

# Weekly Economic Commentary – Jul 7, 2019

## Markets

Equity markets in the US gained in the first half of last week on expectations of a rate cut this month, though retreating on Fri after a strong payrolls reading; Europe's biggest stocks entered a bull market on Wednesday while Asian stocks mirrored the US. In the region, Kuwait continued to see gains from the MSCI upgrade announcement from the week before, while Egypt ended 4 days of gains on Thur. The dollar index ticked up to an almost 3-week high, and the euro and pound fell vis-à-vis the greenback. Oil prices rose on the extension of output cuts by OPEC+ while gold moved down from its 6-year highs to record its biggest single-day drop of 2019 on Fri (-1.8%)

## Global Developments

### **US/Americas:**

- **Nonfarm payrolls grew** by 224k in Jun, from a downwardly revised 72k in May. Wage growth, however, remained tepid at just 0.2% mom while average hourly earnings were up 3.1% yoy. The **unemployment rate nudged up** to 3.7% from 3.6% previously.
- **ISM manufacturing PMI dropped** to 51.7 in Jun, posting the lowest reading since Oct 2016 (May: 52.1). The new orders sub-index decreased 2.7 points to 50.0 (lowest since Dec 2015) and prices paid dipped 5.3 points to 47.9 while the employment gauge rose to 54.5 (May: 53.7).
- **US private sector hiring**, as shown by the ADP employment data, **picked up** by 102k in Jun, with the gains for the previous month revised up to 41k. May's reading still is the weakest since Mar 2010.
- **US trade deficit widened further**, touching a 5-month high of USD 55.5bn in May (Apr: USD 51.2bn deficit), as

imports grew by 4% to USD 217bn and exports were up nearly 3% to USD 140.8bn. Trade deficit with China surged more than 12% to USD 30.2bn in May.

- **Construction spending in the US declined** by 0.8% in May, the biggest drop since Nov 2018, and after rising 0.4% in April. Construction spending had surged in Q1.
- **Initial jobless claims fell** by 8k to a seasonally adjusted 221k for the week ended Jun 29; the 4-week average grew by 500 to 222,250.

## Europe:

- **German Markit manufacturing PMI contracted for the 6<sup>th</sup> consecutive month**, with a reading of 45 in Jun (below the flash reading of 45.4); some comfort from the fact that the rate of decline in new orders eased for the 3rd month and future output expectations turned positive (for the first time in 9 months). With **services sector PMI** posting the strongest activity in 9 months (55.8 in Jun from May's 55.4), **composite PMI** remained steady at 52.6.
- As exports orders slid, **the EU Markit manufacturing PMI deteriorated further**, falling to 47.6 in Jun (lower than the flash estimate of 47.8 and May's 47.7). Across the EU, **Spain** reported lower orders and falling output, moving it to its first below-50 reading since 2013 while **French PMI** was the silver lining with its Jun reading up to 51.9. With the EU services PMI clocking in an 8-month high of 53.6, **composite PMI** touched 52.2 in Jun (higher than the flash reading of 52.1 and May's 51.8).
- The **unemployment rate across the eurozone fell** to 7.5% in May, the lowest level since Jul 2008 while youth unemployment rate was 15.7%. There were wide disparities across the bloc with **German** unemployment rate at just 3.1% versus Greece's 18.1%.
- **German retail sales declined** by 0.6% mom in May, though

reporting a strong 4% yoy growth supported by online commerce and delivery services. **EU retail sales fell** by 0.3% mom in May, with shoppers spending 0.5% less on food, drinks and tobacco and car fuel purchases dropping by 1.3% while online shopping remained a saving grace (+2.3%).

- **German industrial orders slumped**, falling by 2.2% mom in May and down 8.6% yoy. Foreign contracts dropped by 4.3%, driven by a strong decline in demand from non-euro zone countries.
- **UK Markit manufacturing PMI sank to a 6-year low** of 48 in Jun (May: 49.4), as export demand fell. Construction PMI tumbled to a decade low of 43.1, down from 48.6 in May.
- Bank of England data showed that **unsecured lending to UK consumers slipped** to 5.6% in May – the smallest rise since Apr 2014 – and down from Apr's 5.9%. **Net mortgage lending** fell to GBP 3.102bn in May – the weakest increase since Apr 2017.

