however, not-so-promising news including South Korea's unexpected GDP decline, Japan's dip in manufacturing, Sweden and Canada's central banks backing off plans to tighten and the Bank of Japan pledging an accommodative stance for at least one more year. Meanwhile, the Brexit delay drags on leaving a weak pound, while business uncertainty is "through the roof" (in the words of Governor Carney).

Regional Developments

- It was disclosed at a weekly Cabinet session that **Bahrain's GDP**, which grew by 1.8% last year, touched BHD 12.6bn; the non-oil sector registered an overall growth rate of 2.6%. **Overall volume of non-oil trade increased** by 11% yoy to BHD 8.4bn and 60 industrial investment licenses were issued last year, worth BHD 56mn.
- **Egypt** expects **borrowing to grow** by 26% yoy to EGP

820.7bn (USD 48bn) in 2019-20, with domestic borrowing up 45% to EGP 725.2bn and foreign borrowing down by 36%.

- **About 90% of the voters in Egypt supported constitutional changes giving more power to the President.**
- **Iraq's oil minister stated that if needed, oil production capacity could be increased to 6mn barrels per day (bpd),** while also reiterating commitment to OPEC-led output cuts.
- **Jordan's construction sector** – which comprises 70% of total industrial capital – **sources 53% of its inputs domestically,** according to data from the Amman Chamber of Industry.
- **Kuwait will start imposing VAT from Apr 2021,** the beginning of fiscal year 2021-22, reported *Annahardaily*, citing an economic report. However, excise fees on tobacco and soft drinks will be imposed in 2020/2021 (i.e. starting in Apr 2020).
- **Lebanon will start discussing the austerity draft budget** from Tues, and in successive sessions afterwards till endorsement.
- **Qatar withdrew its measures against the UAE,** stating that it that it has partially revoked measures that banned buying and selling commodities exported by the UAE.
- According to a senior Pakistani official, **Qatar has emerged as the front-runner for a long-term gas supply deal to Pakistan.** Pakistan wants to secure long-term supply contracts for its second LNG terminal, which can receive 600mn cubic feet per day of natural gas.
- **Saudi Arabia's central bank governor expects more interest from regional banks to operate in the country,** given its expected growth of 2% this year. Credit growth had accelerated by more than 2% in Q1 – the fastest pace in more than 2 years.
- **Consumer prices in Saudi Arabia fell by 2.1% yoy and 0.1% mom in Mar,** with housing and utilities costs

falling 8.1% yoy.

- **Saudi Arabia posted a budget surplus** of SAR 27.8bn (USD 7.41bn) **in Q1 this year – its first since 2014**. Oil revenues increased by 30.7% yoy to SAR 149bn while non-oil revenues nudged up by 1.3% to SAR 76.3bn.
- **Saudi Arabia** witnessed a monthly **issuance** of SAR 11.619bn (USD 3.1bn) in **domestic Sukuk** for Apr. **Saudi Arabia also debuted a 30-year sukuk**: demand for the new issuance, due in 2049, is equivalent to around SAR 9.25bn – close to 80% of total debt issuance in Apr.
- **Saudi Arabia's Public Investment Fund**– which had raised an USD 11bn international syndicated loans last year – **is “not in a hurry” to issue bonds**, according to an executive. Separately, **Aramco's CEO** revealed that the company **will not issue any more bonds this year**, following its debut USD 12bn international debt sale earlier this month.
- **Reduction in fees across Saudi Arabia's Tadawul, Capital Market Authority (CMA) and Debt Management office (DMO)**: trading commissions for Tadawul and CMA have been reduced and so have fees for new offerings and annual registration charges for issuers. Tadawul's annual listing fees and fees for subsequent issuances fees were also reduced. The DMO reduced par values for government issued sukuk from SAR 1mn to SAR 1k.
- **Saudi CMA's Chairman** disclosed that **relaxing the 49% ownership limit** for foreign strategic investors **is being considered**. Foreigners currently own only 5.5% of Saudi equities.
- **At least six Gulf firms have expressed interest in an additional listing on Saudi Arabia's Tadawul**, according to the chief executive of the bourse.
- **Venture capital funds worth SAR 1.5bn (USD 400mn) have been set up in Saudi Arabia**, to grant loans and for capital investments, as per the governor of the SME General Authority.
- **Saudi Arabia plans to create more than 561k private-**

- sector jobs by 2023**; it was also stated that 45k Saudis had entered the labour market in the last three months.
- More than **2mn Umrah visas have been issued since** the beginning of the current Umrah season in **Oct 2018**.
 - **Alpen Capital** forecasts 4% growth to USD 308bn by 2023 in the **GCC retail sector**; UAE and Saudi Arabia will together account for 76.9% of total retail sales in 2023. (Access the report at: <http://www.alpencapital.com/downloads/reports/2019/GCC-Retail-Industry-Reports-April-2019.pdf>)
 - **Saudi Arabia and UAE** have agreed to send USD 3bn in **aid to Sudan**, of which USD 500mn will be deposited at the central bank.

UAE Focus

- **The UAE launched the world's first virtual "Ministry of Possibilities"** to incubate and develop solutions for the next generation of government practices including procurement, hiring talent, incentivizing positive behaviour as well as redefining customer services experience. (More: <https://government.ae/en/about-the-uae/the-uae-government/ministry-of-possibilities>)
- **Two major deals worth a total USD 3.4bn, supporting the Belt & Road Initiative, were announced** during the UAE PM's visit to **China**: this includes a "vegetable basket" project that will import, process and pack agricultural products, marine and animal products and export them to the world as well as a project supporting the storage and transport of Chinese goods from Jebel Ali.
- **UAE central bank assets increased to a 4-decade high** of AED 432.6bn (USD 118bn) in Mar, up 3.5% from end-2018, thanks to a surge in deposits (AED 133.5bn, +25% from end-2018).
- **Dubai is forecast to grow by 2.1% this year and by 3.8% in 2020**, up from 1.94% last year, according to the

Department of Economic Development. While real estate will remain the main driver of growth this year (3.65% yoy growth), next year will see the tourism sector pick up thanks to the emirate hosting the Expo 2020.

- A record **3.43mn delegates** (+4% yoy) **attended 363 events** (+3% yoy) hosted **at the Dubai World Trade Centre in 2018.**

Media Review

Rising oil prices – a threat to global growth?

<https://www.economist.com/leaders/2019/04/27/rising-oil-prices-could-prevent-a-world-economic-rebound>

Bipolar Markets in the “New Mediocre”

<https://www.project-syndicate.org/commentary/new-mediocre-bipolar-markets-by-nouriel-roubini-2019-04>

America’s trade war with China has produced the data set of economists’ dreams

<https://www.economist.com/graphic-detail/2019/04/27/why-you-should-never-start-a-trade-war-with-an-autocracy>

China’s Belt and Road deals highlight contradictory approach

<https://www.ft.com/content/6588b27c-696b-11e9-80c7-60ee53e6681d>

\$3.4bn UAE-China deal to deepen trade and diplomatic ties

<https://www.thenational.ae/business/economy/3-4bn-uae-china-deal-deepens-trade-and-diplomatic-ties-say-analysts-1.854267>

Technological change driving ‘creative destruction’ in jobs market: OECD

<http://www.oecd.org/employment/outlook/>

<http://www.oecd.org/employment/employment-outlook-2019-highlight-EN.pdf>

Powered by:



