

Weekly Economic Commentary – Dec 10, 2017

Markets

After being hit by a tech sell off, the S&P500 ended the week with another record (only a few points above the previous one on Nov. 30), as the payroll report spread another jolt of optimism on trading floors. European stocks were even more ebullient, especially financials, after the announcement of the Brexit deal which includes a harmonization of banking rules and the disclosure of the final Basel rules. Furthermore, German stocks were pushed up by the prospect of another Grand Coalition in Berlin. Emerging markets were more subdued and overall lost some ground in the absence of a catalyst for a rebound after the losses early in the week. Regional markets were mostly down, except Qatar where hopes of a solution to the crisis were rekindled by the invitation to the GCC Summit. In currency markets the dollar dominated on major crosses, while the GBP cheered the Brexit deal with a remarkable swing up. Oil prices were largely stable as the festive mood is sinking in. Gold prices fell towards the lower limit of the trading range that has prevailed for months. Some argue that the reason for the weakness is the existential challenge brought about by the Bitcoin that last week set an impressive series of records for reasons that nobody can convincingly explain.

Global Developments

US/Americas:

- **The US non-farm payroll added 228,000 jobs in Nov** after 244,000 in Oct, with a large contribution from manufacturing and to a lesser extent from healthcare, retail and temporary services. The unemployment rate and

the participation rate were stable at 4.1% and 62.7%, respectively. Earnings growth accelerated slightly to 2.5% yoy.

- **The US non-manufacturing ISM fell** from 60.1 in Oct to 57.4 in Nov. Business activity fell from 62.2 to 61.4, employment fell from 57.5 to 55.3 and new orders lost 4.1 points to 58.7.
- **The US trade deficit** in Oct **rose** to USD 48.7bn from USD 44.9bn in Sep, the largest in 2017, due mostly to a USD 3.8bn increase in imports.
- **US Unemployment insurance claims fell** 2,000 to 236,000. The 4-week moving average slid 750 to 241,500. Continuing claims dropped 52,000 to 1.908 million.
- **The University of Michigan Consumer sentiment index** in Dec **retrenched** -1.7 points to 96.8. Consumer expectations were particularly weak (-4.3 points to 84.6), but current conditions improved and inflation expectations over 12-month inflation rose from 2.5% in Nov to 2.8% in Dec.
- **US wholesale inventories declined** by -0.5% mom in Oct, vs a 0.1% gain in Sep with nondurable goods plunging -1.3% mom. Durable goods were almost flat (0.1% mom).
- **The Brazilian central bank cut the Selic rate** by 50 bp to 7%, which is still in neutral territory.

Europe:

- **The EU and the UK reached a key agreement on the terms of the Brexit.** Essentially, the UK has conceded on all points, will pay a hefty bill, will be tied to most EU rules but will be in no position to influence them. The deal will be reviewed at the European Council meeting on Dec 14-15.
- **Retail sales in the Eurozone plunged** -1.1% mom (0.4% yoy) in Oct, offsetting the 0.8% (4.0% yoy) advance in Sep. The fall involved all countries and sectors.
- **German industrial production** in Oct unexpectedly **shrunk**

- by -1.4% mom (2.4% yoy) adding to the -1.6% mom slide in Sep. All sectors, except energy, tumbled, with manufacturing and mining production shedding -2%.
- **German manufacturing orders expanded** by 0.5% mom (6.8% yoy) in Oct after a 1.2% increase in Sep with both the domestic and foreign components upbeat.
 - The **UK industrial production** in Oct was **unchanged** mom (3.6% yoy), following a 0.7% (2.5% yoy) rise in Sep. A 2.7% mom jump in mining and quarrying, driven by the reactivation of oil rigs after maintenance, led the performance, while manufacturing, expanded at mere 0.1% mom.
 - The **UK trade deficit for goods** was **marginally higher** in Oct at GBP 10.8bn vs GBP 10.5bn in Sep.

Asia Pacific:

- The second estimate of Q3 **Japan's GDP** recorded a 0.6% qoq growth rate, up from 0.3% in the preliminary estimate (and 0.3% in Q2). Domestic demand was boosted by the upward revision in investment. However, private consumption remained weak.
- **Japan's current account surplus jumped** to JPY 2.18 tn in Oct from JPY 1.55 tn a year earlier.
- The **consumer confidence index in Japan crawled up** to 44.9 in Nov from 44.5 in Oct, the highest reading since Sep 2013, as all 4 components improved.
- **China's inflation was flat** mom in Nov (1.7% yoy) vs 0.1% (1.9% yoy) in Oct due to another drop in food prices. Other main CPI components displayed modest increases.
- The **Caixin China composite PMI advanced** to 51.6 in Nov from 51.0 in Oct led by an improvement in the services sector (51.9 in Nov from 51.2 in Oct).
- **China's foreign trade surplus narrowed** to USD 40.21bn in Nov from USD 44.24bn a year earlier. Exports rose 12.3% yoy and imports 17.7%.
- **Australia's GDP growth slowed** to 0.6% qoq (2.8% yoy) in

Q3, from 0.8% (1.8% yoy) in Q2 due to a sharp rise in non-dwelling construction and a significant inventories growth. Consumption managed to gain a bit.

- **Inflation in Taiwan edged up 0.3% yoy** in Nov, after a -0.3% fall in Oct. Food prices declined -2.7% yoy after a -3.9% decrease in Oct. Excluding food, consumer prices ticked up 1.6% yoy vs 1.2% in Oct.

Bottom line: With the Brexit saga coming to an end, another risky bump in the road to a solid rebound in global growth was removed. Nevertheless the elephant in the room represented by the flood of central bank liquidity will need to be tamed as soon as possible before some exogenous shock pricks the bubbles in some financial market. The US Fed next week will give its contribution, but the ECB is not ready and the Bank of Japan is not even contemplating an end. More than USD 11 tn of sovereign and corporate bonds displayed a negative yield at the end of Nov, despite accelerating global growth. Past experience teaches us that those who will end up paying the bill, in this phase are strongly confident that their superior acumen will divine the moment when to run for the exit before everybody else.

Regional Developments

- Three **Bahrain**-based financial institutions – Al Baraka Banking Group, Kuwait Finance House-Bahrain and Bahrain Development Bank (BDB) – have created the world's first **Fintech consortium** to develop **Sharia-compliant banking solutions**. Eight more banks are expected to join the consortium in phase 2.
- **Bahrain's** newly created **Real Estate Regulatory Authority** is likely to begin operations early next year. A national strategy – addressing issues like licensing procedures and escrow accounts – is likely to be issued in Mar.
- **Bahrain**, after being listed as a **non-compliant tax jurisdiction** by the EU, has committed to become a member

of the Inclusive Framework on BEPS.

- **Egypt's PMI** posted an **expansionary** reading in Nov, with the index rising to 50.7, from 48.4 the month before, and thereby ending the 25 consecutive months of below-50 figures. The improvement was the strongest recorded since Aug 2015.
- **Egypt & its loans:** Egypt signed an agreement for a USD 1.15bn development policy loan from the World Bank; the country will receive its next USD 2bn loan disbursement from the IMF in the third week of Dec, according to the finance minister.
- **Foreign reserves in Egypt** were USD 36.723bn at end-Nov. Separately, the central bank disclosed that a total of USD 4bn of its **debts** had been **repaid** to the **African Export-Import Bank**.
- **Egypt** plans to sell USD 1bn in dollar-denominated, one-year **treasury bills** on Dec 11, according to the central bank.
- **Egypt's** Minister of Electricity and Renewable Energy stated that the country will be **capable of exporting its electricity surplus next year** and aims to be a regional hub for electricity transfer and circulation.
- **Egypt** will **lower tariffs on cars imported from EU** countries from Jan 2018, as part of the Egyptian-EU partnership agreement, reported the *Al-Ahram* Arabic news website, citing the Vice-Minister of Finance for Tax Policy.
- **Jordan and Saudi Arabia** have signed an agreement to **connect** both countries' **electric grids**, to help reduce the load of oscillations and also to boost reliance on renewable energy.
- US provided **Jordan** with a USD 475mn direct grant to support priority projects including to reduce the deficit under the 2017 public budget. This cash transfer will bring the total to USD 812mn under the Economic Support Fund for Jordan for 2017.
- **Real estate activity in Kuwait** picked up, according to a

