

Weekly Economic Commentary – Nov 23, 2014

Markets

Markets across the globe gained on China's rate cuts and Draghi's comments that "we will do what we must to raise inflation and inflation expectations as fast as possible"; stocks in Europe rose to a 2-month high while Eurozone government bond prices rose across the board. The **euro** sank while the **dollar** gained and the yen moved up from the 7.5 year low on Abe's comment that the yen's fall over the past week was "too rapid". **Oil** prices are hovering around the \$80 mark ahead of the crucial OPEC meeting next week, while **gold** prices closed higher for the third consecutive week.

Global Developments

US/Americas:

- **US industrial production** stalled in Oct, falling a seasonally adjusted 0.1% mom following Sep's 0.8% gain, with auto production reporting the third consecutive monthly decline. **Capacity utilization** decreased to 78.9% in Oct from Sep's revised reading of 79.2%.
- **Inflation in the US** remained low and unchanged in Oct (Sep: 0.1%), with energy costs down 1.9% mom and food prices up 0.1%. Core CPI increased 0.2%, the largest increase in five months (Sep: 0.1%). For the last 12 months, overall inflation is 1.7% while core inflation is a modest 1.8%.
- **US housing starts** unexpectedly fell 2.8% to a seasonally adjusted annual 1.009mn unit pace in Oct, with the volatile multifamily homes segment accounting for the decline. However, permits jumped 4.8% to a 1.08mn unit pace, the highest since June 2008. Meanwhile, builder

confidence, as indicated by the **NAHB housing market index** increased to 58.0 this month from 54.0 in Oct.

- **US existing home sales** rose 1.5% to an annual rate of 5.26 million units in Oct, the highest rate since Sep 2013.
- **Initial jobless claims** fell 2k to a seasonally adjusted 291k, with the 4-week moving average rising 1,750 to 287,500. The unemployment rate for people receiving jobless benefits was at 1.8% for a 10th straight week.
- China's Industrial and Commercial Bank signed an agreement with the Los Angeles city government to promote cross-border yuan trade and set up an **offshore Renminbi center** in California.

Europe:

- **German ZEW index** rose for the first time in Nov since Dec last year, with the index rising to 11.5 points (Oct: -3.6 points).
- **Eurozone Markit composite PMI** fell from 52.1 in Oct to 51.4 in Nov, its lowest since July 2013. In Germany as well, growth of business activity slowed to the weakest since July 2013, thanks to a stagnation in new orders.
- **Inflation in the Eurozone** edged up slightly to 0.4% in Oct (Sep: 0.3%), nudged up by higher prices in the services sector, higher food, alcohol and tobacco prices, and a smaller fall in energy prices. Core inflation meanwhile fell to 0.7% (Sep: 0.8%).
- **Eurozone unemployment rate** remained unchanged at 11.5% in Sep with the number of people out of work falling by 19k to 18.35m. Germany had the lowest jobless rate at 5%, while Greece and Spain had the highest rates at 26.4% and 24% respectively.
- **Eurozone trade surplus** touched EUR 18.5bn in Sep, from EUR 10.8 a year ago; seasonally adjusted figures recorded a 4.2% jump in exports during Sep, outpacing the 3.0% increase in imports. The rise in exports was

across the board: Germany led the way posting an increase of 7.9%, while France and Italy recorded rises of 4.0% and 6.8% respectively.

Asia and Pacific:

- The **PBoC**, in a surprise move, **reduced deposit and lending rates** by 25 and 40 basis points respectively – for the first time since July 2012, signaling concern with slow growth.
- **China** flash HSBC **Manufacturing PMI** fell to a six-month low of 50.0 in Nov from a final reading of 50.4 in Oct; factory output sub-index fell to 49.5, the first contraction since May.
- **China's FDI slowed**, drawing USD 95.9bn in the first 10 months of 2014, down 1.2% yoy; Oct alone was witness to inflows of USD 8.5bn, up 1.3% yoy.
- **Japan GDP** shrank by an annualized 1.6% in Q3, following a 7.3% contraction in Q2, thereby sinking the economy into recession. The fall was led by a reduction in business inventories while private consumption grew an annualized 1.5%, after a drop of 18.6% in Q2. Separately, the **BoJ** decided to leave policy rates unchanged.
- **Japan trade deficit** narrowed by 36% yoy to JPY 709.9bn in Oct; exports were up nearly 10% on higher shipments of cars, ships and steel while imports ticked up 2.7%. Value of shipments to China rose 7.2%, while exports to North America climbed 8.5% and those to the EU were up 5.4%.

Bottom line: More global stimuli: two central banks took centre stage last week, with China easing rates (to stimulate growth) & ECB's Draghi giving a strong hint of further monetary stimulus (on low inflation concerns; the word "inflation" appeared 45 times in the text of his speech) in his dovish speech. These central bank moves follow BoJ's announcement of its own securities-purchase program earlier

this month – much needed as the economy has slipped into recession, leading Japan's PM Abe to also dissolve parliament last week, paving the way for a snap election in mid-Dec.

Regional Developments

- **Egypt's** trade and industry minister revealed that three African economic blocs would merge into a new 27-nation free-trade zone under an agreement to be signed next month; this bloc combined accounts for 58% of the continent's economic activity.
- **Fuel subsidies** in **Egypt** was down 29% yoy to EGP 22bn in Q1 of this fiscal year, thanks partially to the cut in energy subsidies this July when fuel prices were raised by up to 78%.
- **Egypt's unemployment rate** dipped in Q3 by 0.2% to 13.1% – well above the 8.9% reported during Sep 2010 i.e. pre-turmoil days. The total number of unemployed was about 3.6mn, and compares to a total labour force of 27.6mn.
- The **tourism sector** in **Egypt** continues to gain: the country saw a 193% yoy rise in tourist arrivals to nearly 884k in Sep; this follows a 76.7% yoy rise reported in Aug but in mom terms, it was down 11.4%.
- **Iran's** oil minister states that the country could **double oil exports**, if the sanctions are lifted. Currently exporting 1.3mn barrel per day (bpd), the minister revealed that the country could increase exports by almost 500k after any lifting of sanctions and could pump 4mn bpd in less than three months after.
- **Iraq** will base its **2015 budget** using an oil price of USD 80, according to the oil minister. The government forecasts southern Iraq output of 2.75mn bpd and a further jump to 3.4mn bpd if Kurdistan and Kirkuk oil are included. An agreement was reached last week wherein Kurdistan would provide 150k bpd of oil exports – equal to around half its overall shipments – to the federal budget.

- About 54k **net new jobs** were created in **Jordan** in 2013: nearly 79% of net new jobs or 41k were created by the private sector, and government sector accounted for 13k new jobs.
- **Kuwait's** central bank clarified that there were no restrictions on **foreign derivatives trading** by local banks, though they must still comply with regulatory guidelines.
- A Credit Suisse report placed the **total net wealth in Lebanon** at an estimated USD 91.1bn at the end of June, up only 0.4% yoy. This was the 73rd highest among 174 countries globally and the 11th highest among 19 Arab countries.
- **Oman's oil production** target for next year is 980k bpd against the 2014 target of 950k barrels, revealed the country's Undersecretary of the Ministry of Oil and Gas. He also revealed that the current dip in oil prices would not impact the government's capital expenditure programme for the oil and gas sector in 2015.
- **Bilateral trade** between **Hong Kong and Oman** reached USD 153.9mn in 2013, more than three times the total of USD 48mn in 2003.
- **Qatar inflation** slipped to 3% in Oct (Sep: 3.6%), thanks to a marginal decline in food prices and in spite of house prices rising by 8.2% yoy (Sep: 8.1%).
- A Deloitte report on the GCC **construction sector** revealed that in **Qatar**, the government was planning to regulate commodities by "creating a single buying source to import into the country run by a government subsidiary which will then sell on to the contractors".
- **Saudi Aramco** estimates to have 900bn barrels of oil resources by 2025, up from the current 790bn barrels, according to a senior official.
- **Construction activity in Saudi Arabia**, tracked by value of awarded contracts, dipped by nearly 37% in Q3 while value of awarded contracts reached SAR 158.9bn through 2014.

- **Saudi Arabia** is to open its market to foreign investors by April next year, reported *Asharq al-Awsat* newspaper, quoting unnamed sources. The three-month consultation period on draft rules ended on Nov 20.

UAE Focus

- **Aviation and tourism** related activities are forecast to contribute USD 53.1bn or 37.5% to **Dubai's** GDP in 2020 and support over 754,500 jobs, according to a recent Oxford Economics report. It was also estimated that for every \$100 of activity in the aviation sector, a further \$72 is added in other sectors of the local economy from supply chain connections and expenditures; in addition every 100 jobs created in the aviation sector would lead to 116 jobs elsewhere in Dubai.
- **ADX** plans to develop a **domestic debt market and asset securitisation market** to encourage participation of institutional investors and boost liquidity. The number of foreign institutional investors more than doubled to 790 by Sep this year.
- **FDI into Dubai** is expected to grow 10-15% yoy this year, revealed the chief executive of Dubai FDI. The government has earmarked USD 1.73bn for new infrastructure projects over the year, up 13% yoy.
- **Sharjah's debt settlement panel** approved AED 20.2mn towards the payment of debts of wanted, convicted persons in financial cases, and also other defaulters.
- A boost in **transparency**: **DFM** reported 100% compliance from its listed companies to disclose quarterly results within the deadline of 45 days from the end of the period.
- A **Dubai** Land Department official revealed that the emirate had facilitated takeover of 39 stalled projects valued at AED 10bn by various developers in addition to having arranged funding for further four projects, under

its Tanmia initiative.

- In an attempt to meet **sustainability** targets of the Expo 2020, all buildings must be constructed using '**green**' **concrete** by early 2015, revealed Dubai Municipality. Other sustainable solutions used in buildings include insulation, solar heating and installing LED lighting.

Media Review

China's Global Leadership Role

<http://www.project-syndicate.org/commentary/china-global-leadership-by-jeffrey-d-sachs-2014-11>

The week's interesting charts

<http://qz.com/300692/the-weeks-nine-most-important-economic-charts-2/>

Did Dubai Do It? writes Friedman

<http://www.nytimes.com/2014/11/19/opinion/thomas-friedman-did-dubai-do-it.html>

Kuwait targets subsidy reforms

http://www.zawya.com/story/Kuwait_targets_subsidy_reforms-ZAWYA20141117104831/

Encouraging signs for Egypt's economy

http://www.zawya.com/story/Encouraging_signs_for_Egypt's_economy-ZAWYA20141117100841/