

Weekly Economic Commentary – Apr 8, 2018

Markets

April did not start well for US equities: there were no specific catalysts for a malaise spreading at the very beginning of the week, but then the China-US trade tariff tit-for-tat affected all assets from German stocks to agricultural commodities. The sell off intensified at the end of the week exacerbated by a disappointing US non-farm payrolls report and comments from Fed Chairman Powell, hinting to further interest hikes in 2018. Risk aversion pushed down the 10-year Treasury yield to below 2.8% and sustained gold prices. The contagion reached emerging markets, but European and Japanese stocks were little affected and ended in positive territory. The GCC bourses (except Abu Dhabi and Bahrain) had a positive performance led by KSA still benefiting from the upgrade to emerging market status and the confirmation of the sovereign rating by S&P. Currency markets remained calm apart from a flight to safety into the Swiss franc. The US markets' blues hit the oil price, despite US inventories falling by 4.6mn barrels (against expectations of a 250,000 increase).

Global Developments

US/Americas:

- **US non-farm payrolls increased** by only 103,000 in Mar, vs 326,000 in Feb, as industries such as construction and retail were hit by bad weather. Nevertheless the Q1 average still holds over 200k which is quite perky. Average hourly earnings rose by 2.7% yoy raising again worries over inflation pressures.
- **President Trump ordered to devise a plan for additional duties** on USD 100bn worth of Chinese imports, escalating

the ongoing trade dispute.

- **The US trade deficit widened** in Feb to USD 57.6bn, the sixth consecutive monthly increase, to touch a 9-year record. Both the goods deficit and the services surplus (saddled by royalties and fees for the Winter Olympics) deteriorated. Nominal exports and nominal imports each gained 1.7% mom.
- **The ISM manufacturing PMI in the US fell** slightly to 59.3 in Mar from a 14-year high of 60.8 as new orders, output and employment rose at a softer pace. The **ISM Non-Manufacturing PMI index fell** from 59.5 in Feb to 58.8 in Mar, hit by weaker new orders.
- **Initial claims for unemployment benefits in the US rose** 24,000 to 242,000. The 4-week moving average rose 3,000 to 228,250. Continuing claims fell 64,000 to 1.808 mn.
- **US new orders rebounded** in Feb by 1.2% mom after a -1.4% drop in Jan. Durable goods orders were strong, thanks to core capital goods, but consumer nondurable goods orders fell again.

Europe:

- **Inflation in the Eurozone rebounded** to 1.4% yoy in Mar from Feb's 14-month low of 1.1% on the back of higher services and food, alcohol and tobacco prices. Core inflation, ex. energy and food remained stable at 1% yoy.
- **The Eurozone's retail sales declined** -0.1% mom (2.3% yoy) in Jan adding to a -1% drop in Dec (2.1% yoy), caused by weaker sales of food, beverages and tobacco (-0.2% vs -0.4% in Dec) and non-food products (-0.3% vs -1.4%). It was the 5th monthly drop in 7 months.
- **The Eurozone's unemployment rate fell** to 8.5% in Feb, from 8.6% in Jan marking a record low since end 2008.
- **German industrial production in Feb plunged** -1.6% mom vs 0.1% in Jan, due mainly to a -5% mom collapse in output of means of transportation, but also capital goods

production fell -3.1% mom. **German factory orders** rebounded by a lower-than-expected 0.3% mom (3.5% yoy) in Feb.

- **German retail sales dropped** -0.7% mom (1.3% yoy) in Feb exacerbating the -0.3% (2.5% yoy) drop in Jan. It is the 3rd consecutive monthly loss and the 6th in the previous 8 months, a rather rare streak for an economy in full swing.
- **Russia's GDP growth halved** to 0.9% yoy in Q4 and the lowest since Q1 2017. Private consumption was the only bright spot offsetting the lower trade surplus. Investment growth slowed substantially in yoy terms.

Asia Pacific:

- **China's official Caixin Manufacturing PMI fell** to 51.0 in Mar from 51.6 in Feb, the weakest reading since Nov, as both output and new orders grew the least in four months, while export sales increased only marginally. At the same time, employment contracted the most in 7 months. On the other hand, confidence on the 1 year ahead production outlook reached a 12 month high.
- **China's government threatened to retaliate with tariffs on American imports**, just few hours after the Trump administration detailed 1,333 Chinese products as possible targets for 25% duties. Later it filed a case against the duties earlier proposed by the US on over 100 Chinese products.
- **Japan's Tankan big manufacturers' sentiment index fell** to 24 in Q1 from 26 in Q4. Among the worst performers were textiles (3 vs 6 in Q4); pulp & paper (4 vs 8); chemicals (26 vs 35); and iron and steel (10 vs 19 due to US duty rise). On the bright side, large firms plan to raise investments by 2.3% in the next 2018 financial year.
- **The Nikkei Manufacturing PMI in India retreated unexpectedly** to 51.0 in Mar from 52.1 in Feb, a 6-month

low, due to sluggish output growth, although new export orders grew. On the bright side, new orders increased for the fifth straight month.

