

Weekly Economic Commentary – Mar 15, 2015

Markets

Stock markets displayed a mixed picture with Wall Street on the back foot while Japanese and European shares advanced. The Nikkei in particular touched a 15-year high scoring five consecutive weeks of gains. Germany's Dax recorded its longest streak of weekly gains since 1998 as investors bet on the effects of the QE and the sharply weaker euro. In fact the US dollar jumped on all major crosses (excluding the Renminbi) reaching a 12 year top against the euro and an 8 year high against the yen. This currency movement however exerted a dampening effect on emerging market bourses on worries that companies and countries exposed to dollar denominated liabilities will be disrupted. Regional markets were affected by this negative mood, but Bahrain and KSA bucked the trend, Oil prices lost ground but essentially held onto recent gains, while gold continued its long term decline.

Global Developments

US/Americas:

- **US retail sales** fell for the third consecutive month in February by -0.6% mom (+1.7% yoy, the lowest since 2009). Weakness was led by auto dealers, but was widespread and possibly caused by bad weather. Sales excluding autos fell -0.1% mom with large declines at building supply stores, electronics and appliance stores and department stores.
- **The Federal government** ran a deficit of USD 192.3bn mom in Feb. Revenues fell 3.4% to USD 139.4 bn and spending dropped 1.8% to \$331.7 bn.
- **The University of Michigan consumer confidence index**

fell to 95.4 in Feb (after reaching an 11-year high of 98.1 in Jan) pushed down by current finances and a more pessimistic general outlook.

- **Jobless Claims** fell by 36,000 to 289,000. The four-week moving average fell somewhat but stayed above 300,000 for the second consecutive week.
- **Import prices** rose 0.4% in Feb rebounding from the 3.1% decline in January and 2.5% decrease in Dec. **Export prices** slowed their fall, sliding -0.1% after retreating -1.9% in Jan.

Europe:

- **Euro Zone industrial production** fell -0.1% mom in Jan (+1.2% yoy), following a revised 0.3% increase in Dec (+0.6% yoy). Among the individual countries was noteworthy **Italy's industrial production** which dropped -0.7% mom in Jan, following a 0.4% increase in Dec. By contrast **France's industrial production** increased 0.4% mom, sa, (+0.6% yoy) in Jan, following a revised 1.4% increase in Dec.
- **UK trade** deficit was GBP 8.4bn in Jan, the narrowest since Mar, following a GBP 9.9bn shortfall in Dec.
- **Germany's trade surplus** fell to EUR 19.7bn mom in Jan from EUR 21.6bn in Dec. The surplus expanded from Jan 2014 when it reached EUR 17bn.
- **Germany's CPI** increased 0.1% yoy in Feb, following a 0.4% drop in the previous month and **Italy's CPI** also rose 0.1% yoy in Feb, following a 0.5% decline in the previous month. On other hand, **Spain's CPI** fell 1.1% yoy in Feb, following a 1.3% decline in Jan and **France's CPI** fell 0.3% yoy in Feb. The main driver of CPI was a decrease in prices of energy products.
- **Spain's retail sales** climbed 3% yoy in Jan, following a 4.7% rise in Feb, confirming that the recovery is solidifying.
- The **IMF** has agreed to lend USD 10 bn to **Ukraine's** over

the next year, as part of a 4-year bailout.

Asia and Pacific:

- **China's industrial production** grew 6.8% yoy in the first two months of 2015, down from a 7.9% increase in Dec.
- **China's fixed asset investment** decelerated to 13.9% yoy in the first two months of 2015, sharply down from 15.7% yoy in Dec
- **China's retail sales** growth slowed to 10.7% yoy in the first two months of the year, from Dec's 11.9%, partly due to lower oil prices.
- **Chinese inflation** in Feb increased to 1.4% yoy from 0.8% in Jan. Food and fuel inflation led the increase while inflation of house-related items are on a downward trend.
- **China's M2 money supply** growth declined to 10.8% yoy in Jan, from a 12.2% in Dec signaling anemic credit expansion.
- **The Bank of Thailand** unexpectedly cut the key interest rate to by 25 bp 1.75%, followed by the **Bank of Korea** which equally unexpectedly lowered its rate by 25 bp to 1.75% confirming that Asian economies are losing traction.
- **Japan's core machinery orders** fell 1.7% mom in Jan, after rising 8.3% in Dec. Looking through the volatility of the monthly series, the three-month moving average is on an upward trend.
- **Japan's consumer sentiment index** rose modestly to 40.7 in Feb from 39.1 in Jan, thanks to a willingness to purchase durable goods.
- **Japan's GDP deflator** increased the most last year since 1995, marking a 2.3% rise in Q4 of 2014. The acceleration in the deflator's gain promise progress in the battle of overcoming deflation.
- **India's trade deficit** widened to USD 39.2bn during the previous quarter as exports fell 7.3%. This gap amounts

to 1.6% of India's GDP, wider than the Central Bank's forecast of 1.3% for the year.

Bottom line: The spotlight last week was on China whose macro data continue to depict a downbeat picture and the rest of Asia is feeling the impact. China's economy remains under disinflationary pressure emanating from the housing slump, and this is causing the government to increasingly move toward an easing bias. The rate cut by the Korean and Thai central banks underscored that the authorities are trying to counter the external effect with a domestic stimulus. More generally the OECD composite leading indicator confirmed that global growth is not picking up: in Jan it rose a mere 0.1 points to 100.4 from Dec. The indicator remained unchanged for the G-7 group of advanced economies, but showed an uptick for China. The vagaries of the global economy are impacting the oil market where trade is choppy. However **US shale oil** production is ebbing with a net gain of just 1,000 b/d predicted for April by the US Energy Information Administration's latest Drilling Productivity Report. Net production from the Bakken, Eagle Ford and Niobrara shale plays will be actually falling in April, for the first time since the EIA started collecting data in November 2013. Only the Permian region will show a significant projected net gain in April, at 21,000 b/d, compared with the February report's projection for March growth of 30,000 b/d.

Regional Developments

- Economic **growth** in **Egypt** touched 4.3% in Q4, and compares to 1.4% during the same period a year ago; this brings GDP growth to 5.6% in H1 of the 2014/15 fiscal year versus 1.2% in the previous year.
- **Budget deficit** in **Egypt** rose to EGP 159bn, or 6.9% of GDP, during Jul 2014-Jan 2015 vis-à-vis a deficit of EGP 119.6bn or 6% of GDP during the same period a year ago. The widening of the deficit was largely a result of the reduced revenues due to the decline in the "exceptional

grants” the period before.

- The chairman of the **Egyptian** stock exchange revealed that about seven or eight companies are expected to list on the bourse by mid-2015.
- Bilateral trade between **Egypt** and Italy stood at USD 6bn by end-2014 according to the Italian Agency of Trade. Italy is Egypt’s top trade partner in EU, ranked fourth among Egypt’s investors and the third trade partner behind China and US.
- **Egypt**’s urban consumer **inflation** clocked in at 10.6% yoy in Feb (Jan: 9.7%). Core annual inflation meanwhile increased to 7.15% in Feb (+7.06%).
- **Egypt** wants to attract **FDI** worth USD 60bn starting from 2015/16 to the end of 2018/19 and expects an average growth rate of 7% during that period, according to the planning minister said. He also revealed that the plan is also to lower **unemployment** to below 10% from the current rate of 13%.
- Dip in oil price is resulting in **Iraq** building up debts to the oil companies developing its giant fields. Oil companies are working under service contracts, which are currently based on a fixed dollar fee for additional volumes produced; so, with halved oil prices, the amount of crude needed to pay the companies has roughly doubled.
- OPEC is likely to maintain its production policy at a meeting in June, revealed **Kuwait**’s OPEC governor – the first public statement providing an insight into the upcoming meeting.
- The Central Bank of **Oman** called for the government to implement “meaningful **fiscal reforms** based on efficient and effective resources allocation” during the period of lower oil prices. Reforms suggested include improving tax collection and customs revenues through effective infrastructure, training and possibly introduction of new taxes amidst controlling expenditure on subsidies.
- **Oman** expects two **initial share sales** – a utility firm

and a family-owned business – before summer, as per the director-general of the Muscat Securities Market.

- **Total assets** of the Central Bank of **Oman** touched a record high OMR 7.2bn at end-Jan while total foreign assets was at OMR 6.mn. Separately, total assets of local commercial banks were OMR 24.9bn at end-Jan while total loans disbursed stood at OMR 16.9bn.
- **Oman** crude **oil** and condensate **production** touched 26.8mn barrels, roughly 957k barrels per day, in Feb 2015 while total crude oil exports reached 26.16mn barrels or 934,289 bpd – a 14.8% mom growth.
- Gross **electricity production** in **Oman** grew 9.6% yoy to 28,755.8GWh in 2014; water production was also up by more than 13% yoy to 323.15mn m3.
- An alliance to set up **Oman Brunei** Aviation Leasing Company (OBALC) with an authorised capital of OMR 200m was jointly announced by Oman's State General Reserve Fund (SGRF) and Oman Brunei Investment Company (OBIC).
- The **Oman Development Bank** provided 40,584 loans at an average of 4,584 loans every year, to the tune of OMR 320mn. The annual average of loan amount stands at OMR 32mn.
- **Oman's real estate sector** accounted for 10 per cent of the country's gross domestic product last year, contributing about OMR1.3 billion to the economy, said an official of the Oman Real Estate Association.
- **Qatar** announced its fiscal year end to be Dec 31 from Mar 31 currently. This was revealed in a financial system law which also stated that the finance ministry authority could hereby prioritise economic development projects if there are disputes about them among state entities, enlist the aid of other government councils and ministries, and issue government debt in local or foreign markets in coordination with the central bank.
- **Qatar trade surplus** dropped to QAR 73.5bn in Q4 2014 (Q4 2013: QAR 94.7bn); the value of total exports was down 13.8% yoy to QAR 104.2bn in end-2014.

- Exports to **South Korea** – the second biggest trade partner to **Qatar** – accounts for 20% of Qatar's total exports, stated the Minister of Energy and Industry, of which LNG represented a third.
- **Saudi Arabia's PMI** rose to a 4-month high of 58.5 in Feb (Jan: 57.8), thanks to across-the-board expansion in output, new orders and employment sub-categories.
- **Saudi Arabia** will supply full contracted volumes of **crude oil** to at least two Asian term buyers in April, unchanged from March, revealed industry sources familiar with the matter.
- An **Aramco** official from **Saudi Arabia** revealed that the dip in oil prices might result in the cancellation and/or delay of capital funding of about USD 1 trillion of planned projects in the coming years.
- **Saudi tourists** visiting **Turkey** grew a rapid 30% to 320k in 2014, as per officials from Turkish Airlines. Separately, about 766,300 Saudi tourists left the country during the midterm holiday and spent around SAR 2.8bn – an average of SAR 3,611 per tourist, according to the Tourist Information and Research Center.
- **Female employees** in **Saudi Arabia's** major industrial cities reached 5,480 across 132 factories and account for about 4.7% of the total industrial work force, disclosed a Saudi Industrial Property Authority official.
- **GCC's family owned businesses** face key credit risk challenges (from a rating perspective) including ownership restrictions, corporate governance limitations and a lack of geographical or cash flow diversification, according to Moody's.
- S&P expects the upside for **sovereign Sukuk issuance** in the **GCC** to be limited in 2015. It also revealed that most governments' net asset positions would likely remain strong enough to enable financing of their deficits.

- Dubai's **Drydocks World** is expected to request creditors to amend the terms of its USD 2.3bn restructuring deal originally signed in 2012, reported Reuters, according to two sources aware of the matter. Talks will focus on the \$800 million tranche of Drydocks ' restructured debt, which is set to mature in Aug 2017.
- The **UAE** central bank's **foreign currency assets** grew 3.5% yoy to AED 313.3bn in Jan.
- A **draft Pensions Law** in the **UAE** would ensure equal retirement plans for Emirati workers in the public and private sectors, according to the Minister of State for Financial Affairs. Currently, the pension law mandates that citizens must put in 20 years of service and also reach the age of 50 to be eligible for a pension.
- According to the RTA, accidents in **Dubai** cost the economy AED 1.8bn annually and overall loss is around AED 3.5bn in traffic congestion, including those caused by accidents.

Media Review

Low oil price and reforms in the GCC

<http://gulfbusiness.com/2015/03/dr-nasser-saidi-lower-oil-prices-give-way-reforms/#.VQGS2vmUd8F>

The solitude of the FED

<http://www.bloombergvew.com/articles/2015-03-05/should-the-fed-raise-rates-when-everyone-else-is-cutting-?alcmpid=view>

India's budget is overall positive

<http://seekingalpha.com/article/2982646-indias-budget-overall-positive?ifp=0>

Iran's economy is fading

<http://www.economist.com/news/middle-east-and-africa/21645738-foreign-businesses-are-looking-beyond-falling-oil-prices-and-limping>

China prepares for a prominent role in international finance

<http://www.reuters.com/article/2015/03/09/us-china-yuan-payments-exclusive-idUSKBN0M50BV20150309>