

Weekly Economic Commentary – Sep 1, 2019

Markets

A few markets posted gains on Fri – Dow Jones, Stoxx 600, emerging markets shares – after statements on scheduled US-China trade talks; but overall, markets remain battered: the MSCI's gauge of global stocks posted its second monthly loss of the year and its biggest Aug percentage decline since 2015. US Treasury yields fell, and the yield curve is still inverted (signaling a recession) while the formation of a coalition government in Italy (between 2 long-standing political foes) resulted in its bond yields posting one of their biggest monthly declines in more than six years. Among regional markets, Saudi Arabia's index was at 8-month lows on regional tensions and in spite of the second phase of shares added to the MSCI emerging markets index while Qatar outperformed its peers. Among currencies, the euro touched the weakest since May 2017 while China's yuan continued to soften (falling to a 11-year low) and Argentina's peso slumped after S&P and Fitch Ratings declared the nation in default. Oil prices fell while gold prices are on a roll, posting a 4th consecutive month of gains. (*Gold and bonds big winners in Aug: <https://on.ft.com/2ZtwRFb>*)

Global Developments

US/Americas:

- **US GDP growth was trimmed to 2% in Q2**, from the previously announced 2.1% pace and Q1's 3.1%. Consumer spending growth surged by 4.7% in Q2 (revised upwards from the previous estimate of 4.3%), while trade deficit widened to USD 982.5bn (vs. USD 978.7bn). *Chart on consumer spending & GDP: <https://tmsnrt.rs/34if2HA>*
- **Consumer spending in the US increased by 0.6% in Jul** (Jun: 0.3%) while real consumer spending (i.e. adjusted

for inflation) increased by 0.4% (Jun:0.2%). Personal income meanwhile edged up 0.1% in Jul – the smallest rise since Sep – following a 0.5% rise in Jun.

- **US PCE price index rose** by 0.2% mom and 1.4% yoy in Jul as the drop in food prices was offset by a surge in energy goods and services. Excluding food and energy, **core PCE remained at 0.2% mom**, but rose 1.6% yoy, in Jul.
- **Durable goods orders jumped** by 2.1% yoy in Jul (Jun: 1.8%) – the most since Aug 2018 and the biggest monthly increase since Mar – boosted by a rebound in Boeing orders. New orders for non-defense capital goods excluding aircraft, a proxy for business investment, unexpectedly rose 0.4% mom.
- **US goods trade deficit narrowed** 2.5% yoy to USD 72.3bn in Jul as exports rebounded (+0.7%) and imports fell (-0.4%).
- **Home price gains continued to weaken for the 15th straight month** in Jun, as the S&P Case Shiller home prices index posted a reading of 3.1% (May: 3.3%).
- **Pending home sales index dropped** the most since early 2018, falling 2.5% mom in Jul, despite low mortgage rates.
- **Initial jobless claims showed a modest pickup** to 215k (up 4k) in the week ended Aug 24; the 4-week moving average slipped by 500 to 214,500.

Europe:

- **Germany confirmed at a 0.1% qoq contraction in Q2 GDP**, following a 0.4% gain in Q1. With exports falling at a greater pace than imports, net trade deducted 0.5 ppts from overall GDP while construction investment fell 1.0% on the quarter.
- **German Ifo business climate index hit its lowest in nearly seven years**, falling to 94.3 in Aug from the previous month's 95.8. In the manufacturing sector,

expectations slid further into negative territory – such levels of pessimism were previously seen in the crisis year 2009. *Ifo chart:* <https://bit.ly/2NKf8LM>

- **Germany unemployment rate remained steady** at 5% in Aug; in absolute terms, 2.3mn people registered as unemployed in Aug, 44k more vis-à-vis Jul.
- **Retail sales in Germany dropped** by 2.2% mom in Jul, recording the biggest fall of 2019. Retail sales were up 2.8% in real terms in the Jan-Jul period.
- **German headline inflation eased unexpectedly in Aug**, with prices rising by 1.0% yoy (Jul: 1.1%), while the national inflation measure dropped to 1.4% yoy (Jul: 1.7%).
- The European Commission's **Business Climate Index for the euro area increased markedly** (by 0.22 points to +0.11) in Aug. The **Economic Sentiment Indicator** increased slightly in the euro area (by 0.4 points to 103.1), while it **continued to decline in the EU** (by 0.6 points to 101.4).

