

Weekly Economic Commentary – Feb 12, 2017

Markets

Global stock markets were again quite upbeat as the Trump reflation trade was re-ignited by a vague commitment by the new US President to overhaul the financial market rules. So the US indices touched new highs and most world bourses were pulled up (with a couple of exceptions in our region). An interesting action took place in the bond markets. In Europe the risk-on button was flashing as polls indicated that Le Pen is gaining in the polls and the Greek saga is adding a new chapter (see Media Review). In the US the bet against Treasuries, which appeared the surest after Trump's election, is showing signs of hitting a wall. The 10-year note gained for fourth straight day, the longest streak since June. In currency markets, the dollar was lifted on major crosses by the Trump's announcement, but one should not forget that the dollar fell in January by the most in 10 months, reverting to levels predating its post-election rally. Oil prices were little changed as major news pulled in opposite directions: the EIA confirmed that the compliance with OPEC quota was the highest in history and the large increase in US oil inventories. A Vitol top manager warned that Trump's policies and changes in global production might take oil prices on a bumpy ride this year. Gold touched its highest close since Nov.

Global Developments

US/Americas:

- **US goods and services** deficit narrowed to USD 44.3bn in Dec from an upwardly revised USD 45.7bn gap a month earlier and lower than market expectations of a USD 45bn

shortfall.

- **US wholesale inventories** rose 1%, mom the same as in Nov. Durable goods grew 0.7%, while nondurables surged 1.4%. Sales growth was also strong at 2.6%, with the inventory-to-sales ratio declining from 1.31 to 1.29.
- **The US government posted** a USD 51bn budget surplus in Jan, 7.1% lower than a USD 55bn surplus a year earlier.
- **University of Michigan's consumer** sentiment fell to 95.7 in Feb from a 13-year high of 98.5 in Jan.
- **US jobless claims** for unemployment benefits decreased by 12K to 234K confirming that the job market remains perky. Continuing claims rose from 2.063 mn to 2.078 mn. The 4-week moving average was almost unchanged.
- **The inflation rate in Brazil** eased for the fifth month in a row to 5.3% in Jan, the lowest since Sep 2012.

Europe:

- **German industrial production** unexpectedly dropped by -3% mom in Dec vs +0.5% in Nov, recording the worst performance since early 2009. Growth in all sectors was negative in mom terms.
- **German manufacturing orders soared** by 5.2% mom (7.6% yoy) in Dec after plunging -3.6% (+2.1 yoy) in Nov. Both domestic and foreign orders contributed to the monthly recovery. Despite emerging markets woes, orders have been sustained by the US recovery and the weaker euro.
- **Germany** posted a new record **trade surplus** at EUR 252.9bn in 2016 surpassing the previous high of EUR 244.3bn in 2015, as exports growth overtook that of imports. In monthly terms the trade surplus narrowed to EUR 18.4bn in Dec from EUR 21.8bn in Nov.
- The **UK Halifax house price index** rose only 5.7% yoy in the 3 months to Jan, following a 6.5% increase in the previous 3 months. The index rose by a still-robust 2.4% in Jan after a 2.5% in Dec, but demand is inexorably weakening.

- **UK industrial production** surprised on the upside and increased 1.1% mom in Dec, following a 2% jump in Nov, thanks to pharmaceutical manufacturing.
- **UK's trade in goods and services** narrowed by GBP 0.3bn to GBP 3.3bn in Dec.
- **France** recorded a trade gap of EUR 3.42bn in Dec, compared to a EUR 4.37bn deficit.
- **Greek unemployment rate** came in at 23% in Nov, unchanged from Oct four-and-a-half year low and down from 24.5% in Nov 2015.

Asia and Pacific:

- **China reported a** USD 51.35bn trade surplus in Jan lower than a USD 56.67bn in Dec.
- **Indonesia's GDP growth** was almost unchanged at 4.9% yoy in Q4 vs 5% in Q3. Sluggish consumption growth acted as a drag together with lower government spending. Full-year growth at 5.0% yoy was just a tad below the 5.3% 2016 target.
- **Philippines central bank** held its benchmark overnight borrowing rate at 3% on Feb 9th, as widely expected, saying inflation is expected to remain within its comfort zone for some time
- **Inflation in the Philippines** rose slightly to 2.7% yoy in Jan from 2.6% in Dec.
- **The Reserve Bank of India** left its key repo rate unchanged at 6.25% for the second time at its February 2017 meeting, compared to expectations of a 25bps cut.
- **Inflation in Taiwan** was 2.2% yoy in Jan vs 1.7% in Dec driven in part by the Lunar New Year purchases.
- **Malaysia reported** a MYR 8.72bn trade surplus in Dec 2016, compared to a MYR 8.25bn surplus a year earlier while market expected a MYR 9.3bn surplus.
- **Reserve Bank of India** left its key repo rate unchanged at 6.25% for the second time, disappointing compared to expectations of a 25bps cut. The central bank believes

the inflation lull is largely due to temporary factors, which depress food prices.

- **Indian industrial production** fell -0.4% yoy in Dec due to the liquidity crunch caused by the demonetization. Autos and retail will suffer further losses over the coming month.

Bottom line: The macro data flow was rather light last week and did not reserve any major surprise (apart from German industrial production). In essence the current pace of underlying economic growth has risen worldwide, with all the major advanced economies growing at trend. But the relevance of macro data is overshadowed by the expectations on how and when the new US Administration will enact its plans and the electoral calendar in Europe. Protectionism is another major area of concern, because trade barriers would derail the global supply chains. International trade is already suffering and any additional blow would have depressive effects.

Regional Developments

- **Inflation in Egypt** surged to 28.1% in Jan (Dec: 23.3%) – the highest level since records became available in 2005 – with food and beverage prices up a whopping 37.2%.
- **Net foreign reserves in Egypt** rose to USD 26.363bn at end-Jan (Dec: USD 24.265bn).
- **Egypt's PMI** remained below the 50-point mark for the 16th consecutive month in Jan; the index increased to 43.3 from Dec's 42.8, though there was a sharp uptick in output charges and employment dipped for the 20th straight month.
- **Egypt's fuel subsidy bill** grew by 46% to EGP 38bn (USD 2.11bn) in H1 2016-17 fiscal year, revealed the oil minister, though much of the rise can be attributed to the depreciation of the EGP.
- **Remittances** from expatriate **Egyptians** increased 12% yoy to USD 4.6bn in Q4 2016, according to the central bank, with around 72% (or USD 3.3bn) coming in after the

float.

- **Egypt's** bourse announced the approval of the **listing** of state-owned lender **Banque du Caire**, with a capital of EGP 2.25bn, distributed over 562.5m shares with a nominal value of EGP 4 per share.
- **Egypt's** finance ministry plans to sell USD 1bn in **one-year dollar-denominated treasury bills** to local and foreign financial institutions, disclosed the central bank, and the auction deadline is Feb 13.
- **Inflation** in **Kuwait** clocked in at 3.5% yoy in Dec (Nov: 3.4%), averaging 3,2% for the full year, while core inflation in Dec was at a multi-year high of 4.2% yoy.
- **Lebanon's** ministers are likely to approve the state **budget** and resolve **electoral law** issues by end of this month, according to various statements. Parliamentary elections are scheduled for May, but the law needs to be decided before Feb 21, when the constitutional time limit expires for a new law ahead of the polls.
- **Funding** coming to **Lebanon**: the World Bank approved a USD 200mn fund to upgrade the country's road network and increase low-skilled jobs; UK will invest USD 199mn in education over 4 years, with the aim of getting 147k more children in public schools in the upcoming school year, while maintaining free enrollment for all.
- **Fitch** affirmed **Lebanon's** Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at "B-" with Stable Outlook. While political and security risks remain high, the ratings also account for strong external liquidity, resilient banking system and other strengths such as high GDP per capita and human development indicators.
- **Oman and Iran** have agreed to change the route of a planned undersea gas export **pipeline** to avoid the UAE, according to the latter's oil minister. The project needs USD 1.2bn of investment.
- **Oman's Council of Ministers** has ordered a price freeze on the country's most popular fuel after calls for an

urgent review of the subsidy scheme. M91 fuel will be frozen at its current price – 186 baisas a litre, until mean-tested compensations are devised for low income households.

- **Oman's Central Bank** tendered **Government Treasury Bills** for a total of OMR 32.77 mn, for a maturity period of 91 days, at an average price of 99.743 for OMR 100 denominations. The minimum accepted price was set at 99.740. The average discount rate and the average yield reached 1.03155% and 1.03422 % respectively.
- **Qatar's GDP** at current prices was down 5.7% yoy to QAR 140.5bn in Q3 2016, but it was up 4.2% qoq. The non-oil sector posted a 4.2% yoy and 2.3% qoq increase in Q3 2016.
- According to **Qatar's** finance minister, the government may not need to issue an international bond this year to ease **finances**; however, he reiterated that the austerity drive would continue. He also stated that the government is scaling back state projects, and that about USD 8-9bn of such projects were given to the private sector in the past 18 months.
- About 90% of projects related to the 2022 **World Cup** in **Qatar** in all sectors were awarded and are to be executed within the schedule, according to the finance minister at a cabinet meeting.
- **Qatar's** energy minister stated that the market is "gradually accommodating for shale oil and gas" as demand remains healthy; he also stated that a drop in inventories was evident, but that it was too early to say whether it would be necessary to extend the current **OPEC pact** beyond June.
- Loans to the **real estate sector** in **Qatar** grew by 7.65% yoy to QAR 130bn in 2016, according to central bank data. According to the existing guidelines, the loan facility to the real estate sector should not exceed 65% of the total cost of the project.
- **PMI** in **Saudi Arabia** increased to a 17-month high of 56.7

in Jan (Dec: 55.5), on faster output growth and with new order growth touching a 14-month high.

- **Saudi Arabia's Aramco** is planning its first domestic Sukuk issue in the region of SAR 3-6bn, to be issued over the next 2-3 months, to finance "new expansion projects". Aramco is also unlikely to reduce its **drilling rig count** this year, currently at eight water well rigs and 212 active rigs, revealed industry sources. This number could increase slightly as the company focuses on natural gas production.
- **Aramco** is in talks with Singapore Exchange regarding a **secondary listing**, according to inside sources; review also includes markets like New York, London, Hong Kong and Japan.
- The total value of **planned railway investments** in the **GCC** is over USD 240bn, with USD 130bn worth of railway projects in the pipeline in Saudi Arabia alone, according to a report produced by Terrapinn Middle East. As of Jan 2017, Saudi had registered the highest rail construction project value of 50%, followed by the UAE and Qatar (at 18% and 17% respectively).
- With **UAE** and **Saudi Arabia** recognized as among the "top 10 air freight lanes" globally, both are attractive targets for **logistics investments**, according to a report by Al-Masah Capital. The region has 134 seaports handling 48.3mn 20-foot equivalent container units (TEU) of container traffic; GCC has 41 ports and handles 68% of MENA's container port traffic.

UAE Focus

- **UAE's PMI** edged up to 55.3 in Jan from 55 in Dec, supported by faster new order growth amidst rebounding export orders.
- The **Dubai Economy Tracker** rose to 57.1 in Jan (Dec: 55.9) – the highest reading since Feb 2015 – thanks to faster expansion of output and new orders.

- Falling food prices brought down **inflation** in **Dubai** to 2.2% yoy in Dec 2016 (Nov: 2.7%) while housing and utility costs were up 2.9% yoy.
- UAE's **Ras Al Khaimah** emirate is **not planning to issue a dollar-denominated bond this year**, according to an official statement, refuting a Reuters article which stated that the emirate had been in talks with lenders.
- **Dubai** hosted 14.9 mn **overnight visitors** in 2016, a 5% yoy increase, as visitors from both China and Russia continued to rise, with the former posting a 20% rise crossing 500k tourists. Visitors from the GCC grew by 5% to 3.4mn, of which Saudi topped the list (1.6mn, 6% rise) followed by Oman (1mn). India and UK accounted for 1.8mn (+12% yoy) and 1.25mn tourists last year, rounding the top spots.
- According to Coface, around 814 **runaway cases of UAE-based businesses** was registered from Q3 2015 to Q4 2016, of which around 55% were businesses in the general trading sector. In spite of this, UAE is still categorized as A4 – implying acceptable risk.
- IBM has announced a **blockchain initiative** in collaboration with Dubai Customs, Dubai Trade and its IT provider DUTECH, for a **trade finance and logistics solution** for the import and re-export process of goods in and out of **Dubai**.
- **DP World** reported a 2.2% yoy like-for-like basis rise in **gross container volumes** to 63.7mn twenty-foot equivalent units (TEU), driven by strong growth Asia-Pacific and Europe.

Media Review

The intrinsic instability of oil markets

<https://www.ft.com/content/8e0a394a-e854-11e6-893c-082c54a7f539>

The Greek saga is about to restart

<https://www.wsj.com/articles/greeces-never-ending-fiscal-drama-1486589512?mod=e2tw>

The US Private Equity performance in 7 charts

<http://pitchbook.com/news/articles/the-current-state-of-us-private-equity-in-7-charts>

Generating Public Revenue to Build Resilient Economies: Lagarde's speech at the Arab Fiscal Forum, Dubai

<http://www.imf.org/en/News/Articles/2017/02/12/Generating-Public-Revenue-to-Build-Resilient-Economies>

UAE to adopt a new entry visa system

<https://www.bloomberg.com/news/articles/2017-02-05/u-a-e-to-adapt-visa-system-seeking-to-lure-top-expat-talents>

Middle East Debt: Making a case for 10Y Saudi Sukuk: Reuters

<http://www.reuters.com/article/mideast-debt-sukuk-idUSL5N1FT2T4>

The Financial Times gives two thumbs up to Salalah

<https://www.ft.com/content/celada46-e884-11e6-967b-c88452263daf>

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