

Weekly Economic Commentary – May 7, 2017

Markets

Global equities rose for a sixth straight month in Apr, and opened the new month on an optimistic note, with European markets strongly up and the S&P 500 closing at a record high, while emerging markets remained almost flat. Regional markets in oil producing countries were sharply down (except Abu Dhabi) while Morocco and Egypt benefitted from a more bullish macroeconomic outlook. In currency markets the yen took a dive in response to stronger US data, while the euro held steady at a 6-month high vis à vis the dollar. Oil prices plunged as the inventories fell by a smaller than expected amount, the US output is on the rise and scepticism over Opec's ability to cut production intensifies. Gold recorded the biggest weekly drop since Trump's election, as the likely victory of Macron is expected to remove one of the most acute political risk.

Global Developments

US/Americas:

- **The US non-farm** payroll added 211k jobs in Apr, compared to a downwardly revised 79k in Mar. Private employment increased 194,000 with mostly in professional/business services, leisure/hospitality and education/healthcare. The **unemployment rate** fell to 4.4% (a 20-year low) from 4.5%, because the labour force participation rate dipped to 62.9% from 63%.
- **The US Fed** kept its interest rate target range at 0.75% to 1% and did not mention measures to reduce its balance sheet. The final statement remarked that private consumption rose “only modestly” lately, but emphasized that the Q1 slowdown in US growth is probably temporary

and further rates hikes can come as soon as June.

- **The ISM manufacturing index** dropped from 57.2 in Mar to 54.8 in Apr. New orders plunged from 64.5 to 57.5 and the employment index from 58.9 to 52. The trade details suggest net exports could be holding down the Q2 GDP.**US ISM non-manufacturing PMI** index went up to 57.5 in Apr of 2017 from 55.2 in Mar.
- **The US PCE deflator** fell -0.2% mom (1.8% yoy) vs 0.1% in Feb and 0.4% in Jan. Core PCE inflation fell -0.1% (1.6% yoy).
- **Growth in nominal personal income in the US** slowed to 0.2% mom in Mar from 0.3% in Feb. Wages and salary growth decelerated to 0.1% from 0.5% in Feb.
- **Initial unemployment claims** in the US fell 19,000 to 238,000. The 4-week moving average gained 750 units to 243,000. Continuing claims fell 23,000 to 1.964 mn.
- **US nonfarm productivity** fell -0.6% yoy in Q1, vs a 1.3% gain in Q4, another sign that without a shock therapy the economy will remain in a low growth range.
- **The US trade deficit** narrowed to USD 43.7bn in Mar, almost the same as in Feb, and the lowest in 5 months.
- **US factory orders** increased 0.2% mom vs 1.0% in Mar thanks to defense and nondefense aircrafts. Inventories were roughly unchanged.
- **Unit labour costs in the US nonfarm business sector** increased 3.0% in Q1, as a result of a 2.4% increase in hourly compensation and a -0.6% decline in productivity.
- **Industrial production in Brazil** fell -1.8% in Mar, after a negligible 0.1% gain in Feb, underscoring that the recovery might not be steady as anticipated.

Europe:

- **The eurozone GDP** gained 5% qoq in Q1 (1.7% yoy), the same pace as in Q4 (1.8% yoy) according to flash estimates.
- **The Markit Eurozone Composite PMI** crawled up to 56.8 in

Apr from 56.4 in Mar a 6-year record high, signaling an acceleration of growth in Q2.

- **The eurozone's unemployment rate** was stable at 9.5% in Mar.
- **German** jobless rate was 3.9% in Feb, unchanged from Jan, and down from 4.3% a year earlier.
- **The UK Markit/CIPS Services PMI** rose to 55.8 in Apr from 55 in Mar, a precious sign of resilience despite the uncertainty over the Brexit.
- **The Russian central bank** lowered its policy rate by 75bp to 9.25% as inflation subsides to 4.1% yoy in Apr down from 4.3% in Mar, thanks to the appreciation of the ruble.
- **Retail sales growth in the eurozone** slowed to 0.3% mom in Mar, from 0.5% in Feb.

Asia and Pacific:

- **The Nikkei Japan Manufacturing PMI** rose to 52.7 in Apr, compared to 52.4 in Mar, marking the eighth straight month of expansion in manufacturing activity, driven by new export orders.
- The **Caixin Manufacturing PMI in China** fell to 50.3 in Apr from 51.2 in Mar the weakest level in activity since Sep 2016. The **Composite PMI** declined to 51.2 in Apr from 52.1 in Mar, the lowest figure since Jun 2016.
- **South Korea's inflation rate** declined to 1.9% yoy (-0.1% mom) in Apr from 2.2% (0.0% mom) in Mar. dragged down by transport and food costs.
- **South Korea's trade** surplus rose to USD 13.25bn in Apr from USD 8.7bn a year earlier.
- **Indonesia's GDP** shrank -0.34% qoq in the Q1 of 2017, following a -1.77% decline in Q4, and compared to market consensus of a 0.35 % fall.
- **Philippines consumer prices** rose 3.4% yoy in Apr, the same as in Mar.

Bottom line: Another week where most macro data (except the

non farm payroll) underscored a malaise in the US economy. It suffices to note that Euroland's Q1 growth rate turned out to be double than in the US. The disruptions envisaged after Trump's elections have failed to materialize and markets baseline scenario is a prolonging of the economic conditions prevailing before Nov 8. Most analysts and the Fed seem to consider this US weakness temporary and the central bank remains on course for two hikes this year. In fact although the Fed did not signal that a second 2017 rate increase is imminent, before the FOMC meeting chances of a 25bps rise in June were at 67%, according to Fed fund futures, but jumped to 94% afterwards. All in all, for now, the global economy continues its synchronised cyclical upswing, whilst underlying inflation remains low in most large economies. A discontinuity in the near term could come either from the fiscal reform sketched two weeks ago by the Trump's Administration (and the momentum gained after the repeal of the Obamacare) or from the launch of a more ambitious European Union after Macron's election puts the nail in the political coffin of populist and anti globalization movements. The biggest threat to the economy is the central banks' combined balance sheets now above 20% of GDP.

Regional Developments

- **Egypt PMI** improved to 47.4 in Apr, higher than Mar's 45.9, but still below the 50-point mark for the 19th consecutive month. On the bright side, new export orders index grew for the first time in nearly two years, at 51 points (Mar: 48.9).
- **Egypt** may issue USD 1.5-2.0bn in **international bonds** in the coming few weeks, revealed the Finance Minister in a recent interview.
- **Egypt's** parliament agreed in principle by majority the country's new **investment law**.
- The **IMF** team is in **Egypt** to review the second instalment of the USD 12bn loan. Inflation is seen as a priority

issue, and an IMF official recently stated that interest rates could be one of the “right tools” to curb inflation.

- **Fuel subsidies in Egypt** grew to EGP 78bn in the first 3 quarters of the 2016-17 fiscal year, up from EGP 41bn during the same period a year ago, partially due to the currency devaluation in Nov.
- **Remittances into Egypt** grew by 13.8% to USD 8.0bn in the five months from Nov-Mar. March alone saw remittances rise to USD 1.6bn.
- **Bilateral trade between Germany and Egypt** grew by 10% yoy to EUR 5.6bn (USD 6.1bn) in 2016, according to the minister of trade.
- **Iraq** has initiated the first shipment of 2 million barrels of **crude oil bound for Egypt**, under a bilateral one-year agreement to sell 12mn barrels of oil to Egypt.
- An Iraqi spokesperson disclosed that **Islamic State's control on Iraqi territory** has come down to about 6.8%, from about 40% at the height of its power.
- The **Iraqi** government has agreed in principle to an **oil pipeline project with Jordan** at an estimated cost of USD 5.6bn, according to an Iraqi official. All related preparations and procedures are expected to finish within the next two months.
- The Central Bank of **Kuwait** opposes any move to introduce taxes or **fees on remittances** as part of revenue mobilisation.
- **Canada** announced a contribution of USD 45mn to the United Nations Children's Fund (UNICEF) for **education and youth projects in Lebanon**.
- **Oman** GDP at producer prices declined -7.8% yoy to OMR 25.5bn in 2016, while GDP at market prices fell -5.1% yoy to OMR 25.48bn.
- **Oman total population** stood at 4,614,376 by the end of Apr, a 0.4% mom.
- **Qatar** will issue a new **PPP law**, defining the regulatory framework and defining the roles and responsibilities of

