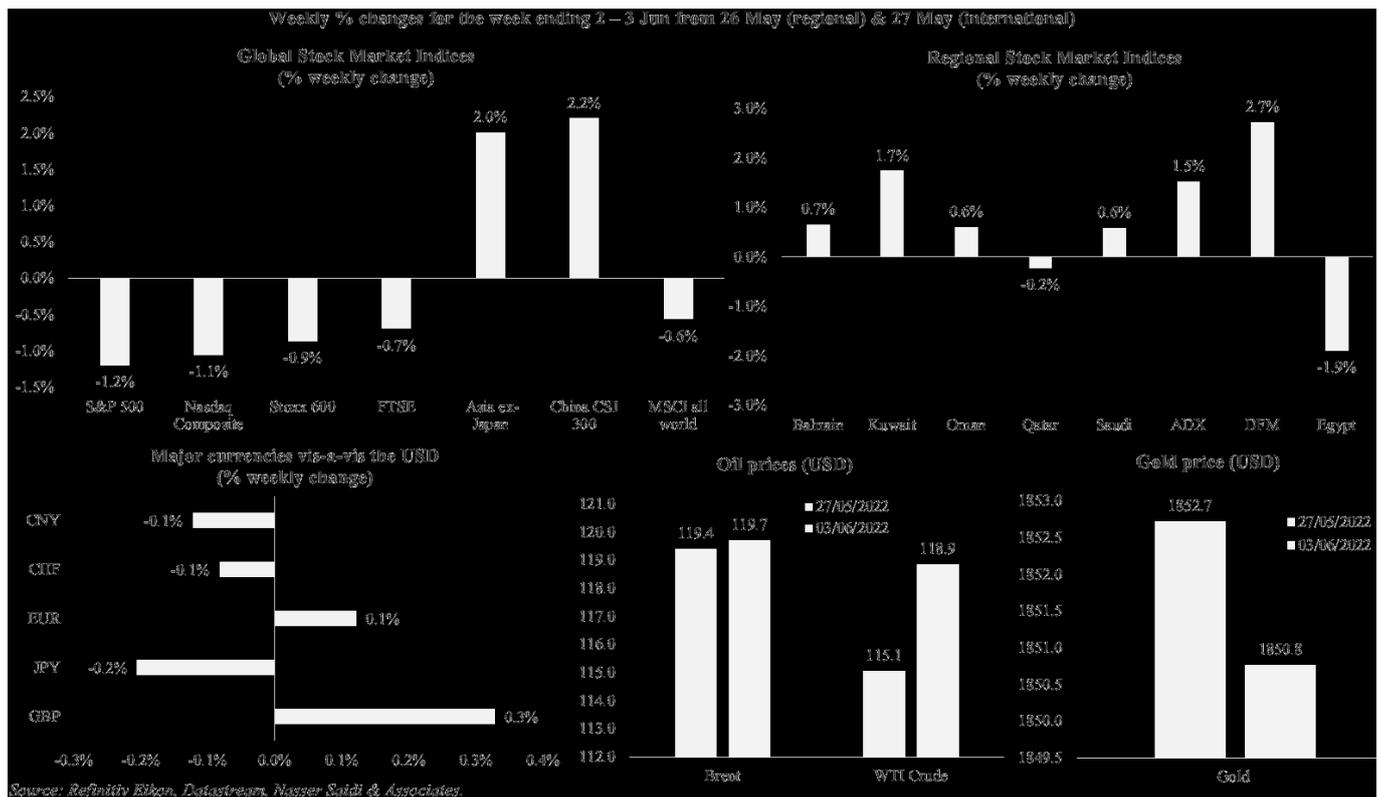


Weekly Economic Commentary – Jun 6, 2022

Markets

of a tight labour market in the US Markets are dancing to the tune of monetary tightening: signs sent equity markets lower last Friday, with money markets now fully pricing in 50bps rate hikes by the Fed in June and July. European equities also ended the week lower, as the latest higher inflation data strengthens the case for ECB rate hikes. Asian stocks picked up as China relaxed Covid lockdowns and announced stimulus measures to lift sentiment. Regional markets were mostly up. The dollar index edged higher, while also rising to a more than 3-week high vis-à-vis the yen. Oil prices closed higher compared to a week ago, with the Brent just shy of USD 120 a barrel, given the OPEC+ agreement to boost crude output and on news of a higher-than-expected decline in US crude inventories. Gold prices rose towards the end of the week supported by payrolls data though it slipped by a meagre 0.1% from a week ago.



