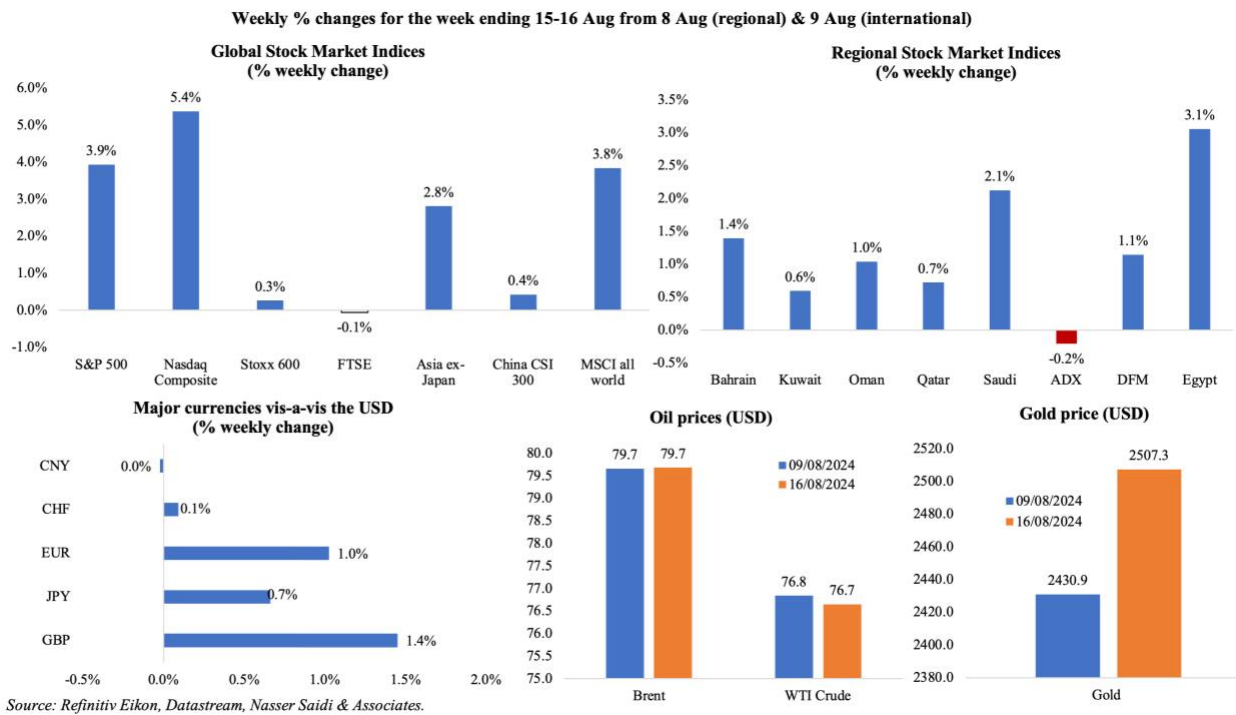


## Weekly Economic Commentary, 19 Aug 2024

### Markets

Global equities markets rebounded last week, as data (e.g., inflation and retail sales) supported the move away from recession fears in the US, along with growing expectations for a rate cut. Markets posted some of the biggest weekly gains so far this year - Japan's stocks gained 7.9% weekly and the MSCI global stock index had its best week since Nov 2023. Vix, the "fear gauge", slipped below 15 after touching a 4-year high during the market sell-off. Regional markets also reflected the upbeat sentiment among global peers, with the Abu Dhabi market ending marginally in the red. The British pound gained by 1.4% during the week and the euro touched its highest since early-Jan. Gold price rose to an all-time high, topping USD 2500 an ounce, while Brent and WTI closed below USD 80 (almost unchanged from the week before but down by nearly 2% on Friday alone).



