

# Weekly Economic Commentary – Apr 29, 2018

## Markets

US stock markets started the week on a soft note and continued to decline until mid-week, then thanks to positive earnings surprises by major tech companies recovered some ground. But despite relatively cheerful US GDP data, the S&P500 ended the week practically unchanged. The 10-y US Treasury yield reached 3% and then hovered around that pivotal threshold. European and Japanese bourses recorded positive performance as the ECB confirmed its dovish stance and the two Korean leaders pledged to end the War. Emerging markets felt the contagion from Wall Street but missed the rebound and ended in the red. Regional markets followed an analogous path with the notable exception of Egypt (benefitting from good macro data). In currency markets, the euro came again under pressure and ended at a 2-month low vs the US dollar, while the GBP took a beating after the downbeat UK GDP data. The oil price continued its climb in reaction to a missile attack by the Yemeni rebels against Saudi Arabia and despite a 2.17 mb increase in US crude inventories. Global oil demand remains remarkably robust: OPEC sees it increasing by 1.6 mbd this year. If such forecast is confirmed, it would be the first time since the early 1970s that the world oil demand increases by more than 1.5 mbd for four consecutive years. Gold prices were trading in the narrow range that has prevailed over the past few months, influenced occasionally by US interest rates hiccups and expectations of policy normalisation.

## Global Developments

### **US/Americas:**

- **The US GDP in Q1 grew 2.3% qoq ann** (the slowest pace in

a year) vs 2.9% in Q4, slightly above expectations. All components of GDP, nonresidential fixed investment, private consumption, exports, inventories and government spending displayed positive contributions to growth.

- **The IHS Markit US Composite PMI rose** to 54.8 in Apr from 54.2 in Mar, driven by growth in both manufacturing (43-month high of 56.5 vs 55.6 in Mar) and services (54.4 vs 54 in Mar). New orders rose the most since Mar 2015.
- **The US trade deficit in Mar dropped** by USD 7.8bn to USD 68bn.
- Growth in the **US Case-Shiller national home price index accelerated** to 6.3% yoy in Feb, compared to 6% in Jan.
- **US existing-home sales in Mar increased** by 1.1% mom (-1.2% yoy) and are nearing their peak in Nov, after a few months of weakness. Sales increased 4% yoy (8.8% yoy) in Mar.
- **US consumer confidence recovered** 1.7 points in Apr, rising to 128.7 and offsetting a 3-point decline in Mar, thanks to a better assessment of the present situation and consumer expectations.
- **New orders for US manufactured durable goods rose** 2.6% mom in Mar adding to the 3.5% mom jump in Feb, thanks to higher demand for transportation equipment (7.6% mom).
- **US Initial claims for unemployment benefits fell** 24,000 to 209,000, the lowest level since Dec 6 1969. The four-week moving average slid 2,250 to 229,250 and continuing claims fell 29,000 to 1.837 mn.

## **Europe:**

- **The ECB Governing Council left interest rates untouched** and confirmed its plan to buy EUR 30bn-worth of bonds until next Sep. The final statement was identical to the one issued after the last meeting. Governors agreed that **monetary stimulus is still needed** to push inflation up.
- **The IHS Markit Eurozone Manufacturing PMI crawled back** to 56 in Apr from 56.6 in Mar, as both total goods

orders and export orders rose at their softest pace in 18 months and hiring was sluggish. The pace of expansion in manufacturing has slowed gradually since Feb 2017. The **services PMI** crawled up to 55.0 in Apr, from 54.9 in Mar.

- **The Eurozone's business climate indicator fell** to 1.35 in Apr from 1.44 in Mar the lowest reading since Aug. Appraisals of past production and total order dropped substantially, as did, but less drastically, foreign orders.
- **The Eurozone's economic sentiment index** remained **stable** at 112.7 in Apr.
- **The German Ifo Business Climate Index**, (which started to include the services sector), **fell** by 1.2 points in April to 102.1. The current conditions index declined to 105.7 from 106.6 in Mar and the future expectations index to 98.7 from 100.
- **The IHS Markit Germany Manufacturing PMI** in Apr was **almost stable** at 58.1 vs 58.2 in Mar, but it was the lowest figure since Jul, due to a drop in the new order growth component to an 18 month low.
- **The UK GDP** grew by 0.1% qoq (1.4% yoy) in Q1 vs 0.4% in Q4. It was the weakest pace since Q4 2012, as construction activity declined sharply and manufacturing performance was weak.

### **Asia Pacific:**

- **South Korea's GDP** grew 1.1% qoq (2.8% yoy) in Q1 after a dip -0.2% qoq (2.8% yoy) in Q4. It was the second fastest growth rate over the past 10 quarters.
- **The FTCR China Freight Index fell** to an 8-month low of 47.7 in Apr, after 49.2 in Mar, marking the second consecutive monthly figure below the 50-mark which signals a recession and points to a slowdown in Q2 GDP growth.
- **The Nikkei Japan Manufacturing PMI** rose to 53.3 in Apr

from a final 53.1 in March and slightly below market consensus of 53.4. New orders and employment increased at faster rates and business optimism strengthened.

- **The Bank of Japan** remained firmly on the sideline confirming both its policy rate and its QE program.
- **Taiwan's GDP expanded** 3% yoy in Q1 from 3.3% in Q4 pushed by a 6.3% gain in government consumption, a 6% rise in exports, and a 3% gain in private consumption. However investment fell 1.7%.

**Bottom line: Surveys of sentiment and manufacturing data in the Eurozone point to a mild slowdown in Q1. As usual the debate (especially within the ECB Governing Council) will focus on whether it is temporary or long lasting. Forecasts are already being revised downwards to account for trade tensions. Fortunately on this front something is moving, as a team of US top economic officials will visit China next week to discuss trade disputes. In addition to pointing at the recessionary risks if global trade is hampered by protectionist measures, the IMF has again sounded an alarm on the buildup of debt (both private and public) worldwide, which could lead to another financial crisis ten years after the Great Recession.**

### **Regional Developments**

- **Inflation in Bahrain eased** in Mar, with prices rising by 0.5% mom and by 2.6% yoy (Jan: 0.7% mom, 3.1% yoy), thanks to a decline in cost of food (1.5% yoy in Feb vs. Jan's 3.8% increase). Transport prices remain high (+7.6% yoy) after the hike in prices in Jan, while housing and utility costs grew 1.7% yoy.
- The central bank of **Bahrain issued a BHD 300mn government development bond last week** for direct subscription through the primary market. In order to encourage retail investors, the bourse has kept the minimum subscription level at 500 bonds (BHD 500).
- **National origin exports from Bahrain** touched BHD 538mn

(USD 1.43mn) in Q1 this year, down 9% yoy. Saudi Arabia was the top importer of Bahraini products (BHD 145mn) followed by the UAE (BHD 67mn) and the US (BHD 63m)

- **Bahrain's Shura council plans to discuss the draft Bankruptcy Law this week:** though the law was approved unanimously by MPs, its flaws are to be reviewed and discussed by the council. The law assigns penalties on those who fraudulently file for bankruptcies to avoid settling financial commitments.
- **Egypt's non-oil exports increased** by 15% yoy to USD 6.324bn in Q1 this year; total trade volume was up 9% to USD 21.265bn during the same period, while deficit narrowed by 2%.
- **Egypt's central bank disclosed that the share of bank loans to the private sector declined** to 63.2% in Dec 2017 versus the previous reading of 64.55% in May 2017 and 84% in 2014. The value of loan portfolios at banks was EGP 1.45tn as of end-2017.
- According to the petroleum minister, **Egypt plans aims for USD 10bn foreign investment in its oil and gas sector** (+25% yoy) in the 2018-19 fiscal year, which begins in Jul.
- The International Finance Corporation (IFC) announced it is on track **to invest close to USD 1bn to support Egypt's private sector** this fiscal year. Investments include a USD 653mn financing package to support the development of 13 solar power plants in Upper Egypt.
- The **National Bank of Egypt joined** the enterprise software firm **R3's global blockchain initiative**. With this, the bank will be able to access to all research and technical meetings with multinational banks and entities across the globe, as well as be able to actively engage in existing blockchain proof of concept projects in different banking applications.
- **Egypt ranked 167th (out of 190) in the PwC's Paying Taxes 2018 report**, with a company taking 392 hours to comply with its taxes, making 29 payments in total,

while the Total Tax & Contribution Rate increased to 45.3% from 43.5% last year. Labour taxes account for 27.3% of Egypt's total tax contributions, while profit and other taxes account for 13.6% and 4.4% respectively.

