

Weekly Economic Commentary – Oct 9, 2016

Markets

Global markets posted sharp losses, following a plummet of the sterling by nearly 10% to a 31-year low (a “flash crash”), recouping some of the losses afterwards, amidst a weaker-than-expected US jobs report. In the region, markets were mostly down with the exception of Egypt, where the IMF loan prospects are boosting sentiment. On the currency front, the sterling was on its way to record the worst week since Jan 2009 before the flash crash drove it down further, while the dollar had risen to a more than two-month high prior to the payrolls report. Oil stayed around the \$50 mark after the OPEC decision the week before and as inventories fell more than expected; gold saw the largest weekly loss since Oct 2014.

Global Developments

US/Americas:

- **Non-farm payrolls** in the **US** increased by 156k in Sep, slightly below forecasts, and lower than an upwardly revised 167k in Aug. **Unemployment rate** increased to 5% yoy in Sep, compared to 4.9% in the previous month while wage growth edged up to a still disappointing 2.6% yoy.
- **US unemployment benefits** increased by 3,000 to 254,000 in the week ended Sept 24 compared with a revised 251,000 the week prior, but below market expectations of 260,000.
- **US manufacturing PMI** fell to 51.5 in Sep, slightly higher than the flash estimate of 51.4 and after unexpectedly shrinking in Aug (49.4). The ISM new orders gauge jumped to 55.1 from 49.1 in the prior month, the

biggest increase since Mar. The **services PMI** jumped to 57.1 in Sep (Aug: 51.4), the highest level since Oct 2015.

- **US factory orders** recorded a second consecutive monthly increase in Aug, ticking up by 0.2% mom, after a downwardly revised 1.4% increase in Jul.
- **Trade deficit** in the **US** widened by 3% mom to USD 40.73bn in Aug, after a rise in imports offset higher exports. Imports hit their highest level since Sep 2015, while exports were the highest since Jul 2015.
- **The unemployment rate in Canada** was 7% yoy in Sep, and unchanged from Aug. Canada added 67,000 jobs in Sep – the most number of jobs since 2012 – mostly due to a surge in part-time work and self-employment.
- **Inflation in Mexico** accelerated to 2.97% yoy in Sep, higher than 2.73% recorded in Aug and closer to the central bank's 3% target level. Core inflation was 3.07% – a sign of the depreciating peso.

Europe:

- The **European Central Bank's** Sep policy meeting minutes reiterated its "willingness, capacity and ability to act" to achieve its inflation target and stated there should be no doubt about its determination to execute its asset purchases which would run until "Mar 2017, or beyond, if necessary". Brexit seemed less of a concern as "short-term indicators had been more resilient than previously expected" though it was agreed that uncertainty for the long-term outlook "remained high".
- **Eurozone's composite PMI** eased to 52.6 – a 20-month low – in Sep, with the Q3's average index reading the weakest since the final quarter of 2014. Meanwhile, while the services PMI for the region plunged to a 21-month low of 52.2.
- **UK's PM** stated that she would **invoke Article 50** of the European Union treaty, the only legal route to leave the

EU, by the end of **Mar 2017**. Conditions mentioned – in particular, migration controls on EU citizens and the insistence that Britain will no longer be under the jurisdiction of the European court of justice – indicate that Britain is heading for a “hard Brexit”.

- **Industrial production** in the **UK** fell by 0.4% mom in Aug, dragged down by manufacturing and partly due to a drop in oil and gas production. Separately, UK's **trade deficit** widened to GBP 4.7bn in Aug, compared with GBP 2.2bn in Jul, despite hopes that the weaker pound would boost demand for British goods.
- **France** recorded a **trade deficit** of EUR 4.26bn in Aug, unchanged from the figure reported for the previous month.
- **Irish** seasonally adjusted **unemployment rate** fell to 7.9% in Sep, from a downwardly revised 8.2% in Aug and from 9.1% a year earlier. Irish unemployment is now running at its lowest rate since 2008, while youth unemployment is now at 15.9%
- **Greece unemployment rate** dropped to 23.2% in Jul versus 23.4% in Jun, and below 24.8% a year earlier. Although this is the lowest level of unemployment since Mar 2012, it is still more than double the average rate of the Eurozone (10.1% as of Jul 2016).

Asia and Pacific:

- **Japan's Tankan Index**, which measures large manufacturers' sentiment, remained unchanged at 6 in Sep from Jun. The Tankan index of large non-manufacturers fell to 18 in Sep from 19 in Jun, falling for three straight quarters and at the lowest level since Dec 2014.
- The Nikkei **Japan manufacturing PMI** rose to 50.4 in Sep (Aug: 49.5) while the **services PMI** dropped to 48.2 in Sep (Aug: 49.6).
- The **Reserve Bank of India's** new **monetary policy**

committee lowered the repurchase rate by 25bps to 6.25% – lowest since Nov 2010. The RBI reiterates that the stance of monetary policy remains accommodative – the policy rate has been reduced by 175 bps since Jan 2015 – and the decision will help to bring inflation rate back to central bank's 4% target in the medium-term while supporting growth.

- **South Korea** posted a **current account surplus** for the 54th consecutive month in Aug – the longest streak – though the balance of USD 5.51bn represents a 36% mom decrease.
- **Consumer prices** in **South Korea** went up by 0.6% mom (the quickest monthly pace since 2013) in Sep, drive by rising food and beverages costs. Inflation was up 1.2% in yoy terms, and compared to a 0.4% rise in Aug while core CPI was up 1.3% yoy (Aug: 1.1%).
- **Malaysia** reported a MYR 8.51bn **trade surplus** in Aug; exports were up 1.5% mom to a eight-month record high of MYR 67.58bn.
- **Philippines inflation** rose to an 18-month high of 2.3% yoy in Sep (Aug: 1.8%), thanks to a pick up in the prices of food and utilities.

Bottom line: The IMF, in its World Economic Outlook, projects global output growth at 3.1% in 2016 and 3.4% in 2017; the slowdown in advanced economies offsetting pick-up for emerging and developing economies this year. Their view is that growth has been too low for too long, and in many countries, its benefits have reached too few. Meanwhile, markets have lately been dominated by central bank policy: last month's shift from the Bank of Japan, increased talks of the ECB possibly tapering its bond buying program, and it seems unlikely that the Fed rate hike would happen at its next meeting in Nov, given its proximity to the Presidential election date.

Regional Developments

- **Bahrain** launched a USD 2bn bond offering (USD 1bn Sukuk

and a USD 1bn conventional bond), and attracted a healthy combined order book of over USD 7bn.

- **Bahrain's foreign reserves** have more than halved to USD 2.78bn as of Jun 30 this year since the end of 2014 (USD 6.06bn), meaning a drop in import cover to less than 90 days from around 3.7 months before. This data was revealed in the prospectus for the sovereign bond issue, which also showed that **current account balance** fell into a deficit of USD 79mn last year from a surplus of USD 1.52bn in 2014.
- The **IMF's initial loan payment to Egypt** will be USD 2.5bn, and will be disbursed immediately after the executive board's approval. The IMF remained hopeful that "financing pledges" from the likes of China, Saudi Arabia and other G7 nations could be in place in the coming weeks and the IMF Executive Board can be approached by early next month.
- **Egypt PMI** for the non-oil private sector stood at 46.3 points in Sep (Aug: 47.0), weighed down by weaker output, declines in new business and 16th-consecutive monthly decline in employment.
- **Egypt's net foreign reserves** surged 18.3% mom to USD 19.592bn at the end of Sep, revealed the central bank.
- **Egypt** has allocated EGP 2.6bn (USD 292.8mn) towards the **health and pharmaceuticals sectors**, according to a Cabinet spokesperson.
- **Egypt's** public and private sector together developed 1.2mn **housing units** during the last five years with investments worth EGP 109.6bn (USD 12.3bn), with the private sector accounting for 58.3% of total executed units.
- **Iraq's** PM announced **plans to narrow the public deficit** by 38% next year through lower spending and higher levels of oil exports and prices. Separately, Iraq's **foreign exchange reserves** have dropped to USD 50bn (from USD 59bn as of Oct 2015), reported *al-Sabah* newspaper, citing the central bank governor.

- According to the oil ministry, **Iraq's oil exports** from the southern ports rose to an average of 3.245mn barrels per day (bpd) in Sep (Aug: 3.23mn). Iraq made USD 3.82bn in oil revenue in Sep, selling the barrel at an average price of USD 38.89.
- **Kuwait's annual M2 money supply** growth fell to its lowest level this year, rising 0.9% yoy in Jul. **Credit growth** picked up 7.4% yoy in Jul compared to the 7.2% pick-up the month before.
- The **Kuwaiti** government agreed to **compensate citizens** for the petrol price hike by providing 30% of average monthly consumption by driver (roughly 75 liters, to be revised monthly) free of cost, revealed the National Assembly Speaker. Separately, the **housing allowance** for expatriate teachers in the government was slashed to KWD 60 from KWD 150 monthly.
- **Total credit extended by Oman's conventional and Islamic banks** rose by 11.5% yoy to OMR 21.5bn as of end-Jul.
- **Total turnover at the Muscat bourse** was OMR 738.8mn in Jan-Sep this year from a trade volume of 3.6bn shares. This compares to a turnover of OMR 946mn from 3.5mn shares during the same period last year.
- **Oman's natural gas** production and imports grew by 4.9% to 27,569mn cubic meters (m3) during the first eight months of 2016, compared to 26,269mn m3 during the same period last year.
- **Qatar** is considering **increasing its stake in Deutsche Bank AG** to as much as 25%, reported Bloomberg, citing sources with knowledge of the matter. Qatar had previously injected about EUR 1.75bn into Deutsche Bank in 2014 to shore up capital of the lender.
- **Tourist arrivals in Qatar** touched 2.1 million visitors till Q3 this year, with over 255k visitors received in Sep alone. Visitors from Saudi Arabia accounted for about 34% of the total this year.
- **Qatar Airways** ordered USD 18.6bn worth of around 100 **Boeing Co** jetliners.

- **Saudi Arabia's non-oil PMI** fell to 55.3 in Sep (Aug: 56.6), with slower output growth (61.5 in Sep vs. 63.5 in Aug) and new orders growth (56.5 in Sep from Aug's 60.2).
- **Saudi Aramco** is planning to sell shares in the entire business and not just in its refining or distribution operations, revealed its CEO. The company plans to sell a stake of about 5% and intends to list shares on the Saudi stock market while also considering foreign bourses in London, Hong Kong and New York.
- **Total deposits in Saudi Arabia** dropped by 3.1% yoy to SAR 1.58 trillion by end-Jul, marking the sixth consecutive annual decline. The majority of withdrawals in bank deposits were attributed to demand deposits, which posted a 9.7% yoy decline in Jul. Credit lines extended to businesses and individuals dropped by 23.3% yoy to SAR 61.3bn over Jan-Jul 2016.
- **SAMA** stated that it had given commercial banks instructions to **reschedule consumer loans** of customers hit by the recent cuts in government spending. Currently, outstanding real estate loans extended to retail customers totaled SAR 108.2bn (USD 28.9bn) at end-Aug while consumer loans were worth about three times that sum.
- **Standard & Poor's** affirmed an 'A-/A-2' **rating for Saudi Arabia** and maintains a stable outlook, "supported by its strong external and fiscal stock positions". S&P also stated that "the ratings are constrained by limited public sector transparency, lower GDP per capita relative to similarly rated sovereigns, and constrained monetary flexibility".
- A **new job evaluation system** has been announced for **Saudi Arabia's public sector**, whereby a mandatory assessment will be carried out to determine eligibility to get a premium bonus for the next year. According to the system, an official can be dismissed if their performance remains below par, and does not improve in

three years.

- Malaysia, UAE and Bahrain were ranked the top three respectively in the **Global Islamic Economy Indicator** and Islamic economy markets in 2016 (*report to be released later this week*). The Islamic Economy estimated to be worth USD 1.9 trillion and Islamic Finance sector has around USD 2 trillion in assets in 2015.

UAE Focus

- **UAE PMI** eased in Sep, declining to 54.1 from a reading of 54.7 in the previous month. While both output and purchasing rose sharply, the decline was largely a result of subdued growth of new business, which eased substantially to the slowest rate since Jun 2010.
- **Dubai** hopes to finalise the USD 2.5bn **fundraising for the Metro expansion** before end of the year, according to the chairman and director general of Dubai's Roads and Transport Authority; he also revealed that construction has already begun, with the government having already made an advance payment of AED 600mn to the contractors.
- **UAE's** Dubai Financial Market (**DFM**) disclosed that **foreign investors' net inflow** reached AED 917mn year-to-date and their ownership of the market capitalisation reached 22.2%, equivalent to AED 74.3bn.
- **China Construction Bank (CCB)** listed a USD 600mn bond on **Nasdaq Dubai**, making it the 4th Chinese bank to list a bond on the exchange since 2014. The total value of conventional bonds listed on Nasdaq Dubai is now at USD 11.39bn.
- **Dubai launched a Blockchain strategy** to improve efficiency by shifting 100% of government transactions to Blockchain network by 2020 and encourage paperless transactions, cutting almost 100mn paper transactions annually. This is also expected annually reduce 25 million work hours required in handling paper documents. (*More on Dubai's leap to blockchain was covered by the*

FT:

<https://www.ft.com/content/48ff547c-53e7-11e6-9664-e0bdc13c3bef>)

- **UAE and Qatar** have signed a **long-term agreement for natural gas**: Qatar Petroleum would provide the gas to the Sharjah Electricity and Water Authority and Ras Al Khaimah Gas (RAK Gas) through a marine pipeline. No further details on timeframe or volume of gas was provided.
- **UAE's Abu Dhabi National Oil Co (ADNOC)** plans to **consolidate** the operations of two of its **offshore oil companies** into a new entity, "aimed at capitalising on synergies to drive operational efficiency and maximise value".
- A total of 7,727,105 **passengers** passed through the **Dubai International Airport** in Aug, up 6.1% yoy, bringing the year-to-date total to 55,850,353 passengers (+6.9% yoy). Eastern Europe was the fastest-expanding market (+67.9% growth), followed by Asia (13%), South America (11.7%) and the Indian Subcontinent (11.7%).
- **DP World** has started construction on the **Middle East's largest solar rooftop project** at its Jebel Ali Free Zone and Mina Rashid ports in Dubai. The project, scheduled for completion in 2017, involves the installation of 88k solar photovoltaic panels in the first phase to generate 22 MWp.

Media Review

IMF releases World Economic Outlook & Global Financial Stability Reports

<http://www.imf.org/external/pubs/ft/weo/2016/02/>

<http://www.imf.org/external/pubs/ft/gfsr/2016/02/index.htm>

IMF's Press Briefing on the 2016 Economic Outlook for the Middle East and Central Asia

<http://www.imf.org/en/News/Articles/2016/10/07/TR100716-Transcript-of-Press-Briefing-on-the-2016-Economic-Outlook-Middle-East-Central-Asia>

Is the Fed playing politics, as Trump claims?

<https://www.project-syndicate.org/commentary/trump-accuses-fed-of-playing-politics-by-kenneth-rogooff-2016-10>

A “hard Brexit” for Britain?

<http://www.economist.com/news/britain/21708264-theresa-may-fires-starting-gun-what-looks-likely-be-hard-brexit-taking-britain-out>

**Saudis cancel rare prompt oil offer to Asia after OPEC deal:
Reuters**

<http://www.reuters.com/article/us-saudi-oil-asia-idUSKCN1270SB>

Qatar diverts LNG from Britain to more lucrative Asia

http://www.zawya.com/mena/en/story/Qatar_diverts_LNG_from_Britain_to_more_lucrative_Asia-TR20161005nL5N1CB31DX2/

Combating climate change: the Green Climate Fund

<http://www.economist.com/news/finance-and-economics/21708267-un-climate-fund-seeks-role-green-light>

Powered by:

