

# D&B Gulf Business Bulletin



## GCC Business & Finance Update

- According to the quarterly survey conducted by the Department of Economic Development (DED), Dubai's Composite Business Confidence Index (BCI) increased by 11.3 points to 129.8 in Q3, 2019 from 118.5 points in Q3, 2018. Businesses are more upbeat about hiring, sales revenue and volumes on account of an expected improvement in business conditions, new projects, increased marketing activity, and optimism surrounding the upcoming Expo 2020.
- Saudi Arabia's Consumer Price Index (CPI) inflation stood at 106.3 points in September 2019 as compared to 106.1 in August 2019, exhibiting an increase of 0.2 points (0.18%), the General Authority of Statistics indicated. The marginal rise in inflation was due to increase in prices of major sectors including food, transport, education and restaurants & hotels.
- According to the data released by the National Center for Statistics and Information, Oman's value of manufacturing exports increased by 6.2% to OMR 58 Bn in 2018 as compared to 2017. The data further highlighted that the contribution of manufacturing sector to the Gross Domestic Production (GDP) at current prices stood at 9.6%, delivering a value addition of OMR 3 Bn.
- Bilateral trade between Qatar and Jordan stood at QAR 1.3 Bn in 2018 as compared to QAR 1.1 Bn in 2017, exhibiting a growth of 18%, official figures indicated.
- The total value of Foreign Direct Investment (FDI) in Bahrain was recorded at BHD 10.9 Bn in Q2, 2019, up by 1% increase in volume as compared to Q1, 2019, the Information & eGovernment Authority (iGA) indicated.

## Stock Markets – MSM30 snaps overall negative sentiments in the region

Highlights	Indices	24 Oct	31 Oct	Chg. %
<ul style="list-style-type: none"> <li>• Industrial stocks weigh on DFMGI and BASI</li> <li>• QEI extend declines amid selling pressure</li> <li>• Investors remain edgy amid weak corporate earnings data</li> </ul>	ADXGI	5,163	5,108	(1.07)
	BASI	1,526	1,523	(0.20)
	DFMGI	2,784	2,747	(1.33)
	KSEMI	5,768	5,717	(0.88)
	MSM30	3,990	4,000	0.25
	QEI	10,378	10,189	(1.82)
	TASI	7,913	7,744	(2.14)

Majority of the GCC indices ended in the red territory on account of plunge in oil prices during the week. The MSM30 posted marginal gains and ended in the positive territory amongst its GCC peers, supported by buying in financial and industrial index.

Meanwhile, the BASI continued its losing streak for the second consecutive week amid selling pressure in industrial, banking and hotel & tourism sectors. The DFMGI was dragged down by losses in major sectors including industrial (4.17%), real estate & construction (3.41%) and services (1.28%). The ADXGI slipped by 1.07% as most sectors constituting the main index descended. Most investors remained edgy after Abu Dhabi Commercial Bank indicated 13% drop in the net profit in Q3, 2019. The QEI extended its six-week losing streak on weak corporate earnings, witnessing heavy selling from foreign and domestic investors. Profit booking was witnessed in industrial, banking & financial services, telecom, transport and insurance sector. The TASI slipped the most due to decline in corporate earnings and after the Saudi Arabian Monetary Authority cut its interest rates by 25bps. The KSEMI was weighed down by losses in most of the sectors.

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 slips after interest rate cut

Highlights	Currency Exchange Rates			
	Currency	24 Oct	31 Oct	Chg. %
<ul style="list-style-type: none"> <li>Federal Reserve cuts interest rates for third time this year</li> <li>Pound gains on general election news</li> <li>Swiss Franc gains on safe haven appeal</li> </ul>	EUR/USD	1.11	1.12	0.45
	GBP/USD	1.28	1.29	0.78
	USD/CHF	0.99	0.98	(1.01)
	USD/JPY	108.68	108.31	(0.34)

The US Dollar strengthened against major currencies on Friday, 25 October on Brexit uncertainty and after the European Central Bank (ECB) kept accommodative monetary policy stance and interest rates unchanged. Meanwhile, the Pound traded lower following news of voting for an early general election in the parliament. On Monday, the Pound gained following the news that European Union (EU) has agreed to Brexit deadline extension up to 31st January 2020. The Dollar gained against safe havens amid optimism that the US and China would reach a trade deal.

On Tuesday, the Pound and the Euro held steady after UK parliament MPs voted in the House of Commons in favour of holding an early general election on 12 December 2019. Meanwhile, the Dollar remained under pressure as investors kept cautious stance ahead of the Federal Reserve meeting. On Wednesday, the Dollar slipped after the Federal Reserve (Fed) cut its interest rates for the third time this year. The Fed continued its "mid-cycle adjustment" by reducing interest rates by 25bps to 1.5%-1.75% range and indicated that it would pause the monetary easing cycle before implementing additional rate cuts. The Pound gained as fear of no-deal Brexit faded amid general election announcement. Meanwhile, the Yen gained on safe haven appeal amid US-China trade talks and after the Bank of Japan kept its interest rate unchanged; however, hinted for future rate cuts.

## Global Commodity Markets - Oil prices snap three-week gaining streak

Highlights	Commodity Exchange Rates			
	Prices in USD	24 Oct	31 Oct	Chg. %
<ul style="list-style-type: none"> <li>Number of active rigs drilling in US declines by 21: Baker Hughes</li> <li>Oil prices fall amid built in US crude inventories</li> <li>US-China trade talks uncertainty weigh on oil prices</li> </ul>	Brent/barrel	61.67	60.23	(2.34)
	WTI/barrel	56.23	54.18	(3.65)
	OPEC Basket/barrel	61.63	61.24	(0.63)
	Gold/ounce	1,498.90	1,511.40	0.83

**Crude:** Oil prices gained by more than 1% on Friday, 25 October amid supply concerns and optimism surrounding US-China trade deal. This was coupled with latest data from Baker Hughes which revealed a decline in number of active rigs drilling in US by 21 to 830 last week. On Monday, oil prices ended lower after Russia's Energy Ministry stated that OPEC and its oil-exporting allies would factor in the slowdown of US oil output growth during their output agreement meeting in December 2019. Oil prices ended mixed on Tuesday on news of progress in US-China Phase 1 agreement (partial trade deal). Crude futures fell on Wednesday following data from US Energy Information Administration (EIA) which revealed an increase in US crude inventories by 5.7 Million barrels last week. The EIA further stated that at 438.9 Million barrels, US inventories are about 1% above the five-year average for this time of year. On Thursday, oil prices extended their losing streak on weak factory data in China, coupled with Federal Reserve's interest rate cut decision and uncertainty surrounding US-China trade talks.

**Gold:** The price of the yellow metal closed above the 1,500-ounce mark on a weaker Dollar following US Federal Reserve's interest rate cut decision.

## Country Risk Update - Edition: October 2019 - Bahrain

**D&B Country Risk Indicator** – DB5c

**Level of Risk** – High risk

**Ratings Outlook** – Deteriorating

**Business Environment Quality:** Bahrain was the traditional financial and business services hub for the region, making up for its limited oil by providing a welcoming business environment. However, this model has been undermined as newer hubs have developed, particularly Dubai, while growing political violence and the embargo of Qatar has also reduced Bahrain's appeal to foreign investors. Current US/Saudi-Iran tensions in the Gulf have further hurt the business environment. A major new oil and gas find could, if viable, offer a way forward for the economy. Meanwhile, the World Bank's Doing Business 2019 report ranked Bahrain 62nd out of 190 countries, up by four places as compared to the previous year. Despite some important strengths, including ranking 5th for paying taxes and protecting minority interests (38th), it also has many areas of serious concern, including enforcing contracts (128th) and getting credit (112th). The World Economic Forum's Global Competitiveness Index 2019 placed Bahrain 45th out of 140, up five ranks globally over the last year, and on fourth place in the GCC.



**FX Risk:** Successful bond issuance

We have restored the Credit Environment Outlook trend to 'stable' following a USD 2 Bn debt issuance on 24 September. The issuance was split equally into a 12-year conventional bond yielding 5.6% and an 8-year Shari'a-compliant sukuk yielding 4.5%. The demand was sufficiently high that both tranches priced substantially below their initial guidance. The issuance was significant because it is the first public issuance Bahrain has made since it was the subject to a market panic in June 2018. Its sizeable structural fiscal and current account deficits, rising levels of debt and weak foreign reserve position have worried markets for years. This caused Bahrain to pull a planned bond issuance in March 2018. In June 2018 its yields and credit default swaps briefly spiked, and the Bahraini dinar's peg came under rare pressure amid fears that it might be unable to refinance a sukuk maturing in November 2018. The panic quickly subsided after a pledge of support from Saudi Arabia, Kuwait and UAE (which was later formalised into a USD 10 Bn aid package over five years).

The first inflows of that pledged aid, and a USD 500 Mn private bond issuance to friendly regional banks, enabled Bahrain to refinance maturing debt, cover its fiscal deficit in 2018 and restock its foreign reserves. The currency has remained stable since then and yields and credit default swaps have come down to their lowest levels in years. The bond market's appetite for a sizeable new issuance remained untested, but proved to be strong, given a broader hunt for yield in global markets and relatively low levels of new issuance in emerging markets in recent months. Bahrain's forex reserves stood at USD 2.7 Bn in July and should reach at least USD 4 Bn, a four-year high, by End-September as a result of the bonds. This is expected to provide a backstop for the currency and minimise short-term forex risk. However, in the longer term Bahrain needs to address its fiscal and economic reforms if it has to achieve a sustainable position and defend its peg.

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 US Bureau of Economic Analysis, the country's Real Gross Domestic Product (GDP) increased at an annual rate of 1.9% in Q3, 2019 as compared to 2.0% in Q2, 2019. The increase in real GDP was supported by positive contributions from personal consumption expenditures (PCE), federal, local & state government spending and non-residential fixed investment.
- Personal income in the US increased by USD 50.2 Bn (0.3%) in September 2019 on a m-o-m basis according to estimates released by the Bureau of Economic Analysis. The rise was mainly driven by an increase in personal interest income, farm proprietors' income and government social benefits.

- Latest preliminary flash estimate released by the Eurostat indicated that seasonally adjusted GDP in the Euro Area rose by 0.2% in Q3, 2019, unchanged as compared to the growth of 0.2% in Q2, 2019.
- According to the World Bank's Commodity Markets Outlook, energy and metal commodity prices are expected to continue to fall in 2020 following sharp declines in 2019 on a weaker outlook for global growth and consequent softer demand.
- China's Purchasing Managers' Index (PMI) decreased by 0.5 percentage points to 49.3% in October 2019 from 49.8% in September 2019, the National Bureau of Statistics of China indicated.

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