

Weekly Economic Commentary – Apr 30, 2017

Markets

A rollercoaster week on global stock markets started with a bang, in the wake of Macron's win in the French elections and positive earnings from blue chips. As a result, the Nasdaq composite touched a new record close over 6000 points. US Treasuries dropped across the curve because demand for safer assets dipped after the results in France. In mid week, however, US stock markets retreated from near record levels as the Trump administration's long-touted tax plan disappointed investors. The week ended on a cautious tone on most major markets especially after the release of disappointing US GDP data. Regional markets were decidedly weak as the oil price failed to recover, but Morocco and Egypt were upbeat, following the general trend in emerging markets. In currency trade, the euro leapt two full cents against the US dollar early on Monday and maintained most of the gains in the following days, while the yen plunged as a result of the BoJ meeting. Oil prices continued their slide due to muted demand in Asia and uncertainty over the Russian cooperation with OPEC on production cuts. Gold prices eased from the recent tops as political risks in Europe subsided.

Global Developments

US/Americas:

- **US GDP growth** in Q1 sank to 0.7% qoq ann (the worst quarter since 2014) from 2.1% in Q4 which was a weak performance anyway. Fixed investment were the main growth factor, while private consumption provided a negligible contribution and inventories constituted a notable drag. Real disposable income grew only 1%, a 3-

year low. The saving rate rose to 5.7%.

- President Trump unveiled a **tax reform plan** hinging on lower individual and corporate tax rates, estimated to raise the budget deficit by up to USD 7tn over a decade. Republicans fiscal hawks in Congress are unlikely to approve it in its present form, which in any case contains few details.
- President Trump reneged his campaign pledge to terminate the **North American Free Trade Agreement** and vowed to swiftly renegotiate Nafta “to the benefit of all three countries” with his Canadian and Mexican counterparts.
- **US wholesale inventories** slipped -0.1% mom in Jan after a 0.2% increase in Feb. The bright spot were retail (+0.4%), especially auto inventories.
- **The US consumer confidence index** eased back to 120.3 in Apr vs 124.9 in Mar with these two months the best of the 8-year expansion. Sub indices remain strong, including jobs-hard-to-get which is steady at a very low 19.1%.
- **The US goods trade deficit** came in at USD 64.8bn in Mar, compared with Feb’s USD 63.9bn. Exports fell -1.7% mom and imports -0.7% mom.
- **New orders for US durable manufactured goods** climbed 0.7% mom in Mar, the third consecutive monthly gain, driven this time by defense and nondefense aircrafts, and to a lesser extent by core capital goods. Excluding transport, orders fell -0.2% mom in Mar vs 0.7% in Feb.
- **Initial claims for unemployment insurance benefits in the US** rose by 14k to 257k. The 4-week moving average was little changed at 242.2k but continuing claims rose by 10k to 1.988 mn.
- **Existing-home price Case Shiller index in the US** increased 5.8% yoy in Feb vs 5.6% in Jan. **US new single-family home sales** in Mar rose 5.8% mom and 15.6% yoy. The **pending home sales index** dipped -0.8% mom in Mar offsetting part of Feb’s gain.

Europe:

- **The ECB left its monetary policy** on hold and, despite pressure from hawks, it confirmed its stance on QE. Draghi asserted that the recovery is gaining strength although risks remain on the downside.
- **The eurozone's inflation** accelerated to 1.9% yoy in Apr, from 1.5% in Mar, spot on the ECB target. Core inflation accelerated to 1.2% in Apr from 0.8% in Mar, under demand-led inflation pressure.
- **The eurozone's M3 money supply** expanded 5.3% yoy in Mar compared to 4.7% in Feb propelled by M1. Other M3 sub-aggregates remained stable.
- **Eurozone's credit conditions** eased in Q1, as the net percentage of banks reporting tighter corporate credit was -1.7% compared to 4.7% in Q4.
- **The eurozone's economic sentiment indicator** jumped to 109.6 in Apr from 108 in Mar with major subsectors contributing more or less evenly.
- **France's GDP** expanded by 0.3% qoq (0.8% yoy) in Q1 vs 0.5% (1.2% yoy) in Q4. Investment was again the main driver, while private consumption disappointed and net trade cut 0.7% from growth.
- **UK GDP growth** recorded a disappointing 0.3% qoq (2.1% yoy) in Q1, well below the 0.7% (1.9% yoy) in Q4. Service sector weakness compounded the slowdown in the other sectors.
- **UK consumer confidence** reached a four-month low of -7 in Apr, from -6 in Mar. Consumers are particularly negative over the economic outlook.
- **The German Ifo Business Climate Index** advanced again in Apr to 112.9 from 112.4 in Mar. Businesses are very optimistic about the current situation, albeit the near term outlook retrenched from Mar's level.
- **German retail sales** were almost flat in Mar, rising 0.1% mom (2.1% yoy) after 1.1% mom in Feb.
- **Spain's GDP** increased 0.8% qoq (3.0% yoy) in Q1,

slightly up from 0.7% qoq (3.0% yoy) in Q4. **Spain's unemployment rate** fell to 18.8% in Q1 from 21% in Q1 2016.

Asia and Pacific:

- **Japan's industrial production** plunged -2.1% mom (+3.3 yoy) in Mar reversing the 2.0% jump in Feb.
- **Japanese inflation** was 0.2% yoy (-0.1% mom) in Mar vs 0.3% yoy (-0.1% mom) in Feb, the lowest rate since October 2016, due to food and transport prices. Core inflation was also 0.2% yoy.
- **Japan's household expenditure** rose by a paltry 0.7% yoy in Mar, while both nominal and real income declined in yearly terms.
- **Japan's retail sales** surged 2.1% mom in Mar vs Feb's 0.2% but the main driver was the fuel price increase, while general merchandise sales remained weak.
- **The official NBS Manufacturing PMI in China** fell slightly to 51.2 in Apr from 51.8 in Mar marking the ninth straight month of expansion. Growth in output, new order and new export orders slowed amid softening business sentiment. Employment declined again and selling prices retrenched for the first time in 10 months.
- **Taiwan's GDP** grew 2.6% yoy in Q1, almost on par with the 2.9% growth in Q4 lifted mainly by exports.
- **Taiwan's industrial production** rose 3.2% yoy in Mar vs 10.6% yoy in Feb to mark the 11th consecutive positive monthly score, thanks to strong export demand, especially for electronics.
- **Korean GDP** growth accelerated to 0.9% qoq (2.7% yoy) in Q1 from 0.5% qoq (2.4% yoy) in Q4 pushed by strong investment and exports. Private consumption was anemic due to weak labour market conditions.
- **Korean industrial production** rose 3% yoy in Mar vs 6.7% yoy in Feb, with strong manufacturing especially in

electronic parts and components.

- **Australian inflation** rose 0.5% qoq in Q1 and 2.1% yoy, pushed by higher fees in public services such as education and healthcare. Core inflation accelerated slightly to 1.8% yoy.

Bottom line: US GDP data delivered a bad surprise to investors, spooking the cheerful mood that had prevailed since the November election and reminded that growth acceleration requires actual measures rather than wishful thinking. The sometime amateurish approach adopted in the first 100 days by the Trump administration on key planks of its economic strategy has cooled the enthusiasm of large asset managers who are dumping shares on retail savers. Investor scepticism is underscored by the USD volatility, which has become a gauge of confidence in Mr. Trump. The dollar index rose 4.4% between the election and the end of 2016, but is down 3.4% year-to-date, to a five-month low. On the positive side, the recovery in Euroland is increasingly solid (growth is higher than in the US) and in non-Japan Asia the tech cycle is extending to other segments of the economy. Meanwhile in Japan the prevailing mood is “deja-vu all over again” as the export jolt from the yen devaluation is not stimulating domestic demand.

Regional Developments

- **Bahrain** is expected to receive 15 new **hotels**, valued at USD 10bn, by 2020, according to the Economic Development Board. This will be in addition to the 190 hotels in the country (including 18 5-star hotels and 48 4-star hotels) with a capacity of 16,500 rooms.
- **Egypt's new investment law** will be issued in May, disclosed the PM at a youth conference. Separately, he also revealed that **inflation** is expected to ease to 21.6% by end-June (from the 30.9% recorded in Mar).
- **Egypt** expects to finalise the **third tranche** of the **IMF loan** in four months time, according to the Minister of Investment and International Cooperation.

- **Egypt's trade deficit** narrowed by 46% yoy to USD 6.59bn in Q1 2017, with exports rising to USD 5.52bn (Q1 2016: USD 4.8bn) while imports declined to USD 12.1bn (from USD 17bn a year ago).
- The total **volume of the foreign trade relations** implemented by banks in **Egypt** reached USD 28bn during the period 3 Nov 2016-10 Apr 2017, according to a senior central bank official.
- **Egypt** plans to boost **GCC tourists** by 20-25% this year, according to the chairman of the Egyptian Tourism Promotion Board. Tourists from the GCC accounted for about 35% of Egypt's total tourists last year (+13% yoy).
- **Iraq's** oil minister stated that they will agree with the consensus decision reached during the 25 May **OPEC meeting**. He also revealed that it had reached about 97% of its **output reduction target**.
- **Kuwait** approved a USD 100mn **grant for Iraq** – the first Kuwaiti financial assistance to Iraq since Baghdad's occupation – to support humanitarian and reconstruction projects in areas retaken from Islamic State militants.
- The value of current **investments in tourism projects** in **Jordan** – mostly in Amman, the Dead Sea and Aqaba – is around JOD 16bn.
- The **World Bank** estimates 2.5% **growth** in **Lebanon** this year, supported by tourism, real estate and construction sector, and "assuming the political process does not revert back to a stalemate". *(More details in the Spring 2017 issue of the Lebanon Economic Monitor: <http://documents.worldbank.org/curated/en/568551493132224115/A-Call-for-Action>)*
- **Lebanon** prequalified eight more companies – including 2 Russian firms and an Iranian one – to bid for its first round of **offshore exploration and production licences** after prequalifying 46 companies earlier in 2013.
- **Oman's GDP** at current prices fell by -5.1% to OMR 25.5bn in 2016 from OMR 26.8bn in 2015, according to

preliminary data. The fall was largely caused by the plunge in oil prices.

- A proposal to set up an **unemployment scheme** for **Omani** workers (granting 60% of salary for six months) is being discussed, according to the chairman of General Federation of Oman Trade Union.
- **Qatar's** cabinet approved a **draft law on corporate bankruptcy** and prevention, according to the PM. This law was prepared by the Ministry of Economy and Commerce, and aims to improve the investment climate in the country.
- **Qatar** announced a per capita reduction of 18% in **electricity consumption** and 20% in **water usage** at the end of the first phase of the five-year National Programme for Conservation and energy Efficiency. The second phase, which will run till 2022, is expected to achieve a further per capita reduction of 15% in the use of water and 8% in electricity.
- **Saudi Arabia's fiscal deficit** was SAR 26bn (USD 6.9bn) in Q1 this year, far below the government's projection of SAR 56bn, according to the vice minister for Economy and Planning. Of this difference, SAR 4-5bn was due to higher than expected oil revenues, while reduction of costs accounted for about SAR 17bn. The 2017 budget projects a deficit of SAR 198bn for the full year.
- **Saudi Arabia's** stock **exchange** is expected to be ready to introduce **equity futures and options** in about 24 months, according to the exchange's chief executive. In addition to the T+2 settlement launched last week, the exchange is also in the process of setting up a clearing house.
- The **oil market** is "moving toward rebalancing" after the **OPEC cuts**, according to Saudi **Aramco's** CEO, who also called for long-term investment due to growing demand.
- **HSBC** has been formally mandated as an **adviser** of **Saudi Arabia's Aramco IPO**, joining peers including JPMorgan Chase & Co and Morgan Stanley on the deal.
- The value of completed and ongoing **projects** in the

Eastern Provinces of **Saudi Arabia's** Makkah region exceeds SAR 14bn, according to the governor of the Makkah region, of which SAR 1.7bn was for projects of the electricity company in the region.

- According to **Saudi Arabia's** housing minister, **villa and apartment prices** in the country have dropped by 8% while land prices were lower by 9% (no reference was made to the period of the decline).
- A Bloomberg report estimates that **Saudi Arabia's renewable energy program** will generate 7,000 employment opportunities by 2020.
- **Saudi Arabia's** healthcare sector requires about SAR 250bn by 2030, according to the health minister, highlighting that the most important element in health care transformation will be institutionalization of the sector, and also reorganizing funding methods to improve service efficiency.

