

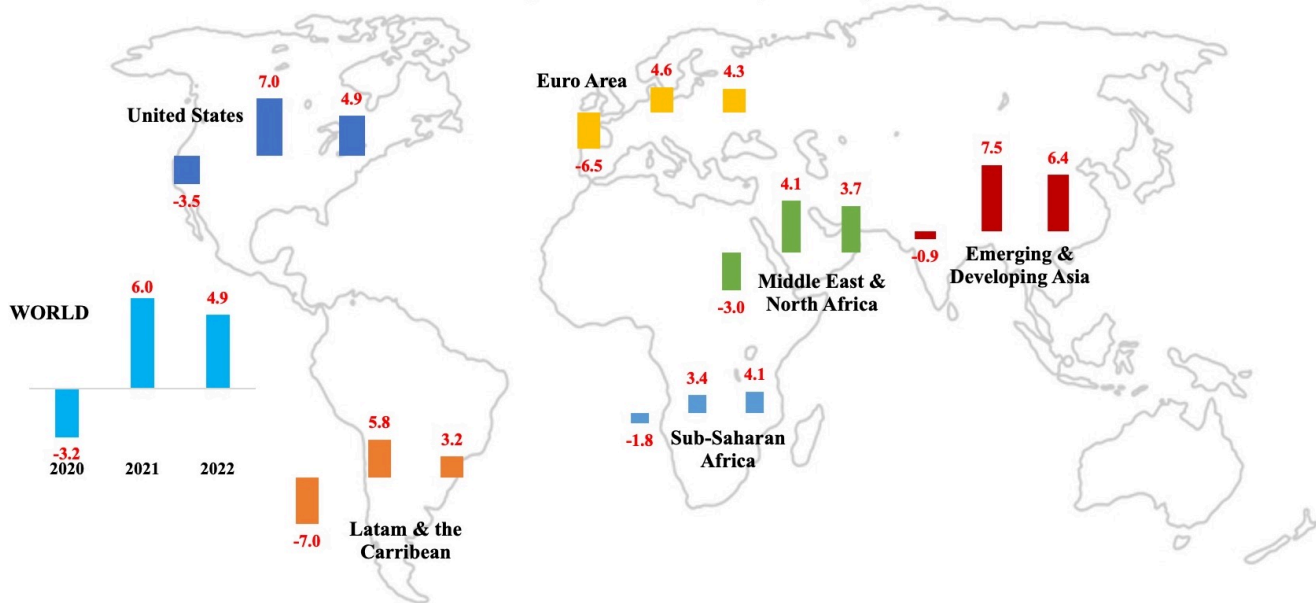
Weekly Insights 29 Jul 2021: Global growth & inflation outlook + credit & inflation (GCC/ UAE)

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1. Global growth forecast at 6% in 2021: IMF

- The **IMF's World Economic Outlook**, updated this week, **forecasts global growth at 6% this year** (unchanged from the Apr 2021 estimate).
- However, the **underlying forecasts show greater divergence**: an uptick in advanced nations growth estimates (+0.5 ppt from Apr 2021 forecast) was offset by a 0.4 ppt drop in emerging markets growth.
- **Multiple risk factors to growth**: dealing with new variants amid an uneven vaccine rollout globally (in low income nations less than 1% of the population have received one dose), continuation of supply-demand mismatch and steady increase in inflation, earlier-than-expected tightening of interest rates in the US, early withdrawal of fiscal support etc.

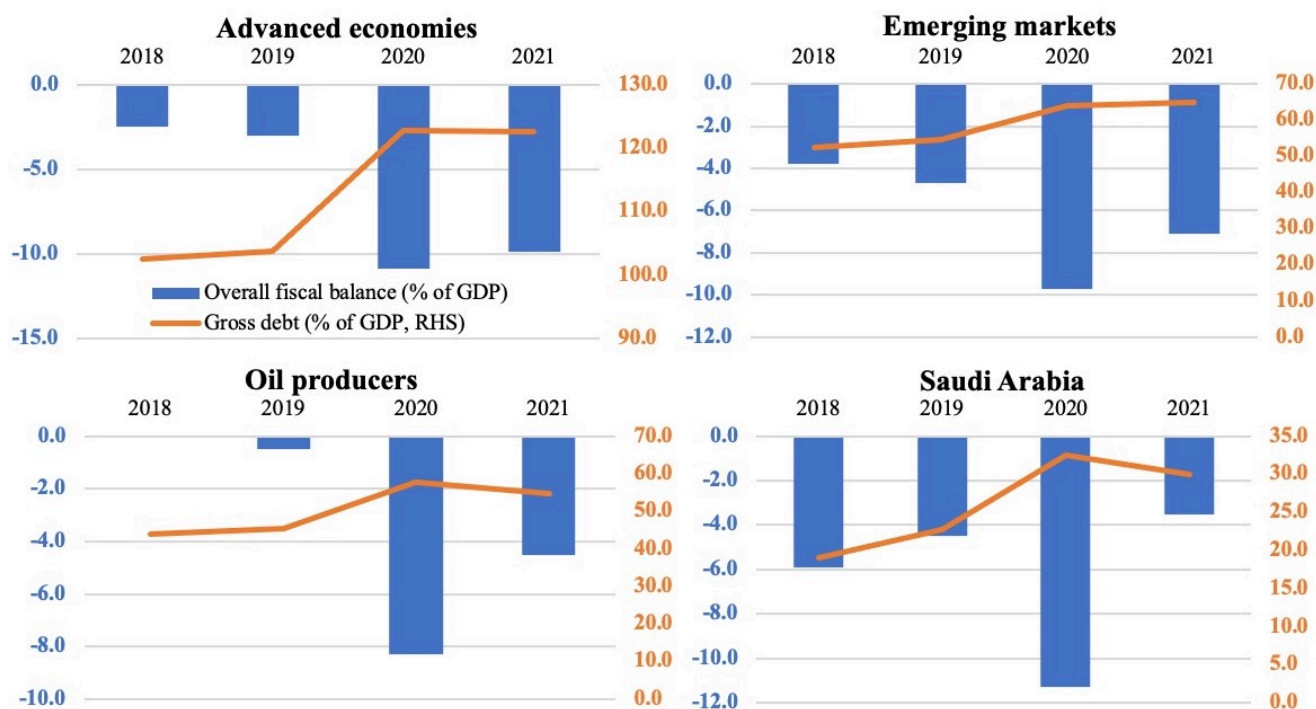
Global economic growth set to recover by 6% this year: IMF



Source: IMF World Economic Outlook, Jul 2021. Chart by Nasser Saidi & Associates

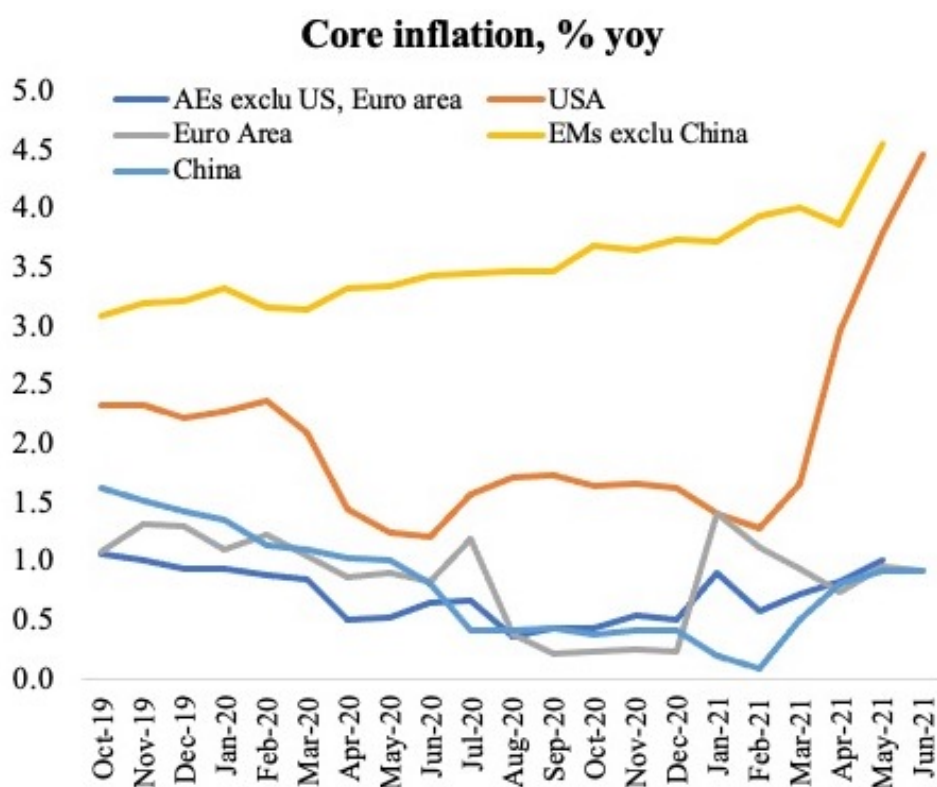
2. Global government debt was close to 100% of global GDP in 2020

