

# Weekly Economic Commentary – Aug 14, 2016

## Markets

*During last week major US stock indices reached new records and all stock markets followed in the wake of Wall Street, before some profit-taking kicked in on Friday. Regional markets were no exception and received an additional lift from a robust rebound in oil prices. In the fixed income space, the UK gilt market recorded negative yields as the new QE program by the BoE is facing a shortage of paper. Negative yields, which involve securities amounting to USD 11.5tn have completely distorted global markets, pushing pension funds and banks into an unsustainable situation. In currency markets, fluctuations were modest, as the summer mood prevails on trading floors, with the euro advancing and the pound slipping further. Oil prices were on a rollercoaster during the week but they shot up on Friday, as an EIA report forecast that oversupply conditions will ease sharply towards year-end. Gold was remarkably stable.*

## Global Developments

### **US/Americas:**

- **US retail sales** in July were unchanged mom (2.3% yoy) compared to 0.8% (3.0% yoy) in Jun. Vehicle sales rose 1.1% mom but sales excluding vehicles fell -0.3%. Core sales, which exclude fuel fell -0.1%.
- **US business inventories** increased 0.2% mom in Jun matching May's figure. Total business sales rose 1.2% mom and the inventory-to-sales ratio declined slightly to 1.39.
- **US non-farm hourly productivity** fell by -0.5% qoq ann (-0.4% yoy) in Q2 (-0.6% yoy in Q1), for the third

straight quarter. Hourly wages were 1.5% higher causing a 2% increase in unit labor costs.

- **The University of Michigan consumer sentiment index** gained 0.4 point to 90.4. Pessimism prevailed about current and future economic conditions than the near future. Yearly inflation expectations eased by 0.2% to 2.5%.
- **Weekly unemployment claims** fell by 1000 to 266,000 with the 4-week moving average up by 3,000 to 262,750. Continuing claims increased to 2.155 ml from 2.141 ml. The insured unemployment rate held steady at 1.6%.

## Europe:

- **German GDP** beat expectations rising 0.4% qoq (1.7% yoy) in Q2 after a solid 0.7% (1.8% yoy) in Q1. Net exports together with household and government consumption provided a boost, while investment stagnated.
- **Germany CPI inflation** was zero mom and 0.3% yoy in Jul vs Jun's 0.1% qoq (0.3% yoy).
- **Eurozone's inflation** was 0.2% yoy in Jul up from -0.1% in Jun.
- **Italy's GDP qoq growth** was flat in Q2 (but was +0.7% yoy), following a 0.3% qoq (0.6% yoy) in Q1.
- **Eurozone industrial production** added 0.6% mom in Jun after a revised -1.2% fall in May.
- **UK goods trade deficit** was GBP 12.4bn in Jun, widening slightly from May's GBP 11.5bn.
- **UK industrial production** rose 1.6% yoy in June following a 1.4% gain in May.
- **German industrial production** advanced 0.8% mom in Jun (+0.5% yoy), following a revised -0.9% decrease (-0.3% yoy) in May. Manufacturing led the gains, while construction and energy production dropped.
- **Germany's trade surplus** narrowed to EUR 21.7bn in Jun from EUR 22.2bn in May.
- **Industrial production in France** plunged -0.8% mom sa in

Jun after a -0.5% drop in May, hit by a wave of strikes against a labor reform bill.

## **Asia and Pacific:**

- **China's M2 money supply** grew 11.8% yoy in Jun, unchanged from May. New issuance of credit recorded a one-off blip up.
- **China's industrial production** grew 6% yoy in Jul vs 6.2% in Jun, thwarted by a plunge in heavy industry output, particularly metal. Manufacturing held up, thanks to vehicles production.
- **Inflation in China** increased to 1.8 % yoy in Jul, compared to 1.9 % in Jun, the lowest inflation rate since Jan, as food prices increased by 3.3% while non-food items rose by 1.4 %.
- **China's PPI** decreased -1.7% yoy in Jul, compared to Jun's -2.6% fall, the first strong indication that deflation might be ebbing.
- **Fixed asset investment in China** increased in Jul by only 8.1% yoy, down from 9% in Jun, further sapping hopes for a near term economic rebound.
- **China's Retail sales** increased 10.2% yoy in Jul vs 10.6% in Jun. Car sales remained buoyant thanks to government subsidies, while fuel sales weakened.
- **Japan's core machinery orders** surged 8.3% mom in Jun, after a -1.4% decline in May. Almost all sectors posted positive figures, with transport equipment leading the pack.
- **Consumer prices in India** went up 6.1% yoy in Jul, accelerating for the fourth straight month. It was the highest figure since Aug 2014, pushed up by food prices.
- **India's industrial production** increased 2.1% yoy in Jun, matching the rise in May, with manufacturing falling short of expectations.
- **The Reserve Bank of India** left its benchmark repo rate unchanged at a 5-year low of 6.5%.

- **Hong Kong GDP** advanced 1.7% yoy in Q2 compared to 0.8% in Q1 thanks to a pickup in goods exports. Conversely private consumption growth slowed down.
- **Malaysian GDP** grew 4% yoy in Q2, down from 4.2% in Q1, with exports having negative impact, while private consumption held up.

**Bottom line: This week's figures were somewhat disappointing, with European growth in Q2 slowing (GDP in Italy and France stalled) and the US retail sales on the back foot. The only bright spot remains the US labour market which seems unswayed by the not so brilliant macro picture. American firms are increasingly complaining about labor shortages and the rise in wages combined with a productivity drop confirms such claims. The situation in China seems to have stabilized, dissipating, for the time being, worries of an impending financial crisis.**

### Regional Developments

- **Bahrain** is planning a benchmark-sized **sale of Eurobonds** later this year, reported *Reuters*, citing a banking source.
- **IMF** has agreed, in principle, to grant **Egypt** a USD 12bn **3-year loan deal** – subject to approval from its Executive Committee. Egypt's dollar-denominated 2025 bond rose to trade at its highest level since end-Sep 2015 after the deal was announced. Reforms to be implemented include subsidy cuts, VAT and reducing bureaucracy for foreign investors among others, though no timeline of reform implementation was provided.
- **Egypt** has **hiked electricity prices** by between 25-40%, depending on consumption levels; these will be applied retroactively from last month.
- Urban consumer price **inflation** in **Egypt** remained unchanged at 14% in Jul; core inflation, meanwhile, eased slightly to 12.31% in Jul (Jun: 12.37%) – still at a seven-year high.
- **Egypt's** government approved a draft bill that would

settle **tax disputes**: according to the deputy finance minister, there are over 6,000 tax dispute cases worth about EGP 47bn (USD 5.29bn) in the court system, in addition to 150 civil disputes.

- **Egypt's net foreign reserves** fell sharply to USD 15.536bn at end-Jul (Jun: USD 17.546bn), as the country returned a USD 1bn deposit to Qatar and paid USD 720mn in fees to the Paris Club of creditor nations.
- The Egyptian daily *Al Shorouk* revealed that the **Egyptian** government is in talks with Saudi Arabia and UAE for USD 2bn in new funding.
- **Egypt's** Ministry of Petroleum is set to **list** joint ventures between the government and foreign **oil firms** on the stock market; neither shares of Cairo Oil Refining Company nor any oil firms fully owned by the government will be floated, disclosed the petroleum ministry.
- **Bilateral trade** between **Egypt and India** touched around USD 3.6bn in 2015, revealed the chairman of the Cairo Chamber of Commerce.
- **Bank credit** in **Jordan** rose by 9.6% yoy to JOD 22.17bn (USD 31.3bn) in the first five months of this year, reported the central bank.
- **Inflation** in **Kuwait** was higher at 3.1% yoy in Jun (May: 2.8%), thanks to an uptick in housing and restaurant/catering prices; food inflation eased for the fifth consecutive month to 1.2%.
- Total **customer deposits** in **Lebanon** grew by only 2% or USD 3.1bn in H1 (H1 2015:USD 4.4bn), largely due to lower deposit growth of non-residents, who accounted for 10% of total deposit growth over the covered period (against 33% over the corresponding period of last year), reported Bank Audi.
- Due to a 44.7% drop in oil revenues to OMR 1.3bn, **Oman's public deficit** rose by 58.7% yoy to OMR 2.5bn in the first 5 months of 2016. Except for customs duties and capital revenues, up 134.7% and 26.9% respectively, other revenues were lower. In particular, gas revenues

fell 8% OMR 546.2mn.

- **Oman inflation** was 0.3% mom reaching 1.3% yoy in Jul. The main drivers were a 7.9% rise in transport and a 0.9% rise in housing, water, electricity, gas and fuel prices. Average inflation over the first 7 months of 2016 was 0.8% compared with the same period in 2015.
- The **total assets of conventional commercial banks in Oman** increased by 6.1% yoy to OMR 29.1bn in Jun. Banks' holding of Government Treasury Bills stood at OMR 420.5 ml.
- **Credit to the private sector in Oman** increased by 13.1% yoy to OMR 19.2bn at end-Jun. Of total credit to the private sector, the share of the household sector (mainly under personal loans) stood at 46%, similar to the share of the non-financial corporate sector at 45.9 %, with financial corporations accounting for 5.3% and other sectors for the remaining 2.8%.
- **Saudi Arabia's Capital Market Authority** is amending rules for **QFIs** including lowering the minimum value of the assets under management to be USD1bn instead of USD 5bn or eliminating the QFI client's concept and removing some of the ownership thresholds/limits while relaxing others as well as increasing the types of foreign financial institutions to include governments and government related entities. (*More details: <http://cma.org.sa/en/Documents/QFI-en-amended.pdf>*)
- **Real estate loans** by **Saudi** banks fell 1% yoy to SAR 191.8bn (USD 51.8bn) in Q2 this year – declining for the first time in six years – as a result of a 4% drop in loans to companies.
- **Saudi Arabia** announces new and revised **fees** in a bid to cope with revenue loss from oil: this includes changes to civil aviation fees, higher traffic fines, visa charges (e.g. SAR 8,000 or USD 2,133 for a two-year multiple entry permit) and application of entry tariffs for first time Haj and Umrah visitors.
- A government report from **Saudi Arabia** finds that over

76,000 illiterate Saudis have been holding **government jobs** for more than 15 years: the number of the illiterate men came down to 69,961 in 2013 from 97,070 in 2012 while the number of illiterate women went up to 6,498 from 5,791 in 2012.

- **Saudi Arabia oil output hits record high:** the country pumped 10.67 million barrels per day (bpd) in July, up from 10.55mn bpd in Jun and higher than the previous record of 10.56mn bpd in Jun 2015.
- A SAR 4bn **fund** has been established for **Saudi SMEs**. According to the governor of the General Authority for SMEs, “the aim of this fund is to invest in venture capital and the private ownership in agreement with trade foundations to support and promote investment opportunities in the SMEs”.
- **Total claims** of **Saudi** banks, excluding government bonds, grew by 9.5% yoy to SAR 1.43 trillion in May. Private sector credit grew by 9.7%, supported by an increase in its regulatory loan to deposit ceiling from 85% to 90%.
- **Saudi Arabia’s** central bank governor reiterated its commitment to keeping the riyal **pegged to the dollar**, also stating it had “sufficient tools” to support its fixed exchange rate policy.
- The **YPO Global Pulse Confidence Index** for **MENA** edged up 0.3 points to 55.9 in Q2 this year (Q1: 55.6), due to the pickup in oil prices during this period. Among the **GCC**, Saudi Arabia posted the most significant improvement, rising 8.7 points to 62.2.

## **UAE Focus**

- The **Dubai Economy Tracker** Index grew to 55.9 in Jul (Jun: 54.6) – the highest reading since Mar 2015 – supported by faster growth in output and new work. Retail activity in Dubai was the best performing sector last month. However, the business expectations index eased to 57.2, its lowest reading since Jan.

- **Abu Dhabi's** Department of Economic Development (**DED**) registered 4,787 new commercial **licenses** in H1 this year, down 4% yoy, bringing total licenses to 110,445.
- China's central bank is expected to pick a **Chinese lender to clear yuan transactions** in **UAE** by end of this year, according to a Chinese banking executive. ICBC is the clearing bank for Qatar's yuan clearing centre that was opened in Apr 2015.
- Abu Dhabi National Energy Co (**TAQA**) plans to **tap the bond markets** to manage its maturing debt, according to its CFO. The company has a USD 750mn bond coming due in Mar 2017 and another USD 500mn bond in Oct 2017.
- The **UAE** emirate **Ajman's** Tourism Development Department has disclosed that it earned AED 200mn in **tourism revenues** from 272,021 visitors in H1 2016.
- **Dubai RTA's** Traffic and Transportation Plan 2030, which was approved by the Vice-President and Prime Minister of the UAE and Ruler of Dubai, includes the marine transport stations project along the Canal, the construction of 36 bridges, as well as road improvements among others.
- **Passenger numbers** at **Dubai's** airport was down 1% yoy to 5.8mn in Jun but were up 5.8% yoy for H1 this year (40.5mn). India (14%), Saudi Arabia, UK, Pakistan and the US together accounted for 38% of total volume in H1.

## **Media Review**

**The best thing about Hillary Clinton's economic policy: it's not Trump's**

<http://www.economist.com/blogs/democracyinamerica/2016/08/clin-tonomics>

**On overview on negative bond yields**

<http://www.reuters.com/article/us-global-bonds-fitch-idUSKCN10L290?il=0>

**Youth employment in the Arab world**

<http://www.economist.com/news/briefing/21703362-treating-young-threat-arab-rulers-are-stoking-next-revolt-look-forward-anger>

**Saudi energy minister hints at effort to rebalance oil market:  
FT**

<https://www.ft.com/content/86513a92-5f9b-11e6-ae3f-77baadeb1c93>

**Europe's Brexit Hangover: Roubini via Project Syndicate**

<https://www.project-syndicate.org/commentary/europe-brexit-hangover-by-nouriel-roubini-2016-08>

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