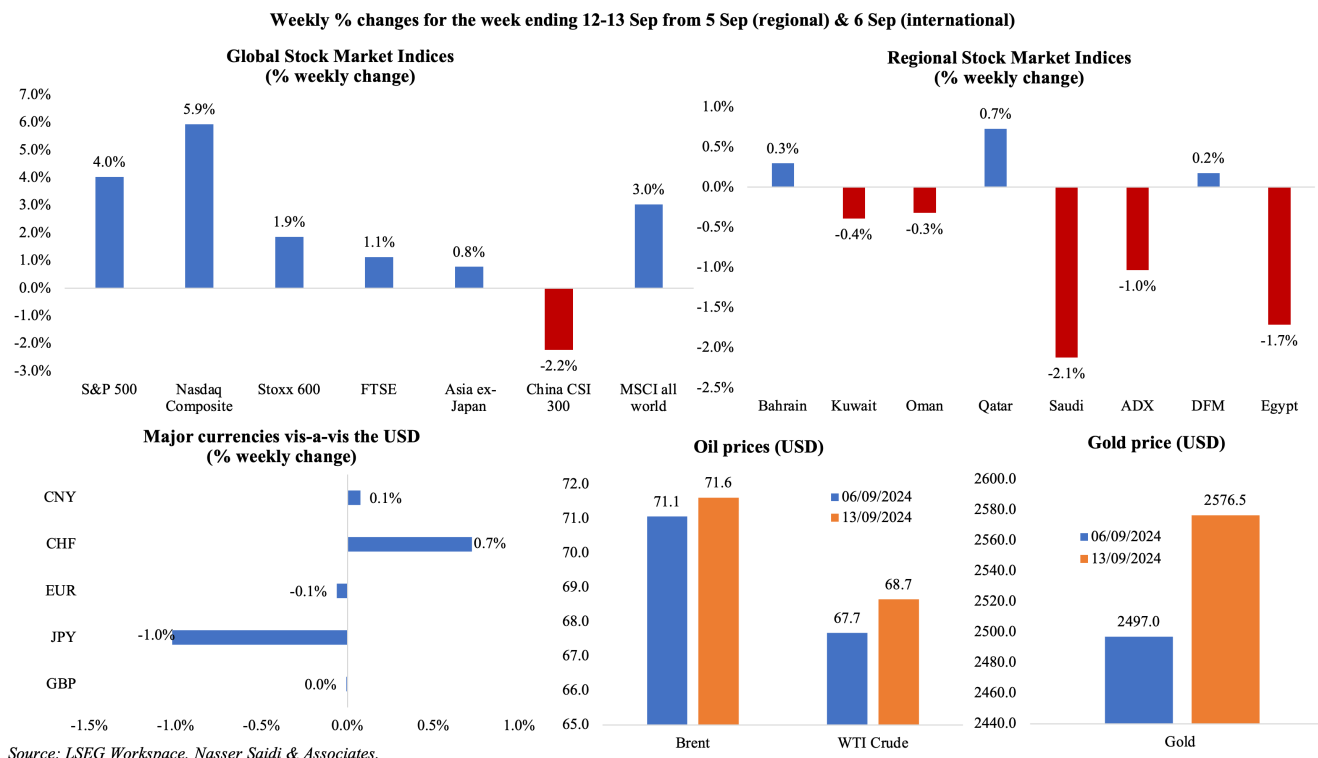


Weekly Economic Commentary – Sep 16, 2024

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Markets

Equities markets mostly gained last week, with expectations high for a more aggressive Fed rate cut of 50bps on Wednesday – supported upticks in equities (S&P and Nasdaq posted their biggest weekly gains in 2024), gold price and Treasury prices. Regional markets were mostly down on the week, though posted gains towards Thurs-Fri on rate cut hopes. Among currencies, the dollar index fell to the lowest in nearly 9 months while both Brent & WTI posted weekly gains (in spite of hitting lower levels of USD 68.68 and USD 65.27 respectively on slowdown concerns). Gold price rallied to a new record-high of USD 2550+.



Global Developments

US/Americas:

- **Inflation in the US eased to 2.5% yoy in Aug (Jul: 2.9%), the lowest reading since Feb 2021, largely due to a drop in the prices of gas (-10.3% yoy) and used cars (-10.4%). Excluding food and energy, prices remained unchanged at 3.2% yoy, partly due to shelter costs (+5.2%) and the temporary rise in airfares (+3.9% mom) and hotel prices during the summer.**
- **US producer price index cooled to a 6-month low of 1.7% yoy in Aug from Jul's 2.1% gain, driven by the increase in services prices (0.4% mom). However, excluding food and energy, prices advanced by 2.4% (Jul: 2.3%).**
- **Monthly budget deficit widened in Aug, to USD 380bn from the previous month's USD 244bn. In the first 11 months of the fiscal year, deficit totalled USD 1.897trn, and the interest costs on public debt clocked in at USD 1.049trn (crossing USD 1trn for the first time). At this rate, deficit for the fiscal year will likely be the largest outside Covid19 years.**

- **Michigan consumer sentiment index climbed to 69.0 in Sep** (Aug: 67.9), the highest since May. Expectations for personal finances and economy improved for the 12-months ahead period as the year-ahead inflation expectation declined (to 2.7% from 2.8%). However, the **5-year consumer inflation expectation edged up to 3.1%** from 3% the month before.
- **Initial jobless claims inched up by 2k to 230k in the week ended Sep 6**, taking the 4-week average slightly higher by 500 to 230.75k. **Continuing jobless claims fell by 5k to 1.85mn** in the week ended Aug 30.

Europe:

- **ECB reduced the deposit rate by 25bps to 3.5% at the latest meeting**, as inflation nudged closer to its 2% target. **The refinancing rate was cut to 3.65%** (60 bps from 4.25% before), a pre-emptive move to narrow the gap between the two rates. Lagarde stressed that any future rates cuts would be “data-dependent” and that services sector inflation remained a concern.
- **Industrial production in the euro area fell** by 0.3% mom and 2.2% yoy in Jul (0% mom and -4.1% yoy), with yoy declines registered for capital goods (-5.3%), durable consumer goods (-4.4%) and intermediate goods (-2.9%).
- **Sentix investor confidence plunged to -15.4 in Sep** (Aug: -13.9), posting the third consecutive fall and lowest since Jan. The current situation index declined (-22.5 from -19) while expectations index improved (-8.0 from -8.8).
- **UK GDP stagnated for the second month in a row in Jul**, dragged down by construction (-0.4% mom) and manufacturing. IP and manufacturing growth declined by 0.8% mom and 1.0% respectively (Jun: +0.8% and +1.1%) while the services sector eked in a 0.1% gain.
- **Unemployment rate in the UK eased to 4.1% in the 3 months to Jul**, from 4.2% before, as the number of

unemployment declined by 74k to 1.44mn.

- **Average earnings excluding bonus in the UK slowed to 5.1% yoy in the 3 months to Jul** (end-Q2: 5.4%), the smallest gain since Jun 2022. Including bonus, average earnings grew by 4% (slower than Jun's 4.6% gain): this was the lowest since Nov 2020.

Asia Pacific:

- **Inflation in China inched up to 0.6% yoy in Aug** (Jul: 0.5%), as food prices increased for the first time since Jun 2023 (2.8% yoy from no gain in Jul); **core inflation** clocked in at 0.3% (Jul: 0.4%), the **slowest since Mar 2021**. **Producer price index remained deflationary for the 23rd consecutive month**, with **prices down 1.8% yoy in Aug**, faster than Jul's 0.8% drop.
- **Exports from China grew by 8.7% yoy in Aug** (Jul: 7.0%) **while imports growth slowed** (0.5% from 7.2%). Trade surplus widened to USD 91.02bn in Aug (Jul: USD 84.65bn). Exports to the EU grow the most in Jul (+13% yoy) while ASEAN was the largest trading partner for China.
- **Despite the rise in exports, domestic demand in China remains worrisome: industrial production** grew by 4.5% yoy in Aug (Jul: 5.1%), the slowest growth since Mar. **Retail sales** growth slowed in Aug, up by 2.1% from 2.7% in Jul, despite a surge in summer travel. **Fixed asset investment ticked up** by 3.4% yoy in Jan-Aug (Jan-Jul: 3.6%).
- **FDI into China plummeted** by 31.5% yoy to CNY 580.19bn (USD 81.8bn) in Jan-Aug (Jan-Jul: -29.6%).
- **New yuan loans by China's banks expanded to CNY 900bn in Aug**, from Jul's 15-year low of CNY 260bn. New yuan loans totalled CNY 14.43trn for the Jan-Aug period. **Outstanding yuan loans** grew by 8.5% yoy in Aug (Jul: 8.7%) while annual growth of **outstanding total social financings** slowed (8.1% from 8.2%).

- **Q2 GDP growth in Japan was revised down:** the country grew at a 2.9% annualised rate in Q2 (preliminary estimate: 3.1%). Growth of both capital expenditure and private consumption were lowered: to 0.8% (from 0.9%) and 0.9% (from 1.0%) respectively. GDP expanded by 0.7% qoq and 3.2% yoy in Q2 (slower than preliminary readings of 0.8% and 3% respectively).
- **Japan's current account surplus widened** to JPY 3139bn in Jul (Jun: JPY 1533.5bn), posting the 18th month of surplus reading as primary income surplus widened. Trade balance moved to a deficit of JPY 482.7bn in Jul (Jun: JPY 556.3bn).
- **Industrial production in Japan rebounded in Jul**, up 2.9% yoy from Jun's 7.9% decline. IP grew by 3.1% mom (preliminary estimate: 2.8%), thanks to output of electrical machinery & ICT equipment (7.5% from -2.8%) and electronic parts & devices (9.7% from -5.8%).
- **Retail inflation in India inched up to 3.65% yoy in Aug**, from Jul's 5-year low of 3.54%, as food inflation ticked up (5.66% from Jul's 5.42%). It stayed below RBI's target 4% for the second month in a row.
- **Industrial production in India grew by 4.8% yoy in Jul** (Jun: 4.2%), supported by manufacturing which expanded by 4.6% (Jun: 3.2%); capital goods saw a 12% yoy increase (Jun: 3.8%) alongside a drop in consumer non-durables (-4.4% from -1.5%). Cumulative industrial output touched 5.2%.

Bottom line: Financial and exchange rate markets are dancing to the tune of central bank rate decisions this week. Lower inflation in the US and a slowing labour market data point to a Fed cut, with market expectations rising for a larger 50bps cut than the anticipated 25bps rate cut. The Bank of England is expected to hold rates at the meeting this week as services inflation and wage growth are still high. The Bank of Japan's next move is likely to be a hike – in the opposite direction of other developed markets – though the timing is still a

question mark, it seems unlikely this week.

Regional Developments

- **Inflation in Egypt inched up to 26.2% yoy in Aug** (Jul: 25.7%), rising for the first time in five months, on an increase in food & non-alcoholic beverages prices (29% from Jul's 27.4%). The increase in fuel prices, metro ticket prices and electricity tariffs have been reflected in this inflation print. **Core CPI edged down slightly to 24.38%** (Jul: 24.4%).
- **Egypt's trade deficit narrowed to USD 2.87bn in Jun**, as imports fell by 3.3% yoy (to USD 6bn) alongside a 1.6% drop in exports (to USD 3.13bn).
- **Egypt announced tax facilitation measures to boost investment** including simplified tax returns, a risk management system for tax audits, streamlined processes, expedition of dispute resolution and a cap on penalties among others.
- **A new EGP 50bn tourism initiative was launched by Egypt's finance ministry** to encourage the construction of hotel rooms to support a higher expected inflow of tourists.
- **Egypt's first hybrid solar power and battery storage project will be initiated in H1 2025**: the 1GW solar power plant and 100MW battery storage project will be helmed by Norway's renewable energy producer Scatec.
- **The Social Housing and Mortgage Support Fund in Egypt has granted mortgage finance of more than EGP 74bn** since Jun 2014, to 1.6mn citizens via 22 banks and 8 companies, in addition to providing cash support of EGP 9.7bn.
- **Exports from India to Kuwait grew by 35% yoy to cross USD 2bn in the fiscal year 2023-24**, according to India's Ministry of Commerce & Industry. For the fiscal year, bilateral trade totalled USD 10.479bn. Kuwait was the 6th largest crude oil supplier to India, accounting for

3% of the latter's total energy needs.

- **Oman's budget surplus slipped to OMR 400mn in the period Jan-Jul 2024**, down from a surplus of OMR 702mn as of Jul 2023. **Public revenues edged down** to OMR 7.154bn as of Jul 2024, driven down by the sharp decline in net gas revenues (-18% yoy to OMR 1.09bn). **Expenditure increased by 4.2% yoy** to OMR 4.038bn at end-Jul given a 33% surge in development expenditure (to OMR 653mn, or 73% of total development spending for 2024) and 46% yoy jump in contributions & other expenses to OMR 1.243bn.
- **Oman's OQ plans for a 25% stake sale in its OQEP exploration and production business** could raise USD 2bn. This will be Oman's first IPO and the biggest in the GCC this year; OQ will retain a stake of at least 75%. **The Oman Investment Authority confirmed plans to launch key IPOs between 2024 and 2028.**
- **The industrial sector in Oman reported a 9.2% yoy growth in Q1**, with the basic chemical industries posting the sharpest increase (+6.4% to OMR 338.2mn), according to NCSI data. FDI into the industrial sector touched OMR 2bn by Aug, with 60 new industrial projects and OMR 885mn in investments.
- **Oil exports from Oman grew marginally by 0.05% to 178.95mn barrels by end-Jul** with an average price of USD 82.5 per barrel. The average daily oil production touched 994,800 barrels at end-Jul.
- In a bid to grow the **cruise tourism** sector, **Oman introduced 10-day and one-month visas** free of charge – these are available from cruise-ship agents. Last year, 229 cruise ships hit Oman's tourism ports, carrying 599k passengers.
- **Islamic banking assets in Oman surged by 18% yoy to OMR 7.8bn in Jun**, representing 11.4% of total banking assets. Financing provided by Islamic banks grew by 10.4% to OMR 6.4bn while deposits increased by 14.7% to nearly OMR 6bn.
- **QatarEnergy ordered 6 additional large LNG vessels** from

China State Shipbuilding Corporation: valued at USD 2bn, the carriers will be delivered between 2028 and 2031.

- **UNCTAD report finds Gaza's economy "in ruins" after 11 months of war, having shrunk to less than 1/6-th its size by mid-2024;** unemployment in the occupied West Bank nearly tripled to 32% during this period. International donor support fell to its lowest level at USD 358mn in 2023 (or 2% of GDP), down from USD 2bn or 27% of GDP in 2008.
- **A BlackRock-managed fund bought a minority stake in the Saudi Bahrain Pipeline Company** from Bapco Energies (Bahrain's state oil company).
- **Private equity investments MENA reached USD 5.9bn across 49 deals in H1 2024,** according to the report by PitchBook. In comparison, USD 15.4bn was deployed across 159 deals in 2023. PIF and ADQ were the most active investors. Exit activity also declined in H1, with only USD 1.6bn generated from 25 exits.
- **British trade ministers are holding talks with GCC counterparts this week** in a bid to reach a possible trade deal. UK's Business and Trade Department estimates a GCC free trade agreement could boost the UK economy by GBP 1.6bn (USD 2.10bn) over the long run.

Saudi Arabia Focus



- **Saudi inflation inched up to 1.6% in Aug** (Jul: 1.5%), largely due to the increase in housing rents (10.69%, slowing from Jul's 11.12%) and food prices (0.9% from 0.4% in Jul) while transport prices declined by 3.36% (Jul: -3.48%). Separately, **wholesale price inflation also rose, to 3.2% in Aug** (Jul: 3.1%) as costs of agriculture & fishery products rebounded (0.4% from -0.2%).
- **Industrial production in Saudi Arabia grew by 1.6% yoy in Jul,** rising for the first time this year. In month-on-month terms, IP rebounded, rising by 1.7% (Jun:

-5.0%). **Oil activities continued to decline**, down by 1.1% in Jul, though the decline was relatively muted (it had plunged by an average 10.7% in H1 2024) while **non-oil manufacturing activities expanded** by 8.2% yoy in Jul 2024.

- **Arabian Mills for Food Products Co. set its final IPO price at SAR 66** (USD 17.59) per share on Tadawul's main market. The company is offering 15,394,502 shares, also announcing that its institutional offering was oversubscribed by about 132 times.
- **Saudi Arabia's Fourth Milling Company set the IPO price range** at between SAR 5.0-5.3 per share. The company will list a 30% stake (162mn shares) and the bookbuilding period will be from Sep 15-19.
- **Saudi Arabia expects AI to account for 12% of GDP by 2030**, according to the Saudi Data and AI Authority's State of AI paper. No details were however provided as to how this will be achieved.
- The **Saudi** Ministry of Industry and Mineral Resources **issued 37,730 certificates of origin in Aug**, underscoring the strength of the export sector as this is the 16th consecutive month of 30k+ certificates of origin.
- **The e-commerce sector in Saudi Arabia constitutes 8% of the total trade**, revealed the minister of commerce, supported by the rise in fintech companies (up to 170+ currently from 10 in 2018).
- **Saudi Arabia plans to introduce a tourist tax refund scheme**: a public consultation was opened in end-Aug on changes to the tax regulation.
- **S&P revised Saudi Arabia's outlook to positive** citing reforms, acceleration of investments and diversification away from the oil sector. Ratings were affirmed at "A/A-1".

- **Real GDP in the UAE expanded by 3.4% yoy in Q1 2024** (Q4 2023: 4.3%), with non-oil sector activity driving growth (4.0% in Q1 following Q4 2023's 6.7% gain). **The contribution of the non-oil sector crossed three-quarters of the total in Q1 (75.2%), with finance & insurance and transportation sectors growing the fastest.** The oil sector rebounded in Q1, up by 1.4% yoy, following three consecutive quarters of decline. Wholesale & retail trade grew by 2.2% and manufacturing edged up by 1.9% – both at slower paces compared to the previous quarter's gains.
- **UAE's gross bank assets grew by 0.5% mom in Jun 2024,** bouncing back after May's slight decline. In yoy terms, it grew by 11.3% to AED 4.31trn. **CBUAE total assets surged by 24.2% yoy and 0.6% mom to a new record-high AED 806.395bn in Jun. Foreign assets also hit a new historic high of AED 770.6bn (30% yoy). Bank deposits grew by 6.8% year-to-date in H1 2024 vs gross credit growth of 5.5% ytd.**
- **During a UAE delegation visit to India, several agreements and initiatives were launched** including collaboration to develop a virtual trade corridor, aircraft maintenance services and integration of advanced technologies into India's infrastructure among others. It was also disclosed that **bilateral non-oil trade between UAE and India climbed by 10% yoy in H1 2024.** Indian investments in the UAE exceeded USD 2bn while UAE investments in India. **India and Abu Dhabi signed 5 MoUs** covering nuclear cooperation, food parks development in India, agreement for long-term LNG supply & other energy deals.
- **The Dubai Integrated Economic Zones Authority revealed a 18% growth in new profit, 12% jump in total revenue and 5% uptick in operating profit in H1 2024** compared to end-2023 results.
- Reuters reported that the **Etihad Airways potential IPO was unlikely to take place this year,** citing informed

sources.

Media Review:

A New Trilemma Haunts the World Economy

<https://www.project-syndicate.org/commentary/new-trilemma-of-climate-change-global-poverty-rich-countries-middle-classes-by-dani-rodrik-2024-09>

Economic crisis worsens in Occupied Palestinian Territory amid ongoing Gaza conflict

<https://unctad.org/news/economic-crisis-worsens-occupied-palestinian-territory-amid-ongoing-gaza-conflict>

US closer to greenlighting Nvidia chips for Saudi Arabia, Semafor reports

<https://www.reuters.com/technology/us-closer-green-lighting-nvidia-chips-saudi-arabia-semafor-reports-2024-09-11/>

Trade Balances in China and the US Are Largely Driven by Domestic Macro Forces

<https://www.imf.org/en/Blogs/Articles/2024/09/12/trade-balances-in-china-and-the-us-are-largely-driven-by-domestic-macro-forces>

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