

Weekly Economic Commentary – Nov 12, 2017

Markets

US equity markets hit another record at the beginning of the week and pulled up other major bourses (notably the Nikkei225 which touched its highest level since 1991). However by mid-week the tide had turned, due to mounting skepticism about fiscal reform in the US and disappointing earnings results. European stocks recorded their sharpest weekly drop in nearly 3 months, although Japanese indices remained buoyant. Emerging markets also posted a weekly gain, unlike regional markets, where investors worried about the repercussions of the Saudi anti-corruption campaign on major corporations and continuous tensions with Iran (this time involving Lebanon). The possible delays to the Republican tax overhaul affected also the dollar which lost on major crosses. Despite an increase in US crude inventories, oil traded near two years highs, as the situation in KSA spread anxiety in a market where supply is rapidly tightening. This is the 5th week in a row that oil prices post a gain, the longest streak since Oct 2016. Gold prices on the other side were supported by the geopolitical uncertainty and rose for the first time in four weeks.

Global Developments

US/Americas:

- **The US Senate Finance Committee** released its version of a **fiscal reform** delaying the tax rate on corporate income cut to 20% until 2019 hence thwarting the House Republicans' plan to lower such rate in 2018.
- **University of Michigan's consumer sentiment** fell to 97.8 in Nov from a 13 year record 100.7 in Oct. Current and future economic conditions worsened due to an expected

pick up in inflation.

- **US inventory growth slowed** to 0.3%, mom in Sep vs 0.8% in Aug. Durable goods increased 0.3% mom, while nondurable goods advanced 0.4% mom.
- **US initial claims for unemployment benefits increased** by 10K to 239K. The 4-week moving average dropped 1,250 to 231,250, the lowest level since March 31, 1973. Continuing claims rose 17K to 1.901 million. The US job market running at full speed.
- **Brazil's inflation rebounded** to 2.7% yoy in Oct after 2.54% in Sep.

Europe:

- **Retail sales in the Eurozone rose** by 0.7% mom (3.7% yoy) in Sep, vs a -0.1% decline in Aug, with broad-based gains in all major countries and sectors.
- **German industrial production plunged** 1.6% mom (4.3% yoy) in Sep following a 2.6% jump in Aug with losses across all sectors except construction.
- **German Manufacturing orders expanded** by 1% mom (9.5% yoy) in Sep, following a 4.1% mom surge in Aug, again thanks to strong foreign orders, while domestic orders lagged.
- **Germany's trade surplus** reached EUR 21.8bn in Sep from EUR 21.3bn in Aug and EUR 20.2bn in Sep 2016, thanks to a sharp decrease in imports.
- **Italy's industrial production plunged** 1.3% mom in Sep offsetting a 1.2% mom rise in Aug.
- **The UK industrial production increased** 0.7% mom in Sep vs 0.3% in Aug, pushed by a jump in the output of extractive industries and machinery and equipment.
- **The UK goods trade deficit shrunk** to GBP 11.3bn in Sep from GBP 12.4bn in Aug, mainly due to a jump in oil exports, while the non-commodity trade hardly benefited from the weak pound.

Asia Pacific:

- **China's foreign trade surplus surged** to USD 38.2bn in Oct from USD 28.5bn in Sep despite import growth overtaking export growth, due in part to strong commodity demand.
- **Inflation in China increased** to 1.9% yoy in Oct from 1.6% in Sep in the wake of temporary higher food prices during the Golden Week holiday.
- **China's M2 money supply growth** in Sep **regained** some strength increasing 9.2% yoy after 8.9% in Aug. Credit maintains a steady pace with the bulk going to mortgages, despite the dull real estate market in major cities.
- **Japan's current account surplus increased** to JPY 2.27trn in Sep from JPY 1.86trn a year earlier. The goods trade surplus soared to JPY 8.52trn from JPY 6.67 trn in Sep 2016.
- **Japan's core-machinery orders** in Sep **collapsed**, excluding volatile items, -8.1% mom, vs 3.4% mom in Aug. Perky global tech demand, which drove capital expenditure until the summer, has dwindled.
- **Hong Kong's GDP expanded** 0.5% qoq in Q3, vs 1.1% in Q2, as a result of weaker investments while net trade supported growth.
- **India's industrial production increased** by a paltry 3.8% yoy in Sep after 4.5% in Aug. Manufacturing production growth was unchanged at 3.4% yoy.
- **Indonesia's GDP grew** 5.1% yoy in Q3, just above the 5% in Q2. Private consumption was weak, partially offset by stronger public investment and exports (17% yoy, of which, merchandise exports rose 24% thanks to higher commodity prices).
- **The Reserve Bank of Australia** left its cash rate unchanged at 1.5% and is not expected to hike it until 2019.
- **Taiwan's consumer prices fell** -0.3% yoy in Oct vs 0.5% in Sep due to a -3.9% yoy drop in food prices. Excluding food, inflation was 1.2% yoy in Oct, after 0.8% in both

