

# Weekly Economic Commentary – Mar 29, 2015

## Markets

Stock markets around the world closed the week in negative territory led by Wall Street which reacted negatively to disappointing macro news especially the third revision of US GDP. Regional markets were hit by the news of military intervention by Saudi Arabia and other GCC countries in the civil war marring Yemen. Saudi Arabia's stock market stabilised and turned positive late in the session on Thursday after the sell-off, but ended the week almost 5% lower. Yemen's security situation gave a temporary boost to the US dollar but the weekly FX movements were rather limited. Oil prices ended the week retrenching after jumping around 5% on Thursday, the biggest daily gain in a month on worries of a broader security crisis in the Gulf. Gold benefited from a safe haven effect ended close to the 1200 USD per ounce mark.

## Global Developments

### **US/Americas:**

- **US real GDP** growth was confirmed at 2.2% qoq ann sa in Q4, sharply down from 5% qoq ann sa in Q3.
- The **Fed Deputy Chairman Fischer** drew the attention of regulators on risks outside the traditional banking system even though he asserted that the shadow-banking sector is less fragile than it was before 2008.
- **US existing-home sales** bounced back in Feb, growing by 1.2% mom and 4.7% yoy. **New single-family home sales** picked up in Feb for the third month in a row, increasing 7.8% mom and 24.8% yoy.
- **US CPI** rose by 0.2% mom in Feb, its first increase since Oct. The CPI is still down -0.1% yoy.

- **US Personal Income** rose by 1% qoq in Q4 (the same as in Q3) and 3.9% yoy against 2% yoy in 2013.
- **US crude oil inventories** increased by 8.2 mn barrels in the week ended Mar 20, beating analysts' expectations of a 4.9mn barrels increase.
- **US durable goods** disappointed in Feb, falling 1.4% against expectations for a 0.3% gain. Orders excluding transportation dipped 0.4% lower while nondefense orders declined 1%.
- University of Michigan **US consumer sentiment** declined in Mar 2.4 points to 93.
- **US initial claims** for unemployment benefits dropped by 9k to 282k, bringing the cumulative decline over the past three weeks to 43k. The four week moving average fell below 300k.
- **Brazil GDP** ended 2014 on a downbeat note with growth of 0.3% qoq sa. In 2014 growth was 0.1%, compared to 2.7% in 2013. Without seasonal adjustment the economy contracted -0.2% yoy in Q4, after -0.6% yoy in Q3.

## Europe:

- Another week, another delay: **German Chancellor Angela Merkel** warned Greek Prime Minister Tsipras that his country must fulfill all obligations to the EU and the IMF, but the text of reforms remains elusive.
- The **Eurozone's M3 money supply** grew 4% yoy in Feb, seasonally adjusted, following a revised 3.7% increase in Jan.
- **French GDP** grew 0.1% qoq (0.4% yoy) in Q1 despite a fiscal stimulus from a deficit projected at 4.4% of GDP for this year.
- **France's consumer confidence index** increased to 93 in Mar from 92 in Feb. **French manufacturers' sentiment** was 99 in Mar, unchanged from Feb. Also, number of **French job seekers** increased 0.4% mom in Feb after decreasing -0.5% in Jan.

- The **German Ifo Business Climate Index** improved in Mar to 107.9 from 106.8 in Feb, driven by both the business expectations and the current situation sub-indices. Also, **Germany new-home** prices rose 6.3% yoy in Feb, following a 6.4% gain in Jan.
- **UK inflation** was flat yoy in Feb, the lowest on record, following a 0.3% increase in Jan. Recreational goods, food, and furniture and furnishings pushed the CPI down. **PPI** fell -1.8% yoy in Feb, following a -1.9% decline in Jan, due to cheaper petroleum products.
- The **UK retail sales index** rose 5.7% yoy in Feb, following a revised 5.9% increase Jan despite weaker sales in food stores.
- The **U.K. house price index** climbed 5.1% yoy in Mar, the smallest increase in 17 months, from 5.7% in Feb.
- Also, **Spain's PPI** fell -1.6% yoy in Feb, following a -2.8% decrease in Jan, derived by energy and intermediate goods prices.
- **Italy's new industrial orders** declined by -3.6% mom in Jan, reversing the 4.5% increase in Dec. On other hand, **Italy's retail sales** rose 0.1% mom and 1.7% yoy in Jan, following a -0.1% mom drop and 0.1% yoy increase in Dec.
- **Business confidence** in **Russian manufacturing** remained in negative territory for the 22nd straight month in Mar. The Rosstat business confidence indicator was -6, unchanged from Feb. However the reserves of the central bank increased for the first time since Oct.

## **Asia and Pacific:**

- **China's Flash HSBC/ Markit Manufacturing PMI** fell to 49.2 points in Mar. hitting an 11-month low, down from the 50.7 reading recorded in Feb. This indicates that the performance of the Chinese manufacturing sector is deteriorating.
- **Japan's core CPI** decelerated to 2% yoy in Feb., down from 2.2% in Jan. The decline confirmed a broad

disinflation trend. The stimulus measures by the Bank of Japan are not offsetting deflation pressures from falling oil prices.

