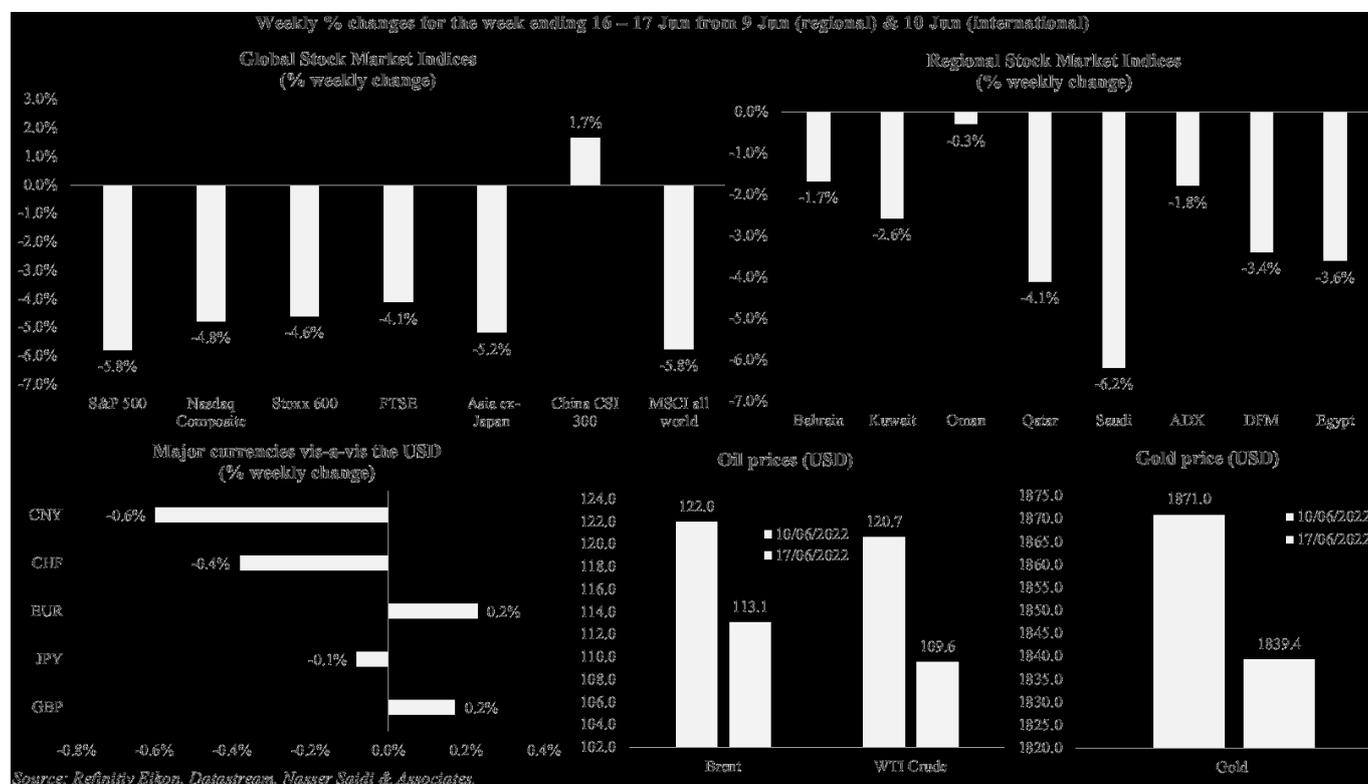


Weekly Economic Commentary – Jun 20, 2022

Markets

US stocks posted their biggest weekly decline in two years, as global equity markets tumbled on fears of recession (and lower corporate earnings) amid monetary policy tightening to rein in inflation. Chinese markets were slightly up last week, thanks to the efforts to support recovery post-lockdowns. Regional markets mirrored the global sentiment and were down as well, with Saudi posting the biggest drop; both UAE markets declined on growth concerns. Among currencies, the yen lost ground after the BoJ remained ultra-accommodative. Oil prices fell on concerns that slower growth could curtail demand; gold price also fell from a week ago.



Global Developments

US/Americas:

- US Fed hiked its benchmark interest rates by 75bps last week, its biggest hike** • Fed Chair indicated that a similar hike was possible at the next meeting, but since 1994, unlikely to be “common”. GDP forecasts for 2022 was downgraded to a 1.7% gain (Mar’s estimate: 2.8%).
- (Apr: 1.4%), the weakest industrial production inched up by 0.2% mom in May** • US gain this year, as manufacturing posted its first decline since Jan (-0.1% in May). Capacity utilisation rose marginally to 79% from 78.9% in Apr.
- (Apr: 10.9%), with wholesale Producer price index increased to 10.8% yoy in May** • gasoline prices rebounding 8.4% after Apr’s 3% decline. Excluding food, energy and trade services components, core PPI rose to 6.8% yoy.

(May: 2.6), turning **Philadelphia Fed manufacturing index declined to -3.3 in Jun** •
 negative for the first time in 2 years. New orders index slipped to -12.4 in Jun (May:
 +22.1) while producers 6-month outlook, at -6.8, sank to the lowest since Feb 2008.
 by 0.3% mom in May (Apr: 0.7%), **Retail sales in the US unexpectedly edged down** •
 the first decline this year, and raising fears of a recession. Auto sales posted the
 biggest decline (-4%) while sales at electronic stores and non-store retailers fell (by
 1.3% and 1% respectively).
 by 7% mom to 1.695mn in May, the lowest level since **Building permits in the US fell** •
 by 14.4% mom to 1.549mn, a 13-month low. **Housing starts plunged** Sep 2021.
 by 55bps to a 13 and a half year high of **30-year fixed rate mortgage ticked up**The
 5.78% last week.
 , down from an th**Initial jobless claims stood at 229k in the week ended June 10** •
 upwardly revised 232k a week ago, taking the 4-week average higher to
 by 3k to 1.312mn in the week ending Jun**Continuing jobless claims inched up** 218.5k.
 .rd3

:Europe

, rebounding from **Industrial production in the eurozone grew by 0.4% mom in Apr** •
 Mar's 1.4% mom drop, though registered a decline of 2% in year-on-year terms (the
 biggest fall since Oct 2020).
 to EUR 32.4bn in Apr, almost doubling from **Trade deficit in the eurozone widened** •
eurozone posted its first current the EUR 16.4bn reported in Mar. Separately,
 : the reading stood at a deficit of EUR 1.57bn, **account deficit in a decade in Mar**
 thanks to a small trade deficit and an outflow of secondary incomes, and following Feb's
 EUR 15.73bn surplus.
 , slowing slightly from **Wholesale price index in Germany eased to 22.9% in May** •
 Apr's record-high 23.8%, pushed up by prices of raw materials, energy and food.
ZEW survey showed an improvement in the current economic situation in The •
Economic sentiment , with the reading up 8.9 points to -27.6 in Jun.**Germany**
 , to -28 in Jun from -34.4 the month before. For the eurozone, **indicator also climbed**
 economic sentiment rose by 1.5 points to -28 while the situation indicator was up 8.6
 points to -26.4.
 (Mar: EUR 18.7bn; **German current account surplus narrowed to EUR 7.4bn in Apr** •
 Apr 2021: EUR 23bn), largely as the services account posted a deficit of EUR 0.7bn.
 ; three MPC members **Bank of England raised interest rates by 25bps to 1.25%** The •
 who called for a 50bps hike were outvoted.
 , following a 0.1% drop in Mar, led by a 0.3% **UK GDP shrank by 0.3% mom in Apr** •
 contraction in the services sector; construction also fell by 0.4%.
 , down by **consecutive month in Apr** rd**Industrial production in the UK fell for a 3** •
 0.6% mom (Mar: -0.2%), with manufacturing declining by a larger 1% (Mar: -0.2%).
 from 3.7% **Unemployment rate in the UK inched up to 3.8% in the 3 months to Apr** •
 in the 3 **Average earnings including bonus increased by 6.8%** in the previous month.
 months to Apr, but with prices rising at a much faster pace than wages living standards
 are falling.
Swiss central bank raised its policy interest rate for the first time since Sep The •
 to -0.25% from , though remaining in negative territory,, increasing its rate by 50bps**2007**
 -0.75%. This move was "aimed at preventing inflation from spreading more broadly".

