

Weekly Economic Commentary – Dec 8, 2019

Markets

A strong US jobs report supported the dollar and US equity markets, moving them closer to record highs and helping S&P 500 turn positive last week; it also helped European equities rally (including the pan-European Stoxx 600); in China stocks posted their biggest weekly advance in nearly two months while MSCI's all-country world index closed just shy of its all-time high of 550.63. Among regional markets, Egypt declined with the market losing EGP 10bn in market cap in a week, while Qatar outperformed its Gulf peers. The British Pound rallied to a 2-year high vs the euro & a 7-month high vis-a-vis the USD thanks to polls showing a lead for the Conservative Party. Oil prices rose after the OPEC+ decision to extend output cuts. As safe haven demand waned, gold price slipped.

Global Developments

US/Americas:

- **Non-farm payrolls climbed** by 266k in Nov – the best since Jan 2019 – alongside steady wage gains (average hourly earnings rose by 3.1% yoy) while the unemployment rate ticked down to 3.5%. ADP (earlier in the week) reported only a 67k increase in private payrolls.
- **Initial jobless claims declined by 10k** to a seasonally adjusted 203k for the week ended Nov. 30 – the lowest level since mid-Apr. The 4-week moving average fell 2k to 217,750.
- **US ISM manufacturing PMI dropped** to 48.1 in Nov (Oct: 48.3) – the 4th consecutive month below 50 – as both new orders (a 7-year low of 47.2) and exports (down 2.5 points to 47.9) remained weak while factory employment index fell 1.1 points to 46.6. **Non-manufacturing PMI slowed** to 53.9 in Nov (Oct: 54.7).

- **US Trade deficit narrowed** by 7.6% to USD 47.2bn in Oct (the lowest since May 2018) after both exports and imports fell. The goods trade deficit with China fell 1.1% to USD 31.3bn, with imports unchanged and exports rising by 3.4%.
- **US factory orders increased** 0.3% mom in Oct (Sep: -0.8%), thanks to rising demand for machinery and transportation equipment. Orders for non-defense capital goods (excluding aircraft) increased 1.1% while shipments of core capital goods gained by 0.8%.

Europe:

- **EU GDP grew** by 0.2% qoq and 1.2% yoy in Q3 (Q2: 0.2%), supported by household consumption expenditure (+0.5%). **Employment in the EU28 increased** by 1% yoy in Q3 (Q2: 0.3%): of the 241.5mn people employed in the EU28, 160.1mn were in the euro area.
- **Germany industrial production dropped** by 1.7% mom and 5.3% yoy in Oct, dragged down by capital goods production (-4.4%).
- **German factory orders declined** by 0.4% mom in Oct, with orders from domestic customers falling by 3.2% mom, while foreign orders rose 1.5%.
- **Germany Markit manufacturing PMI climbed to a 5-month high** of 44.1 in Nov (Oct: 42.1); but new orders fell at the weakest rate since Jan and manufacturers' expectations turned positive for the first time in 5 months. **Services PMI ticked up** to 51.7 in Nov (Oct: 51.6) and the **composite PMI edged up** to 49.4 (Oct: 48.9).
- **Markit manufacturing PMI in the Eurozone remained in contraction for the 10th consecutive month**, posting 46.9 in Nov (Oct: 45.9) as both new orders and output recorded milder falls. Of the eight countries covered by the survey, only Greece and France posted an expansion on a mom basis. **Services PMI touched 51.9 in Nov**,

slightly lower than the 52.2 in the previous month, thanks to a muted increase in new business volumes while the **composite PMI remained unchanged** at 50.6 in Nov.

- **EU retail sales fell** by 0.6% in Oct (Sep: -0.2%), with Germany registering the sharpest decline (-1.9%) along with Ireland.

