

Weekly Economic Commentary – Feb 8, 2015

Markets

Robust non-farm payrolls data strengthened the **dollar** and caused **US** government debt yields to rise though equities reaction was muted given higher expectations of Fed raising rates by mid-year. In **Europe**, the Greek debt drama continued to hog the limelight along with geostrategic tensions relating to Ukraine. Regionally, the **DFM** posted its largest gain in six weeks while the volatility of crude oil prices left its impact on the market, especially in **Saudi** Arabia. The **euro** fell against the greenback – its biggest daily loss in two weeks – while the dollar also hit its highest level against the **yen** in 3-1/2 weeks. **Gold** prices fell and **oil** futures bounced up from near-six-year lows.

Global Developments

US/Americas:

- **Obama's USD 4 trillion budget** seeks to raise taxes on corporations and individual top earners to finance education, infrastructure and housing. With this plan, the federal deficit would drop from USD 583bn this year (or 3.2% of GDP) to USD 474bn in 2016 (or 2.5% of GDP) while national debt would stabilize, falling slightly from 75% of GDP next year to 73.3% in 2025.
- **US trade deficit** widened by 17.1% yoy USD 46.6bn in Dec (Nov: USD 39.8bn), the largest since Nov 2012 and the biggest percentage increase since Jul 2009 confirming recovery in consumer spending.
- **Non-farm payrolls** increased by 257k in Jan from a strong upward revision of 329k in Dec (vs. 252k in the previous estimate) – this marks the 11th straight month of job

gains above 200k, the longest streak since 1994. The unemployment rate rose slightly to 5.7% in Jan (Dec: 5.6%).

- **Initial jobless claims** rose to 278k last week from a slightly upwardly revised 267k the previous week, while the four-week moving average of claims also ticked lower, to 292,750.
- **US ISM** manufacturing index expanded at the slowest rate in 11 months, falling to 53.5 in Jan (Dec: 55.1) with the new orders dropping 4.9 points to 52.9 while production and employment clocked in 56.5 and 54.1 respectively. Separately, the services PMI edged up slightly to 56.7 in Jan (Dec: 56.5) as new orders index rose to 59.5 from 59.2.
- **US personal income** rose by 0.3% mom in Dec while domestic **consumer spending** fell 0.3% (Nov: +0.5%) – the largest drop since Sep 2009.
- The **PCE index** rose 0.7% yoy in Dec (Nov: 1.2%), the weakest reading since Oct 2009 while **core PCE** rose by 1.3% in the 12 months through Dec.
- **Factory orders** in **US** fell for the 5th consecutive month, down 3.4% mom in Dec (Nov: 1.7%) with measures for related shipments declining 1.1% and inventories down 0.3%. A silver lining: shipments of non-defense capital goods orders excluding aircraft were revised up to show a 0.2% gain in Dec instead of a 0.2% fall.

Europe:

- The **EU Commission** revised its 2015-16 real **GDP forecasts** to 1.3% in 2015 (1.1% previously) and to 1.9% in 2016 (1.7% previously) and expects average HICP inflation of -0.1% in 2015.
- The **ECB cancelled its acceptance of Greek** bonds, T-bills and government-guaranteed debt as collateral for the ECB's refinancing operations. The implication is that the ECB will allow the Bank of Greece to provide as much

as EUR 59.5bn in Emergency Liquidity Assistance (ELA) to Greek banks.

- EU Market **manufacturing PMI** remained unchanged at a 6-month high of 51.0 in Jan, driven primarily by stronger output and new orders. Meanwhile, the **composite PMI** reading rose to 52.6 in Jan (Dec: 51.4) as new orders rose, and businesses hired additional workers at the fastest rate since mid-2011.
- **EU retail sales** grew 0.3% mom in Dec compared to an upwardly revised 0.7% rise the previous month. In yoy terms, sales was up 2.8% in Dec, the largest increase since Mar 2007.
- **German factory orders** expanded the most since Jul, increasing 4.2% mom in Dec (Nov: -2.4%), thanks to orders from the euro area (+5.9%) and domestic demand (+3.4%). Separately, **industrial production** disappointed with weaker-than-expected 0.1% mom growth in Dec (Nov: +0.1%).
- **UK trade deficit** widened to GBP 38.4bn last year – the biggest gap since 2010 – thanks to a dip in exports; deficit in Dec widened to GBP 2.9bn (Nov: GBP 1.8bn).

Asia and Pacific:

- The **PBoC** cut the **reserve requirement ratio** 50 bps to 19.5%, with this move expected to free up over CNY 500bn in banks' deposits held at the central bank.
- **China's** HSBC **manufacturing PMI** fell to 49.8 in Jan, the first contractionary reading since Sep 2012, with the decline led by falls in new orders and output. Additionally, **China services PMI** fell to 51.8 in Jan (Dec: 53.4) – the lowest level since Jul 2014.
- **India's** central bank kept **policy rate** decisions: reverse repo was left at 6.75% from the last inter-meeting move while the statutory liquidity ratio was reduced by 50 bps to 21.5%.
- **Japan monetary base** climbed 37.4% yoy to JPY 276 trn in

Jan, hitting a record high for the sixth consecutive month.

Bottom line: The Greek drama continued to unfold last week: post-ECB announcements, S&P cut the nation's credit rating to B- from B, one notch above default range, and kept the outlook on the nation at "negative" also warning that that the country could be forced to leave the single currency if it loses access to European funding. Separately, central banks continue to ease policy on slowing growth worries and falling inflation – the latest are China, Australia (by 25 bps) and Denmark (rate reduced to -0.75% from -0.5% i.e. using negative interest rates to drive down the value of the krone).

Regional Developments

- **Egypt PMI** fell to the sub-50 zone for the first time since July, recording 49.3 points in Jan and compares to Dec's 51.4. Weak export orders and a reduction in workforce alongside rising input costs led to the decline in overall PMI.
- Saudi Arabia, Kuwait and UAE will deposit USD 10bn in **Egypt** before the country holds an investment conference in March, reported news website *Al-Youm Al-Sabea*. This new tranche denotes the ongoing support from these nations, which has already given around USD 12bn to the country.
- **Egypt's** central bank imposed a **cap on cash dollar deposits** – to \$10,000 a day or a total of \$50,000 a month – in a bid to combat money laundering and for "the final elimination of currency trading and an end to the parallel market's dealings".
- **Egypt** has concluded 53 new agreements since Nov 2013 for **oil exploration** with investments amounting to about USD 2.9bn; in addition, three major oil and gas deals worth a total of USD 9.2bn are underway, revealed a spokesperson for the energy ministry.
- **Foreign reserves in Egypt** touched USD 15.43bn in end-Jan

from USD 15.33bn the previous month; reserves were about USD 36bn before the 2011 uprising.

- **Egypt tourism** revenues surged 27% to USD 7.5bn in 2014, with the country receiving 9.9mn tourists (2013: 9.5mn).
- **Jordan's** central bank cut **policy rates** by 25bps, the first reduction since last June, citing improvement in inflation outlook. Its discount rate now stands at 4.00% and overnight repo rate at 3.75% while the rate on weekly/other repurchase agreements was cut to 2.75%.
- The consolidated **balance sheet of investment banks** operating in **Lebanon** expanded by 3.21% to USD 4.11bn in 2014, according to research by Credit Libanais. This increase was driven by a 14.71% and 10.99% rise in claims on the private and public sector respectively.
- The **Central Bank of Oman** reduced the rate of interest payable on capital deposits by 50bps to 1% per annum. The central bank had last reduced the rate on capital deposits in 2012 from 2% to 1.5%.
- **Inflation** in **Oman** was 0.8% yoy in Dec, with price rises across the board – household appliances, equipment and customary maintenance (5.8%), healthcare (4.96%), communication (4.82%), education (4.51%) and foodstuffs and non-alcoholic beverages (0.22%).
- **Qatar** set **crude prices** at the lowest since Feb 2009 in Jan – Qatar Marine crude at \$43.25 a barrel, down \$15 from Dec and Qatar Land crude OSP at \$45.95, down \$14.3 from Dec – reported *Reuters*.
- **Saudi Arabia PMI** showed continued activity in Jan, with the index at 57.8 from Dec 57.9, with new order volumes rising at the sharpest pace for four months.
- The volume of **real estate loans** provided by the **Saudi banks** to individuals and corporate amounted to SAR 148.9bn by the end of 2014, up 31% yoy, according to a report in *Al-Eqtisadiyah* daily.
- The **GINI** index for **Saudi Arabia** showed a score of 46 in 2013, improving from 51 in 2007, according to the Central Department of Statistics & Information.

- Nationals make up just 22% of **Saudi Arabia**'s 11.07 million work force, reported *Al-Eqtisadiah* daily; the number of unemployed fell to 651,300 at the end of H2 2014, from 657,000 in H1.
- The **GCC banking sector** is estimated to need an additional USD 35bn of capital by 2019, according to a Strategy& report. While banks plan to issue capital-boosting bonds to bolster their reserves, the report noted that uncertainty over regulation and ultra-tight pricing increase the risks for issuers and investors.

UAE Focus

- **UAE PMI** rose to a 3-month high of 59.1 in Jan (Dec: 58.4), with growth in new orders rising sharply to 67.9 from 65.4 points. Stronger demand conditions, the launch of new products and a rise in new work were cited as the main drivers for activity.
- **UAE**'s energy minister revealed that local **oil companies losses** amount to almost AED 38bn in the last decade due to lower oil prices. He noted that Abu Dhabi National Oil Company (ADNOC) alone lost over AED 6.4bn from the sale of gasoline in 2014.
- **UAE** ranked 12th on the DHL **Global Connectedness Index**, climbing 6 places from the previous ranking, underscoring the nation's strength in logistics and trade.
- **DP World** reported an 8.9% increase in volume growth across its global portfolio in 2014, with Asia Pacific, the Indian subcontinent, Europe and UAE the major drivers for full-year growth.
- The **number of visas** issued in the **UAE** increased 10% yoy to 12.77mn last year, of which 5.47mn (or 42.8%) were tourist visas.
- **Bilateral trade** between **UAE** and **Pakistan** stood at USD 9bn in 2014, according to the governor of State Bank of Pakistan. Exports to the UAE represents 7% of Pakistan's

total exports.

Media Review

How the ECB can dictate terms to Greece

<http://www.economist.com/news/finance-and-economics/21642210-how-european-central-bank-can-dictate-terms-greek-government>

Yemen Crisis: A Test for Saudi's King Salman

http://www.zawya.com/story/Yemen_crisis_is_first_big_test_for_Saudi_Arabias_King_Salman-TR20150126nL6N0V40CKX2

Two Cheers for the New Normal: Jim O'Neill

<http://www.project-syndicate.org/commentary/global-economy-new-normal-by-jim-o-neill-2015-02>

Charts of the Week

<http://qz.com/340334/the-11-most-important-charts-of-the-week/>