Global News

- **US retail sales, consumer prices rise but weaker-than-expectation; consumer sentiment strengthens in mid-May:** US retail sales increased broadly in April while consumer prices rebounded, but both came below the market expectations. The reports on Friday added to labor market data in suggesting the near stall in economic activity in the first quarter was an anomaly. But a moderation in year-on-year inflation led financial markets to dial down expectations of at least two more rate increases this year. The Commerce Department said retail sales rose 0.4% last month after an upwardly revised 0.1% gain in March. Sales rose 4.5% in April on a year-on-year basis. Economists had forecast overall retail sales increasing 0.6% last month. Excluding automobiles, gasoline, building materials and food services, retail sales gained 0.2% after advancing 0.7% in March. These so-called core retail sales correspond most closely with the consumer spending component of gross domestic product. In a separate report on Friday, the Labor Department said its Consumer Price Index rose 0.2% after dropping 0.3% in March. The rise in prices suggested that March’s decline, which was the first in 13 months, was an aberration. In the 12 months through April, the CPI increased 2.2%. While that was a slowdown from March’s 2.4% increase, it still exceeded the 1.7% average annual increase over the past 10 years. The US core consumer price index increased 1.9% year-on-year in April, the smallest gain since October 2015. Economists polled by Reuters expected the inflation measure to remain at 2%. Financial markets are pricing in more than a 70% chance of a rate hike at the Fed’s June 13-14 policy meeting, according to CME Group’s FedWatch program. But the likelihood the US central bank will raise rates twice before the end of the year fell after Friday’s data. The so-called core CPI, which strips out food and energy costs, edged up 0.1% last month, reversing March’s 0.1% dip. The monthly core CPI was restrained by declines in the prices of wireless phone services, medical care, motor vehicles and apparel. In another report, The University of Michigan said on Friday that its consumer sentiment index climbed to 97.7 in mid-May. Economists were expecting the sentiment index to see a smaller preliminary reading of 97, according to Reuters. The Index finished April with a reading of 97, up from 89 for the same month a year ago. 

*Source: Reuters*

- **Euro zone recovery, Macron win give ECB chance to consider unwinding policy, says Weidmann:** An economic recovery and robust outlook in the euro zone mean the European Central Bank may be able to look at normalising its ultra-loose monetary policy, German Bundesbank President Jens Weidmann said on Saturday. Weidmann, one of the most conservative ECB policymakers, said the election of Emmanuel Macron as French president should give the single currency bloc an additional economic boost. "The strengthening economic development in the euro zone and the robust outlook make a normalization (of monetary policy) conceivable," Weidmann said at a meeting of the financial leaders of seven leading world economies in Bari, Italy. But he said a rise in inflation should become more sustainable before the ECB considers such a move. He added Macron’s victory in France’s presidential election should help boost growth in the euro zone. Macron won on a platform of reforming France and a business-friendly vision of European integration. "The election victory of Macron gives a chance that the euro zone economy gets an additional momentum," Weidmann said. *Source: Reuters*
- **Japan producer inflation ratchets up in April**: Japan’s producer prices rose for a fourth month straight in April as year-on-year growth gained more traction than expected and the pace of month-to-month inflation held steady. Japan’s producer price index rose 2.1% year on year last month, the fastest rate since November 2014, according to the Bank of Japan. That was up from 1.4% in March and came in above a median estimate of 1.8% from economists polled by Reuters. Export prices rose 3% from a year ago, slowing from a revised rise of 3.8% in March. Import prices rose 10.9% for the period decelerating from a revised 12.4% the month prior. The annualised rise for the headline rate marks the fourth month out of contraction since producer prices ended a 21-month streak of contraction in January. Month-on-month price trends saw price growth hold at 0.2% in April, besting a median forecast predicting contraction of 0.1%. However, export prices fell 1.9% compared to a revised rise of 0.4% in March, while import prices dipped 0.3% after climbing a revised 12.4% the month prior.

