

Weekly Economic Commentary – Dec 4, 2016

Markets

The rally on US stock markets paused after Thanksgiving as investors try to divine the early moves of the incoming Presidency. The subdued job report in the US was the catalyst also for many global stock markets weakness (with the notable exception of Japan) and a rebound in bond prices, Regional markets rallied on the back of the Opec deal. In fact oil prices jumped more than 8% to a five-week high as the world's largest oil producers agreed to a bigger than expected production cut. In currency markets the euro regained ground against major currencies, while the dollar lost in part its shine after the uninspiring job report. The GBP continues to strengthen on expectations that the UK government is willing to pay for access to EU markets. Gold prices continued their decline, although towards the end of the week they rebounded from a 10-month low.

Global Developments

US/Americas:

- **US non-farm payroll employment** increased by 178,000 in Nov, while Oct's figure was revised down to 142,000 from 161,000. The unemployment rate sunk to a low of 4.6% (in practice full employment) in part due to lower participation.
- **US real GDP** rose 3.2% qoq ann In Q3 according to the second estimate, the best result in two years and above the preliminary estimate of 2.9%. Consumer spending growth slowed from Q2 but still gave the largest push. Exports also unusually perky.
- **The US ISM manufacturing index** advanced from 51.9 in Oct

to 53.2 in Nov. Most sub indices improved, in particular new orders and production, while employment decreased. The data confirm that the recovery in manufacturing is in full swing.

- **Growth in US nominal personal income unexpectedly** accelerated to 0.6% mom in Oct vs 0.4% in Sep. Wage and salary growth was steady at 0.5%. The personal saving rate rose to 6% from 5.7%.
- The **US PCE deflator** rose 0.2% mom in Oct, the same rate as in the prior two months. Energy prices increased 3.8% mom following a 3% gain in Sep. The core PCE deflator, ex food and energy, rose 0.1% mom.
- **Real personal spending in the US** rose 0.1% vs 0.5% in Sep. Durable goods spending led gains for the second month. However utility spending unexpectedly dived.
- **US existing-home price** growth according to the Case Shiller index in the 20 major cities was unchanged at 5.1% yoy in the 3 months to Sep (0.4% mom in Sep). The national home price index rose 5.5% yoy in Sep up from the 5.1% registered in Aug.
- The **US pending home sales index** inched up 0.1% mom (1.8% yoy) to 110 in Oct.
- The **US Conference Board's Consumer confidence index** rose in Nov to 107.1, (a record since July 2007) up 6.3 points from Oct, thanks to surging income expectations and evaluations of the present economic situation.
- The **US Fed Beige Book** underscored a slight to moderate economic pulse across most districts in Oct through mid-Nov. The strong dollar was seen as weighing on growth. Labor markets are tightening and price pressures are subdued. Outlook is generally positive.
- **US initial unemployment claims** rose 17,000 to 268,000, marking the 91st consecutive week below 300,000. The 4-week moving average increased by 500 to 251,500. Continuing claims climbed 38,000 to 2.081 mn. The insured unemployment rate was constant at 1.5%.
- **Brazil's GDP** contracted -2.9% yoy (-0.8% qoq) in Q3 vs

-3.6% in Q2 and -4.5% a year earlier.

- **Canada's real GDP** grew 3.5% qoq ann in Q3 on the back of strong exports and private consumption. Government consumption and fixed investment were lackluster.

Europe:

- **The eurozone's M3 money supply growth** fell to 4.4% yoy in Oct from 5.1% in Sep, pulled down by currency in circulation and short-term deposits.
- **The eurozone's inflation** advanced to 0.6% yoy in Nov from 0.5% in Oct.
- **The eurozone's economic sentiment indicator** edged up to 106.5 in Nov from 106.4 in Oct. Confidence was stronger in financial services, retail trade and construction, was unchanged in services, and retrenched in industry.
- **French real GDP** in Q3 expanded 0.2% qoq, after falling -0.1% in Q2. **Italian real GDP** rose 0.3% qoq in Q3, compared to 0.1% in Q2.
- **UK consumer confidence** dropped to -8 in Nov, from -3 in Oct on the back of a plunge in the major purchase index from 14 to 5.
- **German Retail sales** surged 2.4% mom in Oct, more than offsetting the 1.5% decrease in Sep.
- **Italy's Business confidence** crawled back to 101.4 in Nov from 101.7 in Oct.

Asia and Pacific:

- **Japan's industrial production** rose 0.1% mom in Oct, from a flat performance in Sep, driven by tech production.
- **Japan's retail sales** in Oct fell -0.1% yoy (the eighth consecutive decline). Weak performances were reported across most major categories. Workers' household expenditures fell -1.3% yoy in Oct, compared with Sep -0.8% fall.
- **India's Q3 GDP** growth accelerated to 7.3% yoy from 7.1% in Q2, driven by private consumption and public

expenditures, while investment lagged.

- **Thailand's industrial production** expanded 0.1% yoy in Oct, slowing from 1.1% in Sep due to feeble vehicle and food production counter veiled by electronics output.
- **Thailand's trade surplus** shrank to USD 1.8bn in Oct from USD 3.7bn in Sep, hit by lower exports.
- **Korean industrial production** fell -1.6% yoy in Oct, almost similar to Sep's -1.7% yoy hit low export.
- **Korean monthly trade surplus** widened to USD 8 bn in Nov vs Oct's USD 7 bn. Exports remain sluggish recording only one month of gains over the past 22 months. Imports returned to growth.

Bottom line: The data from the US confirm that the recovery is gaining strength with higher income and full employment supporting private consumption. At the same time, construction activity and manufacturing are on a solid footing. Elsewhere the picture remains muted with Japan stuck in the doldrums and Europe inching up amid political uncertainties (the Austrian presidential elections, the Italian referendum and the intense fight for the French Presidency). The agreement among major oil producers to cut output has propelled prices above the critical USD 50 per barrel, which will drive inflation up and, as a consequence, will hit fixed income yields.

Regional Developments

- **Money supply M2 in Egypt** grew by 17.7% yoy to EGP 2.2 trillion (USD 124.29bn) in Oct, according to the central bank.
- **Egypt's** finance minister disclosed that the country plans to issue its USD 2.5-3.0bn **Eurobond** by mid-Jan and is likely to issue **another international bond** of a similar value in H2 2017. He also disclosed, separately, that **foreign investments in Egypt's treasury bills** reached USD 500mn since the devaluation of the EGP.
- **Egypt's** central bank is **permitting banks to allocate dollars to a wider range of clients**: this will support

foreign companies seeking to repatriate earnings after months of delays. Bankers estimate a backlog of dollar orders to the tune of USD 10-15bn, given the rationing, as well as the capital controls imposed in 2015.

- **Egypt's net foreign direct investments fell** by USD 1.78bn (-64% qoq) to USD 992.9mn in Q4. Investment inflows dipped to USD 2.876bn (Q3: USD 3.5bn) while outflows surged to USD 1.833bn (USD 727.7mn).
- **Egypt** plans to develop **three industrial complexes** – covering pharma, food and engineering industries – and attract investments worth USD 60mn to build and complete these within a year after they are launched at end-2016.
- **Net transactions by non-Arab foreign investors** on **Egypt's** stock exchange surged to EGP 3.759bn (USD 213.6mn) in Nov, post-devaluation, compared with just EGP 545mn in Jan-Oct.
- **Egypt's** petroleum ministry revealed that it had accepted six **bids for oil and gas exploration** worth a total investment of up to USD 200mn.
- **Egypt's Commercial International Bank** sold a near-72% stake in its investment banking arm to Egypt and Gulf investors; sources say that the sale was worth near EGP 1bn (USD 56.5mn).
- **Iraq's oil exports** hit a record 4.051mn barrels per day (bpd) in Nov, according to the oil ministry.
- According to **Iraq's** PM office, the finance ministry will **sell bonds** worth USD 2bn internationally **in 2017** (in two equal tranches of USD 1bn each) to help narrow its budget deficit.
- **Iraq's** ministry of electricity will secure a USD 366mn **trade finance deal** to fund power and infrastructure projects in the country by the end of 2016, revealed a senior **Standard Chartered**
- Royal Dutch **Shell** is **considering selling out** of its oil fields **in Iraq** as part of its global USD 30bn asset disposal programme, reported Reuters, citing industry sources.

- **Kuwait's Emir re-appointed the PM** after the recent **parliamentary elections**, which saw the opposition winning around 20 seats out of the 50; most parliament members have been replaced.
- **Inflation in Kuwait** fell by 0.1% mom in Oct; in yoy terms, inflation was 3.6% (Sep: 3.8%). Housing costs were up 7.4% yoy while food and beverage prices increased by 0.7%.
- **Kuwait** has reportedly sent a request for proposals for a **potential debut international bond**, that is likely to be issued next year.
- **Germany** has pledged over USD 10mn in **aid** to help **Lebanon** cope with the influx of refugees; according to UNHCR, there are about 1.03mn registered Syrian refugees in the country.
- **Qatar** is expected to **grow** by 3.9% this year, following an estimated 3.7% growth last year – faster than global average growth of 3.3%, according to the minister of economy and commerce.
- **Spain and Qatar** plan to sign an agreement early next year to form a **USD 1bn joint investment fund** to invest in Latin America, reported *Gulf Times*, quoting the Spanish Ambassador.
- **Credit growth in Qatar** slowed to 10.6% yoy in Oct (Sep: 11.7%) while money supply continued to shrink for the 9th consecutive month (Oct: -4.1%; Sep: -4.7%).
- **Producer price index (PPI) in Qatar** declined by 1.7% mom in Sep while PPI for the industrial sector was down by 16.7% yoy in Sep.
- **Saudi Arabia's King** approved the **allocation** of SAR 100bn (USD 26.67bn) **from its reserves to** the Public Investment Fund (**PIF**), "aiming to diversify the investment portfolio and improve the revenues of investment".
- **More re-shuffling in Saudi Arabia:** reports were out that the labour minister had been replaced and the Council of Senior Scholars will be restructured; of the new Shoura appointments, 29 members are females.

- **Net foreign assets** at **Saudi Arabia's** central bank shrank by USD 10.8bn mom, the third largest decline this year, to USD 535.9bn in Oct.
- Total **bank deposits in Saudi Arabia** increased by SAR 27.1bn in Oct – rising by its fastest pace in 13 months – supported by a SAR 39.5bn increase in private sector deposits, as government resumed contractors' payments.
- **Saudi Arabia** will “**resume issuing local debt instruments** in the coming fiscal year 2017”, disclosed a finance ministry statement. About SAR 20bn of bonds were issued to banks every month, but had paused following the international bond issue.
- **Saudi Arabia's** Public Investment Fund (**PIF**) plans to buy a 50% **stake in Adeptio**, the Gulf-based investment firm which controls Kuwait Food Co (Americana, which owns the Middle East franchises for fast food chains KFC and Pizza Hut and also produces branded consumer foods).
- The number of **expats in Saudi Arabia** grew by 12.17% to 11.6mn by mid-2016, with the female expat population up by 13.59% to 3.7mn. According to the General Authority of Statistics Q3 survey, the number of Saudis stood at 20.7mn in mid-2016.
- Multiple nations offer **aid to Tunisia**: Saudi Arabia's state development fund has offered USD 800mn – USD 500mn in soft loans, a USD 200mn fund to support exports and USD 100mn of aid; Qatar is willing to defer Tunisia's repayment of USD 500mn of debt that was due in 2016 by at least two years, according to Tunisia's finance minister; this was promised in addition to provision of USD 1.25bn in aid. The European Investment Bank (EIB) is to lend EUR 2.5bn by 2020, while the Arab Fund for Economic and Social Development plans to give USD 1.5bn in soft loans over the same period. Kuwait is to lend USD 500mn and Turkey said it would deposit a USD 100mn zero-interest loan at Tunisia's central bank.
- According to the PwC-World Bank Group **Paying Taxes 2017 report**, the Middle East has an average total tax rate of

24.2%, with companies clocking in an average of 157 hours to comply with tax affairs and making an average of 17.1 payments. (The report can be accessed at: <http://www.pwc.com/gx/en/services/tax/paying-taxes-2017.html>)

- The **Arab Human Development report 2016** revealed that youth unemployment remains one of the region's greatest challenges – in 2014, at 29.73%, it exceeded twice the global average. By 2020 the region needs to create more than 60mn new jobs to absorb new entrants and stabilize youth unemployment. A customs union & improved travel access could boost the region's GDP by USD 760bn over seven years, according to estimates from the report. (The report can be accessed at <http://www.arab-hdr.org/PreviousReports/2016/2016.aspx>)

UAE Focus

- **Bank deposits** in the **UAE** fell by 0.4% mom (AED 5.5bn) in Oct, due to a drop in government deposits, bringing the year-to-date growth to 2.1% (from 2.5% in Sep). **Loan growth** dropped to 0.3% mom (Sep: 1.1%), the weakest monthly increase in 2016, while GREs continued to be a key driver of credit demand (+0.3% mom and 7.1% yoy).
- **FDI in Abu Dhabi** increased by 8.6% yoy to AED 88.95bn last year (2014: AED 81bn), with investments in financial and insurance activities accounting for 15.1% of total FDI. GCC investments represented only 3.6% of the total FDI investments in Abu Dhabi.
- **Petrol prices** in the **UAE** will decline by more than 5% mom in Dec for all grades, according to the ministry of energy.
- **UAE-based Abu Dhabi National Oil Co (ADNOC)** plans to almost triple its petrochemical production to an annual 11.4mn tonnes by 2025 from 4.5mn tonnes currently. No further details were provided on the expansion plan, though the company expects to tap demand from Asia.

- UAE's **DP World** disclosed its partnership with Canada's second-biggest public pension fund to create a CAD 5bn (USD 3.76bn) **investment vehicle** that will invest in ports and terminals (focusing on investment grade countries), with DP World having a 55% stake in the partnership.
- **Sharjah** expects **China** to become a **major source of tourists** in the years ahead: Sharjah Commerce and Tourism Development Authority plans to welcome 200,000 Chinese visitors to the emirate by 2021. In the Jan-Sep period this year, Sharjah hosted about 75,000 visitors from China (a 75% yoy growth).
- UAE's **theme parks** are likely to attract more than 19 million admissions a year by 2020 if current trends continue, according to estimates by Colliers International. From global trends, typically, a theme park can expect to attract a visitor mix that is approximately 70% domestic, up to 20% regional and around 10% international.

Media Review

The Opec deal is fraught with uncertainty

<https://www.bloomberg.com/view/articles/2016-12-01/the-opec-oil-deal-sells-fake-news-for-real-money>

The 11th hour Opec deal

<https://www.bloomberg.com/news/articles/2016-12-02/opec-deal-hinged-on-2-a-m-phone-call-and-it-very-nearly-failed>

OPEC agreement: the winners and losers

<https://www.ft.com/content/a0b73c1c-b750-11e6-961e-a1acd97f622d>

Global Enabling Trade Report 2016

<http://reports.weforum.org/global-enabling-trade-report-2016/>
<https://www.weforum.org/agenda/2016/11/free-trade-border-blockages-getr-2016>

The End of the Anglo-American order: NYT

<http://www.nytimes.com/2016/11/29/magazine/the-end-of-the-anglo-american-order.html>

Saudi efforts succeed in containing interbank rates

<http://gulfnews.com/business/sectors/banking/saudi-efforts-succeed-in-containing-interbank-rates-1.1935890>

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