

Weekly Economic Commentary – June 30, 2019

Markets

Global stocks advanced last week, supported by central banks' monetary policy stances: S&P records its best June performance since 1955 while the STOXX 600 index posted its best H1 since 1998, China was up 20% and the MSCI world index was up nearly 15% this year. The positive meeting between Trump and Xi (including a shift in stance on Huawei and holding off on new tariffs) will restart trade negotiations and is likely to support equities when markets open tomorrow (Jul 1). Stock markets in the region were mostly up, supported by the global rally: Saudi Arabia benefitted from the relaxed foreign ownership limits and Kuwait by the MSCI upgrade news. The dollar index fell vis-à-vis a basket of currencies; oil prices edged lower ahead of the OPEC+ meeting this week, but have surged by almost 25% this year; gold prices were up 8% this month – the biggest monthly advance in 3 years. (*chart on global market asset performance: <https://tmsnrt.rs/2FEK8yw>*)

Global Developments

US/Americas:

- **A soft batch of US housing data:** the **Case-Shiller home price index** gained by 2.5% yoy in Apr (Mar: 2.6%), with nine of the 20 cities reporting larger annual price increases vis-à-vis Mar. **New home sales fell** by 7.8% mom (the steepest fall since Dec) to a 5-month low of 626k in May, from Apr's upwardly revised 679k. **Pending home sales rebounded** by 1.1% mom in May, amidst mortgage rates at an almost 2-year low.
- **Durable goods orders touched a 16-month low**, falling 1.3% mom to USD 243.4bn in May, on weak aircraft sales (which fell nearly 30% in May, following Apr's losses of nearly 40%). Non-defense capital goods orders excluding

aircraft – a proxy for business spending – increased by 0.4% in May.

- **Initial jobless claims increased to the highest level in 7 weeks**, rising by 10k to 227k in the week ended Jun 22. Continuing claims grew by 22k to 1.69mn for the week ended Jun 15.
- **US GDP grew at an unrevised 3.1% annualized rate in Q1** (Q4: 2.2%), driven by strong defense spending, inventories and export growth. Excluding trade, inventories and government spending, growth was only a 1.3% in Q1 – the slowest rise in this measure of domestic demand since Q2 2013.
- **Consumer spending in the US rose moderately** by 0.4% in May (Apr: 0.6%) and was supported by a 0.5% increase in personal income. The **PCE price index was up** by 0.2% mom and 1.5% yoy in May (Apr: 0.3% mom and 1.6% yoy) while the core PCE index climbed 0.2% after a similar gain a month before.
- **Chicago PMI fell to 49.7 in Jun**– the first time below the 50-mark since Jan 2017 – from May's 54.2, bringing the Q2 average to 52.2, down 13% qoq and 16% yoy.

Europe:

- **German Ifo business climate index dropped** to 97.4 in June – the lowest level since Nov 2014 – from May's 97.9; the Ifo President stated that the “German economy is heading for the doldrums”.
- **German CPI accelerated** by 1.3% in Jun; **Eurozone's flash CPI reading came in at 1.2%** in Jun while core CPI was at 1.1%.
- **EU's Economic Sentiment Indicator fell** by 1.5 points to 102.3 in Jun, falling by the most in Germany (-2.9), followed by Italy (-1.5), France (-1) and Spain (-0.6). The business climate indicator decreased by 0.13 points to +0.17.
- **UK GDP remained unrevised at 0.5% qoq in Q1**, thanks to

an increase in inventories (net GBP 5.7bn) and consumer spending (+0.6% qoq) and with manufacturing sector expanding at the fastest pace since 1999.

Asia Pacific:

- **Japan industrial production grew** by 2.3% mom in May – the fastest mom pace since Feb 2018 – thanks to a higher auto production while capital goods shipments climbed to a 7-month high.
- **Tokyo inflation picked up** by 0.9% yoy in Jun (May: 1.1%)
- **Japan unemployment rate remained steady** at 2.4% in May amid a tight labour market, while the jobs-to-applicants ratio fell to 1.62 (Apr: 1.63).
- **Japan retail trade grew at the fastest pace for 2019**, rising by 0.3% mom and 1.2% yoy in May (Apr: 0.5% yoy).
- **Singapore's inflation edged up** to 0.9% yoy in May (Apr: 0.8%), driven by a steep increase in car prices, as well as higher retail and food costs; core inflation remained steady at 1.3%.
- **Industrial production in Singapore declined** by 2.4% yoy in May as the electronics sector continued to shrink (-10.8%). Stripping the volatile pharma sector (which recorded 15.9% growth), factory output fell by a sharper 4.9%.
- **India's fiscal deficit touched INR 3.66trn or 52% of budgeted target in the first two months of 2019-20** (i.e. Apr-May 2019). The **current account deficit widened to USD 57.2bn or 1% of GDP in 2018-19** from 1.8% in the previous fiscal year, thanks to the widening trade deficit. In Q4 of 2018-19, the current account deficit narrowed to 0.7% of GDP, compared to 2.7% of GDP in the previous quarter and 1.8% of GDP a year earlier.

