

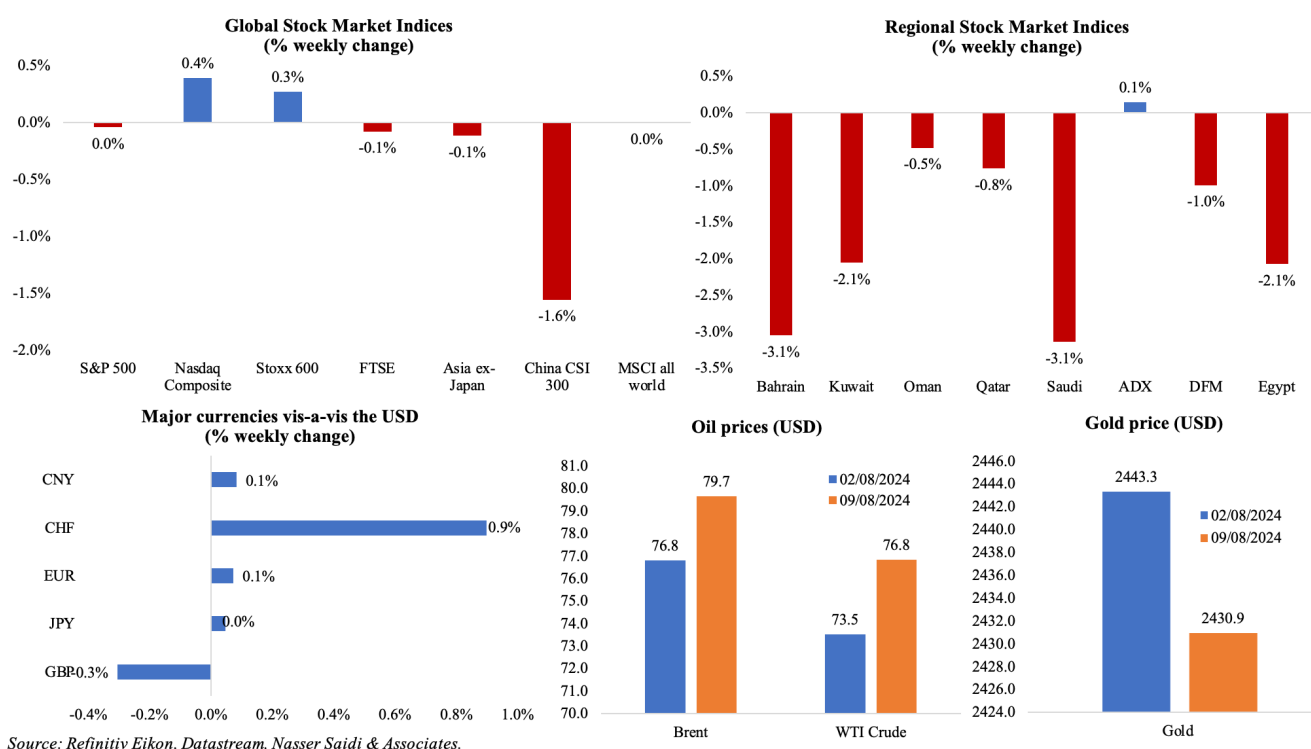
Weekly Economic Commentary – Aug 12, 2024

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Markets

Global markets had a Monday scare in the start of last week, with markets in selloff mode on worries about US potential recession prospects (given the below expected jobs report the previous week) and amid investors' unwinding of JPY carry trade positions following the BOJ's unanticipated rate increase. On Monday, Topix fell 12% in a single trading session (but rebounded with its biggest 1-day gain since 2008 on Tuesday), Nikkei 225 posted its biggest fall in more than 3 decades and VIX saw its biggest one-day rise (170%+) to 65.73. During the week, equities markets posted small gains and MSCI's global stocks index was almost unchanged for the week. Among regional markets, all ended in the red with only the Abu Dhabi equity index managing to eke out a weekly gain (as poor earnings dragged down Dubai), while Saudi posted a drop of over 3%. Oil prices closed higher (+3% weekly) on fears of a wider Middle East conflict, while gold prices declined to end the week around USD 2,430 an ounce.

