

Weekly Economic Commentary – Oct 22, 2017

Markets

After another bullish week for most developed equities markets. The Dow-Jones set a score of records above 23,000 (despite a sell-off in tech stocks) on hopes that the Trump tax reform is on the right track in Congress. The Topix was lifted by the prospects of a landslide victory by Prime Minister Abe in today's election. However, European bourses were hampered by the tensions in Catalonia, while emerging markets indices took a hit from Turkey, Russia and Brazil. Regional markets were mixed, in part reflecting the worries over the US stance on the nuclear deal with Iran. The USD rally continued as the yen retreated on expectations that the new Abe government will continue the weak currency policy and the pound was under fire from the stalled Brexit negotiations with the EU. Oil was supported by a large drawdown in inventories and OPEC's announcement of high compliance with agreed cuts. Gold prices glided down as the clouds over the geopolitical horizon dissipated.

Global Developments

US/Americas:

- **US industrial production rose** 3% mom (1.6% yoy) in Sep, vs a -0.7% drop (1.2% yoy) in Aug. Manufacturing output gained a modest 0.1%.
- **The Fed Reserve's Beige Book**, for Sep through early Oct, shows that **economic activity expanded** in all 12 districts at a modest or moderate pace. Manufacturing activity and nonfinancial services improved modestly to moderately in most districts, while retail spending edged up. Construction improved slightly. Hurricanes

Harvey and Irma affected mostly transportation, energy and agriculture.

- **The Conference Board's Leading indicators index fell** -0.2% mom in Sep after gaining 0.4% in Aug. Average work week, jobless claims and building drove the decline. Stronger ISM new orders contained it.
- **US residential housing starts plunged** -4.7% mom (+6.1% yoy) in Sep. Housing permits also dropped and are below their level a year earlier. Hurricanes Harvey and Irma caused part of the decline.
- **US existing-home sales** in Sep **increased** 7% mom (-1.5% yoy) but did not offset the losses over the past 3 months.
- **US median usual weekly earnings** for full-time wage and salary workers **gained** 9% yoy in Q3, vs 4.2% in each of the two previous quarters.
- **US initial jobless claims fell** 22,000 to 222,000, the lowest level in 44 years, but the figure was distorted by the delay in filing after the hurricanes. The 4-week moving average dropped by 9,500 to 248,250. Continuing claims fell 16,000 to 1.888 mn, a historical low.

Europe:

- **Eurozone's inflation** was **unchanged** at 1.5% yoy in Sep thanks to a stronger euro. Core inflation also was unchanged at 1.1% yoy in Sep.
- **The Eurozone's external trade surplus shrunk** to EUR 16.1bn in Aug from EUR 22.3bn in Jul, as exports grew more slowly than imports. The **current account surplus widened** to EUR 29.6bn in Aug from EUR 23.2bn in Aug 2016.
- **The ZEW Eurozone expectations** measure **fell** to 26.7 in Oct from 31.7 in Sep.
- **The ZEW investor confidence index for Germany edged up** to 17.6 in Oct from 17 in Sep.
- **UK inflation accelerated** to 3% yoy in Oct from 2.9% in

Sep, the highest rate since early 2012. Non-core items boosted the headline, with fuel spiking 6.1% yoy from 5.1% in Aug. By contrast, services inflation was flat and core inflation was subdued at 2.7% yoy sa, the same rate as in Aug.

- **UK retail sales dived** -0.8% mom (1.2% yoy) in Sep reversing Aug's 0.9% rise (2.3% yoy). The main drag was a -6.7% slump in sales in other nonfood stores, but spending on food and fuels also contracted.
- **The UK unemployment rate was steady** at 4.3% in Aug, its lowest since 1975.

Asia Pacific:

- **China's GDP expanded** at 8% yoy in Q3 a notch below the 6.9% rate in Q2. Manufacturing rebounded, especially in tech, while investment slowed down. Private consumption was sustained by wage growth.
- **China's fixed asset investment grew** 5% yoy in Sep, vs 7.8% yoy in Aug, as a result of government's efforts to rein in unsustainable growth. Public investments grew 11% y/y, while investment in real estate grew 8.1% yoy in Sep.
- **China's industrial production grew** 6% yoy in Sep, vs a 6.0% gain in Aug. Manufacturing (8.1% vs 6.9% in Aug) led the gains while mining output continued its slide (-3.8% from -3.4% in Aug).
- **China's retail sales grew** 3% yoy in Sep vs 10.1% in Aug. Sluggish spending on accommodation, food and household electronics was offset by sales of fuels and car.
- **Japan's trade surplus** was JPY 240.3bn in Sep, with both exports and imports rising on a yearly basis, but was below the JPY 367bn recorded in Aug. Exports to Asia, primarily China, grew notably thanks to the solid tech cycle worldwide and the yen depreciation.
- **Singapore's exports in Sep dropped** -1.1% yoy after a 16.7% jump in Aug caused by a fall in electronic exports

deeper than the rise in non-electronic shipments. Non-electronics exports increased for a fourth consecutive month but at a slower pace.

Bottom line: Political developments overshadowed the data flow last week: the Congress of the Chinese Communist Party, the elections in Japan, the Catalans' independence aspirations and the slow progress on the Brexit negotiations which are increasingly affecting the UK economy. The macro data did not modify the global picture, which underscores the strengthening recovery in the last quarter of 2017. The crucial challenges, from the tax reforms in the US to the end of QE in the Eurozone or the deleveraging in China have been postponed to 2018.

Regional Developments

- **Saudi Arabia and UAE** have agreed to **extend the maturity** of USD 4bn worth of **deposits** made with **Egypt's** central bank and which were due to mature in 2018, disclosed the central bank governor. The duration was not stated.
- An **IMF delegation** is expected **in Egypt** this week, to review the country's progress on economic reforms before it disburses the third instalment of a USD 12bn loan programme.
- **Egypt's** finance minister **expects to renew a financing agreement** for a year with a consortium of global banks. The original USD 2bn repurchase agreement was signed in Nov 2016, and had a one-year maturity. The banks provided funds against international bonds issued by the finance ministry and listed on the Irish stock exchange.
- **Trade deficit in Egypt narrowed** by 14.7% to USD 3.5bn in Jul this year; value of imports decreased by 5.4% to USD 5.42 while exports were lower by 17.9% to USD 1.92bn.
- **Egypt's agricultural exports grew** by 13.9% during Jan-Sep this year to 4.1mn tonnes versus 3.6mn last year.
- **Tourism revenues in Egypt grew** by 211.8% yoy to USD 5.3bn in Jan-Sep this year, with number of tourists

increasing by 55.3% to 5.9mn and tourists average spending rising to USD 88.2 per night.

- **Jordan's real GDP** is expected to **grow** by 2.3% in 2017, according to the **World Bank**, a tepid increase of 0.3 percentage points over the 2016 rate. Services are expected to remain a key driver of growth, boosted by a robust tourism sector.
- **Kuwait** announced a **budget deficit** of KWD 1.94bn in H1 of the fiscal year 2017-18, just 25% of the total planned deficit for the full year (KWD 7.9bn). Total revenue touched KWD 7.03bn during the period, with KWD 228.07mn collected in taxes and charges while total expenditure was KWD 6.75bn.
- **Lebanon approved the first state budget in 12 years** last week, passed after three long days of discussion by 61 votes for and four against (8 abstained).
- The Board of Directors of **Oman Capital Markets Authority** decided to convert **Muscat Securities Market to a company** fully owned by the State General Reserve Fund. The MSM will be listed and the IPO will take place in the near future.
- **Qatar's consumer price deflation deepened** in Sep: prices fell by 0.5% yoy, after a 0.4% drop in Aug. Housing and utility prices slipped by 4.7% yoy and by 0.7% mom.
- **Qatar** expects 1.5mn persons to visit during the **2022 World Cup**, according to a senior official of the Supreme Committee of Delivery & Legacy; this number is almost three times more than in Brazil (600k) and South Africa (500k).
- Updates on the **Aramco IPO**: according to Saudi Arabia's oil minister, the Aramco IPO "**is on track**" – both international and domestic portions – and will be rolled out in 2018. Sources say that Chinese state-owned oil companies like PetroChina and Sinopec have expressed interest in a direct deal – buying up to 5%. It was also reported by *Reuters* that Aramco has asked FTI Consulting to suspend its investor relations advisory work related

to the IPO.

- In **Saudi Arabia**, **VAT will not be applicable** on housing rents or governmental services, according to the official VAT Twitter handle.
- **Saudi Arabia's** governor stated that the central bank **may raise the maximum loan-to-deposit ratio** for commercial banks if that is needed to help the economy. The central bank had last raised the ratio in Feb 2016, to 90% from 85%. Separately, he also revealed that two regional banks and one Asian bank were in advanced stages of procedures to obtain **Saudi banking licences**.
- **Saudi Arabia's** Public Investment Fund (**PIF**) has launched a **real estate refinance company**, in partnership with the Ministry of Housing: the company is expected to refinance up to SAR 75bn (USD 20bn) for the housing sector over the next five years, reaching SAR 170bn by 2026.
- **Saudi Arabia** has launched **specialised commercial courts** in three main cities – Riyadh, Dammam and Jeddah – last month, according to its justice minister. This move is expected to expedite the resolution of commercial disputes and encourage investments into the country.
- **Saudi Arabia** approved a new **law regulating trade in petroleum products** and also stated that oil-based feedstock for industry can only be used at international prices.
- The average monthly wage of a **Saudi national working in the private sector** is estimated at SAR 7,717 (USD 2,057) versus a take-home pay of SAR 3855 for non-Saudis, according to data for Q2 this year. In the government sector, however, expats were paid an average SAR 11,138 vis-a-vis SAR 10589 for Saudi nationals.
- **Saudi Aramco**, as part of its diversification efforts, plans to set up a **construction company** with local and international partners to build non-oil infrastructure in Saudi Arabia. PIF is expected to be part of this newly created company.

