

Weekly Economic Commentary – Feb 5, 2017

Markets

US stock markets were on a roller coaster first hit by the fiasco of the Muslim ban and then re-energized by a spate of expectations beating earning reports. Globally equity markets did not take well the mix of aggressive stance and incompetence displayed by the new US Administration. A number of investors are convinced that reflation and fiscal expansion will magically solve all problems. Yet a few are contemplating that the repatriation of profits held abroad will not be a panacea and a much stronger dollar will be a drag, not to mention the repercussion of a ventilated trade war. For the time being markets are still ahead of fundamentals, although the gap is shrinking in the US, where the profits recession is over. Regional markets felt the fallout of Trump's travel ban imposed on citizens from 7 Arab countries and new sanctions on Iran. On currency markets the dollar suffered a blow from Trump's strident measures, while gold prices benefitted from the ensuing uncertainty. Oil prices continued their slow but steady climb.

Global Developments

US/Americas:

- **The Federal Reserve kept** the target range for its federal funds rate steady at 0.5%-0.75% and announced no changes to the balance sheet policy or forward guidance. The FOMC appears confident to reach its 2% inflation target while its view over the balance of risks remained unchanged. No hints were provided on the future course of monetary policy.
- **US nonfarm payroll employment expanded** by 227,000 units

in Jan thanks to construction and services hiring, vs 157,000 in Dec. Hourly earnings rose only 0.1% mom despite higher minimum wages in several states. **The unemployment rate rose to 4.8 % in Jan from 4.7 %.**

- **US manufacturing PMI beat** expectations rising to 56 in Jan from 54.5 in Dec. The production index rose 2 points to 61.4 and new orders were flat at a historical high point. The employment index jumped up from 52.8 to 56.1. **The ISM non-manufacturing composite index** was almost unchanged at 56.5 in Jan.
- **US productivity** rose 1.3% yoy in Q4 on top of a 3.5% surge in Q3.
- **The US personal consumption expenditures deflator** (an inflation gauge closely followed by the Fed) rose 0.2% mom in Dec following a 0.1% increase in Nov and 0.3% in Oct. The core PCE deflator rose a modest 0.1% mom in Dec.
- **US nominal personal income** growth accelerated to 0.3% mom in Dec after declining -0.1% in Nov. Nominal disposable income growth also picked up to 0.3% from a 0.1% gain in Nov. Wages and salary growth reached 0.4% mom from a -0.1% fall in Nov.
- **Real consumer spending** increased 0.3% mom up from 0.2% in Nov. Utility spending increased as the weather cooled while durable goods were driven by auto sales. **US nominal Consumer spending** went up 0.5% mom in Dec from a 0.2% gain in Nov.
- **The national Case Shiller house price index** rose by 5.6% yoy in Nov almost on par with the 5.5% growth in Oct and is near an all-time high. **Growth in the 20-city composite index** also accelerated to 5.3% in Nov from 5.1% in Oc.
- **Pending US home sales index** rebounded 1.6% mom (0.3% yoy) in Dec recovering the plunge in Nov.
- **US factory orders** rose 1.3% mom in Dec after falling -2.4% in Nov. Ex defense orders advanced 2.4% mom. Capital goods grew 0.7% mom, the third consecutive

monthly gain.

- **The Conference Board Consumer Confidence Index** dropped -1.5 points to 111.8 in Jan. The present situation index strengthened 6.2 points while expectations dropped 6.6 points and inflation expectations surged. On the positive side, the labor index improved significantly.
- **US Jobless insurance benefits claims** decreased by 14K to 246K. The 4-week moving average crawled up by 2,250 to 248K, continuing claims fell 39K to 2.064 mn.
- **Brazilian industrial production** rose 0.8% mom in Dec after a dismal -2.9% in Nov. a sign that the recession is close to bottoming out.
- **Brazil recorded a USD 2.7bn trade surplus** in Jan tripling from the USD 0.92mn surplus a year earlier.

Europe:

- **Eurozone GDP growth** was 0.5% qoq in Q4 vs 0.4 % in Q3. **The breakdown** was not available but from national data it is plausible that private consumption led the gain, while net trade was weak.
- **The eurozone's inflation** took off reaching 1.8% yoy in Jan from 1.1% in Dec in the wake of higher commodity prices and a weakening euro. Long-term inflation expectations implied from market instruments have shot up to 1.8%.
- **Retail sales in the eurozone** dropped -0.3% mom (+1.1% yoy) in Dec after a -0.6% decline (+2.5% yoy) in Nov.
- **France's GDP grew** by 0.4% qoq (1.1% yoy) in Q4 from 0.2% (0.9% yoy) in Q3. Consumption and investment were the main drivers (0.6% qoq and 0.8%, respectively) while net trade added only 0.1%.
- **French household expenditures on goods** dropped -0.8% mom in Dec offsetting the 0.6% mom gain in Nov.
- **German retail sales** fell -0.9% mom in Dec after -1.7% drop in Nov.
- **The Bank of England** kept its benchmark interest rate and

bond-buying programme on hold in line with a unanimous vote.

- **UK consumer confidence** improved to -5 in Jan from -7 in Dec, but consumers remain wary about the outlook.
- **Eurozone unemployment rate** declined to 9.6% in Dec from 9.7% in Nov.
- **Italy's jobless rate** came in at 12 % in Dec, unchanged from the revised Nov figure.

Asia and Pacific:

- **China NBS manufacturing PMI** fell slightly to 51.3 in Jan from 51.4 in Dec while markets expected 51.2.
- **The Bank of Japan** left the interest rate unchanged at -0.1 %, as widely expected.
- **Japan's consumer confidence index** rose 0.1 point to 43.2 in Jan well below the neutral 50 mark.
- **Japan's industrial production** rose 0.5% mom in Dec, thanks to a pick up in tech. Demand for Japanese autos is supported by a weak yen.
- **Japanese workers' household expenditures** rose 2.6% yoy in Dec recovering from the 0.3% decline in Nov, a rare hint that some benefits of the sluggish recovery are reaching the consumers.
- **Industrial production in Korea** rose 4.3% yoy in Nov vs 5.3% yoy in Oct on the back of stronger export demand especially for electronic parts, as in most of Asia.
- **South Korea trade surplus** recorded a USD 3.2bn in Jan, compared to a USD 4.93bn surplus a year earlier.
- **South Korea inflation rate** increased to 2% yoy in Jan from 1.3% in Dec, driven by fresh food and transport prices.
- **Thai industrial production** grew 0.5% yoy in Dec vs 3.8% in Nov. Electronics manufacturing recorded the best performance.

Bottom line: The data flow last week confirmed that the global economy is starting 2017 on solid footing. Nevertheless, dark

clouds in the form of political volatility are clustering over the horizon: the unpredictability of Trump's mood, key elections in Europe and the Communist Party Congress in China have raised the likelihood of idiosyncratic risks. Meanwhile, financial conditions are tightening, which heightens the possibility of a policy mistake by central banks.

Regional Developments

- **Egypt's** central bank received USD 4bn last week from its **Eurobond sale** during the week before- when it raised twice as much as it initially targeted and at lower yields than expected.
- **Money supply (M2)** in **Egypt** was up 39.5% yoy to EGP 2.7 trillion at end-Dec.
- **Banque du Caire**, Egypt's 3rd biggest bank, will **list on the stock exchange** this week and have an **IPO by H1 this year**. The central bank governor had stated last year that the government planned to offer 20% of Banque du Caire.
- In **Jordan**, the government announced a **pay cut** in the monthly salary of **public officials** by 10% of any amount over JOD 2,000, including the prime minister and ministers. Furthermore, the government is to discuss putting a maximum limit on wages (at JOD 3500) for any state official.
- **Kuwait** expects to post a **budget deficit** of KWD 7.9bn in the next fiscal year, after a 10% revenues contribution to the sovereign wealth fund. The budget assumes oil price at USD 45 per barrel and projects a spending of KWD 19.9bn next fiscal year.
- The **Kuwait Investment Authority's** chairman disclosed that the two main **investment priorities** of the Sovereign Wealth Fund would be technology and infrastructure.
- Though **Kuwait** continues to work towards issuing an **international sovereign bond**, the country's finance minister stated that it was hard to give a time frame

for the sale of an estimated KWD 3bn.

- **PMI in Lebanon** rose again in Jan, to 47.7 (Dec: 47), as businesses output, prices, new orders and exports witnessed slower drops. The index had posted an average 45.7 last year.
- **Oil production** is expected to start in 2018, according to **Lebanon's** President. He also stated that the revenues would be placed into a sovereign wealth fund and invested in development projects. A government decree at end-Jan also stipulated that Lebanon would join the Extractive Industries Transparency Initiative (**EITI**).
- **Lebanon** received an estimated USD 1.6bn in **assistance** in 2016 **for supporting Syrian refugees**, according to UN's Resident and Humanitarian Coordinator. Another source revealed that around 90% of pledges made at Feb 2016 conference in London (for supporting Syria and the region) had been honoured.
- **A 5-year privatization plan** of state-owned companies in **Oman** via stock market listing has been proposed by the Capital Market Authority to the Ministry of Finance, according to a CMA top-level official.
- **Money supply** in **Qatar** shrank for the 11th straight month in Dec (-4.6% yoy; Nov: -4.4%) while credit growth picked up by 12.6% (Nov: 10.4%). Net foreign reserves dipped by 14.9% yoy to QAR 113.9bn as of end-Dec.
- **Qatar's** central bank sold QAR 1.41bn of **T-bills** in a **monthly auction** last week; the yield curve flattened compared to the month before.
- **Qatar's** Ministry of Economy and Commerce has issued **instructions to private shareholding companies** pertaining to eligibility of members on their board of directors, bonuses and rewards, and rules governing the conduct of shareholders' general assembly. These instructions apply to private shareholding companies that do not fall within the control of the Qatar Financial Markets Authority or the Qatar Central Bank.
- **Saudi Arabia's** Cabinet approved the Unified Agreement

for **Value Added Tax**. The 5% VAT is expected to be implemented across the GCC starting next year.

- A **government efficiency office** set up in **Saudi Arabia** to review state projects has probably saved the country close to SAR 80bn on costs, according to the finance minister.
- **Saudi Arabia's** Energy Minister disclosed that **Aramco** is likely to list its shares simultaneously on more than one exchange, but that this was still under evaluation.
- **Saudi Arabia** created a unit to focus on **renewable energy** called Renewable Energy Project Develop Office (Repdo); one of the initial projects would be the development of two new solar and wind power plants with a capacity to produce 700 megawatts of power, for which bids will be invited in Apr.
- **Saudi Arabia** may increase its **oil investments in the US**, according to the country's energy minister, given President Trump's policies more fossil-fuel oriented energy policy.
- **Saudi Arabia suspended** its monthly issue of **domestic bonds** for the 4th consecutive month in Jan, thereby easing liquidity pressures. Money rates also dropped, falling below the central bank's repo rate for the first time since Apr 2016.
- **Net foreign assets** at **Saudi Arabia's** central bank shrank by USD 1.9bn from the previous month to USD 528.6bn in Dec – their lowest level since Nov 2011. **Money supply** rose to 0.7% yoy in Dec, the highest level since Jan 2016, and versus Nov's 0.1%. **Commercial bank lending** to the private sector grew only 2.4% in Dec – the slowest growth since Mar 2010.
- **Supply from the 11 OPEC members** with production targets under the deal has averaged 30.01mn barrels per day (bpd) in Jan, according to a Reuters survey, down from 31.17mn bpd in Dec. Saudi Arabia has shouldered almost 60% of the output cuts, while along with Kuwait, UAE and Qatar, the four nations have contributed 82% of all the

cuts made by OPEC's members, compared with a planned share of 68%.

