

Weekly Economic Commentary – June 23, 2019

Markets

In a week dominated by central bank decisions and geopolitical tensions, the MSCI world equity index (which tracks shares in 47 countries) dipped towards end of the week after touching a seven-week high. Government bond yields in the US and Europe remained near record or multi-year lows after the dovish statements from the central banks. Among regional markets, most rallied as oil prices increased, though Saudi's Tadawul extended losses; Qatar touched a 5-month high. The dollar remained soft while vis-à-vis the dollar, the yen rose to a five-month high and the Swiss franc was edging towards yearly lows. Gold touched a 6-year high last week nearing USD 1400 while oil prices surged by nearly 5% after Iran shot down the US drone (weekly gains: <https://on.ft.com/2KEBJQ3>; global market asset performance: <https://tmsnrt.rs/2X1Aa5a>).

Global Developments

US/Americas:

- **The Fed held interest rates steady** and took a dovish stance, signaling it would be open to a rate cut next month. Fed fund futures prices suggest an 80% chance that the Fed will cut rates by 25 bps in Jul.
- **The NAHB housing market index unexpectedly weakened** to 64 in Jun, versus the previous month's reading of 66. Builders continue to report "rising development and construction costs, with some additional concerns over trade issues".
- **Housing starts declined** by 0.9% to a seasonally adjusted annual rate of 1.269mn units in May, from an upwardly revised 1.281mn units in Apr, thanks to a drop in the construction of single-family houses.
- **Building permits increased** (for the second consecutive

month) by 0.3% to 1.294mn units in May. Permits to build single-family homes grew by 3.7% to a rate of 815k units, following five straight monthly declines.

- **Existing home sales in the US rose** by 2.5% mom to a seasonally adjusted annual rate of 5.34mn units in May (Apr: 5.21mn). In yoy terms, existing home sales were down (for the 15th continuous month) by 1.1%.
- **US current account deficit narrowed** by 9.4% qoq to USD 130.4bn in Q1 as imports of goods declined and companies repatriated more profits from overseas.
- **Initial jobless claims dropped** by 6k to a seasonally adjusted 216k for the week ended Jun 15; the four-week average of claims rose 1k to 218,750.

Europe:

- **A dovish tone from the ECB as well:** The ECB foresees “lingering softness” in the short term and Draghi (who will leave at end-Oct) stated that the ECB could consider expanding its EUR 2.6trn bond-buying programme to help increase inflation.
- **The flash eurozone composite PMI rose to a 7-month high** of 52.1 in Jun (May: 51.8), with the services activity index at a 7-month high of 53.4 (May: 52.9) and manufacturing PMI at a 2-month high of 47.8 (May: 47.7).
- **The flash German composite PMI remained unchanged** at 52.6 in Jun, supported by a 4-month high of 45.4 in manufacturing (May: 44.3) and a 2-month high services PMI at 55.6 (May: 55.4). PMI signaled growth in Q2 as the strongest since Q3 2018, though expectations for output growth over the next 12 months were the weakest in over 4.5 years.
- **German ZEW Indicator of Economic Sentiment decreased sharply** by 19 points to -21.1 points in Jun; assessment of the economic situation slightly worsened by 0.4 points to 7.8.
- **The eurozone ZEW economic sentiment also dropped**

significantly, falling by 18.6 points to -20.2 in Jun; however, the indicator for the current economic situation climbed 3.3 points to a level of -3.7 points.

- **The eurozone trade surplus narrowed** to EUR 15.7bn in Apr from EUR 17.1bn a year earlier, as exports grew by 5.2% yoy while imports rose by 6.6%. The EU's goods trade surplus with US and China expanded by 4.8% yoy and 8.4% to EUR 48.2bn and EUR 62bn respectively during Jan-Apr 2019.
- **EU inflation cooled** to 1.6% yoy in May from 1.9% in the previous month; inflation in the euro area also was down to 1.2% from Apr's 1.7%.
- **UK inflation edged down** to 2.0% in May (Apr: 2.1%) while core inflation (excluding energy, food, alcohol and tobacco) fell to 1.7% – the lowest annual rate since Jan 2017.
- **UK retail sales fell** by 0.5% mom last month, following a 0.1% dip in Apr, as cold weather continued to play spoilsport. Clothing and footwear sales fell 4.5% on the month – the biggest drop since Jul 2015.
- The **Bank of England** kept rates unchanged, but revised outlook and **expects Q2 growth to remain flat**.

Asia Pacific:

- **South Korea's current account surplus with the US hit 6-year low** of USD 24.71bn in 2018 (2017: USD 24.97bn); exports to the US posted a new high of USD 99.27bn, supported by an upturn in the global semiconductor industry.

Bottom line: Listening to global central bankers, loose monetary policy is the way forward (unless global outlook improves), except for the Bank of England which is battling Brexit. Geopolitical tensions have flared with the US deciding last minute to back out of air strikes on Iran. As we edge closer to the end of H1 comes the potential Xi-Trump meeting at the G20 summit amidst weak global macro data. Outcome of

trade policy discussions will decide the direction of global growth this year: so far, Trump has in one way or the other clashed with India, Mexico, Canada and Germany on trade (in addition to China). Currency wars could be next (Trump has already complained about the “devalued” euro).

Regional Developments

- **The second phase of VAT rollout in Bahrain:** businesses with turnovers exceeding BHD 500k have to register by Jun 20th, as VAT will apply to them from Jul 1. VAT registration for companies with turnovers below BHD 37,500 is optional.
- **Bahrain’s MPs have called for a ban on expats in up to 35 different professions and to increase the minimum wage** for Bahraini nationals by 83% to BHD 550 (USD 1,462.77).
- **Bahrain awarded six infrastructure and sewerage projects** worth BHD 44mn (USD 117mn) last Apr and May. These projects are financed by the Abu Dhabi Development Fund as part of the Gulf Development Programme.
- **Bilateral trade between Bahrain and Italy** increased by 52% yoy to a record-high EUR 550mn (USD 617mn) last year; Bahraini exports to Italy surged by 156%.
- **Bahrain is one of the top 10 start-up ecosystems with the largest share of female founders:** the 2019 Global Startup Ecosystem Report disclosed that 18% of start-ups in Bahrain are founded by women versus 15% in London and 16% in the Silicon Valley.
- **Foreign holdings of Egypt’s debt instruments** equaled USD 17bn as of end-May, gaining almost USD 5bn during the Jan to end-May period. This is expected to rise to USD 23bn by Nov, according to a board member of the Central Bank of Egypt.
- **Egypt plans to issue international bonds either in CNY, JPY or KRW**, with the currency to be determined by various factors including investor demand and the cost, revealed the deputy finance minister for capital market

operations.

- **Egypt's government has finished a draft law to grant residence to foreigners in return for purchasing a property:** the bill has been submitted to the Egyptian parliament to be discussed and voted on.
- **Egypt's banking sector received cash inflows of about USD 200bn** since the central bank decided to free float the EGP in Nov 2016.
- **Egypt's exports to India surged** by 47% yoy to USD 1.7bn last year. Egypt's imports from India grew 18.2%, thanks to an increase in the imports of fuel to USD 507mn last year.
- **Egypt is targeting a gasoline deficit of 3.8% in fiscal year 2019-20:** domestic production is expected to touch about 7.6m tonnes annually with consumption estimated at 8m tonnes.
- **Foreign workers in Egypt's private sector fell** by 8.4% between 2013-2017 to nearly 13,460. However, foreigners in the public sector grew to 1,132, rising from 956 in 2013.
- **Egypt's legislators passed the country's first data protection regulation.** It contains provisions and requirements pertaining to the processing of personal data of individuals, as well as prohibits the collection, transfer, storage, preservation, or processing of sensitive personal data.
- **Jordan's tourism revenues increased** by 6.1% yoy to USD 1.746bn in Q1, as per central bank data. Remittances from Jordan grew by 1.6% to USD 1.202mn as of end-Apr.
- **About 20k expats in Kuwait have lost their residency status in the past three years** following the process of linking the residence permit with educational level and scientific qualifications.
- Political tensions and budget delays in the Parliament have resulted in **Lebanon's Eurobonds entering distressed territory:** the average extra yield investors demand to hold the country's debt over US Treasuries climbed to a

10-year high of 946 basis points last week, while dollar securities maturing in 2022 and 2023 have spreads of above 1000bps. (More: <https://www.ft.com/content/24434bf8-9411-11e9-aea1-2b1d33ac3271>)

- **Lebanon's Solidere share prices picked up by 8% last week.** This follows weeks of decline in the shares amid signs that the real estate company continued to sustain heavy losses due to the economic slowdown and drop in sales and rents of properties.
- **Fourteen government establishments in Oman** have met their commitments towards SMEs and **offered 10% of tenders and purchases to SMEs in 2018.**
- **Oman's ruler announced tax breaks to new tourism investors in Musandam.** Investors will be allowed (starting this month) exemption from customs duties covering building materials, tools and equipment in the construction phase, as well as the 4% tourism tax, the 5% municipal tax and the 15% company income tax during the first 10 years of operation.
- **About 87% of Omani job seekers want to work in the government sector,** according to a study conducted by the National Centre for Statistics and Information. The study showed that the average acceptable minimum wage for employment in the public and private sector for job seekers is OMR 674 and OMR 593 respectively.
- **Oman will continue to face a "liquidity squeeze",** according to Moody's, especially given the banks' reliance on government deposits. The smallest banks will be hit the most, by higher funding costs and reduced profits.
- **UAE's First Abu Dhabi Bank relinquished its Qatar Financial Centre license** and closed its branch in the country. This move is unlikely to impact the bank much as the Qatar branch had contributed less than 0.03% of FAB's full-year 2018 net profit.
- **Saudi Arabia has delivered 45% of over 500 planned**

reforms, according to the Saudi Arabian General Investment Authority. FDI inflows increased by 127% in 2018 and the number of registered new companies grew by 70% yoy in Q1 2019.

- **Inflation in Saudi Arabia fell for the fifth consecutive month**, posting 1.5% yoy in May; in mom terms, inflation was up by 0.1%. The sub-index for housing, water, electricity, gas and fuel prices fell 7.5% yoy in May (Apr: -7.8%).
- In an interview with *Asharq al-Awsat*, **Saudi Arabia's Crown Prince disclosed that the Aramco IPO was still on track** (but only "at the right time") and that **the assets of the Public Investment Fund (PIF) had doubled** to about SAR 1trn in two years.
- **Saudi Arabia plans to tap the international bond markets, with a sukuk issue before end of this year**, revealed the head of the debt management office.
- **Saudi Arabia's trade surplus widened** by 12.3% yoy to SAR 47.65bn in Apr: exports were up 3% yoy to SAR 86.96bn while imports declined by 16.8% yo SAR 39.31bn.
- **Saudi Arabia's trade surplus with Japan narrowed** by 15.9% yoy to USD 2.09bn in May, according to the Japanese Ministry of Finance.
- **Oil exports from Saudi Arabia declined** by about 44k barrels per day (bpd) to 8.57mn bpd in Apr.
- **Saudi Arabia increased its US Treasury holdings for the third consecutive month** by 10.44% yoy and 3.9% mom to USD 176.6bn in Apr.
- **Saudi Arabia's Alawwal Bank formally merged with Saudi British Bank (Sabb) to create the third-biggest lender by assets** in the country. With a total asset base of SAR 257bn, the bank will have total revenues of SAR 10.9bn, more than a million retail customers and the second-largest corporate book by assets.
- **OPEC+ have agreed to hold their next meeting to discuss oil-output cuts on the first two days of Jul.** Prolonging the cuts in oil production till end of the year would

shrink inventories at a rate of about 500k barrels a day in H2. Saudi Arabia, the UAE and Iraq are in favour of restraining production amid signs of falling demand.

- **Following rising geopolitical tensions, Middle East oil shipping rates have surged:** the rate for transporting 2mn-barrel cargoes from Saudi Arabia to China jumped to almost USD 26k a day last Thur, more than double where they were at the start of June. Insurance companies have been charging at least USD 180k in premiums to go to the Gulf, versus about USD 30k earlier this year.

UAE Focus

- **Dubai's non-oil private sector activity increased to a 52-month high** of 58.5 in May, from Apr's 57.9 reading, as total business activity increased at the strongest rate since the series was first compiled in 2010. But weak job creation (employment rose at a marginal rate below the long-run trend) and price discounting (selling prices reduced for the 13th consecutive month) remain worrisome trends.
- **Dubai issued 2599 new licenses in May**, up 50% yoy, and **creating 8,348 jobs** according to the Dubai Department of Economic Development. Real estate, leasing and business services accounted for 35% of the new licenses issued, followed by trade and repair services (28.6%).
- **Abu Dhabi's trade with the GCC grew** by 7.7% yoy to AED 18.22bn in Q1; exports to the GCC increased 18% to AED 7.725bn in Q1. Saudi Arabia topped Abu Dhabi's largest importers with AED 2.36bn in Mar (+22.8% yoy).
- The newly enacted **DIFC Employment law stipulates a minimum threshold basic salary of 50% of total salary:** employers have 90 days from May 30 to correct all employment contracts or they can be held accountable at DIFC courts.
- UAE's **Emirates Development Bank**, whose direct lending to Emirati-owned and managed businesses touched AED 407mn

at end-Mar this year, plans to “potentially double” the size of its SME financing portfolio this year, according to its CEO. The bank also plans to raise funds through a benchmark-sized sukuk next year.

- **Etihad Energy Services Company**(Etihad ESCO) has announced plans to install photovoltaic solar panels on the roofs of 5,000 Emirati-owned homes in Dubai. This retrofit is expected to save 31,102,500 kWh energy and will lead to the reduction of CO2 emissions by 21,139 tons annually.
- The **UAE has been ranked second in the world for largest token sales up to June 2019**, accounting for more than a quarter of global funds raised in Q1, according to Coin Schedule.

Media Review

US-Iran tensions & the Strait of Hormuz

<https://www.economist.com/middle-east-and-africa/2019/06/21/donald-trump-orders-air-strikes-on-iran-then-cancels-them>

<https://www.economist.com/middle-east-and-africa/2019/06/22/backed-into-a-corner-iran-is-lashing-out>

<https://www.economist.com/graphic-detail/2019/06/21/us-iran-tensions-threaten-the-worlds-most-important-oil-shipping-route>

Kuwait, Oman wealth funds being depleted to finance deficits

<https://www.reuters.com/article/mideast-debt-kuwait-oman/mideast-debt-kuwait-oman-wealth-funds-being-depleted-to-finance-deficits-idUSL8N2301D7>

Kushner's Middle East economic plan

Executive

summary:

<https://www.whitehouse.gov/peacetoprospersity/>

Narrative:

https://www.whitehouse.gov/wp-content/uploads/2019/06/MEP-narrative-document_FINAL.pdf

Detailed

listing:

https://www.whitehouse.gov/wp-content/uploads/2019/06/MEP_programsandprojects.pdf

<https://uk.reuters.com/article/uk-israel-palestinians-plan-exc>

[lusive/exclusive-white-houses-kushner-unveils-economic-portion-of-middle-east-peace-plan-idUKKCN1TN0EX](#)

The Coming Sino-American Bust-Up

[https://www.project-syndicate.org/onpoint/the-coming-sino-american-bust-up-by-nouriel-roubini-2019-06](#)

Loss-making tech companies are floating like it's 1999

[https://www.ft.com/content/c5705ca2-605c-11e9-9300-0becfc937c37](#)

The Global Transition to Clean Energy

[https://www.vox.com/energy-and-environment/2019/6/18/18681591/renewable-energy-china-solar-pv-jobs](#)

[http://www.ren21.net/gsr-2019/](#)

Facebook & its Libra announcement

The white paper: [https://libra.org/en-US/white-paper/](#)

What could go wrong?

[https://www.economist.com/leaders/2019/06/22/facebook-wants-to-create-a-global-currency](#)

[https://qz.com/1650321/facebooks-libra-could-roil-central-banks-governments/](#)

5 things we know & 5 things we don't:

[https://www.bloomberg.com/news/articles/2019-06-22/facebook-s-libra-crypto-coin-5-things-we-know-and-5-we-don-t](#)

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