each stakeholder, “soon” according to a senior official at the Ministry of Economy and Commerce.

- **Qatar’s trade surplus** widened by almost 71% yoy to QAR 9.9bn in Mar, with exports growing by 18.4% yoy and 0.1% mom to QAR 19.7bn. Japan, South Korea and India were top export destinations, together accounting for 46.2% of total exports.
- **Qatar’s population** grew to all-time high level of 2,675,000 at the end of Apr, 0.6% more than as of Mar 31 and up 4.5% yoy.
- **Qatar National Bank** plans to apply for an **investment banking licence** in Saudi Arabia, disclosed the QNB Group CEO.
- **Saudi Arabia’s Deputy Crown Prince** in a televised **interview** covered many points ranging from the Aramco IPO to Vision 2030: the Aramco IPO would proceed as planned in 2018, with the stake sold “not be very far off 5%”; the Public Investment Fund (PIF) will spend more than SAR 500bn (USD 133.3bn) over three years after Aramco’s IPO and will invest half in the domestic economy; a programme to address the housing shortage would be announced in Q3, to arrange the construction of over a million housing units through soft loans or the Saudi Real Estate Development Fund; he also revealed that government was prepared to restore austerity steps if state finances were to be negatively affected.
- **Saudi Arabia’s Council of Economic and Development Affairs (CEDA)** has identified **10 new programs** to support the Vision 2030 – including in housing, improving lifestyle, serving pilgrims and other programs that support national leadership in industry and financial markets, strengthen national identity and bolster national culture, arts and entertainment (*more details in Media Review link*).
- **Saudi Arabia’s PMI** was up slightly to 56.5 in Apr (Mar: 56.4), with both output and new orders registering a faster-paced increase compared to the month before.

- **Reinstating financial allowances** and bonuses to the **public sector** in **Saudi Arabia** is expected to cost about SAR 7bn this year, according to a senior finance ministry official. He also stated that there were no plans to tap the international debt market before Q4 this year.
- **Saudi Arabia's** finance minister stated that the government was **paying** over 90% of its bills to the **private sector** within 30 days of the due date so far this year.
- The latest monthly bulletin from SAMA revealed that **Saudi Arabia's general reserves** rose by SAR 52mn to SAR 641.8bn in Mar 2017. **Foreign investments** of the commercial Saudi banks declined by 22.6% yoy to SAR 123.4bn by end-Mar.
- According to **Saudi Arabia's** Ministry of Labor and Social Development, the private sector offers 35,250 **remote job opportunities**. This is expected to rise to 141k remote jobs by 2020, thereby raising the percentage of working women to 28%.
- **Residential real estate prices** in **Saudi Arabia** declined by 9.5% in Q1 this year, from a 7.3% drop reported in Q4, according to the General Authority for Statistics' Real Estate Price Index. Commercial real estate prices were down 11.7% in Q1.
- *Reuters* reported, citing local media outlets, that the King of **Saudi Arabia** has issued an **order relaxing male guardianship** – allowing women to benefit from government services such as education and healthcare without getting the consent of a male guardian.
- The **Olayan family** is planning to **list** at least 30% of its **Saudi business**, according to banking sources, reported *Reuters*. The company could be valued at USD 2-3bn in an IPO.
- **Saudi Arabian Airlines** (Saudia) has initiated the sale of its medical services business in Jeddah, which is valued at around USD 500mn. Aiming for a complete exit,

this is part of its strategy to reduce non-core assets and make the airline profitable by 2020.

- The **Huawei's Global Connectivity Index 2017** report places UAE, Qatar and Saudi Arabia top "adopter" economies in the region (ranked 18, 22 and 29 respectively). The report finds that every additional dollar of ICT infrastructure investment made could bring a return of USD 3 in GDP at present, USD 3.70 in 2020, and USD 5 in 2025.
- The **Arab Youth Survey 2017** finds that unemployment and the rise of Daesh are the biggest obstacles facing the Middle East, closely followed by the threat of terrorism. *More findings from the survey can be accessed here: <http://www.arabyouthsurvey.com/findings.html>*

UAE Focus

- The **demand for business credit and personal loans in UAE** edged up in Q1; measured by the weighted percentage of respondents reporting an increase in demand for loans minus those reporting a fall in demand, this rose to +7.6 in Q1 this year, from -1.3 in the previous quarter.
- **Bank credit to the private sector in the UAE** grew to AED 3.6bn in Q1 this year, while personal loans were at AED 1.1bn. Total deposits were AED 41.4bn at the end of Q1, with private sector deposits at AED 17.6bn. Capital adequacy ratio was 18.6%, much higher than the 16.9% required for Basel III.
- **UAE PMI** clocked in at 56.1 in Apr, a tad lower than the previous month's 19-month high of 56.2. While output and new orders remained strong, these were lower compared to Mar's reading.
- **Fuel prices in the UAE** increased in May: petrol prices grew by AED 0.06 and diesel by AED 0.02.
- **DIFC, given its recent MoU with the Dubai Economy** (Department of Economic Development or DED), will permit DIFC-licensed companies to obtain licenses to operate

onshore in Dubai. The number of entities currently registered at the DIFC is 1648.

- Abu Dhabi Commercial Bank (**ADCB**), **UAE's** second largest bank by assets, plans to issue a **senior unsecured dollar bond**, reported *Reuters*. The transaction is expected to be at least USD 500mn; ADCB has raised almost USD 1bn this year through two Formosa bonds (USD 750mn & USD 230mn).
- **Dubai Group** (a Dubai Holding company) offered creditors around 29 cents on the dollar in return for an early settlement of debt maturing in 2024.
- Dubai Financial Market (**DFM**) reported that **net investments from institutional investors** were AED 2.2bn, roughly 30% of trading activity.
- Work on the first reactor of the **Barakah nuclear plant** has been completed, but Nawah – the Emirates Nuclear Energy Corporation (ENEC)- Korea Electric Power Corporation (KEPCO) joint venture set to run the plant – has not yet received an operating licence from the UAE's Federal Authority for Nuclear Regulation. The plant will deliver up to a quarter of the UAE's electricity when completed around 2020.
- **UAE** was placed second in **top destinations for Muslim travel**, according to data from The Global Muslim Travel Index; the list was topped by Malaysia, while Singapore was on top for non-OIC destinations.

Media Review

The healthcare counter-reform in the USA

<https://www.bloomberg.com/view/articles/2017-05-04/the-shame-of-the-house-health-care-vote>

The reflation trade will be hampered by China

<https://www.ft.com/content/a9d33e16-30bf-11e7-9555-23ef563ecf9a?segmentId=b348cbb8-e1d8-c16f-c0bc-d70f5303573e>

IMF publishes MENAP Regional Economic Outlook

<http://www.imf.org/en/Publications/REO/MECA/Issues/2017/04/18/mreo0517>

A False Spring at the Spring Meetings?

<https://www.project-syndicate.org/commentary/imf-growth-forecast-too-optimistic-by-carmen-reinhart-and-vincent-reinhart-2017-05>

Saudi identity, lifestyle part of new 10-point Vision 2030 plan

<http://saudigazette.com.sa/saudi-arabia/saudi-identity-lifestyle-part-new-10-point-vision-2030-plan/>

Saudi Arabia avoids financial crisis – now for the hard part: Reuters

<http://www.reuters.com/article/us-saudi-economy-idUSKBN1801P0>

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