

Weekly Economic Commentary – Apr 22, 2018

Markets

The week started with gains in the US, European and Japanese stock markets thanks to a strong corporate earnings reports, but towards the weekend the mood soured. Some equity markets in emerging Asia suffered heavy losses due to geopolitical tensions and a sell-off in technology shares, thereby pushing down the MSCI EM. Regional markets (with the exception of Oman and Abu Dhabi) recorded gains in response to oil prices well above USD 70/b. Meanwhile the yield on the pivotal 10-y US Treasury touched its highest level since Jan 2014, above 2.96% and within striking distance from the critical 3% threshold. The major currency pairs were broadly stable with the dollar making some timid advances. Oil prices extended gains, trading at their highest since 2014 after an unexpected drop in US crude inventories which declined by 1.1 mb against expectations of a 0.625 mb climb; moreover Saudi senior figures mentioned that oil prices could revert to USD 100/b, while an extension of the current output cuts is openly debated among major oil producers; finally if the US pull out of the Iran nuclear deal, sanctions could be reinstated on oil exports as early as May. Gold, in the absence of strains in financial markets, traded within a narrow price range.

Global Developments

US/Americas:

- **US industrial production rose 0.5% mom** in Mar, thanks to utilities' output jumping 3% mom due to cold weather. Manufacturing gained a modest 0.1% mom and capacity utilization rose 0.3%.
- **US retail sales recovered** in Mar rising 0.6% mom (4.5%

yoy) after a -0,1% mom (4.1% yoy) decline in Feb. It was the first monthly increase since Nov. Excluding autos, sales were up just 0.2% mom. Considering the weak results in the past 3 months, the result is not particularly cheerful.

- **The US Fed Beige Book** for Mar and early Apr shows that economic activity again **expanded** at a modest to moderate pace. Consumer spending and residential real estate were strong in most regions. The outlook is generally upbeat, even though the trade war is propagating a degree of uncertainty.
- **The Conference Board's Leading Indicators Index for the US** rose 0.3% in Mar adding to the 0.7% gain in Feb, in line with expectations. Most components made positive contributions with the notable exception of new orders and average workweek.
- **US housing starts increased** by 1.9% mom (10.9% yoy) in Mar vs -3.3% in Feb. The increase was due to a strong pickup in multi-family starts, whereas single-family starts fell slightly.
- **US initial claims for unemployment benefits fell** 1,000 to 232,000; the 4-week moving average rose 1,250 and continuing claims fell 15,000 to 1.863 mn. These numbers are a harbinger of a strong April non-farm payroll figure.
- **The Bank of Canada left unchanged** its policy rate at 1.25%.

Europe:

- **Inflation in the Eurozone crawled up** to 1.3% yoy in Mar from 1.1% in Feb, a tad lower than the preliminary estimate of 1.4%. The core rate held steady at 1%.
- The **Eurozone's external trade surplus** in Feb **rebounded** to EUR 18.9bn, after the Jan seasonal plunge to EUR 3.5bn. The balance increased from a surplus of EUR 16.1bn a year earlier, as the annual export growth

outpaced that of imports.

- **The Eurozone's consumer confidence indicator** in Apr rose to 0.4 points from 0.1 in Mar.
- **The ZEW Economic sentiment indicator** for the Eurozone **dived** to 1.9 in Apr from 13.4 in Mar.
- **Germany's inflation accelerated** to 1.6% yoy in Mar from 1.3% in Feb.
- **The ZEW Economic sentiment indicator for Germany plunged** 3 points to -8.2 in Apr, the lowest point since Nov 2012, as a consequence of the trade disputes and the US intervention in Syria.
- **UK inflation dropped** to 2.5% yoy in Mar from 2.7% in Feb and 0.3% below the MPC forecast. Core inflation plunged to 1.9% yoy from 2.4%. Services inflation rose as a result of the Easter holidays but food inflation held steady, while fuel and electricity inflation retrenched, as expected.
- **Retail sales in the UK plunged** -1.2% mom (1.1% yoy) in Mar vs a 0.8% rise (1.5% yoy) in Feb. The snowfall in Mar depressed sales (e.g. -7.4% mom drop in fuel sales) but if we look at Q1, sales fell -0.5% qoq confirming that private consumption is losing steam.
- **The UK unemployment rate** unexpectedly **fell** to 4.2% in the three months to Feb from 4.3 in the previous 3 months period, the lowest 3-month average since May 1975.

Asia Pacific:

- **China's GDP grew** 1.5% qoq (6.8% yoy) in Q1, just a blip down from 1.6% qoq (6.8% yoy) in Q4. The figure is in line with government targets and the only interesting aspect is a slight deceleration in investment growth (7.5% yoy from 7.9% in Q4).
- **China's industrial production growth slowed** to 6% yoy in Mar from 7.2% yoy in Jan-Feb, due to lower mining output and sluggish manufacturing production. The tech cycle is

ebbing, although production of electrical machinery and other electronic equipment proved to be buoyant.

- **China's retail sales** unexpectedly **jumped** 10.1% yoy in Mar following a 9.7% gain in the Jan-Feb period.
- **Japan's core inflation** **slowed** to 0.9% yoy (-0.4% mom) in Mar from the 1% (0.1% mpm) recorded in Feb. Headline inflation also decelerated from 1.5% yoy in Feb to 1.0% in Mar. As domestic demand remains weak, inflation will hardly point upwards in the near future.
- **Japan's external trade** **reverted to surplus** in Mar, JPY 119.15 bn vs a JPY 201 bn deficit in Feb. Overall exports growth slowed to 2.1% yoy while they were down 2.2% mom on a seasonally adjusted basis.

Bottom line: The macro data last week did not alter the global economic outlook which was also confirmed by the new IMF World Economic Outlook: developed economies and China are performing in line with expectations growing at a healthy pace. The damage inflicted to international trade by the tit-for-tat trade war between US, China and other key exporters is starting to surface, but at present it is not severe enough to derail the course of events. The main risks over the medium term are related to the normalization of monetary policy and its effects on interest rates. The oscillation in the US 10-y Treasury price indicate that the anesthetic effect of massive doses of liquidity is vanishing. When inflation and interest rates were falling steadily over the past 30 years, bond investors profited for treating every uptick in interest rates as a buying opportunity. Nevertheless such Pavlovian reaction of "buying on dips" will not persist forever.

Regional Developments

- The **IMF**, in its latest **World Economic Outlook**, places **growth in the MENA region** at 3.2% this year, thanks to **recovery** across both the oil exporters (non-oil sector support) and importers (increasing external demand and impact of reforms); the World Bank estimates growth to

touch 3.1% this year, from 2% last year, thanks to a re-start of post-conflict reconstruction.

- **Bahrain's financial sector** employed 14,093 persons last year, according to a survey by the central bank, with Bahrainis accounting for 65.6% of the total.
- The IMF expects **Egypt GDP growth** to hit 5.2% in the current fiscal year, revealed the finance minister. He also stated that an unemployment rate of 9.7% is being targeted by end of the next fiscal year.
- **Egypt's unemployment rate declined** to 11.8% in 2017 from 12.5% the year before; around 24.8% of youth between the ages of 15 and 29 were unemployed. The official employment figures only count a labour force of 29.5mn, or less than a third of the country's population.
- **Egypt aims to increase revenues from the tobacco tax** by EGP 7.072bn (USD 402mn) to EGP 58.524bn (USD 3.33bn) as per the 2018-19 draft budget. This compares to EGP 51.542bn estimated this year.
- **Egypt's crude oil output increased** to 657k barrels per day (bpd) from 630k a year ago, according to the petroleum authority.
- **Iraq has resumed war reparation payments to Kuwait** for the Gulf War: USD 90mn was the latest payout, and with this, the United Nations Compensation Commission has paid out USD 47.9bn in total.
- **Kuwait plans to raise the production of non-associated gas** to almost 500mn standard feet per day by the end of the year, according to the nation's oil minister. Separately, the Kuwait Petroleum Corporation's CEO and Deputy Chairman disclosed plans **to raise crude oil production** to 4mn barrels per day by 2020 and natural gas production to 2.5bn cubic feet per day by 2040.
- **Lebanon's fiscal deficit fell** by 22.5% yoy to USD 3.8bn at end-2017, thanks to the one-off tax on bank profits from the "financial engineering operations" of the Central Bank conducted in 2016 and an improvement in tax collection. The deficit ratio to GDP hence improved its

best in 3 years – falling to 7.4% from 9.8% the year before.

- **Oman's fiscal deficit is expected to decline** below 4% of GDP in 2019 (but afterwards increase steadily) as revenues are boosted by the implementation of VAT, excise tax and other non-oil related earnings, according to the IMF. In 20-17 thanks to higher than expected oil revenues, Oman's deficit was 12.8% of GDP down from 21% in 2016.
- The outstanding market value of **bonds and Sukuk traded on Oman's MSM** grew 32% to OMR 2.63bn at the end of 2017, up from OMR 1.99bn in 2016.
- The head of **Qatar** Investment Authority (QIA) stated that that **no foreign assets of the QIA had been liquidated to support the nation's banking system.**
- **Saudi Arabia's** energy minister stated that the **market has capacity to absorb higher oil prices**; he also disclosed that though **global oil inventories** had declined from their peak (at 2.8bn barrels now versus the peak of 3.12bn barrels in 2017), it had not fallen far enough.
- **Saudi Arabia** has put **privatisation plans** for King Khaled International **Airport** in Riyadh **on hold**, reported *Reuters*.
- **Saudi Arabia's** finance ministry has provided Saudi **Binladin Group** with **loans** of around SAR 11bn (USD 2.9bn), to prioritise work on key projects for the government (including completion of the King Abdullah Financial District in Riyadh) in addition to paying its staff and creditors.
- **Saudi Arabia registered 664 patents last year** (2016: 517), accounting for double the number of patents obtained by Arab countries altogether.
- **UAE was the second-largest investor in renewable energy sector in the Middle East and Africa region last year**, investing AED 8bn (USD 2.2bn), behind Egypt's AED 9.5bn investment. The region also saw asset finance increase

by 48% to USD 7.4bn last year, according to Bloomberg New Energy Finance.

UAE Focus

- **Dubai's real GDP reached AED 389bn (USD 105.9bn) in 2017**, up AED 10bn from 2016, with the transportation and storage sector being the biggest contributor to total economic growth at 18.5%, surpassing wholesale and retail trade (+8.3%).
- **Inflation in Dubai** increased by 1.99% in Q1, according to the Dubai Statistics Centre, thanks to increase in transportation costs (+5.9%) and restaurant and hotel prices (+8.2%).
- **Monetary deposits at the UAE central bank** stood at AED 55.8bn (USD 15.2.bn) in Q1 this year.
- A total of 7.168mn cheques worth AED 351.1bn (USD 95.5bn) were handled by the **UAE Clearing Cheque System** during Q1 2018; cheques worth AED 15.7bn bounced, accounting for 4.3% of the total value of cleared cheques.
- The quarterly **UAE central bank survey** revealed that **demand for business loans moderately increased** in Q1 this year, except in Abu Dhabi. The net balance measure for business lending – the weighted percentage of respondents reporting an increase in demand for loans minus those reporting a fall – was +4.6 in Q1 compared to +7.5 in the previous quarter. For the current quarter, this measure is expected to rise to +21.4.
- **Federal revenue collected through the e-dirham** in the UAE **grew** by 82% yoy to over AED 4bn (USD 1.08bn) in Q1 this year. The average speed of processing any transaction through the e-Dirham system is only 1.02 second, compared to the POS devices speed of 1.1 second.
- **New EIBOR rates** were introduced last Sun (15 Apr): the one-month interbank rate edged up to 1.935% from 1.92667% on Thurs (12 Apr), while the one-year rate

jumped to 3.03998% from 2.93767%. The panel of banks shrunk from 10 to 8, and the banks are asked for reasons for their quotes, in a bid to make the system more transparent and accurately reflect market conditions.

- **Non-Arabs will no longer need a UAE residence visa to purchase a property in Sharjah**, reported *Khaleej Times*, citing Tilal Properties director general. In 2014, Sharjah had opened up allowing expat investment in real estate subject to a mandatory UAE residence visa.
- **Emirates NBD announced the integration of blockchain technology into their cheques**, to strengthen authenticity and minimise fraud. "Cheque Chain" enables a unique QR code to be printed on every leaf of newly issued cheque books.
- **The UAE continues to be among the top 20 exporters in the world**, according to a **WTO** report: UAE merchandise exports grew by 20.4% in 2017, versus a global growth of 10.7% and growth in the Middle East by 18%. UAE also ranks 21st globally in the export of services.
- **UAE-India bilateral trade** is expected to cross USD 100bn by 2020. In 2017, trade between the two nations touched USD 53bn, of which USD 35bn was non-oil trade, according to the UAE's Undersecretary for Foreign Trade & Industry, Ministry of Economy.
- **Foreign direct investments from 15 Chinese companies in Abu Dhabi's industrial free zone Kizad** touched USD 1bn in less than a year, according to the chief executive of Abu Dhabi Ports.
- **Aldar Properties** announced that the **foreign ownership limit had been raised** to 49% from 40% presently; non-Arab foreigners now hold 25.66%.
- **Hotel occupancy in Abu Dhabi increased** by 5% to 79% in Q1 this year, according to JLL's Q1 2018 Real Estate Market Overview Report.
- **The UAE cabinet has given the green light for preparations to grant entry visas for transit passengers** across all UAE airports. About 70% of total passengers

passing through the UAE's airports in 2017 were transit passengers.

Media Review

Elon Musk's hyperloop

<http://businessweekme.com/2018/04/17/boring-co-raises-113m-tunnels-hyperloop/>

World's first Hyperloop coming to Abu Dhabi in 2020?

<https://www.thenational.ae/uae/transport/abu-dhabi-hyperloop-route-announced-following-aldar-agreement-1.722701>

In June OPEC's oil production cuts could be extended

<http://businessweekme.com/2018/04/17/kuwait-sees-opec-allies-mulling-longer-oil-cuts/>

Russia hints producers could ease up on oil output curbs, countering Saudi view

<https://www.reuters.com/article/us-oil-opec-russia/russia-hints-producers-could-ease-up-on-oil-output-curbs-countering-saudi-view-idUSKBN1HR1IU>

IMF's World Economic Outlook, Apr 2018: A strong global economic upswing, driven by investment recovery

<http://www.imf.org/en/Publications/WE0/Issues/2018/03/20/world-economic-outlook-april-2018>

<http://www.imf.org/en/News/Articles/2018/04/20/sm18-tr042018-transcript-of-middle-east-and-central-asia-department-press-briefing>

Qatar joins Gulf war games in apparent compromise

<https://www.reuters.com/article/us-gulf-qatar-military/qatar-joins-gulf-war-games-in-apparent-compromise-idUSKBN1H00ZT>

The tension between US and Iran boost oil prices

<https://finance.yahoo.com/news/never-mind-opec-brent-oil-001130348.html>

Powered by:



