

Weekly Economic Commentary – Apr 12, 2015

Markets

Wall Street overcame initial caution as energy stocks rallied on the back of a rebound in crude prices. The excitement spread to all markets with European stocks rallying and emerging markets quite perky led by Chinese equities which continue to gain strongly on a contradictory mix of 'no bad news is good news' easing expectations. Over in the region Dubai continued to push higher with the index now showing almost double digit gains since the beginning of the month and KSA lifted by the energy price recovery. Oman bourse was more subdued. In the currency market the euro lost ground on the major crosses, while emerging markets rates did not move much. Oil prices slumped more than 4% after data showed the biggest US inventory build-up in 14 years, but then recovered with the Brent sharply higher while Dubai Fateh remained on the back foot. Gold price remained above 1200 USD/ounce.

Global Developments

US/Americas:

- **US ISM non-manufacturing composite index** held up, slipping slightly from 56.9 in Feb to 56.5 in Mar.
- **US crude oil inventories** surged by 10.9mn barrels in the week ended April 3 while gasoline inventories rose by 800k barrels. Total petroleum products supplied to the market averaged 19.2mn barrels per day in the four-week period ended Apr 3, i.e. 4.5% above the yoy level.
- **US initial claims** for unemployment benefits rose from 267,000 to 281,000 last week. The four-week moving average slipped by 3,000 to 282,250.
- **The minutes of the US Fed FOMC** showed that the bar for

raising interest rates was lowered, as an acceleration in either core inflation or wages is not a precondition for raising rates – as underlined in recent comments by Chair Janet Yellen.

Europe:

- **Greece** made a crucial payment to the **International Monetary Fund** and won extra emergency lending for its banks but it is not sure whether Athens can satisfy creditors on economic reforms before it runs out of money at end of April.
- **UK industrial production index** rose 0.1% m/m in Feb, following a -0.1% drop in Jan.
- **Industrial production in France** remained flat mom, in Feb, following a revised +0.3% in Mar.
- **Spain's industrial production** index rebounded in February, rising 0.8% yoy, following a -0.1% decrease in Mar.

Asia and Pacific:

- The **Bank of Japan** kept its **monetary policy** unchanged with monetary base expected to grow by JPY 80bn annually.
- **China's CPI** was unchanged in March, rising 1.4% yoy. **PPI** fell -4.6% yoy in Mar, following a -4.8% decline in Feb due to lower commodity prices.
- **Malaysia's industrial Production** rose 5.1% yoy in Feb vs Jan's 7%.
- **Taiwan's** disinflation trend continues as **consumer prices** dropped -0.6% yoy in March following Feb's -0.2% fall.
- **Taiwan's foreign trade surplus** narrowed to USD 4.1bn in Mar from USD 4.6bn the month before, offsetting the Lunar Year celebration impacts.

Bottom line: No important data were released last week and no major surprises were recorded. The **slowdown in the US seems to get additional confirmation** to the point that the minutes of

the FOMC held in March look quite outdated. Q1 GDP is now expected at around 1%, qoq ann, while job growth has slowed down markedly. The **likelihood of a June rate hike is losing ground**. In fact most executives believe that global GDP will grow at the same rate this year as it did in 2014, according to McKinsey's latest survey on economic conditions. The regional breakdown, shows interesting discrepancies. In **China**, executives are notably downbeat about their home economy. The majority believes that economic conditions have declined over the past six months—and that conditions will worsen still in the coming months. In **Europe**, executives indicate that geopolitical instability is top of mind as a risk to both domestic and global growth, while executives outside Europe report emerging worries over potential debt defaults and the exit of countries from the Eurozone.

Regional Developments

- **Egypt's** urban and core **inflation** both picked up in Mar, with the former rising to 11.5% (Feb: 10.6%) and the latter up to 7.21% (7.15%). Inflation was driven by a rise in food and utility prices amidst the falling currency. **Egypt** is to receive further aid from **Kuwait**: the country signed a loan agreement worth KWD 60mn with Kuwait's Arab Fund for Economic and Social Development to develop a power plant in Cairo. The Fund plans to lend Egypt USD 1.5bn over the next five years, extending about USD 300mn each year.
- Moody's raised its **credit rating** on **Egypt** by a notch to B3 from Caa1, citing "improving macroeconomic performance, reduction in external vulnerabilities, and ongoing commitment to fiscal and economic reform", with a stable outlook.
- **Egypt's** central bank revealed that **foreign currency reserves** fell to USD 15.291bn at end-Mar from USD 15.456bn the month before.
- **Jordan's** **energy** minister disclosed that the ministry was

ready to modify the monthly **pricing mechanism** “to be more flexible and thus allow private companies to import and sell oil products”. The government had lifted subsidies on oil derivatives in Nov 2012.

