

Weekly Economic Commentary – Aug 28, 2016

Markets

In the absence of main data releases, global stock markets were marking time awaiting for Yellen's speech at Jackson Hole. When the hawkish remarks hit the newswires in the US shares prices declined, while in Europe they gained, as traders focused on the diverging effects of FX on earnings. In fact, the dollar scored weekly gains on major crosses. Emerging markets reacted negatively to Yellen's quotes and regional markets were all sharply down, despite oil prices paring part of the losses suffered at the beginning of the week, with Brent almost reaching the psychological level of USD 50/b. Gold prices had another bad week as the prospect of rate hikes in the US weakens the case to hold precious metals as a long term hedge against inflation.

Global Developments

US/Americas:

- **Fed Chairwoman Yellen** in her intervention at Jackson Hole remarked that a rate hike is in the cards sooner than later thanks to a stronger macro situation and receding global risks, but repeated the mantra that a final decision depends on the next data releases and that further moves will be gradual.
- **US Markit manufacturing PMI** came in at 52.1 in August of 2016, down from 52.9 in the previous month and slightly below market expectations of 52.7
- **Initial claims for unemployment insurance benefits** were 1,000 units lower to 261,000 the third consecutive weekly decline. The 4-week moving average glided down from 265,250 to 264,000 near its long term low of

256,000. Continuing claims fell 30,000 to 2.145 million.

- **New orders for durable manufactured goods** in Jul climbed up 4.4% mom after two dismal figures in May and especially in Jun, when it sunk -4.0% mom. Core capital orders rose 1.6%, mom. Excluding transportation, new orders advanced 1.5% mom in Jul.
- **The Chicago Fed National Activity Index** increased to 0.27 in Jul, a 12-month top, from 0.05 in Jun, underscoring a robust start of Q3.
- **US new single-family homes** sales in Jul rose 12.4% mom and 31.3% yoy the fastest rate in 9 years, propelled by a surge in the South and Northeast.
- **Existing-home sales in the US** in Jul fell -3.2% mom and -1.6% yoy despite total inventory being below the levels of year ago.
- **Mexico's GDP** contracted 0.2% qoq in Q2 rose 2.5% year over year in the second quarter, after an increase of 2.4% in the previous quarter and 2.3% a year earlier. Seasonally adjusted figures contracted 0.2% in the second quarter, with respect to the previous period.

Europe:

- **The growth of the Eurozone's M3 money supply** slowed to 4.8% yoy in Jul from 5% in Jun. The drop was largely attributable to marketable instruments.
- **The Markit PMI for the Eurozone** advanced to 53.3 in Aug, from 53.2 in Jul confirming that factories are recovering from a lackluster first half of the year.
- **The German Ifo Business Climate Index in Aug** fell to 106.2 – a record low since Dec 2014 – from 108.3 in Jul. The drop was due to downbeat current assessment and somber business expectations and it was the biggest monthly drop in more than four years.
- **The Conference Board Leading Economic Index for the Eurozone** was almost stable at 107.2 in Jul from 107.3 in Jun. despite the UK referendum.

Asia and Pacific:

- **Japan's CPI** fell 0.5% yoy in Jul vs -0.4% in Jun (the fifth consecutive monthly decline) due mainly to lower energy prices, but deflation is rekindling in housing, clothing and other goods, despite massive monetary expansion.
- **MNI China business** sentiment index fell to 54.3 in Aug from 55.5 in Jul, as a noticeable fall in demand and stricter credit conditions offset a slight uptick in output.
- **Singapore CPI** declined by -0.7% yoy in Jul, the same pace as in Jun.
- **Singapore's industrial production** fell -3.6% yoy in Jul, down from a revised 0.6% increase in Jun.
- **Malaysia consumer prices** rose 1.1 % yoy in Jul, compared to a 1.6% gain in Jun.
- **Hong Kong CPI** inflation slowed a bit to 2.3% yoy in Jul from 2.4% in Jun.
- **Hong Kong's exports** declined for the second month in Jul by -5.1% yoy. Imports fell by -3.3% yoy vs -0.9% in June.
- **Hong Kong unemployment** rate was 3.4% in the 3 months to July, unchanged from the previous period, and remaining at the highest level since 2013 for the fourth consecutive month.
- **Taiwan's industrial production** decreased -0.3% yoy in Jul after a 0.9% yoy jump in Jun, despite a good performance of the manufacturing sector.

Bottom line: After agonizing for months on the timing of the next hike the US Fed is finally signaling that it is ready to move as the US economy shows signs of a broad-based pick up. Actually the central bank might be already behind the curve, as wage pressure are emerging, reports of labor shortages are making the rounds and lending to households (in the US and in other developed economies) is now growing at its fastest rate

since 2008. Even the Eurozone seems to have shrugged off the Brexit shock (rightly so) and its Q3 GDP so far seems to be heading towards a better performance than in Q2. In a part of her speech that was not given enough attention Yellen argued that equilibrium interest rates may not be high enough for rate cuts to provide a boost to the economy, so US policy-makers may need to come up (sometimes in the future if needs arise) with more creative policy tools.

Regional Developments

- **UAE's** Abu Dhabi Fund for Development formalised a contract for an AED 2.9bn grant to enable a **development project** in **Bahrain**. The funding, which will help towards the construction of North City (a set of interlinked man-made islands), is part of the AED 9.19bn grant provided by the UAE to Bahrain in 2013 as part of the GCC development programme aiming to support development projects in Bahrain over 10 years.
- **UAE** agreed to provide **Egypt's** central bank with a USD 1bn deposit for a duration of six years, reported UAE's official state news agency WAM.
- **Egypt's** Central Bank provided an **interest-free loan** worth EGP 31bn **to three major banks** (including the National Bank of Egypt, Banque Misr, and Banque du Caire), and will last for a 10-year period, according to sources.
- **Egypt** expects to end **fuel subsidies** within three years and is aiming to increase fuel prices to 65% of their actual cost during the 2016/17 fiscal year, reported *Reuters*, citing government sources.
- **FDI into Egypt** grew to USD 2.77bn in Q3 of the financial year 2015-16 (Q2: USD 1.72bn). **Investments** from the **EU** rose to USD 2.3mn during the same period (Q2: USD 1.6bn).
- **Money supply** in **Egypt** grew by 2.4% mom to EGP 552.97bn as of end-May while quasi-money increased by EGP 24.86bn

to EGP 1.49bn from the previous month.

- The **IMF** approved a USD 723mn **loan facility** to **Jordan** in a three-year programme to support the country's economic and financial reforms. The program is focused on reducing public debt to 77% of GDP by 2021 from 94% currently.
- **Budget deficit** in **Jordan** stands at JOD 532mn in H1 this year (excluding foreign assistance) and compares to JOD 518mn in the same period a year ago.
- **Jordan** has signed a **joint financing deal** with DFID (USD 23.5mn), USAID (USD 10mn) and Norway (USD 1.2mn) to support the Jordan Compact **Education** Fund for the upcoming 2016-2017 academic year. The education ministry estimates that around 50k new Syrian students will be enrolled in schools, increasing the total number of Syrians at public schools to 193k.
- **Kuwait's GDP growth** accelerated to 1.8% yoy last year, up from 0.5% the year before, supported by record high investment (+13% yoy to 36% of non-oil GDP) and improved domestic demand (+4.4% vs. 3.1% in 2014).
- **Kuwait's inflation** was up 0.1% mom and 3.1% yoy in Jul (Jun: 3.1%); housing prices were up 7.3%.
- The number of **commercial licenses** issued in **Kuwait** surged by 80% during H1; of total 3077 new licenses issued during this period, 2926 were for limited liability companies.
- The value of **imported food commodities** in **Oman** declined by 3.1% yoy to OMR 1.13bn during 2015. Exports and re-exports of food commodities rose by 3.4% to OMR 441.1mn in 2015.
- **Qatar's GDP** shrank by 2.6% qoq in Q1 this year after recording flat growth in the previous quarter. In yoy terms, growth was 1.1% in Q1 vs. 3.9% in Q4 2015. Mining and quarrying was down 3.0% yoy and 2.5% qoq while the rest of the economy grew 5.5% yoy but declined by 2.7% qoq.
- **Electricity use** and water consumption in **Qatar** per

person fell by 14% and 17% respectively between Apr 2012 and Nov 2015, according to figures from the Qatar General Electricity and Water. In per capita terms, Qatar has the third largest electricity consumption in the Middle East, at about 17bn Kwh, below Kuwait (19Kwh) and UAE (18Kwh).

- **Qatar's overall Producer Price Index** increased 4% mom to an estimated 46.7 points in Jun; PPI was down 25.3% in yoy terms.
- **Foreign trade in Qatar** recorded a surplus of QAR 20.56bn in Q2 (+6% qoq); in yoy terms, surplus almost halved from Q1's QAR 43.74bn. Asia remained the strongest trade partner – accounting for 70.8% and 30.7% of exports and imports respectively. Closer home, the GCC represented 9.8% of Qatar's exports and 17.3% of imports.
- **Bilateral trade between Qatar and US** grew by 46% to QAR 15.58bn in H1 this year. US exports to Qatar surged by 73% yoy to QAR 13.29bn during this period.
- Average daily demand for gasoline, jet fuel and other refined products in **Qatar** hit a record high of 228k barrels in the first five months of the year, more than double the pace in 2011.
- **Tourists from Qatar** had the biggest average spend per transaction (a tad higher than GBP 1600) in the UK in July. Japan, Indonesia and the U.S. accounted for the biggest increases in purchases.
- **Saudi Arabia** is planning to sell its first **international bond** in early Oct, reported *Bloomberg*, and a roadshow for potential investors is expected in last week of Sep. The plan is to sell at least USD 10bn of bonds in early Oct, though the timing and size may depend on market conditions according to sources.
- **Saudi Arabia's non-oil exports** fell 10% to SAR 14.3bn in June while imports dropped by almost a quarter to SAR 43bn.
- **Inflation in Saudi Arabia** slowed to its lowest level this year in Jul: 0.1% mom and 3.8% yoy (Jun: 4.1% yoy).

- **Saudi Arabia** is raising up to SAR 20bn from sale of **domestic bonds** this month, reported financial website *Maal*, also disclosing that the government has sold around SAR 70.5bn in H1 this year.
- **Saudi Aramco** may reduce its stake to 30% (from 45%) in a proposed USD 5.5bn refinery project in Indonesia, revealed Indonesia's energy minister.
- The number of **new businesses** set up in **Saudi Arabia** increased by 35% since 2015 to 204,000. Riyadh had the highest share of the total number of the new establishments at 25%, with the total number of establishments exceeding 50,000.
- The **Saudi public sector** employs 10.9mn persons, of which 13% are female. About 55% of the employees fall within the 30-44 age category while around 1.5mn are above 50 years of age.
- About 33% surveyed cited lack of transportation facilities an important factor deterring **Saudi women** from working, according to a survey published by the Ifad Consultative Research and Studies Center. The survey is not an official one; around 90% of the sample were unemployed and those that were employed earned an average monthly income ranging between SAR 1500-3000.
- According to EY, the **MENA** region witnessed six **IPOs** raising a total USD 397.2mn in Q2 2016 – a 40% qoq decrease in volume and 81% qoq decrease in value.
- The **GCC hospitality market** is forecast to grow at a compound annual growth rate of 7.6% to USD 36.7bn in 2020, as per the latest report from Alpen Capital. UAE and Qatar are likely to grow at 10% annually till 2020 compared to rest of GCC growing at 5-6%. Revenues are forecast to reach USD 9.8bn and USD 1.6bn in UAE and Qatar respectively. (*The report can be accessed at: <http://www.alpencapital.com/industry-reports.html>*)

UAE Focus

- **Total bank deposits** in the **UAE** fell by AED 7bn in Jul, mainly due to a drop in non-resident deposits by AED 6.3bn. Total loans and advances decreased by 0.2% mom to AED 1.54 trillion.
- The value of **institutional and foreign investment** at the Abu Dhabi Securities Exchange (**ADX**) reached AED 7bn in H1 2016. Net profits of listed companies crossed AED 17bn during this period.
- The **FGB-NBAD merger**, expected to happen in Q1 2017, leads to consolidated assets worth almost AED 661bn and consolidated net profit of AED 5.3bn.
- **Abu Dhabi's nominal GDP** grew 3% yoy to AED 960bn in 2014, of which oil accounted for 50.9%, according to Statistics Centre, Abu Dhabi; annual per capita GDP was AED 361,4000. (The Statistical Yearbook can be accessed at:
<https://www.scad.ae/en/Pages/ThemeReleaseDetail.aspx?ReleaseID=819&ThemeID=1>)
- **Nakheel** has completed its USD 16bn debt restructuring and is officially **"debt-free"**, revealed its CEO. The company achieved this with the latest transfer of funds for repayment of a AED 4.4bn (USD 1.2bn) sukuk issue maturing this month.
- **Bilateral trade** between **Dubai** and **UK** touched AED 6.7bn in Q1 this year, from a total AED 29.7bn last year, according to Dubai Customs.
- **Sharjah Islamic Bank** disclosed that it will begin investor meetings this week (Aug 29) for a potential **benchmark US dollar-denominated Sukuk issue**.
- **Fitch upgraded DP World's** Long-Term Issuer Default Rating to BBB from BBB- and its Short Term IDR to F2 from F3, with a stable ratings outlook.
- **Passenger traffic** at **Dubai World Central** (DWC) grew by 95.4% yoy to 410,278 in H1 this year. The DWC operates an average of 174 flights weekly (by 17 passenger carriers) to 39 international destinations.
- **Abu Dhabi International** reported an uptick in **passenger**

traffic by 7.9% yoy in Jul bringing the year to date number to 14.1mn (+6.8% yoy); passengers to India and UK grew by 15.6% and 7.7% respectively in Jul.

Media Review

The Permian Basin mirage

<http://www.artberman.com/saudi-permian-a-race-to-the-bottom-for-tight-oil/>

Volatility and its effects on the markets

<http://statisticalideas.blogspot.com/2016/08/volatility-deliberations.html>

These Nine Charts Show Just How Quiet the Market Is Right Now

<http://www.bloomberg.com/news/articles/2016-08-24/these-nine-charts-show-just-how-quiet-the-market-is-right-now>

The market signals are becoming more difficult to interpret

<https://www.bloomberg.com/view/articles/2016-08-17/market-signals-just-aren-t-what-they-used-to-be>

Saudi Arabia Says Aramco IPO on Track as It Weighs Best Approach

<http://www.bloomberg.com/news/articles/2016-08-26/saudi-arabia-says-aramco-ipo-on-track-as-it-weighs-best-approach>

Vision 2030 offers hope to many in Saudi Arabia, but...

<http://www.ibtimes.co.uk/mohammed-bin-salmans-vision-2030-ambitious-saudi-arabias-problems-are-bigger-one-man-1577995>

Dubai announces crude oil price for November

http://www.zawya.com/mena/en/story/Dubai_announces_crude_oil_price_for_November-WAM20160825094037574/

Demand for LNG grows in MENA region

<http://www.thenational.ae/business/energy/demand-for-lng-grows-in-mena-region>

