# Weekly Economic Commentary — Jun 11, 2017

#### Markets

The first few days of last week saw global stock markets in a relaxed summer mood. In mid-week, US indices had a fillip, scoring intraday all-time records, after a lame prepared statement to the Senate by ex-FBI Director Comey was published. Then on Friday Apple was hit by a sudden sharp reversal that reverberated throughout the whole tech sector, which has led the bull market on Wall Street so far this year. The Dow Jones still managed to cling to a weekly gain, but all other main world stock indices lost ground. In regional markets, Qatar suffered the repercussions of a diplomatic row with Saudi Arabia, Egypt and other countries that reverberated on global media. In currency market the euro retrenched and the GBP slid again after the elections in the UK produced a hung Parliament. Oil prices accelerated their slide as US stockpiles rose for the first time in 9 weeks and gold prices did not react much to the tensions in the Arabian Peninsula.

## **Global Developments**

## **US/Americas:**

- The US ISM non-manufacturing index declined a bit from 57.5 in Apr to 56.9 in May. New orders dropped from 63.2 to 57.7, close to the average for 2016. The business activity index fell from 62.4 to 60.7.
- US productivity figures in Q1 have been sharply revised to 0% qoq vs an early estimate of -0.6% qoq. Unit labor costs were revised from 3% to 2.2%. Revisions to Q4 unit labor costs were staggering, -4% yoy, while in Q1 they gained 1.1% with productivity increasing 1.2%.
- US factory production crawled back in Apr by -0.2%, due

- to nondefense aircraft. Core capital goods orders, shipments and inventories gained 0.1% mom.
- US initial claims for unemployment insurance fell 10,000 to 245,000. The 4-week moving average crawled up by 2,250. Continuing claims decreased 2,000. Overall the labor market remains upbeat.
- **US** household wealth increased USD 2.3tn to USD 94.8tn in Q1, following a USD 1.9tn gain in Q4. Percentage growth was 8.3%, yoy, a record over the past 3 years.
- **US** wholesale inventories plunged -0.5%, a result which will weigh on the Q2 GDP figure.

#### **Europe:**

- The ECB ruled out further interest rate cuts (which nobody expects anyway) as prospects improved, but will continue its QE program as inflation remains well below 2%. President Draghi stated that the ECB no longer sees risks to growth skewed to the downside. Interest rates will remain at present levels long after the end of the OE.
- Eurozone retail sales advanced a meager 0.1% mom (2.5% yo) in Apr vs 0.2% (2.5% yoy) in Mar. Given that this is the fourth consecutive positive monthly figure, the picture is encouraging.
- **German industrial production** expanded in Apr by 0.8% mom rebounding from the -0.1% fall in Mar.
- **German manufacturing order** dropped by -2.1% mom (3.3% yoy) in Apr after a 1.1% increase in Mar. Foreign orders fell markedly while domestic orders were more buoyant.
- **Germany's trade surplus** shrunk to EUR 19.8bn in Apr from EUR 19.9bn in Mar as a result of slowing export growth after a stellar multiyear period.
- France's industrial production against expectations decreased by -0.5% mom (0.6% yoy) in Apr denting the 2.2% mom (2.5% yoy) increase in Mar. The main factors were a -6.2% mom plunge in transport equipment output

- and a -1.6% in machinery output.
- **UK industrial production** in Apr fell -0.8% yoy (0.2% mom) vs 1.4% in Mar and a -1.9% plunge recorded since Dec. The rebound in energy production, which added 2.9%, offset a modest 0.2% increase in manufacturing.

#### Asia Pacific:

- Japan's second estimate of Q1 GDP growth was revised down to 0.3% yoy from 0.5% due mainly to lower private residential investment.
- Japan's current account surplus widened to JPY 1.9tn in Apr from JPY 1.82tn in the same month a year ago, as exports fell 9.9% yoy while imports dropped by 22.7%. The services account deficit narrowed to JPY 0.29tn from JPY 0.41tn.
- The Caixin China Composite PMI ticked up to 51.5 in May from 51.2 in Apr. While the services sector recorded the highest jump in four months (52.8 from 51.5), manufacturing activity declined for the first time since Jun 2016 from 50.3 to 49.6 in contractionary territory.
- China's inflation accelerated to 1.5% yoy in Mar, from 1.2% in Apr. Core inflation was almost unchanged hinting that inflation pressures are ebbing.
- China's trade surplus fell to USD 40.8bn in May from USD 44.7bn in May 2016, as exports grew by 8.7% yoy to USD 191.0bn and imports grew 14.8% to USD 150.2bn.
- Taiwan's inflation accelerated to 0.6% yoy in May from 0.1% in Apr, as food price growth ended a quarter of declines. Core inflation was marginally up to 1.1% yoy, from 1% previously.
- Australia's GDP grew 0.3% qoq (1.7% yoy) in Q1, vs 1.1% (2.4% yoy) in Q4, as export weakened, offset in part by inventories and household consumption.
- South Korea's current account surplus expanded to USD 4bn in Apr from USD 3.7bn in Apr 2016. The goods account surplus increased to USD 11.9bn, from USD 9.8bn, but the

services account deficit widened to USD 2.4bn from USD 1.5bn gap in Apr 2016.

Bottom line: Apart from the traumatic rejection by the voters of Theresa May's Brexit strategy, the news flow did not reserve major surprises. The world economy is still on its gradual recovery path and downside risks seem to be receding.

#### **Regional Developments**

- Four nations Bahrain, Egypt, Saudi Arabia, and UAE announced on Mon a **severing of ties with Qatar**. It was disclosed that air, sea and land links with Qatar would be cut off, citing the nation's support of "terrorist groups aiming to destabilize the nation". Markets were affected by the row: Qatar's stock market tumbled 7.3% on Mon (to the most since 2009) and continued to fall through the week, but rebounded on Thu; overall, the market was down 7% last week; the 1Y USD/QAR forward rose to 630 points last week the highest level since Dec 2015; 5Y Qatar credit default swaps rose to 93.6 points on Fri from 90.1 late on Thur.
- Net foreign assets in Bahrain rose sharply by 19% yoy to BHD 1.054bn in end-Mar (Feb: BHD 0.648bn); this was the first yoy increase in assets since mid-2015.
- **Urban inflation** in **Egypt** increased by 1.7% mom in May (Apr: 1.7%). The annual rate eased to 29.7% from 31.5% in Apr, its first reversal since Oct. Food and beverage prices were up by 41.1% yoy and 2% mom in May. Core inflation eased to 30.57% yoy in May (Apr: 32.06%).
- Foreign reserves in Egypt rose 8.7% mom in May to USD 31.1bn. This is the highest level reported since Feb 2011 and only about USD 5bn short of the USD 36bn peak in Dec 2010. The rise can be attributed to the removal of currency restrictions in Nov, the sale of Eurobonds in Jan and May, and the sale of local Treasury bills to foreign investors among others.
- Egypt attracted USD 8.4bn of foreign investment in

- domestic debt instruments in the period till end-May from Nov (post pound flotation), disclosed the deputy finance minister. He stated that USD 2.6bn (or 30%) of the USD 8.4bn was raised in May alone.
- Egypt's 2017-18 budget has allocated EGP 145bn and EGP 80bn for fuel and electricity subsidies During the period Jul 2016-Mar 2017, around EGP 78bn were spent on fuel subsidies, up from EGP 41bn during the same period a year ago.
- **Egypt PMI** edged down slightly to 47.3 in May (Apr: 47.4), contracting for the 20th consecutive month, as both output and new orders continued to decline. New export orders meanwhile rose for the second month in a row, supported by the EGP, rising to 54.8 (Apr: 51), the highest reading since the survey began in Apr 2011.
- Trade deficit in Egypt narrowed by 46% yoy to USD 6.59bn in Q1 this year, with exports rising by 15.2% to USD 5.52bn.
- Egypt reduced arrears owed to foreign oil companies to USD 2.3bn, according to the oil ministry. After having paid about USD 2.2bn in three weeks, the plan is to eliminate arrears by end-Jun 2019.
- Egypt, which consumes 6.8 million tonnes of fuel per month, aims to reduce fuel imports to about 10% of total consumption by 2019 from 30% currently, stated the oil minister. Egypt also plans to speed up petroleum production by 2019, similar to the progress made in gas production.
- **Egypt** will submit draft regulations to the cabinet for the recently passed **investment law** within a month, according to the investment minister.
- Kuwait approved the budget for the current fiscal year to Mar 31: with spending estimated at KWD 19.9bn, the budget projects a deficit of KWD 7.89bn after a transfer to the SWF (of 10% of revenues; total revenue is estimated at KWD 13.34bn). The budget assumes an oil price of USD 45 per barrel, with oil revenues of KWD

11.7bn.

- **Kuwait** has picked accounting firm EY to do a valuation of its **stock exchange**, reported *Reuters* citing sources, in preparation for a potential IPO listing.
- Mobile subscriptions in Oman grew 2.7% yoy in Apr, exceeding the 7 million threshold for the first time.
- S&P cut its long-term rating of Qatar by one notch to AA- from AA and put the rating on CreditWatch with negative implications. Moody's meanwhile stated that Qatar's credit quality would decline if tensions continue for much longer, raising the country's debt ratio and hurting banks' liquidity. It currently rates Qatar at Aa3 the fourth-highest investment grade with a stable outlook.
- Qatar is expected to finalize a new law governing the use of public-private partnerships (PPPs) by the summer, reported PwC in a new report.
- The legal firm working on **Saudi Aramco's IPO** flotation has advised that a New York listing poses the greatest litigation risk of any jurisdiction, reported the *Financial Times*. A premium category listing on the London Stock Exchange alongside a domestic offering was seen as the next best option, followed by a standard listing on the LSE for Saudi Aramco.
- Saudi Arabia will not roll out the next phase of the white land tax before 2020, according to a ministry of housing official. Currently, a 2.5% land tax is levied on undeveloped urban land planned for residential use; the tax is likely to include commercial areas as well in the future. Currently, a total of 2,278 undeveloped plots with an aggregate area of 635 million square metres have been registered under the scheme.
- About 8 million **pilgrims** visited the Grand Mosque in **Saudi Arabia** during the first eight days of Ramadan; this compares to an estimated 5.3mn pilgrims during Ramadan last year.
- Middle East carriers reported a 10.8% yoy increase in

**traffic** in Apr, as per data from the International Air Transport Association. If the laptop ban from several airports in the region were extended to Europe-US flights, IATA estimates a USD 1.4bn hit on productivity.

#### **UAE Focus**

- **UAE PMI** declined to a six-month low of 54.3 in May, from Apr's 56.1 reading. External demand has declined amidst slower rates of growth in output and domestic demand, while employment increased at the weakest rate in seven months
- The VAT law is being debated by the technical legislative committee in the UAE in preparation for its submission before Cabinet for approval, according to the finance minister.
- UAE's Securities and Commodities Authority, SCA, has issued draft resolution on workings of credit rating entities; it has decided that no licenses shall be granted to potential credit rating entities unless applying party has a minimum of AED 2mn in capital.
- Emaar plans to sell as much as 30% of its real estate development business in the UAE in an IPO, with the raised funds to be primarily distributed as dividend to Emaar's shareholders. The IPO would be the largest in UAE since Emaar Malls raised USD 1.58bn in 2014. The developer also disclosed that its projects backlog in the UAE amounts to AED 40bn.
- The **Sharjah Chamber of Commerce and Industry** reported a record 66,295 registered **members** as of Q1 this year, with 1,607 new companies joining in the quarter.
- •Abu Dhabi's trade in pearl, gemstones and precious metals, which accounts for 10.2% of the emirate's total trade, increased by 42.4% yoy to AED 4.7bn in Q1 this year.
- Dubai Electricity and Water Authority disclosed the receipt of the lowest international bid of USD 9.45

cents per kilowatt hour for a 200 megawatt **Concentrated Solar Power plant** (which is the fourth phase of the Mohammed bin Rashid Al Maktoum Solar Park). The CSP plant will be operational by Apr 2021.

- Going green: **UAE**'s Majid Al Futtaim announced plans to install **new solar panels** at four of its **malls**, thereby saving up to AED 80mn in traditional electricity costs and reducing CO2 emissions by 3200 tonnes per year.
- **Abu Dhabi** received 1.6mn guests in Jan-Apr this year, up 7% yoy; **guest arrivals** grew by 15% in Apr alone. China maintained its position as the largest overseas source market with 131,253 hotel guest arrivals in Apr, followed by India (104,436) and the UK (86,529).
- **Dubai** generated over AED 1.4bn from **medical tourism** sector last year, with around 326,649 tourists seeking treatments in the emirate, the most popular of which were orthopaedics, dermatology and ophthalmology. Asian medical tourists accounted for 37% of visitors, followed by Arab & GCC (31%) and Europe (15%).
- The **Smart UAE Wallet service** allows passengers to use smartphones at the smart gates instead of passports. The UAE Wallet, which contains personal ID, passport details, and smart gate card data of the traveller, is expected to reduce departure clearance time to between 9 and 12 seconds per passenger.

#### Media Review

The global recovery's downside risks: Roubini via Project Syndicate

https://www.project-syndicate.org/commentary/global-economy-do
wnside-risks-by-nouriel-roubini-2017-06

Brexit: five possible scenarios for UK after shock election result

https://www.theguardian.com/politics/2017/jun/09/brexit-five-p
ossible-scenarios-for-uk-after-shock-election-result

## Trump vs Qatar

https://www.ft.com/content/e9967b54-4d42-11e7-919a-1e14ce4af89

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# The future of blockchain

https://fee.org/articles/blockchain-predictions-for-2017/

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