

Weekly Economic Commentary – Oct 30, 2016

Markets

An eventful Q4 (US elections, Italy's referendum, US FED interest rate hike, elections in Austria and Brexit convolutions) looms on equity markets. Last week we had a taste of the political spillovers on markets when the Clinton emailgate resurfaced in the US presidential campaign. The main indices that had been boosted by the US GDP data retrenched sharply. Regional markets were generally in a downbeat mood. In currency markets the dollar followed the same destiny as the stock indices. Oil prices were down and gold was on a rollercoaster but recorded a rare weekly gain.

Global Developments

US/Americas:

- **US real GDP in Q3 rose 2.9% qoq ann.** the best performance in two years. Consumer spending was the main driver although slowing from the Q2 rate. Exports gave also a substantial contribution. Real disposable income rose 2.2%, accelerating from the 2.1% recorded in the prior two quarters. The saving rate held steady at 5.7%.
- **The US employment cost index for private wages in Q3** rose 0.5% and 2.4% yoy. Government wages rose 0.7% increasing the pace from past quarters.
- **The Case Shiller 20-city composite home price index** increased 5.1% yoy in Aug from 5% in Jul. Growth in the 10-city composite index also accelerated to 4.3% yoy from 4.2% in Jul. The national index increased 5.3% yoy vs 5.1% in July.
- **The US Conference Board's Consumer Confidence Index** in Oct lost 4.9 points to 98.6, a three-month low. Both

present conditions and economic expectations took substantial hits with a drop in confidence in the labor market and the business climate.

- **Initial claims for US unemployment benefits** fell from 261k to 258k, although the four-week moving average was somewhat higher. Continuing claims fell by 15k to 2.039 mn.
- **US Markit Manufacturing PMI** unexpectedly increased to 53.2 in Oct from 51.5 in Sep.
- **US Sales of new single-family houses advanced** 1% to a sa annual rate of 593,000 in Sep, beating expectations of a 1 % decline.
- The final **University of Michigan consumer sentiment** index declined 4 points in Oct to 87.2, its lowest level in a year. Falling consumer expectations were the main drag, while long-term inflation expectations dropped 0.2 point to 2.4%. Household finances were negative.
- **New orders for durable manufactured goods in the US** fell -0.1% mom in Sep due to a drop in defense orders. Core capital goods orders plunged -1.2%, marking the first decline since May.

Europe:

- **Eurozone M3 money supply** expanded by 5% yoy in Sep just below the 5.1% pace in Aug due to a slowdown in currency in circulation and overnight deposits.
- **France's GDP** increased 0.2% qoq in Q3 after a -0.1% drop in Q2 thanks to higher government consumption, while private consumption stalled and private investment faltered. Net exports detracted from growth despite higher exports.
- **The German Ifo Business Index** rose again in Oct touching 110.5, the highest level since Apr 2014.
- **The Eurozone's economic sentiment indicator** touched 106.3 in Oct from 104.9 in Sep. Consumer confidence advanced a notch.

- **Spain's unemployment rate** fell to 18.9% in Q3 from 21.2% a year ago. Although the participation rate was down, the employment rate grew 2.7% yoy.
- **UK GDP rose** by 0.5% qoq (2.3% yoy) in Q3 down from 0.7% (2.1% yoy) in Q2. The services sector once again pushed GDP up growing by 0.8% qoq, while construction and manufacturing shrank.
- **Italy's new industrial orders** surged 10.2% mom (15.9% yoy) in Aug recovering the -10.8% drop in July.
- **The Eurozone's Conference Board Leading Economic Index** advanced to 107.5 in Sep, a small 0.3 point increase from Aug's level.

Asia and Pacific:

- **Taiwan's GDP recorded** a 2.1% yoy gain following a 0.7% in Q2 thanks to perky export growth. Investment rose after four consecutive negative quarters.
- **In Japan core consumer prices** decreased -0.5% yoy in Sep, the same rate as in Aug confirming that deflationary pressure are not abating despite a massive monetary stimulus.
- **Japan recorded** a JPY 498.34 bn trade surplus in Sep compared to 121.29 JPY bn a year earlier and way above expectations of a 341.80 JPY bn surplus.
- **South Korea's economy** expanded 0.7% qoq and 2.7% yoy in Q3 vs 0.8% qoq and 3.3% yoy in Q2. Exports were up in yoy terms thanks to the tech sector and the construction boom lifted investments while consumption disappointed.
- **Singapore consumer prices** fell -0.2 % yoy in Sep, compared to a -0.3% drop in Aug confirming that deflationary pressure is not abating.