### **Asia Pacific:**

- **China NBS manufacturing PMI held steady** at 49.4 in Jun: the contraction in new orders accelerated to 49.6 from 49.8 with both export and import orders extending their decline. Meanwhile, **services PMI inched lower** to a 6-month low of 54.2 in Jun.
- **China Caixin manufacturing PMI** fell to a 5-month low of 49.4 in Jun (May: 50.2), while services PMI dipped to a 4-month low of 52 (May: 52.7) on weak foreign demand while government policies boosted new orders. Together, the composite PMI fell to a 5-month low of 50.6 in Jun (May: 51.5).
- **Japan Tankan survey showed a worsening of manufacturers sentiment**: big manufacturers reading fell by 5 points to +7 in Jun (a 3-year low) while the decline for smaller manufacturers was even more severe, with a seven-point

dip to a reading of -1.

- **Japan leading index eased to the lowest in 6.5 years**, recording 95.2 in May (Apr: 95.9). **Coincident index** of business conditions rose 1.1 points to 103.2 in May, the highest since Oct 2018.
- **The mantra of India's 2019-20 budget remained fiscal consolidation** with the deficit pegged at 3.3% of GDP (2018-19: 3.4%). Among the measures included a lower corporate tax of 25% for companies with a turnover of INR 4bn, an increase in surcharges for individuals with taxable incomes of INR 20mn+, as well as a INR 700bn capital boost to public sector banks' and announcement of a potential opening up of aviation, media and insurance sectors to foreign investment.
- **Singapore PMI fell to a near 3-year low** of 49.6 in Jun (the lowest since Aug 2016) and lower than May's 49.9. The sub-indices of new orders, factory output, inventory and employment level moved below the 50-mark for the first time.

**Bottom line:** With a stop-gap truce announced at the G20, China-US trade negotiations have resumed but with "no timeline" in mind, according to the White House economic advisor Kudlow. Chinese chatter seems to be tipped towards the negative side with the commerce ministry spokesperson mentioning that all imposed tariffs must be removed for the deal to be reached. Meanwhile, PMI readings point to an impending slowdown: the global manufacturing PMI was at the lowest level since Oct 2012 (Jun: 49.4) and new orders contracted at the fastest face in almost 7 years.

### **Regional Developments**

- **Bahrain's money supply (M3) increased** by 7.2% yoy to BHD 13.4bn (USD 35.63bn) at end-May. Balance sheet of the banking system expanded by 6.4% yoy to BHD 202.3bn as of end-May while the total outstanding balance of public debt instruments dropped by 1.8% to BHD 11.29bn.

- **Bahrain received over USD 400mn in FDI from 92 companies during H1 this year**; this is expected to generate more than 3300 jobs in the local market over the next 3 years. According to the recent UNCTAD report, Bahrain attracted USD 1.5bn in 2018 (+6% yoy).
- **Egypt's PMI remained under the 50-mark in Jun**, though strengthening to 49.2 from May's 48.2 – supported by new orders (48.6 vs May's 47.8) and output (49 vs May's 47.9). This brings the Q2 average to 49.4, a significant improvement from the series average of 48.4.
- **Egypt's international reserves inched up** by 0.17% mom to USD 44.351bn at end-Jun. **Net FDI** during the period **declined** by 23.6% yoy to USD 4.6bn while **remittances from abroad slipped** by 6.1% to USD 18.2bn. The central bank also disclosed that the **current account deficit widened** to USD 7.6bn in Jul 2018-Mar 2019 (from USD 5.47bn a year ago) while balance of payments recorded a lower deficit of USD 351.2mn.
- **Egypt's non-oil exports grew** by 1.7% yoy to USD 2.28bn in May; this included USD 1.78bn worth industrial goods and USD 506mn food commodities.
- The **new electricity tariffs in Egypt** (applied from Jul) is expected to yield EGP 902mn (USD 55mn) this month, according to the Egyptian Electricity Holding Company. The ministry of finance will continue to subsidise the electricity sector by about EGP 16.5bn during the financial year 2019-20.
- **Egypt and Jordan agreed to launch a joint logistics zone in Jordan** to promote bilateral trade.
- **Jordan's GDP grew by 2% yoy in Q1 2019** and compares to the 1.9% growth in full year 2018.
- **Remittances into Jordan increased** by 2.3% yoy to USD 1.5bn by end-May. Separately, the **number of tourists grew** by 26.5% yoy to 455,383 persons during Jun while overnight visitors were up by 26.4% to 393,761 people.
- **Kuwait's parliament passed an annual budget** projecting a deficit of USD 22bn or 15.7% of GDP. Revenues are

estimated at USD 51.8bn (with oil revenues at USD 45.4bn) and spending at USD 73.8bn (about 75% is allocated to wages and subsidies).

