

# Weekly Economic Commentary – Nov 16, 2014

## Markets

**US equity** markets were nearly flat, though the S&P 500 finished the week at a record high; slow growth recovery in the **Euro area** left a dent on markets in Europe while in Asia, the **Japan** market rallied with speculation of a snap election. The **euro** rebounded against the dollar and Japanese **yen** touched a seven-year low. **Brent** posted an intra-day low of \$76.76, the lowest since Sep 2010, before settling slightly higher while **gold** prices gained on a relatively weaker dollar.

## Global Developments

### **US/Americas:**

- **US retail sales** gained 0.3% mom in Oct, on the back of strong spending ahead of the holiday season; additionally, a core measure of sales that excludes autos, gasoline, food services and building materials jumped 0.5%.
- The Thomson Reuters/**University of Michigan consumer sentiment** index rose to 89.4 in Nov, its highest level since Jul 2007. Consumer expectations improved to 80.6 from 79.6 the month before while the current economic conditions sub-index rose to 103.0 from 98.3.
- **Initial jobless claims** increased by 12k to 290k last week, and the 4-week moving average touched 285k from 279k the week before.

### **Europe:**

- **GDP** in the **Eurozone** remained weak, reporting annualized growth of 0.6% in Q3; Germany escaped a recession posting 0.1% growth, driven by private consumption,

France grew 0.3% but largely because companies built up inventories, and Italy fell back into recession. The only silver lining was Greece which grew 1.7% yoy and 0.7% qoq sa.

- **Industrial production** in the **euro area** was up 0.6% mom in Sep, following Aug's 1.4% dip.

## **Asia and Pacific:**

- **China** released a slew of data last week: **inflation** held steady at 1.6% in Oct while the producer price index dipped 2.2%, accelerating from Sep's 1.8% decline. **Industrial production** rose 7.7% yoy – the second smallest rise since 2009 – and **retail sales** rose 11.5% yoy with **fixed asset investment** for the Jan-Oct period rising 15.9% – the slowest pace since 2001.
- Sluggish domestic demand in China: **new yuan loans** were CNY 548.3bn in Oct (Sep: CNY 857.2bn) and **money supply** M2 was up 12.6%; aggregate financing in Oct was CNY 662.7bn, down from CNY 1.05 trillion in Sep.
- **Japan's machinery orders** posted a 2.9% mom and 7.3% yoy increase in Sep (Aug: 4.7% mom).
- **Industrial production** in **India** grew 2.5% yoy in Sep, boosted by demand ahead of the festival season. Separately, **inflation** slowed to a record-low of 5.52% in Oct, thanks to declines in food and oil costs.
- **Singapore's retail sales** was up 5.5% in Sep driven by motor vehicle sales, which reported a 30% yoy surge; excluding this, retail sales grew 0.6% yoy.

**Bottom line:** Post-crisis consumer confidence is high and the rebound in retail sales helped boost outlook for the US, while GDP data left much to be desired in the euro area with Greece outshining its counterparts. In Japan, this week's limelight will be on GDP growth data in addition to possibility that Abe calls for snap elections. Elsewhere in Asia, more stimulus measures are widely expected in China where latest data points towards a slowdown in growth momentum, though even at 7%, the

country would rank highest in terms of global growth.

### Regional Developments

- **Egypt** received USD 10.6bn in aid from the Gulf nations in the last fiscal year, according to the country's finance minister. Of the overall EGP 74bn of aid received in the 2013-14 fiscal year, EGP 53bn (or 71.6% of total) was in the form of petroleum products, with the remaining EGP 21bn coming in as cash grants.
- **Egypt** issued a law regulating microfinance services – the law regulates microfinance funding by non-bank sources including companies and non-governmental organisations and brings them under the authority of the financial regulator EFSA (as opposed to banks regulated by the central bank).
- **Egypt** is planning to repay its USD 4.9bn **debt to foreign oil and gas companies** in full within six months, as per the oil ministry. The country planned to borrow USD 2bn to help finance the repayments, seeking to repay 60% of the arrears by year-end.
- Consumer **inflation** in **Egypt** went up a notch in Oct, rising to 11.8% from 11.1% the month before.
- **Egypt's budget deficit** stood at EGP 255.4bn or 12.8% of GDP in the last fiscal year 2013/14, revealed the finance minister. Revenues were 24% lower than budgeted while government spending, at a total of EGP 701.5bn, was almost 10% lower than budgeted, partially due to savings in wages. Egypt's fuel subsidy bill amounted to EGP 126.1bn accounting for 50% of the budget deficit, while electricity subsidies were EGP 13bn.
- About 13.6mn people have been displaced by the **wars in Iraq and Syria**, according to the UN: this includes 7.2 million displaced within Syria, as well as 3.3 million Syrian refugees abroad.
- **Kuwait's** central statistical bureau revealed that the economy **grew** 1.5% last year, slowing from 6.6% in 2012;

its estimates show that inflation-adjusted oil sector output fell 0.8% in 2013 while the non-hydrocarbon sector grew 5.9%. This is in sharp contrast to IMF which reported a 0.2% contraction last year, with lower oil output dragging growth.

- **Kuwait-Dubai bilateral trade** grew by more than 6% to AED 10.3bn in H1 2014, according to Dubai Customs; this compares to the 19.4% growth in 2013 to AED 18.9bn.
- **Budget surplus** in **Kuwait** touched KWD 8.97bn in H1 2014, as expenditure was only KWD 6.12bn against the planned KWD 11.61bn during this period; oil revenues accounted for 94.1% of the total KWD 15.09bn revenues.
- **Kuwait** plans to spend USD 40bn to lift its oil output to four million barrels per day by 2020 and maintain that figure by 2030, according to its state oil company.
- **Oman** is constituted 56.1% of the total 4.06mn population as of Sep this year.
- **Qatar** expects to lower **oil output** to about 500k barrels per day (bpd) by the end of Nov from 650k at the end of last month and from 800k bpd a month earlier, revealed an industry source; this compares to the country's maximum production capacity of 800k bpd
- **Women's bank deposits in Saudi Arabia** crossed SAR 375bn though women only account for 7.3% of commercial registrations issued by the Ministry of Commerce and Industry.
- **Saudi Arabia** is expected to double its **natural gas output** by 2030, stated the oil minister, though no exports are currently being planned. He also revealed that a "conservative" estimate of the kingdom's gas reserves is 300 trillion cubic feet.
- The Labour Ministry in **Saudi Arabia** is planning to fix **minimum wages** for Saudis in the private sector at SAR 5,300 and for expatriates at SAR 2,500; the decision is expected to be implemented in 2015 when the final phase of the wage protection program is completed.
- **Saudi Arabia's** Capital Market Authority will introduce

**rules for credit rating agencies** next Sep, as part of its ongoing process to modernise the financial sector. To apply for a credit rating license, companies will require a local physical presence with a minimum capital of SAR 2mn or enough working capital for three months, whichever is higher.

- The MasterCard **Consumer Confidence Index** places consumer sentiment in Qatar as the highest in Middle East with a peak score of 97.2. Qatar is ahead of Saudi Arabia (96.3), Oman (94.6), Kuwait (92.6), UAE (88.7), Egypt (78.6) and Lebanon (12.4).
- **Halal food imports into the GCC** are estimated to surge to USD 53.1bn by 2020 from USD 25.8bn in 2010; additionally, halal food imports into the UAE annually will reach USD 8.4bn by the end of the decade, revealed the director general of Dubai Municipality.

### **UAE Focus**

- **Inflation in Dubai** touched 4.38% yoy and 0.19% mom in Oct, with prices of beverages and tobacco up 10.41% yoy while housing and utility costs were up 6.67%.
- **Abu Dhabi will raise electricity and water tariffs** in an attempt to limit consumption and reduce waste: Electricity tariffs for residential consumers will be hiked by between 10 and 40% from Jan. 1; UAE citizens will be charged for water consumption, and foreigners will have to pay 170% more for water.
- **UAE** will increase **oil production** to 3.5mn barrels per day to meet energy demand by 2017, according to the director-general of ADNOC. Current production level is around 2.8mn bpd.
- **DP World** is acquiring Dubai World's **EZW** logistics infrastructure firm for USD 2.6bn, ahead of Dubai World's upcoming USD 4.4bn debt maturity next year. The former will also take on about USD 859mn of EZW's debt.
- **UAE-UK bilateral trade** currently stands at AED 72mn, way

ahead of the AED 70mn target by 2015; this target was set by the two governments in 2009, when bilateral trade was around GBP 7.5bn.

- With the **Al Etihad bureau** covering retail customers as well now, it has financial information on 2.8mn individuals or 97% of the total population with a credit history.

## **Media Review**

### ***Greece's silver lining***

<http://www.economist.com/blogs/graphicdetail/2014/11/daily-chart-7>

### ***Regulation to make banks "safer"***

<http://www.economist.com/news/leaders/21632476-latest-global-capital-rules-make-banks-safer-are-sensible-much-else-regulators-are>

### ***US & climate change***

<http://www.ft.com/intl/cms/s/0/a1dcf05e-6c12-11e4-b1e6-00144feabdc0.html#axzz3JCn2W6QE>

### ***Algeria drafting a new investment law***

[http://www.zawya.com/story/Algeria\\_prepares\\_new\\_law\\_to\\_improve\\_business\\_climate-TR20141113nL6N0T24PWX2/](http://www.zawya.com/story/Algeria_prepares_new_law_to_improve_business_climate-TR20141113nL6N0T24PWX2/)