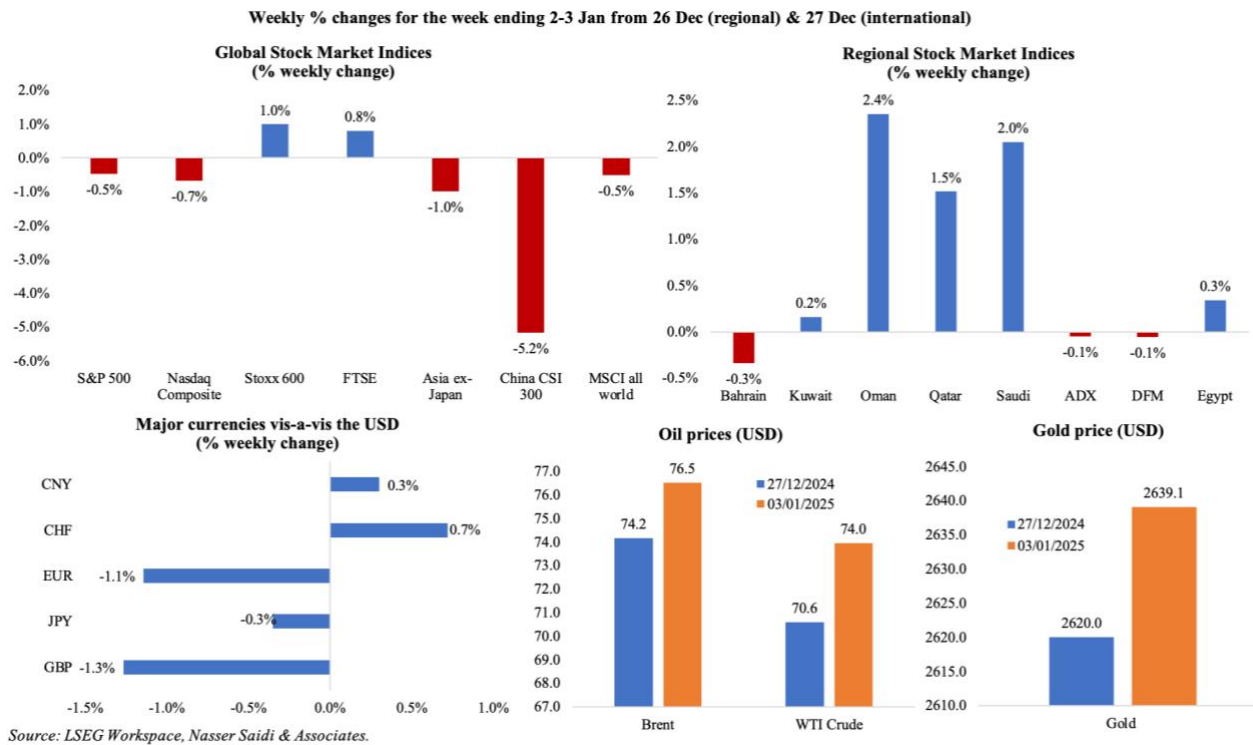


Weekly Economic Commentary, 6 Jan 2025

Markets

Equity markets began the year 2025 cautiously, ending in the red even though global stocks rallied on Friday; Stoxx600 and FTSE both clocked in moderate weekly gains while China posted the weakest New Year start since 2016. In the region, performance was mixed with Oman and Saudi clocking in gains of more than 2.0% while UAE markets were slightly down. The dollar rose to a two-year high versus a basket of currencies, while the pound and euro fell by more than 1% on a weekly basis; the Indian rupee was at a record closing low last week, down for the ninth consecutive week in a row. Oil prices increased on hopes of a demand rebound alongside gains in gold price helped by a stronger dollar.



Global Developments

US/Americas:

- **Chicago PMI fell to a 7-month low of 36.9 in Dec** (Nov: 40.2), staying in contraction territory for the 13th month in a row. New orders fell 13.5 to the 2nd-lowest since May 2020.
- **Dallas Fed manufacturing business index rebounded to 3.4 in Dec** (Nov: -2.7), the first positive reading since Apr 2022. Both production and new orders indices rose to 3.9 (from near-0) and -0.9 (up by 11 points) respectively.

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- **S&P Case Shiller home price index** (20-city composite) **increased** by 4.2% yoy in Oct, with New York reporting the highest annual gain among the 20 cities (+7.3%).
- **Pending home sales index grew by 2.2% mom in Nov** (Oct: 1.8%) to 79.0, the highest since Feb 2023. The 30-year fixed mortgage rate approached 7.0% (highest since Jul) by end-Nov.
- **Manufacturing PMI (S&P Global) in the US inched up to 49.4 in Dec** from the preliminary reading of 48.3, but lower than Nov's 49.7. Output fell at the fastest pace in 18 months while new orders declined on lower demand amid hikes in both input and output costs.
- **ISM manufacturing PMI in the US fell to 49.3 in Dec** (Nov: 48.4) as production expanded for the first time in 6 months (to 50.3), new orders increased (to an 11-month high of 52.5 from 50.4) while employment fell (45.3 from 48.1) and prices paid rose (52.5 from 50.3).
- **Initial jobless claims fell by 9k to an 8-month low of 211k in the week ended Dec 27**, leading to a slight decline in the 4-week average to 223.25k (by 3.5k). **Continuing jobless claims declined** by 52k to 1.844mn in the week ended Dec 20.

Europe:

- **Eurozone's manufacturing PMI edged lower to 45.1 in Dec** from the flash estimate and Nov's reading of 45.2 – this was the 30th consecutive reading of below-50. Nations in the south outperformed, while France manufacturing PMI fell to the lowest since May 2020.
- **Manufacturing PMI in Germany slipped to 42.5 in Dec** (Nov: 43.0), with weak demand leading to lower output and new orders.
- **Unemployment rate in Germany was unchanged at 6.2% in Dec**, with the number of unemployed persons rising by 10k to 2.87mn (Nov: +7k). The average unemployment rate edged up to 6.0% in 2024 (2023: 5.7%). The number of employed people rose to a new high of 46.1mn on average in 2024.
- **UK manufacturing PMI declined to an 11-month low of 47.0 in Dec** (flash: 47.3 and Nov: 48.0), with “sharp rates of decline across the consumer, intermediate and investment goods industries”. Subdued domestic demand and weak European demand saw sales being hit. Optimism dipped to a two-year low and costs are expected to rise in 2025 given recently announced budget changes.

Asia Pacific:

- **China's NBS manufacturing PMI slipped to 50.1 in Dec** (Nov: 50.3), thanks to growth in output (52.1 from 52.4) and new orders (51.0 from 50.8) while foreign orders and employment remained below-50 (at 48.3 and 48.1 respectively). **Non-manufacturing PMI moved up to 52.2** (Nov: 50), the highest reading since Mar, as new export orders improved (50.0 from 48.2) and confidence rose to a 9-month high of 57.5.
- **Caixin manufacturing PMI in China edged lower to 50.5 in Dec** (Nov: 51.5) as the pace of expansion in output and new orders slowed while employment fell for the 4th month.
- **Japan's manufacturing PMI increased to 49.6 in Dec**, up from the preliminary estimate of 49.5 and Nov's 49.0. PMI has been below-50 for the 6th month in a row, though improvements

are being recorded in output and new orders amid muted new export demand. Input prices rose to the steepest degree since Aug partly due to the weak yen.

- **India's manufacturing PMI declined to 56.4 in Dec** (flash: 57.4; Nov: 56.5) while the rate of job creation quickened to the fastest in four months and new export orders grew at the fastest pace since Jul.
- **India's fiscal deficit widened to INR 8.465trn in Apr-Nov** or 52.5% of annual estimates, with tax receipts standing at INR 14.43trn (56% of annual target). Spending has been relatively slow during the fiscal year, given elections.
- **Infrastructure output in India grew by 4.3% yoy in Nov** (Oct: 3.1%), supported by increases for cement (13.0% from 3.1% in Oct), coal (7.5%) and steel (4.8%) among others while crude oil declined (-2.1% yoy).
- **GDP in Singapore expanded by 0.1% qoq and 4.3% yoy in Q4**, taking the full year growth to 4.0% - higher than official forecasts of 3.5% and 1.1% growth in 2023. Manufacturing growth slowed in Q4 (4.2% yoy from Q3's 11.1% expansion).
- **Retail sales in Singapore unexpectedly fell by 2.8% mom and 0.7% yoy in Nov**. Only half the sectors reported yoy growth, with a rise in motor vehicles sales (+5.2%) while the sharpest decline was recorded in computer & telecommunications equipment (-11.0%) followed by minimarts & convenience stores (-8.6%).

