

# Weekly Economic Commentary – Sep 16, 2018

## Markets

The week started on a weak note on Wall Street, but then broadly positive US macro data and news of a trip by US Treasury Secretary Mnuchin to China for trade policy negotiations lifted the mood of investors. Interestingly the VIX (the so-called fear index) that in Feb had spiked above 37 has come down to below 13, confirming the prevailing risk-off attitude. Other stock exchanges worldwide, especially Tokyo (which benefited from the yen depreciation), took comfort from the upbeat mood in the US and rebounded from the previous week sharp decline. Even emerging markets which have been under pressure regained some ground. Regional markets were mixed with Egypt hit by data on the increase in foreign debt and Oman pulled up by the oil price rally. In currency markets the euro rebounded against the dollar while the yen took a blow. The GBP advanced on hopes that the Brexit process will not be disorderly. The Brent crude price after flirting in midweek with the pivotal level of USD 80/b retreated to close the week almost unchanged but close to a multiyear high thanks to concerns on Iran sanctions and Venezuela supply disruptions, declining inventories (US crude reserves fell by -5.3 mn barrels, vs prediction of -1.6 mn barrel) and fears over the effects of the hurricane Florence. Gold prices are consolidating their downward trend.

## Global Developments

### **US/Americas:**

- **US inflation rose** by 0.2% mom (2.7% yoy) in Aug the same rate as in Jul. Core inflation rose just 0.1% mom.
- **US industrial production climbed** 0.4% in Aug led by

motor vehicle and parts (+4% mom). Excluding autos, manufacturing output was flat mom after rising 0.5% in Jul and 0.2% in Jun.

- **The US Fed Sep's Beige Book** revealed that **economic activity expanded** at a moderate pace. Manufacturing expanded moderately in most districts while residential construction was up modestly. Firms remain near-term bullish, despite concerns over trade tensions which have induced to hold up investments plans.
- **US retail sales expanded** 0.1% mom (6.6% yoy) in Aug adding to a 0.7% (6.7% yoy) gain in Jul thanks to the results of store retailers and gasoline stations. The figure was not particularly cheerful but confirms that the effects of the tax cuts are supporting annual growth, which is close to a top since 2011.
- **US wholesale inventories rose** 0.6% mom in Jul vs 0.1% in Jun. Durable goods recorded a 0.8% growth, while nondurable goods gained only 0.3%. Wholesale sales were mostly unchanged mom.
- **The University of Michigan Consumer sentiment index rebounded** by 4.6 points to 100.8 in Sep the highest level in 6 months supported by an improvement in the current economic conditions index. Inflation expectations retreated.
- **US initial unemployment claims fell** by 1,000 to 204,000; the 4-week moving average slipped from 210,000 to 208,000 and continuing claims fell by 15,000 to 1.696 mn.

## **Europe:**

- **The ECB left its policy rates on hold** and reiterated the plan to reduce its QE monthly purchases to EUR 15bn in Oct before terminating them in Jan. The final statement was almost identical to the one issued in July. In the press conference Draghi warned the Italian government not to antagonize the EU.

- **The Eurozone's industrial production plunged** by -0.8% mom in Jul, the same decline as in Jun. In yearly terms production fell for the first time in two years, after rising on average by 3.4% yoy over the past 12 months.
- **The Eurozone's trade surplus narrowed** in Jul to EUR 17.6bn, from EUR 21.6bn a year earlier.
- **German inflation** stayed at 2% in Aug for the second month in a row. Energy prices surged, supporting overall inflation, so excluding energy prices, inflation was unchanged at 1.5% yoy.
- **The German ZEW confidence indicator rose** by 3.1 points in Sep to -10.6, extending the advance in Aug thanks to the easing of EU-US trade tensions.
- **Italy's industrial production** in Jul, **sunk** -1.8% mom eclipsing the 0.3% gain in Jun. Output was weak across the board, with the largest declines in durable consumer and intermediate goods. It is the worst figure in 2 years, a **consequence of the uncertainty caused by the new government's anti-EU stance**.
- The minutes of the **Bank of England MPC meeting** confirmed that the central bank **does not intend to hike rates** anytime soon.
- **Mark Carney, Bank of England governor**, informed the UK cabinet that the economy could expect a benefit estimated in GBP 16bn if a Brexit deal were to be based on the "Chequers compromise plan".
- The **UK's jobless rate held steady** at 4% in the 3 months to Jul, its lowest since 1975. However most of the decline of unemployed workers was due to a shrinking labour force: the number of inactive people rose by 127,000, while employment rose by a mere 3,000.
- **The Central Bank of Turkey raised its interest rate** from 17.75% to 24% while markets had expected a rise to 21% in a move suggesting independence.
- **The Bank of Russia in a surprise move raised its key rate** by 25 bps to 7.50%, to stem food price inflation and the Ruble depreciation since the beginning of the

year.

## **Asia Pacific:**

- **China's M2 money supply expanded** 8.5% yoy in Jul compared to 8% in Jun. Credit growth slowed down mom but remained perky, reflecting the central bank's easy credit stance to stimulate certain sectors of the economy affected by potential trade disruptions.
- **China's inflation** in Aug came at 2.3% yoy, up from 2.1% yoy in Jul, as food prices shot up due to the swine fever epidemic and bad weather.
- **China's industrial production rose** 6.1% yoy in Aug, almost on par with 6% in Jul. Despite the threats of US tariffs, manufacturing was unaffected, while commodity output was boosted by credit easing.
- **China's fixed asset investment grew** by 5.3% yoy year to date in Aug, the 6-th consecutive month of decelerating growth. Public sector investments advanced just 1.1% yoy, while private sector investments jumped 8.7%. The slowdown reflects the government's policy of reducing credit to inefficient firms.
- **China's retail sales gained** 9% yoy in Aug vs 8.8% in Jul thanks to food, food services, beverages, household electronics and petroleum. Notably auto sales disappointed but fuel remains a key sale item amid high gasoline prices.
- **Machinery orders in Japan jumped** in Jul by 11% yoy more than offsetting the -8.8% tumble in Jun. The performance was strong across manufacturing and nonmanufacturing sectors, especially chemical and petroleum.
- **India's industrial production** in Jul **expanded** 6.6% following a 6.9% increase in Jun thanks to a good performance in durable and nondurable consumer goods; electricity and mining production were also supported by domestic demand.
- **India's inflation decelerated** in Aug to 3.7% yoy from

4.2% in Jun due to base effects in food prices. However, inflation in the other categories is rising driven by fuel prices, which caused street protests.

- **India's trade deficit rose dangerously** to USD 18bn in Jul from USD 16.6bn in Jun. A double-digit rise in exports is preventing the goods balance from widening unsustainably at a time when many emerging markets with sizeable current account deficits are experiencing capital outflows and debt refinancing difficulties.

**Bottom line:** The US economy is in good shape and remains in a late-cycle expansion, while in Europe the weakness of the first half of the year is deepening. In China the macro data point at a stabilization of activity thanks to the authorities' credit policies that aim at selectively supporting the most dynamic parts of the economy. The composite leading indicator for the OECD countries dipped to 99.7 in Jul, down from 99.8 in Jun, slightly below the long-term average for the third consecutive month, signaling a loss of growth momentum in the developed world. Among the G7 only the U.S. and Japan kept their stable outlook, while the indicator indicates a slowdown for the UK, Germany, France, and the euro area as a whole.

### Regional Developments

- **Bahrain will hold its parliamentary elections on Nov 24.** The country has been holding parliamentary and municipal elections regularly every four years since 2002.
- **Annual urban consumer inflation in Egypt increased** to 14.2% yoy in Aug from 13.5% in Jul; meanwhile, core inflation edged up to 8.83% yoy (Jul: 8.54%).
- **Egypt's foreign debt rose** to USD 92.64bn at end-Jun from USD 88.2 at end-Mar, according to the PM.
- **Egypt announced new import tariffs on consumer goods,** including an additional 20% tariff on machinery and equipment imported by tourist establishments, as well as increases to fruit juices and baby formula. In a bid to

support local industry, tariffs on production materials used by companies that assemble goods locally was reduced.

- The petroleum ministry disclosed that **Egypt signed a deep-water oil and gas exploration deal** with Royal Dutch Shell and Malaysia's Petronas worth around USD 1bn for 8 wells in the West Nile Delta; a second USD 10mn deal was signed with Rockhopper, Kuwait Energy and Canada's Dover Corporation for exploration in the Western Desert.
- **A record low bid** of USD 0.02488/ kWh was submitted by Jinko Power (HK) Company Limited **at Jordan's solar auction**; the selected developers will be granted a 20-year PPA
- **Money supply in Kuwait increased** by 5.7% yoy in Jul, after reporting a 5.3% rise the month before. **Bank lending rebounded** in Jul, with private sector claims growing at 2.4% versus 1.6% in Jul.
- **Lebanon's Finance Minister** stated that the country **needs political action to avoid economic collapse**. Separately, the central bank governor assured the stability of the Lebanese pound, citing **high foreign reserves**: Lebanon's foreign assets excluding gold were USD 43.56bn at end-Aug.
- **Oman's trade balance surplus increased** by 12.3% yoy to OMR 1.77bn in Apr, mainly driven by a 30.5% yoy surge in hydrocarbons' exports which reached OMR 3.1bn.
- **Total deposits in Omani conventional banks** increased by 2.5% yoy to OMR 19.2bn in Jun. Government and private sector deposits grew 2.8% yoy and 2% yoy respectively.
- **Saudi Arabia raised USD 2bn in a new dollar-denominated Sukuk** – the second international Sukuk since the USD 9bn sale last year – with orders topping USD 10bn. The paper is due to settle on Sep 19 and matures in January 2029
- **Saudi Arabia's Public Investment Fund** raised an **USD 11bn loan** from 15 banks, reported Maaal financial news website, citing unnamed sources.
- **Saudi Arabia nationalised 43 types of jobs across four**

**retail sub-sectors** from last week: this is the first of a three-phase initiative through which the kingdom will nationalise jobs for Saudis in 12 retail sub-sectors.

- **The value of awarded contracts in Saudi Arabia's construction sector** is likely to surge to USD 44.1bn in 2019 from USD 26.3bn this year, as per a study released ahead of an industry summit.
- **Swiss investments in Saudi Arabia** amounted to more than SAR 10.7bn through 94 firms, revealed the Saudi Arabian General Investment Authority during the Saudi-Swiss Business Council meeting.
- **Saudi Arabia's education ministry introduced a new annual school transport service fee** (SAR 200) this academic year, covering about 60k students; those registered with social insurance scheme are exempt from the fee.
- **About 33% of middle-market businesses in Saudi Arabia anticipate over 10% growth this year**, and six in ten are targeting a growth of 6-10%, according to the latest edition of the **EY Growth Barometer**. 82% of CEOs expect to have deployed AI by 2020, and **over one third (35%) of Saudi respondents regard regulation as the top driver of innovation**, up 28 percentage points from last year.
- **UAE banks assets were the largest in the GCC**, growing 2% to AED 2.7trn (USD 748bn) in H1 2018 compared to end-2017. Saudi banking sector came second with a total asset value of USD 617bn in H1 2018 followed by Kuwait (USD 215bn), Bahrain (USD 188bn) and Oman (USD 87bn). First Abu Dhabi Bank and Saudi National Commercial Bank topped the Gulf banks with USD 188bn and USD 121bn worth of assets respectively by H1 this year.
- **Dubai climbed to 15th place overall in the latest Global Financial Centres Index** while Abu Dhabi was placed 26<sup>th</sup> (down a rank) and Doha up 13 places to 34<sup>th</sup>. *(The full report can be accessed at: [https://www.longfinance.net/media/documents/GFCI\\_24\\_fina](https://www.longfinance.net/media/documents/GFCI_24_fina)*

