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LONDON: A video grab from footage broadcast by the UK Parliament's Parliamentary Recording Unit (PRU) shows British Chancellor of the Exchequer Philip Hammond as he delivers his Autumn Statement to the House of Commons in London yesterday. —AFP

Brexit slams brakes on British growth

UK cuts 2017 growth forecast to 1.4% from 2.2%

LONDON: Britain's economic growth will slow sharply next year, Finance Minister Philip Hammond told parliament yesterday in the government's first budget statement since the nation voted to exit the European Union. The nation's shock June 23 vote to leave the European Union will "change the course of Britain's history", Chancellor of the Exchequer Hammond said in his Autumn Statement exactly five months after the referendum.

Brexit "makes more urgent than ever the need to tackle our economy's long-term weaknesses", he added. Gross domestic product was expected to grow by only 1.4 percent next year sharply down from the prior estimate of 2.2 percent given in March. "That is slower of course than we would wish, but still equivalent to the IMF's forecast for Germany, and higher than the forecast for growth in many of our European neighbors including France and Italy," Hammond told lawmakers.

He noted however that the UK economy was predicted to have expanded by 2.1 percent this year, up from the government's previous estimate of 2.0 percent. In a keenly-awaited budget, he unveiled a package of UK-wide investment projects, including the building of homes and road improvements.

Hammond also raised the country's minimum wage level and hiked tax thresholds to give workers more take-home pay.

'Uncertainty'

While viewed as a government attempt to trim of years of austerity triggered by the 2008 global financial crisis, Hammond confirmed he had abandoned predecessor George Osborne's aim of a budget surplus by 2019/20. "In view of the uncertainty facing the economy, and in the face of slower growth forecasts, we no longer seek to deliver a surplus in 2019-20," Hammond said.

But the government remains "firmly committed to seeing the public finances return to balance as soon as practicable, while leaving enough flexibility to support the economy in the near term", he added.

The British economy has remained resilient since the referendum, even as a cut in the Bank of England's main interest rate to a record-low 0.25 percent has contributed to a slump in the pound.

Hammond said the projected growth slowdown was due to "lower investment and weaker consumer demand, driven ... by greater uncertainty and by higher inflation resulting from sterling depreciation". Some experts have warned that a heavy blow could fall on the UK economy once divorce proceedings with the rest of Europe begin.

In an attempt to prepare Britain for leaving the EU, Hammond said the government planned to invest 1.0-1.2 percent of GDP on economic infrastructure from 2020, up from 0.8 percent now.

Pound flat

Sterling was little changed at $1.2406. The Office for Budget Responsibility, Britain's independent budget forecasters, said gross domestic product would grow by 1.4 percent in 2017, down from an estimate of 2.2 percent made in March, before voters decided to leave the EU. Hammond, announcing the first detailed economic plans of May's government, said the OBR believes uncertainty about Britain's trading relationships with its EU neighbors - who buy nearly half the country's exports - will cut growth by 2.4 percentage points over coming years.

Hammond said the OBR now saw economic growth in 2018 at 1.7 percent compared with March's forecast of 2.1 percent. "We will maintain our commitment to fiscal discipline while recognizing the need for investment to drive productivity and fiscal headroom to support the economy through the transition."

Prime Minister Theresa May has vowed to trigger Britain's exit from the European Union by the end of March by activating Article 50 of the EU's Lisbon treaty, which begins a two-year countdown to leaving the bloc. As Hammond addressed the nation, a small group of pro-Brexit demonstrators were gathered outside parliament demanding Article 50 be triggered immediately.

Among his key tax-and-spend pledges, Hammond announced a £1.4-billion ($1.7-billion, 1.6-billion euros) investment to help build 40,000 "affordable" homes. Plans to ban certain costs incurred by renters of residential properties has already had an impact, with share prices of estate agents slumping in trading yesterday. The chancellor also announced a rise in the minimum wage to £7.50 an hour in April from £7.20. And he confirmed a plan to cut corporation tax to 17 percent by 2020 from the current 20 percent. Over the weekend, May announced fresh investment in research and development, hiking the government's spending by £2 billion annually until 2020. Investments will be rolled out through a new fund that will prioritize technologies including robotics, industrial biotechnology and medical technology.

LONDON: Philip Hammond leaves 11 Downing Street to deliver his Autumn Statement before Parliament yesterday. —AFP

Market tips, bold calls and eye-catchers for 2017

LONDON: Politics, economics and finance have all been turned on their head in 2016, and investors are already looking ahead to 2017 with anticipation and trepidation. The consensus, broadly, is that the 35-year bull market in bonds is over, inflation is back, central banks are maxed out, and for the first time in a decade any stimulus to the global economy will now come from governments. The implications for markets appear to be further increases in bond yields, developed world stocks and the dollar, while emerging market currencies, stocks and bonds are expected to struggle under the weight of higher US bond yields. In equities, developed markets are favored over emerging, cyclical sectors over defensive, banks are expected to benefit from steepening bond yield curves, while infrastructure spending could boost housing and construction stocks. That's the consensus. But what goes against that grain? Where might the wrinkles appear? And even within the broad consensus, are there any eye-catching forecasts or trade recommendations?

