

Weekly Economic Commentary – Jan 22, 2017

Markets

The Dow Jones failed once again to reach the 20,000 mark and major stock exchanges took a negative turn. The reflation trade is on hold, as optimism succumbs to a more realistic assessment over the initial moves of the incoming US Administration. Bearish technical signals do not bode well for Wall Street. The fundamental question is whether markets have correctly priced in the outcome of a presumptive US policy targeting stronger growth or have been prone to over-optimism. Regional markets were among the few displaying positive performances (especially Kuwait) as the oil price remained stable. In currency markets Sterling rose by 2% on May's speech but subsequently retraced half of the gains. The euro advanced against the dollar and is off the record lows of Dec. Gold prices continue to be pushed up by political uncertainty.

Global Developments

US/Americas:

- **Donald Trump** was sworn as the 45th US President **delivering a speech filled with anti-elite, isolationist, nationalistic and protectionist overtones** (summarized in the slogan "America First"), which emphasized a domestic agenda focusing on education, jobs and infrastructure.
- **US inflation** reached 2.1% yoy in Dec vs 1.7% in Nov, the fifth consecutive monthly acceleration and a record since Jun 2014, boosted by energy and shelter costs. Core inflation was 2.2% yoy.
- **US industrial production** expanded 0.5% yoy in Dec offsetting a -0.7% drop in Nov. It is the first annual

gain since Aug 2014 thanks to a jump in utilities output.

- **US unemployment benefits** claims decreased by 15K to 234K. The 4-week moving average dropped from 257K to 246,7K. Continuing claims fell from 2.093 mn to 2.046 mn.
- **US industrial production** grew by 0.8% mom in Dec, after a -0.7% fall in Nov.
- **US housing starts** jumped 11.3% yoy in Dec to 1,226 mn, well above market expectations.

Europe:

- **The ECB kept rates** and monthly QE programs unchanged rejecting calls for a more hawkish stance given the acceleration in **inflation**, which was 1.1% yoy in Dec after 0.6% in Nov.
- **The Eurozone's current account surplus** reached EUR 36.1bn in Nov, from EUR 28.3bn in Oct and EUR 26bn a year earlier, as a result of the euro's depreciation. Energy prices caused the movements in imports.
- **UK Prime Minister Theresa May** announced her 12-point plan to lead the country outside the EU negotiating a 'stronger, fairer, more global Britain'. The speech contained little new information but offered the usual list of government views, emphasizing that the UK will not seek to be part of the Single Market or retain partial membership of the EU.
- **UK inflation** was 1.6% yoy (0.5% mom) in Dec compared to 1.2% (0.3% mom) in Nov, the highest rate since Jul 2014 as a consequence of transport costs, housing and utilities driven up by a weaker pound.
- **UK retail sales** plunged -1.9% mom (4.3% yoy) in Dec compared with 5.7% yoy in Nov Nonfood store sales were the main culprit.
- **The ZEW economic sentiment** indicator for Germany jumped to 16.6 in Jan from 13.8 in Dec. The indicator for the

Eurozone also rose sharply to 23.2 in Jan from 18.1 in Dec.

Asia and Pacific:

- **China's GDP** grew by 6.8% yoy (1.7% qoq) in Q4 vs 6.7% (1.8% qoq) in Q3, in line with market expectations and government targets. Data highlight a mild recovery in housing and manufacturing.
- **China's industrial production** increased 6% y/y in Dec vs 6.2% in Nov as overcapacity in heavy industry affected output.
- **China's retail sales** rose 9% yoy in Dec just a notch above Nov's 10.8%. Gains were recorded across all key expenditures categories.
- **Foreign direct investment into China** rose to USD 9.9bn in Nov from USD 8.8bn in Oct. The services sector is the primary recipient of inflows, while overcapacity in industry has dried up overseas investment. Capital outflows meanwhile are gaining strength.
- **China's fixed asset investment** growth retreated to 8.1% yoy in Dec vs 8.3% in Nov. Housing and manufacturing-related investment were the main driver.
- **China allowed its five biggest banks** to cut their reserve requirement ratio by 1% to 16% to relieve liquidity pressure ahead of the Lunar New Year. The move is expected to release approximately CNY 630bn in liquidity.
- **Industrial production in Japan** rose 4.6% yoy in Nov, following a -1.4% drop in Oct, the strongest growth since Mar 2014, with output sharply up for all categories.
- **Indian wholesale prices** rose 3.4% yoy in Dec vs 3.1% in Nov.