Weekly % changes for the week ending 8-9 Aug from 1 Aug (regional) & 2 Aug (international)



Global Developments

US/Americas:

- **Goods trade deficit in the US widened marginally to USD 97.4bn in Jun:** exports of goods increased by USD 4.4bn to USD 174.2bn (supported by surges in civilian aircraft and industrial supplies sectors) and goods deficit with China slipped by USD 1.6bn to USD 22.3bn. The wider goods and services trade deficit narrowed to USD 73.1bn (May: USD 75bn), with exports rising by 1.5% mom to USD 265.9bn.
- **ISM Services PMI moved into expansionary territory in Jul,** clocking in at 51.4 (vs Jun's 48.8), thanks to increases in new orders (52.4 from 47.3) and employment (51.1 from 46.1) while prices paid inched up to 57 (from 56.3).
- **S&P Global composite PMI in the US slipped to 54.3 in Jul** (Jun: 54.8; preliminary estimate 55) as export orders declined slightly and input costs rose to a 4-month high. The services sector continues to support overall performance alongside a drop in manufacturing

orders.

- **Initial jobless claims declined by 17k** (the largest drop in almost 11 months) **to 233k in the week ended Aug 2**, taking the 4-week average up by 1.5k to 240.75k. **Continuing jobless claims ticked up** by 6k to 1.875mn in the week ended Jul 26, the highest since end-Nov 2021. The jobs market, so far, does not support a recession reading.

Europe:

- **Composite PMI in the eurozone inched up to 50.2 in Jul** (Jun: 50.9), the weakest reading since Mar, with services PMI standing at 51.9 (Jun: 52.8). Demand continued to decline while business confidence hit a six-month low.
- **Producer price index in the eurozone remained deflationary for the 14th straight month in Jun**, down by 3.2% yoy (May: -4.1%). Prices of energy fell by 9.4% yoy while intermediate goods prices slipped by 2.2%.
- **Retail sales in the eurozone dropped by 0.3% mom in Jun** (May: 0.1% mom), with sales of foods, drink & tobacco as well as non-food products declined by 0.7% and 0.1% respectively. In yoy terms as well, sales declined by 0.3%.
- **Sentix investor confidence in the EU unexpectedly plunged to a 7-month low of -13.9 in Aug** (Jul: -7.3). Assessment of current situation slid to the lowest since Feb 2023 (-19, from Jul's -15.8) while expectations fell to -8.8 (Jun: +1.5).
- **Germany's composite PMI remained contractionary in Jul**, clocking in at 49.1 – lower than the prelim reading of 48.7 and Jun's 50.4. Composite PMI was supported by services PMI (which slipped to 52.5 vs Jun's 53.1) alongside a struggling manufacturing sector (43.2 from Jun's 43.5).
- **Factory orders in Germany rebounded in Jun**, up 3.9% mom

- (May: -1.7%)- the first uptick since Dec 2023, supported by domestic orders (9.1%). Orders largely originated for aircraft, ships and trains (+11.7%) and automotives (9.3%) while capital goods orders surged by 9.2%
- **Exports from Germany fell by 3.4% mom** alongside a minor 0.3% gain in imports: this led to trade surplus narrowing to EUR 20.4bn in Jun. Most German exports went to the US in June (EUR 12.9bn) while the most imports came from China (EUR 12.3bn). In H1 2024, the US overtook China as the biggest trading partner.
 - **German industrial production shrank by 4.1% yoy in Jun** (May: -7.2%). In mom terms, IP rebounded, rising by 1.4% versus the previous month's 3.1% decline, owing to the growth in the automotive industry (7.5% mom following a 9.9% drop in May). Meanwhile, production in energy-intensive industries increased by 1.4% mom and 3.8% yoy.
 - **Composite PMI in the UK increased to 52.8 in Jul** (Jun: 52.3), driven by strong output growth, exports and job creation (a 13-month high) alongside the strongest demand since Apr 2023. **Services PMI was up to 52.5** (Jun: 52.1), with demand rising at the fastest pace since May 2023 and business confidence rebounding to a 5-month high.
 - **BRC like-for-like retail sales in the UK rebounded in Jul**, up by 0.3% yoy compared to Jun's 0.5% dip. While purchases of clothing and beauty products picked up in Jul during the summertime, in the 3 months to Jul sales of non-food items declined by 1.7%.

Asia Pacific:

- **Inflation in China increased to 0.5% yoy in Jul** (Jun: 0.2%), led by food inflation (unchanged in Jul after 12 months of declines) while non-food inflation moderated (0.7% from Jun's 0.8% gain). Furthermore, core inflation rose by 0.4% yoy (Jun: 0.6%). **Producer price index fell for the 22nd consecutive month in Jul**, down by 0.8% yoy,

the same as in Jun.

