

Weekly Economic Commentary – Jan 7, 2018

Markets

The bullish sentiment sustained by the approval of the US tax bill continued to pervade markets in the first days of 2018. The Dow Jones surpassed the 25,000 threshold pulling all other US indices and most other developed and emerging markets. Regional markets followed suit (apart from Bahrain and Egypt) on the back of buoyant oil prices. In currency markets, the euro jumped above 1.2 against the dollar, which continues to weaken on major crosses: the dollar index has lost 10% in few weeks. Oil prices started the new year with a bang, as the speculative longs reach record highs and US inventories fell by 7.4mn barrels smashing predictions of a 4.5mn barrel decrease; however, the gasoline inventory data, coming out above expectations, damped the bullish mood. The gold prices got a lift from the wobbling dollar and other precious metals rally, reaching a three-month high above 1300 USD/ounce.

Global Developments

US/Americas:

- **Non farm-payroll employment in the US added 148,000** units in Dec, vs 252000 in Nov, much below expectations, as retail employment suffered the “Amazon effect”. The unemployment rate was unchanged at 4.1% and the participation was stable at 62.7%. Wage earnings rose by 0.3% yoy and 2.6% yoy. In 2017 2.1 mn jobs were added to the US payroll compared with 2.2mn in 2016.
- **The minutes from the US Fed FOMC** did not reveal any change to the baseline scenario of 3 rate hikes in 2018. The debate focused on the transitory or permanent nature of the current low inflation with most members arguing

that transitory factors predominate. Many participants expected a boost to consumption from income taxes cuts, although the magnitude is deemed hard to fathom. The minutes showed the Fed is little concerned about the flatter yield curve.

- The **US ISM manufacturing index increased** by 1.5 points to 59.7 in Dec beating expectations. New orders and production improved, but foreign trade remains a black spot. However the **nonmanufacturing ISM fell** from 57.4 in Nov to 55.9 in Dec pulled down by the business activity index drop from 61.4 to 57.3.
- The **US trade deficit** in Nov reached USD 50.5bn from USD 48.9bn in Oct. Both imports and exports rose substantially with capital goods propelling total exports to their highest level since 2014. Imports hit an all-time record, with gains in all goods categories.
- **US factory orders surged** by 1.3% mom in Nov vs 0.4% in Oct to post their fourth consecutive monthly gain, thanks to huge nondefense aircraft orders.
- **Initial claims for unemployment insurance benefits in the US increased** by 3,000 to 250,000. The 4-week moving average increased by 3,500 to 241,750. Continuing claims fell 37,000 to 1.914 million
- **Canada's seasonally adjusted Ivey PMI** hit 60.4 in Dec almost on par with 63 in Nov, the third consecutive reading above 60s and the seventh in 10 months.

Europe:

- **Eurozone inflation slowed** to 1.4% yoy in Dec from 1.5% in Nov. Energy prices were the main driver although their rise moderated. Core inflation remained at 0.9% yoy, thanks to stable services and nonenergy goods inflation.
- **The eurozone's M3 money supply rose** by 4.9% yoy in Nov. The M1 growth slowed to 9.1% yoy, well below the peak of 11.6% recorded in Jul 2016. The major boost to M3 growth

came from the QE purchases, while private sector credit slowed.. Loans to the private sector rose 3.1% as in Oct.

- **German retail sales expanded** by 2.3% mom (4.0% yoy) in Nov, vs -1.0%.in Oct. This figure offsets somehow the weak performance in Q3, but it is unlikely that private consumption in Germany will revert soon to the perky growth displayed in H1 2017.
- The **UK Nationwide Housing Price Index rose** by 2.6% yoy (0.6% mom) in Dec, vs 2.5% (0.1% mom) in Nov. The Bank of England's rates hike has already pushed mortgage costs up.

Asia Pacific:

- **The official NBS Manufacturing PMI in China dropped** to 51.6 in Dec from 51.8 in Nov. Output was almost stable at 54.0 vs 54.3 in Nov, like new orders (53.4 vs 53.6). Employment declined for the ninth month in a row to 48.5 from 48.8. Conversely new export orders advanced to 51.9 from 50.8 and business confidence hit its highest since Sep (58.7 from 57.9).
- **The Caixin China Composite PMI jumped** to 53.0 in Dec 2017 from 51.6 in Nov, the highest reading in a year, as services companies recorded the fastest expansion since Aug 2014 (53.9, from 51.9 in Nov) and factory activity growth hit a three-month high (51.5 vs 50.8).
- The **Nikkei Manufacturing PMI for South Korea declined** to 49.9 in Dec form 51.2 in Nov, the first reading below 50 since Aug.
- **South Korea's trade surplus shrunk** to USD 5.8bn in Dec, from USD 7.6bn in Nov. Export growth was driven by a surge in semiconductor shipments (64.9% yoy, after 65.2% in Nov.). The primary destination of exports (up 8.9% yoy) were the ASEAN countries. The **current account surplus** rose to USD 7.4bn in Nov from USD 5.7bn in Oct.
- **Singapore's GDP expanded** by 2.8% qoq (3.1% yoy) in Q4

compared to 9.4% (5.4% yoy) in Q3.

- **Malaysia's trade surplus narrowed** to MYR 9.9bn in Nov, from MYR 10.5bn in Oct despite a strong tech trend.
- **Taiwan's inflation** was 1.2% yoy in Dec (an 11 month high), driven by a 7% yoy rise in fuel and lubricant prices and an uptick in food prices, after 3 months of decline. Inflation was 0.6% in 2017 vs 1.4% in 2016.

Bottom line: With the start of the new year a positive mood has consolidated, as macro data confirms that the odds of a global recession are fast diminishing and the synchronized expansion gathers momentum. The risks are mainly of political nature: US lawmakers must reach an agreement on a spending deal before Jan 19 to avoid a government shutdown; in Germany the negotiations for a new government 3 months after the elections are not producing any results; and the Italian general elections in two months might trigger another eurozone crisis; in Catalonia confusion has not been dispelled by the regional elections.

Regional Developments

- **Bahrain's** finance ministry pledged to roll out VAT this year, in compliance with the GCC commitment.
- As part of the **Bahrain International Airport's** USD 1.1bn modernisation project, the airport will receive a new BHD 1.7mn (USD 4.5mn USD) engineering complex, housing the departments related to aircraft maintenance and logistics.
- **Egypt's PMI** dipped to below-50 in Dec: headline PMI fell to 48.3 from 50.7 in Nov, as both new export orders and total new business fell below the 50-mark. However, the contraction registered in Q4 2017 was the slowest recorded in over two years. A positive note was that the rate of job shedding was the slowest seen for 28 months during Dec, and signalled only a marginal fall in employment.
- **Foreign reserves** in **Egypt** grew to a record-high USD

37.02bn at end-Dec compared to USD 36.7bn in end-Nov, and USD 24.265bn a year ago.

- **Egypt repaid** around USD 30bn in **foreign debt** in 2017, according to a central bank source, and expects to pay off more than USD 12bn of its debts in 2018. The debt stood at USD 79bn at the end of the 2016-17 fiscal year.
- **Egypt's trade deficit narrowed** by 26% yoy in Jan-Nov 2017, as imports declined by USD 10bn to USD 51bn while exports grew to USD 20.4bn from USD 18.4bn during the same period a year ago.
- **Money supply (M2) in Egypt** grew by 20.73% yoy to EGP 3.14trn (USD 177.4bn) at end-Nov.
- **Egypt** announced that it would **extend its nationwide state of emergency** for three months from Jan 13; first imposed in Apr last year, it was extended in Jul and again in Oct.
- **Iraq's oil exports** from its southern ports increased to a record high of 3.535mn barrels per day (bpd) in Dec – beating the previous record of 3.51mn bpd set in Dec2016 – from 3.5mn bpd the previous month, reported *Reuters*.
- **Total remittances by Jordanian expats** amounted to USD 3.4bn by end-Nov 2017 – equal to the amount recorded a year ago – according to the central bank.
- Over USD 1bn was **invested** in the **water sector in Jordan** last year, revealed a senior government official.
- A new **law** regarding the percent of **Kuwaiti workers in the private sector** will be issued within Q1 2018, reported *Aljarida* daily.
- **Oman's** government signed a **deal with Saudi Arabia** to obtain OMR 81mn (USD 210mn) financing for one of its key projects in the Duqm Industrial Zone.
- **Oman's corporate tax rate increase** from 13% to 15% will boost government revenue by OMR 100mn in 2018.
- **Broad money supply M2** in Oman grew by 3.7% yoy to reach OMR 16.1bn by end of Oct, whereas M1 declined 1.9% yoy to reach OMR 5bn by end of Oct.
- **Qatar** reported a 1.9% yoy **growth in GDP** in Q3, up from

0.3% the previous quarter. The hydrocarbon sector grew by 0.2% (Q2: -3.1%) while the non-hydrocarbon sector posted a 3.6% growth (Q2: 3.7%). Notably, the financial sector recovered in Q3, growing by 5.5% versus Q2's 4.8%.

