

Weekly Economic Commentary – Jan 5, 2020

Markets

The rally across global equity markets paused on Fri following the killing of Iran's top military commander by the US. In the region, equity markets closed positive on Thurs (prior to the attacks) and are likely to mirror global patterns when they open today. As tensions flared in the Middle East, all asset classes were affected: the dollar slipped to 9-week low versus the yen, safe haven bonds rallied, gold hit a near 4-month high, and Brent jumped to more than USD 68 a barrel.

Global Developments

US/Americas:

- **US goods trade deficit narrowed** to USD 63.2bn in Nov – the smallest since Oct 2016 – from Oct's reading of USD 66.8bn. Exports grew by 0.7%, supported by a 3.4% rise in automotive vehicles and products and a 2.6% uptick in consumer goods while imports were down by 1.3%.
- **US Chicago PMI edged up** to a 4-month high of 48.9 in Dec (Nov: 46.3) while business sentiment dropped by to 46.2 in Q4, marking the lowest quarterly reading since Q2 2009.
- **The IHS Markit manufacturing PMI** ticked down slightly to 52.4 in Dec (Nov: 52.6); though business confidence remains subdued, new business received by firms point to rise in client demand while goods producers reported a third consecutive upturn in new export orders.
- **US ISM manufacturing slowed sharply in Dec:** at a reading of 47.2, this was the weakest since Jun 2009. New orders in the manufacturing sector dropped 0.4ppts to 46.8 in Dec alongside falls across employment, order backlogs and inventories while prices increased.
- **Pending home sales in the US** grew by 1.2% mom in Nov,

after posting a decline of 1.3% in Oct. In yoy terms, sales grew 7.4% (Oct: 4.4%).

- **S&P Case Shiller home price indices (20-city index) edged up** by 2.2% yoy in Oct (Sep: 2.1%). Mortgage rates are still nearly a full percentage point below versus this time a year ago.
- **Initial jobless claims in the US fell** by 2k to 222k in the week ended Dec 28, with the 4-week moving average rising to 233.25k (228.5k) – the highest level since Jan 2018.

Europe:

- **German Markit manufacturing PMI picked up** to 43.7 in Dec (vs Nov's 5-month high of 44.1), with new orders posting the smallest drop of 2019 and output expectations at the highest for 15 months. **In the EU, PMI increased** to 46.3, better than the flash reading of 45.9 but lower than Nov's 46.9, dragged down by Germany, though declines in Italy and the Netherlands were reportedly "the sharpest in over 6.5 years".
- **German jobless rate held steady at 5% in Dec**; the number of people out of work rose by 8k to 2.279mn in seasonally adjusted terms. German employment touched a record high of 45.3mn, adding 402k jobs in 2019 (+0.9% yoy). The quality of jobs was improving, with higher pay and benefits, while only 15% of those jobs were in manufacturing.
- **CPI in Germany remained subdued in Dec**, rising by 1.5% yoy in Dec (Nov: 1.2%).
- The IHS Markit/CIPS **UK manufacturing PMI fell** to 45.6 in Dec – its lowest since Jul 2012 – from 49.1 in Nov; the broader headline PMI fell to a 4-month low of 47.5 (Nov: 48.9).

Asia Pacific:

- **China's central bank cut reserve ratios by 50bps**

(effective Jan 6), **freeing up CNY 800bn** (USD 115bn) to **help boost the economy**. The central bank stated that small and medium banks would receive roughly CNY 120bn, for funding small local businesses.

- **NBS manufacturing PMI in China held steady** at 50.2 in Dec, supported by rising new export orders (+1.5 points to 50.3, the first expansion since Jun 2018). **Non-manufacturing PMI in China declined** to 53.5 in Dec from the previous month's 54.4 reading. The **composite PMI slid slightly** to 53.4, but it was 0.3 points higher than this year's average.
- **Caixin manufacturing PMI edged lower** to 51.5 in Dec (Nov: 51.8), with the rate of new order growth easing to a 3-month low while operating expenses grew due to higher raw material and staffing costs.
- **South Korea's overall industrial production rebounded** by 0.4% in Nov (Oct: -0.4%); retail sales grew by 3% mom, thanks to gains in sales of cars and clothes; facility investment gained by 1.1% mom, supported by rising imports of airplane equipment.
- **India's fiscal deficit widened** to INR 8078.34bn in Nov (Oct: INR 7204.5bn), amounting to 114.8% of the target in the first 8 months of the fiscal year. **Trade deficit in India narrowed** to 38.1bn in Jul-Sep from 46.2bn in the quarter before, while the current account deficit also narrowed to USD 6.3bn or 0.9% of GDP (previous quarter: USD 14.3bn).
- **GDP in Singapore grew marginally** by 0.1% qoq and 0.8% yoy in Q4 (Q3: 2.4% qoq and 0.7% yoy) according to the preliminary estimates released last week. Manufacturing shrank by 2.1% yoy in Q4, widening from Q3's 0.9% decline. Overall, the economy expanded by 0.7% in 2019, growing at the slowest since 2009.

Bottom line: US-Iran tensions flared up in the New Year, with the killing of Iran's top military leader – the Eurasia Group estimates a 28% likelihood of a short, limited conflict. Any

such conflict will act as a further dampener on global growth – not that there is any dearth of uncertainty already, with geopolitics and trade being major head winds in the year ahead! Global manufacturing PMI fell to 50.1 in Dec (Nov: 50.3), dragged down by weak international trade flows. This week sees the return of the Brexit drama, with Parliament back to vote on the bill Thurs. Jan 15th will be the next date of importance when, according to Trump, the US-China phase 1 deal will get inked – the details of the deal are still unknown.

Regional Developments

- **Bahrain's Parliament passed a proposal to hike civil servants' pay by 3%**, in spite of objections from the government; the next step is a review by the Shura Council.
- **Imports into Bahrain declined** by 17% yoy to BHD 379mn in Nov 2019. China (BHD 55mn), Saudi Arabia (BHD 34mn) and US (BHD 33mn) accounted for the top three source nations while the top 10 nations together accounted for 70% of total value of imports.
- In a bid to promote tourism, **Bahrain reduced the fees imposed on pre-entry visas**: fee on 1-year valid entry visa was lowered to BHD 40 from BHD 85 previously while the fees on five-year valid entry visas were slashed by almost two thirds to BHD60 (from BHD170).
- **Egypt's stock exchange plans to have 3-4 IPOs of private sector companies in 2020**, according to the Chairman.
- The **Egyptian Financial Regulatory Authority is set to finalise procedures for the issuance of Green Bonds**, and a local company is expected to issue in early 2020.
- **FDI into Egypt surged** by 71.4% yoy to USD 2.4bn in Q1 of the 2019-20 financial year – the highest since 2017 – thanks to the rise in net inflows for greenfield investments to USD 1.5bn. Trade deficit narrowed by USD 1bn to USD 8.8bn during Q1 of the current financial year, thanks to the 18% increase in non-oil exports.
- **Money supply in Egypt increased** by 13.16% yoy to EGP

4.05trn (USD 253.13bn) as of end-Nov.

- **Total deposits at Egypt's banks touched EGP 4.16trn at end-Oct:** non-government deposits touched EGP 3.54trn while government deposits were EGP 623.7bn. Non-government foreign currency deposits slipped by 2.5% mom to EGP 677.32bn in Oct.
- **Egypt's tourism revenues rose** by 6.7% yoy to USD 4.2bn in Q3 2019 – only the 4th time that quarterly revenues exceeded USD 4bn – according to the central bank.
- **Egypt's domestic fuel prices were left unchanged** at the 2nd quarterly meeting of the pricing mechanism committee, following a cut in Oct: prices range between EGP 6.5-8.75 a litre.
- **Egypt's Suez Canal revenues inched up** to USD 5.8bn in 2019 from USD 5.7bn the year. The transit toll for bulk vessels and LPG carriers has been increased by 5% this year.
- **Egypt and Sudan will operate a joint electricity grid** – with a capacity of 50 megawatts – **from Jan 12**. The project's cost touched EGP 509mn (USD 31.74mn) and spans 1000 kms.
- **Iraqi oil exports fell** to 3.428mn barrels per day (bpd) in Dec from Nov's 3.5mn bpd.
- **Jordan announced higher fuel prices in Jan:** gasoline prices were up by 0.5-1.3% mom depending on grade of fuel, while diesel prices were up 3.4%.
- **Jordan will extend real estate exemptions** and lower the registration and purchase fees of apartments and lands **until end of 2020**.
- **Kuwait's fiscal deficit** touched KWD 2.5bn (\$8.33bn) in Apr-Nov 2019, prior to deducting the share of the future generations' fund (estimated at 10% of state revenue). Revenues and expenditure stood at KWD 11.5bn and KWD 14bn respectively during this period.
- **FDI into Kuwait** amounted to KWD 960mn (USD 3.2bn) during the period Jan 2015-Mar 2019, according to the commerce

and industry minister.

- **Bank deposits at Kuwait's banks grew** by 1.2% yoy and 0.5% mom to KWD 43.6bn in Oct (supported by a 9.9% yoy and 1.3% mom rise in government sector deposits) while credit disbursed increased by 4.7% yoy to KWD 38.3bn.
- **Kuwaitis spent USD 16.5bn on travel** during the period Q4 2018-Q3 2019, according to the central bank. This is up from the USD 14.8bn reported in 2018.
- **Oman increased spending** by 2% yoy to OMR 13.2bn (USD 34.4bn) in its **2020 budget**. The deficit, estimated at OMR 2.5bn (8% of GDP), will be lower than the 2019 projection of OMR 2.8bn and around 80% is expected to be funded through foreign and domestic borrowing. Revenues will be up 6% to OMR 10.7bn, assuming an average oil price of USD 58 per barrel.
- **Oman's budget deficit fell** by 5.6% to OMR 1.92bn in **Jan-Oct 2019** – a 5-year low. During the period, revenues dipped by 1.1% to OMR 8.6bn (7.6% decline in net oil revenue) while expenditure fell by 1.9% to OMR 10.53bn.
- **Oman's new Foreign Investment Law became applicable from Jan 2**. The law simplifies procedures and permits necessary to initiate foreign investment, and also expands the investment sectors and projects available for investors.
- **Oman was ranked 5th in the Arab world as per the Human Development Index 2019**, with 47th position globally.
- The cost of insuring against a **Saudi bond default, with CDS rates spiking** to 65 bps on Friday following the killing of Qassem Soleimani.
- **Saudi Arabia's GDP contracted** by 0.46% yoy and 0.19% qoq in **Q3**, as the oil sector output declined by 6.43% yoy. **Non-oil sector GDP grew** by 4.3% yoy and 2.9% qoq in Q3 2019, supported by the wholesale and retail trade (+8% yoy) and finance, insurance, real estate and business services (+6.28%).
- **Banks in Saudi Arabia increased their investments in**

government-issued bonds by 25.2% yoy to SAR 379.95bn in Nov 2019.

- **Revenues of SMEs in Saudi Arabia** touched SAR 879.32bn in Q2 2019, according to the General Authority for Statistics. Small enterprises operating in the private sector (i.e. with a workforce of 6-49 employees) accounted for 18.6% of the total revenue generated.
- **Credit card transactions in foreign currencies declined** by 25% yoy to SAR 1.27bn (USD 338.5mn) in Nov 2019, disclosed This follows declines of 18.7% and 28.3% respectively in Sep and Oct.
- About 155,893 **mortgage loans** worth SAR 69bn were **offered by financing institutions in Saudi Arabia** during Jan-Nov 2019. The number of loans were up by 254% yoy and volumes were up by 167% in year on year terms.
- **Remittances from Saudi Arabia fell** by 8.9% yoy to SAR 113.97bn (USD 30.39bn) during Jan-Nov 2019.
- **Saudi Arabia's foreign reserve assets increased** by 2.2% mm to SAR 1.876trn (USD 500.15bn) in Nov. On an annual basis, foreign reserves declined by 0.8%, compared with SAR 1.891trn in Nov 2018.
- **Saudi Arabia issued USD 32.01bn worth debt instruments in 2019:** of this, local sukuk issuances were up by 44.36% yoy to SAR 69.84bn while international sukuk issuances were up 25% to SAR 9.38bn.
- The **Saudi Youth Development Survey**, conducted in Q2 2019, disclosed that 67% of the population were less than 34 years of age. Of the 15-34 age group, which accounted for 36.7% of the population, 51% were male.
- **Shops in Saudi Arabia can now open for 24 hours a day:** pharmacies, wedding halls, rest houses, medical activities, education activities, fuel stations (to fill fuel only), hotels, hotel suites and resorts are exempt from the fees charged to hold a 24x7 license.

UAE Focus

- **The Dubai 2020 budget estimates record spending** of AED 66.4bn (USD 18.1bn), up 17% yoy; infrastructure spending is set to decline for a 2nd consecutive year, ahead of the Expo this year. Salary and wage allowances account for 30% of total expenditure in the year's budget while grants and support account for 24%. State revenues are expected to surge by 25% to AED 64bn, with non-tax revenue at 60% of the total. Overall deficit, projected at AED 2.4bn, is lower than the budgeted AED 5.8bn last year.
- **Net investments of non-Arab foreign investors in UAE's financial markets surged** to AED 12.5bn last year – the highest in 5 years. Non-Arab foreign investors trade in the two financial markets amounted to AED 100.5bn, or 46.1% of the total trades of foreigners in 2019.
- **Dubai's non-oil foreign trade increased** by 6% yoy to AED 1.02trn (USD 272bn) in Jan-Sep 2019: exports grew by 23% to AED 118bn, re-exports by 4% to AED 312bn and imports by 3% to AED 589bn. Top trade partners remained China (AED 109bn, 6% yoy), India (AED 100bn, 16%) and US (AED 57bn).
- **Value of banks' financing to retail companies increased** by 5.4% yoy to AED 50.4bn (USD 13.7bn) in Jan-Sep 2019.
- **Abu Dhabi's new road toll system went live from Jan 2:** motorists will be charged AED 4 every time when they pass through during peak hours (7-9am and 5-7pm from Sat-Thurs).
- **Abu Dhabi government employees were moved onto a new salary scale from Jan 1.** Pension payments will now be calculated on almost 80% of gross salary versus only basic salary previously.
- **UAE ranks 5th globally in the World Competitiveness Ranking 2019** published by the IMD Business School, from 15th in 2016.
- **Dubai Duty Free clocked in record annual sales** of AED 7.406bn (USD 3.029bn) in 2019. There were an average

66,500 sales transactions on average per day, with over 64.6mn units of merchandise sold. Perfume sales (+2% to AED 1.124bn) accounted for 15% of total sales.

Media Review

What a US-Iran War would look like

<https://www.vox.com/world/2019/7/8/18693297/us-iran-war-trump-nuclear-iraq>

Trump says US not seeking war with Iran by killing Soleimani

<https://www.ft.com/content/e81763aa-2e5f-11ea-a126-99756bd8f45e>

A 6-point Plan to Rebuild Lebanon's economy: Dr. Nasser Saidi's op-ed in The National

<https://nassersaidi.com/2020/01/05/a-six-point-plan-to-rebuild-lebanons-economy-article-in-the-national-5-jan-2020/>

The Myth of Global Decoupling

<https://www.project-syndicate.org/onpoint/the-myth-of-global-decoupling-by-stephen-s-roach-2020-01>

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