

# Weekly Economic Commentary – Aug 25, 2019

## Markets

Stock markets across the globe – S&P 500, Stoxx 600 index, Dax and MSCI World Index among others – plunged on the trade tariff tit-for-tat, with China's announcement on Fri of additional levies on imports from the US. Regional markets were mostly down during last week, with the exception of Egypt, Oman and Qatar. The dollar dropped, as did the yuan (almost at 7.1 per dollar, a 2008-low), while safe haven assets – Japanese yen, gold, Treasuries – performed well amidst the rising trade tensions. Oil prices closed lower with Brent falling below USD 59 after the Chinese levy announcement and lower demand for oil prospects.

## Global Developments

### **US/Americas:**

- **US President announced higher tariffs on Chinese goods** – in a series of tweets – existing tariffs on USD 250bn worth of Chinese imports are to be raised to 30% from 25% on Oct 1, and tariffs on USD 300bn of Chinese goods, due to start on Sep 1, will be raised to 15% from 10%. This followed a tumble in stock markets after China announced new levies on USD 75bn of US imports.
- **The US FOMC minutes** showed a disagreement regarding the extent of a rate cut (a few preferring a 50bps cut vs 25bps) and also confirmed that the cut was a “mid-cycle adjustment” rather than the beginning of an easing cycle.
- **Existing home sales picked up** in Jul, rising by 2.5% to a seasonally adjusted annual rate of 5.42mn units (Jun: 5.29mn). **New home sales dropped** – falling by 12.8% to a seasonally adjusted annual rate of 635k units – posting the **biggest monthly decline** since Jul 2013.

- **US Markit composite PMI dipped to a 3-month low** of 50.9 in Aug (Jul: 52.6). Flash manufacturing PMI was at 49.9 in Aug (Jul: 50.4), a 119-month low, and reported the slowest rise in new orders since the series began in Oct 2009.
- **Initial jobless claims fell** by 12k to 209k in mid-Aug; the 4-week moving average increased by 500 to 214500.

#### Europe:

- **German manufacturing PMI underperformed**, posting a reading of 43.6 in Aug (Jul: 43.2), as demand plunged. **German composite PMI picked up** to 51.4 in Aug (Jul: 50.9).
- **Eurozone flash manufacturing PMI improved** to 47 in Aug (Jul: 46.5). The composite PMI reading also edged up to 51.8 (51.5) as services picked up to 53.4 (53.2). **France's private sector growth accelerated** as well, with services activity at a 9-month high and flash manufacturing PMI at 51 (Jul: 49.7).
- **EU's inflation eased** to 1.4% yoy in Jul.

#### Asia Pacific:

- **China announced new levies**, ranging from 5-10%, on **USD 75bn worth of US imports** in two batches, effective Sep 1 and Dec 15. The nation also announced that two previously paused tariffs – a 25% tariff on U.S. cars and a 5% on auto parts and components – will go into effect on Dec 15.
- The preliminary **Nikkei Manufacturing PMI** estimate posted a reading of 49.5 in Jul, slightly better than Jun's 49.4 although below the market's forecast of 49.8. Furthermore, the **All Industry Activity Index declined** by a worse-than-expected 0.8% mom in Jun.
- **Japan inflation was at 2-year lows of 0.5% yoy in Jul** (Jun: 0.7%), piling pressure on the BoJ to ease rates. Prices excluding fresh food and energy rose 0.6%

yoy in Jul.

- **Inflation in Singapore eased** to 0.4% in Jul (Jun: 0.6%). Core inflation fell to 0.8% – the lowest in 3 years – thanks to a fall in prices of retail goods, a larger decline in electricity and gas costs and lower service inflation.

**Bottom line: Trump's trade/ China tweets took centerstage last week vis-à-vis the more anticipated comments from Powell (the central bank "will act as appropriate") at the Jackson Hole annual meeting. The G7 summit is underway in Biarritz, France: trade will dominate policy discussions (especially given the most recent tweets) but globally there remain other matters of urgency where nations haven't seen eye-to-eye: climate change and fires in the Amazon and Central Africa, fiscal stimulus, Brexit, Iran and so on. In parallel, the CBOE volatility index (the "fear gauge") has topped 20 frequently this month while global debt yields have tumbled to new record lows as investors seek safety.**

