

Weekly Economic Commentary – Aug 4, 2019

Markets

Most stock markets retreated globally following Trump's threat of a new round of tariffs and China's promise of "necessary countermeasures"; Indian markets suffered the worst Jul in 17 years. Among regional markets, most GCC equities fell towards end of the week following the Fed cut. The pound sterling hit a 30-month low vis-à-vis the greenback and was down more than 2% last week (tmsnrt.rs/2KjnXzF; more in the Media Review section) while the yen and euro strengthened. Oil prices dipped on the latest trade wars threat, with the Brent posting its largest 1-day decline since 2016; gold price gained.

Global Developments

US/Americas:

- **The Fed cut interest rates for the first time since 2008**, as expected: the Fed lowered rates by 25bps citing "global developments" and "muted inflation", but Powell called it a "mid-cycle adjustment" rather than the beginning of an easing cycle.
- **US core inflation firmed up**, with the core PCE price reading rising by 0.2% mom and 1.6% yoy in Jun (May: 1.5% yoy). **US consumer spending rose moderately**, gaining 0.3% in Jun (May: 0.5%) supported by a 0.4% increase in personal income.
- **S&P Case Shiller home price gains continued to slow** in May, showing a broad-based moderation. Nationally, home prices rose 3.4% yoy in May (Apr: 3.5%) while the median existing-home price in June reached an all-time high of USD 285,700 (+4.3% yoy).
- **Pending home sales** surprised on the upside, growing by 2.8% mom in Jun, recording **its first annual gain in 17 months**.

- **ISM manufacturing PMI slipped** to 51.2 in Jul (Jun: 51.7), with new **orders ticking up slightly** in Jul after a flat Jun reading.
- **ADP private sector employment rebounded** to 156k in Jul (Jun: 112k), indicating a tightening of the job market.
- **Non-farm payrolls gained** by 164k in Jul while average hourly earnings increased by 0.3% in Jul and the annual increase in wages edged up to 3.2% (Jun: 3.1%).
- **US goods trade deficit narrowed** by 1.2% to USD 74.2bn in Jun, after exports fell by 2.7% and imports declined by 2.2%.
- **US factory orders increased** by 0.6% mom in Jun, after dropping a revised 1.3% in the previous month. Orders for non-defense capital goods excluding aircraft increased 1.5%, lower compared to the 1.9% rise last month.

Europe:

- **EU's preliminary GDP halved** in Q2 to 0.2% qoq or 1.1% on an annualized basis (Q1: 0.4%).
- **Inflation in the EU slowed sharply** to 1.1% yoy in Jul (Jun: 1.3%); in **Germany, CPI eased** to 1.1% yoy in Jul. Meanwhile, **unemployment rate in the EU fell** to 6.3% in Jun – its lowest since records began in 2000. **Retail sales in the eurozone rebounded** by 1.1% mom in Jun, after posting a 0.6% drop in sales the previous month.
- **The European Commission's economic sentiment declined** to 102.7 points in Jul, down from 103.3 in Jun. The business climate indicator plunged to -0.12 points in Jul (Jun: 0.17), its lowest reading since Sep 2013.
- **German retail sales jumped** by 3.5% mom in Jun – the biggest monthly increase since Dec 2006 – and reversing a 1.7% dip the month before.
- **German PMI posted the weakest reading in 7 years**, falling to 43.2 in Jul (Jun: 45), with export orders recording the steepest drop since 2009. EU PMI

contracted to 46.5 in Jul (Jun: 47.6), driven by a sharp fall in new orders. In the **UK**, factories reported the biggest fall in output in 7 years, with the **Jul PMI index falling** to PMI 48 in Jul.

- The **Bank of England left rates unchanged** at 0.75%; the Bank also revised downwards the growth outlook to 1.3% this year and next (previous projections of 1.5% and 1.6% respectively).

Asia Pacific:

- **China's official NBS manufacturing PMI grew** to 49.7 in Jul (Jun: 49.4) – the first mom PMI growth in 4 months. However, the **Caixin/ Markit PMI contracted**, with the reading at 49.9 in Jul (Jun: 49.4).
- **BoJ left rates unchanged**; the deputy governor stated separately that the BoJ could widen the band in which it allows bond yields to move around its 0% target, if long-term interest rates make big swings.
- **Industrial production in Japan fell** by 3.6% mom in Jun. **Japan's unemployment rate fell** to 2.3% but the ratio of available jobs to applicants fell from 1.62 to 1.61. **Retail sales rose** by 0.5% yoy in Jun.
- **Japan's manufacturing PMI** was finalized at 49.4 in Jul (Jun: 49.3), with new orders and new export orders readings at 48.1 and 47.6 respectively.
- **Korea industrial output shrank** in Jun, falling by 0.7% mom, and 2.9% yoy, due to decreased production in the service sector.
- **South Korea's exports continued to fall for 8 consecutive months**, dropping by 11% in Jul while imports also dropped by 2.7% sending the trade surplus to USD 2.44bn.

Bottom line: Trade tensions have been one of the prominent policy uncertainties this year and worries escalated globally last week, with Trump announcing an additional 10% tariff on USD 300bn worth of Chinese imports starting Sep 1 and Japan

deciding to remove South Korea from a list of trusted export destinations. Already, Markit Global Manufacturing PMI is in the third straight month of contraction with a reading of 49.3 in July (Jun: 49.4) – its lowest level since Oct 2012. Benchmark bond yields have plunged, with the 30-year German bonds briefly dipping into negative territory.

Regional Developments

- **Money supply in Bahrain** grew by 9.2% yoy in Jun to BHD 12.55bn. The latest money and banking indicators also revealed that credit disbursed to the private sector picked up by 7.4% to BHD 9.89bn while the total outstanding balance of public debt instruments dropped by 1.8% to BHD 11.3bn in Jun (or 79.3% of GDP).
- **Bahrain's** National Bureau of Revenue disclosed that **99% of relevant firms had signed up for VAT.**
- With the **Bahrain Bourse latest listing of 15 treasury bills and *Ijara* sukuk** worth BHD 982mn, the total debt and sukuk listings on the exchange rise to BHD 1.77bn (29 issues).
- **Bahrain's** PM announced that **45 development projects** worth about BHD 22mn (USD 58.36mn) would be implemented, covering upgrades to infrastructure and improving the quality of services provided by the government.
- **A high-level Bahrain-Saudi Arabia coordination council has been established**, with a number of joint committees that focus on political, military, economic, investment, media, social and other fields.
- **Bahrain may not be able to export local food products to Saudi Arabia in two months, unless they meet the "Halal-certified" requirement** imposed by the Saudi Food and Drug Authority. Currently, there is no food authority nor food certification body in Bahrain.
- **Bahrain-based Rain has become the first cryptocurrency exchange to be regulated in the Middle East.**
- **Egypt's money supply (M2) increased** by 11.85% yoy in Jun to EGP 3.864trn (USD 234bn).

- **Egypt** will form a committee to amend its VAT law and also to draft a new income tax law, according to the finance minister. No further details were provided about the reforms.
- The head of **Egyptian Exchange** is considering a proposal by the African Development Bank to list a mutual fund that invests in government debt instruments in 8 African nations.
- **Egypt plans to renew its crude oil supply contract with Kuwait**, to double the quantity of crude oil supply. Egypt currently imports about 2mn barrels of crude oil from Kuwait, in addition to 1.2mn tons of petroleum products monthly. Egypt also plans to negotiate and extend the current grace period for payment of installments to 16 months from 9 currently.
- **About 32.5% of Egyptians live below the poverty line** in 2017-18, versus 27.8% in 2015, according to a research report which set the national poverty line at EGP 735.7 per month.
- **Egypt's** ministry of planning announced the allocation of EGP 18bn towards **water and wastewater projects**.
- **Iraq's oil exports increased** to 3.566mn barrels per day in Jul from 3.52mn bpd in Jun, as per the oil ministry. Exports from the southern fields grew by 1.3% mom to 3.435mn bpd.
- **Unemployment in Jordan edged up** by 0.6% yoy to 19% in Q1; female unemployment stood at 29% versus 16% for males. Unemployment stood at 39% among the 20-24 year olds while it was higher at 49% among 15-19 year olds.
- **Jordan does not plan to hike electricity prices "during the upcoming period"**, revealed the minister of state for media affairs, as the current strategy to manage the debts of the National Electric Power Company is to lower production costs.
- The Arab Monetary Fund estimates **Jordan's commodity exports to rise** by 4.8% yoy to USD 8.2bn this year, thanks to the reopened border crossings with

neighbouring nations like Iraq and Palestine.

- **Technology-based startups in Jordan accounted for 0.5% of nominal GDP in 2016**, with 0.3% direct value added, as per a report from the German Agency for International Cooperation. It is estimated to reach USD 168mn, with a direct contribution of USD 109mn.
- **Kuwait's budget deficit narrowed** by 31% to KWD 3.3bn (USD 11bn) in the fiscal year that ended in Mar 2019; this was post the transfer of KWD 2.056bn or 10% of total annual revenue to the Future Generations Fund. Oil revenue, which accounted for 89.5% of total revenues, were up 29% to KWD 18.4bn while wages and subsidies, at KWD 16.334bn, constituted three-quarters of total expenditure
- **Total reserves at the Central Bank of Kuwait increased** by 25.91% to KWD 548.24mn (USD 1.81bn) in 2018-19. The value of **public debt instruments in Kuwait declined** by 25.32% yoy to KWD 3.39bn in 2018-19 and by 29.2% yoy to KWD 2.97bn in May.
- **Kuwait central bank issued bonds and related *tawarruq* worth KWD 200mn** (USD 658.6mn) with a 3% rate of return; the bonds, which carry a maturity period of 3 months, was oversubscribed 13.15 times.
- **Lebanon's 5-year CDS spreads soared to 990bps on Fri**, up 33bps from Thur's close, after the President indicated that economic sacrifices were needed to avoid harsh financial measures from international institutions.
- **Oman plans to delay the introduction of VAT to 2021**, amid sluggish growth and high unemployment. This was disclosed in the bond prospectus distributed to investors.
- **Omanisation rate in the private sector continues to increase**: about 258,536 Omanis were employed in the private sector in May this year, up by 4.8% yoy. They work mostly in construction (23.2%) automobile (14.4%) and manufacturing companies (12.1%).
- **Oman's Duqm refinery is currently 25% complete and will**

be completed by 2022, according to a refinery official.

- **The average daily volume for Oman crude futures at the Dubai Mercantile Exchange increased by 33% yoy to 6995 in H1. Trading activity on Oman crude futures were up by 45% qoq to 208,997 contracts in Q2.**
- **The temporary visa ban on 87 jobs in Oman has been extended for another 6 months starting from Aug 5th, and will include more professions.**
- **Total insurance premiums in Oman increased by 3% to OMR 152mn in 2018, with health insurance premiums comprising 33% of the total.**
- **Saudi Arabia posted a budget deficit of SAR 33.5bn (USD 8.9bn) in Q2, down from Q1's SAR 27.8bn surplus, as oil and non-oil revenues slipped by 5% yoy (to SAR 174.9bn) and 4% (to SAR 85.8bn) respectively. Total budget deficit in H1 was SAR 5.68bn, while internal and external borrowings added up to SAR 67.9bn in H1.**
- **Saudi Arabia's public debt increased by 12.1% to SAR 627.849bn in H1 this year, with domestic debt rising 13% to SAR 244.724bn.**
- **Saudi Arabia's exports fell by 8.7% yoy to SAR 88.05bn in May, driven by the declines in both oil (down 5.3% to SAR 70.43bn) and non-oil (-19.9% to SAR 17.62bn) exports. China and UAE were the top markets for Saudi exports.**
- **Deposits at Saudi Arabia's banks increased by 4.5% yoy to SAR 1.677trn by end-Jun. Separately, Saudi banks increased their government and semi-government bond holdings by 23.68% yoy to SAR 351.62bn in H1 this year. The holdings were up 4.6% qoq in Q2.**
- **Saudi Arabia's Capital Market Authority approved two companies to test using robo-advisory services for investors. The firms will also offer automated online discretionary investment management under what is called a "financial technology experiment permit".**
- **A new decree signed by the Saudi King removes**

restrictions on women travelling: females will no longer require permission from a “male guardian” to travel or obtain a passport.

- **Most central banks in the GCC cut benchmark interest rates** by 25bps in line with the Fed move, given its currencies’ peg to the dollar. Kuwait kept its discount rate unchanged at 3% while SAMA lowered its repo rate to 275bps (from 300) and Bahrain reduced the interest rate on its 1-week deposit facility to 2.5% from 2.75%.
- **OPEC oil output dropped** by 280k barrels per day to a **record 8-year low** of 29.42mn bpd in Jul. The **biggest supply drop was from Saudi Arabia:** production was at 9.65mn bpd versus its quota of 10.311bpd.

UAE Focus

- **Banking reserves at the UAE central bank grew** by 2.5% mom to AED 305bn (USD 83.01bn) in H1.
- **Abu Dhabi will waive the 1% fee for refunding re-export security deposits**, thereby reducing operating costs and facilitating cross-border trade.
- **Abu Dhabi launched a specialized AED 600mn (USD 163mn) Mega Events Fund** as part of the Ghadan 21 programme to support leisure and business events.
- **DIFC reported a 14% yoy increase in active registered firms to 2289 in H1 this year.** Financial firms, that are regulated by the DFSA, were up by 11% to 671.
- **The Dubai Financial Services Authority (DFSA) imposed a record USD 315mn fine on Abraaj** As per the DFSA, it continues to investigate individuals and entities connected with this matter.
- **DIFC Courts expanded its wills services** to accommodate all resident and investor assets across the UAE as well as outside the country.
- **The partial closure of the runway at the Dubai International Airport resulted in a 131% increase in traffic at the Dubai World Central.** Passenger traffic

increased to 1.2mn in H1 this year, with more than 900k passengers transiting through DWC in the 45-day period of the runway closure.

- **Dubai was ranked 5th in the International Shipping Centre Development Index** for the 2nd consecutive year. The list was topped by Singapore, followed by Hong Kong, London and Shanghai.
- **Dubai luxury property market** – i.e. property worth above AED 10mn –**registered 194 transactions in H1 this year**, up from 115 during the same period last year.
- **The Road and Transport Authority launched a ferry service** to support Dubai-Sharjah commute. Currently, the line has a capacity to serve 1.3mn riders per year.
- **UAE's National Elections Committee has prepared 39 polling stations for the Federal National council elections to be held in Oct this year.** Registered voters grew by 50.58% (compared to 2015) to 337,738.

Media Review

Brexit and the pound

<https://www.ft.com/content/dfab58d2-b512-11e9-bec9-fdcab53d6959>

<https://www.ft.com/content/7d2d2aba-b43a-11e9-8cb2-799a3a8cf37b>

Central Banks are the Fall Guys

<https://www.project-syndicate.org/commentary/central-bank-fall-guys-by-raghuram-rajan-2019-07>

Are Western democracies becoming ungovernable?

<https://www.economist.com/international/2019/08/01/are-western-democracies-becoming-ungovernable>

High unemployment rates among rural youth are destabilizing the Near East and North Africa region

<https://www.brookings.edu/opinions/high-unemployment-rates-among-rural-youth-is-destabilizing-the-near-east-and-north-africa-region/>

A Sovereign Wealth Fund for Lebanon?

<https://logi-lebanon.org/KeyIssue/Sovereign-Wealth-Fund-for-Lebanon-2019>

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