
Weekly Insights 8 Jul 2021: Diverging PMI readings, Saudi's new import rules & Oman's IMF TA request

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near multi-year highs; PMIs slow in Asia as a more severe PMI Global Manufacturing 1. wave of the pandemic hits

Heatmap of Manufacturing PMIs

	US	Germany	EU	UK	Japan	China	India
Jan-19	54.9	49.7	50.6	52.8	50.3	48.3	53.9
Feb-19	53.0	47.6	49.5	52.1	48.9	49.9	54.3
Mar-19	52.4	44.1	48.3	55.1	49.2	50.8	52.6
Apr-19	52.6	44.4	48.4	53.1	50.2	50.2	51.8
May-19	50.5	44.3	47.9	49.4	49.8	50.2	52.7
Jun-19	50.6	45.0	47.6	48.0	49.3	49.4	52.1
Jul-19	50.4	43.2	46.6	48.0	49.4	49.9	52.5
Aug-19	50.3	43.5	47.1	47.4	49.3	50.4	51.4
Sep-19	51.1	41.7	46.0	48.3	48.9	51.4	51.4
Oct-19	51.3	42.1	46.2	49.6	48.4	51.7	50.6
Nov-19	52.6	44.1	47.0	48.9	48.9	51.8	51.2
Dec-19	52.4	43.7	46.4	47.5	48.4	51.5	52.7
Jan-20	51.9	45.3	48.1	50.0	48.8	51.1	55.3
Feb-20	50.7	48.0	49.1	51.7	47.8	40.3	54.5
Mar-20	48.5	45.4	44.3	47.8	44.8	50.1	51.8
Apr-20	36.1	34.5	33.4	32.6	41.9	49.4	27.4
May-20	39.8	36.6	39.5	40.7	38.4	50.7	30.8
Jun-20	49.8	45.2	47.4	50.1	40.1	51.2	47.2
Jul-20	50.9	51.0	51.7	53.3	45.2	52.8	46.0
Aug-20	53.1	52.2	51.6	55.2	47.2	53.1	52.0
Sep-20	53.2	56.4	53.5	54.1	47.7	53.0	56.8
Oct-20	53.4	58.2	54.8	53.7	48.7	53.6	58.9
Nov-20	56.7	57.8	53.8	55.6	49.0	54.9	56.3
Dec-20	57.1	58.3	55.2	57.5	50.0	53.0	56.4
Jan-21	59.2	57.1	54.8	54.1	49.8	51.5	57.7
Feb-21	58.6	60.7	57.9	55.1	51.4	50.9	57.5
Mar-21	59.1	66.6	62.5	58.9	52.7	50.6	55.4
Apr-21	60.5	66.2	62.9	60.9	53.6	51.9	55.5
May-21	62.1	64.4	63.1	65.6	53.0	52.0	50.8
Jun-21	62.1	65.1	63.4	63.9	52.4	51.3	48.1

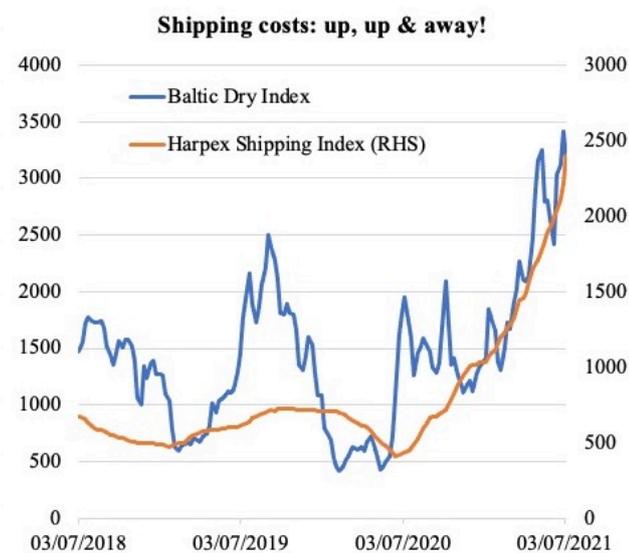
Source: Refinitiv Datastream, Nasser Saidi & Associates

- slipped to 55.5 in Jun, easing from the 11-year high of 56 **Global manufacturing PMI** •
- (India fell into **Europe the “bright spark” while Asia paled in comparison** in May, with contractionary territory after 10 months; PMIs in Vietnam and Malaysia plunged to 44.1 and 39.9 respectively).
- to the **average vendor lead times “lengthened** , and **Supply disruptions continued** •
- to one **average input prices “rose** greatest extent in the near 24-year survey history”; of the greatest extents in the survey history”.
- of every** is witnessing a more severe wave of Covid19 cases in the past weeks: **Asia** •
- 100 infections last reported around the world, about 35 were reported from**
- The region is currently reporting a million new **countries in Asia and the Middle East.**
- infections about every 7 days.

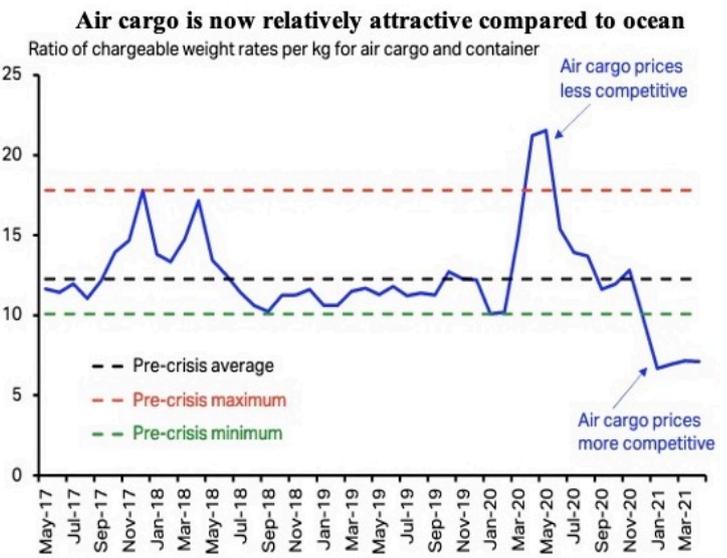
lockdowns/ restrictions are causing delays and , While new orders are rising • , with some estimating that the impact could affect shipments as far disrupting shipping out as Christmas this year.

relatively attractive cargo are still on the rise => air Shipping costs 2.

, as) continue to rise costs (especially on long-distance routes Global shipping • Feb demand recovers amid shortage of containers. According to Sea-Intelligence, , with almost 12% of global marked the height of container congestion 2021 container capacity (around 2.8m TEU) absorbed in vessel delays. In Apr 2021, the Increase waiting times at the Yantian congestion figure was at 8.6% or 2.1mn TEU. port in Jun imply more congestion. price-wise (vs. Q2 containers cargo is now relatively attractive compared to air So, • 2020 when aircrafts were grounded & hence air cargo fares spiked): IATA. Furthermore, Cargo tonne km (CTKs) speed of air cargo provides another competitive edge. the flown in May 2021 were 9.4% above pre-crisis level (May19), though slowing from Apr's 11.3% reading.



Source: Refinitiv Eikon. Chart by Nasser Saidi & Associates

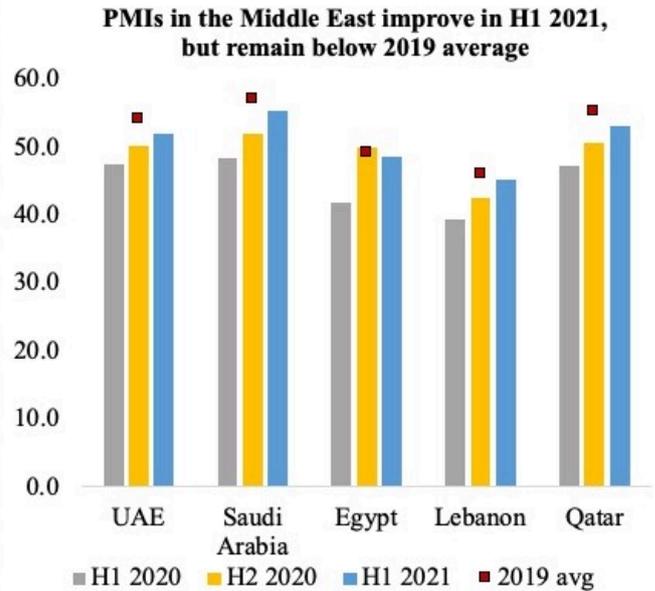


Source: IATA Economics, Boeing, IATACargoIS, Freightos Baltic Index

Mixed PMI readings in the Middle East: Lebanon and Egypt stay below-503.

Heatmap of non-oil private sector PMIs in Middle East

	UAE	Saudi Arabia	Egypt	Lebanon	Qatar
Jan-19	56.3	56.2	48.5	46.5	50.5
Feb-19	53.4	56.6	48.2	46.9	48.5
Mar-19	55.7	56.8	49.9	46.3	50.1
Apr-19	57.6	56.8	50.8	46.7	48.9
May-19	59.4	57.3	48.2	46.3	48.1
Jun-19	57.7	57.4	49.2	46.3	47.2
Jul-19	55.1	56.6	50.3	47.7	45.2
Aug-19	51.6	57.0	49.4	47.8	46.4
Sep-19	51.1	57.3	49.5	46.4	49.0
Oct-19	51.1	57.8	49.2	48.3	47.3
Nov-19	50.3	58.3	47.9	37.0	48.3
Dec-19	50.2	56.9	48.2	45.1	49.4
Jan-20	49.3	54.9	46.0	44.9	48.7
Feb-20	49.1	52.5	47.1	45.4	49.3
Mar-20	45.2	42.4	44.2	35.0	46.6
Apr-20	44.1	44.4	29.7	30.9	39.0
May-20	46.7	48.1	40.0	37.2	36.6
Jun-20	50.4	47.7	44.6	43.2	42.1
Jul-20	50.8	50.0	49.6	44.9	59.8
Aug-20	49.4	48.8	49.4	40.1	57.3
Sep-20	51.0	50.7	50.4	42.1	51.4
Oct-20	49.5	51.0	51.4	43.3	51.5
Nov-20	49.5	54.7	50.9	42.4	52.5
Dec-20	51.2	57.0	48.2	43.2	51.8
Jan-21	51.2	57.1	48.7	41.0	53.9
Feb-21	50.6	53.9	49.3	42.2	53.2
Mar-21	52.6	53.3	48.0	46.4	54.9
Apr-21	52.7	55.2	47.7	47.1	52.1
May-21	52.3	56.4	48.6	47.9	51.5
Jun-21	52.2	56.4	49.9	47.5	54.6



Source: Refinitiv Datastream. Chart by Nasser Saidi & Associates

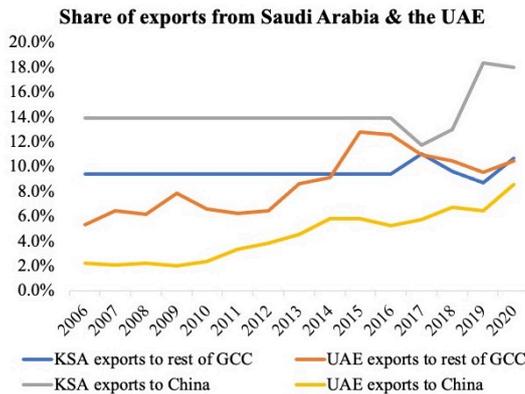
well below the still remained improved in H1 2021 vis-à-vis last year, itPMIs While 2019 average edged down slightly in Jun, as foreign sales dropped amid supply UAE PMI Though rose for the first time since Jan and at the quickest pace in more employment delays, as well, job creation rose at the fastest pace since late Saudi Arabia than two years. In 2019

value-added: impact on GCC trade? & labourSaudi Arabia’s rules on local content, 4.

(Jan 2003) was designed for highly oil-dependentThe GCC customs union agreement economies and importing goods and services from the EU, US & Japan to a lesser extent.

tectonic shift in global economic geography towards Since 1973 there has been a with China the main trade partners for most GCC nations. At end-2020, China Asia

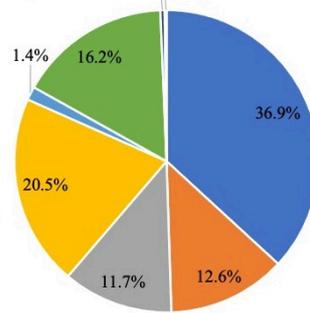
accounts for around 1/5th of Saudi's total exports; for the UAE, it stands at around 10% **intra-GCC trade stood at just above USD 90bn as of** total exports. In contrast, **a trivial 5.5% of GDP (GCC Secretariat), end-2019** **did not account for the rapid** The GCC agreement & subsequent amendments also **growth of production and exports from the free zones and/ or special economic** leading to the current dispute concerning the domestic content of trade.zones , given the operations of Jafza: in **Free zone trade is significant for UAE/ Dubai** -roughly about the value of intra-worth USD 99.5bn (**generated trade Jafza2019,** **!)CC trade**



Source: IMF DoTS, Refinitiv Eikon. Chart by Nasser Saidi & Associates

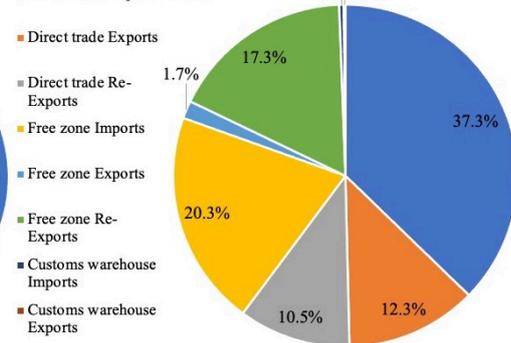
Dubai's foreign trade

Q1 2021



Source: Dubai Customs. Charts by Nasser Saidi & Associates

2020



did not account for the The GCC agreement and subsequent limited amendments also **rapid growth of production and exports from the free zones and/ or special** leading to heightened competition between Saudi products & UAE **economic zones** FZ/SEZ exports.

GCC nations have not adapted to these changed domestic and external The , hence the pressure on the customs union and on trading rules **structural changes** (such as domestic content).

(replacing the **GCC needs to move to a new trade and investment agreement** The **deep** that allows for **common market** customs union) and moving to a true (including for trade in services and labour mobility), allowing the GCC to **integration** benefit from economies of scale resulting from more open and greater market size, which would be a magnet for FDI.

A new GCC-wide deep trade & investment agreement would also allow the GCC to with the EU, China, ASEAN, USMCA and emerging African trading **negotiate as a bloc** blocs, a must for participation in global value chains.

certain goods will be excluded from preferential tariffs implying an **Short-term impact:** increase in customs duties and consequently the cost of doing business. UAE, a major re-exporting hub, is Saudi Arabia's second largest trade partner after China (w.r.t import value).

The current dispute, while disruptive in the short-term, can open the door to a that would **more efficient, modern, trade & investment framework and agreement**

boost growth prospects and allow for greater diversification, higher value-added regional trade (rather than re-exports from the rest of the world) and integration into evolving global value chains.

5. Is Oman's technical assistance (TA) request timely?

to help it develop a Technical Assistance from the IMF Oman has requested for **medium-term debt strategy and strengthen its fiscal structure, given high budget deficits & jump in debt to GDP in 2020.**

: NCSI. However, **Oman's non-oil economy grew by 5.7% to USD 14.8bn in Q1 2021**

The IMF **overall GDP contracted by 2.5%**. with a 20.6% plunge in oil sector activity, forecasts 2.5% growth this year, given a recovery in aggregate demand post-vaccine rollout (21.5% of population has received at least one dose).

recent positive policy developments There have been several

(a) 5% VAT introduced; (b) expected to phase out water and electricity **On the fiscal side:** A. subsidies by 2025; (c) ongoing discussions re the introduction of income taxes for high-income earners

: two new agencies were established: (a) the Oman Investment **Institutional reforms**B. Authority to improve management of public assets and maintain oversight of State-owned Enterprises; and (b) Energy Development of Oman to manage and finance investments in energy

to 80% in 2020, from about 15% in 2015 **s debt-to-GDP ratio surged 'Oman** However, **budget deficit widened to 19.3% of & given fiscal/ financial support during Covid19,**

The latter is estimated to ease this year, to 2.4% of GDP. Fiscal reform is required **GDP.**

to ensure fiscal & debt sustainability.

raised USD 1.75bn : **Oman has been tapping the international debt markets in 2021**

in nine-year sukuk in Jun (2nd transaction in international debt markets, following USD 3.25bn in 3-part bonds in Jan).

unemployment in Other than fiscal, another major issue is that of unemployment: (2019: 1.8%). More importantly, in **Oman was estimated at 4.97% by ILO in 2020**

2019, youth unemployment was at 11.6% & female youth unemployment at a massive 36.3%. Covid19 last year would only have further exacerbated this.

IMF-sanctionedOman's request for TA could be the precursor for an **programme. reform**

Egypt has seen the benefits of reform measures, being the only **programme. reform** MENA nation to post a positive growth in 2020

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