

Weekly Economic Commentary – May 19, 2019

Markets

Global markets declined as the US-China economic wars intensified towards latter half of the week (Washington blacklisting Huawei, and announcement that the latest round of trade talks are “in flux”), though European stocks received some respite earlier in the week on the announcement of a delay in auto tariffs by up to 6 months. Though Saudi Arabia’s inclusion in the MSCI was cheered on Tues, rising geopolitical tensions in the region left a negative impact on most exchanges in the region. The renminbi touched a new 2019-low (tmsnrt.rs/2W6Aogb) while the pound was battered after the end of cross-party Brexit talks (and impact from May’s potential resignation). Gold prices steadied on risk sentiment while geopolitical tensions in the Middle East led to worries on potential supply disruptions and caused oil prices to close higher.

Global Developments

US/Americas:

- **US retail sales unexpectedly fell** 0.2% mom and 3.1% yoy in Apr (Mar: +1.7% mom), as purchases of auto and building materials weakened.
- **US industrial production weakened** in Apr, falling by 0.5% mom from +0.2% pickup in Mar.; motor vehicles and parts production dipped by 2.6% while aircraft and parts output was down 1.8% (the largest drop since 2013).
- **US housing starts increased** for a second month in Apr, rising 5.7% to a seasonally adjusted annual rate of 1.235mn units (Mar: 1.168mn units). **Building permits rose** by 0.6% to 1.296mn units in Apr though permits for single-family housing fell for a fifth consecutive month.

- **Initial jobless claims dropped** by 16k to 212k for the week ended May 11 and the 4-week moving average increased by 4750 to 225k.

Europe:

- **German ZEW indicator of economic sentiment fell** -2.1 points in May (Apr: 1), and way farther from the indicator's long-term average of 22.1 points. Assessment of the economic situation improved to 8.2 points in May, better than Apr's 5.5 points.
- **Germany's GDP rebounded in Q1**, rising 0.4% after falling flat in Q4 last year, supported by construction and machinery investment as well as private consumption while government consumption declined.
- **EU's goods trade deficit widened** to EUR 24bn in Q1 2019 from EUR 9.6bn a year earlier, largely due to energy imports. EU's goods trade surplus narrowed with the US to EUR 33.9bn (Q1 2018: EUR 36.2bn) while the trade deficit with China expanded to EUR 49.4bn from EUR 46.9bn. Eurozone's exports were up 3.1% yoy in Mar, and imports by 6%, resulting in a narrow trade surplus of EUR 22.5bn (EUR 26.9bn a year ago).
- **The ZEW Indicator of Economic Sentiment for the Euro Area dropped** to -1.6 in May 2019 from 4.5 in Apr.
- **Inflation in the eurozone was confirmed at 1.7% yoy** and 0.7% mom in Apr (Mar: 1.4% yoy) while core inflation was revised up to 1.4% yoy from the flash estimate of 1.3% and Mar's 1%.
- **UK's overall unemployment rate in Q1**, at 3.8%, is at the **lowest in 45 years** while female unemployment rate (at 3.7%) was the lowest since comparable records began in 1971. However, **wage growth has slowed** (falling to 3.3% yoy in Jan-Mar, from 3.5% in the 3 months to Feb) and so has labour productivity (slumping 0.2% in Q1 following a -0.1% dip in Q4 2018).

Asia Pacific:

- **Industrial production in China slowed** to 5.4% yoy in Apr, declining from Mar's 4.5 year high of 8.5%; motor vehicle production dropped nearly 16% as demand weakened. **Fixed asset investment slowed** to 6.1% in Jan-Apr 2019, while growth in infrastructure spending held steady at 4.4%. **FDI into China expanded** by 6.4% yoy to CNY 305.24bn (USD 45.14bn) in Jan-Apr; investment in high-tech industries rose 43.1% yoy and accounted for 28.1% of the total FDI.
- **China's retail sales declined to a 16-year low**, rising by 7.2% yoy in Apr (Mar: 8.7%), as trade war strengthened.
- **Japan's leading economic index fell to its lowest since mid-2016**, with a reading of 96.3 in Mar (Feb: 97.1). The flash coincident index declined to a level of 99.6 in Mar (Feb: 100.4). As weak demand hurt activity, the government described the economy as "worsening".
- **Hong Kong's Q1 GDP was the weakest in a decade**, growing just 0.6% yoy (Q4: 1.2%), on weaker exports and investment. On a quarterly basis, the economy expanded a seasonally adjusted 1.3% after contracting a revised 0.5% in Q4 last year.

Bottom line: Not much joy around the world – FDI into emerging markets falling to the lowest in 20 years; escalating worrisome economic wars, and breakdown of cross-party Brexit talks on one hand while geopolitical tensions in the Middle East edged up after Saudi oil facilities were hit by drones and oil tankers were attacked off the Fujairah coast in the UAE (also showing the vulnerability of the Strait of Hormuz through which a fifth of oil production from the Gulf passes). Uncertainty seems to be on the cards this week too – up ahead are India's election results on 23rd May (polling ends today and Modi's political rivals are already forming alliances), the OPEC meeting to decide on oil output (which will have implications on Venezuela, Iran and Libya – all three have been affected by significant US foreign policy moves) , as

well as European elections (polls are from May 23-26 to elect 751 lawmakers to the EU Parliament, with results out on 26th May).

Regional Developments

- **Bahrain's 2019-2020 national budget was approved by the Shura Council.** Budget deficit for the two years is forecast at BHD 1.3bn (BHD 696mn this year and BHD 600.7mn in 2020). Social welfare spending will be increased from BHD 380mn to BHD 435.6mn each year; transfers of BHD 30mn from the sovereign wealth fund Mumtalakat and BHD 56.4mn each year from the state-owned oil and gas company Nogaholding are also expected.
- **Bahrain plans to set a new real estate data unit** to provide statistics, accurate data and information to investors and developers, to improve their decision-making capacity.
- **Bahrain approved four major laws:** Providing Cloud Computing Services to Foreign Parties Law aimed at international cloud providers; Letters and Electronic Transactions Law, which provides a new legal framework to associated banking and financing services; Small Vessels Registration and Safety Requirements Law allowing for ease in registration with the Transportation and Telecommunications Ministry rather than the Interior Ministry; amendments to the 2001 Money Laundering and Terrorism Funding Combating and Ban Law to widen the definition of terrorism based on FATF recommendations.
- The **IMF** have reached a **staff-level agreement to disburse the final USD 2bn** tranche of the USD 12bn loan to **Egypt**.
- **Egypt's unemployment rate dropped** to 8.1% in Q1 2019, down from 8.9% in Q4 and 10.6% in Q1 last year. The number of unemployed stood at 2.267mn out of a total workforce of 27.968mn.
- **Egypt's trade deficit narrowed** by 2.7% yoy to USD 3.63bn in Feb, as exports grew by 2.2% to USD 2.48bn and

imports fell 0.7% yoy to USD 6.11bn.

- **Egypt** plans to attract USD 10bn of **investment into the petroleum sector** in the coming financial year, according to the head of the oil chamber at the Federation of Egyptian Industries, on top of the USD 30bn already invested over the past 3 years.
- **Jordan's exports to Iraq grew** by 3.74% yoy to JOD 59mn in Jan-Feb, thanks to an agreement (including exemptions for Jordanian products and facilitating travel of trucks) signed early this year.
- **Bank deposits in Kuwait increased** by 1% mom and 2.4% yoy to KWD 43bn in Mar while credit was up 5.2% yoy to KWD 37.1bn.
- **Remittances from expatriates in Kuwait** touched KWD 19bn (USD 62bn) in the past 5 years, disclosed the financial committee of Kuwait's parliament.
- Following multiple Cabinet sessions and public employees threatening an indefinite budget strike, **Lebanon's budget is still under discussion** with the crucial cuts to public sector wages (including those of MPs) the main point of contention.
- **Lebanon's PM** stated that **without "serious reforms", the economic situation would not improve** and that there would be no investments or job opportunities. Unlocking the CEDRE loans would allow for USD 12bn to finance infrastructure, that could potentially create 30-50k job opportunities annually.
- **Lebanon's finance minister** stated that **"all dues" would be paid on time**, in reference to the USD 650mn in **Eurobonds** maturing on May 20. Banking sources state that the USD 2.5-3bn Eurobond issue (previously expected to be issued on May 20) can be delayed till emerging markets have better appetite. The Parliament has authorized the government to borrow over USD 4.8bn in Eurobonds to finance all needs of the Cabinet for 2020.
- **Oman's Capital Market Authority** **suspended a 10% tax on dividends for 3 years** as of May 6, aiming to boost

foreign investments.

- **Oman plans to amend its current FDI Law** to allow for 100% ownership for foreign companies as well as a reduction in the minimum capital required to invest.
- Fitch warned that **Qatari banks' exposure** to the domestic real estate market (thanks to an oversupply from World Cup 2022 preparations leading to falling prices) is an **"increasing risk to asset quality"**, while also highlighting the weakening of tourism (and occupancy rates) due to the regional boycott.
- **Economic reforms in Saudi Arabia are starting to yield "positive results"**, according to the IMF, citing reforms to the capital markets, legal framework, and business environment as well as rising female labour force participation and employment. The Fund, which estimates that budget deficit will rise to 7% of GDP this year, also cautioned that rising government spending increases the medium-term fiscal vulnerabilities to lower oil prices.

(More:

<https://www.imf.org/en/News/Articles/2019/05/15/mcs051519-saudi-arabia-staff-concluding-statement-of-the-2019-article-iv-mission>)

- **Saudi Arabia's SAR 200bn non-oil stimulus may continue beyond 2021** (as planned currently), revealed the MD of the Private Sector Stimulus Office on *Bloomberg*. About SAR 36bn is earmarked for this year, over and above the SAR 40bn already spent.
- **Saudi Arabia's Special Privilege Iqama scheme**, approved by the Shura Council and later by the Council of Ministers, will provide qualified foreigners residency benefits. The fee for permanent Special Privilege Iqama will be SAR 800k (USD 213,333) for one time while the one-year temporary iqama will cost SAR100k (USD 26,666), reported the Saudi Gazette, citing informed sources.
- The Chairman of **Saudi Arabia's Capital Market Authority** stated that the country **may launch a new secondary market in the future** to develop and diversify market

products and attract more investors.

- **MSCI added Saudi Arabia to its Emerging Markets Index** last week; the 30 Saudi securities represent an aggregate 1.42% weightage in the MSCI Emerging Markets Index.
- The **UAE and Saudi Arabia signed an authorised economic operator agreement**, in an attempt to improve customs cooperation (notably reduce export and import costs) and thereby facilitate trade.

UAE Focus

- **UAE's plan to set up retirement funds for expats** gains traction, as the Federal Authority for Government Human Resources disclosed holding a meeting with major firms regarding the system. The planned new system will include an enhanced gratuity scheme and a private sector savings programme, according to the authorities.
- The **Dubai Free Zone Council** has agreed to the **One Free Zone Passport Initiative** – to allow firms to operate in multiple free zones on a single license. The Council members also approved **requirement of an insurance policy instead of a bank guarantee** for free zone-based companies, in a bid to ease the cost of doing business.
- The **UAE central bank has developed a Persona Non Grata system** to boost the integrity of the financial sector. This will restrict persons with questionable professional integrity from joining the financial sector.
- The industrial and business sectors accounted for 87% of **total loans provided by UAE banks** by end-Mar. Loans to the sectors increased to AED 699.1bn from AED 685.8bn in Dec 2018.
- **Unemployment in Dubai**, according to the labour force survey by Dubai Statistics Centre on a sample of 3000 households (consisting half expats and half citizens), found that only 0.5% of the population were jobless

while Emirati unemployment nudged up to 4% last year from 2.9% in 2016 (and only 36.5% of working age Emirati women were employed).

- **Real estate mortgages in Dubai** exceeded AED 52.5bn in Jan-Apr 2019, according to the Dubai Department of Land and Property.
- **The UAE issued over 560k business licenses since the start of 2019**, up 3.7% from end-2018, according to the Ministry of Economy. Dubai and Abu Dhabi together account for 70.3% of licenses till mid-May. Separately, **Ajman reported an 18% yoy increase in new business licenses** issued to 4831 in 2018; in addition, 25499 licenses were renewed.
- **The UAE's long-term residency plan** attracted over 6,000 applications from investors and entrepreneurs within a week. New services were added to facilitate the process: a six-month multiple entry visa to complete the procedures for residency of an investor, as well as entrepreneurs and outstanding students, and a 6-month single entry visa for talented individuals.
- **Dubai World Central witnessed a dip in total passengers in Q1 2019**, down 2.3% yoy to 326,680. Given the diversion of flights to DWC following the closure of two runways at the Dubai international airport, this number is likely to improve in Q2.

Media Review

US-China trade war: who will blink first?

<https://www.ft.com/content/7c96e4a0-7886-11e9-bbad-7c18c0ea0201>

https://www.washingtonpost.com/opinions/is-the-united-states-losing-the-trade-war/2019/05/15/4495d808-7738-11e9-b7ae-390de4259661_story.html

China dumps US Treasuries at fastest pace in two years

<https://www.ft.com/content/0933cdfa-7766-11e9-be7d-6d846537acab>

Iran, the US and the Middle East

<https://www.economist.com/middle-east-and-africa/2019/05/14/strange-things-are-afoot-in-the-strait-of-hormuz>

<https://uk.reuters.com/article/uk-usa-iran-oil-tankers-exclusive-idUKKCN1SN10S>

The Race to become Britain's next PM

<https://www.economist.com/graphic-detail/2019/05/17/the-race-to-become-britains-next-pm>

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