

Weekly Economic Commentary – Oct 6, 2019

Markets

Weak economic data, ongoing political tensions in the US, UK and Hong Kong, US tariff hikes spreading to the EU as well as geopolitical turmoil contributed to weak performances among global stocks last week (<https://tmsnrt.rs/2MfL2nP>). In spite of modest non-farm payrolls data supporting stocks towards end of the week, the pan-European STOXX 600 index and FTSE posted declines. Among regional markets, most markets ended lower on the week given oil price movements. Gold price gained on its safe haven status, while oil prices posted its second consecutive weekly decline.

Global Developments

US/Americas:

- **ISM US manufacturing PMI contracted** for the 2nd consecutive month, clocking in 47.8 in Sep – **the lowest since Jun 2009**. New export orders, at 41 (Aug: 43.3), was the lowest since Mar 2009 and employment dropped to the lowest reading since Jan 2016.
- **The ISM non-manufacturing PMI fell** to 52.6 in Sep (Aug: 56.4), recording the slowest rate of growth in 3 years. New orders and business activity/production fell -6.6 and -6.3 points respectively in Sep.
- **Non-farm payrolls added 136k in Sep** vs Aug's upwardly revised 168k. Unemployment rate fell to 3.5% in Sep (Aug: 3.7%) – the lowest since Dec 1969 – while annual wage inflation, as measured by average hourly earnings, cooled to 2.9% in Sep (the slowest pace of increase since Jul 2018).
- **Factory orders dropped**, down by 0.1% mom in Aug after surging up by 1.4% in Jul; orders for non-defense capital goods excluding aircraft fell 0.4% instead of

the 0.2% drop reported previously. Business investment declined at its steepest pace in 3.5 years in Q2.

- **US hiring continues to slow**, adding only 135k private sector jobs in Sep (Aug: 157k), according to ADP. Healthcare sector added the most new jobs, at 35k.
- **Initial jobless claims increased** by 4k to a 1-month high of 219k for the week ended Sep 28.
- **US trade deficit widened by nearly USD 1bn** to USD 54.9bn in Aug, as imports increased by 0.5% while exports edged up by 0.2%. Goods trade deficit with China fell 3.1% yoy to USD 31.8bn, with imports declining 0.8%; exports rose by 8%, thanks to soybean shipments.

Europe:

- **German retail sales recovered** in Aug, rising by 0.5% mom and 3.2% yoy following an upwardly revised increase of 0.8% mom and 5.2% yoy the month before. **Eurozone retail sales rebounded as well**, rising by 0.3% mom in Aug.
- **Unemployment rate in the EU dropped to its lowest level in more than 19 years**, falling to 6.2% in Aug (Jul: 6.3%). **In Germany**, the unadjusted **jobless rate dropped to 4.9%** in Sep (Aug: 5.1%): lowest unemployment levels since the reunification of Germany in 1990.
- **EU inflation stood at 1.4% in Aug**, stable compared to the month before. Annual inflation in Germany meanwhile slowed to the lowest in almost 3 years, dropping to 0.9% yoy in Sep (Aug: 1%) on lower food and energy prices.
- The **eurozone composite PMI reading fell to 50.1 in Sep** (Aug: 51.9 and lower than the previous flash estimate of 50.4). Germany slipped to the contractionary side for the first time since Apr 2013.
- **Markit manufacturing PMI for Germany slipped** further to 41.7 in Sep (Aug: 43.5) – the lowest since Jun 2009 – with output falling for the 8th consecutive month. The final Eurozone manufacturing PMI clocked in at 45.7 in Sep (versus the flash reading of 45.6 and Aug's 47.0),

largely due to the sharpest contraction in new orders since Oct 2012.

- **UK GDP shrank by 0.2% in the three months to June – the first decline since 2012. UK's all-sector PMI sank to 48.8 in Sep, the lowest since the month after the referendum and before that in 2009.**

Asia Pacific:

- **China's official NBS manufacturing PMI improved to 49.8 in Sep (Aug: 49.5) though remaining in contractionary territory for the 5th consecutive month. Non-manufacturing PMI slipped to 53.7 from 53.8.**
- **China's Caixin manufacturing PMI, thanks to improvements in new (domestic) orders and output, posted 51.4 in Sep (Aug: 50.4) – the highest reading since Feb 2018.**
- **Japan industrial production shrank by 1.2% mom in Aug, reversing Jul's 1.3% gain. Separately, retail trade climbed by 2% yoy in Aug – posting the sharpest rise since Oct 2018, largely due to the demand surge ahead of the sales tax hike to 10% this month.**
- **Japan's unemployment rate remained unchanged at 2.2% in Aug, the lowest in 26 years.**
- **The Bank of Japan's Tankan survey worsened to its lowest level since Jun 2013, with the headline index at +5 in the 3 months to Sep (Jun: +7).**
- **Korea's industrial production grew by 0.5% mom in Aug (Jul: 1.5%). Additionally, retail sales accelerated by 3.9% mom in Aug – the biggest expansion since Jan 2011.**
- **Singapore's PMI, at 48.3 in Sep, was at its lowest mark in just over seven years. Weak demand and reduced operating capacity were cited by respondents as the reasons for lower activity.**
- **The Reserve Bank of India cut repo rates to a 9-year low of 5.15%; this is the fifth repo rate cut this year, and the governor disclosed plans to continue easing “as long as is necessary” to ensure growth.**

Bottom line:The JP Morgan Global Composite Output Index fell to 51.2 in Sep, its joint-lowest reading since mid-2016, with the service sector still outperforming manufacturing. New order inflows increased at a slower pace as international trade flows continued to deteriorate, while job creation in the service sector was the weakest in 7 years. Meanwhile global trade tensions look set to worsen: following the WTO ruling in their favour, the US imposed 10% tariffs on Airbus planes and 25% duties on whisky and cheese as “punishment” for EU aircraft subsidies.

Regional Developments

- **Bahrain has been ranked among the “top 20 improvers in Doing Business 2020” list**, by implementing reforms in 9 out of the 10 areas covered by the report (except in starting a business). Other Middle East nations in the list include Jordan, Kuwait, Qatar and Saudi Arabia.
- **Non-oil private sector activity in Egypt edged up** but remained in contractionary territory: posting 49.5 in Sep (Aug: 49.4), the reading was supported by rise in export orders though output and new orders declined. Expectations for future business activity was at the weakest level of positive sentiment since Oct 2016.
- **Money supply in Egypt increased** by 11.78% yoy and 1.3% mom to EGP 3.93trn (USD 242.44bn). **Local liquidity**, up 12% yoy and 1% mom in Aug, **touched a record-high** of EGP 3.92trn. **Foreign reserves grew** by USD 53mn in a month to USD 44.969bn in Aug.
- **Foreign currency deposits at Egypt’s banks fell to the lowest level since Apr 2018**: it was down by 4% yoy and 1.3% mom to EGP 699.3bn (USD 42.8bn).
- **Industry-specific gas prices have been set in Egypt and will be reviewed every 6 months** (tracking international prices, following the phased removal of subsidies): domestic price of gas was set at USD 6 per mn Btu for the cement industry and at USD 5.5 per mn Btu for the metals and ceramics sector. Separately, **domestic fuel**

prices were lowered, in line with movements in the international markets: prices had been hiked four times since Nov 2016.

- **Egypt's investments in Africa have exceeded USD 10bn**, disclosed the former's minister of planning, monitoring, and administrative reform, while Africa's investments into Egypt touched USD 2.8bn.
- **Tourism revenues in Egypt accelerated** by 28.2% yoy to USD 12.57bn during the 2018-19 fiscal year, as per the central bank's balance of payments data.
- **Egypt disclosed that about 1.8mn people— previously removed from the food subsidy program — had been returned to it** by Sep 30. Reasons for removal had included having a new car, payment of higher school fees and utility bills.
- **Iraq's oil exports fell to 3.576mn barrels per day (bpd) in Sep**, down from 3.603mn bpd the month before, according to the oil ministry. With average sale price at USD 59.149 per barrel, revenue generated was about USD 6.345bn.
- **Iraq reopened its Qaim border-crossing with Syria** after eight years of closure: the crossing has been declared open for travelers and trade.
- **Prices of gasoline and diesel were increased in Jordan starting Oct**. The price per litre of unleaded 95-octane gasoline rose by 2% mom to JOD 1.005 while diesel price was up 2.5% mom to JOD 0.605.
- **The overall nominal monthly wage index in Jordan increased substantially more for public sector employees** (to 136.8 in 2017 from 100 in 2010) than private sector (119.9). Real wages in the public sector (114.6 in 2017 vs 100 in 2010) was much higher than the private sector (100.5).
- **Implementation of the first phase of the solar power project has begun in Jordan**: powering 2213 homes in this phase, it is expected that 7k families will benefit by 2020.

- **Kuwait's trade surplus widened** by 0.38% yoy to KWD 2.673bn (USD 8.8bn) in Q2, after exports and imports declined by 2.94% and 5.6% respectively in the quarter.
- The Central Bank of **Kuwait's issuance of bonds and related Tawarruq** – worth KWD 240mn (USD 791mn) with a 3.125% rate of return – **was oversubscribed by 10.96 times.**
- **Kuwait's foreign currency reserves increased** by 4.35% yoy to KWD 11.553bn (USD 38.08bn) in Aug 2019.
- **Net foreign assets at Kuwait-based banks grew** by 7.08% yoy and 0.7% mom to KWD 18.61bn (USD 61.33bn) in Aug.
- **Kuwait launched the public offering for Capital Markets Authority's 50% stake in Bursa Kuwait on Oct 1st**; the subscription period, open only to Kuwaiti citizens, will last till 1 Dec and the offering price is 100 fils per share.
- **Lebanon's PMI slipped further into contractionary territory**, with the reading at 46.4 in Sep (Aug: 47.8), largely due to an accelerated contraction in output; political instability was an oft-cited reason for lower business activity.
- **Bilateral trade between Lebanon and UAE** touched USD 598mn in Jan-Jul this year (2018: USD 1.045bn), according to the UAE ambassador. He also revealed that UAE accounted for 11% of total FDI flows into Lebanon.
- **Lebanon's central bank stands ready to repay the maturing dollar-denominated debt**, disclosed the governor. A USD 1.5bn Eurobond is maturing in Nov. Separately, the finance minister indicated that preparations were underway for the issuance of a Eurobond (of around USD 2bn) in Oct to meet state financing needs.
- **Financing and leasing companies in Oman** reported a 43.6% yoy rise in their gross non-performing loan portfolio last year, according to the central bank. There are 5 firms in this space, operating 39 branches and their

total assets grew by 4.4% to OMR 1.116bn last year.

- **Moody's estimates that problem loans in Oman are set to rise to 3.2%-3.7% of gross loans** in 2019-20, adding that the stressed construction sector is raising risks.
- **Qatar's GDP contracted** by 1.4% yoy and 0.9% qoq in Q2, dragged down by construction (-3.5% yoy) and manufacturing (-7.4%).
- **Saudi Arabia's GDP edged up** by 0.46% yoy to SAR 642.78bn in Q2 (Q1: 1.7%), with the non-oil sector growing at 2.9% (government sector: 1.76%) while the oil sector posted a 3.4% dip; mining and manufacturing dropped by 2.9% and 2.3% respectively. **In qoq terms, Q2 GDP was down** by 0.64% compared to a 0.44% dip in Q1 this year.
- **PMI in Saudi Arabia picked up in Sep**, rising to 57.3 from Aug's 57. Output grew (61.7 from 60.7) while new orders were down (62.3 from 63.5) while employment growth touched an 18-month high in Sep (51.5 from 50.1 in Aug).
- **Saudi Arabia's trade surplus narrowed** by 17% yoy to SAR 263.91bn (USD 70.36bn) in Jan-Jul 2019, as exports shrank by 6.56% and imports by 1.9% during the period.
- **Oil output in Saudi Arabia has been restored after the attacks**, according to the energy minister. Crude oil production capacity is now at 11.3mn barrels per day (bpd), after it had been halved after the attacks.
- **Foreign investments in Saudi Arabia grew** by 10.9% yoy and 3.05% qoq to SAR 1.685trn (USD 449.33bn) in Q2 this year. FDI, which grew by 1.95% yoy to SAR 877.22bn in Q2, accounted for more than half (52.06%) of total foreign investments.
- **Real estate loans disbursed in Saudi Arabia increased** to 12,306 contracts (+317% yoy) in Aug with total value SAR 5.2bn (USD 1.3bn, +218% yoy). This brings the total number of loans provided this year to 96,700 contracts (+254%) worth SAR 43.8bn (+160%).
- **Fitch downgraded Saudi Arabia's credit rating to A from A+** after the attacks on its oil attacks, reflecting

“rising geopolitical and military tensions in the Gulf region”. Saudi Arabia called the downgrade “somewhat speculative without direct reference to the swift, decisive and effective response to the event”. **S&P** meanwhile **affirmed its “A-/A-2” long and short-term sovereign credit ratings** on Saudi Arabia with a stable outlook, supported by “strong external and fiscal net asset stock positions”.

- Saudi Arabia’s **Aramco disclosed its plans to pay a base dividend of USD 75bn in 2020**, in a corporate overview on its website.
- **GCC funds witnessed overall estimated net inflows of USD 2.5bn in H1 this year**, according to Refinitiv data. Total assets under management (AUM) in the region increased to USD 32.4bn this year, with Saudi Arabia accounting for 82.85% of total AUM.
- **Middle East investors lead globally in the perception of climate as a near-term risk, but, lack of data hampers**, according to HSBC’s Sustainable Financing and Investing Survey 2019 report. A combined 94% of issuers identify green, social and sustainable bonds as either ‘very interesting’ or ‘potentially interesting’; almost half of investors (49%) plan to start buying these instruments seriously for the first time in the next two years, and another 19% will increase their investments in the same. (Download the report at: <https://www.gbm.hsbc.com/-/media/gbm/insights/attachments/regional-reports-middle-east.pdf>)
- **Oman (9), UAE (10) and Bahrain (15)** have been named among the topmost markets with potential for future trade growth, “propelled by export diversity improvements”, in Standard Chartered bank’s **Trade20 Index**. (More: <https://www.sc.com/en/insights/trade20/executive-summary/>)

UAE Focus

- **UAE PMI slowed to a 9-year low** of 51.1 in Sep (Aug: 51.6); output remained at a near 6-year low while new orders were the softest since the survey began more than 10 years ago.
- **UAE plans to increase its federal budget by 2%** to the highest-ever AED 61.55bn in 2020.
- **UAE banks' investments in Saudi Arabia and Egypt accelerated** by 24.7% to AED 101bn in H1 2019 from end-2018. UK was the top destination for investments of UAE banks (USD 61.3bn in H1, +22.1% yoy) followed by Saudi Arabia (AED 53.5bn, +55.1%) and Egypt (AED 47.5bn, 37.7%).
- **Inflation in UAE fell 2.04% yoy in Aug**; last year's inflation was higher given the implementation of VAT.
- **Dubai recorded a 135% yoy increase in FDI to AED 46.6bn in H1 this year**, surpassing last year's total FDI of AED 38.5bn. About 47% of FDI went into the high and medium technology component. US continued to lead FDI capital flows to Dubai (34%), followed by China (28%), UK (11%), France (5%) and Singapore (5%).
- **Dubai's current debt stands at USD 124bn**; the emirate continues to service its debt and is ready to take on more if needed, according to Dubai DED's chief economic advisor.
- **Dubai's non-oil foreign trade increased** by 5% yoy to AED 676bn in H1 this year. Exports accelerated by 17% to AED 76bn while re-exports and imports grew by 3% (to AED 210bn) and 4% (to AED 390bn) respectively.
- The **UAE announced plan to set up an AED 300mn fund to train 18k graduates to enter the workforce**, and also that a part of VAT revenues has been allocated to train and employ 8k Emiratis.
- **UAE spent AED 37.8bn on social development and benefits in H1 2019**, up 15.6% yoy.
- **Dubai**, with its latest **"Virtual Commercial License"** initiative, will allow freelancers and businesses globally to have access to a regulated e-commerce

platform and work with Dubai-based companies (without being a resident of Dubai or UAE). This will ease the cost of doing business in the emirate while also supporting the move towards a digital economy.

- **Dubai plans to offer a new long-term “cultural visa” for artists and authors** in a bid to boost the creative sector.

Media Review

The IMF After Argentina

<https://www.project-syndicate.org/commentary/lessons-from-latest-argentina-meltdown-by-kenneth-rogoff-2019-10>

Bloomberg: Expats Sent to Back of Line for 160 UAE Private-Sector Roles

<https://www.bloomberg.com/news/articles/2019-09-29/expats-sent-to-back-of-queue-for-160-u-a-e-private-sector-roles>

130 banks worth \$47 trillion adopt new UN-backed climate policies to shift their loan books away from fossil fuels

<https://amp.businessinsider.com/banks-worth-47-trillion-adopt-new-un-backed-climate-principles-2019-9>

Sustainability’s Moment of Truth

<https://www.project-syndicate.org/onpoint/sustainability-net-zero-2050-by-nicholas-stern-2019-10>

PayPal pulls out of Facebook’s Libra project

<https://www.ft.com/content/6bc9a0f8-e6e1-11e9-b112-9624ec9edc59>

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