

Weekly Economic Commentary – Nov 5, 2017

Markets

US stock market paused after a few weeks of upward trend with the S&P almost unchanged, as investors digest the Republican tax reform proposal. However, European, Asian and emerging market equities displayed markedly better performances reflecting an improving macroeconomic outlook. Emerging Asian stocks hit an all-time record surpassing the 2007 top. Regional markets were mixed as the rebound in oil prices is still not sufficient to reignite strong growth. In currency markets the yen was a touch lower on major crosses, but the euro-dollar ended the week almost unchanged. The British pound plunged after the BoE's rate hike because markets were expecting a more hawkish stance paving the way to further tightening. Oil prices touched a record high since Jul 2015 as the compliance with OPEC production cuts improved and crude oil inventories were down by 2.4 m/b against analyst predictions of a 0.87 m/b decrease. Gold prices continued to slip.

Global Developments

US/Americas:

- **The US Fed left interest rates unchanged**, as expected, but hinted that a hike is likely before year's end, as the economy is on a steady expansion pace. Near-term risks for the economy were deemed as roughly balanced.
- President Trump announced that Jerome Powell will be **the next US Fed President** from Feb 2018, when Yellen's term expires. His track record as a Fed governor suggests that, by and large, he will follow the steps of his predecessor.

- **US nonfarm payroll rose** by 261,000 in Oct rebounding from 18,000 in Sep. The unemployment rate dropped to 4.1% (from 4.2% in Sep) its lowest level this century, reflecting an increase in hiring after the hurricanes. However wage earnings grew only 2.4% yoy in Oct vs 2.8% in Sep.
- **The US PCE deflator increased** 0.4% mom in Sep from 0.2% in Aug, in the wake of surging energy prices (+6.8% mom). Food prices were unchanged mom for the second consecutive month. Ex food and energy, the PCE deflator increased a modest 0.1% mom in Sep.
- **The US ISM manufacturing index fell** 1 pts to 58.7 in Oct. New orders were almost unchanged at 63.4 in Oct vs 64.6 in Sep, the fifth consecutive month above 60. Overall the data confirm the healthy state of the US industry. **The ISM non-manufacturing** composite index increased marginally from 59.8 in Sep to 60.1 in Oct.
- **Personal spending in the US jumped** 1% mom in Sep vs 0.1% in Aug, thanks to a surge in vehicle sales. Real spending rose 0.6% mom after falling -0.1% in Aug led by durable goods. Prices rose 0.4% mom.
- **US nominal personal income growth accelerated** to 0.4% mom in Sep from 0.2% in Aug. Nominal disposable income also rose 0.4% in Sep but in real term was unchanged. Wages and salaries gained 0.4% mom notably better than 0.1% in Aug. The personal saving rate fell to 3.1% from 3.6% in Aug.
- **The US Case Shiller national house price index rose** 6.1% yoy in Aug slightly above the 5.9% in Jul.
- **The US Consumer Confidence Index rose** 5.3 pts in Oct to 125.9, the highest level since 2000. The present situation and the expectations sub-indexes both rose, with consumers evaluating their present economic conditions more favourably than at any time since 2001.
- **Non farm-productivity in the US in Q3 increased** 3% qoq ann (1.5% yoy), vs 1.5% in Q2 and 0.1% in Q1. **Unit labor costs** rose 0.5% qoq ann (-0.1% yoy).

- **US factory orders surged** 1.4% mom in Sep after 1.2% in Aug, underscoring an accelerating trend in manufacturing driven by core capital goods.
- **Initial claims for unemployment benefits in the US fell** 5k to 229k. The 4-week moving average dropped 7,250 to 232,500, a record low since Apr 7, 1973. Continuing claims fell 15k to 1.884 mn.
- **Mexican GDP contracted** -0.2% qoq in Q3, following a 0.6 % rise in Q2, in part owing to the effects of two earthquakes in Sep.
- The **Brazilian trade surplus** more than **doubled** to USD 5.2bn in Oct from USD 2.3bn in Oct 2016.

Europe:

- **The Eurozone's GDP advanced** 0.6% qoq (2.5% yoy) in Q3, in line with market expectations and after 0.7% (2.3% yoy) in Q2.
- **The Eurozone's inflation eased** to 1.4% in Oct from 1.5% in Sep thanks to a stronger euro. Core inflation declined to 1.1% in Oct from 1.3% in Sep.
- **The Eurozone's jobless rate fell** further to 8.9% in Sep, its lowest since Jan 2009, from 9% in Aug. The number of unemployed decreased by 96k over the month, bringing the jobs created since the start of the year to 947,000.
- **The Eurozone's economic confidence indicator rose** to 114 in Oct (a record since Oct 2000) from 113.1 in Sep. All components improved especially industry, construction and retail trade.
- **France's GDP in Q3 expanded** by 0.5% qoq (2.2% yoy, a top since 2011), vs 0.6% (1.8% yoy) in Q2. Private consumption was the main driver (0.5% qoq), while net exports trimmed 0.6% from the headline.
- **German retail sales increased** 0.5% mom (+4.5% yoy) in Sep, after a -0.2% fall in Aug. Private consumption remains the most solid component of Germany's growth so far this year.

- **The Bank of England raised its rate** for first time in 10 years from 0.25% to 0.5%, as inflation pressures mount due to the pound devaluation. However any further hikes will likely be small and gradual.
- **UK consumer confidence slid** to -10 in Oct from -9 in Sep with confidence in general economic situation and personal finances falling while the major purchase index rose.

Asia Pacific:

- **The Bank of Japan kept its policy rate unchanged.**
- **Japan's industrial production fell** -1.1% mom in Sep retrenching from a 2.1% rise in Aug.
- **Japan's consumer confidence index rose** by a paltry 0.6 pts in Oct with gains in most major categories, including inflation expectations.
- **China's official PMI declined** slightly 0.8 pts to 51.6 in Oct, after a strong spate of orders were completed in Sep.
- **Taiwan's GDP was up** 3.1% yoy in Q3 vs 2.1% in Q2 thanks to stronger global demand, (exports rose 11.2% yoy) which pushed manufacturing, while private consumption and investments lagged.
- **South Korean industrial production soared** 8.4% yoy in Sep vs 2.3% in Aug boosted by tech sector manufacturing (+7.7% yoy).
- **South Korean inflation in Oct slowed** to a 10-month low of 1.8% yoy from 2.1% in Sep. The deceleration was due to weaker price growth in housing, food and beverage and utilities.

Bottom line: The macro data flow especially the GDP figures for Q3 confirm that the global rebound is well underway. The next balancing act for policymakers will be the withdrawal of the unprecedented monetary stimulus and the enactment of structural reforms that could boost potential growth. A pivotal measure will be the tax reform in the US, which

provides a notable benefit for corporate incomes, but the effect on personal incomes is mixed and uneven across brackets. Expenditures which would allow for much bolder tax cuts are not even remotely contemplated.

Regional Developments

- **Recent political developments:** **Saudi Arabia** disclosed that 11 princes, four ministers and dozens of former ministers were arrested on orders of an anti-corruption committee headed by the Crown Prince: the major changes include the National Head Guard and the Economy Minister. **Lebanon's** PM, in a televised address from Saudi Arabia, revealed that he had resigned as he feared for his life, and also blaming Iran for interference. **Iraq** plans to hold parliamentary elections on May 15 to choose a prime minister.
- The **IMF** released its **MENAP regional economic outlook:** for the oil exporters, growth is estimated at 1.7%, slower thanks to the OPEC-led cuts in oil output while budget deficits are expected to halve this year (to 5.2% from 2016's 10.6% of GDP). For the oil importers, it is a faster growth story (4.3% this year, from 2016's 3.6%), accompanied by high public debt (more than 50% of GDP in most countries). The IMF also disclosed that while the GCC remained committed to the introduction of VAT, the preparation and speed of implementation may differ across the nations. *The full report can be accessed at <http://www.imf.org/en/Publications/REO/MECA/Issues/2017/10/17/mreo1017>*
- **Bloomberg** reported that **Bahrain** had **requested** Saudi Arabia, UAE, and possibly Kuwait for **financial support to replenish its reserves**. It also disclosed that a recent bond prospectus included a warning that falling reserves carried the risk of a currency depreciation. This news caused Bahrain's 12-month forward contracts to

jump by the most in more than a year (on Wed), while its dollar bonds fell for a second day.

