

Weekly Economic Commentary, 10 Apr 2016

Markets

Stock markets ended lower a week characterized by volatility and downbeat mood, as the jolt to sentiment from central banks waned. As a sign of widespread anxiety over the economy, the yield on the US 10-year Treasury note fell below 1.7% for the first time in 6 weeks. On the positive side, the Chinese market is recovering, after last year's dive and jitters at the start of 2016. A stabilized renminbi, hints of share buybacks and the resumption of capital inflows have allayed investors' fears. Regional markets are supported by a more positive outlook on oil prices, which rallied at the end of the week. In currency markets the yen had a star performance, lifted by data on current account surpluses and repatriation of funds, while the dollar was on the defensive. The cloudy horizon benefits gold which continued its steady climb.

Global Developments

US/Americas:

- **US Fed President Janet Yellen** dismissed the view that the December rate hike was a mistake, underscoring the “tremendous progress” in the US economy after the financial crisis. The minutes from the March FOMC revealed a lack of consensus about the appropriate timing of the next rate hike.
- **US ISM non-manufacturing PMI** increased 1.1 % to 55.5 % in Mar, boosted by increases in business activity, new orders and employment.
- **The US trade deficit** widened to USD 47.1bn in Feb from USD 45.9bn in Jan underscoring the impact of the strong dollar.
- **US initial claims for unemployment benefits** unexpectedly fell 9k to 267k. The four-week moving edged higher but still consistent with monthly growth in nonfarm payrolls above 200k. The 4-week moving average rose by 3500 to 266,750. Continuing claims were up by 19k to 2.191 million.
- **The US WPI** rose 0.5% mom in Feb against expectations for a -0.2% decline and up from Jan's -0.4.
- **US wholesale inventories** fell -0.5% mom in Feb vis à vis 0.4% in Jan. Sales were also down by -0.2% mom. The inventory-to-sales ratio moved marginally down, from 1.37 to 1.36.
- **US new orders for manufactured goods** in Feb slipped -1.7% mom, returning to the losses seen at the end of 2015. Durable goods orders decreased -3%, whereas core capital goods orders fell -2.5%. Excluding defense, new orders were down -1.3%. Nondurables shipments declined -0.4% in Feb.
- **Annual inflation in Brazil** is slowly receding from 10.36% in Feb to 9.39% in Mar, as the effects of the recession hit prices.

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Europe:

- **The Eurozone PPI** fell -4.2% yoy in Feb, following a -3% drop in Jan. An end to deflation is nowhere in sight.
- **The Eurozone's** unemployment rate fell to 10.3% in Feb from 10.4% in Jan and 11.2% a year earlier.
- **ECB President Draghi** warned that the euro area is facing downward risks despite the ultra lax monetary policy.
- **German industrial production** fell -0.5% mom (+1.2% yoy) in Feb, following a revised 2.3% increase (+1.8% yoy) in Jan. Construction was the only sector to record gains.
- **German manufacturing orders** fell 1.2% mom (0.3% yoy) in Feb, following a 0.5% increase (0.3% yoy) in Jan. Domestic demand last year was anemic and a similar trend is expected in 2016, with foreign demand mixed at best.
- **Industrial production in France** slid -1% mom sa (+0.6% yoy) in Feb, reversing the 1% increase in Jan due mainly by a decline in refined products.
- **UK industrial production** fell -0.3% mom (-0.5% yoy) in Feb vs 0.2% mom (0.2% yoy) increase in Jan.
- **The UK Halifax house price index** rose 2.6% mom in Mar vs a -1.4% decline in Feb. The index was up 10.1% yoy in the three months to Mar after a 9.7% yoyo increase in the three months to Feb.
- **German exports** rose 1.3% mom in Feb, its fastest pace since Sep vs a -0.6% mom drop in Jan.
- **Russian GDP** fell by -3.8% yoy in Q4 after -4.1% in Q3. Only exports grew thanks to oil shipments and the ruble's depreciation.

Asia and Pacific:

- **Japan's current account surplus** jumped in Feb to JPY 2.434 tn in Feb from JPY 520.8 bn in Jan its highest level in almost a year and the 20th monthly surplus in a row.
- **Japan's consumer confidence** surprised on the upside rising to 41.7 in Mar from 40.1 in Feb, probably lifted by a ventilated delay of next year's April VAT hike.
- **The Reserve Bank of India** reduced its repo rate from 6.75% to 6.5% the lowest level in five years thanks to a fall in inflation.
- **Taiwan inflation** glided to 2% yoy in Mar after a 2.4% gain in Feb, thanks to a drop in the transportation and communication sub indices.

Bottom line: *The data flow did not include major releases and hence the outlook has not materially changed. In financial markets caution prevails as corporate profits shrink and currency traders reassess the course of monetary policy, with the dollar under pressure as forecasts on interest rate differentials are revised on the basis of public statements by FED and ECB top officials.*

Regional Developments

- **Saudi Arabia** plans to generate up to USD 100bn a year by 2020 as **additional revenue**, through the implementation of new levies and reduction of state subsidies, revealed the Deputy Crown Prince in an interview with Bloomberg. [*Link to the interview transcript available in the Media Review section*]
- **S&P** has kept its main **rating** for **Saudi Arabia** at A-, four levels above non-investment grade territory, describing the outlook for the economy as “stable” on the back of recent spate of fiscal reforms.
- **Saudi Arabia** and **Egypt** signed several **investment agreements** (during the 4-day visit of King Salman to Egypt), including the setup of a SAR 60bn investment fund and an economic free-zone to develop Egypt’s Sinai region. The official statement also said that a company was set up to develop 6 square kilometers of the industrial zone around Egypt's Suez Canal worth USD 3.3bn, without elaborating further.
- **Egypt’s PMI** continued to worsen for the 6th straight month: a 31-month low at 44.5 in Mar (Feb: 48.1), this was driven by sharper declines in output, new orders and employment.
- **Net foreign reserves** in **Egypt** rose slightly to USD 16.561bn as of end-Mar from Feb’s reading of USD 16.53.
- **Egypt’s debts to foreign oil companies** touched USD 3.2bn in the end-Q1 from USD 3.0bn in end-Dec 2015.
- In a bid to support and **develop the capital market** and diversify non-banking financial instruments, **Egypt’s** Financial Supervisory Authority issued detailed regulations last week for the issuance of **covered bonds**. Last year, around 90% of Egypt’s bond issues were by the government.
- **Iraq** plans to lower the oil price forecast in its **2016 budget** to USD 32 from USD 45 estimated before, revealed a senior government and IMF official. The current budget, which estimates oil exports of 3.6mn barrels per day, predicts a deficit of IQD 24 trillion.
- **Oil exports** from **Iraq’s southern ports** have risen to an average of 3.494mn barrels per day (bpd) in Apr, compared to last month’s 3.286mn bpd. Oil revenue increased by around 30% to USD 2.9bn in Mar as exports inched up from 3.225mn bpd the previous month.
- **Jordan** and **UAE** have signed the **double taxation avoidance** agreement. It is expected that this agreement will result in promoting investments, increasing trade exchange and strengthening financial and economic cooperation between the two countries.
- **Kuwait** will start implementation of the **new electricity charges** in mid-2017, after approval by the National Assembly. To begin with, the hikes will be implemented in investment and commercial housing (which includes expats’ houses) while for private housing, the new charges would not be levied before 2018.
- **Kuwait’s government** plans to issue KWD 2bn of Islamic and conventional **bonds** to help finance the budget deficit, reported *Al Arabiya*, citing unnamed sources.
- **Kuwait’s crude oil exports to Japan** grew by 12.2% yoy to 8.13mn barrels in Feb, or 280k barrels per day.

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- **Saudi Arabia and Morocco** signed an aid agreement worth USD 230mn, according to the Moroccan finance ministry. This includes USD 100mn for SME support, USD 80mn of aid to agriculture and USD 50mn million for the health ministry. This aid is part of the five-year financial package commitment offered following the “Arab Spring” protests.
- **Liquidity in Qatar's banking sector** has tightened further on the back of a fall in hydrocarbon-related public sector deposits (Jan: +9% yoy), according to a recent Samba report. The report also expects the country's **debt market** to further deepen given the recent announcement to finance deficits through the issuance of debt.
- **Saudi Arabia PMI** improved slightly to 54.5 in Mar from Feb's 54.4, thanks to output growth (at 61.4, this was the highest since Nov last year).
- **Saudi businessmen** are investing USD 4bn in projects in **Egypt** including the Suez Canal, energy and agriculture, with almost 10% already deposited in Egyptian banks, disclosed the deputy head of the Saudi-Egyptian Business Council.
- **Loan-to-deposit ratio** in **Saudi Arabia** rose to 88.1 in Feb, the highest since Nov 2008. Bank credit to private sector rose by 1.5% mom and 9.9% yoy.
- The **IIF** expects **GCC deficits** to widen to USD 143bn or 10.5% of GDP in 2016; this assumes an average oil price of USD 40 this year. Meanwhile, the share of non-hydrocarbon government revenue in total revenues is projected to rise from 38% in 2015 to 46% by 2020.
- **M&A** across the **MENA region** improved to USD 6.99bn in Q1 this year, compared to USD 5.9bn in Q1 last year, as per Zephyr data. Kuwait led the rankings in terms of deal values (USD 2.61bn), followed by UAE (USD 640mn), Qatar (USD 558mn), and Saudi Arabia (USD 460mn).
- The **value of Arab capital markets** fell 7.1% to USD 984.3bn in Q1 from USD 1.06 trillion recorded at end-2015, according to the Arab Monetary Fund.

UAE Focus

- The **UAE PMI** increased to 54.5 in Mar (Feb: 53.1), supported by higher output - which touched a 6-month high of 59.7 - and new orders - which rose to 56.8 (Feb: 54.6).
- **Nasdaq Dubai** listed by end-Mar two Sukuk issued by the government of Indonesia, worth USD 2.5bn, hence bringing the total **Sukuk listings** on the exchange to USD 8.5bn.
- **Dubai's retail market** in 2015 is estimated to have reached USD 35.4bn, reported the Dubai Chamber of Commerce and Industry. Bulk of the total value- at 98%- was store-based retailing; value of non-grocery retail grew at an annual rate of 7.1% to USD 22.3bn last year, thanks to strong demand.
- Real estate, business sector and transportation **sectors** witnessed **high growth** in Q4 2015, according to the **Ras Al Khaimah** Department of Economic Development. Building permits were up 31%, business licenses were up 11.4% to 556, the transportation sector grew by 47% and the volume of shipping goods by air rose by 144% in Q4.
- The **UAE construction market** is expected to grow 6.6% yoy to AED 162bn this year, and rising further to AED 181bn next year, according to BMI Research; growth is likely to stay

around the 6%-mark in the years leading up to the Expo 2020. It is expected that major projects such as the Route 2020 Metro extension on the Red Line in Dubai, the expansion of Jebel Ali Port and Al Maktoum Airport would continue to drive activity.

Media Review

Saudi Deputy Crown Prince Interview

<http://www.bloomberg.com/news/articles/2016-04-04/saudi-arabia-s-deputy-crown-prince-outlines-plans-transcript>

India might give a boost to oil consumption

<https://next.ft.com/content/9300e6ac-fbf5-11e5-b5f5-070dca6d0a0d>

New range of unconventional monetary policies: Roubini

<https://www.project-syndicate.org/commentary/new-range-of-unconventional-monetary-policies-by-nouriel-roubini-2016-04>

No rise in GCC credit card debt: Amex

http://www.zawya.com/story/No_rise_in_GCC_credit_card_debt_despite_rise_in_spendingAmex-ZAWYA20160406065317/