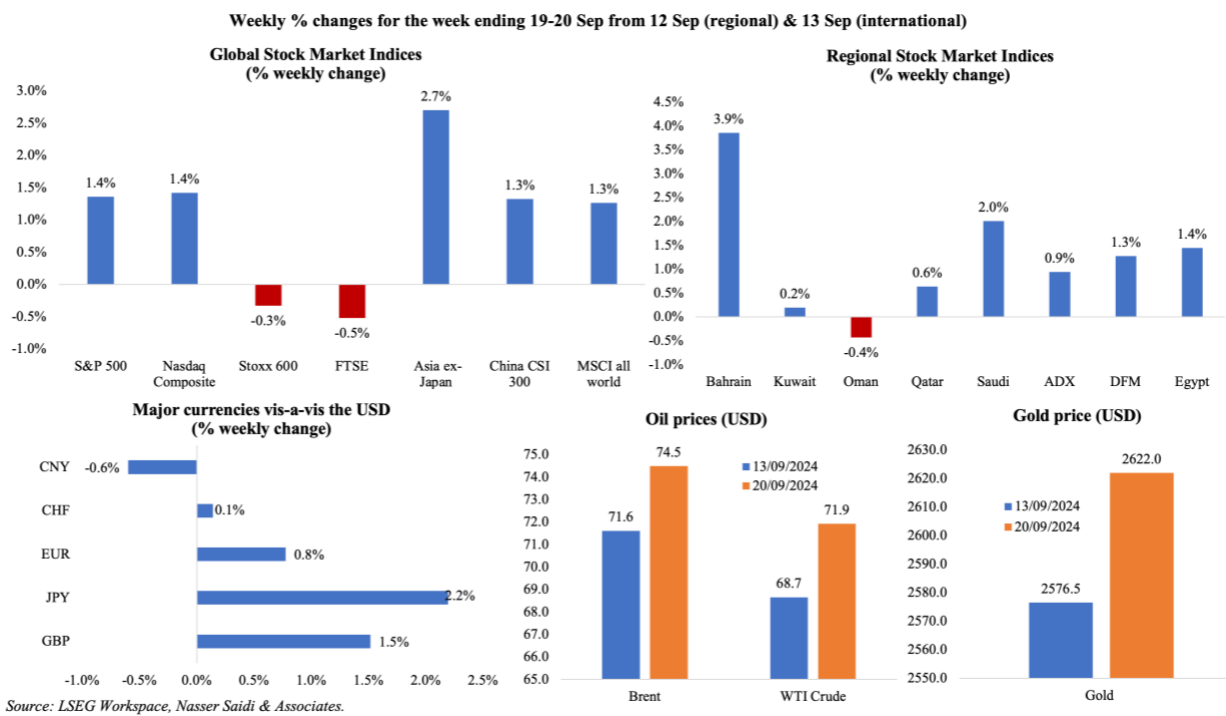


## Weekly Economic Commentary, 23 Sep 2024

### Markets

Equities rallied following the Fed rate cut, but closed slightly lower on Fri: S&P 500 and the Dow posted record-high closes during the week as did the MSCI index of global stocks; in contrast, European markets ended in the red. Weak sentiment and PBoC holding rates (versus an expected rate cut) in China meant that the CSI300 index was subdued: though it hovered around a 7-month low, it posted weekly gains. Regional markets were mostly positive, largely supported by the Fed rate cut – a move that was mirrored in the GCC (given the dollar peg). The US dollar touched a two-week high versus JPY after the BoJ left rates unchanged. Commodities gained: oil prices were up more than 4% compared to the previous week (partly due to rising tensions in the Middle East) while gold touched a record high surpassing USD 2,600 an ounce.



### Global Developments

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

- **Fed lowered the fed funds rate by 50bps to a range between 4.75%-5%** - the first reduction since 2020. The FOMC raised its projection for unemployment rate this year to 4.4% (from 4%) while lowering headline and core inflation outlook (to 2.3% and 2.6% respectively from 2.6% and 2.8% before).
- **Industrial production in the US rebounded in Aug**, up by 0.8% mom (Jul: -0.6%), supported partly by a rebound after the Hurricane Beryl-related drop. Output of motor vehicles

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and parts grew the most (9.8% from Jul's 8.9% dip) while manufacturing gained by 0.9%. Capacity utilisation rose to 78% in Aug (Jul: 77.4%).

- **Retail sales in the US grew by 0.1% mom in Aug** (Jul: 1.1%), underscoring strong consumer spending. Spending was highest at non-store retailers (1.4%) and miscellaneous stores (1.7%) while food & beverages sales declined (-1.1%) as did electronics & appliances (-1.1%).
- **NY Empire State manufacturing index surged to 11.5 in Sep** (Aug: -4.7), the highest reading since Apr 2022, thanks to an uptick in new orders (9.4 from -7.9) and shipments (17.9 from 0.3) while employment contracted (-5.7 from -6.7). **Philadelphia Fed manufacturing survey index improved to 1.7 in Sep** (Aug: -7).
- **Building permits in the US increased by 4.9% mom** to a 5-month high of 1.475mn in Aug, with multi-family building permits up by 8.4% to 451k units. **Housing starts surged by 9.6% mom** to 1.356mn in Aug, supported by single family housing starts (that rose 15.8% to 992k). New housing supply is close to levels in early-2008, though affordability remains a constraint. **Existing home sales fell by 2.5% mom** to 3.86mn in Aug, the lowest in 10 months, despite a drop in mortgage rates. The median existing home price rose 3.1% yoy to USD 416,700.
- **Initial jobless claims declined by 12k to a 4-month low of 219k in the week ended Sep 13**, taking the 4-week average slightly lower by 3.25k to 227.5k. **Continuing jobless claims fell** by 14k to 1.829mn in the week ended Sep 6, the lowest since early-Jun.

#### Europe:

- **The EU trade surplus narrowed to EUR 19.1bn in Jul** (Jun: EUR 20.9bn): exports surged by 11.6% yoy to EUR 230.3bn and imports grew by 4.8% to EUR 211.1bn. The region posted an overall surplus of EUR 114.3bn in Jan-Jul this year.
- **Consumer confidence in the eurozone improved in Sep (though in negative territory)**, to -12.9 from Aug's -13.5: this Sep reading was the highest since Feb 2022. In the EU, sentiment rose by 0.5 points to -11.7.
- **German ZEW survey of economic sentiment plummeted to 3.6 in Sep** (Aug: 19.2), with the current situation index worsening to -84.5, the lowest since May 2020 and compares to Aug's -77.3. **EU economic sentiment index also declined**, but at a slower rate (9.3 in Sep from Aug's 17.9); the situation indicator fell 8.0 points to -40.4 points.
- **Producer price index in Germany inched up by 0.2% mom in Aug**, following a similar gain in Jul, as energy prices rose (+0.8% mom) as did capital goods (+0.1%). In yoy terms, prices fell by 0.8% (Jul: -0.8%).
- **The Bank of England left interest rate unchanged at 5.0%**, with one vote received for a rate cut. The BoE indicated a "gradual" approach to monetary loosening as inflationary pressures were easing; **expectations are for lower borrowing costs maybe as early as Nov.**
- **UK inflation held steady at 2.2% yoy in Aug**, with higher prices recorded for recreation & culture (4%) and transport (1.3%, with flight costs rising by 11.9% yoy and 22% mom). Core inflation inched up to 3.6% (Jul: 3.3%).

- **Retail sales in the UK accelerated** by 1% mom and 2.5% yoy in Aug (Jul: 0.7% mom and 1.5% yoy). Food and non-food stores sales grew by 1.8% mom and 0.6% respectively. In yoy terms, sales grew the most since Feb 2022.
- **UK producer input prices fell** by 0.5% mom and 1.2% yoy in Aug (Jul: -0.1% mom and 0.4% yoy). Prices of inputs of crude oil fell by 14% yoy while the inputs of domestic food prices increased by 0.7%. **Producer output** (factory gate) **prices fell** by 0.3% mom after a flat reading in Jul while in **yoy terms, the uptick was slower** (0.2% vs 0.8% in Jul).
- **GfK consumer confidence in the UK deteriorated to a 6-month low of -20 in Sep** (Aug: -13), as the 12-month expectations for both personal finances and outlook for the economy fell to -3 and -27 (down by 9 and 12 points) respectively.

#### Asia Pacific:

- **The People's Bank of China left interest rates unchanged last week** – the one-year loan prime rate at 3.35% and the 5-year LPR at 3.85%. Weak data continue to point towards a potential rate cut in the near future. **This morning, the central bank cut the 14-day reverse repo rate (to 1.85% from 1.95%),** injecting additional liquidity.
- **Bank of Japan left the overnight call rate target unchanged at 0.25%:** the apex bank noted that private consumption was on a “moderate increasing trend” while also warning that “high uncertainties” remained on the US economic outlook.
- **Inflation in Japan inched up to 3% in Aug** (Jul: 2.8%). Excluding fresh food, prices rose to 2.8% (from 2.7% in Jul), rising for the 4th month in a row. **Excluding food and energy, prices were up by 2%** (vs 1.9%).
- **Exports from Japan grew by 5.6% yoy in Aug,** much slower than Jul's 10.2% gain, while imports grew by 2.3% (Jul: 16.6%), resulting in a **wider deficit of JPY 695.3bn**. Exports to the US fell by 0.7%, the first monthly dip in almost 3 years.
- **Japan's core machinery orders fell by 0.1% mom in Jul** (Jun: 2.1%), dragged down by manufacturing sector orders (-5.7%). In yoy terms, orders accelerated by 8.7% (Jul: -1.7%).
- **WPI inflation in India edged down to a four-month low of 1.31% in Aug** (Jul: 2.04%), as fuel & power prices fell for the first time in 5 months (-0.67% from 1.72%), alongside a drip in steel and cement prices (down by 2.4% and 6.98% respectively) and food prices cooled (3.26% from 3.55% in Jul).
- **India's trade deficit widened to a 10-month high of USD 29.65bn in Aug** (Jul: USD 23.5bn) as exports fell by 9.3% yoy to USD 34.71bn and imports grew by 3.3% to a record-high USD 64.36bn (gold imports more-than-doubled yoy to USD 10.06bn, the highest since Mar 2021).

**Bottom line: The Fed's 50bps rate cut alongside a no-change stance from the BoJ and BoE last week dominated news and equities market performance. The PBOC cut the 14-day reverse repurchase interest rate by 10 basis points to 1.85%, and injected 74.5 billion yuan, equivalent to \$10.6 billion, of liquidity via the policy tool. The cut notwithstanding, inflation will continue to dominate data-centric policy decision making (in this context, the more-than-doubling of Red Sea insurance costs since the start of Sep amid shipping threats are**

significant). Flash PMI data this week will not only provide evidence of input/ output costs but also show if Germany's performance continues to be weak.

### Regional Developments

- **GCC central banks reduced interest rates**, in line with the Fed cut: Saudi cut its repo and reverse repo rates by 50bps to 5.5% and 5% respectively. UAE's central bank lowered its base rate on the overnight deposit facility by 50bps to 4.9% while Kuwait reduced its discount rate by 25bps to 4%.
- Bloomberg reported that **Egypt is in talks for its first major stake sale since Mar**: discussions relate to the government's remaining stake in Alex Bank to be sold to Intesa Sanpaolo SpA (which already owns 80% of the Egypt-based bank).
- **Saudi Arabia's PIF will invest USD 5bn into Egypt** (as a "first stage"), according to a statement from the Egyptian cabinet – following a meeting between the Saudi Crown Prince & Egypt's PM. No details regarding the nature of the investments or where the funds would be invested were disclosed. This **investment will be independent of the funds deposited in the central bank**, confirmed the PM.
- **Egypt paid USD 23.8bn in foreign debt service during the 9-month period Jul 2023-Mar 2024**. Egypt's total external debt declined to USD 160.6bn in Mar 2024 from USD 164.5bn in Sep 2023.
- **Net foreign assets of the Central Bank of Egypt clocked in a surplus of USD 10.3bn** (EGP 499.269bn) **in Aug 2024** compared to EGP 508.58bn in Jul. NFA had moved to a surplus reading in May 2024 (vs Apr 2024: deficit of EGP 36.07bn).
- **Egypt's PM disclosed that four to five coastal areas along the Red Sea would be offered to investors**, similar to the Ras El-Hekma agreement with the UAE. He also assured no return to load shedding or power cuts during the weekly press conference stating that **more than USD 2.5bn had been secured to "guarantee sufficient fuel supply for the summer"**. Also revealed were **plans to restore normal production at its natural gas fields** by Jun 2025.
- The **prices of household and commercial cooking gas cylinders in Egypt have been raised** by 50% and 33.3% to EGP 150 and EGP 200 respectively.
- **Kuwait's trade surplus with Japan widened by 15% yoy to JPY 76.9bn in Aug**. Exports from Kuwait to Japan grew by 11.8% yoy to JPY 98.4bn in Aug, the first increase in 2 months. The wider Middle East's trade surplus with Japan narrowed to JPY 852.2bn, with exports from the region declining by 1% yoy.
- **Oman's OQEP exploration and production** will offer 25% of its total issued share capital on Sep 30th: the offering is **expected to raise up to USD 2.03bn**. The shares will start trading on the Muscat Stock Exchange on or around Oct 28th.
- **Trade surplus in Oman touched OMR 3.658bn in H1 2024**, with exports expanding by 6.7% yoy to OMR 11.67bn while imports were up by 10.8% to OMR 8.12bn. **Oil and gas exports rose by 5.3% yoy to OMR 7.228bn in H1**, driving the uptick in exports, while non-

oil exports grew by 8.1% (to OMR 3.575bn). **UAE topped the list of Oman's non-oil trade partners**, with trade up by 8.9% to OMR 457mn.

- **Producer price index in Oman**, calculated on a quarterly basis, **rebounded in Q2 largely owing to the jump in mining & quarrying prices**. With a weight of 55.57%, mining & quarrying costs were up 5.3% (Q1: -1.4%) while costs of manufacturing jumped 0.5% (from -2.6% in Q1). **During the 8 months of the year, overall producer prices ticked up 0.8% from deflation** during the same period a year ago (-8.4%).
- According to a newly unveiled strategy to meet energy transition targets, **Oman plans to sell only zero-emission cars by 2050** – this is in line with recent investments in the clean transport sector. The number of EVs in the country rose to 1500 in 2024 from just 550 in 2023; the number of charging points will rise to more than 200 this year and 350+ by 2027 (2023: 120).
- **Inflation in Qatar eased to 0.2% yoy in Jul** (Jun: 1.0%), the lowest reading since Mar 2021. **Prices of food and non-alcoholic beverages fell for the first time since Jun 2023**, clocking in -0.7% in Jul (Jun: 0.1%). **Prices declined further** for housing & utilities (-3.8% from -3.1%) and transportation (-0.9% from -0.3%). **Prices of some non-tradables remain relatively high** including recreation & culture (8.3% from 14.1%); restaurant & hotel costs rebounded in Jul (+2.1%) after declining for 12 consecutive months).
- **Industrial production in Qatar contracted for the 6th month in a row**, down by 4% yoy in Jul. While the declines eased in manufacturing (-0.3% from -5.1%) and mining & quarrying (-5% from -8.3%), production grew in water supply (0.5% from -5.3%) and electricity & gas supply (8.2% from -5.3%).
- The **Qatar Fund for Development will give the Lebanese army a grant of USD 15mn** for fuel starting from Oct 1st (for 3 months), according to a post on X (formerly Twitter).
- **Middle East international tourist arrivals rose 26% in Jan-Jul 2024 versus pre-pandemic**, continuing its robust performance, according to UN Tourism data. Among the **best performing destinations in Jan-Jul 2024** in terms of international tourist arrivals were Qatar (top, +147% vs 2019; with arrivals more than doubling), Saudi Arabia (+73%) and Bahrain (+45% through June) from the Middle East.
- The number of **centi-millionaires in Dubai, Abu Dhabi and Riyadh are projected to grow by more than 150% over the next 16 years** (to 2040), according to Henley & Partners. Dubai currently has 212 centi-millionaires (ranked 15<sup>th</sup> globally) while Abu Dhabi and Riyadh are ranked 50<sup>th</sup> and 51<sup>st</sup> respectively (with 68 and 67 centi-millionaires).

### Saudi Arabia Focus

- **Crude oil exports from Saudi Arabia fell** by 5.1% mom to 5.7451mn barrels per day in Jul, **the lowest level since Aug 2023**, according to the Joint Organizations Data Initiative (JODI). Production meanwhile ticked up to 8.941mn bpd in Jul (up from Jun's 8.83mn bpd).
- **Saudi Arabia's Capital Market Authority (CMA) approved its first exchange-traded funds (ETFs) tracking equities listed in Hong Kong**. The "Albilad CSOP MSCI Hong Kong China





Equity ETF” units will be offered on Tadawul, though the launch schedule has not been disclosed.

- **Investment licenses issued by Saudi Arabia for Egyptian firms more than doubled in 2024**, according to the Saudi Investment Minister. The minister also stated that Egyptian investors created more than 80,000 jobs in Saudi.
- **Operating income of Saudi Arabia’s capital market institutions increased** by 27% yoy to SAR 4.1bn in Q2 2024, according to the CMA. Asset management accounted for the largest revenue share (31% or SAR 1.28bn), followed by investments (30% or SAR 1.21bn).
- Petrochemical company **SABIC will sell its minority stake (of 20.62%) in Aluminium Bahrain (Alba) to Saudi mining firm Ma’aden for close to USD 1bn**. The proceeds would be used to support SABIC’s growth potential. Under the signed non-binding agreement, the merging of Ma’aden’s aluminium operations with that of Alba will help form a global aluminium powerhouse.
- **SMEs in Saudi Arabia accounted for 90% of industrial firms**, according to the Minister of Industry & Mineral Resources.
- **Saudi Arabia approved new laws for commercial registration and trade names**, in a bid to streamline business operations. Commercial registrations grew by 59% yoy to 104k in Q1.
- **Container traffic in Saudi Arabia increased by 14.6% yoy in 2023**, with inbound and outbound traffic clocking in at 3.4mn TEUs and 2.2mn TEUs respectively. Ship traffic at Saudi ports jumped by 33.8% yoy to 19,082 ships, according to GASTAT.
- **Expat remittances from Saudi Arabia grew by 21% yoy to SAR 12.91bn in Jul**, a 25-month high, according to central bank data.
- A report by the Economic Studies Center at the Federation of Saudi Chambers found that the **Saudi expat fee waiver in the industrial sector contributed towards a 14.7% increase in the sector’s GDP** to SAR 592bn in 2023 (2019: SAR 392bn). The reform also supported an uptick in investments in the industrial sector (by 54% to SAR 1.5trn).

### **UAE Focus**

- **UAE and Australia reached a trade deal** to remove tariffs for about 99% of Australian products. Expected to become effective later this year, this deal is projected to result in savings of AUD 135mn (USD 91mn) in the first year. Bilateral trade between the two nations touched AUD 9.9bn in 2023 and total investments was AUD 20.6bn.
- **UAE and Japan will begin negotiations towards an economic partnership agreement**, disclosed the latter’s PM. He stated that a wider FTA with the GCC will also be negotiated
- **Private joint-stock companies in the UAE have been directed to reserve at least one board seat for women**. This will be in effect once the current board term expires. Such a directive has been in place for public joint-stock firms since 2021.
- UAE-based retailer **Lulu Group will open its IPO by the last week of October or early Nov**, according to unnamed sources. The listing, which will be on both Abu Dhabi’s ADX and Saudi Tadawul, is expected to raise between USD 1.5-1.85bn.



- **Microsoft and UAE’s G42** will open 2 centres in Abu Dhabi to work on “responsible” AI initiatives to ensure “generative AI models and applications are developed, deployed and used safely”. One of the centres is expected to focus on developing large language models for “underrepresented languages”.
- **G42 has partnered with Nvidia to work on climate tech:** this includes developing AI solutions to boost weather forecasting accuracy globally and set up an operational base and climate tech lab in Abu Dhabi.
- **Foreign investors in Sharjah’s real estate sector grew in H1 2024:** total number of foreign investors grew by 74.4% yoy to 5,422 and their cash trading volume surged 115% to AED 8.3bn (USD 2.3bn). Furthermore, the number of properties traded by foreign investors surged by 84.6% yoy to almost 5914.

**Media Review:**

**Trumponomics: the radical plan that would reshape America’s economy**

<https://www.ft.com/content/f5f60203-176b-4fd8-baa1-03f27afa3482>

**A Strategic Pivot in Global Fiscal Policy: Speech by IMF First Deputy MD**

<https://www.imf.org/en/News/Articles/2024/09/17/sp091824-a-strategic-pivot-in-global-fiscal-policy>

**World Bank’s Climate Finance Fiscal Year 2024 Snapshot**

<https://www.reuters.com/sustainability/sustainable-finance-reporting/world-bank-climate-finance-reaches-record-426-bln-fiscal-2024-2024-09-19/>

<https://www.worldbank.org/en/news/press-release/2024/09/19/climate-finance-fiscal-year-2024-snapshot>

**Red Sea insurance costs soar as Houthi shipping threats loom: Reuters**

<https://www.reuters.com/world/middle-east/red-sea-insurance-costs-soar-houthi-shipping-threats-loom-sources-say-2024-09-19/>