

Weekly Economic Commentary – Mar 26, 2017

Markets

The fiasco on the Obamacare repeal spooked the euphoria on Wall Street, dashing expectations of momentous business-friendly reforms passed in the first 100 day of the Trump Administration. The S&P 500 lost 1.4% for the week (with banks down 3.8%), its worst weekly loss since the Presidential election. Other developed market indices fell as well, while emerging markets were boosted by the weak dollar. Regional markets were mixed and generally directionless. In currency markets the USD lost ground for the second week in a row while the GBP was steady, despite the terrorist attack on Westminster. Oil prices slid again, as inventories continued to build up despite the Opec led production cuts. Gold on the other side, benefitted from the new sense of uncertainty among investors.

Global Developments

US/Americas:

- **US manufacturing PMI** fell to 53.4 in Mar from 54.2 in Feb.
- **US durable goods orders** rose 1.7% mom in Feb after a 2.3% jump in Jan. Nondefense aircrafts were the main driver, while core capital goods fell -0.1%. Excluding defense, orders were flat.
- **US new home sales** surged 6.1% mom in Feb to a 592,000 annualized while the median price fell -3.9% mom (-4.9% yoy) to USD 296,200.
- **US existing home sales** plunged -3.7% mom (+5.4% yoy).
- **The US current account deficit in Q4** fell to USD 112.4bn from USD 116bn in Q3 thanks to a USD 20bn improvement in

the primary income surplus.

- **US initial jobless insurance claims** rose 15,000 to a 7-week high of 258,000. The 4-week average advanced by only 1,000 to 240,000.
- **The Chicago Fed National Activity Index** increased to 0.34 in Feb from -0.02 in Jan pushed by employment-related components. The index's three-month moving average at 0.25 hit a record since Dec 2014
- **Canada consumer prices** increased 2% yoy in Feb, slightly easing from 2.1% in Jan.

Europe:

- **The PMI for the eurozone's manufacturers and service providers** rose to 56.7 in Mar from 56.0 in Feb, its top since Apr 2011. The average for Q1 was the highest since Q1 2011.
- **The eurozone's current account surplus** narrowed to EUR 24.1bn in Jan vs 30.8bn in Dec and. EUR 30.1bn in Jan 2016. **Trade balance** shifted to EUR 0.6bn deficit in Jan from EUR 4.8bn surplus in Jan 2016.
- **UK inflation** accelerated sharply to 2.3% yoy in Feb from 1.8% in Jan, the first time inflation exceeded the Bank of England's 2% target since Nov 2013. The headline was mainly boosted by a 19.4% yoy jump in motor fuels. Core inflation also climbed to 2%.
- **UK retail sales** in Feb recovered rising 3.7% yoy vs 1% in Jan.

Asia and Pacific:

- **China's foreign direct investment** slowed to USD 8.5bn in Feb from USD 12bn in Jan.
- **Japan trade surplus** reached JPY 813.4bn in Feb from JPY 235.5bn a year earlier, boosted by the yen devaluation.
- **Taiwan's industrial production** rebounded in Feb to a 10.6% yoy growth rate recovering from Jan's 2.8% in part due to New Lunar Year one-off effects.

- **Consumer prices in Hong Kong** fell by 0.1% yoy in Feb, compared to a 1.3% rise in Jan as the effect of higher energy prices fades.
- **The Bank of Korea's consumer confidence index** gained 2.6 points to 96.7 in Mar in the wake of better sentiment over current and future economic conditions.
- **Singapore's industrial production** increased 12.6% yoy in Feb vs 2.2% rise in Jan pushed up by the electronics output.
- **Malaysia consumer prices** rose 4.5% yoy in Feb, compared to 3.2% in Jan.
- **New Zealand** recorded a **trade deficit** of NZD 18mn in Feb compared to NZD 366.9mn surplus a year earlier.

Bottom line: In a light week for macro data there were no major surprises. Attention was focused on the first parliamentary test, which the Trump Administration failed, and the EU celebration for the 60th anniversary of the Rome Treaty. The first is a stern reminder to those inclined to believe the hype and follow their wishful thinking that a US President has few powers without the support of Congress. Hence, a policy agenda especially on crucial issues such as health care, tax, infrastructure spending must be carefully negotiated with a host of political factions and economic power centers. The second event might represent the first step towards a two-speed Europe where the main countries decide to strengthen their ties, leaving the UK, Eastern Europe and smaller peripheral states within the single market but outside the political decision circle.

Regional Developments

- **Egypt** reported a **growth rate** of 3.8% in Q2 of the 2016-17 fiscal year, down from 4% a year ago, as a result of the decline in consumption as well as the increase in price of imports after the devaluation. The country plans to achieve a growth target of around 5% in the 2017-18 fiscal year, according to the planning

minister.

- **Egypt's budget deficit** was reported at 5.4% of GDP in H1 of the 2016-17 fiscal year, down from 6.4% in the same period last year.
- Big plans for 2017-18 fiscal year: **Egypt's** finance minister disclosed that the country aims to raise EGP 6bn from the sale of stakes in state firms in the 2017-18 fiscal year, without disclosing which companies or the size of stakes; Egypt plans to raise USD 9bn in **foreign financing** in the coming fiscal year, divided between USD 3bn from debt markets and USD 5-6bn from international finance institutions.
- **Egypt's** new **investment law** has been finalised by the government and is now being discussed by the parliament. The new law has three main parts: the simplification of procedures and an acceleration in implementing them, guarantees offered to investors in line with international standards, and a temporary incentives programme for specific sectors.
- **Egypt** approved the extension of a **freeze on a capital gains tax** for three years from May 17, and also a **stamp duty on stock exchange transactions**. The finance ministry expects to raise revenues of EGP 1-1.5bn in the first year of the introduction of the stamp duty, which is set at EGP 1.25 per 1000 transactions for both buyers and sellers. Egypt will impose a higher levy of EGP 3 per 1000 for investors buying or selling more than a third of a company's stocks.
- **Egypt** expects **FDI** to increase to USD 13-15bn in the 2017-18 fiscal year, according to the finance minister. The country saw some USD 3.5 in foreign investment after the devaluation.
- Total **volume of deposits** in **Egypt's** banks grew by 22.04% yoy to EGP 2.714trn at end-Nov, with non-government deposits rising to EGP 2.239trn (EGP 1.579trn in local currency and EGP 660.37bn in foreign currencies).
- **Egypt** and **Lebanon** have signed 16 protocols of

cooperation and memoranda of understanding, covering security, trade, consumer protection, culture, environment, tourism and industry, in a bid to boost relations between the two nations.

- **Egypt** received two **oil product shipments** from **Saudi Arabia's** Aramco, according to Egypt's petroleum minister, and two more are expected by end of this month. The value of Saudi shipments would range between USD 320-340mn per month.
- More support for Egypt: the European Bank for Reconstruction and Development (**EBRD**) plans to invest about EUR 1bn (USD 1.1bn) in Egypt this year; Egypt and **China** signed a USD 71mn **grant** to establish an Egyptian satellite and a training centre for the Suez Canal Economic Zone Authority; the **World Bank** disbursed another USD 1bn in **financial assistance** to Egypt out of its USD 3bn loan programme.
- **Remittances** from **Jordan's** expatriates increased by 3.5% yoy to USD 263mn in Feb, bring the total this year to USD 560.1mn (+3.9% yoy), according to the central bank.
- The Arab Fund for Economic and Social Development has approved a funding of USD 96mn for **road projects** in **Jordan**.
- The value of **Lebanon's industrial sector** fell to USD 8.8bn in 2015, from about USD 10.5 in 2012. The number of industrial plants declined to 1977 in 2015 from 2012's 2365. The value of industrial investment from 2011 to 2015 reached USD 2.55bn, according to the Association of Lebanese Industrialists.
- **Moody's** assigned **Oman a Baal rating with a stable outlook**, highlighting "its high wealth levels and a still comparatively strong government balance sheet, balanced against credit challenges, including its heavy reliance on the oil and gas sector". For 2016-2020, Moody's forecasts real average GDP growth at 2.1%, down from 3.8% between 2011-2015.
- **Total credit extended by Omani banks**, including Islamic

financial institutions, grew by 8.9 % yoy to OMR 22.1bn by the end of Jan.

- The **Qatar Investment Authority** is expected to move a USD 100bn portfolio – of its local holdings like stakes in stakes in companies such as Qatar Airways, Qatar National Bank and telecom provider Ooredoo – to the finance ministry, reported *Bloomberg*.
- The **Qatar** Financial Centre Authority's **new arbitration law**, based on the United Nations Commission on International Trade Law (UNCITRAL) model, contains features aimed at enhancing procedural efficiency like revised procedures for the replacement of an arbitrator, the requirement for reasonableness of costs, and a review mechanism regarding the costs of arbitration among others. This is expected to stimulate and strengthen the investment and business environment.
- Total revenues of the **private education sector** in **Qatar** increased to QAR 5.8bn in 2015 (2011: QAR 2bn), as per data from the Ministry of Economy and Commerce. It also showed that the education sector employed 12% of the Qatari workforce, making it the second largest employer of Qataris after the civil and military government agencies.
- **Deflation** in **Saudi Arabia** eased to -0.1% yoy in Feb (Jan: -0.4%); food and beverage prices were down 3.4% yoy while housing and utilities costs rose by 1.4%.
- **Aramco IPO** updates: **Saudi Arabia** is in "serious discussions" with the New York Stock Exchange regarding listing the **Aramco IPO**, according to the Saudi foreign minister. The company has selected a hybrid structure for its domestic sukuk offer (the sale may take place as early as this week, according to banking sources): at least 51% of the funds raised in the debt issue would be used in a mudaraba agreement, with the amount to be invested in Aramco's business; no more than 49% would be used in a murabaha facility that would trade commodities with a special purpose vehicle.

- **Saudi Arabia's crude exports to US** will fall by around 300k barrels per day in Mar vis-a-vis the month before.
- **Saudi Arabia's** stock exchange will change the **settlement period** to within two working days of execution and also permit **short-selling of stocks**, and the borrowing and lending of securities from Apr 23. The MSCI is due to decide in June whether to begin reviewing Saudi Arabia for inclusion in its emerging market index.
- **Fitch** downgraded **Saudi Arabia** to A+ with a stable outlook from AA- with a negative outlook, citing deterioration of state finances and doubts over the economic reform plan.
- The number of **private-sector Saudi female employees** registered at the General Organization for Social Insurance reached 496,800 by end of Q3 2016 (2012: 203,088). This needs to be compared however with the 439,600 unemployed women in the country as of Q3 2016 (representing 34.5% of the total unemployed people).
- According to the **2016/17 Global Entrepreneurship Monitor**, almost 33% of the owners of established businesses in Saudi Arabia are women.
- **Saudi Arabia's** Ministry of Housing has reached an agreement with Banque Saudi Fransi that 1.2 million eligible Saudi citizens will benefit from the **housing finance**.

UAE Focus

- **Credit growth** in the **UAE** grew by 0.5% mom in Feb, largely due to the 1.9% mom pickup in lending to the government related enterprises (GREs). In yoy terms, credit growth was 5.4% (Jan: 5.7%) while deposit growth was up 7.5% (Jan: 6.2%). **Money supply** M2 grew by 4.2% yoy to 1.244trn.
- **Update** on **VAT**: the Ministry of Finance revealed AED 375k as the minimum annual turnover requirement for companies that are required to register for VAT; those with net

sales between AED 187,500 and 375k will have an option to register. The Ministry has also launched its awareness and education workshops to prepare businesses.

- The **Abu Dhabi** Executive Council approved several **infrastructure projects**, including development of the electricity distribution network, worth USD 64mn.
- **Dubai** announced the completion of a 200-megawatt **power plant** (that will produce enough electricity for 50,000 homes) one month ahead of schedule, as part of a plan to build the world's largest solar energy park by 2030.
- Boosted by the Chinese and Russian markets, **tourists** visiting **Dubai** were up 12% yoy to over 3mn in Jan-Feb 2017. Chinese visitors grew by 60% to 157k while Russian tourists were up 84% to 65k.
- With the ban on most **electronic devices** on US-bound flights, the **Dubai Duty Free** disclosed that it is likely to lose around USD 2mn in revenue this year.
- **Dubai Airport** reported a total **energy savings** of 5.17mn kWh in 2016, which is equivalent to powering 235 homes for a full year, thanks to its green initiatives.

Media Review

Trumponomics is unlikely to sustain the bull market: FT

<https://www.ft.com/content/e3405ca8-0d81-11e7-a88c-50ba212dce4d>

Mnuchin's Mission: Frankel for Project Syndicate

<https://www.project-syndicate.org/commentary/mnuchin-trump-china-currency-manipulation-by-jeffrey-frankel-2017-03>

Artificial Intelligence in the real world: The Economist

https://www.eiuperspectives.economist.com/sites/default/files/Artificial_intelligence_in_the_real_world_1.pdf

Honeymoon's over for Peer-to Peer Lending: Bloomberg

<https://www.bloomberg.com/gadfly/articles/2017-03-24/failed-wedding-lender-promise-financial-shows-honeymoon-s-over>

Saudi pledges stable oil supply as market confused by data: Reuters

<http://uk.reuters.com/article/uk-opec-saudi-oil-idUKKBN16U1T1>

The Saudi Aramco Put problem: Bloomberg

<https://www.bloomberg.com/gadfly/articles/2017-03-24/saudi-aramco-ipo-the-oil-put-problem>

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