

Weekly Economic Commentary – Jul 28, 2019

Markets

Positive earnings reports and strong economic data allowed US stocks to rebound to record highs. In Europe, equities were supported by better-than-expected earnings while emerging market assets ended the week lower. Regional markets revealed a mixed picture: Dubai's DFM hit an 8-month high, while Egypt and Saudi exchanges closed lower. The dollar touched a 2-month high last week, while the euro weakened briefly to a 2-year low after the ECB held off rate cuts while calling for fresh stimulus package. Tensions in the Middle East led to a weekly increase in oil prices and gold price gained on hopes of a rate cut.

Global Developments

US/Americas:

- **US GDP growth slows to 2.1% yoy in Q2**, down from Q1's 3.1% and the weakest since Q2 2017. Consumer spending was up 4.3% (the best performance since Q4 2017) while gross private domestic investment tumbled 5.5% (the worst since Q4 2015). Government spending increased at 5% – the fastest pace in a decade.
- **The Chicago Fed national activity index improved in Jun** but remained negative: -0.02 in Jun vs. -0.03 in May.
- **Durable goods orders increased** by 2% mom to USD 246bn in Jun– the highest in 10 months – from May's downwardly revised 2.3% dip, thanks to a pick-up in transportation equipment. Orders for non-defense capital goods excluding aircraft jumped by 1.9% (May: 0.3%).
- **Markit manufacturing PMI in the US slipped to a 118-month low** of 50 (Jun: 50.6) while stronger service sector growth helped **composite index to rise to a 3-**

month high of 51.6.

- **US housing market struggles:** the **FAFH house price index** **rose** a seasonally adjusted 5.0% yoy in May, slowing from Apr's increase of 5.2%. **Existing home sales** **dropped** by 1.7% mom to a seasonally adjusted annual rate of 5.27mn units in Jun while the median existing house price increased by 4.3% yoy to an all-time high of \$285,700. **New home sales rebounded** by 7% mom and 4.5% yoy in Jun, but sales for the prior 3 months were revised down.
- **Initial jobless claims fell to a 3-month low** of 206k in the week ended Jul 20. The 4-week moving average was down 5750 to 213k.

Europe:

- **German flash manufacturing PMI slumped to a 7-year low** of 43.1 in Jul (Jun: 45) while the composite output index declined to 51.4 (Jun: 52.6). Weakness also spilled over, with the **EU Markit manufacturing PMI falling** to 47 (Jun: 48.5) – the lowest since late-2014. The EU composite output index, at 51.2, “masked a widening divergence between the manufacturing and service sectors to the largest since Apr 2009”, according to Markit.
- **German Ifo business climate index dropped** for the 4th consecutive month to 95.7 in Jul, the lowest since Apr 2013 and from an upwardly revised 97.5 in Jun. The manufacturing sub-index posted its biggest drop since Feb 2009.
- The **ECB bank lending survey** showed a tightening of banks' approval criteria for consumer credit and other household lending, given economic outlook concerns. Corporate lending standards tightened the most in Italy and France in Q2.

Asia Pacific:

- **Japan leading economic index fell** to 94.9 in May (Apr:

95.9), the lowest level since Dec 2012, while the coincident index which reflects the current economic activity increased to 103.4 in May from 102.1 in the month before.

- **Tokyo's core inflation rose** to 0.9% yoy in Jul, thanks to an increase in food prices as well as household durables.
- **South Korea's GDP bounced back** by clocking in 1.1% qoq and 2.1% yoy growth in Q2 (Q1: -0.4% qoq), supported by government spending which contributed 1.3 ppts to Q2 GDP growth while also offsetting the 0.2 ppt drag from private sector activity.
- **Singapore inflation weakened** to 0.6% in Jun (May: 0.9%) as private road transport (0.2% from May's 1.5%), services (1.7% from 2% the month before) and retail inflation (0.4%) eased. Core inflation dropped to 1.2%, the lowest since Mar 2017.
- **Industrial production in Singapore slipped** in Jun, falling by 6.9% yoy (May: -2%) – the worst since Dec 2015 – largely due to a 18.8% contraction in electronics output.

Bottom line:The IMF revised downwards its global growth projection to 3.2% this year and 3.5% in 2020, in its latest update of the World Economic Outlook. The PMI readings continue to reinforce the diverging trends between the manufacturing and services sector; policy uncertainty and resulting delays in business investments expedites the downhill move in manufacturing (e.g. auto sector). Meanwhile, the no-deal Brexit rhetoric has been ramped up the new UK PM, while the European leaders have insisted that they will not reopen the Withdrawal Agreement. A busy central bank meetings week: the BoJ meets as does the Fed (likely to announce the first rate cut in more than a decade), while the BoE will likely hold off rate decisions till a clear way forward on Brexit.

