

# Weekly Economic Commentary – Mar 1, 2015

## Markets

US equity markets oscillated waiting for a catalyst that did not materialize, while European bourses celebrated the approval of the final agreement between Greece and the Troika as well as the imminent implementation of QE by the ECB. European government bond prices reached new record highs in anticipation of the first purchases. Emerging markets joined the festive mood while regional markets were mixed with Egypt falling 2%. In currency markets the euro lost additional ground and the Indian rupee was weak after the disclosure of the government budget. Oil prices are consolidating their gains: the 12% monthly gain in February was one of the largest in several years. US oil production will cease its month-on-month growth in April due to the precipitous fall in rigs count. Gold rebounded from the USD 1200/ounce level, but the long term declining trend remains intact.

## Global Developments

### **US/Americas:**

- **Real US GDP** grew by a lackluster 2.2% qoq ann sa in Q4, lower than the 2.6% initially reported and sharply down from 5% in Q3. Consumer spending was the driver of growth pushed by higher growth of disposable income, with fixed investment following at a healthy pace. Trade and federal spending were significant drags – in fact downwards revisions were led by imports and inventories.
- **US durable goods order** rise 2.8% mom in Jan compare to a drop of -3.7% in Dec. Orders excluding transportation rose 0.3% in Jan.
- **US existing home sales** fell more than expected in Jan to

hit the lowest level in nine months. The sales decreased by 4.9% to a seasonally adjusted 4.82m units in January from 5.07m in Dec. **New single-family home sales** inched down 0.2% mom in Jan to 481,000 annualized units, Jan **New-home sales** were still 5.3% higher over the year. **U.S home price index** ticked up in Dec after hitting the lowest level in more than two year. The index rose by 4.5% yoy in Dec compared with 4.2% yoy in Nov and 0.1% mom in Dec.

- **US consumer confidence index** tumbled by 7.4 points in Feb bringing the index to 96.4 compared to 103.8 in Jan. a 7-year high.
- **Jobless claims** in the week ending Feb 21 increased by 31,000 to a seasonally adjusted 313,000 from the previous week's revised total of 282,000. The four-week moving average in new filings rose from 283,000 to 294,500.
- **Consumer price index** plunged 0.7% mom in Jan. The decline was driven by drop in the energy price index of 9.5% making the largest decrease mom since Nov 2008.

## Europe:

- **Euro Zone finance ministers** approved a list of reforms proposed by the **Greek** government, paving the way for a four-month extension of the Greek bailout programme. Germany's Bundestag, in a key vote approved by a huge margin the extension of the Greek bailout, on condition that the pressure on Greek government finances and the reform path be tightened.
- **Euro area M3** growth accelerated in Jan to 4.1% yoy, following a revised 3.8% yoy increase in Dec.
- **Euro zone CPI** dropped -0.6% yoy in Jan, following a -0.2% yoy drop in the previous month. Deflation is mainly due to energy prices.
- **German GDP growth** was confirmed at 0.7% qoq in Q4. The **German Ifo Business Climate Index** crawled up slightly in

Feb to 106.8 from 106.7 in Jan, the fourth consecutive rise. The improvement was due to business expectations, while the current situation sub-indices weakened.

- **Germany's** seasonally adjusted **unemployment** remained at 6.5% in Feb for the third consecutive month.
- **Spanish GDP** expanded 0.7% qoq in Q4 (+2.0% yoy), after 0.5% qoq in the two previous quarters (1.6% in yoy in Q3) confirming that recovery from recession in the Mediterranean country after a series of structural reforms is now well entrenched.
- **UK consumer confidence index** in Feb was steady at 1 for the second month in a row. The components related to major purchases and personal finances for the past were weak, while perceptions of future personal finances and the economic situation improved.
- **Russia's federal consolidated budget** recorded a deficit of RUB 840 bn in Dec, down from a surplus of RUB 1.55 tn a month earlier.
- **Russia's merchandise trade surplus** slid to \$12.9 b in Dec from \$13.6 bn in the previous month, led by a significant decline in exports.
- **Ukraine's central bank** hardened its restrictions on foreign currency transactions, prohibiting banks from purchasing foreign currency for their clients and limiting the purchases for their own operations.
- The **euro zone's Conference Board economic sentiment** index rose in Jan to 101.2 from a revised 100.6 in Dec, its highest value since July.
- **Italy's retail sales** fell 0.2% mom but rose 0.1% yoy in Dec, following a 0.1% mom increase and 2% yoy contraction in the previous month. The figure was in contrast with **Italy's consumer confidence** which jumped to 110.9 in Feb from a revised 104.4 in the previous month.