Bottom line: Though the Xi-Trump meeting at the G20 resulted in a gentleman's agreement, there is a long winding road to navigate (technology, intellectual property, security issues etc.) before the tariffs are rolled back or a historic deal is

reached. The G20 communique meanwhile strived to find a common ground on conveying messages about the ongoing trade wars and climate change (*more in the Media review section*). In another meeting, Russia and Saudi Arabia have agreed to extend the deal to curb oil output; OPEC+ meets Jul 1-2 to discuss the deal. In the backdrop are the ongoing US-Iran tensions as well as the UK elections and Brexit conundrum.

Regional Developments

- **Bahrain-origin exports increased** by 16% yoy to BHD 210mn (USD 553mn) in May, with Saudi Arabia, US and UAE the top three nations importing from the nation. The value of re-exports surged by 57% to BHD 66mn.
- **Egypt approved the 2019-2020 budget**, which targets a 7.2% deficit for the year and 6% GDP growth (from an estimated 5.6% growth in 2018-19). The **allocation for fuel subsidies was drastically reduced** by 41% to EGP 52.963bn (USD 3.18bn). Separately, according to the finance minister, Egypt is **expected to tap debt markets** for between USD 4-7bn this financial year.
- **Egypt's manufacturing index declined** by 8.4% mom to 131.84 in Apr; the index of basic metals was up 16% mom to 82.65, while the food industries index dipped by 24.1% to 82.44.
- **Egypt's bilateral trade with Japan grew** by 6.7% yoy to USD 401mn in Q1 this year; exports picked up to USD 93mn in Q1 versus USD 64mn in the same period a year ago.
- **German investments in Egypt** touched USD 7.4bn at end-Jun 2018, while **Egypt's exports to Germany grew** by 10.6% yoy to USD 410.97mn in Q1 2019 (bilateral trade between Germany and Egypt was USD 5.12bn in 2018).
- **Indian investments in Egypt exceeded USD 3bn**, according to the Indian ambassador to Cairo, who also stated that bilateral trade between the two nations touched USD 4bn a year. Tourism has also picked up with the number of tourists more than doubling to 126k this year, from around 60k in 2014.

- **Egypt's gold exports surged** by 132% qoq to USD 328mn in Oct-Dec 2018. Total exports of commodities rose to USD 7.48bn in Q2 of 2018-19, compared to USD 6.78bn in Q1.
- **Remittances into Egypt from the UAE increased** by USD 55mn or 9.6% yoy to USD 627mn in Q1 2019; last year, remittances from the UAE touched USD 2.4bn.
- **Egypt aims to raise the value of its textile exports to USD 12bn by 2025**, according to the chairman of the Textile Export Council of Egypt. Currently, textile exports reach only around USD 3bn per year on average, tied down by lack of finances and training challenges.
- **Egypt's military pensions will increase** by 15% from July 1st: military pensioners will see a minimum pension increase of EGP 150 and the minimum pension will be raised to EGP 900.
- Jordan's minister of energy disclosed that **work is under way to interconnect the electric power grids of Jordan and Iraq**.
- **Jordan's Cabinet**, in a bid to reduce the number of public sector employees, plans to **limit the service of public employees to 30 years**.
- **The World Bank approved a USD 200mn healthcare project in Jordan** to support delivery of critical primary and secondary health services to poor uninsured Jordanians and Syrian refugees.
- **MSCI announced an upgrade of Bursa Kuwait to its emerging markets Index starting in 2020**: nine Kuwaiti stocks will be included, giving approximately a 0.5% weight in the index. The vice-chairman of the CMA estimates that the inclusion will bring in inflows of around USD 5bn.
- **The central bank of Kuwait issued bonds and related *tawarruq* (reverse *murabaha*)** worth KWD 200mn (USD 660.69mn) – with an aim to regulate liquidity and withdraw surplus in the local market; this issue was oversubscribed by 13.61 times.

- **Two property funds in Kuwait** – each with a non-controlling stake of now less than KWD 15mn – **are in talks with the CMA to get listed on the exchange.**
- **Budget deficit in Lebanon widened to 11.71% of GDP in 2018**, versus 9.28% the year before, according to the finance ministry. The government allocated LBP 2.647trn to the EdL last year (+32.26% yoy), while income generated from the telecom sector fell by 16%.
- **Lebanon's** central bank governor disclosed that though the apex bank supports government efforts **to cut public debt serving costs, no agreement was reached as to the measures** – also stating that “nothing will be imposed on the banks”. Furthermore, he specified that the economy had 0% growth so far, but expected the liquidity situation to improve in the next 6 months.
- **Oman** Capital Market Authority introduced an **electronic registry** which acts as a database **of eligible persons that can join boards of directors** of public joint stock companies.
- **Qatar is planning to invest USD 3bn in Pakistan**, via deposits and direct investments, announced the state news agency.
- **Saudi Arabia's** CMA **removed a limit on ownership for foreign strategic investors in shares of listed companies** (previously 49%). The CMA clarified that a strategic investor buying a stake in a listed company will need to maintain the holding for at least two years.
- The IIF, in its latest Capital Flows Tracker, highlighted that **equity inflows to Saudi Arabia surged**: it attracted about USD 10.8bn of foreign equity investments as a result of upgrades to emerging market status, with May alone witnessing USD 4.5bn worth inflows.
- **Saudi Arabia's international reserves increased** by 2.48% yoy and 2.37% mom to SAR 1.939trn (USD 517bn) in May. SAMA's assets increased by 1.77% yoy and 2.37% mom to

SAR 1.965trn in May. General public reserves declined by 16.7% yoy to SAR 476.94bn while the current account surplus widened by 154% yoy and 13.4% mom to SAR 134.72bn.

