

Weekly Economic Commentary – Aug 13, 2017

Markets

After 9 consecutive record setting sessions, US stock markets went into reverse as the mounting tensions with North Korea induced investors to cut risk exposure. The US small company stocks in particular had their biggest weekly loss since Feb 2016. All other bourses felt the contagion from Wall Street, with European indices displaying their worst weekly loss in 9 months and the emerging markets sunk by the flight to safety effect. Regional markets contained the losses (and KSA actually gained) thanks to resilient oil prices, as US crude inventories fell by 6.5 mn barrel, smashing analysts' predictions of a 2.4 mn barrel decrease. However further gains were curtailed by the EIA warning that some producers appear little inclined to comply with agreed oil output cuts. In forex markets, the dollar weakened across the board (except against the Korean won) also as a consequence of mild inflation data, while the safe haven effect benefitted the yen (despite its exposure to a conflict across the Sea of Japan). Gold prices gained substantially, but did not break the range that has prevailed for over 4 years, despite the "fire and fury" rhetoric.

Global Developments

US/Americas:

- **US inflation** was 0.1% mom (1.7% yoy) in Jul vs 0% (1.6% yoy) in Jun. Food prices crawled up while the energy CPI slipped. Core CPI rose 0.1% in Jul the same rate as in Jun, remaining also constant in yoy terms at 1.7%
- **US non-farm productivity** rose 0.9% qoq ann (1.2% yoy), in Q2, up from 0% in Q1, but hardly a stellar result.

Unit labour costs went up 0.6% qoq ann, but fell 0.2% yoy.

- **US wholesale inventories** rose 0.7% mom in Jun, almost on par with May's 0.6% rise. The inventory-to-sales ratio was unchanged at 1.29.
- **Initial claims for US unemployment benefits** increased 3,000 to 244,000. The four-week moving average fell by 1,000 and continuing claims dropped by 16,000 to 1.951 mn.
- **Brazil's inflation** fell again in July to 2.7% yoy from 3% in Jun.

Europe:

- **German industrial production** had a hiccup, sliding -1.1% mom in Jun, vs 1.2% in May, the first contraction of 2017. Annual growth plunged to 1.8% from 5% in May. All sectors except energy recorded negative performances.
- **Germany's trade surplus** expanded to EUR 21.2bn in Jun from EUR 20.3bn in May and from EUR 20.9bn a year earlier. A large decline in imports drove the monthly increase.
- **Italy's industrial production** jumped unexpectedly in Jun by 1.1% mom vs 0.7% in May, thanks mainly to automotive output.
- **UK industrial production** rose 0.5% mom (0.3% yoy) in Jun, following a -0.2% drop in May. Manufacturing was flat mom after shedding -0.1% in May.
- The **UK's goods and services trade deficit** climbed by GBP 2bn mom in Jun to GBP 4.56bn, a top since Sep 2016. Despite the pound devaluation, the deficit was caused by a 4.9% slump in goods export volumes, the worst since the Brexit referendum.

Asia Pacific:

- **China's inflation rate** slowed to 1.4% yoy in Jul from 1.5% in Jun, despite an uptick in food prices. Producer

prices rose 5.5% yoy in Jul, the same rate as in the 2 previous months.

- **China's trade surplus** rose to USD 46.7bn in Jul from USD 42.8bn in Jun. Commodity imports are lower, possibly due to weaker investments as the construction sector loses steam.
- **Japan's current account surplus** edged down to JPY 0.93tn in Jun from JPY 0.98tn in Jun 2016, the lowest surplus since Jan 2017. Exports fell by -9.7% yoy and imports by -20.3% yoy.
- **Core-machinery orders in Japan** plunged -1.9% mom in Jun, after a -3.6% in May, due to a collapse in manufacturing orders.
- **Japan's tertiary activity index** was flat mom in Jun, after falling -0.1% in May, but gained 1.1% yoy.
- The **Leading economic index in Japan** advanced to 106.3 in Jun from 104.7 in May.
- **India's industrial production** unexpectedly declined -0.1% yoy in Jun, vs a 2.8% rise in May. It was the first fall in industrial production since Jun 2013, led by a -0.4% loss in manufacturing output vs a 2.6% gain in May.
- **Hong Kong's GDP** grew 1% qoq in Q2 vs 0.7% in Q1 thanks to a mighty push from consumption and investment.

Bottom line: The macro data flow underscored that the global economy remains mildly reflationary thanks to a rebound in the industrial production cycle, while the modest wage growth reduces the likelihood of aggressive monetary tightening in the US and elsewhere. The OECD composite leading indicator – stuck at 100 in Jun for the 6th consecutive month – confirmed the steady growth outlook in the OECD area and in some of its main economies, but indicated that no acceleration is in sight.

Regional Developments

- **Non-oil growth in Bahrain** touched 4.4% in Q1, up from

2016's 3.7%, driven by a strong non-oil private sector performance. Overall growth was 2.9% in Q1 this year, compared to 2016's 3% expansion. Hotels and restaurants were the best-performing sector, posting 12.3% yoy growth while the financial sector and transport and communication sectors grew by 8.3% and 8.2% respectively.

- **Bahrain** has mandated 5 banks for a planned **USD-denominated bond issue** – size of which is expected around USD 2-2.5mn – expected to come as early as Sep this year.
- **Urban consumer price inflation** in **Egypt** rose to a 31-year high of 33% in Jul (Jun: 29.8%), given the most recent subsidy cuts, while core inflation touched 35.26% (Jun: 31.95%).
- **Egypt** curtails its **food subsidy program**: people earning more than EGP 1,500 (~ USD 84) a month would be excluded from getting ration cards; while existing cardholders will not be affected, the new decree limits benefits to upto four members of each eligible family.
- **Egypt** expects to **grow** at 4.6-4.8% in the 2017-18 fiscal year, disclosed the finance minister in a TV interview.
- **Egypt** expects 3-5 **IPOs** ("between medium and large-sized ones") by end of this year, according to the Vice Chairman of the stock exchange.
- **Foreign oil firms' investment** in **Egypt** touched USD 8.1bn in 2016-2017, up from USD 6.6bn the year earlier, according to the Petroleum minister.
- **Revenues** from **Egypt's Suez Canal** grew by 0.7% yoy to USD 2.93bn in H1 this year. Between Mar-Jul this year, revenues were up by 3% to USD 2.167bn.
- **Jordan** issued **Syrian refugees** with a new type of **work permit** that opens up the growing construction sector.
- **Kuwait's** cabinet approved the **GCC Unified Selective Excise Tax**, the GCC unified Value Added Tax (**VAT**) and the statute of the GCC Economic Judiciary Commission.
- **Inflation** in **Kuwait** clocked in at 1.4% in Jun, thanks to

lower housing inflation (-2.3% yoy), under the revised CPI, which was rebased to 2013 prices. The weightage for housing was increased by 4 ppts to 33%.

- The **Central Bank of Oman** said that the number of **bounced cheques** rose 32% yoy in 2016. Additionally, the central bank found that insufficient funds were the major cause for unpaid cheques, followed by accounts closed or 'legally blocked' accounts.
- **Oman Telecommunications Co** (Omantel) said it has signed a share purchase agreement to acquire from the Treasury 425.7mn shares (9.84% of outstanding common shares) in Kuwaiti Mobile Telecommunications Company (Zain Group).
- Mandatory **health insurance for private sector employees** in **Oman** could start in Jan 2018, according to press reports.
- **Qatar** allowed **visa-free entry** for around 80 nationalities, in a bid to boost tourism and air transport. The visa exemption allows the citizens of 33 countries to stay in Qatar for 90 days within a 180-day time span, while the nationals of the remaining countries can now stay in Qatar for up to 30 days.
- As the **Qatar** row moves into a third month, **Moody's** revised the outlook on the country's **banking system** to negative from stable, also citing the weakening capacity of the government to support banks given the decline in oil-related revenues.
- Family-owned **Qatari** business Investment Holding Group (**IHG**) plans to **list on the local exchange** this week (on Aug 14), in spite of the diplomatic crisis. IHG offered 49.8mn shares, or 60% of its share capital, at a price of QAR 10.1 per share in its IPO during Jan, making the value of the IPO about USD 138mn.
- **Saudi Arabia** favours **listing Aramco** in New York, for "political considerations", though advisers are recommending London as the less problematic and risky option. Separately, a senior NYSE official was in the region to try and persuade regional companies to

consider New York as a listing option. (More: <http://www.arabnews.com/node/1140611/business-economy>)

- An opinion poll by the Consumer Protection Association in **Saudi Arabia** disclosed that the recent implementation of a **tobacco tax** had no impact on consumption patterns of 48% of smokers. Of the 2398 respondents, only 19% “significantly reduced” their tobacco intake after the tax was introduced.
- **Saudi Arabia** will allow **full foreign ownership of engineering firms**, but foreign firms need to have existed for at least 10 years to qualify, with operations in at least 4 countries.
- **Saudi Aramco** will cut **crude oil allocations** to its global customers in Sep by at least 520k barrels per day, and cut supplies to most buyers in Asia by up to 10%, reported *Reuters*.
- A new government company would be set up to develop 24 parks across Saudi Arabia to generate an estimated SAR 130bn from 5.6mn visitors annually, reported *Al Madina*. The company will develop and maintain the infrastructure for 19 parks in partnership with private sector while seven existing parks that lack basic infrastructure would be opened to private investments.
- A slowdown is anticipated in the **GCC takaful sector**, according to a recent S&P report, from the impact of regulatory changes and competition. Saudi Arabia, home to all 34 listed takaful players, was the most profitable market in the GCC, with insurers generating a total pre-tax profit of USD 666mn.

UAE Focus

- The **Dubai Economy Tracker Index** remained broadly unchanged at 56.3 in Jul, supported by both output and new orders, though output was slightly lower vis-a-vis Jun. Wholesale and retail sector continued to perform well, with a reading of 57.9, followed closely by travel

and tourism (56.3) and construction (54.8).

- **Personal loans** issued by **UAE** banks grew by 4.7% yoy to AED 349bn in Jun, according to central bank data, while loans to businesses dropped by 16.6% to AED 83bn.
- Value of **real estate transactions** in **Dubai** crossed AED 390bn from 95k transactions during the period Jan 2016-Jul 2017, according to the Dubai Land Department.
- **UAE's** DP World and **Egypt's** General Authority for the Suez Canal Economic Zone have agreed to set up a **joint development company** to execute developmental projects in the Suez Canal area.
- **Mobile phone subscribers** in the **UAE** grew by 2.4% yoy to 18.7mn in H1 this year; Etisalat accounted for 10.5mn subscribers (3% yoy) while du's customers were up by 1.5% in Q2 to 8.2mn. Total revenues of both operators touched AED 31.7bn during H1 this year with Etisalat accounting for the lion's share (AED 25.3bn).
- Persons using **public transport** in **Dubai** touched 275mn in H1 this year, with daily ridership at 1.507mn riders and Dubai Metro accounting for 36.4% of the total rides followed closely by taxis (31.7%).
- **Dubai Customs** at the Dubai International Airport revealed that it had **processed** more than 12mn **passengers** in H1 this year; around 18mn **luggage** transited through the airport from 39k flights during the same time.
- The Abu Dhabi National Energy Co (**Taqa**) plans to **refinance** a USD 500mn, 10-year bond maturing in Oct, according to a company spokesperson.

Media Review

Arab Quartet insists on guarantees in Qatar crisis

<http://gulfnews.com/news/gulf/qatar/qatar-crisis/arab-quartet-insists-on-guarantees-in-qatar-crisis-1.2072408>

Oman as a top tourist destination

http://businessweekme.com/2017/08/10/oman-next-big-destination-adrenaline-junkies/?utm_s

The next Franco-German axis

<https://www.ft.com/content/3a0a4406-7d0b-11e7-ab01-a13271d1ee9c>

Iraq bond market return no cakewalk for investors

<https://www.breakingviews.com/considered-view/iraq-bond-market-return-no-cakewalk-for-investors/>

Finishing the Post-crisis job

<https://www.project-syndicate.org/commentary/financial-crisis-one-decade-later-by-jim-o-neill-2017-08>

Deleveraging in China

<https://www.bloomberg.com/news/articles/2017-08-07/as-xi-preaches-on-risk-china-companies-are-reining-in-leverage>

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