

Weekly Economic Commentary – Oct 8, 2017

Markets

US stock markets reached fresh records last week amid upbeat macro data and optimism over the potential US tax reform plan. Investors shrugged off the dismal US payroll numbers as a one-time blip caused by the hurricanes (on Friday the S&P500 closed almost flat on the day). Other major developed and emerging markets were also pulled up by Wall Street, despite the tensions in Catalonia that have sapped somewhat the mood in Europe. Regional markets, on the contrary, were mixed, with Qatar again slumping and KSA only marginally up. In currency markets the USD rose to its highest level since Jul, after the payroll report highlighted the largest wages increase since last Dec, fuelling expectations that the Fed will hike interest rates again this year. Among peripheral currencies, the Indian rupee has appreciated steadily on expectations that the RBI might relax regulations on foreign ownership of debt securities. In Q3, Brent gained 20%, the biggest quarterly jump since 2004, but posted a weekly drop, despite oil inventories that fell by 6mn barrels, smashing predictions of a 0.47mn barrel decline. Gold prices stabilized after the sharp drop of the previous 2 weeks.

Global Developments

US/Americas:

- **The US non-farm payroll lost 33,000 jobs in Sep**, against estimates for 90,000 new jobs, and 169,000 created in Aug. However, the figure was highly distorted by the extreme weather events that hit Texas and Florida. Average hourly wages in the private sector rose 2.9% yoy vs 2.7% in Aug.

- **The US ISM manufacturing index increased** from 58.8 in Aug to 60.8 in Sep. New orders, production and employment were quite upbeat. The prices-paid index surged probably due to higher energy prices.
- **The US ISM non-manufacturing composite index** in Sep, **advanced** from 55.3 to 59.8. New orders jumped from 57.1 to 63, the best since April and new employment advanced from 56.2 to 56.8, confirming that the labour market tightens.
- **US factory orders advanced** 2% mom in Aug, with core capital goods quite perky, especially the nondefense aircraft segment. Inventories were up 0.4%.
- **The US trade deficit declined** by USD 1.2 bn mom, as exports gained USD 800 mn and imports fell USD 400 mn. A surge in consumer goods exports offset a decline in exports of industrial inputs.
- **US initial claims for unemployment benefits** fell 12,000 offsetting the previous week's increase. The 4-week moving average fell 9,500 to 268,250. Continuing claims rose 2,000 to 1.938 mn.
- **Canada's PMI climbed** to 59.6 in Sep from 56.3 in Aug, marking the 16th consecutive month above-50.

Europe:

- **The minutes of the ECB Governing Council's meeting** in Sep confirmed the worries about the subdued inflation and the appreciation of the euro. There were also preliminary discussions on how to end the QE.
- **The Eurozone's retail sales dropped** by -0.5% mom (1.2% yoy) in Aug adding to a -0.3% decline in Jul. The negative scores were uniform across sectors, but automotive fuel sales were hardest hit.
- **German manufacturing orders jumped** up by 3.6% mom (7.9% yoy) in Aug, following a -0.4% contraction in Jul. Both domestic and foreign orders rose strongly.
- **UK consumer confidence** was almost **stable** at -9 in Sep vs

-10 in Aug. The financial situation index eased, while the major purchasing index rebounded. The savings index halved to only 3, which given the record low savings levels, is not exactly a reassuring signal.

- **Russian GDP grew** 5% yoy in Q2 boosted by private consumption and to a lesser extent by investments and export, while government spending rose only modestly.
- **Russian inflation** in Sep **eased** to 3% yoy (-0.1% mom), the lowest rate since the breakup of the USSR. Food prices dropped substantially, while other products and services increased modestly.

Asia Pacific:

- **The Q3 Bank of Japan (BoJ) Tankan** business condition index for large manufacturers **reached a 10-year high** of 22, from 17 in Q2, with the outlook index also quite vibrant at 19. Both the manufacturing and non-manufacturing sectors reported a further tightening of labour market conditions. Despite upbeat activity, the output prices indices were little changed.
- **Japan's Consumer confidence index** crawled **up** to 43.9 in Sep from 43.3 in Aug but remains well below the 50 threshold, which separates positive from negative views.
- **The Leading Economic Index** in Japan **increased** to 106.80 in Aug from 105.20 in Jul.
- **South Korea's Current account surplus widened** to USD 6.06 bn in Aug from USD 5.03 bn in Aug 2016, thanks to a surge in the goods surplus.
- **The Nikkei manufacturing PMI for South Korea** went **up** to 50.6 in Sep from 49.9 in Aug, the first expansion in activity since Jun and the fastest since Dec 2015. Output rose for the first time in 14 months, and new order growth accelerated to the joint-fastest since Apr 2013.

Bottom line: The gradual improvement of the global economy found another confirmation in the survey data from Asia and

Trump's tax reform could add fuel to the recovery, although the impact on the fiscal balance and therefore on the yield curve has not yet been factored in. The central banks have little reason to maintain the exceptional measures of monetary stimulus so over the next few months we will see a difficult balancing act to avoid the risk of a taper tantrum and an inflation scare.

Regional Developments

- The **workforce in Bahrain** grew by 1.2%% yoy to 763,618 in H1 this year, as per a Labour and Social Development Ministry report. The number of Bahraini workers grew by 0.3% to 157,261 during this period while expat workers in the private sector grew by 4.7% to 22,298. The private sector accounted for 65.2% of the total national workforce.
- Citing "improved economic indicators", **Egypt's** central bank **raised the legal reserve requirements** on local currency deposits for domestic banks to 14% from 10% (starting 10 Oct), bringing the ratio back to pre-2012 levels.
- **PMI in Egypt** fell to 47.4 in Sep (Aug: 48.9), as both output (Sep 46.5 vs Aug 48.8) and new orders (Sep 48 from Aug 49.5) posted declines. New exports declined for the first time since Mar, with the sub-index falling to 48.5 from 53.7 a month earlier.
- **Foreign reserves in Egypt** increased to USD 36.535bn at end-Sep from USD 36.1bn a month ago.
- **Egypt** aims to raise EGP 54.545bn (USD 3.1bn) in **revenue from tobacco taxes**, according to a finance ministry report; in the 2017-18 fiscal year, it expects tobacco tax revenues to touch EGP 7bn.
- **Egyptian population** reached 104.2mn as per the latest census, according to the head of the Central Agency for Public Mobilization and Statistics, with 94.8mn living in the country and 9.4mn abroad. About 34.2% of the

population is below the age of 15 while youth (15-29 years) account for 26.8%.

- **Kuwait's overall credit growth slowed** by 3.5% yoy in Jul, reporting a net decline of KWD 143mn from a month ago. Lending to households remained strong, with growth accelerating to 7.2% yoy.
- **Kuwait** is considering an **annual public spending cap** of KWD 21bn (USD 69.5bn) on average over the next three fiscal years to help the government plan future debt sales, reported *Bloomberg*, citing an unnamed senior official. The cap is being included in the next fiscal year's budget (i.e. starting Apr 2018).
- **Kuwait** is seeking advisors for its **stock exchange IPO**: the exchange's privatisation would have to be completed by June 2018, according to the current law.
- **PMI in Lebanon** touched a 11-month **low** of 46 in Sep, as weak demand produced faster declines in the output and new orders sub-indices.
- **Oman's government expenditure** for the first 7 months of 2017 **declined** 7% to OMR 6,4879 mn, from OMR 6,664 mn in the same period of 2016.
- **GDP growth in Qatar slowed** to 0.6% yoy in Apr-Jun (Q1: 2.5%), recording the slowest growth since 2009-10, thanks to the 2.7% decline in the mining and quarrying sector. Non-oil sector posted a 3.9% yoy growth (Q1: 4.9%). The construction sector expanded 15.3% in yoy terms, although it shrank 4.1% qoq.
- **Qatar** central bank's **reserves and liquidity recovered** to USD 39.0bn in Aug (Jul: USD 36.1bn); in May, before the sanctions, it was at USD 45.8bn and fell to USD 40.2bn in Jun. Net international reserves were not reported separately – this was USD 24.4bn in Jun.
- **Qatar's** central bank governor stated that **domestic liquidity** was **up** 3% at the end of July while the **monetary base** had grown 1.7%. He also disclosed that the "the government and the central bank are able to support banks with the holdings of the large sovereign wealth

fund and the large state reserves”.

- **GDP in Saudi Arabia shrank** for the second consecutive quarter, declining 2.3% qoq in the April-June period, after declining by 3.8% in Q1. Within non-oil GDP, private sector activity grew 0.4% after expanding 0.9% in the previous three months.
- **Saudi Arabia's PMI edged down** to 55.5 in Sep (Aug: 55.8), as growth in new orders and new export orders softened.
- **Saudi Arabia** may get a budget boost of more than USD 90bn by 2020 from **new taxes** and the planned reform of fuel **subsidies** and prices, according to **IMF**. The IMF also cautioned that “rapid fiscal consolidation is neither necessary nor desirable”. The Article IV report can be accessed at:
<http://www.imf.org/en/Publications/CR/Issues/2017/10/05/Saudi-Arabia-2017-Article-IV-Consultation-Press-Release-and-Staff-Report-45312>
- **Saudi Arabia's** central bank, at a press conference, disclosed that it had received **three applications for banking licences** (without giving names) and that processing them was at an advanced stage.
- The Saudi Arabian Monetary Agency (**SAMA**) is planning to implement a pilot project to issue a **virtual/digital currency** that will be traded exclusively among banks, revealed the SAMA governor.
- **Saudi Arabia** has set up the **National Development Fund**, which will supervise and link together around half a dozen state funds are supporting non-oil industries and creating jobs. The Public Investment Fund is however not listed as under the supervision of the new body.
- **Saudi Aramco IPO is on track**, reiterated senior government officials in Moscow: “we will be looking at (evaluating) investors as we continue to make progress related to timing and location”, according to the Aramco CEO.
- **Saudi Arabia's** ministry of finance revealed that it

cleared the payment of orders worth SAR 189bn to the private sector. According to the ministry, a total of 345,000 payment orders worth SAR 525bn had been received from 450 government entities until mid-Sep.

- **Saudi Arabia's Capital Market Authority relaxed its rules for licensing asset management** and other investment firms. Minimum net assets required to be considered an "investment company" were reduced to SAR 10mn (USD 3mn) from SAR 50mn; requirement for "management activities" was reduced to SAR 20mn from SAR 50mn; two new types of activities permitted: managing non-real estate investment funds and managing the portfolios of small but experienced investors.
- **Saudi Arabia and Russia** signed an agreement to create a USD 1bn **joint investment fund**. Furthermore, the Russian sovereign wealth fund RDIF and Saudi Arabia's Public Investment Fund signed an agreement to invest up to USD 100mn in transport projects in Russia.
- About 38% of **startups** registered in **Saudi Arabia** in 2016 were owned by **women**, disclosed the Governor of the General Authority for Small and Medium Enterprises.
- The **US State Department** approved the possible sale of a **THAAD anti-missile defense system** to **Saudi Arabia** at an estimated cost of USD 15bn, according to a statement from the Pentagon.
- **Saudi Arabia's transport ministry** completed over SAR 4bn worth projects so far this year. Key projects finalised in 2017 include the construction of Salboukh Bridge that connects Northern and Western districts of Riyadh, as well as the final phase of the road that leads to the Omani borders.

UAE Focus

- **UAE's PMI declined** to 55.1 in Sep from Aug's 30-month high reading of 57.3. In spite of this dip, growth in Q3 was the strongest in two years (56.1), thanks to strong

output and new orders.

- **Abu Dhabi** sold its first ever 30-year **sovereign bond** last week, as part of a USD 10bn triple-tranche debt issue, and attracting more than USD 30bn in demand.
- **Abu Dhabi** expects **real GDP growth** of 3.16% in 2018, with the non-oil sector growing at 3.77%, according to the Abu Dhabi Department of Economic Development. Currently, non-oil contributes about 68% of Abu Dhabi's GDP and oil contributes 32%.
- **Sharjah GDP** grew by 4% yoy to AED152bn last year, reported the Sharjah Economic Development Department, supported by the manufacturing and construction sectors, which posted growth rates of 6% and 5% respectively.
- **UAE's** central bank data showed **weak credit demand**: gross credit fell by 1% mom in Aug, with domestic loans contracting by 1.3%. Overall, credit growth touched just 0.3% year-to-date.
- **UAE's** Minister of Energy disclosed that the Abu Dhabi National Oil Company (**Adnoc**) would lower oil production in Nov, to meet the OPEC commitment to reduce its share of production by 139k barrels per day.
- The 2017 World Wealth Report places the number of **ultra high-net-worth individuals** (UHNWIs) in the **UAE** at 55700 last year, collectively holding USD 195.3bn in private wealth. (Available for download at: <https://www.worldwealthreport.com/download>)
- **Emaar's** property development business is expected to be valued at AED 24bn (USD 6.5bn), ahead of the **proposed IPO**. The assets of the listed business will include 49 units in Burj Khalifa as well as several mixed-used projects under construction and joint ventures.
- The use of **geo-location technology** like Google Maps and Google Earth resulted in a 16% **reduction in travelling time** in the UAE, thereby saving AED 25mn, according to Google; furthermore, nearly 45 litres of **fuel** per car was saved as well, which translates into AED 4.4mn.
- Peer-to-peer lending platform **Beehive** raised USD 5mn in

Series A **funding** from Saudi Arabia's Riyadh Taqnia fund, with support from the Mohammed bin Rashid Fund, thereby bringing the total amount raised by Beehive since its launch to USD 10.5mn.

- Dubai Electricity and Water Authority (**DEWA**) launched a **solar carports project**, to increase reliance on clean energy. Solar carports will be installed at the authority's headquarters and the Ministry of Climate Change and Environment building – a total of 902 parking spaces, with generating a capacity of around 2,750 MWp (megawatt peak), equivalent to reducing about 1,500 tonnes of carbon emissions annually.

Media Review

The Blade Runner's corporate history lesson

<http://businessweekme.com/2017/10/08/blade-runner-2049-rewrites-business-history/>

Proposed Tax Reform in the US: Déjà Voodoo

<https://www.project-syndicate.org/commentary/republican-tax-reform-voodoo-economics-by-joseph-e-stiglitz-2017-10>

The Qatar rift drags on

<https://www.reuters.com/article/gulf-qatar-loans/mideast-debt-uae-banks-more-aggressive-about-selling-qatar-loans-as-gulf-rift-drags-on-idUSL8N1MD5ZS>

<https://www.bloomberg.com/news/articles/2017-10-02/qatar-fund-is-said-to-explore-asset-sales-as-new-deals-on-hold>

Bahrain's crowdfunding regulations

http://www.zawya.com/uae/en/story/0verview_Bahrain_issues_crowdfunding_regulations-ZAWYA20171004085339/

Australia closing in on Qatar as world's top LNG exporter

<https://www.reuters.com/article/australia-resources-forecast/australia-closing-in-on-qatar-as-worlds-top-lng-exporter-idUSL4N1MG0X9>

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