Asia Pacific:

- **China NBS manufacturing PMI declined** to 49.5 in Aug (Jul: 49.7) while the official non-manufacturing PMI edged up slightly to 53.8 from Jul's 53.7 (with the construction sector climbing 3 points to 61.2).
- **Japan's Composite Index of coincident indicators** (that measure current economic conditions) **slipped** to 100.4 in Jun (May: 103.4). The **Leading Economic Index also fell** to 93.3 in June – the lowest since Feb 2010 – down from 94.9 in May.
- **Industrial production in Japan rebounded** in Jul, posting a 1.3% rise, up from the sharp 3.3% drop the previous month. **Retail sales remained weak**, dropping by 2.0% yoy.
- **Korea industrial production grew** by 1.2% mom and 0.5% yoy in Jul, thanks to an uptick in auto output and facility investment.

- **India's GDP grew at the slowest pace in 6.5 years:** at 5% yoy in Apr-Jun, it compares to 5.8% growth in the previous quarter and 8% a year ago. Growth was dampened by weak consumer demand and private investment.
- **The Reserve Bank of India announced that it will transfer INR 1.76trn (USD 24.5bn) to the government this fiscal year from its own reserves:** this is INR 860bn above the INR 900bn that was estimated in the budget. The funds are likely to be used either to provide fiscal stimulus to a sagging economy, reduce off-balance sheet borrowings or meet the expected shortfall in revenue collections.
- **Singapore industrial production dropped** by 0.4% yoy in Jul – for the 3rd consecutive month – with the previous month's reading revised downward to -8.1%. In a mom basis, overall manufacturing production increased 3.6% and excluding biomedical manufacturing, it grew 9.4%.

Bottom line: The world awaits the impact from Sep 1 US tariffs – to be imposed on Chinese exports worth USD 125bn – and China's retaliatory tariffs while the Japan-South Korea trade dispute drags on, and the US and Japan agree "in principle" to a trade deal "worth billions" to be signed in Sep (*wishful thinking (?) as details are still pending*). Into the 9th month of the year, and the greatest policy uncertainty still remains trade: but with reverberations of breakdown of trade talks affecting countries from Germany to India to South East Asia, there is growing consensus on the need to accelerate talks and reach an agreement – though, for now, it seems a pipe dream. In the UK, meanwhile, the PM announced that in the run-up to Brexit, its Parliament would be suspended altogether (*more in the Media Review section*). In Latin America, Brazil and Mexico narrowly escape recession as Argentina prepares to tackle the debt crisis; a critical question now is whether Lebanon will follow in its path soon?!

