

Weekly Economic Commentary – Nov 10, 2019

Markets

US equity markets –S& 500, DJIA and Nasdaq Composite – hit record highs, Stoxx logged its 5th consecutive week of gains in spite of dipping after Trump's comments that tariffs roll-back had not been agreed upon with China; in Asia, shares retreated from 6-month highs. Most regional markets remained subdued last week. The dollar rose to a three-week high, while safe haven assets were down including gold price which reported the largest weekly drop since May 2017. Brent price posted a weekly rise of 1.3% even after dipping around 1% after Trump's comments. (FT chart on market performance: <https://on.ft.com/34K5wfY>)

Global Developments

US/Americas:

- **US factory orders dropped in Sep**, falling 0.6% mom (Aug: -0.1%). orders for non-defense capital goods excluding aircraft, a proxy of business spending plans on equipment, dropped 0.6% versus the 0.5% drop reported in Aug.
- Though the **US trade deficit narrowed** to USD 52.5bn in Sep (Aug: USD 55bn), it remains 13.1% higher than the USD 46.4bn deficit when President Trump took office. Exports were down by USD 1.8bn to USD 206bn while imports also declined (falling by USD 4.4bn to USD 258.4bn).
- **US posted its first petroleum surplus**, of USD 252mn, since 1978.
- **Markit US manufacturing PMI was revised lower** to 51.3 in Oct from a preliminary estimate of 51.5, but slightly higher than Sep's 51.1. The services PMI reading was also revised down to 50.6 in Oct (Sep: 50.9), thereby

dropping the **composite PMI** (Oct: 50.9 from Sep's 51) to **its lowest level since Feb 2016**.

- The **ISM non-manufacturing survey improved** to 54.7 in Oct (Sep: 52.6), a tad below its 6-month average of 54.9. Most sub-indicators remained above the 50-mark, though new export orders recorded its weakest reading since Jan 2017.
- **Non-farm productivity unexpectedly contracted** at an annualized 0.3% pace in Q3 – its biggest decline since Q4 2015 – and following gains in H1 this year;
- **Initial jobless claims fell** by 8k to a 1-month low of 211k in the week ended 2 Nov; the 4-week moving average meanwhile increased by 250 to 215,250 the week before.

Europe:

- **German PMI remained under the 50-mark**, with Oct's reading edging up to 42.1 (Sep: 41.7) – the second-lowest since Jun 2009. New orders fell for the 13th straight month and employment declined at the fastest pace in almost 10 years.
- **Eurozone's manufacturing PMI reading was slightly higher** at 45.9 in Oct (Sep: 45.7) while **composite PMI rose** to 50.6 in Oct, from the previous month's reading of 50.2.
- **German factory orders improved** by 1.3% in Sep, after 2 consecutive monthly declines, thanks to a 1.6% and 1.1% respective increase in domestic and foreign orders.
- **Eurozone retail sales edged up** by 0.1% mom and 3.1% yoy in Sep.
- **German industrial production slid** by 0.6% mom in Sep (Aug: +0.4%); overall industrial production has slumped by 1.1% in Jul-Sep – the 5th consecutive quarter of contraction.
- **Germany's Council of Economic Experts reduced its growth forecast** to 0.5% this year (from 0.8%) and to 0.9% next year (from 1.7%).
- **Trade surplus in Germany widened** to EUR 19.2bn in Sep

(Aug: EUR 18.7bn), supported by a 1.5% mom gain in exports –biggest rise in almost two years – while imports were up 1.3%.

- **The Bank of England (BoE) left interest rates unchanged** at 0.75%, and the QE total unchanged at GBP 435bn. The BoE also revised downward its growth forecasts.