- **Japan's unemployment rate** fell to 3.5% in Feb. from 3.6% in Jan, as the country exited recession in Q4.
- **Retail spending in Japan** fell -1.8% yoy in Feb, after a 2% drop in Jan as a result of lower oil prices and minimal wage growth.
- **Japanese workers' expenditure** decreased -1.1% yoy in Feb, following a -1.6% decline in Jan. The postponement of the consumption tax hike did not boost consumption as real income growth continues to drop.
- **The Bank of Korea's consumer confidence index** fell 2 points to 101 in Mar, a two year low. Sentiment around household incomes and spending declined sharply suggesting households do not feel the recovery is gaining strength.
- **Singapore's CPI** fell for the 4th consecutive month in Feb to -0.3% yoy, the longest slide in more than 5 years.
- **Singapore's industrial production** declined -3.6% yoy in Feb., after an upward revised 1.3% yoy increase in Jan. On the other hand, **Taiwan's industrial production** rose 3.3% yoy in Feb. from 7.6% yoy in Jan. Production rose an average 5.5% in Jan-Feb period with electronics remaining the bright spot.
- **Hong Kong's trade deficit** in Jan shrunk to HK\$ -37 bn from Dec's HK\$ -59.3 bn. Exports are weak because of sluggish demand from China, Japan and Europe, only partially offset by stronger imports from the U.S.

**Bottom line: The US picture is mixed with a rebound in the real estate sector, but still subdued macro indicators. In Europe the situation displays little improvement, while Asia led by China seems once again on the verge of faltering. Overall this picture does not bode well for stocks.** Since the end of February 2009 the S&P 500 has been up an average of 19%

per annum over the last six years. There are only three other periods over the last 100 years that the US equity market has had a better run: the second half of the 1990s (the internet bubble), the 1950s (post WWII recovery) and the early 1920s (prior to the great crash of 1929, using the Dow Jones Index as a proxy).

## Regional Developments

- **GDP** in **Bahrain** slowed to 4.0% yoy in Q4 – the weakest rate since registering 3.2% in Q1 – and compared to 5.1% in Q4.
- **Egypt** reached an agreement with the **African Development Bank** (AfDB) last week to receive over USD 2.5-3mn in aid as part of AfDB's cooperation strategy with Egypt for 2015-2019.
- **Egypt** agreed with German energy company RWE Dea to raise the price of its **natural gas** to USD 3.50 from USD 2.50 per mBtu.
- Egypt's **Suez Canal revenues** slowed to USD 382mn in Feb, slightly down from the USD 434.8mn in Jan this year.
- **Iraq** suffered a **shortfall** in **oil** revenues of roughly USD 4bn in Jan and Feb, compared to budget estimates, according to a Parliament's finance committee's member.
- The **Kuwait Stock Exchange** may offer up to 44% of its shares to a company experienced in operating bourses when it goes public; lawmakers already voted to amend the ownership structure for the impending **IPO**, but a further vote is expected at the next parliament's session in two weeks.
- **Inflation** in **Kuwait** continued to ease, to 2.8% yoy in Jan (Dec: 3%), though core inflation remained steady at 3.2% yoy. Inflation in the food price index slid from 2.6% in Dec to 1.4 % in Jan.
- **Kuwait**'s new **payroll** strategic alternative project would result in immediate pay hikes by 8-10% yoy to over 12k employees. The new alternative system is expected to

save KWD 15-19bn over ten years, according to the Civil Service Commission.

- **Nominal GDP** in **Oman** at current prices increased by 5.2% in the three quarters (January-September) of 2014 as compared to 2.6% registered over the same period in 2013. Nominal GDP from the hydrocarbon sector registered a marginal increase of 1.4%, while non-hydrocarbon activities grew 8.2% during January-September 2014.
- **Oman** recorded a **budget** deficit of OMR 360.8mn in 2014, as the 2014 budget was based on an oil price forecast of \$85 per barrel.
- Annual CPI **inflation** in **Oman** stood at 0.4% yoy in Jan 2015.
- The total **assets** of **Omani** commercial banks rose by 11.8% to OMR 25.3 bn in Jan. Of the total assets, credit accounted for 67% and increased by 11.1% at end Jan to OMR 16.9 bn. Credit to the private sector also increased by 11%.
- **M1** grew sharply in **Oman** by 16.4% yoy in Jan driven by a 17.5% increase in demand deposits and 12.9% increase in currency held by the public.
- **Qatar's** economy is expected to "perform strongly", with GDP estimated at 7% this year, according to the Finance Minister. Qatar's **budget** for the extended nine-month period up to Dec 2015 entails an expenditure of about QAR 164bn, with the budgeted average oil price for the period at USD 65 per barrel. Total revenue for the full 21 months (from Apr 2014 to Dec 2015) will be QAR 395bn and an estimated expenditure of QAR 382.2bn. About QAR 65.6bn has been earmarked for mega development projects.
- **FDI** in **Qatar** grew 1.2% yoy to QAR 111.8bn in 2012, with 44% of total investments going towards the mining sector, according to the Ministry of Development Planning and Statistics. US contributed 34.5% to Qatar's FDI in 2012, followed by Netherlands (15.3%), France (10.6%), Saudi Arabia (8.1%) and Italy (6.3%).
- **SAMA reserves** dropped by a record USD 20bn mom in Feb,

the largest ever monthly decline. SAMA foreign assets are down USD 30bn since the decline in oil prices accelerated in Oct 2014 but stand at USD 715bn (more than 50 months of imports).

- **Saudi Arabia's net foreign assets** fell 1.4% yoy to SAR 2.650 tn in Feb, the first yoy drop since Feb 2010. The kingdom is drawing heavily from its reserves to compensate for the loss in oil exports revenues.
- **Saudi Arabia's** Real Estate Development Fund is currently finalizing a bylaw for granting investment loans to boost the housing sector.
- Arab ministers have agreed in principle to form a **unified Arab military force**, to counter growing regional security threats. The draft resolution is to be referred to the Arab leaders during the Mar 28-29 summit in Egypt.
- A recent EIU report found that self-made professionals and entrepreneurs account for about USD 88bn in global assets. About 78% of New Wealth Builders in the Middle East do not consider themselves wealthy; within the Middle East, 17% have earned their wealth through real estate investment and land development, 11% as an executive at a publicly held company and 8% through entrepreneurship.
- More than 40 million people in Iraq, Jordan, Lebanon, Syria and Turkey are **water vulnerable**, revealed a report entitled "The Hydro-Insecure: Crisis of Survival in the Middle East".

### **UAE Focus**

- **Borse Dubai** disclosed the sale of its full 17.4% stake in the London Stock Exchange, for an undisclosed price. The deal was set to raise around GBP 1.5bn, according to Reuters.
- **Dubai's foreign trade** touched AED 1.331 trillion in 2014, up 0.15% yoy, with imports accounting for about



AED 825bn (roughly 61%) and phones the largest significant traded commodity (+9% yoy to AED 178bn). More importantly, China overtook India as the emirate's biggest trade partner in 2014, with bilateral trade with China at AED 175bn (+29%) and India dropping to AED 109bn.

- **Abu Dhabi's non-oil trade** was AED 39.4bn in Q4 last year, a 15.8% yoy increase – imports contributed 70.6% of total foreign trade during the quarter, while non-oil exports and re-exports accounted for 11.9% and 17.5% respectively.
- The Dubai government is spending USD 32bn to develop **Dubai World Central** (DWC) which is forecast to handle 20mn passengers in 2020, revealed the CEO of Dubai Airports. Emirates is scheduled to move to DWC in 2023.
- **Abu Dhabi International Airport** reported a 21.5% yoy uptick in **passenger** numbers to 1.7mn in Feb this year. The top five destinations – Bangkok, Heathrow, Manila, Doha and Jeddah – accounted for 16% of the traffic.
- **Al Etihad Credit Bureau** announced the launch of the commercial bureau reporting service, expected to provide full and updated credit information on commercial organisations. Currently, 16.25% of UAE-registered companies in the UAE are active in the lending market.
- **UAE Central bank** support for **Islamic banking**: from the beginning of next month, Islamic banks can use Sharia-compliant securities other than central bank-issued Islamic certificates of deposit to borrow overnight from the central bank's Collateralised Murabaha Facility. Eligible collateral will range from Sukuk issued by foreign governments, which must have a minimum long-term credit rating of A, to UAE corporate entities and even some Sukuk which are rated below investment grade or do not have ratings, at the central bank's discretion.
- **DEWA** reported a 30% increase in **water connections** to 30,300 in Dubai in 2014; the current installed capacity is 470mn imperial gallons of desalinated water per day



with peak demand at 316mn imperial gallons per day.

- **UAE** has around 4,052,000mn cubic litres of **groundwater** in aquifers or basins under the land; with per capita water consumption the third highest in the world (in 2013), the country might run out of groundwater supplies as early as 2030.

### **Media Review**

#### ***El Erian on Yellen***

<http://www.bloombergtview.com/articles/2015-03-23/fed-and-europe-avoid-making-hard-choices>

#### ***The surface of Earth is rising***

<http://www.bloomberg.com/news/articles/2015-03-27/earth-s-surface-rising-as-ice-age-still-felt-from-u-s-to-europe>

#### ***Should the US be converted into perpetuities?***

<http://johnhcochrane.blogspot.com/2015/03/a-new-structure-for-u-s-federal-debt.html>

#### ***The proxy war in Yemen between Saudi Arabia and Iran***

<https://www.stratfor.com/analysis/saudi-arabia-and-iran-compete-yemen>

#### ***If oil tanks fill up in the US will oil price could plummet to USD 20 per barrel?***

<http://www.bloomberg.com/news/articles/2015-03-24/here-s-how-20-oil-could-become-a-reality-if-storage-runs-out>