Asia Pacific:

- **China's Caixin-Markit manufacturing PMI expanded at its fastest pace in 3 years**, rising to 51.8 in Nov (Oct: 51.7). The **services PMI increased to a 7-month high** of 53.5 in Nov (Oct: 51.1), supported by new export business and overall new businesses. The **composite index climbed up** to 53.2 (Oct: 52), the highest reading since Feb 2018.
- **China foreign exchange reserves fell** by USD 9bn to USD 3.096trn in Nov. The value of gold reserves fell to USD 91.47bn billion at end-Nov (end-Oct: USD 94.65bn).
- **Japan** announced a larger-than-expected JPY 13.2trn (USD 121bn) **fiscal stimulus package** (the first since 2016). The stimulus will be used towards recovery and reconstruction from natural disasters, investments in new technologies as well as upgrade infrastructure. The time frame for the extra spending however remains unclear.
- **South Korea's GDP expanded by 0.4% qoq in Q3**, unchanged from the preliminary figures, even though consumer spending (+0.2%) and overall exports (+4.6%) were revised upwards while construction investment reportedly dropped by 6% (prev estimate: 5.2%).
- The **Reserve Bank of India left repo rate unchanged at 5.15%** in its latest meeting, citing it as a "temporary pause". The RBI also **lowered its real GDP growth forecast** for the 2019-20 year to 5% from 6.1% in the Oct policy.

Bottom line: News about trade uncertainty dominated last week:

be it the US threatening 100% tariffs starting early next year on USD 2.4bn worth of popular French products, or Trump's tweet about re-imposing tariffs on steel from Brazil and Argentina, or his comment at NATO about liking the idea of "waiting until after the election" to make a pact with Beijing. As the Dec 15 deadline for next round of tariffs approach, China's gesture of exempting US soybeans and pork from the current tariff regime gives a silver lining, though it also serves China's internal requirements. Global PMIs continue to mirror the trade chaos and accompanying business uncertainty. This week sees two central bank policy meetings: Fed is likely to remain neutral; though the ECB's new President Lagarde will have the latest weak business activity data to consider, she will be under no pressure to take any immediate policy action. Separately, UK elections are to be held on Dec 12th, with polls leaning towards a victory for the Conservative Party.

Regional Developments

- **Inflation in Bahrain increased** by 1.9% yoy in Oct (Sep: 1.2%), largely due to a 4.3% rise in food and non-alcoholic beverages prices.
- **S&P upgraded Bahrain's outlook to positive** from stable and affirmed the country's long- and short-term sovereign credit ratings at 'B+/B'. **Fiscal deficit is estimated to decline** to 4.2% of GDP by 2020 vis-à-vis an average of 12% between 2015-2017.
- **Egypt's PMI contracted** for the 4th consecutive month, declining to 47.9 in Nov (Oct: 49.2), with the output sub-index falling to 46.6 (Oct: 48.6) while employment fell to 48.3 – the lowest since May.
- **Egypt announced several government initiatives to support industry, housing and also boost investments:** the EGP 100bn funding for businesses in the industrial sector will be offered at a declining rate of 10%; another initiative will be to finance closed factories

to re-operate (benefitting 5184 factories with an interest relief of EGP 31bn); another EGP 100bn financing will be provided for SMEs at a 10% interest rate; an EGP 50bn programme was also announced to finance housing units for middle-income families.