UAE Focus

- **Money supply** (M2) in the **UAE** grew by 2.3% mom to AED 1272.2bn at end-Mar. Total bank deposits increased by AED 20.6bn in Mar, thanks to the AED 23.3bn increase in resident deposits.
- **UAE** was the **main destination of Oman's non-oil exports** in Jan-Nov 2016: non-oil exports to the UAE touched OMR 559.7mn, which accounts for 24.95% of Oman's total non-oil exports.
- **Dubai's Sukuk listings** are at a total nominal value of USD 53.3bn, the highest total of any listing venue in the world.
- **UAE** was ranked 21st by **AT Kearney** in its **Foreign Direct Investment index 2017**; the country had received no ranking in the previous year. The inflow of foreign investments into the country has remained steady in recent years, reaching around USD 11bn in 2014 and 2015.
- The value of **UAE projects** awarded in Q1 this year grew

by 42.6% qoq and 2.1% yoy, driven by 25.6% yoy increase in construction projects, according to MEED estimates.

- Around 80% of the **Expo 2020 site**, including assets and transport infrastructure, will be re-purposed after the event by a range of tenants and major private sector firms. One of the examples is Siemens which confirmed that its global headquarters for airports, cargo and ports logistics, will be based out of the Expo2020 site from 2021.
- The **brand value** of the newly created **First Abu Dhabi Bank** – merged entity of National Bank of Abu Dhabi and First Gulf Bank – is around AED 14.7bn in Q1 2017, up from AED 13.9bn at the end of 2016.
- **UAE** has announced a **fruits and vegetable import ban** from select countries starting May 15, on foods exceeding minimum residue levels of pesticides. The countries that will be impacted by the ban include Egypt, Oman, Jordan, Lebanon and Yemen.
- **Dubai** was ranked fifth on the list of the world's most competitive and attractive **maritime clusters** by Menon Economics. The emirates also ranked fifth in terms of "Attractiveness & Competitiveness". *The full report can be accessed at <http://www.menon.no/wp-content/uploads/2017-28-LMC-report.pdf>*
- **Passenger traffic** at **Dubai International Airport** was up by 7.4% yoy to 22.5mn in Q1 this year; the ban on electronic devices probably contributed to the 4.3% dip in traffic figures for North America in Mar. London was the top destination city with almost 1 million passengers, while India remained the country registering the highest number of passengers at more than 3 million.
- **Passenger traffic** at **Dubai World Central** grew by 29.5% yoy to 333,780 persons in Q1. It is expected that the airport will receive more than a million passengers this year.
- The number of **overnight visitors** in **Dubai** increased by

11% yoy to 4.57mn in Q1 this year, with India and Saudi Arabia the largest source markets. Overnight Chinese visitors grew by 64% yoy to 230k in Jan-Mar, making it Dubai's fourth largest source market during the period. Overnight Russian visitors also grew by 106% to 126k. Both nations' citizens are now granted visas on arrival.

- From the region, **Dubai** hosted 1.6mn **overnight visitors** from Saudi Arabia and over 1mn visitors from Oman in **2016**.
- The **UAE** announced a **donation** of USD 150mn to support **Yemen** this year; since Apr 2015, the UAE has provided more than USD 2bn to support humanitarian operations, development and reconstruction in various sectors including infrastructure, healthcare and housing across Yemen.

Media Review

Trump's fiscal plan

<https://www.ft.com/content/9906bcde-2a86-11e7-9ec8-168383da43b7>

May's gamble

<https://www.omfif.org/analysis/commentary/2017/april/mays-high-stakes-gamble>

Macron in, QE out?

<https://www.ft.com/content/7b4cbd9e-29ab-11e7-bc4b-5528796fe35c>

El Erian on the mirage of the reflation trade

<https://www.ft.com/content/65179802-2a80-11e7-bc4b-5528796fe35c>

Solar Qatar

<http://www.oxfordbusinessgroup.com/news/qatar-gets-serious-about-solar>

Private investors key to Saudi Arabia's renewable energy plan

<http://www.arabnews.com/node/1089306/business-economy>

Egypt: focusing on inflation

<http://weekly.ahram.org.eg/News/20294.aspx>

https://www.zawya.com/mena/en/story/Egypt_focusing_on_inflation

[n-ZAWYA20170428061335/](http://www.reuters.com/article/us-eu-migrants-eurostat-idUSKBN17S150)

EU asylum granting over twice as high in 2016 as year before-Eurostat

<http://www.reuters.com/article/us-eu-migrants-eurostat-idUSKBN17S150>

Riyadh's new financial hub struggles with ownership uncertainty

<http://www.reuters.com/article/us-saudi-economy-finance-idUSKBN17R10V>

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