

Weekly Economic Commentary – Dec 22, 2019

Markets

US equity markets continued to hit record highs, on trade optimism and a strong final Q3 GDP reading. The Stoxx600 index gained as did indices in Frankfurt, Paris and London, MSCI's Asia-Pacific index was higher and MSCI's world equity index continued to post a 4th straight week of gains. Regional markets were mostly up compared to the week before, except for Oman; Saudi Aramco was included into the MSCI Emerging Markets Index. The British pound took a beating, posting its worst weekly fall since late 2017, and the euro was down as well (world exchange rates 2019: tmsnrt.rs/2egbfVh). Both oil prices and gold gained over the previous week.

Global Developments

US/Americas:

- **US GDP was left unrevised at 2.1% in Q3 (Q2: 2.0%):** the upwardly revised consumer spending (3.2% rate from 2.9% reported previously) was offset by the drop in investment in homebuilding (4.6% from the 5.1% reading) and inventory accumulation; imports were also higher than previous estimates.
- **US building permits increased to a 12.5-year high,** picking up by 1.4% to a rate of 1.482mn units in Nov. **Housing starts rose** by 3.2% mom and 13.6% yoy to 1.365mn units in Nov, with single-family construction racing to a 10-month high (+2.4% to 938k units).
- **Existing home sales slipped** by 1.7% mom to an annualized rate of 5.35mn (the lowest since Jun), constrained by low inventory. Inventory was down 7.3% mom to 1.64mn units – a 3.7-month supply (from Oct's 3.9 months; 6-month supply indicates a balanced market).
- **Industrial production in the US rebounded** in Nov, rising

by 1.1% mom, thanks to an uptick in auto production after the GM strike ended. Excluding motor vehicles and parts, overall industrial production and manufacturing grew by only 0.5% and 0.3% respectively.

- **Initial jobless claims edged down** to 234k in the week ended Dec 13 from 252k the week before (which was the highest reading since Sep 2017). The 4-week moving average increased by 1500 to 225.5k.

Europe:

- **German Markit manufacturing PMI disappointed** in Dec, falling to 43.4 from the previous month's 44.1. The **services PMI edged up** to 52 from Oct's 51.7, thereby causing the **composite PMI reading to remain flat** at 49.4, a tad below the 50-mark.
- **The same trend was mirrored in the EU PMI readings:** manufacturing PMI fell by a point to 45.9; services PMI ticked up to 52.4 (Oct: 51.9); composite PMI stayed put at 50.6.
- **The EU's foreign trade deficit** touched EUR 28bn (USD 31bn) in Jan-Oct this year. US was the top market for EU exports (EUR 376.9bn), accounting for 22% of total exports.
- **German Ifo business climate index improved** in Dec, rising to a 6-month of 96.3 from Nov's 95.1. Expectations also increased to 93.8 from the previous month's 92.3.
- **Consumer prices in the EU edged up** to 1.3% in Nov from Oct's 1.1%. The lowest annual rates were seen in Italy and Portugal (both 0.2%), and Belgium (0.4%) while the highest were in Romania (3.8%), Hungary (3.4%), Slovakia (3.2%), and Czechia (3.0%).
- **UK's PM Johnson won the House of Commons vote on the Withdrawal Agreement Bill**, clearing the way for Brexit. The bill, that commits Britain to leaving the EU on Jan 31 and to concluding trade talks with the bloc by end of

2020, also needs approval from the House of Lords.

- **The Bank of England left the interest rate unchanged**, focusing their attention on the next phase of Brexit negotiations.
- **UK Q3 GDP was revised up slightly**: growth was at 0.4% qoq and 1.1% yoy – the joint worst annual growth since 2012. Business investment was flat in the third quarter and up just 0.5% on an annual basis.
- **UK CPI held steady** at 1.5% in Nov – the lowest in 3 years and below the 2% target set by the central bank – thanks to falling hotel room rates and cigarette prices amidst an increase in chocolate prices. Separately, **UK house price growth slowed** to 0.7% yoy in Oct – its lowest annual rate since Sep 2012, dragged down by falling prices in London (-1.6% yoy).
- **Average weekly earnings in the UK slowed** to 3.2% in the 3 months to the end of Oct, from 3.6% a month before. **ILO unemployment rate remained at 3.8%**, the lowest level since mid-1970s, as the number of people in work increased by 24k to a record of 32.8mn.
- **UK retail sales dropped** by 0.6% mom in Nov, following a 0.1% reported drop in Oct. Only household goods stores reported growth during the month.

