

# Weekly Economic Commentary – Nov 20, 2016

## Markets

The Trump rally on Wall Street continued for 7 consecutive days, then faded on Friday. Apart from Japan, the effects were not felt on other stock markets in Europe and emerging markets. All in all, the MSCI world is slightly above where it stood before the US elections, while the MSCI emerging market lost ground. Regional bourses, on the contrary, reacted positively with the exception of KSA and Qatar. Nevertheless, the movements on stock markets pale in comparison to the seismic movements in bond markets induced by expectations that a **reflationary phase** will be triggered by a Trump fiscal stimulus. The US 10-year Treasury yields have shot up from 1.8% on Nov 7 to 2.36% on last Friday. On currency markets the dollar surged on all crosses, breaking a 13-year record against the euro. Oil prices were little changed, as traders wait for the decision by Opec on production cuts. From a longer term perspective we observe a sequence of higher lows from which the prices rebound, a sign that the imbalance between supply and demand is tightening. Gold prices dived again as investors feel they do not need a safe haven, for now, but the precious metal was also a victim of the mayhem caused in India by the withdrawal of large denomination banknotes (*see Media Review*).

## Global Developments

### **US/Americas:**

- **The US Conference Board index of leading indicators** rose 0.1% in Oct, vs 0.2% in Sep. The interest rate spread and the average workweek in manufacturing pushed the index up. In the 6 months to Oct, the indicator rose by

an annualized rate of 1.5%, hardly a stellar performance.

- **US industrial production** was unchanged in Oct mom following a -0.2 % drop in Sep; weakness in utilities (-2.6% mom) was the main factor, while manufacturing advanced 0.2%.
- **US retail sales** increased 0.8% mom in Oct compared to 1% in Sep, mainly boosted by sales of motor vehicles. However the advance was broad-based with only restaurants and furniture/home furnishings faltering.
- **The US PPI inflation** was unchanged in Oct following a 0.3% increase in Sep.
- **US jobless claims** were 235,000 last week, 19,000 less than the previous week's and the lowest level since Nov 1973. The 4-week moving average was 253,500, down 6,500. This was the 89th consecutive weeks of initial claims below 300,000, the longest sequence since 1970.
- **US housing starts climbed** 5% mom to a seasonally adjusted annualized rate of 1.323 mn in Oct, way above market expectations of 1,156 mn.

## Europe:

- **German GDP growth** slowed to 0.2% qoq (1.7% yoy) in Q3 after 0.4% in Q2. The economy was supported mainly by private and government consumption, while fixed investment were weak and net exports fell.
- **Italy's GDP expanded** by 0.3% qoq in Q3 after zero growth in Q2. **Italy's inflation** fell -0.1% yoy in Oct, after a 0.1% increase in Sep.
- **Eurozone's industrial production** contracted by -0.8% mom (+1.2% yoy) in Sep, vs 1.6% mom in Aug (2.2% yoy in Aug). The decline was due mainly to durable consumer and capital goods, though most other subsectors dragged. The four largest Eurozone economies recorded a decline, with a -1.9% drop in Germany.
- **Eurozone's inflation** edged up to 0.5% yoy in Oct from

0.4% in Sep. Core inflation was unchanged at 0.8% yoy in Oct for the third consecutive month.

- **The ZEW Investor confidence index** for Germany shot up to 13.8 in Nov from 6.2 in Oct.
- **The ZEW index for the euro zone** climbed to 15.8 in Nov from 12.3 in Oct.
- **France's** unemployment rate rose to 10.0 % in Q3 from 9.9% in Q2.
- **Eurozone's current account surplus** narrowed to EUR 25.3 bn, sa, in Sep, from EUR 31.8 bn a year earlier. Compared Sep 2015, energy prices remained the main driver of export and import developments.
- **The average UK house price** in Sep reached GBP 218,000 rising 7.7% yoy, the same rate as in Aug.

#### **Asia and Pacific:**

- **Foreign direct investments into China** were little changed in Sep, at USD 8.8 bn (-8% yoy). Overcapacity in heavy industry and expectations of a lower yuan are cited as the key worries.
- **India's inflation** declined to 4.2% yoy in Oct from 4.4% in Sep, on the back of lower food prices after a favourable monsoon season offsetting slightly higher energy prices.
- **Philippines** economy grew an annual 7.1 % in the Sep Q2, following a 7.0% expansion in Q2.
- **Philippines' GDP** advanced 1.2 % qoq in Q3, disappointingly lower than 2.1 % in Q2. Activity in services, which grew 6.9% added 4.1% to headline growth.
- **Singapore's non-oil domestic exports** plunged -12% yoy in Oct, worse than the -5% decline in Sep. The weakness involved exports of electronics, pharmaceuticals, and civil engineering equipment and raised risks of recession.

**Bottom line:** The election of Trump represents, for better or worse, a structural break for the global economy. The macro

trend that has prevailed for the past few years (gradual weak growth in the US economy which would pull up the rest of the world) will be hit on the one hand by the likely fiscal stimulus in the US, coupled with a pickup in inflation and higher interest rates, on the other by the protectionist agenda that the new Administration is contemplating. The outcome of these two forces, which push in opposite directions, is difficult to predict. US markets seem to cherish the disruption, but the details of the actual implementation remain cloudy. Interestingly, a more powerful stimulus could come not from infrastructure spending, but from a bold deregulation agenda, which so far has remained in the backstage. A spate of business friendly measures (and tax breaks) could ultimately convince large corporation, which have hoarded trillions of dollars abroad, to repatriate and invest them domestically.

### Regional Developments

- **Bahrain's** central bank clarified that it has **no current plans to issue either conventional or Islamic bonds**, following a report that an international Sukuk issue was expected in Q1 2017. The country has some USD 5bn-equivalent in debt maturing in 2017, mostly consisting of short-term local currency treasury bills.
- **Egypt's** central bank kept its key **interest rates unchanged**: the overnight deposit rate was left at 14.75% and the overnight lending rate at 15.75%. The central bank had earlier this month hiked interest rates by 300bps to stabilise the newly floated pound.
- **Egypt's net hard currency inflows** have totaled about USD 1.5bn since the currency float – about 10 to 15 times the amount of weekly inflows prior to the flotation, according to the deputy finance minister. Separately, according to the cabinet information centre, Egypt's **banks** have provided more than USD 2.2bn to clients during the period Nov 3-Nov 14 (i.e. since the pound was

floated). The state-owned National Bank of Egypt disclosed it had provided around USD 500mn to cover import payments during Nov 3-Nov 16.

- **Egypt's 2017-18 fiscal year draft budget** targets a budget deficit of 8.5-9.5% of GDP, down from a 12.2% deficit for 2015-16.
- According to the finance ministry, **Egypt's USD 12bn three-year IMF loan programme will be repaid in 10 years** with a 4.5-year grace period. The associated reforms target GDP growth of 5.5% and inflation of less than 10% by the 2018-19 fiscal year.
- The **World Bank** will provide the second USD 1bn tranche of its USD 3bn budget support to **Egypt** by early Jan, revealed a senior official. Separately, Egypt is negotiating a number of European countries to obtain EUR 800mn (USD 868.5mn) in finances, according to the Egyptian Minister of International Cooperation.
- The **Egypt-Saudi Arabia power grid link** is expected to be completed in 2017. The SAR 6bn agreement to link their electricity grids primarily aims to boost electricity-generating capacity, and will help exchange energy in peak hours, to a maximum of 3,000 megawatts, as well as help them export surpluses in electricity.
- The IMF lowered **Jordan's growth** forecasts from 2.8% to 2.4% for the current year. The IMF recommended to eliminate the **general sales tax** zero rate and maintain exemptions only for a limited set of goods, while advising the necessity of gradually lowering the general sales tax, which stands now at 16%. Separately, the Industry, Trade and Supply Minister disclosed that the government is studying a move to unify the customs and sales tax fees.
- **Kuwait is planning to impose taxes** on expats' remittances and companies (10% tax on companies and 5% tax on expats' money transfers), and privatize healthcare and education, as part of a package of economic and financial reform legislations to be

presented by the new Cabinet and referred to the new parliament in mid-Dec, according to government sources. Proposal also includes cancelling the current form of subsidies, with an aim to direct them only to those with limited income.

- **Industrial exports in Lebanon** dropped by 15.7% yoy to USD 1.897bn in Jan-Sep. Electrical equipment topped the list of industrial exports in Sep (USD 47.3mn) followed by chemical industries (USD 31.2mn), food products (USD 30.7mn) and metals (USD 16.2mn). Arab countries were top importers, at USD 107.6mn, equivalent to 58.4% of total exports.
- **Banks' assets growth in Lebanon** was 116.7% in Jan-Sep this year – one of the highest records in the history of the banking industry. The USD 12.1bn increase in assets since the start of the year is more than twice higher than the corresponding period of 2015 growth and 64% higher than the growth of the previous five years' similar period.
- **Moody's Investors Service** has **upgraded its outlook for Oman's banking system** to stable from negative, reflecting Moody's expectation that higher government borrowing and higher hydrocarbon production will support public spending and the broader economy.
- **Container volume traffic at Oman's Sohar Port and Freezone rose 11% yoy** in Q3. Overall tonnage at the Port expanded over 6% yoy to 13.4mn metric tonnes.
- **Inflation in Qatar** dipped by 0.4% mom in Oct, but recorded a 2.2% yoy increase, mainly on costlier recreation (+6.6% yoy), transport (+4.6% yoy) and housing and utilities (+2.7% yoy).
- **Qatar's central bank** offered QAR 3bn (USD 825mn) of **government bonds** last week.
- **Qatar's energy minister** revealed that that **Iran and Iraq were being asked to freeze oil output** at current levels as part of a wider deal to restrain production.
- **Saudi Arabia's central bank** expects **GDP growth** at 1.8%

this year, higher than the IMF's 1.2% forecast. The non-oil sector is expected to expand by 2.5% and the oil sector by 1.2%.

- The **three-month Saudi interbank offered rate** has fallen in the past 3 weeks – to 2.189% from 2.386%. Multiple tools are being used to lower rates, including the seven-, 28- and 90-day repurchase agreements. Proceeds of the international bond issue as well as payment of delayed payments will also improve liquidity.
- **Saudi Arabia's crude oil exports** rose to 7.812mn barrels per day (bpd) in Sep, according to the Joint Organizations Data Initiative. Shipments increased by 507k bpd versus Aug, while total production was at 10.65mn bpd in Sep (Aug: 10.63mn bpd).
- **Saudi Arabia's Public Investment Fund** clarified that it has no plan or intention to reduce its **domestic equity holdings**, after it was so reported by Bloomberg.
- A group of Gulf-area investors led by UAE's Emaar Properties Chairman and Saudi Arabia's sovereign wealth fund will each contribute USD 500mn to launch an **e-commerce venture Noon**; this will go live in Jan, aims to provide 20 million items for customers, and plans to enter Egypt and Iraq by 2018.

## **UAE Focus**

- **Inflation** in **Dubai** touched 2.7% yoy in Oct (Sep: 2.4%), with housing costs and food prices up by 4.5% yoy and 0.3% yoy respectively.
- **Abu Dhabi** announced **revised water and electricity tariffs** that will be effective from next year, to "boost environmental protection and sustainability". Citizens' water and electricity bill will rise by 23% and 34% while water and power prices for expatriates will increase by 31.8% and 27.6% respectively.
- The **UAE** central bank governor expects **growth** to touch 2.4% next year, from an estimated 2.2% this year. UAE

money market rates are at four-year highs, while gross loans and advances in the banking system rose 5.9% yoy in Sep.

