

Weekly Economic Commentary – Feb 9, 2020

Nasser Saidi & Associates is pleased to announce the introduction of a new section “Weekly Insights” that will focus on current economic issues relevant to UAE and the wider Middle East.

Markets

Stock markets recovered last week though posting losses on Friday on heightened fears of the coronavirus pandemic's impact on the global economy. The S&P 500 and Nasdaq posted weekly gains, the former biggest since June 2019 and latter since November 2018; Europe's Stoxx also reported the biggest weekly gain since November 2018. China and Hong Kong markets opened after an extended Lunar New Year holiday but posted weekly losses as the virus death tolls rose. Regional markets ended the week in the red (also given the disappointing earnings season so far) while Egypt posted gains; Aramco hit its lowest level since it started trading. On the currency front, emerging market currencies were the worst performers (Singapore dollar and Thai baht after central bank moves to coronavirus impact) while yen closed just above a 2-week low. Oil prices dipped on lower demand worries – Brent posted a 5th consecutive weekly drop – and gold gained.

Global Developments

US/Americas:

- **Non-farm payrolls increased** by 225k in Jan, with gains the strongest in construction, health care, transportation and warehousing. As **labour force participation rates increased** by 0.2% to 63.4% (the highest since June 2013), **average hourly earnings** edged up by 0.2% mom and 3.1% yoy. The unemployment rate nudged up to 3.6% from a multi-decade low of 3.5%.
- **US productivity rebounded** in Q4, rising at a 1.4%

annualized rate (Q3: -0.2%); **unit labour costs slowed** to 1.4% in Q4, compared to the 2.5% reported in Q3.

- **US ISM manufacturing PMI rebounded** to 50.9 in Jan (Dec: 47.8), as new orders grew (52 from 47.6). ISM non-manufacturing PMI accelerated to 55.5 in Jan (Dec: 54.9), thanks to a pickup in new orders (56.2 from 55.3) alongside a dip in prices paid (55.5 from 59.3).
- **A similar pickup was visible in the Markit manufacturing PMI** which increased to 51.9 in Jan, up from the previous month's reading of 51.7. As services PMI improved (53.4 from 53.2), composite index rose to 53.3 from 53.1 the month before.
- **US factory orders rebounded** by 1.8% mom in Dec (Nov: -1.2%) – the largest gain since Aug 2018 – but **supported by defense aircraft demand**. Excluding defense, factory orders dropped 0.6% (Nov: +0.1%). Overall, factory orders fell by 0.6% in 2019.
- **ADP employment posted the largest gain since May 2015**, with 291k private sector jobs created in Jan, up from Dec's 199k. Medium-sized businesses were the biggest employers, adding 128k jobs.
- **Trade deficit widened** to USD 48.9bn in Dec, from Nov's USD 43.7bn, as imports ticked up by 2.7% to USD 258.5bn. **For the full year 2019, overall trade deficit in goods and services dropped** – for the first time since 2013 – by 1.7% yoy to USD 616.8bn. US imports of Chinese goods fell to USD 452bn last year (2018: USD 540bn), their lowest level since 2014 while exports of US goods to China fell to their lowest level since 2011 (2019's USD 107bn following 2018's USD 120bn).
- **Initial jobless claims fell** by 15k to a 9-month low of 202k in the week ended Feb 1, while the 4-week moving average dropped by 3k to 211,750.

Europe:

- **Both German and EU Markit manufacturing PMI ticked up** by

0.1 to 45.3 and 47.9 respectively in Jan (Dec: 45.2 & 47.8). In the UK, **Markit manufacturing PMI** rose to 50, from Dec's 49.8.

