

Weekly Economic Commentary – Sep 17, 2017

Markets

On Wall Street, the week started with a record closing for the S&P 500 despite the aftermath of Irma and extended to most major stock markets around the world. Despite another North Korean missile launch over Japan, the mood among investors remained broadly upbeat and stock indices closed the week with notable gains, especially in Europe and the world MSCI reached a record high. Regional markets, however, did not join the party with Qatar markedly down and UAE and KSA barely above water. In currency markets, the USD rebounded against the euro and even more against the yen, due to relief that the damages by the hurricanes are less severe than initially expected and hopes over the prospects of a tax reform. The yuan slipped after the Chinese authorities relaxed currency controls and the GBP was lifted by the hawkish message delivered by the BoE after its policy meeting. Oil prices continued to climb as the rebalancing in the world market picks up strength. IEA data on oil consumption show that in Q2 global demand rose by 2.4%, or 2.3 mbd; furthermore in Aug, for the first time in 4 months global supply dropped 720 mbl mom. Gold prices interrupted their winning streak as the jitters from North Korean missile launch were metabolized.

Global Developments

US/Americas:

- **US industrial production grew** by only 1.5% yoy (shrinking by -0.9% mom) in Aug, vs 2.4% (0.4% mom) in Jul. Manufacturing output rose 1.5% yoy thanks to chemicals (2.3%); food, beverage, and tobacco (2.8%); metal products (3.3%); and machinery (4.6%).

- **US retail sales** unexpectedly shrunk -0.2% mom in Aug, vs 0.3% in Jul (and early estimates of 0.6%), due in part to the effects of Harvey. Excluding autos, retail sales increased 0.2% mom.
- **The University of Michigan's US consumer sentiment** fell to 95.3 in Sep from 96.8 in Aug, a 3-month low, probably due to worries over the hurricanes' devastation in Texas and Florida.
- **US households' 12-month inflation expectations** decreased to 2.49% in Aug from 2.54% in Jul.
- **US initial claims for unemployment benefits** fell 14,000 to 284,000. The 4-week moving average rose 13,000 to 263,250, the highest level since mid-Aug 2016. Continuing claims fell 7,000 from the to 1.944 million. Data, however, are distorted by the effects of the two hurricanes.

Europe:

- **Industrial production in the eurozone** expanded 3.2% yoy (0.1% mom) in Jul, vs 2.8% yoy (-0.6% mom) in Jun. Output growth accelerated for intermediate, capital and durable consumer goods. Output grew across major economies: Germany (3.9% yoy), France (3.6%), Italy (4.4%), and Spain (1.9%).
- **The eurozone trade surplus** narrowed to EUR 23.2bn in Jul from EUR 24.8bn in Jul 2016. Exports increased by 6.1% yoy to EUR 177.7bn but imports grew even more, by 8.2% to EUR 154.6bn.
- **UK inflation** jumped to 4-year record of 2.9% yoy (0.6% mom) in Aug from 2.6% (-0.1% mom) in Jul driven by clothes and fuel prices. Core inflation was 2.7% yoy.
- The **Bank of England MPC** voted 7-2 to keep rates on hold, but warned that a rate hike is imminent.
- **The Russian Central Bank** reduced again its key rate by 50 bps to 8.5% as inflation retrenched in Sep.

Asia Pacific:

- **China's M2 money supply growth** was 8.9% yoy in Aug down from 9.2% in Jul, a record low since the series began in 1996, confirming that credit growth is being choked by the authorities.
- **Non-farm fixed asset investment in China** gained only 7.8% yoy in the period Jan to Aug, receding from 8.3% in Jan-Jul 2017. It was the worst growth recorded since 1999, as a result of mediocre investments in construction, a collapse in central government investment (-27.6% from -7.2% in Jan-Jul) and falling foreign investments (-6.7% from -5.7%).
- **China's industrial production** rose only 6.0% yoy in Aug vs 6.4% in Jul, the slowest pace since Dec, as utilities and mining output growth slowed, while manufacturing was perkier at 6.9% yoy vs 6.7% in Jul.
- **FDI into China** fell -0.2% yoy in the period Jan-Aug, following a 1.2% drop in Jan-Jul. In Aug alone, FDI increased by 9.1%.
- **Retail sales in China** rose 10.1% yoy in Aug, vs 10.4% in Jul.
- **Industrial production in Japan** rose 4.7% yoy in Jul vs 5.5% in Jun, in line with early estimates.
- **Core machinery orders in Japan** (ex. ships and electrical equipment) jumped 8.0% mom in Jul, following a -1.9% drop in Jun. It was the first rise in 4 months and the strongest since Jan 2016, pushed by a rebound in manufacturing orders.
- The **capacity utilization index in Japan** decreased to 100.1 in Jul from 101.9 in Jun.
- **Inflation in India** increased 3.36% yoy in Aug, following a 2.36% rise in July, due to a pick up in food prices.
- **India's industrial production** expanded 1.2% yoy in Jul, after a -0.2% drop in Jun. Manufacturing production grew by a paltry 0.1% vs a -0.5% contraction in Jun, compensated by a 6.5% jump in electricity output.

Bottom line: Last week China once again came under scrutiny

after the macro data flow pointed at a declining momentum in Q3. However, this phenomenon must be interpreted in a positive light because it indicates that the deleveraging that is intensifying especially in the corporate sector. The gradual absorption of the Chinese credit bubble is a key test for the global economy. The time for a decisive action by the Chinese authorities seems appropriate given that the role of growth engine at this juncture can be taken up by the euro area. The US data were again quite disappointing, but for the next two months they will be distorted by the aftermath of the hurricanes, so most of the attention will concentrate on the prospect of a tax reform. In this regard, however, the ideas so far ventilated do not evoke Reagan's tax cuts, rather a hotchpotch of mal assorted anti-rich rhetoric and cosmetic changes.

Regional Developments

- **Bahrain's real estate sector** grew by 4.5% yoy in Q1 2017, according to the EDB, contributing over USD 1.7bn to the economy. Real estate transactions grew by 15.2% qoq and 8.1% yoy to USD 770mn in Q1.
- **Bahrain** announced that **Islamic banks** need to undergo independent, external **audits** starting with reports issued in 2020, for business conducted in 2019. This would make Bahrain one of the more strict jurisdictions for Islamic banking.
- **GDP in Egypt** grew by 4.2% in the 2016-17 fiscal year, with Q4 registering a growth rate of 5%, revealed the planning minister.
- **Egypt's budget deficit** clocked in at 9.5% in Q4 of the 2016-2017 fiscal year which ended this Jun, from 11.5% in Q4 a year ago.
- **Net FDI into Egypt** increased by 14.5% to USD 7.9bn in the fiscal year 2016-2017, disclosed the central bank. A "USD 2.3bn rise in net inflows for oil sector investments to USD 4bn" was also reported by the bank.

Trade deficit declined by 8.4% to USD 35.4bn in the 2016-17 fiscal year, while **current account deficit** narrowed by 50% yoy to USD 2.4bn in Q4.

- **Egypt's** stock exchange will **reduce trading halt times** to 15 min, in a bid to boost market activity. The exchange currently suspends trading on stocks that rise or fall by over 5% for more than 30 minutes.
- **Egypt's urban CPI** eased to 31.9% in Aug (Jul: 33%) while core inflation dipped to 34.86% (Jul: 35.26%). Prices rose 1.1% in mom terms, compared with 3.2% in Jul. Egypt's President was quoted as saying "we have set a goal for ourselves to reduce the inflation rate to around 13% in 2018", at a conference.
- **Kuwait's first PPP project** is set to list on the local exchange: Shamal Azzour Al-Oula – the owner and operator of Kuwait's first and only independent power and water plant – is the first company to be established pursuant to the PPP Law framework in Kuwait, and the first to reach the IPO stage.
- **VAT tax returns in Lebanon** registered an increase of 51.39% in the first 12 days of Sep, disclosed Global Blue (company designated by the Finance Ministry to reimburse VAT purchases to tourists in Lebanon); bulk of the tourists reimbursed were from Saudi Arabia, Kuwait, Qatar and UAE.
- **Qatar Investment Authority's** Chief Executive disclosed that the sovereign wealth fund has deployed more than 50% of the USD 45bn investment earmarked for the US, since 2015. The remaining amount is being invested in the infrastructure sector in the US. Separately, the Qatar Investment Authority has reduced its stake in upscale jeweller **Tiffany & Co**; selling 4.4mn shares, the QIA reduced its stake in the company to 9.5% from 13%.
- **Saudi Aramco** clarified that its **IPO** remains on track, after a Bloomberg report stated that contingency plans were being made for a delay into 2019.
- **Saudi Arabia** plans to launch a **tender** process for its

first **nuclear reactors** as early as next month, reported *Reuters*.

- Roughly 1% of **Saudi citizens working in the private sector** (16845 persons) quit their jobs last year, according to the General Organization for Social Insurance (most were paid less than SAR 3500).
- **Saudi Arabia's** Minister of Communications and Information Technology announced that users will be able to access **online voice and video call applications** (that have met regulatory requirements), starting Sep 20.
- The **value of construction projects in the GCC** touched USD 2.4trn (from 21,893 active projects), according to BNC Network; urban construction contracts constitute 80% of the total.

UAE Focus

- Registration for businesses subject to **excise tax** in the **UAE** will begin from today (Sep 17), according to the Federal Tax Authority. Excise taxes – 50% on carbonated drinks excluding water and 100% on tobacco products and energy drinks – will be imposed from Oct.
- The **Dubai Economy Tracker Index** remained unchanged at 56.3 this Aug, as both output and new orders remained above the 60-point mark. Wholesale and retail sector eased to 56.3 due to slower growth in output, while construction sector index rose to 55.8 in Aug (Jul: 54.8) supported by both output and new work, thanks to “more projects”.
- **Dubai's industrial sector** is expected to grow by an additional AED 18bn by 2030, creating 27k jobs, with exports forecast to increase by AED 16bn. The strategy, which is in its implementation phase, also resulted in an increase in the growth rate of Dubai's industrial GDP to 3.4% in 2016, from 0.6% the year before.
- **Medium and long-term bank deposits** in the **UAE**, which accounts for 27% of total term deposits, increased by

AED 19.9bn during Jan-Jul this year.

- The market value of **foreign investments in UAE stock markets** remained steady at AED 104.3bn in Aug; market capitalisation of Arab investments went down to AED 6.7bn in Aug (Jul: AED 6.86bn).
- **UAE's** Abu Dhabi National Oil Co (**Adnoc**) could list more than 10% of its fuel retail business by early 2018, reported Reuters, citing multiple sources.
- The government of **Dubai** raised a USD 1.1bn **loan for expansion of the metro rail system** towards the site of the World Expo; total funding is estimated as much as USD 2.8bn, with the remaining likely to be obtained via loans guaranteed by export credit agencies.
- Both **Dubai** and **Abu Dhabi** are among the top 25 in the latest edition of the **Global Financial Centres Index**. Dubai moved up 7 places to rank 18, while Abu Dhabi rose to 25 from 28 last year. London, New York, Hong Kong, Singapore and Tokyo are the top five.
- The value of **UAE's 7,878 active building projects** reached USD 227.9bn (AED 836bn) at the beginning of Sep 2017, according to BNC Network.
- **UAE** ranked 8th globally (with 110 points) in the latest **Nielsen Consumer Confidence Index**: six in 10 UAE respondents were confident about job prospects in the coming year while 66% stated that their personal finances would be good or excellent in the next 12 months.
- The **UAE** Cabinet has approved **visa on arrival** for Indian passport holders with UK and EU residency visa; this follows the previous move granting Indians with American visa or Green card visa on arrival from May.
- **Abu Dhabi** was rated the best in the **TomTom Traffic Index**, among 390 cities at using infrastructure to manage its traffic flow in 2016. Peak hour travel in Abu Dhabi takes only 14 minutes longer than during non-peak hours.

Media Review

The Mystery of the Missing Inflation

<https://www.project-syndicate.org/commentary/monetary-policy-missing-inflation-by-nouriel-roubini-2017-09>

The case for reappointing Janet Yellen

<https://www.economist.com/news/leaders/21728897-gaps-fed-are-becoming-real-concern-why-donald-trump-should-reappoint-janet-yellen>

VAT roll-out to trigger GCC's digital transformation

<http://gulfnews.com/business/economy/vat-roll-out-to-propel-gulf-region-s-digital-transformation-1.2088338>

Shell set to draw line under a century of Iraqi oil

<https://www.reuters.com/article/us-shell-iraq-qurna/shell-set-to-draw-line-under-a-century-of-iraqi-oil-idUSKCN1B013F>

The Sudden Rise of Arab start-ups

<https://www.bloomberg.com/news/articles/2017-09-13/hunting-unicorns-in-the-desert-the-sudden-rise-of-arab-startups>

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