Asia Pacific:

- **The People's Bank of China reduced the interest rate** (to 2.65% from 2.70%) **on the 14-day reverse repo agreements**; it also added net CNY 200bn into the financial system with 7- and 14-day reverse repo agreements.
- **China fixed asset investment grew** by 5.2% yoy in Jan-Nov to CNY 53.37trn (USD 7.63trn). Investment by the state and private sector increased by 6.9% and 4.5% respectively.
- **China industrial production increased** by 6.2% in Nov (Oct: 4.7%), recording the fastest yoy growth in 5 months. **Retail sales accelerated** by 8% yoy (Oct: 7.2%),

thanks to the government's stimulus measures as well as the popular Singles Day shopping (Alibaba alone reported a record high CNY 268.4bn worth sales that day).

- **The Bank of Japan kept policy rates unchanged**, maintaining that the economy is “likely to continue on a moderate expanding trend” while highlighting a fall in industrial production
- **Japan's exports declined for the 12th consecutive month** in Nov, down 7.9% yoy, as demand from China weakened (-5.4% yoy) while imports tumbled by 15.7% (the biggest decline since Oct 2016). A goods trade deficit of JPY 82.08bn (USD 749mn) was logged in Nov, following an upwardly revised JPY 15.66bn surplus in Oct.
- **In Japan, core consumer price index** (i.e. excluding food costs) **increased** by 0.5% yoy in Nov while core-core inflation (which also strips out energy costs) was up 0.8% (the fastest yoy increase since Apr 2016). Prices were up as the tax hikes were passed on to the consumers: costs for dining out increased by 3.2% and housing refurbishment and maintenance costs were up 5%.

Bottom line: As the year inches to a close, the US and China are approaching a phase one trade deal (China announced a new list of tariff exemptions for US imports), while in the UK, PM Johnson is getting ready to ratify his Brexit deal. Major central banks have entered a “pause” mode in a year dotted by protests across the globe – be it in Hong Kong, Algeria, Chile, Lebanon (continuing even after the announcement of a new PM) or more recently in India (after the Citizenship Amendment Act 2019 was passed) – while CDS spreads continue to skyrocket in Argentina and Lebanon (<https://fingfx.thomsonreuters.com/gfx/mkt/13/101/101/lbar.png>).

Regional Developments

- **The third phase of VAT roll-out in Bahrain is expected to see close to 25k businesses complete the registration**

process. Businesses with annual turnover of over BHD 37.5k were expected to apply for VAT registration latest by 20 Dec 2019.

- **Bahrian's Shura council backed an oil exploration deal** the National Oil and Gas Authority signed with Eni. Exploration will take place in Block 1, which is an offshore area of more than 2,800 sq km located in the northern territorial waters with depth of 10-70m.
- **Egypt plans to reduce its budget deficit to 6.2% in the 2020-2021 fiscal year** alongside a growth target of 6.4%, revealed the finance minister.
- **Egypt's balance of payments deficit narrowed** by 28.7% yoy to USD 3.49bn in Sep. Exports fell by 2.7% yoy to USD 2.37bn and imports were down by a larger 20.1%.
- **Remittances into Egypt increased** by 13.6% yoy to USD 6.7bn in Q1 of 2019-20. In Sep alone, inward remittances surged 33.2% mom and 32.8% yoy to USD 2.3bn.
- **Net foreign investments in Egypt's treasury bills have increased** by USD 8-9bn since the beginning of 2019, disclosed a board member of the Central Bank of Egypt.
- Mid last-week, the **Egyptian pound traded below 16.00 pounds to the USD for the first time since Feb 2017.** It has appreciated around 10.5% against the dollar since Jan.
- **Egypt's central bank plans to expand ten-fold its financing package to help distressed tourism companies and investors** to EGP 50bn (USD 3.1bn) from the current EGP 5bn. Customers in the tourism sector with overdue loans before 2011 will be exempt from paying margin interest.
- **Egypt plans to increase the local gas production** to about 8bn cubic feet per day (scf/ day) by the next fiscal year compared to 7bn scf/ day currently.
- **Egypt exported EGP 1bn (USD 62.27mn) worth electricity to Jordan and Libya** in the fiscal year 2018-19, with the largest share paid by Jordan. The total capacity of power interconnection with Libya and Jordan reached

800MW; Egypt expects to export to other neighbouring nations as well, with an aim to touch 2000MW next year (after meeting domestic demand).

- **Jordan will announce the fourth and final executive package to improve the national economy this week.** The focus of this package will be on the services sector.
- **Jordan was successful in closing the gender gap by 62.3% in the past 12 months**, as per the WEF's Global Gender Gap report: pay equity jumped up 20 points, while women's representation in the parliament was boosted by 42 points.
- **Jordan announced new labour regulations including plans to limit foreign workers by 2024.**
- **Kuwait's inclusion into the MSCI Emerging Market Index** – during the May 2020 semi-annual index review – **could generate inflows of KWD 1bn (USD 3.3bn)**, revealed the trade and industry minister.
- **Kuwait's budget deficit** touched KWD 1.831bn (USD 6.047bn) in the first 8 months of the fiscal year 2019-2020; it compares to a surplus KWD 2.303bn in the same period a year ago.
- **Kuwait's trade surplus declined** by 10.6% yoy to KWD 7.25bn (USD 23.94bn) in Jan-Sep, thanks to an 8.2% decline in exports while imports were down by 5.8% to KWD 7.65bn.
- **Kuwait's trade surplus with Japan narrowed** by 58% yoy to JPY 28.4bn (USD 259mn) in Nov: exports to Japan plummeted by 43.1% yoy while imports from Japan grew by 19.1% to USD 175mn.
- **Kuwait's holdings of US Treasury bonds declined** by 0.68% yoy to USD 43.8bn in Oct. From the region, Kuwait's holdings are second only to Saudi Arabia (USD 178.9bn), but ahead of UAE (USD 38.4bn).
- **Kuwait's new government** appointed new defence, interior, foreign affairs and finance ministers while retaining the oil minister.
- **Lebanon named Hassan Diab** (a former minister) **as the new**

PM; he plans to set up the new cabinet within 4-6 weeks and wants to choose experts to be part of the government. The Sunni bloc, other key Christian and Druze Muslim parties did not endorse his nomination.

- **S&P lowered its long-term issuer credit ratings on Bank Audi, Blom Bank and Bankmed** to “SD” (Selective Default) and removed them from CreditWatch with negative implications.
- **Oman’s budget deficit narrowed** by 59% to OMR 309mn in Q1 this year, with revenues rising by 32% to OMR 2.7bn and a 4.3% rise in expenditure.
- **Oman’s state-owned Electricity Holding Company (Nama) sold a 49% stake in Oman Electricity Transmission Co. to State Grid Corporation of China**, raising around USD 1bn. This is one of the five privatisations being planned by Nama.
- **Oman will begin the process of banning single-use shopping bags from early next year**, revealed the ministry of environment and climate affairs.
- **Qatar announced its biggest budget in 5 years**: at a planned QAR 210.5bn (USD 58bn) budget, spending higher by 1.9% compared to this year. Revenues are expected to stay unchanged at QAR 211bn, based on an oil price assumption of USD 55 per barrel. The budget surplus is expected at QAR 500mn next year, versus a surplus QAR 4.4bn this year. Major projects, ahead of the FIFA World Cup in 2022, accounts for the largest share of the budget (+0.6% yoy to QAR 90bn). There was no mention of VAT in the budget statement.
- **Saudi Aramco joined MSCI Emerging Markets Index** on Wed last week: this is expected to attract over USD 1bn in capital flows as well as sustain Aramco’s USD 2trn+ valuation.
- **Saudi Arabia’s PIF announced SAR 4bn (USD 1.07bn) “Jada” initiative** to support SMEs in the country, by investing in venture capital and private equity funds geared towards SMEs.

- **Saudi Arabia's trade surplus narrowed in Q3:** trade surplus dipped by 62.55% qoq to SAR 97.85bn in Q3. Separately, **trade surplus with Japan more than halved** to USD 1.5bn in Nov, from USD 3.3bn in Nov 2018.
- **Inflation in Saudi Arabia declined** by 0.2% yoy to 106.4 in Nov; costs in housing, water, electricity, gas, and fuel fell by 3.8%, while clothing and footwear prices fell by 0.6%.
- **Saudi Arabia's wholesale price index (WPI) increased** by 3.3% yoy to 120.7 in Nov, thanks to the rising metal products, machinery and equipment prices.
- **Saudi export bank virtually started operations by allocating export financing worth around SAR 5bn**, according to the minister of industry and mineral resources; the export bank is in the final phase of its launch with a capital of SAR 30bn.
- **Saudi oil exports increased to its highest level in six months in Oct:** crude exports increased by around 388k barrels per day (bpd) to 7.057mn bpd, according to the Joint Organisations Data Initiative.
- **Saudi Arabia's SAMA** directed banks that the **cost of living allowance** should not be affected in any way by financing requests or other financial commitments, and if mistakenly deducted should be returned within 48 hours.
- **Saudi Arabia is home to more than USD 1.2trn worth of planned and un-awarded projects**, according to Meed, with USD 684bn projects in the construction sector alone.
- **Unemployment in Saudi Arabia declined** to 12% in Q3 this year from 12.3% in Q2. The total employed Saudis edged up to 3.1mn in Q3 (Q2: 3.09mn) and overall economic participation nudged to 45.5% from 45%.
- **Germany's investments in Saudi Arabia** amounted to 189 projects, with a paid in capital of around SAR 17.5bn (USD 4.67bn), by end-Jul. Saudi Arabia is also the second biggest Arab trade partner to Berlin, while Germany is the 4th largest exporter to the Saudi market.

- **Investments in the MENA gas sector is expected to witness a decline of USD 70bn in the next 5 years,** forecasts Apicorp. The fall is largely due to the high global gas output, slowing regional demand and financing issues.

UAE Focus

- **Abu Dhabi's non-oil trade declined** by 8.8% yoy to AED 154.4bn (USD 42bn) in Jan-Sep 2019, as a result of a 12.7% decline in imports alongside a 14.8% dip in exports. Reexports however grew by 9% during the period. Saudi Arabia (AED 4.55bn), France (AED 2.28bn) and the US (AED 965.3mn) were top non-oil trade partners.
- **UAE's Tax Refunds for Tourists Scheme** has processed a total 2.83mn applications since it was launched in Nov 2018. Average daily applications of 7730 are processed now versus 3800 in the first month.
- A new report from the World Travel & Tourism **Council ranks Dubai the third biggest city in the world for international visitor spending** with a total of USD 27.9bn, surpassed only by Hong Kong (USD 43.9bn) and Macau (USD 36.1bn). *More:* <https://www.wttc.org/economic-impact/city-analysis/>
- **Property prices in Dubai fell** to AED895 per square feet on average in Nov, the lowest level in seven years, according to the Dynamic Price Index from Property Monitor.

Media Review

The Global Economy in 5 charts: IMF

<https://blogs.imf.org/2019/12/18/2019-in-review-the-global-economy-explained-in-5-charts/>

The Global Gender Gap Index 2020: WEF

http://www3.weforum.org/docs/WEF_GGGR_2020.pdf

Can technology plan economies and destroy democracy?

<https://www.economist.com/christmas-specials/2019/12/18/can-technology-plan-economies-and-destroy-democracy>

The Gulf states reconsider their feud with Qatar

<https://www.economist.com/middle-east-and-africa/2019/12/18/the-gulf-states-reconsider-their-feud-with-qatar>

Understanding the Lebanese financial crisis

<https://ftalphaville.ft.com/2019/12/18/1576679115000/Understanding-the-Lebanese-financial-crisis/>

Powered by:

