

Weekly Economic Commentary – Nov 24, 2019

Markets

Stock markets in US and Europe applied brakes on the multi-week gains last week on trade concerns (Dec 15 is the next deadline for US tariff hikes), though towards end of the week cordial messages from both Presidents Xi and Trump soothed tensions. Even as Chinese shares hit a 3-month low, the comments supported Asian stock markets to recover. Most regional markets declined last week, dragged down by financial stocks. The pound fell to a 9-day low vs the euro after flash PMIs showed businesses in the UK slipping to the lowest levels since mid-2016 (FX chart: tmsnrt.rs/2egbfVh). Oil pulled back from 2-month highs on concerns about OPEC+ production cuts and delays in a US-China trade deal; gold price also declined.

Global Developments

US/Americas:

- **US building permits touched a 12-year high**, rebounding by 5% in Oct to 1.461mn units, thanks to the single-family housing segment (+3.2% to the highest level since Aug 2007).
- **Housing starts climbed** by 3.8% mom and 8.5% yoy to a seasonally adjusted annual rate of 1.314mn units in Oct, supported by lower mortgage rates.
- **Existing home sales grew** by 1.9% in Oct to a seasonally adjusted annual rate of 5.46mn units (Sep: 5.36mn). Lack of properties for sale is pushing up median existing house prices: prices were up by 6.2% yoy to 270,900 in Oct – strongest price appreciation since Jun 2017.
- **US Markit flash PMI for manufacturing rose** to 52.2 in Nov (Oct: 51.3) while its preliminary services PMI increased to 51.6 this month from 50.6 last month.
- **Initial jobless claims remained unchanged at the 5-month**

high of 227k for the week ended Nov 16. Job growth has slowed this year, averaging 167k per month compared with an average monthly gain of 223k in 2018.

Europe:

- **Germany GDP edged up** by a lethargic 0.1% qoq in Q3 (Q2: -0.2%), thanks to household and government consumption growing by 0.4% and 0.8% respectively; exports picked up 1.0% in the quarter and imports grew 0.1%.
- **Germany's flash Markit manufacturing PMI increased** to a 5-month high of 43.8 in Nov (Oct: 42.1). The services PMI activity index is slowly slipping, with the latest reading at a 38-month low of 51.3 (Oct: 51.6). The composite PMI showed sustained weakness, at 49.2 in Nov (Oct: 48.9)
- **The EU flash Markit manufacturing PMI rose** to 46.6 in Nov (Oct: 45.9), supported by the German numbers, while the services activity slowed to a 10-month low (51.5 in Nov vs 52.2 in Oct), thereby bringing the composite PMI reading lower by 0.3 points to 50.3.

Asia Pacific:

- **The PBoC lowered its benchmark interest rates by 5bps:** the loan-prime rate was set at 4.15% for 1-year maturities and the apex bank ordered state-owned lenders to align their loan rates to that benchmark; the five-year prime rate, used to price housing mortgages, was lowered to 4.8%, the first time the rate on this maturity has been cut since the new LPR regime was introduced in Aug. **This was the third policy move this month:** the 7-day reverse repurchase rate lowered to 2.5% from 2.55% on Mon, which followed a cut in the medium-term lending facility 2 weeks ago.
- **FDI into China expanded** by 6.6% yoy to CNY 752.4bn in Jan-Oct this year.
- **Japan's exports slumped the most since 2016 in Oct:**

exports slipped by -9.2% yoy in Oct, dropping further from Sep's -5.2%; shipments to China, Japan's biggest export market, dropped 10%. Imports slumped nearly 15%, resulting in Japan's first surplus in four months.

- **Singapore revised upwards its Q3 GDP to 0.5% yoy** from the advance estimates of 0.1% growth (Q2: 0.2%). The government also revised its official growth forecast range for 2019 to 0.5-1.0% from 0.0-1.0% previously.
- **Singapore's exports shrank for the eighth straight month in Oct:** non-oil domestic exports fell by 9.6% in Q3, following a 14.7% dip in Q2. Domestic exports of electronic products contracted by 25.0% in Q3 (Q2: -27%)

Bottom line: Flash PMI readings in Europe showed slowing services activity, although manufacturing edged up, pointing towards stabilization (though still under-50), while in the US numbers were more optimistic. Trade tensions drag on with mixed messages, and concerns remain as Trump is expected to sign legislation backing pro-democracy protestors in Hong Kong. Meanwhile, the ten-year US government borrowing costs are just 15bps away from tumbling below two-year yields i.e. curve inversion or a dependable predictor of recession.

Regional Developments

- **Bahrain central bank issued New Government Development Bonds** – which have a duration of five years to Nov 10, 2024 – can now be traded on the Bahrain Bourse. This brings the total bonds and sukuk value on the bourse to USD 6.321bn from 13 listings.
- **Two amendments to Bahrain's budget law**– one, a separate law needs to be drawn up if the government plans to introduce or increase fees, and two, the national budget needs to be presented in Aug, ahead of the constitutional deadline in Oct – approved by the MPS twice **have been rejected again by the Shura Council.**
- **Expatriates in Bahrain with a minimum BHD 50k (USD 132,629) stake** in any financial, trade, tourism,

industrial projects or other businesses **can apply for self-sponsorship residence visas**. This amount is now half the previous requirement of BHD 100k.