Bottom line: The upbeat GDP growth in the US and the generally buoyant figures from Europe bode well for a positive surprise in Q4 and the beginning of 2017. Nevertheless, uncertainties surrounding the economic and political, outlook, especially in the US, risk derailing the recovery and will induce prudence

in the investor community. Markets so far have displayed remarkable resilience in the face of such uncertainties, but the sudden plunge in equity markets on Friday constitutes a stern warning for the future.

Regional Developments

- **Inflation** in **Bahrain** 6% mom and 2.6% yoy in Sep; housing and utility costs rose by 3% yoy while food and beverages prices fell by 0.6%.
- The CEO of **Bahrain's** sovereign wealth fund **Mumtalakat** disclosed that the fund was planning to invest about USD 500mn in the country's real estate sector over the next five years; this includes two hotels with a combined investment of more than USD 300mn.
- The **IMF** expects its board to consider the **Egypt loan** within "the next few weeks", according to a senior official. The decision will also take into consideration Egypt securing up to USD 6bn in bilateral financing, to supplement about USD 4bn in first-year funding from the IMF.
- **Egypt** plans to issue roughly USD 2bn in **international bonds**, with the roadshows expected to start in the early weeks of Nov.
- **Egypt's net foreign direct investments** fell by 21.5% yoy to USD 992.9mn during 2015-16, the central bank reported. Investment inflows dropped to approximately USD 2.876bn by end-Jun 2016, while outflows recorded USD 1.883bn. Money from Arab countries registered the biggest decline, falling by 44.7% to USD 425.2mn as of end-Jun.
- **Egypt** plans to **raise investments** in the market by 19% the 2017-18 financial year, revealed the trade and industry minister. He stated that plans were underway aiming to raise economic growth to 6% within the next fiscal year and to lower financial deficit to 8.5% in 2018-19.

- **Egypt's** central bank will **allocate EGP 10bn** (USD 1.1bn) **for youth-led technological projects** (which have high economic feasibility), according to the central bank chief, as part of the wider EGP 200bn initiative to support and boost SMEs.
- **Egypt's** **petroleum** ministry announced that it had signed around **70 new agreements** with investments worth USD 15bn during the last three years. The ministry also made new expansions in Egyptian refineries (investments estimated at USD 8bn) to boost local production of petrol, diesel, and butane by 60%.
- The number of **mobile users** in **Egypt** increased to 96.4mn by end-Jul with the addition of 200k new subscribers.
- **Unemployment rate** in **Jordan** was 15.8% in Q3 this year; jobless rate among men was 13.8% while it reached 25.2% among women.
- The **total workforce** in **Kuwait** reached 1.9mn in Jun this year; the number of Kuwaitis in the total workforce declined to 18% (Jun 2015: 19%). Asians accounted for 49.7% of foreign workers, while non-Kuwaiti women constituted 10.2% of the expatriate workforce.
- **Kuwait** is still considering **issuing international bonds** worth around KWD 3bn (USD 9.90bn), revealed a finance ministry official.
- **Kuwait's** acting oil minister expects **oil prices** to remain within the range of \$50-\$60 per barrel.
- **Lebanese banks' net foreign liabilities** increased to USD 18bn in Aug, after foreign assets declined by USD 1.9bn between May and Aug 2016, and by USD 1.1bn in Aug alone. Moody's warned about banks' growing public debt exposure.
- **Qatar's trade surplus** narrowed by 25.8% yoy to QAR 8.8bn in Sep (Aug: QAR 8.69bn). Exports of petroleum gases and other gaseous hydrocarbons fell 13.5% to QAR 11.4bn. Imports were down 8.8% yoy and 11.7% mom to QAR 8.3bn.
- **Total credit disbursed** in **Qatar** grew by 1.1% mom in Sep (Aug: -1.7% mom), as total domestic public sector loans

increased by 2.2% mom (+12.1% ytd). Private sector loans were up 0.7% mom, as real estate sector loans (which account for about 28% of private sector loans) increased 0.8% mom.

- **Qatar's banks** "remain healthy", according to the central bank's Financial Stability Review, as more than 80% of their non-performing loans are provisioned. The **Banking Stability Index**, also part of the Review, decreased marginally in 2015, though risk from liquidity and soundness increased. The risk perception of the banks has increased this year, as 50% of surveyed banks (versus 2015's 40%) reported an increase across all risk factors (soundness, fragility, liquidity, profitability and inefficiency).
- **Qatar's producers' price index** increased around 3% mom in Aug, thanks to stronger prices for crude and natural gas, man-made fibres and utilities.
- In a bid to **ease liquidity pressures**, **Saudi Arabia's** central bank introduced a new money market instrument, a 90-day repurchase agreement. It also lowered the maximum volume for its Treasury bill issues to SAR 3bn (USD 800mn) per week from SAR 9bn.
- **Saudi Arabia** has **no** further plans to issue **monthly local currency bonds**, given its recent international bond sale, disclosed the *Maal* financial website quoting unnamed sources.
- **Inflation** in **Saudi Arabia** was at its lowest level this year – 3.0% yoy in Sep (Aug: 3.3%).
- As austerity bites, the **Saudi** central bank **asks banks to reschedule households' property loans**. While the banks must offer all available rescheduling options to clients, neither fixed interest rates on loans nor variable rates can be changed and, banks cannot take extra fees when they reschedule loans, according to the central bank.
- **Saudi Arabia** has been **consuming its gas** as fast as the rapid rise in output, given the demand from

petrochemicals and electricity generation. According to Jadwa Investment, the government could “save \$71 for every barrel of crude oil substituted by a barrel of equivalent of gas in electricity generation in 2030”.

- Only 60% of the **gender gap** closed in the **MENA region**, versus 75% in Europe and 68% in East Asia and the Pacific, according to the World Economic Forum’s “Global Gender Gap Report 2016”. Qatar stands first in the Arab world, but is placed 119th globally, followed by Algeria (120), UAE (124), Tunisia (126), Kuwait (128), Mauritania (129), Bahrain (131), Egypt (132), Oman (133) and Jordan (134).

UAE Focus

- **UAE’s** President issued the long-awaited **Federal bankruptcy law** (law number 9 of 2016), which is likely to be enacted in Q1 2017. According to the law firm Tamimi & Tamimi, a restructuring and bankruptcy committee would oversee the process and would offer three options: restructuring, preventative composition and bankruptcy.
- **UAE** established the **Federal Tax Authority** to collect data, information and statistics related to federal taxes. This entity is expected to coordinate with the federal government, local governments and taxpayers on all matters related to taxes and related fines.
- The **UAE** jumped 5 positions to 26th rank globally in the latest issue of the World Bank’s **Doing Business** The country, which topped Arab countries, was also in the list of top 10 international improvers on the basis of reforms undertaken.
- **UAE’s non-oil foreign trade** grew by 3% yoy to AED 553.4bn in H1 this year; Asia, Australia, and the Pacific were the top trade partners accounting for 39% of the total non-oil trade, followed by Europe and MENA at 26% and 17% respectively. Saudi Arabia was the top

GCC non-oil trade partner with a share of AED 18.4bn, representing 36% of UAE's non-oil trade with GCC.

- **Abu Dhabi's non-oil foreign trade** grew to AED 84.4bn in H1 this year – with imports at AED 57.4bn and exports near AED 17.3bn.
- **Money supply M2** in the **UAE** grew by 1.4% mom to AED 1.2 trillion at end-Sep. Gross bank assets increased by 1.3% mom to AED 2.55 trillion at end-Sep, while gross credit grew by 1.1% to AED 1.57 trillion. Bank deposits grew by AED 30.2bn to AED 67.47bn – due to an increase in resident deposits by AED 11.4bn and an increase in non-resident deposits by AED 18.8bn.
- The Dubai Financial Market (**DFM**) disclosed that it attracted **2,627 new investors** in Jan-Sep this year, including 418 institutions.
- **Passenger traffic** through **Dubai International airport** climbed by 10.3% yoy to 7.09mn in Sep, bringing the total year-to-date to 69.95mn persons (+7.9%).
- The **UAE** increased its **clean energy target** to 27% by 2021 from 24% previously announced.

Media Review

Zcash: another crypto-currency is born

<http://www.economist.com/news/finance-and-economics/21709329-a-nother-crypto-currency-born-known-unknown>

US elections: a Clinton upset? British polling experts who didn't see Brexit coming on why US should be prepared for a similar upset

<http://qz.com/822398/hillary-clinton-might-not-win/>

Fitch: Strongest Saudi banks defy tough operating environment

<http://www.reuters.com/article/idUSFit976492>

Blockchain: Application to Financial Services in the GCC Region

http://www.zawya.com/uae/en/story/How_blockchain_can_revolutionize_UAEs_financial_services_sector_Booz_Allen_Hamilton-ZAWYA20161024080412/

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