

Weekly Economic Commentary – Jul 23, 2017

Markets

The US stock market had another positive week. The NASDAQ recorded the longest positive sequence of closings since 2015, touching a new all-time record. The Dow Jones also reached record highs, but by the end of the week the rally on Wall Street ebbed. The US performance also pulled up Asian markets (except Japan which was almost unchanged) and most emerging markets, while in Euroland equity prices were hit by the strong appreciation of the euro. Most regional markets ended in positive territory, despite falling oil prices. In currency markets the euro got a boost from Draghi's remark that the ECB is not overly worried about the exchange rate and reached levels not seen in two years. Gold prices regained ground to pare the losses suffered in the first half of July.

Global Developments

US/Americas:

- **US housing starts jumped up** 3% mom to 1.22 mn in Jun, compared to 1.122 mn in May.
- **The Conference Board's US leading economic index advanced** 6% in Jun following a 0.2% increase in both May and Apr. The gain was led by a surge in housing permits (a rather volatile component) after months of lackluster data.
- **US initial claims for unemployment insurance dropped** by 15,000 to 233,000. The 4-week moving average fell 2,250 to 243,750 and continuing claims rose 28,000 to 1.977 mn. Overall these data confirm that the **labor market remains upbeat**.

Europe:

- **The ECB kept its rates on hold.** President Draghi adopted a dovish tone asserting that “inflation is not where we want it to be” suggesting that the ultra-easy monetary policy will persist for the foreseeable future. He added that the strength of the euro has received “some attention” by the ECB, but the Governing Council is not concerned.
- **The Eurozone’s inflation declined** to 1.3% yoy in Jun from 1.4% in May, thanks to lower oil price growth and appreciation of the euro. Core inflation accelerated to 1.2% yoy from 1% in May.
- **Credit conditions in the Eurozone improved** again in Q2, with the net percentage of banks reporting tighter credit for corporations at -3.4% (i.e. more banks are increasing loans) following -1.7% in Q1. The demand for corporate loans continued to grow in Q2 and banks expect an acceleration in Q3.
- **Eurozone’s current account surplus fell** to EUR 18.3bn in May from EUR 21.3bn a year earlier. The goods surplus shrunk to EUR 28.9bn from EUR 32.8bn in May 2016 and the services surplus declined to EUR 3.5bn from EUR 5.7bn.
- **The German ZEW investor confidence indicator retreated** to 17.5 in Jul from 18.6 in Jun. The ZEW measure for the Eurozone also fell in Jul to 35.6 from 37.7 in Jun.
- **UK inflation reverted** to 2.6% yoy in Jun from 2.9% in May, as the CPI was flat mom, thanks to a 1.1% yoy fall in fuel prices.
- **UK retail sales surged** 6% mom (2.9% yoy) in Jun partially offsetting May’s -1.1% decline (0.9% yoy). Early-summer discounts boosted clothing and household goods sales, while food and fuel sales fell.

Asia Pacific:

- **Chinese GDP grew** 9% yoy in Q2, the same pace as in Q1, just a notch above expectations. Industrial output and retail sales growth accelerated and investments remained

buoyant.

- **China's industrial production** grew 6% yoy in Jun, (beating consensus forecasts of 6.5%) vs 6.5% yoy in May.
- **China's retail sales, pushed up by auto sales**, rose 11.0% yoy in Jun, compared to 10.6% in May.
- **China's fixed investment** grew 6% yoy in H1, the same pace as in Jan-May period. Investment in ongoing construction projects continued to surge (19.7% in H1 from 19.4%, while growth in manufacturing and real estate investment was almost flat at 9.3%.
- **The BoJ kept its policy rate unchanged** at -0.1% and its target for the 10Y Japanese government bond yield at around 0%. The target monthly purchase of government bond remains at JPY 80tn, although in the past 3 months such target was not achieved.
- **Japan's trade surplus fell** to JPY 439.9bn from JPY 686.5bn in Jun 2016 and below market consensus of a surplus of JPY484.7bn. Exports of key goods were perky thanks to the yen's depreciation in the last months of 2016.
- **Malaysia's inflation** dropped to 3.6% yoy in Jun from 3.9 % in May.

Bottom line: The slow but steady recovery in the US has gradually spilled over other areas, in particular Europe where the recovery is now self-sustaining. However, this stimulus has not been strong enough to solve entrenched problems in Asia. China has erratically tightened and eased credit with the aim of keeping the economy stable ahead of the Congress of the Communist Party in the autumn. External trade figures have improved slightly, but this is not the harbinger of a renewed export-led boom, while overcapacity in basic industries such as coal and steel, and rising non-performing loans in the banking system are discouraging new investments. In Japan Abenomics' "three arrows" (monetary expansion, fiscal stimulus and structural reform) after 4.5 years have largely

disappointed.

Regional Developments

- **Kuwait's** biggest Islamic lender **Finance House** confirmed that it is considering a **merger** with **Bahrain's Ahli United Bank** – the latter's largest lender.
- **Egypt's** expat **remittances** grew by 11.1% yoy to USD 1.7bn in May.
- **Egypt's natural gas output** is expected to **increase** by 50% in 2018 and double by 2020, supported by the discovery of three new fields. The country's natural gas production rose to about 5.1bn cubic feet per day this year from 4.4bn cubic feet in 2016.
- **Egypt** is planning a **new tender** for crude discovery and exploration for five **oil exploration** blocks in the Western Desert before the end of 2017, according to the petroleum ministry. The ministry also disclosed separately that the country is planning to establish a **petrochemical complex** in Suez, with an investment cost of greater than USD 4bn.
- **Iraq** is planning to issue an **international bond** of about USD 1bn over the coming weeks, reported Reuters. The bond is unlikely to be guaranteed by the United States Agency for International Development.
- **Kuwait** plans to raise **gas production** to 510 million cubic feet and increase **light oil output** to 200 thousand barrels per day by Dec, disclosed the minister of oil.
- **VAT** in **Lebanon** was **increased** to 11% from the previous 10%, while 19 additional **taxes** (like fiscal stamp fees, custom tax on imported alcoholic beverages etc.) were ratified: this aims to finance the agreed public sector salary hike.
- **Deposits** at **Qatar's** five biggest **banks** increased by QAR 16.8bn (USD 4.6bn) in Q2, supported by funds from the Qatar Investment Authority. Liquidity could become a challenge soon, if the diplomatic row continues.

- The **IMF** expects **non-oil growth** to touch 1.7% this year in **Saudi Arabia** while real GDP growth stays at a sluggish 0.1%. Fiscal deficit is projected to decline to 9.3% of GDP in 2017 (2016: 17.2%) and to just under 1% of GDP by 2022. The IMF also lauded authorities “considerable progress in initiating the implementation of their ambitious reform agenda” (*More: <http://www.imf.org/en/News/Articles/2017/07/21/pr17292-imf-executive-board-concludes-2017-article-iv-consultation-with-saudi-arabia>*)
- **Inflation** in **Saudi Arabia** declined by 0.4% yoy in Jun, thanks to a drop in prices of clothes and footwear (-3.5%), restaurants and hotels (-2.4%), food and beverages (2.2%), recreation (-1.9%) and transport (-1.5%). Meanwhile tobacco prices jumped by 74.4% and education by 1.8%.
- According to the finance ministry, thirteen domestic banks in **Saudi Arabia** have qualified to participate in the **planned** local currency Sukuk **issuance programme**. It is expected that the role of the banks would be as buyers of the bonds in the primary market.
- The **sale of soft and energy drinks** in **Saudi Arabia** had **dropped** by nearly 30% and 60% respectively after excise taxes were implemented, disclosed *Al Madina* newspaper.
- **Saudi Arabia's** Ministry of Labor and Social Development disclosed that it had **rejected** about 62.8% of the total **foreign recruitment** requests received last year. The ministry also revealed that the **employment of Saudis in the private sector** dropped by 37% to 233k in 2016.
- **Crude oil exports** from **Saudi Arabia** fell to 6.924mn barrels per day (bpd) in May (Apr: 7.006mn bpd). Total output meanwhile was recorded at 9.88mn bpd in May, down from 9.9946mn bpd in Apr.
- **Saudi Arabia** has launched **6 new initiatives to boost tourism** in the country, to meet the goals set in the Vision 2030 document. While boosting religious tourism is the main initiative, others include developing the

country as a Muslim destination and also the development of integrated tourism destinations and the Kafalah program initiative (to finance commercial establishments for tourism projects).

- Saudi Arabia's **new Jeddah airport is almost 90% complete**, according to reports in *Al Madina* newspaper. The new airport can handle 30mn passengers annually, and trial operations are set to begin in 2018.
- **Debt issuance** in the **Middle East** grew by 53% yoy to reach USD 57.4bn in H1 2017, according to statistics from Thomson Reuters. Saudi Arabia accounted for 21% of the activity by value while international Sukuk issuance increased 50% yoy to USD 31.4bn.
- **Renewable energy projects** in the **MENA** region will require an investment of over **USD 200bn**, for more than 67 gigawatts of projects at the design and study phases, according to a recent MEED report.

UAE Focus

- Bank **deposits** in the **UAE declined** by 1.7% mom to AED 1.589trn in Jun, largely due to a drop in government deposits. Overall deposits increased by 1.67% to AED 26.2bn in H1 this year, from end-2016. **Money supply (M2)** declined by 0.6% mom to AED 1.267trn.
- According to the central bank, **assets of 13 listed UAE banks surged** by 6.8% yoy to AED 1.41trn by end-H1 2017; loans disbursed by these banks grew by 7% to AED 906.8bn.
- The **market capitalisation of foreign investments** at **UAE's** equity markets **grew** by 2.3% mom to AED 99.1bn by end-Jun; of this, non-Arab investments rose by 3.7% to AED 68.4bn.
- **Net foreign investments** in the **Abu Dhabi Securities Exchange** grew to AED 1.72bn in H1 this year, while net investment value of institutional investors reached AED 908mn. Total trading value by UAE investors reached AED

29.5bn, while other nationalities were at AED15.9bn.

- The '**Mortgage of Movable Property**' project has been assigned by the **UAE** Ministry of Finance to Emirates Development Bank. The project aims to provide secure financing and a legislative environment for companies and projects to pledge their movable properties as security for loans from banks and financial institutions.
- **UAE** is the "third most-prepared for change in the world", in a list topped by Switzerland, according to KPMG's international **Change Readiness Index** (More about the index: <https://home.kpmg.com/xx/en/home/insights/2017/07/2017-change-readiness-index.html>)
- **UAE's Emirates airline and Flydubai** – both owned by the government of Dubai – are embarking on a new **partnership**, while being independently managed. Separately, Etihad Airlines sold its minority stake in European regional carrier Darwin Airline, "as part of a continuing review".

Media Review

Qatar Investment Authority under scrutiny by Lex

<https://www.ft.com/content/79e3b834-6ba7-11e7-b9c7-15af748b60d0>

Qatar's ruler says ready for talks to resolve Gulf crisis

<http://www.arabianbusiness.com/content/376880-qatars-ruler-says-ready-for-talks-to-resolve-gulf-crisis>

<https://www.thenational.ae/world/gcc/qatar-emir-we-are-ready-to-talk-1.612960>

Waiting for the oil price rebound in the GCC

<https://www.bloomberg.com/news/articles/2017-07-19/three-years-into-cheap-oil-gulf-is-still-depending-on-a-rebound>

China has opened a military base in Djibouti

<https://www.thenational.ae/opinion/china-has-opened-a-military-base-in-djibouti-the-geopolitics-of-the-middle-east-will-never-be-the-same-again-1.609337>

Fostering Arab Entrepreneurship: Project Syndicate

<https://www.project-syndicate.org/commentary/innovation-startups-middle-east-north-africa-by-philippe-le-houerou-2017-07>

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