

Weekly Economic Commentary – Jan 14, 2018

Markets

The global equity rally cooled at the beginning of the week despite a rise in energy stocks on the back of higher oil prices. But at the end of the week better than expected earnings reports sent US indices again in record territory. European bourses followed Wall Street but were hampered by the euro which jumped to its highest level in 3 years against the dollar in response to hawkish ECB minutes and the prospect of a coalition agreement in Germany. Likewise the yen was supported by the BoJ announcement that it purchased fewer bonds as part of its QE program. Oil prices were again on the rise and Brent exceeded the psychological threshold of USD 70/b as US crude inventories continued to drop. The rally in oil prices pulled up the regional stock markets with the exception of Oman. The uptrend in gold prices that started at the beginning of the year continued last week as US inflation rose at the fastest pace in a year.

Global Developments

US/Americas:

- **US inflation increased** 0.1% mom (2.1% yoy) in Dec vs. 0.4% mom (2.2% yoy) in Nov thanks to lower energy prices. Core inflation was 0.3% mom (1.8% yoy) in Dec much higher than the 0.1% average gain in the previous 3 months (1.7% yoy in Nov).
- **US retail sales rose** 0.4% mom in Dec, on the back of Nov's 0.9% gain. Core sales, excluding auto and fuel, also rose 0.4%, after gaining 1.2% in Nov. Growth was driven mainly by non-store retailers and building supply stores.
- **US wholesale inventories** in Nov **gained** 0.8% mom after a

-0.4% drop in Oct 0.4%. Nondurable goods surged 1.3% and durable goods advanced by 0.5%. Wholesale sales rose 1.5% mom vs 0.8% in Oct.

- **Initial claims for unemployment benefits in the US increased** by 11,000 to 261,000. The four-week moving average rose 9,000 to 250,750. However continuing claims fell 35,000 to an almost record low of 1.867 mn.
- **US business inventories expanded** 0.4% mom in Nov after a flat reading in Oct. Wholesalers stockpiles rose 0.8% mom, those of manufacturers 0.4% and retailers' only 0.1%.

Europe:

- **The minutes of the ECB Governing Council** disclosed the intention to **end the QE program** and normalize monetary policy faster than anticipated. Essentially it is unlikely that asset purchases will continue after the end of Sep.
- **The Eurozone's industrial production increased** 1% mom (3.2% yoy) in Nov, accelerating from 0.4% (3.9% yoy) in Oct. An exceptional performance in Germany and Spain led the mom growth while output declined mom in France and the Netherlands, and was flat in Italy.
- **The Eurozone's business climate indicator soared** to 1.66 in Dec from 1.49 in Nov, an all-time record since the series began in 1985, in the wake of strong order books, stocks of finished products and future production.
- **The Eurozone's economic confidence indicator** in Dec **rose** to 116, the highest level since Oct 2000, from 114.6 in Nov. Advances were recorded in all subcomponents.
- **The Eurozone retail sales jumped** 1.5% mom (2.8% yoy) in Nov, obliterating the -1.1% plunge (0.2% yoy) in Oct. All sectors had strong performances.
- **German industrial production skyrocketed** in Nov by 3.4% mom recouping two monthly declines. All sectors, except energy, contributed to the result.

- **German manufacturing orders declined** -0.4% mom in Nov vs a 0.7% increase in Oct. This is just a monthly blip, which maintains yearly growth just below 9%.
- **Germany's trade surplus increased** to EUR 22.3bn in Nov from EUR 19.9bn in Oct and EUR 20.8bn in Nov 2016, thanks to a sharp pick up in exports.
- **UK industrial production growth accelerated** in Nov to 0.4% mom (2.5% yoy) from 0.2% mom (4.3% yoy) in Oct. Manufacturing also rose 0.4% mom.

Asia Pacific:

- **Inflation in China increased** in Dec to 1.8% yoy, after 1.7% yoy in Nov in the wake of higher food prices. PPI inflation decelerated to 4.9% yoy from 5.8% yoy, due to base effects.
- **China's foreign trade surplus rebounded** to USD 54.7 bn in Dec from USD 39 bn in Nov. Both exports and (to a much larger extent) imports growth slowed down in yoy terms. Tech exports however continued to expand strongly.
- **China's M2 money supply grew** 9.1% yoy in Nov, accelerating from 8.8% yoy in Oct. Bank loans are buoyant, probably supported by mortgages, in spite of a subdued housing market.
- **The Bank of Japan** revealed it had acquired fewer bonds, a sign that it **may reduce its QE** program sooner than expected.
- **Japan's current account surplus shrunk** to JPY 1.35 tn in Nov from JPY 1.43 tn in Oct, as the surplus of goods account declined sharply to JPY 1.81 tn from JPY 3.40 tn in Nov. Exports jumped 13.9% yoy and imports 17.6%.
- **Japan's consumer confidence** in Dec **dwindled** by 0.2 point to 44.7 after the post-election jolt in Nov.
- **The Leading economic index in Japan increased** to 108.60 in Nov from 106.50 in Oct, not too far from the all-time high of 112.50 touched in Apr 2006.

- **India's industrial production surged 8.4% yoy in Nov**, a record since Jun 2016, up from 2% in Oct and smashing consensus expectations. Manufacturing soared 10.2% yoy vs 2.2% in Oct.

Bottom line: The macro data, and the forward-looking surveys such as the PMI confirm week after week the synchronized pick up of major economies. Both the US and the Eurozone ended 2017 with growth rates above pre-crisis levels, while in large emerging markets, like Brazil, Argentina and Russia, the emergency phase is over. The rising price of commodities and the inflation's slow but steady pick up corroborates the expectations for a positive outlook around the globe. Hence central banks cannot continue to ignore that the exceptional monetary policy measures must come to an end and this week both the ECB and the BoJ gave a strong hint in this direction. The biggest risk faced by financial markets and the real economy is the complete lack of precedents to fathom what could happen when four major central banks reduce massive balance sheets accumulated over almost a decade. A harbinger of the consequences, was the sell-off of government bonds in developed markets last week on concerns over less accommodative monetary policy.

Regional Developments

- **Real GDP in Bahrain grew by 3.6% yoy and 1.6% qoq in Q3**, while nominal GDP was up by 6.9% yoy and 2.2% qoq during the same period. The oil sector declined by 0.3% at constant prices, while manufacturing and real estate sectors grew by 3.2% and 4.6% respectively.
- **Bahrain raised gasoline prices** last week: the price of Octane 91 was raised to 140 fils (USD 0.37) a litre, up from 125 fils, while Octane 95 sold for 200 fils, up from 160 fils.
- The Central Bank of **Bahrain** has granted **Nomura International** – which provides investment banking, advisory and corporate finance services – a

representative office licence to operate in Bahrain.

- **Bahrain's Ithmaar Holding** received final approval from the Central Bank of Bahrain to **list** on the Dubai Financial Market.
- The **World Bank** estimates **Egypt's growth** to reach 4.5% during the fiscal year 2017-2018 from 4.2% the previous year. The report maintained that the devaluation improved the country's competitiveness, thereby providing "a boost to industrial activity and exports". Growth rate is predicted to touch 5.9% by 2019.
- **Remittances into Egypt increased** by 5.8% yoy to around USD 2.2bn in Nov, according to the central bank.
- **Urban consumer price inflation in Egypt eased** to 21.9% in Dec from Nov's 26%, dropping for the first time since Dec 2015. Core inflation fell to 19.86% from 25.53% the month before. Egypt's finance minister expects inflation rate to fall below 20% next month and to 10-12% later this year.
- **Foreign oil companies** operating in **Iraq** will be asked to **build housing** and "and provide essential services" for Iraqis employed on their projects, according to the oil ministry.
- **Iraq's** oil ministry disclosed that 26 companies have qualified to **bid for oil and gas blocks** in border areas. The bidding terms will be finalised by the end of May and the ceremony to open the bids will be held on June 21.
- **World Bank** estimates **Jordan's economic growth** to **edge up** to 2.5% by 2020 after suffering a slowdown by 0.3% in the past two years, thanks partly to positive trade and financial spillovers from the Euro area.
- **Jordan's real estate sector** posted a 14% **decline in trade volume** to JOD 6.062bn in 2017, according to the Department of Land and Survey. A total of 2,775 real estate transactions were filed by non-Jordanian investors, with Iraqis on top of the list (JOD 157.2mn, 49%), followed by Saudis (JOD 63.4mn, 20%) and Syrians

(JOD 18.1mn, 6%).

- **Funding for Jordan's refugee plan fell short last year:** total funding reached only USD 1.779bn in 2017, equivalent to only 67.1% of the total requirement of USD 2.65bn.
- **Unemployment rate in Kuwait** was 2.2% in the 2016-17 fiscal year, unchanged from the previous year. Unemployment among males during the 2016-17 period dropped to 0.9% (2015-16: 1.2%) while for female citizens it was much higher at 5.8% (4.4%).
- **Kuwait has no plans to raise fuel prices again**, following similar moves in other GCC nations. The last time Kuwait raised fuel prices was in September 2016.
- A proposal to replace **expats in the private sector** with 17,000 **Kuwaiti** citizens has been approved; the new percentage will not exceed 75% of the total workforce in each establishment. The rate of the national workforce in banking sector will be raised from 64 to 70%, 60 to 65% in communications sector, and insurance sector from 18 to 22%, among others.
- The number of passengers using the **Kuwait International Airport** grew by 17% yoy to 13.7mn in 2017. The number of passengers arriving at the airport reached 6.8mn in 2017 (2016: 5.9mn).
- **Lebanon** will **sign contracts** with a consortium of **three international oil companies** – Total, Italian ENI and Russian Novatek – at the end of Jan to **start gas exploration**, disclosed the Energy and Water minister.
- **Oman raised USD 6.5bn through a triple-tranche government bond** issuance comprising 5-year notes priced at Treasuries plus 190 bp, a 10-year bond at plus 310 bp area and a 30-year tranche at plus 395 bp. Thanks to strong demand by international investor yields were substantially lower than expected.
- **Oman recorded a surplus** of OMR 1,402.9mn in international trade at the end of Sep vs OMR 944.3mn a year earlier. **The total value of exports** by the end of

Sep was OMR 9,143.2mn vs total commodity exports was OMR 7,504.8mn, an increase of 21.8% yoy. The **imported goods** value increased by 18% yoy to reach OMR 7,740.3mn at the end of Sep vs OMR 6,560.5mn.

- **Qatar National Bank** issued a USD 720mn, 30-year **Formosa bond** last week; the bank is also raising a USD 3bn loan, which would refinance an existing debt facility due in March.
- **Saudi Arabia will ease requirements for foreign institutional investors** in its stock market from Jan 23, disclosed the Capital Market Authority. The minimum value of assets under management needed for an institution to qualify as an investor will fall to USD 500mn from USD 1bn before. This move, ahead of the proposed Aramco IPO later this year, will not only simplify the qualification process, but also enable institutions to qualify affiliates and their managed funds without submitting a separate application for each of them.
- **Saudi Arabia** also announced several **market enhancements** to raise market efficiency and boost investor access: this includes updating the Independent Custody Model by providing more flexibility in trading limits, introducing a new optional model to allow asset managers to aggregate the orders of managed assets, moving from a Volume Weighted Average Price to an auction method for determining closing prices, and implementing a Market Making Program based on global best practices to enhance liquidity, facilitate orderly price formation (eventually paving the way for derivatives) among others.
- **Saudi Arabia raised the maximum loan-to-value rate** for mortgages for first-time homebuyers to 90% from 85% in a bid to support real estate financing. Separately, the Housing Minister disclosed that all interest on mortgage loans of first time-buyers who earn less than SAR 14,000 (USD 3,733) would be paid by the ministry.

- **Saudi Arabia** deposited an instalment of SAR 2.1bn (USD 560mn) into the **Citizens Account** Beneficiaries' received an average payment of SAR 935 (USD 249) for each family in this second payment round. The third deposit will be made on Feb 10.
- **Saudi Arabia's handouts to its citizens** to compensate for the rise in cost of living is estimated to cost the government SAR 50bn (USD 13.3bn) this year, disclosed the information minister.
- **Saudi Arabia** has **shortlisted New York, London and Hong Kong** for the international portion of the listing of **Aramco**, reported *Reuters*, citing sources familiar with the matter. The IPO will also be listed on Tadawul and is still set for later this year, according to the report.
- **Saudi Arabia's** labour ministry spokesperson clarified that the government has **no intention of imposing new tax on expatriates**, after a social media rumour of 10% tax on monthly salaries greater than USD 817 surfaced.
- **Women** aged 25 and above can be granted a **tourist visa** to go to **Saudi Arabia** alone, according to a spokesman for the Saudi Commission for Tourism and National Heritage. The start of tourism visa issuance – 65 countries will be permitted to get the visa – will be announced during Q1 2018.
- **Saudi Arabia** raised its production of desalinated water to 5mn cubic meters per day at the end of 2017, making it the **largest producer of desalinated water in the world**.

UAE Focus

- The **Dubai Economy Tracker eased** in Dec to 54.7, from 55.3 the month before, recording the slowest rate of improvement in the last 14 months; wholesale and retail (index at 54.9) was the best performing sector.
- **UAE Cabinet** issued a decree identifying 20 free zones in

the country as “**designated zones**”: transfer of goods between designated zones will not be subject to the **value added tax** under two conditions: (a) when goods or parts of them are not released from the designated zone and are only being transferred from one designated zone to another; (b) the transfer process has to be done in accordance with the Common Customs Law implemented in the GCC.

- Local governments will receive 70% of the **revenues** from the **value added taxes** imposed in the **UAE**, to provide “better local services, greater community development, and wider support for our citizens”.
- **Property transactions in Dubai** grew by 6% yoy to AED 285bn in 2017 from 69k transactions, according to the Dubai Land Department. UAE citizens remained the largest investors, spending AED 25.307bn, followed by Indians (AED 15.6bn), Saudi citizens (AED 7bn+), British (AED 6bn) and Pakistani (AED 5bn) investors.
- **UAE’s** Abu Dhabi Commercial Bank raised USD 540mn through the sale of a **Formosa bond** (sold in Taiwan by foreign issuers and denominated in currencies other than the Taiwanese dollar).
- **UAE market capitalisation of foreign shares** amounted to AED 101bn by end-2017; non-Arab foreigners secured the largest gains, adding AED 3.6bn in market value by end-Dec.
- Abu Dhabi’s trade in aluminum and copper grew by 29.2% yoy to AED 12.8bn (USD 3.5bn) in Jan-Oct 2017. Aluminum trade alone was up by 58.6% yoy to AED 4.6bn.
- UAE’s Abu Dhabi Global Market (**ADGM**) and Bahrain’s Economic Development Board (**EDB**) signed **the region’s first MENA Fintech agreement**, with an aim to explore initiatives to promote economic growth in financial services through using new technology.
- A “**Good Conduct and Behaviour Certificate**” will be needed to obtain a **UAE work visa** starting from 4th of Feb. The certificate should be issued from the

applicant's home country, or the country of their residency for the last five years.

Media Review

JPM vs Bill Gross on bond bearish call

<https://www.bloomberg.com/news/articles/2018-01-11/morgan-stanley-counters-bill-gross-over-bond-bear-market-call>

The Norwegian SWF could invest in private equity

<https://www.swfinstitute.org/swf-news/norways-sovereign-wealth-fund-gets-closer-to-private-equity/>

The US oil production at record high

<https://www.reuters.com/article/us-usa-oil-eia-steo/u-s-oil-output-to-surpass-record-earlier-than-expected-eia-idUSKBN1EY2BT>

Surge in foreign fund inflows sets stage for Egyptian boom

<https://www.reuters.com/article/us-egypt-economy-investment/mideast-money-surge-in-foreign-fund-inflows-sets-stage-for-egyptian-boom-idUSKBN1EW05X>

Effects of VAT on individuals minimal: UAE Ministry of Finance

<http://gulfnews.com/business/economy/vat/effects-of-vat-on-individuals-minimal-ministry-of-finance-1.2153936>

Saudi Aramco working to raise cheap loans before IPO – banking sources

<https://www.reuters.com/article/us-saudi-aramco-loans-exclusive/exclusive-saudi-aramco-working-to-raise-cheap-loans-before-ipo-banking-sources-idUSKBN1EZ13X>

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