

## Weekly Economic Commentary, 3 Jan 2016

### Markets

Global stock markets mostly closed lower in the last week of 2015 after days of directionless trade, and a blow to energy companies. The exception was Japan where an early close for the New Year's Eve limited the downward movement. Regional markets went against the tide with major indices displaying positive signs. On currency markets, the dollar held its ground on major crosses. Oil prices remained subdued as US crude oil inventories rose by 2.6 mn barrels against expectations of a 1.8 mn-barrel decline. December saw oil prices tumble to 11-year lows as speculative short positions exacerbated the effects of weak demand. Gold prices were on the back foot.

### Global Developments

#### **US/Americas:**

- **US pending home sales** index fell 0.9% mom sa (2.7% yoy) to 106.9 in Nov, erasing Oct's uptick. The index has been on a downward path since Jul.
- The **Case Shiller** 20-city composite index of existing-home price in Oct was up 5.54% yoy from the previous year, higher than the 5.36% recorded in Sep. The 10-city composite index is up by 5.1% yoy over the prior year's figure, above the 4.9% registered in Sep. The national index increased 5.17% yoy from the 4.85% in Sep.
- **Personal spending in the US** rose 0.3% mom in Nov, after a flat reading in Oct. Personal incomes too rose 0.3%, vs 0.4% in Oct.
- The Conference Board **Consumer Confidence Index** in Dec rose to 96.5 from 92.6 in Nov. In 2015 the trend has been mostly flat with the index oscillating in the upper-90s.
- **Initial claims for unemployment benefits** in the US jumped by 20,000 probably due to a Christmas effect. The four-week moving average rose from 272,500 to 277,000, consistent with growth in nonfarm payrolls above 200,000 per month. A four-week moving average below 300,000 is quite rare but it has been the norm in 2015.
- **Brazil's public deficit** in Nov reached one of its highest levels on record at BZR 19.6 bn Reals as the government struggles to increase tax revenues in a shrinking economy.
- **Argentina** will temporarily suspend the publication of key economic indicators as the statistics institute is revamped in an effort to restore its independence and reliability.

#### **Europe:**

- **M3 money supply growth in the Eurozone** decelerated to 5.1% yoy in Nov, from 5.3% in Oct, which represents a setback for the QE program of the ECB which fails to offset downward pressure from tight credit conditions, weak consumer prices, subdued interbank activity, and uncertainties on the recovery.

#### *Prepared by:*

- **The UK Nationwide Housing Price Index** rose 0.8% mom (4.5% yoy) in Dec, following a 0.1% mom (3.7% yoy) in Nov.
- **Russia Producer price index** is marginally decelerated in Nov to 13.9% yoy from 14.2% on the back of an increase in all sub-indexes.
- **Italy's producer price index** fell 3.3% yoy in Nov following a 3% yoy decline in Oct.

**Asia and Pacific:**

- **Japan's factory output** fell for the first time in three months in Nov by -1.0% mom, offsetting the 1.4% jump in Oct and implying that a recovery will not materialize until later in 2016.
- **Japan's retail sales** fell -1.0% yoy in Nov, vs 1.8% in Oct.
- **The official manufacturing PMI in China** stood at 49.7 in Dec, almost flat from 49.6 in Nov and still in recessionary territory where it has hovered since August. Export orders shrank to 47.4 from 47.6, the 15th straight month of decline.
- **The official non-manufacturing PMI in China** rose to 54.4 in Dec from 53.6 in Nov, the highest reading since June 2014, in the wake of new order, employment and sales prices.
- **China's central bank** announced that it would "flexibly" use various policy tools to maintain appropriate liquidity and reasonable credit growth financing. It pledged to maintain the yuan stable while undertaking reforms to help improve its currency regime. All these objectives appear like an attempt to keep too many balls in the air.
- **Industrial production in South Korea** decreased -0.3% yoy in Nov compared to 1.7% in Oct.
- **Thailand's private consumption** rose 3.7% yoy in Nov, thanks to an uptick in nondurable consumption. Overall consumption remains subdued, due to high household debt
- **Thailand's monthly trade surplus** narrowed to USD 2.1bn in Nov, down from USD 4.3bn in Oct, as a result of a decline in both exports and imports. Weak external demand, particularly from China, is weighing on exports while anemic consumption is affecting imports. **Thailand's industrial production** advanced 0.1% yoy in Nov from -4.2% in Oct.

**Bottom line:** *At the dawn of 2016 the global economic outlook is somber. According to the prevailing benign baseline scenario the next 12 months will be a copy and paste of the last 12 months. Over the horizon no major events appear likely to disrupt the 2 to 2.5% growth in the US, despite tighter monetary policy. However if we look at the path of the reliable leading indicators in the US, new orders plus order backlogs, minus inventories, widening credit spreads, and stagnant corporate earnings the situation over this year is exposed to downward risks. Moreover the fracking boom is turning into a bust and the real estate recovery is coming to a halt. Elsewhere in 2016 the authorities will continue to be engaged in epochal economic transitions. China is shifting to a more sustainable growth model based on services. The Eurozone will have to deal again with the unsolved crises in the Mediterranean countries and push unpopular drastic reforms of its unsustainable welfare. In Japan the stimuli of Abenomics have been a resounding failure and without drastic structural reforms the country risks a fiscal meltdown. In emerging markets the financial risks are increasing and a crisis in*

*countries such as Russia or Brazil will spread contagion worldwide. Commodity prices are likely to stay under pressure for several months, but barring unforeseeable shocks, a rebound should gather momentum towards the summer.*

### **Regional Developments**

- **Egypt current account deficit** rose to USD 4bn in Q1 of this fiscal year (Jul-Sep), from USD 1.6bn deficit registered during the same period a year ago, as tourism revenues dipped. Overall balance of payments deficit was USD 3.7bn, compared with a USD 410mn surplus in the same quarter last year.
- **Jordan's exports** declined 6.1% to JOD 4.65bn in Jan-Oct period, while imports were down 10.3% to JOD 12bn.
- Lower **fuel prices** were announced in **Jordan** last week: gasoline prices were decreased by 2.8% and diesel was down 10%.
- **Credit growth in Kuwait** was up 6.6% yoy in Oct, the fastest pace in over a year; household debt grew 13.1%, recording a gain of KWD 107mn. Money supply (M2) growth eased to 3.1% yoy, as private sector deposits continued to decline (deposits were down 4.8% during May-Oct).
- Kuwait's sovereign wealth fund is postponing the sale of its 76% holding in **Kuwait Investment Company** through an initial public offering to Q1 2016, "based on market conditions and ensuring the credibility of the sale", according to a bourse statement.
- **Oman's** government approved the **2016 general budget** with a deficit of OMR 3.3bn. The Minister Responsible for Financial Affairs specified that the total revenues for 2016 are estimated at OMR 8.6bn, with expenditures at OMR 11.9 bn. The government plans to cut subsidy spending by almost two thirds this year to help tackle a budget deficit caused by low oil prices.
- The **fuel price increase in Oman** will not exceed OMR 0.04 per litre, according to the Undersecretary of Oil and Gas.
- **Oman's total gas consumption** jumped to 36,261mn cubic metres (mncm) during the Jan-Nov 2015 period, against 34,535mncm in the corresponding period of 2014.
- **Deposits at commercial banks in Oman** as at the end of Oct rose by 8.1% yoy to OMR 11,786.1mn compared to OMR 10,902.6mn during the corresponding period last yoy, according to a monthly statistical bulletin published by the Central Bank of Oman.
- **Trade surplus in Qatar** touched QAR 10.9bn in Nov, with total exports down 36.7% yoy and 5.9% mom to QAR 21.3bn. Exports of petroleum gases and other gaseous hydrocarbons dropped 41% yoy to QAR 13.27bn. Japan was the top export partner, accounting for 19.5% of total exports, followed by South Korea (16.7%), and India (11.3%).
- During the period Jan 2003-May 2015, **Qatari** companies undertook **investments** in around 301 projects abroad, with an estimated value of over USD 47.5bn. Egypt, UK and Vietnam accounted for around 51% of total outward investments. Around 701 FDI projects were

implemented in Qatar during 2003-2015 by 602 Arab and foreign companies, with a combined estimated value of USD 110bn.

- **Qatar** government spent around QAR 927.3mn on **food subsidies** last year, under the ‘Tamween’ scheme.
- India's biggest gas importer Petronet LNG will buy **liquefied natural gas** from **Qatar's** Rasgas at almost half the original price: at USD 6-7 per million British thermal units (mmBtu) from Jan 1, sharply lower than USD 12-13 per mmbtu agreed earlier. Petronet has a 25-year contract to annually buy 7.5 million tonnes of LNG; however, purchases were reduced to almost a third last year resulting in a USD 1.5bn penalty, which was also waived off.
- **Saudi Arabia** unveiled a SAR 840bn **budget** for **2016**: revenues are forecast at SAR 514bn, down from last year's SAR 608bn. Education and health care remain the focus sectors, accounting for 35% of total spending, while SAR 213bn has been set aside for military spending. Deficits are estimated to decline to SAR 326bn in 2016 (2015: SAR 367bn).
- In 2015, **state spending** in **Saudi Arabia** totaled SAR 975bn, versus the budgeted SAR 860bn (due to extra outlays like salary bonuses and costs on war in Yemen), while revenues touched SAR 608bn versus a budgeted SAR 715bn.
- **Petrol prices** in **Saudi Arabia** were increased by almost 50% from a negligible \$0.16 a litre to a merely cheap \$0.24 a litre; this would be effective from Jan 11. Electricity and water tariffs have also been increased.
- **Saudi Arabia's** finance minister revealed that **VAT** would be introduced gradually and be completed within two years, which is the time set for application across the GCC in 2018, as reported by *Al-Hayat* newspaper.
- **Saudi Arabia's** **Tadawul** revealed that it aims to launch its own IPO by 2018, after the readiness exercise is completed and necessary approvals are obtained
- **Saudi Arabia's** oil minister stated that the country does not plan to limit production and has the capacity to meet additional demand, as reported by the *Wall Street Journal* and state-run television *Al Ekhbariya*.

### **UAE Focus**

- **Dubai** approved a zero-deficit AED 46.1bn **budget for 2016**: expenditure was up 12% yoy, with 36% of state spending allocated to wages and salaries (3k new jobs to be created). Revenue from government services accounts for 74% of total revenue, while tax revenues (including customs and taxes of foreign banks) are estimated at 19%.
- **Fuel prices** to be cheaper in **Jan**: petrol and diesel prices dropped by 6% and 12% respectively, revealed the Ministry of Energy.
- The **UAE central bank** plans to establish a centre for **clearing** transactions in the **yuan**, without revealing any timeline or further details.
- The **UAE retail market** is expected to be valued at USD 53.7bn in 2016, recording a +7% yoy growth, but lower compared to the 8% projected for 2015, according to Euromonitor International.

- **UAE and China** signed an agreement on **space research**: UAE's Space Agency will work with the China National Space Agency in exchanging scientific research and studies related to space exploration.

***Media Review***

***Best and worst stock markets in 2015***

<http://image-store.slidesharecdn.com/36a4252a-64f0-4613-9c79-ca3436c20995-large.png>

***Five potential surprises for 2016***

<http://www.economist.com/news/finance-and-economics/21684807-five-potential-surprises-2016-tales-unexpected>

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<http://qz.com/584982/delhis-controversial-odd-even-car-rationing-to-curb-pollution-is-working-just-fine-on-launch-day/>

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