

Weekly Economic Commentary – Jan 11, 2015

Markets

Global stock markets remained under pressure through the week, thanks to oil price volatility; mixed US payrolls data halted a 2-day rally towards end of the week. **Regionally**, most markets closed higher on Thursday, after a disastrous rest-of-the-week given the slide in oil prices. The **dollar** index was at a 9-year high on Thu, but edged slightly lower on Fri. As crude **oil** prices continued to slide, **gold** prices gained on the week. The slide in oil prices is lowering trade deficits in oil importers.

Global Developments

US/Americas:

- **Non-farm payrolls** increased by 252k in Dec, and compares to Nov's upwardly revised 353k while **unemployment rate dropped** to 5.6% from 5.8% previously. Separately, the US ADP employment report projected a gain of 241k jobs in Dec against Nov's revised figure of 227k.
- **ISM non-manufacturing** dropped to a 6-month low of 56.2 in Dec (Nov: 59.3), with new orders dipping to 58.9 from 61.4 the month before.
- The volume of crude oil imports falling to a 20-year low led **US trade deficit** to narrow to an 11-month low of USD 39bn in Nov. Trade deficit with China dropped 8% yoy to USD 29.9bn.
- **Factory orders** in the **US** fell for a 4th consecutive month, down 0.7% mom in Nov (Oct: -0.7%), while orders for non-defense capital goods excluding aircraft, a proxy for business spending, down 0.5% instead of the flat reading previously reported.

- **Consumer credit fell** to USD 14.1bn **in Nov** – including an increase in car and education loans, but fall in credit card balances – while the Oct reading was revised upward to USD 16.0bn from USD 13.2bn.
- **Initial jobless claims** fell to 294k last week compared to 298k the week before; the 4-week moving average was lower at 290,500 from 290,750.

Europe:

- **Euro area flash inflation** number was negative at -0.2% yoy in Dec (Nov: +0.3%), with energy prices declining by 6.3%, both the weakest since Oct 2009. Core inflation meanwhile surprised to the upside, gaining 0.8% yoy (Nov: 0.7%) on non-energy industrial goods inflation.
- **German data releases revealed a mixed bag: inflation**, at 0.1% yoy in Dec, was the weakest since 2009; retail sales came in at 1% mom though down 0.8% in yoy terms. Unemployment fell a seasonally adjusted 27k to 2.841mn in Dec, bringing the jobless rate to a record low of 6.5%. **Factory orders** fell more than expected (-2.4% mom) in Nov and compares to Oct's upwardly revised 2.9%. **Industrial production** fell 0.1% mom in Nov (Oct: +0.6%), with energy output slumping by 2.4% mom. **Exports** fell 2.1% mom while imports were up 1.5%.
- **Euro area Markit composite PMI** was revised **down** to 51.7 last month from 51.4 while the final German composite PMI was revised up from a flash estimate of 51.4 to 52.0. Separately, the final euro area services PMI was revised down 0.3 points to 51.6 compared to the flash estimate of 51.9 – still a gain of 0.5 points mom.
- **UK manufacturing output is up** by 0.7% mom and 2.7% yoy in Nov, reversing Oct's mom fall; wider industrial production meanwhile reported a 0.1% mom drop, thanks to a 5.5% fall in oil and gas output.
- **UK trade deficit**, at GBP 1.4bn in Nov, was the narrowest since Jun 2013; additionally, exports to countries

outside the EU increased by GBP 2.1bn, or 6.0%, in the three months to Nov from the previous three months.

Asia and Pacific:

- **China CPI** rose to 1.5% yoy in Dec (Nov:1.4%) as food inflation rose to 2.9% yoy from 2.3% yoy while non-food inflation fell to a 56-month low of 0.8% yoy. **Producer prices** meanwhile fell for the 34th consecutive month and declined 3.3% yoy in Dec, the most in 27 months, largely due to lower commodity prices.
- **HSBC services PMI** in **China** hit a 3-month high of 53.4 in Dec (Nov: 53), though new business cooled slightly to 53.9 in Dec from a 2-1/2 year high of 54.2 in Nov.
- **Japan Markit services PMI** was at 51.7 in Dec (Nov: 50.6), in spite of a marginal fall in new orders for the first time in seven months.

Bottom line: Oil prices dominated market behaviour all week; the World Bank, in its latest *Global Economic Prospects*, expects oil prices to remain low in 2015 and only increase marginally in 2016 – owing to both the greater than expected supply and the unexpected drop in demand.

Regional Developments

- **Egypt urban inflation** rose to 10.1% in Dec (Nov: 9.1%), but still remains below Oct's peak 11.8%.
- Foreign currency **reserves** in **Egypt** fell to USD 15.332bn at end-Nov from USD 15.88bn a month before.
- Investments in **Egypt's tourism** sector are topped by Saudi Arabia and Kuwait. Saudi tourism investments touched USD 932.75mn, through 268 companies while Kuwait invested USD 577.5mn through 103 companies.
- **PMI** in **Egypt** is up to 51.4 points in Dec (Nov: 50.7), with the output sub-index at a 3-month high of 51.8, while the new orders index – driven by foreign demand – rose to 52.8 points.

- **Iraq's** Ministry of Oil revealed that **oil exports** had touched an all-time high in Dec, with about 2.94mn bpd being exported.
- **Jordan** secured a EUR 100mn loan to expand its **electric** grid capacity; the project, expected to begin in Q1, will add 1000MW to existing capacity of 4300MW.
- **Kuwait's** oil minister stated that the development projects would proceed on track in spite of falling oil prices, with support from the government. He also revealed that the government had decided to postpone any removal of subsidies from petrol, electricity and water. Separately, **Oman's** minister for financial affairs also revealed "no specific plans to cut public expenditure".
- **PMI** in **Lebanon** stayed in the contractionary territory and fell further in Dec, to 49.3 points from 49.5 the month before.
- **Lebanon's** EDL, state-owned electricity company, will have a reduced deficit of between USD 400-500mn annually, thanks to the drop in oil prices globally, according to the country's finance minister.
- **Oman crude oil** prices at Dubai Mercantile Exchange dropped to under US\$50 a barrel for the first time in more than five and half years.
- **Oman's budget surplus** recorded a 61.7% yoy dip to OMR 233.5mn during Jan-Nov 2014. Total revenue fell 2.5%, with oil income alone down 3.2% yoy during the same period. Meanwhile, total government expenditure increased by 14.2% to OMR 11,135.2mn.
- Rising rents lifted **Qatar's inflation** to 3.5% in Q3; the 'rentals, fuel and energy' group, which accounts for 32% weight in the index, grew 7.9% while 'furniture, textile and home appliances' category rose by 5.2%.
- **Growing diversification: Qatar's non-hydrocarbon sector** share of GDP has risen to over half (50.7%) in Q3 2014, for the first time from 49% in Q2 2014, according to a recent QNB report.
- **Saudi Aramco** reduced the official selling price for its

Arab Light crude to Northwest Europe by \$1.50 a barrel for Feb, putting it at a discount of \$4.65 a barrel to the Brent Weighted Average, the lowest since 2009. It raised the price by 0.60 cents for Asian customers.

- Companies in **Saudi Arabia** are now required by law to present Saudisation certificates issued by the Labor Ministry while applying for the renewal of their commercial licenses.
- **Saudi Arabia's** labour minister revealed that the government planned to create 300k jobs for Saudis in the private sector.
- **Saudi tourists** are the **highest spenders** globally: at least 4.5 million Saudi tourists spend over SAR 80bn abroad every year – this is six times as much as their Western counterparts.
- **GCC tourists** spent over USD 65bn on outbound expenditure in 2013 but this number is set to increase by nearly 54% to over USD 100bn by 2018.

UAE Focus

- **UAE** Minister of Economy declared that though a **merger of the exchanges** was the preferred option for the regulator, it still remained up to the exchanges to decide.
- **UAE's** total **non-oil trade** (including the direct non-oil trade and free zone trade) increased to AED 794.3bn during H1 2014, as per Federal Customs Authority data. Saudi topped the list in free zone trade with the GCC, with the country accounting for about 60% of total GCC-UAE free zone trade
- **Abu Dhabi's financial free zone will have its own administration, court system and tax incentives** and will base its legal structure on the **English common law**, similar to the DIFC, while also referring to laws in place in Singapore and Hong Kong. It published draft legislation covering its operations and asked for public

comment by Feb. 5

- **UAE PMI** clocked in at 58.4 in Dec (Nov: 58.3), with growth of new export orders reaching a four-month high of 65.4 while output growth climbed to 65.0 points in Dec (Nov: 62.8).
- **Dubai Aluminum** signed a USD 1.8bn 7-year loan deal to fund its general business purposes; around 15 local and international lenders contributed to the deal and the loan paid an interest rate of 145 basis points over the Libor.
- **Dubai Duty Free** reported a 7.4% increase in sales to AED 6.99bn in 2014, with perfumes the best performers accounting for 17% of total sales, followed by beverages and gold, cigarettes and tobacco, and confectionary.

Media Review

Rise of the Gulf: Soaring ambitions

<http://www.economist.com/news/middle-east-and-africa/21638154-economic-power-and-political-influence-are-shifting-gulf-can-it>

The Price of oil

<http://www.project-syndicate.org/commentary/price-of-oil-in-2015-by-jim-o-neill-2015-01>

The Obama recovery

<http://www.project-syndicate.org/commentary/krugman-budget-deficit-support-by-jeffrey-d-sachs-2015-01>

Gulf Debt Markets

http://www.zawya.com/story/Dubai_Islamic_Bank_to_test_Gulf_debt_markets_post_oil_slump-TR20150106nL6N0UL06PX3/