- Total **assets** of the **Central Bank of Jordan** touched JOD 14.1bn in Feb, with total assets of foreign currency amounting to JOD 12.4bn.
- **Kuwait**’s national assembly passed amendments to the **capital markets law** to boost transparency, provide more independence to the Capital Markets Authority and grant it more powers to guarantee protection for dealers and reduce typical risks expected in capital markets.
- **Inflation** in **Oman** rose to 0.7%yoy in Mar. Separately, Oman’s bank credit growth is expected to grow around 10%, according to the Executive President of the Central Bank.
- The average capital to risk (weighted) assets ratio of **banks** in **Oman** was about 15.1% in Q3 2014, above the CBO’s requirement of 12% and Basel III target.
- The number of **job seekers** in **Oman** registered an average annual growth of 2.6% over the period 2003-2010 reaching 146,385 persons, equivalent to 11.75% of the workforce.
- **Oman**’s electricity authorities plan to participate in a pilot project for commercial cross-border **power** trading among GCC member states. The **Palestinian** Authority revealed that it had received a USD 100mn loan from **Qatar** towards the payment of salaries of its civil servants.
- **China** and **Qatar** inked contracts in various **infrastructure** projects worth more than USD 8bn in 2014, according to an official of the Chinese Embassy’s Economic and Commercial Office. He also disclosed that bilateral trade reached USD 10.6bn in 2014.
- The IMF Article IV report on **Qatar** revealed that “on-budget **subsidies** amounted to 2% of GDP in 2010; implicit energy subsidies are estimated at 3.5%”, with the country found to have the least energy subsidies among

the GCC. Bahrain reported the largest **energy subsidies** at 12.5% of GDP, followed by Saudi Arabia (9.9%), Kuwait (7%), Oman (6.2%), UAE (5.7%) and Qatar (2%).

- **Money supply (M1)** in **Qatar** grew 15.9% to QAR 130bn in Feb while M2 grew by 7.9% to QAR 517bn. Additionally, bank credit growth slowed to an annual 5.1% in Feb, its lowest rate since at least 2007, from 5.3% in Jan.
- **PMI** in **Saudi Arabia** increased to a 6-month high of 60.1 in Mar (Feb: 58.5), thanks to output growth surging to 67.6 points – fastest since June 2011 – and new order growth up to 67.3 points.
- **Saudi Arabia's energy consumption** is 4.2mn barrels of oil equivalent per day (boepd) currently, according to the oil minister; the country's energy efficiency drive is expected to save about 20% of a projected 8mn boepd by 2030. He also stated that "the real challenge is how will we achieve energy efficiency without changing the prices?"
- **Saudi Arabia** produced a record-high of about 10.3mn barrels per day (bpd) of **crude oil** in Mar, on unexpectedly strong demand from foreign refiners and increased capacity at home, and above its previous peak of 10.2mn bpd recorded in Aug 2013.
- **Passenger growth** among the **Middle East** carriers was up 8.7% in Feb, much above the global average of 6.8% rise, according to International Air Transport Association (IATA).
- **UAE Focus**
- The **UAE Investment Law**, which includes details of the 100% foreign ownership is in its "final stages" of its issuing, stated a top government official from the Ministry of Economy. Separately, the Minister of State for Finance revealed that the **law allowing the federal government to issue bonds** was still being prepared and unlikely to be passed this year.
- **UAE PMI** touched a 17-month low in Mar, falling to 56.3

from Feb's 58.1; output growth was down to 60.7 points from 64.3, while new order growth slowed to 61.6 from 63.3.

- **Banks** in the **UAE** are likely to witness declining loan growth rate of between 7-8% this year, thanks to lower oil prices and slower growth – compares to total asset growth of about 15% in 2014, according to a recent S&P report.
- The report 'The **Renewable Energy** Prospects: **UAE**' disclosed that UAE could achieve a 10% renewable energy share (compared to the 0.3% currently) and get an annual net save of about AED 6.9bn by 2030, and this will help reduce domestic consumption of oil by up to 8.5% and natural gas by up to 15.6%.

Media Review

US Energy Security

<http://www.bloombergvew.com/articles/2015-04-06/why-the-u-s-sould-export-its-oil>

Solar and wind are the most competitive energy source in the UAE

<http://www.energypost.eu/solar-wind-competitive-energy-sources-united-arab-emirates/>

The future of fracking in Asia

<http://oilprice.com/Energy/Crude-Oil/Does-Fracking-Have-A-Future-In-Asia.html>

The US frackers safety net

<http://www.bloomberg.com/news/articles/2015-04-08/drillers-26-billion-in-hedges-spreads-price-plunge-pain>

Iran's nuclear deal

<http://www.economist.com/news/middle-east-and-africa/21648013-odds-momentous-agreement-have-shortened-it-no-dead-cert-too-soon>

China's Not-So-New Not-So-Normal: Jim O'Neill

<http://www.project-syndicate.org/commentary/china-growth-new-normal-by-jim-o-neill-2015-04>

The government budget outlook in Oman

http://www.zawya.com/story/Omans_budget_battle-ZAWYA20150406073130/