

## Weekly Economic Commentary, 13 Mar 2016

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### Markets

Global stock markets, after three weeks of gains, were on the back foot until the ECB disclosed its additional exceptional monetary policy measures on Thursday which -- after a cool reaction in the immediate aftermath of the announcement -- on Friday galvanized investors (with the notable exception of Japan). To put things into perspective the U.S. stock indices for 84 months have not recorded a monthly decline of 20% that would characterize bear territory. The current Bull Run is the third-longest on record. Regional markets had mixed performances but they were closed on Friday when shares had their positive moment globally. The euro strengthened on major crosses, despite the sharp easing of monetary policy decided in Frankfurt, which underscores some skepticism on the outcome. Oil prices had another positive week hitting a three-month top, although as refineries enter seasonal maintenance and with inventory at historical highs further advances will face headwinds. The gold price paused its run and retrenched as investors' risk aversion seemed to fade.

### Global Developments

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

- The **Federal Government** ran a **deficit** of USD 192.6 bn in Feb, after a USD 192.4 bn shortfall a year back. Federal revenues expanded 21.3% yoy while spending increased 9.1%. The deficit is near a seven-and-a-half year low.
- **Wholesale Inventories** grew 0.3% mom in Jan, after 3 months of consecutive declines.
- **Import Prices** dropped -0.3% mom in Feb after -1% and -1.2% in Jan and Dec. **Export prices** fell -0.4% mom, slightly less than the declines in each of the past 3 months.
- **Initial Unemployment Claims** dropped 18,000 to 259,000, the lowest levels for the past 40 years. The **4-week moving average** fell by 2,500 to 267,500.
- The **Federal Reserve Tech Pulse** came in at 87.5, growing 8.7% yoy in Feb. The index marked its highest yoy growth since Aug 2010.

#### **Europe:**

- **The ECB took extreme policy measures:** 1) the main refinancing rate was set to 0%, while the banking deposit rate was set further into negative territory at -0.4%; 2) four new quarterly bank refinancing operations with 4-year maturity will be enacted at negative interest of -0.4%; 3) the monthly asset purchases will rise by EUR 20bn to EUR 80bn and include investment-grade non-bank corporate bonds.
- **The euro zone's real GDP** growth was confirmed at 0.3% qoq in Q4 and 1.6% for the whole of 2015.

#### *Prepared by:*

- **Eurozone inflation** dropped to -0.2% yoy after +0.3% in Jan according to preliminary estimates.
- **German inflation** was 0.4% mom but -0.2% yoy in Feb, following 0.4% yoy growth in Jan.
- **German industrial production** rose 3.3% mom (2.3% yoy) in Jan, offsetting a -0.3% (-1.4% yoy) decrease in Dec. **Italy's** industrial production improved in Jan, with output rising 1.9% mom after -0.6% drop in Dec. In **France** industrial production rose 1.3% mom in Jan, following -0.6% decrease in Dec.
- **German manufacturing orders** fell -0.1% mom in Jan, almost on par with the -0.2% decrease in Dec. However in yoy terms orders rebounded strongly by 1% after falling -1.9% in Dec.
- **The Irish economy** surged by more than 9% yoy in Q4 and 7.8% the entire 2015. Ireland after the 2008 crisis had adopted harsh austerity measures and is now one of the fastest-growing economies in the world.
- **UK industrial production** index gained 0.2% mom in Jan, recouping the revised -1.1% drop in the previous month. In annual terms, industrial production rose 0.2% in Jan, following -0.1% decline in Dec.
- **UK trade balance** for goods was in deficit by GBP 10.3bn in Jan, slightly down from GBP 10.5bn shortfall in Dec.

#### **Asia and Pacific:**

- **China's inflation** was 2.3% yoy in Feb, up from 1.8% in Jan, largely driven by food prices, while the core inflation measure, stripping away food and energy, remains in disinflation.
- **China's PPI** fell -4.9% yoy in Feb, an improvement from Jan's -5.3% fall as a consequence of excess capacity.
- **China's trade surplus** totaled USD 32.5bn in Feb, down from USD 63.3bn in Jan as a result of collapsing exports which suffered their sharpest drop in almost seven years.
- **China retail sales** rose 10.2 % yoy in Jan compared to 11.1% yoy in Dec.
- **China industrial production** increased by 5.40 % yoy in Jan, following 5.9% rise in Dec.
- **Japan GDP** was revised slightly higher, from -0.4% to -0.3% qoq in Q4 2015 with consumption dropping 0.9% qoq and export 0.8% qoq. However, corporate investments gained 1.5% qoq.
- **Japan's consumer confidence index** fell by 2.4 points to 40.1 in Feb. The decline was across the board suggesting a widespread perception of a lackluster economic situation.
- **India's industrial production** fell -1.5% yoy in Jan, vs -1.3% in Dec. confirming entrenched weakness, due to infrastructure bottleneck and outdated regulations.
- **Taiwan's inflation** accelerated to 2.4% yoy in Feb after a 0.8% gain in Jan
- **Taiwan's monthly trade surplus** widened to USD 4.2bn in Feb from USD 3.5bn in Jan.
- **Philippine industrial production** expanded 34.3% yoy in Jan, significantly up from 4.9% in Dec, propelled by chemical and food production.
- **Malaysia's industrial production** grew 3.3% yoy in Jan, up from Dec's 2.7% growth.

- The Reserve Bank of New Zealand cut its official rate by 25bp to 2.25% due to deteriorating global conditions and lower inflation expectations.

**Bottom line:** Another spate of data this week confirms the lull in global growth. A synthetic gauge, the OECD composite leading indicator corroborates the picture with a 99.6 reading in Jan (the lowest point since the beginning of 2013). The indicator declined again for the G-7 group of advanced economies as well as for large emerging markets: only India registered a minor uptick, while China, Brazil and Russia lost ground. The disconnect between the stock markets and the real economy is the result of ultra loose monetary policy which was further loosened first in China two weeks ago and in Euroland last week. Nevertheless, as the Japanese GDP data demonstrate, the monetary doping (like the steroids in sports) rarely enhance the long term performance and often are detrimental, being precursors of crisis.

### Regional Developments

- Urban consumer **inflation** in **Egypt** eased to 9.1% in Feb (Jan: 10.1%); core inflation meanwhile eased to 7.5% from 7.73% the previous month.
- **Egypt's** Minister of Industry disclosed that the price it sells **natural gas** to steel and iron factories will be reduced to USD 4.5 per MMBtu from USD 7 previously. This move brings gas prices back to 2014 levels before the government decided to remove subsidies for heavy industry, which resulted in 30-75% increases.
- **Egypt's** central bank implemented **liquidity improving measures** last week, lifting both caps on withdrawals by individuals as well as caps on foreign exchange deposits and withdrawals for companies importing essential goods. Separately, the central bank also held an auction for USD 500mn to cover imports of strategic goods.
- **Iraq** plans to sell IQD 1.5 trillion in 2-year **government bonds** in an attempt to reduce deficits; this would be the first such sale to the public since 2003, according to central bank officials.
- **Iraq's** deputy oil minister announced that it will pay foreign oil companies about USD 2bn in remaining arrears for 2015 this Apr and expects to reach an agreement over contracts by mid-2016.
- **Jordan's** **tourism revenue** dropped JOD 220mn to JOD 2.88bn last year, with the number of tourists declining to 4.8 million from 5.3 million. Tourists from Saudi Arabia topped the list in 2015, despite a 16.4% drop to over 883,000 visitors.
- **Kuwait's** finance minister revealed that the country was discussing with its advisers a **potential sovereign bond issue** - both domestic and international.
- The Chairman of **Kuwait** Finance House stated that banks had been approached to report on their ability to finance the deficit, and on whether there was enough **liquidity in the banking system**. The banks' reported the capacity to finance between KWD 3-5bn over the next three years.

- **Kuwait** is planning to pass legislation that would allow the **private sector to manage commercial ports and airport** instead of an outright privatisation measure. The ownership of the airport, in this case, would still remain with the government.
- **Inflation in Kuwait** increased to 3.3% in Jan (Dec: 3.0%) on higher prices of food and furnishings alongside rising healthcare costs; core inflation also edged up to 2.8%.
- Moody's sees limited impact of the GCC warning to its citizens not to travel to **Lebanon**: given that tourists from the GCC nations accounted for only 1.6% of total arrivals in 2015, including Lebanese expatriates.
- **Oman Rail** is targeting to start construction in 2018 with a first batch of the network to be operational in 2020, according to Oman Rail chief commercial officer.
- After 3 years from its launch, **Islamic banking in Oman** accounts for a 7.45% share of the total banking sector in Oman with OMR 2.25bn in gross assets.
- According to a **Qatar** Development Bank official, over 450 procurement opportunities worth more than QAR 3bn from government and semi-government agencies will be made available to **SMEs** within a year.
- **Qatar** recorded **gross debt** of USD 19.09bn in 2015 - from government bond issues worth USD 8.24bn and corporate debt at USD 10.85bn, according to SICO Research.
- **Saudi Arabia** has asked **banks** to submit proposals to extend a 5-year **USD loan** of between USD 6-8bn, reported Reuters. This would be the first significant foreign borrowing in over a decade.
- The oil slump is showing **strains on job creation** as well: **Saudi** government added only 93k new employees to the public payroll compared to 103k in 2014; in the private sector, expansion slowed to its lowest rate since 2009 - companies added some 369k non-Saudis to their payrolls in 2015, and hired 43k fewer Saudis than they did the year prior.
- According to **Saudi Arabia's** central bank governor, the country's **banking system** has been named fourth-best globally by Fitch, after Australia, Canada and Singapore.
- **Total debt issued in the GCC** touched USD 171bn (USD 27.5bn in government bonds and USD 143.5bn in long-term commercial loans taken by corporates, including GREs); Saudi Arabia and UAE accounted for 35% and 44% of total loans issued in 2015, according to SICO Research.
- Reuters reported that India and some of the Middle East nations were in discussions about an **oil-for-food scheme**. India imports about two-fifth of its oil needs, and a large share of this from the Middle East; the country is also the largest rice and wheat producer after China, with substantial stocks.

### **UAE Focus**

- The UAE Bank Federation has reached an agreement to allow **SMEs** that are in **debt** to banks to restructure future payments, while suspending payments during the period when businesses are negotiating deals with their lenders.

- **Abu Dhabi** is investing around AED 470mn towards **infrastructure** projects in the southern areas of the city, according to Abu Dhabi municipality.
- A senior **UAE** minister disclosed that the country had received around 100k **Syrians** since the beginning of the war in Syria, doubling the total number of Syrians.

**Media Review**

**Oil price could fall by \$10 if output freeze fails: DNB Markets**

[http://www.zawya.com/story/Oil\\_price\\_could\\_fall\\_by\\_USD10\\_if\\_output\\_freeze\\_fails\\_DNB\\_Markets-TR20160310nL5N16I2AWX2/](http://www.zawya.com/story/Oil_price_could_fall_by_USD10_if_output_freeze_fails_DNB_Markets-TR20160310nL5N16I2AWX2/)

**Egypt's development strategy for 2030**

[http://www.zawya.com/story/Egypt\\_outlines\\_sustainable\\_development\\_strategy\\_for\\_2030-ZAWYA20160306072121/](http://www.zawya.com/story/Egypt_outlines_sustainable_development_strategy_for_2030-ZAWYA20160306072121/)

**Power Women in Arabia: Shaping the Path for Regional Gender Equality**

<http://www.middle-east.atkearney.com/documents/787838/7695944/Power+Women+in+Arabia+-+Shaping+the+Path+for+Regional+Gender+Equality.pdf/4db490b2-4369-4dc1-bf71-d4786efdc221>

**Payment delays in Saudi Arabia & foreign government pressures**

[http://www.zawya.com/story/Foreign\\_governments\\_press\\_Saudi\\_Arabia\\_on\\_delayed\\_wages-TR20160307nL5N16F133X2/](http://www.zawya.com/story/Foreign_governments_press_Saudi_Arabia_on_delayed_wages-TR20160307nL5N16F133X2/)  
<http://www.arabianbusiness.com/saudi-oger-in-spotlight-as-ministry-investigates-delayed-salaries-624084.html>