

# Weekly Economic Commentary – Feb 22, 2015

## Markets

Equity markets started the week on a somber tone awaiting the developments on the EU-Greece negotiations, then on Friday when an agreement in principle was reached equity markets in developed markets touched record highs, while emerging markets remained lackluster, and regional markets with the exception of Bahrain and Morocco were in negative territory. All major exchange rates were volatile, but ultimately they closed the week at the same levels recorded at the beginning. Gold lost additional ground, while oil prices were largely stable.

## Global Developments

### **US/Americas:**

- The **minutes of the FOMC** restated in more dovish wording the Fed's longer-run goals of monetary policy strategy. Policymakers saw little reason to be in a hurry to tighten monetary policy and believe the Fed funds rate could be at rock bottom for longer than previously thought.
- The **NAHB housing market index** fell by 2 points from Dec to Jan to 55, a 4-month low, confirming a soft patch in US real estate.
- **US industrial production** rose less than expected by 0.2% mom 4.8% yoy in Jan, rebounding from -0.1% mom 4.9% yoy in Dec. Manufacturing output rose 0.2% mom.
- **US PPI** plunged -0.8% in Jan (and was flat yoy) after -0.3% fall in Dec.
- **New residential construction** in Jan gave back some of the gains from Dec. Housing starts for Jan came in at 1.065 million annualized, down by 2% from the revised

Dec total of 1.087 million, but still 18.7% higher yoy.

- **Initial jobless claims** dropped 21,000 to 283,000 offsetting the majority of the prior week's 25,000 gain. The 4-week moving average fell from 289,750 to 283,250.
- **The Conference Board leading indicators** rose 0.2% mom in Jan and 4.6% yoy which point to further strength for Q2.

## Europe:

- **Euro zone finance ministers** agreed to extend **for 4 months support to Greece** in exchange for a new set of reforms to be unveiled on Monday by the Greek government. The deal was largely seen as a capitulation to the Troika requests that Greece wanted to avoid.
- **ECB** has agreed to raise emergency funding to **Greece's** struggling banks to EUR 68.3 bn, a slight increase on the previous limit.
- **Euro zone CPI** dropped 0.2% yoy in Dec for the first time in more than 5 years.
- The **Conference Board leading economic** index for the **euro zone** rose to 103.3 mom in Dec
- **UK** annual headline **inflation** rate eased to a record low of 0.3% in Jan from 0.5% the previous month.
- **UK unemployment** rate decreased 5.7%, down from 7.2% a year ago. Confirming the upbeat mood spurred by higher employment, **UK household finances index** in Feb scored 45.4 very near Jan's survey record high of 45.6.
- **Russia's industrial output** rose 0.9% yoy in Jan, after increasing 3.9% yoy in the previous month confirming a sharp slowdown in momentum
- The number of **French job seekers** increased 0.2% in Dec after rising 0.8% previously.
- **Italy's new industrial orders** surged by 4.5% mom in Dec following a -1.1% mom drop in Nov, an encouraging signal for one of the most ailing EU economies.

## Asia and Pacific:

- **Japan's GDP grew by a paltry 2.2% in Q4, below expectations.** The biggest contributor was exports, which added 1.9% to the growth rate. Residential investment continued to fall sharply while business investment was dull.
- **Japanese manufacturing activity** expanded at the slowest pace in 7 months during Feb confirming **the flash manufacturing PMI** indication. However, new export orders picked up underlying some resilience.
- **India WPI inflation** turned negative in Jan by -0.4% yoy from +0.1% yoy in Dec, as fuel and power charges fell sharply. Core inflation remains also subdued.
- **Singapore's economy** grew 2.1% yoy in Q4 (vs. an initial estimate of 1.5% yoy), down from 2.8% in Q3. The manufacturing decline in Q4 was not as bad as initially estimated.
- **FDI into China** rose 29.4% yoy in Jan, to USD13.9bn from the 10.3% yoy increase in Dec, but in absolute terms the rebound is still relatively small.

**Bottom line:** The negotiation over Greece's bailout removed a major source of global uncertainty for the time being, but it does not solve the issue once and for all. Greece will continue to be an irritant and a source of contagion for the foreseeable future. The main trends and risks, including geopolitical, highlighted at the beginning of 2015 remain in place, with the US gaining strength and the other major economies struggling to remain afloat.

### **Regional Developments**

- **Unemployment rate in Egypt** declined to 12.9% in Q4 (Q3: 13.2%) as the number of unemployed declined by 100k in Q4, the first fall since the beginning of the revolution, according to the Central Agency for Public Mobilisation and Statistics.
- **Bilateral trade** between **Iran** and **Iraq** is around USD 5.11bn annually, revealed the head of Iran's Trade

Promotion Organization.

- **Kuwait's Investment Dar** received about 60% support for a KWD 813mn debt restructuring plan, as per Reuters. Creditors have until March 31 to decide whether they will sign up to the plan. If it gains 67% backing, creditors will be ensured 90% of the holding company's equity.
- **Credit growth in Kuwait** was 6.2% yoy in Dec, with a reported increase of KWD 152mn in lending that month; household debt saw a net gain of KWD 110mn in Dec, though growth eased slightly to 12.7% yoy.
- **Imports into Lebanon** fell 28% yoy to USD 1.34bn in Jan, as per Customs data; the decline in oil prices and depreciation of the euro are likely to have contributed towards this decline in imports value.
- **Inflation in Oman** increased 0.4% yoy in Jan, with food prices recording a fall of 1.44%; categories that showed an increase include home appliances and equipment, home regular maintenance (6.12%), health (5.79%), communication (4.8%) and education (4.5%).
- The **Oman** Power and Water Procurement Company anticipates **natural gas demand** to grow at 6% pa for the next 5 years and for gas consumption to rise to 10 billion cubic metres by 2020, an almost 50% increase about 6.7 billion cubic metres reported in 2013.
- **US – Qatar bilateral trade** stands at around USD 7bn, the US Ambassador revealed at a conference.
- **Loan growth in Qatar** was reported at 13.1% yoy in Jan, though in mom it recorded a 1.4% decline, dragged down by the public sector. Deposit growth declined 2.2% mom but was up 9.6% yoy in the same month.
- **Net investable assets** of **Qatar** households touched \$153bn-\$172bn range in 2014, as per a Strategy& report; the ultra HNWI hold around USD 68-72bn in total, while the HNWI range between \$65bn and \$75bn. The report revealed that during the last four years Qatar witnessed a 7% jump in the total number of “affluent” households

which is estimated to have investable assets within the USD 20-25bn range.

- The UN World Tourism Organisation data revealed that **Saudi Arabia** outbound **tourism spend** reached SAR 74.2bn during the Jan-Sep 2014 period while Saudi tourists spent SAR 28bn on in-land tourism during the same period.
- **Saudi oil production** averaged about 9.7mn barrels per day (bpd) since last June, according to energy consultancy PIRA, and additional demand has pushed output “to just under, if not above, 10mn bpd”.
- A GE white paper on **Saudi's water reuse** recommends 4 policy options to governments including education and outreach, removing barriers, incentives, and mandates and regulation. Valued at over USD 4.3bn by Global Water Intelligence, Saudi water reuse market is the third largest in the world.
- The volume of **Saudi investments in Tunisia**, with the exception of energy sector, amounted to SAR 1.1bn – with tourism receiving the bulk of the investments at SAR 697mn – stated the Consul General of the Republic of Tunisia to Jeddah.
- **Saudi Aramco** is in talks regarding a USD 10bn loan for general business purposes, according to two banking sources aware of the matter, reported Reuters; Aramco has a USD 4bn existing loan due to mature later this year.
- **Saudi Arabia's crude oil exports** dropped by 362k barrels per day (bpd) to 6.934mn bpd in Dec from 7.296mn bpd in the previous month, according to data published by the Joint Organisations Data Initiative.
- Discussions to introduce **VAT in the GCC** are ongoing, according to a UAE Ministry of Finance official, who revealed that the committee is meeting again this month to try to sort out outstanding matters: for example, some countries do not want the levy on food while others want to exclude health care. The committee has proposed

a VAT levy of between 3-5%.

- **GCC** have just over USD 250bn invested in US equities, and another USD 400bn in foreign direct investment in the US, Europe and Asia, as per a Bank of America Merrill Lynch report. The report also estimates that every USD 10 per barrel drop in oil prices shaves off 4.2% of GDP from GCC **current account balances**.

### **UAE Focus**

- **Inflation in Dubai** touched 4.5% in Jan, the highest since May 2009, boosted by a 7.6% yoy rise in housing and utility costs while food prices declined 1.6%.
- **UAE's regulator**, Securities and Commodities Authority, stated that it had agreed to approve **controls for offering and listing shares** of newly-incorporated public joint-stock companies to boost investor confidence, and promoting investor protection. One of the most important requirement was that companies listing on the second category market appoint a SCA-licensed listing consultant for at least two fiscal years following the listing of the company on the financial market.
- **Emirates** airlines is in the process of arranging a USD 1bn Sukuk, in a bid to raise cash to finance its pipeline of aircraft orders, reported Reuters, though the company declined to comment.
- **Dubai World** has received 100% approval from its creditors for the USD 14.6bn restructuring plan, revealed court proceedings.
- **Spending** during the first two weeks of the **DSF** using the Visa card was up 12% yoy to UAS 53.7mn, with consumer electronics surging 22% to USD 37.2mn.
- **S&P** reported that the **banking sector in UAE** was likely to witness deceleration in credit and deposit growth in 2015, accompanied by relatively weaker asset quality and higher credit losses which would "limit earnings growth [...] to the mid-single digits".

- About 50 acquisitions targeting **UAE** based companies accounted for 21% of the total **domestic M & A deals** announced the MENA region last year, according to EY. In value terms, domestic deals targeting UAE based companies accounted for USD 7bn or 45.7% of the overall regional domestic deals.

### **Media Review**

#### ***Negotiations on Iran's nuclear program are stepping up***

<http://www.reuters.com/article/2015/02/21/us-iran-nuclear-usa-idUSKBN0LP0SM20150221>

#### ***Shale oil production will drop by 600,000 barrels per day by June***

<http://www.artberman.com/tight-oil-production-will-fall-600000-barrels-per-day-by-june/>

#### ***The battle for talent***

<http://www.economist.com/news/business/21644150-battle-software-talent-other-industries-can-learn-silicon-valley-how-bag>