- **The Reserve Bank of India left its policy rate unchanged** at 6%, as expected.
- **The Nikkei South Korea Manufacturing PMI dropped** to 49.1 in Mar from 50.3 in Feb, the worst deterioration since July 2017. Output fell the most since Aug and new business shrank for the first time in 10 months. New export orders plunged to a 17-month low as demand from China, India, Japan and the US subsided.
- **Inflation in South Korea slowed** down to 1.3% yoy in Mar from 1.4% in Feb. Core inflation also was 1.3% vs 1.2% in Feb.

Bottom line: The macro data continue to indicate a precarious plateauing of growth. The current cyclical upswing started in mid-2016 and the IMF points out that about 120 countries, making up three quarters of world GDP, have experienced an acceleration in annual growth in 2017, the broadest synchronized global growth momentum since 2010. However, high-frequency data and sentiment indicators underscore a stall in Q1, in part caused by the end of a rally in equities, the interest rate hikes in the US and the trade war initiated by Trump. Looking forward, the global economy is entering a twilight zone: the US Congress has approved a profligate budget (the deficit will reach USD 870bn, 30% larger than in 2017) when the economy is growing at a healthy pace and unemployment is at a 60 year low. At the same time, the US Fed is tightening monetary policy to re-absorb the unprecedented expansion of its balance sheet. Investors' bets conflict with economic reality. Long-term interest rates below 3% are ludicrous if compared to the Fed's inflation target of 2% plus a real growth of 2-3%. Like a car whose driver pushes at the same time on the accelerator and on the brakes, the US economy risks spinning and involving others in the crash.

Regional Developments

- **Bahrain's real GDP** grew by 3.4% yoy in Q4 last year while nominal GDP growth was up by 8.7%, according to the Information and eGovernment Authority. The non-oil sector registered increases of 3.8% and 7% at constant and current prices respectively.
- **Bahrain** announced a **major discovery of oil and gas reserves off its west coast**, amounting to at least 80bn barrels of tight oil and deep gas reserves in the region of 10-20 trillion cubic feet.
- **Imports into Bahrain increased** by 32% yoy to BHD 440mn in Feb; China, UAE and Australia were the top exporters into the country while Aluminum oxide was the top product imported followed by four-wheel drive vehicles and AC generators.
- **Bahraini** families earning up to BHD 2000 (USD 5303) a month could be eligible for **subsidy payments**: the families could receive 50%-150% of the salary of the main breadwinner. The first batch of payments are likely to be made before mid-May before the start of Ramadan.
- **Egypt's PMI contracted** for the third consecutive month, falling to 49.2 in Mar (Feb: 49.7), with the output reading at 49.3.
- **Egypt's finance minister** stated that the ministry **plans to reduce the budget deficit to 4% by 2022**. Budget deficit for the current fiscal year is estimated between 9.5% and 9.7%: during H1 of 2017-18, budget deficit was at 4.4% of GDP (down from 5% during the same period a year ago), thanks to the reduction in subsidies and VAT increase leading to a 38% increase in revenue.
- **Net foreign reserves in Egypt increased** to USD 42.611bn at end-Mar (Feb: USD 42.524bn), according to the central bank.
- **Iraq** approved a **plan to raise crude oil output capacity** to 6.5mn barrels per day (bpd) by 2022; current capacity is close to 5mn bpd.

- **Oil exports from Iraq's southern ports** edged up to 3.453mn barrels per day (bpd), from the averages 3.426mn bpd in Feb and Jan's 3.49mn bpd.
- **Iraq plans to award oil and gas exploration and development contracts** in 11 new blocks on Apr 15; Jun 21 was initially set as the date to open the bids.
- **Jordan's real GDP grew** by 1.8% yoy in Q4 2017, bringing the full year growth to 2%.
- **Jordan plans to cut electricity consumption by 20% by 2020:** the plan to rationalise energy aims at lowering electricity consumption by 2k gigawatts between 2018 and 2020, with a cost of JOD 700mn.
- **Jordan started awarding citizenship/ permanent residency under the new incentive scheme:** investors can apply to be citizens if they make a zero-interest, five-year USD 1.5mn deposit at the Central Bank of Jordan, or buy Treasury bonds of the same value at an interest rate to be decided by CBJ for no less than ten years, or buy securities worth USD 1.5mn from an active investment portfolio, or invest USD 1mn in SMEs for at least five years. To obtain permanent residency, any non-Jordanian can buy property worth at least JOD 200k (USD 282k) without selling or disposing of it in any manner for a period of ten years.
- **Kuwait Parliament's financial and economic affairs committee approved a bill imposing fees on expat remittances.** According to the proposed laws, fees to be imposed on KWD 90 category would be 1%; 2%, 3% and 5% at the KWD 100-200, KWD 300-499 and KD 500-1,664 segments respectively.
- **Kuwait's current account surplus widened** to KWD 1108 mn in Q4 2017, up 127.1% yoy.
- **Kuwait's investments in the US** reached USD 300bn, reported the al-Anba daily, citing the American ambassador to Kuwait.
- **Lebanon, at its Cedar conference in Paris,** received pledges of USD 10.2bn in loans and USD 860mn in grants,

tweeted France's ambassador to Lebanon.

- **Oman's Central Bank Governor** announced that Oman has the ammunitions to **maintain its currency peg** and has no plans to change it even during testing times. Oman's gross foreign currency reserves (USD 19.6bn at the end of Jan) can cover nearly 9 months' of imports.
- **Oman's Central Bank** cut the bank capital adequacy requirement to 11% from 12% to increase the banks' lending capacity to OMR 7.8bn from OMR 5.2bn.
- **Qatar's** central bank sold QAR 1bn of **Treasury bills** at auction last week; this compares to the sale of QAR 900mn worth T-bills last month.
- **Qatar's** central bank was quoted stating that the **central bank planned to issue roughly the same amount of QAR debt this year as in 2017**, when it issued QAR 47.5bn (USD 12.3bn) which included QAR 18.5bn of bonds and QAR 15.4bn of Sukuk.
- **PMI in Saudi Arabia slowed** to 52.8 in Mar – the lowest level since the survey was launched in Aug 2009 – from the 53.2 Feb reading. While output growth accelerated to 58.6 from 56.9, growth in new orders dipped to a record low 50.5 (Feb: 52.9).
- **Saudi Arabia plans to list local currency government bonds on the exchange starting today**: the move is expected to boost secondary market trading of debt. The Capital Market Authority said over SAR 204.4bn (USD 54.5bn) of riyal bonds with maturities of five, seven and 10 years would be available to trade, including floating- and fixed-rate bonds and Islamic instruments.
- **Saudi Arabia closed** an increased USD 16bn **syndicated loan** that refinances a USD 10bn facility signed in 2016, reported *Reuters*, citing banking sources.

UAE Focus

- **UAE's non-oil private sector growth slowed** in Mar, with the PMI dipping to a 10-month low of 54.8 (Feb: 55.1) as

output growth dropped to a 23-month low (57.1 vs. Feb's 57.7), new orders growth fell to 60.2 (Feb: 61.5) and employment growth hit a 17-month low.

- **Gold reserves at the UAE central bank are likely to increase** by 19.5% yoy to 9mn tonnes this year, according to a Ministry of Economy report. As per central bank data, gold reserves balance was at AED 1.17bn at the end of Feb (compared to AED 1.152bn at end-Dec 2017).
- **Lending by UAE banks to the industrial and business sectors increased** by 1% year-to-date to AED 7.4bn (USD 2bn) during Jan-Feb this year. This reflects a share of 68% of total lending to the private sector, and 51.5% of total funding offered to the public and private sector combined.
- **The value of subsidies and social privileges and benefits** provided by the Federal Government to UAE citizens **increased** by 12.9% yoy to AED 38.4bn (USD 10.45bn) in Jan-Sep 2017, according to the Ministry of Finance.
- **Cash dividends paid by listed firms in the UAE increased** by 14.4% yoy to AED 37.2bn (USD 10.12bn) in 2017. The banking sector accounted for almost half of the total dividends distributed last year (AED 18bn, up 5.9% yoy), followed by the telecom sector (AED 8.543bn, growing 8.15% yoy).
- **UAE banks' investment in securities grew** by AED 6.8bn to AED 69.3bn (USD 18.9bn) at end-Feb this year. Banks' held-to-maturity securities, at AED 69.3bn in Feb, represented around 22.1% of their total investments (AED 313.5bn).
- **The value of UAE's re-exports grew** by 2.7% yoy to AED 546.5bn (USD 148.8bn) in 2017, and represents 47.4% of UAE's exports last year, according to central bank statistics.
- **Emirates Development Bank launched the Emirates Movable Collateral Registry Corporation**, a registry system to facilitate the **use of moveable assets as collateral for**

loans.

- The **Dubai Roads and Transport Authority** awarded two **Expo 2020 road project contracts** worth AED 1.3bn (USD 353mn) for the third and fourth phase of roads leading to the Expo 2020 site.
- **Ras Al-Khaimah** announced the official launch of the **2018 Petroleum Licensing Round** – which offers seven contract areas, including four shallow water offshore blocks and three onshore blocks – and the establishment of the new Ras al-Khaimah Petroleum Authority, the regulator responsible for the Licensing Round tendering process and ongoing management of petroleum rights.

Media Review

The inflection point in the bull market

<https://www.bloomberg.com/view/articles/2018-04-03/the-bull-market-in-stocks-reaches-inflection-point>

Borrowers impose hard budget constraints on US shale companies

<https://www.ft.com/content/0030fafa-3335-11e8-b5bf-23cb17fd1498>

The US-China trade war in a few charts

<https://www.ft.com/content/e2848308-3804-11e8-8eee-e06bde01c544>

Trump's Trade Confusion

<https://www.project-syndicate.org/commentary/trump-unnecessary-trade-war-by-joseph-e-stiglitz-2018-04>

<https://www.economist.com/news/finance-and-economics/21739975-two-countries-threaten-descend-sequence-tit-tat-retaliations>

Powered by:

