

Weekly Economic Commentary – May 17, 2020

Markets

Stock markets declined again last week on disappointing economic data alongside rising US-China tensions (again, this time about tightening export controls). Regional markets were mostly down: a few major UAE banks disclosed exposure to an agri-trader firm undergoing liquidation, Saudi Aramco declared a fall in Q1 profits, while Saudi's PIF disclosed various investments ranging from Boeing to Facebook to Marriott to Total and Royal Dutch Shell. Among currencies, the euro was relatively stable while the pound took a beating after news broke that Brexit trade talks have made "very little progress". Oil prices climbed, on hopes that demand would pick up as restrictions are eased while US crude inventories fell in the most recent week for the first time since Jan. Gold prices are rising on safe haven demand.

Global Developments

US/Americas:

- **US House passed a further USD 3trn Covid19 relief bill** – including a new round of direct payments of up to USD 6k per household in addition to nearly USD 1trn for state and local governments, a USD 200bn fund for essential worker hazard pay and an additional USD 75bn for Covid-19 testing among others – on top of the USD 3trn already passed. It is unlikely to pass the Republican dominated Senate.
- **US inflation declined** by 0.8% mom in Apr – the biggest fall since Dec 2008 – following a 0.4% dip in Mar, on lower oil prices (-20.6%, the largest dip since Nov 2008) while cost of food increased (+1.5%, the most gain since Jan 1990). Core inflation, excluding food and energy, dropped by 0.4% – the most since records began

in 1957.

- **Producers price index in the US dropped** by 1.3% mom and 1.2% yoy in Apr, as a result of lower price pressures and fall in energy costs. Core PPI increased by 0.6% yoy, recording the lowest annual gain since end-2015.
- **US budget deficit widened to a record-high of USD 738bn in Apr** (Mar: USD 119bn), as spending more than doubled while revenues were down by 55% yoy. The Apr deficit brings the 12-month total to USD 1.935trn, almost doubling from the USD 1.037trn budget gap in the 12 months to Mar.
- **US retail sales tumbled by a record 16.4% mom in Apr** (Mar: -8.3%) – the first full month of lockdown in many states – with substantial declines recorded in sales across clothing and accessories (-78.8%), electronics and appliances (-60.6%) and furniture (-58.7%). Apr retail sales dropped by 21.6% yoy – a record low as well.
- **US industrial production posted the largest monthly drop** of 11.2% in Apr, with the auto sector taking a massive hit of more than 70%. Manufacturing output declined by 13.8% mom and 18% yoy, while capacity utilization fell to 64.9% (Mar: 72.7%).
- **Initial jobless claims touched 2.98mn in the week ended May 9** – the slowest increase since mid-Mar – though raising the total applications to 36.6mn since the outbreak.

Europe:

- **GDP growth in the eurozone fell by 3.8% qoq in Q1 – the sharpest declines since the time series started in 1995.** France's GDP dropped by 5.8% while Italy's fell by 4.7%, but given that the Covid19 lockdown was only enforced in Mar in many of the nations, the full effects will be visible only in Q2 data. **Germany slipped into a technical recession, as GDP shrank by 2.2% in Q1 – the**

biggest quarterly fall since the financial crisis.

- **Employment in the eurozone showed a 0.2% fall in Q1** – the first decline since 2013.
- **Eurozone industrial production dived by 11.3% mom in Mar**, with variations across the nations depending on the extent of the lockdown in Mar: in Italy it fell by 28.4% mom, France by 16.4% while Germany reported a 14.2% dip. Durable consumer goods tumbled 26.3% mom and capital goods fell by 15.9% mom.
- **German inflation eased**, falling to 0.9% in Apr (Mar: 1.4%), thanks to a 5.8% decline in energy prices though food prices were up by 4.8%. PPI
- **UK GDP contracted at a record 5.8% mom pace in Mar**. Q1 GDP fell by 2% qoq – the largest decline since the financial crisis, with services sector output falling by 1.9% (largest drop since records began), construction down by 2.6% and household spending by 1.7%.
- **UK industrial production declined** by 4.2% mom in Mar (Feb: +0.1%) while manufacturing output slipped by 4.6% vs the previous month's 0.5% gain.

Asia Pacific:

- **The PBoC surprised markets by keeping the 1-year MLF rate unchanged at 2.95%** on Fri, causing speculation that the loan prime rate might be reduced instead this week. The central bank injected CNY 100bn (USD 14.1bn) through the liquidity tool, and the second phase of a targeted reserve requirement ratio (RRR) cut freed up about CNY 200bn of long-term liquidity.
- **Inflation in China eased** to 3.3% in Apr (Mar: 4.3%), with an uptick of 14.8% in food prices, while **producers price index fell** by 3.1% yoy, widening from the 1.5% drop reported in Mar.
- **New loans disbursed by Chinese banks climbed** by 66.7% yoy (though declining by 40.3% mom) to CNY 1.7trn in Apr. Household loans declined to CNY 666.9bn from Mar's

CNY 989.1bn and corporate loans fell to CNY 956.3bn from the previous month's CNY 2.05trn. **Outstanding yuan loans increased** by 13.1% yoy (Mar: 12.7%) and the growth of **total social financing** (a measure of liquidity) edged up to 12% (Mar: 11.5%). **Money supply (M2)** meanwhile **grew** by 11.1% to CNY 209.35trn (USD 29.53trn) in Apr. **FDI expanded** by 11.8% yoy to CNY 70.36bn in Apr.

- **China fixed asset investment declined** by 10.3% yoy to CNY 13.68trn (USD 1.93trn) in Jan-Apr, smaller decline compared to the 16.1% dip in Q1.
- **Industrial production in China increased** by 3.9% yoy in Apr. reversing the 1.1% decline in Mar and 13.5% collapse in Jan-Feb. **Retail sales slipped** by 7.5% yoy, as domestic demand remained weak: restaurant receipts were down by 31.1% yoy, following Mar's 46.8% slump. **Unemployment inched up** by 0.1% mom to 6% in Apr.
- **Japan's coincident index of business conditions fell** 9 points to 90.5 in Mar, posting **the steepest drop since Mar 2011**. The **leading index of business conditions posted a record drop** (since data compilation began in 1985) of 8.1 points to 83.8.
- **Hong Kong GDP plummeted by 8.9% yoy in Q1** – the third consecutive quarter of yoy contraction and its worst drop since records began in 1974 (Q4: -3%). In qoq terms, GDP contracted by 5.3% in Q1 from a revised 0.5% drop in Q4.
- **India announced a USD 266bn financial stimulus package** to support the economy (together with the previously announced USD 23bn package, this is equivalent to 10% of India's GDP): this includes credit lines to and collateral-free automatic loans to MSMEs, liquidity for non-banking financial companies and power distribution companies, reliefs for the real estate and construction sectors. Direct cash payments to migrant workers, small farmers and the poor (in addition to food and affordable housing) were also announced in addition to supporting the agriculture/ food processing sectors.

- The nationwide lockdown resulted in a 16.7% **yoy fall in India's industrial output** in Mar, with manufacturing sector posting a 20.6% decline.
- **India's exports collapsed by a record 60.28% yoy** alongside a 58% dip in imports in Apr, resulting in a **trade deficit** of USD 6.8bn – the **lowest since May 2016**.

Bottom line: Macroeconomic releases across US and most of Europe are at record lows. Industrial production has reported the sharpest declines since records began – be prepared for a few more months of lows given the slow easing of lockdowns and slower recovery given supply chain disruptions and demand at lower levels than in the pre-Covid19 phase. China's data was probably the only silver lining: auto sales reportedly increased by 4.4% yoy to 2.07mn units in Apr, ending the contraction streak over the past 21 months. Stimulus packages are still being rolled out to ease the impact from Covid19 – from the US (House passing the USD 3trn bill though Trump has the power to veto it) to the EU (opened a USD 260bn credit line for struggling nations while EU ambassadors signed off a temporary EUR 100bn unemployment reinsurance plan), India (a wide-ranging package worth close to 10% of GDP) and Japan (2nd extra budget to be enacted by mid-Jun).

Regional Developments

- The government in Bahrain needs legislative approval for any increase in VAT, according to an MP, while guaranteeing that the VAT will not be increased to 15%.
- Bahrain awarded 372 contracts worth USD 740mn in Q1 this year, with the biggest share for procurement of equipment and materials (USD 233mn) followed by the construction and engineering services sector (USD 188.7mn) and the aviation sector (USD 132mn).
- Tamkeen's Business Continuity Support Programme launched in Bahrain last month, with an estimated budget of BHD 40mn, has so far supported more than 10k SMEs. Support ranged between BHD 1050-12k based on the size of the

institution's workforce.

- **Bahrain Bourse's "Amanat" programme will protect investors funds** as well as the administration of cash dividend distribution for all listed companies.
- **Bahrain's sovereign wealth fund Mumtalakat is planning a new investment strategy** – to explore new sectors and “getting bigger rewards and revenues from current funds”.
- **Egypt received USD 2.772bn in emergency financing from the IMF**; the country is seeking a further USD 5bn from the IMF and USD 4bn from other sources, reported *Bloomberg*.
- **Annual urban consumer price inflation in Egypt increased** to 5.9% in Apr (Mar: 5.1%), on rising food prices.
- **Egypt's central bank kept main rates unchanged** in the latest meeting.
- **Gold reserves in Egypt increased** by 5.2% mom to a record high of USD 3.704bn in Apr. **Net international reserves declined** by 7.7% mom to USD 37.037bn while the contribution of foreign currencies to international reserves slid to USD 33.142bn in Apr – its lowest level since Sep 2017.
- **Egypt announced an initiative to support the tourism sector meet its financial obligations**: this includes meeting salary payments, basic employment requirements as well as obtain loans over 3 years from national banks at an annual rate of 5%. The loans, with a 1-year grace period starting 1 May, will be repaid in monthly installments over two years.
- **Ministry of Finance in Egypt disclosed urgent financial allocations** of EGP 12.5bn to state-run bodies in Mar-Apr, including the General Authority for Supply Commodities, Holding Company for Water and Wastewater as well as the Health Insurance Organisation.
- **Egypt's finance minister stated that government spending on health, high school education, and social solidarity sectors would reach EGP 36bn in FY 2020/2021**; he also

stated that the government might shift to austerity measures should the Covid19 crisis continue into the next fiscal year.

- **The fuel subsidy bill in Egypt dropped** by 65% yoy to EGP 21bn (USD 1.34bn) in Jul-Mar, revealed a petroleum ministry official.
- **Unemployment rate in Egypt eased** to 7.7% in Q1 this year, from 8.1% a year earlier. Workforce increased to 29.01mn during the quarter from 28.85mn in Jan-Mar 2019. Separately, the ministry of planning launched the **“Misr Hat’aady” initiative to retain workforce in the private sector** and provide new jobs amidst the covid19 outbreak.
- **Mortgage financing companies in Egypt** provided funds worth EGP 423.4mn in Jan-Feb, up 66.9% yoy while value of mortgage refinancing slipped by 80.5% to EGP 33mn.
- **Egypt** will pay EGP 368.5mn (USD 23.43mn) in **irregular labour aid** to nearly 737k defaulting beneficiaries. The total number of beneficiaries is expected to touch 2.037mn and a second tranche will be announced before Eid.
- **Egypt suspended all new buildings and building height permits for 6 months** – applicable only to residential buildings – in Cairo, Giza, Qalyubia, and Alexandria.
- **EBRD projects a GDP growth of 3% in Egypt** during the fiscal year 2020-21 from the 2.5% in the 2019-20 fiscal year.
- **Moody’s confirmed Egypt’s B2 rating**, with the outlook remaining stable.
- **Iraq will cut its oil output by around 700k barrels per day (bpd)**, a third less than required under the OPEC+ supply pact (1.06mn bpd for May & Jun).
- **Balance of payments in Kuwait touched a surplus** KWD 821.2mn (USD 2.7bn) in the fiscal year 2019 from KWD 1.1bn the year before. **Remittances from expats grew** by 3.7% yoy to USD 14.4bn in fiscal year 2019. **Current account surplus surged** by 11.9% to KWD 6.7bn.
- **Kuwait’s local tourism revenue declined** by 0.5% yoy to

KWD 376.1mn (USD 1.22bn) in 2019, as per central bank statistics. The spending of Kuwaiti nationals on tourism abroad also declined by 7.35% to KWD 3.732bn.

- **Lebanon has begun formal negotiations with the IMF**, including discussions around the government's financial recovery plan. A senior finance ministry official revealed that the IMF have requested for clear figures on the losses of the central bank. Separately, the finance minister stated that the country is ready to float the pound only after securing the aid package.
- **Lebanon initiated a 4-day complete lockdown** starting from Wed night, aiming to contain a resurgence in COVID19 cases.
- **Oman will cut the budgets of government bodies and armed forces by a further 5% this year**, according to the finance ministry. (*A previous 5% cut was done in mid-Apr.*)
- **China accounted for 89.88% of Oman's total crude exports** in Apr 2020 (up 2.32% mom), followed by Korea with a share of 6.83%.
- **S&P expects Oman to meet its funding needs** (valued at nearly USD 50bn) **through 2023** via a combination of external debt issues (63%), drawdowns of domestic and external liquid assets (18.5%), domestic debt (15%) and other transactions (3%).
- In an interview, **Qatar Airways CEO disclosed plans to lay off 20% of its workforce**, while also confirming that talks were underway to defer aircraft orders for several years. He expects only 50% occupancy when flights resume, with global travel demand unlikely to recover until 2023/24.
- As part of the government's plan to save SAR 100bn amid the Covid19 crisis, **Saudi Arabia will triple VAT to 15%** (from 5% currently) from Jul onwards **and cancel the SAR 1000 cost of living allowance** for government employees from Jun. Separately, Saudi Gazette reported a cut of close to SAR 30bn in the budgets of the Vision

Realisation Programs.

- **Saudi Arabia raised SAR 5.755bn (USD 1.53bn) in local Sukuk:** the first tranche of the sukuk issue is SAR 3.8bn, and the total tranche size is SAR 6.549bn, maturing in 2025.
- **Saudi Arabia will enforce a 24-hour curfew across the Kingdom during the 5-day Eid holiday.** Till then people can move about between 9am-5pm excluding Mecca (which is already under full curfew).
- **Saudi Arabia's index for industrial production declined** by 3.29% in Mar, largely due to a 11.46% dip in non-oil manufacturing activity.
- **Fuel prices have been reduced in Saudi Arabia:** gasoline 91 will be priced at SR0.67 per liter from SR1.31 (-48.9%), while gasoline 95 will be priced at SR0.82 per liter (-44.2%).
- **Saudi Arabia will distribute "Ramadan Aid" worth SAR 1.85bn (USD 492.6mn) for social security beneficiaries:** providers will get SAR 1000 and family members SAR 500 each.
- **Kuwait, Saudi Arabia and UAE announced fresh voluntary oil production cuts** to be implemented in Jun: slashing output by a further 80k bpd, 1mn bpd and 100k bpd respectively.
- According to the latest Covid19 CFO Pulse survey from PwC, **44% of Middle East CFOs expect the recovery timeline** to return to business as usual to take **three months or more**, **33% are likely to reduce their real estate footprint** while only 64% of UAE CFOs plan to promote physical distancing at work sites. More: <https://www.pwc.com/m1/en/publications/covid-19/pwc-middle-east-covid-19-cfo-pulse-survey.html>
- **The IMF initiated a new USD 100bn fund to support countries in the Middle East that have requested assistance.** These include Jordan and Morocco (both acquired USD 3bn), Tunisia (USD 700mn) and Egypt (USD 2.8bn), in addition to funds to Mauritania, Djibouti,

Sudan and Somalia, as well as grants to Yemen.

UAE Focus

- **After *Reuters* reported ongoing discussions between Dubai and Abu Dhabi to merge assets, Dubai denied such plans.**
- **UAE plans to review government structure and size, calling for a “more agile, flexible and speedy government”, as part of its post-Covid strategy.**
- **UAE does not plan to raise VAT from the current rate of 5%, clarified the finance ministry, after Saudi Arabia’s tripling of the rate.**
- **Banks and financial institutions have drawn down 77% of the AED 50bn worth of funds provided by the Central Bank of the UAE under the Targeted Economic Support Scheme. Under the scheme, banks can defer both interest/profit and principal repayment to extend support to customers impacted by the Covid19 outbreak.**
- **Private and family-owned businesses have submitted a set of proposals to the Dubai Supreme Fiscal Committee to support them through the Covid-19 outbreak: this includes requests for a reduction in VAT to 2%, settling payments faster to suppliers and contractors, freezing of 2.5% market fee, 50% reduction in customs fees and utilities among others.**
- **Dubai Customs extended a 20% refund on fees imposed on imported products sold locally in Dubai markets, in addition to the cancellation of the AED 50k bank guarantee required to undertake customs clearance activity.**
- **UAE banks (including FAB, Emirates NBD and Mashreq) have an exposure of close to USD 108.6mn to Phoenix Commodities and its subsidiaries. The company, which also owes millions to HSBC and Standard Chartered, has gone into liquidation after declaring USD 400mn+ in potential trading losses.**
- **UAE’s National Creative Relief programme will support**

those in the cultural sector with the provision of financial grants ranging between AED 15-50k.

Applications will be open from May 17th for a week, and some of the factors being considered include amount of lost work/ projects, financial impact from Covid-19 and the amount of work undertaken in 2019.

- **Passenger traffic at the Dubai International Airport** touched a total 17.8mn persons in Jan-Mar this year, down 19.8% yoy.
- **Emirates SkyCargo expanded its weekly scheduled cargo flight operations** to cover 75 destinations across six continents.

Media Review

Tracking Trade During the COVID-19 Pandemic (using real time data)

<https://blogs.imf.org/2020/05/14/tracking-trade-during-the-covid-19-pandemic>

Travel bubbles post-lockdown

<https://www.weforum.org/agenda/2020/05/tourism-coronavirus-travel-bubble-lockdown/>

Preventing a Covid19 food crisis

<https://www.project-syndicate.org/commentary/governments-must-prevent-covid19-food-crisis-by-carmen-reinhart-2020-05>

Can the Middle East Recover from the Coronavirus and Collapsing Oil Prices?

<https://www.newyorker.com/news/our-columnists/can-the-middle-east-recover-from-the-coronavirus-and-collapsing-oil-prices>

Lebanon: A Grave Crisis with No Silver Bullet

<https://carnegie-mec.org/2020/05/11/grave-crisis-with-no-silver-bullet-pub-81752>

Saudi PIF's acquisitions

<https://www.ft.com/content/5cb71f75-cc6e-4ed5-9106-29bd33099fa3>

<https://www.arabnews.com/node/1675796/business-economy>

COVID-19 Poses Formidable Threat for Fragile States in the Middle East and North Africa

<https://www.imf.org/en/News/Articles/2020/05/13/na051320-covid-19-poses-formidable-threat-for-fragile-states-in-the-middle-east-and-north-africa>

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