

Weekly Economic Commentary – Jan 21, 2018

Markets

Despite the squabble on the US budget, Wall Street hit fresh records supported by upbeat data in particular industrial production and initial jobless claims. The optimism spread to European bourses whose indices were boosted by the IT and industrial sectors, although the FTSE 100 suffered from a stronger pound. In Asia, stock markets were supported by corporate earnings and China's GDP growth: Hong Kong's Hang Seng and India's SENSEX 30 reached record highs. Emerging markets and regional markets also benefited from the upbeat mood. In currency markets the major crosses were rather stable with the dollar losing some ground due to the government shutdown. Despite another large drawdown in US inventories, oil prices pulled back from the record highs, as the IEA forecasted a sharp increase in US crude production (see Media Review). Gold prices remained essentially stable.

Global Developments

US/Americas:

- **The US Senate failed to reach a budget deal** to temporarily resume funding for federal operations and hence the federal government is starting a partial shutdown. The controversy focuses on the DACA program for individuals brought illegally in the US by their parents. Republicans would agree to an amnesty only in conjunction with heightened border security and curbs on immigration, which the Democrats are unwilling to discuss.
- **The US Fed Beige Book indicated that economic activity expanded** at a modest to moderate rate in almost all

districts. Retailers reported that holiday sales beat expectations, but auto sales were mixed. Limited housing inventory led to limited growth in home sales. A majority of manufacturers reported paltry gains and higher capital expenditures. Prospects for 2018 are largely positive.

- **US industrial production growth accelerated** in Dec to 0.9% mom from -0.1% in Nov driven by utilities, whose production was influenced by cold weather. Manufacturing gained only 0.1% mom.
- **US initial claims for unemployment benefits fell** 41,000 to 220,000 a 45-year low. The 4-week moving average fell from 250,750 to 244,500. Continuing claims rose 76,000 to 1.952 million. The labor market is increasingly tight.
- The **University of Michigan Consumer Sentiment Index declined** by 1.5 points to 94.4, its lowest level since Jul. Confidence in the current economic situation dwindled, as consumers reported meager income rises. One-year inflation expectations rose by 0.1% to 2.8%.
- **US housing starts** in Dec **declined** by -8.2% mom (-6% yoy) due to single-family homes. Starts fell in all regions especially in the South.
- **The Bank of Canada hiked its overnight policy rate** target by 25 bps to 1.25% as macro data, especially in the labor market, point to a decisive improvement.

Europe:

- The **Eurozone's trade surplus** in Nov **rebounded** to EUR 26.3bn, after a drop to EUR 8.9bn in Oct. The current account surplus rose to EUR 23.8bn in Nov.
- **UK inflation retrenched** to 3% yoy in Dec, from 3.1% in Nov thanks to a deceleration in the core rate to 2.5% yoy from 2.7%. Also food inflation slowed, offsetting higher fuel prices.
- **UK retail sales gained** only 1.4% yoy in Dec just below

the 1.5% in Nov and well below expectations as a consequence of Black Friday which induced to anticipate the Christmas sales.

Asia Pacific:

- **China's GDP** grew by 6.8% yoy in Q4 as in Q3 on the back of buoyant manufactured goods export and investments. In 2017, GDP grew 6.9%, up from 6.7% in 2016, in line with the government target.
- **Chinese fixed asset investment growth** in Dec was 7.2% yoy, on par with the prior month, pulled by public investment (up 10% yoy vs 6% in the private sector). Investment slowed noticeably since Mar, with public works counterbalancing the weaker real estate activity.
- **China's industrial production growth rose** by 6.2% yoy in Dec vs 6.1% in Nov driven by export goods. Bulk commodity-oriented industries continue to be in recession.
- **China's retail sales** grew by 9.4% yoy in Dec vs 10.2% in Nov. The unexpected deceleration was caused by sluggish phone and auto sales.
- **Japan's core machinery orders advanced** for a second consecutive month in Nov by 5.7% mom after 5% in Oct with all sectors recording strong performances.
- **Singapore's exports** grew but by a weaker-than-expected 3.1% yoy in Dec after 9.1% in Nov.

Bottom line: Data from China took center stage last week confirming the gradual readjustment of the largest Asian economy. In the US and Germany attention was grabbed by political developments: the government shutdown marks a virulent escalation of the confrontation between the Trump Administration and the Democratic opposition with unpredictable consequences. Angela Merkel will know her political fate today when the SPD will vote on a proposal to form a coalition government. If rejected, Germany could hold new election in a few months or be ruled by a minority

government.

Regional Developments

- **Bahrain's** government will be required to provide **status reports** on recurrent expenditure and project progress for ministries and government organizations every three months, after the Shura Council approved the project status rule.
- **Egypt's President** has announced that he will **run for a second term in office** in the upcoming election in Mar. A run-off vote will be held on Apr 24-26 if no candidate wins more than 50% in the first round.
- **Egypt** will issue a **dollar-denominated Eurobond** – expected to raise USD3-4bn – in Feb, according to the finance minister.
- **Egypt** is considering a **new stamp tax** on new mobile phone lines, likely to be applied from the next fiscal year; a mobile line after the tax is implemented will likely cost EGP 70.
- **Tourism revenues in Egypt** grew by 123.5% yoy to USD 7.6bn in 2017, according to an unnamed government official. The number of tourists also increased by 54% yoy to 8.3mn during last year.
- UAE's Masdar, Japanese investment firm Marubeni Corp, and Egyptian manufacturing company Elsewedy Electric have agreed to develop 800 megawatts of **wind power in Egypt**. This will support Egypt's goal of generating 42% of its electricity from renewables by 2025.
- The **agreement to supply Kuwait with gas from Iraq** is facing difficulties: Kuwait wants 1000 cubic feet of gas to be priced at USD 3 versus Iraq's demand for USD 5. The agreement stipulates the supply of 350mn cubic feet per day to Kuwait initially, reaching 500mn cubic feet per day gradually.
- **Jordan** announced a major package of **IMF-guided tax hikes**: this includes removing exemptions on general

sales tax, unifying low 4-8% rates on a large number of items at 10% while leaving it at 16% ceiling for others, raising special taxes on tobacco, premium gasoline and streamlining customs duties among others. This is expected to raise at least JOD 540mn (USD 761mn) in additional revenues.

- **Inflation in Jordan was up 3%** yoy in 2017: transport and healthcare costs were up by 12.9% and 8.5% respectively while some goods saw a dip in prices like meat and poultry (-5%) and garments (-2.9%).
- **Jordan's tourism revenues increased** by 12.5% yoy to USD 4.6bn in 2017, thanks to a 8.7% increase in number of tourists, according to the central bank.
- **UAE's Masdar** announced the completion of a USD 188mn financing package for the **largest solar power plant in Jordan**. The plant, expected to meet 3% of Jordan's annual power consumption, will likely be completed by Q2 2020, and will supply power to some 110k homes while displacing 360k tonnes of carbon dioxide annually.
- Around 80% of **Kuwaitis** work in the **public sector**, while in the private sector they represent only 4.3% of the workforce. Separately, according to newspaper reports, local banks recently received instructions to increase Kuwaiti employees to 70% of the total.
- **Lebanon** plans to use proceeds from its oil and gas towards the **development of renewable energy**, according to the energy minister. The minister had disclosed last year that by 2020, renewable energy would represent 12% of the country's total electricity production, up from 5.63% currently.
- The proposed **expansion of Beirut International airport**, which will boost capacity to 10mn passengers from about 6mn a year now, is expected to cost around USD 200mn, according to the PM's office.
- **Oman's bank credit** rose 7.3% yoy to OMR 23.5 bn at the end of Nov.
- **Oman's State General Reserve Fund** is planning to start a

USD 1bn **infrastructure fund** to boost investment in projects including road, transport, and energy systems.

- **Saudi Arabia's Aramco** is ready to **IPO** in H2 this year, according to the company's CEO. The one decision that the government needs to finalise in the meanwhile is the listing venue. The CEO also reaffirmed the plan to list the whole company rather than creating a subsidiary to IPO.
- **Start-ups in Saudi Arabia**, incubated by Badir program, raised over USD13.07mn in 2017 (up 64% yoy) from 15 funding deals.
- **Saudi Arabia** issued a **royal decree to limit excessive bureaucratic paperwork in courts**: the royal decree directed that a mechanism be developed to replace submitting applications for case closers. This supports the goal of "limiting the flow of lawsuits in courts" as mentioned in the National Transformation Plan 2020.
- **Saudi Arabia** deposited USD 2bn in **Yemen's** central bank to support the Yemeni currency, a day after a public plea for funds from Yemen's PM.
- **Saudi Arabia lifted its ban on cinemas** by holding its first public cinema screening last week after 35 years. Purpose-built cinemas are set to open from Mar.

UAE Focus

- The **UAE** Federal Tax Authority has announced some exceptional **amendments to the first tax period for businesses subject to VAT**: this includes extending the accounting tax period by one to three months for some businesses and amending the quarterly tax period to end on the second tax period; businesses with a three-month tax period ending in Mar will not be affected by the amendments.
- **Online purchases** would also be subject to 5% **VAT**, if the goods are received in the UAE, disclosed the Federal Tax Authority.

- The average value of **FDI** received by the **UAE** touched USD 9bn in 2016, according to the Minister of Economy, while outgoing FDI was USD 15.7bn; this makes UAE the largest receiver of FDI in the Arab region and the largest Arab investor abroad.
- The **EU** has proposed **removing** eight (out of 17) jurisdictions including **UAE from the blacklist of tax havens** the bloc adopted in Dec, after they offered to change their tax rules. *Reuters* reported that though removal of **Bahrain** was also initially considered, its delisting was eventually not recommended.
- **S&P** affirmed its 'AA' long-term and 'A-1+' short-term foreign and local currency sovereign credit ratings on the Emirate of **Abu Dhabi**, also maintaining a stable outlook.
- **Dubai Islamic Bank** plans to issue as soon as this week a US dollar-denominated **Sukuk** in the region of USD 750mn, reported Reuters.
- **Dubai** Economy issued 19,877 new **business licenses** last year, while there were 128,965 transactions for renewal of licenses. Commercial and professional licenses accounted for 64.3% and 33.8% respectively of new licenses issued last year.
- **Dubai Chamber** reported an 8% yoy increase in its **members** last year to 217,000 companies. **Exports and re-exports** of its members grew by 2% to AED 277bn last year, with Saudi Arabia remaining the top export and re-export market (up 17% to AED 103bn) for the Chamber's members.
- **Over one-third of vehicles will be electric by 2040**, compared to a total of 3mn electric passenger vehicles on the road today, according to a new report from **Masdar** launched at the Abu Dhabi Sustainability Week.
- **Abu Dhabi** announced, at the Abu Dhabi Sustainability Week, the completion of the world's largest **reserve of high quality desalinated water** with storage of more than 5.6bn gallons. The AED 1.6bn high-tech desalinated water storage – secured in a network of 315 recovery wells

lying up to 80 metres below the Liwa Desert – can provide sufficient drinking water to one million people for up to 90 days.

- A **13% reduction in household electricity consumption** at the **UAE** federal level was announced at the Abu Dhabi Sustainability Week. The Emirates Authority for Standardisation and Metrology also announced its regulation for the energy efficiency for household appliances, with the aim to improve its efficiency to 4 stars from 3, within 3 years.
- **Hotel occupancy rates in Abu Dhabi increased** by 6 ppts to 88.6% in Nov 2017, according to EY, while the revenue per available room (RevPAR) rose by 2.9% yoy to USD 150. On the other hand, **Dubai** reported a 1.3% decline in occupancy rates and a decline in room rate by 1.4% to USD 286.

Media Review

US stock market's 'animal spirits' can resist bond bears: FT (subscription)

<https://www.ft.com/content/4144eca4-fcda-11e7-9b32-d7d59aace167>

Why the oil price is so high

<https://www.economist.com/news/finance-and-economics/21735059-and-why-it-might-not-fall-very-much-soon-why-oil-price-so-high>

The US oil production

<https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCRFPUS2&f=W>

The US government shutdown

<https://www.bloomberg.com/news/articles/2018-01-20/u-s-government-shutdown-starts-as-senators-keep-negotiating>

German social democrats on the verge of a political nervous breakdown

<https://www.bloomberg.com/news/articles/2018-01-20/merkel-coalition-on-the-line-as-german-spd-votes-to-talk-or-walk>

IEA Sees 'Explosive' Growth in U.S. Oil Output as Prices Rally

<https://www.bloomberg.com/news/articles/2018-01-19/iea-sees-ex>

[plosive-growth-in-u-s-oil-output-as-prices-rally](#)

Bitcoin & energy consumption

<https://www.vox.com/energy-and-environment/2018/1/18/16901422/bitcoin-price-crash-energy-emissions>

UAE State of the Green Economy Report 2018

<http://dcce.ae/state-of-green-economy-report-2018/>

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