- **Exports from China grew by 7% yoy**, slower than Jun's 8.6% expansion, while imports were up 7.2%. This narrowed the trade surplus to USD 84.65bn in Jul from close to USD 100bn a month before. China's imports from the US surged by 24% yoy in Jul while imports from ASEAN and EU up by 11% and 7% respectively.
- **China's services PMI rose to 52.1 in Jul** (Jun: 51.2), given an increase in new orders, exports sales and employment (which grew to the fastest in a year). However, **business confidence reported the second-lowest reading since Mar 2020**.
- **Japan's services PMI moved to 53.7 in Jul** (Jun: 49.4), supported by rebounds in total activity and new orders; furthermore, employment growth accelerated while foreign orders contracted the most since Jun 2022.
- **Labour cash earnings in Japan expanded by 4.5% yoy in Jun** (May: 2%) – the highest uptick since Jan 1997. More importantly, inflation adjusted real wages increased by 1.1% yoy, rising for the first time since Mar 2022. The uptick can be traced back to the hike in bonuses.
- **Japan's overall household spending fell by 1.4% yoy in Jun** (May: -1.8%), declining by the fifth time this year. Spending plunged in housing (-23.6%), fuel, light & water charges (-7.3%) and culture & recreation (-1%) among others while spending on food grew for the first time in three months (1.5% from -3.1%).
- **Current account surplus in Japan narrowed** to JPY 1533.5bn in Jun (May: JPY 2849.9bn), but took the total surplus to JPY 12.68trn in H1 2024 thanks to the weak yen (was 13% lower than the dollar and euro) and narrowing trade deficit numbers.
- **The preliminary leading economic index in Japan slipped to 108.6 in Jun** (May: 111.2), the lowest reading since Apr 2023; it also recorded the first decline in services activity since Aug 2022. The coincident index also eased to 113.7, down 3.4 points to 113.7.

- **The Reserve Bank of India left both the repo and reverse repo rates unchanged at 6.5% and 3.35% respectively, delivering a hawkish pause citing moderating core inflation while food prices remained high.**
- **India's composite PMI eased to 60.7 in Jul (Jun: 60.9 and flash estimate of 61.4), with manufacturing sector supporting the high reading. Charged inflation rose to an eleven and a half year high while job creation was robust.**
- **Retail sales in Singapore decreased by 3.7% mom and 0.6% yoy in Jun; online sales accounted for 12.1% of the total. Sales of optical goods and books fell the most (-12.5% yoy and 6.4% mom), followed by wearing apparel & footwear (-10.1% yoy and 3.7% mom) while excluding motor vehicles, sales fell by 3.1% yoy and 2.9% mom.**

Bottom line: Markets are bracing themselves for a potential recession in the US amid multiple uncertainties including a wider war in the Middle East, the US elections and the resulting shape of economic policies. This week's inflation reading will be critical to estimate the Fed's next move: as of now, markets expect the Fed cutting interest rates by 50bps in Sep than 25bps. Inflation will also be on the radar in the UK (focus on services inflation, which had previously convinced some MPC members to keep rates higher for longer) and India (where food inflation has been persistent).

Regional Developments

- **Bahrain's real GDP expanded by 3.3% yoy in Q1 2024 (Q4: 4.3%), supported by strong growth paces in both oil (3.4%) and non-oil (3.3%) sectors; public administration slipped by 0.3%. Non-oil sector grew by 3.3% in Q1 (Q4: 4.3%), with accommodation & food services recording the highest gains during the quarter (10.7%), followed by financial & insurance activities (7.4%) and business activities (6.8%). Financial & insurance activities was the largest contributor to GDP in Q1 (16.7%), with oil**

sector the 3rd largest (14.1%).

- **Egypt stayed in contractionary territory for the 44th consecutive month, with PMI clocking in at 49.7 in Jul** (Jun: 49.9) despite an uptick in new export orders and a rebound in e Weakening sales and rising press pressures had an impact on businesses.
- **Inflation in Egypt eased to 25.7% in Jul** (Jun: 27.5%) alongside an easing in core inflation (to 24.4% from Jun's 26.6%). Food prices were up 28.5% yoy though in mom terms, prices edged down by 0.3%. On July 25th, the price of fuel was raised by up to 15%, and this is likely to reflect in the months to come. Separately, according to the PM, Egypt aims to reduce inflation to under 10% by end-2025 or early 2026.
- **Egypt's new finance minister disclosed that the country aims to lower its tax to GDP ratio to below 85% by end-Jun 2026** and issue new debt in EGP. Separately, **primary budget surplus in Egypt stood at 6.1% in the fiscal year 2023-24**; expenditure during the year amounted to EGP 3.016trn, leading to a budget deficit of 3.6%.
- **Trade deficit in Egypt narrowed by 10.3% to USD 3.57bn** in May, as exports grew by 0.4% (to USD 3.81bn) while imports fell by 5.1% (to USD 7.38bn).
- **Egypt's current account deficit widened to USD 17.1bn in the Jul 2023-Mar 2024** compared to USD 5.3bn in the same period a year ago. According to the central bank, oil-trade balance posted to a deficit of USD 5.1bn during the period from a surplus of USD 1.7bn a year ago, as the decline in oil exports outpaced that of oil imports.
- **Remittances into Egypt grew by 63% yoy to USD 7.5bn in Q2 2024**, as per the central bank.
- **Kuwait's PMI fell by 0.1 points to 51.5 in Jul**, as new orders and output remained robust and growth in new export orders quickened to the strongest on record.
- **Lebanon's July PMI, at 48.3, was the highest reading since Apr**: this was recorded despite its economic, political and potential security challenges, thanks to a

summer recovery (tourist and expat arrivals, resulting in a surge in demand). Businesses expect further contraction over the next 12 months while employment posted the largest drop in 18 months.

- The minister overseeing contingency planning for a wider conflict revealed that **Lebanon would need USD 100mn monthly for aid in case of a full-scale war with Israel.**
- **Bilateral trade between Oman and China accelerated by 8% yoy to more than USD 15bn** while Chinese investment in Oman stands at over USD 6.6bn (76% of it is in the energy & petrochemicals sector), reported Al Roya newspaper.
- **Qatar's PMI, at 51.3 in Jul, fell from Jun's 23-month high** of 55.9 but growth in output and new orders remained strong. Employment slowed in Qatar, mainly in construction sector. Both the Financial Services Business Activity and New Business Indexes were higher than the overall index, at 56.2 and 57.2 respectively.
- **Banking assets in Qatar increased** by 1.2% mom to QAR 1.99trn in Jun; separately, bank loans increased by 0.4% mom to QAR 1.32trn. With deposits declining slightly to QAR 1.03trn (due to a 2.4% drop in public-sector deposits), loans to deposits ratio moved up to 128.4%. Foreign reserves expanded by 3.89% to QAR 250.98bn in Jul while gold reserves stood at QAR 17.61bn (declined by nearly QAR 457mn).
- **Visitors into Qatar picked up by 28% yoy to 2.6mn international tourists in H1 2024**, according to Qatar Tourism, with GCC visitors accounting for 43% of the total. The highest monthly total was recorded in Jan (703k visitors) when the AFC Asian Cup was held.
- **The total value of tenders and auctions in Qatar's government agencies surged to QAR 5.5bn in Q2 2024:** of these tenders worth QAR 1bn was awarded to foreign firms.
- **Saudi Arabia and the UAE have committed to, along with China, to rollover debt for Pakistan.** The rollover

amount would be the same as last year, reported Bloomberg. The IMF's Executive Board is expected to meet end-Aug to approve the USD 7bn Extended Fund Facility for Pakistan.

Saudi Arabia Focus



- **Non-oil sector PMI in Saudi Arabia edged lower to 54.4 in Jul (Jun: 55), clocking in the lowest level since Jan 2022.** Output eased to a six-month low amid new orders growing the least since Jan 2022 while selling prices in Saudi declined at the fastest pace since the survey began in 2009.
- **Saudi Arabia has updated its investment law,** by integrating existing investor rights and freedoms into a unified framework, in a bid to attract more international investors. In addition, the law also provides access to advanced dispute resolution mechanisms via the Saudi Arbitration Center and other affiliated entities.
- **The number of investment licenses issued by Saudi Arabia increased** by 49.6% yoy to 2728 in Q2 2024. MISA's monthly report highlights that FDI inflows grew by 0.6% yoy in Q1 alongside a 6.1% rise in FDI stock.
- **Industrial production in Saudi Arabia fell by 4% yoy and 1.6% mom in Jun,** largely due to an 11.3% yoy (and 1.8% mom) plunge in Saudi mining and quarrying activities. Non-oil sector manufacturing grew by 8.6% yoy in Jun.
- **Aramco reported a net income of USD 29.1bn in Q2 2024,** up 6.59% qoq. **In H1 2024, net profits fell by 9% yoy to USD 56bn due** to lower sales volumes. Despite the drop in profits, the company announced a dividend of USD 31.1bn in Q2 (including USD 10.8bn in performance-linked payouts). These dividends will add to the government's revenues as it still owns almost 81.5% of Aramco directly.
- **Remittances from Saudi Arabia grew by 11.32% yoy to USD**

3.2bn in Jun, according to SAMA.

