

Weekly Economic Commentary – Mar 11, 2018

Markets

Fears over a trade war that had subsided at the beginning of the week were once again the catalyst of a global equity market drop in mid week. Nevertheless on Friday a stellar US jobs report and news of a direct negotiation between US and North Korea leaders reignited investors' confidence on Wall Street and in all major bourses and emerging markets, particularly in Asia. Nasdaq touched an all-time high as the tech sector rebounded. Regional markets displayed remarkably diverse performances with Egypt and Saudi benefitting from the bullish mood, while Qatar felt again the consequences of isolation and the rest of the GCC remained on the fence. In currency markets the euro went ballistic in reaction to the removal of QE easing bias, however, as Draghi underscored that inflation is still below target and that further changes to forward guidance were not discussed, the euro retrenched and closed the week almost flat against the dollar. The threat of a trade war lingered over the yen (as well as the Topix) which lost all the ground gained on the dollar since end Feb. The oil market, after three days of losses, surged on Friday in the wake of global optimism. Gold prices on the contrary were almost frozen.

Global Developments

US/Americas:

- **The US non-farm payroll added 313,000 jobs in Feb**, with broad-based gains from construction to retail, from financial services to government. The unemployment rate was unchanged at 4.1% despite a significant increase in the labor force participation to 63%. Wage growth eased

to 2.6% yoy.

- **The US Fed Beige Book** suggests that **economic activity grew at a modest to moderate pace** in all 12 districts. Consumer spending was mixed, with auto weakness offsetting non-auto strengths. Home sales expanded modestly due to supply constraints and construction stagnated. Factory production increased across sectors and nearly all districts in tandem with natural resources extraction.
- **The US ISM non-manufacturing index slid** from 59.9 in Jan to 59.5 in Feb. Despite the decline, the index remains perky. The details were mixed as new orders and business activity increased, but employment collapsed from 61.6 in Jan to 55.
- **The US trade deficit widened** sharply from USD 53.9 bn in Dec to 56.6 in Jan, as exports fell 1.3% and imports were almost flat. It was the biggest trade gap since Oct 2008 right after Lehman's demise.
- **Net worth of US nonfinancial corporations rose** by 2.6% qoq in Q4, marking the third straight quarterly gain in corporate profits. Capital expenditures growth however was sluggish.
- **Initial claims for unemployment benefits in the US rose** 21,000 to 231,000 but remain near almost a half century record low. The 4-week moving average rose 2,000 to 222,500. Continuing claims fell 64,000 to 1.87 million.
- **US wholesale inventories soared** 0.8% mom in Jan, surpassing the 0.7% gain in Dec. Nondurable goods surged 1.8% mom, while durable goods rose 0.2% mom. Wholesale sales declined for the first time in 9 months, falling -1.1% mom. The inventory-to-sales ratio declined from 1.23 to 1.26.
- **Unit labor costs in the US nonfarm business sector jumped** by 2.5% yoy in Q4 after a 1% increase in Q3. Labor costs increased 0.4% in 2017 down from 1.1% in 2016.

Europe:

- **The ECB left its policy rates unchanged** and reiterated its commitment to keeping QE purchases at EUR 30bn per month until next Sep, or beyond if necessary. But, unexpectedly, the commitment to increase the QE in case conditions worsened was removed from the final statement. However, Draghi during the press conference downplayed the hawkish implications that had rattled the markets.
- **Retail sales in the Eurozone fell** by only -0.1% mom (+2.3% yoy) in Jan after -1.0% mom (2.5% yoy) in Dec.
- **German industrial orders plunged** -3.9% mom in Jan reversing a 3% gain in Dec, pulled down by a -4.6% collapse in foreign demand from both the Eurozone (-5.9%) and elsewhere (-3.8%). Domestic orders decreased by -2.8%. New orders declined for both capital (-5.0%) and intermediate goods (-3.3% percent), while for consumer goods they gained 2.4%.
- **German industrial production lost** -0.1% mom in Jan, following another mild drop in Dec. The main drag was output of energy and intermediate goods production, while others sectors grew at a solid pace.
- **The German trade surplus rose** to EUR 17.4bn in Jan from EUR 14.6bn a year earlier, as exports rose by 8.6% to EUR 107.1bn and imports grew by 6.7% to EUR 89.7bn.
- **UK Industrial production shot up** 1.3% mom (1.6% yoy) in Jan exactly offsetting the decline in Dec (0% yoy). Mining and quarrying jumped 23.5% mom following the reopening of the Forties pipeline while manufacturing increased only 0.1% mom.
- Donald Tusk, the European Council president, warned that the UK must lower its hopes for a future trade deal with the **EU after the Brexit**.

Asia Pacific:

- **China's inflation nearly doubled** to 2.9% yoy in Feb from

1.5% in Jan due to Lunar Year seasonal effects which pushed food prices up. Also core inflation pressures were on the rise.

- **China's producer price growth** in Feb **slowed** for the fourth month in a row to 3.7% yoy from 4.3% in Jan.
- **China's M2 money supply increased** by 8.8% yoy in Feb following an 8.6% rise in Jan as loan growth remained buoyant.
- **China's trade surplus unexpectedly** (maybe due to Lunar Year effects) **surged** to USD 33.74bn in Feb from a USD 0.1bn deficit a year earlier. Exports jumped by 44.5% yoy to USD 171.6bn while imports rose 6.3% to USD 137.9bn.
- **Japan's final GDP data** were **revised up** to 0.4% qoq from 0.1%, due to stronger investment figures. Overall GDP for 2017 was also revised up to 1.7% from 1.6%.
- **The Bank of Japan** monetary policy council left **unchanged** its policy tools. The BoJ will target a 0% interest rate for the 10-year JGB and a -0.1% rate on excess reserves.
- **Japan's current account surplus widened** to JPY 0.607tn in Jan from JPY 0.095tn a year earlier.
- **The Leading Economic Index in Japan** declined to 104.8 in Jan from 106.6 in Dec.
- **Australia's GDP** growth **expanded** 0.4% qoq (2.4% yoy) in Q4 vs 0.7% (2.9% yoy) in Q3. Net exports subtracted 0.4% from headline growth. GDP was driven by private consumption.
- **Inflation in South Korea** rose to 1.4% yoy in Feb vs 1.0% in Jan.
- **Taiwan's trade surplus** reached USD 2.9bn in Feb after narrowing to USD 2.4bn in Jan.

Bottom line: The US jobs report was interpreted by markets as evidence of a continued goldilocks where job creation and growth are ebullient and wage inflation is subdued (average hourly earnings went up by just 0.1% mom and 2.6% yoy). In particular, weaker inflation pressures reinforce traders'

expectations that the US Fed will not tighten monetary policy. But the illusion cannot persist indefinitely. It is true that despite a flare up in volatile components and energy prices, inflation has eluded the central banks' targets and the risk of overheating seems negligible. But upward factors will materialize in 2018, especially once the US tax cuts display their full effects and Eurozone growth is solid, despite a stronger euro. Politics continues to be a source of instability. The talks between US and North Korea could turn out to be bogus, the terms of the Brexit are as uncertain as ever and in Italy, where anti-system parties won a majority of the votes, the new government will be unstable and ineffective threatening EU cohesion.

Regional Developments

- **Bahrain's** Mumtalakat and The Oil and Gas Holding Company – both government related enterprises – have been downgraded to BB- from BB+ by **Fitch**
- The **Central Bank of Bahrain** launched a secure network connecting all retail banks, which will allow **real-time inter-bank payments settlement**, while the existing Swift network will remain a contingency backup.
- The **Bahrain Bourse** is set to become a **self-regulatory organisation**, i.e. with the power to create and enforce industry regulations and standards, licensed by Central Bank of Bahrain (according to resolution No 11 for 2018).
- A range of **new laws in the pipeline** in **Bahrain** including a revised bankruptcy law, new trust laws and limited liability partnership laws, will **support the start-up ecosystem**, disclosed a top Economic Development Board official.
- **Egypt's PMI contracted** again, down a tad to 49.7 in Feb from Jan's 49.9; major sub-components like new orders and new export orders crossed the 50 mark (i.e. positive).

