

Weekly Economic Commentary – Jul 30, 2017

Markets

US stock markets started the week on a positive note with the Dow Jones touching a new record especially after the Fed signalled in its minutes a dovish stance on future rate hikes. However, subsequently, a tech shares sell-off, weak earnings reports by some large firms and uninspiring US GDP growth cooled the mood. The political setbacks by the Trump administration (the fiasco on the repeal of Obamacare, the dismissal of the White House Chief of Staff and infighting) added a great deal of uncertainty over the medium term outlook. Global stock markets (including most regional markets) followed the wake of Wall Street, but ultimately managed to score positive weekly gains (with the exception of Japan). Conversely, the dollar index against a basket of other currencies continued its slide to a near 13-month low. Brent crude reached USD 52/b, the highest level in 2 months as the supply glut recedes. Gold prices rebounded strongly after North Korea tested another ballistic missile.

Global Developments

US/Americas:

- **US GDP growth in Q2** was 2.6% qoq ann, vs 1.2% in Q1. Consumption was the main driver accounting for $\frac{3}{4}$ th of gains. Fixed investments, trade and government spending also gave positive contributions. Real disposable income surged by 3.2% vs 2.8% in Q1.
- **The US Federal Reserve FOMC** unanimously left the federal funds target range at 1% to 1.25% and added that the Fed will start offloading its USD 4.5 tn balance sheet “relatively soon”, but hinted that the pace of policy

normalization will be very gradual.

- The US national **Case-Shiller home price index** rose 5.6% yoy in May, the same rate as in Apr.
- **US home sales** fell 1.8% yoy in Jun (0.7% yoy). The decline was led by single-family homes whereas condo/co-op apartment sales were flat. The **median price** for existing single-family homes rose substantially in Jun due to supply scarcity.
- **The US Conference Board's Consumer confidence index** in Jul added 3.8 points reaching 121.1, the highest level in 6 months. Present conditions and better expectations led the advance, with a marked gain in labor force optimism.
- **The US trade goods deficit** narrowed from USD 66.3bn in May to USD 63.9bn in Jun.
- **Americans filing for unemployment insurance benefits** decreased by 15K to 233K. The 4-week moving average was unchanged at 244K. Continuing claims fell 13K to 1.964 mn.
- **New orders for US durable manufactured goods**, after a -1.1% mom drop in May, rebounded sharply by 6.5% mom in Jun, the largest jump since Jul 2014, thanks to nondefense aircraft. Ex aircrafts, gains were quite broad based, but orders in core capital goods fell -0.1% mom.
- **The University of Michigan Consumer sentiment** lost 1.7 points to 93.4, its lowest level since last Oct.
- **The Brazilian Central Bank** cut its rate by 100 bp to 9.25%, as widely anticipated. It was the seventh consecutive reduction to the lowest level since Sep 2013, amid slowing inflation and persistent economic weakness.

Europe:

- **The eurozone's M3 money supply** grew 5% yoy in Jun the same as in May. M1 rose 9.7% vs 9.3% in May. Credit

growth to nonfinancial corporations slowed substantially to 2.1% yoy in Jun from 2.5% in May.

- **The eurozone's economic confidence indicator** was almost unchanged at 111.2 in Jul. The industrial confidence was the main support to the headline figure.
- **France's GDP** expanded 0.5% qoq (1.8% yoy) in Q2 the same rate as in Q1 (1.1% yoy), and the best performance since Q3 2011. Exports were the main driver (0.8% contribution to growth) with consumption also strongly up. Investment slowed to 0.5% qoq, after 1.4% qoq in Q1.
- **UK GDP expanded** 7 % yoy (0.3% qoq) in Q2, down from 2% (0.2% qoq) in Q1. Services output (0.5% qoq), particularly retail sales, offset contractions in construction, (-0.9%) and industrial production (-0.4%). The uncertain prospects over Brexit are sapping activity.
- **UK consumer confidence** dived in Jun to -10, from an already dismal -5 in May, and is close to the post-referendum low of -12. Consumers are especially pessimistic over the economic outlook whose sub-indicator touched to a low of -23. Confidence about personal finances over the next year also precipitated.
- **The German Ifo Business Climate Index** set a record high at 116 in Jul from 115.2 in Jun. Optimism over the current situation and the near future increased further and confidence in manufacturing and construction scored new highs.

Asia Pacific:

- **The South Korean GDP** advanced 0.6% qoq (2.7% yoy) in Q2, slowing from the 1.1% qoq expansion in Q1. Private consumption was quite upbeat after several lackluster years while exports after a stellar Q1 were a drag.
- **South Korean industrial production** fell -0.3% yoy in Jun, after a 0.1% rise in May.
- **Japan core inflation** reached 0.4% yoy (0.0% mom) in Jun,

the same rate as in May.

- **Japan retail sales** rose 2.1% yoy in Jun, vs 2% in May pushed by fuel prices.
- **Inflation in Singapore** was 0.5% yoy in Jun, vs 1.4 % in May.
- **Taiwan's GDP** grew 2.1% yoy in Q2 vs a 2.6% in Q1 due to a subdued performance in private investment, manufacturing and exports.
- **Taiwan's industrial production** jumped 3.1% yoy in Jun vs 0.8% in May mostly as a result of demand for electronic goods and imports from mainland China.
- **Singapore's industrial production** surged 13.1% yoy in Jun, from May's 4.4% propelled by global tech demand.

Bottom line: The first releases of Q2 GDP data worldwide confirmed the global picture which we have been depicted for the past several months. Growth in Euroland is gaining momentum, while the US economy is struggling to improve its performance. The hopes of a Trump stimulus whether through tax cuts or infrastructure investments are rapidly fading, as the President suffers a series of blows in Congress and on the Russiagate investigations. Infighting among top advisers is not helping either. The IMF, in its recent issue of the External Sector Report, cautioned that the US dollar was overvalued by 10-20% based on the country's near-term economic fundamentals. In Asia, Japan is showing some modest signs of life, while the rest of the continent benefits from an uptick in China and strong global electronics demand. IMF data also showed that advanced economies are increasingly responsible for imbalances in the global economy, whilst also warning that protectionist measures must be avoided at "all costs" given the potential damages to the domestic and global economy.

Regional Developments

- **Bahrain's** government has sent **RfPs to banks for USD bond and sukuk issuances**; while the size of the issue has not been indicated, it is likely that the issues would be

conducted simultaneously and as early as before Sep.

- **Inflation in Bahrain** rose to 1.0% yoy and 0.6% mom in Jun, as housing and utility costs were up 3.1% and food prices 1.7%.
- **Moody's lowered Bahrain's long-term issuer rating** by two notches to B1, from Ba2, and maintained the 'negative' outlook.
- **Egypt** aims to raise its **natural gas production** to 6.2bn cubic feet (bcf) per day by end of Jun 2018, from 5.2bcf currently, according to the Petroleum minister.
- **Non-oil exports from Egypt** to Jordan grew by 22.5% yoy to a record high USD 167mn in Jan-Apr; Egypt's imports from Jordan during the same period was reported at USD 29mn.
- **Egypt's first electric train project**, to be completed within 24 months, is expected to cost USD 1.4bn, of which the government will contribute around USD 500mn.
- The central bank of **Egypt** has delayed plans to exit from **United Bank** (it holds a 99% stake) to next year, hoping that investor appetite would be boosted by better results this year.
- **Foreign reserves in Egypt** are close to USD 35bn, revealed the country's president. The central bank had reported earlier this month, reserves at USD 31.305bn as of end-Jun.
- **Egypt's** ministry of finance plans to raise **debt instruments** by 26.5% to EGP 151.5bn within Aug this year. Treasury bills and bonds issued in July jumped by 25% to EGP 110.75bn.
- **Iraq** hired three banks as joint lead managers for a **US dollar long 5Y bond**.
- According to **Kuwait's** OPEC governor, **oil demand** is expected to rise by 2 million barrels per day in H2 this year; he also stated that it is premature to talk about any additional cuts to oil output.
- **Foreign direct investments** into Oman totaled OMR 7.4bn in 2016, almost a billion more than in 2015,

underscoring the attractiveness of the country despite the oil price slump.

- **Moody's downgraded Oman's long-term bond ratings** to two notches above junk territory: to Baa2 from Baa1 and changed its outlook to 'negative' from 'stable'.
- **Qatar's** government deposited over USD 10bn in local banks last month, in a bid to offset foreign institutions' deposit pullouts, as per latest central bank data. **Foreign customers deposits** shrank to QAR 170.6bn in Jun from QAR 184.6bn in May. Qatari banks' borrowings from banks abroad, excluding placements, also declined to QAR 46.4bn in Jun (May: QAR 51.8bn).
- **Saudi Arabia's** ministry of finance has launched a **domestic sukuk programme**; it disclosed that the size, types of eligible investors, and expected profit rates would be announced on a case-by-case basis. Later in the week, Saudi Arabia raised SAR 17bn (USD 4.53bn) from investors (who submitted bids worth more than SAR 51bn) for its riyal-denominated Islamic bonds.
- **Foreign reserves** at **Saudi Arabia's** central bank increased to USD 493.3bn in Jun (May: USD 491.7bn), registering the first monthly increase in over a year. In yoy terms, reserves shrank by 12.3%.
- **SAMA and commercial banks' foreign assets** touched SAR 1.996trn by end-May, reported *Al Eqtisadiyah*. SAMA's net foreign assets were SAR 1.844 trn.
- **Saudi Arabia** plans to **privatize all its airports** this year, disclosed the president of the General Authority of Civil Aviation.
- **Saudi Aramco** plans to complete phase 1 of the **expanded gas pipeline** by year-end, thereby increasing the capacity of the Master Gas System to 9.6 billion standard cubic feet per day.
- **Saudi Arabia** has **closed five sectors to expatriates**: only Saudis will be allowed to work in the tourism and health sectors, Al Qaseem markets, malls and temporary stands, according to a report in Saudi daily *Okaz*.

- Data from Asia's top two **oil importers, China and India**, show that **Saudi Arabia** is already bearing the brunt of OPEC cuts: of China's import equivalent of 8.56mn bpd of crude oil in H1 this year, Saudi supplied only 1.07mn bpd making it the third largest supplier to China. In India, Saudi Arabia is now the second largest supplier, with 759,100bpd in H1 this year.
- **Property sales in Saudi Arabia** dropped by 21% yoy to SAR 11.5bn (USD 3.066bn) in Jun, reported the *Al Madina* newspaper, largely due to a dip in the residential property segment.

UAE Focus

- The **oil sector** accounts for less than 1% of **Dubai's GDP**, according to the Chairman of Dubai's Economic Development Committee. Trade accounted for 28% of Dubai's GDP in 2016, followed by transportation and storage at 12% and financial services at 11%. He also disclosed that the economy is expected to expand further over the next two years, thanks to the "diversification, resilience and sustainability.. enshrined in every project, policy and strategy". Tourism was another major driver for Dubai, with 15mn overnight visitors reported last year: visitors from GCC, India, UK and Germany together accounted for 40% of total visitors, while the average spending per capita was up to AED 8,658 last year (2015:AED 8,252).
- **Surplus reserves at UAE banks and other financial institutions** grew by 77.6% to AED 42.8bn by end-Jun from AED 24.1bn in Jan 2017.
- **Demand for credit in the UAE** – as measured by the net balance measure for business lending – stabilised in Q2, reporting a score of +7.5: +21.9% of respondents reported a decrease in demand, +36.6% reported an increase in demand, and +41.1% reported no change. As for the outlook on personal loans, respondents remained

optimistic, with survey respondents reporting a net balance measure of +11.7.

- **Inflation in Abu Dhabi** was up by 1.8% yoy and 0.4% mom in Jun, bringing the H1 total to 2.1%. Housing and utilities accounted for more than half of the total increase in H1, while transport contributed 34.2% to the overall rise in prices.
- **Adnoc is turning to the debt markets to fund expansion:** the company is reportedly in talks to obtain a syndicated loan worth up to \$5 billion, according to sources from the banking community.
- UAE's **Adnoc** bought a **condensate cargo from the US** in a tender for Sep arrival, according to sources, as the country replaces Qatari condensate supplies.
- The **Dubai Chamber of Commerce and Industry** reported a 10.9% increase in **member companies** to 8900 in H1 this year. It's members' exports and re-exports grew by 6.1% yoy to AED 146.7bn during this period.
- **DIFC** expects around 10 **banks from India and China** to obtain licenses in the financial free zone in the next 12 months, according to a senior official. Currently, 11% of DIFC's financial services firms are from Asia.
- The **Abu Dhabi Global Market (ADGM)** reached an agreement with the International Court of **Arbitration** of the International Chamber of Commerce to launch its Middle East representative office at ADGM by early 2018.
- **Foreign transactions** on the **Abu Dhabi Securities exchange (ADX)** reached 26.9bn during H1 this year – 43.7% of total trade value.
- **Abu Dhabi's trade in pearl, gemstones and precious metals** increased by 25.6% yoy to AED 4.9bn in Jan-Apr this year. This accounts for 8.4% of the emirate's total non-oil commodity trade.
- **Passenger traffic at Dubai International Airport** grew by 3.9% yoy to 6.08mn in Jun, bringing the H1 total to 43.05mn (+6.3%). The average number of passengers per flight increased to 218 from 208 a year earlier.

- **Etihad Airways** reported a USD 1.9bn **loss** last year, versus a USD 103mn net profit in 2015; this is the airlines first loss since 2010.
- Ports operator **DP World** reported a 10.4% like-for-like growth in **gross container volumes** to 17.6mn twenty-foot equivalent units (TEUs) in Q2, bringing growth in H1 to 7.7% on the like-for-like basis (H1 2017: 34 mn TEUs).
- The **Abu Dhabi Fund for Development** provided a total of AED 4bn worth grants and concessionary loans for about 64 developmental projects in **Egypt**.
- Feeling more confident: about 39% respondents of the **Dubai Chambers 'The Business Leaders' Outlook Survey'** expect business conditions improve in Q3 2017 while around 43% expect no change. Separately, 82% of UAE's CEOs are positive about local business conditions, according to a **survey by the Oxford Business Group**. About 3/4ths of them also expect to make a significant investment within the next 12 months.

Media Review

Shale lost its shine

<http://energyfuse.org/shale-industry-verge-slowdown/>

FinTech Licensing Framework in the UAE

http://www.zawya.com/uae/en/story/FinTech_licensing_framework_in_the_UAE-ZAWYA20170724110151/

VAT impact on Saudi firms differs; urged to keep record of all business transactions

<http://saudigazette.com.sa/article/513863/BUSINESS/VAT>

China's new digital dividend

<https://www.project-syndicate.org/commentary/china-digital-economy-by-andrew-sheng-and-xiao-geng-2017-07>

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