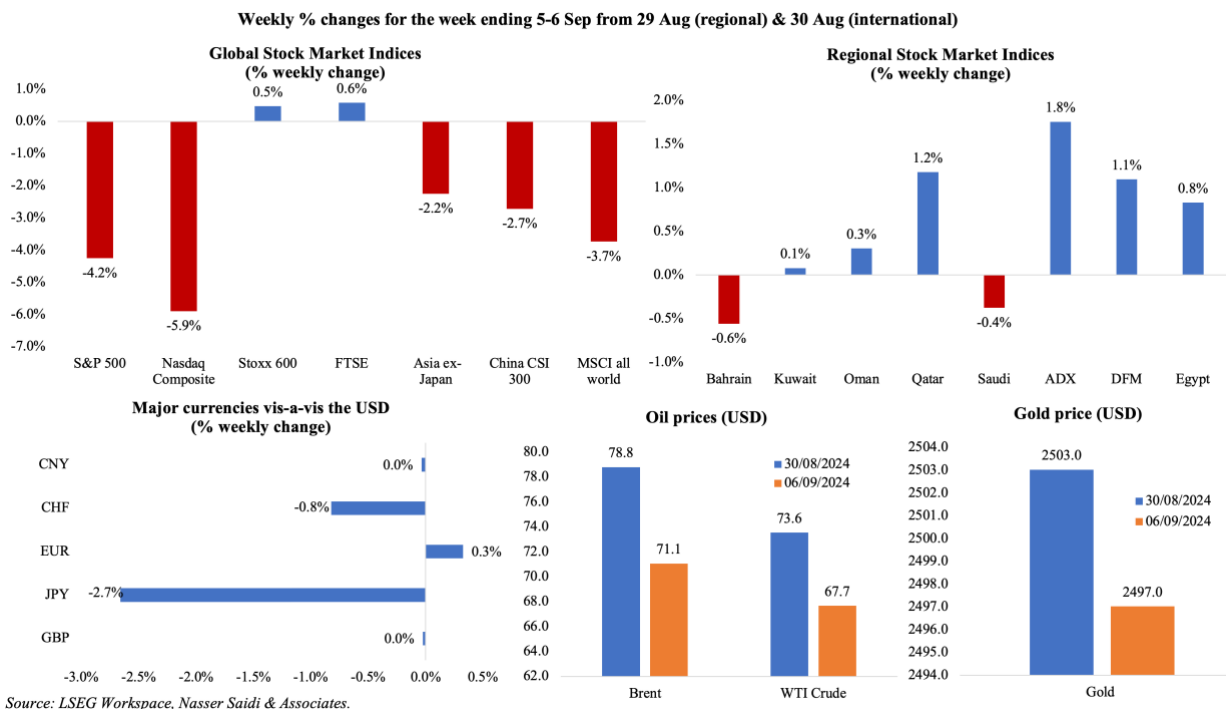


Weekly Economic Commentary, 9 Sep 2024

Markets

Equities markets had a sell-off to begin the first week of Sep: US shares were dragged down by tech shares (e.g. Nvidia fell by 4.1% on Friday and was down over 13.9% over the week), with S&P 500 and Nasdaq posting the biggest weekly declines since Mar 2023 and Jan 2022 respectively. Chinese equities were dragged down by weak economic data, talk of deflation and losses in real estate. Regional markets were mostly up. Among currencies, the dollar fell against most major peers after the payrolls data. After an event-packed week (Libya's pause in oil production, weak Chinese economic data, OPEC+ extending production cuts), oil prices fell to the lowest level since Jun 2023 ending the week with large losses - Brent and WTI were down by 9.8% and 8%. Gold price ended lower compared to the previous week, after reaching near record levels on Friday.



Global Developments

US/Americas:

- **Non-farm payrolls in the US increased by 142k in Aug (Jul: 89k)**, with gains led by construction (+34k jobs) and healthcare (+31k). Labour force participation rate remained unchanged at 62.7% while **unemployment rate inched lower to 4.2%** (From 4.3%). **Average hourly earnings grew** by 0.4% mom and 3.8% yoy. On this count, the labour market continues showing resilience, though softening.

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- **Non-farm productivity inched up to 2.5% in Q2**, revised up from the preliminary estimate of 2.3% and Q1's 0.4% rise: this reflects a 3.5% increase in output and 1.0% rise in hours worked. Unit labour costs grew by 0.4% (vs preliminary 0.9 % reading).
- **Private sector payrolls in the US grew by only 99k in Aug** (Jul: 111k), the **lowest since Jan 2021**, indicating a significant deceleration in hiring. Job losses were reported in professional and business services (-16k), manufacturing (-8k) and information services (-4k).
- **JOLTS job openings fell to 7.673mn in Jul** (down by 237k), **the lowest level since Jan 2021**. The number of job quits declined to 3.277mn, the lowest level since Sep 2020. There were hence **1.07 open positions for every unemployed person in Jul**, the least since May 2021 and down from Jun's 1.16.
- **Initial jobless claims declined by 5k to 227k in the week ended Aug 30**, the lowest since the week of Jul 6th, and taking the 4-week average down by 1.75k to 230k. **Continuing jobless claims fell by 22k to 1.838mn in the week ended Aug 23**.
- **Fed Beige book showed slowing economic activity**, weakening employment growth and lower consumer spending, setting the stage for a Fed rate cut as early as next week— with the question being whether it would be a 25bps or 50bps one.
- **Goods and services trade deficit widened to USD 78.8bn in Jul** (Jun: USD 73bn), the largest since Jun 2022. Exports were up by 0.5% to USD 266.6bn while imports grew at a faster 2.1% (to USD 354.4bn). **Goods trade deficit with China rose USD 4.9bn to USD 27.2bn** while overall goods trade deficit widened to USD 103.1bn (Jun: USD 102.7bn).
- **S&P Global manufacturing PMI in the US slipped to 47.9 in Aug** (from the preliminary reading of 48) as production declined and weak demand led to a fall in sales; input prices inflation jumped to a 16-month high. **Services PMI moved up to the strongest since Mar 2022**, clocking in at 55.7 (Jul: 55.2), thanks to higher new orders while employment declined.
- **ISM manufacturing PMI rose to 47.2 in Aug** (Jul: 46.8), thanks to an increase in employment (46 from 43.4) even though new orders dropped (44.6 from 47.4) while prices paid rose (54 from 52.9). **ISM services PMI ticked up to 51.5 in Aug** (Jul: 51.4), as new orders rose (53 from 52.4), employment edged lower (50.2 from 51.1) and prices paid rose (to 57.3 from 57).

Europe:

- **Manufacturing PMI in the eurozone inched up to 45.8 in Aug** from the preliminary reading of 45.6, with Germany and France dragging down the overall performance of the region. Overall new order inflows fell at the sharpest rate in 2024, purchasing levels eased and employment fell for the 15th month in a row. **Services PMI increased by one point to 52.9** in Aug but was revised down from the preliminary estimate of 53.3.
- **Eurozone retail sales picked up moderately by 0.1% mom in Jul**, rebounding from Jun's 0.4% drop. Sales of food, drinks, and tobacco inched up by 0.4%, while non-food products (excluding automotive fuel) registered a 0.1% increase. Largest increases were recorded in Croatia (2.9%), Austria and Slovakia (1.8%) and Slovenia (1.6%).

- **Producers price index in the euro area fell by 2.1% yoy in Jul** (Jun: -3.3%), the least since deflation began in May 2023; declines eased in energy (-6.9% from -9.6% in Jun) and intermediate goods (-1.2% from -2.3%). In mom terms, prices edged up by 0.8%, the highest since Dec 2022, and up from Jun's 0.6% uptick.
- **German manufacturing PMI** fell to 42.4 in Aug (Jul: 43.2), partly due to declines in new orders, purchasing activity and employment. **Services PMI slipped to a 5-month low of 51.2** (from the preliminary 51.4 and Jul's 52.5), with employment declining (at the fastest pace since Jun 2020) and average input costs slowing to a 3.5-year low.
- **Exports from Germany grew by 1.7% mom in Jul** (Jun: -3.4%). As imports grew by a faster pace of 5.4%, trade surplus narrowed to EUR 16.8bn (Jun: EUR 20.4bn).
- **German industrial production fell by 2.4% mom and 5.3% yoy in Jul** (Jun: 1.7% mom & -3.7% yoy), as activity was weak in the automotive (-8.1% mom), electrical equipment (-7.0%) and metal (-3.8%) industries. IP is still more than 10% below its pre-pandemic level.
- **Factory orders in Germany increased for the second month in a row**, rising by 2.9% mom in Jul (Jun: 4.6%). New orders surged for aircraft, ships and trains (86.5%) while capital and intermediate goods orders were up by 3.5% and 4.4% respectively. **Orders recovered in the 3 months to Jul**, posting a 3.7% yoy gain following the previous month's 11.2% plunge.
- **UK manufacturing PMI rose to a 26-month high of 52.5 in Aug**, supported by improvements in output, new orders, employment and suppliers' delivery times. Domestic market remains key as new export orders declined for the 31st month in a row. **Composite PMI rose to 53.8** (from Jul's 52.8), supported by the gains in services PMI (53.7 from 52.5 in Jul); overall, private sector firms posted the weakest rise in input costs since Nov 2020.
- **BRC like-for-like retail sales in the UK grew by 0.8% yoy in Aug** (Jul: 0.3%), with food sales increasing by 2.9% in the 3 months to Aug, and increased spending on clothing and gardening productions (given the summer weather).

Asia Pacific:

- **China's Caixin manufacturing PMI turned expansionary in Aug**, clocking in 50.4 (Jul: 49.8), with improved demand leading to expansions in new orders and production though foreign demand declined. **Caixin services PMI slipped to 51.6 in Aug** (Jul: 52.1) while remaining expansionary for the 20th month in a row. New orders growth eased, and employment dropped alongside an increase in input prices (to the highest since Jun 2023) and a sharp decline in output costs (most since Apr 2022).
- **China's foreign reserves touched USD 3.288trn in Aug, the highest since Dec 2015**, and were up by 0.98% mom. Gold reserves remained unchanged, but its value went up to USD 182.98bn (Jul: USD 176.64bn) given the record high price of gold.
- **Labour cash earnings in Japan expanded by 3.6% yoy in Jul** (Jun: 4.5%) and **inflation-adjusted real wages nudged up once again** (+0.4%, following Jun's 1.1% gain). Wage growth staying robust will be a positive for domestic consumption.

- **Overall household spending in Japan grew by 0.1% yoy in Jul**, the first increase since Apr and following the 1.4% drop in Jun: largest upticks were seen in housing (17.3%), education (8.9%) and culture & recreation (5.6%). Personal expenditure meanwhile fell by 1.7% in Jul, recording the steepest drop in six months.
- **Japan manufacturing PMI moved up 49.8 in Aug** – versus the preliminary reading of 49.5 and Jul's 49.1 – supported by growth in employment and input buying. **Services PMI stood at 53.7** (down from the initial reading of 54 and unchanged from Jul), as export sales and employment gained while new orders rose at a slower pace.
- **Leading economic index in Japan increased to 109.5 in Jul** (Jun: 109.1), thanks to a stronger services sector and a 3-month high consumer confidence reading. The **coincident index also rose** to 117.1 from 114.1, supported by higher employment, income and business investment.
- **Manufacturing PMI in India declined to 57.5 in Aug**, with new orders and output recording slower gains and the rate of output cost inflation was the second fastest in near 11 years. **Services PMI improved to 60.9** (Jul: 60.4), allowing the composite PMI to increase for the 37th consecutive month (60.7 in Aug versus the long-run average of 54.6).
- **Consumer inflation in South Korea touched a 3.5-year low in Aug**, slowing to 2.0% yoy, compared to 2.6% in Jul.
- **Retail sales in Singapore accelerated by 3.1% mom and 1% yoy in Jul** (Jun: -3.7% mom and -0.6% yoy), led by car sales (+21.7% mom and 27.2% yoy) while department stores posted the largest drops (-2.4% mom and -11.2% yoy). Excluding motor vehicle sales, it fell by 2.3% yoy (Jun: -3.1%).

Bottom line: Indications of labour markets softening in the US increased the possibility of a Fed cut at the next meeting – but the jury in financial markets is still out on whether it would be a 25bps or 50 bps cut. This could be determined by the inflation data (to be released on Sep 11th) and whether the Fed will wait for more confirmatory data on inflation and real conditions. Interest rate cuts from the ECB also seem to be on the cards (with inflation down to a 2-year low of 2.2% in Aug). With manufacturing PMIs posting declines across major markets (China, Europe, Japan, US) and global manufacturing PMI falling in Aug (for the first time since Dec), markets are bracing for slower Q3: interest rate cuts could turn the course and boost demand.

