

Weekly Economic Commentary – Dec 7, 2014

Markets

The better-than-expected US jobs report helped **S&P 500** to continue on its gaining streak for the seventh consecutive week and the yield on the two-year Treasury note to hit a 3-½ year high. Contagion extended to the **DAX** index in Frankfurt which closed at a record peak and in Asia, **Nikkei** touched the highest level since July 2007 and trading volume in China's stock markets surged to a record mid-week. The **dollar** rose to a 5-½ year high against a basket of currencies while the **Euro** was down. Crude **oil** prices struck a five year low on Monday but edged up slightly later in the week, while **gold** prices gained on a stronger dollar.

Global Developments

US/Americas:

- **Non-farm payrolls**, at 321k, surprised on the upside, also registering the strongest month since Jan 2012 while the unemployment rate held steady at a six-year low of 5.8%. This is also the 10th straight month that job growth exceeded 200k, the longest stretch since 1994.
- **Initial jobless claims** fell by 17k to a seasonally adjusted 297k last week, bringing the 4-week moving average to 299k.
- **US ISM** manufacturing index eased slightly to 58.7 in Nov (Oct: 59), with new-orders index rising to a 3-month high of 66.0 (65.8); the services sector PMI rose to 59.3 (57.1), just under the post-recession high of Aug's 59.6, with only 2 out of the 10 sub-components – imports and employment – reporting a decline.

- **Factory orders** in **US** dipped 0.7% in Oct, following a revised 0.5% drop in Sep; orders for non-defense capital goods excluding aircraft, a proxy for business investment – fell 1.6%.
- **US trade deficit** fell slightly by 0.4% to USD 43.4bn in Oct; imports were up 0.9% to a record high USD 241bn, in spite of petroleum imports at their lowest since Nov 2009, while exports grew 1.2% to USD 197.5bn.
- **US construction spending** rose 1.1% in Oct, the biggest rise since May this year.
- **Brazil** raised its benchmark Selic **interest rate** – the second increase in less than two months – by 50bps to 11.75%, in a bid to put a lid on rising inflation.

Europe:

- The **ECB** held rates unchanged at an all-time low. Divisions exist: ; Draghi revealed that though QE was discussed at the meeting, no agreement was reached as to its implementation, while also stating that the ECB would reassess its policies early next year [*“Early means early. It doesn’t mean at the next meeting.”*]. Separately, **EU GDP growth** was confirmed at 0.2% in Q3.
- EU Markit **manufacturing PMI** came in at 50.1 in Nov (Oct: 50.6) – the lowest since Jun 2013 – with Germany, France and Italy reporting a contraction in manufacturing activity (indices at 49.5, 48.4 and 49 respectively). The **composite Eurozone PMI** meanwhile slipped to its lowest level for 16 months.
- **German factory orders** jumped 2.5% in Oct with domestic orders reporting a 5.3% gain, compared with an increase of 0.6% in export orders. Investment goods rose 3% and basic goods advanced 2.5%, while orders for consumer goods fell 0.1%.
- **UK consumer credit** touched a 8-year high, rising 6.4% in Oct, partly aided by cheap borrowing costs, while mortgage approvals fell to lowest since June 2013.

Separately, **Markit PMI** rose to 53.5 in Nov (Oct: 53.3), the highest in four months,

- **Unemployment rate in France** registered 10.4% in Q3 (Q2: 10.1%), rising back to the 15-year peak level, last reported in Q2 2013 when the country was in recession; youth unemployment meanwhile rose to 24.6% from 23.6%.

Asia and Pacific:

- **China** official **manufacturing PMI** dipped to an 8-month low of 50.3 in Nov (Oct: 50.8) while the final HSBC/Markit manufacturing PMI edged down to a 6-month low of 50 in Nov. Additionally, **China non-manufacturing PMI** rose to 53.9 in Nov (Oct: 53.8) and the HSBC/ Markit index edged up to 53.0 (Oct: 52.8), with new orders rising at the quickest pace in 2-1/2 years.
- **India's** central bank kept **policy rate unchanged** – repo rate at 8% and reverse repo at 7% – at the last official policy meeting; hints of possible rate cut next year sent the benchmark 10-year bond yield below 8% to its lowest since 15 July.
- **Japan monetary base** was up 37.1% yoy to JPY 262.69 trillion at the end of Nov, a record high for the fourth straight month.

Bottom line: Last week saw the release of PMI's across the globe: while China's continues to concern, the divergence between the US and Eurozone could not be more evident with the latter's composite PMI at a 16-month low and manufacturing PMI's in the larger nations falling below the neutral 50-mark. Though factory orders in Germany edged up, the Bundesbank cut its German economic forecasts through 2016 predicting an expansion of 1% compared with its June outlook of 2%. Russian sanctions are hurting Europe as well as Russia.

Regional Developments

- **Tourists arrivals in Egypt** jumped 70% yoy in Q3 to

2.77mn persons, bringing the total year-to-date figure to 7.27mn tourists, as per official estimates. Tourism revenues were roughly around the USD 3bn mark in H1 2014 and compares to the peak figure of USD 12.5bn. Separately, visitors from Saudi Arabia, UAE and Kuwait were up by 64.9%, 72.7% and 44.8% respectively during the first 10 months of this year.

- Total **assets of private insurance funds in Egypt** currently stand at EGP 44bn, according to the Chairman of the Egyptian Financial Supervisory Authority. A total 4.6mn subscribers span across a total 610 private insurance funds in the country.
- **Iraq's oil exports** to be boosted by Kurdish supply: a temporary agreement has been reached that about 300k barrels per day (bpd) of oil from Kirkuk will be exported via a pipeline running through Kurdish territory to Turkey, in addition to 250k bpd from the region's own fields.
- **PMI in Lebanon** climbed to a 17-month high of 49.5 in Nov (Oct: 48.8), still shy of the 50-point mark, with export orders index rising to 50.4 (Oct: 46.9) and the new orders index up to 48.7 from 47.5 in Oct.
- Small stays small. **Micro-startups** or firms less than 5 years old and with less than five employees accounted for 177% of net job creation in **Lebanon** between 2005 and 2010, according to a World Bank report. The report also found that the probability of micro-startups growing beyond 10 employees within five years is only 12% in Lebanon.
- **GDP in Qatar** was up 6.6% yoy but fell 2.2% qoq to QAR 189.65bn in **Q2**, as per official sources. The nominal gross value added in the non-oil sector was up 13.5% yoy to QAR 92.93bn.
- **Public reserves** deposited at **SAMA** were up 13% mom to SAR 904.6bn in Oct, in spite of the fall in global oil prices.
- There are about 300 **green building projects in Saudi**

Arabia, with an area of more than 25 million square meters, and a total value of SAR 150bn, as per the Secretary of the Saudi Green Building Forum.

- Approximately 95% of international **Islamic banking assets** are based out of nine core markets, five of which are in the GCC (KSA, UAE, Qatar, Kuwait, Bahrain), according to EY's World Islamic Banking Competitiveness Report 2014-15. Global Sharia compliant banking assets are expected to exceed USD 778bn this year and Islamic banks in Saudi Arabia, Kuwait and Bahrain represent more than 48.9%, 44.6% and 27.7% market share respectively.
- About 58% of businesses surveyed in the **MENA** region expect to avail more debt to fund growth compared with 23% six months ago, according to the latest **EY Capital Confidence Survey**. The survey also found that 85% of respondents would focus on expanding their core offering into new markets.
- **Average mortality rate among children under five** in Qatar and UAE was 16 for every 1,000 live births in 2013 whereas the number ranged from 12 in Bahrain to 31 in Saudi Arabia.

UAE Focus

- **Dubai Aluminum** is in the process of arranging a USD 1.8bn 7-year loan to fund its general operations; three banks – Citigroup, Emirates NBD and Societe Generale – have been chosen to arrange the deal.
- **Islamic banking assets** in the **UAE** crossed USD 100bn this year, as per EY's World Islamic Banking Competitiveness Report 2014-15.
- **Passenger traffic** at **Dubai** airport was up 5.7% yoy to 5.99mn passengers in Oct, bringing the year-to-date figure to 58.41mn persons (+6.1%).
- The tumbling Ruble is taking its toll on Dubai tourism: visitors from Russia and FSU fell by 8.2% over same period last year, official figures show.

- Reuters reported, citing sources that close to 70% of the creditors have agreed to **Dubai World's revised terms of the debt restructuring**. Dubai World loans include a USD 4.4bn term loan scheduled to mature in May 2015, and a USD 10.3bn term loan that matures in 2018. According to the revised terms, the plan is to increase the interest margin on the larger loan to 425bps over Libor from 300bps, with the maturity extended to 2022 and also to repay in full the USD 4.4bn loan.
- **Linkages between the UAE and Africa** are growing stronger, with greater investments from the former's SWFs; according to KPMG, in the recent past, there have been commitments worth USD 19bn from UAE investors, across 17 infrastructure projects in Africa.

Media Review

A picture is worth a thousand words: the world last week in charts

<http://qz.com/307361/the-eight-most-important-charts-of-the-week-2/>

The Return of Currency Wars: Roubini

<http://www.project-syndicate.org/commentary/world-government-reliance-monetary-policy-by-nouriel-roubini-2014-12>

India to seek G20 deadline on cut in remittance costs

http://www.zawya.com/story/India_to_press_G20_for_deadline_to_cut_remittance_costs__sources-TR20141204nL3N0T0201X2/

Bahrain to develop central Shari'a board

http://www.zawya.com/story/Bahrain_to_develop_central_sharia_board_for_Islamic_banks-TR20141203nL3N0TN1A0X2/