- **Halliburton and state-owned Kuwait Oil Co** signed a KWD 181.4mn (USD 597mn) **contract to explore for oil** off the coast of Kuwait, which is expected to add an estimated 100,000 barrels to Kuwait's daily production capacity.
- **PMI in Lebanon remained unchanged at 46.3 in Jun**, with readings of both output and new orders sub-indices at less than 44.
- **IMF's latest Article IV concluding statement on Lebanon** issued warnings on the growing debt while remaining skeptical of the country's ability to lower the deficit as proposed and called for raising VAT and fuel excise taxes while eliminating electricity subsidies. (More: <https://www.imf.org/en/News/Articles/2019/07/02/mcs070219-lebanon-staff-concluding-statement-of-the-2019-article-iv-mission>)
- **Lebanon received an exemption from interest hikes from the World Bank**; it is the only country exempted from this increase among countries of the same developmental category.
- **Qatar bought some Lebanese government bonds**, as part of its planned USD 500mn investment into the economy.
- **Oman issued four new laws – Foreign Capital Investment Law** (which will give foreign investments similar rights as local projects), **Privatisation Law**, **Law for Partnership between the Public and Private Sectors** (a Public Authority for Privatisation and Partnership will also be established to enhance the role of the private sector), **and Bankruptcy Law** (also containing a pre-settlement clause called a “restructuring period”).
- **IMF slashed Oman's growth forecast** to 0.3% this year from its previous 1.1% estimate (2018e: 2.2%). Oil GDP is expected to decrease by 1.1% (vs. Apr's estimate of a 0.6% contraction).

- **Oman's non-oil exports grew** by 15% yoy to OMR 618.6mn in Jan-Feb 2019, thanks to demand from Saudi Arabia (+121% yoy to OMR 180.2mn).
- **Real estate deals in Oman declined** by 13.9% yoy to OMR 1.09bn in Jan-May 2019.
- **Oman and Iraq have signed an MoU outlining cooperation in the oil and gas sector**, including building of a shared refinery in Oman for processing imported Iraqi crude.
- **Qatar central bank sold QAR 600mn (USD 165mn) of treasury bills** in an auction.
- **Saudi Arabia's economy grew by 1.66% yoy in Q1 2019**, falling by more than half compared to the previous quarter's 4.26% growth. Growth in Q1 was supported by a 2.13% growth in the non-oil sector (Q4: 2.25%) while the oil sector grew by just 1.04%. The private sector expanded by a healthy 2.3% (Q4: 2.11%).
- **PMI in Saudi Arabia increased to an 18-month high** of 57.4 in Jun, only marginally higher than May's reading of 57.3. Output sub-index dropped to 61.1 from May's 61.4.
- **The Saudi Aramco IPO is expected in 2020-21**, disclosed Saudi Arabia's energy minister last week. Aramco's USD 69.1bn acquisition of a 70% stake in petrochemicals firm Sabc, along with a recent USD 12bn bonds sale were cited as the main reasons for the IPO delay.
- **Saudi Arabia raised EUR 3bn from over EUR 14.5bn worth of orders for its first-ever bond denominated in euros** (the first by a Gulf government as well).
- Saudi Arabia's central bank governor disclosed that **SAMA is reviewing license requests for two new Saudi banks**, without giving any further details.
- **Foreign investments into Saudi Arabia surged** by 19.7% yoy and 9.36% qoq to a record high of SAR 1.628trn (USD 434.05bn) in Q1 2019, supported by the 45.25% growth in portfolio investment inflows to SAR 413.42bn (USD 110.25bn).

- **The private sector in Saudi Arabia provided jobs only to 10,083** among a total 171k+ **job seekers** (or 5.89% of total) **last year**.
- **Expat remittances from Saudi Arabia fell** by 21.6% yoy and 6.8% mom to SAR 9.99bn (USD 2.66bn) in May 2019.
- **Saudi Arabia's** Ministry of Agriculture announced the approval of SAR 1.1bn (USD 293mn) in **financing to support agriculture projects**.

## UAE Focus

- **UAE announced 100% foreign ownership in 122 economic activities across 13 sectors** including agriculture, manufacturing, renewable energy, e-commerce, transportation, arts, construction, entertainment among others. Local governments will determine the ownership percentage of foreign investors in these activities.
- **UAE PMI softened** to 57.7 in Jun (May: 59.4), thanks to declines in output growth (66.8 from 69.4) and new orders (66 from 69.5).
- The **Dubai Financial Market is planning a platform that would allow free zone companies to tap capital markets**, disclosed DFM's COO. He also revealed that that two free zone companies are already considering a listing on the proposed platform.
- **Non-oil trade in Abu Dhabi grew** by 0.5% yoy to AED 71.44bn (USD 19.45bn) in Jan-Apr 2019, with re-exports rising by 19% to AED 17.2bn.
- **Dubai will receive the lion's share of VAT revenues** collected last year – AED 11.34bn or 42%, according to Moody's. Abu Dhabi and Sharjah will receive 18% and 6% respectively. Total VAT collected touched AED 27bn last year, and of this 30% will go to the federal government.
- The **value of investments of Emirati banks in Saudi Arabia and Egypt increased** to AED 47bn and 43.4bn respectively at end of Q1 2019, together accounting for

15.5% of the banks' total assets invested abroad. **Value of investments** by Emirati banks and their branches **in the UK surged** by 23.9% yoy to AED 61bn (USD 16.6bn) at end-Q1.

- **UAE is now India's third largest trading partner after US and China.** UAE-India bilateral trade touched USD 57bn in late 2018, rising from USD 52bn in 2017.
- The **DIFC introduced a new license classification called "Prescribed Companies"**, aimed at consolidation, expansion and fee reduction for intermediate special-purpose vehicles and special purpose companies. Fintech firms, family offices, holding and investment firms are some that could be eligible to establish a prescribed company.
- **Dubai welcomed 7.16 million visitors during Jan-May 2019**, with average occupancy rates touching 77% in May (vs 82% in May 2018). During the Jan-May period, India remained the largest source market with 846k visitors (though it was down 12% yoy) while visitors from Oman and China posted increases of 27% and 8% respectively (5<sup>th</sup> and 4<sup>th</sup> largest source markets). (*More: <https://www.visitdubai.com/en/tourism-performance-report>*)
- **The annual HSBC Expat Explorer survey ranks UAE 9<sup>th</sup> globally**, with career prospects, financial security and high living standards cited as the key reasons for relocation to the country. The top-most financial priorities for the UAE expats remain saving and investing for retirement (82%), children's education (47%) and property (43%). The list is topped by Switzerland, Singapore and Canada while from the region Bahrain and Saudi Arabia are at 11 and 29 respectively.

## **Media Review**

**The UAE begins pulling out of Yemen**

<https://www.economist.com/middle-east-and-africa/2019/07/04/th>

[e-uae-begins-pulling-out-of-yemen](#)

**Top five MENA venture capital deals in Q2 2019**

[https://www.zawya.com/mena/en/wealth/story/Top\\_five\\_MENA\\_venture\\_capital\\_deals\\_in\\_Q2\\_2019-ZAWYA20190630075139/](https://www.zawya.com/mena/en/wealth/story/Top_five_MENA_venture_capital_deals_in_Q2_2019-ZAWYA20190630075139/)

**Mysteries of Monetary Policy**

<https://www.project-syndicate.org/commentary/inflation-monetary-policy-mystery-by-robert-j-barro-2019-07>

**The top 10 emerging technologies of 2019: WEF (3 will help the environment!)**

<https://www.weforum.org/agenda/2019/07/these-are-the-top-10-emerging-technologies-of-2019/>

[http://www3.weforum.org/docs/WEF\\_Top\\_10\\_Emerging\\_Technologies\\_2019\\_Report.pdf](http://www3.weforum.org/docs/WEF_Top_10_Emerging_Technologies_2019_Report.pdf)

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