The central bank also raised its inflation forecast to 2.8% this year (from 2.1% estimated in Mar).

:Asia Pacific

- , rising to **Initial signs of recovery in China: industrial production rebounded in May** •
Fixed asset investment grew by 6.2% yoy 0.7% in May following a 2.9% drop in Apr. , falling by 6.7% in May after **Retail sales improved** (Jan-Apr: 6.8%). **in Jan-May** recording a 11.1% decline the month before.
- -(Jan-Apr: 20.5%); inflows into the high-**FDI into China grew by 17.3% yoy in Jan-May** • each industries surged by 42.7% yoy.
- **Bank of Japan left interest rate unchanged, in contrast to all other major** The • and pledged to guide the 10Y government bond yield **central banks that met last week** around 0%. The BoJ also expects to keep borrowing costs at “present or lower” levels. by 1.5% mom and 4.9% yoy in Apr (Mar: 0.3%): **Industrial production in Japan fell** • this was the first mom drop since Jan.
- by 19% yoy in Apr (Mar: 7.6%). In **Machinery orders in Japan unexpectedly surged** • **business investment also grew at the** mom terms, orders were up by 10.8%, and , in spite of supply chain disruptions and a weak yen. **fastest pace in 18 months** (Apr: 12.5%) but were outpaced by **Japan’s exports grew by 15.8% yoy in May** • imports which grew by 48.9% (thanks to high commodity prices and a weakening **biggest deficit** to JPY 2384.7bn (Apr: JPY 842.8bn) - the **Trade deficit widened** yen). since Jan 2014.
- **India’s consumer price inflation eased to 7.04% yoy in May from Apr’s 8-year** • consecutive th of 7.79%, remaining above the RBI’s target range (2-6%) for the 5 **high** month. Food prices remained high (7.84%) but other sectors also reported increases including transportation and communication (9.54%) and clothing (8.53%).

Bottom line: Last week, rate hikes were announced by major developed nations’ central banks: Swiss National Bank (50bps); the Fed (75bps); Bank of England (25bps); the National Bank of Hungary (50bps). The Bank of Japan remains the only major central bank with an ultra-accommodative policy stance, citing the current cost-push inflation as temporary, even as core CPI rose 2.1% yoy in Apr (exceeding the BoJ’s target). More is important given its than the rate hikes, the unwinding of central bank balance sheets -more direct impact on market liquidity. The ECB pledged to create a “new anti fragmentation instrument” to tackle fears of a widening gap in the cost of borrowing between stable and more vulnerable nations (and a looming debt crisis). This week’s preliminary PMI readings will be ones to watch: will higher borrowing costs have affected business sentiment? Both US and Europe readings have been in the expansionary territory (50+) all this year (vs. China’s Covid struggles and sub-50 readings during lockdowns).

Regional Developments

- , changed 17 of the 22 ministers, with **cabinet reshuffle’s** King, in a **Bahrain** • appointments including 4 female ministers. Appointments included the deputy PM, ministers for oil and environment, industry and commerce as well as tourism among others.