- **Inflation in Egypt fell** to 14.4% in Feb (Jan: 17.1%), the lowest in more than a year, as core inflation also dipped to 11.88% from the previous month's 14.35%.
- **Saudi Arabia and Egypt** set up a USD 10bn **joint fund to develop the planned mega-city, Neom**, during the visit of the Saudi Crown Prince to Egypt.
- **Egypt's foreign reserves increased** to USD 42.524bn at end-Feb from Jan's USD 38.209bn, supported by the recent Eurobond sale.
- **Egypt expects to issue bonds** between EUR 1.0-1.5bn in Apr, disclosed the finance minister; he also stated that the banks which will handle and manage the issuance of **euro-denominated bonds** will be selected within two weeks.
- **Egypt** is discussing the potential set-up of a **sovereign wealth fund** to manage state companies post-listing on the stock exchange, according to the minister for public enterprise. The finance minister had revealed earlier this year the country's plans to offer shares in 8-10 state companies on the stock exchange over the next 18 months.
- **Egypt's trade deficit narrowed** by 11% yoy in Jan: non-oil exports rose to USD 1.9bn while imports fell by 4% yoy to USD 4.6bn. Export to the EU bloc increased 24% yoy to USD 557mn, and exports to the Arab markets grew to USD 766mn (+5.5%).
- One of **Egypt's** leading private equity companies – BPE Holding for Financial Investments – will launch its **IPO** from 13-25 Mar.
- **Egypt** will announce **tariffs for electricity generated from waste** by next week; this will then be presented to the cabinet for approval next month.
- **Iraq's** Parliament voted **to establish a new National Oil Company**, reported Reuters, citing lawmakers; the new company will manage Iraq's upstream operations while the ministry will oversee and set plans and strategies to develop the energy sector.

- **Bursa Kuwait expects to complete its own IPO by Q1 next year**; the exchange is creating three new market segments (to be introduced next month) – a “premier” market, a main market and an “auction market” where stocks with low levels of liquidity will be traded during two, 15-minute auction periods per day.
- Following the upcoming listing of the Shamal Azzour Al-Oula independent power and water plant, **Bursa Kuwait’s** CEO expects “another **5-6 listings**” emerging from Public Private Partnership (**PPP**) programme within the next four years.
- **Kuwait’s construction** industry is facing losses, causing **13 companies** to **request for liquidation** at the Ministry of Commerce and Industry (these were not sanctioned). The *Al-Shahed* daily reported that around 15 companies were to declare bankruptcy soon given liquidity issues and inability to meet their financial commitments.
- **Lebanon’s** cabinet will send the **2018 draft state budget** to Parliament this week for final ratification.
- The **Lebanese central bank’s dollar reserves** climbed by USD 1.4bn in Jan-Feb this year and its total **assets** in dollars exceeded USD 43bn, revealed the governor at an economic conference.
- **France** announced that it would provide EUR 14mn (USD 17mn) worth of **aid to the Lebanese army**, to include training and equipment such as anti-tank missiles, as part of the effort to strengthen the country’s institutions and boost security.
- **Oman’s nominal GDP** in Q3 **rose** by 10.1% yoy to OMR 20.3bn, compared with OMR 18.5bn Q3 2016. The oil sector GDP increased by 23.9% yoy while non-oil activities gained 4.9% yoy to OMR 14.7bn. The services sector increased 5.7%, industry 2.8% and agriculture and fish 5.4%.
- **Oman’s government budget deficit** in Q3 **fell** -32.2% yoy to OMR 3bn, compared with OMR 4.4bn in Q3 2016. Total revenues increased by 20% to OMR 6bn in Q3, compared

with OMR 5bn a year earlier.

- **Oman's inflation** in Feb was 0.49% yoy vs 0.54% in Jan. The education index recorded the sharpest uplift (4.9% yoy). Housing, water, electricity, gas and other fuels rose by a mere 0.09%, transport by 2.23%, hotels and restaurants by 0.04%, house maintenance by 1.87%, and tobacco by 0.63%. Prices of food and non-alcoholic drinks declined by -0.34%, shoes and garments by -1.04% and health by -2.45%.
- The **Oman's expatriates' population** in Mar **dropped** by 20,700 compared to May 2017 to little over 2.1 mn.
- The **Qatar central bank** sold QAR 900mn (USD 247.25mn) of **Treasury bills** with maturities of three, six and nine months.
- **Qatar Airways** will report a "**very large loss**" for the financial year ending Mar 31, states its chief executive, given the ban on using airspace over the four countries involved in an ongoing political dispute and the loss of access to 18 cities in those nations.
- The **US State Department** approved USD 197mn worth of **foreign military sales** – GPS equipment and information distribution systems to upgrade its air operations centre – to **Qatar**, reported *Reuters*.
- **Saudi PMI** (seasonally adjusted) **picked up** in Feb to 53.2 from Jan's 53.0, thanks to an acceleration in output growth (56.9 in Feb vs. 55.1 in Jan) while new orders slowed to 52.9 – the lowest level in the survey's history.
- The head of **Saudi Arabia's** debt management office disclosed that the country **would issue Sukuk** "as soon as market conditions allow". He also stated that the country had a ratio of 65% to 35% for local to international issuance, plus or minus 10%.
- **Saudi Arabia will no longer offer short-term repurchase agreements** (i.e. seven-, 28- and 90-day periods), revealed the central bank, after short-term Saudi money market rates fell below US rates for the first time in

nine years.

- **Saudi Arabia and UK** target GBP 65bn (USD 90.29bn) in **trade and investment ties** in the coming years, it was announced during the Saudi crown prince's visit to the UK. Separately, the Saudi Arabian General Investment Authority announced granting of Saudi investment licenses to 10 UK businesses.
- **Funds collected from Saudi Arabia's corruption purge** will go to the Ministry of Finance and not the Public Investment Fund, clarified the latter's managing director.

UAE Focus

- **UAE's PMI declined** for the second consecutive month, falling to 55.1 in Feb – the lowest reading since Sep 2017 – from Jan's 56.8. Output growth fell to a nine-month low of 57.7 from 62.1, while business optimism about future output also declined, falling to 57.2 from 71.2 in Jan.
- **UAE** attracted USD 11bn in **FDI inflows** last year, according to the **IIF**, also accounting for 22% of the total FDI to the MENA region.
- The Emirate of **Sharjah**, in its biggest transaction in debt capital markets, raised USD 1bn from a 10-year **Sukuk** last week; demand for the issue was more than USD 2.4bn.
- The **Abu Dhabi Development Holding Company** was established last week as an independent corporate entity that will have ownership of all government and quasi-government development service companies of the emirate. The company will be a public joint stock company with a capital of AED 500mn (USD 136mn).
- The Abu Dhabi Global Market (**ADGM**) introduced a **remote membership framework**, enabling brokers located outside of the ADGM to access exchanges and clearing houses located within ADGM.

- **Inflation in Abu Dhabi** more than **doubled** to 4.7% in Jan (when the VAT was introduced), from Dec's 2.0%. Jan inflation was reportedly the highest level since 2015: food and drink prices were up 7.1% yoy and transport prices increased by 13.2%, but a weak real estate market helped: rents were down 2.7% yoy.
- **Dubai** announced a **freeze on government fees** for the next three years, in line with UAE's announcements earlier this month.
- Dubai International Financial Centre (**DIFC**) attracted 315 new companies in 2017, and reported a 25% yoy increase in net profit to USD 99mn. The total number of registered firms grew to 1853, of which financial service sector firms were 473.
- Visitors from the GCC account for more than one-third of the **hotel occupancy levels in UAE's Northern Emirates**: in Fujairah, GCC residents accounted for 39% of the emirate's total occupancy levels, 34% in Ras Al Khaimah and 34% in Sharjah, and this trend is expected to continue.
- **Dubai plans to permit transit passengers to tour the emirate**: currently a transit passenger spends AED 9 within the airport versus a potential of up to AED 1,000 spend while touring the city. Of the more than 50mn passengers transiting through Dubai, an estimated 46mn do not visit the city.
- According to new regulations from **UAE's National Media council**, **social media influencers** promoting brands or businesses or related activities for cash will need to get a **media license**.
- The **US State Department** approved USD 270.4mn worth of **foreign military sales** to **UAE**, including training missiles, tactical guidance units, and spares and support, reported *Reuters*.

Media Review

Six decades of public spending in the US

<https://fee.org/articles/federal-spending-5-charts-that-tell-the-story/>

Merkel's fragility

<https://www.omfif.org/analysis/commentary/2018/march/merkel-fragility-after-coalition-vote/>

Saudi Arabia injects cash in its SWF

<https://www.ft.com/content/aff55882-2372-11e8-add1-0e8958b189ea?segmentId=b348cbb8-e1d8-c16f-c0bc-d70f5303573e>

Aramco IPO venue in the balance as Saudi prince embarks on trip

<https://www.reuters.com/article/us-britain-saudi-trip-aramco/aramco-ipo-venue-in-the-balance-as-saudi-prince-embarks-on-trip-idUSKCN1GI1PX>

Bonds Are Helping These Gulf States Delay Reforms

<https://www.bloomberg.com/news/articles/2018-03-07/bonds-are-helping-these-gulf-states-keep-their-heads-in-the-sand>

UK and Saudi Arabia sign deals for USD 90 bn

<http://businessweekme.com/2018/03/08/uk-ksa-target-mutual-investments-worth-90bn>

Race to exploit Mediterranean gas raises regional hackles: FT

<https://www.ft.com/content/b8fe8d9c-23bb-11e8-ae48-60d3531b7d11>

Trade relationships are dominated by supply chain that protectionism will destroy

<https://hbr.org/2018/03/the-supply-chain-economy-and-the-future-of-good-jobs-in-america>

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