

Weekly Economic Commentary – Nov 2, 2014

Markets

The Dow and S&P 500 posted record closing highs, aided by positive US data in addition to the surprise stimulus from the Bank of Japan. Better-than-expected company earnings also helped regain momentum – of the 70% companies in S&P 500 that have reported results, 75.8% have reported earnings above analysts' expectations, according to Thomson Reuters data, well above the 63% average in the past 20 years. On the currency front, the Yen fell to a nearly seven-year low against the dollar while the euro hit a 26-month low. Oil prices continued to dip while gold prices, reflecting effects of dollar strength, were at the lowest since 2010.

Global Developments

US/Americas:

- **US GDP** rose 3.5% in Q3, according to initial estimates, following Q2's 4.6% annualized growth rate, and driven by an uptick in military spending and a drop in imports.
- At the **FOMC meeting**, interest rates were held unchanged, pledging to keep its benchmark short-term interest rate near zero for a "considerable time", while ending its bond purchase stimulus program.
- **US existing home sales** touched a 1-year high, rising 2.4% to an annual rate of 5.17 million units in Sep, while **new home sales surged** to a 6-year high – rising 0.2% mom to a seasonally adjusted annual rate of 467k units. **S&P Case Shiller** home price index meanwhile gained 5.6% yoy in Aug (July: 6.7%).
- **US Oct manufacturing PMI** came in at 56.2 (Sep: 57.5), the lowest reading for the report since July, and the

rise in new orders was the slowest in nine months. Meanwhile, the flash services PMI slowed to a six-month low, with the reading at 57.3 in Oct and compares to last month's 58.9; also reporting that "in line with the trend for output levels, the rate of new business growth eased to a three-month low in October and was softer than the post-crisis high recorded in June".

- **US durable goods orders** fell 1.3% in Sep, while non-defense capital goods orders excluding aircraft, a closely watched proxy for business spending plans, fell 1.7%.
- **Initial jobless claims** increased 3k to a seasonally adjusted 287k last week, with the 4-week moving average falling 250 to 281k.

Europe:

- **EU's stress tests** conducted on 130 banks revealed that: (a) most of the banks under review had overvalued their assets—by a total of EUR 47.5bn at the end of last year; (b) 25 banks did not have enough capital to endure another recession and financial-market shock and eight of those need to raise an additional EUR 6.4bn in capital.
- EU Markit **composite flash PMI** rose marginally to 52.2 in Oct (Sep: 51.7), with Markit revealing that the PMIs point to a 0.2% expansion of GDP in the current quarter, with risks to the downside.
- **EU CPI** increased 0.4% yoy and 0.3% mom in Oct while **German inflation** unexpectedly slowed to 0.7%.
- **German Ifo** survey showed a drop in confidence for the 6th consecutive month, with the Oct reading dropping to 103.2 (Sep: 104.7). Ifo's measure for current conditions dropped to 108.4 in Oct (Sep: 110.5), and a gauge for expectations fell to 98.3 from 99.2.
- In further gloomy numbers for **Germany**, **retail sales** posted their biggest monthly decline since May 2007,

falling by 3.2% mom in Sep. Retail sales rose 1.3% in real terms in the Jan-Sep period.

- **German unemployment** unexpectedly fell by 22k to 2.89mn in Oct, with the unemployment rate holding steady at 6.7%.

Asia and Pacific:

- **China's** manufacturing slowed further in October, as a property slump and slowdown in investment growth are confirming slowest growth in five years. The PMI October reading was 50.8 still indicating expansion.
- The Bank of **Japan** surprised markets by **boosting the monetary base** to JPY 80trn, up from JPY 60-70trn. This announcement sent the Nikkei 225 Stock Average to the highest level since 2007.
- **Japan inflation** eased to the slowest pace in six months in Sep. Other data showed that household spending fell 5.6% yoy in Sep, while the jobless rate rose to 3.6% from 3.5%. **Industrial production** rose 2.7% in Sep (Aug: -1.9%), the fastest pace since Jan this year, while **retail sales** also surprised on the upside, rising 2.3% – the highest since the consumption tax was introduced in Apr this year.
- **Japan's** Markit/JMMA flash **manufacturing PMI** increased to a seasonally adjusted 52.8 in Oct (Sep: 51.7), thanks to a pickup in domestic and overseas orders.
- **Singapore inflation** dropped to a 7-month low of 0.6% in Sep (Aug: 0.9%), due to a decline in the cost of private road transport and accommodation.

Bottom line: With Q3 growth in the US beating expectations, and the Fed putting an end to QE rings in a positive spin on economic prospects in the country. The other central bank meeting meanwhile served up a shocker, with the BoJ opting to expand its stimulus program – not unanimously though, as vote on the bank's policy committee was 5 to 4. Growth in China is continuing to slow with a Q3 rate of 7.3% yoy.