## **Asia and Pacific:**

- The **Indian** government unveiled a **budget** that expanded the deficit to almost 4% up from a previously planned 3.6%, slightly lowered corporate taxes and announced ambitious infrastructure projects, yet did not reduce subsidies which cripple public finances.
- **Japan's core inflation** was 2.2% yoy in Jan, down from 2.5% in Dec. Lower oil prices and yen stability are acting as a brake on inflation.
- **Japan's retail sales** fell -2% yoy in Jan, after posting meager yoy gains in the prior 6 months, driven by drops in car and other durables purchases.
- The **Chinese manufacturing production index** increased 1% yoy in Jan after an advance of 3.1% yoy in Dec and contraction of 2% a year earlier underscoring that a long term pick up might be underway.
- **Chinese retail sales** expanded by 1.8% yoy in January, following 4 consecutive months of low growth. All in all, the trend is weak as consumers are not upbeat about economic perspectives.
- **Hong Kong GDP** grew 0.4% yoy in Q4, down sharply from 1.7% yoy in Q3 due to the disruption caused by the protests.
- **Singapore's industrial production** rose 0.9% yoy in Jan after a -1.9% drop in Dec. lifted by a rebound in pharmaceuticals and electronics.

**Bottom line:** The US, despite a climb down in real growth rate, is the only country where businesses are extraordinarily upbeat, as if the economy were expanding above its potential. Hiring intentions are especially ebullient and office space absorption has recently surged to a new record high. In the euro area only Germany and a handful of smaller countries are well ahead in the recovery process. Emerging markets have lost their growth magic and are facing tough and unpopular policy choices. India is a point in case: the new government which came to power promising sweeping changes for the second time in a row has disappointed expectations based on electoral

rhetoric.

## Regional Developments

- A pipeline of infrastructure projects in **Bahrain** will prop up the economy – construction sector grew 12.3% in Q3 vs. 3.1% in Q2 – while GCC aid and private capital is expected to insulate projects. The Bahrain Economic Development Board estimates non-oil growth of around 4.5% in 2015 and this is expected to continue in the medium- to long-term.
- Recent data for **Bahrain's banks'** shows that domestic assets shrank by 4% and that lending to the private sector fell 6.0% in Nov – the latter the biggest monthly drop in the series; the country's central bank governor is confident that lending will pick up, given strong consumer lending and growth in corporates, though he conceded that banks might become more conservative in lending because of lower oil prices.
- **Egypt's** central bank left **policy rates unchanged**: the overnight deposit rate at 8.75% and the overnight lending rate at 9.75%.
- **Egypt's** cabinet approved a law **privatising electricity production, distribution and transmission**; the law limits the state role in the sector to regulation and supervision and separates activities of production, transmission and distribution to ensure competitiveness in the private sector.
- Revenues from **Egypt's Suez Canal** touched USD 434.8mn in Jan, slightly lower compared to Dec's USD 445.5mn.
- The **World Bank** Group's current portfolio in **Egypt** grew to USD 5.4bn in the financial year 2015, with 26 projects; between 2011-14, the IFC committed a total of almost USD 1.1bn in 20 projects.
- The European Bank for Reconstruction and Development (**EBRD**) provided USD 800mn in finance to **Egypt's SME projects** during the last 3 years. Separately, the **EU** is

planning to sign **new grant agreements** for the gas, education and rural development sectors worth EUR 120mn at the upcoming economic summit.

- **US investments in Jordan**, at USD 2.2bn, accounted for 8% of total investments in the country, revealed the President of the Amman Chamber of Commerce.
- **Jordan** and **Germany** have inked two **technical and financial assistance agreements** worth EUR 193mn – of which EUR 155mn is in soft loans; EUR 15mn in grants and EUR 23mn in technical assistance grants – to fund projects in areas of water and sewage, climate change, solid waste treatment and supporting local communities hosting Syrian refugees.
- The Central Bank of **Jordan** will sign a USD 100mn loan agreement with the Arab Fund for Economic and Social Development in a few weeks to extend **credit to SMEs** via local banks. The Governor revealed that about USD 400-500mn was the total volume of credit available to SMEs in the country.
- **Inflation in Kuwait** picked up by 2.81% yoy this Jan, though the rate was down by 0.07% in mom terms, with the food and beverages, clothing and footwear, communications and recreation and culture components posting mom declines.
- **Kuwait** MoF report revealed that 25 establishments, government bodies, and individuals owed the government KWD 1.792bn in **outstanding debts** as of last Jan, indicating an increase of nearly KWD 648.9mn in the previous nine months. Sources warn that the state treasury might lose the debts, given that almost all of the debts accrued several years ago and might be written off due to the statute of limitations.
- **Kuwait government budget surplus** shrank 26% in the first nine months of this fiscal year, according to National Bank of Kuwait using MoF data. During this Apr-Dec period, government spending was up 10% to KWD 10.6bn while capital spending surged 31% to KWD 900mn.

- **Lebanon**'s Finance Minister expects growth to touch 2.5% this year, after the country's largest Eurobond issue of USD 2.2bn. He also stated that the country requires a further USD 2.2bn to cover financial needs for 2015 though he only had the required permission from parliament for USD 300mn of further bond issues.
- **Italy** pledged EUR 2.5mn in **funding for Lebanon** to provide for the Syrian refugees. The UN High Commissioner for Refugees has registered 1.15 million Syrian refugees in Lebanon to date.
- **Oman GDP** growth is projected at 3.2 % and 3.4 % in 2015 and 2016 respectively, as estimated by Standard & Poor's rating agency.
- **Oman** total exports for the period Jan-Nov 2014 showed a 4.8% yoy fall to OMR 18.88bn, from OMR19.85bn for the same period of the previous year.
- **Qatar's** Minister of Economy revealed that about USD 12.5bn would be spent in the next 7 years towards developing adequate **housing** (and basic related infrastructure) ahead of the FIFA World Cup 2022. Separately, according to the Administrative Control and Transparency Authority Chairman, the country plans to spend USD 225bn in **development projects** in the next 5-7 years.
- **Qatar** Islamic Bank (**QIB**) received an approval from its shareholders for the issuance of up to QAR 5bn of **Tier 1-boosting Sukuk** though the final amount and currency of the offering would be decided by the board at a later date.
- **Saudi Arabia**'s government reserves and deposits with SAMA dropped to a 21-month low of SAR 1.39 trillion in Jan (+2% mom and +8% yoy), understandable given that reserves could be diverted during the period of lower oil revenues.
- Under the new **labour regulations in Saudi Arabia**, Saudi employees would be counted as soon as they join a private company, and withdrawn the moment they leave.



This replaces the prior 13-week regulations, wherein the **Saudisation** percentage was calculated by counting a new Saudi employee as a one-third employee in the first month, two-thirds in the second month, and a full employee in the third month.

- UAE registered the highest **inflation** rise in Dec 2014 in **GCC** with 3.1%, followed by 3.04% in Kuwait, 2.7% in Qatar, 2.5% in Bahrain and 2.4% in Saudi Arabia while Oman reported the lowest: 0.08%.

### **UAE Focus**

- **Dubai Airport Free Zone Authority** contributed AED 109bn to Dubai's non-oil foreign trade last year, with revenues and net profits higher by 13% and 48% respectively.
- **Abu Dhabi** international **airport** posted a 20.7% yoy rise in passenger traffic to 1,887,631 in Jan this year and the amount of cargo handled at the airport rose 11% to 64,479 tonnes. Separately, sales at the Duty Free crossed the AED 1bn mark last year, reporting a 10.5% pickup in sales to AED 1.009bn.
- Dubai received 358k **tourists** from 94 **cruise ship** calls last year, with the number touching 150k tourists in Jan 2015 alone, revealed the head of Dubai Tourism & Commerce Marketing. The forecast for this year stands at 425,000 cruise tourists from 115 ship calls.

### **Media Review**

***The oil rigs count in the US is plummeting but production remains resilient. For how long?***

<http://uk.businessinsider.com/heres-why-the-oil-rig-count-does-nt-matter-2015-2>

***KSA is winning the price war with the frackers***

<http://www.bloomberg.com/news/articles/2015-02-27/saudis-bold-gambit-paying-off-just-three-months-later-energy?>

***The Indian budget maintains subsidies and touts infrastructure plans unlikely to be achieved***



<http://www.bloomberg.com/news/articles/2015-02-28/modi-diverges-from-india-budget-deficit-path-to-boost-growth>

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