prior months.

- **Malaysia's industrial production** growth **slowed** to 4.7% yoy in Sep from 6.8% in Aug, as the tech sector output lost momentum.

Bottom line: In the absence of major macro data releases, two issues took center stage last week: the tax reform in the US and the protectionist stance emphasized by Trump during its trip to Asia. Wall Street's consensus equity valuations are boosted by expectations of higher net profits based on the tax cuts contained in the original Republican proposal. However, this version lacks consensus in Congress and the counter-proposal presented in the Senate will further erode such consensus. Even if a complete fiasco, similar to the Obamacare repeal, is unlikely, sooner or later the optimistic equity valuations will be drastically curtailed. While the US President maintains a cantankerous attitude towards free trade, other major economies are signing a record number of new commercial agreements, which will ultimately erode the primacy of the US economy and the competitive edge of its industry. Most notably 11 Far East countries and Canada have agreed on the "core elements" of a regional trade pact without the US and jettisoning key provisions that the US has advocated in the TPP.

Regional Developments

- **PMI in Egypt increased** to 48.4 in Oct (Sep: 47.4) – still remaining below the 50-mark – as output, new orders and employment declined at a slower pace. Sentiment towards future growth prospects reached a 26-month high of 80.2 (Sep: 79.2).
- **Inflation in Egypt eased** for the third consecutive month in Oct: 30.8% from 31.6% the month before. Core inflation fell to 30.53% from 33.26%.
- **Egypt's foreign reserves increased** to USD 36.703bn at end-Oct (Sep: USD 36.535bn).
- A staff-level agreement has been reached regarding **IMF's**

USD 2bn loan disbursement to Egypt. To be approved by the IMF Executive Board, this installment will bring total disbursements under the program to about USD 6bn.

- **Egypt's Suez Canal Economic Zone Authority signed contracts** for projects worth USD 40bn, including a USD 3.5mn contract for the industrial development of 5.5mn square meters of land in Ain Sokhna and the USD 500mn financing of a liquid bulk terminal at Port Ain Sokhna among others.
- **Jordan** is finalising its **economic-stimulation plan** 2018-2022, with an aim to complete it by end of this month. The plan, which includes four main pillars (economic stability, competitiveness and investment, infrastructure and social development), comprises 95 measures related to the governmental reforms and 85 government projects at a total cost of JOD 6.9bn (~USD 9.73bn).
- **Inflation in Kuwait slipped** to 0.5% yoy in Sep while core inflation (excluding food and rents) slipped to 2.4% from 4.2% in Aug.
- **Kuwait** announced a **ban** on issuing **work permits to expat graduates younger than 30** in the private and oil sectors – effective from Jan 1, 2018. Separately, the National Assembly's financial and economic affairs committee is studying various proposals to adjust the demographic composition in the country, including a percentage cap or quotas for individual expatriate nationalities.
- **Kuwait's** government has **failed to collect** approximately KWD 1.5bn (~USD 5bn) owed by various sectors, according to the annual report issued by the Audit Bureau: the Ministry of Oil, failing to collect upto KWD 428mn tops the list while the Ministry of Electricity at KWD 351mn comes in at a close second.
- **Lebanon** plans to **postpone a Eurobond issue** (earlier planned for this month) as it deals with the political crisis following its PM's resignation. Five-year **CDS rates** for Lebanon was at its highest since late 2008,

touching 615 as of Thurs. **Lebanon dollar bonds continued to remain under pressure**, with most issues across the curve trading around multi-year or record lows (the 2024 bond lost 7.5 cents since start of last week).

- **Total credit in Oman rose 9% yoy** to OMR 23bn at the end of Aug, compared to OMR 21.6bn a year earlier.
- **Oman's government has allocated OMR 100 mn to compensate disadvantaged citizens** for the removal of fuel subsidies.
- **Foreign direct investment (FDI) in Oman** reached OMR 8.01bn at end-Q2, OMR 619.4mn higher compared to Q1.
- **Qatar central bank's international reserves and foreign currency liquidity fell** to USD 35.6bn in Sep – the lowest since at least 2012 – from USD 39.0bn in Aug.
- A **Qatari investor**, an affiliate of the Qatar Foundation, **sold a 5% stake in Indian telecoms carrier Bharti Airtel** for INR 95bn (USD 1.46bn).
- **PMI for Saudi Arabia edged up** to 55.6 in Oct after posting a reading of 55.5 in Sep, on the back of rising output and new orders.
- The **arrest of princes, ministers and former ministers in Saudi Arabia** continued to dominate news from Saudi Arabia, with stock markets in both Saudi and UAE dropping after the announcements. Money and assets of the detained will also be confiscated: Bloomberg reported that a total net worth of USD 33bn is at risk of being frozen, *Reuters* reported that more than 1,700 domestic bank accounts were already frozen at the request of the central bank.
- **Saudi Aramco plans to increase its capital spending** by 10% next financial year, according to a senior official. Allocation for capital spending in the current financial year is almost SAR 350bn (USD 93bn). Separately, the company signed 6 agreements worth USD 4.5bn last week with firms from Europe, US, China and the UAE for oil and gas development projects with an aim to boost production.

- **Britain** stated that it would provide USD 2bn in credit guarantees to **Saudi Aramco** so it can buy British goods and services more easily.
- **Total FDI inflows to the Arab world** was USD 30.8bn in 2016, according to the Arab Investment and Export Credit Guarantee Corporation report 2017, compared to USD 24.6bn in 2015. Saudi Arabia, UAE and Egypt were the top three FDI-receiving nations, with the latter accounting for 26% of inflows into the region.
- **Dubai** was sixth in the list of top ten **most visited cities in the world**, published by Euromonitor. Saudi Arabia has three cities – Mecca, Riyadh and Dammam – in the top ranking.

UAE Focus

- **UAE's PMI increased** to 55.9 in Oct (Sep: 55.1), and ahead of the historical series average of 54.6, thanks to output growth alongside sharp increase in new businesses.
- The **UAE Cabinet** approved the **2018 federal budget**, with spending projected at AED 51.4bn (USD 14.0bn), an increase of 5.6% from the original budget plan for this year. The UAE federal budget traditionally accounts for only around 14% of total fiscal spending in the country.
- **All food items will be included under VAT** in the **UAE**, according to the Federal Tax Authority; it was widely expected that certain food staples would either be zero-rated or exempt from VAT. **Water and electricity bills**, petrol, diesel, cars, clothes and electronics will also be subject to VAT. The executive regulation, which includes the list of goods on which VAT would be applied, has been approved by the UAE Cabinet and will be issued soon. Other digital businesses such as “social influencers” are also subject to VAT, according to the authority.
- **Dubai** attracted 11.58mn **international overnight visitors**

during Jan-Sep this year, up 7.5% yoy, according to the Department of Tourism and Commerce Marketing. India was the top source market, with visitors up 20% to 1.478mn, followed by Saudi Arabia and UK, while China stayed 5th with 573k visitors (49% yoy).

Media Review

Saudi Crackdown & Asset Freeze

<https://www.bloomberg.com/news/articles/2017-11-09/saudi-billionaires-are-said-to-move-funds-to-escape-asset-freeze>

Trump's amateurish trade policy

<https://www.bloomberg.com/news/articles/2017-11-10/china-gives-trump-a-win-on-trade-trump-didn-t-even-know-it>

The Asian economies forge a TPP without the US

<https://www.ft.com/content/02ee684c-c6a5-11e7-ab18-7a9fb7d6163e>

Hedge Funds & Oil Bets

<https://www.bloomberg.com/news/articles/2017-11-10/hedge-funds-pile-on-bullish-oil-bets-as-mideast-tension-heats-up>

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