

Weekly Economic Commentary – May 27, 2018

Markets

At the start of last week it seemed that global stocks were heading for a strong performance as trade tension between US and China were defused by Trump. But subsequently the cancellation of the meeting with North Korea's President triggered a flight to safety. A rebound came on Friday, as North Korea sounded more conciliatory. After such a rollercoaster, Wall Street closed with a modest weekly gain and emerging markets ended almost flat. In Europe, however, the worries over the populist government in Italy and a spate of weak macro data took their toll and the main indices fell. A similarly uninspiring mood, coupled with the uncertainties over the Korean peace process, affected Tokyo's bourse. Regional markets despite weaker oil prices benefited from the awareness that the worst is over, although Oman and Bahrain did not join the party. In currency market, the dollar continued its advance over the euro, but the yen recorded a mighty comeback, thanks to strong trade data. The oil market took a pause as US crude inventories rose by 5.8 mb (vs forecast of a 1.9 mb decline) and Russia and Saudi Arabia's contemplate a relaxation of the production cuts. The gold price, after sliding for several weeks, was lifted by the renewed Korean quagmire.

Global Developments

US/Americas:

- **The US Fed FOMC minutes reiterated that a hike in June is almost certain** (the minutes say "would soon be appropriate") and if inflation exceeds 2% temporarily it will be tolerated (as hinted in the previous statement).

The macro outlook is dominated by uncertainty over the effects of fiscal policy and trade disputes. The usefulness of the yield curve as growth predictor was (inconclusively) debated.

- **US durable goods orders plunged** -1.7% mom in Apr vs 2.7% in Mar due to a collapse in the volatile transport equipment orders, -6.1% mom. Ex transport, orders rose 0.9% mom up from 0.4% in Mar.
- **US existing-home sales decreased** -2.5% mom (-1.4% yoy) in Apr, due entirely to a -3% mom slump in single-family sales whereas condo/co-op sales actually rose 1.6% mom. New single-family home sales in Apr fell -1.5% mom (11.6% yoy).
- **US initial unemployment claims rose** 11,000 to 234,000. The 4-week moving average rose to 6,250 to 219,750, the first increase in a month. Continuing claims were up 29,000 to 1.741 mn. All in all the labour market is still firing on all cylinders.
- **The IHS Markit US Composite PMI crawled up** to 55.7 in May from 54.9 in Apr, with services rising to 55.7 from 54.6 and manufacturing to 56.6 from 56.5, a 44-month high.

Europe:

- **The IHS Markit Eurozone Composite PMI fell** to 54.1 in May from 55.1 in Apr, the minimum since Nov 2016 as both manufacturing (55.5 from 56.2) and services (53.9 from 54.7) declined.
- **The IHS Markit German Composite PMI fell** to 53.1 in May from 54.6 in Apr, disappointing expectations. It marks a low since Sep 2016, with manufacturing dropping to 56.8 from 58.1 and services to 52.1 from 53.
- **The Ifo Business Climate Index for Germany was flat** at 102.2 in May after five consecutive monthly drops. The current conditions index rose to 106 from 105.8 while

future expectations declined to 98.5 from 98.7.

- **UK retail sales rose** by 1.6% mom (1.4% yoy) in Apr, reversing the -1.1% mom decline (1.3% yoy) in Mar, thanks to mild weather in April after a cold Mar.
- **UK inflation was little changed** at 2.4% in Apr vs 2.5% in Mar thanks to a plunge in transport inflation after the Easter period. Core inflation was down to 2.1% yoy, from 2.3% in Mar.
- **The second estimate of UK's GDP confirmed a sharp growth deceleration** to 0.1% qoq (1.2% yoy) in Q1 (a 5-year low), from 0.4% in Q4. The BOE governor admitted that the slowdown was more pronounced than previously envisaged as a consequence of the Brexit. Worryingly, investments fell -0.2% qoq.
- **Turkey's central bank raised its policy rate by 300 bps** to 16.5 to counter a sharp depreciation of the lira.

Asia Pacific:

- **The Nikkei Flash Japan manufacturing PMI** came in at 52.5 in May vs 53.8 in Apr, although output, employment and new orders rose mildly.
- **Japan's trade surplus increased** to JPY 626bn in Apr from JPY 478bn a year earlier. Exports increased by 7.8% to JPY 6,822bn, while imports rose by 5.9% to JPY 6,196bn. In the first 4 months of 2018, the trade surplus narrowed to JPY 477bn from JPY 794bn in the same period of 2017.
- **The Bank of Korea left its rate unchanged** at 1.5% despite a pick up in inflation.

Bottom line: The few macro data released last week did not change much the global picture. The US appears to be in better shape, while the weakness in Europe and Japan persists into the second quarter. Two emerging market crises in Argentina and Turkey are yet to produce broader effects, while the main focus of global investors remains the trade war. Last week Trump opened another front, launching a national security

probe into motor vehicle imports, which might imply new tariffs on cars produced in Europe, Japan and South Korea.

Regional Developments

- **Bahrain's** government is in talks with the Parliament to launch a **new social safety net for its citizens**: the new system would consolidate multiple payments and direct a larger share of the subsidies to the poorest. The proposed system would provide BHD 150 (USD 398) for those earning less than 400 BHD a month, and BHD 100 and 75 for those earning up to BHD 750 and 1000 respectively.
- **Inflation in Bahrain remained flat** at 2.6% yoy in Apr: housing and utility costs were up 1.7% while food and non-alcoholic beverages increased by 0.7%.
- **Net foreign assets in Bahrain rebounded** in Apr, rising to BHD 779.4mn (USD 2.07bn) from a 7-month low of BHD 533.2mn in Mar.
- **Bahrain credit default swaps increased to a 19-month high** of 380 basis points (bps) last Tuesday (May 22) from 283 bps at end-Apr, before easing to 367bps by Wed (May 23).
- **Tourism revenues in Egypt surged** 83% yoy to USD 2.2bn in Q1 this year, thanks to the 37.1% rise in number of tourists to 2.38mn during the same period.
- **Industrial production value** (excluding crude and refined petroleum) **in Egypt increased** by 7.2% qoq to EGP 145.3bn in Jul-Sep 2017. Food products accounted for 19% of total industrial activity followed by iron and steel, precious metals and foundry (17.1%) and manufacture of basic chemicals and fertilisers (10.2%).
- According to **Egypt's** petroleum ministry, two international **bid rounds for oil and gas exploration** will be launched in 2018.
- **Egypt's** Export Development Authority envisages a **3-point plan to develop exports**: this includes improvement of

Egyptian port infrastructure, provision of training and rehabilitation of SMEs to export according to international standards, and best practices in marketing and promotion of Egyptian products internationally.

- **Iraq's crude oil exports** from its central and southern oilfields **declined** to 3.339mn barrels per day (bpd) of crude oil in Apr, compared to 3.453mn bpd in Mar.
- **Jordan's cabinet finalized and endorsed the income tax draft law** – which subjects capital profits to 15% tax regardless of sector – which will be debated by the House after Ramadan. The bill, if passed, is likely to boost tax revenues by JOD 300mn annually.
- **Inflation in Kuwait edged up** slightly to 0.7% yoy in Apr (Mar: 0.6%), in spite of a 0.4% fall in prices of food and beverages and housing costs which dropped 1.5%.
- **The Central Bank of Kuwait issued bonds and Tawarruq** worth KWD240mn (USD 794.4mn): these will carry a return of 2.3%, and will be for three months.
- The total number of **expats working in Kuwait's public sector has declined** to 80,933 in 2018 from 82, 061 the year before. Around 76% of the expats working in the public sector are based in the ministries of education and health, according to the president of the Civil Services Commission, who also identified the lack of qualified Kuwaitis to replace these expats. Separately, from July, Kuwait will stop the recruitment of young, qualified expatriates (i.e. those with high qualifications including university graduates and are below 30 years old).
- About **2mn passengers** travelled through **Kuwait International Airport** in April, reported the *Al Qabas* daily.
- **Saad al-Hariri** was designated **Lebanon's next prime minister** last week and stated that he would work to quickly form a “national entente government”. Parliamentary consultations – i.e. the negotiation process over distribution of ministerial portfolios –

will officially start from tomorrow (May 28) onwards.

- **Lebanon's** caretaker foreign minister expressed his concern over possible **negative repercussions from Syria's Law 10**. This Law 10 (yet to be applied, and aimed at redeveloping areas devastated by war) calls on Syrians to register their private properties (with documents proving ownership) within 30 days, or the state would seize it.
- **Qatar bans the sale of goods imported from Saudi Arabia, UAE, Bahrain and Egypt**: the move comes a few days before the 1-year anniversary of the embargo.
- **Qatar's trade surplus increased** by 37.8% yoy to QAR 43.1bn in Q1 2018. Total exports grew by 20.6% yoy to QAR 71.56bn, and Asian countries accounted for the lion's share of the nation's exports (83.8%), followed by the EU and GCC (at 9.1% and 2.2% respectively).
- **Assets owned by banks operating in Qatar dropped** by 2.97% mom to QAR 1.35trn in Apr. Qatari banks' loans retreated 4.6% yoy to QAR 794.26bn in Apr, while banks' reserves grew 0.5% mom to QAR 36.86bn.
- **Saudi Arabia is "making good progress" in implementing its economic reforms**, according to the IMF, though it prescribed caution to "resist the temptation to re-expand government spending in line with higher oil prices".
- **Saudi Arabia's** energy minister stated that the **Aramco IPO could be delayed till 2019**, citing "readiness of the market" as the key factor for timing of the issuance.
- **Saudi Arabia's Tadawul announced enhancements to its opening and closing price mechanism** – this includes moving to an auction method for determining closing prices and enhancing the opening price auction in line with global best practices. The changes will be implemented effective May 27, 2018.
- **UAE and Qatar** (ranked 7 and 14 respectively, and up 3 places from the previous edition) **were among the top 15 nations in IMD's World Competitiveness ranking for 2018**,

in the list topped by US, Hong Kong and Singapore. IMD disclosed that most countries in the Middle East overcame political tensions in the region to register improvements in their competitiveness. *More:* <https://www.imd.org/wcc/world-competitiveness-center-rankings/world-competitiveness-ranking-2018/>

- **Saudi Arabia is committed to ensuring oil market stability** and “will ensure the availability of adequate supplies to offset any potential shortfall and meet incremental demand”, according to a joint statement issued by Saudi ministry and China’s National Energy Administration. Crude exports from Iran could drop by 300k-1mn barrels per day (bpd) as a result of U.S. sanctions, according to BP. Separately, the energy ministers of Russia, Saudi Arabia and UAE met in St. Petersburg and reportedly discussed an output increase of about 1mn bpd.

UAE Focus

- **The UAE Cabinet announced that skilled professionals including doctors and engineers would be given a 10-year residency visa**, in a bid to attract and retain skilled talent. The other major change is **allowing investors to own 100% of a company in the country** (compared to the requirement of a 51% local partner currently). Implementation of these changes is expected by end of this year. *(A detailed analysis of the proposed changes appeared in The National:* <https://www.thenational.ae/business/comment/reform-of-uae-s-ownership-and-residency-laws-will-only-improve-growth-prospects-1.733540>
- **UAE inflation was almost flat** at 3.5% yoy in Apr, declining 0.23% mom: housing and utility costs fell 2.07% yoy while prices of food and beverages and textiles went up by 0.28% and 3.96% mom respectively.
- **Total expenditure by the UAE government amounted to AED**

48.57bn (USD 13.22bn) in 2017; spending on general public services sector accounted for 33.3% of the total expenditure.

- **UAE Money supply (M2) growth** was 1.5% mom to AED 1.3 trn in Apr; M1 increased by 1.3% to AED 517.4bn thanks to a AED 6bn increase in monetary deposits. Total bank deposits fell by AED 2.3bn in Apr, due to a decrease in resident deposits while gross credit dipped by 0.1% mom to AED 1.606bn.
- **Foreign currency assets at the UAE central bank declined** by 3.03% mom to AED 326.4bn in Apr; in yoy terms however foreign assets were up 2.8%. **Gold reserves at the central bank grew to a 3-year high in Q1 2018**, rising by 6.6% yoy to AED 1.72bn.
- All **UAE** companies and individuals who raise **tax invoices in a currency other than the UAE dirham (AED) will have to use the exchange rates approved by the Central Bank as on the date of supply.** The currency exchange rates are updated Monday to Friday and are based on forex rates prevailing at 6pm UAE time each day.
- **Bilateral trade between UAE and UK fell** by 22.6% yoy to AED 12.22bn (USD 3.27bn) in Q1 this year. Imports from the UK declined by 22% yoy to AED 8.36bn during this period.
- UAE's **Nasdaq Dubai** exchange plans to **launch futures contracts on Tadawul-listed companies.** The futures will begin trading in Q3.
- The Ruler of **Sharjah** has issued a **law on Al Waqf in the emirate:** Law No. 8 of 2018 includes several types of Al Waqf, establishing Al Waqf and its terms, and replacement terms.
- The **Abu Dhabi Fund for Development** disclosed that it had **financed 11 development projects worth AED 1.4bn (USD 381mn) in 2017**, benefitting nine developing countries. Four of the 11 projects (worth around AED 650mn) were allocated as concessionary loans to Egypt, Antigua and Barbuda and the Maldives.

- **UAE and Saudi Arabia signed an agreement for the avoidance of double taxation and prevention of tax evasion.**
- **UAE issued a ministerial decree governing the employment terms of UAE citizens in the private sector, including pension and termination rules. Private companies have to register Emirati employees in the national pension scheme and need to prepare an end-of-service report upon termination, also stating the reasons for such a step.**
- **The UAE saw a 101% yoy increase in the number of Emiratis hired in the private sector (by 5531) during Jan-Apr this year. This compares to only a 3.38% rise in Emiratis employed in the private sector (to 23,930) last year.**

Media Review

Saudi-Russian interests may conflict with those of smaller Opec members

<https://www.bloomberg.com/news/articles/2018-05-26/saudi-russia-oil-policy-shift-sets-stage-for-tense-opec-meeting>

The Value of Measuring Financial Inclusion

<https://www.project-syndicate.org/commentary/global-findex-report-benefits-financial-inclusion-by-kaushik-basu-2018-05>

Markets may be underpricing climate-related risks

<https://www.economist.com/finance-and-economics/2018/05/24/markets-may-be-underpricing-climate-related-risk>

Macron and Merkel do not agree

<https://www.economist.com/europe/2018/05/26/the-growing-strains-between-angela-merkel-and-emmanuel-macron>

The limits to China's growth

<https://www.bloomberg.com/view/articles/2018-05-21/china-faces-end-of-fast-growth-that-made-it-biggest-economy>

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