

Weekly Economic Commentary – Feb 15, 2015

Markets

Markets continued to be dominated by the Greek drama and oil prices, though better-than-expected growth numbers out of the euro zone and the cease-fire deal between Ukraine and Russia also left a positive mark: S&P 500 touched a record intra-day high, DJI reached its highest point this year, volatility index VIX slipped to 15, the lowest this year while German DAX hit an all-time high and Nikkei surged to the highest level since mid-2007. The dollar was slightly up on the week while gold prices were down amidst oil rising on oil demand forecasts from the OPEC and IEA (*more in Bottomline section*).

Global Developments

US/Americas:

- **US Reuters/ Michigan sentiment index** fell from its 11-year high of 98.1, falling to 93.6 in Feb, with the survey showing a big dip in big fall in household intentions to purchase long-lasting manufactured goods.
- **Retail sales** in the **US** declined for a second straight month, falling by 0.8% mom in Jan (Dec: -0.9%) while excluding automobiles, gasoline, building materials and food services, retail sales edged up 0.1% last month.
- **Initial jobless claims** rose by 25k to 304k last week (affected by winter weather conditions) while the less volatile 4-week moving average fell by 3,250 to 289,750.

Europe:

- **Eurozone GDP** posted a modest 0.3% qoq growth in Q4 2014, with **German** GDP rising by 0.7% qoq on the back of higher consumer spending and “considerably more” capital

- spending while **French GDP** growth slowed to 0.1% in Q4.
- **Industrial production** in the **eurozone** was unchanged in Dec (in mom terms) and down 0.2% yoy, largely due to a 1.8% drop in the manufacture of non-durable consumer goods. Separately, **trade surplus** widened to EUR 20bn in Nov (Oct: EUR 16.5bn), supported by a weaker euro and lower oil prices.
 - **Germany's trade surplus** rose to EUR 19.1bn in Dec, bringing the total for the year to EUR 217bn (exports: 3.7% yoy in 2014, imports: 2%), helping the nation to post its biggest ever current account surplus for the year at EUR 215.3bn (2013: EUR 189.2bn) or 7.4% of GDP.
 - **German inflation** turned negative, falling 0.4% yoy in Jan and posting the biggest drop since 2009.
 - **UK manufacturing output** reported a modest 0.1% mom growth in Dec while industrial output fell 0.2%, partly due to maintenance work on North Sea oil and gas fields.
 - The **Bank of England** released a relatively hawkish inflation report: it lowered the 2015 inflation forecast, to 0.5% from 1.4%; inflation is estimated likely accelerate to 1.8% in 2016 and 2.1% in 2017.
 - **Sweden's** Riksbank unexpectedly **cut policy rates** by 10bps to -0.10%, with the central bank stating it would keep rates negative until inflation was close to 2.0%.

Asia and Pacific:

- **India GDP** rose by 7.5% yoy in Q4; however, these numbers need to be carefully taken into consideration given the recent rebasing exercise undertaken by the Central Statistics Organisation where the base was changed from 2004-05 to 2011-12. Under the new series, GDP growth for 2013-14 was revised up from 4.7% to 6.9%.
- **China new yuan loans** rose to a 5- $\frac{1}{2}$ year high of CNY 1.35 trillion in Jan (Dec: CNY 697bn), while outstanding loan growth stood at 13.9% supported by PBoC's stimulus. **Money supply** (M2) growth rose 10.8% yoy, at the slowest

pace since at least 1996.

- **China's trade surplus** touched a record high of USD 60bn in Jan on weak domestic demand: exports fell by 3.3% yoy (Dec: +9.7%) and imports fell by 19.9% (-2.4%). The numbers need to be taken in the context of Chinese New Year falling in Jan last year.
- **Inflation in China** fell to 0.8% in Jan – below 1% for the first time in 5 years (Dec: 1.5%); food inflation fell to 1.1% (+2.9%) and core CPI dipped to a 52-month low of 1.2%. **Producers price index** fell 4.3% yoy in Jan (Dec: -3.3%), with sub-indices for manufacturing, raw material and mining sectors down 3.1% yoy, 8.6% and 17.4% respectively.
- **Japan** posted a 6th consecutive month of current account surplus of JPY 187.2bn in Dec (before sa), bring the full year total to JPY 2.63 trillion, the smallest surplus in comparable data available from 1985 and down 18.8% yoy. Meanwhile, **trade deficit** grew 18.1% to a record JPY 10.37 trillion in 2014.
- **Japan's machinery orders** rose at the fastest pace in 6 months: core orders picked up 8.3% mom and 11.4% yoy in Dec; Orders from manufacturers rose 24.1%, the fastest increase in more than eight years
- **Industrial production in India** slowed to 1.7% yoy in Dec (Nov: 3.8%), with manufacturing activity slowing to 2.1% (3.0%).

Bottom line: Greece continues to be the big story after the meeting with the Eurogroup last week failed to result in an agreement and is scheduled to take place tomorrow while the ECB expanded ELA assistance to Greek banks by EUR 5bn to EUR 65bn. Fitch and S&P put Greek banks on review for a downgrade, citing rising funding and liquidity risks. OPEC made the deepest cut to its forecast in oil supply from non-OPEC countries in over 6 years. Non-OPEC nations are expected to pump about 400k bpd less than previously estimated.

Regional Developments

- **Egypt** PM states that **GDP** growth is likely to touch 4% this current financial year ending June, up from 2.2% the year before; in addition, budget deficit is likely to fall to 10% of GDP from 14% last year, according to him. The **IMF** meanwhile revealed that the government's reform measures were "starting to produce a turnaround" and highlighted that the "most important economic priority for Egypt is jobs".
- **Local investment** in **Egypt** rose 1.27% yoy to touch EGP 7.64bn in Q1, according to the central bank.
- **Egypt urban inflation** declined to 9.7% in Jan, from 10.1% reported in Dec while core inflation was down to 7.06% from 7.69% the month before.
- The central bank of **Egypt** revealed that it would offer a USD 1bn 1-year dollar-denominated **treasury bill** to local banks and foreign financial institutions at an auction on Feb. 17.
- A **Moody's** report on **Egypt** found that the country's spending on fuel subsidies in the current fiscal year could be around 30% lower than budgeted, given the lower oil prices globally, and this "will provide some degree of support to Egypt's sovereign credit profile".
- **Iraq's** President has approved the financial federal **budget** law for 2015: budget expects expenditure at IQD 119.5 trillion and a deficit of up to about IQD 25.4 trillion.
- Jan **inflation** in **Jordan** was down by 0.4%, supported by decline in prices of transportation, fuel, electricity tariffs, vegetables, beans and beverages. Starting Jan, the calculation of inflation is based on 2010 prices as the reference year as opposed to 2006 previously.
- **Kuwait's** oil minister expects **oil prices** to rise by mid-this year and touch \$60 by end of the year.
- The **IIF** forecast **Lebanon's** real **GDP** growth at 2.8% in 2015, up from an estimated 1.7% in 2014, supported by

domestic consumption, aided by declining oil prices and a stronger dollar. Average inflation rate is estimated to drop from 1.6% in 2014 to 0.5% in 2015.

- Crude **oil production** in **Oman** rose 1.5% to 286.19mn barrels during the Jan-Nov period, with average daily production at 944,500 barrels, versus 941,700 in 2013.
- **Qatar money supply** (M2) grew 3.06% qoq to QAR 504bn in Q4; additionally, **net foreign assets** of Qatar's banks declined to QAR 125bn from the previous quarter's QAR138b, according to the central bank.
- **KPMG** revealed that the **collective asset base** of all listed **banks in Qatar** increased by 12% yoy (or QAR 105.8bn) in 2014, thanks to the increase in lending portfolios by 14%.
- A new Commercial Registration law in **Qatar** will enable to expedite the process of **business registrations**: this Law no 20 of 2014, gives the Minister of Economy and Commerce the authority to hear an application after rejection on which a decision must be made within 15 days; this was previously done by the courts.
- **Saudi Arabia's** central bank governor called for **energy subsidy reforms** in a recent speech, calling for this to be implemented "in a gradual and elaborated manner, to ensure that subsidies continue to target low- and medium-income segments of the community". The speech however did not elaborate on when or how this reform would happen.
- **Inflation** in **Saudi Arabia** fell to 2.2% in Jan, its lowest level since Sep 2012 when the current data series began. Prices of housing and utilities grew 2.7%, while food and beverages rose 2.1%.
- **Saudiization** rules amidst lack of finance and lengthy bureaucratic procedures have driven out about 21,000 very small firms and 191,000 small firms from the market over the past two years, according to an entrepreneur – with the **SME sector** declining by 10% in 2013 alone.
- A new **Saudi** Royal Decree allocates SAR20bn towards

housing: SAR 14bn will be given to provide electricity connections to new housing units and SAR 6bn to provide water connections.

- Business generated in **Saudi Arabia** by Haj and Umrah is expected to reach SAR 6.22bn when the expansion of the Grand Mosque in Makkah and the Prophet's Mosque in Madinah is completed while returns could hit SAR 48bn by 2020, reported the Arabic daily *Al-Madinah*.
- **SAMA** reported that remittances touched a new record high of SAR 153.3bn in 2014, with an average SAR 19k being remitted per expat during the year.
- **S&P** reduced its **oil price forecast** to \$55 for 2015, compared to \$105 previously; it also changed the **ratings outlook** on Saudi Arabia (AA) to negative, warning that the country could lose its AA rating in the next two years if its liquid assets decline or its fiscal position weakens. S&P cut the rating of Oman to A-, Bahrain to BBB-, citing lower oil prices while confirmed its AA rating (stable outlook) on Qatar.

UAE Focus

- It was announced at the Government Summit held in Dubai that **UAE's** first **nuclear plant** will be launched by 2017 and by then 25% of UAE's needs will be dependent on clean nuclear energy.
- **FDI** contributed to 5% of **UAE's GDP** in 2014, according to the Minister of Economy; FDI grew by 25% yoy to more than USD 13bn from to USD 10.4bn in 2013.
- **UAE's banking sector** is strong enough to withstand the potential economic pressures from oil price decline, with banks adequately liquid and the balance sheets are strong with low NPL ratios and provisions in excess of 115%, according to the IIF. It estimates that UAE GDP would grow at 3% and 3.3% should oil price average at \$60 and \$50 a barrel in 2015.
- **Dubai-Russia bilateral trade** amounted to AED 7bn during

the first nine months of 2014 while it was AED 11bn in 2013, according to Dubai Customs which also stated that there were 3,000 Russian companies investing in the UAE.

- The RTA estimates that **traffic congestion** in **Dubai** led to a loss of AED 2.9bn in terms of loss in working hours, time and fuel in 2013. With 1.39 million vehicles registered in Dubai, the traffic cost per vehicle per year amounts to AED 2,086. Had appropriate infrastructure not been in place, estimated cost of time and fuel lost in congestion during 2006-2013 would have been about AED 100.4bn, as opposed to 27.9bn now.
- **UAE SME sector** to receive a boost: Khalifa Fund is considering launching a unique incubator for innovation, including comprehensive programmes of support resources and services to convert innovative ideas into reality.
- **Dubai** World Central reported a total of 845,046 passengers had travelled through **Al Maktoum International** in 2014, its first full year of passenger operations. Additionally, combined cargo volumes at Dubai International Airport and Al Maktoum International rose to 3.13 million tonnes last year from 2.65 million tonnes in 2013.
- The CEO of **Dubai Holding** stated that there were no plans to list itself or any of its subsidiaries on the stock market; he also revealed that it has no plans to raise cash at the parent level as it seeks to reduce its debts, but its subsidiaries may do so for operational purposes.

Media Review

New Saudi king shapes contours of power

http://www.zawya.com/story/Little_noticed_new_Saudi_king_shapes_contours_of_power-TR20150212nL6N0V307TX2/

Reminder: the rig count drop is but a leading indicator of US oil production

<http://qz.com/344438/reminder-the-rig-count-drop-is-but-a-leading-indicator-of-us-oil-production/>

Central bank balance sheets & the bottom line

<http://www.project-syndicate.org/commentary/central-bank-balance-sheet-losses-by-barry-eichengreen-and-beatrice-weder-di-mauro-2015-02>

The Ukraine ceasefire: FT

<http://www.ft.com/intl/cms/s/0/3a1b3ab0-b371-11e4-9449-00144feab7de.html#axzz3RmhLMHwI>