

Weekly Economic Commentary – Jan 25, 2015

Markets

The **IMF** shaved its forecast for global growth down by 0.3% to 3.5% for 2015. The **S&P 500** reported a weekly gain, though performance was marred during the week by weak corporate earnings. ECB's larger-than-expected QE stimulus plan, a big bazooka that pushed **European equities** to a 7-year high while the **euro** hit the lowest versus the dollar since Sep 2003. **Regional** markets showed a mixed picture, with Qatar and Saudi Arabia posting weekly losses as the general sentiment remained weak in the GCC on lower-than-expected earnings results; Egypt's stock index hit a 6 1/2-year closing high of 9,856 points on Wed. **Oil** prices have settled to around the \$50 mark while **gold** gained on its safe haven status.

Global Developments

US/Americas:

- **US housing starts** surged 4.4% mom in Dec (Nov: -4.5%), with single-family housing starts reporting the highest level since Mar 2008. For the full year 2014, starts increased 8.8% to 1.01 million units, the highest since 2007. **Building permits** fell 1.9%, while mortgage applications increased. **Existing home sales** meanwhile rebounded in Dec, rising 2.4% to an annual rate of 5.04 million units; first-time buyers accounted for only 29% of transactions.
- Flash **manufacturing PMI** in the **US** fell to a 12-month low of 53.7 in Jan (Dec: 53.9), with new business growth falling to a 1-year low.
- **Initial jobless claims** fell 10k to 307k last week, remaining above 300k for the 3rd consecutive week and

the 4-week moving average crossed the 300k mark, rising 6,500 to 306,500.

- **Bank of Canada** unexpectedly cuts rates by 25 bps to 0.75%, citing lower inflation.

Europe:

- The **ECB** announced its **QE** plans to purchase EUR 60bn of sovereign-, agency- and European institution-debt every month through Sep 2016, approaching euro 1.1 tn. Scheduled to begin this March, the program will be continued “until we see a sustained adjustment in the path of inflation”, stated Draghi. The announcement sent euro to a 11-year low against the dollar.
- **German ZEW index** rose more than expected in Jan, gaining 13.5 points to 48.4, with the gauge for current situation up to 22.4 (Dec: 10.0).
- **Eurozone Markit flash** composite **PMI** touched a 5-month high of 52.2 in Jan (Dec: 51.4), with service PMI also surprising on the upside to a 3-month high of 52.3 while manufacturing PMI was in line with estimates, at a 6-month high of 51.0.
- **UK retail sales** grew by 0.4% mom in Dec, following Nov’s 1.6% gain, thanks to food and fuel buying; sales excluding autos was also up 0.2% mom.
- **Denmark**’s central bank cut interest rates twice last week to defend its currency’s peg to the euro.

Asia and Pacific:

- **China GDP** expanded 7.3% yoy in Q4, with full year 2014 GDP growth reaching 7.4% – the lowest since 1990, and below the 7.5% target, marking the first time growth has been below the target since 1998. Total investment in fixed assets increased 15.7% last year, the slowest pace since 2001.
- The **PBoC** had an active week: it said it would rollover CNY 270bn in loans to banks at a yield of 3.5% and added

another CNY 50bn in fresh loans, in an effort to keep money market rates stable; later last week, it fixed the reference rate at the weakest level since early Dec.

- **China's flash HSBC manufacturing PMI** unexpectedly stabilized at 49.8 in Jan (Dec: 49.6), with the new orders sub-index rising to 50.8 from 49.7.
- **Industrial production** in **China** grew 8.3% in 2014, following a rise of 9.7% the previous year; **retail sales** rose 12% yoy in 2014 to CNY 26.24 trillion, with online sales up a whopping 49.7% to CNY 2.79 trillion. **Urban fixed-asset investment** also cooled in 2014, rising only 15.7% down from 19.6% gain a year ago.
- The **BoJ** sharply cut its core inflation forecast for next fiscal year to 1.0% from 1.7% projected three months ago but did not expand its quantitative easing, arguing that lower oil prices will help the economy grow faster in the long term.
- **Korea GDP** growth slowed to a 7-quarter low of 2.7% in Q4 (Q3: 3.2%), with weak domestic demand and gross fixed capital formation which fell to 0.9% yoy from 3.6% yoy as construction investment contracted.

Bottom line: The **IMF** released its *World Economic Outlook* update, with global growth forecast revised down by 0.3% to 3.5% for 2015. The benefits of lower prices and depreciation of the euro and yen are outweighed by weaknesses from lower investments and growth in certain regions: growth forecast for China has been marked down to below 7%. The report also highlighted lower oil prices as an opportunity to reform energy subsidies and taxes in both oil exporters and importers. Focus this week will be on **Greece** which goes into elections today, with a possibility of the country exiting the union if the radical leftwing party **Syriza**, which has already pledged to scrap austerity measures and secure a debt write-off, comes into power.

Regional Developments

- The **IMF** released an updated *Regional Economic Outlook* for the MENAP region, in the backdrop of falling oil prices: it expects the GCC's oil and gas export earnings to go down by about USD 300bn. Advising the governments to avoid spending cuts during the near term, the IMF also stated that "over the medium term, however, they would need to gradually but decisively adjust their fiscal positions to ensure sustainability and intergenerational equity".
- **Egypt's** pound weakened to a new low of 7.39 per dollar on Thursday, in the fifth official depreciation last week alone.
- Revenues from **Egypt's Suez Canal** rose to USD 445.5mn in Dec (Nov: USD 442.8mn); the Europe-Asia corridor remained the fastest shipping route and largest source of revenue.
- **Energy subsidy** costs in **Egypt** were down 30% yoy to EGP 45bn in H1 of this fiscal year, thanks to the decline in oil prices.
- **Iraq and Egypt** have agreed to a supply of 4mn barrels of crude oil per month (or roughly 133k bpd) from the former; Egypt is currently facing a shortfall of about 500k bpd.
- **Jordan's** PM revealed that the current international support covers only 19% of the **cost of hosting Syrian refugees** in the country,
- **Unemployment rate** in **Jordan** touched 12.3% in Q4, rising 0.9% qoq; unemployment had increased among men by 1.7% while decreasing by 2.9% among women.
- **Jordan's trade deficit** increased by 4.1% yoy to JOD 9.45bn at end-Nov 2014, partly driven by the higher cost of machinery and petrol imports.
- **Inflation in Lebanon** dropped by 1.22% mom and by 0.71% yoy in Nov.
- **Lebanon's budget deficit** dipped to 21.93% of spending in Q1-Q3 2014 and compares to 31.89% in the same period a year ago. Revenues were up 5.65%, thanks to a rise in

tax revenues and receivables from treasury operations, while expenditures surged by 7.79%.

- **Oman GDP** grew 5.2% yoy to OMR 23.619bn in Q3; oil and gas sector grew by 1.4% while the non-oil sector contributed OMR 13.553bn, thereby outperforming the oil sector.
- **Oman's inflation** clocked in at 0.8% in Dec, largely due to lower costs of food items (down 0.33% mom) and other commodities.
- **US exports to Qatar** touched USD 4.96bn in Jan-Nov 2014 and compares to a total USD 4.95bn in 2013.
- **Qatar inflation** remained stable around 3.0% in 2014, down from 3.1% in 2013; higher rents offset the drop in food and commodity costs.
- The new **Saudi King Salman** announced his successors – a new Crown Prince (aged 69) and a Deputy Crown Prince (aged 55). The new King's policies are unlikely to be significantly different from those of his predecessor, King Abdullah.
- **Saudi Arabia** posted a 2.0% growth in Q4 **GDP** and compares to 2.4% in Q3 and 4.9% in the same period a year ago. For the full year, growth was 3.6%. Non-oil GDP slowed to 3.7% from 6.4% the previous quarter while oil GDP growth remained flat.
- **Saudi's Aramco** deployed 210 oil and gas rigs in 2014 – but according to industry sources, has asked oilfield service companies for discounts (of about 20%, to reduce costs) due to tumbling crude prices and is expected to keep its overall rig count steady this year.
- **Saudi Arabia** has pushed back the deadline for its nuclear and renewable power plans to 2040 instead of the previously announced 2032: it plans to install 17 gigawatts of nuclear power as well as around 41 GW of solar capacity. No reason was cited for the delay.
- **M&A** with Middle Eastern involvement climbed 23% yoy to USD 50.3bn in 2014 – the highest since 2010; Q4 alone accounted for USD 22.7bn, more than double that of Q3

and the highest total since Q1 2008.

UAE Focus

- **Demand for credit in the UAE** is expected to increase in Q1 2015, as per a survey conducted by the central bank. The survey also showed that demand growth for business credit, while still growing, slowed noticeably in Q4 2014 – owing to slower demand for credit from GREs and SMEs.
- Dubai's **TECOM** revealed that it had signed for a syndicated conventional and Islamic loan facility of up to AED 4bn to fund its growth, without revealing its terms.
- The **industrial sector's** contribution to **GDP** in the UAE is expected to reach 25% by 2025, stated the Minister of Economy, from the current estimate of 10-11%. He identified the key industries driving this growth to be petrochemicals, aluminium, glass, steel and its downstream industry.
- **DEWA's** CEO stated at a conference that the organisation was increasing its contribution towards percentage of renewables in Dubai's energy mix target to 7% by 2020 and 15% by 2030.

Media Review

The Right Choices for 2015

<http://www.project-syndicate.org/commentary/multilateralism-and-the-global-economy-by-christine-lagarde-2015-01>

Learning to Live with Cheaper Oil: IMF Regional Economic Outlook for the Middle East

<http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0115.htm>

Saudi Arabia, post-King Abdullah: the Economist

<http://www.economist.com/news/21640601-middle-east-after-abdullah-king-dead>

ECB's QE story: Jeffrey Sachs

<http://www.project-syndicate.org/commentary/ecb-quantitative-e>

[asing-support-by-jeffrey-d-sachs-2015-01](#)