1. Bond yields to FALL?

HSBC, who correctly called the recent slide in US bond yields to historic lows, says bond yields may well rise next year and expects 10-year Treasury yields to hit 2.5 percent. But in the first quarter. After that, HSBC's bond strategist Steven Major reckons they will fall back sharply again to 1.35 percent - effectively retesting the multi-decade low struck this year - because an initial rise to 2.5 percent would be unsustainable by tightening financial conditions, dragging on the economy and constraining the Fed. A bold call.

2. "Peak" 2016

For Bank of America Merrill Lynch, 2016 saw "peak liquidity, peak inequality, peak globalization, peak deflation" and the end of the biggest ever bull market in bonds. That all starts to reverse next year. "For the first time since 2006, there will be no big easing of monetary policy in the G7, and interest rates and inflation will surprise to the upside." They even pin a date on when the bond bull run likely ended: July 11, 2016, when the 30-year US bond yield bottomed out at 2.088 percent. It's 3 percent today.

3. Black Swans

Economists at Societe Generale illustrate a graphic with four "black swans" that could blight the global economic and market landscape next year for good or bad. Mostly bad news. The tail risks they see as most likely to alter next year's outlook stem from political uncertainty (30 percent risk factor), the steep increases in bond yields (25 percent), a hard landing in China (25 percent risk factor), and trade wars (15 percent).

4. The euro also rises

"The dollar is overvalued versus other G10 currencies." Not something you hear too often, but it's the view of Swiss wealth management giant UBS. They predict the euro will end next year at $1.20, going against the growing calls for parity (it hit a one-year low below $1.06 last week) or even lower. The euro will also draw support from the ECB tapering its QE, while undervalued sterling will pick itself up from its Brexit mauling to rally against the greenback.

5. The "good carry" in EM

Few dispute that a higher dollar and US yields next year will hurt emerging markets. Goldman Sachs has long championed a stronger dollar and higher yields. Two of their top 2017 trade tips, however, involve buying EM assets. One is going long on an equally weighted FX basket of Brazilian real, Russian rouble, Indonesian rupiah and South African rand versus short on an equally weighted basket of Korean won and Singapore dollar to earn "the good carry". The other is going long Brazilian, Indian and Polish equities. —Reuters

Saudi lifts mood in regional markets

MIDEAST STOCK MARKETS

DUBAI: Saudi Arabia's index firmed yesterday as blue-chips resumed their climb and the positive mood flowed into other Gulf bourses, carrying them higher. Egypt's market edged up, holding near an 8-year peak as foreign funds remained aggressive buyers. Riyadh's index bounced 3.0 percent to 6,796 points, closing 93 points over technical resistance at the July peak of 6,703 points. Turnover was almost double that of Tuesday.

Some blue chips continued to attract funds, with the top telecommunication operator Saudi Telecom Co (STC) jumping 4.6 percent. Riyad Capital said in note that STC has maintained its dividend policy of 1 riyal per quarter and they believe it has the ability to increase dividend payout because of its sound financials and strong cash position. "The company has 20 billion riyals in liquid assets consisting of cash and short term investment, three times its total debt." Some of the large-cap petrochemical producers also ended on a strong footing, despite now trading at a slight premium to the their estimated fair values. Bellwether Saudi Basic Industries climbed 4.1 percent to 90 riyals; the average fair value according to Thomson Reuters data is 88.68 riyals. Banking shares, which succumbed to profit taking in recent days, firmed. All of the 12 listed lenders gained with National Commercial Bank closing 4.7 percent higher.

Many analysts believe that since there has been a shift in both the domestic and global macro environment, investors are betting that banks will be able to recover some of their profitability, with some banks now in a position to potentially increase their earnings next year.

Domestically, the interbank lending rates have come down significantly since the sovereign international bond sale last month; 3 month SAIBOR is at 2.1 percent, after hitting a seven-year high of 2.386 percent in October.

Goldman Sachs said in a note: "Saudi banks remain positively geared to higher global rates given high current account balances, predominantly a corporate loan book mix and monetary policy which closely tracks the US. As a result, interest rate tightening by the Fed should translate into a positive net interest margin uplift for the banks."

Dubai's main index added 1.8 percent, with the momentum building in the final hour of trade. Small and mid-sized shares, usually traded by local investors, were chief gainers with builder Arabtec surging by its 15 percent daily limit in heavy trade. Dubai Financial Market, the only listed exchange in the Gulf, jumped 6.2 percent.

Abu Dhabi's index rose 1.0 percent as Dana Gas added 1.8 percent. Lenders that are set to be merged at the start of 2017 gained with First Gulf Bank adding 2.2 percent and National Bank of Abu Dhabi closing 1.6 percent higher.

EGYPT CLINGS NEAR 8-YEAR PEAK

Cairo's index of the most actively traded shares edged up 0.3 percent, climbing back near an 8-year peak, but the number of trades fell by a third from the previous session. The index has now climbed 35.5 percent since the central bank ditched the currency peg to the US dollar on Nov 3 and faces strong technical resistance at its record 2008 peak of 12,039 points. Foreign funds remained net buyers of shares on Wednesday while local and regional traders cashed out, according to exchange data.

For a second day in a row, the broader index has outperformed, closing up 1.7 percent, suggesting that investors are preferring the less liquid names as an attractive bargain. —Reuters