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- already listed on the Bahrain stock **Aluminum Bahrain**, Bloomberg reported that , either by end of this **considering a second listing on Saudi Tadawul** Exchange, was year or early 2023. However, in a Bourse filing, the company stated that “takes its -disclosure obligations very seriously” and will make statements based “on well established facts and not on speculation”.
 - higher oil and wheat prices would cost an** ’s finance minister revealed that **Egypt** , putting further strain on the budget amid pressure **additional USD 7.2bn and USD 3bn** on the EGP.
 - & liquefied petroleum gas (**LNG Suez Canal extended rebates on canal tolls for The** **until end-2022.** from July **carriers**) **LPG**
 - Iran’s currency fell to a record low of 332,000 to the dollar last Sunday (12** **amid uncertainty about the nuclear deal and sanctions but recovered slightly Jun)** following a dollar injection into the market.
 - ’s oil minister stressed the country’s commitment to the OPEC+ agreement and **Iraq** **oil exports ceiling will reach 3.8mn barrels per day (bpd) in Jun and** disclosed that **3.85bpd in Jul.**
 - Iraq has begun setting up** In a bid to alleviate the electricity shortage during summer, The country also has supply **electricity interconnection stations with Saudi Arabia.** agreements with Turkey, Jordan and other GCC nations.
 - , according to the Central **Kuwait awarded 235 tenders worth USD 5.9bn last year** Agency for Public Tenders; the ministry of electricity, water and renewable energy accounted for the largest share, awarding 50 contracts worth USD 353.7mn.
 - Lebanon is gearing up to sign a “final” agreement on gas imports from Egypt on** reported Reuters, citing the former’s energy ministry. If the deal goes , **st June 21** through, it could increase the nation’s power supply to up to 10 hours a day.
 - The IMF expects Oman to grow by 4.5% this year and record a budget surplus of** , thanks to higher oil prices and the slew of fiscal reforms. It expects central **5.5%** government debt to shrink to 45% of GDP this year (2021: 63% of GDP).
 - : this would **The Oman Investment Authority revealed plans to exit 6 national assets** include listing at the Muscat Stock Exchange two assets of the state energy company OQ and a manufacturing asset. The OIA also plans full and partial exits from a “number” of Omran (Oman Tourism Development Company) hotels and resorts as well as two projects of Asyad (an integrated logistics service provider).
 - Qatar expects to handle 34-36mn passengers at the Hamad International Airport** During the World Cup (which runs mid-Nov to mid-Dec), an estimated **this year.** 3.5-4.1mn passengers will pass through in Nov and 3.4-4.7mn are expected in Dec.
 - will offer 1000 “Bedouin style” tents in** , which has fewer than 30k hotel rooms, **Qatar** , of which 200 will be luxurious. In addition, non-hotel **the desert during the World Cup** accommodation has been boosted and two cruise ships moored in Doha will also support overnight lodging.
 - , **Qatar Energy signed an agreement with Eni on the North Field East expansion** close on the footsteps of a deal with Total **Energies** announced earlier this month.
 - China’s oil firms are in discussions with Qatar about** Reuters reported that -, in addition to buying the fuel under long-**investing in the North Field East expansion** erm contracts. Qatar was China’s largest LNG supplier after Australia in Jan-May 2022.
 - report, energy** (Arab Petroleum Investments Corporation) **APICORP** According to an ; this will be **investments in the MENA region will grow by 9% to USD 879bn by 2026** led by Saudi, Iraq, Egypt and the UAE.

GCC central banks raised its benchmark interest rates, following the Fed's 75bps •
: Bahrain, Qatar and the UAE increased its key rates by 75 bps (though **rate hike**
Qatar's lending rate and UAE's rate applicable to borrowing short-term liquidity by only
50bps); Kuwait raised its discount rate by 25bps to 2.25% and Saudi raised repo and
reverse repo rates only by 50bps.



Saudi Arabia Focus

- , thanks to deceleration in **Consumer price inflation in Saudi Arabia eased in May**
miscellaneous goods, transport as well as clothing and footwear prices; transport
category has benefitted partly from the cap on petrol prices. Overall, inflation has
averaged just 1.9% this year.
- **Wholesale prices in Saudi Arabia posted a double-digit increase for the**
, up by 10.2% yoy and averaging 11.4% in 2022. **straight month in Mayth14**
with a length of **NEOM awarded two contracts for "The Line", to build two tunnels** •
28km for high-speed transportation and freight services.
- in line with WTO rules, with an **Saudi Arabia will increase levies on 99 commodities,**
aim to promote domestic industries and products. The increase of rates on 575
commodities two years ago resulted in an increase in investments in related factories
(by 2% to SAR 374bn).
- **Saudi Aramco is planning to merge its two energy trading units ahead of a**
Motiva Trading will be absorbed by Aramco Trading Co to allow for **potential IPO:**
simplified financial reporting.
- **deal with DP World to create a new smart Ports Authority signed a SAR 500mn Saudi**
When completed, the park will be able to handle 250,000 **logistics park in Jeddah.**
TEUs containers with a warehouse area of over 100,000 square meters.
- -: a joint-**The tourism sector in Saudi Arabia has been given a SAR 300mn boost**
inancing program by the state-owned tourism fund and Arab National Bank will support
SMEs with financing, with initial approval coming within 48 hours of submitting the
application. The loans need to be repaid within a period of up to 5 years.
- **NEOM subsidiary ENOWA signed an agreement to develop a desalination plant in**
powered by 100% renewable energy: when completed in 2025, the plant is **OXAGON,**
expected to have a production capacity of 500k cubic meters of desalinated water per
day (~30% of total water demand in NEOM).
- including the mask **Saudi Arabia has lifted all Covid19 related protective measures**
mandate; the latter however still stands in the Grand Mosque and the Prophet's
Mosque.



