

Weekly Economic Commentary – Sep 10, 2017

Markets

US and Japan equities fell on tensions with North Korea and the new storm Irma expected to hit Florida. Financial shares tumbled on lower bond yields after dovish remarks by central bankers on both sides of the Atlantic. Elsewhere, European and emerging market shares managed to end the week virtually unchanged, but regional markets were mixed with KSA and Morocco the best performers and Qatar once again in the red due to the ongoing diplomatic crisis. After Draghi's remarks in the press conference, the euro rallied as high as 1.2059 against the dollar, and after profit taking, managed to hold most of the gains. The yen also surged due to flight to safety effects and the GBP had some relief from the Brexit-induced slide. The oil price was lifted by the devastation caused by Harvey on the oil industry and the refineries, while gold continued its upward swing spurred by the North Korean test of an H-bomb.

Global Developments

US/Americas:

- **In a surprise move, President Trump accepted** a proposal by Senate Minority Leader Schumer and his House counterpart Pelosi, to a 3-month suspension of the **debt limit** in exchange for Hurricane Harvey relief funds. Details on the debt ceiling however remain unclear.
- The **US GDP expanded** 3% qoq ann in Q2, substantially above a preliminary reading of 2.6%.
- The **Fed's Beige Book** indicates that **economic activity rose** at a modest to moderate rate across the US. Consumer spending expanded in most districts,

manufacturing increased modestly and construction improved marginally.

- **US factory orders tumbled** -3.3% mom in Jul, the largest monthly decline in almost 3 years. However, core capital goods gained 1% and 1.2%, respectively.
- **ISM non-Manufacturing US PMI advanced** to 55.3 in Aug from 53.9 in Jul. New orders and employment improved, but the trade details were mixed: new exports orders rose while imports declined.
- **US University of Michigan consumer sentiment** index reached 96.8 in Aug (Jul: 93.4).
- The **US trade deficit** in Jul widened slightly to USD 43.7bn from USD 43.5bn in Jun.
- **Personal spending in the US grew** 3% mom in Jul, a notch above the 0.2% rise in Jun. Expenditure on both goods and services increased.
- **The Central Bank of Brazil reduced** the Selic rate by 100 basis points to 8.25%, the 8th consecutive cut since Oct 2016.
- **The Bank of Canada** in a surprise move **lifted the policy rate** by 25bp to 1% explaining that stronger growth (4.5% qoq ann in Q2) and a solid global expansion called for the removal of “considerable” stimulus.

Europe:

- **The ECB left interest rates unchanged.** President Draghi signaled that a decision on the reduction of the Asset Purchase Programme could come in Oct and remarked that the euro exchange rate is a factor the ECB takes into account in its monetary policy decisions. The ECB raised its GDP forecast for 2017 to 2.2%, the fastest rate since 2007, from 1.9% seen in Jun.
- The **IHS Markit Composite PMI for the Eurozone** was flat at 55.7 in Aug. The service sector index was at a seven-month low (54.7 from 55.4) but the manufacturing index recovered to the 74-month high of 57.4 first recorded in

Jun.

- **The Eurozone's unemployment rate was unchanged** at 9.1% in Jul.
- **Inflation in the Eurozone** was 1.5% yoy in Aug, after 1.3% in Jul, according to a flash estimate.
- **Retail sales in the Eurozone fell** -0.3% mom (2.6% yoy) in Jul, partially reversing the 0.6% increase (3.0% yoy) in Jun. Declines were broad-based across countries, but a sharp -1.2% mom drop in Germany had a major impact.
- **German manufacturing orders contracted** by -0.7% mom (4.9% yoy) in Jul vs 0.9% in Jun. Domestic orders dragged on the headline number, while foreign orders kept steady.
- **German industrial production was unchanged** mom in Jul after a 1.1% drop in Jun. The largest downfall was in energy (-4.7% mom), with capita and and consumer goods also in the red. Intermediate goods rose by 1.4% percent and construction by 0.5%.
- The **German current account surplus widened** to EUR 19.4bn in Jul from EUR 18.3bn in Jun 2016. The goods surplus increased to EUR 22.2bn from EUR 20.8bn.
- **House prices in the UK increased** 6% yoy in the 3 months to Aug (1.1% mom in Aug), vs 2.1% in the previous 3 months (0.7% Jul).
- **UK industrial production growth ticked up** to 0.4% yoy in Jul from 0.3% in Jun. Manufacturing production was remarkably strong at 1.9% vs 0.6% in Jun).
- **Russian inflation slumped** -0.5% in Aug (3.3% yoy) – vs 0.1% mom in Jul – the first monthly decline since 2011. Food prices plunged -1.8% mom.

Asia Pacific:

- **China's central bank set the yuan midpoint** of the oscillation range at the highest level in more than 10 months to 6.677 per USD.
- **China's inflation jumped** to 1.8% in Aug from 1.4% in

Jul, the highest rate since Jan pushed by non-food items.

- **China's export growth** was a **disappointing** 5% yoy in Aug vs 7.2% in Jul as a result of weak demand from major developed markets and reflected the renminbi real appreciation. Meanwhile, imports growth accelerated to 13.3% from 11.0%. Hence the trade surplus fell to USD 42bn from USD 50.23bn a year earlier.
- The **Caixin China Composite PMI advanced** to 52.4 in Aug from 51.9 in Jul. Manufacturing activity recorded the strongest level in 6 months (51.6 from 51.1 in Jul) while the services sector index touched 52.7 from 51.5 in Jul.
- **Japan's final Q2 GDP growth** was **downgraded** to 2.5% qoq ann, from 4.0% in the preliminary estimate. Most of the revision was due to lower private non-residential investment growth (from +9.9% qoq ann to +2.1%), but also to somewhat weaker private consumption.
- The **Nikkei Services PMI in Japan fell** to 51.6 in Aug from 52 in July, marking the 11th month of expansion, but the weakest since last Feb.
- **The leading economic index in Japan eased** to 105 in Jul from 105.7 in Jun.
- **Australia's GDP growth accelerated** to 0.8% qoq in Q2 from 0.3% in Q1 pushed by consumption, public gross fixed capital formation and net exports.
- **Australia's current account deficit swelled** to AUD 9.6bn in Q2, compared with a AUD 4.8bn deficit in Q1.
- **The Nikkei Services PMI in India** came in at 47.5 in Aug from 45.9 in Jul, the second consecutive month of contraction after the introduction of the goods and services tax in Jul.
- **South Korea's current account surplus narrowed** to USD 7.26bn in Jul from USD 8.41bn a year earlier, due mainly to a doubling yoy of the services account deficit to USD 3.29bn.
- **Malaysia's trade surplus swelled** to MYR 8.0bn in Jul

from MYR 1.9bn in Jul 2016.

- **Philippines' inflation rose** to 3.1% yoy in Aug from 2.8% in Jul.

Bottom line: Though the health of the global economy is rapidly improving, policymakers display a remarkable degree of caution. For example, Fed Governor Lael Brainard in a speech pushed out the probability of the next Fed hike to June 2018, while the ECB Governing Council is agonizing on the decision on when to stop its QE program and how fast, despite forecasting the best growth rate in a decade. This attitude underscores the (unconscious?) fear that removing the exceptional monetary stimulus could derail the recovery. On the other side the distortions and bubbly asset prices caused by negative rates and financial markets central bank adrenaline cannot last indefinitely.

Regional Developments

- **Bahrain plans to issue US dollar bonds**, with investor meetings taking place in the UK, Asia, Middle East and US, from last week. Furthermore, Fitch reported that “a USD sovereign deal between Saudi and Bahrain” is likely to happen this year.
- **Bahrain is set to receive arms** (including F-16 jets, upgrades, missiles and patrol boats) worth more than USD 3.8bn, after the **US** State Department approved the sale.
- **Egypt PMI picked up** in Aug, rising to 48.9 from 48.6 a month before, thanks to stronger external demand and despite the high inflationary pressures; though the reading remains under the 50-mark, new export orders rising at the fastest rate since May is a positive sign.
- **Egypt's GDP grew** by 4.9% yoy in Q4 of its 2016-17 fiscal year – compared to 2.3% a year ago – thanks to foreign borrowing (+38.4% to USD 73.9) and direct investment (+27.5%), revealed a Finance Ministry report.
- **Egypt's foreign reserves edged up** slightly to USD 36.143bn end-Aug (Jul: USD 36.036bn); reserves had

increased by USD 4.73bn between Jun and Jul. M2 or **money supply** grew by 38.74% to EGP 2.94trn.

- **Tourism revenues in Egypt picked up** by 170% yoy to USD3.5bn in Jan-Jul this year, with a 54% increase in the number of tourists to 4.3mn. As for nationality of the visitors, it was disclosed that Europeans accounted for 75% while Arabs were around 20%.
- **Egypt's trade with the BRICS nations** was close to USD 20bn in 2016, stated the country's industry minister, ahead of the BRICS Summit in China. Meanwhile, **Egypt signed two agreements with China last week**: one, for an electric train to the country's new capital, worth USD 739mn and two, for Egypt's second satellite a grant of CNY 300mn (USD 45mn).
- The **Asian Infrastructure Investment Bank** announced USD 250mn to support **renewable energy projects in Egypt**, to be co-financed with the IFC: this would include 11 solar power plants with an "aggregate" capacity of 490 megawatts.
- A preliminary assessment estimates that **reconstruction in Iraq** could **cost** nearly USD 150bn; a creditors' conference will be held in Kuwait next Jan – sponsored by the Iraqi Reconstruction Fund, the World Bank and the Kuwait Development Fund – to support this effort. The country has also approved a **10-year plan to rebuild** its war-damaged areas, to be launched in 2018.
- **Kuwait** issued a ministerial decision mandating employers to pay a **fee** of KWD 250 per work permit for **excess expat workers**, noting that employers will only be allowed a maximum of 50% of the workforce to be expats.
- **Investments in the US** by **Kuwait's** Sovereign Wealth Fund are estimated at over USD 300bn, reported the Kuwait News Agency KUNA.
- **Lebanon** plans to **double the capacity of the Beirut international airport** to 12mn a year (from 6mn currently), and then rising it further to 19mn in the longer term; no timeframe was provided for the proposed

increase.

- **Lebanon** has extended the deadline for pre-qualified companies to submit their **bids for offshore oil exploration and production** by 4 weeks to Oct 12.
- **Moody's cut the outlook for Oman's banks** from stable to negative mentioning a reduction in the government's ability to support the banking system, weaker economic growth and reduced liquidity. Moody's asserted "this will weigh on the credit growth which Moody's expects would fall to 5% in 2017 from 10.1% in 2016."
- **Oman's Sultan appointed Tahir Bin Salim Al Amri** as the **Sultanate central bank's** Executive President replacing Hamud Sangur Al-Zadjali, who served in the post since 1991.
- **Transactions between Oman and Qatar increased** by 1,000% in a single month, and 2,000% over the past three months, i.e. more than OMR 270mn according to Oman's Chamber of Commerce and Industry. Some of these data might be due to re-export of goods from third countries.
- **Saudi Arabia is revising** its National Transformation Programme (NTP) to a more streamlined version. A draft of revised NTP, with 36 objectives, is to be completed by end-Oct, with 10 ministries to be involved with the new plan, down from 18 previously.
- **Saudi Arabia has** revealed its list of **potential privatisation candidates**, in addition to the much talked-about Aramco: these include the Saline Water Conversion Corporation, the King Abdullah City for Economic and Renewable Energy, government universities, the Saudi Health Council, and Saudi Post. Ten supervisory committees have been set up to oversee the sectors in which privatization activity is expected. *(More in media review section)*
- An increase in new export orders supported **Saudi Arabia's PMI** to touch 55.8 in Aug (Jul: 55.7); respondents reported pressure to increase costs amid a competitive landscape; job creation rate was the lowest

since Apr.

- **Saudi Arabia's Economic Cities Authority** announced that it plans to charge **real estate fees** from Feb 2018, to "enhance competitiveness" and to regulate the real estate sector. A fee of 1% "of the sales value as per the registered Sales and Purchase Agreement or the approved valuation by the Real Estate Department", whichever is higher, will be charged, in addition to a fee of SAR 100 for every property registration transaction.
- In line with commitments to OPEC, **Saudi Arabia** will **cut crude oil allocations** to its global customers by 350,000 barrels per day (bpd) in Oct, reported *Reuters*. The deepest cuts were made to major oil companies where supplies were reduced by 225k bpd, while allocations to customers in Europe were lower by 70k bpd
- There are about **200k Saudi female workers in the retail sector**, disclosed the acting head of the women's employment policy and programs at the Labour Ministry. She also stated that the ministry was trying to solve the problem of transportation for these working women, using smart technology (Careem, Uber).
- According to a survey conducted by Expat Insider, **Bahrain** ranked as the **top destination for expats**, with almost 9 out of 10 expats rating positively the friendly attitude of the local population towards foreign residents, compared to a global average of 67%. Among the **worst** 10 destinations feature Kuwait, Saudi Arabia and Qatar, with main issues remaining lack of career prospects and quality of life.

UAE Focus

- **UAE's non-oil private sector growth** reached 30-month high, with **PMI** at 57.3 in Aug (Jul: 56), helped by a record increase in company inventories (the largest in the survey's history), in addition to new orders and

output. The build-up in inventories is in advance of and affected by the introduction of VAT starting in Jan 2018 and excise taxes in Oct 2017.

- The **UAE** published the **VAT Law** ([https://www.tax.gov.ae/pdf/VAT-Decree-Law-No-\(8\)-of-2017-English.pdf](https://www.tax.gov.ae/pdf/VAT-Decree-Law-No-(8)-of-2017-English.pdf)): the decree-law provides that all supplies of goods and services are subject to VAT at a standard rate of 5% with the exception of specific supplies subject to the zero rate and what is exempted as specified in the decree-law. More detail on goods to be charged will become available in a yet-to-be-published Executive Regulation.
- **Non-oil trade** in the **UAE** grew by 3.2% yoy to AED 401bn in Q1 this year; non-oil exports, at AED 46bn, accounted only for 11.5% of the total trade during this period. Trade with Asia and Pacific accounted for 43% of the total, followed by Europe at 21% and MENA and 19.5%.
- **Dirham-denominated deposits** at **UAE** Central Bank **increased** to a five-year high of AED 497.65bn as of end Jul; this was an increase of AED 17.1bn during the year, the highest since 2013. Foreign currency-denominated deposits remained stable at an equivalent of AED 269.2bn versus against AED 270bn at end-2016.
- **Abu Dhabi-based banks** secured a net income of AED 7.6bn in Q2 this year, with commercial banks accounting for the lion's share (831.1%). Employees in the emirates banking sector touched 12,100 as of end-Q2, with their total benefits down by 5%.
- The **Abu Dhabi Global Market** revealed the receipt of 166 applications from over 39 countries for its inaugural **Fintech Abu Dhabi Innovation Challenge**, scheduled to take place on Oct 22-23 this year.
- **Foreign investments** in the **Fujairah Free Zone** – home to 3500 companies from over 44 countries – amounted to more than AED 8 billion, disclosed the Director-General of the free zone authority.
- Abu Dhabi Investment Authority (**ADIA**) will announce

“within weeks” details of investments in **housing and infrastructure projects in India**, according to the Indian ambassador to the UAE.

Media Review

Trump deal with Democrats on debt ceiling

<https://www.bloomberg.com/news/articles/2017-09-07/trump-s-surprise-deal-with-democrats-sets-up-christmas-showdown>

The Bund rollercoaster

<https://www.bloomberg.com/gadfly/articles/2017-09-06/this-bond-s-rollercoaster-yield-ride-looks-far-from-over>

The Week Everyone Had Their Say on Brexit

<https://www.bloomberg.com/news/articles/2017-09-08/this-was-the-week-everyone-had-their-say-on-brexit>

Saudi Arabia’s privatisation strategy

https://www.zawya.com/mena/en/story/Saudi_Arabia_reveals_details_of_Vision_2030_strategy-ZAWYA20170909031724/

<http://www.arabnews.com/node/1157936/business-economy>

Will Saudi Aramco deliver world record profit for next year’s IPO?

<https://www.reuters.com/article/us-aramco-ipo/will-saudi-aramco-deliver-world-record-profit-for-next-years-ipo-idUSKCN1BJ0JF>

The Qatar crisis: 4 months on

<https://www.thenational.ae/world/gcc/saudi-arabia-suspends-talks-with-qatar-over-false-reports-1.626649>

VAT could emerge a cost centre for banks irrespective of rates

<http://gulffnews.com/business/sectors/banking/vat-could-emerge-a-cost-centre-for-banks-irrespective-of-rates-1.2084306>

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