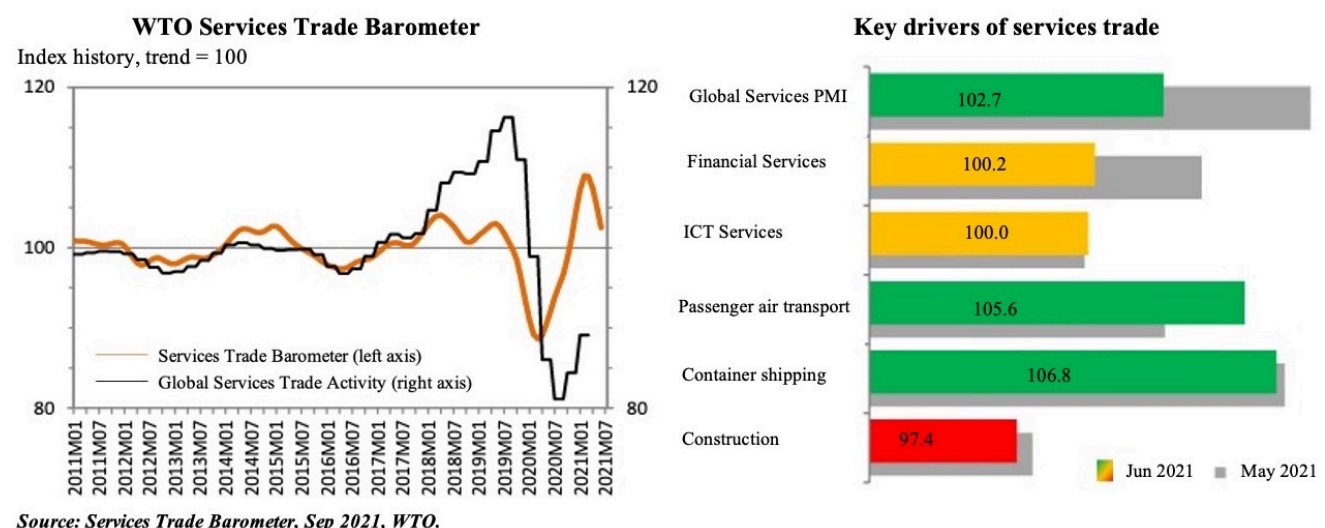


Weekly Insights 30 Sep 2021: Headwinds to Recovery in Global Trade

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1. Global services trade has been lagging goods trade, still below pre-pandemic levels | Evidence from Services PMIs

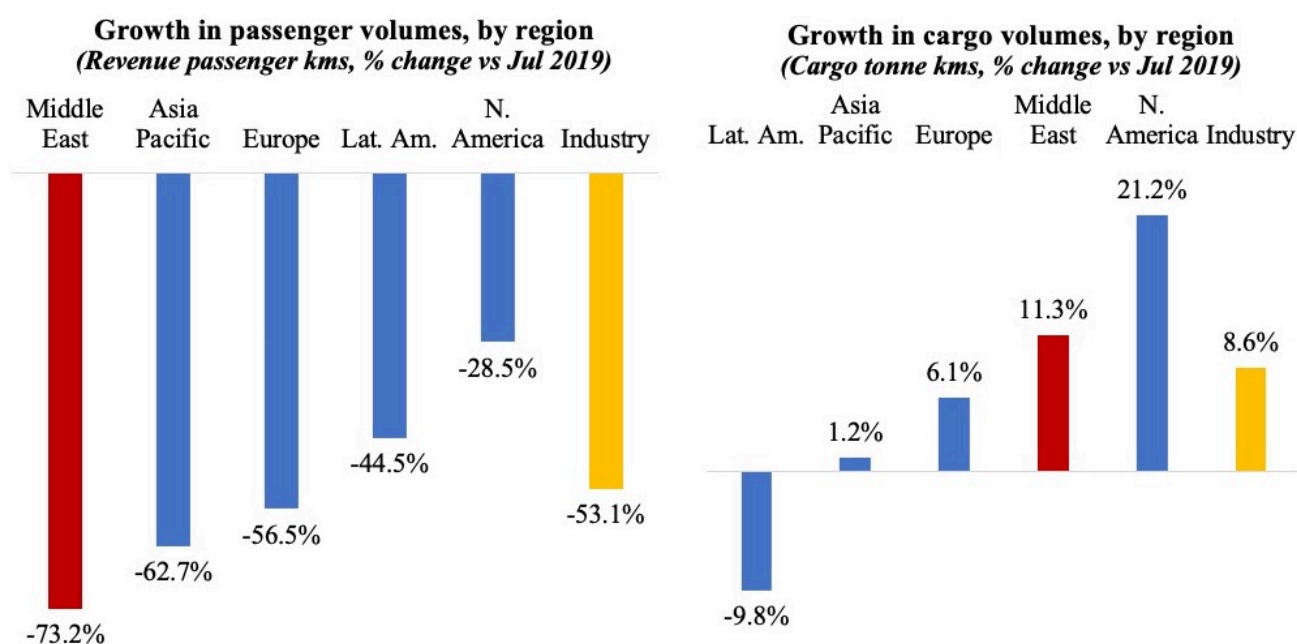


- **Trade in goods seem to be on a strong recovery path, but services trade has not been keeping pace.** The WTO's Global Services Trade Activity index showed that the volume of services trade was down by 13.9% in Q1 2021 (but coming off higher declines of 26.3%, 25.5% and 20.5% in Q2, Q3 and Q4 2020 respectively).
- **Services PMI readings (from Markit) seem to suggest that though recovery was underway in Q2, growth has eased sharply since.** Flash PMIs for Sep showed that: (a) growth eased sharply to the lowest since May in the eurozone; (b) US expansion slide to a 14-month low; (c) UK posted the worst performance since Jan's lockdown; and (d) Japan reported lower service sector output for

the 20th consecutive month.

- **Many factors were attributed to the slowdown in the services sector:** weaker demand (given Delta variant's spread and related restrictions) + supply shortages + labour supply issues (esp. in the US and the UK). This has also resulted in driving up input costs & overall prices

2. Global services trade | Evidence from Passenger & Cargo volumes



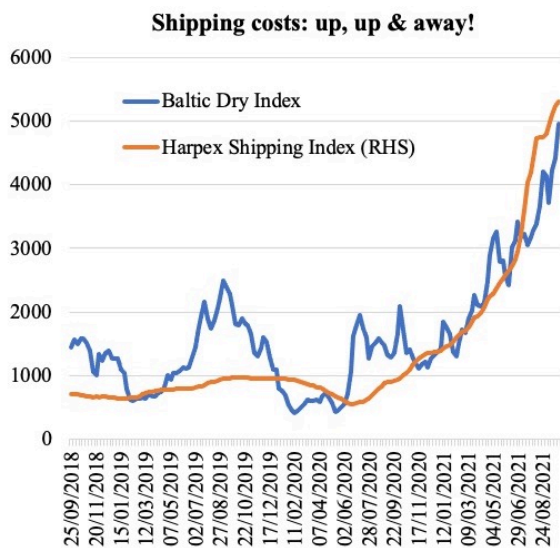
Source: Air Freight & Air Passenger Monthly Analysis, IATA Economics

- **Passenger traffic has been recovering globally**, as the rollout of vaccines led to reopening of international travel while also aided by domestic passenger growth (especially in the US & China).
- The surge in Delta-variant cases in China since end-Jun has impacted domestic travel significantly; but, **improving intra-European traffic** has benefitted European airlines, and **India has seen a resurgence in domestic traffic**.
- IATA, using the DDS ticketing database, find that **though travel demand for Q4 is looking stronger than last year, bookings are still only at 42% of 2019 levels**.
- **Revenue Passenger Kilometers (RPKs) of Middle Eastern**

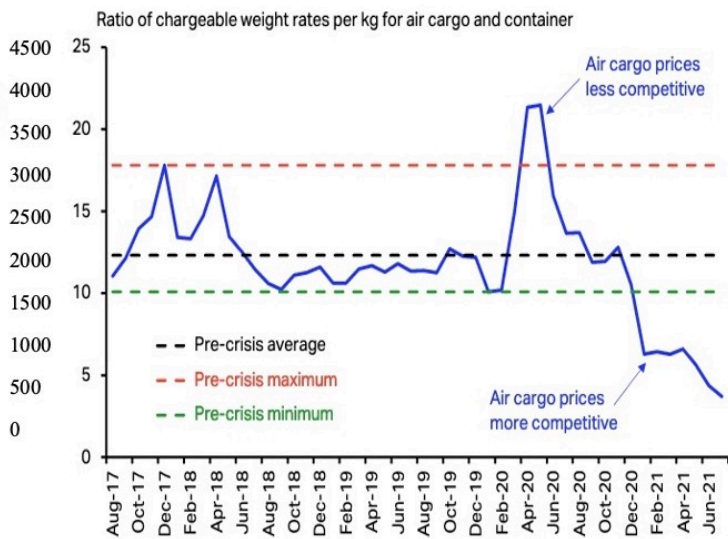
airlines fell by 73.2% in Jul 2021 vs. Jul 2019: this was the weakest outcome amongst all regions (a result of the slow recovery of international flights) versus an industry reading of -53.1%. **Passenger capacity** of the region's airlines **fell by 57.5% (vs Jul 2019), also the weakest across regions.**

