

# Weekly Economic Commentary – Sep 22, 2019

## Markets

Stimulus measures across major global central banks (including Fed and PBoC after ECB's move the week before) supported equity markets. However, shares dampened on Fri after news of the cancellation of US farm visits (as a goodwill gesture) by the Chinese trade delegation, which renewed uncertainty about trade talks. Regional markets began last week in the red on the weekend attacks on Saudi oil fields; Saudi stocks picked up on news about oil restoration by end-Sep as well as its inclusion in FTSE Russel and S&P Dow Jones indexes. Among currencies, the pound touched a 9-week high (<https://tmsnrt.rs/2msXtmX>) on comments from the European Commission president that a Brexit deal was possible. Gold price posted a weekly rise; oil prices, which spiked immediately after the attacks and have since declined, still remain almost 20% below last Oct's peak of USD 86 per barrel.

## Global Developments

### **US/Americas:**

- **The Fed cut interest rates**, as expected, by 25bps to a target range between 1.75%-2%. After **short-term rates touched highs** of 10% last week, the **Fed injected over USD 200bn in repos**— for the first time since the crisis a decade ago.
- **US industrial production bounced back in Aug**, rising by 0.6% following the previous month's 0.2% contraction. Growth was largely due to the mining sector which rose by 1.4%.
- **Housing starts hit a 12-year high**, rising by 12.3% mom in Aug to a seasonally adjusted rate of 1.364mn (Jul: 1.215mn), driven mostly by an increase in the volatile multi-family apartments segment (+30.9% mom). **Building**

**permits also grew to the highest since Jun 2007 to a rate of 1.419mn (Jul: 1.317mn).**

- **Existing home sales in the US grew to a 17-month high,** up by 1.3% mom to a seasonally adjusted annual rate of 5.49mn units in Aug. The median existing house price increased 4.7% yoy to USD 278,200 in Aug.
- **Initial jobless claims inched up by 2k to 208k** for the week ended Sep 14 while the 4-week moving average dipped by 750 to 212,250.

## **Europe:**

- **German ZEW economic sentiment index picked up** by 21.6 points to -22.5 in Sep but remained well below the long-term average of 21.5 points; assessment of the **current situation worsened** by 6.4 points to -19.9. Separately, the **EU ZEW economic sentiment climbed** by 21.2 points to -22.4 in Sep while the current economic situation assessment was down by 1.1 points to a reading of -15.6.
- **Inflation in the EU was 1.4% yoy in Aug,** with the highest rates reported in Romania (+4.1%), Hungary (+3.2%), the Netherlands and Latvia (both 3.1%).
- **UK inflation fell** to 1.7% yoy in Aug – the weakest level since Dec 2016 – after a 2.1% rise in Jul.
- **Retail sales in the UK dropped in Aug,** declining by 0.2% mom, after “non-store retailing” posted a 3.2% dip (the biggest fall since Aug 2015). In yoy terms, retail sales were up by 2.7% (Jul: 3.4%).
- The **Bank of England left rates on hold at 0.75%,** while warning that prolonged Brexit uncertainty would hurt growth. The Bank emphasized that interest rates could move up or down if the UK left the European Union without a deal.

## **Asia Pacific:**

- **China lowered borrowing costs for the second month in a row** to support its flailing economy: it reduced its Loan

Prime Rate (LPR) by 5 bps to 4.2%.

- **Industrial production in China weakened again**, slowing to 4.4% in Aug from Jul's 4.8% – this was the **slowest pace of expansion since Feb 2002**. **Fixed asset investment dropped** to 5.5% growth over the first eight months of the year, from 5.6% in the Jan-Jul period. **Retail sales** meanwhile **grew** by 7.5% yoy in Aug.
- **Japan's exports fell for the 9th consecutive month** in Aug, down 8.2% yoy, while imports also slipped by 12% to JPY 6.28trn. This brought the trade deficit to 136.3bn. Its **bilateral ties with China and South Korea continued to deteriorate** with exports to these nations shrinking by 12.1% and 9.4% respectively.
- **Core inflation in Japan cooled to a new 2-year low**, touching 0.5% yoy in Aug (Jul: 0.6%), on lower oil prices. Earlier in the week, the central bank had left rates unchanged while signaling that it was ready to expand stimulus as early as Oct.
- **South Korea posted a trade surplus for the 91<sup>st</sup> consecutive month**: the surplus of USD 1.7bn in Aug came on the back of lower exports (-13.8% to USD 44.1bn) and imports (-4.2% to USD 42.4bn).
- **India lowered the headline corporate tax rate** to 22% from 30% previously, in a bid to increase growth. Separately, the **Goods and Services Tax (GST) council revised rates on 20 goods and 12 services**(including lower rates on hotel rooms, though refraining from reducing taxes on automobiles).

