

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

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- 1. Global Manufacturing PMI near multi-year highs; PMIs slow in Asia as a more severe 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 |

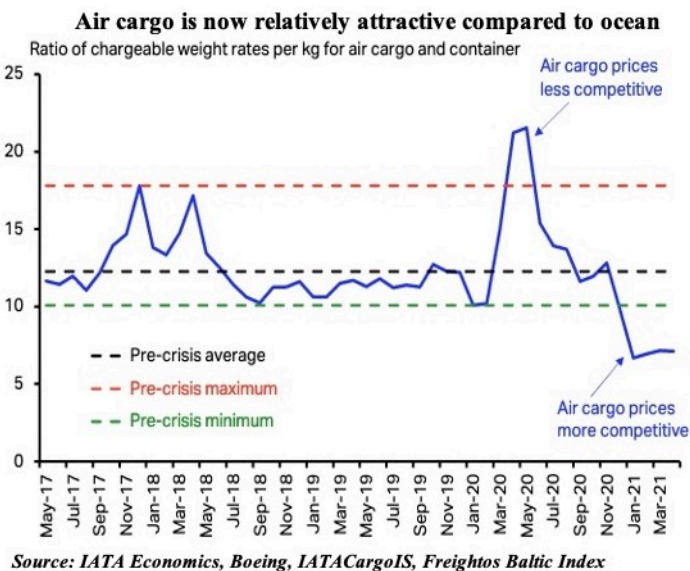
Source: Refinitiv Datastream, Nasser Saidi & Associates

- **Global manufacturing PMI** slipped to 55.5 in Jun, easing from the 11-year high of 56 in May, with **Europe the “bright spark” while Asia paled in comparison** (India fell into contractionary territory after 10 months; PMIs in Vietnam and Malaysia plunged to 44.1 and 39.9 respectively).
- **Supply disruptions continued**, and **average vendor lead times “lengthened** to the greatest extent in the near 24-year survey history”; **average input prices “rose** to one of the greatest extents in the survey history”.

- **Asia** is witnessing a more severe wave of Covid19 cases in the past weeks: **of every 100 infections last reported around the world, about 35 were reported from countries in Asia and the Middle East.** The region is currently reporting a million new infections about every 7 days.
- **While new orders are rising, lockdowns/ restrictions are causing delays and disrupting shipping,** with some estimating that the impact could affect shipments as far out as Christmas this year.

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

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

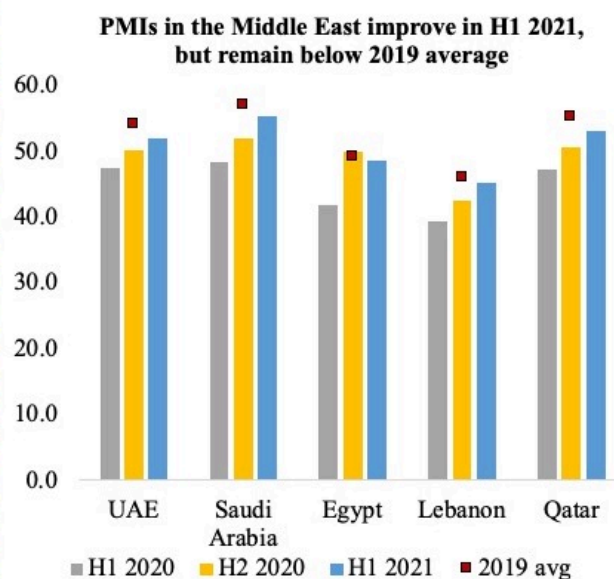


3. Mixed PMI readings in the Middle East: Lebanon and Egypt stay below-50

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

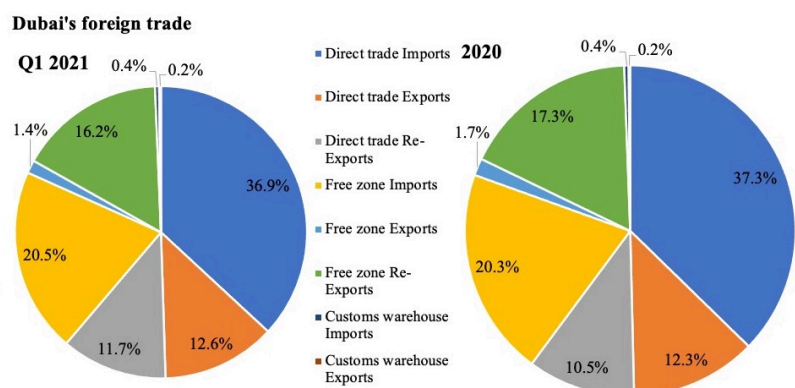
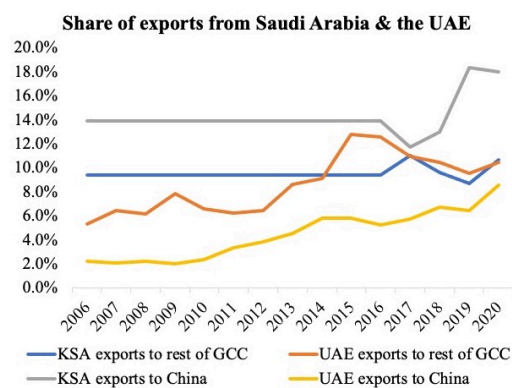


- While **PMIs** improved in H1 2021 vis-à-vis last year, it **still remained well below the 2019 average**
- Though **UAE PMI** edged down slightly in Jun, as foreign sales dropped amid supply delays, **employment** rose for the first time since Jan and at the quickest pace in more than two years. In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

4. **Saudi Arabia's rules on local content, labour & value-added: impact on GCC trade?**

- **The GCC customs union agreement** (Jan 2003) was designed for highly oil-dependent economies and importing goods

- and services from the EU, US & Japan to a lesser extent.
- Since 1973 there has been a **tectonic shift in global economic geography towards Asia** with China the main trade partners for most GCC nations. At end-2020, China accounts for around 1/5th of Saudi's total exports; for the UAE, it stands at around 10% of total exports. In contrast, **intra-GCC trade stood at just above USD 90bn as of end-2019** (GCC Secretariat), a **trivial 5.5% of GDP**.
 - The GCC agreement & subsequent amendments also **did not account for the rapid growth of production and exports from the free zones and/ or special economic zones** leading to the current dispute concerning the domestic content of trade.
 - **Free zone trade is significant for UAE/ Dubai**, given the operations of Jafza: in 2019, **Jafza generated trade worth USD 99.5bn (roughly about the value of intra-GCC trade!)**



- The GCC agreement and subsequent limited amendments also **did not account for the rapid growth of production and exports from the free zones and/ or special economic zones** leading to heightened competition between Saudi products & UAE FZ/SEZ exports.
- The **GCC nations have not adapted to these changed domestic and external structural changes**, hence the pressure on the customs union and on trading rules (such as domestic content).

- The **GCC needs to move to a new trade and investment agreement** (replacing the customs union) and moving to a true **common market** that allows for **deep integration** (including for trade in services and labour mobility), allowing the GCC to 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 negotiate as a bloc** with the EU, China, ASEAN, USMCA and emerging African trading blocs, a must for participation in global value chains.
- **Short-term impact:** certain goods will be excluded from preferential tariffs implying an 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 more efficient, modern, trade & investment framework and agreement** that would 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?

- Oman has requested for **Technical Assistance from the IMF to help it develop a medium-term debt strategy and strengthen its fiscal structure, given high budget deficits & jump in debt to GDP in 2020.**
- **Oman's non-oil economy grew by 5.7% to USD 14.8bn in Q1 2021:** NCSI. However, with a 20.6% plunge in oil sector activity, **overall GDP contracted by 2.5%.** The IMF 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).
- There have been several **recent positive policy**

developments

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

B. **Institutional reforms:** two new agencies were established: (a) the Oman Investment 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

- However, **Oman's debt-to-GDP ratio surged** to 80% in 2020, from about 15% in 2015 & given fiscal/ financial support during Covid19, **budget deficit widened to 19.3% of GDP**. The latter is estimated to ease this year, to 2.4% of GDP. Fiscal reform is required to ensure fiscal & debt sustainability.
- **Oman has been tapping the international debt markets in 2021:** raised USD 1.75bn in nine-year sukuk in Jun (2nd transaction in international debt markets, following USD 3.25bn in 3-part bonds in Jan).
- Other than fiscal, another major issue is that of unemployment: **unemployment in Oman was estimated at 4.97% by ILO in 2020** (2019: 1.8%). More importantly, in 2019, youth unemployment was at 11.6% & female youth unemployment at a massive 36.3%. Covid19 last year would only have further exacerbated this.
- **Oman's request for TA could be the precursor for an IMF-sanctioned reform programme.** Egypt has seen the benefits of reform measures, being the only MENA nation to post a positive growth in 2020

