Weekly Economic Commentary – Nov 26, 2017

Markets

US stock markets closed the Thanksgiving week scoring another record. In the Eurozone, bourses reacted negatively to the break up of negotiation among the "Jamaica" coalition partners in Germany, but ended the week on a positive note after the publication of the ECB minutes and the record IFO index. In Emerging Markets China's blue-chip index took the deepest one-day dive in 17 months on Thursday, as new regulations to rein in corporate credit pushed up bond yields; nevertheless, the MSCI EM posted another weekly jump. In regional markets Saudi Arabian shares fell again in mid-week on concerns that the corruption purge could involve new figures, but then recovered and closed almost unchanged. Other GCC markets were mixed, with Egypt on a roll thanks to strong GDP data, while Qatar, which suffered another weekly slide, was the worst performer. In currency markets, the euro was the star especially against the dollar sustained by strong macro data. Geopolitical tensions, production cuts, and reduced inventories continue to sustain the oil price, which gained another leg in its upward trend. Gold on the other side lost most of the ground gained a week earlier.

Global Developments

US/Americas:

- **The US Fed FOMC members** in their latest meeting displayed a determination to hike rates soon despite the low inflation. The debate highlighted concerns about the bubble in financial markets inflated by ultra-loose monetary policy, but focused also on the causes of low inflation, with many governors attributing the phenomenon to structural rather than temporary factors.

- **The IHS Markit US PMI Composite PMI Index** declined to 54.6 in Nov from 55.2 in Oct but new orders and employment continued to expand. Manufacturing output fell to 53.8 from 54.6 in Oct and the service index retreated to 54.7 from 55.3 in Oct. Despite the hiccup the pace of growth remains buoyant.
- **The Conference Board's US Leading Indicators Index** rose 1.2% mom in Oct, after a paltry 0.1% in Sep. Jobless claims, building permits, and ISM new orders were the main boosters. New orders for nondefense capital goods were the only negative spot.
- **New orders for durable manufactured goods in the US** fell -1.2% mom, due mainly to nondefense aircraft (-18.6% mom), but also capital goods orders declined (-0.5% mom).
- **US existing-home sales** in Oct surged 2% mom (-0.9% yoy) but total sales remain a tad below their peak in Mar. The inventory-to-sales ratio remains close an all time low.
- **Initial claims for unemployment insurance benefits in the US** fell 13,000 to 239,000. The 4-week moving average rose 1,250 to 239,750. Continuing claims increased 36,000 to 1.904 mn.

Europe:

- **The IHS Markit Eurozone PMI Composite Output Index** reached 57.5 in Nov from 56 in Oct. The result underscores the strongest expansion in the private sector since April 2011, as inflows of new orders expanded the most since February 2011 and job creation was at a 17 years record.
- **The IHS Markit Germany Composite PMI** increased to 57.6 in Nov from 56.6 in Oct. The manufacturing PMI advanced to 62.5 from 60.6 in Oct, the highest level since Feb 2011 and the second-greatest jump in business conditions

since the series began in Apr 1996, thanks to steep rises in production and new orders. The services PMI was only marginally up to 54.9 in Nov from 54.7 in Oct.

- **The Ifo Business Climate Index for Germany** smashed expectations and jumped again to an all-time high of 117.5 in Nov from 116.8 in Oct. The subindex of future expectations rose to 111 from 109.2 in Oct, while that of current conditions declined marginally to 124.4 from 124.8.
- **Industrial new orders in Italy** fell -3.9% mom (4.5% yoy) in Sep, offsetting a 5.3% mom rise (9.6% yoy) in Aug. The drop was mainly due to domestic orders.

Asia Pacific:

- **China's Ministry of Finance** from next month **will slash import tariffs** for 187 types of consumer goods to stimulate domestic consumption. Average tariffs on such goods will be more than halved.
- **The FTCR China consumer Index** rose 0.8 points in Nov to 75.6, an absolute record since the survey was launched in Jul 2011. The index was 7.8 points higher than a year earlier, as consumers reported that their household incomes grew at the fastest pace on record.
- **Japan's trade surplus in Oct** was JPY 285.4bn, a 40.7% drop from JPY 670.2bn in Sep because growth in shipments to North America and China faltered.
- **The Nikkei Japan Manufacturing PMI** rose to 53.8 in Nov from 52.8 in Oct, the highest level since March 2014, thanks to perky new orders amid yen weakness. New export orders expanded at the fastest pace in almost 4 years.
- **Singapore's GDP growth** was revised up to 5.2% yoy in Q3 vs 4.6% in the initial estimate. Manufacturing grew 18.4% yoy, up from to 8.4% in Q2. Construction contracted by -7.6% yoy due to lack of projects in the public and private sector.
- **Singapore's industrial production** grew 14.6% yoy in Oct,

vs 14.4% in Sep thanks to a surge in electronics output (45.1% yoy in Oct vs 33.1% in Sep) and food production (42.3% yoy in Oct vs 8.1% in Sep).

Bottom line: Macro data from the eurozone continue to beat expectations and soon the ECB will be under intense pressure to stop the QE. The minutes of the last Governing Council revealed that most members agreed on extending the QE scheme but a vocal (presumably German-led) minority would like to signal an end to the ECB's asset purchases which has accrued EUR 2.2trn to its balance sheet. Meanwhile, in the US the tax reform plan is generating a fierce political row on the cancellation of state tax deductions which hits taxpayers primarily in large coastal states on both coasts.

Regional Developments

- **Bahrain's non-oil GDP growth** touched 4.7% yoy in H1 this year (2016: 4.0%), supported by strong, "broad-based" growth across hotels and restaurants, social and personal services and financial services sectors – all of which recorded growth of over 7% yoy. Overall GDP growth was 3.4% during this period, vis-à-vis 3.2% for the full year 2016.
- **Retail investors** will now be able to invest in **Bahrain** domiciled Real Estate Investment Trusts (B-**REITs**), according to the central bank, thereby removing previous restrictions on the type of investors in REITs.
- **GDP** in **Egypt** grew to 5.2% in Q1 of the current 2017-18 financial year, from 3.4% a year ago, according to the planning minister. Full-year GDP growth is expected to fall between 5-5.25%.
- The **Kuwait** Fund for Arab Economic Development signed a **loan agreement with Egypt** worth KWD 12.5mn (USD 42.5mn) to fund a project that will provide drinking water in the Sinai Peninsula.
- **Jordan**'s cabinet endorsed the **draft state budget law** for **2018**: domestic revenues are estimated at JOD 8.496bn

(~USD 11.98bn), while spending is expected to rise by 3.2% to JOD 9.039bn, thereby bringing the deficit to an estimated JOD 688mn.

- **Jordan**, which had received USD 2.668bn as part of a USD 3.75bn **grant** from Kuwait, Saudi Arabia, and UAE, has implemented about 70% of the projects financed by this grant. Qatar has not fulfilled its commitment to pay 25% of the total sum.
- **Kuwait**'s **finance ministry** collected KWD 10.08mn (USD 33.38mn) in **taxes and fees** last month, raising its collections to KWD 101.7mn during Apr-Oct. The customs department, justice ministry, and civil aviation collected KWD 164.575mn, KWD 7.3mn and KWD 7.39mn respectively during this period.
- **Iraq** agreed **to resume payments** from its oil revenues to compensate fully USD 4.6bn still owed **to Kuwait**: it will begin with 0.5% of its oil proceeds in 2018 and escalate annually until the end of 2021, according to the UN Compensation Commission.
- Kuwait's trade surplus with Japan expanded by 64.4% yoy to USD 287mn in Oct, up for the tenth consecutive month.
- **Kuwait & its expats:** several MPs are discussing a proposal to grant permanent residency to expats spending 30 years in Kuwait; second-time expat traffic offenders are to be deported, according to a statement by the head of public relations and security media. The supreme committee dealing with the population structure imbalance has recommended several measures to achieve a higher growth rate of Kuwaitis: imposing higher fees on domestic helpers, reducing the number of visas issued per person per year from five to three, and toughening the punishment of residency law violators by imposing a fine of KWD 4 per day to a maximum of KWD 1,000.
- **Lebanon**'s Saad al-Hariri decided "temporarily" to suspend his resignation, thereby averting a political crisis. Lebanon's dollar bonds gained across the curve while yield premia and credit default swaps fell after

the announcement.

- **Lebanon** issued USD 1.7bn **eurobonds in a debt swap with the central bank**, according to the finance ministry: USD 1bn through a 2031 eurobond with a 7.15% coupon rate and USD 700mn through a 2028 issue with a 7% coupon rate.
- **Lebanon**'s central bank governor stated that the **monetary impact of a domestic political crisis was limited** and there was monetary stability.
- **The Central Bank of Oman** plans **to issue** OMR 150mn (USD389.6mn) in **bonds** next month, thereby bringing total bond issuances this year to OMR 600mn.
- **The budget deficit** in **Oman narrowed** by 32.2% to OMR 3bn (USD 7.79bn) during Jan-Sep this year, thanks to the increase in revenues (supported by oil). A 34.8% rise in oil revenue to OMR 3.31bn supported the 20% rise in overall revenue to OMR 5.97bn.
- **Islamic banks** (and window operations) in **Oman** posted a 31.82% yoy growth in financing to OMR 2.9bn as of end-Sep while total customer deposits increased by 40% to OMR 2.8bn. Total assets of Islamic banks and windows stood at OMR 3.6bn, accounting for 11.6% of the total banking assets.
- **Oman** was one of the top two Arab countries (the other being UAE) in the 2017 World **Quality of Life Index** of the Expat Insider. Ranked 26th globally, Oman was ranked 16th on personal happiness and 9th on security and safety. *(More: https://www.internations.org/expat-insider/2017/quality-of-life-index-39185)*
- **Qatar**'s central bank issued a statement that there were no restrictions on banking transactions including transfers at the official exchange rates and that it was committed to providing all the **currency requirements of investors**. This came after MSCI announced last week that it might shift to using offshore rates to value Qatar's equities market given investors' difficulty in obtaining QAR. **MSCI** is getting feedback from the investment

community on the proposed shift until Dec 1, and is expected to then announce its final decision by Dec 5.

- **Saudi Arabia** reported a 11% yoy increase in revenues to SAR 142.1bn (USD 37.9bn) in Q3 this year, while spending increased by 5% to SAR 190.9bn; **the budget deficit shrank** by 9.5% yoy to SAR 48.7bn. The deficit totalled SAR 121.5bn in Jan-Sep, down 40% yoy.
- **Saudi Arabia** plans to further **ease requirements for foreign institutional investors** in its stock market: the CMA has issued a consultative paper offering a wide array of reforms (*https://cma.org.sa/RulesRegulations/Consulting/Documents/RQFFIILS_en.pdf*). The reforms include a reduction in the minimum value of assets under management needed for an institution to qualify as an investor to SAR 1.875bn (USD 500mn) from SAR 3.75bn, and allowing institutions to qualify subsidiaries and managed funds without submitting a separate application for each of them among others.
- **Foreign investors** continue to be **net sellers of Saudi stock**, though the dip has eased: Saudi individual investors remained net sellers of stocks in last week by a margin of SAR 14.29bn (USD 3.81bn, selling) to SAR 11.89bn (buying). Saudi institutions – mostly mutual funds and corporations – continued to be heavy net buyers – buying SAR 4.04bn and selling SAR 1.17bn.
- **Saudi Arabia** will impose a 5% **value added tax on gasoline** from Jan 1, 2018, according to a statement from a special VAT Twitter account set up by the General Authority of Zakat and Tax.
- Close to 70k **jobs** will be open for **women** in **Saudi Arabia** by 2030, in 4 sectors: the Job Creation and Employment Commission is planning to integrate women in computer programming (29k jobs), pharmacies (20k jobs), accounting (11k jobs) and marketing and advertising (10k jobs).
- **Saudi Arabia**'s business-to-consumer **e-commerce spending**

is estimated to be worth around SAR 29.7bn (USD 7.9bn) in 2016, according to the Saudi Communications and Information Technology Commission.

- **Saudi Arabia** is likely to start issuing **tourist visas** to foreigners from as early as next year, according to the head of the Saudi Commission for Tourism and Natural Heritage.

UAE Focus

- **Money supply** (M2) in the **UAE** declined by 1.0% mom to AED 1.224trn (USD 0.33 trn) at end-Oct, as a result of the decrease in near-cash deposits. Bank deposits grew by AED4.6bn while gross credit, the amount of credit that banks lend to companies, businessmen, individuals, and institutions, rose by 0.3% mom to AED 1.584trn.
- The Chairman of the UAE Banks Federation has **called for a delay in implementing VAT in the UAE**: he urged that companies be given at least six months from when the detailed implementing regulations are issued so that companies are better prepared to implement it correctly.
- The **UAE central bank** is "looking at **crowdfunding regulation**" in a bid to license crowdfunding platforms, and thereby boost financing for SMEs.
- **Dubai**'s Roads and Transport Authority (**RTA**) is implementing **projects** worth AED 15bn (USD 4.09bn) **to support Expo 2020**, including the 15-km, 7-station Route 2020 extension of Dubai Metro Red Line to the site of the Expo, the AED 404mn Airport Road Improvement Project and the construction of roads and interchanges to manage traffic in and around the Expo site (costing about AED 3.5bn).
- The total value of **trade in tobacco** in **Abu Dhabi** declined by 20% to AED 345.7mn (USD 94.13mn) during Jan-Sep this year. Tobacco re-exports edged down to AED 345mn, and imports went down in value to AED 3mn in Jan-Sep, versus AED 404mn and AED 8.5mn respectively during

the same period in 2016, while the exports remained very low.

- **Total expenditure** by **UAE residents** will rise by 26.5% to AED 900.9bn by 2022, from AED 712.16bn (USD 193.9bn) this year, according to Euromonitor. Spending on housing, food and beverages and transport will account for 58% of the total expenditures.
- **Spending on luxury goods** by **UAE** residents is expected to reach USD 8.044bn this year, according to data issued by Euromonitor International. The top-three items include luxury cars (USD 2.9bn), designer apparel and footwear (USD 1.63bn) and luxury hotels (USD 1.5bn).

Media Review

Magnus' negative view on China

https://www.ft.com/content/45091140-cac5-11e7-ab18-7a9fb7d6163e?segmentId=bc10e048-a5e6-5a6a-a3f6-70858663b23f

The real business cycle theory in 5 minutes

http://marginalrevolution.com/marginalrevolution/2017/11/game-theories-real-business-cycle-theory.html

Saudi Arabia's Arab Spring, at Last

https://www.nytimes.com/2017/11/23/opinion/saudi-prince-mbs-arab-spring.html

Credit Suisse next? (subscription)

https://www.ft.com/content/4bc598c4-cbc3-11e7-ab18-7a9fb7d6163e

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