

Weekly Economic Commentary – Dec 14, 2014

Markets

Declining oil prices shattered stock markets across the globe: **US** S&P 500 index closed the week posting the worst weekly performance in two and a half years; **European** markets were dragged down posting the biggest weekly loss since mid-2011, also affected by Greece's stock market which crashed almost 13% mid-week following the call for a parliamentary vote to elect a new head of state. The **VIX**, an indicator of market volatility, was up 63% from just the week before. Emerging market currencies hit a 14-year low against the dollar. The oil price decline is now about 46% down from its June peak – the sharpest sell-off since 2008 – while gold price recorded its biggest weekly rise in two months. Falling oil prices are increasing deflationary pressures.

Global Developments

US/Americas:

- **The index of mortgage applications in the US** was up 7.3% in the week ended Dec 5, reported the Mortgage Bankers Association, thanks to gains in both refinancing (+13.2%) as well as mortgage applications (+1.3%)
- **Retail sales** in the **US** grew 0.7% mom in Nov, recording the biggest gain since Mar, while the core retail sales reported a gain of 0.6% mom and 4.4% yoy – the largest year-over-year increase since early 2012.
- **Initial jobless claims** declined 3k to 294k last week, while the 4-week moving average, at 299,250, remained close to the week before.

Europe:

- In the latest targeted **longer term refinancing operation** (LTRO), 306 banks in the EU were allotted EUR 129.8bn of

the EUR 317bn offering, according to the **ECB**. This is much less than EUR 270bn of old loans due to be repaid, thereby raising expectations for government bond purchases by the ECB sooner than later.

- **Industrial production** in the **euro-area** was up by a meagre 0.1% mom and 0.7% yoy in Oct, with Ireland registering the fastest increase in the region of 9% mom and 38.8% yoy. Separately, **employment** in the **euro-area** was up 0.2% qoq and 0.6% yoy in Q3, with the highest increases in employment number registered in Greece (1.7%), Lithuania (1.5%) and Portugal (1.4%).
- **German industrial production** edged slightly higher in Oct, up 0.2% mom, compared to Sep's 1.1% rise; output of consumer goods climbed 0.5% while production of investment goods dropped 0.4%. **Foreign trade** data for Oct reported the steepest drop in German imports in almost two years, down 3.1% mom, while exports also dipped, though by 0.5% only.
- **German inflation** rate was confirmed at a 4½ year low of 0.6% in Nov while in **France** core inflation fell to -0.2% yoy in Nov, the first time it has turned negative since modern data began. Falling oil prices now increase deflation risks.
- **UK manufacturing output** fell 0.7% mom in Oct from a revised 0.7% pickup in Sep, thanks to a 4.5% fall in computer, electronic and optical products.
- The **Russian central bank** raised interest rate by 1 percentage point to 10.5%, just six weeks after it raised the rate to 9.5% from 8%, given inflationary pressures owing to the weak Ruble and ban on western food imports. The currency fell to a new record low despite of the central bank's efforts.

Asia and Pacific:

- **China's** monthly barrage of data releases were mostly weak, increasing speculation of policy easing and that

the government would likely take further steps to support the economy, also causing the stock market to post a fifth week of gains: **Industrial production** was up 7.2% yoy in Nov (Oct: 7.7%) with factories shut down to curb pollution levels. **Investment in fixed assets** expanded 15.8% yoy in the period Jan-Nov (Jan-Oct: 15.9%), and **retail sales** gained 11.7% (Oct: 11.5%). **New Yuan loans** touched CNY 852.7bn in the month of Nov, well above market expectations while **money supply M2** increased 12.3% yoy to CNY 120.86 trillion. The **PBOC** reportedly injected CNY 400bn into the banking system, according to Bloomberg.

- **China's trade surplus** was at a record high USD 54.47bn in Nov, surpassing the previous record of USD 49.87bn set only in Aug 2014, supported by a 4.7% rise in exports while imports dropped 6.6%. **Inflation** eased to a five-year low of 1.4% in Nov (Oct: 1.6%) while the **producers price index** fell 2.7% yoy, the 33rd consecutive monthly decline.
- **Japan's Q3 GDP** shrank by 1.9%, more than the previous estimate of a 1.6% dip, on declining capital spending and weak private consumption (+0.4% qoq). **Current account surplus** was strong at JPY 833.4bn in Oct, in spite of a larger trade deficit (due to weaker exports), thanks to a weaker yen and overseas investment income.
- **Japan's machinery orders** tumbled 6.4% mom in Oct (Sep: +2.9%), though the Cabinet Office maintained its assessment of machinery orders, saying that they are showing a moderate pick-up.
- **Industrial production in India** contracted by 4.2% yoy in Oct, with the production of capital goods down 2.3% and that of consumer goods sliding a whopping 18.6%. Consumer inflation meanwhile fell to 4.38% in Nov, from Oct's 5.52%.

Bottom line: The US went through yet another hurdle with the Congress passing the USD 1.1 trillion budget only late

Saturday (56-40), without which another government shutdown was looming. The ECB's LTR0 performance suggests that it may move towards buying government bonds sooner than later. In Asia, warning signs of China slowing were cemented when the central bank revealed in a report that growth could slow to 7.1% in 2015 from an expected 7.4% this year, held back by a sagging property sector. Separately, both OPEC and the International Energy Agency cut demand growth forecasts for 2015, sending oil prices further down south – but lower oil prices is as much a supply expansion story as it is a weaker demand one. The dip in oil price also led to central banks of two oil exporting nations – Norway and Russia – to cut rates, the former reducing rates by 25bps to 1.25%, a level touched once in 2009, post-financial crisis.

Regional Developments

- Private-sector banks in **Egypt** registered 84% of total loans as of end-Jun, reported the central bank, and this compares to the 83.4% share in Q1. The portfolio of total loans was around EGP 584.06bn by end of Jun 2014.
- **Urban and core inflation in Egypt** eased in Nov, benefitting from the declining oil prices and slower rise in food prices, with the former dropping to 9.1% (Oct: 11.8%) and the latter at 7.8% (Oct: 8.47%).
- **Jordan** is forecast to accelerate to 4% growth next year, from an estimated 3% this year, stated the deputy governor of the central bank, thanks to cheaper oil strengthening the government's fiscal position and reducing the country's current account deficit.
- **Inflation in Oman** was up 0.1% mom and 0.95% yoy in Oct, with the monthly increase largely attributed to food and non-alcoholic beverages, which rose by 0.36%.
- **Oman's equity market** slipped down to May 2013 low last week after S&P downgraded the sovereign's outlook to negative from stable and on news that gas prices would be doubled for companies from Jan 1.
- **Qatar** State Cabinet approved a draft **law on regulating**

public tenders and auctions: this includes provisions for contracting methods, subtraction, bidding, insurance, bids evaluation, the conclusion of the contract and its implementation and auctions. It has been passed to the Advisory Council for opinions.

- **Qatar's** Ministry of Development Planning and Statistics revealed that the country had completed a total of 9,213 **projects** worth QAR 80bn in 2013, of which buildings, electricity, water desalination, and roads and bridges accounted for the maximum completed projects.
- **PMI** in **Saudi Arabia** recorded 57.6 in Nov (Oct: 59.1), with new orders rising at the weakest pace since May this year.
- **Saudi non-oil exports** grew by 7.5% yoy to SAR 177.2bn during the Jan-Oct period, while imports declined 3.5% to SAR 511.1bn.
- **Saudi Arabia's** Shura Council has **requested** the government **to write off loans** worth SAR 39bn, that is owed by poor citizens unable to make repayments.
- **Saudi Arabia** has not asked **Yemen** for an early repayment of a USD 1bn loan, stated the latter country's central bank governor, following reports to the contrary earlier last week.
- **S&P** revised its outlook on **Saudi Arabia** to stable from positive, with lower Brent prices putting pressure on GDP, though supported by the very strong external positions.
- **Moody's** anticipates that Bahrain and Oman governments are likely to finance any increase in fiscal deficits next year due to drop in oil prices through sovereign debt issuance in 2015.
- Some 35k **GCC nationals** were working in countries within the bloc that were not their home countries in 2013, according to figures released by the GCC General Secretariat; 17k or roughly half of them hold private sector jobs. Kuwait employs the most GCC citizens – 22.5k, of which 10k were in the government sector.

UAE Focus

- The Investment Corporation of Dubai will increase its stake in **Dubai Aerospace** by year-end, acquiring the share held by Istithmar – the latest in the process of **asset shuffling**. Though the share and price offered were not revealed, sources claim that the share is roughly around 15%.
- **Abu Dhabi's financial free zone** ADGM is planning to receive its first license applications next year, after 16 institutions were appointed to a panel advising on regulatory framework.
- **Dubai's Al Habtoor Group's** chairman revealed that the company's plans of listing (anticipated in early 2015) have been halted for the time being, and expects revenues to more than double over the next five years supported by strong local economic growth.
- A senior **UAE central bank** official stated that “the central bank board is studying new **regulations for credit against shares**” – much needed policy regulation given the very recent wild swings in shares of Arabtec and the current dip following the oil price decline on global markets.
- **Dubai's Jebel Ali Free Zone**, which comprises 57 million square meters of land, has been valued at over AED 16.52bn; this valuation was undertaken by DP World as part of the planned acquisition of Economic Zones World.
- According to the **Global Petroleum Survey**, better environment regulations helped **UAE** become the most attractive investment environment in MENA for global energy firms, ahead of Qatar which was the previous leader and down due to greater trade barriers and labour shortages.

Media Review

The GCC Summit: not a rosy picture

http://www.zawya.com/story/Differences_persist_after_Gulf_summ

it-TR20141210nL6N0TU1CLX3/

Moody's take on banks in the MENA region

http://www.zawya.com/story/MENA_banks_2015_outlook_negative_GC_C_stable-ZAWYA20141210070535/

Roubini sees fives potential economic dangers coming our way in 2015

<http://finance.yahoo.com/news/economic-dangers-coming-our-way-in-2015-nouriel-roubini-002244045.html>

Chinese caution on currency reform: well warranted?

<http://www.ft.com/intl/cms/s/0/82477f2a-8107-11e4-896c-00144feabdc0.html>

Good and bad inequality

<http://www.project-syndicate.org/commentary/equality-economic-growth-tradeoff-by-dani-rodrik-2014-12>