

Weekly Economic Commentary – Apr 16, 2017

Markets

Investors continue to focus on rising geopolitical tensions, despite a good kick off of the Q1 earnings season. The US are threatening a military intervention to remove Syrian President Assad (irking Russia and Iran) and have sent a military fleet to North Korea. As a result Wall Street indices posted weekly declines pulling down most other world bourses in developed and emerging markets (especially the Asian ones closer to the areas of crisis). Regional markets recorded losses, with the exception of Egypt. In currency markets the dollar plunged when Trump asserted that its strength hinders the US economy. Oil prices remain on an uptrend, as US crude oil inventories unexpectedly dropped by 2.166 mn barrel, after 4 weeks of build up and gasoline stocks dropped by almost 3 mn. Furthermore, the IEA wrote that the oil market is virtually balanced. Gold prices keep increasing with mounting anxiety over military actions.

Global Developments

US/Americas:

- **US inflation** declined, for the first time in 13 months, by -0.3% mom (+2.4% yoy) in Mar, vs 0.1% mom (2.7% yoy) in Feb, due to a slowdown in energy and services cost. Core inflation declined by -0.1% mom (+2.0% yoy) in Mar, its first decline since Jan 2010, after being flat mom in Feb.
- **US retail sales** decreased by -0.2% mom (+5.2% yoy) in Mar after -0.3% in Feb (5.1% yoy), the first two-month sequence of monthly drops in more than two years, due to lower car purchases and gasoline expenditures.

- **The University of Michigan's preliminary figure on consumer sentiment** rose to 98 in Apr from 96.9 in Mar.
- **US manufacturers' and trade inventories** increased 0.3% mom in Feb, following a similar gain in Jan.
- **Initial unemployment insurance claims in the US** fell by 1000 to 234K, close to a 40 year low, the 4-week average was down 3,000 to 247,250, the second straight decline, continuing claims are just above 2mn, confirming the strength in the labour market.

Europe:

- **Eurozone's industrial production** decreased -0.3% mom (+1.2% yoy) in Feb, offsetting the advance in Jan (0.2% yoy). Most of the drag was due to a slump in energy production, as a result of mild weather.
- **The German ZEW index of investor sentiment** in Apr rose to 19.5 from 12.8 in Mar, as the German economy is firing on all cylinders.
- **The Eurozone ZEW index** crawled up to 26.3 in Apr from 25.6 in Mar, in the wake of better labour market conditions and an uptick in construction activity.
- **UK inflation** was stable at 2.3% yoy in Mar. A 22.8% yoy collapse in air fares was compensated by a sharp acceleration in food and electricity prices, at their highest since 2014.
- **UK unemployment rate** was steady at a 12-year low of 4.7% in the three months to Feb. The employment rate reached an all-time high of 74.6% as employed people rose by 39k.

Asia and Pacific:

- **Japan's current account surplus** widened to JPY 2.8tn in Feb from JPY 2.4tn a year ago; it was the largest trade surplus since Mar 2016, lifted by higher surplus in goods account (JPY 1.1tn, almost thrice the JPY 403.6bn a year ago) as exports surged 12.2%, while imports went

up 0.3%.

- **Japan's core-machinery orders** rose 1.5% mom in Feb, after a -3.2% plunge in Jan. Despite volatility, the trend points north thanks to the yen's 15% depreciation since Nov.
- **The capacity utilization index in Japan** decreased slightly to 101.4 in Feb from 101.7 Jan.
- **China's inflation** was 0.9% yoy (-0.3% mom) in Mar a notch above the 0.8% yoy (-0.2% mom) in Feb. Non-food items were more expensive, while food prices continued to fall. Core inflation remains around 2% yoy, as in the initial 2 months of 2017.
- **M2 money supply in China** increased by 10.6% yoy in Mar, vs 11.1% in Feb, the slowest pace since Jul 2016. **The value of loans** increased 12.4% yoy in Mar, the slowest pace since May 2005.
- **Industrial production in India** fell by -1.2% yoy in Feb, offsetting in part the 3.3% rise in Jan. Manufacturing production dropped -2% yoy after advancing 2.9% in Jan.
- **India's inflation** remained subdued at 3.8% in Mar from 3.7% in Feb. Food prices inflation is historically low, but energy prices are rebounding.
- **Singapore's GDP** contracted -1.9% qoq ann (+2.5% yoy) in Q1, compared to a 12.3% expansion in Q4 (2.9% yoy), in line with market expectations. It was the worst performance since Q3 2012, due to a plunge in manufacturing (-6.6% from 39.8% in Q4), and services (-2.2% from 8.4% in Q4).

Bottom line: Looking beyond the next few months or weeks, one must observe that the current predicaments of the world economy are due to low growth and in particular anaemic productivity growth, which in the last 5 years has averaged only 0.5%, sharply down from pre-Lehman 2%. This drop is caused by suffocating bureaucracy, ubiquitous red tape, paltry investments in public infrastructure, inefficient financial institutions, poor education and training, distortionary

taxation, slow adoption of innovation in the corporate world and even slower adoption in the public sector. Unless these issues are addressed by bold structural reforms that break the political inertia (extremely acute in Europe and Japan) it is unlikely that the global growth engine will ever be repaired.

Regional Developments

- The **IMF** completed its **Article IV mission** to **Bahrain** and warned that urgent spending cuts were needed to “restore fiscal sustainability, reduce vulnerabilities, and boost investor and consumer confidence”. The budget deficit and public debt in 2016 are estimated at 18% and 82% of GDP.
- **Egypt** is planning to issue a USD 1bn worth **Sukuk** as part of the financial year 2017/2018 budget, and after passing the Islamic bond issuance law, according to the deputy finance minister.
- **Inflation** in **Egypt** increased for the fifth consecutive month, to 30.9% in Mar (Feb: 30.2%) – the highest since June 1986 – while core inflation fell to 32.25 from Feb’s 33.1%.
- **Egypt’s** parliament approved a **3-month state of emergency** following the Coptic church bombings.
- According to an **Iraqi** military spokesperson, the Islamic State now holds only about 6.8% of Iraqi territory versus around 40% at the height of its power.
- **Jordan’s exports to the US** stood at USD 1.7bn, and it is mostly concentrated on garments and textiles.
- **Kuwait’s** Parliament approved the estimated **capital expenditures** purchase of non-current assets in the general State budget for the fiscal year 2017/2018. Capital expenditures accounts for 14% of the budget and the number of projects totaled 524 with an estimated value of KWD 2.89bn (USD 9.4bn).
- **Lebanon** is seeking USD 10-12bn in **infrastructure investment** over the next seven years to support the

1.5mn Syrian refugees hosted in the country.

- **Lebanon's** President **suspended a parliamentary session** after the Parliament was expected to vote to extend its own mandate again until 2018 without an election.
- Preliminary national accounts data show that **Oman's nominal GDP** fell by -9.0% to OMR 17.9 bn over the period January-September 2016 a drop smaller than the -16.0% over the same period in 2015. Oil GDP declined 29.4% while the non-oil sector GDP decreased by -0.2%.
- In the first nine months of 2016, **Oman's government deficit** was of OMR 4,427.2mn compared to a deficit OMR 2,934.3mn over the same period in 2015. Over Jan-Sep 2016, government revenues decreased by 25.8% to OMR 4,977.5mn, while government expenditure declined by 2.5% OMR 9,404.7mn. The **aggregate government debt** of the Sultanate grew to OMR 6,681mn as at the end of Sep 2016 from OMR 3,444mn at the end of Dec 2015.
- The **daily average oil production in Oman** during Jan-Sep 2016 increased by 2.6% to 1,003 mn barrels, with the cumulative oil production, reaching 274.9 mn barrels vs 267.1 mn barrels over the same period in 2015.
- **Oman's Foreign Capital Investment Law**, is being revamped, according to the Central Bank, to address "major concerns and shortcomings" in the existing framework defining the rights and obligations of foreign investors.
- **Qatar's** quarterly **nominal GDP** grew by 4.1% yoy to USD 40.4bn in Q4 2016 (Q3: USD 38.8bn), with investments accounting for 44.9% of the total and registering 11.8% yoy growth.
- **Inflation in Qatar** rose by 0.9% yoy in Mar, thanks to the rise in transport (+8% yoy) and education (+3% yoy) costs.
- The **IMF's Article IV report on Qatar** states that further subsidy cuts, a moderate recovery in global commodity prices, and the introduction of a VAT are expected to improve the fiscal and external balances gradually over

the near to medium term; one of the main risks cited is inflationary pressures from the large public investment program. (The report can be downloaded at <http://www.imf.org/~media/Files/Publications/CR/2017/cr1788.ashx>)

- **Qatar's non-oil exports** expanded by 31.5% yoy and 22.1% mom to QAR 1.71bn in Feb this year. The GCC countries accounted for around 60.1% of the country's non-oil exports, with Saudi Arabia, Oman, Egypt, Turkey and India the main importers of Qatari products.
- **Qatar's** central bank is offering **government bonds** with maturities of three, five, seven and 10 years, reported *Reuters*.
- **Saudi Arabia** launched and priced a USD 9bn debut **international Sukuk** last week, which generated orders of USD 33bn; this is the largest-ever Islamic bond and the largest emerging markets debt sale this year.
- According to **Saudi Arabia's** finance minister, the **VAT rate** will not be raised above 5% before year 2020.
- Two **Saudi** banks, bin Laden companies, and several charities are being **sued** by more than two-dozen US insurers for at least USD 4.2bn over the **11, 2001** attacks.
- **Saudi** banks' average **liquidity coverage ratio** improved to 204% by end-2016, down just one percentage point year on year, having dropped to 156% at end-Sep 2016, according to a Fitch report. This volatility highlights the concentration risk in banks' funding. In spite of pressure on earnings, main Saudi banks are still profitable by international standards, with an average return on assets of 1.7% in 2016 (2015: 1.9%).
- **Aramco** is preparing to reveal in a few months time a **new gas strategy** aimed at developing resources to keep pace with rising domestic demand. Industry sources revealed that Saudi had discussed investment opportunities with firms including BP and Chevron to help develop its gas reserves. Aramco aims to almost double gas production to

23bn standard cubic feet a day in the next decade.

- **Women** represented 80.6% of registered **job seekers** in **Saudi Arabia** in Q4 2016, according to the General Authority for Statistics. Even older women continued to search for jobs: around 3488 women aged 57 to 66 were looking for jobs versus only 167 men in the same age group.
- **Saudi Arabia** has shortlisted companies for its **solar and wind power projects** as part of the first round of its renewable energy initiative. The next phase of renewable energy projects will be announced later this week.
- **Fitch** has obtained a licence to operate in **Saudi Arabia**; S&P was the first foreign credit agency to obtain such permission.
- **Saudi Arabia's** King Abdullah Port was ranked 98th among the world's biggest **container ports** for 2016, according to Alphaliner, up from 104th the year before.
- OPEC and the UAE ministry of energy are set to launch this week the **Oil and Gas Big Data project** to develop an easy-to-use tool to analyse energy information and allow for more transparency.
- UAE, Kuwait, and Qatar saw an increase in revenue per average room (RevPAR) in Feb, according to EY's **Middle East Hotel Benchmark Survey**, while the other half, Saudi Arabia, Oman, and Bahrain, saw a slowdown. Dubai reported the highest occupancy at 89.1%, while the beach-based hotels had the highest average room rate at USD 399.

UAE Focus

- The **Dubai Economy Tracker** Index edged up to 56.6 in Mar (Feb: 56.2), bringing the average for Q1 to 56.7. The best performing sub-sector was wholesale and retail (index at 57.1), followed by travel and tourism (55.3) and construction (54.8).
- Bilateral **trade** between **UAE and Saudi Arabia** is around

AED 84bn currently, as per a statement from the UAE Minister of Economy. He also disclosed that the total value of Emirati projects in Saudi Arabia is estimated at AED 15bn.

- **Abu Dhabi's** fund **Mubadala** issued a USD 1.5bn bond, comprising a seven-year USD 850mn tranche and a 12-year USD 650mn tranche, with the sale having received orders of about USD 5.7bn.
- Goldman Sachs Asset Management has become the first asset manager to register **foreign investment funds for retail investors** in the **UAE**, following a new mutual fund regulation introduced by the Emirates Securities and Commodities Authority in 2016.

Media Review

Emerging markets to lead globalization

<https://www.ft.com/content/f60d77a4-1ded-11e7-b7d3-163f5a7f229c>

Inequalities are the result of technological progress not of globalization

<https://www.ft.com/content/cfbd0af6-1e0b-11e7-b7d3-163f5a7f229c>

The US stock market is bloated

<http://www.economist.com/news/finance-and-economics/21720134-japan-dominated-index-late-1980s-didnt-end-well-americas>

Did we reach peak electricity generation?

<https://www.bloomberg.com/view/articles/2017-04-12/the-de-electrification-of-the-u-s-economy>

Can Trump Talk Down the Dollar?

<https://www.ft.com/content/16dd0830-2057-11e7-a454-ab04428977f9>

Too Late to Compensate Free Trade's Losers

<https://www.project-syndicate.org/commentary/free-trade-losers-compensation-too-late-by-dani-rodrik-2017-04>

Powered by:



