

Weekly Economic Commentary – Nov 9, 2014

Markets

Equity markets in the US posted small gains over the week waiting to absorb the implications of the US mid-terms for policy; European markets rallied on ECB's **Draghi**'s willingness to use "additional unconventional instruments" should developments require. Meanwhile regional markets were mostly down. The **dollar** eased but touched a seven-year peak and 26-month high against the **Yen** and **Euro** respectively during the week. **Brent** continues to be close to its 4-year low while **gold** price rebounded from a 4.5 year low as dollar strength eased.

Global Developments

US/Americas:

- **Initial jobless claims** fell 10k to 278k last week, while the four-week average of claims tumbled to 279k – its lowest level since Apr 2000.
- **Non-farm payrolls** grew to 214k in Oct from an upwardly revised Sep reading of 256k, reducing the reported **unemployment rate** to 5.8% in Oct – the lowest level in 6 years – from 6.7% in Dec. Employment gains have crossed the 200k mark for nine consecutive months now, the longest stretch since 1994. **Private payrolls** increased 230k in Oct, for a record seven straight months of job gains exceeding 200k.
- **Factory orders** in the **US** slipped in Sep, down 0.6% in Sep, following a revised 10.0% drop the month before. Orders excluding the volatile transportation category were flat for the second month.
- **US manufacturing** activity slowed to its lowest since July, with the Markit PMI reading at 55.9 in Oct (Sep:

57.5), as output and new business growth both moderated. Service-sector composite PMI slowed to 57.1 in Oct from 58.9 in Sep.

- **ISM manufacturing** unexpectedly picked up, rising 59 in Oct (Sep: 56.6). The ISM's gauge of production advanced to 64.8, the highest since May 2004, from 64.6 while the new orders measure climbed to 65.8 from 60 in Sep. **ISM non-manufacturing PMI** meanwhile slowed to 57.1 in Oct from 58.6 in Sep.
- **US trade deficit** widened in Sep, up 7.6% to USD 43.03bn, with exports at a 5-month low: exports to the EU fell 6.5%, while those to China and Japan slipped 3.2% and 14.7% respectively.

Europe:

- New **Draghi** put: the **ECB** held interest rates steady, with Draghi stating that "should it become necessary to further address risks of too prolonged a period of low inflation, the Governing Council is unanimous in its commitment to using additional unconventional instruments within its mandate". He also revealed that the ECB's asset-purchase program would last at least two years.
- **EU Markit composite PMI** edged up only slightly to 52.1 in Oct from Sep's 10-month low of 52; readings for France and Italy showed contracting activity. **Services PMI** dipped to a seven-month low of 52.3 from 52.4.
- **EU retail sales** sank 1.3% in Sep (Aug: 0.9%), the most since Apr 2012.
- **Germany factory orders** were up 0.8% in Sep, following a revised decline of 4.2% the month before – foreign orders grew 3.7% on the month while domestic orders declined by 2.8%. **Industrial production** grew 1.4% mom in Sep, up from Aug's 3.1% dip, leading to an overall 0.4% decline in Q3. Separately, **exports** surged 5.5% mom in Sep, marking the biggest increase since May 2010 while

the sa trade surplus grew to EUR 18.5bn in Sep from EUR 17.5bn in Aug.

- **UK industrial production** accelerated in Sep, rising 0.6% mom, thanks to a rebound in car production and as a major oil field came back on stream.
- **UK trade deficit** widened to GBP 2.84bn in Sep compared to a revised USD 1.77bn shortfall in Aug. It is the second highest monthly trade deficit this year, largely due to a surge in oil imports and weaker exports to the EU.

Asia and Pacific:

- **China manufacturing PMI** unexpectedly fell to a 5-month low of 50.8 in Oct (Sep: 51.1), with new orders sub-index slipped to 51.6 in Oct (Sep: 52.2), while the new export orders sub-index dropped to 49.9 (50.2).
- **HSBC services PMI** in **China** fell to a 3-month low of 52.9 in Oct; sub-index measuring new business fell to 53.1 in Oct from 53.2 in Sep, but employment and outstanding business sub-indices both inched up.
- **China trade surplus** expanded to USD 45.4bn in Oct, though it was way off the record-high USD 49.8bn in Aug, with exports up 11.6% yoy to USD 206.87bn.
- The **PBoC** confirmed last week that it had injected CNY 769.5bn into the banking system over the past two months.
- **Japan Markit services PMI** signalled a contraction in activity, with the index falling to 48.7 in Oct, down from Sep's 52.5, partly a result of poor weather conditions while new business increased for the fifth consecutive month.
- **Japan monetary base** surged 36.7% yoy to JPY 259.55 trillion at end-Oct, marking an all-time high for three months in a row.

Bottom Line: Jobs report in the US was the latest in a slew of data pointing towards resilience of the US economy. On another

part of the globe, the European Commission slashed its growth forecast for this year to just 0.8%, and just 1.1% in 2015 – significantly down from a 1.7% forecast for next year just six months ago. Separately, OPEC’s annual World Oil Outlook report estimated that demand for crude from OPEC may fall to a 14-year low of 28.2 million barrels a day in 2017; in this backdrop and possibility of output cuts, the OPEC meeting scheduled for Nov 27 is turning out to be one of the most important in years.

Regional Developments

- **Substituting allies & aid: Egypt** will **repay** the outstanding USD 1bn to **Qatar** by end of this month, according to a central bank official, bringing the total deposit amount returned to USD 6bn. Separately, Egypt received a USD 1bn grant from Kuwait last week.
- Business activity in **Egypt** expanded for the third consecutive month in Oct, with **PMI** clocking in at 51 in Oct, down from Sep’s record-high of 52.6. New orders and output expanded during the month, but at a much slower pace.
- **Egypt** and **Saudi Arabia** inked financing agreements worth USD 350mn in a bid to upgrade the Egypt’s power grid and secure imports of petroleum products.
- **Kuwait** plans to raise its crude **oil exports to Egypt** up to 100k barrels per day (bpd) from the current 65,000 bpd and stands ready to supply refined fuel as well, according to a Kuwaiti official.
- **Budget surplus** in **Kuwait** touched KWD 6.07bn in the Apr-Jun quarter, with public expenditure at only KWD 1.71bn or 7.4% of total spending plan for the fiscal year. Total revenues stood at KWD 7.78bn during the period, of which KWD 7.22bn (or 92.8% of total) came in from oil revenues.
- **Investment expenditure in Oman** grew 7.4% yoy to OMR 1.4bn in H1 2014, with investment expenditure for oil

and gas production up 1.3% yoy to OMR 575.4mn. The government allotted OMR 3.2bn for investment expenditure this year, with OMR 1.8bn and OMR 1.4bn set aside for development expenses and for oil and gas production respectively.

- Industrial and Commercial Bank of China's Doha branch has been appointed the **clearing bank for Yuan deals in Qatar** – a significant step for the country – while the Chinese and Qatari central banks also signed a **CNY 35bn currency swap deal**. It was also revealed separately that Qatari investment institutions will get the right to invest up to CNY 30bn in mainland Chinese securities.
- **PMI in Saudi Arabia** registered 59.1 in Oct, down from Sep's 39-month peak of 61.8, dragged lower by reduced contributions from new orders, output and stocks of purchases components.
- **Saudi Arabia's** Prince Al Waleed bin Talal was quoted saying that the country needed to set up a sovereign wealth fund to protect itself from volatile oil prices by earning higher returns from its foreign reserves.
- The **GCC** spends about USD 160bn or roughly 10% of their GDP every year on **energy subsidies** including fuel and electricity, according to the World Bank's chief economist for the region. As per a World Bank report, the MENA region accounts for 48% of global energy subsidies while Egypt spends seven times more on fuel subsidies than on health.
- **Lebanon's** BLOM **PMI** remained below the 50-point mark, registering 48.8 points in Oct (Sep: 47.6). New orders index was at 47.5 in October (Sep: 44.3) while the output index stood at 47.1 (Sep: 45.6).
- **Lebanon's industrial exports** fell by 12.5% yoy to USD 1.58bn in H1 2014, according to a report by the Industry Ministry. During the period, Saudi Arabia was the main importer of industrial machines and electrical appliances with the total value of USD 13.7mn.

UAE Focus

- **Abu Dhabi** is considering reforms to streamline their (electricity and water) subsidy policies, according to an IMF official. IMF estimates that subsidies and transfers account for nearly 20% of Abu Dhabi's annual expenditure or AED 47.8bn this year.
- **PMI in the UAE** rose at the fastest pace in survey history to 61.2 in Oct, from 57.6 in Sep, with output, new business, purchasing activity and employment all rising at survey-record rates, while average salaries increased at the strongest pace since the series began in Aug 2009.
- **Dubai** has repaid USD 1.93bn raised from Sukuk – which was part of a programme of bond issuance launched just before the financial crisis hit Dubai in Nov 2009 – on its due date of Nov 3.
- **Abu Dhabi GDP** was up 4.8% yoy to AED 953.2bn in 2013, with oil trade accounting for 55% of the GDP. US was the top import partner, (AED 12.7bn), while Saudi Arabia was the top destination of non-oil exports (AED 6.7bn).
- **UAE's banks** reported strong profit growth in their Q3 results amidst improving asset quality, with key drivers “acceleration in loan growth, resilient net interest margins (NIMs) stellar non-funded income generation and lower cost of risk”, as per a Shuaa Capital report.
- **Transport & logistics play**: Akin to Dubai airport's passenger growth numbers, **Al Maktoum airport** reported a 462.5% yoy jump in **freight** to 243,284 tonnes in Q3 – the spike largely attributed to the completion of the transfer of all pure cargo flights, including Emirates SkyCargo to the new airport.

Media Review

Brazil's economy, post-elections

<http://www.economist.com/blogs/americasview/2014/11/brazils-economy>

Japan and Abenomics

<http://www.economist.com/news/asia/21631106-prime-minister-has-been-given-opening-will-he-take-it-riding-rescue>

China's efforts for an Asia-Pacific Free Trade Area

<http://www.ft.com/intl/cms/s/0/d7f6264c-6735-11e4-8970-00144feabdc0.html>

The Economics of Inclusion

<http://www.project-syndicate.org/commentary/inclusiveness-key-strategy-for-growth-by-ricardo-hausmann-2014-11>