

Weekly Economic Commentary – Jan 26, 2020

Markets

The coronavirus outbreak left a negative impact across all equity markets last week – the S&P 500 had the worst week since Aug – though the WHO has not yet declared it a global emergency (the panel, however, was split almost 50-50). European stock markets recovered on Fri after the latest PMI readings (towards end of the week) brought along a shimmer of hope for recovery. Regional markets were mixed, with Saudi Arabia, Egypt and Qatar markets down. The euro fell to a 7-week low vis-a-vis the dollar, the yen lost ground and sterling fell on a possible rate cut at this week's meeting (traders are pricing in a 48% chance of a rate cut to 0.5%). Oil prices fell by more than 6% compared to last week while gold price closed near an earlier 2020 peak (on Fri).

Global Developments

US/Americas:

- **US existing home sales grew** by 3.6% mom to a seasonally adjusted annual rate of 5.54mn units in Dec (Nov: -1.7%). Inventory of homes for sale was at a 20-year low of 1.4mn units in Dec (-14.6% mom and -8.5% yoy).
- **US Markit manufacturing PMI slipped** to a 3-month low of 51.7 in Jan (Dec: 52.4), and **service sector PMI climbed to a 10-month high** of 53.2 (Dec: 52.8).
- **Initial jobless claims increased** by 6k to 211k in the week ended Jan 17, with the 4-week moving average slowing to 213.25k from 216.5k the week before.

Europe:

- **ECB kept its policy rate on hold and launched a “strategic review” to redefine its inflation goal and tools.** The review, which is to be completed by Dec, will

reconsider the inflation target while also attempting to tackle issues related to climate change.

- **Germany's ZEW economic sentiment jumped** to 26.7 in Jan (Dec: 10.7) – the highest value since Jul 2015 – **while the current situation also rebounded** to -9.5 (Dec: -19.9).
- **German manufacturing PMI rose to an 11-month high** of 45.2 in Jan (Dec: 43.7), thanks to improved domestic and overseas demand. **Services PMI also picked up** (54.2 in Jan from Dec's 52.9), aiding the composite PMI to move up to a 5-month high of 51.1 (Dec: 50.2).
- **The flash Eurozone PMI composite output index was unchanged** at 50.9 in Jan. The **EU manufacturing PMI improved** to 47.8 in Jan (Dec: 46.3) – the 12th consecutive contractionary reading, but the slowest in 9 months – as new orders stabilized and the rate of decline in new work easing to the softest since Nov 2018.
- **UK ILO unemployment rate remained steady** at 3.8% yoy in the 3 months to Nov, with the average earnings including bonus advanced by 3.2% in the Sep-Nov period.
- **UK's composite PMI rose to a 16-month high** of 52.4, up from 49.3 in Dec. **Manufacturing PMI for Jan stayed below 50** (at 49.8, from 47.5 in Dec) while the services PMI moved into expansionary territory (52.9 from the previous month's 50).

Asia Pacific:

- **The BoJ nudged up its economic growth forecasts to 0.9% in the year to Mar 2021** (from a previous 0.7% estimate), given the government's stimulus package and taking into account the US-China Phase 1 deal. The **BoJ kept its short-term interest rate target at -0.1%** and a pledge to guide 10-year government bond yields around 0%.
- **Japan industrial production fell** by 8.2% yoy and 1% mom in Nov (Oct: -8.1% yoy and -0.9% mom); on a monthly

basis, shipments dropped 1.7% and inventories decreased 0.9%.

- **Japan merchandise trade deficit widened** to JPY 152.5bn in Dec (Nov: deficit of USD 82.1bn). **Exports and imports were down** by 6.3% and 4.9% respectively (Nov: -7.9% and -15.7%). Exports fell for a 13th consecutive month in Dec, hurt by US-bound shipments of cars, construction and mining machinery.
- **Japan leading economic index slipped** to 90.8 in Nov, from an upwardly revised Oct reading of 91.6, while the **coincident index slowed** to 94.7 (Oct: 95.3).
- **Japan inflation edged up** to 0.8% yoy in Dec (Nov: 0.5%) but remained short of the central bank's target of 2%. The core consumer price index, which includes oil costs but excludes volatile fresh food prices, rose 0.7% in Dec (Nov: 0.5%).
- **Korea GDP increased** by 1.2% qoq in Q4 – the fastest growth since Q3 2017 – supported by government spending (+6.5%), construction investment (+6.3% qoq), and private consumption (+0.7%). For the full year, growth was at 2% – the slowest pace in a decade.
- **Singapore inflation inched up** to 0.8% yoy in Dec (Nov: 0.6%) – the highest in 7 months – largely due to higher costs of food, transport, communication, and education. Annual inflation stood at 0.6% for the full year 2019, and core inflation at 1%.
- **Industrial production in Singapore improved** by 4.1% mom in Dec (Nov: -8.4%).
- **Bank Negara Malaysia surprised the market by cutting the Overnight Policy Rate by 25bps to 2.75%.**
- **Philippines Q4 GDP growth**, at 6.4% yoy (Q3: 6%), was supported by household consumption (+5.6%) and government expenditure (18.7%). In spite of the strong reading in Q4, 2019 growth was only 5.9% – a four year low, and below the government's 6-6.5% target.

Bottom line: The IMF revised down global growth in its latest

World Economic Outlook update: global growth is projected to rise to 3.3% this year (from 2.9% in 2019) and edge up to 3.4% in 2021. A “successful” US-China Phase 1 deal is expected to reduce the cumulative negative impact of trade tensions on global GDP by end 2020 (to 0.5% from 0.8%). Separately, UNCTAD reported a 1% yoy decline in global FDI in 2019 to USD 1.39trn, against a setting of rising trade tensions and policy uncertainty, with flows to developing Asia accounting for one-third of global FDI (in spite of a 6% yoy drop); flows into developing nations meanwhile remained unchanged at USD 695bn. Overall, recent PMI data point towards a cautious recovery though the coronavirus outbreak looks like a growing risk (remember that SARS occurred when China was less interconnected to the global economy).

Regional Developments

- **Bahrain's money supply (M3) accelerated** by 9% yoy to BHD 13.6bn at end-Nov 2019 while the total outstanding balance of public debt instruments rose by 5.1% to BHD 12.1bn. Also, the total value of outstanding loans and credit facilities provided by retail banks inched up by 3.6% to BHD 9.8bn.
- **The value of Bahrain's investments in Egypt** touched USD 3.2bn, according to the latter's trade and industry minister. Bilateral trade stood at USD 392.5mn during Jan-Sep 2019.
- **Egypt posted a primary budget surplus** of EGP 30bn (USD 1.91bn) or 0.5% of GDP in H1 of 2019-2020 fiscal year, supported by the reduction in fuel subsidies. Overall H1 budget deficit increased to 3.8% from 3.6% a year ago. The finance minister stated that the country is on track to reduce its total debt to a lower-than-expected 83% of GDP by the end of this fiscal year in Jun.
- **Fuel subsidies in Egypt** touched EGP 7bn (USD 443mn) in Q1 2019-2020, revealed the deputy finance minister. It was also disclosed that the oil ministry sent a net EGP 3bn to the finance ministry in Jul-Sep, the first time

in years it had provided a surplus. The oil ministry expects fuel subsidy spending to decline to EGP 30bn in 2019-20 compared to the original EGP 52bn forecast in the budget.

- **Foreign investments in Egyptian public debt instruments** amounted to USD 22bn at end-Dec 2019, according to the finance minister.
- **Egypt's external debt increased** by 17.3% to USD 108.7bn in the fiscal year 2018-19, with the government the main debtor, accounting for 52.7% of total external debt (or USD 57.3bn). Egypt's external debt to GDP ratio was at 36% (vs. 47.5% in the wider Middle East and Central Asia) while the short-term external debt to total external debt touched 10.2% (vs. 21.3%).
- **Egypt's public debt service is expected to decrease by EGP 280bn annually**, thanks to lower borrowing costs amid declining interest rates, reported the *Middle East News Agency*, citing central bank sources.
- **Egypt plans to issue green bonds before end-Jun this year**: a senior finance ministry official stated that the cabinet's approval had already been obtained to offer USD 5bn international bonds in the current fiscal year, in addition to USD 500mn green bonds.
- **Egypt's holdings of US Treasuries edged up** by 0.8% yoy and 0.23% mom to USD 2.18bn in Nov; during the Jan-Nov period, Egypt's holdings grew by 3.5% or USD 69bn.
- **Bilateral trade between Egypt and UK improved** by 9.4% yoy to GBP 1.7bn (USD 2.29bn) in Jan-Sep 2019. The value of UK investments in Egypt was USD 5.348bn, concentrated in the industrial sector.
- **UAE is currently the largest investor in Egypt** with total investments exceeding AED 26.5bn (USD 7.2bn), stated the Secretary-General of the UAE International Investors Council.
- **Egypt** has spent EGP 60bn out of total EGP 195bn required for the **construction of 1 million social housing units**, disclosed the housing minister. Total direct subsidies

to the project amounted to EGP 4.6bn, while bank funding accounted for another EGP 29bn.

- **Egypt allocated EGP 27.5bn in investments to the healthcare sector in 2019-2020**, up 26.1% yoy, revealed the planning minister.
- **Parliamentary elections in Egypt will be held in Nov 2020**, 60 days before the five-year time period of the current parliament which comes to an end on 9th Jan 2021.
- **Jordan's Senate endorsed the 2020 state budget draft law**; separately, the **Cabinet approved the reduction of the sales tax on 76 basic commodities** as of Feb 1: under this decision, goods subject to 10% tax will be lowered to 5% and those at 4% will become 2%.
- **Kuwait's trade surplus with Japan declined** by 6.8% yoy to JPY 563.99bn (USD 5.13bn) in 2019; exports to Japan dropped by 6.2% to USD 6.83bn while Kuwait's imports from Japan stood at USD 1.7bn (-4.2%).
- **Deposits in Kuwait's banking sector grew** by 1.5% yoy to KWD 43.6bn in Nov 2019 (the share of private sector deposits at 83.5%, down from 85.3% a year ago), while credit disbursed rose by 4.7% to KWD 38.3bn.
- **Kuwait posted a budget deficit** of KWD 2.276bn (USD 7.5bn) **in Apr-Dec**, after transferring KWD 1.268bn to the future generations' reserve. **Total revenues were down** by 19.2% yoy to KWD 12.68bn in Apr-Dec, as **oil revenues dived** by 20.95% to KWD 11.59bn. Total expenditures surged by 13% to KWD 13.68bn, representing 60.8% of the expected spending of KWD 22.5bn during the fiscal year 2019-2020.
- The **Central Bank of Kuwait issued bonds and related *tawarruq*** last week at a value of KWD 240mn (USD 792.4mn), with a 2.750% rate of return, was oversubscribed by 12 times.
- As protests continued over the weekend, *Arab News* reported that **Lebanon's government is expected to propose a five-month contingency plan** to reform the

judiciary, fight illicit enrichment, corruption and economic crime, and modernize public institutions.

- **Lebanon's parliament will debate and vote this week on the 2020 budget** that projects a deficit of 7% of GDP (significantly higher than the previously planned 0.6%), according to the head of parliament's finance and budget commission.
- **Lebanon's sovereign dollar bonds fell to record lows ahead of a Sat meeting with the IMF:** the Apr 2020 bond suffered the sharpest losses, tumbling 2.7 cents to 77.5 cents; the 2022 and 2035 bonds both fell 1.6 cents to trade at just over 45 and 40 cents respectively. *Reuters* reported that the meeting was only a courtesy visit, and not a formal staff meeting.
- **Oman will impose 5% value-added tax (VAT) from early next year,** revealed Oman's minister of commerce and industry.
- **Saudi Arabia reported a 54% surge in the number of new international companies** (1131) that set up operations in the country. About 100 UK companies and 82 US companies set up shop in 2019 compared to 24 for both countries in 2018. India, Egypt, Jordan and China were also among the top countries represented.
- **Saudi Arabia issued 350k tourist visas during the last three months of 2019,** driven by new regulations to ease tourism (e.g. allowing Schengen, UK and US visa holders to enter).
- **Inflation in Saudi Arabia rose** by 0.2% yoy and 0.1% mom in Dec – on higher prices of food and beverages, hotels, restaurants and education – reversing the deflationary trend. Separately, **WPI inched up** by 0.4% mom and 3.7% yoy in Dec, driven by a 1.1% mom increase in the agriculture and fishery products section.
- **Small businesses in Saudi Arabia dominate the private sector,** with its 1.5mn firms accounting for 97.6% of the total; medium-sized enterprises were 31,330 in number, or 2% of total private sector firms. By sector,

wholesale and retail sector represented 34.3% of the small businesses, while 21.2% were in the building and construction field.

- In an interview with *Bloomberg*, **Saudi Arabia's** finance minister disclosed that **Aramco still plans to list on a foreign exchange** though stating that it would not be "anytime soon".
- **Saudi Arabia raised USD 5bn from the sale of dollar denominated bonds** with maturities of seven, 12 and 35 years; it had received around USD 20bn in orders.
- **Saudi Arabia's crude oil exports increased** by 4.4% yoy and 4.5% mom to 7.37mn barrels per day (bpd) in Nov 2019 – the highest level in 2019 – though crude output fell by 3.2% yoy to 9.89mn bpd in Nov and crude stocks fell by 1.07mn barrels to 167.01mn barrels.
- **Foreign direct investment to Saudi Arabia expanded** to USD 3.5bn in Jan-Sep 2019 from USD 3.18bn a year ago, according to SAMA data.

UAE Focus

- **UAE inflation fell** by 0.8% yoy in 2019, thanks to a continued drop in rents and utilities costs.
- **UAE Cabinet approved amendments to the "Agency Law"** (which regulates commercial agency and distribution agreements): it aims to enhance capabilities and continuity of family businesses, as well as to establish rules of governance and protection from defaulting; it will also provide for the transformation of family-owned businesses to list on the financial markets.
- **Money supply (M2) in the UAE increased** by 2.2% yoy to AED 1.4trn at end-Dec. Gross bank assets rose by 1.4% mom to AED 3.09trn while gross credit was up 2.2% to AED 1.76trn.
- **UAE's budget surplus inched up** by 0.04% yoy to AED 66.32bn (USD 18.06bn) in Jan-Sep 2019. Government revenues improved by 3.5% to AED 359.2bn (taxes

accounted for 46.4% of total revenues) while expenses rose by 4.2% to AED 292.88bn during the period.

- **The volume of Dubai's non-oil foreign trade swelled** to 83mn tonnes in Jan-Sep 2019, up 22% yoy. The volume of re-exports grew by 48% to 13mn tonnes, while exports rose by 47% (14mn tonnes) and imports grew by 13% (56mn tonnes).
- **Government employees in Dubai will receive an average salary increase of 10%** – effective Jan 1, 2020 – with professional employees receiving an increase between 9-16%. While the decision also includes features to support a work-life balance, this move would widen the gap between public and private sector salaries thereby making the latter less attractive to local talent, eventually leading to a more fragmented labour market.
- **Dubai attracted a record-high 16.73mn international overnight visitors in 2019**, rising by 5.1% yoy. Dubai's top six source markets were India, Saudi Arabia, UK, Oman, China and Russia, together accounting for over 7mn visitors. (More: <https://www.visitdubai.com/en/tourism-performance-report>)
- **Dubai announced a global logistics platform to boost South-South trade:** the World Logistics Passport, which links Customs World, DP World and Emirates Group to enhance connectivity through Dubai, has been operational since Jul 2019 and has increased trade among participants by 10%. (More: <https://worldlogisticspassport.com/>)
- The Dubai Multi Commodities Centre (DMCC) **announced that 1969 new companies had registered** in the free zone last year. Q4 reported a 20% increase in new firms (559).
- The **Abu Dhabi Investment Office**, through its Ventures Fund, invested AED 60mn (USD 16.3mn) in a batch of startups and fund managers.

Media Review

IMF: Tentative Stabilization, Sluggish Recovery?

<https://www.imf.org/en/Publications/WE0/Issues/2020/01/20/weo-update-january2020>

UNCTAD Investment Trends Monitor

https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1_en.pdf

The Trouble with the Creeping Expropriation of Depositors

<https://carnegie-mec.org/2020/01/24/trouble-with-creeping-expropriation-of-depositors-pub-80886>

Podcast on Lebanon with The National, 23 Jan 2020

<https://nassersaidi.com/2020/01/24/podcast-on-lebanon-with-the-national-23-jan-2020/>

Lebanon's new government may have little reserves left to stabilize economy

<https://www.reuters.com/article/us-lebanon-crisis-reserves-analysis/lebanons-new-government-may-have-little-reserves-left-to-stabilize-economy-idUSKBN1ZL2Q4>

The Next Big Development Challenge

<https://www.project-syndicate.org/commentary/emerging-markets-need-new-growth-strategy-by-arvind-subramanian-and-josh-felman-2020-01>

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