

Weekly Economic Commentary – Apr 19, 2015

Markets

Equity markets were quite volatile last week dropping on Friday after Honeywell International and General Electric took hits from the strong dollar, while sentiment was negatively affected by new trading regulations in China and the Greek authorities stubborn refusal to present detailed economic reforms. Europe was retrenching sharply while Japan paired losses. In emerging markets the situation was not as bleak with the MSCI gaining significantly. Regional markets (except Bahrain) were stable or gained sharply in particular in the UAE and KSA. Next week results from key US corporates will be released but early returns have disappointed: 45.8% of companies have topped estimates, well short of the 58% for the past four quarters and 61% since 2002. On foreign exchanges markets the dollar lost ground to major crosses. Oil prices are continuing their gradual recovery with Oman crude exceeding USD 60/barrel. Gold prices fell for the second week, after US inflation data cooled expectations that the Fed will delay its first interest rate rise in almost a decade.

Global Developments

US/Americas:

- **Consumer inflation in the US** rose 0.2% mom, the second consecutive monthly gain and leaves the CPI essentially unchanged on a yoy basis.
- **Wholesale prices** rose for the first time in five months in Mar. The PPI rose 0.2% mom after declining -0.5% mom in Feb.
- **US industrial production** fell -0.6% mom in Mar after rising 0.1% in Feb. A big decline in utilities output

(-5.9% mom) due to milder temperatures, and a decline in mining production weighed heavily on the index.

- **US Federal government ran a USD 52.9bn monthly deficit** in Mar, up from USD 36.9bn in Mar 2014. Revenues increased by 8.5% yoy reaching to USD 234.2bn, but outlays rose 13.6% over the same period to USD 287.1bn.
- **The NAHB composite construction index** rose by 4 points in Mar, climbing to a three-month high of 56.
- **Housing starts** increased by 2% mom in Mar from the revised figure in Feb but it is still down by 2.5% yoy.
- **Initial claims for unemployment benefits** increased more than expected, by 12,000 to 294,000. The four-week moving average barely budged.
- **The Conference Board index of leading indicators** increased by 0.2% in Mar. Revised estimates show a 0.1% increase in Feb.
- The **University of Michigan consumer sentiment index** rebounded to 95.9 in Apr from 93 in Mar.

Europe:

- The **IMF** refused a request by the **Greek** government to delay the next tranche of loan repayment by two months. Talks over the bailout program with the EU institutions are stalled.
- **ECB** held **interest rates** steady and maintained its EUR 60bn monthly assets purchases. **Draghi** said “the **euro zone’s economy** gained momentum since the end of 2014 and the recovery would gradually strengthen and broaden. [...] **Inflation rates** are expected to increase later in 2015 and to pick up further during 2016-17”.
- The net percentage of **banks in the eurozone** reporting in Q1 tighter credit for corporations was -8.8% down from -5% in Q4, showing that **credit conditions** are rapidly improving.
- **Euro zone industrial production** increased 1.1% mom in Feb, following a revised -0.3% decrease in Jan. **Italy’s**

industrial production rose 0.6% mom in Feb following a -0.2% drop in Jan, a sign that even the periphery of the eurozone is experiencing some positive effects.

- **Euro zone CPI** declined -0.1% yoy in Mar, following a -0.3% yoy drop in Feb. Among individual countries, **Spain's CPI** fell -0.7% yoy in Mar, following a -1.1% decline in Feb driven by communications and transport prices. **Italy's CPI** was unchanged yoy in Mar, following a 0.1% yoy increase in Feb, **Germany's CPI** increased 0.3% yoy in Mar, following a revised 0.2% increase in Feb, **France's CPI** was also unchanged yoy in Mar.
- **UK CPI** remained flat mom in Mar, the lowest on record, for the second consecutive month. **UK unemployment** fell in the 3 months to Feb to a 6-year low of 5.6% from 5.7% in the previous period.
- The **euro zone's current account surplus** expanded to EUR 13.8bn in Feb, from an upwardly revised EUR 8.3bn in Jan. **The euro zone's external trade surplus** expanded in Feb to EUR 20.3bn, from a downwardly revised EUR 7.6bn in Jan.
- **Russia's industrial production** declined -0.6% mom in Mar, after a -1.6% fall mom in Feb driven primarily by contraction in manufacturing, while energy and utilities and mining segments grew moderately. On other hand, **Russian CPI** accelerated to 13% yoy (5.5% mom) in Mar from 9.5% yoy in Feb.

