

# Weekly Economic Commentary – Dec 21, 2014

## Markets

It was a **2 part-story** last week: the initial half was burdened by **Brent** crude trading at its cheapest in five years accompanied by a disastrous rouble plunge amidst concerns about Greece causing the S&P 500 to touch a 6-week low and the volatility index, Vix, to touch a 2-month high; the situation improved with the dovish **Fed** announcement, with the S&P 500 index closed the week reporting its biggest three-session gain in more than three years and Asian shares enjoying their best day in 15 months on Friday. The **rouble** collapsed to a record low of 79 before recovering, while the **dollar** hit a 5-year high against a basket of currencies and the **euro** was at a two-year low. **Gold** prices posted a weekly loss after two weeks of gain.

## Global Developments

### **US/Americas:**

- While retaining its dovish stance, **Fed** chairwoman Yellen stated that the central bank would be “patient” in its decision of when to raise interest rates.
- **US industrial production** increased by 1.3% in Nov (Oct: 0.1%), the largest gain since May 2010, as factory production increased 1.1% following an upwardly revised 0.4% gain in Oct. Capacity utilization increased to 80.1%, the highest since Mar 2008, and up from 79.3% the month before.
- **Inflation in the US** posted the largest decline in six years, coming in at 0.3% in Nov, aided by the lower oil prices, after being flat in Oct; core CPI edged up 0.1% (Oct: 0.2%).

- Once again, mixed signals on real estate recovery from the US: Nov **housing starts** reported the first drop since Aug, declining by 1.6% to a 1.03mn annualized rate from Oct's revised 1.05mn; **building permits** fell 5.2% to a 1.04mn annualized rate (Oct: 1.09mn). **NAHB housing market index** showed that confidence was at a near 9-year high, dropping slightly to 57 in Dec from the previous month's 58.
- **US current account deficit** widened to USD 100.3bn in Q3 (+1.9% qoq) or 2.3% of GDP, in spite of increase in exports, as the deficit on secondary income increased.
- **Manufacturing PMI** in the US eased to 53.7 in Dec from 54.8 in Nov, with production levels rising at the weakest pace since Jan alongside input cost inflation at a 20-month low.
- **Initial jobless claims** fell by 6k to 289k last week, with the 4-week moving average at 298,750.

## Europe:

- **German ZEW index** climbed to 34.9 in Dec, the highest since Apr and up from 11.5 in Nov, as the current conditions gauge surged from 3.3 to 10.0. Separately, the **Ifo** business climate index rose to 105.5 points this month from 104.7 points in Nov, with the outlook sub-index climbing 1.3 points.
- **Eurozone Markit flash** composite **PMI** rose to 51.7 this month from a 16-month low of 51.1; however, output price reading of 48.0 showed firms cut prices for the 33rd month.
- **Inflation** in the **Eurozone** fell to 0.3% in Nov (Oct: 0.4%), kept low thanks to the fall in oil prices, but core inflation clocked in at 0.7%, unchanged from the month before.
- **Eurozone current account** surplus narrowed to EUR 20.5bn in Oct or 2.5% of eurozone's GDP from Sep's record high EUR 32bn.

- **Unemployment rate** in **Italy** rose to 13.2% in Oct, the highest since at least 1977, while in the EU jobless rate was 10%, with about 24.4mn people out of work, including nearly 5mn young people.
- **UK inflation** cooled in Nov to 1% (Oct: 1.3%), the lowest level in 12 years, as transportation costs tumbled and food prices fell by 1.7%, helped by supermarket price wars.
- **Russia's central bank** intervened to halt rouble's freefall last week, raising interest rates by 6.5 percentage points to 17%. New measures are being planned to stabilise the currency, with the central bank announcing that, if necessary, it would provide additional capital to Russia's banks and financial companies and hold more foreign exchange auctions.
- **Swiss National Bank** is imposing negative interest rates of -0.25% on "sight deposits", a form of instant access account, of more than SWF 10mn.

### **Asia and Pacific:**

- **China** flash HSBC **manufacturing PMI** shrank to a 7-month low of 49.5 in Dec from Nov's final reading of 50.0; the new orders sub-index fell to 49.6, the first contraction since Apr.
- **China's FDI** was up 22.2% yoy in Nov, attracting USD 10.4bn, while the total inflow of FDI touched USD 106.2bn in the first 11 months of the year (+0.7% yoy).
- **Japan Tankan** slipped one point from the previous quarter to +12 in Q4, while the Q1 outlook was lower than expectations at +9. Foreign trade reported a 31.3% drop in deficit to USD 7.6bn in Nov, supported by higher exports and lower bills for oil imports.
- **Singapore retail sales** fell 1.3% mom in Oct, dragged down by lower sales of cars and other vehicles; excluding motor vehicles, retail sales was up 0.3%.

**Bottom line:** Central banks across the globe had a pretty busy

week – ranging from the dovish Fed to the aggressive Russian central bank; the Bank of Japan meanwhile recommitted to its massive stimulus campaign while maintaining a positive economic outlook and affirmed that it could weather global market turbulence and the financial crisis in Russia.

### Regional Developments

- **Bahrain** is planning an investment of about USD 2bn towards its international **airport** expansion – estimated to boost capacity to 13.5mn – alongside upgrades to logistics infrastructure.
- **Inflation** in **Egypt** fell to 9.09% in Nov from Oct's 11.84%, largely due to the decline in the prices of fresh vegetables and other food commodities. Core inflation meanwhile fell to 7.8% compared to Oct's 8.5%.
- **Egypt's** Oil Minister revealed plans to boost daily production capacity for refineries from 62k to 85k thousand tonnes by end of 2020; currently, annual production capacity is at 35mn tonnes, only at 55% of total refining capacity.
- **China's crude imports from Iraq** rose in the first ten months of the year by nearly a quarter to 23.49 million tonnes, as per Reuters data; this compares to just one million tonne in 2006.
- **Kuwait's** Oil Minister was reported stating that he expects **oil prices** to improve by H2 2015, once "the production of high-cost oil stops". He also revealed that while the country's development projects would remain unaffected by the drop in oil price, there is a strong possibility of reducing fuel, water and electricity subsidies.
- **Lebanon** signed a **free-trade agreement** with the Mercosur countries of Latin America, which includes Argentina, Brazil, Paraguay, Uruguay and Venezuela. Bilateral trade between Lebanon and Latin America has stayed around USD 14mn per year during the last five years.

- World Bank revealed that **Lebanon's fiscal deficit** is estimated to widen to 10.2% of GDP by end-2014, compared to 9.4% in 2013
- **Lebanon** and the UN are jointly requesting a record USD 2.14bn in funds from the international community to finance refugee response plan next year.
- **Oman's commercial bank assets** were up 9.7% yoy to OMR 24.5bn as of Oct 2014 while credit disbursement increased by 9.6% to OMR 16.6bn or 67.8% of total assets. Credit to the private sector rose 9.9% to OMR 14.5bn.
- **Oman's total exported crude oil** was 24,055,355 barrels in Nov, or an average of 801,845 bpd, up 2.92% mom. Asian markets account for the biggest consumers, of which China alone accounts for 71.79%.
- **Islamic banking assets in Oman** surged more than five-fold to OMR 1.1bn at the end of Q2 2014 and represents more than 4% of Oman's total banking assets.
- **Qatar** is projected to grow at 7.7% in 2015, according to the "Qatar Economic Outlook 2014-16" report released by the Ministry of Development Planning and Statistics, while inflation is forecast to average 3% this year and climb to 3.5% next year.
- **Tourism-related projects in Qatar** are likely to see investments of close to USD 45bn till 2030, stated the chairman of the Qatar Tourism Authority – also revealing that there is a projected investment of USD 11.5bn in the tourism sector alone.
- A recent Markaz report highlights that the **demand for "affordable housing" in Qatar** is projected to grow at a compounded annual growth rate of 3.75% until 2022.
- **Saudi Arabia's crude oil exports** touched 6.9mn barrels per day in Oct, up from 6.7mn bpd the month before; on the other hand, production was slightly lower in Oct at 9.69mn bpd from Sep's 9.704mn bpd.
- Qatar has the lowest **energy subsidies** in the **GCC**, at 5.5% of GDP, according to a report from Standard

Chartered, and this compares to Saudi Arabia's at 11.5% of GDP. The total subsidy bill for the GCC is estimated at around USD 150bn of which Saudi alone accounts for USD 71bn.

### **UAE Focus**

- **UAE** can deliver a **budget surplus** until at least 2019, revealed UAE's Minister of Economy at a conference where the IMF stated that the country could dip into its reserves if need be.
- **Abu Dhabi** DED forecasts an average GDP growth rate of 5.5% for the emirate during 2014-2018; funding of key projects like Etihad Railways, Museums, aerospace investments and manufacturing initiatives are likely to proceed unaffected by the current drop in oil prices.
- **UAE's money supply** M3 increased 0.3% mom to AED 1348.3bn in Nov, thanks to an increase in government deposits (which accounts for 16.5% of total) by 7.0%.
- **DP World's** shareholders approved the company's acquisition of Economic Zones World and also its delisting from the London Stock Exchange due to thin trading volumes.
- **Aldar** reported AED 9.6bn of **debt** as of Sep 30, down from AED 13.8bn in end-2013, and according to the CFO, debt will be reduced by more than a third over the next two years.
- The **Abu Dhabi Exchange** introduced rules that allow for temporary halting of trade on stocks that fall by 5%.
- **Dubai** and **Bahrain stock exchanges** will introduce a new, new electronic system of transferring shares between the two bourses during the second half of 2015. Currently DFM has three Bahraini companies listed on the exchange, that account for 1/10th of the bourse's traded value this year.
- A recent CBRE report showed that increase in **Dubai property prices** slowed in H2 2014 and valuations would

be steady next year, given the release of many new units.

### **Media Review**

#### ***The Greatest Threat to the Gulf Monarchies***

<http://www.foreignaffairs.com/articles/142692/jim-krane/guzzling-in-the-gulf>

#### ***Raising the Global Ambition for Girls' Education***

<http://www.brookings.edu/research/papers/2014/12/05-raising-global-ambition-girls-education-winthrop-mcgivney>

#### ***A falling oil price is good for the economy: FT***

<http://www.ft.com/intl/cms/s/0/86916314-8776-11e4-bc7c-00144feabdc0.html>

#### ***Saudi: Non-OPEC, speculators led to oil price slide***

<http://www.reuters.com/article/2014/12/21/us-oil-prices-saudi-idUSKBN0JZ05W20141221>

#### ***Is the ECB doing enough?***

<http://www.project-syndicate.org/commentary/ecb-monetary-policy-targets-by-peter-praet-2014-12>

#### ***The week that was: in charts***

<http://qz.com/316010/the-seven-most-important-economic-charts-of-the-week/>

#### ***A list of "festive" reading: IPPR***

<http://www.ippr.org/nicks-blog/festive-reading-the-best-of-2014-and-whats-to-come-in-2015>