

# Weekly Economic Commentary – Oct 1, 2017

## Markets

US equity markets started the week with two negative sessions, but rebounded mildly on Wed on hopes raised by another round of hype triggered by the Trump tax plan. After 2 days of directionless trade, the Dow Jones had a fillip in the last hour of transactions on Friday closing few points below the all-time record high. Most developed markets were even more upbeat on generally positive macro data. Emerging markets, on the other side, were hit by the prospects of a more hawkish Fed. The euro hit a 6-week low vs the dollar after the German elections saw the success of an anti-euro right-wing party, while the dollar was boosted on major crosses by Trump's tax plan. Oil prices remained broadly stable on a weekly basis, as EIA data showed that US oil production in Jul was 9.238 mn barrels per day (bpd), 178,500 bpd below preliminary data and crude inventories fell by -1.8mn bpd vs analysts' predictions of a 2.5mn bpd increase. The price of gold plunged after the risk appetite made a comeback on global markets.

## Global Developments

### **US/Americas:**

- **President Trump unveiled a tax reform plan** aiming to lower corporate income tax rates, especially for small businesses and lower the personal income taxes. Among the other major planks a one-time tax on repatriation of profits accumulated overseas (*see Media Review*).
- **Fed President Yellen**, despite subdued inflation, argued that gradual rate hikes are still warranted by stating that "it would be imprudent to keep monetary policy on hold until inflation is back to 2%".

- The final estimate of **Q2 US GDP growth** was 3.1% qoq ann. Personal consumption was the main driver (3.3% qoq ann. growth). Real disposable income increased 3.3% qoq ann from 2.9% in Q1.
- **US core PCE inflation**, the Fed's favourite price stability gauge, decelerated to 1.3% yoy in Q2 from 1.4% in Q1.
- **US durable goods orders increased** 7% mom in Aug driven by aircraft orders. The underlying trend in core orders remains on a moderate upward trajectory. Ex-transportation, orders grew 0.2% mom. Non-defense capital goods orders ex-aircraft and parts, which measures private investments, 0.9% mom.
- **The Case Shiller national US house price index advanced** 9% yoy in Jul, almost on par with 5.8% in Jun.
- **Sales of US new homes slipped** again in Aug, falling -3.4% mom (-1.2% yoy). New homes on the market have been stable and the inventory-to-sales ratio is far exceeding that for the existing-home market.
- **The US pending home sales index sunk** -2.6% mom sa (-2.6% yoy) in Aug, retrenching to its early-2016 level.
- **The US Conference Board's consumer confidence index dipped** from 120.4 in Aug to 119.8 in Sep with the present conditions sub-index falling from 148.4 to 146.1, while future expectations edged higher. The labor market perception, although a bit weaker, remained upbeat.
- **US initial claims for unemployment insurance** benefits rose 12,000. The four-week moving average rose 9,000 to 277,750, its highest level since early Feb 2016. Continuing claims fell by 45,000.
- **US nominal personal income growth slowed** to 0.2% mom in Aug from 0.3% in Jul. Nominal disposable incomes growth lost momentum to 0.1% from 0.2% in Jul.

**Europe:**

- **Eurozone inflation** was 5% yoy in Sep **unchanged** from Aug. Core inflation decelerated to 1.1% yoy, from 1.2% yoy in Aug, with services inflation also down 0.1% to 1.5% yoy.
- **Eurozone's M3 money supply** growth **quicken**ed to 5% yoy in Aug from 4.5% in Jul with M1 growth at 9.5% from 9.1% in Jul and 9.7% in Jun. Growth in private sector loans was almost flat at 2.7%. The major push to M3 growth came from credit to governments, while private sector credit was stable.
- **The eurozone's Economic confidence indicator** rose to 113 in Sep from 111.9 in Aug. Industrial performance and service confidence lifted the headline figure.
- **Wolfgang Schäuble** reportedly will move from the German finance ministry to a new post, possibly as speaker of the German parliament.
- **The German Ifo Business Climate Index** **slipped** again in Sep to 115.2 from 115.9 in Aug on more pessimistic expectations over the current situation and near-term outlook. Confidence in manufacturing deteriorated, conversely in construction it touched new highs.
- **German retail sales** were down -0.4% in Aug after a -1.1% drop in July.
- **UK consumer confidence** recovered in Aug to -10, from Jul's -12. All five components improved, especially personal finances.
- **The UK Nationwide Housing Price Index** **gained** 2% yoy in Sep, vs 2.1% in Aug, the lowest rate since Jun 2013.

## **Asia Pacific:**

- **The Caixin Manufacturing China PMI** **slid** to 51.0 in Sep from 51.6 in Aug, as both output and new orders were subdued and export sales slowed.
- **Japan's inflation** rose to 0.7% yoy in Aug (the highest in over 2 years) from 0.4% in Jul (and the prior 3 months). Core CPI, ex-fresh food and energy, rose from +0.1% yoy in Jul, to +0.2% yoy in Aug, indicating that

the higher headline inflation reflects a surge in oil prices.

- **Japan's industrial production rose** 1% in Aug after a 0.8% drop in Jul, with strong performances in most sectors including motor vehicles, industrial machinery and electronics.
- **Japan's retail sales growth decelerated** to 1.7% yoy in Aug from 1.8% in Jul, as in motor vehicle sales offset sluggish spending on fuel and textiles.
- **The Nikkei Japan flash Manufacturing PMI rose** to 52.6 in Sep from 52.2 in Aug, the highest reading since May.
- **Japan unemployment rate** remained stable at 2.8% in Aug, as in the prior two months.
- **South Korea's inflation fell** in Sep to 2.1% yoy, from 2.6% in Aug.
- **South Korea's industrial production advanced** 7% yoy in Aug after a -0.2% fall in Jul. Pulled up by production of electronic components (e.g. for smartphones), manufacturing output went up by 2.9% yoy, offsetting declines of -0.4% and -0.6% in the previous 2 months.
- **South Korea's trade surplus jumped** to USD 13.8bn in Sep from USD 6.9bn a year earlier, mainly thanks to double-digit export growth.

**Bottom line:** The data flow did not reserve major surprises: global growth is in more robust shape than was generally recognised at the start of 2017, thanks to the pick-up in the eurozone and Japan, while the US, despite the rosy expectations after Trump's election, has been lagging. The stronger upward trend was stimulated by a healthier banking sector, and the rebound in the automotive and tech cycles. On the negative side, there are few signs of recovery on the supply side and some indicators of careless risk-taking in asset markets are flashing red. Looking ahead, the focus shifts to the policy agenda, namely the EU reforms' process advanced by Macron, Trumps tax system overhaul, Japan's snap elections called by Abe and the Brexit saga.

## Regional Developments

- **Egypt's foreign debt increased** by 42% yoy to USD 79 in the 2016-17 fiscal year that ended in Jun, according to the central bank.
- **Egypt kept its policy rates unchanged:** overnight deposit rate was left at 18.75% and the overnight lending rate at 19.75%. "Real monetary conditions continue to tighten", added the central bank, also stating that this was necessary to achieve the inflation target.
- **Money supply (M2) in Egypt grew** by 40.1% yoy to EGP 3.01trn (USD 171bn) at end-Aug.
- **Egypt's finance minister disclosed that prices of fuel and fuel products** would not be hiked during this current fiscal year.
- The **IMF** issued a note on **Egypt**, stating that the economy is gathering strength: indicators have pointed towards progress and economic growth; in an online briefing, the IMF called the reform process a "well-calibrated" and "ambitious programme", with a "good start", and reiterated that it will "take time to work". (Read the *IMF Country Focus* article: <https://www.imf.org/en/News/Articles/2017/09/25/na092617-egypt-the-economy-is-gathering-strength>)
- **Egypt's imports of LPG increased** by 1.2% mom in Jul to 167,200 tonnes, registering the first rise in 3 months; domestic consumption of LPG amounted to 308,100 tonnes in Jul, down by 4.3% yoy.
- The **IPO of Egypt's state-owned oil company ENPPI** is expected in Q1 2018, a tad delayed than initially anticipated, according to the investment minister.
- **Egypt's Ministry of Petroleum** plans to install and implement 12 projects for **gas fields** for USD 17.5bn, next to completing eight refining projects, within four years, and with an investment of USD 8.3bn. The aim is to raise natural gas production by 50% next year, achieving self-sufficiency, and achieve a 100% rise in

gas production by 2020.

