

Weekly Economic Commentary – Aug 18, 2019

Markets

After a topsy-turvy week, most equity markets recovered towards end of the week, on expectations of ECB stimulus: the week saw reactions to a delay in the Sep 1 US deadline for a 10% tariffs on Chinese imports, a short-lived yield curve inversion, as well as a Euro zone bank share meltdown (to their lowest since 2012 at the peak of the euro zone debt crisis). In the region, a few markets were closed for the Eid holidays while others mostly mirrored global moves. The dollar remained flat while the pound recovered after hitting a 10-year low against the euro on hard Brexit fears. Oil prices edged higher towards end of the week and the OPEC's bearish oil demand outlook quelled any gains. Global benchmark spot gold hit a six-year high on Tues, and ended on a 3rd week of gains.

Global Developments

US/Americas:

- **US industrial production declined** by 0.2% in Jul, with manufacturing output dropping by 0.4%. Capacity utilization decreased 0.3ppt to 77.5%, 2.3ppt below its long-run (1972-2018) average.
- **US inflation increased** in Jul, rising 0.3% mom and 1.8% yoy, nudged up by higher gasoline prices and rents. Core inflation, that removes food and energy components, picked up to 2.2% yoy – a six-month high.
- **US retail sales posted a strong risen** in Jul, rising by 0.7% versus a downwardly revised 0.3% the month before; the rise was likely supported by Amazon's Prime Day sale and similar competing online sales.
- **Housing starts softened further**, falling (for a 3rd consecutive month) by 4% to a seasonally adjusted rate

of 1.191mn units in Jul, as construction of multi-family housing units dipped. **Building permits accelerated** by 8.4% to 1.336mn units in Jul – posting the largest gain since Jun 2017. Earlier in the week, the NY Fed described the housing market as “soft”, “anemic” and “lackluster”.

- **Initial jobless claims increased to a 6-week high** of 220k for the week ended Aug 10, with the 4-week average rising by 1k to 213,750.

Europe:

- **EU's flash estimate of Q2 GDP slows:** growth was reported at 0.2% qoq, slowing from the 0.4% recorded in Q1. **Italy didn't grow at all** while **German GDP slipped back to negative growth:** falling by 0.1% qoq largely dampened by a decline in exports.
- **Industrial production across the eurozone fell** by 1.6% mom and by 2.6% yoy in Jul, as a result of a dip in capital goods production (-4.8% mom). **Employment growth in the eurozone slowed** to 0.2% qoq in Q2 (Q1: 0.4%): France's jobless rate – 8.5% in Q2 – was the lowest since end-2008.
- **Trade surplus in the euro area narrowed** to a revised EUR 20.6bn in Jun this year from EUR 22.6bn a year ago. Both exports and imports softened, falling by 4.7% and 4.1% respectively.
- **German ZEW survey of investor confidence has slumped to an eight-year low**, crashing to -44.1 in Aug from Jul's -24.5.
- **UK inflation accelerated in Jul**, rising by 2.1% – slightly above the BoE's 2% target. Core inflation (excluding energy, fuel, alcohol and tobacco) rose to a six-month high of 1.9%.
- **Retail sales in the UK grew** by 0.2% mom and 3.3% yoy in Jul (Jun: 0.9% mom), thanks to a 6.9% rise in online sales – a 3-year high. Household-goods stores, however,

posted their biggest monthly drop in sales in two years, down 5.4%.

- **UK wage growth rose** by 3.9% per year in the Apr-Jun quarter, the fastest since 2008 and the jobless rate rose to 3.9%.

Asia Pacific:

- **China industrial production clocked in a 17-year low**, rising 4.8% in Jul (Jun: 6.3% and slowest since Feb 2002) while **fixed asset investment** grew by 5.7% in the Jan-Jul period, slipping from the 5.8% recorded in H1. **Retail sales** also slowed partly due to weaker car sales, posting a reading of 7.6% in Jul, down from Jun's 9.8%.
- **Japan machinery orders surged in Jun**, rising by 13.9% mom, following the 7.8% drop in May. Orders from overseas, a proxy of future exports, were up 6.7% to JPY 855.5bn. **Industrial production in Japan declined** by 3.8% yoy in Jun (May: -4.1%).
- **Singapore's Ministry of Trade and Industry slashed its growth projection for a second time this year** to 0% to 1% from its May estimate of 1.5% to 2.5%. The last time Singapore's growth estimate fell below 1% was in 2009.

Bottom line: Though Trump's decision to narrow the scope of Chinese tariffs and delay the imposition of additional tariffs offered a brief respite to markets, there is now growing evidence that the trade war is taking its toll on the global economy: global PMIs, IP data, recent economic growth numbers from Germany all point to the negative impact on most manufacturing-dependent nations. The World Trade Organisation's economic barometer continued to show below-trend growth in global goods trade, with the latest reading a lower 95.7 vs. May's 96.3. Worries about recessions brewing in Germany (data showing a shrinking economy), US and UK (yield curve inversions), political turmoil in Italy and protests in Hong Kong (in spite of the USD 2.4bn support package) add on to the uncertainty.

Regional Developments

- **Bahrain's budget deficit narrowed** to BHD 404mn (USD 1.07bn) in H1 this year, from a BHD 650mn deficit in the same period a year ago. The finance ministry disclosed that the nation is "well ahead of its projected deficit reduction schedule".
- **Urban inflation in Egypt fell to a four-year low** of 8.7% in Jul (Jun: 9.4%). In mom terms, inflation accelerated to 1.8% from a 0.8% dip the month before. Core inflation slowed to 5.9% yoy and 0.11% mom in Jul.
- **Egypt's unemployment rate fell** to 7.5% in Q2 2019, down from 8.1% in Q1 and lower than Q2 2018's unemployment rate of 9.9%.
- **Egypt is the fifth largest recipient country for remittances**, with last year's receipts at USD 28.9bn, according to the World Bank. Egypt is preceded by India (USD 78.6bn), China (USD 67.4bn), Mexico (USD 35.7bn) and Philippines (USD 33.8bn).
- **Egypt's oil ministry plans to supply gas to 1.2mn households in the current fiscal year 2019-20.**
- According to the Egyptian Statistical Authority, **Saudi Arabia issued about 515k work permits to Egyptian nationals last year** – accounting for 49.2% of the total work permits in the Arab countries – while Kuwait followed closely with 230k.
- **Kuwait's trade surplus widened** by 8% yoy to KWD 4.1bn in Jan-May 2019.
- **Profits of the 144 listed companies in Kuwait** stood at USD 1.74bn in Q2 this year, with the banking sector accounting for 57.7% of total reported profits.
- **The size of the labour force in Kuwait** is 2.121mn employees as of Q1 this year. The **wage differential remains wide**, with the average monthly wage of a Kuwaiti citizen at KWD 1497 vs KWD 697 for an expat.
- **Lebanon's public debt increased** by 0.7% from end-2018 to USD 85.7bn by end-Jun while domestic debt rose by 3.5%

to USD 53.5bn during the same period.

- **Kafalat loans extended to SMEs in Lebanon slumped** by 85.1% to USD 4.3mn in H1, while the total number of guarantees declined to 36 from 223 guarantees in H1 2018.
- **Oman's maiden utility-scale wind farm the Dhofar Wind Power Project began generating electricity:** the 50 MW farm comprising 13 wind turbines will begin commercial operations in the "coming months".
- **Saudi Arabia's PMI fell** to 56.6 in Jul, after posting a 19-month high of 57.9 in Jun. Though export orders rose at the quickest pace since Feb 2017, the indicators for output, new orders and future expectations all signaled some loss of momentum vis-à-vis Q2.
- **Bank lending in Saudi Arabia grew** by 3.1% yoy to SAR 1.45trn in Q2, thanks to the increase in long-term credit facilities.
- **Saudi Aramco is ready for an IPO, but the announcement will depend on the "optimum market condition" as perceived by the government,** according to a senior VP.
- **Saudi trade with the 4 GCC nations** (UAE, Bahrain, Kuwait and Oman) **declined** by 5.5% yoy to SAR 43bn in Jan-May 2019. Exports to these nations dipped 7.2% to SAR 18.82bn.
- **Hotels in Jeddah** (Saudi Arabia) posted high **occupancy rate** of 76.8% in Jul (+2.1% yoy) – the **highest for any month since Aug 2016** – though the revenue per available room dipped 10% to SAR 951.36 (USD 253.3).
- **Saudi Arabia deposited USD 250mn into the central bank of Sudan** – not as a grant, but a loan, according to a financial ministry official.
- **Tunisia's foreign currency reserves increased** to TND 17.2bn, or equivalent of 96 days of imports; it was less than TND 11bn a year ago. Tourism revenues also picked up this year, rising to TND 2.7bn in Jan-Jul from TND 1.9bn in the same period a year ago.

UAE Focus

- **UAE PMI fell to 55.1 in Jul**, from Jun's 57.7 and lower than Q2's average of 58.2. Output prices were reduced for the tenth successive month.
- **Consumer prices in Abu Dhabi fell** by 1.1% mom and 1.4% yoy in Jul – the biggest drop since at least 2015 – after the housing and utilities sub-index dropped 3.6%. Earlier, it was disclosed that UAE inflation fell 1.49% yoy in Jun (partly due to the impact from VAT last year).
- **Abu Dhabi**, as part of the Ghadan 21 initiative, ordered the **disbursement of AED 1.6bn** (USD 435mn) via **1000 housing loans**.
- The **FTA** will impose and collect **taxes on waterpipe tobacco** (known in Arabic as 'Mu'assel') and **electrically heated cigarettes** as of Nov 1, 2019.
- **About 41.3mn passengers travelled through Dubai International Airport in H1** this year (down 5.6% yoy), in spite of a 45-day closure of one runway that led to a 32% reduction in passenger flights. India retained the top destination country spot, with 5.7mn customers, followed by Saudi Arabia (3.1mn) and UK (2.8mn).
- A total of 20,978 **residential units were completed in Dubai in H1** this year, according to "Property Finder Trends". The report identified (as of Jul 2019) a further 38k+ residential units within 152 projects that have at least an 85% completion status and hence are scheduled to be completed in 2019.

Media Review

Lifting the veil from the Aramco money machine

<http://www.arabnews.com/node/1539741>

Renminbi Wars (subscription)

<https://www.project-syndicate.org/bigpicture/renminbi-wars-2019-08>

Markets in an Age of Anxiety

<https://www.economist.com/leaders/2019/08/17/markets-are-braced-for-a-global-downturn>

US 30-year bond yield falls below 2% for first time

<https://www.ft.com/content/d74ee42e-beef-11e9-b350-db00d509634e>

Powered by:

