

# Weekly Economic Commentary – Oct 13, 2019

## Markets

Some optimism emerged after news of a “limited” trade with China surfaced late on Fri, as well as announcements of the UK and Irish PMs about “a pathway to a possible [Brexit] deal” and a “constructive” meeting between the EU and UK Brexit negotiators. These moves boosted equity markets across the globe – including the S&P 500, Stoxx 600, Dax, and Topix. In the region, Saudi Arabia was down last week while the UAE markets and Egypt gained. Among currencies, dollar slipped to a 3-month low, euro progressed to a 3-week high while the pound jumped amid Brexit hopes. Oil price picked up by 2%+ on Friday’s news of an attack on an Iran-owned tanker near Saudi Arabia while gold price fell.

## Global Developments

### **US/Americas:**

- **US consumer prices cooled:** inflation remained flat in Sep from a month ago, while core prices inched up by 0.1% mom (the slowest since May). **Producers price index increased** by 1.4% yoy in Sep – the smallest gain since Nov 2016; core producer prices fell 0.3% mom – the largest decline since Feb 2015.
- After rising for three consecutive weeks, **initial jobless claims fell** by 10k to 210k in the week ended Oct 5. The four-week moving average of claims rose 1k to 213,750. Separately, **job openings unexpectedly declined** in Aug – down by 123k to 7.05mn – the lowest level since Mar 2018.
- The **Fed announced that it would begin buying about USD 60bn per month in Treasury bills** to ensure “ample reserves” in the banking system and will continue at least until Q2 2020. This announcement led to a

steepening of the US yield curve.

## Europe:

- **German factory orders slumped again**, falling by 0.6% mom in Aug, on weaker demand; demand for capital goods fell by 1.6%.
- **Industrial production in Germany picked up** by 0.3% mom in Aug (Jul: -0.4%), after an increase in production of intermediate and capital goods offset the dip in consumer goods.
- **Germany's exports declined** by 3.9% yoy to EUR 101.2bn (USD 111.5bn) in Aug, amidst a 3.1% dip in imports (to EUR 85bn).
- **UK industrial production dropped** by 0.6% mom and 1.8% yoy in Aug (Jul: +0.1% mom), with manufacturing down by 0.7% mom and 1.7% yoy.
- **Economic activity in the UK declined** by 0.1% mom in Aug – contracting for the first time in mom terms since Apr – with manufacturing dipping by 0.7%. GDP in the Jun-Aug expanded by 0.3% in spite of the decline in Aug.

## Asia Pacific:

- **The People's Bank of China introduced a new mortgage rate interest system**, granting banks greater autonomy in setting the prices they can charge clients.
- **China's Caixin services PMI slipped to a 7-month low** of 51.3 in Sep, after operating costs hit a 1-year high (labour, fuel and raw material prices) and in spite of an increase in new orders (at the fastest pace since Jan 2018). **Composite PMI rose to a 5-month high** of 51.9 in Sep (Aug: 51.6).
- **Japan's leading economic index dropped** 2.0 points in Aug from Jul while the index of coincident economic indicators slipped a preliminary 0.4 point in Aug.
- **Japan overall household spending increased** by 1.0% yoy in Aug (Jul: +0.8%), possibly ahead of Oct's rise in

consumption tax. Separately, wages fell for the 8th consecutive month.

- **Japan machinery orders slid** by 14.5% yoy in Aug – the biggest yoy drop since Nov 2014 – with orders from the non-manufacturing sector falling by 12.1% yoy while core orders fell by 2.4% mom.
- **Singapore retail sales fell** for the 7<sup>th</sup> consecutive month, falling by 4.1% yoy in Aug, after motor vehicle sales plunged by 20.3%. Excluding motor vehicles, drop in sales was 1%.

**Bottom line:** Ahead of the IMF-World Bank meetings this week, the new IMF chief called for finding a “lasting solution on trade” while stating that the ongoing trade conflicts could cost the global economy close to USD 700bn or 0.8% of output by 2020. There were bursts of optimism from Brexit hopes and the “Phase 1” trade deal with China and alongside very gloomy economic data. However, with the trade deal only verbal so far, are markets being too optimistic as the thorny issues of currency manipulation and intellectual property remain largely unresolved? Also, the new 25% tariff imposed by US on some European food and beverage imports are due to take effect on Fri this week. Separately, geopolitics came to the forefront again as Trump’s decision to withdraw US troops effectively triggered the Turkish invasion into Syria and subsequent violence.

### Regional Developments

- The World Bank, in its latest outlook, lowered its growth estimates for the Middle East and North Africa to an average 0.6% this year (down 0.8 ppts from the Apr 2019 update; 2018:1.2%). The downward revision was largely due to cuts in oil production, spillovers from geopolitical tensions and the ongoing US-China trade wars.

(More: <https://www.worldbank.org/en/news/press-release/2019/10/09/middle-east-north-africa-faces-another-year->

[of-subdued-growth-with-bolder-reforms-needed-to-boost-private-sector](#)

- **Bahrain's real GDP grew by 0.8% yoy in Q2**, after the non-oil sector grew by 1.2% and oil sector growth dipped by 0.8%.
- **Money supply (M3) in Bahrain increased** by 10% to BHD 12.5bn as of end-Aug while value of outstanding loans and credit by retail banks was up by 6.9% to BHD 9.8bn.
- **Bahrain's exports grew** by 2% yoy to BHD 187mn in Aug; Saudi Arabia (BHD 36mn), US (BHD 20mn) and China (BHD 19mn) were the top importers.
- Bahrain's labour and social development minister disclosed that **17,700 Bahraini jobseekers were hired in the private sector this year**.
- **Egypt's inflation declined sharply** to 4.8% yoy in Sep (Aug: 7.5%) – the lowest level in almost 7 years – on lower food prices; core inflation also fell to 2.6% from 4.9% in Aug.
- **The sale of minority stakes in two state-owned firms in Egypt is planned by end-Dec**; the government also plans to sell additional shares in the two listed state-owned firms.
- In the 5<sup>th</sup> review of **Egypt's program**, the **IMF** encouraged sustained reforms to ensure GDP growth and lower unemployment while revealing that the country **needs to absorb 3.5mn new workers in the next 5 years**.
- **Egypt's tourism revenue increased** by USD 2.7bn to USD 12.5bn in the 2018-19 financial year. Separately, the country also gained 9 places to rank 65 in WEF's Travel and Tourism Competitiveness Index.
- **Egypt's draft law to replace the current income tax law proposes that** all subsidiaries of foreign companies be subject to taxes; it also increases the maximum limit of exemption on personal income tax to EGP 24k per annum from EGP 8k.
- **Egypt is studying a proposal to reduce trading investor**

costs (i.e. fees and commissions) to make it more attractive and competitive.

- **Bilateral trade between Iraq and Jordan surged by 27% yoy to USD 654mn in 2018; in Jan-Jul this year, trade declined by 6% to USD 330mn.**
- **Passenger traffic at the Jordan international airport grew by 5.1% yoy to 1.05mn passengers in Aug, bringing the year-to-date number to 6.1mn (+6.2%).**
- **Net foreign assets in Kuwait's banking sector increased by 7.08% yoy and 0.7% mom to KWD 18.61bn (USD 61.3bn) in Aug.**
- **About 59.3% Kuwaitis (4,067 of 6,861) refused offers to join the private sector in 2017, according to the Public Authority for Manpower; the number jumped to 80% last year (4,618 out of 5,778), reported *Al-Jarida***
- Following a 2-day visit to the UAE, **Lebanon's PM** stated that the **UAE had promised investments and financial assistance**. While the UAE travel ban to Lebanon was lifted, no official explicit commitment was revealed by either party.
- **All government revenues in Oman will be collected only via electronic payments starting Jan 2020, according a ministry of finance circular. The 1% commission of the fee paid will be absorbed by the government.**
- **Bilateral trade between Oman and the US exceeded USD 4bn in 2018; US exports to Oman grew by 21.7% to USD 2.415bn.**
- **Islamic banking's share in Oman grew to 13.4% of total banking as of end-Jun this year; the total assets of Islamic banking institutions increased to OMR 4.59bn.**
- **Saudi Aramco is expected to publish its IPO prospectus later this month: the *Wall Street Journal* reported that the Arabic prospectus would be out Oct 25 and English two days later.**
- **Fitch downgraded Saudi Aramco to "A" with a stable outlook, given the attack on its oil production facilities, and following the downgrade of Saudi Arabia on**

Sep 30.

- **Saudi Arabia's** disclosed to OPEC that its **oil production fell by 660k barrels per day (bpd) in Sep**, on the back of the attacks, versus 9.13mn bpd in Aug. Secondary sources place Saudi oil production even lower: falling 1.28mn bpd mom to 8.856mn bpd.
- **Tourists in Saudi Arabia increased spending** by 12% yoy to SAR 77.3bn in Jan-Aug this year and the number of foreign tourist trips also grew by 11% during this period. Average spending on domestic tourism grew by 3.4% to SAR 33.8bn.
- **Houses owned by Saudi families grew to 3.68mn in H1 2019**: the share of Saudi "owned" and occupied houses increased to 62.08% (2.2mn houses) from 60.5% in H1 2018.
- **Saudi Arabia's gold reserves**, at 323.1 tonnes in Oct or 3.1% of total reserves, was the **highest among Arab nations** according to the World Gold Council.
- **WEF's Global Competitiveness Report 2019 places UAE** – ranked 25<sup>th</sup> globally – **as the most competitive economy in the Arab region.** (Read the report at <https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth>)
- **Investment banking fees accelerated** by 15.2% yoy to an estimated USD 651.4nmn in Jan-Sep 2019 in the Middle East and North Africa, according to *Refinitiv*. The value of announced M&A transactions with any MENA involvement currently stand at an all-time high of USD 120.6bn this year (+160%). Fees generated from completed M&A transactions surged by 218% yoy to an 11-year high of USD 210.3mn.
- **The startup ecosystem in the MENA region** saw USD 517mn being invested in 354 deals in 2019, with UAE remaining the top funding recipient (62%), according to Magnitt's Q3 2019 MENA Venture Investment report. (More: <https://magnitt.com/research/50674/q3-2019-mena-venture->

[investment-report](#))

- **Middle eastern airlines posted an increase of 2.9% yoy and 1.7% mom in traffic in Aug, reported the International Air Transport Association. Revenue passenger kilometers grew by 2.6% yoy while capacity or available seat kilometers was up by 1.3%.**

## **UAE Focus**

- **Dubai's PMI edged up to 52.6 in Sep (Aug: 51.7), rising for the first time in 4 months; overall input prices rose at the fastest pace in six months while staffing costs rose only fractionally since Aug.**
- **The UAE central bank reduced the 3% early settlement fee for mortgages to just 1% on the outstanding mortgage amount or AED 10k whichever is less. The bank also removed the 70-year age limit for the last mortgage repayment in order to ease mortgage loan requirements.**
- **Six-month deposits in UAE banks grew by 10.4% to AED 182.2bn (USD 49.6bn) during Jan-Aug; the deposits accounted for 19.4% of the total deposits value in this period.**
- **Borrowing in US dollar accounted for 81.1% of UAE banks' loans in H1, according to the central bank, while euro-denominated loans made up 10.9% of loans.**
- **Excise taxes on sugary drinks and e-cigarettes will be increased from Dec 1 this year, according to the ministry of finance.**
- **The UAE economy minister expects other ministries to reduce federal fees, in line with the ministries that had reduced fees in Jul this year (the Ministry of Interior, the Ministry of Human Resources and Emiratization, and the Ministry of Economy).**
- **Value of non-oil foreign trade through Abu Dhabi ports stood at AED 121.5bn (USD 33.1bn) in Jan-Jul this year. Saudi Arabia was the top export partner (AED 5.1bn in Jul) followed by US (AED 1.18bn) and Kuwait (AED 950mn).**

- **Abu Dhabi's producer price index** grew by 6.6% yoy to 124.6 points in Q2 this year. Manufacture of machinery and equipment recorded highest increase on the index, climbing by 99.3%.
- **The share of aviation and tourism to UAE GDP will more than double to USD 128bn in 20 years**, according to the International Air Transport Association. Currently, the sector accounts for 13% of UAE's GDP.
- **UAE government grants**, which grew by 23.4% yoy to AED 13.33bn in H1 this year, accounted 6.6% of total government's expenditure.
- The **UAE's Ministry of Human Resources and Emiratisation announced waiving fines issued for violations** for over 27k companies and 12k workers issued before Aug 1 this year.

## **Media Review**

### **China Emerges with Wins from US Trade Truce**

<https://www.wsj.com/articles/china-emerges-with-wins-from-u-s-trade-truce-11570912439>

### **What to make of the strife at the ECB**

<https://www.economist.com/finance-and-economics/2019/10/10/what-to-make-of-the-strife-at-the-ecb>

### **5 trends in the global economy – and their implications for economic policymakers**

<https://www.weforum.org/agenda/2019/10/global-competitiveness-report-2019-economic-trends-for-policymakers/>

### **The Path to Climate Safety**

<https://www.project-syndicate.org/onpoint/four-obstacles-to-climate-safety-by-jeffrey-d-sachs-2019-10>

### **The week in charts: The Economist**

<https://www.economist.com/graphic-detail/2019/10/11/inflation-whipped>

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