

Weekly Economic Commentary – June 16, 2019

Markets

Geopolitical worries with rising fears of a US-Iran confrontation, unresolved trade tensions, and worries about global growth affected markets– S&P 500 and Nasdaq Composite, though falling on Fri, posted weekly gains; in Europe and Asia, markets mostly edged lower. Regional equity markets retreated following the attack on oil tankers in the Gulf of Oman. The dollar index climbed to its highest level in two weeks while the euro fell against the dollar. The geopolitical tensions post Gulf of Oman attack lifted oil prices but Brent crude still posted a weekly loss. Gold, as a safe haven asset, hit a 14-month peak though closing lower afterwards.

Global Developments

US/Americas:

- **US inflation edged up** by only 0.1% mom and 1.8% yoy in May, as a rebound in the cost of food was offset by cheaper gasoline. Core inflation cooled to 2.0% yoy (Apr: 2.1%). **Producer prices increased at the slowest pace in a year**, rising 1.8% yoy in May (Apr: 2.2%) while core PPI increased to 2.3% yoy (Apr: 2.2%).
- **US retail sales increased in May**, rising by 0.5% mom after an upwardly revised +0.3% in Apr, supported by auto sales (+0.7%) and online and mail-order purchases (+1.4%); excluding automobiles, gasoline, building materials and food services, retail sales advanced 0.5% following Apr's revised 0.4% rise.
- **US industrial production rebounded**, picking up by 0.4% mom in May (Apr: -0.4%), thanks to a 0.2% rise in manufacturing output while capacity utilization was up 0.2ppts to 78.1%. Overall, however, factory production is down 1.5% since end-2018.

- **Initial jobless claims unexpectedly grew to a 5-week high** of 222k for the week ended Jun 8; the 4-week moving average increased 2,500 to 217,750. Continuing claims increased 2k to 1.7mn for the week ended June 1 – the highest level since Mar.

Europe:

- **EU industrial output dropped** by 0.5% mom in Apr (Mar: -0.4%), hit by decline in car production (-4.1% mom).
- **The preliminary reading of German inflation was confirmed:** prices were up by 0.2% mom and 1.4% yoy in May.
- **UK economy shrank**, with GDP growth plunging by -0.4% mom in Apr and slowing to 0.3% in the three months to Apr (from 0.5% in Jan-Mar), thanks to a dramatic decline in car production (-24% in Apr) and an uncertain Brexit future.
- **UK industrial production slumped** by -2.7% in Apr (Mar: +0.7%) while manufacturing output dipped by -3.9% mom (Mar: +0.9%).
- **UK unemployment rate**, at 3.8%, **stayed at a 44-year low** while employment increased by 32k to reach a record high of 32.75mn in the three months to Apr. **Average earnings across the public sector** (+4.2% yoy in Apr) **outpaced wages at private companies** (+3.7%) last month – for the first time in around five years.

Asia Pacific:

- **China's exports grew** by 1.1% yoy in May, in spite of the imposition of higher US tariffs while imports fell by 8.5% – the sharpest dip since Jul 2016. As a result, trade surplus touched USD 41.65bn in May while trade balance with the US widened to a 4-month high of USD 26.89bn.
- **China foreign exchange reserves rebounded**, registering an increase of USD 6.1bn to USD 3.1trn in May and its

gold reserves increased by 1.88% to USD 79.8bn. Separately, Chinese banks extended CNY 1.18trn (USD 170.7bn) in **net new yuan loans** in May (Apr: CNY 1.02trn) while **money supply** grew by 8.5% yoy (unchanged from Apr's pace). **Outstanding yuan loans** grew at 13.4% yoy while growth of outstanding total social financing (a broad measure of credit and liquidity) quickened to 10.6% in May (Apr: 10.4%).

- **Industrial production in China cooled to a 17-year low** of 5% in May (Apr: 5.4%), while **fixed asset investment** rose 5.6% in Jan-May, decelerating from the 6.1% recorded in Jan-Apr. **FDI growth in China** touched 6.8% yoy in Jan-May to CNY 369.06bn (USD 53.34bn). **China retail sales** increased 8.6% yoy, picking up from a 16-year low of 7.2% in Apr.
- **Inflation in China quickened** to 2.7% in May – a 15-month high – driven by a 7.7% rise in food prices, while core inflation eased to 1.6% (Apr: 1.7%).
- **India's industrial growth accelerated to a 6-month high** of 3.4% in Apr (Mar: +0.4%), with the manufacturing sector up 2.8% (Mar: +0.1%).
- **India's trade deficit widened** by 5.1% yoy to USD 15.36bn in May: exports grew by nearly 4% to USD 29.99bn while imports rose by 4.3% to USD 45.35bn.
- **Korea's seasonally adjusted unemployment rate** dipped slightly to 4% in May (Apr: 4.1%).
- **Singapore retail sales slumped** by 1.8% yoy in Apr; excluding motor vehicles, sales dropped by 2% yoy.

Bottom line: Central banks are scheduled to meet on policy this week, starting with the Fed on Tues-Wed – waiting for a clear direction, financial markets are already pricing in two cuts by end of the year (the CME Group's FedWatch tool shows traders assign an 88% probability of a cut in Jul). The BoJ and BoE meetings are likely to leave rates on hold but watch out for the fine text and signals as risks to growth remain skewed to the downside. The UNCTAD's World Investment Report

2019 underscored the rising uncertainty as global flows of foreign direct investment fell by 13% to USD 1.3trn last year – the lowest level since the global financial crisis.

Regional Developments

- **Bahrain's real GDP growth** was up by 2.73% yoy in Q1 this year, thanks to a 9.2% growth in the oil sector amidst a 1.52% rise in the non-oil sector.
- **FDI inflows into Bahrain increased** by 6% to USD 1.515bn in 2018, according to the latest report "2019 World Investment Report" from UNCTAD.
- **Insurance premiums in Bahrain accelerated** by 6% yoy to BHD 284mn as of end-2018, according to a central bank official.
- **Infrastructure update from Bahrain:** the Kuwait Fund for Arab Economic Development will support the construction of two major road expansions (estimated to cost BHD 30mn) which had been announced in 2014 but stalled due to lack of funding; part of a "wish list" is a new second airport that will be operational by 2034, with construction planned by 2030.
- **Egypt's non-oil PMI contracted in May**– falling to 48.2 – after inching up to 50.8 in Apr, driven by moderate declines in both output and new orders. New export orders declined to 47.5 from 48.9 the month before.
- **Inflation in Egypt increased** to 14.1% yoy and 1.1% mom in May (Apr: 13% yoy and 0.5% mom) as food (and non-alcoholic beverage) costs picked up by 15.1%. Core inflation slowed to 7.8% from Apr's 8.1%.
- **Egypt's trade deficit widened** by 10% yoy to USD 4.15bn in Mar 2019: exports dipped by 3.9% to USD 2.58bn while imports grew by 4.3% to USD 6.73bn.
- **Egypt plans to launch the second phase of state IPOs in Sep**, as planned, according to the public enterprise minister. Engineering for the Petroleum & Process Industries is one of the planned IPOs in this phase.
- **Egypt will reduce its debt-to-GDP ratio to less than 93%**

by end-Jun and further to 80% by end of fiscal year 2020-21, according to the finance minister.

- A total of 43 investors offered to invest USD 970.6mn in the **1Y dollar-denominated Treasury bills** tender **issued by the Central Bank of Egypt**. The CBE accepted 24 offers worth USD 715mn, and the average yield was 3.877%.
- **Egypt is set to receive tenders for constructing the first dry port** in the country starting from Jul 11. The port will be set up in partnership with the private sector.
- The US has **granted Iraq a 120-day waiver to import Iranian gas** for its power grid, according to the US State Department.
- Fitch assigned **Jordan's long-term foreign-currency issuer default rating BB-** (three notches below investment grade) **with a stable outlook**, citing its fiscal and economic reform track record.
- The **Jordan Free and Development Zones Group** announced a **50% reduction in the rental prices at the Dead Sea Development Zone** in a bid to stimulate investments.
- **Passenger traffic at the Jordan international airport picked up** by 10.6% yoy to 804,153 persons in Apr, bringing the year-to-date number to 2.73mn passengers (+7.4%).
- The **World Bank approved a USD 1.45bn financing package to Jordan**, aimed at promoting the digital economy and addressing energy costs as well as stimulating inclusive growth and creating jobs.
- **Kuwait's non-oil exports increased** by 17% yoy to KWD 9.4mn (USD 31mn) in May. Kuwait's exports to the GCC and non-GCC Arab nations amounted to KWD 2.5mn and KWD 4.4mn respectively. Qatar was the top GCC importer and Iraq the main non-GCC Arab importer.
- **Oman's nominal GDP crossed OMR 30bn in 2018**, despite the decline in oil prices, according to a report reviewed by the Supreme Council for Planning.
- **Oman has initiated registration for a one-person**

company– a limited liability company owned by one natural or juristic person – permitted under the new Commercial Companies Law. The law does not stipulate specific capital for this establishment.

- **The number of tourists visiting Oman surged** by 34.3% yoy to 330,685 persons in Apr; GCC nationals comprised 46% of the total (+41% yoy growth).
- **Oman's excise taxes** on tobacco products, energy drinks, alcohol and pork have come into effect from Jun 15: the government has called upon all **firms that have a stock of the excise goods must declare its value** and pay the tax in full within 15 days of the tax coming into effect. The new tax is expected to generate OMR100mn in revenues a year.
- **Qatar reduced prices of its marine and land crudes** by more than 1% mom in May.
- **Qatar's central bank sold** QAR 600mn (USD 164.81mn) of **treasury bills** with maturities of three, six, and nine months last week.
- **Saudi Arabia's PMI increased** to a 17-month high of 57.3 in May (Apr: 56.8) as output expanded and output prices increased while job creation slightly accelerated to 50.5 (Apr: 50.1). PMI has averaged 56.8 this year vs last year's average of 53.8.
- **Saudi Arabia will finalise privatization deals worth SAR 2bn (USD 533mn) before end of this year**, reported *Asharq al-Awsat*, citing an interview with the Crown Prince.
- **Saudi Tadawul will attract USD 30-40bn in inflows** from the MSCI emerging markets inclusion, according to Moody's.
- **Saudi Arabia will implement a selective tax on sweetened drinks from Dec 2019**, according to a statement by General Authority for Zakat and Tax. Excise duties on cigarettes and tobacco products as well as energy and soft drinks already exist since Jun 2017.
- **Saudi Aramco**, with total revenues of USD 355.9bn in 2018 (+34.7% yoy), reported a **net income** of USD 111.1bn

(46.4%).

- **Saudi Arabia's trade with the GCC** (excluding Qatar) **declined** by 19.11% yoy to USD 5.6bn in Q1 this year: UAE was the biggest trade partner (USD 3.6bn in Q1).
- **More than 390,828 work visas were issued in Saudi Arabia in Q1 this year**, with 58.8% issued for individuals while the private sector and government accounted for 36.8% and 4.5% respectively. **Of the 12.765mn employees in the country, about 75.6% were expatriates**, while among the Saudis 65.4% were men. Breakdown by age shows that the age group of 30-34 and 35-39 represented 18.5% and 17.3% respectively.
- **OPEC oil production dropped** by 236k barrels per day to 29.87mn bpd in May – the lowest level in 5 years. However, from the region **Kuwait and UAE increased its oil output** by 13k and 3k bpd while Saudi Arabia reduced by 76k bpd.
- According to UNCTAD's latest World Investment Report 2019, **FDI flows to West Asia grew** by 3% to USD 29bn last year – though inflows were only one-third of the 2008 peak of USD 85bn, the growth halted an almost continuous 10-year downward trend.
(More: <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2460>)

UAE Focus

- **UAE's PMI rose to 59.4 in May** – recording the fastest pace since Oct 2014 – from 57.6 the month before. Both output and new orders picked up to 69.4 (Apr: 65.3) and 69.5 (64.6) respectively while the employment sub-index nudged down to 50.1. New export orders rose at the fastest pace in the near 10-year survey history, spurred by new business from Saudi Arabia and Oman.
- **Dubai's non-oil trade grew** by 7% to AED 339bn (USD 92.3bn) in Q1 2019. Exports were up 30% yoy after

contracting in 2018, while re-exports grew at 7% (the slowest rate of growth since Q3 2017).

- **New business licenses issued in Dubai increased** by 35% yoy to 9489 in Jan-Apr 2019. The Business Confidence Index in Dubai also climbed to 117.8 points in Q1 2019 compared to 116.4 points during Q1 2018, according to a DED survey. Separately, it was revealed that **total FDI inflow into Dubai touched AED 22.2bn in Q1** versus AED 7.3bn in Q1 2018.
- **DIFC enacted two new laws:** the new Insolvency Law and Regulations – which introduces a new debtor in possession bankruptcy regime – came into effect from Jun 13, while the new DIFC Employment Law – which address key issues such as paternity leave, sick pay and end-of-service settlements – will come into effect from Aug 28.
- The **UAE Cabinet**, in an attempt to promote the role and participation of Emirati youth, issued a decision that at specifies **at least one Emirati under the age of 30 must be included in the boards of directors of government entities, institutions and companies.**
- The **UAE Cabinet** approved a **National Strategy for Wellbeing 2031:** a framework includes enhancing people's wellbeing by promoting healthy and active lifestyles, promoting good mental health and adopting positive thinking.
(More: <https://www.thenational.ae/uae/government/everything-we-know-about-the-uae-s-national-wellbeing-strategy-2031-1.874643>)
- More than **3 million passengers travelled through air, sea and land ports in Dubai during the Eid al-Fitr** holiday period, according to the General Directorate of Residency and Foreigners Affairs.

Media Review

The risk of a 2020 recession and crisis is growing

<https://www.project-syndicate.org/commentary/trade-war-recession-crisis-2020-by-nouriel-roubini-2019-06>

Gulf states are becoming more adventurous investors

<https://www.economist.com/middle-east-and-africa/2019/06/15/gulf-states-are-becoming-more-adventurous-investors>

Why would Iran attack tankers in the Gulf of Oman?

<https://www.bbc.co.uk/news/world-middle-east-48642401>

Tension in the Strait of Hormuz

<https://www.thenational.ae/world/mena/sheikh-abdullah-calls-for-joint-de-escalation-efforts-after-tanker-attacks-1.874688>

<https://www.ft.com/content/e4b1be7e-8f7a-11e9-b7ea-60e35ef678d2>

<https://www.economist.com/middle-east-and-africa/2019/06/13/who-is-blowing-up-ships-in-the-gulf>

<https://www.economist.com/middle-east-and-africa/2019/06/14/iran-is-blowing-up-ships-in-the-gulf-says-america>

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