- **Saudi Arabia's** Shoura Council approved a **draft competition and government procurement law**, which aims to prevent the abuse of power and influence to protect public wealth.
- **Saudi Arabia's** finance ministry issued SAR 2.744bn (USD 731.71mn) **in domestic sukuk** in its monthly issuance program for Jun.
- **Mortgages** granted by banks and financial institutions **in Saudi Arabia** grew by 122% yoy to SAR 5.65bn in May, bringing the total this year to SAR 27.02bn (+131.33%).
- **Saudi Arabia** **officially launched its new special residency scheme for expatriates**, with two options – one a permanent residency for SAR 800k and a 1-year renewable residency for SAR 100k. The residency option allows free movement for expats, as well as the ability to do business and own properties.
- **Bilateral trade between Saudi Arabia and Japan** grew by 21% yoy to USD 30bn in 2018m, supported by a 60% growth in non-oil exports.
- **Saudi Arabia** signed a **MoU with the Industrial Bank of Korea** for the establishment and operation of a **bank for SMEs**.
- The **average salary of a government employee in Saudi Arabia** was SAR 11,405 in Q1 2019: **59% higher** than the SAR 4,595 a private sector employee makes doing the same work.
- Alpen Capital's **GCC Hospitality report** highlights the dominance of the UAE: the market is expected to touch USD 35.2bn by 2022, and UAE will lead with "73% of existing luxury hotel stock and 61% of the region's pipeline".

- The **UAE** central bank, in its quarterly review, disclosed that **GDP grew by 2.2% yoy in Q1 this year**, with the non-oil economy rising 1.6% during the quarter.
- **Nine initiatives have been announced as part of Abu Dhabi's** three- year, AED 50bn "**Ghadan 21**" initiative: this includes an "Abu Dhabi Instant Licence", an industrial tariffs initiative and vendor payments within 30 days to name a few. This also includes an **SME financing scheme** that provides guarantees to Abu Dhabi banks in case of defaults. The government will guarantee up to 75% of loan value extended to Abu Dhabi based SMEs run by UAE nationals and up to 60% for expat-run SMEs. The companies need to have been in business for at least 2 years.
- **Money supply in the UAE (M2) dropped** by 1% mom to AED 1.3213trn in May; gross bank assets dropped by 0.4% mom to AED 2.91trn and gross credit picked up to AED 1.68trn (+0.3% mom).
- **Remittances from the UAE declined** by 11.7% yoy to AED 38.41bn (USD 10.45bn) in Q1 2019 and around AED 25bn was transferred through money exchange companies. Indians accounted for 37.4% of total remittances followed by Pakistanis (10.2%), Filipinos (7.9%) and Egyptians (6%).
- **Inflation in Abu Dhabi increased** by 0.5% yoy and 1.3% mom in May.
- **UAE's Federal Tax Authority approved 390 requests to refund housing tax** worth AED 17.52mn (USD 4.76mn).
- **Etihad Rail approved the AED 4.4bn plan to expand to all emirates in the country** with a 1,200km network.
- Dubai's sovereign wealth fund, the **Investment Corporation of Dubai**, announced **record revenues** of AED 232.4bn (USD 63.1bn) and a net profit of AED 21.4bn in 2018.
- UAE's **Dubai and Abu Dhabi were listed as the 21st and 33rd most expensive cities** for expats in the 2019 Cost of Living survey published by Mercer. Eight Asian cities

were among the top 10 spots in the list topped by Hong Kong, Tokyo and Singapore.

Media Review

The G20 communique

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America's Economic Blockades and International Law

<https://www.project-syndicate.org/commentary/trump-reliance-on-economic-sanctions-by-jeffrey-d-sachs-2019-06>

Why the Palestinian economy urgently needs a stimulus

<http://www.arabnews.com/node/1516196/middle-east>

An underwhelming start to the “ultimate” Israeli-Palestinian deal

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Middle East's power struggle moves to the Horn of Africa

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Five Facts on Fintech

<https://blogs.imf.org/2019/06/27/five-facts-on-fintech/>

The “Digital Revolution” of Wellbeing

<https://www.project-syndicate.org/commentary/digital-revolution-impact-on-wellbeing-by-michael-spence-2019-06>

The Gnawing Anxiety of Having an Algorithm as a Boss

<https://www.bloomberg.com/news/articles/2019-06-26/the-gnawing-anxiety-of-having-an-algorithm-as-a-boss>

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