

# Weekly Economic Commentary – Feb 26, 2017

## Markets

Global stock markets advanced again with the Dow setting a record high on 10 consecutive days, the longest sequence since Reagan took office. With two additional records Trump's bull market could set the longest sequence ever. All other markets displayed by and large positive performances with the exception of Europe where political dark clouds over the horizon are dissuading investors from taking risks. This attitude is most perceptible in bond markets where French yields scored a 1-month low and spreads between German bunds and peripheral countries remain high. Regional stock markets were mixed with some like Morocco suffering heavy losses. Despite the rally, bears in the US insist that the expected earnings' growth, resulting from lower corporate taxes or more expansionary fiscal policy might not materialize anytime soon. In currency markets, the dollar lost ground to a resurgent yen and to most crosses. Oil prices registered the biggest spike in almost a month on Thursday after a tiny increase in US crude stocks shattered expectations of a large build up. Gold continues its advance and is up about 7% since the Fed hiked rates on Dec. 14. Geopolitical uncertainty and reflation are the main factors supporting demand.

## Global Developments

### **US/Americas:**

- **The minutes of the US Fed FOMC** suggested that a hike might come “fairly soon” but markets' prices incorporate a mere 22% chance of a Fed hike in Mar. Emphasis was placed on risks of overheating in the job market and the QE reinvestment program will soon become under scrutiny.

- **The University of Michigan's final consumer sentiment** retreated to 96.3 in Feb compared to a preliminary figure of 95.7 and a final 98.5 in Jan.
- **US New home sales** rose 3.7% mom to a seasonally adjusted annual rate of 555,000 in Jan offsetting the previous month's tumble. **Existing home sales** were up 3.3% mom (3.8% yoy).
- **US unemployment benefits claims** increased by 6,000 to 244,000 and the 4-week moving average fell by 4,000 to 241,000, a cyclical low. Continuing claims fell 17,000 to 2.06 mn.
- **Canada inflation** increased to 2.1% yoy in Jan, vs 1.5% in Jan much above expectations of 1.6%.
- **The Central Bank of Brazil** cut its key Selic rate by 75 basis points to 12.25% on February 22nd 2017, in line with market expectations.
- **Mexican GDP** expanded 0.7% qoq in Q4, slowing from 1.1% in Q3, as the tensions with the US on the NAFTA are sapping confidence.

## Europe:

- **The Markit Flash Eurozone composite PMI** rose to 56 in Feb from 54.4 in Jan, much above expectations and the highest level in 70 months, as both services (55.6 from 53.7) and manufacturing (55.5 from 55.2) rose. New business increased the most since April of 2011; job creation was the strongest in 9.5 years; order book growth picked up and business climate improved while inflation expectations strengthened.
- **Inflation in the Eurozone** jumped to 1.8 % yoy in Jan, after 1.1% in Dec, mostly due to energy prices. Core inflation remained unchanged at 0.9%.
- **The Eurozone's consumer confidence** fell to -6.2 in Feb from -4.8 in Jan.
- **The Markit Flash Germany PMI composite output index** touched 56.1 in Feb from 54.8 in Jan, a top since Apr

2014. Manufacturing jumped for the third consecutive month to 57 a figure unseen in nearly 6 years; the service sector hit a 3-month high of 54.4.

- **The German Ifo Business Climate Index** recovered to 111 from 109.9 in Jan thanks to optimism about the current situation and expectations for the immediate future. Worries over inflation and US protectionism were a drag.
- **Italy's new industrial orders** rose by 2.8% mom in Dec following a 1.7% rise in Nov. The pick-up underscores the favourable momentum but order are still -0.9% below a year ago.
- **Russian industrial production** rose 2.3% yoy, the fourth consecutive monthly gain, corroborating hints that a recovery is slowly picking up.

#### **Asia and Pacific:**

- **Hong Kong's GDP** grew 1.2% qoq in Q4 vs 0.8% in Q3, with consumption, exports and government spending all posting stronger growth. The real estate recovery and the trade expansion especially with China, are the main underlying factors.
- **The Nikkei Japan flash manufacturing PMI** rose to 53.5 in Feb from 52.7 in Jan, the sixth straight monthly expansion and the top since Mar 2014. Output, new orders, new export orders and employment and business confidence were all on the rise.
- **Singapore's industrial production** growth slowed to 2.2% yoy in Jan, compared with an exceptional 21.3% in Dec.
- **Singapore consumer prices** rose 0.6% yoy in Jan, compared to a 0.2% increase in Dec and in line with expectations of a gradual reflation.
- **Taiwan's industrial production** increased only 2.8% yoy in Jan vs 6.2% yoy rise in Dec due to the Lunar New Year holiday. Demand for electronics continue to sustain manufacturing output.

**Bottom line: In a week without major releases, the PMI and**

macro data indicate that the global economy was gaining traction even before the new US administration came into office. Trump fiscal stimulus and tax cuts will succeed only if the impact on US government bond yields will be modest. Otherwise fiscal profligacy could disrupt the fixed income market – which is in precarious conditions concealed by the heavy doses of anesthetic injected by massive QE programs.

### Regional Developments

- **Bahrain** succeeded in attracting **40 new companies** to **invest** a total of USD 281mn in the country last year, which is also likely to result in the creation of 1647 jobs over the next 3 years, according to the Economic Development Board. The tourism sector accounted for the bulk 75% of total investments, with manufacturing and financial services sectors attracting 15% and 9% respectively.
- **Egypt** is planning to implement a **stamp duty on stock exchange transactions** of 0.2% on both sellers and buyers by May this year, according to a senior finance ministry official, which is estimated to generate revenue of EGP 1-1.5bn in the next fiscal year.
- **Egypt's** central bank governor rallied behind the **currency float**, stating that it not only allowed the central bank to provide USD 1.5bn for payments to international oil companies this year, but also helped them allow foreign companies repatriate profits. He also expects foreign debt to climb to USD 60bn by Jun this year (Jun 2016: USD 55.76bn) and imports to decline by 30% this year.
- **Egypt's central bank** has agreed with the Egyptian Federation of Investors Associations to **settle dollar debts** resulting from the exchange rate differences after the pound's float, thereby alleviating debts that threatened the closure of some firms. The agreement will see about 570 companies repaying the debts in Egyptian

pounds over two years with a 12% interest rate.

- The **Industrial and Commercial Bank of China (ICBC)** plans to **invest USD 20bn in Egypt** over the next decade, revealed the general manager of the Africa branch, as part of the wider USD 35bn to be invested in Africa during this period.
- According to **Iraq's PM**, the country needs **oil prices** to reach USD 60 per barrel to plug its public **deficit gap**.
- **Iraq's** oil minister disclosed that as a result of appraisals and exploration in 7 oil fields, **oil reserves** have increased to 153bn barrels, from a previous estimate of 143bn barrels.
- **Kuwait** could phase out all **subsidies** by 2020, if recommendations it received from EY (who were assigned to prepare the roadmap for subsidy reform by the ministry of finance) are implemented.
- **Kuwait** plans to raise its **oil production capacity** to to 4mn barrels per day (bpd) by 2020 (from 3.15mn bpd) and maintain this level to 2030 before further raising to 4.75mn bpd by 2040, according to a Kuwait Petroleum Corp official.
- An **issuance of US dollar-denominated Omani government bonds** has been assigned a provisional Baal rating from agency Moody's, three notches above non-investment grade. The ratings agency wrote that "despite credit positive economic diversification efforts Oman's economy remains dependent on the oil and gas sector, and competitiveness remains under pressure".
- **Oman's corporate income tax** has been raised from 12% to 15% and exemptions for small firms have been removed.
- **Oman's conventional banks** have achieved a 7.7% yoy growth in aggregate personal loan or consumer loan portfolio, which stood at OMR 7.9bn at the end of Dec.
- **Qatar's** energy minister stated that it was still too early to say whether oil producers would extend their **output reduction** agreement when **OPEC** members meet in May.

- A **proposed merger** between three **Qatari banks** – Masraf Al-Rayan, Barwa Bank and International Bank of Qatar – is currently at the **due diligence stage**, and if successfully completed, would create the largest Islamic bank and second-largest bank in Qatar.
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- **Qatar-India bilateral trade** amounted to around USD 10bn in 2015-16, according to the Ambassador of India to Qatar. The major Qatari export to India is LNG and it provides more than 65% of India's energy needs, disclosed the Qatar Chamber.
- According to the French Ambassador to Qatar, **France** is not only the **second largest destination for Qatari investments**, with investments close to USD 20bn, but also the second largest country in terms of exports to Qatar (exports from France: USD 1.8bn in '16).
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- The **economic cost** associated with **traffic congestion** in **Qatar** rose to between QAR 5.6-6.6bn last year, from an estimated QAR 5.2-6bn the year before, as per a Qatar Mobility Innovations Center report. The average time a commuter wasted on the roads due to traffic congestion rose to 109 hours in 2016 from 102 hours in 2015.
- Cases related to **bounced cheques** are rising in **Qatar**, according to legal experts, with the courts receiving almost 20k cheque-related cases every year, according to legal experts.
- **Saudi Arabia's** Tadawul announced that it had received regulatory approvals to list seven companies on its new **parallel market, Nomu** (starting on Feb 26, today). *More*

details about the parallel market:  
<https://www.tadawul.com.sa/wps/portal/tadawul/knowledge-center/about/parallel-market>

- **Inflation in Saudi Arabia** fell by 0.4% yoy and 0.2% mom in Jan – the first drop since early 2000s – with food and beverage prices down 4.2% yoy.
- **Saudi Arabia** has invited investors to submit requests to qualify for the first round of its USD 30-50bn **National Renewable Energy Programme** by Mar 20. Pre-qualified bidders are to be announced by Apr 10, and an award is expected by Sep.
- **Saudi Arabia's travel and tourism sector** is expected to contribute more than USD 81bn to the country's GDP by 2026, according to the World Travel and Tourism Council. Domestic tourism is key: the number of local tourist trips inside Saudi Arabia grew 2.3% yoy to more than 47.5 million last year.
- **Saudi Arabia** has earmarked USD 10bn in aid for the **reconstruction** of provinces retaken from Houthi rebels, revealed **Yemen's** president.
- Busy times in the **Gulf debt markets**: Saudi Arabia sent a request for proposals to banks for a planned US dollar sukuk, according to sources, reported *Reuters*. This would be the country's second international bond offering. Bahrain also launched a tap of its USD 1bn 2028 bond, while Oman announced the launch of a new bond.

## **UAE Focus**

- **Money supply** (M2) in the **UAE** increased by 0.4% mom to AED 1.23 trillion at end-Jan this year. Gross bank assets dipped by 0.03% mom to AED 2.6trn while bank deposits decreased by AED 1bn from Dec 2016.
- **Dubai's inflation** was up 0.8% mom and 3.7% yoy in Jan, thanks to a 6.4% yoy hike in transport costs; housing and utility prices were up by 2.5% while food costs rose

0.9%.

- The Dubai Financial Services Authority (**DFSA**) has entered into an MoU with the **European Securities and Markets Authority**, which will enable the DFSA to cooperate and exchange information in connection with monitoring of DIFC-based central counterparties or CCPs.
- UAE's Abu Dhabi National Oil Company (**ADNOC**) signed an **agreement** giving China National Petroleum Corporation (**CNPC**) an 8% stake in a 40-year onshore oil concession, with the CNPC contributing a sign-up bonus of AED 6.5bn (USD 1.8bn) to enter the concession.
- UAE's **telecom operator du** announced that it will pay 15% of its annual revenues and 30% of its profit to the Federal Government as a new **royalty payment** from 2017 until 2021. **Etisalat** will also pay the same royalty fees, though revenues from its international operations will be exempted from royalty fees.
- **Dubai real estate** made a strong start this year: according to the Dubai Land Department, transactions worth AED30bn were registered in the month of January.
- **Average room rates at UAE hotels** fell 8% yoy to AED 712 in Jan, thanks to strong supply growth; revenues per available room declined by 7.5% to AED 577.

## **Media Review**

**The economic KPIs for Trump**

<https://www.bloomberg.com/graphics/2017-how-well-know-if-trump-is-making-america-great-again/>

**Can the US become an energy superpower?**

<https://www.bloomberg.com/graphics/2016-energy-pipelines/>

**Bond markets' tantrum. Again**

<https://bankunderground.co.uk/2017/02/17/bitesize-tantrums-massacres-and-bond-market-reversals/>

**China is now Germany's largest trade partner**

<https://qz.com/918533/the-new-world-order-china-is-now-germanys-largest-trading-partner/>

<https://www.theatlantic.com/charts/r1rdSjaYl>



**In Fintech, China shows the way**

<http://www.economist.com/news/finance-and-economics/21717393-advanced-technology-backward-banks-and-soaring-wealth-make-china-leader>

**Best Returns Since 1900 Came From These Markets: Bloomberg Chart**

<https://www.bloomberg.com/news/articles/2017-02-24/world-s-best-returns-since-1900-came-from-these-markets-chart>

**Saudi King Salman launches investment drive with Asia tour**

<http://www.reuters.com/article/us-saudi-asia-idUSKBN1631P0>

**UAE, Saudi can create historic opportunities for region: Sheikh Mohammed**

<http://www.arabnews.com/node/1058031/middle-east>

**Aramco's IPO comes under scrutiny**

<https://www.bloomberg.com/news/articles/2017-02-23/saudi-arabia-2-trillion-aramco-vision-runs-into-market-reality>

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