

Weekly Insights

20 Oct 2023

Markets react to Israel-Gaza, but macro data have yet to show impact

- *Israel-Gaza Conflict & Potential Regional Impact*
- *Israel-Gaza Conflict & Impact on Global Markets*
- *Dubai's real GDP grew by 3.2% yoy in H1 2023, supported by a 3.6% yoy gain in Q2; services-related sectors major gainers*
- *In Sep, inflation in Saudi Arabia eases to the lowest since Feb 2022 while wholesale prices rebound*
- *Inflation climbs to a new record-high in Egypt while in Qatar it eased to the lowest since Apr 2021*

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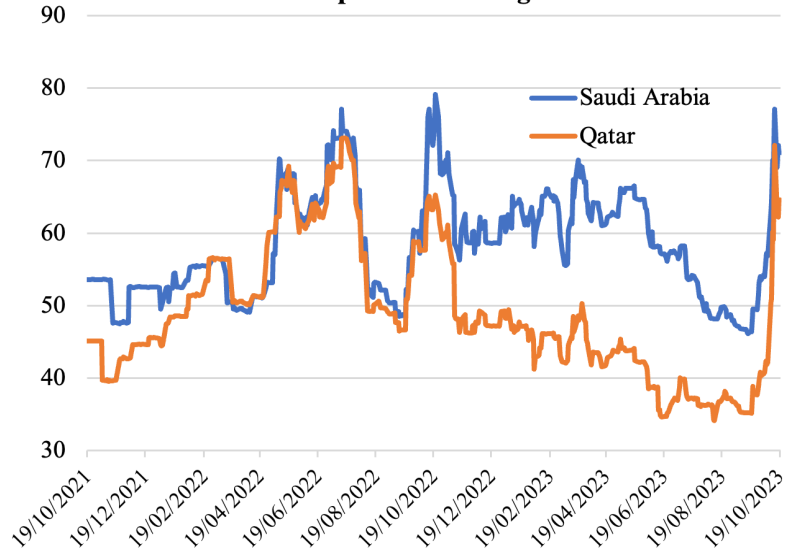
— & ASSOCIATES —

Israel-Gaza Conflict & Potential Regional Impact

- Growth momentum has already slowed significantly this year; this conflict has the **potential to further slow growth** and **raise** already record-high **public debt** levels.
- Any **disruption in transport and logistics will have an impact on global supply chains, energy & food prices** => increase in global inflation, slower growth
- **Downward impact on tourism** if conflict spreads (e.g., Egypt & Jordan)
- Investor confidence will be affected, resulting in **capital outflows & lower FDI inflows**
- Geopolitical tensions could **see the dollar benefit** given its safe-haven status: difficult for nations facing currency depreciation; supports nations pegged to the USD
- At the **end of 2022, the MENA region hosted about 2.4mn refugees** in addition to about 12.6mn internally displaced persons & more (UNHCR). Any further addition to this would put **severe strain on the hosting nations' budget & finances and socio-economic-political stability**.
- **Sectors that could be negatively affected:** markets, tourism, hospitality, real estate

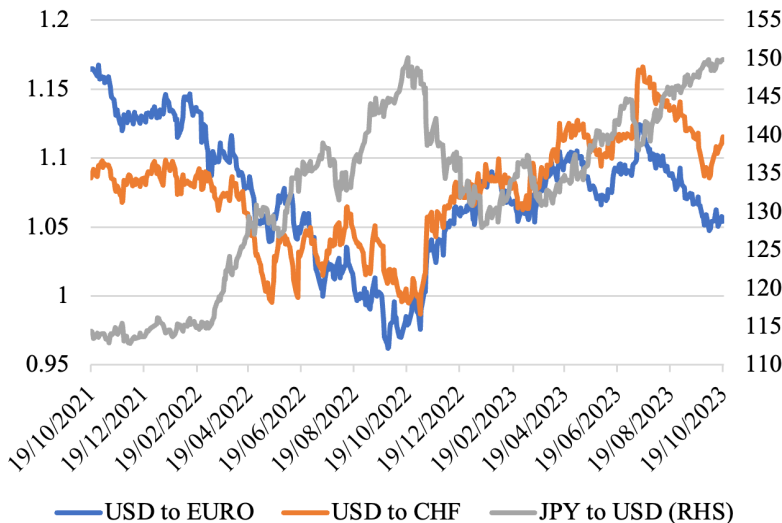
Israel-Gaza Conflict & Impact on Global Markets

The Israel-Gaza conflict sees Saudi Arabia & Qatar 5Y CDS spreads climbing

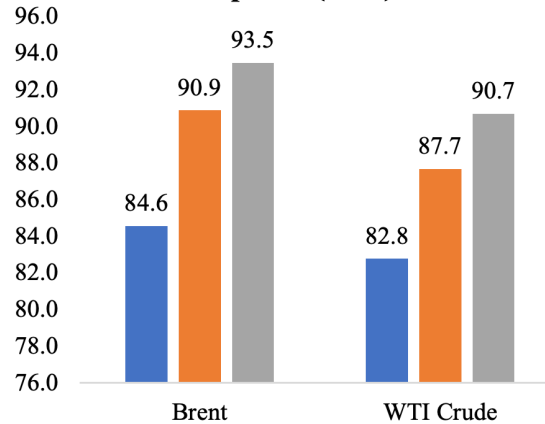


- **Heightened geo-political risk** resulted in immediate market moves.
- **Global uncertainty will tick up.** Much will depend on how long the conflict lasts, whether it will spillover and draw in other parties and whether it will disrupt transport and logistics including for energy.
- **Most direct change was seen in oil prices**, with both Brent and WTI rising to above USD 90 (Brent touched USD 93 on Wednesday). A further escalation / broadening of the conflict would see upward pressure on oil. If conflict leads to disruption on any major oil transit chokepoint, it could impact supplies in an already tight market.
- **Safe haven assets** – gold and currencies like the Swiss franc and Japanese yen – have gained since early-Oct. USD strengthened, but this could change if inflation ticks up & US growth slows substantially.
- **Bonds** issued by Lebanon, Jordan and Egypt have been hit hard. **Credit-default swaps** on Saudi Arabia and Qatar climbed significantly.

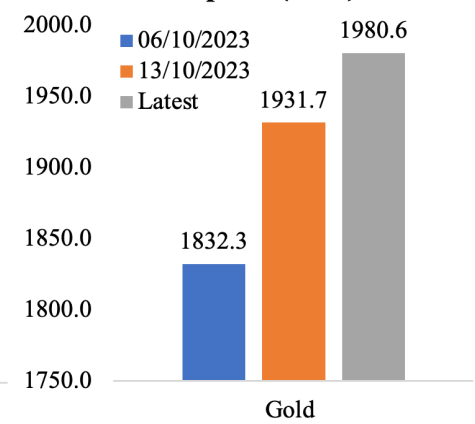
Safe haven currencies strengthen following the Israel-Gaza conflict



Oil prices (USD)



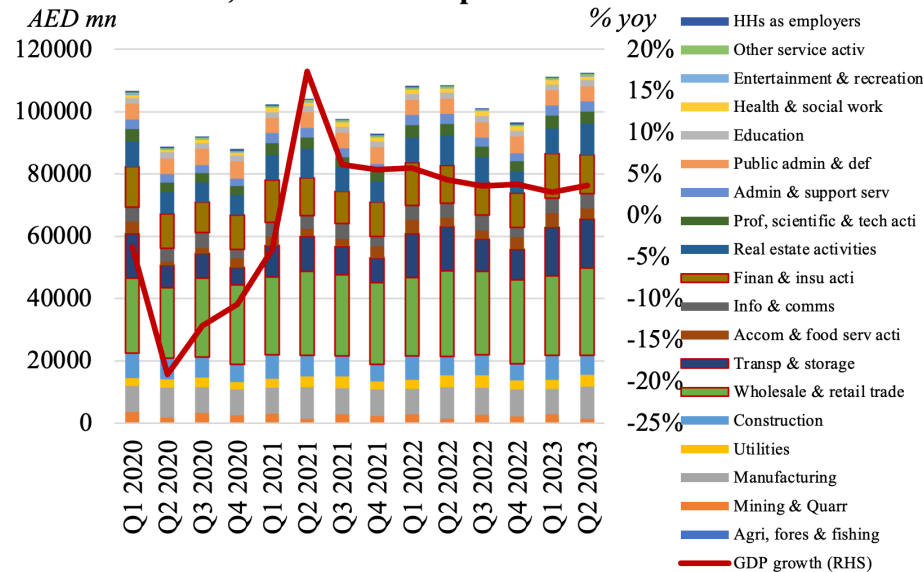
Gold price (USD)



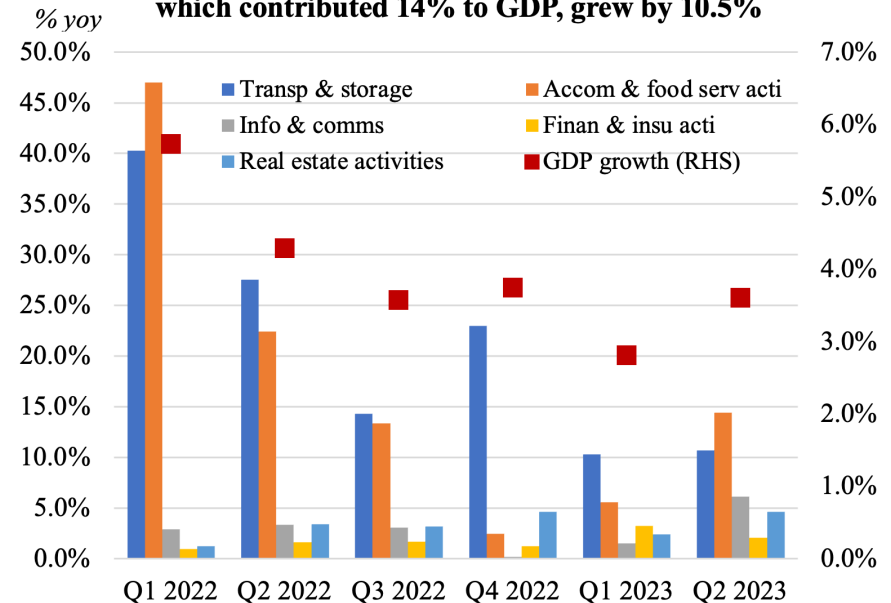
Dubai's real GDP grew by 3.2% yoy in H1 2023, supported by a 3.6% yoy gain in Q2; services-related sectors major gainers

- **Real GDP in Dubai grew by 3.6% yoy in Q2** following Q1's 2.8% growth rate. Growth in the first half of this year is up by 3.2% yoy to AED 223.8bn, with the oil sector's contribution at less than 2% of the total. The uptick is **also evident from the rise in PMI readings**: 1 point rise to 55.5 in H1 2023 from a year ago.
- The **fastest growing sectors in Q2 were mostly services-related sectors**: accommodation and food services (14.4%), transportation & storage (10.7%) followed by information & communication (6.1%), real estate activities (4.6%) and entertainment & recreation (2.6%). **Hospitality-related indicators** are supported by the uptick in tourism sector activity during H1 2023 while **real estate sector activity** has been booming thanks to the long-term residency reform alongside reforms to attract businesses and a high-skilled workforce.
- **Sectors that contributes most to growth** are wholesale & retail trade (24%), transportation & storage (14%), financial sector activity, real estate and manufacturing. Together these 5 sectors **account for more than two-thirds of GDP**. Trade growth slowed, in line with global trend.
- **Will UAE be affected by spillovers from the conflict in Gaza?** It is too early to see the impact – but, one can expect some slowdown in real estate sector activity in addition to tourism / hospitality (some concerts in the coming weeks are being cancelled; but major events on the calendar like COP28 are unlikely to be cancelled unless the situation deteriorates drastically).

Dubai GDP grew by 3.6% in Q2 2023 (Q1 2023: 2.8%), taking H1 growth to 3.2%. Largest contributions from trade, financial & transportation sectors

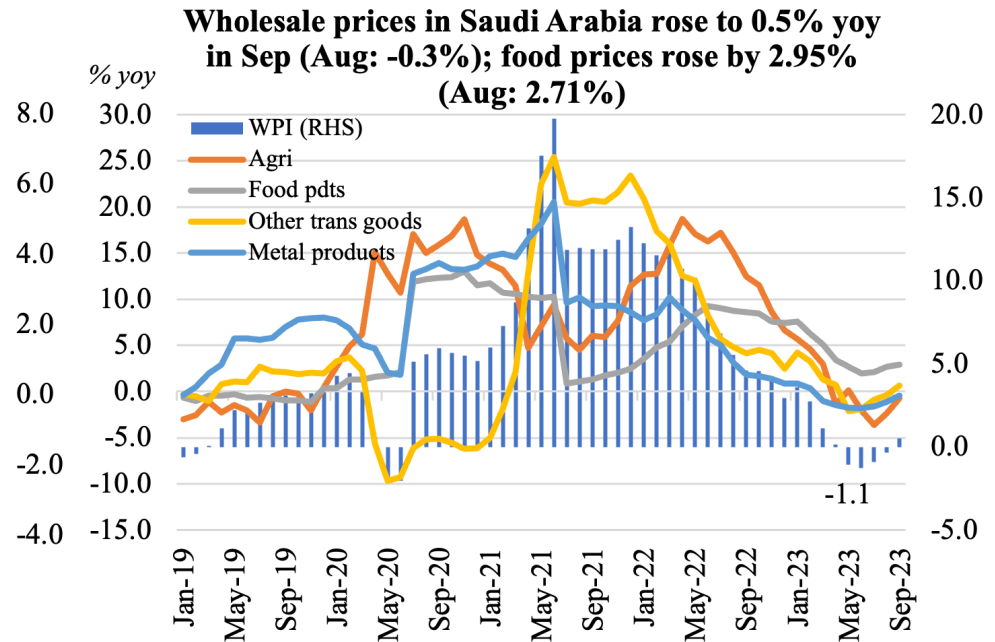
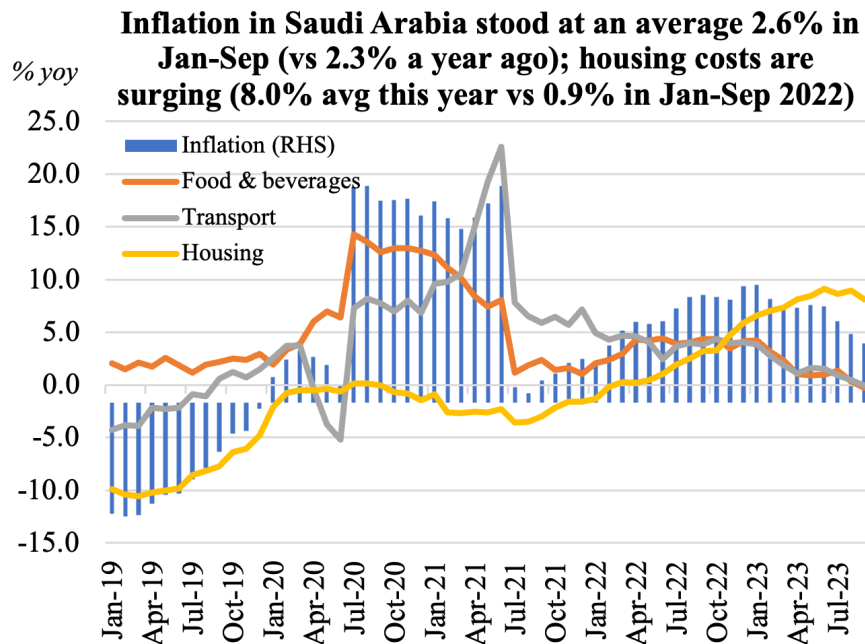


Fastest growing sectors in Dubai together accounted for 42% of GDP in H1 2023; transportation sector, which contributed 14% to GDP, grew by 10.5%



In Sep, inflation in Saudi Arabia eased to the lowest since Feb 2022 while wholesale prices rebounded

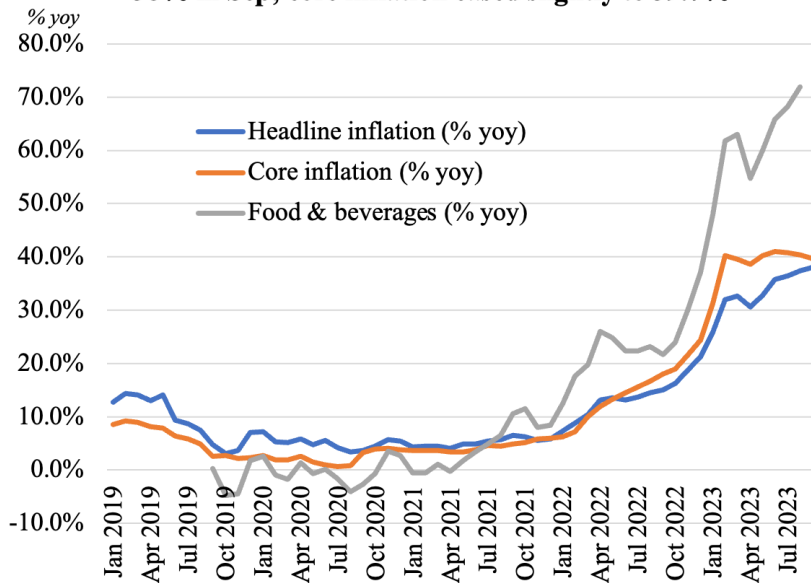
- **Consumer price inflation in Saudi Arabia eased to 1.7% yoy in Sep** (Aug: 2.0%), as housing costs slowed (8.1% from Aug's 9% gain), alongside declines in both food and transport prices (-0.2% and -0.1% respectively).
- **In the period Jan-Sep 2023, consumer inflation averaged 2.6%**, compared to 2.3% in the same period a year ago. Housing & utilities costs have climbed by an average 8% this year (from 0.9%) and restaurants & hotels costs are up by 4.8% (from 4.5%) with **easing** food prices (1.6% versus 3.6%) and **transport costs** (1.6% from 4.1%).
- **Wholesale prices in Saudi Arabia rebounded in Sep, rising by 0.5%** (the first positive reading since Apr 2023) as readings rose across all main categories. WPI eased to 0.5% in the Jan-Sep 2023 period, from the 9.1% surge a year ago. **Food prices were up to 2.95% in Sep** (Aug: 2.71%) and **other transportable goods moved to a 0.66% gain** (from Aug's -0.39%) while other categories declines softened: metal products (-0.4% from -1.1%); ores and minerals saw prices edge down to 0.58% from Aug's 0.59% dip; agriculture eased to -0.72% (from -2.31% in Aug).