Bottom line: *A moderately better outlook for developed economies has found confirmation in the data for the past few weeks and now the IMF corroborated them in its newly updated*

Weekly Economic Outlook. Forecasts for advanced economies have improved for 2017–18, due also to expectations of fiscal stimulus in the US. Advanced economies are now projected to grow by 1.9% in 2017 and 2.0% in 2018, 0.1% more than in the Oct forecasts. Prospects for emerging market and developing economies, on the other side, are slightly less cheerful due to tighter financial conditions triggered by a stronger dollar. Near-term growth projections were revised up for China, but were revised down for other large economies such as India, Brazil, and Mexico. Overall for emerging and developed economies, the IMF expects growth to reach 4.5% in 2017, around 0.1% below the Oct forecast and then accelerate to 4.8% in 2018.

Regional Developments

- During its investor roadshow, government representatives revealed that **Egypt** could issue a US dollar Sukuk later this year after its planned **conventional bond**. The conventional bond, the timing of which is still undecided, could reach up to USD 2.5bn in size, according to investors.
- The **IMF** published details of its three-year Extended Fund Facility arrangement with the **Egypt** government and the underlying **planned reform programme**. The government has also promised to scrap a USD 50,000 cap on non-priority imports by June and a USD 100,000 cap on individuals' transfers abroad. The country is on track to receive the second tranche of the loan, following a review on progress at end-Feb. (The full report can be accessed at: <http://bit.ly/2jNk6iP>)
- **Egypt's** USD 12bn 3-year **loan programme** from the **IMF** carries an **interest rate** of 1.5-1.75% and each tranche of the loan **would be repaid** within 10 years of disbursement with a 4.5-year grace period, according to the country's finance minister.
- The finance minister expects **foreign investment in**

Egypt's treasury instruments to reach about USD 10-11bn in one year.

- The National Bank of **Egypt (NBE)**, the country's biggest lender, disclosed that its **assets** surged to around EGP 1.1 trillion (USD 58.5bn) following the currency floatation in Nov 2016.
- **Jordanian investments in Egypt** reached USD 530.3mn via 1,614 firms in different fields, according to the General Authority for Investment and Free Zone. Industry, finance, and tourism sectors received 57%, 9% and 7% of the investments.
- An output cut is in the offing: **oil exports** from southern **Iraq** in the first 16 days of January have averaged 3.25mn barrels per day (bpd), according to Reuters data, and down from the published record-high of 3.51mn bpd in Dec.
- **Kuwait's oil output cuts** could reach between 146,000 and 148,000 barrels per day (bpd), versus the promised 133k bpd, according to the oil minister.
- **Kuwait** plans to spend KWD 4.74bn (USD 15.6bn) on **infrastructure and other projects** in the fiscal year 2017-2018, reported a Kuwaiti newspaper, quoting the Secretary General of the General Secretariat of the Supreme Council for Planning and Development. Of this, the government is expected to contribute 49.3% of the investments, 33.8% by the state-owned oil sector and 16.9% by the private sector in a public-private sector partnership programme.
- The **Kuwait Fund for Arab Economic Development** is expected to spend USD 850mn to finance infrastructure and other projects in Egypt, Sudan, Yemen and Lebanon in 2017, according to the Fund's Director-General.
- **Lebanon's PM** stated that the country needs nearly USD 8-10bn worth of **new investments** in the coming three years to address the Syrian refugee crisis and upgrade its strained infrastructure.
- The Byblos Bank/AUB **Consumer Confidence Index** in **Lebanon**

averaged 50.4 in Q4 2016, the highest in 21 quarters, and from 36.4 in Q3. However, only 13.5% (surveyed in Dec) expected business conditions to improve in the coming six months, with 61% expecting further deterioration.

- According to Moody's, the **Lebanon central bank's recent swap** operation has "increased the banks' overall exposure to the sovereign", while also noting that the swap operation enabled BDL to boost its foreign currency reserves, and that the banks' dollar liquidity declined.
- **Oman's budget** deficit during Jan-Nov 2016 expanded by 21.4% compared to the same period in 2015, reaching OMR 4.9bn, as a result of sharply lower oil revenues.
- **Oman's nominal GDP** plunged by 11.1% to OMR 17.5bn in the first 9 months of 2016, compared to OMR 19.65bn in the same period of 2015.
- **Oman's total exports** during the first 9 months of 2016 plunged by 28.2% yoy to OMR 7.51bn from OMR 10.46bn in the same period of 2015.
- **Qatar** sold QAR 15bn (USD 4.1bn) of conventional and Islamic government bonds last week in its **first domestic government debt offer this year**, according to the central bank. The conventional QAR 7bn was issued in an auction, and was oversubscribed by QAR 100mn, while the rest QAR 8bn were issued as Sukuk.
- **Foreign shareholders** can now hold up to 49% in **Qatar's** Islamic Holding Group, which is listed under the banks and financial services segment on the Qatar Stock Exchange.
- **Qatar plans to be self-sufficient in the production of vegetables** in the next five years, according to the Minister of Municipality and Environment. He also revealed that Qatari produce provides the local market in some season with up to 80% of its needs. The plan is to be implemented in cooperation with farm owners and the Ministry of Economy and Commerce.
- Four companies have been approved for listing on **Saudi**

Arabia's parallel stock market, while applications from 77 companies are currently under review. Tadawul plans to launch Nomu-Parallel Market on Feb. 26, 2017.

- **Saudi Arabia's** Shura Council is expected to debate this week a proposal to impose a 6% **levy on expatriate remittances**. According to the central bank, roughly 10 million foreign workers transferred USD 9.4bn to their home countries in Q3 2016.
- **Saudi Arabia** is expected to invest USD 30-50bn by 2023 in a **renewable energy** program (to be launched in a few weeks), with the aim to become a major exporter of renewable energy. Plans include generating close to 10 gigawatts from renewables, primarily solar and wind power, by 2023.
- **Saudi Arabia's crude oil exports** rose to 8.258mn barrels per day (bpd) in Nov from 7.636mn bpd in Oct, as per data from the Joint Organizations Data Initiative. While the country pumped 10.72mn bpd in Nov (Oct: 10.625), domestic crude inventories fell to 274.366mn barrels in Nov from 276.586mn barrels the month before.
- The industrial sector in **Saudi Arabia** accounts for more than 40% of **domestic energy consumption**: industries, including petrochemicals (feedstock included), cement and iron combined, constitute approximately 85% of the total consumption of the sector.
- The **Saudi Industrial Development Fund** continues to support financing industrial projects by approving and providing 155 loans worth more than SAR 7.94bn (USD 2.1bn).
- Though the **GCC's aggregate fiscal deficit** will narrow to 7.5% of GDP in 2017 and 4.9% in 2018, fiscal deficits are likely to remain sizeable in Saudi Arabia, Bahrain and Oman, according to **Moody's** GCC sovereign outlook for the year 2017. The debt-to-GDP ratio across the GCC is expected to rise to 31.6% by 2018 from just 10.5% in 2014.

UAE Focus

- At the **UAE Economic Outlook 2017** conference, it was announced that **Dubai grew by 6%** in real terms in 2016, while growth is expected at 3.1% this year. **Abu Dhabi** Department of Economic Development has projected an average GDP growth of 3.4% in Abu Dhabi during 2016-2020. Together, the UAE is projected grow in excess of 3.5% between 2017 and 2020.
- **Dubai will release its economic outlook twice every year** – in Jan and Oct – from now on, in an attempt to provide accurate and timely data in addition to promote transparency, according to the Chairman of the Economic Development Committee in Dubai.
- In an interview with China Finance magazine, the managing director of Abu Dhabi Investment Authority (**ADIA**) revealed that the sovereign wealth fund has its largest **exposure in China** in listed equities, including a USD 2.5bn allocation to the China A market.
- **Dubai real estate transactions** exceeded AED 259bn in **2016** from a total of 60,595 deals, according to the Dubai Land Department. GCC citizens invested a total of AED 35bn last year from 12,768 investors (Saudi alone accounting for AED 8bn from around 3300 investors), while Arab investors from outside the GCC contributed over AED 12bn. In the **first 15 days of 2017**, appetite continued to hold, with close to AED 12bn worth of transactions completed.
- **Japan** has agreed to extend the current agreement which permits the Abu Dhabi National Oil Co (**ADNOC**) to store crude oil in the country for two more years. Under the deal, ADNOC can store up to 6.29mn barrels at Kiire oil terminal in Kagoshima, southern Japan at no cost.
- The **UAE** is confident of achieving its **clean energy targets** by 2050, according to the Minister of Energy while speaking at the World Future Energy Summit last week. The UAE's energy plan includes 44% contribution

from clean energy, 38% gas, 12% clean coal and 6% nuclear by 2050. Dubai has set a target of 25% of clean energy by 2030 and 75% by 2050 while Abu Dhabi is targeting 7% of renewable energy by 2020.

- The **green mobility initiative** launched by the **Dubai Supreme Council of Energy** aims at reducing carbon emissions by 16% by 2021: it targets a 10% share for hybrid and electric vehicles among all new cars purchased between 2016 and 2020 and also that 2% of all cars in Dubai will be either electric or hybrid vehicles by 2020 and it will reach 10% by 2030.
- **UAE's renewable energy development aid** offered across the globe has surpassed USD 900mn, stated the Minister of Climate Change and Environment, at the 7th assembly of Irena.
- **Dubai imported** 7mn tonnes of **food** in 2016, from a total of 351,761 food shipments via land, sea and air, according to Dubai Municipality. Of the shipments, around 2.2% were for re-export.
- According to the General Directorate of Residency and Foreigners Affairs-Dubai, the **number of passengers** through the **Dubai** air, land and sea **ports** reached about 52 million passengers last year, of which the airport alone accounted for over 46.8mn persons.
- The **UAE** ranked second globally in government trust, just below China and one above India, according to the Edelman Trust Barometer survey. Trust level globally dipped to 45% this year versus 60% in 2015.
- **Sharjah's** overall **population** stands at over 1.4 million people, including 175,432 Emiratis and over 1.2 million expatriates, on the basis of the census carried out in 2015. Close to 55% were within the 20-39 age bracket.
- **Visa** announced that the number of **transactions** have surged 5% yoy in the first two weeks of the **Dubai Shopping Festival**. Without disclosing details, the Head of Marketing for Visa stated that growth in spending on card was visible from visitors from the UK, Russia,

India, Oman and Qatar.

- **Abu Dhabi** Fund for Development has agreed to a USD 500mn deposit into **Sudan**, reported Sudan's state news agency, without providing any further details.

Media Review

Trump is unlikely to replicate Reagan's bull run

<https://www.ft.com/content/782d4caa-df0a-11e6-9d7c-be108f1c1dc>
[e](#)

The metrics to judge Trump's presidency

<https://www.bloomberg.com/view/articles/2017-01-20/17-metrics-to-watch-in-the-trump-era>

Communist China defends globalization against protectionist capitalists in the USA

<https://www.ft.com/content/67ec2ec0-dca2-11e6-9d7c-be108f1c1dc>
[e](#)

The next industrial revolution and diversification in the Middle East

<https://www.atkearney.com/about-us/world-economic-forum/does-the-future-of-production-provide-a-solution-for-diversifying-middle-east-economies>

The impact of automation on the economy

<http://www.mckinsey.com/global-themes/digital-disruption/harnessing-automation-for-a-future-that-works>

OPEC, Russia Say Oil Cuts Are Deeper and Faster Than Expected

<https://www.bloomberg.com/news/articles/2017-01-21/opec-russia-say-oil-cuts-are-deeper-and-faster-than-expected>

Q&A with the UAE Minister of Economy: views on VAT, infrastructure spending & the investment law

<http://www.thenational.ae/business/economy/qa-sultan-al-mansouri-the-uae-minister-of-economy-and-his-views-on-vat-infrastructure-spending-and-the-investment-law>

The Middle East's Next Moment of Reckoning: Project Syndicate

<https://www.project-syndicate.org/onpoint/the-middle-east-s-next-moment-of-reckoning-by-larry-diamond-and-hesham-sallam-2017-01>

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