

Weekly Economic Commentary – Feb 1, 2015

Markets

A disappointing **US** GDP report left S&P 500 closing at a loss in Jan while **European** markets were having a good run, aided by the recent QE plan announced by the ECB and that the EU is entering deflation zone, implying continued expansionary monetary policy: the FTSEurofirst 300 index rose 7.2% in Jan, reporting its biggest monthly gain in three years. Among regional markets, the **DFM** posted its largest decline in seven weeks while Egypt's market was nearly flat. The **euro** touched an 11-year low against the dollar early last week, to recover later while the **Singapore dollar** fell to its lowest versus the dollar since 2010 after the Monetary Authority of Singapore unexpectedly eased policy. **Oil** prices roared back from six-year lows, crossing the \$50 mark while **gold** posted an 8% gain for the month, the most since Jan 2012.

Global Developments

US/Americas:

- The latest estimate of **US GDP** was softer than expected, at 2.6% yoy in Q4 (Q3: 5%), bringing the full year growth pace to 2.4%. Personal consumption picked up 4.3% – the fastest in almost nine years, but was offset by weak business investment, while core PCE was at 1.1%.
- **New home sales** rose 11.6% mom to 481k in Dec, the highest level since 2008, bringing the full year total new home sales rose to 435k, up 1.4% yoy. **S&P Case Shiller** home price index rose by 4.3% yoy in Nov, the slowest since October 2012. **Pending home sales** data disappointed – falling 3.7% mom in Dec.
- **US durable goods orders** tumbled 3.4% mom in Dec (Nov:

- 2.1%), while excluding transportation, orders fell 0.8% (Nov: -1.3%); orders for nondefense capital goods excluding aircraft, a proxy for business spending plans, dropped 0.6% after a similar decline in Nov.
- The **FOMC** stayed on course with rates and maintained its view that “it can be patient” in normalizing monetary policy. The Fed also provided a largely upbeat assessment of the economy, which it said was expanding at a “solid pace”.
 - US **services sector** activity picked up in Jan, with flash **PMI** at 54 (Dec: 53.3), rising for the first time since June. The seasonally adjusted Markit flash US **composite PMI** signaled a robust expansion, rising to 54.2 in Jan (Dec: 53.5).
 - **Initial jobless claims** fell by 43k to a 15-year low of 265k last week while continuing claims were at 2385k. The 4-week moving average fell to 298,500 from a six-month high of 306,750 the week prior.

Europe:

- **The Euro area entered deflation zone: CPI** fell 0.6% yoy in Jan, with core CPI also at 0.6% while consumer prices in the Eurozone fell 0.2%. The ECB’s broadest measure of money supply, **M3**, increased 3.6% yoy in Dec (Nov: 3.1%).
- **German Ifo** index rose to 106.7 in Jan (Dec: 105.5), for the third consecutive month. The improvement reflected a better current assessment of the German economy (up to 111.7 from 109.8) and business expectations (up to 102.0 from 101.3).
- A host of **German** data was released last week: **inflation** fell by 0.5% yoy or 1.3% mom; **retail sales** rose 4.0% yoy in Dec, registering the biggest yearly increase in two and a half years; **unemployment** touched 3.03mn in Jan, up 0.6% mom and adjusting for the seasonal factors, unemployment rate was 6.5% in Jan (Dec: 6.6%), the lowest rate since 1990.

- The preliminary estimate for **UK's** Q4 2014 **GDP** was 0.5% qoq (Q3: 0.7% qoq) and 2.7% yoy – annual growth was the fastest since 2007. The services sector grew only 0.8% qoq with construction falling 1.8% and manufacturing down by 0.1%.
- In **Greece**, **Syriza** won 36.3% of vote and controls 149 seats in parliament. Electricity and port privatisations were halted. The anti-austerity party's latest statement was from the finance minister who said that the government would not cooperate with the EU, ECB & nd IMF troika bankrolling the country and would not seek an extension to the bailout program.
- The **Danish central bank** reduced deposit rate again from -0.35% to -0.50%, the third cut in ten days.
- The **Russian central bank**, in a surprise move, reduced its one-week minimum auction repo rate by two points to 15%, with the move “intended to balance the goal of curbing inflation and restore economic growth”.

Asia and Pacific:

- **China's** official **PMI** fell to 49.8 in Jan (Dec: 50.1), a shade below the 50-point level that separates growth from contraction. New export orders fell to 48.4 (Dec: 49.1), while employment slipped to 47.9 from 48.1 the month before.
- **Japan's trade deficit** fell to an 18-month low of JPY 660.7bn in Dec, the 30th consecutive month of deficit, underpinned by a weak yen and falling commodity prices. Export growth accelerated to a 1-year high of 12.9% yoy while imports rose 1.9% yoy. For the full year, trade deficit was at JPY 12.8 trillion, up 11.8% yoy and the worst shortfall since comparable records began in 1979.
- **Inflation** in **Japan** touched 2.4% in Dec, while excluding volatile fresh foods it rose by 2.5% yoy. **Industrial production** rose 1.0% mom in Dec (Nov: -0.5%) while domestic demand seems fragile with **household spending**

falling 3.4% in the year to Dec and **retail sales** edged up 0.2% yoy.

Bottom line: Europe is under geopolitical pressure and entering deflation. The ECB will maintain ultra-loose policy, including a weak Euro. While Greece decides on its austerity plans and a potential exit from the Union, four national parliaments (Estonia, Finland, Germany and the Netherlands) must approve an extension to the bailout, which expires at the end of February. The Fed reiterated its “patience” stance while it awaits stronger growth evidence, but it seems very likely that it would be the first central bank to raise rates among the developed nations.

Regional Developments

- **Egypt** is studying the possibility of **reducing subsidies** by EGP 20bn next year, according to the investment minister. The reduction is anticipated to come via a smart card system meant to better monitor fuel consumption and target subsidies.
- Talks between **Egypt and Iraq** resulted in a host of agreements including the cancellation of Iraqi debt in exchange for a share of Iraq’s oil.
- **Iraq’s** revised the 119 trillion Iraqi dinars **budget**, with oil price forecast at USD 56 and deficit of 25 trillion dinar, has been approved by the Parliament.
- **Kuwait’s draft budget** for this fiscal year (starting Apr) includes cut in spending to KWD 19.07bn, down 17.8% from planned spending this current fiscal year. With revenues at an estimated KWD 12.05bn (from KWD 20.07bn this year), the budget also foresees a large deficit of KWD 8.23bn, to be covered by tapping reserves or borrowing from local or foreign capital markets, according to the finance ministry.
- **Reform appears difficult in Kuwait** which reduced the selling prices of diesel and kerosene at filling stations, following protests. The government had raised

prices on Jan 1 with the aim of reducing subsidies and this move was estimated to save the government around USD 1bn a year.

- By 2030, **renewables** will account for roughly 15% in **Oman**'s energy mix, or an estimated 3,000MW of renewables-based capacity, according to a study done by the Oman Electricity Transmission Company.
- **Qatar's trade surplus** plummeted 32.8% yoy to QAR 22.75bn in Dec, as total exports plunged 21.7% to QAR 33.84bn with lower shipments to India, China, UAE and Japan. Qatar's non-crude exports plummeted 66.6% to QR0.82bn while crude and petroleum were down 41.8% and 17.7% respectively. Imports, meanwhile, grew 18.3% to QAR 11.1bn.
- **Producer price index** in **Qatar** fell 18.3% yoy and 5.3% mom in Nov, on lower prices for refined petroleum goods, basic chemicals and crude.
- **Qatar**'s Minister of Economy was appointed **chairman of the stock exchange** last week, in a bid to boost the international profile of the exchange following its reclassification as an emerging market by the MSCI.
- **Saudi Arabia**'s new King has ordered payment of two months of bonus salary to all state employees and pension to retired government workers; he also announced major reshuffling of top government jobs including the head of the Capital Market Authority but keeping the oil and finance ministers unchanged.
- **Saudi Arabia**'s full year average **crude production** in 2015 is projected to reach 9.6mn barrels per day (bpd), before declining slightly to 9.4mn bpd in 2016, according to a Jadwa Investment report. The country pumped 9.61mn bpd crude in Nov and exported 7.3mn bpd.
- **Saudi Aramco**'s President and CEO revealed that the company had invested USD 3bn into developing shale projects and that a further USD 7bn would be earmarked additionally towards this.
- The number of **unemployed youth in the Arab region** was

around 22 million by the end of 2013 and is estimated to rise to 50mn by 2020, according to a report by Kuwait-based Diplomatic Center of Strategic Studies.

UAE Focus

- **Dubai's airport**, with 70.5mn passengers passing through its terminals in 2014 (+6.1% yoy), has overtaken Heathrow as the busiest airport in the world in terms of international passenger traffic. In December alone, the airport's traffic rose 7.5% yoy to 6.5mn passengers. The CEO of Dubai airports revealed that around 79mn passengers are expected to pass through in 2015, with the opening of the new Concourse. Moving 2.4 million tonnes of cargo traffic in 2014, Dubai retained third position after South Korea and Hong Kong.
- **UAE** is planning to increase the **crude oil production capacity** to 3.5mn bpd by 2017 from the present capacity of around 2.8mn bpd. The energy minister stated that the country would continue to invest and upgrade facilities despite the recent fall in oil prices.
- Saudi Arabia, India and the UK are **Dubai's** top three **tourism** source markets and visitors grew 5% yoy in Jan-Nov 2014, according to the chief executive of the Dubai Corporation of Tourism and Commerce Marketing.
- **Dubai public transport users** increased by 90mn to 531mn riders in 2014, according to the RTA. The share of public transport in the mobility of people has increased from 6% in 2006 to 14% in 2014.

Media Review

The Risk of Grexit?

<http://www.economist.com/news/briefing/21641251-syrizas-success-increases-risk-grexit-and-will-embolden-anti-austerity-parties-across>

A Greek Burial for German Austerity

<http://www.project-syndicate.org/commentary/syriza-greece-eu-crisis-by-joschka-fischer-2015-01>

Economic Charts You Shouldn't have Missed

<http://qz.com/335939/the-26-economic-charts-you-shouldnt-have-missed-in-january/>

The Regional Impact of Saudi Succession

<http://carnegieendowment.org/syriaincrisis/?fa=57663>