- **Saudi Capital Market Authority** has created a new Listed Companies and Capital Market Institutions Auditors Supervision Division to **supervise audits of listed companies**.
- Results of the Nielsen Global Survey of Consumer Confidence and Spending Intentions showed that **confidence in Saudi Arabia** rose by 4 points to 98 in Q2 this year. About 45% of the respondents were confident about job prospects in the coming year, up 3% while 56% were optimistic about their personal finance. The economy (25%), parents' welfare / happiness (18%), terrorism (18%) and increasing food prices (12%) topped the list of concerns cited by respondents.
- **Saudi Arabia** witnessed a 27% yoy **growth in online transactions** to USD 8.3bn last year. Saudi Arabia was the fastest growing country in the airlines and travel sectors, showing 21% yoy growth in airline payment volume and 36% growth in travel and tourism.
- **Middle Eastern inbound M&A grew by 220% yoy** to reach an all-time high of USD 7.3bn in Jan-Sep this year, according to *Reuters*. But, investment banking fees during this period was down by 4% to an estimated USD 669.2mn.

UAE Focus

- More **clarifications on VAT in the UAE**: VAT will not be applicable on investors' share transactions or on profit margins in the UAE stock markets; the executive regulations are still being drafted, according to the ministry of finance undersecretary.
- **Banks in the UAE** will be fully compliant with the **Basel III** capital rules, as per the new central bank regulations (introduced in Mar this year) – a minimum common equity Tier-1 capital ratio of 12% and capital adequacy ratio of 15.5% by 2019.

- **Dubai** has launched an **AI strategy**, that seeks to promote government performance, streamline costs, and create an innovative and highly-productive environment by investing in artificial intelligence technologies, and its applications across multiple domains (like transport, health, space, and renewable energy among others). A **State Minister for AI** has been appointed as well.
- Abu Dhabi Investment Authority (**ADIA**) has signed a USD 1bn **investment deal** with **India's** National Investment and Infrastructure Fund.
- **Abu Dhabi's Mubadala** launched a **venture capital arm** to manage Mubadala's USD 15bn commitment to the **SoftBank Vision Fund**, and a USD 200mn ventures fund of funds that will invest in both established and emerging fund managers.
- The combined **value of Expo 2020-related development projects** is estimated at AED 122bn, according to BNC Projects.
- The value of **off-plan transactions** in **Dubai** increased by 118% to AED 4.04bn in Q3, with Dubai South accounting for the largest number of transactions (1151), according to Chestertons Mena.
- **UAE** spent USD 12.4bn in **online transactions** last year, up 21% yoy, according to Payfort (a payment gateway owned by Amazon). The highest in the region, UAE's spending represents almost half of the USD 30.4bn total online purchases in select Middle East countries. The report also found that about five in ten people in the UAE (46.7%, or approximately 4.3mn of the population) have fallen into debt, while 12.8% are actively looking for a loan. (*Generate the report at: <https://stateofpayments.payfort.com/en/create-report>*)
- **Remittances into Philippines** touched USD 20.7bn in the Jan-Aug, up 9.4% yoy, with the money being transferred from **UAE**, **US**, **Singapore** and **Qatar**, according to the Bangko Sentral ng Pilipinas.

- The Dubai Electricity and Water Authority (**DEWA**) has finalised funding for its AED 100bn (USD 27bn) **green investment fund**, according to the head of DEWA.

Media Review

How a recovery ends

<https://www.bloomberg.com/view/articles/2017-06-14/how-the-u-s-economy-will-enter-its-next-recession>

Saudi needs Aramco billions as recession slows austerity drive

<https://www.reuters.com/article/us-saudi-deficit/saudi-needs-aramco-billions-as-recession-slows-austerity-drive-idUSKBN1C01X2>

Catalonia's bid for independence

<https://www.project-syndicate.org/commentary/nation-state-decline-sovereignty-reaction-by-javier-solana-2017-10>

<https://www.project-syndicate.org/commentary/catalonia-independence-european-union-integrity-by-joschka-fischer-2017-10>

IMF says income tax may become “necessary” for GCC states

<http://gulfbusiness.com/imf-says-income-tax-may-become-necessary-gcc-states/>

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