

Weekly Economic Commentary – May 14, 2017

Markets

Global markets were mixed last week with the emerging and Asian markets advancing strongly, while Wall Street and Europe were on the back foot due to rather weak US data. Regional markets were mostly in positive territory, helped by a rebound in oil prices. In currency markets the dollar regained some ground lost in previous weeks to the euro, but overall calm prevailed. Oil prices interrupted their slide on hopes that a new deal between OPEC and Russia to cut production can come soon into effect, and even the gold price was firmer.

Global Developments

US/Americas:

- **US CPI** rose 0.2% mom in Apr after a -0.3% drop in Mar, but the core index rose only 0.1% mom.
- **US retail sales** rose 0.4% (4.5% yoy) mom in Apr after 0.1% (5.2% yoy) in Mar. Gains were uneven with auto, electronics and appliance and building supply quite upbeat while general merchandise, apparel, furniture and grocery disappointed. Core sales excluding auto dealers and gasoline rose 0.3%.
- **The preliminary University of Michigan Consumer Sentiment** in May advanced for the third month in a row to 97.7 from 97 in Apr. just a little below its January high of 98.5. Current economic conditions were steady, but consumer expectations crawled up.
- **The US government posted** a USD 182bn budget surplus in Apr, compared to a USD 106.5bn surplus a year earlier.
- **US business inventories** gained 0.2% mom in Mar, vs 0.3 in Feb. In the subcategories, retailers' stockpiles were

up 0.5%, wholesalers 0.2% and manufacturers' were unchanged.

- **US initial claims for unemployment benefits** fell 2,000 to 236,000. The 4-week moving average added just 500 units to 244,000. Continuing claims fell 61,000 to 1.918 mn.
- **Annual inflation in Brazil** declined to 4.1% in Apr from 4.6% in Mar, below the 4.5% target set by the central bank.

Europe:

- **Eurozone's inflation** reached 1.9% yoy in Apr after 1.5% in Mar, and is in line with the ECB target.
- **Eurozone industrial production** in Mar decreased by -0.1% mom on top of a similar decline in Feb, due mostly to temporary factors such as refinery maintenance or warmer temperatures that affected energy production.
- **Germany's industrial production** fell in Mar by -0.4% mom from the 1.8% growth mom in Feb. **France's industrial production** surged in Mar by 2% mom (2.0% yoy) offsetting the -1.7% mom fall in Feb. **Italy's industrial production** advanced by 0.4% mom in Mar down from 1% in Feb.
- **UK industrial production** in Mar, shed -0.5% mom after -0.7 drop in Feb.
- **German GDP** jumped 0.6% qoq (1.7% yoy) in Q1 after 0.4% (1.8% yoy) in Q4, pushed up by private investments and, to a lesser extent, consumption. Net exports gave, as usual, a positive contribution.
- **Germany's inflation** accelerated to 2% in Apr from 1.7% in Mar.
- **German current account surplus** widened to EUR 30.2bn in Mar from EUR 29.1bn a year earlier, setting a historical record high, with the goods surplus almost flat at EUR 27.4bn from EUR 27.5bn a year ago)
- **French trade** deficit narrowed to EUR 5.4bn in Mar from a downwardly revised EUR 6.4bn in Feb and below market

expectations of a EUR 6.0bn gap.

Asia Pacific:

- **China's inflation advanced** 2% yoy in Apr from 0.9% in Mar as a result of higher food prices.
- **China's M2 money supply** rose 10.5% yoy in Apr, almost similar to 10.6% in Mar, the smallest gain since Jul 2016. Total loans went up by 12.9% yoy in Apr from 12.4% in Mar pushed by mortgages.
- **China's trade surplus** fell to USD 38.5bn in Apr from USD 39.2bn a year earlier, as exports grew less than imports. In March, the surplus was USD 23.9bn.
- **Japan's current account surplus** fell to JPY 2.91tn in Mar JPY 2.97tn in Mar 2016. The goods surplus stood at JPY 0.87tn, almost the same as in Mar 2016, as exports fell -11.2% and imports by -15.8%.
- **Japanese consumer confidence** fell to 43.2 in Apr, from 43.9 in Mar with most sub-indices down on tensions with Korea and no substantial wage increases.
- **Japan's leading economic index** added a few decimals reaching 105.5 in Mar from 104.7 in Feb.
- **Hong Kong's GDP** grew 0.7% qoq in Q1 after 1.2% in Q4 supported by the real estate market, perky exports and stronger global and regional business and consumer sentiment.
- **Industrial production in India** increased by 2.7% yoy in Mar vs 1.9% in Feb. Output was surging for both mining (9.7%) and electricity (6.2%) while manufacturing recorded only 1.2% yoyo growth vs 1.4% in Feb).
- **India's inflation** dropped to 3% in Apr from 3.9% in Mar as a result of low food prices counterbalancing increasing energy costs.
- **Philippines recorded** a USD 2.3bn trade deficit in Mar, compared to a USD 1.75bn gap a year earlier.
- **Malaysia's industrial production** grew 4.5% yoy in Mar, a tad below Feb's 4.8%. Electronics were the main driver.

