

Weekly Economic Commentary – Jan 18, 2015

Markets

Stocks were affected by the Swiss National Bank's sudden policy reversal: in the US, stocks rallied on SNB action and some positive data (consumer sentiment hit an 11-year high, inflation dropped to a 6-year low) and yield on the 10-year US Treasury bounced off a 20-month low. Other than depressed Swiss stocks, European markets gained on rising expectations of ECB's stimulus plan, and the Xetra Dax in Frankfurt rose to a record high. The euro dipped to a 11-year low vis-a-vis the greenback, while oil price touched a 6-year low of USD 45.19 last week, risk aversion helped gold prices close at the highest since Sep.

Global Developments

US/Americas:

- **US retail sales** reported the largest decline in 11 months, contracting 0.9% mom in Dec, and -1% excluding automobiles and compares to downwardly revised 0.4% rise in Nov.
- **Industrial production** declined 0.1% mom sa in Dec, following a gain of 1.3% in Nov. **Capacity utilization** meanwhile slipped to 79.7% from 80% the month before.
- **Inflation in the US** fell by 0.4% mom and was up 0.8% yoy in Dec, from a -0.3% mom drop and 1.3% yoy in Nov. Excluding food and energy, CPI was unchanged mom in Dec from +0.1% mom in Nov.
- **Initial jobless claims** unexpectedly rose to a 4-month high of 316k last week, from an slightly upwardly revised 297k the previous week, while the 4-week moving average rose to 298k last week from 291,250.

Europe:

- The **Swiss National Bank** unexpectedly abandoned its 3-year old euro peg. The central bank move took markets by surprise, reversing its previous rhetoric of “enforcing the cap with utmost determination”, and sending the currency soaring against the euro. Swiss stocks went into a tail-spin.
- **Eurozone industrial production** was up 0.2% mom in Nov, thanks to a 1.9% gain in durable goods.
- **Inflation** in the **Euro area** fell by 0.1% mom and 0.2% yoy in Dec (Nov: +0.3% yoy), falling into negative territory for the first time since 2009. Core prices rose less than expected, by 0.7% yoy compared to 0.8% yoy in Nov signaling growing dangers of price deflation.
- The **German economy** grew 1.5% yoy n.s.a. in 2014, thanks to strong domestic demand vs. export-driven growth in previous quarters/ years and compares to a 0.1% yoy n.s.a. growth in 2013.
- **UK inflation** clocked in at the lowest since 2000, falling to 0.5% in Dec.

Asia and Pacific:

- The **PBoC** announced it had allocated a total of RMB 50bn towards **financing** bank lending to agricultural and small firms, to provide financing at lower costs.
- **India's central bank** lowered the repurchase rate 25 bps to 7.75% at an unscheduled meeting last week, citing lower inflation and better fiscal consolidation. CPI inflation accelerated to 5.0% yoy in Dec from 4.38% previously while core inflation edged slightly lower to 5.2% yoy.
- **India industrial production** was up 3.8% yoy in Nov, led by the capital goods sector, which grew 6.5%; this brings the cumulative industrial production growth for Apr-Nov at 2.2% against 0.1% in the same period a year ago.

- **China trade surplus** narrowed slightly to USD 49.6bn in Dec and compares to the previous month's USD 54.5bn. Exports growth surprised on the upside, rising to 9.7% yoy (previous: 4.7%) while imports fell 2.4% yoy (prev: -6.7%).
- **Foreign-exchange reserves** stood at USD 3.84 trillion at end-Dec, down from USD 3.89 trillion in end-Sep
- **China new loans** touched CNY 697.3bn in Dec (Nov: CNY 852.7bn), bringing the full year total to CNY 9.78trillion. **M2** grew 12.2%, lower than Nov's 12.3% and below central bank's goal of 13%.
- **Machinery orders in Japan** fell 7.0% in Nov, faster than a 5.5% decline in the previous month, with doubts on global economic recovery impacting corporate spending plans. Core orders (which exclude those of ships and electric power utilities) increased 1.3%, following a 6.4% decline a month ago.
- Strong vehicle sales helped prop up **Singapore retail sales** which grew 6.5% yoy in Nov. Excluding motor vehicles, retail sales fell marginally by 0.4%.
- **Korea's unemployment rate** rose to 3.5% in Dec from 3.4% the month before amidst job growth of 533k, the largest increase in 12 years.

Bottom line: While the world awaits ECB's decision on economic stimulus, EIA lowered its estimate of supply from non-OPEC members and said prices would recover. Separately, OPEC in its monthly report stated its expectations of weaker demand for its crude in 2015: output from its 12 members increased by 140k bpd to 30.2mn bpd in Dec, led by a jump of 285,100 a day in Iraq. Non-OPEC supply is projected to grow by 1.28 mn bpd for 2015 a downward revision of 80k bpd from previous estimates.

Regional Developments

- **Bahrain's GDP** clocked in at 5.1% yoy in **Q3**, highlighting the increase in non-oil sector growth; construction was

the fastest growing sector, posting a growth of 12.3% in Q3 (Q2: 3.6%).

- **Bahrain** cabinet decision revealed that the **price of natural gas** sold to industrial users will be unified and raised gradually from April 1, 2015. About 35 companies including Aluminum Bahrain used to benefit from natural gas subsidies worth BHD 610mn annually.
- **Bahrain** launched direct sales of local currency **government debt** through its securities exchange, in a bid to develop its capital market. The system was used for the first time for a sale of BHD 100mn 10-year Ijara Sukuk with an annual return of 5.5%.
- **Aiding Egypt** in many forms: The European Bank for Reconstruction and Development (**EBRD**) **investments in Egypt** rose to EUR 593mn in 2014 compared to EUR 151mn in 2013; **Jordan** exported some 380 gigawatt hours of **electricity** to Egypt in 2014.
- **Egypt's** exchange now allows **trading in ETFs** in a bid to encourage foreign investment and boost liquidity.
- The investment minister of **Egypt** stated that **foreign investment** would reach about USD 2bn in Q2 of the fiscal year, up from USD 1.8bn in Q1. He also revealed that a new unified investment law will be sent to the President by end-Feb or early March.
- The **Iraqi** oil minister revealed that discussions were ongoing about **Egypt's** interest in buying about 4mn barrels of Iraqi **oil** per month or roughly 133 thousand barrels per day.
- **Iran** has signed a contract to export 25 million cubic meters a day of **gas to Iraq**.
- According to its Finance Minister, **Kuwait** is likely to post a budget deficit sooner than the IMF's expectation of 2017. He also revealed, amidst calls from the National Assembly for reinstating subsidies on diesel and kerosene that diesel subsidies accounted for almost KWD 264mn of a total KWD 5bn.
- The World Bank estimates **GDP growth in Lebanon** in 2015,

2016 and 2017 to be 2%, 3.4% and 3.6% respectively.

- **Oman's** total **subsidy** projection for 2015 fell substantially by 18.5% to OMR 1.31bn, aided by the plunge in oil prices and a subsidy reduction for natural gas supplied to industries. Total government subsidy for Jan-Nov 2014 touched OMR 1.4368bn against an initial estimate of OMR 1.608bn for the full year.
- Output from **Oman's** two refineries grew by 19.1% or 12mn barrels during Jan-Nov 2014 to meet rising domestic demand.
- **Qatar's household final consumption expenditure** grew 12.1% yoy to QAR 26.43bn in Q3, thanks to "rising population and the price rise of consumer items", according to the Ministry of Development Planning and Statistics.
- **Inflation** in **Qatar** declined 0.3% mom in Dec, but increased 2.7% in yoy terms.
- **Real estate transactions** in **Qatar** increased 24% yoy to QAR 55.4bn in 2014, reported *Al Sharq* newspaper.
- **Saudi** banks invested SAR 277bn in government bonds and treasury bills by end-Nov, of which 81% was spent on treasury bills and the rest on government bonds, revealed a report by *Aleqtisadiah* daily.
- **Inflation** in **Saudi Arabia** dropped to 2.4% in Nov, the lowest level since Sep 2012, with prices of food and beverages up 2.6% yoy, while housing and utility costs gained 2.5%.
- **Saudi Arabia's** housing minister says that the ministry aims to tax undeveloped land, in a bid to solve the shortage of homes.
- The **Saudi** Fund for Development has provided SAR 225mn to support the budget of the **Palestinian** Authority over the past three months.

UAE Focus

- **Dubai World** announced that part of its debt would be

repaid early and the maturity of the rest would be extended by four years to 2022 with added incentives for creditors. The Dubai World Tribunal has set March 17 as the provisional date for creditors to vote on whether to back a USD 14.6bn debt deal.

- **UAE bank lending** grew 1.5% mom and 10.2% yoy in Nov, recording the fastest growth in 5 years; personal loans, which account for about 22% of total, grew at a much faster rate of 15.5% yoy. Deposit growth also improved, with total bank deposits growing 0.8% mom and 12% yoy to AED 1.426 trillion.
- **Dubai Sukuk**: last week saw the listing of Flydubai USD 500mn Sukuk on Nasdaq Dubai while Dubai Islamic Bank launched a USD 1bn Tier 1 Sukuk at 6.75%. The Flydubai Sukuk saw a geographic distribution of 64% to Middle East accounts, 25% to European accounts, 7% to Asia, and 4% to US offshore.
- **Land transactions in Dubai** saw a marginal decline of 8.25% yoy to AED 218bn in 2014, with sales comprising the bulk share – 51% or AED 112bn from 38,113 transactions, followed by mortgages (44%, 12,511 deals with a combined value of AED 97mn).
- The MD of **DEWA** announced that it is investing AED 37mn to upgrade its infrastructure to enhance energy efficiency, save power and protect the environment – with an aim to reduce energy demand by 30% and reduce carbon emissions by over five million tons by 2030, in line with Dubai Integrated Energy Strategy 2030.
- **UAE's** energy minister revealed that the country is on track to increase **oil production** to 3.5mn barrels per day of oil by 2017.
- The Dubai Mercantile Exchange (**DME**) posted a 33 % yoy growth in trading volumes in 2014 to average 8,431 lots per day.
- **Abu Dhabi CPI** touched 3.2% in 2014, with Dec inflation at 4.1% yoy and 0.5% mom.

Media Review

Oil price and Russian politics

<http://www.economist.com/blogs/freeexchange/2015/01/oil-price-and-russian-politics>

Making Sense of the Swiss Shock

<http://www.project-syndicate.org/commentary/swiss-central-bank-stops-swiss-franc-euro-peg-by-markus-brunnermeier-and-harold-james-2015-01>

Qatar: Year in Review

http://www.zawya.com/story/Qatar_year_in_review_2014-ZAWYA20150117063621/

DIB Sukuk and beyond

http://www.zawya.com/story/DIB_sukuk_opens_window_for_Gulf_bond_issues-TR20150115nL3N0UT3M0X2/

Egypt: Smart cards for bread subsidies

http://www.zawya.com/story/Egypt_s_Sisi_scores_early_success_with_smart_cards_for_bread_subsidies-TR20150112nL6N0UP041X2/