D&B Gulf Business Bulletin

GCC Business & Finance Update

- According to the data released by GCC-STAT, the Consumer Price Index (CPI) in the GCC, excluding residential prices, increased by 0.5% to 136.8 points in August 2019 as compared to 136.2 points in the same period of the preceding year. The price increase was witnessed in major sectors including recreation (5.3%), tobacco (2.7%) and furnishing (1.1%).
- Qatar's Industrial Production Index (IPI) increased by 0.6% m-o-m to 109.6 points in August 2019 mainly due to increase in manufacturing and water supply activities, the Planning and Statistics Authority indicated.
- According to the World Bank's Doing Business 2020 report, Bahrain, Saudi Arabia and Kuwait were among the 10 top improvers on the ease of doing business, ranking at 43, 62 and 83 respectively. The report further highlighted that improvement in ranking was mainly after implementing regulatory reforms in the areas of starting a business, dealing with construction permits and trading across borders.
- The United Arab Emirates continued to keep its lead in the World Bank's Ease of Doing Business ranking 2020 with score of 80.9 and 16th position in the global ranking of 190 countries. However, the ranking was down from 11th position in 2019.
- Total revenue of Omani hotels in the three-to-five-star category rose by 8.2% to OMR 141.329 Mn in August 2019 as compared to OMR 130.653 Mn in the same period of the previous year. However, hotel occupancy rates fell by 7.6% to reach 52% in August 2019 against 56.2% for the same period of 2018, the National Center for Statistics and Information indicated.

Stock Markets – Most GCC indices gain during the week

Highlights

- UAE indices reverses previous week's trend
- MSM30 closes below the 4,000 point mark
- TASI gains the most

Indices	17 Oct	24 Oct	Chg. %
ADXGI	5,093	5,163	1.37
BASI	1,527	1,526	(0.07)
DFMGI	2,780	2,784	0.14
KSEMI	5,767	5,768	0.02
MSM30	4,005	3,990	(0.37)
QEI	10,428	10,378	(0.48)
TASI	7,636	7,913	3.63

GCC indices ended mixed during the week, with four of the seven indices ending in positive territory. Saudi Arabia's index, the TASI gained the most amongst its peers, supported by strong corporate earnings and rise in oil prices. The DFMGI and KSEMI posted marginal gains as most sectors constituting the main index ascended. The ADXGI was supported by gains in major sectors including real estate (5.93%), energy (1.81%) and banking (1.57%).

Meanwhile, the BASI was down by 0.07% amid losses in industrial and investment sectors. The QEI witnessed heavy selling from foreign and domestic investors and the trading volume was down by 12.63%. The MSM30 closed below the 4,000-point mark as investors booked profits amid low risk sentiments.

ADXGI (Abu Dhabi Securities Exchange General Index), BASI (Bahrain All Share Index), DFMGI (Dubai Financial Market General Index), KSEMI (Kuwait Stock Exchange Market Index), MSM30 (Muscat Securities Market MSM30 Index), QEI (Qatar Exchange Index), TASI (Tadawul All Share Index - Saudi Stock Exchange)

Global Currency Markets - Greenback remains stable amid improvement in risk sentiments

Highlights
• Brexit deal boosts Euro
• UK Prime Minister calls for national election
• Yen slips on weak economic data

Currency Exchange Rates			
Currency	17 Oct	24 Oct	Chg. %
EUR/USD	1.11	1.11	0.00
GBP/USD	1.28	1.28	0.00
USD/CHF	0.99	0.99	0.00
USD/JPY	108.68	108.60	(0.07)

The Dollar weakened against major currencies, while the Euro and the Pound gained on Friday, 18 October amid potential Brexit deal between UK and the European Union (EU). The Dollar was also weighed down by Federal Reserve's (Fed) bearish outlook on US economy. The Fed projected GDP growth at around 2% for 2019 due to slowdown in business fixed investments & exports and weakening of manufacturing indicators coupled with weak global growth estimates. On Monday, the Pound rose on Brexit optimism, while the Yen traded lower following release of weaker-than expected macroeconomic data.

On Tuesday, the Dollar gained, while the Sterling Pound slipped after UK Prime Minister paused the progress of Brexit deal through Parliament, awaiting EU's decision for extension. On Wednesday, the Dollar and Yen gained on lack of risk appetite amid uncertainty surrounding Brexit as EU leaders considered request for Britain's delay. This was coupled with news of US lifting sanctions against Turkey after Russia agreed with Turkey to deploy troops to extend a ceasefire along the Syrian border. On Thursday, the Euro steadied and safe haven currencies edged lower after Mario Draghi's resignation from the European Central Bank. The Pound was under pressure following UK Prime Minister Boris Johnson's call for a national election.