Bottom line: Euroland's economy is consolidating its recovery month after month, while the US does not show signs of marked improvement, and Asia is benefitting from an upward electronics global cycle, while waiting for China to go through its transition to a services economy. Even the OECD composite leading indicator was unchanged in Mar underscoring steady growth but minimal acceleration.

Regional Developments

- **Net foreign assets in Bahrain** declined by 11.1% mom to BHD 645.2mn (USD 1.7bn) in Feb; overall, NFA are down 71% from a peak BHD 2.24bn in Nov 2014.
- **Bahrain** is on track to launch the phase of its nation-wide **electronic wallet** by end-June this year. A joint initiative between the central bank and BENEFIT, the wallet will enable instant payments via smartphones and also support collection of payments electronically.
- The **IMF** staff team and **Egypt** have reached a staff-level agreement regarding the payment of its **second installment** of the **loan** (~USD 1.25bn). The IMF praised the central bank and finance ministry for reforms, and cited that curbing inflation should be the main priority for the next phase of reforms.
- **Egypt** passed the long-awaited **investment law**, with multiple incentives to attract investments like a 50% tax discount on investments made in underdeveloped areas, bringing back private-sector "free zones" (i.e. areas exempt from taxes and customs duties) and return half of investors' payment to acquire land for industrial projects if production starts within two years, among others.
- **Inflation in Egypt** rose to 31.5% in Apr (Mar: 30.9%), the highest since June 1986, while core inflation declined slightly to 32.06% (Mar: 32.25%). In mom terms, inflation rate fell for a third consecutive month, and in Apr recorded the slowest pace since Oct (prior to the

currency float). Food prices were up by 43.6% in Apr; the government allocated EGP 1bn in subsidies to support food purchases for Ramadan.

- According to **Egypt's** finance minister, the country plans to issue a **new Eurobond** at the end of May or start of June.
- The first **crude oil shipment from Iraq** (of 2mn barrels) is expected to arrive in **Egypt** by mid-May; the countries had signed a bilateral agreement for Iraq to sell 12mn barrels of oil to Egypt for a year.
- **Japan** contributed USD 16.7mn to the Stabilization Financing and Crisis Response and Capacity-Building Program in **Iraq**, to help crises in areas liberated from Daesh.
- **Oman's sovereign rating** was downgraded by **S&P** to BB+ from BBB-, below investment grade, with negative outlook, because due to low oil prices the country's external reserves can no longer offset the risks stemming from lower oil prices.
- **The non-Omani ownership** in the country's **listed firms** has declined to 27.17% in Apr, from 27.8% at the end of 2016.
- **Qatar** became the second GCC member state to formally **endorse the GCC Value Added Tax Framework**.
- **Qatar** stock exchange plans to introduce **exchange traded funds** (ETFs) as part of its initiative to attract foreign investments, according to its CEO.
- Bilateral trade between **Qatar and Turkey** stood at USD 662.1mn in 2016; while Turkish companies in Qatar are working on projects worth about USD 11.6bn, Qatar's investment to Turkey is over USD 20bn, the second highest value of investments by any country in Turkey.
- **Qatar** raised the official selling **price** for Marine **crude oil** to USD 51.45 a barrel in Apr, up 90 cents from the previous month, reported *Reuters*.
- While **S&P** reports a sharp rise in external debt of **banks in Qatar**, it does not believe it to be an imminent

threat, given the Qatari government's support to the banking system. Also, the Central Bank had introduced regulation in 2016 that caps, among other things, a bank's foreign currency open position in US dollars at 25% of capital and reserves.

- **Saudi Arabia's fiscal deficit** in Q1 2017 was financed entirely from the government's current account, with no drawdowns from its foreign assets or use of debt instruments. Revenues were up 72% yoy to SAR144bn (USD 383.96mn) in Q1, while deficit narrowed by 71% to SAR 26bn. It was an oil-based recovery: oil revenues increased to SAR 112bn from just SAR 52bn last year, while non-oil revenue was up by only 1%.
- Saudi Arabia Airlines (**Saudia**) announced a record of flying 2.9mn **passengers** in a single month. The airline has flown 10mn passengers this year during Jan-Apr.
- **Saudi Aramco** will reduce **oil supplies to Asia** by about 7 million barrels in Jun, reported *Reuters*, with a million barrels being reduced each to Southeast Asia, China and South Korea.
- **Inflation in Saudi Arabia** continued to be negative for the third consecutive month in Mar, with a reading of -0.4% yoy; in Q1 2017, inflation was -0.3% yoy, while food and beverages recorded a decline of 3.5% yoy.
- In **Saudi Arabia**, the Saline Water Conversion Corporation, a power generation company under Saudi Electricity Co., grain silos and sports clubs will start the **privatisation process** this year, according to the vice minister of economy and planning. (*More details about bonds, budget and spending in his Bloomberg interview – link in the Media Review section.*)
- **Middle East carriers' traffic growth** fell to 4.9% yoy in Mar, according to the International Air Transport Association.
- All **OPEC** members have reached a consensus to support the **extension** of the decrease in output for a further 6-month period: this was disclosed at a news conference

held jointly by Iraq's oil minister and Algeria's energy minister.

UAE Focus

- The **Dubai Economy Tracker Index** rose to 57.7 in Apr – the fastest reading since Feb 2015, thanks to a strong pickup in output and new orders to 62.6 and 63.2 respectively. The strong rise in private sector output was supported by the wholesale & retail (57.8) and construction (57.9) sectors.
- **UAE's non-oil foreign trade** grew by 1% yoy to AED 1.564 trillion in 2016, with imports rising by around 2% to AED 969bn. The Asia, Australia and Pacific countries account for 42% total trade, while Arab countries represent about 18% of the non-oil foreign trade; within the GCC, Saudi Arabia remained the top trade partner.
- **Inflation** in **Abu Dhabi** grew to 2.2% in Jan-Apr this year, with health and transport costs up by 10.5% and 5.6% during this period; housing and utility prices rose by 3.7%.
- **Sharjah** is not planning to issue a **bond or a Sukuk** in the near future, according to an official from the debt management office. The emirate had issued a USD 500mn Sukuk in Jan last year.
- **UAE** produced 208mn barrels of **crude oil** in Q1 this year, compared with 211.7mn barrels during the same period last year. The average daily production touched 2.9mn barrels per day in Q1, compared to 3.089mn last year.
- Total **remittances** from the **UAE** touched AED 37.1bn in Q1 2017, up 1.1% yoy, according to the central bank. Indians, Pakistanis and Filipinos were the top remitters, accounting for 34.9%, 9.4% and 7.3% respectively of total remittances.
- The **Sharjah** Investment and Development Authority estimates to receive about AED 830mn in **hotel revenues** by 2019. Revenues have been growing at 12% per annum,

and are expected to touch AED 687mn by end of this year.

- Emirates NBD has announced it will be processing credit card and loan applications using the Al Etihad **Credit Bureau Consumer Retail Banking Score**.

Media Review

Macron's moment

<https://www.bloomberg.com/view/articles/2017-05-10/macron-s-moment-belongs-to-europe-too>

Saudi Arabia's Al Tuwaijri Talks to Bloomberg about Bonds, Budget and Big Spending

<https://www.bloomberg.com/news/articles/2017-05-10/saudi-arabia-s-al-tuwaijri-talks-bonds-budget-and-big-spending>

Saudis to Boost US Ties With \$40 Billion Investment

<https://www.bloomberg.com/politics/articles/2017-05-11/saudi-arabia-said-to-boost-u-s-ties-with-40-billion-investment>

China's Big Play for Middle East Oil

<https://www.bloomberg.com/view/articles/2017-05-10/china-s-big-play-for-middle-east-oil>

Egypt starts weaning itself off foreign gas as output surges

<http://www.reuters.com/article/egypt-lng-idUSL8N1ID7DC>

Shale Drillers Are Outspending the World With \$84 Billion Spree

<https://www.bloomberg.com/news/articles/2017-05-09/shale-drillers-challenging-opec-with-84-billion-spending-spree>

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