

Weekly Economic Commentary –

Jan 29, 2017

Markets

The Dow Jones finally broke the 20,000 mark in the wake of positive earning reports, but then the mini rally on Wall Street fizzled out as the US GDP and other macro data disappointed. In Europe indices were little changed, while emerging markets shined. Regional markets also were broadly positive pulled up by KSA shares. In currency markets the three major crosses were essentially stable, while the GBP recovered some lost ground. As the market ponder OPEC's commitment to production cuts, the oil price held on to the gains scored so far in 2017. Gold prices were on the defensive amid mostly directionless trade.

Global Developments

US/Americas:

- **US GDP** growth slowed to 1.9% qoq annual rate in Q4 from 3.5% in Q3. Consumer spending growth moderated but remained a major contributor to growth. Business, residential and inventory investment also contributed to growth. Government made a small contribution from state and local spending while trade was a major drag. Real disposable income growth slowed to 1.5% from its 2.6% pace the prior quarter. The saving rate slipped to 5.6%.
- **US flash Markit manufacturing PMI** increased to 55.1 in Jan from 54.3 in Dec, a sign that manufacturing recovery continues in full swing.
- **Existing home sales in the US** fell -2.8% mom, and 0.7% yoy. **Sales of new single-family homes** plunged -10.4% mom and are 0.4% yoy. **The Federal Housing Finance Agency Purchase-Only House Price Index** increased 6.1% yoy in

Nov the same as in Oct.

- **US housing** starts jumped 11.3 % from the previous month to a seasonally adjusted annualized rate of 1226 thousand in Dec, beating market expectations of 1200 thousand.
- **US durable goods orders** decreased again by -0.4% mom in Dec, following a -4.8% drop in Nov. A sizeable slump in defense orders was the main cause, while core capital goods orders advanced by 0.8% yoy, the third consecutive monthly gain.
- **Initial unemployment claims in the US** rose 22,000 to 259,000 but the 4-week moving average fell by 2,000 to 245,500. Continuing claims increased 41,000 to 2.1 mn.
- **The Conference Board index of US leading indicators** rose 0.5% in Dec after a flat reading in Nov. The coincident and lagging indicators advanced 0.3%.

Europe:

- **The Eurozone M3 money supply** rose 5% yoy in Dec after a 4.8% increase in Nov, pushed by currency in circulation and overnight deposits.
- **UK GDP grew** 2% yoy (0.6 % qoq) in Q4, matching the rate in Q3, with the services sector (especially retail sales), up 0.8% qoq, leading the performance.
- **UK consumer confidence** crawled up by 1 point to -7 in Dec..
- **The German Ifo Business Climate Index** declined to 109.8 in Jan from 111 in Dec. Entrepreneurs remain optimistic about the current situation, but worry about the future impact of the protectionist rhetoric in the US.
- **Spain unemployment rate** fell to 18.6% in Q4 from 18.9 % in Q3, confirming that the beleaguered economy is mending.
- **The Central Bank of Turkey** held its benchmark 1-week repo rate at 8%, against expectations of a 50bps hike, but raised its lending rate by 75 bps to 9.25%, in an

attempt to support the currency and to fend off the deterioration in the inflation outlook.

- **The Conference Board Leading Economic Index for the Eurozone** rose 0.7% mom to 107.8 in Dec. The Coincident Index was flat at 103.2.

Asia and Pacific:

- **Japan's inflation rate** declined to 0.3% yoy in Dec from 0.5% in Nov. Core inflation fell -0.2% yoy in Dec, after a -0.3% drop in Nov.
- **Taiwan's GDP** showed a 2.6% yoy gain in Q4 vs 2% in Q3, thanks mainly to growing global demand for electronics.
- **Taiwan's industrial production** increased 6.25% yoy in Dec, decelerating from 9.1% in Nov. Strengthening global demand for electronics is lifting manufacturing in the export-oriented sector.
- **South Korean GDP rose** 3% yoy in Q4, down from 2.6% in Q4. Consumption was subdued and improved global demand failed to boost exports.
- **The Bank of Korea's consumer confidence index** shaved 0.8 point to 93.3 in Jan.
- **Singapore's industrial production** surged 21.3% yoy, from Nov's 11.8% with record contribution from across industries, especially electronics.
- **Singapore's consumer prices** rose 0.2% yoy in Dec, after remaining unchanged in Nov.
- **Philippines GDP** expanded 6.6% yoy (1.7% qoq) in Q4 vs 7% yoy (1.5% qoq) in Q3, with private consumption and investment driving the performance.
- **Consumer prices in Hong Kong** increased by 1.2% yoy in Dec, the same pace as in Nov.

Bottom line: The weak performance of the US economy in Q4 underscored once again the dichotomy between the real economy and stock market performance. The reflation trade at the turn of the year was built on hopes, which from now on must be matched by reality. However, the executive orders signed in

the first week by President Trump point to an abrasive protectionist stance and tensions with traditional allies. Meanwhile in Asia and Europe fragile green shoots of recovery continue to emerge: for example Singapore's and Taiwan's economies, which are a reliable barometer of the global economy, are strengthening, while Germany is pulling the weaker EU economies out of the doldrums.