### Global Developments

#### **US/Americas:**

- **Inflation in the US slowed for the fourth month in a row, to 2.9% yoy in Jul (Jun: 3%) – the lowest since Mar 2021.** Prices eased for transportation (8.8% from 9.4%) and shelter (5.1% from 5.2%) while food inflation held steady at 2.2%. **Core inflation moved to 3.2%, the lowest since Apr 2021, from 3.3% the month before.**

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- **US industrial production declined by 0.6% mom in Jul** (Jun: 0.3%), with manufacturing and utilities production down by 0.3% and 3.7% respectively. Capacity utilisation slipped to 77.8% (Jun: 78.4%).
- **Producer price index in the US inched up by 0.1% mom** and 2.2% yoy in Jul (Jun: 0.2% and 2.7% yoy), largely dragged down by services (-0.2%) while there was a 0.6% uptick in final demand goods prices. Core PPI eased to 2.4% yoy in Jul (Jun: 3%).
- **US budget deficit widened to USD 244bn in Jul** (Jun: USD 66bn; Jul 2023: USD 221bn), largely due to calendar effects (Medicare payments were made in Jun 2023 and in Jul this year). **Interest on federal debt increased by 21% to USD 89bn in Jul**, and the weighted average interest rate was up 49bps to 3.33%. In the Oct 2023-Jul 2024 period, overall deficit narrowed to USD 1.517trn from USD 1.614trn a year ago.
- **Retail sales in the US rebounded in Jul, up by 1% mom** (Jun: -0.2%), the largest increase since Jan 2023. Sales at motor vehicle & parts dealers rebounded by 3.6%, sales at electronics and appliance outlets grew by 1.6% and while sales were up by 0.2%. Core retail sales (i.e., excluding automobiles, gasoline, building materials and food services) rose 0.3% (Jun: 0.9%).
- **Building permits in the US fell** by 4% mom to 1.396mn in Jul, the lowest since Jun 2020, with permits for buildings with five or more units plunging 12.4% to 408k. **Housing starts declined** by 6.8% mom to 1.238mn, the lowest level since May 2020. Single-family starts tumbled by 14.1% to a seasonally adjusted 851k (the lowest since Mar 2023). **An oversupply of new homes, high mortgage rates and prices have had a negative impact on the market.**
- **NY Empire State manufacturing index gained 1.9 points to a 6-month high** of -4.7 in Aug. Separately, **Philadelphia Fed manufacturing index slipped into negative territory in Aug** (first since Jan), clocking in -7 from Jul's 13.9. This stemmed from lower readings in new orders (14.6 from 20.7), shipments (8.5 from 27.8) and employment (-5.7 from 15.2).
- **Michigan consumer sentiment index increased to 67.8 in Aug** (Jul: 66.4), posting the first rise in 5 months, thanks to an improvement in the expectations index (72.1 from 68.8) even as current conditions edged lower (60.9 from 62.7). **Inflation expectations** for the year- and 5-year ahead **remained unchanged** at 2.9% (the lowest since Dec 2020) and 3% respectively.
- **Initial jobless claims declined by 7k to 227k in the week ended Aug 9**, taking the 4-week average down by 4,500 to 236.5k. **Continuing jobless claims ticked up** by 7k to 1.864mn in the week ended Aug 3, the most in late 2021.

#### Europe:

- **Industrial production in the eurozone fell** by 0.1% mom and 3.9% yoy in Jun (previous estimate: -0.9% mom and -3.3% yoy). The highest monthly growth was reported in Romania (+4%) while it declined the most in Ireland (-7.8%). Energy production in the Eurozone increased by 1.9% mom and 2.6 yoy in the eurozone.
- **The ZEW Economic Sentiment Index in Germany plunged to 19.2 in Aug** (Jul: 41.8), the sharpest decline since Jul 2022, while the current situation slipped to a 4-month low of -77.3

(Jul: -68.9). The **eurozone Economic Sentiment Index fell to 17.9** (Jul: 43.7) while the current indicator improved modestly (+3.7 points to -32.4).

- **Wholesale price index in Germany** declined by 0.1% yoy in Jul (Jun: -0.6%), remaining **deflationary for the 15th month in a row**.
- **Current account surplus in Germany widened** to EUR 23.2bn in Jun (May: EUR 18.5bn) as primary income surplus rose (EUR 10.1bn from EUR 1.7bn) while goods surplus narrowed (to EUR 6.4bn from EUR 8.3bn).
- **UK GDP expanded by 0.6% qoq and 0.9% yoy in Q2** (Q1: 0.7% qoq and 0.3% yoy) as the services sector grew by 0.8% alongside 0.1% dips in production and construction. Monthly GDP growth was flat in Jun, following May's 0.4% uptick. Industrial and manufacturing production fell by 0.8% mom and 1.1% respectively in Jun (prev: 0.3% each).
- **Inflation in the UK inched up to 2.2% yoy in Jul** (Jun: 2.0%). Food and education costs remained steady (1.5% and 4.5% respectively) alongside higher prices for housing & household services (3.7% from 2.3%) while inflation slowed for services (5.2%, the lowest since Jan 2022). Core inflation slowed to 3.3% (Jun: 3.5%).
- **UK retail sales rebounded in Jul, rising by 0.5% mom and 1.4% yoy** (Jun: -0.9% mom and -0.3% yoy). Sales at non-food stores and non-store retail stores grew by 1.4% mom and 0.7% respectively. In the 3 months to Jul, sales grew by 1.1%.
- **Producer input prices in the UK inched up by 0.4% yoy in Jul** (Jun: 0%), with crude petroleum & natural gas prices rising by 10.7% yoy (Jun: 11.1%) while domestic food prices were steady at 1.9%. Output prices eased (0.8% from 1%) while retail price index jumped in Jul, up by 3.6% yoy (Jun: 2.9%).
- **UK average earnings excluding bonuses slowed in the 3 months to Jun**, rising by 5.4% (the lowest since Aug 2022) from the previous reading of 5.7%. Including bonus, earnings grew by 4.5% from 5.7% the month before. **Unemployment rate unexpectedly edged down to 4.2%** in the 3 months to end-Jun (prev: 4.4%). Additionally, estimated job vacancies fell by 26k to 884k in the 3 months to Jul.

#### **Asia Pacific:**

- **Money supply in China grew by 6.3% yoy in Jul** (up from a record low of 6.2% in Jun). **New loans slowed in Jul** to CNY 260bn from Jun's CNY 2130bn- this was **the lowest in nearly 15 years**; corporate loans plunged to CNY 130bn (Jun: CNY 1.63trn). Year-to-date, banks in China have lent CNY 13.53trn. Annual growth of outstanding total social financing rose to 8.2% (Jun: 8.1%).
- **Industrial production in China grew by 5.1% yoy in Jul** (Jun: 5.3%), a 4-month low. **Unemployment inched up to 5.2% in Jul** (Jun: 5%), posting the first uptick since Feb. **Retail sales increased by 2.7%** (Jun: 2%). Fixed asset investment grew by 3.6% yoy in Jan-Jul (H1: 3.9%), dragged down by a drop in property investment.

- **GDP in Japan rebounded in Q2, growing at a 3.1% annualised pace** (Q1: -2.3%), supported by a strong increase in consumption (+1%, the first gain after 4 quarters of declines, supported by real wage growth). Capital spending was up 0.9% and exports rose by 1.4%.
- **Industrial production in Japan fell by 4.2% mom and 7.9% yoy in Jun**, compared to a flash estimate of a 3.6% mom fall. This was the fourth consecutive month of decline and the steepest this year, as production declined across motor vehicles (-8.9% from 18.1% in May) and production machinery (-9% from -6.8%). The yoy decline was the steepest since Sep 2020.
- **Consumer price inflation in India eased to 3.54% yoy in Jul** (Jun: 5.08%), the lowest since Aug 2019 and falling below the RBI's target range of 4%. This was largely due to a sharp fall in food prices (5.45% from Jun's 9.36% surge due to a base effect). **WPI inflation slowed in Jul, rising by 2.04%** (Jun: 3.36%), with food prices rising the least in 9 months (3.55% from Jun's 8.68%) while manufacturing prices rose the most since Feb 2023 (1.58% from 1.43%).
- **India's industrial output grew by 4.2% yoy in Jun**, a five-month low and from May's 5.9% gain, while manufacturing output expanded at a much slower pace (a 7-month low of 2.6%, and almost half of May's 4.6% growth). Though capital goods' output growth slowed (to 2.4% from 2.9%), production levels in Jun were the highest in 2024-25.

**Bottom line: Data from China disappointed again, with signs that domestic demand is still struggling to recover (in the backdrop of property sector woes). While the PBoC seems less likely to cut interest rates this week (soon after the cuts last month), the slow growth will have a significant impact on oil markets amid fears of supply disruptions from a potential wider, regional war. In the US, on the one hand the elections will steal the limelight this week with the Democratic National Convention (plus, VP Harris has overtaken Trump in national polls) while on the other investors will have their eyes on the Jackson Hole Symposium (especially for signs about Fed rate cuts). Flash PMI will be released this week: Germany is likely to clock in another contractionary reading, but it is also important to note price movements. Jun-Jul global manufacturers' input cost inflation stood at near a 16-month high, with labour costs and higher materials prices the most cited reasons for upward price pressures.**

### **Regional Developments**

- **Egypt plans to attract over USD 2bn from the EU countries** for new industrial projects **this year**. It also plans to increase its exports to the EU by 10% to EUR 12.5bn by end-2024.
- **Unemployment rate in Egypt fell to 6.5% in Q2 2024** from 6.7% in Q1. There was a massive divergence in the unemployment rate for men and women – it was 4.2% for men (down from 4.4%) but 17.3% for women (higher than Q1's 16.5%).
- **Addition of 30 gigawatts of new renewable energy capacity in Egypt is expected to save USD 4.1bn annually in fuel costs**. Egypt aims to increase renewable electricity generation to 42% by 2035 and 58% by 2040.
- **Egypt launched its voluntary carbon trading market** - the first in the country and in Africa - will allow companies to issue and trade voluntary carbon certificates in Egypt and Africa.

- **Egypt launched a National Low-Carbon Hydrogen Strategy**, setting a target to capture between 5 and 8% of the global tradeable hydrogen market by 2040. To achieve the higher-end target, Egypt will have to produce 5.6mn tonnes annually which will require USD 60bn of investment. Furthermore, the low-carbon hydrogen sector is estimated to create 100k jobs.
- **A Saudi firm is planning to build a hydrogen-powered skyscraper in Egypt's** new capital. The 50-story office tower is estimated to cost USD 1bn.
- **Egypt passed executive regulations allowing for private investment in its public hospitals** for the first time. This will allow firms to bid, manage and operate existing public hospitals for between 3-15 years.
- **Egypt and UAE signed an MoU for establishing a new Mediterranean logistics trading zone:** investment for this is estimated close to USD 3bn. The agreement also includes the possibility of supplying petroleum products to the local market through Fujairah's current partnerships with international oil and gas companies.
- **Iraq stated that the announcement about the end date for the US-led coalition mission has been postponed to early Sep.** Plan is to end the coalition's work by Sep 2025.
- **Algeria will supply Lebanon with fuel for power plants**, according to an Algerian state radio statement, after Lebanon's electricity company Electricité du Liban disclosed that its fuel reserves had run out and the country faced a total blackout (except for critical services such as the airport and water pumps).
- **Oman revealed a 5-year plan to overhaul its capital markets**, increase its size and liquidity: firms listing on the exchange would be given **tax refunds and preferential treatments** in government procurement; furthermore, a **secondary "promising companies" market for SMEs** and family-owned businesses will be created, for such firms to access growth capital.
- **Just over 14k jobs were created for Omani citizens in H1 2024**, thereby meeting around 54% of its employment target.
- **Oman's Salalah port posted a 16% drop in container volumes to 1.679mn in H1**, partly due to the Red Sea crisis; the port is close to the border with Yemen.
- **The tourism sector in Oman welcomed 1.045mn guests in H1 2024, up 10.7% yoy:** visitors from the UAE topped the list (578k), followed by India (7k), Yemen (108k), Germany (83k) and UK (49k). Hotel revenues grew by 8.6% yoy to OMR 120mn during H1.
- **Inflation in Qatar eased to 0.22% in Jul** (Jun: 0.98%), the lowest since Mar 2021, as **food and beverages prices turned negative** (-0.7% from Jun's 0.1%). Though prices for recreation & culture slowed, it was a high 8.3%.
- **Youth unemployment rate in MENA** has not only shown a steady increase over the two decades but **stood at 24.4% in 2023 – almost double the global average (13%)**. MENA youth unemployment rate in 2023 declined versus pre-pandemic (25.3%). **Fewer than one in ten young women in MENA (6.4%) were working in 2023** & fewer than 1 in 3 young men are working (30.2%). The ILO estimates that in the Arab States employment among young

women would need to increase six-fold and in North Africa five-fold to reach a regional and gender-based state of equity.

- **Startups investments in MENA grew by 260% yoy and 206% mom to USD 355mn in Jul**, according to Wamda and Digital Digest. Around 38 startups received funding, with UAE firms seeing 12 deals followed by Egypt and Saudi Arabia (7 each). By sector, fintech dominated deals, raising USD 180.8mn, followed by Web3 (USD 85mn) and cleantech (USD 37mn).
- There were **14 IPOs in the MENA region in Q2 2024, raising USD 2.64bn** (+45.3% yoy), according to Ernst & Young. Saudi firms raised USD 1.6bn during Q2, while Kuwait saw its first listing since Q4 2019. Activity is expected to remain strong in H2, with around 16 private firms and 7 funds planning to list.

### **Saudi Arabia Focus**

- **Consumer price inflation in Saudi Arabia stood at 1.53% yoy in Jul** (Jun: 1.5%, the lowest level since Dec 2023). Most categories posted declines including food & beverages (0.37% from 1.13%), hotels & restaurants (2.3% from 2.4%) and recreation costs (-2.9% from -2.0%) while education costs jumped (1.6% from 1.1%). **Housing rental costs jumped in Jul by 11.1%** from Jun's 10.2% (**highest on record since Jan 2013**, the first available datapoint) with apartment rentals surging by 12%. 
- **Wholesale prices in Saudi Arabia edged down to 3.1% in Jul** (Jun: 3.2%), the lowest reading since Feb 2023. Year-on-year declines were evident except in "other transportable goods" (8.27% from Jun's 7.97%). Deflation continued in ores & minerals (-4.3% from -3.4%) and metal products, machinery & equipment (-0.81% from -0.55%).
- **Industrial production in Saudi Arabia fell by 4% yoy in Jun** (May: -2.9%), the 14<sup>th</sup> straight month of decline, largely owing to the drop in mining & quarrying activity (-11.3%, from May's -9.7%) alongside a 7.4% rise in manufacturing (May: 8.2%).
- **Saudi Arabia's official reserves grew by 6.06% yoy to SAR 1.7trn in Jul**, according to SAMA data. International currency holdings grew by 6.54% yoy to SAR 1.61trn while SDRs dropped by 0.44% to SAR 78.03bn. Separately, **Saudi's US Treasuries holdings increased by USD 4bn to USD 140.3bn in Jun**.
- **Saudi PIF posted a 0.53% qoq increase in US stock investments to USD 20.66bn in Q2**: this includes a 10-fold increase in the stake in Nvidia as well as increases in its positions in PayPal, Meta Platforms and Microsoft among others.
- The CEO of **Saudi Arabia's King Abdullah Financial District (KAFD)** disclosed that **10 more global firms established their regional HQs** at the District. He also states that only 50% of the district has been developed so far while the remainder would be completed in phases.
- **Insurance sector in Saudi Arabia witnessed a 25% surge in earnings to SAR 2.2bn in H1 2024**, reported Arab News. In Q2 alone, sector earnings jumped 10% yoy to SAR 1.29bn.
- **Construction contracts in Saudi Arabia surged by 79% yoy to SAR 118.8bn in Q1 2024**, according to a US-Saudi Business Council report, dominated by projects in the oil and gas sector (SAR 51.2bn) alongside real estate (SAR 24.4bn).

- **Saudi Arabia's close to 27mn international tourists spent a record-high SAR 141bn in 2023:** this was up 44% yoy and compares to the previous high of SAR 103.4bn clocked in 2019 (from 17.5mn tourists).
- **Riyadh Air awarded a 4.5-year contract** (with a possible 2-year extension) worth SAR 1.5bn **for ground handling services as it prepares for launch next year.**
- In a bid to improve operational efficiency and support trade, **two new logistics zones** with an investment of SAR 160mn **will be established in Jeddah and Dammam.**
- **Aramco and King Abdullah University of Science and Technology (Kaust) agreed to a 10-year investment of USD 100mn in R&D projects** covering energy transition, sustainability, materials innovation, upstream technologies and digital solutions.

### **UAE Focus**

- **Inflation in Dubai clocked in at 3.3% in Jul, the lowest reading so far this year,** and from Jun's 3.9%. Among the largest upticks recorded was in housing & utilities (with an overall weightage of 40.7%): +0.58% mom and 6.76% yoy in Jul – also the largest gains recorded this year. **Both recreation and restaurants & accommodation costs turned negative in yoy terms** in Jul (-2.4% and -0.3% respectively) while insurance & financial services costs ticked up (8.62% yoy from Jun's 8.44% gain).
- **Company registrations at Abu Dhabi's financial centre (ADGM) grew by 31% yoy to 2088 in H1 2024;** new licenses issued grew by 20.5% to 1271 during the period. Assets under management during the period surged by 226% yoy given 112 fund and asset managers operating/ managing 141 funds.
- **Abu Dhabi Investment Authority invested close to USD 1bn, across 5 deals, in India during H1 2024.** Currently, 23% of ADIA's USD 8.3bn portfolio is invested in emerging markets. ADIA's investments in India was USD 1.7bn in 2023 (roughly 17% of its portfolio).
- Reuters reported, citing sources, that **India's central bank has asked banks to settle part of their trade payments directly using the INR and AED.** According to one of the sources, the apex bank has asked that banks should first seek "a matching flow" in dirham from another bank when payments are to be made to UAE (i.e. seek a rate for AED-INR from another bank instead of converting rupee to dollar and then dollars to AED).
- **About 30 new activities have been added to the Freelancer Licence issued by the Abu Dhabi Business Centre** at the Abu Dhabi Department of Economic Development including AI development, Data classification & analysis services and Online Players Support Service Providers among others.
- **DMCC welcomed 1023 new member companies in H1 2024,** resulting in a total of close to 25k firms. Around 226 technology firms joined the free zone, including 14 gaming and 9 AI firms. DMCC accounts for 15% of all FDI in Dubai (up from 11%) and 7% of Dubai's GDP.
- The **Abu Dhabi Real Estate Center disclosed that real estate market attracted AED 3.28bn in FDI in H1 2024,** up 225% yoy, via 971 investors across 75 countries. A total of 12,439 transactions clocked in a total of AED 36.2bn in H1.

- **Indian, Pakistani and Egyptian businesses were the top new non-Emirati firms joining the Dubai Chamber of Commerce in H1 2024** – registering 7860, 3968 and 2355 new firms respectively. By sector, trade and repairing services sector accounted for 41.5% of the total companies.
- **DP World reported a 59% decline in profits to USD 265mn in H1 2024**, partly affected by higher costs and disruptions related to the Red Sea crisis. The firm’s overall revenue rose 3.3% to USD 9.34bn, with consolidated container volumes up 3.7% on a like-for-like basis.
- **Dubai toll operator Salik**, when reporting its Q2 results, **disclosed that** there were 116mn revenue generating trip (+2% yoy), with **the Jebel Ali toll gate generating 10% growth** (while Al Maktoum Bridge and Al Safa posting 4% and 3% growth respectively).
- **Etihad Rail launched a sustainable finance framework** - including guidelines on green loans & bonds, use of proceeds and project evaluation & selection among others - with an aim to issuing green bonds to finance lower carbon infrastructure.

**Media Review:**

**Kuwait overhauls tax system and signs UAE treaty**

<https://www.agbi.com/analysis/economy/2024/08/kuwait-overhauls-tax-system-and-signs-uae-treaty/>

**Global youth unemployment dipped to a 15-year-low in 2024: ILO**

<https://www.ilo.org/publications/major-publications/global-employment-trends-youth-2024>

**Western airlines slash flights to China**

<https://www.ft.com/content/9156b23b-c74d-4daf-bfb2-c8ed61aebd7a>

**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>