

Weekly Economic Commentary – Oct 23, 2016

Markets

The MSCI's world index posted the first week of gains since Sep. The AT&T-Time Warner deal, as well as the British American Tobacco Plc's bid for Reynolds American Inc. boosted US stocks towards the end of last week alongside better-than-expected earnings from Microsoft. Most regional markets closed on a positive note, with the exception of Oman and Egypt. The dollar rose to a 7-month high against a basket of currencies and the euro fell to its lowest level versus the greenback since March after the ECB left its policy rates unchanged. China's offshore yuan fell to its lowest against the dollar in six years. Skepticism over the OPEC's proposed production cut saw Brent close the week at around \$51, after much fluctuation. Gold price posted its first weekly rise in four, as seasonal demand from Asia kicked in.

Global Developments

US/Americas:

- **US consumer prices** in Sep were up 1.5% higher than 1.1% in Aug and in line with market expectations.
- **US industrial output** increased 0.1% mom in Sep, following a -0.5 % fall in Aug. Utilities fell -1%, whereas mining production gained 0.4%. Manufacturing advanced 0.2% mom.
- **US housing starts** plunged -9% mom and -11.9% yoy in Sep due to a sharp drop in multifamily housing starts, while single-family starts increased. Permits however were on the rise, so this could be a mere a one off anomaly.
- **The US Federal Reserve's Beige Book** covering the period mid-Aug early Oct indicates that economic growth was

modest or moderate across most districts. Nevertheless labor markets remain tight, with slow employment and wage growth. Input costs and output prices were mostly unchanged since the previous report. Expectations are generally positive.

- **Initial jobless claims in the US** rose by 13,000 to 260,000 distorted by Columbus Day holiday and Hurricane Matthew. Claims have been below 300,000 for 85 consecutive weeks, the longest streak since 1970. Continuing claims rose by 7,000 to 2.057 million.
- **Existing home sales in the US** increased 3.2% mom and 0.6% The figure was pushed by single-family sales.
- **The US Conference Board index of leading indicators** rose 0.2% mom in Sep, offsetting Aug's drop. Initial unemployment claims, building permits, and the interest rate spread led the increase. From a medium term perspective, the index is rising at a 2.3 annualized rate.
- **The Central Bank of Brazil** reduced the Selic rate by 25bp to 14%. Conditions remain in restrictive territory to offset inflationary pressures.

Europe:

- **The ECB postponed the much anticipated** increase in its QE program disappointing market expectations.
- **Eurozone's inflation** reached 0.4% yoy in Sep after 0.2% in Aug. The increase in energy prices offset subdued food prices. Base effects in coming months will further lift the rate.
- **The Eurozone's current account surplus** rose to EUR 23.6 bn in Aug, from EUR 20.8 bn a year earlier. Energy prices are the main driver of export and import performances.
- **Credit conditions in the Eurozone** remained virtually unchanged in Q3, with the net percentage of banks declaring tighter credit for business at 0.1% after -7%

in Q2.

- **UK headline CPI** rose 1% yoy in Sep the fastest rate since Nov 2014 as the effects of the GBP devaluation are passed onto consumers. Imported input prices rose by around 9% mom.
- **UK jobless rate** remained unchanged at 4.9% for the fourth consecutive month in the three months to Aug.
- **UK retail sales** expanded by 4.1% yoy in Sep, down from 6.6% in Aug, another sign that the Brexit uncertainty is starting to bite.

Asia and Pacific:

- **China's GDP** grew 6.7% yoy in Q3, the same rate as in Q1 and Q2. The economy is gliding towards slower industrial growth and higher consumption. A limited stimulus and the housing market rebound drove a bounce in activity.
- **China's Retail sales growth** accelerated to 10.7% yoy in Sep from 10.6% in Aug. Electronics goods had a positive performance and auto sales were buoyant.
- **China's Industrial production** grew 6.1% yoy in Sep, a tad lower than 6.3% in Aug. Global tech exports and subsidies for energy-efficient vehicles were among the drivers.
- **Bank Indonesia** surprised the markets again by cutting its repo rate for the second consecutive month by 25bps to 4.75%, the sixth rate cut in 2016.

Bottom line: The first major macroeconomic figure for Q3 confirmed that China's GDP maintained its "new normal" trajectory, although many doubt that a reliable figure can be compiled just 3 weeks after the quarter's end. In any case, such figure does not change the global medium term outlook, given that data from the US and Europe remain dim as we approach the year's end. Higher energy prices are driving up global inflation with yearly growth in developed economies touching 0.9% and in developing economies 4.5%. This rebound threatens to derail the bond market, where currently nominal

yields are at historical lows (and often negative for quality issuances).

