

Weekly Economic Commentary – Sep 18, 2016

Markets

Stock markets ended a volatile week on a downbeat note, recording substantial losses – with the exception of the Dow Jones in the US – as investors' risk aversion is heightened by the uncertainty over the end of monetary support to asset valuations. The contagion has spread from the fixed income market where the yields on US Treasuries and other benchmarks shot up. Regional markets were mostly closed for the Eid. In currency markets the yen advanced strongly while the dollar was generally weak. The oil prices declined again as the worry over the supply-demand imbalance was rekindled by an IEA report. The slide of gold prices stopped just above USD 1,300 per ounce.

Global Developments

US/Americas:

- **US inflation** was 0.2% mom (1.1% yoy) in Aug vs 0% in Jul (0.8% yoy), with core CPI up 0.3%, which translates into 2.3% yoy.
- **US industrial production** fell -0.4% mom in Aug after a 0.6% increase in Jul. A drop in machinery and non-auto production was notable, while motor vehicle and parts gained 0.5%. Capacity utilization declined 0.4% and is still below its historical norm.
- **The US current account deficit** narrowed from USD 131.8bn in Q1 to USD 119.9 bn in Q2, equivalent to 2.9% of GDP, down from 2.6% in Q1.
- **US retail sales** fell -0.3% mom (+3.0% yoy) in Aug, vs 0.1% increase in Jul. Excluding autos, retail sales fell -0.1%. Furniture, building materials, sporting goods and

miscellaneous retail sales posted notable declines while restaurants' and clothing sales increased.

- **US business inventories** were flat mom in Jul after increasing 0.2% in Jun. Manufacturer's goods were up 0.1%, while retailers destocked -0.3%, and wholesalers had no change. Total business sales fell -0.2%. The inventory-to-sales ratio was unchanged at 1.39.
- **US initial unemployment claims** increased 1,000 to 260,000, while the 4-week moving average fell 500 to 260,750. Continuing claims increased 1,000 to 2.143 mn.
- **The University of Michigan consumer sentiment index** remained flat in Sep at 89.8.

Europe:

- **Eurozone's inflation** rose 0.2% yoy in Aug, as in Jul. Oil prices crawled up but services and non-energy industrial goods prices were subdued.
- **Eurozone's industrial production** tumbled -1.1% mom (-0.5% yoy) in Jul offsetting a 0.8% (0.7% yoy) increase in Jun, the first decline since Mar. Most sectors recorded losses with energy and capital goods especially weak.
- **The Eurozone's external trade surplus** fell in Jul to EUR 25.3 bn from EUR 31.1 a year earlier, as exports fell more than imports. Anemic activity in the eurozone is weighing on imports, supporting the trade balance.
- **Germany's inflation** was flat mom reaching 0.4% yoy in Aug, the same yoy level as in July.
- The **ZEW Investor confidence index** for Germany was unchanged at 0.5 in Sep. **The ZEW expectations measure for the Eurozone** improved to 5.4 in Sep from 4.6 in Aug.
- **The Bank of England** kept its main rate at 0.25% and its QE target GBP 435 bn.
- **The UK unemployment rate** for the three months to July remained steady at 4.9%, its lowest level since mid-2005.

- **Construction output in the UK** was flat mom in Jul (-1.5% yoy) vs a -1% fall in June and - 2% in May.
- **UK retail sales** rose 6.2% yoy in Aug, almost the same as the 6.3% yoy increase in Jul.
- **The Central Bank of Russia** cut its key policy rate by 50 bp thanks to lower inflation. The monetary policy committee's suggested that there will be no additional cuts until 2017.

Asia and Pacific:

- **Foreign direct investment in China** rebounded USD 8.8 bn in Aug, from USD 7.7 bn in Jul. Overcapacity in heavy industry and expectations of a lower currency are keeping investors wary of new initiatives.
- **China's industrial production** was up 6.3% yoy in Aug vs 6.3% in July supported by food and pharmaceuticals.
- **China's M2 money supply** grew 11.4% yoy in Aug, up from a 10.2% in Jul thanks to a jump in lending despite government pledge to rein in further credit expansion.
- **Machine orders in Japan** increased 5.2% yoy in Jul the fastest annual pace in 2016. In mom terms growth was 4.9%, down from the 8.3% jump in Jun.
- **Indian industrial production** declined -2.4% yoy in Jul vs. 2.1% in Jun, pushed down by dismal manufacturing.
- **India consumer inflation** decelerated to 5.1% yoy in Aug from 6.1% in Jul, due to monsoon rains and bountiful crop harvest.
- **India wholesale price inflation** reached 3.7% yoy in Aug from 3.5% in Jul, as food prices rose sharply and the base effect of fuel prices faded.
- **Singapore's non-oil domestic exports** were flat yoy in Aug after contracting -10.6% yoy in Jul. A weak performance in electronics was offset by shipments of machinery.
- **New Zealand GDP** recorded a growth of 0.9% qoq in Q2 replicating the strong performance of Q1.

Bottom line: As we move towards the last quarter of the year there is scant evidence of a substantial departure from the themes that have dominated so far in 2016. One exception is the median household income in the US, which posted its biggest increase on record. Together with core inflation exceeding the 2.0% mark, the figure highlights that the US Fed is behind the curve in its path towards the normalization of interest rates. In response investors last week dumped aggressively fixed income securities pushing the rates on as much as USD 1 tn of sovereign and corporate bonds back into positive territory. The week before investors had offloaded USD 3.5 bn of junk bonds. Over the rest of the year markets will likely be tense and choppy waiting for key events such as the US presidential elections, the Fed's decisions, and the governance of the EU and the prospects of the Brexit negotiations.

Regional Developments

- The **IMF** revealed having held “productive discussions” with China and Saudi Arabia to contribute USD 5-6bn towards **Egypt's funding gap**. The IMF deal, agreed in August, requires Egypt to secure a further USD 6bn in bilateral financing from other countries.
- **Egypt received** from the **World Bank** the first USD 1bn tranche of a USD 3bn three-year loan to support the government's reform programme.
- Headline **inflation** in **Egypt** surged to 15.5% yoy in Aug, its highest in about 8 years, thanks to a fifth consecutive month of rising food prices (which were up 19.3% yoy and 1.6% mom). Core inflation meanwhile jumped to 13.25% (Jul: 12.31%), highest since Feb 2009.
- **Budget deficit** in **Egypt** increased by 16.8% yoy to EGP 254.9bn (USD 28.7bn) in the first nine months of the fiscal year 2015-16, reported the planning ministry.
- **PMI** in **Egypt** declined for the 11th consecutive month to 47.0 in Aug (Jul: 48.9), with employment declining at

the sharpest rate since the series began in Apr 2011. Subdued demand, difficulty in obtaining raw materials and record rise in purchase prices are slowing output growth.

- **Egypt's exports to Turkey** grew by 7.6% yoy to USD 681.5mn while imports fell 6.1% to USD 1.485bn during H1 this year.
- **Net foreign reserves in Egypt** increased to USD 16.564bn at end-Aug from USD 15.54bn the previous month.
- **Iraq's oil production** was at 4.638 million barrels per day in Aug, the highest since Jan. The country's crude oil production and exports are expected to grow at a steady pace in 2017 from current levels, according to a senior Iraqi oil official.
- **Banks' US dollar liquidity in Lebanon** has fallen by at least USD 2.5bn due to the cash purchase of Eurobonds by local banks, in addition to that of certificates of deposit, according to Citi. (*More: <https://www.dailystar.com.lb/Business/Local/2016/Sep-16/372154-lebanon-bank-dollar-liquidity-down-citi.ashx>*)
- **A study conducted by the Oman government** and GOIC on developing industrial sector has recommended five investment initiatives to exploit available natural resources in Oman.
- **The sale of regular petrol in Oman** increased 24% mom to 3.144 mn barrel in Jul. However, Super petrol sales logged a decline of 21% mom to 10.362 mn barrels.
- **Oman's sovereign fund State General Reserve Fund** is part of an investor's pool that are backing a 'platform company' set up to facilitate investment in India's power sector.
- **Inflation in Qatar** was up 2.9% yoy and 0.2% mom in Aug, on increased housing and utilities (+3.8% yoy), transportation (+4.4% yoy), and education (+7.1% yoy) costs.
- **Qatar's M2 money supply** shrank for a sixth straight month in Jul, down 5.2% yoy (Jun: -7.2%) while total

credit accelerated, reporting a 15% yoy growth (Jun: 12.7%).

- **Qatar's exports** to its top five destinations – Japan, India, South Korea, UAE, and Thailand – touched QAR 9.86bn in Jul; Japan alone accounted for nearly 33% of the top five's export value. Qatar's top five origins of imports – US, China, UAE, Germany and Japan – reached QAR 4.88bn in Jul; US accounted for over 42% of the top five's total.
- **Corporate earnings in Qatar** fell by 11% in H1 this year, with the real estate sector (which fell by 50%) dragging down net earnings growth. The telecommunications and banking sectors witnessed a 35% and 3% increase in earnings respectively during this period.
- According to **Qatar's** Public Works Authority, around QAR 12bn has been earmarked since Mar 2014 via 29 projects for improving **infrastructure**
- An adviser to **Japan's** PM revealed that the country will not be investing in **Saudi** Aramco, but “will likely be cooperating in new industries...to reflect Saudi Arabia's intention to develop new and non-energy industries”, reported Reuters.
- **Saudi Arabia** will be setting **lower listing requirements** for the **second stock market** intended for SMEs: regulators are proposing that companies with minimum capitalisations of SAR 10mn (USD 2.7mn) be allowed to list on the new market – 10% of the capitalisation required for the main market; companies would be permitted to float a minimum of 20% of their shares and have as few as 50 public shareholders, compared to 30% and 200 shareholders on the main market.
- **Saudi Arabia's PMI** rose to a 1-year high of 56.6 in Aug (Jul: 56.0), supported by new orders, expansions of output and new businesses; the rate of hiring accelerated to an 11-month high.
- The **total value of banknotes and coins** in circulation in **Saudi Arabia** at the end of 2015 was SAR 198.7bn, a

growth of around 10% yoy, according to SAMA.

- The **Saudi Arabian** economy is likely to generate a maximum of **7mn jobs by 2020**, according to a study originally prepared for the Seventh Riyadh Economic Forum. This is the optimistic scenario (and 55% of these jobs go to foreigners), while two other scenarios are likely to create only 3.5 million and 1.6 million jobs. (*The Arabic report is available at: <http://bit.ly/2czgPif>*)
- The **growth of electricity consumption** in 2020 will cost **Saudi Arabia** around 3.2 million barrels of oil per day, according to a report titled “Alternative and renewable energy economics in the Kingdom: Challenges and prospects for the future”. Energy consumption is expected to grow 4.4% annually until 2035, or the equivalent of 350 million tons of oil per year. (*The Arabic report is available at: <http://bit.ly/2cytEww>*)
- **Banks** in the Arab region have experienced a significant decline in the scale of correspondent banking relationships (**CBRs**) with the foreign counterparts – especially in the US, UK, Germany- during 2012-15, according to a recent Arab Monetary Fund survey. About 63% of the participant banks reported closure of CBR accounts in 2015 against 33% in 2012.
- A recent World Health Organisation report reveals that **Qatar** has the highest **life expectancy rate** in the Eastern Mediterranean Region. At 78.2, Qatar tops the list for the region, followed closely by other GCC nations – UAE (77.1), Bahrain (76.9), Oman (76.6), Kuwait (74.7) and Saudi Arabia (74.5).

UAE Focus

- The **UAE Bankruptcy Law** was approved by the Cabinet, and is expected to take effect by the beginning of 2017. The Law will establish a regulatory body, the Committee of Financial Restructuring that will oversee restructuring

cases and appoint experts to handle them. The UAE is also drafting a new personal insolvency law that would apply to individuals, according to the Minister of State for Financial Affairs.

- **UAE PMI** declined slightly to 54.7 in Aug, from this year's high of 55.3 in Jul, due to slower growth in output, new orders and employment. Input costs continue to rise, with the sub-index rising to highest since Oct 2014 in Aug (54.7), thanks to higher purchase costs and staff costs.
- The **Dubai Economy Tracker Index** also declined to 55.7 in Aug, from this year's high in Jul. Output sub-index reported strong growth, posting a reading over 60 for the second consecutive month; employment growth remained modest, declining to 51.4 in Aug (Jul: 51.8).
- **UAE inflation** stood unchanged at 1.8% yoy in Jul, though rising by 0.3% mom. Housing and utility costs were up 2.7% yoy and food prices up 0.6%.
- **Dubai Financial Group** is working with Citigroup to find a buyer for its 12% stake (worth about USD 300mn based on current market prices) in Omani lender Bank Muscat; the sale was triggered by an agreement with creditors and the firm needs the funds to repay its creditor Natixis.
- With the latest Sharjah Islamic Bank and Emirates Islamic **Sukuk** listed on **Nasdaq Dubai**, the total value of Sukuk listed in Dubai rose to USD 44.8bn.
- The **UAE's Federal Electricity and Water Authority** has announced plans to build a solar power plant with capacity to produce 200 megawatts of energy and upgrade power grids by 2025 to meet the increasing demand.
- As **UAE grants visa on arrival to Chinese nationals**, a boost is expected in both tourism and trade. Dubai already welcomed 267k Chinese tourists in H1 this year; there are 4,000+ Chinese enterprises operating in the UAE with bilateral trade volume totaling USD 48.55bn last year.

- **Passenger traffic at Dubai International Airport** reported a 14% yoy rise to 7.61mn passengers in Jul, bringing the year-to-date total to 48.1mn persons. India was the top destination country, followed by UK, and Saudi Arabia.

Media Review

The crazy, mixed-up global oil market: Bloomberg

<http://www.bloomberg.com/news/articles/2016-09-13/the-crazy-mixed-up-global-oil-market>

Halal food in the USA

<http://www.bloomberg.com/news/articles/2016-09-14/america-loves-muslim-food-so-much-for-a-clash-of-civilizations>

Space technology supports UAE's renewable energy projects

<http://gulfnews.com/news/uae/environment/space-technology-supports-uae-s-renewable-energy-projects-1.1896077>

Over 80% of Expo site to be reused post-2020

<http://gulfnews.com/business/economy/over-80-of-expo-site-to-be-reused-post-2020-1.1891379>

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