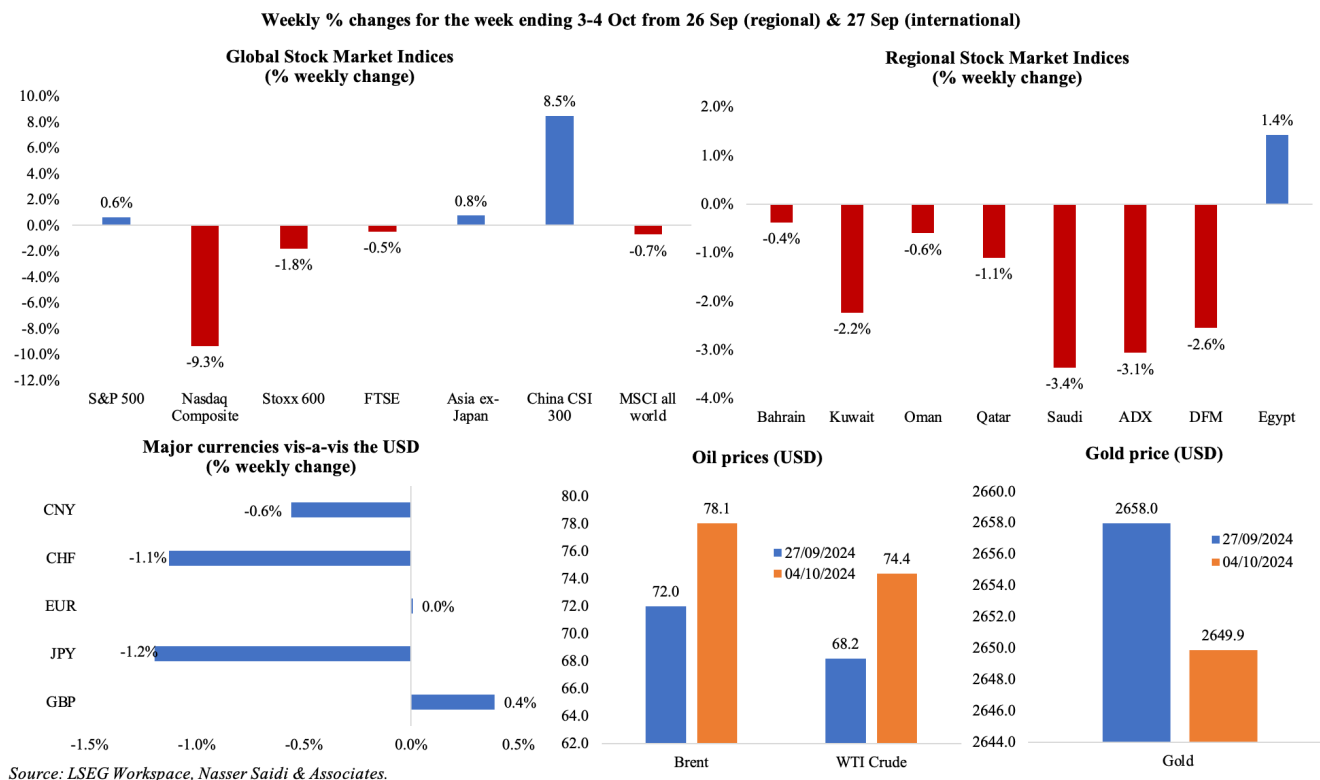


Weekly Economic Commentary – Oct 7, 2024

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Markets

Equities markets rose on Fri after a strong US jobs report (potentially tempering Fed monetary easing for the balance of the year), with the dollar also rallying to a seven-week high. Stimulus measures and Fed rate cuts together has led to gains (8.5%) in Chinese equities and the RMB strengthening vis-à-vis the dollar (it rose to 7.0 against the USD). The MSCI global stocks index was down by 0.7% for the week. Regional markets were mostly down (Saudi Tadawul and Abu Dhabi's ADX posted weekly losses of more than 3%) as the war in the Middle East continues to escalate, with an increasing threat of becoming a much wider conflict with spillovers to oil production and markets. Oil prices posted large weekly gains with the Brent and WTI up by 8.4% and 9.1% from a week ago (this is the most since Jan 2023 and Mar 2023 respectively). Gold price however fell.