- **Non-oil exports from Egypt** grew by 2.3% to USD 21.3bn in Jan-Oct this year while imports declined by 3% to USD 57.7bn. In 2018, overall exports grew by 11.5% to USD 29.3bn while non-oil exports grew by 9.3% to USD 24.6bn.
- **Egypt's trade minister** revealed that **bilateral trade with France** touched USD 1.65bn in Jan-Sep 2019.
- **Net foreign reserves in Egypt** ticked up by 2.5% mom to USD 45.4bn in Nov; foreign currencies reserves by 0.8% mom to USD 41.93bn.
- **Egypt is expected to issue its first corporate Sukuk** "within weeks", according to a Financial Regulatory Authority official. Separately, the **value of securitisation bonds** issued so far this year jumped to EGP 18bn from EGP 5.3bn in 2018.
- The central bank disclosed that **Egypt would auction USD 1bn in one-year dollar-denominated T-bills** on Dec. 9.
- **Jordan plans to increase public sector wages next year:** pay will rise by 15-20% for the 700k state employees (alongside rises to army pensioners) and will add at least JOD 0.5bn (USD 700mn) more to the budget.
- **Kuwait's investments in Jordan** touched **USD 18bn last year**; volume of trade between Kuwait and Jordan reached KWD 80mn. Kuwait's exports to Jordan surged by 23% to KWD 30mn between 2016-2018.
- **Net foreign assets of banks in Kuwait** increased by 6.39% yoy to KWD 18.712bn (USD 61.743bn) in Oct; net assets however declined by 0.87% mom.
- **Kuwait's trade surplus** declined by 8% yoy to KWD 6.52bn (USD 21.5bn) in Jan-Aug 2019, largely due to a 6.3% fall in exports alongside a 4.6% drop in imports.
- The sale of a **50% stake in Boursa Kuwait** to **Kuwaiti citizens** was more than 8.5 times oversubscribed. The

sale of 44% of the company to strategic investors happened earlier in Feb while the remaining 6% is owned by Kuwait's Public Institution for Social Security.

- **Expats working in Kuwait's public sector dropped** by 4,086 to 120k. Kuwaitis holding Masters and PhD qualifications increased to 4,633 between Jun 2018- Jun 2019.
- **Kuwait's foreign reserves increased** by 5.23% yoy and 0.25% mom to KWD 11.8bn (USD 38.9bn) in Oct. The value of monetary gold at the CBK remained stable at KWD 31.7mn.
- **Kuwait international airport passenger traffic accelerated** by 10% yoy to 1.16mn in Nov.
- **Lebanon's crisis drags on:** the central bank cut interest rates in its latest move to tackle the crisis lowering the lending and deposit rates to 5% on dollars and 8.5% on local currency for six months. The Parliamentary blocs are meeting today to decide on their candidate for PM, ahead of meetings with the President (scheduled for Mon).
- After Lebanon appealed for import aid, **France announced plans to convene a meeting of an international support group for Lebanon on Dec 11;** Saudi Arabia and UAE were also expected to be invited to the meeting.
- The **BLOM Lebanon PMI fell** to 37 in Nov (from Oct's 48.3) – the sharpest rate since data was first gathered in May 2013.
- **Oman announced an increase in petrol prices for Dec:** M91 and M95 prices rose by 3.9% and 2.8% mom respectively.
- **A total 1.25mn guests stayed at Oman's 3- to 5-star hotels in Jan-Sep this year,** generating OMR 155.2mn (USD 401.8mn) in revenues (+8% yoy). Hotel occupancy rates fell by 7.4% to 51.4% at end-Sep. Europe (31.8% of the total), Oman (31%) and Asia (12.7%) topped the guests list. The number of tourists increased by over 200% from 1.3mn in 2009 to 3.1mn in 2018.
- **Expatriate workforce in Oman declined further:** as of Dec

3, expats (at 1.98mn) accounted for 42.5% of the population, compared to 1.996mn at end-Nov.

- **Qatar's foreign minister expressed hopes of "progress" in talks with Saudi Arabia;** this comes as a few other recent developments come into light including an unannounced visit by Qatar's foreign minister to Saudi, Saudi Arabia, UAE and Bahrain participating in the Gulf cup and an invite for the Qatari emir to the GCC Summit to be held in Riyadh on Dec 10th.
- **Qatar's central bank** sold QAR 600mn (USD 164.84mn) of **Treasury bills** in an auction last week.
- **Aramco raised a record USD 25.6bn in its initial public offering,** surpassing Alibaba's 2014 record USD 25bn and valuing the company at USD 1.7trn. Aramco's shares will start trading on Dec 11.
- **Saudi non-oil PMI increased** to 58.3 in Nov (Oct: 57.8) – the highest in 4 years – supported by new order growth (45% of businesses reported rise in order books) though job growth remained subdued.
- **Saudi Arabia** announced it **would grant citizenship to "innovators" as well as to distinguished professionals** including those from medicine, technology, cultural and sports fields.
- **Non-oil exports from Saudi Arabia declined** by 5.5% yoy to SAR 165.8bn in Jan-Sep this year. Non-oil exports accounted for 22.44% of total exports vs 21.54% in Jan-Sep 2018.
- **Bilateral trade between Russia and Saudi Arabia surged** by 53.8% yoy to USD 1.2bn in Jan-Sep this year.
- **Point of Sales transactions in Saudi Arabia grew** by more than 30% in Oct; credit to the private sector, grew by 4.2% yoy – the highest in 2 years – while bank claims on the public sector was up by 24.2%.
- **Mortgage loans in Saudi Arabia rose** by 21% yoy in Q3 this year, according to a SAMA official; share of SMEs in total finances grew by 6.2% yoy.

- **Saudi Arabian Monetary Authority launched a draft for payment system and services:** the system aims to raise the level of efficiency and flexibility of financial transactions, as well as promote innovation in financial services.
- **Saudi general public reserves dropped** by 1.2% mom and 14.4% yoy to SAR 490.06bn in Oct while the current account declined by 19.89% yoy and 32.67% mom to SAR 47.59bn.
- **Saudi Tadawul reported an increase in the number of female investors** to 1.016mn in Q3 2019 versus around 1mn in Q3 last year. Individual investors grew to 4.77mn in Q3 this year, compared with 4.72mn investors in Q3 2018.
- **Construction contracts awarded in Saudi Arabia** amounted to SAR 47.8bn (USD 12.7bn) in Q3; oil and gas, real estate and industrial sectors accounted for about 80% of all contracts.
- **OPEC+ extended deeper cuts in oil output:** curbs include an extra 500k barrels per day (bpd) plus Saudi Arabia's plans to cut 400k bpd more than its quota.
- **Jordan ranks top in the MENA region and 6th overall** (among 104 nations) in terms of **best investment environment in the field of renewable energy**, according to Bloomberg's **Climatescope 2019 Index**. Morocco was ranked 10th (More: <http://global-climatescope.org/>)
- **Middle East airlines' freight volumes declined** by 6% yoy while **capacity increased** by 0.9%, according to the International Air Transport Association (Iata).

UAE Focus

- **UAE PMI weakened** to 50.3 in Nov (Oct: 51.1), posting the lowest reading since Aug 2009. Slowing market conditions saw companies reporting their first-ever monthly drop in new orders last month while payroll numbers declined marginally. Expo 2020 and a potential revival in domestic demand is a key reason for firms expecting

output to rise in the coming 12 months.

- The **UAE central bank expects economic growth at 2.3% yoy this year**, a tad lower than its Sep estimate of 2.4%, but higher compared to 2018's 1.7%. Growth this year is supported by rising public and private spending at the federal and emirate levels and also higher investment ahead of the Dubai Expo 2020 event.
- **Dubai's GDP grew by 2.1% yoy** to AED 208.2bn (USD 56.7bn) **in H1 this year**, supported by transport and storage sector (+6.2%) and wholesale and retail trade (+3.3%).
- The **new tax on e-smoking devices and sweetened drinks** (including carbonated and energy drinks) was implemented starting Dec 1.

Media Review

Time is Running Out: Dr. Saidi's interview on Lebanon with Carnegie Middle East Centre

<https://carnegie-mec.org/diwan/80524>

Aramco's record-high IPO

<https://www.arabnews.com/node/1595721>

Government Debt Is Not a Free Lunch

<https://www.project-syndicate.org/commentary/government-debt-low-interest-rates-no-free-lunch-by-kenneth-rogooff-2019-11>

Get "Brexit" done? Not as simple as the PM claims

<https://www.economist.com/britain/2019/12/05/get-brexit-done-its-not-as-simple-as-boris-johnson-claims>

PISA 2018 scores place China and Singapore on top

<https://qz.com/1759506/pisa-2018-results-the-best-and-worst-students-in-the-world/>

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