- **Air cargo** recovery has been underway since May: while **global supply chain issues have been a key challenge**, expansions in new export orders and manufacturing production will support growth.
- **Middle Eastern airlines reported the biggest improvement in Aug** amongst all regions: 15.4% vs Aug 2019 & 2.4 ppts up from Jul's expansion (ME-Asia segment gained the most)

3. Costs are on the rise: global shipping vs air cargo



Source: Reuters Eikon. Chart by Nasser Saidi & Associates

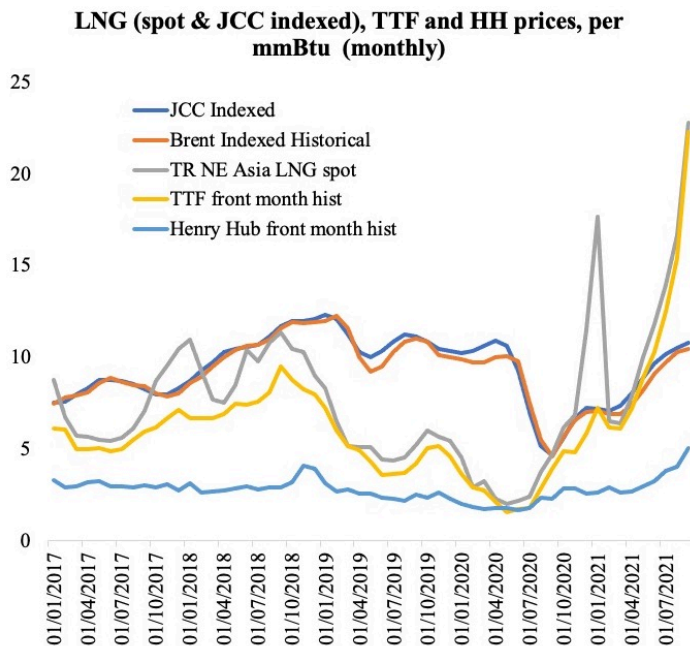


Source: Cargo Chartbook Q3 2021, IATA Economics

- **Supply chain congestion has been pushing up prices amid an increase in demand for goods. These constraints are likely to persist for the rest of the year**
- **Shipping costs have been increasing** – given extended idling times, container shortages, shortage of workers at ports and congested seaports. **Spillover effects** to the supply chain are also visible with **truck and rail transport hit by further delays.**
- However, **air cargo has been less impacted than container**

shipping, thereby leading to a comparatively favourable relative price for chargeable weight.

4. Adding to price pressures: multi-year highs in oil, gas & coal prices



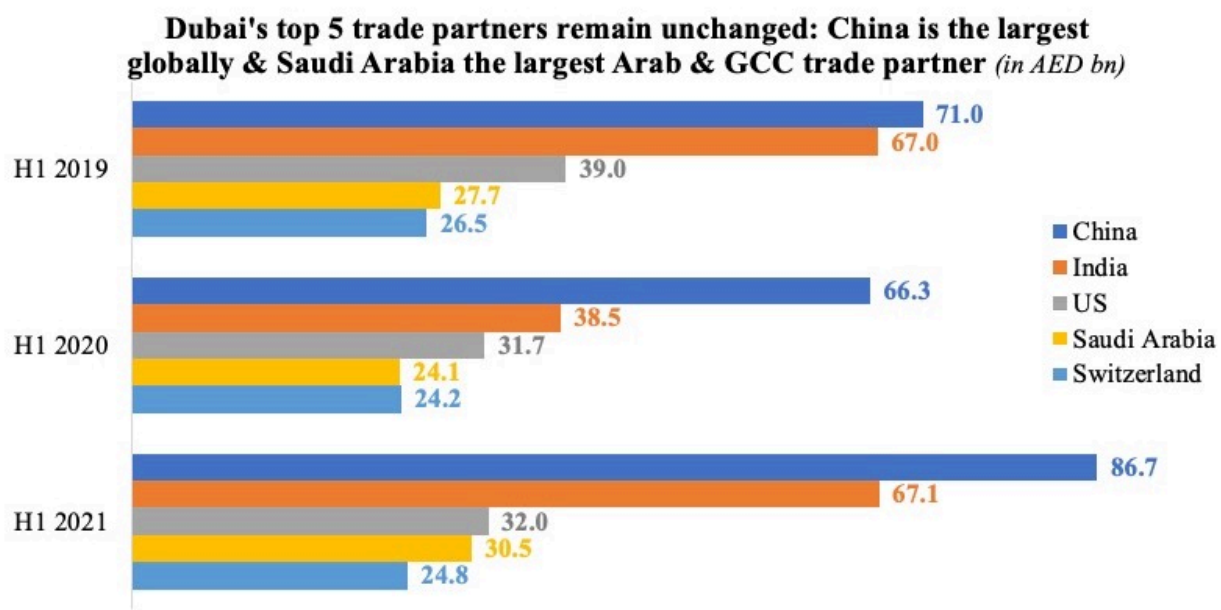
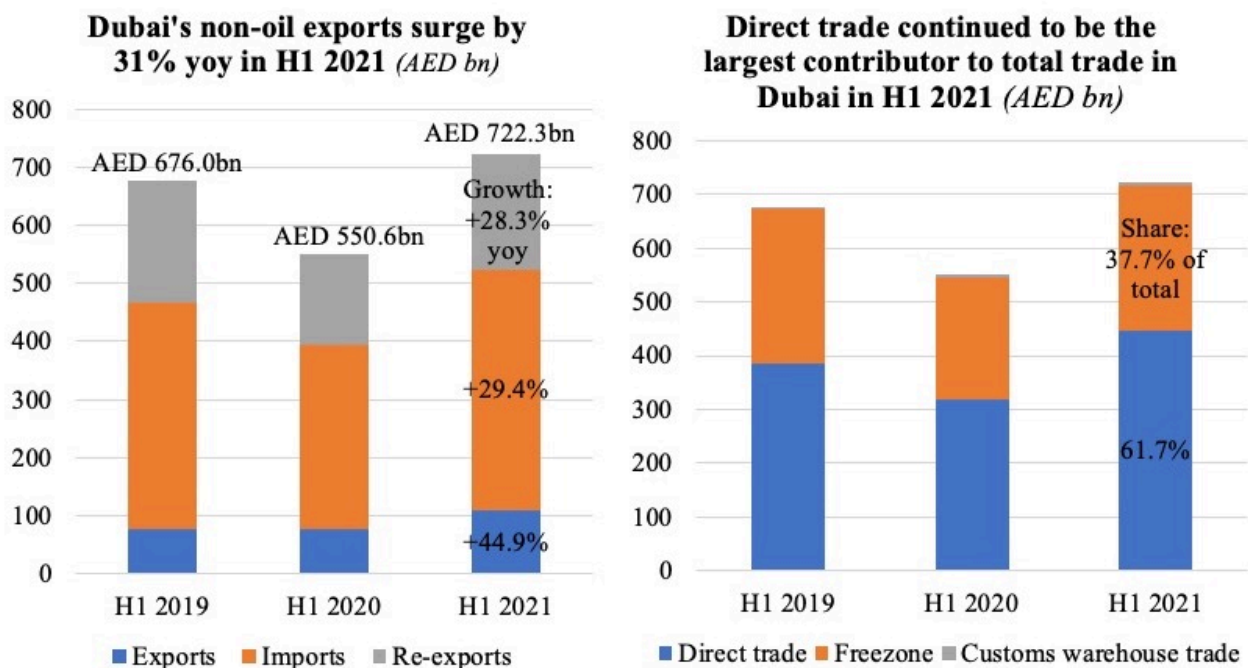
Source: Refinitiv Eikon; retrieved 30 Sep 2021

- **US natural gas prices rose to a 7-year high earlier this week; gas prices in Europe and Asia traded about four times over US gas** (close to USD 29 per mmBtu vs USD 6)
- **Brent oil price crossed USD 80** – a 3 year high – before falling lower + **coal prices have been rising** (thermal coal prices are 96% higher in China this year)
- **Why the surge? More than just a supply shortage amid fast-rising demand:**
 - **US:** less drilling by shale producers + recent supply disruptions from hurricanes
 - **Europe:** low natural gas stockpiles + delayed shipments from abroad + shutdowns for maintenance works
 - **UK:** labour shortage esp truckers to distribute fuel from refinery to retailers
 - **China:** shutting down coal plants & power outages => rising demand for LNG as an alternative option to coal
 - **OPEC's** supply restrictions notwithstanding (next

week, it is likely to add 400k bpd to output for Nov, as previously agreed), rise in gas prices & limited supply could see a switch towards using oil => higher oil prices

- **Outlook: rising input costs + higher gas prices + weaker growth**

5. Dubai's non-oil exports surge, as it accelerates to meet the 10 X 10 goal



Source: Dubai Customs. Charts by Nasser Saidi & Associates

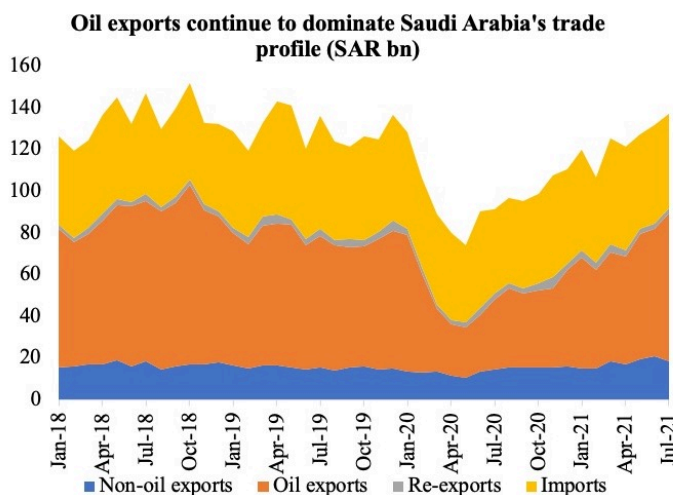
- **Dubai disclosed a 31% yoy surge in non-oil exports in H1**

2021. This follows the pandemic-hit drop in H1 2020, but **when compared to H1 2019, trade is up by a significant 6.8%.**

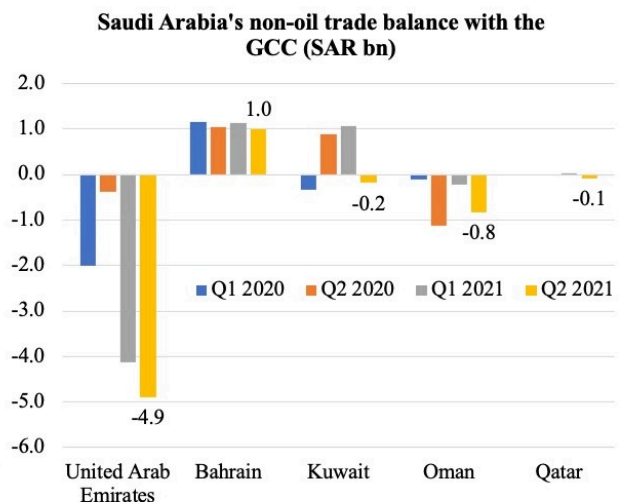
- This is **in line with the ambition of UAE's 10X10 program**, announced as part of the "Project of the 50". This involves an annual increase in the country's exports by 10% in 10 key markets: China, the UK, the Netherlands, Italy, Russia, Poland, Luxembourg, Australia, New Zealand and Indonesia.
- **Top trade partners for Dubai remained the same** over the last 3 years: **China, India and US the top 3** followed by Saudi Arabia (which is the largest partner in the Arab region) and Switzerland.

6. Saudi Arabia's trade diversification efforts need a significant push

Oil accounted for an average ~3/4th of total exports this year



Source: GaStat. Charts by Nasser Saidi & Associates



- **Saudi crude oil exports rose to 6.327mn barrels per day in Jul**, according to data from JODI – this was the highest reported level since Jan.
- Not surprising then that **oil exports grew by 112.1% yoy in Jul**, thereby supporting overall export growth (+79.6% yoy in Jul & 40.5% ytd).
- **Non-oil trade deficit with the UAE widened in Jul**, after

new amendments were introduced from Jul related to imports. **Value of imports from the UAE fell** by 32.8% mom and 6.2% yoy to SAR 3.1bn in Jul: **the monthly drop was the sharpest this year.** As a result, UAE slipped to the 3rd largest import partner (after China and the US) from 2nd in June.

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