

Weekly Economic Commentary – Mar 5, 2017

Markets

US equities had a mixed week. On Monday the DJ continued its sequence of records scoring 12 consecutive hits, which in the 120 years history of the index had happened only twice. However the streak cumulatively lifted the index by only 4%, but passed comfortably the 21,000 mark. Overall, February was the best month since March for US equities with a 13% advance since Trump's election. Then Wall Street paused for a day and on Wednesday had another jump propelled by a conciliatory speech by Donald Trump to the Congress where he presented, without much details, his policy agenda and national priorities, hinging on the Obamacare repeal, a USD 1 Tn infrastructure plan, tighter immigration rules and a 10% increase in defense spending. Over the last two days of the week, however, equities retreated as investors tried to figure out the implications of Trump's policy goals and as the Fed Chairperson Yellen signaled an imminent rate hike. Other developed markets such as Europe and Japan also ended the week with a plus sign, but emerging markets and regional markets registered negative performances. In currency markets the euro maintained its momentum, while the yen retrenched and the GBP took another beating as the Brexit uncertainty continues to sap the economy. Oil prices were largely stable, while gold slipped after a few weeks on the rise.

Global Developments

US/Americas:

- **US ISM non-manufacturing** PMI index rose to 57.6 in Feb from 56.5 in Jan confirming the robust pick up in the industrial sector. New orders rose from 60.4 to 65.1.

Production and inventories advanced substantially but the employment index retreated from 56.1 to 54.2.

- **Fed Chair Yellen pointed out that further rate adjustment** would likely be appropriate at the March meeting if employment and inflation continue to evolve in line with expectations.
- **US GDP growth** was confirmed at 1.9% qoq ann. in Q3, vs 3.5 % in Q4.
- **The US PCE deflator** rose 0.4% mom (1.9% yoy) in Jan twice the rate in Dec. Food prices were flat, but energy prices rose 4.2%, mom a sharp acceleration from 1.5% in Dec and 1% in Nov. The core PCE deflator rose 0.3% mom (1.7% yoy).
- **The Conference Board Consumer Confidence Index** rose 3.2 points in Feb to 114.8, the highest level since August 2001.
- **US nominal personal income** advanced 0.4% in Jan marginally better than 0.3% in Dec. Disposable income growth was unchanged at 0.3%. Wage and salary growth was also steady at 0.4%.
- **US consumer spending** unexpectedly dropped -0.3% mom reversing Dec 0.3% gain. Auto sales, rising prices, and a drop in utility spending were the main causes. Durable goods and service spending dropped in real terms.
- **The US Fed's Beige Book**, confirmed that economic activity expanded at a modest to moderate pace across districts. Employment grew moderately almost everywhere with widening labor shortages throughout many industries pushing wages in most districts. Prices were little changed. Firms remain by and large upbeat over near-term prospects.
- **US claims for unemployment** benefits decreased by 19K to 223K a 44 year low. The 4-week moving average fell from 240,500 to 234,250. Continuing claims rose 3K to 2.066 mn.
- **The pending home sales index** dropped 2.4% on a seasonally adjusted basis in January, erasing all of

December's gains and falling back to its lowest level since Jan 2016.

- **New orders for US manufactured durable goods** rose 1.8% mom in Jan, following a -0.8 % drop in Dec, thanks to a vigorous jump in nondefense aircraft orders. Core capital goods fell -0.4%. Excluding transportation, new orders declined -0.2%. Inventories remained flat.
- **Existing-home price appreciation** in the US 20-city Case Shiller composite index reached 5.6% yoy in Dec from 5.2% in Nov. The national index increased 5.8% yoy in Dec from the 5.6% in Nov, a multi-decade high.
- The **US goods trade deficit** widened from Dec's USD 64.4bn to USD 69.2bn in Jan. Weakness in exports was due to capital goods and other goods.
- **Canadian GDP expanded** 6% qoq (2.6% yoy) in Q4, slowing from 0.9% (3.5% yoy) in Q3.

Europe:

- **Eurozone's inflation** reached 2% yoy in Feb from 1.8 % in Jan pushed up by energy prices. If such level (which matches the ECB inflation target) were to be confirmed in coming months it will make it arduous to justify the continuation of the ECB's QE program.
- **Eurozone's M3 money supply growth** decelerated to 4.9% yoy in Jan from 5% in Dec. Growth in M1 put a break on the headline.
- **Retail sales in the Eurozone** in Jan fell -0.1% mom (1.2% yoy) following a -0.5% decline (1.2% yoy) in Dec.
- The **Eurozone's economic sentiment indicator** was almost flat at 108 in Feb from 107.9 in Jan. Confidence was buoyant in the industry, construction and service sectors.
- The **Eurozone Conference Board leading economic index** climbed 0.6% mom to 108.4 in Jan.
- **German retail sales** plunged -0.8% mom in Jan from a flat reading in Dec.

- **UK consumer confidence** fell to -6 in Feb (Jan: -5), hardly an encouraging sign for the economy.
- The **UK Nationwide Housing Price Index** gained 4.5% yoy (0.6% mom) in Feb vs 4.3% in Jan.
- **Eurozone's jobless rate** was unchanged at 9.6% in Jan.
- **Swiss GDP** rose 0.1% qoq in Q4, the same pace as in Q3, but much below expectation of 0.5%.

Asia and Pacific:

- **Japan's inflation** increased 0.4% yoy in Jan, higher than a 0.3% rise in Dec and in line with market expectations.
- **Japan's industrial production** fell -0.8% mom (3.2% yoy) in Jan compared to 0.5% in Dec.
- **Japan's retail sales** rose 1% yoy in Jan after a 0.7% rise in Dec which bodes well for a pick up in consumption.
- **India's GDP** grew 7.1% yoy in Q4 on par with 7.3% in Q3. Considering the havoc caused by demonetization it is hard to believe such a figure and skepticism over the national account methodology changed a few years ago is mounting.
- **Australia's GDP** in Q4 rebounded 1.1% qoq following a -0.5% decline in Q3 with broad based growth driven by net exports and private consumption. Australia's economy escaped recession and continued its 25-year recession-free record.
- **Hong Kong's trade deficit** shrank to HKD 12.345bn in Jan from HKD 45.477 in Dec. Exports and imports both slumped, possibly because of Lunar New Year effects.
- **Malaysia reported** a MYR 4.71bn trade surplus in Jan, compared to a MYR 5.39bn surplus a year earlier.
- **South Korean exports surge** boosted the monthly trade surplus to USD 7.2bn in Feb from USD 2.8bn in Jan. Both exports and imports expanded at a double-digit yoy pace, as a consequence of global demand for electronics and higher commodity prices.

- **South Korea inflation** crawled back to 1.9% yoy in Feb, from 2% in Jan.
- **South Korea Industrial production** rose 1.7% yoy in Jan vs 4.3% in Dec due to Lunar Year effects.

Bottom line: Another week of broadly positive macro data corroborates the expectations of a stronger turnaround in the global economy. The Trump rally is losing steam as the rhetoric meets reality. A strong fiscal stimulus will trigger two consequences: 1) a larger trade deficit (which the Administration would be loath to tolerate), 2) a growing budget deficit and 3) higher interest nominal rates which would put the US Treasury on a collision course with the markets.

Regional Developments

- **Bahrain** expects to welcome 15.8mn annual visitors by 2018 – an increase of 36.2% on current figures, based on which the **tourism industry** would be on track to reach its USD 1bn by 2020 target.
- **Egypt's** finance minister will table a proposal to the government this week for imposing **stamp duties on stock market transactions**; a phased approach will see an initial stamp duty of EGP 1.25 (USD 0.0774) per 1,000 which will be raised to EGP 1.5 and EGP 1.75 in the second and third year of implementation respectively.
- **Money supply** (M2) in **Egypt** was up 41.51% yoy to EGP 2.702trillion by end-Jan 2017.
- **Germany** has offered Egypt USD 250mn to support its economic programme and an additional USD 250mn to support other sectors including SMEs, in the form of grants and concessional funds, according to the Egyptian ministry of investment and international cooperation.
- **Iraq's** oil minister disclosed that the country is planning to start offshore oil and gas exploration to boost **oil reserves**.
- **Remittances** into **Jordan** stood at USD 3.7bn in 2016, a

2.4% yoy drop, while **tourism** revenues touched USD 4.1bn (-0.5% yoy).

- Canada has committed to provide **Jordan** with CAD 220mn (around JOD 188.8mn) in development assistance over the next three years.
- **Lebanon's** Cabinet approved all provisions related to the **2017 fiscal plan**, except those related to the controversial public sector salary hike bill, according to the information minister. It is likely that the budget will be passed once the public sector salary hike is debated this week.
- **Lebanon** appointed four banks – Barclays, JP Morgan, Byblos Bank and Societe Generale de Banque au Liban – for an **international bond issuance** (minimum size of UD 1.5bn) that will take place on Mar 20, when a USD 1.5bn outstanding bond is due for redemption.
- **Tax evasion** in **Lebanon** is close to LBP 6.3 trillion (USD 4.2bn) annually, according to Bank Audi. Of this, the major components are income tax evasion at LBP 2.8 trillion, VAT evasion at LBP 2.4 trillion, uncollected electricity bill at LBP 600bn, and unpaid property registration close to LBP 300bn, among others.
- Annual **credit growth** in **Qatar** slowed in Jan (12.4% vs. 12.6% in Dec 2016 and 16.7% in Jan '16) while **money supply** (M2) shrank for the 12th consecutive month (-0.8% yoy).
- **Qatar's trade surplus** widened by 62.2% yoy and 2.3% mom to QAR 11bn in Jan. Exports grew by 16.2% yoy and 5.3% mom to QAR 20.3bn with Japan the top destination, accounting for 21.8% of total exports, followed by South Korea and India at 17.3% and 11.9% respectively.
- **Qatar's** central bank will impose a new rule from Apr 1: a **ceiling on total foreign currency positions** – surplus or deficit – of 30% of each bank's capital and reserves, which would "limit the risks of foreign currency open positions" will also be applicable to Qatari banks' foreign branches.

- **Population in Qatar** reached a record high of 2,673,000 on Feb 28, up 3.8% mom; this compares to the previous high of 2,6357,000 reported on Nov 30.
- **Saudi Arabia's King Salman's Asian visit** resulted in the signing of a number of deals/ pacts: deals worth SAR 13.5bn were inked with **Indonesia** in the fields of energy, health, housing and tourism; with **Malaysia**, seven deals valued at USD 2.19bn were signed in various sectors spanning oil and gas to Islamic finance. Separately, Aramco also signed a USD 7bn deal with Malaysia's **Petronas**, thereby taking a 50% stake in the Refinery and Petrochemical Integrated Development (RAPID) project in Malaysia.
- **Bank lending in Saudi Arabia** fell to its lowest in seven years, with credit growth up just 1.8% yoy in Jan (Dec: 2.4%). Separately, the **three-month interbank offered rate**, fell to 1.7875% last Tuesday, its lowest level since last March (it has hit a eight-year high of 2.386% in late Oct).
- **Saudi Arabia** may **raise its domestic gasoline prices** by 30% from Jul, in a bid to raise domestic fuel prices to be on par with international levels by 2020.
- **Saudi Arabia** has suspended its monthly **domestic bond issuance** for the fifth consecutive month, reported *Maaal* financial news service.
- **Saudi Arabia** would like to see **oil prices** at close to USD 60, according to industry sources, given it would encourage oil investments, with minimal threat from shale, and also support the widely anticipated Aramco IPO.
- **Saudi Arabia's crude oil exports to China** grew by 18.9% yoy to 1.19 million barrels per day in Jan, retaining the top supplier list, followed by Angola (1.17mn bpd) and Russia (1.09mn bpd). Separately, Saudi Arabia cut Apr prices of light crude it sells to Asia for the first time in three months, as oversupply of light crude persisted.

- Monthly **remittances** from **Saudi Arabia** declined by 6.7% yoy to SAR 12.61bn in Jan, according to an *Al Eqtisadiya* report; this is still higher than the SAR 11.75bn average remittances over the previous 12 months.
- **Saudi Arabia's** General Authority of Civil Aviation disclosed plans to license a **new Saudi airline** in Jul this year.
- **Saudi Arabia's health insurance market** was valued at over SAR 18.6bn (USD 4.96bn) in 2016; more than 11.8mn (including 2.5mn Saudis) have health insurance coverage, according to the Council of Cooperative Health Insurance.

UAE Focus

- **Inflation** in the **UAE** grew by 2.3% yoy and 0.7% mom in Jan; healthcare prices were up by 5.7% yoy while education and transportation costs increased by 5% and 4.4% respectively. Among the emirates, Dubai posted the highest jump in prices (3.7%) followed by Fujairah (2.9%).
- Total **Islamic banking assets** in the **UAE** have increased to approximately AED 520bn in the past few years, according to a UAE central bank official. The seven Islamic banking and financial institutions in the UAE account for about 20% of the AED 2.6trn of total assets of the states banks.
- **Abu Dhabi's non-oil foreign trade** increased by 0.1% yoy to AED 170.6bn in 2016; re-exports picked up by 31.7% to AED 24.8bn while non-oil exports dipped by 9.1%.
- **Fuel prices** were hiked for the third month in a row in the **UAE**: prices have risen between 1.5%-1.64% for petrol (depending on grade) and by 1% for diesel.
- **UAE** consumers spent USD 75.8bn (AED 278bn) on **housing** in 2016, according to data compiled by Euromonitor International. This constitutes 41% of consumers' total expenditures for the year, which reached USD 182.7bn

(+14.8% yoy). Food and beverages accounted for USD 24.8bn (+13.3% yoy) while transportation costs were reported at USD 16mn.

- New laws issued expands the jurisdiction of **DIFC Courts** (in addition to civil and commercial claims) to labour claims and actions arising out of labour contracts signed between DIFC companies and establishments and their employees.

Media Review

US Protectionism & proposed Border Adjustment Tax

<https://www.project-syndicate.org/commentary/border-adjustment-tax-us-protectionism-by-nouriel-roubini-2017-03>

Trump wears new clothes in front of Congress

<https://www.bloomberg.com/politics/articles/2017-03-01/trump-s-softer-tone-masks-hard-road-ahead-for-agenda-in-congress>

Cuts, what cuts? Asia gets more crude oil from OPEC, Russia: Reuters

<http://in.reuters.com/article/column-russell-opec-asia-idINKBN1660K0>

Egypt Central Bank Optimism

https://www.zawya.com/mena/en/story/Central_Bank_optimism-ZAWYA20170304061116/

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