

Weekly Economic Commentary – Sep 25, 2016

Markets

Global stock markets were on a roll after the dovish decisions by the BoJ and the US Fed with Wall Street scoring another set of records, but by the end of the week, the impulse faded. Not many regional markets joined the party with KSA falling almost 2%. The currency market saw the yen gaining despite the further easing of monetary stance by the BoJ, and the dollar losing ground on major crosses after the Fed's decision. Oil prices had a volatile week which ended with marginal gains. Gold, on the contrary, surged as monetary policy reinforced the arguments by those predicting an impending inflation jolt.

Global Developments

US/Americas:

- The **US Fed** left the target range for its federal funds rate unchanged at 0.25% to 0.5% for the sixth time, but Yellen faced a divided FOMC with three members voting for a hike. The language of the statement points at an increase at the next meeting. The indecisiveness displayed by the central bank is denting its credibility.
- **US flash Markit manufacturing PMI** held up well at 51.4 in Sep from 52 in Aug foreshadowing a moderate uptick in output.
- **US Existing-home sales** disappointed expectations falling 0.9% mom in Aug (0.8% yoy) to 5.33mn, the lowest level since Feb. The supply of homes is shrinking despite fewer sales.
- **The US Conference Board index of leading indicators** fell 0.2% in Aug due to weakness in manufacturing. Current

conditions point towards a slower expansion in the near term.

- **US existing housing starts** declined -5.8% mom (0.9% yoy) in Aug to a annualized rate of 1.14 mn, after rising 1.4% in Jul.
- **The Chicago Fed National Activity Index** fell to -0.55 in Aug from 0.24 in Jul. All four broad components declined with production-related indicators plunging from 0.15 in Jul to -0.33.
- **US unemployment benefits** fell by 8,000 to 252,000, lowest figure in two months. The four-week moving average slipped from 260,750 to 258,500 (7,000 less in a month), pointing toward another solid gain in nonfarm payrolls. Continuing claims fell 36,000 to 2.113 mn. It was the 81st consecutive week that claims remained below the 300K threshold.
- **The Argentine economy** contracted -3.4% yoy in Q2 after growing 0.4% in Q1 as private consumption reacted badly to macroeconomic adjustments made early in 2015. The figure underscores that the path towards a normalization of the situation will not be smooth.

Europe:

- **Eurozone' Markit's manufacturing PMI** touched a 20-month low of 52.6 in Sep from Aug 52.9.
- **The eurozone Markit's PMI Composite Index** slipped to 52.6 in Sep from 52.9 in Aug, the weakest figure since Jan 2015.
- **The eurozone's current account surplus** narrowed to EUR 31.5 bn in Jul from EUR 40.9 bn a year earlier. Energy prices remained the main driver of the yearly performance while the slowdown in emerging markets, especially China, has sapped exports.
- **French manufacturers' sentiment** rose to 103 in Sep from 101 in Aug thanks to a sharp recovery in the production expectations. Further improvements are capped by

the fragility of Europe's situation and political uncertainty in the run-up to presidential elections in 2017.

- **French GDP** economy shrank -0.1 % qoq in Q2, after growing 0.7% in Q1.
- **S&P upgraded its outlook on Russia's** to 'stable' from 'negative' due to ebbing external risks and better growth prospects.
- **Turkey's central bank cuts** its overnight lending rate by 25bp to 8.25%, leaving unchanged the repo and overnight borrowing rate.

Asia and Pacific:

- **The BoJ** unexpectedly announced a series of measures aimed at steepening the yield curve by targeting the 10Y JGB yield at around 0% while keeping the policy rate unchanged at -0.1%.
- **The IHS Markit/Nikkei Japan Manufacturing PMI** rose to 50.3 in Sep from 49.5 in Aug scoring the 1st growth since Feb thanks to higher output and new export orders.
- **Japan's trade balance** was JPY 408.4bn in Aug after JPY 317.5bn in Jul. Exports fell across most major categories hampered by the strong yen, while imports benefitted from low commodity prices.
- **Inflation in Malaysia** picked up to 1.5% yoy in Aug from 1.1 % in Jul.
- **Bank Indonesia cut rates** for the fifth time this year by 25bp to 5% citing lower inflation and sluggish growth.
- **Hong Kong unemployment** rate came in at 3.4% in 3 months to Aug, unchanged from the previous period and remaining at the highest level since 2013 for the sixth consecutive month. The underemployment rate was also steady at 1.4% in the two periods.
- **Export orders in Taiwan** recorded an upswing of 8.3% yoy in Aug after a -3.45% decline in July which had marked the sixteen straight months of contraction.

Bottom line: Feeding the addiction of the world economy and financial markets to ultra loose monetary policy seems to be the overriding objective of major central banks while they wait for the Godot of structural reforms that governments continue to postpone. The fragility of the financial asset valuations to an unforeseen shock will be tested in the coming months if the economic outlook remains as weak as in the past 3 quarters in developed economies and China fails to accelerate its turnaround.

Regional Developments

- **Bahrain** reported a slowdown in GDP **growth** to 2.5% yoy in Q2 this year, from 4.5% growth the previous quarter. It was also reported that the oil sector shrank 1.7% yoy in Q2 while the non-oil sector grew 3.6%.
- The total number of **registered companies** in **Bahrain** reached around 50,000 this year, according to the Bahrain Chamber of Commerce and Industry, of which 40-50% are owned by foreign investors either fully or as joint ventures with Bahrainis.
- **Egypt's** central bank unexpectedly kept **policy rates unchanged** (overnight deposit rate at 11.75% and overnight lending rate at 12.75%) at its latest meeting, stating that "future upside risks [to inflation] are largely explained by transitory cost-push factors while demand-side factors continue to pose downside risks to the inflation outlook".
- **Tourists into Egypt** touched around 2.3mn, spending 13.5mn nights, in H1 this year; of this, 1.1mn visitors from Europe spent 6.1mn nights in the country while Middle Eastern tourists ranked second (654k).
- **Egypt's current account deficit** widened to USD 18.7bn in the fiscal year 2015-16, from USD 12.1bn the year before. Tourism receipts roughly halved to USD 3.77bn from USD 7.37bn from a year ago while trade deficit during the same period narrowed to USD 37.6bn compared

with USD 39.1bn deficit a year ago.

- **Egypt's** deputy finance minister stated that plans are underway to **issue international bonds** in Oct or Nov this year and that **talks** are likely to be initiated **with China** next week (over a USD 2bn loan). The country also expects to receive the **first** USD 2.5bn **tranche** of the **IMF's** USD 12bn **loan** before the end of this year.
- **Lebanon** risks being blacklisted upon the recommendation of OECD if the automatic **tax information exchange bill** is not passed soon by the parliament, according to various sources. Based on the recommendations of OECD, the G20 and EU could also blacklist Lebanon.
- **Inflation** in **Oman** was 1.34% yoy in Aug, driven mainly by a 7.25% rise in prices of transport, while housing, water, electricity, gas and other fuels were up only 0.83%.
- **Qatar** currently has **projects** worth USD 200bn underway towards improving its **infrastructure**, disclosed the country's minister of economy at a luncheon in the US. Highlighted were projects like the Hamad International Airport, the New Doha Port, and a new highway system.
- **Qatar**, in its **second domestic bond sale** this year, sold QAR 4.6bn of conventional and Islamic government bonds. This included QAR 1.975bn of conventional bonds and QAR 2.625bn worth sukuk. Its first domestic bonds were issued in Aug this year.
- **Gas consumption** in **Qatar** increased by 13.8% yoy – the highest rise in the region – to 45.2bn cubic metres (bcm) last year, thanks to the rise in population and rapid expansion of infrastructure. Middle East's consumption grew to 490.2 bcm in 2015 (2014: 461.4 bcm).
- The value of **loans to the private sector** in **Saudi Arabia** amounted to SAR 1.435 trillion as of end-Jul, while the value of deposits amounted to SAR 1.578 trillion. The loan-to-deposit ratio has exceeded 90% for the third consecutive month in Jul.
- Ahead of the informal OPEC meeting in Algiers this week,

Saudi Arabia offered to reduce **oil production** in exchange for Iran freezing production at the current level, which is 3.6mn barrels per day (bpd), reported *Reuters*, citing sources knowledgeable about the matter.

- **Saudi Arabia's crude oil exports** rose to 7.622mn barrels per day(bpd) in Jul (Jun: 7.456mn bpd) after producing a record high 10.673mn bpd on increased summer demand and customer requests.
- **Saudi Arabia** has welcomed 2.5 million **Syrians** since the beginning of the crisis, revealed the crown prince, at a UN meeting ahead of his General Assembly address. He also disclosed that the country is offering free education to around 285,000 Yemeni students.
- **Saudi Arabia** is expected to **remove subsidies on 7 services** starting Oct 2; these include ports, passports, car driving license, car transfer, traffic violations, renewal of residence permits (iqama) for domestic workers and tariff (customs) protection for 193 commodities.
- The US Senate cleared the way for a USD 1.15bn sale of tanks and other **military equipment** to **Saudi Arabia**.
- The **Middle East** accounted for almost a third of all US-denominated international **debt issuances** from emerging markets during Q2, according to the Bank for International Settlements. During this period, the UAE issued USD 14.4bn, Qatar USD 9bn and Oman USD 5bn.

UAE Focus

- **Inflation in Abu Dhabi** fell by 0.7% mom and increased by 0.5% yoy in Aug, bringing inflation rate to 2.4% yoy in Jan-Aug this year. Housing, power, water and fuel group reported the biggest rise, at 6.6%, followed by education (4.4%) and restaurants and hotels (3.9%).
- **Inflation in Dubai** picked up by 0.38% mom and 2.5% yoy in Aug; in mom terms, prices of clothing and footwear as well as food grew by 1.64% and 1.56% respectively.

- **Dubai** is **seeking loans** worth USD 2.5bn to finance the expansion of the Metro to the Expo site, reported *Bloomberg*. According to the sources, the loan includes a USD 1.34bn facility backed by European export credit agencies, and a USD 1.12bn unsecured, commercial facility guaranteed by the Dubai government.
- **UAE banks** have **restructured loans** worth AED 7bn and bailed out around 1,700 SMEs and corporations, according to the UAE Banks Federation.
- **UAE's** emirate **Fujairah**, which hosts the Middle East's largest commercial storage capacity for refined oil products, has announced that it **will start publishing weekly inventory data** to improve transparency. Fujairah tank storage capacity is expected to touch about 8 million cubic metres by year-end and is forecast to rise to 14 million cubic metres by 2020.
- **Dubai** welcomed around 695k persons (+22% yoy) from **Oman** last year; Oman ranks third in the number of annual visitors to Dubai, behind India (974k) and Saudi Arabia (921k).
- **Halal tourism** in the **UAE** is set to expand by 4.4% this year, according to a study done by the Dubai Chamber of Commerce and Industry. The study reveals that Saudi Arabia, UAE, Kuwait, Iran, and Qatar together account for 40% of total Muslim expenditure on travel
- **UAE** announced that it would welcome 15,000 **Syrian refugees** over the next five years, according to the Minister of State for International Cooperation. The Minister also disclosed that UAE provided more than USD 750mn to support Syrian refugees over the past five years.
- The **market capitalisation** of **Abu Dhabi Exchange** jumped to AED 441bn during the first eight months of 2016, revealed its Chief Executive.

Media Review

The world economy will not benefit from a locomotive pull

<http://www.bloomberg.com/news/articles/2016-09-19/lost-locomotive-leaves-world-growth-struggling-to-gain-speed>

Financial contagion from China now rivals that from America

<http://www.economist.com/news/finance-and-economics/21707534-financial-contagion-china-now-rivals-america-chinese-sneezes>

Oil was never a cash machine for large oil companies

<http://www.bloomberg.com/news/articles/2016-09-19/big-oil-was-never-that-big-a-money-maker-goldman-sachs-says>

An assessment of the Trump economic plan by the fiscal hawk in the Reagan years

<http://davidstockmanscontracorner.com/msnbc-interview-on-trumps-economic-speech-great-start-by-his-tax-plan-and-fiscal-math-needs-work/>

Indecision time in the US

<http://www.economist.com/news/leaders/21707539-unusually-large-number-undecided-voters-will-pick-next-president-indecision-time>

India set to buy Iran oil for emergency reserves

<http://in.reuters.com/article/india-iran-oil-idINKCN11Q1WQ>

The economic cost of Middle East conflict is a daunting thing to calculate

<http://www.thenational.ae/business/economy/the-economic-cost-of-middle-east-conflict-is-a-daunting-thing-to-calculate>

Middle East ready to become swing producer in refined oil

<http://www.thenational.ae/business/energy/middle-east-ready-to-become-swing-producer-in-refined-oil>

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