

Weekly Economic Commentary – Nov 13, 2016

Markets

The week was dominated by the pre and post US elections markets' reaction. Stock indices worldwide, led by Wall Street, at the start of the week were falling in conjunction with Trump's surge in the opinion polls. When during the ballot counting it became clear that the maverick magnate had won, Asian stock markets plunged and Wall Street futures collapsed. However at the opening of the NYSE (9:00 am EST), in a few seconds the Dow Jones had a knee jerk reaction and rebounded. Since then global stock markets have been on a roll and the week ended with consistent gains unseen since 2011. Conversely, bond prices declined as investors contemplated that Trump economic plan might hinge on massive infrastructure spending and sharp tax cuts thereby aggravating the public debt burden and reigniting inflation. Germany's 30-year government bonds experienced their biggest weekly sell-off in a year as yields came close to 1%. Regional markets were mostly lukewarm, with the exception of KSA and Egypt, which saw the IMF approve its emergency program and the relative hefty funding. In currency markets the dollar mirrored the performance of Wall Street ending with a marked revaluation on all crosses. Gold prices collapsed, while oil did not benefit much from the Trump effect.

Global Developments

US/Americas:

- **US initial claims for unemployment benefits** decreased by 11,000 to 254,000. The four-week moving average rose marginally from 258,000 to 259,750. Continuing claims rose 18,000. The insured unemployment rate was unchanged

at 1.5%.

- **The University of Michigan's US consumer sentiment** surged to 91.6 in Nov from 87.2 in Oct.
- **The US government posted** a USD 44bn budget deficit in Oct, a 68% yoy fall as outlays fell 24%, while receipts rose 5%.
- **US wholesale trade** expanded by 0.1% mom in Sep, vs 0.7% in Aug. The inventory-to-sales ratio held steady at 1.33.

Europe:

- **German industrial production** plunged -1.8% mom in Sep vs 3% mom in Aug due to broad based weakness. Construction output also declined.
- **CPI inflation in Germany** rose to 0.8% yoy in Oct from 0.7% in Sep.
- **French industrial output** fell 1.1% mom in Sep after growing 2.3% in August. This is the biggest drop since Feb. France also recorded a **trade gap** of EUR 4.8bn in Sep compared to EUR 4.2bn.
- **German manufacturing orders** fell -0.6% mom (2.7% yoy) in Sep vs 0.9% in Aug (2.4% yoy) due to weak domestic orders.
- **Eurozone retail sales volume** decreased -0.2% mom (+1.1% yoy) in Sep the same drop as in Aug (+1.2% yoy).
- The **UK's building industry** contracted by 1.1% qoq in Q3 the worst contraction in 4 years due to the Brexit vote. Industrial production, which represents 18% of GDP, also fell by 0.5% qoq.
- The **UK Halifax house price index** rose 5.2% yoy in the three months to October, following a 5.8% increase in Q3, the lowest rate of increase since mid-2013. The index rose 1.4% mom in Oct after 0.3% in Sep.

Asia and Pacific:

- **Inflation in China touched** 1% yoy in Oct from 1.9% yoy in

Sep on the back of higher food prices but core inflation is also showing signs of life.

- **China's M2 money supply** grew 11.5% yoy in Sep almost on par with 11.4% in Aug due to an uplift in lending, probably mortgage lending to households.
- **China's trade surplus** rebounded to USD 49.1bn in Oct from USD 42bn in Sep. The export performance was lackluster in particular in the tech sector.
- **India's industrial production** rose 0.7% yoy in Sep offsetting a 0.7% decline in Aug. Overall the outlook is dismal as weak global demand and patchy domestic prospects weigh on the activity.
- **Indian Prime Minister Narendra Modi**, in an attempt to crack down on corruption and tax evasion, declared that 500 and 1,000 rupees banknotes ceased to be legal, triggering a frenzy throughout the country.
- **Japan's machinery orders** declined -3.3% mom in Sep after -2.2% in Aug with anemic factory activity sapping the appetite further investment,
- **Hong Kong economy** advanced 1.9 % yoy in Q3 of 2016, higher than the 1.7 % in Q2.
- **Malaysian GDP** expanded 4.3 % yoy in Q3 accelerating from 4.0% in Q2 underpinned mainly by private sector spending and net exports.
- The **Reserve Bank of New Zealand** cut the official cash rate by 25 bps to a new all time low of 1.75%.
- **Philippines** reported a trade deficit of USD 1.9bn in Sep compared to a USD 1.3bn gap a year earlier. It was the smallest trade gap since March, mainly due to a rebound in exports.
- **Bank of Thailand** left its benchmark interest rate unchanged at 1.5 % as the economy remains on a recovery path.

Bottom line: The global economy is stuck in the doldrums. The OECD composite leading indicator remained unchanged at 99.7 in Sep, roughly in line with values recorded for the past 12

months but 0.5 lower than the average of 2015. The unexpected election of Trump has rekindled hopes that a more aggressive approach could revive the tailwinds. It is too early to make any credible assessment, because the economic plan of the new President comprises an incoherent patchwork of half baked proposals and campaign slogans, such as tax cuts, infrastructure and defense spending, deregulation, repeal of carbon emissions limits etc. Markets are buying into the hype, businesses will want to see the action.

Regional Developments

- With the **IMF** board approving **Egypt's** USD 12bn **loan programme**, an initial disbursement of USD 2.75bn is expected as early as Tuesday this week. The country had already announced securing the additional USD 6bn in bilateral financing – including a USD 2.7bn currency swap with China, plus funding from the World Bank, UAE and Saudi Arabia. The EGP strengthened after the deal.
- **Egypt's budget deficit narrowed** to EGP 76.82bn (2.4% of GDP) in Q1 2016/17 from 2.8% in the same period a year ago. Subsidies, grants and social benefits costs fell to EGP 32.1bn from EGP 37.9bn a year earlier.
- **Annual urban inflation** in **Egypt** eased to 13.6% in Oct (Sep: 14.1%), while core inflation rose to 15.7% from 13.9% in the previous month.
- **Egypt's industrial development strategy** aims to increase non-petroleum exports by 10% per year to record around USD 30bn by 2020. Total volume of Egyptian non-oil exports reached roughly USD 18.6bn in 2015.
- **Egypt** issued USD 4bn in **international bonds** in a private placement on the Irish stock exchange and disclosed that it still plans to issue an **international Eurobond** by the end of the year.
- **Egypt** revealed that the management of the **smart card subsidy system** – which gives Egyptians points to claim against bread and other items – had been transferred to

the military production ministry from the planning ministry.

- **Saudi Aramco** has **halted shipments of petroleum products to Egypt** “until further notice”, according to an Egyptian official; no explanation was provided for the stopping of shipments.
- **Public debt** in **Jordan** reached JOD 26.0bn by end-Sep or 95% of GDP, versus 93.4% of GDP reported during the same period a year ago, according to the finance ministry.
- The **IMF** has provided **Jordan** with a list of **recommendations** including the removal of tax incentives alongside raising taxes on fuel, soft drinks and cigarettes. It was suggested that the general sales tax zero rate be eliminated and exemptions be maintained for only a limited set of goods.
- **Inflation in Kuwait** rose to 3.8% yoy) from 2.9% in Aug; food price inflation remained weak at 0.8% yoy in Sep.
- **Money supply** (M2) in **Kuwait** was up 2.6% yoy in Sep (Aug: 2.8%) while credit growth slowed to 6.7% yoy (Aug: 8.1%). Foreign assets at the central bank touched KWD 8.13bn versus KWD 7.72bn the month before.
- **Lebanon’s** construction sector growth (H1 2016: +6.6% vs H1 2015’s -18.9%) and rise in tourist arrivals (H1: +7.7%) are likely to support **growth**, according to the World Bank. Real GDP growth is forecast at 2.2% next year compared to 1.8% in 2016. “Proper functioning of public institutions”, its stability as well as the adoption of the budget would **restore confidence** in the country.
- **S&P Global Ratings** revised its target for **Oman’s** fiscal deficit to 19% of GDP, from 13% due to the larger oil revenue shortfall.
- **Total direct premiums paid to insurance companies** in Oman amounted to OMR 443mn last year, up 11.5% yoy. Vehicle insurance policies accounted for 85.6% of the total.
- **Qatar** plans to **raise salaries of its Qatari government**

employees next year – for some, doubling of basic salaries – under a law to be passed in January, reported *Al Sharq*

