

Weekly Economic Commentary – Oct 27, 2019

Markets

The much anticipated and tentative “phase one” US-China trade deal, likely limited to purchases of US farm goods by China and small concessions on currency, generated a fair share of optimism in the global markets. Equity markets were up – S&P 500 was near record highs, the pan-European stocks index rose to its strongest close in over 20 months and the MSCI All World Index gained as well – bond yields and the dollar index strengthened. Among regional markets, Egypt’s stock market rebounded towards end of the week, while in the GCC, Qatar witnessed its biggest intraday fall since Mar and weak earnings hit Saudi. The pound sterling dipped after the EU failed to confirm a date for UK’s departure from the EU amid renewed calls for fresh elections. Oil prices gained on trade optimism, inventory drawdowns and rumours of OPEC+ cuts and gold prices climbed higher.

Global Developments

US/Americas:

- **US manufacturing PMI improved** to 51.5 in Oct (Sep: 51.1) while the services PMI ticked up to 51; **composite PMI also edged up** to 51.2 to 51.1 the month before.
- **US budget deficit widened** to USD 984bn, or 4.6% of GDP – **the largest since 2012**– from the previous USD 779bn (3.8% of GDP). While total receipts grew by 4% to USD 3.5trn, spending grew at twice that rate, given the higher spending on defense, healthcare and social security programs.
- **US existing home sales declined** by 2.2% mom in Sep to a seasonally adjusted annual rate of 5.38mn units (Aug: 5.5mn). **New home sales also declined, as prices dipped to the lowest since 2017:** sales were down by 0.7% mom in

Sep, but grew 15.5% yoy. Median new house price fell by 7.9% mom – the biggest decline since Sep 2014 – to USD 299,400.

- **Durable goods orders dipped** by 1.1% mom in Sep, registering the biggest setback since a 2.3% decline in May this year. New orders for non-defense capital goods excluding aircraft fell for the second consecutive month, down by 0.5%.
- **Initial jobless claims unexpectedly fell** 6k to 212k in the week ended Oct 19; the 4-week moving average fell by 750 to 215k.

Europe:

- The **ECB left policy rates unchanged**. Draghi, at his last meeting as ECB governor, urged Eurozone governments to enact reforms to improve productivity and labour markets, and to use fiscal policy to further stimulate the bloc's economy.
- **Germany's Ifo business climate index remained unchanged** at 94.6 points in Oct; the outlook improved slightly and the economy is stabilizing, according to the institute.
- **Diverging economic activity: the preliminary PMI reading from Germany show the economy to be struggling while France rebounded**. German manufacturing PMI stayed under the 50-mark though inching up to 41.9 in Oct (Sep: 41.7); the composite index also ticked up to 48.6 (Sep: 48.5). France's manufacturing PMI recovered to 50.5 from Sep's 50.1 while services PMI jumped to 52.9 from 51.1 the month before. The Eurozone composite PMI reading touched 50.2 in Oct (Sep: 50.1).
- The European Commission's **consumer confidence index in the EU dropped** 1.1 points to -7.6, the lowest level since Dec.
- **S&P upgraded Greece's foreign debt rating a notch to BB-**, citing an improved budget outlook and solid growth prospects. S&P meanwhile **affirmed Italy's sovereign**

credit rating at BBB, with a negative outlook, mentioning the government's fiscal targets as "broadly credible".

Asia Pacific:

- **China's PBoC set its new "loan prime rate" exactly the same for Oct as Sep:** it was set at 4.2% for the one-year rate and 4.85% for the five-year.
- **Weaker exports to Asia led to a 3rd consecutive month of trade deficit in Japan:** exports slumped by 5.2% yoy in Sep, and with imports dropping by 1.5%, trade deficit totaled USD 1.1bn.
- **South Korea's GDP slowed in Q3:** the economy expanded by 0.4% qoq in Q3, though slowing from 1.0% growth in the previous quarter. Net exports lifted the GDP growth by 1.3ppts while the private sector's contribution to GDP rebounded to 0.2ppts (Q2: -0.2ppts).
- **Inflation in Singapore remained unchanged at 0.5% yoy in Sep,** while core inflation touched 0.7% – a 3-year low and a tad lower than the month before.
- **Singapore's industrial production edged up** by 0.1% yoy in Sep (Aug: -6.4%), rising for the first time in 5 months, thanks to a boost in pharmaceutical output (+26.2%). Electronics output continued to slip, posting a decline of 9.6% yoy in Sep following Aug's 25% fall.

