

Weekly Economic Commentary – Oct 20, 2019

Markets

In spite of internal political developments in the US (testimonies related to impeachment, losing the vote on bipartisan Syria resolution, announcement of the now-backtracked G7 summit location), and weaker-than-expected economic data, the S&P 500 nudged up last week. Friday's release of weak Chinese GDP growth data dragged down markets across the globe, while the Brexit deal led to topsy-turvy moves over the end of the week. Among regional markets, most tracked their global counterparts; Saudi markets gained towards end of the week, supported by banks, after hitting an 11-month low earlier. Among currencies, the dollar index was at a near 8-week low, while the pound held near a 5-month high after the PM's Brexit deal announcement (*Chart: tmsnrt.rs/2egbfVh*). Oil prices declined, while the gold price was slightly up in spite of profit-taking.

Global Developments

US/Americas:

- **US retail sales declined** by 0.3% mom in Sep (Aug: +0.6%), for the first time in 7 months, as households slashed spending on building materials, online purchases and automobiles (-0.9%).
- **Initial jobless claims edged up** by 4k to 214k in the week ended Oct 12; the 4-week moving average of claims rose to 214,750 from the previous week's 213,750 average.
- **Housing starts fell** by 9.4% mom to a seasonally adjusted annual rate of 1.26mn in Sep, thanks to a drop in multi-family housing. Data for Aug was revised up to 1.386mn units, the highest level since Jun 2007.
- **US industrial production tumbled sharply** by 0.4% mom in

Sep; in yoy terms, it contracted by 0.1% – the first decline since 2016. Production of consumer goods and cars and trucks posted drops of 0.4% yoy and 5% respectively.

Europe:

- **German ZEW economic sentiment dropped 0.3 points to -22.8 in Oct** – well below the long-term average of 21.4 points. The assessment of the current economic situation in Germany worsened again, by 5.4 points to -25.3, the lowest reading since Apr 2010.
- **EU ZEW economic sentiment declined** by 1.1 points to 23.5 in Oct; the assessment of the current economic situation was also weaker, falling by 10.8 to -26.4 points.
- **Inflation in the eurozone stood at 0.8% yoy in Sep** (Aug: 1%). EU's annual inflation was 1.2% in Sep, down from 1.4% in Aug.
- **EU industrial production was down** by 2% yoy in Aug; the index also dropped 2.8% yoy in the eurozone.
- **UK unemployment increased** by 22k to 1.3mn in the three months to Aug; the unemployment rate edged up to 3.9% from 3.8% in the previous quarter. Average weekly earnings dropped from 4% to 3.8%.
- **UK inflation remained at a 3-year low in Sep** posting 1.7% yoy; core inflation increased to 1.7% from 1.5% the month before. **Producer price index also held steady** at 1.7%, thanks to cheaper fuel prices (-2.1% yoy, the biggest drop since Aug 2016).
- **Retail sales in the UK remained flat** in Sep, on continued Brexit uncertainty: quarterly sales growth held steady at 0.6% while the annual pace of expansion dropped to 3.1% from 3.6% in Q2.

Asia Pacific:

- **China's GDP grew by 6% in Q3** – the weakest quarterly growth since 1992 – and slowing from the previous

quarter's 6.2%.

- **China exports fell** by 3.2% yoy (the biggest fall since Feb) and **imports contracted** by 8.5% yoy in Sep (falling for the fifth consecutive month, and compares to Aug's -5.6%), widening the trade surplus to USD 39.65bn (Aug: USD 34.84bn). **China's trade surplus with the US narrowed** by 16.5% yoy in Sep to USD 25.88bn (Aug: USD 29.96bn).
- **China's inflation rose to a 6-year high** of 3% in Sep (Aug: 2.8%), as a result of a hike in food price inflation (pork prices surged by 69.3%). Core inflation, excluding food, rose by a modest 1%. **Producer price index dropped** by 1.2% yoy in Sep the steepest fall in 3 years.
- **China money supply growth edged up** to 8.4% yoy in Sep (Aug: 8.2%). **New yuan loans increased** to CNY 1.69trn (USD 238.98bn) from CNY 1.21trn the month before. **Outstanding total social financing**, a broader measure of credit and liquidity, **grew** by 10.8% in Sep (Aug: 10.8%) to CNY 2.27trn, up from CNY 2.02trn in Aug.
- **FDI into China expanded** by 6.5% yoy to CNY 683.2bn during Jan-Sep. **Fixed asset investment grew** by 5.4% yoy in Jan-Sep to CNY 46.1trn (USD 6.5trn), supported by robust high-tech investment. **Retail sales picked up** by 8.2% yoy in Jan-Sep while excluding automobiles growth was 9.1% during the period.
- **Industrial production in China** grew by 5.8% yoy in Sep, while recording a growth of 5.6% during Jan-Sep. High-tech manufacturing led the overall industrial output growth with its 8.7% yoy rise during the period.
- **Korea's trade surplus**, for the 92nd consecutive month, amounted to USD 6bn in Sep; exports declined by 11.7% yoy to USD 44.7bn alongside a dip in imports by 5.6%. Export to China, South Korea's biggest trading partner, contracted 21.8%, and to the US and Japan were down by 2.2% and 6.0% respectively.

- **Japan's industrial output fell** by 1.2% mom in Aug, in line with initial estimates, and reversing a 1.3% rise in Jul.
- **Core inflation in Japan** (excluding food prices) **slowed to a 29-month low** of 0.3% yoy in Sep, from Aug's 0.5%, on lower fuel prices. The core-core consumer prices, which exclude both fresh food and energy-related items, rose 0.5%, slowing from Aug's 0.6%.
- **Singapore narrowly avoided a technical recession** (i.e. two straight quarters of qoq contraction), with Q3 GDP rising by 0.1% yoy. On a qoq seasonally adjusted annualised basis, the economy expanded by 0.6%, turning around from a revised 2.7% contraction.

Bottom line: The IMF, as expected, lowered its global growth forecast to 3% this year, the lowest since the 2008-09 financial crisis. Though the US-China trade tensions are projected to cumulatively reduce the level of global GDP by 0.8% by 2020, overall growth is expected to rise to 3.4% next year, supported by improvements across the developing nations (including in the Middle East and Latin America). A week with no major updates on the US-China trade deal saw many instances of protests across Lebanon, Hong Kong, Chile and Barcelona. Separately, the UK Parliament voted to withhold full approval of the Brexit deal: the PM has vowed to bring in legislation on Mon to implement the deal struck with Brussels last week.

Regional Developments

- **Oil investments in Bahrain have touched USD 8bn over the past years**, disclosed the oil minister.
- **Bahrain's new international airport** – a joint venture of UAE's Arabtec and Turkey's TAV under a USD 1.1bn contract – **is set to open in Q1 2020**, according to the transportation and telecommunications minister. It was announced earlier in Jun 2019 that the handover would be in Q3 2019.
- **The IMF plans to initiate a new cooperation programme**

with Egypt, according to the organisation's MD. Separately, the IMF called for additional structural reforms to achieve a growth target of 6% by the end of the current fiscal year.

- **The Egyptian Financial Regulatory Authority confirmed the approval of lower stock exchange trading fees**—trading service fees were reduced to 0.005% from 0.00625%, clearing and settlement fees to 0.01% from 0.0125% and stock market commissions to 0.01% from 0.012%. The decision needs cabinet approval before being implemented.
- **Egypt's primary surplus** (excluding debt service payments) **shrank** to EGP 7.1bn (USD 437.73mn) in Q1 of the current fiscal year from EGP 7.2bn in the same period a year ago.
- **Egypt's draft customs law has been referred to the parliament for approval.** The law, which proposes a single window system, aims to facilitate customs procedures, reduce costs of goods, and cut clearance time through digitizing customs clearance procedures thereby improving the business climate.
- **About 1.2mn households in Egypt are connected to the natural gas grid in Q1** of the 2019-2020 fiscal year. From Jul-Sep, about 306k households were connected to the natural gas grid, representing 102% of the target.
- **Oil output in Egypt declined** by about 7k barrels per day (bpd) from Jul to 612,650 bpd in Aug, according to the Joint Organisations Data Initiative. The country's production dropped by 5% yoy in Aug and by 4.8% since end-2018. Separately, the petroleum minister disclosed that the **petroleum sector attracted USD 30bn investments in the last 5 years.**
- **Tourism related revenues in Jordan accelerated** by 9% yoy to USD 4.4bn by end-Sep, according to the central bank. This was supported by a 7% rise in tourists to 4.107mn.
- **Jordan's Aqaba Special Economic Zone Authority council halved its registration and economic activity fees** for a

year.

- **Kuwait's non-oil exports surged** by 164% yoy in Sep 2019; Iraq, Jordan, Egypt and Palestine were the top importers while among the GCC states, Qatar topped the list followed by Saudi Arabia and UAE.
- **Lebanon continued to witness protests last week:** PM Saad Hariri in a televised speech on Fri last week **gave his political adversaries three days to agree on solutions** to the ongoing impasse. Protests were sparked by the cabinet's decision to raise a new USD 0.20 tax on WhatsApp voice calls (which was later withdrawn). The nation's **sovereign dollar-bonds tumbled** as much as 1.9 cents on Fri. Since then, the right-wing Lebanese Forces party quit the coalition government.
- **Oman's real estate deal values** touched OMR 173.3mn (USD 449mn) from 33,665 transactions during Sep while collected fees amounted to over OMR 6.07mn.
- **Oman announced a new set of regulations for the tourism sector:** restaurants and cafes catering to tourists need to hire a manager for daily management
- **Qatar approved a new minimum wage law and announced scrapping of the mandatory exit visas and "no-objection certificates" for workers moving jobs.** These new reforms are expected to come into force by Jan 2020.
- **Saudi Aramco plans to delay "by weeks" its planned IPO,** reported the FT (More: <https://www.ft.com/content/b34d35c8-f106-11e9-ad1e-4367d8281195>). It is likely to be on hold till the next earnings update, which would reveal the company's resilience to the Sep attacks.
- **Oil production in Saudi Arabia will reach 9.86mn barrels per day (bpd) in Oct and Nov,** disclosed the energy minister. Output had declined by 660k bpd from Aug to 9.13mn bpd after the Sep attack on oil fields.
- **Saudi Arabia's Shoura Council requested a freeze on the expat fees** on companies and expat dependents fee for 2020. The monthly fee on dependent expats is set to rise

to SAR 400 (USD 107) by next year, from SAR 100 now. The expat fee on companies is to double to SAR 800.

- **Saudi Arabia's financial institutions should hire Saudi nationals for leading positions**, according to SAMA. If not, adequate explanations are to be provided to the regulator.
- **Saudi Arabia launched a new logistics zone in Jeddah:** the Al-Khomra zone which extends over 2.3mn square meters is expected to create 10k direct jobs as the biggest logistics zone in the country. The private sector is expected to operate much of its transport infrastructure, with the government keeping a role as regulator.

UAE Focus

- **Inflation in Abu Dhabi declined by 0.9% yoy till Sep this year**, with the Sep inflation reading at a 1.8% yoy and 1% mom dip.
- **Banks in the UAE invested AED 10.3bn (USD 2.8bn) in bonds** during the Jan-Aug 2019 period, up 12.7% yoy.
- **A total of 32,256 business licenses were issued in the UAE over Jan-Aug this year**, bringing the total number of business permits to 572,615 (+6% from end-Dec). Abu Dhabi and Dubai accounted for 46.9% and 23.7% respectively of total number of business licenses.
- The **Dubai Airport Free Zone Authority (DAFZA)** reported an **8% yoy growth in the value of foreign trade** to over AED 78bn in H1 this year. Growth was driven by an 11% rise in re-exports to AED 45bn. India was the top trade destination (18% of total trade) followed by Switzerland (16.4%) and China (15.7%).
- **Dubai's external trade with Russia increased** by 25% yoy to AED 9.21bn (USD 2.5bn) in 2018. Bilateral trade touched AED 4.55bn in H1 this year.
- **Russia and UAE signed various deals** across energy, nuclear power, aviation and the environment **during the**

1-day visit by the Russian president. Russia's sovereign wealth fund had announced plans to sign 10 deals worth more than USD 1.3bn, including with Mubadala.

- **The Emirate of Sharjah started marketing a 10-year dollar Sukuk** last week, at 185bps over mid-swaps.
- **The DIFC announced a 45% growth in Islamic assets** managed in the centre during the Q2 2018-Q2 2019 period.
- **Etihad Airways and Air Arabia announced the setting up of a low-cost carrier in Abu Dhabi.** No information was provided about either ownership structure or start of operations.
- **Chinese tourists to Dubai can benefit from instant VAT refund** capabilities at Dubai Airports via the We Tax Refund. The visitors will receive the refunds in RMB.
- As part of the National Space Strategy 2030 and Space Investment Plan, **UAE has launched economic free zones for space firms**, with 100% foreign ownership.
- The Dubai Electricity and Water Authority (DEWA) **received a "record" low bid of USD 1.69 cents per kilowatt-hour (kWh)** for its 900 megawatt (MW) fifth phase of the Mohammed bin Rashid Al Maktoum Solar Park.
- **The UAE is the MENA region's most valuable country brand:** its brand value rose by 3% to USD 730bn in 2019, according to a report by Brand Finance. The country is ranked 6th globally behind Singapore, Switzerland, Netherlands, Germany and Luxembourg.

Media Review

IMF World Economic Outlook

<https://www.imf.org/en/Publications/WE0/Issues/2019/10/01/world-economic-outlook-october-2019>

<https://blogs.imf.org/2019/10/15/the-world-economy-synchronize-slowdown-precarious-outlook/>

Arab World: Banking and Finance – FT Special Report

<https://www.ft.com/reports/arab-banking-finance>

Trump's Middle East Meltdown

<https://www.project-syndicate.org/bigpicture/trump-s-middle-east>

[st-meltdown](#)

Sen. Mitt Romney raises a troubling theory about Trump and Turkey

<https://www.washingtonpost.com/politics/2019/10/17/mitt-romney-raises-very-troubling-theory-about-trump-turkey/>

Aramco IPO: is it worth USD 2trn?

<https://t.co/UF4XUDf4gC>

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