- With greater **private sector participation**, the **GCC** can save USD 165bn in capital expenditures by 2021, according to a Strategy& report. The report states that GCC could also generate USD 114bn in revenues from sales of utility and airport assets, and up to USD 287bn from sales of shares in publicly listed companies.
- Businesses in the Europe, Middle East and Africa (**EMEA**) **region** are maintaining an average pace of **digital adoption** (41%) versus their American counterparts (45%), according to Dell Technologies. From the region, only 42% of businesses in the UAE and Saudi Arabia exhibit a strong growth on their journey to digital readiness.

UAE Focus

- **Fuel prices** in the **UAE** rose in Feb: petrol prices are up by between 4.7%-5.2% depending on the grade while diesel prices are higher by 3%.
- The **UAE Central Bank** released, in Jan 2017, a **regulatory framework for virtual currencies and electronic payment systems**, aimed at digital payment service providers. However, a sentence within the regulation, that "all virtual currencies (and transactions thereof) are prohibited", has been clarified by the Governor. He stated that "these regulations do not cover 'virtual currency', which is defined as any type of digital unit used as a medium of exchange, a unit of account, or a form of stored value. In this context, these regulations do not apply to bitcoin or other crypto currencies, currency exchanges, or underlying technology such as Blockchain". (*The regulation can be downloaded at: <http://centralbank.ae/en/pdf/notices/Regulatory-Framework-For-Stored-Values-And-Electronic-Payment-Systems-En.pdf>*)
- **UAE's** Dubai Financial Market (**DFM**) plans to launch

Central Counterparty (CCP) clearing as part of its effort to further reinforce market structure based on international best practices. Consultation will begin on the new DFM clearing model in Q2 2017 and plans are to start CCP company's operations in early 2019.

- **Nasdaq Dubai** announced the listing of Investment Corporation of Dubai's USD 1bn **Sukuk**, raising the total value of listed sukuk in the emirate to USD47.21bn.
- **Expo 2020 Dubai** disclosed that over AED 2bn had been invested by the **contracts** awarded in 2016; also, two-thirds of the 12,000 companies registered on its e-sourcing portal are SME's, which have so far won 43% of contracts (twice the target). This year, Dubai is expected to award 47 construction contracts worth AED 11bn.
- **Japan imported** 097 million barrels of **crude oil from the UAE** in Dec 2016, accounting for 23.3% of Japan's total crude imports.
- National Bank of Abu Dhabi (**NBAD**) announced that it had become the first bank in the Middle East and North Africa to introduce **real time, cross-border payments on blockchain**, through a partnership with Ripple (a start-up specialising in blockchain technology). This will allow customers to reduce costs and increase speed of payments.
- **Emirates NBD** is setting up a **digital banking service** targeted at millennials; called , the mobile app will allow customers to open their bank account instantly from their smartphones through simply scanning in their Emirates ID card. After depositing funds into their accounts (using any bank debit card), customers can carry out routine transactions like local fund transfers and paying bills, free of any fees.
- The **UAE** has announced **visas on arrival for Russian visitors**, in a bid to boost tourism and trade. Over 600,000 Russian tourists have visited the UAE over the past two years, according to the state news agency.

- **Passenger traffic at Dubai World Central (DWC)**, Dubai's second international airport hub, grew by 84.5% yoy to 850,633 persons in 2016. DWC currently has 27 passenger carriers, operating an average of 108 flights weekly to 44 international destinations.

Media Review

What businesses think of Trump

<https://ig.ft.com/sites/trump-business-reaction/>

Trump and the Iran nuclear deal

<http://www.reuters.com/article/us-iran-usa-nuclear-idUSKBN15I2WF>

We're in Phase III of the Trump Rally: El-Erian

<https://www.bloomberg.com/view/articles/2017-02-01/we-re-in-phase-iii-of-the-trump-rally>

Electric car could thwart oil demand

<http://www.businessinsider.com/r-cheaper-renewables-to-halt-coal-and-oil-demand-growth-from-2020-research-2017-2>

Venture capital deals in 2016

<http://r-blog.salvaggio.net/?p=369>

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