

Weekly Economic Commentary – Nov 27, 2016

Markets

The Trump rally continues to sweep US stock markets where all three major indices touched historical highs (albeit in a week with fewer transactions due to Thanksgiving) and pulled up most other bourses, including the GCC ones. In currency markets, the dollar continued its run on major crosses, while India's rupee hit a record low against the dollar due to the ban on large denominations banknotes. Oil prices fell again in a market filled with rumors over the OPEC decision next week and the involvement of Russia in an output curb. Also, gold prices took another dive, as investors shift funds into equities, reaching a 9-month low.

Global Developments

US/Americas:

- **The minutes of the US Fed FOMC** in Nov did not contain any surprise since a consensus about a rate hike in Dec has been already signaled. The meeting took place before the presidential election.
- **New orders for US durable manufactured goods** rose 4.8% mom in Oct due to a sizable increase in nondefense orders, with core capital goods orders adding 0.4%. Excluding transportation, new orders were up 1%, inventories were flat.
- **US wholesale inventories in Oct** fell -0.4% mom vs a -0.1% drop in Sep. Retail inventories also fell in Oct by -0.4% mom after flat growth in Sep.
- **The US trade deficit** was USD 62bn in Oct, vs Sep's deficit of USD 56.5bn. Exports fell 2.7% mom reversing the big boost from soybeans. Imports rose 1.1% mom.

- **Existing-home sales in the US** rose 2% mom (5.9% yoy) due entirely to single-family sales.
- **US Initial claims for unemployment benefits** rose 18k to 251k reversing most of the prior week's decline. The 4-week moving average fell from 253k to 251k, Continuing claims rose 60k to 2.043mn. The insured unemployment rate edged up 0.1% to 1.5%.
- **The University of Michigan's consumer sentiment index** rose to 93.8 in Nov from Oct's 87.2.

Europe:

- **The Eurozone's PMI** reached an 11-month high of 54.1 from Oct's reading of 53.3.
- **The German IFO index of business sentiment** was almost unchanged at 110.4 in Nov from Oct, the highest level since Apr 2014. Uncertainties over the Trump presidency and weaker German GDP growth in Q3 exerted a negative effect on the index.
- **The Eurozone's Conference Board Leading Economic Index** advanced 0.3% mom to 107.8 in Oct. The Coincident Index gained 0.1% mom to 102.8.
- **Italy's new industrial orders** dropped -6.8% mom (+2.6% yoy) in Sep, reversing the 10.7% surge in Aug.
- **Turkey's central bank** hiked its key interest rate to 8% from 7.5% and the overnight rate by 25bp to 8.5%.

Asia and Pacific:

- **Japan's core inflation** fell -0.4% yoy in Oct, vs -0.5% in Sep, marking the eighth month of deflation. Encouragingly, CPI ex-fresh food and energy prices, rose 0.2% yoy.
- **Taiwan's GDP** expanded 2% yoy in Q3 vs 1.1% in Q2 thanks to a rebound in tech exports. Consumption and investment also contributed significantly to the growth.
- **Taiwan's industrial production** increased 3.7% yoy in Oct, vs 5% yoy in Sep pulled by strong manufacturing.

- **Hong Kong's trade deficit** fell to HKD 37.2 bn in Oct, after HKD 39.7 bn deficit in Sep, confirming that the uptick in the global economy is modest.
- **The Bank of Korea's consumer confidence index** lost 6.1 points to 95.8 in Nov due to a wide-based deterioration in all sub components, but especially current economic conditions.
- **Singapore's industrial production** grew 1.1% yoy in Oct, after the 6.7% yoy surge in Sep. Electronics manufacturing and biomedical output performed well, while transport engineering was weak.

Bottom line: The data flow was rather scant and did not change the global outlook. Attention is shifting to the first acts shaping the next Administration in the US. The promise to renounce TPP and the reiterated rhetoric on "Putting America first" is a blow to global trade and therefore could derail a fragile recovery. The stock market's enthusiasm for Trumponomics so far seems driven more by fantasies and rumors rather than facts.

Regional Developments

- **Inflation in Bahrain** slipped by 0.4% mom in Oct, thanks to a 7.1% yoy plunge in food prices. In yoy terms, inflation was 1.5% while housing and utility costs were up by 3% yoy.
- **Bahrain launched 2 new visas** – a new single entry visa that allows stay up to 2 weeks, and one-year multiple re-entry e-visa that allows for 90-day stay – in a bid to improve openness and competitiveness.
- **Egypt's banks attracted** around USD 3bn in the two weeks **since the EGP was floated** earlier this month, according to the central bank sub-governor. Separately, the vice chairman of Banque Misr, told the conference that the state bank alone had bought USD 400mn since the flotation.
- **Egypt's plans** to issue the USD 2.0-2.5bn **Eurobond** might

be delayed till early next year, given current market volatility, according to the finance minister.

- **Investment projects in Egypt's free zones** reached 1,135 by end-Jun 2016 with total investments of EGP 25.2bn, and providing around 184 billion job opportunities, disclosed the General Authority for Investment.
- The central bank stated that **Egypt** sold US D1.696bn in **one-year treasury bills** at a weighted average yield of 3.749%.
- The **floatation** of the pound has created big **losses for importers of essential goods** like wheat and medicine; it is estimated that these industries now owe USD 6-7bn due to forex losses.
- **Iraq** stands willing to cut its crude oil output as part of **OPEC's plan to reduce global supply** and boost crude prices, according to the country's Prime Minister. The *Wall Street Journal* reported that the country would offer three new proposals, "based on other variables", consistent with OPEC policy.
- **Jordan's** central bank announced the **2018-2020 national strategy for financial inclusion**, driven by the need to raise the low rate of financial inclusion among adults, standing at 24.6%. The strategy entails financial awareness efforts, protection of financial service recipients, supporting small- and medium-sized projects, micro-finance services and online payments among others.
- **Trade deficit in Jordan** declined by 10% in Jan-Sep 2016, supported by an 8.1% drop in imports (JOD 10bn) and despite a 4% drop in exports which amounted to JOD 3.9bn.
- **Kuwait went to polls on Sat** (Nov 26), with nearly 300 candidates contesting for the 50 parliamentary seats; campaigning had focused mainly on austerity measures adopted by the government in the past year.
- **Direct foreign investments in Kuwait** for the 2015-16 year totaled KWD 637mn, reported *Al-Shahed* daily; this is expected to create 1000 new employment opportunities

in the fiscal year.

- **Kuwait** is working to complete feasibility studies for **developing five islands** – projects worth nearly KWD 40bn (USD 132bn) – by 2017 while the projects are likely to be completed in 2030, according to Zawya Projects.
- **Budget deficit** in **Lebanon** climbed to 26.88% of spending in Aug this year, from 23.14% a year ago. Government revenues were up 4.13% to LBP 10.365 trn (thanks to increase in customs receivables, VAT and telecom revenues) while expenditures grew by 9.45% to LBP 14.177 trn.
- **Credit by Oman's commercial banks** grew by 7.8% yoy at the end of Q3, while deposits grew 1.5%. Bank loans, accounted for over 72% of banks' total assets, reaching OMR 19.59bn compared with OMR 18.17bn a year earlier. Credit to the private sector expanded by 10% to OMR 17.49bn, while credit to state-owned companies fell to OMR 1.83bn from OMR 2.06 bn.
- **Oman's public budget deficit** rose marginally to OMR 4.42bn at end Sep from OMR 4.37bn in Aug. The shortfall for Jan-Sep 2016 was 51% higher than the OMR 2.93bn deficit recorded in the corresponding period in 2015, due to the decline in oil revenues. Spending fell 8% yoy hence the Sep monthly deficit was the smallest this year.
- **Oman's 2017 government budget** will not contain wages and salaries cut and will maintain basic level of services provided to citizens, according to the Head of the Economic Committee of the Shura Council.
- The specific **provision for restructured loans**, set by the Central Bank of **Oman** at 15% for 2016, has been spread over a 3-year period – at 5% for 2016, 10% for 2017 and 15% for 2018.
- The **Qatar** central bank governor stated that the **banking sector** remains “healthy” overall, with high capital ratios and a low level of delinquent loans, in an interview with *Euromoney*. He also disclosed that

profitability remained “comfortable” with return on average assets stood at 2% and return on average equity stood at 16.2% in 2015.

- **Producer price index** in **Qatar** grew by 3.7% qoq to 45.1 points in Q2 this year. In yoy terms, however, the index declined by 28.4%.
- **Bilateral trade** between **Qatar and China** reached QAR 17.7bn in 2016, from a total of QAR 21.5 last year, according to the Chinese ambassador to Qatar.
- **Qatar’s export of transport and tourism services** grew at an average of 44.9% per annum to QAR 54.6bn in 2015 (2010: QAR 11bn), according to the “Qatar Competitive Economic Outlook” report. The transport sector exports – which rose to QAR 27bn in 2015 from QAR 6.4bn in 2010 – contributed about half of the total service exports.
- **Saudi Arabia’s** government has **started paying contractors**, with local press reporting around SAR 40bn (roughly 25% of money owed to them by various government agencies) of outstanding payments being made by 20 Nov.
- Total **bank credit** to **Saudi Arabia’s** public and private sector touched SAR 1.43 trillion in Aug, of which 96.7% is lent to private sector enterprises. Consumer loans excluding credit card loans and real estate loans grew by 7.8% yoy to SAR 343.9bn.
- **Saudi Arabia** plans to establish a **program to optimise water and energy consumption** – no further details were available, but the program is expected to review current policy incentives. It seems to be in line with plans to reduce electricity and water subsidies by SAR 200bn (USD 53bn) and reduce non-oil subsidies by 20% by 2020.
- **Saudi Arabia** plans to more than triple the contribution of its **mining industry** to GDP by 2030, revealed the energy minister. A shift towards mining vast untapped reserves of bauxite, used to make aluminum, as well as phosphate, gold, copper and uranium is expected to double the job opportunities in the sector and raise annual mining revenue to SAR 240bn by 2030 (currently

SAR 64bn).

- **Saudi Arabia** employed 1.2mn persons in the **public sector** during the fiscal year 2014-15, according to data released by the Civil Service Ministry. Saudi citizens account for 94.39% of the employees and interestingly, 68 Saudi government employees were working in two different jobs.
- In a bid to tackle the housing crisis, **Saudi Arabia** has invited developers to build 5000 houses in Eastern Port of Dammam as part of a **mass housing programme** for citizens, reported Arabic daily *Aleqtisadia*.
- In the **MENA** region, Qatar recorded the highest **average wealth per adult** of USD 161,700 in mid-2016 (down by 0.4%), while UAE followed closely with USD 151,100 (down by 0.3%), according to the Global Wealth Report 2016 from Credit Suisse Research Institute. Total wealth in the MENA region grew by 162% since 2000, well above the global average 119%, with Saudi Arabia and UAE topping the list at an estimated USD 725bn and USD597bn respectively.
- **Mobile data traffic** in the region is expected to multiply 13-fold while average active smartphone data consumption per month will increase from 1.8 GB in 2016 to 13GB in 2022, according to Ericsson Mobility Report for the Middle East and North East Africa.

UAE Focus

- **UAE's tourism sector** will support non-oil growth in years to come, disclosed UAE's minister of economy. The sector is expected contribute 5.4% annually over the next 10 years to reach AED 236.8bn by year 2026.
- In spite of **UAE** banks' negating the merger news, speculation remains as investors continue to bet on **bank mergers** in the medium to long term.
- **India is the second largest trade partner of Dubai**, with non-oil foreign trade at AED 48bn in H1 this year,

accounting for 7% of Dubai's total non-oil foreign trade.

- The **Dubai SME – Dubai Holding partnership** resulted in SMEs obtaining contracts worth AED 17mn during H1 2016. Service providers accounted for 48.7% of the beneficiaries and won contracts worth AED 8.5mn; foods sector companies won contracts worth over AED 1.1mn (6.4% of total).
- **Dubai Expo Village**, which is expected to house staff from participating countries, will be converted to a **freehold residential property project** after the event, in line with the sustainability theme of the Expo, according to a senior official. Construction of the Expo Village is likely to be completed by 2018 though the number of buildings planned remains undisclosed.
- **Passenger traffic at Dubai International Airport** increased by 2.7% yoy to 6.4mn people in Oct, bringing the year-to-date total to 69.36mn people (+6.8%).
- The **financial cost of cybercrime to the UAE** grew by 4.9% yoy to USD 1.4bn to date this year, according to the head of Norton Middle East. Globally, the financial cost decreased by 16% to USD 125.9bn this year. Around 2.53mn consumers were affected by cybercrime in the UAE this year, at an average of 31.5 hours per victim dealing with the consequences.

Media Review

Saudis Said to Quit Russia Talks as OPEC Deal No Closer

<http://www.bloomberg.com/news/articles/2016-11-25/saudis-said-to-pull-out-of-russia-talks-as-opec-deal-no-closer>

What happens if Trump scraps the Iran deal?

<http://oilprice.com/Energy/Crude-Oil/What-Happens-To-Oil-If-Trump-Tears-Up-Iran-Nuclear-Deal.html>

Honeymoon is over for new Saudi leader as reform pain kicks in (paid content)

<https://www.ft.com/content/6526fbfe-b090-11e6-a37c-f4a01f1b0fa1>

India's demonetisation debate continues

<https://www.project-syndicate.org/commentary/india-tax-evasion-demonetization-by-gita-gopinath-2016-11>

<https://www.washingtonpost.com/news/wonk/wp/2016/11/22/india-just-made-a-big-mistake-with-its-currency-ban/>

Trump vows to repeal TPP on his first day in office

<https://www.ft.com/content/dd98598a-b044-11e6-a37c-f4a01f1b0fa1>

As Egypt quarrels with Saudi Arabia, it is finding new friends

<http://www.economist.com/news/middle-east-and-africa/21710912-series-incidents-has-disrupted-relationship-between-arab-worlds>

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