Regional Developments

- **Bahrain's ban of the use of single-use plastics came into effect from 25th July**; the next phases will witness a blanket ban on the use of plastic bags at malls and supermarkets.
- The IMF board completed the final review of **Egypt's USD 12bn loan program**; the country can now draw the last tranche of USD 2bn in funds.
- **Bank deposit growth in Egypt slowed** to 11.46% in Apr (Mar: 11.85%), with households accounting for 79.5% of total bank deposits till end-Apr. Net foreign assets of the banking sector decreased by EGP 33.2bn during Jul 2018-Apr 2019.
- **Egypt's index of manufacturing and extractive industries**, excluding crude oil and petroleum products, **increased** by 4.7% mom to 138.6 points in May.
- **Egypt-UAE bilateral trade grew** by 14% yoy to USD 5.48bn in 2018, reported the *Al Ittihad* newspaper.
- The **EU will provide Egypt with USD 500mn funding until 2020**, according to the investment minister. The funding will give priority to youth empowerment projects and will cover sectors like public finance, trade, vocational training, and civil society among others.
- **Egypt's Ministry of Finance allocated EGP 10.8bn (USD 649bn) for the development of informal settlements** during fiscal year 2019-2020; about EGP 7bn has been allocated to the neediest villages.
- **Twenty-seven solar power plants in Egypt**, with a total capacity of 1.2GW, **started operations** and were connected to the national electricity grid. The capacity will rise to 1.46GW in Sep when all 32 plants are completed.
- **Kuwait's crude oil exports declined** by 5% mom and 1.68% yoy to 1.986mn barrels per day in May.
- **Kuwait Investment Authority reported a net profit of USD 19bn from 2012 till now**, with current value of investments at USD 31.8bn, reported *Al Anba* newspaper, citing the country's finance minister.

- **S&P affirmed Kuwait's credit rating at AA with a stable outlook**, also stating that a broad political and economic reforms could raise the current rating.
- **Consumer confidence in Lebanon declined in Q2**: the index averaged 70.9 in Q2, down 6.1% qoq from Q1's 75.5 and 4.3% yoy.
- **Lebanon's central bank** approved and processed LBP 380bn (USD 253mn) worth of **subsidized housing loans in 2019**, out of an allocated amount for this year of LBP 790bn.
- **Lebanon** signed a **bilateral agreement with Iraq to increase the amount of locally manufactured medicines** it exports, according to the former's health minister. Lebanon is currently a net importer of pharmaceutical products, having imported medicines worth USD 1.3bn in 2017.
- **Oman received orders worth nearly USD 14bn**, given strong investor demand for its **dollar bonds**. Oman issued USD 750mn in 5-1/2 year and USD 2.25bn in 10-year bonds.
- **Fitch affirmed Oman's BB+ rating with a stable outlook**, highlighting that the nation's "external asset position remains for now stronger than other 'BB' category sovereigns".
- The **traded value of property in Oman** touched OMR 1.249bn in H1 this year; properties issued to Omani and GCC citizens dropped by 5% yoy (to 109,742) and 39.7% (to 490).
- **Credit to the private sector in Oman** grew by 2.1% to OMR 18.9bn as of end-Apr while **aggregate deposits** held with conventional banks increased by 4.7% to OMR 19.8bn.
- **Inflation in Saudi Arabia fell 1.4% yoy in Jun**; in mom terms, prices were up 0.2%.
- **Saudi NEOM is set to announce its second phase strategy** – which will include detailed plans for NEOM's 16 economic sectors and region – **by the end of 2019**.
- It was reported by *Okaz/Saudi Gazette* that the **fee to be levied to keep stores in Saudi Arabia open 24/7** will not exceed SAR 100k (USD 26,665). It is estimated that the

deregulation of business hours could add around 45k direct jobs in the restaurant and retail sectors and create a further 20k indirect jobs over the short to medium term (*Further analysis on the evening economy:* <http://www.arabnews.com/node/1531321>).

- **Saudi Arabia** sold SAR 5.2bn in **sukuk** in its local monthly issuance for Jul.
- **Saudi Tadawul** approved the **listing of debt instruments** worth SAR 5.216bn (USD 1.38bn).
- *Reuters* reported that **Saudi Arabia's Public Investment Fund** was in advanced talks to **borrow USD 10bn**(in addition to the USD 11bn raised through a 5-year loan last year) and it plans to offer lenders an initial interest rate of around 30bps over the Libor for the 1-year loan (vs. 75bps over Libor offered last year).
- **Saudi Arabia's** energy minister disclosed that the country aims to **expand the capacity of its east-west pipeline** by 40% (to 7mn barrels per day) in two years, in a bid to avoid passing via the Strait of Hormuz.
- The ministry of labour in Saudi Arabia has announced a **100% Saudization of 20 hospitality jobs** as of next year. This includes hotels classified as 3-star and above, resorts, hotel suites, and villas classified as 4-star and above.
- **Saudi Arabia** will **cover the VAT costs of buying new houses** for its citizens, including those that previously owned houses but sold without benefiting from the tax exemption.
- **UAE, ranked 36th globally, is the Arab world's most innovative nation** as per the latest **Global Innovation Index**. It ranked 24th and 58th on the innovation input and output sub-indices, respectively. Switzerland was ranked as the most innovative nation followed by Sweden, US, Netherlands and UK. (*More details:* <https://www.globalinnovationindex.org/gii-2019-report>)
- **MENA's M&A deal value** increased by 220.8% yoy to USD

115.5bn in H1 this year, according to EY. The largest deal was Saudi Aramco agreeing to acquire a 70% stake in SABIC from PIF (worth USD 69.1bn). Announced deal volume however declined by 10.7% to 216 this year.