Regional Developments


- **Bahrain introduced a global minimum 15% tax on profits of multinational enterprises**, effective Jan 2025, in line with the OECD Pillar II. This will be applicable only to large MNEs with global revenues higher than the Pillar II threshold of EUR 750mn. This move will allow Bahrain to diversify its revenues and support fiscal sustainability, while allowing it to stay competitive and attract more FDI given a transparent environment for businesses.
- **PMI in Egypt increased to 50.4 in Aug** (Jul: 49.7), posting **the first expansionary reading since Nov 2020**, reflecting increases in output, employment, and purchasing activity. New

orders reported a marginal drop and input costs have been rising, as a result of higher transport and staff costs.

- **Egypt's central bank left interest rates unchanged at the latest meeting**, citing a slowdown in inflation alongside softer growth (real GDP growth at 2.2% in Q1 2024 vs 2.3% in Q4). The lending and deposit rates were left at 28.25% and 27.25% respectively.
- **Net international reserves in Egypt ticked up** to USD 46.597bn at the end of Aug (Jul: USD 46.488bn).
- **Egypt will launch its first digital bank in Q4 2024**, once the second phase of the licensing process is completed. Egypt Digital Innovation Company, a subsidiary of Banque Misr, has already received the initial approval from the central bank.
- **Kuwait PMI fell below -50 in Aug** (49.7 from Jul's 51.5) **for the first time in over 1.5 years**, as employment declined (first time in 4 months) alongside slower growth in new orders. While purchase prices rose sharply (respondents citing higher costs of "advertising, air conditioning, computer and printing equipment, maintenance and transportation"), output prices increased at the softest pace this year (as firms offered discounts to remain competitive).
- **Kuwait's Emir accepted the resignation of the Deputy PMI and minister of oil yesterday** (Sep 8). The finance minister has been appointed as the acting oil minister.
- **Lebanon's former central bank governor Salameh was arrested last week** over financial crimes including embezzlement, money laundering and fraud among others. The justice ministry formally charged the former governor, enabling the state's right to reclaim any embezzled public funds.
- **PMI in Lebanon deteriorated further in Aug** (47.9 from Jul's 48.3), on lower sales, weaker tourism, falling exports and pessimistic business sentiment.
- **Credit disbursed in Oman by conventional and Islamic banks grew** by 3.8% to OMR 31.4bn at end-Jun while credit to the private sector was up by 3.4% to OMR 26.3bn. Deposits growth surged by 11.6% to OMR 30.7bn, with private sector deposits at OMR 20.7bn (+14.8%).
- **Qatar PMI rose to 53.1 in Aug** (Jul: 51.3), thanks to an increase in inflows in new business and employment (second-fastest increase). Staff costs index surged to a new high of 55.7, partly resulting in purchase price inflation at a 15-month high. Financial services posted the fastest rise in new business since Aug 2022.
- Latest monetary statistics data released by the Qatar central bank showed that **total assets of commercial banks grew by 6.4% yoy to QAR 2trn in July**. Total deposits grew by 11.3% yoy to QAR 1.03trn in Jul, with **domestic deposits accounting for the major share** (80.7%). **Domestic credit increased at a much slower pace compared to domestic deposits**. The former was up by 7.3% yoy in Jul, with claims to the private and public sectors up by 6.9% (to QAR 884.1bn) and 12.8% (to QAR 112.4bn) respectively.
- **Bilateral trade between Qatar and Finland jumped to USD 112mn in 2023**, from USD 104mn in 2020, revealed the Chairperson of the Qatar Chamber during a Qatari-Finnish roundtable event.

- **QatarEnergy plans to build a new urea production complex** to more than double Qatar's urea output to 12.4mn tonnes per annum (mtpa) with an aim to meet growing global demand, according to its CEO.
- **OPEC+ agreed to delay a planned oil output increase for Oct-Nov** amidst falling prices, as concerns increased about global economic prospects. The news that the voluntary supply cuts of 2.2mn barrels per day would be extended lifted prices by over USD 1 a barrel; it had fallen to the lowest this year on Wednesday.
- **UAE and Jordan signed a USD 2.3bn agreement to build a 360-km railway network** linking Jordan's Aqaba port to the country's mining hubs – which will be developed and operated by UAE's Etihad Rail. The completion date for the project is set for 2030.
- **Saudi Arabia** has emerged as the **leading emerging market issuer of sovereign and quasi-sovereign international bonds**, having sold USD 26.8bn worth international bonds this year (till Aug 27th), according to data from LSEG. Poland, with USD 18bn, and UAE, with USD 12bn, emerged second and third. Including domestic bonds, China was the world's largest issuer (with USD 846.4bn), followed by Saudi Arabia.
- **GCC and Indonesia are set to begin free trade negotiations this week**, according to the Saudi Press Agency. The initial discussions will centre around trade in goods and services, investment, customs procedures, rules of origin, technical barriers and digital trade among others. Once the principles for the agreement are set, it is expected to be finalised within 24 months.

Saudi Arabia Focus

- **Real GDP in Saudi Arabia shrank by 0.3% yoy in Q2 2024**, largely due to the decline in oil sector activity (-8.9%) while non-oil and government sectors grew by 4.9% and 3.6% respectively. Among the non-oil sector, finance, insurance and business services sector stood out, posting a 7.1% growth surge alongside wholesale and retail trade, restaurants & hotels which grew by 6.8%. 
- **Saudi Arabia's PMI inched up to 54.8 in Aug** (Jul: 54.4), with employment ticking up alongside an increase in new orders (including export). Despite higher staff wages, input costs eased to the lowest since Jul 2023. Business optimism remained strong, with respondents expecting a boost from investment, tourism and growth in population.
- **The IMF [published the Article IV consultation and staff report](#) for Saudi Arabia:** the report projects overall growth of 4.7% in 2025 (as oil production cuts are phased out) and then average 3.7% every year, alongside non-oil growth of 4.4% in the medium term (supported by domestic demand, after moderating in 2024). Among the recommendations were the need to raise non-oil revenue, contain wage bills and increased effort to meet net-zero commitments.
- **PIF is preparing to issue a benchmark 3-year sukuk** (priced around 110 bps) **and a 2032 green bond** (priced at 135 bps), reported Bloomberg.
- **Debt market in Saudi Arabia expanded to SAR 2.5bn in 2023**, up from SAR 800mn in 2019, according to the chairman of the Capital Market Authority.

- **Construction permits accounted for 27% of the total investment licenses** issued in Saudi Arabia in **Q2 2024**, followed by the manufacturing sector (68.1% yoy to 469) and professional, scientific, and technical services (48.6% to 318).
- **Remittances from Saudi Arabia grew** by 21.47% yoy to SAR 12.91bn in Jul, the **highest since Sep 2022**. Foreign remittances totalled SAR 126.83bn in 2023 amounting to an average monthly remittance of SAR 10.57bn.
- **Venture capital investment in Saudi fintech firms multiplied 6-fold in 2023**, raising SAR 2.5bn across 10 funding rounds, disclosed a senior Capital Markets Authority official. At end-2023, there were 216 fintech firms (higher than the target of 150) providing more than 6500 jobs (more than double the target). Separately, a World Bank official stated that the Saudi fintech market would grow this year, with about USD 64bn in assets under management.
- **SAMA granted sandbox permits to 3 fintech startups** XSquare, NeotTek, and MoneyMoon: the first two for launching open banking platforms while the third is a peer-to-peer lending platform. This brings the total fintech firms currently under the regulatory sandbox to 19.
- After reaching a valuation of over USD 1.5bn after its most recent funding round, **BNPL startup Tabby is planning for an IPO in Saudi Arabia**, according to the CEO; no date has been confirmed yet.
- **Fourth Milling Company will launch its retail IPO on Oct 2nd**: the company, which plans to sell 30% of its share capital, will commence its institutional book building on Sep 15.
- **Saudi Arabia**, in addition to the recently announced revamped investment law, **plans to simplify its registration process for investors** to ease doing business in the country. The country has rolled out changes to the Saudi commercial code, company and bankruptcy laws in addition to a premium residency programme and special economic zones to attract FDI.
- **Saudi Arabia's private sector added 37,009 local employees** in Aug, up 6.94% mom, to a total of 2.369mn (of which 41% were women). Total private sector employees grew by 0.86% mom to 11.572mn; among expat employees, less than 5% were women.
- In a bid to boost tourism, **Saudi Arabia cancelled municipal fees for issuing commercial licenses for hotels, hotel apartments and residential resorts**. This was effective from Sep 4th.

UAE Focus

- **UAE PMI rose to 54.2 in Aug** (from Jul's 34-month low of 53.7), supported by an increase in new export orders (the most since Oct 2023) while employment growth was the weakest in seven months. Dubai PMI increased in Aug given strong new business inflows and demand growth at a 5-month high. Input prices posted a sharp increase and selling prices rose for the 4th month in a row and to the most since Apr 2021.
- The UAE central bank's **Credit Sentiment Survey for Q2 2024 underscored the strong willingness of banks to lend**. The construction sector recorded the highest growth rate in credit demand in Q2 followed by manufacturing, real estate development and retail & wholesale trade. While demand for personal loans was strong, the report stated that financing



conditions for personal lending had become less favourable. There was also a moderate increase in premiums charged on riskier loans.

- **India and UAE are expected to review the ongoing CEPA** during the high-level UAE government delegation visit to the former this week, reported Reuters. Matters to be discussed include infrastructure, renewable energy, tech sector and the increase in precious metal imports from the UAE.
- The **NMDC IPO** on Abu Dhabi Securities Exchange, oversubscribed 31.3 times and generating AED 88bn (USD 23.96bn) in gross demand, **raised AED 3.2bn for the parent company**. NMDC Energy, backed by Alpha Dhabi Holding, offers integrated solutions in the energy sector, including engineering, procurement and construction services.
- **ADNOC, in its first-ever bond sale, raised USD 4bn:** the firm sold USD 1bn of five-year bonds, USD 1.5bn of 10-year bonds and USD 1.5bn of 30-year debt.
- **JP Morgan** announced plans **to set up a private banking team in Dubai** to cater to its wealthy clients, family offices, charities and foundations across the region. This follows similar moves by other banks earlier including UBS and Deutsche Bank.
- **International tourist spending in the UAE is expected to grow by 9.4% yoy to an estimated USD 52.2bn in 2024**, according to estimates from the World Travel & Tourism Council. This would place **UAE among the top 10 largest inbound tourism recipients and second in the region behind Saudi Arabia (a projected USD 68.3bn)**. The tourism sectors contribution to GDP is forecast to grow 3.9% each year and reach USD 744bn by 2034.
- **ADNOC acquired a 35% stake in Exxon's low-carbon hydrogen project in Texas:** the project, with a goal to produce 900k tons of low-carbon hydrogen and over 1mn tons of low-carbon ammonia annually, has a one-year startup delay until 2029.
- **UAE activated the fourth unit of the Barakah Nuclear Power Plant, thereby starting full commercial operations at the Arab world's first nuclear power plant.** The plant will produce 40 terawatt-hours of electricity annually, helping the country generate 25% of its electricity from clean energy sources.
- **Sharjah is building a new water desalination project:** to be built by ACWA Power, the project will need an investment of SAR 2.6bn, and the completed plant will have a capacity of 410k cubic metres per day.

Media Review:

Home is where the heart is for GCC wealth funds

<https://www.agbi.com/opinion/finance/2024/09/home-is-where-the-heart-is-for-gcc-wealth-funds/>

Egypt counts on foreign funds to buy gas as power crisis worsens

<https://www.reuters.com/business/energy/egypt-counts-foreign-funds-buy-gas-power-crisis-worsens-2024-09-02/>

Can globalisation survive the US-China rift?

<https://www.ft.com/content/611a48d5-8c1a-40de-a062-f1286499c3f3>

Trump II Tariffs: Who said he could do that?

<https://www.pii.com/blogs/realtime-economics/2024/trump-ii-tariffs-who-said-he-could-do>

Yuval Noah Harari's Nexus

<https://www.theatlantic.com/magazine/archive/2024/10/yuval-noah-harari-nexus-book/679572/>

<https://www.economist.com/culture/2024/09/06/the-information-wars-are-about-to-get-worse-yuval-noah-harari-argues>

IMF's Finance & Development Magazine, Sep 2024 on Productivity & Prosperity

<https://www.imf.org/en/Publications/fandd/issues/2024/09/editor-letter-productivity-and-prosperity-gita-bhatt>

