

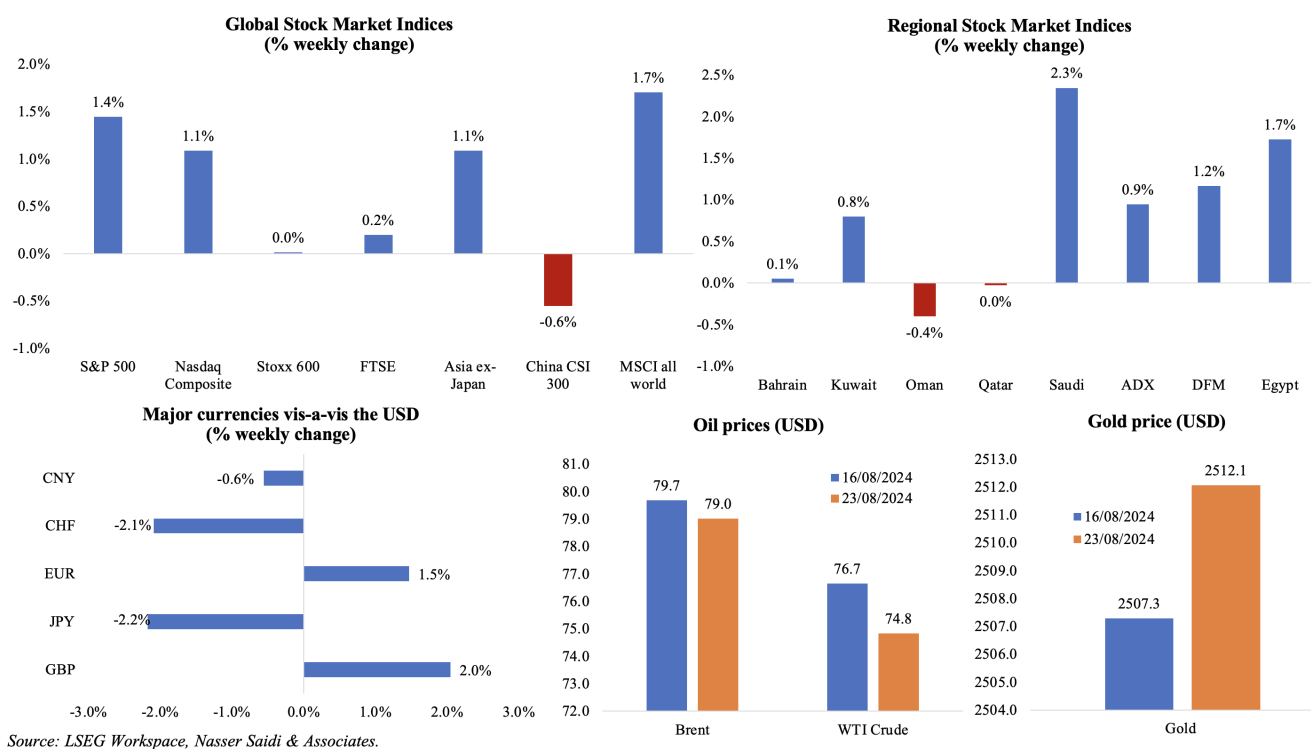
Weekly Economic Commentary – Aug 26, 2024

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Markets

Equities markets were once again upbeat, ending on a high note towards the end of last week after Fed Chair Powell indicated that interest rate cuts are on the horizon: S&P 500 was close to an all-time high alongside gains in Asia ex-Japan and the MSCI all world index. Regional markets mostly posted gains, supported by expectations of a Fed cut (with similar cuts in GCC markets given the dollar peg) though Qatar and Oman markets ended lower on losses in financial & real estate sectors. The dollar index weakened last week on lower rates outlook, enabling GBP to rise to its highest in more than 2 years (thanks also to positive data such as the UK PMI), and the EUR to touch a 13-month high. Oil prices ended lower compared to a week ago (though it climbed over 2% on Fri after Powell's comments) while gold price jumped to a new record-high (given geopolitical turmoil, upcoming US elections and strong demand from central banks).

Weekly % changes for the week ending 22-23 Aug from 15 Aug (regional) & 16 Aug (international)



Global Developments

US/Americas:

- **FOMC minutes** showed that “the vast majority” signalled a **potential interest rate cut in Sep**, “if the data continued to come in about as expected”. Further, during the Jackson Hole symposium, Powell indicated that rate cuts were on the horizon given a cooling labour market and inflation closing in on the central bank’s 2% annual target, a potential soft landing.
- **S&P Global US manufacturing PMI eased further to 48 in Aug** (Jul: 49.6). Services PMI rose by 0.2 points to 55.2.
- **Kansas Fed manufacturing activity rebounded to 6 in Aug** (Jul: -12), the highest in a year, with volume of new orders staying negative (-12) alongside a steady reading for capital expenditures. **Chicago Fed national activity index plunged to -0.34 in Jul** (Jun: -0.09), dragged down to production-related indicators (contribution of -0.28 from Jun’s -0.02).
- **Existing home sales in the US unexpectedly grew by 1.3%**

mom to 3.95mn in Jul; existing home price grew by 4.2% yoy to USD 422,600. New home sales surged by 10.6% mom to 739k in Jul, the highest since May 2023, thanks to the jump in single-family homes. The 30-year fixed rate mortgage slipped to 6.46%, almost a 15-month low, leading to higher demand.

- **Initial jobless claims increased by 4k to 232k in the week ended Aug 16**, taking the 4-week average down by 750 to 236k. **Continuing jobless claims rose by 4k to 1.863mn** in the week ended Aug 9.

Europe:

- **Current account surplus in the euro area widened to EUR 51bn in Jun** (May: EUR 38bn), thanks to surpluses across goods (EUR 39bn), primary income (EUR 14bn) and services (EUR 12bn) while recording a deficit for secondary income (EUR 14bn).
- **Eurozone's preliminary manufacturing PMI slipped to an 8-month low of 45.6 in Aug** (Jul: 45.8), with new orders declining the most since last year, employment falling and input cost inflation at an 18-month high. **Services PMI ticked up** (53.3 from 51.9), supported partly by the Olympics held in France, and composite PMI moved up by 1 point to 51.2 (the 6th consecutive expansion this year).
- **Consumer confidence in the eurozone slipped further to -13.4 in Aug** (Jul: -13). Sentiment in the EU slipped by 0.1 point to -12.3.
- **Flash manufacturing PMI in Germany fell to 42.1 in Aug** (Jul: 43.2), remaining under-50 since Jul 2022. Though **services PMI also declined** (51.4 from 52.5), it was supported by an increase in consumption driven by higher wages. Composite PMI slipped to 48.5 (Jul: 49.1).
- **German producer price index fell by 0.8% yoy in Jul** (Jun: -1.6%), recording deflation for the 13th month in a row, as energy prices fell (-4.1%) while prices of durable consumer goods ticked up by 0.7%. Prices inched

up by 0.2% month-on-month following a similar gain in Jun.

- **UK's manufacturing and services PMI inched up** by 0.4 and 0.8 points to 52.5 and 53.3 respectively **in Aug.** UK's increase in manufacturing stands in contrast to Eurozone members and was sustained by new orders (and despite lower demand from abroad) and a fall in input cost inflation (to the lowest in nearly 4 years). Composite PMI stood at 53.4 in Aug (Jul: 52.8).
- **GfK consumer confidence in the UK remained unchanged at -13 in Aug** – this is the highest level since Sep 2021. While the index on personal finances improved, overall sentiment on the economy stayed negative.

Asia Pacific:

- **FDI into China declined by 29.6% yoy in Jan-Jul** (H1 2024: -29.1%), despite an 11.4% increase in new foreign firms established in the country to 31,654 this year. Separately, at an executive meeting of the State Council, **China decided to open its telecom, education and healthcare sectors to foreign investors** in addition to abolishing entry barriers in the manufacturing sector.
- The People's Bank of China (PBoC) **left** the one-year and five-year **Loan Prime Rates unchanged** at 3.35% and 3.85% respectively.
- **Inflation in Japan** remained unchanged at 2.8% yoy in Jul. **Excluding food and energy, prices eased to 1.9%** (Jun: 2.2%) – falling below the 2% mark for the first time since Sep 2022. Excluding fresh food, prices ticked up to 2.7% (Jun: 2.6%).
- **Flash manufacturing PMI in Japan inched up to 49.5 in Aug** (Jul: 49.1) even though orders (domestic and foreign) declined, and input prices rose at the fastest pace since Apr 2023. **Services PMI moved to 54 from 53.7 the month before**, expanding for the seventh month this

year, though 12-month ahead outlook was dragged down by labour constraints (& costs).

- **Exports from Japan grew for the eighth month in a row**, up by 10.3% yoy in Jul, though volumes were down by 5.2% yoy. Imports increased at a faster pace (+16.6% to a 19-month high), moving **trade balance into a deficit of JPY 621.8bn** (the fifth deficit reading so far this year). **Exports to China grew by 7.2% yoy in Jul** (thanks to strong demand for chip-making equipment) while exports to the US was up 7.3%.
- **Bank of Korea left interest rates unchanged** at 3.5% **for the 13th meeting in a row** in a bid to rein in persistent inflation. The apex bank lowered its growth and inflation forecasts this year to 2.4% (from an estimated 2.5% in May) and 2.5% (from 2.6%) respectively. The BoK also **signalled a potential move to easing** in the coming months.
- **Preliminary manufacturing PMI in India eased to 57.9 in Aug** (Jul: 58.1), thanks to growth in new orders and export orders while output price inflation reached an 11-year high. Meanwhile, **services PMI ticked up** (60.4 from 60.3), expanding for the 37th month in a row.
- Inflation in **Singapore** stayed unchanged at 2.4% in Jul while **core inflation clocked in at 2.5%** (Jun: 2.9%), **the lowest since Feb 2022**. Services inflation slipped to 2.9% in Jul (Jun: 3.4%) while accommodation and food costs edged down to 3.1% and 2.7% respectively (from 3.3% and 2.8%).

Bottom line: Flash PMI data continued the story of a stronger services sector alongside weaker manufacturing activity. The Summer Olympics seems to have given a temporary boost to France's services sector in Aug, while the UK readings were generally upbeat with data also showing a sharp moderation in inflationary pressures in the services sector (an area the Bank of England was focusing on). Asian manufacturing PMI were more promising with Japan's at a 15-month high & India's above

the long-run historical average (54). Separately, central banks were on focus last week: Powell saying that “time has come” for rate cuts have markets pricing in a rate cut as early as the Sep meeting. The ECB sounded more cautious in its approach (the Chief Economist stated that the goal of inflation at 2% is “not yet secure”) while the BoE stated it was “cautiously optimistic” about inflation but also that it was “too early to declare victory”.

Regional Developments

- **Non-oil exports of Bahrain origin grew by 4% yoy to BHD 337mn in Jul**, with the top destinations Saudi Arabia, US and UAE. Non-oil re-exports increased by 22% to reach BHD 61mn while non-oil imports rose to 5% to BHD 464mn (China, Australia and Brazil were the top source nations). Deficit narrowed to BHD 66mn in Jul from BHD 68mn a year ago.
- **External debt service in Egypt rose to USD 23.8bn in the 9-month period Jul 2023-Mar 2024** versus USD 17.8bn during the same period a year ago. Total external debt touched USD 160.6bn at end-Mar 2024 (down by USD 1.4bn vs end-Jun 2023).
- **Egypt raised household electricity prices by between 14.5% to 50%** – this is applicable to prepaid meters (from Aug 17th) and to regular meters (from Oct 1st).
- **Total exports from Egypt grew to USD 24.097bn in Jan-Jul 2024**, according to the Chairperson of the General Organization for Export and Import Control. Arab countries, EU and the US were the top destinations for Egypt’s exports.
- **Credit facilities for productive sectors initiative in Egypt increased to EGP 67.48bn until Jun 2024**: with 96% of total facilities directed towards capital financing, 78% of funding went towards the industrial sector.
- **Egypt and the EU signed a EUR 8mn agreement to support the industrial sector in Egypt** via improving its

capacity and efficiency alongside increasing SME participation in selected value chains.

- **Financial inclusion in Egypt increased to 71.5% of citizens aged 16+ as of Jun 2024** from 70.7% at end-2023. About 48.1mn persons were financially included as of 2024, from just 17.1mn in 2016. Around 20.8mn women were financially included, up 252% from 2016.
- **Iraq and Kazakhstan plan to counter their overproduction of crude by Sep 2025.** In Jan-Jul, cumulative overproduction was 1.4mn barrels per day (bpd) and 699k bpd in Iran and Kazakhstan respectively.
- **Inflation in Kuwait inched up to 3% yoy in Jul** (Jun: 2.84%, the lowest since Nov 2020), as prices inched up in food & beverages (5.89% from Jun's 5.6%), clothing & footwear (5.63% from 5.58%) and recreation & culture (2.35% from 2.04%) among others.
- **Kuwait Finance House sold its stake in Sharjah Islamic Bank for AED 1.3bn** (USD 351mn) in an off-market sale, according to a filing on Borsa Kuwait.
- **Lebanon's acting central bank governor disclosed that the apex bank is working to prevent being placed on the FATF grey list.** It had received low scores on its anti-money laundering measures and transparency on beneficial ownership of firms among others.
- **Oman's budget surplus narrowed to OMR 391mn as of end-Jun, almost half the surplus in H1 2023,** as revenues fell by 2.3% yoy alongside a 2.1% uptick in spending. **Public revenues fell by 2.3% yoy to OMR 6.197bn** as of Jun 2024: net oil revenues inched up by 3.2% to OMR 3.4bn while **net gas revenues plunged** by 15.4% to OMR 943mn. **Net oil and gas accounted for 69.5% of revenues.** Repayment of **public debt** led to its **decline to OMR 14.4bn as of end-Q2** (vs OMR 15.3bn in 2023 and OMR 20.8 in 2021).
- **Trade surplus in Oman widened to OMR 2.989bn in Jan-May 2024,** from OMR 2.986bn a year ago, as exports grew by 5% (to OMR 9.689bn) alongside a 7% uptick in imports (to

OMR 6.7bn). During the period, non-oil exports grew by 11.2% (to OMR 3.045bn) while non-oil re-exports were up by 8.1% (to OMR 707mn); **UAE was the largest market for Oman's non-oil exports and re-exports.**

- **Oman's oil exports inched up by 0.05% yoy to 179.36mn barrels per day (bpd) in Jul**, while the average oil price dropped to USD 83.9 per barrel (down by 4.1% from Jun's USD 89.3 a barrel). China, Japan and South Korea were the top destinations of Omani oil – at 17.17mn bpd, 3.4mn and 2.5mn respectively.
- **The Oman Investment Fund**, in its Annual Report, disclosed that its **assets grew by 12% yoy to OMR 19.2bn in 2023** (2022: OMR 17.2bn) and that its profits crossed OMR 1.7bn. The fund also repaid OMR 300mn of debt owed by its companies.
- **The Qatar Financial Centre saw 505 new firms registered on its platform in H1 2024**, up 230% yoy, with tech sector accounting for the largest share of businesses (38%).
- **Qatar's Ministry of Commerce and Industry lowered its licensing fees for home businesses to QAR 300** (from QAR 1500), also simplifying procedures to support entrepreneurship and local investments.
- **Qatar Airways acquired a 25% stake in South Africa-based regional airline Airlink**: though financial details were not disclosed, the move would require regulatory approval. This move will allow Qatar Airways access to passengers in regional cities in Africa.

Saudi Arabia Focus



- **Saudi Arabia's exports declined** by 16.4% month-on-month and 5.8% yoy to SAR 87.9bn **in Jun, the lowest since Jun 2021**. Oil exports fell by 12.6% mom and 9.3% yoy to SAR 66.3bn – lowest since Aug 2021. Oil exports accounted for 75.4% of total exports in Jun. **Imports fell by 22.5% mom and 5.1% yoy** to SAR 57.7bn in Jun, thereby

narrowing trade surplus to SAR 30.2bn (vs May: SAR 30.8bn; Jun 2023: SAR 32.5bn).

- **About 184 firms have moved their regional headquarters to Saudi Arabia in H1 2024**, disclosed the Ministry of Investment of Saudi Arabia, with about 57 companies joining in Q2. Investment licenses issued during H1 jumped by 49.6% to 2728 while the ministry also received 4,709 applications for an 'Investor Visit' visas.
- The Ministry of Economy and Planning's **Private Sector Business Cycle Composite Index for Saudi Arabia (MEPX) continued to expand in Q2 2024**, thanks to a strong performance of consumer-related indicators, and is expected to stabilise until end-2024.
- **PIF assets under management has grown overtime**(SAR 2.9trn in 2023 vs less than SAR 2trn in 2021 and SAR 563bn in 2015), with an 8.7% shareholders' return was generated by end-23. **Domestic investments are on the rise, accounting for 76% of total AUM in 2023**. Saudi sector development & equity holdings share was more than 3/4-th of local investments (and 32.8% & 27.1% of overall AUM). Saudi gigaprojects stood at 8.4% of overall AUM.
- Arabian Mills for Food Products Company (**Arabian Mills**) **will sell 15.4mn shares, or 30% of its share capital, on the Saudi stock exchange**. The book-building process is expected to be completed on Sep 11 while the retail subscription will run from Sep 18-19.
- **Investment licenses issued in Saudi education sector surged by 86% yoy in Q2**, with 41 new permits issued: this compares to 112 licenses in the sector at end-2023.
- **Sukuk issuances in Saudi Arabia grew by 87.22% mom to SAR 6.018bn (USD 1.6bn) in Aug**, according to the National Debt Management Centre. This was the third highest this year.
- SAMA data showed that **credit facilities provided by Saudi finance companies grew by 12% yoy to SAR 88.6bn (USD 23.62bn) in Q1 2024**. Personal finance accounted for

28% of the total (+23% yoy to SAR 25.12bn) while credit for residential real estate stood at 26% (+1% to SAR 22.91bn).

- **Crude exports from Saudi Arabia grew by 12% yoy to 1.37mn barrels per day (bpd) in Jun**, according to the Joint Organizations Data Initiative. Domestic demand for petroleum products in Saudi Arabia also rose by 391k bpd to 2.75mn bpd.
- **Credit and insurance facilities by the Saudi Export-Import Bank surged by 128% yoy to SAR 16.31bn in H1 2024**. By end-Jun 2024, Export financing disbursements reached SAR 7.03bn (142% yoy) while export credit insurance coverage jumped 118% yoy to SAR 9.28bn.
- Saudi-listed insurers **Liva and Malath Cooperative Insurance signed a non-binding agreement for merger talks**. The agreement is binding for 12 months or at the date of execution of a merger agreement.
- Saudi Minister of Transport and Logistics Services disclosed that the USD 22.5bn **Riyadh Metro project would open this year**: the Metro will be able to transport 1.2m passengers a day in its first phase, and potentially 3.6m passengers when all 6 lines (and 84 metro stations) are completed.
- Bloomberg reported that **Saudi PIF was in talks to procure jets for a new cargo airline** to support both Saudia and Riyadh Air.
- **NEOM is set to receive a fleet of eight zero-emission electric passenger ships** (Swedish Candela P-12 electric hydrofoil passenger ships) by the beginning of 2025. The Candela P-12 ships, to debut in Stockholm public transport sector this year, consume 80% less energy than traditional ships.
- National Shipping Company of Saudi Arabia (**Bahri**) announced a SAR 3.75bn (USD 1bn) **deal to buy nine tankers** from Greek company Capital Maritime and Trading Corporation: the very large crude carriers (VLCCs), to be delivered by end-Q1 2025, will deliver crude cargoes

for Bahri's customers.

UAE Focus



- **Non-oil foreign trade in the UAE grew by 11.2% yoy to a record high AED 1.4trn in H1 2024**, supported by a 25% surge in non-oil exports. UAE's multiple Comprehensive Economic Partnership Agreements (CEPAs) have supported this uptick in exports. Non-oil exports with its top 10 trade partners grew by 28.7% during the period, and Iraq, India and Turkey were the top destinations for UAE exports. Re-exports grew by 2.7% yoy to AED 345.1bn while non-oil imports were up by 11.3% to AED 800bn.
- **There was a 23.8% yoy increase in the number of certificates of origin issued** in Jan-May 2024, according to a report by the Abu Dhabi Chamber of Commerce and Industry and Etihad Credit Insurance. There was a rise in the number of new industrial companies during the period while the transportation and storage sector posted a 78% yoy surge.
- **Dubai firms have invested USD 1.4bn in China during the period 2015-2023**, disclosed the CEO of Dubai Chambers. There are currently 5400 active Chinese firms registered with the Dubai Chamber of Commerce as of end-H1 2024, of which 742 joined this year (12% yoy).
- **The number of Emiratis working in the private sector touched 113k by end-Jul**, with 81k Emiratis having joined after the Emirati Talent Competitiveness Council was launched in Sep 2021. The number stood at 100k as of May 26th.
- **UAE airports posted a 14% yoy increase in passenger traffic to nearly 72mn in H1 2024**. This included 20mn arrivals, 21mn departures and 30mn transit passengers. Air cargo traffic reached 2.2mn tonnes during the period, with national carriers share standing at 68% of total.
- **The Dubai World Trade Centre Authority reported a 19%**

yoy increase in the number of registered companies to 2,818 in H1 2024 at the free zone. The number of direct jobs in the free zone also grew by 5% yoy to 8,223 during the period.

- Cryptocurrency firm **Tether** disclosed that it was **planning to launch a new stablecoin pegged to AED**. Tether has stablecoins pegged to the EUR, CNY and to gold among others.

Media Review:

Central banks should raise the bar for intervention: Raghuram Rajan

<https://www.ft.com/content/9dd2d4cd-a130-406c-82e4-4edfc1883b41>

Airlines fly over Afghanistan as Middle East becomes the greater risk

<https://www.reuters.com/business/aerospace-defense/airlines-fly-over-afghanistan-middle-east-becomes-greater-risk-2024-08-23/>

Carbon Emissions from AI and Crypto Are Surging and Tax Policy Can Help

<https://www.imf.org/en/Blogs/Articles/2024/08/15/carbon-emissions-from-ai-and-crypto-are-surging-and-tax-policy-can-help>

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