- **Egypt's exports to the UAE grew** by 7% yoy to USD 1.204bn in H1 this year, stated the minister of industry and trade, ahead of a trip to the UAE. Trade surplus widened by 7.3% yoy in favour of Egypt to USD 735mn in H1 this year.
- **Jordan's** finance minister disclosed that the country will issue a USD 1bn **Eurobond** on international markets in Oct this year.
- **Jordan** expects to receive a further EUR 200mn as Macro-Financial Assistance from the **European Union**. To be transferred in two installments, the first EUR 100mn will be disbursed before end-2017 while the other half will be next year.
- **Kuwait** has **saved over KWD 1bn in government expenditure** between 2016 and 2017, stated the deputy PM and minister of finance.
- **Kuwait Investment Authority's assets** have **grown** by more than 34% over the past 5 years, revealed the finance minister at a conference, without disclosing the size. The SWF Institute places it as having assets worth USD 524bn, but a prior statement issued earlier this year implied assets of about USD 515bn as of Mar 2016.
- **Money supply in Kuwait declined** by 1.5% mom to KWD 35.9bn in Jul. Foreign assets were down by 7% to KWD 2.2bn.
- **Lebanon** approved a **new tax law** to fund a public sector pay rise, disclosed the PM last week, after the constitutional council had annulled an earlier version of the tax law. The cabinet plan will now be referred to parliament before it can become law.
- A recent World Bank report highlighted the **poverty and unemployment in north Lebanon**. Statistics show that 53% of the 610,000 working-age individuals in the area have no jobs to support their families. The report finds that within the participating labour force, 20% are employers and 22% are self-employed – both largely informal. (*The*

report can be accessed here:  
<http://www.worldbank.org/en/country/lebanon/publication/jobs-for-north-lebanon>)

- **Qatar's** third-largest lender, the **Commercial Bank of Qatar**, is in talks to sell its 40% stake (worth around USD 217mn) in UAE's **United Arab Bank**. The bank said it had entered into a 90-day period of exclusivity with a "third party purchaser" it did not name, reported Reuters.
- **Qatar** reported a **drop** of 18% yoy in **GCC visitors** to 656,681 during Jan-Jul 2017. While visitors from other Arab nations also declined by 9% during this period, a 10% growth was reported in arrivals from Europe and the Americas given the visa waivers and launch of an online visa application service.
- **Saudi Arabia** issued USD 12.5bn of **sovereign bonds**: the offering attracted around USD 40bn and the settlement is expected by Oct 4, according to the finance ministry. Saudi Arabia's finance minister also told bond investors that the Aramco IPO remained "on track" and will proceed as planned in 2018.
- **Net foreign assets** in **Saudi Arabia** shrank by USD 6.9bn mom and 13.4% yoy to USD 480bn in Aug – the lowest level since Apr 2011. Separately, outstanding bank loans to the private sector fell (for the 6th consecutive month) 1% yoy in Aug (Jul: -1.3%).
- **Saudi Arabia** approved the **VAT implementation regulations** ahead of the introduction of VAT next year: regulations include 79 articles, divided in 12 chapters, and set out the scope of taxation for certain goods and services, explains registration rules and eligibility of businesses for VAT, zero-rated and exempted supplies, as well as the treatment of imports and exports. (The document can be accessed at: <https://vat.gov.sa/sites/default/files/2017-08/Value-Added-Tax-Approved-Implementing-Regulations-Bilingual-Revised.pdf>)

- **SAMA** announced new **measures to boost the housing market**: this includes scrapping of administrative fees for mortgage holders if they switch between fixed and floating rate loans, and also allowing a mortgage holder to move to a new lender without additional costs.
- **Saudi Arabia** plans to further stock market **access to foreign investors** later this year, according to the Chairman of the Capital Market Authority. New listing rules to be announced in the next month or two alongside new M&A rules is expected to have an emphasis on driving debt issuance.
- **Saudi Arabia's** King issued a historic decree **allowing women to drive**: a ministerial body is to be formed to give advice within 30 days and then implement the order by June 2018. As banks get ready to finance women buying cars, one can look forward to greater female labour force participation and an improvement in the retail sector including one-off car purchases. Separately, a Saudi woman was named to a senior government post for the first time and also women are now authorized to issue fatwas.
- **Saudi Aramco's** trading arm is expected to start **trading non-Saudi crude oil** to feed its international joint ventures and also to boost its valuation. Separately, Aramco is also expected to finish its first **shale gas project** "soon".
- Saudi Arabia produces 44% of the **natural gas in the GCC**, according to a senior official from the King Abdullah Petroleum Studies and Research Center.
- **Kuwait** has been included in the **emerging market** list by **FTSE** Saudi Arabia, meanwhile, was still placed in its Watchlist.
- The number of **IPOs** issued in the **MENA** region in H1 this year doubled, reaching a 10-year high, according to EY figures. Companies raised a total USD 788mn (-21% yoy) from 16 IPOs in total, with Saudi Arabia's Nomu witnessing the highest activity – 9 firms raised USD



200.5mn from listing. The GCC saw 13 IPOs (+33% yoy), but the deal value declined by 6% to USD 700mn.

## **UAE Focus**

- **UAE's excise tax** will be imposed starting today; the excise tax will be collected on a monthly basis and the taxed entities will be required to file tax returns within 15 days after the end of the month. The excise tax will be applied to the excise price of the goods. The excise price will be the higher of (a) the price published by the FTA in a standard price list or (b) the designated retail sales price of the goods without the excise tax. *(The full text of Cabinet Decision No. (37) of 2017 on the Executive Regulation of the Federal Decree-Law No. (7) of 2017 on Excise Tax, and Cabinet Decision No. (38) of 2017 on Excise Goods, Excise Tax Rates and the Method of Calculating the Excise Price: <https://tax.gov.ae/pdf/Cabinet-Decision-no-37-of-2017-on-Executive-Regulation-on-Excise-Tax.pdf>; <https://tax.gov.ae/pdf/Cabinet-Decision-No-38-of-2017-on-Excise-Goods-Rates-and-Excise-Price.pdf> )*
- **Money supply (M2)** in the **UAE decreased** by 1.5% to AED 1,246bn in Aug, according to the central bank. Gross credit declined by 1% to AED 1.57trn. Total bank deposits fell by AED 10bn, as a result of the AED 7.5bn and AED 2.5bn reduction in resident deposits and non-resident deposits respectively.
- **UAE has increased fuel prices** by between 4.95%-6.01% in Oct; diesel price has gone up to AED 2.1 per litre from AED 2 in the month before.
- **UAE's energy minister** disclosed that the country **reduced** up to 10% of their **oil exports** in the last two months, in accordance with the **OPEC agreement**.
- **UAE's first nuclear reactor** will "definitely" be operational next year, stated the energy minister. The operating company is expected to receive a licence in

2018. The Barakah plant will have a capacity of 5,600 megawatts (MW) of electricity, with four 1400 MW reactors.

- **Non-oil trade** between **UAE and Brazil** touched USD 2.7bn in 2016, according to a recent Ministry of Economy report.
- Abu Dhabi's **Mubadala** reported a **net profit** of AED 4.2bn in H1 2017, from a reported net loss of AED 4.7bn in the same period a year ago, and following its merger with Abu Dhabi's International Petroleum Investment Company earlier this year.
- **Dubai** Land Department issued 8500 **real estate permits** during Aug 2016-Aug 2017: this ranges between e-advertising permits (6393) to newspaper ads (289).
- **Abu Dhabi hotels** witnessed a 13% **increase** in **guests** to 426,912 in Aug; this brings the year-to-date guests to more than 3.1mn (+7%), with an occupancy rate of 68%.
- **Passenger traffic** at **Dubai** International Airport **increased** by 6.6% yoy in Aug to 8.23mn persons – the busiest month on record. The most popular destinations by passenger volume were London, Kuwait, and Mumbai.
- **E-commerce site Noon** kicked off operations in the UAE, while expected to go live in Saudi Arabia “in the coming weeks”.
- **UAE** topped the Arab world and ranked 17th globally in the WEF's **Global Competitiveness Report** 2017-18. UAE was top-ranked on the Efficiency of Government Spending index, and is ranked among the top 20 countries in 80 out of total 114 indicators in the Global Competitiveness Report.
- **UAE** was ranked 10th in HSBC's latest **Expat Explorer** as being a destination of choice for expats to live, work and settle. Singapore was ranked the overall top destination while New Zealand was the best destination for experience and Netherlands for family and Switzerland for economics.
- **Dubai** was the **4th most popular global destination**,

welcoming 14.87mn international overnight visitors last year who spent USD 28.5bn, according to the Mastercard Global Destinations Cities Index.

### **Media Review**

**The economic impact of driver's licenses for women in KSA**

<http://businessweekme.com/2017/09/28/female-drivers-can-spur-growth-saudi-arabia-economists/>

**Trump's tax plan**

<https://assets.documentcloud.org/documents/4061905/Read-President-Trump-s-Tax-Proposal.pdf>

**Banks assess loan exposure as Qatar crisis deepens**

<https://www.reuters.com/article/us-qatar-loans/banks-assess-loan-exposure-as-qatar-crisis-deepens-idUSKCN1C41WM>

**UAE Centennial 2071 journey**

[http://www.zawya.com/uae/en/story/Mohammed\\_bin\\_Rashid\\_and\\_Mohamed\\_bin\\_Zayed\\_take\\_first\\_step\\_in\\_UAE\\_Centennial\\_2071\\_journey-WAM20170927135046255/](http://www.zawya.com/uae/en/story/Mohammed_bin_Rashid_and_Mohamed_bin_Zayed_take_first_step_in_UAE_Centennial_2071_journey-WAM20170927135046255/)

Powered by:

