

Weekly Economic Commentary – Jun 3, 2018

Markets

Last week global equities were unsettled by political uncertainty in Italy and Spain and once again by global concerns over the trade war waged by the US Administration. Wall Street however was less affected thanks to stellar labor market data and subdued inflation. Regional markets were mixed, with KSA and UAE surging (and Oman following in the wake) as the economic and earning reports depict a positive picture. In currency markets the euro after another slide in reaction to the political tensions in the EU recovered and the major crosses closed the week almost unchanged. The oil prices continued to be affected by the talks over the relaxation of output caps and the gold price fluctuated in directionless trade.

Global Developments

US/Americas:

- **US non-farm payrolls rose** by 223,000 in May, exceeding consensus expectations, vs 159,000 (revised from 164,000) in Apr. Growth in average hourly earnings rose 0.3% mom (2.7% yoy) which suggests that the labor market is quite perky. The unemployment rate improved from 3.9% to 3.8%, an 18-year low.
- The **US Fed May Beige Book shows that economic activity expanded moderately** across districts. Manufacturing activity accelerated since the previous report. Consumer spending was subdued and homebuilding increased modestly. Overall, the near-term outlook continues to be rosy.
- The **US ISM manufacturing index increased** from 57.3 in

Apr to 58.7 in May. All subcomponents were generally encouraging, especially new orders, production and employment.

- **The US GDP growth in Q1 was revised marginally down to 2.2% qoq ann from 2.3%.**
- **US wholesale inventories were unchanged** in Apr, vs a 0.2% gain in Mar. Retail inventories rose 0.6% mom, offsetting the -0.7% decline in Mar. Auto inventories grew 0.6%.
- The Conference Board **Consumer confidence index rose 4** points in May to 128 from in May. Business conditions, employment conditions and employment expectations advanced while business and income expectations declined. Inflation expectations over 12 months rose 0.3 point to 5%.
- **The US goods trade deficit shrunk** in Apr to USD 68.2 bn, from USD 68.6 in Apr. Both nominal exports and nominal imports decreased by 0.5% mom. Consumer goods were responsible for the imports slump, while a decrease in capital goods pushed down export.
- **The Case Shiller US national house price index rose 6.5%** yoy in Mar, unchanged from Feb.
- **The US personal consumption expenditures (PCE) price index increased 0.2% mom (2.0% yoy)** in Apr after being unchanged in Mar (2.0% yoy). The core PCE deflator was unchanged at 1.8% yoy in Apr.

Europe:

- **The eurozone's economic confidence indicator** in May was **marginally down** to 112.5 from 112.7 in Apr, as France, Spain and Italy posted declines due to political tensions and protests, while Germany's indicator was stable. Optimism remains close to multiyear records.
- **German inflation was 2.2% yoy** in May vs 1.6% in Apr, **the highest rate since Feb 2017**, pushed up by prices of services, food and energy.

- **German retail sales made a strong comeback** rising 2.3% mom (3.3% yoy) in Apr (smashing expectations) after declining for 3 months in a row (-0.5% yoy in Mar). Such strong consumption will likely lift Q2 GDP.
- **UK consumer confidence rose** to -7 in May, from -9 in Apr. Household confidence over their finances and the economy as a whole rose, although the purchase of durable goods purchase tumbled, confirming that consumers prefer to save.

Asia Pacific:

- **China's PMI index crawled up** by 0.5 point to 51.9. The main driver was current output, as well as new orders, a sign that global and domestic demand are strengthening despite the ongoing trade war. The data suggest that industrial production and GDP in Q2 could outperform.
- **Japan's retail sales growth accelerated** to 1.6% yoy (1.4% mom) in Apr from 1% (-0.7% mom) in Mar, but remain cyclically weak. The uptick resulted mostly from an 11.2% yoy surge in fuel sales,
- **Japanese industrial production gained** 0.3% mom (2.5% yoy) in Apr, adding to the 1.4% (2.2% yoy) rise in Mar. Among the best performers transport equipment, machinery and metals production; electronics, electrical machinery, and chemicals disappointed.
- **Japan's consumer confidence index was almost stable** in May at 43.8 vs 43.6 in Apr. Respondents were slightly upbeat about employment but pessimistic about income growth (which has been quite weak in recent times).
- **India's GDP expanded** 7.7% in Q1 vs 7%. It is the highest growth rate since Q2 2016, due primarily to perky investments and manufacturing.
- **South Korea's retail sales tumbled** -1% mom (5.3% yoy) in Apr, vs a 2.7% (7.0% yoy) increase in Mar.
- **Consumer confidence in South Korea increased** to 108 in May from 107 in Apr.

Bottom line: The macro data flow last week was slightly better than expected with US, China and Europe recording better than expected performances in key areas. However the crucial developments took place on the political front; the Spanish government succumbed to a no-confidence vote which opens an uncertain political phase; in Italy a new government supported by a coalition of two populist parties, opposed to the current euro area governance, took office after 3 months of political chaos; the trade sanctions announced by Trump took effect on Friday hitting particularly Germany, Canada and Mexico.

Regional Developments

- **Bahrain is expected to grow by 3.2% yoy this year according to the IMF**, thanks to higher oil production, rising refinery and aluminium production capacity alongside GCC-funded projects. While stating that the financial sector remains stable, the IMF advocated a fiscal consolidation to reduce the deficit and support the dollar peg.
- **Bahrain is considering a self-sponsorship residency permit** (valid for 10 years) for foreign investors, according to the state news agency, following similar moves from Qatar and UAE.
- **Money supply in Egypt grew by 21.4% yoy to EGP 3.38 trn (USD 189.36bn) in Apr (Mar: +21.85%).**
- **Egypt's foreign debt increased to USD 82.9bn at end-2017 (Dec 2016: USD 67.3bn), rising 4.9% in 6 months.** According to the central bank, the foreign debt to GDP ratio, at 36.1%, is "still within the safe limits according to international standards".
- **Egypt's finance ministry announced that the customs exchange rate would remain unchanged at EGP 16 per US dollar for June.**
- **Egypt plans to spend EGP 25bn (USD 1.4bn) over the next 2 years to develop the country's electricity network.** A loan worth USD 200mn (from the Arab Fund for Economic

and Social Development) has already been agreed to build three new converter stations.

- **Monthly gas consumption in Egypt increased** by about 240k tonnes to 3.24 tonnes, according to the Egyptian Natural Gas Holding Company. The volume of production also increased to 3.19 tonnes per month, versus 2.5 mn tonnes per month in 2017.
- **Iraq will sign oil and gas exploration and development contracts for 6 blocks this week**, according to the oil ministry, including one with UAE -based Crescent Petroleum.
- **Jordan freezes the fuel and electricity prices increase**, after mass protests. The government had announced hike in the prices of gasoline and diesel between 4.7-5.5% and electricity by 19%.
- **Projects in Kuwait's northern region** are expected to attract as much as **USD 400bn of international investments**, according to the Deputy Premier.
- **Lebanon's central bank disclosed that it sold USD 3.022bn of Eurobonds**, versus the planned USD 1bn, to accommodate the local investors' requests. No further sales of Eurobonds is expected this year.
- **Lebanon began its search for offshore oil and gas reserves last week**, after exploration plans submitted by a consortium of France's Total, Italy's Eni and Russia's Novatek were approved. The country hopes to launch a second offshore licensing round by end 2018 or early 2019.
- **Oman's nominal GDP surged 8.7% in 2017** after 2 successive years of recession. The growth is attributed to a 20.8% in the oil sector while non-oil GDP increased by a surprising 3.9% yoy.
- **Oman's total credit from the banking sector** edged up to OMR 24.1bn (of which OMR 22.4bn was to the private sector), recording a 7.8% yoy growth (6.3% in the private sector).
- **Qatar's international reserves and foreign currency**

liquidity increased to USD 39.8bn in Apr (Mar: USD 37.8bn), according to data from the central bank.

- **Saudi Arabia's King issued decrees to form new government bodies to promote culture** – including a Ministry of Culture – **and protect the environment**. The labour minister was replaced by a private sector businessman, who chairs the Council of Saudi Chambers of Commerce.
- **Inflation in Saudi Arabia was 2.5% yoy** – the lowest rate this year – **in Apr**, declining from Mar's 2.8%. Food and beverage prices increased by 5.6% yoy, while the largest increases were recorded in tobacco and transport prices which surged by 54.1% and 10.1%, respectively.
- **Saudi Arabia's foreign exchange reserves touched a 14-month high** of USD 498.9bn in Apr, rising at the fastest rate in 4 years.
- **Bank lending to the private sector in Saudi Arabia increased** in Apr, rising 0.7% yoy, after declining for 13 straight months – supported by a 5.7% increase in total real estate loans during this period.
- **Saudi Arabia's trade surplus grew** by 54.3% yoy to SAR 125.5bn (USD 33.46bn) in Q1, with exports reaching SAR 240.69 bn.
- **Saudi Arabia's Tadawul will list government-issued debt instruments** from 4 Jun, for a total value of SAR 8.95bn (USD 2.43bn).
- **Saudi Arabia's Capital Market Authority approved the launch of an IPO** for 30% stake in **National Company for Learning & Education**.
- **Saudi Arabia** sold SAR 3.95bn (USD 1.05bn) of domestic sukuk in May after Apr's sale of SAR 5bn.
- **Saudi Arabia's Haramain High Speed Rail** – the largest railway transport project in the region – which connects Jeddah, the holy city of Makkah and Madinah, will be begin operations next Sep, according to the Saudi Railways Organisation.
- **Saudi Arabia's water consumption** grew in 2017 by 0.7%

yoy – the lowest growth rate in 5 years – to around 3150mn cubic meters. Per capita water consumption declined by 1.7% yoy – the first time since 2013 – to 266 liters per day (96.8 cubic meters per year) in 2017.

UAE Focus

- **Non-oil activity in the UAE increased by 3.1% yoy in Q1 (Q4 2017: 3.4%), according to the central bank.** UAE is expected to grow at 2.7% yoy this year (2017: 1.5%), with non-oil GDP growth forecast at 3.9% and oil GDP growth likely to remain subdued at 0.3%.
- **A decree issued last week by the Dubai Ruler cancels fines imposed by the Department of Economic Development through the end of 2018 – a move likely to support businesses' costs.**
- **The UAE injected AED 14bn (USD 3.8bn) into the economy in Apr – the highest liquidity pumped in since the beginning of this year – reported the news agency Wam.** The certificates of deposits dipped to AED 118.3bn in Apr from Mar's AED 134.3bn.
- **Current account surplus in the UAE almost doubled to AED 97.1bn (equivalent of 6.9% of GDP) in 2017, from AED 48.5bn the year before, thanks to an increase in oil export earnings and investment income along with a sharp fall in transfers.**
- **Foreign currency assets held by the Central Bank of UAE increased by 2.8% yoy to AED 326.4bn (USD 88.9bn) in Apr.** Government deposits reached AED 221bn, while monetary and quasi-monetary deposits were at AED 446.7bn and AED 795.7bn respectively.
- **UAE banks increased their debt investments by 12.2% yoy and 3% mom to AED 211.1bn (USD 57.47bn), according to the central bank.**
- **UAE's Federal Tax Authority clarified that the reverse charge mechanism applies on supplies of gold and diamonds between registered businesses and that it does**

not apply to zero-rated supplies, namely: exports of gold, diamonds or products where the principal component is of gold or diamonds as well as the supply of investment grade precious metals.

- **Dubai unemployment rate was 0.5% last year**, with total employment in the emirate reaching 2.78mn. According to the Dubai Statistics Centre, Dubai's labour market has added an average of 110k people annually to its resident workforce over the last 3 years.
- **Non-oil trade in Abu Dhabi increased** by 2.5% yoy to AED 14.25bn (USD 3.8bn) in Mar; Japan was the top non-oil exporter to the emirate and Saudi Arabia topped among Arab nations.
- **UAE's listed banks reported a 12.3% yoy increase in net profits** to AED 10.7bn (USD 2.9bn) in Q1 this year. The list was topped by First Abu Dhabi Bank and Emirates NBD, with AED 3bn and AED 2.38bn respectively.
- **Expat remittances surged by 17.4% yoy** to AED 43.5bn (USD 11.84bn) in Q1 2018. Indians, Pakistanis and Filipinos were the top senders of remittances, at AED 36.7bn, AED 8.8bn and AED 6.9bn respectively.
- **Petrol prices in the UAE increased by 5.6-6% mom** in Jun depending on the grade of petrol. This is the highest price since the deregulation started in 2015.
- **Passenger traffic at the Dubai International Airport** reached 7.6mn in Apr, posting a **marginal decline** of 0.1% yoy. Year-to-date passengers were up 0.8% yoy to 30.35mn. India maintained its position as the top destination country (1.027mn passengers), followed by Saudi Arabia (556k) and UK (530k).
- The number of **tourists in Abu Dhabi and Dubai** increased by 3.6% yoy during Q1 this year, with hotel occupancy and room occupancy rising by 1.2% and 5.7% respectively during this period. Chinese tourists presence was up by 17.9%, Russian tourists doubled and Indian tourists grew by 9.6% during this period.
- During Q1 2018, the **Abu Dhabi Department of Economic**

Development issued 2935 new **business licenses** (+26% yoy) and renewed 7750 licenses (+4.9%).

- The registration of 783 new **companies in the Ajman free zone** in Q1 this year places the total number of registered companies at the freezone to 12,362 – a 28% yoy growth.
- **Ajman's** municipality has announced that **only those buildings compliant to green building regulations** will be issued building permits.

Media Review

Trump's trade war

<https://www.nytimes.com/2018/05/31/opinion/oh-what-a-stupid-trade-war-very-slightly-wonkish.html>

<https://www.economist.com/finance-and-economics/2018/06/01/the-trump-administration-imposes-tariffs-on-americas-closest-allies>

Italy's Long Hot Summer

<https://www.project-syndicate.org/commentary/italy-sovereign-debt-restructuring-by-carmen-reinhart-2018-05>

Gender pay gap costs global economy \$160 trillion: World Bank

<https://openknowledge.worldbank.org/bitstream/handle/10986/29865/126579-Public-on-5-30-18-WorldBank-GenderInequality-Brief-v13.pdf>

Saudi Arabia's diversification plans vs. economic reality (subscription)

<https://www.ft.com/content/ae48574c-58e6-11e8-bdb7-f6677d2e1ce8>

The Saudi are still the swing oil producers

<https://www.wsj.com/articles/shale-surges-but-oil-market-power-swings-back-to-saudis-1527505201>

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