

# Weekly Economic Commentary – Dec 3, 2017

## Markets

In a week loaded with major data releases the US stock markets scored new records (the S&P closed the longest monthly positive streak since 2007) with the Dow Jones surpassing 24,000 on expectations that the Trump tax reform was close to passing the Senate's vote (and in fact it was approved over the weekend). But the rally on Friday retreated abruptly on the news that Michael Flynn, former National Security Adviser in the Trump White House, was charged with lying to the FBI about contacts with the Russian ambassador. While US indices ended the week in positive territory, in Europe and emerging markets red ink dominated, and in Japan they were essentially stable. In currency markets the euro was almost unchanged against the dollar from a week ago at 1.19. The yen plunged on Friday but then recovered some of the losses. South Korea's won withdrew from the highest level in more than two years after the central bank announced the first rate hike since 2011. The GBP strengthened on optimism that the Brexit talks will proceed smoothly after the UK agreed to pay a hefty bill. US oil futures early in the week pulled back from a 2 1/2-year high but after the world's biggest oil producers announced the extension of production cuts throughout 2018, the prices rebounded sharply. The gold price lost some ground, but remained firmly in the range that has prevailed since late Sep.

## Global Developments

### **US/Americas:**

- **The second revision of US GDP data** recorded a 3.3% qoq ann growth in Q3, the top score since Q3 2014 and a few

decimals above the Q2 rate. The performance was boosted by investments, exports and private inventories. However, consumption expanded at a mere of 2.3% vs 3.3% in Q2.

- **The US Federal Reserve's Beige Book**, covering Oct through mid-Nov, reported that **economic activity expanded** at a modest to moderate pace in all 12 districts. Pre-holiday retail reports were mixed, but expectations for holiday sales are exuberant. Manufacturing expanded at a moderate pace across districts.
- **The US ISM manufacturing index** in Oct **lost** -0.5 points to 58.7 with supplier deliveries -4.9 points lower due to hurricane disruptions. New orders rose from 63.4 to 64 and production added 2.9 points to 63.9. The employment index was little changed.
- **The US PCE deflator** rose 0.1% mom (1.6% yoy) vs 0.4% in Sep. Goods prices fell -0.2% while services rose 0.3% as in Sep. Also the core PCE deflator growth was stable at 0.2% mom (1.4% yoy).
- **Sales of new single-family houses in the US** rose by 6.2% mom to an annual rate of 685K in Oct from 645K in Sep, the highest level since Oct 2007.
- **The US Case Shiller national house price index** increased by 6.2% yoy in Sep vs 5.9% in Aug.
- **US wholesale inventories** in Oct **fell** by -0.4% mom reversing a 0.3% increase in Sep; retailers' inventories slipped -0.1%, but excluding autos and parts, they gained 0.4% mom.
- **The US Conference Board's Consumer confidence index** **gained** 3.3 points to 129.5, a peak since Dec 2000, due to improvement in the perception of the present situation and economic expectations. Confidence in the labor market continued to rise, while inflation expectations over the next 12 months declined by 2 decimals to 4.5%.
- **The US trade deficit in goods** widened to USD 68.3bn in

Oct from USD 64.1bn in Sep. Nominal goods exports dropped -1% mom while imports gained 1.5%.

- **US real personal consumption rose** by 0.1% in Oct vs 0.5% in Sep. Nondurable goods led growth, while real durable goods spending declined after the surge in Sep. Real spending on services was almost flat.
- **US initial unemployment claims fell** by 2,000 to 238,000. The 4-week moving average rose 2,250 to 242,250. Continuing claims increased 42,000 to 1.957 million, but they are still close to historical lows.
- **Canada's real GDP grew** by 1.7% qoq ann in Q3 sharply down from the 4.5% growth in Q2 due to a -10.2% plunge in net export.
- **Brazilian GDP expanded** by 1.4% yoy (0.1% qoq sa) in Q3 from 0.4% yoy in Q2 and a contraction of -2.7% a year ago.

## Europe:

- **The eurozone inflation accelerated** to 1.5% yoy in Nov, from 1.4% in Oct due mostly to energy prices, while food inflation moderated. Core inflation was stable at 1.1% mom.
- **The eurozone's economic confidence indicator ticked up** by 0.5 points in Nov to 114.6. Improvements in construction and consumer confidence drove the results, while retail sector confidence declined. It was the best overall result since Oct 2000.
- **The Eurozone's M3 money supply growth** in Oct was **unchanged** from Sep at 5% yoy. The main driver was credit to governments, while private sector credit was sluggish. **M1 growth** decelerated to 9.4% yoy, far below the top of 11.6% in Jul 2016. Growth in private sector loans was little changed at 2.9% yoy.
- **The Eurozone's unemployment rate**, thanks to 88,000 new jobs, **fell** to 8.8% in Oct, the lowest since Jan 2009, from 8.9% in Sep.

- **The German Ifo business climate index rose** to 117.5 in Nov vs 116.8 in Oct, and reaching a new all time high, as entrepreneurs display optimism over the near future. Confidence in all industrial sectors improved, except for construction and retail.
- **German retail sales dropped** by -1.2% mom (0.2% yoy) in Oct vs 0.5% in Sep. German households are rediscovering their proverbial frugality.
- **The UK Nationwide Housing Price Index rose** in Nov by 0.1% mom vs 0.2% in Oct and in yoy terms was stable at 2.5%.

### **Asia Pacific:**

- **China's official PMI advanced** by 0.2 points to 51.8 with improvements across the board, particularly expectations on new orders and current production.
- **Japan's core inflation rose** marginally to 0.8% yoy in Oct from 0.7% in Sep, confirming that prices are not reacting much to the prolonged exceptional monetary stimulus.
- **Japan's industrial production increased** by 0.5% mom in Oct regaining some ground lost in Sep (-1.1% mom) thanks to auto and electronics output.
- **Japan's retail sales in Oct fell** by -0.2% yoy (0% mom) vs a 2.3% rise in Sep.
- **India's GDP growth accelerated** to 6.3% yoy in Q3 from 5.7% in Q2. The pick up was substantial across all industries. Consumption was the key driver, while investments are slowly recovering from a multi-year slump. Net exports contributed negatively to the growth rate.
- **The Korean central bank** for the first time since 2011 **hiked its rate** by 25bp from a historical low of 1.25% and stated that monetary policy will remain accommodative.
- **Business Confidence in South Korea increased** to 83 in

Nov from 81 in Oct, an almost 5 year top.

- **South Korean industrial production plunged** by -5.9% yoy in Oct, vs an 8.5% increase in Sep. Manufacturing output dipped -6.2% yoy. However, the downturn is mostly temporary due to the fewer working days in Oct.

**Bottom line:** With the approval of the US tax cut investors' optimism, that has lifted stock markets worldwide for 12 months, found a critical confirmation. The ensuing US budget deficit will add fuel to a global recovery that is extending even to areas worst hit in recent years such as Brazil, Russia and the Eurozone's periphery. However, it must not be forgotten that much of the economic ebullience is built on a mountain of public and private debt (most notably in China and Japan) and on unprecedented monetary measures which have inflated asset prices. The challenge for policy makers next year will be to gradually remove the stimulus without derailing the recovery process.

### Regional Developments

- **Kuwait's ruler** has invited **Qatar** to attend this week's **Gulf Cooperation Council summit** to be held in Kuwait on Dec 5-6.
- **S&P lowered Bahrain's** long-term foreign and local currency **sovereign credit ratings** to "B+" from "BB-", citing weak external liquidity and increasing financial risk due to more limited access to international capital markets.
- **Data usage in Bahrain** grew by 53% to more than 296.5mn gigabytes on broadband packages during 2016, disclosed the acting general director of the Telecommunications Regulatory Authority. As of H1 2017, nearly 71% of mobile subscriptions had data subscriptions, up from 64% in 2016 and 57% in 2015.
- **Money supply (M2) in Egypt** grew by 40.48% yoy to EGP 3.09trn (USD 173.9bn) as of end-Oct, according to central bank data.

- **Egypt's central bank removed foreign currency restrictions for importers of non-essential goods:** in 2012, the central bank had implemented a deposit (of USD 10,000 per day and USD 50,000 per month) and withdrawal limits (of USD 30,000 per day) for importers of non-essential goods.
- **Egypt plans to develop and implement 11 natural gas projects** worth USD 17.5bn between 2018 and 2023: during this period, these projects would likely produce 1.9 billion cubic feet of gas per day and 50,000 barrels of condensates.
- **Industrial growth rate in Egypt reached 7%** in Q1 of the 2017-2018 financial year, disclosed the Minister of Industry and Trade. He also stated that the industrial growth rate registered -17% during 2017.
- **Iraq is planning a USD 2bn sovereign bond issue** in 2018, currently awaiting parliamentary approval for the plan, as per the central bank governor. Iraq's budget deficit, according to a draft budget, is running at around IQD 18-19trn (USD 15.4-16.3bn).
- **Oil exports from Iraq's southern ports averaged 3.5mn barrels per day (bpd)** in Nov, according to an oil official. A previous figure of 3.9mn bpd, the highest ever from the Gulf ports, was just for the day of Nov 29.
- **Jordan's total exports touched USD 5.48bn** in Jan-Sep this year, with **trade deficit** widening by 11% during the same period.
- **Kuwait Direct Investment Promotion Authority plans to attract USD 50bn foreign investments** by 2030. The authority plans to set rules and regulations for foreign companies wishing to establish local firms, in addition to receiving interested companies' applications and referring them to relevant bodies to be approved.
- **Omani exports of crude oil dropped** by 8.7% to 245.19mn barrels during Jan-Oct 2017. China was the largest importer of Omani crude oil – 172.11mn barrels imported

through Oct, constituting 70.19% of Oman's exports – followed by India (24.35mn barrels) and Taiwan (17.49mn barrels).

- **Net electricity production in Oman grew 5% yoy** to 28,123.9 GW/H till end-Sep this year, according to NCSI data.
- **Slowing outflows:** foreign customers' deposits at banks in **Qatar** fell by only QAR 5.1bn (USD 1.4bn) from the previous month to QAR 137.7bn in Oct. The previous months had seen declines of QAR 6.2bn (Sep), QAR 8.2bn (Aug), QAR 13.4bn (Jul) and QAR 14bn (Jun). Qatari banks owed banks outside the country QAR 171.7bn in Oct (Sep: QAR 169.5bn) – the first increase since the sanctions were imposed.
- **Qatar Investment Authority (QIA)** might **invest in local real estate development** Katara and national carrier Qatar Airways as it supports **local projects**, revealed the sovereign wealth fund's chief executive.
- **Saudi Arabia's foreign reserves rose** by USD 8.3bn from Sep to USD 485.9bn in Oct – registering an increase for the first time since Jun. Outstanding bank loans to the private sector shrank (for the eighth consecutive month) by 1.2% yoy in Oct.
- **Saudi Arabia** issued SAR 6.68bn (USD 1.78bn) of **Sukuk** by reopening a domestic Sukuk issue that it originally made in Oct, bringing the Oct Sukuk issue to a total of SAR 16.68bn (USD 4.54bn).
- A senior **Saudi prince** was freed after being detained during the **anti-corruption** raids, on reaching “an **acceptable settlement agreement**” believed to be the equivalent of more than USD 1bn. According to a senior Saudi official, at least three other people allegedly involved in corruption cases have also finalized settlement agreements.
- **Saudi Arabia's SABIC** plans to spend USD 3-10bn on **acquisitions** over the next five years in specialty plastics and agri-nutrients, in a bid to diversify and

reduce reliance on oil, disclosed the company's chief executive.

- **Saudi women entrepreneurs grew** significantly from 4% to 39% during the decade spanning 2007-2017, thanks to government support, reported *Al-Eqtisadiah*.
- **M&A deal value in the MENA region increased** by 23% yoy to USD 4.3bn in Q3 this year, according to **EY**; however, the number of deals dipped by 10% to 76 in the quarter. Saudi Arabia topped the list by value – with five deals amounting to USD 1.6bn – followed by Kuwait (5 deals, USD 914.8mn) and UAE (21, USD 547.4mn). Banking and capital markets was the top performing sector by deal value (USD 1.5bn), followed by the telecom sector (USD 847mn).
- MENA region has **improved its score** in the **Global Entrepreneurship Index** by 2.9% on average: among the **GCC** nations, Qatar has been ranked 22, followed by UAE (26), Oman (33), Bahrain (35), Kuwait (39) and Saudi Arabia (45).
- **Hotels in the Middle East** witnessed a **drop in occupancy rates** in Sep this year, according to EY's MENA Hotel Benchmark Survey Report: Kuwait reported the highest increase in occupancy across the MENA region, rising by 33.5% yoy to 44.2%. Dubai reported a 18.4% yoy decrease in RevPAR to USD 125, due to average daily rates dropping by 12% and occupancy by 5.8%.

## **UAE Focus**

- With **Saudi Arabia and UAE** both implementing VAT from Jan 1, 2018, the **exporters** based in the two countries **will need to pay VAT on goods transported between the two nations**. Only exports to the non-implementing GCC states will be eligible for the zero rating applied to exports, which will allow businesses to reclaim VAT paid on input costs.
- With the price range for **Abu Dhabi National Oil**

**Company's (Adnoc) IPO** – a minority stake in the company's subsidiary Adnoc Distribution – set at between AED 2.35-2.95 per share, and with a healthy appetite from investors, the total market value could be between USD 8-10bn: the IPO is most likely the largest listing in the UAE to date. The company also announced, separately, that it would spend – on boosting gas output, and investing in international downstream activities among others – more than AED 400bn (USD 109bn) in the next five years.

- **Assets of Islamic banks in the UAE** grew by 6% since the start of 2017 to touch AED 535bn (USD 145.7bn) by end-Oct, accounting for 20.2% of total banking assets, according to central bank data. The value of credit provided by Islamic banks rose by 7.7% to AED 361bn by end-Oct.
- **Expo 2020 Dubai** has so far awarded over USD 3bn in **contracts** this year: this includes AED 10.8bn (USD 2.94bn) construction and AED 411mn non-construction contracts, according to a senior government official.
- **UAE petrol prices will rise** by 5.91%-6.48% mom in Dec; diesel prices will rise by 4.26% mom to AED 2.20 (USD 0.60) in tandem with international prices.
- **Dubai International Airport** reported a 6.9% yoy **increase** in **passenger traffic** in Oct, handling a total of 6.86mn passengers; this brings the year-to-date number to 73.43mn (+5.9% yoy). Flight movements however contracted for the sixth month in a row in Oct, although the number of passengers per flight grew 11.6% to 213.
- According to the **Global Islamic Economy Report 2017-2018**, the **UAE** ranked first among 10 countries in three sector indicators Modest Fashion, Halal Media and Recreation, and Halal Pharmaceuticals and Cosmetics, while Malaysia topped the overall ranking followed by the UAE and Saudi Arabia (*The report can be downloaded at:*

<https://www.salaamgateway.com/en/story/ReportStateoftheG>

## **Media Review**

**All you need to know about the bitcoin rise from 0.01 to 11,000**

<https://www.bloomberg.com/news/articles/2017-12-01/understanding-bitcoin-s-rise-0-01-to-11-000-quicktake-q-a>

**How to short the bitcoin**

<https://www.bloomberg.com/news/articles/2017-11-27/calling-a-bitcoin-top-here-s-how-you-can-short-the-digital-coin>

**Transactions on dark pools hide the equities true price movements**

<https://seekingalpha.com/article/4127985-s-and-p-500-goes>

**Long dated emerging market bonds attract record volumes**

<https://www.ft.com/content/9c539fc4-d501-11e7-8c9a-d9c0a5c8d5c9?segmentId=bc10e048-a5e6-5a6a-a3f6-70858663b23f>

**Sale of the century? \$300-billion Saudi state sell-off moves slowly**

<https://www.reuters.com/article/us-saudi-privatisation/sale-of-the-century-300-billion-saudi-state-sell-off-moves-slowly-idUSKBN1DV45J>

**Hedge Funds Signal Trust in OPEC**

<https://www.bloomberg.com/news/articles/2017-12-02/hedge-funds-signal-trust-in-opec-as-short-sellers-retreat>

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