

Weekly Economic Commentary – Oct 19, 2014

Markets

Equity markets across the globe tumbled on slowing growth prospects before recovering towards end of the week; even the **VIX** volatility index declined from a 3-year intraday high. **Regional** markets mirrored the global trend, with Dubai shares tumbling almost 14%. The **dollar** firmed while **oil** prices bounced back from near-4 year lows and **gold** posted a second straight weekly gain.

Global Developments

US/Americas:

- **US retail sales** fell 0.3% mom in Sep (Aug: +0.6%), probably a sign of cautious spending ahead of the holiday shopping season. Sales at electronics and appliance stores, however, jumped 3.4% amidst declines reported in many segments including auto dealership and gasoline sales.
- **Producer price index in US** slipped 0.1% mom, the first decline since Aug '13, dragged down by a 2.6% decline in gasoline prices amid food prices also down by 0.7%. Core inflation remained unchanged in mom terms.
- According to the **Fed Beige book**, the US expanded at a “modest to moderate” pace across much of the nation in recent weeks with “most Districts reporting overall growth in consumer spending that ranged from slight to moderate”.
- **US industrial production** rose 1% mom in Sep (Aug: -0.2%) – the biggest gain since Nov '12 – with manufacturing output up 0.5% (rising from a 0.5% dip the month before) and a 3.9% surge in utilities, the largest since May

'12. Excluding the volatile auto sector, factory output rose 0.6% while capacity utilization climbed to 79.3%, its highest level since Jun '08.

- **NAHB housing market index** unexpectedly declined five points to a reading of 54 in Oct. Meanwhile, **housing starts** gained 6.3% to a 1.02mn annualized rate in Sep from a 957k pace in August as multifamily (+16.7%) and single-family projects (+1.1%) advanced.
- **Initial jobless claims** decreased by 23k to 264k in the week ended Oct 11, a 14-year low. The 4-week moving average fell 4,250 to 283,500.

Europe:

- **Industrial production in the Eurozone** slipped 1.8% mom and 1.8% yoy in Aug (Jul: +0.9% mom), thanks to a dip in the manufacture of capital goods. Germany reported a dip of 4.3% while French output fell 0.1%, but production in Italy and Spain rose by 0.3% and 0.1%, respectively. Meanwhile, **inflation** slumped to 0.3% in Sep, a 5-year low, down from 0.4% in Aug with the only silver lining that core inflation had fallen to 0.7% from 0.9% in August.
- **German ZEW index** of economic sentiment fell into negative territory for the first time since Nov 2012, recording -3.6 points in Oct and compares to 6.9 points a month before.
- **Inflation in UK** fell to a 5-year low of 1.2% in Sep (Aug: 1.5%) on lower oil prices while prices of the category food and non-alcoholic drinks fell 1.4% yoy, the most since 2002.

Asia and Pacific:

- With exports up 15.3% and imports rising 7%, **China's Sep trade surplus** touched USD 31bn. Inflation meanwhile fell to a 5-year low of 1.6% in Sep on declining oil prices.
- **FDI into China** rose 1.9% to USD 9bn in Sep alone,

bringing the year-to-date FDI inflow to USD 87.4bn, down 1.4% yoy. Investment from South Korea surged 32.5% yoy while that from Britain grew 32.3% amidst investment from Japan plunging 43%.

- **New bank loans in China** touched CNY 872bn while broad money or **M2** grew 12.9% in Sep. Separately, the **PBoC** is set to inject about CNY 200bn worth of three-month loans into five or six listed banks to maintain liquidity.
- **Japan industrial production** fell 1.5% mom and 3.3% yoy in Aug, lower than the flash estimate; overall capacity utilization slid 1.7% mom in Aug, following the 0.8% decline in July.
- **India removed controls on diesel prices** last week; with diesel accounting for 43% of petroleum consumption, this will ease the subsidy bill.
- **Singapore GDP** grew 2.9% in Q3 (Q2: 2.4%), with manufacturing up 1.4%, services output and construction rising 2.9% and 1.4% respectively.

Bottom line: As markets went topsy-turvy on global slowdown worries, data releases from Europe haven't provided much comfort with even Germany, the export engine, performing below expectations. There are signs of a US recovery and China seems to be holding its own, but the main concern for the region remains the drop in oil prices and geopolitical turmoil.

Regional Developments

- **Bahrain Q2 GDP** growth reached 3.2% qoq and 5.6% yoy; GDP growth for the full-year is expected to reach about 3.7% as per Economic Development Board estimates. The non-oil sector grew by 4.7% yoy and 3% mom during Q2, while the oil sector registered 9.3% yoy and 4.1% mom growth.
- **Bahrain** will **invest** USD 22bn in **infrastructure** in the next four years, according to the Minister of Transportation and Acting Chief Executive of the Bahrain Economic Development Board.
- **GDP growth in Egypt** touched 3.7% in Q4, from 2.5% in Q3,

taking the 2013-14 fiscal year (which ended in Jun) GDP growth to 2.2%.

- **Egypt** paid back USD 500mn to Qatar, as per the central bank governor, and will refund USD 2.5bn at the beginning of Nov.
- **European Union** raised the ceiling for financial aid to **Egypt** from EUR 450mn to EUR 600mn.
- **Jordan inflation** slipped to 3.11% in Sep, down from 3.16% in Aug.
- A proposed law in **Kuwait** puts a 20-year cap (up to age 50) on unskilled and semi-skilled expats' residency while skilled jobs, such as doctors, advisers and university professors, should be able to stay until they are 70 years old.
- **Budget deficit in Lebanon** was lower on higher revenues: total government revenue in H1 2014 stood at close to USD 5.264bn, compared to USD 6.8bn billion in total expenditures.
- **European Union** has allocated more than EUR 130mn to **Lebanon** in a new Memorandum of Understanding; the funds will be used during 2014-16 with emphasis on justice and security reform, social cohesion projects and the promotion of sustainable management of natural resources.
- IIF estimates **Lebanon's debt to GDP ratio** at 146% in 2014, while fiscal deficit is projected to reach 10.5% of GDP; the report also added that "a stable political environment, structural reform, and the recent discovery of large recoverable gas reserves" could lead to a sustainable higher growth path over the medium term.
- **Remittance inflows to Lebanon** is estimated to touch USD 7.67bn in 2014, according to the World Bank and represents a 1.6% yoy increase and compares to inflows of USD 6.92bn in 2012.
- **Tunisia** will be **raising retirement age** by two years to ease the fiscal burden.
- The value of existing development projects in **Oman**

reached USD 45bn, according to MEED and is spread among government and private enterprises while USD 26bn is the expected investment next year.

- **Oman's** first major **wind farm project** to generate electricity, at a cost of USD 125bn, is scheduled to begin operating in early-2017. The project, which will have a capacity of 50 megawatts, is to be funded by Abu Dhabi and will be coordinated by Masdar.
- Size of banks in the **Qatar** Financial Centre grew by 53.5% yoy to USD 7.4bn at the end of 2013, as per the central bank. Conventional banks represent 72.1% in the QFC with the remainder Sharia compliant institutions while gross loans and advances extended by QFC banks increased by around 58.2% to USD 4.2bn during 2013.
- **Bank claims on the public sector in Saudi Arabia** registered a monthly growth rate of 5.1% to SAR 97.9bn by the end of Aug; this is driven by the growth of government bonds, both at monthly or annual levels, and bank credits on government companies in the form of loans, advances and overdrafts.
- **Saudi Arabia increased oil production** to 9.7mn barrels per day (bpd) in Sep from just under 9.6mn bpd in Aug – even while prices were on the decline, according to the OPEC monthly oil market bulletin.
- About USD 180bn worth of contracts for **new construction projects** will be awarded in the GCC this year, the largest amount for six years, despite falling oil prices, as per a new **MEED** report.

UAE Focus

- The **UAE Cabinet** approved the draft AED 49.1bn **2015 budget**, with infrastructure and economic sector allocated AED 1.8bn or 3.7% of the budget, while AED 1.6bn (3.2%) had been allocated for financial assets, while AED 1bn was allocated for federal expenditures (2.1% of the budget).

- **Inflation in Dubai** rose to 3.07% in Q3 and compares to 1.02% during the same period a year ago. Housing and utility costs, which account for almost 43.7% of consumer expenses, jumped 5.11% yoy.
- **Hotel occupancy in Dubai** grew 0.3% to 76.3% and the average daily rate declined by 4% to AED 671.87, thereby dropping revenue per available room by 3.7% to AED 512.83.
- As per the International Air Transport Association forecasts, **UAE air passengers** will grow at an average annual pace of 5.6% in the next 20 years.

Media Review

When petrodollars run out...

http://www.foreignpolicy.com/articles/2014/10/17/when_the_petrodollars_run_out_russia_venezuela_qatar_oil_petroleum?

A Global map with a difference: what do countries fear most?

<http://qz.com/283062/the-world-mapped-by-countries-greatest-fears/>

Markets: into uncharted waters

<http://www.ft.com/intl/cms/s/2/cd17f27c-55de-11e4-93b3-00144feab7de.html?#axzz3GYzuvsvxx>

Keep Calm & Carry on: Oil to bounce back, says banks

<http://qz.com/283125/banks-tell-petrostates-to-keep-calm-and-bet-on-oil-bouncing-back-to-100/>