

Weekly Economic Commentary – Nov 6, 2016

Markets

Markets have been rattled by the prospect that Trump might actually win the presidential elections in the US. Worldwide indices have plummeted with the S&P500 retrenching to levels last seen in early July. However, regional markets have held up well recording limited losses or even small gains (the exception is Egypt where a massive devaluation has paved the way to an agreement with the IMF). In currency markets, the GBP shot up after the High Court ruled that the Brexit is a matter that must be debated and voted by Parliament not by a consultative referendum. The dollar continued to slide in major crosses due to the Trumpanic, the same effect that depressed oil prices and boosted gold above the 1,300 USD/ounce. The bond market is also under pressure: October has been the worst month for German bunds since 2013, as the yield on the 10-year surged 30bp in a month. The yield on US Treasury climbed to the highest level since May as on expectations of a rate hike by the Fed.

Global Developments

US/Americas:

- **The US nonfarm payroll employment added** 161,000 units in Oct, less than an upwardly revised 191,000 in Sep and market expectations of 175,000. Employment continued to trend up in health care, professional and business services, and financial activities. The unemployment rate was 4.9% and hourly wages recorded a 2.8% yoy increase the fastest pace since 2009.
- **Initial unemployment claims in the US** rose 7,000 to 265,000 marking the 87th consecutive week that initial

- claims have remained below 300,000, a record since 1970. The four-week moving average increased by 4,750 to 257,750. Continuing claims fell 14,000 to 2.026 million.
- **The US Fed signaled** that rates could rise in December, as its final statement was generally upbeat on the job market and growth forecast, while noting that inflation was heading north.
 - **The US ISM manufacturing index** in Oct, crawled up 0.4 points to 51.9. However new orders fell 3 points to 52.1. The inventory index remained in recession for the 15th consecutive month. Employment from 49.7 in Sep went into expansionary territory touching 52.9.
 - **The US non-manufacturing ISM index** declined to 54.8 in Oct, from Sep's 57.1, as business activity, new orders and employment growth struggled.
 - **US factory orders** rose 0.3% mom in Sep, the third straight monthly gain after a lackluster spring.
 - **The US PCE deflator** rose 0.2% (1.2% yoy) in Sep, matching Aug's gain. The core PCE deflator, rose 0.1% (1.7% yoy).
 - **US Consumer spending** increased 0.5% mom in Sep, recovering the -0.1% fall in Aug. **Personal income** gained 0.3% mom in Sep from 0.2% in Aug.
 - **The US goods and services trade deficit** decreased 9.9% mom to USD 36.44 bn in Sep, slightly lower than market expectations of a USD 37.8 bn gap.
 - **Construction spending in the US** fell 0.4% mom in Sep. Public construction was the weak spot, falling -0.9%. Highway and street outlays had a boost of 0.9% mom, but was down -4.4% yoy. Private construction, declined -0.2% mom.
 - **The Brazilian trade** surplus increased by 15.2% to USD 2.3 in Oct from USD 2.0 bn a year earlier, a sign that the recession is ebbing.

Europe:

- **Eurozone GDP** expanded by 0.3% qoq in Q3, the same as in Q2.
- **Eurozone inflation accelerated** to 0.5% in Oct from 0.4% in Sep due to the end of energy price deflation.
- **German unemployment rate** was 4.1 % in Sep, unchanged from Aug.
- **UK services PMI** advanced to 54.5 in Oct from 52.6 in Sep, the highest level since Jan.
- **The Bank of England left rates unchanged** at record low of 0.25% and continued the QE purchases at the same level, despite the cloudy outlook caused by the Brexit saga.
- **German retail sales** fell -1.4% mom (+0.4% yoy) in Sep vs a -0.3% (+3.8% yoy) in Aug, the deepest plunge since Jul 2014.
- **The PMI for UK's construction** edged up to 52.6 in Oct from 52.3 in Sep, when it had jumped above the crucial 50 threshold for the first time since May.

Asia and Pacific:

- **The Bank of Japan did not take any new measures** but lowered its inflation target to 1.5% in 2017 from 1.7%, an elusive target given that underlying inflation in Sep dropped to zero for the first time since 2013.
- **Japan's consumer confidence** fell to 42.3 in Oct from 43 in Sep. Sentiment was bleak in most major categories, especially employment and overall livelihood.
- **South Korea's trade surplus** rose to USD 7.2 bn in Oct from USD 6.6 bn a year earlier.
- **South Korea's inflation** was 1.3% yoy in Oct, one decimal above Sep's level.
- **Malaysia posted a MYR 7.6 bn trade surplus** in Sep, compared to a MYR 9.7 bn surplus a year earlier as exports fell more than imports.
- **Philippines CPI** rose 2.3% yoy Oct the same pace as in Sep.

Bottom line: As the US elections loom investors' attention has shifted from macro data (that did not reserve any major surprises) to the repercussions of a possible Trump victory. In reality, both candidates have announced policies that are utterly incoherent and designed mostly to appease populist sentiment. Hence no matter who will ultimately prevail, months of uncertainty are likely to ensue until the senior policy makers team will be in place and the priorities are clearly tabled.

Regional Developments

- **Egypt's central bank floated the pound** last Thursday, devaluing by 32.3% to an initial guidance level of 13 pounds to the dollar. It simultaneously hiked benchmark interest rates by 300 basis points to support the currency. From today, the rate will be determined not by the central bank but by banks trading via the interbank system. The IMF, which had been advocating gradual steps toward a floating, market-driven foreign exchange rate system, applauded and called it a "welcome move".
- **Egypt also raised fuel prices** by 30.5-46.8%, in a bid to reduce its subsidy bill that currently stands at EGP 201bn (USD 12.97bn). The country had previously increased fuel prices by up to 78% in 2014.
- According to **Egypt's central bank governor, the USD 12bn IMF loan programme** is likely to be finalised within days and the country has **secured pledges worth USD 16.3bn** from G7 nations, China and Arab allies to manage this year's budget deficit.
- **Egypt's Supreme Investment Council approved around 17 measures to boost investment**, including an extended suspension of capital gains tax on shares, tax exemptions for producers in strategic sectors, new ways to settle tax disputes and to reduce bureaucratic barriers.
- **Egypt's M2 money supply** was up 18% yoy to EGP 2.18trn in

Sep, according to the central bank.

- **Egypt's budget deficit for 2015-2016** reached 12.2%, up from 11.5% a year earlier, disclosed the Deputy PM.
- The **EU** agreed to provide EUR 200mn (USD 222mn) in **loans to Jordan** to support the country's reform agenda; to be disbursed in two installments, the loan will be available for two and a half years and have a maximum average maturity of 15 years.
- **Lebanon's election of a new president** and subsequent formation of a government will likely lead to **greater confidence** in the economy and **help attract foreign aid** towards cost of supporting close to 1.5mn Syrian refugees (estimated at around 5% of GDP), according to the central bank governor.
- **Private deposits at commercial banks** in Oman rose by 3.7% yoy to OMR 12.0bn in Aug.
- **Oman's PPI inflation** registered a sharp -19.1% qoq drop in Q2.
- **Oman** was ranked 8th in the fastest growing **destinations for leisure travel spending** in the world, by the World Economic Forum, with a 6.7% per annum growth over 2016-26.
- **Qatar's GDP** grew by 2.7% qoq to QAR 135.4bn in **Q2**, according to the Ministry of Development Planning and Statistics. In real terms, the Mining and Quarrying sector declined by 1.2% yoy but posted an increase of 3.4% qoq.
- **Qatar's** emir, in an address to the country's Advisory Council, disclosed **plans to shift some state-run health and education services to the private sector** without elaborating further. Currently, the government provides free health care and education to its 300k citizens.
- **Qatar's** ministry of labour revealed that the **electronic payment scheme** introduced last Nov has resulted in a 30% decline in complaints made by migrant workers about their employers. Around 85% of Qatar's 2.1 million workers are now paid by bank transfer versus cash-in-

hand salary payments before.

- Only qualified professional investors – such as local and international investment firms and government bodies – will be able to invest in **Saudi Arabia's** planned **SME market**, according to the CMA's draft rules.
- **Net foreign assets** at **Saudi Arabia's** central bank fell by USD 7.4bn to USD 546.7bn in Sep. Total deposits at commercial banks edged up 0.2% mom to SAR 1.58trn (USD 422.0bn).
- **Saudi Arabia's** Tadawul plans to list "multiple" **exchange-listed real estate funds** before the end of the year.
- Moves to ease liquidity in **Saudi Arabia** resulted in the **biggest two-day drop** (4.2bps) in **three-month SAIBOR** since rates began rising in Aug 2015.
- **Saudi Arabia** signed last week the **Paris Agreement** to combat climate change. Separately, the Oil and Gas Climate Initiative (of which Saudi Aramco is a member) has announced USD 1bn investment over the next 10 years, to develop and accelerate the commercial deployment of innovative low emissions technologies.

