

Weekly Economic Commentary, 3 Apr 2016

Markets

Stock markets took a pause last week with European stocks ending Q1 with the worst quarterly drop since 2003 and Japan taking a hit after the Tankan confirmed that Abenomics is a branch of voodoo economics. Wall Street performed better, although a robust US jobs report and a dovish speech by Yellen failed to offset pessimism over corporate earnings. Regional markets were mixed like most emerging markets. In currency crosses the dollar suffered another setback pushed down by Yellen's remarks, to its lowest level since Oct against a basket of currencies and the worst quarterly performance since Q1 2011. Crude prices fluctuated in response to alternating hope and disappointment regarding a production freeze agreement between most OPEC and large non-OPEC producers, recording a weekly drop. Uncertainty and malaise in stock markets drove gold prices to another positive weekly close.

Global Developments

US/Americas:

- **US nonfarm payrolls** beat expectations increasing by 215,000 in Mar, while the unemployment rate rose to 5.0%, as more Americans are induced to re-enter the labor force by better employment prospects.
- **US Fed President Yellen** stressed downside risks to US growth due to the uncertain global situation. Yellen pointed out that the Fed has “asymmetric” capacity to respond to economic shocks and downplayed the rise in core inflation saying that “it is too early to tell if this recent faster pace will prove durable”. Yellen's statement contradicted the recent hawkish comments by many FOMC members.
- **Consumer spending in the US** edged up 0.1% mom in Feb, the same paltry rate as in Jan and Dec. Personal income and disposable personal income (DPI) increased 0.2% mom in Feb after a robust 0.5% gain in Jan, the highest in 7 months.
- **The US Case-Shiller national index of existing-home prices** rose 5.4% yoy in Jan, slightly up from the 5.3% in Dec. The 20-city composite price index was up 5.7% yoy in Jan compared to 5.6% in Dec.
- **The ISM PMI** came in at 51.8 in Mar, up from 49.5 in Feb and above market expectations of 50.7. Manufacturing activity grew for the first time in six months (crossing the threshold between recession and expansion) as production, new orders and prices increased, while employment declined.
- **US PCE inflation** fell -0.1% mom in Feb after rising 0.1% in Jan. Goods inflation dropped to -0.6% with durables inflation at -0.3%, the fourth decline in the past 6 months. Nondurable prices fell -0.8%, their fourth consecutive monthly decline, mostly due to lower energy prices.

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- **The Conference Board consumer confidence** index rose 2.2 points to 96.2 in Mar. Confidence was rather stable over the past 4 months thanks to labor market improvements and lower energy prices. However **the University of Michigan consumer sentiment index** in Mar dropped 0.7 point to hit 91, the lowest since Oct.
- **US Jobless claims** rose 11,000 to 276,000 the third consecutive weekly gain. The 4-week moving average rose from 259,750 to 263,250, but remains well below 300,000 which underscored robust market conditions. Continuing claims dropped from 2.18mn to 2.173.
- **Brazilian industrial production** accelerated its contraction to -13.2% yoy in Feb, after -11.4% in Jan, as the government looks increasingly shaky as the Petrobras scandal widens.

Europe:

- **Annual M3 money supply growth** in the Eurozone remained at 5% yoy sa in Feb. The credit component in M2 was again the main driver thanks to the ECB quantitative easing.
- **The Eurozone's inflation** picked up to -0.1% yoy in Mar from -0.2% in Feb as expected. Core inflation however picked up to 0.9% from 0.8%.
- The **Eurozone's economic sentiment indicator** slid to 103 in Mar from 103.9 in Feb.
- **UK consumer confidence** held steady in Mar at 0.0 Sentiment is capped mainly by worries about the outcome of the U.K.'s referendum and recent financial market turmoil,
- **Italy's business confidence** dropped to 100.1 from 103.2 in Feb, while consumer confidence increased to 115 from 114.5.
- **The UK Nationwide Housing Price Index** increased 0.8% mom (5.75% yoy) in Mar, the highest in a year up from 0.4% (4.8% yoy) in Feb.
- **Germany's unemployment rate** was 6.2% in Mar for the third consecutive month, a post reunification low. On the other side, Italy's unemployment rate rose to 11.7% in Feb from 11.6% in Jan as tax breaks for new hires expired.
- **German retail sales** disappointed as they fell -0.4% mom in Feb after -0.1% in Jan.

Asia and Pacific:

- **The Chinese official PMI increased** unexpectedly, for the first time in 9 months, to 50.2 in Mar, from 49 in Feb, raising hopes that downward pressure in manufacturing is ebbing. While output, as well as new foreign and domestic orders rebounded, factories still shed jobs.
- **S&P cut its outlook on China** to negative from stable, due to a slowing economic rebalancing.
- **Japan's industrial production** was down -6.2% mom (-1.5% yoy) in Feb. The stronger yen and weak global demand are hurting Japan's export-oriented corporates.
- **Japan's large manufacturers** expressed a dose of skepticism over Abenomics, as the Tankan business confidence index for large manufacturers fell to 6 in Q1 vs 12 in Q4, a record low since mid-2013.
- **Japanese retail sales** rose just 0.5% yoy in Feb, up from Jan's -0.2% fall. Spending was subdued over the past few months as wage stagnate. **Household expenditures** rose 2.2% yoy in Feb following Jan's -2.6% decline.

