

# Weekly Economic Commentary – Apr 9, 2017

## Markets

Another week that saw markets influenced more by geopolitics and expectations over central bank action rather than by macro data. In particular the Dow and S&P last Wed posted their record one-day drop in 14 months, after the FOMC minutes revealed a more hawkish sentiment among the members. The following day, the US missile strike on Syria and another terrorist attack in Sweden spread further tension on global markets. Then came a chilling job report in the US with data 50% below expectations. On the positive side President Trump underlined his friendship with Chinese President Xi, easing (for now) concerns on North Korean provocations and a trade war. Despite the turmoil emerging markets had a positive week and even regional markets were lifted by the resilience of oil prices in the face of higher US inventories. Currency markets, unfazed by the dramatic sequence of events, remained quite stable. Gold prices, on the other side, continued to benefit from global tensions.

## Global Developments

### **US/Americas:**

- **The minutes of the US FED FOMC's March meeting** reported a lively debate on the normalization of monetary policy. Most members anticipated that rate hikes (with an imminent next move) would continue and that the unwind of the USD 4.5tn balance sheet will be on the table later this year.
- **US non-farm payroll** in Mar increased by a paltry 98,000 jobs, vs a downwardly revised 219,000 in Feb. It is the lowest payroll number since May 2016 in part due to bad

weather, as retailers reduced the headcount, while employment went up in professions, business services and mining.

- **The US ISM manufacturing index** declined from 57.7 in Feb to 57.2 in Mar due to a plunge in the production index from 62.9 to 57.6. The inventory dropped below the neutral threshold of 50, while the employment index rose from 54.2 to 58.9. **The non-manufacturing ISM index** retrenched more markedly from 57.6 in Feb to 55.2 in Mar. **The composite index** is just a touch above its 2016 average of 54.9, which induces to believe that the post Nov 8th optimism is on the wane.
- **The US trade deficit** dropped to USD 43.6bn in Feb from USD 48.5bn in Jan, as the goods deficit declined by USD 4.6bn from Jan thanks to slightly higher exports, while the services surplus remained steady.
- **Initial claims for US unemployment benefits** dropped by 25,000 to 234,000, the 4-week moving average dropped by 4,500 to 250,000 and continuing claims fell 24,000 to 2.028 mn, indicating that the labor market remains strong.
- **US factory orders** rose 1% mom (the third consecutive monthly expansion) in Feb. Nondefense aircraft orders drove the performance for the second month. Core capital goods orders were -0.1% lower, and core capital goods rose 1% mom.
- **Brazilian industrial production gained** 3% mom (-0.8% yoy), in Feb vs 0.5% in Jan, corroborating expectations of a steady recovery.

## Europe:

- **President Draghi** underscored that the ECB will continue its QE policy until the eurozone's inflation rebounds firmly. Draghi reiterated that the ECB had set "four criteria" to assess whether inflation was comfortably in line with the ECB target.

- **The Markit eurozone manufacturing PMI** rose to 56.2 in Mar vs 55.4 in Feb, the highest level since Apr 2011, with output and new orders at nearly 6-years high.
- **Eurozone's Retail sales growth** accelerated to 0.7% mom (1.8% yoy) in Feb from 0.1% in Jan (1.5% yoy). The figure was lifted by sales in Germany and France.
- **Euro zone unemployment dropped** by 0.1% to 9.5% in Feb compared to Mar, the lowest rate since May 2009.
- **German manufacturing orders** in Feb jumped 3.4% mom (4.6% yoy), after they collapsed 7.4% mom in Jan. Domestic orders were rather perky, while foreign orders remained flat mom.
- **Germany's trade surplus** rose to EUR 21bn in Feb from EUR 18.9bn in Jan and EUR 19.6bn a year earlier, thanks to a decisive jump in exports and a slowdown in imports.
- **German industrial production** smashed all expectations with a 2.2% mom jump, driven by construction, after a similar mom performance in Jan.
- **France's industrial production** in Feb sunk -1.6% mom sa (-0.7% yoy) after a -0.2% drop in Jan (-0.2% yoy) recording weakness across the board probably related to pre-election uncertainty.
- **Spain's industrial production** fell -0.2% mom (+2.5% yoy) in Feb, erasing the 0.3% increase (2.6% yoy) in Jan.
- **UK industrial production** declined -0.7% mom in Feb, adding to the -0.3% drop in Jan. Electricity and gas were the biggest drag due to mild temperatures.
- The **UK goods trade balance** was GBP 12.5bn in Feb, almost similar to GBP 12bn in Jan
- **UK house prices** increased by 3.8% yoy in the 3 months to March 2017, down from 5.1% in the three months to Feb.
- **Russia GDP**, after 2 years of decline, in Q4 displayed a positive growth rate of 0.7% qoq and 0.3% yoy. For the whole of 2016 average GDP growth was down -0.2%.

## **Asia and Pacific:**

- **Japan's consumer confidence index** crawled up 0.7 point to 43.9 in Mar, lifted by all major categories, but markedly below the neutral 50 threshold, underscoring consumers' little appetite for durable consumer goods.
- **The Bank of Japan quarterly Tankan Index of Sentiment at Large Manufacturers** rose to 12 in Q1 from 10 in Q4, the highest reading since Q4 2015.
- **The Nikkei Japan manufacturing PMI** fell to 52.4 in Mar vs 53.3 in Feb. Output, new orders and new export orders fell, and business confidence softened to 4-month low. However job creation remained stable.
- **The Indian Nikkei manufacturing PMI** advanced to 52.5 in Mar from 50.7 in Feb, the third straight monthly gain, as output and new orders rose the most in 5 months.
- **Japan's Leading Economic Indicator** edged down to 104.4 in Feb from 104.9 in Jan.
- **South Korea inflation** rose to 2.2% yoy in Mar from 1.9% in Feb, the highest annual rate since Jun 2012.
- **Taiwan inflation** went from zero in Feb to 0.2% yoy in Mar with the transport subsector once again driving the headline due to fuel prices.

**Bottom line:** US and eurozone's surveys paint a remarkably bright picture, but the hard data are more subdued. In particular the Q1 US GDP growth is projected to be in the order of 1% while the payroll data are starting to falter. In Europe the German locomotive is running steadfastly, but other countries are limping. Japan is hardly improving. In this context the knee jerk stock markets' reaction to the FED's minutes stresses that without the support of ultra loose monetary policy the current equity valuations seem stretched. Furthermore, expectations of a sweeping corporate tax reform by the Trump Administration is falling into the swamps of Congressional partisan politics.

### **Regional Developments**

- **Bahrain** has introduced an **Investment Limited Partnership**

**Law**, which allows investors to establish limited partnerships in the country, and not limited to just the free zones. The law also offers new financing structures that complement existing opportunities.

- All **GCC citizens** either residing (for more than 6 months) or investing in **Bahrain** can now obtain a Bahraini **ID** to ease their transactions in the country.
- Headline **PMI** for **Egypt** edged down to 45.9 in Mar from Feb's six-month high of 46.7, with sharp falls in both output and new orders.
- The central bank disclosed that **foreign reserves** in **Egypt** rose to USD 28.5bn in end-Mar, the highest since Mar 2011.
- **Egypt's foreign debt** surged by 40.8% yoy to USD 67.3bn in Dec, according to the central bank; domestic debt meanwhile rose by 28.9% to USD 3.05bn.
- **Egypt** is planning to introduce a rule that allows businessmen to redeem up to 40% of their business costs in the form of tax reductions, in specific sectors like medium-cost education and electricity, among others; the **investment law**, still waiting for approval from the parliament, also specifies a 60-day period for businesses to acquire operating licenses, vis-a-vis 3 years currently.
- **Egypt** and **Iraq** are expected to sign a **deal** shortly for the former to import crude oil from Iraq, which will also include a 90-day grace period for payment. Separately, the Saudi energy minister revealed that **Aramco** has delivered four oil product shipments to Egypt during Mar.
- **IMF** will be discussing with **Egypt's** government and central bank how to use tighter monetary policy and budgets to "contain demand and so bring down **inflation**", according to a spokesperson for the IMF.
- **Bilateral trade** between **Egypt** and **Morocco** was around USD 700mn in 2016, and this is expected to grow further given Egypt's plans to double its exports to Africa,

according to the commercial attaché at the Egyptian embassy in Rabat.

- **Iraq's natural gas output** is expected to triple to 1,700 million cubic feet per day (cfd) by 2018, from 650k cfd in 2016, disclosed the oil minister.
- **Kuwait** plans to increase its **public debt ceiling** to KWD 20bn (USD 65.6bn) from KWD 10bn and increase the **maximum maturity of the bonds** it can issue to 30 years from 10, according to the minister of finance.
- The total number of workers in Kuwait grew by 6.1% yoy to 1,965,381 as of end-2016 of which only 18% were Kuwaiti citizens.
- The deadline to participate in the new **prequalification round for oil and gas exploration in Lebanon** ended on Mar 31, and nine new companies applied to take part in the first licensing round, according to a statement issued by the Energy Ministry and the Lebanese Petroleum Administration.
- **Expatriate workers moving to Oman** could be hired on short-term job contracts, according to a proposal by the Tanfeedh labs, according to a senior official from the Ministry of Manpower.
- The **Omani government is considering fuel prices subsidies** for low-income households or those receiving social security benefits.
- **Oman** has been ranked the sixth most competitive Arab travel and tourism destination and 66th globally, according to **WEF's travel and tourism competitiveness index**. The report disclosed that the country receives 1.897mn visitors every year, generating revenue of OMR 1.812bn (equivalent of 2.5% of GDP).
- The **Omani segment of a road linking Saudi Arabia directly** with the country is ready, replacing the existing route through the UAE and cutting the distance by more than 800 km.
- **Private sector deposits** at **Qatar's** banks grew by QAR 5bn to QAR 361.9bn in Feb; total domestic loans and **credit**

to the private sector decreased by QAR 2.1bn to QAR 438.5bn.

- **Qatar Investment Authority** sold about 2.5% of Banco Santander Brasil SA for BRL 2.3bn (USD 737mn) in a restricted offering.
- **FDI from China into Qatar** increased by 77.5% in 2016, while accumulated contracting revenue of China in Qatar stood at USD 1.12bn, according to Qatar Chamber's figures.
- Bilateral trade between **South Korea** and Qatar touched QAR 35.1bn in 2016, making the country **Qatar's second largest trade partner**.
- The **merger of Qatari banks** Masraf Al Rayan, Barwa Bank and International Bank of Qatar will take six months to complete, according to the chairman of Masraf Al Rayan. The new bank is expected to have assets more than QAR 160bn (USD 44bn).
- **Qatar** lifted a self-imposed ban and announced restarting development of joint **gas field** with Iran, aiming to increase the gas and gas condensate output by 10% (400,000 barrels per day of oil equivalent).
- **Population in Qatar** marginally declined to 2,659,000 in Mar from a record high of 2,673,000 in Feb.
- The "Moushtarayat 2017" expo was held in **Qatar** last week: an **SME-dedicated procurement and contracting event**, it is offering at least 2,000 business opportunities worth more than QAR 2.5bn this year; more than QAR 1.4bn are in business opportunities related to the 2022 FIFA World Cup.
- **Saudi Arabia's PMI** eased to 56.4 in Mar, from Feb's 18-month high of 57, bringing the Q1 average to 56.7, the highest PMI average in one-and-a-half years.
- **Saudi Aramco** has raised SAR 11.25bn (USD 3bn) in its **debut sukuk issuance**, reported *Reuters*. The size of the sale was boosted from USD 2bn because of investor demand. This is likely to be followed by a dollar-denominated **Saudi sovereign sukuk** with the same hybrid

structure proposed by the Aramco deal.

- **Remittances from Saudi Arabia** fell 15% yoy to SAR 10.77bn in Feb, according to data released by SAMA.
- **Saudi Arabia** unveiled plans for an “**entertainment city**” near Riyadh – about a fifth of the area of Riyadh in size – as part of a wider plan of greater economic diversification. Building of this city, which would feature sports, cultural and recreational facilities including a safari and a Six Flags theme park, is expected to start next year and the first stage to finish by 2022.
- **Fitch** has issued a report estimating **oil break-even prices** for global oil exporters: Kuwait seems to be best-placed, with a break-even of USD 45 while Qatar and Abu Dhabi follow closely at USD 51 and USD 60 respectively. Nigeria was the worst-off, needing oil price at USD 139 to balance its budget.
- **GCC bond sales** surged 359% yoy to USD 24.2bn in Q1, according to Bloomberg data, supported by an USD 8bn debut issue from the Kuwait government and a USD 5bn offering from Oman. *(More in the Media review section)*
- **Britain** has allocated GBP 1bn (USD 1.24bn) – GBP 840mn pledged at a Syria aid conference last year and GBP 160mn of new money- to help **Syrian refugees** displaced by six years of civil war and countries that host them.

## **UAE Focus**

- The **UAE PMI** hit a 19-month high of 56.2 in Mar (Feb: 56), driven by driven by “sharper increases in output and new orders, as well as a record rise in stocks of purchases”.
- Speaking at the Annual Investment Meeting event, UAE’s minister of economy revealed that **FDI in Abu Dhabi** increased 8% yoy to AED 95.145bn. UAE is the largest investment attracting country in the MENA region, according to UNCTAD.



- **Sharjah's total FDI** is expected to exceed a record AED 1bn by the end of this year, from the record AED 912mn posted last year, according to the Sharjah FDI Office.
- National Bank of Abu Dhabi and First Gulf Bank merged legally on Apr 1, creating the new entity **First Abu Dhabi Bank**, with a one-time integration cost of around AED 1.1bn (from earlier-estimated AED 600mn) to be fully absorbed by 2019. The bank will have assets in excess of USD 180bn.
- **Real estate transactions in Dubai** jumped 45% yoy to AED 77bn in Q1 this year, from about 20k transactions.
- The **real estate sector in Ras al-Khaimah** has expanded to AED 4.947bn in 2015 from AED 3.401bn in 2011, according to a study by the RAK Chamber of Commerce.
- **Dubai crude** averaged at USD 51.201 a barrel for Mar, the lowest since Nov, and as quoted by Platts.

## **Media Review**

### **The Aramco two trillion dollar question**

<https://www.ft.com/content/7ed59bee-163b-11e7-b0c1-37e417ee6c76>

### **The depletion of Saudi Arabia's currency reserves shows no sign of abating**

<https://www.bloomberg.com/news/articles/2017-04-06/an-oil-giant-is-still-burning-through-its-cash-pile>

### **The oil market starts to make sense**

<http://www.businessinsider.com/oil-price-well-drilling-costs-prices-2017-4>

### **Oil Prices in New York, London Spike After Syria Attack: Bloomberg Chart**

<https://www.bloomberg.com/news/articles/2017-04-07/oil-prices-in-new-york-london-spike-after-syria-attack-chart>

### **Gulf's \$24 Billion Bond Bonanza Meets Cash Need in Cheap Oil Era**

<https://www.bloomberg.com/news/articles/2017-04-06/gulf-s-24-billion-bond-bonanza-meets-cash-need-in-cheap-oil-era>xyz

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