### **Regional Developments**

- **Employment of Bahraini citizens is reported to be picking up pace:** under the National Employment Programme, nearly 50-60 nationals were being recruited daily, according to the Labour and Social Development Ministry.
- **Egypt's central bank cut its overnight deposit and lending rates** by 150bps to 14.25% and 15.25% respectively. This is the central bank's first rate cut since Feb.
- **Foreign holdings of Egypt's debt instruments rose** to USD 20.1bn at end-Jul, increasing by USD 7bn this year, according to a board member of the central bank.
- **Egypt banks' reserves and assets abroad grew** by 18.75% mom to USD 19bn in Jul, and includes USD 17.7bn in deposits and USD 1.3bn in current accounts.
- **Egypt's holdings of US Treasuries increased** for the

**6<sup>th</sup> consecutive month**, rising by 0.6% mom and 2.1% yoy to USD 2.151bn in Jun.

- **Modest ambitions: the Egyptian stock exchange is likely to witness the IPO of a private company** this year, disclosed the bourse chairman – without divulging any further details.
- **Egypt will invest EGP 5.23bn (USD 315mn) in the Sinai Peninsula** in the fiscal year 2019-2020; this is up 75% yoy, with hopes of restoring stability in the region by reducing higher-than-average unemployment.
- **Natural gas production at Egypt's Zohr field increased** to 2.7bn cubic feet per day (bcfd), according to the petroleum minister; production was just 2.1 bcfd in Feb.
- The **Egyptian General Petroleum Corporation** is planning to launch an **oil and gas exploration tender** by the end of this year, to boost rates of production and raise the exploration operations in the different concession areas.
- **Jordan** reported an 8.6% **increase in tourism revenue** to USD 3.2bn in Jan-Jul this year, supported by a 6.3% rise in number of tourists. Revenue in Jul picked up by 10.1% yoy to USD 567.4mn as tourist numbers were up by 9.8%.
- **Total debt issuance in the GCC hit a record high USD 40bn in Apr-Jun 2019**, surpassing Q1's record of USD 32bn, according to a report by the National Bank of Kuwait. The report highlighted that about 2/3rds of the issuances in Q2 came from Saudi Arabia (USD 26.8bn) and that 82% issuances were from government entities.
- **Inflation in Kuwait picked up** by 1.15% yoy and 0.26% mom in Jul, with all sub-categories showing an annual increase except for the housing sub-group (-0.78% yoy).
- **Remittances from Kuwait surged** by 23% yoy to USD 8.6bn in H1 this year; remittances in Q2 grew by 15% qoq to USD 4.6bn. There are about 3.4mn expats amongst Kuwait's 4.8mn population, a majority of the population and labor

force.

- **Total money in circulation in Kuwait increased** by 15.36% yoy to KWD 1.885bn (USD 6.215bn) in Jul.
- About 2.333 million **expatriates** were **employed** in the private sector **in Kuwait** while the public sector absorbed an additional 459,218 expatriates as of end-Dec 2018. Data issued by the Public Authority for Civil Information also disclosed that Arab nationals represented about 25% of the private sector workforce and within that one-third of them were in the construction field.
- **Fitch downgraded Lebanon by two notches** to CCC deeper **into junk territory**, noting that the downgrade reflects “intensifying pressure” on Lebanon’s financing model, increasing risks to the government’s debt servicing capacity, and that “a credible medium-term plan to stabilise government debt/GDP is lacking”. **S&P meanwhile maintained its ratings but stating that the outlook remains negative.**
- **Oman’s Ministry of Commerce and Industry will implement the new Foreign Capital Investment Law** (issued under Royal Decree No. 50/2019) from **Jan 2, 2020**. The new Law will apply to all non-Omanis who want to establish a project that is economically feasible for the Sultanate, for which they would use their own capital and assets
- **Qatar plans to build a new seaport at Somalia’s Hobyo**—known for its proximity to the Bab-el-Mandeb Strait. The value of the deal remains undisclosed.
- **Saudi Aramco has picked Lazard and Moelis & Co for advising on its IPO.** “The IPO will happen in the 2020-2021 timeframe”, according to the energy minister.
- **Deposits of banks operating in Saudi Arabia grew** by 8.1% yoy to SAR 1.718trn (USD 458.07bn) in Q2 2019. **Total assets of these banks increased** by 8.65% yoy to SAR 2.33trn (USD 622.14bn) in Q2 2019.
- **Saudi Arabia’s crude oil exports fell** to 6.721mn barrels per day **in Jun**, down from May’s 6.942mn bpd, according

to Joint Organizations Data Initiative data. Production had increased to 9.782mn bpd in Jun from May's 9.67mn bpd.

- **Saudi Arabia** sold SAR 2.3bn (USD 613mn) in July, as part of its **monthly Sukuk issuance**.
- **Saudi Tadawul** approved a **listing request of debt instruments**; the total value of listed debt instruments is SAR 2.26bn.
- **Saudi Arabia** started to implement its latest reform **allowing adult women to receive passports and travel without permission from a male guardian**. Local media reported that over 1,000 Saudi women over the age of 21 went through passport control in the Eastern province without consent of their male guardians.
- **Crude oil from OPEC comprised only 30% of world oil supply in Jul 2019**, down from more than 34% a decade ago and a peak of 35% in 2012, according to OPEC data.

### **UAE Focus**

- **Foreign assets at the UAE central bank increased** by 11% yoy to AED 369.3bn (USD 100.5bn) at end-Jul. In mom terms, the value fell by 2.1%.
- **UAE banking sector's loan exposure to the real estate sector nearly halved** to 8.5% last year, according to the central bank Financial Stability Report 2018. Growth of residential mortgage loans remained strong at 9.2% during the year 2018.
- The **UAE will impose a 100% "selective" tax on electronic smoking products** and a **50% tax on sweetened drinks** starting from Jan 1, 2020.
- **UAE trade surplus with Japan widened** by 14.4% yoy to AED 32.96bn (USD 8.98bn) in H1 this year. UAE exports to Japan increased by 2.3% to AED 44.92bn while imports were down 21% yoy to AED 15.12bn.
- **Increased integration: Saudi Arabia topped the list of Abu Dhabi's trade partners for the first time** during

Jan-May 2019: non-oil trade between the two touched AED 23.5bn, accounting for 26.5% of the emirates total global trade.

- **Dubai's** Department of Economic Development reported the **issuance of 14,737 new licenses during H1 2019**, up 33.25%. Indians, Bangladeshis, Pakistanis, Egyptians and British remained the top five nationalities that secured new licenses.
- **The number of tourists into Dubai increased by 3% yoy to 8.36mn in H1** this year; visitors from India topped the list (at 997k, but down 8%), followed by Saudi (+2% to 755k) and UK (down 2% to 586k). Countering the declines from top markets were Chinese and Omani visitors who reported 11% and 28% increases to 501k and 499k respectively in H1.
- **Fitch affirmed Ras Al Khaimah at A, with a stable outlook**, its ratings supported by the declining government debt burden, high GDP per capita as well as its UAE membership.

## **Media Review**

### **Five Dubai FinTech start-ups graduate from sandbox**

<https://www.thenational.ae/business/technology/five-dubai-fintech-start-ups-graduate-from-sandbox-1.900757>

### **Powell Issues Warning Over Trade, Signals More Rate Cuts Are Possible**

<https://www.wsj.com/articles/powell-says-fed-prepared-to-provide-stimulus-if-a-slowdown-hits-u-s-economy-11566568965>

### **The toll of trade wars**

<https://www.reuters.com/article/us-usa-trade-china-costs-factbox/factbox-from-phone-makers-to-farmers-the-toll-of-trumps-trade-wars-idUSKCN1VE00B>

### **Trump Ordered U.S. Companies to Leave China. Is That Possible?**

<https://www.nytimes.com/2019/08/24/business/trump-china-trade.html>

<https://qz.com/1694669/trump-says-he-can-order-us-firms-out-of-china-because-of-this-law/>

## **The US-China Tech War**

[https://www.youtube.com/watch?v=5e3At\\_qhr\\_o](https://www.youtube.com/watch?v=5e3At_qhr_o)

**Countries most exposed to climate change face higher costs of capital – Costing the earth**

<https://www.economist.com/finance-and-economics/2019/08/15/countries-most-exposed-to-climate-change-face-higher-costs-of-capital>

**Lebanon debt downgrade: market discipline or voluntary reforms?**

<https://nassersaidi.com/2019/08/23/lebanon-debt-downgrade-market-discipline-or-voluntary-reforms-article-in-the-national-22-august-2019/>

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