

Weekly Economic Commentary – Mar 8, 2015

Markets

Stock markets were rather subdued during the week with the S&P 500 down more than 2% compared to its March 2 record high, while the Nasdaq ended the week more than 70 points off the 5,000 mark, which it hit this week for the first time since March 2000. In essence the positive macro data reignited fears that the Fed will raise rates and reduce the liquidity which has been driving up all asset prices. Emerging markets also felt the contagion from the US stock prices, while in Europe the imminent start of the QE lifted moods and prices across the board with government bonds at all time records. On currency markets the euro was battered after Draghi unveiled the QE plans and the US dollar gained on all major currencies. Oil prices held up recent gains, while gold took another dive.

Global Developments

US/Americas:

- **US non-farm jobs** rose by 295,000 in Feb, beating expectations, despite a severe winter and marking the 12th month of jobs gains over 200,000. Over the last 3 months, job gains have averaged 288,000. The unemployment rate fell to 5.5% from 5.7% in January while the participation rate glided down to 62.8%.
- **Jobless claims** rose by 7,000 to 320,000 with the 4-week moving average increasing by 10,250 to 304,750, its highest since mid-Jan.
- **The ISM manufacturing index** came out lower than expected in Feb slipping from 53.5 in Jan to 52.9. The index is well below its Q4 average of 56.9. **The ISM non-manufacturing index** rose from 56.7 in Jan to 56.9 in

Feb, its third increase in the past 6 months.

- **The US Fed Beige Book** showed that economic activity expanded across most sectors and districts, although some areas recorded slower growth compared with the previous reporting period. Payroll levels are stable or increasing, with wage gains concentrated in skilled occupations. Prices were flat or rose slightly in most districts.
- **US factory orders** fall by a sa 0.2% mom in Jan compare to previously reported decline of 3.4% mom in Dec.
- **US personal income** rose 0.3% mom matching Dec's pace while spending fell 0.2% mom after falling 0.3% in Dec.
- **Canadian GDP** rose 2.4% qoq ann. in Q4, thanks to stronger consumption spending and inventory building. For 2014 GDP rose 2.5%, from 2.0% in 2013.

Europe:

- **ECB President Draghi** announced the first installment of QE in the Eurozone surprising markets on the upside.
- **Euro zone CPI** fell by 0.3% yoy in Feb, following a 0.6% drop in the previous month, because of weaker energy prices.
- **Euro zone producer prices** dropped 3.4% yoy in Jan. The major force behind the decline was the price drop in the energy sector, while sliding prices of intermediate and nondurable goods contributed.
- **Euro zone retail sales** rose 1.1% mom in Jan while increased by a revised 0.4% in the previous month. In annual terms, retail sales rose 3.7%, up from 3.1% growth in Dec.
- **Euro zone unemployment rate** in Jan was 11.2%, down 0.1% from the downwardly revised number the previous month.
- The **euro zone's real GDP** growth accelerated to 0.3% qoq in Dec from a 0.1% gain in the previous quarter.
- **The UK Nationwide house price index** climbed 5.7% yoy in Feb, the smallest increase in 17 months, following a

6.8% rise in Jan.

- **Italy's unemployment rate** fell to 12.6% mom in Jan from a revised 12.7% in the previous month, but stayed well above the natural rate.
- The **unemployment** rate in **France** increased to 10% qoq, seasonally adjusted, in the three months to Dec.
- **German industrial production** rose 0.6% mom and 0.8% yoy in Jan, compared to 1% in Dec (0.6% yoy) confirming the solid performance of the leading European economy.
- **German retail sales** increased 2.9% mom in Jan following a revised 0.6% rise a month earlier due to increased the consumption expenditure.
- **France's fiscal deficit** was €9.4 bn (not seasonally adjusted) in Jan from €85.6 bn in the previous stanza. The deficit decreased from €12.7 bn in Jan 2014.
- **Russia's reserve fund** shrank to RUB 4.72 tn at the beginning of March from RUB5.86 tn a month earlier as the government used its maximum annual allowance to cover a widening budget deficit.

Asia and Pacific:

- **Recession in Japan** ended in Q4 as GDP expanded 0.6% qoq, marking a weak rebound. Residential investments continued to fall sharply and business investment came out below expectations.
- **China's exports** jumped 48.3% yoy in Feb – the strongest in nearly 5 years, while imports slipped 20.5%. The resulting monthly trade surplus hit a record of USD 60.6 bn. For the first two months of 2015, exports rose 15% yoy, while imports fell 20.2%. China's exports rose 6.1% in 2014, while imports inched up 0.4%.
- **India's** inflation has eased sharply due to falling oil prices from last year and rose 5.1% yoy in Jan. The central bank lowered its repo rate by 25 bps to 7.5% in an inter-meeting move, after making a similar cut in mid Jan.

- **Australian GDP** grew 0.5% qoq in Q4 (2.5% for the whole 2014), vs 0.4% qoq in Q3, regaining momentum after faltering in mid year.
- Average **total wages in Japan** grew by 1.3% yoy, basic wages grew by 0.5% yoy thanks to the 2014 spring wage hike.

Bottom line: The acceleration in job creation in the US corroborates the optimism over the prospects of the US economy, although wages are stagnant and the participation rate is low by historical standards. Eyes are now focusing on Euroland where many hope that the QE can inject some dynamism in a mostly sclerotic economic environment where few reforms have been implemented. In Asia data from both China and Japan are somewhat more encouraging but hardly a sign of a solid turnaround.

Regional Developments

- Ahead of the Economic Summit scheduled mid-March, **Egypt** issued the much-awaited **investment law** that paves the way for greater legal clarity in terms of legal disputes or changes in government, and thereby reducing red tape. More importantly, the law creates a “one-stop shop” for foreign investors, as opposed to the 78 agencies they are required to take permission from before setting up – a process that could last up to 5 years.
- **Egypt** has received USD 23bn in **aid** from the 3 **GCC** nations of Saudi Arabia, UAE and Kuwait, revealed the investment minister. He also mentioned that the country plans to issue USD 1.5bn worth of bonds in June in its first tranche and that FDI is expected to double to USD 8bn this fiscal year. Separately, the finance minister stated that Egypt could raise as much as USD 2bn through a Eurobond this year.
- The Egyptian Commercial Attaché in Riyadh stated that Saudis account for 27% of Arab investments in Egypt, with investments worth some USD 5.7bn.

- Foreign currency **reserves** in **Egypt** rose to USD 15.456bn at the end of Feb, from USD 15.429bn the month before. Money supply M2, meanwhile, was up 16.4% yoy to EGP 1.63 trillion in Jan.
- **Egypt** announced a year-delay in **payments to oil companies**: after making payments of nearly USD 5bn in Nov and Dec last year, outstanding payments stand at USD 3.1bn, which will now be paid mid-2016.
- **Iraq's oil exports** increased to an average 2.597mn barrels per day (bpd) in Feb, from 2.535mn bpd the month before; the shipments generated USD 3.449bn in revenue.
- The CEO of **Kuwait Investment Office** – the London branch of Kuwait's sovereign wealth fund – disclosed that the company was reducing its overweight stance on US assets after keeping that position for seven years, while shifting to implement an overweight of European markets.
- **Lebanon PMI** fell to the lowest in five months, contracting to 48.7 in Feb compared to 49.5 in Jan, as both output index and the level of new orders dipped to 47.6 and 47.7 respectively (from 49 and 49.2 the month before).
- The **IMF** has urged **Oman** to reduce subsidies and its wage bill, as oil revenues are hit, also warning that sans reforms the “country will either have to use its buffers or increase debt”. It also highlighted the need for non-oil growth given near-capacity production in the oil sector.
- **Oman's** central bank chief stated that the country plans to issue its first ever **sovereign Sukuk**, of around OMR 200mn, by mid-2015 to finance its budget deficit.
- **Credit growth** to the private sector in **Oman** was up 10.9% to OMR 14.7bn at end-Dec, with the share of the non-financial corporate and household sector accounting for the bulk, at 47.8 and 45.4% respectively. Total assets of commercial banks increased by 11.1% to OMR 24.8bn.
- **Moody's** lowered its outlook on 5 **Omani banks** to “negative” from “stable”, given its assessment that Oman

government's capacity to support the banks is weakening.

- The governor of the Qatar central bank stated that **Qatar's financial sector** had "limited impact" from the decline in **oil** prices, with well-capitalised and profitable banks, and return on assets in excess of 2%.
- **FDI** flows into **Qatar** registered a 1.2% rise to QAR 111.8bn in 2012, with four sectors – mining and quarrying, manufacturing, building and construction and professional, scientific, technical, administrative and supportive service activities – accounting for 90.7% of the total inflow.
- **Oil production** in **Qatar** fell to 674k barrels per day in Jan, but "redevelopment plans" should "stabilise" output going forward, according to Qatar National Bank.
- **Saudi Arabia** witnessed a sharp decline of 10% mom in **expat remittances** to SAR 12.9bn in Jan, with per capita remittance amounting to SAR 1,282, according to figures released by the Department of Statistics and Information.
- Data released by **Saudi Arabia's** Ministry of Civil Service reveals that about 7,375 Saudis holding doctorate, masters' and other postgraduate degrees were currently seeking jobs. Unemployment rate in Saudi Arabia is at 5.7% as of Q4 2014.
- **Private wealth in GCC** has doubled from USD 1.1 trillion to USD 2.2 trillion, according to research from Strategy&. High-net-worth individuals continue to account for the largest chunk of the region's wealth at 41%, followed by ultra-high-net-worth individuals at 34%. The UAE has created the most affluence in the GCC, with its share of affluent households rising from 16% to 26% from 2009 to 2013.
- Qatar, Saudi Arabia and Kuwait rank in the top 10 among locations that are most likely to see strong growth in **luxury spending** by ultra-wealthy residents or visitors – a list topped by UK and China. The index is based on six categories, including wealth growth, luxury store

footprint and luxury goods spending.

UAE Focus

- **UAE PMI** fell to a five-month low of 58.1 in Feb, as the pace of expansions in output, new orders and new export business slowed. New orders were at an 18-month low while the rate of hiring picked up to a four-month high.
- **UAE** central bank governor stated at a conference that the country is currently **benefiting from a strong US dollar**, also justifying the dollar peg.
- **Ras Al Khaimah** is eyeing a potential US dollar-denominated benchmark **Sukuk** issue before end-Apr, according to industry sources familiar with the matter, reported Reuters.
- Sharjah's utility provider, **SEWA**, raised a USD 500mn syndicated **Islamic loan** to fund its infrastructure and expansion plans. The transaction is guaranteed by the Government of Sharjah.
- **Emirates** airlines revealed that it contributes EUR 6.8bn to the **European Union** economy and supported 85,100 jobs across the EU in the 2013-2014 financial year.
- **Emirates NBD** picked six banks to arrange investor meetings across Europe ahead of issuing a **potential benchmark bond**. Separately, the bank has been named the most valuable banking brand in the UAE with a brand valuation of USD 1.78bn, a 40% increase from 2014.
- **Dubai International Airport** reported a 7.7% yoy rise in **passengers** to a total of 6,895,668 in Jan this year. Eastern Europe was the fastest-expanding market in terms of percentage growth, up 71.9%.
- **Dubai hotel revenues** were up 9.8% yoy to AED 23.9bn last year, according to Dubai's Department of Tourism and Commerce and Marketing. Room revenues were up 12% to AED 15.2bn, while revenues from food and beverage and other sectors grew 6.1%.
- **Oil storage** capacity at the port of Fujairah (outside

the Strait of Hormuz) is expected to rise 6mn cubic metres (mcm) by 2020 to around 14 mcm, according to a senior official.

Media Review

Where are oil prices heading?

<http://www.bloombergvew.com/articles/2015-03-05/where-oil-prices-go-from-here>

The negative yield environment

<http://www.economist.com/blogs/buttonwood/2015/03/bond-markets>

Bureaucracy, capitalism and masochism

<http://www.ft.com/intl/cms/s/2/73212b74-c1ba-11e4-8b74-00144feab7de.html>