Bottom line: Global manufacturing PMI for the month of Dec worsened in Dec (49.6 from Nov's 50.0), dragged down by developed nations, as businesses globally brace themselves for the implementation of new US tariffs under Trump and a potential uptick in inflation. This week's major prints are US nonfarm payrolls as well as inflation data from EU and China, which could influence the pace of rate cuts this year.

Regional Developments

- **Domestic Minimum Top-Up Tax for large multinational enterprises operating in Bahrain** came into force from Jan 1 - aligning with the OECD's two-pillar tax reform project.
- **Export Bahrain enabled national exports crossed USD 1bn in value** (+26% yoy), by supporting the entry of 78 product and service categories into 98+ international markets.
- **Egypt's GDP grew by 3.5% yoy in Q1 of the financial year 2024-25** from 2.7% a year ago, supported by communications & IT (12.2%), transportation & storage (15.6%) and tourism (8.2%). Separately, private investments increased by 30% to EGP 133.1bn while public investments fell by 60.5% to EGP 57bn.
- **Egypt's PM disclosed a new EGP 30bn initiative to support the industrial sector** over the next 5 years.
- **Budget deficit in Egypt dropped to 3.28% of GDP in the first five months** of the fiscal year 2024-25, from 4.66% in the same period a year ago. Revenues were up 36% to EGP 829bn, with tax revenues at EGP 714.3bn (+38.4%). Spending also rose 9.8% to EGP 1.4trn.

- **Egypt's Parliament approved a USD 131mn agreement with the African Development Bank** to finance the first phase of a budget support program. Additionally, Egypt received the first instalment of a EUR 1bn funding package from the EU.
- **Passenger traffic at Egypt airports grew by 9% yoy to 22.097mn** in 2024 while the number of flights up 3% yoy to 167,684.
- **Egypt plans to establish a USD 120mn pharmaceutical industrial hub** in the Suez Canal Economic Zone, to strengthen the nation's self-sufficiency in medicines.
- **Suez Canal revenue fell by USD 7bn or 60% yoy in 2024**, given the instability in the Red Sea region. The government is still going ahead with the modernisation projects including the completion of the southern sector development, and the expansion of the navigation route (between 132km and 162km).
- **Egypt's central bank announced an increase in the maximum transaction limits for financial inclusion accounts.** Daily and monthly transaction limits have been raised to EGP 90k (from EGP 60k) and EGP 300k (from EGP 200k) respectively.
- **Egypt repaid USD 38.7bn in debt in 2024**, of which USD 7bn was paid in November and December.
- **Oman's state budget for 2025 forecasts spending at OMR 11.8bn** (+1.3% vs 2024 estimates) **alongside revenues at OMR 11.18bn** (+1.5%), placing deficit at OMR 620mn. Of total expenditure, 39% was allocated to education, 28% towards social security and 24% for healthcare; OMR 1.14bn was set aside for development projects. **Preliminary estimates for 2024 discloses a surplus of OMR 540mn** (vs a projected deficit of OMR 640mn), largely from a 15.1% jump in revenues. Public debt was reduced to OMR 14.4bn (from OMR 15.2bn).
- **Oman will implement a unified GCC customs tariff starting Jan 1, 2025**, in a bid to boost GCC regional trade.
- **Oman raised around OMR 1.4bn from taxes in 2024.** The Minister of Finance also revealed that **income tax would be imposed only when conditions are "suitable"**.
- **Oman resumed copper exports** from the Lasail mine in Sohar, with its first shipment in nearly 30 years. Minerals Development Oman expects to initiate operations at the Al Baydha mine by 2026; between both mines, there is a reserve of 2.78mn tonnes of copper ore.
- A joint venture between Korean green hydrogen company Lupro and Oman's Bait Muscat reached a **USD 4.5bn deal to supply Thailand with 5mn tonnes of green ammonia** by 2027.
- **Real GDP in Qatar grew by 2% yoy to QAR 180.23bn in Q3 2024**, supported by non-hydrocarbon sectors (+4.5%) such as financial & insurance services (10.6%), construction (7.7%), transport & storage (5.4%), wholesale & retail trade (3.5%) and real estate activities (3.4%) among others.
- **Qatar's trade surplus narrowed to QAR 57.7bn in Q3** (Q2: QAR 61bn). Exports grew by 3.3% qoq to QAR 87.8bn in Q3 while imports fell by 1.1% qoq to QAR 30.1bn. Asia was the main exports destination and source of imports, accounting for 75.9% and 39.7% respectively.