**Bottom line:** The focus has shifted slightly from trade uncertainty (still unresolved, with the latest being the Chinese delegation's abrupt departure without visiting few US farms, as was expected before) to geopolitics in the region, following the attacks on Saudi oil fields. The attack on Saudi Aramco facilities has raised uncertainty about Saudi oil production as well as reserves (oil fields) that may be subject to other attacks leading to supply disruption. As the

Aramco IPO plans continue, a quick turnaround on restoring oil production will work in its favour. However, more problematic and a much higher source of risk and determining factor on the future course of oil prices is whether the attacks could become a casus belli for military confrontation and war with Iran.

### Regional Developments

- **After the Fed cut policy rates by 25bps, Saudi Arabia, UAE and Qatar followed suit** while Bahrain (pegged to the dollar) and Kuwait (pegged to a currency basket) stayed put.
- **Bahrain is planning to issue 7-year Islamic bonds and 12-year conventional bonds**, reported *Reuters*, and has accordingly mandated banks for the dual-tranche dollar-denominated issue (subject to market conditions).
- **Egypt expects to grow by an annual rate of 8% by 2022**, supported by a better investment climate, disclosed the nation's PM.
- **Banks in Egypt have lent EGP 146bn (USD 8.93bn) to SMEs** since the central bank directive for banks to allocate 20% of their loan portfolios to SMEs. Under the initiative, banks offer SMEs soft loans with interest rates of 5% and 7%.
- **Egypt's household sector accounts for 80.4% of total bank deposits** in Jun 2019, as per the central bank. Government deposits grew by 3.1% mom to EGP 610.45bn in Jun. **Banks have reduced their NPL allocations** by 2.3% mom to EGP 122.27bn as of Jun 2019.
- **Egypt plans to establish 7 new free zones in the country** – bringing the total up to 16– with an estimated 1000+ projects and creating about 120k jobs.
- **At least two state companies and one private pharmaceuticals firm** (worth EGP 1bn+) are expected to make share offerings in the Egyptian stock exchange this year.
- **Egypt-US bilateral trade increased** by 19.7% yoy to USD

5.35bn during Jan-Jul 2019, with exports to the US up 37.5% to USD 1.9bn.

- **Jordan's tourism revenues increased** by 9.2% yoy to USD 3.9bn in Jan-Aug 2019, according to the central bank. This was driven by a 7% uptick in number of tourists.
- **About 153k Syrians** (including 33k registered as refugees with the UNCHR) **have left Jordan for Syria after the Jaber-Nasib border crossing was reopened** on Oct 15, disclosed the interior ministry.
- **Kuwait's oil revenues declined** by 16.09% yoy to KWD 6.78bn (USD 22.37bn) in Apr-Aug this year, after the price of Kuwaiti crude averaged USD 60 per barrel during this period. **Budget surplus narrowed** by 90.49% to KWD 247.65mn during this period (after deducting the future generations' reserve) after expenses grew by 20.71% yoy to KWD 7.11bn and revenues declined by 13.31% to KWD 8.49bn.
- **Kuwait's bank deposits edged up** by 1.2% yoy to KWD 43.6bn in Jul, while credit grew by 4.2% to KWD 37.8bn.
- **Kuwait's trade surplus with Japan narrowed** by 18.3% yoy to USD 552mn in Aug; exports to Japan fell 18.2% to USD 649mn and imports also dipped by 18.2% to USD 97mn.
- **Saudi Arabia was in discussions with Lebanon about providing financial support**, revealed the former's finance minister, though no details were provided. Lebanon dollar bonds gained 1.8-1.9 cents on the dollar on this news. According to the Lebanese PM, a new bilateral council was being set up, with work expected to start in Oct.
- **Oman's August oil output** touched 30.08mn barrels, recording a daily average production of 970,305 barrels. While oil exports during the month was 29.74mn barrels, exports to China tumbled by 22.5% mom.
- **Oman reported real estate transactions worth OMR 155.22mn(USD 402mn) in Aug** while collected fees was reported at OMR 2.367mn.
- **Hotel revenues in Oman crossed USD 300mn in H1 this**

**year**, welcoming 115k guests in Jun alone when occupancy rates increased to 37.6% (Jun 2018: 36.1%).

- **Saudi Aramco will resume full oil production from its attacked sites by end-Sep.** The attacks halved the crude output, by shutting down 5.7mn barrels per day (bpd) though it was later disclosed that about 2mn bpd were brought back in Abqaiq (of 4.5mn bpd before) and 30% of Khurais's output (1.2mn bpd before). Separately, the finance minister stated that the attacks had "zero impact" on revenue though the OPEC cuts would lower economic growth.
- **Saudi Arabia's foreign reserve assets grew** by 2.7% qoq and 1.5% yoy to SAR 1.913trn in Q2. Total reserve assets meanwhile picked up by 2.7% qoq and 1.2% yoy to SAR 1.9233trn.
- In a bid to support industrial investment, **Saudi government** announced that it **would bear the expat fees in industrial installations** (holding industrial licenses) for 5 years, reported *Okaz*. The required criteria will be laid down by the ministry of industry and mineral resources.
- **Saudi Arabia's crude oil exports rose** to 6.88mn barrels per day (bpd) in Jul from 6.72mn bpd in Jun, as per data from the Joint Organizations Data Initiative
- **Saudi Arabia increased its US Treasury bills ownership** by 8.4% yoy and 0.67% mom to USD 180.8bn at end-Jul.
- **Saudi Arabia raised SAR 8.834bn in sukuk issuances**, disclosed the finance ministry last week.
- **Saudi Arabia joined the IMF's Special Data Dissemination Standards (SDDS)** for publishing government, financial and economic data. (Access the page at: <https://dsbb.imf.org/sdds/country/SAU/category>)
- **Saudi Arabia's civil aviation sector will create about 100k direct jobs** and almost 427k indirect jobs in aviation and related sectors including tourism, according to a study by the International Air Transport Association (IATA).

## UAE Focus

- **UAE's monetary base grew** by 1.7% from end-2018 to AED 386.3bn by end-Aug.
- **CPI in Abu Dhabi declined** by 0.8% yoy in Jan-Aug, with the housing and utilities as well as transport prices down by 3.6% and 6% respectively during the period.
- **The logistics sector in UAE is expected to contribute 8% of GDP by 2021**; last year, the sector's gross output touched AED 219bn (USD 59.67bn).
- **The contribution of Dubai's construction sector to GDP grew to 6.4%** in 2018 versus 6.2% in the two years prior. In its Annual Report, the Dubai Land Department also disclosed that the value of real estate transactions grew by 12% yoy to AED 106bn (USD 28.8bn) in Jan-May 2019.
- **Dubai Economy's Business Confidence Index improved in Q2**, rising by 2.2 points from Q1 to 114.9 points, supported by potential expansion to new export markets and Expo-related projects.
- **DIFC reported a three-fold growth in registered FinTech firms** to more than 100 since the end of 2018.
- **Dubai moved up to 8<sup>th</sup> ranking in the Global Financial Centres Index (GFCI)**, rising from 12<sup>th</sup> last year.

## Media Review

**Will stress in the repo market abate?**

<https://www.ft.com/content/ea6e0d6e-dad3-11e9-8f9b-77216ebe1f17>

**Oil & other turmoil: The Economist's charts**

<https://www.economist.com/graphic-detail/2019/09/20/oil-and-other-turmoil>

**A Warming World**

<https://www.economist.com/leaders/2019/09/19/the-climate-issue>

**How big was the Global Climate Strike**

<https://qz.com/1713587/global-climate-strike-city-by-city-crowd-estimate/>

## **Digital Currencies: The Rise of Stablecoins**

<https://blogs.imf.org/2019/09/19/digital-currencies-the-rise-of-stablecoins/>

## **Talent is everywhere, opportunity is not**

<https://ourworldindata.org/talent-is-everywhere-opportunity-is-not>

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