National Bank of Kuwait report. Sales grew by 46% yoy to KWD 216.9mn in Oct, recording the highest monthly growth since Jun 2014.

- **The World Bank** plans to add USD 700mn for projects in **Lebanon**, in addition to the USD 1.5bn already disbursed towards supporting “the economic and social stability of Lebanon”. The funds are to be directed towards the education and health sectors, as well as support the establishment of a special economic zone in Tripoli.
- **Oman’s** Minister of Manpower announced that a plan is set to provide **25,000 jobs by end 2017**. He declared that “the recruitment will start with immediate effect” and will involve both the private and public sector.
- The Emir of **Qatar** stated that Qatar was ready to meet and resolve disputes with its GCC counterparts, but also stated that sovereignty was not subject to compromise.
- **Qatar** plans to make the economy self-sufficient, and the **2018 state budget** will focus on developing local industries (including provision of subsidies) and the private sector.
- **Qatar** will be able to “comfortably” raise USD 9bn through an international **bond issuance next year**, according to the CEO of the Qatar Financial Centre. He also noted that Asian funds were showing increasing interest in Qatari debt.
- The central bank of **Qatar** revealed that the **international reserves and foreign currency liquidity** measure rose to USD 36.1bn in Oct (Sep: USD 35.6bn).
- **Qatar’s** central bank sold QAR 1.15bn (USD 315mn) of **Treasury bills** in a **monthly auction** last week.
- **Saudi Arabia’s public prosecutor** disclosed that many persons detained in the **anti-corruption** raids have agreed to settlements to avoid prosecution. A total of 320 people had been subpoenaed to provide information about the alleged graft while 159 remain in detention. *Reuters* reported, citing a Saudi minister, that an estimated USD 50-100bn of seized funds could be diverted

into economic development projects.

- **Saudi Arabia's PMI increased** to a 27-month high of 57.5 in Nov (Oct: 55.6), supported by output growth and new order expansion.
- **Saudi Arabia's** General Authority of Zakat and Tax plans to allow a **grace period for some long-term supply deals** to be renegotiated in the light of VAT's introduction. In order for a contract to be eligible for a grace period, it needs to have been signed before May 30, 2017 and the customer has to be fully entitled to deduct input tax in respect of the supply of goods or services.
- The **Saudi stock exchange** has signed a **deal with Nasdaq**, in a bid to **transform its financial infrastructure**: Tadawul plans to upgrade its post-trade technology, including registry, depository and risk-management systems, to be completed by H2 2020.
- The **Saudi Real Estate Refinance Company**, in a bid to increase liquidity in the housing market, has begun discussions with investors interested in the new market opportunity, and will also actively reach out to international investors, according to the firm's CEO. The demand for real estate financing is set to surpass SAR 500bn (USD 133bn) by 2026, according to official estimates.
- **Saudi tourist visas** can now be issued by travel agencies (in category D) for tourists and for educational or medical treatment purposes inside and outside the country, reported *Sabq* online newspaper.
- **Saudi Arabia's tourism** body, the Saudi Commission for Tourism and National Heritage, announced that nine museum and heritage projects would be awarded across the Kingdom at costs totaling more than SAR 433mn (USD 155mn).
- The number of **driving licenses** obtained by **Saudi women** from UAE, Bahrain and Jordan reached 7,550 licenses at a total cost of SAR 11.627mn (\$3.1 million)
- Saudi Arabia, UAE and Bahrain sent only ministers or

deputy prime ministers to attend **the GCC annual summit in Kuwait**. Prior to this meeting, **UAE** issued a resolution stipulating the establishment of a **bilateral committee with Saudi Arabia** on economic, political and military issues, thereby consolidating ties between the two nations.

- **Saudi Arabia and UAE** – with **net estimated household wealth** of USD 772bn and USD 603bn respectively – were the top ranked in the region, as per the Credit Suisse Research Institute's 2017 Global Wealth Report. Total wealth in the Mena grew by USD 2.22trn or 156% since 2000, above the global average of 140%.

UAE Focus

- **UAE's PMI increased** to 57 in Nov (Oct: 55.9), recording the highest gain since Aug, thanks to a steep growth in output (fastest in 33 months) and new businesses. The growth of buying activity also touched a record high last month, with around 42% of the respondents noting increasing quantities of purchases.
- The Abu Dhabi National Oil Company (**Adnoc**) **Distribution IPO** priced each share at AED 2.50, and with 1.25bn shares (10% of its share capital) sold, the deal was valued at AED 3.1bn (USD 851mn). The stock, which will be listed on the Abu Dhabi Securities Exchange (ADX) from Dec 13, is the first IPO on the ADX in the last six years and the largest IPO in Abu Dhabi in a decade.
- **UAE was included in a list of non-compliant tax jurisdictions** by the EU for "failing to meet agreed tax good governance standards", citing non-compliance to the BEPS (base erosion and profit sharing) minimum standards. The UAE authorities have committed to finalise this by Oct 2018 and ratify by Mar 2019.
- **UAE's projects awards** increased by 27.8% qoq and 40.9% yoy in Q3 this year – the highest level of projects since Q1 2014 – raising the total awards this year by

7.6% yoy, according to a report by ADCB.

- The **Abu Dhabi Investment Authority** and Tunisia plan to **sell their majority stake in Banque de Tunisie et des Emirats Bank** – each own 38.9% of the bank's capital – by launching a tender which will be open from Dec11-Jan 15.
- **GEMS Education**, which operates more than 250 schools across 14 countries, is planning a **London IPO** and is likely to have a market capitalisation of around USD 4.5-5bn.
- The **Dubai Land Department** has closed its records department, having moved to a fully **smart archiving**. The staff from the department will be retained, and trained to handle the new technology or moved to other teams.
- The direct contribution of the **travel and tourism sector** to **UAE's** GDP was AED 68.5bn – equivalent to 5.2% of the total GDP in 2016, according to the Chairman of the World Travel & Tourism Council.
- **Vehicle registration** and testing as well as **driver licensing fees have been increased** in the **UAE**; the revised fees will be in addition to service charges and other related fees charged by the different emirates.
- **UAE's** Federal National Council (**FNC**) touched upon the high **unemployment rates of Emiratis** after it came to light that there are 8,000 administrative jobs in the public sector currently filled by expats. The minister explained that there would be 7,685 job vacancies for Emiratis in 2018.
- **UAE** ranks high in **technology adoption** with respect to financial services, according to a new HSBC report "Trust in Technology". A survey of over 12,000 people in 11 countries disclosed that 59% of respondents in the UAE believe that only biometrics will be used to access financial information in the next 10 years. About 77% in the UAE prefer using new technology when possible versus just 49% in Canada and 51% in Germany.

Media Review

Saudi Aramco plans for a life after oil

<https://www.ft.com/content/e46162ca-d9a6-11e7-a039-c64b1c09b482>

Ali Abdullah Saleh's death will shake up the war in Yemen

<https://www.economist.com/news/middle-east-and-africa/21732137-former-dictator-fought-houthis-and-then-allied-them-his-final-break>

Why the Cruise Industry Is Booming in the Middle East

<https://www.bloomberg.com/news/articles/2017-11-14/why-the-cruise-industry-is-booming-in-the-middle-east>

The Globalization of Our Discontent

<https://www.project-syndicate.org/commentary/globalization-of-discontent-by-joseph-e-stiglitz-2017-12>

Powered by:

