

Weekly Economic Commentary – Oct 12, 2014

Markets

As global growth fears reappear, **equity** markets retreated with S&P 500 and Nasdaq posting the biggest weekly declines since May while the MSCI all-country world index hit an eight-month low. **Volatility**, measured by the CBoE Vix index, closed at 21.24, its highest level since Dec 2012. As markets dipped, investors shifted gears to safety, with the 30-year Treasury **bond's** yield nearing the 3.0% level for the first time since May 2013. Regional behaviour mirrored the global trend. The **dollar** grew stronger while the Russian **rouble** hit a fresh record low. **Brent** crude oil slipped to a four-year low, down more than \$20 since June this year and **gold** touched the lowest price this year early in the week before recovering.

Global Developments

US/Americas:

- **Total consumer credit** in the US increased by USD 13.5bn to USD 3.25trillion in Aug and compares to a downwardly revised gain of USD 21.6bn in the month before; this was the smallest gain since last Nov, thanks to a USD 207.5mn drop in revolving credit (mostly measures credit card use).
- **Initial jobless claims** declined by 1k to 287k last week, with the 4-week moving average falling to 287,750, the lowest level since Feb '06. Additionally, the number of people continuing to draw unemployment benefits fell to 2,381,000 for the week ended Sep 27, the lowest since May '06.

Europe:

- A rough week for **Germany: factory orders** plunged 5.7% mom and 1.3% yoy in Aug, following a 4.9% increase in Jul; the dip can be partly attributed to the school holidays but also due to the slowing euro-area as export orders dropped by 8.4% while domestic demand was down 2%. **Industrial production** fell 4% mom in Aug (Jul: +1.6%), recording the biggest decline since Jan 2009, with output of investment goods down 8.8%. **Exports** meanwhile fell sharply by 5.8% mom in Aug, the largest monthly drop in five years, while imports fell 1.3% resulting in a narrower **trade surplus** of EUR 17.5bn.
- The **BoE** held interest rates at the record low of 0.5% (held steady since Mar '09) while also deciding not to extend its **asset repurchase** programme beyond the GBP 375bn already spent.
- **UK manufacturing output** rose 0.1% in Aug down from growth of 0.3% in Jul. **Trade deficit** in goods and services narrowed to GBP 1.9bn in Aug (Jul: GBP 3.1bn), as imports fell by more than the drop in exports; exports fell to the lowest in four years, falling 2.8% to GBP 23.2bn.

Asia and Pacific:

- **China** HSBC **services PMI** dropped to 53.5 in Sep from a 17-month high of 54.1 in Aug, as the sub-index for new business fell to 53.2 from a 19-month high of 53.9 in Aug. Separately, **money supply (m2)** eased to a five-month low, growing only 12.8% yoy in Aug compared to Jul's 13.5%.
- **Japan** posted a **current account surplus** of JPY 287.1bn in Aug in spite of a larger trade deficit (JPY 831.8bn), as income from foreign investments surged to a record high for the month. Meanwhile, **machinery orders** reported a 4.7% mom rise in Aug, on the back of July's 3.5% increase.

Bottom line: Weak German data, yet again, is raising recession

fears while in Japan the BoJ minutes revealed members' concerns about sluggish exports. Separately, the IMF's World Economic Outlook forecast global growth at 3.3% in 2014 and 3.8% in 2015; it cautioned advanced economies (2014: 1.8%; 2015: 2.3%) to avoid a premature withdrawal of monetary accommodation and warned emerging markets (2014: 4.4%; 2015: 5%) to brace for increased financial volatility.

Regional Developments

- **Growth in the MENA region** is forecast at 2.7% this year, while accelerating to 3.9% in the next year, as per the **IMF's** latest World Economic Outlook report. Meanwhile, ongoing strong government spending and robust private sectors will enable GCC growth to be around 4.5% in 2014-15 – non-oil GDP is estimated to expand 6% and oil GDP only 0.5%.
- Weak demand for **Zain Bahrain**, despite doubling the amount of time for subscriptions, meant that only 34.8% of the offering was sold to the public while the rest would be acquired by the Gulf International Bank, which underwrote the IPO. This was the first company to go public in Bahrain since 2010, selling a 15% stake at 0.19 dinars per share to raise BHD 9.1mn.
- HSBC **Egypt PMI** for the non-oil private sector clocked in at 52.4 in Sep, a tad lower than the all-time high of 52.5 recorded last Nov, thanks to increased output, a sharp rise in new orders to a 9-month high of 53.8 and the fastest rate of employment since records began in 2011.
- The BLOM **Lebanon PMI** remained below the crucial 50-point mark for the 15th month in a row, but rose to 47.6 in Sep (Aug: 45.5); both output levels and new orders fell though the rates of contraction were slower compared to a month ago.
- France is expected to soon provide weapons and military equipment to the Lebanese army as part of a USD 3bn

grant from Saudi Arabia to help fight terrorists that are encroaching into Lebanon from Syria. It was also revealed that another Saudi grant of USD 1bn for the Lebanese army was also finalised.

- **Qatar's net external asset position** is forecast to remain strong, exceeding 150% of current account receipts in 2014, according to a recent S&P report, thus enabling the country to maintain a relatively "strong" fiscal surplus as a result of declining government spending in the coming years.
- **Qatar's total population** stood at 2.077mn as of Aug 2014, up 8.2% mom, according to data from the Ministry of Development Planning and Statistics. To meet the rising population demands and the needs of the FIFA World Cup, **construction and real-estate related investment** will be on the rise: the government is focused on delivering projects like the USD 45bn real estate project in Lusail City, the USD 36bn Integrated Rail Project, the USD 7.4bn New Doha Port, final phase of the USD 17.5bn Hamad International Airport, the USD 8.1bn highway programme and other World Cup stadiums worth USD 4bn among others, according to the QFC Deputy CEO.
- Over 25 new companies are set to begin operations this year at the **Qatar financial centre**, leading to an almost 20% rise in the number of firms at the centre. Of the registered firms, one will also list on the parallel market that is expected to begin operations at the Qatar Exchange from early 2015.
- Sep **PMI in Saudi Arabia** rose to a seasonally adjusted 61.8 points – the highest level since June 2011 – from 60.7 points the month before. Output growth and export orders were at the highest since Mar 2011 and May 2012 respectively while construction was a major source of demand growth.
- **SAMA assets** grew 6.5% yoy to SAR 2.84 trillion in Sep, thanks to a hike in investment in foreign stocks and

bonds, which amounted to SAR 2.08 trillion, compared with SAR 1.92 trillion in 2013.

- **Expatriate remittances from Saudi Arabia** increased by 3.4% yoy to SAR 101.8bn in Jan-Aug 2014, according to report in the *Al-Eqtisadiyah* daily; foreign workers' remittances captured 66% of the total remittances.

UAE Focus

- Sep **PMI in the UAE** fell to a four-month low of 57.6, and compares to Aug's 58.4 as gains in new orders slowed and employment creation was the weakest since Jan despite output growth accelerating to a three-month high of 63.2 points.
- Abu Dhabi's **Khalifa Fund** for Enterprise Development sanctioned more than AED 1.0bn in loans for the development of SMEs since 2007, approving about 842 projects during the period.
- Dubai's **Nakheel** reported a 47% yoy increase in its nine-month net profit to AED 2.6bn, on revenues from new properties and its retail business. During the nine months to Sept. 30, Nakheel handed over 956 units to customers.
- According to dnata, 20mn passengers are expected to pass through **Dubai International** in the last three months of the year, with the Haj pilgrimage, Eid Al Adha and the Christmas-New Year holidays falling during these months.
- **RAK Petroleum** is planning to list on the Oslo exchange and raise USD 25mn in an **IPO**. The company has among its assets a 42.8% stake in DNO ASA, an Oslo-listed oil and gas company with operations in the Middle East, and a 100% stake in Mondoil Enterprises, which holds an indirect 33.3% stake in Foxtrot International, owner of oil and gas interests in Ivory Coast.

Media Review

The new world economy in four charts: FT

<http://ftalphaville.ft.com/2014/10/07/1998332/moneysupply-the->

[new-world-economy-in-four-charts/](#)

Questioning the Chinese economic climate

<http://www.project-syndicate.org/commentary/questioning-chinese-economic-climate-by-kenneth-rogoff-2014-10>

Germany in trouble?

<http://qz.com/278923/suddenly-the-heart-of-germanys-economy-looks-shaky/>

As oil prices tank, new era of abundance seen dawning

http://www.zawya.com/story/As_oil_prices_tank_new_era_of_abundance_seen_dawning-ZAWYA20141007051357/