- **Visitors from GCC into Saudi Arabia touched 9mn last year:** Bahrain was the top GCC source market (3.4mn) followed by Kuwait (2.3mn), UAE (1.4mn), Qatar (1.1mn) and Oman (455k). Total spending by GCC visitors was upwards of SAR 15bn. In comparison, 27mn international visitors spent SAR 141bn in 2023.
- The number of **Saudi citizens joining the private sector for the first time doubled in Jul** to more than 34,600 citizens versus Jun's total of 16,500. Total employees in the private sector stood at 11.473mn, with number of Saudi citizens at more than 2.342mn.
- A report titled "The State of Aviation" revealed that **Saudi aviation sector contributed USD 53bn to the economy, or 5.2% of gross value added (GVA) and 10% of non-oil GVA;** it also supported 958k jobs (both direct and indirect).
- **Net profits of the Saudi Arabian Mining Company (Maaden) doubled** by approximately 192% yoy to **SAR 1bn in Q2 2024.** Sales during the period grew by 3% yoy to SAR 7.1bn.
- **Saudi Arabia opened the bidding for seven new mining exploration licenses,** covering an area of around 1,000 square km: these sites have large deposits of gold, silver, lead and zinc.

UAE Focus



- **UAE's PMI eased to 53.7 in Jul (Jun: 54.6), the lowest since Sep 2021 and below its long-run trend (54.4).** Input cost inflation in the UAE accelerated to a two-year high (thanks to higher material prices) while job creation slowed to a 6-month low. **Dubai PMI slipped to 52.9 (Jun: 54.3),** the lowest in two-and-a-half years, on lower orders.
- **UAE's gross bank assets edged down by 0.2% mom in May 2024, posting a drop after 26 consecutive months of increases.** In yoy terms, it grew by 10.8% yoy to AED

4.287trn. The central bank's **total assets grew by 1.5% to a new record-high** AED 801.91bn in May. The apex bank also increased its gold reserves: up 19.7% to AED 20.6bn by end-May.

- **Bank deposits in the UAE grew by 11.3% yoy in May, thanks to a strong 14.2% rise in resident deposits; non-resident deposits fell by 14.5% yoy, but its share was just 7.6% of overall deposits.** Private sector deposits account for 65.6% of total deposits and 71.1% of total resident deposits as of May 2024. This includes both corporates and individuals' deposits.
- **Gross credit in the UAE grew by 0.7% mom and 7.8% yoy to AED 2.07trn in May. This was driven by growth in domestic credit (7% mom and 5.4% yoy to AED 1.801trn in May) and foreign credit (0.9% mom and 26.6% yoy to AED 276.6bn).** Credit to the business and industrial sectors ticked up by 3.18% yoy to AED 851.87bn.
- **Dubai International Airport reported an 8% yoy rise in passengers to 44.9mn in H1 2024.** Traffic from China crossed 1mn passengers, up 80% yoy and 90% compared to 2019 levels. India was the top nation by passenger numbers (6mn), followed by Saudi Arabia (3.7mn), UK (2.9mn) and Pakistan (2.3mn). Further to this, **Dubai Airports revised its annual passenger forecast for 2024 upwards to a record 91.8mn passengers** from its previous forecast of 91mn (made in May this year).
- **UAE suspended operations at 32 gold refineries temporarily** – these refineries accounted for 5% of the gold sector in the county and were found to be breaching AML regulations.

Media Review:

Trump redux could bring in the law of unintended consequences

<https://www.agbi.com/opinion/economy/2024/08/trump-redux-could-bring-in-the-law-of-unintended-consequences/>

America's Climate Election

<https://www.project-syndicate.org/commentary/america-climate-election-difficult-choices-for-harris-by-barry-eichengreen-2024-08>

Is the Middle East heading for all-out war? Via FT Podcast

<https://www.ft.com/content/416b8bf2-bffb-48be-9e6a-02fbe9b88fb7>

The stockmarket rout may not be over

<https://www.economist.com/finance-and-economics/2024/08/06/the-stockmarket-rout-may-not-be-over>

Global oil demand needs to rise faster to absorb OPEC+ hike

<https://www.reuters.com/business/energy/global-oil-demand-needs-rise-faster-absorb-opec-hike-2024-08-09/>

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