Global Developments

US/Americas:

- a majority of the Fed Districts indicate “slight or **US Fed Beige book stated that** •
modest growth” while prices were increasing at a “strong or robust” pace.
- (Apr: 436k), the smallest increase in two **Non-farm payrolls increased by 390k in May** •
- Unemployment rate held steady at** years, also partly due to shortages of workers.
- (lowest since Dec 1969) while average hourly earnings grew by 5.2% yoy in May **3.6%**
(Apr: 5.5%).

but is still 1.1 percentage points **Labour force participation rate increased to 62.3%** below pre-Covid Feb 2020.

, the **Non-farm productivity in the US declined by a 7.35% annualised rate in Q1** most since Q3 1947 (previous estimate: -7.5%; Q4: 6.3%). Unit labour costs gained by 12.6% in Q1 (previous estimate: 11.6%; Q4: 3.9%).

only 128k jobs were created in the private ADP employment report showed that (Apr: 202k) - this was the smallest gain since Apr 2020 (just immediately **sector in May** after Covid lockdowns).

, down by 455k from Mar, though **job openings stood at 11.4mn at end-Apr JOLTS**, though **jobs-workers gap stood at a high 3.3% in Apr** staying near record highs; the lower than March's 3.6%.

(prev: 211k), while the **Initial jobless claims fell to 200k in the week ended May 27** 4-week average slipped to 206.5k. Continuing jobless claims declined by 34k to – the lowest since Dec 1969. **1.309mn** in the week ending May 20 (Mar: 1.8%); shipments of manufactured **Factory orders gained by 0.3% mom in Apr** goods gained 0.2% after accelerating 2.2% in Mar while orders for electrical equipment, appliances and components fell 0.2%.

(Feb: 20.3%); the **S&P Case Shiller home price index grew by 21.2% yoy in Mar** average rate on the 30-year fixed mortgage ended Mar at 4.67% from 3.29% at the start of Jan.

Dallas Fed manufacturing (Apr: 56.4) while **Chicago PMI improved to 60.3 in May** (Apr: 1.1), the lowest reading since May 2020; **business index tumbled to -7.3 in May** new orders and growth rate of orders indices declined to near 2-year low levels.

from a preliminary **S&P manufacturing PMI in the US was revised down to 57 in May** estimate of 57.5, and this stands much lower than April's final reading of 59.2. Production and new orders eased while cost inflation accelerated to a 6-momnth high. Furthermore, business confidence fell to the lowest level since Oct 2020.

(Apr: 55.4), **ISM manufacturing PMI unexpectedly increased to 56.1 in May** supported by gains in the new orders index (55.1 from 53.5) and production (54.2 from 53.6) while employment index contracted (to 49.6, for the first time since Nov 2020) and prices paid eased (82.2 from 84.6).

:Europe

(Apr: 7.4%), driven **Inflation in the eurozone surged to a new record of 8.1% in May** by energy costs (39.2%) and food, alcohol and tobacco costs (7.5%). Core inflation **highest rate of inflation in the** inched up to 3.8% from 3.5% in the previous month. The **Harmonised**, while the lowest was 5.6% in Malta. **eurozone was 20.1% in Estonia** (Apr: 7.8%), **index of consumer prices in Germany inched up to 8.7% yoy in May** the highest reading since Dec 1973. Energy prices surged by 38.3% while food prices posted a 11.1% increase.

, up from Mar's **Producer price index in the eurozone jumped to 37.2% yoy in Apr** then all-time high of 36.9%. Wholesale prices for non-durable consumer goods (e.g. food and drinks) rose 11.2%, its first-ever double-digit percentage increase, while prices of durable consumer goods ticked up by 8.5%.

from an initial **Manufacturing PMI in the eurozone was revised up to 54.6 in May** estimate of 54.4 (lower than Apr's 55.5): as new orders fell for the first time since Jun 2020 and the headline reading was the lowest since Nov 2020. Inflationary pressures

and supply disruptions remain (though the latter saw some limited easing). (Apr: 54.6), as output levels **Manufacturing PMI in Germany increased to 54.8 in May** picked up slightly, as did employment. However, there was a further decline in new orders on the back of multiple factors including higher prices/ costs, China's lockdowns and economic uncertainty in general.

, while imports grew by 3.1%, **Germany's exports rebounded by 4.4% mom in Apr** taking the trade surplus higher to EUR 3.5bn in Apr (Mar: EUR 1.9bn). Exports from Germany to Russia dropped 10% in Apr after plunging by 60% in Mar.

, with the number of **Germany's unemployment rate stood unchanged at 5% in May eurozone, unemployment stood** unemployed declining by 4k to 2.285mn. In the **unchanged at 6.8% in Apr.**

(Apr: 1.98). Consumer confidence **Business climate in the EU slipped to 1.26 in May The Economic Sentiment** however eased slightly to -21.1 from -22 the month before. **Indicator in the euro area inched up to 105 from 104.9.**

, affected both **Retail sales in Germany dropped by 5.4% mom and 0.4% yoy in Apr** by higher prices and supply constraints. Grocery retailers reported sales decline by 7.7% **Retail sales in the euro area declined by** in Apr - the biggest mom drop since 1994. sales declined by 2.6% for food, drinks and tobacco and 0.7% for **1.3% mom in Apr:** non-food products, while it increased by 1.9% for automotive fuels.

(Apr: 55.8), the slowest since Jan **UK's manufacturing PMI slipped to 54.6 in May** 2021, given decline in domestic demand, supply chain disruptions and cost pressures (also due to exchange rate fluctuations). Business confidence also declined to a 17-month low.

:Asia Pacific

, from Apr's 26-month low **China's NBS manufacturing PMI increased to 49.6 in May** straightrd of 47.4. While the headline index remained in contractionary territory for the 3 month, output, new orders and new export orders indices improved from Apr's readings (albeit still below-50).

(Apr: 41.9): new orders **Non-manufacturing PMI in China also surged to 47.8 in May** contracted at a softer rate (44.1 vs Apr's 37.4), while both new export orders (42.8 vs 42.7) and employment (45.3 vs 45.4) continued to decline further.

(Apr: 46): output and **China's Caixin manufacturing PMI increased to 49.1 in May** new orders, though below-50, increased compared to Apr while export orders and employment posted further declines.

package of 33 measures covering fiscal, financial, announced last Tuesday a **China** -after Covid-**investment and industrial policies to support its economic recovery** related extended lockdowns. These include accelerating local government special bond issuances, support for infrastructure and major projects (also using REITs as a funding tool), supporting domestic firms to list in Hong Kong, tax credit rebates to more sectors, allowing firms to defer social security payments and halve purchase tax for small-engine cars among others.

(Mar: -1.7% **Industrial production in Japan fell by 1.3% mom and 4.8% yoy in Apr** yoy). Declines were recorded across electronic parts and devices (-6.6% from 2% in Mar), production machinery (-2.7% from 3.9%), and motor vehicles (-0.6% from 6%).

, the lowest reading since Mar **Unemployment rate in Japan declined to 2.5% in Apr** 2020 and lower than Mar's 2.6%. Jobs to applicant ratio improved to 1.23 from 1.22 in

Mar.

- (Mar: 1.7%), **Japan's retail trade improved significantly, rising by 2.9% yoy in Apr** supported by stronger demand after lower Covid19 cases. Large retailer sales grew by 4% in Apr (Mar: 1.5%).
- , slightly lower than April's final **Japan's manufacturing PMI stood at 53.3 in May** reading of 53.5: export orders fell at the sharpest pace since Jul 2020 while employment consecutive month. thgained for the 4
- , **bringing the full year (Q4: 5.4%)India's GDP grew by 4.1% yoy in Jan-Mar 2022** For the full year all sectors except trade, **growth in the financial year 2021-22 to 8.7%**. hotels and communication services were above the pre-pandemic levels of FY20. In Jan-Mar, manufacturing contracted by 0.2% compared to the 0.3% gain in the previous quarter.
- (compared **Fiscal deficit in India stood at 6.71% of GDP in the financial year 2021-22** to the budget estimate of 6.9%), thanks to higher revenues and lower capital spending.
- (Mar: 7.4%), with gains recorded **Retail sales in Singapore grew by 1.2% mom in Apr** in wearing apparel and footwear (17.4%), food and alcohol (14.2%), department stores (13.2%) as well as recreational goods (8.8%) among others.

Bottom line: The uptick in inflation continues to be the main story, with last week's record high readings from Europe. EU's partial ban on Russian oil imports is likely to If the ECB does not raise rates soon enough, it risks falling further lift inflation rates. "behind the curve" in comparison to every major central bank – the only question remains as to how big the rate hike in July needs to be. In the meantime the OPEC+ agreement to accelerate oil production in July and August by 650k barrels per day (from earlier planned increase of 400k bpd) remains quite modest and accounts for just over 0.4% of global demand over the two months – for now it is unlikely to be sufficient to calm oil markets and drive down prices. China's PMI readings for May (when it started to open up cautiously,) showed some respite though it still remains in contractionary territory: what remains to be seen is how fast the logistical issues can be resolved and more importantly whether there will be any deviation from the zero-Covid policy stance followed so far (risks remain that the nation could head into further lockdowns if cases increase). Elsewhere, the rhetoric remains the same: supply chain disruptions (owing to Russia-Ukraine war, raw material shortages, and China's lockdown) and inflationary pressures are hurting business sentiment. Weaker consumer demand and easing of supply chain pressures could potentially tame inflation in the coming months; for now, housing, food and energy prices seem likely to remain relatively high.

Regional Developments

- brings the total outstanding **Bahrain's latest issue of treasury bills worth BHD 70mn** value of the government's treasury bills to BHD 2.01bn.
- **Bahrain-based GFH Financial Group made its secondary listing on Abu Dhabi** listing for GFH in the region, after being listed and thThis is the 4**Securities Exchange**. traded on Bahrain Bourse, Boursa Kuwait and the Dubai Financial Market.
- **independent water and power** the USD 1.1bn **ACWA Power started operations at** The plant has the capacity to generate 1,500 .**plant located at Al Dur in Bahrain** megawatts of power and 227,000 cubic meters per day of desalinated water.
- **: Bahrain received 11 pre-qualification bids for the first phase of the Bahrain metro** this phase will include 2 lines (29kms), 20 stations and 2 interchanges.

-
- : it inched up to 47 in May **straight month in May** **Egypt's PMI contracted for the 18** (Apr: 46.9). Declines were registered across both output (45 from Apr's 45.3) and new orders (44.6 from 45.3) sub-indices. The future output expectations sub-index declined to 55.2, its second lowest reading while input cost inflation sped to the highest in 6 months.
 - **Net foreign assets fell for a** by 23.7% yoy in Apr. **Money supply (M2) in Egypt grew**, dropping by EGP 14.8bn to a negative EGP 234.4bn: this **consecutive month** th compares to a positive EGP 186.3bn recorded at end-Sep. (Sep: USD 137.4bn), **Egypt's net external debt grew to USD 145.5bn as of Dec 2021** according to the central bank. Foreign debt increased to 33.2% of GDP by Dec (Sep: 32.6%).
 - **Budget deficit in Egypt touched EGP 410.8bn in the first 10 months of the 2021-22**. Revenues grew by 9.8% yoy to EGP **5.17% of GDP** – this represents **fiscal year** 918.5bn in Jul-Apr, thanks to a 79% surge in tax revenues; expenditures were up by 10.2% to EGP 1.33trn.
 - **Egypt's PM revealed that the country aims to double exports to USD 100bn in the** and also increase the strategic stockpile of major commodities to last up to **next 3 years** **bilateral trade between Egypt and UAE increased to USD** 6 months. Separately, according to the minister of trade and industry. **3.623bn in 2021**, revealed **Suez Canal estimates to clock in USD 3.5bn in revenues in H1 this year** the Chairman of the Suez Canal Authority. Revenues grew by 23% yoy to USD 657mn in May.
 - **Dubai's Al-Futtaim Group plans to invest USD 700mn-USD 1bn in Egypt over the**, according to a cabinet statement from Egypt. **next three years**
 - **Iran's energy export revenue grew by 60% yoy in the first two months of the** (March 21 to May 21), revealed an official from the oil ministry. **Iranian year** following the **Kuwait will increase its oil output to 2.768mn barrels per day in Jul** OPEC+ decision to further boost output, disclosed the oil ministry.
 - **work is underway to develop its own** 's central bank governor stated that **Oman digital currency and open banking services.**
 - **Oman's new oil discoveries will raise its production by 50,000 to 100,000 barrels**, according to the energy and minerals minister. **in the coming two to three years** Currently oil reserves stand at 5.2bn barrels and gas reserves at 24trn cubic feet.
 - bringing total number of visitors in **Tourists into Oman surged by 488.3% yoy in Mar,** Q1 to 415k. In March, GCC residents accounted for 37.8% of total visitors, followed by Indians (13.2%) and Germans (4%).
 - , stated the central bank governor at a **Qatar's GDP is forecast to grow 3.5% in 2022** **licensing FinTech firms plans to start** conference. He also disclosed that the nation **.soon**
 - **Oil Plus** UK-based independent consultancy in oil and gas field water management, (worth USD 450k). **announced winning 2 produced water-related projects in Qatar,** **GCC states, by developing into "tech champions", can add USD 255bn to the**, according to a Strategy& report. Of **region's GDP and add 600k tech jobs by 2030** More this, USD 119bn will be generated in Saudi Arabia.
- [-https://www.strategyand.pwc.com/m1/en/strategic-foresight/sector-strategies/technology/tech-champions.html](https://www.strategyand.pwc.com/m1/en/strategic-foresight/sector-strategies/technology/tech-champions.html)



