

# Weekly Economic Commentary – Mar 18, 2018

## Markets

In a week that preludes to the Fed decision on a rate hike, choppy action on US equity markets was driven by the fear of a trade war and its consequences on global value chains. Although in mid week the Nasdaq scored another record, the S&P500 experienced a four-day losing streak interrupted by a modest gain on Friday. Other major bourses had much better performances with the Topix sustained by a good macro picture and European indices unaffected by the diplomatic crisis between the UK and Russia over the attempted murder of an ex spy with a nerve agent. The risk-off mood emerging markets as reflected by the relentless weakening of the MSCI EM after an initial jump at the beginning of the week. Regional markets took some solace from a further advance in oil prices and the Qatar index soared on the news that Qatar National Bank would raise its ceiling for foreign ownership. Concerns over a trade war and the reshuffling of the Trump Administration foreign policy team after the sacking of Tillerson, hit the US dollar on major crosses, especially against the yen, but the dollar index covering a basket of currencies, crawled up to finish its fourth consecutive week of gains, the longest positive streak since early October. Oil prices had another banner week, despite US crude inventories added 5.0 m/b, more than double the market's expectations. It was the largest build up in 7 weeks, but gasoline inventories fell 6.3 m/b. Gold prices, after two weeks of stability, lost ground and went back to levels seen at the beginning of the month, failing to benefit once again from the safe haven effect.

## Global Developments

### **US/Americas:**

- **US industrial production** in Feb **surged** 1.1% mom, after a -0.1% in Jan. Mining recorded a stellar 4.3% mom and manufacturing an equally surprising 1.2% mom, offsetting a decline in utilities output.
- **US inflation moderated** in Feb to 0.2% mom (2.2% yoy) after 0.5% increase in Jan (2.1% yoy). Food prices were flat while energy crawled up. Core CPI also gained 0.2% mom (1.9% yoy) a decimal below the rate in Jan while the yoy rate was unchanged.
- **US retail sales fell** -0.1% mom (4% yoy) in Feb after two -0.1% drops in Jan (3.9% yoy) and Dec, mostly due to lower car and fuel stations sales.
- **US manufacturers' and trade inventories rose** 0.6% mom Jan, the same pace as in Dec. Stocks of autos and parts rebounded (1.7% vs -0.3% in Dec) and inventories build up accelerated both at retailers (0.7% vs to 0.3% in Dec) and wholesalers (0.8% vs 0.7%).
- **The University of Michigan Consumer sentiment index** in Mar **advanced** 2.3 points over Feb to 102, a 14-year high. Current conditions gained 7.9 points to 122.8, an all time high. Household finances and net incomes soared as a consequence of the tax cuts. Consumer expectations however lost 1.4 points to 88.6.
- **Initial claims for unemployment benefits in the US fell** 4,000 to 226,000. The 4-week moving average slid 750 from to 221,500. Continuing claims rose 4,000 to 1.879 million but still near historical lows.
- **US housing starts fell** -7% mom (-4% yoy) led entirely by multifamily construction; single-family construction increased for the month and from a year ago.

## Europe:

- **Eurozone inflation receded** to 1.1% yoy in Feb from 1.3% in Jan, thanks to subdued energy and food prices. The core rate was unchanged at 1% and marginally above the 0.9% in Dec. Only services inflation rose to 1.3% from

1.2% in Jan.

- **Eurozone's industrial production fell** -1% mom in Jan vs a 0.4% growth in Dec, marking the deepest decline since Dec 2016. Output fell for energy (-6.6% vs +1% in Dec), durable consumer goods (-1.9% vs +1.7%) and intermediate goods (-1% vs +1.1%). Capital goods production rose 1.2%.
- **Hourly labour costs in the eurozone went up** 1.5% yoy in Q4 easing from 1.6% in Q3. The non-wage component increased 1% vs 1.5% in Q3 while wages and salaries per hour worked were up 1.7% vs 1.6% in Q3.

## **Asia Pacific:**

- **China's industrial production rose** 7.2% yoy in the Jan-Feb period, outpacing the 6.2% in Dec.
- **China's fixed asset investment rose** 7.9% yoy in the first two months of 2018, vs 7.2% in the same period in 2017 booting by a 16.1% yoy increase in infrastructure development.
- **FDI in China edged up** 0.3% yoy in Jan after a 9.2% yoy slump in Dec. For the whole of 2017 FDI rose 7.9%.
- **China's retail trade soared** 9.7% yoy in the Jan-Feb period, vs 9.4% in Dec. Household electronics, construction materials, jewellery and autos were the main drivers.
- **Inflation in India slowed** to 4.4% yoy in Feb (the lowest in 4 months) from 5.1% in Jan, thanks to ebbing food and fuel inflation. Commodity prices decreased slightly. Other CPI sub-categories displayed mom price dynamics essentially in line with the previous month.
- **Wholesale Inflation in India rose** by 2.8% yoy in Jan, down from 3.6 % in Dec.
- **Core machinery orders in Japan surged** 8.2% mom (2.9% yoy) in Jan partially offsetting a -9.3% mom (-5% yoy) collapse in Dec. The rebound was broad-based in manufacturing and nonmanufacturing orders, especially

overseas orders. On the other side, government orders disappointed.

- **Singapore's nonoil exports fell -5.9% yoy in Feb** after the whopping 12.9% rise in Jan. These wild gyrations are due to the Lunar New Year festivities. However there was a broad-based decline in all major categories, primarily in electronics exports which declined for the third consecutive month.

**Bottom line:** The global economy continues to perform well in the context of a synchronised global upswing: for the first time in nearly a decade no major developed economy is in recession. Global GDP has grown by at least 3% yoy in each quarter since late 2016. However, while all eyes are concentrating on developed economies, emerging market growth momentum is weakening. Furthermore, two elements have perturbed the macro picture: (1) the rise in equity volatility, and (2) the expansionary fiscal policy in the US. For the first time a US administration has enacted a stimulus with the economy at full employment. Such reckless pro-cyclical policy with the fiscal deficit projected at 5% of GDP is likely to disrupt bond markets (especially during a delicate phase of monetary policy normalization) exacerbating uncertainty and, consequently, volatility in the markets.

### **Regional Developments**

- **Bahrain's cabinet has approved draft legislation on financial reorganisation and companies facing bankruptcy** (except those that come under the authority of the Central Bank of Bahrain); this has been referred to the legislative branch now.
- **Bahrain's parliament members approved amendments to the 2002 National Budget Law**, which will now result in around 73 government owned companies, authorities and bodies contributing their profits into the national budget. Further, a 3% excess would be added to the budget (to fund shortages) vis-a-vis the current system

which permits the ministry of finance to rotate available funding. These bills will now be reviewed by the Shura Council.

- A Presidency statement in **Egypt** disclosed that a **budget deficit** of 9.5-9.7% of GDP was being targeted for the **2017-18 fiscal year** (which ends in Jun) compared to 10.9% the previous fiscal year.
- **Egypt's** Petroleum Ministry is in the process of issuing a **global tender** by year-end for the **exploration of petroleum products** in oil reserves, including new sectors in the Red Sea.
- **Iraq plans to reduce oil imports** by 25% as its crude oil refineries are being rehabilitated; furthermore, the country is also producing more oil products by processing natural gas liquids, according to the oil minister.
- **Jordan suspended its Free Trade Agreement with Turkey**, citing an adverse impact on the local industrial sector underscored by the "unequal" competition with Turkish products.
- **Tourism revenues in Jordan** grew by 7.2% yoy to USD 735.4mn during Jan-Feb this year. In the month of Feb alone, revenues were up by 4.3% to USD 315.8mn, thanks to a 6.9% increase in tourists.
- **Kuwait will divide its stock market into three segments** – the premier market, main market and the auction market – starting Apr 1; the bourse is also expected to introduce new listing rules on the same day. The premier market would be home to relatively larger and more liquid listed companies.
- **Local banks in Kuwait** plan to **increase employment of citizens to 80%** in the sector, upon instructions from the central bank of Kuwait. This move is expected to provide 17,000 job opportunities for citizens in the private sector.
- **Lebanon's 2018 draft budget** is expected to be approved by the Parliament before the CEDRE conference in Apr; it

was endorsed by the cabinet earlier last week. It was also revealed that the budget deficit had reduced by LBP 200bn (USD 133mn) from a year ago to LBP 7.3trn (USD 4.8bn), with expenditures set at LBP 23.86 trn (USD 15.92bn) and revenues of just LBP 18.69trn (USD 10.6bn).

- **Fitch** includes **Lebanon's banking sector** among 92 banking systems with a "low level of potential vulnerability," the highest category on Fitch's Macro-Prudential Indicator.
- **Inflation rate in Oman** was 0.5% yoy in Feb, down from 1.1%; this was the lowest rate in almost 2 years.
- **M2 Money supply in Oman increased** 5% yoy to OMR 16289.90 mn, significantly above the 4.2% in Feb.
- **Bank loans in Oman increased** 3% yoy in Jan substantially above the 4.1% in Dec and the highest rate in almost a year.
- **Qatar**, in its recently released **National Development Strategy** for 2018-2022, expects its **current spending** to average about 21.2% of GDP in 2018-22 down from 32.6% in 2015. The Plan also calls for increasing energy efficiency as well as becoming more self-reliant in food production.
- **Saudi Arabia raised its repo and reverse repo rates by 25bps** to 2.25% and 1.75% respectively, ahead of the Fed move, in an attempt to prevent Saudi interbank offered rates from falling far below the US equivalent. Last Thurs, the 3m-SAIBOR was 13bps below its dollar equivalent – the lowest spread since mid-2009.
- **Saudi Arabia**, planning its 4th **international bond issue**, has selected Citi, Goldman Sachs, HSBC and Morgan Stanley as the main banks, reported *Reuters*.
- **Saudi Arabia's** housing ministry **plans to boost real estate financing** to SAR 502bn (USD 133.9bn) by 2020 from around SAR 290bn now. The government aims to raise household ownership ratio to 70% by 2030 – this means an additional 1.2mn housing units.
- **Saudi Arabia's** energy ministry disclosed that it plans

to keep its Apr **crude oil production** below 10mn barrels per day (bpd), and maintain **exports** under 7mn bpd.

- **Saudi government** is expected to take a 35% **stake in the construction company Saudi Binladin Group**, as part of the financial settlement during the anti-corruption probe, reported *Reuters*.
- **Saudi Arabia will deposit USD 2bn into the account of the Central Bank of Yemen**, to shore up the weak currency.
- After a lull of four years, it was announced that **foreign wives and widows of Saudi men can now apply for nationality**; applications are to be reviewed by a six-member committee.
- Total mobile phone subscriptions in Saudi Arabia declined to 40 million in Q4 2017, largely due to a decline in expat employees; mobile broadband subscriptions grew by 25% to 30mn.
- **Abu Dhabi and Dubai** – ranked 62 and 66 respectively – are the **most expensive cities in the GCC**, according to the **EIU's 2018 Worldwide Cost of Living report**. Others from the region include Bahrain (ranked 93), Kuwait and Doha (both ranked 101), Al Khobar, Muscat, Jeddah and Riyadh (all ranked 107). Singapore retains its title as the world's most expensive city for the fifth consecutive year.
- **UAE moved up a rank to 20th** in the UN Sustainable Development Solutions Network's 2018 **World Happiness Report**. Finland was named the world's happiest while from the region Qatar was ranked 32, Saudi Arabia 33, Bahrain 43 and Kuwait 45.

## **UAE Focus**

- The **Dubai Economy Tracker** posted a reading of 55.8 in Feb (Jan: 56.0), with wholesale and retail the best performing sub-sector (at 57.3).
- The **UAE central bank** plans to launch a **new EIBOR system**

next month: this would include a panel of around eight banks, and an external auditor would audit the system to ensure transparency.

- **Gold reserves at the UAE central bank increased** by 4.1% mom to AED 1.2bn (USD 326.71mn) – the highest for over three years – at end-Jan. The value of the bank's reserves of foreign currencies was around AED 326bn at end-Jan.
- **Remittances from the UAE grew** 2% yoy to AED 164.3bn in 2017, according to the central bank. India was the top recipient of remittances in Q4, with Indian expats sending back AED 14.8bn or 34.3% of the total remittances in Q4 (AED 43.2bn). This was followed by Pakistanis (AED 4.1bn or 7.1% of the total), Filipinos (7.1%), Americans (5.9%), Egyptians (5.5%), Britons (4.2%) and Bangladeshis (3.6%).
- The **Dubai** Land Department and the Department of Economic Development have signed an agreement to establish a mechanism for **monitoring and inspecting real estate facilities** licensed by RERA.
- **Dubai's** Department of Economic Development issued 1646 **new business licenses** in Feb 2018, and completed 23,407 transactions in business registration and licensing. Majority of the transactions were related to commercial licenses (62.3%), followed by the Professional (36.6%), Industrial (0.9%) and Tourism (0.6%) categories.
- The number of **hotel guests staying in Abu Dhabi** increased by 7.4% yoy to 437,228 in Jan this year. Chinese and Indian guests totalled more than 35k and 34k respectively in Jan.
- **Emirates NBD** announced that all **foreign currency transactions that are paid in AED** will be charged a fee of 1.15% starting Mar 8.

## **Media Review**

### **Trump's gamble on deficit and inflation**

<https://www.wsj.com/articles/sizing-up-the-trumponomics-gamble>



[-on-deficit-spending-1518374037?](#)

**The surge in shale oil production hits OPEC strategy**

<http://businessweekme.com/2018/03/13/u-s-oil-export-surge-threatens-opec-strategy/>

**Saudi Arabian Crown Prince moves abroad and at home**

<https://www.ft.com/content/cec6b1c0-261f-11e8-b27e-cc62a39d57a0?segmentId=b348cbb8-e1d8-c16f-c0bc-d70f5303573e>

**The Aramco Math Problem**

<https://www.bloomberg.com/gadfly/articles/2018-03-15/the-saudi-aramco-ipo-math-problem-cash-barrels>

<https://www.bloomberg.com/news/articles/2018-03-16/aramco-is-said-to-get-cool-response-on-ipo-from-u-s-investors>

**Bahrain counts on fintech, Saudi ties to revive indebted economy**

<https://www.reuters.com/article/us-bahrain-economy-recovery/bahrain-counts-on-fintech-saudi-ties-to-revive-indebted-economy-idUSKCN1GR0JC>

**Lebanon central bank: IMF criticism valid, but budget a good start**

<https://www.reuters.com/article/us-lebanon-economy-cenbank-interview/lebanon-central-bank-imf-criticism-valid-but-budget-a-good-start-idUSKCN1GS2JD>

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