

Weekly Economic Commentary – Sep 4, 2016

Markets

The S&P 500 after a volatile week (the month of August closed with a negative sign) regained ground and closed with significant weekly gains. The performances of the European and especially Japanese bourses were largely positive, while the MSCI for emerging markets remained almost unchanged. Regional shares were mixed, due to a retrenchment in oil prices, while Egypt scored substantial gains thanks to the new measures approved by the government. In the FX market the dollar crushed the yen and put the euro (together with major EM currencies) on the defensive. Gold added another weekly negative performance to the streak.

Global Developments

US/Americas:

- **US non-farm payroll** added 151,000 units in Aug after an upwardly revised 275,000 figure for Jul. The figure was below median expectations but given the summer period it corroborates the evidence that the job market benefits from tail winds. The jobless rate held steady at 4.9%.
- **Initial unemployment claims** in the US increased 2,000 to 263,000. The four-week moving average fell from 264,000 to 263,000 while continuing claims rose 14,000 to 2.159 mn. The insured unemployment rate remained stuck at 1.6% for the sixth week.
- The **US ISM manufacturing index** unexpectedly plunged from 52.6 in Jul to 49.4 in Aug. Both production and new orders fell into contractionary territory.
- The **US Conference Board's consumer confidence index** in Aug reached its highest level since Sep 2015 at 101.1

from 97.3 in Jul confirming that consumption growth is sustained by a strong labour market and a pickup in wages.

- The **S&P CoreLogic Case-Shiller index of US home prices** cooled for the third straight month in Jun rising 5.13% yoy after May's 5.25% rise. The real estate market is supported by a tight supply of homes against an increasing demand spurred by higher disposable incomes.
- **US trade deficit** declined to USD 39.47 bn in Jul from USD 44.66 bn in Jun. Imports declined 0.8%, exports rose 1.9%, the highest level since last Sep.
- **Growth in US nominal personal income** was 0.4% mom in Jul from 0.3% in Jun. Nominal disposable income growth displayed the same growth rates, 0.4% vs 0.3% in the prior month. Growth in wages and salaries was unchanged at a perky 0.5%.
- The **US core PCE deflator**, which excludes food and energy, in Jul increased 0.1% mom (1.6% yoy) vs 0% in Jun (+1.6% yoy), a figure that makes more likely a rate hike by the Fed in Sep.
- **US real consumer spending** increased 0.3% mom in Jul slowing from 0.5% in Jun pushed by durable goods, while spending on nondurable fell a bit.
- **Brazil's GDP** fell -3.8% in Q2 (-0.6% qoq) vs -5.4% in Q1 and a contraction of -3% in 2015.

Europe:

- **Eurozone's inflation** crawled up 0.2% yoy in Aug, the same rate as Jul, as the effects of QE fail to materialize.
- The **Eurozone's economic sentiment indicator** decreased to 103.5 in Aug from 104.5 in Jul. Confidence fell in all subgroups except construction.
- Euro zone producer prices rose 0.1% mom (-2.8% yoy) in Jul, vs 0.8% (-3.1% yoy) in Jun. The yearly decline resulted from lower energy prices whose effect however

is waning.

- **UK consumer confidence** gained 5 points to -7 in Aug, regaining part of the losses from July's record low but still stuck in negative territory.
- **UK House prices** advanced 0.6% mom (5.6% yoy) in Aug, after 0.5% mom and 5.2% yoy in Jul. Brexit has not caused any negative impact on the real estate market so far.
- **German retail sales** climbed 1.7% mom in Jul vs -0.6% in Jun boding well for another acceleration in the German GDP growth.

Asia and Pacific:

- **Japan's' industrial production** was flat mom in Jul (-3.8% yoy), vs a 2.3% increase in Jun (-1.5% yoy), well below market expectations of a 0.8%.
- **Retail sales in Japan** declined -0.2% yoy in Jul after -1.3% in Jun depressed by spending on big-ticket items as weak wage growth discourages consumption.
- **Japan's worker's household expenditure** fell -3.9% yoy in Jul, after a -5.6% plunge in Jun.
- **South Korea GDP** advanced 0.8% qoq in Q2 vs 0.5% in Q1 pushed by private spending, investment and exports.
- **India's GDP** rose 7.1% yoy in Q2, down from 7.9% in Q1 driven mainly by consumption while investment was a drag and export growth was again disappointing.
- **South Korea recorded** a USD 5.3 bn trade surplus in Aug, compared to a USD 4.34 bn surplus a year earlier, as exports rose more than imports.
- **South Korea inflation** was 0.4 % yoy in Aug, slowing from 0.7 % in Jul.
- **Thailand's Industrial production** fell -5.1% yoy in July after a 0.8% increase in Jun, hit by the negative performances of the auto and electronics sector.

Bottom line: The macro data from the US painted a mixed outlook, as payroll number disappointed and the ISM was a

shocker, but private consumption remains resilient. The Japanese economy seems completely unaffected by the series of massive stimuli and has little prospect of improvement this year. Over the next two week the focus on the Fed's FOMC meeting will become spasmodic. The Fed has fought the recession since 2009 by inducing and rewarding yield-seeking speculative behavior, but the game has reached its limits. So the normalization, however gradual, is fraught with risks that the artificial boost to asset valuation will unravel.

Regional Developments

- **Egypt's** parliament passed the long-awaited **value-added tax** of 13% in 2016-17, rising to 14% in the next fiscal year. The government is planning to raise around EGP 32bn (USD 3.6bn) a year from the implementation of VAT, disclosed the deputy finance minister for tax policies. Separately, the parliament also approved a **tax resolution law** to ease the process of settling investment disputes.
- **Egypt's non-oil exports** grew by 2.4% yoy to USD 11.6bn in the first seven months of this year; building materials (USD 2.6bn) and the chemical industries (USD 1.8bn) sectors were the largest exporters during this period.
- According to the central bank of **Egypt**, 51% of the country's **external debt** is owed to seven countries. Saudi Arabia, Kuwait and UAE account for 37.3% of the USD 47.8bn debt as of Dec 2015. Germany (6%), Japan (4.6%), US (4.2%) and France (3.1%) were other major creditors.
- **M2 money supply** in **Egypt** grew by 17.95% yoy to EGP 2.122 trn in Jul.
- Cyprus signed a deal with **Egypt** last week for **gas transfers via pipeline** for domestic consumption or re-export, once extraction begins on the discoveries found in late 2011.

- **Iraq's oil exports** from southern ports increased to more than 3.230mn barrels per day (bpd) in Aug, from 3.202mn bpd in Jul. The record high is 3.37mn bpd last Nov.
- **Iraq's PM** publically disclosed that the country would support a **decision by OPEC** to freeze oil output.
- **Jordan's exports to North America** stood at JOD 496mn in H1 this year, versus JOD 489mn a year ago; US accounted for 90% of these exports, followed by Canada and Mexico.
- **Real estate activity** softens in **Kuwait**: sales in the residential and investment sector are down about one third year-to-date from last year; overall sales across all sectors declined by 25% year-to-date to KWD 1.45bn.
- **Lebanon's central bank** requested that commercial banks use their surplus funds as provisions in Lebanese pounds to be included in their Tier Two Capital; this would prepare banks to meet the **IFRS9 requirements** that come into effect in Jan 2018.
- **Oman-based Sohar Port and Freezone** reported that its container volume in H1 2016 increased by 18.6 % to 313,000 TEUs, from the same period in 2015.
- **Trade surplus** in **Qatar** narrowed by 18.8% mom and 52.5% yoy to QAR 6.7bn in Jul; imports picked up 4.5% mom and 4.4% yoy to QAR 9.6bn while exports were down 30% yoy and 6.5% mom.
- **Qatar's central bank** sold QAR 1bn (USD 275mn) of **short-term Treasury bills** in a monthly auction; yields however were lower compared to last month's QAR 1.2bn sale.
- **Qatar airport** will begin collecting an airport tax of QAR 35 from all passengers (including those in transit) for use of the airport's facilities; the charge will apply to tickets issued after Aug. 30 and for any travel starting on Dec. 1 onwards.
- **Qatar National Bank (QNB)** has been given approval to open a branch in India offering banking services.
- **Qatar Islamic Bank (QIB)** disclosed that the bank had raised QAR 2bn, with an Additional Tier 1 perpetual Sukuk issue; this will improve capital adequacy ratios

and support business growth, according to the bank.

- *Reuters* reported that the US is expected to sell USD 7bn worth of Boeing **fighter jets** to **Qatar** and Kuwait, with the decision to come as early as next week, after around two years of delays.
- **Net foreign assets** in **Saudi Arabia** fell by 16% yoy to USD 555bn in Jul – the lowest level since Feb 2012. Holdings of foreign securities however, rose by USD 2bn to USD 371bn after dipping for 10 straight months.
- **Fitch** affirmed **Saudi Arabia's** Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'AA-' with negative outlook.
- **Saudi Electricity Co** is likely to finish its planned **privatisation** of assets by the end of the year, revealed the chairman.
- **Foreign remittances** from **Saudi Arabia** dropped by 19% yoy to SAR 2.4bn in Jul this year, according to data from SAMA. The average monthly amount remitted by foreign workers in Jul was SAR1,096, compared to SAR 1,685 during the month of Jun.
- Small and mid-sized enterprises (**SMEs**) **led by women** manage assets in the **GCC** worth USD 385bn, revealed a report from Al Masah Capital.
- According to the World **Tourism** Organization, 10 **Arab countries** earned USD 655.9bn in 2015, which is 43.73% of the total revenues. UAE topped the list with USD 16bn (27.8% of Arab countries' tourism revenue), followed by Saudi Arabia (USD 10.1bn) and Lebanon (USD 6.9bn).
- **Office rental growth** in **MENA** remains the highest in Dubai at 20% (DIFC is reported as the Emirate's prime office location) followed by Cairo at 16.7%, according to JLL's Office Global Index report.

UAE Focus

- **UAE's** long-overdue **bankruptcy law** may be finalized by end of this year, according to the minister of economy.

- In a boost for SMEs, **Dubai** announced that 20% of direct and indirect spending (roughly AED 5bn) on the **Expo 2020** event will be allocated to local and international **SMEs**. According to the director general of the Bureau Expo 2020, 320 of the 787 contracts awarded so far have been won by SMEs.
- Dubai Electricity & Water Authority (**DEWA**) plans to repay the USD 500mn bond maturing in Oct this year, according to its managing director; he also disclosed that DEWA has **no plans to raise new funds** later this year or next.
- The **UAE Banks Federation** will begin implementation of **mWallet** – which will provide the facility for a secure mobile phone app to replace traditional cash payments between any two parties, as well as a means to receive, store and transfer money – as all 16 UAE equity partner banks have signed on to facilitate operation. The platform will be regulated by the Central Bank of the UAE.
- The **DIFC** announced that 143 new **companies** had joined the free zone in H1 this year (+16% yoy), bringing the total number of companies to 1539. Financial services firms account for 27.6% of the firms in the financial free zone.
- **Petrol prices** in the **UAE** are set to increase by 1.1-1.5%mom in Sep; diesel prices are down from AED 1.76 per litre to AED 1.72.
- **Nasdaq Dubai** exchange launched **trade in single-stock futures** on shares in some of the UAE's biggest companies last week, in a move to increase volumes and improve liquidity in the marketplace.
- Parents in the **UAE** spend close to an average USD 18,360 annually on their children's **university education**, reported HSBC. This is 140% higher than the global average spend of USD 7631 per year, found the study titled "The Value of Education: Foundations for the Future".

Media Review

How the Bank of Japan distorts markets

<http://www.ft.com/cms/s/0/a1994948-6e9b-11e6-9ac1-1055824ca907.html#axzz4Iv4uiQKt>

China's shadowy strategic oil reserve

<http://www.bloomberg.com/news/articles/2016-08-30/mystery-shrouding-oil-on-chinese-islands-puzzles-crude-markets>

OPEC oil output at record high in Aug

<http://www.reuters.com/article/us-opec-oil-survey-idUSKCN11741G>

Fitch confirms the rating for Saudi Arabia

<https://www.ft.com/content/619a3e11-12c6-385a-8e5d-51d473ec0e66>

Putin's interview with Bloomberg TV on oil market

<http://www.bloomberg.com/news/articles/2016-09-02/putin-pushes-for-oil-freeze-deal-with-opec-exemption-for-iran>

Measuring GHG emissions in Dubai

<http://gulfnews.com/news/uae/government/pilot-scheme-to-measure-greenhouse-gases-in-dubai-1.1886327>

UAE construction sector in fast-track consolidation

<http://gulfnews.com/business/sectors/construction/uae-construction-sector-in-fast-track-consolidation-1.1886571>

Gulf bond sales soar

<http://www.bloomberg.com/news/articles/2016-08-31/gulf-bond-sales-roar-back-as-emaar-joins-post-summer-market-rush>

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