Global Developments

US/Americas:

- **Non-farm payrolls in the US increased by 254k in Sep** (vs Aug's 159k), the most since March. Labour force participation rate stayed unchanged at 62.7% alongside a slight **slip in unemployment rate to 4.1%** (Aug: 4.2%). Average hourly earnings rose by 4.0% yoy in Sep (Aug: 3.9%). This underscores the resilience of the US economy, potentially tempering Fed monetary easing for the balance of the year.
- **US added 143k private sector jobs in Sep, according to the ADP report** (Aug: 103k). Leisure and hospitality sector added 34k jobs alongside 26k additional in construction.
- **JOLTS job openings rose to 8.04mn in Aug** (Jul: 7.711mn), with the construction industry reporting most vacancies (138k). **There were 1.13 job openings for every unemployed person** (Jul: 1.08).
- **Initial jobless claims increased by 6k to 225k in the week ended Sep 27**, taking the 4-week average slightly

lower by 0.75k to 224.25k. **Continuing jobless claims slipped** by 1k to 1.826mn in the week ended Sep 20.

- **Factory orders in the US unexpectedly fell** by 0.2% mom in Aug (Jul: 4.9%), while orders for non-defence capital goods excluding aircraft inched up by 0.3%. Orders rose 0.3% yoy.
- **Chicago PMI moved up to 46.6 in Sep** (Aug: 46.1) though remaining below expansionary territory for 24 out of the last 25 months. **Dallas Fed manufacturing business index improved to -9 in Sep** (Aug: -9.7) despite the further decline in new orders (-5.2 from -4.2) and production (-3.2 from +1.6) while employment rebounded (2.9 from -0.7).
- **S&P Global manufacturing index in the US was revised up to 47.3 in Sep** (prelim: 47), the lowest since Jun 2023. Output and new orders fell alongside employment which declined at the fastest pace since 2010.
- **ISM manufacturing PMI in the US stayed put at 47.2 in Sep**, thanks to an increase in new orders (rising to 46.1 in Sep from Aug's 44.6), a slip in prices paid (48.3, the lowest since Dec 2023, from 54) while employment slid (to 43.9 from 46).
- **ISM services PMI in the US increased to 54.9 in Sep** (Aug: 51.5), the most since Feb 2023, as new orders jumped (59.4 from 53) while prices paid rose (to an 8-month high of 59.4 from 57.3) and employment fell (48.1 from 50.2).

Europe:

- **Inflation in the eurozone slipped to 1.8% in Sep** (Aug: 2.2%), with services posting the highest rate (4.0% from 4.1% in Aug) followed by food, alcohol & tobacco (2.4% vs 2.3% in Aug) while energy prices fell (-6.0% from -3.0% in Aug). **Core inflation eased to 2.7%** (Aug: 2.8%). **Producer price index declined by 2.3% yoy in Aug** (Jul: -2.2%) due to falling energy prices (-7.7% yoy).

- Eurozone's **preliminary manufacturing PMI fell to a 9-month low of 45 in Sep** (prelim: 44.8 & Aug's 45.8), as production declined the most this year (with output declining sharply) and employment fell the most since Oct 2012 (excluding pandemic months). Selling prices rose for the first time since Apr 2023. **Composite PMI fell below-50** to 49.6 (Aug: 51) as services PMI slowed to 51.4 (Aug: 52.9). Business confidence slumped, taking it substantially below its long-run average.
- **The harmonised index of consumer prices in Germany dropped to 2.0% in Sep** (Aug: 1.8%), the lowest reading since Feb 2021.
- **Manufacturing PMI in Germany slipped to a 1-year low of 40.6 in Sep** (Aug: 42.4), as production fell, new orders declined the most since Oct 2023, and employment contracted the most in over 4 years. **Services PMI slipped to a 6-month low of 50.6** (Aug: 51.2) – new business declined and export orders fell for the third month in a row – taking the composite PMI down to a 7-month low of 47.5 (Aug: 48.4).
- **Unemployment rate in the euro area remained unchanged at 6.4% in Aug** and youth unemployment rate was 14.1% (Jul: 14.2%).
- **GDP in the UK grew by 0.5% qoq and 0.7% yoy in Q2**. Total business investment grew by 1.4% qoq and 0.2% yoy while the household saving ratio rose to 10% (Q1: 8.9%).
- **UK manufacturing PMI fell by 1 point to 51.5 in Sep** and services PMI slowed to 52.4 (Aug: 53.7). Output growth and new orders cooled in both sectors and 1-year ahead business optimism fell to a 9-month low in manufacturing.

Asia Pacific:

- **Japan's manufacturing PMI was revised up to 49.7 in Sep from the preliminary estimate of 49.6** (but slower than Aug's 49.8), thereby posting the third straight month of

contraction: production levels fell, new orders dropped, exports sales were at a 6-month low and business sentiment fell to the lowest since Dec 2022. **Services PMI slipped to 53.1**(Aug: 53.7), as new orders grew for the 29th month in a row and export orders increased marginally. Business sentiment slipped to the lowest in 20 months.

- **Unemployment rate in Japan eased to 2.5% in Aug** (Jul: 2.7%), as the number of unemployed declining by 150k to a 7-month low of 1.72mn. **The ratio of jobs to applicants slipped** to 1.23 (Jul: 1.24).
- **Japan's Tankan large manufacturing index held steady at 13 in Q3**, with the non-manufacturing index ticking up to 34 in Q3 (Q2: 33). Big companies expected to increase capital spending by 10.6% in the fiscal year to Mar 2025.
- **India's fiscal deficit widened to INR 4351.76bn in Aug** (Jul: INR 2769.45bn) or 27% of the full year estimate. **Current account balance turned to a deficit of USD 9.7bn** (or 1.1% of GDP) **in Apr-Jun** from a surplus of USD 4.6bn in Jan-Mar, according to RBI data. This was largely due to a rise in goods trade deficit to USD 65.1bn (from USD 50.9bn in the previous quarter and USD 56.7bn a year ago) while services exports rose.
- **Manufacturing PMI in India slipped to 56.5 in Sep** (Aug: 57.5), the lowest reading since Jan, with the pace of output and new orders growth slowing; export orders slipped to the lowest since Mar 2023. **Services PMI fell to 57.7**, lower than the preliminary reading of 58.9 and Aug's 60.9, as new business, export sales and output weakened alongside rising employment. This caused the composite PMI to fall to 58.3, one point below the preliminary reading and the least since Nov 2023.
- **Retail sales in Singapore grew by 0.7% mom and 0.6% yoy in Aug** (Jul: 3.1% mom and 1% yoy). Sales declined at department stores (-6.2% yoy from Jul's -11.2%) while food & alcohol sales grew by 8.1% (from 4.7%).

Bottom line: One year since the Oct 7 attack – the conflict has claimed the lives of more than 42,000 persons (mostly in Gaza), and now with Lebanon under intense attacks there have been only additional destruction and further population displacement and human suffering. With the threat of a much broader conflict in the Middle East, potentially attacks on oil fields, there could be a negative impact on oil production and interruption of supplies from the Gulf, raising prices that would in turn put pressure on global headline inflation (currently on a downward trajectory). However, at this stage, the markets seem quite unperturbed by the conflict, with VIX at close to 20 (after rising to 60+ in early Aug).

Regional Developments

- **The GCC nations called for an immediate ceasefire in Gaza and affirmed support for Lebanon** following an extraordinary ministerial meeting held last week. Separately, the IMF stated that the escalation in conflict “heightens risk and uncertainty” and that this could pose significant economic risks to the region and beyond.
- **Egypt PMI moved back to contractionary territory** in Sep, with the reading slipping to 48.8 (Aug: 50.4). Domestic demand remained weak given economic conditions and higher input and output costs, but export orders stayed strong for the fifth consecutive month. Increased buying levels and employment (in construction and wholesale & retail sectors), however, are positive signs for Q4.
- **Balance of payments surplus in Egypt during the financial year 2023-24 stood at USD 9.7bn, with the surplus concentrated in Jan-Jun 2023 (USD 10bn).** The current account deficit widened to USD 20.8bn in 2023-24, as trade deficit rose by 27% and Suez Canal transit receipts declined by 24.3%.
- **External debt in Egypt declined to USD 152.8bn** as of Jun, from USD 168bn in Dec 2023, revealed the PM at a

recent meeting.

- **Suez Canal revenues have fallen by USD 6bn in 2024 given the regional unrest**, disclosed Egypt's President. Income from the canal fell by 50-60% in Jan-Aug 2024.
- **Net foreign assets in Egypt touched a surplus of EGP 473.224bn in Aug** compared to a deficit of EGP 801.269bn in Aug 2023, according to central bank data. Foreign assets with the apex bank stood at EGP 2.191trn and foreign assets with banks amounted to EGP 1.34trn.
- At a conference, **Egypt's** deputy minister of finance revealed that the **government is exploring several debt issuance options** and has secured its current financial needs.
- **Kuwait's PMI moved to expansionary territory in Sep**, clocking in a reading of 50.2 (vs Aug's 49.7), thanks to a renewed expansion in new orders (supported by price discounting and marketing efforts) and employment. New export orders rose by the pace eased to a 1-year low.
- **Inflation in Kuwait slipped to 2.92% yoy in Aug** (Jul: 3%), with prices rising for clothing & footwear (5.76% from Jul's 5.63%) and food & beverages (5.96% from 5.89%) while it eased for recreation & culture (2.2% from 4.9%).
- **The value of real estate transactions in Kuwait fell by 28% yoy to KWD 2.74bn in 2023**, with the number of residential real estate transactions dropping to 4,357 – the lowest level since 2016 – from 6,008 in 2022.
- **The latest PMI for Lebanon explicitly mentions the impact of the escalation in conflict**: respondents cited the conflict between Israel and Hezbollah for the reduction in new orders, new sales and overall business; new export orders fell the most in 3.5 years.
- **Money supply (M1) in Oman grew by 13.3% yoy to OMR 24.2bn by end-Jul**. Private sector deposits, which accounted for 65.9% of total assets at conventional commercial banks, grew by 9.7% to OMR 16.3bn. Credit disbursed to the private sector rose by 0.7% to OMR

20.4bn.

- **The Oman Future Fund secured local and foreign investments worth OMR 832mn (USD 2.2bn) for projects across 10 economic sectors** – this includes foreign investments of OMR 609mn. Projects cover areas including technology, industry, tourism, energy and EVs.
- **Qatar PMI slipped to 51.7 in Sep** (Aug: 53.1), with a moderation in increase in new business. Employment expanded at the fastest rate on record and the 12-month outlook strengthened to the most since Mar 2023. The financial services sector saw new businesses increase at the fastest pace since Jul 2022. While overall input price inflation was the highest since Jul 2020, the prices charged for goods and services fell at the fastest rate since Feb 2019 (given high levels of competition).
- **Inflation in Qatar rose to 1.15 % yoy in Aug** (Jul: 0.22%).
- **Qatar's trade surplus narrowed to QAR 19.8bn in Aug** (down by 7.2% yoy) as exports fell by 4.6% (to QAR 30bn) and imports ticked up by 0.9% (to QAR 10.2bn). **China was the top export destination** accounting for close to 20% of total exports (almost QAR 6bn), followed by South Korea (12.1%) and India (10.2%). Top imports sources were US, China and Italy with shares of 14%, 13.9% and 8.5% respectively of total imports.
- Qatar Investment Authority disclosed that the **telecoms businesses of the Qatar National Broadband Network** (with its domestic fibre networks) **and Gulf Bridge International** (with its international submarine and terrestrial cables) **would be merged** to create a digital and AI infrastructure leader. The value of the deal was not revealed and is subject to regulatory approval.
- **OPEC+ ministers meeting kept oil output policy unchanged at the latest meeting.** It confirmed that output would be raised by 180k barrels per day from Dec.

- **Saudi Arabia's PMI rose to a 4-month high**, as output and new orders rose, supported by strong domestic demand. The rate of purchasing growth fell to its lowest level in three years while employers reported difficulty in finding skilled staff.
- **Total deposits growth in Saudi Arabia recovered in Aug**, as government deposits surged 12.5% mom. **Credit growth surged**, with double-digit gains in private sector claims (since Dec 2023). SAMA net foreign assets grew (yoy) for the 6th straight month while commercial banks' NFA remained negative for 2nd month in a row. **Official reserves assets reached SAR 1.7trn in Aug, the highest in 21 months**, and up 10% yoy.
- **Unemployment rate in Saudi Arabia** (inclusive of expats) **inched up to 3.3% in Q2 2024** (Q1: 3.5%). **Saudi citizens unemployment rate edged lower to 7.1%** (Q1: 7.6%). **Saudi female unemployment rate fell to a record-low of 12.8% in Q2** (Q1: 14.2%), with only 15-24 group recording a rise in unemployment rate.
- **Net FDI inflows into Saudi Arabia grew by 23.4% qoq to SAR 11.7bn in Q2 2024** (Q1: SAR 9.5bn); it was however 7.5% lower compared to Q2 2023. Overall FDI inflows into the country touched SAR 36.41bn in H1 this year, very similar to SAR 36.35bn in H1 2023. Meeting the 2024 target of SAR 109bn as per the National Investment Strategy seems to be a tall order. Various reform measures have seen a **steady increase in the number of foreign investment licenses** in H1 2024 (+70.4% yoy to 5984). The **sector with most investment licenses issued has been construction** – in line with the various mega & giga projects.
- **Saudi Arabia's pre-budget statement for the fiscal year 2025** forecasts total revenues to touch SAR 1.18trn (-4%) alongside total expenditure at SAR 1.285trn, causing a **deficit of SAR 101bn** (+38%, and roughly 2.3% of GDP).

The **2024 projections were updated** to revenues at SAR 1.24trn (+6% from previous forecasts), expenditures at SAR 1.35trn (+8%) and deficit at SAR 118bn (or 2.9% of GDP). The pre-budget statement estimates GDP at 0.8% and 4.6% in 2024 and 2025 respectively. **Military spending declined by 6.3% in H1 2024**, and is expected to fall by 15.4% from budget to production.

- **Saudi Arabia's financial stability report 2024** underscored that the banking sector was well-capitalised with a **capital adequacy of 20.1% in 2023**. The banking sector's strong credit growth was driven by corporate credit (+13.2% in 2023) while lending by the non-banking financial institutions grew by 12.3%.
- The Chairman of Saudi Arabia's Capital Market Authority disclosed that **50% of the approximately 70 recently listed companies in the Saudi financial market are SMEs**. He also stated that "stimulating liquidity, increasing available offerings, and expanding the investor base" were the main areas of focus for improvements.
- **Aramco completed a USD 3bn international Sukuk issuance last week**. The offering, which was oversubscribed about 6-times and consisted of 2 USD denominated tranches, will be used to diversify funding, expand its investor base, and re-establish its sukuk yield curve.
- The Saudi Ministry of Tourism revealed that **inbound visitor spending grew by 8.2% yoy to SAR 92.6bn in H1 2024**.
- **Businesses in the e-commerce sector in Saudi Arabia** grew by 9.3% yoy to 39,769 in Q3; Riyadh leads the registrations accounting for 40.9% of the total.
- **Cinema ticket revenues in Saudi Arabia touched SAR 421.8mn (USD 112.4mn) in H1 2024** from the sale of about 8.5mn tickets. Ticket prices have been reduced to SAR 50-55 currently (from about SAR 85 before) in a bid to increase footfall.
- **Red Sea Global will see 19 new luxury hotels open in 2025** in addition to 2 more this year. A senior official

disclosed that the total cost of contracts so far was SAR 73.3bn (USD 19.6bn), including SAR 27.3bn in 2023.

UAE Focus



- **UAE PMI slipped to 53.8 in Sep (Aug: 54.2), the weakest since Sep 2021**, with new orders and activity growing albeit at softer rates. As activity softened, employment posted the weakest growth since Dec 2022. Input prices rose sharply, with respondents citing pressures from “transportation, machinery, technology, petrol and labour”. Output charges, which grew for the fifth month in a row, rose the most since the beginning of 2018.
- The **UAE Ministry of Economy launched the National Economic Registry** which compiles together information on over 2,000 economic activities across the UAE. Currently holding 1.5 million active and cancelled commercial licences, the platform provides a unified and reliable database of enterprises and business licences across all seven emirates in the country.
- **Abu Dhabi GDP grew by 4.1% yoy to a new record AED 297bn in Q2 2024**; this brings overall and non-oil GDP growth to 3.7% and 5.7% respectively in H1 this year. Construction sector, up 11.5% to AED 27.5bn in Q2 2024, increased its contribution to GDP to 9.3% (the highest since 2015). The finance & insurance and transportation & storage sectors grew by 13.4% and 15.2% (to AED 22bn and AED 7bn) respectively.
- AGBI reported that **Abu Dhabi will announce by end of this year a strategy aiming to triple its GDP by 2045**, alongside increasing investments by almost five times and expanding non-oil exports by almost 7-fold.
- **Dubai remained the top city globally for attracting greenfield FDI in H1 2024**, disclosed the Crown Prince of Dubai. According to fDi Markets data, Dubai attracted 508 greenfield FDI projects, up 5.7% yoy, and accounting for 6.2% share of global FDI.

- **Dubai approved an Education Strategy and Real Estate Strategy for the next decade.** Under the Education Strategy 2033, the aim is to provide “world class education” from a “learner-centred education ecosystem” while also targeting a ten-fold increase in education tourism by 2033. The Real Estate Strategy 2033 aims to double the contribution of the sector to diversification, promote home ownership and increase the value of Dubai’s real estate transactions to AED 1trn by 2033.
- **Abu Dhabi National Hotels** (which owns hotels such as the Ritz Carlton and Park Hyatt in Abu Dhabi, the JW Marriott in Dubai Marina and the Sofitel on Jumeirah Beach in Dubai) **plans to list a 40% stake in its catering business via an IPO.** The listing is expected in Oct.
- **Abu Dhabi’s ADNOC is buying German chemicals maker Covestro** (which makes plastics and chemicals for the automotive, construction, and engineering sectors) **for EUR 14.7bn** (USD 16.3bn). This is ADNOC’s largest acquisition: it will pay EUR 62 per Covestro share and also take on about EUR 3bn in debt.
- **The UAE directed USD 100mn in urgent relief for Lebanon,** and has already delivered 40 tonnes of medical supplies.

Media Review:

Exclusive: Gulf states sought to reassure Iran of their neutrality in Iran-Israel conflict

<https://www.reuters.com/world/middle-east/gulf-states-sought-reassure-iran-their-neutrality-iran-israel-conflict-sources-2024-10-03/>

Over a billion have voted in 2024: has democracy won?

<https://www.economist.com/international/2024/10/06/over-a-billion-have-voted-in-2024-has-democracy-won>

China’s stock rally for the ages shows power of crowds

<https://www.ft.com/content/a4c85072-1910-478e-af93-67998417847c>

What populists don't understand about tariffs (but economists do)

<https://www.piie.com/blogs/realtime-economics/2024/what-populists-dont-understand-about-tariffs-economists-do>

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