Asia Pacific:

- **China Caixin services PMI slowed** to an 8-month low of 51.1 in Oct (Sep: 51.3), as new businesses grew at the slowest rate in 8 months while higher foreign demand supported new export business. The **Caixin Composite PMI index** bounced back to 52.0 in Oct (Sep: 51.9), marking its highest level since Apr.
- **China forex reserves expanded** by 0.4% mom to USD 3.1052trn in Oct while the value of China's gold reserves rose to USD 94.65bn from USD 93.045bn at end-Sep.
- **China foreign trade grew** by 2.4% yoy to CNY 25.63trn (USD 3.67trn) in Jan-Oct this year, as exports climbed by 4.9% alongside a 0.4% drop in imports. Trade surplus widened by 42.3% to CNY 2.35trn. For Oct alone, both exports and imports declined (by 0.9% and 6.4% respectively), bringing the trade balance to USD 42.81bn.
- **Inflation in China rose** to 3.8% yoy in Oct – a 7-year plus high – after posting a 3% reading the month before. Overall food price inflation surged 15.5% (a more than 11-year high) on higher pork prices (+101.3%). **China's producer-price index dropped** deeper into deflation, falling 1.6% yoy in Oct (Sep: -1.2%).
- **Japan leading economic index picked up** by 0.3 points to 92.2 in Sep after falling 1.8 points in Aug. The coincident index of business conditions increased by 2 points from the month before to 101.0 in Sep, largely

due to the rise in household spending ahead of the consumption tax hike in Oct.

- **Japan's overall household spending accelerated at a record rate** in Sep, rising 9.5% yoy to JPY 300,609 (USD 2750), ahead of the Oct tax hike. It was a 10th consecutive month of gains, the longest such streak since 2001.
- **Singapore PMI remained below the 50-mark for the 6th consecutive month in Oct:** the index inched up by 0.1 points to 49.6, on factory output returning to expansion and slower contraction in employment amidst new orders (49.7) declining to the lowest since Aug 2016.
- **Moody's downgraded India's rating outlook to negative** from stable (while retaining the Baa2 rating), stating that growth concerns would constrain the government in reducing budget deficit and thereby the debt burden. It later lowered the rating outlook to negative on various Indian financiers and utilities.

Bottom line: PMI releases dominated last week, underscoring slowing economic growth in Oct as well; growth of output and new orders weakened in the JP Morgan Global Composite PMI while employment fell for the first time since Feb 2010. Global concerns continue to centre around the still unresolved US-China trade uncertainty – with internal White House reports and Trump contradicting statements from China regarding a tariff rollback, the phase one “deal” no longer seems anywhere near agreed. As Brexit unfolds in the UK with a new deadline (and elections in Dec), Moody's became the latest ratings agency to lower the UK's credit outlook to negative while the Bank of England has slashed growth rates (basing its forecasts on the government sealing a Canada-style trade agreement with the EU i.e. it would involve no tariffs but customs checks, some loss of market access for financial and legal services, and some regulatory divergence).

Regional Developments

- **Bahrain** reported a 29% yoy **surge in e-payments for government services** in Q3 this year; about 445k financial transactions worth USD 122mn were carried out during this period.
- **Egypt's PMI slipped** to 49.2 in Oct (Sep: 49.5), posting the 3rd consecutive month of below-50 reading, after new orders fell at the fastest rate since May alongside lower sales and problems with liquidity.
- **Annual urban inflation in Egypt fell** to 3.1% in Oct (Sep: 4.8%), the lowest since Sep 2010, thanks to a drop in prices of fruit and vegetables. This sets the stage for a potential rate cut at the upcoming Nov 14 meeting.
- **Foreign trade in Egypt increased** by 6.85% yoy to USD 95.024bn in 2018-19 fiscal year. Exports grew by 74.3% to USD 28.5 and imports accelerated by 87.1% to USD 66.5bn. China was the largest trade partner (USD 6.5bn), followed by US (USD 6.239bn) and Saudi Arabia (USD 5.99bn).
- **Egypt plans to increase the capital its Sovereign Wealth Fund** fivefold to EGP 1trn (from EGP 200bn) by the end of this year/ early next year, disclosed the minister of planning.
- The **Financial Regulatory Authority in Egypt revealed an exemption for green bond issuers**: fees levied on issuers of green bonds will be reduced to 0.05% for the public offering and 0.025% for the private offering.
- **Egypt's Banque du Caire plans** to float between 30-40% of its shares when it launches its **IPO in Q1 next year**, disclosed the bank's deputy chairman.
- **Egypt launched a new tax e-filing system**, as part of the larger E-Payments Law, to simplify the filing of income, stamp, and value-added taxes.
- **Egypt's** deputy minister revealed **plans to increase local components of renewable energy industry** to 40% for wind farms and 30% for solar plants.
- **Egypt's** Parliament voted to approve a **3-month extension of the state of emergency** till 26 Jan 2020.

- The Central Bank of **Egypt** disclosed that **banks disbursed EGP 144.2bn to finance 556k projects of micro, small, and medium-sized enterprises** from Dec 2015-Jun 2019. Furthermore, the Credit Guarantee Company issued EGP 17bn worth loan guarantees to banks to cover EGP 25.4bn funds granted to SMEs.
- **Jordan's** Cabinet further **expanded real estate exemption measures** last week (effective till Dec 31), including lowering the registration and purchase fees of apartments and lands. The prior incentives had already resulted in an increase in the number of real estate transactions by 9% (sale of lands and apartments grew by 10% and 7% respectively) in Oct.
- **Jordan's** Labour Ministry and 30 public institutions and private companies signed multiple **agreements to provide about 12,500 jobs for young people in productive sectors**.
- **Foreign reserves in Kuwait** grew by 1.89% mom and 6.36% yoy to KWD 11.772bn (USD 38.868bn) in Sep.
- **Remittances from Kuwait declined** by 2.94% yoy to KWD 2.15bn (USD 7.1bn) in H1 2019; in Q2 alone, remittance outflows increased to KWD 1.2bn from KWD 947.9mn in Q1.
- **Kuwait's spending on tourism abroad surged** by 31.38% yoy to KWD 2.818bn (USD 9.304bn) in H1 this year. Last year, spending on tourism grew by 17.6% to KWD 4.03bn.
- **Kuwait's balance of payments posted a deficit** of KWD 9.5mn (USD 31.4mn) in Q2 versus a surplus KWD 234.6bn in Q1 and KWD 961mn (USD 3.2mn) surplus in Q2 2018.
- **Kuwait plans to increase crude oil exports to China** to more than 600k barrels per day (bpd) in 2020, according to a senior official from Kuwait Petroleum Corp.
- **The number of Kuwaitis in the government sector** grew by 2.4% yoy to 361,209 as of Oct this year.
- **Lebanon PMI increased** to at 48.3 in Oct, up from 46.4 in Sep; the survey's data collection ended earlier than planned after businesses shut down during the anti-government protests. Overall, while output and new orders

fell at softer rates, input prices increased slightly.

- **Lebanon's** caretaker finance minister assured that the country is **fully committed to paying its maturing Eurobonds on time** while also stating that the **planned USD 2bn Eurobond issuance slated for end of this month will be delayed.**
- **Moody's downgraded Lebanon's** three largest banks by assets further into junk territory, after lowering Lebanon's issuer ratings to Caa2 earlier in the week citing increased probability of debt rescheduling.
- **Oman is ranked the second country in the world for private home ownership**, with 89% of Omanis owning homes, disclosed the Minister of Housing.
- **Qatar's condensate production capacity is set to rise** to 800k-900k barrels per day after 2024, from more than 700k bpd at present, according to the chairman of consultancy FGE.
- **Saudi Arabia's PMI reached a 4-year high** of 57.8 in Oct (Sep: 57.3), thanks to output growth (fastest rate of expansion in 22 months) and new businesses (highest pace in 45 months).
- **The Aramco prospectus was issued:** while details of the number of shares on offer or a price range were missing, it was disclosed that up to 0.5% of its shares would be offered to individual retail investors. The final offer price would be disclosed on Dec 5th, with bookbuilding taking place from Nov 17-Dec 4 for institutional investors while individual investors will have till the 28th this month to request shares. Aramco cannot list additional shares for a period of six months after trading starts and will also be restricted from issuing additional shares for 12 months. Also, in spite of promising high dividends (of at least USD 75bn), Aramco warned that it may change its dividend policy without prior notice to its minority shareholders.
- **China** – through the Silk Road Fund, oil producer Sinopec

Corp and SWF China Investment Corp –is reportedly in discussions to invest between USD 5-10bn in the Aramco IPO, reported *Bloomberg*.

- **Saudi Aramco has signed crude sales deals for 2020 with five Chinese customers**, increasing total volume by 151k barrels per day compared to 2019 oil supply contracts.
- **Saudi Arabia's deficit narrowed** by 4% qoq to SAR 32.1bn (USD 8.56bn) in Q3; a year ago deficit was just SAR 7.3bn. Government expenditure declined by 18% qoq to SAR 239.4bn in Q3, alongside a 24.6% drop in oil revenues to SAR 131.8bn and a 12.2% decline in non-oil revenues to SAR 75.4bn.
- **The industrial production index in Saudi Arabia declined** by 4.5% mom in Sep to 121.55 points. Though mining and electricity and gas supply sectors posted decreases, manufacturing sector activity inched up by 0.8% to 150.42.
- **Saudi Arabia's cabinet approved the setting up of Saudi Payments Company**, aimed at improving financial inclusion, promoting innovation and eventually moving towards a cashless society. Vision 2030 aims to raise the rate of non-cash utilisation from 18% in 2016 to 28% in 2020 and 70% by 2030.
- **Remittances from Saudi Arabia declined** by 11% yoy to SAR 93bn in Jan-Sep 2019; however, in Sep alone, remittances ticked up by 4% yoy to SAR 10.28bn.
- **Capital flows into the Middle East and North Africa (MENA) region are forecast to accelerate** by 21% to USD 200bn in 2019, according to the IIF. While nearly two-thirds of additional inflows in 2019 are associated with Saudi Arabia's MSCI upgrade, debt issuances also support the rise in inflows.
- **IPOs in the MENA region dropped** by 45.3% yoy to USD 190mn in Q3 this year, according to EY. Only two deals were recorded in Saudi Arabia and Egypt in Q3 versus four deals in the same period last year.

UAE Focus

- **UAE PMI remained unchanged at 51.1 in Oct**, with new orders at the lowest since the survey began more than a decade ago. About 96% of the survey respondents kept workforce levels unchanged and the output price index decreased to 45.1 in Oct (Sep: 47.3).
- **UAE announced the discovery of new hydrocarbon reserves** estimated at 7bn barrels of crude oil and 58trn standard cubic feet of conventional gas. This would raise UAE to 6th globally in terms of oil and gas reserves (from 7th currently).
- A senior government official announced that the **UAE has no plans to introduce income tax and will not hike VAT in the next three years.**
- **Passenger traffic to Dubai International Airport declined** by 2.4% yoy to 23.2mn in Q3; this brings the year-to-date figure to 64.5 passengers, down 4.5% yoy. India remained the top destination country during Jan-Sep (8.8mn customers), followed by Saudi Arabia (4.8mn) and UK (4.6mn).
- **Dubai has issued 64,360 active business licenses to 246,737 Indian business persons**, according to a Dubai Economy report. These companies have added 854,234 jobs to the labour market.
- **UAE central bank governor disclosed** at a conference that **plans are underway to allocate about 40% of banking jobs to citizens within 3 years**, from 26.1% currently.
- **Abu Dhabi International Airport's AED 10.8bn (USD 2.94bn) new terminal project** – expected to increase passenger handling capacity to 45mn a year – **is not expected to meet its opening deadline of this year**, reported *Reuters*.
- **Commercial operations of hyperloop transportation in UAE is likely to begin only by 2023** though trial runs are expected as early as 2020, stated the chairman of

HyperloopTT.

Media Review

Aramco IPO

<https://www.ft.com/content/c5115666-0328-11ea-a984-fbbacad9e7dd>

<https://gulfnnews.com/business/markets/saudi-aramco-prospectus-flags-risks-gives-few-details-on-ipo-size-1.67732669>

How to Get Past the US-China Trade War

<https://www.project-syndicate.org/commentary/framework-for-resolving-us-china-trade-war-by-dani-rodrik-2019-11>

Hard times for SoftBank

<https://www.economist.com/business/2019/11/07/hard-times-for-softbank>

Kuwait conveyed messages from Iran to Saudi Arabia, Bahrain

<https://www.reuters.com/article/us-saudi-iran-kuwait/kuwait-conveyed-messages-from-iran-to-saudi-arabia-bahrain-official-idUSKBN1XF2HI>

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