- The number of **building permits** issued by the municipalities in **Qatar** increased by 63% mom to 589 permits in Oct. This was explained as a "return to normalcy" given the previous month's Eid Al Adha break which resulted in a halt in building permits services.
- **Non-oil private sector** growth in **Saudi Arabia** slowed in Oct, with headline **PMI** dropping to a survey-record low of 53.2 (Sep: 55.3). Both output and new orders saw weaker expansions, while jobs growth neared stagnation.
- **Saudi Arabia** has set aside SAR 100bn to **pay debts it owes private sector companies**, reported Reuters. The money is to be paid from the accumulated budget surpluses of the past, according to the document that was issued by the finance ministry.
- **Saudi Arabia's** Council of Economic and Development Affairs **cancelled projects** – "whose spending does not go in line with the expected economic and development return" – valued at up to SAR 1 trillion.
- **Saudi Arabia** has announced an **increase in municipal fees** for services such as business licensing, charges for operating telecommunications towers and banks' automated teller machines, to increase revenues. The fees, however, were well below ceilings approved by the cabinet in Aug and some fee increases like charges for collecting garbage and approving real estate development plans were postponed.
- Credit Suisse has been appointed to sell Royal Bank of Scotland's 40% **stake** in **Saudi Hollandi Bank**; the deal is potentially worth USD 1.2bn and sources reveal that the Public Investment Fund, **Saudi Arabia's** sovereign wealth fund, might be the likely buyer.
- **Population in Saudi Arabia** increased by 2.54% every year since 2010 to reach 31.7mn persons as per the recent demographic survey released by the General Authority for

Statistics. At least 24.8% of the total population is less than 15 years of age while those in the 15-64 age group represent 72%.

- The new 2021 deadline for the **Gulf Rail project** is a “moving target”, according to the UAE minister.

UAE Focus

- The **Dubai Economy Tracker** declined to 53.3 in Oct (Sep: 55.1), much lower than the average 60.7 recorded in Q3 this year, due to slower growth in new work and output. New work increased at the slowest rate in six months, with this sub-index clocking in 55.4 in Oct.
- The **UAE** plans to have a **public-private partnership (PPP) framework** in place by end of this year, in order to support the multiple infrastructure projects in the pipeline. Dubai already has a PPP law in place since 2015.
- **UAE trade links** with **Latam** continue to grow: non-oil trade between the UAE and Mexico reached around USD 1.5bn in 2015 including trade from free-zone areas, while bilateral trade with Peru hit USD 400mn in Jul.
- **More consolidation** is expected in **UAE's energy sector**, revealed the energy minister. Abu Dhabi National Oil Co (ADNOC), in Oct this year, had announced consolidation of three of its shipping, marine and services companies' operations into one firm in order to increase efficiency.
- **Abu Dhabi's Mubadala** is likely to **co-invest**, along with Russian Direct Investment Fund and other investors, around RUB 10bn in a major Russian **vegetable oil and fat products maker** (EFKO Group) and up to RUB 9bn in a Russian **rice producer** (FG National).
- The **UAE** joined the **Global Forum on Transparency and Exchange of Information for Tax Purposes**, thereby complying with the implementation by the Ministry of Finance of the G20 resolutions for the exchange of

information for tax purposes.

- **Dubai** Roads and Transport Authority signed an agreement with **Hyperloop One** to test the feasibility of running a service to Abu Dhabi (which would take just 12 minutes versus the 2 hours by car).
- **UAE food sales** are projected to reach USD 16.7bn by 2020, with an annual average growth of 7.3%, according to BMI Research. Approximately 26% of UAE households are forecast to earn more than USD 75k in 2017, with average household earning predicted to rise by 27.8% by 2020.

Media Review

A Chance for Egypt: IMF approves loan agreement

<http://www.imf.org/en/News/Articles/2016/11/11/NA111116-A-Chance-For-Change-Egypt>

Trump as President: what to expect

<https://www.project-syndicate.org/commentary/donald-trump-pragmatic-policies-by-nouriel-roubini-2016-11>

The map of Trump's support

<http://www.bloomberg.com/news/articles/2016-11-10/trump-s-data-team-saw-a-different-america-and-they-were-right>

Trump's rhetoric was the easy part

<https://www.ft.com/content/d4ac0a5a-a7f8-11e6-8898-79a99e2a4de6>

Trump and Opec

<https://www.ft.com/content/ebd68f90-a747-11e6-8898-79a99e2a4de6>

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