- **Bahrain's net foreign assets increased** to BHD 1.3bn (USD 3.44bn) in Sep from BHD 522mn in Aug, most likely due to proceeds from the international bond issue.
- **Bahrain** will impose **entry visas on Qatari nationals and residents** from Nov 10, as a "security measure".
- **Egypt's** government spent around EGP 100bn (USD 5.65bn) more than the earmarked EGP 974bn for **spending** in the 2016-17 budget, reported *Reuters*.
- The **IMF** delegation visiting to review **Egypt's reforms** stated that "positive results" were visible, and that growth and revenue were picking up in select areas like tourism and FDI.
- **Egypt** plans to **extend the tax dispute reform law** for another two years, subject to parliament vote, revealed the finance minister. Introduced in Aug 2016, the law – designed to make settling tax disputes easier – shifted responsibility for hearing disputes from the courts to committees of independent experts.
- **Money supply** in **Egypt** increased by 39.72% yoy to EGP 3.05trn (USD 173.3bn) in Sep, according to central bank data.
- **Remittances from Egypt's expatriates** grew by 24.4% yoy to USD 1.166bn in Sep, according to the central bank.
- **Gasoline consumption** in **Egypt** declined by 4.2% yoy to 1.872mn tonnes in the Jul-Sep quarter; diesel consumption during the same period was down by 7.1% Tot 3.419mn tonnes.
- **Egypt food imports** range between USD 10-12bn a year, including USD 6bn in wheat, oils, and corn, according to the central bank governor.
- **Egypt** plans to finalise **contracts for its first nuclear power plant** with 4,800 megawatt capacity by end-2017, according to the electricity minister. The country had already signed an agreement in Nov 2015 for Russia to finance building and operating the plant.

- **Egypt** has signed **agreements with the European Union** for funding development projects worth around EUR 500mn (USD 582 million) over the next three years.
- **Egypt in debt-settling** mode: Egypt paid off the final instalment (~USD 200mn) of a USD 1bn loan taken from Turkey in 2012; it also paid Libya USD 250mn as an instalment towards settling a USD 1.5bn loan, with two more instalments (a combined USD 500mn) to be paid next year to settle the debt.
- **Iraq increased crude oil exports** from its southern ports in Sep – by about 100k barrels per day (bpd) to an average 3.346mn bpd – to offset the shortfall from its northern Kirkuk fields.
- The **World Bank approved** USD 400mn in additional **funding** to support the rebuilding of IS-liberated **Iraqi** areas. The new funding will focus on rebuilding in five sectors – water and sanitation, electricity, health, transport and municipal services.
- **Kuwait** plans to spend USD 160bn over the next 20 years on an **island development project** that is expected to earn around USD 40bn annually and support up to 200k jobs once completed.
- **Demand for apartments and houses in Lebanon** was **negatively affected** in Q3 by the new taxes and fees on properties, show the Byblos Bank **Real Estate Demand Index**. Posting a monthly average of 49.6 points in Q3, the index was down 5.2% qoq and up 25.4% yoy from a low base of 39.5 points in Q3 2016.
- China's Ambassador to Oman announced a further commitment of USD 2bn for projects in **Duqm**, cementing the **relation between Oman and China** as strategic partners.
- **Qatar** Central Bank stated that it sold QAR 1.4bn (USD 385mn) of **Treasury bills** in a **monthly auction** last week. Yields at the long end of the curve fell compared to the month before.
- **Net foreign assets in Saudi Arabia fell** by 12.6% yoy and

by USD 2.4bn from Aug to USD 477.6bn in Sep. Outstanding bank loans to the private sector fell for the 7th consecutive month in Sep, shrinking by 1.2% yoy.

- **FTSE Russell** launched last week the **FTSE Saudi Arabia Inclusion Index Series**: a global index series combining constituents of the stand-alone FTSE Saudi Arabia Index with various regional and global FTSE indexes.
- **Fitch** affirmed **Saudi Arabia's** strong **credit rating** at 'A+' with stable outlook, supported by "strong fiscal and external balance sheets". The Saudi banking system was rated "A" – only four countries in the world have received such a strong rating.
- **Saudi Arabia's** government approved a plan to begin issuing **tourist visas** for the country, reported the *Al Watan* At the initial stage, such visas will only be available to groups of visitors through authorized tour operators.
- **Saudi Arabia** will allow **women to attend sports events** – in select stadiums in Jeddah, Dammam, and Riyadh – from early next year.
- In the latest edition of the World Bank's **Doing Business** report, it was disclosed that the **GCC** implemented 103 reforms in the past 15 years, accounting for more than a third of all reforms implemented in the **MENA** (*The global and regional reports can be accessed at <http://www.doingbusiness.org/reports/global-reports/doing-business-2018>*)

UAE Focus

- **UAE's growth slowdown** this year (2017: 1.3%; 2018: 3.4%) was due to the reduction in oil exports due to the OPEC agreement, according to the **IMF**. **Abu Dhabi growth** is estimated at only 0.3% this year given that oil-based GDP contracted by 2.7%.
- **UAE's** Minister of Economy disclosed that the **new investment law** – granting foreign companies to increase

their stake by more than 49% in some specific business sectors – could be ready as early as next year.

- **Abu Dhabi's GDP increased** to 6.6% yoy in Q2 2017, according to the Statistics Centre Abu Dhabi, thanks to the non-oil sector which contributed 70.2% to GDP.
- **UAE took the top spot in the GCC**, and was ranked 21st globally, in the World Bank's latest issue of the **Doing Business report**. A highlight was that the UAE had implemented the highest number of reforms (33) in the region in the past 15 years. UAE emerged a global leader in the **Getting Electricity** category – taking approximately 10 days to obtain an electricity connection, compared to the global and OECD "high-income" averages of 92 and 78 days respectively.
- **Population in Abu Dhabi grew** by 4.4% yoy to 2.9mn at the end of last year; Emiratis – at 551,535 – accounted for less than 20% of the total.
- **Fuel prices for Nov in the UAE:** petrol prices were lower by 4.2-4.6% mom in Nov – the first drop in 4 months – while diesel prices were up by 2.11%.
- **Dubai's Department of Economic Development issued 15,268 new business licenses** during the first nine months of this year; in Sep alone, 1152 licenses were issued. Commercial license accounted for 65% of the total, followed by professional licenses.
- **Growing India-UAE relations: bilateral trade** has crossed half a trillion dollars over the past decade. India's direct investment to the UAE stands at USD 6.4bn, while UAE's direct investment in India is about USD 4.4bn.
- **Net profits of UAE's 14 listed banks grew** by 2.8% yoy to USD 5.96bn in Jan-Sep this year.
- **Abu Dhabi welcomed over 3.5mn hotel guests** till Sep this year (+7% yoy), with 415,985 visitors checking in this Sep alone. India remained the largest source market with 33,000 hotel guests during the month.
- **Dubai Road and Transport Authority (RTA)'s USD 20bn investment in infrastructure**, over the 2006-2016 period,

resulted in saving USD 34bn from time and fuel wasted by traffic congestions, disclosed the Director-General and Chairman of the Board.

- **Mobile phone subscriptions** in the **UAE** grew by 2.2% to 19.7mn by end-Sep, with a total of 10.6mn Etisalat subscribers and 9.11mn for du.

Media Review

The next Fed President

<https://www.bloomberg.com/news/articles/2017-11-01/here-s-what-you-need-to-know-about-powell-s-fed-chair-selection>

IMF Releases the MENA Regional Economic Outlook

<http://www.imf.org/en/News/Articles/2017/10/30/na103117-middle-east-north-africa-afghanistan-and-pakistan>

Iran and al-Qaeda: Best of Frenemies

<https://www.bloomberg.com/view/articles/2017-11-03/iran-and-al-qaeda-best-of-frenemies>

What Does Xi Jinping Want?

<https://www.project-syndicate.org/commentary/china-party-congress-xi-legacy-by-keyu-jin-2017-11>

Even the Smallest Gulf Economy Is Too Big to Fail

<https://www.bloomberg.com/news/articles/2017-11-02/even-the-smallest-economy-in-oil-rich-gulf-is-too-big-to-fail>

Alpha generation is getting harder

<https://www.bloomberg.com/news/audio/2017-11-03/alpha-generation-is-getting-much-harder-gross-says>

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