

Weekly Economic Commentary – Nov 30, 2014

Markets

The **OPEC**'s decision to not cut oil production levels left the biggest impact across the markets: the overall energy sector of the S&P 500 fell 6.3% on Friday, adding to its year-to-date losses, now at 10.3%. In **Asia**, the Shanghai market gained, touching 3-year highs, amid hopes of further rate cuts and Nikkei rose to a two-week high on a weaker yen. The **dollar** gained but the **euro** fell on the week (though gaining modestly earlier in the week). On Thursday alone, **Brent** crude price tumbled 6.6%, following Opec's decision and even briefly fell below the \$70 mark later while **gold** prices dipped further.

Global Developments

US/Americas:

- **US Q3 GDP** was revised up to 3.9% yoy (Q2: 4.6%; represents two strongest back-to-back quarters since H2 2003) from the previous estimate of 3.5%, thanks to upticks in business and consumer spending plus inventories. Growth in domestic demand was raised to a 3.2% pace from the previously reported 2.7%.
- **Consumer spending in US** increased 0.2% in Oct after being flat in Sep, largely due to dip in gas prices and strengthening labour market. Income rose a modest 0.2% in Oct following a similar gain in the prior month; the saving rate remained unchanged at 5.0%.
- Personal consumption expenditures (**PCE**) price index rose 1.4% after advancing by the same margin in Sep. Meanwhile, core PCE was up 0.2% mom, after a 0.1% gain in Sep, with the core index rising 1.6% in the 12 months through October, the largest gain since December 2012.

- **S&P Case Shiller home price index** showed that US single-family home prices gained just 4.8% yoy sa in Sep (Aug: 5.1%), with growth in house prices on a downward trend for the 9th straight month.
- **US durable goods orders** increased by 0.4% mom sa in Oct (Sep: -0.9%), as a result of a 45.3% surge in the volatile demand for defense aircraft and parts. Orders for nondefense capital goods excluding aircraft fell 1.3% after dropping at the same rate in Sep.
- **Existing home sales** rose 1.5% to an annual rate of 5.26mn units, the highest rate since Sep 2013. **New home sales** gained for the third consecutive month, rising 0.7% to a seasonally adjusted annual rate of 458k units.
- **Initial jobless claims** rose 21k to 313k last week, while the 4-week moving average climbed to 294k from 287,750 the week before.
- **Brazil GDP** grew 0.1% qoq and shrank 0.2% yoy in Q3; drought led to a 1.9% decline in agriculture, private consumption was down 0.3% largely due to tighter monetary policy and government's fiscal spending, up 1.3% qoq, helped avert a technical recession in Q3. Investment, at 17.4% of GDP, was the lowest reported in eight years.

Europe:

- **German GDP** rose 0.1% in Q3, same as the preliminary reading released earlier. The contraction in Q2 however was revised to 0.1% from a previous estimate of 0.2%. Harmonized **inflation** meanwhile dropped to 0.5% from 0.7% in Oct while retail sales rose 1.9% mom and 1.7% yoy in Oct.
- **German Ifo** unexpectedly increased to 104.7 in Nov (Oct: 103.2), breaking six straight monthly declines prior to this. Separately, the **unemployment rate** touched a record low of 6.6% in Nov, with the number of unemployed people decreasing by a larger-than-expected 14k to 2.872

million, the lowest in 23 years.

- The flash estimate of **eurozone headline inflation** clocked in at just 0.3% yoy for Nov, down from 0.4% the month before.
- **UK GDP** clocked in 0.7% growth in Q3, with business investment falling by 0.7% qoq, down from 3.3% growth in Q2, while Britain's trade deficit widened to GBP 11.2bn from GBP 8.9bn the previous quarter.

Asia and Pacific:

- **India GDP** slipped in the Jul-Sep quarter, rising 5.3% yoy, and compares to the previous quarter's 5.7% growth reading. Growth was largely due to higher government spending and higher output from the agriculture sector (+3.2%).
- **Singapore GDP** expanded 2.8% in Q3, higher than the advance reading of 2.4% announced earlier, as manufacturing output was revised higher. Separately, **GDP in Philippines** posted its slowest growth in more than five years of 5.3% in Q3 (Q2: 6.4%), hurt by a decline in public spending.
- **Japan core CPI**, which excludes volatile fresh food but includes oil products, fell to a 13 month low, slowing to 2.9% yoy in October, thanks to falling oil prices. Excluding the effects of April's tax hike, inflation was estimated at 0.9%.

Bottom line: The OPEC meeting was the biggest market mover last week as its decision not to cut production levels amid lower demand from Asia and Europe implies a significant hit to oil producers like Venezuela, Iran and to a certain extent Russia. The US is likely to gain given its shale gas "revolution" while oil producers in the Gulf are better placed given lower extraction costs and ample reserves.

Regional Developments

- The fall in oil prices is helping **Egypt** rein in **subsidies**: subsidies will amount to EGP 75bn during the 2014-15 fiscal year as opposed to the planned EGP 100bn, stated the chairman of the state-run Egyptian General Petroleum Corp
- Three banks – HSBC, National Bank of Egypt and National Bank of Abu Dhabi – are arranging a USD 1.5bn **syndicated loan** to help the country's state oil company pay off its foreign suppliers. Disbursement of the loan will start before end of the year, with each bank having a share of USD 500mn, stated the NBE representative.
- **Egypt** has returned USD 2.5bn to **Qatar**, bringing the total to USD 6bn so far, with USD 500mn outstanding.
- **Egypt**'s central bank left **policy rates unchanged** at the latest meeting: overnight deposit and lending rates remain at 9.25% and 10.25% respectively.
- At the conclusion of the **IMF's mission to Egypt**, they called for greater exchange rate flexibility to boost growth more while praising the country's latest set of tax, regulatory, monetary and subsidy reforms. Growth is estimated at 3.8% in the fiscal year 2014-15, in line with government predictions.
- Iraq's Finance Minister revealed that a budget of USD 100mn will be presented for next year, with the oil price estimated at USD 70.
- **Kuwait** parliament's legal and legislative committee passed a new bill to limit expatriates in the country: it imposes a five-year residency cap on foreigners and a ban on bringing their families; it also proposes to limit the size of any expatriate community to less than 10% of the Kuwaiti population. This is applicable to unskilled and semi-skilled expatriates while GCC, European Union and US citizens in addition to consultants and doctors were to be exempted from this provision.
- **Trade surplus** in **Qatar** dipped 13.7% yoy to QAR 26bn in Oct, with exports showing a decline of 10.7% to QAR

35.5bn. Japan was the largest export partner with QAR 8.1bn, accounting for 22.9% of total exports, followed South Korea and India accounting for 15.8% and 12.5% respectively.

- **SAMA's net foreign assets** touched SAR 2.753 trillion in Oct, with the central bank also reporting lending growth to the private sector accelerating to 15.7% amid money supply (M3) growth at 14.7%.
- **Saudi Arabia's** Ministry of Civil Service revealed that there were approximately 6,000 **expatriates in government jobs** currently, including in the education, health and IT sectors.
- Qatar and UAE top the "**Paying Taxes**" report published jointly by the World Bank and PwC: Qatar has a Total Tax Rate of 11.3%, takes 41 hours to comply with a total of 4 payments; UAE has a Total Tax Rate of 14.8%, 12 hours and 4 payments.
- The ARCADIS Global Infrastructure Investment Spending Index, which gives top ranking to Singapore, has Qatar and UAE following close in its heels. The report noted that access to finance would be critical for the top-tier countries scale up investment, including Qatar.
- EY's **M&A** report on the **MENA** region identified UAE as the regional leader: the country accounted for 48% of the number of inbound deals with the total value of inbound deals accounting for USD 4.26bn or 93% of the inbound deals into the region.

UAE Focus

- Two companies – Manazel Real Estate and The National Investor – have started trading on the **UAE's secondary market**, with the regulator stating that at least three more were to join by mid-2015.
- **Amlak Finance** signed a USD 2.7bn debt and financing restructuring deal with creditors; the deal was approved by shareholders in Sep and this step completes the

process.

- Reuters reported that **Dubai World** is set to meet with its creditors this week (on Dec 1 & 8) to formally present revisions to its multi-billion-dollar debt restructuring terms.
- An economic committee of the UAE's Federal National Council recommended that the central bank establish a **department to oversee the peg** to the USD. The dirham eased to its lowest level against the dollar in over a year in the forwards market last Thursday.
- In pursuing a "**green growth**" strategy, the **UAE** is expected to create about 160k jobs as well as save AED 6.5bn by reducing electricity and water consumption by 30% by 2030. Additionally, natural gas consumption reduction by 15%, which is equivalent to 42 mega tonnes of oil, will save at least AED 40bn annually by 2021.
- Fitch, which evaluated sovereigns for vulnerability to lower oil prices, found that Kuwait, Abu Dhabi, and Norway were the **least vulnerable Fitch-rated sovereigns**.
- **Moody's** report on the **UAE banking sector** identifies strong profitability and asset quality as factors that will enable the sector to remain stable over the near-term. It also stated that the strength of the UAE banks' liquidity is reflected in the banking system's liquid assets-to-total assets ratio of around 30% as well as a loans-to-deposit ratio of 91% as of Dec 2013.
- **Passenger traffic** through the **Abu Dhabi airport** increased 17.4% yoy to 1.68mn passengers in Oct.

Media Review

Europe Inc: Not all gloom & doom

<http://www.ft.com/intl/cms/s/0/beea1512-74ac-11e4-b30b-00144feabdc0.html#axzz3KUrnpahN>

A story of three November summits

<http://www.project-syndicate.org/commentary/apec-g-20-and-east-asian-summits-by-gareth-evans-2014-11>

The OPEC meeting: gainers and losers

<http://www.economist.com/news/business-and-finance/21635079-oh-vienna>

Geopolitical impact of cheap oil

<http://www.project-syndicate.org/commentary/oil-prices-geopolitical-stability-by-martin-feldstein-2014-11>

China's "Ghost Cities"

<http://www.ft.com/intl/cms/s/0/002a1978-7629-11e4-9761-00144feabdc0.html?#axzz3KUrnpahN>