- According to the finance minister, **Egypt's recent dollar-denominated bond issue recorded the highest oversubscription rate compared to the nation's previous Eurobond issuances**: the USD 2bn triple-tranche bond issue was oversubscribed by more than seven times attracting bids worth USD 14.5bn.
- **Egypt's exports to Africa grew** by 27.4% yoy to USD 4.73bn in 2018; Algeria topped African importers from Egypt in 2018, with imports value at USD 979.2mn.
- **Bilateral trade between Egypt and the US increased to USD 7.6bn in 2018**; this is up 322% from USD 1.8bn recorded in 1987.
- **Egypt aims to increase oil exports** to USD 8.5bn by the end of the current fiscal year compared to USD 7.7bn a year ago.
- **Crude oil production in Egypt declined** by 2.97% yoy to 170.9mn barrels in Jan-Sep 2019, as per data from the Joint Organisations Data Initiative.
- **Egypt's government debt to GDP ratio dropped** to 88.4% in Q2 2019, down from 97.3% in the same period a year ago, according to the Institute of International Finance. The non-financial corporate debt to the GDP decreased to 22.9% of GDP in Q2 vs 25.9% a year ago.
- **Egypt plans to lower the prices of subsidized food staples from Dec**, stated the supply minister. A bottle of cooking oil will cost EGP 8.5 (USD 0.53) instead of 9.5, the price of sugar will decrease to EGP 8.5 per kilo from 9, and rice will be reduced to 8 per kilo from 9. No reasons were given for the price cuts.
- **Jordan will not impose new taxes in its proposed 2020 budget**, revealed the finance minister, though measures would be put in place to reduce tax evasion and boost revenues.
- **Jordan launched the second incentive package of its**

recently unveiled comprehensive programme: this includes administrative changes (8 institutions have been either merged with other entities or cancelled altogether), as well as mitigating spending (a new unified purchasing system has also been issued, replacing 56 government purchasing systems) as well as remedying administrative shortfalls and red tape (e.g. time taken to process applications).

- **Kuwait's budget recorded a deficit** of KWD 1.7bn (USD 5.6bn) in Apr-Oct 2019 compared to a surplus of KWD 1.9bn during the same period a year ago. Revenues dropped by 16.4% yoy to KWD 10.13bn while spending surged by 21% to KWD 10.878bn.
- **Kuwait withdrew** KWD 42.788bn (USD 141bn) **from the general reserve** during the last five years. The highest withdrawal rate, amounted to KWD 12.793bn, was registered in the fiscal year 2015-16.
- **Kuwait's non-oil exports grew** by 11% yoy to KWD 16.9mn (USD 55mn) in Oct. Iraq topped the list of Kuwaiti exports, followed by Jordan and Algeria while the UAE ranking first among the GCC nations followed by Qatar and Saudi Arabia.
- **Kuwait's trade surplus with Japan narrowed** by 13.5% yoy to JPY 41.38bn (USD 381mn) in Oct. Middle East's trade surplus with Japan declined by 37.8% to JPY 434.24bn.
- **Remittances to the Philippines from Kuwait increased** by 16% yoy to USD 562mn in Jan-Sep 2019.
- **China's Sinopec**, which plans to launch a new USD 5.7bn refining and petrochemical complex in Q2 2020, is **seeking to finalise a crude oil supply deal with Kuwait to use it as key feedstock.**
- After the resignation of the government and refusal of the caretaker PM to be re-appointed as premier, **Kuwait's emir appointed the previous foreign minister as the new PM.**
- **Lebanon's House Speaker scheduled a session of parliament for this Wednesday** to discuss draft

legislation on banking secrecy and returning stolen state funds. **Nov 28 will be critical for the country:** Eurobonds worth USD 1.5bn are set to mature with questions around whether it would be paid on schedule this time.

- An advisor to **Oman's** Capital Market Authority disclosed that several **new initiatives, products and instruments are being designed to boost liquidity in the market:** this includes ETFs, sukuk issuances based on a blockchain platform as well as crowdfunding platform for small investors.
- The **Central Bank of Oman**, in its 2019 Financial Stability report, revealed that it **does not endorse crypto-currencies or other fintech-based assets that have weak governance or are speculative in nature** and given this approach crypto-currencies lack the volume to pose any risk to the Omani financial sector.
- **Saudi Aramco's order book** reached SAR 73bn (USD 19.5bn) during the first 5 days of the offering, divulged Samba (one of the banks managing the deal): some 1.8mn retail subscribers injected more than SAR 14bn riyals into the IPO while institutional subscriptions amounted to SAR 58.4bn. It was reported that **banks were permitted to give leverage to retail customers** at a ratio of 2 to 1 for every riyal they put toward buying Aramco shares, up from the normal limit of 1 to 1. **Meetings are being planned in Dubai and Abu Dhabi** this week though **roadshows in London and New York were shelved** with offering focus being largely domestic. **Aramco plans to sell 1.5% of its shares** or about 3bn shares, at an indicative price range of SAR 30-32, and implying the value of the company at up to 1.7trn.
- **Saudi Arabia plans to launch an instant work-visa service next month** to support small businesses.
- **Wholesale prices in Saudi Arabia increased** by 3.25% yoy in Oct, as the increases in metal products, machinery and equipment and other goods groups outweighed declines

in agriculture and fishery products, ores and minerals, and food products.