Regional Developments

- **IMF** released the latest **MENAP Regional Outlook report** last week: the GCC is expected to grow 4.5% in 2014-15, driven by government spending, large investments in infrastructure and private sector confidence while growth in the region is forecast at 3.8% next year compared to an estimated 2.6% this year. The IMF cautioned that, on current fiscal policies, oil exporters' fiscal surpluses were set to vanish by 2017 and noted that all countries outside the GCC are running fiscal deficits already. If oil prices hit \$75 per barrel for a prolonged period it would reduce GCC's GDP by 8bps, and could reduce the aggregate fiscal surplus from a current projected \$275bn to around \$100bn.
- **Egypt** is forecast to **grow** by 3.5% in the fiscal year starting July (prev year: 2.2%), according to latest estimates from the **IMF**. This is much lower than the previous estimate of 4.1%, attributing the downward revision to security issues "keeping tourism away from Egypt and hampering Egyptian gas exports".
- **Egypt's** Cabinet is expected to approve a **new investment law** within the two weeks, as stated by the country's Minister of Investment, reported the state-owned daily newspaper *Al-Ahram*.
- **Money supply** (M2) in **Egypt** increased 15.6% yoy in Sep to EGP 1.544 trillion, according to the central bank.
- **Revenues from Egypt's Suez Canal** touched USD 469.7mn in September, down from Aug's record USD 510mn.
- **Egypt's** Social Fund for Development disbursed EGP 1.3bn **finance for small projects** in the first 9 months of this year, through associations and banks.
- **Lower oil prices** were unlikely to hamper **Kuwait's** development plans, according to the Oil Minister as the country's budget was prepared estimating oil price at \$75 per barrel.
- **Lebanon** is likely to grow at 2.0-2.5% only next year, if

its political problems remain unresolved amidst ongoing conflict in Syria, according to the Economy and Trade Minister. He also stated that the country needs about USD 2.5bn to address the economic impact of Syrian refugees.

- The **Qatar Tourism** Authority revealed that total visitor arrivals were up by 8% yoy while the average hotel occupancy rate increased by 7% in H1 2014.
- The value of **real estate transactions** in **Qatar** during the first nine months of 2014 increased by 15.2% yoy to QAR 37.2bn. The Q3 value alone stands at QAR 11.3bn, up 6.6% yoy.
- An IMF study estimates that the **GCC witnessed capital outflows of about USD 780mn**, equivalent to only 0.05% of GDP or 3.5% of assets under management, since the Fed initiated its plans to wind down asset purchases. This compares to cumulative outflows from other emerging markets of USD 79bn, equivalent to 0.35% of GDP and 6.1% of assets under management.
- Abu Dhabi's sovereign wealth fund was found to be only partially compliant with the **Santiago Principles**, a voluntary code of practice on governance and transparency in a study by GeoEconomica, an independent political-risk research firm. In its assessment of 31 **SWFs**, nine were fully compliant (including Norway) while eight fulfilled only part of their commitments and lacked robust financial information like audited statements and balance sheets or performance benchmarks. QIA was singled out as the only non-compliant sovereign wealth fund and deficient in most principles.

UAE Focus

- **UAE**, ranked 22nd in World Bank's **Doing Business 2015** report and was featured among the top 10 economies improving the most across 3 or more areas compared to the previous year, making progress in the sub-categories

of registering property, getting credit and protecting minority investors.

- **Inflation in Abu Dhabi** touched 3% during nine months of this year, with CPI for Sep alone at 3.7%. The 'housing, water, electricity, gas and other fuels' group reported the largest rise for the full period, contributing 41.8% to the change, followed by the 'furnishings, household equipment, and routine household maintenance' group (+9.9%).
- **S&P** assigned a 'BBB-' long-term corporate credit rating to **DIFC Investments**, with a stable outlook, "due to our view of a very high likelihood of extraordinary support from the government of Dubai".
- **Passenger traffic** through **Dubai Airport** witnessed an increase of 9.9% yoy to 5.94 million people in Sep, bring the ytd total to 52.42mn people, an increase of 6.6%.

Media Review

IMF says Mideast Sees Fragile Recovery Amid Conflicts and Transitions

<https://www.imf.org/external/pubs/ft/survey/so/2014/CAR102714A.htm>

IMF warning about dwindling fiscal surpluses in GCC if oil price continues to fall

<http://www.thenational.ae/business/economy/imf-warns-gcc-countries-of-175-billion-hole-created-by-falling-oil-prices>

Opec's reassurance

<http://www.telegraph.co.uk/finance/oilprices/11195977/OPEC-Everyone-needs-to-stop-panicking-about-the-oil-price.html>

BoJ surprise QE move

<http://www.economist.com/blogs/banyan/2014/10/japans-quantitative-easing>