

Weekly Economic Commentary – Apr 23, 2017

Markets

Stock markets globally edged up last week on renewed hopes of a fiscal stimulus in the US, and easing global geopolitical tensions. The main exception was the FTSE100, which plunged after UK Premier May's unexpectedly called for general elections. Other European markets also suffered the contagion, while the Tokyo bourse gained on yen weakness. Regional markets were generally down in conjunction with a sharp drop in oil prices. In currency markets the GBP appreciated on the announcement of early elections, as investors deemed this move to pave the way for a softer Brexit. The USD weakened on major crosses with the exception of the yen. Oil prices suffered the biggest weekly drop in a month (-6%), on concerns that increasing US extraction and high inventories may hamper OPEC's strategy to reduce the global glut. Gold prices were stable around the high level reached in mid-Apr.

Global Developments

US/Americas:

- **US industrial production** gained 0.5% mom in Mar after a flat reading in Feb. Most of the swing is linked to utilities output which was affected by mild weather in Feb and then pushed up by a colder spell in Mar. Manufacturing output shrank -0.4% mom, the biggest decline in seven months, hit by a drop in production of motor vehicles and components.
- **Capacity utilization** in the US increased to 76.1% in Mar from 75.7% in Feb.
- **The US Fed Beige Book** reported that economic activity growth across all 12 districts was rather paltry.

Manufacturing, tourism/travel and nonfinancial services were the best performers, while nonresidential construction was strong only in certain areas. Consumer spending was pulled up by light-vehicle sales, but non-durables sales disappointed.

- **US housing starts** declined in Mar by -6.8% mom (+9.2% yoy) vs 5.0% in Feb. The sharp monthly decline involved both single- and multifamily homes.
- **Initial claims for unemployment benefits in the US** rose by 10,000 to 244,000 due to Easter effects. The 4-week moving average fell by 4,250 to 243,000. Continuing claims dropped 49,000 to 1.979 mn, still near historical lows.
- **The Conference Board index of leading indicators** rose 0.4% mom in Mar, down from 0.6% in Feb. Interest rate spread and the ISM new orders drove the headline figure.

Europe:

- **Eurozone's inflation** slowed to 1.5% yoy in Mar from a 4-year high of 2% in Feb. If energy prices do not spike up, inflation should remain subdued for the rest of the year.
- **Preliminary eurozone composite PMI** in April advanced again to 56.7 in the wake of an unexpected improvement in the manufacturing and services components, at 56.8 (vs 56.2 in Mar) and 56.2 (vs 56.0 in Mar), respectively.
- **The eurozone's flash estimate of consumer confidence** rose to -3.6 in Apr from -5 in Mar.
- **The eurozone's external trade balance** fell slightly in Feb to EUR 17.8bn, from EUR 18.2bn in Feb 2016, as exports expanded less than imports. The monthly figure recovered from a deficit of EUR -0.6bn in Jan, the first deficit in 3 years.
- **The eurozone's current account surplus** expanded to EUR 37.9bn in Feb, from EUR 26.1bn in Jan and EUR 14.4bn in

Feb 2016.

- **UK retail sales** collapsed in Mar by -1.8% mom (+1.7% yoy) the worst figure since Q4 2013. Losses were sharp across sectors, but the main downfall was in nonfood stores (-2.4% mom).
- **Italy's new industrial orders** surged by 5.3% mom (7.8% yoy) in Feb vs a -3.2% drop in Jan. Manufacturing activity is pulled up by the German industry which has established a strong value chain in the Peninsula.

Asia and Pacific:

- **China's GDP** expanded 6.9% yoy in Q1, a notch above the 6.8% in Q4 2016. The performance was favored by fiscal spending and faster rises in industrial output, retail sales and fixed-asset investment.
- **Industrial production in China** rose 7.6% yoy in Mar rebounding from 6.6% in Jan-Feb, the strongest growth since Dec 2014. Manufacturing rose 8.0% yoy from 6.9% in Jan-Feb.
- **Non-farm fixed asset investment in China** rose 9.2% yoy in Q1, following a 8.1% rise in the first two months of 2017. Investment from state owned enterprises jumped 13.6% while central government investment fell -7.1%. Foreign investments were almost stagnant at 0.3%. Most of the investment were directed at underway projects (+21.7%) while new investment dropped -6.5%.
- **The Nikkei Japan Flash Manufacturing PMI** rose slightly to 52.8 in Apr from 52.4 in Mar, to mark the eighth straight month of expansion, driven by faster rises in output, new export orders and employment. Also backlogs of orders strengthened.
- **Japan's tertiary activity index** rose 0.2% mom in Feb, vs zero growth in Jan.
- **India's wholesale prices** rose 5.7% yoy in Mar after 6.6% yoy, a deceleration due to lower prices of manufactured goods, partially offset by higher energy import prices.

Bottom line: The flow of macro data from the US confirm that economy's performance has not accelerated after Trump's election and remains stuck in the anemic expansion channel post Great Recession. The positive surprise came from China's GDP, which rekindles hopes that the worst might be over and combined with the steady recovery in Europe, supports a moderate optimism for the rest of the year. The main sources of risk involve politics and conflicts: in particular today's French Presidential Election constitute a test for the future of the euro while the aftermath of the contested referendum in Turkey could open a phase of renewed civil strife.

Regional Developments

- The **IMF**, in its latest issue of the World Economic Outlook, has forecast **growth** of 1.9% in the **MENA region** this year, a full percent lower than the previous forecast. Largely as a result of the OPEC cuts, Saudi Arabia and UAE have seen its growth rates slashed to 0.4% and 1.5% respectively this year from previous projections of 2% and 2.5%. *(The report can be viewed at <http://www.imf.org/en/Publications/WE0/Issues/2017/04/04/world-economic-outlook-april-2017>)*
- **Egypt's** cabinet has approved to **raise the maximum amount of dollar bonds it can issue** on international markets to USD 7bn from the current USD 5bn cap.
- According to the central bank, **foreign currency inflows** into **Egypt's** banking system reached USD 19.2bn since the devaluation of the pound on Nov 3.
- **Egypt** and the **Arab Fund for Economic and Social Development** signed a KWD 26mn financing agreement to fund the building of a 50 MW photovoltaic power plant. The fund has allocated around USD 5.25bn to finance a total of 59 projects, 20 of which are currently under development.
- **Jordan**, in cooperation with the OECD, announced the launch of a USD 1.3mn **SME-supporting project**;

initiatives include the allocation of JOD 200mn to licensed banks to finance SMEs, thereby providing them with competitive interest rates and reasonable grace periods for repayment.

- **Kuwait's** oil minister stated that there is "an initial agreement" that the oil cuts may need extending to drain high global inventories and that he expects the **OPEC cut** to be extended beyond Jun.
- **Kuwait** is studying the possibility to set up a **maximum limit for every non-Kuwaiti nationality** such that any members of any given nationality will not exceed 20% of the total Kuwaiti population. This recommendation is to be implemented gradually till 2030.
- **Kuwait** is set to **increase expat fees**, according to *Al-Shahed* daily: fees for dependents are to be raised to KWD 300, while visit visas and temporary residence will be charged at KWD 30 and KWD 20 respectively. This will be referred to the National Assembly for approval.
- **Lebanon** reported a **balance of payments surplus** of USD 509mn in Jan-Feb this year, largely due to a 57% yoy rise in financial inflows to USD 3.3bn during this period.
- The **World Bank** will provide **Lebanon** with a USD 150mn **loan** – divided between soft loans and grants – to invest in health care systems and medical development.
- **Oman plans to sell stakes** in state-owned downstream energy companies to the public, as low oil prices affect government finances, according to Omani Oil and Gas Minister.
- **Qatar's** government has **no plans** to issue an international bond or sukuk this year, according to an unnamed Qatari official, reported *Reuters*.
- **Qatar's** central bank disclosed the **sale of domestic bonds** worth QAR 5.575bn (USD 1.53bn), with issuance heavily focused on the long end of the yield curve.
- **Bilateral trade** between **Qatar and Turkey** touched USD 700mn last year; the trade volume is expected to

increase by 10-15% this year, according to the Ambassador of Turkey to Qatar. He also disclosed that about 60 Turkish companies were working on 35 projects in Qatar, with a turnover of about USD 14bn at the end of 2016.

- Reuters reported that **China** is creating a **consortium** (including state-owned oil giants, banks and its sovereign wealth fund), to act as a cornerstone investor in the **Saudi Aramco IPO**.
- **Saudi Arabia's** Bureau of Capital and Operational Spending Rationalization have identified about SAR 15-17bn in **efficiency savings** so far this year, disclosed the country's finance minister, without stating the nature of the savings. Last year, it had highlighted SAR 80bn of savings. Earlier last week, it was reported that the government was ordering ministries and agencies to review billions of dollars worth of unfinished infrastructure and economic development projects with a view to shelving or restructuring them.
- **Saudi Arabia** is likely to resume **domestic government debt issues** "in the next month of two", according to the finance minister.
- **Saudi Arabia's oil exports** fell to 6.957mn barrels per day in Feb, the lowest level since May 2015.
- New **taxes on tobacco and sugary drinks** in **Saudi Arabia**, to be introduced this quarter, are expected to raise SAR 8-10bn annually, according to the General Authority of Zakat and Tax, reported *Al Arabiya*.
- Saudi Arabia's **Tadawul** is set to implement **new rules for loss-making firms** (ie. reaching 20% or more of its share capital): this includes disclosure of the total accumulated losses to the public, and board's recommendation on increase or decrease of capital if loss exceeds 50% of capital among others. (More details can be accessed here: https://www.tadawul.com.sa/Resources/CompWithAccumLoss_Awareness_en.pdf)

- **Saudi Arabia** launched a tender process for the 300 megawatts Sakaka solar project, which is expected to come online by 2019. The country has a target of generating 1,200 megawatts through 30 projects in the next seven years.

UAE Focus

- The Crown Prince of Dubai has rolled out Smart Dubai 2021 and pledged **Dubai's** move to a **100% digital future** within four years leading to the Dubai Government issuing "its last paper transaction in 2021". The Dubai Pulse portal initiative was announced to support Smart Dubai's online offering of 137 smart initiatives and 1,129 smart services to individuals to pay fines, find government forms, renew licences and documents or search for vacant properties. When the services go online, Dubai government expects 80 million fewer car trips by motorists running errands in the next four years.
- The **Smart Dubai** office signed an MoU with Avanaza Solutions IT company to allow around 38 governmental entities to process **instant payments and reconciliations** through the latter's special Cipher platform.
- **UAE** energy minister stated that the resurgence of growth in shale oil output will not be a threat to the **recovery in the oil market**, but will likely "will slow down the pace of stabilizing the market". Separately, he also disclosed that the UAE has not seen a need for or discussed a listing of the Abu Dhabi National Oil Company (Adnoc).
- A report by the Airports Council International finds that the **Dubai international airport** maintains the top position as **world's busiest for international travel**, for the second consecutive year, with more than 83 million passengers last year. In terms of total passenger traffic, Dubai is third behind Atlanta and Beijing International Airports.

- **UAE hotels** reported a 2.7% yoy increase in **occupancy** level to 86.3% in Q1 this year, according to STR, supported by the granting of visas on arrival for Chinese and Russian visitors. The average cost of rooms per night fell 6.4% to AED 795, while the revenue per available room, which has consistently been on a decline for two years, dropped 3.9% to AED 686. An inventory issue looms large as well: there are more than 42,000 rooms currently under contract in Dubai, the largest pipeline of any city in the world.
- Nearly 4.56 million **insurance policies** have been issued in **Dubai**, disclosed a senior Dubai Health Authority official, compared to only 1.1 million before 2015.
- A Euromonitor International reports finds that the **UAE** has a per capita spend of around USD 239 (AED 877) on **beauty products** – almost four times the global average of USD 60 – making it the seventh highest in the world.

Media Review

The Trump tax reform will be delayed

<https://www.ft.com/content/2e48c5bc-238c-11e7-8691-d5f7e0cd0a16>

The reckless bet on shale

<http://www.reuters.com/article/us-usa-shale-funders-analysis-idUSKBN17J0BK>

Will Economic Illiteracy Trigger a Trade War?

<https://www.project-syndicate.org/commentary/trump-economic-illiteracy-trade-war-by-jeffrey-d-sachs-2017-04>

IMF's Middle East & Central Asia Press Briefing

<http://www.imf.org/en/News/Articles/2017/04/21/tr0417-middle-east-and-central-asia-press-briefing>

HSBC predicts Saudi privatisation drive to list 100 entities

<http://www.reuters.com/article/saudi-privatisation-idUSL8N1HP0MF>

Saudi Aramco's refinery plans set to sweeten IPO: Arab News

<http://www.arabnews.com/node/1085596/business-economy>

The Bond Market Prefers Dictators to Democracies: Bloomberg

<https://www.bloomberg.com/news/articles/2017-04-20/autocracies-beating-democracies-in-emerging-market-bond-world>

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