

Weekly Economic Commentary – May 26, 2019

Markets

Wall Street ended lower last week, with the S&P 500 posting a 3rd consecutive week of losses. The pan-European STOXX 600 posted a weekly loss (and remains on track for its first monthly decline) though Theresa May's not-surprising resignation, already discounted, had minimal impact on equity markets. In the region, most markets ended higher except Kuwait, Qatar and Saudi Arabia. The dollar hit a two-year high on Thursday last week before falling later on weaker PMI and capital goods data; the pound rose on news of May's departure (tmsnrt.rs/2egbfVh). Oil prices posted the biggest weekly drop of the year, after reports of US inventories rising to the highest since Jul 2017 and amidst global growth uncertainties.

Global Developments

US/Americas:

- **US Chicago Fed national activity index dropped** to -0.45 in Apr (Mar: +0.05); the less-volatile 3-month moving average also declined to -0.32 in Apr (Mar: -0.24).
- The **FOMC minutes** shows the Fed in **no hurry to change interest rates “for some time”** even if the economy improves; this Fed meeting was held prior to the flareup of the US-China trade talks. **Fed Chair Powell**, in a recent speech, stated that though business debt is rising, it only poses “moderate” risks to the financial system at this point.
- **US Markit manufacturing PMI dropped** to 50.6 in May (the lowest level since Sep 2009) while the services PMI reading came in at 50.9; overall, the composite index clocked in at 50.9, recording the slowest expansion since May 2016.
- **Existing home sales unexpectedly declined** by -0.4% mom

to a seasonally adjusted 5.19mn units in Apr (Mar: 5.21mn). In yoy terms, existing home sales dropped 4.4% – the 14th consecutive annual decline.

- **New home sales fell** by -6.9% mom to a seasonally adjusted 673k units in Apr, after posting a 11.5-year high in Mar; prices were up 8% yoy to USD 342,200 in Apr.
- **Durable goods orders dipped** by -2.1% in Apr, led by a 5.9% fall in transportation equipment; non-defense capital goods orders ex aircraft fell -0.9% as demand softened across the board.
- **Initial jobless claims fell** by 1k touching a 5-week low of 211k for the week ended May 18; the less-volatile 4-week moving average dropped 4750 to 220,250.

Europe:

- **German flash manufacturing PMI dropped** further to 44.3 in May (Apr: 44.4), but with services PMI at 55, the composite PMI rebounded to a 3-month high of 52.4. **Composite PMI in France** rose at its fastest pace in 6 months (51.3 in May from Apr's 50.1).
- **EU flash manufacturing PMI fell** to 47.7 in May (Apr: 47.9), with output and new orders falling for the 4th and 8th straight month. Services PMI touched a 4-month low of 52.5 (Apr: 52.8) while the composite index touched 51.6 (Apr: 51.5).
- **German IFO business climate index slipped** 1.3 points to 97.9 in May, largely due to the worse assessment of the current business situation (100.6 in May vs. 103.4 in Apr). German expectations for the coming months remained unchanged at 95.3 in May.
- **UK's Theresa May announced her resignation last week:** she will be stepping down as the Conservative Party leader on 7 June. Tories are expected to choose a new PM by July.

- **German PPI gained 0.5% mom and 2.5% yoy in Apr**, following two successive declines.
- **EU current account posted a surplus of EUR 24.7bn sa in Mar**, from an upwardly revised EUR 27.9bn in Feb.
- **UK retail sales remained flat mom in Apr**; in yoy, sales were up 5.2% (Mar: 6.7%); in the 3-months to Apr, retail sales rose at the fastest pace since last summer (+1.8%) while internet sales surged by 9.4% – the highest rate since records began in 1988.

Asia Pacific:

- **India saw the ruling party winning the elections in a landslide victory**, briefly sending the stock market to record highs as the results trickled in. Attention now turns to policy priorities of the government.
- **Japan Q1 GDP beat expectations**, posting a growth of 0.5% qoq and an annualized 2.1%, thanks to a dip in imports (-4.6%, the biggest fall in a decade) and a 2.4% fall in exports. Private consumption slid 0.1% and capital expenditure dropped 0.3%.
- **Japan's trade surplus plunged by 90.3% yoy to JPY 60.4bn (USD 546mn) in Apr**, as exports contracted for the fifth month (-2.4%) while imports rose by 6.4% yoy largely due to the rise in oil prices.
- **Core machinery orders in Japan increased by +3.8% mom in Mar** (though down -0.7% yoy), with total orders touching JPY 868.8bn (USD 7.9bn).
- **Japan's Nikkei flash manufacturing PMI slipped to 49.6 in May (Apr: 50.2)** as export orders fell to a preliminary 47.1 (Apr: 47.8) for the sixth consecutive month of contraction. In addition, companies' expectations for future output showed contraction for the first time since Nov 2012.
- **Inflation in Japan edged up to 0.9% yoy in Apr** while core-core inflation excluding both food and energy rose 0.6% yoy – the biggest increase since Jun 2016.

- **Singapore Q1 GDP**, at 3.8% qoq and 1.2% yoy, was the **slowest quarter growth since Q2 2009** (Q4: revised down to -0.8% qoq). Manufacturing shrank by 0.5% yoy – the first contraction in 3 years – while the wholesale and retail trade sector also contracted by -1.8% yoy. Separately, the Ministry of Trade and Industry lowered its full year growth forecast to 1.5-2.5% from 1.5-3.5% estimated previously.
- **Inflation in Singapore ticked up** to 0.8% yoy in Apr (Mar: 0.6%), driven by higher car prices and a stronger pick-up in petrol prices, while core inflation eased to a 1-year low of 1.3% yoy (Mar: 1.4%).
- **Singapore industrial production was up** by 0.1% yoy and 2.4% mom in Apr, recovering from Mar's -4.3% yoy and -2.5% mom readings, supported by the volatile pharma sector (+10.9% yoy).

Bottom line: The OECD became the latest to lower growth forecasts to 3.2% this year (the slowest pace in 3 years), with a staunch warning on “clear and present dangers” from trade war measures. Concerns remain whether the trade war between the US and China will escalate further, and more trouble is likely to brew on Trump's current trip to Japan which started with a provocative tweet about North Korea. Meanwhile, in the midst of the latest disappointing PMI numbers from the US and Europe, developing countries pulled ahead with their manufacturing index at 50.5 in Apr vs developed nations' 50.3. Two major political moves last week: the resignation of Theresa May (raising questions of what next for Brexit) and re-election of India's PM Modi (raising questions on policy direction in his second term).

Regional Developments

- **Bahrain's LNG Terminal**, which was expected to start commercial operations in May, will **start supplying natural gas only in Q3 this year.**
- **Egypt's central bank left interest rates unchanged:** it

held the overnight deposit rate at 15.75% and overnight lending rate at 16.75%.

- **Egypt plans to phase out all subsidies on electricity by 2022.** Earlier last week, an average 14.9% **hike in electricity tariffs** was announced for the 2019-2020 fiscal year, effective Jul.
- **Egypt's new banking bill will be referred to the House of Representatives** before end-May. The bill reportedly sets new regulations for forming boards of banks in line with governance best practices, and also addresses supervision of payment services and fintech firms.
- **Industrial production in Egypt grew by 27.6% yoy** to EGP 185.3bn in Q3 2018; of this, iron, steel, and precious metals industry accounted for 20.8%, followed by food production (16.1%) and basic chemicals and fertilizers (15.5%).
- About EGP 149mn (USD 8.7mn) has been approved for **development projects** by **Egypt's planning minister**; of this, road projects and electricity grid extensions account for 40.9% and 28.2% of the total allocated amount.
- **UAE's direct investments in Egypt exceeded USD 6.6bn in 2018**, according to the UAE ambassador. As of Mar 2019, about 1065 UAE companies were operating in Egypt, up from 923 in 2017.
- **Jordan eased visa regulations with an aim to encourage medical tourism:** according to the Cabinet decision, the patients of restricted nationalities can apply for the permit entry visas and for patients in the Kingdom permits for permanent residency can be submitted.
- **Kuwait's trade surplus with Japan widened** by 44.4% yoy to JPY 70.87bn (USD 642.12mn), thanks to a 31.8% uptick in Kuwait's exports to Japan (JPY 84.45bn).
- **Kuwait's oil production declined** by 10k barrels per day (bpd) to 2.697mn bpd in Apr.
- **Lebanon's Cabinet approved all articles in the 2019 draft budget Friday**, after 19 Cabinet meetings (which

began on Apr 30) dedicated to examining the draft budget. The President will likely chair a session on Mon to endorse the budget before it is sent to Parliament for ratification. Among the measures included in the draft budget are a three-year freeze on all types of state hiring, a cap on extra-salary bonuses, a tax on state pension, a 2% import tax and a hike in tax on interest payments on deposits.

- **Oman has hired banks for a planned bond issue**, which would be the nation's first international issuance this year; the deal is expected to raise USD 2bn, according to sources.
- **Revenue from hotels in Oman increased** by 10.4% yoy to OMR 71mn (USD 183.8mn) in Q1 this year; however, occupancy rates fell by 2.3% to 68.4 at end-Mar.
- **Oman's water sector will be restructured by end-2019**: three new companies will be formed, with each providing potable water and wastewater services within a specific geographical area, allowing for increased competition and delivery of sustainable services.
- **Qatar's stock exchange is developing two new Exchange Traded Funds**, one focused on gold and another for sharia-compliant assets outside of Qatar, according to its CEO. He also revealed that **foreigners** held about 11% of the companies listed on the exchange but make up about 30-40% of daily turnover.
- **Saudi Arabian Monetary Authority (SAMA) fined 16 financial institutions** for "violating lending principles to individuals" i.e. exceeding debt burdens imposed on people in proportion to their monthly income. The fines imposed were not disclosed.
- **Inflation in Saudi Arabia fell for a fourth consecutive month**, falling 1.9% yoy in Apr. While the sub-index for housing, water, electricity, gas and fuel prices declined 7.8% yoy, food and education costs were up 1% and 1.3% respectively.
- **Saudi Arabia's special tax on electronic cigarettes and**

- sugary drinks came into effect** last week, extending similar taxes that were introduced in 2017: a 100% tax would be levied on e-cigarettes and products used in them, and a 50% tax on sugared drinks.
- **Saudi Arabia becomes top oil supplier to China again:** China's crude oil imports from Saudi Arabia increased by 43% yoy to 6.3mn tonnes or 1.53mn barrels per day (bpd) in Apr. Russian supplies were 6.12mn tonnes, or 1.49mn bpd.
 - **Saudi Arabia's trade surplus with Japan narrowed** by 7.2% yoy to USD 2.293bn in Apr; exports declined 6.0% to USD 2.604bn while imports were up 4.3% to USD 311.165mn.
 - **The value of joint Saudi-US contracts rose** to USD 13bn in Q1 2019, according to the US-Saudi Arabian Business Council, with energy the top sector (USD 3.1bn in contracts).
 - **Saudi Arabia sold SAR 2.84bn (USD 757mn) in monthly Sukuk issuances** in May.
 - **Saudi Arabia's Tadawul approved the listing** of SAR 2.84bn (USD 773mn) worth **government debt instruments**.
 - **A Saudi commercial court has accepted a filing by conglomerate Ahmad Hamad Algosaibi and Brothers** to have its decade-long dispute with creditors resolved under the **new bankruptcy law**, while rejecting a demand to liquidate the company.
 - **Saudi Arabia deposited USD 250mn with the Sudanese central bank**, as part of the pledge to send USD 3bn worth of aid (along with the UAE).
 - **Both Oman and Iraq are trying to avert a confrontation between US and Iran**, by reducing tensions via meetings and delegation visits.
 - **GCC bond and sukuk issuance increased by USD 32bn in Q1 2019**, bringing the total outstanding debt in the region to USD 478bn, according to a report by the National Bank of Kuwait.

- **Inflation in Abu Dhabi declined** by 8% during the second week of Ramadan, with food and beverages costs falling 3%. Inflation was down by 0.3% mom and 1.3% yoy in Apr, bringing the Jan-Apr period to -0.9% yoy. Transport and utilities costs were down by 8.3% and 3.5% yoy during the 4-month period, thereby contributing to the decline.
- **Total foreign assets of the UAE central bank increased** by 12% yoy in Apr to AED 365.5bn (USD 99.5bn). In mom terms, foreign assets fell by 3%. M2 increased by 0.5% mom to AED 1.335trn in Apr, while gross credit was up 0.1% mom to AED 1.6769trn.
- **The Dubai Financial Market attracted 654 new investors** (including 64 institutions) **in Q1**, bringing the total investor base up to 843,778 investors. **Institutional investors'** share of trading activity touched 53.2% in Q1 and their ownership reached 83.4% of market cap.
- The **Dubai Department of Economic Development issued 9514 new licenses in Jan-Apr**, up 38.3% yoy, with Apr alone seeing the issuance of 2805 new licenses (+60% yoy).
- The **Jebel Ali Free Zone Authority (JAFZA)** announced that it **will waive an estimated AED 35mn (USD 9.5mn) in fines** owed by its businesses. The free zone had earlier announced plans to return cash and bank guarantees to businesses in a push to protect wages of its employees.
- **Hotel revenues in Abu Dhabi increased** by 36.8% yoy in Feb, according to the Statistics Centre Abu Dhabi.
- **Dubai expatriates' disposable income slipped** by 19% yoy to USD 2068 per month (after paying rents) – 11th position globally – according to Deutsche Bank's Mapping the World's Prices 2019 survey. Average rents (based on a 2-bed apartment) dropped by 12% to USD 1576 per month while monthly salaries dropped by 17% to USD 2856 per month.
- The **300MW second stage** of the 800MW third phase of the Mohammed bin Rashid Al Maktoum **Solar Park is expected to be operational by late-Jun**. The first stage, with a

capacity of 200 MW, became operational in 2018 and provides over 60k residences with electricity, reducing over 270k tonnes of carbon emissions every year.

- **UAE and Jordan plan to carry out joint military exercises** “to protect the supreme interests of Arab countries and ensure security and stability in the region, including safeguarding the freedom of navigation”, following marine attacks on international waters around the region.

Media Review

US-China trade tensions continue

<https://www.newyorker.com/news/our-columnists/the-growing-dangers-of-trumps-trade-war-with-china>

<https://blogs.imf.org/2019/05/23/the-impact-of-us-china-trade-tensions/>

<https://www.economist.com/leaders/2019/05/16/a-new-kind-of-cold-war>

British politics after Theresa May

<https://www.economist.com/britain/2019/05/24/british-politics-after-theresa-may>

<https://www.economist.com/graphic-detail/2019/05/24/the-race-to-become-britains-next-pm>

Modi's next term

<https://www.ft.com/content/b425fbc0-7f63-11e9-b592-5fe435b57a3b>

<https://www.economist.com/leaders/2019/05/25/what-narendra-modi-should-do-next>

Sovereign investors favour unlisted tech as private market surges

<https://www.reuters.com/article/swf-investments-venture-capital/update-1-sovereign-investors-favour-unlisted-tech-as-private-market-surges-report-idUSL5N22Z2JT>

Nearly \$1t GCC bank mergers under way

<https://www.khaleejtimes.com/nearly-1t-gcc-bank-mergers-under-way>

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