- **UAE government revenues** from the **e-Dirham system** reached AED 5.8bn during the Jan-Sep period from 15mn transactions (+20% yoy), bring the total revenue from the system (since launch in 2011) at AED 27.5bn. The e-Dirham system allows consumers to pay by using the e-Dirham digital wallet or by direct debit from a bank account.
- **Abu Dhabi** is planning more **bank mergers**, reported *Bloomberg*. Once the NBAD-FGB merger is completed by Mar 2017, a decision will be made whether to merge Abu Dhabi Commercial Bank and Union National Bank and also combine Abu Dhabi Islamic Bank with Al-Hilal Bank. There are currently about 50+ banks catering to the 9mn people in UAE.
- **Emirates NBD** expects **loan growth** within its retail business to halve next year to around 5% as the market slows, according to a senior official. He also stated that the bank's approval rates on new business had dropped off by 10-15%.
- **NBAD** has joined Nasdaq Dubai's **equity futures market** as a **market maker**; the role includes simultaneously offering buy and sell prices in futures contracts. A total of 160,552 contracts have traded since the market opened on Sep 1, and activity has increased more than 500%.
- After having received shareholder approval earlier this year to issue bonds worth up to USD 1.5bn, **Bank of Sharjah** is considering issuing a USD 500mn **conventional bond** in 2017 for general corporate purposes.
- **Multiple laws/ decrees** were issued last week in the **UAE**: a decree on **mortgaging granted lands** in Dubai (granted lands are defined as the lands owned by the government and granted to the beneficiary for residential, commercial or industrial purposes); bylaws of a previous



law on the **Dubai Small and Medium Enterprises (DSME)** were amended to aid development: DSME will be tasked with studying the state of established projects and identifying key obstacles that obstruct their growth, and it will also coordinate with banks and financial institutions to facilitate the availability of suitable financing options for DSME members; the **Law on free zones and special development zones**: government entities subject to this law will publish any bylaws or regulations on their official websites and make them available to the public free of charge.

- **Dubai World Central** reported a 161% yoy increase in **passenger traffic** in Q3 this year, welcoming 191k passengers. Plans are underway to raise annual capacity of the passenger terminal at DWC from 5mn to 26mn passengers – on track to be completed by Q3 2017.
- The **World Green Economy Organisation** was launched last week, will be headquartered in Dubai, and is expected to open within two years. The organisation will lend technical support, support productive dialogue, create employment opportunities and help Dubai become a global hub for green economy efforts.
- **UAE** ranked first regionally and third globally in the **Tolerance Index** of the 2016 Yearbook issued by the International Institute for Management Development.

## **Media Review**

### **What the world thinks about globalisation**

<http://www.economist.com/blogs/graphicdetail/2016/11/daily-chart-12>

### **Trump: OPEC's new best friend?**

<https://www.bloomberg.com/gadfly/articles/2016-11-13/donald-trump-could-be-new-best-friend-to-opec>

### **Trump's monetary conundrum**

<https://www.project-syndicate.org/commentary/trump-fed-monetary-policy-by-nouriel-roubini-2016-11>

### **India's demonetisation move: rupee rout**

<http://www.economist.com/news/asia/21710325-cruel-cash-crunch-emboldens-opposition-indias-shortage-banknotes-spurs-protests>

**IMF's Egypt loan shows extent and risks of its Middle East role**

<http://www.reuters.com/article/us-mideast-imf-idUSKBN1391EE>

**Iraq's oil contracts make joining OPEC output cut more painful**

<http://www.reuters.com/article/us-iraq-opec-oil-idUSKBN13D0MG>

**UAE's role in the next industrial revolution**

<http://www.thenational.ae/business/world-economic-forum/uaes-role-in-the-next-industrial-revolution>

**New deals to boost Abu Dhabi's expanding aerospace industry**

<https://www.oxfordbusinessgroup.com/news/new-deals-boost-abu-dhabi%E2%80%99s-expanding-aerospace-industry>

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