

# Weekly Economic Commentary – May 5, 2019

## Markets

Global equities rallied towards end of the week, after a strong jobs report from the US and 49-year low jobless rate; European equities posted gains last week (supported by strong Q1 earnings), as did MSCI's global stock index. In the region, markets were mixed: Qatar touched a 3-month high. The dollar dipped last week though the pound touched a 4-week high on hopes of a Brexit compromise between UK's major parties following defeat in local elections. Oil prices fell last week despite threats to global oil supplies (Iran, Venezuela) but remained up around 35% from end-2018. Gold prices ended lower last week after the Fed held rates steady, urging patience.

## Global Developments

### **US/Americas:**

- **The Federal Reserve left rates unchanged** but lowered the interest rate on excess reserves to 2.35% from 2.4%. Fed Chair Powell described the economy as “a bit stronger than we anticipated” and inflation “somewhat weaker”.
- **US personal income edged up** by 0.1% in Mar while **spending rebounded** to its highest level in 9.5 years in Mar, rising 0.9% overall. The **core PCE price index** was flat mom and up 1.6% yoy while the headline number was up 0.2% mom and 1.5% yoy.
- **S&P Case Shiller home prices grew at a slower pace**, rising by 4% yoy in Feb (Jan: 4.2%). The 20-city index rose a seasonally adjusted 0.2% mom and 3% yoy in Feb, recording the slowest pace of annual growth since Sep 2012.
- **US pending home sales increased** to an 8-month high in Mar, rising by 3.8% mom to a reading of 105.8. In yoy terms however, pending sales were down 1.2%: the

15<sup>th</sup> consecutive annual decline.

- **US Chicago PMI fell sharply in Apr** to 52.6 (Mar: 58.7) – the lowest level since Jan 2017 – as four of the five sub-components declined, including new orders.
- **ISM manufacturing PMI dropped** to a 2.5-year low of 52.8 in Apr (Mar: 55.3), with new orders down to 51.7 (57.4) and export orders falling below 50, to 49.5 (Mar: 51.7). **Non-manufacturing PMI also unexpectedly slowed** to 55.5 in Apr (Mar: 56.1), with prices increasing for the 23<sup>rd</sup> consecutive month while the employment index retreated to its weakest level in two years.
- **ADP private sector employment surged** by 275k in Apr, with the services sector accounting for 223k of the jobs added.
- **Initial jobless claims remained unchanged** at the 3-month high of 230k at the end of Apr; the 4-week moving average of claims rose 6,500 to 212,500.
- **Non-farm payrolls increased** by 263k last month, with average hourly earnings rising by only 0.2% mom in Apr. The **unemployment rate dropped** to 3.6% – the lowest since Dec 1969 – from 3.8% before, as the percentage of Americans employed or actively searching for work dropped to 62.8% from 63%.
- **Factory orders in the US posted the largest uptick in 7 months**, rebounding 1.9% in Mar (Feb: -0.3%), thanks to orders for computers and electronic products (+2.2%). Orders for non-defense capital goods excluding aircraft increased 1.4%.

## Europe:

- **Eurozone growth strengthened in Q1**, rising by 0.4% qoq (Q4: 0.2%), as Spain accelerated (+0.7%), France held steady (+0.3%) and Italy exited recession (+0.2%).
- **Inflation in the eurozone accelerated**, touching 1.7% in Apr (Mar: 1.4%), most likely due to seasonal effects given the timing of Easter. Core CPI also increased to

- 1.3% from 1% the month before.
- **Eurozone unemployment was at a 10-year low** of 7.7% in Mar (Feb: 7.8%); **unemployment across EU-28 fell** to its lowest level since at least 2000, at 6.4%.
  - The final readings of **EU and German Markit manufacturing PMI** for Apr were released: the former posted a reading of 47.9 (Mar: 47.5) – the second-lowest reading over the past 6 years, while the latter's PMI clocked in at 44.4, up from Mar's 80-month low of 44.1.
  - **Germany's unemployment decreased** by 12k to 2.22mn in Apr, as the rate held steady at 4.9%, the lowest in nearly 30 years.
  - **Inflation in Germany increased** to 2.1% in Apr, above the ECB's target for the first time since Nov. Separately, **retail sales fell** by 0.2% mom and by 2.1% yoy as sales of food, drink and tobacco dropped.
  - **UK Markit manufacturing PMI** declined to 53.1 in Apr from Mar's 13-month high of 55.1, as the pace of stockpiling eased off significantly and new export business contracted at the second steepest pace in 4.5 years; **services PMI returned to growth**, reporting 50.4 in Apr from 48.9 the previous month, even though new orders faded. The **all-sector PMI rose** to 50.9 from 50.0 in Mar.
  - The **Bank of England kept interest rates on hold**, while hinting at interest rates rise over the next three years as growth improves.

## **Asia Pacific:**

- **China's NBS manufacturing PMI declined** to 50.1 in Apr (Mar: 50.5), with most sub-indices – new orders, inventories of raw materials, output and employment – down as well. Non-manufacturing PMI fell to 54.3 (Mar: 54.8), causing the composite PMI to decline to 53.4 in Apr, from 54 a month earlier.
- **China Caixin manufacturing PMI also unexpectedly slipped**, to 50.2 in Apr from 50.8 the month before.

- **South Korea's industrial output** grew by 1.1% mom in Mar, largely due to a pickup in semiconductors production (+3.6% mom).

**Bottom line:**The Fed kept rates unchanged, with its Chair pushing back against interest rate cut pressures saying inflation will rebound; there seems to be an issue of mixed messaging with two other Fed member statements leaving the door open to rate cuts. In Europe, GDP surprised on the upside, in spite of the steady disappointing PMI numbers before, while Chinese PMI data dipped following a strong Q1. The ongoing US-China trade wars might be nearing an end (as early as next week, if one goes by the US version, though the South China Morning Post calls it a ploy to "increase tensions and generate pressure" on Chinese negotiators) while we keep fingers crossed for UK's Brexit compromise, a Norway model or a second referendum?

### Regional Developments

- The **IMF issued its MENA regional outlook:** growth for oil exporters is projected to dip slightly in 2019 to 0.4% from 0.6% the previous year while in the GCC growth is to edge up to 2.1% from 2%. Oil prices, geopolitics and challenges of fiscal consolidation will weigh in on the region's oil exporters, while elevated public debt levels is a key vulnerability for oil-importing nations. *(More in the Media Review section)*
- **Bahrain-origin exports increased** by 9% yoy to BHD 587mn (USD 1.54mn) in Q1 this year. Saudi Arabia was its top trading partner, importing goods worth BHD 139mn, followed by the UAE (BHD 95mn) and the US (BHD 74mn).
- **Bahrain** MPs have passed an amendment to **ban expats from owning property in areas not designated for tourism or investment zones**, following complaints that nationals were being priced out of the market. The amendment will be debated by the Shura Council next.
- **Egypt aims to raise economic growth** to 8% in the 2021-22

fiscal year from the 5.3% reported in the 2017-18 fiscal year, disclosed the prime minister. He also stated that the nation **plans to attract USD 200bn worth investments** in the next 4 years.

- **Egypt's** planning ministry has established six new units within ministries (including internal control and digital transformation) as part of its **strategic plan 2019-2022**.
- **Iraq's crude oil exports from southern ports averaged 3.33mn barrels per day (bpd)**, reported *Reuters*, versus estimates of 3.245mn bpd in Mar.
- **Electric car sales in Jordan dropped** by 70% in Apr, after a 25% tax hike was imposed on it. Under the new tax amendments, the clearance tax for hybrid cars will reach 40% in 2020 and 45% in 2021.
- **Moody's affirmed Kuwait's credit rating at AA2**, and retained a stable outlook, citing its fiscal strength.
- **Kuwait will not table the bill to impose 5% tax on expat remittances** for the current parliamentary term, reported *Kuwaiti Times*, citing local sources.
- **Lebanon's President has called for the approval of the 2019 budget by end of May**, in a bid to proceed with the stalled reform plan. However, strikes have begun in protest given the potential negative impact on public sector employees.
- **Oman is planning to issue a new banking law this year**—with an emphasis on value creation, support to SMEs and digital banking — along with some other by-laws (focused on banks operating electronic payment systems).
- **Oman is preparing for a USD bond sale** to finance its budget deficit, reported *Reuters*, with sources stating that the bond issuance is “pretty much ready”. The government had earlier disclosed plans to cover 86% of this year's expected budget deficit through local and foreign borrowing.
- **Oman's latest ministerial decree bans expat recruitment** in private sector firms **in construction and**

cleaning work, for 6 months.

- **Qatar central bank** sold QAR 600mn worth of **treasury bills** at an auction.
- **Qatar Petroleum** awarded eight drilling contracts for its **North Field gas expansion project**: the rigs are expected to be ready for drilling from Jan 2020.
- **Saudi Arabia will issue USD 3-5bn in new international sukuk in Q3**, according to a senior finance ministry official.
- **Saudi PIF plans to raise more money via debt this year**: it is expected to be around SAR 14bn (USD 3.73bn) and foreign currency borrowings of around USD 8-10bn.
- **Saudi Arabian General Investment Authority** revealed that **267 new foreign investors were issued licenses in Q1** this year, up 70% yoy. Top sectors were education and healthcare where foreign ownership restrictions were removed.
- **Assets of Saudi investment funds grew** by 15.2% yoy to SAR 290.14bn (USD 77.37bn) last year. Assets held by private investment funds jumped by 25.9% yoy to SAR 178.28bn.
- **Saudi Arabia holds the third largest dollar reserves globally**, according to the minister of finance.
- **Residential mortgage financing contracts for individuals in Saudi Arabia soared in Q1**: the number of contracts surged by 221% to 31,462 while value grew by 133% to SAR 15bn.
- **Saudi Arabia's commercial registries for new institutions and companies increased** by 27% and 24% qoq respectively to 68,130 and 4940 in Q1, disclosed the commerce and investment ministry.
- **Saudi Arabia's oil output is expected to edge up** to 10mn barrels per day in **May-Jun**, higher than Apr reading, but largely to support domestic power generation than to boost exports.
- **Saudi Arabia's health ministry** plans to seek proposals for its **first ever public-private partnership**

**project** valued at more than SAR 250mn (USD 66.7mn) over 10 years.

- **Tourism in Saudi Arabia** is expected to contribute USD 70.9bn to GDP this year, as per the World Travel and Tourism Council. More than 6.5mn Umrah visas have been issued since the season began in Oct 2018.
- **US State department** approved an almost USD 6bn worth of **weapons sales to Bahrain and the UAE**. This follows a missile defense system sale to Saudi Arabia in Apr.

## **UAE Focus**

- **Sharjah non-oil GDP touched AED 89bn in 2018**, accounting for 91.9% of overall GDP (AED 97.5bn).
- **UAE banks invested up to AED 35bn (USD 9.53bn)** in Q1 this year, up 10.5% from end-2018, with debt bonds accounting for the about 72.6% of banking investments.
- **UAE's gold reserves grew by 2.5% mom** to AED 1.14bn at end-March.
- **Bilateral non-oil trade between UAE and China exceeded USD 50bn in 2018**, according to the ministry of economy.
- **Dubai is planning a 3-year rent cap within a new rental law**, according to the Dubai Land Department. The draft law is being studied, and no final decision has yet been made.
- **Japan imported 21.817mn barrels of crude oil from UAE** in Mar 2019: this accounts for 21.9% of Japan's total crude imports.
- **A record 11.25mn passengers used Smart Gates** at the terminals of the **Dubai International Airport** last year.

## **Media Review**

**IMF Regional Economic Outlook for the MENAP region**

<https://www.imf.org/en/Publications/REO/MECA/Issues/2019/04/17/reo-menap-cca-0419>

<https://www.imf.org/en/News/Articles/2019/04/26/na042919-menap-economic-outlook-5-charts>

**Young people and their phones are shaking up banking**

<https://www.economist.com/special-report/2019/05/02/young-people-and-their-phones-are-shaking-up-banking>

**Military spending is booming around the world**

<https://www.sipri.org/media/press-release/2019/world-military-expenditure-grows-18-trillion-2018>

**Leave the Renminbi Out of US-China Trade Talks**

<https://www.project-syndicate.org/commentary/america-china-trade-deal-renminbi-exchange-rate-by-kenneth-rogooff-2019-05>

**Saudi Arabia to open up bond market to retail investors**

<https://www.ft.com/content/ded9c6e6-676a-11e9-9adc-98bf1d35a056>

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