

Weekly Economic Commentary – Sep 15, 2019

Markets

Signs of progress in the US-China talks (e.g. China exempting US soya beans from additional tariffs) as well as ECB's easing supported equity markets last week: Asian shares were on a 6-week high, Japan's Nikkei was at a 4-month peak, S&P 500 was near a record closing high (3024.5 in late Jul), and the Dow posted its longest winning streak since May 2018. Regional markets had a bad week, with most GCC markets wiping out gains this year; Saudi market was at an 8-month low mid-week. In currencies, the euro was near a 2-week high while sterling gained on lower probability of no-deal Brexit. Oil prices – both Brent and WTI – dipped on weakening demand worries (IEA on Thursday warned of a growing surplus in the oil market next year) while gold price eased.

Global Developments

US/Americas:

- **US PPIs unexpectedly inched up** in Aug, rising by 0.3% mom and 1.8% yoy (Jul: 1.7% yoy), as costs of services (+0.3%) offset the drop in wholesale energy prices (-2.5%) and goods prices (-0.5%). Core PPI grew by 1.9% yoy following a 1.7% gain the month before.
- **Initial jobless claims dropped to a nearly 5-month low** of 204k for the week ended Sep 7 (covering the Labour Day holiday). The 4-week moving average fell 4,250 to 21,500.
- **Inflation in the US eased** to 0.1% mom and 1.7% yoy in Aug (Jul: 0.3% mom and 1.8% yoy). Gasoline prices fell 3.5%, but excluding food and energy, core CPI gained by 0.3% (driven by a 0.7% jump in healthcare costs).
- **US retail sales increased** by 0.4% mom in Aug (Jul: 0.8%), supported by spending on motor vehicles (auto

sales were up 1.8%, after posting a 0.1% growth in Jul).

- **US monthly budget deficit widened** by 18.8% yoy to USD 1.067trn mark in the Oct 2018-Aug 2019 period – this was the highest level since 2012. Thanks to tax payments due in Sep, the deficit for the year is estimated to be lower at USD 960bn.

Europe:

- **The ECB cut deposit rate by 10bps** to -0.5%, decided to **restart asset purchases** at a monthly pace of EUR 20bn from Nov while stating that details of the new tiering system for reserve remuneration would be disclosed later.
- **German trade surplus widened** in Jul to EUR 21.4bn (USD 23.6bn) after exports unexpectedly increased by 0.7% mom and 3.8% yoy.
- **Eurozone industrial production fell** by 0.4% mom and 2% yoy in Jul, dragged down by Germany (largest fall among major economies, down 5.3% yoy), capital and intermediate goods (-3% yoy) and car sector (-7.5% yoy).
- **European Union's trade surplus with the US grew** to EUR 90.9bn (USD 100.8bn) in Jan-Jul 2019 versus EUR 80bn in the same period a year ago. **With China, deficit expanded** by 10.8% yoy to EUR 109.2bn.
- **UK parliament passed a law that forces the PM to extend Brexit** if a deal isn't reached by Oct 19, thereby reducing the probability of a no-deal Brexit on Oct 31.
- **The UK economy picked up pace in Jul**, with output growing by 0.3% mom, thanks to a 0.3% increase in services output. Growth was flat over the 3 months to Jul, an improvement on the 0.2% dip reported in Q2.
- **UK average weekly earnings growth increased** to 4% in the 3 months to Jul – the highest since Jun 2008 –while the **unemployment rate dipped** to 3.8%. The number of available jobs was at its lowest level since Nov 2017.

Asia Pacific:

- **China's goods exports** grew by 2.6% yoy while imports fell by 2.6% in Aug, **widening the trade surplus** by 41.8% yoy to CNY 239.6bn (USD 33.8bn). **Overall exports from China declined** by 1% yoy (Jul: + 3.3%) and imports dropped by 5.6%, taking overall trade surplus down to USD 34.8bn vs Jul's USD 45bn. **Inflation increased to an 18-month high** in Aug, rising by 2.8% yoy, due to a 10% yoy surge in food prices. **Producer prices in China fell at the fastest rate in 3 years**, declining by 0.8% in Aug.
- **Money supply (M2) in China** grew by 8.2% yoy to CNY 193.55trn at end-Aug while **new yuan-denominated loans edged up** to 1.21trn in Aug, up from Jul's 1.06trn but lower than 1.28trn a year ago. **FDI into China expanded** by 6.9% yoy to CNY 604bn in Jan-Aug this year.
- **China's forex regulator lifted the investment quota restrictions for the Qualified Foreign Institutional Investors and Renminbi Qualified Foreign Institutional Investors** to open up its financial market.
- **Japan revised down its Q2 GDP to 1.3% yoy and 0.3% qoq**, from the preliminary estimate of 1.8% yoy (+0.4%). Capital spending rose just 0.2% qoq (from an earlier estimate of 1.5%) while private consumption inched up by 0.6% (no change from the preliminary reading).
- **Bank lending in Japan** grew by 2.1% yoy to JPY 537.98trn in Aug.
- **Japan machinery orders slipped in Jul**: core orders fell 6.6% mom, following a 13.9% rise in Jul (which was the biggest mom gain since 2005). Overseas orders fell by 6% to JPY 804.1bn (USD 7.44bn).
- **Japan industrial production expanded** by 1.3% mom and 0.7% yoy in Jul, in line with preliminary estimates.
- **Singapore retail sales slipped** (for the 6th consecutive month) by 1.8% yoy to SGD 3.6bn in Jul, led by declines in furniture and household goods (-8.3%), computer and telecom equipment (-7.7%) and watches and jewellery

(-6.2%). Excluding motor vehicle sales, retail sales slid by 2.4% yoy and 0.7% mom.

- **Unemployment rate in Singapore inched up in Q2:** for citizens, the jobless rate edged up to 3.3% in Jun (Mar: 3.2%) while for residents it grew to 3.1% from the previous quarter's 3%. Total employment increased by 6200 in Q2, mostly in services.
- **India announced measures worth INR 700bn to boost exports and the housing sector:** the package includes the introduction of a new scheme for remission of duties or taxes on export product, revised priority sector lending norms for export credit as well as provision of last mile funding for affordable and middle-income housing.

Bottom line: The ECB lowered rates at the meeting last week, as did the Turkish central bank and Denmark. Up ahead this week are CB meetings in the US and across Europe (UK, Norway) as well as Asia (Japan) – while the Fed is widely expected to cut (Trump's "Fed bashing" tweets are getting more frequent), the others are likely to hold steady. On the data front, there was finally some good news from Germany – exports picked up – while China and India continue to announce measures to prop up their slowing economies. US tensions with Iran remain high (in spite of the reported clash between Bolton and Trump, and subsequently the latter's dismissal) and the attack on Saudi oil fields will feed geopolitical tensions in the region.

Regional Developments

- **Money supply in Bahrain increased** by 8.5% yoy to BHD 13.4bn in Jul, according to the central bank. Data also disclosed that the total outstanding balance of public debt instruments dropped to BHD 11.3bn (-1.8% yoy).
- **Egypt's inflation fell to 7.5% in Aug** (Jul: 8.7%) – the lowest since the start of 2013 – while core inflation also dropped to 4.9% from the previous month's 5.9%, making a strong case for a rate cut at the next meeting on Sep 26.

- **Foreign investment in Egyptian treasuries edged up to USD 20bn by end-Aug, from USD 19.2 in Jun.**
- **Egypt's finance minister revealed plans to issue international bonds worth USD 3-7bn in the current financial year;** while not committing to any specific type of bond issuance, the minister revealed interest in diversifying issuance currencies (yen and yuan, for which requirements were not met last year).
- **Egypt's finance minister revealed that a bill to unify tax procedures will be issued for consultation by end-Oct.**
- **Seven technological parks will be set up this year across various universities in Egypt,** at an investment of EGP 1bn (USD 60.8mn), according to the minister for communications and information technology. The ministry will contribute the USD 50-100mn **fintech fund to be launched next year by the central bank.**
- **Kuwaiti investment in Egypt** amounts to about USD 4.7bn with 1,302 companies based in the country while bilateral trade stands at nearly USD 3bn.
- **Iraq needs investments of at least USD 30bn to fix and upgrade the country's power system,** according to the minister of electricity.
- **Iraq's oil production capacity is nearing 5mn barrels per day(bpd)** and it aims to add another 2mn over the next few years, as per the oil minister.
- **Non-oil exports from Kuwait fell** by 3.6% yoy to KWD 5.7mn in Aug 2019; Jordan was the top importing nation from Arab countries while among the GCC, Qatar topped the list. Separately, according to the ministry of finance, **Kuwait's trade surplus narrowed** by 97.06% yoy to KWD 44.8mn (USD 147.66bn) in Apr-Jul 2019.
- According to the central bank of **Kuwait,** the **banking sector's net foreign assets increased** by 6.1% yoy and 0.05% mom to KWD 18.48bn (USD 60.98bn) in Jul. Total assets grew by 5.2% yoy and 0.55% mom to KWD 11.03bn.
- The **IMF,** in its latest Article IV consultation,

recommended that Saudi Arabia raise the VAT to 10% from the current 5% as a part of fiscal consolidation measures. Budget deficit is estimated to further widen this year to 6.5% of GDP from 5.9% last year. Real GDP growth is forecast at 1.9% this year, supported by the 2.9% growth in the non-oil sector supported by government spending. *(The report can be accessed at: <https://www.imf.org/en/Publications/CR/Issues/2019/09/09/Saudi-Arabia-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-48659>)*

- **Saudi Aramco is preparing to list “very soon”**, according to its chief executive, and as mentioned by the new energy minister last week; the IPO is planned for 2020-21, but the listing on the local exchange could potentially happen as early as end of this year. Nine banks have been hired as joint global coordinators for the IPO. *(More: <https://www.bloomberg.com/news/articles/2019-09-12/top-dealmakers-descend-on-dubai-ritz-as-aramco-ipo-work-starts>)*
- **Saudi Arabia will keep its oil output below 10mn barrels per day (bpd)** until end of the year, with exports around 7mn bpd, disclosed the new energy minister.
- **Unemployment rate among Saudi nationals fell** to 12.3% in Q2 this year (Q1: 12.5%); Saudi women’s economic participation edged up to 23.2% from Q1’s 20.5%.
- **About 3.2mn visitors to Saudi Arabia spent USD 9.6bn in Jul-Aug**, supported by Hajj and summer visitors, according to the Saudi Commission for Tourism and National Heritage. This compares to 3mn tourists spending USD 8.8bn in the same period last year.
- **The value of contracts awarded in Saudi Arabia grew** by 32% qoq and 92% yoy to SAR 64.3bn (USD 17.2bn) in Q2, as per a report by the US-Saudi Arabian Business Council.
- **M&As in Saudi Arabia surged to USD 72.6bn (from 14 deals) in H1 this year**— driven by the USD 70bn Aramco acquisition of SABIC from PIF – according to a report by

Mergermarket. The IPO market grew as well during H1, raising USD 752mn from 3 deals.

- **Saudi Arabia** has issued a royal order **banning the provision of consultancy services to foreign firms**. Only when experienced Saudi consultancy offices and companies' expertise is not available can the government departments reach out to foreign consultancy companies.

UAE Focus

- **UAE's GDP grew by 2.8% yoy in Q1 this year**, supported by the oil sector (+11.4% yoy) as non-oil GDP inched up by only 0.2%.
- The **Dubai PMI fell** for a third consecutive month to 51.7 in Aug (Jul: 55.2) – the lowest reading since Feb 2016 – as new orders fell and with the slowdown most visible in the wholesale and retail and construction sectors. The construction sector posted the weakest improvement in business conditions in 3.5 years.
- The **Composite Business Confidence Index**, released by Dubai Economy, showed an improvement in Q2 (up 2.2 points from Q2 2018 to 114.9): respondents anticipate higher volumes and profits, with 46% expecting business situation to “slightly increase” and 22% planning to export to new markets (to Africa & Europe) from this quarter.
- **Residential sales transactions in Dubai over Jun-Aug 2019 hit a four-year high**, according to Property Finder: 8833 transactions worth AED 14.46bn (USD 3.9bn) were recorded during this period.

Media Review

Should We Worry About Income Gaps Within or Between Countries?

<https://www.project-syndicate.org/commentary/growth-in-inequality-within-countries-by-dani-rodrik-2019-09>

Saudi Arabia Drone Attack Is a Strike at Oil's Future

<https://www.bloomberg.com/opinion/articles/2019-09-14/saudi-arabia-drone-attack-is-a-strike-at-oil-s-future>

<https://www.ft.com/content/c76c2c6a-d79f-11e9-8f9b-77216ebe1f17>

Why Europe's single market is at risk

<https://www.economist.com/leaders/2019/09/12/why-europes-single-market-is-at-risk>

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