*Source: Financial Times*

- **China retail, investment and industrial production growth soften in April**: Growth in China’s retail sales, investment and industrial production softened in April, indicating a sub-par start to the second quarter despite apparent resilience in domestic lending activity. Retail sales grew 10.7% year on year in April, slowing from a rise of 10.9% in March but coming in just above a median estimate of 10.6% growth from economists surveyed by Reuters. The softening was particularly pronounced at larger enterprises, where sales growth dropped to 9.2% from a pace of 10% in March. Urban fixed-asset investment grew 8.9% year on year in April, down from growth of 9.2% in March and falling short of expectations for a 9.1% rise. Investment by state-controlled firms saw a slight rebound to 13.8% growth for the year to date, while private investment growth for the period suffered a more significant slowdown to 6.9% growth compared to 7.7% in the first three months of 2017. Private investment accounts for about 60% of overall investment in China. Together the two figures suggest a rebound in state spending at the expense of private enterprise as the second quarter gets underway. Industrial production likewise saw a marked fall-back in April, dropping 0.9 percentage points to growth of 6.5% year on year, well below expectations of 7.1%. The softening of all three growth gauges comes despite credit data for April that showed new renminbi loans grew 7.8% month-on-month to Rmb1.1tn, while total social financing – the central bank’s preferred measure of liquidity – grew 12.8% year on year, up from 12.5% in March. China’s first quarter economic growth came in at a faster-than-expected 6.9%, the quickest since 2015 on higher government infrastructure spending and a gravity-defying property boom. With growth comfortably above this year’s target of around 6.5%, Chinese policymakers have shifted their focus to reining in financial risks and stamping out speculative activity in the property market. China’s National Bureau of Statistics said Monday that more positive factors were seen in the economy in April, though structural problems remain. China is targeting growth of around 9% in fixed asset investment for 2017, and expects retail sales to increase about 10%.

*Source: Financial Times; Reuters*

- **Asia stocks shrug off cyberattack, North Korea threats to hit two-year high, oil jumps**: Asian stocks were resilient on Monday, edging up to a two-year high after shaking off threats posed by a ransomware attack that locked up more than 200,000 computers in over 150 countries, a missile test by North Korea and weak US data. The yen and gold, which inched up in early trade, pulled back as risk aversion ebbed. Oil prices jumped after Saudi Arabia’s energy minister and Russia’s oil minister said in a joint briefing that they agreed output cuts need to be extended until March 2018. MSCI’s broadest index of Asia-Pacific shares outside Japan rose 0.1%. It touched its highest level since June 2015 earlier in the session. MSCI’s emerging markets benchmark was 0.2% higher, having also touched a two-year high earlier on Monday. Japan’s Nikkei and Topix narrowed losses to around 0.2%. The weekend cyber-attack, which slowed down after a security researcher stumbled on a way to at least temporarily limit the worm’s spread, was expected to speed up on Monday when employees returning to work turned on their computers. But with little evidence of widespread disruption in the region on Monday, investors appeared unalarmed, at least for now. North Korea said on Monday it had successfully tested a newly developed mid-to-long range missile on Sunday aimed at verifying the capability to carry a "large scale heavy nuclear warhead." The missile landed in the sea 97 km (60 miles) south of Russia. South Korea's
military said it needs further analysis on the North's claim of technical advancement and that the possibility of the isolated nation mastering ballistic missile re-entry technology is low. North Korea is believed to be developing an intercontinental ballistic missile (ICBM) capable of carrying a nuclear warhead and reaching the mainland United States. The Korean won weakened, with the dollar up 0.2% at 1,127.70 won on Monday. The Shanghai Composite index advanced 0.3%. Hang Seng index in Hong Kong gained 0.5%. The Hang Seng China Enterprises index of mainland shares listed in Hong Kong rose 1.2%, paring earlier gains of as much as 1.5%. Australian shares shrank early losses to trade flat. South Korea's KOSPI climbed 0.1%. The yen was little changed at 113.40 per dollar. The Bloomberg Dollar Spot Index fell 0.1% after falling 0.4% Friday. The Australian dollar rose 0.2% to 73.99 US cents. The yield on 10-year Treasury notes was flat at 2.33%, after dropping six basis points Friday when the weaker-than-expected CPI report buoyed bond prices. Yields on Australian government bonds with a similar maturity lost five basis points to 2.58%. Gold rose 0.1% to $1,230.17 an ounce, extending gains to a third day. WTI crude Oil jumped 1.6% to $48.63 a barrel, after climbing 3.5% last week, as energy ministers in Saudi Arabia and Russia said they are in favour of extending OPEC's output-cut deal for nine months. Saudi Arabia and Russia see the oil-cut deal working, and inventories are decreasing, Energy Minister Khalid Al-Falih said in Beijing, alongside his Russian counterpart. The ministers agree the deal should be extended through the first quarter of next year at the same volume of cuts, Al-Falih said.

Source: Reuters; Bloomberg

Middle East & Africa News

- UAE non-oil growth to rebound this year, says IMF: Non-oil economic growth in the United Arab Emirates is set to rebound this year as austerity slows after a couple of years of tough belt-tightening due to low oil prices, a senior official of the International Monetary Fund said on Sunday. Natalia Tamirisa, IMF mission chief to the UAE, said non-oil gross domestic product - the key gauge for most businesses and consumers - would expand about 3.3% in 2017, up from 2.7% last year. The IMF expects headline GDP growth to slow to 1.3% from 3% because of a shrinking oil sector, as the UAE cuts oil output in line with a supply agreement among global producers. A pick-up in global trade this year is expected to benefit the UAE. Meanwhile, after the governments of the seven emirates tightened fiscal policy by about 9% of GDP on a consolidated basis in 2015 and a further 5% in 2016, they now have room to ease that process. "They plan to continue fiscal adjustment, at a gradual pace," Tamirisa told Reuters after annual consultations with UAE officials. Infrastructure spending for the country as a whole is set to grow more slowly in coming years and current state spending on goods and services will stay roughly constant in real terms, while the introduction of value-added tax next year will boost state revenues. The result will be that the UAE effectively eliminates its fiscal deficit around 2022, Tamirisa said. She said preparations in the UAE were proceeding well for the planned introduction of VAT in the six Gulf Cooperation Council countries next year. "Our discussions were encouraging. They have clearly taken many measures. There are some remaining issues but we are optimistic that it will take place on schedule" on Jan. 1, she said. Tamirisa also indicated that heavy infrastructure spending by the emirate of Dubai, which is preparing to host the Expo 2020 world's fair, was unlikely to destabilise its finances. The debt of Dubai's government plus government-related enterprises shrunk to 112% of GDP last year from 126% in 2015. While the government is expected to run a small deficit in coming years because of Expo 2020 preparations, this is unlikely to push debt up sharply again, Tamirisa said. "They've been deleveraging in recent years and this needs to continue. In addition, authorities should keep a close eye on contingent liabilities," she said, referring to the risk of unforeseen events such as a big change in the global economy.

Source: Reuters

- Dubai government secures $3bn financing for airports expansion: The Dubai government said on Sunday that it had secured $3bn in long-term financing for the expansion of its airports. The expansion is one of three multi-billion dollar infrastructure projects that the emirate is planning to fund through debt, together with the building of Dubai's World Expo 2020 exhibition site and an extension of Dubai's Metro system. The funding will be used for the expansion and development of Dubai International
Airport and Al Maktoum International Airport, the emirate’s new airport being developed on the edge of Dubai, it said. The facility signifies the first stage of a larger funding plan which will transform Al Maktoum International into the primary airport for Dubai, serving up to 146 million passengers by 2025, it said. The deal, for which HSBC acted as financial adviser, included a $1.63bn, 7-year conventional loan and a $1.48bn-equivalent, 7-year Ijara facility denominated in dirhams. Ijara is a common lease-based structure used in Islamic finance. Twelve international and local banks acted as joint mandated lead arrangers and joint bookrunners. Al Maktoum International is planned to become the main airport for Dubai as well as the home to Emirates Airline starting in 2025. The financing was raised by a consortium of Dubai state entities, comprising the Department of Finance, state-owned fund Investment Corporation of Dubai, and the Dubai Aviation City Corporation. Dubai ruler Sheikh Mohammed bin Rashid al-Maktoum in September 2014 approved a $32bn investment to expand the emirate’s new airport, with the aim of handling up to 120 million passengers a year by 2022. Citing a source close to the situation, Reuters reported in February that the facility carried a margin of 200 basis points across both the international and local tranches.