Asia and Pacific:

- **China's real GDP** growth receded to 7% yoy in Q1, down from Q4's 7.3% rise, the slowest rate of expansion since Q4 2009. Manufacturing and fixed investment are suffering the impact of the weak housing market and anemic global demand.
- **China's industrial production growth** decelerated sharply to 5.6% yoy in Mar from Jan. and Feb. combined 6.8% gain.

- **China's retail trade** growth surprised on the downside and dropped to 10.2% yoy in Mar, from 10.7% in the combined Jan-Feb period. The housing slump and drop in energy prices are affecting nominal sales.
- **China's money supply** growth fell to 11.6% yoy in Mar, from 12.5% in Apr. However new loans crawled up from Feb as result of government's measures to boost credit and revamp growth.
- **India's WPI** fell by -2.3% yoy in Mar following an earlier fall of -2.1% in Feb. Food prices were the sole drivers of price pressure. On the other hand, industrial production surprised on the upside with a 5% yoy increase in Feb.
- **Japan's core machinery orders** fell -0.4% in Feb, following Jan's -1.7% decline, a sign that firms are not in the mood for investing.
- **Japan's consumer confidence** rose to 41.7 in Mar from 40.7 in Feb, confirming a recovery in households' willingness to spend.
- **Singapore's GDP** expanded 2.1% yoy in Q1, vs. 1.5% in Q4. Manufacturing was weak reflecting a structural shift in the economy.
- **Philippines industrial production** grew 4.4% yoy in Feb. in line with Jan's revised gain.
- **Korean unemployment rate** fell to 3.7% from Feb's 3.9%.

Bottom line: The first glimpse on macro data for Q1 growth in Asia depicts a bleak picture. China's slowdown continues and Abenomics in Japan is not giving the impulse that the government expected. The success of Abenomics rests on business investment but so far little impact is discernible in this regard. Japanese firms are enjoying record profits and hoarding cash but remain reluctant to invest because of concern about the economic outlook. In Europe signs of mild improvement are gaining momentum. However one must remember that world economy has been given a humongous monetary jolt: the US Fed, Bank of England and the Bank of Japan now own 16%,

24% and 22%, respectively, of their government bonds.

Regional Developments

- The latest **IMF growth** estimates for the Middle East, North Africa, Afghanistan and Pakistan region is at 2.9% this year, down from its earlier prediction of 3.3% in last Oct, with lower oil prices reflected in the growth predictions for oil exporters. Separately, the Arab Monetary Fund's predictions place growth in the Arab oil-exporting countries to reach 2.9% in 2015, compared to 3.7% in 2014, and growth in the Arab region is forecast at 3%.
- **Bahrain's** sovereign wealth fund (SWF) **Mumtalakat's** CEO revealed that the SWF wants to double its BHD 2.4bn assets under management in the next five to seven years.
- **IMF** predicts Egypt's economy to witness a surge in growth to 4% in 2015, from the 2.2% recorded last year.
- **Kuwait** has delivered about USD 4bn to **Egypt** over the past year, according to the Egyptian ambassador to Kuwait; Kuwait Investment Authority is expected to invest a further USD 2bn into the country.
- **Egypt** is expected to import USD 3.55bn worth of **LNG** this fiscal year, reported Reuters, quoting an official at the Egyptian General Petroleum Corporation.
- The **World Bank** approved a USD 400mn "Strengthening Social Safety Net Project" in **Egypt**, looking to develop transparent and efficient targeting and delivery systems, and support the Unified National Registry.
- **Egypt's** Minister of Housing revealed that a record-high budget ranging between EGP 14-15bn was being prepared to support the **housing sector**.
- Facing a budget deficit of USD 25bn, out of a budget of approximately USD 100bn (and based on an oil price of \$56 per barrel), **Iraq** is planning to issue USD 5bn in international bonds and is currently negotiating the terms, disclosed the Finance Minister. He also stated

that the country might request the IMF for emergency funding, but might need to curtail public spending in order to receive said funds.

- **Iraq**'s Oil Minister stated that the country is on track to register a record high **oil output** of 3.1mn barrels per day in Apr, up from Mar's 2.98mn bpd.
- **Inflation** in **Jordan** dropped by 0.9% yoy in Q1, thanks to the the drop in prices of transportation (16.3%), fuel and lighting (11.6%), and vegetables and legumes (8%).
- **Jordan**'s **public debt** increased by nearly 80% in five years to JOD 20.5bn at the end of last year, bringing the debt to GDP ratio to 80.3% and the per capita debt to JOD 3100.
- World Bank estimates **GDP** in **Lebanon** to grow to 2.5% this year from 2% a year ago and the current account deficit to narrow further to 16.7% of GDP, while underscoring that the country was still exposed to regional turmoil.
- Petroleum Development **Oman** (PDO) today that it is successfully working towards a new sustainable long-term **oil production** plateau of an average 600k barrels per day (bpd) by 2019.
- **Oman** produced 943k barrels a day of oil and condensate combined in 2014, according to the Undersecretary of Oil and Gas.
- Bilateral **trade** between **Germany** and **Oman** totalled around OMR 301.1mn, with the Oman exports expanding by 2.8%.
- A recently passed law in **Qatar** will enable businesses to begin operations the same day of application, so long as the paperwork is in order, revealed the Minister of Economy and Commerce.
- **Remittances** from **Qatar** fell 10% yoy to USD 10bn last year, as per World Bank estimates; exchange houses attribute this decline to rising rental costs and school fees.
- **Qatar** has opened the Middle East's first **renminbi** clearing centre, with ICBC Doha branch acting as the clearing bank. Separately, it was announced last week

that Qatar National Bank, Qatar International Islamic Bank and Chinese brokerage Southwest Securities signed a MoU to establish a company handling Islamic finance deals in China.

- Given the sharp rise in land prices in **Qatar**, the **IMF** has advised (in a country note) to introduce “a differentiated schedule of real estate transaction fees to deter speculators and take further measures to increase land supply”.
- **Saudi Arabia** will open its market to qualified foreign institutions from Jun 15, announced the Capital Market Authority, with the final rules to be published on May 4.
- **Inflation** in **Saudi Arabia** fell to its lowest since Sep 2012 in the month of Mar to 2% (Feb: 2.1%), as housing and utilities cost went up 2.2% and food prices up 1.7%.
- **Saudi Arabia's military spending** grew 17% yoy to USD 80.8bn in 2014, the sharpest increase among the top 15 military spenders, as per estimates from Stockholm International Peace Research Institute (SIPRI).
- **Non-oil exports** from **Saudi Arabia** – which account for around 12% of the overall exports – fell by a whopping 19.9% in Feb while imports were up 1.6%.
- A CBRE report revealed a dramatic dip of 31% yoy in **outbound property investment** by SWFs (most of which are from the region) to USD 5.84bn in 2014.

UAE Focus

- **Inflation in Dubai** fell to 4.0% in Feb (Jan: 4.3%) as food prices dipped 1.9% yoy though housing and utility costs were 7.4% (Jan: 7.6%).
- **Employment rate** in **UAE** increased by 10% yoy to 4,417,000 workers in 2014, revealed the Ministry of Labour. Furthermore, construction, business and industrial sectors accounted for about 70% of total employment in private sector establishments registered with the

ministry while the healthcare sector was the fastest growing in terms of employment.

- **Investments** from the **UAE** in **Italy** exceeded EUR 2bn in 2014; it is expected to increase further, according to the Italian Ambassador. He also revealed that major investments were in technology, aviation, real estate, infrastructure and acquisition.
- **Islamic insurers** in the **UAE** are seeking guidance on mergers and acquisitions, given tough new regulations, combined with financial losses and stiff competition, revealed the director-general of the UAE Insurance Authority. He also disclosed that a committee to oversee Islamic insurance would be established in the UAE by the end of this year to help standardise the sector.
- **DEWA** will keep its **tariffs** fixed for the next 2 years, thanks to increased energy efficiency measures, according to the CEO. He stated that DEWA recently increased energy efficiency by 400 Megawatts (MW) by applying better technology and that its current power generation capacity stands at 9,740MW, which is 30% more than current energy demand.

Media Review

The probability of lower oil prices

<http://www.bloomberg.com/professional/blog/calculating-probability-lower-oil-prices/>

The new normal in oil prices according to the Economist

<http://espresso.economist.com/fc564037e757ddb6adca7960a50924d6?>

A compromise on the nuclear deal with Iran

<http://www.economist.com/news/united-states/21648568-if-barack-obama-wants-nuclear-deal-stick-he-must-deal-senator-bob-corker-man-plan?>

Egypt's Economic Summit

http://www.zawya.com/story/Egypt_Economic_summit_nets_USD382bn_in_deals-ZAWYA20150409095152/

The markets last week

<http://qz.com/386347/the-markets-sure-had-a-wild-and-crazy-week/>

Risk of Over-dependence on Bloomberg

<http://qz.com/386124/bloomberg-went-down-today-and-it-scared-the-bejesus-out-of-the-financial-markets>

The rise of solar power

<http://www.treehugger.com/renewable-energy/striking-chart-showing-solar-power-will-take-over-world.html>