- **Hong Kong's trade deficit** widened to HKD 33.1 bn in Feb from HKD 17.5 bn in Jan.
- **The Bank of Korea's consumer confidence index** added 2 points to the neutral level of 100 in Mar. Sentiment increased in most sub-indexes, although sentiment over spending plans remained flat.
- **Korea's monthly trade surplus** expanded to USD 9.8 bn in Mar, from USD 7.4 bn in Feb. Exports fell -8.2% yoy in Mar, vis-à-vis the -12.2% drop in Feb. Imports fell -13.8%, a little improvement over the -14.6% fall in Feb.
- **Korea's industrial production** improved in Feb, up 2.4% yoy following a -2.2% decline in Jan.
- **Korean retail trade** fell -1.8% mom in Feb following a -1.4% decrease in Jan.
- **Korean inflation** was 1% yoy, down from 1.3% in Feb due mainly to a sharp drop in transport costs, while food prices continued to grow steadily.
- **Thailand's Industrial production** fell -1.6 yoy in Feb after a revised -3.5% fall in Jan. The main sources of weakness were drops in the production of automobiles and metal products.

Bottom line: *The weekly macro flow last week displayed markedly rosier shades, a rare occurrence over the past two quarters, with the US labor market holding up strongly and some glimpse of hope in the Chinese beleaguered manufacturing sector which is spreading to other parts of Asia excluding Japan. Whether we are witnessing a turning point or another false start will be the main focus of the debate within the US Fed. The Doves will emphasize that inflation expectations remain anchored, wage growth is modest and global risks loom. The Hawks will counter that unemployment continues to fall, energy prices have stabilized, PMI are turning and China is not collapsing.*

Regional Developments

- **Bahrain's** National Oil and Gas Authority (NOGA) Holding announced it has signed a five year USD 570mn multi-bank Murabaha facility to support **investment** into a number of large scale **oil and gas projects** within the country. It was reported that the facility size was increased by 60% due to investor demand and the book was significantly oversubscribed.
- **Egypt's new policy agenda**, which the PM revealed to Parliament last week, targets 5-6% economic growth and aims to reduce the budget deficit to below 10% by the end of fiscal year 2017-18.
- **Egypt's** cabinet approved a **draft 2016-17 state budget** which projects a deficit of 9.9% and estimates GDP growth at around 5-6%. The government expects to receive EGP 627bn in revenue including EGP 434bn from taxes such as the new (yet-to-be-implemented) value-added tax.
- **Egypt** posted a **current account deficit** of USD 8.9bn in Jul-Dec 2015 (H1), more than double the USD 4.3bn deficit registered in the same period a year ago; this was partly due to a decline in net transfers (fell to USD 3.99bn in Q2 compared to USD 5.8bn in Q2 the year before) and net official transfers (fell to USD 10.3mn from USD 1.13bn a year ago).

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- The head of **Egypt's stock exchange** stated that he expects 14 new listings and initial public offerings in the coming months. Separately, the central bank governor revealed that Banque du Caire will seek a capital increase on the stock exchange by floating a 20% stake before end of the year; he also stated that Egypt and Kuwait would each offer a 20% stake on Egypt's bourse of the Arab African International Bank.
- **China** is set to **invest** USD 30bn in **Egyptian projects** - in textile, Suez Canal development axis, and major gas exploration projects- in the next two years, according to the central bank governor.
- **Money supply in Egypt** was up 17.5% yoy to EGP 1.924 trn in Feb.
- **Iraq** expects to receive **financial support** to the tune of USD 6.4bn in 2016 from donors and international organisations, reported Reuters, citing the finance minister. Talks with the **IMF** are progressing well and a standby arrangement could be approved as early as June, unlocking USD 15bn in international assistance over the next three years. Furthermore, the country signed a USD 220mn loan from **Japan** to fill the funding gap in its budget.
- **Jordan's GDP growth** slowed to 2.4% last year, down from 3.1% in 2014.
- Even though **Kuwait's** National Assembly has already approved the **Economic Reform Document**, which includes fuel, electricity and water tariff hikes, it still requires referral of the document to the Parliamentary Economic Committee. A source within the Supreme Council for Planning stated that a reasonable date for implementing this would be either beginning of Q4 this year or start of next year, especially given that it also takes time to send the parliamentary approval to the government.
- **Lebanon's industrial exports** dropped by 7.3% yoy to USD 706.3mn in Q4, with electric equipment the largest sub-sector (recording USD 158.2mn) and Saudi Arabia topping the list of importing countries for this category at a value of USD 23.7mn.
- **Moody's warned that the Omani banking system** is vulnerable and the operating environment for banks is likely to weaken further. Moody's stated that low oil prices have affected liquidity conditions of GCC banks, reflecting increasing government borrowings, reduced deposit inflows and rising interest rates. However GCC banks' asset quality performance and capital buffers have been broadly maintained, so far.
- **Total credit of Oman's commercial banks** grew 8.8 % yoy reaching OMR 18.44 bn at the end of Jan. **Total deposits** rose by 2.2% by end of Jan.
- **Tourist arrivals in Oman** rose 17.7 % from 2,098,225 in 2014 to 2,470,760 in 2015. Cruise passengers were 147,858 in 2015 compared with 127,216 in 2014.
- **Foreign trade surplus in Qatar** increased by 3% mom to QAR 7.4bn in Feb, though recording a 53.5% yoy decline. Japan, South Korea and India remained top export destinations, while US was the leading country of origin of Qatar's imports.
- **Population in Qatar** was around 2.53mn by end-Mar, down 0.7% mom but up 7.7% yoy, according to the Ministry of Development Planning and Statistics.
- The Saudi Arabian General Authority (**SAGIA**) has been working to **simplify licensing procedures for foreign companies** - including reducing the number of documents submitted

by applicants leading to a reduction in time to less than 5 days, options for contracting business, ability to extend licenses up to 15 years, and improvements to entrepreneur visas.

- **Net foreign assets in Saudi Arabia** fell 1.7% mom and 17.3% yoy to SAR 2.19trn in Feb - the lowest level since May 2012. Deposits with banks abroad dipped 2.8% mom to USD 133bn, while investment in foreign securities was down 0.7% to USD 395bn.
- The **IIF** expects **GCC** to maintain their currency peg to the dollar for the “next few years”. In a recent report, it was noted that “the GCC's relatively low public debt ratios, large financial buffers, and the sizeable fiscal consolidation being planned, combined with a modest recovery in global oil prices, should put the fiscal position on a more sustainable footing and allow the pegs to be preserved, at least for the next few years”.

UAE Focus

- The **UAE** grew between 3.5-4.5% in **2015**, with support from trade, tourism and financial services, according to the Dubai Chamber of Commerce estimates.
- **SMEs** that have **borrowed** AED 50mn and more from **UAE banks** and are unable to repay will be offered 90 days before any legal action is taken. During this time, the lenders will reach an agreement on how to manage or restructure the borrower's debt, led by the bank with the largest exposure. The plan, which has the central bank's approval, is likely to curb a sudden rise in defaults.
- **Non-oil foreign trade in Dubai** was down 3.6% yoy to AED 1.283 trillion last year; of this, imports accounted for AED 796bn or 62% of the total, exports AED 132bn and re-exports AED 355mn. China remained Dubai's largest trading partner in 2015, with trade worth AED 176bn.
- A **new fee** has been introduced at **Dubai airports**: all passengers, including those transiting via Dubai, will now need to pay AED 35 as a service fee for using airport facilities. The fee collected will be transferred to the Dubai Government public treasury from Dubai airports; this fee is expected to support further investments into the airport infrastructure.
- **Abu Dhabi's Industrial production index** was up by 37.6% yoy in Q4 last year, supported by a surge in the “manufacture of machinery and equipment” (+688.3%) and “manufacture of leather and related products” (+134.1%) sub-sectors.
- UAE's **Mudabala** reported a 12.4% yoy increase in profits last year, with no new cash injection from the government into the company - the first time in 8 years.
- **Dubai Municipality** disclosed that its **investments for public projects** stand at around AED 3.5bn; the return on investment from Municipality projects was 7.7% in 2015 (AED 272.3mn).

Media Review

An overview on the Omani Economy and its outlook

<http://www.oxfordbusinessgroup.com/news/oman-invest-through-energy-downturn>

Global Private Equity in 2015: Deal Multiples & Trends

<http://pitchbook.com/news/reports/2015-annual-global-pe-deal-multiples-trends>

Sovereign Wealth Funds Assets in 2015

<https://www.preqin.com/docs/samples/The-2015-Preqin-Sovereign-Wealth-Fund-Review-Sample-Pages.pdf>

Moody's: GCC banks continue to face challenging liquidity conditions

https://www.moody's.com/research/Moodys-GCC-banks-continue-to-face-challenging-liquidity-conditions-as--PR_346041

http://www.zawya.com/story/GCC_banks_compete_for_deposits_amid_funding_gaps-ZAWYA20160331033644/

Saudi Aramco: Unconventional gas is “promising”

<http://www.arabianbusiness.com/saudi-aramco-finds-big-volumes-of-shale-gas-in-jafurah-626799.html>

Warning over the impact of VAT on GCC firms

http://www.zawya.com/story/Warning_over_VAT_impact_on_GCCowned_firms-ZAWYA20160329034209/

Saudi Arabia loses market shares

<https://next.ft.com/content/5e8c1d52-f19f-11e5-aff5-19b4e253664a>