

# Weekly Economic Commentary – Aug 21, 2016

## Markets

*Amid sluggish summer activity, stock markets had a mixed week, due to confused signals from the Fed, with the MSCI for emerging markets and US indices almost flat, while European and Japanese indices declined markedly. Regional markets, with the exception of Qatar, were mostly down or flat. In currency markets the dollar sank to a seven-week lows against the yen and the euro, recovering some ground towards the end of the week. The GBP was hit by rumors that the UK government could start the Brexit procedure as early as April. Oil prices had a six-day rally interrupted by end of the week profit taking. The gold price recorded a small weekly gain despite being pushed down on Friday by the dollar rebound.*

## Global Developments

### **US/Americas:**

- **Minutes from the US Fed's FOMC** portrayed a divided body over the prospect of a further interest rate rise in 2016. A couple of members urged an immediate move, while others stressed that more evidence on the strength of the rebound is warranted.
- William Dudley, president of the New York Fed, asserted that markets were mispricing the risk of a near-term rate hike, warning that the **US central bank could act at the next FOMC meeting.**
- **US inflation** was 0.8% yoy in Jul, following a 1% increase in the previous two months. Inflation remains subdued despite a strong pick up in the labor market.
- **The Conference Board index of US leading indicators** climbed 0.4% in Jul, as the weakness in the labor market

abated. The increase was broad-based, led by worked hours in manufacturing and financial sub-indices. In the six months to July, the index rose by 2.1% at an annualized rate.

- **US new-home construction** rose in Jul by 2.1% mom to an annualised pace of 1.21mn, after a 5.1% jump in Jun, when the annualized pace touched 1.19mn units.
- **US industrial production** grew 7% mom in Jul, vs 0.4% in Jun, highest since Nov 2014.
- **Net long-term capital flows into the US** turned negative in Jun by USD 3.6bn due to US residents' purchase of foreign assets and large sales of Treasury bonds and notes by official foreign investors. Official investors have shrunk their Treasury portfolio in 20 of the last 21 months.
- **Claims for US unemployment benefits** decreased by 4k to 262k, the lowest figure in four weeks, but the four-week moving average was up from 262,750 to 265,250. Continuing claims rose 15k to 2.175mn while the insured unemployment rate was unchanged, at 1.6%.

## Europe:

- **The UK headline CPI** rose 0.6% yoy in Jul, after 0.5% yoy in Jun as a result of the GBP depreciation.
- **UK retail sales surged** 9% yoy (1.5% mom) in Jul up from 4.3% in Jun (-0.9% mom) as a result of exceptional good weather and tourists' spending spree spurred by a plunging pound.
- **UK headline unemployment rate** for Q2 held steady at 4.9%, its lowest since mid-2005.
- **The UK's output PPI** rose 0.3% yoy in Jul after dropping 0.2% in Jun.
- **The ZEW indicator of economic sentiment for Germany** rebounded strongly to positive territory in Aug, reaching 0.5 after plunging to -6.8 in Jul.
- **The eurozone's external trade surplus** expanded in Jun to

EUR 29.2bn from EUR 25.5bn in June 2015, as imports fell more than exports due mainly to lower energy prices

- **The eurozone's current account surplus** was almost stable to EUR 37.6bn in Jun, vs EUR 37.5bn a year earlier.

### **Asia and Pacific:**

- **China's outbound foreign direct investment** climbed 61.8% yoy USD 102.8bn in the first 7 months of 2016, as capital flight to developed nations intensified. In July, FDI totaled USD 13.9bn, up 80% yoy down from USD 15.3bn in Jun.
- **Japan recorded** a JPY 513.5bn surplus in Jul, compared to a JPY 261.39bn deficit a year earlier, way above market consensus of a JPY 283.7 bn surplus.
- **China reported** a USD 52.31bn trade surplus in July, compared to a USD 41.87bn surplus a year earlier and beating market estimates.
- Deputy Governor Urjit Patel was appointed **new Governor of the Reserve Bank of India** replacing Raghuram Rajan, a renowned former IMF chief economist. The appointment represents a choice of continuity with Rajan's tenure.
- **Indian WPI** rose by the fastest pace in almost 2 years by 3.55% yoy in July from 1.6% in Jun.
- **Philippines GDP** advanced 1.8% qoq in Q2, accelerating from 1.3% in Q1. A robust increase in services and a rebound in agriculture counterbalanced a slowdown in industry.
- **Thailand's GDP** expanded 3.5% yoy in Q2 up from 3.2% in Q1 pushed by public expenditure and private consumption.
- **Singapore's non-oil exports** fell -10.6% yoy in Jul accelerating the fall from the -2.4% drop in Jun. Electronics exports were hardest hit, followed by chemical and civil engineering.

**Bottom line:** Few surprises came from the macro data flow last week, so market participants focused on the next move from the Fed. The central bank is arguably behind the curve, with

labour markets tightening and energy prices on the rise. Even manufacturing output, after being hit by a stronger dollar, has inverted its trend. Only financial markets pundits seem to believe that rates can be frozen for the indefinite future. The stern warning by Bill Dudley set off an ineluctable wake-up call.

### Regional Developments

- **Egypt** is set to receive a USD 2bn central bank deposit from **Saudi Arabia**, revealed the country's international cooperation minister. This was agreed during a visit by the Saudi king in Apr but not previously announced.
- **Egypt** will offer between 20-30% of shares in **public business sector companies** in IPOs, according to the prime minister.
- Spending on **petroleum subsidies** in **Egypt** fell by 23% yoy to EGP 55bn (USD 6.3bn) in the financial year 2015-16, disclosed the head of state oil company EGPC. The country aims to lower this to about EGP 35bn in this current financial year.
- **Imports** of **consumer durable goods** into **Egypt** dropped by 13.1% yoy to EGP 15bn (USD 1.6bn) during Jan-May this year.
- **Egypt** is expected to sign a USD 400mn **World Bank** agreement shortly to support the government's conditional cash transfer social safety net programmes. There are two projects: Takaful pays each family EGP 325 in addition to EGP 60-100 per child on a monthly basis, while Karama pays each elderly or disabled person EGP 350 per month.
- Given the severe foreign exchange shortage, **Egypt owes** USD 250mn worth of local ticket sales to **international airlines**, down from USD 291mn it owed in Jun. The International Air Transport Association has requested the country "to find a practical solution to release forex to airlines in order to avoid any unintended,

detrimental effects”.

- **Inflation in Jordan** dropped by 1.3% yoy in Jan-Jul, aided by declines in prices of transportation as well as fuel and lighting, among others.
- **Kuwait's** Ministry of Finance **denied** reports claiming that it had **borrowed** USD 55bn from domestic and external markets.
- **Kuwait's peak electricity load** reached 13,390 megawatts (MW) in Aug, its highest level ever, surpassing the previous high registered in mid-Jul this year.
- **Credit to the private sector in Kuwait** slowed to 7.7% yoy in Apr; the month also saw a large rise in **government deposits** to the tune of KWD 436mn – the largest since Aug 2011 and pushed growth up to 24% yoy.
- **Kuwait** is estimated to have upto 30,000 **unemployed graduates by 2030**, according to the central bank. *Al-Rai* daily reported, citing a survey conducted by the Central Statistics Bureau, that half of the Kuwaiti graduates have to wait for a year to get a job.
- **Non-performing loans (NPLs)** in the lending portfolio of **Omani** banks rose by only OMR 5.7mn in 2015, taking the total stock of NPLs to OMR 347mn or 1.8% of the gross loans. The net NPLs decreased by OMR 8.8mn, with net NPL ratio down to 0.44% in 2015.
- The **Qatar** central bank sold QAR 4.6bn (USD 1.26bn) of conventional and Islamic government bonds – its **first domestic government bond offer this year**. It consisted of QAR 3bn conventional bonds (QAR 1.5bn of three-year bonds at a fixed rate of 2.25%, QAR 1bn of five-year debt at 2.75%, QAR 250mn of seven-year debt at 3.25% and QAR 250mn of 10-year debt at 3.75%) and QAR 1.6bn of sukuk.
- **Inflation in Qatar** climbed to 2.8% in Jul (Jun: 2.5%), thanks to a 4.1% yoy pickup in housing and utility costs.
- Total **foreign investment in Qatar** touched an estimated QR525.7bn in 2014, an increase of QAR 1.6bn from a year

ago, according to a report released by the Ministry of Development Planning and Statistics. The report highlights that more than 90% of the inward FDI was accounted for by the oil and gas sector, associated downstream manufacturing, and other activities such as transportation and marketing.

- According to the new rules published by **Saudi Arabia's** Capital Market Authority, **qualified foreign investors** will be **allowed to bid in the book-building process**, which underwriters use to price and allocate shares in IPOs. These rules will be effective from the beginning of next year.
- **Saudi Arabia's non-oil exports** were down 0.4% yoy to SAR 15.7bn in May while imports fell 20.3% to SAR 45.5bn. Non-oil exports usually account for around 12% of the overall exports of Saudi Arabia.
- **Unemployment rate in Saudi Arabia** nudged up to 11.6% from 11.5% reported in in H1 2015. The total labour force was 12.38mn individuals while the Saudi labour force is an estimated 5.66mn (with just over 5mn employed). More than half (53.7%) of unemployed Saudis hold a bachelor's degree.
- Spending in the **local tourism** sector in **Saudi Arabia** by local and foreign tourists is expected to be SAR 144.3bn this year, compared to an estimated SAR 86.4bn to be spent in tourism abroad, according to the Saudi Commission for Tourism and National Heritage.
- **Saudi Arabia** and Brazil were ranked among the top 20 countries in the world in terms of **spending on tourism abroad**, reported *Arab News*, citing a "recent economic report". Saudis' spending abroad, at USD 25.1bn, was the highest among all the Gulf states, followed by Emiratis (USD 17.7bn) and Qataris (USD 12.9bn).

## UAE Focus

- Total **consumer debt levels** in the **UAE**, for business and

consumption purposes, rose by 7.5% yoy to AED 430bn as of end-Jun this year.

- **Inflation in Dubai** increased by 0.3% mom and 2.1% yoy in Jul; housing and utility costs was up 3.4% while food and beverages prices dipped 1%. Inflation in **Abu Dhabi** meanwhile rose by 0.4% mom and 2.3% yoy in Jul, taking the average price up to 2.7% yoy in the first seven months in 2016.
- **UAE's National Bank of Abu Dhabi (NBAD)** plans to issue a benchmark-sized **green bond**, reported *Reuters*. The proceeds of the bond would be used for further investments in renewable energy, according to sources familiar with the matter.
- **UAE's investments in India** stood at USD 4.03bn ending Mar2016, revealed the Indian ambassador to the UAE. Bilateral trade between the two countries for the year 2015-16 is around USD 50bn, down from USD 59.1bn the year before.
- **UAE** ranked 41st globally and top among the Arab nations in the 2016 **Global Innovation Index**, which is based on 82 sub-indices which measure innovation in detail. Gross expenditure on R&D in the UAE rose to 48 from 63 and knowledge workers have increased to 25 from a rank of 57 increasing the overall innovation input contribution of the UAE.
- **Dubai** features as one of the **most improved places to live over the past five years**, according to a study issued by the EIU. Dubai, which scored 74.7 out of 100 in overall liveability, posted an improvement of 4.6% since 2011 and ranks 74 among 140 countries. (*More about the report in the Media Review section*).
- **DP World** announced it is **delaying the expansion of Dubai's Jebel Ali port**. Expansion plans had included the addition of 1.5 million twenty-foot equivalent units (TEU) of capacity to Terminal 3 at Jebel Ali, but this will be delayed into 2017; expansion of Terminal 4, with an investment required of USD 1.6bn, will also be

slowed, according to the company.

- Average daily **room rates** in **Abu Dhabi**'s hotels fell 5.4% yoy to AED 368 in Jul this year, while occupancy levels rose 3.7% yoy to 61.6%.
- **Job opportunities** in the **UAE** dropped by 22% yoy in Jul, as per the latest Monster Employment Index; this was the first negative growth recorded since the beginning of the year.

## **Media Review**

**The cost of a barrel of oil in major oil fields**

<http://graphics.wsj.com/oil-barrel-breakdown/>

**A five year outlook on financial markets**

<https://www.northerntrust.com/documents/white-papers/asset-management/cma-outlook-2016.pdf>

**Saudi signals it may hit new oil output record ahead of freeze talks**

<http://www.reuters.com/article/us-saudi-oil-output-exclusive-idUSKCN10S1FU>

**Saudi, other issuers gear up as Gulf bond crush looms**

<http://www.reuters.com/article/gulf-bonds-crush-idUSL8N1A043C>

**China's Painful Structural Transformation**

<https://www.project-syndicate.org/commentary/china-structural-economic-change-by-zhang-jun-2016-08>

**India appoints new central bank governor**

<http://www.economist.com/news/finance-economics/21705542-urjit-patel-will-succeed-raghuram-rajan-india-appoints-new-central-bank-governor>

<https://www.ft.com/content/eb71aa76-66e7-11e6-ae5b-a7cc5dd5a28c>

**EIU finds that liveability is declining in a fifth of the cities surveyed**

<http://www.economist.com/blogs/graphicdetail/2016/08/daily-chart-14>

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