- **Iraq** failed to attract major oil firms to its **oil and gas exploration/development contract auction** last week, with five of the 11 exploration blocks failing to attract any bids (some were former battlefields, others hard to access etc).
- **Iraq's crude oil exports** from its southern region on the Gulf averaged 3.5 million barrels per day (bpd) so far in April, reported *Reuters* on Apr 25.
- **Amendments to Jordan's Income Tax Law** are expected to be **endorsed by the Cabinet in the first half of May**, disclosed the minister of state for media affairs. The amendments hope to address tax evasion (which in some sectors reach 80%), which is now costing the Treasury around JOD 1bn a year. The tax income ratio to GDP is 15.5% in Jordan.
- **Visitors from the GCC to Jordan increased** by 43% yoy to 261,644 in Q1 this year.
- The **cost of new housing projects in Kuwait** increased to KWD 916.6mn (USD 3.1bn) in the new fiscal year, compared to KWD 911.3mn the year before.
- The **IMF has cautioned Lebanon's central bank not to repeat the financial engineering process** – as it increased risks in the system including sovereign exposure, interest rate and liquidity risks, and dollarization – and recommending that it raise interest rates instead to secure higher foreign exchange inflows.
- **Lebanon's energy minister** disclosed that he has asked the Lebanese Petroleum Administration (LPA) to **begin preparations for a second round of licensing**.
- **Saudi Arabia's National Centre for Privatisation (NCP)** announced details of the **privatisation program**: during the initial phase, the program would generate around SAR 35-40bn (USD 9-11bn) in non-oil revenues, add SAR 14bn

to GDP, and generate up to 12,000 new private sector jobs by 2020. The initiative targets 14 public-private partnership investments worth SAR 24-28bn by 2020; a draft law on PPP frameworks will be offered for public consultation and feedback within a week, according to the NCP. Plans include the corporatisation of ports, PPP to build and operate schools, sale of a desalination and power plant, as well as flour mills and football teams.

- **Inflation in Saudi Arabia edged down** to 2.8% yoy in Mar (Feb: 2.9%); in mom terms, costs declined by -0.2% (vs. Feb's +0.1%). Food and beverage costs increased by 6% yoy, while housing and utilities were up 1% and transport prices surged by 10.4%.
- **Saudi Arabia** sold SAR 5bn (USD 1.33bn) of **domestic Sukuk** in its sixth monthly offer of domestic Sukuk; last month, the ministry of finance had sold SAR 4.9bn of domestic Sukuk.
- **Saudi Arabia's** Ministry of Commerce and Investment **issued the executive regulation of the commercial mortgage law**. The regulation includes provisions for the transfer and execution of the possession of mortgaged property, and foreclosure contracts which cease applying the transfer of possession among others. *(The full list of the regulation items can be accessed at <https://mci.gov.sa/cm>)*
- **Saudi Arabia's** General Authority for Zakat and Tax has **published a VAT import-export guide** clarifying many items including taxable obligations as well as listing tax-exempt imports, including zero-rated goods and others.
- **Saudi Arabia aims to create 1.2 million jobs by 2022** by focusing on the retail sector, in a bid to reduce unemployment to 9%, revealed a senior labour ministry official. The labour ministry plans to restrict employment in 12 retail sub-sectors (starting Sep) to Saudi nationals, including in furniture, car spare parts, watches, eyeglasses and sweets shops.

- **Saudi Arabia expects around 2 million pilgrims to perform Umrah during Ramadan** (set to tentatively start by May 15 or 16). The Kingdom already received more than 10mn people who visited since the Umrah season started in Oct.
- All OPEC and non-OPEC **oil producers** including Russia **are committed to supply cuts until the end of the year**, until a “true balanced market” is achieved, disclosed the UAE’s energy minister on the sidelines of an energy conference.

## UAE Focus

- **UAE Federal Tax Authority’s** Board of Directors have formally approved implementation of Tourists Refund scheme. Around 281k firms are now registered for VAT and 637 for Excise tax; of these, around 90k businesses are required to submit tax returns no later than Apr 29.
- **Bank lending in the UAE grew** by 2.1% yoy in Mar (Feb: 2.1%); all bank lending data (back to Dec 2013) was revised to reflect accounting adjustments to set off government refinancing against related housing mortgage loans.
- The **UAE central bank withdrew AED 6bn of surplus liquidity** from the market during Mar. The total value of liquidity withdrawn by the central bank during 2017 amounted to AED 26.9bn.
- **UAE inflation eased** to 3.4% yoy in Mar (Feb: 4.5%), with prices falling 0.7% in mom terms. Prices of food and soft drinks rose 4.9% yoy, slowing from Feb’s 6.5% while a weak real estate market resulted in a 1.2% dip in housing and utility prices.
- **Business confidence in Dubai increased:** the Composite Business Confidence Index improved to 116.7 points in Q1 2018 (+5.5 points from Q4 2017). The outlook for Q2 is promising as well, with 37% of respondents expecting increased sales revenues (vs. 26% in Q1), and 35%

expecting higher sales volumes (22%). About 71% are planning to expand capacity in the recent survey, versus 69% in Q4 2017 and 61% in Q1 2017.

- **Trade between UAE's Jebel Ali Freezone (Jafza) and India** reached over USD 3.4bn in 2017. According to Jafza, over 788 Indian companies are trading from the free zone.
- **DP World's robust Q1 performance:** it handled 17.6mn twenty-foot equivalent units (TEU) across its global portfolio of container terminals in Q1 2018, with gross container volumes growing by 7.3% yoy on a reported basis, and 8.4% on a like-for-like basis. The UAE continues to deliver stable growth, handling 3.8mn TEU in q1 (+2.9% yoy).
- **Dubai** welcomed a **record 4.7mn international overnight tourists** in the Jan-Mar period, up 2% yoy. The top three source markets were unchanged: India (+7% yoy), Saudi Arabia (-1% yoy) and UK (-8% yoy); Russia (the 4th source market) saw a 106% yoy increase to 295k tourists, and China (the 5th source market) grew 12% to 258k tourists, both ably supported by the visa-on-arrival facility. Last year, Dubai registered record international overnight visits totaling 15.8mn (+6.2% yoy).
- **Sharjah International Airport** received 2.88mn **passengers** in Q1 this year, growing 5.1% yoy.
- **Abu Dhabi** reported an impressive 12.3% yoy growth in **number of hotel guests** to 464,960 in Mar this year. The capital received more than 1.2mn guests in Q1, growing by +10.9% yoy. China (+15.4% to 40,800), India (+32% to 35,200) and UK (+24% to 28k) were the top source markets.

## **Media Review**

**Trying to reduce the trade deficit has dismal consequences**

<https://www.ft.com/content/1cbc63c4-432c-11e8-97ce-ea0c2bf34a0b>

**Outlook for Global Stability: A Bumpy Road Ahead**

<http://www.imf.org/en/News/Articles/2018/04/26/sp04272018-outlook-for-global-stability-a-bumpy-road-ahead>

**The US yield curve flattened to the lowest in more than a decade**

<https://www.bloomberg.com/news/articles/2018-04-26/the-flatter-u-s-yield-curve-is-roiling-mom-and-pop-investors>

<https://www.economist.com/news/leaders/21741144-there-no-need-panic-about-government-bond-market-meaning-3-treasury-bond-yields>

**Lebanon's Political system leads to paralysis and corruption**

<https://www.economist.com/news/middle-east-and-africa/21740789-many-want-it-reformed-they-are-afraid-act-lebanons-political-system-leads>

**From dollar to e-SDR**

<https://www.project-syndicate.org/commentary/us-dollar-trade-war-reserve-currency-sdr-by-andrew-sheng-and-xiao-geng-2018-04>

Powered by:

