

# Weekly Economic Commentary – Mar 12, 2017

## Markets

Despite the rebound after the strong US payroll numbers, the US stock market indices had a negative week, also pulling down emerging markets. On the contrary in Europe and Japan investors were encouraged by the slow but steady improvements in the macro picture. Regional markets, on the other hand, were badly affected by the slide in the oil price. In currency markets, the euro surged after the ECB signaled that deflation is over and that renormalization of the monetary policy is around the corner. This novelty had an impact also in bond markets with the yield on the 10-year German Bund touching its highest levels since early Feb. Oil prices, which had been under pressure for a while, plunged when data showed a larger-than-expected 8.2 million barrel build-up in U.S. crude oil inventories (reaching the highest level on record). The magic period of gold is coming to end as the price retrenched towards USD 1200 per ounce as the perception of global risks attenuates.

## Global Developments

### **US/Americas:**

- **US non-farm payrolls** beat expectations increasing by 235K in Feb, just a tad below the 238K in Jan. The best performance came from industry, especially construction, boosted by the mild winter. The **unemployment rate** declined to 4.7%, while participation advanced to 63%. Wage growth strengthened to 2.8% yoy.
- **US factory orders** rose 1.2% mom in Jan, almost on par with the 1.3% increase recorded in Dec. Nondefense aircraft orders had the largest impact, while core

capital goods orders and shipments were anemic.

- **The US government budget recorded** a USD 192bn deficit in Feb, almost unchanged from a USD 192.6bn gap a year earlier.
- **US initial claims for unemployment benefits** increased 20,000 to 243k. The 4-week moving average rose 2,250 to 236.5k. Continuing claims fell 6,000 to 2.058mn. The insured unemployment rate was unchanged at 1.5%.
- **US productivity** rose 1.3% qoq ann in Q4 (1% yoy), with **unit labour costs** up 1.7% oq ann (2% yoy).
- **US goods and services trade deficit** widened to USD 48.5bn in Jan from USD 44.3bn in Feb.
- **Brazilian GDP again** contracted by -0.9 % in Q1 (-2.5% yoy), after a -0.7% (2.9% yoy) drop in Q4.

## Europe:

- **The ECB kept interest rates at record lows, but changed its message:** Draghi stated that the ECB felt no “sense of urgency” for further monetary stimulus and that the Governing Council members “do not anticipate that it will be necessary to lower rates”.
- **German industrial production** rebounded 2.8% mom (0.0% yoy) to offset the -2.4% drop (-0.1% yoy) in Dec, despite weakness in construction and energy.
- **German manufacturing orders** collapsed unexpectedly (given the strong PMI numbers) in Jan by -7.4% mom (-0.9% yoy) after a bullish 5.2% gain in Dec. Domestic order were hardest hit, but also foreign orders dropped.
- **Germany's monthly trade surplus** was little changed at EUR 18.5bn in Jan compared with EUR 18.3bn in Dec and almost similar to EUR 18.6bn in Jan 2016.
- **France's industrial production** in Jan fell -0.3% mom sa (-0.4% yoy) failing to rebound from a -1.1% mom contraction (+0.9% yoy) in Dec.
- **France recorded a trade** deficit of EUR 7.94bn in Jan, compared to EUR 3.57bn deficit in Dec.

- **UK industrial production** fell -0.4% mom in Jan, vs a 0.9% rise in Dec. Manufacturing plunged -0.9% hit by low pharmaceuticals output.
- **The UK Halifax house price index** rose by 0.1% mom (5.1% yoy) in Feb, after a revised -1.1% decline in Jan (5.7% yoy). The real estate sector is gliding towards a post-referendum stagnation.
- **UK's deficit on trade in goods and services** decreased to GBP 1.97bn in Jan from GBP 2.03bn in Dec, thanks to a 1.8% mom rise in exports, overtaking imports' rise of only 1% mom.
- **Swiss consumer prices** increased by 0.6% yoy in Feb , following a 0.3% gain in Jan, the highest rate since Jun 2011, mainly due to rising prices of transportation, food and clothing.

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

- **Inflation in China rose 0.8% yoy** in Feb compared to 2.5% in Jan, much below expectations of 1.7%, due to lower food prices during the new Lunar Year celebrations.
- **PPI inflation in China** rose 7.8% yoy in Feb from 6.9% in Jan in the wake of commodity prices inflation.
- **China's trade deficit** was USD 9.1bn in Feb after a USD 51.3bn in Jan, as imports surged on the back of higher tech imports. Commodity imports were up, a sign that investments are rebounding.
- **Indian industrial production** gained 2.7% yoy in Jan, recovering from -0.4% in Dec. Weakness will likely be accentuated in Q1 due to the impact of demonetisation.
- **Japanese GDP** advanced 0.3% qoq in Q1, the same pace as in Q4, according to the second estimate.
- **Inflation in the Philippines** rose 3.3% yoy in Feb, accelerating from 2.7 % in Jan.
- **Philippines industrial production** increased 9.3% yoy in Jan slowing from a whopping 23% yoy jump in Dec. The performance was driven by rising metals and transport

equipment output.