UAE Focus

- **UAE** announced the general **federal budget** for 2017- 2021, with total spending of AED 248bn over 5 years, and a budget of AED 48.7bn for 2017 (versus 2016's AED 48.56bn). The budget allocates 42% for government affairs sector (AED 20.7bn) next year, while education (20.5%, AED 10.2bn), healthcare (AED 4.2bn), pensions (AED 4bn) and community development (AED 3.2bn) were other key sectors. AED 2bn was set aside to support government innovation, through the establishment of the Sheikh Mohammad bin Rashid Al Maktoum Fund to Finance Innovation.
- **UAE's** non-oil private sector dipped, with the **PMI** declining to a 6-month low of 53.3 in Oct (Sep: 54.1).

Output remained strong (60.6 vs. Sep's 61.2) and new orders growth was broadly unchanged; a near-stagnation in employment and subdued demand account for the drop in the headline index.

- The **UAE does not plan to impose taxes on individuals**, according to the undersecretary at the Ministry of Finance. In comments to *Al Bayan* newspaper, he revealed that the projects in the budget would not rely on new taxes, additional fees or VAT revenues.
- **Fuel prices in the UAE** increased by around 5% in Nov, and came into effect mid-last week.
- **Dubai crude strengthened in Oct**, thanks to robust demand, and averaged \$48.985 a barrel – the highest since Jul 2015.
- The Dubai government chose HSBC to arrange initial **funding** of the USD 3bn required towards the **expansion of the Al Maktoum International airport**. A request for proposals have been sent to banks and feedback is expected over the coming weeks. The borrowing entity for the airport financing will be a consortium comprising the Department of Finance, Investment Corp of Dubai and Dubai Aviation City Corp.
- The percentage of **Emirati household heads in Abu Dhabi with bank loans** has been on the decline: in Q2, it dropped to 10.3% – the lowest level recorded since 2009. Bulk of the loans were for buying cars (37.2%) and family homes (30%) while the rest were for investments and marriages.
- According to **LinkedIn's UAE economic graph**, almost 60% of UAE's workforce is currently employed by local companies, and 75% of graduates opt to start their careers in the country. Of the 10 most sought-after skills by employers, six were in the tech industry with statistical analysis and data mining being number one. (*Click to view the related infographic: <http://www.thenational.ae/uae/technology/uae-economic-graph-to-aid-university-graduates-in-job-hunt-graphic>*)

- **Mortgage transactions** accounted for 49% of all apartment sales in the **UAE** during Jan-Sep, according to data from Reidin-GCP. This compares to 36% for 2015 and 26% in 2014.
- The **rate of construction in Dubai** increased by a whopping 90.6% yoy during the first nine months of this year, according to the Dubai Statistics Centre. A total of 6483 buildings were completed during this period.
- **Tourists in Dubai** spend nearly twice that of the average of 12 other cities (including London, New York, Paris, and Mumbai among others) covered in a study by Savill's. Overseas visitors, who had an overnight stay in the emirate, spent an estimated USD 4.7bn in restaurants and cafes in Dubai. The average accommodation costs per stay ranged from USD 173 per person in Shanghai to USD 553 per person in Dubai.

Media Review

Halloween is over, but Wall Street is still scared

<http://www.bloomberg.com/news/articles/2016-10-27/these-are-the-charts-that-scare-wall-street>

A new Minister of Finance in Saudi Arabia signals the end of an era

<http://www.reuters.com/article/us-saudi-finmin-breakingviews-idUSKBN12W3ZT>

Egypt's devaluation: FT

<https://www.ft.com/content/4df8c0d8-ddee-3e42-8585-dbf413e5dc71>

Water scarcity: Liquidity crisis

<http://www.economist.com/news/briefing/21709530-water-becomes-ever-more-scant-world-needs- conserve-it-use-it-more-efficiently-and>

Can Lebanon Escape the Resource Curse?

<https://www.project-syndicate.org/commentary/lebanon-economy-oil-curse-by-nasser-saidi-2016-11>

Saudis could raise oil output again as sparring with Iran returns

<http://www.reuters.com/article/us-opec-oil-idUSKBN12Z1FM>

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