- while this is below the **Saudi Arabia's non-oil sector PMI held steady at 55.7 in May:** -consecutive month of above-50 readings. Output substseries average of 56.8, it is the 21 index inched down slightly to 59.3 in May (Apr: 59.7) and input costs rose at the second quickest pace in the past 1.5 years.
- **issued 72 industrial licenses with Ministry of Industry and Mineral Resources** Saudi , with small establishments **in Apr(USD 1.3bn)an investment worth SAR 5.2bn** accounting for 83% of the licenses issued in the month. About 3968 jobs were created in the 59 factories that started operations in Apr, bringing the total number of factories to 10,561 by end-Apr.
- , priced at SAR**Retal Urban Development Co's IPO** 's property developer**Saudi Arabia was oversubscribed by 120 (USD 32)** per share implying a market cap of SAR 4.8bn, generating an order book of SAR 90.3bn. The company will raise SAR 1.44bn **62 times** in the IPO, selling 30% of existing shares.
- **Foreign ownership in Saudi Arabia's stock exchange more than doubled in two** to SAR 450bn (USD 120bn) by end-Q1 2022: up from SAR 259bn and SAR **years** 145bn in Q1 2021 and 2020 respectively. GCC ownership surged to SAR 60.6bn, up 85% from Q1 2020.
- **Value of assets held by 533 private investment funds in Saudi Arabia grew to SAR** according to a report from the Capital Market Authority. Funds were **355bn in Q1 2022**, up 14% from a year ago while the assets' value surged by 30%. Separately, the value of Saudi Arabia public mutual funds' assets declined by 5.06% qoq to SAR 215.7bn in Q1, largely due to a drop in value of funds' investment in money market instruments.
- **to buy a 23.97% stake in**) revealed its intention**PIF**Saudi Public Investment Fund (, one of the largest banking groups in Jordan, Iraq and **Jordan's Capital Bank Group** MENA region: it will pay USD 185mn for owning 63mn new shares of the bank.
- **highest rise in** by 8.7% yoy in Apr, the **Money supply (M3) in Saudi Arabia increased** , and by 1.0% mom: it is rising at a slower pace compared to overall credit **nine months** growth.
- ; credit to the**bank claims on the private sector grew by 14.2% yoy in Apr 2022**Total public sector increased by 8.6% yoy, following two months of 11%+ in Feb-Mar. by 0.2% mom to SAR **Saudi central bank's net foreign assets inched up**Separately, 1.63trn in Apr.
- **Tourism's direct contribution to Saudi Arabia's GDP declined to 1.7% in 2020** (2019: 3.8%). Total direct gross value added generated by tourism activities plummeted by 51.4% yoy to SAR 27.8bn in 2020. The number of tourism establishments increased in 2020 despite Covid19, with food and beverage activity accounting for 79.1% of total firms and about 2/3-rds of total employees.
- **Bilateral trade between US and Saudi Arabia increased by 22% yoy to SAR 92.5bn** , thanks to a surge in non-oil exports (72% to SAR 9.1bn); meanwhile, oil exports**in 2021** to the US grew by 46% to SAR 28.5bn.
- **transaction volumes** While apartment prices in Riyadh increased by 20% last year, the **Knight** , according to**and deal values across Saudi Arabia have declined in Q1** Total deals values were down by 2% to SAR 40.4bn (USD 10.77bn).**Frank.**

to build 's Ma'aden signed an initial agreement with US-based GlassPoint **Saudi Arabia** •
 at Ma'aden's Alumina refinery: this **the world's largest solar-powered steam plant**
 will help reduce carbon emissions by over 600k tons annually, roughly a 50% reduction.
will open six desalination plants by 's Saline Water Conversion Corp. **Saudi Arabia** •
 starting with two late this year. **2024 in a phased manner,**



(Apr: 54.6), **UAE's non-oil sector PMI increased to a 5-month high of 55.6 in May** •
 -thanks to a jump in output sub-index (by one point to 62.5) and rise in employment sub
 index (to 50.7 from 49.9) while input costs rose at the quickest rate since Nov 2018.
 Firms are still absorbing the rising costs and not passing it on to consumers: it remains
 to be seen how long this pattern can be sustained (at the cost of firms' profitability).
Borouge attracted demand of more than Abu Dhabi-based petrochemicals company •
USD 83.4bn for its USD 2bn IPO: this is the largest listing to date on
 Institutional investors placed orders of about USD 65.5bn, including USD 570mn **ADX.**
 in cornerstone investments. On its first day of trading, shares gained by more than 22%
 to settle at AED 3.0.
 , with an aim to increase bilateral **UAE has signed a free trade agreement with Israel** •
 trade to above USD 10bn (2021: USD 1.2bn). Tariffs will be removed or reduced on
 96% of the goods traded between the two nations including on food, medicine,
 diamonds and jewellery among others.
 thanks **Profits of the Investment Corporation of Dubai rose to AED 10.1bn in 2021,** •
 to the 24.5% increase in revenue (to AED 169.4bn) supported by higher oil and gas
 prices.
in talks with the UAE to replace 's finance minister disclosed that the country is **France** •
Russian oil purchases.
 , each with a capacity **Adnoc will purchase three additional newly built LNG vessels** •
 of 175,000 cubic meters, to respond to growing demand; delivery is scheduled for 2025
 and 2026. The current fleet capacity stands at 137,000 cubic meters.
Abu Dhabi's Masdar and Egypt's Infinity Energy are set to Reuters reported that •
 Lekela Power: the deal could be **buy a majority stake in African renewables firm**
 worth close to USD 1bn.
 USD 1bn **signed an agreement to build a** have **UAE and three South Korean firms** •
 (with a production **green hydrogen and ammonia production plant in the UAE**
 capacity of 200k tonnes of green ammonia). To be built in two phases in the KIZAD
 Industrial Area, the first phase will involve production of 35,000 tonnes before scaling up
 to full capacity.
Crypto.com received a provisional Virtual Asset MVP License approval from •
). This will allow the company to offer **VARA** Virtual Assets Regulatory Authority (**Dubai's**
 a range of crypto products and services.
 year-to-date. **Ajman Free Zone reported a 45% growth in its e-commerce sector** •
has achieved vaccination of 's state news agency reported that the country **UAE** •
“100% of the targeted categories”

World Bank: more work to be done for GCC economies to break away from oil

<https://www.arabnews.com/node/2093316/business-economy>

Europe's economy grapples with an acute energy shock

[-https://www.economist.com/finance-and-economics/2022/06/05/europes-economy-grapples-with-an-acute-energy-shock](https://www.economist.com/finance-and-economics/2022/06/05/europes-economy-grapples-with-an-acute-energy-shock)

Focus on Crypto regulations; digital money

<https://www.ft.com/content/f4b2fa1a-4057-4b10-9f3b-efa57e6bcbac>

[-https://www.project-syndicate.org/commentary/will-advanced-economies-ban-cryptocurrencies-by-kenneth-rogoff-2022-06](https://www.project-syndicate.org/commentary/will-advanced-economies-ban-cryptocurrencies-by-kenneth-rogoff-2022-06)

[-https://www.reuters.com/markets/us/coming-crypto-storm-central-banks-focus-digital-money-intensifies-2022-06-02/](https://www.reuters.com/markets/us/coming-crypto-storm-central-banks-focus-digital-money-intensifies-2022-06-02/)

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