Source: Reuters

- **S&P cuts Oman ratings by one notch to BB+ with negative outlook:** Standard & Poor’s cut Oman’s sovereign credit rating to junk on Friday, saying low oil prices had eroded the country’s external reserves to the point they could no longer offset the threat of low oil prices. S&P said on Friday that it was lowering Oman’s sovereign rating by one notch to BB+ from BBB- with a negative outlook. Moody’s Investors Service rates the country Baa1 with a stable outlook, three notches above S&P, while Fitch Ratings has a BBB rating with a stable outlook, two notches above. “The negative outlook reflects the potential for Oman’s income level to weaken and for its fiscal and external positions to deteriorate,” S&P said in a statement on Friday. The statement added: “The downgrade reflects our view that the Omani government’s heightened external financing needs have resulted in the economy’s large net external asset position (external assets exceeding external liabilities) declining to a level insufficient to mitigate the risk from its volatile export revenue base. We estimate that Oman’s net external asset position has materially declined to 30% of current account receipts in 2017, from 60% in 2016. At the same time, we estimate that Oman’s fiscal and current account deficits were higher in 2016 than we had anticipated, and GDP per capita lower. Based on our projections for continued sizable current account deficits, we expect Oman to be in a narrow net external debtor position of 12% in 2020. S&P expects Oman’s to post large current account deficits in 2017 and 2018 – above 10% of GDP – before they gradually decline to 6% of GDP in 2019 and 2020. S&P noted that the government is financing these current account deficits with a sharp increase in external debt, together with short-term private sector external borrowing. S&P estimates short-term external debt, of which two-thirds is from the financial sector and a third is from the nonfinancial private sector, at 60% of current account receipts in 2016, up from 40% in 2015. The rating agency also noted that Oman’s external indebtedness is increasing rapidly because of large fiscal deficits. S&P estimates that gross general government debt will increase to 36% of GDP in 2017, rising closer to 50% by 2020. S&P said its forecast for the annual average increase in general government debt remains very high, averaging 7% of GDP over 2017-2020. Despite the weakening of its finances, Oman has shown it is still able to borrow large sums from international markets. In March the government sold $5bn of bonds. Citing banking sources Reuters reported this this month that Oman was seeking a $3.6bn loan from Chinese banks. On the negative outlook, S&P said, “it reflects the potential for Oman’s income level to weaken and for its fiscal and external positions to deteriorate." S&P also said the Oman might suffer a “disruptive period of uncertainty” if the royal family did not quickly agree on a successor to Omani leader Sultan Qaboos, who is 76.

Source: S&P; Reuters; Bloomberg

- **Mubadala plans to invest up to $15bn in SoftBank tech fund:** Abu Dhabi’s Mubadala Investment Co. plans to invest as much as $15bn in SoftBank Group Corp.’s Vision Fund and start two new venture capital funds to build its technology holdings. The SoftBank fund will be “wrapped up" in two to three weeks with about $95bn of commitments, according to Ibrahim Ajami, head of venture capital at
Dubai's Emaar Properties Q1 profit rises 15%: Dubai's Emaar Properties, builder of the world's tallest tower, reported a 15% rise in first-quarter net profit on Sunday, broadly in line with analysts' expectations. The developer, in which Dubai's government owns a minority stake, made a net profit of AED 1.384bn ($376.9m) in the three months to March 31, it said in a statement. That compares with a profit of AED 1.205bn in the year-earlier period, the company said. Emaar's quarterly revenue was AED 4.072bn, which compares with AED 3.529bn a year earlier. Recurring revenues contributed to 39% of the Group's revenue, Emaar said, driven primarily by the malls, hospitality, entertainment and leisure businesses of the developer. Property sales in the first quarter jumped 44% year on year to AED 6.049bn, Emaar said in the statement. The Group has a backlog of AED 46.245bn to be recognised as revenue in the 'next few years', the statement added. The company "has seen an increase in property sales in Dubai," Chairman Mohamed Alabbar said in the statement. The total value of property transactions in Dubai jumped 45% year on year in the first quarter to $21bn, according to the Dubai Land Department. Alabbar said on March 6 that he hoped for a better year after a "tough" 2016.

Source: Reuters

Gulf slips as Q1 loss hits PetroRabigh; IMF agreement fails to lift Egypt: Most Gulf stock markets edged down on Sunday with Saudi Arabia dampened by a much wider first-quarter loss at PetroRabigh, while agreement between the International Monetary Fund and Cairo did little to help Egypt's bourse. The Saudi stock index slipped 0.4% as PetroRabigh tumbled its 10% daily limit after reporting that its quarterly loss ballooned to SAR 240m ($64m) from SAR 37m a year earlier, and compared to a profit in the previous quarter. The company blamed the bigger loss, which contrasted with solid first-quarter earnings at many Saudi petrochemical firms, on reduced margins for refined products and a downtrend in crude oil prices, which hit inventory valuations. Also, the firm reclassified some payments and temporarily shut a facility in the first quarter. The stock had been in a strong uptrend since mid-March in anticipation of good first-quarter earnings. Medical insurer Bupa Arabia climbed 4% to SAR 116.50 after saying its international parent Bupa would increase its stake to 34.25% from 26.25%, by purchasing part of Nazer Group's stake. The planned purchase would occur at a price of SAR 143 per share. But another insurer, MedGulf, plunged 10% after saying it had swung to a SAR 93m loss in the quarter from a year-earlier profit. It cited a jump in provisions for doubtful debts and lower net underwriting income. Dubai's index edged down 0.1% in thin trade as Islamic real estate finance firm Amlak dropped 2.9% after reporting net profit of AED 7.5m ($2.0m) for the first quarter. A year ago, it had reported profit attributable to equity holders of AED 122.1m. Amusement park operator DXB Entertainments sank 3.3% to its lowest level since August 2015. Last Wednesday, it reported an AED 291.8m loss for the first quarter and said attendance at its parks was likely to dip in the coming two quarters. Abu Dhabi index dropped 0.3%. Qatar's index slipped 0.5%, partly because of a 1.3% pull-back by Qatar National Bank. But the most heavily traded stock, Vodafone Qatar, surged 2.6%. The Omani
market edged down 0.2% after Standard & Poor’s cut Oman’s credit rating to junk status. Kuwait index fell 0.2%, but Bahrain index rose 0.3%. In Egypt, the IMF said on Friday it had reached a staff-level agreement with Cairo on a second loan instalment, and would make available about $1.25bn. However, the Egyptian stock index fell 0.3%.

Source: Reuters

- **IMF reaches staff level agreement for second loan instalment to Egypt**: The International Monetary Fund said on Friday it had reached a staff-level agreement with Egypt on a second loan instalment that would make available about $1.25bn. In a statement at the conclusion of an IMF mission to Egypt, team leader Chris Jarvis said: "The IMF staff team and the Egyptian authorities have reached a staff-level agreement on the first review of Egypt’s economic reform programme supported by the IMF’s $12bn arrangement. The staff level agreement is subject to approval by the IMF’s Executive Board." Jarvis said in a statement that completion of the review would make available about $1.25bn, bringing total disbursements under the programme to about $4bn.

Source: Reuters

- **S&P affirms Egypt’s ‘B-' rating with stable outlook**: S&P Global Ratings on Friday said it has affirmed its ‘B-/B’ long- and short-term foreign and local currency sovereign credit ratings on the Arab Republic of Egypt. The outlook is stable. In a statement released on Friday S&P said, “We anticipate ongoing fiscal consolidation in Egypt over 2017-2020, supported by the three-year IMF program. We are therefore affirming our ‘B-' long-term and ‘B’ short-term ratings on Egypt.” The stable outlook balances the risks arising from Egypt’s large external and fiscal deficits, against financing support from the IMF program and gradual reform implementation to address structural imbalances, the statement added. S&P anticipates that the IMF’s Extended Fund Facility (EFF) program will help Egypt finance its foreign exchange requirements over the coming 12 months and restore macroeconomic stability via gradual reform implementation over 2017-2020. However, S&P also added that the delivery of reforms will be challenged by prevailing macroeconomic impediments including high rates of structural unemployment and poverty. S&P projects Egypt’s real GDP to grow at a moderate rate of just under 4% on average over 2017-2020, largely driven by investments and net exports. S&P said factors like the planned fiscal consolidation with the second round of subsidy cuts in 2017/2018, the tight monetary stance, and the slow growth in private demand due to high inflation will continue to weigh on the economy in the near term. The rating agency said it has lowered its estimate of Egypt’s real GDP growth to about 3.8% from 4.3% in 2015/2016 after observing a slowdown in growth in the first half of fiscal 2016/2017.

Source: S&P; Bloomberg

- **Kenya gets $1bn syndicated loan from commercial banks**: Kenya borrowed $1bn via a syndicated loan from commercial banks, $200m more than anticipated, Thomson Reuters publication IFR reported on Friday. The East African nation said in March it was raising a total of $1.55bn in syndicated loans, with $800m coming from commercial banks and the rest from development finance banks. The $1bn loan was split into a two-year tranche and a three-year tranche, IFR cited bankers as saying. The loan was arranged by Citigroup, Rand Merchant Bank, Standard Bank and Standard Chartered Bank.

Source: Reuters

- **Tanzania’s central bank withdraws license of community bank**: Tanzania’s central bank has revoked the license of a small community bank operating in the south of the country as part of a drive to clean up the financial sector, it said on Friday. The closure of the institution, which had assets of 383.4 million shillings ($171,928) at the end of 2014, comes the same week the central bank shut a commercial bank that was being investigated by US authorities for money laundering. The central bank said it had revoked the license for Mbinga Community Bank Plc, stopped its operations and appointed the state-owned Deposit Insurance Board as its liquidator from Friday. "The measure has been taken upon determination by the Bank of Tanzania that the bank is critically undercapitalised and insolvent," the central bank said. Mbinga is one of several microfinance institutions licensed by the central bank. It specialised in serving farmers in the southern Tanzanian region of Ruvuma. The East African country has
about 40 commercial banks and 10 community banks, but its financial sector is dominated by just a handful of big banks. According to a Reuters article, analysts said lower-than-expected growth in business activity as a result of tight fiscal measures being implemented by the government had affected the banking sector. The central bank said last Monday that it had revoked the license of FBME bank after the money-laundering probe conducted by US officials.

Source: Reuters

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