- IMF: **fiscal measures** rolled out to support during Covid19 **estimated at \$16.5trn as of early July 2021** => fiscal deficits across all regions in 2020
- **Much of these funds have already been utilised in EMEs**, while advanced economies (AEs) have \$4.6trn still to be used. **Deficit narrows in 2021**, in all regions except Euro Area
- **Fiscal deficit will fall to 4.5% of GDP in oil-producing nations** in 2021 (2020: -8.3%); reflected clearly in KSA as well
- Government debt rose to 122.8% last year in AEs (vs 2019's 103.7%); in Saudi, it rose to 32.5% (22.8%)
- **As inflation rises, some emerging markets have started to hike interest rates** => less policy space
- If the Fed hikes rates earlier-than-expected, then fiscally constrained nations with high debt levels will be more vulnerable => further **increasing fiscal risks/ corporate bankruptcies** etc.



Source: IMF World Economic Outlook, Jul 2021. Chart by Nasser Saidi & Associates

3. IMF calls inflation “transitory”, but PMI survey responses mention shortages & rising costs...



Source: IMF World Economic Outlook, Jul 2021. Chart by Nasser Saidi & Associates

Heatmap of Manufacturing PMIs

	US	Germany	EU	UK	Japan
Jan-19	54.9	49.7	50.6	52.8	50.3
Feb-19	53.0	47.6	49.5	52.1	48.9
Mar-19	52.4	44.1	48.3	55.1	49.2
Apr-19	52.6	44.4	48.4	53.1	50.2
May-19	50.5	44.3	47.9	49.4	49.8
Jun-19	50.6	45.0	47.6	48.0	49.3
Jul-19	50.4	43.2	46.6	48.0	49.4
Aug-19	50.3	43.5	47.1	47.4	49.3
Sep-19	51.1	41.7	46.0	48.3	48.9
Oct-19	51.3	42.1	46.2	49.6	48.4
Nov-19	52.6	44.1	47.0	48.9	48.9
Dec-19	52.4	43.7	46.4	47.5	48.4
Jan-20	51.9	45.3	48.1	50.0	48.8
Feb-20	50.7	48.0	49.1	51.7	47.8
Mar-20	48.5	45.4	44.3	47.8	44.8
Apr-20	36.1	34.5	33.4	32.6	41.9
May-20	39.8	36.6	39.5	40.7	38.4
Jun-20	49.8	45.2	47.4	50.1	40.1
Jul-20	50.9	51.0	51.7	53.3	45.2
Aug-20	53.1	52.2	51.6	55.2	47.2
Sep-20	53.2	56.4	53.5	54.1	47.7
Oct-20	53.4	58.2	54.8	53.7	48.7
Nov-20	56.7	57.8	53.8	55.6	49.0
Dec-20	57.1	58.3	55.2	57.5	50.0
Jan-21	59.2	57.1	54.8	54.1	49.8
Feb-21	58.6	60.7	57.9	55.1	51.4
Mar-21	59.1	66.6	62.5	58.9	52.7
Apr-21	60.5	66.2	62.9	60.9	53.6
May-21	62.1	64.4	63.1	65.6	53.0
Jun-21	62.1	65.1	63.4	63.9	52.4
Jul-21*	63.1	65.6	62.6	60.4	52.2

Source: Refinitiv Datastream, Nasser Saidi & Associates

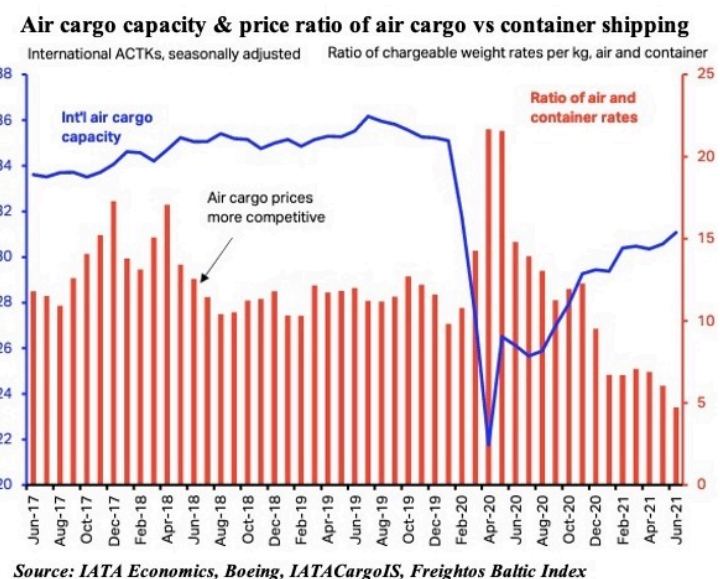
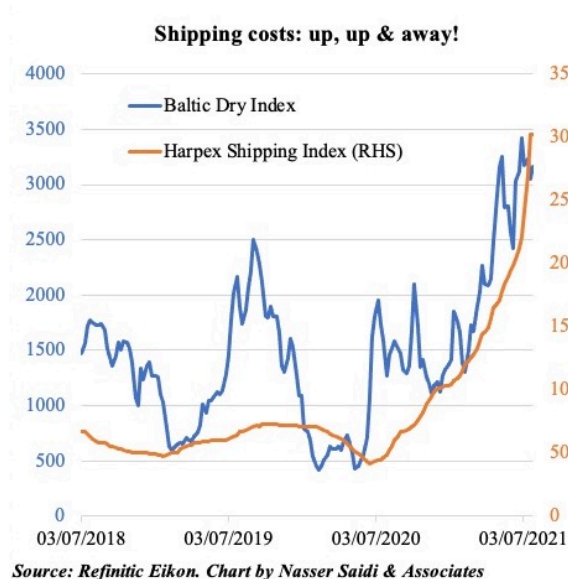
*Jul readings are recently released flash estimates

- Latest **flash PMI readings** show expansion in economic activity as restrictions are eased
- However, with **shortage of materials and supply chain risks**, firms are struggling to keep up with demand and higher costs are on the cards
- **Food prices have been rising for 12 straight months** before falling by 2.5% mom in Jun; but still up 33.9% yoy

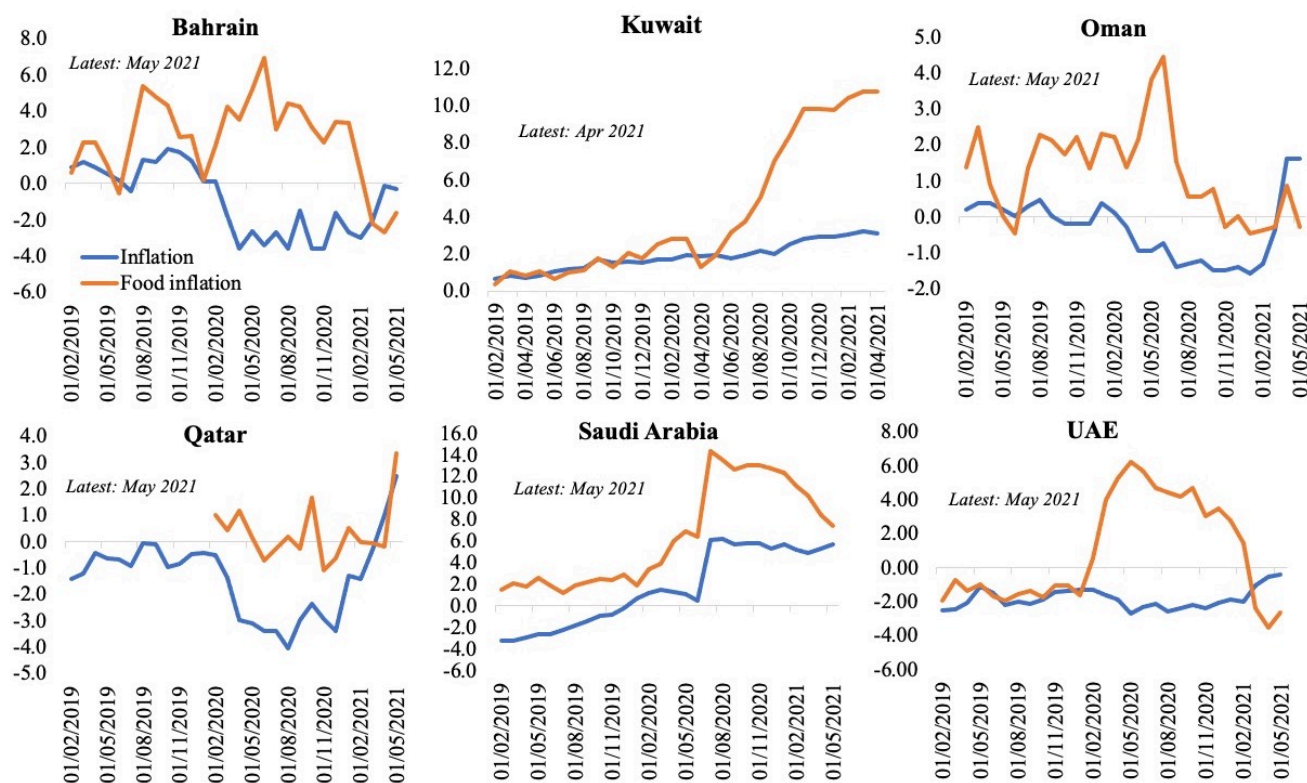
- **Higher oil prices** are also affecting major importers; oil price is now closer to pre-pandemic levels
- **Inflationary risks**: pent-up demand amid long-drawn-out supply bottlenecks, earlier-than-expected rate hikes (leading to rise in risk premiums, borrowing costs)

4. ... as evidenced by rising shipping costs; air cargo costs to become more competitive, soon?

- **Shipping costs are at multi-year highs and freight rates are likely to stay high the rest of this year** given factors like lack of containers & shipbuilding capacity, Covid19 related delays
- Compared to congested container shipping and given the attractive speed of **air cargo**, the latter **is becoming increasingly more advantageous price-wise**.
- **Nearly 60% of respondents in IATA's passenger survey (Jun 2021) plan to take a flight within 1-2 months =>** air cargo capacity is growing => resulting in relatively cheaper air cargo fares
- Within the **Middle East, cargo capacity was up by 17.1% in Jun** (vs 2019), supported by strong ME-Asia and ME-North America trade lanes



5. Closer home, a mixed GCC inflation picture: High food prices in Kuwait, Qatar & deflationary trends in others

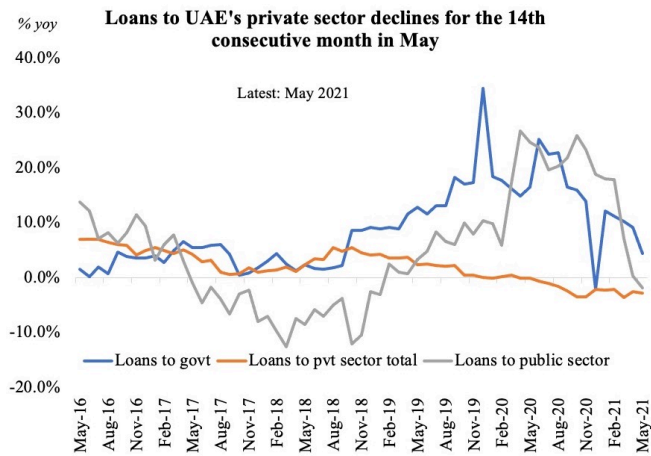


Source: Refinitiv Eikon; Charts by Nasser Saidi & Associates

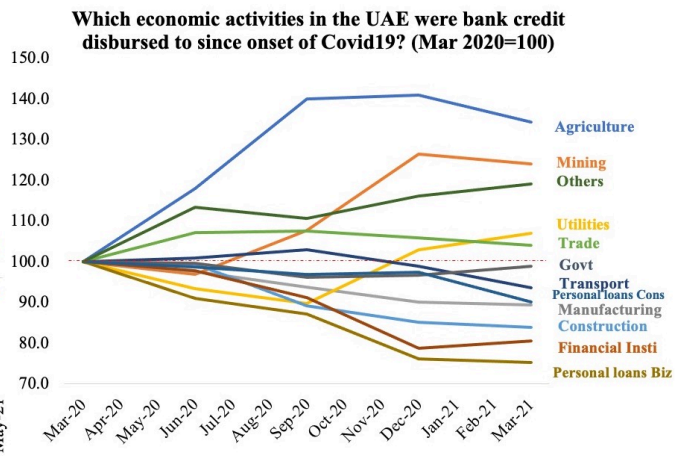
6. Credit disbursed in the UAE dragged down by private sector slump

- Overall domestic credit disbursed in UAE fell by 1.6% yoy and 0.8% mom in May 2021
- Loans to the private sector have been declining since Apr 2020, with the latest reading down by 2.8% yoy (and -0.3% mom). Since Apr 2020, loans to both the business sector and overall private sector has declined by an average 2.1%, while loans to the government and public sector have gained 13.7% and 17.5% respectively
- Interestingly, the central bank's credit sentiment survey for Q2 2021 showed that **banks expect demand for business loans to increase for the Sep quarter** (net balance of +28), with economic activities retail & wholesale trade, manufacturing, construction, transport & communications, and others dominating demand.
- In Mar 2021, construction (20.5%), personal loans for consumption (20.4%), government (15%), others (9%) and trade (8.7%) accounted for 65% of total loans. However, if one tracks **loans disbursed since the onset of Covid**

(taking an index with Mar 2020 as 100), the **biggest “gains”** accrued to the agriculture, mining, others, utilities and trade activities.



Source: UAE Central Bank. Charts by Nasser Saidi & Associates.



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