Global Commodity Markets - Oil prices gain on global demand concerns

Highlights
• Active rigs drilling in US declines by 5
• OPEC mulls deeper output cuts
• Drop in US inventories support oil prices

Commodity Exchange Rates			
Prices in USD	17 Oct	24 Oct	Chg. %
Brent/barrel	59.91	61.67	2.94
WTI/barrel	53.93	56.23	4.26
OPEC Basket/barrel	59.54	61.63	3.51
Gold/ounce	1,492.30	1,498.90	0.44

Crude: Crude futures price settled lower, while the price of OPEC daily basket edged higher on Friday, 18 October, following release of weak Chinese economic data. China's economic growth slowed to 6% y-o-y in Q3, due to soft factory production and continuing trade tensions with the US. This was coupled with data from Baker Hughes which indicated a decrease in number of active rigs drilling in US by 5 to 851 last week. Oil prices declined on Monday amid concerns surrounding US-China trade talks. Prices rebounded on Tuesday following news of OPEC and its allies (OPEC+) planning to curb production on account of demand concerns in December 2019. On Wednesday, prices surged by more than 1% after data from US Energy Information Administration (EIA) indicated an unexpected decline in US crude inventories. The inventories decreased by 1.7 Million barrels last week. This was coupled with China signalling progress in trade talks with the US. On Thursday, prices gained further on a softer Dollar.

Gold: Gold prices rose amid uncertainty surrounding Brexit deal, US-China trade talks and weak economic data.

Country Risk Update - Edition: October 2019 - United Arab Emirates

D&B Country Risk Indicator – DB3b
Level of Risk – Slight risk
Ratings Outlook – Deteriorating

Business Environment Quality: The forward-looking Emirates NBD UAE Purchasing Managers' Index (PMI) data highlighted that in September, activity in the non-oil private sector softened for the fourth consecutive month, taking it to 51.1; the lowest score since May 2010. This was significantly down from the recent high of 59.4 in May. Nevertheless, the reading still signals that business conditions in the non-oil private sector continue to strengthen, as the index was above the 50-point level that marks the division between contraction and expansion. The index highlighted that output growth was the weakest in six years, amid the lowest increase in new orders since the series was launched over ten years ago. In response, companies continued to engage in another round of discounting, despite rising inputs, as they concentrated on market share. This is expected to put pressure on company cash flows and viability. Furthermore, business confidence that economic conditions will improve and support further expansion in activity over the coming year is eroding.

Short-Term Economic Outlook: House-price fall impacts economy

The continued fall in house prices and rental costs is having a number of adverse impacts on the short- and long-term economic outlooks. The slump in the property market has been caused by a combination of over-supply and subdued demand due to the weak economic outlook as oil prices weaken, alongside geopolitical tensions, a strengthening currency and low confidence levels. The slump is putting pressure on developers, particularly those whose projects commenced before the fall in prices started in 2015. In turn, this is feeding through into payment delays for contractors; the Dubai government has reportedly stopped all legal claims from third parties against the state-owned developer Meydan.

In addition, banks, which are heavily exposed to the construction sector, are reporting a rise in loan restructuring in the real estate and associated sectors. Although we do not anticipate a systemic crash in the financial sector, its overexposure to the real estate could create problems if a major borrower defaults. Nevertheless, the banking sector will face rising non-performing loans (NPLs), undermining their balance sheets and leading to tighter lending conditions, slowing investment. Finally, weakening house prices undermine householder confidence, dampening consumer demand and weakening short-term growth prospects.

Meanwhile, the Abu Dhabi government has announced a series of initiatives to boost the non-oil sector as part of its plans to diversify the economy from its oil dependency. These include the creation of a USD 1.1 Bn fund to boost research and development, energy discounts for industry and an increase in funding to SMEs. The government will underwrite 75% of loans to SMEs through the SME Credit Guarantee scheme. In addition, the government plans to launch a new industrial fund by year-end focusing on the aerospace, defence and the automotive sectors.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7, with DB1 indicating the lowest degree of risk. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on.

Global Business & Finance Update

- According to the World Bank's Doing Business 2020 report, the United States remained one of the top 10 places to do business, registering a score of 84 and rank at 6th position. The country introduced three major reforms in the past year - online filing of statement of information for limited liability companies, decreasing corporate income tax and introducing electronic filing and payment of court fees.
- According to the Eurostat, in Q2, 2019 seasonally adjusted general government deficit to GDP ratio stood at 0.7% in the Euro Area as compared to 0.6% in Q1, 2019.

- Latest report released by the International Monetary Fund (IMF) indicated that China's growth is expected to moderate to 6.1% in 2019, and 5.8% in 2020. The gradual deceleration reflects the ongoing rebalancing of growth drivers and the adoption of new trade measures by the US and China.
- The Federal Statistical Office (Destatis) highlighted that Germany's price-adjusted new orders in the main construction industry decreased by 2.6% to 119.4 points in August 2019 as compared to 122.6 points in July 2019.
- According to the Ministry of Finance, Japan's exports and imports declined by 5.2% and 1.5%, respectively in September 2019, raising slowing demand concerns.