- **Tourists into Qatar surged by 25% yoy to 5.077 visitors in 2024**, with GCC nationals accounting for 41% of visitors. December alone registered a 14.6% uptick in visitors to 594,079.
- **Abu Dhabi-based Mubadala and its subsidiaries deployed USD 29.2bn in 2024** (2023: USD 17.5bn), accounting for about 20% of global spend by sovereign wealth funds (SWFs), also overtaking Saudi PIF (USD 19.9bn from USD 31.6bn in 2023) to become the most active. SWFs of Abu Dhabi, Qatar and Saudi invested a record USD 82bn in 2024, up 10% yoy.
- **GCC tourism revenues increased to USD 110.4bn in 2023** (up by 28.2% from 2019), according to the GCC Statistical Centre; this worked out to 7.2% of the global total. The number of international visitors rose to 68.1mn (+42.8% vs 2019), with UAE and Saudi attracting 28.1mn and 27.4mn visitors respectively. Visitors from Asia Pacific accounted for 38% of visitors, followed by the Middle East (25.1%), Europe (22.9%) and Africa (8.8%).
- **Japan's oil imports from Saudi stood at 31.49mn barrels or 44.3% of the total** in Nov while UAE accounted for 38.2% (or 27.16mn barrels) followed by Kuwait (7.3%) and Qatar (4.8%).

Saudi Arabia Focus

- **Manufacturing PMI in Saudi Arabia moderated to 58.4 in Dec** (Nov: 59.0), with new orders rising for the fifth month in a row (65.5 from 63.4) and foreign sales rising the most in 17 months.
- The minister of finance approved **Saudi Arabia's annual borrowing plan for 2025**: funding requirement is estimated at SAR 139bn (USD 37bn), covering fiscal deficit (of SAR 101bn) and SAR 38bn in principal repayments of maturing debts.
- **Saudi Arabia money supply expanded by 10.3% yoy to SAR 2.95trn in Nov** (Oct: 9.2%) while time and savings deposits accounted for 33.61% of total money supply, the highest in over 15 years. Private sector loans were up by 12.7% (Oct: 12.1%) while overall loans grew by 13.33% (vs 10.52% rise in deposits). **The value of new residential mortgages rose by 51.23% yoy** to SAR 10.06bn in Nov, the highest since Aug 2022.
- **Saudi Arabia's net FDI increased by 37% qoq to SAR 16bn in Q3 2024**; it however declined by 24% in yoy terms. FDI outflows rose by 27% yoy to SAR 2bn but fell by 74% qoq.
- **Gross fixed capital formation in Saudi Arabia grew by 7.4% yoy in Q3**, thanks to a 8.3% jump in the non-government sector while GREs posted a 2.3% rise. The Ministry of Investment issued 3,810 investment licenses in Q3 2024, up 73.7% yoy.
- **Unemployment rate in Saudi Arabia stood at 3.7% in Q3 2024** (Q2: 3.3%), with labour force participation rate at 66.6%. Joblessness among Saudi nationals ticked up to 7.8% in Q3 (Q2: 7.1%), and female unemployment edged up to 13.6% (from 12.8%).
- **The Saudi Central Bank has granted two more fintech licenses**: Tal Finance to offer debt-based crowdfunding solutions and to Hiberbay Ink Al-Saoudia for IT Systems to deliver e-wallet services.
- **Value of PIF's assets in the Saudi financial market grew by 37% yoy and 10.4% qoq to nearly SAR 160.087bn** by end-Q3 2024.



- **Saudi Arabia secured a sharia-compliant revolving credit facility of USD 2.5bn to fund its budget gap** in 2025, according to the National Debt Management Center.
- The PIF-owned Saudi Real Estate Refinance Company and the Hassana Investment Company (which manages the assets of the national social security and pension fund) signed an **MoU to issue residential mortgage-backed securities**, becoming the first GCC nation to do so.
- **Wages of Saudi nationals working in the private sector grew by 45% yoy in 2024**, according to the ministry of human resources and social development. Around 361k Saudis entered the labour market for the first time in 2024 and the number of Saudis working in the private sector rose to 2.4mn.
- **Tourism spending in Saudi Arabia jumped by 27.25% yoy** to SAR 25.05bn at end-Sep, according to the central bank. Furthermore, spending by residents traveling abroad rose by 21.79% to SAR 26.33bn during the same period.
- **Aramco raised diesel prices in Saudi Arabia to SAR 1.66 (USD 0.44) per litre** from the start of 2025, up 44.3% yoy. This is still one of the lowest in the region: diesel prices in the UAE and Qatar are at USD 0.73 and USD 0.56 while in Kuwait it is at USD 0.39.

UAE Focus

- **UAE real GDP grew by 3.6% yoy to AED 879.6bn in H1 2024**, with non-oil GDP up by 4.4%. Transportation and storage activities posted the highest growth (8.4% yoy) followed by financial & insurance (7.6%) and construction (7.3%). Foreign trade grew by 11.2% yoy to AED 1.395trn in H1 and the country will continue to expand CEPAs in 2025.
- **Industrial sector's contribution to the UAE surged by 5.7%**, according to the minister of industry and advanced technology. Industrial exports surged by 63% since 2020 and is expected to grow beyond AED 190bn.
- **ADGM will reduce commercial license fees** – for obtaining and renewing a license - **from Jan 2025**. Reductions of 50% or more will apply to non-financial and retail businesses.
- **Firms from India, Pakistan and Egypt** were the top joiners at the **Dubai Chamber of Commerce** during the period Jan-Sep 2024. The trade and services sectors accounted for 41.5% of the total firms joining the Chamber, followed by real estate, renting & business services (33.3%) and construction (10.4%) sectors.
- **Transactions in Dubai's real estate sector rose to an all-time peak of 180,900 in 2024**, with a total value of AED 522bn. This grew from 133,100 sales worth AED 411.1bn in 2023.
- **UAE stock markets market cap surpassed AED 3.905trn at end-2024**, from a total volume of shares traded exceeding 142bn.
- **Dubai's Smart Rental Index was launched last week**: this will regulate rent increases with individual property and building ratings (versus groupings based on location till last year). The index will also be extended to commercial and industrial properties.
- **ADNOC aims to make investments worth AED 200bn over the next five years**, also adding more private sector jobs. In 2024, ADNOC invested AED 55bn which created additional 5500 jobs.

Media Review:

Economic Development in a Protectionist World

<https://www.project-syndicate.org/commentary/protectionist-world-means-developing-countries-need-services-exports-by-raghuram-g-rajan-2025-01>

2025 will test the ageing warhorses of the Middle East

<https://www.ft.com/content/0ef081e4-5f3b-4eb4-82d0-3e2c49e71478>

Gulf sovereign wealth funds tilt towards emerging markets

<https://www.agbi.com/tech/2025/01/gulf-sovereign-wealth-funds-tilt-towards-emerging-markets/>

How Artificial Intelligence Will Affect Asia's Economies

<https://www.imf.org/en/Blogs/Articles/2025/05/how-artificial-intelligence-will-affect-asias-economies>