

Weekly Economic Commentary – Nov 17, 2019

Markets

US markets continued their exuberant winning streak (and record highs) again this week on trade hopes, corporate earnings and economic data. Similar gains across major European and Asian bourses pushed the MSCI World index to within 1% of an all-time high set in Jan 2018. In the MENA region, major markets were mostly down and poor earnings weighed on Egypt. The dollar index fell, the safe haven currencies – the yen and Swiss franc – weakened while the euro edged up. Oil prices gained in spite of reports from both the OPEC and IEA highlighting low demand and peak oil scenarios; gold price recovered towards end of the week, posting a slight gain vis-à-vis last week.

Global Developments

US/Americas:

- **US inflation increased** to 0.4% mom in Oct – the fastest pace in 7 months – thanks to higher prices for fuel, utilities and medical care. **Core inflation** clocked in at 0.2% in Oct (Sep: 0.1%) as rents slowed and despite the new tariffs on Chinese goods. **Producer prices rebounded** as energy prices and healthcare costs increased.
- **US retail sales edged up** by 0.3% mom in Oct (Sep: -0.3%), supported by motor vehicle purchases and higher gasoline prices.
- **US budget deficit widened** by 34% yoy to USD 134.5bn in Oct, bringing the 12-month deficit to above USD 1trn (for the first time in more than 6 years).
- **US industrial production fell** by 0.8% mom in Oct, the biggest decline since May 2018: manufacturing output declined by 0.6%, largely due to a 11.1% drop in motor vehicle production. Capacity utilization fell to 76.7%

in Oct (Sep: 77.5%) – the lowest level since Sep 2017.

- **Total US household debt grew** by 0.7% qoq to USD 13.95trn in Q3, posting the 21st consecutive quarterly increase; student loan debt surged by USD 20bn to USD 1.5trn.
- **Initial jobless claims rose** by 14k to a seasonally adjusted 225k for the week ended Nov 9 – a 5-month high. The 4-week moving average ticked up by only 1,750 to 217k.

Europe:

- **Germany narrowly missed a technical recession** after posting a 0.1% expansion in Q3, from a revised -0.2% contraction in the quarter prior. **GDP in the wider eurozone area grew** by 0.3% qoq in Q3 (Q2: 0.2%) while **UK GDP increased** by 0.3% qoq, rising from a contraction of 0.2% the previous quarter.
- **Inflation in Germany slowed** to 1.1% in Oct (Sep: 1.2%), after energy costs fell by 2.1% yoy. **EU inflation also slipped** to 1.1% last month. **Inflation in the UK**, at 1.5%, **touched a near 3-year low** in Oct (Sep: 1.7%) thanks to slowing housing and utilities prices.
- **German ZEW indicator of Economic Sentiment increased** to -2.1 in Nov, up 20.7 points from Oct. **The eurozone economic sentiment also climbed** by 22.5 points to -1.0.
- **Industrial output in the eurozone rose** by 0.1% in Sep (Aug: 0.4%), after declines in Germany and Italy were offset by increased in France and Netherlands. While the production of non-durable consumer goods rose by 1.0%, durable goods output were down by 0.7%.
- **UK trade deficit widened** to GBP 3.36bn in Sep from an upwardly revised GBP 1.76bn the month before, after imports surged 3.9% while exports advanced at a slower 1.1%.
- **UK retail sales unexpectedly fell** by 0.1% mom in Oct, with household goods sales recording a 1.3% mom fall.
- **UK unemployment rate declined to a new a 45-year low** of

3.8% in the 3 months to Sep. Average earnings excluding bonuses increased by 3.6% during this period, compared with 3.8% growth in the month before.

Asia Pacific:

- **The People's Bank of China kept lending rate unchanged and injected CNY 200bn** (USD 28.6bn) through its medium-term lending facility **to boost liquidity** – the second time this month.
- **China's net new bank loans dipped to a 22-month low** of CNY 661.3bn (USD 94.5bn) in Oct while **money supply increased** by 8.4% yoy to CNY 194.56trn. **National aggregate financing** totaled CNY 618.9bn (Sep: CNY 2.27trn) bringing Jan-Oct total to CNY 19.41trn.
- **China fixed asset investment growth dipped to its lowest level in 2 decades**, rising by 5.2% in Jan-Oct. Private sector fixed-asset investment, which accounts for 60% of the country's total investment, grew 4.4% in Jan-Oct while fixed-asset investment in technology sectors had grown at about 14%.
- **Industrial production in China grew** at a slower 4.7% yoy in Oct versus Sep's 5.8% rise; steel output was at a seven-month low; **retail sales increased** by 7.2% yoy in Oct (same as Apr's 16-year low) while auto sales fell for the 16th straight month.
- **Japan's GDP growth slowed sharply**, recording an annualized 0.2% in Q3 (Q2: 1.8%), as overall exports continued to decline. Private consumption slowed to 0.4% in Q3 (Q2: 0.6%) despite demand picking up ahead of the Oct hike in tax.
- **Japan's core machinery orders fell** for a 3rd straight month, down by 2.9% mom in Sep.
- **India industrial output shrank** by 4.3% yoy in Sep (Aug: -1.4%), the lowest in almost 8 years while capital goods production, which is a barometer of investment, declined by 20.7% in Sep (Sep 2018: 6.9%).

- **Trade deficit in India narrowed** to USD 11.01bn in Oct, after exports declined by 1.1% and imports fell for a 5th consecutive month by 16.3%.
- **India's inflation increased** to a 16-month high of 4.62% yoy in Oct (Sep: 3.99%), breaching the 4% medium-term target set by the central bank, after food and beverage prices accelerated by 6.93% (the highest since Aug 2016).
- **Korea unemployment rate fell** by 0.5% yoy to 3.0% in Oct – a 6 year low; however, the manufacturing sector lost 81k jobs last month as global demand for South Korean cars and electronic products waned.
- **Singapore retail sales declined** by 2.2% yoy in Sep (recording the 8th straight monthly fall) to SGD 3.5bn; motor vehicle sales dropped by 12.3% while sales of furniture and household equipment were down 8.9%.

Bottom line: Over the weekend, reports were out of a “constructive” high-level phone call between US-China trade negotiators, though no details were given about either the deal or its timing (same with the WH economic adviser's statement about “getting close” to an agreement though “not done yet”). In Europe, Germany and UK posted positive growth rates in Q3, providing a temporary relief; Chinese data showed no respite (<https://tmsnrt.rs/32V0gD2>) and the PBoC unexpectedly injected liquidity via MLF loans while Hong Kong is hoping that Alibaba's IPO listing on its exchange will boost confidence (in spite of the almost 6-month long protests). India's woes continue with the latest inflation and manufacturing numbers hurting the economy. Separately, the IIF warned of record USD 255trn global debt by end of this year – that's nearly USD 32500 for each of the 7.7bn persons on Earth.

Regional Developments

- **Bahrain's non-oil exports touched USD 15.5mn last year;** 42% of Bahraini exporters had reached new markets,

resulting in new investment of USD 9mn in their businesses.

- **A 20% increase in wages for public sector employees** was approved unanimously by the **Bahrain** parliament.
- **The number of Bahrainis holding senior managerial roles in the private sector increased** by 265% over the past 6 years to 4475 by mid-2019, disclosed the Labour and Social Development Ministry.
- **Egypt's central bank cut its key interest rates by 100bps:** the overnight deposit and lending rates stand at 12.25% and 13.25% after the cut. This followed a decline in inflation to a 14-year low in Oct.
- **Egypt is targeting a budget deficit of 6.2% of GDP** and GDP growth of 6.4% **in the next fiscal year 2020-2021**, according to the finance ministry.
- **Egypt issued dollar-denominated euro bonds worth USD 2bn** in three tranches to cover part of its 2019-2020 budget; subscription orders exceeded USD 14.5bn.
- **Exports from Egypt** are estimated to rise by 20% by this year-end, revealed the minister of trade and industry. He also stated that about 36% of Egyptian imports are production inputs.
- **Egypt's unemployment rate grew** by 0.3% qoq to 7.8% in Q3, versus Q2's 7.5% and 10% in Q3 2018.
- **Egypt invested a total of EGP 940bn in infrastructure projects** over the last five years.
- UAE announced the **launch of a USD 20bn joint investment platform between UAE and Egypt** to implement vital economic and social projects.
- **Assets of Jordan's banking sector grew** by 3.7% yoy to JOD 50.9bn in 2018, while deposits increased by 2% to JOD 33.85bn.
- **Jordan's tourism revenues accelerated** by 9.4% yoy to USD 4.9bn as of end-Oct, supported by the 7.7% rise in the number of tourists to 4.5mn. In Oct alone, tourism receipts stood at USD 458.4mn (+13.4%).
- **Jordan's progress** in World Bank's latest **Doing Business**

report: it has been ranked 4th in the 2020 report's Getting Credit index, vis-à-vis 134th in the 2019 edition.

- **Kuwait's investments in Jordan are estimated at over USD 18bn**, according to a senior Kuwait Chamber of Commerce official.
- **Bilateral trade between Kuwait and China touched USD 18.7bn in 2018**, disclosed a senior finance ministry official.
- **Kuwait's PM submitted his cabinet's resignation to the Ruler**, after tensions escalated between parliament and government, also resulting in no-confidence motions being tabled.
- **S&P downgraded Lebanon's credit rating** to CCC/C from B-/B citing rising financial and monetary risks; outlook is negative.
- **Mohammad Safadi** (a former finance minister and minister of economy and trade in Lebanon) **withdrew his candidacy to be Lebanon's next PM**, though three major Lebanese parties agreed to nominate him.
- **Lebanon's energy ministry will trial a state tender for gasoline next month**, according to the caretaker energy minister. The tender is expected to supply about 10% of the needs.
- **Oman's oil and gas sector** has been allocated **investments** of between USD 10-15bn over the next three years.
- **VAT revenues in Saudi Arabia touched SAR 46.7bn (USD 12.45bn) in 2018**, revealed the finance minister. Non-oil revenues grew by 77% during the past 3 years to SAR 294bn in 2018.
- **Saudi Aramco** plans to buy **USD 1bn worth shares for employees** under a "celebratory grant plan" to incentivize executives and staff members.
- **Spending on innovation in Saudi Arabia's private sector** totaled more than SAR 64bn (USD 17.5bn) in 2018, according to the Institutional Innovation Survey 2018

released by the General Authority for Statistics.

- **Saudi Arabia's** Ministry of Labor and Social Development disclosed that **about 2.6mn foreign workers in the country are unskilled**. The ministry also plans to organize vocational tests for workers from seven countries (India, Philippines, Sri Lanka, Indonesia, Egypt, Bangladesh and Pakistan) starting next month.
- **Saudi Arabia needs over 1mn persons to enter the tourism workforce**, according to the CEO of the Red Sea Development Co.
- **Bahrain topped the MENA region and came in 2nd globally for Islamic finance development**, as per the latest edition of the annual Islamic Finance Development Indicator. *(More: <https://www.zawya.com/islamic-finance-development-indicator/>)*

UAE Focus

- **The UAE central bank revealed a decline in foreign assets** by 0.8% to AED 374.3bn (USD 101.9bn) in Q3 this year, largely resulting from an 84.8% decline in foreign securities.
- **Total assets of UAE-based banks increased** to over AED 3trn (USD 820bn) by end-Sep; about 19.7% of total assets are owned by Islamic banks.
- **Bilateral trade between Dubai and China** posted 81% growth during the past decade to AED 139bn in 2018. About 876 Chinese companies are registered at Dubai Customs including 623 companies with trade licenses, 244 with free zone licenses and nine with professional licenses.
- **Hotel guests in Abu Dhabi increased** by 1.7% yoy to 1.3mn in Q3 this year, bringing the total year-to-date number to 3.8mn guests this year (+2.9%).
- The **Dubai Economy's Composite Business Confidence Index of local businesses increased** 14.9 points to 129.8

points in Q3 2019. The travel and hospitality sector are the most optimistic about volumes for Q4 while services sector in general remained more optimistic compared to manufacturing & trading sectors.

- **UAE's brand value increased by 3% to USD 730bn**, as per the latest Brand Finance report, way ahead of other MENA nations. About 11 out of the 20 fastest-growing nation brands of 2019 globally come from the region.

Media Review

Global debt to top record USD 255 trillion by year's end: IIF estimates

<https://www.reuters.com/article/us-global-markets-debt-idUSKBN1XP1FB>

Five market axioms that can no longer be relied upon: El-Erian

<https://www.ft.com/content/d9c625e2-ffe9-11e9-b7bc-f3fa4e77dd47>

The High Stakes of the Coming Digital Currency War: Rogoff

<https://www.project-syndicate.org/commentary/global-battle-for-digital-currency-supremacy-by-kenneth-rogoeff-2019-11>

The Free Money Bubble is About to Burst

<https://www.zerohedge.com/markets/free-money-bubble-about-burst>

OPEC's waning power

<https://www.economist.com/finance-and-economics/2019/11/14/tighter-production-targets-have-failed-to-lift-the-price-of-oil>

Cache crunch: Google-Citi deal could be future of banking

<https://www.ft.com/content/ac22c4de-078b-11ea-a984-fbbacad9e7dd>

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