- **Composite PMI in Germany nudged up** to 51.2 in Jan (Dec: 50.2), as new businesses improved following 6 months of contraction. Services PMI improved to 54.2 in Jan (Dec: 52.9) thanks to faster growth in business activity, new work and steep rise in employment. The **same was mirrored in EU**, with the composite index at 3 in Jan (the highest since Aug) vs Dec's 50.9; services PMI slipped 0.3 points to 52.5, reflecting slower gains in France and Spain.
- **German factory orders fell sharply** by 2.1% mom in Dec (Nov: -0.8%), lowering the full year orders to -8.7% – the worst in over a decade.
- **German exports edged up** by 0.1% mom **and imports fell** by 0.7% in Dec, bringing the trade surplus to EUR 19.2bn. For the full year 2019, German exports increased by 0.8% yoy to EUR 1.33trn while imports grew by 1.4% to EUR 1.1trn.
- **German industrial production plunged** by 3.5% mom in Dec (Nov: +1.2%), posting the biggest drop since Jan 2009. Sector-wise, construction plunged by 8.7%, as did manufacturing (-2.9%).
- **Retail sales in the Eurozone dropped** by 1.6% mom in Dec (Nov: 0.8%) while in the EU sales were down by 1.3%.

Asia Pacific:

- **China's Caixin manufacturing PMI stayed above the 50-mark in Jan**, though sliding to a 5-month low of 51.1 (Dec: 51.5); the survey however closed before Lunar New Year holiday and widespread awareness of the Coronavirus outbreak. The **services PMI softened** to 51.8 in Jan (Dec: 52.5), with the rate of new order growth weakening and new business rising at the slowest pace since Oct.
- **The People's Bank of China injected** RMB 1.2trn (USD

173bn) in **additional liquidity** to money markets, in **the largest single-day open market operation since 2004**.

- **Japan's Jibun Bank manufacturing PMI contracted again** to 48.8 in Jan (Dec: 48.4): though overall output and new orders shrank for the 13th consecutive month, the pace of contraction of new export orders eased to its slowest level since Nov 2018.
- **Japan overall household spending fell** by 4.8% yoy to JPY 321,380 (USD 2900) in Dec (Nov: -2%), dragged down by the consumption tax hike imposed in Oct. For the full year 2019, average monthly spending by households with two or more members grew 0.9% yoy to JPY 293,379 – the first rise in 6 years, thanks to higher consumer spending ahead of the tax hike.
- **Japan leading economic index declined** to 90.9 in Nov (Oct: 91.6) and the coincident index eased to 95.1 in Nov (Oct: 95.3).
- **Korea Nikkei Markit manufacturing PMI inched down** to 49.8 in Jan (Dec: 50.1), even though new export and total new orders recorded its 2nd successive month of growth (albeit at a slower pace).
- **Inflation in Korea increased to a 14-month high in Jan**, rising by 1.5% yoy and 0.6% mom, given the higher prices for agricultural and oil products.
- **Singapore PMI moved up to an 8-month high** of 51.4 in Jan, from 51 the month before, supported by new business and output (rising at the fastest pace since May).
- **India's central bank meeting** saw no change in interest rates, as expected. However, the Reserve Bank announced measures to support bank lending including a waive off on the Cash Reserve Ratio and guaranteed long term liquidity of up to INR 1trn at a cheap price via long term repos of 1-year and 3-year to banks.

Bottom line: Concerns about the coronavirus' (nCoV) impact on global economic growth gain traction, with the recent death toll already surpassing that of SARS (in 2003, when China was

less interconnected to the rest of the world). Though the JP Morgan Global Manufacturing PMI rose to a 9-month high of 50.4 in Jan (Dec: 50.1) – with the upturn limited to the consumer and intermediate goods industries – the nCoV outbreak will likely negatively impact the next few readings, as the impact reverberates across global supply chains.

Regional Developments

- **Bahrain's central bank cut its one-month deposit rate** by 15bps to 2.45% from 2.6% while keeping its key policy rates on the 1-week and overnight deposit facility unchanged.
- **Egypt's non-oil private sector economy weakened: PMI fell to a near 3-year low** of 46 in Jan (Dec: 48.2), as both output and new orders fell amidst softening export demand.
- **Egypt's ministry of planning and economic development will release an updated version of Egypt Vision 2030 soon**, revealed the minister. The new version will focus on partnerships (like PPPs) and also follow-up on the implementation of SDGs.
- **GDP in Egypt is forecast to accelerate to 5.8% this year** from 5.6% in 2019, supported by growth in the tourism, construction, and oil and gas sectors, according to the **African Development Bank**. It will also account for 1/3-rd of the aggregate growth of 3.4% in Africa.
- **The Central Bank of Egypt is expected to start its middle-income mortgage initiative by Mar**, as it is finalizing regulations for its implementation, reported *Mubasher*.
- **Egypt's sovereign wealth fund signed a deal with the National Service Products Organisation** (affiliated to the Ministry of Defence) to help in restructuring and marketing some of its assets and subsidiaries to private investors.
- **Banque Misr is planning to offer up to 45% of Banque du Caire on the Egyptian Exchange in H1 this year**, reported

Reuters, citing the bank's chairman.

- **Egypt's non-oil imports declined** by 18% yoy to USD 5.292bn in Dec 2019. Imports of agricultural crops fell by 24% to USD 553mn while leather products imports dropped by 28% to USD 12bn.
- **Bilateral trade between Egypt and Singapore** touched USD 1bn, with the focus on consumer and agricultural products, while investments in Egypt crossed USD 500mn, according to the Singapore ambassador.
- The value of **bilateral trade between Egypt and Switzerland grew** to USD 917mn in 2019, up from USD 905mn the year before. Switzerland is the 16th top investor in the country, with total investments of USD 2.144bn in 433 projects.
- **Trade exchange between Egypt and Morocco** touched USD 681mn in 2019: Egypt's exports to Morocco amounted to USD 540mn.
- **Revenues from Suez Canal increased** by 6.1% yoy to USD 497.1mn in Jan, with 1645 vessel crossings. In 2019, revenues grew by 1.3% to USD 5.8bn.
- **Egypt is expected to sign a new contract with Saudi Arabia to set up a joint electricity grid on 30 May** this year. The project would set up the largest joint electricity grid in the region with the ability to transmit about 3000 MW between the 2 nations.
- **Imports of Iraqi crude oil to Jordan touched 380k barrels in Jan** (or 12k barrels per day).
- **Remittances into Jordan increased** by 0.9% yoy to USD 3.7bn in 2019, revealed the central bank.
- **Jordan's Lower House endorsed the public-private sectors partnership law**: the law, which aims to secure funds for public projects, will create a higher ministerial committee to select projects, provide policies for each project and refer them to the Cabinet.
- **Informal economy in Jordan** contributes around 25% of the national income and employs around 46% of total

workforce, according to a study by Al Quds Centre for Political Studies.

- **Jordan airport welcomed 8.9mn passengers in 2019**, up 5.9% yoy. The top five travel destinations by number of passengers were Dubai, Istanbul, Cairo, Doha and Kuwait in 2019.
- **Japan announced a new assistance package for Jordan** to the tune of USD 15.6mn, with the aim to support organisations implement projects which offer humanitarian assistance for Syrian refugees and host communities.
- According to UNICEF, **over 20% of children living in Jordan are multi-dimensionally poor, and half of its young women are not enrolled in education.** (Read the full report: <https://www.unicef.org/jordan/Geographic-Multidimensional-Vulnerability-Analysis>)
- **Kuwait's trade surplus narrowed** to KWD 679mn in Oct (-43% yoy) as exports plunged by 26.1% to KWD 1.55bn and imports declined by 3.9% (to KWD 877mn).
- The **Central Bank of Kuwait's 3-month bonds** – worth KWD 240mn, with a 2.75% rate of return – **were oversubscribed** by 12.15times with purchase orders crossing KWD 2.9bn.
- **Abyaar Real Estate Development's** last trading day on **Boursa Kuwait** will be 29 July 2020.
- **Lebanon's PMI slipped** further to 44.9 in Jan (Dec: 45.1), as **new orders fell for the 80th month in a row**, and exports fell at the quickest pace since Nov 2019. Respondents cited political instability and liquidity issues as core problems, and remained pessimistic towards business outlook this year.
- **Lebanon's government has approved a rescue plan:** Reuters reported that (as per a draft document obtained by them) broad policy plans included reducing interest rates, recapitalising banks, restructuring the public sector and seeking support from foreign donors.

- **Oman's nominal GDP fell** by 2.6% yoy to OMR 21.64bn by end-Sep, with oil sector activity down by 2.9% and non-oil activity falling by 2.1% to OMR 14.9bn. Hotels and restaurants, financial brokerage, and real estate activities rose by 5.4%, 1.6% and 0.5% respectively.
- **Credit to Oman's private sector increased** by 2.6% yoy to OMR 22.8bn (USD 58.22bn) as of Nov 2019. Non-financial corporate sector accounted for 46.1% followed by the household sector (mainly under personal loans) at 45.2%.
- **Oman announced that visas issued for sales representative/ promoters and purchase representatives in the private sector would not be renewed on expiry.**
- **Oman's cruise ship tourists accelerated** by 46.5% yoy to 283,488 passengers from a total 284 ships in 2019.
- **Saudi Arabia's PMI moderated** to 54.9 in Jan (Dec: 56.9) – the slowest since Dec 2018 – as new orders slowed and the rise in sales volumes was the softest recorded for 13 months.
- **Tadawul could see three new listings in H1 2020**, reported *Reuters*: these include Sulaiman Al Habib Medical Group (one of the largest private health-care operators in Saudi Arabia), retailer Bindawood Group and Supreme Foods (which produces processed and cooked meat).
- **Bank deposits in Saudi Arabia grew** by 7.3% yoy to SAR 1.795trn in 2019, according to SAMA, with demand deposits accounting for 61.2% of the total. **Credit disbursed increased** as well, posting a growth of 7.6% to SAR 1.552trn (with long-term credit surging by 26.7%).
- **Consumer spending in Saudi Arabia improved** by 4.6% yoy to SAR 1.026trn in 2019, according to SAMA data. While the value of point of sales (POS) operations grew by 22.8% to SAR 285.32bn, cash withdrawals declined by 1.03% to SAR 740.6bn.
- **Saving in Saudi Arabia declined** by 2.4% yoy to SAR 751.76bn in Jan-Sep 2019, according to the Saudi General Authority for Statistics.

- The CEO of NEOM Company stated that **NEOM will be the first place globally to rely entirely on digitalization, with a 100% fully protected system**. With Phase one due for completion in 2020, the regional plan for NEOM will be announced next month, he clarified.
- **Saudi Arabia completed the privatization of its first government owned healthcare facility** Saudia Medical Services Company (a subsidiary of Saudi Arabian Airlines).
- **Fitch Ratings views Saudi banking sector as well capitalized**, with liquid balance sheets, and high-quality liquid assets accounting for on average 22% of total assets and covering 31% of deposits. **Profitability will remain resilient**, thanks to strong franchises, cheap funding and limited competition.
- **Saudi Arabia's PIF sold 39k of its shares in Tesla in Q4 2019**: this accounted for 99.5% of PIF's Tesla shares.
- **Saudi Arabia decreased its carbon emissions** from fuel consumption by about 4.4% to 553mn tons of carbon dioxide **in 2018**, based on indices supplied by Enerdata.
- A recent **MEED** report finds that there are an **estimated 6,722 active projects with a combined value of more than USD 3.1trn** planned or underway in the GCC. About USD 22.4bn of construction and transport project contracts were awarded in H1 2019, and the UAE remains one of the biggest markets in terms of project execution (about USD 177.9bn worth of projects in Jun 2019).
- **A cross-border TIR transport operation involving the UAE, Saudi Arabia and Jordan was successfully completed** in 4 days (vs 7 days without the TIR guarantee) last week. Trucks operating under a TIR carnet (temporary export-import document) use one single international guarantee from a journey's start to finish, even for intermodal transports.
- The IMF warned that **at the current fiscal stance, GCC region's financial wealth could be depleted by 2034**.

Access the report at :

<https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/01/31/The-Future-of-Oil-and-Fiscal-Sustainability-in-the-GCC-Region-48934>

UAE Focus

- **UAE's PMI dropped below 50 in Jan for the first time since Aug 2009:** the Jan reading of 49.3 (Dec: 50.2) was a result of falling new orders, weaker business confidence, and a contraction in employment.
- **UAE discovered 80trn cubic feet of gas reserves** in Jebel Ali – the largest discovery in 15 years and the 4th biggest gas field in the Middle East (behind Qatar's North field, Iran's South Pars and Abu Dhabi's Bab field). It opens the potential to acquire gas self-sufficiency as well as enter the LNG market which requires onshore LNG liquefaction.
- **Dubai approved a new package of fee waivers for various government services:** it covers services provided by 5 sectors – health, economic, marine, social and infrastructure. This follows similar previous announcements to reduce costs of doing business in the emirate.
- **The total production of all economic activities in Abu Dhabi grew by 13.2% yoy to AED 1,268.1bn in 2018,** while value added was up 15.8% to AED 849bn. Mining and quarrying represented 45.8% of total value added, followed by construction (11%) and financial and insurance activity (8.8%).
- **Trademark files registered in Dubai** at the Commercial Compliance & Consumer Protection reached 5,157 in 2019 (+34% yoy); 50 commercial agency files were also registered (+127%).
- The Abu Dhabi Investment Office **expanded the scope of its AED 535mn Ventures Fund to include investment in later-stage companies.**
- **Foreign Direct Investments in Dubai's real estate market**

grew to AED 106bn in 2019 from AED 90.5bn in 2018. UAE, India, Saudi Arabia, Pakistan and UK were the top nationalities investing in Dubai real estate while investments by women grew by 26.2% to AED 27.5bn last year.

- **The ruler of Sharjah has directed the appointment of 2500 citizens across various government departments this year.**
- **Real estate exposure of UAE banks is about 20% of total lending** or AED 333bn as of Sep 30, according to S&P Global Ratings; the sector is likely to remain resilient given sufficient loan-loss reserves compared to the 2009-2010 crisis times.
- **Dubai Electricity and Water Authority has installed more than 240 charging stations across the emirate** and plans to raise this to 300 by end of 2020. DEWA has extended free electric vehicle charging (at public stations) until the end of 2021 for private users.
- **Dubai International Airport posted a 3.1% yoy drop in passenger traffic to 86.4mn persons in 2019** (impacted by the 45-day runway closure and Jet Airways bankruptcy among others). In spite of the drop, the airport **retained its position as the world's number one hub for international passengers for the sixth consecutive year.** India, Saudi Arabia and UK were the top destination countries with 11.9mn, 6.3mn and 6.2mn passengers respectively.

Weekly Insight

Heatmap of Manufacturing/ Non-oil sector PMIs: some respite ahead of a potential Coronavirus dip

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
US	54.9	53	52.4	52.6	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4	51.9
Germany	49.7	47.6	44.1	44.4	44.3	45	43.2	43.5	41.7	42.1	44.1	43.7	45.3
EU	50.6	49.5	48.3	48.4	47.9	47.6	46.6	47.1	46	46.2	47	46.4	48.1
UK	52.8	52.1	55.1	53.1	49.4	48	48	47.4	48.3	49.6	48.9	47.5	50
Japan	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8
China	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1
India	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3
UAE	56.3	53.4	55.7	57.6	59.4	57.7	55.1	51.6	51.1	51.1	50.3	50.2	49.3
Saudi Arabia	56.2	56.6	56.8	56.8	57.3	57.4	56.6	57	57.3	57.8	58.3	56.9	54.9
Egypt	48.5	48.2	49.9	50.8	48.2	49.2	50.3	49.4	49.5	49.2	47.9	48.2	46
Lebanon	46.5	46.9	46.3	46.7	46.3	46.3	47.7	47.8	46.4	48.3	37	45.1	44.9

Source: Refinitiv Datastream, Nasser Saidi & Associates

The latest PMI readings for Jan 2020 have provided some hints of improvements – with output and new orders growing at a faster pace alongside higher business optimism – thereby raising hopes that the global slump in manufacturing sector is behind us. Will these forward-looking indicators translate into GDP numbers?

A mixed start to 2020? Most of the PMI survey responses were collated prior to the Coronavirus pandemic was as widespread as now: more than 800 have died in China, while Singapore has declared an orange alert and multiple cruise ships remain under quarantine (track the confirmed global cases [here](#)). Given how interconnected China is with the global supply chain now, we can expect significant contagion effects on the global economy via declines in consumption, manufacturing, retail, trade and tourism for a few months – this also depends on when the infections could peak (current estimates range from China's "as soon as a week" to as late as Apr or May). Already, auto manufacturing plants are expecting halts in production (e.g. Fiat Chrysler, Toyota, Honda) and commodity imports are being delayed (e.g. copper), in addition to closed retail stores and countries imposing restrictions or bans on people travelling from China. A recent Ifo report estimated how interlinked Germany is with China: with 9.4% of German intermediate goods imports coming from China, it is forecast that if the coronavirus causes a drop of 1-2 percentage points (pppts) in China's economic growth, then Germany could expect a 0.06% contraction. During the SARS outbreak in 2003, China's GDP growth was reduced by about 1ppt – but, keep in mind that

the share of China in global GDP (in PPP terms) then accounted only for 8.7% versus an estimated 19.7% this year!

Depending on how extensive the damage is in the coming weeks, central banks will need to take a stance on how to support the economy: most have highlighted it as new risk to growth, the PBoC injected additional liquidity while in South East Asia, Thailand cut interest rates to a record low and Singapore stated that it had “sufficient room” to ease.

Impact on the UAE: With 7 reported cases in the UAE, the nation has suspended all China flights except to Beijing. China is the UAE’s leading trade partner in non-oil commodities, accounting for close to 10% of its total non-oil trade. In addition to the temporary supply disruptions outlined in the above section, an accompanying decline in consumption spending (retail sales will likely dive especially if people decided to stay indoors fearing risk of infection) could add to negative impacts on UAE growth. Already, UAE non-oil private sector activity shrank in Jan – for the first time since 2009. China was the 5th largest source market tourists in Dubai last year and are among the highest spenders (they spent an average USD 1459 in UAE in 2018): a dip in their presence during the height of tourist season here could result in a significant hit on travel, tourism and hospitality revenues directly. Last but not the least, the Coronavirus has sharply reduced demand for oil and is likely to affect UAE through its fiscal balance (a projected 55% of revenues come from oil), exports (oil accounts for approximately 25% of total exports) and output (official data estimates share of oil sector in total output at 25.9% in 2018).

Media Review

Realizing the Potential of AI Localism

<https://www.project-syndicate.org/commentary/local-regulation-of-artificial-intelligence-uses-by-stefaan-g-verhulst-1-and-mona-sloane-2020-02>

Brexit: Requiem for a Dream

<https://www.nytimes.com/2020/01/31/opinion/brexit-uk.html>

Iran wants to resolve issues with Saudi, UAE quickly: Iranian official

<https://www.reuters.com/article/us-iran-usa-iraq/iran-wants-to-resolve-issues-with-saudi-uae-quickly-iranian-official-idUSKBN1ZY1VS>

Saudi-Russian Alliance Is Strained as Coronavirus Saps Demand for Oil

<https://www.nytimes.com/2020/02/07/business/opec-russia-saudi-arabia.html>

More IPOs likely in GCC this year, but will not surpass value

<https://www.khaleejtimes.com/business/local/more-ipos-likely-in-gcc-this-year-but-will-not-surpass-value>

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