- **Saudi Arabia's King ordered a monthly payment of SAR 1,000 (USD 267) to state employees** over the next year to compensate for the increase in tariffs and introduction of VAT. About 1.18mn Saudis are employed in the government sector and there are more than 1.23mn pensioners and beneficiaries of pension payments.
- **Saudi Arabia's PMI** edged down to 57.3 in Dec from a two-year high of 57.5 recorded in Nov. Output growth slowed to 62.8 in Dec (Nov: 64.3), while growth in new orders eased to 63.2.
- **Saudi Arabia** announced that it would bear the **VAT burden** of Saudi citizens' private healthcare and education services, according to a royal decree; the government also announced that it would pay the VAT on citizens' first homes up to a value of SAR 850,000.
- **Clarifications on VAT in Saudi Arabia:** the General Authority for Zakat and Income Tax clarified that there would be no VAT on lease and mortgage deals (including cars or real estate) signed before Jan 1. It was also clarified that there would be no charges on withdrawals from ATMs – either the customers bank or any other bank.
- **Saudi Arabia** expects a total of SAR 35bn in **revenue from VAT** implementation this year, according to the project manager of VAT at General Authority of Zakat and Tax.
- **Saudi Arabia has increased the price of petrol**, effective Jan 1: the price of Octane 91 increased by 82% to SAR 1.37 per litre while 95 Octane is up 126% to SAR 2.04 per litre. Diesel prices for transport remained unchanged.
- **Saudi Arabia's electricity tariffs** have also been revised upwards: a revised bill calculation system, plus the 5% VAT, is expected to result in a three-fold

- increase in electricity tariff. The new system will calculate up to 6000 kWh in single slab (18 halalas or SAR 0.18) as opposed to 3 slabs previously (5 halalas for 1-2000 kWh, 10 for 2001-4000 and 20 for 4001-6000).
- Ahead of the IPO, **Saudi Arabia** changed the status of **Aramco** to a joint-stock company as of Jan 1. Aramco has a fully paid capital of SAR 60bn (USD 16bn) divided into 200bn ordinary shares, and its board will comprise of 11 members, according to an official bulletin. The government, which will remain Aramco's major shareholder, will propose 6 members of Aramco's board, but shareholders with more than 0.1% stake will have the right to propose a member to the general assembly.
 - **Saudi Arabia** disclosed that the **number of expatriate employees** fell to 10.6mn in Q3 2017 versus 10.79mn recorded in Q2. Of the total 509,180 work visas issued in Q3, 39.9% were issued for the private sector.
 - Overall **unemployment rate in Saudi Arabia** fell 5.8% qoq in Q3; among women, the overall unemployment rate fell to 21.1% (Q2: 22.9%). About 31.3% of total 1,231,549 Saudi job-seekers were within the 25-29 age group; 84% of the total Saudi job-seekers were women.
 - High net worth families and residents in **Saudi Arabia** contributed to over 70% increase in demand for **second European and Caribbean nationality** in Q4 2017, according to Citizenship Invest.
 - **Total expat remittances from the GCC** amounted to USD 111bn in 2016, according to the GCC Central Statistics Centre's annual report. Saudi Arabia topped the list, where expats transferred USD 39bn, followed by UAE, with remittances touching USD 32bn; expatriates in Kuwait remitted USD 15 bn.

UAE Focus

- **UAE's PMI** rose to a 35-month high of 57.7 in Dec (Nov: 57.0), thanks to new orders growth (64.8 in Dec

following Nov's 60.1), though output growth fell to 60.7 (Nov: 64.3).

- UAE emirate **Sharjah** announced a AED 22.1bn (USD 6bn) **budget for 2018**, amounting to a 6% yoy growth in spending. About 24% of the budget has been allocated for the development and improvement of Sharjah infrastructure while salaries account for 36%; revenues are estimated to grow by 5% this year.
- **UAE** increased **fuel prices** for Jan: petrol prices were up by 2.05-2.24% mom while diesel prices grew by 2.33%. The prices are inclusive of the 5% VAT.
- **Dubai Airports** reported a 5.6% yoy uptick in **passengers** to 6.95mn in Nov, bringing the year to date passengers to over 80mn (+5.8%). India (with 999,625 passengers) remained the top destination country for Dubai International, followed by Saudi Arabia (534,906) which moved ahead of the UK (507,796).
- **UAE's aid to Yemen** touched AED 9.4bn (USD 2.56bn) during the period Apr 2015-Nov 2017, according to the Emirates Red Crescent, with the aid being routed to support the country's primary sectors: education, health, security, relief, infrastructure and housing.
- **Dubai's Hatta** will benefit from the **largest residential rooftop solar PV project** in the region: implemented by Etihad ESCO, the Hatta solar project consists of 640 solar powered villas.

Media Review

El Erian on the global economy, bitcoin and markets

<http://www.etf.com/sections/features-and-news/el-erian-fed-advisors-bitcoin>

A Guide to Middle East Markets in 2018

<https://www.bloomberg.com/news/articles/2017-12-31/politics-trumps-oil-recovery-a-guide-to-mideast-markets-in-2018>

Privatization in Oman?

<http://timesofoman.com/article/125209>

In KSA 11 princes are arrested for unpaid utilities bills

<https://www.ft.com/content/7d93028a-f367-11e7-8715-e94187b3017e>

Has China's Economic Growth Finally Stabilized?

<https://www.project-syndicate.org/commentary/china-prospects-slower-investment-growth-by-yu-yongding-2018-01>

The fastest-growing and shrinking economies in 2018

<https://www.economist.com/blogs/graphicdetail/2018/01/daily-chart-3>

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