

# Weekly Economic Commentary – Sep 24, 2017

## Markets

US equity markets that had been quietly waiting for the Fed's FOMC meeting reacted composedly to the announcement on the QE phasing out. Global equities were generally lifted by risk appetite (although some regional markets like KSA did not benefit much), shrugging off the geopolitical tensions and financial shares led the gains thanks to higher bond yields. On Friday some assets considered as havens jumped on the news of North Korea's latest H-bomb threat. But for the time being these verbal quarrels have been downgraded by markets to pantomime status. The dollar again gained ground vis à vis all major currencies (except the euro that paired the losses), as a result of a more hawkish Fed's stance. Oil prices were supported by the gradual decline in inventories', while tensions in the Korean Peninsula and Trump's aggressive speech at the UN (also aimed at Iran) failed to lift the price of gold.

## Global Developments

### **US/Americas:**

- **The Fed announced that quantitative tightening will begin in Oct** based on caps for maturing securities. The initial cap for Treasuries that expire will be USD 6bn per month and will increase by further USD 6bn every 3 months over 12 months up to USD 30bn. The caps for agency- and mortgage-backed securities will be initially set at USD 4bn and will increase by USD 4bn every 3 months up to USD 20 bn. The Fed also lowered its estimate for long-run interest rates, maintained its forecasts for another rate hike in 2017 and expects

higher GDP growth and lower PCE inflation.

- The **US current account deficit** in Q2 **unexpectedly increased** by USD 9.6bn to USD 123.1bn, due mainly due to a USD 7.5bn increase in secondary income deficit resulting from lower US government transfer receipts and a rise in private transfer payments.
- The **IHS Markit US Composite PMI** fell to 54.6 in Sep from 55.3 in Aug, due to a fall in the services component (55.1 from 56), while manufacturing crawled up (53 from 52.8). New orders were sluggish, job creation slowed and cost inflation was at the top since Jun 2015.
- **US housing starts** in Aug **fell** 8% mom (1.4% yoy). Completions plunged 10.2% mom but are still above their Aug 2016 level.
- **Existing-home sales in the US** in Aug **dipped** -1.7% mom (still +0.2% yoy). The drop was led by single-family sales, whereas condo/co-op sales registered a small increase. Listings also fell again, so overall market tightness was unchanged despite the declining sales.
- **Initial jobless claims in the US** fell by 23,000 to 259,000 and the 4-week moving average increased by 6,000 to 268,750, the highest since Jun of 2016. Continuing claims increased to 1.980mn from 1.936mn still below the 2mn mark, which is a historically record low level.

## Europe:

- The **IHS Markit Eurozone Composite PMI** increased to 56.7 in Sep from 55.7 in Aug, beating expectations. Both manufacturing (58.2 from 57.4) and services (55.6 from 54.7) accelerated and new orders touched a record since Apr 2011.
- The **Eurozone consumer confidence index** increased to -1.2 in Sep from -1.5 in Aug, the highest reading since Apr 2001.
- The **ZEW Investor confidence index in Germany** recovered to 17 in Sep from 10 in Aug. The **ZEW expectations**

**measure for the Eurozone advanced to 31.7 in Sep from 29.3 in Aug, confirming that the recovery in the Old Continent is strengthening.**

- **UK retail sales unexpectedly rose 4% yoy (1% mom) in Aug vs 1.4% (0.6% mom) in Jul, thanks to non-store retailing and sales in other non-food stores offsetting textile and household goods stores.**

## **Asia Pacific:**

- **S&P cut China's sovereign ratings to A+ from AA- with stable outlook citing heightened financial and economic risks.**
- **Japan's trade surplus was JPY 367bn in Aug almost similar to JPY 363bn in Jul. Export growth accelerated further to 18.1% yoy in Aug, largely on stronger shipments to China linked to global tech demand. Annual import growth was also strong on the back higher demand and global prices.**
- **Inflation in Hong Kong was almost stable at 1.9% yoy in Aug, from 2% in Jul.**
- **Hong Kong current account surplus increased to HKD 16.4bn, or 2.6% of GDP in Q2 from HKD 15.0bn in Q1.**

**Bottom line: The inception of QE reversal by the Fed apparently is not worrying traders and investors who appear convinced that the process will be orderly and painless. The VIX – dubbed the “fear index” – was down at 10.15 on the eve of this week's FOMC meeting, near the lower threshold of the 8.84 – 23.01 range where it fluctuated in the last 12 months. This week the macro data and the PMI in particular have confirmed that the global economy is poised to finish the year on a strong note and global inflation has picked up over the past few months as a consequence of higher energy prices. The alarm set off by S&P on China's debt reflects old news, while in reality the authorities in Beijing seem determined to impose a deleveraging therapy on the most exposed sectors.**

## Regional Developments

- **Egypt's** Finance Minister disclosed that the country expects to see a **funding shortfall** of USD 10-12bn in 2017-18 fiscal year and plans to issue USD 8bn in new dollar-denominated bonds. He also estimates growth to be 5.0-5.25% in this current fiscal year.
- **Egypt** raised USD 3bn in a **Eurobond sale** last week: this was about twice as much as targeted and at a lower cost than when the similar bonds were first sold in Jan. The issuance date and currency of the next Eurobond issuance will be finalised within two weeks, according to the finance minister. The *Boursa* newspaper reported the next issue would be a EUR 1.5bn bond by end-Nov, and that plans were to launch a new USD 10bn Eurobond programme next year.
- **Egyptian banks** have provided about USD 55.1bn to **fund trade** since the currency float, according to a central bank official.
- **Egypt** expects **exports to rise** by around 10% yoy to USD 22bn, revealed the Trade Minister. Exports have grown by 11.5% to USD 15bn this year, with trade balance also narrowing by some 37%.
- An **IMF review** is expected by end-Oct in **Egypt**, ahead of a USD 2bn disbursement set for Dec.
- **Egypt** plans to finalize the **SME tax law** by year-end: according to the law, SMEs will be taxed under a simplified system as a means to encourage them to operate in the formal economy.
- **Jordan's** Ministry of Agriculture will allow hiring of new **foreign workers in the agricultural sector** (after a freeze announced in Jun last year), as more lands are expected to be cultivated this year.
- **Moody's** kept **Kuwait's credit rating** at Aa2 **stable**, with the country's score for economic strength moved to High from Moderate, "to reflect the country's exceptionally high wealth levels, as well as its substantial

hydrocarbons endowment”.

- **Moody's** changed the outlook on **Lebanon's banking system** to stable from negative, citing greater political stability and an improvement in economic growth.
- **Lebanon's Constitutional Council** decided to **annul the tax law** that was passed by Parliament to finance public sector pay rises.
- **Oman Oil** has obtained a **USD 1bn pre-export 5-year loan** coordinated by Natixis and Societe Generale which was oversubscribed and “competitively priced” according to sources.
- **Qatar injected** QAR 29.1bn (USD 8bn) into its **banks** in Aug, according to central bank data; this follows amounts of USD 6.9bn and USD 10.9bn injected in Jul and Jun respectively. Total deposits at Qatari banks rose to QAR 793.6bn in Aug (Jul: QAR 772.5bn), supported by public deposits which grew to QAR 302.6bn (Jul: 273.5bn)
- **Qatar Insurance Co** announced the **closure of its Abu Dhabi branch**, since its licence could not be renewed; the branch earned gross premiums of about USD 30mn annually. *(More on diplomatic damage in the Media Review section).*
- **Inflation in Qatar** fell 0.4% yoy in Aug – the first fall since at least early 2015 – as housing and utilities prices dipped 4.0% yoy. Food prices meanwhile were up only 2.8% yoy and fell back 0.6% mom.
- **Saudi Arabia** will implement a **new bankruptcy law**, which has already been passed to the Shura Council, by end of Q1 2018, reported *Al Arabiya*, citing the Commerce and Investment Minister. He also disclosed that new laws regarding commercial mortgages and commercial franchising were also being finalised.
- **Saudi Arabia** plans to **hike domestic prices for gasoline** by around 80% from Nov, reported the *Saudi Gazette*.
- **Saudi Arabia issued** SAR 7bn (USD 1.9bn) of Islamic bonds in its third monthly issue of **domestic Sukuk**. Bids for the entire issue totaled SAR 24bn, stated the finance

ministry.

- **Saudi Aramco** could **disclose** its **audited financial accounts** in early 2018, reported Reuters, citing multiple sources. The 2015-16 accounts have been audited according to IFRS standards, but not released and releasing 2015-17 accounts in Q1 next year would be a major step towards an IPO in 2018. The release of accounts also depends on the decision of a listing venue: while IFRS standards would be acceptable for a listing in London, Hong Kong or Singapore, a New York listing would require US GAAP standards.
- **Saudi Arabia's Public Investment Fund** is in the process of setting up a new company (with an initial capitalisation of SAR 10bn) that will invest in **entertainment projects** in the country. Initial projects planned include an entertainment complex that will be launched by 2019; by 2030, the company's projects aim to serve more than 50 million visitors annually and create more than 22,000 jobs.
- **Saudi Arabia's** Ministry of Labor and Social Development is expected to announce about **80,000 job opportunities for women**: as part of the 3rd phase of feminizing and nationalizing, shops selling perfumes, shoes, bags, stockings, mother care materials, pharmacies in malls and shopping centers selling cosmetics will be targeted.
- The **profitability of Islamic banks** in the **GCC will deteriorate** in 2017 and 2018, according to **S&P** Global Ratings, as "banks become more cautious and selective in their lending activities, trigger stiffer competition" and also due to higher credit losses.

## **UAE Focus**

- The **contribution of UAE's non-oil sector to GDP** is expected to rise to 80% in four years from 70% currently, given the country's rapid diversification efforts, according to the Minister of Economy. Speaking

at the UAE-Iraq Trade and Investment Forum, he also stated that bilateral non-oil trade between the two nations stood at a relatively high USD 11bn.

- **UAE's non-oil sector** is forecast to **grow** at 3.1% this year, before rising to 3.5% next year, according to the central bank governor.
- **CPI in Abu Dhabi** was 6% yoy in Aug, thanks to price hike in the housing and utilities sub-component. This brings inflation during the Jan-Aug period to 1.9% yoy, with housing and utilities sector accounting for 49% of the rise in CPI.
- Abu Dhabi Global Market (**ADGM**) revealed that 11 companies had been shortlisted for its first **FinTech** Abu Dhabi Innovation Challenge. Four companies from Singapore, two from India and one each from Hong Kong, China, UAE, UK and Canada complete the list.
- **DEWA** plans to install **solar panels** for **UAE** nationals' villas in Hatta, for free. The project aims to transform Hatta residents from energy consumers to green consumers and producers of clean energy.
- **UAE telecom subscribers increased** to 23.36mn by end-Jul (Jun: 23.31mn), according to the Telecommunications Regulatory Authority.
- Domestic and international **grants provided by the UAE** increased by 73.8% yoy to AED 27.7bn during H1 2017, revealed the Ministry of Finance.

## **Media Review**

### **India's precarious economy**

<https://qz.com/1081126/an-economist-says-india-lacks-the-guts-to-admit-that-it-faces-epic-economic-problems/>

### **Diplomatic damage to Qatar economy mounts**

<https://uk.reuters.com/article/uk-gulf-qatar-business/diplomatic-damage-to-qatar-economy-mounts-as-insurer-closes-uae-branch-idUKKCN1BT1RM>

### **Global debt may be understated by \$13 trillion: BIS**

<https://www.reuters.com/article/us-bis-debt-currencies/global->

[debt-may-be-understated-by-13-trillion-bis-idUSKCN1BS00G](#)

## **The Risk of a New Economic Non-Order**

<https://www.project-syndicate.org/commentary/world-bank-imf-meetings-global-economic-order-by-mohamed-a-el-erian-2017-09>

## **Banking on Change**

<http://www.imf.org/external/pubs/ft/fandd/2017/09/griffoli.htm>

## **Clean Energy Is Approaching a Tipping Point**

<https://www.bloomberg.com/news/articles/2017-09-19/tipping-point-seen-for-clean-energy-as-monster-turbines-arrive>

## **Saudi Diversification Measures**

<http://gulfnews.com/business/sectors/banking/saudi-fiscal-situation-improving-amid-spending-curbs-subsidy-reforms-1.2089825>

<http://gulfnews.com/business/sectors/banking/saudi-privatisation-slowdown-could-hit-diversification-1.2089830>

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