UAE Focus

UAE's federal government will increase spending by AED 1.23bn in the 2022 •
, revealed the Federal National Council; amount will come from the federal **budget**
government's general reserves. Revenues are estimated to rise by AED 374.98mn.

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- **UAE's President pledged an additional USD 50bn investment to scale up climate action across the globe.**
 - , according to the FCSA. Prices **Inflation in the UAE increased to 3.35% yoy in Q1** rose across transportation (22%), restaurants and hotels (6.87%), food and soft drinks (5.4%) and tobacco (4.07%) among others.
 - with a target value of AED 1.5bn **second auction of UAE's federal treasury bonds** The (USD 408mn) will be held today (June 20).
 - **Abu Dhabi Securities Exchange expects to exceed the number of** This year the . The exchange **has a "good pipeline" of IPOs** and disclosed that it **listings in 2021** plans to add more single-stock futures on its derivatives market, introduce 3-5 futures and launch a tradeable version of the FTSE FADX 15 Index.
 - **implement its pension plan for expatriates in Dubai** Dubai government will **government entities starting July 1st.**
 - by 28% **Export and re-exports of Dubai Chamber of Commerce members increased** to AED 23bn (USD 6.26bn) in May: this was the highest reported value since Aug 2018. In Jan-May, this grew by 16% to AED 104.3bn.
 - **Bilateral non-oil trade between UAE and Germany exceeded AED 478bn between** . Last year, bilateral trade grew by 12% yoy to AED 35.3bn. **2012-2021**
 - **UAE announced a four-month suspension in exports and re-exports of wheat and** however, exports of wheat from India for domestic **wheat flour originating from India;** consumption has been approved.
 - , a Shariah compliant crypto assets trading **Bahrain-based Coinmena** to operate in Dubai. **received a provisional virtual assets license** platform,
 - **: Electric vehicle company NWTN plans to set up a manufacturing base in Kizad** the first phase, to be completed in Q4 2022, will have 24000 square meters of manufacturing, testing, inventory and storage space with an annual capacity of 5000 to 10000 units.

Media Review

People's inflation expectations are rising

[-https://www.economist.com/finance-and-economics/2022/06/19/peoples-inflation-expectations-are-rising-and-will-be-hard-to-bring-down](https://www.economist.com/finance-and-economics/2022/06/19/peoples-inflation-expectations-are-rising-and-will-be-hard-to-bring-down)

Central banks and markets share a secular awakening

<https://www.ft.com/content/77665e8d-e3bb-4fc7-8547-b368c8b90f47>

Iran, Russia cargo to India via a new trade corridor

[-https://www.business-standard.com/article/economy-policy/iran-starts-transfer-of-russian-goods-to-india-by-using-new-trade-corridor-122061200652_1.html](https://www.business-standard.com/article/economy-policy/iran-starts-transfer-of-russian-goods-to-india-by-using-new-trade-corridor-122061200652_1.html)

'There's So Much Fear': Crypto Winter Descends on Traders

[-https://www.bloomberg.com/news/articles/2022-06-17/crypto-winter-is-here-there-s-so-much-fear-as-bitcoin-plunges](https://www.bloomberg.com/news/articles/2022-06-17/crypto-winter-is-here-there-s-so-much-fear-as-bitcoin-plunges)

How Crypto and CBDCs Can Use Less Energy Than Existing Payment Systems

[-https://blogs.imf.org/2022/06/16/how-crypto-and-cbdcs-can-use-less-energy-than-existing-payment-systems/](https://blogs.imf.org/2022/06/16/how-crypto-and-cbdcs-can-use-less-energy-than-existing-payment-systems/)

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