

# Weekly Economic Commentary – Sep 2, 2018

## Markets

Another week of fireworks on Wall Street with the S&P 500 closing at an all-time high for four sessions in a row. The rally was interrupted on Thursday by concerns over Trump's threats to exacerbate the trade dispute with China and withdraw from the WTO. Other stock markets were mixed. European bourses felt the effects of the Turkish crisis and the uncertainty over the Italian government's economic policy. Japan and emerging markets on the contrary took comfort from the US rally. Regional markets were broadly positive in response to the oil price surge and an overall improvement in the non oil economy. In FX markets major crosses were little changed, while Turkey and Argentina's currencies dropped sharply on Thursday and affected also the Brazilian real and the SA rand. The Indian rupee on the contrary was pushed up by strong GDP data. The price of Brent reached a 7-week high above USD 78/b (before easing a bit on Friday) as US crude oil stocks fell by 2.6 mn barrels, way below expectations, after a 5.8 mn drop in the previous week. The gold price remained stuck around USD 1200 per ounce.

## Global Developments

### **US/Americas:**

- **The US GDP growth**, according to the second estimate was just a decimal higher than the preliminary reading at 4.2% qoq ann in Q2 and 2.2% in Q1. The **upward revisions** regarded nonresidential fixed investment and private inventory, while private consumption was revised down.
- **Talks on NAFTA revisions** between Canada and US broke down with no deal, while with Mexico there was a

breakthrough in the negotiation.

- **US nominal personal income rose** by 0.3% mom in Jul vs 0.4% in Jun. Disposable income growth also was 0.3% mom, down from 0.4% in Jun. Wages and salaries rose 0.4%, the same pace as in Jun.
- **The US headline PCE deflator** (the gauge of inflation followed by the Fed) **rose** by 0.1% mom (2.3% yoy) in Jul the same as in Jun. The core PCE deflator, ex food and energy, rose 0.2% mom (2.0% yoy).
- **Real spending in the US grew** 0.2% mom in Jul vs 0.3% in Jun, driven by nondurable goods, while spending on durable goods declined.
- **US inventories gained** 0.7% mom in Jul, following a 0.1% uptick in Jun. Retailer's stockpiles rose 0.4% mom after no change in Jun, thanks to autos and parts, which grew 1%.
- **The US trade goods deficit swelled** to USD 72.2bn in Jul, an increase of USD 4.3bn vs Jun. Exports tumbled -1.7% mom, led by foods, feeds and beverages.
- **The US Case Shiller national home price index increased** 0.5% mom (6.3% yoy) in Jun slowing from the 0.8% (6.5% yoy) recorded in May.
- **The US Conference Board consumer confidence index gained** 5.5 points in Aug, improving to 133.4, a cyclical top. Present conditions were at the highest since 2000. Current labor market and business conditions were also perky pushing up income and business conditions expectations.
- **University of Michigan US consumer sentiment dropped** 1.7 points in Aug 96.2, the lowest level since Jan, due to worse current conditions. Economic expectations declined slightly, and inflation expectations reverted to their Jun levels. Overall, sentiment remains near its cycle high.
- **US initial claims for unemployment benefits rose** from 210,000 to 213,000. The 4-week moving average fell by 1,500 to 212,250, the lowest since Dec 13, 1969.

Continuing claims dropped from 1.728 mn to 1.708 mn.

- **Brazil's GDP expanded** by 0.2% qoq (1.0% yoy) in Q2, slightly above the 0.1% in Q1 (1.2% yoy).
- **Argentina's central bank pushed up its interest rates** by 15% to 60% to sustain the peso which had dropped 7% (a daily record since the currency floated in 2015) after President Macri asked the IMF to speed up the disbursement of its USD 50 bn standby loan.

## **Europe:**

- **The Eurozone inflation rate retreated** to 2% yoy in Aug from 2.1% in Jul. Energy inflation fell and core inflation slowed to 1% yoy, from 1.1%.
- **The unemployment rate in the Eurozone remained stable** at 8.2% in Jul, a record low since Nov 2008.
- **The Eurozone business climate indicator fell** by 0.08 points to 1.22 in Aug, the lowest reading in a year, due to a marked drop in the order book and past production.
- **The Eurozone's economic sentiment indicator declined** by 0.5 point to 111.6 in Aug hit by services and consumer confidence.
- **Germany's inflation was unchanged** at 2% yoy in Aug, in line with expectations.
- **German retail sales fell** -0.4% mom (0.8% yoy) in Jul vs a 0.9% (0.8% yoy) rise in Jun. Private consumption continued to increase in Q2, though the pace of increase slowed down significantly compared to Q1.
- **The Ifo business confidence indicator for Germany rose** in Aug by 2.1 points to 103.8 recovering almost all the ground lost since Feb. Future expectations climbed 3 points to 101.2 and the current business conditions rose 1 point to 106.4.
- **Fitch cut its outlook on Italy's public debt to 'negative'** from 'stable' as the debt level exposes the country to potential shocks, especially now that the coalition government appear determined to eschew any

semblance of fiscal prudence.

- Roughly USD 180bn in **Turkish external debt** mostly owed by private banks will mature over the next 11 months, equivalent to almost 25% of GDP, according to JPMorgan.

## **Asia Pacific:**

- **China's official manufacturing PMI advanced** just 0.1 point to 51.3 in Aug. Despite lower orders managers reported higher production, but expectations over future production were hit by sluggish export orders and higher input costs, a sign that trade disputes are having some impact.
- **Japan's industrial production fell** just -0.1% mom (2.3% yoy) in Jul, following a -1.8% (-0.9% yoy) plunge in Jun. Tech sectors held up well and, to a lesser extent, also information and communications and electrical machinery. The rest displayed a lackluster performance.
- **The consumer confidence index in Japan was marginally lower** in Aug to 43.3 from 43.5 in Jul a 12-month low, as households' perceptions weakened across the board.
- **Retail sales in Japan growth paused** rising only 0.1% mom (1.5% yoy) in Jul, vs 1.4% (1.7% yoy) in Jun.
- **Indian GDP grew** by 8.2% yoy in Q2 (a record since Q1 2016) accelerating from 7.7% in Q1 – way **above expectations**.
- **South Korea's trade surplus moved up** to USD 6.9bn in Aug from USD 6.6bn a year earlier. Exports grew by 8.7% yoy and imports by 9.2% yoy.
- **South Korea's consumer sentiment fell** 1.8 points to 99.2 in Aug. Most components were weaker than in Jun, with sentiment over current and future economic conditions losing ground.
- **South Korea's retail sales rose** 0.5% mom (6.0% yoy) in Jul vs 0.7% (4.5% yoy) in Jun.

**Bottom line:** The main data flow last week came from the US. Revisions to Q2 GDP were fairly uneventful, but the other data

portrayed a slightly improved situation, with the exception of the soft patch in housing. Emerging markets and the trade war continue to represent the major source of anxiety. Turkey's woes are intensifying and are affecting also Tunisia, South Africa and Italy, albeit for different reasons. Meanwhile, on the other side of the world, Argentina suffered another wave of panic capital flows, which might have repercussions on Brazil, just barely out of a crisis, and facing heightened political uncertainty in the run up to Presidential election next month. Fortunately, in the Eurozone core and in Japan the macroeconomic conditions are quite stable for now.

### Regional Developments

- **Bahrain plans to seek bids for its USD 1-2bn metro railway project** in Q42019, reported *Al Ayam* Private investments might be sought to partially fund the project, according to an advisor to the transport minister.
- **Bahrain real estate expo showcased projects exceeding value of BHD 2bn (USD 5.3bn)**, with participation from both local and GCC-based developers.
- **Egypt's money supply (M2) grew** by 17.84% yoy to EGP 3.47 trillion in Jul (Jun: 18.49%).
- **Inward remittances into Egypt increased** by 21.1% yoy to USD 26.5bn in 2017-18 financial year, according to the central bank.
- **Moody's raised its outlook on Egypt government's long-term issuer status to positive** from stable, citing "continuing structural improvements in the fiscal and current account balances". However, the rating of Egypt's senior unsecured debt bonds was kept unchanged at B3, a rating that signifies high credit risk.
- **Egypt's tourism revenue surged** by 77% yoy to USD 4.8bn in H1 2018, with visitors during the period up 41% to about 5mn.
- **Egypt will keep its customs exchange rate unchanged** at

EGP 16 per US dollar for Sep, revealed the finance minister. The price of the customs dollar hovers around 90% of its common price in the country's banks.

- **Egypt's government has spent around EGP 100bn to date into social housing projects**, with projects for medium-income earners totaling EGP 50bn.
- **Trade between Egypt and EU** touched USD 13.4bn in H1 2018, while European investments into Egypt reached USD 15.1bn, according to Egypt's trade and industry minister. UK ranks as the top European investor, with total investments of USD 5.3bn.
- **Iraq's new parliament will convene on Sep 3**, according to a decree issued by the President. The Federal Supreme Court ratified the election results on Aug 19 and calling the new parliament into session is the first step in a 90-day process outlined in the constitution leading to the formation of a new government.
- **Jordan's new regulations** limit the import of cigarette production machinery and prohibiting the import of raw **tobacco**; only existing tobacco factories are allowed to import the machinery under the new regulation, unless in the Free zone or Special Economic Zones.
- **Inflation in Kuwait rose** by 0.2% mom and 0.8% yoy in Jul, with food prices (which account for nearly 17% of the basket) rising 1.2% yoy.
- **Kuwait plans to privatize three sectors**, including the postal and telecom segments, **by end-2018**, reported *Annahar*
- **With 17k job opportunities to be available in Kuwait's private sector soon**, as per the Manpower and Government Restructuring Program, the telecommunication and banking sectors will witness the highest percentage rises. Separately, around 70% of expat employees in the private sector are not qualified, according to the Minister of Social Affairs and Labour.
- **Oman's nominal GDP surged** 6.5% yoy to OMR 7.034bn (USD 18.27bn) in Q1. The oil sector grew 16.5% yoy to OMR

2.336bn. Non-oil activities grew 2% yoy to OMR 4.93bn. For the whole of 2017 yearly nominal GDP growth was 8.7%.

- **Omani commercial bank loans** grew 6.1% yoy to OMR 24.3bn at end-Jun.
- **The merger of Qatar-based Barwa Bank and the International Bank of Qatar** will result in an entity with combined assets of QAR 80bn, which will in turn account for 6% of the overall banking market.
- **The IMF expects Saudi Arabia GDP growth to increase to 1.9% this year**, with non-oil growth estimated at 2.3%. Fiscal deficit is projected to narrow: from 9.3% of GDP in 2017 to 4.6% of GDP this year and further to 1.7% of GDP in 2019. (More: <http://www.imf.org/en/Publications/CR/Issues/2018/08/24/Saudi-Arabia-2018-Article-IV-Consultation-Press-Release-and-Staff-Report-46195>)
- **Saudi Arabia's foreign assets** grew by 1.4% yoy to SAR 1.88 trn by end of last month; in mom terms, reserves declined by 1%.
- **Inflation in Saudi Arabia edged up** by 0.1% mom and 2.2% yoy in Jul, as food prices accelerated by 6.7% yoy and 5.7% mom; gasoline price hike resulted in transport prices rising by 10.4%.
- **Saudi Arabia's wholesale price index increased** by 3% yoy in Jul, largely as a result of the introduction of VAT and the increase in fuel prices. Prices of refined petroleum products and prices of ores and minerals surged by 93.9% and 9.5% respectively.
- **Oil production in Saudi Arabia increased to 10.424mn barrels per day (bpd)**, from Jul's 10.288mn bpd, according to an OPEC source. Crude supply was 10.467mn bpd in Aug versus 10.38mn bpd in Jul.
- **Saudi Aramco has been granted a 40-year concession to exploit the country's hydrocarbon reserves**, replacing its "in perpetuity" oil and gas rights.
- **Saudi Arabia's Capital Market Authority issued draft**

**rules for local companies to issue depositary receipts abroad;** this is open for public consultation for a period of 30 days.

- **Saudi exports to the GCC increased** by 11.7% yoy to SAR 2.29bn (USD 609.6mn) in Jun, while deficits widened to SAR 1.84bn when compared to SAR 1.11bn recorded in Jun 2017.
- **Remittances by expats in Saudi Arabia edged up** by 7.3% yoy and 14.8% mom to SAR 12.2bn in Jul, according to data from SAMA.
- **Saudi Aramco is boosting its patented technologies after doubling its scientist headcount** to 1300: the US Patent and Trademark Office granted Aramco 230 patents last year, four times as many as in 2013 (57).
- **GCC sovereigns** feature in S&P's report that tracked 22 sovereigns **with liquid assets** exceeding 25% of GDP. Kuwait, UAE and Qatar are among the seven sovereigns whose assets exceed 100% of GDP and their average rating is "AA".
- **UAE and Qatar** ranked 21<sup>st</sup> and 25<sup>th</sup> globally in the **International Property Rights Index**, followed by Oman (38), Jordan (42) and Saudi Arabia (44). Finland, New Zealand, Switzerland, Norway and Singapore topped the global list.

## **UAE Focus**

- **UAE petrol prices are set to rise in Sep**, with prices of petrol ranging from AED 2.40-2.59 per litre from AED 2.38-2.57 last month.
- **UAE's Dubai Financial Services Authority (DFSA) and the Monetary Authority of Singapore (MAS) signed a Fintech agreement**, providing a framework for cooperation and referrals between the innovation teams of each supervisory authority.
- The **UAE Banks Federation's 2017 annual report** reaffirms a strong, robust and resilient UAE banking industry,



while also highlighting initiatives like Tasharuk – a cybersecurity intelligence platform, a compliance framework assessment, and an ethical selling framework. As per the report, more than 600 bank employees were made redundant last year, with local banks laying off 476 persons. *The full report can be accessed at: <https://www.uaebf.ae/AnnualReport2017/English/mobile/index.html>*

- **The value of infrastructure projects in the UAE** is expected to reach AED 330.25bn (USD 89.93bn) by 2026, according to BMI Research.
- **Passenger traffic at the Dubai International Airport** grew by 1.8% yoy to 8.2mn in Jul – the second busiest month following Aug 2017's 8.23mn – and bringing the year-to-date number to 51.95mn (+1.6% yoy). India retained its position as the top destination country with 1.03mn passengers, followed by Saudi Arabia and UK at 583k and 581k passengers respectively. Separately, the Dubai Media Office announced that the **total number of passengers through the airport is set to hit a billion this year (since opening in the 1960s)**.
- **Hotels in Abu Dhabi** reported a six percentage point increase to 81% **occupancy rate** across the four days of Eid Al Adha this year (compares to Eidal Adha 2017). Emiratis, Saudis, Indians, British and Americans together comprised 55% of total visitors.
- About 91% of **UAE business leaders believe flexible working helps them** to grow their business and maximise profits, while 84% believe flexible working reduces financial and strategic risks, according to a new study by the International workplace Group.
- **Consumers in the UAE spent USD 247 per capita on cosmetics and personal care**, more than any other country in the Middle East, and ninth worldwide, according to Euromonitor, and this is estimated to rise to USD 294 by 2020.

## **Media Review**

**An analysis over the prospects of the Omani ports**

<https://lobelog.com/omans-port-strategy/#more-45864>

**The economics of 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)

**Taper tantrum hits emerging markets**

<https://seekingalpha.com/article/4203345-can-federal-reserve-ignore-currency-disruptions-throughout-world>

**Bruised bankers seek consolation prizes after shelved Aramco IPO**

<https://www.reuters.com/article/us-saudi-aramco-deals/bruised-bankers-seek-consolation-prizes-after-shelved-aramco-ipo-idUSKCN1LG17U>

**Aramco, its oil and gas rights**

<https://www.ft.com/content/0a0ae5d6-a9d7-11e8-94bd-cba20d67390c>

**Focus on South-East Asia: IMF Finance & Development magazine, Sep 2018**

<http://www.imf.org/external/pubs/ft/fandd/2018/09/index.htm>

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