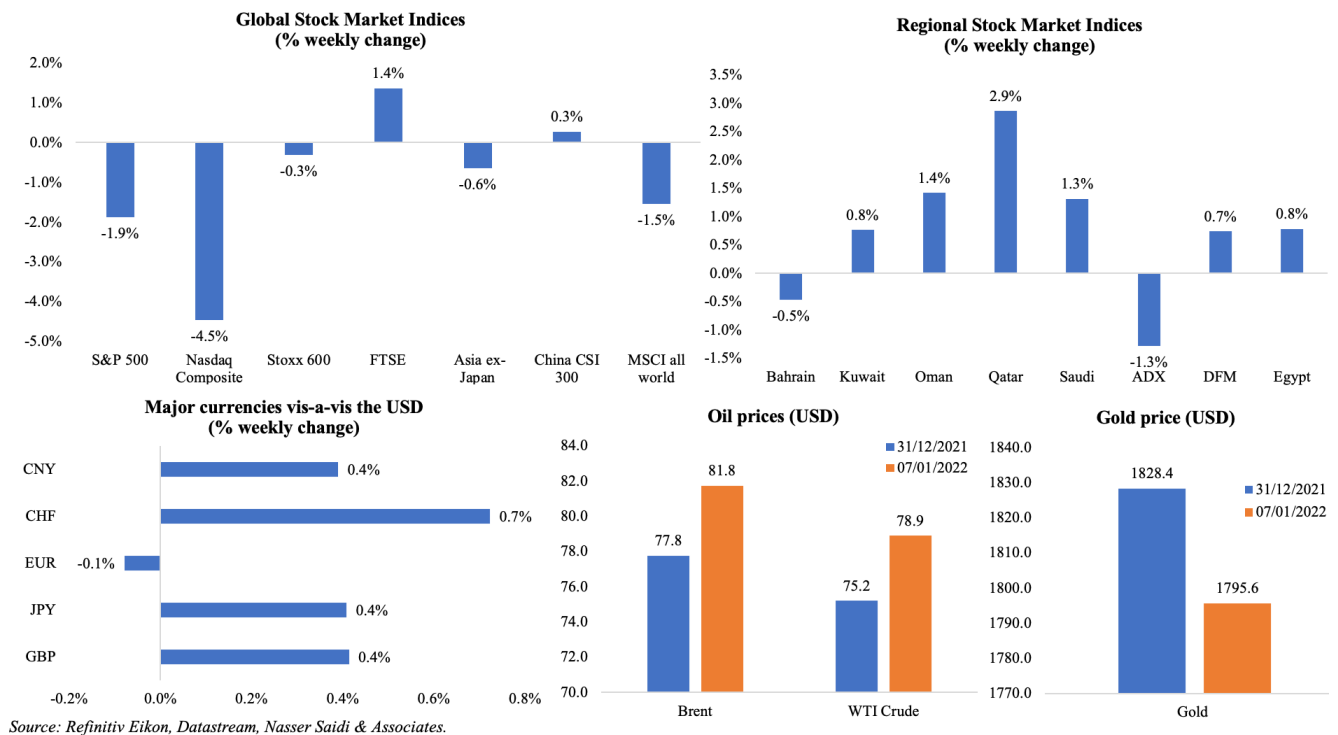


Weekly Economic Commentary – Jan 10, 2022

Markets

It was a rough start to the New Year for equity markets: investor concerns over the severity of the Omicron variant seems to have been replaced by a potential acceleration in interest rate hikes (post publication of the FOMC minutes) and rising inflationary pressures (Europe data). Most markets closed in the red including the MSCI all world and Stoxx indices (which had both touched record highs on Tuesday), while the FTSE 100 remained a bright spot supported by commodity-linked stocks. China's tech stocks were weak (in line with the global picture) but there were hopes of policy easing. In the region, most markets closed higher than a week ago, with Dubai posting its second consecutive weekly gain. The dollar posted a slight weekly gain, its first in 3 weeks. Oil prices increased from last week – supply concerns are coming to the forefront given the unrest in Kazakhstan even as the OPEC+ went ahead with its policy decision to gradually raise production next month. Gold price, though edging up from 3-week lows on Friday, ended 0.2% lower compared to a week ago.

Weekly % changes for last week (2 – 7 Jan) from 30 Dec (regional) and 31 Dec (international).



Global Developments

US/Americas:

- **US non-farm payrolls fell to 199k in Dec** from an upwardly revised Nov reading of 249k: this was the 12th consecutive month of job growth. **Unemployment rate slipped to 3.9%** in Dec (Nov: 4.2%) though the size of the civilian labour force remains lower by more than 2 million compared to pre-pandemic levels. Labour force participation rate inched up to 61.9% (Nov: 61.8%) while average hourly earnings increased by 4.7% yoy and 0.6% mom.
- **Private sector in the US hired 807k workers in Dec** (Nov: 505k) – the most in 7 months – led by the leisure and hospitality sector (264k new jobs) and trade transportation and utilities (138k).
- **A record 4.53mn workers quit their jobs** in Nov, up by 8.9%mom and higher than the previous record in Sep (4.36mn). **JOLTS job openings declined** to 10.562mn in Nov; job openings rate was 6.6%, down from about 7% in Oct but well ahead of 4.5% from a year

- **Initial jobless claims increased to 207k in the week ended Dec 31st**, from the previous week's upwardly revised 200k, while the 4-week average stood higher at 204.5k. Continuing claims increased by 36k to 1.754mn in the week ended Dec 24.
- **FOMC minutes showed the Fed's hawkish stance**, stating they may need to raise rates "sooner or at a faster pace" and also called for a **reduction in the size of the balance sheet** (which stands are just below USD 9trn, more than doubled since early 2020) soon after the first rate hike.
- **ISM manufacturing PMI in the US eased to 58.7 in Dec** (Nov: 61.1), with new orders slipping to 60.4 (Nov: 61.5) while employment improved the most since Apr (54.2 from 53.3) and prices paid fell to 68.2 (the lowest reading since Nov 2020) from 82.4.
- **ISM services PMI slipped to 62 in Dec** (Nov: 69.1), with slowdowns across new orders (61.5 from Nov's 69.7), employment sub-index (54.9 from Nov's 56.5) and production (67.6 from Nov's 74.6) while prices paid inched up to 82.5 from 82.3 the month prior.
- **Markit manufacturing PMI in the US edged down by 0.1 point** (from the preliminary reading) **to 57.7 in Dec**; output expectations however strengthened to the highest since Nov 2020. Services and composite PMI inched up by 0.1 points each to 57.6 and 57 respectively.
- **Trade deficit in the US widened to USD 80.2bn in Nov** (Oct: USD 67.2bn) as overall imports increased by 4.6% (to USD 304.4bn) and exports inched up by 0.2%. Goods trade deficit stood at USD 99bn in Nov from USD 97.8bn the month before, with **goods imports rising by 5.1% to an all-time high of USD 254.9bn** (led by industrial supplies and materials). Exports of goods fell by 1.8% to USD 155.9bn, dragged down by declines in capital goods.
- **Factory orders in the US increased by 1.6% mom in Nov**

(Oct: 1.2%) with shipments of core capital goods up by 0.3%.

Europe:

- **Germany's Markit manufacturing PMI remained unchanged at 57.4 in Dec**, the lowest since Jan 2021, though lower than the preliminary reading of 57.9. **Services PMI improved to 48.7 but stayed below the 50-mark** (as new export business fell steeply), as did composite PMI (49.9 in Dec from Nov's 50).
- **Manufacturing PMI in the eurozone stood at 58 in Dec** (Nov: 58.4), the lowest level since Feb: new orders rose the least since Jan while inventories posted the largest ever increase. Services PMI slipped to 53.1 in Dec (Nov: 55.9) as new order growth slowed to an 8-month low and the employment sub-index slipped to a 7-month low; as a result the composite PMI eased slightly to 53.3.
- **Consumer price in the eurozone inched up to a record high of 5.0% in Dec** (Nov: 4.9%), thanks to an increase in prices of energy (+26%) as well as food, drinks and tobacco (3.2%) among others. Core inflation meanwhile remained unchanged at 2.6% yoy in Dec.
- **Producer price index in the eurozone jumped by 23.7% yoy in Nov** (Oct: 21.9%) – the highest on record.
- **Retail sales in the eurozone surged by 7.8% yoy and 1% mom in Nov** (Oct: 1.7% yoy). This was the **biggest mom increase since June**, with sales rising by 1.6% for non-food products and 0.6% for food, drinks and tobacco while it fell for automotive fuels (-1.5%).
- **The harmonized index of consumer prices in Germany eased to** (but remains at a relatively high) **5.7% yoy in Dec** (Nov: 6%), with energy prices up by 18.3% yoy and food costs higher by 6%. **In 2021, German inflation averaged 3.1% – the highest since 1993.**
- **Germany's trade surplus narrowed to USD 10.9bn in Nov** (Oct: EUR 12.4bn), as exports increased (+1.7% mom) at a

slower pace than imports (+3.3%). Monthly exports were 5.7% higher than their level in Feb 2020 while imports were 17.5% higher.

- **German factory orders rebounded by 3.7% mom in Nov** (Oct: -5.8%), with new orders from abroad surging by 8% and from the euro area rising by 13%. Compared to Feb 2020, orders were higher by 6.6%.
- **Industrial production in Germany unexpectedly declined by 2.4% yoy and 0.2% mom in Nov.** Manufacture of capital goods fell by 0.6% while the production of intermediate and consumer goods rose by 0.8% each. Furthermore, energy production and production in construction fell by 4% and 0.8% respectively.
- **German retail sales unexpectedly inched up by 0.6% mom in Nov** (Oct: 0.5%), with sales rising at both supermarkets (+0.8%) and department stores (+2.6%). However, in yoy terms sales were down by 2.9%.
- **Unemployment rate in Germany edged down to 5.2% in Dec** (Nov: 5.3%), with the number of unemployed decreasing by 23k to 2.405mn – the lowest total jobless level since Mar 2020.
- **Markit manufacturing PMI in the UK tipped down to 57.9 in Dec** (Nov: 58.1), after new orders fell for a 4th straight month and inflationary pressure added to Brexit woes and Covid restrictions. **Services PMI slipped to 53.6 from Nov's 58.5**, after the sector dragged down by staff absences (due to the variant) and fall in spending (given restrictions on face-to-face customer services).

Asia Pacific:

- **China's Caixin manufacturing PMI moved into expansionary territory**, with a reading of 50.9 in Dec (Nov: 49.9) – the highest since June. New orders moved into growth though export sales shrank, and employment fell for the 5th consecutive month. **Caixin services PMI increased to**

53.1 in Dec (Nov: 52.1), rising for a 4th consecutive month.

- **Inflation in Tokyo increased to 0.8% yoy in Dec** (Nov: 0.5%). Excluding just fresh food, prices inched up to 0.5% (Nov: 0.3%). Excluding fresh food and energy, inflation stood at -0.3%.
- **Singapore GDP grew by 2.6% qoq and 5.9% yoy in Q4**, bringing the 2021 growth to 7.2%. Rebounding from 2020's 5.2% contraction, this was the fastest pace of growth since 2010.
- **Retail sales in Singapore increased by 2.5% mom and 1.9% yoy in Nov**, largely due to higher petrol prices (21.1% yoy) and demand for watches and jewellery (15.3%). Excluding motor sales, retail sales were up 4.1% yoy and 2.9% mom.

Bottomline: Prior to the earnings season (when further profit hikes are expected, 22.3% according to Refinitiv IBES), the Omicron variant remains a threat. Record cases have been reached in US and Europe as global cases cross 300mn amid news of reinfection risk (individuals who have recovered from Covid are 3 to 5 times more likely to be reinfected) and China's pandemic controls over Tianjin (city with 14mn people, where the first community transmission in the country was reported). With vaccination rates rising across the globe (India starts booster shots from today for those aged 60 and above), complete lockdowns seem unlikely though curfews and restrictions on gatherings will impact economic activity slightly. More importantly, with China in new lockdowns supply chain disruption is on the cards – the question only remains how severe.

Regional Developments

- **Egypt's growth is estimated at 5.7% in the 2022-23 fiscal year** in the draft budget, slightly higher compared to 5.6% in the fiscal year that ends June 2022.

The draft budget aims to lower deficit to 6.1% of GDP and reduce debt to less than 90% of GDP.

- **PMI in Egypt rose to 49 in Dec** (Nov: 48.7) but remained below-50 for the 13th consecutive month. The uptick in PMI was **thanks to improvements in export orders** (to 54.9 from 50.7) and purchases (to 51.4 from 49.3) while input costs fell (to 59.3 from 63.7).
- **Non-oil exports from Egypt touched a record high of USD 31bn in 2021**, according to a cabinet statement.
- **Four new IPO offerings are expected in Q1** this year on the **Egyptian Exchange**, following 8 IPOs last year valued at EGP 7.95bn. Market cap of the exchange had surged by 17% to EGP 765.6bn in 2021.
- **Egypt's external debt declined slightly** by USD 439mn to USD 137.4bn in Jul-Sep 2021 (Q1 of 2021-22). Long-term debt meanwhile ticked up to USD 125.9bn in Q1 from USD 124.1bn by end-Jun 2021.
- **Egypt plans to issue its first ever sovereign sukuk worth USD 2bn by mid-2022**; green bonds – a value higher than last year – will also be issued this year, according to a senior ministry of finance official.
- **Egypt is awaiting international permission to begin construction of two nuclear plants in H2 2022**. An agreement was signed in Nov 2015 to build the first nuclear power plant in Dabaa with a capacity of 4,700 MW through 4 large units at an estimated cost of USD 5bn.
- **Iraq's oil output stood at 4.23mn barrels per day (bpd) in Dec**, up 17k bpd from Nov, reported Reuters. This compares to the production ceiling of 4.24mn bpd as per the OPEC+ agreement.
- **Foreign currency reserves of Iraq increased** by USD 13bn to **USD 64bn by end-2021**, according to the financial advisor to the PM.
- **The IMF approved the disbursement of USD 335.2mn to Jordan**, after completion of the 3rd review of the country's 4-year USD 1.5bn loan programme. In the Jan

2022 report, the IMF projected growth at 2.7% and 3.1% yoy in 2022 and 2023 respectively. Current account deficit is projected to decline to about 4.7% of GDP in 2022 (still more than double the 2019 levels).

- **Lebanon's PM plans to convene the Cabinet as soon as the 2022 budget is received:** the approval of the budget by the Cabinet and Parliament is a main request of the IMF.
- **PMI in Lebanon inched up to 46.7 in Dec** (Nov: 46.1), with new orders declining at a weaker rate amid slowdown in new orders and employment while both input and output prices increased at the fastest pace in 5 months.
- **Qatar's PMI eased to 61.4 in Dec** (Nov: 63.1), as both new orders and output eased to 3-month lows; employment meanwhile increased for the 15th straight month supported by wholesale and retail hiring.

Saudi Arabia Focus



- **Saudi Arabia's PMI slipped to 53.9 in Dec** (Nov: 56.9), with new orders weakening for the 3rd consecutive month and new export orders growth slowing to an 8-month low. Employment sub-index slipped to a 4-month low, just above-50. Companies' confidence fell to an 18-month low, with the Omicron variant, inflation and competition highlighted as factors supporting this outlook.
- **Venture capital investment in the FinTech sector in Saudi Arabia touched USD 157.2mn** in Jan-Aug 2021 from 16 deals, according to the Saudi Fintech annual report. This compares to 7 deals worth USD 7.8mn in 2020. Payments sub-sector has been the most attractive FinTech area, accounting for a share of 93% of total VC investments in 2021.
- **The volume of investment in Saudi manufacturing products has exceeded SAR 15bn** (USD 4bn) as of end-Sep 2021, according to the minister of industry and mineral

sources. The volume of exports for the Saudi manufacturing industry exceeded SAR 436mn, with gold bars and garment industries topping the list of exports.

- **New privatization rules in Saudi Arabia**, with provisions related to fairness, transparency, and feasibility, will support investors' and encourage bid for contracts.
- **The idle land program in Saudi Arabia disbursed SAR 2bn** (USD 532mn) of its revenues to develop infrastructure projects across the country, reported the Saudi Press Agency.
- According to the president of the General Authority of Civil Aviation, **Saudi civil aviation and air transport sector is expected to contribute SAR 280bn** (USD 74bn) to GDP by 2030, up from SAR 80bn in 2018.
- **Saudi Arabia reduced the official selling price (OSP) to Asia** for its Arab light crude to plus USD 2.2 a barrel versus Oman/ Dubai crude – this is the lowest in 3 months.

UAE Focus



- **UAE PMI remained expansionary for the 13th consecutive month in Dec**, with the reading at 55.6, a tad lower than the 55.9 posted in Nov. Output increased to 62.7 in Dec (Nov: 61.6), the highest since Jul 2019, while new orders and employment sub-indices remained above 50.
- **The UAE central bank expects growth to increase to 4.2% yoy in 2022**, up from 2.1% in 2021, supported by both oil and non-oil GDP growth – at 5% and 3.9% respectively.
- **Money supply in the UAE grew by 2.1% yoy to AED 671.6bn** (USD 182.8bn) at end-Oct.
- **Dubai announced the launch of a “talent pass”** allowing professionals with special skills and expertise – covering media, education, technology, art, marketing and consultancy – to move to the emirate under the Dubai Airport Freezone's 3-year freelance license.

- **The Ruler of Ajman approved a budget of AED 2.41mn (USD 658mn) for 2022:** this is 17% larger compared to a year ago and estimates no deficits. Infrastructure and economic affairs together account for shares of 39% and 34% of total spending.
- **Dubai Expo welcomed 8.95mn visits in Oct-Dec 2021,** with 47% of visits generated by Seasons Passes and number of repeat visits reaching 3.5mn while 30% of visitors were from outside the UAE. The Expo School Programme saw 334k+ visits from schools in the period.
- **Dubai was named the world's busiest international airport in Dec** with capacity of 3.5mn seats, according to the Official Airline Guide, given its return to 100% operational capacity since mid-Dec. This is up from 7th busiest in Nov 2021.

Media Review

Emerging Economies Must Prepare for Fed Policy Tightening

<https://blogs.imf.org/2022/01/10/emerging-economies-must-prepare-for-fed-policy-tightening/>

Is Climate Finance the Next Bubble?

<https://www.project-syndicate.org/commentary/developing-countries-risk-of-climate-finance-bubble-by-arvind-subramanian-2022-01>

How long can the global housing boom last?

<https://www.economist.com/finance-and-economics/how-long-can-the-global-housing-boom-last/21807002>

Saudi Arabia's 'unprecedented growth' set to cement position as M&A leader in 2022

<https://www.arabnews.com/node/1999951/business-economy>

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