

# Weekly Economic Commentary – Jun 10, 2018

## Markets

US equities started the week on the front foot and continued to rise until Thursday when investors paused to wait nervously how the trade disputes between G7 members would unfold at the meeting in Canada. Japan's Topix also posted a considerable gain on strong current account data, although economic growth is hardly encouraging. European bourses on the contrary were on the defensive as traders watched closely the moves of the new governments in Spain and Italy and the preparation of the EU Government Summit at the end of June where the new Eurozone governance will be on the agenda. Furthermore, the ECB is expected to announce the end of the QE which prompted a sell-off in government bonds, briefly pushing Germany's 10-year yield over 0.5%. Italian yields also rose through the week, widening the spread with the Bunds.

MSCI Emerging markets recovered from a 6-month low touched the previous week, although the renormalization of the US monetary policy keeps investors in a negative mood. Regional markets ended largely on a positive note, thanks to stable oil prices, except Egypt where the government budget did not allay investors' worries. In currency markets the euro rebounded strongly vs the dollar from the sharp drop to an almost 1-year low touched at the end of May, while emerging market currencies came again under selling pressure. Oil prices firmed as traders await some clarity on the revision of the OPEC-Russia production caps; in the meantime smart money is cutting the record long positions accumulated in previous months. Gold prices were almost unchanged.

## Global Developments

## US/Americas:

- **US household wealth in Q1 increased** only 1tn to USD 100.8tn (7% yoy growth) due to a weak stock market performance, following a USD 2.5tn gain in Q4. Robust growth was recorded in housing wealth.
- The **US ISM non-manufacturing index increased** from 56.8 in Apr to 58.6 in May surpassing the 12-month average of 57.7. The figure could prelude to a GDP growth exceeding 3% qoq ann. in Q2.
- **Initial claims for unemployment benefits in the US fell** 1,000 to 222,000. The 4-week moving average advanced 2,750 from 225,500. Continuing claims increased 21,000 to 1.741 million. The labour market continues to be exceptionally strong.
- **US nonfarm labor productivity growth was revised down** from 0.7% qoq to 0.4%. Conversely, **unit labor costs** were revised up from 1.1% yoy to 1.3%, still weak compared to the pre-2008 dynamics.
- The **inflation rate in Brazil advanced** to 2.76% yoy in Apr from 2.68% in Mar. Faster price growth was recorded for transport, housing and personal expenses.
- **Argentina received a USD 50bn stand-by loan from the IMF** in support of a reform package to counter the virulent economic crisis which hit last month.

## Europe:

- **Retail sales in the Eurozone crawled up** 0.1% mom (1.7% yoy) in Apr, while Mar figure was revised up to 0.4% (1.5% yoy), from 0.1%. Sales were boosted mainly by non-food items, such as clothing.
- **German industrial production unexpectedly tumbled** -1% mom in Apr, reverting from a 1.7% mom rise in Mar. The negative performance involved all main sector: consumer goods (-2.1%), intermediate goods (-2%), capital goods (-1.3%), energy output (-1.6%). Only construction grew 3.3%.

- **German industrial orders fell unexpectedly** by -2.5% mom in Apr exacerbating the -1.1% drop in Mar. It was the fourth consecutive monthly drop due to a -4.8% slump in domestic demand and a -0.8% decline in foreign orders. Orders from the Eurozone tumbled -9.9% yoy, those from other countries grew 5.4%.
- The **German current account surplus surged** to EUR 22.7bn in Apr from EUR 16.7bn a year earlier. The goods surplus increased to EUR 22.5bn from EUR 19.7bn a year earlier.
- **Russian inflation was stable at 0.4% mom in May** (2.4% yoy), with food prices dipping -0.1% and non-food inflation at 0.9% mom, a top since 2015. Services prices rose 0.4%, a rate not seen since Aug.
- **Turkey's central bank** in a desperate move, **raised its rate by 125 bps** to 17.75% to counter mounting inflation and the precipitous slide of the lira.
- **Turkish inflation surged** to 12.15% yoy in May from 10.85% in Apr, due mainly to key CPI components such as food & non-alcoholic beverages, transportation and housing & utilities. It was a 6-month record and the second-highest since Feb 2004.

## **Asia Pacific:**

- **The Caixin China General Composite PMI was unchanged** at 52.3 in May. Both services (PMI at 52.9) and manufacturing (PMI at 51.1) were steady. Employment was unchanged for the second month in a row while existing business rose at a marginal pace. Expectations on future output rose to a relatively high level, both for manufacturing and services.
- **China's trade balance shrunk** to USD 24.9bn in May from USD 40.5bn in May 2017. Imports jumped 26% to a record high while exports rose 12.6%. For Jan-May, China's trade surplus narrowed to USD 102.8bn from USD 141.9bn over the same period of 2017.
- **Japan's current account surplus was slightly lower** at

JPY 1.84tn in Apr compared to JPY 1.98tn a year earlier. The goods surplus advanced to JPY 0.57tn (vs JPY 0.55tn a year earlier) as exports grew 7.4% yoy while imports rose 7.7%.

- **The leading economic index in Japan increased** to 105.60 in Apr from 104.50 in Mar.
- **Japan's household spending decreased** -1.3% yoy in Apr after -0.7% in Mar, the fourth decline in 5 months.
- **Taiwan's inflation in May declined** to 1.6% yoy from 2% in Apr. Fuel and tobacco prices (due to a hike in cigarette tax) continued to influence the headline. Core inflation was 1% yoy, suggesting price pressures are subdued.
- **The Reserve Bank of India hiked its policy rate by 25 bps** to 6.25% in response to strong GDP (7.7% yoy) and higher inflation pushed by energy prices and a weaker rupee.
- **Australian GDP grew** 1% qoq (3.1% yoy) in Q1, after 0.5% (2.4% yoy) gain in Q4 thanks to a surge in mining and substantial contributions from private investment and government spending.
- **Australia's monthly trade surplus almost halved** to AUD 0.98bn in Apr, from AUD 1.73bn in Mar.
- **South Korea's current account surplus more than halved** to USD 1.77bn in Apr from USD 3.67bn a year earlier. The goods surplus declined to USD 10.3bn (from USD 11.54bn a year earlier), while the services account deficit narrowed to USD 1.98bn (from USD 2.42bn a year earlier).
- **Indonesia's annual inflation eased** to 3.2% yoy in May from 3.4% in Apr. **Core inflation was** 75% yoy in May.

**Bottom line:** The main economic data point to further weakness in Germany and the Eurozone, while for other large economies there were no major surprises. The G7 meeting ended with an acrimonious row when Trump – after having left earlier Canada to prepare its summit with North Korea's Kim – Tweeted disavowing a joint statement the US had agreed to, insulting

Canada's Trudeau and exacerbating trade tensions. This undiplomatic rant came after Trump had alienated his European allies by insisting that sanctions on Russia should be eased. On Monday, markets are unlikely to be pleased by such an outcome in a week when traders are bracing for nail biting sessions. In fact top ECB officials have announced that the QE program is close to an end and the Governing Council meeting next week could formalize such decision, while the US Fed will almost surely raise its policy rates. The impact on emerging markets is already troubling: Turkey's central bankers followed their peers in Indonesia, Mexico and Argentina in hiking aggressively interest rates (with Brazil is also coming under intense pressure) and contagion could spread. Fortunately, GCC countries are well insulated from the storm thanks to large FX reserves supporting their currencies and their banking sectors.

### Regional Developments

- **S&P affirmed Bahrain's B+/B rating** given the potential financial support from its neighbouring nations amidst the nation's slow fiscal reforms and mounting government debt.
- **The Bahrain-Saudi Arabia oil pipeline** – total length of 112 km (73 onshore) and 400k barrels per day capacity – **will be completed this year**, according to Bahrain's oil minister.
- **Egypt's PMI declined to 49.2 in May**, from Apr's 50.1 reading, thanks to a decline in new orders and output contracting to 49.3 (Apr: 50).
- **Net foreign reserves in Egypt increased** to USD 44.14bn at end-May (Apr: USD 44.03bn).
- **Egypt's Parliament passed the 2018-19 budget**: budget deficit of 8.4% is targeted, versus an estimate of around 9.8% for this fiscal year. Revenues are to increase by 22% to more than EGP 200bn, with tax revenues targeted at EGP 770bn. The budget was approved

by the Cabinet in March.

- **Egypt's net volume of foreign direct investments declined** by 20.8% yoy to USD1.9bn in Q2 2017-18, according to the central bank. Total inflows touched USD 3.4bn during the period (compared to USD 3.9bn in the same period a year ago), with EU at the top spot with an investment of USD 1.96bn.
- **Total value of Egypt's trade amounted to USD 42.86 during Jul-Dec 2017:** imports touched USD 30.8bn during that period, while exports were at USD 12.06bn. UAE (USD 3bn), China (USD 2.6bn) and US (USD 2.3bn) were the top three trading partners.
- **Bilateral trade between Russia and Egypt grew** by 75% yoy to USD 1.66bn by end of Mar this year, according to a Russian trade representative. He also disclosed that Russian capital in Egypt touched USD 4.6bn last year, with more than 60% in the oil and gas sector.
- **Revenue from Egypt's Suez Canal increased** to around USD 5.1bn during the Jul 2017-Apr 2018 period. According to the finance minister, this is likely to rise to USD 5.6bn during the full year, up 14% yoy.
- **Iraq's parliament passed a law ordering a nationwide manual recount of votes in the May 12 parliamentary election,** amid allegations of fraud.
- **Jordan's King appointed a new government,** and the incoming PM promised to withdraw the controversial income tax law, which was part of the austerity measures to meet the conditions of the IMF loan. The USD 732mn loan was approved in 2016 with the condition that Jordan cut its public debt to 77% of GDP by 2021, from 95%. Jordan is likely to request the IMF for more time to implement reforms, and unlikely to abandon the programme.
- **The unemployment rate in Jordan increased** by 0.2% yoy to **18.4% in Q1 2018,** with male and female unemployment at 16% and 27.8% respectively.
- **The Kuwait Investment Authority made a net profit** of KWD

24.07bn (USD 79.5bn) over the past three years, by investing state reserves in the form of sovereign fund assets, reported *Al-Anba*

- **Bank credit growth in Kuwait**, at 1.9% yoy in Mar, **is the weakest in 6 years**, according to a recent NBK report. Credit to businesses slowed to 1.5% in Mar (Dec 2017: 3.4%).
- **Kuwait's rating of "Aa2" with a "Stable" outlook by Moody's** reflects the country's oil and gas reserves and relative low government debt levels. The major credit challenge for the sovereign remains its over-dependence on oil.
- **Oman's budget deficit** decreased -51.7% yoy by end of Q1, thanks to a 23.5% surge in revenues and lower government spending by -12.8%.
- **Oman's non-oil exports** surged 33.6% yoy to OMR 272.1mn in Jan, from OMR 203.6mn. **Trade surplus** was OMR 339.8mn by end of Jan: total **imports** edged up 5.1% yoy reaching OMR 861.8mn, while total **exports** swelled 32.8% yoy reaching OMR 1.2bn.
- **Credit disbursement by Omani banks** grew 6% by end of Mar. **Credit to the private sector** increased by 4.1% to OMR 18.6bn. Conventional banks' overall investments in securities grew by 2.7% to OMR 3.2bn.
- The **Central Bank of Oman** reported an overall assets increase to OMR 7.4bn and commercial banks' assets to more than OMR 28bn by end of Q1.
- **Qatar's PMI increased to 52.4 in May** (Apr: 51), thanks to improved output and growth in new orders, while job creation touched a 7-month high.
- **Qatar's central bank sold QAR 1.2bn (USD 330mn) of Treasury bills** at a monthly auction; yields fell and the curve steepened compared to the previous month.
- **Saudi Arabia's PMI recorded a three-month high of 53.2 in May**, up from Apr's 51.4, supported by output expansion and growth in new orders (54.7 vs. 49.6). Employment growth slowed to 50.8, the lowest since Nov

2017, from 51.2 in Apr.

- **Saudi Arabia has appointed local banks to act as primary dealers in government bonds**, as part of developing an active debt market in the country.
- **Saudi Arabia began listing and trading on government debt instruments** worth SAR 8.95bn (USD 2.39bn) last week.
- **Three major Japanese banks are expected to become operational in Saudi Arabia by October** this year, including Mitsubishi UFJ Bank, according to the newly appointed Japanese Ambassador to Saudi Arabia.
- **Saudi tourists spent SAR 78bn (USD 21.25bn) overseas in 2017**, down 20% yoy, and excluding costs of international transport, according to the Tourism Information and Research Center.
- **Saudi Arabia's Shura Council has proposed a cap on the recruitment of foreign lawyers**, given the availability of qualified lawyers in the country.
- **Saudi Arabia and UAE announced a 5-year unified vision and 44 joint projects** at the first meeting of the Saudi-Emirati Coordination Council. The strategy includes a plan to establish an agricultural investment company with a capital of AED 5bn (USD 1.36bn), a joint venture fund for renewable energy and an investment fund for small and medium enterprises among others.
- **The World Bank's Global Economic Prospects Report projects growth in the MENA region to strengthen to 3% this year, largely due to the recovery in oil prices.** GCC growth is forecast at 2.1% this year, while oil importing nations benefit from economic reforms and improving external demand. Saudi Arabia will see growth improve to 2.1% next year from this year's estimate of 1.8%, while Egypt is likely to grow 5% this fiscal year, and by 5.5% next year. (More: <http://www.worldbank.org/en/publication/global-economic-prospects>)

## UAE Focus

- **Abu Dhabi announced an AED 50bn (USD 13.6bn) economic stimulus package** for the emirate, to support economic growth over the next three years. Ten economic initiatives were announced including the establishment of the Abu Dhabi Accelerators and Advanced Industries Council, “Ghadan” (meaning tomorrow), a dual licence regime for firms operating in free zones to allow them to work outside free zones and pitch for government contracts, exempting all new licenses from having an office or a work space in the Emirate for two years, permitting permanent home licenses, and the creation of at least 10,000 jobs for Emiratis in the private and public sectors over the next five years among others. A detailed execution plan for the stimulus package will be drawn up within 90 days.
- **Abu Dhabi plans to double the number of housing loans and reduce waiting times for property with an aim to reach 70% private residence ownership among its citizens by 2020.**
- **Dubai announced a series of initiatives to reduce costs and support the economy:** this includes freezing private school fees for the 2018-19 academic year, waiving the 4% late-payment fine for property registrations for 60 days, and reducing the “market fee” imposed by Dubai Municipality by half to 2.5% among others. The government will also scrap 19 fees related to the aviation industry.
- **UAE PMI increased to a 4-month high** of 56.5 in May, from Apr’s reading of 55.1, supported by a 30-month high of new export orders and growth in output. Firms surveyed also reported the highest level of confidence in the market this year since the index began in 2012.
- **Dubai’s FDI increased by over 7% yoy** to AED 27.3bn (USD 7.4bn) in 2017, according to a Dubai FDI report. US, Austria, France, UK and Saudi Arabia were the top source

countries for the 367 new projects undertaken by foreign investors last year.

- **Expatriates' deposits in the UAE increased** to AED 191bn (USD 52bn) in Apr, accounting for 11.5% of total deposits in the UAE's central bank.
- Anecdotal evidence points to a 10-30% **drop in new vehicles sales in the UAE during Q1 2018**, given the introduction of VAT.
- **VAT payments** for all entities registered with the FTA with a valid TRN and GIBAN account number **can now be completed via UAE Exchange**.
- **ADGM received a total of 69 FinTech applications since it launched the RegLab programme**, with 36 local and global applications accepted for review in the 3rd edition.
- **Flexible working arrangements no-longer limited to start-ups: more than half of UAE employees work remotely every week**, and over 50% do so for at least half of the week, according to a new study by the International Workplace Group (covered over 18k business people across 96 companies).
- **UAE airports served 53.7mn passengers in Jan-May this year**, from a monthly average of 69,790 flights, according to the General Civil Aviation Authority.
- The Abu Dhabi Retirement Pensions and Benefits Fund declared that **UAE citizens who have completed 25 years of service may continue working for a different employer**, provided they are below 60 for men and 55 for women.
- The **Mohammed bin Rashid Global Initiatives was involved in projects worth AED 1.8bn in 2017**, benefitting 69 million people in 68 countries. This compares to a spending of AED 1.5bn in 2016.

## Media Review

### The Permian bottleneck

<https://seekingalpha.com/article/4179289-oil-bad-permian-bottl>

[eneck?ifp=0](#)

**Explaining probabilities and the limitations of mathematics**

<https://i3-invest.com/2018/06/i3-podcast-marketfox-interview-with-jack-gray/>

**Wage growth and Fed policy**

<https://www.ubs.com/global/en/wealth-management/chief-investment-office/latest-views/house-view-daily/2018/latest-06062018.html>

**The S&P Will Double Within the Next 5 Years**

<https://finance.yahoo.com/news/p-double-within-next-5-213709430.html>

**Hedge Funds Back Off Oil as Saudis Keep Market on Its Toes**

<https://www.bloomberg.com/news/articles/2018-06-08/hedge-funds-back-off-oil-as-saudis-keep-market-on-its-toes>

**Syria tells Lebanon it wants refugees to return**

<https://www.reuters.com/article/us-mideast-crisis-syria-lebanon/syria-tells-lebanon-it-wants-refugees-to-return-idUSKCN1J0100>

**Qatar Is Rich Enough to Get By for Another 100 Years**

<https://www.bloomberg.com/news/articles/2018-06-06/a-year-later-iran-is-the-big-winner-of-the-qatar-embargo>

**Saudi Aramco restructures non-oil assets ahead of IPO: sources**

<https://www.reuters.com/article/us-saudi-aramco-ipo-restructuring/saudi-aramco-restructures-non-oil-assets-ahead-of-ipo-sources-idUSKCN1J01F7>

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