Regional Developments

- The **IMF**, in the latest issue of its region economic outlook for the MENAP region, highlighted that **fiscal balances** are likely to stay in the red in the medium-term, with only Iraq, Kuwait, and UAE projected to post surpluses by 2021. Oil revenues in the GCC are projected to be lower by USD 400bn this year, while cumulative fiscal deficits during 2016-21 are forecast to be about USD 765bn, down from USD 1.1 trillion projected in Apr 2016.
- **Saudi Arabia** sold **UD 17.5bn of debt** in the government's first international bond offering, surpassing Argentina's USD 16.5bn record. This sale attracted huge demand, thanks to low interest rates, with investor orders totaling almost four times that amount (USD 67bn). The bond was priced cheaper than expected: a USD 5.5bn five-year tranche was launched at 135 basis points over US Treasuries, a USD 5.5bn 10-year tranche at 165 bps over, and a USD 6.5bn 30-year tranche at 210 bps over. Interestingly, Asian investors took 22% of the 30-year tranche, though US registered buyers got the most with 44%.
- **Egypt's** PM disclosed that it had arranged about 60% of the USD 6bn bilateral **financing** required before the IMF board approval and release of the USD 2.5bn initial loan tranche.
- **Egypt** issued a decree establishing a **Supreme Investment Council** aimed at boosting investments. The Council will include as members the PM, Central Bank governor, ministers of defence, interior, finance, investment, trade, justice and the head of the General Intelligence Service and aims to follow up on the execution of investment plans, development of major economic projects

and PPPs.

- The **new investment law** in **Egypt**, focusing on the diversification of incentives and guarantees for investors, will be sent to the cabinet next month, stated the investment minister. FDI grew to USD 6.84bn in the 2015/16 financial year, up from USD 6.38bn the year ago.
- **Egypt's** central bank allocated USD 1.8bn to ensure six months of **reserves in all strategic goods**, stated the supply minister following the widespread sugar shortage that ignited talks of a food crisis.
- Total volume of **Egypt's exports to UAE** surged by 149.1% yoy to EGP 10.3bn in H1 this year. **Trade with the EU states** reached EUR 12.8bn in H1 versus EUR 13.15bn a year earlier.
- The value of **Singaporean investments in Egypt** touched USD 400mn, according to Egypt's investment minister. He revealed that around 65 Singaporean firms were present in the country, contributing around USD 33.3mn.
- **Jordan's** government issued its **first local currency Sukuk** raising JOD 34mn for its own funding purposes. The issue was more than three times subscribed; the bonds have a tenor of five years and an expected profit rate of 3.01%.
- **Kuwait's trade surplus expanded** for the first time in a year to KWD 1.2bn in Q2 (Q1: KWD 0.4bn), thanks to a pick-up in oil revenues (KWD 3.2bn in Q2 vs. KWD 2.4bn in Q1). Imports contracted by 1.3% yoy in Q2, driven by a 12.7% yoy fall in consumer goods – the first contraction in at least 6 years.
- **Kuwait's** emir ordered the **dissolution of parliament** last week, paving the way for fresh elections. Though no date was given for the next elections, under constitutional rules a ballot should be held within 60 days.
- **Lebanon's industrial exports** fell by 14.7% to USD 1.713bn in Jan-Aug, given the high cost of transportation, fierce competition and the economic

slowdown in some Arab countries. Average monthly industrial exports during this period was USD 214.1mn per month compared to USD 250.9mn in 2015.

- **Expatriate remittances into Lebanon** are forecast to increase by 1.6% yoy to USD 7.6bn this year, according to the World Bank. The country is expected to be the 16th-largest recipient of remittances globally and the 11th-largest recipient among developing economies in 2016.
- **Oman's central bank** plans to float OMR 150mn worth of government development bonds towards the end of the year to repay a maturing bond issue. This issue will bring the total amount raised by way of development bonds to OMR 450mn.
- **Total credit disbursed by the Omani banking sector**, including Islamic institutions, grew by 11.4% yoy to OMR 21.68bn by end-Aug. Credit to the private sector rose 13.4% yoy to OMR 19.5bn, of which 46% went to households and 45.6% to non-financial corporations.
- According to the German business monthly *Manager Magazin*, the SWFs of **Qatar** and Abu Dhabi, along with an unnamed Chinese investor are willing to take part in a capital increase in **Deutsche Bank**. The magazine also stated that a settlement was expected prior to the Nov. 8 US presidential election.
- **Qatar's central bank** sold QAR 1.5bn in its third **domestic bond sale** last week; this follows last month's sale of QAR 1.975bn.
- **Qatar's cabinet** has approved a **new law** which permits **non-Qataris to invest up to 100%** of the project capital in all sectors of the national economy provided they have a Qatari services agent. The official Qatar News Agency reported that non-Qatari invested capital means "whatever is invested by a non-Qatari citizen in cash and/or in kind and the rights of monetary value in Qatar".
- **Inflation in Qatar** grew by 0.1% mom and 2.6% yoy in Sep

(Aug: 0.2% mom and 2.9% yoy); housing and utility costs were up by 2.9% yoy while food costs were down by 2%.

- Investment in **Qatar's SME sector** (focused on manufacturing) touched USD 852.3mn last year. The sector employs over 35k workers in 596 manufacturing units, according to Gulf Organization for Industrial Consulting (GOIC).
- The **IMF** expects **Saudi Arabia** to run a fiscal deficit of 13.0% of GDP this year, compared to an estimated 15.9% last year. Calling the pace of the country's austerity measures "appropriate", a senior IMF official stated that there was not a lot of scope for postponing fiscal consolidation.
- **Saudi Arabia's crude oil exports** fell to 7.305mn barrels per day (bpd) in Aug from 7.622mn bpd in Jul. Output in Aug reportedly dropped to 10.63mn bpd from Jul's record high 10.673mn bpd (due to summer demand and consumer requests).
- **Saudi Arabia's** imports tumbled 32.7% yoy to SAR 33.48bn in Jul (Jun: SAR 43.0bn) while non-oil exports dropped 27.2% to SAR 11.82bn (Jun: SAR 14.3bn).
- **Saudi Arabia** is seeking public opinion on proposed changes in its **bankruptcy laws**;
- **Saudi Arabia's** finance ministry has announced that it will **close its accounts** for this year's budget on Nov 15 versus the mid-Dec mark traditionally.
- **Payments to Saudi Arabia's construction firms** will rise going forward, stated the finance minister, citing "technical reasons" for current delays.
- **SMEs' share** of the total **manufacturing** factories in the **GCC** was about 82.8% and they employed approximately 44.3% of the total labour force despite the limited investments (4% of the total manufacturing industries investments).

UAE Focus

- **UAE** is projected to grow 2.3% this year compared to 4% last year, according the latest **IMF** report on the Regional Economic Outlook. Current account is expected to post a surplus of 1.1% of GDP this year and 3.7% of GDP in 2017.
- The **UAE Investment Law**, which allows up to 100% ownership to foreigners in certain sectors, is in its final stages of approval, and will be sent to the Federal National Council for further discussion later this year.
- **UAE's** central bank survey revealed that downward trend in overall **credit appetite**: net balance measure for business lending fell to minus 2.3 in Q3 from plus 3.1 in the previous quarter. Responses reveal that financial markets outlook was the most important reason behind the drop in loan demand, along with housing market outlook and change in income.
- **Moody's** cites solid profitability, capitalisation levels and sufficient liquidity to maintain a stable outlook for **UAE banks**.
- **Nasdaq Dubai** added Abu Dhabi Commercial Bank (ADCB) and Union Properties to its **equity futures market**, raising number of underlying UAE companies to nine. A total of 43,219 single stock futures contracts have traded since the market opened in Sep 2016.
- The **Dubai Innovation Index** 2016, released by Dubai Chamber along with PwC, ranked Dubai 16th out of the 28 peer global cities, registering an innovation rate of 39.14%.
- **UAE nuclear energy project** completed a USD 24.4bn financing for its first plant; it comprised direct loans of USD 19.6bn (including USD 16.2bn from the Abu Dhabi government).
- **Passenger traffic** at **Abu Dhabi** International airport grew by 5% yoy to 2.1mn in Sep this year, bringing the year-to-date number to 18.5mn passengers (+6%).
- **Dubai** crossed the 100k **hotel room** milestone, and

according to Dubai Tourism, overall room supply is expected to reach 134k rooms by the end of 2018. Occupied room nights in hotels and hotel apartments is expected to reach 35.9 million, representing a 10.8% compound annual growth rate from the end of 2015 to the end of 2018.

- Abu Dhabi's **Masdar City** announced the introduction of **new licences** to encourage entrepreneurs to set up within the free zone. This is expected to empower UAE start-ups to bring their innovative ideas in clean technology and sustainability to market.
- **Dubai consumer electronics market size** is expected to exceed USD 3bn by 2020, growing at 4.7% over the next 4 years. The portable consumer electronics sub-category tops this list, with a 2020 sales forecast of USD 1.27bn.

Media Review

Saudi Arabia giant bond sale

<https://www.ft.com/content/92158e52-95f4-11e6-a80e-bcd69f323a8b>

Oxford Business report on Dubai

<https://www.oxfordbusinessgroup.com/uae-dubai-2016>

A dystopian cashless society

<https://www.bloomberg.com/view/articles/2016-10-14/the-cashless-society-is-a-creepy-fantasy>

What to expect from Emerging Economies?

<https://www.capitaleconomics.com/is-the-golden-era-for-ems-at-an-end-webinar-recording.html>

UAE's credit cycle on the mend, skips are declining: Bankers

http://www.zawya.com/uae/en/story/UAEs_credit_cycle_on_the_mend_skips_are_declining-ZAWYA20161017040237/

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