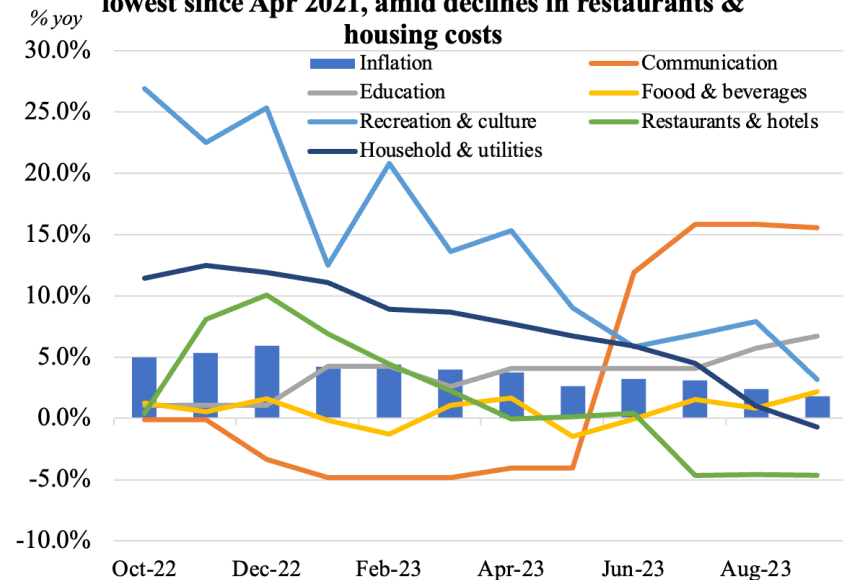
Inflation climbs to a new record-high in Egypt while in Qatar it eased to the lowest since Apr 2021

- **Egypt's inflation jumped to 38% in Sep** (Aug: 37.42%), the 4th consecutive month of a new record high, as **food inflation jumped by a whopping 76.3%**. Non-food inflation slowed for the first time since Oct 2021 (though still at a high 20.6%) while **core inflation eased slightly** to 39.7% (Aug: 40%). Real interest rates remain negative.
- The **price reduction on staple foods** & exemption from customs duties announced this month might provide a slight respite: it will offer only a temporary relief and is unlikely to be a sustainable measure.
- **The root causes of inflation remain unaddressed: a depreciating Egyptian Pound** & its pass-through to consumers + a severe foreign currency crisis. The country's external debt has been rising: about USD 14.6bn is due in debt service payment come H1 2024.
- **Markets expect further devaluation:** but with elections scheduled for Dec this year, any devaluation reform measure, will likely happen only after the elections.
- **In Qatar, inflation slipped to 1.8% yoy in Sep** - the lowest since Apr 2021. While food prices rose to a 1-year high of 2.2% and education costs jumped (6.7% from Aug's 5.7% gain). However, restaurants & hotels costs declined (-4.7%) as did household & utilities (-0.7% from 1%) amid easing of costs in communication (15.6% from 15.9%) and recreation (3.2% from 7.9%) among others.

Egypt's urban inflation rate rose to a new record-high 38% in Sep; core inflation eased slightly to 39.7%



Inflation in Qatar inched lower to 1.8% yoy in Sep, lowest since Apr 2021, amid declines in restaurants & housing costs



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