- **US President Trump vetoed three congressional resolutions blocking weapons sales** to countries including Saudi Arabia and UAE.

UAE Focus

- **Money supply in the UAE increased** by 2.2% yoy to AED 1.351trn in Jun; gross credit edged up by 0.7% to AED 1.692trn.
- **Foreign assets of the UAE central bank grew** by 3.5% yoy to AED 364bn (USD 99.1bn) in Jun. The value of the central bank's foreign securities held to maturity fell by 53% to AED 25.87bn.
- **Private sector employment in the UAE rebounded**, rising by 1.2% in Q1vs a 0.6% drop in the previous quarter, supported by an acceleration in real estate sector jobs (+4.4% yoy), according to the UAE central bank.
- **Abu Dhabi's GDP grew by 5.7% yoy** to AED 207bn (USD 56.4bn) in Q1, supported by the oil sector which reported a 12.8% growth to AED 106.8bn.
- **With inflation in Abu Dhabi declining** by 0.2% mom in Jun, H1 this year posted a dip in CPI by 0.6%. Housing and utilities costs dropped by 3.5% during H1 while transport costs were down by 5.8%.
- **The Abu Dhabi Crown Prince's visit to China and Indonesia** sees further strengthening of ties with Asia: 16 deals were signed between UAE and China at the UAE-China Economic Forum and a joint statement issued affirmed the two nations' commitment to achieving security, protecting energy supplies, stability as well as sustainable development. In Indonesia multiple MoUs were signed with cooperation spanning industry development, defense, tourism and also cultural

cooperation.

- **Bilateral trade between Dubai and China** touched AED 36bn (USD 9.8bn) in Q1 this year, according to Dubai Customs. The country has been Dubai's top trade partner since 2014.
- **Abu Dhabi will introduce road toll charges from Oct 15 this year:** the charge will be AED 4 during the peak hours at 4 tollgates while at off-peak times the toll will be AED 2.
- **The Dubai World Trade Centre generated a record AED 13.1bn** (USD 3.56bn) in value added from events held **during 2018**. A total economic value of AED 23bn was reported during the period, with a high 57% locally retained impact. Europe accounted for the highest number of international business event visitors (25%), followed by GCC (21%), and MENA region (17%).
- **Occupancy rates at Dubai hotels fell** by 0.9% to 67.1 in Q2 – the lowest since 2009 – on supply outgrowing demand. According to STR, the absolute average daily rate (down 12.3% to AED 513.73) and revenue per available room (-13.1% to AED 344.65) levels were the lowest since 2003.
- **Dubai Land Department will launch its first official sales and rental price index** called Mo'asher **in Sep**, in coordination with Property Finder. The data will be published on a monthly basis and will improve transparency in the sector.
- **Personal financial wealth in the UAE grew** by 5% to USD 400bn between 2013 and 2018, according to the Boston Consulting Group. This is expected to accelerate by a further 8% per year to USD 600bn by 2023. The global research report is available at <https://www.bcg.com/publications/2019/global-wealth-reigniting-radical-growth.aspx>

Media Review

Still Sluggish Growth: IMF

<https://www.imf.org/en/Publications/WE0/Issues/2019/07/18/WE0updateJuly2019>

The G-Minus-2 Threat

<https://www.project-syndicate.org/commentary/america-china-policies-economic-threat-by-arvind-subramanian-and-josh-felman-2019-07>

Boris Johnson, Brussels and the battle for Brexit

<https://www.ft.com/content/45654cb2-af89-11e9-8030-530adfa879c2>

Domestic demand has sparkled against the euro-gloom

<https://www.economist.com/finance-and-economics/2019/07/25/domestic-demand-has-sparkled-against-the-euro-gloom>

One of the world's most influential economists is on a mission to save capitalism from itself

<https://qz.com/1669346/mariana-mazzucatos-plan-to-use-governments-to-save-capitalism-from-itself/>

Central Banks Should Forget About 2% Inflation

<https://www.project-syndicate.org/commentary/central-banks-inflation-target-expectations-by-jeffrey-frankel-2019-07>

Will the Fed go large with its interest rate cut?

<https://www.ft.com/content/e06d5568-adf6-11e9-8030-530adfa879c2>

Shipping costs in Bahrain hit by rising tensions in region

https://www.zawya.com/uae/en/economy/story/Shipping_costs_in_Bahrain_hit_by_rising_tensions_in_region-SNG_149823163/

SoftBank's second Vision Fund

<https://www.ft.com/content/60b51c68-af39-11e9-8030-530adfa879c2>

<http://www.arabnews.com/node/1531326/business-economy>

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