

Weekly Economic Commentary – June 9, 2019

Markets

Most global equity markets ended on a positive week: optimism picked up as US revealed plans to give China more time to avoid a tariff hike (further, on Fri, Trump tweeted that tariffs on Mexican imports were “indefinitely suspended”), while weak jobs data raised expectations for a Fed rate cut. Yields on 10-year Treasury notes hit their lowest since Sep 2017. Regional markets were mostly closed for Eid holidays. The dollar index retreated against most currencies. Oil prices recovered towards end of the week from the 5-month lows touched earlier; WTI dropped more than 20% from its Apr high this week. Gold prices touched a 14-month high on rate cut expectations.

Global Developments

US/Americas:

- **Job creation in the US slowed dramatically: non-farm payrolls added just 75k jobs in May** with revisions to both Apr (down to 224k from 263k) and Mar readings (153k from 189k). Job gains hence averaged 151k per month over the past three months – lower than the 200k pace of hiring last year. **ADP’s May** reading showed that **only 27k new private sector jobs were added**, a marked reduction from Apr’s downwardly revised reading of 271k. Companies employing fewer than 50 workers bore the brunt posting a loss of 52k payrolls between Apr and May. **Unemployment rate held steady** at a near 50-year low of 3.6%.
- **Initial jobless claims were flat at 218k** for the week ended Jun 1; the 4-week moving average fell 2,500 to 215k.
- **ISM manufacturing PMI grew at the slowest pace since Oct 2016**, falling to 52.1 in May (Apr: 52.8) with supplier

deliveries falling 2.6ppts to 52 and inventories lower by 2 ppts to 50.9. The **non-manufacturing PMI picked up** in May, with the reading rose to 56.9 in May (Apr: 55.5) and business activity rising to 61.2 from Apr's 59.6. Employment also improved in the services sector, growing by 4.4 points to 58.1.

- **Factory orders declined** by 0.8% mom in Apr, from Mar's downwardly revised 1.3%, pulled down by weaker demand and with inventories rising 0.3% (up 7 times in the last 8 months). Shipments fell 0.5% – the largest drop since Apr 2017.
- **Trade deficit in the US narrowed in Apr**, by 2.1% to a seasonally adjusted USD 50.8bn, thanks to a 2.2% decline in both exports and imports. The sensitive trade deficit in goods with China jumped nearly 30% to USD 26.9bn.

Europe:

- **The eurozone confirmed its Q1 GDP estimates:** growth was up by 0.4% qoq and 1.2% yoy.
- It was announced that the **ECB plans to hold rates at record lows until the middle of 2020**. In case of a prolonged slowdown, the ECB was ready to “use all the instruments that are in the toolbox”, stated the ECB president at the press conference.
- **Eurozone manufacturing PMI contracted in May and was finalized at an unrevised 47.7** (Apr: 47.9), with new orders remaining below 50 (46.6 in May, though up from Apr's 45.8). **Composite PMI rose** to 51.8 in May, higher than Apr's 51.5 and slightly above the earlier 'flash' estimate.
- The final reading of **German manufacturing PMI touched 44.3 in May**, slightly lower than Apr's 44.4 and one of the lowest readings since mid-2012. The services PMI, at 55.4 in May, was only a tad lower than Apr's 7-month high of 55.7. The **composite PMI continued to point to a modest pace of growth**, registering a 3-month high of

52.6 in May but still below the long-run series average of 53.4 (since 1998).

- **German factory orders unexpectedly rose** by 0.3% mom in Apr, though slowing from Mar's 0.8% rise; domestic orders fell 0.8% while demand from abroad increased 1.1%.
- **Industrial production in Germany plunged** in Apr, falling by 1.9% mom (the first drop since Jan) as capital goods production dipped by 3.3% and consumer goods firms shed 0.8%.
- **Annual inflation in the Euro area** was 1.7% in Apr, with the highest contributions coming from services, followed by energy, food, alcohol & tobacco and non-energy industrial goods. Separately, **EU unemployment rate remained unchanged** at 6.4% while youth unemployment clocked in at 15.8% (Apr 2018: 17.2%).
- **Retail sales in the Eurozone fell** by 0.4% mom in Apr, dragged down by a 3.1% drop in online shopping.

Asia Pacific:

- **China's Caixin manufacturing PMI steadied** at 50.2 in May (unchanged from Apr), with a pickup in growth of new orders (possibly front-loading of shipments to the US to avoid the tariff hikes). The **services PMI fell** to 52.7 in May – the lowest since Feb – and versus Apr's 54.5, as new export orders tumbled (51.1 vs 55.6 in Apr) and the employment index falling to 50.4 (Apr: 51.4). The composite PMI decreased to 51.5 in May (Apr: 52.7).
- **South Korea's GDP shrank more than estimated in Q1:** underlying the 0.4% qoq decline was a 3.3% drop in manufacturing, a 3.2% dip in exports as well as a sharp fall in the contribution of government spending.
- **Inflation in South Korea picked up** to 0.7% yoy in May, up from Apr's 0.6%.
- **Japan Nikkei manufacturing PMI slipped below the 50-mark again**, with May's reading of 49.8 (Apr: 50.2), as output

and new orders both slipped for fifth successive month. Output expectations turned negative for first time since Nov 2012.

- **The Reserve Bank of India lowered rates for the third time in a row:** the repo and reverse repo rates were cut by 25bps each to 5.75% and 5.5% stating that “growth impulses have weakened significantly”.
- **Singapore PMI contracted for the first time in almost three years:** slipping by 0.4 points to 49.9 in May (the lowest since Aug 2016) the index was dragged down by slower growth in new orders, new exports, factory output, inventory and employment level.

Bottom line: Trade wars and tariff threats continue to take center stage at the G20 meetings (will the G20 communique show a united front?), and the world is bracing for slower economic growth if not recession. This is supported by the latest round of PMI data: the news is not very promising as the surveys signal the weakest global economic growth since June 2016. Amidst the dovish rhetoric across global central banks last week came hopes of a Fed rate cut on the heels of labour market sluggishness.

Regional Developments

- **Bahrain's foreign exchange reserves increased** to BHD 1.1059bn as of Q1 this year, more than double BHD 530.7mn at end-2018. Loans provided by retail banks were up by 7.1% (from end-2018) to BHD 8.99bn.
- **Bahrain plans to allow foreign companies to own 100% of oil and natural gas extraction projects;** however, to be eligible, the foreign company must have signed (or be in the final stages of signing) an exploration and production agreement with the government.
- **Bahrain will issue a new law to “organize the business of SMEs” this year,** according to the chairman of the Bahrain SME Development Society.
- **Tourists into Bahrain increased by 3.1% yoy to 3.2mn**

visitors in Q1 this year. Tourists spent approximately 4.1mln nights in total, making it an average of 3.3 nights per tourist.

- **Egypt's foreign reserves surged** by 13.6% yoy to USD 44.275bn in May, according to the central bank.
- **Total foreign currency deposits at Egypt's banks increased** by 6.3% yoy to EGP 741.759bn (USD 12.419bn) at end-Apr.
- **Egypt plans to auction** USD 715mn worth of **one-year dollar-denominated treasury bills** on Jun 10th.
- **Iraq's oil minister affirmed his support for the rollover of the current OPEC+ deal to curb oil output**, given its partial effectiveness in reducing oil inventories and help in stabilizing the market.
- **Bank deposits in Kuwait increased** by 1.33% yoy to KWD 43.34 (USD 142.86bn) in Apr, supported by a 4.1% rise in private sector deposits
- **Lebanon's PMI remained weak in May**, falling to 46.3 from Apr's 46.7, as new orders continued to decline. Confidence levels touched a 10-month low, with no panel members expecting an increase in output and 26% predicting a contraction.
- **Lebanon's draft plan to tackle the issue of undocumented foreign labour** has been sent to the Cabinet's secretariat. Currently, only 1,733 Syrian nationals were in possession of a legal work permit, whereas some 939,00 refugees are registered with the UN.
- **Bank credit extended by Oman's banking sector grew** by 5.7% yoy to OMR 25.5bn as of end-Mar this year. Credit to the private sector was up 4.2% to OMR 22.4bn, of which the share of the non-financial corporate sector was 46.1%.
- **Oman's new USD 1bn power plant Sohar-3**, which generates 1710 MW, started commercial operations.
- **Oman's government extended the expat visa ban** (first introduced in Jan 2018) for a further six months in

certain professions and industries, reported the *Times of Oman*.

- **Saudi Arabia further reduced its oil output in May:** sources told *Reuters* that the country pumped 9.65mn barrels of oil per day versus the agreement of 10.3mn bpd.
- **Unemployment rate in Saudi Arabia dropped to 12.5%** in Q1 this year versus 12.7% in the previous quarter. Female unemployment stands high at 31.7% (vs. male unemployment rate of 6.6%)
- **Saudi Arabia and Russia's energy ministers are expected to meet on Jun 10th** to discuss economic cooperation as well as joint projects in energy and agriculture. Separately, Russia's sovereign wealth fund plans to invest more than USD 2bn in Saudi Arabia this year.

UAE Focus

- **UAE's inflation touched a 4-month low** of 2.1% yoy in Apr, driven down by a 5.08% yoy decline in housing and utilities prices and a 4.99% decline in prices of clothing and footwear.
- **Credit-risk premium in Dubai has fallen** by 42.5% to 118.2bps as of end-2018 from 205.8bps at end-2015, according to the UAE central bank.
- **Real estate transactions in Dubai** exceed AED 34bn (USD 9.3bn) in Jan-May (+33% yoy).
- **Expat remittances from the UAE** touched AED 1.5trn between 2009-2018, according to the UAE central bank. Remittances increased by 4% or AED 150bn a year and in 2018, remittances accounted for 11.1% of UAE's GDP.
- **Japan imported 21.564mn barrels of crude oil from UAE in Apr 2019**, accounting for 23.7% of Japan's total crude oil imports.

Media Review

China's white paper on US economic and trade talks

<https://www.bloomberg.com/news/articles/2019-06-03/read-the-full-china-white-paper-on-u-s-economic-and-trade-talks>

G20 finance chiefs to warn of trade risks, differ on how 'pressing'

<https://www.reuters.com/article/us-g20-japan/g20-finance-chiefs-to-warn-of-trade-risks-differ-on-how-pressing-idUSKCN1T82LJ>

China and the US are too intertwined to keep up the trade war

<https://www.ft.com/content/6d0534f2-8870-11e9-b861-54ee436f9768>

Countries facing the biggest trade risks

<https://t.co/Xuhy00sTpM>

How the pursuit of leisure drives internet use

<https://www.economist.com/briefing/2019/06/08/how-the-pursuit-of-leisure-drives-internet-use>

The climate crisis is our third world war. It needs a bold response

<https://www.theguardian.com/commentisfree/2019/jun/04/climate-change-world-war-iii-green-new-deal>

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