Regional Developments

- **Egypt** successfully raised USD 4bn from its **first public bond issuance** and the combined order books for the bonds exceeded USD 13.5bn. Egypt is likely to receive the amount by early Feb. The bonds were geographically distributed between North America (50%), Europe (40%), Asia, and the Middle East. Egypt's finance minister disclosed that the country is now "studying carefully" the possibility of issuing Chinese renminbi-denominated Panda bonds and Japanese yen-denominated Samurai bonds.
- Talks between **Egypt** and **Saudi Arabia** over the second tranche of the **Sinai development loan** are currently stalled, according to an Egyptian government official.
- The **World Bank** provided USD 700mn to **Egypt's SMEs** in the past two years, according to the Minister of International Cooperation. The minister also stated that though SMEs absorb more than 60% of Egypt's labour force, the amount of funding dedicated to these enterprises does not exceed 24% of total funding.
- **Non-oil exports in Egypt** grew by 7.4% yoy to USD 19.1bn in 2016, with exports of building materials sectors surging 54.6% to USD 4.9bn.
- **Iraq** reduced its **oil production** by around 180k barrels per day, from a 4.75mn bpd level, and plans to cut a further 30k bpd before the end of the month, according to the oil minister.
- **Iraq** announced the sale of USD 1bn in **bonds guaranteed by the US**, paying an interest of 2.1%, far below the 9%

yield on the country's non-guaranteed debt.

- **Jordan's trade deficit** narrowed by 8.6% yoy in Jan-Nov 2016: exports declined by 6.9% To JOD 9.3bn while imports during the same period was down by 7% to JOD 12.44bn.
- Out of each 10 **job opportunities** created in **Jordan**, only 3.5 opportunities are available for **women**, according to a statement issued by the Sisterhood is Global Institute. Jordan ranked 54th among 79 developing economies in the Inclusive Growth and Development Report 2017 issued at the World Economic Forum.
- **Kuwait's** foreign minister made a rare **visit to Tehran**, and called for a dialogue between Iran and the GCC.
- **Kuwait's** parliament, where the **opposition** occupies 24 of the 50 seats, is trying to restrict the cabinet's ability to impose new fees on citizens and reduce price subsidies.
- **Egypt** is negotiating a USD 60mn supplementary **loan from** the **Kuwait** Fund for Arab Economic Development, towards a desalination plant.
- **Lebanon** re-launched its first **oil and gas licensing round** after a three-year delay, opening five offshore blocks (1, 4, 8, 9 and 10) for bidding.
- **Total credit by Oman's conventional banks** grew 6.5% yoy at the end of Nov, while credit to the private sector grew 8.6% to OMR 17.6bn.
- **Oman's trade surplus stood** at OMR 942.2mn for the first nine months of 2016. The total value of commodity exports stood at OMR 7.5bn.
- According to the 2017 Agility Emerging Markets Logistics Index, **Oman ranked third for best business climate** out of 50 emerging markets for the third consecutive year.
- **Oman cut expenditures in the oil and gas sector** by USD 1.5bn in 2016, compared to its original budget forecast. Also, the ministry of oil and gas could redeploy 3,500-4,000 Omani workers from oil and gas to other areas.

- **Qatar** plans to introduce a new law governing the use of **public-private partnerships** (PPPs) in early 2017, according to a partner at law firm Eversheds which has been appointed to set up the framework.
- **Qatar's trade surplus** posted a 21.7% yoy and 10.7% mom rise to QAR 10.75bn in Dec last year, supported by crude exports. Japan, South Korea, India, China and Singapore were among the largest export markets, while imports mainly came from US, UAE, China, Japan and Germany in Dec 2016.
- **Qatar's energy minister** believes that **a balance can be achieved in the oil market**, even with increased drilling, as the demand is likely to remain healthy, with expected growth in line with last year's rise of around 1.2 million barrels per day.
- **Qatar's total domestic public debt**, including issuance from government, government institutions and quasi-governmental institutions, rose by QAR 29.7bn to QAR 427.8bn at end-2016.
- The **Qatar** Investment Fund (QIF) expects a pickup in **growth** this year, and the current positive outlook for the oil market and efficiency in current expenditure will help control the **fiscal deficit**. The QIF's top 10 Qatari portfolios include QNB (19.4% of its net asset value), Industries Qatar (11.7%), Masraf Al Rayan (9.2%), Qatar Electricity and Water (7.9%), Qatar Islamic Bank (7.4%), Nakilat (6.4%), Ooredoo (5.9%), Barwa (4.9%), Gulf International Services (3.8%) and Commercial Bank (3.6%).
- **Qatar's private healthcare expenditure** is expected to grow at 8.8% in the next 10 years, faster than the 5.8% in public healthcare, according to a BMI report. The private sector will account for around 20% of total health expenditure in the country by 2026, up from 15% in 2016.
- **Saudi Arabia's** independent audits of **Aramco's oil reserves** (ahead of the proposed IPO) revealed no

surprises, according to sources familiar with the matter. Based on a figure of 265 billion barrels, Aramco's fields are estimated to contain about 15% of the world's proven reserves. Separately, Aramco has invited banks like Morgan Stanley and HSBC to pitch for an advisory position to evaluate Aramco's business and help it with measures surrounding the share sale.

- **Saudi Arabia's non-oil exports** declined by 9.1% yoy and 3.9% mom to SAR 14.4bn in Nov 2016, while imports were down 22.6% yoy to SAR 39.8bn.
- Both **Saudi Arabia's** Ministry of Finance and Shura Council stated that there was no intention of imposing **remittance tax** on foreigners.
- **Inflation in Saudi Arabia** slowed to 1.7% in Dec (Nov: 2.3%), the lowest in at least 10 years, thanks to a 4.3% yoy drop in food prices; in mom terms, prices were down by 0.5%.
- Russia overtook **Saudi Arabia** to become **China's** biggest crude oil supplier for the first year ever in 2016. Russian shipments surged nearly a quarter over 2015 to about 1.05mn barrels per day while Saudi was a close second with 1.02mn bpd (+0.9% yoy).
- **Crude oil supplies to Japan from Saudi Arabia** will not be impacted by the OPEC cuts, revealed a senior official, speaking at a forum in Tokyo. Saudi Arabia is the top crude oil supplier to Japan, with its oil accounting for 1.13mn barrels per day (bpd), or 33.5% of its total imports in 2015.
- **MSCI** stated that it "recognizes the extent and the pace of change" in the Saudi equity market to-date and that it could launch in June a review of whether the country could be reclassified as an emerging market.
- Spending on **telecom and IT** in **Saudi Arabia** reached more than SAR 130bn in 2016, according to the Governor of the Communications and Information Technology Commission, while the sector's contribution to GDP and non-oil GDP reached 6% and 10% respectively.

- Transparency International's **2016 Corruption Perceptions Index** was released: over two-thirds of the 176 countries and territories tracked fall below the mid-point 50-mark, with a global average score of just 43. In the region, 90% of scored below 50, with only UAE and Qatar remaining above the average, in spite of their lower scores. UAE ranks 24 (Score: 66) while Qatar is ranked 31 with a score of 61 (decline of 10 points vs. previous edition). *More details: http://www.transparency.org/news/feature/mena_a_very_dra_stic_decline*

UAE Focus

- **S&P lowered its rating on Sharjah** to BBB+/A-2 from its previous level of A/A-1, citing high levels of debt as a percentage of GDP. Gross debt has increased to about 13.6% of Sharjah's GDP; S&P estimates that it will further increase to 18.3% and its interest payments will represent 5.7% of government revenues.
- **Money supply** in the **UAE**, measured by M2, increased by 1% mom to AED 1.2trn at end-Dec 2016 while gross bank assets, including bankers' acceptances, increased by 1.6% mom to AED 2.6trn.
- **Inflation** in **Abu Dhabi** was down by 0.5% mom in Dec; inflation rate was 2.0% yoy for full year 2016 while food and beverage prices fell 0.1% amidst rise in housing and utilities by 5.6%.
- Order books for a 10-year **US dollar Sukuk offer** by Investment Corp of Dubai (**ICD**) exceeded USD 1.5bn.
- **Egypt exports to UAE** surged by 178.9% yoy to EGP 18.3bn during Jan-Oct 2016, with gemstones and pearls accounting for 59% of Egypt's total exports into the market.
- **DP World's** Chairman revealed that the company is discussing with the Chinese government on how to cooperate to fulfill the requirements of the "**One belt, one road**" initiative.

One road" initiative.

- Abu Dhabi National Oil Company (**Adnoc**) and the Indian Strategic Petroleum Reserves Ltd (**Isprl**) have agreed to establish a **strategic crude oil storage in India**. The agreement will cover the storage of 5.86mn barrels of Adnoc crude oil in underground facilities.
- **Passenger traffic** through the **Abu Dhabi** international airport totaled 24.5mn during 2016, recording a 5.1% rise compared to the year before. India topped the list, accounting for more than four million passengers and representing a market share of 18.1%, with an annual growth of 13.3%.
- **Guest arrivals** across **Abu Dhabi's hotels** reported an 8% yoy increase to 4.4mn in 2016, as per Abu Dhabi Tourism and Culture Authority.
- **Property brokers** in **Dubai** received a total commission of AED 1.5bn last year, from 32,932 transactions, according to the Real Estate Regulatory Agency.

Media Review

Kuwait SWF withdraws money from external asset managers

<https://www.bloomberg.com/news/articles/2017-01-18/kuwait-wealth-fund-says-u-s-investment-hinges-on-trump-policies>

Trump's first 14 official presidential actions

<https://www.theguardian.com/us-news/2017/jan/27/trump-first-12-official-presidential-actions>

The God of Carnage: Project Syndicate

<https://www.project-syndicate.org/onpoint/the-god-of-carnage-2017-01>

Trump and the Middle East

<https://www.bloomberg.com/news/articles/2017-01-28/trump-s-vis-a-ban-order-the-view-from-a-worried-middle-east>

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