## UAE Focus

- **Dubai Economy Tracker edged up** to 55.2 in Aug (Jul: 54.9), supported by higher output and a modest new orders growth. The wholesale and retail sector performance was strong, with its reading up to 56.5 last month.
- **Abu Dhabi issues new rules to lower business costs:** it modified the calculation mechanism of the billboards fees whereby the issuance and renewal of all kinds of economic licenses will be charged a fixed fee of AED 200; furthermore, new licenses were exempt from the fees charged by the Center of Waste Management Abu Dhabi and the need to obtain a No Objection Certificate for the first year.
- **Bilateral trade between the UAE and US touched USD 13.3bn** in Jan-Jul this year, with UAE's exports to the US at USD 2.8bn during this period.
- The **Abu Dhabi Global Market** launched its framework to **regulate crowdfunding operators of private financing platforms** serving equity investment, debt financing and trade receivables funding needs of start-ups, private enterprises and SMEs.
- The **Abu Dhabi Global Market** approved its **third batch of regulatory laboratory (Reglab) participants** comprising 10 local and international FinTech startups.
- The **construction and real estate sector in the UAE received the largest funding from the banks during H1 2018**, according to the central bank. Registering an increase of AED 8.5bn from end-2017, the sector received a funding of AED 306.6bn this year, followed by the trade sector (up AED 4.5bn to AED 157bn) and the water and electricity sector (up AED 1bn to AED 17.7bn).
- The **UAE** announced a new classification system for private sector professions called the **Emirati Vocational**



**Classification.** The scheme will begin on a trial basis targeting all private companies registered with the ministry in Umm Al Quwain.

- **The UAE government is expected to invest AED 1.3 trillion in the development of the energy, utilities and transportation sectors** in the next two decades, according to Strategy&. Saudi Arabia is likely to spend USD 1.1 trillion on infrastructure from 2019-2038, while the UAE is scheduled to invest USD 350bn over a similar time frame.
- **About 47 projects were completed in Dubai this year** (till end-Aug), adding 14,000 different properties to the market, including 10,000 apartments, 364 residential complexes, 2,258 townhouses, and 1,575 villas, according to the director general of the Dubai Land Department.
- **Dubai International airport retained its top position for the fourth consecutive year** in 2017, with annual passenger traffic exceeding 88.2 million passengers. Connecting 240 destinations around the world through about 140 airlines, the airport is expected to serve 90.2mn passengers this year, according to the Dubai Airports' CEO.
- **The UAE passport has been ranked the 9th most powerful passport globally**, with visa-free entry to 157 countries worldwide. Singapore and Germany top the list with visa-free scores of 166 and 165 respectively.

## **Media Review**

**How the UK's Universities Superannuation Scheme evaluate pension liabilities**

<https://www.ipe.com/pensions/investors/how-we-run-our-money/how-we-run-our-money-uss/10026426.article>

**Top 400 Asset Managers 2018: 10 years of asset growth**

<https://www.ipe.com/reports/special-reports/top-400-asset-managers/top-400-asset-managers-2018-10-years-of-asset-growth/10025004.article>

**Lehman Lessons**

<https://www.project-syndicate.org/bigpicture/lehman-lessons>

## **Turkish banks**

<https://www.economist.com/finance-and-economics/2018/09/15/what-the-sliding-lira-and-economy-mean-for-turkeys-banks>

<https://www.zerohedge.com/news/2018-09-15/panic-over-currency-crisis-turkish-banks-liquidate-20-their-gold>

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