

# Weekly Economic Commentary – Aug 12, 2018

## Markets

The summer lull on equity markets is a thing of the past. At the beginning of the week sentiment seemed to favor the positive aspects over the ongoing trade policy tensions and doubts on valuations. Then the Turkish crisis erupted and sent shockwaves throughout the markets, starting from Europe (with epicenter in the banking sector) and emerging markets. Wall Street ended a 5-weeks positive streak but contained the losses, while Japan, Europe and emerging markets suffered substantial losses. Regional markets were mixed, reflecting country specific factors which in some cases offset the contagion from other emerging countries. In currency markets, movements on main crosses benefitted the flight to safety towards the USD, while emerging market currencies felt the contagion from the sinking Turkish lira. Oil markets are fidgety: the effects of sanctions on Iran are uncertain while the demand from refineries in China is clearly declining. Gold prices were little changed near a multiyear low.

## Global Developments

### **US/Americas:**

- **US inflation was mildly up** 2.9% yoy (0.2% mom) in Jul vs 2.8% in Jun (0.1% mom). The CPI for energy dropped -0.5% mom. Core inflation was 2.3% yoy (0.2% mom), the fastest pace in 10 years, pushed up by vehicle prices (+1.3% mom) and airfares (+2.7%).
- **US wholesale inventories rose** 0.1% mom in Jun after a 0.3% rise in May. Durable goods stockpiles grew 0.8% mom, while those of nondurable goods fell -1%. Wholesale sales slipped -0.1% mom.

- **Initial claims for US unemployment benefits fell** by 6,000 to a seasonally adjusted 213,000. The 4-week moving average dropped by 500 to 214,250; continuing claims rose by 29,000 to 1.755 mn, a level last seen in the 1970s.
- **Brazil's inflation increased** to 4.5% yoy in Jul from 4.4% in Jun, the highest since Mar 2017 due mainly to food and transport inflation.

## **Europe:**

- **The German trade surplus retreated** to EUR 21.8bn in Jun from EUR 22.1bn a year earlier, as imports jumped 10.2% to an all-time high of EUR 93.7bn while exports rose by 7.8% to EUR 115.5.
- **German industrial production contracted** -0.9% mom in Jun after a 2.4% jump in May, due to lower production of consumer (-1.6%), capital (-0.6%) and intermediate goods (-0.8%). In addition, construction activity shrank 3.2% mom.
- **UK GDP grew** by 0.4% qoq in Q2 after a paltry 0.2% in Q1, boosted by retail sales and construction, while manufacturing production declined in the wake of weakness in the euro area. Business investment gained 0.5% qoq, recovering from a 0.4% decline in Q1.
- **UK industrial production increased** 1.1% yoy in Jun just a notch above the 1.2% recorded in May.
- **The UK monthly trade deficit narrowed** by GBP 1.28bn to GBP 1.86bn in Jun.

## **Asia Pacific:**

- **China's M2 money supply grew** 8% yoy in Jun, down from 8.3% in May. However the People's Bank of China's reserve ratio cuts have boosted bank lending and demand for mortgages is sustained. The government has relaxed its credit repression to counter the slowdown provoked by trade tensions.

- **China's trade surplus shrank sharply** to USD 28.05bn in Jul from USD 44.85bn a year earlier. Imports jumped 27.3% yoy to USD 187.52bn a near record high, while exports rose at a softer 12.2% yoy to USD 215.57bn.
- **China's inflation reached a four-month high** of 2.1% yoy (0.3% mom) Jul from 1.9% yoy (-0.1% mom) in Jun. Food inflation hit its highest in three months and cost of non-food increased faster.
- **The producer price index in China increased** 4.6% yoy in Jul, vs 4.7% rise in Jun.
- **The Japanese GDP expanded** 0.5% qoq (1.9% yoy) in Q2, after a -0.2% contraction (-0.9% yoy) in Q1, driven by a strong rebound in private consumption and business spending.
- **Japan's current account surplus widened** to JPY 1.17tn in Jun from JPY 0.93tn a year ago. The primary income surplus rose to JPY 0.59tn (from JPY 0.53tn a year ago). The goods surplus reached JPY 0.82tn (from JPY 0.51tn a year earlier) as exports grew by 9.3% yoy and imports by 4.9% yoy.
- **Core machinery orders in Japan**, which exclude those of ships and electrical equipment, **plunged** -8.8% mom in Jun, adding to the -3.7% decline in May. It was the third fall in four months.
- **The Leading Economic Index in Japan decreased** to 105.20 in Jun from 106.90 in May. The **Coincident Index** decreased to 116.30 in Jun from 116.80 in May.
- **India's industrial production jumped up** by 7% yoy in June accelerating from 3.9% in May with a solid performances across all sectors: manufacturing (6.9% vs 3.7% in May); mining (6.6% vs 5.8%); and electricity (8.5% vs 4.2%).
- **The Philippines GDP grew** 6% yoy in Q2, down from 6.6% in Q1. The slowdown was caused by a larger trade deficit, which detracted 4.7% from growth.
- **The Indonesian GDP advanced** 5.27% yoy (4.21% qoq) in Q2 from 5.06% yoy (-0.41% qoq) in Q1 period. It was the

strongest yoy performance since Q4 2013, driven by private consumption and government spending, with fixed investment a little behind. In qoq terms it was a record since the series began in 2005.

- **Business confidence in Indonesia jumped** up to 112.82 in Q2 from 106.28 in Q1, the highest reading since Q3 2009, thanks to an improvement in income expectations (122.98 vs 106.62 in Q1) and capacity utilization (114.60 vs 108.71).

**Bottom line: Many emerging markets accumulated unsustainable imbalances over the years, counting on a weak dollar and low rates. The reversal of this process is causing a series of “sudden stop” capable of generating a domino effect. After Argentina the typical August crisis has hit Turkey (which was largely expected) and Russia (which is a surprise). In both cases the downfall has been triggered by US sanctions imposed for political reasons. Albeit limited in scope such moves have had a disproportionate effect because the economic situation in many emerging markets is precarious. As usually happens the market is looking for the next victim of reversal.**

### **Regional Developments**

- **The US re-imposed sanctions on Iran.** Sanctions are to be imposed on: purchase or acquisition of US banknotes by Iran's government; Iran's trade in gold and other precious metals; graphite, aluminium, steel, coal, and software used in industrial processes; transactions related to the Iranian rial; activities relating to Iran's issuance of sovereign debt; Iran's automotive sector (Iran will also be barred from buying US and European aircraft).
- **Moody's downgraded Bahrain's long-term issuer ratings** to B2 from B1 and maintained the negative outlook, citing a further rise in Bahrain's external and government liquidity risks thereby constraining access to market financing. The B2 rating however assumes that the nation

will continue to receive financial support from its peers.

- **Bahrain Kuwait Insurance** – listed on both the Bahrain Bourse and Boursa Kuwait – is considering **merging its branches and some supportive services with Takaful International** (listed on Bahrain Bourse), according to the former company's chairman. Regulatory entities need to approve for the merger to proceed.
- **Urban consumer price inflation in Egypt fell** to 13.5% yoy in Jul from Jun's 14.4% and core inflation fell to 8.54% from 10.9% the month before.
- **Egypt's foreign debt increased** by 19% yoy to USD 88.2bn in Q3 2017-18 fiscal year, and compares to debt of USD 82.9bn at end-Dec, according to central bank data. **Egypt's foreign reserves** were USD 44.315bn at end-Jul.
- **Egypt's proposal to grant residency to foreigners in lieu of property purchases** is likely to be issued within a month. The draft law provides that foreigners earn the right to stay 1, 3 and 5 years for buying properties worth USD 100k, 200k and 400k respectively.
- **Suez Canal revenues are expected to rise** by USD 700mn this year, according to the chairperson of the Suez Canal Authority. He also expects revenues to double by 2023.
- **Egypt's food exports** stood at USD 1.44bn in H1 this year, with Arab nations accounting for 52% of total Egyptian food exports. Among countries, Saudi Arabia, Jordan and Libya topped the list, with food imports valued at USD 150mn, USD 75mn and USD 71mn respectively.
- **Egypt scrapped** a EGP 3000 per tonne **tariff imposed on sugar exports** last year, given the sugar surplus in the market currently.
- **Egypt and Jordan are planning to amend the gas import deal by early 2019**, allowing Amman to import enough gas to cover 10% of the nation's electricity generation demand.
- **Using natural gas in Jordan's industrial sector would**

**reduce operational costs** by 20% if substituted for heavy fuel and by 50% if used instead of diesel and liquefied petroleum gas, disclosed the energy minister.

- **PMI in Lebanon dipped to 45.4 in Jul** (Jun: 46), with private sector activity shrinking at the fastest rate since Oct 2016. Businesses cited the uncertain political landscape and cash flow issues as weighing heavily on demand in Jul.
- **Oman's nominal GDP grew** by 8.7% in 2017 after a -3% contraction in 2016. The economic recovery was fairly broad-based with both hydrocarbon and non-hydrocarbon activities growing by 20.8% and 3.9%, respectively.
- **Inflation in Oman rose** to 1.42% yoy (0.14% mom) in Jul, vs 0.8% in Jun.
- **Remittances by expatriates from Oman fell** for the second consecutive year to OMR 3.77bn in 2017, from OMR 3.96bn a year earlier.
- **Visitors into Qatar dropped** by 35% yoy to 944,600 in H1 this year, after visitors from the GCC declined by 84% to 101k. Foreigners from Asia and Oceania accounted for 42% of the visitors, while Europeans were at 29%.
- **Saudi Arabia froze all new business and investment transactions with Canada**, and suspended flights, after the latter nation called for releasing civil society activists detained in the country. Separately, the Saudi energy minister disclosed that oil supplies would not be affected by this row. Bahrain, Egypt and Jordan have publicly announced their support for Saudi Arabia in this row.
- **Budget deficit in Saudi Arabia narrowed** to SAR 7.36bn (USD 1.96bn) in Q2, from SA 34.3bn in Q1, thanks to a 67% boost in revenues to SAR 273.6bn (of which non-oil revenues grew by 42% yoy to SAR 89.4bn).
- **The number of foreign investment licenses granted in Saudi Arabia grew** by 130% to 157 during Q1, according to Saudi Arabian General Investment Authority (SAGIA) data, thanks to the recent spate of legal and regulatory

reforms. In 2017, 377 new investment licenses worth SAR 5.7bn (USD 1.52bn) were issued.

- **Saudi Real Estate Refinance Company** has launched an initiative to allow new or existing borrowers to access facilities to boost their mortgage potential including tapping long-term fixed borrowing, in a bid to “unlock” the Saudi housing finance market.
- **Saudi Arabia’s Public Investment Fund (PIF)** has bought a **minority stake in Tesla**, at just below 5%, reported the *Financial Times*.
- The **GCC** witnessed total proceeds of USD 893mn from 9 **IPOs in H12018**, and compares to USD 610mn raised from 15 IPOs during the same period in 2017, according to PwC. Tadawul saw 8 REIT listings in H1 2018.
- The **World Bank’s Logistics Performance Index 2018** showed UAE topping the list among the GCC nations, being ranked 11th globally, followed by Qatar (30) and Oman (43). *More details:* <https://lpi.worldbank.org>

## **UAE Focus**

- **Abu Dhabi GDP increased by 9% yoy** to AED 223.6bn **in Q1 this year**, with non-oil sector reporting a 4% pickup to AED 136.9bn, also accounting for 61.2% of total GDP.
- The Abu Dhabi Chamber of Commerce and Industry issued a **resolution to exempt private sector companies in Abu Dhabi from all fines due to delayed membership renewals** of 24 months or more.
- **Non-oil exports from Abu Dhabi to the US** grew by 94.8% yoy to AED 860mn during Jan-Apr 2018. Aluminium exports grew 22.9% yoy to AED 1.9bn at end-Apr while iron and steel exports were up 22.3% to AED 530mn.
- The **UAE Securities and Commodities Authority** published a **proposal to setup a secondary market for listed companies which report losses of 50% or more of their total capital**. Additionally, listed companies that report losses will have “to immediately disclose that to

the authority and the market”.

- Investors from **EU and US** accounted for 66% of the total number of projects launched in Dubai during the period 2015-Q12018, and **contributed 45% to the total FDI flows into Dubai**, and created 28,241 new jobs, according to DED, citing fDI Markets Data. Dubai was also ranked first globally in the share of FDI in technology transfer.
- **UAE's** Abu Dhabi Global Markets and Dubai Financial Services Authority, along with 10 other financial regulators across the globe, have issued a discussion paper announcing a **Global Financial Innovation Network** and consulting on its proposed functions. The consultation paper is available at: <http://www.dfsa.ae/getattachment/1e2b52a3-00a6-4890-a5a3-094ccdd554d4/5779-GFIN-consultation-paper-draft-FINAL.PDF.aspx>
- The **UAE launched a new amnesty initiative** which enable applicants to receive a six-month temporary residency without the need for a sponsor.
- **About 103.29mn passengers used the Dubai Metro in H1 this year**, up 2.7% yoy. Dubai Metro has accounted for the lion share of public transport ridership accounting for 37.17% of the total during this period.

## **Media Review**

### **The sudden stop in emerging markets**

<https://www.dlacalle.com/en/ behold-the-sudden-stop-risk-of-emerging-markets-collapse/>

### **Saudi unemployment continues to rise**

<https://www.bloomberg.com/news/articles/2018-08-08/a-target-saudi-can-ill-afford-to-miss-and-it-s-not-aramco-ipo>

### **Who Will Last Longer: Trump or Iran's Theocrats?**

<https://www.newyorker.com/news/news-desk/who-will-last-longer-trump-or-irans-theocrats>

<https://www.economist.com/middle-east-and-africa/2018/08/08/american-sanctions-bring-more-agony-to-irans-dysfunctional-economy>

**Fitch on the effects of trade tension and sanctions against Iran on MENA**

[https://your.fitch.group/rs/732-CKH-767/images/MENA\\_Monthly\\_Outlook\\_10.08.18.pdf](https://your.fitch.group/rs/732-CKH-767/images/MENA_Monthly_Outlook_10.08.18.pdf)

**A primer on sovereign default**

[http://www.columbia.edu/~mu2166/book/sovereign\\_debt/slides\\_sovereign\\_debt.pdf](http://www.columbia.edu/~mu2166/book/sovereign_debt/slides_sovereign_debt.pdf)

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