

Weekly Economic Commentary – Jan 15, 2017

Markets

The Dow Jones failed once again to reach the 20,000 mark, closing within 1% of 20,000 for the 20th session in 22. Since early Dec the index has fluctuated within a tight range of about 200 points. In essence the post election rally has stalled, as traders try to ascertain whether the incoming administration will match rosy expectations with actual deeds. So far contrarians have been sidelined by Trumpflation trade, but as Trump's first press conference made no reference to his fiscal plan enthusiasm has waned. The US 10-year bond yields declined to their lowest level since late Nov after the press conference and the dollar fell sharply, while gold touched 1200 \$/ounce for the first time since last Nov. The disappointment over the Trumpflation trade and positive news from China, reinvigorated stocks and currencies in emerging markets, including most regional bourses, which shrugged off the slide in oil prices.

Global Developments

US/Americas:

- **US retail sales** rose 0.6% mom in Dec, vs 0.2% in Nov, boosted by a rebound in vehicles purchases and gasoline prices. Core sales, were almost flat after rising 0.3% in Nov.
- **University of Michigan's consumer sentiment index** edged down to 98.1 in Jan from a 13-year high of 98.2 in Dec.
- **US government posted** a USD 28bn budget deficit in Dec yoy, a 94.4% increase from a USD 14.4bn gap the same month of the previous year and slightly above market expectations of a USD 25bn gap.

- **US unemployment insurance claims** rose 10,000 to 247,000. The 4-week moving average fell 1,750 to 256,500, while continuing claims fell 29,000 to 2.087 mn near to all-time lows.
- **Brazil's inflation** in Dec dropped to 6.3% yoy from 7% in Nov, another sign that the economy is stabilizing. In response the central bank slashed the Selic rate by 75 bps to 13%.

Europe:

- **The debate within the ECB Governing Council** on the future course of monetary policy was unusually lively last month. The minutes showed that a few members voted against the proposals to continue purchases beyond March. With inflation in the Eurozone rapidly rebounding towards 2% the tensions are likely to intensify.
- **Eurozone's industrial production** jumped by 1.5% mom (3.2% yoy) in Nov after a 0.1% rise in Oct, thanks to nondurable consumer goods output up by 2.9% mom, compared to an average of 0% in the previous 12 months.
- **German industrial production** rose 0.4% mom vs 0.5% in Oct, thanks to a recovery in construction and steady manufacturing output.
- **Germany's trade surplus** expanded to EUR 21.7 bn in Nov from EUR 20.6 bn in Oct and from EUR 20 bn in Nov 2015, thanks to a strong recovery in exports while imports were less perky.
- **The UK Halifax house price index** rose 6.5% yoy in Q4, following a 6% increase in the 3 months to Nov, the second consecutive acceleration since Oct's 5.2% low. The monthly increase was 2.5% after a 0.9% gain in Nov. The real estate market seems unaffected by the result of the Brexit referendum.
- **UK industrial production** in Nov expanded by 2.1% mom after a -1.1% decline in Oct pushed by exceptional mining output.

Asia and Pacific:

- **China's M2 money supply** grew 11.3% yoy in Dec almost on par with Nov's 11.4% pace. Credit growth remained buoyant on the back of mortgage borrowing.
- **China trade surplus dwindled to USD 40.8bn** in Dec compared to USD 59.63bn a year earlier; the good news was the rebound in commodity imports, which signals a recovery in industrial activity.
- **Consumer prices in China** rose 2.1% yoy in Dec, vs 2.3 % in Nov, as non-food inflation slowed.
- **Consumer confidence in Japan recovered** in response to the yen's depreciation to 43.1 in Dec 2.2 points higher than in Nov, still well below the neutral 50 mark. All subcategories scored gains, in particular employment prospects, while inflation expectations rose slightly.
- **Bank of Korea** left its base rate unchanged for the seventh straight month at record low of 1.25%.
- **Industrial production in India** increased 5.7% yoy in Nov after a -1.9% contraction in Oct. The facing out of high-valued notes provoked a liquidity crunch which still has not fully displayed its negative effects in the data.
- **India's CPI inflation** declined to 3.4% yoy in Dec from 3.6% in Nov thanks to lower food prices. Core inflation also decelerated in the wake of stagnant domestic demand and the demonetization shock.
- **India's monthly trade deficit** fell to USD 10.4bn in Dec up from USD 13bn in Nov as a result of higher commodity prices and rising demand from the US.
- **Taiwanese trade surplus** widened to USD 4.86bn in Dec from USD 4.26bn in Nov thanks to a stronger demand for electronics components.

Bottom line: *The international outlook continues to be characterized by a healthy growth in the US economy, a worrisome decline in international trade and an uptrend in oil*

price. While attention is focused on Trump's early moves, in the euro area the phase of moderate growth is gaining momentum. The €-coin, a monthly coincident indicator (based on a wide sample of statistical data) that tracks the euro area's GDP, recorded its seventh consecutive increase to 0.59 in Dec from 0.45 in Nov, the highest level recorded since spring of 2011. Even China appears to be heading for better times although the mountain of public and private debt remains a threat to global financial stability.

Regional Developments

- **Egypt's annual urban consumer price inflation** surged to 23.3% in Dec, from 19.4% in Nov, with healthcare inflation at 32.9% and food and beverage inflation touching 28.3%. Core inflation jumped to 25.86% in Dec from Nov's 20.73%.
- **Egypt** appointed BNP Paribas, Citigroup, JP Morgan and Natixis as joint lead managers for a series of **investor meetings** in the Middle East, US and Europe, starting this week in the UAE (on Jan 17).
- **Egypt's central bank governor** disclosed that foreign investors would be able to **repatriate profits** and capital "in the coming period"; he also stated that the commercial banking sector had seen **inflows** of USD 7.5-8.0bn since the float.
- **Egypt's fuel exports** fell 22.6% yoy to EGP 16.2bn during Jan-Sep; Egypt's exports of petroleum products dipped by a whopping 90.7% yoy to EGP 811.2mn during this period.
- **Lebanese investment into Egypt** are around USD 2.8bn, making Lebanon the 13th largest investor in the country. Investments went into 1,342 projects, ranging across the fields of agriculture and textiles to chemical, electrical, and paper industries.
- **Iraq's oil exports hold in spite of OPEC cut:** Iraq's southern exports reached a record high of 3.51mn barrels per day (bpd) in Dec and have averaged above 3.50mn bpd

so far this month.

- **Jordan** plans to **hike the price of fuel derivatives** starting next month, and also plans to **unify the sales tax at 16%**, cancelling the zero tax on certain items. These adjustments support the government's plan to collect JOD 3bn in the coming years, including JOD 450mn in 2017, JOD 520mn next year and JOD 570mn in 2019.
- The 2017-2019 **Jordan Response Plan to the Syrian crisis** has been approved: the cost of the plan stands at USD 7.6bn with an average of USD 2.5bn annually for three years.
- Kuwait plans to publish the main construction tender for its KWD 306mn (USD 1bn) **Kuwait Olympic Village project** by end-Mar, with awarding likely by Q2 this year, reported Zawya Projects.
- The **Kuwaiti** oil minister stated that "we have already **cut our [oil] production** to more than what we have committed", without revealing any further details.
- **Lebanon** plans to introduce a **new hydrocarbon tax** this year, according to the head of one of the largest political parties in the country.
- **Industrial exports** from **Lebanon** dropped by 15.5% yoy to USD 2.1bn in Jan-Oct 2016, according to the industry ministry; no reason was specified in the statement for the drop.
- **Renewable energy** will represent 12% of **Lebanon's** total electricity production in 2020, according to the energy and water minister, speaking at the launch of the National Renewable Energy Action Plan 2016-2020. Actual renewable energy production is currently 193.72 MW, equivalent to 5.63% of total energy production.
- **Japan** will grant **Lebanon** USD 17.9mn in **aid to assist with hosting Syrian refugees**, revealed the Japanese State Minister for Foreign Affairs, without disclosing details of the aid package.
- **Investment income of Oman government** is expected to fall by 60% to OMR 200mn this year, from as high as OMR 500mn

in the 2016 budget.

- **The 45,000 barrels per day (bpd) output cut to 970,094 barrels bpd agreed by Oman**, as part of a deal brokered by OPEC to prop up oil prices, will be shared by Oman oil producers on a pro-rata basis, according to a high-level official.
- Reuters reported that **Qatar's central bank** was offering **local currency government bonds** last week Thursday in its first sale of the year. The issue was expected to offset the maturing of about QAR 15bn (USD 4.1bn) of government bonds this month.
- **Inflation in Qatar** was 1.8% yoy in Dec, though declining by a slight 0.3% mom. Transport, recreation and culture and education prices were up by 6.2%, 3.9% and 3% respectively, in yoy terms.
- Airlines might **re-introduce fuel surcharges** soon, according to the CEO of **Qatar Airways**, given the recent rise in oil prices.
- **Saudi Arabia's** energy minister revealed that **oil output** had fallen below 10mn barrels per day currently, implying a cut by more than the 486,000 bpd agreed, and that deeper cuts would come next month.
- **Saudi Arabia's** Aramco has reduced Feb term supplies of mainly heavy crude to refiners in India and South East Asia, reported Reuters, citing industry sources.
- Saudi **Tadawul** will introduce **settlement of trades** within two working days of execution during Q2 2017, according to a statement from the exchange.
- Despite signals of oil output cut from Saudi Arabia and few other major oil exporters, it is unlikely that the full reduction target will be achieved, according to an OPEC delegate. Compliance is voluntary as OPEC has no mechanism to enforce its agreements and according to IEA, OPEC compliance had peaked at 80% during a cut in 2009.
- The average **MENA sovereign rating** is closer to 'BBB' than 'BBB-', but has been trending downward, according

to **S&P's** Middle East and North Africa Sovereign Rating Trends 2017.

UAE Focus

- The **Dubai Economy Tracker** increased to 55.9 in Dec, the highest reading since Jul, after both output and new orders rose. Travel & tourism remained the best performing sub-category in December (headline index at 56.9), followed by wholesale & retail (56.4).
- The **fundraising** exercise for **Dubai's** Expo exhibition centre and al Maktoum International Airport sites are almost near finalization. The USD 35bn airport project is being given priority and is likely to receive banks' commitments over the next two weeks for a USD 3bn loan.
- The Investment Corporation of Dubai (**ICD**) is likely to issue its planned **USD-denominated benchmark bond** later this month. ICD had sold a maiden dollar bond in 2014, when it raised USD 1bn in debt split between a USD 700mn Sukuk and a USD 300mn conventional bond.
- **DIFC** has launched a "**FinTech Hive**" along with Accenture, with an aim to attract USD 1bn of investments till 2022.
- National Bank of Abu Dhabi (**NBAD**) announced that it has placed 30-year senior unsecured **Formosa bonds** to institutional investors for a total nominal amount of USD 885mn; this follows its inaugural USD 696mn public Formosa bond in Oct last year, bringing the total amount raised by the bank in Taiwan to more than USD 1.5bn in three months.
- The **UAE Energy Plan 2050** aims to invest AED 600bn in renewable energy projects by 2050 and achieve a balance of clean energy in the nation's energy mix. The new strategy outlines a reduction in carbon emissions from its power plants by 70%, while setting ambitious targets of generating national power: 44% from renewable sources such as solar, 38% from gas, 12% from clean coal and 6% from nuclear energy. It also aims to increase clean

energy use by 50%, improve energy efficiency by 40%, with the collective effort resulting in savings worth AED 700bn.

- **Hotel occupancy in Dubai** went up by 3.2% to 79.7% yoy in Dec, according to STR, while demand jumped 9.1%, the highest since five years ago. However, the revenue per available room (RevPAR), fell 5.4% to AED 657.37, while supply rose by 5.7%.

Media Review

A skeptic's view on Trump's economic boom

<http://foreignpolicy.com/2016/12/15/why-the-trump-economic-boom-will-never-come/>

Looking Back on Barack: Project Syndicate

<https://www.project-syndicate.org/commentary/obama-successes-failures-and-legacy-by-jeffrey-frankel-2017-01>

Saudi-Iran crisis: economic woes strain Oman's neutrality

<http://www.reuters.com/article/saudi-oman-iran-idUSL5N1EY0FY>

Markets cheer Saudi deficit-cutting but finances still hostage to oil

<http://www.reuters.com/article/saudi-budget-markets-idUSL5N1ET1FN>

The Qatar Sovereign Wealth Fund

<https://www.bloomberg.com/news/articles/2017-01-11/qatar-sovereign-wealth-fund-s-335-global-empire>

The yuan regains altitude

<http://www.economist.com/news/finance-economics/21714258-liquidity-squeeze-thwarts-investors-hoping-profit-falling-yuan-chinas>

GCC debt issuance likely to swell in 2017

<http://gulfnews.com/business/sectors/banking/gcc-debt-issuance-expected-to-swell-in-2017-as-governments-and-corporates-seek-funding-1.1958267>

Bulls or bears?

<https://www.bloomberg.com/news/articles/2017-01-11/euphoria-or-respite-in-hated-bull-market-stock-charts-to-ponder>

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