

Weekly Economic Commentary – Mar 29, 2020

This week's "[Weekly Insights](#)" raises the question whether there is any silver lining to the Covid-19 outbreak

Markets

Stocks were on yet-another rollercoaster ride last week: with a historic three day run up followed by a fall on Fri. Stimulus measures were announced across many nations, but there is still a great deal of uncertainty related to the Covid19 outbreak. MSCI's gauge of global stocks posted both its largest weekly percentage gain since 2008 and its largest monthly and quarterly drops since 2008. In the region, some markets continue to be battered by the double whammy of the Covid19 outbreak and lower oil prices. Among currencies, the dollar posted its biggest weekly drop in more than a decade after central banks tapped the Fed's swap lines. Oil prices continued to fall for the 5th straight week on demand concerns; gold posted its biggest weekly gain since 2008.

Global Developments

US/Americas:

- **US Fed's measures to support the economy include** unlimited asset purchases plan, a first time move into corporate bonds, reviving Term Asset-backed securities Loan Facility (a facility dating back to the 2008 financial crisis, which gives the Fed the ability to buy securities backed by student, car and credit-card loans), as well as loans to businesses through the Small Business Administration among others.
- **The US Senate passed an historically unprecedented USD 2.2trn stimulus package:** this would include cheques to more than 150mn households, loan programs for businesses and unemployment insurance extension programs.
- **The University of Michigan's Consumer Sentiment Index**

fell to 89.1 in Mar – the lowest level since Oct 2016 - from Feb's final reading of 101.0. This was also the largest monthly drop in the index since Oct 2008.

- **Initial jobless claims surged to an unprecedented 3.3mn in the week ended Mar 20**, outpacing the existing record of 695k new claims (from 1982) and causing the 4-week average to climb to 998.25k from 232.25k the week before.
- **US GDP grew by 2.1% in Q4 last year**, unchanged from previous estimates. **Core personal consumption expenditures in the US inched up** to 1.8% yoy in Feb (Jan: 1.7%). Personal income rose by 0.6% in Feb while spending was up by 0.2%.
- **Durable goods orders in the US unexpectedly increased** by 1.2% mom in Feb (Jan: 0.1%), boosted by a 4.6% rebound in orders for transportation equipment (following Jan's 0.9% dip); non-defense capital goods excluding aircraft declined by 0.8% (Jan: +1%).
- **New home sales in the US fell** by 4.4% mom in Feb to a seasonally adjusted annual rate of 765k units (Jan: 10.5%). The median new homes sales price was up 7.8% yoy to USD 345,900.
- The **Chicago Fed National Activity Index improved** to 0.16 in Feb from Jan's downwardly revised -0.33.
- The **Markit manufacturing PMI in the US eased** to 49.2 in Mar (Feb: 50.7) – the lowest level since Aug 2009 – while the services PMI slipped by a wider margin (39.1 vs 49.4), resulting in a drop in composite PMI to 40.5 from 49.6 the month before.
- **Goods trade deficit in the US narrowed** by 9.1% to USD 59.89bn in Feb, thanks to a slowdown in the growth of imports.

Europe:

- The **ECB launched a EUR 750bn programme of asset purchases** (including both commercial paper and Greek

government bonds) that will last through the duration of the outbreak. The apex bank has also ordered eurozone banks to freeze dividend payments and share buybacks this year.

- The **Ifo business climate index in Germany eased** to 86.1 in Mar, below the initial estimate of 87.7 and compared to Feb's 96 – recording **the sharpest monthly drop ever**. The current assessments slowed to 93 (93.8) while expectations slipped to 79.7 (82).
- **Preliminary Mar PMIs slowed in Germany and wider eurozone, with services badly hit:** manufacturing PMI in Germany slipped to 45.7 (Feb: 48) while the services PMI plunged to 34.5 (52.5), causing the composite index to fall to 37.2 from 50.7 the month before. The fall in services PMI was sharper in the eurozone (28.4 from Feb's 52.6) and with manufacturing PMI also down (44.8 from 49.2), the composite PMI also dipped (31.4 from 51.6) – the lowest since the series began in late 1990s.
- The **UK** numbers also showed a **drop in services PMI** (35.7 in Mar vs Feb's 53.2) while manufacturing PMI eased to 48 from 51.7 the month before. The composite index, at 37 in Mar, was the lowest on record since the survey began in 1996.
- **Inflation in the UK inched down** to 1.7% in Feb (Jan: 1.8%) as oil prices sank while the core CPI inched up to 1.7% from 1.6% the month before. **Producer price index fell** by 0.5% mom (Jan: 1.6%) while the retail price index increased to 0.5% (Jan: -0.4%).
- **UK retail sales fell** by 0.3% mom in Feb (Jan: 1.1%); department stores sales fell by 1.7% – the fastest pace across the sector. Data was collected by Feb 29 before the outbreak hit the UK.
- The **Bank of England cut interest rates to 0.1%**, the lowest in the Bank's 325-year history, in addition to announcing a GBP 200bn asset-purchase programme.

Asia Pacific:

- After the country locked down for 3 weeks (till Apr 14), **India announced an INR 1.7trn (USD 22.5bn) stimulus package to support the economy:** this includes direct cash transfers and other food-security related measures. **The Reserve Bank of India slashed the repo rate by 75bps to 4.4%** at an emergency meeting while the **reverse repo rate saw a steeper cut by 90bps to 4.15%.** Furthermore, the **cash-reserve ratio was reduced** by 100bps to boost liquidity and a moratorium of three months of EMIs was announced on all outstanding loans (applies to corporate, home and car loans).
- **As Japan plans a stimulus package** (estimated to be worth 10% of the country's GDP), **the government passed the JPY 102.7trn fiscal budget for 2020.** Separately, **core inflation in Tokyo was up** by 0.4% yoy in Mar (Feb: 0.5%) while inflation remained flat at 0.4%.
- **Inflation in Hong Kong increased** by 2.2% yoy in Feb compared to 1.4% the month before.
- **Preliminary Q1 GDP in Singapore contracted** by 10.6% qoq and by 2.2% yoy (Q4: 0.6% qoq and 1% yoy). Construction sector, services and manufacturing led the declines in overall GDP, falling by 4.3% yoy, 3.1% and 0.5% respectively. **The 2020 growth forecast has been slashed to a range of -4 to -1%** from an earlier -0.5 to 1.5% estimate.
- **Singapore inflation eased** to 0.3% yoy in Feb (Jan: 0.8%). Core inflation (excluding private transport and accommodation) turned negative for the first time in a decade, falling by 0.1%.
- **Industrial production in Singapore tumbled** by 22.3% mom in Feb after posting an 18.7% gain in Jan. In yoy terms, output dropped by 1.1% reversing Jan's 3.5% gain.
- **Singapore introduced a fiscal support package** worth SGD 48.4bn (USD 33.2bn) to support the economy as it combats Covid19: this includes wage subsidies, deferring income tax payments, cash payouts to citizens. This additional spending follows a previous SGD 6.4bn worth economic and

healthcare measures.

Bottom line: As the Covid19 outbreak continues to spread relentlessly across Europe and in the US, stimulus measures have been introduced from almost all affected nations. What has been missing so far is global solidarity and cooperation. Calling for “strengthening global preparedness to counter infectious diseases”, the G20 pledged to inject USD 5trn to the global economy in an effort to combat the virus, but more has to be done to support the developing and poorer nations of the world, ill-equipped to handle such crisis domestically. There has been a lack of action in helping emerging markets. The world needs to see the IMF/ World Bank/ IFC step up their lending capacity. Is it also futile to hope for nations setting aside political differences and rivalries to waive sanctions, ban tariffs and restrictions on cross-border trades (especially of medicines, medical equipment and goods needed to fight the epidemic)?

Regional Developments

- **Bahrain announced a BHD 4.3bn stimulus package** to support the economy: this includes a waiver on utility bills (for both individuals and commercial) for 3 months, a delay of bank loan instalments for 6 months, doubling the Liquidity Fund to BHD 200mn and exemption from tourism fees for 3 months among others.
- **All non-essential businesses in Bahrain will remain closed till 7pm on Apr 9th.** Bahrain’s parliament backed a 6pm-5am nationwide curfew to combat the spread of the coronavirus outbreak.
- **Egypt’s EGP 100bn emergency fund to support the economy during the Covid19 outbreak includes** EGP 50bn for the tourism industry, EGP 20bn for the Central Bank to facilitate direct share purchases in the stock exchange, a 2-year freeze on the implementation of tax on agricultural land as well as EGP 27.6bn to disburse to 2.4mn families.

- **To tackle the spread of Covid19, Egypt has imposed a partial curfew from 7pm to 6am for two weeks (from last Wed). Schools and universities will be suspended for an additional two weeks till mid-Apr. Suspension of flights at Egypt's airports will be extended for two weeks from Apr 1. An additional EGP 1bn was allocated to the health ministry to provide preventive supplies. The Egyptian Exchange also reduced trading hours (till 1:30pm).**
- **Impacts from Covid 19: dampening trade, as the number of container ships passing through the Suez Canal fell by 7.3% in Feb; IPOs of Banque du Caire and Taqa Arabia – both to be implemented mid-Apr – have been postponed.**
- **Egypt lowered its GDP growth target for the current fiscal year 2019-20 to 5.1% from 5.6% previously.**
- **Egypt's cabinet approved the draft law of the 2020-21 budget, with an expected deficit of 6.3% of GDP. The budget also aims to reduce public debt of GDP to 82.7% by end-Jun 2021, and to achieve a primary surplus of 2%.**
- **Foreign investments in Egyptian treasury bills increased by 7.3% mom to EGP 310.6bn (USD 19.89bn).**
- **Exports of building materials from Egypt increased by 14.4% yoy to USD 1.026bn in Jan-Feb 2020. The UAE, Canada and Italy were the top nations importing from Egypt.**
- **Egypt invested EGP 28.7bn (USD 7.8bn) in 156 energy projects during H1 of the 2019-2020 fiscal year. About 147 projects were implemented in the electricity and renewable energy domain at a value of EGP 17bn.**
- **Iraq is extending the flight and travel ban – which started on Mar 17 – until Apr 11.**
- **Iraq asked all international oil firms to reduce their budgets by 30% given the plunge in oil prices, reported Reuters, but without affecting crude oil output.**
- **The IMF approved a four-year USD 1.3bn loan program for Jordan. Though the programme was designed before the Covid19 outbreak, changes were made to support unbudgeted spending towards emergency medical supplies**

and equipment.

- **Jordan eased restrictions, allowing small shops/ markets to resume work** from 10am to 6pm from Wed last week – with a warning that any crowding would lead to closure again.
- **Kuwait extended the suspension of work in all ministries, state agencies** and private companies **by 2 additional weeks**, with work to resume on Apr 12. All shops and central markets remain closed while partial curfews are operational from 5pm to 4am.
- **Kuwait's exports plunged** by 90% yoy to KWD 143.8mn in Feb; no oil exports were recorded in the month.
- **Kuwait's imports from China declined** by 12.93% yoy to KWD 253.81mn during Jan-Feb this year. Total imports into Kuwait slipped by 7.4% to KWD 1.5bn during this period.
- **Kuwait Petroleum Corporation** called on all subsidiaries to **rationalize spending**, reduce capital expenditure and operating costs this year given the slide in oil prices.
- **S&P lowered Kuwait's long-term foreign and local-currency sovereign credit ratings** to AA- from AA, with a stable outlook. Though the recent drop in oil prices and slow reform momentum will negatively affect the economy, "sizable fiscal and balance-of-payments buffers" will provide support.
- **Lebanon launched formal debt restructuring talks** on Fri, **reiterating** their aim of "**fair and equitable treatment of creditors**": the investor presentation showed BdL's liquid foreign exchange reserves at USD 22bn, public debt at 178% of GDP at end-2019 and projected GDP contraction of 12% this year (2019: -7%), with inflation at 27%; some USD 57bn of domestic T-bills and bonds have been earmarked for restructuring, while just over USD 2bn of bilateral and multilateral debt will remain untouched.
- Earlier in the week, Lebanon **suspended payments on all USD 31.3bn of its international Eurobonds** declaring that

it could no longer repay them as pressure mounts on “access to foreign currency”.

- **Lebanon started imposing a 7pm-5am curfew** from last Thurs.
- **Oman has placed its loan discussions on hold**, following the plunge in oil prices, reported *Reuters*. The country estimates a deficit of OMR 2.5bn (USD 6.5bn, or 8% of GDP) this year, with plans to cover about 80% of the deficit via foreign and domestic borrowing.
- **Oman will suspend all internal and international flights as of Mar 29**, except cargo operations and flights to Musandam. In addition, the country last week banned public gatherings, limited staffing at state entities and also shut currency exchange bureaus.
- **The value of real estate transactions in Oman declined** by 30.6% yoy to OMR 167.3mn in Jan 2020 while the number of plots issued also declined by 14.7% to 17494.
- **Qatar central bank approved the deferral of loan installments and interest for 6 months** in sectors affected by the Covid19 outbreak. Fees on points of sale transactions and ATM withdrawals have also been cancelled. Parks and public beaches were closed till further notice.
- **Inflation in Saudi Arabia increased** to 1.2% in Feb – the highest since Dec 2018 – supported by a 3.6% rise in food prices.
- **Tadawul temporarily reduced trading hours till 1pm** (from 3pm before) in a bid to slow the spread of covid19 in Saudi Arabia. An **evening curfew** from 7pm to 6am began last Mon for 21 days, to slow the spread of the virus. Separately, **local banks announced postponement of 3 months’ instalments for all public and private health personnel** who have credit facilities without changing the cost.
- **A group of Saudi banks announced their support for the Health Endowment Fund** with a contribution of SAR 155.1mn (USD 41.3mn).

- **Saudi Arabia sold SAR 15.568bn in Islamic bonds** in Mar as part of its monthly SAR-denominated sukuk program.
- **Saudi Aramco reiterated its commitments to ensure production and supply.** The CEO stated that USD 30 a barrel oil price was “very comfortable”.
- **Saudi Arabia disclosed a 33% yoy surge in average daily consumption of data in Feb.** As social distancing and work-from-home policies were rolled out, internet traffic has increased.
- **Construction deals in Saudi Arabia surged** by 95% yoy to AED 197.1bn (USD 52.6bn) last year – the highest since 2015. Real estate firms and oil and gas firms were the clear leaders.
- **Sovereign wealth funds in the region could witness a decline in assets over USD 300bn this year,** according to IIF estimates, with Abu Dhabi, Kuwait and Qatar accounting for bulk of the declines.

UAE Focus

- **UAE’s government announced additional stimulus** to the tune of AED 16bn (USD 4.36bn) to support the economy, thereby bringing the total amount to AED 126bn so far. These measures will include support for SMEs and to ensure delivery of infrastructure projects.
- **Dubai Free zones have announced measures to support the economy during the Covid19 outbreak:** this includes postponement of rent payments up to 6 months, easy installments for financial payments, refunding insurance and guarantees claims, cancellation of penalties, as well as temporary contracts allowing for free movement of labour between companies without penalties during 2020.
- **In a major decision, UAE has suspended all passenger and transit flights for two weeks.**
- **Banks in both Dubai and Abu Dhabi and a few other banks in other emirates have announced measures to support the**

economies: some of the common measures include rescheduling or deferring of loan payments for affected companies as well as interest free installment plans for individual customers. (More: Abu Dhabi's 17 financial initiatives: <https://bit.ly/2WXwHDc>; Dubai's: <https://bit.ly/3bzqS2W>)

- **The UAE central bank removed AED 14.3bn of excess liquidity** in the 4 months to Feb 2020, revealed central bank statistics. The **value of cumulative certificates of deposit** stood at AED 164.1bn by end-Feb.
- **Gold reserves at the UAE central bank accelerated** by 38.8% to AED 5.615bn in Feb from end-Dec.
- Dubai Economy has directed **private sector companies to implement a remote working system** for 80% of their staff till Apr 9th.
- **A virtual meeting will be held (on Mon) to discuss the Dubai Expo:** possibilities include a late-Oct start to delay by upto a year. The final decision would be made by member states of the Paris-based Bureau International des Expositions, which awards the event.

Weekly Insights: Is there a silver lining to the Covid19 outbreak?

Covid-19 has been spreading fast and furiously through the United States (home to the largest number of confirmed cases) and Europe (with Italy and Spain leading the pack), with some sharp increases in the Middle East region as well (Iran accounts for the substantial number of cases). Asia, especially South-east Asia, seems to have kept a lid on the outbreak of Covid-19 given their past experience with SARS and subsequent readiness for controlling such epidemics. However, Covid-19 is still unfolding: India, Africa, Latam are major risk areas with poor public health systems and ability to counter. India's 1.3bn people are in lockdown till Apr 14th and have witnessed severe supply chain disruptions so far; support

for Latam's informal workforce raises a tricky situation for handouts given that a large section remains unregistered; harvests at farms in Europe (which typically use migrant labour) is another question mark given current travel restrictions. Even though production has resumed in parts of China and there are reports of Singaporean firms resuming operations in China, growth dips are all but confirmed in H1 this year (thanks to the declines across consumption, exports and investments/ capital spending).

Though at varying levels of containment, some of the common factors nations have embarked on in fighting the outbreak have been via: (a) remote working; (b) closure of educational institutions; (c) closure of non-essential shops, public parks and beaches; (d) stimulus packages for Covid-19 hit sectors (trade, tourism, hospitality), SMEs/ businesses/ individuals including loan guarantees; and (e) central bank rate cuts + support for banking sector/ capital markets. The US's \$2.2trn stimulus package might be the largest one, it is still considered sub-par to what is required. Left out of the bailout were vulnerable segments like high-yield bonds and the mortgage servicers – which could lead to collapses causing a domino effect on the capital markets.

So, as we pore over the Covid-19 map (<https://coronavirus.jhu.edu/map.html>) first thing in the morning for latest updates, and there seems little we can do than “stay home and stay safe”, is there any silver lining to this doom-and gloom outlook? A glaring one so far: restricted air travel, limited number of vehicles on roads, partial business shutdowns and industrial activity has resulted in lower pollution levels – which also helps fight Covid19 especially for people with health vulnerabilities. China's carbon emissions this year are expected to fall by about 1% this year. The effects of reduced pollution during the Covid19 outbreak might offer hope to climate change activists across the globe. However, in the medium-term, on the road to recovery, governments may attempt to vote in favour of reviving economies by lowering pollution standards (e.g. China

is considering relaxing car-pollution rules). The ongoing plunge in oil prices isn't likely to help either: lower oil prices may encourage greater consumption and lower investment in renewable energy.

The burning question is whether the barriers preventing a collective global Covid-19 response will continue and result in climate inaction (in spite of the evidence) for the future generation?

Media Review

The Arab World's Perfect COVID-19 Storm

<https://www.project-syndicate.org/commentary/gulf-cooperation-council-perfect-covid19-storm-by-nasser-saidi-2020-03>

Policy responses to Covid19

<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

Don't fall for the false trade-offs of COVID-19 policy

<https://review.chicagobooth.edu/economics/2020/article/don-t-fall-false-trade-offs-covid-19-policy>

Oil majors slash 2020 spending 20% after prices slump; including Saudi Aramco

<https://www.reuters.com/article/us-global-oil-majors-capex-graphic/oil-majors-slash-2020-spending-20-after-prices-slump-idUSKBN21D1Y6>

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