

Weekly Economic Commentary – Feb 11, 2018

Markets

On Monday last week global equities markets tumbled with the DJ collapsing by more than 1100 points. In the following days stock prices went on a rollercoaster ride which ended Friday with a significant rebound on Wall Street. Nevertheless the weekly losses were the worst in over two years (5.2% for the S&P 500, 6.2% for the FTSE All-World and 7.2% for the Eurofirst 300). Investors withdrew a record USD 30.6 bn from global equity funds last week. Regional market were not spared by the storm especially after oil prices dived, but fared better than most Asian peers. Critically the implied volatility index VIX (also called the fear index) – that had been hovering for years in the lower teens – spiked up to 50 and closed the week just below 30. The bond markets also took heavy losses as the US Congress approved a massive increase in public spending at a time when inflation expectation are rising fast. In currency markets the dollar regained some ground lost to the euro in previous weeks, but the main beneficiary of the turmoil was the yen, as Japanese asset managers repatriated their capitals. The GBP jumped up after the publication of the BoE MPC minutes and afterwards on rosier expectations over the impact of Brexit. The RMB that had recovered 91% of its value against the greenback since the Jul 2015 devaluation, fell victim of the global turmoil. Oil prices posted their biggest tumble in 2 months, as crude production from the US touched a record high, the rig count in the US increased substantially and hedge funds reduced their long positions. Gold prices did not benefit much from the flight to safety effect, but at least they suffered limited losses.

Global Developments

US/Americas:

- **President Trump signed a two-year budget that erases whatever was left of the US fiscal discipline**, adding – for the foreseeable future – a trillion dollar per year to an already massive debt. Republicans reneged their traditional fiscal prudence to approve an increase in military spending, various entitlements and the suspension of the federal debt limit until next year.
- **The US ISM non-manufacturing index accrued 3.9pts** to 59.9 in Jan, smashing consensus expectations. All sub-indices performed strongly with new orders and employment on a roll.
- **The US trade deficit in Dec expanded** to USD 53.1bn from USD 50.4bn in Nov, the largest deficit since 2008. Both exports and imports hit record highs in Dec.
- **Initial claims for unemployment benefits in the US unexpectedly fell** by 9,000 to 221,000, just above their cyclical low of 216,000. The 4-moving average fell 10,000 to 224,500. The labor market is becoming the tightest in recent memory.
- **US wholesale inventories in Dec rose** by 0.4% mom, vs 0.6% in Nov with across the board gains as both durable and nondurable goods rose 0.4% mom. Wholesale sales growth also decelerated to 1.2% from 1.9% in Nov.
- **The Brazilian central bank reduced** the Selic rate by 25 bp to 6.75% but monetary policy remains broadly neutral.

Europe:

- **Retail sales in the Eurozone dived** -1.1% mom (1.9% yoy) in Dec offsetting half of the 2.0% jump in Nov (3.9% yoy). The yearly increase is in line with the average of the past 2 years.
- **The Bank of England quarterly inflation report** underscored that a **rate hike might come earlier** and be more pronounced than expected to counter the effects of a stronger global economy on inflation. In essence, the

MPC will not tolerate inflation above its 2% target and might take action as soon as May.

- **UK industrial production dropped** by -1.3% mom in Dec, vs 0.4% in Nov, mainly due to a 19.1% mom plunge in mining and quarrying output following the shut down of the Forties pipeline for emergency repairs. Manufacturing, by contrast, rose by 0.3% mom, vs 0.2% rise in Nov.
- **German industrial orders surged** 3.8% mom in Dec, after a -0.1% fall in Nov, driven by a 5.9% gain in foreign demand. New orders from the euro area advanced 11.2%.
- **German industrial production declined** by -0.6% mom in Dec, after a spectacular 3.1% rise in Nov, due to a fall in production of both capital (-2.6%) and consumer goods (-0.5%), and in construction activity (-1.7%).
- **Italy's industrial production** in Dec **shot up** 1.6% mom in Dec after a flat reading in Nov.
- **France's industrial production gained** 0.5% mom in Dec recovering the -0.3% loss in Nov. In 2017 output rose 4.5% more than double the 2.0% recorded in 2016.

Asia Pacific:

- **Inflation in China declined** to 1.5% yoy in Jan from 1.8% in Dec thanks to lower food prices, although core inflation also slowed, in part due to the seasonality effects of the lunar New Year.
- **China's foreign trade surplus rose** to USD 54.7bn in Dec, from USD 39bn in Nov. Both exports and imports yearly growth rates slowed, but imports recorded a deeper dive. Tech exports are still firmly on the rise while car imports are lagging.
- **The Caixin China Services PMI rose** to 54.7 in Jan from 53.9 in Dec underscoring the strongest expansion since May 2012. New order increased the most in 32 months.
- **Japan's current account surplus narrowed** to JPY 0.80tn in Dec from JPY 1.11tn a year earlier. It was the smallest current account surplus since Jan, hit by a

contraction of the goods surplus to JPY 5.39tn from JPY 8.09tn in Dec 2016). Exports rose 8.8% yoy while imports climbed 14.6% yoy.

- **The leading economic index in Japan retreated to 107.9 in Dec from 108.2 in Nov.**

Bottom line: Global markets 10 days ago suffered a nervous breakdown after the data on wage inflation signaled that inflationary pressures are building fast and that the Fed will soon be compelled to raise rates. Many asset managers that had been pricing securities on expectations of accelerating growth, low inflation and never ending expansionary monetary policy, last week realized that this goldilocks scenario has come to an abrupt end. As if this was not unsettling enough, the profligate US budget approved over the weekend will rub in the wounds, causing an upward shift of the yield curve, while the Fed has still to offload a few trillion dollars from its balance sheet. In other words, at a time in which both the fiscal and monetary stimuli after 10 years were supposed to be finally withdrawn, the US government has gone in the opposite direction, throwing the Federal Reserve and its untested new Chairman Powell in disarray. The benign scenario of a gradual return to a neutral monetary policy stance which would not affect much stock valuations is now de facto deemed rather unrealistic. The repercussions on assets' valuations over the next weeks risk to be quite disruptive.

Regional Developments

- **Bahrain-India bilateral trade** grew by almost 25% yoy (for a second consecutive year) to USD 1.232bn in 2017, according to the Indian Ambassador. Non-oil trade was up 33% yoy to USD 866mn (2016: USD 650mn).
- **Bahrain** will provide profligate **health insurance** for all citizens, and no financial cap will be put on treatments, disclosed the President of Supreme Council for Health.
- **Bahrain's renewable energy target** has been set at 10% of

total energy consumption by 2035, doubling the 5% goal set for 2025, revealed the electricity and water affairs minister.

- A KPMG study found **Bahrain's retail market** valued at more than BHD 2.2bn (USD 5.8bn) per year. The report also details that 65% of the tourists arrive from Saudi Arabia and that the 10 largest malls in Bahrain account for a total footfall of 51mn visitors per year.
- **PMI in Egypt inched closer to the 50-mark** in Jan, rising to 49.9 from Dec's reading of 48.3, supported by a pick-up in new export orders.
- **Inflation in Egypt fell** to 17.1% in Jan (Dec: 21.9%) – the lowest level since the currency float – while core inflation dipped to 14.35% (Dec: 19.86%).
- **Egypt's net foreign reserves increased** to USD 38.209bn at end-Jan from USD 37.020bn at end-Dec, posting the biggest moth-on-month jump since Jul 2017.
- **Fuel subsidy costs in Egypt increased** by 34% yoy to EGP 51bn (USD 2.9bn) in the first half of the 2017-18 fiscal year; the budget estimates a total EGP 110bn to be spend on fuel subsidies this fiscal year.
- **Egypt's planned Eurobond issue** – expected to be around USD 3-5bn in size – will likely happen “in the next few days”, according to the finance minister, but will depend on market stability.
- The average **yields on Egypt's six-month and one-year treasury bills fell** last Thurs, taking it to the lowest since the currency float in Nov 2016.
- **Egypt's foreign debt grew** by 2.3% qoq to USD 80.8bn as of Sep last year, with the foreign debt to GDP ratio touching 36.2%, according to central bank data.
- **Iraq's National Investment Commission** has published a list of **157 projects** it seeks investment for (in the transport, energy and agriculture sectors), ahead of the **International Conference for Reconstruction of Iraq** to be hosted by Kuwait from Feb 12-14: it needs about USD 100bn in foreign investment to rebuild the country.

- **Jordan's** cabinet approved the framework agreement for the **Basra-Aqaba oil pipeline**, to be signed by the Ministry of Energy and Iraq's Oil Ministry. The project aims to export Iraqi oil with the pipe line passing through Jordan.
- **S&P affirms Kuwait's credit rating** at "AA/A-1+", stating that the outlook for the country remains stable, given the country's large government and external net asset positions, in addition to the expected rise in energy prices and oil production.
- **Lebanon's banking sector activity** grew by 7.6% yoy in 2017, reported Bank Audi; deposits were up by 3.8% yoy last year, in spite of the Nov outflow following the PM's resignation.
- **Corruption** in **Lebanon's** Finance Ministry's **real estate** departments was costing between USD 30-40mn a year, revealed a judge at the Special Investigation Commission.
- **Beirut ranks as the world's eighth most expensive city**, according to EuroCost International's 2017 cost-of-living survey for expatriates. The survey, based on prices collected in Jun last year, includes rental costs in cost of living, but excludes health care and education costs.
- **The number of expats in Oman declined** by 0.08% mom in Dec. The total number of expats living in Muscat fell from 955,455 in Nov to 948,342 by year end.
- The **Omani** government is negotiating the issue of a **Sukuk denominated in USD** in March, according to sources familiar with the matter. This would be the second public debt issuance this year and is required to rollover expiring bonds issued in previous years.
- **Qatar** Central Bank issued a circular to all banks stating that **trading in Bitcoin is not allowed** in the country – to ensure the safety of the financial and banking system – and that penalties would be levied if the circular is violated.

- **Qatar National Bank** raised USD 1bn with privately placed bonds, reported Reuters; the bond, with a two-year maturity period, was reportedly sold to a single investor.
- **Saudi Arabia's PMI** fell to 53 in Jan (Dec: 57.3), thanks to weaker rates of business activity and new order growth, partly linked to the introduction of VAT in Jan. The latest reading showed the slowest improvement in private sector business conditions since Aug 2009.
- **Saudi Arabia** plans to spend SAR 120bn (USD32bn) to **create a mortgage market**: this plan includes an SAR 18bn loan-guarantee program to boost access to funding, and SAR 12.5bn to support home down-payments, according to the country's housing minister. Supported by the private sector, the government wants to expand the market by more than 70% to SAR 502bn by 2020. The housing program aims to boost ownership to 60 percent by 2020.
- **Saudi Arabia's** Tadawul is ready for any decision on the **Aramco listing**, according to the bourse's chairperson.
- **Saudi Arabia** has **started to award contracts** for the **NEOM** business zone; local construction companies have been asked to build 5 palaces there, reported *Reuters*.
- *Reuters* reported that **Saudi Arabia plans to take ownership of 60%** in the **MBC Group** – the Middle East's largest private media company while leaving the remainder with the founder and chairman of the company (who had been held during the anti-corruption probe). A Saudi official denied that the government would take any stake in the company.
- **Saudi Arabia** and **Egypt** will issue **tenders** for the project **linking the electricity grids** of both countries. The project, expected to cost around USD 1.6bn, would have a capacity of 3 gigawatts and will be completed in 2020.
- The **VAT**, introduced in Saudi Arabia and UAE this year, is "extremely low" by global standards and could be hiked to 10% after 5 years depending on future revenue

needs, according to an official from the **IMF**.

UAE Focus

- **UAE's PMI dropped** to 56.8 in Jan (Dec: 57.7); purchase costs rose at their fastest rate since Nov 2011 though purchasing activity slowed. Business sentiment was the strongest since Jun 2015.
- **UAE** launched a AED 7bn (USD 1.9bn) **housing plan** to build 7200 houses for its citizens over the next 3 years; currently, about 80% of the citizens own their own houses.
- Increased usage of **digital payments** could yield a net benefit of up to USD 2.2bn (AED 8.08bn) annually to consumers, businesses, and government in **Dubai**, according to an independent study commissioned by Visa. (the report can be accessed at: <https://usa.visa.com/dam/VCOM/global/visa-everywhere/documents/visa-cashless-cities-report.pdf>)
- The Department of Transport in **Abu Dhabi** announced that a study was underway to identify and demarcate **the areas to be subject to road tolls** as well as determine its value.
- **UAE** announced a plan to create 15,000 **private sector job opportunities** for its citizens by end of this year. In 2016, the total number of Emiratis hired in the private sector was 5608, with the number rising to 6862 by Dec 2017.
- A **start-ups accelerator**, focused on travel and tourism, has been launched by a few **Abu Dhabi** government departments and institutions along with WAMDA (an entrepreneurship platform). The programme, named **Fikra Labs**, will award four winning innovators (before Ramadan this year) a total USD 400k in equity financing.
- **UAE investments in Egypt** amounted to USD 6.2bn from about 868 companies, according to Egypt's minister of trade and industry. **Bilateral trade** between the two

- nations touched USD 5.81bn in the 2016-17 fiscal year.
- **Turkey's exports to the UAE** grew by 7.53% yoy to a record high USD 3.21mn in 2017.
 - **Dubai** welcomed a record **79mn tourists last year**, vis-a-vis 14.9mn overnight visitors in 2016. **Dubai is the 4th most visited city globally**, and aims to receive 20mn visitors per year by 2020. India retained the top spot with 2.1mn visitors, followed by Saudi Arabia's 1.53mn tourists and UK's 1.27mn.
 - **Dubai International** remains the **world's top-most airport for international passengers** for the fourth consecutive year in 2017, **receiving 88.2mn passengers** (+5.5% yoy). India remained the single largest destination country for Dubai with 12.06mn passengers (+5.4%), followed by UK's 6.47mn (+6.7%) and Saudi Arabia's 6.36mn (+4.6%).
 - **Demand for gold jewelry** in the **UAE fell** by 2% to a 20-year low of 42.8 tonnes in 2017, revealed World Gold Council data. However, there was a boost in Dec leading to a 16% yoy gain in Q4 (to 10.6 tonnes), as customers rushed to buy ahead of VAT.
 - UAE's **DP World** terminals reported a **record volume handling** in **2017** – 36.5mn TEUs (twenty-foot equivalent units), a 24.7% yoy increase.
 - **UAE-based Crescent Petroleum** plans to increase its **natural gas output in northern Iraq** by 80mn cubic feet per day (cfd) by Oct this year, and by 500mn cfd within 3 years, according to the company's president.
 - **IMG**, the Dubai-based theme park operator, is in talks to **restructure** a AED 1.2bn (USD 326.7mn) **syndicated loan**, reported *Reuters*. The company is seeking to extend its maturity and may also upsize its existing loan facility due to cost overruns.

Media Review

The stock market correction we need to purge the economy from the excesses

<https://fee.org/articles/a-stock-market-tumble-is-the-correcti>

[on-we-need/](#)

Superfast 5G is coming

<https://www.ft.com/content/7be7ee18-0b37-11e8-bacb-2958fde95e5e>

KSA and Russia towards an OPEC 2.0

<https://www.ft.com/content/7af38c26-0801-11e8-9650-9c0ad2d7c5b5>

London property sellers accept big discounts

<https://www.ft.com/content/b5d22bbe-0b57-11e8-8eb7-42f857ea9f09>

China's renminbi lags the dollar for global payments: Swift

<https://www.cnbc.com/2018/02/02/china-currency-yuan-the-rmb-is-nt-near-overtaking-the-us-dollar.html>

What fuel, bread and water reveal about how Egypt is mismanaged: The Economist

<https://www.economist.com/news/middle-east-and-africa/21736552-egyptians-are-addicted-subsidies-make-them-poorer-what-fuel-bread-and>

Powered by:

