

# Weekly Economic Commentary – Aug 20, 2017

## Markets

After the rally in traditional safe haven due to mounting tensions between the US and North Korea last week, stock markets went through another fidgety phase culminating after the virulent diatribes on the Charlottesville incidents and resignation of key American CEOs from a presidential advisory board. As a result, the S&P 500 suffered its biggest one-day fall since May. On Friday the fillip after Bannon's resignation was followed by another sharp correction in the S&P 500, when the White House announced an investigation into Chinese intellectual property theft. However, while Wall Street recorded the second consecutive week in the red, in Europe most bourses were buoyant, despite the terrorist attack in Barcelona and even emerging markets scored substantial gains. Regional markets, however, were mostly down. The euro tumbled to a monthly low after the ECB minutes highlighted a concern by the Governing Council over the appreciation vis à vis the dollar and the GBP took another hit after disappointing macro data. Despite that US crude inventories fell by 8.9 mn barrels (-5% yoy) – way beyond consensus predictions of a 3-mn barrel decline – oil prices dropped on Wednesday on concerns that China's economy is slowing down. But on Friday they snapped back up thanks to rising doubts on the sustainability of shale production. Gold prices reached a 12-month high as Trump came under political attack, but then reversed slightly to close the week marginally down.

## Global Developments

### **US/Americas:**

- The minutes of the Fed FOMC meeting disclosed that some

members were keen to announce a time frame for the unwinding of the QE, but most preferred to wait for additional macro data and developments in financial markets.

- **US industrial production expanded** by 0.2% mom in Jul, vs 0.4% in Jun. However, manufacturing output fell -0.1%. Capacity utilization remained flat that in manufacturing lost -0.1%.
- **US retail sales rebounded** by 0.6% mom (4.2% yoy) in Jul with the Jun figure revised sharply up to 0.3% (3.4% yoy). Core sales, ex-auto and fuel, were up 0.5%.
- **US Housing starts slumped** 8% mom to a s.a. annualized rate of 1.155mn in Jul, vs 1.213mn in Jun and a forecast of a 0.5% rise.
- **US import prices rose** 1% mom in Jul with nonfuel prices decreasing -0.1%.
- **US business inventories increased** 5% mom in Jun vs 0.3% in May.
- **Initial claims for US unemployment benefits fell** 12,000 to 232k. The labor market remains perky, with the 4-week moving average near 240k. Continuing claims fell 3,000 to 1.953mn.
- **The US Conference Board's Leading indicators index gained** 3% mom in Jul following a 0.6% increase in Jun, led by the widening interest rate spread and ISM new orders. Only building permits decreased.
- **The University of Michigan Consumer sentiment gained** 2 points in Aug, the highest monthly gain this year. Inflation expectations remained constant at 2.6% yoy.
- **Canada inflation increased** to 1.2% yoy in Jul from 1% rise in Jun, in line with consensus forecasts.

## **Europe:**

- **The minutes of the ECB's meeting** revealed that governors worried about the **euro appreciation** despite their dovish stance.

- **Eurozone's inflation** was **unchanged** at 1.3% yoy in July. Core inflation ticked up to 1.2% from 1.1% in Jun.
- **Eurozone's industrial production** **fell** by -0.6% in Jun, after gaining 1.2% in May due to a slowdown in both the capital and the durable consumer goods. In qoq terms output rose 1.2%.
- **Eurozone's current account surplus** **shrunk** to EUR 28.1bn in Jun from EUR 41.5bn in Jun 2016, as the goods surplus narrowed to EUR 32.3bn from EUR 39.5bn in Jun 2016.
- **German GDP** **grew** 6% qoq (2.1% yoy) in Q1 vs 0.7% (1.9% yoy) in Q1, the fastest annual growth since early 2014. Private and government consumption drove the performance while net exports were a drag, confirming the ongoing rebalance of the German trade surplus.
- **The unemployment rate in France** **inched down** to 9.5% in Q2 2017 from 9.6% in Q1 the lowest rate since Q1 2012. The participation rate was at 72.0%, the highest since 1975.
- **UK inflation** **fell slightly** to 2.6% yoy (-0.1% mom) in Jul. Prices for most goods and services accelerated but were offset by a plunge in price of fuels and communications.
- **UK unemployment rate** **fell** to 4.4% in Q2, its lowest since 1975. The number of employed increased by 125,000 vis à vis 57,000 fewer unemployed.
- **UK retail sales** **rose** by 0.3% mom (1.3% yoy) in Jul the same rate as in Jun, confirming that private consumption is being negatively affected by lower real wages.

## **Asia Pacific:**

- **China's M2 money supply growth** **slowed** to 9.2% yoy in Jul from 9.4% in Jun, although credit growth was sustained by bank lending. Non-bank credit growth on the other side was on the back foot due to stricter government controls.
- **China's industrial production** **unexpectedly rose** only

6.4% yoy in Jul, down from 7.6% in Jun the lowest pace since Jan, with manufacturing up a mere 6.7% vs 8.0% in Jun.

- **China's non-farm fixed asset investment rose** 3% yoy in the first 7 months of 2017 down from 8.6% in H1, as investment in construction projects slowed significantly.
- **China's retail sales grew** by 10.4% yoy in Jul, following 11% in Jun.
- **Japanese GDP surged** at 4.0% qoq ann in Q2 vs 1.5% in Q1 well above expectations of 2.5% to mark the sixth quarter of expansion and the top growth rate since Q1 2015, driven by strong domestic demand.
- **Japan's trade surplus jumped** to JPY 337.44bn in Jul from JPY 87.3bn in Jun. Both exports and imports grew substantially, thanks to the regional tech upswing. Imports of commodities such as energy also gained, underscoring a pick up in activity.
- **Japan's industrial production soared** 2% mom in Jun partly offsetting a -3.6% fall in May.
- **India's inflation increased** for the first time in 4 months to 2.4% yoy in Jul, from 1.5% in Jun, as the base effects in food prices are running out.
- **Malaysia's GDP growth hit** 5.8% yoy in Q2, up from an already heightened pace of 5.6% in Q1, marking the 4th consecutive quarter of accelerating growth. Private consumption was the key driver followed by private investment, which is pushing manufacturing.
- **The Philippines' GDP grew** 5% yoy in Q2, vs 6.4% in Q1.
- **Singapore's nonoil exports continued to surge** by 8.5% yoy in Jul after Jun's 8.8% thanks predominantly to electronics' demand.

**Bottom line:** The fact that the Japanese economy is joining the global recovery with a bang (the longest growth streak in more than 10 years) is offsetting worries that the effects of deleveraging in China can undermine the macro picture. The

fight against unsustainable borrowing was set as a priority by President Xi Jinping in April at a Politburo gathering and aimed explicitly at the most elusive target: the public sector as local governments and state-owned enterprises. Credit, industrial production, and fixed investments have started to feel the pinch, but the process is likely to prove much longer and will be erratic. In Europe and South East Asia, economic indicators continue to point North and, barring geopolitical instability, 2017 is poised to mark the final exit from the Great Recession.

### Regional Developments

- In **Bahrain**, Solidarity General Takaful and Al Ahlia Insurance Company have **merged** to form a new entity named **Solidarity Bahrain**. This company, with a paid-up capital of BHD 11.2mn and an estimated 15% market share, would hence be the largest takaful company in the country.
- **Egypt passed regulations for the new investment law**; the next step is a final legal review to be undertaken by the country's administrative court, the state council, following which the law will be implemented.
- **Egypt** announced regulations for a **new industrial licensing law** last week: the new law is expected to reduce the waiting period significantly for obtaining industrial licences to establish new facilities from 600 days to 7 to 30 days.
- **Egypt's** central bank **kept policy rates unchanged** at its latest meeting, following two hikes amounting to 400bps from the past two meetings: the overnight deposit rate remained 18.75% and the overnight lending rate at 19.75%.
- The **unemployment rate** in **Egypt** was reported at 11.98% in Q2, the lowest since 2011, and falling from 12% in the previous quarter; however, around 79.6% of unemployed were young (between 15-29).
- **Egypt's** first **government-owned Takaful company** – Misr

Takaful Insurance – is currently completing licensing procedures and will begin operations within six months, disclosed the Minister of Public Sector Affairs. Takaful firms accounted for 9% of the insurance market in Q2 this year.

- **Egypt** plans to modernise its **railway system infrastructure** – by boosting manpower efficiency, improving maintenance standards, through increased engagement with the private sector – by 2022, according to the Transport Ministry spokesman.
- **Iraq** and Saudi Arabia **re-opened the Arar border crossing for trade** for the first time since 1990.
- **Jordan** has requested banks to submit proposals to arrange a USD conventional or Islamic **bond issue**, reported *Reuters*.
- **Tourism revenues in Jordan increased** by 13.5% yoy to USD 2.5mn in H1 this year, supported by the 9.5% rise in number of tourists during the same period.
- **Unemployment rate in Jordan increased** to 15.3% in 2016: among males and females, the rates were 13.3% and 24.1% respectively.
- **Kuwait's trade surplus with Japan increased** for the 7th consecutive month, rising by 48.1% to JPY 31.6bn in Jul.
- **Kuwait** disclosed that of the 2,697,195 **residency permits** granted in 2016, 68.3% were issued for male expats.
- **Kuwait** is expected to issue a tender to build the **Dibdibah solar power plant** (to be completed by 2020, and estimated to cost USD 1.2bn) in Q1 2018. The plant will reportedly save burning 5.2mn barrels of oil and reduce carbon emissions by 1.3mn tons annually.
- **Average inflation rate in Oman is expected at 1% yoy in 2017** up from 1.1% in 2016. According to a report by the IMF, cited by the Central Bank of Oman in its financial stability report, inflation will stabilise at around 3% in 2020.
- **Oman's public sector projects** in H2 2017 are expected to keep **expanding** with an estimated pipeline of USD 8.74

bn, according to a survey by Meed Projects.

- The head of **Qatar's sovereign wealth fund** disclosed that there were no plans to liquidate foreign assets; without disclosing any details, he stated that news about "significant investments" would be revealed "soon". Separately, as part of "normal portfolio rebalancing", Qatar's **voting stake in Credit Suisse**, including purchase rights, dropped to 15.91% from 17.98% reported in June.
- **Inflation in Qatar fell** to 0.2% in Jul (Jun: 0.8%); food and beverage prices were up by 4.5% yoy (the fastest rate of increase since 2014) and 4.2% mom while price of housing and utilities dropped by 3.6% yoy and by 0.6% mom.
- **Qatar** plans to generate around 500MW of **electricity through solar power**, reported *Gulf Times*, citing the president of Qatar General Electricity and Water Corporation (Kahramaa). The plan also includes a suggestion to install solar panels on the rooftops of houses.
- **Saudi Arabia's budget deficit fell** to SAR 46.5bn in Q2 this year, from SAR 58.4bn during the same period last year (Q1 2017: SAR 26.2bn). Revenues were up by 6% to SAR 163.9bn, of which SAR 101bn were from oil (+28%) while non-oil revenues shrank by 17%; spending was down by 1.3% to SAR 210.4bn, but largely due to a fall in the government's "use of goods and services" by almost 40%.
- **Saudi Arabia** has confirmed Dec 20 as the **deadline** for **VAT registration**: the online registration portal will open on Aug 28.
- **Saudi Arabia's crude oil exports declined** to 6.889mn barrels per day (bpd) in Jun, roughly 35k bpd lower compared to May. Production meanwhile touched 10.070 million bpd in Jun, up 190k bpd from May.
- **Saudi Arabia** plans to launch the **second issue of its local currency Sukuk programme** during this week, disclosed the finance ministry. The first issue was in

late July.

- **Saudi Arabia's** Capital Market Authority approved **Takhzeen Logistics'** plan to offer 35% of its share capital to qualified investors stipulated in the **parallel market** listing rules.
- **GCC project awards fell** to USD 56.1bn in H1 this year, compared to USD 69.3bn a year ago, according to MEED data. Saudi Arabia was the only country to report a 12% increase in contract awards to USD 15.8bn. MEED forecasts USD 61bn of project awards in H2, bringing the total to about USD 117bn this year, roughly the same as in 2016.

### **UAE Focus**

- **UAE firms can register for VAT starting mid-Sep**, according to the director-general of the Federal Tax Authority. IMF projects a slight uptick in inflation following the introduction of VAT next year – 2.9% in 2018 and 2.5% in 2019 from under 2% this year.
- **Excise taxes** – 100% on tobacco and energy drinks and 50% on fizzy drinks (excluding carbonated water) – will be introduced in the UAE from Q4 this year. Both VAT and excise laws will be signed and finalised in Q3, and its regulatory framework issued in Q4.
- **Inflation in Abu Dhabi rose** by 1.5% yoy and 0.1% mom in Jul, bringing total price rise to 2% yoy in Jan-Jul this year. Housing and utility prices were up 4.9%, followed by transport prices at 4.1%.
- **Short-term deposits** in the **UAE**, which account for 30% of total bank deposits, **grew** to AED 439.7bn as of end-Jun, up by AED 27.9bn during H1 this year.
- **Non-oil trade** between **UAE and Mexico** touched USD 1.3bn in 2016, according to a report issued by the Ministry of Economy.
- **UAE's Jebel Ali Free Zone** announced a growth in its **non-oil trade** by 17% to 27.9mn tonnes in 2016, worth USD



80.2bn. China maintained its position as Jafza's largest trading partner, with USD 11.3bn worth of trade, followed by Saudi Arabia with USD 7bn.

- The **Abu Dhabi Global Market** has launched a **Foundations regime** which provides a strategic platform for financial planning and structuring, serving as an alternative to trusts and corporate vehicles.
- According to the Dubai Land Department, 68 **real estate projects** valued at AED 21bn were **registered** in **Dubai** during H1 this year. Total projects were 88 from beginning of 2016 to Jun this year.
- **Consumer spending** in the **UAE** is **projected to increase** at an annual rate of 7.5% to over USD 261bn in 2021 (2016: USD 183bn), according to a report by the Dubai Chamber. Household goods, at USD 75.7bn, accounted for 41% of consumers expenditure, followed by food and non-alcoholic beverages (USD 24.8bn) and transport (USD 16.7bn).
- The **Dubai Financial Market** (DFM) announced a 100% **compliance of disclosure of Q2 results** within the deadline of 45 days from the end of the period.
- **UAE moved up** to 34th in the 2017 Waseda- IAC International **e-Government ranking** survey, from 40th in the previous edition. UAE is ranked ninth in digital government promotion and seventh in e-participation. Bahrain is ranked second in the Arab World and 41st globally, followed by Oman (43) and Saudi Arabia (46).

## **Media Review**

### **China's deleveraging is affecting growth**

<http://www.foxbusiness.com/features/2017/08/14/china-growth-slows-as-beijings-debt-crackdown-takes-hold.html>

### **Shale output hits some bumps**

<http://energyfuse.org/shale-industry-suffers-unexpected-operational-problems/>

### **Qatar to Tell Banks to Seek Overseas Funding as Gulf Spat Drags On**

<https://www.bloomberg.com/news/articles/2017-08-17/qatar-is-said-to-tell-banks-to-look-for-overseas-funding-amid-spat>

**Lebanon eyes Syria's post-war reconstruction**

<https://www.dailystar.com.lb/Business/Local/2017/Aug-18/416293-lebanon-eyes-syrias-post-war-reconstruction.ashx>

**New permits strategy in Dubai to benefit developers, investors**

<http://gulfnnews.com/business/property/new-permit-strategy-to-boost-realty-sector-1.2075988>

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