

Weekly Economic Commentary – Jan 19, 2020

Markets

More record highs across global equity markets, as last week saw the signing of the US-China Phase 1 trade deal and the release of China's GDP numbers. Regional markets also ended last week higher on global trade optimism and supported by financial stocks. The yuan strengthened to a 6-month high versus the greenback, the dollar touched an 8-month high against the yen while the pound sterling was down on weak data and expectations of a rate cut. Both oil and gold prices dropped last week.

Global Developments

US/Americas:

- **US inflation rose 0.2% mom in Dec** on higher prices for gasoline, rents and medical care (Nov: 0.3%); core inflation, excluding food and energy, slipped to 0.1% mom (0.2%). In yoy terms, CPI grew by 2.3% (Nov: 2.1%) – the fastest pace since Oct 2018. For the full year, inflation touched 2.3% – the highest since 2011's 3% rise.
- **Producer price index in the US inched up** by 0.1% mom in Dec, after being unchanged in Nov. For 2019, PPI rose 1.3% – the smallest gain since 2015.
- **Retail sales in the US held steady** in Dec, rising by 0.3% mom from an upwardly revised 0.3% the month before. Sales excluding items like autos, petrol and building materials, rose 0.5% in Dec – the biggest increase since Jul.
- **Housing starts surged to the highest in 13 years**, with the Dec reading accelerating by 16.9% to 1.61mn. Single-family-home construction jumped 11.2% to its highest level since 2007 while multifamily-home builds

(including apartment complexes and condos) soared 29.8% to the highest since 1986.

- **Industrial production in the US fell** by 0.3% in Dec after a downwardly revised Nov's +0.8% reading while manufacturing output fell by 0.2% in Dec (Nov: 1.0%) and utilities were down by 5.6%. Capacity utilization fell 0.4 ppts to 77% in Dec, largely owing to the decline in utilities output.
- **Initial jobless claims declined for a 5th straight week**, down by 10k to a seasonally adjusted 204k for the week ended Jan 11. The four-week moving average fell to 216,250 from 224k.

Europe:

- **German GDP slowed to a 6-year low of 0.6% yoy in 2019** (2018: 1.5%). Separately, Germany last week announced a record EUR 13.5bn surplus in the federal budget.
- **Inflation in Germany** touched 1.5% in Dec while on an annual average, CPI was up by 1.4% in 2019 – the lowest in 3 years. **EU inflation was up** 1.6% in Dec (Nov: 1.3%): the highest contribution to the annual euro area inflation rate came from services (+0.8 ppts), followed by food, alcohol & tobacco (+0.38 ppts), non-energy industrial goods (+0.12 ppts) and energy (+0.02 ppts).
- **EU industrial production dropped** by 1.3% yoy in Nov, with production of capital goods down 2.1% and energy by 1.5% while the production of durable and non-durable consumer goods up by 1.9% and 1.8% respectively.
- **UK GDP shrank** by 0.3% mom in Nov (figures for both Sep and Oct were revised up to 0.1%). But, over the three months to Nov growth was only 0.1% with the annual rate of increase 0.6%, the weakest for eight years. **UK inflation slipped to a 3-year low**, clocking in 1.3% yoy in Dec (Nov: 1.5%).
- **UK industrial production dipped** by 1.2% mom in Nov (Oct: 0.4%), with manufacturing clocking in -1.7% mom decline

(Oct: +0.5%).

- **UK retail sales fell for the 5th consecutive month**, down by 0.6% mom in Dec; sales at food stores fell by 1.3% with quantity bought from food stores falling by the biggest amount since Dec 2016. Meanwhile, online sales accounted for 19% of Dec's retail spending.

Asia Pacific:

- **China GDP grew by 6.1% in 2019 – the lowest annual growth since 1990.** Separately, it was disclosed that **China's birth rate dropped to a record low of 1.05% in 2019.**
- **China's exports accelerated** by 7.6% in Dec (Nov: -1.3%) and **imports were up** by 16.3% (thanks to the renewed purchases of US pork and soybeans; Nov: 0.3%), bringing the trade balance to a surplus USD 46.79bn (Nov: USD 37.93bn). For full year 2019, China's exports grew 0.5% in USD terms, a sharp deceleration from 9.9% in 2018 while imports fell by 2.8%.
- **China's industrial production increased** by 6.9% in Dec – the fastest rate of growth since Mar, bringing the **full year growth to 5.7% yoy in 2019**, a drop from 6.2% the year before. **Fixed asset investment grew by 5.4% over 2019**, supported by investment in services and high tech (as opposed to the usual suspects of housing and manufacturing).
- **Retail sales in China ticked up by 8.0% last year**, down from 9% in 2018. Online sales supported the expansion, rising by 16.5% to over CNY 10trn in 2019.
- **New yuan loans in China** fell to CNY 1.14trn in Dec (Nov: CNY 1.39trn), and **touched a record-high CNY 16.88trn (USD 2.44trn) for the full year 2019** (from 2018's previous high of CNY 16.17trn). Outstanding yuan loans to the real economy accounted for 60.3% of outstanding social financing by the end of last year, 1 ppt higher than the same period in 2018. **Money supply (M2) rose** by

8.7% yoy to CNY 198.65trn in Dec.

- **Japan's core machinery orders posted record monthly growth in Nov**, up 18% mom, supported by orders for railway cars. However, the Cabinet Office maintained its assessment that orders, seen as a leading indicator of capital expenditure, are "stalling".
- **Inflation in India rose to a 5.5-year high** of 7.35% yoy in Dec, higher than the Reserve Bank's upper target limit of 6%, thanks to the surge in vegetable (60%) and food prices (+14.12%). **Core inflation**, which removes food and fuel prices, **inched up** to 3.75% (Nov: 3.5%). **Wholesale price index in India also increased** by 2.59% yoy in Dec (Nov: 0.58%), largely due to the 13.24% spike in prices of food – mainly onions (+455.83%) and potato (+44.97%).
- **India's exports shrank** (for the 5th straight month) by 1.8% yoy to USD 14.49bn in Dec, and thanks to lower imports as well (-8.83% to USD 38.61bn; oil imports -0.83% yoy to USD 10.69bn), the trade deficit narrowed to USD 11.25bn.

Bottom line: The US-China Phase 1 trade deal was signed last week: however, much uncertainty and skepticism remain as the wording and amount of China's purchases sowed doubts (and saw prices of corn, soybeans dip) and critical issues like cyber theft, state-owned enterprises and industrial subsidies are not addressed in the current deal, while higher tariffs of 20% are the new normal. If the deal is to be implemented properly, there is likely to be a significant amount of trade diversion (from EU, and countries like Brazil). The next question is whether Trump will turn his attention to the EU, now that a truce has been reached (for the time being) with China. This week sees the first central bank policy meetings across many countries including Japan, EU and China (expected to result in no changes), at a time when major central banks' balance sheets are irrefutably stretched.

Regional Developments

- Companies listed on the **Bahrain Bourse** need to ensure a free float of at least 10% of total issued outstanding shares as per the **new rules for listing of securities**. Currently listed companies have 3 months to comply with the requirements.
- **Bahrain plans to terminate the contracts of foreign advisors in the public sector by end of this month**, reported *Akhbar Al Khaleej* citing a government source.
- **Egypt's central bank left overnight interest rates steady**: the deposit and lending rates remain unchanged at 12.25% and 13.25% respectively.
- **Egypt posted an EGP 3bn budget surplus in Q1 of the fiscal year 2019/2020**. The debt-to-GDP ratio declined to 78.3% in Nov from 83.8% in Jun 2019.
- **Foreign cash inflows into banks in Egypt reached USD 1.7bn in just four days ending on 13 Jan**, disclosed a Central Bank of Egypt statement.
- **Egypt's trade deficit narrowed** to USD 3.22bn in Oct (-32.2% yoy), thanks to a 4.4% decline in exports (to USD 2.39bn) alongside a 22.6% dip in imports (to USD 5.61bn).
- **Egypt's exports of crude iron, steel, and cement plunged** by 41.3% yoy to USD 777mn in Jan-Nov 2019. Saudi Arabia topped importers of crude iron and steel (USD 189mn), followed by Sudan (USD 47mn) and Spain (USD 46mn).
- **A microfinancing programme called "Nano finance" has been launched in Egypt**: it will rely on digital technologies, and the terms and conditions for granting nano loans include a maximum of approx. USD 190 per individual to be reimbursed in three months. The Financial Regulatory Authority requires active microfinancing companies to insure loans against non-payment risk, and also to update client and loan data every two weeks.
- **Jordan's Lower House passed the 2020 state budget draft law after 4 days of discussions**. Separately, the Income and Sales Tax Department confirmed that the sales tax

cut (by 50%) on all 76 goods announced by the government would be reflected on commodity prices.

- **Tourism revenues in Jordan increased** by 10.2% yoy to JOD 4.11bn, thanks to the 8.9% rise in tourists to 5.36mn.
- **Kuwait will not increase its total spending for the 2020-21 budget but will run an estimated budget deficit of KWD 9.2bn** (USD 30.33bn, +19.5% yoy from the KWD 7.7bn shortfall in 2019-20), with salaries and subsidies accounting for 71% of the budget spend. The budget assumes an oil price of USD 55 a barrel and expects revenues to fall to USD 14.8bn (previous: KWD 16.3bn).
- **The Central Bank of Kuwait disclosed the issuance of bonds and related *tawarruq* valued at KWD 240mn** (USD 792.74mn).
- **Lebanon's short-dated 2020 bonds slumped** on Fri, with a few posting their **steepest daily drop in nearly three months** on higher risks of default given a **proposed plan to get local banks to swap into longer-maturity Eurobonds**. The central bank governor stated that the bonds swap plan was 'pre-emptive' and dependent on the banks' consent; the caretaker finance minister is understood to have asked the governor to hold off the proposed swap.
- In a circular dated Jan 14, **Lebanon's banking control commission asked banks for the dates and sizes of transfers to Switzerland since Oct 17** – when anti-government protests began. Banks are required to provide the information within a week.
- **Lebanon's caretaker Energy Minister extended the deadline** – to Apr 30 instead of Jan 31 – **for the submission of applications in the 2nd licensing round for oil and gas exploration**.
- **Qatar eased restrictions on the exit of migrant workers**, in its latest labour move to liberalise the market and end discriminatory practices. Under the new system, exit permit requirements will remain in place for members of the armed forces and for a limited number of workers in

key company posts.

- **Saudi Aramco used its “greenshoe option” to sell an additional 450mn shares**, raising the IPO size to USD 29.4bn. Investors were allocated the additional shares during book-building.
- A report from GlobalData disclosed that **Aramco is currently planning for launching five major oil expansion projects**, including four crude and one natural gas.
- **Saudi CMA approved clearing centre rules**, which regulates the clearing members responsibilities; it also enhanced the role of the Saudi Securities Clearing Center Company (Muqassa) as a CCP clearing house in the Saudi capital market.
- **Saudi Arabia emerged as the top reformer in the World Bank’s Women, Business and Law 2020 report**. The nation, which scored 70.6 out of 100, ranked first among the GCC and second (behind Morocco, which scored 75.6) in the Arab world. *The full report can be accessed at: <https://openknowledge.worldbank.org/handle/10986/32639>*
- **Saudi Arabia ranked second in the Arab world and 36th globally in the Human Development Index** issued by the United Nations Development Program for 2019.
- An EY global survey showed that around 23% of wealth management clients in the Middle East were planning to move assets and switch providers in the next three years, while 50% had already moved assets in the past three years.

UAE Focus

- **Dubai announced the establishment of a “Dubai Future District” dedicated to the new economy**, with ten initiatives to support including an AED 1bn fund to support companies operating from the district, the setting up of a third stock market for such companies, as well as legislative licenses to innovate and

experiment the technologies of the future economy. Read up on the other initiatives here: <http://www.dmi.gov.ae/content/corporate/en-ae/programs/41/FutureDistrict.html>

- **Dubai's PMI fell to a 4-month low of 52.3 in Dec (Nov: 53.5), as new orders rose at the slowest pace in nearly four years.** While output growth accelerated among construction and travel and tourism firms, the wholesale and retail sector recorded the weakest expansion in output since Feb 2016.
- **Dubai announced a new AED 2trn (USD 544bn) target for non-oil foreign trade by 2025, to be supported by establishing 50 offices globally to promote trade, tourism and investment:** this compares to external trade crossing AED 1.0trn in Jan-Sep 2019. During this period, the emirate's **non-oil trade volume expanded** by 22% yoy to 83mn tonnes while re-exports volume surged by 48% to 13mn tonnes. The value of exports grew by 23% to AED 118bn, re-exports by 4% to AED 312bn, and imports up by 3% to AED 589bn.
- **Abu Dhabi GDP grew by 2.7% yoy at constant prices to AED 204.9bn (USD 55.79bn) in Q3 2019 (Q2: 5.2%),** thanks to the positive growth in both oil and non-oil sector, led by "transportation and storage", "electricity, gas, water supply" and "waste management".
- **Sharjah announced its largest ever AED 29.1bn budget for 2020,** up 2% from last year, and with 1/3rd of the spending earmarked for infrastructure development and around 24% for social development.
- **Dubai issued 38,400 new business licenses in 2019,** up 90% yoy, revealed Dubai Economy, aiding the creation of 184,437 jobs. Overall, 324,773 business registration and licensing transactions were recorded in 2019, while the rental value of units leased to companies in Dubai amounted to AED 26.2bn.
- **UAE committed USD 23bn to finance Indonesia's**

infrastructure and energy projects. The investments will be made via the latter's new sovereign wealth fund and will include financing towards the new capital city (estimated to cost USD 31bn).

- **The use of advanced blockchain technology will help the UAE government save more than USD 3bn,** tackle fraud and accelerate the move towards a paperless economy, according to a WEF report. **Non-technical issues were identified as the biggest challenges in blockchain deployment:** including difficulty to bring the required stakeholders together, unclear regulatory implications, educating and raising awareness of stakeholders as well as addressing governance. *Download the full report at:* <https://www.weforum.org/whitepapers/inclusive-deployment-of-blockchain-case-studies-and-learnings-from-the-united-arab-emirates>
- **UAE has grown its renewable energy portfolio by over 400% in the last ten years,** and “is on track” to double it in the next 10, revealed the Minister of State and Adnoc Group CEO.
- **The UAE launched its first set of Guiding Principles on Sustainable Finance** last week. Among the guiding principles are the integration of ESG factors into governance, strategy and risk management, minimum eligibility requirements, and promotion of appropriate ESG-related reporting and disclosures. *Read the Principles here:* <https://bit.ly/30GJ6eU>
- **Virtual Reality and Augmented Reality are forecast to contribute USD 4.1bn to the UAE economy** and add more than 40k jobs in the next decade, according to a **PwC Middle East report.** Healthcare, retail, construction, logistics, staff development and training are likely to be the most impacted by AR and VR technologies, as per the report. *Access the full report at* <https://www.pwc.com/gx/en/industries/technology/publications/economic-impact-of-vr-ar.html>

Media Review

World Economic Forum's Global Risk Report 2020

http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

The Uneasy Truce of Trump's Trade Deal with China

<https://www.newyorker.com/news/our-columnists/the-uneasy-truce-of-trumps-trade-deal-with-china>

The Truth about the Trump Economy

<https://www.project-syndicate.org/commentary/grim-truth-about-trump-economy-by-joseph-e-stiglitz-2020-01>

Reasons to be cynical about the trade rally

<https://www.ft.com/content/d00c6e1e-3912-11ea-a6d3-9a26f8c3cba4>

14 Tech Trends to Watch Closely In 2020: CB Insights Research

<https://www.cbinsights.com/research/report/top-tech-trends-2020/>

Has the World Economy Reached Peak Growth?

<https://www.project-syndicate.org/commentary/peak-growth-global-gdp-2020s-by-jim-o-neill-2020-01>

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