

# Weekly Economic Commentary – Jul 9, 2017

## Markets

Last week markets were rather calm, with Wall Street in summer mood and other key indices on the back foot. The Dow Jones has remained in the 21,000-21,500 range since May 24th and with the earnings season looming the higher valuations will be tested. The S&P500 for example despite retrenching last week, has reached a valuation 17.5 times forward earnings, way above historical averages. Japan shares lost ground amid geopolitical tensions related to North Korea and Qatar and even European bourses are in a somber mood: the Euro Stoxx 600 this year peaked in May and has failed to gain momentum. In essence, in global equity markets caution prevails over the so-called “Icarus trade”. In bond markets the rather hawkish Fed minutes have not triggered another taper tantrum like in the summer of 2013, but the actual start of the process is fraught with uncertainty. In currency markets, the yen strengthened in response to the decline in US Treasuries, while the euro dollar fix was almost unchanged on the week. Oil prices surged when the EIA storage report showed a significant drop adding to a substantial momentum built over the past two weeks. But on Friday traders worried about the surge in OPEC’s oil exports and a rebound in US oil production. Gold prices dropped once again to just over USD 1200/ounce. A month ago they were just below USD 1300/ounce.

## Global Developments

### **US/Americas:**

- **US non-farm payrolls added 220K jobs** in Jun up from 152K in May, the highest level in 4 months, but average hourly earnings rose just 0.2% mom and 2.5% yoy. The

unemployment rate was marginally up at 4.4%.

- **The US ISM manufacturing index rose 2.9 points** in Jun to 57.8, above all expectations. New orders climbed from 59.5 in May to 63.5 and the production index added 5.3 points to 62.4. The employment component also crawled up. **The US ISM Non-Manufacturing PMI** rose to 57.4 in Jun from 56.9 in May.
- **The US Fed FOMC minutes** highlighted that governors **agree on the need to reduce its balance sheet but disagree on the timing**. The majority wish to announce the process after the summer, others prefer to postpone such decision until later in the year.
- **US factory orders** in May **declined again by -0.8%**, mom vs -0.2% in Apr, in both months due to nondefense aircraft. However, orders and shipments of core capital goods rose modestly.
- **US initial claims for unemployment benefits increased** by 4,000 to 248,000. The 4-week moving average increased by 750 to 243,000. Essentially these are insignificant variations.

## Europe:

- **The Eurozone composite PMI final reading** for Jun was 56.3, **slightly below** the May level, but still quite high, confirming that the recovery in Europe is becoming self-sustaining.
- **The Eurozone's average savings rate rose** from 12.1% to 12.3% in Q1, which suggests that households' incomes are on the rise thanks to higher employment.
- **Eurozone's retail sales increased** 4% mom (2.6% yoy) in May vs 0.1% (2.1% yoy) in Apr to mark the fifth consecutive monthly rise. Geographically, increases were broad-based, but France and Germany led the performance.
- **The euro zone's unemployment rate was unchanged** at an eight-year low of 9.3% in May.
- **Germany's industrial production** rose 1.2% mom in May

accelerating sharply from 0.7% in Apr, thanks to the production of energy (2.9% mom), capital goods (2.6% mom) and consumer goods (1.4% mom).

- **German industrial orders increased** by 1.0% mom in May reversing only in part a -2.2% drop in Apr. Foreign orders jumped 3.1% mom, with orders from the eurozone up by 1.7%.
- **Industrial production in the UK dropped** -0.1% mom in May, vs a 0.2% rise in Apr. Manufacturing lost -0.2%, mainly due to a 4.4% slump in car production.
- **Russia's GDP grew 0.5% yoy** in Q1, better than the 0.3% recorded in Q4, thanks to private consumption and investments, while net exports were a drag.

### **Asia Pacific:**

- **China's Caixin Manufacturing PMI rose** to 50.4 in Jun from 49.6 in May, the highest reading since March, in the wake of output and new export orders.
- **The Nikkei Japan Final Manufacturing PMI** came in at 52.4 in Jun and although below the 53.1 in May, it marked the **tenth consecutive month of growth in manufacturing.**
- **Consumer confidence in Japan fell** 3 points to 43.3 in Jun from May, well below the neutral 50 mark, confirming that consumers remain mostly pessimistic.
- **South Korea's inflation retreated** to 1.9% yoy in Jun from 2% in May. Core inflation was steady at 1.4% yoy.
- **The Nikkei Manufacturing PMI for South Korea advanced** to 50.1 in Jun from 49.2 in May, the first expansion in factory activity since July 2016.

**Bottom line: Survey figures brought some positive surprises globally. In China the Markit PMI (after the one by the China Federation of Logistics & Purchasing) indicated that China's manufacturing sector is expanding, although not at a pace that can offset weakness in real estate, infrastructure and SOEs, which face credit constraints. Eurozone PMI continue to surprise on the upside and are consistent with a GDP growth of**

0.7% qoq in Q2. Even the US economy, which so far has not fulfilled the post-election expectations on bullish growth, last week displayed a renewed strength in the labour market and in ISM indices. All in all, downside macro risks are subsiding, but the uncertainty persists over the consequences of the impending normalization in monetary policy.

### Regional Developments

- **Qatar's response to the 13-point list of demands was rejected** by the four-nation alliance, stating that it "evinced complacency". As the boycott continues and Kuwait attempts to mediate the dispute, representatives from both the US and UK are also flying in to personally intervene in the discussions.
- **Egypt's central bank hiked rates by 200bps** for the second consecutive time: overnight deposit rate was raised to 18.75% from 16.75% and its overnight lending rate to 19.75%.
- **Egypt PMI remained unchanged** at 47.2 in Jun, with both output and new orders contracting, while new export orders grew for the third consecutive month. This brings the PMI average for Q2 this year to 47.3 – the highest since Q3 2016.
- **Egypt passed the 2017-18 budget: budget deficit is estimated at 9.1%** (below the 10.8% expected in the 2016-17 fiscal year), while growth has been projected at 4.6%, higher than the 3.8-4% growth estimates for this year.
- **Egypt received USD 6.5bn in foreign direct investment** in the first three quarters ending in March this year, according to the investment minister, with expectations of attracting USD 10bn in the this fiscal year. She also stated that the draft of investment law executive regulations had been sent to the cabinet.
- **Egypt plans to hike electricity rates** by up to 42% this fiscal year (to take effect from Aug), revealed the

electricity minister. Around EGP 64bn was spent on electricity subsidies during the 2016-17 fiscal year, more than double the budget estimate of EGP 30bn. He also disclosed that **energy subsidies** will remain in place three years longer than initially estimated given the impact of the devaluation. Subsidies were to be phased out by the end of the 2018-19 fiscal year.

- The **fuel price hike** in **Egypt** (by up to 50%) is likely to **drive inflation up** by 3-4.5 percentage points, disclosed the deputy finance minister.
- **Foreign investment in Egypt's domestic treasury bills and bonds** touched USD 1.25bn in Jun, and about USD 9bn since the currency flotation in Nov. According to the finance ministry, Egypt saw an almost a nine-fold increase in foreign investment in domestic debt instruments to USD 9.8bn in the 2016-17 fiscal year, compared with USD 1.1bn last year.
- **Egypt is preparing for the listing of oil company ENPPI**, the first **IPO of a state-owned company** in 12 years. Egypt plans to raise up to USD 150mn from the listing and the shares are most likely to be traded by end of this year.
- **Egypt's foreign reserves jumped up to USD 31.305bn** end-Jun from May's USD 31.126bn.
- A **law establishing a gas regulatory authority** was passed by **Egypt's** parliament, with aims to attract greater private sector participation. Executive regulations for the gas law will be issued within six months.
- **Kuwait's fiscal surplus in 2015-16** was a surplus of **4% of total revenues**, though lower compared to a year ago. Revenues were down 38% yoy to KWD17.7bn, largely due to the dip in oil revenues which more than halved to KWD 12.1bn.
- **Salaries in Kuwait's public sector constitute 22%** of the total government expenditure in the current fiscal 2017-2018, according to a report prepared by the technical team of the parliament's Budgets and Final

Accounts Committee.

- **Kuwait Oil Company plans to spend at least KWD 24bn** (USD 79bn) in the next five years, in a bid to boost output capacity to 4mn barrels per day (bpd), from the current 3.1mn bpd.
- **The IIF lowered Lebanon's GDP growth forecast to 1.7%** from 3% for 2017. It cautioned that without reforms, public debt burden – which is at 151% of GDP – will continue to rise, adding to existing vulnerabilities.
- **Traffic at Lebanon's Rafik Hariri International Airport increased by 6.8% yoy** to 3.3mn passengers in H1 2017.
- **Oman's total population stood at 4,558,847 at the end of June**, with the Omani population standing at 2,054,594 (54.9% of the total). Expat at 2,054,594 accounted for 45.1%. In May, the population was 4,614,822 of whom 2,500,120 were Omanis and 2,114,702 expats.
- **Moody's changed the outlook on Qatar's rating to negative** from stable, while affirming its long-term issuer and senior unsecured debt ratings at Aa3. Moody's also warned that weaker economic activity could lead to “deteriorating asset quality in the banking system” and potential sanctions could necessitate government liquidity support.
- **Qatar Petroleum plans to boost gas production** from its North Field – the world's biggest natural gas field. Plans are to raise production capacity by 30% to 100mn tonnes from 77mn tonnes per year, according to the company's CEO. Global LNG demand was 265 mn tonnes in 2016.
- **Qatar Airways plans to move forward with buying a stake in American Airlines** in spite of opposition from the US company's management. Up to 4.75% can be bought without approval of the airlines board.
- **In Saudi Arabia, PMI declined to 54.3 in Jun** – the lowest reading since last Oct – from 55.3 in May, while the average for H1 stood at 56.
- **Net foreign assets in Saudi Arabia fell by 14.2%** – the

slowest pace in a year – to reach USD 492bn in May. This is the **lowest level reached since May 2011**.

- **Bank lending to Saudi Arabia's private sector shrank 0.7% yoy in May**, following a 0.3% drop in Apr. This is the third time in 11 years that bank lending has dipped: the first was in Mar this year.
- In 2016, **Saudi Arabia's Aramco reached an all-time record for production of crude oil**, pumping an average of 10.5mn barrels a day – the biggest daily figure of any oil company in history. At the end of 2016, Aramco's oil reserves slipped to 260.8 billion barrels (2015: 261.1bn) while gas reserves grew to 298.7trn standard cubic feet (2015: 297.6trn). According to the country's energy minister, the Aramco IPO will guarantee both growth and jobs.
- **There are 2.2mn registered dependents in Saudi Arabia** as of the beginning of Jul, according to an official at the Directorate of Passports. Hence, the country could generate around SAR 2.6bn (USD 693.3mn) a year from fees levied on dependents of expatriates working in the country. The Passport Department also disclosed that the fees include newborns.
- In a bid to encourage local industries, **Saudi Arabia's trade ministry announced that it would cancel all export duties on steel** for two years and also **slash cement export tariffs by 50%**.
- The number of **female employees in Saudi Arabia's private sector increased to 496,000** in 2016 from 215,000 in 2012 (around 130% in 4 years). Women now represent 30% of the total Saudi work force in the private sector, up from just 12% in 2011.
- **Arab countries** are finalising plans to create a **regional cross-border payments and settlements system**, disclosed the Arab Monetary Fund. This Arab Regional Payments System – expected to be in operation by 2020 – will act as a correspondent for its participants such as banks and financial institutions, through a single,

centralised platform for cross-border payment.

## UAE Focus

- **PMI in the UAE rose to 55.8 in Jun** (May: 54.3), supported by growth in output and new orders, though new export orders fell for the first time in seven months due to lower demand. Average PMI for Q2 was 55.4, slightly below Q1's reading.
- The **Abu Dhabi Investment Authority (ADIA)**, in its annual review, disclosed that its 20-year and 30-year annualised **rates of return** in dollar terms were 6.1% and 6.9% respectively in 2016 (vs. 2015's 6.5% and 7.5% resp).
- **Moody's** assigned a **credit rating of Aa2** to **UAE**, given its strong economic fundamentals, and had upgraded the credit outlook from negative to stable recently.
- According to a recent study by HSBC, **UAE** emerges as the **second most expensive place globally for education** (following Hong Kong). Sending a child to school in UAE, from primary to university, will cost about USD 99,378 (AED 365,025). This compares to Hong Kong's USD 132,161 for total school costs.
- With **estimated retail sales at USD 73bn last year**, **UAE** is ranked fifth in A T Kearney's annual **Global Retail Development Index**, a list topped by India.
- **Passenger traffic** at the **Dubai International Airport** rose by 1.9% yoy to 6.85mn in May, bringing the year-to-date number to 36.97mn (up by 6.7%).
- **Abu Dhabi welcomed 2mn hotel guests during Jan-May** this year, of which around 600k were domestic tourists. China was the largest source market internationally with 160k+ guests followed by India and the UK (at 136k and 104k respectively).

## Media Review

**Trump's stance on the Middle East's peace process**

<https://www.bloomberg.com/view/articles/2017-07-03/team-trump->



[s-hardcore-stance-on-middle-east-peace](#)

**OPEC's output hits a record**

<https://www.bloomberg.com/news/articles/2017-07-03/opec-output-at-highest-this-year-as-exempt-countries-open-pumps>

**Russia refuses deeper oil production cuts**

<https://www.bloomberg.com/news/articles/2017-07-05/oil-slows-longest-win-streak-in-2016-as-russia-opposes-more-cuts>

**El Erian warns that stock returns depend on central bank liquidity and corporate buybacks**

<https://seekingalpha.com/article/4085843-mohamed-el-erian>

**If another financial crisis hits, Asia has the buffers to power through it**

<https://www.bloomberg.com/graphics/2017-asian-financial-crisis-anniversary/>

**Estonia is trying to convert the EU to its digital creed**

<https://www.economist.com/news/europe/21724831-country-e-residency-wonders-why-others-are-more-sceptical-estonia-trying-convert>

**Qatar riyal back near peg**

<https://www.reuters.com/article/us-gulf-qatar-currency-idUSKBN1901IE>

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