- **Taiwan's inflation in Feb** was flat yoy, a sharp break from the 2.2% yoy in Jan, which underlines that the global reflation is linked primarily to energy prices.

**Bottom line:** The health of the US job market confirms that the largest economy is finally poised to surprise on the upside and exert a positive effect on the global economy, as the data from emerging Asia indicate. Even the OECD composite leading indicator edged up in Jan, after a flat reading in Dec and is 0.3% higher than the 2016 average. The momentum is picking up in the OECD area (especially some of the Euro area's main economies). Therefore, it is not surprising that the ECB upgraded its GDP and CPI forecasts for 2017 and 2018 and is preparing for an easing of its QE program. Japan, where policymakers have exhausted all orthodox and unorthodox monetary and fiscal measures, remains the laggard.

### Regional Developments

- **Bahrain's non-oil GDP** growth touched 4.7% in Q3 last year (Q2: 3.6%), supported by strong output in social & personal services, construction and financial services. This brings the overall growth in first three quarters to 3.6% versus 2.9% growth registered in 2015.
- **Egypt's annual urban CPI** rose to 30.2% in Feb (Jan: 28.1%) – the highest since Nov 1986, but the monthly gains have eased to 2.6% in Feb (Jan: +4.1%). Core inflation also picked up to 33.1% from Jan's 30.9%.
- **Egypt's current account deficit** narrowed to USD 4.67bn in Oct-Dec while the overall **balance of payments** surged to a USD 5.13bn surplus (Jun-Sep: USD 1.9bn), thanks to the devaluation. Trade deficit narrowed to USD 9.2bn from USD 9.6bn a year earlier.
- **Remittances** into **Egypt** have increased by 20% yoy in the three months following the devaluation to about USD 5bn, according to the central bank. In Jan, remittances were up 23% yoy to USD 1.6bn.

- **Egypt's PMI** continued to remain below the 50-point mark, clocking in 46.7 in Feb, the highest level in 6 months and much higher than Jan's 43.3 reading. New business fell for the 17th consecutive month, although new orders rose to 44 in Feb (Jan: 39.2).
- **Egypt** plans to finalise the **investment law** by end of this month, revealed the minister of transport.
- Following the **EGP devaluation**, **Egypt's banks** have provided USD 21bn to cover import payments, according to the central bank.
- **Iraq's daily oil exports** stood at 3.269mn barrels per day (bpd) in Feb and compares to the 3.32mn bpd in Jan, according to oil ministry data.
- **Iraq** is expected to receive **GBP 10bn from Britain** in loans to finance infrastructure projects over a 10-year period, according to Iraq's acting finance minister. However, only British companies can be contracted to carry out projects funded by these loans.
- **Foreign reserves** at the central bank of **Jordan** was USD 12.883bn at the end of last year, sufficient to provide a 7-month import cover.
- Revenue from **tourism** in **Jordan** picked up by 12.2% yoy to USD 368mn in Jan, while **remittances** inflow was up 4.2% to USD 296mn. Total income from tourism and remittances amounted to USD 664mn in Jan (+8.5%) versus a total USD 8bn in 2016.
- **Kuwait** plans to spend USD 38bn on **infrastructure projects** this year, across housing (5% of total spend), power (33%), hydrocarbon (28%) and transport (34%), reported the *Al-Nahar*
- **Kuwait's 2035 development plan** envisages an increase in state revenues from KWD 13.3bn (USD 43.5bn) in the 2017/2018 fiscal year to as much as 50bn by 2035, without elaborating how. The plan also allocates spending of USD 100bn in the five years to 2021.
- **Lebanon's** cabinet decided to meet again next week to finalise the **draft budget** for 2017; the Cabinet has

already approved allocations for the Health and Public Works ministries. One of the key outstanding issues is the public sector's highly controversial salary-hike bill, which is estimated to cost LBP 1.2 trn (USD 800mn).

- **Oman's Capital Market Authority** has given provisional approval for two new Sukuk issuances totalling OMR 300mn (around USD 780mn).
- **Iran's** foreign minister met with his **Qatari** counterpart last week, reported the Tasnim news agency. This follows the visit of Iran's President to both Kuwait and Oman last month.
- **Qatar** is set to invest up to USD 45bn in new developments under the National **Tourism** Sector Strategy 2030 – with USD 2.3bn set aside for 2022 World Cup. The Qatar Tourism Authority forecasts that the sector's total economic contribution will reach QAR 81.2bn (7.3% of GDP) by 2026, up from QAR 48.5bn in 2015.
- **Qatar** recently approved the '**Arbitration Law** for Civil and Commercial Matters' to support an investment friendly environment for businesses and trade.
- **PMI** in **Saudi Arabia** edged up to 57 in Feb (Jan: 56.7), with new orders growing the fastest in 18 months while the rate of job creation eased to a 14-month low.
- According to **Aramco's** CEO, the company will be **listed** both locally and abroad ("on one or perhaps two bourses") in H2 2018. Separately, an EFG Hermes survey finds that around 40% believe that the market would **value** Aramco at between USD 1-1.5trillion. (*Click to view the results of listing options examined by Reuters <http://tmsnrt.rs/2m3sx8k>*)
- **Saudi Arabia's** NTP projects are moving on to an implementation phase: the minister of commerce and investment, announced a package of **initiatives to attract investments** including developing trade and investment regulations, consumer protection rules, elimination of commercial concealment etc.; the

Commission for Tourism and National Heritage has set aside SAR 397mn (USD 105.86mn) to support a **new lending program for hospitality and tourism projects** this year.

- **Saudi Arabia** is planning to issue tenders for its **metro projects** – in Makkah, Jeddah, Dammam and Medina – as **PPPs**, according to the chief of Saudi Railways Organization.
- **Saudi Arabia's top 10 construction projects** are worth USD 92bn in total, according to a BNC report on mega projects.
- According to Kuwait's oil minister, **OPEC's output cut compliance** stood at 140% in Feb, while non-OPEC producers compliance was around 50-60%.
- The GCC is conducting a feasibility study for the establishment of a **regulator** for the **GCC Rail network**.

### **UAE Focus**

- **UAE PMI** is at a 17-month high of 56 in Feb (Jan: 55.3), supported by new orders; new business increased last month at its fastest rate since Sep 2015.
- The **Dubai Economy Tracker index** eased to 56.2 in Feb, down from the two-year high of 57.1 in Jan. Wholesale and retail was the best performing category for the first time in six months (index at 58.3), followed by travel and tourism (index at 57.0).
- **UAE** is estimated to **grow** between 3.5-4.0% this year, according to UAE's minister of economy, though adding a word of caution that it would also depend on stability in the region & the global political picture.
- The Dubai Financial Market (**DFM**) launched a **trading platform for exchange-traded funds** (ETFs) in an effort to boost liquidity; currently the market lists only one ETF.
- The **UAE** banks' minimum common equity **tier 1 capital** (CET 1) ratio could increase to 12% and **capital adequacy ratio** to 15.5% by 2019, according to the new central

bank regulations, in line with Basel III requirements. Most banks in the UAE already meet the capital rules; the UAE is more stringent than Basel III which requires CET 1 ratio of 9.5% by 2019.

- **News from UAE's banks:** Abu Dhabi Islamic Bank is considering a USD Sukuk issue over the next few months, potentially May, according to banking sources; the Union National Bank has no intention of merging with any other bank, disclosed its CEO.
- **UAE** will comply with the OPEC cut, and **reduce oil production** by more than 139k barrels per day (bpd) in Mar and Apr, revealed the energy minister.
- **Non-oil trade** between **UAE and Russia** was USD 1.6bn in Jan-Sep 2016, and compares to USD 2.5bn reported in 2015.
- The opening of **Abu Dhabi** Airports' USD 2.94bn **Midfield Terminal** has been pushed back by two years, as per reports in regional newspapers. The terminal had already been delayed by 5 months and expected to open around Dec 2017.
- The **Abu Dhabi Water & Electricity Authority** aims to finalize the financing package for its AED 3.2bn **solar power plant** (to be the world's largest) by Apr. The plant will be operational in 2019 and will be funded 25% by equity and 75% by debt.
- Beehive has become the first **peer-to-peer lender** to be regulated by the Dubai Financial Services Authority (DFSA); nearly 4,500 investors have provided more than AED 75mn in loans via Beehive since the platform launched in Nov 2014.

## **Media Review**

### **The eight-year hitch for the bull market**

<https://www.bloomberg.com/news/articles/2017-03-08/freakish-peace-envelopes-u-s-bull-market-as-year-eight-rolls-by>

### **The Oman rail projects lives on**

[https://www.zawya.com/mena/en/story/Oman\\_to\\_soon\\_award\\_consult](https://www.zawya.com/mena/en/story/Oman_to_soon_award_consult)



[ancy\\_contracts\\_for\\_rail\\_project-TR20170308nL5N1GL1S0X2/](#)

**Oil price plunge: overreaction or turning point?**

<http://www.artberman.com/oil-prices-plunge-over-reaction-or-turning-point/>

**The drivers of innovation in the USA**

<https://hbr.org/2017/03/when-america-was-most-innovative-and-why>

**Trump's Policies & Institutional Constraints**

<https://www.project-syndicate.org/commentary/trump-policies-institutional-constraints-by-barry-eichengreen-2017-03>

**Saudi pledges big projects to soften austerity hit to business**

[http://www.zawya.com/uae/en/story/Saudi\\_pledges\\_big\\_projects\\_to\\_soften\\_austerity\\_hit\\_to\\_business-TR20170307nL5N1GK3R9X2/](http://www.zawya.com/uae/en/story/Saudi_pledges_big_projects_to_soften_austerity_hit_to_business-TR20170307nL5N1GK3R9X2/)

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