Bottom line: On one end of the world, focus was on the progress in US-China trade negotiations, which for now seems to be steering clear of issues like cyber theft, industrial subsidies, IP rights, state-owned enterprises and the like. Meanwhile, Brexit continues to drag on with no clear picture even as the Oct 31 deadline approaches: the PM calls for fresh elections and while EU ambassadors have agreed to delay Brexit, the new deadline date will be revealed only this week. Central bank meetings are also on the agenda this week: Fed – widely expected to announce the third interest rate cut

of the year – and the BoJ (the first meeting after the hike in the consumption tax amidst weak domestic demand and declining exports). Amidst all the macro numbers, one must not forget the geopolitics: protests continue in Lebanon, Iraq, Hong Kong, Chile and Catalonia while US braces for the impeachment enquiry and UK for a new Brexit deadline.

Regional Developments

- **Bahrain's government deems the postponement of VAT as illegal** as it would represent a violation of the provisions of the Constitution. This answer was provided in response to a proposal tabled by an MP to scrap VAT for a year.
- According to the finance minister, **Bahrain's progress on the fiscal front has been encouraging, and it remains on track to eliminate deficits by 2022.** Bahrain's deficit narrowed by 37.8% in H1 this year, thanks to a 47% surge in non-oil revenue alongside a 14% dip in administrative costs.
- **A new Sustainable Energy Authority has been set up in Bahrain** to support the move towards sustainable energy; replacing the existing Sustainable Energy Centre, this new entity will be affiliated to the Council of Ministers.
- **A new oil discovery in Egypt will add an expected daily output of 5k barrels,** revealed the Italian energy company Eni. The new resources were discovered in the Abu Rudeis Sidri development lease in the Gulf of Suez, reported *Ahram Online*.
- **Egypt's manufacturing index increased** by 1.4% mom to 132.5 in Aug, with the index of food industries up by 15.4% alongside a dip of 5.8% in the index of base metal manufacturing.
- **The Egyptian pound was its strongest in more than two and a half years** last week, boosted by higher foreign exchange inflows.
- **Egypt's domestic gas consumption grew** by 3.8% yoy to

5.97bn cubic feet per day (scf/day) in the last fiscal year, as per the Egyptian Natural Gas Holding Company. The industrial sector remained the largest consumer of electricity with its share at 22.5% of the total while households and cars consumed 304.8mn scf/day of natural gas (5.1% of total).

- **Egypt's bilateral trade with India** touched USD 4.5bn in 2018, and Indian investments in the market was USD 3.3bn via 50 projects across multiple sectors (including renewable energy).
- **Bilateral trade between Egypt and Kuwait** touched USD 44mn in Jan-Feb this year; this follows a 47.63% yoy surge in trade to 2.6bn last year.
- **Total exports from Jordan** grew by 6% yoy to JOD 195bn during Jan-Aug; imports declined by 5.2% to JOD 8.95bn during this period.
- **Jordan is planning to roll out a new digital payment system by the beginning of 2020** to enable all government payments to citizens (including National Aid Fund payments and bread subsidies) to be made using bank accounts or digital wallets. Additionally, to prevent corruption, direct cash payments to government institutions will not be accepted from 2020.
- **Inflation in Kuwait increased** by 1.68% yoy in Sep, driven by a rise in transportation costs (+5.4%) while housing group was down by 0.78%.
- **Kuwait central bank issued bonds and related *tawarruq*** worth KWD 240mn (USD 793.3mn): the issue was oversubscribed 11.19 times.
- **Foreign reserves in Kuwait** grew by 2% mom to KWD 11.02bn in Sep. The highest level reached was KWD 11.215bn in May this year.
- **Kuwait's trade surplus with Japan widened** by 9.2% yoy to USD 469.9mn in Sep, backed by lower imports from Japan (-21% to USD 129.57mn).
- **Lebanon's anti-government protests continued over the weekend** in spite of the President's speech inviting

protestors for a dialogue, amidst hints of a government reshuffle. Banks remained closed for a 7th consecutive working day on Fri: this will negatively affect businesses, grow the LBP black market and create depositor panic. The Association of Banks announced that banks would stay closed till normal conditions return and that month-end salaries would be paid through ATMs.

- The catalysts for **Lebanon's** unrest include deep economic-financial-fiscal crisis, environmental & health crisis, and lack of governance, widespread corruption and lack of trust in politicians and government. Hence it is little surprise that around 85% comments on social media were negative about the **PM's 18-point reform plan**. The **2020 budget was also passed** by the government with the budget deficit reduced to an unrealistic 0.6% of GDP (2019: ~9% of GDP), and banks, including the central bank, set to participate in the deficit-reduction through an amount of LBP 5.1trn (USD 3.4bn).
- **Oman's budget deficit narrowed** by 24.7% yoy to OMR 1.4bn by end-Aug; supported by an oil price recovery, total revenue grew by 6.9% yoy to OMR 7.1bn in Jan-Aug 2019.
- **Credit disbursed by banks in Oman grew** by 3.3% yoy in Aug, with the non-financial corporate sector receiving 46% of the credit, followed by the household sector (45.3%).
- **Oman's new bankruptcy and insolvency law will come into force on 1 Jul 2020**. This sets up the rules and regulations supervising the declaration of bankruptcy to helping reconcile with creditors as per a restructuring plan and so on.
- **S&P affirmed its "BB/B" long- and short-term foreign and local currency sovereign credit ratings on Oman and the outlook was negative** reflecting "the risk that in the absence of substantial fiscal measures to curtail the government deficit, fiscal and external buffers will continue to erode".

- **Hotel revenues in Oman** grew by 8.2% yoy to OMR 141.329mn till end-Aug though hotel occupancy rates fell by 7.6% to 52%.
- **Oman is planning to make travel insurance mandatory for all inbound tourists.**
- It was reported by *Reuters* that **Oman was considering the setup of a new regional airline** to take over domestic operations from Oman Air, but it was later refuted by Oman Aviation Group.
- **Inflation in Saudi Arabia slipped** for the 9th month in a row, falling 0.7% yoy in Sep (Aug: -1.1%) as the effects of last year's VAT introduction fade off.
- **Saudi Arabia raised USD 2.5bn through a Sukuk issuance;** investor demand was for more than USD 13bn.
- **Saudi Aramco IPO was delayed to allow for deal advisers to lock in cornerstone investors,** reported *Reuters*.
- **Saudi Arabia's credit card debt increased** by 6.96% qoq and 19.25% yoy to SAR 16.72bn (USD 4.46bn) in Q2 this year. Around 3mn cards were issued and used in Q2, up 4.3% yoy.
- **Saudi Arabia's trade surplus with Japan narrowed** by 30.7% yoy to USD 1.47bn in Sep, with exports slipping by 21.8% to USD 1.94bn.
- **Saudi Arabia announced reduced domestic gasoline prices** from Oct 20th: depending on the grade of petrol, prices were lower by 1.96%-5.96% from the previous quarter.
- **Saudi Arabia's shisha tax:** the 100% tax on shisha tax is applied on all tobacco products; a ruling issued by the ministry of Rural and Municipal Affairs states that the tax would apply to "the total invoice of the business serving tobacco products".
- **About 133k expats left private sector jobs in Saudi Arabia during Q2 2019** (averaging 1468 persons on a daily basis); an average 492 Saudis joined the private sector daily during the period, according to the National

Labour Observatory.

- **Saudi women holding government jobs increased** to 40.3% from 39% in 2 years, according to the Ministry of Civil Service for the empowerment of women. It was also disclosed that employment gap between men and women declined to 37.8% in Q2 this year from 50.3%.
- **Resolving insolvency was a key area of improvement for Saudi Arabia in the World Bank's Doing Business 2020 report**, enabling the nation to rise 30 places to 62nd globally. However, with only 3 bankruptcy cases settled so far, and about a dozen others still unresolved, the next edition will be able to provide evidence of the law's success.
- **A new "host visa" is being planned in Saudi Arabia:** this will allow citizens and expats in the country to host people under their personal sponsorship for up to 90 days. This is expected to cost SAR 500 per person for a year.
- **The Virgin Hyperloop One Centre of Excellence project**, if approved, is expected to raise Saudi Arabia's GDP by USD 4bn by 2030 and create 124k high-tech local jobs.
- The World Bank's **Doing Business 2020 report identifies Saudi Arabia, Jordan, Bahrain** (which implemented the highest number of regulatory reforms – 9) **and Kuwait among the top 10 economies that improved the most** in easing the cost of doing business. UAE, ranked at 16, topping the MENA region. Overall, the MENA region put in place 57 business regulatory reforms in the 12 months to May 1, up from 43 in the previous edition. (More: <https://www.doingbusiness.org>)
- **Saudi Arabia remained China's largest crude oil supplier in Sep** as imports from Iran and Venezuela continued to dip due to sanctions. Separately, India's oil imports fell to their lowest in more than three years to 3.82mn barrels per day (bpd) in Sep; Saudi Arabia replaced Iraq as top oil supplier to India after a gap of about 13 months.

- According to Credit Suisse's Global Wealth Report, **wealth in the GCC has been rising**: Saudi Arabia's total wealth touched USD 1.55trn in mid-2019, followed by UAE (USD 922bn), Kuwait (USD 405bn) and Qatar (USD 106bn). In per capita wealth terms, Qatar tops the list at an average USD 147.7k, followed by Kuwait (USD 131.1k), UAE (USD 117k) and Saudi (USD 67k). (More: <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html>)
- **Fintech start-ups in MENA have received USD 237mn in investments since 2015**, accounting for 10% of all venture investments in the region, according to a report by ADGM and MAGniTT. UAE accounted for 47% of all fintech deals made in 2019, as well as topped overall funding for fintech startups over the last 5 years.

UAE Focus

- **Banks need to send feedback on the UAE central bank's proposed property lending caps** to limit exposure to the real estate sector **by Oct 31**. Real estate and construction accounted for about 20% of gross loans at end of Q1 this year.
- **The UAE will levy excise tax on electronic smoking devices and tools and sweetened beverages from Dec 1**. The minimum standard price for a pack of 20 cigarettes has been set at AED 8 and the excise price cannot be set under AED 0.4 (40 fils) for one cigarette. About 10 fils excise tax will also be levied on every gram of ready-to-use tobacco.
- **The financial sector accounts for 14.3% of Abu Dhabi's non-oil GDP**, as per a senior UAE official. Banks have reported an 8% increase in customer deposits last year while domestic credit rose by 3.9%.
- **The Dubai Free Zones Council discussed proposals related to long-term rental agreements** for investors in Dubai's free zones **as well as the one free zone passport i.e. a**

unified license that allows businesses to operate across the emirate's free zones.

- **The Shanghai Stock Exchange will set up a “Belt and Road” international exchange in ADGM**, according to the Chief Executive of the Financial Services Regulatory Authority, to meet the financing needs of investors and participants in the Belt and Road Initiative.
- **Mubadala Capital unveiled USD 250mn in tech funds to invest in growing startups in the region.** This includes a USD 150mn “fund of funds” programme which will invest in 15 venture funds committed to supporting Abu Dhabi's Hub71 ecosystem.

Media Review

No Art to the US-China trade deal

<https://www.project-syndicate.org/commentary/america-china-phase-one-trade-accord-fatally-misconceived-by-stephen-s-roach-2019-10>

The week in charts: The Economist

<https://www.economist.com/graphic-detail/2019/10/25/narendra-modis-muddle>

Boris Johnson's Brexit deal poses a rules-of-origin conundrum

<https://www.ft.com/content/280a05ce-f6fe-11e9-bbe1-4db3476c5ff0>

Lebanon 2.0

<https://en.annahar.com/article/1056432-lebanon-20>

Leaderless rebellions & the aftermath

<https://www.ft.com/content/19dc5dfe-f67b-11e9-a79c-bc9acae3b654>

https://carnegieendowment.org/files/Youngs_AfterProtest_final1.pdf

Powered by:

