

Weekly Economic Commentary – Oct 16, 2016

Markets

Global stock markets were choppy and ended the week as a disorderly lot. Europe recorded some gain but elsewhere red ink prevails, especially in emerging markets. Regional bourses with the exception of KSA and Bahrain were little changed. In currency markets the GBP collapsed after the prospect of a hard Brexit sunk in and Gilt yield soared, taking the euro in the rout. After Chinese markets reopened after a week of holidays, the yuan fell to its lowest value since 2010. Oil prices held the above the USD 50/b mark, while gold had another bad week.

Global Developments

US/Americas:

- **Fed Chairwoman Yellen** in a speech ventilated the possibility for the Fed of buying equities and corporate bonds.
- **The Fed's decision** to leave rates on hold was a close call and governors generally agreed that the case for a rate hike had strengthened in recent months, according to **minutes of the FOMC**. However, the prevailing view is that the long-run equilibrium rate would remain low for longer.
- **US unemployment** benefits fell by 5,000 to 249,000, the lowest figure since mid-Apr. This is the 84th consecutive week of claims under 300,000, the longest streak since 1970. The four-week moving average, fell by 3,500 to 249,250, the lowest level since Nov 1973. Continuing claims fell 16,000 to 2.046 million.
- **US government** posted a USD 33bn budget surplus in Sep, a

63.7% fall from a USD 91bn surplus in Sep 2015.

- **University of Michigan US consumer sentiment** fell to 87.9 in Oct from 91.2 in Sep, the lowest figure since Sep and well below market expectations of 91.9, due to a deterioration in future expectations.
- **US retail sales** increased 0.6% mom (2.7% yoy) in Sep, following a 0.2 % drop in Aug.

Europe:

- **The Eurozone's external trade surplus** jumped in Aug to EUR 18.4bn, from EUR 11.2bn in Aug 2015.
- **Eurozone industrial production** surged 1.6% mom (1.6% yoy) in Aug, after a decrease of -0.7% (0.5% yoy) in Jul, biggest spike since Jan.
- **The Zew index of investor confidence in Germany** spiked to 6.2 in Oct from 0.5 in Sep and Aug. The expectations measure for the Eurozone climbed in Oct to 12.3 from 5.4 in Sep.
- **Consumer prices in France** in rose 0.4% yoy in Sep; in **Germany** they rose 0.7% yoy and in **Italy** by 0.1% yoy.
- **Eurozone finance ministers** approved partial disbursement of funds to **Greece** after verifying that the government had complied with the set of 15 milestones.

Asia and Pacific:

- Despite government promises to rein in credit growth, **China's M2 money supply** grew 11.4% yoy in Aug, from a 10.2% in Jul, thanks to robust bank lending.
- **Foreign investment into China** was little changed in Sep, at USD 8.8bn, down -8% yoy. Overcapacity in manufacturing and expected yuan depreciation are deterring the capital flow.
- **China's inflation** took off in Sep to 1.9% yoy, from 1.3% in Aug due to a jump in food inflation.
- **China external trade surplus** reached USD 41.99bn in Sep from USD 59.60bn a year earlier, below market estimates

of a USD 53.0bn surplus.

- **Japan's tertiary activity index** was flat in Aug after increasing 0.3% in Jul. Despite buoyant wholesale trade, while retail activity contracted.
- **Japan's core machinery orders** fell -2.2% mom in Aug after rising 4.9% in Jul.
- **South Korea unemployment** rate increased to 4% in Sep from 3.8% in Aug, the highest reading since Feb.
- **Philippines** reported a **trade deficit** of USD 2.0bn in Aug, compared to a USD 1.05bn gap a year earlier.
- **Singapore's economy** expanded by 0.6% yoy in Q3, compared to 2.0% in Q2, and much below market consensus of a 1.7% expansion.
- **Indian wholesale prices** rose 3.6% yoy in Sep, almost similar to the 3.7% gain in Aug. Energy and manufactured goods prices drove the increase, while food inflation ebbed.
- **India CPI inflation** slowed to 4.3% yoy in Sep from 5.1% in Aug. Food prices were subdued after a good monsoon season.
- **Indian industrial production index** fell -0.7% yoy in Aug following a -2.5% decline in Jul. pushed down once again by manufacturing which suffers from anemic global demand.

Bottom line: Data from the Eurozone suggest that the Brexit panic has subsided as industrial production and expectations skyrocket. In the UK, on the other side confusion reigns, amid a disastrous drop of the GBP to historical lows. Reports from the Sunday Times that Boris Johnson – current Foreign Minister and leader campaigner for Brexit – wrote an unpublished editorial in favour of remaining in the EU two days before backing Brexit, adds an element of farce to the dire straits. In the meantime, the Scottish Prime Minister has vowed to call a second referendum to leave the UK. In China, data suggest that banks are not following government's injunctions to rein in credit or that the government is wary of curbing growth,

despite mounting financial risks which cast a sinister shadow over the global financial system. Widening the focus, the OECD composite leading indicator was unchanged from July at 99.7, which corroborates expectations of lackluster growth rate in the world economy.

Regional Developments

- **Bahrain increased visa and residency fees**, and introduced a one-time visa valid for two weeks. Other changes include the extension of the duration stay per visit for a three-month multiple entry visa holder from two weeks to a month, the issuance of a multiple entry visa valid for one year for a fee of USD 225 and the increase in the price of a five-year multiple entry visa to USD 450 (BHD170) from USD 160 (BHD 60).
- **Egypt's urban consumer price inflation** eased to 14.1% in Sep, down from Aug's 8-year high of 15.5%, while core inflation rose slightly to 13.94% (Aug: 13.25%).
- **Egypt received USD 2bn from Saudi Arabia** as a central bank deposit in Sep, revealed the PM; it was received before a **suspension of petroleum aid** by Saudi Arabia, which began on Oct 1 and resulted in the pound tumbling more than 10% to unprecedented lows.
- The **Egyptian General Petroleum Corporation** plans to allocate more than USD 500mn to **purchase petroleum products** and the country plans to launch tenders to buy fuel for domestic consumption.
- **Egypt's debts to international oil and gas companies** rose to USD 3.58bn by end-Sep, from about USD 3.2bn six months ago, according to the oil minister.
- **Egypt and EU signed six financing agreements** with a combined value of EUR 129mn, in support of Egypt's socio-economic development and improving people's living conditions.
- **Iraq's oil minister called for an increase in oil output** of the country "through enhancing the national effort

and those of the licensed companies” going forward. The ministry also aims to increase associated gas output by adding 350-450mn cubic feet a day to production in 2017.

- **Kuwait** has **delayed a sovereign bond issue** of up to USD 10bn until next year, according to bankers familiar with the matter. Relatively stronger finances provide greater flexibility in terms of timing, expectations for US monetary policy, and Saudi Arabia’s bond sale (expected in late Oct) are all factors that play a role in the delay.
- Kuwait’s Ministry of Commerce and Industry approved a plan to set up **Kuwait Integrated Petrochemical Industries Company**, which will serve as a subsidiary to Kuwait Petroleum Corporation. The new company will have a capital of USD 6bn (KWD 1.8bn) of which 25% or USD 1.5bn is paid, and its production capacity will be around 615k barrels per day.
- According to the IMF, **Kuwait** is expected to return to a **budget surplus** in 2017; forecasts also reveal that Kuwait maintains the highest current account surplus as a percentage of GDP in the GCC for both 2016-17, followed by the UAE.
- Economically active **expatriate population** in **Qatar** fell 1.6% qoq in Q2 compared to a 2% decline in total population. Data also shows that the female population was declining faster – at more than 5% – against the 0.8% dip for males.
- **Saudi Arabia** is meeting **investors for its debut bond** (expected to raise USD 10bn+). There have been reports that the country is planning to list its first-ever international bonds in Ireland. Meanwhile, the bond prospectus provides no recent data on public finances, especially in the light of recent economic measures, nor does it refer to the recent Congress vote on potential Sep 11 lawsuits. The document mentions central bank’s commitment to maintain the dollar peg, but also states “there can be no assurance that future unanticipated

events, including an increase in the rate of decline of the government's reserve assets, will not lead the government to reconsider its exchange rate policy".

- **Saudi Arabia** plans to **trade government bonds** on its exchange, revealed the finance ministry, stating that the bonds will be registered, listed and traded on the exchange's platform gradually. No further details were provided.
- **Saudi Aramco** plans to invest more than USD 300bn over the coming decade to "reinforce preeminent position in oil, maintain spare oil production capacity, massively expand conventional gas production, and exploit unconventional gas resources", according to the company's CEO.
- Reuters reported that **Saudi Arabia** would **supply full contracted volumes of crude oil** to at least two Asian term buyers in Nov, unchanged from Oct, citing industry sources.
- **Saudi Arabia** and **Japan's** SoftBank Group plan to create a **technology investment fund** that could grow as large as USD 100bn. SoftBank expects to invest at least USD 25bn in 5 years while Saudi Arabia's Public Investment Fund is set to be the lead investment partner and may invest up to USD 45bn over the next five years.
- **GCC sovereigns** issued close to USD 20bn of **long-term debt** in H1 this year (compared to USD 14bn for FY2015), representing 54% of total long-term debt issuance in the region, according to Moody's. However, only 5% of GCC government debt issuance in H1 comprised Sukuk, compared to 38% in 2015. Qatar was the most active issuer of long-term sovereign Sukuk in the GCC, accounting for 60% of total issuances since 2010.

UAE Focus

- The **Dubai Economy Tracker** dipped slightly to 55.1 in Sep (Aug: 55.7); output and new work remained strong and the

Q3 average showed a faster pace of expansion compared to the previous two quarters.

- **Inflation** in the **UAE** was down 0.3% mom in Aug (Jul: +0.3%); in yoy terms, inflation was 0.6% in Aug versus 1.8% the month before. Housing and utility costs rose by 2.7% while food and non-alcoholic beverage prices grew by 1.7%.
- **Non-oil foreign trade** in **Dubai** touched AED 647bn in H1 this year, with around 62% accounted for by imports. China, India and the US were the top trade partners accounting for AED 79bn, AED 48bn and AED 43bn respectively. Free zones and customs warehouses contributed AED 211bn and AED 16bn to Dubai's foreign trade.
- In a bid to boost **Dubai** as an Islamic finance hub, the Dubai Financial Market (**DFM**) published draft rules covering **Sharia-compliant hedging**.
- **Emirates NBD** is working with India's ICICI Bank to use **blockchain technology** for global remittances and trade finance; this process, by enabling near real-time transfer of invoices and purchase orders in a transparent and secure manner, will significantly reduce transaction costs and time.
- The **Dubai Multi Commodities Centre (DMCC)** Free zone has been named **Global Free Zone of the Year** for the second time running by Financial Times fDi Magazine, thanks to its "sustainable growth, strong customer service and its eco-system model which offer businesses everything they need to set up".
- **Islamic finance** will offer global investment opportunities of an estimated USD 3 trillion by 2020, according to UAE's Vice President and Prime Minister and Ruler of Dubai. Islamic banks in the GCC today hold 9% of their assets in cash and equivalents and 10% in placements with other financial institutions, according to Thomson Reuters.
- **Dubai** is in the final stages of obtaining regulatory

approval to create the first fully **Sharia-compliant bank devoted to trade finance**, according to the Dubai Islamic Economy Development Centre.

- **Insurance premiums** in the **UAE** grew 10.2% yoy to AED 37bn in 2015. The volume of investments in the sector amounted to AED 45.7bn in 2015, of which 60.5% was invested in stocks and bonds, followed by 20.7% in deposits, revealed the UAE Insurance Authority.
- **UAE's National Bank of Abu Dhabi (NBAD)** disclosed that it had raised USD 621mn (versus an initial targeted benchmark of USD 250-300mn on strong interest) by placing a 30-year unsecured, zero-coupon, callable **Formosa bond issue** with institutional investors.

Media Review

Toxic Politics Versus Better Economics

<https://www.project-syndicate.org/commentary/advanced-country-politicians-ignore-policy-consensus-by-mohamed-a-el-erian-2016-10>

Politics in Thailand

<http://www.economist.com/news/asia/21708739-thailands-turbulent-politics-just-became-more-complicated-death-thai-king-throws>

Gender inequality starts young

<http://qz.com/807429/unicef-data-shows-that-girls-spend-a-disproportionate-amount-of-time-on-household-chores-creating-gender-inequality-from-an-early-age/>

Major oil deals highlight the changing landscape of Asia's refiners

<http://www.thenational.ae/business/energy/major-oil-deals-highlight-the-changing-landscape-of-asias-refiners>

Boris Johnson wrote against Brexit

<http://uk.reuters.com/article/uk-britain-eu-johnson-idUKKBN12F0U3>

Powered by:



