

# Weekly Economic Commentary – Feb 2, 2020

## Markets

Stock market gains are being washed off as coronavirus is declared a global emergency by the WHO: S&P 500 as well as Dow Jones indices were down 2%+, Stoxx 600 index was down by 3% on the week (worst in 6 months), Korea's KOSPI had its worst week in 15 months, India's stock market posted a monthly loss of 1.3% in Jan – its worst such performance since Jul. Yields on US and euro zone government debt fell to three-month lows, a sign of increased appetite for safe haven assets. Regional equity markets were mostly down. On the currency front, safe havens Swiss franc and yen rose while the pound sterling extended gains after BoE kept rates unchanged. Crude oil prices fell for a 4<sup>th</sup> consecutive week, with Brent posting the biggest monthly decline since Nov 2018 while gold posted biggest monthly gain in 5 months.

## Global Developments

### **US/Americas:**

- **GDP grew by 2.1% (annualized rate) in Q4**, the same pace as Q3 as consumption slowed (1.8% annualized rate in Q4 vs Q3's 3.2%) and business investment contracted (for the 3<sup>rd</sup> consecutive quarter – the longest stretch since 2009) amidst an improvement in trade deficit. The full year growth stood at 2.3% (2018: 2.9%) – the slowest since 2016.
- **The PCE price index rose by 0.3% in Dec** – the biggest gain since Apr. The core PCE (excluding food and energy) increased by just 1.6% yoy in Dec (Nov: 1.5%).
- **Personal income decelerated to 0.2% in Dec** (Nov: 0.4%) while real disposable income shrank 0.1% in the month (Nov: +0.3%). Income rose 4.5% in 2019 after surging 5.6% in 2018. **Wages eased**, rising 0.3% in Dec after

- climbing 0.4% in Nov.
- Consumer spending rose by 0.3% in Dec (Nov: 0.4%) while **real spending slowed** to 0.1% in Dec (Nov: 0.3%). Durable goods spending growth recorded the biggest fall, declining to -0.3% in Dec from Nov's 1.2%. For the full year 2019, consumer spending increased by 4% – the smallest gain in 3 years – from 2018's 5.2% rise.
  - **The Fed left interest rates unchanged, as expected.** The fed funds futures market is pricing in about a 58% chance of a rate cut by Jun, according to the CME's FedWatch tool.
  - The **Chicago PMI fell** to a lower-than-expected 42.9 in Jan – **the lowest since Dec 2015**– as new orders and production tumbled. It has been below-50 since Jul.
  - **US new home sales fell unexpectedly** by 0.4% mom to an annualized rate of 694k in Dec. The average rate of new home sales in 2019 was 681k – 10.3% higher than 2018's pace.
  - **Pending home sales dipped** by 4.9% mom in Dec (Nov: 1.2%) – the largest decline in almost a decade – **as supply hit a record low.** The average rate on the 30-year fixed mortgage, at 3.75% in Dec, was a full percentage point lower compared to a year ago. Separately, **S&P Case Shiller home price indices gained** in Nov, up by 2.6% yoy (Oct: 2.2%).
  - **Durable goods orders improved** by 2.4% mom in Dec, from a downwardly revised -3.5% drop in Nov. However, non-defense capital goods orders excluding aircraft fell by 0.9% (Nov: +0.1%) – the biggest drop since Apr.
  - **Goods trade deficit widened** to USD 68.33bn in Dec (Nov: USD 62.99bn), on rising imports (+2.9% to USD 205.3bn).
  - **Initial jobless claims declined** by 7k to 216k in the week ended Jan 24, with the 4-week monthly moving average at 214.5k (down by 1750).

## Europe:

- **EU GDP grew by 1% yoy and 0.1% qoq in Q4** (Q3: 1.2% yoy and 0.3% qoq): France shrank by 0.1% as nationwide strikes dragged down growth while Italian GDP shrank by 0.3% – its worst performance since 2013 – on weakened domestic demand. **EU inflation edged up** to 1.4% in Jan (Dec: 1.3%), but core inflation slipped to 1.1%.
- **German Ifo** business climate edged down to 95.9 in Jan (from Dec's 96.3), largely as expectations fell to 92.9 (Dec: 93.9), while in contrast the current assessment showed an improvement to 99.1 from 98.8 the month before.
- **Inflation in Germany accelerated** to 1.7% yoy in Jan from the previous month's 1.5%, staying below 2% (the ECB's target level) for the 9<sup>th</sup> consecutive month. In mom terms, prices were down by 0.6% (Dec: +0.5%).
- **German retail sales plunged** by 3.3% mom in Dec (Nov: +1.6%); in yoy terms, sales grew by 0.8% after a revised rise of 2.7% in Nov.
- **EU money supply growth slowed** to 5% in Dec (Nov: 5.6%).
- **EU economic sentiment index (ESI) improved** to 102.8 in Jan (Dec: 101.3), with business climate and industrial confidence improving (though still negative). The ESI soared in Germany and France by (by 2 and 1.5 points respectively), while the Netherlands and Italy posted decreases (-0.3 and -0.1).
- **The BoE left rates unchanged at 0.75%** – only 0.25% higher than when Mark Carney took office. In his last speech as BoE governor, Carney stated that UK recovery is on track: the MPC estimated that the economy will grow at an average rate of 1.1% over the next three years. The Monetary Policy Committee's view of a smooth move towards an FTA between the UK and EU at end-2020 seems a tad too ambitious.

## Asia Pacific:

- **China's NBS manufacturing PMI edged down to 50 in Jan**

(Dec: 50.2) – the reading that separates expansion and contraction. The impact of the coronavirus would not have been reflected in this reading as the survey was conducted before Jan 20. **Non-manufacturing PMI improved** to 54.1 from 53.5 the month before.

- **Core inflation in Tokyo** (excluding fresh food) **slowed** to 0.7% yoy in Jan, from 0.8% the month before. Overall **CPI in Tokyo** touched 0.6% in Jan (Dec: 0.9%).
- In the 3 months Oct-Dec, **Japan's industrial production contracted by 4%** – the worst decline since data began; it registered 3% yoy growth in Dec, improving from the 8.2% decline the month before. In mom terms, IP was up by 1.3% (Nov: -1%).
- **Japan's retail trade** slowed for a third consecutive month in Dec, down 2.6% yoy. In mom terms, it inched up by 0.2% versus a pickup of 4.5% in Nov.
- **India unveiled its budget for the 2020-21 fiscal year:** fiscal deficit is estimated to touch 3.5% of GDP (from 3.8% of GDP the in the current fiscal year). Expenditure is projected to touch INR 30.42trn (USD 428.03bn) from a revised estimate of INR 26.99trn in 2019-20. Simplifying the tax system was one of the key measures announced, along with lowering tax rates in a bid to boost consumption; it also focused on farm spending (allocation of USD 40bn) to support growth.

**Bottom line: January – a month that finally saw the US-China Phase 1 trade deal being signed – wrapped up with Brexit and WHO declaring coronavirus a global emergency. The ripples of the fast-spreading virus have already affected global stock markets (stocks have lost an estimated USD 1.2trn over the past two weeks) and are likely to show up in the next few readings of PMI across the globe (as global supply chains get disrupted). The main uncertainty hanging over markets is whether the coronavirus will turn into a global pandemic that could have a major impact on trade, tourism and severely disrupt supply chains potentially sharply reducing global and**

## Asian economic growth.

### Regional Developments

- **The value of Bahrain-origin exports declined** by 6% yoy to BHD 532mn (USD 1.4bn) **in Q4 last year**. Saudi Arabia (BHD 132bn), UAE (BHD 55mn) and the US (BHD 52mn) accounted for the top three recipient nations.
- **Bahrain's Electricity and Water Authority is owed a total of BHD 165mn on utility bills:** administrative and legal initiatives have been launched to recover the outstanding amount.
- **Bahrain** has been ranked 41st globally and fourth in the Arab region on INSEAD's **Global Talent Competitiveness Index**. UAE topped the Arab region, ranking 22nd worldwide.
- **Life expectancy in Bahrain has increased by 27 years since 1978** to 77.5 for men and 80 for women.
- **Egypt's external debt grew** by 0.6% qoq to USD 109.3bn in Q1 FY 19-20 (Jul-Sep 2019), with the debt to GDP ratio declining to 34.4%. Debt service stood at USD 2.94bn in Q1 FY 19-20, including USD 1.7bn in principal debt and USD 1.2bn in interest. **Domestic public debt declined** by 2.3% qoq to EGP 4.18trn at end-Sep or 66.8% of GDP.
- **Balance of payments surplus in Egypt** touched USD 227.3mn in Q1 of FY 19-20 while non-oil BoP deficit stabilized to USD 606.2mn; **current account deficit fell** to USD 1.4bn in Q1 compared to USD 2bn a year ago.
- **Net FDI from Saudi Arabia into Egypt dropped** by 43.4% yoy and 33.4% qoq to USD 69.3mn in Jul-Sep 2019. Saudi Arabia's direct investments still represent 8.4% of total investments by Arab states (totaling USD 824.3mn in Jul-Sep).
- **Bank deposits in Egypt inched up** by 0.4% mom to EGP 4.183trn at end-Nov while government deposits fell by 1.8% to EGP 612.5bn. Loans disbursed grew by 0.7% mom to EGP 1.825trn.
- **Egypt's foreign trade declined** by 1.5% yoy to USD 23bn

in Q1 of FY 2019-2020, as imports declined by 4.2% to USD 15.9bn. EU topped the list of trade partners (accounting for 31.1% of total foreign trade), followed by Arab countries with 21.5%.

- **Egypt repaid all overdue debts to foreign oil companies**, disclosed the central bank governor. Debts had fallen to USD 900mn by end-Jun from USD 6.5bn 4 years ago.
- **Remittances into Egypt increased** by 12.7% yoy to USD 2.3bn in Oct, bringing total remittances (in the current fiscal year) for the period Jul-Oct to USD 9bn (+13.4%). In the 2018-19 fiscal year, remittances had dipped by 4.7% to USD 25.15bn.
- **Egypt's tourism revenues are estimated to touch USD 16.4bn in 2019** and expected to rise to USD 29.7bn in the next 5 years (A CAGR of 13%), according to a report commissioned by the Arabian Travel Market. **Egypt's top source market in 2019 was Germany**, with 2.48mn arrivals (+46% yoy) and a total spend of USD 1.22bn.
- **Iraq's President appointed Mohammad Tawfiq Allawi as the new PM** (he had previously served as communications minister twice) after his predecessor had resigned in Nov. The PM, who has expressed support for the ongoing protests, has a month to form a new government.
- **Jordan and IMF have reached an agreement for a new USD 1.3bn programme**: Jordan will receive 9 installments of USD 140-150mn over a 4-year period; the first installment of USD 140mn by end-Mar.
- **Kuwait is likely to need USD 180bn in financing over the next 6 years**, according to the **IMF**: it is expected that Kuwait's fiscal balance will turn from a 5.5% of GDP surplus in 2019 to a deficit of similar magnitude in 2025. Government debt is estimated to rise to over 70% of GDP in 2025 from 15% in 2019.
- **Lebanon's finance minister urged the Association of Banks in Lebanon (ABL) to cut interest rates** while trying to reassure savers that their deposits would not be touched.

- **Lebanon's parliament passed the 2020 budget last week**, with deficit at an estimated 7% of GDP: it was drafted by the previous government (including allocations for ministries that are non-existent in the current one) and approved by a scarce Parliament.
- **Lebanon will need external financing at about USD 24bn** (or 42% of its GDP) **over a five-year period (2020-2024)**, according to a report by the Institute of International Finance.
- As banks chase dollar liquidity, **Lebanon's March-dated Eurobonds dropped** by about 5 cents since Tues to record lows of 77 cents on the dollar (<https://on.ft.com/2vDlnk5>).
- **Oman's nominal GDP grew by 12.3% yoy in 2018**, with value added of non-oil activities up by 2.3%.
- **The value added from Oman's oil activity grew** by 2.1% yoy to OMR 5.1bn (USD 13.3bn) at end of Q2 2019; value added of natural gas increased by 5.6% to OMR 793.5mn.
- **Oman's trade surplus widened** by 7.78% yoy to OMR 4.4bn at end-Sep 2019, as exports declined by 4% (to OMR 11.1bn) and imports dropped further by 9.7% (to OMR 6.8bn).
- **Local natural gas production and imports in Oman edged up** by 0.08% yoy to 42.194bn cubic metres (BCM) by end-Nov 2019.
- **Saudi Arabia's foreign reserves grew** by 0.59% yoy to USD 499.54bn in 2019 – its **highest level in three years**. Meanwhile, general reserve declined by 4% to SAR 469.6bn in 2019.
- **Bank lending to the private sector in Saudi Arabia grew** by 7% yoy in Dec – its highest annual growth rate since Oct 2016 – boosted by mortgage lending (up 3 times to SAR 9.3bn in Dec vs a year ago). Money supply (M3) expanded by 7.1% yoy – the highest in over 4 years.
- **Saudi Arabia's SAMA issued the first-ever licenses for non-bank financial institutions**: it licensed an electronic wallet company and a payment services

company.

- **Oil shipments from Saudi Arabia to China totaled a record 83.32mn tonnes** or 1.67mn bpd **in 2019**, expanding by nearly 47%. Saudi is China's top supplier, followed by Russia which shipped 77.64mn tonnes (+9% yoy).
- **Bilateral trade between Saudi Arabia and India crossed USD 34.66bn during 2018-19** (+24% yoy), according to the Indian ambassador to Saudi Arabia.
- **The volume of POS sales in Saudi Arabia grew by 22.8% yoy** to SAR 285.3bn in 2019 while the value of POS sales increased by 25.1% yoy to SAR 27.7bn.
- **Remittances from Saudi Arabia declined by 8% yoy** to SAR 125.53bn (USD 33.47bn) in 2019. In Dec 2019, remittances grew by 2.2% yoy to SAR 11.56bn.
- **Saudi Arabia's Tadawul approved the listing of debt instruments** (issuance number 07-01-2020) with a value of SAR 715.005mn.
- **Saudi Arabia's Neom city aims to have the world's first "solar dome" desalination plant:** work is expected to start this month and end by Dec 2020. The process will be such that seawater will be pumped into a hydrological "solar dome" made from glass and steel, before it is superheated, evaporated and eventually precipitated as fresh water.
- **Startups in Saudi Arabia attracted USD 67mn worth investments in 2019**, according to MAGNiTT. The rise in venture capital funding and number of deals placed Saudi Arab at the third highest for both categories in MENA, following UAE and Egypt.

## **UAE Focus**

- **UAE's Sharjah emirate announced a new discovery of natural gas and condensate onshore at the Mahani field:** the first onshore discovery in 37 years, this field has flow rates of up to 50 million standard cubic feet per day, along with the liquids associated with it.

- **Non-oil GDP in UAE's Ajman emirate grew by 3.6% yoy in 2018**, with the manufacturing and construction sectors accounting for more than half the growth (39.1% and 14.3% respectively).
- **Loans granted by UAE banks to residents ticked up by 13% yoy to AED 165.3bn (USD 44.99bn) in Dec.** Separately, **banks' investments in debt bonds and stocks increased by 0.24% mom (to AED 246bn) and by 2.8% (to AED 10.8bn) in Dec 2019.**
- **Consumer Confidence Index in Dubai declined by 4 points to 133 in Q4**, according to the quarterly business survey of Dubai Economy, with job security the biggest concern. Though more than  $\frac{3}{4}$ -th of respondents were positive about their current personal finances, crucially more than half planned to cut down on outdoor entertainment and delay tech purchases (mobiles, laptops).
- **The number of new investors in Dubai accelerated by 86% to more than 60,700 in different economic sectors during 2019**, according to Dubai's DED; over 18,800 were welcomed in Q4.
- **Car sales in Abu Dhabi increased by 5% yoy to AED 28.6bn (USD 7.8bn) in Jan-Oct 2019.**
- **Sharjah airport reported a 13% surge in passengers to 13.6mn in 2019**; aircraft traffic increased by 6.45% to 86.5 thousand take-offs and landings.
- **Hotel revenues in Abu Dhabi increased by 3.5% yoy to AED 1.84bn in Q4**, as hotel guests increased to 1.338mn during the period, thereby raising occupancy rate to 79.6.

## **Media Review**

### **A Global Economy Without a Cushion**

<https://www.project-syndicate.org/commentary/global-growth-losing-its-trade-cushion-by-stephen-s-roach-2020-01>

### **The Brexit years in charts: from Irish passports to the value of sterling**

<https://www.ft.com/content/27c1eab2-42b9-11ea-a43a-c4b328d9061>

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## **India's budget**

<https://www.economist.com/finance-and-economics/2020/02/01/indias-budget-disappoints-investors>

## **What Are the Top Three Priorities for Lebanon's New Government in the Coming Weeks?**

<https://carnegie-mec.org/diwan/80902>

## **Trump's Peace Plan Is Palestinians' Worst Nightmare**

<https://foreignpolicy.com/2020/01/31/trump-peace-plan-israel-palestine-middle-east/>

## **Egypt ranks 3rd in MSCI Emerging Markets Index in 2019**

<https://english.mubasher.info/news/3584888/Egypt-ranks-3rd-in-MSCI-Emerging-Markets-Index-in-2019-FRA-chairman/%7B%7Bstock.url%7D%7D>

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