- **Inflation in Saudi Arabia declined** by 0.3% yoy in Oct while it picked up by 0.2% mom. Overall yoy decline was largely due to a 4.2% decline in housing and utilities, 0.8% fall in clothing and footwear as well as a 0.5% dip in communication prices.
- **Employees in Saudi Arabia's private sector dropped** by 1.8% qoq to 247,096 in Q2 while average compensation paid to the workers and productivity of workers increased by 0.5% and 3% respectively.
- **Saudi Arabia's crude oil exports declined** by 3% to 6.67mn barrels per day (bpd) in Sep, according to official data, while crude output fell by 660k bpd to 9.129mn bpd and crude stocks fell by 20.27mn bpd to 152.48mn bpd.
- **Oil production across the GCC nations increased in Oct**, according to OPEC's monthly report. Saudi Arabia's production grew by 1.174mn bpd to 10.303mn, while UAE pumped 23k bpd more to 3.106mn bpd and Kuwait increased its output by 16k bpd to 2.674mn bpd.
- **Saudi Arabia and Kuwait rank top among the Arab holders of US Treasury bonds:** Saudi Arabia's holdings grew by 3% to USD 181.5bn worth bills as of Sep, while Kuwait's holdings increased to USD 44.1bn (Aug: USD 43.8bn) and UAE's holdings declined to USD 37.3bn.
- **The number of Indian tourists travelling to GCC is expected to increase 81%** from 5.4mn in 2018 to 9.8mn in 2024, growing at a Compound Annual Growth Rate of 10%, according to Colliers International published ahead of the Arabian travel Market 2020.

UAE Focus

- **UAE approved a federal law on the insolvency of natural persons**, to allow debtors to either settle their financial obligations through a court-approved payment

plan or insolvency and the liquidation of their assets. Creditors can request a debtor be declared insolvent if they owe more than AED 200k.

- **Money supply (M2) in the UAE increased** by 0.8% mom to AED 1.373trn in Oct; **bank deposits added** AED 17.8bn last month while total foreign assets of the central bank rose by 13.45% yoy to AED 370.73bn.
- **Dubai's non-oil trade with Africa from 2011 until end-2019 will cross AED 1trn** (USD 272.3bn), according to the Chairman of Dubai Chamber. In the 2011-18 period, cumulative non-oil trade touched AED 926bn.
- **Tourists into Dubai grew** by 4.2% yoy to 12.08mn international overnight visitors in Jan-Sep 2019, according to Dubai's Department of Tourism & Commerce Marketing. In Sep, the emirate welcomed 1.23mn visitors, up 7.3% yoy. India (1.39mn visitors in Jan-Sep), Saudi Arabia (1.25mn, 2% yoy), UK (851k), Oman (778k, 28% yoy) and China (14% rise to 729k) remained the largest source markets.
- **Billionaires wealth in the UAE decreased** to USD 19.6bn last year from USD 24bn the year before, according to annual UBS and PwC Billionaires Insights report
- **Abu Dhabi's Emirates Water and Electricity Company received bids for a planned 2GW solar photovoltaic project:** this project, upon completion, will more than double the current solar capacity in the emirate.
- **Bilateral trade between UAE and Sri Lanka accelerated** by 62.92% during the past 3 years; during 2015-2017, Sri Lanka received USD 593mn in FDI from the UAE, representing 6.1% of total FDI inflow in that period, as per the Sri Lankan foreign secretary.

Media Review

Aramco IPO & banks

<https://www.ft.com/content/996c56c6-0ba9-11ea-bb52-34c8d9dc6d84>

<https://www.reuters.com/article/us-saudi-aramco-ipo-banks/aram>

[co-ipo-banks-face-pared-payday-of-90-million-or-less-sources-idUSKBN1XT1PJ](#)

<https://gulfbusiness.com/saudi-doubles-amount-banks-can-lend-a-ramco-ipo/>

Why Financial Markets' New Exuberance Is Irrational

<https://www.project-syndicate.org/commentary/financial-markets-new-exuberance-is-irrational-by-nouriel-roubini-2019-11>

Big Tech takes aim at the low-profit retail-banking industry

<https://www.economist.com/finance-and-economics/2019/11/21/big-tech-takes-aim-at-the-low-profit-retail-banking-industry>

After Protest: Pathways Beyond Mass Mobilization

<https://carnegieeurope.eu/2019/10/24/conclusion-pub-80152>

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