

D&B Gulf Business Bulletin



GCC Business & Finance Update

- On 10 October, the Central Bank of UAE took steps to ease mortgage loan requirements for customers of banking and finance companies based on feedback from public. Age limit of 70 years at the time of last mortgage repayment will be waived and the early settlement fees of home loans has been reduced from 3% to 1% of outstanding balance or AED 10,000, whichever is lesser, as per the amendment.
- According to a report released by the Ministry of Finance and National Economy, in Q2 2019 Bahrain's real GDP (inflation adjusted GDP) grew by 0.8% y-o-y and 3.4% q-o-q, touching USD 8,628.14 Bn. Non-oil growth increased by 8.7% q-o-q. The largest contributors to non-oil sector includes financial sector (16.4%), manufacturing (14.1%) and government services sectors (13.3%).
- According to the annual report released by the Central Bank of Kuwait for FY 2018-19, the central bank maintained a discount rate of 3.0% since 22 March 2018. The report further highlighted that Money Supply (M2) saw a growth of 5% in FY 2019, following a slowdown in FY 2018.
- According to monthly statistical bulletin released by the Central Bank of Oman, the credit extended by conventional banks increased by 2.9% y-o-y in the January-August period, with credit to the private sector growing by 1.2% to USD 49.15 Bn.
- Qatar's Planning and Statistics Authority indicated that the Consumer Price Index (CPI) for September 2019 registered a decrease of 0.75% m-o-m, whereas it registered an increase of 0.06% y-o-y. The major groups that showed a m-o-m decrease were transport (4.46%), housing, water, electricity and other fuel all decreasing by 0.20% and food and beverages decreasing by 0.07%. An increase was recorded in the two main groups, clothing and footwear (1.56%) and miscellaneous goods and services (0.16%).

Stock Markets – GCC indices end mixed

Highlights	Indices	10 Oct	17 Oct	Chg. %
<ul style="list-style-type: none"> UAE indices end mixed Most of sectoral indices in TASI end in negative territory QEI gains the most 	ADXGI	5,053	5,093	0.79
	BASI	1,523	1,527	0.26
	DFMGI	2,810	2,780	(1.07)
	KSEMI	5,706	5,767	1.07
	MSM30	4,014	4,005	(0.22)
	QEI	10,228	10,428	1.96
	TASI	7,695	7,636	(0.77)

The ADXGI rose marginally by 0.79% strongly supported by a gain of 3.65% in the real estate sector but was largely neutralized by the investment and financial services, energy and industrial sectors losing 1.77%, 1.73% and 1.18% respectively. The KSEMI gained a modest 1.07% with 8 of the 13 sectors ending on a positive note. The biggest gainers were telecommunications and real estate sector gaining 2.60% and 2.24% respectively, while insurance and technology sectors saw losses of 3.81% and 2.64% respectively.

The MSM30 ended on a negative note with all of its major sectors registering losses. The QEI performed significantly well apart from the industrials sector which saw a minor correction, while being supported by robust gains in banking & financial and transportation gaining 3.43% and 3.42% respectively. Till the end of trade on Wednesday, TASI saw losses among all sectors except software & services and commercial and professional services, with the biggest losses registered in media & entertainment and utilities both losing 4.7% and 4.48% respectively.

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 lowers amid recent global economic developments

Highlights	Currency Exchange Rates			
	Currency	10 Oct	17 Oct	Chg. %
<ul style="list-style-type: none"> • Pound gains on the back of potential Brexit deal • Dollar declines on weak retail sales data • Yen loses steam amid improvement in risk appetite 	EUR/USD	1.10	1.11	0.91
	GBP/USD	1.23	1.28	4.07
	USD/CHF	0.99	0.99	0.00
	USD/JPY	107.64	108.68	0.97

The Dollar traded lower against the Pound on Friday, 11 October amid possibility of orderly Brexit after British and Irish Prime Ministers stated that they had found "a pathway" to a possible deal. Safe haven currencies dropped amid improvement in risk sentiments on account of development in US-China trade talks. On Monday, Swiss Franc gained on safe haven appeal as investors witnessed limited progress in US-China trade deal. Meanwhile, the Pound steadied on Brexit talks with the European Union (EU).

The Dollar gained on Tuesday amid fading optimism over the latest US-China trade truce. On Wednesday, the Dollar dropped following the release of lower than expected retail sales data, raising concerns over slowing economic growth. On Thursday, both Euro and the Pound gained after UK and EU reached an agreement on Brexit deal. Meanwhile, the Yen lost steam against the Dollar on improvement in risk appetite.

Global Commodity Markets - Oil prices continue to gain

Highlights	Commodity Exchange Rates			
	Prices in USD	10 Oct	17 Oct	Chg. %
<ul style="list-style-type: none"> • Weak Chinese economic data weighs on investor sentiments • OPEC hints at deeper output cuts • Oil rises amid built in US crude inventories 	Brent/barrel	59.10	59.91	1.37
	WTI/barrel	53.55	53.93	0.71
	OPEC Basket/barrel	58.71	59.54	1.41
	Gold/ounce	1,494.80	1,492.30	(0.17)

Crude: Oil prices gained on Friday, 11 October on news of missile strike on Iranian tanker in Red Sea and positive prospect of trade talks between China and the US. According to the reports, US President Donald Trump outlined the first phase of a deal to end a trade war with China and suspended a threatened tariff hike. This was coupled with data from Baker Hughes which indicated that the number of active rigs drilling in the US increased by 1 to 856 last week, snapping seven weeks losing streak. On Monday, prices declined by more than 1.5% on reports that China wants to have further talks with the US before signing "phase one" of trade deal. On Tuesday, oil prices declined further on weak Chinese economic data coupled with uncertainty surrounding Brexit. On Wednesday, while crude futures price edged higher, the price of OPEC daily basket settled lower following release of weekly data from the Energy Information Administration (EIA) which revealed an increase in US commercial crude inventories by 9.3 Million barrels last week. This was coupled with news of OPEC and other producers to continue to curb supplies. On Thursday, oil traded higher on a softer Dollar amid announcement of UK and EU reaching an agreement on Brexit deal. Prices were also boosted by larger than expected built in US crude inventories. EIA indicated that at 434.9 Million barrels, US crude oil inventories are about 2% above the five-year average for this time of the year.

Gold: Gold prices declined after UK managed to eke out a deal for its exit from the EU, lifting risk appetite.

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

- The US retail sales dropped 0.3% in September 2019 compared to previous month. The revised data for the month of August 2019 showed 0.6% increase.
- Japan's CPI in September 2019 was recorded at 101.9 index points, up 0.2% over a year before seasonal adjustment, and remained unchanged as compared to the previous month on a seasonally adjusted basis, the Statistics Bureau, Ministry of Internal Affairs and Communications indicated.

- Retail sales in the UK marked at 3.10% in September 2019 y-o-y basis and grew by 0.6% on a q-o-q basis, the Office for National Statistics indicated.
- According to the National Bureau of Statistics of China, CPI of the country ascended to 3.0% y-o-y basis in September 2019 from 2.8% in August 2019 and the Producer Price Index dropped 1.2% y-o-y in September 2019.
- As per the data released by the Central Bank of Russian Federation, the annual inflation rate decelerated by 0.3 percentage points to 4.0% in September 2019. The data further highlighted that on an average the consumer prices decreased by 0.2% during the period under review.

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