

Weekly Economic Commentary – Mar 22, 2015

Markets

Stock markets around the world were bullish with all major indices recording substantial gains driven by a dovish Fed and the prospects of another bout of asset price inflation as a result of QE in Europe. The exceptions were regional markets led downward by a 5% decline in KSA. International investors have decreased their exposure to the region due to falling oil prices and as a consequence the blue chips have been battered. The currency markets saw a comeback of the euro amid quite sharp daily moves and a decline of the US dollar after the Fed communications. The oil price tumbled at the beginning of the week, but then recovered. The US shale industry is on the cusp of the inflexion point where legacy declines start to overwhelm new production and US shale oil output should start to contract in a few months. Gold price had a rare positive week.

Global Developments

US/Americas:

- The **US FOMC** increased the target range for the fed funds rate, signaling that a rate increase is on the cards but stopped short of hinting to a time frame for such a move.
- **US Industrial Production** rose by 0.1% in Feb compared to an increase of 0.2% in Jan. **Manufacturing Production** declined by a sa – 0.2% in Feb after a drop of -0.3% in Jan.
- **The NAHB housing composite index** fell 2 points from 55 in Feb to 53 in Mar, the lowest level since Jul 2014.
- **US Residential construction** disappointed again in Feb:

total housing starts collapsed -17% mom and -3.3% yoy. Housing completions also fell on a yoy basis. On the positive side housing permits recorded their first significant increase in months.

- **Net long-term capital flows** were negative for the second time in 6 months in Jan. Net outflows from the U.S. were USD 27.2 bn, compared with a net inflow of USD 39.2 bn in Dec.
- **US crude oil inventories** rose by 9.6 mn barrel in the week ending Mar 13, more than twice consensus expectations of 4.1 mn.
- **The Conference Board index of leading indicators** gained 0.2% in Feb the same as rates as in Jan.
- **US initial claims** rose 1,000 to 291,000, marking the second consecutive week new filings have been below 300,000. The four-week moving average rose from 302,500 to 304,750.

Europe:

- **German Chancellor Angela Merkel** warned Greece that it must stick to “every paragraph” of February’s bailout extension deal with the Eurozone. Similar remarks were made by senior EU officials.
- **Eurozone CPI** declined -0.3% yoy in Feb, following a -0.6% drop in the previous month, due to a still weak economy and falling oil prices.
- The **Eurozone’s external trade surplus** contracted in Jan to EUR 7.9 bn, not seasonally adjusted, from EUR 24.3 bn in Dec. The surplus expanded sharply from EUR 100 mn in Jan 2014.
- **The Eurozone’s current account surplus** shrunk to EUR 8.2 bn in Jan, not seasonally adjusted, from EUR 35.2 bn in Dec.
- The **Bank of England’s monetary policy** committee unanimously voted to keep the main **refinancing rate** on hold at 0.5% and to maintain the **asset-purchase**

programme at GBP 375 bn.

- The **U.K. unemployment rate** was unchanged mom in Feb from a six-year low of 5.7% in Jan.
- **Investor confidence** increased marginally in **Germany** in Mar as the **ZEW indicator** of economic sentiment rose to 54.8 from 53 in Feb. The Indicator for the current situation surged to 55.1 from 45.5.
- **German PPI** fell -2.1% yoy (-0.7% mom) in Feb, following a -2.2% drop in Jan.
- **Russia's consolidated federal budget** recorded a deficit of RUB 171.2 bn in Jan from a deficit of RUB 844.9 bn a month earlier.
- **Russia's unemployment rate** rose to 5.8% mom in Feb, and the number of people out of work ticked up to 4.4 mn.
- **Russian PPI** accelerated to 9.5% yoy (2.1% mom) in Feb from 7.1% in Jan. The sharp depreciation of the ruble is outweighing the effects stemming from a sluggish economy.

Asia and Pacific:

- **China's FDI** grew by only 0.9% yoy in Feb. slowing sharply from Jan's surge. A third of the FDI went to the services sector in a sign that the economy is moving away from heavy industry towards services and consumption.
- The Bank of Japan kept policy steady continuing to purchase assets at an annual pace of JPY 80 tn.
- **Japan's All Industries Activity Index** rose more-than-expected to 1.9% in Feb from -0.1% in Jan.
- **India WPI** fell -2.1% yoy from a -0.4% decline in Jan. Consumer price inflation rose to 5.37% mom.
- **South Korea's Unemployment Rate** unexpectedly increased to 3.9% in Feb. 2015 from 3.4% in the previous month, recording the highest rate since Feb 2014.

Bottom line: The US economy created 1.3 million new jobs over the four months to Feb. But this is pretty much the only

cheerful indicator of a recovery. Most other indicators are still depicting a rather somber recovery. As a result the estimates for US growth in Q1 continue to be cut. In Europe no major data were released. The attention has focused once again on Greece which is torn between electoral promises that cannot be kept and external pressure that cannot be resisted. In Asia no major changes were recorded but a noteworthy political development took place: after Britain also France, Germany and Italy joined the China-led Asian Infrastructure Investment Bank with a capital of USD 50bn, a potential rival to the World Bank.

Regional Developments

- **Egypt** expects economic growth in the 2015/16 fiscal year to touch 4.5-5% while shrinking its budget deficit to 9.5-10% of GDP, according to Ministry of Finance estimates. The ministry highlighted spending on infrastructure, education and health while also revealing plans for the introduction of VAT – though no details were provided.
- **Egypt's** Sisi revealed at the recent **investment conference** that the country needed USD 200-300bn to develop. The conference led to USD 175.2bn in agreements, contracts and memoranda of understanding, according to the Investment Minister. This includes USD 15bn in final investment agreements signed during the conference, USD 18bn in construction, supply and financing agreements, USD 5.2bn in loans and grants from international financial institutions, and USD 92bn in memoranda of understanding for new and existing projects.
- According to the housing minister, **Egypt** has signed preliminary deals with four Arab **real estate** developers for four **projects** worth a total of USD 12.7bn. Separately, the Ministry of Electricity and Renewable Energy signed deals worth USD 21.2bn to develop the

national **electricity** network and build new power plants.

- **Egypt's** central bank will receive **deposits from the GCC** in a few days, revealed its governor: UAE will deposit USD 2bn and Saudi Arabia USD 1bn.
- **Egypt** targets 11-11.5 million **tourists** this year and expects to generate revenue of between USD 9-9.5bn, as per the new tourism minister; this compares to the 9.9mn tourists received last year.
- **Iraq's** finance minister revealed the country's plans to issue internationally USD 5bn worth five-year, dollar-denominated **bonds** to help cover its budget deficit. Additionally, he stated that his ministry had issued IQD 4 trillion of one-year Treasury bills, equivalent to about USD 3.5bn, in the domestic market on behalf of the oil ministry, and might issue a further USD 1.5bn worth of such bills.
- **Iraq** has called on **oil firms** to reduce development spending in the country, requesting that they consider postponing new projects and delaying already committed projects as long as no additional costs were incurred. The largest offered cut in spending came from Shell, which proposed slashing investment spending this year by more than a third to USD 1.5bn from USD 2.4bn.
- **Government spending** in **Kuwait** was up 12.6% yoy and was at KWD 11.9bn in the 10 months till Jan this fiscal year. Surplus clocked in at KWD 10.4bn, and compares to the KWD 16bn surplus reported during the same period a year ago.
- The **IIF** estimates growth in **Lebanon** at 2.2% this year, "reflecting policy inaction amid a protracted political crisis and rising regional insecurity". It is possible that public debt could increase to around 143% of GDP in 2015 in the absence of fiscal reforms.
- **Tourists into Lebanon** increased 18.4% yoy to 85,075 in Feb this year; Arab tourists represented 36.7% of total visitors while Saudi tourists reportedly surged by 65.5% yoy.

- **Oman's M2 money supply** growth accelerated to 14.1% yoy in Jan from 12.0% in Dec.
- At least two **Omani** entities and the government are planning to float **Sukuk** this year, boosting the secondary market for such instruments.
- **Oman** Oil plans to expand its refining capacity by 70%, through a new refinery able to process heavier crude oil for export, to be built in Duqm with capacity of 230,000 bbl/day. The project is a joint venture between Oman Oil and the International Petroleum Investment (IPIIC) of Abu Dhabi. The plant is expected to be operational by 2019.
- More than two million **tourists** visited **Oman** last year, a 4.6% increase over 2013. Tourists from the Gulf region accounted for 41% of the total, as Asians constituted 23% and Europeans 19.2%.
- **Qatar** reiterated its commitment to the **dollar peg**, with the central bank governor stating "we are fully supporting the peg and will not re-examine this policy...this has been our policy for years and will stay the same", reported Reuters.
- **Inflation** edged up by 0.1% mom in **Qatar** this Feb: housing prices were up 0.74% mom while prices of food and beverages went up by a negligible 0.2%.
- A rapid rise in risk-weighted assets of **banks** in **Qatar** has caused the capital adequacy ratio in the sector to come down to 12.8% in 2014, from 16% a year earlier, revealed IIF. The IIF also cautioned that the recent decline in government deposits, which are typically lower cost due to debt service payments and settlement of state obligations could create competition for private sector deposits with the result of margins erosion at banks.
- A draft **bankruptcy law** is in the works in **Saudi Arabia**, for which the ministry have requested comments from the public: the new draft law would give priority to reconciliation procedures and also aims at liquidating the assets of commercial institutions which may fail to

regain their trade activity in a regular and fast way.

- **Saudi Arabia exported** nearly 466.6 million barrels of crude **oil** in the last two months of the current year with revenues amounting to SAR 87.5bn, according to a local media report.
- A **GCC** representative revealed that with respect to the regional **rail network**, the borders of the six states would be connected “by 2018” but also admitted that individual national rail networks “might be delayed a bit”.
- **Sovereign wealth funds** (SWFs) in the GCC have a total of USD 2.6 trillion in assets, roughly 37% of total SWF assets worldwide, according to the SWF Institute. By assets, Abu Dhabi Investment Authority (USD 773bn) and Saudi Arabia Monetary Authority (USD 757bn) are the second and third largest SWFs globally.

UAE Focus

- **DIFC** reported an 18% yoy rise in number of active companies in the free zone to 1225 firms during 2014 – of which roughly 30% were financial services firms – while the total workforce in the Centre rose 14% to 17,860 people.
- Dubai’s **DP World** posted a 11.8% yoy net gain in profits and expects to have 85 million TEU of gross global capacity by 2015, an increase of approximately 15 million TEU since 2012, and over 100 million TEU of gross capacity by 2020. Separately, Port and Free Zone World, the holding company for DP World closed a USD 1.2bn loan deal priced at 225bps over the Libor, reported Reuters, quoting sources familiar with the matter.
- **Dubai Investments**, partly owned by the Investment Corporation of Dubai, revealed its plans to float shares in at least one subsidiary next year in addition to possibly divesting other holdings. The company CEO

revealed that at least 3 firms “have been identified and are on a path to go for an IPO”.

- **DEWA**’s latest green initiative, **Shams Dubai**, enables customers to install photovoltaic panels to generate electricity from solar power in buildings, and connect them to Dewa’s grid. According to DEWA, current technologies allow for solar power generation of about 20-50% of the producer’s needs.

Media Review

The state of the world economy in 2 slides

<http://www.bloomberg.com/news/articles/2015-03-16/the-entire-global-economy-in-two-big-slides>

The US economy is still disappointing

<http://www.bloomberg.com/news/articles/2015-03-17/the-u-s-economy-just-keeps-disappointing?>

Investing in biotech

<http://www.technologyreview.com/news/535771/a-contrarian-in-biotech/>

Iran is facing a deep recession

<http://www.axa-im.com/en/research/-/news/research-research-and-strategy-weekly-us-resilience-to-dollar-s-sur-2/41825838/maximized/nHZ4>

The US oil supply

<http://econbrowser.com/archives/2015/03/u-s-oil-supply-update>