

# Weekly Economic Commentary – Jan 8, 2017

## Markets

The Dow Jones failed once again to reach the 20,000 mark, which had seemed within reach for weeks. However, the Nasdaq Composite climbed on Thursday to a new all-time record close. All in all, US stock markets remained quite perky helped also by a solid US job report on Friday and pulled up all other major bourses. Regional markets benefitted from the advance in oil prices fostered by the cut in production brokered by the OPEC. The view that Trumponomics reflationary policies will give a jolt to the economy appears less convincing, while investors start to question whether the corporate profits can really justify the wave of optimism. In any case the Fed reiterated that the days of ultra-low US rates are numbered, regardless of whether Trump maintains his promises. The dichotomy between the hopes and reality led on Thursday to a plunge in the USD exchange rate (the largest since Trump's election) after the Fed's minutes underscored the uncertainty over the impact of the president-elect's policies on interest rates. Conversely, the offshore Yuan surged the most on record while the overnight deposit rate in Hong Kong also jumped to an all-time high of 80%. The People's Bank of China Policy pledged to "actively guide and stabilize market expectations" for the Yuan and prevent systemic risks. Amid rising uncertainty gold prices rebounded.

## Global Developments

### **US/Americas:**

- **US non-farm payrolls** increased by 156,000 with the private sector adding 144,000 units, marking a record 7 years of steady job creation. The unemployment rate

edged higher to 4.7%, as the labor force participation. Hourly earnings jumped up as labor shortage begins to affect wages.

- **Initial unemployment claims** fell 28,000 to 235,000, just a notch above their cyclical low of 233,000. The four-week moving average declined from 262,500 to 256,750. Continuing claims increased by 16,000 to 2.112mn.
- **The minutes of the US Fed FOMC December meeting** revealed that many members ventilate a tighter monetary policy if the Congress approves Trump's tax cuts next year. Upside risks to growth forecasts had grown due to the possibility of more "expansionary" fiscal policy, although they acknowledged that is too early for a clear assessment.
- **The US ISM manufacturing index** was lifted from 53.2 in Nov to 54.7 in Dec, as new orders increased from 53 to 60.2 and production also exceeded 60. Prices paid jumped up 11 points to 65.5.
- **The US ISM non-manufacturing composite index** 2 in Dec the same as in Nov. Business activity edged lower but is still buoyant. New orders jumped from 57 in Nov to 61.6 in Dec.
- **US factory orders** fell -2.4% mom in Nov, vs +2.7% in Oct. Durable goods orders slipped -4.5% mom, however core capital goods orders gained 0.9% mom for the second month in a row.
- **The US trade deficit** widened in Nov, to USD 45.2bn, the second highest in the past 12 months. Total imports recorded an unusual rise in industrial supplies.

## Europe:

- **The Eurozone's inflation** accelerated to 1.1% yoy in Dec from 0.6% in Nov, as food and energy prices rose sharply.
- **The Eurozone's retail sales** decreased by -0.4% (+2.3% yoy) in Nov after a 1.4% (3.0% yoy) rise in Oct,

confirming that private consumption is still supporting GDP growth.

- **The Eurozone's economic sentiment indicator** advanced to 107.8 in Dec from 106.6 in Nov with retail sales, industry and consumer confidence among the strongest drivers.
- **German inflation** surged to 1.7% yoy in Dec (1% mom) in Dec, up from 0.7% yoy in Nov. The figure will intensify pressure on the ECB to fold its QE program.
- **German manufacturing orders** plunged -2.5% mom (+3.3% yoy) in Nov after a whopping 5% (6.4% yoy) in Oct. Both domestic and foreign orders contributed to the weak performance.
- **German retail sales** dropped -1.8% mom in Nov after a 2.5% jump in Oct.
- **Germany's unemployment rate** remained at 6% in Dec for the third month in a row.

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

- **The official NBS Manufacturing PMI in China** retreated to 51.4 in Dec from 51.7 as output, new export orders and employment fell. However the **private Caixin Manufacturing PMI in China** rose to 51.9 in Dec from 50.9 in Nov, the sixth straight month of growth and a record since Jan 2013 pushed up by output and new orders. **The Caixin China Composite PMI** increased to 53.5 in Dec from 52.9 in Nov, the highest score in 45 months.
- **Singapore's GDP** grew 9.1% qoq ann in Q4, after a -1.9% percent contraction in Q3 much above market expectations of a 3.7% thanks mainly to a rebound in manufacturing and services.
- **Taiwan inflation** was 1.7% yoy in Dec, down from 2% in Nov. Food prices confirmed their upward trend, while energy prices pushed up transport costs.
- **South Korea trade surplus** was USD 7bn in Dec almost on par with a USD 6.9bn surplus a year earlier, as exports

rose 6.4% yoy and imports 7.3% yoy. **The current account surplus** in Nov was USD 9bn.

- **The manufacturing PMI in India** fell to 49.6 in Dec from 52.3 in Nov, the first contraction since Dec 2015, as output, new orders and new export orders plunged, due to cash shortages.

**Bottom line: Signs of a significant pick-up in global growth are intensifying even in China and Europe. The attention of investors, forecasters and policy makers is squarely on Trump's plan for USD 1tn in infrastructure spending and corporate taxes reduction. The US Fed staff forecasts (presented at the last FOMC meeting), indicate a slightly higher GDP growth as a result of expansionary fiscal policy.**

**In any case the Fed reiterated that the days of ultra-low US rates are numbered, regardless of whether Trump maintains his promises. It is unlikely that the shift in economic policy paradigm will be as smooth as the markets expect: the economy is already at full employment and inflationary pressures are already brewing and monetary policy is way beyond the curve. Hence higher interest rates will hit sharply the bond market and the ensuing dollar appreciation could expose financial fragility in emerging economies. In Japan the risks are even higher, as an inflation spike, triggered by higher oil prices and a lower yen could force the Bank of Japan to lift its 10-year yield target of 0% sending shockwaves throughout the massive JGB market.**

### **Regional Developments**

- **Egypt** approved the country's first-ever **bankruptcy law**, with aim to encourage investment. The law would not only simplify post-bankruptcy procedures, but also abolish imprisonment in cases of bankruptcy and minimise the need for individuals to resort to courts.
- **Net foreign reserves in Egypt** rose to USD 24.265bn in Dec from USD 23.1bn at end-Nov. Domestic debt rose by 5.3% qoq to EGP 2.8trn (USD 154.4bn) at end-Sep, while

external debt was up 7.9% qoq to USD 60.2bn.

- **PMI in Egypt** improved slightly to 42.8 in Dec (Nov: 41.8), but remained below the 50-point mark, bringing the average for the year to 46.0 – the lowest in the survey's history. According to Markit, the weakness in EGP led to substantial cost pressures, raw material shortages, and a downturn in client demand.
- **Egypt's fuel import bill** declined by 54.2% yoy to EGP 30.1bn (USD 1.6bn) during Jan-Sep 2016. Imports of crude oil during the same period decreased by 63.8% to EGP 3.7bn.
- **Egypt's** finance ministry is expected to issue USD 800mn in **one-year dollar-denominated treasury bills** to local banks and foreign financial institutions tomorrow (Jan 9).
- **Depreciation of the EGP has led to remittances into Egypt** rising 33.2% mom to USD 1.7bn in Nov, according to central bank data. This follows a 35.7% mom rise in Oct (to USD 1.3bn).
- **Egypt's production of natural gas** is estimated at around 4.4bn cubic feet per day currently; this is expected to increase substantially, given plans for adding more than 1.5bn cubic feet of gas daily (production of discovered fields) to the national grid this year.
- **Egypt's electricity sector** accounts for around 60% of the total consumption of **natural gas**, according to estimates from the Egyptian Natural Gas Holding Company.
- According to **Egypt's** tourism minister, 1.2mn **Arab tourists** visited the country during Jan-Sep 2016.
- More **PPP projects** are in the offing in **Kuwait**: the Kuwait Authority for Partnership Projects is expected to invite advisory proposals for the third phase of the Az Zour North independent water and power project (IWPP) during H1 this year, and for Al Khiran IWPP before the end of the year.
- **Kuwait** plans to create 15,000 jobs in the **tourism sector** by 2020 and is seeking to increase the number of

touristic projects to target about 1.6 million tourists this year.

- **Lebanon** plans to restart its first **oil and gas licensing** round: the new cabinet passed two decrees defining the blocks and specifying conditions for production and exploration tenders and contracts.
- **PMI in Lebanon** rose to 47.0 in Dec, its highest reading since Feb but still lower than the neutral 50-mark, supported by slower falls in companies output and new orders levels.
- **Oman government budget for 2017** foresees spending at OMR 11.7bn (USD 30.4bn) and revenues at OMR 8.7bn, resulting in a deficit of OMR 3bn. The original 2016 budget targeted OMR 11.9bn in spending, and OMR 8.6bn in revenues, however the actual deficit will likely be higher as in the first 10 months of 2016 it was OMR 4.8bn.
- **Total deposits with commercial banks in Oman** rose by 0.9% yoy to OMR 18.3bn at end-Oct. Government deposits declined by 1.7% OMR 5bn, while deposits of public enterprises increased by 5.1% and private sector deposits (65.3% of total) increased 1.7% to OMR 12bn.
- **Qatar real GDP** grew by 3.7% yoy in **Q3**, revealed the ministry of development planning and statistics: the hydrocarbon sector grew by 2.7% while the non-oil sector expanded by a faster 4.7%. Within the non-oil sector, construction grew 12.4% yoy and 6.2% qoq, while finance and insurance sector grew 6.9% yoy though declining 1.9% in qoq terms. The retail sector expanded by a robust 15.8% qoq though growing only by 2.6% yoy.
- The **IMF Article IV consultation with Qatar** resulted in growth forecasts of 2.7% and 3.4% for the country in 2016 and 2017 respectively. Despite tightening liquidity, banks remain sound and well capitalised, according to the IMF, with a non-performing loan ratio of about 1.2% – the lowest in the GCC. However, the IMF warned that the ongoing public investment could “bring

about overheating in the near term, potential resource misallocation and reduced expenditure efficiency in the medium term". (More:

<http://www.imf.org/en/News/Articles/2017/01/03/MS010317-Qatar-Staff-Concluding-Statement-of-the-2016-Article-IV-Mission>)

- **Qatar's** family-owned construction firm Investment Holding Group (**IHG**) will launch an **IPO** this week – it is planning to offer 49.8mn shares or 60% of its capital to Qatari citizens and companies, with the value of the offer at around QAR 503mn (USD138mn). The stock market has seen only 2 new listings since 2010.
- **Saudi Arabia's real GDP** grew by 0.9% yoy and 1.4% qoq in **Q3**; this is the slowest growth recorded since Q1 2013. The non-oil sector posted a decline in growth by 0.7% while the oil sector expanded by 3.6%.
- **Saudi Arabia's PMI** strengthened in Dec – rising to 55.5 from Nov's 55.0 – thanks to a rise in both output and new orders; output rose at the sharpest rate since Aug (to 63.3 from Nov's 60.3). Average PMI for the year, at 46, is the lowest in the survey's history and the average employment index also continued to slow, registering 51.2 in 2016, lower than 52.4 in 2015 and 53.0 in 2014.
- **Saudi Arabia's** central bank is **raising home buyers' bank loan-to-value ratio** to 85%, from 70% previously, to stimulate the real estate market and ease a shortage of affordable housing.
- **Saudi Arabia** clarified that the **proposed date for implementation of selective taxes** – on goods such as soft drinks, energy drinks, and tobacco and its derivatives – is Apr 2017. However, according to the ministry of finance, the tax will be imposed only after the ratification of the uniform agreement on selective tax and the issuance of the domestic rules of procedure in line with the decisions adopted by the Supreme Council of GCC leaders during its 36th session held in

Dec 2015 and 37th session held in Dec 2016.

## UAE Focus

- **UAE PMI** increased to a 5-month high of 55 in Dec (Nov: 54.2) as new orders rose and export orders increased for the first time in 6 months. Overall, average PMI was 53.9 in 2016, down from 2015's average of 56 while the employment index averaged just 51.2 in 2016 versus 52.4 in 2015.
- UAE Emirate **Sharjah** has approved a **AED 22bn budget for this year** – the largest in the emirate and up 3% from 2016's budget outlay. Infrastructure is allocated 31% of the budget outlay (up 7% yoy), while culture and education related spending accounts for 20% of the total budget. The budget also plans to create 1800 new jobs for Emiratis in different government departments.
- The **Dubai Financial Market** plans to **allow covered short-selling** for a select number of securities in the coming months, following Abu Dhabi's move to introduce this in Q1 this year, in a bid to improve foreign investors interest in local equities and increase trading liquidity.
- The **total trading value** on the **Abu Dhabi Securities Exchange** fell 18% yoy to AED 49bn in 2016; average daily trading volume was up by 7.2% yoy to 118bn shares.
- The **Dubai Gold and Commodities Exchange** recorded a 36% yoy increase in volumes in 2016: its highest annual volume traded with an aggregate of 19.7 million contracts, valued at USD 439.5bn.
- **Abu Dhabi's Executive Committee** approved multiple **infrastructure projects** at a cost of AED 241mn, including expansion of electricity networks and construction of internal roads.
- **Abu Dhabi** announced that the previously announced **municipal fee on expats renting homes** (equivalent to 3% of a tenant's annual rent) would be imposed

retroactively from Feb 2016.

- **Dubai International Airport** registered a 9.4% yoy increase in **passenger traffic** in Nov, to 5.6mn passengers, bringing the year-to-date number to 75.94mn passengers (+7% yoy). Top destination cities were London, Doha, Mumbai and Riyadh. Separately, the airport received 105,326 passengers in one day for the first time on New Year's Eve. A total of 669,093 passengers passed through the airport during December 28-31: arrivals at 389,290 and departures at 288,803 people.
- The **UAE** has issued **two decrees to promote Emiratisation in the private sector**, to be applicable from this year: companies with 1000+ employees have to ensure at least 2 data entry positions are filled by UAE citizens; construction firms with 500+ employees need to employ at least one Emirati occupational health and safety officer.
- A **new Fujairah Expressway will link UAE and Oman by 2018**: the 4.5km phase 1 of the project, being built at a cost of AED 28.24mn, will be ready by Aug 2017.

## **Media Review**

### **Blackstone's 10 predictions for 2017**

<http://www.businessinsider.com/byron-wiens-biggest-surprises-2017-2017-1/#10-isis-becomes-a-much-smaller-threat-10>

### **The NYT asks: Can Trump deliver in 2017?**

<http://www.nytimes.com/2017/01/03/opinion/2016-in-charts-and-can-trump-deliver-in-2017.html>

### **In Saudi Arabia economic reforms bring greater freedom**

<https://www.bloomberg.com/news/articles/2017-01-05/as-shock-therapy-hits-home-saudis-get-to-have-a-little-fun>

### **Ten charts on the technology market in 2016**

<https://www.bloomberg.com/gadfly/articles/2016-12-30/charting-the-good-and-the-bad-for-the-year-in-technology>

### **China's central bank props up the yuan**

<https://www.bloomberg.com/news/articles/2017-01-06/pboc-pledge-s-it-will-firmly-guard-financial-system-guide-yuan>

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