Regional Developments

- **Egypt's money supply (M2) increased** by 12.1% yoy to EGP 3.885trn (USD 235bn) as of end-Jul, according to central bank data.
- **Egypt's finance ministry is considering the issuance of EGP-denominated bonds by early-2020** (though the size and timing are not finalized yet), reported *Enterprise*, citing government sources.
- **Egypt's exports to the G7 accelerated** by 8.6% yoy to USD 3.8bn in H1 this year; of the G7 nations, US topped the list receiving USD 1bn worth imports from the country, followed by Italy and UK at USD 951.7mn and USD 719.1mn respectively.
- **Loans and credit facilities offered by banks to micro- and SMEs in Egypt** amounted to EGP 144.2bn during the period Jan 2016-Jun 2019, revealed the central bank.
- **Remittances into Egypt grew** by 43% mom and 15.4% yoy to USD 3bn in May.
- According to **Egypt's assistant housing minister**, 70 ministerial decrees will be issued for **real estate projects in new cities**– with investment estimated at EGP 300bn – in Q3.
- **Egypt's petroleum sector has attracted investments worth EGP 1trn (USD 60bn)**, disclosed the petroleum minister; maximum investments went into projects in operation (USD 32.6bn) while USD 14.7bn was pumped into those that have started implementation.
- **Iraq crude oil exports from its southern ports** was around 3.482mn barrels per day (bpd) as of end-Aug, reported *Reuters*; exports from the southern Basra region touched 3.435mn bpd in Jul, following a 3.39mn bpd reading in Jun.
- **Jordan aims to have clean energy sources contribute 20% of Jordan's electricity needs by 2022**, compared with just 1% in 2014, disclosed the energy minister. He also revealed that the value of renewable energy investments had crossed the USD 4bn mark.
- **Revenues collected by Kuwait's electricity and water**

ministry amounted to KWD 381.621mn (USD 287mn) during a full year ended in Apr 2019, reported *Al Anba* newspaper. This compares to revenues of KWD 294.3mn in the 2017-18 budget (+29.7%).

- **Lebanon's foreign exchange reserves (excluding gold) increased by USD 1.4bn in the last 2 weeks of Aug** to USD 38.66bn, according to the central bank. A statement attributed this surge to "the influx of deposits from the non-resident private sector, directly to BDL (and not due to sovereign or state deposits)".
- **Lebanon's CDS spreads increased to a fresh record high** of 1250 last Wed, on increased tensions with Israel and potential debt default worries. The price of some of Lebanon's dollar bonds have also fallen to new depths.
- **Credit extended by Oman's conventional banks increased** by 4.5% yoy as of end-Jun. Credit to the private sector grew by 1.9% to OMR 18.9bn during the year. Private sector deposits – which was up by 3.1% to OMR 12.9bn – accounted for 65.4% of total deposits.
- **Oman's budget deficit narrowed** by 53% yoy to OMR 660.6mn (USD 1.72bn) in H1 this year. Deficit was at OMR 358.4mn during the Jan-May period.
- **Oman announced a 20% surcharge for services** (fees will range from OMR 20 to a maximum OMR 500) **provided** by the ministry of commerce and industry **via the electronic system Invest Easy**.
- **Oman's natural gas production surged** by 12.5% to 43,750mn cubic metres **last year**, according to the central bank – from an estimated total reserve of natural gas at 25tn cubic feet (with 22 gas production fields). LNG exports were also boosted by 19% yoy to 10.2mn metric tonnes in 2018.
- **Oman is planning to boost Russian tourist arrivals further this year:** there was a 162% yoy jump last year, with 10,877 tourists from Russia. During Jan-May this year, the number is already around 9651.
- **SAMA's assets declined** by 0.66% yoy and 1.5% mom to SAR

1.93trn (USD 515.28bn) by end-Jul. Separately, **Saudi Arabia's general public reserves dipped** by 13.25% yoy to SAR 497.6bn by end-Jul while the **current account surged** by 166.35% to SAR 64.32bn.

- **Saudi Arabia's exports dropped** by 18.9% yoy and 12.5% mom to SAR 77.08bn in Jun. Oil exports were down by 22.2% yoy (to SAR 60.03bn) while non-oil exports also edged down by 4.7% in Jun. Oil exports were down by 3.96% yoy to SAR 391.83bn during H1.
- **Saudi Arabia's non-oil trade with its Arab counterparts declined** by 4.7% yoy to SAR 71.67bn (USD 19.11bn) during H1 this year. Bilateral trade with the UAE touched SAR 32.78bn during this period, making it the largest trade partner among these nations.
- According to the **IIF**, thanks to its capital market reforms and MSCI inclusion, **Saudi Arabia** received more than USD 4.5bn in foreign equity inflows in May and a further USD 2bn in the first three weeks of Aug, making it the **top equity investment destination among emerging markets**. Tadawul is estimated to attract an additional USD 5bn in equity inflows.
- **Remittances from Saudi Arabia dropped** by 12.5% yoy to SAR 72.82bn (USD 19.42bn) in Jan-Jul 2019, as per SAMA data. In Jul alone, remittances were down by 5.86% yoy to SAR 11.46bn.
- Saudi Arabia, in a series of decrees issued on Fri, announced (among others) the creation of a **new Ministry** for Industry and Mineral Resources as well as the establishment of a **new national center for artificial intelligence** and an organisation called the **National Data Management Office**, to be linked to the Saudi Data and Artificial Intelligence Authority.
- The *Wall Street Journal* reported that **Saudi Aramco is considering Tokyo** as the international destination for **its IPO listing**, given political uncertainties in the UK and Hong Kong.
- **OPEC posted the first oil-output rise this year in Aug:**

in spite of cuts from Saudi Arabia, OPEC pumped an estimated 29.61mn barrels per day (bpd) last month, up 80k bpd from Jul. Supply boosts came from Nigeria (80k bpd) and Iraq (60k bpd) while Saudi production remained at 9.63mn bpd (vs quota of 10.311bpd).

UAE Focus

- **UAE's gross domestic savings increased** by 6.6% yoy to AED 516.1bn (USD 140.5bn) in 2018 – the highest since 2015's AED 491.8bn – according to the Federal Competitiveness and Statistics Authority.
- **Money supply in the UAE (M2) edged up** by 0.9% mom to AED 1.364trn at end-Jul. According to the central bank, gross credit was up 0.7% mom to AED 1.705trn while gross bank assets rose by 0.6% mom to AED 2.976trn.
- **UAE's Federal Tax Authority disclosed the exemptions for the new "sin tax"**, introduced for sweetened beverages, sugary drinks and electronic smoking devices. This will include ready-to-drink beverages containing at least 75% milk, 75% milk substitutes, baby formula or baby food as well as beverages consumed for special dietary needs and for medical uses.
- The CEO of Dubai FDI expects **FDI into the emirate this year to exceed 2018's figure** of AED 38.5bn (USD 10.48bn). In Q1 this year, FDI was up by 54% (without accounting for Careem's acquisition by Uber).
- **Average room rates in Dubai fell** by 10.7% yoy to AED 486 in Jun 2019, according to EY's Hotel Benchmark Survey report. Occupancy rates during the month picked up by 11.8% to 66.7% while revenue per available room was AED 324 (+8.4%).
- **UAE leads the Middle East hotel construction pipeline in Jul**: according to STR, pipeline data shows 427 projects in construction accounting for 123,742 rooms, of which UAE leads (31.8% or 54,438 rooms) followed by Saudi Arabia (41,207 rooms). Furthermore, an additional 30k+

rooms are in the final planning stage and 45k+ rooms in planning.

Media Review

The Trump narrative & the next recession

<https://www.project-syndicate.org/commentary/trump-narrative-vulnerable-to-recession-by-robert-j-shiller-2019-08>

https://www.washingtonpost.com/business/energy/what-to-know-about-recessions-including-the-next-one/2019/08/28/511cb336-c967-11e9-9615-8f1a32962e04_story.html

Can Parliament stop Boris Johnson's no-deal Brexit

<https://www.economist.com/leaders/2019/08/29/how-parliament-can-stop-boris-johnsons-no-deal-brexit>

Argentina begins to restructure USD 101bn of debts

<https://www.ft.com/content/9161f0c0-caff-11e9-a1f4-3669401ba76f>

India's government is scrambling to revive the economy

<https://www.economist.com/finance-and-economics/2019/08/31/indias-government-is-scrambling-to-revive-the-economy>

5 charts that show renewable energy's latest milestone

<https://www.weforum.org/agenda/2019/08/renewables-energy-electricity-green-oecd/>

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